



COMMONWEALTH of VIRGINIA

Office of the Governor

Richard D. Brown
Secretary of Finance

PO Box 1475
Richmond, VA. 23218

April 13, 2010

MEMORANDUM

TO: The Honorable Robert F. McDonnell

THROUGH: The Honorable Martin Kent

FROM: Richard D. Brown 

SUBJECT: March 2010 Revenue Data

This month's revenue letter incorporates the revised mid-session general fund revenue forecast released on February 17, 2010. Under the mid-session forecast, general fund revenues are expected to fall 2.0 percent in fiscal year 2010. This compares to a projected decline of 2.7 percent in the forecast used with the proposed budget (HB/SB 29) introduced on December 18, 2009. The April revenue report will include any additional revisions to revenues in the final budget approved by the 2010 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 2009 are due in March. However, no payments are due from either individuals or corporations, although March collections typically include the leading edge of corporate payments which are due April 15.

Total general fund revenue collections rose 3.0 percent in March. An extra deposit day boosted growth, particularly in withholding collections which increased 18.2 percent over March 2009. Nevertheless, on a year-to-date basis, total revenues fell 4.1 percent, trailing the annual forecast of a 2.0 percent decline.

National Economic Indicators

Current national indicators suggest the economy continues to expand, although weak consumer fundamentals are likely to restrain growth.

- Labor market conditions improved significantly in March -- payroll employment grew by 162,000 jobs. The February loss was revised from 36,000 to 14,000 and the January loss of 26,000 jobs was revised to a gain of 14,000. Two factors inflated the reading somewhat. Some of the gain was the reversal of temporary job losses due to the February snowstorm. Also, the Census Bureau hired 48,000 workers in March for the once-a-decade count of the U.S. population. Still, the gain suggests the labor market is stabilizing. In a separate report, the unemployment rate was unchanged at 9.7 percent, even as more workers entered the labor force.
- Initial claims for unemployment increased by 18,000 to 460,000 during the week ending April 3. The four-week moving average rose from 448,000 to 450,250. Initial claims remain well below the levels of about 600,000 experienced a year ago.
- The Conference Board's index of leading indicators rose 0.1 percent to 107.6 in February, its eleventh consecutive monthly increase. The index was 9.5 percent higher than a year ago, the fastest year-over-year growth rate since the 1980s.
- The Conference Board's index of consumer confidence jumped 6.1 points in March, recovering much of the 10 point plunge in February. Both the expectations and current conditions components contributed positively to the index. Despite the improvement, consumer confidence remains very low.
- The recovery in the manufacturing sector picked up pace in March. The Institute of Supply Management index rose from 56.5 to 59.6, marking the eighth consecutive month above the expansionary threshold of 50.0.
- Inflation remains low -- the CPI was unchanged in February from the previous month. Core inflation (excluding food and energy prices) rose by 0.1 percent for the month and stands 1.3 percent above February of last year. Increases in service and food prices offset a decline in energy prices.
- At its March meeting, the Federal Reserve again announced it will keep the federal funds target rate in the 0.0 to 0.25 percent range "for an extended period." It will, however, continue to withdraw the extraordinary support provided in response to the financial crisis.

Virginia Economy

The Virginia Employment Commission released re-benchmarked employment data for calendar years 2008 and 2009, and the downward revision was substantial. According to the revised data, the Virginia economy lost 126,100 jobs in calendar year 2009, compared with a loss of 90,600 reported previously.

On a fiscal year basis, the initial data indicated that Virginia employment fell by 2.4 percent over the first six months of fiscal year 2010. According to the revised data, employment fell by 3.8 percent. Job growth in the major metro areas was also revised downward. Following is 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 fell 2.0 percent (-0.7 percent); Hampton Roads fell 3.9 percent (-0.7 percent); Richmond-Petersburg fell 5.0 percent (-2.7 percent).

In February, the most recent month available, employment fell 2.6 percent from February of last year. Northern Virginia posted a decline of 1.6 percent, Hampton Roads fell 1.7 percent, and Richmond-Petersburg fell 3.4 percent from February of last year. The unemployment rate rose to 7.7 percent in February, the highest rate since February 1983.

The Virginia Leading Index fell 0.1 percent in February, its first decline in nine months, probably due to the severe winter weather. All three components of the index contributed negatively to the index. The Leading Index fell in seven of the eleven Virginia metro areas in February. The index rose in Hampton Roads, Northern Virginia, Richmond, and Roanoke.

March Revenue Collections

Total general fund revenue collections rose 3.0 percent in March. On a year-to-date basis, total revenues fell 4.1 percent, trailing the revised annual forecast of a 2.0 percent decline.

Net Individual Income Tax (64% of general fund revenues): Through March, collections of net individual income tax fell 5.0 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 rose 18.2 percent in March resulting in the largest amount ever collected in any single month. An extra deposit day and the fact that some payments received in April last year arrived in March this year contributed in part to the increase this month. Year-to-date withholding collections were flat compared with the same period last year, trailing the projected annual growth rate of a 0.2 percent increase.

Individual Income Tax Nonwithholding (13% of general fund revenues): March is not typically a significant month for nonwithholding collections. A total of \$80.7 million was collected in March, compared with \$89.2 million in March of last year.

Year to date, collections in this source are 18.6 percent below the same period last year, ahead of the revised annual estimate of a 21.5 percent decline. The majority of the remaining collections in this source will occur in April and May, with both final payments for tax year 2009 and estimated payments for the current year due May 1.

Individual Income Tax Refunds: TAX issued \$461.2 million in refunds in March compared with \$365.2 million in March of last year. Year-to-date, refunds are 12.1 percent ahead of last year, ahead of the revised annual estimate of a 2.0 percent increase. For the filing season beginning January 1, TAX has issued 1,635,917 refunds, compared with 1,563,370 during the same period last year.

Sales Tax (22% of general fund revenues): Collections of sales and use taxes, reflecting February sales, fell 6.3 percent in March. On a year-to-date basis, collections have fallen 3.8 percent, behind 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 (6% of general fund revenues): March is not typically a significant month for collections in this source. Collections of corporate income tax were \$42.2 million in March compared with \$55.9 million in March of last year. March receipts are typically from companies paying ahead of the April 15 filing date for final payments on tax year 2009 liability, and those making estimated payments for the first quarter of the current year. On a year-to-date basis, collections in this source have risen 22.2 percent, ahead of the revised annual forecast of 19.2 percent growth.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – fell 6.9 percent in March. On a year-to-date basis, collections are down 4.3 percent, close to the forecast of a 4.9 percent decline.

Insurance Premiums (2% of general fund revenues): Final payments from insurance companies for tax year 2009 are due in March. Collections in this source were \$35.7 million in March compared with \$19.8 million in March of last year. On a year-to-date basis, collections are down 1.0 percent, ahead of the revised annual estimate of a 4.9 percent decline.

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)	-18.8%	10.8%
ABC Taxes (1% GF revenues)	0.6%	0.9%

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue fell 5.3 percent in March – \$34.1 million compared with \$36.0 million last March. For the fiscal year-to-date, collections of All Other Revenue fell 12.1 percent from the same period in fiscal year 2009, lagging the annual estimate of a 4.2 percent decline.

Summary

March is not typically a significant month for revenue collections. Total general fund revenue collections rose 3.0 percent in March. An extra deposit day contributed to the growth, particularly in withholding collections. On a year-to-date basis, total revenues fell 4.1 percent, trailing the revised annual forecast of a 2.0 percent decline. The last three months of the fiscal

The Honorable Robert F. McDonnell

April 13, 2010

Page 5 of 5

year, particularly April and May, are significant collections months. As a result, year-to-date activity through March is not a reliable predictor of overall annual growth.

Estimated and final payments from both corporations and individuals are due in April and May, and estimated payments are again due in June. Adjusted for projected accelerated sales tax payments to be received in June, fourth quarter fiscal year 2010 collections must total about \$4.0 billion to meet the forecast for the fiscal year. For comparison purposes, receipts in the last quarter of fiscal year 2009 were \$4.14 billion. In other words, adjusted for the June 2010 accelerated sales tax program, collections can fall 2.3 percent over the remainder of the year and still attain the annual estimate.