



Revenue and Budget Update

A Briefing for the House Appropriations Committee

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May 12, 2009

Topics for Discussion

- National and State Economic Indicators
- Preliminary General Fund Revenue Collections for April and YTD Fiscal Year 2009
- Next Steps

National and State Economic Indicators

- The economy remains in a deep recession; however, some national indicators suggest the rate of decline may be slowing.
- Real GDP fell 6.1 percent at an annualized rate in the first quarter of 2009, according to the advance estimate, close to the 6.3 percent decline in the fourth quarter of 2008. The decline is the sharpest two-quarter drop since 1958. On a positive note, consumer spending increased in the first quarter, after declining sharply in the last half of 2008.
- The labor market continued to decline in April, with employers eliminating 539,000 jobs. Losses for February and March were 681,000 in February and 699,00 in March. The relatively smaller decline was due to federal government hiring and smaller job losses across most private industries.
- The national unemployment rate rose to 8.9 percent in April from 8.5 percent, the highest rate since 1983.
- In Virginia, payroll employment fell by 2.4 percent in March, the largest monthly drop since September 1991. Northern Virginia posted a decline of 1.2 percent, Hampton Roads fell 0.9 percent, and employment in the Richmond-Petersburg area fell 3.5 percent in March.
- After rising for five consecutive months, the unemployment rate in Virginia held steady at 7.0 percent in March. In March of 2008, the unemployment rate was 3.6 percent.

National and State Economic Indicators

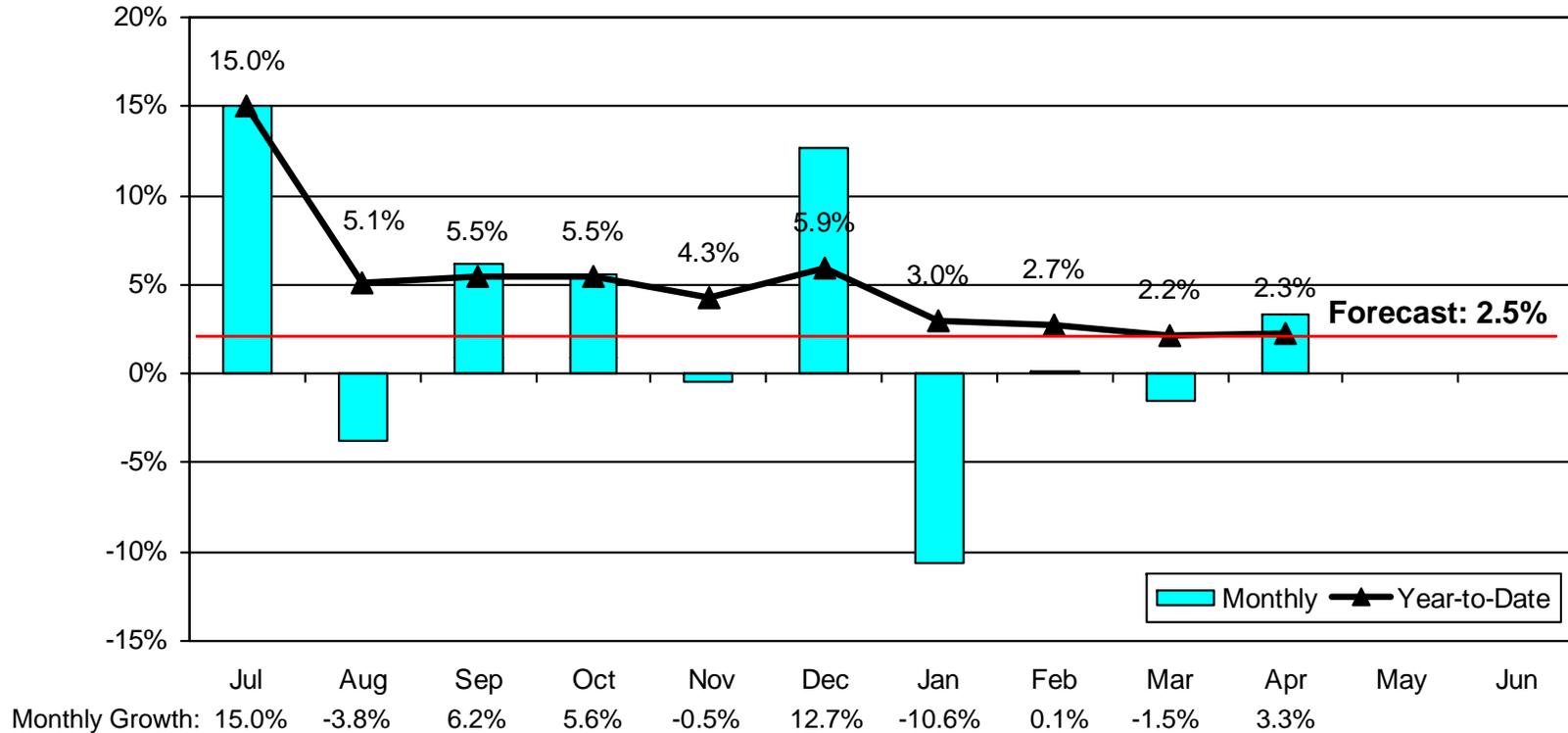
- The manufacturing sector continues to contract, but at a slower rate. The Institute of Supply Management index increased by 3.8 points in April, rising from 36.3 to 40.1. Although the index remains at recessionary levels, the gradual improvement over the last four months suggests the rate of contraction has peaked.
- The Conference Board's index of leading indicators fell 0.3 percent to 98.1 in March, following a 0.2 percent decrease in February. The decline was led by lower stock prices and falling building permits.
- Consumer confidence appears to have improved in April. The Conference Board's index of consumer confidence jumped from 26.9 to 39.2 in April. The expectations component drove the increase, while the current conditions component rose only modestly.
- The Virginia Leading Index fell 0.1 percent in February, its sixth consecutive decline. All three components – auto registrations, building permits, and initial unemployment claims – contributed to the decline. The leading index was unchanged or declined in eight of the eleven metro areas in the Commonwealth. Leading indexes for Lynchburg, Harrisonburg and Winchester increased in February.
- At its April meeting, the Federal Reserve left the federal funds target rate in the range of 0.0 percent to 0.25 percent, stating that “the economic outlook has improved modestly” since March.

April Revenue Collections (Preliminary)

- April is a significant month for revenue collections.
 - Final payments for tax year 2008 and the first estimated payment for tax year 2009 are due from corporations.
 - Estimated and final payments from individuals, which are due May 1, are also typically received in April.
- April revenues fell 21.3 percent mainly due to a historic drop in individual estimated and final payments due May 1.
- On a year-to-date basis, total revenue fell 8.8 percent, below the annual forecast of a 7.3 percent decline.
 - The 8.8 percent decline in revenue collections through April represents the largest drop on record.
 - Adjusted for transfers to the Commonwealth Transportation Fund, the year-to-date decline is 6.5 percent, nearly double the fiscal year 2002 decline.
 - All major sources are trailing their respective forecasts.

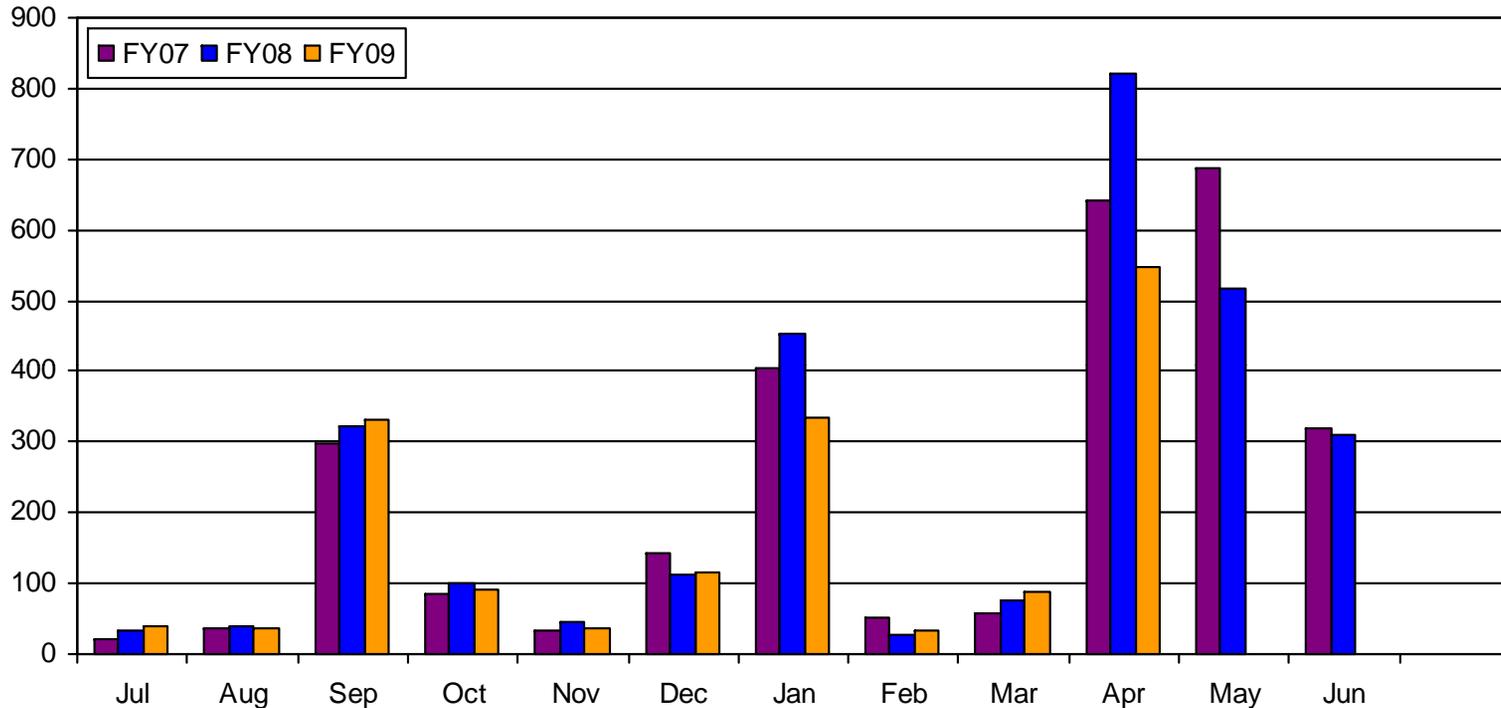
Growth in Withholding Tax Collections

FY09 Monthly and Year-to-Date



- Collections of payroll withholding taxes increased 3.3 percent compared to last April.
- Year-to-date withholding growth is 2.3 percent, slightly behind the projected annual growth rate of 2.5 percent.

Nonwithholding Tax Collections FY07-FY09 Monthly



- Individual estimated and final payments due May 1 declined 33.6 percent in April.
- Through April, collections fell 18.6 percent compared with the annual estimate of a 17.9 percent decline.

Individual Income Tax Refunds

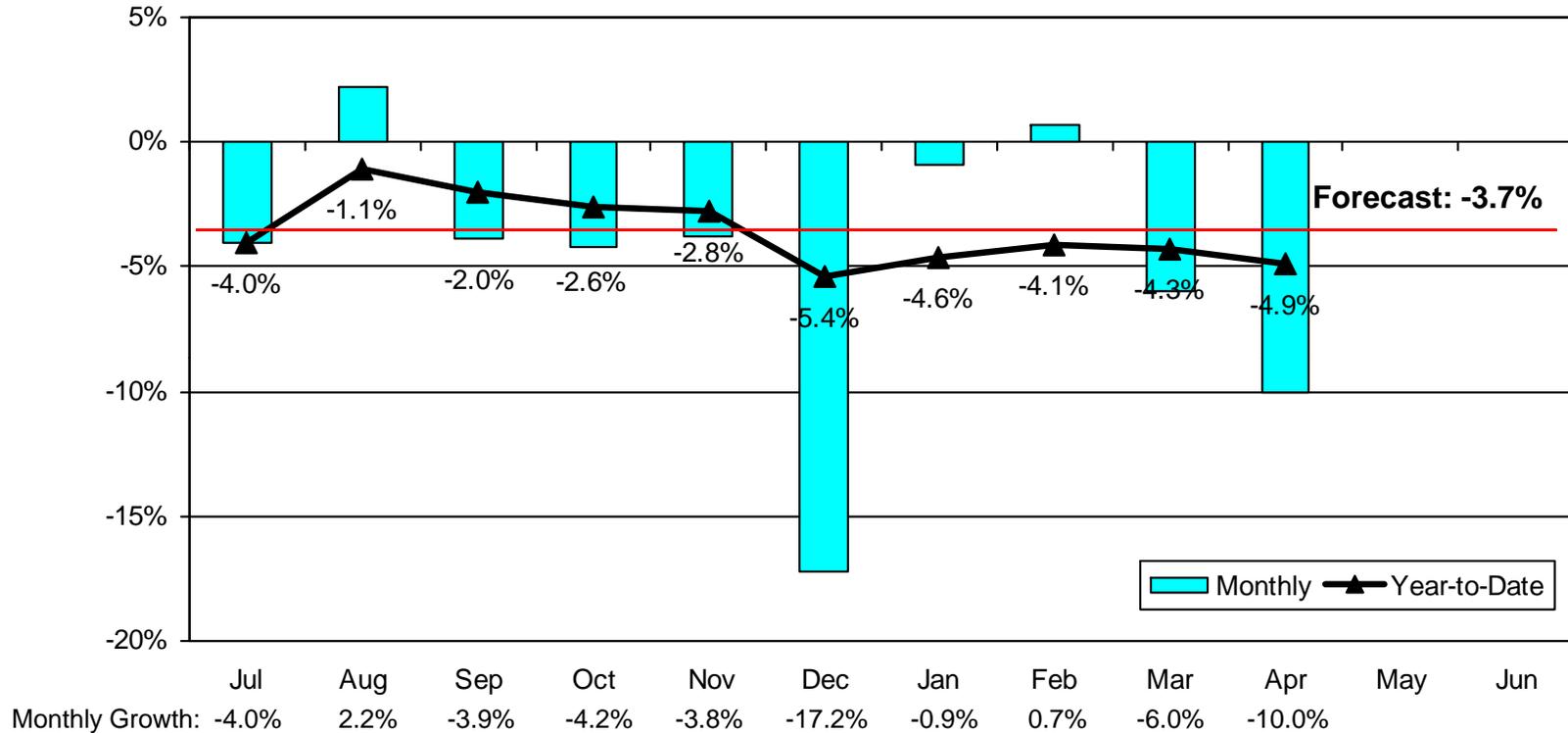
- Through April, individual refunds were up 9.9 percent from the same period last year, ahead of the 7.4 percent annual forecast.
 - April refunds surged 21 percent as 11 percent more refunds were processed with an average refund check increasing 10 percent.
 - There is only \$159 million remaining in the refund forecast for May and June. Last year \$223 million were issued.

Net Individual Income Tax

- Net individual income tax is down 4.9 percent through April, behind the annual forecast of a 4.1 percent decline.

Growth in Sales Tax Collections

FY09 Monthly and Year-to-Date



- Sales tax collections declined 10.0 percent compared to last April.
- On a year-to-date basis, collections have fallen 4.9 percent, behind the annual estimate of a 3.7 percent decline.

Corporate Income Tax Collections

- Through April, collections in corporate income taxes have fallen 22.7 percent from the same period last year, trailing expectations of a 15.2 percent decline.
 - April collections declined only 4.3 percent; however, a large drop in gross payments from retailers in February and March is dampening year-to-date growth.

Recordation Tax Collections

- Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – fell 21.8 percent in April, and are down 33.0 percent on a year-to-date basis, close to the annual forecast of a 34.7 percent decline.

Summary of Fiscal Year 2009 Revenue Collections

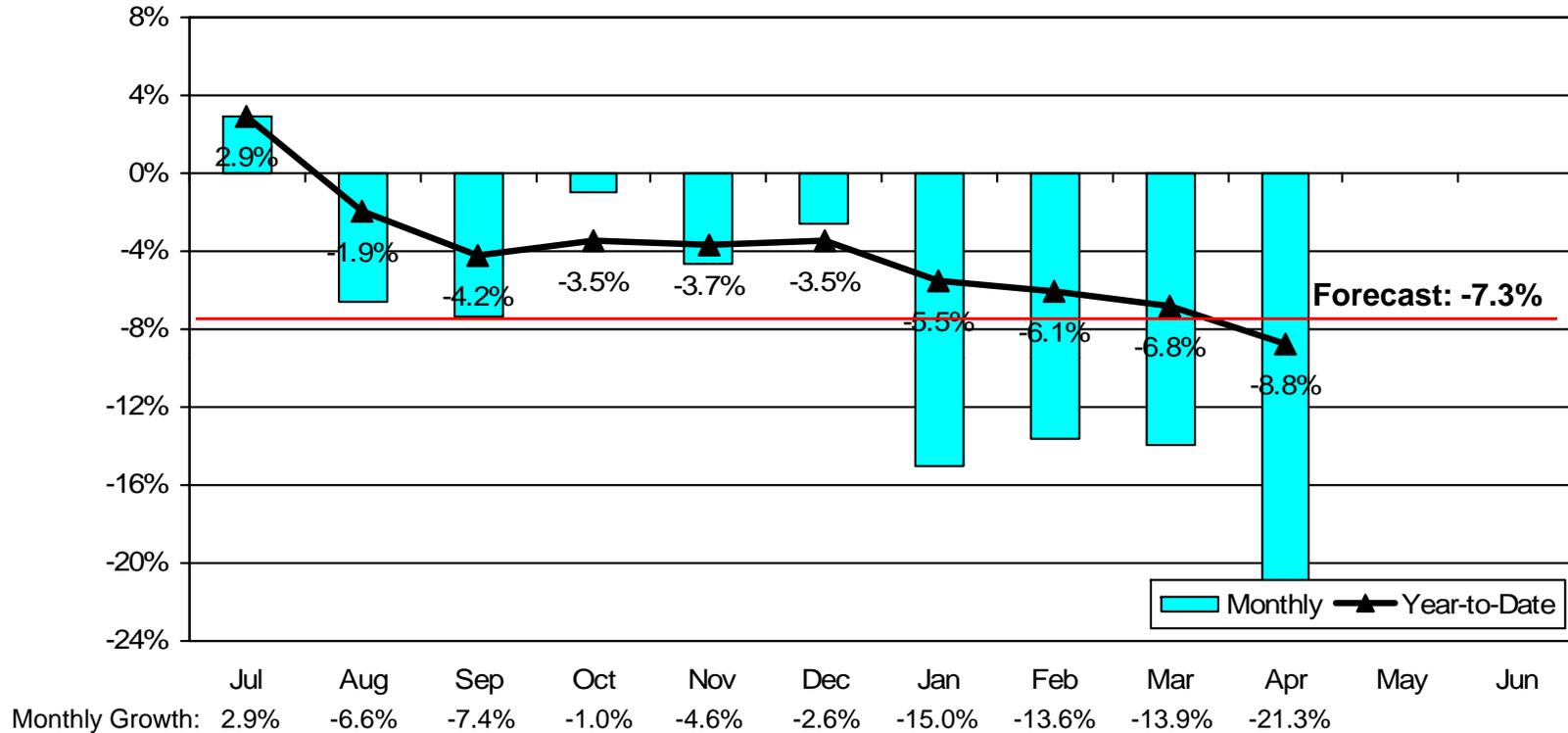
July through April

PRELIMINARY

<u>Major Source</u>	As a % of Total <u>Revenues</u>	Percent Growth over Prior Year		
		<u>YTD Actual</u>	<u>Official Estimate</u>	<u>Variance</u>
Withholding	62.6 %	2.3 %	2.5 %	(0.2) %
Nonwithholding	16.1	(18.6)	(17.9)	(0.7)
Refunds	(12.4)	13.0	7.4	5.6
Net Individual	66.4	(4.9)	(4.1)	(0.8)
Sales	20.3	(4.9)	(3.7)	(1.2)
Corporate	4.7	(22.7)	(15.2)	(7.5)
Wills (Recordation)	2.0	(32.2)	(34.7)	2.5
Insurance	1.8	(47.7)	(35.1)	(12.6)
All Other Revenue	4.9	(26.6)	(21.9)	(4.7)
Total	100.0 %	(8.8) %	(7.3) %	(1.5) %

Note: Adjusted for the repeal of the estate tax and transfers to transportation from insurance and recordation per HB 3202, year-to-date collections have declined 6.5 percent compared with the forecast of a 5.3 percent decline.

Growth in Total General Fund Revenue Collections FY09 Monthly and Year-to-Date



- Through April, total general fund revenues have declined 8.8 percent, near the projected annual decline of 7.3 percent.
- Total revenues can only decline 1.0 percent over the last two months of fiscal year 2009 and attain the annual estimate.

Next Steps

- May and June are also important months for revenue collections.
 - The May 1 due data for individual estimated and final payments requires April and May collections to be analyzed together in order to accurately assess growth in nonwithholding.
 - In June, the second estimated payment for individuals, corporations, and insurance companies are due.
- Budget-Related Items.
 - Agencies have been notified of the ability to generate FY 2009 balances to carry forward to address potential FY 2010 reductions.
 - Agencies will be asked to prepare plans to reduce appropriations for FY 2010 while reducing base budgets for FY 2011 and FY 2012.