



COMMONWEALTH of VIRGINIA

Office of the Governor

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February 13, 2004

MEMORANDUM

TO: The Honorable Mark R. Warner

THROUGH: The Honorable William H. Leighty

FROM: John M. Bennett

SUBJECT: January Revenue Data

This month's revenue report displays in the first column the revised forecast released on December 17, 2003. The growth rates required to attain the forecast are included in the last column.

Total general fund revenue collections in January increased 3.0 percent. Most of the growth is attributable to a strong holiday shopping season, which boosted sales tax collections. Growth in collections of individual income taxes was modest, in part due to the fact that January had two fewer deposit days than January of 2003. Year-to-date General Fund revenue collections are 6.3 percent greater than collections for FY 2003 to this point, slightly below the forecast of 6.7 percent growth for this fiscal year.

National Economic Indicators

Most national indicators continue to depict a healthy economy, although significant employment growth remains elusive.

- Real GDP grew 4.0 percent in the fourth quarter. Both consumer and business spending posted gains, although business investment is largely limited to the replacement of technology equipment.
- The manufacturing sector continues to expand. In January, the Institute of Supply Management index rose to 63.6 - its fourth monthly increase. The employment component remained above 50 for the third straight month, although it fell somewhat from December.
- The Conference Board's index of leading indicators rose 0.2 percent in December, with seven of its ten components increasing. The index has now increased for 8 months in a row, suggesting economic growth will continue.
- The Conference Board's index of consumer confidence rose in January. Both the current conditions component and expectations of future conditions improved.
- Labor market indicators remain mixed. Payroll employment grew by 112,000 jobs in January, an improvement from

prior months, but below the levels most economists were expecting. Initial claims for unemployment rose to 356,000 for the last week of January, although the four-week moving average remained steady at 345,000. Initial claims are trending downward, suggesting that lay-offs are continuing to ease.

- Income growth was weak in December. Personal income grew 0.2 percent, with income from wages and salaries falling for the first time in fourteen months. Consumption spending increased 0.4 percent in December.

Virginia Economy

In Virginia, payroll employment grew by 0.9 percent over December of last year. Employment in Northern Virginia remains positive, with 2.1 percent growth in December. Employment in Hampton Roads and Central Virginia was also positive in December. Employment declined in Western Virginia and in the balance of the state as a whole.

The Virginia Leading Index advanced 1.8 percent in December. On a regional basis, the leading indices increased in most regions of the state, with the strongest growth in Hampton Roads. Only Lynchburg saw a slight decline in its regional index in December.

January Revenue Collections

Total general fund revenues grew 3.0 percent in January, with growth in sales tax collections the major driver. With two less deposit days than January of last year, individual income tax receipts grew only slightly. Year-to-date growth through January is 6.3 percent, slightly below the estimate of 6.7 percent growth imbedded in the official revenue forecast.

Individual Income Tax Withholding (62% of general fund revenues): January withholding collections grew 1.2 percent above January of last year, due in part to two less deposit days. Year-to-date withholding growth is 5.6 percent - below the 5.9 percent growth required to meet the annual estimate.

Individual Income Tax Nonwithholding (12% of general fund revenues): Collections in nonwithholding fell 1.2 percent from January of last year. As indicated in last month's revenue report, the timing of nonwithholding collections often swings significantly between December and January. December nonwithholding collections grew 14.3 percent, so a January decline was not unexpected. Nonwithholding receipts for December and January together were 3.0 percent greater than the same two-month period last year.

Year-to-date collections are 2.9 percent ahead of collections for the same period last year - trailing the forecast of 4.0 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 totaling \$35.6 million were processed and disbursed in January, signaling the beginning of the filing season for individual income taxes. Through January, refunds year-to-date are 10.0 percent below the same period last year, compared with the forecast of a 1.2 percent decline. Processing of individual income tax refunds will increase significantly in February, so a better assessment of refund processing will be available next month.

Sales Tax (22% of general fund revenues): January collections of sales and use taxes, representing December sales, grew a solid 8.9 percent from January of last year. The holiday shopping season was considerably better than expected, with growth of 11.7 percent. Furthermore, fourth quarter sales tax receipts increased by 9.8 percent, the best quarterly increase in several years.

Year-to-date growth in sales tax receipts is 7.5 percent - ahead of the 5.2 percent growth required to meet the annual estimate.

Corporate Income Taxes (3% GF revenues): Expected collections in corporate income taxes did not materialize in January. Estimated payments for corporations were flat for the fourth quarter, and refunds through the first half of FY

2004 are up about 10 percent. To date, corporate income tax collections stand at 1.8 percent above last year - substantially below the 21.1 percent required to meet the estimate.

Other Revenue Sources

The following list provides data on January collections of 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) | 6.2% | -3.6% |
| Public Service Corporations (0.7% GF revenues) | -10.6% | -7.5% |
| Interest Income (0.7% GF revenues) | -15.4% | -18.0% |

All Other Revenue. Revenue from all other sources increased 7.1 percent in January -- \$66.3 million compared with \$61.9 million in January of last year. The increase was due in large part to the timing of collections in Medicaid cost recoveries and motor vehicle rental tax payments. Collections of wills, suits, and deeds (primarily recordation taxes) were essentially flat in January.

Year-to-date, collections of All Other revenue are 17.7 percent above the same period last year - ahead of the estimate of 11.3 percent growth.

Lottery Revenues. In January, Lottery net income decreased 2.6 percent over last year. Lotto sales were equal to the same month last year; however, Pick 3 and Cash 5 games had higher prize payouts. On a year-to-date basis, growth of 3.3 percent is above the annual revenue estimate of 2.6 percent.

Summary

Monthly revenue collections in January grew 3.0 percent, due in part to two fewer deposit days. Most of January's growth is attributable to strong growth in sales taxes during the holiday shopping season. Strength in sales tax was partly offset by weaker collections in withholding, nonwithholding, and corporate income taxes.

Through January, year-to-date growth in general fund revenue is 6.3 percent above collections for the same period last year - slightly below the 6.7 percent growth which is required to meet the revenue forecast for fiscal year 2004.