



COMMONWEALTH of VIRGINIA

Richard D. Brown
Secretary of Finance

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MEMORANDUM

TO: The Honorable Terence R. McAuliffe

THROUGH: The Honorable Paul Reagan

FROM: Richard D. Brown 

SUBJECT: March Revenue Data

Collections of revenue in March consist mainly of withholding and sales tax revenues, as well as the normal collections for the other sources. Final payments from insurance companies for tax year 2015 were 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 7.5 percent in March. Receipts of individual withholding, sales and corporate taxes drove the gain. On a fiscal year-to-date basis, total revenue collections rose 2.7 percent in March, trailing the annual forecast of 3.2 percent growth. Adjusting for the accelerated sales tax program, total revenues rose 3.1 percent through March, close to the forecast.

National Economic Indicators

Most current national indicators suggest the economic expansion should continue.

- According to the third estimate, real GDP rose at an annualized rate of 1.4 percent in the fourth quarter of 2015, following a 2.0 percent increase in the third quarter.
- The labor market continues to improve. Payroll employment rose by 215,000 jobs in March, above expectations. In a separate report, the unemployment rate rose from 4.9 to 5.0 percent in March, as the labor force participation rate increased.

- Initial claims for unemployment declined by 9,000 to 267,000 during the week ending April 2. The four-week moving average increased by 3,500 to 266,750. The level of claims is consistent with an improving labor market.
- The Conference Board's index of leading indicators rose 0.1 percent in February, the first increase in three months. Four of the ten components increased in February.
- The Conference Board's index of consumer confidence rose from 94.0 to 96.2 in March. The expectations component drove the increase while the present conditions component declined for the month.
- Activity in the manufacturing sector improved in March. The Institute of Supply Management index rose to 51.8, its third consecutive increase, and rose above the expansionary threshold of 50.0 for the first time since August 2015.
- The CPI fell 0.2 percent in February and stands 1.0 percent above February 2015. Core inflation (excluding food and energy prices) increased 0.3 percent in February and is 2.3 percent above a year ago.
- At its March meeting, the Federal Reserve announced that it is maintaining the federal funds target rate at the range of 0.25 to 0.5 percent.

Virginia Economy

The Virginia Employment Commission released re-benchmarked employment data for calendar years 2014 and 2015. The revisions were quite small for fiscal year 2015, but substantially stronger for the first half of fiscal year 2016, particularly in the Richmond-Petersburg MSA. Statewide payroll employment growth of 0.8 percent in fiscal year 2015 was increased to 1.1 percent with the revision. For the first half of fiscal year 2016, however, growth of 1.2 percent in the previously reported data was revised up to 2.3 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 2.2 percent (2.2 percent); Hampton Roads grew 1.2 percent (1.0 percent); and Richmond-Petersburg rose 3.6 percent (0.4 percent).

In February, the most recent month available, Virginia employment rose 2.5 percent from February of last year. Northern Virginia also posted growth of 2.5 percent; Hampton Roads grew 0.4 percent; and Richmond-Petersburg rose 4.3 percent. The seasonally adjusted unemployment rate was unchanged at 4.1 percent in February and stands 3.3 percentage points below the peak of 7.4 percent in January and February of 2010.

The Virginia Leading Index declined 0.4 percent in February after rising 0.2 percent in January. Future employment, auto registrations, and the U.S. leading index improved in February, while initial claims for unemployment increased. On a regional basis, the indexes for Richmond and Charlottesville increased in February while the Hampton Roads index was unchanged. The indexes for the remaining eight MSAs declined in February.

March Revenue Collections

Total general fund revenue collections rose 7.5 percent in March. Receipts of individual withholding, sales and corporate taxes drove the gain. On a fiscal year-to-date basis, total revenue collections rose 2.7 percent in March, trailing the annual forecast of 3.2 percent growth. Adjusting for the accelerated sales tax program, total revenues rose 3.1 percent through March, close to the forecast.

Net Individual Income Tax (70% of general fund revenues): Through March, collections of net individual income taxes rose 3.5 percent from the same period last year, below the annual estimate of 4.0 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (63% of general fund revenues): With an extra deposit day compared with March of last year, collections of payroll withholding taxes grew 10.4 percent for the month. Year-to-date, withholding collections are 3.3 percent ahead of the same period last year, trailing the estimate of 4.1 percent growth.

Individual Income Tax Nonwithholding (17% of general fund revenues): March is not a significant month for collections in this source. Receipts were \$165.6 million in March compared with \$151.1 million in March of last year. Year-to-date, collections through March rose by 6.2 percent, ahead of the annual estimate of 1.9 percent growth.

Individual Income Tax Refunds: The Department of Taxation issued \$406.1 million in refunds in March compared with \$330.3 million last year, a 23.0 percent increase. Since the start of the filing period beginning January 1, TAX has issued 1.7 million refunds compared with 1.6 million through March of last year. The average check size is up 2.0 percent from the same period last year. Year-to-date, refunds have risen 5.8 percent, ahead of the annual estimate of 1.2 percent growth.

Sales Tax (18% of general fund revenues): Collections of sales and use taxes, reflecting February sales, rose 8.5 percent in March. On a year-to-date basis, collections have risen 1.6 percent, trailing the annual estimate of 4.1 percent growth. Adjusting for the accelerated sales tax program, sales tax collections have grown by 3.8 percent year-to-date, lagging the forecast.

Corporate Income Tax (4% of general fund revenues): March is not a significant month for collections in this source. Most of the activity in March is from companies making final tax year 2015 payments ahead of the April 15 due date. Collections of corporate income taxes were \$115.8 million in March, compared with receipts of \$86.9 million in March of last year.

Year-to-date collections have fallen 11.2 percent from the same period last year, compared with the annual estimate of a 13.1 percent decline. Next month's collections will provide a clearer picture of trends in this source as final payments for tax year 2015 and estimated payments for tax year 2016 are received.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation taxes – were \$30.5 million in March, compared with \$31.6

million in March of last year, a decline of 3.6 percent. On a year-to-date basis, collections are up 8.4 percent, close to the annual forecast of 10.6 percent growth.

Insurance Premiums (2% of general fund revenues): Collections in this source were \$18.2 million compared with \$13.7 million in March of last year. Year-to-date collections through March are \$95.6 million, compared with \$80.8 million last year, an increase of 18.3 percent.

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 (0.4% GF revenues)	7.8%	-5.5%
ABC Taxes (1% GF revenues)	4.3%	0.0%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue fell 8.0 percent in March, \$29.8 million compared with \$32.4 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 0.2 percent from the same period last year, ahead of the annual estimate of a 0.1 percent decline.

Summary

Total general fund revenue collections rose 7.5 percent in March. Receipts of individual withholding, sales and corporate taxes drove the gain. On a fiscal year-to-date basis, total revenue collections rose 2.7 percent in March, trailing the annual forecast of 3.2 percent growth. Adjusting for the accelerated sales tax program, total revenues rose 3.1 percent through March, close to the forecast. 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.