



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 *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.

Total general fund revenue collections fell 0.2 percent in May, as solid growth in individual withholding and sales was offset by weak receipts in individual nonwithholding. On a year-to-date basis, total revenues fell 3.3 percent, trailing the revised annual forecast of a 2.3 percent decline. However, year-to-date growth exceeds the forecast of a 3.9 percent decline when the accelerated sales tax program (which occurs in June) is excluded.

National Economic Indicators

Current national indicators depict an expanding economy, although growth – particularly in the labor market – is expected to remain weak.

- According to the second estimate, real GDP grew 3.0 percent at an annualized rate in the first quarter of 2010, its third consecutive increase.
- The labor market stalled in May after two months of solid gains. Although payroll employment grew by 431,000 jobs in May, 411,000 were temporary census jobs. This

follows gains of 290,000 in April and 208,000 in March. In a separate report, the unemployment rate fell by 0.2 to 9.7 percent in May.

- Initial claims for unemployment fell by 10,000 to 453,000 during the week ending May 29. The four-week moving average rose from 457,000 to 459,000. Initial claims remain well below the levels of about 600,000 experienced a year ago, but above the range of 350,000 to 400,000 consistent with a healthy labor market. Overall, the claims data suggest the labor market is slowly improving.
- The Conference Board's index of leading indicators fell for the first time in more than a year in April, declining 0.1 percent to 109.3. The slight decline in the index suggests that the recovery will continue at a slower pace.
- The Conference Board's index of consumer confidence jumped 5.6 points in May, following a 5.4 gain in April and a 5.9 gain in March. Both the expectations and current conditions components contributed positively to the index. Although the index reached its highest level since March 2008, the index remains at the very low level of 63.3.
- The manufacturing sector continues to expand. The Institute of Supply Management index fell slightly from 60.4 to 59.7, marking the tenth consecutive month above the expansionary threshold of 50.0. Despite the slight decrease, the index is consistent with strong gains in factory output.
- Inflation remains low – the CPI decreased 0.1 percent in April from the previous month. Core inflation (excluding food and energy prices) was unchanged for the second consecutive month and stands 0.9 percent above April of last year.

Virginia Economy

In Virginia, the year-over-year percent change in employment remains negative; however, the rate of job losses continues to slow. Payroll employment in the Commonwealth fell 0.5 percent in April from April of last year. Northern Virginia posted a modest gain of 0.7 percent, Hampton Roads fell 0.9 percent, and Richmond-Petersburg fell 1.9 percent from April of last year. The unemployment rate fell from 7.6 percent to 6.7 percent in April, significantly below the peak of 7.8 percent in February.

The Virginia Leading Index rose 0.2 percent in April. Two of the three components contributed to the increase – auto registrations and building permits. Initial claims for unemployment increased 5.1 percent, contributing negatively to the index. The Leading Index rose in eight of the eleven Virginia metro areas in April, with the exception of Hampton Roads, Bristol, and Harrisonburg.

May Revenue Collections

Total general fund revenue collections fell 0.2 percent in May. On a year-to-date basis, total revenues fell 3.3 percent, trailing the revised annual forecast of a 2.3 percent decline.

Net Individual Income Tax (64% of general fund revenues): Through May, collections of net individual income tax fell 5.4 percent from the same period last year, close to the revised annual estimate of a 5.5 percent decline. 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 7.5 percent in May. Year-to-date withholding collections grew 0.2 percent compared with the same period last year, equal to the projected annual growth rate.

Individual Income Tax Nonwithholding (13% of general fund revenues): May is a significant month for nonwithholding collections, since final payments for tax year 2009 and the first estimated payment for tax year 2010 are both due May 1.

May collections were \$307.2 million compared with \$403.7 million in May 2009, a 23.9 percent decrease. Since a large portion of payments due May 1 are received in April, one must consider April and May collections together to accurately assess growth in this source. Taken together, nonwithholding collections in April and May were down 20.8 percent over the same period last year.

Through May, about 93 percent of the nonwithholding forecast has been collected, and collections during this period are 19.7 percent below the same period last year, close to the revised annual estimate of a 21.5 percent decline. Estimated payments are due in June and \$131.4 million is needed to meet the annual estimate. Last year, \$217.1 million was received in June.

Individual Income Tax Refunds: Through May, TAX issued \$1.9 billion in refunds compared with \$1.8 billion in the same period last year, a 3.6 percent increase, compared with the revised annual estimate of a 2.0 percent increase.

For the filing season beginning January 1, TAX has issued 2.5 million refunds – about 17,000 fewer than during the same period last year. TAX can issue another \$97.0 million in refunds in June and meet the annual estimate. Last year, \$124.2 million was issued in June.

Sales Tax (22% of general fund revenues): Collections of sales and use taxes, reflecting April sales, rose 6.5 percent in May, after a 7.3 percent increase in April. These are the first two consecutive months of positive growth since November-December 2007. On a year-to-date basis, collections have fallen 2.0 percent, slightly ahead of the policy-adjusted forecast of a 3.0

percent decline. (The remaining significant policy adjustment is the June accelerated sales tax program.)

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.

Corporate income tax collections were \$20.8 million in May compared with \$17.3 million in May of last year, a 20.0 percent increase. Year-to-date collections are up 27.2 percent from the same period last year, ahead of the annual estimate of 12.8 percent growth.

The second estimated payment for tax year 2010 is due June 15. About \$82 million is needed to meet the annual forecast in this source. Last year, \$138.0 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 15.5 percent in May. On a year-to-date basis, collections are down 6.6 percent, close to the forecast of a 4.9 percent decline.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Insurance Premiums (2% GF revenues)	3.3%	- 4.9%
Interest Income (1% GF revenues)	-7.6%	10.8%
ABC Taxes (1% GF revenues)	1.1%	0.9%

Note: Interest earnings of \$26.2 million were transferred to nongeneral fund sources in May.

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue grew 15.2 percent in May – \$55.9 million compared with \$48.5 million last May. For the fiscal year-to-date, collections of All Other Revenue fell 6.5 percent from the same period in fiscal year 2009, lagging the annual estimate of a 2.9 percent decline.

Summary

May is a significant month for revenue collections. Total general fund revenue collections fell 0.2 percent in May. On a year-to-date basis, total revenues fell 3.3 percent, trailing the revised annual forecast of a 2.3 percent decline.

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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 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.

Adjusted for projected accelerated sales tax payments to be received in June, June collections must total \$1.37 billion to meet the forecast for the fiscal year. For comparison purposes, \$1.5 billion of general fund revenue was collected in June 2009.