



COMMONWEALTH of VIRGINIA

Office of the Governor

John M. Bennett
Secretary of Finance

P.O. Box 1475
Richmond, Virginia 23218

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MEMORANDUM

TO: The Honorable Mark R. Warner

THROUGH: The Honorable William H. Leighty

FROM: John M. Bennett

SUBJECT: December Revenue Data

This month's revenue letter incorporates the revised revenue forecast considered by the Governor's Advisory Board of Economists and his Advisory Council on Revenue Estimates during their fall deliberations, as well as policy actions recommended in the Governor's introduced budget. Projected growth in general fund revenue for fiscal year 2004 is 6.7 percent, compared to the 4.6 percent growth assumed in the budget enacted last session.

Total general fund revenue collections increased 2.5 percent in December. One additional deposit day (totaling \$35 million), along with growth in withholding and sales tax collections offset a decline in corporate income tax receipts for the month.

Through the first half of the fiscal year, revenue growth of 7.1 percent is slightly ahead of the forecast of 6.7 percent growth. If revenues are adjusted for the additional deposit day which has occurred during the first half of this fiscal year, revenue collections would be up 6.4 percent for the year-to-date.

The timing of individual estimated payments, corporate refunds, and holiday sales tax collections can distort the picture of year-to-date revenue growth. For that reason, it is necessary to combine December and January revenue collections in order to get a better assessment of revenue growth to date. January will have two less deposit days than last January, and this will also impact the two-month total.

National Economic Indicators

Most national indicators depict continuing economic growth. However, a lack of substantial improvement in the job market is restraining the strength of the recovery.

- The final revision to third quarter real GDP left growth at 8.2 percent. The growth was broad-based, with solid gains in consumer and business spending.

- Manufacturing activity strengthened in the fourth quarter. In November, the Institute of Supply Management index rose above 60. The index rose again in December to 66.2.

- Personal income grew 0.5 percent in November, the best showing since May. Consumption spending increased 0.4 percent in November.

- The Conference Board's index of leading indicators rose 0.3 percent in November. The leading index has now increased in six of the last seven months, a sustained trend that lends credence to projections of continuing economic growth in 2004.

- Labor market indicators are mixed. Payroll employment grew by only 1,000 jobs in December. Preliminary estimates of job gains in October and November were also revised downward. Although the unemployment rate fell to 5.7 percent, the improvement was due to a decline in labor force participation rather than job growth. Initial unemployment claims rose during the week ending January 3 to 353,000, but the four-week average fell to 350,250.

- The Conference Board's index of consumer confidence fell slightly in December. A drop in the current conditions component offset an increase in expectations of future conditions.

Virginia Economy

In Virginia, payroll employment grew by 0.7 percent above November of last year and the unemployment rate fell slightly to 3.3 percent. Northern Virginia has now experienced eleven straight months of job growth, with 1.9 percent growth in November.

The Virginia Leading Index was flat in November. Three of the four components suggest economic activity is increasing - auto registrations, the U.S. leading index, and falling initial unemployment claims. On a regional basis, the leading indices for Hampton Roads, Richmond-Petersburg, Northern Virginia, Charlottesville, and Danville increased in November, while the indices for Roanoke and Lynchburg declined.

December Revenue Collections

Total general fund revenue grew 2.5 percent in December, aided in part by one additional deposit day. Growth in payroll withholding and sales tax collections was offset by a decline in corporate payments. Growth through the first half of fiscal year 2004 is 7.1 percent, slightly ahead of the estimate of 6.7 percent annual growth. If revenues are adjusted for the additional deposit day which has occurred during the first half of this fiscal year, revenue collections would be up 6.4 percent year-to-date.

Individual Income Tax Withholding (62% of general fund revenues): Withholding collections grew 7.1 percent above last December, buoyed by the \$35 million in revenue from December's additional deposit day. Year-to-date withholding growth is now 6.4 percent - ahead of the 5.9 percent growth required to meet the annual estimate. Without the revenue from the additional deposit day, year-to-date growth in withholding would be 5.3 percent.

January will have two less deposit days than last year.

Individual Income Tax Nonwithholding (12% of general fund revenues): Collections in nonwithholding grew 14.3 percent from December of last year. Year-to-date collections are 5.5 percent above collections for the same period last year - ahead of the forecast of 4.0 percent growth.

December revenue growth in nonwithholding can be distorted by the timing of payments. Taxpayers have until January 15 to submit their fourth estimated payment for tax year 2003. Payment patterns in prior years have shown large swings between December and January. Strong receipts in December are often followed by marked weakness in January and vice versa. A clearer assessment of collections cannot be completed until the end of January, when all of these payments have been received.

Individual Income Tax Refunds: Refunds this month totaled \$23.3 million compared with \$17.2 million last year. Through the first half of the fiscal year, refunds are \$27.1 million (14.6 percent) below the same period last year. The income tax filing season begins in earnest during the last part of January, so no meaningful comparison of refunds can be drawn now.

Sales Tax (22% of general fund revenues): Collections of sales and use taxes increased 15.7 percent above December of last year. The monthly growth rate is somewhat misleading, however, since sales tax receipts fell 11.9 percent last December.

Growth in sales tax collections through the first half of the fiscal year is 7.2 percent - ahead of the 5.2 percent growth required to meet the annual estimate. As with individual income tax, January receipts are necessary to accurately assess growth in this source, since a large part of holiday sales tax collections will be received in January.

Corporate Income Tax (3% of general fund revenues): Collections of corporate income taxes totaled \$38.2 million in December - down about \$46.1 million (a 54.7 percent decline) below collections for last December. November and December are important months for issuing corporate refunds. The bulk of refunding activity occurred in December this year, while last year the majority of refunds were issued in November.

Year-to-date, collections are up 3.6 percent in this source, trailing the annual estimate of 21.1 percent growth. As with individual income tax, January receipts are necessary to accurately assess growth in this source, since corporate payments from retailers will be received in January.

Other Revenue Sources

The table below provides data on December collections for other key taxes:

	Year-to-Date	Required to Meet Estimate
Insurance Premiums Taxes (3% GF revenues)	4.7%	7.4%
ABC Taxes (1.1% GF revenues)	6.4%	-3.6%
Public Service Corporations (0.7% GF revenues)	-11.8%	-7.5%
Interest Income (0.7% GF revenues)	-35.2%	-18.0%

All Other Revenue. Revenue from all other sources increased 13.0 percent in December -- \$64.6 million compared with \$57.2 million in December of last year. Most of the increase is due to an increase in receipts of inheritance, gift and estate taxes. Collections of wills, suits, deeds and contract fees (primarily recordation taxes) remain strong, but declined 2.4 percent from December of last year. Year-to-date, collections of All Other Revenue are 19.7 percent above the same period last year - well ahead of the estimate of 11.3 percent growth. The \$32.4 million federal Medicaid payment for the fourth quarter of FY 2003 is included in All Other Revenue and accounts for the strong growth to date.

Lottery Revenues. In December, Lottery net income increased 18.0 percent over last year as sales increased in all Lottery products. On a year-to-date basis, growth of 4.6 percent is above the annual revenue estimate of 2.6 percent.

Summary

Through the first half of the fiscal year, total general fund revenue collections are up 7.1 percent -- slightly ahead of the annual estimate of 6.7 percent growth. If revenues are adjusted for the additional deposit day which has occurred during the first half of this fiscal year, revenue collections would be up 6.4 percent for the year-to-date.

Because the timing of payments in December and January can significantly distort growth rates, December and January

receipts should be considered together to get a clearer picture of where revenue collections stand. Individual estimated payments are due January 15, and the bulk of sales taxes from the holiday shopping season will be received in January. Moreover, December revenue growth was bolstered by an additional deposit day, while January will have two less deposit days than January of last year.