



COMMONWEALTH of VIRGINIA

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PO Box 1475
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MEMORANDUM

TO: The Honorable Robert F. McDonnell

THROUGH: The Honorable Martin Kent

FROM: Richard D. Brown *Richard D. Brown*

SUBJECT: September Revenue Data

September completes the first quarter of fiscal year 2013 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 fell 0.7 percent in September, mainly driven by a decline in corporate income tax receipts. In addition, two fewer deposit days than September of last year contributed to the weakness. On a year-to-date basis, total revenue collections rose 1.3 percent through September, trailing the annual forecast of 2.9 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 0.4 percent through September, trailing the adjusted forecast of 2.7 percent growth.

National Economic Indicators

Current national indicators suggest the economic expansion continues at a modest pace.

- According to the third estimate, real GDP grew at an annualized rate of 1.3 percent in the second quarter of 2012, slowing from 2.0 percent in the first quarter and 4.1 percent in the fourth quarter of 2011.
- The labor market remains weak -- payroll employment grew by a modest 114,000 jobs in September. Figures for July and August, however, were revised upwards by a combined 86,000 jobs. In a separate report, the unemployment rate fell from 8.1 percent to 7.8 percent in September, driven by a huge increase in household employment of 873,000. The household survey data tend to be quite volatile.

- Initial claims for unemployment rose by 4,000 to 367,000 during the week ending September 29. The four-week moving average was unchanged at 375,000. Over the last few months, claims have been rising and falling, reflecting the uneven recovery in the labor market.
- Following an increase of 0.5 percent in July, the Conference Board's index of leading indicators fell 0.1 percent in August, driven by a decline in consumer expectations and a shorter workweek.
- The Conference Board's index of consumer confidence jumped from 61.3 to 70.3 in September. A substantial increase in the expectations component drove the gain, but the present situation component also improved.
- Although the manufacturing sector remains weak, the Institute of Supply Management index rose from 49.6 to 51.5 in September, rising above the expansionary threshold of 50.0 for the first time since May.
- The CPI rose 0.6 percent in August, and stands 1.7 percent above August 2011. This first increase in five months was driven by rising gas prices. Core inflation (excluding food and energy prices) rose 0.1 percent in August, and has increased 1.9 percent from August 2011.
- The Federal Reserve announced at its September meeting that it will keep the federal funds target rate at 0.0 to 0.25 percent and will launch a third round of quantitative easing.

Virginia Economy

In Virginia, employment rose 1.3 percent in August from August of last year. (Employment growth was overstated due to a Bureau of Labor Statistics procedural change in the reporting sample for private education.) Northern Virginia posted growth of 2.5 percent; Hampton Roads grew 0.3 percent; and Richmond-Petersburg rose 1.5 percent. The unemployment rate in the Commonwealth fell 0.3 percentage point to 5.8 percent in August and was 0.7 percentage point below the August 2011 rate.

The Virginia Leading Index was unchanged in August after rising 0.3 percent in July. All components, except initial claims and future employment, declined. The Leading Index contracted in six of the eleven major metro areas in the Commonwealth in August, while the indexes for Lynchburg, Danville, and Harrisonburg improved, and the indexes in Richmond and Hampton Roads were unchanged.

September Revenue Collections

Total general fund revenue collections fell 0.7 percent in September, mainly driven by a decline in corporate income tax receipts. On a year-to-date basis, total revenue collections rose 1.3

percent through September, trailing the annual forecast of 2.9 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 0.4 percent through September, trailing the adjusted forecast of 2.7 percent growth.

Net Individual Income Tax (67% of general fund revenues): Through September, collections of net individual income tax rose 0.2 percent from the same period last year, trailing the annual estimate of 2.8 percent growth. 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 rose 0.5 percent in September with two fewer deposit days than September of 2011 dampening growth. Year-to-date, withholding collections fell 0.7 percent compared with the same period last year, trailing the projected annual growth rate of 3.5 percent. October will have two additional deposit days and provide a more balanced picture of revenue growth in payroll withholding.

Individual Income Tax Nonwithholding (15% of general fund revenues): September is a significant month for collections in this source since the first estimated payment for fiscal year 2013 is due. Collections rose 5.1 percent in September from September of last year. Collections for the fiscal year were \$362.4 million compared with \$348.0 million in the first quarter of last year, rising by 4.1 percent and ahead of the annual estimate of 3.6 percent growth.

Individual Income Tax Refunds: Through September, the Department of Taxation has issued \$98.2 million in refunds compared with \$105.7 million last year. Year to date, refunds have fallen 7.1 percent, lagging the annual estimate of 7.8 percent growth.

Sales Tax (20% of general fund revenues): Collections of sales and use taxes, reflecting August sales, rose 3.6 percent in September. On a year-to-date basis, collections have risen 10.4 percent, compared with the annual estimate of 2.8 percent growth. The strong year-to-date growth is due to the partial repeal of the accelerated sales tax program. Adjusting for this legislation, sales tax collections have grown by 4.2 percent year-to-date, ahead of the economic-base forecast of 1.7 percent growth.

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 fell 17.7 percent in September, mainly due to a weakness in payments from large corporations. Through September, collections in this source have fallen 11.8 percent from the same period last year, lagging the estimate of a 3.0 percent increase.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$26.9 million in September, compared with \$26.7 million in September of last year, a 0.9 percent increase. This is the first time in eight months that growth has fallen below double-digit rates. On a year-to-date basis, collections are up 14.9 percent, ahead of the annual forecast of 0.3 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 Tax (2% GF revenues)	NA	16.1%
Interest Income (0.5% GF revenues)	-8.9%	0.3%
ABC Taxes (1% GF revenues)	13.7%	-0.8%

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 \$130.1 million has been deposited.

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue fell 28.9 percent in September – \$22.1 million compared with \$31.1 million last year. Most of the decline was attributable to a drop in receipts from public service corporations. On a year-to-date basis, collections of All Other Revenue fell 14.0 percent, trailing the annual estimate of 3.7 percent growth.

Summary

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The fall revenue forecasting process has begun. The Joint Advisory Board of Economists (JABE) met October 10th to assess recent economic developments and the outlook for the current and next biennia. The Governor's Advisory Council on Revenue Estimates (GACRE) will meet on November 19th to evaluate both the JABE economic recommendations and revenue collections through October.