



COMMONWEALTH of VIRGINIA

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PO Box 1475
Richmond, VA. 23218

MEMORANDUM

TO: The Honorable Terence R. McAuliffe

THROUGH: The Honorable Paul Reagan

FROM: Richard D. Brown *Richard D. Brown*

SUBJECT: December Revenue Data

This month's revenue report contains general fund revenue collections for the first half of fiscal year 2015. The report incorporates the revised general fund revenue forecast included in the budget bill (HB1400/SB800) introduced on December 17th. With the technical revisions in December, total general fund revenues are now projected to grow by 3.1 percent in fiscal year 2015.

Total general fund revenue collections rose 13.1 percent in December, mainly driven by solid underlying growth in payroll withholding, further boosted by an extra deposit day. On a fiscal year-to-date basis, total revenue collections rose 6.8 percent, well ahead of the revised annual forecast of 3.1 percent growth. Adjusting for the accelerated sales tax program and the 0.1 percent sales tax transfer to transportation required by the provisions of HB 2313, total revenues rose 6.8 percent through December, ahead of the adjusted forecast of 3.0 percent growth.

National Economic Indicators

Most recent national indicators suggest that growth in the U.S. economy is accelerating.

- According to the third estimate, real GDP grew by an annualized rate of 5.0 percent in the third quarter of 2014, following 4.6 percent growth in the second quarter. This was the first time growth has exceeded 4.0 percent in two consecutive quarters since 2003.
- The labor market continued to improve in December. Payroll employment rose by 252,000 jobs in December and the previous two month's gain was revised up by 50,000.

In 2014, job growth averaged 246,000 per month compared with an average monthly gain of 194,000 in 2013. In a separate report, the unemployment rate fell from 5.8 percent to 5.6 percent in December.

- Initial claims for unemployment fell from 298,000 to 294,000 during the week ending January 3. The four-week moving average was unchanged at 291,000. Initial claims have declined in five of the past six weeks and are consistent with an improving job market.
- With eight of the ten components increasing, the Conference Board's index of leading indicators rose 0.6 percent in November following a 0.6 percent increase in October. The index has increased in fourteen of the last sixteen months and is consistent with accelerating economic growth.
- The Conference Board's index of consumer confidence rose 1.6 points to 92.6 in December, partially reversing the 3.1 point loss in November. The present situation component offset a slight decline in the expectations component. The appraisal of the current situation was the strongest since early 2008.
- Activity in the manufacturing sector slowed in December, with the Institute of Supply Management index falling from 58.7 to 55.5, the third decline in the past four months. Still, the index remains well above the expansionary threshold of 50.0.
- The CPI fell 0.3 percent in November and stands 1.3 percent above November 2013. Core inflation (excluding food and energy prices) advanced 0.1 percent and has increased 1.7 percent from a year ago.
- The Federal Reserve announced at its December meeting that it will keep the federal funds target rate at 0.0 to 0.25 percent, noting that it likely will be appropriate to maintain this target for a "considerable time."

Virginia Economy

In Virginia, payroll employment grew 0.4 percent in November from November of last year. Northern Virginia posted growth of 0.5 percent, Richmond-Petersburg grew 1.9 percent, and Hampton Roads employment growth was 1.0 percent. The seasonally adjusted unemployment rate in the Commonwealth fell 0.3 percentage point to 5.0 percent in November and was 0.3 percent below last November. This was the second consecutive monthly decline and the lowest rate since April 2014.

The Virginia Leading Index rose 0.4 percent in November after advancing 0.5 percent in October. Within the Virginia index, the U.S. leading index, auto registrations, building permits, and initial claims for unemployment improved in November, while future employment was unchanged. The indexes for all the major metro areas except Lynchburg increased in November.

December Revenue Collections

Total general fund revenue collections rose 13.1 percent in December, mainly driven by solid underlying growth in payroll withholding, further boosted by an extra deposit day. On a fiscal year-to-date basis, total revenue collections rose 6.8 percent, well ahead of the revised annual forecast of 3.1 percent growth. Adjusting for the accelerated sales tax program and the 0.1 percent sales tax transfer to transportation required by the provisions of HB 2313, total revenues rose 6.8 percent through December, ahead of the adjusted forecast of 3.0 percent growth.

Net Individual Income Tax (69% of general fund revenues): Through December, collections of net individual income tax rose 7.9 percent from the same period last year, ahead of the annual estimate of 3.5 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (64% of general fund revenues): With an additional deposit day compared with December of last year and strong underlying growth, collections of payroll withholding taxes rose 15.1 percent in December. Year-to-date, withholding collections are 6.2 percent ahead of the same period last year, leading the revised annual estimate of 2.9 percent growth.

Individual Income Tax Nonwithholding (16% of general fund revenues): Collections in this source were \$158.4 million in December compared with \$113.5 million in December of last year. Year-to-date collections for the fiscal year rose by 19.3 percent, ahead of the annual estimate of 6.3 percent growth.

December and January are significant months for collections in this source, and receipts can be distorted by the timing of payments. Taxpayers have until January 15 to submit their fourth estimated payment for tax year 2014 and some of these payments are received in December. A clearer assessment of growth will be possible at the end of January, when all quarterly payments have been received.

Individual Income Tax Refunds: December is not significant month for refund activity, as it concludes tax year 2013 refund processing. Through December, TAX has issued \$280.3 million in refunds compared with the first-half estimate of \$285.3 million.

Sales Tax (19% of general fund revenues): Collections of sales and use taxes, reflecting November sales, fell 1.0 percent in December. November represents the beginning of the holiday shopping season and a clearer assessment of the season will be possible after receiving December sales tax payments on due January 20th. On a year-to-date basis, collections have risen 3.0 percent, trailing the annual estimate of 4.3 percent growth. Adjusting for the partial repeal of the accelerated sales tax program and the 0.1 percent sales tax transfer to transportation required by HB 2313, sales tax collections have grown by 3.7 percent year-to-date, ahead of the economic-base forecast of 3.4 percent growth.

Corporate Income Tax (4% of general fund revenues): December is a significant month for corporate income tax collections as quarterly estimated payments are due for most corporations. Collections of corporate income taxes were \$166.4 million in December, compared with receipts

of \$135.4 million a year ago, a 22.9 percent increase. Year-to-date collections have grown 20.8 percent from the same period last year, far ahead of the annual estimate of a 0.1 percent increase.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$28.8 million in December, compared with \$25.7 million in December of last year for growth of 12.1 percent. After 13 consecutive months of negative growth, collections in this source have increased in three of the last four months. On a year-to-date basis, collections are down 0.6 percent, trailing the annual forecast of 2.4 percent growth.

Insurance Premiums (2% of general fund revenues): Collections of taxes on insurance premiums were \$75.5 million in December, compared with \$90.3 million in December 2013. Chapter 896 of the 2007 Acts of the Assembly required that \$150.4 million of collections in this source be transferred to the Transportation Trust Fund in fiscal year 2015 before making any deposits to the general fund. The required transfer was completed during December.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Insurance Premiums (2.0% GF revenues)	-16.4%	4.4%
Interest Income (0.5% GF revenues)	-21.1%	-14.4%
<i>ABC Taxes (1% GF revenues)</i>	2.7%	2.6%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue rose 26.7 percent in December, \$30.4 million compared with \$24.0 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 4.9 percent from the same period last year, ahead of the annual estimate of a 5.5 percent decline.

Summary

Total general fund revenue collections rose 13.1 percent in December, mainly driven by solid underlying growth in payroll withholding, further boosted by an extra deposit day. On a fiscal year-to-date basis, total revenue collections rose 6.8 percent, well ahead of the revised annual forecast of 3.1 percent growth. Adjusting for the accelerated sales tax program and the 0.1 percent sales tax transfer to transportation required by the provisions of HB 2313, total revenues rose 6.8 percent through December, ahead of the adjusted forecast of 3.0 percent growth.

Because a number of factors can influence the flow of payments and monthly growth rates at this time of year, December and January receipts must be considered together to get a clear picture of revenue growth.