



**COMMONWEALTH of VIRGINIA**  
*Office of the Governor*

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June 15, 2009

**MEMORANDUM**

TO: The Honorable Timothy M. Kaine

THROUGH: The Honorable Wayne M. Turnage

FROM: Richard D. Brown 

SUBJECT: May Revenue Data

May is a significant month for revenue collections. In addition to regular collections of 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.

The weak economy continues to negatively affect general fund revenue collections. In May, total general fund revenues fell 15.6 percent compared to May 2008. Most of the decline was due to a drop in collections of sales tax, individual nonwithholding, and recordation taxes, along with a continuing surge in individual refunds. Individual withholding also contributed to the decline from last May, largely due to one less deposit day than last year.

On a year-to-date basis, total revenues fell 9.3 percent, trailing the revised annual forecast of a 7.3 percent decline. Most of the revenue sources with the exception of nonwithholding and recordation taxes are lagging their forecasts, while individual refunds are up sharply from the same period last year.

**National Economic Indicators**

The economy remains in a deep recession; however, most national indicators suggest the rate of decline is slowing.

- First-quarter real GDP was revised up from a 6.1 percent decline in the advance estimate to a 5.7 percent annualized decline.
- The labor market continued to contract in May; however, the magnitude of job losses has grown smaller. Payroll employment fell by 345,000 jobs in May, following losses of 504,000 in April and 652,000 in March. The job loss in May was about half of the average monthly job loss over the last six months. However, the unemployment rate rose to 9.4 percent from 8.9 percent.
- Initial claims for unemployment fell by 4,000 to 621,000 during the week ending May 30. The four-week moving average rose slightly from 627,000 to 631,000. Although the level of initial claims is indicative of continued weakness in the labor market, layoffs appear to be slowing.
- The Conference Board's index of leading indicators rose 1.0 percent to 99.0 in April, the first increase since June 2008. Seven of the ten components contributed to the increase. The rise in the index suggests the downturn has moderated.
- Consumer confidence continued to improve in May. The Conference Board's index of consumer confidence jumped from 40.8 to 54.9 in May. Similar to last month, the expectations component drove the increase, while the current conditions component rose only modestly. Although the index posted the largest two-month gain on record, it is still below its September level, suggesting confidence remains weak.
- The rate of contraction in the manufacturing sector continues to slow. The Institute of Supply Management index increased by 2.7 points in May, rising from 40.1 to 42.8. Although the index remains at recessionary levels, the gradual improvement over the last several months also suggests a moderation in the decline in industrial production.
- Inflation remains very low -- the CPI was flat in April. Core inflation rose 0.3 percent from March and stands 1.9 percent above April of last year.

### **Virginia Economy**

In Virginia, payroll employment fell by 2.8 percent in April, the largest monthly drop since July 1991. Northern Virginia posted a decline of 1.5 percent, Hampton Roads fell 0.8 percent, and employment in the Richmond-Petersburg area fell 3.9 percent in April. The unemployment rate in Virginia fell from 6.9 percent to 6.6 percent, its second monthly decline.

The Virginia Leading Index fell 0.3 percent in April, its eighth consecutive decline. Two of the three components – auto registrations and initial unemployment claims – contributed to the decline. Building permits, the third component, increased in April. The leading index declined in eight of the eleven metro areas in the Commonwealth in April. The index remained flat in Richmond and Winchester, and increased modestly in Hampton Roads.

## **May Revenue Collections**

Total general fund revenues fell 15.6 percent in May compared to May 2008. The decline in May was due to a drop in collections of most major sources, along with a continuing surge in individual refunds. On a year-to-date basis, total revenues fell 9.3 percent, trailing the revised annual forecast of a 7.3 percent decline.

***Net Individual Income Tax (66% of general fund revenues):*** Collections of net individual income tax fell 16.7 percent in May. On a year-to-date basis, a decline of 5.9 percent is trailing the annual estimate of a 4.1 percent decline. Performance in each component of individual income tax is as follows:

***Individual Income Tax Withholding (63% of general fund revenues):*** Collections of payroll withholding taxes fell 4.5 percent in May, partially due to one less deposit day than May 2008. Year-to-date withholding growth is 1.7 percent, trailing the projected annual growth rate of 2.5 percent. June will have one more deposit day than June 2008, evening out the number of deposit days in the year.

***Individual Income Tax Nonwithholding (16% of general fund revenues):*** May is a significant month for nonwithholding collections, since final payments for tax year 2008 and the first estimated payment for tax year 2009 are both due May 1.

May collections were \$403.7 million compared with \$516.7 million in May 2008, a 21.9 percent decrease. Since a portion of final payments due May 1 are received in April, April and May collections must be analyzed together to accurately assess growth in this source. Taken together, nonwithholding collections in April and May were down 26.5 percent.

Through May, about 89 percent of the nonwithholding forecast has been collected, and collections during this period are 17.9 percent below the same period last year, matching the revised annual estimate. The final estimated payment for this fiscal year is due June 15.

***Individual Income Tax Refunds:*** Through May, \$1.8 billion in individual refunds have been issued, compared with \$1.6 billion in the same period last year. Year to date, refunds are 13.7 percent ahead of the same period last year and are also ahead of the annual forecast of a 7.4 percent increase. Both the number of refunds and the average check size are greater than last year. For the filing season beginning in January, 2.5 million refunds have been issued – about 3.0 percent more than during the same period last year with the average check size up 10 percent.

***Sales Tax (20% of general fund revenues):*** Collections of sales and use taxes, reflecting April sales, fell 8.2 percent in May. On a year-to-date basis, collections have fallen 5.1 percent, lagging the annual estimate of a 3.7 percent decline.

**Corporate Income Tax (5% 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.

Year-to-date collections are down 20.2 percent from the same period last year, trailing the annual estimate of a 15.2 percent decline. The second estimated payment for tax year 2009 is due June 15. About \$175 million is needed to meet the annual forecast in this source. Last year, about \$168 million was collected in June.

**Wills, Suits, Deeds, Contracts (2% of general fund revenues):** Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – fell 22.4 percent in May, and are down 32.6 percent on a year-to-date basis, near the forecast of a 34.7 percent decline.

### **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 (2% GF revenues)	-47.5%	-35.1%
Interest Income (1% GF revenues)	-53.5%	-36.2%
ABC Taxes (1% GF revenues)	2.7%	3.6%

**All Other Revenue (3% of general fund revenues):** Receipts in All Other Revenue rose 10.8 percent in May; \$48.5 million compared with \$43.8 million last May. For the fiscal year-to-date, collections of All Other Revenue fell 24.5 percent from the same period in fiscal year 2008, close to the annual estimate of a 24.8 percent decline. The large decline in year-to-date collections and the annual forecast is attributable to the repeal of the estate tax. The tax was repealed effective July 1, 2007, and estates from deaths prior to that date had up to nine months to file.

**Lottery Revenues:** Net income for May 2009 totaled \$35.6 million, a decline of \$4.4 million from May 2008. In May of last year, a large Mega Millions jackpot boosted sales as the jackpot grew to nearly \$200 million. In addition, interest earnings were lower in May this year because of the accelerated profit transfer schedule. Year-to-date, net income is down 4.4 percent, ahead of the annual estimate of a 5.4 percent decline.

### **Summary**

May is a significant month for revenue collections. Total general fund revenues fell 15.6 percent in May compared to May of last year. On a year-to-date basis, total revenues fell 9.3 percent, trailing the revised annual forecast of a 7.3 percent decline. Most of the revenue sources with the

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June is another significant month for revenue collections, and typically accounts for 11 to 12 percent of total general fund revenue for the fiscal 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.