



# 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 2019
- Steps Leading to Forecast
- Rating Agency / JABE Update
- Hurricane Florence Update
- Known Funding Commitments / Risks

# National and State Economic Indicators

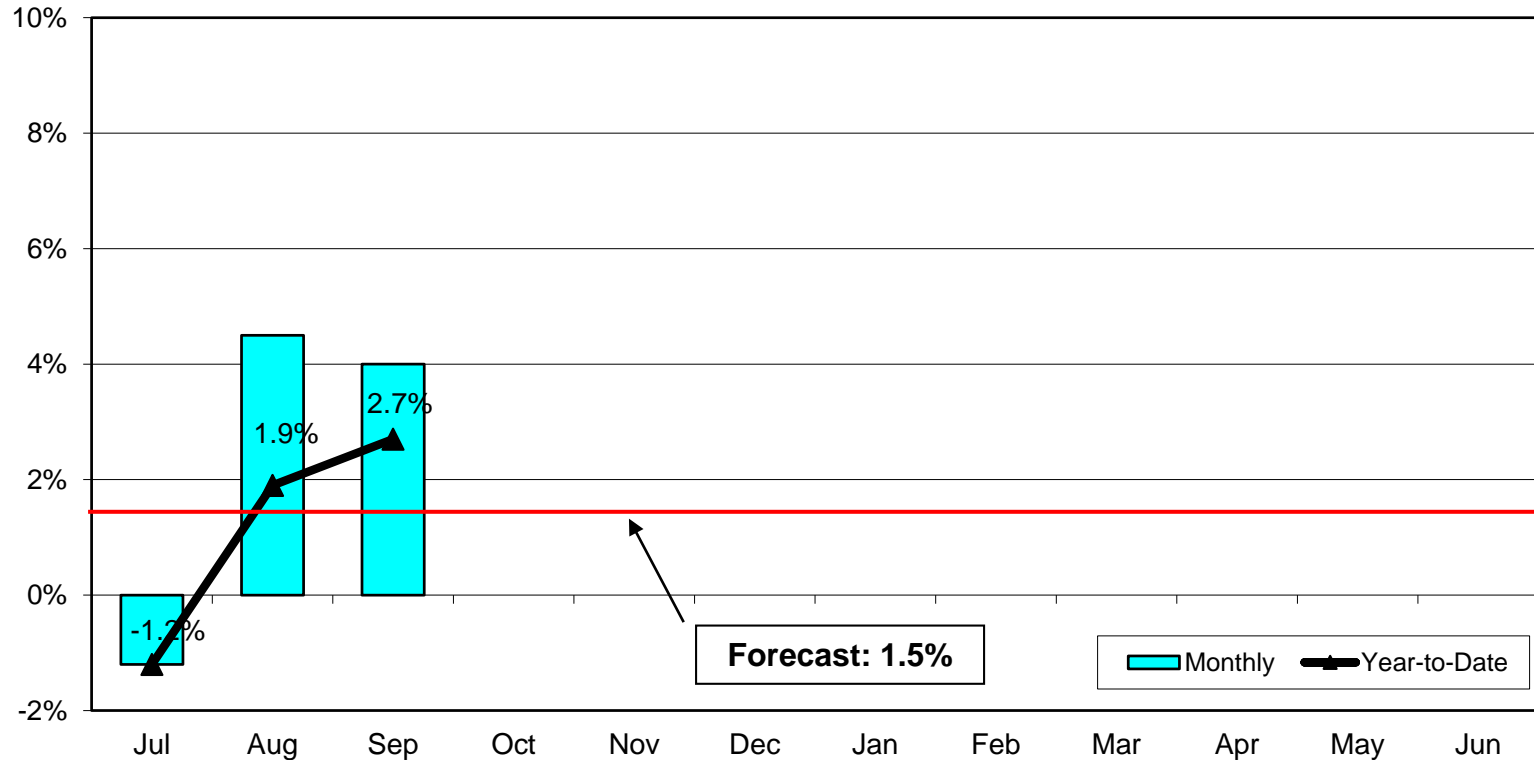
- According to the final estimate, real GDP grew at an annualized rate of 4.2 percent in the second quarter of 2018, following 2.2 percent in the first quarter.
- Payroll employment rose by 134,000 jobs in September.
  - The August gain was revised up by 69,000 jobs to 270,000.
- The national unemployment rate fell from 3.9 to 3.7 percent in September.
- Initial claims for unemployment fell by 8,000 to 207,000 during the week ending September 29, following a brief spike the previous week from Hurricane Florence.
  - The four-week moving average rose by 500 to 207,000.
- The Conference Board's index of leading indicators rose 0.4 percent in August, following a 0.7 percent increase in July, suggesting the economic expansion should strengthen over the coming months.
- The Conference Board's index of consumer confidence rose 3.7 points to 138.4 in September, its highest level since 2000. Both the expectations and current conditions components increased for the month.
- Activity in the manufacturing sector remained solid in September, although the Institute of Supply Management index dropped slightly from 61.3 to 59.8.

# National and State Economic Indicators

- The CPI rose 0.2 percent in August after increasing 0.2 percent in July and stands 2.7 percent above August 2017.
  - Core inflation (excluding food and energy prices) rose by 0.1 percent, and has increased 2.2 percent from last year.
- As expected at its September meeting, the Federal Reserve raised the federal funds target rate by 0.25 percent to 2.0 to 2.25 percent.
- In Virginia, payroll employment rose 1.4 percent from August of last year. Northern Virginia posted growth of 1.0 percent; Hampton Roads rose 0.9 percent; and Richmond-Petersburg rose 1.1 percent.
- The seasonally adjusted unemployment rate fell 0.1 percentage point to 3.0 percent in August, the lowest rate since July 2007.
- The Virginia Leading Index was flat in August after advancing 0.2 percent in July.
  - The U.S. leading index, future employment, and initial claims improved in August while auto registrations declined.
  - The indexes increased in Richmond, Lynchburg, Hampton Roads, Charlottesville, Bristol, and Blacksburg, while the indexes declined in Winchester, Harrisonburg, and Northern Virginia; the Roanoke and Staunton indexes were unchanged in August.

## Growth in Total General Fund Revenue Collections

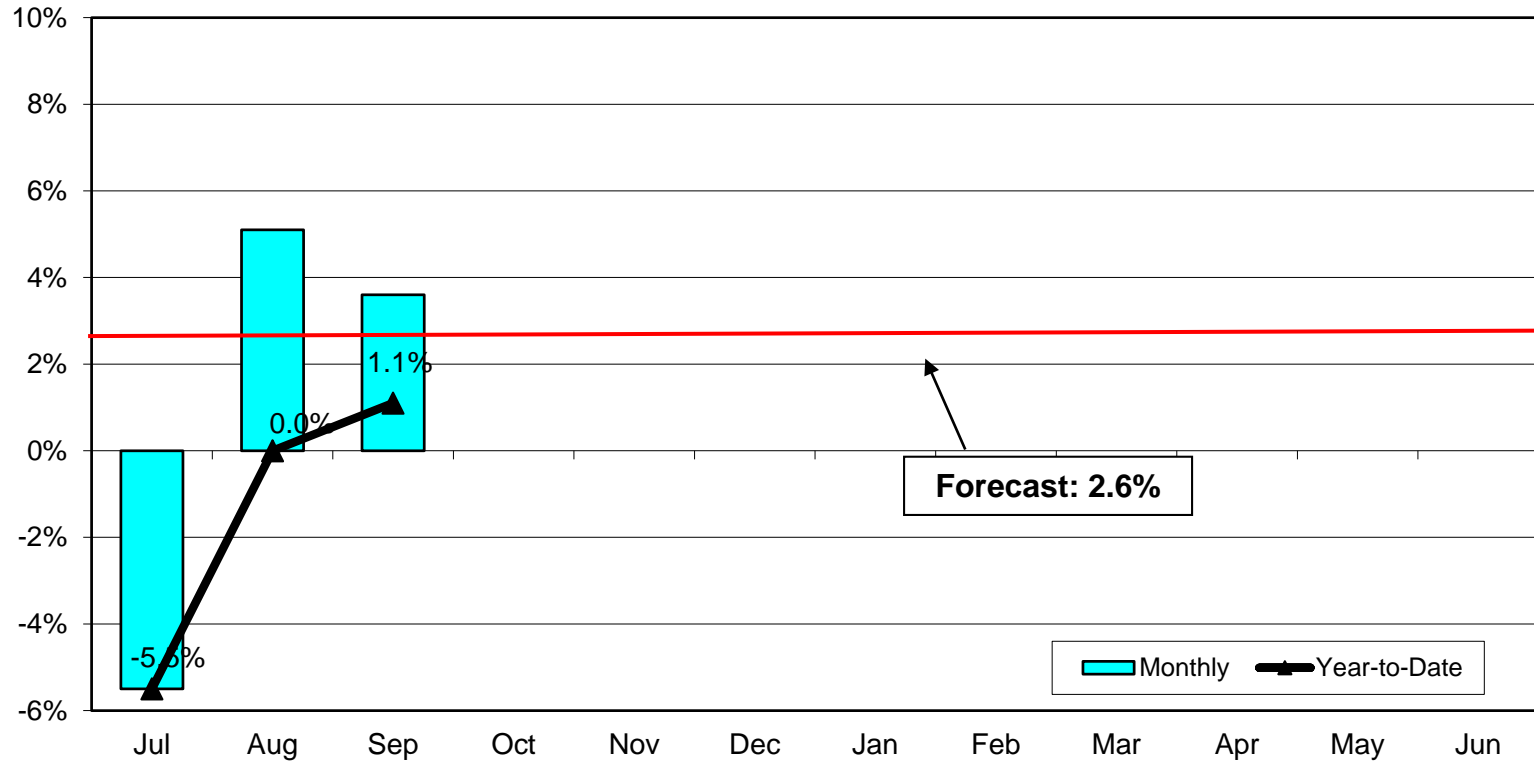
### FY19 Monthly and Year-to-Date



Monthly Growth:

- Total general fund revenues increased 4.0 percent in September.
  - Payroll withholding and sales tax receipts posted solid months.
  - Individual nonwithholding payments increased by 15.4 percent.
  
- On a year-to-date basis, total revenues increased 2.7 percent, ahead of the annual forecast of a 1.5 percent increase.

## Growth in Withholding Tax Collections FY19 Monthly and Year-to-Date

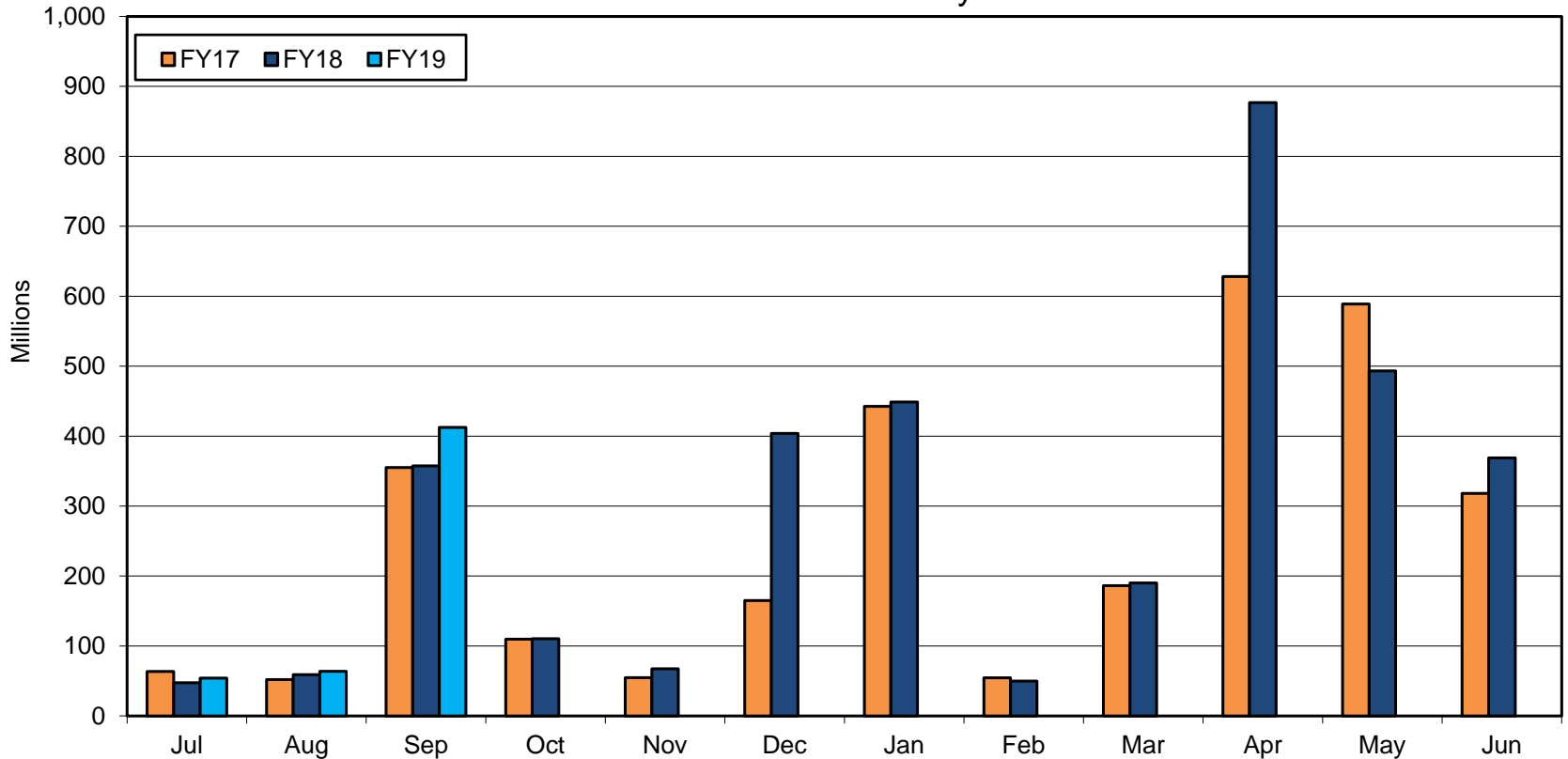


Monthly Growth:    -5.5%    5.1%    3.6%

- Collections increased 3.6 percent in September reflecting solid job and wage gains.
- Year-to-date, withholding collections have increased 1.1 percent compared with the same period last year, behind the projected annual growth rate of 2.6 percent.
  - Adjusting for the \$120 million due to timing issues in June, collections would have increased by 5.3 percent.

# Nonwithholding Tax Collections

FY17 - FY19 Monthly



- The first individual estimated payment in fiscal year 2019 was due in September. Total monthly nonwithholding collections increased 15.4 percent.
- Year-to-date, collections through the first quarter of fiscal year 2019 were \$530.3 million compared with \$463.8 million in the same period last year, an increase of 14.4 percent and ahead of the annual estimate of a 3.0 percent decline.

## **Individual Income Tax Refunds**

- Not a significant month.
- Through September, TAX has issued \$137.9 million in individual refunds compared with \$126.7 million in the same period last year.

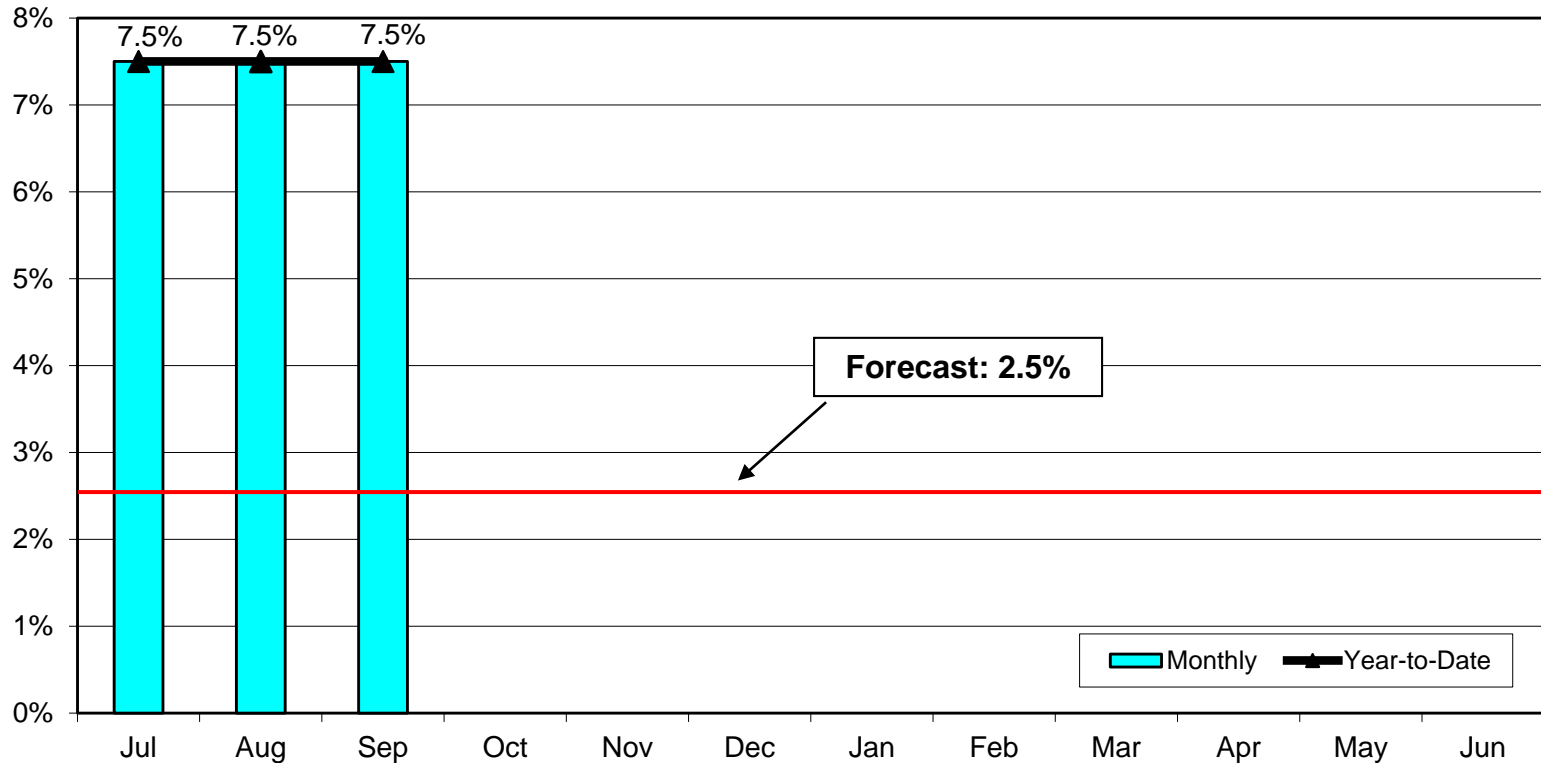
## **Net Individual Income Tax**

- Through the first three months of the fiscal year, collections of net individual income tax increased 2.7 percent from the same period last year, ahead of the annual estimate of a 0.6 percent increase.



## Growth in Sales Tax Collections

### FY19 Monthly and Year-to-Date



Monthly Growth: 7.5% 7.5% 7.5%

- Collections of sales and use taxes, reflecting mainly August sales, had a 7.5 percent increase in August.
  - Growth was probably given an extra boost as there were 5 Fridays this August as compared to 4 last August.
  - Sales tax collections in the first quarter were driven by an 11 percent increase in housing related sales (about 15 percent of all sales).
- On a year-to-date basis, collections increased 7.5 percent, ahead of the annual estimate of 2.5 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 decreased 13.3 percent in September.
  - This decrease appears to be broad-based.
- Through the first quarter of fiscal year 2019, collections in this source have decreased 10.0 percent, behind the annual estimate of 5.8 percent growth.
- Through the first quarter, 24.9 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 decreased 16.2 percent compared to last year. Year-to-date collections have decreased 9.1 percent compared to last year, behind the forecast of 3.1 percent growth.

## 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 \$168.7 million before deposits are made to the General Fund.

# Summary of Fiscal Year 2019 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	63.8 %	1.1 %	2.6 %	(1.5) %	3.1 %	5.9 %
Nonwithholding	16.7	14.4	(3.0)	17.4	(5.7)	18.1
Refunds	(10.2)	8.8	7.7	1.1	7.6	2.0
Net Individual	70.3	2.7	0.6	2.1	(0.1)	9.7
Sales	17.6	7.5	2.5	5.0	1.3	3.2
Corporate	4.5	(10.0)	5.8	(15.8)	12.4	(3.2)
Wills (Recordation)	2.0	(9.1)	3.1	(12.2)	7.7	1.1
Insurance	1.9	na	11.4	na	11.4	(0.9)
All Other Revenue	3.7	13.2	3.9	9.3	1.9	(2.2)
<b>Total</b>	<b>100.0 %</b>	<b>2.7 %</b>	<b>1.5 %</b>	<b>1.2 %</b>	<b>1.1 %</b>	<b>7.0 %</b>

# Summary of Fiscal Year 2019 Revenue Collections

July through September

FY	Total Collections	Revenue Collections Through:											
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
2000	10,788.5	699.1	1,435.8	2,503.0	3,210.6	3,977.8	5,080.0	6,067.5	6,704.5	7,374.1	8,411.9	9,663.1	10,788.5
2001	11,105.3	688.0	1,452.7	2,546.4	3,312.7	4,106.3	5,052.9	6,295.8	6,981.1	7,652.5	8,696.8	9,998.9	11,105.3
2002	10,679.0	705.4	1,483.7	2,485.4	3,315.4	4,136.9	5,071.2	6,184.7	6,794.7	7,459.8	8,388.0	9,414.6	10,679.0
2003	10,867.1	644.3	1,409.6	2,513.3	3,324.3	4,109.7	5,203.2	6,320.5	6,933.6	7,547.7	8,579.5	9,539.0	10,867.1
2004	11,917.9	699.3	1,553.7	2,724.3	3,618.2	4,449.1	5,570.2	6,721.0	7,377.9	8,130.2	9,393.7	10,423.6	11,917.9
2005	13,687.3	772.5	1,698.8	3,009.8	3,998.0	4,964.5	6,295.1	7,684.7	8,415.7	9,300.7	10,745.5	12,012.3	13,687.3
2006	14,834.3	840.5	1,987.8	3,445.8	4,510.5	5,537.3	7,006.6	8,542.7	9,306.7	10,273.3	11,758.2	13,253.6	14,834.3
2007	15,565.8	1,059.7	2,158.2	3,707.7	4,778.6	5,873.0	7,303.6	8,882.9	9,684.8	10,658.1	12,180.5	13,883.2	15,565.8
2008	15,767.0	1,095.6	2,231.1	3,842.1	5,023.2	6,085.2	7,540.8	9,175.5	9,916.1	10,920.8	12,664.1	14,131.9	15,767.0
2009	14,315.1	1,126.9	2,188.0	3,679.9	4,848.9	5,861.6	7,278.9	8,667.9	9,307.9	10,173.1	11,572.9	12,811.3	14,315.1
2010	14,219.5	1,036.2	2,027.7	3,407.0	4,482.0	5,465.7	6,960.9	8,258.9	8,861.4	9,752.5	11,157.9	12,394.4	14,219.5
2011	15,040.2	867.4	1,911.7	3,348.1	4,462.9	5,537.9	7,062.6	8,523.8	9,226.6	10,228.2	11,655.4	13,113.5	15,040.2
2012	15,846.7	955.4	2,080.6	3,573.2	4,722.6	5,903.2	7,356.7	8,868.2	9,692.1	10,770.1	12,347.9	13,927.3	15,846.7
2013	16,684.6	938.0	2,137.6	3,619.5	4,948.9	6,091.0	7,615.0	9,421.8	10,229.6	11,242.1	12,855.0	14,757.7	16,684.6
2014	16,411.4	1,059.9	2,201.4	3,722.3	4,980.1	6,134.4	7,670.6	9,371.5	10,151.7	11,242.9	13,017.7	14,526.7	16,411.4
2015	17,735.6	1,208.9	2,370.4	3,972.6	5,286.0	6,451.6	8,189.9	9,871.8	10,821.7	12,041.3	13,997.6	15,595.1	17,735.6
2016	18,040.1	1,088.3	2,309.0	4,066.3	5,312.6	6,538.5	8,318.1	10,111.0	11,048.9	12,360.6	14,185.1	15,883.0	18,040.1
2017	18,695.1	1,128.1	2,495.9	4,211.3	5,500.4	6,890.2	8,651.3	10,576.8	11,548.5	12,934.7	14,697.5	16,472.7	18,695.1
2018	19,880.8	1,188.6	2,572.0	4,382.3	5,770.2	7,227.8	9,165.2	11,189.5	12,267.0	13,605.4	15,682.0	17,482.1	19,880.8
Average	14,846.4	936.9	1,984.5	3,408.4	4,495.0	5,544.3	6,968.0	8,459.8	9,224.8	10,193.1	11,683.5	13,120.2	14,846.4
% of Total	100.0%	6.3%	13.4%	23.0%	30.3%	37.3%	46.9%	57.0%	62.1%	68.7%	78.7%	88.4%	100.0%
2019													
Chapter 2	20,173.7	1,174.7	2,620.8	4,502.7									
% of Estimate		5.8%	13.0%	22.3%									

# Summary of Fiscal Year 2019 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)	17.9 %	10.2 %	6.0 %	4.2 %
Priority Transportation Fund (2)	3.3	0.4	0.4	0.0
Motor Vehicles Sales Tax (3)	19.6	3.0	1.1	1.9
Retail Sales Tax	21.1	10.6	2.3	8.3
Motor Vehicle License Fees	5.1	6.2	0.1	6.1
All Other Revenue	2.7	8.3	(7.9)	16.2
<b>Total (4)</b>	<b>69.7 %</b>	<b>6.3 %</b>	<b>2.2 %</b>	<b>4.1 %</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. 30.3% of the CTF is comprised of various federal and local revenues.

# Steps Leading to Forecast

- **Joint Advisory Board of Economists (JABE)**
  - Met on October 11<sup>th</sup>
- **Governor's Advisory Council on Revenue Estimates (GACRE)**
  - Meets on November 19<sup>th</sup>

# Rating Agency / JABE Update

- **Demographics**
  - Aging Population
  - Out-Migration
- **Cyber Security**
- **Resiliency**
  - Events
  - Insurance



# Obligated Costs for Hurricane Florence – Executive Order #17

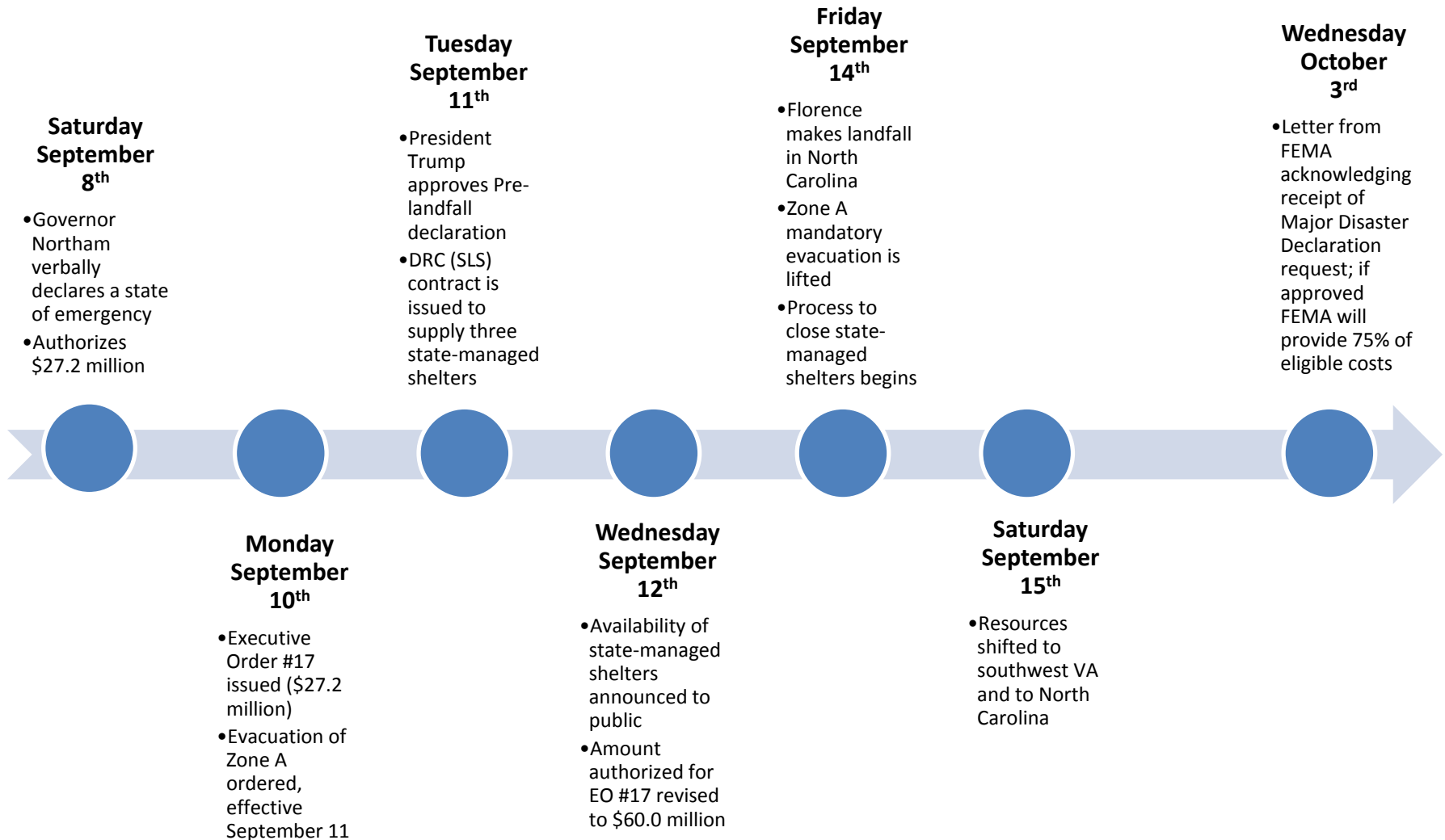
Data current as of October 11, 2018

				<b>State Share of Costs</b> <i>(if event receives a Major Disaster                      Federal Declaration)</i>		
EO Category	FEMA Category <i>(if event receives a Major Disaster Federal Declaration)</i>	Revised EO #17 Budget	Total Obligated <i>(as provided by VDEM)</i>	% State Share	\$ State Share	Notes
Sheltering	B	\$32,000,000	\$31,811,644	25%	\$7,952,911	Total includes \$31.2 million invoice for State Shelter commodities and services contract
Department of Military Affairs	B	\$2,200,000	\$1,420,470	25%	\$355,118	DMA - personnel, supplies & equipment.
Virginia Emergency Operations Center	B	\$500,000	\$2,022,766	25%	\$505,692	Activation of the EOC including overtime costs, meals, logistical support
Other State Agencies	B	\$2,103,660	\$3,954,249	25%	\$988,562	Estimated costs incurred by other state agencies
Special Teams	B	\$21,796,340	\$2,665,912	25%	\$666,478	Type III Incident Management Team, National Incident Management System (NIMS) Type I HazMat Entry Team, NIMS Type IV Standing/Floodwater Team, Type I Communication Cache Team, NIMS Swiftwater Rescue Team, Urban Search and Rescue Teams
Transportation	B	\$1,300,000	\$1,201,909	25%	\$300,477	Estimated costs for contract buses to evacuate people needing transportation from the Hampton Roads area.
FEMA - Direct Support	B	\$0	\$200,000	25%	\$50,000	Estimated costs related to pre-positioned resources provided by FEMA as a result of the Pre-landfall Emergency Federal Declaration approved on September 11, 2018.
After Action Report	Z	\$100,000	\$100,000	0%	\$0	Estimated costs for completing the disaster After Action Report
<b>Total</b>		<b>\$60,000,000</b>	<b>\$43,376,950</b>		<b>\$10,819,238</b>	

# Hurricane Florence Update

- **Prior Storms Sum Sufficient Expenditures:** *(state share only)*
  - Hurricane Floyd (1999) \$10.5 million
  - Hurricane Isabel (2003) \$66.3 million
  - Hurricane Irene (2011) \$13.3 million
  - Hurricane Matthew (2016) \$5.6 million
- **Expected state share for Hurricane Florence – \$10.8 million**  
*(based on obligated costs as of October 11, 2018)*

# Hurricane Florence Preparedness, Response, and Recovery Efforts Timeline



# Known Funding Commitments / Risks

- **Major Employment and Investment (MEI) Project Approval Commission Obligations**
  - **Micron Technology, Inc. - \$70 million**
- **Virginia Retirement System (VRS) Investment Earnings**
- **Federal Actions**
  - Grants Funding
    - **Medicaid Disallowances and Deferrals – \$200 million**
  - Budget
- **Agency Projects**
  - **VITA – Northrop Grumman Settlement / Transition - \$100 million**
  - DOA / DHRM – Human Resource System Replacement
  - Virginia State Police Communications – *Statewide Agencies Radio System (STARS)*
- **Transportation Funding**
- **Capital Allocation**
  - Priority
  - Deferred Maintenance
- **Hurricane Florence**
  - **September 11, 2018 - \$10.8 million, net (expected)**
- **Cash Reserves**