Revenue Update

A Briefing for the House Appropriations Committee

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Current Economic Conditions

National Economy

• 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.

• The Conference Board’s index of leading indicators fell 0.3 percent to 135.0 in February, the fifth consecutive monthly decline. 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.

• 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.
Current Economic Conditions

Virginia Economy

• 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 Virginia unemployment rate was unchanged from January at 3.8 percent in February. The national unemployment was 4.8 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.
• 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.
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.
• 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.
• 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 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 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.
• 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.
• Pending home sales in the three major metropolitan areas, representing about 70 percent of total recordation taxes, are down 27 percent from prior year levels.
## Summary of Fiscal Year 2008 Revenue Collections

July through March

<table>
<thead>
<tr>
<th>Major Source</th>
<th>Revenues As a % of Total</th>
<th>Percent Growth over Prior Year</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>YTD Actual</td>
</tr>
<tr>
<td>Withholding</td>
<td>57.2 %</td>
<td>5.4 %</td>
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<tr>
<td>Nonwithholding</td>
<td>18.2</td>
<td>6.8</td>
</tr>
<tr>
<td>Refunds</td>
<td>(10.9)</td>
<td>8.2</td>
</tr>
<tr>
<td>Net Individual</td>
<td>64.6</td>
<td>5.3</td>
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<tr>
<td>Sales</td>
<td>19.7</td>
<td>1.0</td>
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<tr>
<td>Corporate</td>
<td>4.4</td>
<td>(16.1)</td>
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<tr>
<td>Wills (Recordation)</td>
<td>3.1</td>
<td>(20.2)</td>
</tr>
<tr>
<td>Insurance</td>
<td>2.7</td>
<td>4.3</td>
</tr>
<tr>
<td>All Other Revenue</td>
<td>5.5</td>
<td>9.7</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>100.0 %</strong></td>
<td><strong>2.5 %</strong></td>
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