



COMMONWEALTH of VIRGINIA

Richard D. Brown
Secretary of Finance

November 14, 2016

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MEMORANDUM

TO: The Honorable Terence R. McAuliffe

THROUGH: The Honorable Paul Reagan

FROM: Richard D. Brown *RB*

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 rose 3.4 percent in October, driven mainly by payroll withholding taxes. On a fiscal year-to-date basis, total revenue collections rose 3.5 percent in October, well ahead of the annual forecast of 1.7 percent growth.

National Economic Indicators

Current national indicators depict a slowly expanding economy.

- According to the advance estimate, real GDP rose at an annualized rate of 2.9 percent in the third quarter of 2016, following a 1.4 percent increase in the second quarter.
- Payroll employment rose by 161,000 jobs in October, following a gain of 191,000 in September. The three-month average of 176,000 is consistent with a healthy labor market expansion. In a separate report, the unemployment rate fell from 5.0 percent to 4.9 percent.
- Initial claims for unemployment rose by 7,000 to 265,000 during the week ending October 29. The four-week moving average grew by 4,750 to 257,750. Initial claims have been below 300,000 for 87 consecutive weeks, the longest streak since 1970.

- The Conference Board's index of leading indicators rose 0.2 percent in September. Five of the ten components contributed to the increase.
- The Conference Board's index of consumer confidence dropped 4.9 points to 98.6 in October. Both the expectations and present conditions components declined.
- Activity in the manufacturing sector improved in October. The Institute of Supply Management index rose from 51.5 to 51.9, above expectations and exceeding the expansionary threshold of 50.0.
- The CPI rose 0.3 percent in September and stands 1.5 percent above September 2015. Core inflation (excluding food and energy prices) increased 0.1 percent in September and is 2.2 percent above a year ago.
- At its November meeting, the Federal Reserve announced that it is maintaining the federal funds target rate at the range of 0.25 to 0.5 percent.

Virginia Economy

In Virginia, payroll employment rose 1.8 percent in September from September of last year. Northern Virginia posted growth of 2.0 percent; Hampton Roads grew 0.4 percent; and Richmond-Petersburg rose 2.9 percent. The seasonally adjusted unemployment rate rose 0.1 percentage point to 4.0 percent in September.

The Virginia Leading Index rose 0.4 percent in September after increasing 0.6 percent in August. Initial claims for unemployment, the U.S. leading index, and future employment all improved, while auto registrations declined. On a regional basis, the indexes for Northern Virginia, Richmond, Lynchburg, Charlottesville, Blacksburg, and Winchester increased in September while the indexes for Roanoke, Bristol, Harrisonburg, and Staunton declined. The index for Hampton Roads was unchanged.

October Revenue Collections

October is not a significant month for revenue collections. Total general fund revenue collections rose 3.4 percent in October, driven mainly by payroll withholding taxes. On a fiscal year-to-date basis, total revenue collections rose 3.5 percent in October, well ahead of the annual forecast of 1.7 percent growth.

Net Individual Income Tax (70% of general fund revenues): Through October, collections of net individual income taxes increased 4.1 percent from the same period last year, exceeding the annual estimate of 1.8 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (64% of general fund revenues): Despite one less deposit day than October of last year, payroll withholding taxes rose 4.8 percent in October. Year-to-date, withholding collections are 4.3 percent ahead of the same period last year, exceeding the estimate of 3.0 percent growth.

Individual Income Tax Nonwithholding (17% of general fund revenues): October is not typically a significant month for collections in this source. Collections of \$109.7 million were flat with last year. Year-to-date, collections were \$580.5 million compared with \$581.8 million in the same period last year, falling by 0.2 percent but ahead of the annual estimate of a 1.2 percent decline.

Individual Income Tax Refunds: Through October, the Department of Taxation issued \$200.0 million in refunds compared with \$208.3 million in the same period last year, a 4.0 percent decline.

Sales Tax (18% of general fund revenues): Collections of sales and use taxes, reflecting September sales, fell 1.5 percent in October. On a fiscal year-to-date basis, collections have fallen 0.3 percent, trailing the annual estimate of 2.6 percent growth. Adjusting for the accelerated sales tax program, sales tax collections fell by 0.2 percent year-to-date, trailing the forecast of 3.7 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 \$20.2 million compared with negative \$33.3 million in October of last year. Tax issued \$63.9 million in refunds compared with \$70.3 million last year. November and December are also significant refunding months in this source. Year-to-date collections have risen 14.6 percent compared with the annual forecast of a 3.0 percent decline.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation taxes – were \$33.0 million in October, compared with \$31.8 million in October of last year, a 3.7 percent increase. On a year-to-date basis, collections are up 11.6 percent, well ahead of the annual forecast of 5.5 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	1.3%
Interest Income (0.3% GF revenues)	21.7%	5.3%
ABC Taxes (1% GF revenues)	-5.5%	-2.8%

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 \$163.1 million has been deposited.

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue fell 14.1 percent in October, \$29.4 million compared with \$34.2 million a year ago. On a year-to-date basis, collections of All Other Revenue fell 8.6 percent from the same period last year, trailing the annual estimate of a 3.5 percent decline.

Summary

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Total general fund revenue collections rose 3.4 percent in October, driven mainly by payroll withholding taxes. On a fiscal year-to-date basis, total revenue collections rose 3.5 percent in October, well ahead of the annual forecast of 1.7 percent growth.

The Joint Advisory Board of Economists (JABE) met November 9 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 28 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 16 when the Governor meets with the money committees of the General Assembly to introduce his budget recommendations.