



COMMONWEALTH of VIRGINIA

Office of the Governor

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MEMORANDUM

TO: The Honorable Robert F. McDonnell

THROUGH: The Honorable Martin Kent

FROM: Richard D. Brown 

SUBJECT: April Revenue Data

This month's revenue report contains the official general fund revenue forecast included in House Bill 29 (Chapter 872), which was signed by the Governor on May 7, 2010. This forecast predicts a decline of 2.3 percent in general fund revenues in fiscal year 2010, compared with the February 17 mid session forecast of a 2.0 percent decline.

April is a significant month for revenue collections. In addition to regular collections of withholding and sales taxes, final payments for tax year 2009 and the first estimated payment for tax year 2010 are due from corporations on April 15. Also, a large portion of estimated and final payments from individuals, which are due May 1, are typically received in April.

Total general fund revenue collections rose 0.4 percent in April. As expected, withholding receipts declined in April, after increasing 18.2 percent in March. However, collections of sales and use tax experienced the highest monthly growth since May 2008 (excluding the December 2009 results which reflected tax amnesty payments). Several large one-time payments contributed to a surge in corporate income tax collections. On a year-to-date basis, total revenues fell 3.6 percent, trailing the revised annual forecast of a 2.3 percent decline.

National Economic Indicators

Most national indicators suggest the economy is in a sustained recovery, although growth is expected to remain sluggish in the coming months.

- According to the advance estimate, real GDP grew 3.2 percent at an annualized rate in the first quarter of 2010, its third consecutive increase. As expected, growth slowed from the strong 5.6 percent pace in the previous quarter.
- The labor market was a bright spot in April -- payroll employment grew by 290,000 jobs. Some of the April gain (66,000) was due to Census hiring, but gains were widespread across most major industries. In addition, the February loss of 14,000 was revised to a gain of 39,000 and the March gain of 162,000 jobs was revised to 230,000. The solid increase in April, along with the significant upward revisions to previous months, signifies a marked improvement in the labor market. Nationally, the unemployment rate rose by 0.2 to 9.9 percent, as the better job market encouraged more workers to enter the labor force.
- Initial claims for unemployment fell by 7,000 to 444,000 during the week ending May 1. The four-week moving average declined from 463,000 to 459,000. Initial claims remain well below the levels of about 600,000 experienced a year ago, but above the range of 350,000 to 400,000 consistent with a healthy labor market.
- The Conference Board's index of leading indicators rose 1.4 percent to 109.6 in March, and has increased for 12 consecutive months. The index was 11.9 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 5.6 points in April, following a 5.9 gain in March. Both the expectations and current conditions components contributed positively to the index. Although the improvement is significant, the index remains at the very low level of 57.9.
- The manufacturing sector, which has been supporting the recovery, expanded more rapidly in April. The Institute of Supply Management index rose from 59.6 to 60.4, marking the ninth consecutive month above the expansionary threshold of 50.0, and the fastest growth since June 2004.
- Inflation remains low -- the CPI increased 0.1 percent in March from the previous month. Core inflation (excluding food and energy prices) was unchanged for the month and stands 1.1 percent above March of last year.
- At its April 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

In Virginia, year-over-year job losses continue, but are gradually declining. Payroll employment in the Commonwealth fell 1.4 percent from March of last year. Northern Virginia posted a decline of 0.6 percent, Hampton Roads fell 1.5 percent, and Richmond-Petersburg fell 2.5

percent from March of last year. The unemployment rate fell from 7.8 percent (the highest rate since February 1983) to 7.6 percent in March.

The Virginia Leading Index rose 0.1 percent in March. Two of the three components improved in March – initial claims for unemployment fell 0.7 percent and building permits rose 3.3 percent. Auto registrations fell 2.1 percent in March. The Leading Index rose in ten of the eleven Virginia metro areas in March, with the exception being the Bristol MSA.

April Revenue Collections

Total general fund revenue collections rose 0.4 percent in April. On a year-to-date basis, total revenues fell 3.6 percent, trailing the revised annual forecast of a 2.3 percent decline.

Net Individual Income Tax (64% of general fund revenues): Through April, collections of net individual income tax fell 5.8 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 fell 4.5 percent in April. This was expected, as March was a record month with 18.2 percent growth. Some payments typically received in April arrived in March this year. Year-to-date withholding collections declined 0.4 percent 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): April is a significant month for nonwithholding collections. Final payments for tax year 2009 and the first estimated payment for tax year 2010 are both due May 1.

April collections were \$472.5 million compared with \$581.0 million in April 2009, an 18.7 percent decrease. To date, about 76 percent of the nonwithholding forecast has been collected, and collections during this fiscal year are 18.6 percent below the same period last year, close to the revised annual estimate of a 21.5 percent decline.

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, April and May collections must be analyzed together to accurately assess growth in this source. The final estimated payment for this fiscal year is due June 15.

Individual Income Tax Refunds: In April, TAX issued \$464.5 million in refunds compared with \$505.2 million in the same period last year, an 8.1 percent decline. Year-to-date, refunds are 5.9 percent ahead of last year, exceeding the revised annual estimate of a 2.0 percent increase.

For the filing season beginning January 1, TAX has issued 2.3 million refunds – about 7,000 fewer than during the same period last year. TAX can issue another \$261.7 million in refunds and meet the annual estimate. Last year, \$320.5 million in refunds was issued in the last two months.

Sales Tax (22% of general fund revenues): Collections of sales and use taxes, reflecting March sales, rose 7.3 percent in April – the largest monthly growth since May 2008 (excluding the December 2009 results which were affected by the tax amnesty program). Pent-up demand from the February storms and an early Easter contributed to the increase. On a year-to-date basis, collections have fallen 2.8 percent, slightly ahead of 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 (5% of general fund revenues): In April, corporations made their first estimated payment for tax year 2010, and made either a final or extension payment for tax year 2009.

Corporate income tax collections were \$219.4 million in April compared with \$158.2 million in April of last year, a 38.7 percent increase. Several large one-time payments distorted monthly growth. Year-to-date collections are up 27.5 percent from the same period last year, ahead of the annual estimate of 12.8 percent growth.

The second estimated payment for tax year 2010 is due June 15. About \$102.6 million is needed to meet the annual forecast in this source. Last year, \$155.3 million was collected in May and June.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – fell 16.4 percent in April. On a year-to-date basis, collections are down 5.6 percent, close to the forecast of a 4.9 percent 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 (2% GF revenues)	2.7%	- 4.9%
Interest Income (1% GF revenues)	3.1%	10.8%
ABC Taxes (1% GF revenues)	0.8%	0.9%

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue grew 16.1 percent in April – \$29.4 million compared with \$25.3 million last April. For the fiscal year-to-date, collections of All Other Revenue fell 9.9 percent from the same period in fiscal year 2009, lagging the annual estimate of a 2.9 percent decline.

Summary

Total general fund revenue collections rose 0.4 percent in April. On a year-to-date basis, total revenues fell 3.6 percent, trailing the revised annual forecast of a 2.3 percent decline.

While total general fund revenue collections through April are lagging the annual estimate, May and June are also very important collections months. Individual estimated and final payments will continue to be processed in May and estimated payments for individuals, corporations, and insurance companies are due June 15.

Adjusted for projected accelerated sales tax payments to be received in June, collections in May and June must total about \$2.6 billion to meet the forecast for the fiscal year. For comparison purposes, receipts in the last two months of fiscal year 2009 were \$2.74 billion. In other words, adjusted for the June 2010 accelerated sales tax program, collections can fall 5.1 percent over the remainder of the fiscal year and still attain the annual estimate.