



COMMONWEALTH of VIRGINIA

Office of the Governor

Jody M. Wagner
Secretary of Finance

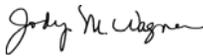
P.O. Box 1475
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March 14, 2008

MEMORANDUM

TO: The Honorable Timothy M. Kaine

THROUGH: The Honorable Wayne M. Turnage

FROM: Jody M. Wagner 

SUBJECT: February Revenue Data

This month's revenue letter incorporates the revised general fund revenue forecast. Given revenue collections through January and the deteriorating economic conditions, special interim meetings of the Governor's Advisory Board of Economists and the Governor's Advisory Council on Revenue Estimates were convened in February. The discussions and recommendations resulting from these meetings are the basis for the changes from the December forecast to the February midsession revenue forecast released by Governor Kaine on February 12, 2008. As a result of the revisions, general fund revenues are projected to grow 1.2 percent in fiscal year 2008.

February is not typically a significant month for revenue collections, although it is the beginning of the individual income tax filing season. With continued weakness in sales and recordation tax collections and a surge in individual income tax refunds, general fund revenues fell 7.6 percent in February 2008 compared to February 2007. On a year-to-date basis, total revenues grew 2.4 percent over the same period last year, ahead of the revised annual forecast of 1.2 percent. Individual withholding and nonwithholding are tracking slightly ahead of their respective forecasts, while sales and recordation tax collections are trailing their annual estimates.

National Economic Indicators

National indicators continue to depict deteriorating economic conditions, as the housing shock and credit crunch spread through the economy, further impacted by rising energy prices. Some analysts believe the economy has entered a recession.

- The job market weakened significantly in February – payroll employment fell by 63,000 jobs for the month, and January's job loss was revised up from 17,000 to 22,000. The weakness was widespread – employment declined in construction, retail trade, and finance. In a separate report, the unemployment rate inched down from 4.9 to 4.8 percent as the rising number of unemployed workers was offset by a sharp decline in the labor force.

- Initial claims for unemployment dropped by 24,000 to 351,000 during the week ending March 1. The four-week moving average fell slightly from 361,000 to 359,500.
- The Consumer Price Index rose by 0.4 percent in January, driven by increases in food and energy prices. Core inflation, excluding food and energy, rose by 0.3 percent from December, resulting in growth of 2.5 percent over the same period last year.
- The manufacturing sector contracted in February. The Institute of Supply Management index fell from 50.7 to 48.3, the second reading below 50 in the past three months and its lowest level since April 2003.
- The Conference Board's index of leading indicators fell 0.1 percent to 135.8 in January, the fourth consecutive monthly decline. The index is at its lowest level since Hurricane Katrina. Generally, a negative reading for six to nine months is indicative of a recession. The index has declined in five of the last six months, and is consistent with a mild contraction.
- The Conference Board's index of consumer confidence dropped from 87.3 to 75.0 in February, its lowest level since November 1993. Both the expectations and current conditions components fell sharply.

Virginia Economy

The Virginia Employment Commission has released re-benchmarked employment data for calendar years 2006 and 2007. The revised data indicate that job growth in Virginia was slower than earlier estimates had indicated. Payroll employment increased 0.9 percent during calendar year 2007, below the rate of 1.5 percent growth previously reported. Statewide, employment grew by 0.7 percent in January. Jobs grew by 1.0 percent in Northern Virginia, and 0.7 percent in Hampton Roads and Richmond-Petersburg. The unemployment rate rose from 3.2 to 3.8 percent in January as retailers reduced employment after the holiday shopping season and colleges and universities closed for winter break.

The Virginia leading index fell 0.4 percent in January, its fifth decline in six months. All three components of the index contributed to the decline. The regional indices fell in eight of Virginia's eleven metropolitan areas in January. Northern Virginia's index was unchanged, while Blacksburg and Roanoke were the only metropolitan areas where the indices increased.

February Revenue Collections

February is not typically a significant month for revenue collections, although it is the beginning of the individual income tax filing season. With continued weakness in sales and recordation tax collections and a surge in individual income tax refunds, general fund revenues fell 7.6 percent in February 2008 compared to February 2007. On a year-to-date basis, total revenues grew 2.4 percent over the same period last year, ahead of the annual forecast of 1.2 percent.

Net Individual Income Tax (65% of general fund revenues): Year-to-date net individual income tax growth is 4.5 percent, slightly ahead of the revised 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 grew 4.8 percent in February. February contained an additional deposit day which will result in one less deposit day in March. Year-to-date withholding growth is 5.7 percent, slightly ahead of the projected annual growth rate of 5.2 percent.

Individual Income Tax Nonwithholding (18% of general fund revenues): February is not typically a significant month for nonwithholding collections. A total of \$27.0 million was collected in February, compared with \$51.9 million in February of last year.

To date, about 40 percent of the nonwithholding forecast has been collected, and collections during this period are 5.3 percent above the same period last year, which is ahead of the revised annual estimate of 3.2 percent. The majority of the remaining collections in this source will occur in April and May, with both final payments for tax year 2007 and estimated payments for the current year due May 1.

Individual Income Tax Refunds: TAX issued \$414.3 million in individual refunds in February 2008, compared with \$318.8 million in February 2007. The extra day due to leap year contributed to the large increase. Year to date, refunds are 17.4 percent ahead of the same period last year, and ahead of the annual forecast of a 9.6 percent increase. For the filing season beginning January 1, 964,000 refunds have been issued compared with 873,500 during the same period last year.

Sales Tax (20% of general fund revenues): Collections of sales and use taxes, reflecting January sales, fell 6.4 percent in February. February receipts include post-holiday sales and gift card purchases, completing the holiday shopping season. Based on collections for December, January, and February, reflecting taxable sales for November through January, sales during the holiday season fell 2.2 percent from last year, the largest decline in the holiday shopping season since the sales tax was implemented in 1966.

On a year-to-date basis, collections of sales and use taxes have increased 0.9 percent, trailing the revised annual estimate of 1.6 percent growth.

Corporate Income Tax (4% of general fund revenues): As with individual nonwithholding, February is not a significant month for corporate income tax collections. Corporate income tax collections were \$38.3 million in February of 2008 compared with \$9.7 million in February of 2007. Year-to-date collections are down 15.6 percent compared to the same period last year, ahead of the annual projected decline of 20.5 percent.

Wills, Suits, Deeds, Contracts (3% of general fund revenues): Wills, suits, deeds, and contracts

– mainly recordation tax collections – fell 28.2 percent in February as the housing market continued to slow. On a year-to-date basis, collections in this source declined 19.2 percent from last year, compared with the revised estimate of a 15.0 percent annual decline.

Other Revenue Sources

The following list provides data on February collections for other revenue sources.

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Insurance Premiums Taxes (3% GF revenues)	17.9%	8.7%
Interest Income (1% GF revenues)	13.8%	-3.5%
ABC Taxes (1% GF revenues)	4.7%	5.0%

All Other Revenue: Receipts in All Other Revenue grew 52.5 percent in February – \$39.1 million compared with \$25.7 million in February 2007. Most of the increase was in inheritance, gift, and estate taxes -- \$10.2 million compared with \$3.5 million in February 2007. For the fiscal year-to-date, collections of All Other Revenue are 11.2 percent ahead of the same period in fiscal year 2007, ahead of the revised annual estimate of a 3.2 percent decline.

Lottery Revenues: Net income totaled \$39.5 million in February 2008 or \$3.2 million more than February 2007. February 2008 was 8.9 percent ahead of February 2007 as sales of Mega Millions tickets grew due to a strong jackpot total that reached \$270 million by the drawing on February 22. Year-to-date, net income is up 10.7 percent compared to the annual forecast of a 3.7 percent increase. Comparisons to last year are affected because products currently offered (Fast Play Bingo, additional daily game drawings) were not offered or included in sales and net income results from last year. In addition, jackpot sales were significantly depressed last year because of unusually low advertised jackpots.

Summary

February is not typically a significant month for revenue collections, although it is the beginning of the individual income tax filing season. With continued weakness in sales and recordation tax collections and a surge in individual income tax refunds, general fund revenues fell 7.6 percent in February 2008 compared to February 2007. On a year-to-date basis, total revenues grew 2.4 percent over the same period last year, ahead of the revised annual estimate of 1.2 percent. Individual withholding and nonwithholding are tracking slightly ahead of their respective forecasts, while sales and recordation tax collections are trailing their annual estimates.

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Although total general fund revenue collections through February are ahead of the annual estimate, the forecast anticipates further weakness in individual and corporate income tax payments and continued soft recordation tax receipts as the housing market remains stalled.

April and May are the next significant collection months for corporate and individual payments. Payroll withholding taxes, sales tax collections, and recordation tax receipts also will be closely monitored on a monthly basis.