



COMMONWEALTH of VIRGINIA

Richard D. Brown
Secretary of Finance

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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 2017 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 fell 2.4 percent in September, which was expected after the prior month's double-digit increase. Collections of withholding, corporate and recordation taxes exceeded expectations, while sales tax receipts declined. On a fiscal year-to-date basis, total revenue collections rose 3.6 percent in September, ahead of the annual forecast of 1.7 percent growth.

National Economic Indicators

Most current national indicators suggest the economic expansion should continue, albeit at a slower pace.

- According to the third estimate, real GDP rose at an annualized rate of 1.4 percent in the second quarter of 2016, following a 0.8 percent increase in the first quarter.
- Payroll employment rose by 156,000 jobs in September, following a gain of 167,000 in August. The three-month average of 192,000 is consistent with a healthy labor market expansion. In a separate report, the unemployment rate ticked up from 4.9 percent to 5.0 percent as more workers entered the labor force.

- Initial claims for unemployment fell by 5,000 to 249,000 during the week ending October 1. The four-week moving average fell by 2,500 to 253,500. Initial claims have been below 300,000 for 83 consecutive weeks, the longest streak since 1970.
- The Conference Board's index of leading indicators fell 0.2 percent in August, after two months of broad-based growth. However, underlying conditions suggest the economy will advance.
- The Conference Board's index of consumer confidence rose 2.3 points to 104.1 in September, the highest level since August 2007. Both the expectations and present conditions components saw healthy increases.
- Activity in the manufacturing sector improved in September. The Institute of Supply Management index rose from 49.4 to 51.5, above expectations and exceeding the expansionary threshold of 50.0.
- The CPI rose 0.2 percent in August and stands 1.1 percent above August 2015. Core inflation (excluding food and energy prices) increased 0.3 percent in August and is 2.3 percent above a year ago.
- At its September 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 1.7 percent in August from August of last year. Northern Virginia posted growth of 1.9 percent; Hampton Roads grew 0.3 percent; and Richmond-Petersburg rose 3.3 percent. The seasonally adjusted unemployment rate rose 0.2 percentage point to 3.9 percent in August.

The Virginia Leading Index rose 0.6 percent in August after increasing 0.7 percent in July. Initial claims for unemployment, auto registrations, and future employment all improved, while the U.S. leading index declined. On a regional basis, the index for Blacksburg was unchanged in August, while the indexes for the remaining MSAs increased.

September Revenue Collections

Total general fund revenue collections fell 2.4 percent in September, which was expected after the prior month's double-digit increase. Collections of withholding, corporate and recordation taxes exceeded expectations, while sales tax receipts declined. On a fiscal year-to-date basis, total revenue collections rose 3.6 percent in September, ahead of the annual forecast of 1.7 percent growth.

Net Individual Income Tax (70% of general fund revenues): Through September, collections of net individual income taxes increased 3.9 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): Payroll withholding taxes fell 5.8 percent in September. The decline was due to the timing of payments, as collections jumped 17.7 percent last month. Year-to-date, withholding collections are 4.1 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): September is a significant month for collections in this source since the first estimated payment for fiscal year 2017 is due. Collections fell 3.1 percent in September from last year. Year-to-date, collections were \$470.8 million compared with \$472.0 million in the same period last year last year, falling by 0.2 percent but ahead of the annual estimate of a 1.2 percent decline.

Individual Income Tax Refunds: Through September, the Department of Taxation issued \$114.9 million in refunds compared with \$122.9 million in the same period last year, a 6.5 percent decline.

Sales Tax (18% of general fund revenues): Collections of sales and use taxes, reflecting August sales, fell 3.5 percent in September. On a fiscal year-to-date basis, collections have risen 0.2 percent, trailing the annual estimate of 2.6 percent growth. Adjusting for the accelerated sales tax program, sales tax collections have grown by 0.2 percent year-to-date, trailing the forecast of 3.7 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. Through September, collections in this source were \$197.5 million compared with \$188.0 million in the same period last year, a 5.1 percent increase 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 \$35.1 million in September, compared with \$29.5 million in September of last year, a 19.1 percent increase. On a year-to-date basis, collections are up 14.2 percent, well ahead of the annual forecast of 5.5 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>
Insurance Premiums (2.0% GF revenues)	NA	1.3%
Interest Income (0.3% GF revenues)	36.8%	5.3%
ABC Taxes (1% GF revenues)	20.3%	-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 7.9 percent in September, \$27.8 million compared with \$30.2 million a year ago. On a year-to-date basis, collections of All Other Revenue fell 6.5 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 fell 2.4 percent in September, which was expected after the prior month's double-digit increase. Collections of withholding, corporate and recordation taxes exceeded expectations, while sales receipts declined. On a fiscal year-to-date basis, total revenue collections rose 3.6 percent in September, ahead of the annual forecast of 1.7 percent growth.

The fall revenue forecasting process has begun. The Joint Advisory Board of Economists (JABE) will meet 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.

Official revenue estimates for fiscal year 2017 and the next biennium will be released on December 16 when the Governor introduces his budget recommendation to the General Assembly.