



**COMMONWEALTH of VIRGINIA**  
*Office of the Governor*

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March 14, 2012

**MEMORANDUM**

TO: The Honorable Robert F. McDonnell

THROUGH: The Honorable Martin Kent

FROM: Richard D. Brown 

SUBJECT: February Revenue Data

This month's revenue report typically incorporates the revised mid-session general fund revenue forecast. However, no adjustments to the general fund forecast were recommended this year as revenues are tracking close to the estimates used for the proposed budget (HB/SB29) introduced on December 19, 2011.

Total general fund revenue collections rose 17.2 percent in February. However, February is not generally a significant month for revenue collections. In addition, since February has the fewest days for net collections, small changes in receipts can cause large distortions in growth rates. This February had an extra deposit day due to leap year. Typically, February would have only four Wednesdays, this year February had five. Wednesday is usually the largest payroll withholding day of the week. This calendar effect will wash out in March as there will be one less deposit day. Also contributing to February's monthly growth were strong post-holiday sales.

On a year-to-date basis, total revenue collections rose 5.0 percent through February, slightly ahead of the revised annual forecast of 4.6 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 4.6 percent through February, close to the adjusted forecast of 4.7 percent growth.

## National Economic Indicators

Most national economic indicators suggest the modest expansion will continue, although reduced fiscal stimulus, slowing global economies, and rising gasoline prices remain drags on growth.

- According to the second estimate, real GDP grew at an annualized rate of 3.0 percent in the fourth quarter of 2011, up from growth of 1.8 percent in the third quarter and 1.3 percent in the second quarter.
- Labor market conditions in February again exceeded expectations. Payroll employment added 227,000 jobs in February, the third consecutive month of gains above 200,000. The gains were widespread, with professional/business services, education/health care, and leisure/hospitality providing the largest number of new jobs. In a separate report, the unemployment rate remained steady at 8.3 percent in February, its lowest rate since February 2009.
- Initial claims for unemployment rose by 8,000 to 362,000 during the week ending March 3, while the four-week moving average rose from 354,750 to 355,000. Although the number of initial claims increased, it is a small reversal from strong improvement earlier in the year.
- The Conference Board index of leading indicators rose 0.4 percent in January, its fourth consecutive monthly gain. Eight of the ten components contributed to the increase. The rise in the index suggests the recovery is gaining momentum.
- The Conference Board's index of consumer confidence rose by 9.3 points to 70.8 in February. It is now at its highest level since February 2011. While both the expectations and the present situation components rose in February, the expectations component drove the increase.
- Activity in the manufacturing sector softened in February as the Institute of Supply Management index fell from 54.1 to 52.4. Although growth slowed, the index remains in the expansionary range.
- The CPI rose 0.2 percent in January and stands 2.9 percent above January 2011. Core inflation (excluding food and energy prices) also rose 0.2 percent in January, and has increased 2.3 percent from January 2011.
- The Federal Reserve announced at its January meeting that it will keep the federal funds rate target unchanged at 0.0 to 0.25 percent, stating that economic conditions "are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014."

## **Virginia Economy**

This month, the Virginia Employment Commission will release re-benchmarked employment data for calendar years 2010 and 2011, and a slight upward revision is expected. A brief review of the revision will be included in the March revenue letter.

The January Virginia Leading Index is not yet available, as it will incorporate the employment benchmark revisions. In December, the index increased 0.9 percent and increased 1.7 percent for calendar 2011. All components of the index improved in December, and the Leading Index rose in all eleven major metro areas.

## **February Revenue Collections**

Total general fund revenue collections rose 17.2 percent in February, boosted by an extra deposit day due to leap year and post-holiday sales that exceeded the forecast. On a year-to-date basis, total revenue collections rose 5.0 percent through February, slightly ahead of the revised annual forecast of 4.6 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 4.6 percent through February, close to the adjusted forecast of 4.7 percent growth.

***Net Individual Income Tax (67% of general fund revenues):*** Through February, collections of net individual income tax rose 6.1 percent from the same period last year, very close to the annual estimate of 5.9 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 jumped 16.0 percent in February, driven by the extra deposit day provided by leap year. Year-to-date, withholding collections grew 4.6 percent compared with the same period last year, ahead of the projected annual growth rate of 3.8 percent.

***Individual Income Tax Nonwithholding (16% of general fund revenues):*** February is not typically a significant month for collections in this source. A total of \$53.4 million was collected in February, compared with \$39.4 million in February of last year. Year-to-date, nonwithholding collections rose 12.1 percent over the same period last year, close to the annual estimate of 12.6 percent growth. The majority of the remaining collections in nonwithholding will occur in April and May, with both final payments for tax year 2011 and estimated payments for the current year due May 1.

***Individual Income Tax Refunds:*** As the main income tax filing season began, TAX issued \$421.6 million in refunds in February compared with \$385.5 million last year. Year-to-date, refunds have risen 0.5 percent, compared with the annual estimate of a 3.0 percent increase.

***Sales Tax (19% of general fund revenues):*** Collections of sales and use taxes, reflecting January sales, rose 5.7 percent in February. February receipts include post-holiday sales and gift card purchases, completing the holiday shopping season. Taken together, collections of sales

and use taxes for December through February, which reflect taxable sales for November through January, rose 4.6 percent. The forecast anticipated a 3.0 percent increase for the holiday shopping season.

On a year-to-date basis, collections have risen 5.1 percent, compared with the annual estimate of 1.8 percent growth. The strong year-to-date growth is due to the partial repeal of the accelerated sales tax program, which ended the participation of numerous small dealers. Adjusting for this legislation, sales tax collections have grown by 3.2 percent year-to-date, ahead of the economic-base forecast of 2.5 percent growth.

**Corporate Income Tax (5% of general fund revenues):** Collections of corporate income taxes were \$14.2 million in February, compared with \$11.0 million last February. Year-to-date collections in this source have risen 2.3 percent, ahead of the annual estimate of a 0.7 percent increase.

**Wills, Suits, Deeds, Contracts (2% of general fund revenues):** Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$22.4 million in February, compared with \$17.8 million in February of last year. On a year-to-date basis, collections are up 5.1 percent, lagging the annual forecast of 10.8 percent growth.

**Insurance Premiums (2% of general fund revenues):** Monthly collections of the tax on insurance premiums were negative because refunds were issued in February, as they were last year. Year-to-date collections through February were \$25.5 million compared with \$53.8 million over the same period last year. This difference is a result of smaller estimated payments received in September and December. Although the companies do not provide an explanation for the smaller estimated payments, the slowing commercial real estate market and lower business and housing valuations must be factors suppressing premium growth.

**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)	-2.7%	1.1%
ABC Taxes (1% GF revenues)	4.6%	1.0%

**All Other Revenue (3% of general fund revenues):** Receipts in All Other Revenue rose 14.6 percent in February – \$31.6 million compared with \$27.6 million last February. On a year-to-date basis, collections of All Other Revenue fell 2.2 percent, trailing the annual estimate of a 0.3 percent decline.

## **Summary**

February is not typically a significant month for revenue collections, although it marks the start of the individual income tax filing season. Total general fund revenue collections rose 17.2 percent in February. Monthly growth is somewhat misleading since February has the fewest collection days, and small changes in receipts can cause large distortions in growth rates. This February had an extra deposit day due to leap year, and post-holiday sales were strong.

On a year-to-date basis, total revenue collections rose 5.0 percent through February, slightly ahead of the revised annual forecast of 4.6 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 4.6 percent through February, close to the adjusted forecast of 4.7 percent growth.