



# COMMONWEALTH of VIRGINIA

Office of the Governor

Jody M. Wagner  
Secretary of Finance

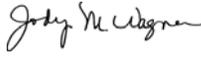
P.O. Box 1475  
Richmond, Virginia 23218

June 13, 2008

## MEMORANDUM

TO: The Honorable Timothy M. Kaine

THROUGH: The Honorable Wayne M. Turnage

FROM: Jody M. Wagner 

SUBJECT: May Revenue Data

May is a significant month for revenue collections. In addition to normal collections in withholding and sales taxes, estimated and final payments for individuals are due May 1 and corporations with a fiscal year ending other than December 31 – primarily retailers – have final payments due in May.

Total general fund revenue collections declined 13.8 percent in May compared to May 2007. As anticipated from April's strong growth, May's decline was driven by a significant retreat in nonwithholding payments, reflecting the impact of those early April receipts. Withholding tax payments also contributed to the decline with deposits that were below May 2007 levels in part because there was one less deposit day compared to last year. As we have always cautioned, April and May must be considered together to accurately assess growth.

On a year-to-date basis, total revenues grew 1.8 percent over the same period last year, slightly ahead of the annual forecast of 1.2 percent growth. Collections of sales and use taxes, although experiencing strong growth in May, remain below the annual target, and recordation tax collections have continued to fall with the depressed housing market.

### **National Economic Indicators**

Most recent indicators suggest the short-term outlook for the national economy remains weak, with the housing market and oil prices significantly dampening growth.

- Real GDP growth for the first quarter was revised up to an annualized rate of 0.9 percent from the 0.6 percent rate reported in April. The small upward revision was close to the consensus, bringing the rate slightly above growth for the fourth quarter of calendar year 2007.

- The labor market contracted for the fifth consecutive month in May, with payroll employment falling by 49,000 jobs. Although weakness was widespread, it was primarily centered in housing-related industries. Only education and health services, leisure and hospitality, and government added jobs in May. In a separate report, the unemployment rate jumped by half a percentage point to 5.5 percent, the biggest one-month jump since 1986.
- Initial claims for unemployment fell by 18,000 to 357,000 during the last week of May. The four-week moving average fell slightly from 371,000 to 369,000.
- The Consumer Price Index (CPI) increased 0.2 percent in April for annual growth of 3.9 percent. Core inflation, excluding food and energy, rose 0.1 percent in April, bringing annual growth to 2.3 percent. Higher energy prices are not yet passing through into core inflation.
- Activity in the manufacturing sector is consistent with an economy that is stagnant. The Institute of Supply Management index increased from 48.6 to 49.6 for the month. The improvement brings the index closer to its expansionary threshold of 50.
- The Conference Board's index of leading indicators rose 0.1 percent to 102.0 in April, the same increase as in March. This is the first time the index has risen for two straight months in more than a year and a half. The leading index is consistent with an economy that has stalled but not collapsed.
- The Conference Board's index of consumer confidence fell from 62.8 to 57.2 in May, the fifth consecutive monthly decline and its lowest level since October 1992. Both the expectations and current situation components contributed to the decline.

### **Virginia Economy**

In Virginia, payroll employment grew 0.5 percent in April. Northern Virginia posted job growth of 0.9 percent in April. Jobs grew by 1.1 percent in Hampton Roads and 1.0 percent in Richmond-Petersburg. The unemployment rate fell from 3.9 percent to 3.3 percent in April partially due to workers in the auto industry returning after the Volvo strike ended in late March and other workers returning to work from furloughs around the Easter holiday.

The Virginia Leading Index declined 0.2 percent in April for the seventh decline in nine months. All three components of the leading index – auto registrations, building permits, and initial unemployment claims – contributed to the drop in April. Despite falling in the state, the leading index grew in six of the eleven metro areas in April; the areas of growth were Winchester, Charlottesville, Lynchburg, Harrisonburg, Danville, and Bristol. The index for Richmond was unchanged. Northern Virginia experienced the largest decline while Blacksburg, Roanoke, and Hampton Roads also edged down in April.

## **May Revenue Collections**

May is a significant month for revenue collections. In addition to normal collections in withholding and sales taxes, estimated and final payments for individuals are due May 1 and corporations with a fiscal year ending other than December 31 – primarily retailers – have final payments due in May.

Total general fund revenue collections declined 13.8 percent in May compared to May 2007. As anticipated from April's strong growth, May's decline was driven by a significant retreat in nonwithholding payments, reflecting the impact of those early April receipts. Withholding tax payments also contributed to the decline with deposits that were below May 2007 levels in part because there was one less deposit day compared to last year. As we have always cautioned, April and May must be considered together to accurately assess growth.

On a year-to-date basis, total revenues grew 1.8 percent over the same period last year, slightly ahead of the annual forecast of 1.2 percent growth. Collections of sales and use taxes, although experiencing strong growth in May, remain below the annual target, and recordation tax collections have continued to fall with the depressed housing market.

***Net Individual Income Tax (65% of general fund revenues):*** Year-to-date net individual income tax growth is 4.0 percent, near the annual estimate of 3.9 percent. Performance in each component of individual income tax is as follows:

***Individual Income Tax Withholding (57% of general fund revenues):*** Collections of payroll withholding taxes declined 6.9 percent in May, partially due to one less deposit day. Year-to-date withholding growth is 4.9 percent, slightly below the projected annual growth rate of 5.2 percent. June collections must increase 8.5 percent over last year in order to attain the annual forecast.

***Individual Income Tax Nonwithholding (18% of general fund revenues):*** May is a significant month for this source, since final payments for tax year 2007 and the first estimated payment for tax year 2008 are both due May 1.

May collections were \$516.7 million compared with \$687.1 million in May of last year, a 24.8 percent decline. Since a large portion of final payments due May 1 are received in April, it is important to consider April and May collections together to accurately assess growth in this source. Taken together, nonwithholding collections in April and May were essentially flat with last year, increasing only 0.8 percent.

To date, about 90 percent of the nonwithholding forecast has been collected, and collections during this period are 3.5 percent above the same period last year – on target with the projected annual growth rate of 3.2 percent. June collections can be flat with last year and attain the annual forecast. The last estimated payment to be received during this fiscal year is due June 15.

**Individual Income Tax Refunds:** Through May, \$1.6 billion has been refunded compared with \$1.5 billion during the same period last year. For the filing season beginning January 1, 2.44 million refunds have been issued – about 60,000 more than during the same period last year. Individual refunds continue to track below the annual estimate due to lower-than-expected claims of the land preservation tax credit. Year-to-date growth for refunds through May is 7.6 percent, behind the annual estimate of 9.7 percent growth.

**Sales Tax (20% of general fund revenues):** After declining 10.4 percent in April, collections of sales and use taxes, reflecting April sales, increased 16.0 percent in May. On a year-to-date basis, collections have increased 1.0 percent, behind the annual estimate of 1.6 percent growth. Sales tax collections are projected to fall short of the annual estimate due to the housing depression and its impact on other sectors of the economy.

**Corporate Income Tax (4% of general fund revenues):** May is typically not a significant month in corporate income tax collections, with final or extension payments due mainly from retailers who typically have a January 31 close to their fiscal year. Such payments vary significantly from year to year. Collections this month experienced a significant decline due to minimal final payments for tax year 2007 liability. On a year-to-date basis, receipts are 12.3 percent below last year, better than the forecast of a 20.5 percent decline. The last corporate estimated payment to be received during this fiscal year is due June 15.

**Wills, Suits, Deeds, Contracts (3% of general fund revenues):** Wills, suits, deeds, and contracts – mainly recordation tax collections – fell 27.5 percent in May, the seventh consecutive month with a decline near or in excess of 25.0 percent. On a year-to-date basis, collections in this source declined 21.5 percent from last year, compared with the estimate of a 15.0 percent annual decline. The housing slowdown has dampened collections more than anticipated, resulting in a shortfall in recordation tax collections.

### **Other Revenue Sources**

The following list provides data on May collections for other revenue sources:

	<b><u>Year-to-Date</u></b>	<b><u>Annual Estimate</u></b>
Insurance Premiums (3% GF revenues)	3.1%	8.7%
Interest Income (1% GF revenues)	6.5%	-3.5%
ABC Taxes (1% GF revenues)	4.7%	5.0%

**All Other Revenue:** Receipts in All Other Revenue increased 20.1 percent in May – \$43.8 million compared with \$36.5 million in May of last year. Most of the growth was in payments from public service corporations and the timing of receipts of bank franchise tax collections. Bank franchise tax payments are due June 1. For the fiscal year-to-date, collections of All Other Revenue are 9.2 percent above the same period in fiscal year 2007, ahead of the annual estimate of a 2.4 percent decline.

**Lottery Revenues:** Net income of \$39.3 million in May was 11.4 percent ahead of May of last year, driven by sales increases in all products except Pick 3. Year-to-date, net income is up 6.4 percent, better than the annual estimate of 5.7 percent growth. Net income for June 2008 is anticipated to be below the estimate included in the appropriation act because of lower interest earnings and sales initiatives that will not occur this year.

### **Summary**

May is a significant month for revenue collections. In addition to normal collections in withholding and sales taxes, estimated and final payments for individuals are due May 1 and corporations with a fiscal year ending other than December 31 – primarily retailers – have final payments due in May.

Total general fund revenue collections declined 13.8 percent in May compared to May 2007. As anticipated from April's strong growth, May's decline was driven by a significant retreat in nonwithholding payments, reflecting the impact of those early April receipts. Withholding tax payments also contributed to the decline with deposits that were below May 2007 levels in part because there was one less deposit day compared to last year. As we have always cautioned, April and May must be considered together to accurately assess growth.

On a year-to-date basis, total revenues grew 1.8 percent over the same period last year, slightly ahead of the annual forecast of 1.2 percent growth. Collections of sales and use taxes, although experiencing strong growth in May, remain below the annual target, and recordation tax collections have continued to fall with the depressed housing market.

June is another significant month for revenue collections, and typically accounts for 11 to 12 percent of total general fund revenue for the year. June collections include receipts of individual and corporate estimated payments, estimated payments for insurance premiums and corporate franchise fees, along with regular monthly collections in other sources.

June collections must total about \$1.62 billion to meet the forecast for the fiscal year. Receipts last June totaled \$1.68 billion.