



# Revenue Update

## *A Briefing for the House Appropriations Committee*

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# Current Economic Conditions

## National Economy

- Most recent indicators suggest the short-term outlook for the national economy remains weak, with the housing market and oil prices significantly dampening growth.
- Real GDP growth for the first quarter was revised up to an annualized rate of 0.9 percent from the 0.6 percent rate reported in April.
- The labor market contracted for the fifth consecutive month in May, with payroll employment falling by 49,000 jobs. Although weakness was widespread, it was primarily centered in housing-related industries.
- The unemployment rate jumped by half a percentage point to 5.5 percent in May, the biggest one-month jump since 1986.
- The Conference Board's index of leading indicators rose 0.1 percent to 102.0 in April, the same increase as in March. The leading index is consistent with an economy that has stalled but not collapsed.
- The Conference Board's index of consumer confidence fell from 62.8 to 57.2 in May, the fifth consecutive monthly decline and its lowest level since October 1992.

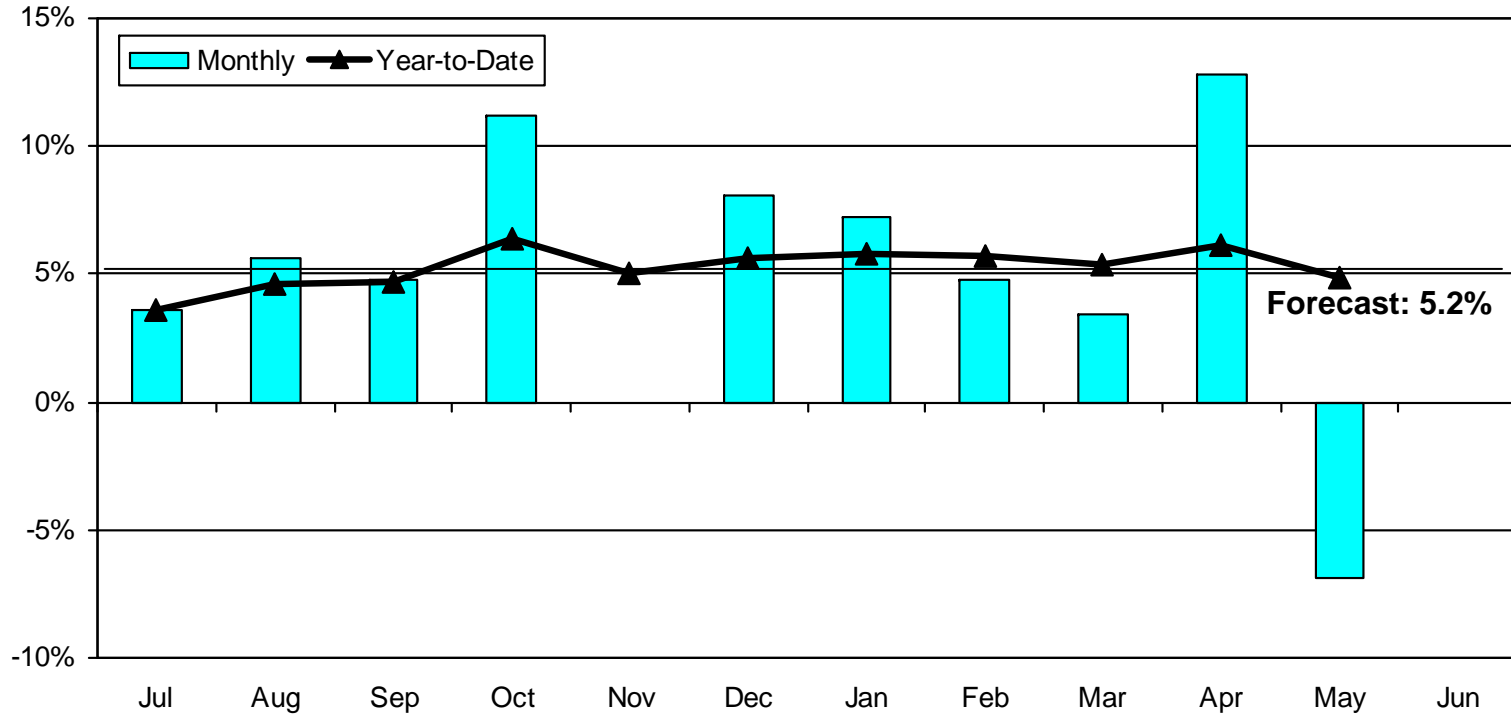
# Current Economic Conditions

## Virginia Economy

- In Virginia, payroll employment grew 0.5 percent in April. Northern Virginia posted job growth of 0.9 percent in April. Jobs grew by 1.1 percent in Hampton Roads and 1.0 percent in Richmond-Petersburg.
- The unemployment rate fell from 3.9 percent to 3.3 percent in April, below the national rate of 5.0 percent. The decline was partially due to workers in the auto industry returning after the Volvo strike ended in late March and other workers returned to work from furloughs around the Easter holiday.
- The Virginia Leading Index declined 0.2 percent in April for the seventh decline in nine months. All three components of the leading index – auto registrations, building permits, and initial unemployment claims – contributed to the drop in April.
  - Despite the falling state index, the leading index grew in six of the eleven metro areas in April; the areas of growth were Winchester, Charlottesville, Lynchburg, Harrisonburg, Danville, and Bristol. The index for Richmond was unchanged. Northern Virginia experienced the largest decline while Blacksburg, Roanoke, and Hampton Roads also edged down in April.

# Growth in Withholding Tax Collections

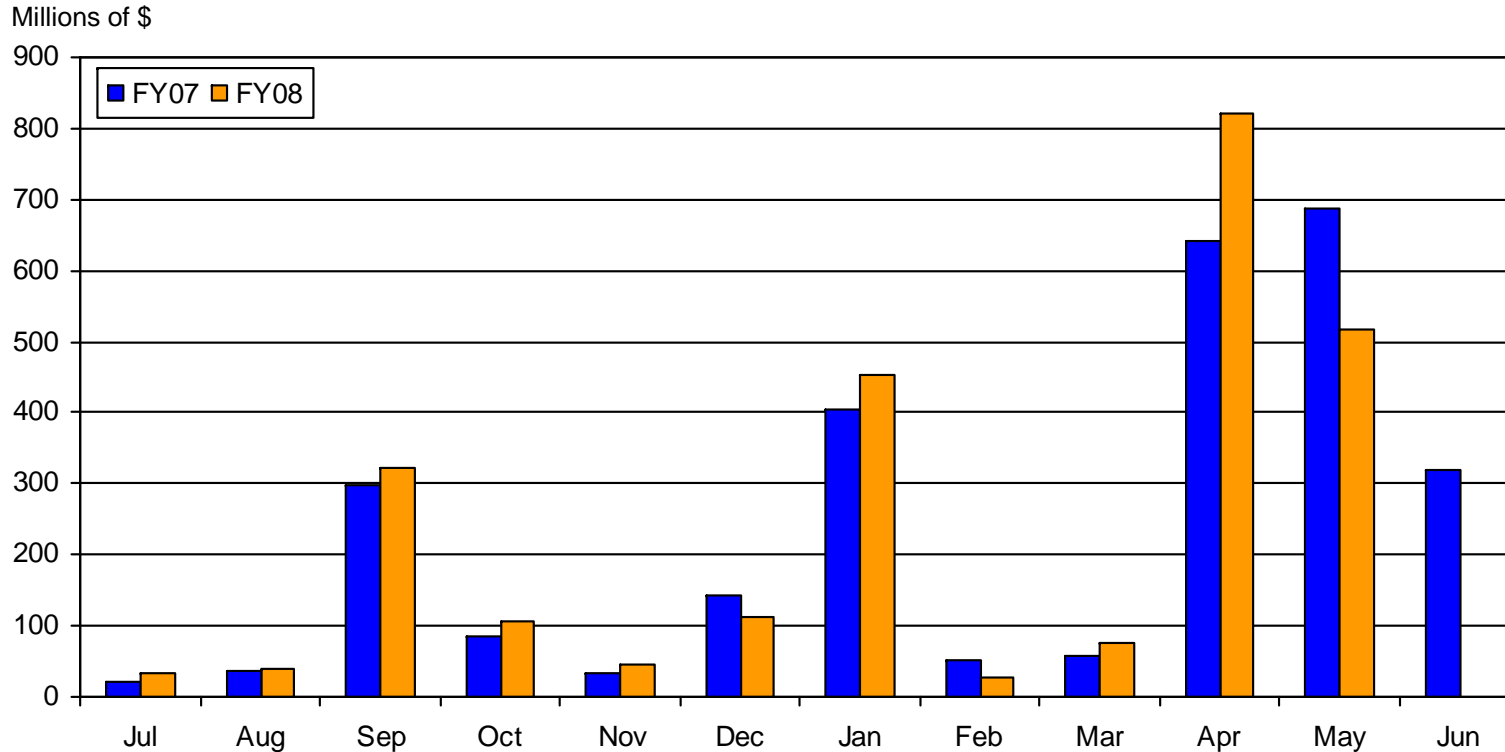
FY08 Monthly and Year-to-Date



- Collections of payroll withholding taxes declined 6.9 percent in May, partially due to one less deposit day. Year-to-date withholding growth is 4.9 percent, slightly below the projected annual growth rate of 5.2 percent.
- June collections must increase 8.5 percent over last year in order to attain the annual forecast.

# Nonwithholding Tax Collections

FY07 and FY08 Monthly

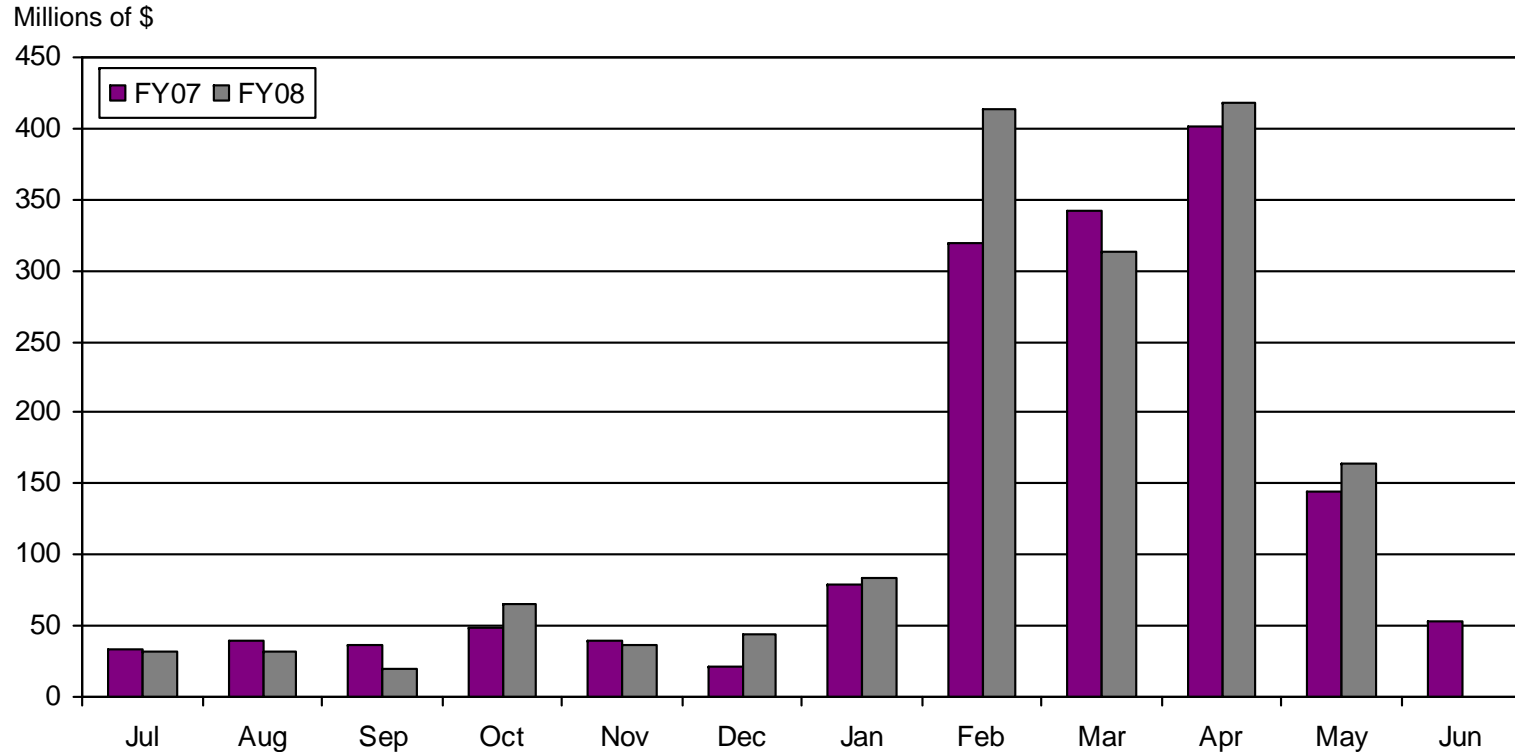


- May is a significant month for this source, since final payments for tax year 2007 and the first estimated payment for tax year 2008 are both due May 1.
- May collections were \$516.7 million compared with \$687.1 million in May of last year, a 24.8 percent decline. To date, about 90 percent of the nonwithholding forecast has been collected, and collections during this period are 3.5 percent above the same period last year – on target with the projected annual growth rate of 3.2 percent.

## **Nonwithholding Collections and Implications for June**

- Taken together, nonwithholding collections in April and May were essentially flat with last year, increasing only 0.8 percent.
- Final payments for tax year 2007 liability are tracking towards the annual estimate of 4.0 percent growth.
- The first estimated payment for tax year 2008 liability increased 3.1 percent from the prior year. Through May of fiscal year 2008, individual estimated payments have increased 2.8 percent, slightly above the annual estimate of 2.6 percent growth.
- June collections (the 2nd individual estimated payment for 2008 liability) remain the key in attaining the annual estimate.
  - Collections last year totaled \$319.5 million, growth of 11.6 percent over June 2006.
  - June collections can be flat with last year and attain the annual forecast.

## Individual Income Tax Refunds FY07 and FY08 Monthly



- Through May, \$1.6 billion has been refunded compared with \$1.5 billion during the same period last year. Year-to-date growth through May is 7.6 percent, behind the annual estimate of 9.7 percent growth.
- For the filing season beginning January 1, 2.44 million refunds have been issued – about 60,000 more than during the same period last year.

## Individual Income Tax Refunds by Component

(millions of dollars)

	FY07	FY08		
	<u>Actual</u>	<u>Forecast</u>	<u>\$ change</u>	<u>% change</u>
Base	1,345.6	1,419.2	73.6	5.5%
Land Preservation	151.5	220.0	68.5	45.2%
Low Income	62.7	70.0	7.3	11.6%
<b>Total</b>	<b>1,559.8</b>	<b>1,709.2</b>	<b>149.4</b>	<b>9.6%</b>

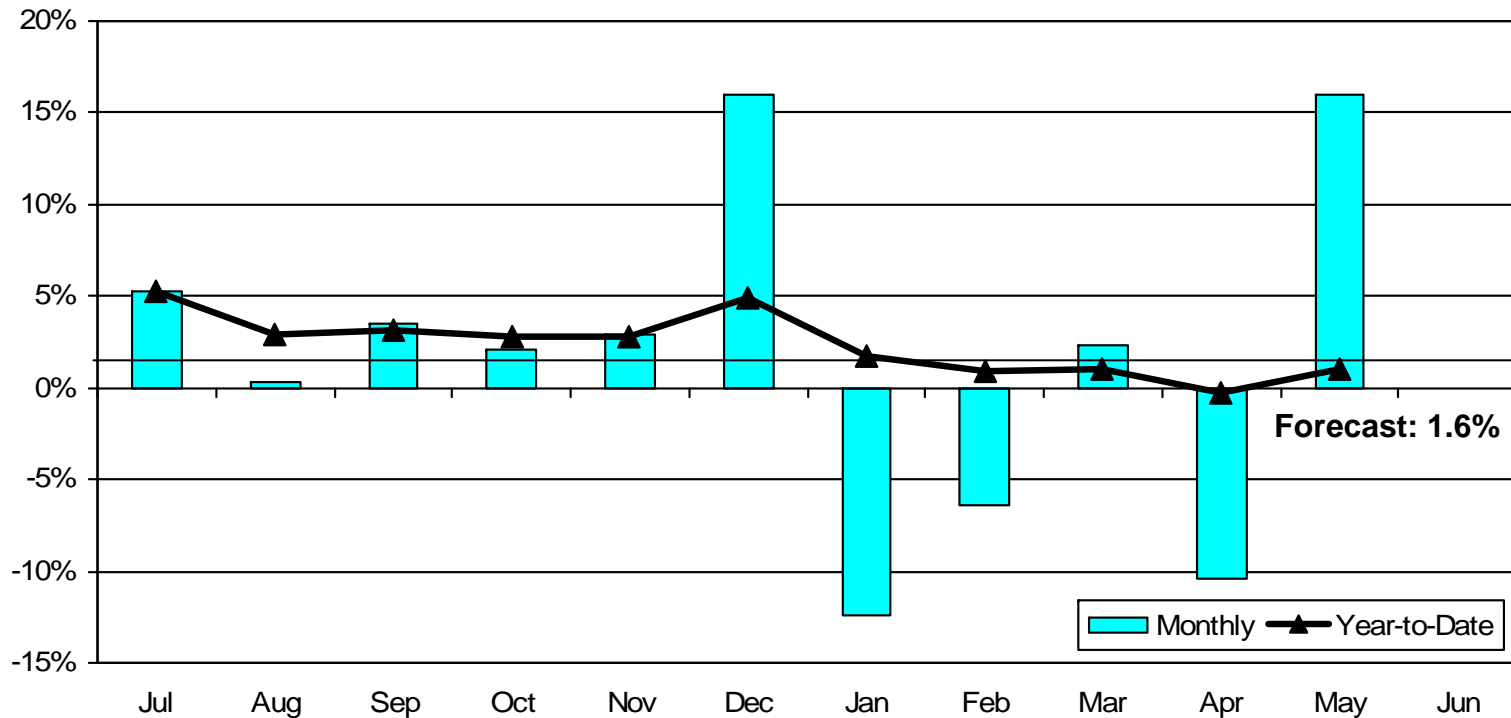
		<b>Fiscal YTD May</b>		
	<u>FY07</u>	<u>FY08</u>	<u>\$ change</u>	<u>% change</u>
Base	1,319.4	1,400.6	81.2	6.2%
Land Preservation	125.3	145.6	20.2	16.2%
Low Income	61.8	74.7	12.9	20.9%
<b>Total</b>	<b>1,506.6</b>	<b>1,620.8</b>	<b>114.3</b>	<b>7.6%</b>

- Taken together, the land preservation and low income tax credits are projected to finish \$44 million below the annual estimate.



## Changes in Sales Tax Collections

### FY08 Monthly and Year-to-Date



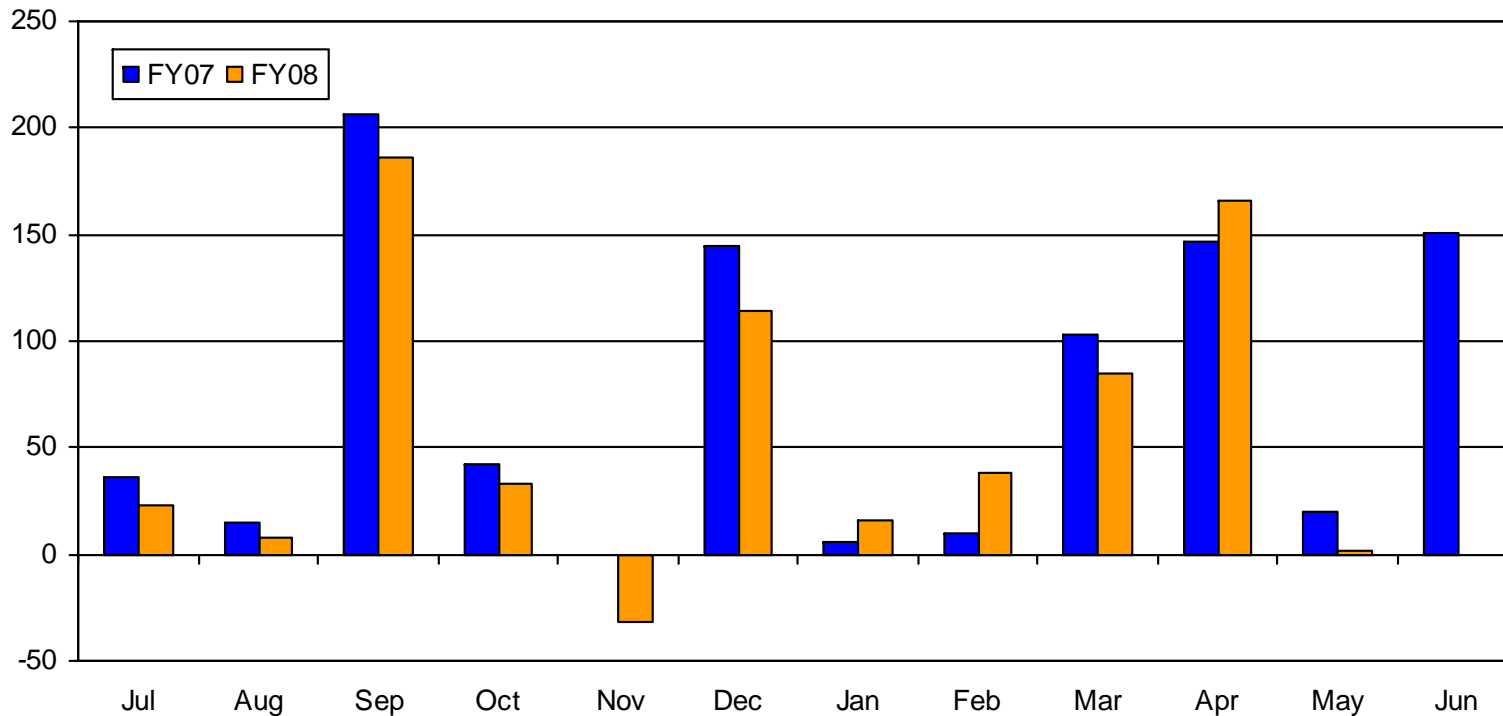
- After declining 10.4 percent in April, May collections of sales and use taxes (reflecting April sales) increased 16.0 percent in May.
- On a year-to-date basis, collections have increased 1.0 percent, behind the annual estimate of 1.6 percent growth.

**Sales Tax Receipts by Sector**  
**Fiscal Year-to-Date through May – Top Payers**  
(millions of dollars)

Sector	# of Firms	YTD May		% Change
		FY07	FY08	
Apparel	12	\$166.6	\$161.7	-2.9%
General Merchandise	11	397.0	401.4	1.1%
Grocery Stores	12	257.4	271.7	5.5%
Housing	14	269.8	252.9	-6.3%
Restaurants	6	44.1	44.9	1.8%
Wholesale	3	92.6	96.6	4.3%
Other Retail	15	154.9	166.1	7.2%
<b>Total</b>	<b>73</b>	<b>\$1,382.4</b>	<b>\$1,395.2</b>	<b>0.9%</b>

- The weakness in sales tax receipts is directly attributable to higher gas prices and the depressed housing market and their effect on other sectors of the economy.

## Net Corporate Income Tax Collections FY07 and FY08 Monthly



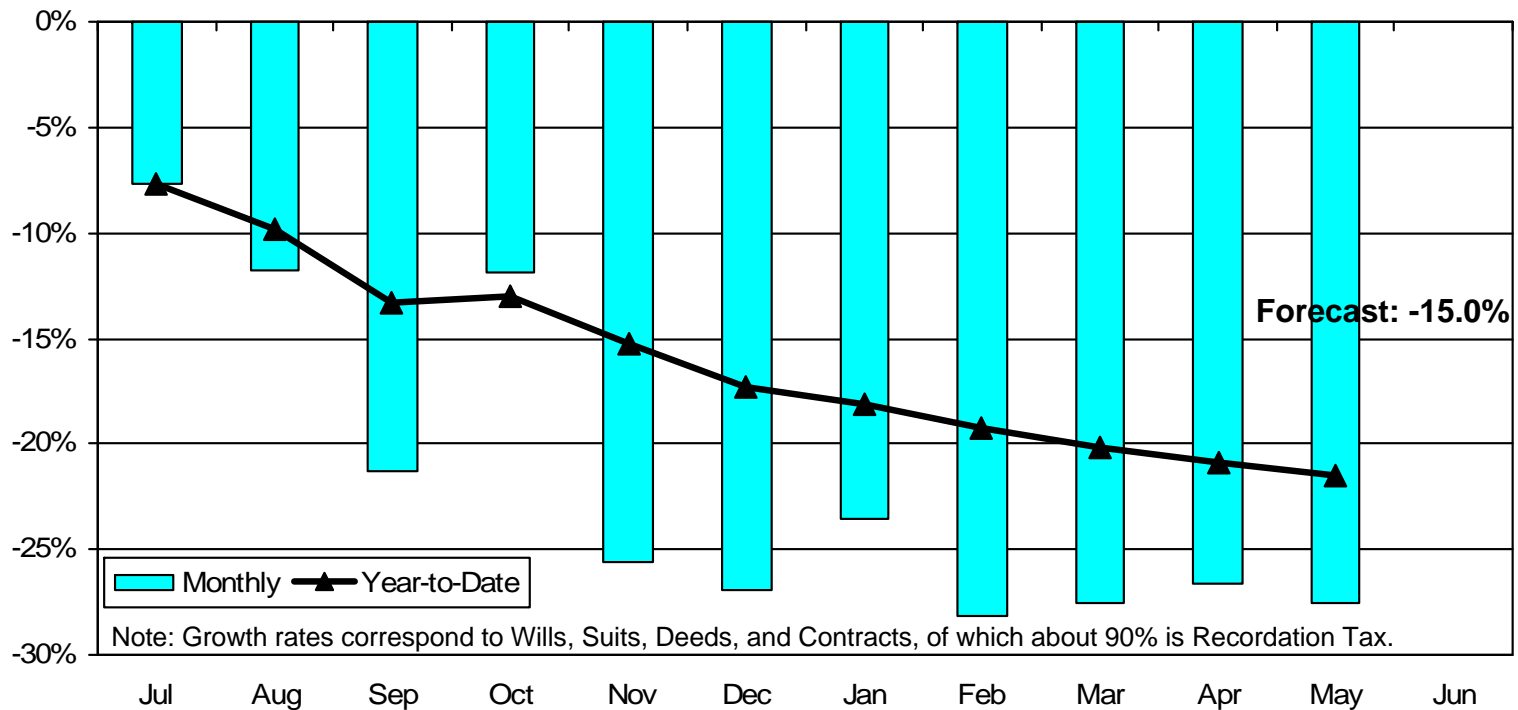
- May is typically not a significant month in corporate income tax collections, with final or extension payments due mainly from retailers, who typically have a January 31 fiscal year close. Such payments vary significantly from year-to-year. Collections this month experienced a significant decline due to minimal final payments for tax year 2007 liability.
- On a year-to-date basis, receipts are 12.3 percent below last year, better than the forecast of a 20.5 percent decline. The last corporate estimated payment to be received during this fiscal year is due June 15.

**Large Corporate Payments by Sector**  
**Fiscal Year-to-Date through May – Same-Firm Analysis**  
(millions of dollars)

Sector	# of Firms	FY06	FY07	FY08
Defense	14	\$57.1	\$61.1	\$77.0
Energy	15	13.5	11.4	13.4
Finance	20	31.9	44.6	19.3
Housing	27	60.8	43.3	31.8
Other	46	55.2	49.2	38.5
Services	65	45.5	59.0	63.7
Telecom	13	21.4	25.6	24.4
Tobacco	2	38.1	32.4	53.7
Trade	36	46.3	50.7	52.4
<b>Total</b>	<b>238</b>	<b>\$369.7</b>	<b>\$377.5</b>	<b>\$374.3</b>

- After declining about 5 percent from 2006 to 2007, the finance and housing sectors have fallen an additional 42 percent in fiscal year 2008.

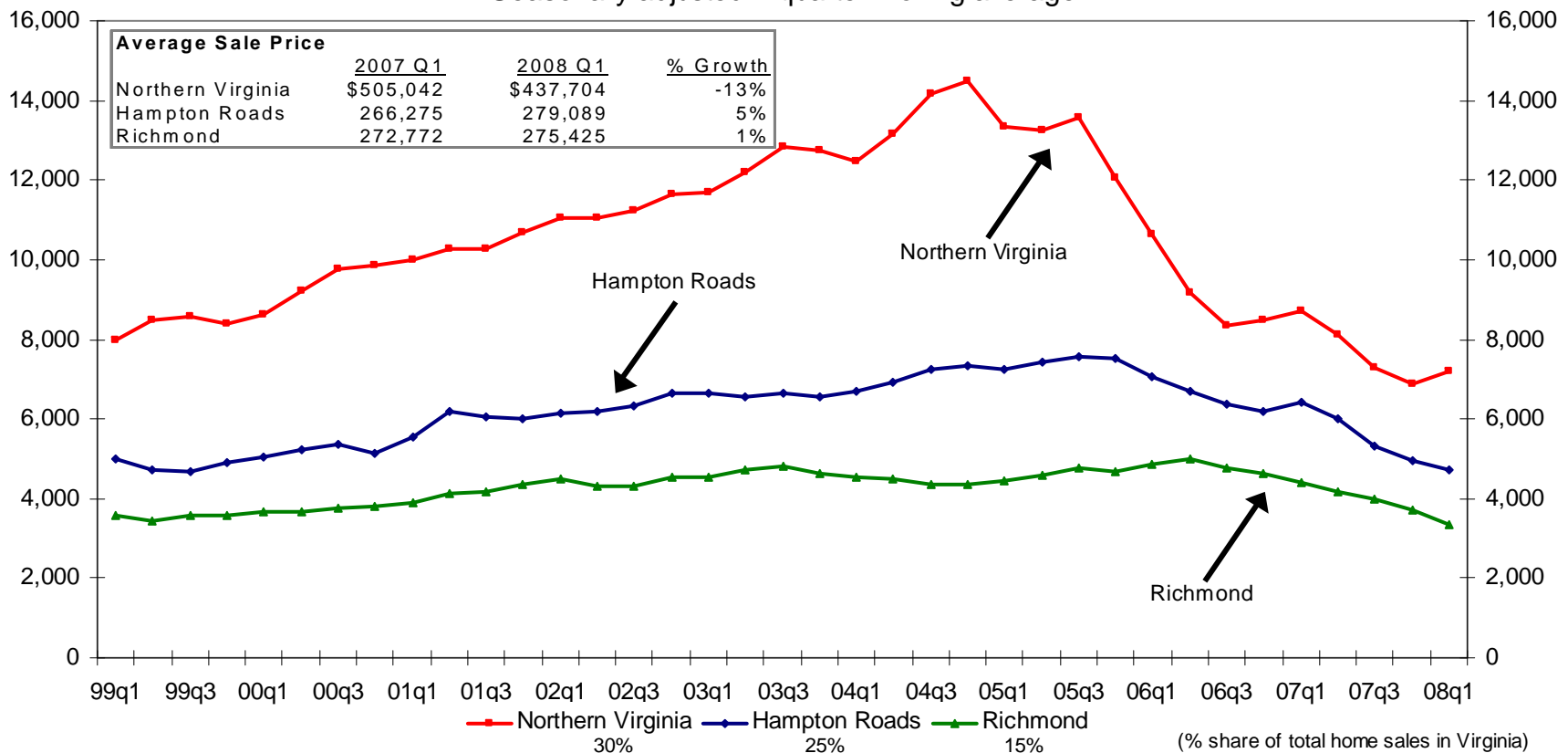
## Recordation Tax Collections FY08 Monthly and Year-to-Date



- Wills, suits, deeds, and contracts – mainly recordation tax collections – fell 27.5 percent in May, the seventh consecutive month with a decline near or in excess of 25.0 percent.
- On a year-to-date basis, collections in this source declined 21.5 percent from last year, compared with the estimate of a 15.0 percent annual decline.

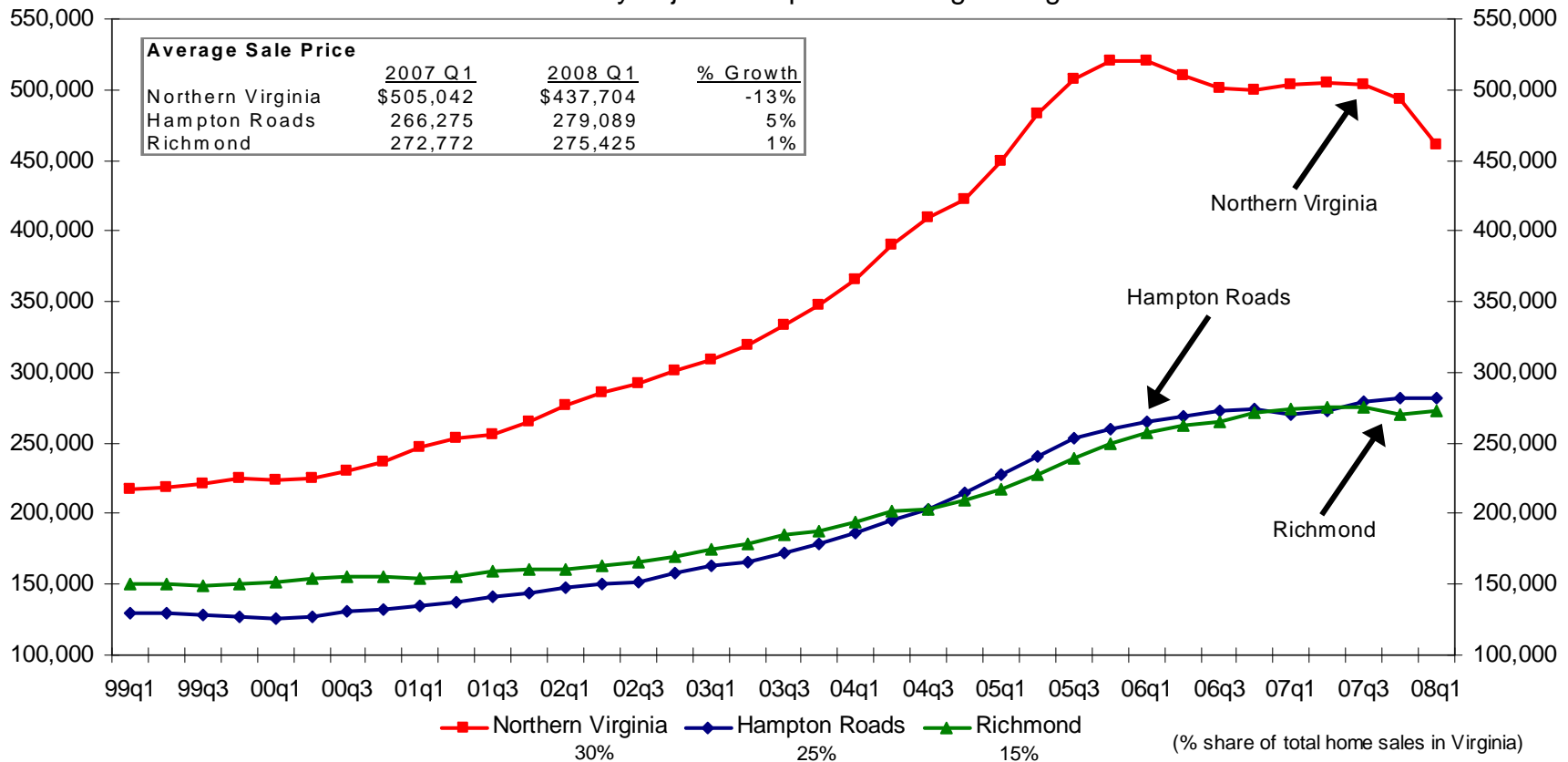
## Pending Home Sales in Northern Virginia, Hampton Roads, and Richmond Levels

Seasonally-adjusted 2-quarter moving average



- 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.

**Average Sale Price in Northern Virginia, Hampton Roads, and Richmond Levels**  
Seasonally-adjusted 2-quarter moving average



- The average sale price in Northern Virginia remains below prior year levels, while growth in Hampton Roads and Richmond has leveled off considerably.

## Summary of Fiscal Year 2008 Revenue Collections

July through May

<u>Major Source</u>	As a % of Total <u>Revenues</u>	Percent Growth over Prior Year		
		<u>YTD Actual</u>	<u>C. 847 Estimate</u>	<u>Variance</u>
Withholding	57.2 %	4.9 %	5.2 %	(0.3) %
Nonwithholding	18.2	3.5	3.2	0.3
Refunds	<u>(10.9)</u>	<u>7.6</u>	<u>9.7</u>	<u>(2.1)</u>
Net Individual	64.6	4.0	3.9	0.1
Sales	19.7	1.0	1.6	(0.6)
Corporate	4.4	(12.3)	(20.5)	8.2
Wills (Recordation)	3.1	(21.5)	(15.0)	(6.5)
Insurance	2.7	3.1	8.7	(5.6)
All Other Revenue	5.5	7.7	(1.3)	9.0
<b>Total</b>	<b>100.0 %</b>	<b>1.8 %</b>	<b>1.2 %</b>	<b>0.6 %</b>



## Fiscal Year 2008 Revenues and Implications for Fiscal Year 2009

- Total general fund revenue collections are tracking near the annual target.
  - Withholding and sales (77 percent of total revenues), the two revenue sources most closely linked to the Virginia economy, are projected to finish below their annual estimates.
  - Taken together, the three most volatile revenue sources – nonwithholding, corporate, and wills – are projected to finish above the annual estimate.
  - Estate taxes and interest earnings on delinquent taxes are projected to provide small, one-time surpluses.
- Despite being very close to the annual estimate in fiscal year 2008, current economic and revenue trends pose a risk to total general fund revenues in fiscal year 2009.
  - Over the last three months, withholding and sales tax collections have increased only 2.6 percent and 1.4 percent, respectively, suggesting lingering economic weakness heading into next fiscal year.
  - The S&P 500 index is down about 7.0 percent in calendar year 2008, dampening growth in non-wage income.
  - The housing market is expected to depress economic growth throughout the next fiscal year.

# Summary of the Official Revenue Forecast

## Fiscal Year 2009 and 2010

Major Source	As a % of Total Revenues	Fiscal Year 2009 (a)		Fiscal Year 2010	
		\$ Amount	% Growth	\$ Amount	% Growth
Withholding	56.2 %	\$ 9,506.5	5.5 %	\$ 10,105.4	6.3 %
Nonwithholding	19.0	3,057.2	6.5	3,315.6	8.4
Refunds	(10.4)	(1,783.3)	4.3	(1,823.4)	2.2
Net Individual	64.8 %	\$ 10,780.4	6.0 %	\$ 11,597.6	7.6 %
Sales	19.5 %	\$ 3,227.2	4.2 %	\$ 3,392.1	5.1 %
Corporate	4.6	703.5	0.6	725.7	3.2
Wills (Recordation)	3.2	380.8	(23.1)	415.1	9.0
Insurance	2.5	294.8	(29.5)	317.3	7.6
All Other Revenue	5.3	703.9	(18.7)	744.7	5.8
<b>Total</b>	<b>100.0 %</b>	<b>\$ 16,090.7</b>	<b>2.2 %</b>	<b>\$ 17,192.5</b>	<b>6.8 %</b>

\* The Official forecast is based on the January 2008 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation and reflects actions of the 2008 General Assembly.

(a): Adjusted for the Estate Tax repeal and HB 3202 (Transportation Plan), underlying growth is 4.1%.

## Fiscal Year 2009 and 2010 Economic Assumptions

- In February, when the mid-session revenue forecast was completed:
  - Real GDP was projected to decline for the first two quarters of calendar year 2008 and then rebound in the second half of the year to 3.1 percent growth;
  - U.S. employment growth was projected to be flat or negative for the first three quarters of calendar year 2008;
  - Oil prices (West Texas Intermediate) stood at \$95 per barrel and were expected to average \$75 per barrel through 2010, and;
  - The S&P 500 index was projected to decline 7.0 percent for calendar year 2008.
- Since then, the U.S. economic outlook has weakened beyond what most economists expected:
  - Real GDP, despite a small increase in the first quarter, is now expected to remain below 2.0 percent through the first quarter of calendar year 2009;
  - U.S. employment is now expected to experience year-over-year declines through the first quarter of calendar year 2009;
  - Oil prices have risen to over \$130 per barrel and are expected to average \$115 per barrel through 2010, and;
  - The S&P 500 index has declined about 8.0 percent year-to-date;
  - Impact of weather related catastrophes;
  - Inflation ?