



## ***COMMONWEALTH of VIRGINIA***

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October 11, 2018

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### **MEMORANDUM**

TO: The Honorable Ralph S. Northam

THROUGH: The Honorable Clark Mercer

FROM: Aubrey L. Layne, Jr.

SUBJECT: September Revenue Report

September completes the first quarter of fiscal year 2019 and is a significant month for revenue collections. Estimated payments from individuals, corporations, and insurance companies are all due in September, along with regular monthly collections in withholding, sales taxes, and other sources.

Total general fund revenues rose 4.0 percent in September, driven by solid gains in payroll withholding, individual estimated payments, and sales taxes. On a fiscal year-to-date basis, total revenue collections rose 2.7 percent through September, ahead of the annual forecast of 1.5 percent growth.

### **National Economic Indicators**

Recent national indicators suggest the economy continues to grow at a solid pace.

- According to the third estimate, real GDP rose at an annualized rate of 4.2 percent in the second quarter of 2018, following 2.2 percent growth in the first quarter.
- The labor market is healthy. Payroll employment rose by 134,000 jobs in September, despite the negative impact of Hurricane Florence. The August gains were revised higher by 69,000 jobs to 270,000. In a separate report, the unemployment rate fell to 3.7 percent.
- Initial claims for unemployment fell by 8,000 to 207,000 during the week ending September 29, while the four-week moving average rose by 500 to 207,000. The level of claims is consistent with a healthy labor market.

October 11, 2018

Page 2 of 4

- The Conference Board's index of leading indicators rose 0.4 percent in August following a 0.7 percent increase in July, suggesting the economic expansion should strengthen over the coming months.
- The Conference Board's index of consumer confidence rose 3.7 points to 138.4 in September, a high for this expansion. Both the expectations and present conditions components increased for the month.
- Conditions in the manufacturing sector remained solid in September, although the Institute of Supply Management index dipped slightly from 61.3 to 59.8.
- The CPI rose 0.2 percent in August after increasing 0.2 percent in July. The index stands 2.7 percent above August 2017. Core inflation (excluding food and energy prices) rose by 0.1 percent, and is 2.2 percent above a year ago.
- As expected at its September meeting, the Federal Reserve raised the federal funds target rate range by 0.25 percent to 2.0 to 2.25 percent.

### **Virginia Economy**

In Virginia, payroll employment rose 1.4 percent in August from August of last year. Northern Virginia posted growth of 1.0 percent; Hampton Roads rose 0.9 percent; and Richmond-Petersburg rose 1.1 percent. The seasonally adjusted unemployment rate fell 0.1 percentage point to 3.0 percent in August, the lowest rate since July 2007.

The Virginia Leading Index was flat in August after advancing 0.2 percent in July. The U.S. leading index, future employment, and initial claims for unemployment improved in August while auto registrations declined. The indexes increased in Richmond, Lynchburg, Hampton Roads, Charlottesville, Bristol, and Blacksburg, while the indexes in Winchester, Harrisonburg, and Northern Virginia decreased; the Roanoke and Staunton indexes were unchanged in August.

### **September Revenue Collections**

Total general fund revenues rose 4.0 percent in September, driven by solid gains in payroll withholding, individual estimated payments, and sales taxes. On a fiscal year-to-date basis, total revenue collections rose 2.7 percent through September, ahead of the annual forecast of 1.5 percent growth.

***Net Individual Income Tax (70% of general fund revenues):*** Through the first quarter of the fiscal year, collections of net individual income tax rose 2.7 percent from the same period last year, ahead of the annual estimate of 0.6 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 3.6 percent for the month. Year-to-date, collections have grown 1.1 percent, trailing the annual estimate of 2.6 percent growth. Adjusting for a timing anomaly which pushed some payments into June which normally would have been received in July, withholding increased by over 5 percent in the first quarter of fiscal year 2019.

**Individual Income Tax Nonwithholding (17% of general fund revenues):** September is a significant month for collections in this source since the first estimated payment for fiscal year 2019 is due. Collections rose 15.4 percent in September from last year. Year to-date collections were \$530.3 million compared with \$463.8 million in the same period last year, growing by 14.4 percent and well ahead of the annual estimate of a 3.0 percent decline.

**Individual Income Tax Refunds:** Through September, the Department of Taxation issued \$137.9 million in refunds compared with \$126.7 million in the same period last year, an 8.8 percent increase.

**Sales Tax (18% of general fund revenues):** Collections of sales and use taxes, reflecting August sales, rose 7.5 percent in September. On a year-to-date basis, collections have also risen 7.5 percent, ahead of the annual estimate of 2.5 percent. Sales tax collections in the first quarter were driven by an 11 percent increase in housing related sales (about 15 percent of all sales).

**Corporate Income Tax (5% of general fund revenues):** As with nonwithholding, September is a significant month for collections in this source, as the first estimated payment for the fiscal year is due. Corporate collections decreased 13.3 percent for the month. On a year-to-date basis, collections of corporate income taxes were \$227.4 million compared with \$252.7 million in the first quarter of last year, a 10.0 percent decline compared with the annual forecast of 5.8 percent growth.

**Wills, Suits, Deeds, Contracts (2% of general fund revenues):** Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$27.1 million in September, compared with \$32.4 million in September of last year, a decline of 16.2 percent. On a year-to-date basis, collections are down 9.1 percent, trailing the annual forecast of 3.1 percent growth.

**Other Revenue Sources**

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Insurance Premiums (2% GF revenues)	NA	11.4%
Interest Income (0.3% GF revenues)	51.2%	7.8%
ABC Taxes (1% GF revenues)	(8.0)%	3.4%

Note: 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 \$168.7 million has been deposited.

***All Other Revenue (2% of general fund revenues)***: Receipts in All Other Revenue rose 5.4 percent in September, \$29.4 million compared with \$27.9 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 4.6 percent from the same period last year, compared to the annual estimate of 3.7 percent growth.

### **Summary**

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Total general fund revenues rose 4.0 percent in September, driven by solid gains in payroll withholding, individual estimated payments, and sales taxes. On a fiscal year-to-date basis, total revenue collections rose 2.7 percent through September, ahead of the annual forecast of 1.5 percent growth.

The fall revenue forecasting process has begun. The Joint Advisory Board of Economists (JABE) met on October 11 to assess recent economic developments and the economic outlook for the current and next biennium. The Governor's Advisory Council on Revenue Estimates (GACRE) will meet on November 19 to evaluate both the JABE economic recommendations and revenue collections through October.

Official revenue estimates for fiscal year 2019 and the next biennium will be released on December 18 when the Governor introduces his budget recommendations to the General Assembly.