



Economic and Revenue Update

A Briefing for the Money Committees

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Topics for Discussion

- National and State Economic Indicators
- May Year-to-Date Revenue Collections, Fiscal Year 2020
- Next Steps
- Interim Forecasting Schedule
- Federal Assistance

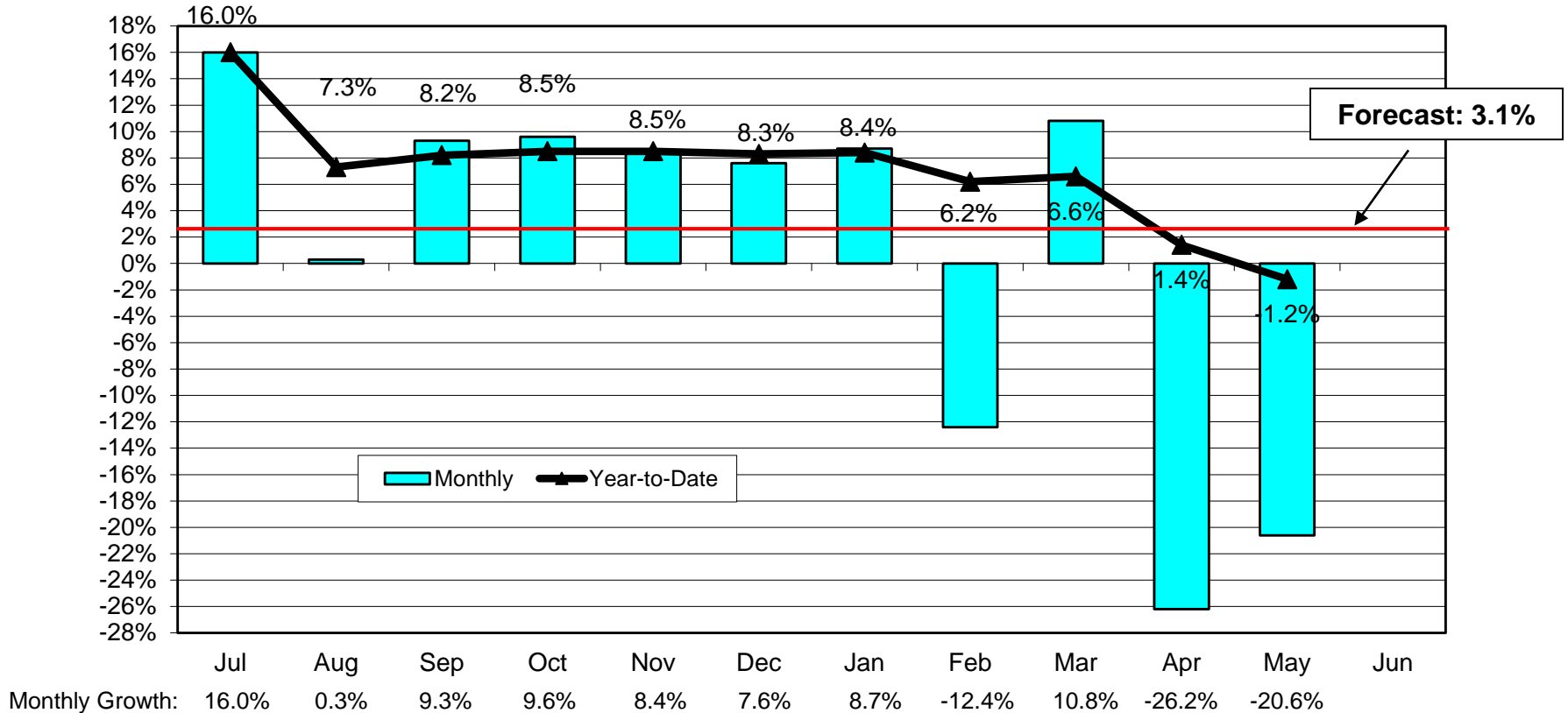
National and State Economic Indicators

- This is the second monthly report containing the effects of the COVID-19 outbreak. Impacts will include the general economic downturn and the decision by the Governor to defer April and May income tax payment dates for corporations and individuals to June 1.
- According to the second estimate, real GDP fell at an annualized rate of 5.0 percent in the first quarter of 2020, following 2.1 percent growth in the previous two quarters.
- Payroll employment increased by 2.5 million jobs in May, contrary to consensus expectations for a decline of 7.5 million.
- The national unemployment rate fell from 14.7 to 13.3 percent in May.
- The number of people filing for unemployment benefits is steadily declining. Although elevated by historical standards, initial claims for unemployment fell by 249,000 to 1.9 million during the week ending May 30, while the four-week moving average fell from 2.6 million to 2.3 million.
 - For comparison, during the week ending April 20, initial claims were 5.0 million and the 4-week average was 4.4 million.
- The Conference Board's index of leading indicators fell 4.4 percent in April, with broad-based declines.
- The Conference Board's index of consumer confidence stabilized in May after posting a record monthly decline in April. The index rose slightly from 85.7 to 86.6 in May. The expectations component drove the increase, offsetting a decline in the present conditions component.
- The Institute of Supply Management index rose from 41.5 to 43.1 in May.
 - Overall, the index suggests that although the breadth of the recession slightly moderated, the economy remains weak.

National and State Economic Indicators

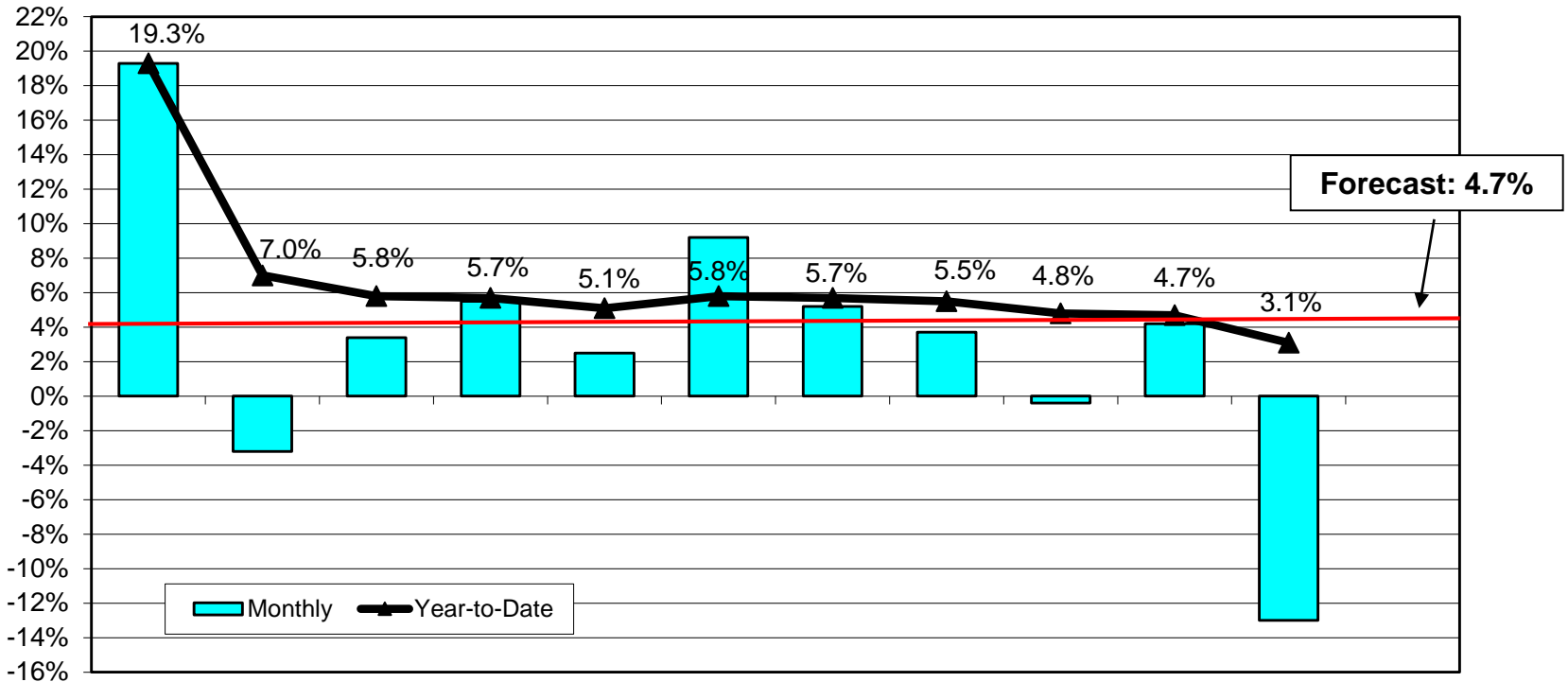
- The Consumer Price Index (CPI) fell 0.8 percent in April following a 0.4 percent decrease in March and stands 0.4 percent above April 2019.
 - Core inflation (excluding food and energy prices) fell 0.4 percent, and has increased 1.4 percent from last year.
- At its April meeting, the Federal Reserve left the federal funds target rate unchanged at the range of 0.0 to 0.25 percent. Quantitative easing remains open-ended.
- The Virginia seasonally adjusted unemployment rate rose 7.3 percentage points to 10.6 percent in April.
- In Virginia, payroll employment fell by 365,000 jobs in April, a drop of 9.0 percent compared with April of last year. Employment in Northern Virginia fell by 8.4 percent; Hampton Roads fell 9.2 percent; and Richmond-Petersburg fell 9.7 percent.
- The Virginia Leading Index fell 5.3 percent in April after declining 6.7 percent in March.
 - All four components: auto registrations, the U.S. Leading index, initial claims, and future employment deteriorated.
 - The indexes for all eleven metro areas declined in April.

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



- Total general fund revenues decreased 20.6 percent in May.
 - The deferral of the payment date to June 1 for individual and corporate income tax payments caused lower levels of activity before the new date.
 - Payroll withholding and sales taxes also contributed to the decline.
- On a year-to-date basis, total revenues decreased 1.2 percent, behind the annual forecast of a 3.1 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% 3.7% -0.4% 4.2% -13.0%

- Collections decreased 13.0 percent in May due to two fewer deposit days and a sharp drop in payroll withholding payments by small businesses.
- Year-to-date, withholding collections have increased 3.1 percent compared with the same period last year, behind the projected annual growth of 4.7 percent.

Payroll Withholding by Month

Tracking Payroll Withholding Payment by Payment Size
Dollars in Millions

	\$0 to \$5k 17% of total		\$5 to \$10k 6% of total		\$10 to \$100k 25% of total		Over \$100k 52% of total		Total	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
March	226,969	191.5	9,634	67.6	10,633	282.5	1,271	585.8	248,507	1,127.3
April	254,651	208.4	10,234	71.6	10,926	280.6	1,053	568.4	276,864	1,129.0
May	223,890	185.9	8,971	62.7	9,418	244.6	968	464.7	243,247	957.8

- Actual collections in every group of businesses has been declining to varying degrees.

Payroll Withholding by Month

Tracking Payroll Withholding Payment by Payment Size
Percent Change

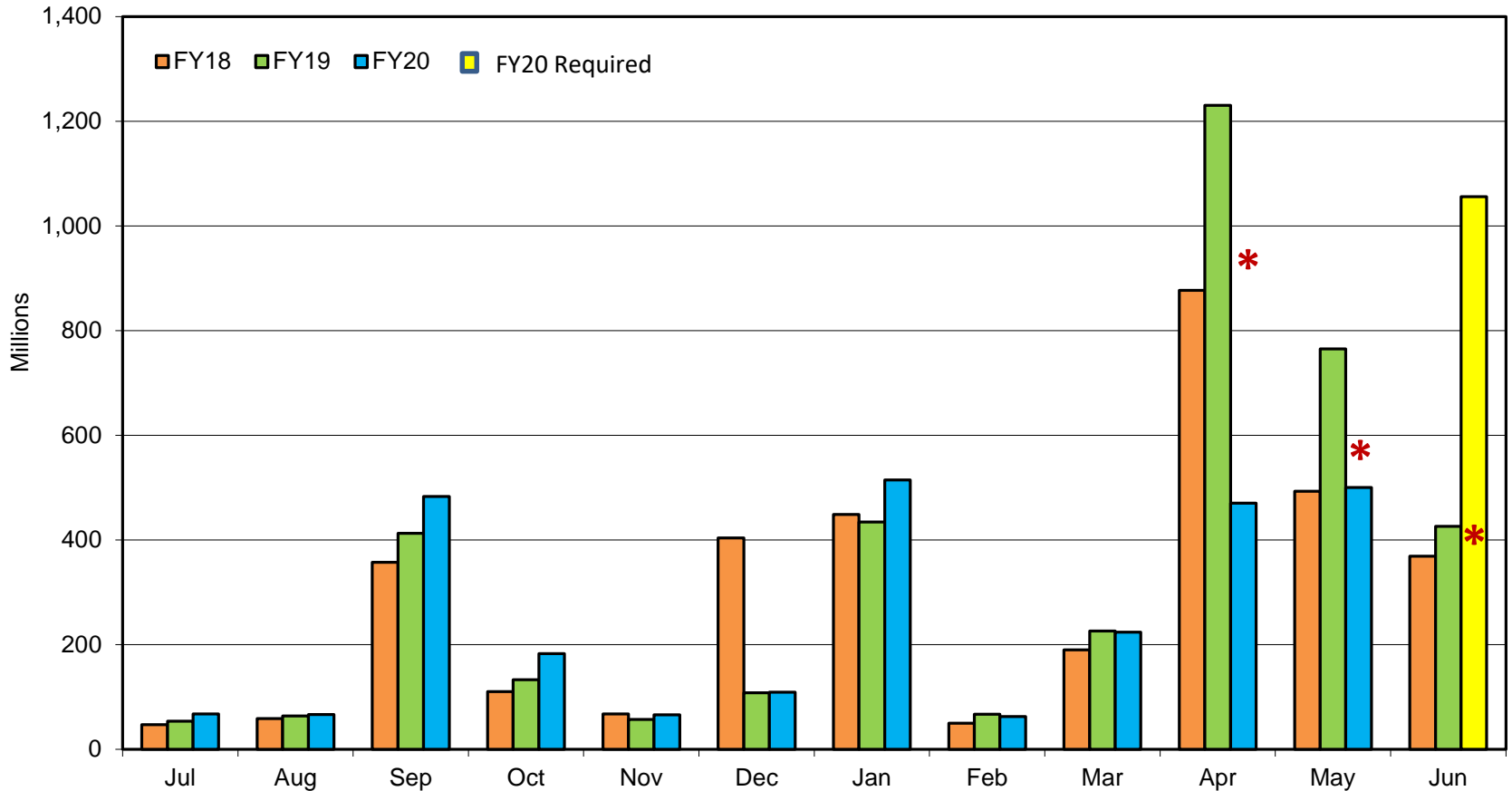
	\$0 to \$5k 17% of total		\$5 to \$10k 6% of total		\$10 to \$100k 25% of total		Over \$100k 52% of total		Total	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
March	0.3	1.7	1.8	1.8	2.8	2.0	4.3	0.9	0.5	1.4
April	2.2	0.9	5.5	7.2	6.3	7.5	1.4	6.6	1.5	5.8
May	10.2	15.8	18.7	18.7	17.2	15.2	10.3	6.4	10.9	11.5
April 1 - May 31	6.0	7.4	7.1	6.4	6.1	4.5	5.1	1.6	6.0	3.8
Typical Dealer Distribution	91%		4%		4%		1%		100%	
Number /Amount	225k	\$190m	9.7k	\$68m	10.7k	\$285m	1.3k	\$585m	249k	\$1.1b

Dealers with \$5k monthly withholding equate to about an annual payroll of \$1.5 million, \$10k = \$3 million, \$100k = \$30 million

- Payroll withholding by size of firm has shown small businesses have been disproportionately affected by COVID-19.

Nonwithholding Tax Collections

FY18 – FY20 Monthly



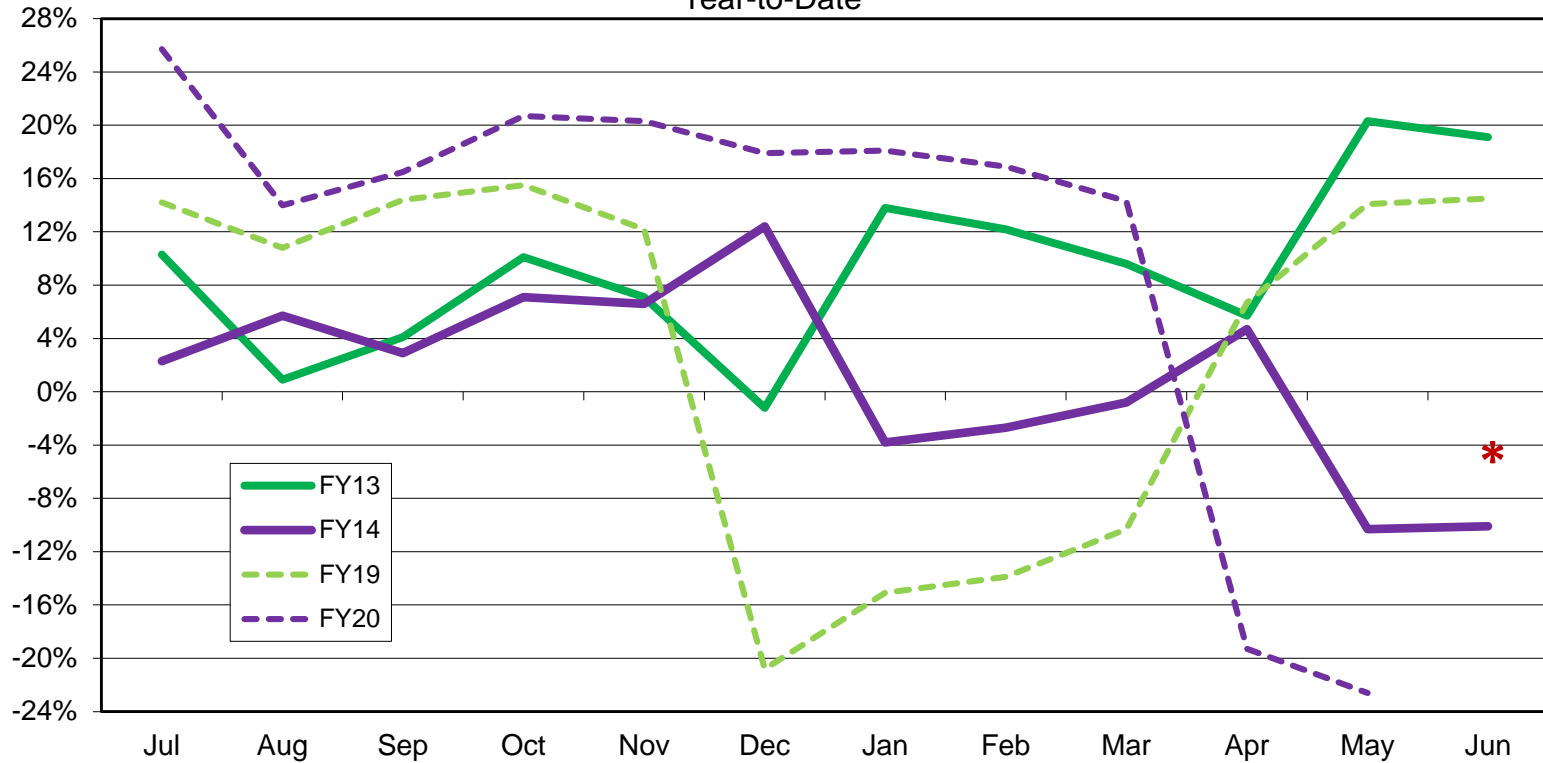
- May receipts were down significantly as the May 1 filing date for final tax year 2019 and the first estimated payment for tax year 2020 was moved to June 1.
- There is no equivalent historical data to compare this year to past years for analysis.

Nonwithholding Tax Collections

Growth in Nonwithholding Revenue Collections

FY13, FY14, FY19 and FY20

Year-to-Date



- Estimated and final payments due May 1 are now due June 1 and affect prior year comparisons.

Individual Income Tax Refunds

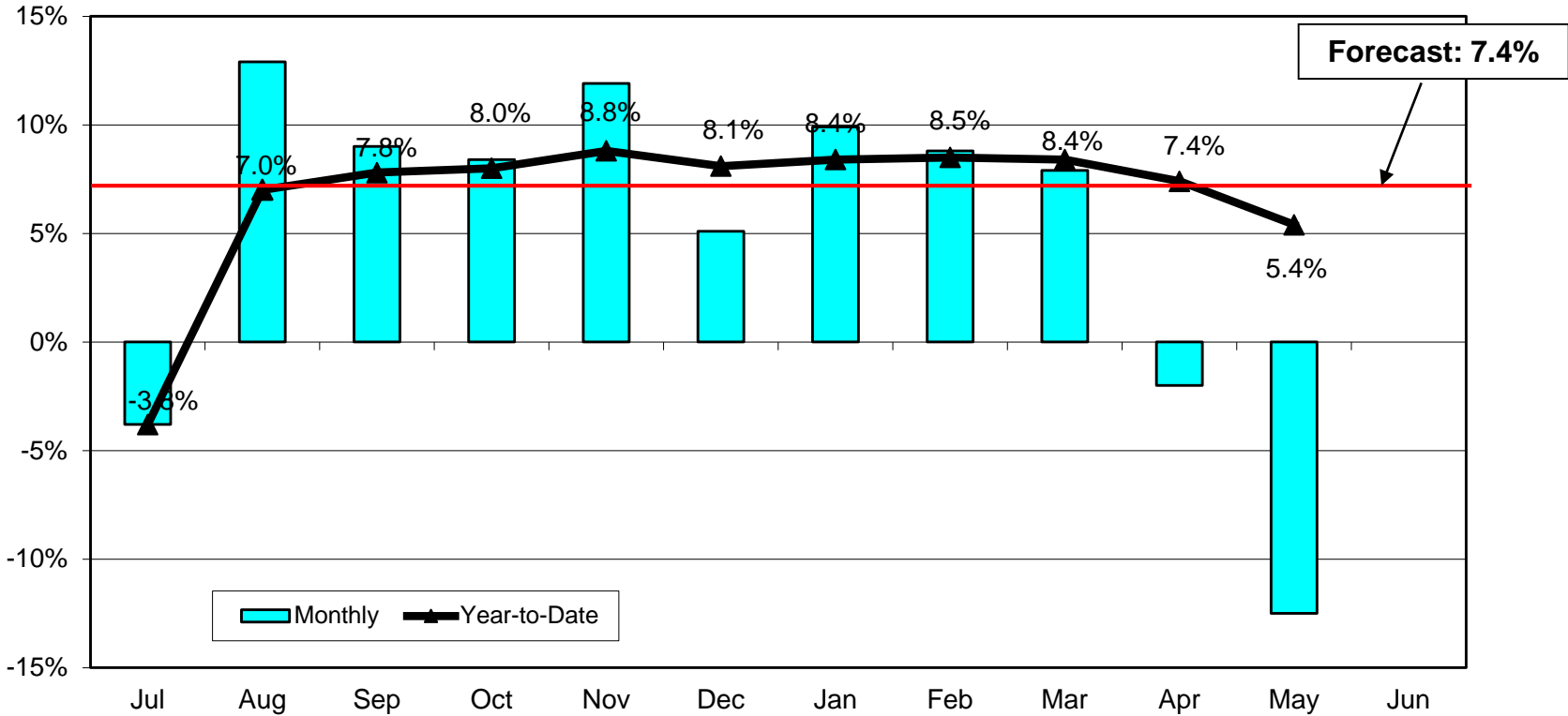
- Through May, TAX has issued \$1,695.9 million in individual refunds compared with \$1,643.4 million in the same period last year, a 3.2 percent increase as compared to the annual estimate of 13.7 percent growth.
- For the filing season, TAX has issued 2.3 million refunds – the same number as last year.
 - Average check size is down about 1.0 percent.

Net Individual Income Tax

- Year-to-date collections of net individual income tax decreased 3.6 percent from the same period last year, behind the annual estimate of 1.3 percent growth.
- Moving the filing date from May 1 to June 1 has made any comparisons meaningless.

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% 8.8% 7.9% -0.4% -12.5%

- Collections of sales and use taxes, reflecting mainly April sales, decreased 12.5 percent in May.
 - The month represents a full month of reduction in sales due to numerous retail closings during the COVID-19 pandemic.
- On a year-to-date basis, collections increased 5.4 percent, behind the annual estimate of 7.4 percent growth.

Net Corporate Income Tax Collections

- This is not a significant month.
- The final and estimated payments due April 15 are now due June 1.
- On a year-to-date basis, collections in this source have increased 1.6 percent, behind the estimate of 9.3 percent growth.

Recordation Tax Collections

- Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – decreased 5.6 percent in May.
 - On a year-to-date basis, collections have increased 25.6 percent as compared to the forecast of a 21.3 percent increase.

Insurance Premiums Tax

- This is not a significant month.
- For the fiscal year-to-date, net insurance premiums tax collections are \$229.7 million compared with \$253.6 million during the same period last year.

Summary of Fiscal Year 2020 Revenue Collections

(Chapter 1283)

July through May

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>Jun Req'd to Meet Est.</u>	<u>Prior Year Jun</u>
Withholding	61.9 %	3.1 %	4.7 %	(1.6) %	21.2 %	0.7 %
Nonwithholding	17.3	(22.6)	(4.3)	(18.3)	147.7	15.6
Refunds	(9.0)	3.2	13.7	(10.5)	196.2	27.2
Net Individual	70.2	(3.6)	1.3	(4.9)	46.7	3.1
Sales	17.5	5.4	7.4	(2.0)	18.9	(0.1)
Corporate	4.7	1.6	9.3	(7.7)	43.3	(1.6)
Wills (Recordation)	2.1	25.6	21.3	4.3	(16.7)	(2.9)
Insurance	1.8	(9.4)	3.2	(12.6)	28.0	6.7
All Other Revenue	3.7	3.6	3.2	0.4	0.9	(5.1)
Total	100.0 %	(1.2) %	3.1 %	(4.3) %	36.4 %	1.7 %
Total less Nonwithholding	82.7 %	3.8 %	4.8 %	(1.0) %	12.8 %	(0.8) %

- June collections need to be \$3.3 billion to attain the forecast. Last year's collections were \$2.4 billion.

Summary of Fiscal Year 2020 Revenue Collections

(Chapter 1283 Minus \$1 Billion)

July through May

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>Jun Req'd to be \$1 billion Shortfall</u>	<u>Prior Year Jun</u>
Withholding	63.4 %	3.1 %	2.3 %	0.8 %	(5.3) %	0.7 %
Nonwithholding	16.2	(22.6)	(14.4)	(8.2)	53.9	15.6
Refunds	(9.4)	3.2	13.7	(10.5)	196.2	27.2
Net Individual	70.2	(3.6)	(3.3)	(0.3)	(1.1)	3.1
Sales	17.6	5.4	3.2	2.2	(10.1)	(0.1)
Corporate	4.2	1.6	(6.6)	8.2	(42.4)	(1.6)
Wills (Recordation)	2.2	25.6	21.3	4.3	(16.7)	(2.9)
Insurance	1.9	(9.4)	3.2	(12.6)	28.0	6.7
All Other Revenue	3.9	3.6	3.2	0.4	0.9	(5.1)
Total	100.0 %	(1.2) %	(1.6) %	0.4 %	(4.6) %	1.7 %
Total less Nonwithholding	83.8 %	3.8 %	1.4 %	2.4 %	(17.0) %	(0.8) %

- If total collections decrease 4.6 percent in June, this would result in a \$1 billion shortfall.

Next Steps

- **June**

- Individual and corporations final payments for tax year 2019 and the first estimated payments for tax year 2020 are due June 1.
- Individual, corporate and insurance companies have their second estimated payment due June 15.
- Accelerated Sales Tax (AST) bill is due on June 30 and it is anticipated more waivers will be given due to the current business environment.

Interim Forecasting Schedule

- **July 10** Governor to Announce FY2020 Revenue Shortfall
- **July 20** *Joint Advisory Board of Economists (JABE) Meeting*
- **August 3** *Governor's Advisory Council on Revenue Estimates (GACRE) Meeting*

Summary of Federal Assistance to the Commonwealth

As of June 9, 2020:

- Four separate authorizations by Congress
- Approximately 79 different grant or non-grant funding streams
- Approximately \$28.2 billion of total federal assistance
 - includes \$6.5 billion in grant funds
 - includes \$14.4 billion of non-grant funds through the Small Business Administration (*example: Paycheck Protection Program payments*) and \$7.3 billion in *Municipal Liquidity Facility Loans*
 - does not include unemployment benefit payments or Individual and Family Stimulus Checks

Source: Federal Funds Information for States (FFIS) dated June 9, 2020

Summary of Federal Assistance to the Commonwealth

- In addition, the enhanced FMAP in Medicaid is estimated to reduce general fund costs by \$318.9 million in FY 2020
- Three different methods for distributing the funds to Virginia:
 1. Grants that come to the commonwealth generally such as the *Coronavirus Relief Fund* (CRF) authorized pursuant to the *Coronavirus Aid, Relief, and Economic Security* (CARES) Act – greatest discretion
 2. Grants that go directly to a commonwealth agency such as the supplemental payments under the *Child Care and Development Block Grant* (CCDBG) that goes to the Department of Social Services – some discretion
 3. Payments that go directly to recipients like the *Provider Relief Payments* or payments under the *Paycheck Protection Program* (PPP) – very little/no discretion

Coronavirus Relief Fund (CRF)

- Approximately \$3.3 billion authorized for Virginia
- Includes \$200 million that went directly to Fairfax County
- Governor will determine allocation of remaining \$3.1 billion
- CRF Actions to date:
 - **May 7, 2020** – Instructions sent to agencies, requests due May 18, 2020
 - FY 2020 requests currently under review
 - **May 12, 2020** – \$644.6 million in local allocations announced and instructions sent (*excludes Fairfax County*)
 - **June 1, 2020** – all local certifications were received and funds were distributed to all localities (*except Fairfax County*)

Coronavirus Relief Fund (CRF)

Total Allocation to Virginia	\$	3,309,738,321
<i>less Fairfax County</i>		(200,235,485)

Balance for Rest of State	\$	3,109,502,836
 Less Current Commitments:		
Local Allocations		(644,573,383)
VDEM - testing		(42,338,400)
VDEM - PPE		(97,000,000)
VDEM - other		(33,722,001)
VDH - replace deficit authorization in initial EO		(3,291,300)
VDH - contact tracing		(59,157,614)
DGS - consolidated labs		(6,052,673)
DHCD - emergency housing		(5,528,998)

Total Commitments		(891,664,369)
 Remaining Balance	 \$	 2,217,838,467