



COMMONWEALTH of VIRGINIA

Office of the Governor

John M. Bennett
Secretary of Finance

P.O. Box 1475
Richmond, Virginia 23218

June 11, 2004

MEMORANDUM

TO: The Honorable Mark R. Warner

THROUGH: The Honorable William H. Leighty

FROM: John M. Bennett

SUBJECT: May Revenue Data

May is a significant revenue collections month, with estimated and final payments for individual income taxes due May 1.

Total general fund revenue collections for the month increased 7.3 percent above May of 2003. Strong collections in sales and use taxes, a few large estate tax payments, fewer income tax refunds, and some increase in withholding collections accounted for most of the growth. May had one less deposit day than May of 2003.

Year-to-date revenue growth of 9.3 percent is well ahead of the annual forecast of 6.7 percent.

National Economic Indicators

Current economic indicators suggest the pace of the economic expansion is strengthening.

- First quarter real GDP growth was revised upward from 4.2 percent to 4.4 percent.

- The national labor market continued to improve in May. Payroll employment grew by 248,000 jobs in May, and employment gains in the two previous months were revised upward. Over the last three months, employment has increased 947,000 -- a level not seen since the March to May period of 2000. The unemployment rate remained unchanged at 5.6 percent.

- Initial claims for unemployment fell to 339,000 in the last week of May. The four-week average fell to 341,000 - a level consistent with an expanding job market.

- The manufacturing sector continues to expand. The Institute of Supply Management index rose to 62.8 in May, the seventh consecutive month above 60. In addition, manufacturers have added jobs for the last four months.

- The Conference Board's index of consumer confidence rose a slight 0.2 points to 93.2 in May. A small increase in the expectations component offset a slight decline in the present situation index.

- Inflation remains contained. The Consumer Price Index rose 0.2 percent in April, with rising energy prices contributing to the increase. Core inflation rose 0.3 percent for the month, bringing the annual rate of core inflation to 1.8 percent.

Virginia Economy

In Virginia, April payroll employment grew by 2.6 percent above April of 2003. Northern Virginia payrolls grew by 4.1 percent, while Hampton Roads employment increased 1.7 percent. Job losses abated in Richmond and Western Virginia, with flat growth in Richmond and 0.3 percent growth in the western MSAs. Growth in the balance of the state was also positive.

Through April, statewide payroll employment in FY 2004 has now grown 1.2 percent - the growth level projected in the economic forecast presented last November.

The Virginia Leading Economic Index declined 1.1 percent in April, after gaining 1.1 percent in March. Three of the four components showed declines -- automobile registrations, building permits and initial unemployment claims. Automobile registrations and building permits are still considerably higher than year-ago levels, and initial unemployment claims are 30 percent lower than last April.

May Revenue Collections

Total general fund revenues grew 7.3 percent in May. Stronger underlying economic growth is evident in solid collections of sales and use and payroll withholding taxes. Year-to-date growth through May is 9.3 percent, well ahead of the estimate of 6.7 percent.

Individual Income Tax Withholding (62% of general fund revenues): Collections in withholding grew 3.9 percent in May -- solid growth with one less deposit day than May of last year. Year-to-date withholding growth is 7.0 percent -- ahead of the 5.9 percent growth required to meet the annual forecast.

Individual Income Tax Nonwithholding (12% of general fund revenues): April and May are significant months for nonwithholding collections. Final payments for tax year 2003 and the first estimated payment for tax year 2004 were both due on May 1. This year, the bulk of payments were received in April, when about 30,000 more checks were processed than a year ago. In May, about 4,500 fewer checks were processed.

As a result of the collections timing, nonwithholding receipts were essentially flat in May, after a 29.3 percent increase in April. Taken together, nonwithholding payments in April and May were 17.8 percent above the same two months last year. Year-to-date collections are up 11.1 percent compared to the same period last year - ahead of the forecast of 7.5 percent growth.

Individual Income Tax Refunds: The Tax Department issued only \$95.8 million in individual income tax refunds in May, compared with \$116.1 million in May of last year. Through May, refunds are 2.5 percent above the same period last year, compared with the forecast of 3.0 percent growth. For the filing season beginning January 1, about 2.3 million refunds have been issued, about 75,000 more than in the same period last year. Close to 97 percent of all returns were processed in 12 days or less compared to the 93.7 percent rate attained in the 2003 processing season. In addition, 195,000 more returns were transmitted electronically in 2004.

Sales Tax (22% of general fund revenues): Collections of sales and use taxes grew 14.1 percent in May. Several factors contributed to the continuing strong sales tax growth. Larger federal income tax refunds and the continuing effect of refinancing on disposable income has boosted consumer spending. Recent growth in payroll employment has also had a positive effect. And, May of 2003 was an anemic month for sales tax collections, so collections strength this year is magnified by comparison.

Year-to-date sales tax collections are 9.8 percent above the same period last year - well ahead of the forecast of 7.3 percent growth.

Other Revenue Sources

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

	Year-to-Date	Required to Meet Estimate
Corporate Income Taxes (3.0% GF revenues)	22.0%	6.6%
Insurance Premiums Taxes (3.0% GF revenues)	5.1%	4.4%
ABC Taxes (1.1% GF revenues)	4.7%	-3.6%
Public Service Corporations (0.7% GF revenues)	-11.4%	-7.5%
Interest Income (0.7% GF revenues)	-25.2%	-21.7%

All Other Revenue: All Other Revenue increased 36.1 percent in May -- \$20.0 million more than the \$55.5 million collected last May. Collections of inheritance, gifts and estate taxes contributed \$15.9 million of this growth. Collections in the largest component of all other revenue -- wills, suits, deeds and contract fees (primarily recordation taxes) remained strong, with 15.9 percent growth in May. Year-to-date, collections of all other revenue are 20.0 percent above the same period last year - ahead of the estimate of 13.6 percent growth.

Lottery Revenues: In May, Lottery net income increased 3.2 percent over last year due to slightly higher sales and lower prize expense. On a year-to-date basis, growth of 8.3 percent is well above the annual revenue estimate of 2.6 percent.

Summary

Monthly revenue collections grew 7.3 percent in May. The strengthening economy is driving solid growth in sales tax collections and in withholding receipts. A few large estate tax payments and fewer income tax refunds in May also boosted growth for the month. Total year-to-date revenue growth of 9.3 percent exceeds the annual estimate of 6.7 percent growth.

June is another significant revenue month, with collections in individual and corporate estimated payments, estimated payments for insurance premiums, corporate franchise fees, and accelerated sales tax collections, along with regular monthly collections in other sources. Historically, about 11 to 12 percent of total general fund revenue is collected in June. Total general fund revenues in June must exceed \$1.17 billion in order to meet the fiscal year 2004 forecast.

Recent strength in revenue collections, combined with increases in payroll employment, makes it highly likely that actual collections will substantially exceed the forecast. The revenue surplus that does occur will be subject to a number of obligations - an increase in the mandatory deposit for the Revenue Stabilization Fund and a likely required super-deposit to the Fund, as well as a 10 percent set-off for the Water Quality Improvement Fund. Funding to compensate for implementation of HB 5018 on September 1 rather than the August 1 date assumed in the budget is also an issue, as is the need to address the continuing cost of Hurricane Isabel.