



COMMONWEALTH of VIRGINIA

Richard D. Brown
Secretary of Finance

October 13, 2015

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MEMORANDUM

TO: The Honorable Terence R. McAuliffe

THROUGH: The Honorable Paul Reagan

FROM: Richard D. Brown 

SUBJECT: September Revenue Data

September completes the first quarter of fiscal year 2016 and it 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 revenue collections rose 9.7 percent in September. Receipts of individual withholding and nonwithholding taxes drove the gain. On a fiscal year-to-date basis, total revenue collections rose 2.4 percent through September, ahead of the annual forecast of a 0.1 percent decline. Adjusting for the accelerated sales tax program, total revenues rose 4.0 percent through September, 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 third estimate, real GDP rose at an annualized rate of 3.9 percent in the second quarter of 2015, following 0.6 percent growth in the first quarter, and above consensus expectations.
- Conditions in the labor market weakened somewhat in September. Payroll employment rose by only 142,000 jobs, far below expectations. In addition, gains in July and August

were revised downward. In a separate report, the unemployment rate was unchanged at 5.1 percent as employment declined and more workers left the labor force.

- Initial claims for unemployment fell by 13,000 to 263,000 during the week ending October 3. The four-week moving average fell by 3,000 to 267,500. The level of claims is consistent with a healthy job market.
- With five of the ten components increasing, the Conference Board's index of leading indicators rose 0.1 percent in August following no growth in July. The rise in the index is consistent with accelerating economic growth.
- The Conference Board's index of consumer confidence rose by 1.7 points to 103.0 in September, driven by the present conditions component. For the first time since the recession, more consumers are optimistic about the job market than pessimistic.
- Activity in the manufacturing sector weakened in September, with the Institute of Supply Management index falling from 51.1 to 50.2. It has remained above the expansionary threshold of 50.0 for 33 consecutive months.
- Driven by falling oil prices, the CPI, fell 0.1 percent in August and stands 0.2 percent above August 2014. Core inflation (excluding food and energy prices) increased 0.1 percent in August and stands 1.8 percent above a year ago.
- The Federal Reserve announced at its September 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 August from August of last year. Northern Virginia posted growth of 2.3 percent, Hampton Roads grew 0.7 percent, and Richmond-Petersburg fell 0.2 percent. The seasonally adjusted unemployment rate fell 0.3 percentage point to 4.5 percent in August, the lowest level since September 2008 when it was 4.3 percent.

The Virginia Leading Index rose 0.2 percent in August after rising 0.4 percent in July. The U.S. leading index, future employment, and initial claims improved in August, while auto registrations declined. The indexes for Northern Virginia, Hampton Roads, Charlottesville, Harrisonburg, Winchester, and Staunton advanced, while the indexes for Roanoke, Lynchburg, Blacksburg, and Bristol declined. The index for Richmond was little changed from July.

September Revenue Collections

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Net Individual Income Tax (69% of general fund revenues): Through September, collections of net individual income tax rose 5.5 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 an additional Wednesday deposit day as compared with last September, collections of payroll withholding taxes rose 11.9 percent in September. Year-to-date, withholding collections are 4.4 percent ahead of the first quarter of last year, leading the revised annual estimate of 2.1 percent growth.

Individual Income Tax Nonwithholding (16% of general fund revenues): September is a significant month for collections in this source, since the first estimated payment for fiscal year 2016 was due. Collections rose 23.8 percent in September from last year. Year-to-date, collections were \$472.0 million compared with \$427.7 million in the same period last year, rising by 10.3 percent and ahead of the annual estimate of an 8.4 percent decline.

Individual Income Tax Refunds: Through September, the Department of Taxation issued \$122.9 million in refunds compared with \$123.5 million last year, a 0.5 percent decline.

Sales Tax (19% of general fund revenues): Collections of sales and use taxes, reflecting August sales, rose 3.7 percent in September. On a year-to-date basis, collections have fallen 5.1 percent, trailing the annual estimate of 2.7 percent growth. Adjusting for the accelerated sales tax program, sales tax collections have grown by 4.5 percent year-to-date, ahead of the forecast of 2.7 percent growth.

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 in September. Collections of corporate income taxes fell 15.2 percent from September of last year mainly due to a few large corporations submitting reduced estimated payments. Year-to-date collections have fallen 17.0 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 \$29.5 million in September, compared with \$26.4 million in September of last year for growth of 11.7 percent. On a year-to-date basis, collections are up 9.7 percent, ahead of the annual forecast of an 8.1 percent decline.

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 (2.0% GF revenues)	NA	8.7%
Interest Income (0.4% GF revenues)	1.5%	34.7%
ABC Taxes (1% GF revenues)	-22.6%	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 rose 18.5 percent in September, \$30.2 million compared with \$25.5 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 6.1 percent from the same period last year, ahead of the annual estimate of 0.6 percent growth.

Summary

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With results from the first quarter of FY2016 in hand, the fall revenue forecasting process now begins. The Joint Advisory Board of Economists (JABE) is meeting October 14th 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 in November to evaluate both the JABE economic recommendations and revenue collections through October. Official revenue estimates for FY2016 and the next biennium will be released on December 17th when the Governor meets with the money committees of the General Assembly to introduce his budget recommendations.