

February 11, 2000

MEMORANDUM

TO: The Honorable James S. Gilmore, III

THROUGH: The Honorable M. Boyd Marcus, Jr.

FROM: Ronald L. Tillett

SUBJECT: January Revenue Data

This month's revenue report lists the revised forecast released with the budget bills on December 17 in the first column and the required growth rates in the last column.

Revenue collections through the first seven months of Fiscal Year 2000 have increased 11.2 percent over year ago levels. This is 2.0 percentage points above the official estimate of 9.2 percent. In January, growth in total revenue collections was flat -- as expected. January's zero growth was mainly due to significant declines in individual estimated payments as a large number of individuals submitted estimated payments due January 18 in December. In addition, we experienced severe winter weather that disrupted all types of commerce for several days during the month. Finally, last January's collections were somewhat skewed by an unusually large estate payment.

As the economy recorded its 107th month of the current expansion, now the longest in U.S. history, the roster of good news about the recent past seems boundless. Real GDP increased by 5.8 percent in the fourth quarter. Coming after the third quarter's 5.7 percent burst, it is the economy's strongest two quarter pace in more than a decade. Worker productivity surged in the fourth quarter, growing at its fastest pace in seven years for the second quarter in a row, keeping inflationary pressures at bay. The index of leading economic indicators showed a broad-based gain of 0.4 percent in December. In January, the U.S. unemployment rate dropped to 4.0 percent, the lowest rate in thirty years. The economy added 387,000 new jobs in January, the largest one-month gain since September 1997; however, an unusual surge in construction jobs skewed January's figures. The Consumer Confidence Index reached the highest level of its 32-year history in January.

Finally, in an attempt to slow this runaway economic growth, the Federal Reserve Board increased short-term rates by 25 basis points at its February 2 meeting -- the fourth such increase since last summer. The press release announcing the Fed's action suggests that more monetary tightening is on the way.

In Virginia, job growth remains healthy -- increasing 1.9 percent in December from a year ago. The unemployment rate was unchanged from November's 2.6 percent, but it marked the lowest December rate in 30 years.

Individual Income Taxes

Net Individual income tax collections were flat in January and year-to-date growth is at 13.5 percent -- 2.5 percentage points above the annual forecast of 11.0 percent.

Withholding: Withholding collections in January were 6.2 percent above last year. Year-to-date growth remains impressive. The current pace of 13.1 percent growth is ahead of the annual estimate of 10.5 percent.

Withholding collections may experience a higher level of volatility over the next few months than has been seen in the past, due to the large amount of stock options exercised by a few large companies in Virginia last spring. It is uncertain when or if similar actions will take place, and its impact on withholding collections can only be categorized as unpredictable.

Nonwithholding: Nonwithholding receipts for the month declined by 11.3 percent; however, this follows on December growth in this source of 138.8 percent. December and January collection patterns clearly show the volatility was due to

taxpayer behavior. In December, 15 percent more checks were received as compared to last December and, in January, 15 percent fewer checks were received as compared to last January. Annually, receipts are up 13.7 percent, tracking ahead of the annual forecast of 11.4 percent growth. Tax due payments for calendar year 1999 are due May 1, and the first two estimated payments for calendar year 2000 are due May 1 and June 15, respectively.

Refunds: Refunds this month were \$12.1 million compared with \$13.2 million in January of last year. As the tax filing season begins, \$648.1 million in refunds are expected to be issued during the remainder of the fiscal year compared with \$594.9 million during the same period last year — approximately a 9.0 percent increase.

Sales

January's sales tax collections increased by 7.9 percent compared to last year and year-to-date growth stands at 7.4 percent -- slightly ahead of the annual estimate of 6.8 percent growth.

The total impact of holiday sales in Virginia will be available next month; however, preliminary data indicate that sales increased close to the expected 8.0 percent. Nationally, consumer spending culminated in the strongest holiday shopping season since 1992.

Corporate Income Tax

January is not a significant month for corporate income tax payments. Corporate income tax receipts on a year-to-date basis are up 21.7 percent, well ahead of the required annual growth rate of 13.0 percent.

Public Service Corporations

January is not a significant month for public service tax collections. Year-to-date receipts are down 1.2 percent compared to the same period last year.

Insurance Company Premiums

As with the public service gross receipts tax, January is not a significant month for collections in this source. On a year-to-date basis, collections are running 3.6 percent ahead of last year, exceeding the annual estimate of 1.9 percent growth.

Interest

During January, the normal quarterly transfer of interest earnings into various nongeneral fund accounts occurred. The year-to-date decline of 3.7 percent is trailing the annual forecast of 6.8 percent growth.

ABC Taxes

ABC taxes (beer and beverage only) grew by 0.6 percent in January from last year. The year-to-date growth of 3.3 percent is slightly ahead of the revised forecast of 2.3 percent growth.

Lottery Revenues

Lottery net income decreased 11.9 percent from January last year. Sales decreased 4.0 percent mainly due to lower advertised jackpots for both Lotto and The Big Game.

On a year-to-date basis, Lottery net income is up 3.3 percent, ahead of the required annual growth rate of a —2.1 percent decline.

All Other Revenue

Revenue from all other sources declined considerably in January, falling by 43.4 percent over last year or \$27.8 million compared to \$49.1 million. Most of the decline this month is attributable to an \$11.6 million drop in the volatile estate tax payments. In addition, will, suits, deeds, and contracts, as well as fees and fines, declined by large margins,

suggesting some disruptions in local remittances due to the severe winter weather. On a year-to-date basis, growth in all other revenue is 2.6 percent -- 2.8 percentage points above the forecast of a 0.2 percent decline.

Summary

Revenue collections in January took a breather after monthly growth rates of 20.9 percent and 17.7 percent in November and December, respectively. Annual revenue growth is a robust 11.2 percent -- a direct reflection of the superb state of the Virginia economy.