



COMMONWEALTH of VIRGINIA

Office of the Governor

James S. Gilmore, III
Governor

John W. Forbes
Secretary of Finance

December 18, 2001

MEMORANDUM

TO: The Honorable James S. Gilmore, III

THROUGH: The Honorable John A. Mahone

FROM: John W. Forbes

SUBJECT: November Revenue Data

Revenue collections through the first five months of fiscal year 2002 grew 0.7 percent above year ago levels, well below the growth required to attain the annual revenue estimate of 7.5 percent. Revenue collections for the month of November grew 3.5 percent over last year. Collections of Virginia's two main revenue sources -- payroll withholding and sales taxes -- remained sluggish. Growth this month was due mainly to large estate tax payments and the timing of corporate tax refund requests.

According to the National Bureau of Economic Research, the national recession began in April. Revised GDP data show that the economy declined by 1.1 percent in the third quarter. The Index of Leading Indicators, a barometer of economic conditions six months into the future, increased by 0.3 percent in October. The October results suggest that this recession could be brief. The employment picture deteriorated further in November -- U.S. payrolls were cut by 331,000 jobs and the unemployment rate rose to 5.7 percent. Consumer confidence fell for the fifth consecutive month in November to the lowest level since 1994; however, consumers are more optimistic about future conditions which indicates that confidence may be close to bottoming out. Personal income was unchanged in October for an unprecedented second consecutive month of no income growth. Consumer spending soared by 2.9 percent in October, led by pent-up demand following the September 11 terrorist attacks and zero percent auto financing. At their December 11 meeting, the Federal Reserve cut interest rates by 25 basis points -- as expected. The Fed has now cut interest rates 11 times this year and the Fed funds rate stands at 1.75 percent -- the lowest rate in over 40 years.

The Honorable James S. Gilmore, III

In Virginia, job growth has slowed. Payroll employment increased by 1.0 percent in October over last year, marking the sixth consecutive month that Virginia employment growth has been below 2 percent. Job growth

has been marginal in both the Tidewater and Western regions of the state while the growth rate for Northern Virginia has been halved in just eight months. The unemployment rate rose to 3.5 percent – the highest rate since January 1998.

Individual Income Taxes

Net Individual income tax collections increased by 1.9 percent in November compared with last year. Year-to-date growth was 1.6 percent, 6.2 percentage points below the growth required to meet the current annual forecast.

Withholding: Withholding collections grew by only 1.4 percent in November. Year-to-date growth of 3.9 percent is 5.0 percentage points below the required 8.9 percent rate.

Withholding collections run in tandem with employment and wage growth. As the Virginia economy has slowed, so too have withholding receipts. In addition, the stagnant stock market has practically eliminated the boost received from the exercise of stock options.

Nonwithholding: November is typically a slow month for nonwithholding collections. Year-to-date receipts are down slightly through the first five months of the year and are trailing the official forecast of 5.7 percent growth.

Refunds: November is also a slow month for issuing refunds. Year-to-date, \$219.8 million in refunds have been issued compared with \$164.9 million over the same period last year.

Sales

In November, sales tax collections fell by 1.3 percent. Year-to-date receipts have fallen by 0.9 percent, well below the 7.7 percent growth needed to attain the current forecast.

The economic slowdown and the fallout of the September 11 terrorist attack have negatively impacted the tourist and durable household goods sector. Northern Virginia, which accounts for over a third of the Commonwealth's taxable sales, has experienced a 4.6 percent decline through November as the closing of Reagan National Airport materially affected economic activity in the region.

National chain store sales grew by a weak 2.0 percent, which is significant considering that this November included nine days of post-Thanksgiving holiday shopping compared to just two days last year.

Corporate Income Tax

November is not a significant month for corporate income tax collections. November and December, however, are significant corporate extension return processing months. Once the corporate extension return processing is completed in December, a clearer picture of corporate tax collections will be available. On a year-to-date basis, net collections are down 23.5 percent, trailing the annual estimate of 41.5 percent growth.

Public Service Corporations / Consumption Tax

Collections from consumption tax revenues were \$5.9 million this month. Consumption tax revenues continue to track toward attaining the annual forecast.

Insurance Company Premiums

November is not a significant month for insurance premiums gross receipts tax collections. With only 21 percent of the annual forecast in the bank, year-to-date growth of 16.8 percent is well above the annual estimate of 2.0 percent growth.

Interest

Interest income was \$26.9 million in November compared with \$29.3 million last year mainly due to declining interest rates earned on state money. The year-to-date decline of 14.4 percent is well behind the current forecast of 4.6 percent growth.

ABC Taxes

ABC taxes grew 4.1 percent in November over last year. Year-to-date growth of 1.6 percent equals the current forecast.

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All Other Revenue

Revenue from all other sources was \$48.5 million compared with \$40.5 million received last November. Strong growth in wills, suits, deed, and contracts (mainly recordation taxes) and estate tax collections were responsible for much of the growth this month. On a year-to-date basis, collections in all other revenue was up 15.5 percent, well ahead of the 14.6 percent decline predicted in the current annual estimate.

Lottery Revenues

Lottery net income was \$29.2 million in November, 0.9 percent higher than November of last year. Lottery sales were 4.9 percent million higher than last November mainly due to higher Scratch game sales.

Year-to-date net income is \$134.2 million, 2.7 percent higher than last year and is well ahead of the annual forecast of an expected decline of 5.7 percent.

Summary

Revenue collections for the first five months of the fiscal year have grown only 0.7 percent over the same period last year. Monthly revenue growth has been at four percent or less in eight of the last nine months. The next two months will be critical in evaluating the severity of the fiscal downturn as Virginia receives sales tax collections from the all-important holiday shopping season along with individual and corporate estimated payments.

The revenue forecasting process for the current fiscal year and the next biennium will be completed with the release of the budget on December 19. The next monthly report will reflect revisions to the official forecast.

