



# COMMONWEALTH of VIRGINIA

## Office of the Governor

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Secretary of Finance

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September 14, 2007

### MEMORANDUM

**TO:** The Honorable Timothy M. Kaine  
**THROUGH:** The Honorable William H. Leighty  
**FROM:** Jody M. Wagner  
**SUBJECT:** **August Revenue Data**

This month's revenue report displays in the first column the forecast which Governor Kaine released on August 20, 2007. The last column reflects the percent annual growth required by the estimate compared to fiscal year 2007 actual collections. 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 grew 3.4 percent in August compared to August 2006. On a year-to-date basis, revenues also grew 3.4 percent over the same period last year, ahead of the annual forecast of 3.0 percent.

### National Economic Indicators

Most national indicators depict a slowing economy, with the housing market remaining a significant drag on growth.

- Second quarter GDP growth was revised up from 3.4 percent in the preliminary estimate to 4.0 percent, up sharply from the 0.6 percent growth of the first quarter.
- Payroll employment fell by 4,000 jobs in August, the first decline since August of 2003. In addition, employment for June and July were revised down, from 92,000 to 68,000 jobs in July and from 126,000 to 69,000 jobs in June. In a separate report, the unemployment rate remained unchanged at 4.6 percent, as the labor force contracted to its lowest level since 2005.
- After five weekly gains, initial claims for unemployment fell by 19,000 to 318,000 during the last week of August. The four-week moving average rose slightly, from 325,250 to 325,750.
- Inflation pressures continue to ease. A drop in energy prices contributed to a weak 0.1 percent increase in the Consumer Price Index in July, following a 0.2 percent increase in June. Core inflation, excluding food and energy, increased 0.2 percent in July, resulting in growth of 2.2 percent over the last year.
- Activity in the manufacturing sector slowed in August. The Institute of Supply Management index fell from 53.8 to 52.9, the lowest level since March.

The Conference Board's index of leading indicators rose 0.4 percent to 138.1 in July, following a 0.3 percent drop in June.

- The Conference Board's index of consumer confidence fell from 111.9 to 105.0 in August. Both the current situation and expectations components dropped sharply, led by weak assessments of the current job market.
- As in the previous eight meetings, the Federal Reserve held the federal funds rate steady at 5.25 percent at its meeting in August, noting that "the economy seems likely to continue to expand at a moderate pace over coming quarters."

## Virginia Economy

In Virginia, payroll employment grew 1.8 percent in July. Jobs grew by 1.7 percent in Hampton Roads, 1.6 percent in Northern Virginia, 1.5 percent in Richmond-Petersburg, and 2.3 percent in the western MSAs. The unemployment rate fell from 3.2 percent to 3.1 percent in July.

The Virginia leading index grew 0.2 percent in July, its fourth consecutive increase. An increase in building permits and a decline in initial claims for unemployment offset the negative impact of a drop in auto registrations. The regional indices increased in four of the state's eleven metropolitan areas in July. The indices in Blacksburg, Lynchburg, Charlottesville, and Danville increased for the month. Northern Virginia, Hampton Roads, Bristol and Winchester experienced slight declines, while Richmond, Roanoke, and Harrisonburg were unchanged.

## August Revenue Collections

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**Individual Income Tax Withholding (57% of general fund revenues):** Collections of payroll withholding taxes grew 5.6 percent in August. Year-to-date withholding growth is 4.6 percent, lagging the projected annual growth rate of 6.0 percent.

**Individual Income Tax Nonwithholding (19% of general fund revenues):** August is not a significant month for this source, since the first estimated payment in fiscal year 2008 is due in September. August collections were \$43.6 million compared with \$39.5 million in August of last year, a 10.3 percent increase.

**Individual Income Tax Refunds:** Through August, \$63.4 million have been refunded compared with \$73.9 million in the same period last year.

**Sales Tax (20% of general fund revenues):** Collections of sales and use taxes, reflecting July sales, were flat in August. High gas prices and the slowing housing market have reduced disposable income, leading to disappointing collections of sales taxes. On a year-to-date basis, collections of sales and use taxes have increased 2.9 percent, close to the estimate of a 2.8 percent increase.

**Corporate Income Tax (5% of general fund revenues):** August is typically not a significant month in corporate income tax collections, since the first estimated payment for fiscal year 2008 is due in September. Collections in August totaled \$9.0 million, compared to \$15.1 million received last year. Through August, corporate income tax collections are 32.0 percent behind last year, trailing the forecast of an 18.4 percent decline.

**Wills, Suits, Deeds, Contracts (3% of general fund revenues):** Wills, suits, deeds, and contracts – mainly recordation tax collections – fell 11.8 percent in August as the housing market continued to slow. Year-to-date collections in this source declined 9.8 percent from last year, compared with the estimate of a 9.0 percent decline.

## Other Revenue Sources

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

	Year-to-Date	Annual Estimate
Insurance Premiums Taxes (2% GF revenues)	1.2%	2.9%
ABC Taxes (1.0% GF revenues)	-5.7%	0.7%
Interest Income (0.9% GF revenues)*	9.3%	-2.4%

**All Other Revenue:** Receipts in All Other Revenue fell 8.3 percent in August – \$36.8 million compared with \$40.2 million in August of last year. Most of the decline was in inheritance, gift, and estate taxes. For the fiscal year-to-date, collections of All Other Revenue are 9.5 percent below the same period in fiscal year 2007, lagging the annual estimate of 8.7 percent growth

**Lottery Revenues:** Net income totaled \$47.5 million in August, one of the Lottery's highest income months ever, or \$16.3 million more than last year. August was 52.2 percent ahead of August of last year mainly due to the sales leading up to a \$330 million advertised Mega Millions jackpot on August 31. Year-to-date, net income is up 32.0 percent, however comparisons to last year are affected because products currently offered (Fast Play Bingo, additional daily games' drawings) were not offered or included in sales and net income results from last year. In addition, jackpot sales were significantly depressed last year because of unusually low advertised jackpots.

## Summary

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September collections will complete the first quarter of fiscal year 2008 and provide a clearer assessment of revenue growth. The first estimated payment from individuals, corporations, and insurance companies are due in September.