

April 12, 2001

MEMORANDUM

TO: The Honorable James S. Gilmore, III

THROUGH: The Honorable M. Boyd Marcus, Jr.

FROM: Ronald L. Tillett

SUBJECT: March Revenue Data

Revenue collections through the first three-quarters of fiscal year 2001 have increased 4.1 percent over fiscal year 2000, slightly ahead of the annual forecast of 3.8 percent growth. March receipts grew by 0.3 percent, in spite of having one less deposit day than last March and sluggish corporate income and sales tax collections.

The national economy continued to show increasing weakness in March. Payroll employment, particularly in the manufacturing sector, weakened sharply in March, losing 86,000 jobs. The unemployment rate increased to 4.3 percent. On an encouraging note, consumer confidence jumped in March after five consecutive monthly declines. The index of leading indicators fell by 0.2 percent after increasing 0.5 percent in January. The index suggests that the national economy is still growing at a very slow rate. Prompted by this sluggish growth, the Federal Reserve lowered the federal funds rate by one-half of a percentage point in March. Since the beginning of this year, the Fed has lowered interest rates by one and one-half percentage points, thereby, removing almost all of the increase from its latest round of tightening over the last year and a half. Further rate cuts are expected in coming months if conditions continue to deteriorate.

The Virginia economy continues to grow, albeit at a modest rate. Total payroll employment grew by 2.9 percent in February from a year ago -- double the national average. The unemployment rate inched up to 2.4 percent in February, but remains well below that of the nation.

Individual Income Taxes

Net individual income tax collections in March were 2.6 percent above last year's level, mainly due to slowing growth in withholding tax receipts. Year-to-date growth through March is at 6.0 percent, slightly trailing the forecast of 6.3 percent.

Withholding: March receipts were 2.7 percent above last year's receipts and year-to-date growth of 6.6 percent lags the annual estimate of 8.1 percent by one and one-half percentage points. Most of March's weak performance can be attributed to one less deposit day, which typically represents approximately five percentage points of monthly growth.

Nonwithholding: March is not a significant month for nonwithholding receipts. Monthly receipts were \$38.5 million compared with \$38.3 million received last March. Year-to-date growth of 8.6 percent is slightly behind the forecast of 9.1 percent annual growth. The last quarter of the fiscal year is particularly critical in this source. Over \$1 billion remains to be collected over the next three months to attain the forecast.

Refunds: Refunds issued in March increased by \$4.1 million over last year's level -- a 2.4 percent increase. Year-to-date growth of 16.6 percent is well behind the annual estimate of 28.4 percent.

Sales and Use Tax

Sales tax collections slowed considerably this month, growing by 1.6 percent over last March. Year-to-date sales tax growth stands at 3.8 percent, trailing the annual forecast of 4.4 percent growth.

The pace of sales tax collections in March reflects the slower pace of consumption which began in December 2000. The underlying trend growth over the last four months has been a meager 2.7 percent.

Corporate Income Tax

March corporate income tax receipts represent the leading edge of tax return payments due April 15. Monthly receipts were \$21.9 million, significantly below last year's \$39.4 million. This is the largest drop in March collections for this revenue source.

Several Virginia-based Fortune 500 companies have missed their corporate earnings estimates during the last two quarters of calendar year 2000. Given that national corporate earnings are continuing to decline also, the outlook for this highly volatile revenue source could be dramatically reduced. The 31.6 percent decline in year-to-date collections is substantially below the annual estimate of a 15.8 percent decline.

Public Service Corporations

March represents the first collections of the consumer utility tax. As of January 2001, the consumer utility tax is replacing the public service gross receipts tax for the use of electricity and natural gas as part of the deregulation process. Collections in March were \$7.1 million. Year-to-date growth in this source is 18.8 percent, ahead of the forecast of a 16.1 percent decline.

Insurance Company Premiums

March receipts, primarily final payments for tax year 2000, totaled \$16.8 million compared with last year's \$16.1 million. Year-to-date growth of 3.7 percent is slightly ahead of the annual estimate of 3.4 percent growth.

Interest

Interest earnings on state monies were \$25.0 million in March compared to \$15.1 million last year. Year-to-date growth of 17.8 percent is well ahead of the annual estimate of 6.1 percent growth; however, the usual transfer of interest to nongeneral fund accounts will occur in April.

ABC Taxes

After three-quarters of the fiscal year, ABC tax collections are up 3.9 percent, lagging the official forecast of 4.2 percent growth.

Lottery Revenues

Lottery net income for the month increased 5.7 percent compared to March of last year. Lottery net income for the first three-quarters of fiscal year 2001 was 3.9 percent ahead of last year and is ahead of the annual forecast of a 2.9 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 fell by 22.7 percent in March (\$37.4 million compared with \$48.3 million last year). The decline is largely due to a few exceptionally large payments in estate taxes received in March of last year. On a year-to-date basis, collections for all other revenue are up 0.3 percent compared with the annual estimate of a 6.2 percent decline.

Summary

With one less deposit day in March as compared to last year, corporate income tax payments, sales tax receipts, and payroll withholding payments were all below expectations. While Virginia's economy continues to grow, it is growing at a slower rate than during the three previous fiscal years. The slowing economy -- particularly in the area of corporate earnings -- is having its impact on the Commonwealth. While this is of some concern, we are still tracking slightly ahead of our revenue projections as we enter the fourth quarter.