

November 10, 2000

MEMORANDUM

TO: The Honorable James S. Gilmore, III

THROUGH: The Honorable M. Boyd Marcus, Jr.

FROM: Ronald L. Tillett

SUBJECT: October Revenue Data

Revenue collections for the first four months of the fiscal year increased 3.2 percent over year-ago levels, 2.3 percentage points below the growth required to attain the annual revenue estimate. For the month, revenue collections grew 8.3 percent above October of last year. The solid monthly growth is driven by a surge in individual income tax receipts.

Economic indicators continue to depict a healthy, albeit cooler, national economy. The Commerce Department reported that real GDP grew at a 2.7 percent rate in the third quarter, slightly lower than expectations. Personal income increased a strong 1.1 percent in September, however, excluding the effect of federal agricultural subsidy payments, growth was a more moderate 0.4 percent. Consumer spending remains solid, increasing 0.8 percent in September. The unemployment rate remained steady at 3.9 percent in October, although the economy created fewer jobs than anticipated, with employers adding only 137,000 jobs to payrolls. A jump in energy prices pushed the CPI up 0.5 percent in September, while the core rate of inflation rose 0.3 percent. Although consumer confidence dropped somewhat in October, confidence remains at historically high levels. The index of leading indicators was unchanged in September following several months of slow growth and slight declines. The index provides another indication of slowing economic growth.

In Virginia, the unemployment rate remained unchanged at 2.6 percent for the third consecutive month in September, and total payroll jobs grew by 1.7 percent from September of last year.

Individual Income Taxes

Individual income tax collections exceeded last October's collection by 15.1 percent. However, year-to-date growth of 9.2 percent is below the rate required to meet the current annual forecast.

Withholding: Withholding tax receipts increased 14.9 percent in October, although an extra deposit day this month somewhat inflated collections in this source. On a year-to-date basis, the 8.9 percent growth rate is 0.7 percentage point below the expected 9.6 percent annual rate.

Nonwithholding: October is traditionally a slow collection month in this source. On a year-to-date basis, receipts are 11.6 percent ahead of last year's collections. Nonwithholding collections have maintained a steady double-digit growth rate in fiscal year 2001, however, only about 16 percent of projected fiscal year revenues have been received through October.

Refunds: October is a slow month for issuing refunds. Refund checks totaling \$23.2 million were issued in

October.

Sales Tax

Sales tax collections grew by 4.4 percent in October from a year ago. On a year-to-date basis, growth was 4.3 percent. Surging energy prices and a reduced wealth effect are the major factors contributing to the slightly faster deceleration in sales tax growth.

Corporate Income Tax

The year-to-date drop of 10.3 percent is slightly ahead of the estimate of an 18.4 percent decline. Last year, fiscal year 2000, was an unusually strong year for corporate receipts with several exceptionally large payments.

Public Service Corporations

Year-to-date collections from public service companies are down 1.7 percent from the same period last year, well ahead of the annual required forecast of an 18.1 percent decline.

Insurance Company Premiums

Insurance premiums tax receipts are down 21.3 percent this year due to the timing of refunds. This year, refunds were issued in October, while last year they were issued in November. Adjusting for this timing issue, receipts continue to track toward expectations.

Interest

On a year-to-date basis, interest receipts are flat, well below the growth rate needed to attain the annual estimate.

ABC Taxes

Collections of ABC taxes (beer and beverage excise taxes only) were 3.6 percent below October of last year. This brought year-to-date growth to 1.8 percent -- well ahead of the growth needed to attain the current forecast.

All Other Revenue

Revenue from all other sources jumped 44.9 percent in October (\$50.0 million versus \$34.5 million). The strong October was mainly due to strong collections in inheritance, gift and estate taxes. On a year-to-date basis, revenues from all other sources are 14.9 percent below last year's receipts.

Lottery Revenues

Lottery net income for October was \$26.7 million, \$2.7 million less than October last year. Last year's Lotto sales were higher due to the \$13.6 million jackpot won on October 23, 1999. Year-to-date net income was \$102.1 million, \$1.9 million higher than the first four months of last year and significantly ahead of the required annual growth rate.

Summary

After having collected approximately one-third of fiscal year 2001's receipts, revenues have grown 3.2 percent over the same period last year. After a slow first quarter, total revenue growth bounced back in October, albeit part of the strength was due to an additional deposit day.

The customary fall re-estimation of revenues is well under way and will be concluded in December. The next critical step is the meeting of your Advisory Council on Revenue Estimates on November 13, when Virginia's business leaders will comment on the prospects for the Virginia economy through the next biennium.