



COMMONWEALTH of VIRGINIA
Office of the Governor

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October 12, 2011

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 of withholding, sales taxes, and other sources.

Total general fund revenue collections rose 3.9 percent in September, driven primarily by growth in individual nonwithholding payments. Solid growth in sales and corporate income also contributed to the increase. With one less deposit day than last September, income withholding receipts declined for the month. On a year-to-date basis, total revenue collections rose 6.7 percent, ahead of the revised annual forecast of 3.7 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 5.6 percent through September, ahead of the adjusted forecast of 3.5 percent growth.

National Economic Indicators

Current national economic indicators depict a weak recovery. The consensus of economic advisors expects the modest expansion to continue, although the recovery remains vulnerable to any shock that could further erode business and consumer confidence.

- According to the latest estimate, real GDP grew 1.3 percent at an annualized rate in the second quarter of 2011, following growth of 0.4 percent in the first quarter.
- The labor market slightly improved in September. Payroll employment gained 103,000 jobs, but about 45,000 of these were a result of striking Verizon workers returning to work. Government employment continued to fall, while job gains were made in professional and business services, health care, and construction.
- The unemployment rate remained flat at 9.1 percent in September for the second straight month.
- Initial claims for unemployment increased by 6,000 to 401,000 during the week ending October 1, while the four-week moving average fell from 418,000 to 414,000. Recent activity in initial claims is consistent with a stagnant labor market, and suggests layoffs have diminished, but firms are not expanding payrolls.
- The Conference Board's index of leading indicators rose 0.3 percent in August, its fourth consecutive monthly increase. Four of the ten components of the index rose in August, with an increase in the money supply driving the gain. The rise in the index is consistent with a continuing recovery.
- After plunging 14 points in August to 45.2, the Conference Board's index of consumer confidence remained essentially unchanged in September, rising by only 0.2 point. The expectations component drove the increase, while the present situation component declined. The index is near its April 2009 level of 40.8, the lowest in more than two years.
- Conditions in the manufacturing sector slightly improved in September as the Institute of Supply Management index rose from 50.6 to 51.6. The index had been slowly declining since May. The increase in the index suggests the slow recovery continues.
- The CPI jumped 0.4 percent in August from the previous month and stands 3.8 percent above August of last year. Core inflation (excluding food and energy prices) rose 0.2 percent in August, and has increased 2.0 percent from August 2010.
- The Federal Reserve announced at its August meeting that it will keep the federal funds rate target unchanged at 0.0 to 0.25 percent.

Virginia Economy

In Virginia, job growth has slowed from its pace earlier in the year. Payroll employment rose only 0.1 percent in August from August of last year, repeating the low growth seen in July. In Northern Virginia, employment was flat, Hampton Roads fell 0.2 percent, and Richmond-Petersburg fell 1.5 percent in August. The unemployment rate in the Commonwealth rose from 6.2 percent to 6.5 percent, and is 0.4 percentage point below August 2010.

The Virginia Leading Index fell 0.3 percent in August, following a 0.3 percent decline in July. The only component contributing positively to the index was the U.S. leading index. Future employment, auto registrations, and building permits declined while initial claims for unemployment rose in August. The Leading Index rose in August for Roanoke, Lynchburg, Charlottesville, and Bristol and was flat for Harrisonburg and Winchester. The index fell in the remaining five metro areas.

September Revenue Collections

Total general fund revenue collections rose 3.9 percent in September, driven primarily by growth in individual nonwithholding payments. Except for payroll withholding, all major sources contributed to the growth. On a year-to-date basis, total revenue collections rose 6.7 percent, ahead of the revised annual forecast of 3.7 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 5.6 percent through September, ahead of the adjusted forecast of 3.5 percent growth.

Net Individual Income Tax (66% of general fund revenues): Through September, collections of net individual income tax rose 6.8 percent from the same period last year, ahead of the annual estimate of 3.9 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (64% of general fund revenues): With one less deposit day compared to September of last year, collections of payroll withholding taxes fell 3.7 percent in September. Year-to-date, withholding collections grew 4.0 percent compared with the same period last year, ahead of the projected annual growth rate of 3.4 percent.

Individual Income Tax Nonwithholding (14% of general fund revenues): September is a significant month for nonwithholding collections since the first estimated payment in fiscal year 2012 is due. Collections rose 17.3 percent in September. Through the first quarter, collections for the fiscal year were \$348.0 million compared with \$292.9 million over the same period last year, an increase of 18.8 percent and well ahead of the annual estimate of 2.1 percent growth.

Individual Income Tax Refunds: Through the first quarter of fiscal year 2012, TAX issued \$105.7 million in refunds compared with \$123.1 million last year, a 14.1 percent decline, compared with the revised annual estimate of a 0.9 percent decline.

Sales Tax (20% of general fund revenues): Collections of sales and use taxes, reflecting August sales, rose 5.8 percent in September. On a year-to-date basis, collections have risen 7.3 percent, compared with the annual estimate of 3.4 percent growth. The strong year-to-date growth is due to the partial repeal of the accelerated sales tax program, which ended the participation of numerous small dealers. Adjusting for this legislation, sales tax collections have grown by 1.9 percent year-to-date, lagging the economic-base forecast of 2.5 percent.

Corporate Income Tax (5% of general fund revenues): As with nonwithholding, the first estimated payment of the fiscal year is due in September. Collections of corporate income tax grew 11.4 percent in September. Through the first quarter of the fiscal year, collections have risen 7.7 percent, ahead of the annual estimate of a 1.1 percent increase.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – rose 7.5 percent in September. On a year-to-date basis, collections are up 4.2 percent, close to the annual forecast of 3.3 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	2.9%
Interest Income (1% GF revenues)	14.5%	27.7%
ABC Taxes (1% GF revenues)	7.9%	0.9%

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 \$137.3 million has been reached.

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue fell 4.6 percent in September – \$31.1 million compared with \$32.6 million last September. For the fiscal year, collections of All Other Revenue fell 0.3 percent, trailing the annual estimate of 3.5 percent growth.

Summary

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The fall revenue forecasting process begins this month. A meeting of the Joint Advisory Board of Economists (JABE) is scheduled for today (October 12, 2011) to assess recent economic developments and the outlook for the current and next biennium. In November, the Governor's Advisory Council on Revenue Estimates will evaluate both the JABE recommendations on the future path of the Virginia economy and revenue projections for the current fiscal year and the 2012-14 biennium.