



COMMONWEALTH of VIRGINIA

Office of the Governor

John M. Bennett
Secretary of Finance

P.O. Box 1475
Richmond, Virginia 23218

February 11, 2005

MEMORANDUM

TO: The Honorable Mark R. Warner

THROUGH: The Honorable William H. Leighty

FROM: John M. Bennett

SUBJECT: January Revenue Data

This month's revenue report displays in the first column the revised forecast released on December 17, 2004. It does not incorporate the mid-session re-forecast, which added \$282.0 million to the general fund forecast for the 2004-06 biennium.

Total general fund revenue collections grew 20.8 percent in January. Collections were strongest in individual nonwithholding, corporate income taxes, and recordation taxes - three sources which are typically highly volatile. Individual withholding and sales taxes were also strong. Adjusting for the rate increases in sales and recordation taxes enacted in HB 5018, underlying revenue growth in January was 17.6 percent.

Through January, revenues have grown 14.3 percent above the same period last year, well ahead of the December 17 annual estimate of 8.2 percent growth.

National Economic Indicators

Most economic indicators continue to depict a healthy national economy, although growth in the job market remains modest.

- Real GDP grew 3.1 percent in the fourth quarter of 2004, slowing from third quarter growth of 4.0 percent.
- The labor market remained sluggish in January. Payroll employment grew by only 146,000 jobs, and December gains were revised downward to 133,000. The unemployment rate fell to 5.2 percent in January, as a result of a lower labor force participation.
- Initial claims for unemployment fell to 316,000 during the last week in January. The four-week moving average fell to 332,000, consistent with a moderately expanding job market.
- The manufacturing sector continues to expand, but at a slower rate. The Institute of Supply Management index fell to

56.4 in January. A decline in new orders accounted for most of the decline in the index.

- The Conference Board's index of leading indicators rose 0.2 percent in December, its second monthly increase following five months of declines. Consumer expectations and higher stock prices accounted for much of the increase.

- The Conference Board's index of consumer confidence rose slightly in January, following a large gain in December. A decline in the outlook component was offset by an improvement in the current conditions component.

- With a decline in energy prices, the consumer price index fell 0.1 percent in December. Core inflation rose at an annualized rate of 2.2 percent.

- As expected, the Federal Reserve raised the federal funds rate by another 25 basis points to 2.5 percent at its January meeting.

Virginia Economy

In Virginia, payroll employment grew by 2.2 percent in December compared with the same month last year. Northern Virginia payrolls grew by 3.0 percent, followed by Richmond-Petersburg with 1.4 percent, and Hampton Roads with 1.2 percent growth. The slowest job growth was in the Western Region, with a 0.7 percent gain. The unemployment rate fell to 3.0 percent in December.

The Virginia Leading Economic Index fell 0.4 percent in December. The rise in the U.S. Leading Index and lower initial claims for unemployment made positive contributions to the December index, but were offset by falling building permits and auto registrations. On a regional basis, the indexes for Charlottesville, Lynchburg, Danville, Roanoke, and Richmond-Petersburg grew in December. In Northern Virginia, Hampton Roads, and Bristol, the regional indexes fell.

January Revenue Collections

Total general fund revenues grew 20.8 percent in January compared to last January. Collections were strongest in individual nonwithholding, corporate estimated payments, and recordation taxes. Individual withholding and sales taxes were also strong.

Year-to-date growth through January is 14.3 percent, well ahead of the annual estimate of 8.2 percent.

Individual Income Tax Withholding (62% of general fund revenues): Collections of payroll withholding taxes grew 10.6 percent in January. Some of the apparent strength is an artifact of the comparison to last January, when collections grew an anemic 1.2 percent.

Year-to-date withholding growth is 8.2 percent - currently ahead of the 6.4 percent growth required to meet the December 17 forecast for FY 2005. Overall, withholding collections are tracking close to the December forecast. Growth rates in February and March will be heavily influenced by comparison to strong months last year. Last year, withholding collections grew 9.3 percent in February and 17.7 percent in March.

Individual Income Tax Nonwithholding (12% of general fund revenues): Collections of individual nonwithholding jumped 33.4 percent in January of last year -- the first time since FY 1998 that nonwithholding collections were strong in both December and January. Collections in December grew 21.2 percent. The number of checks and the average check size were both above the assumptions embedded in the December 17 forecast.

Year-to-date collections in this source are up 27.4 percent from the same period last year -- well ahead of the December 17 estimate of 7.1 percent growth. The mid-session revenue re-forecast added \$135.0 million to the projection in this source for FY 2005.

Individual Income Tax Refunds: Refunds this month totaled \$36.7 million, compared with \$35.6 million in January of last year. On a year-to-date basis, refunds are \$11.1 million above the same period last year. Growth of 5.7 percent is tracking close to the annual estimate of 6.5 percent, with the filing season just beginning. Processing of individual

income tax refunds will increase significantly in February, so a better assessment of refund processing will be available next month.

Sales Tax (22% of general fund revenues): January collections of sales and use taxes, which represent December sales, were up 18.5 percent. The holiday shopping season appears to have been stronger than most experts predicted, with growth of about 10.0 percent. February collections, which represent January sales, will complete the picture with collections from post-holiday sales and the redemption of gift cards included.

Year-to-date sales tax growth of 14.0 percent is still lagging the December 17 forecast of 14.7 percent. Adjusting for the rate increase effective September 1, collections were up 10.9 percent for the month and 9.0 percent year-to-date.

Corporate Income Tax (3% of general fund revenues): Corporate income tax collections jumped in January -- \$25.0 million compared with \$.04 million in January of last year. Estimated payments were substantially higher than last year and refunds were significantly lower. Collections strength is broad-based.

Through January, corporate income tax collections have grown 80.1 percent above the same period last year - the highest growth rate at this point in over 20 years, and well ahead of the December 17 forecast of 12.5 percent growth.

The mid-session re-forecast added \$70.0 million to this source for FY 2005.

Other Revenue Sources

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

	Year-to-Date	Required to Meet Estimate
Insurance Premiums Tax (3.0% GF revenues)	10.8%	8.5%
ABC Taxes (1.1% GF revenues)	3.1%	0.1%
Public Service Corporations (0.7% GF revenues)	3.4%	0.6%
Interest Income (0.7% GF revenues)	20.9%	12.4%

All Other Revenue: All Other Revenue grew 26.3 percent in January -- \$83.7 million compared with \$66.3 million in January of last year.

Collections doubled in the largest component of all other revenue -- wills, suits, deeds and contract fees. Of the \$44.5 million collected in this source, \$39.7 million was recordation tax receipts. Adjusting for the rate increase effective September 1, recordation tax collections grew by 32.4 percent. Year-to-date, collections of all other revenue are 28.0 percent above the same period last year -- ahead of the December 17 estimate of 9.0 percent growth.

The mid-session forecast added \$44.0 million to the projections for recordation taxes in FY 2005.

Lottery Revenues: In January, Lottery net income increased 3.3 percent over last year due to strong sales growth of about 12.0 percent. Although on a year-to-date basis growth of 5.5 percent is well above the annual revenue estimate of 3.8 percent, sales and profits lag nearly two percent below the strong growth projected for the first seven months of the fiscal year. To meet the annual forecast for FY 2005, sales will need to be stronger than the forecast for the last five months of the year, which already requires five percent growth over last year's record-breaking results.

Summary

This month's revenue report displays in the first column the revised forecast released on December 17, 2004. It does not incorporate the mid-session re-forecast, which added \$282.0 million to the general fund revenue forecast for the 2004-06 biennium.

Total general fund revenue collections grew 20.8 percent in January. Collections were strongest in individual nonwithholding, corporate income taxes, and recordation taxes - three sources which are typically highly volatile. Individual withholding and sales taxes were also strong. Adjusting for the rate increases in sales and recordation taxes enacted in HB 5018, underlying revenue growth in January was 17.6 percent.

Through January, revenues have grown 14.3 percent above the same period last year, well ahead of the December 17 annual estimate of 8.2 percent growth.