



COMMONWEALTH of VIRGINIA

Office of the Governor

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April 14, 2005

MEMORANDUM

TO: The Honorable Mark R. Warner

THROUGH: The Honorable William H. Leighty

FROM: John M. Bennett

SUBJECT: March Revenue Data

This month's revenue report displays in the first column the mid-session revenue forecast provided to the General Assembly on January 31, 2005. A growth rate of 10.3 percent is projected for general fund revenue in fiscal year 2005.

March is not a major collections month. Collections consist mainly of withholding and sales tax revenues, and recordation taxes, in addition to normal collections for most minor sources. No estimated payments are due from either individuals or corporations, although March collections do include the leading edge of corporate payments which are due April 15.

Total general fund revenue collections grew 17.6 percent in March. Strong growth in individual income tax payments, corporate income tax payments, and sales tax collections (reflecting February sales) were responsible. Healthy gains in recordation tax collections also contributed to the increase. Adjusting for the rate increase in sales and recordation taxes enacted in HB 5018, underlying revenue growth in March was 13.0 percent.

Through March, revenues have grown 14.4 percent above the same period last year -- well ahead of the mid-session required growth of 10.3 percent.

National Economic Indicators

Most economic indicators continue to depict an expanding national economy, although job growth remains disappointing.

- Job gains were far below expectations in March. Payroll employment grew by only 110,000 jobs, while January and February gains were revised downward.

- Initial claims for unemployment fell to 334,000 during the last week in March, with the four-week moving average remaining at 337,000. Although claims have edged slightly higher recently, levels are still consistent with an expanding labor market.

- The Conference Board's index of leading indicators rose 0.1 percent in February, with five of its ten components increasing. The index has increased in three of the last four months and continues to signal an expanding economy.
- Activity in the manufacturing sector continues to slow, although growth in the sector is continuing. The Institute of Supply Management index fell 0.1 point to 55.2 in March.
- Energy prices rose 2.0 percent in February, driving the consumer price index up 0.4 percent, the largest monthly gain since October. Core inflation rose at an annualized rate of 2.4 percent.
- As expected, the Federal Reserve raised the federal funds rate by another 25 basis points to 2.75 percent at its meeting on March 22.

Virginia Economy

The federal government has now approved re-benchmarked employment data for calendar year 2003 and 2004, based on unemployment insurance reports provided by all employers to the VEC. The revised employment figures point to stronger employment growth statewide and in most regions of the state in the first half of fiscal year 2005 than the survey indicated. The table below summarizes the revisions by region.

	% Employment Growth (Original Survey)	% Employment Growth (Original Survey)
Statewide	2.3%	2.8%
Northern Virginia	3.1	4.6
Hampton Roads	1.2	3.2
Central Virginia	1.6	2.3
Western Virginia	0.9	1.2
Balance of State	3.9	0.4

For the state as a whole, the most significant upward revisions were in the Education and Health, Leisure and Hospitality sectors.

The federal government has also identified a revised group of 10,000 firms who are asked to submit employment surveys to the VEC each month. In Virginia, the survey indicates that payroll employment grew by 2.5 percent in February compared with the same month last year. Northern Virginia payrolls grew by 5.0 percent, followed by Richmond-Petersburg with 2.0 percent and Hampton Roads with 1.6 percent growth. The unemployment rate fell to 3.6 percent in February.

The Virginia Leading Economic Index increased 0.4 percent in February. Three of the four components made positive contributions to the index in February. A decline in building permits was offset by positive contributions from auto registrations, lower unemployment claims, and a positive U.S. leading index. On a regional basis, the indexes for Hampton Roads, Lynchburg, Richmond-Petersburg, Danville, and Roanoke were positive. The index for Northern Virginia was neutral, and the indexes in the remaining MSAs declined.

March Revenue Collections

Total general fund revenue collections grew 17.6 percent in March. Strong growth in individual income tax payments, corporate income tax payments, and sales tax collections (reflecting February sales) were responsible. Healthy gains in recordation tax collections also contributed to the increase. Adjusting for the rate increase in sales and recordation taxes enacted in HB 5018, underlying revenue growth in March was 13.0 percent.

Through March, revenues have grown 14.4 percent above the same period last year -- well ahead of the mid-session required growth of 10.3 percent.

Individual Income Tax Withholding (62% of general fund revenues): Collections of payroll withholding taxes grew 9.8 percent in March. Some large employers, mainly in government and defense related firms, continue to expand payrolls significantly, and those expansions are buoying withholding collections. March also saw some unusual withholding collections attributed to stock options - something that has not occurred in detectable amounts since FY 2001. Year-to-date withholding growth is 7.5 percent -- ahead of the 6.4 percent growth required to meet the mid-session forecast.

Individual Income Tax Nonwithholding (12% of general fund revenues): March is not a significant month for nonwithholding receipts. The majority of the remaining collections in this source will occur in April and May, with both final payments for tax year 2004 and estimated payments for the current year due May 1.

Nevertheless, nonwithholding collections were \$13.0 million higher than a year ago. About 23,000 more checks were received this March than last March, with the average check size up 3.8 percent. Year-to-date collections in this source are up 29.2 percent from the same period last year, well ahead of the mid-session estimate of 15.8 percent growth. About 50.4 percent of the current forecast has been collected thus far this year.

Individual Income Tax Refunds: Refunds in March totaled \$290.6 million, compared with \$283.8 million in March of last year. On a year-to-date basis, refunds are \$19.2 million above the same period last year.

Growth of 2.6 percent is somewhat below the annual estimate of 6.5 percent, and the Department of Taxation is well into its peak processing period. For the filing season beginning January 1, about 1.5 million refunds have been issued, about 5,000 more than the same period last year.

Sales Tax (22% of general fund revenues): Collections of sales and use taxes, representing February sales, grew 17.4 percent in March. General retailers, along with building material and machinery equipment dealers, continue to show robust increases in sales.

Year-to-date growth of 14.8 percent essentially matches the mid-session forecast of 14.7 percent. Adjusting for the rate increase effective September 1, collections were up 9.3 percent for the month and 9.2 percent year-to-date.

Corporate Income Tax (3% of general fund revenues): About \$7.7 million more in corporate income tax was collected this March than last March - an increase of 15.6 percent. Most of the payments received in March were early filings of final payments which are due April 15.

Through March, corporate income tax collections have grown 72.6 percent compared with the same period last year -- well ahead of the mid-session forecast of 29.0 percent growth.

Other Revenue Sources

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

	Year-to-Date	Required to Meet Estimate
Insurance Premiums Tax (3.0% GF revenues)	5.3%	8.5%
ABC Taxes (1.1% GF revenues)	3.0%	0.1%
Public Service Corporations (0.7% GF revenues)	-6.5%	0.6%
Interest Income (0.7% GF revenues)	33.2%	12.4%

All Other Revenue: All other revenue grew 32.1 percent in March -- \$91.9 million compared with \$69.6 million in March of last year. Collections doubled in the largest component of all other revenue -- wills, suits, deeds, and contract

fees. Of the \$56.7 million collected in this source, \$50.7 million was recordation tax receipts. Adjusting for the rate increase effective September 1, receipts grew by 28.0 percent. Year-to-date, collections of all other revenue are 28.0 percent above the same period last year -- ahead of the mid-session estimate of 14.1 percent growth.

Lottery Revenues: In March, Lottery net income was nearly flat (0.2 percent increase), with lower operating expenses offsetting lower Lotto South jackpots. Through the first three quarters of the fiscal year, both sales and net income were at record levels. Nevertheless, at 1.0 percent, net income growth is below the 3.8 percent rate projected for the year. Sales for scratch games have been below projected levels through the winter, and jackpots levels have been below statistically expected amounts.

Summary

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Through March, revenues have grown 14.4 percent above the same period last year -- well ahead of the mid-session required growth of 10.3 percent.

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 \$3.8 billion - almost 30 percent of the projected total - will need to be collected in these last three months to meet the revenue forecast for this fiscal year.