



COMMONWEALTH of VIRGINIA

Office of the Governor

John M. Bennett
Secretary of Finance

P.O. Box 1475
Richmond, Virginia 23218

September 13, 2001

MEMORANDUM

TO: The Honorable James S. Gilmore, III

THROUGH: The Honorable M. Boyd Marcus, Jr.

FROM: John W. Forbes

SUBJECT: August Revenue Data

August revenue collections grew by 1.8 percent compared with last year, bringing year-to-date growth for the first two months of fiscal year 2002 to 2.1 percent, well below the 7.5 percent growth rate required to attain the current revenue estimate. The first two months of receipts 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.

The national economy grew at a negligible 0.2 percent in the second quarter. U.S. payrolls declined by 113,000 jobs in August and the unemployment rate rose to 4.9 percent. Consumer confidence dropped in August, the second consecutive monthly decline. The Index of Leading Economic Indicators has now risen for four consecutive months through July. The Federal Reserve Board lowered the federal funds target rate by 25 basis points at its August 21, 2001 meeting. The Fed has now cut rates by 300 basis points since January in its most aggressive easing since the early 1980's.

In Virginia, jobs grew by 1.6 percent in July from last year and the unemployment rate fell to 2.9 percent.

Individual Income Taxes

Net individual income tax receipts fell 2.1 percent from last August. Year-to-date growth of 2.9 percent is lagging the official annual estimate of 7.8 percent growth.

Withholding: Withholding tax receipts grew by only 4.5 percent from last year. On a year-to-date basis, growth of 6.2 percent is 2.7 percentage points below the required annual 8.9 percent growth rate.

Nonwithholding: Because the first individual estimated payment of fiscal year 2002 is not due until September, there is little activity in this source.

Refunds: In August, \$67.5 million in refunds were issued.

Sales

Sales tax receipts were again soft in August, increasing by only 2.5 percent from last year. Annual sales tax collections are virtually flat, declining by 0.4 percent over the first two months of fiscal year 2002. August collections represent the seventh consecutive month that sales tax receipts have grown at or below four percent.

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 \$27.3 million compared with \$22.0 million in August of last year. The year-to-date decline of 3.0 percent is below the required annual estimate of 4.6 percent growth.

ABC Taxes

Collections of ABC taxes were \$3.9 million in August, equaling the amount collected in August of last year. The year-to-date decline of 4.3 percent is well below the required annual estimate of 1.6 percent growth.

All Other Revenue

Revenue from all other sources surged by 33.7 percent for the month, with year-to-date growth of 20.1 percent. The primary reason for the strong performance through August is the continuing strength in recordation taxes as low interest rates spur robust activity in the housing and refinancing markets.

Lottery

August net income was \$30.6 million, \$4.6 million more than last August. The Big Game jackpot rolled until August 31 to \$118 million and Lotto Virginia had a \$27 million jackpot on August 1 before being won. Lottery year-to-date net income growth of -2.0 percent is ahead of the annual estimate of -5.7 percent.

Summary

Revenue growth for the first two months of fiscal year 2002 has been soft, indicative of a slowing economy. July and August collections are mainly payroll withholding and sales tax -- about 96 percent of total revenue to date -- and collections in both sources 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 2002 and sales tax collections

from the end of the tourism season will be reported.

The fall revenue forecasting process has begun. The October meeting of 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, which will be released on December 19.

*