



COMMONWEALTH of VIRGINIA

September 12, 2013

PO Box 1475
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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 fell 4.8 percent in August, driven by a drop in individual withholding payments. The decline in withholding is typical following double-digit growth in July. On a year-to-date basis, total revenue collections rose 3.0 percent through August, ahead of the annual forecast of 1.5 percent growth. Adjusting for the accelerated sales tax program and the 0.125 percent sales tax transfer required by the provisions of HB 2313, total revenues grew 3.6 percent through August, ahead of the adjusted forecast of 1.4 percent growth.

National Economic Indicators

Most national indicators suggest the economy continues to expand at a slow pace.

- According to the second estimate, real GDP grew at an annualized rate of 2.5 percent in the second quarter of 2013, up from a 1.1 percent increase in the first quarter.
- Payroll employment grew by 169,000 jobs in August, while July payrolls were revised down from 162,000 to 104,000 and June was revised down from 188,000 to 172,000. In a separate report, the unemployment rate fell slightly from 7.4 to 7.3 percent as the labor force contracted.

- Initial claims for unemployment fell by 9,000 to 323,000 during the week ending August 31. The four-week moving average fell from 331,500 to 328,500. Although initial claims have fallen in three of the last four weeks, new filings tend to fluctuate around the Labor Day holiday and are less useful in analysis of the job market.
- The Conference Board's index of leading indicators rose 0.6 percent in July after remaining flat in June. Movement of the leading indicator is consistent with continued slow economic growth.
- The Conference Board's index of consumer confidence rose from 81.0 to 81.5 in August, exceeding expectations and standing above 80 for three consecutive months. The expectations component drove the increase, while the current conditions component declined.
- Activity in the manufacturing sector beat expectations in August, with the Institute of Supply Management index increasing from 55.4 to 55.7.
- The CPI rose 0.2 percent in July and stands 2.0 percent above July 2012. Core inflation (excluding food and energy prices) also rose 0.2 percent in July, and has increased 1.7 percent from July 2012.
- The Federal Reserve announced at its July meeting that it will keep the federal funds target rate at 0.0 to 0.25 percent, and continued its quantitative easing program.

Virginia Economy

In Virginia, payroll employment rose 1.5 percent in July from July of last year. Northern Virginia posted job growth of 1.9 percent; Hampton Roads rose 2.8 percent; and Richmond-Petersburg rose 0.8 percent. The unemployment rate in the Commonwealth fell 0.1 percentage point to 5.8 percent in July and is 0.4 percentage point below July 2012.

The Virginia Leading Index rose less than 0.1 percent in July after decreasing 0.2 percent in June. Building permits, the U.S. leading index, and auto registrations improved, while future employment was little changed and initial claims for unemployment increased. The indexes increased in nine of the eleven major metro areas, while the indexes for Harrisonburg and Lynchburg contracted.

August Revenue Collections

Total general fund revenue collections fell 4.8 percent in August, driven by a drop in individual withholding payments. The decline in withholding is typical following double-digit growth in July. On a year-to-date basis, total revenue collections rose 3.0 percent through August, ahead of the annual forecast of 1.5 percent growth. Adjusting for the accelerated sales tax program and the 0.125 percent sales tax transfer as set forth in HB 2313, total revenues grew 3.6 percent through August, ahead of the adjusted forecast of 1.4 percent growth.

Net Individual Income Tax (69% of general fund revenues): Through August, collections of net individual income tax rose 5.4 percent from the same period last year, ahead of the annual estimate of 2.5 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (64% of general fund revenues): With one less deposit day than August of last year, collections of payroll withholding taxes fell 5.5 percent in August. Year-to-date, withholding collections rose 5.8 percent compared with the same period last year, ahead of the projected annual growth rate of 5.4 percent.

Individual Income Tax Nonwithholding (16% of general fund revenues): August is not a significant month in collections of this source since the first estimated payment for fiscal year 2014 is due in September.

Through the first two months of the fiscal year, collections were \$40.8 million compared with \$37.2 million in the same period last year.

Individual Income Tax Refunds: Through August, TAX issued \$35.0 million in refunds, about the same amount as last year. Year-to-date, refunds have risen 15.1 percent, ahead of the annual estimate of 6.3 percent growth.

Sales Tax (19% of general fund revenues): Collections of sales and use taxes, reflecting July sales, fell 5.6 percent in August. On a year-to-date basis, collections also fell 5.6 percent through August, trailing the annual estimate of a 1.0 percent decline. Adjusting for the accelerated sales tax program and the 0.125 percent sales tax transfer as set forth in HB 2313, sales tax collections have fallen by 1.0 percent year-to-date, lagging the economic-base forecast of 5.2 percent growth.

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 in this source were \$20.5 million compared with \$13.7 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 \$31.4 million in August, compared with \$32.0 million in August of last year, a 1.9 percent decline. On a year-to-date basis, collections are up 5.6 percent, far ahead of the annual forecast of a 10.9 percent decline.

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 Tax (2% GF revenues)	NA%	7.0%
Interest Income (0.5% GF revenues)	-36.9%	-4.2%
ABC Taxes (1% GF revenues)	-6.3%	-0.6%

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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 \$130.8 million has been deposited.

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue rose 7.3 percent in August, \$30.1 million compared with \$28.0 million last year. On a year-to-date basis, collections of All Other Revenue grew 3.7 percent over the same period last year, ahead of the annual estimate of a 2.7 percent decline.

Summary

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 fell 4.8 percent in August, driven by a drop in individual withholding payments. On a year-to-date basis, total revenue collections rose 3.0 percent through August, ahead of the annual forecast of 1.5 percent growth. Adjusting for the accelerated sales tax program and the 0.125 percent sales tax transfer as set forth in HB 2313, total revenues grew 3.6 percent through August, ahead of the adjusted forecast of 1.4 percent growth.

September collections will complete the first quarter of fiscal year 2014 and provide a clearer assessment of revenue growth. The first estimated payments from individuals, corporations, and insurance companies are due in September.