COMMONWEALTH of VIRGINIA

Office of the Governor

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MEMORANDUM

TO: The Honorable Mark R. Warner

THROUGH: The Honorable William H. Leighty

FROM: John M. Bennett

SUBJECT: April Revenue Data

This month's revenue report reflects adjustments for actions of the 2003 Session of the General Assembly. Through a variety of actions, the General Assembly added $25.8 million to the December estimate of general fund revenues. With these changes, total general fund revenues are now projected to grow by 1.2 percent this fiscal year.

Revenue collections increased 11.2 percent in April. Year-to-date, revenues have grown 2.3 percent compared with the same period last year. Most major sources saw solid growth in April, although withholding and sales tax collections (more than 80 percent of general fund revenues) continue to lag their annual estimates. Minor sources, such as corporate, public service, insurance, and recordation taxes remained strong.

Nonwithholding collections for April were also strong. However, the timing of receipts in nonwithholding during April has likely distorted overall growth, since final payments for tax year 2002 and the first estimated payment for the current tax year were both due May 1. April and May collections must be viewed together to accurately assess growth in this source.

National Economic Indicators

Although national economic indicators continue to depict a stalled economy, most indicators reflect conditions as they were prior to or during the war in Iraq. The quick resolution to the conflict revived consumer confidence. At this point, however, it is uncertain how much of the economic weakness is related to underlying economic fundamentals.

- Real GDP grew 1.6 percent in the first quarter, slightly ahead of the fourth quarter pace of 1.4 percent, but still weak.

- The national labor market contracted once again in April -- the fifth contraction in the last six months. Payroll employment fell by 48,000 jobs in April, following the revised loss of 124,000 jobs in March. The unemployment rate rose to 6.0 percent. As with previous economic cycles, most economists expect the unemployment rate to continue to rise through the summer.

- Initial claims for unemployment rose to 448,000 during the last week of April, the eleventh consecutive week it has exceeded the benchmark 400,000 level - the level which indicates the labor market is contracting. The four-week average rose to 442,000, the highest level in a year.

- Manufacturing activity slowed yet again in April. The Institute of Supply Management index fell to 45.4, the lowest point since October 2001, the month following the terrorist attacks.

- The Conference Board's index of leading indicators fell for the second consecutive month in March. The index has increased only 0.2 percent since September, signaling sluggish growth in the months ahead.

- The Conference Board's index of consumer confidence rebounded in April, rising by almost 20 points following conclusion of the war in Iraq. April's increase was the largest monthly gain since March 1991. Consumer sentiment regarding both present and future conditions improved, but still remains below last November's level. Consumers continue to believe jobs are hard to come by and their view of future employment conditions remains negative.

- At its meeting on May 6, the Federal Reserve Board left interest rates unchanged, but adopted an easing bias.

Virginia Economy

In Virginia, payroll employment fell 0.3 percent in March from March of last year. Job growth in the Commonwealth has been essentially flat over the last six months, with monthly growth rates fluctuating from slightly positive to slightly negative. Northern Virginia has posted three consecutive months of modest job gains, with 0.1 percent growth in March.

Fiscal year to date, overall employment has declined about 0.2 percent - very close to the level assumed in December's forecast.

April Revenue Collections

Revenue collections grew 11.2 percent in April. Solid growth in individual income taxes and continued strength in corporate, public service, insurance, and recordation taxes contributed to the growth. On a year-to-date basis, total revenues are up 2.3 percent through April - ahead of the annual estimate of 1.2 percent growth.

Individual Income Tax Withholding (62% of general fund revenues): Collections in withholding grew by 5.0 percent above April of last year - a positive showing. Year-to-date withholding growth through April is 2.4 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 average +4.0 percent over the remaining two months of the fiscal year.

Individual Income Tax Refunds: The Tax Department issued $328.9 million individual income tax refunds in April - the highest month on record, and $39.7 million more than was issued last April. During the current filing season, close to 1,997,000 refunds have been issued -- about 26,000 more than the same period last year. The average refund is up 11 percent.

Through April, the total value of refunds is approaching the total amount forecast for the year. Total refunds for the year will exceed the forecast.

Individual Income Tax Nonwithholding (12% of general fund revenues): April is a key month for nonwithholding collections, because final payments for tax year 2002 and the first estimated payment for tax year 2003 are both due May 1. Nonwithholding receipts were up 29.0 percent in April - the highest April on record. Through April, year-to-date collections are 4.6 percent ahead of collections for the same period last year - ahead of the forecast of a 13.3 percent decline.

A substantial part of the increase is due to processing improvements. Estimated and final payments are being processed electronically for the first time. However, the average payment per check has also increased significantly. Because estimated and final payments will continue to be collected in May, it is important to consider April and May collections together to accurately assess performance in this source.

Sales Tax (22% of general fund revenues): Collections of sales tax were flat in April. Sales tax receipts, which represent mainly March sales, may have been dampened by cautious consumers and their television viewing of the war in Iraq - the "CNN" affect. Adjusting for the accelerated sales tax payments, year-to-date collections in this source have increased 1.1 percent through April - well below the forecast of 2.7 percent growth.

Corporate Income Tax (3% of general fund revenues): In April, corporations made their first estimated payment for tax year 2003, and filed either a final or extension return for tax year 2002. Collections in this source were 13.7 percent above April of last year. Year-to-date, corporate receipts are 13.9 percent above last year, well ahead of the annual estimate of 3.8 percent growth.

Other Revenue Sources

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

	Year-to-Date	Required to Meet Estimate
Insurance Premiums Tax (3% GF revenues)	12.4%	6.5%
ABC Taxes (1.1% GF revenues)	4.1%	0.2%
Public Service Corporations (0.9% GF revenues)	22.8%	11.5%
Interest Income (0.7% GF revenues)	-16.4%	-28.3%

All Other Revenue. Revenue from all other sources was up 9.7 percent in April - $51.3 million compared with $46.8 million in April of last year. Continued strength in collections of wills, suits, deeds and contract fees (primarily recordation taxes), and fines, forfeitures and fees, accounted for most of the growth. On a year-to-date basis, collections of all other revenue were 23.4 percent above the same period last year - well ahead of the annual forecast of 19.6 percent growth.

Lottery Revenues. In April, Lottery net income declined 39.5 percent over last year, due largely to the comparison to last April, which included the second largest Big Game jackpot ($331.0 million) in history. On a year-to-date basis, growth of 0.2 percent is slightly above the amount needed to meet the current revenue estimate of a 1.1 percent decline.

Summary

Revenue collections grew 11.2 percent in April. With two months of the fiscal year remaining, total general fund revenue collections through April are 2.3 percent above collections for the same period last year - somewhat ahead of the 1.2 percent growth assumed in the annual estimate, adjusted for actions taken during the 2003 legislative session. Most major sources experienced healthy growth, although sales tax collections remained weak, and both withholding and sales taxes still trail their annual estimates.

April was a strong collections month for nonwithholding. Because estimated and final payments of individual income taxes are both due May 1, they are received during both April and May. Nonwithholding collections in both April and May must be considered together to accurately analyze collections strength.

Both May and June are important collections months. To meet the revenue forecast for fiscal year 2003, collections for May and June must total $2,227.1 million - about 20 percent of the total forecast. In June, estimated payments are due in both corporate and individual income taxes.