



COMMONWEALTH of VIRGINIA

Office of the Governor

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September 13, 2004

MEMORANDUM

TO: The Honorable Mark R. Warner

THROUGH: The Honorable William H. Leighty

FROM: John M. Bennett

SUBJECT: August Revenue Data

August is not a major collections month. Revenues in August come mainly from payroll withholding, sales taxes, recordation taxes, with relatively small amounts from a number of other revenue sources.

With one additional deposit day, total general fund revenue collections grew 8.4 percent in August compared to the same month last year, and year-to-date growth stands at 9.3 percent. Strong collections in payroll withholding, sales and use taxes, and recordation taxes drove the increase.

The first estimated payment of the fiscal year in most major sources is due in September. Therefore, September collections will provide the first meaningful snapshot of revenue collection trends for this fiscal year.

National Economic Indicators

Current economic indicators suggest that the economy is firming up from what the Federal Reserve Chairman called a "soft patch" over the last two months.

- The national labor market rebounded somewhat in August. Payroll employment grew by 144,000 jobs in August. The initial estimate of employment gains in July were also revised upward from a very weak 32,000 jobs to 73,000 jobs.
- The Conference Board's index of leading indicators dropped 0.3 percent in July -- the second consecutive month of decline -- a clear signal that growth is expected to moderate toward a more sustainable level by year end.
- The Conference Board's index of consumer confidence fell 7.5 points to 98.2 in August from a multi-year high.
- After registering over 60 for the last 10 months, the Institute of Supply Management manufacturing index fell three points to 59.0 in August. A reading over 50 indicates the economy is expanding. The fall in the index suggests that the manufacturing sector continues to expand, although at a slower pace.
- Initial claims for unemployment rose by 19,000 to 362,000 in the last week of August, pushing the four-week average

up to 343,000. About half of the increase was due to Hurricane Charley.

- As expected, the Federal Reserve raised the federal funds rate target 25 basis points to 1.5 percent at its August meeting.

Virginia Economy

In Virginia, payroll employment grew by 2.6 percent in July compared to the same month in the prior year. Northern Virginia payrolls grew by 3.2 percent - a healthy level - but significantly below the 4 percent growth averaged between January and June. Employment in Hampton Roads grew 1.3 percent, and employment in Richmond and Western Virginia increased 1.5 percent in July. Growth in the balance of the state was also positive.

The Virginia Leading Economic Index increased 0.5 percent in July. The Virginia-based components of the index - automobile registrations, building permits, and initial unemployment claims - all improved. The U.S. Leading Index was the only negative factor in the index.

August Revenue Collections

With one additional deposit day, total general fund revenue collections grew 8.4 percent in August compared to the same month last year. Strong collections in payroll withholding, sales and use taxes, and recordation taxes drove the increase. Year-to-date growth stands at 9.3 percent.

Individual Income Tax Withholding (62% of general fund revenues): With one more deposit day than August of last year, collections in withholding grew 12.2 percent in August. Year-to-date withholding growth is 9.2 percent -- ahead of the 4.6 percent growth required to meet the annual forecast.

Individual Income Tax Nonwithholding (12% of general fund revenues): The first estimated payment for fiscal year 2005 is due September 15. Therefore, collections in this source are not yet significant.

About \$34.7 million in nonwithholding payments were collected in August - about \$8.2 million more than was collected last August. Most of the increase seems to be attributable to early filings of estimated payments for the quarter. Fiscal year-to-date, \$63.6 million has been collected, compared with \$46.5 million during the same period last year.

Individual Income Tax Refunds: The Tax Department issued \$38.1 million in individual income tax refunds in August, compared with \$35.4 million in August of last year. Most refunds issued in August are to taxpayers who had requested extensions and are now filing returns for tax year 2003.

Fiscal year-to-date, \$66.8 million in refunds has been issued, compared with \$65.6 million in the same period last year.

Sales Tax (22% of general fund revenues): Collections of sales and use taxes grew 8.6 percent in August. Year-to-date sales tax collections are 7.4 percent above the same period last year.

Other Revenue Sources

The following list provides data on August collections of other tax collections:

	Year-to-Date	Required to Meet Estimate
Corporate Income Taxes (3.0% GF revenues)	187.5%	-4.2%
Insurance Premiums Taxes (3.0% GF revenues)	36.0%	8.5
ABC Taxes (1.1% GF revenues)	-3.8%	-8.7%
Public Service Corporations (0.7% GF revenues)	17.1%	-0.7%

Interest Income (0.7% GF revenues)	-7.5%	30.9%
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* YTD corporate income tax collections total only \$18.9 million - less than 5 percent of the estimate for the year.

All Other Revenue: All Other Revenue decreased 22.8 percent in August, compared to August of last year. The decline is largely due to comparison with August of last year, when a large, one-time recovery was received in Medicaid. This decline is somewhat offset by cigarette tax revenue for August being deposited to the General Fund rather than the Virginia Health Care Fund. With the September 1 effective date of HB 5018, cigarette tax collections for September and thereafter will be deposited to the Virginia Health Care Fund.

Collections in wills, suits, deeds, and contract fees (primarily recordation taxes) remained strong in August, with the second strongest collections month on record. Year-to-date, collections of All Other Revenue are 3.3 percent below the same period last year - ahead of the estimate of a 13.1 percent decline.

Lottery Revenues: In August, Lottery net income decreased 4.0 percent over last year due to higher prize expenses in Pick 4. On a year-to-date basis, growth of 4.4 percent is above the annual revenue estimate of a 3.2 percent decline.

Summary

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The first estimated payment of the fiscal year in most major sources is due in September. Therefore, September collections will provide the first meaningful snapshot of revenue collections trends for this fiscal year.

The fall revenue forecasting process has begun. The Governor's Advisory Board of Economists will meet in October to assess the outlook for the Virginia economy over the next two biennia. This forecast will serve as the basis for the revised revenue forecast to be presented by Governor Warner in December.