



COMMONWEALTH of VIRGINIA

November 13, 2014

PO Box 1475
Richmond, VA. 23218

MEMORANDUM

TO: The Honorable Terence R. McAuliffe

THROUGH: The Honorable Paul J. Reagan

FROM: Richard D. Brown 

SUBJECT: October Revenue Data

This month's revenue report uses the HB5010 revenue forecast as passed by the General Assembly on September 18, 2014.

October is not a significant month for revenue collections. Regular monthly collections are due in withholding, sales taxes, and most minor sources. Corporate and individual income tax extension return processing begins in October as corporate extension returns are due October 15 and individual extension returns are due November 1.

Total general fund revenue collections rose 4.4 percent in October, mainly due to growth in payroll withholding, although all other major sources contributed positively to growth. On a fiscal year-to-date basis, total revenue collections rose 6.1 percent, well ahead of the revised annual forecast of 2.9 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 6.1 percent through October, ahead of the adjusted forecast of 2.8 percent growth.

National Economic Indicators

Most recent national indicators suggest that the U.S. economy is poised for accelerating growth over the coming year.

- According to the advance estimate, real GDP grew by an annualized rate of 3.5 percent in the third quarter of 2014, lower than the 4.6 percent pace in the second quarter, but above trend growth of 3.0 percent.
- Activity in the labor market moderated in October. After average monthly growth of 238,000 jobs since February, payroll employment rose by 214,000 jobs in October. The

August and September gains were revised up to 203,000 and 256,000, a joint increase of 31,000 from the original report. In a separate report, the unemployment rate fell from 5.9 percent to 5.8 percent in October, a new post-recession low.

- Initial claims for unemployment fell by 10,000 to 278,000 during the week ending November 1. The four-week moving average fell by 2,250 to 279,000, the lowest level since April 2000. The claims data have been below 300,000 for eight consecutive weeks, the longest such streak since a 17-week stretch in late 1999.
- With nine of the ten components increasing, the Conference Board's index of leading indicators rose 0.8 percent in September following a flat reading in August. The index has increased in twelve of the last fourteen months and is consistent with accelerating economic growth.
- The Conference Board's index of consumer confidence rose 5.5 points to 94.5 in October, reversing the loss in September and hitting a seven-year high. Although both components contributed positively to the index, the increase was mainly driven by the expectations component.
- Activity in the manufacturing sector picked up in October, with the Institute of Supply Management index increasing from 56.6 to 59.0. The index has increased nearly every month this year and remains well above the expansionary threshold of 50.0.
- The CPI rose 0.1 percent in September and stands 1.7 percent above September 2013. Core inflation (excluding food and energy prices) also advanced 0.1 percent and has increased 1.7 percent from a year ago.
- As expected, the Federal Reserve announced at its October meeting that it will keep the federal funds target rate at 0.0 to 0.25 percent, and has ended its quantitative easing program.

Virginia Economy

In Virginia, payroll employment grew 0.2 percent in September from September of last year. Northern Virginia posted growth of 0.4 percent, Richmond-Petersburg grew 1.3 percent, and Hampton Roads employment growth was 0.5 percent. The seasonally adjusted unemployment rate in the Commonwealth was unchanged at 5.5 percent in September. The rate has been trending up slightly in recent months and was the same rate as last September.

The Virginia Leading Index rose 0.2 percent in September after advancing 0.2 percent in August. The U.S. leading index, auto registrations, building permits, and future employment improved in September, while initial claims for unemployment increased. The indexes for Richmond, Northern Virginia, Lynchburg, Hampton Roads, Charlottesville, Danville, Harrisonburg, and Winchester advanced, while the indexes for Roanoke and Bristol declined in September. The index for Blacksburg was unchanged.

October Revenue Collections

Total general fund revenue collections rose 4.4 percent in October, mainly due to growth in payroll withholding, although all other major sources contributed positively to growth. On a fiscal year-to-date basis, total revenue collections rose 6.1 percent, well ahead of the revised annual forecast of 2.9 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 6.1 percent through October, ahead of the adjusted forecast of 2.8 percent growth.

Net Individual Income Tax (69% of general fund revenues): Through October, collections of net individual income tax rose 6.7 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): With one less deposit day compared with last year, collections of payroll withholding taxes rose 3.4 percent in October. Year-to-date, withholding collections are 5.5 percent ahead of the same period last year, leading the revised annual estimate of 2.7 percent growth.

Individual Income Tax Nonwithholding (16% of general fund revenues): October is not usually a significant month for collections in nonwithholding. Collections were \$125.6 million in October compared with \$111.7 million in October of last year. Year-to-date collections were \$553.3 million compared with \$484.5 million in the same period last year, rising by 14.2 percent and ahead of the annual estimate of 6.3 percent growth.

Individual Income Tax Refunds: Through October, TAX has issued \$216.2 million in refunds compared with \$205.0 million during the same period last year. Year-to-date, refunds have risen 5.5 percent, ahead of the annual estimate of 3.6 percent growth.

Sales Tax (19% of general fund revenues): Collections of sales and use taxes, reflecting September sales, rose 1.8 percent in October. On a year-to-date basis, collections have risen 3.8 percent, trailing the annual estimate of 4.4 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 4.0 percent year-to-date, ahead of the economic-base forecast of 3.4 percent growth.

Corporate Income Tax (4% of general fund revenues): October collections in this source include estimated payments from corporations with a February through January fiscal year, including many retailers. Collections of corporate income taxes were negative \$11.8 million in October, which compares favorably with receipts of negative \$17.2 million in October of last year. This October, TAX issued \$53 million in refunds, compared with \$55 million last year. November and December are also typically significant refunding months in this source. Year-to-date collections have grown 16.6 percent from the same period last year, ahead of the annual estimate of a 0.9 percent decline.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$28.9 million in October, compared with \$26.4 million in October of last year for growth of 9.5 percent. Following 13 consecutive

months of negative growth, October marked the second consecutive monthly increase in this source. On a year-to-date basis, collections are down 2.7 percent, trailing the annual forecast of 1.2 percent growth.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Insurance Premiums (2.0% GF revenues)	NA	7.5%
Interest Income (0.5% GF revenues)	-11.8%	-18.9%
<i>ABC Taxes (1% GF revenues)</i>	3.0%	-0.2%

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 \$150.4 million has been deposited.

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue rose 18.9 percent in October, \$36.2 million compared with \$30.5 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 4.7 percent from the same period last year, ahead of the annual estimate of a 10.0 percent decline.

Summary

October is not a significant month for revenue collections. Regular monthly collections are due in withholding, sales taxes, and most minor sources. Corporate and individual income tax extension return processing begins in October as corporate extension returns are due October 15 and individual extension returns are due November 1.

Total general fund revenue collections rose 4.4 percent in October, mainly due to growth in payroll withholding, although all other major sources contributed positively to growth. On a fiscal year-to-date basis, total revenue collections rose 6.1 percent, well ahead of the revised annual forecast of 2.9 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 6.1 percent through October, ahead of the adjusted forecast of 2.8 percent growth.

The Joint Advisory Board of Economists (JABE) met October 15th to assess recent economic developments and the outlook for the current and next biennia. The Governor's Advisory Council on Revenue Estimates (GACRE) will meet on November 24th to evaluate both the JABE economic recommendations and revenue collections through October. GACRE members' recommendations will be incorporated into the general fund revenue forecast to be released as part of the Governor's proposed amendments to the 2014 Appropriation Act on December 17, 2014.