



**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 

SUBJECT: September Revenue Data

September completes the first quarter of fiscal year 2010 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, and other sources.

Total general fund revenue collections fell 7.5 percent in September compared with September 2008. All major sources except payroll withholding fell from last September, while individual refunds continued to run ahead of expectations. On a year-to-date basis, total revenues have declined 7.4 percent, trailing the annual forecast of a 1.6 percent decline (a 2.6 percent decline absent tax policy changes). All major sources are trailing their respective forecasts through the first quarter of fiscal year 2010.

**National Economic Indicators**

Most national indicators suggest the recession has likely ended, positioning the economy to grow in the third quarter.

- In the final report for the second quarter, real GDP was revised up from a 1.0 percent decline to a 0.7 percent decline.

- Labor market conditions continued to deteriorate in September. Payroll employment fell by 263,000 after falling by 201,000 in August. The services sector led the decline, falling by 94,000 jobs. The Labor Department reported that the unemployment rate rose by 0.1 to 9.8 in September.
- Initial claims for unemployment fell by 33,000 to 521,000 during the week ending October 3. The four-week moving average fell slightly from 549,000 to 539,000. The four-week average has fallen in each of the last five weeks, which suggests a gradual trend toward stability in the labor market.
- The Conference Board's index of leading indicators rose 0.6 percent to 102.5 in August, its fifth consecutive monthly increase. Seven of the ten components were either positive or neutral. Since hitting its low point in March, the index has regained two-thirds of its peak-to-trough decline, suggesting the economy is improving.
- Consumer confidence remains consistent with a downturn in the economy. The Conference Board's index of consumer confidence fell by 1.4 to 53.1 in September, after increasing by 7.1 points in August. The current conditions component led the decline, although the expectations component also fell modestly from its nearly two-year high in August.
- The recovery in the manufacturing sector slowed in September. The Institute of Supply Management index fell by 0.3 point in September, from 52.9 to 52.6. Although the index remains above the expansionary threshold of 50, the slight decline is indicative of slow, uneven growth.
- Inflation remains very low. The CPI rose 0.4 percent in August, driven by rising gasoline prices. Core inflation rose 0.1 percent in August and stands 1.5 percent above August of last year.
- The Federal Reserve kept the federal funds target rate in the 0.0 to 0.25 percent range at its September meeting, and expects to keep it there "for an extended period."

### **Virginia Economy**

In Virginia, payroll employment fell by 3.0 percent in August, matching the revised decline in July. Employment in the Commonwealth has now fallen for twelve consecutive months. Northern Virginia posted a decline of 1.0 percent, Hampton Roads fell 1.1 percent, and employment in the Richmond-Petersburg area fell 3.7 percent in August. The unemployment rate in Virginia fell from 6.9 percent to 6.5 percent in August. As in the nation, the Virginia labor force contracted in August.

The Virginia Leading Index rose 0.6 percent in August for its fourth 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 August.

### **September Revenue Collections**

Total general fund revenue collections fell 7.5 percent in September compared with September 2008. On a year-to-date basis, total revenues fell 7.4 percent, trailing the annual forecast of a 1.6 percent decline. All major sources are trailing their forecasts through the first quarter of fiscal year 2010.

***Net Individual Income Tax (66% of general fund revenues)***: Through the first quarter of the fiscal year, collections of net individual income tax fell by 6.9 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 grew 4.0 percent in September. Year-to-date withholding collections declined by 2.3 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)***: The first estimated payment in fiscal year 2010 was due in September. Year to date, collections through September were \$311.3 million compared with \$406.5 in the same period last year, falling 23.4 percent compared with the annual estimate of a 16.8 percent decline.

***Individual Income Tax Refunds***: Through September, \$150.8 million in individual refunds have been issued, compared with \$127.2 million in the same period last year, exceeding expectations.

***Sales Tax (21% of general fund revenues)***: Collections of sales and use taxes, reflecting August sales, fell 6.6 percent in September. Part of the decline in August sales is due to the late Labor Day this year that pushed last minute back to school shopping sales to September. On a year-to-date basis, collections have fallen 5.9 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 new sales tax remittance program.)

***Corporate Income Tax (5% of general fund revenues)***: The first estimated payment for the fiscal year was due in September. Collections in corporate income tax fell 10.6 percent in September. On a year-to-date basis, collections in this source have fallen 7.9 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 13.6 percent in September and are down 10.9 percent on a year-to-date basis, near the forecast of a 9.6 percent decline.

### **Other Revenue Sources**

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

	<b><u>Year-to-Date</u></b>	<b><u>Annual Estimate</u></b>
Insurance Premiums (2% GF revenues)*	0.0%	0.2%
Interest Income (1% GF revenues)	-45.9%	-3.3%
ABC Taxes (1% GF revenues)	-4.0%	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 grew 8.1 percent in September – \$30.1 million compared with \$27.8 million last September. Collections in fines, forfeitures, and fees drove the increase. For the fiscal year-to-date, collections of All Other Revenue rose 1.9 percent from the same period in fiscal year 2009, ahead of the annual estimate of a 9.8 percent decline.

### **Summary**

Total general fund revenue collections fell 7.5 percent in September compared with September of last year. All major sources except payroll withholding were lower than last September, while individual refunds continued to exceed expectations. Year to date, total revenues fell 7.4 percent through September, trailing the annual forecast of a 1.6 percent decline (a 2.6 percent decline absent tax policy changes).

A meeting of the Governor's Advisory Board of Economists (GABE) is scheduled for October 14, 2009 to assess any changes in the economy since their meeting in July. This will be followed by a meeting on November 23 of the Governor's Advisory Council on Revenue Estimates (GACRE), which will evaluate both the GABE recommendations and revenue collections through October.