

Economic and Revenue Update

A Briefing for the Money Committees

Aubrey L. Layne Jr., MBA, CPA

Secretary of Finance

Commonwealth of Virginia

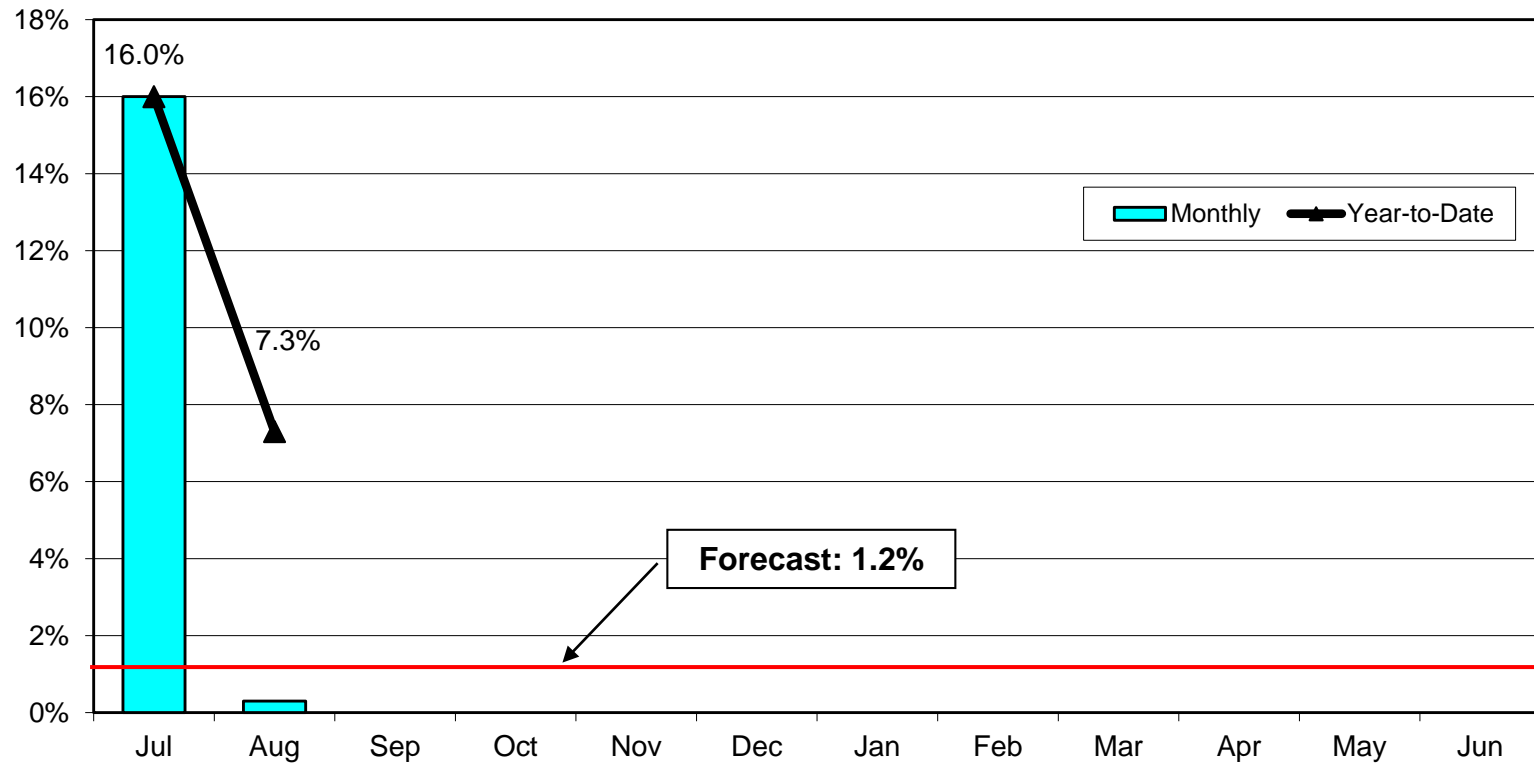
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September 2019

Topics for Discussion

- August Year-to-Date Revenue Collections, Fiscal Year 2020
- Next Significant Data Points
- Taxpayer Relief Refunds
- National and State Economic Indicators
- 2019 Revenue Forecasting Schedule
- Known Funding Commitments / Risks

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

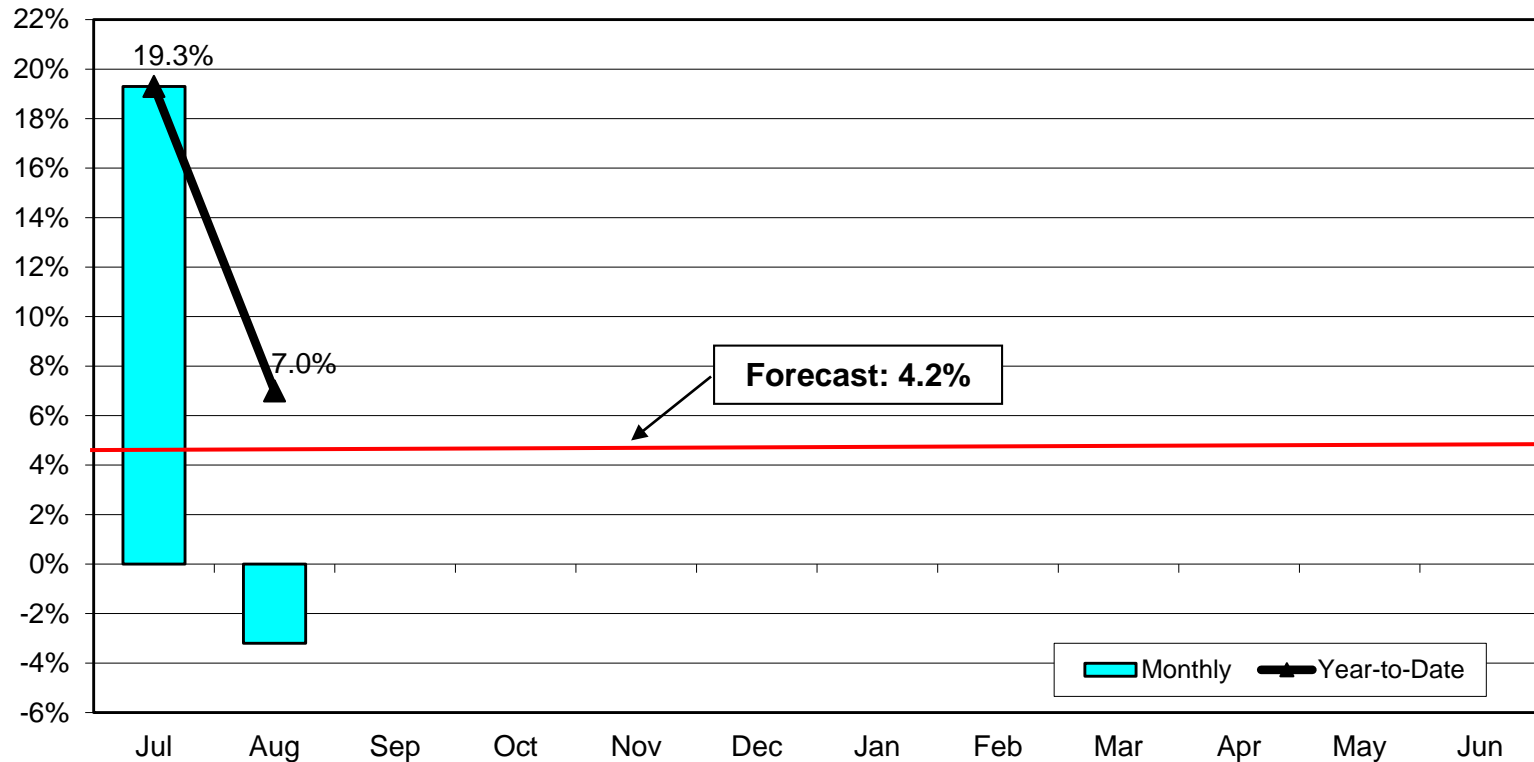


Monthly Growth: 16.0% 0.3%

- Total general fund revenues increased 0.3 percent in August.
 - August contained one less deposit day and July contained an additional deposit day.
- On a year-to-date basis, total revenues increased 7.3 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%

- Collections decreased 3.2 percent in August.
 - August contained one less deposit day and July contained one additional day.
- Year-to-date, withholding collections have increased 7.0 percent compared with the same period last year, ahead of the projected annual growth of 4.2 percent.

Individual Nonwithholding

- Collections through August were \$134.3 million compared with \$117.8 million in the same period last year.

Individual Income Tax Refunds

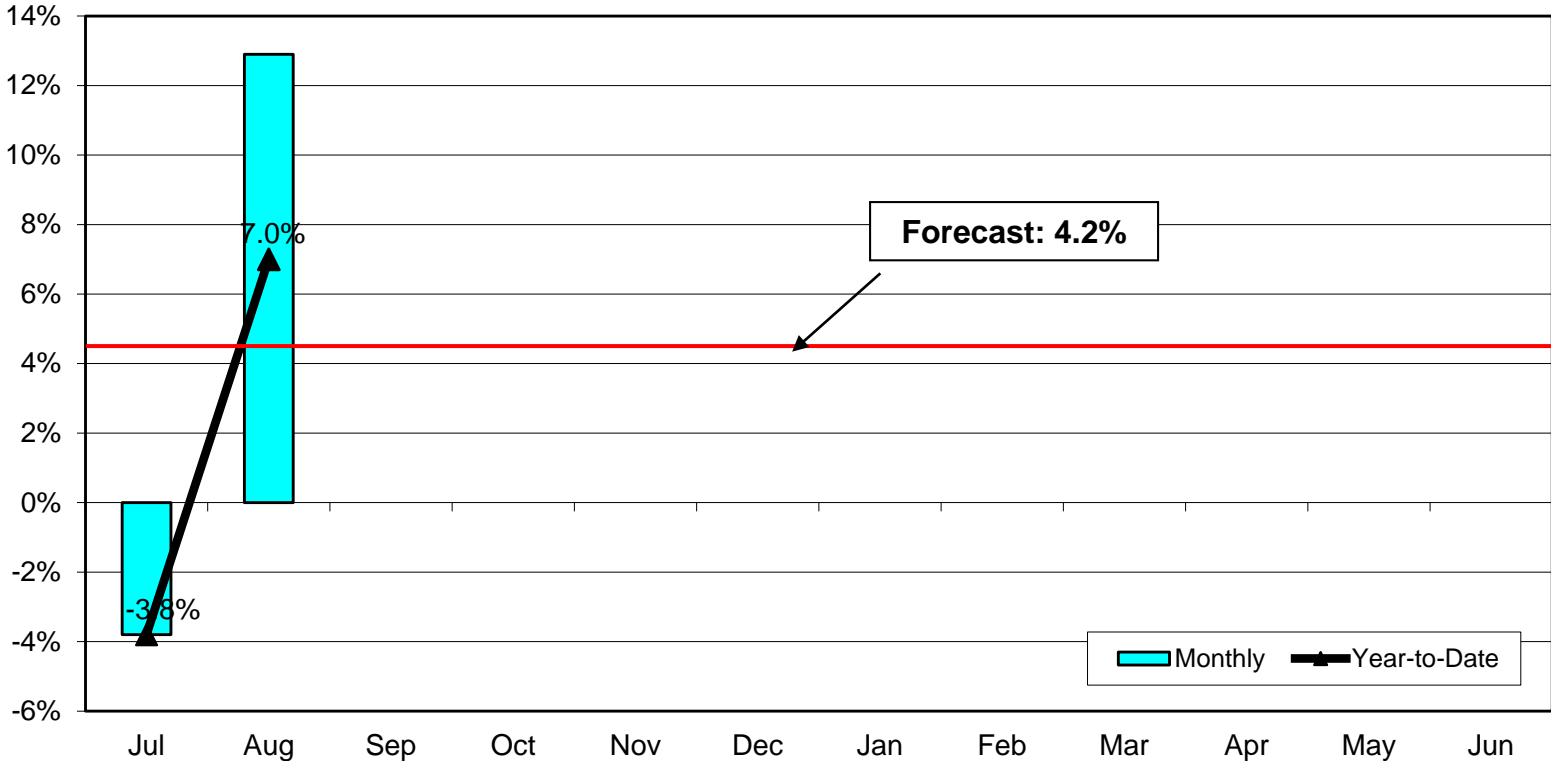
- Through August, TAX has issued \$109.0 million in individual refunds compared with \$92.2 million in the same period last year.

Net Individual Income Tax

- Through the first two months of the fiscal year, collections of net individual income tax increased 6.9 percent from the same period last year, behind 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%

- Collections of sales and use taxes, reflecting mainly July sales, increased 12.9 percent in July.
 - Most of the increase is due to a 44% increase in 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.
- On a year-to-date basis, collections increased 7.0 percent, ahead of the annual estimate of 4.2 percent growth.

Net Corporate Income Tax Collections

- This is not a significant month.
- On a year-to-date basis, collections in this source have decreased 14.1 percent, behind the estimate of 9.3 percent growth.

Recordation Tax Collections

- Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – increased 15.2 percent in August.
 - On a year-to-date basis, collections have increased 21.7 percent as compared to the forecast of a 4.6 percent decline.

Insurance Premiums Tax

- 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 August

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>Sep-Jun Req'd to Meet Est.</u>	<u>Prior Year Sep-Jun</u>
Withholding	62.8 %	7.0 %	4.2 %	2.8 %	3.8 %	4.2 %
Nonwithholding	17.8	14.0	(3.5)	17.5	(4.0)	14.6
Refunds	(9.8)	18.2	21.7	(3.5)	21.9	(9.6)
Net Individual	70.8	6.9	0.2	6.7	(0.8)	9.2
Sales	17.3	7.0	4.2	2.8	3.8	2.9
Corporate	4.8	(14.1)	9.3	(23.4)	10.3	9.4
Wills (Recordation)	1.7	21.7	(4.6)	26.3	(10.5)	(1.2)
Insurance	1.9	n/a	7.4	n/a	n/a	n/a
All Other Revenue	3.5	15.2	(4.3)	19.5	(7.2)	9.0
Total	100.0 %	7.3 %	1.2 %	6.1 %	0.3 %	8.0 %

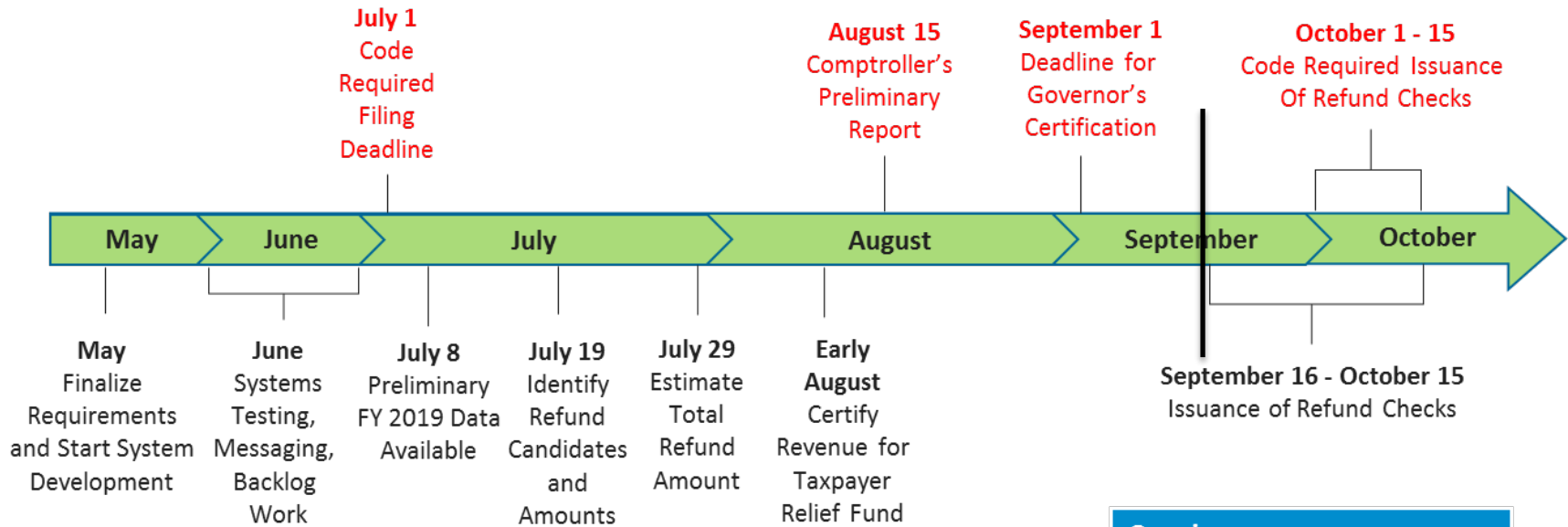
- To attain the Chapter 854 enacted budget total revenues need to increase 0.3 percent.

Next Significant Data Point

- Estimated payments are due in September from individuals, corporations, and insurance companies.
 - Last data point to include in the revenue models.
 - Nonwithholding forecast will be driven by this payment and financial markets' performance.
- Sales tax for August sales will complete the summer tourism season.

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*

National and State Economic Indicators

- According to the second 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 only 130,000 jobs in August.
 - This follows gains of 159,000 in July and 178,000 in June.
- The national unemployment rate remained unchanged at 3.7 percent in August.
- Initial claims for unemployment increased by 1,000 to 217,000 during the week ending August 31, consistent with a healthy labor market.
 - The four-week moving average inched up to 216,250.
- The Conference Board's index of leading indicators rose 0.5 percent in July, following a 0.1 percent decrease in June, suggesting moderate economic growth should continue.
- The Conference Board's index of consumer confidence fell from 135.8 to 135.1 in August. The expectations component decreased and current conditions component increased.
- The manufacturing sector contracted in August. The Institute of Supply Management index fell from 51.2 to 49.1, the fifth consecutive decline and the lowest reading since January 2016.
 - 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 0.3 percent in July following a 0.1 percent increase in June, and stands 1.8 percent above July 2018.
 - Core inflation (excluding food and energy prices) rose by 0.3 percent, and has increased 2.2 percent from last year.
- At its August meeting, the Federal Reserve lowered the federal funds target rate by 25 basis points to the 2.00 to 2.25 percent range.
- In Virginia, payroll employment rose 0.8 percent in July compared with last year. Northern Virginia posted growth of 0.9 percent; Hampton Roads employment grew 1.2 percent, and Richmond-Petersburg rose 1.6 percent.
- The seasonally adjusted unemployment rate was unchanged at 2.9 percent in July and matches July of last year.
- The Virginia Leading Index rose 0.2 percent in July after falling 0.3 percent in June.
 - The U.S. Leading Index, future employment, and auto registrations improved in July while initial claims increased.
 - The index for Blacksburg decreased in July and the index for Winchester was flat; the indexes for the remaining Virginia metro areas rose last month.

2019 Revenue Forecasting Schedule

- **October 17** – *Joint Advisory Board of Economist (JABE)* reviews 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.

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