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 2018 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 revenues fell 1.4 percent in March, as the delayed individual income tax filing season suppressed growth. On a fiscal year-to-date basis, total revenue collections rose 3.0 percent through March, trailing the annual forecast of 5.9 percent growth. Although collections are lagging the annual estimate, growth is expected to be higher in the last quarter of the fiscal year due to effects of the federal Tax Cuts and Jobs Act.

National Economic Indicators

Recent national indicators suggest the economy continues to moderately expand.

- According to the current estimate, real GDP rose at an annualized rate of 2.2 percent in the fourth quarter, following 3.4 percent growth in the third quarter.

- After a weak gain in February, the labor market rebounded in March. Payroll employment rose by 196,000 jobs in March, following February’s gain of 33,000. In a separate report, the unemployment rate remained at 3.8 percent in March, as the labor force contracted.
- Initial claims for unemployment fell by 10,000 to 202,000 during the week ending March 30, the lowest level since December 6, 1969. The four-week moving average dropped by 4,000 to 213,500. The level of claims is consistent with a tightening labor market.

- The Conference Board’s index of leading indicators rose 0.2 percent in February following no change in January and a slight decrease in December. The index suggests that moderate economic growth should continue.

- The Conference Board’s index of consumer confidence fell from 131.4 to 124.1 in March, with both the expectations and present conditions components contributing to the decrease. Confidence has been choppy recently due to the partial government shutdown, volatility in financial markets, and signs of a slowing economy.

- Conditions in the manufacturing sector improved in March. The Institute of Supply Management index rose from 54.2 to 55.3, exceeding expectations. The index remains comfortably above the neutral threshold of 50.0 and is consistent with continued growth.

- The CPI rose 0.2 percent in February after three consecutive months of no change. The index stands 1.5 percent above February of 2018. Core inflation (excluding food and energy prices) rose by 0.1 percent, and is 2.1 percent above a year ago.

- At its March meeting, the Federal Reserve left the federal funds target rate range unchanged at 2.25 to 2.5 percent. Noting that the labor market remains strong but that economic activity has slowed, the Committee stated, “In light of global economic and financial developments and muted inflation pressures, the Committee will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate…” Only one more .25 percent increase in the target rate is expected in 2019.

**Virginia Economy**

In Virginia, payroll employment rose 0.9 percent in February compared with last year. Northern Virginia posted growth of 1.3 percent; Hampton Roads rose 0.2 percent; and Richmond-Petersburg rose 0.7 percent. The seasonally adjusted unemployment rate rose 0.1 percentage point to 2.9 percent in February, but was 0.3 percent below last February.

The Virginia Leading Index rose 0.6 percent in February after falling 0.6 percent in January. All four components -- auto registrations, the U.S. leading index, initial claims, and future employment improved in February. With the exception of Lynchburg, the indexes for all MSAs increased in February; the Lynchburg index fell 0.5 percent.

**March Revenue Collections**

Total general fund revenues fell 1.4 percent in March. On a fiscal year-to-date basis, total revenue collections rose 3.0 percent through March, trailing the annual forecast of 5.9 percent growth.
Net Individual Income Tax (71% of general fund revenues): Through March, collections of net individual income tax rose 2.5 percent from the same period last year, lagging the annual estimate of 6.7 percent growth. As stated earlier, growth is expected to pick up in the last quarter of the fiscal year due to effects of the federal Tax Cuts and Jobs Act. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (62% of general fund revenues): With one less deposit day than March of last year, collections of payroll withholding taxes rose 2.7 percent for the month. Year-to-date, collections have grown 3.3 percent, close to the annual estimate of 3.8 percent growth. However, third quarter payroll withholding taxes only increased by 1.2 percent.

Individual Income Tax Nonwithholding (19% of general fund revenues): March is not a significant month for collections in this source. Collections in nonwithholding were $225.9 million compared with $190.0 million in March of last year, an increase of 18.9 percent. Year-to-date collections fell 10.3 percent, trailing the annual estimate of 15.2 percent growth. Growth in nonwithholding is expected to increase in the last quarter of the fiscal year.

Individual Income Tax Refunds: The main filing season began in February; however, adoption of changes in state conformity to the 2017 federal tax law changes delayed the start of individual tax processing. In March, refunds were approximately $96 million above the prior year. However, in February and March combined, TAX issued $704.7 million in refunds compared with $832.5 million in the same period last year. About 1.4 million refunds have been issued so far this filing season, compared with 1.5 million in the same period last year.

Sales Tax (17% of general fund revenues): Collections of sales and use taxes, reflecting February sales, fell 1.1 percent in March. On a year-to-date basis, collections have risen 3.5 percent, close to the annual estimate of 3.7 percent growth. Sales tax growth slowed in the third quarter to 1.2 percent.

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 2018 payments ahead of the April 15 due date. Collections of corporate income taxes were $51.2 million in March, compared with receipts of $61.5 million in March of last year.

Year-to-date collections have increased 0.3 percent from the same period last year, trailing the forecast of 5.6 percent growth. Next month’s collections will provide a clearer picture of trends in this source as final payments for tax year 2018 and estimated payments for tax year 2019 are received.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were $29.7 million in March, compared with
$31.6 million in March of last year. On a year-to-date basis, collections are down 4.6 percent, slightly ahead of the annual forecast of a 6.7 percent decline.

**Insurance Premiums (2% of general fund revenues):** Final payments in this source were due March 1. Collections were $35.1 million compared with $23.4 million last year. Year-to-date collections through March were $111.3 million, compared with $83.7 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:

<table>
<thead>
<tr>
<th>Source</th>
<th>Year-to-Date</th>
<th>Annual Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Income (0.3% GF revenues)</td>
<td>59.8%</td>
<td>11.5%</td>
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<tr>
<td>ABC Taxes (1% GF revenues)</td>
<td>2.8%</td>
<td>3.5%</td>
</tr>
</tbody>
</table>

**All Other Revenue (2% of general fund revenues):** Receipts in All Other Revenue fell 3.2 percent in March, $33.3 million compared with $34.4 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 8.9 percent from the same period last year, compared to the annual estimate of 1.5 percent growth.

### Summary

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Total general fund revenues fell 1.4 percent in March. On a fiscal year-to-date basis, total revenue collections rose 3.0 percent through March, trailing the annual forecast of 5.9 percent growth. Although collections are lagging the annual estimate, growth is expected to be higher in the last quarter of the fiscal year due to effects of the federal *Tax Cuts and Jobs Act*. Nonwithholding growth must increase over 40 percent in the final quarter to meet the fiscal year budget. All other revenue sources only have to increase 1.2 percent. Achieving budgeted fiscal year revenues depends primarily on the accuracy of the Chainbridge projections for 2018 tax conformity.

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. To attain the estimate, $7.0 billion must be collected in the final quarter. In fiscal year 2018, $6.3 billion was collected over the last three months of the fiscal year.