



COMMONWEALTH of VIRGINIA

Office of the Governor

Richard D. Brown
Secretary of Finance

PO Box 1475
Richmond, VA. 23218

September 13, 2010

MEMORANDUM

TO: The Honorable Robert F. McDonnell

THROUGH: The Honorable Martin Kent

FROM: 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 that have regular monthly payments.

Total general fund revenue collections increased 5.3 percent in August. The monthly increase was driven by solid growth in withholding, while sales taxes were flat with August 2009. On a year-to-date basis, total revenues fell 5.7 percent, trailing the annual forecast of 2.6 percent growth. However, the accelerated sales tax program pushed some payments typically received in July into June 2010. Adjusting for this program, total revenues grew 3.3 percent through August, lagging the economic-base forecast of 4.2 percent growth.

National Economic Indicators

Current national indicators suggest the current economic expansion has weakened.

- According to the second estimate, real GDP grew at an annualized rate of 1.6 percent in the second quarter of 2010. Although growth slowed from the 3.7 percent rate in the first quarter, this marked the fourth consecutive quarter of growth.
- The labor market remains weak. Payroll employment fell by 54,000 jobs in August; however, most of the losses were associated with the ending of the census. The private sector added 67,000 jobs in August, suggesting the recovery is sustained, albeit very

- weak. Also, the job loss in July was revised from 131,000 to only 54,000. In a separate report, the unemployment rate rose from 9.5 percent to 9.6 percent in August.
- Initial claims for unemployment fell by 6,000 to 472,000 during the week ending August 28, the second consecutive weekly decline. The four-week moving average declined from 488,000 to 486,000. Although the drop in initial claims is a positive sign, claims remain at a high level.
 - The Conference Board's index of leading indicators rose 0.1 percent in July, after declining 0.3 percent in June. The small gain in the index is consistent with a slow recovery.
 - The Conference Board's index of consumer confidence rose from 51.0 to 53.5 in August, following declines in June and July. The expectations component accounted for the gain, while the present situation component dropped slightly. The index remains at a very low level, suggesting consumer spending is not likely to accelerate.
 - The manufacturing sector continues to expand. The Institute of Supply Management index rose from 55.5 to 56.3 in August, marking the thirteenth consecutive month above the expansionary threshold of 50.0.
 - Inflation remains low – the CPI increased 0.3 percent in July from the previous month. The rise followed three consecutive monthly declines. Core inflation (excluding food and energy prices) rose 0.1 percent in July and stands 0.9 percent above July of last year.
 - The Federal Reserve announced at its August meeting that it will keep the federal funds rate target unchanged at 0.0 to 0.25 percent.

Virginia Economy

In Virginia, employers added jobs in July -- the first month of job growth since August 2008. Payroll employment in the Commonwealth grew 0.3 percent in July from July of last year. Employment trends improved in all three major metro areas in Virginia. Northern Virginia posted a modest gain of 1.8 percent, and Hampton Roads grew 0.4 percent. Richmond-Petersburg fell 0.3 percent from July of last year, a much slower rate of job loss than earlier in the year. The unemployment rate remained unchanged at 7.1 percent in July, below the peak of 7.8 percent in February.

Chmura Economics and Analytics revised the methodology used in the Virginia Leading Index. The previous methodology used three components: auto registrations, building permits and initial claims for unemployment. The new methodology adds the U.S. Leading Index and a new future employment index. The Virginia Leading Index rose 0.2 percent in July, and has posted growth in four of the last five months. Three of the five components contributed to the increase: initial claims for unemployment, future employment, and the U.S. leading index. Auto registrations and building permits declined. The Leading Index rose in ten of the eleven Virginia metro areas in July, the exception being Danville.

August Revenue Collections

Total general fund revenue collections rose 5.3 percent in August. On a year-to-date basis, total revenues fell 5.7 percent, trailing the annual forecast of 2.6 percent growth. However, the accelerated sales tax program makes comparison difficult as some payments typically received in July were actually collected in June 2010 which is in the previous fiscal year.

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 5.3 percent from the same period last year, close to the annual estimate of 5.5 percent. 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 last year, collections of payroll withholding taxes grew 4.5 percent in August. Year-to-date, withholding collections grew 3.2 percent compared with the same period last year, ahead of the projected annual growth rate of 2.4 percent.

Individual Income Tax Nonwithholding (15% of general fund revenues): August is not a significant month for nonwithholding collections, since the first estimated payment in fiscal year 2011 is due in September. Year-to-date, collections through August were \$64.2 million compared with \$71.7 million in the same period last year, falling by 10.4 percent and trailing the annual estimate of 11.0 percent growth.

Individual Income Tax Refunds: Through August, TAX has issued \$78.8 million in individual refunds compared with \$113.0 million in the same period last year, a 30.3 percent decline and ahead of the annual estimate of a 3.5 percent decline.

Sales Tax (20% of general fund revenues): Collections of sales and use taxes, reflecting July sales, fell 0.2 percent in August. On a year-to-date basis, collections have fallen 30.7 percent. The large year-to-date decline is due to the accelerated sales tax program in fiscal year 2010, which required dealers to remit July payments in June 2010. Adjusting for this program, sales tax collections have grown by 6.2 percent year-to-date, ahead of the economic-base forecast of a 0.8 percent increase.

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 the first two months of the fiscal year, \$8.4 million has been collected in this source, compared with \$27.6 million over the same period last year. The drop in year-to-date collections is due to a few large corporate refunds issued in July.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – rose 2.7 percent in August. On a year-to-date basis, collections are down 9.5 percent, trailing the forecast of 8.2 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	- 4.8%
Interest Income (1% GF revenues)	-41.8%	14.6%
ABC Taxes (1% GF revenues)	4.7%	1.7%

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 \$130.3 million has been reached.

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue grew 32.0 percent in August – \$35.5 million compared with \$26.9 million last August. For the fiscal year-to-date, collections of All Other Revenue fell 0.8 percent from the same period in fiscal year 2010, lagging the annual estimate of 6.4 percent growth.

Summary

Total general fund revenue collections rose 5.3 percent in August. On a year-to-date basis, total revenues fell 5.7 percent, trailing the annual forecast of 2.6 percent growth. The year-to-date decline is due to the accelerated sales tax program, which required dealers to remit July payments in June 2010. Adjusting for this program, total revenue collections have grown by 3.3 percent through August, trailing the economic-base forecast of a 4.2 percent increase.

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.