



COMMONWEALTH of VIRGINIA

September 12, 2014

PO Box 1475
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MEMORANDUM

TO: The Honorable Terence R. McAuliffe

THROUGH: The Honorable Paul J. Reagan

FROM: Richard D. Brown 

SUBJECT: August Revenue Data

This month's revenue report incorporates the official interim revenue forecast released on August 15th. The revised forecast anticipates total general fund revenue growth of 2.7 percent in fiscal year 2015.

August is not a significant month for revenue collections, with collections mainly from withholding, sales taxes, and other sources that have regular monthly payments. Total general fund revenue collections rose 1.7 percent in August, with individual income taxes and sales taxes accounting for the gain. Collections fell for the month in corporate income and recordation taxes. On a fiscal year-to-date basis, total revenue collections rose 7.7 percent in August compared with the same period last year, well ahead of the revised annual forecast of 2.7 percent growth. Adjusting for the accelerated sales tax program and the 0.125 percent sales tax transfer required for transportation by the provisions of HB 2313, total revenues rose 7.2 percent through August, ahead of the adjusted forecast of 2.9 percent growth.

National Economic Indicators

Most recent national indicators suggest that the U.S. economy rebounded from the sluggish growth in the first quarter and underlying fundamentals should support a more robust expansion over the coming year.

- According to the second estimate, real GDP grew by an annualized rate of 4.2 percent in the second quarter of 2014, reversing the 2.1 percent decline in the first quarter.
- Payroll employment rose by 142,000 jobs in August, while the July gain was revised up from 209,000 to 212,000. The three-month moving average of job gains remains above

200,000, large enough to remove job market slack. In a separate report, the unemployment rate fell from 6.2 percent to 6.1 percent in August.

- Initial claims for unemployment rose by 4,000 to 302,000 during the week ending August 30th. The four-week moving average rose by 3,000 to 302,750, but remains low. The claims data is consistent with a gradually improving job market.
- The Conference Board's index of leading indicators rose 0.9 percent in July following a 0.6 percent increase in June. The July report marked its eleventh gain in the last twelve months. The behavior of the leading indicators is consistent with accelerating economic growth.
- The Conference Board's index of consumer confidence rose 2.1 points to 92.4 in August, the highest reading since October 2007. The present situation component drove the increase, while the expectations component slightly declined.
- Activity in the manufacturing sector improved in August, with the Institute of Supply Management index rising from 57.1 to 59.0, its highest level since March 2011.
- Inflation remains contained as the CPI rose 0.1 percent in July and stands 2.0 percent above July 2013. Core inflation (excluding food and energy prices) also rose 0.1 percent in July, and has increased 1.9 percent from a year ago.
- 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 will continue winding down its quantitative easing program.

Virginia Economy

In Virginia, payroll employment grew 0.8 percent from July of last year. Northern Virginia posted growth of 1.0 percent, Richmond-Petersburg grew 2.1 percent, and Hampton Roads grew 0.5 percent in July. The seasonally adjusted unemployment rate in the Commonwealth rose 0.1 percentage point to 5.4 percent in July and is 0.3 percentage point below July of last year.

The Virginia Leading Index rose 0.3 percent in July after advancing 0.2 percent in June. The U.S. leading index, auto registrations, and future employment advanced in July, while building permits fell and initial unemployment claims rose. The indexes for Richmond, Northern Virginia, Lynchburg, Hampton Roads, Charlottesville, Danville, Bristol, Harrisonburg, and Winchester advanced, while the index for Blacksburg declined. The index for Roanoke was unchanged.

August Revenue Collections

Total general fund revenue collections rose 1.7 percent in August, with individual income taxes and sales taxes accounting for the gain. Collections fell for the month in corporate income and recordation taxes. On a fiscal year-to-date basis, total revenue collections rose 7.7 percent in August compared with the same period last year, well ahead of the revised annual forecast of 2.7 percent growth. Adjusting for the accelerated sales tax program and the 0.125 percent sales tax

transfer required for transportation by the provisions of HB 2313, total revenues rose 7.2 percent through August, ahead of the adjusted forecast of 2.9 percent growth.

Net Individual Income Tax (69% of general fund revenues): Through August, collections of net individual income tax rose 8.6 percent from the same period last year, ahead of the annual estimate of 3.4 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (64% of general fund revenues): Despite one less deposit than August of last year, collections of payroll withholding taxes rose 1.7 percent in August. Year-to-date, withholding collections are 5.3 percent ahead of the same period last year, leading the revised annual estimate of 2.7 percent growth.

Individual Income Tax Nonwithholding (16% of general fund revenues): August is not a significant month for collections in this source, since the first estimated payment for fiscal year 2015 is due in September.

Through the first two months of the fiscal year, collections were \$131.8 million compared with \$85.0 million in the same period last year.

Individual Income Tax Refunds: Through August, TAX has issued \$77.9 million in refunds compared with \$83.6 million last year, a 6.8 percent decline. The revised annual estimate expects 3.6 percent growth in refunds for fiscal year 2015.

Sales Tax (19% of general fund revenues): Collections of sales and use taxes, reflecting July sales, rose 4.5 percent in August. On a year-to-date basis, collections have risen 5.3 percent, ahead of the annual estimate of 2.8 percent growth. Adjusting for the partial repeal of the accelerated sales tax program and the 0.125 percent sales tax transfer required by HB 2313, sales tax collections have grown by 3.7 percent year-to-date, above the economic-base forecast of 3.4 percent growth.

Corporate Income Tax (4% 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 \$33.1 million compared with \$20.5 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 \$29.6 million in August, compared with \$31.4 million in August of last year. The 5.7 percent decline in August ended 10 consecutive months of double-digit declines. On a year-to-date basis, collections are down 9.2 percent, trailing the annual forecast of 1.2 percent growth.

Insurance Premiums (2% of general fund revenues): Monthly collections of insurance company premiums are being transferred to the Transportation Trust Fund per Chapter 986, 2007 Acts of the Assembly until the required amount of \$150.4 million has been deposited.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.5% GF revenues)	2.5%	-18.9%
ABC Taxes (1% GF revenues)	5.7%	-0.2%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue fell 0.3 percent in August, \$30.0 million compared with \$30.1 million a year ago. On a year-to-date basis, collections of All Other Revenue grew 1.5 percent from the same period last year, ahead of the annual estimate of a 3.0 percent decline.

Summary

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Total general fund revenue collections rose 1.7 percent in August, with individual income taxes and sales taxes accounting for the gain. Collections fell for the month in corporate income and recordation taxes. On a fiscal year-to-date basis, total revenue collections rose 7.7 percent in August compared with the same period last year, well ahead of the revised annual forecast of 2.7 percent growth. Adjusting for the accelerated sales tax program and the 0.125 percent sales tax transfer required for transportation by the provisions of HB 2313, total revenues rose 7.2 percent through August, ahead of the adjusted forecast of 2.9 percent growth.

September collections will complete the first quarter of fiscal year 2015 and provide a clearer assessment of revenue growth. The first estimated payments from individuals, corporations, and insurance companies are due in September.