COMMONWEALTH of VIRGINIA

Stephen E. Cummings
Secretary of Finance

P.O. Box 1475
Richmond, Virginia 23218

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MEMORANDUM

TO: The Honorable Glenn Youngkin

THROUGH: The Honorable Jeff Goettman

FROM: Stephen E. Cummings

SUBJECT: April Revenue Report

In this memo, April results are compared to the revenue forecast assumed in the FY 2024 proposed budget, as introduced, and does not account for General Assembly actions adopted during the May Special Session. Beginning with the May report, collections will be compared to the revised revenue forecast assumed in the amended FY 2024 budget, Chapter 1, 2024 Special Session I, which was signed into law on May 13th and includes an additional $546.8 million in general fund revenues anticipated to be collected in FY 2024.

Year-to-date, general fund revenues are up 5.0 percent ($1.12 billion) through the first ten months of Fiscal Year 2024 and are ahead of forecast by $1.22 billion. Adjusting for the effects of the elective Pass-Through Entity Tax (PTET) collections and refunds, and the associated timing of enacted policy actions to better reflect underlying economic trends, revenue collections are up 7.6 percent ($1.79 billion) year-to-date.

For the month of April, total general fund revenues declined 1.0 percent ($36.3 million) versus the same period last year but exceeded projections for the month. The year-over-year decline was driven primarily by lower corporate income and lower individual income tax nonwithholding collections.

April is a significant month for revenue collections. In addition to regular collections of withholding and sales taxes, final income tax payments for tax year 2023 and the first estimated payment for tax year 2024 were due from corporations in April. A portion of estimated and final payments from individuals, which are due May 1, are typically received in April, but the amount received in April versus May can vary from year to year.

Among the major revenue sources, withholding collections increased 8.3 percent ($106.2 million) for the month compared to last year. Nonwithholding collections decreased by 9.5 percent ($187.3 million) compared to April last year, and refunds were down 11.2 percent ($77.3 million) compared to last year. Corporate income tax revenues declined 7.6 percent in April ($40.2 million), and sales and use tax revenues were down 0.1 percent ($0.4 million). Net general fund interest income, after the scheduled quarterly allocations to nongeneral fund accounts, was negative $23.1 million in April compared to negative $2.8 million in April 2023.

Compared to the forecast assumed in House Bill 29, as introduced, and accounting for monthly variations in tax collections, April revenues exceeded projections by $162.6 million, and year-to-date revenues are ahead of projections by $1.22 billion. Excluding nonwithholding and refunds, year-to-date collections in core revenue sources are ahead of plan by $503.3 million, a variance of 2.4 percent.

Withholding revenues exceeded projections by 4.0 percent ($53.3 million) in April and are ahead of forecast by 3.8 percent ($502.3 million) year-to-date. Corporate tax collections were in line with the forecast for the month of April but are $134.2 million below projections year-to-date. Sales tax revenues, reflecting March sales, were higher than projections by 8.7 percent ($32.0 million) and are ahead of forecast by 3.3 percent ($125.4 million) on a year-to-date basis. Wills, Suits, and Deeds (mainly recordation) revenues increased year-over-year in April but are below projections for the year by 6.0 percent ($20.7 million).

Collections from other sources of revenues are discussed in more detail in the following sections.

Economic Review

- U.S. Real Gross Domestic Product (GDP) increased at an annual rate of 1.6 percent in the first quarter of 2024, according to the "advance" estimate released by the Bureau of Economic Analysis. This was the slowest growth rate in nearly two years. The largest positive contribution to real GDP growth in Q1 came from personal consumption, while home building was also positive, and the largest drag was net exports. In the fourth quarter of 2023, real GDP increased 3.4 percent.

- U.S. retail sales for April were flat month-over-month and were up 3.0 percent compared to April 2023, according to the “advance” monthly sales report published by the U.S. Census Bureau. The February to March percent change was also revised downward, from up 0.7 percent to up 0.6 percent. On a year-over-year basis, sales for non-store retailers, which includes internet sales, were up 7.5 percent in April, and sales at restaurants and bars were up 5.5 percent. The biggest year-over-year declines were in furniture stores and sporting goods and hobby stores.

- U.S. nonfarm payrolls increased by 175,000 in April, lower than the average monthly gain of 242,000 over the prior 12 months. Job gains were broad-based with the largest increases in health care, social assistance, and transportation and warehousing. The employment change for February was revised down by 34,000, and the change for March was revised up by 12,000. With these revisions, employment in February and March combined is 22,000 lower than previously reported.

- The Bureau of Labor Statistics also reported that average hourly earnings grew 3.9 percent over the 12-month period ending in April, the lowest year-over-year growth since May 2021.

- In March, Virginia's nonagricultural employment, from the monthly establishment survey, increased by 16,500 to 4,228,300, a 1.8 percent year-over-year increase. Private sector employment increased by 13,500 while government employment increased by 3,000. In addition, February's preliminary estimate of employment, after revision, increased by 1,900.

- Virginia's seasonally adjusted unemployment rate in March decreased by 0.1 percentage point and now sits at 2.9 percent, which is the same as year before.

- In April, the U.S. unemployment rate changed little at 3.9 percent. The unemployment rate has remained in a narrow range of 3.7 percent to 3.9 percent since August 2023.

- The Consumer Price Index (CPI) for all items increased 0.3 percent in April, and the twelve-month change declined slightly from 3.5 percent to 3.4 percent. The twelve-month change in "core" CPI, which excludes food and energy, also fell slightly from 3.8 percent to 3.6 percent.

- The twelve-month change in the Personal Consumption Expenditure Price Index, excluding food and energy (core PCE), the Fed's preferred inflation measure, remained at 2.8 percent in March, above the Fed's target of two percent.

- The Federal Reserve's Federal Open Market Committee (FOMC) left the target for the federal funds rate at a range of 5.25 percent to 5.50 percent at its April 30-May 1 meeting. The FOMC has kept rates steady since July 2023.

- The FOMC noted that in recent months, there has been a lack of further progress toward the Fed's inflation target, and Chair Jerome Powell stated that it will likely take longer than anticipated for the Fed to gain confidence that the economy is on a sustainable path toward 2-percent inflation.

April Revenue Collections

General fund revenues declined 1.0 percent year-over-year for the month of April on an unadjusted basis. Fiscal year-to-date through April 30, general fund revenues are up 5.0 percent over the prior year.

Net Individual Income Tax (67% of general fund revenues): Revenues declined 0.1 percent for the month compared to last year ($3.8 million). Year-to-date net individual income tax collections are up 5.5 percent. Compared to the forecast, year-to-date net individual income tax collections are ahead of projections by $1.22 billion, driven by higher-than-expected withholding and nonwithholding, and lower than anticipated refunds.

Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (58% of general fund revenues): Collections of payroll withholding taxes were 8.3 percent higher for the month and up 4.0 percent year-to-date on an unadjusted basis. Compared to the Forecast assumed in House Bill 29, withholding revenues are ahead by $502.3 million year-to-date.

Individual Income Tax Nonwithholding (21% of general fund revenues): April collections declined 9.5 percent year-over-year and are down 3.9 percent for the year, both on an unadjusted basis. Through April, nonwithholding receipts are $441.6 million ahead of forecast.

Individual Income Tax Refunds (-12% of general fund revenues): During the month of April, refunds totaled $610.5 million versus $687.8 million last April, a decline of 11.2 percent. Year-to-date, the Department has issued $2,716.4 million in refunds compared with $3,224.4 million over the same period last year, a decrease of 15.8 percent.

Sales Tax (16% of general fund revenues): Collections of sales and use taxes, reflecting March sales, declined 0.1 percent in April and are down 1.0 percent year-to-date. Fiscal-year-to-date, sales and use tax revenues are $125.4 million above projections. Adjusting for the elimination of the State sales tax on grocery and the end of Accelerated Sales Tax, sales tax collections are up 1.2 percent year-to-date.

Corporate Income Tax (8% of general fund revenues): Net corporate income tax collections were down year-over-year 7.6 percent in April. On a year-to-date basis, corporate income tax revenues are down 1.6 percent. Compared to forecast, corporate income tax collections are below plan by $134.2 million year-to-date.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were 22.6 percent higher in April compared to the previous year. On a fiscal-year-to-date basis, collections are down 7.3 percent. Compared to the forecast, collections in this source are behind projections by $20.7 million.

Insurance Premiums (2% of general fund revenues): Year-to-date collections are up 5.8 percent versus a forecasted decline of 1.0 percent.

Other Revenue Sources

The following provides growth data on collections through April for other revenue sources:

	Year-to-Date	Annual Estimate
Interest Income (2% GF revenues)	107.8%	84.2%
ABC Taxes (1% GF revenues)	1.6%	5.4%

Net general fund interest income totaled $645.1 million through April compared to $310.5 million for the same period of the prior fiscal year. Interest is earned monthly in the general fund and credited to nongeneral funds on a quarterly basis in October, January, April, and June. Net general fund interest income for the month of April was negative $23.1 million after scheduled transfers to nongeneral fund accounts.

All Other Revenue (2% of general fund revenues): On a year-to-date basis, collections of All Other Revenue increased by 3.5 percent to $437.1 million fiscal year-to-date compared with $422.2 million a year ago.

Summary

With two months remaining in FY 2024, general fund revenues are up 5.0 percent compared to last year and are running ahead of projections assumed in the Governor's proposed amendments to the FY 2024 budget by $1.22 billion, driven by better than projected personal income tax receipts, lower than expected individual income tax refunds, and higher than forecasted sales and use tax collections. Beginning next month, revenue collections will be compared to the revised forecast assumed in the recently enacted amended FY 2024 budget.

The economy has proven to be resilient through the first ten months of the fiscal year, generally exceeding projections assumed in the economic outlook supporting our revenue forecast. While the outlook for continued strength in revenues seems likely in the near term, future economic growth remains less certain and will be dependent on inflation and the Federal Reserve's efforts to bring it under control. Recent data show that the gradual moderation in inflation that began in October 2022 has stalled, and inflation remains stubbornly higher than the Fed's target, furthering uncertainty around the timing and magnitude of potential rate cuts. Consumers have so far continued to spend, supporting economic growth. However, household savings have declined substantially while credit card delinquencies have risen, calling into question consumers' ability to maintain spending in the face of sustained inflationary pressures, high interest rates, and softening wage growth. Labor market indicators, though strong in the first quarter, suggest slower growth in coming months. Additionally, broader geopolitical risks, including the potential for escalating conflict in the Middle East, supports a continued cautious outlook in the near term.