

# Economic and Revenue Update

## *A Briefing for the Money Committees*

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# Topics for Discussion

- National and State Economic Indicators
- September Year-to-Date Revenue Collections, Fiscal Year 2020
- Taxpayer Relief Refunds
- 2019 Revenue Forecasting Schedule
- General Fund Structural Balance
- Known Funding Commitments / Risks
- Nongeneral Fund

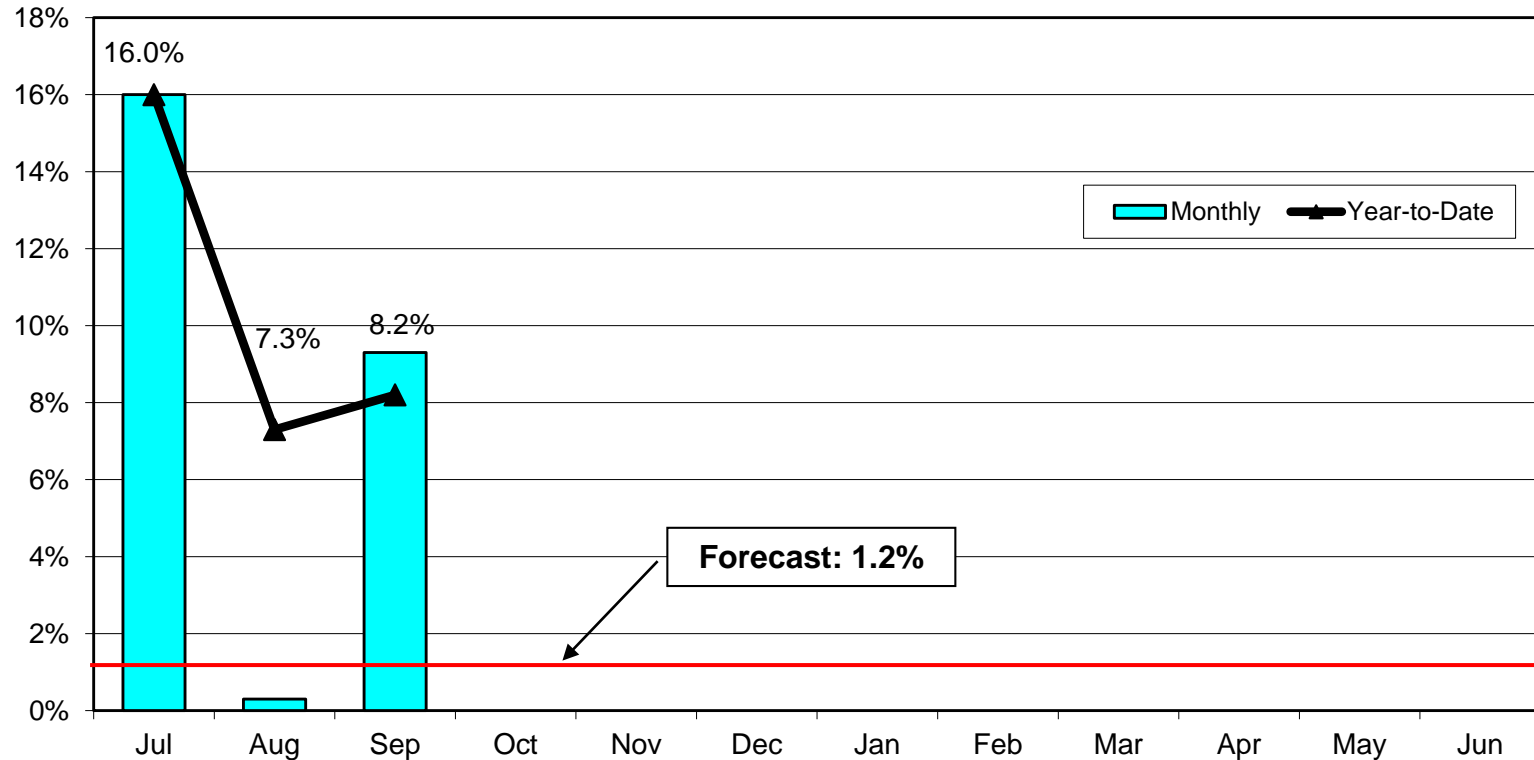
# National and State Economic Indicators

- According to the third estimate, real GDP grew at an annualized rate of 2.0 percent in the second quarter of 2019, slowing from 3.1 percent in the first quarter.
- Payroll employment rose by 136,000 jobs in September.
  - This follows gains of 168,000 in August and 166,000 in July.
- The national unemployment rate fell to 3.5 percent in September, the lowest level of the expansion.
- Initial claims for unemployment increased by 4,000 to 219,000 during the week ending September 28, consistent with a healthy labor market.
  - The four-week moving average was unchanged at 212,500.
- The Conference Board's index of leading indicators was unchanged in August, following a 0.4 percent increase in July, suggesting moderate economic growth should continue.
- The Conference Board's index of consumer confidence fell from 134.2 to 125.1 in September, with both the expectations and current conditions components declining. The decline is not necessarily a sign that confidence is falling sharply, as the index has been choppy in recent months.
- The manufacturing sector contracted for the second consecutive month in September. The Institute of Supply Management index fell from 49.1 to 47.8.
  - Although a reading below 50 indicates that the manufacturing sector is contracting, this is still above the recession threshold of 42.9.

# National and State Economic Indicators

- The CPI rose 0.1 percent in August following a 0.3 percent increase in July, and stands 1.8 percent above August 2018.
  - Core inflation (excluding food and energy prices) rose by 0.3 percent, and has increased 2.4 percent from last year.
- At its September meeting, the Federal Reserve lowered the federal funds target rate by 25 basis points to the 1.75 to 2.0 percent range.
- In Virginia, payroll employment rose 0.9 percent in August compared with last year. Northern Virginia posted growth of 0.8 percent; Hampton Roads employment grew 0.3 percent, and Richmond-Petersburg rose 0.6 percent.
- The seasonally adjusted unemployment rate fell 0.1 percentage point to 2.8 percent in August and was unchanged from August of last year.
- The Virginia Leading Index rose 0.1 percent in August after rising 0.1 percent in July.
  - Future employment and initial claims improved while auto registrations declined; the U.S. Leading index was unchanged.
  - The indexes Roanoke, Northern Virginia, and Bristol were unchanged in August, while the indexes for the remaining Virginia metro areas rose.

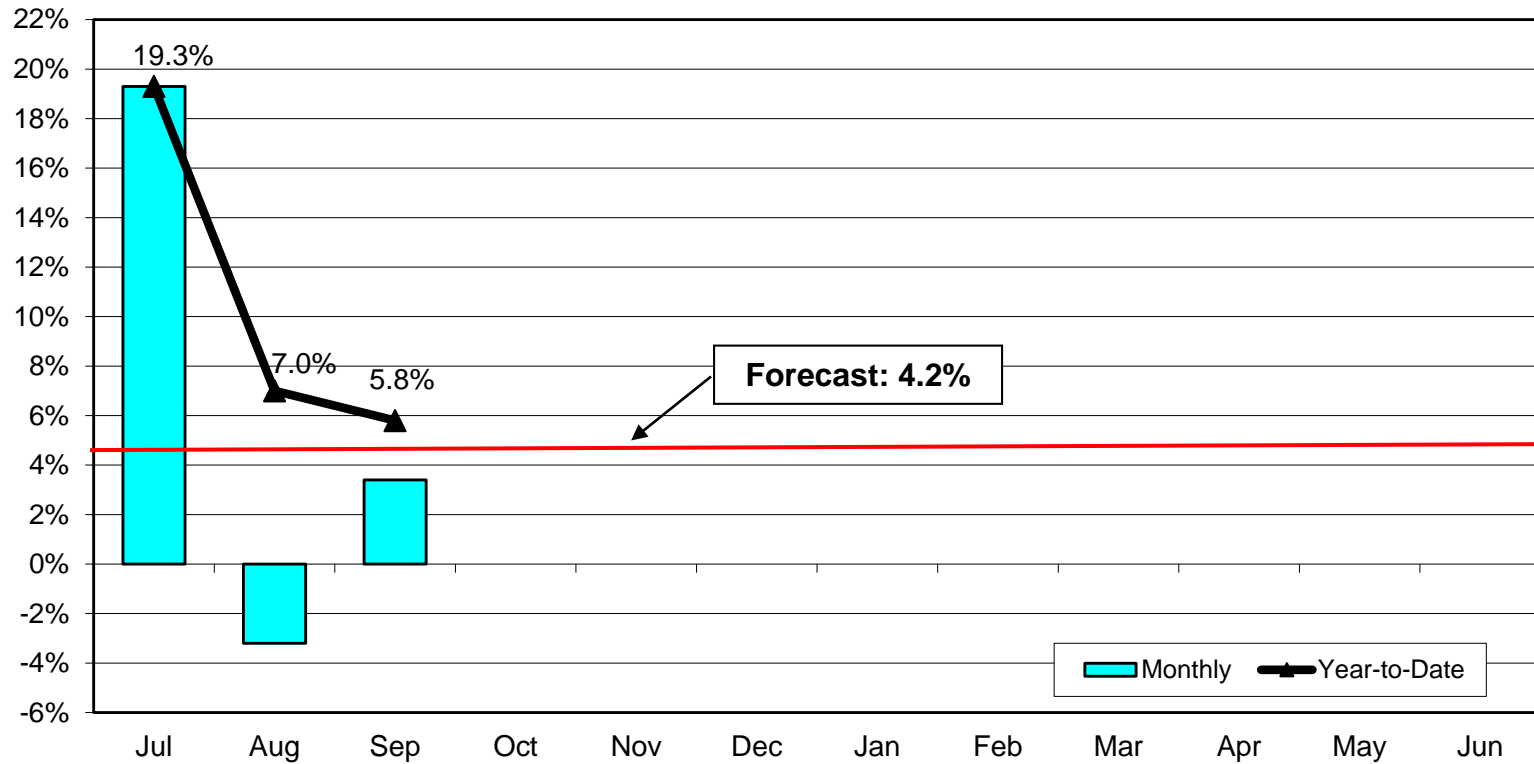
## Growth in Total General Fund Revenue Collections FY20 Monthly and Year-to-Date



Monthly Growth: 16.0% 0.3% 9.3%

- Total general fund revenues increased 9.3 percent in September.
  - Broad-based growth in payroll withholding, sales, individual nonwithholding, corporate and recordation tax collections.
- On a year-to-date basis, total revenues increased 8.2 percent, ahead of the annual forecast of a 1.2 percent increase.

## Growth in Withholding Tax Collections FY20 Monthly and Year-to-Date

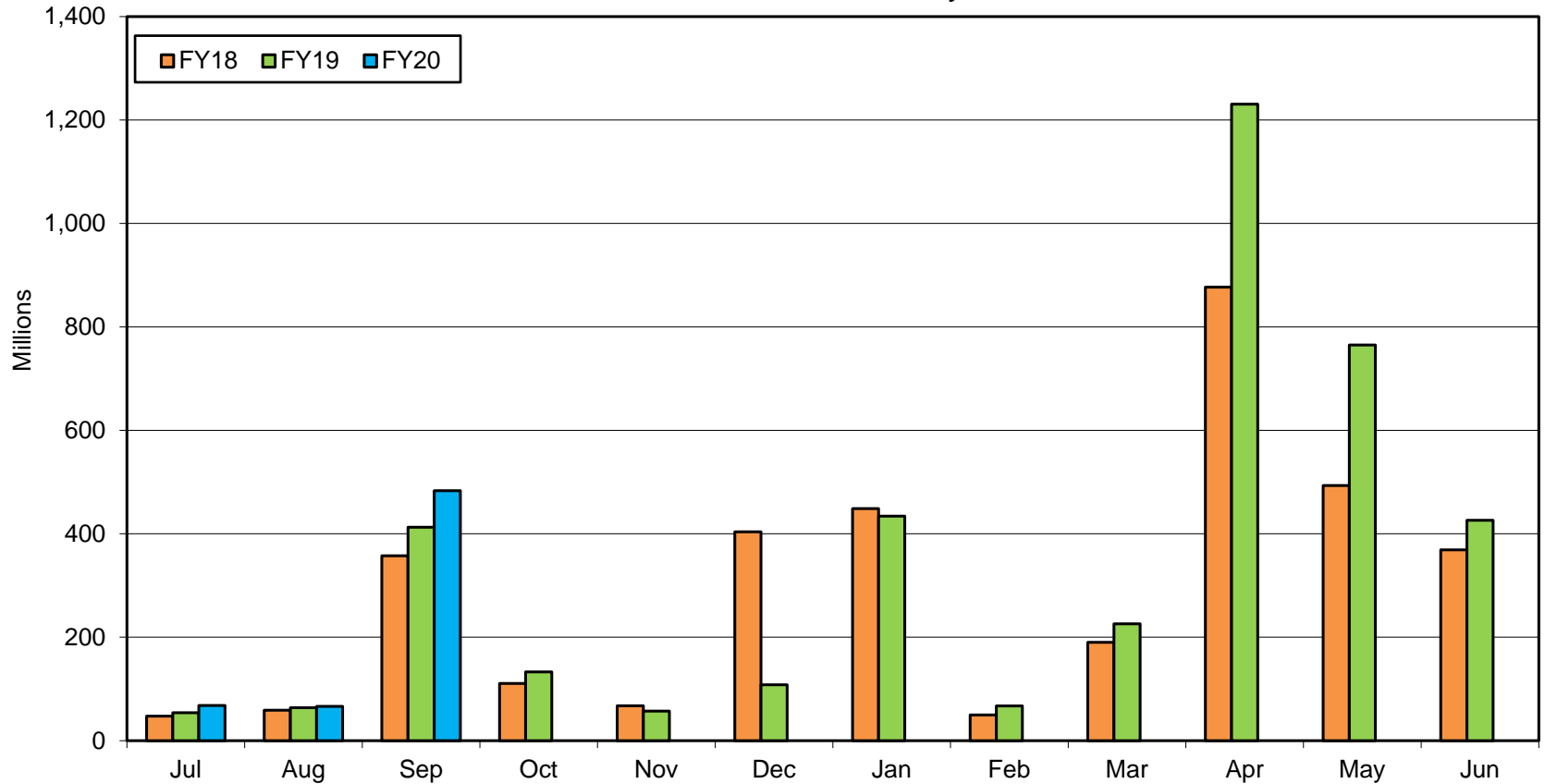


Monthly Growth: 19.3% -3.2% 3.4%

- Collections increased 3.4 percent in September.
  - Solid broad-based growth
- Year-to-date, withholding collections have increased 5.8 percent compared with the same period last year, ahead of the projected annual growth of 4.2 percent.

# Nonwithholding Tax Collections

FY18 – FY20 Monthly



- The first individual estimated payment in fiscal year 2020 was due in September. Total monthly nonwithholding collections increased 17.2 percent.
- Year-to-date, collections through the first quarter of fiscal year 2020 were \$617.6 million compared with \$530.3 million in the same period last year, an increase of 16.5 percent and ahead of the annual estimate of a 3.5 percent decline.

# Nonwithholding Tax Collections

## Large Individual Payments

	September		April - May	
	Number of Payments	Total Amount of Payments M\$	Number of Payments	Total Amount of Payments M\$
FY07	149	\$37.7	930	\$330.8
FY08	162	\$38.1	924	\$344.2
FY09	144	\$37.6	511	\$257.9
FY10	81	\$19.0	328	\$112.5
FY11	79	\$18.6	547	\$204.7
FY12	119	\$48.9	521	\$184.4
FY13	115	\$41.5	884	\$327.5
FY14	118	\$34.9	427	\$141.5
FY15	139	\$40.0	606	\$215.5
FY16	171	\$50.1	687	\$220.2
FY17	159	\$54.0	645	\$178.7
FY18	165	\$52.5	646	\$201.8
FY19	212	\$62.4	1,195	\$463.8
FY20	237	\$79.3	?	?

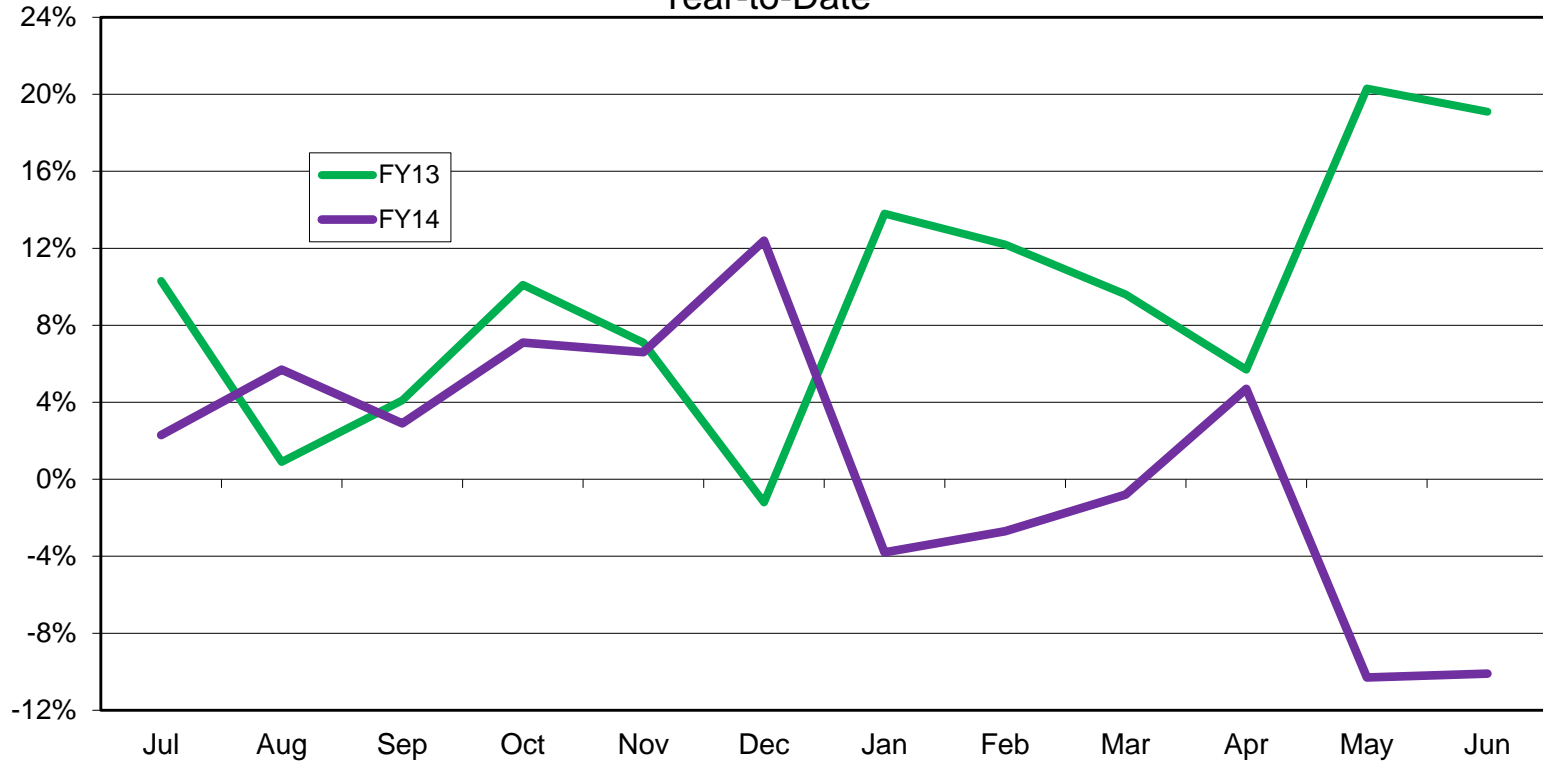
- The September payment is more often a “safe harbor” payment than a reflection of current year wage and non-wage income.

# Nonwithholding Tax Collections

## Growth in Nonwithholding Revenue Collections

FY13 and FY14

Year-to-Date



- January's estimated payment will provide first meaningful data point.

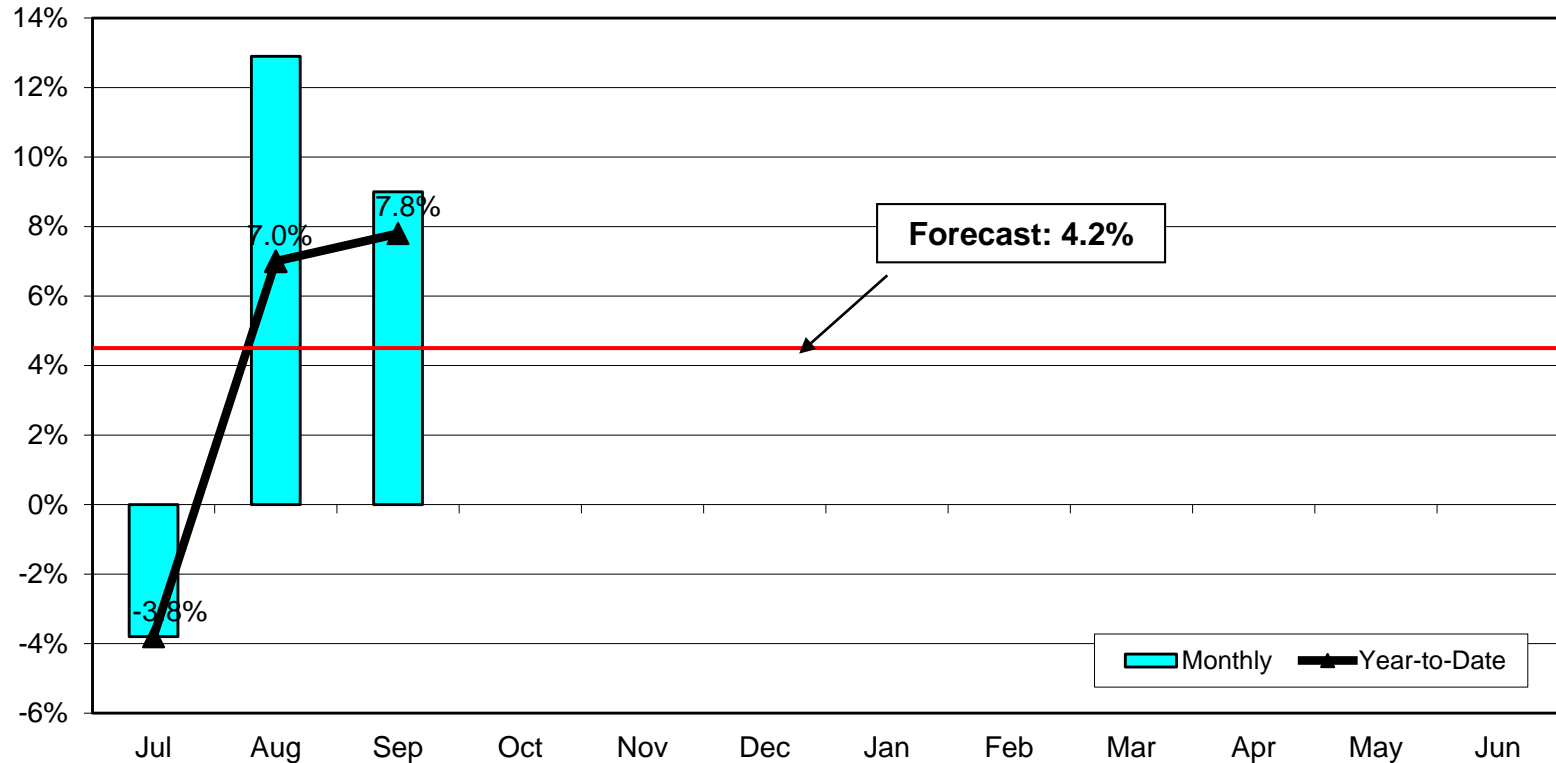
## **Individual Income Tax Refunds**

- Not a significant month.
- Through September, TAX has issued \$158.5 million in individual refunds compared with \$137.9 million in the same period last year.

## **Net Individual Income Tax**

- Through the first three months of the fiscal year, collections of net individual income tax increased 7.2 percent from the same period last year, ahead of the annual estimate of a 0.2 percent increase.

## Growth in Sales Tax Collections FY20 Monthly and Year-to-Date



Monthly Growth: -3.8% 12.9% 9.0%

- Collections of sales and use taxes, reflecting mainly August sales, increased 9.0 percent in September.
  - The increase is due to use tax receipts as numerous Internet companies registered as sales and use tax dealers. This is directly related to the anticipated increase in Wayfair related revenues contained in Chapter 854. New use tax dealers submitted \$26.4 million for the month – the entire 9.0 percent monthly growth.
- On a year-to-date basis, collections increased 7.8 percent, ahead of the annual estimate of 4.2 percent growth.

## Net Corporate Income Tax Collections

- Similar to nonwithholding, September is a significant month in corporate income tax collections since the first estimated payment for the fiscal year is due.
  - Collections in corporate income tax increased 13.2 percent in September. This is the exact opposite of last September's decline in receipts.
  - This increase appears to be broad-based.
- Through the first quarter of fiscal year 2020, collections in this source have increased 8.5 percent, behind the annual estimate of 9.3 percent growth.
- Through the first quarter, 23.9 percent of the projected fiscal year's net corporate payments have been received.
  - This is behind the historical average of 25.2 percent.

# Recordation and Insurance Premiums Tax

## Recordation

- In September, collections increased 35.0 percent compared to last year. Year-to-date collections have increased 25.4 percent compared to last year, ahead of the forecast of a 4.6 percent decline.
- This quarter's collections of \$122.1 million is the largest July-September quarter since the \$130.7 million in July-September of 2007.

## Insurance

- There are no deposits to the general fund as the required transfers to the Transportation Trust Fund must be satisfied first. Transportation must receive \$183.6 million before deposits are made to the General Fund.

# Summary of Fiscal Year 2020 Revenue Collections

July through September

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>Oct-Jun Req'd to Meet Est.</u>	<u>Prior Year Oct-Jun</u>
Withholding	62.8 %	5.8 %	4.2 %	1.6 %	3.8 %	4.3 %
Nonwithholding	17.8	16.5	(3.5)	20.0	(6.6)	14.5
Refunds	(9.8)	15.0	21.7	(6.7)	22.3	(10.1)
Net Individual	70.8	7.2	0.2	7.0	(1.7)	9.5
Sales	17.3	7.8	4.2	3.6	3.3	2.5
Corporate	4.8	8.5	9.3	(0.8)	9.5	17.5
Wills (Recordation)	1.7	25.4	(4.6)	30.0	(14.7)	0.5
Insurance	1.9	n/a	7.4	n/a	n/a	n/a
All Other Revenue	3.5	20.6	(4.3)	24.9	(10.0)	9.0
<b>Total</b>	<b>100.0 %</b>	<b>8.2 %</b>	<b>1.2 %</b>	<b>7.0 %</b>	<b>(0.7) %</b>	<b>8.4 %</b>

- Total revenues can decline 0.7 percent and still attain the Chapter 854 enacted budget.

# Summary of Fiscal Year 2020 Commonwealth Transportation Fund Revenue Collections

July through September

	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 (1)	17.3 %	16.8 %	9.0 %	7.8 %
Priority Transportation Fund (2)	3.4	5.8	8.8	(3.0)
Motor Vehicles Sales Tax (3)	17.9	7.1	(5.5)	12.6
Retail Sales Tax	20.7	5.4	2.5	2.9
Motor Vehicle License Fees	5.5	3.6	12.0	(8.4)
All Other Revenue	2.3	5.6	(15.9)	21.5
<b>Total (4)</b>	<b>67.1 %</b>	<b>8.2 %</b>	<b>2.0 %</b>	<b>6.2 %</b>

- Motor fuels and vehicle sales tax are expected to slow over the remainder of the fiscal year.

Notes:

(1) Includes aviation and road tax

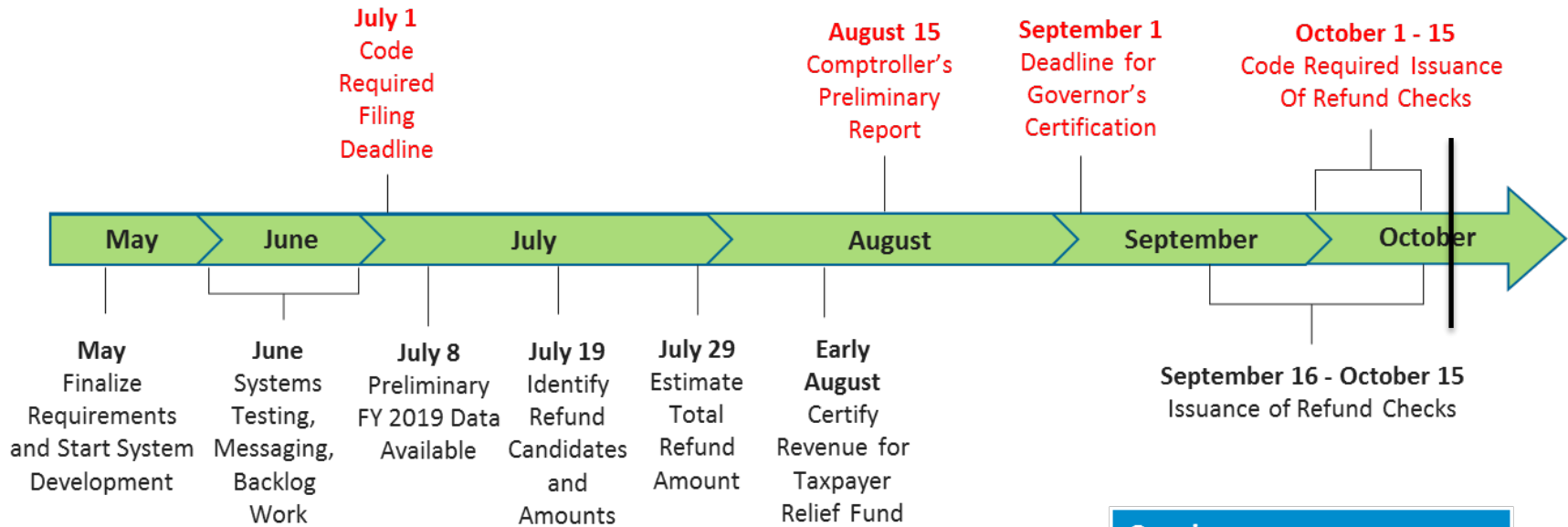
(2) Insurance premiums tax

(3) Includes rental tax

(4) Total state taxes and fees. 32.9% of the CTF is comprised of various federal and local revenues.

# Taxpayer Relief Refunds

## High-level Anticipated Timeline



- Ongoing:**
- Error worklists cleared
  - Refund checks reissued
  - File generation for Treasury

Note: Dates in red are in *Code of Virginia*

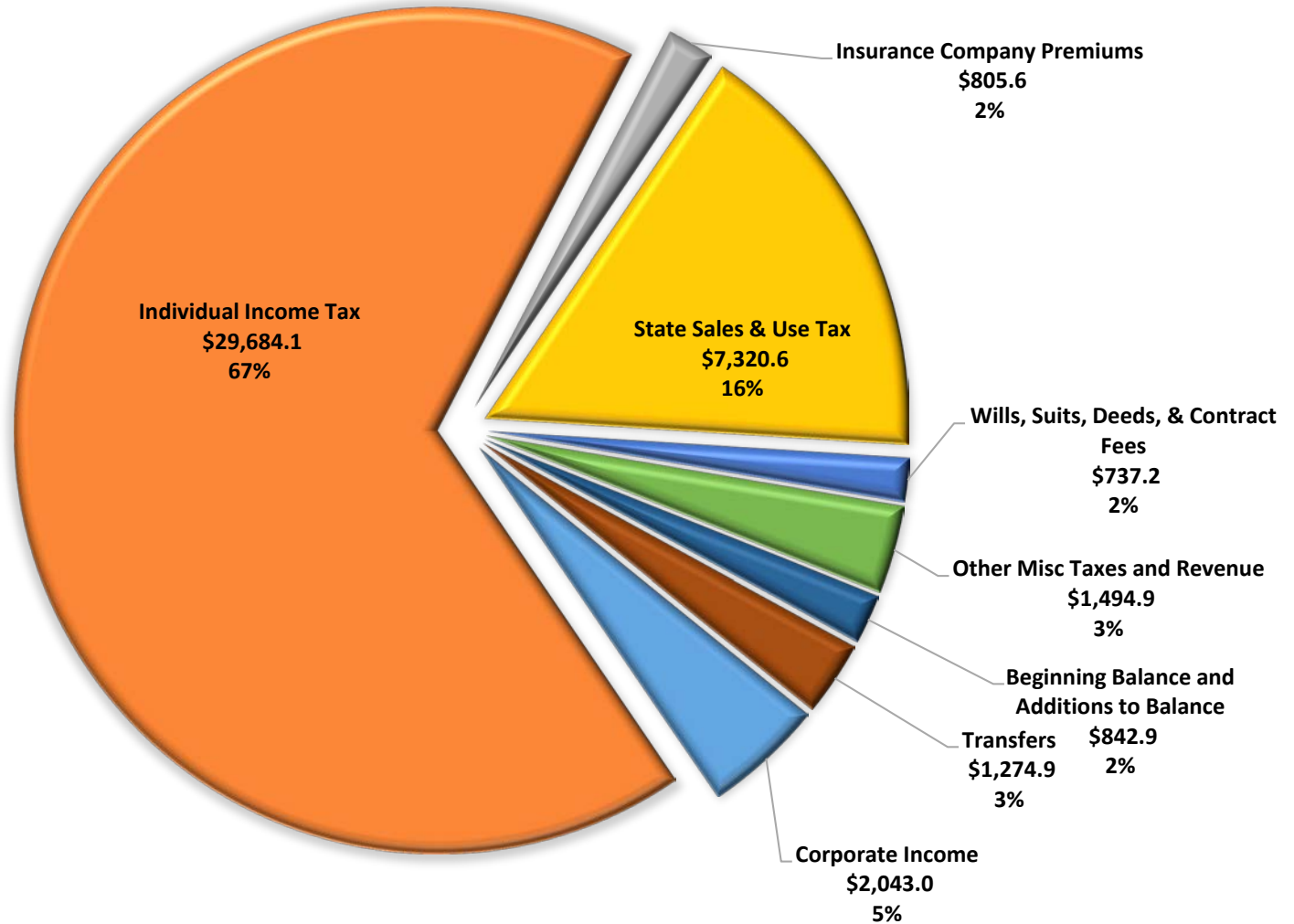
## 2019 Revenue Forecasting Schedule

- **October 17** – *Joint Advisory Board of Economists* (JABE) reviewed outlook for the current and next biennium (FY20 – FY22).
- **November 25** – *Governor’s Advisory Council on Revenue Estimates* (GACRE) reviews economic and revenue outlook for current and next biennium (FY20 – FY22).
- **December 17** – Governor releases revised forecast and budget actions for 2018 – 2020 biennium and introduces 2020 – 2022 budget.

# 2018-2020 BIENNIUM GENERAL FUND REVENUES/RESOURCES = \$44.2 BILLION

Chapter 854, 2019 Acts of Assembly

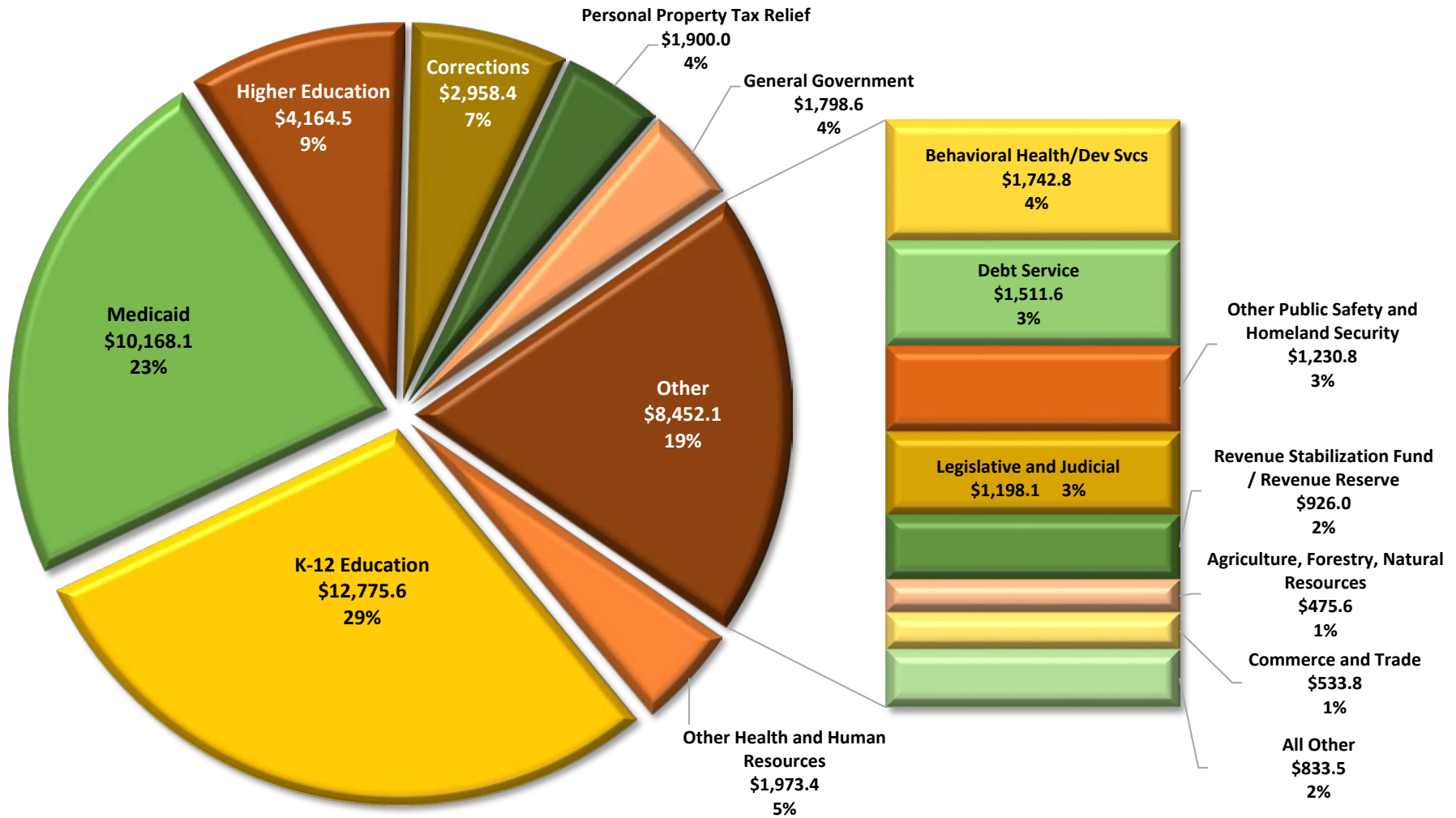
(Dollars in Millions)



# 2018-2020 BIENNIUM GF OPERATING BUDGET = \$44.2 BILLION

Chapter 854, 2019 Acts of Assembly

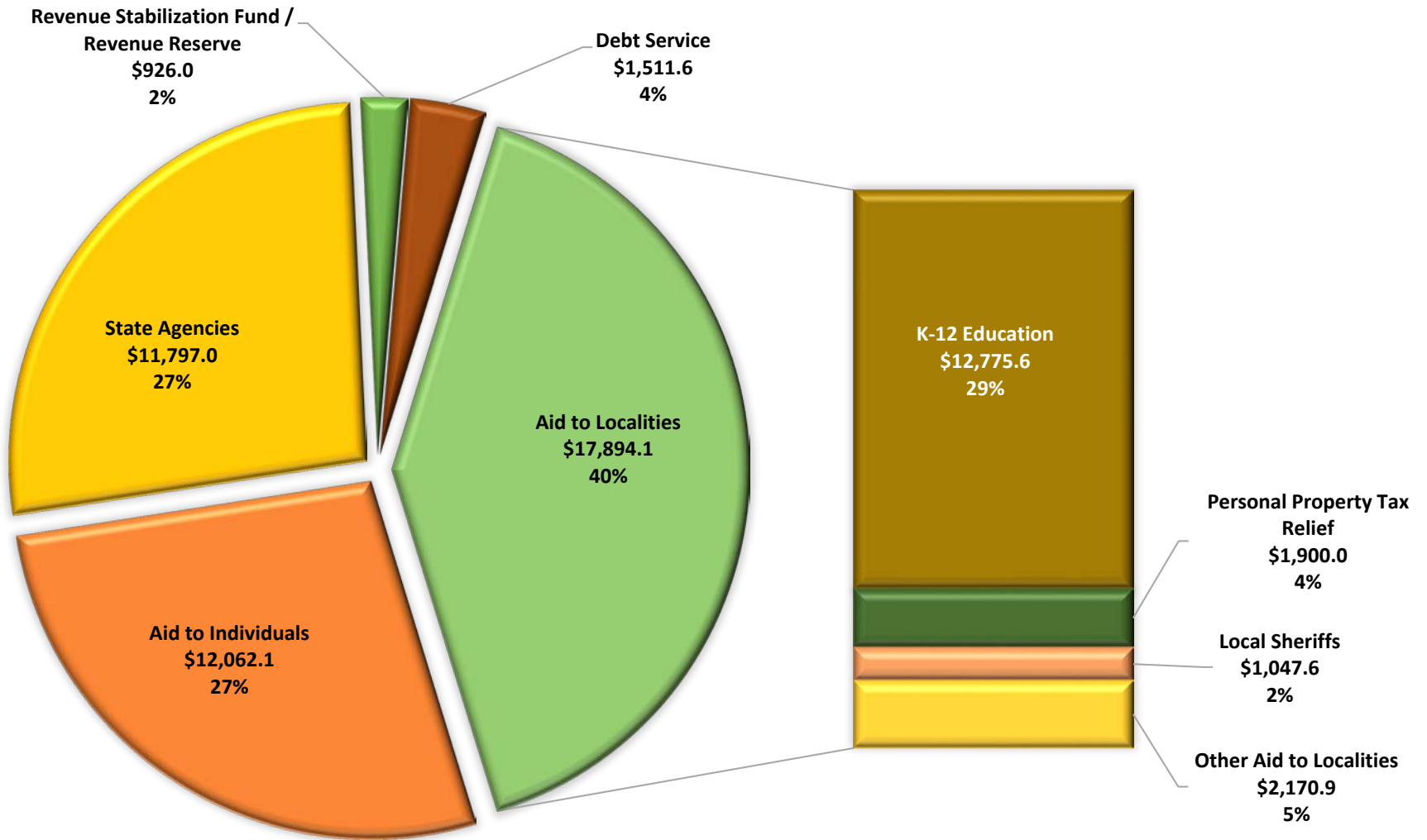
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# 2018-2020 BIENNIUM GF BUDGET = \$44.2 BILLION

Chapter 854, 2019 Acts of Assembly

(Dollars in Millions)



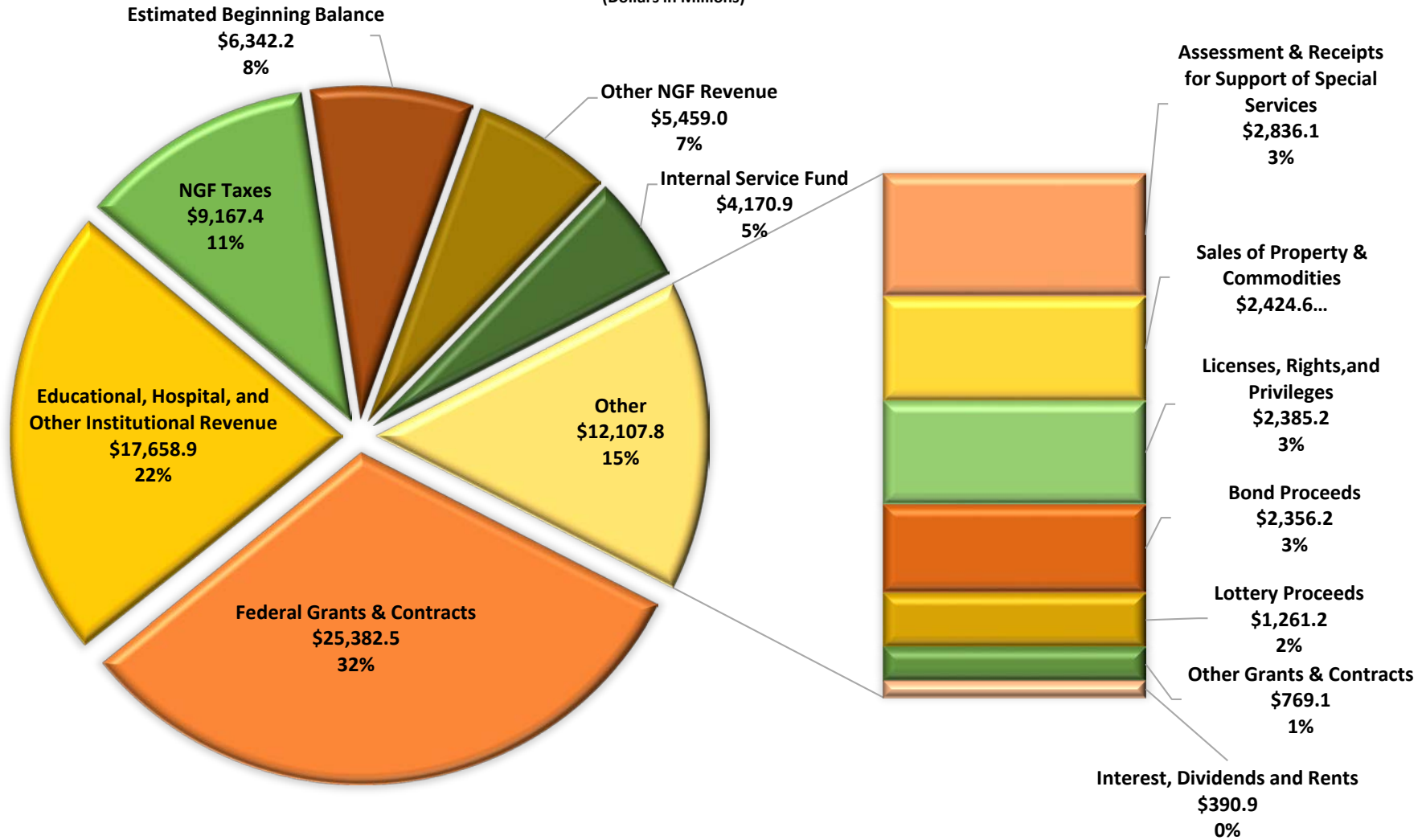
# Known Funding Commitments / Risks

- **Annual Medicaid Forecast**
- **Standards of Quality (SOQ) Rebenchmarking**
- **Virginia Retirement System (VRS) Discount Rate**
- **Federal Actions**
  - Grants Funding
  - Disallowances
- **Agency Projects**
  - DOA / DHRM – Human Resource System Replacement
- **Transportation Funding**
- **Lottery**
- **Capital Allocation**
  - Priority
  - Deferred Maintenance
  - Increased Construction Costs

# 2018-2020 BIENNIUM NONGENERAL FUND REVENUES / RESOURCES= \$80.6 BILLION

## Chapter 854, 2019 Acts of Assembly

(Dollars in Millions)



# 2018-2020 BIENNIUM NGF BUDGET = \$79.2 BILLION

Chapter 854, 2019 Acts of Assembly

(Dollars in Millions)

