



COMMONWEALTH of VIRGINIA

October 14, 2014

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MEMORANDUM

TO: The Honorable Terence R. McAuliffe

THROUGH: The Honorable Paul J. Reagan

FROM: Richard D. Brown 

SUBJECT: September Revenue Data

September completes the first quarter of fiscal year 2015 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 5.3 percent in September, with all major sources contributing to the increase. This is the first time revenues have increased for three consecutive months since April-June of 2013. On a fiscal year-to-date basis, total revenue collections rose 6.7 percent, well ahead of the revised annual forecast of 2.9 percent growth. Adjusting for the accelerated sales tax program and the 0.125 percent sales tax transfer to transportation required by the provisions of HB 2313, total revenues rose 6.3 percent through September, ahead of the adjusted forecast of 2.8 percent growth.

National Economic Indicators

Most recent national indicators suggest that the U.S. economy is poised for accelerating growth over the coming year.

- According to the third estimate, real GDP grew by an annualized rate of 4.6 percent in the second quarter of 2014, reversing the 2.1 percent decline in the first quarter.
- Payroll employment rose by 248,000 jobs in September, while the August gain was revised up from 142,000 to 180,000. So far this year, monthly job gains have averaged a solid 227,000. In a separate report, the unemployment rate fell from 6.1 percent to 5.9 percent in September, with both an increase in jobs and a decline in the number of unemployed.

- Initial claims for unemployment fell by 1,000 to 287,000 during the week ending October 4th. The four-week moving average fell by 7,250 to 287,750, a new cyclical low. The claims data have been below 300,000 for four consecutive weeks, a post-recession first. In prior expansions, claims have stayed below 300,000 only for brief periods in early 2006 and late 1999 and 2000.
- The Conference Board's index of leading indicators rose 0.2 percent in August following a 1.1 percent increase in July. The index has increased in twelve of the last thirteen months.
- Following an unexpectedly large jump in August, the Conference Board's index of consumer confidence fell 7.4 points to 86.0 in September, reversing the gains in the third quarter and pulling the index to its lowest level since May. Although both components contributed negatively to the index, the decline was mainly driven by the expectations component. Despite the significant drop in September, the three-month moving average still rests at 89.9, which, except for last month, is the highest since December 2007.
- Activity in the manufacturing sector slowed in September, with the Institute of Supply Management index falling from 59.0 to 56.6; however, the index remains well above the expansionary threshold of 50.0.
- The CPI fell 0.2 percent in August and stands 1.7 percent above August 2013. Core inflation (excluding food and energy prices) was flat in August, the first failure to advance in almost four years. Core inflation has increased 1.7 percent from 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, and will continue winding down its quantitative easing program.

Virginia Economy

In Virginia, payroll employment grew 0.4 percent from August of last year. Northern Virginia posted growth of 0.4 percent, Richmond-Petersburg grew 1.8 percent, and Hampton Roads employment was flat with last year. The seasonally adjusted unemployment rate in the Commonwealth rose 0.3 percentage point to 5.6 percent in August. The unemployment rate has increased in three of the last four months and is the same as a year ago.

The Virginia Leading Index rose 0.2 percent in August after advancing 0.3 percent in July. The U.S. leading index, initial unemployment claims, and future employment improved in August, while auto registrations and building permits declined. The indexes for Richmond, Lynchburg, Hampton Roads, Charlottesville, Danville, and Winchester advanced, while the indexes for Roanoke, Bristol, and Blacksburg declined. The indexes for Northern Virginia and Harrisonburg were unchanged.

September Revenue Collections

Total general fund revenue collections rose 5.3 percent in September, with all major sources contributing to the increase. Collections for recordation taxes increased 1.9 percent – the first increase in more than a year. On a fiscal year-to-date basis, total revenue collections rose 6.7 percent in September compared with the same period last year, well ahead of the interim annual forecast of 2.9 percent growth. Adjusting for the accelerated sales tax program and the 0.125 percent sales tax transfer to transportation required by the provisions of HB 2313, total revenues rose 6.3 percent through September, ahead of the adjusted forecast of 2.8 percent growth.

Net Individual Income Tax (69% of general fund revenues): Through the first quarter of the fiscal year, collections of net individual income tax rose 7.6 percent from the same period last year, ahead of the annual estimate of 3.4 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (64% of general fund revenues): With an additional deposit day compared with last year, collections of payroll withholding taxes rose 8.3 percent in September. Year-to-date, withholding collections are 6.3 percent ahead of the same period last year, leading the revised annual estimate of 2.7 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 2015 is due. Collections rose 2.8 percent in September from last year. Year-to-date collections were \$427.7 million compared with \$372.8 million in the same period last year, rising by 14.7 percent and ahead of the annual estimate of 6.3 percent growth.

Individual Income Tax Refunds: Through September, TAX has issued \$123.5 million in refunds compared with \$118.6 million during the same period last year. Year-to-date, refunds have risen 4.1 percent, ahead of the annual estimate of 3.6 percent growth.

Sales Tax (19% of general fund revenues): Collections of sales and use taxes, reflecting August sales, rose 3.5 percent in September. On a year-to-date basis, collections have risen 4.6 percent, ahead of the annual estimate of 4.4 percent growth. Adjusting for the partial repeal of the accelerated sales tax program and the 0.125 percent sales tax transfer required by HB 2313, sales tax collections have grown by 3.0 percent year-to-date, tracking the economic-base forecast of 3.4 percent growth.

Corporate Income Tax (4% of general fund revenues): As with nonwithholding, September is a significant month in corporate income tax collections, since the first estimated payment for the fiscal year is due in September. Collections of corporate income tax grew 6.9 percent in September from September of last year. Through the first quarter of the fiscal year, collections in this source have grown 12.4 percent from the same period last year, ahead of the annual estimate of a 0.9 percent decline.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$26.4 million in September, compared with \$25.9 million in September of last year. The 1.9 percent growth in September ended 13

consecutive months of negative growth. On a year-to-date basis, collections are down 6.1 percent, trailing the annual forecast of 1.2 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	7.5%
Interest Income (0.5% GF revenues)	-2.0%	-18.9%
<i>ABC Taxes (1% GF revenues)</i>	2.8%	-0.2%

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 \$150.4 million has been deposited.

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue fell 4.7 percent in September, \$25.5 million compared with \$26.7 million a year ago. On a year-to-date basis, collections of All Other Revenue fell 0.5 percent from the same period last year, ahead of the annual estimate of a 10.0 percent decline.

Summary

September completes the first quarter of fiscal year 2015 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.

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The fall revenue forecasting process has begun. The Joint Advisory Board of Economists (JABE) is meeting October 15th to assess recent economic developments and the outlook for the current and next biennia. The Governor's Advisory Council on Revenue Estimates (GACRE) will meet on November 24th to evaluate both the JABE economic recommendations and revenue collections through October.