



## ***COMMONWEALTH of VIRGINIA***

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### **MEMORANDUM**

TO: The Honorable Ralph S. Northam

THROUGH: The Honorable Clark Mercer

FROM: Aubrey L. Layne, Jr.

SUBJECT: February Revenue Report

This month's revenue report incorporates the revised mid-session general fund revenue forecast released on February 14, 2020. Under the mid-session revised forecast, general fund revenues are expected to increase 3.2 percent in fiscal year 2020. This compares to 1.9 percent in the forecast used with the proposed budget (HB/SB29) introduced on December 17, 2019.

February is not a significant month for revenue collections. Total general fund revenues declined 12.4 percent in February, due to opening the tax-processing season on time this year, which resulted in twice as many refunds being issued, compared with last year's delayed processing due to tax policy changes. Withholding and sales tax receipts posted solid gains for the month.

On a fiscal year-to-date basis, total revenue collections rose 6.2 percent through February, ahead of the annual forecast of 3.2 percent growth.

### **National Economic Indicators**

Recent national indicators suggest the economy continues to expand, although the coronavirus outbreak presents a substantial risk to continuing growth.

- According to the second report, real GDP rose at an annualized rate of 2.1 percent in the fourth quarter of 2019, following 2.1 percent in the third quarter.
- Payroll employment rose by 273,000 jobs in February, well above expectations. In addition, gains for December and January were revised higher, adding another 85,000 jobs.

In a separate report, the unemployment rate fell from 3.6 percent to 3.5 percent as the labor force contracted.

- Initial claims for unemployment fell by 3,000 to 216,000 during the week ending February 29. The four-week moving average increased by 3,250 to 213,000. The level of claims remains at historically low levels and is consistent with a healthy labor market.
- The Conference Board's index of leading indicators jumped 0.8 percent in January following a 0.1 percent increase in November and a decline of 0.3 percent in December, suggesting a stronger outlook for the economy.
- The Conference Board's index of consumer confidence rose from 130.4 to 130.7 in February. An increase in the expectations component offset a decline in the present situation component.
- The Institute of Supply Management index fell from 50.9 to 50.1 in February, below expectations. The coronavirus outbreak is likely to take a toll on the manufacturing sector due to reduced exports to China and supply chain disruptions.
- The CPI rose 0.1 percent in January following a 0.2 percent increase in December and stands 2.5 percent above January 2019. Core inflation (excluding food and energy prices) rose 0.2 percent and stands 2.3 percent above a year ago.
- Because of the downside risks to the economy from the coronavirus, the Federal Reserve lowered the federal funds target rate by 50 basis points to the range of 1.0 to 1.25 percent on March 3.

### **Virginia Economy**

In late March, the Virginia Employment Commission will release re-benchmarked employment data for calendar years 2018 and 2019, 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 increased 1.4 percent in January after declining 0.5 percent in December. All components: auto registrations, the U.S. Leading index, initial claims, and future employment improved in January. The indexes for all metro areas increased for the month.

### **February Revenue Collections**

February is not a significant month for revenue collections. Total general fund revenues declined 12.4 percent in February, due to opening the tax-processing season on time this year, which resulted in twice as many refunds being issued, compared with last year's delayed opening. Withholding and sales tax receipts posted solid gains for the month.

On a fiscal year-to-date basis, total revenue collections rose 6.2 percent through February, ahead of the annual forecast of 3.2 percent growth.

***Net Individual Income Tax (70% of general fund revenues):*** Through February, collections of net individual income tax rose 4.6 percent from the same period last year, ahead of the annual estimate of 1.4 percent growth. Performance in each component of individual income tax is as follows:

***Individual Income Tax Withholding (62% of general fund revenues):*** Collections of payroll withholding taxes rose 3.7 percent in February. Year-to-date, collections have grown 5.5 percent, ahead of the annual estimate of 4.7 percent growth.

***Individual Income Tax Nonwithholding (17% of general fund revenues):*** February is not a significant month for collections in this source. Collections in nonwithholding were \$62.8 million compared with \$67.0 million in February of last year, decline of 6.3 percent. Year-to-date, collections grew by 16.9 percent, ahead of the annual estimate of a 3.9 percent decline.

***Individual Income Tax Refunds:*** The main income tax filing season begins in February and the processing began on time this year, while last year refund processing was delayed. The Department of Taxation issued \$427.3 million in refunds compared with \$218.4 million in February of last year, a 95.6 percent increase. This February, 940,000 refunds were processed compared with 519,000 last year. Thus, comparisons of refund activity to last year will not be appropriate until the end of March.

***Sales Tax (17% of general fund revenues):*** Collections of sales and use taxes, reflecting January sales, rose 8.8 percent in February. February receipts include January post-holiday sales and gift card purchases, completing the holiday shopping season. About two-thirds of the growth is due to new Wayfair related use tax dealers. On a year-to-date basis, collections of sales and use taxes have risen 8.5 percent, ahead of the annual estimate of 7.4 percent growth.

***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 \$17.3 million in February, compared with receipts of \$27.1 million in February of last year. On a year-to-date basis, collections have increased 16.3 percent compared with the forecast of 9.3 percent growth.

***Wills, Suits, Deeds, Contracts (2% of general fund revenues):*** Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$30.7 million in February, compared with \$23.7 million in February of last year. On a year-to-date basis, collections are up 29.7 percent, ahead of the annual forecast of 21.3 percent growth.

***Insurance Premiums (2% of general fund revenues):*** February collections in this source were \$3.9 million compared with \$24.9 million last year. Year-to-date collections were \$57.5 million through February, compared with \$76.2 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><b>Year-to-Date</b></u>	<u><b>Annual Estimate</b></u>
Interest Income (0.4% GF revenues)	37.2%	48.4%
ABC Taxes (1% GF revenues)	10.0%	4.5%

***All Other Revenue (2% of general fund revenues)***: Receipts in All Other Revenue fell 5.3 percent in February, \$29.0 million compared with \$30.6 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 6.1 percent decline.

### **Summary**

February is not a significant month for revenue collections. Total general fund revenues declined 12.4 percent in February, due to opening the tax-processing season on time this year, which resulted in twice as many refunds being issued, compared with last year's delayed processing due to tax policy changes. Withholding and sales tax receipts posted solid gains for the month.

On a fiscal year-to-date basis, total revenue collections rose 6.2 percent through February, ahead of the annual forecast of 3.2 percent growth.

The commonwealth has been monitoring and preparing for the potential impact of COVID-19. Working with the legislative money committees, approximately \$10 million has been identified to fund the commonwealth's response to the virus over the next several months.