



Economic and Revenue Update

A Briefing on the September Revenue Report

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Topics for Discussion

- National and State Economic Indicators
- September Year-to-Date Revenue Collections, Fiscal Year 2016
- Next Steps

National and State Economic Indicators

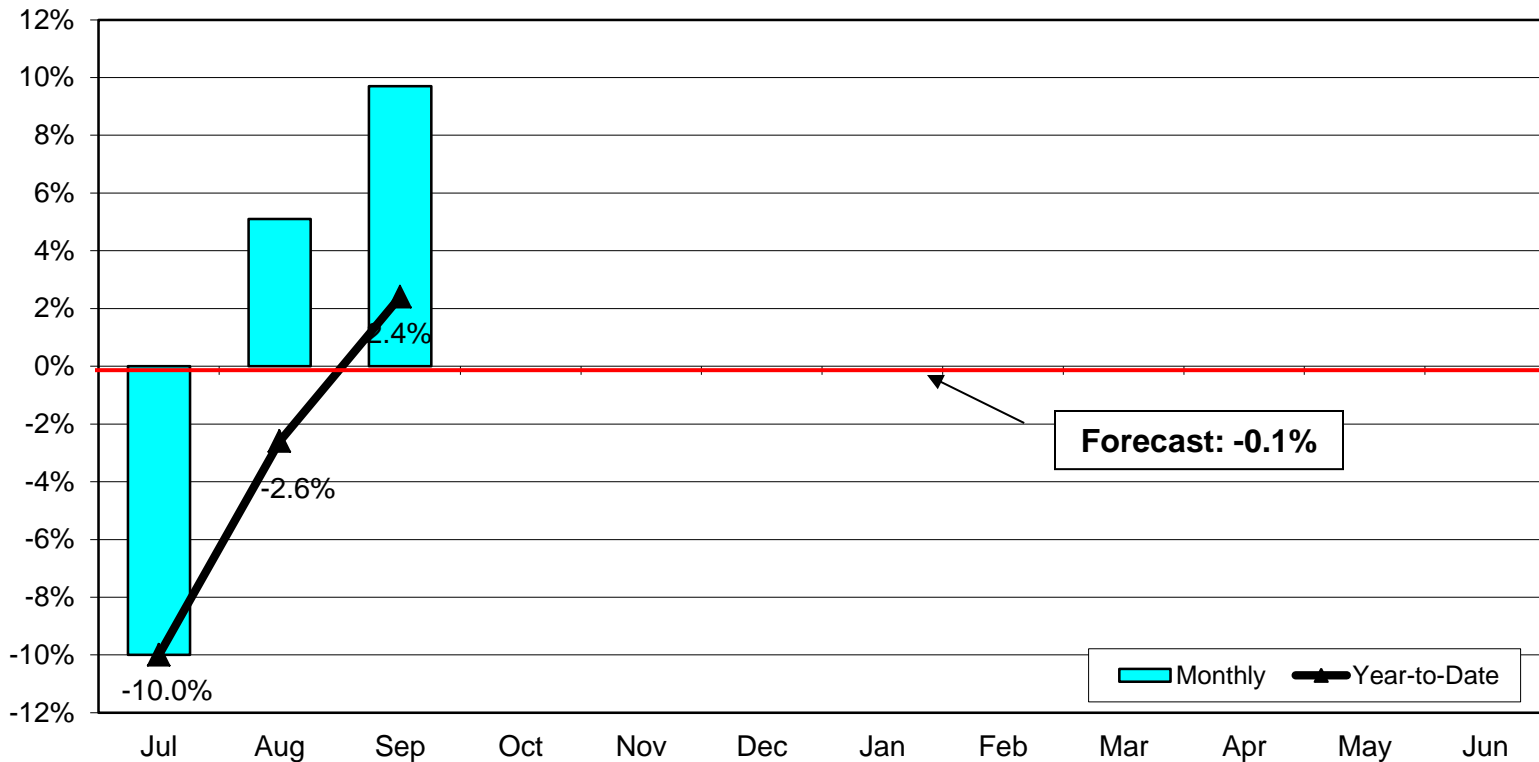
- According to the third estimate, real GDP grew at an annualized rate of 3.9 percent in the second quarter of 2015, up from 0.6 percent in the first quarter.
- Payroll employment rose by 142,000 in September and the gains in July and August were revised downward.
- The national unemployment rate was unchanged at 5.1 percent in September, as both employment and the labor force declined.
- Initial claims for unemployment fell by 13,000 to 263,000 during the week ending October 3.
 - The four-week moving average fell by 3,000 to 267,500, consistent with a healthy labor market.
- The Conference Board's index of leading indicators rose 0.1 percent in August following no growth in July. Five of the ten components increased.
- The Conference Board's index of consumer confidence rose 1.7 points to 103.0 in September, driven by the present conditions component.
- Activity in the manufacturing sector weakened further in September, with the Institute of Supply Management index falling from 51.1 to 50.2.
 - Index has remained in expansionary territory for 33 consecutive months.

National and State Economic Indicators

- The CPI fell 0.1 percent in August and stands 0.2 percent above August 2014.
 - Core inflation (excluding food and energy prices) rose 0.1 percent in August, and has increased 1.8 percent from last year.
- At its September meeting, the Federal Reserve reaffirmed that the federal funds rate target was going to remain unchanged at 0.0 to 0.25 percent.
- In Virginia, payroll employment rose 0.9 percent in August from August of last year.
 - Northern Virginia posted growth of 2.3 percent, Hampton Roads grew 0.7 percent, and Richmond-Petersburg fell 0.2 percent.
 - The seasonally adjusted unemployment rate fell 0.3 percentage point to 4.5 percent in August and stands 0.5 percent below August 2014.
- The Virginia Leading Index rose 0.2 percent in August after rising 0.4 percent in July. The U.S leading index, future employment, and initial claims improved in August, while auto registrations declined.
 - The indexes for Northern Virginia, Hampton Roads, Charlottesville, Harrisonburg, Winchester, and Staunton rose in August while the indexes for Roanoke, Lynchburg, Blacksburg, and Bristol declined. The index for Richmond was flat.

Growth in Total General Fund Revenue Collections

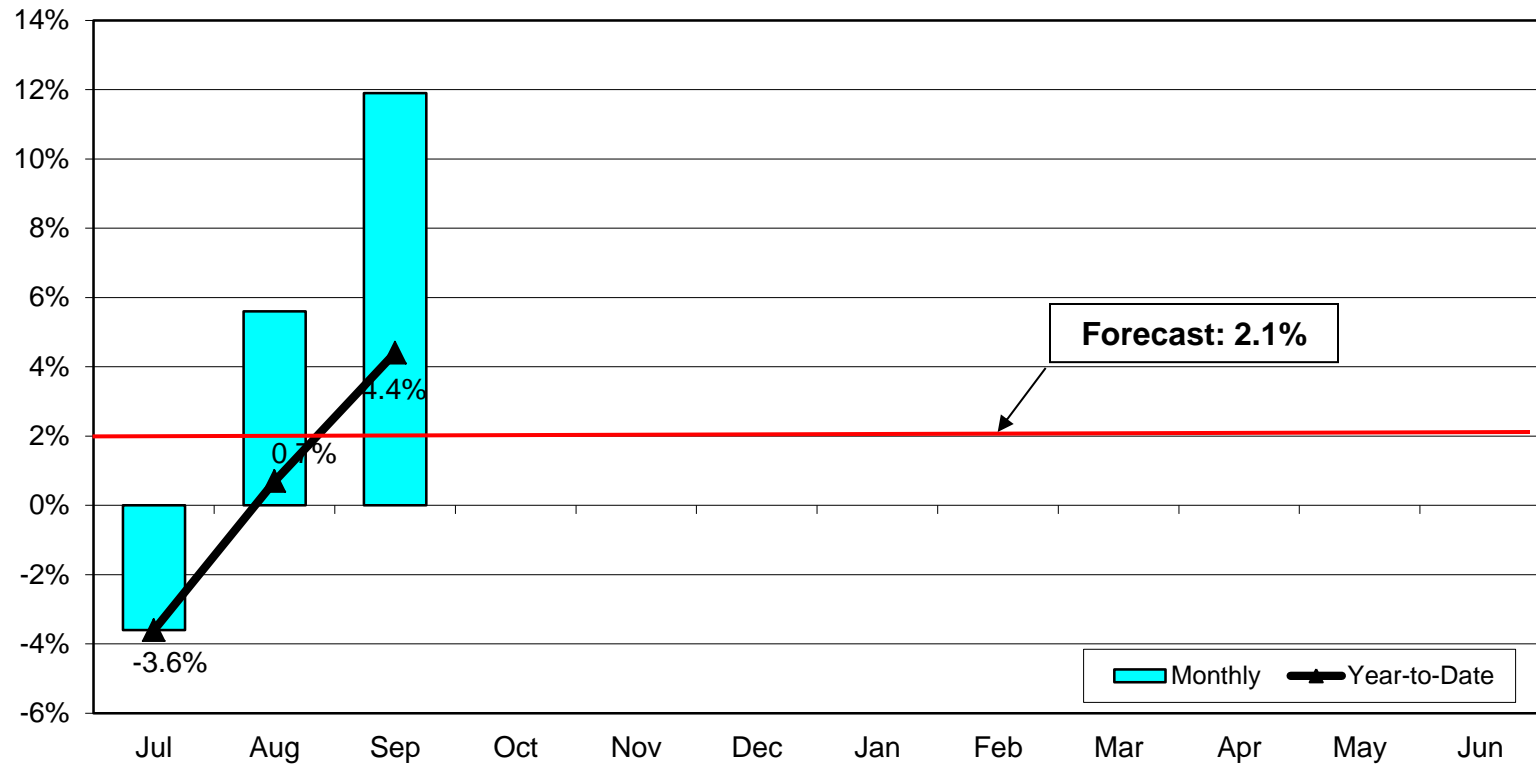
FY16 Monthly and Year-to-Date



Monthly Growth: -10.0% 5.1% 9.7%

- Total general fund revenues increased 9.7 percent in September, driven by growth in individual withholding and nonwithholding payments.
- On a year-to-date basis, total revenues increased 2.4 percent, ahead of the annual forecast of a 0.1 percent decline.
 - Adjusting for Accelerated Sales Tax (AST) program, total revenues grew 4.0 percent through September, ahead of the economic-base forecast of 0.0 percent growth.

Growth in Withholding Tax Collections FY16 Monthly and Year-to-Date

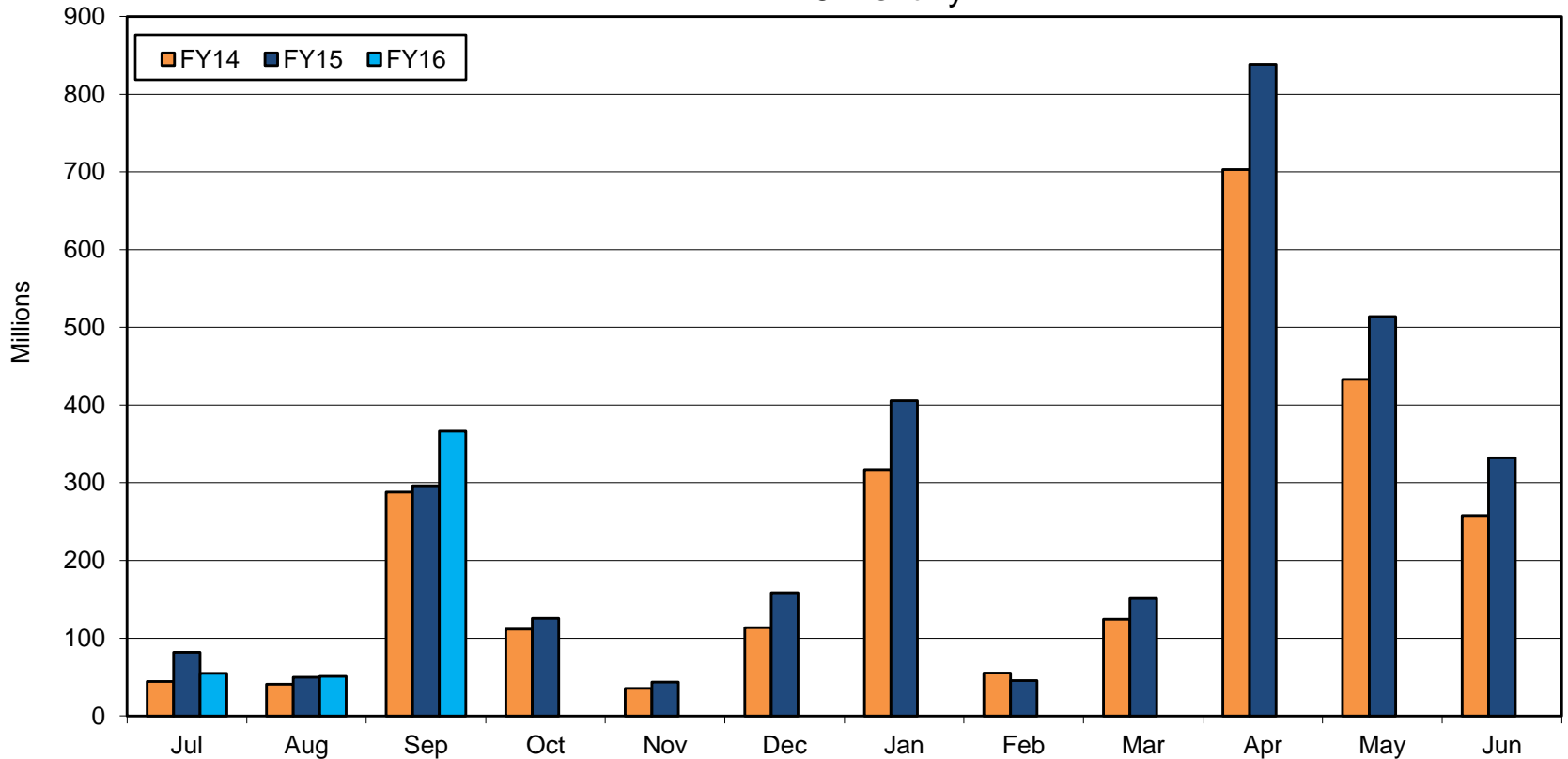


Monthly Growth: -3.6% 5.6% 11.9%

- Collections of payroll withholding taxes increased 11.9 percent in September.
- Year-to-date, withholding collections increased 4.4 percent compared with the same period last year, behind the projected annual growth rate of 2.1 percent.

Nonwithholding Tax Collections

FY14-FY16 Monthly



- The first individual estimated payment in fiscal year 2016 was due in September. Total monthly nonwithholding collections increased 23.8 percent.
- Year-to-date, collections through the first quarter of fiscal year 2016 were \$472.0 million compared with \$427.7 million in the same period last year, an increase of 10.3 percent and ahead of the annual estimate of an 8.4 percent decline.

Individual Income Tax Refunds

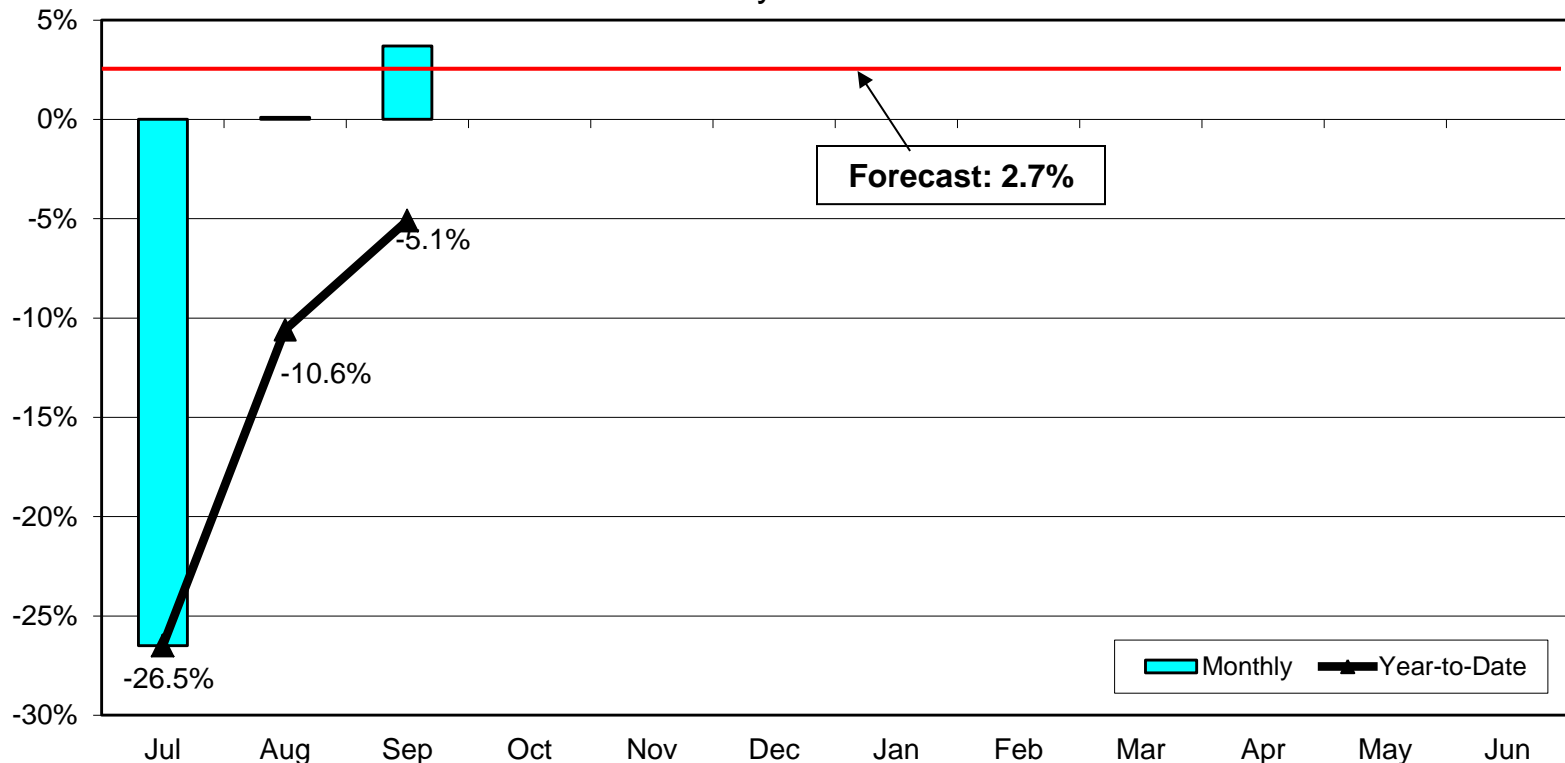
- Not a significant month.
- Through September, TAX has issued \$122.9 million in individual refunds compared with \$123.5 million in the same period last year, a 0.5 percent decline and behind the annual estimate of 4.7 percent growth.

Net Individual Income Tax

- Through the first three months of the fiscal year, collections of net individual income tax increased 5.5 percent from the same period last year, ahead of the annual estimate of a 0.9 percent decline.

Growth in Sales Tax Collections

FY16 Monthly and Year-to-Date



Monthly Growth: -26.5% 0.1% 3.7%

- Collections of sales and use taxes, reflecting mainly August sales, increased 3.7 percent in September.
- On a year-to-date basis, collections decreased 5.1 percent, behind the annual estimate of 2.7 percent growth.
 - Adjusting for AST program, sales tax collections increased 4.5 percent through September, ahead of the economic-base forecast of a 2.7 percent increase.

Net Corporate Income Tax Collections

- Like nonwithholding, September is a significant month in corporate income tax collections since the first estimated payment for the fiscal year is due.
 - Collections in corporate income tax decreased 15.2 percent in September.
 - This decrease is due to a few large corporations adjusting their payments.
- Through the first quarter of fiscal year 2016, collections in this source have decreased 17.0 percent, behind the annual estimate of a 1.3 percent decline.
- Through the first quarter, 22.9 percent of the projected fiscal year's net corporate payments have been received.
 - This is behind the historical average of 24.3 percent.

Recordation and Insurance Premiums Tax

Recordation

- In September, collections increased 11.7 percent compared to last year. Year-to-date collections have increased 9.7 percent compared to last year, ahead of the forecast of a 8.1 percent decline.
 - Collections have now increased by double-digit amounts in 9 of the last 10 months.

Insurance

- Monthly collections of insurance premiums are being transferred to the Transportation Trust Fund per Chapter 896, 2007 Acts of the Assembly, until the required amount of \$150.3 million has been booked.
 - Adjusted for this transfer, collections have increased 7.6 percent through the first quarter of fiscal year 2016 from the same period last year, behind expectations of 8.7 percent growth.

Summary of Fiscal Year 2016 Revenue Collections

July through September

Percent Growth over Prior Year

| <u>Major Source</u> | <u>As a % of Total Revenues</u> | <u>YTD Actual</u> | <u>Annual Estimate</u> | <u>Variance</u> |
|---------------------|---|-----------------------|----------------------------|-----------------|
| Withholding | 63.6 % | 4.4 % | 2.1 % | 2.3 % |
| Nonwithholding | 15.7 | 10.3 | (8.4) | 18.7 |
| Refunds | (10.4) | (0.5) | 4.7 | (5.2) |
| Net Individual | 69.0 | 5.5 | (0.9) | 6.4 |
| Sales | 18.8 | (5.1) | 2.7 | (7.8) |
| Corporate | 4.6 | (17.0) | (1.3) | (15.7) |
| Wills (Recordation) | 1.8 | 9.7 | (8.1) | 17.8 |
| Insurance | 1.8 | n/a | 8.7 | n/a |
| All Other Revenue | 4.0 | 1.6 | 2.8 | (1.2) |
| Total | 100.0 % | 2.4 % | (0.1) % | 2.5 % |

| | | | |
|------------------------|-------|-------|-------|
| Sales (x HB2313 & AST) | 4.5 % | 2.7 % | 1.8 % |
| Total (x HB2313 & AST) | 4.0 % | 0.0 % | 4.0 % |

Summary of Fiscal Year 2016 Revenue Collections

July through September

General Fund Revenue Collection Trends

(thousands of dollars)

| FY | Total Collections | Revenue Collections Through: | | | | | | | | | | | |
|---------------|-------------------|------------------------------|---------|---------|---------|---------|---------|---------|----------|----------|----------|----------|----------|
| | | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun |
| 2000 | 10,788.5 | 699.1 | 1,435.8 | 2,503.0 | 3,210.6 | 3,977.8 | 5,080.0 | 6,067.5 | 6,704.5 | 7,374.1 | 8,411.9 | 9,663.1 | 10,788.5 |
| 2001 | 11,105.3 | 688.0 | 1,452.7 | 2,546.4 | 3,312.7 | 4,106.3 | 5,052.9 | 6,295.8 | 6,981.1 | 7,652.5 | 8,696.8 | 9,998.9 | 11,105.3 |
| 2002 | 10,679.0 | 705.4 | 1,483.7 | 2,485.4 | 3,315.4 | 4,136.9 | 5,071.2 | 6,184.7 | 6,794.7 | 7,459.8 | 8,388.0 | 9,414.6 | 10,679.0 |
| 2003 | 10,867.1 | 644.3 | 1,409.6 | 2,513.3 | 3,324.3 | 4,109.7 | 5,203.2 | 6,320.5 | 6,933.6 | 7,547.7 | 8,579.5 | 9,539.0 | 10,867.1 |
| 2004 | 11,917.9 | 699.3 | 1,553.7 | 2,724.3 | 3,618.2 | 4,449.1 | 5,570.2 | 6,721.0 | 7,377.9 | 8,130.2 | 9,393.7 | 10,423.6 | 11,917.9 |
| 2005 | 13,687.3 | 772.5 | 1,698.8 | 3,009.8 | 3,998.0 | 4,964.5 | 6,295.1 | 7,684.7 | 8,415.7 | 9,300.7 | 10,745.5 | 12,012.3 | 13,687.3 |
| 2006 | 14,834.3 | 840.5 | 1,987.8 | 3,445.8 | 4,510.5 | 5,537.3 | 7,006.6 | 8,542.7 | 9,306.7 | 10,273.3 | 11,758.2 | 13,253.6 | 14,834.3 |
| 2007 | 15,565.8 | 1,059.7 | 2,158.2 | 3,707.7 | 4,778.6 | 5,873.0 | 7,303.6 | 8,882.9 | 9,684.8 | 10,658.1 | 12,180.5 | 13,883.2 | 15,565.8 |
| 2008 | 15,767.0 | 1,095.6 | 2,231.1 | 3,842.1 | 5,023.2 | 6,085.2 | 7,540.8 | 9,175.5 | 9,916.1 | 10,920.8 | 12,664.1 | 14,131.9 | 15,767.0 |
| 2009 | 14,315.1 | 1,126.9 | 2,188.0 | 3,679.9 | 4,848.9 | 5,861.6 | 7,278.9 | 8,667.9 | 9,307.9 | 10,173.1 | 11,572.9 | 12,811.3 | 14,315.1 |
| 2010 | 14,219.5 | 1,036.2 | 2,027.7 | 3,407.0 | 4,482.0 | 5,465.7 | 6,960.9 | 8,258.9 | 8,861.4 | 9,752.5 | 11,157.9 | 12,394.4 | 14,219.5 |
| 2011 | 15,040.2 | 867.4 | 1,911.7 | 3,348.1 | 4,462.9 | 5,537.9 | 7,062.6 | 8,523.8 | 9,226.6 | 10,228.2 | 11,655.4 | 13,113.5 | 15,040.2 |
| 2012 | 15,846.7 | 955.4 | 2,080.6 | 3,573.2 | 4,722.6 | 5,903.2 | 7,356.7 | 8,868.2 | 9,692.1 | 10,770.1 | 12,347.9 | 13,927.3 | 15,846.7 |
| 2013 | 16,684.6 | 938.0 | 2,137.6 | 3,619.5 | 4,948.9 | 6,091.0 | 7,615.0 | 9,421.8 | 10,229.6 | 11,242.1 | 12,855.0 | 14,757.7 | 16,684.6 |
| 2014 | 16,411.4 | 1,059.9 | 2,201.4 | 3,722.3 | 4,980.1 | 6,134.4 | 7,670.6 | 9,371.5 | 10,151.7 | 11,242.9 | 13,017.7 | 14,526.7 | 16,411.4 |
| 2015 | 17,735.6 | 1,208.9 | 2,370.4 | 3,972.6 | 5,286.0 | 6,451.6 | 8,189.9 | 9,871.8 | 10,821.7 | 12,041.3 | 13,997.6 | 15,595.1 | 17,735.6 |
| Average | 14,091.6 | 899.8 | 1,895.5 | 3,256.3 | 4,301.4 | 5,292.8 | 6,641.1 | 8,053.7 | 8,775.4 | 9,673.0 | 11,088.9 | 12,465.4 | 14,091.6 |
| % of Total | 100.0% | 6.4% | 13.5% | 23.1% | 30.5% | 37.6% | 47.1% | 57.2% | 62.3% | 68.6% | 78.7% | 88.5% | 100.0% |
| 2016 | | | | | | | | | | | | | |
| Chapter 665 | 17,720.7 | 1,088.3 | 2,309.0 | 4,066.3 | - | - | - | - | - | - | - | - | - |
| % of Estimate | | 6.1% | 13.0% | 22.9% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |

Fall 2015 Forecasting Process

- The Joint Advisory Board of Economists (JABE) met on October 14th.
 - Members assessed recent economic developments and evaluated the revised economic outlook for the current and the next biennium.
- A meeting of the Governor's Advisory Council on Revenue Estimates (GACRE) will be held on November 30, 2015.
 - Members will evaluate JABE recommendations, revenue collections through October, and the associated revenue forecast.
- The subsequent economic and revenue outlook will serve as the basis for the Governor's amendments to the 2014-2016 biennial budget and the proposed 2016-2018 biennial budget.