

March 15, 2001

MEMORANDUM

TO: The Honorable James S. Gilmore, III

THROUGH: The Honorable M. Boyd Marcus, Jr.

FROM: Ronald L. Tillett

SUBJECT: February Revenue Data

Revenue collections through the first two-thirds of fiscal year 2001 are 4.4 percent ahead of collections in fiscal year 2000. As such, we are 0.6 percentage points above the estimate of 3.8 percent growth. February revenue activity was markedly better than expected -- total net monthly revenue growth was a solid 7.6 percent -- led by surprisingly strong growth in payroll withholding collections. Although February contained one less deposit day as compared to last February, payroll withholding collections increased a strong 10.8 percent.

The national economy continued its trend of slowing growth. The nation's payrolls added a stronger than expected 135,000 new jobs in February. Over the last five months, new job creation has averaged about 105,000 -- significantly slower than the 187,000 monthly pace seen in the first nine months of 2000. This continues to signal a slowing economy. In other key areas, the unemployment rate remained steady at 4.2 percent and the index of leading economic indicators rose a strong 0.8 percent in January after three consecutive monthly declines. But not all the economic news was encouraging. Consumer confidence continued to fall in February, as consumers appear to be losing faith in the national economy. And finally, the National Association of Purchasing Managers index remained below 43 percent for the second consecutive month.

In Virginia, job growth continues to maintain a healthy pace -- significantly stronger than the national economy. Employment growth in calendar year 2000 was a solid 2.8 percent, and the growth in January 2001 came in at 2.7 percent. The unemployment rate of 2.2 percent is the lowest January rate in the 51 years that records have been kept.

Despite a rapidly slowing national economy and a plummeting stock market, Virginia's economy remains steady. As the national economy cooled over the last five months, employment growth in the Commonwealth has been almost double the national average.

Individual Income Taxes

Net individual income tax collections grew 12.5 percent in February and year-to-date growth is at 6.3 percent, equaling the official forecast.

Withholding: Withholding collections in February were 10.8 percent above last year, notwithstanding one less deposit day this February. The month did end on a Wednesday, traditionally one of the stronger payroll withholding deposit days; therefore, March collections will be needed to assess the underlying growth. Year-to-date growth of 7.2 percent lags the annual estimate of 8.1 percent.

Nonwithholding: February is typically not a significant month for nonwithholding receipts. However, winter storms in January 2000, distorted collection patterns, pushing some receipts last year from January into February. Year-to-date growth stands at the annual estimate of 9.1 percent.

Refunds: In February, \$131.5 million was issued in refunds, compared with \$141.4 million in February of last year, a decline of 7.0 percent. The decrease in refunds this February can be attributed to an additional processing day in February 2000 due to leap year. Year-to-date growth of 25.8 percent is behind the forecast of 28.4 percent growth.

Sales

Sales tax collections fell by 1.9 percent from February of last year, as last January's ice storm distorted collection patterns in January and February. Year-to-date growth of 4.1 percent is slightly below the annual estimate of 4.4 percent.

February collections, which represent January sales, complete the holiday season sales picture. Retail sales in Virginia increased about 2.9 percent during the holiday season, considerably below last season's 7.1 percent growth.

Corporate Income Tax

Traditionally, there is little activity in this source in February. The year-to-date decline in this source fell to 29.5 percent, 13.7 percentage points behind the annual estimate of a 15.8 percent decline.

Public Service Corporations

February is not a significant month for public service tax collections. Year-to-date receipts are up 4.9 percent compared with the same period last year.

Insurance Company Premiums

February is not a significant month for collections in this source. On a year-to-date basis, collections are up 3.6 percent and slightly ahead of the estimate of 3.4 percent growth.

Interest

Interest income swelled by 20.2 percent in February, primarily due to the timing of maturities. Year-to-date growth of 11.0 percent is well ahead of the forecast of 6.8 percent growth.

ABC Taxes

ABC taxes increased by 4.4 percent in February from last year. Year-to-date growth of 4.2 percent is hitting the forecast.

Lottery Revenues

Lottery net income increased 6.9 percent in February as sales for our scratch and daily games continue to perform better than last year. On a year-to-date basis, Lottery net income is 3.6 percent higher than last

year and ahead of the required annual growth rate of -2.9 percent.

All Other Revenue

Revenue from all other sources in February was \$33.4 million compared with \$31.4 million last year. On a year-to-date basis, collections of all other revenue are up 3.8 percent, 10.2 percentage points ahead of forecast of a 6.4 percent decline. The solid year-to-date increases are primarily driven by stronger-than-expected increases in will, suits, deeds, and contract fees and Medicaid cost recoveries.

Summary

February's revenue growth was much better than anticipated, considering that there was one less deposit day compared to February 2000. Payroll withholding collections, a key bellwether of the current state of Virginia's economic health, increased a strong 10.8 percent in February and year-to-date growth stands at 7.2 percent.

February's performance takes our year-to-date growth to 4.4 percent, slightly above our annual forecast of 3.8 percent. This momentum is particularly encouraging as we approach the critical revenue months of April, May, and June.