



COMMONWEALTH of VIRGINIA

Office of the Governor

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MEMORANDUM

TO: The Honorable Robert F. McDonnell

THROUGH: The Honorable Martin Kent

FROM: Richard D. Brown 

SUBJECT: March Revenue Data

This month's revenue report incorporates the revised mid-session general fund revenue forecast released on February 4, 2011. Under the mid-session revised forecast, general fund revenues are expected to increase 4.0 percent in fiscal year 2011. This compares to a projected annual increase of 3.5 percent in the forecast used with the proposed budget (HB1500/SB800) introduced on December 17, 2010. The April revenue report will include any additional revisions to revenues in the final budget approved by the 2011 General Assembly.

March is not typically a significant month for revenue collections. Collections consist mainly of withholding and sales tax revenues as well as the normal collections for most minor sources. Final payments from insurance companies for tax year 2010 are due in March. However, no payments are due from either individuals or corporations, although March collections typically include the leading edge of payments for these two sources which are due April 15.

Total general fund revenue collections rose 12.4 percent in March. Most major sources contributed to the strength, with recordation taxes and the taxes on insurance premiums declining for the month. On a year-to-date basis, total revenue collections rose 4.9 percent, slightly ahead of the revised annual forecast of 4.0 percent growth. Adjusting for the accelerated sales tax program in June 2010, total revenues grew 6.7 percent through March, ahead of the economic-base forecast of 5.6 percent growth.

National Economic Indicators

Most national indicators suggest the economic expansion is continuing.

- According to the final estimate, real GDP grew 3.1 percent at an annualized rate in the fourth quarter of 2010, up from 2.6 percent in the third quarter. This marked the sixth consecutive quarter of growth since the recession officially ended in June 2009.
- Labor market conditions have improved. Payroll employment rose by 216,000 jobs in March, above expectations and the sixth consecutive monthly increase. In a separate report, the unemployment rate fell from 8.9 to 8.8 percent in March.
- Initial claims for unemployment decreased by 10,000 to 382,000 during the week ending April 2, while the four-week moving average fell from 394,000 to 390,000. Layoffs are declining and the current level of claims is consistent with an improving labor market.
- The Conference Board's index of leading indicators rose 0.8 percent in February, its eighth consecutive monthly increase. Although the recent gains in the index have been modest, they suggest the recovery could gain strength over the coming months.
- After reaching a three-year high of 72.0 in February, the Conference Board's index of consumer confidence fell to 63.4 in March. The expectations component caused the decline, while the present situation component rose. Concerns about events in the Middle East and Japan, along with higher energy prices contributed to the decline.
- Growth in the manufacturing sector softened somewhat in March. The Institute of Supply Management index fell from 61.4 to 61.2 for the month. Despite the slight decline in the index, March was well above 50.0, which signals continued expansion.
- The CPI rose 0.5 percent in February from the previous month, largely due to rising food and energy prices. Core inflation (excluding food and energy) rose 0.2 percent in February, and has increased 1.1 percent from February 2010.
- The Federal Reserve kept monetary policy unchanged at its March meeting, keeping the target federal funds rate between 0.0 and 0.25 percent. They will continue the quantitative easing begun last November through the first half of this year.

Virginia Economy

The Virginia Employment Commission released re-benchmarked employment data for calendar years 2009 and 2010. As expected, the data were revised downward. With the revision, the Virginia economy lost 15,000 jobs in calendar year 2010, compared with the previously reported loss of 5,200 jobs.

On a fiscal year basis, the initial data indicated that Virginia employment rose by 0.9 percent over the first half of fiscal year 2011. According to the revised data, employment rose by 0.3

percent. Following are the revised growth rates in the major metro areas over the first six months of the fiscal year, with the previously reported growth in parentheses: Northern Virginia rose 1.2 percent (+0.8 percent); Hampton Roads fell 0.4 percent (+0.9 percent); Richmond-Petersburg rose 0.3 percent (-0.3 percent).

In February, the most recent month available, Virginia employment rose 1.5 percent from February of last year. Northern Virginia posted growth of 2.1 percent, Hampton Roads fell 0.2 percent, and Richmond-Petersburg rose 0.5 percent. The unemployment rate in the Commonwealth fell from 6.9 percent to 6.6 percent.

The Virginia Leading Index rose 0.2 percent in February, the fourth consecutive monthly increase. Three of the five components improved in February, while future employment was unchanged and auto registrations fell. The Leading Index rose in February in nine of eleven Virginia metro areas. The indices in Charlottesville and Hampton Roads were flat.

March Revenue Collections

Total general fund revenue collections rose 12.4 percent in March. Most major sources contributed to the strength, with recordation taxes and the taxes on insurance premiums declining for the month. On a year-to-date basis, total revenue collections rose 4.9 percent, slightly ahead of the revised annual forecast of 4.0 percent growth. Adjusting for the accelerated sales tax program in June 2010, total revenues grew 6.7 percent through March, ahead of the economic-base forecast of 5.6 percent growth.

Net Individual Income Tax (66% of general fund revenues): Through March, collections of net individual income tax rose 7.5 percent from the same period last year, ahead of the annual estimate of 7.2 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (65% of general fund revenues): Collections of payroll withholding taxes grew 0.6 percent in March. Growth in this source is understated since March of last year was an exceptionally strong month, with growth of 18.2 percent. Year-to-date, withholding collections grew 5.1 percent compared with the same period last year, ahead of the revised annual growth rate of 4.3 percent.

Individual Income Tax Nonwithholding (14% of general fund revenues): March is not typically a significant month for nonwithholding collections. A total of \$111.4 million was collected in March, compared with \$80.7 million in March of last year.

Year-to-date collections in this source are 3.4 percent ahead of the same period last year, below the revised estimate of 8.5 percent growth. The majority of the remaining collections in this source will occur in April and May, with both final payments for tax year 2010 and estimated payments for the current year due May 1.

Individual Income Tax Refunds: TAX issued \$419.7 million in refunds in March compared with \$461.2 million in March of last year. Year-to-date, refunds are 8.4

percent behind the same period last year, ahead of the estimate of a 4.9 percent decline. For the filing season beginning January 1, TAX has issued 1.66 million refunds, compared with 1.64 million during the same period last year. Although the number of refunds issued is similar to last year, average check size is down 8.8 percent.

Sales Tax (20% of general fund revenues): Collections of sales and use taxes, reflecting February sales, rose 8.5 percent in March. On a year-to-date basis, collections have fallen 3.7 percent, trending toward the revised annual estimate of a 2.2 percent decline. The year-to-date decline is due to the accelerated sales tax program in fiscal year 2010, which required dealers to remit July payments in June. Adjusting for this and other policy initiatives, including amnesty and the modified dealer discount, sales tax collections have grown by 4.9 percent year-to-date, close to the economic-base forecast of a 4.8 percent increase.

Corporate Income Tax (5% of general fund revenues): March is not typically a significant month for collections in this source. Collections of corporate income tax were \$83.2 million in March, compared with \$42.2 million last March. March receipts are typically from companies paying ahead of Virginia's April 15 filing date when they make their federal payment due March 15, and those making estimated payments for the first quarter of the current year. On a year-to-date basis, collections in this source have increased 14.0 percent, ahead of the revised annual estimate of a 3.1 percent decline.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – fell 6.4 percent in March. On a year-to-date basis, collections are up 0.7 percent, ahead of the revised forecast of a 5.6 percent decline.

Insurance Premiums (2% of general fund revenues): Final payments from insurance companies for tax year 2010 are due in March. Collections in this source were \$17.3 million in March compared with \$35.7 million in March of last year. For the fiscal year to-date, net insurance premiums tax collections are \$71.1 million compared with \$54.8 million during the same period last year.

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)	-28.9%	-20.7%
ABC Taxes (1% GF revenues)	2.5%	1.2%

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue fell 12.6 percent in March – \$29.8 million compared with \$34.1 million last March. For the fiscal year,

collections of All Other Revenue grew 7.6 percent, ahead of the annual estimate of 3.6 percent growth.

Summary

Total general fund revenue collections rose 12.4 percent in March. Most major sources contributed to the strength, with recordation taxes and the taxes on insurance premiums declining for the month. On a year-to-date basis, total revenue collections rose 4.9 percent, slightly ahead of the revised annual forecast of 4.0 percent growth. Adjusting for the accelerated sales tax program in June 2010, total revenues grew 6.7 percent through March, ahead of the economic-base forecast of 5.6 percent growth.

The last three months of the fiscal year, particularly April and May, are significant collections months. Estimated and final payments from both corporations and individuals are due in April and May, and estimated payments are again due in June. Fiscal year 2011 fourth quarter collections must total about \$4.6 billion to meet the forecast. Last year, fourth quarter collections were \$4.5 billion.