



Economic and Revenue Update

A Briefing for the Senate Finance Committee

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Topics for Discussion

- National and State Economic Indicators
- April Year-to-Date Revenue Collections, Fiscal Year 2017
- Next Significant Data Points
- Standard & Poor's Negative Outlook for Virginia
- Petersburg: Update and Next Steps

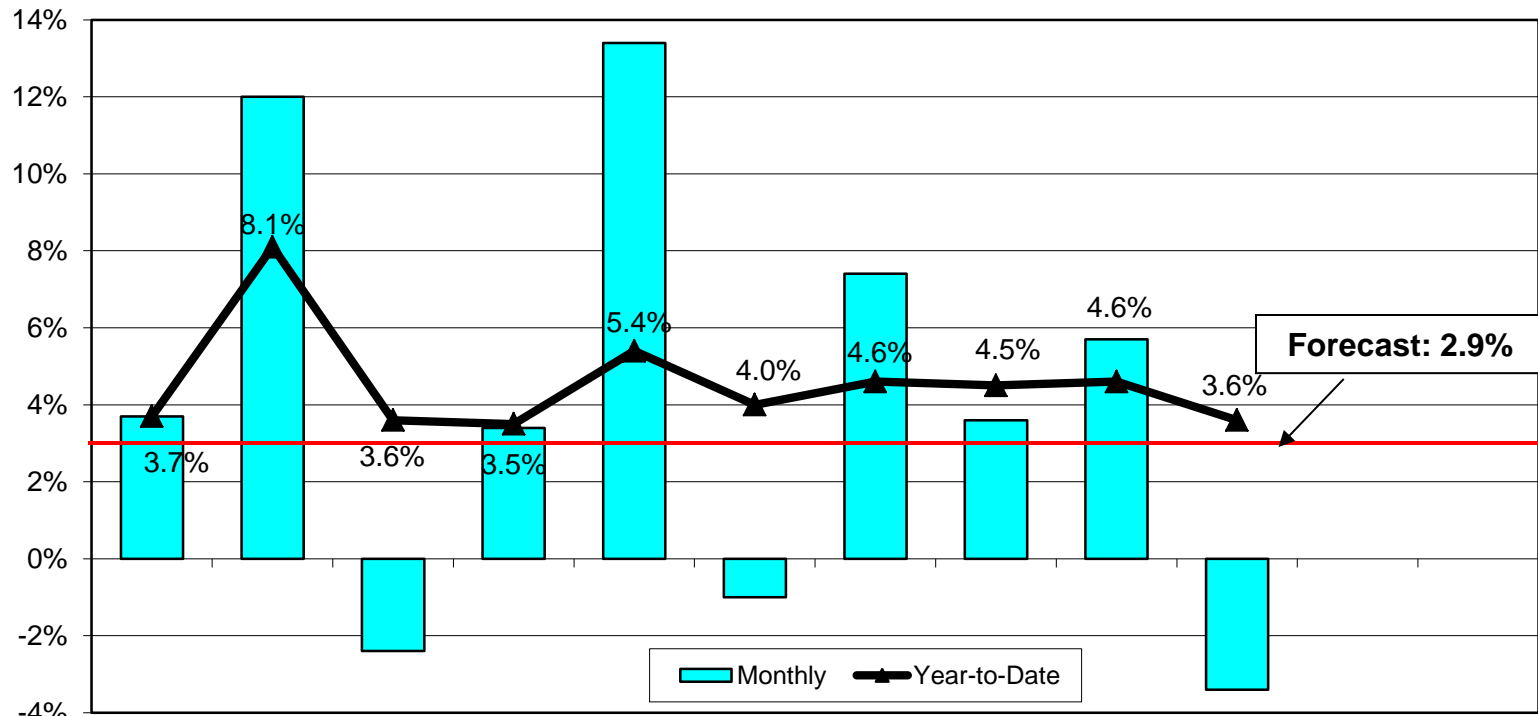
National and State Economic Indicators

- According to the advance estimate, real GDP rose at an annualized rate of 0.7 percent in the first quarter of 2017, following 3.5 percent and 2.1 percent growth in the third and fourth quarters of 2016.
- Labor market conditions improved markedly in April. Payroll employment rose by 211,000 jobs.
- The national unemployment rate fell from 4.5 to 4.4 percent.
- Initial claims for unemployment fell by 19,000 to 238,000 during the week ending April 29.
 - The four-week moving average rose by 750 to 243,000.
 - The low level of claims is consistent with a healthy job market.
- The Conference Board's index of leading indicators rose 0.4 percent in March.
 - Eight of the ten components contributed positively to the index.
- The Conference Board's index of consumer confidence dropped from 124.9 to 120.3 in April. Both the present conditions and expectations components decreased for the month, but both remain elevated relative to the past year.

National and State Economic Indicators

- Activity in the manufacturing sector weakened in April. Although the Institute of Supply Management index fell from 57.2 to 54.8, it remains well above the expansionary threshold of 50.0.
- The CPI fell 0.3 percent in March after rising 0.1 percent in February and stands 2.4 percent above March 2016.
 - Core inflation (excluding food and energy prices) fell 0.1 percent in March and is 2.0 percent above a year ago.
- At its May meeting, the Federal Reserve kept the federal funds target rate at 0.75 to 1.0 percent.
- In Virginia, payroll employment rose 1.3 percent from March of last year.
 - Northern Virginia posted growth of 2.0 percent; Hampton Roads grew 0.3 percent; and Richmond-Petersburg rose 1.1 percent.
 - The seasonally adjusted unemployment rate fell 0.1 percentage point to 3.8 percent, the lowest rate since May 2008.
- The Virginia Leading Index fell 0.1 percent in March after rising 0.3 percent in February.
 - The U.S. leading index and future employment improved in March while initial claims for unemployment and auto registrations contributed negatively to the index.
 - The indexes improved in Northern Virginia, Roanoke, Lynchburg, Harrisonburg, and Staunton in March.
 - Indexes for Richmond, Charlottesville, Blacksburg, and Winchester declined while indexes in Hampton Roads and Bristol were unchanged.

Growth in Total General Fund Revenue Collections FY17 Monthly and Year-to-Date

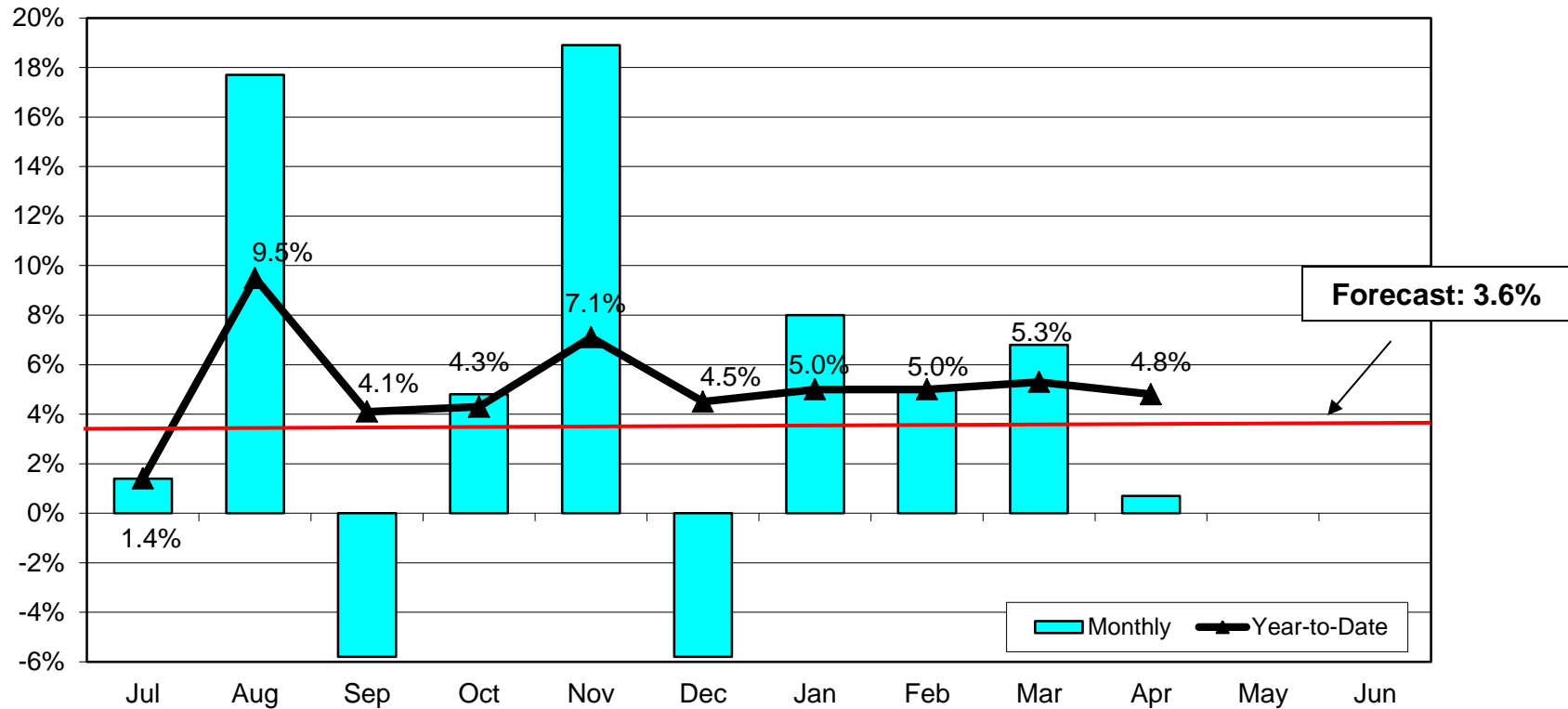


Monthly Growth:

Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
3.7%	12.0%	-2.4%	3.4%	13.4%	-1.0%	7.4%	3.6%	5.7%	-3.4%		

- Total general fund revenues decreased 3.4 percent in April mainly due to individual income taxes and sales tax collections.
- On a year-to-date basis, total revenues increased 3.6 percent, ahead of the annual forecast of a 2.9 percent increase.

Growth in Withholding Tax Collections FY17 Monthly and Year-to-Date

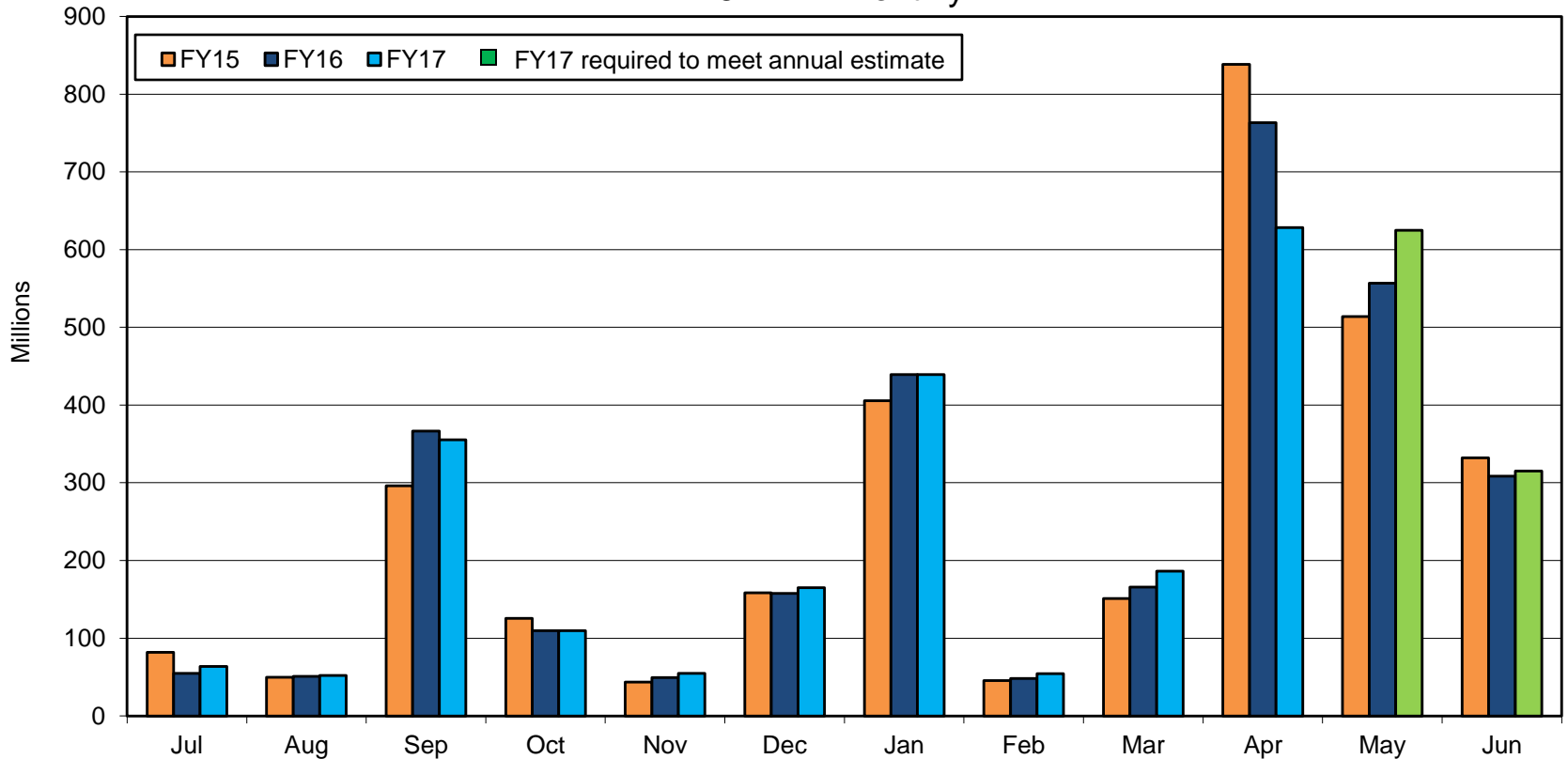


Monthly Growth:

- Collections of payroll withholding taxes increased 0.7 percent in April due to one less deposit day.
- Year-to-date, withholding collections increased 4.8 percent compared with the same period last year, ahead of the projected annual growth rate of 3.6 percent.

Nonwithholding Tax Collections

FY15-FY17 Monthly



- To date, roughly 69 percent of the nonwithholding forecast has been collected, and collections decreased 4.2 percent from the same period last year, behind the annual estimate of a 0.7 percent decline.
- May receipts will mainly be final payments for tax year 2016 and continues to be a significant unknown affecting the revenue forecast.

Individual Income Tax Refunds

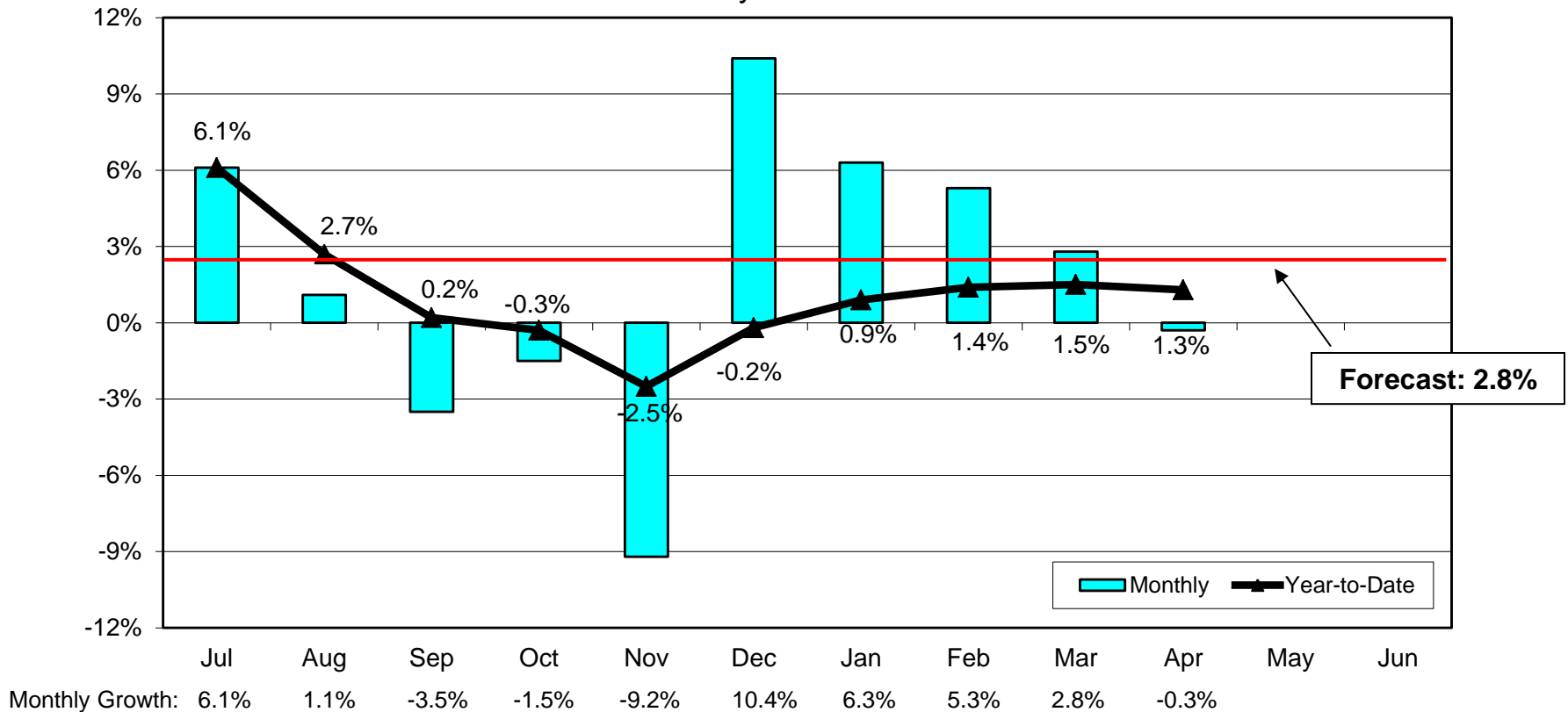
- As the main filing season continues, \$469.1 million in refunds were issued in April compared with \$499.0 million last April.
- Year-to-date, refunds decreased 2.1 percent from the same period last year, as compared to the estimate of a 1.5 percent increase.
 - Since the filing season began in January, TAX has issued 2.3 million refunds, about 100,000 fewer than through April of last year.

Net Individual Income Tax

- Through April, collections of net individual income tax rose 4.0 percent from the same period last year, ahead of the annual estimate of 2.9 percent growth.

Growth in Sales Tax Collections

FY17 Monthly and Year-to-Date



- Collections of sales and use taxes, reflecting mainly March sales, decreased 0.3 percent in April.
- On a year-to-date basis, collections increased 1.3 percent, behind the annual estimate of 2.8 percent growth.
 - Adjusting for AST program, sales tax collections increased 1.4 percent through April, behind the economic-base forecast of a 2.8 percent increase.

Net Corporate Income Tax Collections

- Collections of corporate income tax were \$162.5 million in April, compared with \$133.5 million last April.
 - Most of the activity in April is from companies making final tax year 2016 payments.
- On a year-to-date basis, collections in this source have increased 6.8 percent, ahead of the estimate of 3.8 percent growth.

Recordation Tax Collections

- Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – decreased 0.6 percent in April.
 - On a year-to-date basis, collections are up 7.8 percent, behind the forecast of 8.0 percent growth.

Insurance Premiums Tax

- Insurance companies made their first estimated payment for tax year 2017 in April. Collections in this source were \$126.1 million compared with \$119.9 million in April of last year.
 - Estimated payments are due in June.
- For the fiscal year to-date, net insurance premiums tax collections are \$223.3 million compared with \$215.4 million during the same period last year.

Summary of Fiscal Year 2017 Revenue Collections

July through April

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>May-Jun Req'd to Meet Est.</u>	<u>Prior Year May-Jun</u>
Withholding	63.1 %	4.8 %	3.6 %	1.2 %	(2.7) %	1.2 %
Nonwithholding	16.4	(4.2)	(0.7)	(3.5)	8.3	2.3
Refunds	(10.0)	(2.1)	1.5	(3.6)	32.5	(11.6)
Net Individual	69.6	4.0	2.9	1.1	(1.6)	2.7
Sales	18.2	1.3	2.8	(1.5)	7.6	1.9
Corporate	4.3	6.8	3.8	3.0	(6.1)	1.3
Wills (Recordation)	2.1	7.8	8.0	(0.2)	8.6	4.2
Insurance	1.9	3.6	1.5	2.1	(2.3)	17.3
All Other Revenue	3.9	1.9	1.1	0.8	(0.6)	6.6
Total	100.0 %	3.6 %	2.9 %	0.7 %	0.2 %	3.1 %

Sales (x AST)	1.4 %	2.8 %	(1.4) %	9.6 %	1.5 %
Total (x AST)	3.6 %	2.9 %	0.7 %	0.3 %	3.1 %

Summary of Fiscal Year 2017 Revenue Collections

July through April

General Fund Revenue Collection Trends

(thousands of dollars)

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
Average	14,323.8	910.9	1,919.9	3,303.9	4,360.9	5,366.1	6,739.8	8,174.7	8,909.1	9,831.1	11,271.0	12,666.4	14,323.8
% of Total	100.0%	6.4%	13.4%	23.1%	30.4%	37.5%	47.1%	57.1%	62.2%	68.6%	78.7%	88.4%	100.0%
2017													
Chaper 836	18,561.0	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		
% of Estimate		6.1%	13.4%	22.7%	29.6%	37.1%	46.6%	57.0%	62.2%	69.7%	79.2%	0.0%	0.0%

Next Significant Data Points

- **May**
 - Payroll withholding will have one extra deposit day.
 - **Key payments from individual nonwithholding will be received.**

- **June**
 - Individual, corporate and insurance companies have estimated payments due June 15th.
 - AST payments are due June 30th and when combined with the final deposit day for payroll withholding, represents deposits of over \$300 million in general fund revenue.

Standard & Poor's Negative Outlook for Virginia

S&P Concerns:

- Virginia's economy is disproportionately affected by the operations of the federal government.
- While Virginia has recovered from the initial round of federal sequestration, state revenue growth has remained soft, suggesting a broader and longer lasting change in the economy.
- Future federal spending cuts and their effect on the federal workforce in Virginia could have a significant negative impact on the Commonwealth.
- The national economic recovery is long in duration by past standards, raising the risk of a downward turn at some point in the future.
- In the face of economic uncertainty, Virginia is withdrawing dollars from its Revenue Stabilization Fund. These withdrawals are occurring while the economy is still expanding rather than in a recessionary phase, as has been the usual case in Virginia.

S&P Concerns: *(continued)*

- These withdrawals will leave Virginia (in S&P's opinion) with a low level of reserves (1.39% of operating expenditures) relative to the economic risks at hand.
- Virginia's reserves (after scheduled withdrawals) would be at a lower level compared to similarly rated states.
- Bottom line is that, in S&P's view, Virginia should be maintaining or adding to reserves at present given the economic risks.
- S&P gives Virginia credit for creating a more flexible cash reserve in the Appropriation Act but wants to see how this reserve materializes in the future (i.e. use of revenue surplus, budget development decisions, etc.)
- How we address "adequate reserves" will be a major issue for budgetary policy in the year ahead.
- S&P believes the duration of their current rating action will not exceed two years before the outlook is changed (positive or negative).

PETERSBURG

Update and Next Steps

PETERSBURG: Update

(The Robert Bobb Group)

Phase 1: 5-Month Plan (10/25/16 – 03/31/17) – COMPLETED

Focus: Short-term Financing

- Secured Revenue Anticipation Note (RAN)
- Paid current FY17 obligations with RAN
- Validated the FY17 budget
- Identified capital funds that can be deferred
- Developed Internal/External Communications Plan
- Determined the revenue cycle and what billing cycles should change to help cash flows, including state–shared revenues
- Provided a budget to actual assessment of FY17 to Council
- Determined critical positions to hire
- Issued RFP for the City’s CAFR/Auditing responsibilities
- Mapped process flows for Accounts Payable
- Published a 2018 Budget Calendar that includes CIP
- Made recommendations for process improvement, roles and responsibilities
- Identified additional cost savings and lines of revenue
- Recommended a draft FY18 capital and operating budget
- Conducted mid-year 2017 budget review

PETERSBURG: Next Steps

(The Robert Bobb Group)

Phase 2: March 25, 2017 – June 30, 2017

Focus Stabilization: Long-term Financing and Fiscal Plan

- Implement the Long-term Debt Restructuring Plan
- Develop plan to pay off current RAN
- Complete and implement FY18 Budget Proposal
- Develop Water Utility Repair Plan (e.g., PPEA)
- Manage and report findings for Forensic Audit
- Complete FY16 CAFR by July 2017
- Complete executive search firm hiring by July 2017
- Implement new Real Estate Sale Process and realize revenue
- Implement Workforce Reorganization
- Optimize city technologies for data and reporting
- Create repeatable data and reporting for Financial Reports
- Develop and execute Policies for Controls and Reporting
- Develop Standard Operating Procedures (SOPs)
- Manage and measure financial and purchasing policies
- Provide executive coaching to new hires

PETERSBURG: Next Steps

(The Robert Bobb Group)

Phase 3: July 1, 2017 – September 30, 2017

Focus Ongoing Financial Performance and Monitoring: Technology, Data and Process Platforms

- Develop the 5-Year Financial Plan
- Develop and implement the 5-Year Capital Improvement Program
- Develop and implement financial and purchasing policies
- Conduct city-wide training for OpenGov
- Conduct city-wide training for CityWorks
- Continue to evaluate options for the sale of the Water & Sewer Utility Sale process as needed to address the critical infrastructure issues facing the water and sewer system
- Develop implementation strategies for outsourcing execution and implementation
- Develop and implement Standard Operating Procedures (SOPs) for Finance
- Implement findings to address issues uncovered during the Forensic Audit
- Implement a Budget Transition Plan
- Provide structured executive coaching for new hires