

October 12, 2000

MEMORANDUM

TO: The Honorable James S. Gilmore, III

THROUGH: The Honorable M. Boyd Marcus, Jr.

FROM: Ronald L. Tillett

SUBJECT: September Revenue Data

Revenue collections in September were quite soft for the third month in a row, growing at 2.5 percent, bringing year-to-date growth through the first quarter to 1.7 percent. The deceleration in the growth of receipts for payroll withholding and sales tax is principally responsible for the weak first quarter collections. U.S. job growth was slightly higher than expected in September as payrolls increased by 252,000. Excluding the effects of the Census layoffs and the return of striking Verizon workers, payrolls increased by only 204,000 jobs. The nation's unemployment rate fell to 3.9 percent, reaching the cyclical low of last April. The index of leading economic indicators declined for the fourth time this year, signaling slower growth ahead. Consumer confidence bounced back in September and consumer spending grew a higher than expected 0.6 percent in August. As expected, the Fed held monetary policy steady at their October 3 meeting. In Virginia, the economy is showing some signs of cooling as jobs grew by only 1.6 percent in August from year-ago levels. The unemployment rate remained unchanged in August at 2.6 percent -- the best unemployment figure for August in 32 years.

Individual Income Taxes

Net individual income tax receipts were up a solid 8.1 percent from last September. Year-to-date growth of 4.2 percent is well behind the estimate required to meet the current annual forecast.

Withholding: Withholding receipts increased by 6.3 percent for the month. On a year-to-date basis, growth of 6.8 percent is 2.8 percentage points below the expected annual 9.6 percent rate. September was the eighth month out of the last nine to experience monthly growth below ten percent after exceeding that plateau in twelve out of thirteen months beginning in December, 1998. The impact of declining stock option realizations by a few large companies is expected to continue through at least the next quarter and thereby dampen overall withholding growth.

Nonwithholding: September provides the first meaningful opportunity in the current fiscal year to evaluate nonwithholding receipts. For the month, nonwithholding was 10.3 percent above last September, and is up 10.9 percent on a year-to-date basis. Estimated payments are up a surprisingly strong 23.0 percent through September; however, tax due payments through the first quarter of fiscal year 2001 are only \$8.5 million compared with \$30.1 million collected last year in the same period.

Refunds: September is typically a slow month for issuing refunds. Refunds of \$20.5 million were issued this September compared to \$22.3 million last September.

Sales

Sales tax receipts increased 5.2 percent in September from last year. The year-to-date growth of 4.3 percent is trailing the annual growth rate required to attain the current forecast. A weak back-to-school shopping season and a slowdown in the real estate market have cooled growth in this source. There is increasing concern among retailers that the discouraging conditions experienced since the spring will continue into the critical holiday selling season.

Corporate Income Tax

September is the first significant month of corporate income tax receipts as estimated payments are due on the fifteenth. On a monthly basis, corporate income tax collections fell by 9.8 percent, leading to a year-to-date decline of 9.9 percent. Despite the decline in corporate collections this month, September's estimated payments were still quite strong; however, last September's estimated payments were the highest that Virginia had ever experienced.

Public Service Corporations

Collections from public service companies fell by 4.5 percent this month. Year-to-date collections are at \$26.4 million, equaling last year's first quarter collections of \$27.0 million.

Insurance Premiums

Taxes on the gross receipts of insurance companies were up 4.7 percent in September. Year-to-date growth of 7.9 percent is ahead of the estimate required to meet the current annual forecast.

Interest

Interest collections in September were \$20.2 million compared with \$13.6 million in September of last year. The year-to-date growth of 14.8 percent is well ahead of the annual 9.7 percent growth needed to attain the current estimate.

ABC Taxes

Collections of ABC taxes (beer only) were \$3.9 million in September, compared with \$3.6 million in September of last year. The year-to-date growth of 2.7 percent exceeds the current annual estimate of a 1.0 percent decline.

All Other Revenue

Revenue from all other sources fell by 49.3 percent for the month, bringing the year-to-date decline to 29.1 percent. The decrease in this source is due to the variability in collections of the volatile estate tax, which is down by 57.0 percent in fiscal year 2001.

Lottery

September net income was \$23.0 million, nearly flat compared to last September. Sales were higher by \$5.7 million, however, payouts for Pick 3 and Pick 4 were higher than expected. Lottery year-to-date net income growth of 7.2 percent is well ahead of the annual estimate of -4.1 percent.

Summary

First quarter collections were exceptionally sluggish. Of particular concern is the deceleration in the growth of withholding and sales tax collections. One bright spot on the revenue picture is the surprisingly strong growth in nonwithholding receipts, particularly in light of the decline in the stock market. The outlook for the U.S. and Virginia economies was discussed at your Advisory Board of Economists meeting on October 11, 2000. Your Advisory Council on Revenue Estimates, which meets on November 13, 2000, will consider the economic outlook and accompanying revenue estimates for the current and next biennium. This forecast will serve as the basis for the revised revenue forecast to be released on December 20, 2000.