



# Economic and Revenue Update

*A Briefing for the  
Senate Finance Committee*

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# Topics for Discussion

- National and State Economic Indicators
- December Year-to-Date Revenue Collections, Fiscal Year 2014
- Next Steps

# National and State Economic Indicators

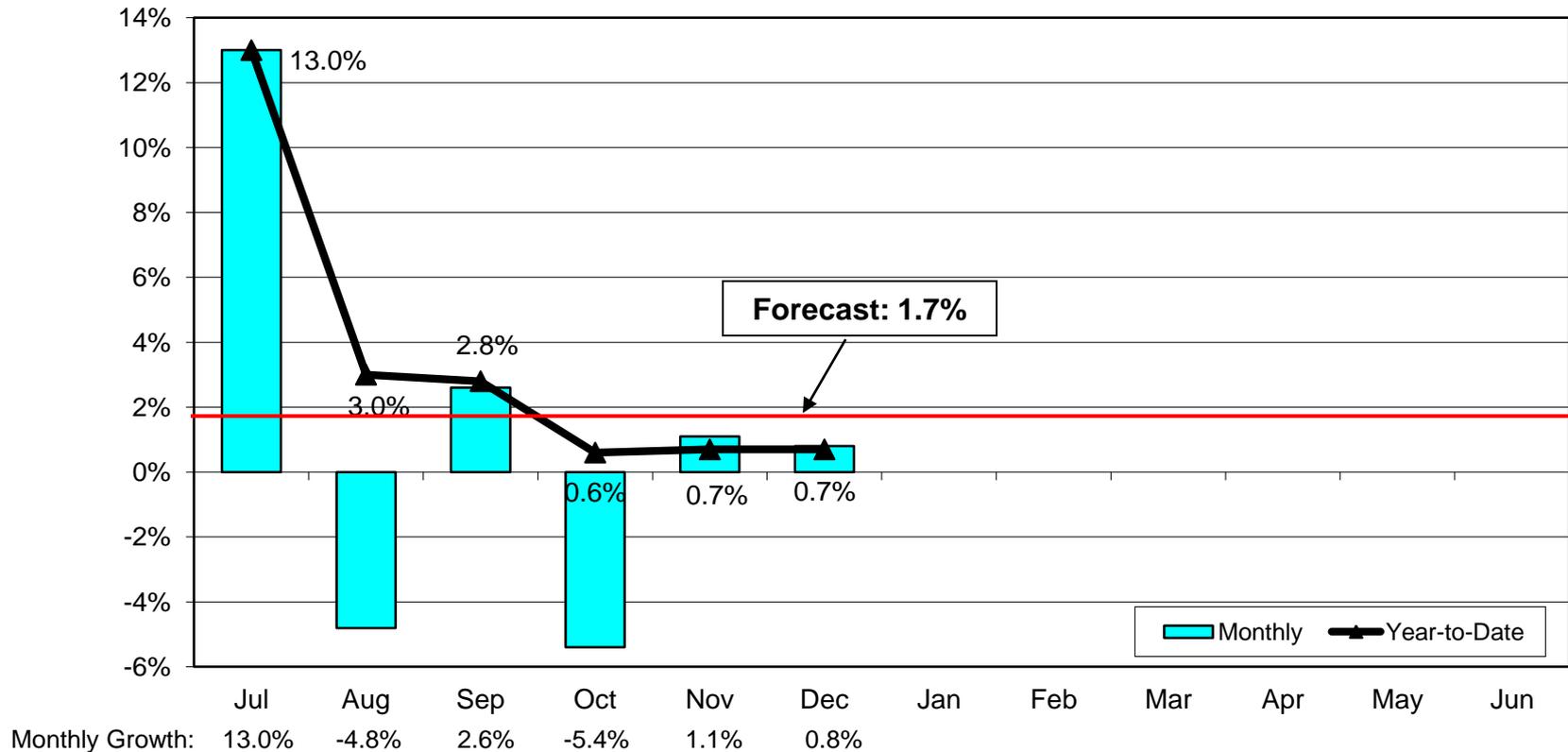
- Real GDP grew 4.1 percent in the third quarter of 2013, a significant improvement over growth of 1.2 percent in the first quarter and 2.5 percent in the second quarter.
- Payroll employment rose by only 74,000 jobs, far below consensus expectations of 197,000. The weakness was broad-based, however, severe winter weather explains some of the anomalous report as 314,000 did not go to work, the highest number for December in decades.
- The unemployment rate fell from 7.0 to 6.7 percent in December as workers left the labor force.
- In Virginia employment has been growing at about 1 percent. Payroll employment grew 0.7 percent in November.
  - Employment increased 0.8 percent Northern Virginia, 1.4 percent in Hampton Roads and 1.5 percent in Richmond-Petersburg.
- The unemployment rate in Virginia fell slightly from 5.6 percent to 5.4 percent in November, and is 0.3 percentage point below November a year ago.
- During the week ending January 4, initial claims for unemployment fell by 15,000 to 330,000, although initial claims are volatile around the holidays. The four-week moving average decreased by 9,750 to 349,000.

# National and State Economic Indicators

- The Conference Board's index of leading indicators rose 0.8 percent in November, its fifth consecutive monthly increase. The behavior of the index is consistent with a strengthening in underlying economic conditions.
- Consumer confidence improved in December, as the Conference Board's index of consumer confidence rose from 72.0 to 78.1.
  - Although both components rose, the expectations component drove the increase.
- Conditions in the manufacturing sector slipped in December. Following sixth consecutive monthly gains, the Institute of Supply Management index fell from 57.3 to 57.0.
  - The index remains in expansionary territory.
- The CPI was unchanged in November from the previous month and stands 1.2 percent above November of last year.
  - Core inflation (excluding food and energy prices) rose 0.2 percent and has increased 1.7 percent from November 2012.
- According to RealtyTrac, U.S. foreclosure activity for November declined 37 percent from November 2012.
  - One in every 1,155 U.S. housing units received a foreclosure notice in November.
  - In Virginia, one in every 2,051 households received a foreclosure notice.
- The U.S. personal savings rate fell from 4.5 percent in October to 4.2 percent in November.
- The Federal Reserve announced at its December meeting that it will keep the federal funds rate target at 0.0 to 0.25 percent and will begin winding down the quantitative easing program.

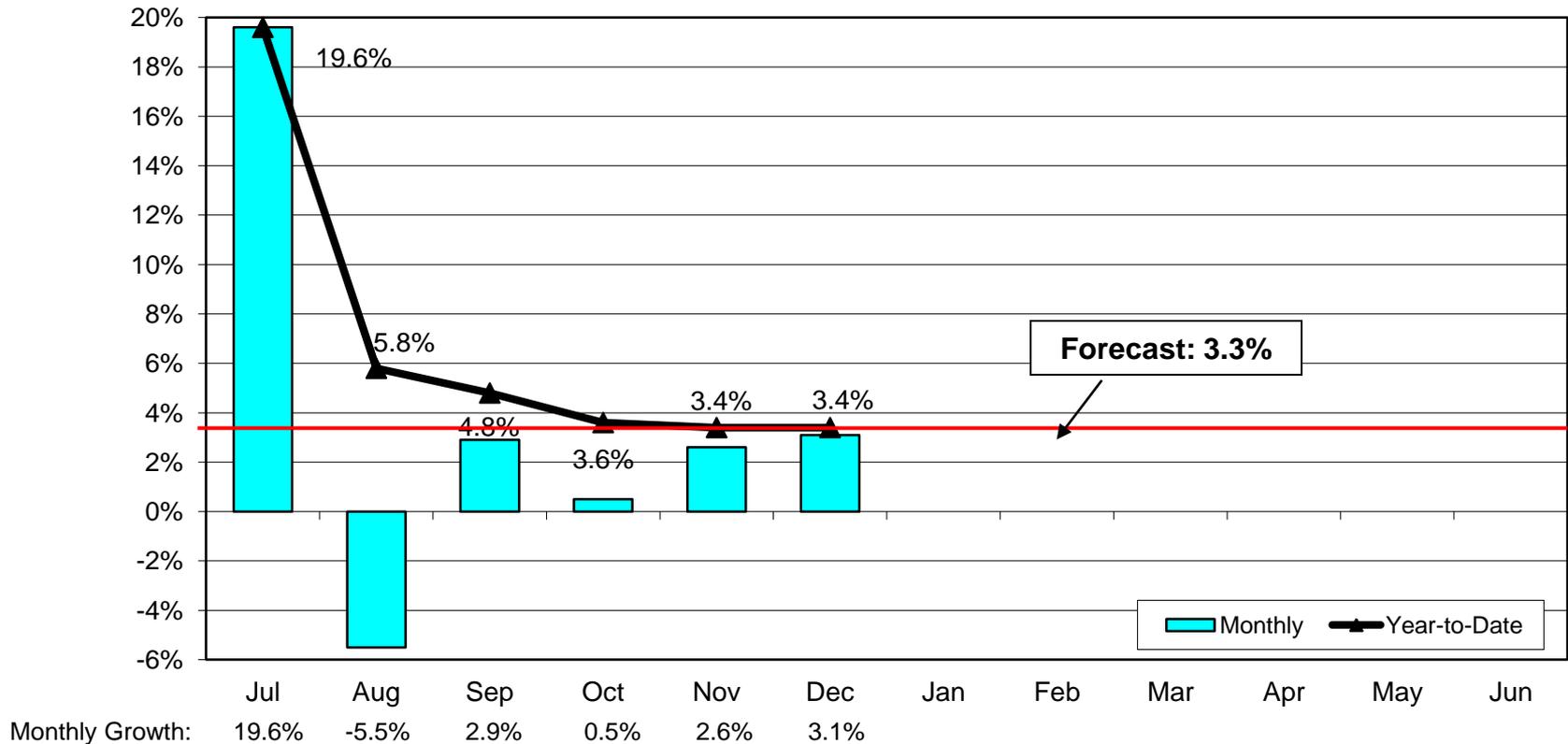
## Growth in Total General Fund Revenue Collections

### FY14 Monthly and Year-to-Date



- Total general fund revenues increased 0.8 percent in December, gains in gross individual income tax were largely offset by declines in corporate, sales and recordation taxes.
- On a year-to-date basis, total revenues increased 0.7 percent, trailing the annual forecast of 1.7 percent growth.
  - Adjusting for AST and the HB2313 program, total revenues grew 1.7 percent through December, behind the economic-base forecast of 2.9 percent growth.

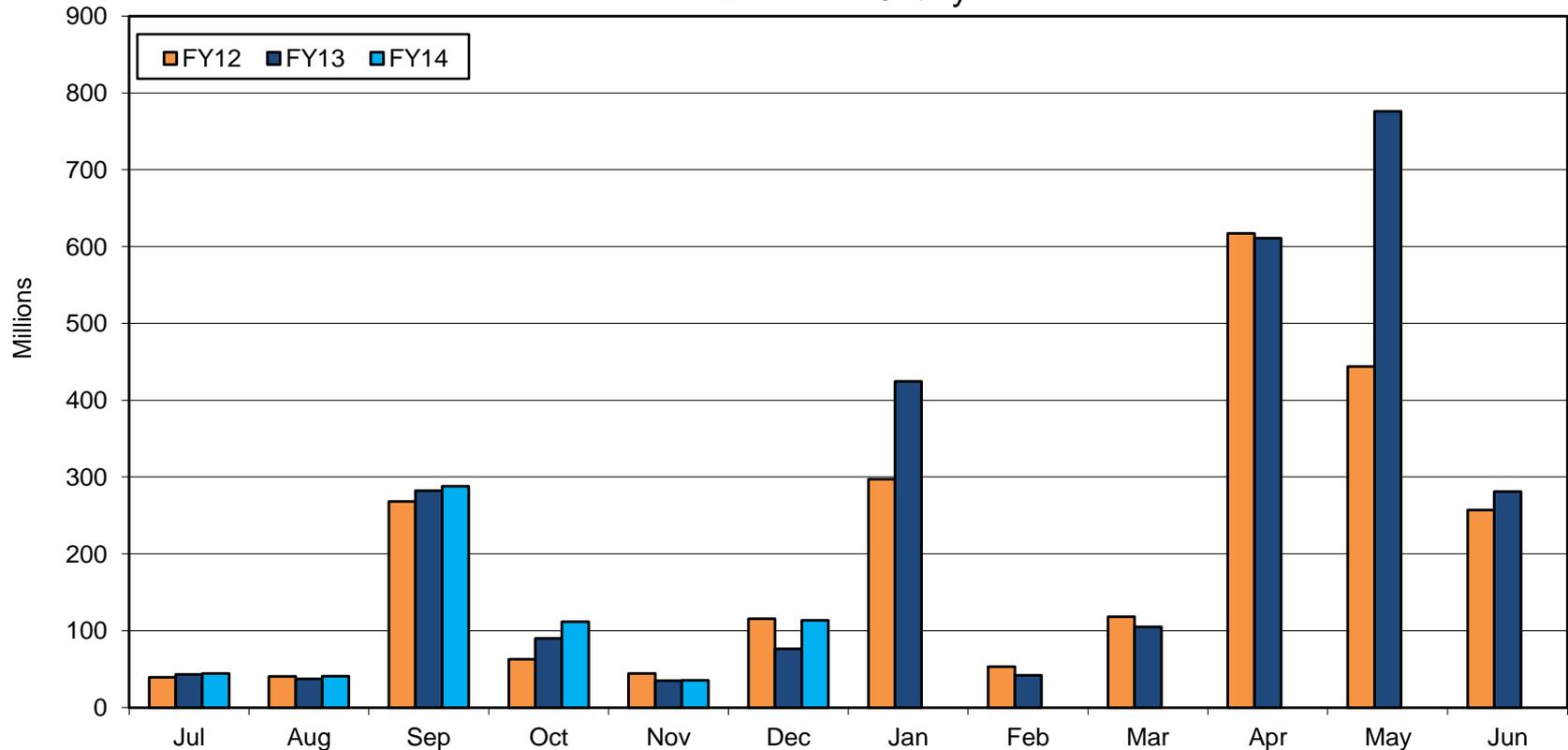
## Growth in Withholding TAX Collections FY14 Monthly and Year-to-Date



- Collections of payroll withholding taxes increased 3.1 percent in December.
- Year-to-date, withholding collections increased 3.4 percent compared with the same period last year, ahead of the projected annual growth rate of 3.3 percent.

# Nonwithholding Tax Collections

FY12-FY14 Monthly



- December and January are significant months for collections in this source, but analysis of growth at this point is limited by the timing of payments.
  - January 15th is the due date for the fourth estimated payment for tax year 2013.
  - A complete assessment of growth in this source will be available at the end of January, when all 2013 quarterly payments have been received.
- Year-to-date, collections were \$633.4 million compared with \$563.7 million in the same period last year, an increase of 12.4 percent and ahead of the annual estimate of a 6.3 percent increase.

## **Individual Income Tax Refunds**

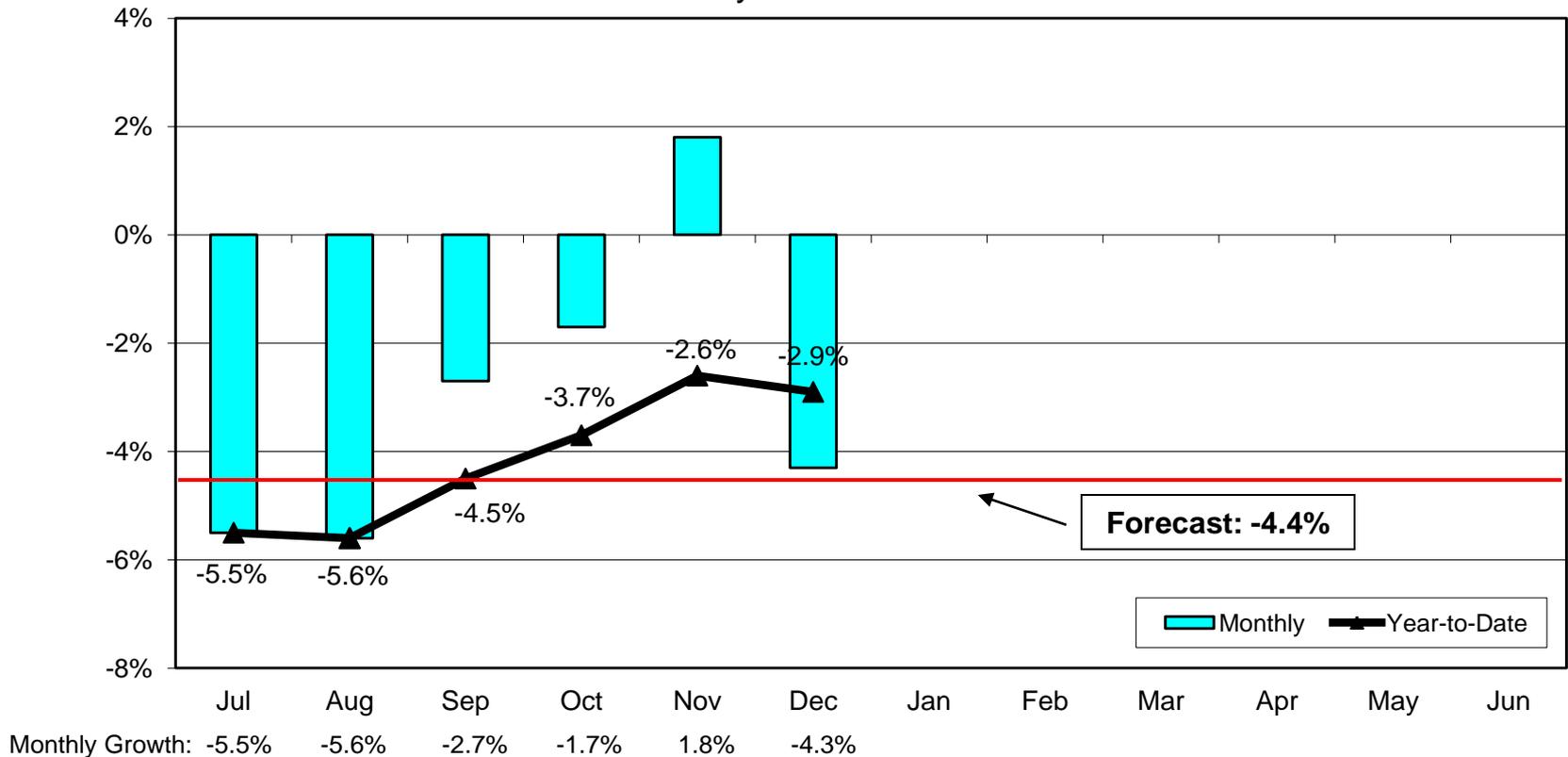
- Not a significant month.
- Through December, TAX has issued \$275.5 million in individual refunds compared with the first half estimate of \$270.7 million.
  - This concludes Tax Year 2012 refund processing

## **Net Individual Income Tax**

- Through the first half of the fiscal year, collections of net individual income tax increased 3.2 percent from the same period last year, behind the annual estimate of 3.7 percent growth.

## Growth in Sales Tax Collections

### FY14 Monthly and Year-to-Date



- Collections of sales and use taxes, reflecting November sales, declined 4.3 percent.
- On a year-to-date basis, collections declined 2.9 percent, ahead of the annual estimate of a 4.4 percent decline.
  - Adjusting for AST and HB2313, sales tax collections increased 2.3 percent through December, ahead of the economic-base forecast of a 1.6 percent increase.

## Net Corporate Income Tax Collections

- December is a significant month since quarterly estimated payments are due from most corporations.
- Collections were \$135.4 million in December, compared with \$175.1 million last year, a 22.7 percent decline.
- On a year-to-date basis, collections in this source have declined 17.2 percent, behind of the annual estimate of a 0.4 percent increase.
  - Gross payments have declined 6.1 percent.
  - Refunds have increased 25 percent mainly due to extension returns and carry back loss provisions.
- Fiscal-year-to-date, 38 percent of the projected fiscal year's net corporate payments have been received.
  - This is slightly below the historical average of 41 percent.

## **Recordation Tax Collections**

- Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – declined 20.0 percent in December, and are down 7.4 percent on a year-to-date basis, behind the forecast of 0.0 percent growth.
  - The last five months have seen declines in the monthly growth rate after double-digit growth in 17 of the prior 18 months.

## **Insurance Premiums Tax**

- The transfer of insurance premiums to the Transportation Trust Fund per Chapter 896, 2007 Acts of the Assembly, in the amount of \$130.8 million was completed in December.
- December collections were \$90.3 million compared with \$79.9 million last year.

# Summary of Fiscal Year 2014 Revenue Collections

July through December

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>June Req'd to Meet Est.</u>	<u>Prior Year June</u>
Withholding	62.4 %	3.4 %	3.3 %	0.1 %	3.2 %	2.5 %
Nonwithholding	17.6	12.4	6.3	6.1	4.8	25.6
Refunds	(10.6)	33.1	5.1	28.0	1.3	(2.3)
Net Individual	69.3	3.2	3.7	(0.5)	4.2	11.4
Sales	18.1	(2.9)	(4.4)	1.5	(5.6)	1.7
Corporate	4.7	(17.2)	0.4	(17.6)	15.4	(19.5)
Wills (Recordation)	2.2	(7.4)	0.0	(7.4)	6.9	19.1
Insurance	1.7	12.9	10.4	2.5	9.2	(7.2)
All Other Revenue	3.9	(0.8)	(3.8)	3.0	(5.7)	3.4
<b>Total</b>	<b>100.0 %</b>	<b>0.7 %</b>	<b>1.7 %</b>	<b>(1.0) %</b>	<b>2.5 %</b>	<b>6.8 %</b>

Sales (x HB2313)	2.3 %	1.6 %	0.7 %	1.0 %	1.7 %
Total (x HB2313)	1.7 %	2.9 %	(1.2) %	3.9 %	6.9 %

## Next Steps

- January receipts will serve as the next critical data point in evaluating the outlook for the current fiscal year and serve as the basis for any recommended midsession adjustment.
  - Withholding: Monthly and quarterly filers are due.
  - Nonwithholding: December and January are significant months for collections in this source. Taxpayers have until January 15 to submit their fourth estimated payment for tax year 2013. A clearer assessment of growth in this source will be possible at the end of January.
  - Sales: January receipts are needed to more accurately assess growth in this source because a large part of holiday sales occur in December.
  - Corporate: The fourth estimated payment will be received from retailers and other companies with February-January taxable years.

# **REVIEW OF DEBT CAPACITY**

# Schedule of Issuance Assumptions for Currently Authorized & Unissued Debt

As of December 17, 2013

(Dollars in Millions)

	<u>9(b)</u>	<u>VPBA</u>	<u>VCBA 21st Century Equipment</u>	<u>VCBA 21st Century Projects</u>	<u>CPR Transportation</u>	<u>NVTD Transportation</u>	<u>VPA</u>	<u>Total</u>
Authorized & Unissued as of June 30, 2013	\$ -	\$ 613.8	\$ 126.4	\$ 1,832.7	\$ 1,487.3	\$ 24.7	\$ 65.0	\$ 4,149.9
Issued Jul 1 - Dec 31, 2013	\$ -	\$ -	\$ 53.9	\$ 277.8	\$ -	\$ -	\$ -	\$ 331.7
Assumed Issued:								
FY 2014	\$ -	\$ 149.2	\$ 64.2	\$ 288.6	\$ 400.0	\$ -	\$ -	\$ 902.0
FY 2015	\$ -	\$ 240.3	\$ -	\$ 607.6	\$ 200.0	\$ 24.7	\$ 65.0	\$ 1,137.6
FY 2016	\$ -	\$ 203.8	\$ -	\$ 521.0	\$ 284.1	\$ -	\$ -	\$ 1,008.9
FY 2017	\$ -	\$ 20.5	\$ -	\$ 137.7	\$ -	\$ -	\$ -	\$ 158.2
FY 2018	\$ -	\$ -	\$ -	\$ -	\$ 122.9	\$ -	\$ -	\$ 122.9
FY 2019	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
FY 2020	\$ -	\$ -	\$ -	\$ -	\$ 355.0	\$ -	\$ -	\$ 355.0
FY 2021	\$ -	\$ -	\$ -	\$ -	\$ 125.3	\$ -	\$ -	\$ 125.3
Total Planned	\$ -	\$ 613.8	\$ 64.2	\$ 1,554.9	\$ 1,487.3	\$ 24.7	\$ 65.0	\$ 3,809.9
Subtotal Issued & Planned	\$ -	\$ 613.8	\$ 118.1	\$ 1,832.7	\$ 1,487.3	\$ 24.7	\$ 65.0	\$ 4,141.6
Authorized Debt Assumed Unissued <sup>(1)</sup>	\$ -	\$ -	\$ 8.3	\$ -	\$ -	\$ -	\$ -	\$ 8.3

<sup>1</sup> Assumed funded from premium from bonds sold.

# 2013 DCAC Base Model Solution

## December 2013

### DEBT CAPACITY MODEL

(Dollars in Millions)

December 17, 2013

Base Model Solution

Debt Capacity Maximum Ratio

Debt Service as a % of Revenue =

**5.0%**

	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]
Fiscal Year	Blended Revenues	Base Capacity to Pay Debt Service	Annual Payments for Debt Service on Debt Issued	Actual Outstanding Debt Service as a % of Revenues	Annual Payments for Debt Service on All Planned Debt Issuances	Actual & Projected Debt Service as a % of Revenues	Net Capacity to Pay Debt Service	Amount of Additional Debt that may Be Issued	Debt Service on Amount of Additional Debt that may Be Issued	Remaining Capacity to Pay Debt Service	Total Debt Service as a % of Revenues
2010	16,085.70	804.29	633.45	3.94%	N/A	3.94%	170.83	N/A	N/A	170.83	3.94%
2011	16,751.10	837.56	693.64	4.14%	N/A	4.14%	143.92	N/A	N/A	143.92	4.14%
2012	17,787.10	889.36	747.02	4.20%	N/A	4.20%	142.34	N/A	N/A	142.34	4.20%
2013	18,626.30	931.32	820.77	4.41%	N/A	4.41%	110.55	N/A	N/A	110.55	4.41%
2014	19,090.90	954.55	835.53	4.38%	45.18	4.61%	73.83	0.00	0.000	73.83	4.61%
2015	19,866.40	993.32	844.24	4.25%	140.79	4.96%	8.30	0.00	0.000	8.30	4.96%
2016	20,591.80	1,029.59	813.79	3.95%	222.17	5.03%	(6.37)	0.00	0.000	(6.37)	5.03%
2017	21,489.00	1,074.45	761.52	3.54%	293.34	4.91%	19.59	248.89	18.213	1.37	4.99%
2018	22,352.60	1,117.63	724.16	3.24%	304.92	4.60%	88.55	587.78	61.227	27.32	4.88%
2019	23,264.10	1,163.21	674.87	2.90%	312.77	4.25%	175.57	821.35	121.332	54.24	4.77%
2020	24,215.90	1,210.80	624.18	2.58%	312.77	3.87%	273.85	937.56	189.941	83.91	4.65%
2021	25,279.95	1,264.00	603.88	2.39%	335.43	3.72%	324.69	986.95	262.165	62.53	4.75%
2022	26,391.21	1,319.56	578.05	2.19%	325.54	3.42%	415.96	1,006.02	335.784	80.18	4.70%
2023	27,551.79	1,377.59	560.17	2.03%	325.54	3.21%	491.88	1,012.79	409.898	81.98	4.70%
								10 Year Average:	\$560.13	2 Yrs Excess Avg Capacity:	\$1,120.27

# 2013 DCAC Average Model Solution

## December 2013

### DEBT CAPACITY MODEL

(Dollars in Millions)

December 17, 2013

Debt Capacity Maximum Ratio

Debt Service as a % of Revenue =

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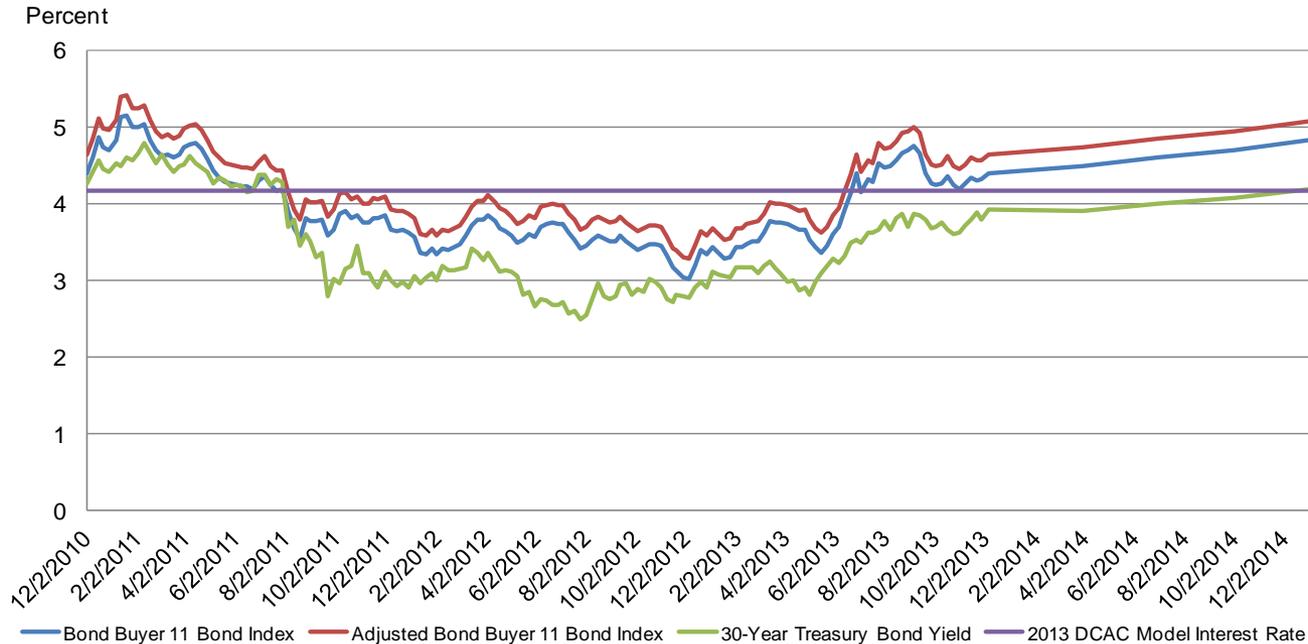
Base Model Solution - Average Illustration

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2015	19,866.40	993.32	844.24	4.25%	140.79	4.96%	8.30	560.13	40.990	(32.69)	5.16%
2016	20,591.80	1,029.59	813.79	3.95%	222.17	5.03%	(6.37)	560.13	81.980	(88.34)	5.43%
2017	21,489.00	1,074.45	761.52	3.54%	293.34	4.91%	19.59	560.13	122.969	(103.38)	5.48%
2018	22,352.60	1,117.63	724.16	3.24%	304.92	4.60%	88.55	560.13	163.959	(75.41)	5.34%
2019	23,264.10	1,163.21	674.87	2.90%	312.77	4.25%	175.57	560.13	204.949	(29.38)	5.13%
2020	24,215.90	1,210.80	624.18	2.58%	312.77	3.87%	273.85	560.13	245.939	27.91	4.88%
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2022	26,391.21	1,319.56	578.05	2.19%	325.54	3.42%	415.96	560.13	327.919	88.05	4.67%
2023	27,551.79	1,377.59	560.17	2.03%	325.54	3.21%	491.88	560.13	368.908	122.97	4.55%
							10 Year Average:	\$560.13	2 Yrs Excess Avg Capacity:	\$1,680.40	

# DCAC Model Interest Rate

- Model interest rate is the borrowing rate applied to Authorized & Unissued Debt and Additional Debt assumed issued during the model horizon
  - 2013 DCAC Model Interest Rate: 4.17%
- Interest rates anticipated to rise above the rate applied in the DCAC model
- Rate is based on the average of the last 12 quarters of weekly data of Bond Buyer 11 Bond Index
  - Index consists of 11 high quality credit General Obligation Bonds maturing in 20 years
  - 25 basis points added to the average for appropriation-backed debt

# Recent Interest Rate Volatility and Forecast



- Municipal Bond interest rates experienced tremendous volatility in 2013
  - Uncertainty regarding potential changes in Federal Reserve policies
  - Ongoing federal budget disputes
  - Headline defaults
  - Potential for tax reform

# DCAC Recommendation December 2013

- Up to an additional \$560 million could prudently be authorized and issued during each of fiscal years 2014 and 2015
- Committee urges the Governor and the General Assembly to exercise restraint when authorizing new tax-supported debt during the 2014 session of the General Assembly
- Solution based on average annual capacity over the ten-year model horizon, while attempting to maintain debt service at less than 5% of Blended Revenues in the Base Model Solution
  - 5% target anticipated to be exceeded in 2016 with a result of 5.03%
- If all available capacity is utilized, the model shows that debt service will exceed 5% in five of the 10 years modeled
  - Highest level of debt service to revenues is modeled to occur in 2017 at 5.48%