



COMMONWEALTH of VIRGINIA

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Secretary of Finance

October 12, 2017

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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 2018 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 revenue collections rose 5.5 percent in September, driven by strength in payroll withholding, sales taxes, and corporate income tax payments. On a fiscal year-to-date basis, total revenue collections rose 4.1 percent through September, well ahead of the annual forecast of 2.7 percent growth.

National Economic Indicators

Recent national indicators continue to depict a healthy economy.

- According to the third estimate, real GDP rose at an annualized rate of 3.1 percent in the second quarter of 2017, following 1.2 percent growth in the first quarter.
- Hurricanes Harvey and Irma distorted the employment report in September -- payroll employment fell by 33,000 jobs. The leisure and hospitality sector accounted for most of the decline, much of it in Florida. The unemployment rate declined slightly, from 4.4 to 4.2 percent in September, but this was likely due to the inability to access many sample households.

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- The hurricanes have also caused volatility in initial claims for unemployment. Claims fell by 12,000 to 260,000 during the week ending September 30. The four-week moving average fell by 9,500 to 268,250.
- The Conference Board's index of leading indicators rose 0.4 percent in August following a 0.3 percent increase in July, suggesting the expansion should remain solid in the months ahead.
- The Conference Board's index of consumer confidence fell from 120.4 to 119.8 in September, the first decline since June. The present conditions component fell and the expectations component increased for the month. Again, Hurricane Harvey likely impacted this report.
- Conditions in the manufacturing sector improved in September. The Institute of Supply Management index rose from 58.8 to 60.8, its second consecutive monthly gain and the fifth in the past six months. The index suggests that factory production should strengthen over the coming months.
- The CPI rose 0.4 percent in August after a 0.1 percent increase in July and no change in June. The index stands 1.9 percent above August 2016. Core inflation (excluding food and energy prices) rose by 0.2 percent and is 1.7 percent above a year ago.
- At its September meeting, the Federal Reserve maintained the federal funds target rate at 1.00 to 1.25 percent.

Virginia Economy

In Virginia, payroll employment rose 1.4 percent in August from a year ago. Northern Virginia posted growth of 1.3 percent; Hampton Roads declined 0.6 percent; and Richmond-Petersburg rose 2.4 percent. The seasonally adjusted unemployment rate was flat at 3.8 percent in August and stands 0.3 percentage point below August of 2016.

The Virginia Leading Index rose 0.7 percent in August after remaining unchanged in July. All components -- the U.S. leading index, auto registrations, future employment, and initial claims for unemployment -- improved in August. The index for Lynchburg declined, while the indexes in the remaining ten metro areas increased.

September Revenue Collections

Total general fund revenue collections rose 5.5 percent in September, driven by strength in payroll withholding, sales taxes, and corporate income tax payments. On a fiscal year-to-date basis, total revenue collections rose 4.1 percent through September, well ahead of the annual forecast of 2.7 percent growth.

Net Individual Income Tax (70% of general fund revenues): Through the first quarter of the fiscal year, collections of net individual income tax rose 2.9 percent from the same period last year, close to the annual estimate of 2.6 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (63% of general fund revenues): Collections of payroll withholding taxes grew 5.0 percent for the month. Year-to-date, withholding collections are 4.0 percent ahead of the same period last year, well ahead of the annual estimate of 1.8 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 2018 is due. Collections rose 0.6 percent in September from last year. Year-to-date collections were \$463.8 million compared with \$470.8 million in the same period last year, falling by 1.5 percent and trailing the annual estimate of 7.0 percent growth.

Individual Income Tax Refunds: Through September, the Department of Taxation issued \$126.7 million in refunds compared with \$114.9 million in the same period last year, a 10.3 percent increase.

Sales Tax (18% of general fund revenues): Collections of sales and use taxes, reflecting August sales, rose 5.0 percent in September. On a year-to-date basis, collections have risen 2.7 percent, close to the annual estimate of 2.8 percent growth.

Corporate Income Tax (4% 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 were up 20.8 percent for the month.

On a year-to-date basis, collections of corporate income taxes were \$252.7 million compared with \$197.5 million in the same period last year, a 27.9 percent increase compared with the annual forecast of 1.6 percent. Corporate refunds are lagging last year's pace and October and November will provide a clearer picture in this source as extension returns are processed.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$32.4 million in September, compared with \$35.1 million in September of last year, a decline of 7.8 percent. On a year-to-date basis, collections are down 2.3 percent, trailing the annual forecast of 3.4 percent growth.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
<i>Insurance Premiums (2% GF revenues)</i>	NA	7.0%
<i>Interest Income (0.3% GF revenues)</i>	12.8%	10.2%
<i>ABC Taxes (1% GF revenues)</i>	7.9%	5.1%

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 \$168.0 million has been deposited.

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue rose 0.4 percent in September, \$27.9 million compared with \$27.8 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 5.6 percent from the same period last year compared to the annual estimate of a 0.1 percent decline. The growth is due to anomalies in various minor miscellaneous sources.

Summary

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Total general fund revenue collections rose 5.5 percent in September, driven by strength in payroll withholding, sales taxes, and corporate income tax payments. On a fiscal year-to-date basis, total revenue collections rose 4.1 percent through September, well ahead of the annual forecast of 2.7 percent growth.

The fall revenue forecasting process has begun. The Joint Advisory Board of Economists (JABE) met on October 11 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 20 to evaluate both the JABE economic recommendations and revenue collections through October.

Official revenue estimates for fiscal year 2018 and the next biennium will be released on December 18 when the Governor introduces his budget recommendations to the General Assembly.