



COMMONWEALTH of VIRGINIA

Office of the Governor

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MEMORANDUM

TO: The Honorable Mark R. Warner

THROUGH: The Honorable William H. Leighty

FROM: John M. Bennett

SUBJECT: September Revenue Data

September revenue collections grew 10.2 percent above collections for September of last year - only the second positive month of revenue growth in the last 10 months. September included one additional deposit day, and is being compared to a very weak September of 2001, when mail disruptions in the aftermath of last fall's anthrax scares delayed deposits. Large increases in recordation and large one-time estate tax payments also contributed to this September's positive growth.

On a year-to-date basis, total general fund revenue collections through the first quarter of the fiscal year are 1.1 percent above collections for the same period last year, slightly ahead of the annual forecast of 0.8 percent growth.

National Economic Indicators

Current indicators suggest the nation's economic recovery is at a standstill.

- Revised second quarter growth in real GDP was a very slow 1.3 percent.

- Labor market indicators were mixed in September. U.S. payrolls declined by 43,000 for the month, although the August gain was revised upward from 39,000 to 107,000 jobs. Initial claims for unemployment have been rising. Taken together, the data depict a weak labor market in September.

- Total personal income grew 0.4 percent in August, an improvement from flat growth in July. The wage and salary component rose by 0.5 percent, the second highest rate of growth so far this year. Consumption expenditures increased a moderate 0.3 percent.

- The Conference Board's index of leading indicators fell for the third consecutive month in August, with seven of the ten components declining. The broad-based decline is evidence of significant economic weakness and suggests the pace of recovery is slowing.

- The manufacturing sector appears to be slightly contracting after seven consecutive months of growth. The Institute of Supply Management index (formerly the NAPM) fell to 49.5 percent in September -- below the break-even level of 50.0 percent.
- At its meeting on September 24, the Federal Open Market Committee left interest rates unchanged and maintained a bias toward future easing.
- The consumer price index rose 0.3 percent in August, although inflation remains contained with an increase of just 1.8 percent from a year ago.
- Finally, consumer confidence fell in September for the fourth month in a row, as consumers' view of the labor market deteriorated and buying plans fell dramatically.

The Virginia Economy

The job market in Virginia remains weak. The unemployment rate rose slightly to 4.2 percent in August and payroll employment dropped 0.8 percent compared with August of last year - the thirteenth consecutive month of negative growth. In Northern Virginia, which represents about a third of all jobs in the state, employment declined by 1.2 percent in August.

The Virginia Leading Index rose by 0.2 percent in August after increasing 0.7 percent in July, finally breaking its "up a month, down a month" pattern over the past eight months.

September Revenue Collections

September is a key month because the first estimated payments of the fiscal year are due in both individual and corporate income taxes.

Revenue collections grew 10.2 percent above September of last year, although two factors distorted collections for the month. Last year, mail delivery slowed considerably following the anthrax scares, causing some estimated payment checks to arrive in October. And, September included an extra deposit day this year.

On a year-to-date basis, total revenues have grown 1.1 percent through the first quarter of the fiscal year.

Individual Income Tax Withholding (62% of general fund revenues): The additional deposit day in September -- making up for the one less day in August -- boosted collections in withholding to 10.5 percent for the month. Year-to-date growth through September is 2.8 percent, still below the annual estimate of 3.5 percent growth which was imbedded in the August revenue re-forecast. A pick-up in withholding growth will be necessary in order to meet the 3.5 percent growth projection.

Individual Income Tax Refunds: September is typically a slow month for issuing refunds. For the first quarter of fiscal year 2003, refunds were \$119.6 million compared with \$175.3 million in the same period last year, a decline of 31.8 percent.

Individual Income Tax Nonwithholding (12% of general fund revenues): The first individual estimated payment of fiscal year 2003 was due in September.

Nonwithholding collections fell 2.3 percent from September of last year. Year-to-date, collections fell 2.7 percent -- well ahead of the forecast of -11.6 percent. Last year, about \$15 million of September payments were received in October because of mail disruptions. September collections are therefore weaker than they appear. October collections are likely to be weak in this source and year-to-date growth through October will likely be closer to the annual growth rate in the forecast.

Sales Tax (22% of general fund revenues): Sales tax collections for September grew 3.1 percent in September.

Adjusting for accelerated sales tax payments, collections in this source increased 1.8 percent in the first quarter of the fiscal year - behind the forecast of 2.7 percent growth.

Corporate Income Tax (3% of general fund revenues): September is the first significant month of corporate income tax receipts for the fiscal year. Estimated payments are due on the fifteenth of the month. Corporate collections grew about 19.0 percent for the month -- \$85.6 million compared with \$72.0 million in September last year.

Year-to-date growth of 15.8 percent is far ahead of the annual estimate of a 7.7 percent decline. Growth in this source is also overstated, because of mail disruptions last September. About \$20 million in estimated payments sent through certified mail last September was received in October. Therefore, a true picture of growth in this source will not be available until the end of October.

Insurance Premiums Tax (3% of general fund revenues): Taxes on the gross receipts of insurance companies were up 5.0 percent from September of last year. Year-to-date growth of 13.9 percent is well ahead of the annual estimate of 4.5 percent growth. Underlying growth in this source will be more evident after refunds are issued in October and November.

Other Revenue Sources

September was not a significant month for a number of other revenue sources. The following list provides data on other key taxes:

	Year-to-Date	Required to Meet Estimate
ABC Taxes (1.1% GF revenues)	1.9%	1.2%
Interest Income (1.0% GF revenues)	-27.1%	-70.1%
Public Service Corporations (.9% GF revenues)	59.6%	8.2%

All Other Revenue. Revenue from all other sources increased 81.6 percent in September -- \$63.0 million this September compared with \$34.7 million last September. Three sources caused the strong growth - estate payments, recordation taxes, and fines, fees, and forfeitures.

Exceptionally large estate payments were received in September - \$21.5 million compared with \$6.8 million last year. The wave of refinancings continues to drive a sharp increase in recordation taxes. And, collections in fines, forfeitures and fees jumped 41.4 percent, partially due to fee increases.

On a year-to-date basis, collections of all other revenue were 32.2 percent above the same period last year, far ahead of the annual forecast of 13.3 percent growth.

Lottery Revenues. The forecast for Lottery revenues was not updated with the August forecast revisions. Year-to-date percent increases and growth rates required to meet the forecast are therefore distorted.

In September, lottery net income increased 18.2 percent over last September as scratch game sales continue to enjoy strong double-digit growth. On a year-to-date basis, growth of 17.3 percent is significantly above the annual growth rate required to meet forecast in the Appropriation Act.

Summary

September was only the second positive month of revenue growth in ten months. Total year-to-date collections through

the first quarter are 1.1 percent above collections for the same period last year -- slightly ahead of the annual estimate of 0.8 percent growth.

September's revenue growth of 10.2 percent was largely due to an additional deposit day and the mail disruptions last September. Significant increases in recordation and estate taxes further bolstered September's results.

Key revenue source activity in September -- payroll withholding, sales taxes and estimated tax payments from individuals and corporations -- were close to the levels needed to meet the interim forecast. Payroll withholding and sales tax collections will need to continue to pick up strength during the fall in order to stay on target with the forecast.

The fall revenue forecasting process has begun. The Governor's Advisory Board of Economists will meet this month to assess the strength of the Virginia economy over the next biennium.