



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 receipts, as well as the normal collections for the other sources. Final payments from insurance companies for tax year 2016 are also 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 5.7 percent in March. Collections of individual withholding and nonwithholding taxes drove the growth. On a fiscal year-to-date basis, total revenue collections rose 4.6 percent through March, well ahead of the annual forecast of 2.9 percent growth.

National Economic Indicators

Most recent national indicators continue to depict a modestly expanding economy.

- According to the third estimate, real GDP rose at an annualized rate of 2.1 percent in the fourth quarter of 2016, following 3.5 percent growth in the third quarter.
- The labor market appeared to weaken in March as payroll employment rose by only 98,000 jobs. January and February gains were revised downward as well. A weaker pace in growth was expected after two strong months of growth boosted by mild winter weather, followed by harsh weather in March. The revisions resulted in an average

monthly gain of 178,000 jobs in the first quarter, slightly stronger than the fourth quarter average of 170,000. The unemployment rate declined from 4.7 to 4.5 percent in March, as a sharp decline in the number of unemployed offset a modest expansion in the labor force.

- Initial claims for unemployment fell by 25,000 to 234,000 during the week ending April 1. The four-week moving average dropped by 4,500 to 250,000. The low level of claims is consistent with a healthy job market.
- The Conference Board's index of leading indicators rose 0.6 percent in February, suggesting the expansion will continue.
- The Conference Board's index of consumer confidence rose from 116.1 to 125.6 in March. Both the present conditions and expectations components increased for the month.
- The manufacturing sector continued to improve in March. Although the Institute of Supply Management index fell from 57.7 to 57.2, it remains well above the expansionary threshold of 50.0.
- The CPI rose 0.1 percent in February after rising 0.6 percent in January and stands 2.8 percent above February 2016. Core inflation (excluding food and energy prices) increased 0.2 percent in February and is 2.2 percent above a year ago.
- At its March meeting, the Federal Reserve raised the federal funds target rate by 25 basis points to 0.75 to 1.0 percent, reiterating that the risks to the economic outlook remain roughly balanced.

Virginia Economy

The Virginia Employment commission released re-benchmarked employment data for calendar years 2015 and 2016. The revisions were quite small for fiscal year 2016, but substantially lower in the first half of fiscal year 2017. Statewide payroll employment growth was 2.3 percent for fiscal year 2016, unchanged from the previously reported growth, while growth in the first half of fiscal year 2017 was revised downward from 1.5 percent to 1.0 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 1.7 percent (2.0); Hampton Roads grew 0.2 percent (0.2); and Richmond-Petersburg rose 1.1 percent (2.0).

In February, the most recent month available, Virginia employment rose 1.5 percent from February of last year. Northern Virginia posted growth of 2.2 percent; Hampton Roads grew 0.6 percent; and Richmond-Petersburg rose 1.0 percent. The seasonally adjusted unemployment rate fell 0.1 percentage point to 3.9 percent in February. This was also 0.1 percentage point below February of 2016 and the lowest rate since June 2008.

The Virginia Leading Index rose 0.3 percent in February after rising 0.3 percent in January. All four components -- auto registrations, future employment, the U.S. leading index, and initial claims for unemployment -- all improved in February. The indexes for Blacksburg, Charlottesville, Winchester, and Bristol declined in February, while the indexes for the remaining seven metro areas increased.

March Revenue Collections

Total general fund revenue collections rose 5.7 percent in March. Collections of individual withholding and nonwithholding taxes drove the growth. On a fiscal year-to-date basis, total revenue collections rose 4.6 percent through March, well ahead of the annual forecast of 2.9 percent growth.

Net Individual Income Tax (70% of general fund revenues): Through March, collections of net individual income tax rose 5.6 percent from the same period last year, ahead of the revised annual estimate of 2.9 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 grew 6.8 percent for the month. Year-to-date, withholding collections are 5.3 percent ahead of the same period last year, well ahead of the annual estimate of 3.6 percent growth.

Individual Income Tax Nonwithholding (16% of general fund revenues): March is not a significant month for collections in this source. Receipts were \$186.1 million in March compared with \$165.6 million in March of last year for growth of 12.4 percent. Year-to-date, collections rose by 2.9 percent, ahead of the annual estimate of a 0.7 percent decline.

Individual Income Tax Refunds: The Department of Taxation issued \$411.0 million in refunds in March compared with \$406.1 million last year, a 1.2 percent increase. Since the start 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 fallen 0.4 percent, trailing the annual estimate of 1.5 percent growth.

Sales Tax (18% of general fund revenues): Collections of sales and use taxes, reflecting February sales, rose 2.8 percent in March. On a year-to-date basis, collections have risen 1.5 percent, trailing the annual estimate of 2.7 percent growth. Adjusting for the accelerated sales tax program, sales tax collections have increased 1.6 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 2016 payments ahead of the April 15 due date. Collections of corporate income taxes were \$85.0 million in March, compared with receipts of \$155.8 million in March of last year.

Year-to-date collections have increased 2.5 percent from the same period last year, trailing the revised annual estimate of 3.8 percent growth. Next month's collections will provide a clearer picture of trends in this source as final payments for tax year 2016 and estimated payments for tax year 2017 are received.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$29.8 million in March, compared with \$30.5 million in March of last year for a decline of 2.2 percent. On a year-to-date basis, collections are up 8.8 percent, ahead of the annual forecast of 8.0 percent growth.

Insurance Premiums (2% of general fund revenues): Final payments in this source were due March 1. Collections were \$16.1 million compared with \$18.2 million in March of last year. Year-to-date collections through March were \$97.2 million, compared with \$95.6 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:

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.4% GF revenues)	12.5%	17.5%
ABC Taxes (1% GF revenues)	1.9%	2.8%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue grew 19.0 percent in March, \$35.4 million compared with \$29.8 million a year ago. Most of the growth is attributable to bank franchise taxes, interest, and fines. On a year-to-date basis, collections of All Other Revenue declined 0.4 percent from the same period last year as compared to the annual estimate of a 2.2 percent decline.

Summary

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revenue collections rose 4.6 percent through March, well ahead of the annual forecast of 2.9 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.