



COMMONWEALTH of VIRGINIA

Office of the Governor

Jody M. Wagner
Secretary of Finance

P.O. Box 1475
Richmond, Virginia 23218

April 14, 2006

MEMORANDUM

TO: The Honorable Timothy M. Kaine

THROUGH: The Honorable William H. Leighty

FROM: Jody M. Wagner

SUBJECT: March Revenue Data

This month's revenue report incorporates the revised general fund revenue forecast provided to the General Assembly on February 14, 2006. A growth rate of 7.4 percent is projected for general fund revenue in fiscal year 2006. Net of tax policy changes, economics-based revenue growth in fiscal year 2006 is projected to be 9.9 percent.

March is not a significant month in revenue collections. Collections consist mainly of withholding and sales tax revenues 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 grew 9.2 percent in March. Most of the growth was due to an increase in individual withholding payments. Through March, revenues grew 10.5 percent over the same period last year. Fiscal year 2006 revenues are overstated on an annual basis because revenue losses from the reduced Accelerated Sales Tax program and the reduction on the sales tax on food that will occur in the fourth quarter of this fiscal year are not reflected in collections to date. Accounting for these known revenue losses, total general fund revenues are increasing at 7.8% -- slightly ahead of the annual 7.4% forecast.

National Economic Indicators

Current economic indicators depict an expansion in the national economy.

- Payroll employment grew by 211,000 jobs in March. The first quarter average came in at 197,000, a pace of job growth that is more than sufficient to accommodate the growing labor force. In a separate report, the unemployment rate fell slightly to 4.7 percent.
- Initial claims for unemployment fell to 299,000 during the last week of March. The four-week moving average fell to 309,000 – consistent with a healthy labor market.
- The Conference Board index of leading indicators fell 0.2 percent in February, slightly better than expectations.

The six-month annualized growth rate of 3.0 percent dropped from last month's 3.5 percent, and is consistent with strong first quarter growth moderating to slower growth in the second quarter.

- The Consumer Price Index rose 0.1 percent in February, following a sharp 0.7 percent increase in January. Core inflation remains under control, with a 0.1 percent increase for the month, bringing the annual rate of core inflation to 2.1 percent.
- Institute of Supply Management index fell slightly from 56.7 to 55.2 in March. Despite the modest decline, the index remains well over 50.0 and signals an expanding manufacturing sector.
- The Conference Board's index of consumer confidence rose from 102.7 to 107.2 in March, its highest level since May 2002.
- As expected, the Federal Reserve raised the federal funds rate another 25 basis points to 4.75 percent at its meeting on March 28.

Virginia Economy

In Virginia, payroll employment grew 2.0 percent in February. In Northern Virginia, employment grew by 3.6 percent. Jobs in the western MSAs grew by 2.6 percent, followed by Richmond-Petersburg with 2.1 percent, and Hampton Roads with 1.6 percent growth. The unemployment rate was flat at 3.3 percent in February.

The Virginia Leading Index rose 0.5 percent in February after falling 0.2 percent in January. Two out of the four components -- auto registrations and initial claims for unemployment -- contributed positively to the index. The other two components -- building permits and the U.S Leading Index -- showed a decline. Ten of the eleven metro areas in Virginia saw increases in their indexes, while the Harrisonburg leading index fell for the month.

March Revenue Collections

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Individual Income Tax Withholding (54% of general fund revenues): Reflecting the healthy job market, collections of payroll withholding taxes grew 8.3 percent in March. Year-to-date withholding growth is 6.4 percent – very close to the projected annual growth rate of 6.2 percent.

Individual Income Tax Nonwithholding (17% of general fund revenues): March is not a significant month for nonwithholding receipts. A total of \$59.5 million was collected in March, compared with \$58.3 million in March of last year.

To date, TAX has collected about 44 percent of the nonwithholding forecast, typical for this time of year, and collections are 18.7 percent above last year. The majority of the remaining collections in this source will occur in April and May, with both final payments for tax year 2005 and estimated payments for the current year due May 1.

Individual Income Tax Refunds: This month, TAX issued \$301.5 million in refunds compared with \$290.6 million in March of last year. Fiscal year-to-date, \$751.4 million in refunds have been issued compared to \$756.9 million in the same period last year. For the filing season beginning January 1, TAX issued about 1.44 million refunds, compared with 1.49 million issued in the same period last year.

Sales Tax (19% of general fund revenues): Collections of sales and use taxes, reflecting February sales, grew 4.8 percent in March. Adjusting for the effects of tax relief on food, growth was 11.9 percent for the month. The high growth rate in March can be attributed to some February collections being booked in March.

Year-to-date growth is 4.0 percent through March, ahead of the estimate of a 3.9 percent decline. However, the reduced Accelerated Sales Tax program will decrease collections by \$200.1 million in June and year-to-date growth is expected to drop to the 3.9 percent forecast decline.

Corporate Income Tax (6% of general fund revenues): Collections of corporate income tax were \$67.7 million compared with \$56.4 million in March of last year, a 20.1 percent increase. March receipts are typically from companies paying ahead of the April 15 filing date for final payments on tax year 2005 liability and estimated payments for the first quarter of the current fiscal year. Through March, collections have increased 74.9 percent, well ahead of the annual estimate of 38.1 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 Taxes (3% GF revenues)	-1.4%	5.1%
ABC Taxes (1.0% GF revenues)	5.9%	-0.5%
Public Service Corporations (0.6% GF revenues)	13.3%	2.6%
Interest Income (0.7% GF revenues)*	34.8%	20.9%

*Approximately 60% of the interest for the current quarter is due to nongeneral funds and will be transferred in April.

All Other Revenue: Receipts in All Other Revenue grew 11.3 percent in March -- \$102.3 million compared with \$91.9 million in March of last year. Collections of inheritance, gift and estate taxes drove the growth -- \$26.7 million compared with \$12.3 million in March of last year. Growth in the largest component of all other revenue -- wills, suits, deeds, and contract fees, primarily due to increased recordation tax receipts, has been a major contributor to increases in this source over the last few years. In March, growth in wills, suits, deeds, and contract fees (mostly recordation tax receipts) grew a modest 0.9 percent. Year-to-date growth in this source stands at 28.7 percent, ahead of the estimate of 21.3 percent growth. March marks the second consecutive month that recordation tax collections have shown a marked slowdown. For the fiscal year, collections of All Other Revenue are 9.0 percent above fiscal year 2005, ahead of the annual estimate of 4.0 percent growth.

Lottery Revenues: Lottery net profits increased 1.0 percent for the month. Significantly lower than expected payouts in the Pick 3 and Pick 4 games for another month have begun to dampen sales in these games. For the month, all games experienced a decline in sales with the exception of Mega Millions.

With the strong sales growth so far, the year-to-date net income growth rate of 13.0 percent is well ahead of the projected 2.4 percent annual rate. On March 30, however, North Carolina started its lottery program, which is expected to further slow sales growth in Virginia.

Summary

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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 \$4.4 billion – about 30 percent of the projected total general fund – will need to be collected over the remainder of the fiscal year to meet the annual forecast.
