



COMMONWEALTH of VIRGINIA

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October 13, 2021

MEMORANDUM

TO: The Honorable Ralph S. Northam

THROUGH: The Honorable Clark Mercer

FROM: K. Joseph Flores

SUBJECT: September Revenue Report

September completes the first quarter of fiscal year 2022 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 18.4 percent in September, as collections in all major sources were strong compared with last year when the economy was partially closed. On a fiscal year-to-date basis, total revenue collections rose 10.6 percent through September, well ahead of the annual forecast of an 8.0 percent decline.

National Economic Indicators

Recent data indicate the U.S. economy is expanding at a healthy pace; however, there are broader signs of slowdown in the recovery.

- According to the third estimate, real GDP rose at an annualized rate of 6.7 percent in the second quarter of 2021, following 6.3 percent in the first quarter.
- The labor market added only 194,000 jobs to payrolls in September; however, July and August gains were revised up by a combined 169,000, bringing the three-month average job gain to 550,000. In a separate report, the unemployment rate fell 0.4 percentage point to 4.8 percent.

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- Initial claims for unemployment fell from 364,000 to 326,000 during the week ending October 2. The four-week moving average rose from 341,000 to 344,000. In a healthy economy, new filings are typically below 250,000.
- The Conference Board's index of leading indicators rose 0.9 percent in August to 117.1, and follows growth of 0.8 percent in July and 0.6 percent in June.
- The Conference Board's index of consumer confidence fell from 115.2 to 109.3 in September after a 9.9 point fall in August, its third consecutive monthly decline. Both the current conditions and the expectations components declined for the month.
- The Institute of Supply Management index rose from 59.9 to 61.1 in September. The Delta variant is causing problems in the global supply chain, weighing on U.S. manufacturing.
- The CPI rose 0.3 percent in August and stands 5.2 percent above August of last year, the smallest gain since February. Core inflation (excluding food and energy prices) rose 0.1 percent and stands 4.0 percent above a year ago.
- At its September meeting, the Federal Reserve left the federal funds target rate unchanged at the range of 0.0 to 0.25 percent.

Virginia Economy

In Virginia, payroll employment rose 2.2 percent in August from August of last year. Employment in Northern Virginia rose by 2.8 percent; Hampton Roads rose 1.5 percent; and Richmond-Petersburg rose 0.4 percent. The seasonally adjusted unemployment rate fell 0.2 percentage point to 4.0 percent and stands 3.0 percentage points below a year ago.

The Virginia Leading Index fell 0.6 percent in August after rising 1.3 percent in July. The U.S. Leading Index increased in August while auto registrations and future employment declined and initial claims increased. The Blacksburg index rose modestly in August while the indexes for the remaining metro areas fell.

September Revenue Collections

Total general fund revenues rose 18.4 percent in September, as collections in all major sources were strong compared with last year when the economy was partially closed. On a fiscal year-to-date basis, total revenue collections rose 10.6 percent through September, well ahead of the annual forecast of an 8.0 percent decline.

Net Individual Income Tax (70% of general fund revenues): Through September, collections of net individual income tax rose 7.6 percent from the same period last year, ahead of the annual estimate of a 7.6 percent decline. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (62% of general fund revenues): Collections of payroll withholding taxes rose 9.9 percent for the month. Year-to-date, collections have risen 9.7 percent from the same period last year, ahead of the annual estimate of 1.7 percent growth.

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 2022 is due. Collections in nonwithholding were \$619.9 million compared with \$495.1 million in September of last year, an increase of 25.2 percent. Year-to-date, collections were \$862.8 million compared with \$982.4 million in the same period last year, a 12.2 percent decrease, compared with the forecast of a 25.4 percent decline.

Individual Income Tax Refunds: Through September, the Department of Taxation has issued \$175.2 million in refunds compared with \$280.7 million in the same period last year, a 37.6 percent decrease.

Sales Tax (17% of general fund revenues): Collections of sales and use taxes, reflecting August sales, rose 20.6 percent in September. On a year-to-date basis, collections of sales and use taxes have risen 16.7 percent, ahead of the annual estimate of a 4.2 percent decline.

Corporate Income Tax (6% 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 increased 41.3 percent for the month. On a year-to-date basis, collections of corporate income taxes were \$458.5 million compared with \$335.8 million in the first quarter of last year, a 36.5 percent increase compared with the annual forecast of a 16.1 percent decline.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$60.1 million in September, compared with \$56.6 million in September of last year, an increase of 6.2 percent. On a year-to-date basis, collections are up 9.0 percent, ahead of the annual forecast of a 31.3 percent decline.

Insurance Premiums (2% of general fund revenues): Monthly collections of insurance company premiums are being transferred to the Transportation Trust Fund per Chapter 986, 2007 Acts of the Assembly until the required amount of \$180.7 million has been deposited.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.4% GF revenues)	-17.1%	6.8%
ABC Taxes (1% GF revenues)	-9.3%	-4.2%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue rose 9.7 percent in September, \$34.1 million compared with \$31.1 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 12.8 percent from the same period last year, above the annual estimate of a 5.8 percent decline.

Summary

September completes the first quarter of fiscal year 2022 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 18.4 percent in September, as collections in all major sources were strong compared with last year when the economy was partially closed. On a fiscal year-to-date basis, total revenue collections rose 10.6 percent through September, well ahead of the annual forecast of an 8.0 percent decline.

The fall revenue forecasting process has begun. The *Joint Advisory Board of Economists* (JABE) will meet on October 13 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 22 to evaluate both the JABE economic recommendations and revenue collections through October. Official revenue estimates for fiscal years 2022 through 2024 will be released on December 16 when the Governor introduces his budget recommendations to the General Assembly.