



COMMONWEALTH of VIRGINIA

Office of the Governor

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MEMORANDUM

TO: The Honorable Mark R. Warner

THROUGH: The Honorable William H. Leighty

FROM: John M. Bennett

SUBJECT: April Revenue Data

This month's revenue report reflects adjustments for actions of the 2004 General Assembly regular session as contained in Chapter 943. Through a variety of actions, the General Assembly added \$2.1 million to the December estimate of general fund revenues. With these changes, total general fund revenues are still projected to grow by 6.7 percent this fiscal year.

April is an important month for revenue collections, with processing of individual income nonwithholding, corporate income, and insurance premiums taxes. April is also typically the peak processing month for individual income tax refunds.

Total general fund revenue collections increased 22.5 percent in April, with particular strength in individual nonwithholding payments, corporate income final payments, and sales tax collections. Year-to-date revenue growth of 9.5 percent is well ahead of the annual forecast of 6.7 percent.

National Economic Indicators

Current economic indicators show that the national economy is expanding at a healthy pace.

- Real GDP rose 4.2 percent in the first quarter - about the same rate as the 4.1 percent growth in the fourth quarter of calendar year 2003.
- The labor market is finally showing signs of continuing strength. Payroll employment in April grew by 288,000 jobs, and the March gain was revised upward to 337,000 jobs. Every sector posted a gain in April, including manufacturing. Initial claims for unemployment fell to 315,000 in the last week of April -- the lowest rate in more than three years. The four-week moving average for initial claims fell to 343,000 - a level consistent with an expanding job market.
- The manufacturing sector continued its expansion in April, with the Institute of Supply Management index remaining above 60 for the sixth consecutive month. The Index was unchanged in April from the 62.4 it registered in March.
- Personal income increased by 0.4 percent in March. Consumption spending also rose by 0.4 percent.

- The Conference Board's index of leading indicators rose 0.3 percent in March, with six of the ten components increasing.
- The Conference Board's index of consumer confidence rose 4.4 points in April, with increases in sentiment for both "present conditions" and "future expectations."
- The Consumer Price Index rose 0.5 percent in March, with rising energy prices contributing to the increase. Core inflation, however, rose 0.4 percent for the month. The annual rate of core inflation rose to 1.6 percent.
- The Federal Reserve left interest rates unchanged at its May 5 meeting, but indicated that increased short-term interest rates are not far off. Most economists expect the Fed to start increasing rates this summer.

Virginia Economy

In Virginia, payroll employment grew by 2.3 percent over March of last year. Northern Virginia employment grew 4.3 percent above March of last year. In Hampton Roads, employment increased 1.7 percent in March, while Richmond and Western Virginia continued to lose jobs. Growth in the balance of the state was positive.

The Virginia Leading Index advanced 0.6 percent in March, after falling 0.4 percent in February. Three of the four components were positive: the U.S. leading index, automobile registrations, and building permits. Initial claims for unemployment increased in March, but are well below March of last year. On a regional basis, the leading indices increased in seven of the eight regions of the state, with the strongest gains in Northern Virginia and Charlottesville.

April Revenue Collections

Total general fund revenues grew 22.5 percent in April. About half of overall revenue growth in April came from final payments in individual and corporate income taxes - both of which reflect income and earnings from calendar year 2003. Some of the collections strength in April is also influenced by the timing of final payments in individual income taxes due May 1. Recent strength in employment has also spurred revenue growth.

Through April, year-to-date growth in general fund revenue is 9.5 percent greater than the same period last year - well ahead of the estimate of 6.7 percent.

Individual Income Tax Withholding (62% of general fund revenues): Collections in withholding grew 6.7 percent in April. Year-to-date withholding growth totals 7.3 percent - ahead of the 5.9 percent growth required to meet the annual estimate. Improvement in withholding collections reflects the recent strength in employment gains reported in the VEC survey of businesses.

Individual Income Tax Nonwithholding (12% of general fund revenues): April is a key month in individual income tax nonwithholding, because final payments for tax year 2003 and the first estimated payment for tax year 2004 are both due on May 1.

Nonwithholding receipts were up 29.3 percent in April -- almost \$100 million above last April. About 30,000 more checks were received this April than last April, and this accounts for the largest portion of the collections increase. The average check size was up about 14 percent - only slightly higher than the 11 percent expected. Because estimated and final payments will continue to be processed in May, it is important to consider April and May collections together to accurately assess revenue results in this source.

Year-to-date collections are up 13.5 percent above the same period last year - ahead of the forecast of 7.5 percent growth.

Individual Income Tax Refunds: The Tax Department issued \$345.3 million in individual income tax refunds in April - the highest monthly amount on record. Year-to-date refunds are 4.8 percent above the same period last year, compared with the forecast of 3.0 percent growth. For the filing season beginning January 1, about 2.1 million refunds have been

issued, compared with 2.0 million issued in the same period last year. The number of individuals filing electronically has increased substantially, and over 99 percent of refunds have been processed in 12 days or less.

Sales Tax (22% of general fund revenues): Collections of sales and use taxes grew 18.7 percent in April. Both federal individual income tax refund activity and the strengthening economy are providing added stimulus to consumer spending. Year-to-date sales tax collections total 9.4 percent through April - well ahead of the estimate of 7.3 percent annual growth.

Corporate Income Taxes (3% of general fund revenues): In April, corporations make their first estimated payment for tax year 2004, and make either a final or extension payment for tax year 2003. Collections in corporate income taxes were up 35.3 percent in April. Corporate payments showed broad-based growth across industrial sectors, with sharp increases in defense and telecommunications companies.

The strong April rebound in corporate income taxes contrasts sharply with Maryland and North Carolina, both of which have seen essentially flat final payments in corporate income taxes this year.

Year-to-date, corporate income tax payments are up 26.0 percent, ahead of the 6.6 percent annual estimate.

Insurance Premiums Taxes (3% of general fund revenues): The first quarterly payment in insurance premiums is due April 15th. Collections totaled \$79.7 million in April compared to last year's \$77.0 million. Year-to-date, insurance receipts are up 6.6 percent, slightly ahead of the 4.4 percent annual estimate.

Other Revenue Sources

The following list provides data on April collections of other key taxes:

	Year-to-Date	Required to Meet Estimate
ABC Taxes (1.1% GF revenues)	4.8%	-3.6%
Public Service Corporations (0.7% GF revenues)	-5.4%	-7.5%
Interest Income (0.7% GF revenues)	-24.5%	-21.7%

All Other Revenue: Revenue from All Other Revenue totaled \$80.8 million in April, compared with \$51.4 million in April of last year. The increase was largely due to the timing of collections in Medicaid cost recoveries in the prior fiscal year. Medicaid recoveries collected in March of last year were received this year in April. Payments from the Tobacco Master Settlement Agreement, which will be received only in April from this year forward rather than in January and April, also accounted for some of April's revenue growth in All Other Revenue.

Collections of inheritance, gifts and estate taxes also contributed to growth -- \$14.6 million was collected this year, compared with \$5.9 million collected in April of last year. And, collections in wills, suits, deeds and contract fees (primarily recordation taxes) exceeded last year's collections by about \$3.7 million.

Year-to-date, collections of All Other Revenue are 18.4 percent above the same period last year - ahead of the estimate of 13.6 percent growth.

Lottery Revenues: In April, Lottery net income increased 0.3 percent over last year. Although lottery sales increased 11 percent, unusually high prize payouts in Pick 4 and Cash 5 lowered net income to a 0.3% increase. Prizes in Pick 4 were 79 percent of sales and Cash 5 paid out 114 percent of sales for the month. On a year-to-date basis, growth of 8.9 percent in net Lottery proceeds is well above the annual revenue estimate of 2.6 percent.

Summary

April is an important month for revenue collections, with processing of individual income nonwithholding, corporate income, and insurance premiums taxes. April is also typically the peak processing month for individual income tax refunds.

Total general fund revenue collections grew 22.5 percent in April. About half of overall revenue growth for the month came from final payments in individual and corporate income taxes - both of which reflect income and earnings from calendar year 2003. Some of the collections strength in April is also influenced by the timing of final payments in individual income taxes due May 1. Recent strength in employment has also spurred revenue growth, particularly in withholding and sales taxes. Total year-to-date revenue growth of 9.5 percent significantly exceeds the annual estimate of 6.7 percent growth.

May and June are also key collections months, with continued processing of final payments for individual and corporate income taxes in May, and the second estimated payment due for individuals, corporations and insurance premiums.