



Economic and Revenue Update

*A Briefing for the
House Appropriations Committee*

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Topics for Discussion

- National and State Economic Indicators
- March Year-to-Date Revenue Collections, Fiscal Year 2014
- Next Significant Data Points

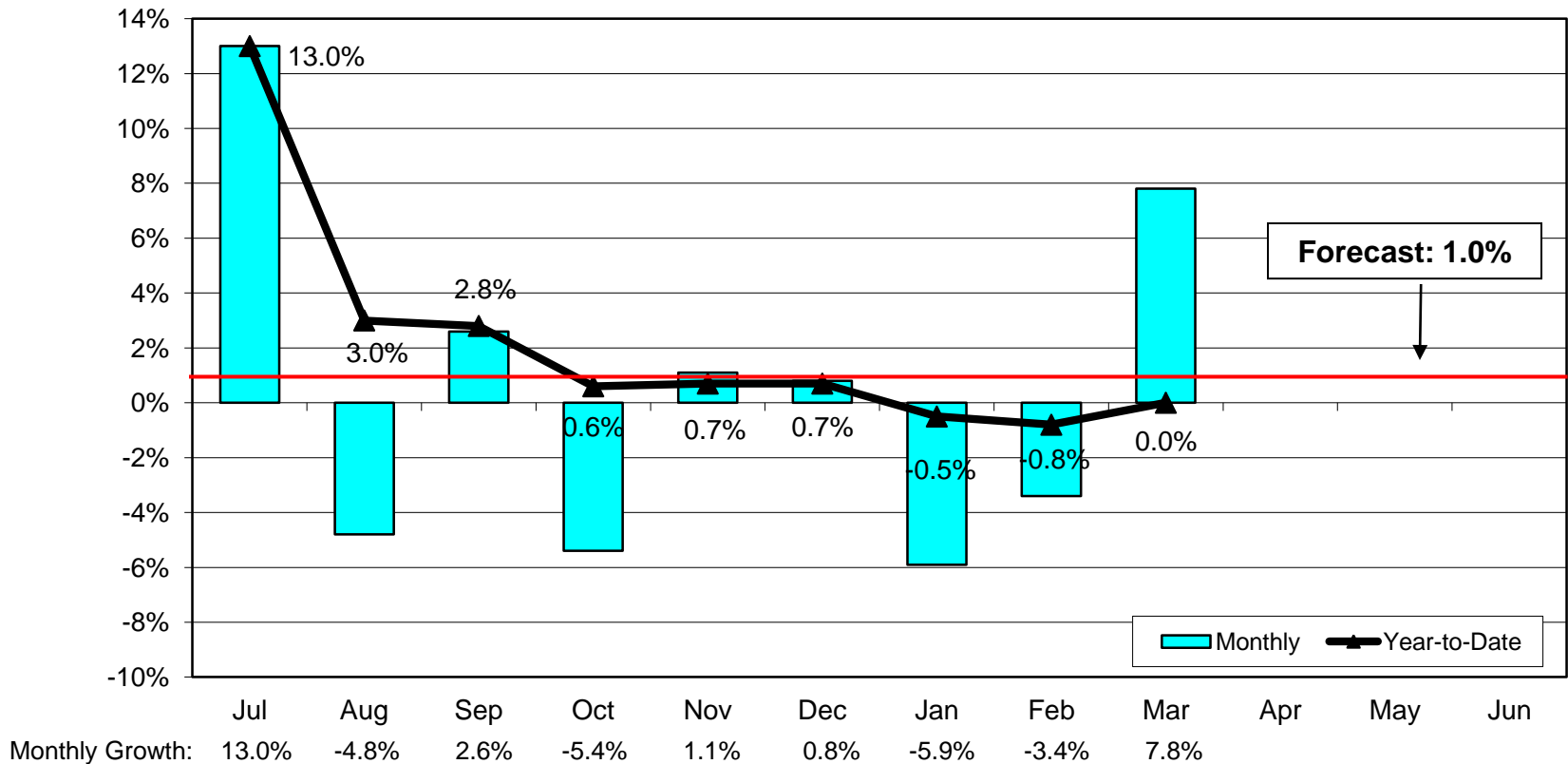
National and State Economic Indicators

- According to the final estimate, real GDP grew at an annualized rate of 2.6 percent in the fourth quarter of 2013, following a 4.1 percent increase in the third quarter and 2.5 percent in the second quarter.
- The labor market continued to improve in March. Payroll employment rose by 192,000 jobs. The February gain was revised up by 22,000 jobs. In a separate report, the unemployment rate remain unchanged at 6.7 percent, as the number of workers entering the labor force was offset by an increase in employment.
- Initial claims for unemployment rose by 2,000 to 304,000 during the week ending April 12th. The four-week moving average hit a post-recession low of 312,000.
- The Conference Board's index of leading indicators rose 0.8 percent in March after rising 0.5 percent in February -- the 7th consecutive increase. The behavior of the leading indicator suggests the economy should continue to improve.
- The Conference Board's index of consumer confidence increased rose 4 points to 82.3 in March. A decrease in the present situation component was offset by more optimistic expectations.
- Activity in the manufacturing improved in March, with the Institute of Supply Management index rising from 53.2 to 53.7, its second consecutive gain.

National and State Economic Indicators

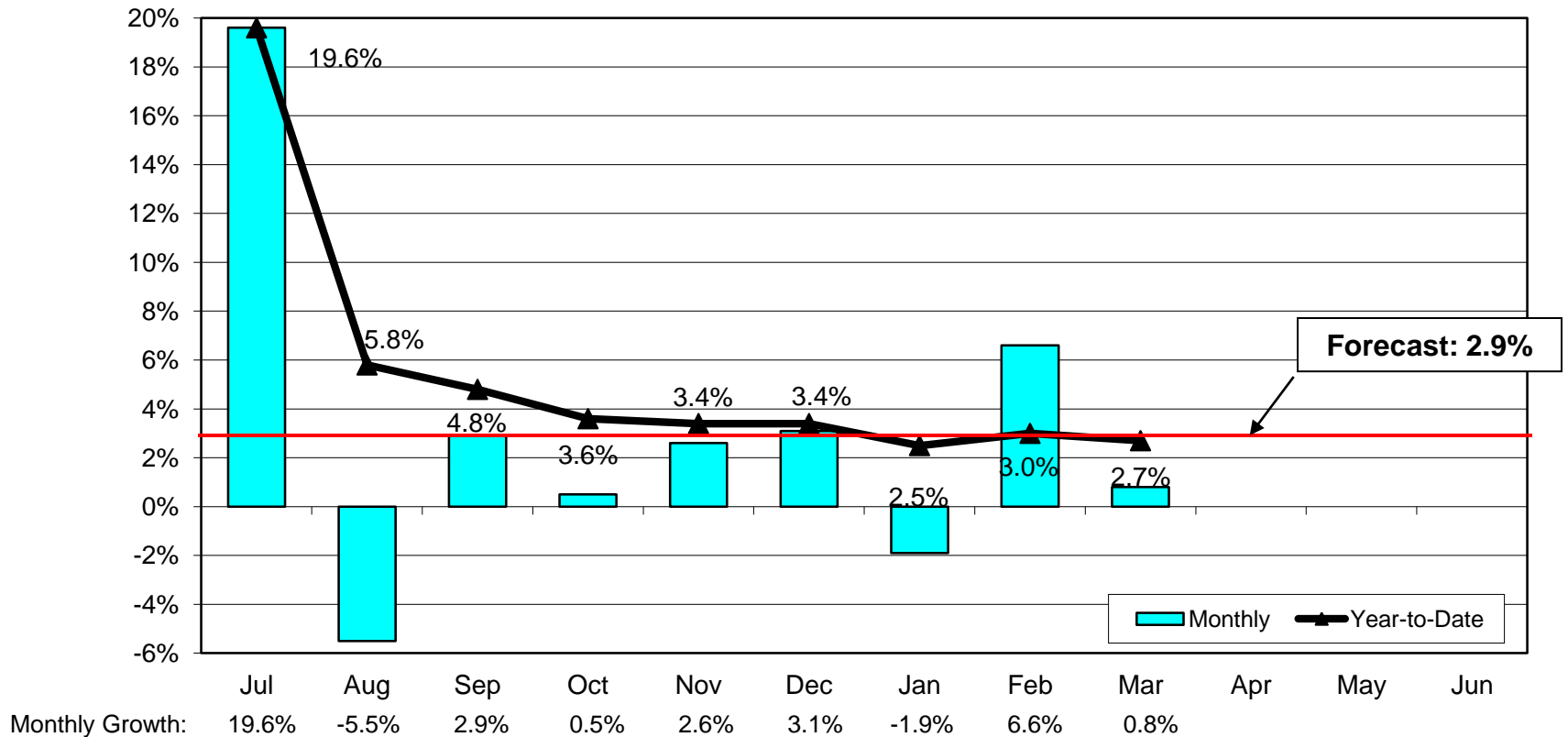
- Inflation remains contained. The CPI rose 0.2 percent in March, and stands 1.5 percent above March 2013. Core inflation (excluding food and energy prices) also rose 0.2 percent in March, and has increased 1.7 percent from a year ago.
- The Federal Reserve announced at its March meeting that it will keep the federal funds target rate at 0.0 to 0.25 percent, and will continue winding down its quantitative easing program.
- Virginia payroll employment was flat in March.
 - Employment rose by 0.1 percent in Northern Virginia and 1.8 percent in Richmond-Petersburg, while employment in Hampton Roads fell 0.3 percent.
 - The unemployment rate rose 0.1 percentage point to 5.0 percent -- 0.6 percent below last year.
- The Virginia Leading Index declined 0.4 percent in February after rising 0.7 percent in January. The U.S. leading index and initial claims improved in February, while auto registrations and building permits declined and future employment was unchanged.
 - Richmond, Northern Virginia, Lynchburg, Hampton Roads, Charlottesville, Danville, Harrisonburg, Blacksburg, and Winchester posted expansions in their indexes in February, while Roanoke and Bristol were unchanged.
- According to RealtyTrac, U.S. foreclosure activity for March declined 23 percent from March 2013. First quarter foreclosure activity is the lowest since 2nd quarter 2007.
 - One in every 1,121 U.S. housing units received a foreclosure notice in March.
 - In Virginia, one in every 2,102 households⁴ received a foreclosure notice.

Growth in Total General Fund Revenue Collections FY14 Monthly and Year-to-Date



- Total general fund revenues increased 7.8 percent in March due to individual and corporations making final payments for tax year 2013 ahead of the due date and fewer individual income tax refunds being issued.
- On a year-to-date basis, total revenues were flat, trailing the annual forecast of 1.0 percent growth.
 - Adjusting for AST and the HB2313 program, total revenues grew 1.1 percent through March, behind the economic-base forecast of 2.1 percent growth.

Growth in Withholding TAX Collections FY14 Monthly and Year-to-Date



- Collections of payroll withholding taxes increased 0.8 percent in March.
- Year-to-date, withholding collections increased 2.7 percent compared with the same period last year, slightly behind the projected annual growth rate of 2.9 percent.
- Growth of 3.5 percent is needed for the April-June period as compared to last year's 0.5 percent increase during Sequestration. In FY11 and FY12 withholding increased 4.8 percent and 6.7 percent, respectively.

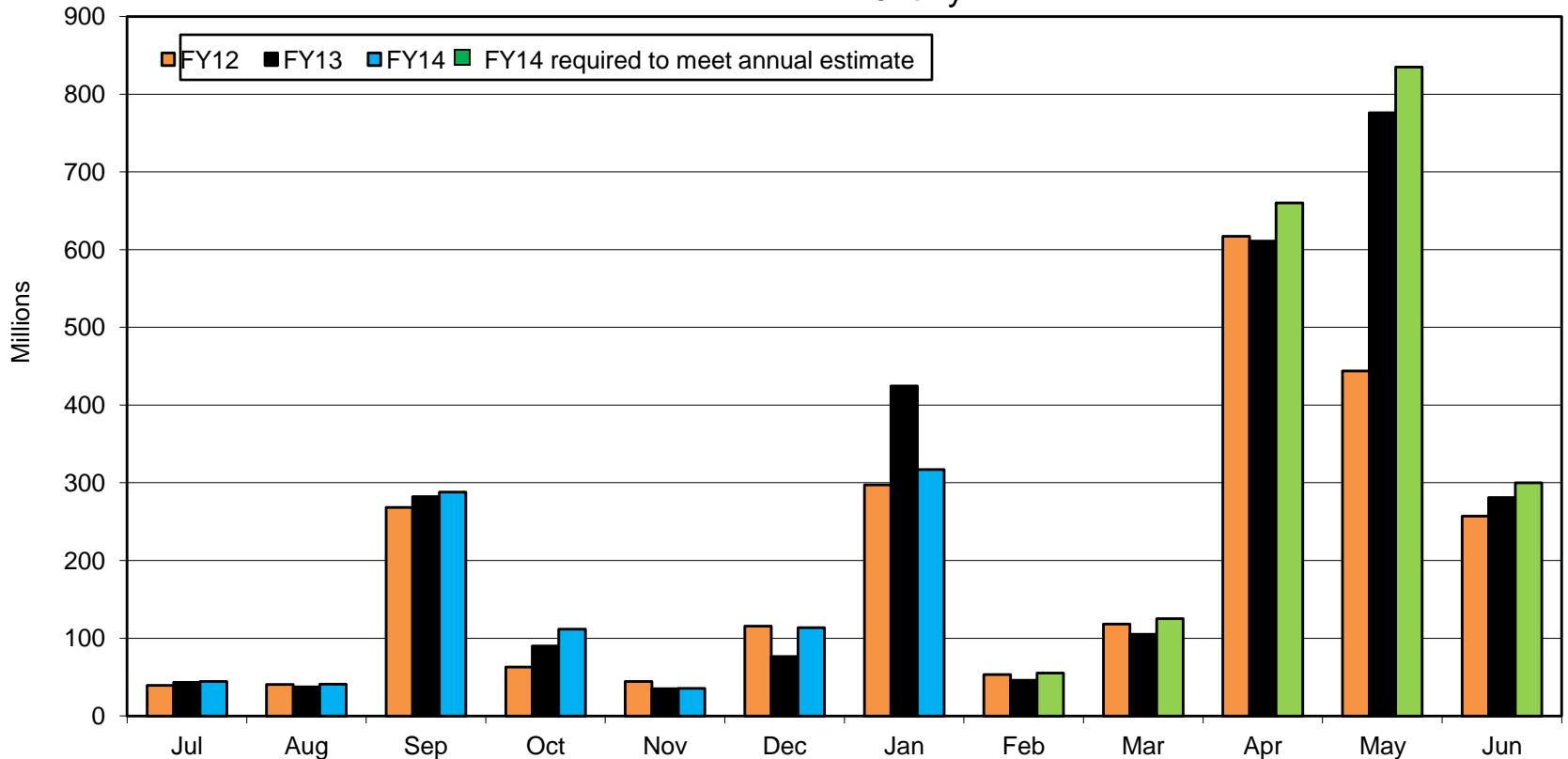
Declining payments in high paying Federal Contractors and Professional and Business Services is holding down payroll withholding growth...

Withholding Tax Collections Year-to-Date March

Industry (% of Total \$ Amount)	# of Firms in FY14	Millions of Dollars			Percent Change	
		FY12	FY13	FY14	FY13	FY14
Public Sector (19%)	92	\$1,350.1	\$1,381.0	\$1,404.0	2.3%	1.7%
Education and Health Services (7%)	240	\$563.6	\$567.3	\$576.1	0.7%	1.6%
Federal Contractors (5%)	189	\$376.1	\$368.2	\$347.4	-2.1%	-5.7%
Professional and Business Services (3%)	134	\$195.1	\$226.6	\$225.5	16.2%	-0.5%
Finance (3%)	526	\$209.3	\$231.7	\$241.9	10.7%	4.4%
Investment (1%)	147	\$104.5	\$122.0	\$136.0	16.8%	11.5%
Manufacturing (2%)	167	\$99.1	\$102.9	\$116.5	3.9%	13.2%
Transportation (1%)	41	\$77.7	\$83.0	\$86.6	6.8%	4.4%
Energy (1%)	47	\$74.6	\$67.8	\$68.6	-9.0%	1.1%
Other (4%)	704	\$361.0	\$366.3	\$359.6	1.5%	-1.8%
Total Large Payers (45%)	2,287	\$3,411.1	\$3,516.9	\$3,562.2	3.1%	1.3%
Total Small Payers (55%)	227,858	\$2,282.8	\$2,409.2	\$2,518.3	5.5%	4.5%
Total All	230,145	\$5,693.9	\$5,926.1	\$6,080.5	4.1%	2.6%

Nonwithholding Tax Collections

FY12-FY14 Monthly



- Year-to-date, collections declined 0.8 percent from the same period last year, behind the annual estimate of 4.2 percent growth.
- To date, roughly 40 percent of the nonwithholding forecast has been collected. The majority of the remaining 60 percent will be collected in April and May, with both final payments for tax year 2013 and estimated payments for the current year due May 1.

Individual Income Tax Refunds

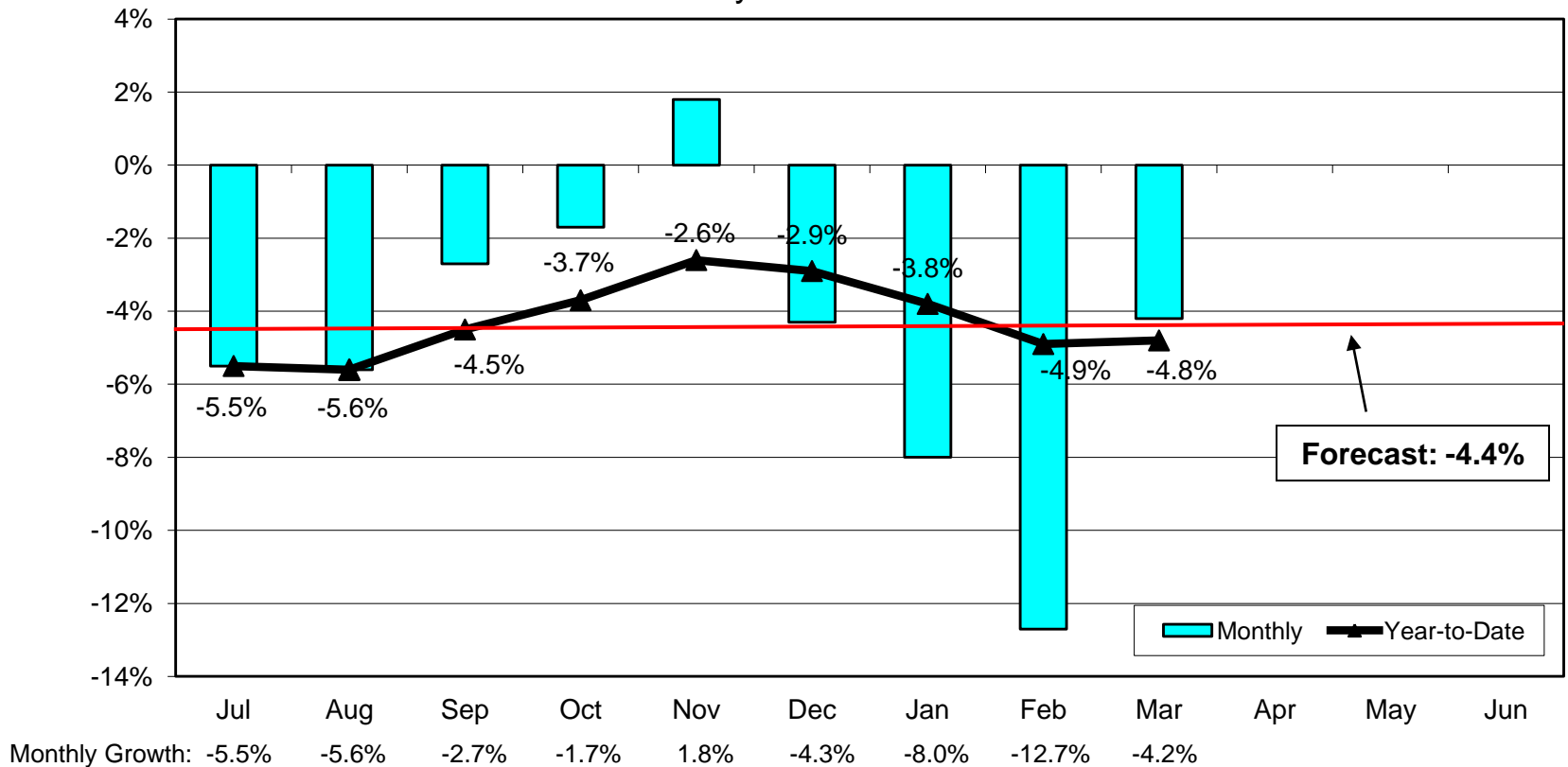
- As the main filing season continues, \$336.4 million in refunds were issued in March compared with \$365.6 million last March.
- Year-to-date, refunds increased 5.9 percent from the same period last year, behind the estimate of a 5.1 percent increase.
 - Since the filing season began in January, TAX has issued 1.6 million refunds, approximately the same amount as last year. The average check size is down about 2.0 percent.

Net Individual Income Tax

- Through March, collections of net individual income tax rose 1.8 percent from the same period last year, behind the annual estimate of 2.9 percent growth.

Growth in Sales Tax Collections

FY14 Monthly and Year-to-Date



- On a year-to-date basis, collections fell 4.8 percent, behind the annual estimate of a 4.4 percent decline.
 - Adjusting for AST and HB2313, sales tax collections increased 0.9 percent through March, behind the economic-base forecast of a 1.6 percent increase.

- Economic based growth of 3.7 percent is needed for the April-June period as compared to last year's 0.7 percent increase. In FY11 and FY12 economic based sales increased 5.7 percent and 4.0 percent, respectively.

Net Corporate Income Tax Collections

- Collections of corporate income tax were \$75.0 million in March, compared with \$55.5 million last March, a 35.1 percent increase.
 - Most of the activity in March is from companies making final tax year 2013 payments ahead of the April 15th due date.
- On a year-to-date basis, collections in this source have decreased 5.2 percent, behind the estimate of a 3.4 percent decline.

Recordation Tax Collections

- Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – declined 29.9 percent in March.
 - This was the eighth consecutive monthly decline in this source.
 - On a year-to-date basis, collections are down 16.1 percent, trailing the forecast of 0.0 percent growth.

Insurance Premiums Tax

- Final payments from insurance companies for tax year 2013 were due in March. Collections in this source were \$31.6 million compared with \$13.9 million in March of last year.
 - Estimated payments are due in April and June.
- For the fiscal year to-date, net insurance premiums tax collections are \$93.7 million compared with \$58.9 million during the same period last year.

Summary of Fiscal Year 2014 Revenue Collections

July through March

Percent Growth over Prior Year

<u>Major Source</u>	<u>As a % of Total Revenues</u>	<u>YTD Actual</u>	<u>Annual Estimate</u>	<u>Variance</u>	<u>Apr-June Req'd to Meet Est.</u>	<u>Prior Year Apr-June</u>
Withholding	62.6 %	2.7 %	2.9 %	(0.2) %	3.5 %	0.5 %
Nonwithholding	17.4	(0.8)	4.2	(5.0)	7.7	26.5
Refunds	(10.7)	5.9	5.1	0.8	4.0	0.0
Net Individual	69.3	1.8	2.9	(1.1)	5.4	11.3
Sales	18.3	(4.8)	(4.4)	(0.4)	(3.4)	1.0
Corporate	4.6	(5.2)	(3.4)	(1.8)	(1.0)	(7.0)
Wills (Recordation)	2.2	(16.1)	0.0	(16.1)	42.8	15.1
Insurance	1.7	59.0	10.4	48.6	(3.7)	(4.0)
All Other Revenue	3.9	1.0	(3.5)	4.5	(11.8)	6.8
Total	100.0 %	0.0 %	1.0 %	(1.0) %	3.0 %	7.2 %

Sales (x HB2313)	0.9 %	1.6 %	(0.7) %	3.7 %	0.9 %
Total (x HB2313)	1.1 %	2.1 %	(1.0) %	4.3 %	7.4 %

Next Significant Data Points

- April
 - Corporate final and estimated payments are due on April 15th
 - Payroll withholding will have an extra deposit day
 - Individual nonwithholding payment will be received ahead of the May 1 due date
 - Peak individual income tax refunding month
- May
 - Payroll withholding will have one less deposit day
 - Key payments from individual nonwithholding will be received
- June
 - Individual, corporate and insurance companies have estimated payments due June 16th