



# Revenue and Budget Update

## *A Briefing for the House Appropriations Committee*

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# Topics for Discussion

- National and State Economic Indicators
- First Quarter Revenue Collections, Fiscal Year 2010
- Fall Forecasting Process

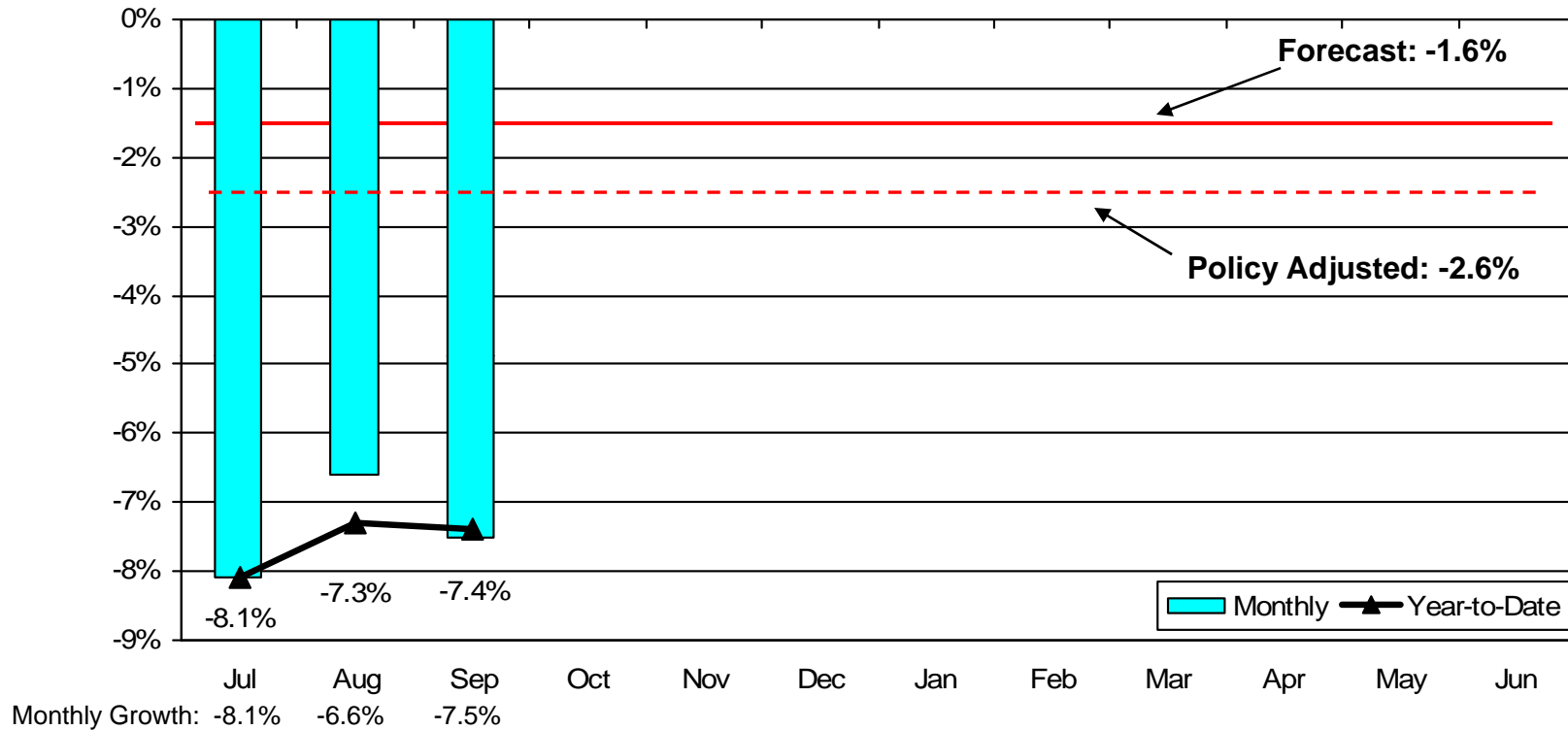
# National and State Economic Indicators

- Most national indicators suggest the recession has ended and the economy is poised 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 with payroll employment falling by 263,000.
  - The services sector led the decline, falling by 94,000 jobs.
- The national unemployment rate rose by only 0.1 to 9.8 in September, as the labor force contracted sharply.
  - September's rate was the highest since June 1983 (10.1 percent).
- Virginia's August payroll employment fell for the twelfth consecutive month by 3.0 percent, matching the revised decline in July, and the largest monthly drop since August 1954.
  - 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.
  - The unemployment rate was 4.3 percent in August 2008.

# National and State Economic Indicators

- 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.
- The Conference Board's index of leading indicators rose 0.6 percent to 102.5 in August, its fifth consecutive monthly increase.
  - Since the low in March, the index has regained two-thirds of its peak-to-trough decline, which suggests the economy is improving.
- 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.
- Inflation remains very low, with the August CPI increasing by 0.4 percent, driven by rising gasoline prices.
  - Core inflation rose 0.1 percent in August and stands 1.5 percent above August of last year.
- 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.

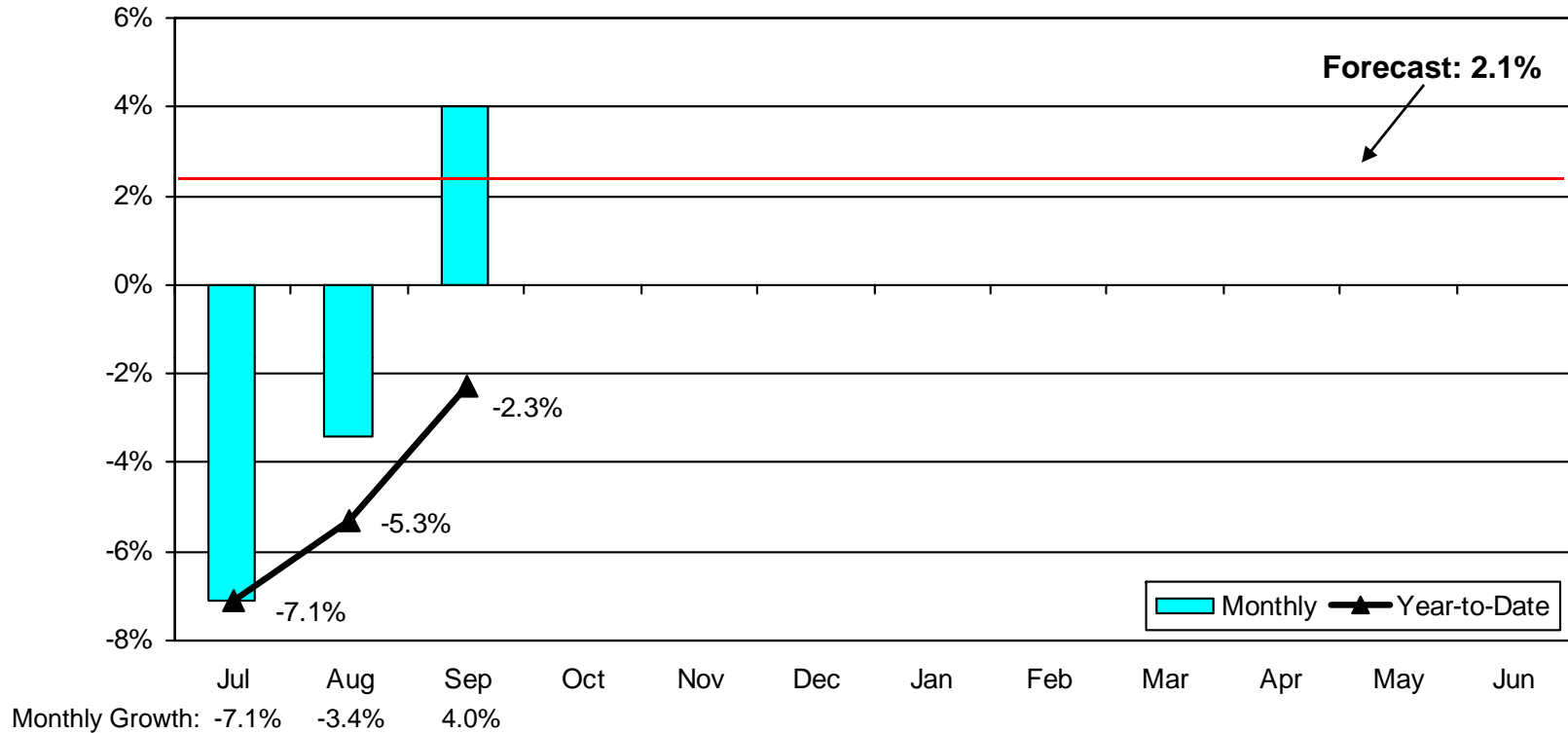
## Growth in Total General Fund Revenue Collections FY10 Monthly and Year-to-Date



- 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 (-2.6 absent tax policy changes).

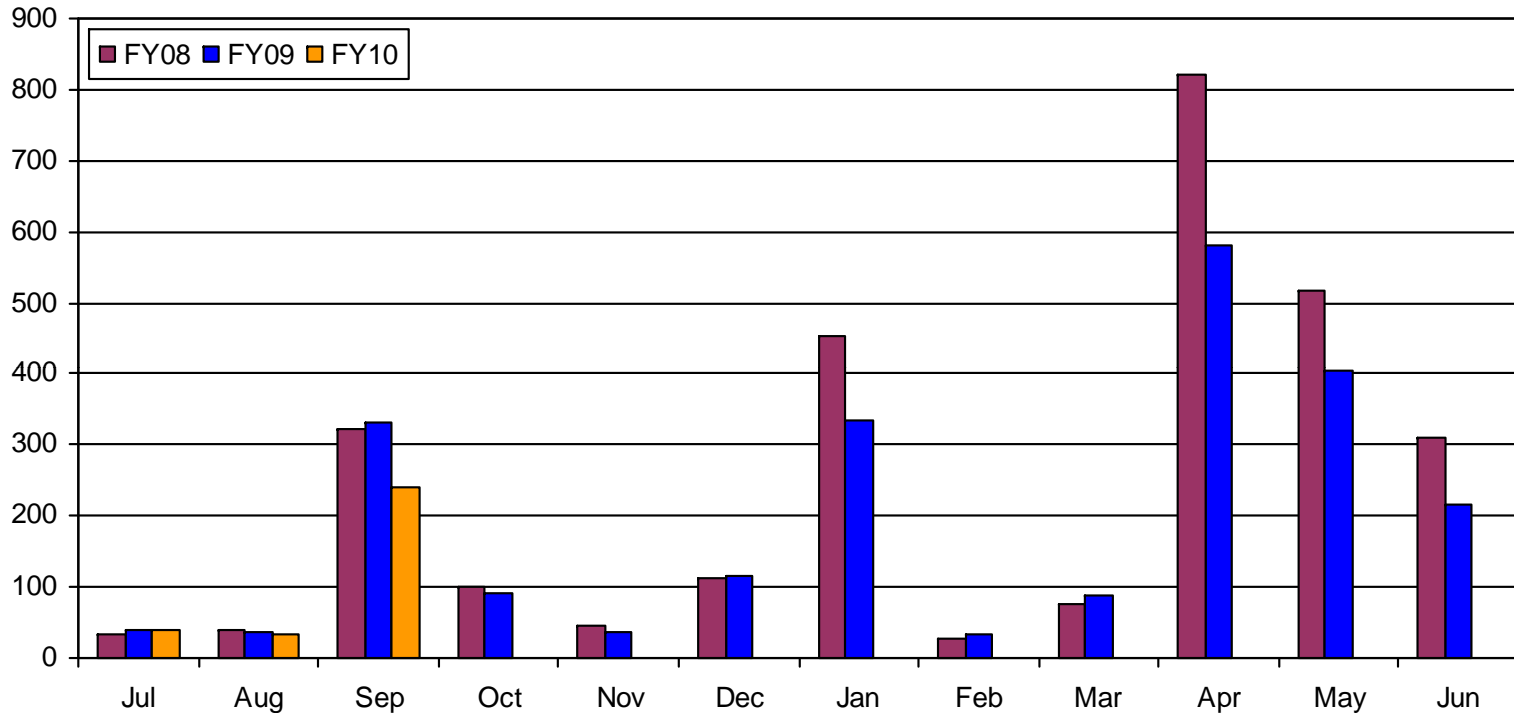
## Growth in Withholding Tax Collections

### FY10 Monthly and Year-to-Date



- 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.

## Nonwithholding Tax Collections FY08-FY10 Monthly



- The first individual estimated payment in fiscal year 2010 was due in September. Monthly collections declined 27.5 percent.
- Year to date, collections through September fell 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.
  - For the first quarter of the fiscal year, TAX has issued about 30,000 more refunds than the same period last year.

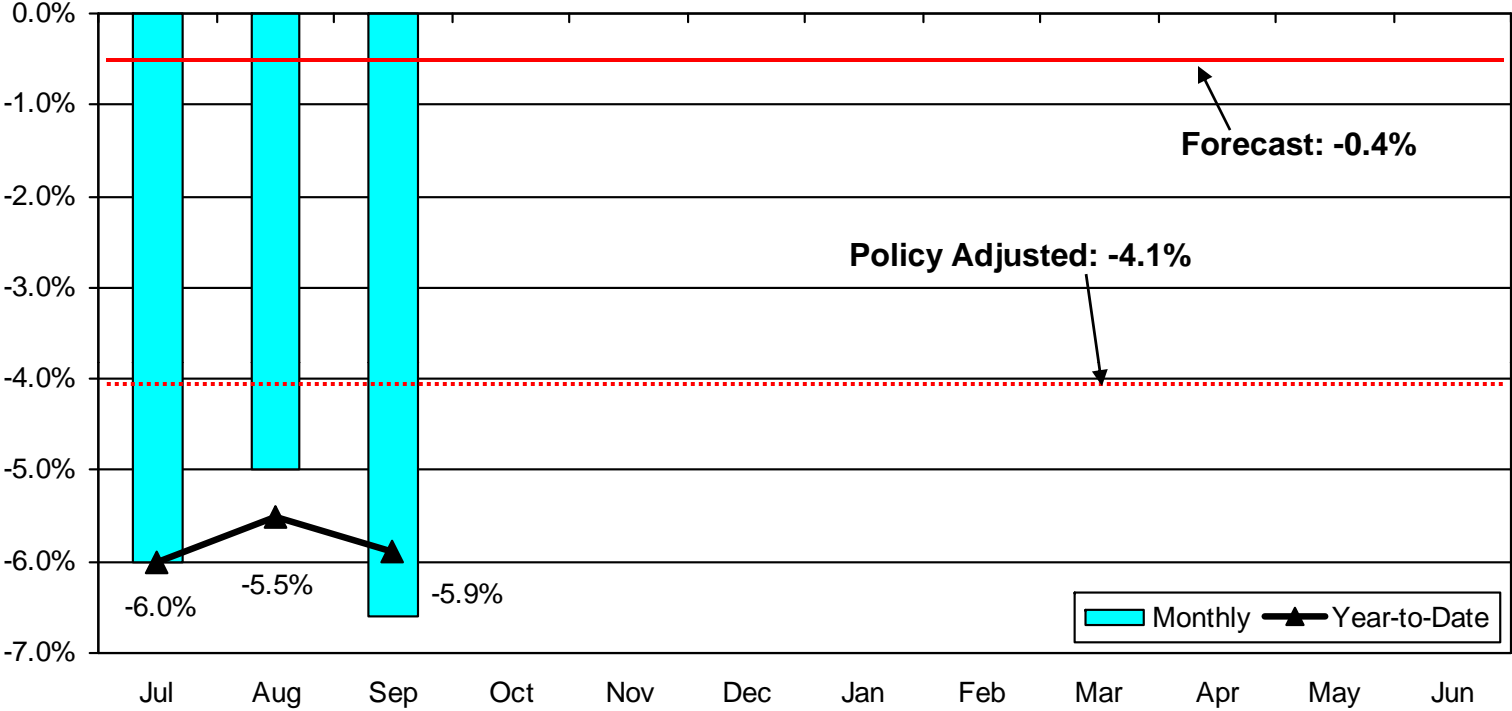
## **Net Individual Income Tax**

- 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.



# Growth in Sales Tax Collections

FY10 Monthly and Year-to-Date



Monthly Growth: -6.0% -5.0% -6.6%

- 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.

# Net Corporate Income Tax Collections

- The first estimated payment from corporations in fiscal year 2010 was due in September.
  - Monthly collections fell 10.6 percent.
- On a year-to-date basis, collections in this source have fallen 7.9 percent, lagging the forecast of 2.2 percent growth.
- About 22.4 percent of the projected fiscal year's corporate revenue have been collected.
  - Typically about 25 percent is collected in the first quarter of the fiscal year.

## **Recordation Tax Collections**

- 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.
  - Monthly collections have declined for 42 consecutive months.

## **Insurance Premiums Tax**

- 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.
  - Adjusted for this transfer, collections have declined 2.0 percent from the same period last year, below expectations of 0.2 percent growth.

## Summary of Fiscal Year 2010 Revenue Collections

July through September

<u>Major Source</u>	As a % of Total <u>Revenues</u>	Percent Growth over Prior Year		
		<u>YTD Actual</u>	<u>Revised Estimate</u>	<u>Variance</u>
Withholding	66.3 %	(2.3) %	2.1 %	(4.4) %
Nonwithholding	13.7	(23.4)	(16.8)	(6.6)
Refunds	(13.8)	18.6	(1.2)	19.8
Net Individual	66.1	(6.9)	(1.8)	(5.1)
Sales	20.5	(5.9)	(0.4)	(5.5)
Corporate	4.7	(7.9)	2.2	(10.1)
Wills (Recordation)	2.0	(10.9)	(9.6)	(1.3)
Insurance	1.8	0.0	0.2	(0.2)
All Other Revenue	4.8	(19.1)	(5.4)	(13.7)
<b>Total</b>	<b>100.0 %</b>	<b>(7.4) %</b>	<b>(1.6) %</b>	<b>(5.8) %</b>

## Fall 2010 Forecasting Process

- A meeting of the Governor's Advisory Board of Economists (GABE) was held on October 14, 2009 to assess any changes in the economy since their meeting in July.
- There will be 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.
- The subsequent economic and revenue outlook will serve as the basis for the Governor's caboose budget bill for fiscal year 2010 and introduced budget bill for the 2010-2012 biennium.