



COMMONWEALTH of VIRGINIA
Office of the Governor

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MEMORANDUM

TO: The Honorable Timothy M. Kaine

THROUGH: The Honorable Wayne M. Turnage

FROM: Richard D. Brown 

SUBJECT: March Revenue Data

March is not typically a significant month for revenue collections. Collections consist mainly of withholding and sales tax revenues in addition to normal collections for most minor sources. Final payments from insurance companies for tax year 2008 are due in March. However, no payments are due from either individuals or corporations, although March collections typically include the leading edge of corporate payments which are due April 15.

Total general fund revenues fell 13.9 percent in March 2009 compared to March 2008. On a year-to-date basis, total revenue collections have declined 6.8 percent, slightly ahead of the revised annual forecast of a 7.3 percent decline. Collections of individual withholding and sales taxes are tracking slightly below their annual forecasts. Receipts of individual nonwithholding are ahead of forecast, while collections of corporate income tax are below expectations.

National Economic Indicators

The economy remains in a deep recession; however, some national indicators suggest the rate of decline may be slowing.

- The labor market continued to contract in March. Payroll employment declined by 663,000 jobs in March, following losses of 651,000 in February and 741,000 in January.

The losses were broad based – healthcare was the only major sector that did not lose jobs. In a separate report, the unemployment rate rose to 8.5 percent from 8.1 percent.

- Initial claims for unemployment fell by 20,000 to 654,000 during the week ending April 4. The four-week moving average fell from 658,000 to 657,000, a level indicative of continued weakening in the labor market.
- The Conference Board's index of leading indicators fell 0.4 percent to 98.5 in February -- following a 0.1 percent increase in January -- led by falling stock prices and consumer confidence.
- According to the Conference Board, consumer confidence edged up from 25.3 -- a record low -- to 26.0 in March. The expectations component drove the increase, while the current conditions component continued to fall.
- Although the manufacturing sector continues to contract, recent data suggests it may be stabilizing. The Institute of Supply Management index increased in March, rising from 35.8 to 36.3. The index has been essentially flat over the last three months.
- Inflation remains very low. In February, the CPI increased by 0.4 percent from January and 0.1 percent from February of last year. Core inflation rose 0.2 percent from January and stands 1.8 percent above February of last year.

Virginia Economy

In Virginia, payroll employment fell by 2.2 percent in February. Northern Virginia posted a decline of 1.0 percent, Hampton Roads fell 0.9 percent, and employment in the Richmond-Petersburg area fell 3.5 percent in February. The unemployment rate in Virginia rose from 6.4 percent to 7.0 percent in February.

The Virginia Leading Index fell 0.1 percent in February, its sixth consecutive monthly decline. All three index components – auto registrations, building permits, and initial unemployment claims – contributed to the decline. The leading index was unchanged or declined in eight of the eleven metro areas in the Commonwealth. Leading indexes for Lynchburg, Harrisonburg and Winchester increased in February.

March Revenue Collections

Total general fund revenues declined 13.9 percent in March compared to March of last year. On a year-to-date basis, total revenues fell 6.8 percent, close to the revised annual forecast of a 7.3 percent decline. Collections of withholding and sales taxes are tracking slightly below their annual forecast, individual nonwithholding is ahead of the forecast, and corporate income tax is trailing its forecast.

Net Individual Income Tax (66% of general fund revenues): Year-to-date collections of net individual income tax fell 0.8 percent, ahead of the annual estimate of a 4.1 percent decline. Performance for each component of individual income tax is as follows:

Individual Income Tax Withholding (63% of general fund revenues): With one less deposit day, collections of payroll withholding taxes fell 1.5 percent in March. Year-to-date withholding growth is 2.2 percent, close to the projected annual growth rate of 2.5 percent.

Individual Income Tax Nonwithholding (16% of general fund revenues): March is not typically a significant month for nonwithholding collections. A total of \$89.2 million was collected in March, compared with \$76.0 million in March of last year.

To date, about 47 percent of the nonwithholding forecast has been collected, and collections during this period are 8.4 percent below the same period last year, ahead of the revised annual estimate of an 18.0 percent decline. The majority of the remaining collections in this source will occur in April and May, with both final payments for tax year 2008 and estimated payments for the current year due May 1. Collections in the last quarter of fiscal year 2009 can decline about 25 percent and attain the annual estimate for this revenue source.

Individual Income Tax Refunds: TAX issued \$365.2 million in refunds in March compared with \$313.2 million last March. Year to date, refunds are 9.9 percent ahead of the same period last year, ahead of the annual forecast of a 7.4 percent increase. For the filing season beginning January 1, 1.56 million refunds have been issued compared with 1.55 million during the same period last year. The average refund check size is up about 7 percent, near expectations.

Sales Tax (20% of general fund revenues): Collections of sales and use taxes, reflecting February sales, fell 6.0 percent in March. On a year-to-date basis, collections have fallen 4.3 percent, slightly below the annual estimate of a 3.7 percent decline. Although job losses continue and consumer confidence is weak, gas prices are much lower than this time last year and could have a positive effect on taxable sales in the future.

Corporate Income Tax (5% of general fund revenues): March is not typically a significant month for collections in this source. Corporate income tax collections were \$55.9 million in March compared with \$84.4 million in March of last year. March receipts are typically from companies paying ahead of the April 15 filing date for final payments on tax year 2008 liability, and those making estimated payments for the first quarter of the current year. Year-to-date collections are down 29.1 percent compared with the same period last year, below the annual forecast of a 15.2 percent decline. April receipts will provide a clearer picture of the performance in this source.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – fell 28.4 percent in March, and are down 34.2 percent on a year-to-date basis, near the forecast of a 34.7 percent decline.

Insurance Premiums (2% of general fund revenues): Collections of taxes on insurance premiums were \$19.8 million compared with \$15.7 million in March of last year, a 26.3 percent increase. While year to date collections are down 71.6 percent, any comparison in this source to prior year activity is affected by House Bill 3202 passed by the 2007 General Assembly. This legislation requires that \$132.3 million of fiscal year 2009 collections in this source be transferred to the Transportation Trust Fund before any deposits to the general fund can be made. The required fiscal year 2009 transfer to the Transportation Trust Fund was completed in December.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (1% GF revenues)	-41.1%	-36.2%
ABC Taxes (1% GF revenues)	2.5%	3.6%

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue fell 26.0 percent in March – \$36.0 million compared with \$48.6 million last March. For the fiscal year-to-date, collections of All Other Revenue fell 27.8 percent from the same period in fiscal year 2008, close to the annual estimate of a 24.2 percent decline. The large decline in year-to-date collections and the annual forecast is attributable to the repeal of the estate tax. The General Assembly repealed the tax effective July 1, 2007, and estates from deaths prior to that date had up to nine months to file.

Lottery Revenues: Net income for March 2009 totaled \$44.5 million, an increase of \$5.2 million from March 2008. The increase in net income was a result of lower prize payouts this March as compared to March of last year. Year-to-date, net income is down 4.0 percent, ahead of the annual estimate of a 5.4 percent decline.

Summary

While March is not typically a significant month for revenue collections, total general fund revenues fell 13.9 percent in March compared to March of last year. On a year-to-date basis, total revenues fell 6.8 percent, slightly ahead of the revised annual forecast of a 7.3 percent decline. However, the last three months of the fiscal year, particularly April and May, are significant collections months. As a result, year-to-date activity through March is not a reliable predictor of overall annual growth.

For example, estimated and final payments from both corporations and individuals are due in April and May, and estimated payments are again due in June. Historically, about 55 percent of total annual nonwithholding receipts are collected in the fourth quarter of a fiscal year, with 43

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percent of the annual total collected in April and May alone. As a result, year-to-date growth is likely to decline based on final payment activity for tax year 2008 and estimated payment activity for the current tax year.

Finally, fourth quarter fiscal year 2009 collections must total about \$4.4 billion to meet the forecast for the fiscal year. For comparison purposes, receipts in the last quarter of fiscal year 2008 were \$4.8 billion. In other words, collections can fall 8.3 percent over the remainder of the year and still attain the annual estimate. This would be the largest percentage decline for the last quarter, surpassing the decline of 6.8 percent in fiscal year 2002.