



COMMONWEALTH of VIRGINIA

Office of the Governor

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MEMORANDUM

TO: The Honorable Timothy M. Kaine

THROUGH: The Honorable Wayne M. Turnage

FROM: Jody M. Wagner 

SUBJECT: October Revenue Data

October is not a significant month for revenue collections. Normal monthly collections are due in withholding, sales taxes, and most minor sources. Estimated payments are also filed in October for corporations that use a February through January fiscal year, which are mainly retailers.

General fund revenues grew 10.3 percent in October compared to October of last year, with most of this growth attributable to timing differences. On a year-to-date basis, revenues grew 5.1 percent over the same period last year, significantly ahead of the annual forecast of 3.0 percent. Two factors boosted October collections. October 2007 had one more deposit day than October 2006. In addition, the State Corporation Commission will issue refunds to insurance companies in November this year, instead of in October as it did last year. Adjusting for these timing differences, monthly growth would be 3.2 percent and year-to-date growth would be 3.5 percent.

National Economic Indicators

Recent indicators suggest the national economy, although slowing, has remained resilient to the slowdown in the housing market and the subprime mortgage shock.

- Real GDP grew 3.9 percent in the third quarter, close to second quarter growth of 3.8 percent, and above consensus expectations of 3.0 percent.
- Payroll employment rose by 166,000 jobs in October, following a gain of 96,000 in September. Professional and business services, health care, and leisure and hospitality jobs increased. Employment in construction, manufacturing and retail trade edged down. In a separate report, the unemployment rate remained steady at 4.7 percent.

- Initial claims for unemployment dropped by 13,000 to 317,000 during the week ending November 3. The four-week moving average rose slightly, from 327,750 to 329,750. Initial claims have remained between 300,000 and 340,000 since the second half of 2006, and are consistent with an expanding job market.
- Inflation remains under control. The Consumer Price Index rose 0.3 percent in September, with rising energy and food prices. Core inflation, excluding food and energy, increased 0.2 percent in September, resulting in growth of 2.1 percent over the last year.
- Manufacturing activity almost stalled in October. The Institute of Supply Management index fell from 52.0 to 50.9, its fourth consecutive decline and barely above the 50.0 level indicative of expansion.
- The Conference Board's index of leading indicators rose 0.3 percent to 137.9 in September, the third increase in the last six months. Eight of the ten components that comprise the index contributed to the growth. Increases and decreases in the index have been offsetting each other from month to month, and the index now stands at the same level as March 2007.
- The Conference Board's index of consumer confidence fell from 99.5 to 95.6 in October, its third consecutive drop and its lowest level since October 2005. Both the current situation and expectations components declined.
- At its October meeting, the Federal Reserve lowered the federal funds rate by 25 basis points to 4.50 percent. The committee noted that, "Economic growth was solid in the third quarter, and strains in financial markets have eased somewhat on balance. However, the pace of economic expansion will likely slow in the near term, partly reflecting the intensification of the housing correction."

Virginia Economy

In Virginia, payroll employment grew 1.8 percent in September. Jobs grew by 2.2 percent in Hampton Roads, 1.7 percent in Northern Virginia, 0.9 percent in Richmond-Petersburg, and 2.0 percent in the western MSAs. The unemployment rate fell from 3.1 percent to 2.8 percent in September.

The Virginia leading index fell 0.4 percent in September, its second consecutive decline. Falling auto registrations and building permits were partially offset by fewer initial claims for unemployment. The regional indices fell in seven of the state's eleven metropolitan areas in September: Northern Virginia, Hampton Roads, Richmond, Roanoke, Blacksburg, Winchester, and Danville. The indices in Charlottesville, Bristol and Harrisonburg were unchanged, while Lynchburg increased in September.

October Revenue Collections

General fund revenues grew 10.3 percent in October compared to October of last year, with most of this growth attributable to timing differences. On a year-to-date basis, revenues grew 5.1 percent over the same period last year, significantly ahead of the annual forecast of 3.0 percent. Adjusting for these timing differences, monthly growth would be 3.2 percent and year-to-date growth would be 3.5 percent. Both individual withholding and nonwithholding receipts are above expectations. Collections of corporate income tax and sales and use tax are close to their annual forecasts.

Individual Income Tax Withholding (57% of general fund revenues): With one more deposit day than October of last year, collections of payroll withholding taxes grew 11.2 percent in October. Year-to-date withholding growth is 6.4 percent, slightly ahead of the projected annual growth rate of 6.1 percent.

Individual Income Tax Nonwithholding (19% of general fund revenues): October is typically a slow month for nonwithholding collections. Collections of nonwithholding were \$19.5 million ahead of October 2006, a 22.5 percent increase. Year-to-date, collections in this source are 12.9 percent above the same period last year, ahead of the estimate of an 8.8 percent increase.

Individual Income Tax Refunds: TAX issued \$64.7 million in individual refunds in October, compared with \$48.7 million in October 2006. Year-to-date, refunds are 6.7 percent below the same period last year, trailing the forecast of a 10.5 percent increase.

Net Individual Income Tax (65% of general fund revenues): Year-to-date net individual income tax growth is 8.1 percent, ahead of the projected annual growth rate of 6.2 percent.

Sales Tax (20% of general fund revenues): Collections of sales and use taxes, reflecting September sales, grew 2.1 percent in October. On a year-to-date basis, collections of sales and use taxes have increased 2.8 percent, equal to the forecasted growth rate.

Corporate Income Tax (5% of general fund revenues): October corporate income tax collections include estimated payments from corporations with a February through January fiscal year, including many retailers. Collections in corporate income taxes fell 20.6 percent in October. On a year-to-date basis, corporate income tax collections have fallen 16.0 percent from the same period last year, close to expectations of a 17.4 percent decline. Lower corporate payments and a substantial increase in refund activity both contributed to the decline.

Wills, Suits, Deeds, Contracts (3% of general fund revenues): Wills, suits, deeds, and contracts – mainly recordation tax collections – fell 11.9 percent in October as the housing market continued to slow. On a year-to-date basis, collections in this source declined 13.0 percent from last year, compared with the estimate of a 9.0 percent annual decline.

Insurance Premiums (2% of general fund revenues): Year-to-date collections of the tax on insurance premiums are 74.4 percent ahead of the same period last year. Growth is overstated because last year the State Corporation Commission issued refunds in October, while this year refunds will be issued in November.

Other Revenue Sources

The following list provides data on October collections for other revenue sources:

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
ABC Taxes (1% GF revenues)	-2.8%	0.7%
Interest Income (0.9% GF revenues)	5.7%	-22.2%

All Other Revenue: Receipts in All Other Revenue grew 41.3 percent in October – \$60.9 million compared with \$43.1 million in October of last year. Most of the increase was in inheritance, gift, and estate taxes -- \$26.9 million compared with \$14.8 million in October 2006. For the fiscal year-to-date, collections of All Other Revenue are 2.5 percent ahead of the same period in fiscal year 2007, ahead of the annual estimate of a 0.1 percent decline.

Lottery Revenues: Net income totaled \$36.7 million in October or \$2.1 million more than last year. October was 5.8 percent ahead of October of last year as a decline in expenses offset a small decline in sales. Year-to-date, net income is up 18.6 percent as compared to the annual forecast of a 7.3 percent decline. Comparisons to last year are affected because products currently offered (Fast Play Bingo, additional daily games' drawings) were not offered or included in sales and net income results from last year. In addition, jackpot sales were significantly depressed last year because of unusually low advertised jackpots.

Summary

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The fall revenue forecasting process has begun. The Governor's Advisory Board of Economists (GABE) met in October to assess the outlook for Virginia and recommend the most likely path of the Commonwealth's economy over the next three years. That economic forecast was used to generate a preliminary revenue forecast, which will be reviewed by the Governor's Advisory Council on Revenue Estimates. The Council, comprised of business and legislative leaders, will meet in November to consider this preliminary revenue forecast. This forecast will serve as the basis for the final forecast to be released in December with the Executive Budget.