



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: Richard D. Brown *Richard D. Brown*
SUBJECT: October Revenue Data

October is typically not a significant month for revenue collections. Normal monthly collections are due in withholding, sales, 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 revenue collections continue to reflect the weak economic environment. Total revenues fell 8.0 percent in October compared with October 2008. All major sources except corporate income tax declined from last October, while individual refunds continued to run ahead of expectations. On a year-to-date basis, total revenues fell 7.6 percent, trailing the annual forecast of a 1.6 percent decline.

National Economic Indicators

Most national indicators suggest economic activity is beginning to pick up. However, growth is likely to remain weak for some time, with the weak labor market, lower wealth, and tight credit constraining consumers.

- According to the advance estimate, real GDP grew 3.5 percent in the third quarter, the first quarter of growth since the second quarter of 2008. The cash for clunkers program and the tax credit for first-time homebuyers were major contributors to growth.

- Labor market conditions continued to deteriorate in October. Payroll employment fell by 190,000 jobs after falling by 219,000 in September. The largest losses were in construction, manufacturing, and retail trade. The only major sectors adding jobs were professional and business services and education and health services. The unemployment rate also rose to 10.2 percent in October, the highest rate of unemployment since April 1983.
- Initial claims for unemployment decreased by 20,000 to 512,000 during the week ending October 31. The four-week moving average fell slightly from 527,000 to 524,000. Since peaking in March at about 675,000, initial claims have been on a downward trend.
- The Conference Board's index of leading indicators rose 1.0 percent to 103.5 in September, its sixth consecutive monthly increase. Eight of the ten components contributed positively to the index. Since hitting its low point in March, the index has regained its peak-to-trough decline, and strongly suggests the economy is improving.
- The Conference Board's index of consumer confidence fell from 53.4 to 47.7 in October. Both components – current conditions and expectations – contributed to the decline.
- The recovery in the manufacturing sector continued in October. The Institute of Supply Management index rose by 3.1 points in October, from 52.6 to 55.7. The index has increased in all but one month this year and is at its highest level since April 2006.
- Inflation remains very low -- the consumer price index (CPI) rose 0.2 percent in September. Core inflation also rose 0.2 percent for the month and stands 1.5 percent above September of last year.
- The Federal Reserve kept the federal funds target rate in the 0.0 to 0.25 percent range at its November meeting, and expects inflation "will remain subdued for some time."

Virginia Economy

The pace of job losses in Virginia has not slowed. Payroll employment fell by 3.1 percent in September, following a 3.0 percent decline in August, the thirteenth consecutive monthly drop. Northern Virginia posted a decline of 1.0 percent, Hampton Roads fell 0.6 percent, and employment in the Richmond-Petersburg area fell 3.3 percent in September. The unemployment rate in Virginia rose from 6.5 percent to 6.6 percent, but remains below the June 2009 high of 7.3 percent.

On a positive note, the Virginia Leading Index rose 0.7 percent in September for its fifth consecutive gain. All three components -- initial claims for unemployment, building

permits, and auto registrations -- contributed positively to the index. The leading index rose in all eleven metropolitan areas in the Commonwealth in September.

October Revenue Collections

Total revenues fell 8.0 percent in October compared with October 2008. All major sources except corporate income tax fell from last October, while individual refunds continued to run ahead of expectations. On a year-to-date basis, total revenues fell 7.6 percent, trailing the annual forecast of a 1.6 percent decline.

Net Individual Income Tax (66% of general fund revenues): Through the first four months of the fiscal year, collections of net individual income tax fell by 8.6 percent from the same period last year, trailing the estimate of a 1.8 percent decline. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (66% of general fund revenues): Collections of payroll withholding taxes fell 8.2 percent in October. Year-to-date withholding collections declined by 3.9 percent over the same period last year, trailing the projected annual growth rate of a 2.1 percent increase.

Individual Income Tax Nonwithholding (14% of general fund revenues): October is typically a slow month for nonwithholding collections. Year-to-date, collections through October were \$373.3 million compared with \$496.2 million in the same period last year, falling 24.8 percent compared with the annual estimate of a 16.8 percent decline. The next significant collections month in this source is January, when the fourth quarter estimated payment is due.

Individual Income Tax Refunds: Through October, \$220.2 million in individual refunds have been issued, compared with \$174.9 million in the same period last year, exceeding expectations. Activity through October, primarily high-income extension returns, reflects the impact on income of the October 2008 financial crisis.

Sales Tax (21% of general fund revenues): Collections of sales and use taxes, reflecting September sales, fell 5.4 percent in October. On a year-to-date basis, collections have fallen 5.8 percent, lagging the annual estimate of a 0.4 percent decline and the policy adjusted forecast decline of 4.1 percent. (Major policy adjustments include amnesty and the sales tax remittance program adopted by the 2009 General Assembly.)

Corporate Income Tax (5% of general fund revenues): October collections in this source include estimated payments from corporations with a February through January fiscal year, including many retailers. October receipts were \$36.9 million compared with \$21.9 million in October 2008. On a year-to-date basis, collections in this source have fallen 0.1 percent, lagging the forecast of 2.2 percent growth.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – fell 3.1 percent in October and are down 9.2 percent on a year-to-date basis, near the forecast of a 9.6 percent decline. Collections in this source are similar to the level received in 2002.

Other Revenue Sources

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

| | <u>Year-to-Date</u> | <u>Annual Estimate</u> |
|--------------------------------------|----------------------------|-------------------------------|
| Insurance Premiums (2% GF revenues)* | 0.0% | 0.2% |
| Interest Income (1% GF revenues) | -15.9% | -3.3% |
| ABC Taxes (1% GF revenues) | -2.5% | 4.5% |

* Monthly collections of insurance premiums are being transferred to the Transportation Trust Fund per Chapter 896, 2007 Acts of the Assembly, until the required amount of \$129.1 million has been booked.

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue fell 12.3 percent in October – \$29.1 million compared with \$33.2 million last October. Collections in fines, forfeitures, and fees drove the decline. For the fiscal year-to-date, collections of All Other Revenue fell 2.1 percent from the same period in fiscal year 2009, ahead of the annual estimate of a 9.8 percent decline.

Summary

Total revenues fell 8.0 percent in October compared with October 2008. Collections in all major sources except corporate income tax fell from last October, while individual refunds continued to run ahead of expectations. On a year-to-date basis, total revenues fell 7.6 percent, trailing the annual forecast of a 1.6 percent decline.

The Governor's Advisory Board of Economists (GABE) met on October 14 to discuss the economic outlook for fiscal year 2010 and the next biennium. A meeting of the Governor's Advisory Council on Revenue Estimates (GACRE) is scheduled on November 23, where members will evaluate both the GABE recommendations and revenue collections through October. GACRE recommendations will be incorporated into the general fund revenue forecast to be released on December 18, 2009.