

Economic and Revenue Update

A Briefing for the Money Committees

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February 2020

Topics for Discussion

- National and State Economic Indicators
- January Year-to-Date Revenue Collections, Fiscal Year 2020
- Next Steps
- Mid-Session Forecast

National and State Economic Indicators

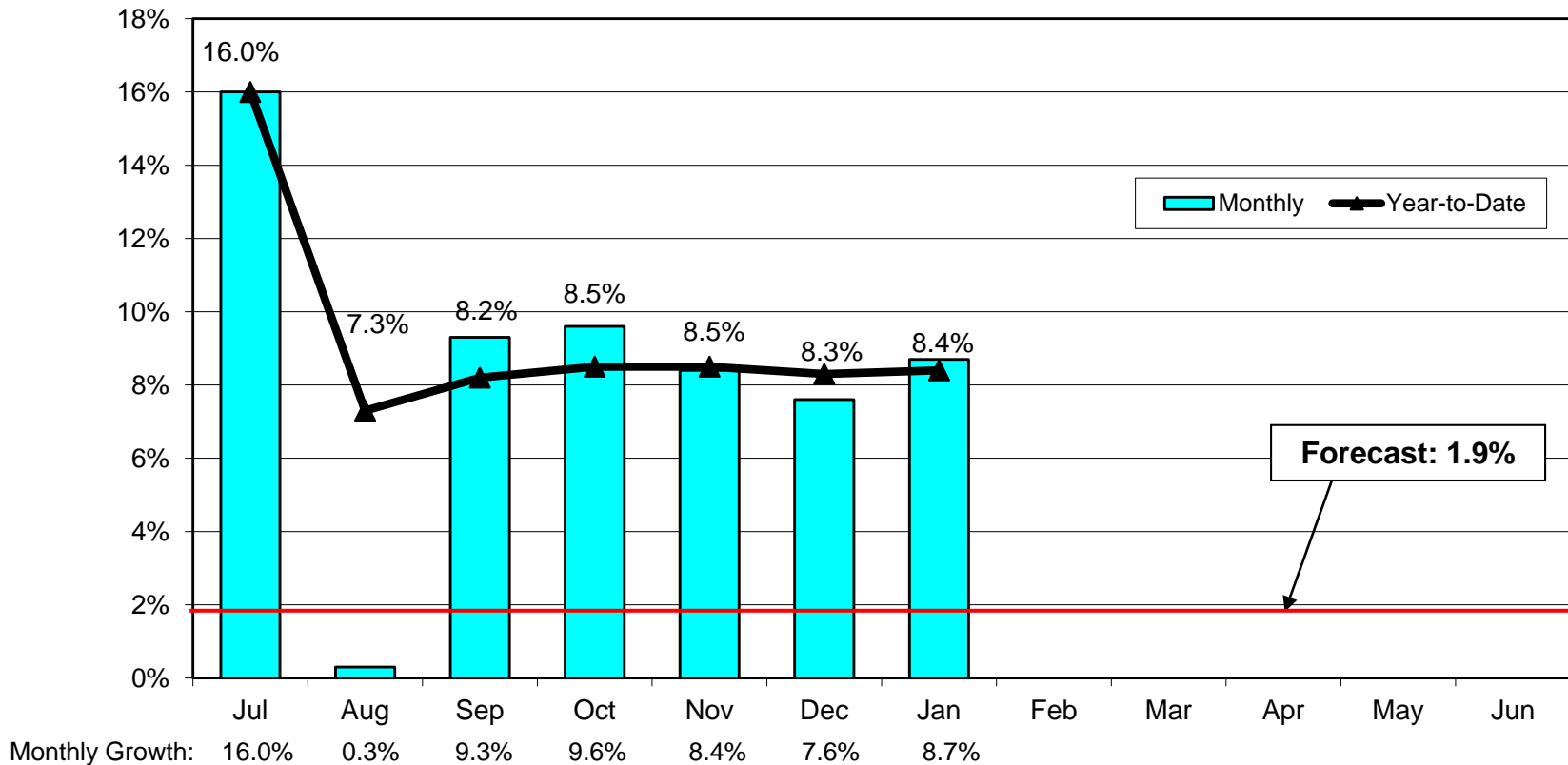
- According to the preliminary estimate, real GDP grew at an annualized rate of 2.1 percent in the fourth quarter of 2019, following 2.1 percent in the third quarter.
- Payroll employment rose by 225,000 in January.
 - This follows gains of 147,000 in December and 261,000 in November.
- The national unemployment rate rose from 3.5 to 3.6 percent in January as more workers entered the labor force.
- Initial claims for unemployment fell by 15,000 to 202,000 during the week ending February 1, remaining at historically low levels and consistent with a healthy labor market.
 - The four-week moving average fell by 3,000 to 211,750.
- The Conference Board's index of leading indicators fell 0.3 percent in December, following a 0.1 percent increase in November and declines of 0.2 percent in the previous three months, suggesting economic growth is weakening.
- The Conference Board's index of consumer confidence rose from 128.2 to 131.6 in January. Both the current conditions and the expectations components contributed to the increase.
- The Institute of Supply Management index rose from 47.8 to 50.9 in January. The index had been below its neutral threshold of 50 for five consecutive months preceding this increase.

National and State Economic Indicators

- The Consumer Price Index (CPI) rose 0.2 percent in December following a 0.3 percent increase in November and stands 2.3 percent above December 2018.
 - Core inflation (excluding food and energy prices) rose by 0.1 percent, and has increased 2.2 percent from last year.
- At its January meeting, the Federal Reserve left the federal funds target rate unchanged at the 1.5 to 1.75 percent range.
- Total federal debt stands at \$22.7 trillion dollars and is expected to increase by \$1 trillion in fiscal year 2020.
 - Through the first four months of fiscal year 2020 the deficit was \$389.2 billion.
- In Virginia, payroll employment rose 1.1 percent in December compared with last year. Northern Virginia posted growth of 1.4 percent; Hampton Roads employment grew 1.1 percent, and Richmond-Petersburg rose 2.0 percent.
- The seasonally adjusted unemployment was unchanged at 2.6 percent in December and is 0.2 percentage point below last year.
- The Virginia Leading Index fell 0.3 percent in December after declining 0.4 percent in November.
 - Auto registrations and the U.S. Leading index declined while initial claims improved. Future employment was unchanged.
 - The index for Blacksburg was unchanged in December, while the indexes for the remaining ten Virginia metro areas declined.

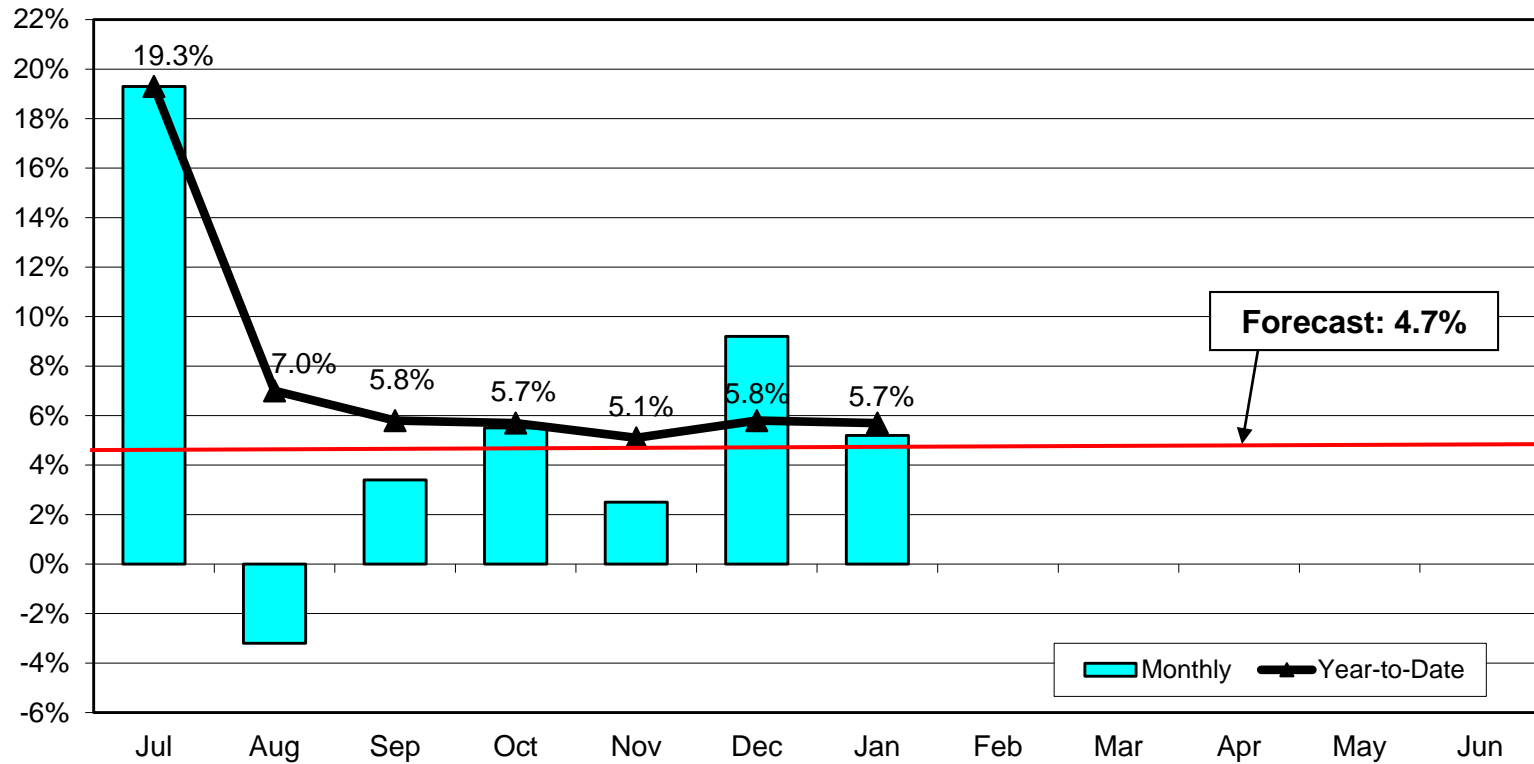
Growth in Total General Fund Revenue Collections

FY20 Monthly and Year-to-Date



- Total general fund revenues increased 8.7 percent in January.
 - Broad-based growth in payroll withholding, sales, and recordation tax collections.
 - Strong growth in individual nonwithholding payments – due January 15.
- On a year-to-date basis, total revenues increased 8.4 percent, ahead of the annual forecast of a 1.9 percent increase.

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

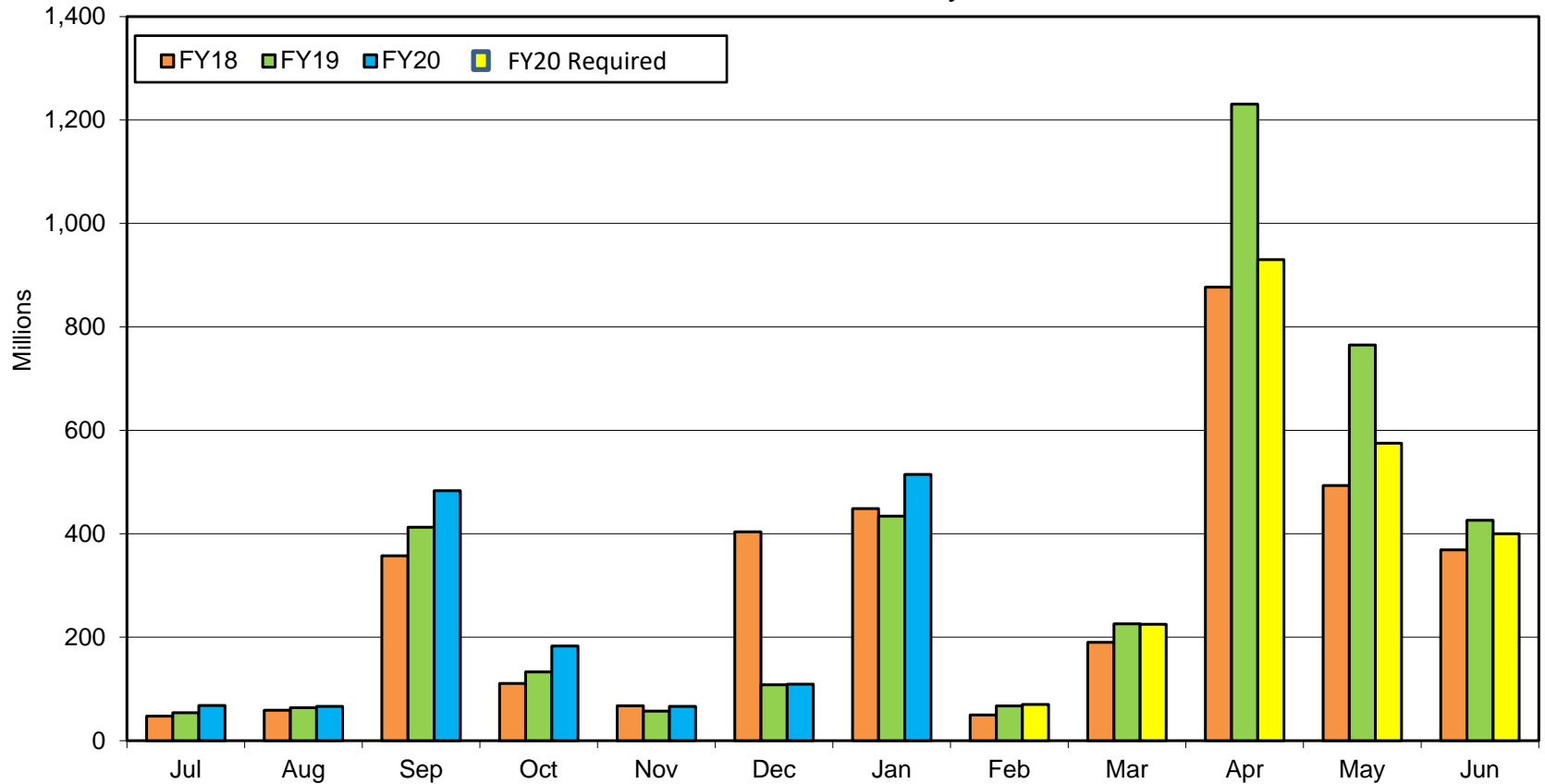


Monthly Growth: 19.3% -3.2% 3.4% 5.5% 2.5% 9.2% 5.2%

- Collections increased 5.2 percent in January.
 - Growth was solid and broad-based.
- Year-to-date, withholding collections have increased 5.7 percent compared with the same period last year, ahead of the projected annual growth of 4.7 percent.

Nonwithholding Tax Collections

FY18 – FY20 Monthly



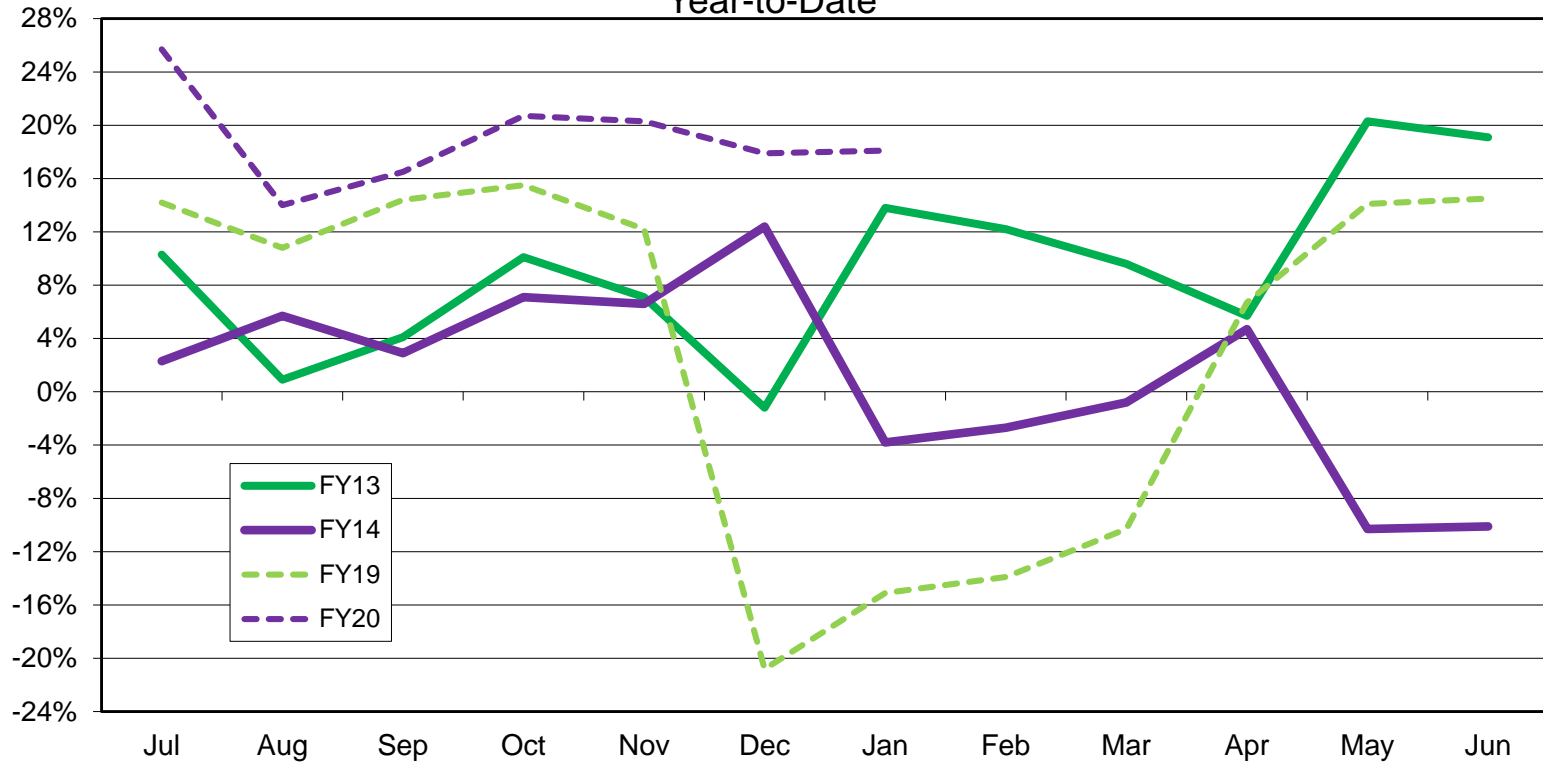
- December and January are significant months for collections in this source.
 - January 15 is the due date for the fourth estimated payment for tax year 2019.
 - Receipts increased 15.2 percent this year.
- Year-to-date, collections increased 18.1 percent, ahead of the annual estimate of a 7.7 percent decline.

Nonwithholding Tax Collections

Growth in Nonwithholding Revenue Collections

FY13, FY14, FY19 and FY20

Year-to-Date



- January's estimated payment points to a possible significant increase in final payments.

Nonwithholding Tax Collections

Large Individual Payments

	December/January		April - May	
	Number of Payments	Total Amount of Payments M\$	Number of Payments	Total Amount of Payments M\$
FY07	489	\$178.6	930	\$330.8
FY08	466	\$176.7	924	\$344.2
FY09	340	\$108.2	511	\$257.9
FY10	226	\$74.3	328	\$112.5
FY11	301	\$99.6	547	\$204.7
FY12	322	\$113.8	521	\$184.4
FY13	434	\$145.2	884	\$327.5
FY14	272	\$97.5	427	\$141.5
FY15	451	\$184.7	606	\$215.5
FY16	380	\$136.6	687	\$220.2
FY17	437	\$165.3	645	\$178.7
FY18	781	\$296.9	646	\$201.8
FY19	287	\$85.5	1,195	\$463.8
FY20	405	\$136.7	?	?

- FY19 April - May final payments contained an unknown amount of one-time revenue related to *Tax Cuts and Jobs Act* (TCJA) tax policy effects.

Individual Income Tax Refunds

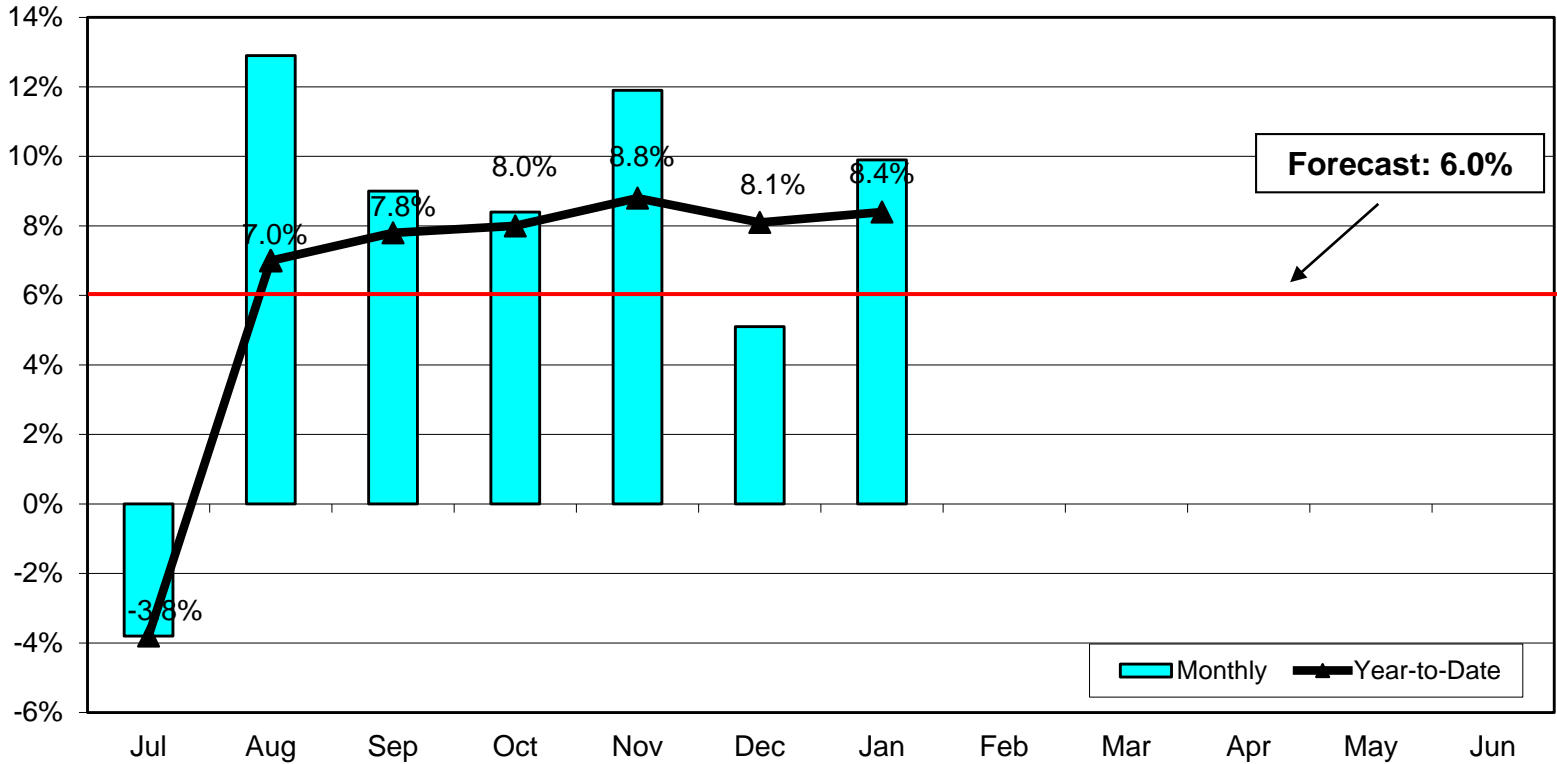
- Not a significant month.
- Through January, TAX has issued \$394.8 million in individual refunds compared with \$339.8 million in the same period last year.
- The main income tax filing season begins in February, however, due to the delayed start of the filing season last year, comparisons to last year will not be appropriate until the end of March.

Net Individual Income Tax

- Through the first seven 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 0.4 percent increase.

Growth in Sales Tax Collections

FY20 Monthly and Year-to-Date



Monthly Growth: -3.8% 12.9% 9.0% 8.4% 11.9% 5.1% 9.9%

- Collections of sales and use taxes, reflecting mainly December sales, increased 9.9 percent in January.
 - December and January sales increased 7.7 percent, ahead of expectations for a 5.0 percent increase.
- On a year-to-date basis, collections increased 8.4 percent, ahead of the annual estimate of 6.0 percent growth.

Net Corporate Income Tax Collections

- Collections were \$29.8 million in January as compared to \$23.2 million last January.
- Reduced refunds accounted for part of the increase as they were \$11.9 million as compared to \$19.3 million last January.
- On a year-to-date basis, collections in this source have increased 19.7 percent, ahead of the annual estimate of 2.2 percent growth due to strong estimated payments.

Recordation and Insurance Premiums Tax

Recordation

- In January, collections increased 34.9 percent compared to last year.
- Year-to-date collections have increased 29.8 percent compared to last year, ahead of the forecast of 13.2 percent growth.

Insurance

- This is not a significant month for collections, however refunds are issued this month. Monthly receipts declined \$40.5 million as compared to a reduction of \$41.9 million last January.
 - There will be some additional refunding in February for final returns being processed.
 - Final payments are due March 1, and estimated payments are due in April and June.

Summary of Fiscal Year 2020 Revenue Collections

(House Bill 29)

July through January

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>Feb-Jun Req'd to Meet Est.</u>	<u>Prior Year Feb-Jun</u>
Withholding	62.6 %	5.7 %	4.7 %	1.0 %	3.2 %	3.2 %
Nonwithholding	16.9	18.1	(7.7)	25.8	(19.8)	37.2
Refunds	(9.1)	16.2	13.7	2.5	13.1	(11.2)
Net Individual	70.4	7.2	0.4	6.8	(7.9)	18.7
Sales	17.5	8.4	6.0	2.4	3.0	2.7
Corporate	4.4	19.7	2.2	17.5	(11.5)	20.3
Wills (Recordation)	2.0	29.8	13.2	16.6	(8.2)	1.6
Insurance	1.9	4.3	7.1	(2.8)	7.5	11.7
All Other Revenue	3.7	10.5	3.2	7.3	(2.7)	8.1
Total	100.0 %	8.4 %	1.9 %	6.5 %	(5.5) %	14.8 %
Total less Nonwithholding	83.1 %	7.2 %	4.1 %	3.1 %	(0.2) %	8.2 %

- Total revenues can decline 5.5 percent and still attain the official revenue estimate in the Caboose Bill.

Next Steps

- Analysis of year-to-date collections data and recent economic developments formed the basis of the mid-session forecast review.
- Given that national and state economic outlooks have not significantly changed since December, the basis of the mid-session forecast will analyze *“money in the bank”* from various sources.
 - Most of the major revenue sources are running ahead of their annual projections.
 - The underlying economic outlook for slowing growth in 2020, as recommended in the fall forecasting process, will continue to be followed. No adjustments to the forecast were recommended.

Summary of the Mid-Session Revenue Analysis

- **Total Revenue collections on a year-to-date basis are running ahead of the December forecast.**
- The performance of the major sources are almost all positive:

Neutral

- Payroll withholding
- Individual Refunds

Upside

- Nonwithholding – individual estimated payments
- Corporate estimated payments
- Sales and Use tax collections
- Recordation tax collections

Downside

- Insurance premiums refunds are higher than expected

Mid-Session Revenue Forecast Update

Bottom Line

- Economic outlook unchanged from GACRE meeting.
- Culling “*money in the bank*” ahead of the forecasts through January.
- DPB calculated that the additional Rainy Day Fund requirement is \$112.5 million.

Total Revenues for FY20

• Nonwithholding	+\$154.0 million
• Corporate	+\$67.0 million
• Sales and Use	+\$50.0 million
• Recordation	+\$31.0 million
• Insurance	-\$15.0 million
• <u>Transfer of Sales Tax (0.375%)</u>	<u>+\$5.5 million</u>
Total General Fund	+\$292.5 million

Summary of Fiscal Year 2020 Revenue Collections

(Mid-Session Forecast)

July through January

Percent Growth over Prior Year

Major Source	As a % of Total Revenues	YTD Actual	Annual Estimate	Variance	Feb-Jun Req'd to Meet Est.	Prior Year Feb-Jun
Withholding	61.8 %	5.7 %	4.7 %	1.0 %	3.2 %	3.2 %
Nonwithholding	17.4	18.1	(3.9)	22.0	(14.1)	37.2
Refunds	(9.0)	16.2	13.7	2.5	13.1	(11.2)
Net Individual	70.2	7.2	1.4	5.8	(5.6)	18.7
Sales	17.5	8.4	7.4	1.0	6.1	2.7
Corporate	4.7	19.7	9.3	10.4	1.2	20.3
Wills (Recordation)	2.1	29.8	21.3	8.5	10.2	1.6
Insurance	1.8	4.3	3.2	1.1	3.0	11.7
All Other Revenue	3.7	10.5	3.2	7.3	(2.7)	8.1
Total	100.0 %	8.4 %	3.2 %	5.2 %	(2.7) %	14.8 %
Total less Nonwithholding	82.6 %	7.2 %	4.8 %	2.4 %	1.6 %	8.2 %

- Total revenues can decline 2.7 percent and still attain the official revenue estimate in the Caboose Bill.