



# COMMONWEALTH of VIRGINIA

Office of the Governor

Jody M. Wagner  
Secretary of Finance

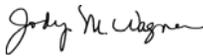
P.O. Box 1475  
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April 14, 2008

## MEMORANDUM

TO: The Honorable Timothy M. Kaine

THROUGH: The Honorable Wayne M. Turnage

FROM: Jody M. Wagner 

SUBJECT: March Revenue Data

March is not typically a significant month for revenue collections. Collections consist mainly of withholding and sales tax revenues in addition to normal collections for most minor sources. Final payments from insurance companies for tax year 2007 are due in March. No payments are due from either individuals or corporations, although March collections do include the leading edge of corporate payments which are due April 15.

General fund revenues grew 3.2 percent in March 2008 compared to March 2007. On a year-to-date basis, total revenues grew 2.5 percent over the same period last year, ahead of the revised annual forecast of 1.2 percent. Receipts of individual withholding and nonwithholding taxes continue to track slightly ahead of their respective forecasts, while sales and recordation tax collections are trailing their annual estimates.

### **National Economic Indicators**

Most recent indicators suggest the outlook for the national economy has weakened further.

- The job market contracted in March – payroll employment fell by 80,000 jobs, the third consecutive monthly decline. In the first quarter, the economy lost 232,000 jobs, with the construction and manufacturing sectors leading the losses. Among the service industries, only leisure and hospitality, and education and health care continued to grow. In a separate report, the unemployment rate rose from 4.8 to 5.1 percent, its highest rate since the aftermath of Hurricane Katrina.
- Initial claims for unemployment rose by 38,000 to 407,000 during the week ending March 29. The four-week moving average increased from 358,750 to 374,500, consistent with a contracting labor market.
- The Consumer Price Index was flat in February, driven by weak demand. Core inflation, excluding food and energy, fell from 2.5 percent in January to 2.3 percent in February.

- Activity in the manufacturing sector was essentially unchanged in March. The Institute of Supply Management index rose slightly from 48.3 to 48.6, the second monthly reading below the expansionary threshold of 50 in the past three months, and new orders are at the lowest level since the last recession. The index suggests the manufacturing industry is contracting.
- The Conference Board's index of leading indicators fell 0.3 percent to 135.0 in February, the fifth consecutive monthly decline and its lowest level since Hurricane Katrina. Generally, a negative reading for six to nine months is indicative of a recession.
- The Conference Board's index of consumer confidence dropped from 76.4 to 64.5 in March, its lowest level since October 1993. Both the expectations and current conditions components fell sharply, but the current conditions component led the decline.
- The Federal Reserve cut the federal funds target rate by 75 basis points to 2.25 percent at its March meeting, following the 75-basis point cut at its emergency January meeting. The Board notes, "Financial markets remain under considerable stress, and the tightening of credit conditions and the deepening of the housing contraction are likely to weigh on economic growth over the next few quarters."

In Virginia, payroll employment grew by 0.5 percent in February. Jobs grew by 0.8 percent in Northern Virginia, 0.9 percent in Hampton Roads, and 0.2 percent in Richmond-Petersburg. The unemployment rate was flat at 3.8 percent in February.

The Virginia Leading Index edged up 0.3 percent in February for the second increase in three months. All three components -- auto registrations, building permits, and initial claims for unemployment -- contributed to the growth in February. On a regional level, the leading index rose in eight of the Commonwealth's eleven metro areas in February. The regional indices dropped in Harrisonburg, Danville, and Lynchburg.

### **March Revenue Collections**

General fund revenues grew 3.2 percent in March 2008 compared to March 2007. On a year-to-date basis, total revenues grew 2.5 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.

***Net Individual Income Tax (65% of general fund revenues)***: Year-to-date net individual income tax growth is 5.3 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)***: With one less deposit day than March 2007, collections of payroll withholding taxes grew 3.4 percent

in March. Year-to-date withholding growth is 5.4 percent, slightly ahead of the projected annual growth rate of 5.2 percent.

***Individual Income Tax Nonwithholding (18% of general fund revenues)***: March is not typically a significant month for nonwithholding collections. A total of \$76.0 million was collected in March, compared with \$56.3 million in March of last year.

To date, about 42 percent of the nonwithholding forecast has been collected, and collections during this period are 6.8 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 \$313.2 million in individual refunds in March 2008, compared with \$342.2 million in March 2007. March of this year had one less processing day than March 2007. Year to date, refunds are 8.2 percent ahead of the same period last year, trailing the annual forecast of a 9.6 percent increase. For the filing season beginning January, 1.55 million refunds have been issued compared with 1.5 million during the same period last year and the average check size increased 7.3 percent – ahead of an anticipated 5.0 percent increase.

***Sales Tax (20% of general fund revenues)***: Collections of sales and use taxes, reflecting February sales, grew 2.3 percent in March. On a year-to-date basis, collections of sales and use taxes have increased 1.0 percent, trailing the revised annual estimate of 1.6 percent growth.

***Corporate Income Tax (4% of general fund revenues)***: Corporate income tax collections were \$84.4 million in March of 2008 compared with \$102.8 million in March of 2007. March receipts are typically from companies paying ahead of the April 15 filing date for final payments on tax year 2007 liability, and those making estimated payments for the first quarter of the current fiscal year. April receipts will provide a clearer picture of growth in this source. Year-to-date collections are down 16.1 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 27.5 percent in March as the housing market continued to slow. On a year-to-date basis, collections in this source declined 20.2 percent from last year, compared with the revised estimate of a 15.0 percent annual decline.

***Insurance Premiums (3% of general fund revenues)***: Final payments from insurance companies, due March 1, were disappointing. Receipts of the tax on insurance premiums were \$15.7 million compared with \$34.9 million in March of 2007. Year-to-date, collections in this source are 4.3 percent above last year, behind the annual estimate of 8.7 percent growth.

### **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)	11.1%	-3.5%
ABC Taxes (1% GF revenues)	4.8%	5.0%

Note: Approximately 65 percent of the interest for the current quarter is due to nongeneral funds and will be transferred in April.

**All Other Revenue:** Receipts in All Other Revenue grew 4.3 percent in March – \$48.6 million compared with \$46.6 million in March 2007. Most of the increase was in inheritance, gift, and estate taxes -- \$16.7 million compared with \$9.2 million in March 2007. For the fiscal year-to-date, collections of All Other Revenue are 10.3 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 \$38.4 million in March 2008 or \$7.7 million less than March 2007. March 2008 was 16.8 percent below March 2007, primarily because sales of Mega Millions tickets in March 2007 grew due to a strong jackpot total that reached over \$370 million. Year-to-date, net income is up 6.8 percent compared to the annual forecast of a 3.7 percent increase.

### Summary

General fund revenues grew 3.2 percent in March 2008 compared to March 2007. On a year-to-date basis, total revenues grew 2.5 percent over the same period last year, ahead of the revised annual forecast of 1.2 percent. Collections of individual withholding and nonwithholding are tracking slightly ahead of their respective forecasts, while sales and recordation tax collections are trailing their annual estimates.

Total general fund revenue collections are currently ahead of the annual estimate. The last three months of the fiscal year, particularly April and May, are significant collection months. Estimated and final payments from both corporations and individuals are due in April and May, and estimated payments are again due in June.