

November 17, 1999

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 10.8 percent over year-ago levels, 7.7 percentage points above the growth required to attain the annual revenue estimate. For the month, revenue collections grew 10.2 percent above October of last year. The strong revenue growth is driven by continued strength in payroll withholding and sales and use tax receipts.

The national economy continues its advance toward the longest expansion in history. The Commerce Department reported that real GDP grew at a 4.8 percent rate in the third quarter, slightly higher than expectations. Real personal consumption expenditures grew at an annual rate of 4.3 percent, down from 5.1 percent in the second quarter. Employers added 310,000 jobs to payrolls in October and the unemployment rate dropped to 4.1 percent, the lowest rate since January 1970.

In Virginia, the unemployment rate rose slightly to 3.0 percent in September, and total payroll job growth slowed to 1.9 percent from September of last year. The Virginia Leading Index produced by Chmura Economics and Analytics indicates that the Virginia economy should continue to grow well into the year 2000.

Individual Income Taxes

Individual income tax collections grew 16.2 percent in October over last year. Year-to-date growth of 11.3 percent remains well above the rate required to meet the current annual forecast.

Withholding: Withholding tax receipts increased 14.1 percent in September. On a year to-date basis, the 11.1 percent growth rate is 6.3 percentage points above the expected 4.8 percent annual rate.

Nonwithholding: October is traditionally a slow collection month in this source. On a year-to-date basis, receipts are 12.2 percent ahead of last year's collections.

Refunds: October is also a slow month for issuing refunds. Refund checks totaling \$13.9 million were issued compared with \$19.9 million last year. On a year-to-date basis, the total dollar amount of refunds issued is up 9.6 percent.

Sales

Sales tax collections surged 10.8 percent in October from a year ago. On a year-to-date basis, growth of 8.8 percent is well ahead of the growth required to attain the current forecast. Solid job growth and strong wage gains should lead to the best holiday shopping season in the 1990s.

Corporate Income Tax

Year-to-date growth of 24.4 percent is well ahead of the growth required to attain the annual revenue estimate. The growth is the result of broad-based strength in the corporate sector.

Public Service Corporations

Year-to-date collections from public service companies are up 10.3 percent from the same period last year, tracking the forecast.

Insurance Company Premiums

There was very little activity in this source during October. The year-to-date growth rate of 4.2 percent slightly trails the estimate of 6.5 percent growth.

Interest

On a year-to-date basis, interest receipts are down -17.3 percent compared with last year due to lower yields.

ABC Taxes

Collections of ABC taxes (beer and beverage excise taxes only) were -1.6 percent below October of last year. This brought year-to-date growth to -2.1 percent -- well ahead of the growth needed to attain the current forecast.

All Other Revenue

Revenue from all other sources declined -17.3 percent in October (\$34.5 million versus \$41.7 million). Year-to-date collections, however, are 16.9 percent ahead of last year. The strong year-to-date growth is mainly attributable to a surge in collections of inheritance, gift, and estate taxes (\$62.5 million versus \$34.4 million last year). Collections of wills, suits, deeds, and contract fees are -7.2 percent below last year due to a decline in refinancing activity.

Lottery Revenues

Lottery net income for October was \$29.1 million, \$0.4 million more than October last year. Year-to-date lottery sales are 4.1 percent ahead of last year, primarily due to growth of 25.2 percent in instant game sales. Year-to-date net income is slightly ahead of the growth required to reach the annual estimate.

Summary

With one-third of fiscal year 2000's receipts in the bank, revenues are growing at a strong 10.8 percent. The continuing strength in the economy is sustaining broad-based growth in most revenue sources, but the driving force is collections of individual income taxes.

The customary Fall re-estimation of revenues is well under way and will be concluded in December. Virginia's business leaders and legislators were given the opportunity to comment on the prospects for the Virginia economy through the next biennium during the November 15 meeting of your Advisory Council on Revenue Estimates.