



COMMONWEALTH of VIRGINIA

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PO Box 1475
Richmond, VA. 23218

MEMORANDUM

TO: The Honorable Robert F. McDonnell

THROUGH: The Honorable Martin Kent

FROM: Richard D. Brown 

SUBJECT: September Revenue Data

September completes the first quarter of fiscal year 2013 and is a significant month for revenue collections. Estimated payments from individuals, corporations, and insurance premiums are all due in September, along with regular monthly collections in withholding, sales taxes, and other sources.

Total general fund revenue collections rose 2.6 percent in September, with collections of individual withholding, corporate income taxes and individual nonwithholding driving growth. Collections in sales and recordation taxes declined from September of last year. On a year-to-date basis, total revenue collections rose 2.8 percent through the first quarter of the fiscal year, ahead of the annual forecast of 1.5 percent growth. Adjusting for the accelerated sales tax program and the 0.125 percent sales tax transfer required by the provisions of HB 2313, total revenues grew 3.5 percent through September, ahead of the adjusted forecast of 1.4 percent growth.

National Economic Indicators

Most national indicators suggest the economy continues to expand at a slow pace. It is expected that the partial government shutdown will continue to dampen growth.

- According to the final estimate, real GDP grew at an annualized rate of 2.5 percent in the second quarter of 2013, up from a 1.1 percent increase in the first quarter.
- The government shutdown has delayed the Labor Department September payroll employment and unemployment reports indefinitely. The monthly employment report published by the ADP Research Institute, in collaboration with Moody's Analytics,

estimates nonfarm private sector employment based on actual transactional payroll data. ADP estimated that private-sector employment grew by 166,000 jobs in September.

- Initial claims for unemployment rose by 1,000 to 308,000 during the week ending September 28, as low as they were before the recession began in late 2007. The four-week moving average fell by 3,750 to 305,000.
- The Conference Board's index of leading indicators rose 0.7 percent in August after increasing 0.6 percent in July. The behavior of the leading indicator is consistent with continued slow economic growth.
- The Conference Board's index of consumer confidence fell from 81.8 to 79.7 in September. As the partial government shutdown has increased the uncertainty concerning future policy, the expectations component drove the decline. The present situation component increased in September.
- Activity in the manufacturing sector further improved in September, with the Institute of Supply Management index rising from 55.7 to 56.2.
- Inflation remains contained. The CPI rose 0.1 percent in August, and stands 1.5 percent above August 2012. Core inflation (excluding food and energy prices) also rose 0.1 percent in August, and has increased 1.8 percent from August of last year.
- 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 continued its quantitative easing program.

Virginia Economy

In Virginia, payroll employment rose 0.8 percent in August from August of last year. Northern Virginia posted job growth of 1.0 percent; Hampton Roads rose 3.1 percent; and Richmond-Petersburg rose 0.1 percent. The seasonally adjusted unemployment rate in the Commonwealth increased 0.1 percentage point to 5.8 percent in August and is 0.1 percentage point below August 2012.

The Virginia Leading Index rose less than 0.1 percent in August after also increasing less than 0.1 percent in July. The U.S. leading index, future employment, and initial claims improved in August, while auto registrations, and building permits declined. The Leading Indexes increased in Charlottesville, Danville, Harrisonburg, and Lynchburg, while the indexes for the remaining metro areas contracted.

September Revenue Collections

September completes the first quarter of fiscal year 2013 and is a significant month for revenue collections. Total general fund revenue collections rose 2.6 percent in September, with collections of individual withholding, corporate income taxes, and individual nonwithholding driving growth. Collections in sales and recordation taxes declined from September of last year. On

a year-to-date basis, total revenue collections rose 2.8 percent through the first quarter of the fiscal year, ahead of the annual forecast of 1.5 percent growth.

Net Individual Income Tax (69% of general fund revenues): Through September, collections of net individual income tax rose 4.0 percent from the same period last year, ahead of the annual estimate of 2.5 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (64% of general fund revenues): Collections of payroll withholding taxes rose 2.9 percent in September. Year-to-date, withholding collections rose 4.8 percent compared with the same period last year, behind the projected annual growth rate of 5.4 percent.

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 2014 is due. Collections rose 2.1 percent in September from September of last year. Year-to-date collections were \$372.8 million compared with \$362.4 million in the first quarter of last year, rising by 2.9 percent and ahead of the annual estimate of a 5.9 percent decline.

Individual Income Tax Refunds: Through September, TAX issued \$118.6 million in refunds compared with \$98.2 million during the same period last year. Year-to-date, refunds have risen 20.8 percent, ahead of the annual estimate of 6.3 percent growth.

Sales Tax (19% of general fund revenues): Collections of sales and use taxes, reflecting August sales, fell 2.7 percent in September. On a year-to-date basis, collections have fallen 4.5 percent through September, trailing the annual estimate of a 1.0 percent decline. Adjusting for the partial repeal of the accelerated sales tax program and the 0.125 percent sales tax transfer as set forth in HB 2313, sales tax collections have fallen by 0.4 percent year-to-date, lagging the economic-base forecast of 5.2 percent growth.

Corporate Income Tax (5% 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. Collections of corporate income tax grew 16.7 percent in September from September of last year. Year-to-date collections in this source have grown 19.4 percent from the same period last year, ahead of the estimate of 5.4 percent growth.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$25.9 million in September, compared with \$26.9 million in September of last year, a 3.8 percent decline. This was the second consecutive monthly decline in this source. On a year-to-date basis, collections are up 2.8 percent, far ahead of the annual forecast of a 10.9 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 Tax (2% GF revenues)	NA%	7.0%
Interest Income (0.5% GF revenues)	-31.7%	-4.2%
ABC Taxes (1% GF revenues)	-5.8%	-0.6%

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 \$130.8 million has been deposited.

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue rose 20.9 percent in September, \$26.7 million compared with \$22.1 million last year. On a year-to-date basis, collections of All Other Revenue rose 8.7 percent from the same period last year, ahead if the annual estimate of a 2.7 percent decline.

Summary

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Total general fund revenue collections rose 2.6 percent in September, with collections of individual withholding, corporate income taxes, and nonwithholding driving growth. Collections of sales and recordation taxes declined from September of last year. On a year-to-date basis, total revenue collections rose 2.8 percent through the first quarter of the fiscal year, ahead of the annual forecast of 1.5 percent growth. Adjusting for the accelerated sales tax program and the 0.125 percent sales tax transfer required by the provisions of HB 2313, total revenues grew 3.5 percent through September, ahead of the adjusted forecast of 1.4 percent growth.

The fall revenue forecasting process has begun. The Joint Advisory Board of Economists (JABE) is meeting October 16th 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 25th to evaluate both the JABE economic recommendations and revenue collections through October.