

Economic and Revenue Update

A Briefing for the Money Committees

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September 2020

Topics for Discussion

- National and State Economic Indicators
- August Year-to-Date Revenue Collections, Fiscal Year 2021
- Next Significant Data Points
- 2020 Revenue Forecasting Schedule
- Known Funding Commitments / Risks
- CARES Act Funding

National and State Economic Indicators

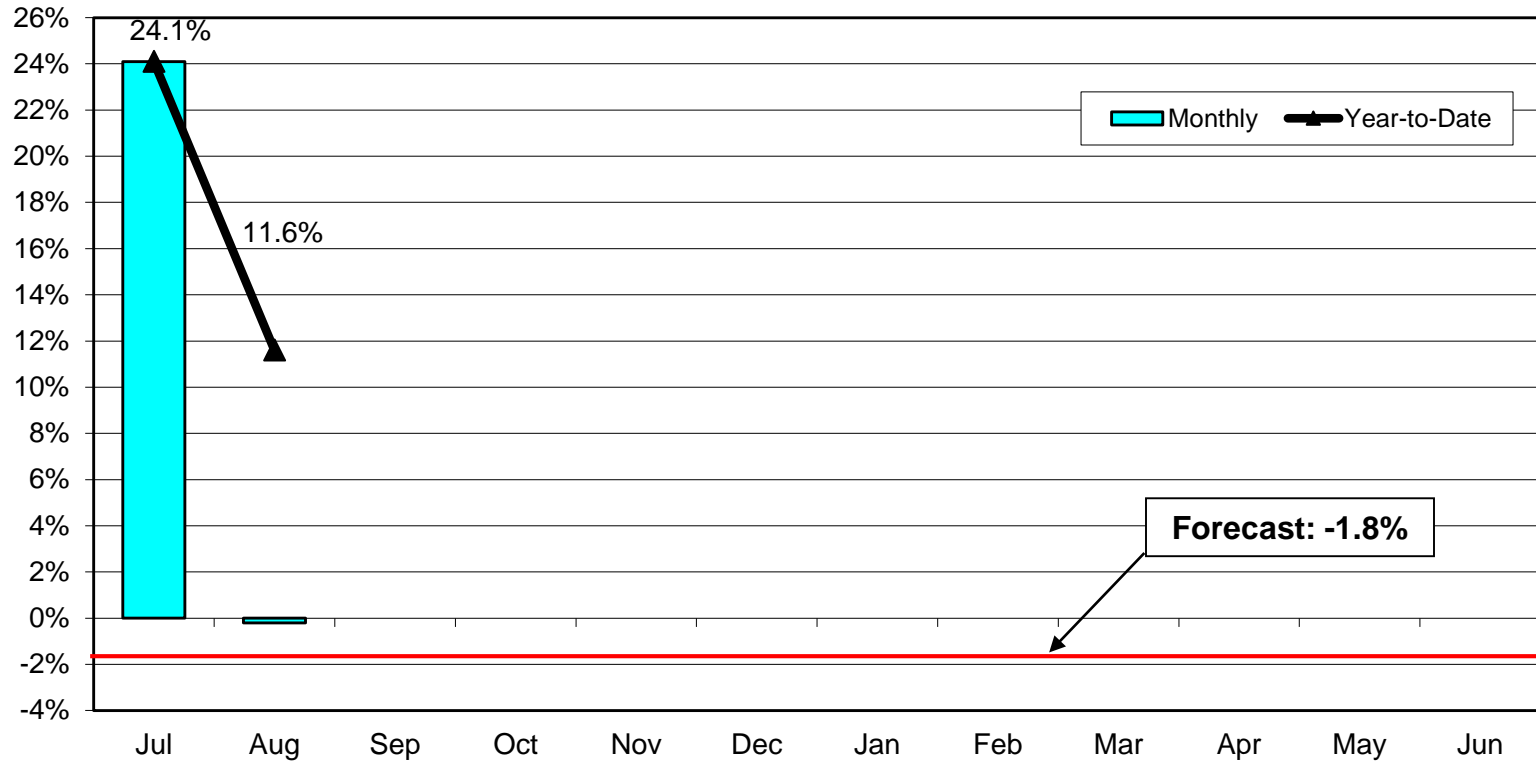
- According to the second estimate, real GDP fell at an annualized rate of 31.7 percent in the second quarter of 2020, the largest decline on record.
 - The prior record was a 10 percent decline in the first quarter of 1958.
- Payroll employment rose by 1.4 million jobs in August.
 - This follows a gain of 1.7 million in July.
- The national unemployment rate fell from 10.2 percent to 8.4 percent in August, even as more workers entered the labor force.
- Initial claims for unemployment fell by 130,000 to 881,000 during the week ending August 29.
 - Although this is the lowest level recorded since the pandemic began, the decline is largely due to a change in the seasonal adjustment process.
- The Conference Board's index of leading indicators rose 1.4 percent in July to 104.4 following increases of 3.1 percent in May and 3.0 percent in June, bringing the index above the March level posted before the recession.
- The Conference Board's index of consumer confidence fell from 91.7 to 84.8 in August. Both components decreased for the month.
- The Institute of Supply Management index rose from 54.2 to 56.0 in August, its third consecutive month above the neutral threshold of 50.

National and State Economic Indicators

- The CPI rose 0.6 percent in July matching June's increase, and stands 1.0 percent above July 2019. The increases are probably a temporary rebound after falling the previous three months.
 - Core inflation (excluding food and energy prices) also rose by 0.6 percent, and has increased 1.6 percent from last year.
- At its July meeting, the Federal Reserve left the federal funds target unchanged at the range of 0.0 to 0.25 percent.
- In Virginia, payroll employment fell 7.0 percent in July compared with last year. Northern Virginia fell 8.0 percent; Hampton Roads employment fell 5.8 percent, and Richmond-Petersburg fell 6.7 percent.
- The seasonally adjusted unemployment rate decreased 0.1 percentage point to 8.0 percent and stands 5.3 percentage points above July of last year.
- The Virginia Leading Index rose 1.6 percent in July after falling 2.1 percent in June.
 - All four components, the U.S. Leading Index, future employment, auto registrations and initial claims improved in July.
 - The index for Lynchburg remained unchanged in July and the indexes for the remaining ten Virginia metro areas rose.

Growth in Total General Fund Revenue Collections

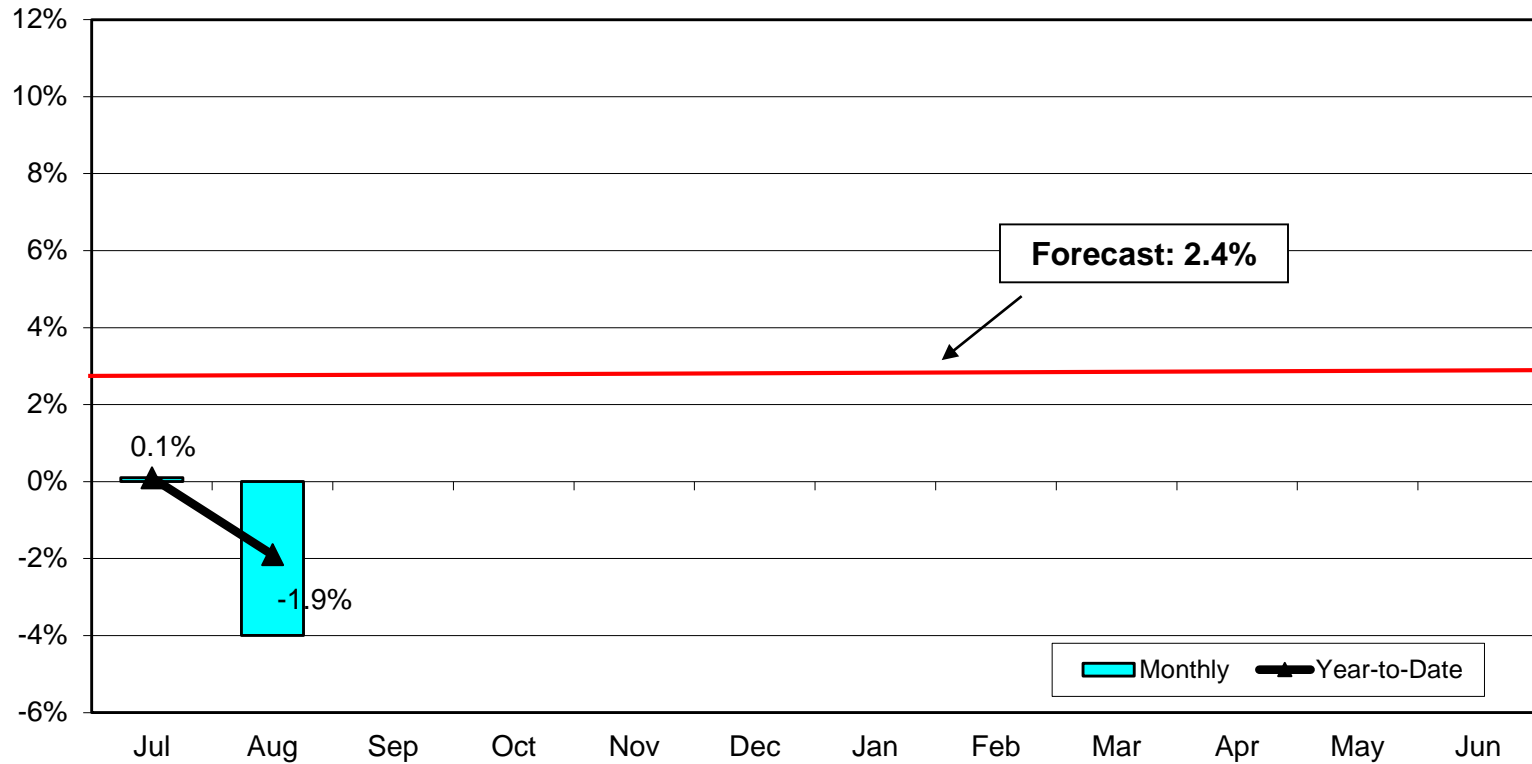
FY21 Monthly and Year-to-Date



Monthly Growth: 24.1% -0.2%

- Total general fund revenues decreased 0.2 percent in August.
 - August contained one less deposit day.
- On a year-to-date basis, total revenues increased 11.6 percent, ahead of the annual forecast of a 1.8 percent decline.

Growth in Withholding Tax Collections FY21 Monthly and Year-to-Date



Monthly Growth: 0.1% -4.0%

- Collections decreased 4.0 percent in August.
 - August contained one less deposit day.
- Year-to-date, withholding collections have decreased 1.9 percent compared with the same period last year, behind the projected annual growth of 2.4 percent.

Individual Nonwithholding

- Collections through August were \$487.4 million compared with \$134.3 million in the same period last year.

Individual Income Tax Refunds

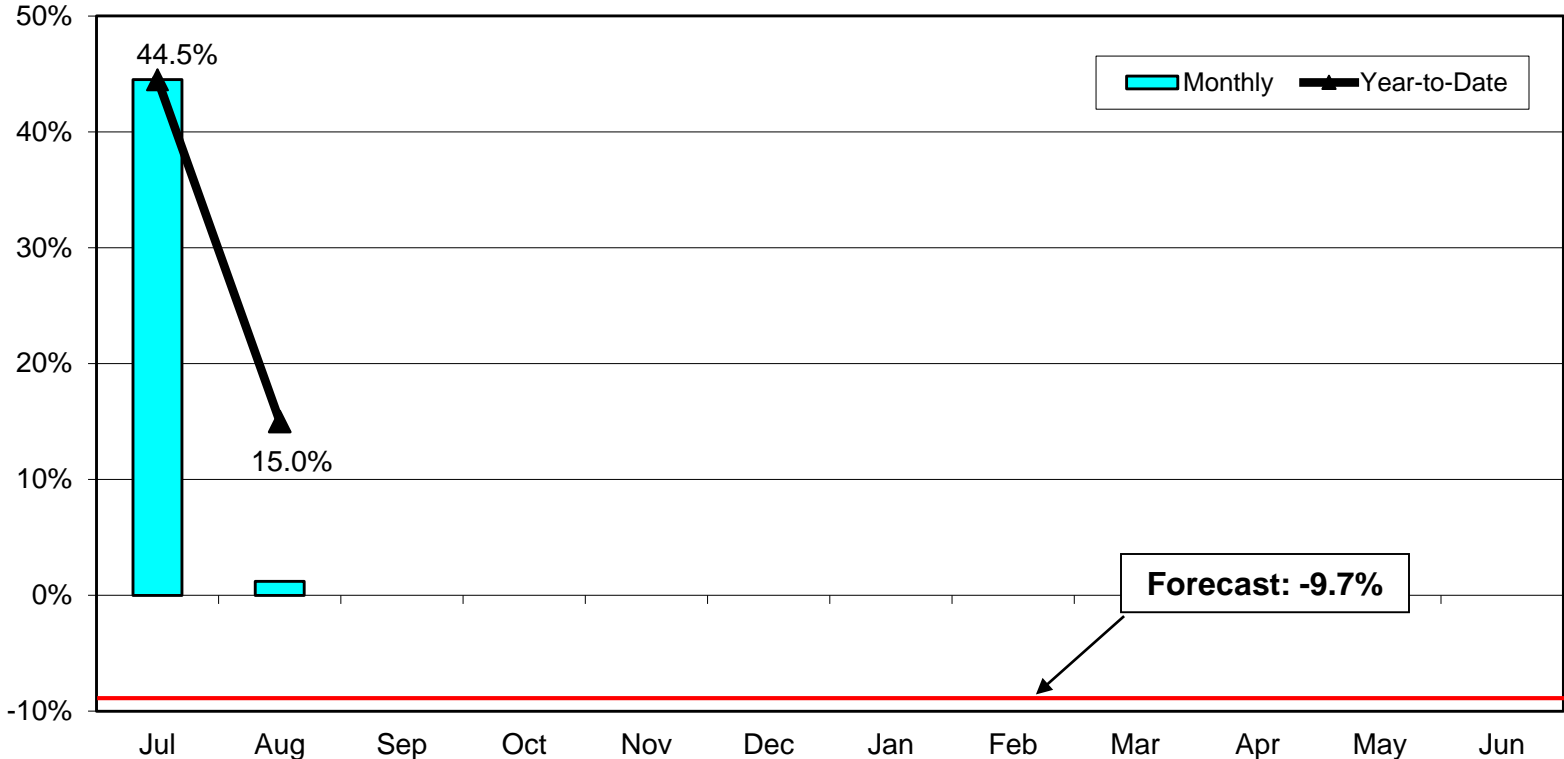
- Through August, TAX has issued \$223.2 million in individual refunds compared with \$109.0 million in the same period last year.

Net Individual Income Tax

- Through the first two months of the fiscal year, collections of net individual income tax increased 9.3 percent from the same period last year, ahead of the annual estimate of a 0.6 percent increase.

Growth in Sales Tax Collections

FY21 Monthly and Year-to-Date



Monthly Growth: 44.5% 1.2%

- Collections of sales and use taxes, reflecting mainly July sales, increased 1.2 percent in July.
 - This is the first month of comparing collections with the new Wayfair dealers that began to register and report collections last August.
- On a year-to-date basis, collections increased 15.0 percent, ahead of the annual estimate of a 9.7 percent decline.

Net Corporate Income Tax Collections

- This is not a significant month.
- On a year-to-date basis, collections in this source are \$84.9 million as compared to the same period last year of \$33.1 million.

Recordation Tax Collections

- Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – increased 31.3 percent in August.
 - On a year-to-date basis, collections have increased 27.9 percent as compared to the forecast of a 12.6 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 \$181.4 million before deposits are made to the General Fund.

Summary of Fiscal Year 2021 Revenue Collections Interim Forecast

July through August

Percent Growth over Prior Year

<u>Major Source</u>	As a % of Total Revenues	<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	64.2 %	(1.9) %	2.4 %	(4.3) %	3.3 %	2.3 %
Nonwithholding	17.2	262.8	(3.6)	266.4	(13.3)	(4.9)
Refunds	(9.0)	104.8	5.1	99.7	(1.2)	4.6
Net Individual	72.3	9.3	0.6	8.7	(0.8)	(0.1)
Sales	15.7	15.0	(9.7)	24.7	(13.2)	3.1
Corporate	4.9	156.8	3.0	153.8	(2.2)	8.1
Wills (Recordation)	2.0	27.9	(12.6)	40.5	(21.3)	25.9
Insurance	1.6	n/a	(6.4)	n/a	(6.4)	(5.6)
All Other Revenue	3.5	(13.9)	(8.1)	(5.8)	(7.1)	2.8
Total	100.0 %	11.6 %	(1.8) %	13.4 %	(3.8) %	1.3 %
Total less Nonwithholding	82.8 %	(1.0) %	(1.4) %	0.4 %	(1.5) %	2.9 %

- \$376 million ahead of the Interim forecast through August

Summary of Fiscal Year 2021 Revenue Collections

Chapter 1289

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	62.2 %	(1.9) %	5.5 %	(7.4) %	6.9 %	2.3 %
Nonwithholding	18.1	262.8	7.8	255.0	(1.5)	(4.9)
Refunds	(9.1)	104.8	12.5	92.3	6.7	4.6
Net Individual	71.2	9.3	5.3	4.0	4.6	(0.1)
Sales	17.2	15.0	5.0	10.0	3.6	3.1
Corporate	4.5	156.8	0.7	156.1	(4.5)	8.1
Wills (Recordation)	1.7	27.9	(19.7)	47.6	(30.0)	25.9
Insurance	1.9	n/a	16.5	n/a	16.5	(5.6)
All Other Revenue	3.6	(13.9)	(1.9)	(12.0)	0.2	2.8
Total	100.0 %	11.6 %	4.4 %	7.2 %	3.3 %	1.3 %
Total less Nonwithholding	81.9 %	(1.0) %	3.6 %	(4.6) %	4.5 %	2.9 %

- \$202 million ahead of the Chapter 1289 forecast through August

Next Significant Data Points

- 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.

2020 Revenue Forecasting Schedule

- **November 4** – *Joint Advisory Board of Economists (JABE)* reviews the economic outlook for FY21 – FY22.
- **November 23** – *Governor’s Advisory Council on Revenue Estimates (GACRE)* reviews the economic and revenue outlook for FY21 – FY22.
- **December 16** – Governor presents revised forecast and budget actions for 2020 - 2022 budget.

Known Funding Commitments / Risks

- **COVID-19**
- **Annual Medicaid Forecast**
- **Federal Actions**
 - Grants Funding
 - Disallowances
- **Transportation Funding**

CARES Act Funding

Authorized Use of Coronavirus Relief Fund

as of 9-14-2020

Total Allocation to Virginia	\$	3,309,738,321
less Fairfax County		(200,235,485)
Balance for Rest of State	\$	3,109,502,836

	When Allocated/Committed ¹		
	FY 2020	FY 2021	Total
Less Current Commitments:			
Local allocations - 1st & 2nd rounds	(644,573,383)	(644,573,383)	(1,289,146,766)
VDEM - testing (approximately \$21.5M was transferred to VDH by subsequent decision brief approved 7-27-2020)	(42,338,400)		(42,338,400)
VDEM - PPE	(97,000,000)		(97,000,000)
VDEM - other	(33,722,001)		(33,722,001)
VDH - replace deficit authorization	(3,291,300)		(3,291,300)
VDH - contact tracing/UVA Equipment	(59,157,614)		(59,157,614)
DGS - consolidated labs testing	(6,052,673)		(6,052,673)
DHCD - emergency housing for homeless	(5,528,998)	(3,300,000)	(8,828,998)
FY 2020 agency-based requests (does not include \$10M for DHCD mortgage and rental assistance shown below)	(80,480,698)		(80,480,698)
DHCD - mortgage and rental assistance (FY 2020 amount previously shown in agency-based requests above)	(10,000,000)	(40,000,000)	(50,000,000)
DSBSD - small business assistance grants		(70,000,000)	(70,000,000)
DMAS - Long-term care facilities		(55,640,872)	(55,640,872)
DMAS - PPE for Personal Care Attendants		(9,256,178)	(9,256,178)
VDEM, VDACS, & DSS - Food Insecurity		(3,861,953)	(3,861,953)
VDEM - 4 Priority PPE projects {(1) federally-funded health care facilities, 2) congregate care facilities, 3) local health district offices, and 4) adult and childcare facilities across the Commonwealth}		(42,112,285)	(42,112,285)
Subtotal Commitments	(982,145,067)	(868,744,671)	(1,850,889,738)
Requests Currently Under Review:			
VDH - Carillion Serology Study		(566,309)	(566,309)
VDH -Testing and Contact Tracing		(71,829,059)	(71,829,059)
VDH - Environmental Health Specialists for Executive Order enforcement		(4,457,085)	(4,457,085)
DBHDS - State hospital census support		(2,800,000)	(2,800,000)
VDEM - COVID-19 pandemic response		(57,324,110)	(57,324,110)
VDH - Point of Care Antigen Testing		(16,010,500)	(16,010,500)
Subtotal Requests Under Review	-	(152,987,063)	(152,987,063)
Grand Total Commitments and Requests Under Review	(982,145,067)	(1,021,731,734)	(2,003,876,801)
Remaining Balance			\$ 1,105,626,035

¹NOTE: Not all funds allocated have been spent. Balances remain in some items.