



**COMMONWEALTH of VIRGINIA**  
*Office of the Governor*

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November 12, 2010

**MEMORANDUM**

TO: The Honorable Robert F. McDonnell

THROUGH: The Honorable Martin Kent

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, mainly retailers, that use a February through January fiscal year.

Total general fund revenue collections rose 3.7 percent in October. The monthly increase was driven by solid growth in withholding and sales taxes, which continue to post modest monthly increases. On a year-to-date basis, total revenue collections fell 0.4 percent, trailing the annual forecast of 2.6 percent growth. Adjusting for the accelerated sales tax program in June 2010, total revenues grew 3.6 percent through October, slightly lagging the economic-base forecast of 4.2 percent growth.

**National Economic Indicators**

Current national indicators suggest the weak economic expansion is continuing.

- According to the advance estimate, real GDP grew 2.0 percent at an annualized rate in the third quarter of 2010, following second-quarter growth of 1.7 percent. This marked the fifth consecutive quarter of growth since the recession officially ended in June 2009. Much of the growth, however, is due to inventory rebuilding and federal stimulus spending, and these effects are fading.

- Although the labor market remains weak, solid job growth in October suggests the recovery may be sustained. Payroll employment rose by 151,000 jobs in October, the first gain since May. In a separate report, the unemployment rate remained unchanged at 9.6 percent.
- Initial claims for unemployment increased by 20,000 to 457,000 during the week ending October 30, and the four-week moving average rose from 454,000 to 456,000. The initial claims data are consistent with a stagnant job market.
- The Conference Board's index of leading indicators rose 0.3 percent in September, after increasing 0.1 percent in August and 0.2 percent in July. The small gain in the index is consistent with a slow recovery.
- The Conference Board's index of consumer confidence rose from 48.6 to 50.2 in October, but remained at its second lowest level since February. Both the expectations and current conditions components increased, with the expectations component leading the gain. The index remains at a very low level, suggesting consumer spending is not likely to accelerate.
- The expansion in the manufacturing sector increased in October, reversing the recent trend of slowing growth. The Institute of Supply Management index rose from 54.4 to 56.9 in October. This month's report signals a continuation of the recovery that began 15 months ago.
- Inflation remains low – the CPI increased 0.1 percent in September from the previous month. Core inflation (excluding food and energy prices) was flat in September and stands 0.8 percent above September of last year. This was the lowest 12-month increase in the index since March 1961.
- The Federal Reserve announced at its November meeting that it will keep the federal funds rate target unchanged at 0.0 to 0.25 percent. In addition, quantitative easing will be expanded by purchasing long-term treasury securities.

## **Virginia Economy**

In Virginia, employers added jobs for the third consecutive month in September. July 2010 was the first month of job growth since August 2008. Payroll employment in the Commonwealth grew 0.8 percent in September from September of last year. The pace of growth was modest, but steady, in Northern Virginia and Hampton Roads, while Richmond-Petersburg saw a slight job loss in September. Compared with September of last year, Northern Virginia posted a gain of 1.2 percent, Hampton Roads grew 0.8 percent, and Richmond-Petersburg fell 0.3 percent. The unemployment rate fell from 7.0 percent to 6.5 percent in September, well below the peak of 7.8 percent in February and the lowest rate since November 2009.

The Virginia Leading Index rose 0.1 percent in August, its second consecutive increase. Three of the five components contributed to the increase: future employment, building permits, and the

U.S. leading index. Auto registrations declined and initial claims for unemployment were up. The Leading Index declined in seven of the eleven Virginia metro areas in August. Only Northern Virginia, Hampton Roads, Charlottesville, and Bristol had increases in the index.

### **October Revenue Collections**

Total general fund revenue collections rose 3.7 percent in October. On a year-to-date basis, total revenue collections fell 0.4 percent, trailing the annual forecast of 2.6 percent growth. Adjusting for the accelerated sales tax program in June 2010, total revenues grew 3.6 percent through October, slightly lagging the economic-base forecast of 4.2 percent growth.

***Net Individual Income Tax (66% of general fund revenues)***: Through October, collections of net individual income tax rose 4.6 percent from the same period last year, trailing the annual estimate of 5.5 percent growth. Performance in each component of individual income tax is as follows:

***Individual Income Tax Withholding (64% of general fund revenues)***: With one less deposit day than October of last year, collections of payroll withholding taxes grew 4.0 percent in October. This marked the sixth consecutive month of growth in this source. Year-to-date withholding collections grew 4.3 percent compared with the same period last year, ahead of the projected annual growth rate of 2.4 percent.

***Individual Income Tax Nonwithholding (15% of general fund revenues)***: October is typically not a significant month for nonwithholding collections. Year-to-date collections through October were \$352.9 million compared with \$373.3 million in the same period last year, falling 5.5 percent compared with the annual estimate of 11.0 percent growth.

***Individual Income Tax Refunds***: Through October, TAX has issued \$184.1 million in individual refunds compared with \$220.2 million in the same period last year, a 16.4 percent decline and behind the annual estimate of a 3.5 percent decline.

***Sales Tax (20% of general fund revenues)***: Collections of sales and use taxes, reflecting September sales, rose 6.5 percent in October, the seventh consecutive month of economic-base growth. On a year-to-date basis, collections have fallen 13.6 percent. The large year-to-date decline is due to the accelerated sales tax program in fiscal year 2010, which required dealers to remit July payments in June 2010. Adjusting for this program, sales tax collections have grown by 5.3 percent year-to-date, ahead of the economic-base forecast of a 0.8 percent increase.

***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 \$39.2 million compared with \$36.9 million in October 2009. On a year-to-date basis, collections in this source have risen 1.7 percent, ahead of the estimate of a 1.7 percent decline.

***Wills, Suits, Deeds, Contracts (2% of general fund revenues)***: Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – rose 1.9 percent in October, the third

consecutive month of growth in this source. On a year-to-date basis, collections are down 4.0 percent, trailing the forecast of 8.2 percent growth.

### **Other Revenue Sources**

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

	<b><u>Year-to-Date</u></b>	<b><u>Annual Estimate</u></b>
Insurance Premiums* (2% GF revenues)	NA	4.8%
Interest Income** (1% GF revenues)	-50.3%	14.6%
ABC Taxes (1% GF revenues)	3.5%	1.7%

*\*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 \$130.3 million has been added.*

*\*\*Interest was allocated in accordance with Section 3-3.03 of Chapter 874, 2010 Virginia Acts of Assembly*

***All Other Revenue (3% of general fund revenues)***: Receipts in All Other Revenue fell 14.2 percent in October – \$25.0 million compared with \$29.1 million last October. For the fiscal year, collections of All Other Revenue fell 1.8 percent from the same period in fiscal year 2010, lagging the annual estimate of 6.4 percent growth.

### **Summary**

Total general fund revenue collections rose 3.7 percent in October. Continued growth in withholding and sales taxes drove the increase. On a year-to-date basis, total revenue collections fell 0.4 percent, trailing the annual forecast of 2.6 percent growth. Adjusting for the accelerated sales tax program in June 2010, total revenues grew 3.6 percent through October, slightly lagging the economic-base forecast of 4.2 percent growth.

The Joint Advisory Board of Economist (JABE) met in October to discuss the economic outlook for fiscal year 2011 and the next biennium. A meeting of the Governor's Advisory Council on Revenue Estimates (GACRE) is scheduled on November 22, where members will evaluate both the JABE recommendations and revenue collections through October. GACRE recommendations will be incorporated into the general fund revenue forecast to be released on December 17, 2010.