



COMMONWEALTH of VIRGINIA

Office of the Governor

Jody M. Wagner
Secretary of Finance

P.O. Box 1475
Richmond, Virginia 23218

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MEMORANDUM

TO: The Honorable Timothy M. Kaine

THROUGH: The Honorable William H. Leighty

FROM: Jody M. Wagner

SUBJECT: April Revenue Data

April is a significant month for revenue collections. In addition to typical monthly collections in withholding and sales taxes, final payments for tax year 2005 and the first estimated payment for tax year 2006 are due from corporations. A large amount of estimated and final payments from individuals, which are due May 1, are also received in April.

Total general fund revenue grew 2.8 percent in April. Steady growth in individual income taxes offset weak collections in sales and use taxes, recordation taxes, and the consumption tax from public service corporations. On a year-to-date basis, total revenue has grown 9.4 percent. Fiscal year 2006 revenues are overstated on an annual basis because revenue losses from the reduced Accelerated Sales Tax program and the reduction on the sales tax on food that will occur in the last two months of this fiscal year are not reflected in collections to date. Accounting for these known revenue losses, total general fund revenues are increasing at 7.3% -- close to the annual 7.4% forecast.

National Economic Indicators

Current economic indicators depict strong first quarter growth in the national economy. Growth is expected to slow over the coming months with rising interest rates and a slower housing market.

- Real GDP grew 4.8 percent in the first quarter, a sharp increase from fourth quarter growth of 1.7 percent. Consumer spending, business investment, exports, and government spending all bounced back from the weak fourth quarter of last year.
- Payroll employment grew by 138,000 jobs in April, well below consensus expectations. The three-month average of about 180,000 continues to signal an expanding economy. In a separate report, the unemployment rate remained at 4.7 percent.
- Initial claims for unemployment increased by 5,000 to 322,000 during the last week of April.. The four-week moving average rose to 314,000, which remains consistent with a healthy labor market.

- The Conference Board index of leading indicators fell 0.1 percent in March, slightly below expectations. The six-month annualized growth rate of 3.8 percent rose from February's 2.2 percent, and is consistent with strong first quarter growth moderating to slower growth in the second quarter.
- The Consumer Price Index rose 0.4 percent in March, following a modest 0.1 percent increase in February. Although rising energy prices contributed to the increase, core inflation rose 0.3 percent for the month, bringing the annual rate of core inflation to 2.8 percent.
- The manufacturing sector remains healthy -- the Institute of Supply Management index rose from 55.2 to 57.3 in April.
- The Conference Board's index of consumer confidence rose two points to 109.6 in April, its highest level since May 2002.
- The Federal Reserve raised the federal funds rate another 25 basis points to 5.0 percent at its meeting on May 10.

Virginia Economy

In Virginia, payroll employment grew 2.2 percent in March. Growth in Northern Virginia remained well above the rest of the state, with a 3.6 percent gain. Jobs in the western MSAs grew by 2.9 percent, followed by Richmond-Petersburg with 1.9 percent, and Hampton Roads with 1.8 percent growth. The unemployment rate decreased from 3.3 percent to 3.2 percent in April.

The Virginia Leading Index rose 0.2 percent in March following a 0.5 percent gain in February. Growth was driven by a 2.1 percent increase in auto registrations. Ten of the eleven metro areas in Virginia saw an increase in their index, with the leading index for Hampton Roads falling for the month.

April Revenue Collections

Total general fund revenue grew 2.8 percent in April. Steady growth in individual income taxes offset weak collections in sales and use taxes, recordation taxes and the consumption tax from public service corporations. Through April, total revenue has grown 9.4 percent over the same period last year. Fiscal year 2006 revenues are overstated on an annual basis because revenue losses from the reduced Accelerated Sales Tax program and the reduction on the sales tax on food that will occur in the last two months of this fiscal year are not reflected in collections to date. Accounting for these known revenue losses, total general fund revenues are increasing at 7.3% -- close to the annual 7.4% forecast.

Individual Income Tax Withholding (54% of general fund revenues): Collections of payroll withholding taxes grew a solid 6.5 percent in April, despite one less deposit day than last year. Year-to-date withholding growth is 6.4 percent -- very close to the projected annual growth rate of 6.2 percent.

Individual Income Tax Nonwithholding (17% of general fund revenues): April is a significant month for nonwithholding receipts. Final payments for tax year 2005 and the first estimated payment for tax year 2006 are both due May 1.

April collections were \$620.7 million compared with \$591.1 million in April of last year, a 5.0 percent increase. The growth rate is somewhat misleading because this source jumped a sharp 35.2 percent in April 2005. Most of the remaining fiscal year 2006 collections will occur in May. Estimated and final payments will continue to be processed in May; accordingly, it is important to consider April and May collections together to accurately assess growth in this source. The final estimated payment for this fiscal year is due June 15.

Individual Income Tax Refunds: This month, TAX issued \$317.5 million in refunds compared with \$322.7 million in April of last year. Fiscal year-to-date, refunds are 1.0 percent below the same period last year. For the filing season beginning January 1, TAX issued about 2.1 million refunds, similar to the number issued in the same period last year.

Sales Tax (19% of general fund revenues): Collections of sales and use taxes, reflecting March sales, fell 2.8 percent in April. Adjusting for the effects of tax relief on food, growth was 3.0 percent for the month. One of the reasons for April's weak collections is the occurrence of Easter in April this year, while it was in March last year. Accordingly, Easter sales will be reflected in May sales tax receipts.

Year-to-date growth is 3.2 percent through April, ahead of the estimate of a 3.9 percent decline. However, the reduced Accelerated Sales Tax program will decrease collections by \$200.1 million in June and year-to-date growth is expected to drop to the 3.9 percent forecast decline.

Corporate Income Tax (6% of general fund revenues): In April, corporations made their first estimated payment for tax year 2006, and made either a final or extension payment for tax year 2005. Collections of corporate income taxes were \$127.4 million compared with \$124.4 million in April of last year, a 2.4 percent increase.

Gross payments were up 34.3 percent over last year, but a large amount of corporate refunds that typically would have been issued in the fall went out in April. TAX has completed the processing of extension returns filed last fall during the conversion to the new Advantage Revenue accounting system. Through April, collections increased 55.3 percent, well ahead of the annual estimate of 38.1 percent growth.

Other Revenue Sources

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

	Year-to-Date	Required to Meet Estimate
Insurance Premiums Taxes (3% GF revenues)	0.2%	5.1%
ABC Taxes (1.0% GF revenues)	5.9%	-0.5%
Public Service Corporations (0.6% GF revenues)	-2.1%	2.6%
Interest Income (0.7% GF revenues)*	18.0%	20.9%

*Interest income for the January-March quarter attributable to nongeneral funds was transferred in April, resulting in negative monthly interest income for the general fund.

All Other Revenue: Receipts in All Other Revenue fell 13.9 percent in April -- \$73.6 million compared with \$85.5 million in April of last year. Growth in the largest component of all other revenue -- wills, suits, deeds, and contract fees -- drove growth in this source over the last few years. Collections in wills, suits, deeds, and contract fees (mostly recordation tax receipts) fell 4.4 percent in April, the third consecutive month of flat or negative growth. Year-to-date growth in this source stands at 24.8 percent, ahead of the estimate of 21.3 percent growth. For the fiscal year, collections of All Other Revenue are 6.6 percent above fiscal year 2005, ahead of the annual estimate of 4.0 percent growth.

Lottery Revenues: Lottery net profits decreased 3.4 percent for the month. For the month, all games experienced a decline in sales. The first full month of North Carolina Lottery sales impacted Virginia Lottery sales as expected. In addition, reduced discretionary spending due to higher gasoline prices may have also negatively affected sales. With the strong sales growth so far, year-to-date net income growth rate of 11.1 percent is well ahead of the projected 2.4 percent annual rate.

Transportation Revenues -- Motor Fuels Taxes: Motor fuels tax collections increased by 3.4 percent in April and 2.1 percent in fiscal year 2006. The combination of refinery maintenance and the transition to ethanol-based reformulated gasoline drove gas prices considerably higher over the past few weeks. As these supply pressures dissipate, gas prices are expected to soften. The potential for midsummer price spikes exists if demand increases or supply is threatened.

Transportation Revenues -- Motor Vehicle Sales Tax: Motor sales tax collections fell by 18.8 percent in April, but are still up 1.6 percent in fiscal year 2006. Motor vehicle sales tax collections as defined in the attached revenue report

also include rental tax collections. Pure collections of the motor vehicle sales taxes declined by 22.8 percent in April and are down 2.3 percent year-to-date. Sales of new vehicles dipped by 8.7 percent and used vehicles dropped 8.2 percent in April. The reduction is somewhat misleading because this source increased 12.8 percent in April 2005. The current lack of major incentive programs by the large manufacturers, combined with rising interest rates and higher gasoline prices, has dampened demand.

Summary

Total general fund revenue grew 2.8 percent in April. Steady growth in individual income taxes offset weak collections in sales and use taxes, recordation taxes and the consumption tax from public service corporations. Through April, total revenue has grown 9.4 percent over the same period last year. Fiscal year 2006 revenues are overstated on an annual basis because revenue losses from the reduced Accelerated Sales Tax program and the reduction on the sales tax on food that will occur in the last two months of this fiscal year are not reflected in collections to date. Accounting for these known revenue losses, total general fund revenues are increasing at 7.3% -- close to the annual 7.4% forecast.

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 companies due in June.
