

June 15, 2000

MEMORANDUM

TO: The Honorable James S. Gilmore, III

THROUGH: The Honorable M. Boyd Marcus, Jr.

FROM: Ronald L. Tillett

SUBJECT: **May Revenue Data**

This month's revenue report reflects the actions by the 2000 General Assembly in Chapter 1072 of the 2000 Virginia Acts of Assembly (Appropriation Act), effective May 19, 2000, in column one and the revised growth rates in column nine. Revenue collections surged in May, growing 27.5 percent over last year. Two additional deposit days this month helped to propel a strong torrent of individual income tax collections. With one month remaining in the fiscal year, year-to-date general fund revenue growth of 10.7 percent is currently tracking 0.3 percentage points ahead of the annual estimate of 10.4 percent.

National economic indicators are mixed right now, with some indicators suggesting that the economy is finally starting to slow, while others continue to show a robust economy. Payroll employment growth slowed in May, adding only 231,000 jobs. Had it not been for the Census hiring, the report would have shown that 116,000 jobs were lost. The unemployment rate rose to 4.1 percent. Personal income growth of 0.7 percent in April outpaced consumer spending, which rose 0.4 percent. The Index of Leading Economic Indicators dropped slightly in April for the second decline in the last three months. Consumer confidence surged in May to just under the historical record reached in January. Consumer prices were unchanged in April. On May 16, the Federal Reserve Board tightened monetary policy for the sixth time since last summer. As expected, the Fed moved more aggressively, boosting both the federal funds (from 6.0 percent to 6.5 percent) and the discount rate funds (from 5.5 percent to 6.0 percent) by fifty basis points.

In Virginia, job growth remains solid with payroll employment increasing by 2.5 percent in April from last year. The unemployment rate fell 0.2 percentage points in April to 2.3 percent.

Individual Income Taxes

Net individual income tax collections in May were 32.7 percent above last year's level. On a year-to-date basis, receipts have grown 12.4 percent -- slightly behind the annual forecast of 12.8 percent growth.

Withholding: As expected, monthly withholding receipts spiked 15.4 percent in May due to the strong economy and two additional deposit days this May as compared to last May. Year-to-date growth of 10.6 percent is 0.6 percentage points behind the annual estimate of 11.2 percent.

Nonwithholding: Nonwithholding receipts also spiked in May, growing by 37.7 percent. Year-to-date collections in this source are up 12.4 percent, 3.0 percentage points behind the annual estimate of 15.4 percent growth. Just as the calendar effect caused April's 23.2 percent decline in collections, May's 37.7 percent bounce-back can also be attributed to two additional deposit days and the May 1 filing deadline. Tax due payments for tax year 1999 liabilities have grown by 10.5 percent in Fiscal Year 2000, the lowest growth rate since 1995. Estimated payments have increased by 14.0 percent on a year-to-date basis -- close to expectations.

Refunds: As the individual income tax refund processing season winds down, the Department of Taxation (TAX) issued \$75.8 million in refunds in May. On a year-to-date basis, TAX has issued about 1.8 million refunds, or approximately \$671 million. During the early filing season, TAX continued to process 85 percent of the returns within 12 days. The Department's electronic filing programs have assisted greatly in maintaining this performance.

Sales and Use Tax

Sales tax collections grew 3.8 percent in May from last year. On a year-to-date basis, sales tax growth of 6.7 percent is tracking close to the annual forecast of 6.8 percent growth.

Corporate Income Tax

May collections normally consist of final payments from retailers. May collections were a robust \$34.1 million, compared to last May's subpar \$11.1 million. The year-to-date growth of 40.3 percent is well ahead of the annual estimate of 14.5 percent growth.

Public Service Corporations

There is usually little activity in this source in May. The year-to-date decline of 5.0 percent is well behind the annual forecast of 8.4 percent growth.

Insurance Company Premiums

May is also typically a slow month in this source. Year-to-date receipts of 3.8 percent growth are slightly ahead of the annual forecast of 1.9 percent growth.

Interest

Interest earnings were \$24.7 million in May compared to \$20.1 million last year. The year-to-date decline of 1.1 percent is lagging the annual forecast of 6.8 percent growth.

ABC Taxes

ABC tax collections were 4.5 percent ahead of last May. On a year-to-date basis, collections are up 5.3 percent from Fiscal Year 1999, slightly ahead of the annual forecast of 4.4 percent.

Lottery Revenues

Lottery net income for the month increased 43.8 percent from last May, primarily due to The Big Game going more than nine weeks without a winner and achieving a record jackpot of \$363 million. Year-to-date Lottery net income growth is 5.5 percent, well ahead of the required annual growth rate of -2.1 percent.

All Other Revenue

Monthly revenue from all other sources increased by 7.0 percent in May from a year ago. On a year-to-date basis, collections are down 5.3 percent -- lagging the annual estimate of 0.8 percent growth -- due mainly to a decline in the volatile estate tax receipts.

Summary

With one month left in the fiscal year, year-to-date receipts are tracking slightly ahead of the official estimate. June has historically been the largest revenue collections month in the fiscal year, as estimated payments are due in all major tax sources. We will need to continue the momentum that we have experienced to date.