



# **COMMONWEALTH of VIRGINIA**

March 13, 2013

PO Box 1475  
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## **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 compares actual revenue collections to the revenue estimates included in the proposed budget (HB1500/SB800) introduced on December 17, 2012 to the 2013 General Assembly.

Total general fund revenue collections fell 2.0 percent in February; however, February is not generally a significant month for revenue collections. In addition, since February has the fewest number of days for net collections, small changes in receipts can cause distortions in growth rates. Last year was a leap year and the extra deposit day last February boosted revenue growth to 17.2 percent.

On a year-to-date basis, total revenue collections rose 5.5 percent through February, ahead of the annual forecast of 3.6 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 5.1 percent through February, ahead of the adjusted forecast of 3.4 percent growth.

### **National Economic Indicators**

Most national indicators suggest the economy is slowly improving; however, political uncertainty, a weak global economy, and weak consumer confidence remain threats.

- According to the second estimate, real GDP grew at an annualized rate of 0.1 percent in the fourth quarter of 2012, down from a 3.1 percent increase in the third quarter. The decreasing rate of growth was driven by cuts in defense spending, a drop in inventory accumulations, and falling exports.

- Payroll employment gained 236,000 jobs in February. Over the past three months, job gains have averaged 191,000 per month, consistent with a modest expansion. The February gains were widespread, with business and professional services contributing the largest number of jobs. In a separate report, the unemployment rate fell slightly, from 7.9 to 7.7 percent.
- Initial claims for unemployment fell by 7,000 to 340,000 during the week ending March 2. The four-week moving average also fell by 7,000 to 349,000, its lowest level since early March 2008. The level of claims is consistent with an improving job market.
- After rising 0.5 percent in December, the Conference Board's index of leading indicators rose 0.2 percent in January. An improvement in the stock market, along with building permits and the initial claims component, contributed to the increase. The index has risen in four of the previous five months.
- After three months of declines, the Conference Board's index of consumer confidence increased from 58.4 to 69.6 in February. Both the current conditions and expectations components increased in February.
- The manufacturing sector continued its modest expansion in January, with the Institute of Supply Management index increasing from 53.1 to 54.2.
- The CPI was unchanged in January, and stands 1.6 percent above January 2012. Core inflation (excluding food and energy prices) rose 0.3 percent in January, and has increased 1.9 percent from January 2012.
- The Federal Reserve announced at its January meeting that it will keep the federal funds target rate at 0.0 to 0.25 percent, and continued its quantitative easing program.

### **Virginia Economy**

Later this month, the Virginia Employment Commission will release re-benchmarked employment data for calendar years 2011 and 2012. A brief review of the revision will be included in the March revenue letter.

The Virginia Leading Index rose 0.1 percent in January after increasing 0.2 percent in December. Building permits, the U.S. leading index, initial unemployment claims, and future employment (estimated until benchmark revisions are released) improved in January, while auto registrations fell. The Leading Index increased in Charlottesville, Lynchburg, Winchester, and Blacksburg, while the indexes for Roanoke, Danville, and Bristol contracted. The indexes for Richmond, Northern Virginia, Hampton Roads, and Harrisonburg were little changed in January.

### **February Revenue Collections**

Total general fund revenue collections fell 2.0 percent in February; however, February is not generally a significant month for revenue collections. On a year-to-date basis, total revenue collections rose 5.5 percent through February, ahead of the annual forecast of 3.6 percent growth.

Adjusting for the accelerated sales tax program, total revenues grew 5.1 percent through February, ahead of the adjusted forecast of 3.4 percent growth.

***Net Individual Income Tax (68% of general fund revenues):*** Through February, collections of net individual income tax rose 5.7 percent from the same period last year, ahead of the annual estimate of 4.5 percent growth. Performance in each component of individual income tax is as follows:

***Individual Income Tax Withholding (63% of general fund revenues):*** Collections of payroll withholding taxes fell 5.7 percent in February, driven by one less deposit day than February of last year. Year-to-date, withholding collections rose 2.8 percent compared with the same period last year, lagging the projected annual growth rate of 3.3 percent.

***Individual Income Tax Nonwithholding (15% of general fund revenues):*** Collections in this source fell 14.5 percent in February. Year-to-date, nonwithholding collections rose 12.2 percent over the same period last year, ahead of the annual estimate of 6.8 percent growth. The majority of the remaining collections in nonwithholding will occur in April and May, with both final payments for tax year 2012 and estimated payments for the current year due May 1.

***Individual Income Tax Refunds:*** As the main income tax filing season began, the Department of Taxation issued \$432.3 million in refunds in February compared with \$421.6 million last year. All of the increase is due to the delay of the federal electronic filing program in January. About \$90.6 million in refunds were issued during the first 3 days of February as compared to \$54.6 million last February. Year-to-date, refunds have fallen 11.5 percent, lagging the annual estimate of 0.4 percent growth.

***Sales Tax (20% of general fund revenues):*** Collections of sales and use taxes, reflecting January sales, rose 10.3 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 3.9 percent. The forecast anticipated a 3.0 percent increase for the holiday shopping season. On a year-to-date basis, collections have risen 4.8 percent through February, ahead of the annual estimate of 4.1 percent. Adjusting for the partial repeal of the accelerated sales tax program, sales tax collections have grown by 2.9 percent year-to-date, close to the economic-base forecast of 3.2 percent growth.

***Corporate Income Tax (5% of general fund revenues):*** Collections of corporate income tax were negative \$6.2 million in February due to normal refund activity, compared with \$14.2 million a year ago. Year-to-date collections in this source have risen 1.1 percent from the same period last year, well ahead of the estimate of a 4.5 percent decline.

***Wills, Suits, Deeds, Contracts (2% of general fund revenues):*** Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$27.1 million in February, compared with \$22.4 million in February of last year, a 20.9 percent increase. On a year-to-date basis, collections are up 18.2 percent, far ahead of the annual forecast of 4.5 percent growth.

**Insurance Premiums (2% of general fund revenues):** Chapter 896 of the 2007 Acts of the Assembly required that \$130.1 million of collections in this source be transferred to the Transportation Trust Fund in fiscal year 2013 before making any deposits to the general fund. The required transfer was completed during December.

The State Corporation Commission issued refunds for insurance companies in January this year, while the last two year's refunds were issued in February, which distorts monthly growth in this source. Year-to-date collections through January are \$45.0 million, compared with \$25.1million in the same period last year.

### **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 (0.5% GF revenues)	-3.3%	-12.5%
ABC Taxes (1% GF revenues)	5.5%	2.6%

**All Other Revenue (3% of general fund revenues):** Receipts in All Other Revenue fell 11.1 percent in February, \$28.1 million compared with \$31.6 million last year. On a year-to-date basis, collections of All Other Revenue fell 0.9 percent from the same period last year, ahead of the annual estimate of a 2.5 percent decline.

### **Summary**

Total general fund revenue collections fell 2.0 percent in February. On a year-to-date basis, total revenue collections rose 5.5 percent through February, ahead of the annual forecast of 3.6 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 5.1 percent through February, ahead of the adjusted forecast of 3.4 percent growth.