



## COMMONWEALTH of VIRGINIA

Richard D. Brown  
Secretary of Finance

November 13, 2015

PO Box 1475  
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### MEMORANDUM

TO: The Honorable Terence R. McAuliffe

THROUGH: The Honorable Paul Reagan

FROM: Richard D. Brown 

SUBJECT: October Revenue Data

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 fell 5.1 percent in October. The decline was largely due to one less deposit day for payroll withholding compared with last year and corporate refunding activity. On a fiscal year-to-date basis, total revenue collections rose 0.5 percent through October, ahead of the annual forecast of a 0.1 percent decline. Adjusting for the accelerated sales tax program, total revenues rose 1.8 percent through October, ahead of the forecast.

### **National Economic Indicators**

Most recent national indicators continue to depict mostly positive underlying fundamentals in the U.S. economy and suggest the expansion should continue.

- According to the advance estimate, real GDP rose at an annualized rate of 1.5 percent in the third quarter of 2015, following 3.9 percent growth in the second quarter.
- Conditions in the labor market improved in October. Payroll employment rose by 271,000 jobs, exceeding expectations. The modest September gain was revised downward by 5,000 jobs. In a separate report, the unemployment rate fell from 5.1 percent to 5.0 percent.

- Initial claims for unemployment rose by 16,000 to 276,000 during the week ending October 31. The four-week moving average rose from 259,250 to 262,750. The low level of claims is consistent with a healthy job market.
- The Conference Board's index of leading indicators fell 0.2 percent in September following no growth in July and August. Although the index fell slightly, six of the ten components increased.
- The Conference Board's index of consumer confidence fell from 102.6 to 97.6 in October, driven by the present conditions component.
- Activity in the manufacturing sector remained tepid in October, with the Institute of Supply Management index falling from 50.2 to 50.1. It has remained above the expansionary threshold of 50.0 for 34 consecutive months.
- Driven by falling oil prices, the CPI fell 0.2 percent in September and stands even with September 2014. Core inflation (excluding food and energy prices) increased 0.2 percent in September and is 1.9 percent above a year ago.
- The Federal Reserve announced at its October meeting that it will keep the federal funds target rate at 0.0 to 0.25 percent.

### **Virginia Economy**

In Virginia, payroll employment rose 0.9 percent in September from September of last year. Northern Virginia posted growth of 2.0 percent, Hampton Roads grew 0.8 percent, and Richmond-Petersburg fell 0.1 percent. The seasonally adjusted unemployment rate fell 0.2 percentage point to 4.3 percent in September, its third consecutive monthly decline. The unemployment rate is down 0.7 percentage point from September of last year.

The Virginia Leading Index rose 0.2 percent in September after rising 0.4 percent in August. Initial claims improved in September while auto registrations and the U.S. leading index declined. Future employment was unchanged. The indexes for all regions except Roanoke increased in September.

### **October Revenue Collections**

Total general fund revenue collections fell 5.1 percent in October. The decline was largely due to one less deposit day for payroll withholding compared with last year and corporate refunding activity. On a fiscal year-to-date basis, total revenue collections rose 0.5 percent through October, ahead of the annual forecast of a 0.1 percent decline. Adjusting for the accelerated sales tax program, total revenues rose 1.8 percent through October, ahead of the forecast.

***Net Individual Income Tax (69% of general fund revenues):*** Through October, collections of net individual income tax rose 2.5 percent from the same period last year, ahead of the revised annual estimate of a 0.9 percent decline. 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 as compared with last October, collections of payroll withholding taxes fell 5.4 percent in October. Year-to-date, withholding collections are 1.7 percent ahead of the same period last year, trailing the revised annual estimate of 2.1 percent growth.

**Individual Income Tax Nonwithholding (16% of general fund revenues):** October is not typically a significant month for collections in this source. Collections were \$109.8 million in October compared with \$125.6 million in October of last year. Year-to-date, collections were \$581.8 million compared with \$553.3 million in the same period last year, rising by 5.1 percent and ahead of the annual estimate of an 8.4 percent decline.

**Individual Income Tax Refunds:** Through October, the Department of Taxation issued \$208.3 million in refunds compared with \$216.2 million last year, a 3.7 percent decline.

**Sales Tax (19% of general fund revenues):** Collections of sales and use taxes, reflecting September sales, rose 4.2 percent in October. On a year-to-date basis, collections have fallen 2.5 percent, trailing the annual estimate of 2.7 percent growth. Adjusting for the accelerated sales tax program, sales tax collections have grown by 4.4 percent year-to-date, ahead of the forecast.

**Corporate Income Tax (5% 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 \$33.3 million compared with negative \$11.8 million in October of last year. Tax issued \$70.3 million in refunds compared with \$53.1 million last year. November and December are also significant refunding months in this source. Year-to-date collections have fallen 28.0 percent from the same period last year, trailing the annual estimate of a 1.3 percent decline.

**Wills, Suits, Deeds, Contracts (2% of general fund revenues):** Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$31.8 million in October, compared with \$28.9 million in October of last year for growth of 10.2 percent. On a year-to-date basis, collections are up 9.8 percent, ahead of the annual forecast of an 8.1 percent decline.

### 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	8.7%
Interest Income (0.4% GF revenues)	-5.0%	34.7%
ABC Taxes (1% GF revenues)	0.7%	0.0%

*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 \$150.3 million has been deposited.*

***All Other Revenue (2% of general fund revenues)***: Receipts in All Other Revenue fell 5.6 percent in October, \$34.2 million compared with \$36.2 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 2.5 percent from the same period last year, ahead of the annual estimate of 0.6 percent growth.

### **Summary**

Total general fund revenue collections fell 5.1 percent in October. The decline was largely due to one less deposit day for payroll withholding compared with last year and corporate refunding activity. On a fiscal year-to-date basis, total revenue collections rose 0.5 percent through October, ahead of the annual forecast of a 0.1 percent decline. Adjusting for the accelerated sales tax program, total revenues rose 1.8 percent through October, ahead of the forecast.

The Joint Advisory Board of Economists (JABE) met October 14<sup>th</sup> to assess recent economic developments and the outlook for the current and next biennium. The Governor's Advisory Council on Revenue Estimates (GACRE) will meet on November 30 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 on December 17<sup>th</sup> when the Governor meets with the money committees of the General Assembly to introduce his budget recommendations.