COMMONWEALTH of VIRGINIA

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MEMORANDUM

TO: The Honorable Glenn Youngkin

THROUGH: The Honorable John Littel

FROM: Stephen E. Cummings

SUBJECT: February Revenue Report

For the month of February, total general fund revenues grew by 12.6 percent ($208.2 million) versus the same period last year. Most revenue sources were higher year-over-year. February is typically not a significant month for revenue collections, consisting mainly of regular payroll withholding and sales and use taxes.

Year-to-date, general fund revenues are up 6.6 percent ($1,166.3 million) year-over-year through the first eight months of Fiscal Year 2025. The strength in year-over-year growth is driven primarily by individual income tax receipts, while other sources, including sales and use tax, recordation tax, interest income and insurance premiums license tax have also contributed meaningfully to growth.

Compared to the revenue forecast assumed in the Governor's proposed Fiscal Year 2025 budget and accounting for monthly variations in tax collections, year-to-date total general fund revenues are ahead of projections by 1.0 percent ($187.2 million). Year-to-date revenues for net individual income, sales and corporate income taxes, which represent 92 percent of year-to-date revenues, are on target (+0.2 percent to forecast). The positive variance in year-to-date revenues versus projections is primarily attributable to insurance premiums license taxes; will, suits, and deeds (predominantly recordation taxes); interest income; and other sources of revenues. Based upon the strong growth fiscal year-to-date, revenues need only grow 0.3 percent the remainder of the fiscal year to meet the Fiscal Year 2025 forecast.

The strongest driver of revenue growth is in payroll withholding which grew 14.2 percent ($194.6 million) for the month and is up 7.1 percent ($776.0 million) year-to-date. Nonwithholding decreased 25.1 percent ($49.2 million) in February versus last year but is up 10.9 percent ($314.5 million) year-to-date. Net corporate income tax collections were higher year-over-year in February by$25.8 million. On a year-to-date basis, net corporate income tax revenues are lower by 7.8 percent ($80.1 million). Sales tax revenues, reflecting January sales, were up 6.2 percent in February ($20.4 million) and are up 2.5 percent ($77.6 million) year-to-date.

Economic Review

- Real GDP increased at an annual rate of 2.3 percent in the fourth quarter of 2024 following an increase of 3.1 percent in the third quarter, but advanced estimates from various professional forecasters of first quarter GDP vary from a contraction of 2.4 percent to an expansion of 2.7 percent.

- U.S. employment continued to grow in February, adding 151,000 jobs according to the Bureau of Labor Statistics. Private sector payrolls rose in most industries, led by Education & Health Services (+73,000), Trade, Transportation & Utilities (+21,000), and Financial Services (+21,000). The greatest loss came from Leisure & Hospitality (-16,000). Federal government employment declined by 10,000.

- The Trump administration is implementing a plan to reduce the size of the federal workforce. While a number of actions have been taken or announced, there are no specific details available regarding the number of jobs impacted, the timing of the reductions or their location. The details of these plans are expected to be available in the near future.

- In January, Virginia employment, from the monthly establishment survey increased by 7,100 and was 1.8 percent higher than in January 2024. Virginia's labor force participation rate remained steady at a downwardly revised 65.8 percent since October. State employment and unemployment reports for February will be released on Friday, March 28.

- Unemployment remains stable. Nationally the U.S. unemployment rate ticked up to 4.1 percent in February (+0.1 percentage point), and in Virginia, the unemployment rate ticked up to 3.0 percent (+0.1 percentage point) in January from a downwardly revised 2.9 percent in December.

- Inflation ticked down in February. The Consumer Price Index (CPI) decreased slightly to 2.8 percent year-over-year growth, down from the 3.0 percent reported in January, and lower than the 3.2 percent reading from February of last year. The twelve-month change in "core" CPI, which excludes food and energy, decreased to 3.1 percent (-0.2 percentage point). The Federal Reserve's preferred inflation measure, the Personal Consumption Expenditures price index declined slightly from 2.6 percent to 2.5 percent in January, while the "core" PCE index, ticked down to 2.6 percent from the upwardly adjusted 2.9 percent measured in December.

- At its January meeting, the Federal Reserve left the target for the federal funds rate unchanged at 4.25 to 4.5 percent, as expected. The next meeting of the FOMC is scheduled for March 19th where the federal funds target is expected to remain unchanged.

- Retail sales continued to grow at a healthy pace in January. According to the U.S. Census Bureau, year-over-year growth dipped slightly from a gain of 4.4 percent in December to a still strong gain of 4.2 percent in January. The University of Michigan consumer sentiment index retreated to 64.1, according to the February reading, which marks its lowest point since November 2023.

February Revenue Collections

General fund revenues increased 12.6 percent ($208.2 million) for the month of February. Fiscal year-to-date through February 28, general fund revenues are up 6.6 percent ($1,166.3 million) over the prior year.

Net Individual Income Tax (70% of general fund revenues): Revenues increased by 11.5 percent ($124.0 million) for the month compared to last year. Year-to-date net individual income tax collections are up 8.5 percent ($1,029.8 million). Compared to the forecast assumed in the proposed budget, year-to-date net individual income tax collections are adhering very close to projections, ahead by 0.1 percent ($16.6 million).

Performance in each component of individual income tax is as follows:

> ***Individual Income Tax Withholding (57% of general fund revenues)***: Collections of payroll withholding taxes were 14.2 percent ($194.6 million) higher for the month compared to last February. Fiscal-year-to-date collections are 7.1 percent ($776.0 million) higher than the same period last year. Compared to the forecast assumed in the proposed budget, withholding revenues are ahead 1.4 percent ($156.7 million) year-to-date. Payroll withholding revenue is the main driver of general fund growth both year-over-year for February as well as year-to-date.
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> ***Individual Income Tax Nonwithholding (22% of general fund revenues)***: February is not a significant collections month. Collections decreased by 25.1 percent ($49.2 million) but are up 10.9 percent ($314.5 million) on a year-to-date basis. Through February, nonwithholding receipts are 1.8 percent ($55.8 million) ahead of forecast.
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> ***Individual Income Tax Refunds (-9% of general fund revenues)***: February marks the beginning of the refund season. Refunds issued grew 4.4 percent ($21.4 million) year-over-year during the month. Through February, the total amount of refunds issued has increased 3.6 percent ($60.7 million) compared to the same period last year. The primary driver of the recent increase was a slight increase in the average refund size.

Sales Tax (16% of general fund revenues): Collections of sales and use taxes, reflecting January sales, grew 6.2 percent ($20.4 million) in February and are up 2.5 percent ($77.6 million) year-to-date. Fiscal-year-to-date, sales and use tax revenues are 0.6 percent ($20.1 million) ahead of projections.

Corporate Income Tax (6% of general fund revenues): February is not a significant month for this source. The month includes refund issuances and few estimated payments due from corporate taxpayers. February net revenues, including refunds, increased $25.8 million year-over-year, while year-to-date, collections are down 7.8 percent ($80.1 million). Compared to the forecast, net corporate income tax collections are 1.1 percent ($10.1 million) behind projections year-to-date.

Wills, Suits, Deeds, Contracts (1% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were 0.8 percent ($0.2 million) higher in February compared to the previous year. On a fiscal-year-to-date basis, collections are up 19.2 percent ($48.5 million). Compared to the forecast, collections in this source are ahead by 7.7 percent ($21.5 million) year-to-date.

Insurance Premiums (2% of general fund revenues): Year-to-date through February, general fund receipts total $183.5 million. Year-to-date collections are ahead 74.7 percent ($78.5 million) compared to the forecast due mainly to the timing of refund issuances. This variance is expected to diminish in the coming months as refunds are issued from this source.

Other Revenue Sources

The following provides growth data on collections through February for other revenue sources:

	Year-to-Date	Annual Estimate
Interest Income (2% GF revenues)	-2.6%	-11.8%
ABC Taxes (1% GF revenues)	-1.8%	0.1%

Interest income earnings totaled $538.8 million through February compared to $553.2 million for the same period of the prior fiscal year. Interest is earned monthly in the general fund and credited to nongeneral funds on a quarterly basis in October, January, April, and June. Despite the year-to-date decline of 2.6 percent compared to last year, interest income is higher than projected by 4.8 percent ($24.6 million).

All Other Revenue (2% of general fund revenues): On a year-to-date basis, collections of All Other Revenue increased by 14.9 percent ($52.7 million) to $407.1 million fiscal year-to-date compared with $354.4 million for the same period last year.

Summary

Through February, collections are up 6.6 percent ($1,166.3 million) compared to last year; withholding drove 66.5 percent ($776.0 million) of this growth. General fund revenues are running slightly ahead of projections assumed in the Governor's proposed Fiscal Year 2025 budget. Net individual income, sales and corporate income tax collections are all closely aligned with expectations year-to-date, while interest income, insurance premiums license tax, and recordation tax collections are outperforming projections. Individual income tax refunds were greater than expected in February, driven by an increase in the average refund size.

The U.S. and Virginia economies continue to grow at a pace consistent with our forecast. Current data show strength in the labor market, though headwinds in the form of layoffs and softening consumer sentiment are on the horizon. Overall economic conditions and revenue collections to date are generally in line with expectations, providing confidence in our forecast for the fiscal year.