



COMMONWEALTH of VIRGINIA
Office of the Governor

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March 15, 2011

MEMORANDUM

TO: The Honorable Robert F. McDonnell

THROUGH: The Honorable Martin Kent

FROM: Richard D. Brown 

SUBJECT: February Revenue Data

This month's revenue report incorporates the revised mid-session general fund revenue forecast released on February 4, 2011. Under the mid-session revised forecast, general fund revenues are expected to increase 4.0 percent in fiscal year 2011. This compares to a projected annual increase of 3.5 percent in the forecast used with the proposed budget (HB1500/SB800) introduced on December 17, 2010.

February is not typically a significant month for revenue collections, although it marks the start of the individual income tax filing season. Total general fund revenue collections rose 16.7 percent in February. However, February is the smallest month for net collections and, as a result, small changes in receipts can cause large distortions in growth rates. Finally, although the monthly rate of growth is large, total net revenue for the month is still lower than actual dollars collected in February during fiscal years 2005, 2006, 2007 and 2008.

On a year-to-date basis, total revenue collections rose 4.1 percent, slightly ahead of the revised annual forecast of 4.0 percent growth. Adjusting for the accelerated sales tax program in June 2010, total revenues grew 6.2 percent through February, ahead of the economic-base forecast of 5.6 percent growth.

National Economic Indicators

Most national indicators suggest that the economy should see stronger growth in 2011. Consumer and business confidence are improving, and the December tax package should enhance confidence through a payroll tax cut for consumers and increased business incentives.

- According to the second estimate, real GDP grew 2.8 percent at an annualized rate in the fourth quarter of 2010, up from 2.6 percent in the third quarter. This marked the sixth consecutive quarter of growth since the recession officially ended in June 2009.
- Labor market conditions are also improving. Payroll employment rose by 192,000 jobs in February, below expectations, but still a substantial gain. The modest gains in both January and February were revised upward by a combined 58,000 jobs. February marked the fifth consecutive monthly increase in employment. In a separate report, the unemployment rate fell to 8.9 percent in February.
- Initial claims for unemployment decreased by 20,000 to 368,000 during the week ending February 26, while the four-week moving average fell from 391,000 to 388,000, boding well for labor market conditions. Layoffs are declining and the current level of claims is consistent with sustained declines in the unemployment rate typically seen when coming out of a recession.
- The Conference Board's index of leading indicators rose 0.1 percent in January, its seventh consecutive monthly increase. Although the increase in the index was very weak, it is likely that bad weather provided a temporary drag on growth.
- The Conference Board's index of consumer confidence rose from 64.8 to 70.4 in February, reaching its highest level since February 2008. Both the expectations and current conditions components increased in February, with the expectations component again leading the gain. This was the fifth consecutive gain in the index, which has now moved above 70 for the first time since early 2008, when consumers realized a recession was underway.
- Strength in the manufacturing sector continues to gain momentum. The Institute of Supply Management index rose from 60.8 to 61.4 in February, its highest level since May 2004.
- The CPI increased 0.4 percent in January from the previous month. The index stands 1.6 percent above January of last year. Core inflation (excluding food and energy prices) rose 0.2 percent in January, and has increased 1.0 percent from January 2010.

Virginia Economy

This month, the Virginia Employment Commission will release re-benchmarked employment data for calendar years 2009 and 2010, and a slight downward revision is expected. A brief review of the revision will be included in the March revenue letter.

The Virginia Leading Index rose 0.6 percent in January, its third consecutive monthly increase. All of the components improved in January, and the Leading Index rose in all eleven Virginia metro areas.

February Revenue Collections

Total general fund revenue collections rose 16.7 percent in February. The monthly increase was driven by solid growth in withholding and sales taxes. On a year-to-date basis, total revenue collections rose 4.1 percent, slightly ahead of the annual forecast of 4.0 percent growth.

Net Individual Income Tax (66% of general fund revenues): Through February, collections of net individual income tax rose 6.9 percent from the same period last year, trailing the annual estimate of 7.2 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (65% of general fund revenues): Collections of payroll withholding taxes grew 10.6 percent in February, in part due to a favorable comparison with last February. This marked the tenth consecutive month of growth in this source. Year-to-date, withholding collections grew 5.8 percent compared with the same period last year, ahead of the revised annual growth rate of 4.3 percent. Year-to-date growth is expected to moderate next month because March last year was an exceptionally strong month as withholding collections increased 18.2 percent.

Individual Income Tax Nonwithholding (14% of general fund revenues): February is not typically a significant month for nonwithholding collections. A total of \$39.4 million was collected in February, compared with \$33.4 million in February of last year.

To date, about 40 percent of the nonwithholding forecast has been collected. Collections are running flat with the same period last year, behind the revised annual estimate of 8.5 percent growth. The majority of the remaining collections in this source will occur in April and May, with both final payments for tax year 2010 and estimated payments for the current year due May 1.

Individual Income Tax Refunds: As the main filing season got underway, \$385.5 million in refunds were issued in February compared with \$397.1 million last February. Year-to-date, refunds are 8.1 percent behind the same period last year, ahead of the estimate of a 4.9 percent decline. Although the number of refunds issued reflected about 10 percent more filers, the average check size is down, resulting in a lower net amount of refunds for the month. However, the results for this source may be impacted by the IRS' delay in accepting itemized returns for processing until February 14th.

Sales Tax (20% of general fund revenues): Collections of sales and use taxes, reflecting January sales, rose 6.4 percent in February. February receipts include post-holiday sales and gift card purchases, completing the holiday shopping season. Taken together, collections of sales tax in December through February – which reflect taxable sales for November through January –

grew by 2.8 percent. The forecast anticipated a 3.0 percent increase for the holiday shopping season.

On a year-to-date basis, collections have fallen 5.0 percent, trending toward the revised annual estimate of a 2.2 percent decline. The year-to-date decline is due to the accelerated sales tax program in fiscal year 2010, which required dealers to remit July payments in June. Adjusting for this and other policy initiatives, including amnesty and the modified dealer discount, sales tax collections have grown by 4.7 percent year-to-date, close to the economic-base forecast of a 4.8 percent increase.

Corporate Income Tax (5% of general fund revenues): Collections of corporate income tax were \$11.0 million in February, compared with a decline of \$15.7 million last February a year ago. Last year collections during February were adversely affected by refund activity. On a year-to-date basis, collections in this source have increased 4.4 percent, ahead of the revised annual estimate of a 3.1 percent decline.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – rose 8.2 percent in February, the seventh consecutive month of growth in this source. On a year-to-date basis, collections are up 1.6 percent, ahead of the revised forecast of a 5.6 percent decline.

Insurance Premiums (2% of general fund revenues): Monthly growth in this source is distorted due to the timing of refund issuance. Last year, \$63.0 million in refunds were paid in January, while \$38.7 million in refunds were paid in February this year. For the fiscal year to-date, net insurance premiums tax collections are \$53.8 million compared with \$19.2 million during the same period last year.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (1% GF revenues)	-33.0%	-20.7%
ABC Taxes (1% GF revenues)	2.5%	1.2%

Note: Interest was allocated in accordance with Section 3-3.03 of Chapter 874, 2010 Virginia Acts of Assembly.

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue grew 3.7 percent in February – \$27.6 million compared with \$26.6 million last February. A significant increase in fines, forfeitures, and fees was offset by weakness in public service corporations. For the fiscal year, collections of All Other Revenue grew 10.7 percent, ahead of the annual estimate of 3.6 percent growth.

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Summary

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