



COMMONWEALTH of VIRGINIA

Office of the Governor

John M. Bennett
Secretary of Finance

P.O. Box 1475
Richmond, Virginia 23218

October 14, 2003

MEMORANDUM

TO: The Honorable Mark R. Warner

THROUGH: The Honorable William H. Leighty

FROM: John M. Bennett

SUBJECT: September Revenue Data

Total general fund revenue collections increased 6.1 percent in September. Through the first quarter of the fiscal year, revenues grew 8.4 percent above the same period last year, ahead of the annual estimate of 4.6 percent growth. If the enhanced federal reimbursement for Medicaid is removed, year-to-date growth is 7.2 percent.

Although Hurricane Isabel disrupted both business activity and mail delivery, revenue collections to-date seem to suggest that the impact on collections was minimal.

National Economic Indicators

The national economy appears to be gaining some strength, although twenty-two months from the economic trough, the labor market remains stagnant. With that exception, recent indicators generally depict a moderate economic growth.

- Payroll employment rose by 57,000 jobs in September, the first monthly gain since January. In addition, more than half of the August job loss was revised away. As has been the pattern over the last few months, jobs were gained in temporary employment, construction, retail trade, and financial services. The unemployment rate remained steady at 6.1 percent.

- Initial claims for unemployment rose to 399,000 during the last week of September. Initial claims remain elevated -- the four-week average has been just above the critical 400,000 level for five consecutive weeks -- indicating the labor market is stalled.

- The manufacturing sector continues to expand modestly. The Institute of Supply Management index fell slightly to 53.7 in September, but remained above the break-even level for the third straight month.

- The Conference Board's index of leading indicators rose 0.4 percent in August -- the fifth month in a row that the index has increased. The index indicates that the economy is improving, although only four of the index's ten components grew during the month.

- The Conference Board's index of consumer confidence fell almost five points in September, reaching the lowest level since March. Both the future expectations and present situation components dropped, primarily due to the weak labor market.

- The final estimate of real GDP growth for the second quarter was revised upward to 3.3 percent. Consumption growth remained solid and fixed investment finally posted a strong gain.

Virginia Economy

In Virginia, payroll employment grew by 0.1 percent above August of last year, and the unemployment rate dropped to 3.8 percent. Northern Virginia employment grew 0.7 percent in August, has now experienced eight consecutive months of job growth.

The Virginia Leading Index rose 1.2 percent in August -- its fourth consecutive monthly gain. All four components of the index increased, suggesting economic growth in the Commonwealth will continue for the next three to six months. The leading indices for all seven of the major metropolitan areas also increased in August.

September Revenue Collections

September is a significant month for revenue collections, with the first estimated payment of the fiscal year due for most major revenue sources. With one additional deposit day, revenue collections grew 6.1 percent above September of last year. Growth through the first quarter of fiscal year 2004 is 8.4 percent, ahead of the estimate of 4.6 percent annual growth. If the enhanced federal reimbursement for Medicaid is removed, year-to-date growth is 7.2 percent.

Individual Income Tax Withholding (62% of general fund revenues): With the extra deposit day, collections in withholding grew 4.0 percent above last September. It is not clear to what extent the disruption to businesses and mail delivery caused by the hurricane impacted receipts in this source. Year-to-date withholding growth is 4.6 percent -- trailing the 6.5 percent growth required to meet the annual estimate.

Individual Income Tax Refunds: September is typically a slow month for issuing refunds. Nevertheless, about \$10.9 million less was refunded this September than last. Through the first quarter of the fiscal year, about \$33.2 million less in refunds have been issued (\$86.4 million this year, compared with \$119.6 million for the same period last year) -- a decline of 27.8 percent. Reduced refunds account for about 1.3 percent of the 8.2 percent revenue growth thus far this fiscal year.

Individual Income Tax Nonwithholding (12% of general fund revenues): The first individual estimated payment for fiscal year 2004 was due in mid-September. Collections in this source grew 0.9 percent from September of last year. Year-to-date collections are 1.6 percent ahead of collections for the same period last year - exceeding the forecast of a 4.8 percent decline.

Sales Tax (22% of general fund revenues): Collections of sales and use taxes increased by 4.6 percent in September. Growth for the first quarter of the fiscal year, which represents sales in June, July and August, is 6.8 percent - above the current estimate of 5.3 percent.

Corporate Income Tax (3% of general fund revenues): The first estimated payment for corporate income taxes is also due in mid-September. Collections of corporate income taxes increased by 24.1 percent in September, with receipts of \$106.3 million, compared with \$85.6 million in September of last year. Year-to-date growth for the first quarter of fiscal year 2004 is 25.8 percent, substantially ahead of the annual estimate for the year.

Insurance Premiums Taxes (3% of general fund revenues): The first significant payment of taxes on the gross receipts of insurance companies is also due in September. Collections in this source grew 9.5 percent from September of last year. Year-to-date growth is 3.8 percent, exceeding the annual estimate of 0.9 percent growth.

Other Revenue Sources

The following list provides data on September collections of other key taxes:

	Year-to-Date	Required to Meet Estimate
ABC Taxes (1.1% GF revenues)	9.1%	-0.5%
Public Service Corporations (0.7% GF revenues)	-18.1%	-8.2%
Interest Income (0.7% GF revenues)	-26.0%	-2.1%

All Other Revenue. Revenue from all other sources increased 3.8 percent in September -- \$65.4 million compared with \$63.0 million in September of last year. Collections of wills, suits, deeds and contract fees (primarily recordation taxes) continued their strong growth, while most of the remaining components of Other Revenue declined.

On a year-to-date basis, collections of all other revenue are 37.2 percent above the same period last year - ahead of the annual forecast of a 2.7 percent decline. As noted in last month's revenue letter, a large federal Medicaid payment in August is distorting year-to-date growth in this source. Without this payment, All Other Revenue would have grown 17.7 percent year to date.

Lottery Revenues. Even though many retailers were closed for part of the month due to Hurricane Isabel, Lottery sales and net income in September were higher than for the same month last year. Sales attracted by a Mega Millions jackpot of \$150 million and strong scratch ticket sales offset lower sales in the daily games. Lottery net income increased 9.7 percent over last year and on a year-to-date basis has grown 3.9 percent -- above the annual revenue estimate of -1.0 percent.

Summary

Revenue collections grew 6.1 percent in September. For the first quarter of the fiscal year, total general fund revenue collections are up 8.4 percent, ahead of the annual estimate of 4.6 percent growth. If the enhanced federal reimbursement for Medicaid is removed, year-to-date growth is 7.2 percent.

An extra deposit day boosted receipts, and most revenue sources showed growth for the month. Overall, first quarter collections were slightly stronger than expectations. Sales tax receipts and estimated corporate income tax payments are showing signs that the moderate economic recovery is taking hold.

The fall revenue forecasting process has begun. The Governor's Advisory Board of Economists will meet in October as the first step in assessing the strength of the Virginia economy over the next biennium. This forecast will serve as the basis for the revised revenue forecast, which will be released in December.

(PDF format, 190 K)