



# Economic and Revenue Update

## *A Briefing for the Senate Finance Committee*

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# Topics for Discussion

- National and State Economic Indicators
- Revenue Collections Through April, Fiscal Year 2013
- Next Events

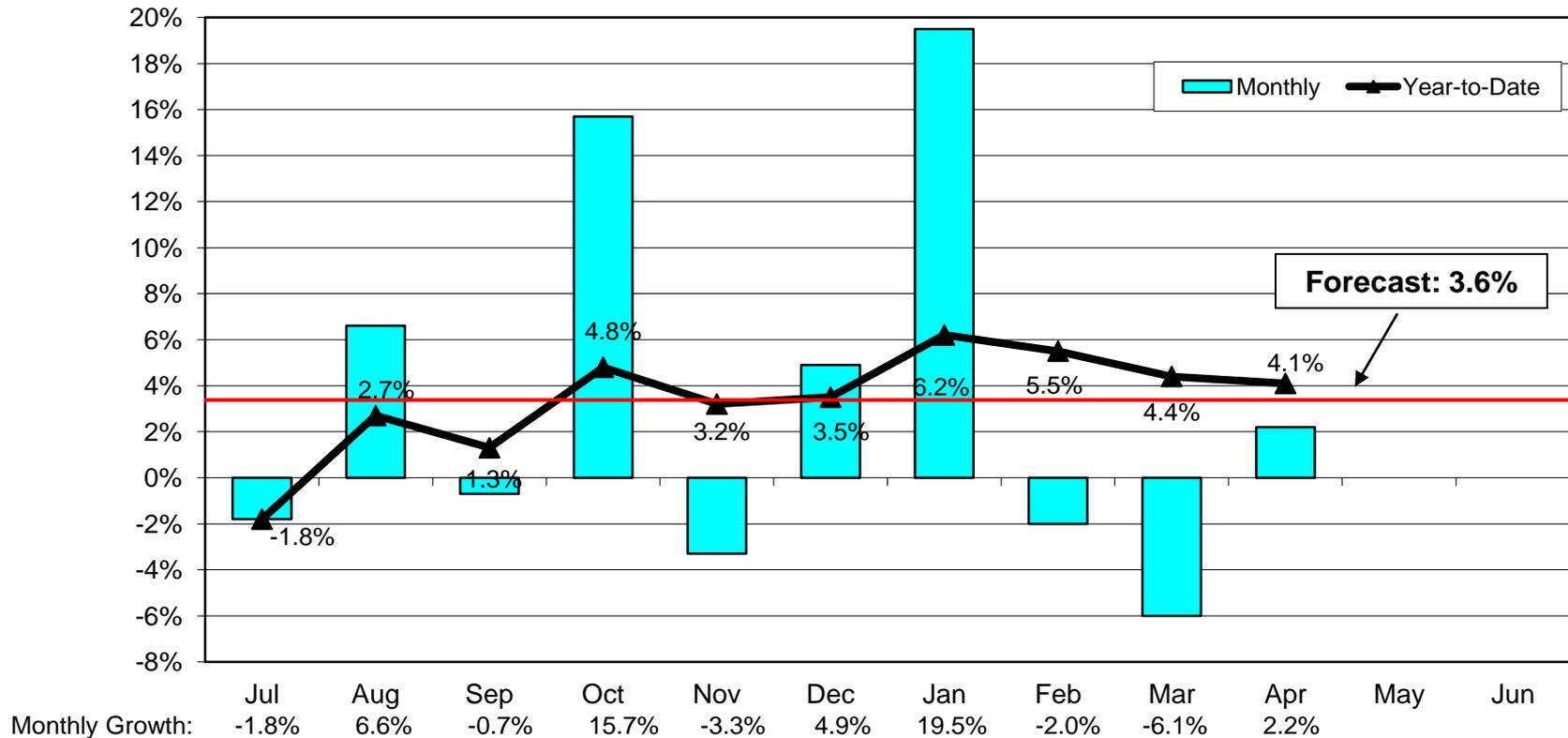
# National and State Economic Indicators

- National indicators suggest the expansion will continue at a slow pace as sequestration dampens growth.
- Real GDP rose 2.5 percent in the first quarter of 2013, up from 0.4 percent in the fourth quarter of 2012, but below expectations.
- Payroll employment grew by 165,000 jobs in April.
  - The gain in February was revised up from 268,000 to 332,000 and March was revised up from 88,000 to 138,000.
- The unemployment rate fell from 7.6 to 7.5 percent April as the labor force participation rate remained steady.
- During the week ending May 4, initial claims for unemployment fell by 4,000 to 323,000, the lowest level since the recession began in 2007. The four-week moving average fell by 6,250 to 337,000.
- In Virginia, employment rose by 0.9 percent in March. Payroll employment grew by 1.3 percent in Northern Virginia, 1.7 percent in Hampton Roads, and 1.4 percent in Richmond-Petersburg.
- The unemployment rate fell 0.5 percent to 5.2 percent in March, down 0.8 percent from March 2012, and the lowest level since December 2008.
- Activity in the manufacturing sector further slowed in April. The Institute of Supply Management index fell from 51.3 to 50.7 in April.

# National and State Economic Indicators

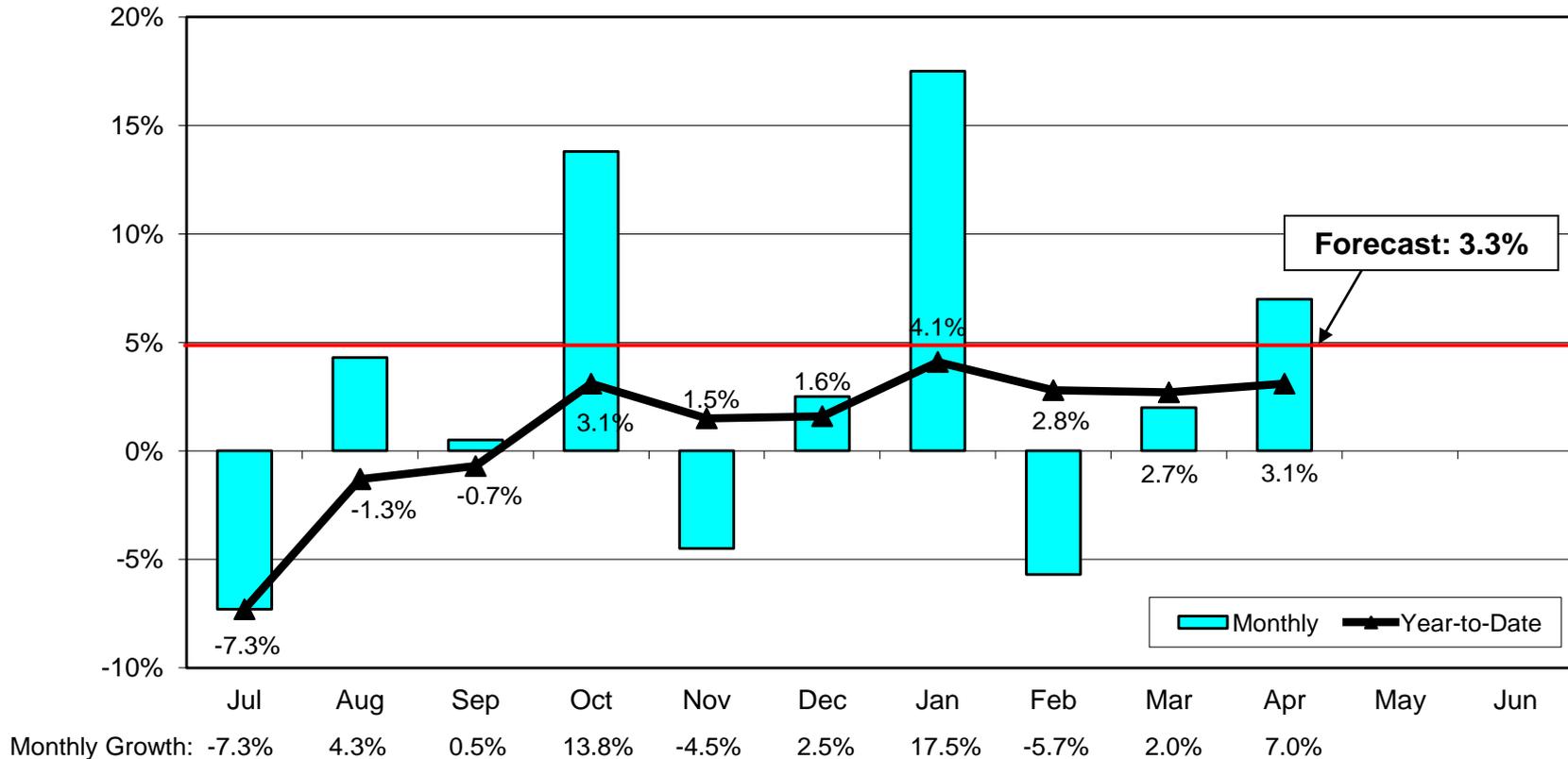
- The Conference Board's index of leading indicators fell 0.1 percent in March. The index has risen in five of the previous seven months.
- The Conference Board's index of consumer confidence jumped from 61.9 to 68.1 in April. Both components increased with views of future conditions driving the gain.
  - Recent volatility in the index is probably due to uncertainty of government policy, including sequestration.
- The CPI fell 0.2 percent in March from the previous month and stands 1.5 percent above March of last year.
  - Core inflation (excluding food and energy prices) rose 0.1 percent, and has increased 1.9 percent from March 2012.
- According to RealtyTrac, U.S. foreclosure activity for April declined 23 percent from April 2012.
  - One in every 360 U.S. housing units received a foreclosure notice in April.
  - In Virginia, one in every 1,543 households received a foreclosure notice.
- Aggregate consumer debt declined in the first quarter, by \$110 billion. As of March 31, 2013, total indebtedness was \$11.23 trillion, considerably below its peak of \$12.68 trillion in 2008Q3.
  - Total household debt in Virginia peaked at about \$420 billion 2008Q4. By the 2012Q4, total household debt had fallen to just under \$400 billion.
- The savings rate was flat at 2.7 percent in March.
- The Federal Reserve announced at its April meeting that it will keep the federal funds rate target unchanged at 0.0 to 0.25 percent and continued its quantitative easing.

## Growth in Total General Fund Revenue Collections FY13 Monthly and Year-to-Date



- On a year-to-date basis, total revenues increased 4.1 percent through April, ahead of the annual forecast of 3.6 percent growth.
  - Adjusting for the accelerated sales tax (AST) program, total revenues grew 3.8 percent through April, ahead of the economic-base forecast of 3.4 percent growth.

## Growth in Withholding Tax Collections FY13 Monthly and Year-to-Date



- Collections of payroll withholding taxes increased 7.0 percent in April.
  - There was one additional deposit day in the month.
- Year to date, withholding collections through April increased 3.1 percent compared with the same period last year, behind the projected annual growth rate of 3.3 percent.

## Withholding Tax Collections from Large Payers\* by Industry Through March

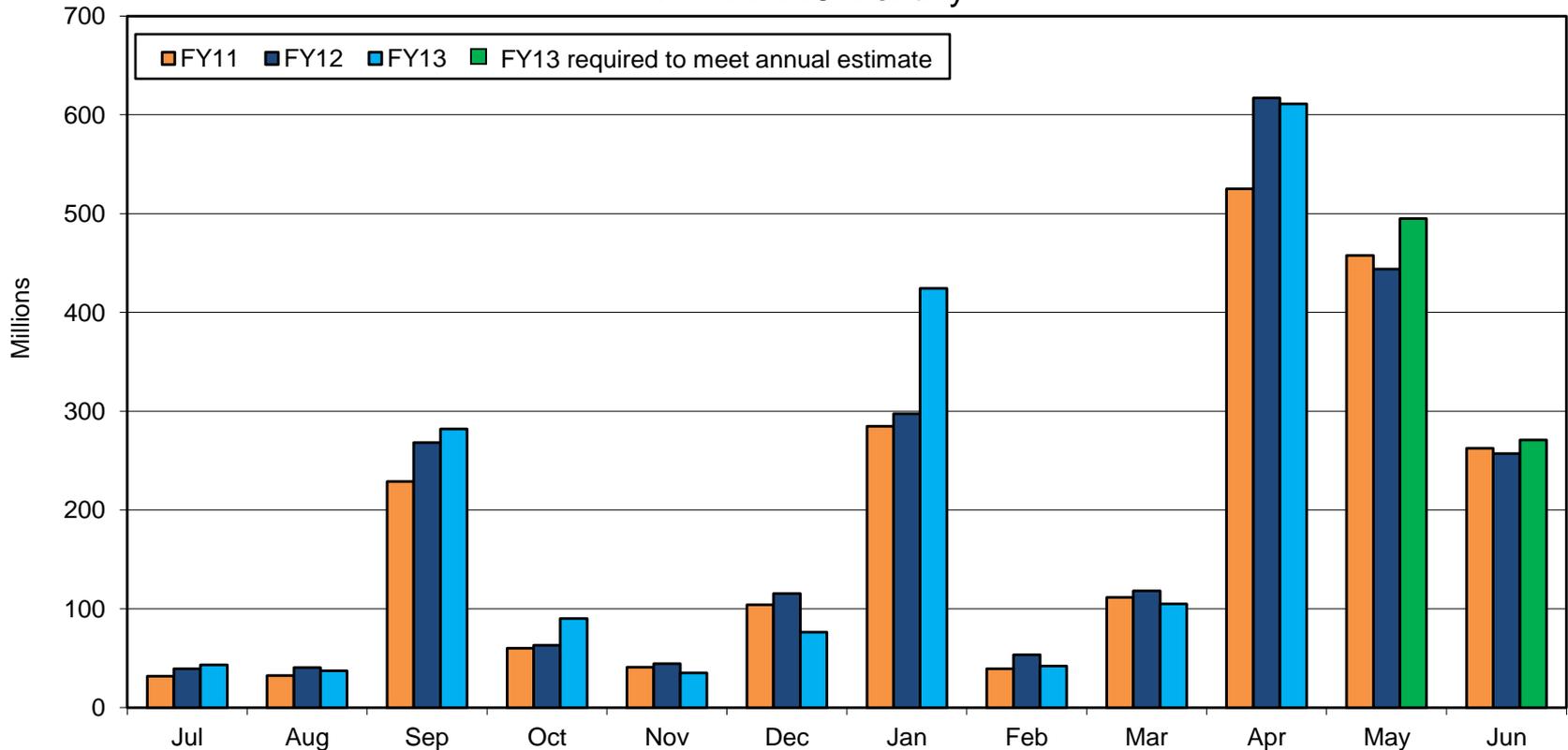
Industry (% of Total Amount**)	# of firms in FY13	Millions of Dollars			Percent Change	
		FY11	FY12	FY13	12 over 11	13 over 12
Public Sector (18%)	93	\$1,322.0	\$1,350.1	\$1,378.5	2.1%	2.1%
Education & Health Services (7%)	244	\$565.1	\$563.6	\$567.1	-0.3%	0.6%
Federal Contractors (5%)	192	\$380.4	\$375.4	\$365.2	-1.3%	-2.7%
Professional & Business Services (3%)	538	\$196.5	\$209.3	\$231.5	6.6%	10.6%
Financial Activities (3%)	134	\$182.6	\$194.9	\$225.6	6.7%	15.7%
Investing (2%)	148	\$101.9	\$104.2	\$122.0	2.3%	17.1%
Manufacturing (1%)	174	\$92.3	\$99.0	\$101.9	7.3%	3.0%
Transportation (1%)	41	\$77.1	\$77.7	\$83.0	0.8%	6.8%
Energy (1%)	47	\$77.8	\$74.6	\$67.8	-4.2%	-9.0%
Other (5%)	720	\$372.6	\$360.5	\$362.1	-3.2%	0.4%
<b>Total Large Payers (46%)</b>	<b>2,331</b>	<b>\$3,368.3</b>	<b>\$3,409.5</b>	<b>\$3,504.8</b>	<b>1.2%</b>	<b>2.8%</b>
<b>Total Payers</b>	<b>230,145</b>	<b>\$7,217.5</b>	<b>\$7,459.6</b>	<b>\$7,659.5</b>	<b>3.4%</b>	<b>2.7%</b>
<b>Total Small Payers (54%)</b>	<b>227,814</b>	<b>\$3,849.2</b>	<b>\$4,050.2</b>	<b>\$4,154.7</b>	<b>5.2%</b>	<b>2.6%</b>

\* Makes payments in excess of \$110,000.

- Strongest growth for Professional & Business, Investing and Financial Activities.

# Nonwithholding Tax Collections

FY11-FY13 Monthly



- To date, about 70 percent of the nonwithholding forecast has been collected, and collections during this period are 5.7 percent ahead of the same period last year, behind the annual estimate of 6.8 percent growth.
- The majority of the remaining collections in this source will occur in May, with both final payments for tax year 2012 and estimated payments for the current year due May 1.

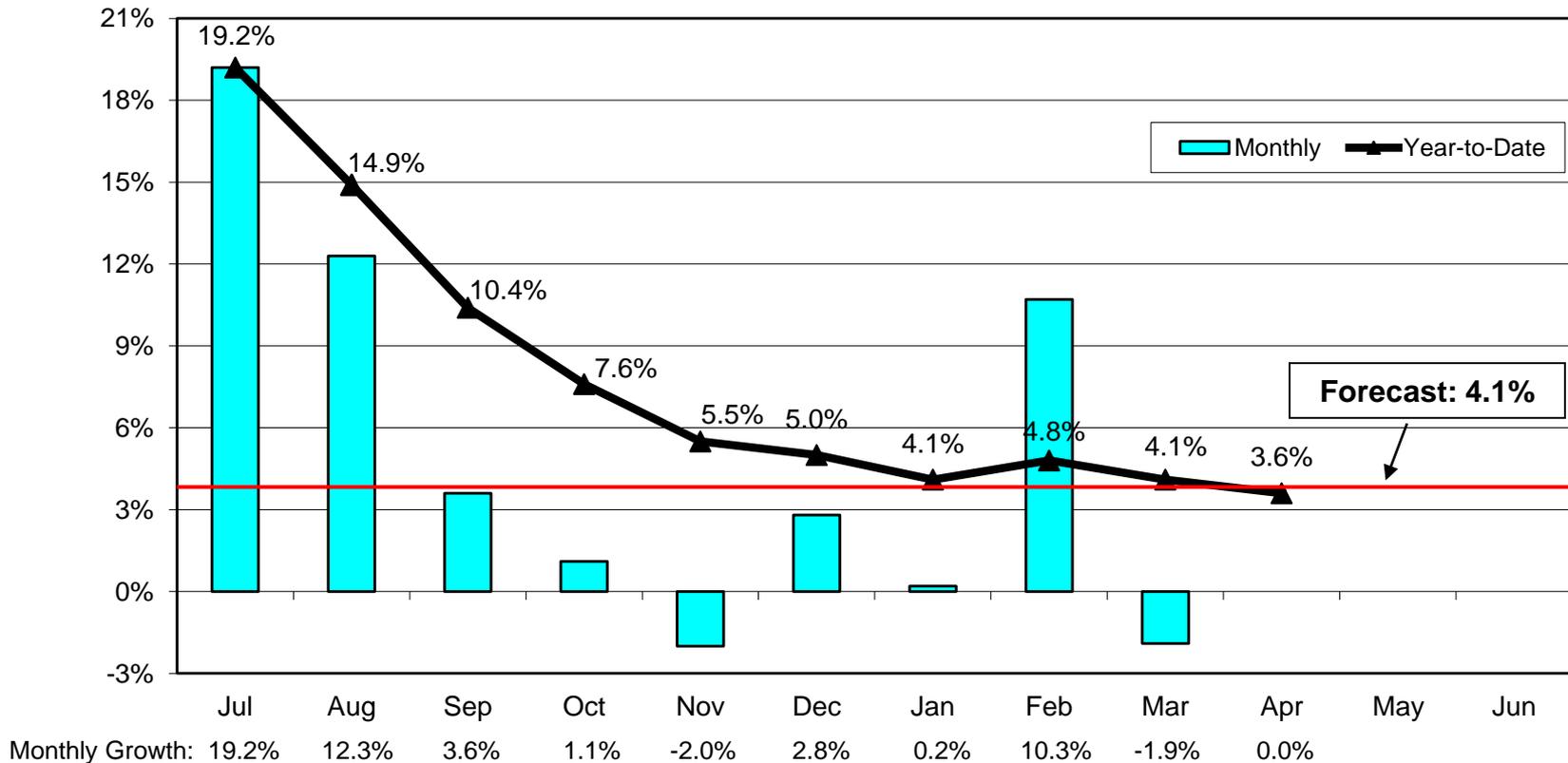
## **Individual Income Tax Refunds**

- As the main filing season continues, \$472.3 million in refunds were issued in April compared with \$473.3 million last April.
- Year-to-date, refunds fell 4.2 percent from the same period last year, behind the estimate of a 0.4 percent increase.
  - Since the filing season began in January, TAX has issued 2.3 million refunds, as compared to the 2.4 million issued last year. The average check size is down about 0.9 percent.

## **Net Individual Income Tax**

- Through April, collections of net individual income tax rose 5.0 percent from the same period last year, ahead of the annual estimate of 4.5 percent growth.

## Growth in Sales Tax Collections FY13 Monthly and Year-to-Date



- Collections of sales and use taxes, reflecting March sales, were flat in April.
- On a year-to-date basis, collections grew 3.6 percent, trailing the annual estimate of a 4.1 percent increase.
  - Adjusting for AST, sales tax collections grew 2.2 percent through April, behind the ahead of the economic-base forecast of a 3.2 percent increase.

## Net Corporate Income Tax Collections

- Collections of corporate income tax were \$145.9 million in April, compared with \$162.3 million last April, a 10.1 percent decline.
- On a year-to-date basis, collections in this source have decreased 8.2 percent, ahead of the estimate of a 4.5 percent decline.

## **Recordation Tax Collections**

- Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – increased 13.3 percent in April.
  - Monthly growth rates have been in the double-digits 14 of the last 15 months.
  - On a year-to-date basis, collections are up 17.5 percent, far ahead of the forecast of 4.5 percent growth.

## **Insurance Premiums Tax**

- Estimated payments from insurance companies for April were \$102.5 million compared with \$108.2 million in April of last year.
- For the fiscal year to-date, net insurance premiums tax collections are \$161.5 million compared with \$149.4 million during the same period last year.

# Summary of Fiscal Year 2013 Revenue Collections

July through April

Percent Growth over Prior Year

<u>Major Source</u>	As a % of Total Revenues	Percent Growth over Prior Year				
		<u>YTD Actual</u>	<u>Annual Estimate</u>	<u>Variance</u>	<u>May-June Req'd to Meet Est.</u>	<u>Prior Year May-June</u>
Withholding	63.1 %	3.1 %	3.3 %	(0.2) %	3.9 %	8.9 %
Nonwithholding	15.3	5.7	6.8	(1.1)	9.3	(2.6)
Refunds	(10.9)	(4.2)	0.4	(4.6)	34.8	5.7
Net Individual	67.6	5.0	4.5	0.5	2.7	5.3
Sales	19.8	3.6	4.1	(0.5)	5.7	(1.6)
Corporate	5.0	(8.2)	(4.5)	(3.7)	6.8	7.1
Wills (Recordation)	2.0	17.5	4.5	13.0	(49.6)	18.2
Insurance	1.6	8.1	1.1	7.0	(9.1)	(1.5)
All Other Revenue	4.0	(0.9)	(2.2)	1.3	(5.6)	(4.7)
<b>Total</b>	<b>100.0 %</b>	<b>4.1 %</b>	<b>3.6 %</b>	<b>0.5 %</b>	<b>1.8 %</b>	<b>3.4 %</b>

Sales (x AST)	2.2 %	3.2 %	(1.0) %	7.9 %	5.2 %
Total (x AST)	3.8 %	3.4 %	0.4 %	2.0 %	4.7 %

# Summary of Fiscal Year 2013 Transportation Revenue Collections

July through April

<u>Major Source</u>	As a % of Total <u>Fund</u>	Percent Growth over Prior Year		
		<u>YTD Actual</u>	<u>Annual Estimate</u>	<u>Variance</u>
Motor Fuels Taxes	33.4	(1.1)	0.6	(1.7)
Motor Vehicle Sales and Use Tax	24.7	7.7	6.7	1.0
State Sales and Use Tax	21.3	4.1	5.9	(1.8)
Motor Vehicle License Fees	9.5	2.7	0.7	2.0
All Other Revenue	11.1	(1.7)	(2.2)	0.5
<b>Total</b>	<b>100.0 %</b>	<b>2.4 %</b>	<b>2.8 %</b>	<b>(0.4) %</b>

## Next Events

- May Collections
  - Corporate final and extension payments due from mainly retailers
- June Collections
  - Second calendar year estimated payments due from:
    - Individuals
    - Corporations
    - Insurance Companies
  - Last deposit day will be Monday, July 1<sup>st</sup> due to June 30<sup>th</sup> falling on a weekend

## FY 2013 Direct Aid Funding Shortfall Due to Average Daily Membership (ADM) Exceeding Projection

LOUDOUN	713
VIRGINIA BEACH	290
PRINCE WILLIAM	272
CHESTERFIELD	213
NORFOLK	109
NEWPORT NEWS	98
ALL OTHERS	<u>92</u>
TOTAL	1,787 more students than forecast

- Resulting funding shortfall totals approximately \$6 million.