



COMMONWEALTH of VIRGINIA

Richard D. Brown
Secretary of Finance

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MEMORANDUM

TO: The Honorable Terence R. McAuliffe

THROUGH: The Honorable Paul Reagan

FROM: Richard D. Brown 

SUBJECT: August Revenue Data

August is not a significant month for revenue collections, with collections mainly from withholding, sales taxes, and other sources that have regular monthly payments. Total general fund revenue collections rose 5.1 percent in August, with individual withholding taxes accounting for most of the gain.

On a fiscal year-to-date basis, total revenue collections fell 2.6 percent in August compared with the same period last year, trailing the estimate of a 0.1 percent decline. The decline is not significant as it was mainly due to the timing of payments in July. Adjusting for the accelerated sales tax program, total revenues rose 0.4 percent through August, ahead of the forecast.

National Economic Indicators

Most recent national indicators suggest that the U.S. economy has strengthened over the second quarter and is poised for further growth.

- According to the second estimate, real GDP rose at an annualized rate of 3.7 percent in the second quarter of 2015, up from 0.6 percent in the first quarter and well above the initial estimate of 2.3 percent growth.
- Conditions in the labor market remained stable in August. Payroll employment rose by 173,000 jobs in August and June and July payrolls were revised up by a combined 44,000 jobs. In a separate report, the unemployment rate fell to a post-recession low of 5.1 percent in August as both the number of unemployed and the size of the labor force declined.

- Initial claims for unemployment rose by 12,000 to 282,000 during the week ending August 29th. The four-week moving average rose from 272,250 to 275,500, but remains consistent with an expanding economy.
- With seven of the ten components increasing, the Conference Board's index of leading indicators fell 0.2 percent in July following a 0.6 percent increase in June. A decline in building permits and stock prices dragged the index down. The overall index is consistent with continued economic growth.
- Consumer confidence grew in August. The Conference Board's index of consumer confidence jumped 10.5 points to 101.5. Both the present conditions and expectations components increased in August.
- Activity in the manufacturing sector slowed in August, with the Institute of Supply Management index falling from 52.7 to 51.1. Although manufacturing has been dampened by the global slowdown, the index has remained above the expansionary threshold of 50.0 for 32 consecutive months.
- Inflation, as measured by the CPI, rose 0.1 percent in July and stands 0.2 percent above July 2014. Core inflation (excluding food and energy prices) increased 0.1 percent in July and stands 1.8 percent above a year ago.
- The Federal Reserve announced at its July meeting that it will keep the federal funds target rate at 0.0 to 0.25 percent.

Virginia Economy

In Virginia, payroll employment rose 1.4 percent in July from July of last year. Northern Virginia posted growth of 2.4 percent, Hampton Roads grew 1.4 percent, and Richmond-Petersburg rose 0.4 percent. The seasonally adjusted unemployment rate fell 0.1 percent to 4.8 percent in July and stands 0.3 percent below July 2014.

The Virginia Leading Index rose 0.3 percent in July after rising 0.5 percent in June. Auto registrations, future employment and initial claims improved in July, while the U.S. leading index declined. Building permits were little changed. The indexes for Northern Virginia, Roanoke, Lynchburg, Hampton Roads, Charlottesville, Harrisonburg, Winchester, and Staunton rose in July while the indexes for Blacksburg and Bristol declined. The index for Richmond was flat.

August Revenue Collections

Total general fund revenue collections rose 5.1 percent in August, with individual withholding taxes accounting for most of the gain. On a fiscal year-to-date basis, total revenue collections fell 2.6 percent in August compared with the same period last year, trailing the estimate of a 0.1 percent decline. The decline is not significant as it was mainly due to the timing of payments in July. Adjusting for the accelerated sales tax program, total revenues rose 0.4 percent through August, ahead of the forecast.

Net Individual Income Tax (69% of general fund revenues): Through August, collections of net individual income tax fell 0.5 percent from the same period last year, ahead of the annual estimate of a 0.9 percent decline. 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 5.6 percent in August. Year-to-date, withholding collections are 0.7 percent ahead of the same period last year, trailing the annual estimate of 2.1 percent growth.

Individual Income Tax Nonwithholding (16% of general fund revenues): August is not a significant month for collections in this source since the first estimated payment for fiscal year 2016 is due in September.

Through the first two months of the fiscal year, collections were \$105.6 million compared with \$131.8 million in the same period last year.

Individual Income Tax Refunds: Through August, TAX has issued \$74.0 million in refunds compared with \$77.9 million last year, a 5.0 percent decrease. The annual estimate expects 4.7 percent growth in refunds.

Sales Tax (19% of general fund revenues): Collections of sales and use taxes, reflecting July sales, rose 0.1 percent in August. On a year-to-date basis, collections have fallen 10.6 percent, trailing the annual estimate of 2.7 percent growth. Adjusting for the accelerated sales tax program, sales tax collections have risen by 4.8 percent year-to-date, ahead of the forecast.

Corporate Income Tax (5% of general fund revenues): As with nonwithholding, August is not typically a significant month for collections in this source, as the first estimated payment for the fiscal year is due in September. Through August, collections in this source were \$24.0 million compared with \$33.1 million in the same period last year.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$30.3 million in August, compared with \$29.6 million in August of last year for growth of 2.2 percent. Prior to August, collections in this source had increased by double-digit growth for eight consecutive months. On a year-to-date basis, collections are up 8.9 percent, ahead of the annual forecast of an 8.1 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 \$150.3 million has been deposited.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.5% GF revenues)	-3.3%	34.7%
<i>ABC Taxes (1% GF revenues)</i>	-29.6%	0.0%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue were flat in August at \$30.0 million. On a year-to-date basis, collections of All Other Revenue rose 0.5 percent from the same period last year, close to the annual estimate of 0.6 percent growth.

Summary

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September collections will complete the first quarter of fiscal year 2015 and provide a clearer assessment of revenue growth. The first estimated payments from individuals, corporations, and insurance companies are due in September.