



COMMONWEALTH of VIRGINIA

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PO Box 1475
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MEMORANDUM

TO: The Honorable Terence R. McAuliffe

THROUGH: The Honorable Paul Reagan

FROM: Richard D. Brown 

SUBJECT: March Revenue Data

March is not generally 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 2014 are due in March. In addition, March collections typically include the leading edge of payments from corporations and individuals which are due April 15 and May 1, respectively. Therefore, the timing of these final payments, along with the timing of refunds in both sources, can distort monthly growth rates.

Total general fund revenue collections rose 11.8 percent in March. Receipts of individual withholding and nonwithholding taxes drove the gain. On a fiscal year-to-date basis, total revenue collections rose 7.1 percent in March, 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 the 2013 transportation legislation (HB 2313), total revenues rose 7.0 percent through March, ahead of the forecast of 4.5 percent growth.

National Economic Indicators

Although growth slowed over the winter months, most recent national indicators suggest that strong underlying fundamentals in the U.S. economy will lead to accelerating growth over the coming year.

- According to the third estimate, real GDP grew at 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.

- Gains in the labor market slowed in March. Payroll employment rose by just 126,000 jobs, breaking the 12-month string of gains exceeding 200,000. In a separate report, the unemployment rate remained at 5.5 percent in March.
- Initial claims for unemployment fell by 20,000 to 268,000 during the week ending March 28, the third decline in the last four weeks. The four-week moving average fell by 14,250 to 285,500.
- With seven of the ten components increasing, the Conference Board's index of leading indicators rose 0.2 percent in February following a 0.2 percent increase in January. The rise in the index is consistent with accelerating economic growth.
- The Conference Board's index of consumer confidence rose by 2.5 points to 101.3 in March. The expectations component drove the increase, while the current conditions component declined.
- Activity in the manufacturing sector slowed further in March, with the Institute of Supply Management index falling from 52.9 to 51.5, the fifth consecutive decline. Still, the index remains above the expansionary threshold of 50.0.
- Inflation, as measured by the CPI, rose 0.2 percent in February and stands 0.1 percent below February 2014, marking the second consecutive negative year-over-year reading. Core inflation (excluding food and energy prices) increased 0.2 percent in February and stands 1.7 percent above a year ago.
- The Federal Reserve announced at its March meeting that it will keep the federal funds target rate at 0.0 to 0.25 percent, noting that economic conditions may for some time "warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run."

Virginia Economy

The Virginia Employment Commission released re-benchmarked employment data for calendar years 2013 and 2014, and the revisions were quite small. Payroll employment growth of 0.3 percent in fiscal year 2014 was unchanged with the revision. For the first half of fiscal year 2015, growth of 0.5 percent in the previously reported data was revised up to 0.6 percent. 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 0.4 percent (0.5 percent); Hampton Roads grew 0.2 percent (0.7 percent); and Richmond-Petersburg rose 1.6 percent (1.9 percent).

In February, the most recent month available, Virginia employment rose 1.1 percent from February of last year. Northern Virginia posted growth of 1.3 percent, Hampton Roads grew 0.7 percent, and Richmond-Petersburg rose 1.8 percent. The seasonally adjusted unemployment rate was unchanged at 4.7 percent in February.

The Virginia Leading Index fell 0.4 percent in February after rising 0.2 percent in January. The U.S. leading index, initial claims, and future employment increased in February while building

permits and auto registrations fell. The indexes for Northern Virginia, Roanoke, Richmond, Hampton Roads, Lynchburg, Charlottesville, Harrisonburg, Bristol, and Blacksburg declined, while the index for Winchester advanced in February.

March Revenue Collections

Total general fund revenue collections rose 11.8 percent in March. Receipts of individual withholding and nonwithholding drove the gain. On a fiscal year-to-date basis, total revenue collections rose 7.1 percent in March, 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 as required by the provisions of the 2013 transportation legislation (HB 2313), total revenues rose 7.0 percent through March, ahead of the forecast of 4.5 percent growth.

Net Individual Income Tax (69% of general fund revenues): Through March, collections of net individual income tax rose 8.0 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) With an additional deposit day compared with last year, collections of payroll withholding taxes rose 10.3 percent in March. Year-to-date, withholding collections are 4.9 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): March is not a significant month for collections in this source. Receipts were \$151.1 million compared with \$124.3 million in March of last year. Year-to-date collections through March rose by 20.1 percent, well ahead of the estimate of a 7.9 percent increase.

Individual Income Tax Refunds: The Department of Taxation issued \$330.3 million in refunds in March compared with \$336.4 million last year, a 1.8 percent decline.

Since the filing season began on January 1, TAX issued about 1.6 million refunds, the same amount as last January-March. The average refund size for the filing season is down 3.0 percent. Fiscal year-to-date, refunds have declined 2.3 percent, trailing the annual estimate of 3.2 percent growth.

Sales Tax (19% of general fund revenues): As harsh winter weather dampened retail sales, collections of sales and use taxes, reflecting February sales, rose only 0.8 percent in March. On a year-to-date basis, collections have risen 4.0 percent, trailing 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 the 2013 transportation legislation (HB 2313), sales tax collections have grown by 3.8 percent year-to-date, close to the economic-base forecast of 3.9 percent.

Corporate Income Tax (5% of general fund revenues): March is not typically a significant month for collections in this source. Most of the activity in March is from companies making final tax year 2014 payments ahead of the April 15 due date. Collections of corporate income taxes were \$86.9 million in March, compared with receipts of \$75.0 million a year ago. Year-to-

date collections have grown 19.5 percent from the same period last year, far ahead of the annual estimate of an 11.0 percent increase. Next month's collections will provide a clearer picture of trends in this source as final payments for tax year 2014 are received.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$31.6 million in March, compared with \$23.0 million in March of last year for growth of 37.5 percent. After 13 consecutive months of negative growth, collections in this source have increased in six of the last seven months. On a year-to-date basis, collections are up 6.3 percent, ahead of the annual forecast of 2.4 percent growth.

Insurance Premiums (2% of general fund revenues): Final payments from insurance companies for tax year 2014 were due in March. Collections in this source were \$13.7 million compared with \$31.6 million in March of last year. Year-to-date collections through March are \$80.8 million, compared with \$93.7 million in the same period last year, a 13.8 percent decline.

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 (0.5% GF revenues)	-30.1%	-16.3%
<i>ABC Taxes (1% GF revenues)</i>	3.5%	2.6%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue fell 4.8 percent in March, \$32.4 million compared with \$34.0 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 2.9 percent from the same period last year, ahead of the annual estimate of a 5.5 percent decline.

Summary

Total general fund revenue collections rose 11.8 percent in March. On a fiscal year-to-date basis, total revenue collections rose 7.1 percent in March, ahead of the annual forecast of 4.7 percent growth. The last three months of the fiscal year are significant collections months. In addition to estimated and final payments from both corporations and individuals due in April and May, estimated payments are again due in June. Fiscal year 2015 fourth quarter collections must total \$5.1 billion to attain the forecast, about the same amount collected in the fourth quarter of last year.