

April 14, 2000

MEMORANDUM

TO: The Honorable James S. Gilmore, III

THROUGH: The Honorable M. Boyd Marcus, Jr.

FROM: Ronald L. Tillett

SUBJECT: **March Revenue Data**

This month's revenue report displays the mid-session forecast in column one and the revised growth rates in column nine. Revenue collections through the first three-quarters of Fiscal Year 2000 have increased 9.7 percent over Fiscal Year 1999, slightly lagging the mid-session forecast of 10.2 percent growth. March receipts grew a weak 2.6 percent, mainly due to sluggish growth in payroll withholding receipts and sales tax collections.

The national economy continues to grow at a robust pace in March, however, there were some faint signs of weakness in a few economic indicators. Confirming that the economy continues to expand, payroll employment surged by 416,000 jobs in March. The tremendous gain was partly attributable to unusual factors distorting hiring patterns -- particularly the hiring of Census workers and the end of the Boeing strike. The unemployment rate remained unchanged in March at 4.1 percent. Also, personal consumption continued unabated, increasing by a robust 1.0 percent in February. Signs of possible weakness were the 0.3 percent decline of the Index of Leading Economic Indicators in February and the Consumer Confidence Index declined for the third month in a row. Furthermore, in its continuing attempt to manage an economy with near full employment and no inflation, the Federal Reserve Board tightened monetary policy for the fifth time since last summer, raising the federal funds rate by twenty-five basis points at their March meeting. More monetary tightening is expected in coming months.

The Virginia economy also remains very healthy -- total payroll employment grew 2.1 percent in February from a year ago. The unemployment rate remained unchanged from January's 2.8 percent.

Individual Income Taxes

Net individual income tax collections in March were 2.5 percent above last year's level, mainly due to slowing growth in withholding tax receipts. Year-to-date growth through March is at 12.0 percent, slightly trailing the mid-session revised forecast of 12.7 percent.

Withholding: Although the job market in Virginia remains solid and underlying growth in withholding collections is still robust, the exercise of stock options by employees of large Virginia companies has and will continue to cause volatility in monthly withholding receipts over the next few months. March receipts were 3.0 percent above last year's receipts and year-to-date growth of 11.2 percent matches the annual estimate.

Nonwithholding: March is not a significant month for nonwithholding receipts. Monthly receipts were \$38.3 million compared with \$32.2 million received last March. Year-to-date growth of 16.0 percent continues to exceed the forecast of 15.2 percent annual growth.

Refunds: Refunds issued in March increased by \$11.9 million over last year's level -- a 7.5 percent increase. Year-to-date growth of 10.1 percent is ahead of the annual estimate of 6.9 percent. Through March, about 1,099,000 refunds have been issued compared with 1,083,000 for the same period last year. The average refund check is 7.8 percent higher than last year.

The number of electronically filed returns has increased significantly. Through March, the Department of Taxation has received more than 329,000 electronically filed income tax returns -- a 67,000 increase compared with last year.

Sales and Use Tax

Sales tax collections grew by 3.6 percent over last March. Year-to-date sales tax growth stands at 6.6 percent, trailing the annual forecast of 6.8 percent growth.

This is the second month of weak sales tax collections -- February receipts increased 3.2 percent -- and the weakness in sales tax collections can be attributed to four main factors: a more typical winter as compared to last year's mild winter, the increased cost of fuel (thereby limiting consumers' budgets for purchases of taxable items), volatility in the stock market (reducing the wealth effect and related spending), and higher interest rates dampening the demand for home durables.

Corporate Income Tax

March is not a significant month for corporate income tax receipts. The 19.3 percent growth in year-to-date collections is well ahead of the annual estimate of 14.0 percent growth.

Public Service Corporations

Little activity occurred this month in the payment of public services taxes by utility companies. Year-to-date receipts are down 3.7 percent, lagging the official estimate of 8.4 percent growth.

Insurance Company Premiums

March receipts, primarily final payments for tax year 1999, totaled \$16.1 million compared with last year's \$21.7 million; however, due to an additional deposit day in February, some of March's final payments were received in February. Year-to-date growth of 4.1 percent is ahead of the annual estimate of 1.9 percent growth.

Interest

Interest earnings on state monies were \$15.1 million in March compared to \$14.5 million last year. The year-to-date decline of 1.3 percent lags the annual estimate of 6.8 percent growth.

ABC Taxes

After three-quarters of the fiscal year, ABC tax collections are up 5.3 percent, ahead of the official forecast of 2.3 percent growth.

Lottery Revenues

Lottery net income for the month decreased 3.0 percent compared to March of last year. Lottery net income for the first three-quarters of Fiscal Year 2000 was 0.7 percent ahead of last year and is ahead of the annual forecast of a 2.1 percent decline. The main reason for the better performance is due to significant increases in scratch game sales.

All Other Revenue

Revenue from all other sources grew by 16.2 percent in March mainly due to a few large estate tax payments. On a year-to-date basis, collections for all other revenue are down 2.2 percent, compared with the mid-session estimate of a 0.2 percent decline.

Summary

Year-to-date revenue growth continues to be strong through March; however the strong momentum of the first half of Fiscal Year 2000 has clearly subsided this quarter. Third quarter growth in total general fund revenues in Fiscal Year 2000 was only 1.8 percent -- the lowest third quarter growth rate since Fiscal Year 1991. Most of the weakness in revenue growth was due to a slowdown in growth in the Commonwealth's two largest revenue sources -- payroll withholding receipts and sales tax collections.

April 13, 2000

Year-to-date revenue growth of 9.7 percent trails the mid-session forecast of 10.2 percent. Attaining the Fiscal Year 2000 forecast will depend upon a fourth year of tremendous growth in individual estimated and tax due payments along with a rebound in payroll withholding receipts in the final quarter. An analysis of Fiscal Year 2000 receipts to date show that we are tracking extremely close to the annual estimate.