



COMMONWEALTH of VIRGINIA

Office of the Governor

Jody M. Wagner
Secretary of Finance

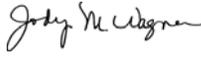
P.O. Box 1475
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May 16, 2008

MEMORANDUM

TO: The Honorable Timothy M. Kaine

THROUGH: The Honorable Wayne M. Turnage

FROM: Jody M. Wagner 

SUBJECT: April Revenue Data

This month's revenue report incorporates the revised general fund revenue forecast that reflects actions of the 2008 General Assembly. Under the revised forecast, general fund revenues are projected to grow 1.2 percent in fiscal year 2008.

April is a significant month for revenue collections. In addition to regular collections of withholding and sales taxes, final payments for tax year 2007 and the first estimated payment for tax year 2008 are due from corporations. A large amount of estimated and final payments from individuals, which are due May 1, are also typically received in April.

With an extra deposit day this year, general fund revenues grew 14.5 percent in April 2008 compared to April 2007. A surge in individual nonwithholding and strong growth in withholding and corporate income taxes offset weakness in sales tax and recordation tax collections. On a year-to-date basis, total revenues grew 4.0 percent over the same period last year, ahead of the revised annual forecast of 1.2 percent. It is highly likely that most of April's revenue surge will be offset by a significant decline in May's collections. Through the first half of May, individual final and estimated payments processed by TAX are down by almost 30 percent and, with one less deposit day in May, growth in payroll withholding is expected to be minimal. For this reason, April and May must be considered together to accurately assess growth.

National Economic Indicators

Most recent indicators suggest the short-term outlook for the national economy remains weak.

- Real GDP grew a sluggish 0.6 percent in the first quarter of 2008, the same rate as the fourth quarter, but exceeding expectations.

- The job market contracted again in April -- payroll employment fell by 20,000 jobs. Although April was the fourth consecutive month of job losses, it was an improvement from the loss of about 80,000 jobs per month in the first quarter. Major losses in construction, manufacturing, and retail trade appeared to be related to the slumping housing market. On a positive note, the service industries, especially professional and business services, leisure and hospitality, and education and health care, continued to gain jobs. In a separate report, the unemployment rate fell from 5.1 to 5.0 percent in April.
- Initial claims for unemployment fell by 18,000 to 365,000 during the week ending May 3. The four-week moving average increased from 364,500 to 367,000, and is consistent with a contracting labor market.
- Inflation remains contained. The Consumer Price Index (CPI) increased 0.3 percent in March, for annual growth of 4.0 percent. The increase in the CPI is driven by a 26 percent increase in motor fuel prices, 40 percent increase in fuel oil prices and a 4 percent increase in food and beverage prices. Core inflation, excluding food and energy, rose 0.2 percent in March, for annual growth of 2.4 percent.
- Activity in the manufacturing sector has remained essentially unchanged over the last three months. The Institute of Supply Management index was flat at 48.6 in April. New orders remain at the lowest level since the last recession. The index suggests the manufacturing industry is contracting.
- The Conference Board's index of leading indicators rose 0.1 percent to 102.0 in March, following five consecutive months of decline. The marginal improvement in the index suggests the current contraction in the economy will be mild.
- The Conference Board's index of consumer confidence dropped from 65.9 to 62.3 in April, its lowest level since October 1993. The expectations component rose slightly, while the current conditions component fell sharply.
- The Federal Reserve cut the federal funds target rate by 25 basis points to 2.0 percent at its April meeting. Since September, the Fed has cut the federal funds rate by 3.25 percentage points.

In Virginia, payroll employment grew by 0.5 percent in March. Jobs grew by 0.9 percent in Northern Virginia, 1.1 percent in Hampton Roads, and 0.8 percent in Richmond-Petersburg. The unemployment rate increased slightly from 3.8 percent to 3.9 percent in March.

The Virginia Leading Index declined 0.6 percent in March for the sixth decline in eight months. All three components of the leading index – auto registrations, building permits, and initial unemployment claims -- contributed to the drop in March. The regional leading indices fell in all eleven metro areas in March, ranging from a 1.5 percent drop in Danville to 0.3 percent in Roanoke and Bristol.

April Revenue Collections

General fund revenues grew 14.5 percent in April 2008 compared to April 2007. A surge in individual nonwithholding and strong growth in withholding and corporate income taxes offset weakness in sales tax and recordation tax collections. On a year-to-date basis, total revenues grew 4.0 percent over the same period last year, ahead of the revised annual forecast of 1.2 percent. It is highly likely that most of April's revenue surge will be offset by a significant decline in May's collections. Through the first half of May, individual final and estimated payments processed by TAX are down by almost 30 percent and, with one less deposit day in May, growth in payroll withholding is expected to be minimal. For this reason, April and May must be considered together to accurately assess growth.

Net Individual Income Tax (65% of general fund revenues): Year-to-date net individual income tax growth is 8.0 percent, well 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 additional deposit day in April of this year, collections of payroll withholding taxes grew 12.8 percent over April of 2007. Year-to-date withholding growth is 6.1 percent, ahead of the projected annual growth rate of 5.2 percent. Collections must grow 0.8 percent in the last two months of the fiscal year to attain the annual forecast.

Individual Income Tax Nonwithholding (18% of general fund revenues): April is a significant month for nonwithholding collections. Final payments for tax year 2007 and the first estimated payment for tax year 2008 are both due May 1.

April collections were \$822.2 million compared with \$641.6 million in April 2007, a 28.1 percent increase. To date, about 71 percent of the nonwithholding forecast has been collected, and collections during this period are 14.5 percent above the same period last year, which is ahead of the revised annual estimate of 3.2 percent.

Typically, a large portion of final payments due May 1 are received in April; however, the amount varies from year to year. Estimated and final payments will continue to be processed in May; therefore, one must consider April and May collections together to accurately assess growth in this source. With final and estimated payments down by almost 30 percent through the first half of May, it is highly likely that April's surge will be offset by declines in May. The final estimated payment for this fiscal year is due June 15.

Individual Income Tax Refunds: Through April, \$1.5 billion in individual refunds have been issued, compared with \$1.4 billion in the same period last year. Year to date, refunds are 6.9 percent ahead of the same period last year, but are trailing the annual forecast of a 9.7 percent increase. For the filing season beginning in January, 2.2 million refunds have been issued -- about 40,000 more than during the same period last year. The average check size increased 6.4 percent -- ahead of an anticipated 5.0 percent increase.

Sales Tax (20% of general fund revenues): Collections of sales and use taxes, reflecting March sales, fell 10.4 percent in April. On a year-to-date basis, collections of sales and use taxes have fallen 0.3 percent, trailing the revised annual estimate of 1.6 percent growth.

Corporate Income Tax (4% of general fund revenues): In April, corporations made their first estimated payment for tax year 2008, and made either a final or extension payment for tax year 2007.

Corporate income tax collections were \$165.7 million in April of 2008 compared with \$147.0 million in April of 2007. Year-to-date collections are down 10.1 percent compared to the same period last year, but 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 26.6 percent in April, the sixth consecutive month with a decline in excess of 25 percent. On a year-to-date basis, collections in this source fell 20.9 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 April collections for other revenue sources.

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Insurance Premiums (3% GF revenues)	4.7%	8.7%
Interest Income (1% GF revenues)	8.1%	-3.5%
ABC Taxes (1% GF revenues)	4.4%	5.0%

All Other Revenue: Receipts in All Other Revenue fell 10.5 percent in April -- \$36.3 million compared with \$40.6 million in April 2007. Most of the decline was in inheritance, gift, and estate taxes -- \$5.4 million compared with \$8.2 million in April 2007. For the fiscal year-to-date, collections of All Other Revenue are 8.2 percent above the same period in fiscal year 2007, ahead of the revised annual estimate of a 2.4 percent decline.

Lottery Revenues: Net income totaled \$37.8 million in April 2008 or \$1.4 million less than April 2007. April 2008 was 3.5 percent below April 2007, primarily due to higher prize expenses and administrative costs associated with fourth quarter sales initiatives. Year-to-date, net income is up 6.0 percent compared to the annual forecast of a 5.7 percent increase. Net income for the remaining two months of the fiscal year is expected to be below forecast because of lower interest earnings and sales initiatives; however, if the current Mega Millions jackpot continues to grow, increased ticket sales may offset some of this impact.

Summary

With an extra deposit day this year, general fund revenues grew 14.5 percent in April 2008 compared to April 2007. A surge in individual nonwithholding and strong growth in withholding and corporate income taxes offset weakness in sales tax and recordation tax collections. On a year-to-date basis, total revenues grew 4.0 percent over the same period last year, ahead of the revised annual forecast of 1.2 percent.

Total general fund collections through April are significantly ahead of the annual estimate; however, May and June are also important collection months. In May, as processing of final payments for individual and corporate income taxes continues, revenue growth has slowed considerably. It is highly likely that most of April's revenue surge will be offset by a significant decline in May's collections. Through the first half of May, individual final and estimated payments processed by TAX are down by almost 30 percent and, with one less deposit day in May, growth in payroll withholding is expected to be minimal. For this reason, April and May must be considered together to accurately assess growth. In June, the second estimated payment for individuals, corporations, and insurance companies are due.