



## ***COMMONWEALTH of VIRGINIA***

March 12, 2015

PO Box 1475  
Richmond, VA. 23218

### **MEMORANDUM**

TO: The Honorable Terence R. McAuliffe

THROUGH: The Honorable Paul Reagan

FROM: Richard D. Brown 

SUBJECT: February Revenue Data

This month's revenue report incorporates the revised mid-session general fund revenue forecast as contained in the enrolled HB1400 as passed by the 2015 Session of the General Assembly. In the revised forecast, general fund revenues are expected to increase 4.7 in fiscal year 2015. This compares to a projected annual increase of 3.1 percent used in the amended budget introduced on December 17, 2014.

February is not a significant month for revenue collections. Total general fund revenue collections rose 21.7 percent in February. The timing of individual income tax refunds accounted for the surge in growth, as the filing season opened earlier this year and some of the refund activity done in February last year occurred in January this year. Also, February revenue collections were positively affected because refunds to insurance companies with respect to the insurance premium income tax were processed in January this year as opposed to last year when the refunds were processed in February.

On a fiscal year-to-date basis, total revenue collections rose 6.6 percent, ahead of the annual forecast of 4.7 percent growth. Adjusting for the accelerated sales tax program and the 0.1 percent sales tax transfer to transportation required by the provisions of HB 2313, total revenues rose 6.5 percent through February, ahead of the adjusted forecast of 4.5 percent growth.

### **National Economic Indicators**

Most recent national indicators suggest that growth in the U.S. economy is accelerating.

- According to the second estimate, real GDP grew by an annualized rate of 2.2 percent in the fourth quarter of 2014, following 5.0 percent growth in the third quarter and 4.6 percent in the second quarter. Consumer spending drove the growth.
- The labor market continued to improve in February. Payroll employment rose by 295,000 jobs in February, and the growth was broad-based. In a separate report, the unemployment rate fell from 5.7 percent to 5.5 percent in February to a post-recession low.
- Initial claims for unemployment increased by 7,000 to 320,000 during the week ending February 28. The four-week moving average rose from 294,500 to 304,750. The President's Day holiday and winter storms most likely have caused some volatility in the initial claims data.
- With six of the ten components increasing, the Conference Board's index of leading indicators rose 0.2 percent in January following a 0.4 percent increase in December. The rise in the index is consistent with accelerating economic growth.
- The Conference Board's index of consumer confidence fell 7.4 points to 96.4 in February. Both the present situation and the expectations components declined, but expectations accounted for most of the decrease.
- Activity in the manufacturing sector slowed further in February, with the Institute of Supply Management index falling from 53.5 to 52.9, the fourth consecutive decline. Still, the index remains above the expansionary threshold of 50.0.
- Driven by falling oil prices, the CPI fell 0.7 percent in January and stands 0.2 percent below January 2014, marking the first negative year-over-year reading since October 2009. Core inflation (excluding food and energy prices) increased 0.2 percent in January and stands 1.6 percent above 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, noting that it will be "patient in beginning to normalize the stance of monetary policy."

## **Virginia Economy**

In late March, the Virginia Employment Commission will release re-benchmarked employment data for calendar years 2013 and 2014, 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 (preliminary – based on estimated January employment) rose 0.1 percent in January after falling less than 0.1 percent in December. The U.S. leading index, initial claims, future employment, and building permits improved in January, while auto registrations fell. The indexes for Roanoke, Richmond, Hampton Roads, Lynchburg, Charlottesville, Danville, and Blacksburg advanced, while the index for Winchester declined in January. The indexes for Northern Virginia, Bristol, and Harrisonburg were unchanged.

## February Revenue Collections

Total general fund revenue collections rose 21.7 percent in February, with the timing of individual income tax refunds accounting for the surge in growth. On a fiscal year-to-date basis, total revenue collections rose 6.6 percent, well ahead of the annual forecast of 4.7 percent growth. Adjusting for the accelerated sales tax program and the 0.1 percent sales tax transfer to transportation required by the provisions of HB 2313, total revenues rose 6.5 percent through February, ahead of the adjusted forecast of 4.5 percent growth.

**Net Individual Income Tax (69% of general fund revenues):** Through February, collections of net individual income tax rose 7.1 percent from the same period last year, ahead of the revised annual estimate of 5.0 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 rose 3.5 percent in February. Year-to-date, withholding collections are 4.2 percent ahead of the same period last year, leading the revised annual estimate of 4.0 percent growth.

**Individual Income Tax Nonwithholding (16% of general fund revenues):** February is not a significant month for collections in this source. Receipts were \$45.5 million compared with \$55.4 million in February of last year. Year-to-date collections through February rose by 19.9 percent, ahead of the estimate of a 7.9 percent increase.

**Individual Income Tax Refunds:** The Department of Taxation issued \$374.0 million in refunds in February compared with \$460.8 million last year, an 18.8 percent decline. The filing season opened earlier this year than last year so some of the refund activity that occurred in February 2014 occurred in January this year. For the January-February period, TAX issued about 1 million refunds, the same amount as last January-February. The average refund size for the filing season is down 3.0 percent. Fiscal year-to-date, refunds have declined 2.5 percent, trailing the annual estimate of 3.2 percent growth.

**Sales Tax (19% of general fund revenues):** Collections of sales and use taxes, reflecting January sales, rose 4.2 percent in February. February receipts include January post-holiday sales and gift card purchases, completing the holiday shopping season.

On a year-to-date basis, collections have risen 4.4 percent, close to the annual estimate of 4.9 percent growth. Adjusting for the partial repeal of the accelerated sales tax program and the 0.1 percent sales tax transfer to transportation required by HB 2313, sales tax collections have grown by 3.9 percent year-to-date, matching the economic-base forecast.

**Corporate Income Tax (5% of general fund revenues):** February is not a significant month for collections in this source. Collections of corporate income taxes were \$18.0 million in February, compared with receipts of \$9.2 million a year ago. Year-to-date collections have grown 20.3 percent from the same period last year, far ahead of the annual estimate of an 11.0 percent increase.

**Wills, Suits, Deeds, Contracts (2% of general fund revenues):** Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$21.4 million in February, compared with \$16.7 million in February of last year for growth of 27.8 percent. After 13 consecutive months of negative growth, collections in this source have increased in five of the last six months. On a year-to-date basis, collections are up 2.8 percent, ahead of the annual forecast of 2.4 percent growth.

**Insurance Premiums (2% of general fund revenues):** Chapter 896 of the 2007 Acts of the Assembly required that \$150.4 million of collections in this source be transferred to the Transportation Trust Fund in fiscal year 2015 before making any deposits to the general fund. The required transfer was completed during December.

Collections in this source were \$11.2 million compared with a negative \$30.3 million in February of last year. Refunds were issued in January this year, while last year they were issued in February. Year-to-date collections through February are \$67.1 million, compared with \$62.2 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)	-33.0%	-16.3%
ABC Taxes (1% GF revenues)	3.7%	2.6%

**All Other Revenue (2% of general fund revenues):** Receipts in All Other Revenue rose 2.5 percent in February, \$30.9 million compared with \$30.2 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 4.0 percent from the same period last year, ahead of the annual estimate of a 5.5 percent decline.

**Summary**

February is not typically a significant month for revenue collections. Total general fund revenue collections rose 21.7 percent in February. On a fiscal year-to-date basis, total revenue collections rose 6.6 percent, well ahead of the annual forecast of 4.7 percent growth contained in HB 1400 as enrolled. Adjusting for the accelerated sales tax program and the 0.1 percent sales tax transfer to transportation required by the provisions of HB 2313, total revenues rose 6.5 percent through February, ahead of the adjusted forecast of 4.5 percent growth.