

October 18, 1999

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 continued to grow at a vigorous pace, growing at a 12.7 percent clip, bringing year-to-date growth through the first quarter to 11.0 percent -- 7.9 percentage points above the estimate required to attain the current annual revenue estimate of 3.1 percent. Robust growth in the Commonwealth's three major general fund revenue sources -- net individual income taxes, corporate income taxes, and sales taxes -- account for the strong performance of the first quarter of Fiscal Year 2000.

U.S. job growth stalled in September as payrolls declined by 8,000 jobs. However, close to 56,000 jobs were lost from the effects of Hurricane Floyd. The nation's unemployment rate remained steady at 4.2 percent -- a 29-year low. Consumer confidence fell for the third consecutive month, but remains at historically high levels. Consumers continue to spend as fundamentals are solid and inflation is low. The index of leading economic indicators suffered its first decline since April, signaling some evidence of declining economic momentum but this is considered a good sign for future economic stability. As expected, the Fed held monetary policy steady at their October 5 meeting.

In Virginia, the economy remains on a solid growth path as jobs grew by 2.4 percent in August from year-ago levels. The unemployment rate increased to 2.9 percent -- the result of shifting seasonal hiring patterns and an increase in the labor force.

Individual Income Taxes

Net individual income tax receipts were up 9.4 percent from last September. Year-to-date growth of 9.9 percent is well above the estimate required to meet the current annual forecast.

Withholding: Withholding receipts increased 10.2 percent for the month. On a year-to-date basis, growth of 10.2 percent is 5.4 percentage points above the expected annual 4.8 percent rate. The strong Virginia economy continues to produce double-digit growth in employer payroll withholding collections.

Nonwithholding: September provides the first meaningful opportunity in the current fiscal year to evaluate nonwithholding receipts. For the month, nonwithholding was 11.0 percent above last September, and is up 12.2 percent on a year-to-date basis. While the annual growth rate for this source is quite healthy, it should be noted that Taxable Year 1999 estimated payments are only 8 percent above last year's level -- which were growing at about 21 percent over the previous year.

Refunds: September is typically a slow month for issuing refunds. Refunds are up considerably (\$69.7 million versus \$56.5 million) for the first quarter of the fiscal year.

Sales

Sales tax receipts increased a solid 9.2 percent in September from last year. The year-to-date growth of 8.2 percent is well ahead of the annual growth rate required to attain the current forecast.

A solid back-to-school shopping season helped to boost September's sales while those sectors related to the housing industry, particularly home furnishings and sales of lumber and building materials, continue to drive strong year-to-date growth.

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 surged by 34.3 percent, bringing year-to-date growth to 36.2 percent. Unlike past months when large payments from one or two large companies skewed growth, this September's increase was the result of broad-based strength in the corporate sector.

Public Service Corporations

Collections from public service companies increased by 9.9 percent this month. Year-to-date collections are at \$27.0 million, slightly ahead of last year's collections of \$24.6 million.

Insurance Premiums

Taxes on the gross receipts of insurance companies were up 4.4 percent in September. Year-to-date growth of 4.8 percent slightly trails the estimate required to meet the current annual forecast.

Interest

Interest collections in September were \$13.6 million compared with \$15.3 million in September of last year. The year-to-date decline of 10.6 percent is well below the annual 25.2 percent growth needed to attain the current estimate.

ABC Taxes

Collections of ABC taxes (beer only) were \$3.6 million in September compared with \$3.4 million in September of last year. The year-to-date growth of 1.4 percent exceeds the current annual estimate of a 2.4 percent decline.

All Other Revenue

Revenue from all other sources increased 50.3 percent for the month, bringing year-to-date growth to 29.7 percent. Through September, most of this growth is due to the receipt of several large estate tax payments.

Lottery

September Lottery net income was \$23.7 million in September -- \$1.7 million ahead of last September. Year-to-date Lottery sales are 3.5 percent ahead of last year's, led by a solid 24.0 percent increase in instant game sales. Year-to-date sales and net income are slightly ahead of the annual growth required by the current estimate.

Summary

The robust growth in first quarter revenue collections is a continuation of the strong growth that has been experienced during the past two fiscal years. With Virginia's economic fundamentals remaining solid, revenue collections in payroll withholding and sales tax receipts continue to be strong.

The outlook for the U.S. and Virginia economies was discussed at your Advisory Board of Economists meeting on October 13, 1999. Your Advisory Council on Revenue Estimates, which meets on November 15, 1999, will consider these outlooks 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 by you on December 17, 1999.