



COMMONWEALTH of VIRGINIA

Richard D. Brown
Secretary of Finance

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MEMORANDUM

TO: The Honorable Terence R. McAuliffe

THROUGH: The Honorable Paul Reagan

FROM: Richard D. Brown 

SUBJECT: August Revenue Data

This month's revenue report incorporates the official revised revenue forecast for fiscal year 2017 released on August 26th. The revised forecast anticipates total general fund revenue growth of 1.7 percent in fiscal year 2017.

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 12.0 percent in August, with two additional deposit days boosting receipts in withholding and recordation taxes. On a fiscal year-to-date basis, total revenue collections rose 8.1 percent in August, ahead of the annual forecast of 1.7 percent growth.

National Economic Indicators

Most current national indicators suggest the economic expansion should continue.

- According to the second estimate, real GDP rose at an annualized rate of 1.1 percent in the second quarter of 2016, following a 0.8 percent increase in the first quarter.
- Payroll employment rose by 151,000 jobs in August, following gains of 275,000 in July and 271,000 in June. The three-month average of 232,000 is consistent with a healthy labor market expansion. In a separate report, the unemployment rate remained unchanged at 4.9 percent in August.

- Initial claims for unemployment fell by 4,000 to 259,000 during the week ending September 3. The four-week moving average fell by 1,750 to 261,250. Initial claims have been below 300,000 for 79 consecutive weeks, the longest streak since 1970.
- The Conference Board's index of leading indicators rose 0.4 percent in July, after increasing 0.3 percent in June. Eight of the ten components increased in July. The increase suggests the economy will advance at a healthy pace in the near term.
- The Conference Board's index of consumer confidence jumped from 96.7 to 101.1 in August, the highest level since September. Both the expectations and present conditions components saw healthy increases.
- Activity in the manufacturing sector stalled in August. The Institute of Supply Management index fell from 52.6 to 49.4, below expectations and sliding below the expansionary threshold of 50.0.
- The CPI was unchanged in July after rising 0.2 percent in June and stands 0.9 percent above July 2015. Core inflation (excluding food and energy prices) increased 0.1 percent in July and is 2.2 percent above a year ago.
- At its July meeting, the Federal Reserve announced that it is maintaining the federal funds target rate at the range of 0.25 to 0.5 percent.

Virginia Economy

In Virginia, payroll employment rose 1.6 percent in July from July of last year. Northern Virginia posted growth of 1.9 percent; Hampton Roads grew 0.6 percent; and Richmond-Petersburg rose 2.9 percent. The seasonally adjusted unemployment rate was unchanged at 3.7 percent in July, the third consecutive month at 3.7 percent.

The Virginia Leading Index rose 0.6 percent in July after increasing 0.1 percent in June. All four components improved in July: the U.S. leading index, initial claims for unemployment, auto registrations, and future employment. On a regional basis, the indexes for Lynchburg and Harrisonburg declined in July while the indexes for the remaining MSAs increased.

August Revenue Collections

Total general fund revenue collections rose 12.0 percent in August, with two extra deposit days boosting receipts in withholding and recordation taxes. On a fiscal year-to-date basis, total revenue collections rose 8.1 percent in August, ahead of the annual forecast of 1.7 percent growth.

Net Individual Income Tax (70% of general fund revenues): Through August, collections of net individual income taxes increased 9.7 percent from the same period last year, exceeding the annual estimate of 1.8 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (64% of general fund revenues): With two additional deposit days compared with August of last year, payroll withholding taxes rose 17.7 percent for the month. Year-to-date, withholding collections are 9.5 percent ahead of the same period last year, exceeding the estimate of 3.0 percent growth.

Individual Income Tax Nonwithholding (17% of general fund revenues): August is not a significant month for collections in this source since the first estimated payment for fiscal year 2017 is due in September. Through the first two months of the fiscal year, collections were \$52.0 million compared with \$50.9 million in the same period last year.

Individual Income Tax Refunds: August is not a significant month for refunds. The Department of Taxation issued \$41.4 million in refunds in August compared with \$32.2 million in the same period last year.

Sales Tax (18% of general fund revenues): Collections of sales and use taxes, reflecting July sales, rose 1.1 percent in August. On a year-to-date basis, collections have risen 2.7 percent, close to the annual estimate of 2.6 percent growth. Adjusting for the accelerated sales tax program, sales tax collections have grown by 2.7 percent year-to-date, trailing the forecast of 3.7 percent growth.

Corporate Income Tax (4% of general fund revenues): August is not typically a significant month for collections in this source, as the first estimated payment for the fiscal year is due in September. Through August, collections in this source were \$9.9 million compared with \$19.1 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 taxes – were \$37.8 million in August, compared with \$30.3 million in August of last year, a 24.9 percent increase. On a year-to-date basis, collections are up 12.0 percent, ahead of the annual forecast of 5.5 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 \$163.1 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 (0.3% GF revenues)	41.1%	5.3%
ABC Taxes (1% GF revenues)	26.1%	-2.8%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue rose 0.3 percent in August, \$30.1 million compared with \$30.0 million a year ago. On a year-to-date basis, collections of All Other Revenue fell 5.8 percent from the same period last year, trailing the annual estimate of a 3.5 percent decline.

Summary

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 12.0 percent in August, with two additional deposit days boosting receipts in withholding and recordation taxes. On a fiscal year-to-date basis, total revenue collections rose 8.1 percent in August, ahead of the annual forecast of 1.7 percent growth.

September collections will complete the first quarter of fiscal year 2017 and provide a clearer assessment of revenue growth. The first estimated payments from individuals, corporations, and insurance companies are due in September.