



COMMONWEALTH of VIRGINIA
Office of the Governor

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MEMORANDUM

TO: The Honorable Robert F. McDonnell

THROUGH: The Honorable Martin Kent

FROM: Richard D. Brown *Richard D. Brown*

SUBJECT: August Revenue Data

August is not a significant month for revenue collections, with collections mainly from withholding payments, sales taxes, and other sources which have regular monthly payments.

Total general fund revenue collections rose 7.8 percent in August, driven by strong growth in individual withholding and nonwithholding payments. Collections of recordation taxes also increased for the month, while receipts in the other major sources declined. On a year-to-date basis, total revenue collections rose 8.8 percent, ahead of the revised annual forecast of 3.7 percent growth. Adjusting for the partial repeal of the accelerated sales tax program, total revenues grew 6.7 percent through August, ahead of the economic-base forecast of 3.5 percent growth.

National Economic Indicators

Current national indicators suggest economic growth has slowed. The consensus of economic advisors expects the expansion will continue at a modest, uneven pace with significant downside risk.

- According to the second estimate, real GDP grew 1.0 percent at an annualized rate in the second quarter of 2011, following growth of 0.4 percent in the first quarter.

- The labor market stalled in August. Payroll employment added no jobs in August, as meager gains in the private sector were offset by cuts in government jobs. In addition, the prior two months were revised down by a combined 58,000 jobs. In a separate report, the unemployment rate remained flat at 9.1 percent in August.
- Initial claims for unemployment increased by 2,000 to 414,000 during the week ending September 3, while the four-week moving average rose from 411,000 to 415,000. The rise in claims is consistent with a stagnant labor market.
- The Conference Board's index of leading indicators rose 0.5 percent in July, its third consecutive monthly increase. Six of the ten components of the index rose in July, with an increase in the money supply driving the gain. The rise in the index suggests the economy should continue to modestly expand.
- The Conference Board's index of consumer confidence dropped sharply from 59.2 to 44.5 in August. Both components contributed to the decrease, although the expectations component drove the decline. The index is at its lowest level since April 2009.
- The manufacturing sector further slowed in August as the Institute of Supply Management index slightly fell from 50.9 to 50.6. The index had remained above 60 for four consecutive months early in the year, but has been slowly declining since May. A reading above 50 indicates that manufacturing activity is expanding, but the drop in the index suggests the rate of growth has further slowed.
- Inflation remains contained. The CPI increased 0.5 percent in July from the previous month and stands 3.6 percent above July of last year. Core inflation (excluding food and energy prices) rose 0.2 percent in July, and has increased 1.8 percent from July 2010.

Virginia Economy

In Virginia, the modest pace of job growth earlier in the year has slowed. In July, payroll employment rose 0.1 percent from July of last year. Northern Virginia posted growth of 0.1 percent, Hampton Roads fell 0.1 percent, and Richmond-Petersburg fell 1.7 percent. The unemployment rate in the Commonwealth fell from 6.3 percent to 6.2 percent in July, and is 0.7 percentage point below July 2010.

The Virginia Leading Index fell 0.3 percent in July, following a 0.4 percent decline in June. Building permits and the U.S. leading index rose in July, while future employment, auto registrations, and initial unemployment claims contributed negatively to the index. The Leading Index rose in July in Lynchburg, Charlottesville, and Bristol and was flat for Harrisonburg. The remaining seven metro areas showed declines.

August Revenue Collections

Total general fund revenue collections rose 7.8 percent in August, driven by strong growth in individual withholding payments. On a year-to-date basis, total revenue collections rose 8.8

percent, ahead of the revised annual forecast of 3.7 percent growth. Adjusting for the partial repeal of the accelerated sales tax program, total revenues grew 6.7 percent through August, ahead of the economic-base forecast of 3.5 percent growth.

Net Individual Income Tax (66% of general fund revenues): Through the first two months of the fiscal year, collections of net individual income tax rose 9.8 percent from the same period last year, ahead of the annual estimate of 3.9 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (64% of general fund revenues): With an extra deposit day compared with August of last year, collections of payroll withholding taxes grew 13.3 percent in August. Year-to-date, withholding collections grew 8.1 percent compared with the same period last year, ahead of the projected annual growth rate of 3.4 percent.

Individual Income Tax Nonwithholding (14% of general fund revenues): August is not a significant month for nonwithholding collections since the first estimated payment in fiscal year 2012 is due in September.

Through the first two months of fiscal year, collections were \$79.7 million compared with \$64.2 million in the same period last year, rising 24.0 percent and ahead of the annual estimate of 2.1 percent growth.

Individual Income Tax Refunds: Through August, TAX issued \$71.2 million in refunds compared with \$78.8 million last year, a 9.5 percent decline, compared with the revised annual estimate of a 0.9 percent decline.

Sales Tax (20% of general fund revenues): Collections of sales and use taxes, reflecting July sales, fell 4.4 percent in August. On a year-to-date basis, collections have risen 8.4 percent, compared with the annual estimate of 3.4 percent growth. The strong year-to-date growth is due to the partial repeal of the accelerated sales tax program, which ended the participation of a number of small dealers. Adjusting for this, sales tax collections have grown by 0.1 percent year-to-date, lagging the economic-base forecast of 2.5 percent.

Corporate Income Tax (5% of general fund revenues): As with nonwithholding, August is not typically a significant month in corporate income tax collections, since the first estimated payment for the fiscal year is due in September. Through August, collections of corporate income tax were \$2.8 million, compared with \$8.4 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 – rose 3.4 percent in August. On a year-to-date basis, collections are up 2.6 percent, behind the annual forecast of 3.3 percent growth.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Insurance Premiums (2% GF revenues)	NA	2.9%
Interest Income (1% GF revenues)	11.9%	27.7%
ABC Taxes (1% GF revenues)	9.7%	0.9%

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 \$137.3 million has been reached.

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue fell 5.7 percent in August – \$33.5 million compared with \$35.5 million last August. For the fiscal year, collections of All Other Revenue grew 2.2 percent, trailing the annual estimate of 3.5 percent growth.

Summary

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September collections will complete the first quarter of fiscal year 2011 and provide a clearer assessment of revenue growth. The first estimated payments from individuals, corporations, and insurance companies are due in September.