Revenue and Budget Update

A Briefing for the
Senate Finance Committee

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National and State Economic Indicators

- Most national indicators suggest the economy is in a sustained recovery, although growth is expected to remain slow 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.
  - This was the third consecutive increase in real GDP, and strongly suggests the recession ended last year.

- The labor market was a bright spot in April -- payroll employment grew by 290,000 jobs. 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.
  - Some of the April gain (66,000) was due to Census hiring, but gains were widespread across most major industries.

- The national unemployment rate rose 0.2 to 9.9 percent, as the improving job market encouraged more workers to enter the labor force.

- 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 in Virginia fell from 7.8 percent (the highest rate since February 1983) to 7.6 percent in March.

National and State Economic Indicators

- 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.

- 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.

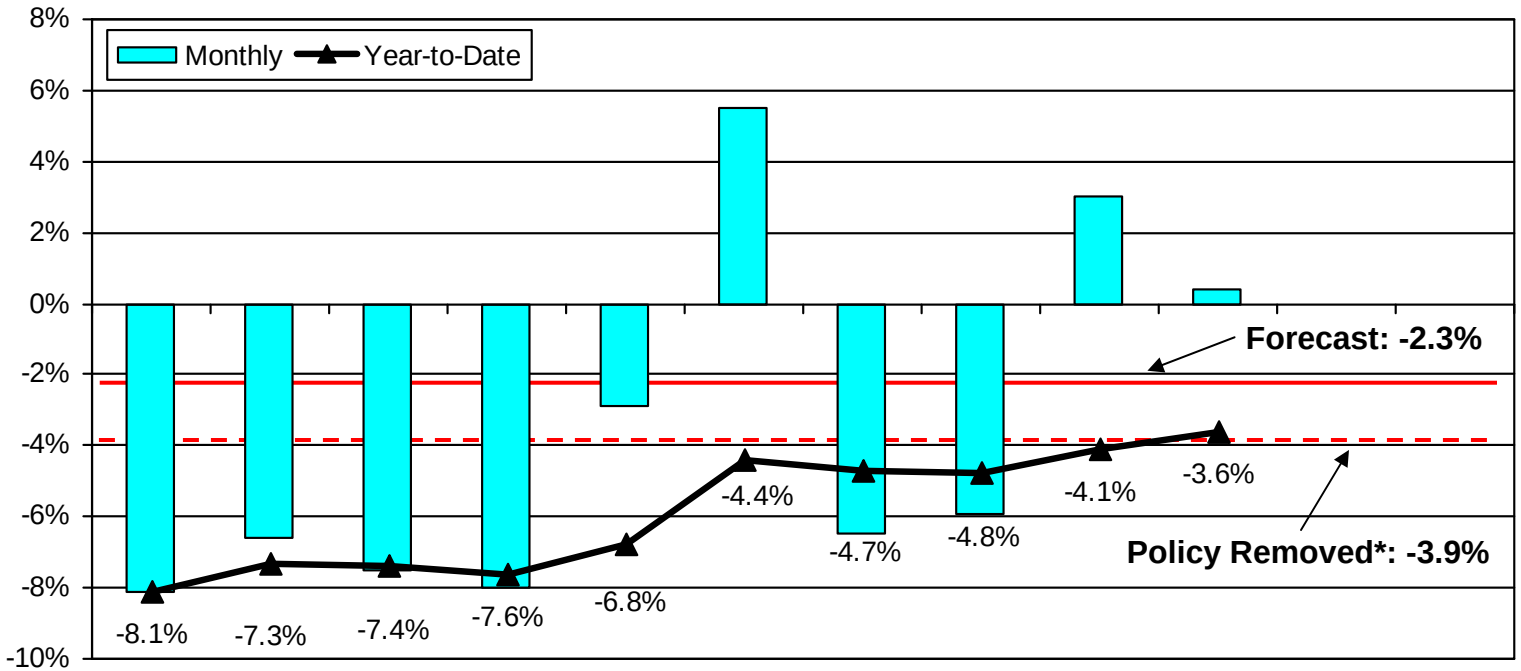
- The Conference Board's index of consumer confidence jumped 5.6 points in April, following a 5.9 gain in March.
  - Although the improvement is significant, the index remains at the very low level of 57.9.

- 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.

- 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. The index fell in the Bristol MSA.

Growth in Total General Fund Revenue Collections

FY10 Monthly and Year-to-Date



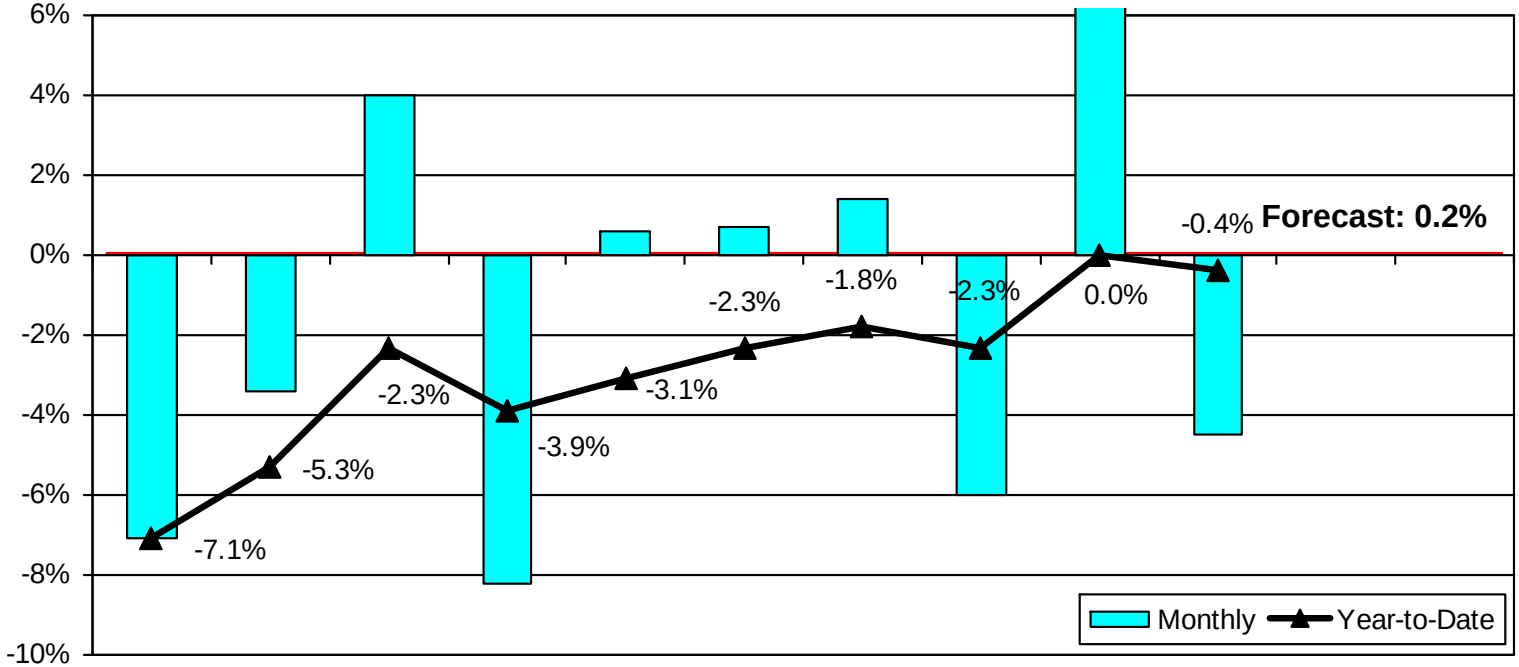
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Monthly Growth:	-8.1%	-6.6%	-7.5%	-8.0%	-2.9%	5.5%	-6.5%	-5.9%	3.0%	0.4%		

- Total general fund revenue collections rose 0.4 percent in April.
- On a year-to-date basis, total revenues have fallen 3.6 percent, trailing the revised annual forecast of a 2.3 percent decline.
  - Slightly ahead of the policy adjusted forecast of a 3.9 percent decline.

* Major policy adjustment is the June accelerated sales tax program.

Growth in Withholding Tax Collections

FY10 Monthly and Year-to-Date

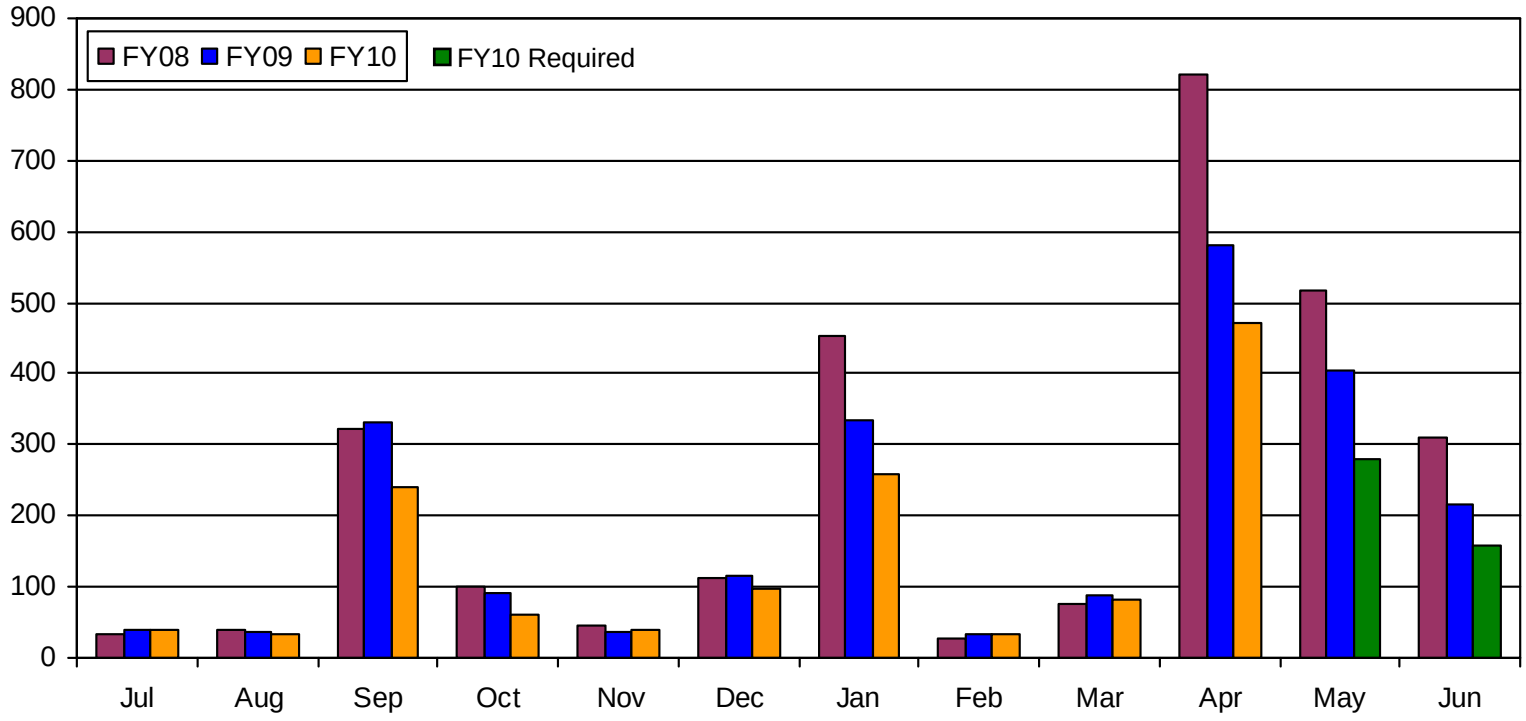


	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Monthly Growth:	-7.1%	-3.4%	4.0%	-8.2%	0.6%	0.7%	1.4%	-6.0%	18.2%	-4.5%		

- Collections of payroll withholding taxes fell 4.5 percent in April.
  - The decline was expected as some payments typically received in April arrived in March.
- 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.

Nonwithholding Tax Collections

FY08-FY10 Monthly



- The May 1 due date for individual estimated and final payments requires April and May collections to be analyzed together in order to accurately assess growth in nonwithholding.

- Total nonwithholding collections can decline 29.4 percent for the last two months of the fiscal year and attain the annual estimate.

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.

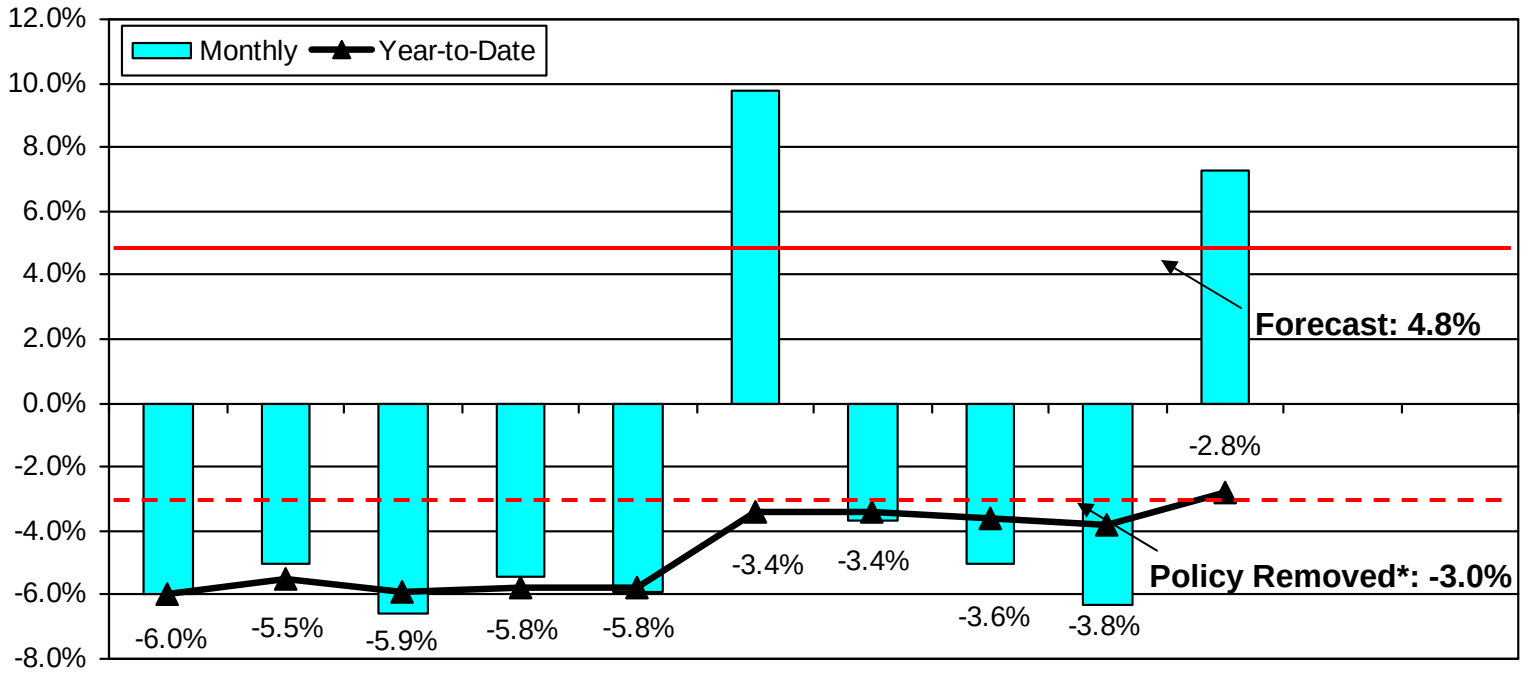
- Year-to-date, refunds are 5.9 percent ahead of last year, exceeding the revised annual estimate of a 2.0 percent increase.

Net Individual Income Tax

- 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.

Growth in Sales Tax Collections

FY10 Monthly and Year-to-Date



Monthly Growth:	-6.0%	-5.0%	-6.6%	-5.4%	-5.9%	9.8%	-3.7%	-5.0%	-6.3%	7.3%

- 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 amnesty-induced 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.

* Major policy adjustment is the June accelerated sales tax program.

Net Corporate Income Tax Collections

- 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.

Recordation and Insurance Premiums Tax

Recordation

- On a year-to-date basis, recordation tax collections are down 5.6 percent, close to the forecast of a 4.9 percent decline.

Insurance

- On a year-to-date basis, collections of insurance premiums tax are down 1.0 percent, ahead of the revised annual estimate of a 4.9 percent decline.

Summary of Fiscal Year 2010 Revenue Collections

July through April

Major Source	As a % of Total Revenues	Percent Growth over Prior Year: YTD Actual	Official Estimate	Variance
Withholding	65.4 %	(0.4) %	0.2 %	(0.6) %
Nonwithholding	13.0	(18.6)	(21.5)	2.9
Refunds	(14.3)	5.9	2.0	3.9
Net Individual	64.1	(5.8)	(5.5)	(0.3)
Sales	21.8	(2.8)	4.8	(7.6)
Corporate	5.2	27.5	12.8	14.7
Wills (Recordation)	2.1	(5.6)	(4.9)	(0.7)
Insurance	1.7	2.7	(4.9)	7.6
All Other Revenue	5.1	(5.2)	0.0	(5.2)
Total	**100.0 %**	**(3.6) %**	**(2.3) %**	**(1.3) %**

Summary

- May and June will be the key collections months relative to achieving the fiscal year 2010 forecast.
  - The May 1 due date 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.