

January 17, 2000

MEMORANDUM

TO: The Honorable James S. Gilmore, III

THROUGH: The Honorable M. Boyd Marcus, Jr.

FROM: Ronald L. Tillett

SUBJECT: December Revenue Data

This month's revenue report includes the revised forecast released with your budget on December 17. In the first column of the report is the forecast and in the last column is the required growth rates. Revenue collections through the first half of fiscal year 2000 were 13.7 percent above last year's levels. In December, total revenue grew by 17.7 percent and was driven by an extraordinarily large amount of estimated payments made by individuals being received in December ahead of the January 15 due date. Presently, we do not have enough information to definitively explain the unusual increase.

The national economy remains strong. Although four of the ten indicators declined in November, the Index of Leading Economic Indicators still rose 0.3 percent in November, a substantial jump. The leading index showed an 0.8 percent increase over the past six months, which is almost twice its historic average. The nation's payrolls grew by 315,000 jobs in December, considerably higher than the monthly average of 215,000 new jobs for the first 11 months of the year.

Consumer confidence climbed to a new record in December as higher interest rates and energy costs have failed to dampen consumers' attitudes. However, a combination of higher interest rates and the filling of pent-up demand appear to have slowed the housing market significantly. In November, single family housing starts dropped 3.6 percent and are now 6 percent below last year's level. Personal income grew by 0.4 percent in November and consumption expenditures increased by a healthy 0.5 percent. Continued economic expansion has created upward pressure on prices in some sectors of the economy, such as the labor and energy markets. Still, inflation remains below its 25-year average. In addition, the anticipated Y2K meltdown did not occur.

In Virginia, job growth remains healthy -- increasing 1.9 percent in November compared with last year. The unemployment rate fell 0.1 percentage point to 2.6 percent in November -- the lowest November rate in 47 years.

Individual Income Taxes

In December, net individual income tax collections grew by 26.1 percent over last year. For the first half of the fiscal year, collections grew at 17.1 percent, the highest mid-year growth rate since 1981.

Withholding: Withholding collections increased 12.8 percent above last December. Year-to-date growth of 14.4 percent is somewhat ahead of the official estimate of 10.5 percent growth as wage rate increases and strong stock option activity continue to push withholding collections above expectations.

Nonwithholding: Nonwithholding receipts for December were \$79 million above last year's collections. This increase was higher than expected, as a handful of inordinately large payments skewed the month's receipts. Additionally, there was an unusually large number of payments received just prior to December 31 (payments received prior to December 31 are deductible on taxpayers' 1999 federal returns).

On a year-to-date basis, growth in nonwithholding is 35.2 percent, exceeding the official forecast of 11.4 percent growth.

Refunds: Refunds this month were \$14.2 million compared with \$10.9 million in December of last year. Refunds issued in the first half of the fiscal year grew by 5.3 percent, slightly behind the revised estimate of 8.1 percent. However, about 85 percent of the refunding activity takes place in the second half of the fiscal year.

Sales

In Virginia, December sales tax collections were 9.5 percent above last year and pushed year-to-date growth to 7.3 percent -- slightly ahead of the annual estimate of 6.8 percent. Continued strength in personal income growth, coupled with the wealth effect, is supporting record high consumer confidence and driving robust consumer spending.

Initial reports indicate that this year's holiday sales appear to have been one of the best holiday seasons in a decade. The trend of strong holiday shopping is also carrying into the New Year as the day after Christmas fell on a Sunday and mild winter weather allowed consumers to shop for presents for themselves. In Virginia, January sales tax

collections should contain the bulk of holiday sales receipts. The forecast anticipates an 8 percent increase in November and December sales tax collections, a solid increase over last year's 5 percent growth. Preliminary indications suggest that we may exceed that estimate.

Corporate Income Tax

Corporate receipts for December, which include the second quarterly estimated payment of the fiscal year, were \$77.7 million -- \$3.6 million higher than last December. Receipts increased by 4.9 percent for the month and year-to-date growth of 23.7 percent is considerably ahead of the official forecast of 13.0 percent.

Public Service Corporations

Collections for this revenue source declined by 12.9 percent in December -- most likely due to mild fall weather. For the year, receipts are down 3.8 percent compared with the official forecast of 8.4 percent growth.

Insurance Company Premiums

December collections of insurance company premiums, which represent the second quarterly payment from insurance companies, grew by 10.3 percent over last year. Year to-date growth of 3.3 percent is slightly ahead of the official forecast of 1.9 percent growth.

Interest

During December, interest income increased by 22.3 percent over last year (\$14.3 million versus \$11.7 million). A year-to-date decline of 8.8 percent trails the official forecast of 6.8 percent growth.

ABC Taxes

ABC taxes increased by 11.5 percent in December over last year. Year-to-date growth of 3.6 percent is ahead of the revised forecast of 2.3 percent growth.

Lottery Revenues

Lottery net income increased 12.7 percent in December, primarily due to a low Pick 3 prize payout.

On a year-to-date basis, Lottery net income is up 5.9 percent, significantly ahead of the required annual growth rate of a 2.1 percent decline.

All Other Revenue

Revenue from all other sources fell in December, declining by 5.3 percent (\$2.1 million) from December of last year. Most of December's drop was due to declines in inheritance, gift, and estate taxes (down 24.0 percent) and wills, suits, and deeds (primarily recordation taxes) which fell by 14.9 percent as the recent interest rate hikes slow housing market and refinancing activity. On a year-to-date basis, growth in all other revenue is 12.4 percent, well above the revised forecast of a 0.2 percent decline.

Summary

Economic conditions continue to be quite robust both in the Commonwealth and the nation. February will mark the 107th month of this expansion, making it the longest in United States' history.

In comparing the last five years of December's estimated payments to this December, activity for high income individuals is markedly higher than any previous December in recent history. Therefore, December's receipts are skewed by the leading edge of individual estimated payments due January 18.

While preliminary indicators from November and December for the holiday shopping season are quite encouraging, January's receipts of sales tax collections from the holiday shopping season and receipt of individual estimated payments will provide the requisite information for assessing the general fund revenue outlook for the remainder of Fiscal Year 2000.