COMMONWEALTH of VIRGINIA

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MEMORANDUM

TO: The Honorable Abigail D. Spanberger

THROUGH: The Honorable Bonnie Krenz-Schnurman

FROM: Mark D. Sickles

SUBJECT: August Revenue Report

Executive Summary

Through the first two months of Fiscal Year 2027, General Fund revenue collections are generally in line with projections assumed in the current official forecast. The most recent jobs report showed the U.S. adding jobs and unemployment remaining steady. Virginia jobs data, which are lagged by one month, showed Virginia losing jobs and labor market participation, but the unemployment rate ticked down slightly. The core Personal Consumption Expenditure Price Index remains elevated. The persistent high core inflation has increased the likelihood of interest rate hikes from the Federal Reserve.

Revenue Overview

August collections do not include any major quarterly deadlines. Therefore, growth rates and variances in sources like individual nonwithholding, corporate income taxes, and insurance premiums taxes have negligible impact. The key revenue sources in August are withholding and sales tax receipts. Withholding fell slightly short of forecast while sales and use tax collections exceeded expectations. Withholding revenues were 2.5 percent ($37.3 million) below forecast in August. This was well within expectations as the monthly withholding variance is typically between $70-$90 million. Sales tax collections grew 4.0 percent ($17.0 million) in August. Total General Fund collections grew 2.8 percent ($58.0 million) in August and have grown 5.4 percent ($236.5 million) on a fiscal year-to-date basis. Fiscal year-to-date General Fund collections are ahead of forecast by 1.8 percent ($81.5 million).

Collections are discussed in more detail in the following sections.

Economic Review

- The Bureau of Economic Analysis released its second estimate for Q2 of Calendar Year 2026 GDP, which continued to show 1.5 percent annualized growth. This is materially unchanged from the first estimate.

- U.S. unemployment remained steady at 4.1 percent in August; the national labor force participation rate climbed to 61.6 percent from July's 61.4 percent. Virginia unemployment fell to 3.7 percent in July after spending five months at 3.8 percent, while the labor force participation rate slipped to 63.0 percent from June's 63.1 percent.

- U.S. nonfarm payroll employment increased by 162,000 (seasonally adjusted) in August. Leisure & Hospitality (+62,000) led the gains along with Local Government (+50,000) and Education & Health Services (+29,000). Losses in August were led by Information (-23,000), Financial Services (-11,000), and State Government (-10,000). Prior month revisions increased the estimates for June and July by a combined 55,000 jobs.

- Virginia lost 9,600 jobs in July and experienced a downward revision of 1,900 jobs in June. Local Government employment saw the greatest job losses at 5,800 followed by Professional & Business Services at 3,400 reduced jobs. These losses were somewhat offset by gains in Leisure & Hospitality (+2,500) and Financial Services (+1,300). Virginia's unemployment rate fell to 3.7 percent after remaining steady at 3.8 percent for five months. The Commonwealth's labor force participation rate continued its downward trend reading 63.0 percent in July to mark a sustained multi-year low.

- Oil prices remain elevated following the start of military operations in Iran. Uncertainty surrounding the status of the Strait of Hormuz has resulted in severely restricted shipping traffic. As of September 9th, the West Texas Intermediate (WTI) Crude Oil Spot Average increased to $97.26 per barrel an increase of 16 percent over August's average of $83.90.

- In August, the year-over-year Consumer Price Index (CPI) growth for all items ticked up from 3.3 percent to 3.4 percent, while the year-ago rate for Core CPI, which excludes volatile food and energy costs, decreased from 2.5 percent to 2.4 percent. The Personal Consumption Expenditure (PCE) Price Index and the Core PCE Index, the Fed's preferred inflation measure, both remained unchanged in July from June's values. The All-Items PCE index remained unchanged at 3.3 percent growth, while the Core PCE measure remained at 3.7 percent growth.

- The Federal Open Market Committee (FOMC) met on July 29 and voted to maintain the federal funds rate at its current range of 3.5 to 3.75 percent. Market-implied odds for an interest rate hike have sharply increased in recent months with a return to a 3.75-4.0 percent target now the most expected state.

August Revenue Collections

General Fund revenues increased 2.8 percent ($58.0 million) year-over-year for the month of August. Fiscal year-to-date through August 31, General Fund revenues are up 5.4 percent ($236.5 million) over the same period last year and are 1.8 percent above the estimate.

Net Individual Income Tax *(70% of General Fund revenues)*: Revenues decreased 1.2 percent ($18.8 million) for the month compared to last year. Year-to-date net individual income tax collections are up 2.1 percent ($64.9 million). Compared to the forecast, year-to-date net individual income tax collections are below projections by 0.7 percent ($22.4 million).

Performance in each component of individual income tax is as follows:

> ***Individual Income Tax Withholding*** *(56% of General Fund revenues)*: Collections of payroll withholding taxes decreased 1.9 percent ($27.9 million) for the month compared to last August. Performance was below projections for the month by 2.5 percent ($37.3 million). Withholding collections are up 2.3 percent ($68.6 million) year-to-date and below projections by 0.3 percent ($9.6 million) year-to-date.
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> ***Individual Income Tax Nonwithholding*** *(23% of General Fund revenues)*: August is not a significant month for nonwithholding. Collections increased 17.2 percent ($19.9 million) year-over-year and are up 7.4 percent ($18.8 million) year-to-date. August revenues exceeded projections by 5.5 percent ($7.1 million). Nonwithholding collections are ahead of forecast 4.3 percent ($11.2 million) year-to-date.
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> ***Individual Income Tax Refunds*** *(-9% of General Fund revenues)*: During the month of August, refunds totaled $92.6 million versus $81.8 million last August, an increase of 13.2 percent. Year-to-date, the Department of Taxation has issued $204.4 million in refunds compared with $182.0 million over the same period last year, an increase of 12.4 percent.

Sales Tax *(15% of General Fund revenues)*: Collections of sales and use taxes, reflecting July sales, increased 4.0 percent ($17.0 million) in August and are up 9.1 percent ($77.3 million) year-to-date. Year-to-date, sales and use tax revenues are 5.6 percent ($49.2 million) above projections.

Corporate Income Tax *(6% of General Fund revenues)*: August is not a significant month for corporate income tax payments. Net collections totaled $7.2 million in August. On a year-to-date basis, corporate income tax revenues are $114.8 million higher than last year. This is due to an accounting adjustment in the prior year which recategorized some corporate revenues in August 2025, resulting in an unusually negative month that year. Year-to-date corporate income tax revenues are ahead of forecast by 51.3 percent ($35.2 million).

Wills, Suits, Deeds, Contracts *(2% of General Fund revenues)*: Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were 4.1 percent ($1.7 million) higher in August compared to last year. On a fiscal-year-to-date basis, collections are up 8.4 percent ($7.3 million). Compared to the forecast, collections in this source are below forecast by 6.5 percent ($6.6 million).

Insurance Premiums *(2% of General Fund revenues)*: Insurance collections are not typically allocated to the General Fund until the Commonwealth Transportation Fund Transfer for the year is completed. This August, $4.0 million was recorded in the General Fund Insurance Premiums Tax accounts. This is a temporary accounting artifact and is expected to be reversed in September.

Other Revenue Sources

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

	Year-to-Date	Annual Estimate
Interest Income *(2% of GF revenues)*	(20.3%)	(1.7%)
ABC Taxes *(1% of GF revenues)*	93.4%	1.6%

General Fund interest income totaled $190.8 million through August compared to $239.4 million for the same period of the prior fiscal year. Interest is earned monthly in the General Fund and credited to nongeneral funds on a quarterly basis in October, January, April, and June.

All Other Revenue *(2% of General Fund revenues)*: On a year-to-date basis, collections of All Other Revenue increased by 14.0 percent to $95.8 million this fiscal year compared with $84.0 million a year ago.