



COMMONWEALTH of VIRGINIA

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MEMORANDUM

TO: The Honorable Ralph S. Northam

THROUGH: The Honorable Clark Mercer

FROM: Aubrey L. Layne, Jr.

SUBJECT: September Revenue Report

September completes the first quarter of fiscal year 2021 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 revenues rose 7.6 percent in September, driven by growth in payroll withholding, corporate, and recordation tax collections. On a fiscal year-to-date basis, total revenue collections rose 9.9 percent through September, well ahead of the annual forecast of a 1.8 percent decline.

National Economic Indicators

The March-April recession was the shortest but the most severe on record. Most economists believe the recession ended in May, but after an initial increase in activity, growth is expected to be weak in the near term amid fears of lingering effects on consumer and business behavior and a second wave of COVID-19 infections.

- According to the third estimate, real GDP fell at an annualized rate of 31.4 percent in the second quarter of 2020, the largest decline on record. The prior record was a 10 percent decline in the first quarter of 1958.
- Job growth slowed in September. Payroll employment increased by 661,000 jobs in September, following gains of 1.5 million in August and 1.8 million in July. In a separate

report, the unemployment rate fell from 8.4 percent to 7.9 percent, largely due to a contraction in the labor force.

- Initial claims for unemployment fell by 9,000 to 840,000 during the week ending October 3, suggesting labor market conditions are improving, albeit slowly.
- The Conference Board's index of leading indicators rose 1.2 percent in August to 106.5 following increases of 2.0 percent in July and 3.1 percent in June. Half of the ten components were positive and half were negative. Although this was the fourth consecutive increase in the index, the reading suggests the recovery is slowing.
- The Conference Board's index of consumer confidence rose from 86.3 to 101.8 in September. Both components improved for the month. The index, however, remains below the pre-recession level of 132.6.
- The Institute of Supply Management index unexpectedly declined from 56.0 to 55.4 in September after three consecutive monthly gains. The index remains above the neutral threshold of 50.0.
- The CPI rose 0.4 percent in August following a 0.6 percent increase in July. The index stands 1.3 percent above August 2019. Core inflation (excluding food and energy prices) also rose 0.4 percent and stands 1.7 percent above a year ago.
- At its September meeting, the Federal Reserve left the federal funds target rate unchanged at the range of 0.0 to 0.25 percent, and signaled it will keep rates low at least through 2023.

Virginia Economy

In Virginia, payroll employment fell 5.2 percent in August from August of last year. Employment in Northern Virginia fell by 5.3 percent; Hampton Roads fell 5.2 percent; and Richmond-Petersburg fell 5.3 percent. The seasonally adjusted unemployment rate decreased 1.8 percentage points to 6.1 percent and stands 3.4 percentage points above a year ago.

The Virginia Leading Index rose 1.6 percent in August after rising 1.7 percent in July. All four components, the U.S. Leading index, future employment, auto sales, and initial claims for unemployment improved in August. The index for all eleven metro areas increased for the month.

September Revenue Collections

Total general fund revenues rose 7.6 percent in September, driven by growth in payroll withholding, corporate, and recordation tax collections. On a fiscal year-to-date basis, total revenue collections rose 9.9 percent through September, well ahead of the annual forecast of a 1.8 percent decline.

Net Individual Income Tax (72% of general fund revenues): Through the first quarter of the fiscal year, collections of net individual income tax rose 8.9 percent from the same period last year, ahead of the annual estimate of 0.6 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (64% of general fund revenues): With one more deposit day than September of last year, collections of payroll withholding taxes rose 11.4 percent in September. Year-to-date, collections have risen 2.4 percent from the same period last year, matching the annual estimate of 2.4 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 2021 is due. Collections in nonwithholding were \$495.1 million compared with \$483.3 million in September of last year, an increase of 2.4 percent. Year-to-date, collections were \$982.4 million compared with \$617.6 million in the same period last year, a 59.1 percent increase.

Individual Income Tax Refunds: Through September, the Department of Taxation has issued \$280.7 million in refunds compared with \$158.5 million in the same period last year, a 77.1 percent increase.

Sales Tax (16% of general fund revenues): Collections of sales and use taxes, reflecting August sales, fell 3.2 percent in September. Almost all of the decline is due to AST refunds processed this month. On a year-to-date basis, collections of sales and use taxes have risen 7.5 percent, ahead of the annual estimate of a 9.7 percent decline.

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. Corporate collections increased 17.4 percent for the month. On a year-to-date basis, collections of corporate income taxes were \$335.8 million compared with \$246.8 million in the first quarter of last year, a 36.1 percent increase compared with the annual forecast of 3.0 percent growth.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): As refinancing and low interest rates continue to spur the housing market, collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$56.6 million in September, compared with \$36.6 million in September of last year, an increase of 54.5 percent. On a year-to-date basis, collections are up 35.9 percent, ahead of the annual forecast of a 12.6 percent decline.

Insurance Premiums (2% of general fund revenues): Monthly collections of insurance company premiums are being transferred to the Transportation Trust Fund per Chapter 986, 2007 Acts of the Assembly until the required amount of \$181.4 million has been deposited.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (<i>0.4% GF revenues</i>)	-31.5%	-27.5%
ABC Taxes (<i>1% GF revenues</i>)	-9.6%	-2.6%

All Other Revenue (*2% of general fund revenues*): Receipts in All Other Revenue rose 8.9 percent in September, \$31.1 million compared with \$28.5 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 1.1 percent from the same period last year, ahead of the annual estimate of a 6.6 percent decline.

Summary

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Total general fund revenues rose 7.6 percent in September, driven by growth in payroll withholding, corporate, and recordation tax collections. On a fiscal year-to-date basis, total revenue collections rose 9.9 percent through September, well ahead of the annual forecast of a 1.8 percent decline.

The fall revenue forecasting process has begun. The *Joint Advisory Board of Economists* (JABE) will meet on November 4 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 23 to evaluate both the JABE economic recommendations and revenue collections through October. Official revenue estimates for fiscal year 2021 and 2022 will be released on December 16 when the Governor introduces his budget recommendations to the General Assembly.