COMMONWEALTH of VIRGINIA

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P.O. Box 1475
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MEMORANDUM

TO: The Honorable Ralph S. Northam

THROUGH: The Honorable Clark Mercer

FROM: Aubrey L. Layne, Jr.

SUBJECT: March Revenue Report

March revenue collections consist mainly of withholding and sales tax receipts, as well as the normal collections for other sources. Final payments from insurance companies for tax year 2017 are also 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, 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 fell 3.5 percent in March. On a fiscal year-to-date basis, total revenue collections rose 5.2 percent through March, ahead of the annual forecast of 3.4 percent growth.

National Economic Indicators

Recent national indicators continue to depict a healthy economy.

- According to the final estimate, real GDP rose at an annualized rate of 2.9 percent in the fourth quarter of 2017, following 3.2 percent growth in the third quarter.

- Payroll employment rose by 103,000 jobs in March, below expectations. The February gain, however, was revised up from 313,000 to 326,000. The unemployment rate was unchanged at 4.1 percent.

- Initial claims for unemployment rose by 24,000 to 242,000 during the week ending March 31. The four-week moving average rose by 3,000 to 228,250. Despite the increase, claims remain near their lowest level since the early 1970s.

- The Conference Board's index of leading indicators rose 0.6 percent in February following a 0.8 percent increase in January, suggesting the economic expansion should continue.

- The Conference Board's index of consumer confidence fell 2.3 points to 127.7 in March, somewhat offsetting the strong gain in February. Both the expectations and present conditions components declined for the month.

- Conditions in the manufacturing sector slowed somewhat in March. The Institute of Supply Management index fell from 60.8 to 59.3, but remains in expansionary territory.

- The CPI rose 0.2 percent in February after a 0.5 percent increase in January. The index stands 2.3 percent above February 2017. Core inflation (excluding food and energy prices) rose by 0.2 percent, and is 1.9 percent above a year ago. Increases in both the CPI and core CPI were in line with consensus expectations.

- At its March meeting, the Federal Reserve raised the federal funds target rate range to 1.50 to 1.75 percent. They also signaled two more .25 percent rate hikes in calendar year 2018.

Virginia Economy

The Virginia Employment Commission released re-benchmarked employment data for calendar years 2016 and 2017. The revisions were quite small for fiscal year 2017, but substantially lower for the first half of fiscal year 2018. Statewide employment growth was 1.0 percent in fiscal year 2017, just 0.1 percentage point below previously reported growth, while growth in the first half of fiscal year 2018 was revised downward from 1.2 to 0.8 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 posted growth of 1.5 percent (1.2); Hampton Roads grew 0.7 percent (-0.8); and Richmond-Petersburg rose 1.0 percent (1.9).

In February, the most recent month for which data are available, Virginia employment rose 1.1 percent from February of last year. Northern Virginia posted growth of 2.3 percent; Hampton Roads grew 0.2 percent; and Richmond-Petersburg rose 0.7 percent. The seasonally adjusted unemployment rate fell 0.1 percentage point to 3.5 percent in February, the lowest rate since April 2008.

The Virginia Leading Index rose 0.6 percent in February after increasing 0.4 percent in January. All four components improved in February and the indexes increased in all of Virginia's metropolitan statistical areas.

March Revenue Collections

Total general fund revenue collections fell 3.5 percent in March. On a fiscal year-to-date basis, total revenue collections rose 5.2 percent through March, ahead of the annual forecast of 3.4 percent growth.

Net Individual Income Tax (70% of general fund revenues): Through March, collections of net individual income tax rose 6.4 percent from the same period last year, ahead of the annual estimate of 3.4 percent growth. Performance in each component of individual income tax is as follows:

> ***Individual Income Tax Withholding (64% of general fund revenues)***: With one less deposit day than March of last year, collections of payroll withholding taxes fell 4.7 percent for the month. Year-to-date, collections have risen 4.2 percent, well ahead of the annual estimate of 3.5 percent growth.
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> ***Individual Income Tax Nonwithholding (16% of general fund revenues)***: March is not a significant month for collections in this source. Collections in nonwithholding were $190.0 million compared with $186.1 million in March of last year, an increase of 2.1 percent. Year-to-date, collections rose by 16.9 percent, ahead of the annual estimate of a 4.3 percent increase.
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> ***Individual Income Tax Refunds***: The Department of Taxation issued $390.0 million in refunds compared with $411.0 million in the same period last year, a decline of 5.1 percent. Since the beginning of the filing period beginning January 1, TAX has issued 1.6 million refunds, about the same number through March of last year. Year-to-date, refunds have increased by 3.2 percent, trailing the annual estimate of 5.8 percent growth.

Sales Tax (18% of general fund revenues): Collections of sales and use taxes, reflecting February sales, rose 0.4 percent in March. On a year-to-date basis, collections have risen 2.9 percent, behind the annual estimate of 3.0 percent growth.

Corporate Income Tax (5% 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 2017 payments ahead of the April 17 due date. Collections of corporate income taxes were $61.5 million in March, compared with receipts of $85.0 million in March of last year.

Year-to-date collections have increased 5.8 percent from the same period last year, close to the annual estimate of 5.7 percent growth. Next month's collections will provide a clearer picture of trends in this source as final payments for tax year 2017 and estimated payments for tax year 2018 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

$29.8 million in March of last year, an increase of 6.1 percent. On a year-to-date basis, collections are down 1.4 percent, trailing the annual forecast of 3.3 percent growth.

Insurance Premiums (2% of general fund revenues): Final payments in this source were due March 1. Collections were $23.4 million compared with $16.1 million in March of last year, a 44.9 percent increase. Year-to-date collections through March were $83.7 million compared with $97.2 million in the same period last year. Estimated payments for insurance companies are due in April and June.

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

	Year-to-Date	Annual Estimate
Interest Income (0.4% GF revenues)	10.6%	21.9%
ABC Taxes (1% GF revenues)	3.2%	4.3%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue fell 2.9 percent in March, $34.4 million compared with $35.4 million a year ago. On a year-to-date basis, collections of All Other Revenue fell 4.4 percent from the same period last year, compared to the annual estimate of a 2.2 percent decline.

Summary

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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.

Rating Agencies

We continue to periodically brief all three major rating agencies on the status of the biennium budget negotiations.