



COMMONWEALTH of VIRGINIA

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Secretary of Finance

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P.O. Box 1475
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MEMORANDUM

TO: The Honorable Ralph S. Northam

THROUGH: The Honorable Clark Mercer

FROM: Aubrey L. Layne, Jr., CPA

SUBJECT: February Revenue Report

February is not a significant month for revenue collections. Total general fund revenue collections rose 10.9 percent in February, driven by strong payroll withholding payments. On a fiscal year-to-date basis, total revenue collections rose 6.2 percent through February, ahead of the annual forecast of 3.4 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 2.5 percent in the fourth quarter of 2017, following 3.2 percent growth in the third quarter.
- Payroll employment rose by 313,000 jobs in February, far above expectations. The unemployment rate was unchanged at 4.1 percent as new hires offset an increase in the labor force. According to the most recent U.S. Department of Labor report, more than 800,000 people joined the labor force during the month representing the largest one-month labor pool rise since 1983, outside of months that had temporary census hiring.
- Initial claims for unemployment rose by 21,000 to 231,000 during the week ending March 3; however, the previous week's level was the lowest since December 1969. The four-week moving average rose by 2,000 to 222,500. Despite the increase, the low level of claims depicts a healthy labor market.

- The Conference Board's index of leading indicators rose 1.0 percent in January following a 0.6 percent increase in December, suggesting the economic expansion should continue.
- The Conference Board's index of consumer confidence rose 6.5 points to 130.8 in February, the strongest monthly gain in almost a year. Both the expectations and present conditions components showed solid improvement for the month.
- Conditions in the manufacturing sector were somewhat better than expected in February. The Institute of Supply Management index rose from 59.1 to 60.8, and remains solidly in expansionary territory.
- The CPI rose 0.5 percent in January after a 0.2 percent increase in December. The index stands 2.1 percent above January 2017. Core inflation (excluding food and energy prices) rose by 0.3 percent, and is 1.8 percent above a year ago. Increases in both the CPI and core CPI were above consensus expectations.
- At its February meeting, the Federal Reserve left the federal funds target rate unchanged at 1.25 to 1.50 percent.

Virginia Economy

In late March, the Virginia Employment Commission will release re-benchmarked employment data for calendar years 2016 and 2017, so January data are not yet available. A brief review of the revision will be included in the March revenue letter. Virginia's unemployment rate remained fairly steady at 3.6% in January 2018.

The Virginia Leading Index rose 0.5 percent in January after increasing 0.3 percent in December. All four components improved in January and the indexes in all of Virginia's metropolitan statistical areas increased for the month.

February Revenue Collections

Total general fund revenue collections rose 10.9 percent in February, driven by strong payroll withholding payments. On a fiscal year-to-date basis, total revenue collections rose 6.2 percent through February, well ahead of the annual forecast of 3.4 percent growth.

Net Individual Income Tax (70% of general fund revenues): Through February, collections of net individual income tax rose 7.5 percent from the same period last year, ahead of the annual estimate of 3.4 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (64% of general fund revenues): Collections of payroll withholding taxes rose 11.8 percent for the month. Year-to-date, collections have risen 5.6 percent, well ahead of the annual estimate of 3.5 percent growth.

Individual Income Tax Nonwithholding (16% of general fund revenues): February is not a significant month for collections in this source. Collections in nonwithholding were \$49.8 million compared with \$54.4 million in February of last year, a decrease of 8.6 percent. Year-to-date, collections rose by 19.0 percent, ahead of the annual estimate of a 4.3 percent increase.

Individual Income Tax Refunds: The main filing season began in February. The Department of Taxation issued \$442.6 million in refunds compared with \$429.5 million in the same period last year. Year-to-date, refunds have increased by 7.9 percent, ahead of the annual estimate of 5.8 percent growth.

Sales Tax (18% of general fund revenues): Collections of sales and use taxes, reflecting January sales, rose 3.6 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 3.2 percent, close to the annual estimate of 3.0 percent growth.

Corporate Income Tax (5% of general fund revenues): February is not a significant month for collections in this source. Collections of corporate income taxes were \$7.6 million in February, compared with receipts of \$13.8 million in February of last year. Year-to-date collections have increased 13.3 percent from the same period last year, ahead of the annual estimate of 5.7 percent growth.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$23.7 million in February, compared with \$25.0 million in February of last year, a decrease of 5.4 percent. On a year-to-date basis, collections are down 2.3 percent, trailing the annual forecast of 3.3 percent growth.

Insurance Premiums (2% of general fund revenues): February collections in this source were \$18.3 million compared with \$12.9 million last year. Year-to-date collections through February were \$60.3 million compared with \$81.1 million in the same period last year. Final payments were 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)	19.5%	21.9%
ABC Taxes (1% GF revenues)	3.5%	4.3%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue rose 2.5 percent in February, \$30.2 million compared with \$29.4 million a year ago. On a year-to-date

basis, collections of All Other Revenue fell 4.7 percent from the same period last year, compared to the annual estimate of a 2.2 percent decline.

Summary

While February is not a significant month for revenue collections, total general fund revenue collections rose 10.9 percent in February with strong payroll withholding and retail sales bouncing back from the holiday sales slump. However, there will be one less Wednesday payroll deposit day during the remaining four months of the fiscal year. Wednesday is typically one of the largest days of the week representing approximately \$100 million in withholding deposits.

The individual refund filing season started in earnest this month and issued refunds and dollars were comparable to last February. We will continue to monitor individual refunds in regards to increased nonwithholding experienced in December 2017.

On a fiscal year-to-date basis, total revenue collections rose 6.2 percent through February, ahead of the annual forecast of 3.4 percent growth. Accounting for one less Wednesday payroll deposit day for the remainder of the fiscal year and removing nonwithholding increases from the general fund forecast, the general fund is tracking at 3.5%.

Rating Agencies

All three major rating agencies were briefed on the status of the biennium budget negotiations. S&P published a bulletin stating that presently the protracted negotiations do not pressure the state's credit rating. However, the bulletin emphasized that the rating agencies will be monitoring the progress towards an on-time budget that demonstrates sustainable, structural balance.