



COMMONWEALTH of VIRGINIA

Office of the Governor

John M. Bennett
Secretary of Finance

P.O. Box 1475
Richmond, Virginia 23218

April 14, 2003

MEMORANDUM

TO: The Honorable Mark R. Warner

THROUGH: The Honorable William H. Leighty

FROM: John M. Bennett

SUBJECT: March Revenue Data

March revenue collections fell 7.7 percent below collections in March of last year. Year-to-date, total general fund revenue collections through March are 1.2 percent ahead of collections for the same period last year - marginally ahead of the annual forecast of 1.0 percent growth assumed in the introduced budget.

Weak collections in individual income tax withholding, sales taxes, and a substantial increase in income tax refunds were not offset by strength in recordation taxes, insurance premiums, and other minor revenue sources. For the third month in a row, collections of individual withholding and sales taxes, which comprise over 80 percent of total general fund revenues, trail the growth required to meet the official annual estimates.

The month's revenue report continues to compare collections to the revenue forecast presented last December. The changes to the revenue forecast adopted by the General Assembly this past session will be reflected in the May revenue report, at which time the growth rate required to meet the annual estimate will increase to 1.2 percent.

National Economic Indicators

National economic indicators continue to depict the national economy at a standstill.

- The national labor market contracted again in March. Payroll employment fell by 108,000 jobs in March, following the loss of 357,000 jobs in February. The decline was broad-based, with only the construction sector picking up modestly.
- Initial claims for unemployment surged to 445,000 during the last week of March, pushing the four-week average to 426,250, and pointing to further deterioration in the job market. This is the seventh consecutive week that initial claims have been above 400,000 - the level which indicates that the labor market is contracting.
- The Conference Board's index of consumer confidence fell in March - the ninth decline in ten months. Both the assessment of current conditions and expectations of future conditions fell.
- The manufacturing sector weakened further in March. The Institute of Supply Management index fell to 46.2, the largest drop since November 2001, below the 50.0 break-even level.

- The Conference Board's index of leading indicators decreased by 0.4 percent in February, the first decline since September of last year. The erratic growth in the index over the last six months indicates that the economic weakness will likely continue.
- Rising oil prices again pushed the Consumer Price Index up 0.6 percent in February, although core prices remained stable.
- Income growth remains positive - total personal income grew 0.3 percent in February. Consumption spending was flat in February, with severe winter weather contributing to the slump.
- At its meeting on March 18, the Federal Reserve Board left interest rates unchanged.

Virginia Economy

Job growth in the Commonwealth has been essentially flat for the first two months of the year, confirming the softness that has appeared in revenue collections. Statewide payroll employment increased 0.2 percent in January but fell 0.3 percent in February. In Northern Virginia, employment growth has decelerated for the first time since last July. Job growth slowed to 0.2 percent in February after increasing 0.7 percent in January.

The Virginia Leading Index fell 1.5 percent in February, with all components pointing towards contraction. Part of the weakness, particularly in building permits and auto registrations, was probably due to the severe winter weather that occurred in February.

March Revenue Collections

Revenue collections fell 7.7 percent below collections in March of last year. On a year-to-date basis, total revenues are up 1.2 percent through March - slightly ahead of the annual estimate of 1.0 percent growth assumed in the introduced budget.

Individual Income Tax Withholding (62% of general fund revenues): Collections in withholding grew by 0.8 percent above March of last year. Year-to-date withholding growth through March is 2.2 percent - trailing the annual estimate of 2.7 percent growth. In order to attain the fiscal year 2003 estimate for individual income tax withholding, collections must increase 4.3 percent over the remaining three months of the fiscal year.

Individual Income Tax Refunds: Refunds this month totaled \$267.2 million, compared with \$212.5 million paid in March of last year. In the current filing season, close to 1,352,000 refunds have been issued, about 32,000 more than the same period last year. On a fiscal year basis, the dollar value of refunds is about 0.7 percent greater than the amount issued through March of last year. The forecast for the year estimated that 9.2 percent fewer dollars would be refunded for the fiscal year.

April is expected to be the last peak month of the filing season. A more complete analysis of the number of returns and average check size increase will be available on the next revenue report.

Individual Income Tax Nonwithholding (12% of general fund revenues): March is not a significant month for nonwithholding receipts. Through March, year-to-date collections are 4.5 percent below collections for the same period last year - ahead of the forecast of a 13.2 percent decline. In April, both estimated payments for the current tax year and final payments for tax year 2002, due May 1, will begin being received. May will be the critical month in determining whether estimates for this source formulated last fall were accurate.

Sales Tax (22% of general fund revenues): Collections of sales tax fell by 4.1 percent below March of last year. Sales tax collections, which reflect mainly February sales, declined as the Commonwealth experienced the first significant winter storms in three years. Adjusting for the accelerated sales tax payments, year-to-date collections in this source have increased 1.2 percent through March - well below the forecast of 2.7 percent growth.

Other Revenue Sources

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

	Year-to-Date	Required to Meet Estimate
Corporate Income Tax	14.0 %	3.8 %
Insurance Premiums Tax (3% GF revenues)	13.5 %	5.3 %
ABC Taxes (1.1% GF revenues)	4.3 %	0.0 %
Public Service Corporations (0.9% GF revenues)	23.5 %	8.2 %
Interest Income (0.7% GF revenues)	-30.3 %	-28.3 %

All Other Revenue. Revenue from all other sources was up 46.1 percent in March -- \$85.4 million compared with \$58.4 million in March of last year. Continued strength in collections of wills, suits, deeds and contract fees (primarily recordation taxes), along with a few large estate tax payments, accounted for most of the growth. On a year-to-date basis, collections of all other revenue were 25.0 percent above the same period last year - well ahead of the annual forecast of 16.2 percent growth.

Lottery Revenues. In March, Lottery net income declined 2.5 percent over last year, due to slightly higher administrative costs and lower interest earnings for the month. On a year-to-date basis, growth of 7.5 percent is above the amount needed to meet the current revenue estimate.

Growth rates for both lottery sales and net income are currently above the levels needed to meet their respective annual forecasts. However, the final quarter of this fiscal year is not forecast to be as profitable as last year's final quarter because it included a record-setting \$331 million Mega Millions jackpot. On a year-to-date tracking basis, net income is about \$7 million (3 percent) above forecast, with three months remaining in the year.

Summary

Revenue collections in March fell 7.7 percent. With one quarter of the fiscal year remaining, total general fund revenue collections through March are 1.2 percent above collections for the same period last year - slightly ahead of the annual estimate of 1.0 percent growth assumed in the introduced budget. Minor revenue sources account for most of the growth, while the two largest sources - withholding and sales taxes - continue to trail their projected annual growth rates.

All three months of the fourth quarter of the fiscal year are important payment months. Estimated and final payments for corporations are due April 15. Estimated and final payments of individual income taxes, due May 1, will be collected over the next two months. In June, estimated payments are due in both corporate and individual income taxes.

The impact of war in Iraq on the national economy - and particularly on business and consumer confidence - continues to be a key wildcard in assessing where the economy is headed.