



# COMMONWEALTH of VIRGINIA

Office of the Governor

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## MEMORANDUM

TO: The Honorable Mark R. Warner  
FROM: John M. Bennett  
SUBJECT: March Revenue Data

This month's revenue letter includes the mid-session forecast communicated to the General Assembly on February 11, 2002. This forecast was incorporated into the budget agreed to by the General Assembly. Total general fund revenues are now projected to decline by 2.5 percent this fiscal year.

March collections fell 0.9 percent below collections for last March. However, March collections included one less deposit day than last March. In a typical month this additional day would represent about 4.5 percent of a month's receipts. Taking into account this deposit day, it appears that monthly collections in the two largest revenue sources – withholding and sales tax collections – continue to track closely to their respective forecasts. The key factor for the fiscal year 2002 revenue forecast remains estimated and final payments for individual income tax, which will be collected over the next two months.

### National Economic Indicators

March produced a number of positive economic signs. The consensus among most economists is that the brief recession is entering a potentially healthy first quarter recovery.

- Fourth quarter real GDP growth was revised upward to 1.7 percent in the final release. An improved trade balance was the key reason for the increase from 1.4 percent;
- U.S. payrolls in March expanded by 58,000 jobs, ending seven consecutive months of declines;
- The Institute of Supply Management index (formerly the NAPM) was well above the critical 50 percent level for the second consecutive month, indicating that the recession in the manufacturing sector has officially ended; and
- Consumer confidence jumped 15 points in March to 110.2 – its highest reading since last August.

The principal negative sign for the month was the unchanged reading in the Index of Leading Indicators, following four months of improvement. While the indicators show improvement in the economy, the recovery is unlikely to be robust.

### The Virginia Economy

In February, 2002, employment declined by 1.4 percent below last February's level. It is important to note, however, that the two largest employment sectors – services and trade – have just about stopped shedding jobs, after six months of losses.

The unemployment rate fell 0.2 percent in February to 4.2 percent, and remains well below the national jobless rate of 5.5 percent. In a normal year, January or February are often the months which have the highest unemployment rate for the year, due to severe winter weather. This year, neither month contained any significant weather-related job losses.

The Virginia Leading Index rose for the fourth straight month in January, a signal that a modest recovery is expected this spring.

## March Revenue Collections

March's weak revenue collections can be attributed to a record number of individual income tax refunds, along with expected sluggishness in withholding and sales tax collections.

**Individual Income Tax Withholding (58% of general fund revenues).** Withholding collections in March were up 1.2 percent above collections for last March. As mentioned earlier, this March contained one less deposit day – to be made up in April – which slightly alters the monthly comparison. Year-to-date growth of 2.7 percent is slightly behind the official estimate of 3.2 percent.

**Individual Income Tax Refunds.** Refunds in March totaled \$212.5 million – about \$39.1 million more than last March's total. The average refund is up 11 percent, considerably ahead of the expected increase of around seven percent.

In March, the Department of Taxation issued almost 570,000 refunds – 25,000 more than last year. Error rates on returns filed through March are below seven percent, significantly lower than last year's 13 percent rate. Since the beginning of the filing season in January, the Department has issued over 1.3 million refunds – 270,000 more than last year. Of the 1.3 million refunds issued, about 98.50 percent have been processed in 12 days or less, and 99.97 have been processed in less than 30 days.

An analysis of taxpayer filing patterns and error rates leads the Department to estimate that 810,000 refunds remain to be requested by taxpayers in the April-June quarter – about 38 percent of the projected total.

**Individual Income Tax Nonwithholding (14% of general fund revenues).** March is not a significant month for nonwithholding receipts. Through March, nonwithholding receipts are down 10.7 percent, slightly ahead of the 14.0 percent decline projected in February.

**Sales Tax (21% of general fund revenues).** Collections for March increased by 0.2 percent. On a year-to-date basis, collections are down 0.3 percent -- slightly behind the annual estimate of 0.1 percent growth required by the mid-session re-forecast (excluding the \$118.4 million acceleration of sales tax collections expected in June).

## Other Revenue Sources

March was not a significant month for a number of other revenue sources, such as corporate income tax and insurance premiums. The following list provides data on other key taxes:

	<u>Year to Date</u>	<u>Required to Meet Estimate</u>
Corporate Income (2.7% GF revenues)	-24.0%	-19.1%
Insurance Premiums (2.6% GF revenues)	13.0%	7.4%
ABC Taxes (1.1% GF revenues)	3.4%	2.3%

**All Other Revenue.** Revenue from all other sources increased in March by \$21.0 million over last year, mainly due to \$16 million in Medicaid recoveries and \$2.8 million in estate tax payments.

**Lottery Revenues.** Lottery net income was essentially flat (-0.3percent) as compared to March of last year. Sales increased 5.6 percent, however, unusually higher prize payouts caused expenses this month to increase by 9.2 percent. On a year-to-date basis, Lottery net income is up 6.2 percent, well above the revised estimate of -0.1 percent.

## Summary

Total year-to-date collections, including Tobacco Settlement revenues, now sit at 2.5 percent below collections for the same period last year, and right at the -2.5 percent level included in the revised mid-session forecast.

Collections declined in March because March had one less deposit day and because the number of individual income tax refunds issued was substantially higher than last year.

When collections are adjusted for the number of deposit days, it appears that withholding and sales tax revenues – the best barometer of ongoing economic activity – are showing some positive momentum. Recent international events and rapidly rising energy prices could jeopardize consumer confidence and economic recovery, however.

Revenue collections in this fourth quarter of the fiscal year are now the key to meeting this revenue forecast. April, May, and June are all important payment months. Estimated and final payments of individual income taxes, which will be collected over the next 60 days, are particularly central.

