



COMMONWEALTH of VIRGINIA

Richard D. Brown
Secretary of Finance

March 14, 2016

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MEMORANDUM

TO: The Honorable Terence R. McAuliffe

THROUGH: The Honorable Paul Reagan

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 16, 2016. Under the mid-session revised forecast, general fund revenues are expected to increase 3.2 percent in fiscal year 2016, unchanged from the projected annual increase in the proposed budget (HB 29/SB 29) introduced in December 2015 for the 2016 Session of the General Assembly.

February is not a significant month for revenue collections. In February, total general fund revenue collections fell 1.3 percent, largely due to the timing of individual refunds. On a year-to-date basis, total revenue collections rose 2.1 percent through February, lagging the annual forecast of 3.2 percent growth. Adjusting for the accelerated sales tax program, total revenues rose 2.6 percent through February, lagging the forecast.

National Economic Indicators

Although growth slowed in the fourth quarter, most recent national indicators suggest the expansion should continue.

- According to the second estimate, real GDP rose at an annualized rate of 1.0 percent in the fourth quarter of 2015, following a 2.0 percent increase in the third quarter.
- Payroll employment rose by 242,000 jobs in February, above expectations. The January gain was revised up from 151,000 to 172,000, while December was revised up by 9,000

to 271,000. In a separate report, the unemployment rate was unchanged at 4.9 percent in February.

- Initial claims for unemployment declined by 18,000 to 259,000 during the week ending March 5, falling among the lowest levels seen in the last forty years. The four-week moving average fell by 2,500 to 267,500.
- The Conference Board's index of leading indicators fell 0.2 percent in January, after falling 0.3 percent in December, largely driven by financial market volatility and average weekly claims for unemployment. Five of the ten components increased in January.
- The Conference Board's index of consumer confidence fell from 97.8 to 92.2 in February the first decline since November and the lowest level since July. Both the present conditions and expectations components declined for the month.
- Activity in the manufacturing sector remained weak in February. The Institute of Supply Management index rose to 49.5, but has remained below the expansionary threshold of 50.0 for five consecutive months.
- The CPI was unchanged in January and stands 1.3 percent above January 2015. Core inflation (excluding food and energy prices) increased 0.3 percent in January and is 2.2 percent above a year ago.
- At its January 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 late March, the Virginia Employment Commission will release re-benchmarked employment data for calendar years 2014 and 2015, so January data are not yet available. A brief review of the revision will be included in the March revenue letter.

The Virginia Leading Index rose 0.1 percent in January after falling less than 0.1 percent in December. Building permits, the U.S. leading index, initial claims, and future employment improved in January while auto registrations fell. The indexes increased in Richmond, Roanoke, Lynchburg, Hampton Roads, Charlottesville, Danville, and Blacksburg, while the index for Winchester declined in January. The indexes for Northern Virginia, Bristol, and Harrisonburg were unchanged in January.

February Revenue Collections

In February, total general fund revenue collections fell 1.3 percent, largely due to the timing of individual refunds. On a year-to-date basis, total revenue collections rose 2.1 percent through February, lagging the annual forecast of 3.2 percent growth. Adjusting for the accelerated sales tax program, total revenues rose 2.6 percent through February, lagging the forecast.

Net Individual Income Tax (70% of general fund revenues): Through February, collections of net individual income tax rose 3.3 percent from the same period last year, below the annual estimate of 4.0 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 0.5 percent for the month, with one more deposit day than February of last year. Year-to-date, withholding collections are 2.4 percent ahead of the same period last year, trailing the estimate of 4.1 percent growth.

Individual Income Tax Nonwithholding (17% of general fund revenues): February is not a significant month for collections in this source. Receipts were \$48.0 million in February compared with \$45.5 million in February of last year. Year-to-date, collections through February rose by 5.8 percent, ahead of the annual estimate of 1.9 percent growth.

Individual Income Tax Refunds: The Department of Taxation issued \$396.0 million in refunds in February compared with \$374.0 million last year, a 5.9 percent increase. Year-to-date, refunds have fallen 1.8 percent, lagging the annual estimate of 1.2 percent growth.

Sales Tax (19% of general fund revenues): Collections of sales and use taxes, reflecting January sales, rose 0.7 percent in February. February receipts include January post-holiday sales and gift card purchases, completing the holiday shopping season.

On a year-to-date basis, collections have risen 0.8 percent, trailing the annual estimate of 4.1 percent growth. Adjusting for the accelerated sales tax program, sales tax collections have grown by 3.3 percent year-to-date, lagging the forecast.

Corporate Income Tax (4% of general fund revenues): February is not a significant month for collections in this source. Collections of corporate income taxes were \$7.9 million in February, compared with receipts of \$18.0 million in February of last year. Year-to-date collections have fallen 20.3 percent from the same period last year, trailing the revised annual estimate of a 13.1 percent decline.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$26.1 million in February, compared with \$21.4 million in February of last year, an increase of 22.2 percent. Collections in this source have grown by double digits in twelve of the last fifteen months. On a year-to-date basis, collections are up 10.2 percent, close to the annual forecast of 10.6 percent growth.

Insurance Premiums (2% of general fund revenues): Collections in this source were \$13.7 million compared with \$11.2 million in February of last year. Year-to-date collections through February were \$77.3 million, compared with \$67.1 million in the same period last year. Final payments in this source are due March 1 and estimated payments are due in April and June.

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 (0.4% GF revenues)	8.6%	-5.5%
ABC Taxes (1% GF revenues)	4.1%	0.0%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue rose 5.3 percent in February, \$32.5 million compared with \$30.9 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 1.2 percent from the same period last year, ahead of the annual estimate of a 0.1 percent decline.

Summary

February is not a significant month for revenue collections. In February, total general fund revenue collections fell 1.3 percent, largely due to the timing of individual refunds. On a year-to-date basis, total revenue collections rose 2.1 percent through February, lagging the annual forecast of 3.2 percent growth. Adjusting for the accelerated sales tax program, total revenues rose 2.6 percent through February, lagging the forecast.