



**COMMONWEALTH of VIRGINIA**  
*Office of the Governor*

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February 13, 2012

**MEMORANDUM**

TO: The Honorable Robert F. McDonnell

THROUGH: The Honorable Martin Kent

FROM: 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 revenue report compares actual revenue collections to the revenue estimates included in the budget (HB29/SB29) introduced to the 2012 General Assembly.

Total general fund revenue collections rose 3.4 percent in January. All major sources except recordation taxes contributed to the growth. On a year-to-date basis, total revenue collections rose 4.0 percent through January, slightly behind the revised annual forecast of 4.6 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 3.6 percent through January, trailing the adjusted forecast of 4.7 percent growth.

**National Economic Indicators**

Most national economic indicators suggest the modest expansion will continue, although uncertainty about domestic policy decisions, the European debt crisis, and slowing global economies remain drags on growth.

- According to the advance estimate, real GDP grew at an annualized rate of 2.8 percent in the fourth quarter of 2011, up from growth of 1.8 percent in the third quarter and 1.3 percent in the second quarter. Although growth accelerated during the year, it was dampened by the disaster in Japan, the European debt crisis, and political uncertainty in

the U.S. For calendar year 2011, the economy grew 1.7 percent, down from 3.0 percent in 2010.

- Labor market conditions in January exceeded expectations. Payroll employment added 243,000 jobs in January after rising by 203,000 in December. The gains were widespread, with the largest gains in professional and business services, leisure and hospitality, and manufacturing. In a separate report, the unemployment rate fell from 8.5 to 8.3 percent in January, its lowest rate since February 2009.
- Initial claims for unemployment fell by 15,000 to 358,000 during the week ending February 4, while the four-week moving average fell from 377,250 to 366,250. The number of initial claims is approaching a level consistent with a healthy labor market.
- The Conference Board index of leading indicators rose 0.4 percent in December, its third consecutive monthly gain. Eight of the ten components contributed to the increase. The rise in the index suggests that moderate growth will be sustained.
- The Conference Board's index of consumer confidence fell from 64.8 to 61.1 in January, following two months of significant improvement. While both the expectations and the present situation components fell in January, the latter component drove the decline.
- The manufacturing sector continued to expand in January as the Institute of Supply Management index rose from 53.1 to 54.1, its highest level since June 2011. Activity suggests that moderate economic growth will continue.
- The CPI was unchanged in December, as it was in November, and stands 3.0 percent above December 2010. Core inflation (excluding food and energy prices) rose 0.1 percent in December, and has increased 2.2 percent from December 2010.
- 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, stating that economic conditions "are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014."

## **Virginia Economy**

In Virginia, job growth has continued to improve, although the pace remains modest. Payroll employment rose 1.0 percent in December from December of last year. Employment grew 1.3 percent in Northern Virginia and 0.4 percent in Richmond-Petersburg, but fell 0.2 percent in Hampton Roads. The unemployment rate in the Commonwealth rose 0.4 percent to 6.1 percent in December, and is 0.3 percent below the December 2010 rate.

The Virginia Leading Index rose 0.9 percent in December, after increasing 0.4 percent in November. All five components contributed positively to the index. In addition, the Leading Index rose in December for all eleven major metro areas.

## January Revenue Collections

Total general fund revenue collections rose 3.4 percent in January. All major sources except recordation taxes contributed to the growth. On a year-to-date basis, total revenue collections rose 4.0 percent through January, slightly behind the revised annual forecast of 4.6 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 3.6 percent through January, trailing the adjusted forecast of 4.7 percent growth.

***Net Individual Income Tax (67% of general fund revenues)***: Through January, collections of net individual income tax rose 4.8 percent from the same period last year, lagging the annual estimate of 5.9 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 rose 3.2 percent in January. Year-to-date, withholding collections grew 3.0 percent compared with the same period last year, slightly behind the projected annual growth rate of 3.8 percent.

***Individual Income Tax Nonwithholding (16% of general fund revenues)***: Collections in this source rose 4.4 percent in January. December and January are significant months for collections in this source, and receipts can be distorted by the timing of payments. The fourth estimated payment for tax year 2011 was due January 17, 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 9.6 percent from last year. Year-to-date, nonwithholding collections rose 11.0 percent over the same period last year, close to the annual estimate of 12.6 percent growth.

***Individual Income Tax Refunds***: TAX issued \$97.1 million in refunds in January compared with \$83.0 million last year. Year-to-date, refunds have fallen 8.7 percent, compared with the annual estimate of a 3.0 percent increase. The main income tax filing season will begin in February.

***Sales Tax (19% of general fund revenues)***: Collections of sales and use taxes, reflecting December sales, rose 4.4 percent in January. Taken together, collections of sales and use taxes for December and January rose 4.2 percent.

On a year-to-date basis, collections have risen 5.0 percent, compared with the annual estimate of 1.8 percent growth. The strong year-to-date growth is due to the partial repeal of the accelerated sales tax program, which ended the participation of numerous small dealers. Adjusting for this legislation, sales tax collections have grown by 2.9 percent year-to-date, slightly ahead of the economic-base forecast of 2.5 percent growth.

***Corporate Income Tax (5% of general fund revenues)***: Collections of corporate income were \$51.5 million in January, compared with \$33.6 million last January. Year-to-date collections in this source have risen 1.5 percent, ahead of the annual estimate of a 0.7 percent increase.

***Wills, Suits, Deeds, Contracts (2% of general fund revenues):*** Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – fell 0.6 percent in January. On a year-to-date basis, collections are up 3.0 percent, lagging the annual forecast of 10.8 percent growth.

***Insurance Premiums (2% of general fund revenues):*** Collections of the tax on insurance premiums were \$371,000 in January compared with \$3.3 million in January of last year. Chapter 896 of the 2007 Acts of the Assembly required that \$137.3 million of collections in this source be transferred to the Transportation Trust Fund in fiscal year 2012 before making any deposits to the general fund. The required transfer was completed during December. Gross estimated payments were down 9.0 percent for the month of December, lagging the annual forecast of a 2.0 percent increase.

Year-to-date collections are down 32.3 percent, below the annual forecast of 2.0 percent growth. Although the companies do not provide an explanation for why they have smaller estimated payments, the slowing commercial real estate market and lower business and housing valuations must be some of the factors suppressing premium growth.

**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)	1.5%	1.1%
ABC Taxes (1% GF revenues)	4.7%	1.0%

*Note: Interest was allocated in accordance with Section 3-3.03 of Chapter 890, 2011 Virginia Acts of Assembly.*

***All Other Revenue (3% of general fund revenues):*** Receipts in All Other Revenue fell 10.5 percent in January – \$43.2 million compared with \$48.3 million last January. For the fiscal year, collections of All Other Revenue fell 4.3 percent, trailing the annual estimate of a 0.3 percent decline.

**Summary**

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