



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: February Revenue Data

This month's revenue report displays in the first column the mid-session forecast that Governor Warner communicated to the General Assembly on February 18, 2004. Total general fund revenues forecast for FY 2004, 2005, and 2006 did not change, although projections for some sources - principally sales tax, individual income tax nonwithholding and refunds, and corporate income tax - were revised. Total general fund revenue is still projected to grow 6.7 percent in fiscal year 2004.

Total general fund revenue collections increased 7.1 percent in February, with strength in withholding and sales tax collections. Revenue growth for the month was healthy, but is distorted somewhat by being compared to February 2003, when a significant blizzard disrupted business activity and sales.

Year-to-date revenue growth through February stands at 6.4 percent -- slightly behind the forecast of 6.7 percent growth for the year.

National Economic Indicators

The national economic picture has not changed. Most economic indicators continue to depict an expanding economy. Employment growth remains significantly below expectations, however, and represents the key stumbling block to sustained expansion.

- The Institute of Supply Management index slipped slightly in February, but the 61.4 reading indicates the manufacturing sector continues to expand.
- The Conference Board's index of leading indicators rose 0.5 percent in January. The index has increased 9 months in a row -- suggesting economic growth will continue.
- Personal income grew 0.2 percent in January. Consumption spending increased 0.4 percent for the month.
- Inflation remains contained -- the Consumer Price Index rose 0.5 percent in January, with most of the increase due to

rising energy prices. Core inflation rose 0.2 percent for the month, and remains very low.

- Labor market activity remains weak. Payroll employment grew by only 21,000 jobs in February, and January job growth was revised downward to 97,000 jobs -- from the 112,000 job increase originally reported for the month.

Initial unemployment claims in the last week of February fell to 345,000. The four-week moving average fell to 352,000 -- a level consistent with modest expansion in the job market. Together, the reports suggest that layoffs continue to slow, but that employers are not yet adding a significant number of new jobs.

- The Conference Board's index of consumer confidence fell in February. Both the current conditions and expectations components declined.

Virginia Economy

In Virginia, payroll employment grew by 1.4 percent over January of last year. Job growth in Northern Virginia and in Hampton Roads remains positive, with some signs that job growth is accelerating. Job growth in Central Virginia, and the balance of the state remain negative. January job growth in Western Virginia was positive for the first time in more than a year.

The Virginia Leading Index advanced 0.7 percent in January, signaling economic growth should continue. The components were mixed - initial claims for unemployment and the U.S. leading index suggest expansion ahead, while automobile registrations and building permits declined. On a regional basis, the leading indices increased in seven of the eight regions of the state. Only Charlottesville saw a slight decline in its regional index in January.

February Revenue Collections

Total general fund revenues grew 7.1 percent in February, with strong withholding and sales tax collections. Year-to-date growth through January is 6.4 percent, slightly trailing the forecast of 6.7 percent for the year.

Individual Income Tax Withholding (62% of general fund revenues): Withholding collections in February grew 9.3 percent above February of last year. Withholding collections were healthy, but comparisons to last year are also boosted by a weak February 2003, when a winter blizzard disrupted business activity for several days, constraining earnings and withholding for many wage employees.

Year-to-date withholding growth is 6.1 percent - slightly ahead of the 5.9 percent growth required to meet the annual estimate.

Individual Income Tax Nonwithholding (12% of general fund revenues): February is not a significant month for nonwithholding receipts. Collections in February were about \$3.5 million more than last February. Through February, collections are 3.4 percent ahead of the same period last year, trailing the estimate of 7.6 percent growth.

The majority of the remaining collections in this source will occur in April and May, with both final payments for tax year 2003 and estimated payments for the current year due May 1.

Individual Income Tax Refunds: Refunds this month were \$259.4 million - about \$38.4 million more than February of last year. Through February, refunds are 3.8 percent ahead the same period last year, compared with the forecast of 3.0 percent growth. For the filing season beginning January 1, about 835,500 refunds have been issued, compared with 754,500 issued in the same period last year.

Sales Tax (22% of general fund revenues): February collections of sales and use taxes grew a solid 7.9 percent from February of last year, following a strong holiday shopping season. Year-to-date collections grew 7.6 percent through February, slightly ahead of the estimate of 7.3 percent annual growth.

Other Revenue Sources

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

	Year-to-Date	Required to Meet Estimate
Corporate Income Taxes (3% GF revenues)	4.5%	6.6%
Insurance Premiums Taxes (3% GF revenues)	1.9%	4.4%
ABC Taxes (1.1% GF revenues)	4.6%	-3.6%
Public Service Corporations (0.7% GF revenues)	-8.7%	-7.5%
Interest Income (0.7% GF revenues)	-23.6%	-21.7%

All Other Revenue. Revenue from all other sources increased 65.2 percent in February -- \$51.1 million compared with \$30.9 million in February of last year. The increase was largely due to the timing of collections in Medicaid cost recoveries in the prior fiscal year. Collections of inheritance, gifts and estates also contributed to the growth -- \$10.5 million compared with \$5.5 million in February of last year. Collections in the largest component of all other revenue -- wills, suits, deeds and contract fees (primarily recordation taxes) continue to slow, growing only 5.1 percent in February. Year-to-date, collections of all other revenue are 21.2 percent above the same period last year - ahead of the estimate of 13.1 percent growth - largely due to the timing of collections in these revenue sources.

Lottery Revenues. In February, Lottery net income increased 42.0 percent over last year. All lottery sales products were higher, anchored by a \$239 million Mega Millions jackpot on February 20, 2004. Half of the increase in net income was due to high sales in the Mega Millions game. On a year-to-date basis, growth of 7.8 percent is significantly above the Lottery's revenue estimate of 2.6 percent for the year.

Summary

This month's revenue report displays in the first column the mid-session forecast that Governor Warner communicated to the General Assembly on February 18, 2004.

Monthly revenue collections in February grew 7.1 percent. Strong collections in individual payroll withholding and sales taxes drove revenue growth in February. This growth was offset somewhat by significant increases in processing of individual income tax refunds. Revenue growth for the month was healthy, but is distorted somewhat by being compared to February 2003, when a significant blizzard disrupted business activity and sales.

Total year-to-date revenue growth of 6.4 percent slightly trails the annual estimate of 6.7 percent growth.

February and March are not major collection months for general fund revenue, with no significant payments in business taxes or individual income tax nonwithholding. The next major collections month will be April, when estimated and final payments begin to be received for individuals and corporations.