



## ***COMMONWEALTH of VIRGINIA***

Aubrey L. Layne, Jr., MBA, CPA  
Secretary of Finance

October 15, 2019

P.O. Box 1475  
Richmond, Virginia 23218

### **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 2020 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 9.3 percent in September, driven by broad-based growth in payroll withholding, sales, individual nonwithholding, corporate and recordation tax collections. On a fiscal year-to-date basis, total revenue collections rose 8.2 percent through September, well ahead of the annual forecast of 1.2 percent growth.

First quarter revenue growth demonstrated robust growth. Historically, however, the Commonwealth's general fund revenue picture will not become clear until final payments are collected from individuals and corporations next spring.

### **National Economic Indicators**

Recent national indicators suggest the economy continues to moderately expand.

- According to the third estimate, real GDP rose at an annualized rate of 2.0 percent in the second quarter of 2019, slowing from 3.1 percent growth in the first quarter.

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- Payroll employment rose by 136,000 jobs in September, following the August gain of 168,000 and the July gain of 166,000. In a separate report, the unemployment rate fell to 3.5 percent, the lowest level of the expansion.
- Initial claims for unemployment increased by 4,000 to 219,000 during the week ending September 28. The four-week moving average was unchanged at 212,500. The level of claims is still at a historically low level and consistent with a healthy labor market.
- The Conference Board's index of leading indicators was unchanged in August following a 0.4 percent increase in July. The index suggests that moderate economic growth should continue in the coming months.
- The Conference Board's index of consumer confidence fell from 134.2 to 125.1 in September, with both the expectations and the present conditions components falling. The decline is not necessarily a sign that confidence is falling sharply, as the index has been choppy.
- The manufacturing sector contracted for the second consecutive month in September. The Institute of Supply Management index fell from 49.1 to 47.8 for the month. Although a reading below 50 indicates that the manufacturing sector is contracting, this is still above the recession threshold of 42.9.
- The CPI rose 0.1 percent in August following a 0.3 percent increase in July. The index stands 1.8 percent above August of 2018. Core inflation (excluding food and energy prices) rose by 0.3 percent, and is 2.4 percent above a year ago.
- At its September meeting, the Federal Reserve lowered the federal funds target rate range by 25 basis points to 1.75 to 2.0 percent, the second rate cut this year.

## **Virginia Economy**

In Virginia, payroll employment rose 0.9 percent in August compared with last year. Northern Virginia posted growth of 0.8 percent; Hampton Roads employment increased 0.3 percent; and Richmond-Petersburg rose 0.6 percent from August of last year. The seasonally adjusted unemployment rate fell 0.1 percentage point to 2.8 percent in August, and was unchanged from August of last year.

The Virginia Leading Index rose 0.1 percent in August after rising 0.1 percent in July. Future employment and initial claims improved in August while auto registrations declined; the U.S. Leading index was unchanged. The indexes for Roanoke, Northern Virginia, and Bristol were unchanged in August, while the indexes for the remaining eight metro areas increased.

## September Revenue Collections

Total general fund revenues rose 9.3 percent in September, driven by broad-based growth in payroll withholding, sales, individual nonwithholding, corporate and recordation tax collections. On a fiscal year-to-date basis, total revenue collections rose 8.2 percent through September, well ahead of the annual forecast of 1.2 percent growth.

***Net Individual Income Tax (71% of general fund revenues):*** Through the first quarter of the fiscal year, collections of net individual income tax rose 7.2 percent from the same period last year, ahead of the annual estimate of 0.2 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 rose 3.4 percent in September. Year-to-date, collections have grown 5.8 percent, well ahead of the annual estimate of 4.2 percent growth.

***Individual Income Tax Nonwithholding (18% of general fund revenues):*** September is a significant month for collections in this source since the first estimated payment for fiscal year 2020 is due. Collections rose 17.2 percent in September from last year. Year-to-date, collections were \$617.6 million compared with \$530.3 million in the same period last year, growing by 16.5 percent and well ahead of the annual estimate of a 3.5 percent decline.

***Individual Income Tax Refunds:*** Through September, the Department of Taxation has issued \$158.5 million in refunds compared with \$137.9 million in the same period last year, a 15.0 percent increase.

***Sales Tax (17% of general fund revenues):*** Collections of sales and use taxes, reflecting August sales, rose 9.0 percent in September. This is directly related to the anticipated increase in Wayfair-related revenues contained in Chapter 854. New use tax dealers submitted \$26.4 million for the month – the entire 9.0 percent monthly growth. On a year-to-date basis, collections of sales and use taxes have risen 7.8 percent, ahead of the annual estimate of 4.2 percent growth.

***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 13.2 percent for the month. On a year-to-date basis, collections of corporate income taxes were \$246.8 million compared with \$227.4 million in the first quarter of last year, an 8.5 percent increase compared with the annual forecast of 9.3 percent growth.

***Wills, Suits, Deeds, Contracts (2% of general fund revenues):*** Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$36.6 million in September, compared with \$27.1 million in September of last year. On a year-to-date basis, collections are up 25.4 percent, far ahead of the annual forecast of a 4.6 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 \$183.6 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 (0.4% GF revenues)	71.7%	-14.3%
ABC Taxes (1% GF revenues)	24.1%	3.2%

**All Other Revenue (2% of general fund revenues):** Receipts in All Other Revenue fell 3.0 percent in September, \$28.5 million compared with \$29.4 million a year ago. On a year-to-date basis, collections of All Other Revenue fell 3.9 percent from the same period last year, compared to the annual estimate of a 6.3 percent decline.

### **Summary**

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The fall revenue forecasting process has begun. The *Joint Advisory Board of Economists* (JABE) will meet on October 17 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 25 to evaluate both the JABE economic recommendations and revenue collections through October.

Official revenue estimates for fiscal year 2020 and the next biennium will be released on December 17 when the Governor introduces his budget recommendations to the General Assembly.