



COMMONWEALTH of VIRGINIA
Office of the Governor

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MEMORANDUM

TO: The Honorable Robert F. McDonnell

THROUGH: The Honorable Martin Kent

FROM: Richard D. Brown 

SUBJECT: March Revenue Data

March is not typically a significant month for revenue collections. Collections consist mainly of withholding and sales tax revenues, as well as the normal collections for most minor sources. Final payments from insurance companies for tax year 2011 are due in March. In addition, March collections typically include the leading edge of payments from corporations and individuals which are due April 17 and May 1.

Total general fund revenue collections rose 7.6 percent in March. Lower payments of individual refunds and strong sales and corporate income taxes drove the growth. Recordation tax receipts also contributed to the increase. On a year-to-date basis, total revenue collections rose 5.3 percent through March, ahead of the annual forecast of 4.6 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 4.9 percent through March, close to the adjusted forecast of 4.7 percent growth.

National Economic Indicators

Most national economic indicators suggest the modest expansion will continue, although geopolitical tensions in the Mideast and rising gasoline prices continue to dampen growth.

- According to the final estimate, real GDP grew at an annualized rate of 3.0 percent in the fourth quarter of 2011, up from growth of 1.8 percent in the third quarter and 1.3 percent in the second quarter.

- Labor market conditions weakened in March. Employers added 120,000 jobs, far below expectations. Unusually warm weather in January and February may have shifted some hiring into those two months. For the first three months of the year, job gains averaged 212,000. In a separate report, the unemployment rate fell from 8.3 percent to 8.2 percent in March, largely due to a contraction in the labor force.
- Initial claims for unemployment fell by 6,000 to 357,000 during the week ending March 31, while the four-week moving average fell from 366,000 to 361,750. The level of initial claims is consistent with a healthy labor market.
- The Conference Board's index of leading indicators rose 0.7 percent in February, its fifth consecutive monthly gain. The rise in the index suggests the recovery is gaining momentum.
- The Conference Board's index of consumer confidence fell by 1.4 points to 70.2 in March. Although the present situation component rose in March with the improving labor market, the expectations component declined amid fear of rising gas prices and the outlook for inflation.
- Conditions in the manufacturing sector improved in March as the Institute of Supply Management index rose from 52.4 to 53.4, its 32nd month of expansion.
- The CPI rose 0.4 percent in February and stands 2.9 percent above February 2011, with most of the increase due to rising gas prices. Core inflation (excluding food and energy prices) rose 0.1 percent, and has increased 2.2 percent from February 2011.
- The Federal Reserve announced at its March meeting that it will keep the federal funds rate target unchanged at 0.0 to 0.25 percent, stating that economic conditions "are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014."

Virginia Economy

The Virginia Employment Commission released re-benchmarked employment data for calendar years 2010 and 2011. As expected, the data were revised upward. With the revision, payroll employment grew 1.0 percent in Virginia over fiscal year 2011 and the first half of fiscal year 2012, compared with 0.5 percent growth in the previously reported data. Following are the revised growth rates in the major metro areas over the first six months of the fiscal year, with the previously reported growth in parentheses: Northern Virginia rose 1.7 percent (+0.6 percent); Hampton Roads grew 0.2 percent (-0.4 percent); and Richmond-Petersburg rose 1.2 percent (-0.9 percent).

The revised seasonally adjusted data show that the Commonwealth lost about 186,100 jobs during the recession and has regained about 116,500 or 63 percent of those jobs since hitting a trough in February 2010.

In February, the most recent month available, Virginia employment rose 1.0 percent from February of last year. Northern Virginia posted growth of 1.4 percent; Hampton Roads rose 0.3 percent; and Richmond-Petersburg rose 1.7 percent. The unemployment rate in the Commonwealth rose 0.1 percentage point to 6.1 percent in February.

The Virginia Leading Index rose 0.8 percent in February after increasing 0.6 percent in January. All components except auto registrations improved in February. The Leading Index rose in six of the eleven major metro areas in the Commonwealth. The indexes for Bristol, Charlottesville, Danville, Lynchburg and Roanoke posted modest decreases.

March Revenue Collections

March is not typically a significant month for revenue collections. Total general fund revenue collections rose 7.6 percent in March. Lower payments of individual refunds and strong growth in sales and corporate income tax drove the increase. On a year-to-date basis, total revenue collections rose 5.3 percent through March, ahead of the annual forecast of 4.6 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 4.9 percent through March, close to the adjusted forecast of 4.7 percent growth.

Net Individual Income Tax (67% of general fund revenues): Through March, collections of net individual income tax rose 6.0 percent from the same period last year, very close to the annual estimate of 5.9 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (64% of general fund revenues): Collections of payroll withholding taxes fell 5.0 percent in March. March had one less deposit day than March of last year, and one less Wednesday. Wednesday is usually the largest payroll withholding day of the week and last year March had five Wednesdays. This year, the leap year pushed an extra Wednesday into February instead of March. Year-to-date, withholding collections grew 3.4 percent compared with the same period last year, slightly trailing the projected annual growth rate of 3.8 percent.

Individual Income Tax Nonwithholding (16% of general fund revenues): March is not typically a significant month for collections in this source. A total of \$118.0 million was collected in March, compared with \$111.4 million in March of last year. Year-to-date, nonwithholding collections rose 11.4 percent over the same period last year, trailing the annual estimate of 12.6 percent growth. The majority of the remaining collections in nonwithholding will occur in April and May, with both final payments for tax year 2011 and estimated payments for the current year due May 1.

Individual Income Tax Refunds: TAX issued \$344.1 million in refunds in March compared with \$419.7 million last year. Year-to-date, refunds have fallen 6.1 percent, compared with the annual estimate of a 3.0 percent increase.

Since the filing season began in January, TAX has issued about 1.6 million refunds, about the same number as last year. The average size of these refunds is six percent lower than last year.

Sales Tax (19% of general fund revenues): Collections of sales and use taxes, reflecting February sales, rose 11.1 percent in March. On a year-to-date basis, collections have risen 5.7 percent, compared with the annual estimate of 1.8 percent growth. The strong year-to-date growth is due to the partial repeal of the accelerated sales tax program, which ended the participation of numerous small dealers. Adjusting for this legislation, sales tax collections have grown by 4.0 percent year-to-date, ahead of the economic-base forecast of 2.5 percent growth.

Corporate Income Tax (5% of general fund revenues): March is not generally a significant month for collections in this source. Collections of corporate income taxes were \$96.8 million in March, compared with \$83.2 million last March. Year-to-date collections in this source have risen 4.8 percent, ahead of the annual estimate of a 0.7 percent increase.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$28.1 million in March, compared with \$22.4 million in March of last year. On a year-to-date basis, collections are up 7.2 percent, lagging the annual forecast of 10.8 percent growth.

Insurance Premiums (2% of general fund revenues): Final payments from insurance companies for tax year 2011 were due in March. Collections in this source were \$16.0 million in March compared with \$17.3 million in March of last year. For the fiscal year-to-date, net insurance premiums tax collections are \$41.2 million compared with \$71.2 million during the same period last year. The difference is a result of smaller estimated payments received in September and December. The slow commercial real estate market and lower business and housing valuations are likely dampening premium growth.

Other Revenue Sources

The following list provides data on March collections for other revenue sources:

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (1% GF revenues)	-6.7%	1.1%
ABC Taxes (1% GF revenues)	4.5%	1.0%

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue rose 9.1 percent in March – \$32.5 million compared with \$29.8 million last March. On a year-to-date basis, collections of All Other Revenue fell 0.9 percent, trailing the annual estimate of a 0.3 percent decline.

Summary

March is not typically a significant month for revenue collections. Collections consist mainly of withholding and sales tax revenues as well as the normal collections for most minor sources. Final payments from insurance companies for tax year 2011 are due in March. In addition, March collections typically include the leading edge of payments from corporations and individuals which are due April 17 and May 1.

Total general fund revenue collections rose 7.6 percent in March, driven by lower payments of individual refunds and strong growth in sales and corporate income taxes. Recordation tax receipts also contributed to the increase. On a year-to-date basis, total revenue collections rose 5.3 percent through March, ahead of the annual forecast of 4.6 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 4.9 percent through March, close to the adjusted forecast of 4.7 percent growth.

The last three months of the fiscal year, particularly April and May, are significant collections months. Estimated and final payments from both corporations and individuals are due in April and May, and estimated payments are again due in June. Fiscal year 2012 fourth quarter collections must total \$5.0 billion to attain the forecast. Last year, fourth quarter collections were \$4.8 billion.