



COMMONWEALTH of VIRGINIA

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March 11, 2021

MEMORANDUM

TO: The Honorable Ralph S. Northam

THROUGH: The Honorable Clark Mercer

FROM: Aubrey L. Layne, Jr.

SUBJECT: February Revenue Report

This month's revenue report incorporates the revised mid-session general fund revenue forecast released on February 15, 2021. Under the mid-session revised forecast, general fund revenues are expected to increase 3.0 percent in fiscal year 2021. This compares to 1.2 percent in the forecast used with the proposed budget (HB/SB1800) introduced on December 16, 2020.

February is not a significant month for revenue collections. Total general fund revenues grew 28.5 percent in February, as fewer refunds were issued in February of this year due to the delayed start to the filing season. In addition, collections in individual withholding, sales, and recordation taxes posted solid gains for the month. On a fiscal year-to-date basis, total revenue collections rose 8.0 percent through February, ahead of the revised annual forecast of 3.0 percent growth.

National Economic Indicators

The economy's prospects remain closely tied to COVID-19.

- According to the second estimate, real GDP rose at an annualized rate of 4.1 percent in the fourth quarter of 2020, following 33.4 percent in the third quarter. The annual decline of 2.4 percent in 2020 was close to the worst downturn in postwar history which was 2.5 percent set in 2009.
- The labor market improved in February, adding 379,000 jobs to payrolls. Gains in the retail and leisure/hospitality sectors drove the gain. The January gain was revised up from 49,000 to 166,000 jobs. In a separate report, the unemployment rate fell from 6.3 to 6.2 percent.

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- Initial claims for unemployment rose from 736,000 to 745,000 during the week ending February 27. The four-week moving average fell from 807,500 to 790,750. The level of claims remains extremely high.
- The Conference Board's index of leading indicators rose 0.5 percent in January to 110.3 following increases of 0.4 percent in December and 0.9 percent in November.
- The Conference Board's index of consumer confidence rose from 88.9 to 91.3 in February. The current conditions component improved while the expectations component decreased for the month.
- The Institute of Supply Management index rose from 58.7 to 60.8 in February. The index has remained above the neutral threshold of 50.0 every month since June.
- The CPI rose 0.3 percent in January and stands 1.4 percent above a year ago. Core inflation (excluding food and energy prices) was unchanged and stands 1.4 percent above January of last year.
- At its January meeting, the Federal Reserve left the federal funds target rate unchanged at the range of 0.0 to 0.25 percent.

Virginia Economy

In late March, the Virginia Employment Commission will release re-benchmarked employment data for calendar years 2019 and 2020, so January data are not yet available. A brief review of the revision will be included in the March revenue letter if the data is released as scheduled.

The Virginia Leading Index rose 0.6 percent in January after rising 1.1 percent in December. All four components -- the U.S. Leading index, future employment, initial claims for unemployment, and auto registrations -- improved for the month. The indexes for all eleven metro areas increased in December.

February Revenue Collections

February is not a significant month for revenue collections. Total general fund revenues grew 28.5 percent in February, as fewer refunds were issued in February of this year due to the delayed start to the filing season. In addition, collections in individual withholding, sales, and recordation taxes posted solid gains for the month. On a fiscal year-to-date basis, total revenue collections rose 8.0 percent through February, ahead of the revised annual forecast of 3.0 percent growth.

Net Individual Income Tax (69% of general fund revenues): Through February, collections of net individual income tax rose 6.5 percent from the same period last year, ahead of the annual estimate of 1.0 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (61% of general fund revenues): Collections of payroll withholding taxes rose 6.4 percent for the month. Year-to-date, collections have risen 1.1 percent from the same period last year, behind the annual estimate of 2.7 percent growth.

Individual Income Tax Nonwithholding (18% of general fund revenues): February is not a significant month for collections in this source. Collections in nonwithholding were \$73.7 million compared with \$62.8 million in February of last year, an increase of 17.3 percent. Year-to-date, collections grew by 28.0 percent, ahead of the annual estimate of a 4.4 percent increase.

Individual Income Tax Refunds: In February, the Department of Taxation issued \$217.0 million in refunds compared with \$427.3 million in February of last year, a 49.2 percent decrease. A later opening in the filing season compared with last year resulted in only 486,000 refunds issued compared with 941,000 last year.

Sales Tax (17% of general fund revenues): Collections of sales and use taxes, reflecting January sales, rose 8.6 percent in February. On a year-to-date basis, collections of sales and use taxes have risen 6.7 percent, ahead of the annual estimate of a 4.8 percent increase.

Corporate Income Tax (6% of general fund revenues): Collections of corporate income taxes were \$15.4 million in February, compared with receipts of \$17.3 million in February of last year. On a year-to-date basis, collections have increased 37.6 percent compared with the forecast of 27.4 percent growth.

Wills, Suits, Deeds, Contracts (3% of general fund revenues): As refinancing and low interest rates continue to spur the housing market, collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$44.8 million in February, compared with \$30.7 million in February of last year, an increase of 45.9 percent. On a year-to-date basis, collections are up 38.3 percent, ahead of the annual forecast of 24.4 percent growth.

Insurance Premiums (1% of general fund revenues): Chapter 986, 2007 Acts of the Assembly required that \$181.4 million of collections in this source be transferred to the Transportation Trust Fund in fiscal year 2021 before making any deposits to the general fund. The required transfer was completed in December.

Year-to-date collections of taxes on insurance premiums were \$59.4 million through February, compared with \$57.5 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 (0.4% GF revenues)	-31.9%	-19.7%
ABC Taxes (1% GF revenues)	10.8%	2.7%

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All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue rose 0.5 percent in February, \$29.1 million compared with \$29.0 million a year ago. On a year-to-date basis, collections of All Other Revenue fell 5.7 percent from the same period last year, trailing the annual estimate of a 4.1 percent decline.

Summary

Total general fund revenues grew 28.5 percent in February, as fewer refunds were issued in February of this year due to the delayed start to the filing season. In addition, collections in individual withholding, sales, and recordation taxes posted solid gains for the month. On a fiscal year-to-date basis, total revenue collections rose 8.0 percent through February, ahead of the revised annual forecast of 3.0 percent growth.

The Commonwealth continues to monitor COVID-19 and its potential impact on general fund revenue collections.