



COMMONWEALTH of VIRGINIA
Office of the Governor

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MEMORANDUM

TO: The Honorable Robert F. McDonnell

THROUGH: The Honorable Martin Kent

FROM: Richard D. Brown 

SUBJECT: September Revenue Data

September completes the first quarter of fiscal year 2011 and is a significant month for revenue collections. Estimated payments from individuals, corporations, and insurance premiums are all due in September, along with regular monthly collections in withholding, sales taxes, and other sources.

Total general fund revenue collections rose 4.1 percent in September. The monthly increase was driven by solid growth in withholding, corporate income taxes, and sales taxes. On a year-to-date basis, total revenue collections fell 1.7 percent, trailing the annual forecast of 2.6 percent growth. Adjusting for the accelerated sales tax program in June 2010, total revenues grew 3.6 percent through September, slightly lagging the economic-base forecast of 4.2 percent growth.

National Economic Indicators

Current national indicators suggest the current economic expansion has weakened.

- According to the third estimate, real GDP grew 1.7 percent at an annualized rate in the second quarter of 2010. Although growth slowed from the 3.7 percent rate in the first quarter, this marked the fourth consecutive quarter of growth.
- The labor market remains weak. Payroll employment fell by 95,000 jobs in September. Private payrolls increased by 64,000, while government employment fell by 159,000 due

to the winding down of census work and cutbacks in state and local government employment. In a separate report, the unemployment rate remained at 9.6 percent in September.

- Initial claims for unemployment fell by 11,000 to 445,000 during the week ending October 2, the second consecutive monthly decrease. The four-week moving average declined from 459,000 to 456,000. Although the drop in initial claims is a positive sign, the number of claims remains at a high level.
- The Conference Board's index of leading indicators rose 0.3 percent in August, after increasing 0.1 percent in July. The small gain in the index is consistent with a slow recovery.
- The Conference Board's index of consumer confidence fell from 53.2 to 48.5 in September, posting its third decline in four months. Both the expectations and current conditions components decreased, with the expectations component leading the decline. The index remains at a very low level, suggesting consumer spending is not likely to accelerate.
- The manufacturing sector continues to expand, but at a slower pace. The Institute of Supply Management index fell from 56.3 to 54.4 in September, marking the fourteenth consecutive month above the expansionary threshold of 50.0.
- Inflation remains low – the CPI increased 0.3 percent in August from the previous month. The rise followed a 0.3 percent increase in July. Core inflation (excluding food and energy prices) was flat in August and stands 0.9 percent above August of last year.
- The Federal Reserve announced at its September meeting that it will keep the federal funds rate target unchanged at 0.0 to 0.25 percent.

Virginia Economy

In Virginia, employers added jobs for the second consecutive month in August. Payroll employment in the Commonwealth grew 0.5 percent in August from August of last year. Employment trends were positive in all three major metro areas in Virginia. Northern Virginia posted a modest gain of 1.2 percent, Hampton Roads grew 0.9 percent, and Richmond-Petersburg rose 0.1 percent from August of last year. The unemployment rate remained flat at 7.0 percent in August, significantly below the peak of 7.8 percent in February.

The Virginia Leading Index rose 0.1 percent in August, its second consecutive increase. Three of the five components contributed to the increase: future employment, building permits, and the U.S. leading index. Auto registrations declined and initial claims for unemployment were up. The Leading Index declined in seven of the eleven Virginia metro areas in August. Only Northern Virginia, Hampton Roads, Charlottesville, and Bristol had increases in the index.

September Revenue Collections

Total general fund revenue collections rose 4.1 percent in September. On a year-to-date basis, total revenues fell 1.7 percent, trailing the annual forecast of 2.6 percent growth. Adjusting for the accelerated sales tax program in June 2010, total revenues grew 3.6 percent through September, slightly lagging the economic-base forecast of 4.2 percent growth.

Net Individual Income Tax (66% of general fund revenues): Through the first quarter of the fiscal year, collections of net individual income tax rose 4.5 percent from the same period last year, trailing the annual estimate of 5.5 percent. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (64% of general fund revenues): Collections of payroll withholding taxes grew 6.8 percent in September. Year-to-date withholding collections grew 4.4 percent compared with the same period last year, ahead of the projected annual growth rate of 2.4 percent.

Individual Income Tax Nonwithholding (15% of general fund revenues): September is a significant month for nonwithholding collections, since the first estimated payment in fiscal year 2011 is due. Collections fell 4.6 percent in September from September of last year. Through September, collections for the fiscal year were \$292.9 million compared with \$311.3 million in the same period last year, falling by 5.9 percent and trailing the annual estimate of 11.0 percent growth.

Individual Income Tax Refunds: Through September, TAX has issued \$123.1 million in individual refunds compared with \$150.8 million in the same period last year, an 18.4 percent decline and behind the annual estimate of a 3.5 percent decline.

Sales Tax (20% of general fund revenues): Collections of sales and use taxes, reflecting August sales, rose 2.1 percent in September. On a year-to-date basis, collections have fallen 20.3 percent. The large year-to-date decline is due to the accelerated sales tax program in fiscal year 2010, which required dealers to remit July payments in June 2010. Adjusting for this program, sales tax collections have grown by 4.9 percent year-to-date, ahead of the economic-base forecast of a 0.8 percent increase.

Corporate Income Tax (5% of general fund revenues): As with nonwithholding, September is a significant month in corporate income tax collections, since the first estimated payment for the fiscal year is due. Collections in corporate income tax grew 13.8 percent in September. On a year-to-date basis, collections in this source have risen 0.7 percent, ahead of the estimate of a 1.7 percent decline.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – rose 2.5 percent in September. On a year-to-date basis, collections are down 5.9 percent, trailing the forecast of 8.2 percent growth.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Insurance Premiums (2% GF revenues)	NA	4.8%
Interest Income (1% GF revenues)	-36.2%	14.6%
ABC Taxes (1% GF revenues)	3.9%	1.7%

Note: Monthly collections of insurance company premiums are being transferred to the Transportation Trust Fund per Chapter 896, 2007 Acts of the Assembly, until the required amount of \$130.3 million has been added.

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue grew 8.4 percent in September – \$32.6 million compared with \$30.1 million last September. For the fiscal year, collections of All Other Revenue rose 2.4 percent from the same period in fiscal year 2010, lagging the annual estimate of 6.4 percent growth.

Summary

Total general fund revenue collections rose 4.1 percent in September. Solid growth in withholding, corporate income taxes, and sales taxes drove the increase. On a year-to-date basis, total revenues fell 1.7 percent, trailing the annual forecast of 2.6 percent growth. Adjusting for the accelerated sales tax program in June 2010, total revenues grew 3.6 percent through September, slightly lagging the economic-base forecast of 4.2 percent growth.

The fall revenue forecasting process will begin this month. A meeting of the Joint Advisory Board of Economists (JABE) is scheduled for October 20, 2010 to assess recent economic developments and the outlook for the current and next biennia. This will be followed by a meeting in November of the Governor’s Advisory Council on Revenue Estimates (GACRE), which will evaluate both the JABE economic recommendations and revenue collections through October.