



COMMONWEALTH of VIRGINIA

Richard D. Brown
Secretary of Finance

September 14, 2017

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MEMORANDUM

TO: The Honorable Terence R. McAuliffe

THROUGH: The Honorable Paul Reagan

FROM: Richard D. Brown

SUBJECT: August Revenue Data

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 1.1 percent in August. Monthly growth is stronger than it appears since two extra deposit days in August of last year boosted growth to 12.0 percent for the month. On a fiscal year-to-date basis, total revenue collections rose 3.0 percent through August, ahead of the annual forecast of 2.7 percent growth.

National Economic Indicators

Recent national indicators continue to depict a healthy economy.

- According to the second estimate, real GDP rose at an annualized rate of 3.0 percent in the second quarter of 2017, following 1.2 percent growth in the first quarter.
- The labor market was somewhat weaker than expected in August. Payroll employment rose by only 156,000 jobs and the two prior monthly gains were revised downward. The unemployment rate rose slightly, from 4.3 to 4.4 percent in August.
- In the wake of hurricane Harvey, initial claims for unemployment rose by 62,000 to 298,000 during the week ending September 2. The four-week moving average rose by 13,500 to 250,250. The fact that the level of claims remains below 300,000 despite the jump from Harvey suggests the labor market remains healthy.

- The Conference Board's index of leading indicators rose 0.3 percent in July following a 0.6 percent increase in June. The only one of the ten components that declined was building permits.
- The Conference Board's index of consumer confidence rose from 120.0 to 122.9 in August. Both the present conditions and the expectations components increased for the month, with the three-month moving average tied for its highest level since 2001.
- Conditions in the manufacturing sector improved in August. The Institute of Supply Management index rose from 56.3 to 58.8. The index has risen in three of the last four months and is at its highest since 2011.
- The CPI rose 0.1 percent in July after remaining flat in June and stands 1.7 percent above July 2016. Core inflation (excluding food and energy prices) also rose by 0.1 percent and is 1.7 percent above a year ago.
- At its July meeting, the Federal Reserve kept the federal funds target rate at 0.75 to 1.0 percent.

Virginia Economy

In Virginia, job growth picked up in June and July. Payroll employment rose 1.8 percent from July of last year, after June saw 1.7 percent year-over-year growth. In July, Northern Virginia posted growth of 2.0 percent; Hampton Roads declined 0.4 percent; and Richmond-Petersburg rose 2.6 percent. The seasonally adjusted unemployment rate rose 0.1 percentage point to 3.8 percent in July and stands 0.3 percentage point below July of 2016.

The Virginia Leading Index was unchanged in July after increasing 0.2 percent in June. The U.S. leading index, auto registrations, and future employment improved in July while initial claims increased. The indexes in Roanoke, Richmond, Charlottesville, Blacksburg, Harrisonburg, and Staunton rose in July, while falling in Lynchburg and Winchester. The Northern Virginia, Hampton Roads, and Bristol indexes were little changed over the same period.

August Revenue Collections

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 1.1 percent in August. Monthly growth is stronger than it appears since two extra deposit days in August of last year boosted growth to 12.0 percent for the month. On a fiscal year-to-date basis, total revenue collections rose 3.0 percent through August, ahead of the annual forecast of 2.7 percent growth.

Net Individual Income Tax (70% of general fund revenues): Through the first two months of the fiscal year, collections of net individual income tax rose 2.4 percent from the same period last year, close to the annual estimate of 2.6 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (63% of general fund revenues): Collections of payroll withholding taxes grew 0.8 percent for the month. As with total revenue, growth in August of last year was boosted by two additional deposit days. Year-to-date, withholding collections are 3.5 percent ahead of the same period last year, well ahead of the annual estimate of 1.8 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 \$106.3 million compared with \$115.6 million in the same period last year.

Individual Income Tax Refunds: August is not a significant month for refunds. The Department of Taxation issued \$41.7 million in refunds compared with \$41.4 million in August of last year.

Sales Tax (18% of general fund revenues): Collections of sales and use taxes, reflecting July sales, fell 1.3 percent in August. The decline was due to several large refunds. On a year-to-date basis, collections have risen 1.1 percent, trailing the annual estimate of 2.8 percent growth.

Corporate Income Tax (4% of general fund revenues): As with nonwithholding, 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 of corporate income taxes were \$34.7 million compared with \$17.1 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 tax collections – were \$36.5 million in August, compared with \$37.8 million in August of last year, a decline of 3.4 percent. On a year-to-date basis, collections are up 0.3 percent, trailing the annual forecast of 3.4 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 \$168.0 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 (0.4% GF revenues)	6.8%	10.2%
ABC Taxes (1% GF revenues)	11.4%	5.1%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue fell 2.4 percent in August, \$29.4 million compared with \$30.1 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 8.3 percent from the same period last year compared to the annual estimate of a 0.1 percent decline.

Summary

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September collections will complete the first quarter of fiscal year 2018 and provide a clearer assessment of revenue growth. The first estimated payments from individuals, corporations, and insurance companies are due in September.