



COMMONWEALTH of VIRGINIA

March 13, 2014

PO Box 1475
Richmond, VA. 23218

MEMORANDUM

TO: The Honorable Terence R. McAuliffe

THROUGH: The Honorable Paul J. Reagan

FROM: Richard D. Brown 

SUBJECT: February Revenue Data

This month's revenue report incorporates the revised mid-session general fund revenue forecast released on February 12, 2014. Under the mid-session revised forecast, general fund revenues are expected to increase 1.0 percent in fiscal year 2014. This compares to a projected annual increase of 1.7 percent used in the proposed budget (HB 29/SB 29) introduced in December 2013 to the 2014 General Assembly.

February is not generally a significant month for revenue collections. In February, total general fund revenue collections fell 3.4 percent, with a solid gain in individual withholding offset by declines in insurance premiums refunds and retail sales and recordation taxes. On a year-to-date basis, total revenue collections fell 0.8 percent through February, lagging the annual forecast of 1.0 percent growth. Adjusting for the accelerated sales tax program and the 0.125 percent sales tax transfer required by the provisions of HB 2313, total revenues grew 0.3 percent through February, trailing the adjusted forecast of 2.1 percent growth.

National Economic Indicators

Most recent national indicators suggest economic fundamentals are gradually improving, and the economy is poised for a more vigorous expansion. Consumer confidence, however, continues to be a drag on growth.

- According to the second estimate, real GDP grew at an annualized rate of 2.4 percent in the fourth quarter of 2013, following a 4.1 percent increase in the third quarter and 2.5 percent in the second quarter.

- Following weak gains in December and January, the labor market rebounded in February. Payroll employment rose by 175,000 jobs, above consensus expectations of 150,000 jobs. The gains in the previous two months were revised up by a combined 25,000 jobs. In a separate report, the unemployment rate rose slightly from 6.6 percent to 6.7 percent, as more workers entered the labor force.
- Initial claims for unemployment fell by 26,000 to 323,000 during the week ending March 1. The four-week moving average fell by 2,000 to 336,500.
- The Conference Board's index of leading indicators rose 0.3 percent in January after remaining unchanged in December 2013, its sixth gain in the last seven months. The behavior of the leading indicator is consistent with continued economic growth.
- The Conference Board's index of consumer confidence dropped from 79.4 to 78.1 in February. A rise in the present situation component was offset by a decline in the expectations component.
- Activity in the manufacturing improved in February, with the Institute of Supply Management index rising from 51.3 to 53.2. The increase follows two monthly declines in the index, although its level has remained in expansionary territory.
- Inflation remains contained as CPI rose 0.1 percent in January, and stands 1.6 percent above January 2013. Core inflation (excluding food and energy prices) also rose 0.1 percent in January, and has increased 1.6 percent from a year ago.
- 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 will continue winding down its quantitative easing program.

Virginia Economy

In late March, the Virginia Employment Commission will release re-benchmarked employment data for calendar years 2012 and 2013, 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 rose 0.7 percent in January after slipping 0.2 percent in December. The U.S. leading index, initial claims, and future employment improved in January, while auto registrations and building permits declined. Richmond, Northern Virginia, Hampton Roads, Bristol, and Blacksburg posted expansions in their indexes in January, while Roanoke, Danville, Lynchburg, and Winchester posted contractions; the indexes for Charlottesville and Harrisonburg were little changed in January. (As the Virginia Leading Index incorporates the Virginia employment data which are currently being revised, that component is estimated for purposes of computing the January index.)

February Revenue Collections

Total general fund revenue collections fell 3.4 percent in February due to the timing of insurance premiums refunds and a decline in retail sales. On a year-to-date basis, total revenue collections fell 0.8 percent through February, lagging the annual forecast of 1.0 percent growth. Adjusting for the accelerated sales tax program and the 0.125 percent sales tax transfer required by the provisions of HB 2313, total revenues grew 0.3 percent through February, trailing the adjusted forecast of 2.1 percent growth.

Net Individual Income Tax (69% of general fund revenues): Through February, collections of net individual income tax rose 1.1 percent from the same period last year, behind the annual estimate of 2.9 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 grew a solid 6.6 percent in February. Year-to-date, withholding collections rose 3.0 percent compared with the same period last year, slightly ahead of the annual estimate of 2.9 percent.

Individual Income Tax Nonwithholding (17% of general fund revenues): February is not a significant month for collections in this source. Receipts were \$55.4 million compared with \$45.7 million in February 2013. Year-to-date collections through February fell by 2.7 percent, trailing the revised annual estimate of a 4.2 percent increase.

Individual Income Tax Refunds: As the main income tax filing season began, the Department of Taxation issued \$460.8 million in refunds in February compared with \$432.3 million last year, a 6.6 percent increase. The average refund size for the filing season is down 1.0 percent as compared to expectations for a 0.8 percent increase. Year-to-date, refunds have risen 13.5 percent, ahead of the annual estimate of 5.1 percent growth.

Sales Tax (18% of general fund revenues): Collections of sales and use taxes, reflecting January sales, fell 12.7 percent in February. February receipts include January post-holiday sales and gift card purchases, completing the holiday shopping season. The first significant snow storms since December 2010 in January probably affected sales.

On a year-to-date basis, collections have fallen 4.9 percent through February, trailing the annual estimate of a 4.4 percent decline. Adjusting for the partial repeal of the accelerated sales tax program and the 0.125 percent sales tax transfer required by HB 2313, sales tax collections have increased by 0.3 percent year-to-date, below the economic-base forecast of 1.6 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 tax were \$9.2 million in February, compared with -\$6.2 million a year ago. Year-to-date collections in this source have fallen 10.8 percent from the same period last year, trailing the estimate of a 3.4 percent decline.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$16.7 million in February, compared with \$27.1 million in February of last year. This was the seventh consecutive monthly decline in this source. On a year-to-date basis, collections are down 14.2 percent, trailing the annual forecast of 0.0 percent growth.

Insurance Premiums (2% of general fund revenues): Chapter 896 of the 2007 Acts of the Assembly required that \$130.8 million of collections in this source be transferred to the Transportation Trust Fund in fiscal year 2014 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 February 2014, while refunds were issued in January 2013, distorting growth in this source. Year-to-date collections through February are \$62.2 million, compared with \$45.0 million 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)	3.6%	-25.9%
ABC Taxes (1% GF revenues)	1.6%	0.8%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue rose 7.3 percent in February, \$30.2 million compared with \$28.1 million a year ago. On a year-to-date basis, collections of All Other Revenue fell 2.1 percent from the same period last year, close to the annual estimate of a 2.4 percent decline.

Summary

This month's revenue report incorporates the revised mid-session general fund revenue forecast released on February 12, 2014. On a year-to-date basis, total revenue collections fell 0.8 percent through February, lagging the annual forecast of 1.0 percent growth. Adjusting for the accelerated sales tax program and the 0.125 percent sales tax transfer required by the provisions of HB 2313, total revenues grew 0.3 percent through February, trailing the adjusted forecast of 2.1 percent growth.