

March 10, 2000

MEMORANDUM

TO: The Honorable James S. Gilmore, III

THROUGH: The Honorable M. Boyd Marcus, Jr.

FROM: Ronald L. Tillett

SUBJECT: February Revenue Data

This month's revenue report displays the mid-session forecast in column one and the revised growth rates in column nine.

Total net monthly revenue growth was 3.7 percent for the month of February. While somewhat less growth than expected for the month, revenue collections for the first two-thirds of year 2000 are 10.4 percent higher than year-ago levels. This is 0.2 percentage points above the mid-session estimate of 10.2 percent growth (estimated growth of 10.2 percent does not reflect revenue increases which might be adopted in the conference bill).

National indicators continue to portray a thriving economy. The index of leading economic indicators rose a strong 0.3 percent in January, suggesting economic growth should continue at least through the middle of this year. February job gains were weaker than expected, with employers adding only 43,000 new jobs to payrolls. However, factoring in the substantial employment increase in January, gains for January and February averaged 214,000 jobs. The unemployment rate inched up to 4.1 percent. Personal income growth accelerated in January, buoyed by healthy growth in wages and salaries. The tight labor market continues to sustain wage and salary growth. Consumer confidence dipped slightly in February but remains at an extraordinarily high level.

In Virginia, job growth continued at its 1999 pace -- increasing by 2.6 percent in January from a year ago. The unemployment rate rose slightly to 2.8 percent, the lowest January rate in 31 years.

Individual Income Taxes

Net individual income tax collections grew 8.0 percent in February and year-to-date growth is at 13.0 percent, slightly ahead of the mid-session forecast of 12.7 percent growth.

Withholding: Withholding collections in February were 8.0 percent above last year. Year-to-date growth of 12.4 percent is ahead of the revised annual estimate of 11.2 percent.

Nonwithholding: February is not a significant month for nonwithholding receipts. Year-to-date receipts are up 15.8 percent, close to the mid-session forecast of 15.2 percent growth.

Refunds: In February, \$141.4 million was issued in refunds, compared with \$118.1 million in February of last year, an increase of 19.7 percent. Year-to-date growth of 11.8 percent is ahead of the mid-session forecast of 6.9 percent growth. It is very early in the tax return processing season and calendar effect of this being a leap year has resulted in more returns being received in February than last year. In February, the Department of Taxation (TAX) has received about 669,000 individual income tax returns -- about 57,000 more than last year at this time.

Through February, TAX has received about 258,000 electronically filed income tax returns -- about 56,000 more than in the same period last year. We expect bulging tax refund payments to bolster first-quarter retail sales.

Sales

Sales tax collections grew only 3.2 percent from February of last year, dampened by winter storms and, as expected, implementation of the one-half percent reduction in the sales tax on food. Year-to-date growth of 6.9 percent is tracking toward the annual estimate of 6.8 percent.

February collections, which represent January sales, complete the holiday season sales picture. Retail sales in Virginia increased about 7.5 percent during the holiday season, slightly below the expected 8.0 percent growth.

Corporate Income Tax

Traditionally, there is little activity in this source in February. Year-to-date receipts are 23.5 percent ahead of the same period last year, 9.5 percentage points ahead of the mid-session estimate of 14.0 percent growth.

Public Service Corporations

February is not a significant month for public service tax collections. Year-to-date receipts are down 3.7 percent compared with the same period last year.

Insurance Company Premiums

Although February is generally not a significant month for collections in this source, \$7.6 million in final payments were received ahead of the March 1 due date. On a year-to-date basis, collections are up 10.4 percent and are well ahead of the mid-session estimate of 1.9 percent growth.

Interest

Interest income increased by 3.6 percent in February, primarily due to the timing of maturities. The year-to-date decline of 2.1 percent lags the mid-session forecast of 6.8 percent growth.

ABC Taxes

ABC taxes increased by 8.6 percent in February from last year. Year-to-date growth of 5.3 percent is well ahead of the mid-session forecast of 2.3 percent.

Lottery Revenues

Lottery net income decreased 12.1 percent in February mainly due to significantly higher prize payouts as a result of several Pick 3 draws of popular numbers -- the "luck of the draw" going against the Commonwealth. On a year-to-date basis, Lottery net income is 1.4 percent higher than last year and ahead of the required annual growth rate of -2.1 percent.

All Other Revenue

Revenue from all other sources declined by 41.5 percent from February of last year (\$31.4 million compared with \$53.7 million). On a year-to-date basis, collections of all other revenue declined by 4.5 percent, compared with the mid-session forecast of a 0.2 percent decline. Although the decline was broad-based among the miscellaneous sources, most of the decrease was attributable to a sharp drop in inheritance, gifts, and estate taxes -- \$8.9 million compared with \$23.0 million in February of last year.

Summary

Although revenue growth has been sluggish the past two months, year-to-date growth of 10.4 percent is tracking the mid-session annual estimate of 10.2 percent growth. The state and national economies are vibrant and consumer

fundamentals remain solid. Revenue growth is expected to bounce back in the spring as taxpayer's final payments are due on May 1 for their 1999 calendar year returns.