

September 15, 2000

MEMORANDUM

TO: The Honorable James S. Gilmore, III

THROUGH: The Honorable M. Boyd Marcus, Jr.

FROM: Ronald L. Tillett

SUBJECT: August Revenue Data

August revenue collections were 3.8 percent higher than last year, bringing year-to-date growth for the first two months of Fiscal Year 2000 to 1.2 percent below the 5.5 percent growth rate required to attain the current revenue estimate. The first two months of receipts, however, represent only about one-eighth of total fiscal year revenue. Next month will provide the first meaningful analysis of collection trends as over 10 percent of fiscal year revenues are expected to be received in September when estimated payments for all major revenue sources are due.

National indicators continue to suggest that the economy remains healthy. Second quarter GDP was up a better-than-expected 5.3 percent. A key indicator of economic well-being -- productivity -- posted its largest gain since 1983 in the second quarter. The index of leading economic indicators fell again in July, its third consecutive monthly decline. National payrolls declined in August by over 100,000 jobs. Even though the August report is overstated due to the impact of the Verizon strike and the loss of Census workers, the labor market has softened noticeably during the summer. Consumer confidence fell slightly in August, indicating that the days of increasing consumption may be slowing. As expected, the Federal Reserve decided to hold the funds rate target at 6.5 percent based upon evidence that economic growth was slowing to a more sustainable rate.

In Virginia, jobs grew by 1.9 percent in July from last year and the unemployment rate fell to 2.6 percent, the best jobless rate for any July on record (51 years).

Individual Income Taxes

Net individual income tax receipts were up 5.6 percent from last August. Year-to-date growth of 1.5 percent is lagging the official annual estimate of 8.6 percent growth.

Withholding: Withholding tax receipts grew by only 6.5 percent from last year despite an additional deposit day. On a year-to-date basis, growth of 7.1 percent is 2.5 percentage points below the projected annual 9.6 percent growth rate. Over the coming months, this source could be subject to substantial monthly volatility.

Nonwithholding: Because the first individual estimated payment of Fiscal Year 2000 is not due until September, there is little activity in this source. To date, receipts are less than 3 percent of the amount needed to attain the annual forecast.

Refunds: In August, \$32.4 million in refunds were issued compared to \$24.8 million for the same time last

year.

Sales

In August, sales tax receipts grew a solid 4.9 percent from last year. The year-to-date growth of 3.8 percent lags the 5.1 percent annual forecast. Higher energy prices are taking a larger proportion of consumers' disposable income. The slowing housing market is dampening demand for consumer durables.

Other Major Taxes

August, similar to July, is not a significant month for collections of corporate income tax, public service gross receipts tax, or insurance premiums tax.

Interest

Interest collections in August were \$22.0 million compared with \$20.5 million in August of last year. The year-to-date growth of 2.8 percent is below the required annual estimate of 9.7 percent.

ABC Taxes

Collections of ABC taxes were \$3.9 million in August, compared with \$4.1 million in August of last year. The year-to-date growth of 1.4 percent is close to the required annual estimate of 0.1 percent.

All Other Revenue

Revenue from all other sources declined by 8.5 percent for the month, with a year-to-date decline of 14.8 percent. The primary reason for the weak performance through August is a drop in collections of inheritance, gift, and estate taxes. Collections in this highly-volatile source through the first two months of the fiscal year were \$16.4 million compared with \$25.6 million over the same period last year.

Lottery

August net income was \$25.8 million, \$1.2 million more than last August. Scratch sales continue to increase over last year with August sales higher than last August by \$4.4 million, a 13.3 percent increase. Lottery year-to-date net income growth of 11.5 percent is well ahead of the annual estimate of -4.1 percent.

Summary

Revenue growth for the beginning two months of Fiscal Year 2001 has been less than expected. July and August collections are mainly payroll withholding and sales tax collections -- about 94 percent of total revenue to-date -- and have slowed over the last few months. September will provide the first significant insight into fiscal year collections as individuals, corporations, utilities, and insurance companies will make their first estimated payment of Fiscal Year 2001 and sales tax collections from the end of the tourism season will be reported.

The fall revenue forecasting process has begun. The October 11 meeting with the Governor's Advisory Board of Economists will provide the first step in assessing the strength of the Virginia economy over the current biennium. This forecast will serve as the basis for the revised revenue forecast to be released by the

Governor on December 20.