



COMMONWEALTH of VIRGINIA

April 11, 2013

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MEMORANDUM

TO: The Honorable Robert F. McDonnell

THROUGH: The Honorable Martin Kent

FROM: Richard D. Brown 

SUBJECT: March Revenue Data

This month's revenue report compares actual revenue collections to the revenue estimates included in the proposed budget (HB1500/SB800) introduced on December 17, 2012 to the 2013 General Assembly.

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 2012 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 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 6.1 percent in March. On a year-to-date basis, total revenue collections rose 4.4 percent through March, ahead of the annual forecast of 3.6 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 4.0 percent through March, ahead of the adjusted forecast of 3.4 percent growth.

National Economic Indicators

Despite recent fluctuations, most national indicators suggest the economy is expanding at a slow pace. Political uncertainty, a weak global economy, and weak consumer confidence continue to dampen economic growth.

- According to the final estimate, real GDP grew at an annualized rate of 0.4 percent in the fourth quarter of 2012, down from a 3.1 percent increase in the third quarter. The decreasing rate of growth was driven by cuts in defense spending, a drop in inventory accumulations, and falling exports.
- Payroll employment slowed sharply in March after several months of solid gains. Employers added only 88,000 jobs in March, while gains for February were revised up to 268,000 from 236,000 and January gains were revised to 148,000 from 119,000. The sharp drop in March suggests some hiring may have been pushed forward into February.
- Initial claims for unemployment jumped by 28,000 to 385,000 during the week ending March 30, the third consecutive week of increases. Although the level of claims is volatile this time of year due to holidays and the timing of spring breaks, the four-week moving average also rose from 343,000 to 354,250. The activity of initial claims may suggest a slowing job market.
- The Conference Board's index of leading indicators rose 0.5 percent in February, matching the 0.5 percent rise in January. The index has risen in five of the previous six months.
- After a strong increase in February, the Conference Board's index of consumer confidence fell from 68.0 to 59.7 in March. Both components declined in March, but pessimistic views of future conditions drove the decline. Uncertainty about the potential effects of sequestration and concern about the political climate are weighing on confidence.
- Activity in the manufacturing sector slowed in March, with the Institute of Supply Management index decreasing from 54.2 to 51.3, barely remaining in expansionary territory.
- The CPI rose 0.7 percent in February, and stands 2.0 percent above February 2012. Core inflation (excluding food and energy prices) rose 0.2 percent in February, and has also increased 2.0 percent from February 2012.
- The Federal Reserve announced at its March meeting that it will keep the federal funds target rate at 0.0 to 0.25 percent, and continued its quantitative easing program.

Virginia Economy

The Virginia Employment Commission released re-benchmarked employment data for calendar years 2011 and 2012 and revisions were small. With the revision, payroll employment grew 1.2 percent in Virginia in fiscal year 2012 and 0.8 percent in the first half of 2013, compared with 1.1 percent and 1.0 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 1.5 percent (1.7 percent); Hampton Roads grew 1.3 percent (1.2 percent); and Richmond-Petersburg rose 1.8 percent (0.4 percent).

In February, the most recent month available, Virginia employment rose 1.0 percent from February of last year. Northern Virginia posted growth of 1.2 percent; Hampton Roads rose 1.9 percent; and Richmond-Petersburg rose 2.3 percent. The unemployment rate in the Commonwealth fell 0.5 percentage point to 5.7 percent in February and is 0.6 percentage point below February 2012.

The Virginia Leading Index rose 0.2 percent in February after increasing 0.1 percent in January. Building permits, the U.S. leading index, initial unemployment claims, and future employment improved in February, while auto registrations fell. The Leading Indexes increased in Northern Virginia, Roanoke, Lynchburg, Harrisonburg, and Winchester, while the indexes for Richmond, Charlottesville, Danville, Bristol, and Blacksburg contracted. The index for Hampton Roads was little changed in February.

March Revenue Collections

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.

Total general fund revenue collections fell 6.1 percent in March. On a year-to-date basis, total revenue collections rose 4.4 percent through March, ahead of the annual forecast of 3.6 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 4.0 percent through March, ahead of the adjusted forecast of 3.4 percent growth.

Net Individual Income Tax (68% of general fund revenues): Through March, collections of net individual income tax rose 4.9 percent from the same period last year, ahead of the annual estimate of 4.5 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (63% of general fund revenues): Collections of payroll withholding taxes rose 2.0 percent in March, despite one less deposit day than March of last year. Year-to-date, withholding collections rose 2.7 percent compared with the same period last year, lagging the projected annual growth rate of 3.3 percent.

Individual Income Tax Nonwithholding (15% of general fund revenues): March is not typically a significant month in collections of this source. A total of \$105.6 million in nonwithholding was collected in March, compared with \$118.0 million in March of last year. Year-to-date, nonwithholding collections rose 9.6 percent over the same period last year, ahead of the annual estimate of 6.8 percent growth. The majority of the remaining collections in nonwithholding will occur in April and May, with both final payments for tax year 2012 and estimated payments for the current year due May 1.

Individual Income Tax Refunds: TAX issued \$365.6 million in refunds in March compared with \$344.1 million last year. Year-to-date, refunds have fallen 6.0 percent, lagging the annual estimate of 0.4 percent growth.

Since the filing season began on January 1, TAX has issued 1.6 million refunds compared with 1.8 million in the same period last year. The average size of refunds is 0.4 percent lower than last year.

Sales Tax (20% of general fund revenues): Collections of sales and use taxes, reflecting February sales, fell 1.9 percent in March. On a year-to-date basis, collections have risen 4.1 percent through March, matching the annual estimate. Adjusting for the partial repeal of the accelerated sales tax program, sales tax collections have grown by 2.5 percent year-to-date, lagging the economic-base forecast of 3.2 percent growth. It is worth noting that sales tax collections have been below the annual forecast for 5 out of the last 6 months.

Corporate Income Tax (5% of general fund revenues): March is not generally a significant month for collections in this source. Collections of corporate income tax were \$55.5 million in March, compared with \$96.8 million a year ago. Year-to-date collections in this source have fallen 7.6 percent from the same period last year, slightly lagging the estimate of a 4.5 percent decline. April collections will provide a clearer picture of trends in this source as final payments for tax year 2012 are due April 15.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$32.8 million in March, compared with \$28.1 million in March of last year, a 16.9 percent increase. On a year-to-date basis, collections are up 18.0 percent, far ahead of the annual forecast of 4.5 percent growth.

Insurance Premiums (2% of general fund revenues): Final payments from insurance companies for tax year 2012 were due in March. Collections in this source were \$13.9 million compared with \$16.0 million in March of last year. Year-to-date collections are \$58.9 million through March compared with \$41.2 million through March of last year.

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)	-3.9%	-12.5%
ABC Taxes (1% GF revenues)	5.2%	2.6%

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue fell 16.0 percent in March, \$27.3 million compared with \$32.5 million last year. On a year-to-date basis, collections of All Other Revenue fell 2.7 percent from the same period last year, close to the annual estimate of a 2.5 percent decline.

Summary

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The last three months of the fiscal year are significant collections months. In addition to the estimated and final payments from both corporations and individuals due in April and May, estimated payments are again due in June. Fiscal year 2013 fourth quarter collections must total \$5.2 billion to attain the forecast. Last year, fourth quarter collections were \$5.1 billion.