



COMMONWEALTH of VIRGINIA

Office of the Governor

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May 13, 2005

MEMORANDUM

TO: The Honorable Mark R. Warner

THROUGH: The Honorable William H. Leighty

FROM: John M. Bennett

SUBJECT: April Revenue Data

April is a significant month for revenue collections. In addition to typical monthly collections in withholding, sales, and other taxes, final payments for tax year 2004 and a first estimated payment for tax year 2005 are due from corporations. A large portion of estimated and final payments from individuals, which are due May 1, are also received in April.

Total general fund revenue collections grew 14.4 percent in April. Almost all of the revenue growth for the month is attributable to very strong nonwithholding collections, and individual income tax refunds which were lower than expected. Healthy collections in recordation taxes also contributed. Adjusting for the rate increase in sales and recordation taxes enacted last session, underlying revenue growth in April was 11.5 percent.

Through April, revenues have grown 14.4 percent above the same period last year, well ahead of the mid-session forecast of 10.3 percent.

National Economic Indicators

Current economic indicators continue to show an expanding national economy. April's preliminary jobs estimate also showed healthy growth.

- Payroll employment grew by 274,000 jobs in April, driven by gains in the service sector. March employment totals were revised upward to 146,000, and February employment was also revised upward -- to 300,000. These revisions point to healthier growth in jobs nationally than had been previously believed.

- Initial claims for unemployment rose to 333,000 during the last week in April. The four-week moving average fell to 322,000 -- its lowest level in two months. Jobless claims below about 350,000 are consistent with an expanding labor market.

- Growth in real GDP slowed to 3.1 percent in the first quarter of 2005, down from 3.8 percent in the fourth quarter of 2004.

- The expansion in the manufacturing sector continues to slow. The Institute of Supply Management index fell 1.9 points to 53.3 in April, its fifth consecutive monthly decline.
- The Conference Board's index of consumer confidence dropped over five points to 97.7 in March. Both the current conditions and expectations components of the index fell.
- A jump in energy prices of 4.0 percent drove the consumer price index up 0.6 percent in March. Core inflation was unchanged at an annualized rate of 2.3 percent.
- As expected, the Federal Reserve raised the federal funds rate by another 25 basis points to 3.0 percent at its May meeting.

Virginia Economy

In Virginia, payroll employment grew by 2.2 percent in March compared with the same month last year. Northern Virginia payrolls grew by 4.7 percent, followed by the western MSAs with 2.2 percent, Richmond-Petersburg with 2.0 percent, and Hampton Roads with 1.4 percent growth.

The Virginia Leading Economic Index fell 2.0 percent in March, with all four components contributing to the decline. Regional leading indexes dropped in all of the metropolitan areas in the state. The magnitude of the decline in the index is unusual, but it is too soon to determine whether the decline is significant.

April Revenue Collections

Total general fund revenue collections grew 14.4 percent in April. Almost all of the revenue growth for the month is attributable to very strong individual nonwithholding collections, and individual income tax refunds which were lower than expected. Healthy collections in recordation taxes also contributed. Adjusting for the rate increase in sales and recordation taxes enacted last session, underlying revenue growth in April was 11.5 percent.

On a year to date basis, revenues have grown 14.4 percent above the same period last year, well ahead of the mid-session required growth of 10.3 percent.

Individual Income Tax Withholding (57% of general fund revenues): Collections for payroll withholding increased 2.3 percent in April, which had one less deposit day than April of 2004. Year-to-date withholding growth is 7.0 percent -- slightly ahead of the 6.4 percent growth required to meet the estimate for the year.

Individual Income Tax Nonwithholding (14% of general fund revenues): April is a key month in individual nonwithholding collections. Final payments for tax year 2004 and the first estimated payment for tax year 2005 are both due May 1.

April collections were unusually strong - growing 35.2 percent above April of last year. While the number of payments received was up about 10 percent, the average check size grew about 23 percent.

Year-to-date collections in individual nonwithholding are up 31.5 percent from the same period last year, well ahead of the mid-session forecast of 15.8 percent growth.

A number of states and the federal government are reporting substantially stronger than projected collections in individual estimated and final payments. In April, federal final payments were up close to 35 percent - leading the Congressional Budget Office to issue a reduced deficit estimate for federal fiscal year 2005. More detailed information will be available in the next few weeks, as individual states report their revenue performance.

The majority of the remaining collections in this source will occur in May. 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. The final estimated payment for this fiscal year is due June 15.

Individual Income Tax Refunds: Refunds in April were below forecast. Refunds of \$322.7 million were issued in April -- \$22.6 million less than was refunded in April of 2004. On a year-to-date basis, refunds are \$3.4 million below the same period last year. This decline of 0.3 percent is below the annual estimate of a 6.5 percent increase. For the filing season beginning January 1, TAX has processed 2.1 million refunds -- about the same number as last year - although the average refund has grown only about 1 percent.

Some of the lower than expected refund activity is likely due to the large amount of non-wage income that has been received in nonwithholding payments, although more detailed analysis will not be possible for several months.

Sales Tax (22% of general fund revenues): Collections of sales and use taxes, representing March sales, grew 11.7 percent in April. Year-to-date growth of 14.4 percent is slightly below the mid-session forecast of 14.7 percent. Adjusting for the rate increase effective September 1, sales tax collections grew only 4.5 percent in April, and are up 8.7 percent year-to-date.

Corporate Income Tax (4% of general fund revenues): In April, corporations make their first estimated payment for tax year 2005, and make either a final or extension payment for tax year 2004. Corporate income tax collections for the month declined by 2.4 percent. Although gross collections were actually up slightly, refunds were up more significantly - leading to the slight drop for the month.

Through April, corporate income tax collections have grown 43.0 percent compared with the same period last year -- well ahead of the mid-session forecast of 29.0 percent growth.

Insurance Premiums Tax (3% of general fund revenues): The first quarterly payment in insurance premiums taxes was due April 15. Collections totaled \$87.6 million in April compared with \$79.7 million in April of last year. Year-to-date insurance receipts are up 6.7 percent, below the annual forecast of 8.5 percent growth.

Other Revenue Sources

The following list provides data on April collections for other revenue sources:

	Year-to-Date	Required to Meet Estimate
ABC Taxes (1.1% GF revenues)	2.8%	0.1%
Public Service Corporations (0.7% GF revenues)	0.4%	0.6%
Interest Income (0.7% GF revenues)	39.1%	12.4%

All Other Revenue: All Other Revenue grew by \$4.7 million in April -- \$85.5 million compared with \$80.8 million in April of last year. Growth in wills, suits, deeds, and contract fees -- most of which is recordation taxes -- offset a decline in other revenue. Adjusting for the rate increase effective September 1, recordation tax receipts grew by 7.4 percent.

Year-to-date, collections of All Other Revenue are 25.3 percent above the same period last year -- ahead of the annual estimate of 14.1 percent growth.

Lottery Revenues: Lottery net income rebounded in April -- growing 40.3 percent - driven in large part by a \$205 million prize for Mega Millions. Year-to-date net income growth of 4.5 percent is slightly ahead of the projected 3.8 percent annual rate.

Summary

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Total general fund revenue collections grew 14.4 percent in April. Almost all of the revenue growth for the month is

attributable to very strong nonwithholding collections, and individual income tax refunds which were lower than expected. Healthy collections in recordation taxes also contributed. Adjusting for the rate increase in sales and recordation taxes enacted during the 2004 session, underlying revenue growth in April was 11.5 percent.

Through April, revenues have grown 14.4 percent above the same period last year, well ahead of the mid-session forecast of 10.3 percent.

May and June are also significant collections months, with continued processing of final payments for individual and corporate income taxes in May, and the second estimated payment for individuals, corporations and insurance premiums due in June. To meet the current forecast, collections in the May and June must total \$2.4 billion. Collections in May and June of 2004 totaled \$2.5 billion.