



COMMONWEALTH of VIRGINIA
Office of the Governor

Richard D. Brown
Secretary of Finance

PO Box 1475
Richmond, VA. 23218

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MEMORANDUM

TO: The Honorable Robert F. McDonnell

THROUGH: The Honorable Martin Kent

FROM: Richard D. Brown *Richard D. Brown*

SUBJECT: January Revenue Data

January is a significant month for revenue collections. Individual estimated payments, sales taxes on December sales, and corporate income taxes from large retailers are due in January. This month's report compares actual revenue collections to the revenue estimates released in December 2010 and included in the budget introduced to the 2011 General Assembly. The March revenue report will incorporate the February mid-session revisions to the official revenue forecast released in December.

Total general fund revenue collections rose 12.6 percent in January. The monthly increase was driven by solid growth in withholding, nonwithholding, and sales taxes. On a year-to-date basis, total revenue collections rose 3.2 percent, close to the annual forecast of 3.5 percent growth. Adjusting for the accelerated sales tax program in June 2010, total revenues grew 5.4 percent through January, ahead of the economic-base forecast of 5.2 percent growth.

National Economic Indicators

Most national indicators suggest that economic growth should continue in 2011. In addition to improving fundamentals, recent actions by Congress have eliminated some fiscal uncertainty, and should provide a boost to confidence.

- According to the advance estimate, real GDP grew 3.2 percent at an annualized rate in the fourth quarter of 2010, up from 2.6 percent in the third quarter. This marked the sixth consecutive quarter of growth since the recession officially ended in June 2009.

- Although the labor market remains weak, modest gains have been reported in recent months. Payroll employment rose by only 36,000 jobs in January. The weak gain was due in part to the harsh winter weather affecting much of the country. January marked the fourth consecutive monthly increase and November and December were revised higher by a total of 40,000 jobs. In a separate report, the unemployment rate fell to 9.0 percent in January, as workers dropped out of the labor force.
- Initial claims for unemployment decreased by 42,000 to 415,000 during the week ending January 29, while the four-week moving average rose from 430,000 to 431,000. The initial claims data are consistent with a stagnant job market. Severe weather can also cause volatility in this indicator, although the decline is consistent with a slight improvement in the labor market.
- The Conference Board's index of leading indicators rose 1.0 percent in December, its sixth consecutive monthly increase. The gain in the index was broad-based and suggests the recovery is picking up.
- The Conference Board's index of consumer confidence rose from 53.3 to 60.6 in January, reaching its highest level since May 2010. Both the expectations and current conditions components increased in January, with the expectations component leading the gain. Although the monthly increase indicates confidence is improving, it still remains weak.
- The strength in the manufacturing sector suggests the recovery accelerated early this year. The Institute of Supply Management index rose from 58.5 to 60.8 in January, its highest level since May 2004, and its sixth consecutive monthly increase.
- The CPI increased 0.5 percent in December from the previous month. The index stands 1.5 percent above December of last year. Core inflation (excluding food and energy prices) rose 0.1 percent in December, and has increased 0.8 percent from December 2009.
- The Federal Reserve announced at its January meeting that it will keep the federal funds rate target unchanged at 0.0 to 0.25 percent. In addition, it will continue its quantitative easing policy of purchasing long-term treasury securities.

Virginia Economy

In Virginia, employers added jobs for the sixth consecutive month in December. Payroll employment in the Commonwealth grew 1.0 percent in December from December of last year. Modest growth in Northern Virginia and Hampton Roads was partly offset by continuing job losses in Richmond-Petersburg. Compared with December of last year, Northern Virginia posted a gain of 0.4 percent, Hampton Roads grew 1.0 percent, and Richmond-Petersburg fell 0.9 percent. The unemployment rate fell from 6.6 percent to 6.4 percent in December, the lowest rate since April 2009, and well below the peak of 7.8 percent in February 2010.

The Virginia Leading Index rose 0.3 percent in December, and has increased in nine of the last twelve months. All of the components improved in December except for building permits. The Leading Index rose in December in all eleven Virginia metro areas except Lynchburg, which showed a modest decline.

January Revenue Collections

Total general fund revenue collections rose 12.6 percent in January. The monthly increase was driven by solid growth in withholding, nonwithholding, and sales taxes. On a year-to-date basis, total revenue collections rose 3.2 percent, close to the annual forecast of 3.5 percent growth.

Net Individual Income Tax (66% of general fund revenues): Through January, collections of net individual income tax rose 5.7 percent from the same period last year, trailing the annual estimate of 6.5 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (64% of general fund revenues): Collections of payroll withholding taxes grew 5.4 percent in January. This marked the ninth consecutive month of growth in this source. Year-to-date withholding collections grew 5.1 percent compared with the same period last year, ahead of the projected annual growth rate of 3.4 percent.

Individual Income Tax Nonwithholding (14% of general fund revenues): Collections in this source rose 10.0 percent in January. December and January are significant months for collections in this source, and results can be distorted by the timing of payments. The fourth estimated payment for tax year 2010 was due January 15, and some of these payments were received in December, so the two months must be considered together to assess growth in this source. Receipts of estimated payments for the two-month period rose 13.2 percent from last year. Year-to-date, collections fell 0.7 percent from the same period last year, compared with the annual estimate of 10.9 percent growth.

Individual Income Tax Refunds: TAX issued \$83.0 million in refunds in January compared with \$88.8 million last January. The main income tax filing season will begin in February.

Sales Tax (20% of general fund revenues): Collections of sales and use taxes, reflecting December sales, rose 5.7 percent in January. Taken together, collections of sales and use taxes for December and January (amnesty payments from December 2009 removed) rose 7.0 percent.

On a year-to-date basis, collections have fallen 6.2 percent. The large year-to-date decline is due to the accelerated sales tax program in fiscal year 2010, which required dealers to remit July payments in June. Adjusting for this and other policy initiatives, including amnesty and the revised dealer discount, sales tax collections have grown by 4.7 percent year-to-date, close to the economic-base forecast of a 4.8 percent increase.

Corporate Income Tax (5% of general fund revenues): Collections of corporate income tax were \$33.6 million in January, compared with \$30.2 million last January. On a year-to-date basis, collections in this source have fallen 2.7 percent, ahead of the estimate of a 3.1 percent decline.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – rose 17.5 percent in January, the sixth consecutive month of growth in this source. On a year-to-date basis, collections are up 1.0 percent, ahead of the forecast of a 5.6 percent decline.

Insurance Premiums (2% of general fund revenues): Monthly growth in this source is distorted. Last year, \$63.0 million in refunds were paid in January, while refunds have not yet been paid this year. Collections in January were \$3.3 million, compared with a \$62.1 million decline in net collections in January 2010.

Other Revenue Sources

The following list provides data on January collections for other revenue sources:

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (1% GF revenues)	-40.6%	-20.7%
ABC Taxes (1% GF revenues)	2.2%	1.2%

Note: Interest was allocated in accordance with Section 3-3.03 of Chapter 874, 2010 Virginia Acts of Assembly.

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue grew 31.3 percent in January – \$48.3 million compared with \$36.8 million last January. A significant increase in fines, forfeitures, and fees led the gain. For the fiscal year, collections of All Other Revenue grew 11.7 percent from the same period in fiscal year 2010, ahead of the annual estimate of 3.6 percent growth.

Summary

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