



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: March Revenue Data

March is not normally a major month for revenue collections since no estimated or final payments are due for either individuals or corporations. Nevertheless, total general fund revenue collections increased 22.5 percent in March, with strong collections in both withholding and sales taxes.

Although collections were strong, they were not as strong as the nominal growth rate would suggest. Two additional deposit days in March accounted for over half of the increase for the month. March was also buoyed by a favorable comparison to March of 2003, when revenue collections declined 7.7 percent.

With the two additional deposit days, year-to-date revenue growth stands at 7.7 percent -- ahead of the annual forecast of 6.7 percent growth.

National Economic Indicators

Current economic indicators suggest the economy is gaining strength.

- The labor market showed marked improvement in March. Payroll employment grew by 308,000 jobs in March, and significant upward revisions were made to January and February gains. The March gains were broad-based across industries. The unemployment rate rose slightly to 5.7 percent as more workers entered the labor force.
- Initial claims for unemployment fell to 342,000 in the last week of March, with the four-week average unchanged at 340,000 -- levels consistent with a moderately expanding job market.
- The manufacturing sector continues to expand. The Institute of Supply Management index rose to 62.5 in March, the fifth consecutive month above 60. The employment component hit 57.0 and has remained above 50 since November of 2003.
- The Conference Board's index of leading indicators was unchanged in February, dampened by a decline in consumer

confidence. Although growth has slowed in recent months, the index continues to signal positive economic growth.

- The Conference Board's index of consumer confidence was essentially flat in March, although the previous three monthly gains were revised upward.

Virginia Economy

In Virginia, payroll employment grew a healthy 2.2 percent over February of last year. Northern Virginia payrolls grew by an estimated 4.1 percent. Hampton Roads employment grew an estimated 2.1 percent. Richmond and Western Virginia showed slight declines, and employment growth in the balance of the state was positive.

The Virginia Leading Index declined 0.4 percent in February after advancing 0.7 percent in January -- the first drop in the index since April 2003. The components were mixed - initial claims for unemployment and the U.S. leading index were both up, while automobile registrations and building permits declined. Leading indices declined in six of the eight regions of the state - largely due to declines in the number of building permits issued in January.

March Revenue Collections

Monthly revenue collections grew 22.5 percent in March, largely due to a strengthening employment picture and the temporary spending stimulus of federal income tax refunds. Although healthy, overall growth is somewhat overstated by two additional deposit days in March and by the favorable comparison to March of 2003, when collections actually declined 7.7 percent. Year-to-date revenue growth now stands at 7.7 percent - ahead of the annual estimate of 6.7 percent growth.

Individual Income Tax Withholding (62% of general fund revenues): The improved employment picture is leading to an expected strengthening in withholding collections. With two additional deposit days, collections in withholding grew 17.7 percent above March of last year. The two additional deposit days in March accounted for the lion's share of withholding growth for the month. Without these additional deposit days, withholding growth would have been about 5 percent, and year-to-date growth would have been very close to the 5.9 percent forecast. With the two additional deposit days, year-to-date growth is 7.3 percent.

Individual Income Tax Nonwithholding (12% of general fund revenues): March is not a significant month for nonwithholding receipts. Through March, collections are 5.5 percent ahead of the same period last year, trailing the estimate of 7.6 percent growth. April and May collections are key for this source, with both final payments for tax year 2003 and estimated payments for the current year due May 1. The final estimated payment for this fiscal year is due June 15.

Individual Income Tax Refunds: Refunds this month were \$283.8 million - about \$17 million more than March of last year. Through March, refunds are 4.7 percent above the same period last year, compared with the forecast of 3.0 percent growth. For the filing season beginning January 1, about 1.5 million refunds have been issued, compared with 1.35 million issued in the same period last year. Significant increases in the number of electronic filings largely account for the processing improvements.

Sales Tax (22% of general fund revenues): March collections of sales and use taxes grew 14.9 percent. March's strong collections were buoyed in part by the temporary stimulus of federal income tax refunds and some continued mortgage refinancing activity. Part of the apparent collections strength also comes from the comparison to March of 2003, when sales tax collections actually declined. Year-to-date collections for sales and use taxes are 8.3 above the same period last year -- ahead of the estimate of 7.3 percent annual growth.

Corporate Income Taxes (3% of general fund revenues): March is normally not a significant month for corporate income taxes, with collections coming primarily from extension payments made ahead of the April 15 due date. Several large payments were received on the last day of March this year, and led to an increase of \$26.9 million in corporate income tax payments above the amount paid in March 2003. March and April payments need to be analyzed together in order to get a clearer picture of corporate income tax collections. Year-to-date, corporate income tax payments are up 20.5 percent -- ahead of the 6.6 percent annual estimate.

Insurance Premiums Taxes (3% of general fund revenues): March receipts represent final payments due March 1. Receipts for insurance premiums totaled \$32.3 million in March, compared to last year's \$21.5 million. Year-to-date, insurance receipts are up 8.0 percent, ahead of the 4.4 percent annual estimate.

Other Revenue Sources

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

	Year-to-Date	Required to Meet Estimate
ABC Taxes (1.1% GF revenues)	4.5%	-3.6%
Public Service Corporations (0.7% GF revenues)	-6.8%	-7.5%
Interest Income (0.7% GF revenues)	-23.4%	-21.7%

All Other Revenue (9% of general fund revenues): Revenue from all other sources decreased 18.5 percent in March -- \$69.6 million compared with \$85.4 million in March of last year. The decrease was largely due to the timing of collections in Medicaid cost recoveries in the prior fiscal year. Medicaid cost recoveries paid in March of last year will apparently be collected in April this year. Collections of inheritance, gifts and estates also declined. Collections of wills, suits, deeds and contract fees (primarily recordation taxes) grew 13.7 percent in March. Year-to-date, collections of all other revenue are 14.5 percent above the same period last year - slightly ahead of the estimate of 13.1 percent growth.

Lottery Revenues: In March, Lottery net income increased 23.3 percent over last year - led by significant increases in sales for Mega Millions, scratch games, and Lotto South. On a year-to-date basis, growth of 9.7 percent is significantly ahead of the revenue estimate of 2.6 percent for this fiscal year.

Summary

Monthly revenue collections grew 22.5 percent in March, largely due to a strengthening employment picture and the temporary spending stimulus of federal income tax refunds. Although healthy, overall growth is somewhat inflated by two additional deposit days in March and by the favorable comparison to March of 2003, when collections actually declined 7.7 percent. Year-to-date revenue growth now stands at 7.7 percent - ahead of the annual estimate of 6.7 percent growth.

The last three months of the fiscal year are all major revenue months, with estimated and final payments due from both individuals and businesses. About \$3.46 billion - or about 30 percent of the projection total - will need to be collected in the last three months in order to meet the revenue forecast for this fiscal year.