

February 15, 2001

MEMORANDUM

TO: The Honorable James S. Gilmore, III

THROUGH: The Honorable M. Boyd Marcus, Jr.

FROM: Ronald L. Tillett

SUBJECT: January Revenue Data

Revenue collections through the first seven months of fiscal year 2001 were 4.1 percent higher than those for the same period last year. As expected, January's revenues were 24 percent higher than those of last January. The robust performance in January was largely attributable to sharp increases in individual estimated payments and a shift in holiday spending. January revenues were also influenced by having two additional deposit days this year and, to a lesser extent, a snowstorm last year that interrupted mail deliveries.

National economic indicators this past month suggest that the economy continued to slow considerably. Fourth quarter GDP growth was 1.4 percent, as consumer spending slowed rapidly. The index of leading economic indicators fell 0.6 percent in December and consumer confidence continued to erode. The nation added a surprisingly strong 268,000 jobs to its payrolls in January, although seasonal factors skewed the January report upward. The unemployment rate rose by 0.2 percentage points to 4.2 percent as the manufacturing sector continues to shed jobs.

Demonstrating that they are willing to take preemptive action, the Federal Reserve Board took another bold step to shore up the economy by lowering short-term rates by another 50 basis points at its January meeting.

In Virginia, job growth remains healthy -- increasing 2.0 percent in December from a year ago. The unemployment rate fell below 2.0 percent for the first time in 48 years to 1.9 percent in December.

Individual Income Taxes

Net individual income tax collections were up 24.5 percent in January and year-to-date growth is at 5.7 percent, 0.6 percentage points behind the annual forecast of 6.3 percent.

Withholding: Withholding collections in January were 15.5 percent above last year. Year-to-date growth of 6.6 percent growth is trailing the annual estimate of 8.1 percent.

January's growth was impacted by two additional deposit days as compared to last January. Withholding collections should experience less volatility over the next few months than has been seen in the past as the large amount of stock options exercised throughout calendar year 1999 is no longer in the comparable collections stream. Monthly growth is expected to vary due to the number of deposit days and economic conditions.

Nonwithholding: Nonwithholding receipts for the month increased by 45.1 percent; however, this follows

the December decline of 43.5 percent. The proper approach to analyzing this source is to compare collections for the two-month total. On that basis, nonwithholding collections grew a robust 12.7 percent. Annually, receipts are up 11.8 percent, tracking ahead of the forecast of 9.1 percent growth. Tax due payments for calendar year 2000 are due May 1, and the first two estimated payments for calendar year 2001 are due May 1 and June 15, respectively.

Refunds: Refunds this month were \$18.0 million compared with \$12.1million in January of last year. As the tax filing season begins, distortions in the monthly and year-to-date percentages will occur. It is estimated the Commonwealth will issue upwards of \$900 million in refunds this year.

Sales

January's sales tax collections surged by 14.6 percent compared to last year and year-to-date growth stands at 4.8 percent -- slightly ahead of the annual estimate of 4.4 percent growth.

Holiday sales in Virginia came in just shy of the expected 5 percent increase, growing by 4.8 percent over the 1999 holiday shopping season. This was considerably slower than last year's 8.7 percent increase, and reconfirmed the belief that economic growth is moderating toward trend growth.

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 down 26.5 percent, significantly trailing the required annual growth rate of a 15.8 percent decrease.

Public Service Corporations

January is not a significant month for public service tax collections. Year-to-date receipts are up 1.5 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 2.8 percent ahead of last year, slightly behind the annual estimate of 3.4 percent growth.

Interest

During January, the normal quarterly transfer of interest earnings into various nongeneral fund accounts occurred. Year-to-date growth of 8.1 percent is ahead of the annual forecast of 6.8 percent growth.

ABC Taxes

ABC taxes (beer and beverage only) dropped by 9.0 percent in January from last year. The year-to-date growth of 4.0 percent is slightly behind the forecast of 4.2 percent growth.

Lottery Revenues

Lottery net income was \$30.5 million, \$6.9 million or 29.3 percent higher than January last year. Total sales revenue increased by 21.0 percent as instant ticket sales increased 10.9 percent and Big Game sales increased 233.9 percent as the jackpot rolled to \$107 million.

On a year-to-date basis, Lottery net income is up 3.2 percent, ahead of the required annual growth rate of a 2.9 percent decline.

All Other Revenue

Revenue from all other sources increased considerably in January, growing by 110.7 percent over last year, or \$58.5 million compared to \$27.8 million. Most of the growth this month is attributable to a \$14.8 million increase in other revenue. In addition, two other sources -- wills, suits, deeds, and contracts, and fees and fines -- increased significantly as severe winter weather disrupted local remittances in January last year. On a year-to-date basis, growth in all other revenue is 3.5 percent -- 9.9 percentage points above the forecast of a 6.4 percent decline.

Summary

Revenue collections surged as expected in January, bringing year-to-date growth slightly ahead of the annual forecast. The strength in January's receipts is not seen as a signal of a sudden upturn in revenue collections. It is more informative to average December and January receipts to understand the trend. Revenue growth for the two-month period was a solid 5.8 percent and highlights the hazard in analyzing either December or January in isolation.

Monthly growth is expected to experience additional volatility over the remainder of the fiscal year due to calendar effects and anomalous revenue events, which occurred in fiscal year 2000. For example, February will contain one less deposit day because it will be compared to a leap year. Consequently, we do not expect February's revenue growth to match January's stellar performance.

The economic maladies currently afflicting the nation -- mainly due to a dramatic slowdown in the manufacturing sector -- have yet to affect the Virginia economy in the same manner. Virginia's key economic variables -- employment and income growth -- indicate that the Virginia economy continues to grow at a moderate pace.