



COMMONWEALTH of VIRGINIA

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P.O. Box 1475
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MEMORANDUM

TO: The Honorable Ralph S. Northam

THROUGH: The Honorable Clark Mercer

FROM: Aubrey L. Layne, Jr.

SUBJECT: May Revenue Report

May is a significant month for revenue collections. In addition to regular collections of withholding and sales taxes, estimated and final payments for individuals are due May 1.

Total general fund revenue collections rose 1.4 percent in May. Strong collections of individual withholding payments drove the growth. On a fiscal year-to-date basis, total revenue collections rose 6.1 percent through May, ahead of the annual forecast of 3.4 percent growth. It is projected that the fiscal 2018 surplus will be in excess of \$400 million, assuming June receipts are close to forecast. This surplus will be used to increase cash reserves.

National Economic Indicators

Recent national indicators suggest the economy is growing at a solid pace.

- According to the second estimate, real GDP rose at an annualized rate of 2.2 percent in the first quarter of 2018, following 2.9 percent growth in the fourth quarter of 2017.
- The labor market remains healthy. Payroll employment rose by 223,000 jobs in May, exceeding expectations. In a separate report, the unemployment rate fell from 3.9 to 3.8 percent.
- Initial claims for unemployment fell by 1,000 to 222,000 during the week ending June 2, while the four-week moving average rose by 2,750 to 225,500. Claims remain near their lowest levels since the early 1970s and are consistent with a labor market approaching full employment.

- The Conference Board's index of leading indicators rose 0.4 percent in April following a 0.4 percent increase in March, suggesting the economic expansion should strengthen over the coming months.
- The Conference Board's index of consumer confidence rose 2.4 points to 128.0 in May. Both the expectations and present conditions components increased for the month.
- Conditions in the manufacturing sector were steady in May. The Institute of Supply Management index rose from 57.3 to 58.7, above consensus expectations.
- The CPI rose 0.2 percent in April after a 0.1 percent decline in March. The index stands 2.4 percent above April 2017. Core inflation (excluding food and energy prices) rose by 0.1 percent, and is 2.1 percent above a year ago.
- At its May meeting, the Federal Reserve left the federal funds target rate range unchanged at 1.50 to 1.75 percent. Additional rate hikes are anticipated in 2018.

Virginia Economy

In Virginia, April payroll employment rose 1.1 percent from April of last year. Northern Virginia posted growth of 1.5 percent; Hampton Roads fell 0.2 percent; and Richmond-Petersburg rose 0.8 percent. The seasonally adjusted unemployment rate fell 0.1 percentage point to 3.3 percent in April, the lowest rate since December 2007.

The Virginia Leading Index rose 0.6 percent in April after falling less than 0.1 percent in March. All four components; the U.S. leading index, future employment, auto registrations, and initial claims for unemployment improved in April. The indexes increased in Northern Virginia, Hampton Roads, Bristol, Harrisonburg, Staunton, Richmond, Blacksburg, and Roanoke. The indexes declined in Lynchburg, Charlottesville, and Winchester.

May Revenue Collections

As previously mentioned, total general fund revenue collections rose 1.4 percent in May. On a fiscal year-to-date basis, total revenue collections rose 6.1 percent through May, ahead of the annual forecast of 3.4 percent growth.

Net Individual Income Tax (70% of general fund revenues): Through May, collections of net individual income tax rose 7.7 percent from the same period last year, ahead of the annual estimate of 3.4 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 12.6 percent for the month. Year-to-date, collections have risen 5.1 percent, well ahead of the annual estimate of 3.5 percent growth.

Individual Income Tax Nonwithholding (16% of general fund revenues): May is a significant month for collections in this source. Final payments for tax year 2017 and the first estimated payment for tax year 2018 are both due at the beginning of May.

Nonwithholding receipts were \$493.3 million compared with \$588.8 million in May of last year, a decline of 16.2 percent. Since a portion of final payments due May 1 are received in April, the two months must be analyzed together to accurately assess growth in this source. Taken together, nonwithholding collections in April and May were up 12.6 percent from the same period last year.

To date, about 98 percent of the nonwithholding forecast has been collected, and year-to-date collections are 15.0 percent above the same period last year, well ahead of the annual estimate of a 4.3 percent increase. The final estimated payment for this fiscal year is due in June. To make the estimate, collections must reach \$43.2 million in June. Last year, \$318.1 million was received in June.

Individual Income Tax Refunds: The Department of Taxation issued \$168.2 million in refunds in April compared with \$179.0 million in the same period last year, a decrease of 6.0 percent. Since the beginning of the filing period beginning January 1, TAX has issued 2.5 million refunds, about the same number through May of last year. Year-to-date, refunds have increased by 3.1 percent, trailing the annual estimate of 5.8 percent growth. Uncertainty in this area remains as many high net worth taxpayers have not filed 2017 state tax returns.

Sales Tax (18% of general fund revenues): Collections of sales and use taxes, reflecting April sales, rose 0.8 percent in May. On a year-to-date basis, collections have risen 3.0 percent, matching the annual estimate.

Corporate Income Tax (5% of general fund revenues): May is not typically a significant month for collections in this source, as final or extension payments are mainly due only from retailers who usually have a January 31 close to their fiscal year. Such payments vary significantly from year to year. Collections of corporate income taxes were \$11.0 million in May, compared with receipts of \$25.7 million in May of last year. Year-to-date collections have increased 4.7 percent from the same period last year, trailing the annual estimate of 5.7 percent growth.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$36.9 million in May, compared with \$38.4 million in May of last year, an decline of 4.1 percent. On a year-to-date basis, collections are down 0.7 percent, trailing the annual forecast of 3.3 percent growth.

Insurance Premiums (2% of general fund revenues): May is not a significant month for collections in this source. Collections were \$5.4 million in May, as refunds were paid to insurance companies. Year-to-date collections through May were \$217.6 million compared with \$219.5 million in the same period last year, a decline of 0.9 percent and trailing the annual estimate of 6.2 percent.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.4% GF revenues)	20.4%	21.9%
ABC Taxes (1% GF revenues)	4.1%	4.3%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue fell 13.6 percent in May, \$46.3 million compared with \$53.6 million a year ago. On a year-to-date basis, collections of All Other Revenue fell 6.6 percent from the same period last year, compared to the annual estimate of a 2.2 percent decline.

Summary

May is a significant month for revenue collections. In addition to regular collections of withholding and sales taxes, estimated and final payments for individuals are due May 1.

Total general fund revenue collections rose 1.4 percent in May. Strong collections of individual withholding payments drove the growth. On a fiscal year-to-date basis, total revenue collections rose 6.1 percent through May, ahead of the annual forecast of 3.4 percent growth.

Collections in June must total \$1.8 billion to attain the forecast as compared to the \$2.2 billion collected last June.

The fiscal 2018 surplus will be used to increase cash reserves.