



COMMONWEALTH of VIRGINIA

Richard D. Brown
Secretary of Finance

March 13, 2017

PO Box 1475
Richmond, VA. 23218

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 compares actual revenue collections to the revenue estimates included in the proposed budget (HB1500/SB900) introduced on December 16, 2016 to the 2017 General Assembly.

February is not a significant month for revenue collections. With one less deposit day than last year, total general fund revenue collections rose 3.6 percent in February. Although individual withholding and sales tax collections were the major contributors to growth, all major sources posted positive growth for the month. On a fiscal year-to-date basis, total revenue collections rose 4.5 percent through February, ahead of the annual forecast of 2.9 percent growth.

National Economic Indicators

Most recent national indicators continue to depict a solid foundation in the U.S. economy and suggest the expansion should continue.

- According to the second estimate, real GDP rose at an annualized rate of 1.9 percent in the fourth quarter of 2016, following 3.5 percent growth in the third quarter.
- February marks another strong month in the labor market as payroll employment rose by 235,000 jobs after a gain of 238,000 in January. The unemployment rate fell from 4.8 to 4.7 percent in February, even as the participation rate increased.

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- Initial claims for unemployment rose by 20,000 to 243,000 during the week ending March 4. The four-week moving average rose by 2,250 to 236,500. Although initial claims tend to be volatile during this time of year, the low level of claims is consistent with a healthy job market.
- The Conference Board's index of leading indicators rose 0.6 percent in January, the fastest pace since June 2015.
- The Conference Board's index of consumer confidence rose 3.2 points to 114.8 in February. Both the present conditions and expectations component increased for the month.
- Activity in the manufacturing sector advanced in February, with the Institute of Supply Management index increasing from 56.0 to 57.7, the highest level since 2014.
- The CPI rose 0.6 percent in January after rising 0.3 percent in December and stands 2.5 percent above January 2016. Core inflation (excluding food and energy prices) increased 0.3 percent in January and is 2.3 percent above a year ago.
- At its February meeting, the Federal Reserve announced that there is no sense of urgency to raise rates again; the consensus is that the risks to the economic outlook remain roughly balanced.

Virginia Economy

In late March, the Virginia Employment Commission will release re-benchmarked employment data for calendar years 2015 and 2016, 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 0.4 percent in January after rising 0.4 percent in December. Auto registrations, future employment, and the U.S. leading index all improved in January while initial claims for unemployment increased. The indexes increased in ten of the eleven metro areas while the index for Blacksburg declined.

February Revenue Collections

With one less deposit day than February of last year, total general fund revenue collections rose 3.6 percent in February. Although individual withholding and sales tax collections were the major contributors to growth, all major sources posted positive growth for the month. On a fiscal year-to-date basis, total revenue collections rose 4.5 percent through February, ahead of the annual forecast of 2.9 percent growth.

Net Individual Income Tax (70% of general fund revenues): Through February, collections of net individual income tax rose 5.1 percent from the same period last year, ahead of the revised annual estimate of 2.9 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (63% of general fund revenues): With one less deposit day than February of last year, collections of payroll withholding taxes grew 5.0 percent for the month. Year-to-date, withholding collections are also 5.0 percent ahead of the same period last year, well ahead of the annual estimate of 3.6 percent growth.

Individual Income Tax Nonwithholding (16% of general fund revenues): February is not a significant month for collections in this source. Receipts were \$54.4 million in February compared with \$48.0 million in February of last year for growth of 13.3 percent. Year-to-date, collections rose by 1.7 percent, ahead of the annual estimate of a 0.7 percent decline.

Individual Income Tax Refunds: The Department of Taxation issued \$429.5 million in refunds in February compared with \$396.0 million last year. Year-to-date, refunds have fallen 1.2 percent, trailing the annual estimate of 1.5 percent growth.

Sales Tax (18% of general fund revenues): Collections of sales and use taxes, reflecting January sales, rose 5.3 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 1.4 percent, trailing the annual estimate of 2.7 percent growth. Adjusting for the accelerated sales tax program, sales tax collections have increased 1.5 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 \$13.8 million in February, compared with receipts of \$7.9 million in February of last year. Year-to-date collections have increased 12.4 percent from the same period last year, ahead of the revised annual estimate of 3.8 percent growth.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$25.0 million in February, compared with \$26.1 million in February of last year for a decline of 4.1 percent. On a year-to-date basis, collections are up 10.3 percent, ahead of the annual forecast of 8.0 percent growth.

Insurance Premiums (2% of general fund revenues): February collections in this source were \$12.9 million compared with \$13.7 million in February of last year. Year-to-date collections through February were \$81.1 million, compared with \$77.3 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)	3.8%	17.5%
ABC Taxes (1% GF revenues)	2.1%	2.8%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue fell 9.6 percent in February, \$29.4 million compared with \$32.5 million a year ago. Most of the minor sources in this category contributed to the decline. On a year-to-date basis, collections of All Other Revenue declined 2.7 percent from the same period last year as compared to the annual estimate of a 2.2 percent decline.

Summary

February is not a significant month for revenue collections. With one less deposit day than last year, total general fund revenue collections rose 3.6 percent in February. Although individual withholding and sales tax collections were the major contributors to growth, all major sources posted positive growth for the month. On a fiscal year-to-date basis, total revenue collections rose 4.5 percent through February, ahead of the annual forecast of 2.9 percent growth.