



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

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March 16, 2009

**MEMORANDUM**

TO: The Honorable Timothy M. Kaine

THROUGH: The Honorable Wayne M. Turnage

FROM: Richard D. Brown 

SUBJECT: February Revenue Data

This month's revenue letter incorporates the revised mid-session general fund revenue forecast released on February 16, 2009, which is the underlying revenue forecast for the budget bill (House Bill 1600) adopted by the General Assembly on February 28, 2009. Under the mid-session revised forecast, general fund revenues are expected to fall 7.3 percent in fiscal year 2009. This compares to a projected decline of 4.8 percent in the forecast used with the proposed budget introduced on December 17, 2008.

February is not typically a significant month for revenue collections, although it is the beginning of the individual income tax filing season. Total general fund revenues fell 13.6 percent in February compared to February of last year. This sharp decline is attributable to several factors. First, net corporate income tax receipts dropped significantly in February, mainly due to some one-time revenue collections received last year. Second, refunds of insurance premiums tax, which are normally issued in October or November, were issued in February this year. The delay was due to the transfer of one-third of insurance premiums tax for the prior year to the Transportation Trust Fund.

In addition to these sources, collections of sales taxes increased modestly following five months of decline and collections of payroll withholding were flat. On a year-to-date basis, total revenues fell 6.1 percent, ahead of the revised annual forecast of a 7.3 percent decline.

## **National Economic Indicators**

The economy remains in a deep recession as the effects of the problems in financial markets have spread throughout the economy. Consumer spending and business investment are declining, while the housing market continues to contract.

- Real GDP fell at an annual rate of 6.2 percent in the fourth quarter of 2008, according to the preliminary estimate. This decline was much larger than expected. It was the largest quarterly contraction since the first quarter of 1982.
- Payroll employment declined by 651,000 jobs in February, following losses of 655,000 in January and 681,000 in December -- a three-month total loss of almost 2 million jobs. In a separate report, the unemployment rate rose to 8.1 percent from 7.6 percent.
- Initial claims for unemployment fell by 31,000 to 639,000 during the week ending February 28. The four-week moving average increased from 640,000 to 642,000, a level indicative of persistent weakening in the labor market.
- Consumer confidence continues to deteriorate -- the Conference Board's index of consumer confidence fell from 37.4 to 25.0 in February, another record low. Both the current conditions and expectations components fell.
- The manufacturing sector remains at depressed levels. The Institute of Supply Management index was essentially flat in February, rising from 35.6 to 35.8. Although, it remains at a very low level, the very slight increase could indicate the sector is stabilizing.
- The Conference Board's index of leading indicators rose 0.4 percent to 99.5 in January, following a 0.2 percent increase in December. This was the first back-to-back monthly gain since 2006. Although the increases have recently been supported by an increase in the money supply, a positive interest rate yield spread and rise in consumer sentiment added to growth in January.

## **Virginia Economy**

The Virginia Employment Commission has released re-benchmarked employment data for calendar years 2007 and 2008 and the downward revision was substantial. Although previous reports indicated positive job growth through November of last year, the revised data indicate that the Commonwealth has been losing jobs since September 2008. Over the last three months, year-over-year losses have averaged 58,000 jobs per month.

December employment was revised down significantly from the figure reported last month. Payroll employment in Virginia declined by 68,100 jobs in December -- a 1.8 percent drop -- compared with the 31,100 and 0.8 percent drop reported earlier. The losses were widespread -- employment declined by 1.1 percent in Northern Virginia, 1.3 percent in Hampton Roads, and 2.6 percent in Richmond in December.

In January, Virginia employment fell by 1.6 percent, or 60,900 jobs. Northern Virginia posted a decline of 0.8 percent, Hampton Roads fell 0.5 percent, and employment in the Richmond-Petersburg area fell 2.6 percent in January. The unemployment rate in Virginia rose from 5.1 percent to 6.4 percent in January.

The Virginia Leading Index fell 0.6 percent in January, its fifth consecutive decline. All three components – auto registrations, building permits, and initial unemployment claims – contributed to the decline. The leading index was unchanged or declined in all eleven metro areas in the Commonwealth.

### **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. Total general fund revenues fell 13.6 percent in February from February of last year. The sharp decline was primarily due to the timing of payments in corporate income tax and the timing of refunds in insurance premiums tax. Collections of sales taxes increased modestly following five months of decline while collections of payroll withholding were flat. On a year-to-date basis, total revenues fell 6.1 percent, ahead of the revised annual forecast of a 7.3 percent decline.

***Net Individual Income Tax (66% of general fund revenues)***: Year-to-date collections of net individual income tax fell 0.1 percent, ahead of 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 grew 0.1 percent in February. February had one less deposit day than February of last year. Year-to-date withholding growth is 2.7 percent, close to the projected annual growth rate of 2.5 percent.

***Individual Income Tax Nonwithholding (16% of general fund revenues)***: February is not typically a significant month for nonwithholding collections. A total of \$34.4 million was collected in February, compared with \$27.0 million in February of last year.

To date, about 43 percent of the nonwithholding forecast has been collected, and collections during this period are 10.2 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.

***Individual Income Tax Refunds***: As the main filing season got underway, TAX issued \$399.8 million in refunds in February compared with \$414.3 million last February. Year to date, refunds are 7.0 percent ahead of the same period last year, trailing the annual forecast of a 7.4 percent increase. For the filing season beginning January 1, 958,000 refunds have been issued compared with 964,000 during the same period last year.

***Sales Tax (20% of general fund revenues):*** Collections of sales and use taxes, reflecting January sales, rose 0.7 percent in February following five consecutive monthly declines. 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 6.3 percent from last year, the largest decline in the holiday shopping season since the sales tax was implemented in 1966. The holiday season of fiscal year 2008 previously held that record with a 2.2 percent decline.

On a year-to-date basis, collections have fallen 4.1 percent, below the annual estimate of a 3.7 percent decline.

***Corporate Income Tax (5% of general fund revenues):*** Through February, collections in corporate income taxes have fallen 28.1 percent from the same period last year, trailing expectations of a 15.2 percent decline. However, several large one-time payments received in February of last year are distorting monthly growth in this source. This year, February payments were in line with the historical average for the month, while refunds were about the same as last year. As with individual nonwithholding, February is not a significant month for corporate income tax.

***Wills, Suits, Deeds, Contracts (2% of general fund revenues):*** Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – fell 22.0 percent in the month of February, and are down 34.9 percent on a year-to-date basis. Adjusted for the transfer of 3 cents of the 25 cents per \$100 recordation tax to the Commonwealth Transportation Fund, year-to-date collections are down 27.5 percent, close to the estimate of a 26.9 percent decline.

***Insurance Premiums (2% of general fund revenues):*** Collections of taxes on insurance premiums were negative for the month of February and are down 80.2 percent year to date. However, 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 collections in this source be transferred to the Transportation Trust Fund in fiscal year 2009 before any deposits to general fund can be made. The required transfer to the Transportation Trust Fund was completed in December. As a result, refunds to insurance companies that were normally paid in October or November were not paid until February this year after the transportation transfer was completed. This change further complicates the comparison to prior years.

### **Other Revenue Sources**

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

	<b><u>Year-to-Date</u></b>	<b><u>Annual Estimate</u></b>
Interest Income (1% GF revenues)	-34.1%	-36.2%
ABC Taxes (1% GF revenues)	2.8%	3.6%

***All Other Revenue (3% of general fund revenues):*** Receipts in All Other Revenue fell 33.8 percent in February – \$25.9 million compared with \$39.1 million last February. For the fiscal year-to-date, collections of All Other Revenue fell 28.1 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 February 2009 totaled \$36.0 million, a decrease of \$3.7 million from February 2008. The decrease in net income was a result of lower sales this February as compared to February 2008 when sales were strongly influenced by the Mega Million jackpot that grew to \$270 million during that month. Year-to-date, net income is down 6.1 percent, trailing the annual estimate of a 5.4 percent decline.

### **Summary**

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February is not typically a significant month for revenue collections, although it is the beginning of the individual income tax filing season. For the month, total general fund revenues fell 13.6 percent compared to February of last year. The sharp decline was primarily due to the timing of one-time large payments in corporate income tax last February and the timing of refunds in insurance premiums tax. Conversely, collections of sales taxes increased modestly following five consecutive months of decline while collections of payroll withholding were flat. On a year-to-date basis, total revenues fell 6.1 percent, ahead of the revised annual forecast of a 7.3 percent decline.

Although total general fund revenue collections through February are ahead of the annual estimate, the revised forecast anticipates further weakness in individual income tax payments and sales tax collections over the rest of the year.