



COMMONWEALTH of VIRGINIA
Office of the Governor

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MEMORANDUM

TO: The Honorable Robert F. McDonnell

THROUGH: The Honorable Martin Kent

FROM: Richard D. Brown 

SUBJECT: February 2010 Revenue Data

This month's revenue report incorporates the revised mid-session general fund revenue forecast released on February 17, 2010. Under the mid-session revised forecast, general fund revenues are expected to fall 2.0 percent in fiscal year 2010. This compares to a projected decline of 2.7 percent in the forecast used with the proposed budget (HB/SB 30) introduced on December 18, 2009.

February is not typically a significant month for revenue collections. However, it is the beginning of the individual income tax filing season and also provides the first data point to assess performance relative to the mid-session revised forecast. Reflecting the effects of a major winter storm and a weak economy, February marked the lowest month of general fund revenue collections since March 1998. Total general fund revenue collections fell 5.9 percent in February, with receipts in most major sources declining for the month. On a year-to-date basis, total revenues fell 4.8 percent, trailing the revised annual forecast of a 2.0 percent decline.

National Economic Indicators

Current national indicators suggest the economy continues to expand, although weak consumer fundamentals are likely to restrain growth. Persistent weakness in the housing sector and the labor market, low consumer confidence, and tight credit conditions will slow the recovery.

- According to the second estimate, real GDP grew 5.9 percent at an annual rate in the fourth quarter of 2009, faster than the 5.7 percent in the advance estimate. This was the strongest quarter of GDP growth since the third quarter of 2003.
- The February employment report suggests that labor market conditions are improving. Despite major winter storms, payroll employment was essentially flat, falling by only 36,000 jobs in February. Much of the loss was in construction, an industry heavily affected by weather conditions. On a positive note, temporary help agencies have added jobs for the last three months, typically a leading indicator of overall increased hiring. In a separate report, the unemployment rate remained unchanged at 9.7 percent.
- Initial claims for unemployment declined by 29,000 to 469,000 during the week ending February 27, in line with expectations. The four-week moving average fell from 474,000 to 471,000. Initial jobless claims gradually improved over 2009, but in recent weeks, this favorable trend has stalled.
- The Conference Board's index of leading indicators rose 0.3 percent to 107.4 in January, its tenth consecutive monthly increase. Five of the ten components contributed positively to the index. The recent growth in the index strongly suggests the economy will continue to expand through the first half of 2010.
- Consumer confidence, which had been improving over the past few months, declined sharply in February. Following three monthly gains, the Conference Board's index of consumer confidence fell from 56.5 to 46.0 in February. Uneasiness about current business conditions and the job market pushed the current situation component down to 19.4, the lowest reading since its February 1983 level of 17.5. Apprehension about future conditions also pushed the expectations component lower.
- The recovery in the manufacturing sector moderated in February. Although the Institute of Supply Management index fell from 58.4 to 56.5, it marked the seventh consecutive month above the expansionary threshold of 50.0.
- Inflation remains low -- the CPI rose 0.2 percent in January from the previous month. Core inflation (excludes food and energy prices) fell by 0.1 percent for the month and stands 1.5 percent above January of last year. Led by falling prices in rents, new vehicles, and airline fares, this is the first decline in core CPI since 1982.
- At its January meeting, the Federal Reserve again announced it will keep the federal funds target rate in the 0.0 to 0.25 percent range "for an extended period."

Virginia Economy

This month, the Virginia Employment Commission will release re-benchmarked employment data for calendar years 2008 and 2009, and a substantial downward revision is expected. A brief review of the revision will be included in the March revenue letter.

February Revenue Collections

Total general fund revenue collections fell 5.9 percent in February. Receipts in most major sources declined for the month. On a year-to-date basis, total revenues fell 4.8 percent, trailing the revised annual forecast of a 2.0 percent decline.

Net Individual Income Tax (64% of general fund revenues): Through February, collections of net individual income tax fell by 6.0 percent from the same period last year, close to the revised annual estimate of a 5.5 percent decline. 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 fell 6.0 percent in February. Year-to-date withholding collections declined by 2.3 percent over the same period last year, trailing the projected annual growth rate of a 0.2 percent increase.

Individual Income Tax Nonwithholding (13% of general fund revenues): February is not typically a significant month for nonwithholding collections. A total of \$33.4 million was collected in February, compared with \$34.4 million in February of last year.

To date, about 45 percent of the nonwithholding forecast has been collected, and collections during this period are 19.4 percent below the same period last year, ahead of the revised annual estimate of a 21.5 percent decline. The majority of the remaining collections in this source will occur in April and May, with both final payments for tax year 2009 and estimated payments for the current year due May 1.

Individual Income Tax Refunds: As the main filing season got underway, TAX issued \$397.1 million in refunds in February compared with \$399.8 million last February. Year-to-date, refunds are 5.5 percent ahead of last year, ahead of the revised annual estimate of a 2.0 percent increase. For the filing season beginning January 1, TAX has issued 908,800 refunds, compared with 958,400 during the same period last year.

Sales Tax (22% of general fund revenues): Collections of sales and use taxes, reflecting January sales, fell 5.0 percent in February. February receipts include post-holiday sales and gift card purchases, completing the holiday shopping season. Adjusting for amnesty, collections of sales tax in December through February – which reflect taxable sales for November through January – declined by 3.6 percent. The forecast anticipated a 3.0 percent decline for the holiday shopping season.

On a year-to-date basis, collections have fallen 3.6 percent, behind the policy-adjusted forecast of a 3.0 percent decline. (The policy adjustment is the accelerated sales tax program which occurs in June.)

Corporate Income Tax (6% of general fund revenues): Collections of corporate income tax were negative in February as refunds exceeded gross payments. On a year-to-date basis,

collections in this source have risen 31.6 percent, far ahead of the revised annual forecast of 19.2 percent growth.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – fell 26.5 percent in February. On a year-to-date basis, collections are down 4.0 percent, close to the forecast of a 4.9 percent decline.

Insurance Premiums (2% of general fund revenues): Monthly collections of taxes on insurance premiums are distorted for the month of February. Chapter 896 of the 2007 Acts of the Assembly required that \$129.1 million of collections in this source be transferred to the Transportation Trust Fund (TTF) in fiscal year 2010 before any deposits to the general fund could be made. The required transfer was completed in December. Refunds to insurance companies were then paid in January 2010, while last year refunds were issued in February. On a year-to-date basis, collections are down 46.2 percent, trailing the revised annual estimate of 4.9 percent decline. Compared to February 2009 after all required transfers to the TTF and refunds, gross insurance payments have declined about 1.7 percent.

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)	-23.1%	10.8%
ABC Taxes (1% GF revenues)	0.6%	0.9%

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue rose 2.7 percent in February – \$26.6 million compared with \$25.9 million last February. For the fiscal year-to-date, collections of All Other Revenue fell 13.1 percent from the same period in fiscal year 2009, lagging the annual estimate of a 4.2 percent decline.

Summary

This month's revenue letter incorporates the revised mid-session general fund revenue forecast released on February 17, 2010. Under the mid-session revised forecast, general fund revenues are expected to fall 2.0 percent in fiscal year 2010. Total general fund revenue collections fell 5.9 percent in February, with a major winter storm contributing to the decline. Receipts in most major sources declined for the month. On a year-to-date basis, total revenues fell 4.8 percent, trailing the revised annual forecast of a 2.0 percent decline.