

Economic and Revenue Update

A Briefing for the Money Committees

Aubrey L. Layne Jr., MBA, CPA

Secretary of Finance

Commonwealth of Virginia

www.finance.virginia.gov

February 2021

Topics for Discussion

- National and State Economic Indicators
- January Year-to-Date Revenue Collections, Fiscal Year 2021
- Mid-Session Revenue Forecast

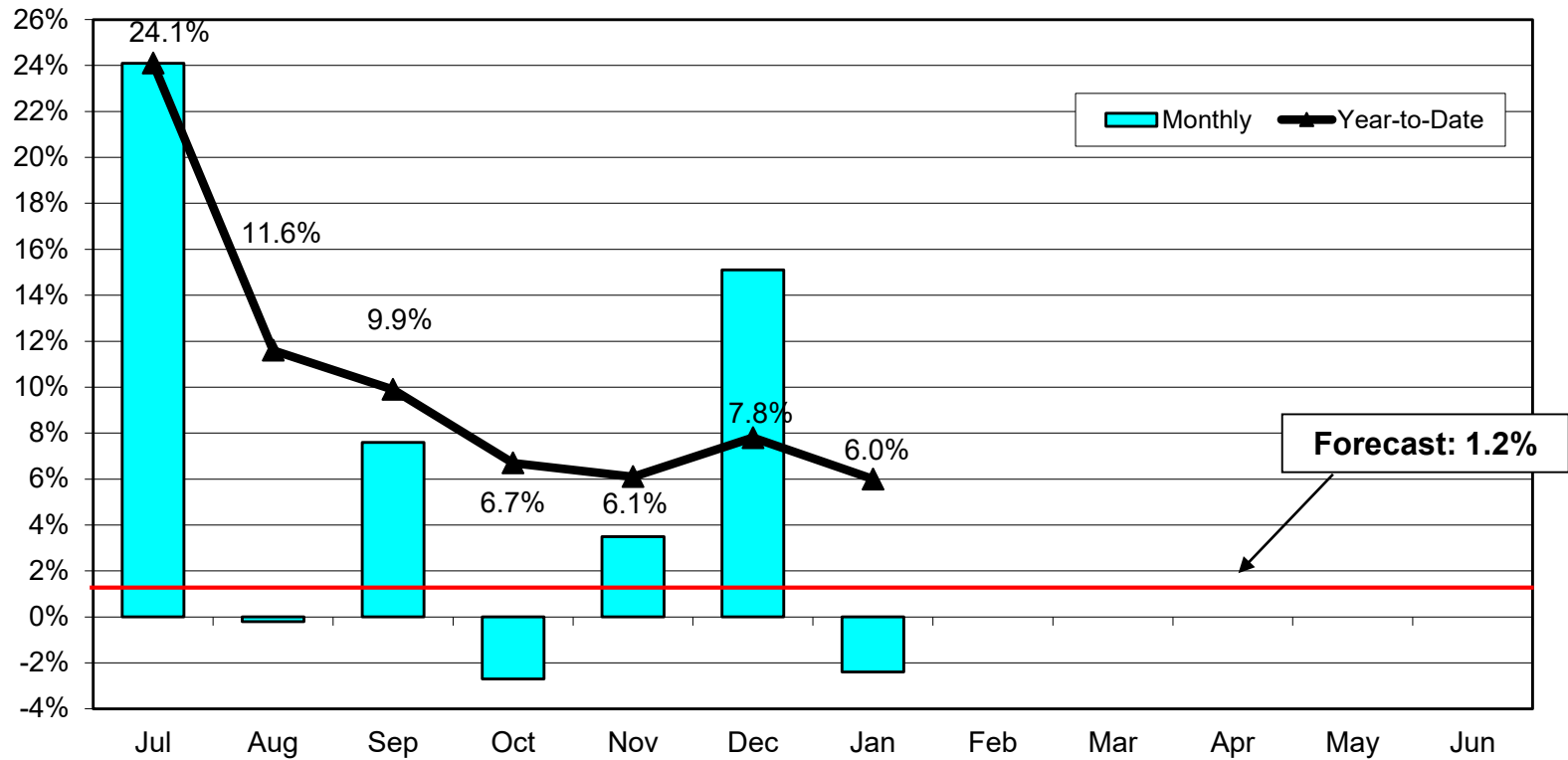
National and State Economic Indicators

- According to the advance estimate, real GDP rose at an annualized rate of 4.0 percent in the fourth quarter of 2020, following 33.4 percent in the third quarter.
 - The annual decline of 2.5 percent in 2020 matched the worst in postwar history set in 2009.
- Payroll employment rose by 49,000 jobs in January, while the retail and leisure/hospitality sectors lost 100,000 jobs.
 - The gain follows a loss of 227,000 jobs in December.
- The national unemployment rate fell from 6.7 to 6.3 percent in January.
- Initial claims for unemployment fell by 33,000 during the week ending January 30, but remain extremely high at 779,000.
- The Conference Board's index of leading indicators rose 0.3 percent in December to 109.5 following increases of 0.7 percent in November and 0.9 percent in October. The decelerating pace of growth suggests the recovery is slowing.
- The Conference Board's index of consumer confidence rose from 87.1 to 89.3 in January. The current conditions component declined for the month, while expectations improved.
- The Institute of Supply Management index fell from 60.5 to 58.7 in January. It has remained above the expansionary threshold of 50.0 since June.

National and State Economic Indicators

- The CPI rose 0.4 percent in December and stands 1.4 percent above December 2019.
 - Core inflation (excluding food and energy prices) rose by 0.1 percent, and has increased 1.6 percent from last year.
- At its January meeting, the Federal Reserve left the federal funds target rate unchanged at the range of 0.0 to 0.25 percent.
- In Virginia, payroll employment fell 4.4 percent in December compared with last year. Northern Virginia fell 4.4 percent; Hampton Roads employment fell 3.4 percent, and Richmond-Petersburg fell 4.5 percent.
- The seasonally adjusted unemployment rate rose 0.1 percentage point to 4.9 percent and stands 2.2 percentage points above December of last year.
- The Virginia Leading Index rose 0.8 percent in December after rising 0.8 percent in November.
 - All four components -- the U.S. Leading Index, future employment, initial claims, and auto registrations improved for the month.
 - The indexes for all eleven Virginia metro areas rose for the month.

Growth in Total General Fund Revenue Collections FY21 Monthly and Year-to-Date

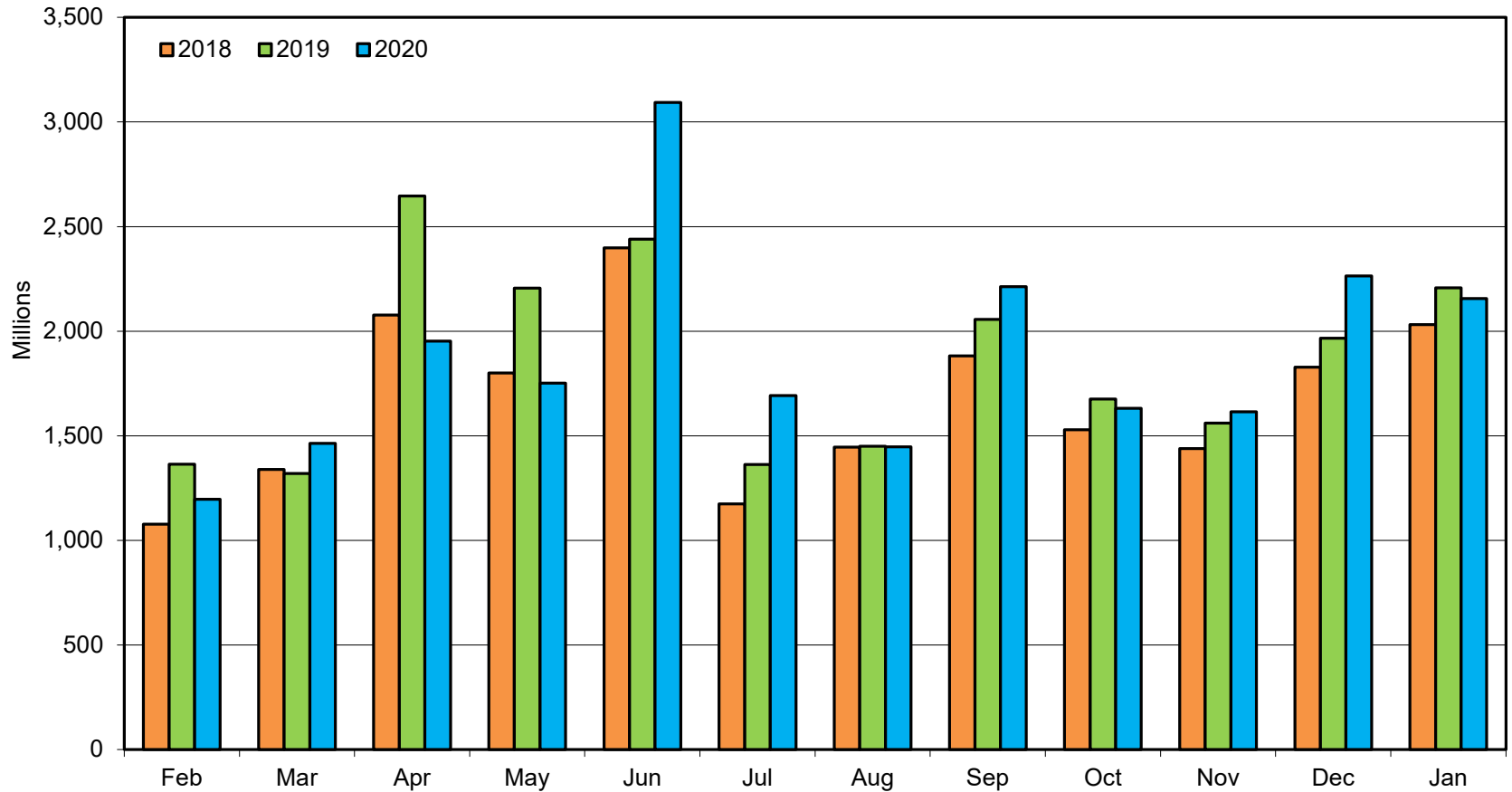


Monthly Growth: 24.1% -0.2% 7.6% -2.7% 3.5% 15.1% -2.4%

- Total general fund revenues decreased 2.4 percent in January.
 - One fewer deposit day for payroll withholding.
 - However, strong receipts in all other major sources offset most of the withholding decline.
- On a year-to-date basis, total revenues increased 6.0 percent, ahead of the annual forecast of 1.2 percent growth.

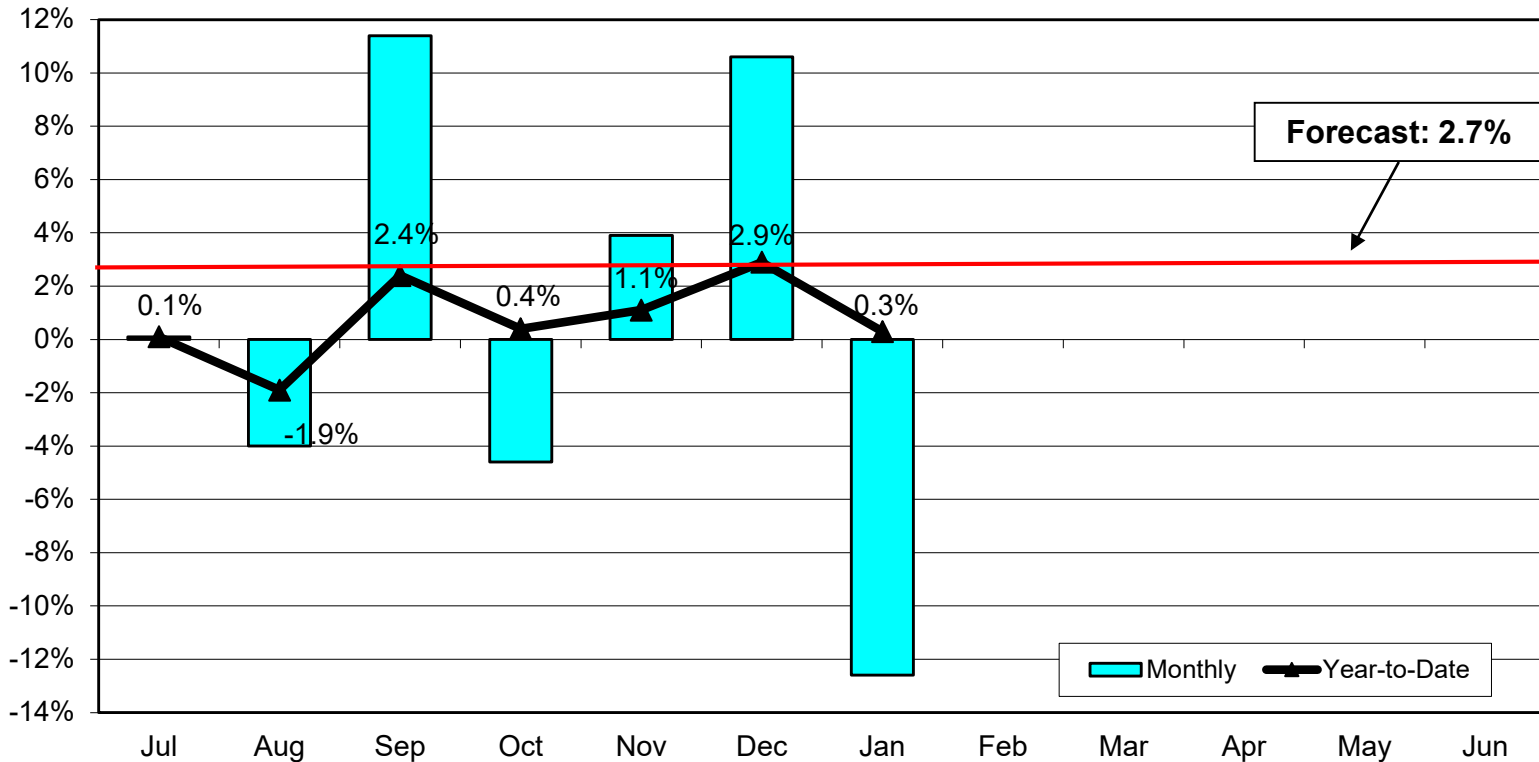
Total General Fund Collections

February to January Monthly



- February to January monthly collections for the last three years
- The 2020 April to July monthly pattern was altered due to moving the filing date for income tax payments to June 1.
 - Resulting in a spike in payments in June for on-time payments and July for late payments.

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

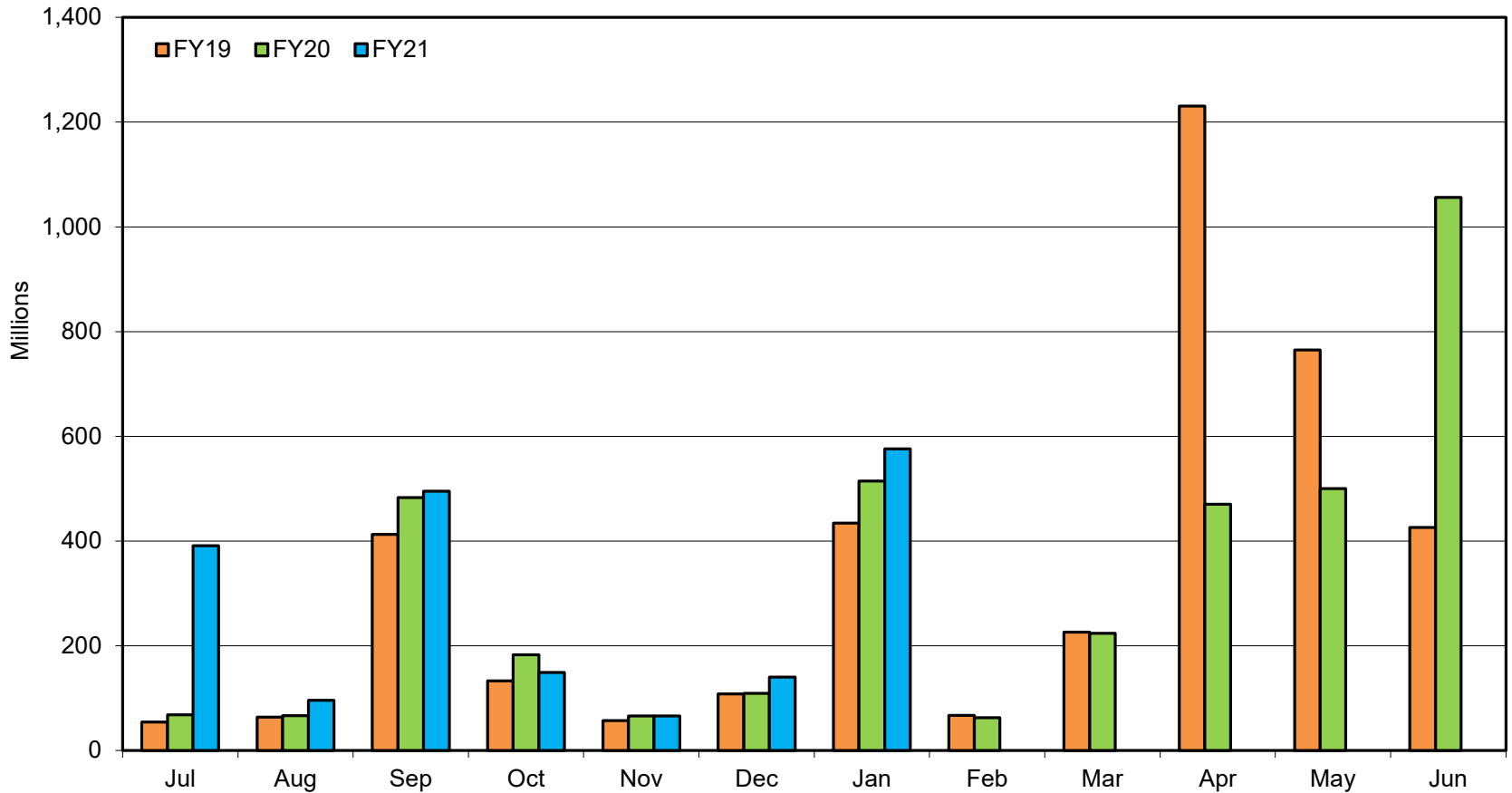


Monthly Growth: 0.1% -4.0% 11.4% -4.6% 3.9% 10.6% -12.6%

- Collections decreased 12.6 percent in January.
 - December contained one additional deposit day, January had one fewer.
- Year-to-date, withholding collections have increased 0.3 percent compared with the same period last year, behind the projected annual growth of 2.7 percent.

Nonwithholding Tax Collections

FY19 – FY21 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 2020.
 - Receipts increased 14.7 percent this year.
- Year-to-date, collections increased 28.5 percent, ahead of the annual estimate of a 4.4 percent increase.

Individual Income Tax Refunds

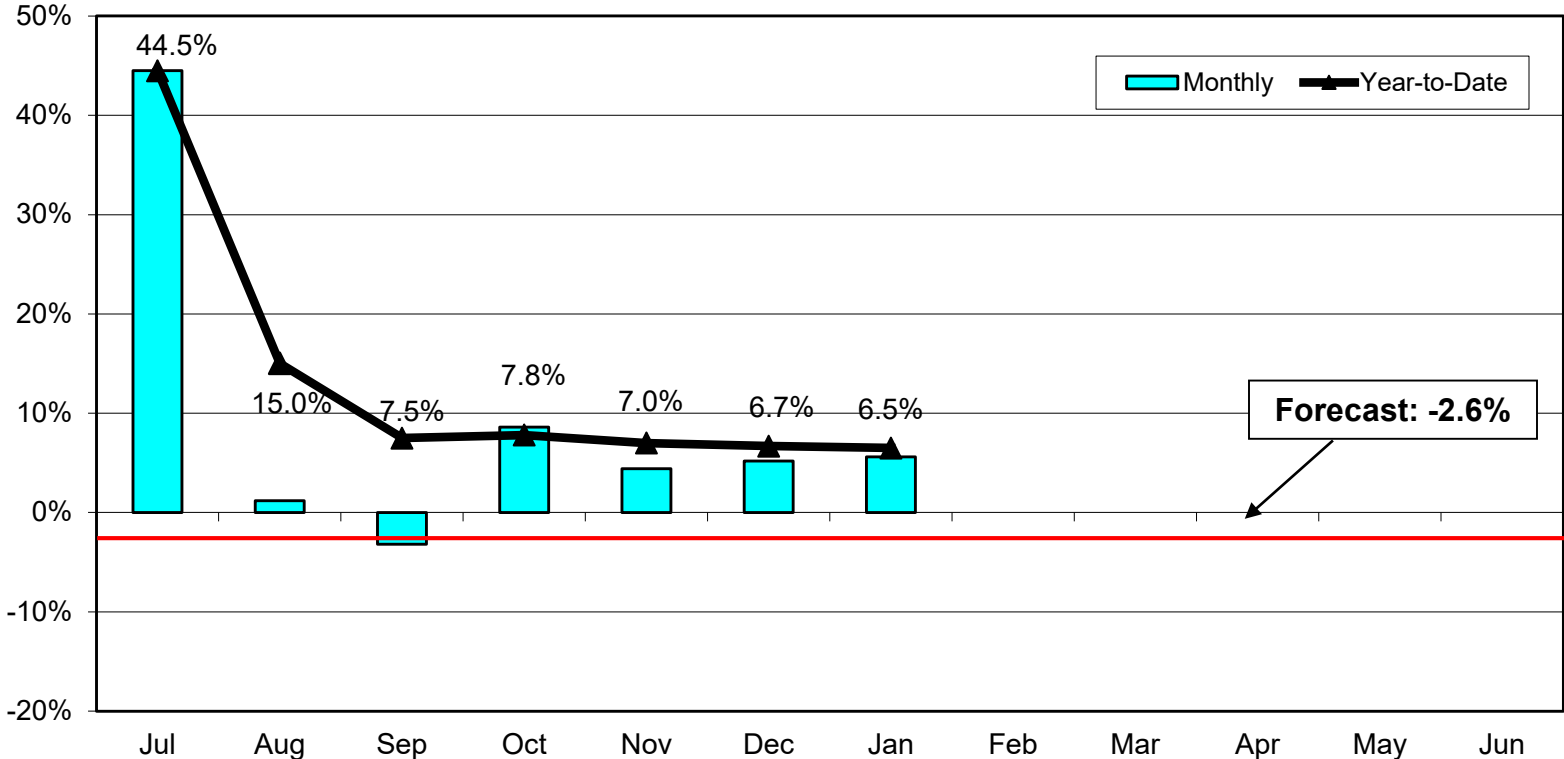
- Not a significant month.
- Through January, TAX has issued \$508.6 million in individual refunds compared with \$394.8 million in the same period last year.
 - Of the \$113.8 million increase, approximately \$110 million was due to refunds received for processing in July versus June as numerous taxpayers waited until the federal due date of July 15 to file their returns.

Net Individual Income Tax

- Through the first three months of the fiscal year, collections of net individual income tax increased 3.8 percent from the same period last year, ahead of the annual estimate of a 1.0 percent increase.

Growth in Sales Tax Collections

FY21 Monthly and Year-to-Date



Monthly Growth: 44.5% 1.2% -3.2% 8.6% 4.4% 5.2% 5.6%

- Collections of sales and use taxes, reflecting mainly December sales, increased 5.6 percent in January.
 - Sales tax collections were broad-based.
- On a year-to-date basis, collections increased 6.5 percent, ahead of the annual estimate of a 2.6 percent decline.

Net Corporate Income Tax Collections

- Collections were \$49.3 million in January as compared to \$29.8 million last January.
- Estimated payments accounted for all of the increase as they were \$77.8 million as compared to \$57.8 million last January.
- On a year-to-date basis, collections in this source have increased 39.3 percent, ahead of the annual estimate of 19.9 percent growth due to strong estimated payments.

Recordation and Insurance Premiums Tax

Recordation

- In January, collections increased 27.8 percent compared to last year.
- Year-to-date collections have increased 37.5 percent compared to last year, ahead of the forecast of 13.6 percent growth.

Insurance

- This is not a significant month for collections, however refunds are issued this month. Monthly receipts declined \$56.1 million as compared to a reduction of \$40.5 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 2021 Revenue Collections

December 16 Forecast

July through January

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>Feb-Jun Req'd to Meet Est.</u>	<u>Prior Year Feb-Jun</u>
Withholding	62.4 %	0.3 %	2.7 %	(2.4) %	6.1 %	(0.6) %
Nonwithholding	18.0	28.5	4.4	24.1	(11.1)	(14.8)
Refunds	(10.0)	28.8	20.1	8.7	17.7	2.7
Net Individual	70.5	3.8	1.0	2.8	(2.8)	(6.9)
Sales	16.4	6.5	(2.6)	9.1	(14.7)	(2.3)
Corporate	5.5	39.3	19.9	19.4	1.1	(2.6)
Wills (Recordation)	2.5	37.5	13.6	23.9	(20.1)	19.1
Insurance	1.5	(14.0)	(7.4)	(6.6)	(6.3)	(7.1)
All Other Revenue	3.6	(8.2)	(4.0)	(4.2)	(0.2)	(0.5)
Total	100.0 %	6.0 %	1.2 %	4.8 %	(4.9) %	(5.2) %
Total less						
Nonwithholding	82.0 %	2.9 %	0.6 %	2.3 %	(2.9) %	(1.6) %

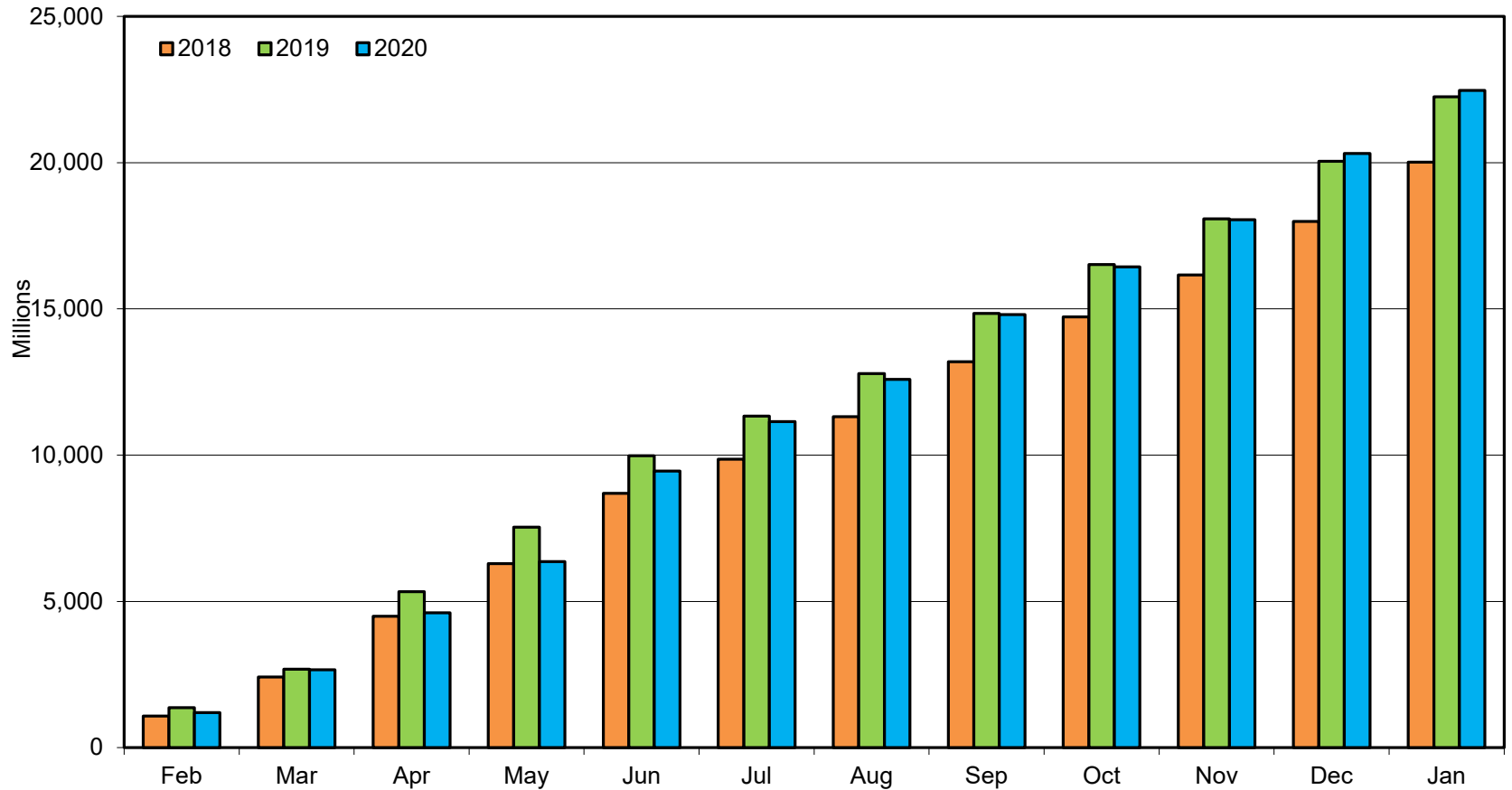
- \$589.0 million ahead of the December 16 forecast through January.

Mid-Session Forecast Update

- 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.
 - Sales tax revenue model results were rerun to include all three quarters of receipts during COVID-19.

Total General Fund Collections

February to January Monthly



- Cumulative February to January monthly collections for the last three years reveal that even during the pandemic the General Fund continues to increase.

We Are Recommending a FY21 & FY22 Total General Fund Increase of \$730.2 Million – *Now Here Is Why....*

- There has been no significant change to the national outlook since the December forecast was released.
- Sales tax model was updated to include all three quarters of 2020 sales tax data during the pandemic – including a robust holiday shopping season.
- All other changes reflect “*money in the bank*” adjustments.
- Recommend no change to individual income taxes as there are numerous unknowns on taxpayer behavior for filing, when significant rehiring may begin and non-wage income gains last year.

Preliminary Collections with the Mid-Session Forecast

Summary of Fiscal Year 2021 Revenue Collections Mid-Session Forecast

July through January

Percent Growth over Prior Year

<u>Major Source</u>	As a % of Total <u>Revenues</u>	<u>YTD</u> <u>Actual</u>	<u>Annual</u> <u>Estimate</u>	<u>Variance</u>	<u>Feb-Jun Req'd</u> <u>to Meet Est.</u>	<u>Prior Year</u> <u>Feb-Jun</u>
Withholding	61.4 %	0.4 %	2.7 %	(2.3) %	6.0 %	(0.6) %
Nonwithholding	17.7	28.2	4.4	23.8	(11.0)	(14.8)
Refunds	(9.8)	28.8	20.1	8.7	17.7	2.7
Net Individual	69.3	3.8	1.0	2.8	(2.8)	(6.9)
Sales	17.3	6.5	4.8	1.7	2.4	(2.3)
Corporate	5.8	39.3	27.4	11.9	15.9	(2.6)
Wills (Recordation)	2.7	36.8	24.4	12.4	6.8	19.1
Insurance	1.4	(14.0)	(12.7)	(1.3)	(12.4)	(7.1)
All Other Revenue	3.5	(10.6)	(4.0)	(6.6)	1.8	(0.5)
Total	100.0 %	5.9 %	3.0 %	2.9 %	(0.8) %	(5.2) %
Total less Nonwithholding	82.3 %	2.8 %	2.7 %	0.1 %	2.5 %	(1.6) %

Recommend: FY21 Change to the Revenue Forecast

The December to February General Fund Forecast for Fiscal Year 2021

(Dollars in Millions)

2/15/2021

	Fiscal Year 2021					
				% Growth Over FY20		
	December	February	Change	December	February	
Withholding	\$13,739.6	\$13,739.6	\$0.0	2.7 %	2.7 %	
Nonwithholding	3,971.9	3,971.9	0.0	4.4	4.4	
Refunds	<u>(2,198.8)</u>	<u>(2,198.8)</u>	<u>0.0</u>	<u>20.1</u>	<u>20.1</u>	
Net Individual	\$15,512.7	\$15,512.7	\$0.0	1.0	1.0	
Sales	\$3,609.4	\$3,883.3	\$273.9	(2.6)	4.8	
Corporate	1,212.7	1,288.7	76.0	19.9	27.4	
Wills (Recordation)	549.3	601.3	52.0	13.6	24.4	
Insurance	333.9	314.9	(19.0)	(7.4)	(12.7)	
All Other Revenue	<u>790.6</u>	<u>790.6</u>	<u>0.0</u>	<u>(4.0)</u>	<u>(4.0)</u>	
Total Revenue	\$22,008.6	\$22,391.5	\$382.9	1.2 %	3.0 %	
A.B.C. Profits	\$139.5	\$139.5	\$0.0	1.5 %	1.5 %	
Sales Tax (0.375%)	394.4	421.6	27.2	(2.9)	3.8	
Transfers Per Act	<u>105.4</u>	<u>105.4</u>	<u>0.0</u>	<u>(34.3)</u>	<u>(34.3)</u>	
Total Transfers	\$639.3	\$666.5	\$27.2	(9.2) %	(5.3) %	
TOTAL GENERAL FUND	\$ <u>\$22,647.9</u>	\$ <u>\$23,058.0</u>	\$ <u>410.1</u>	<u>0.9 %</u>	<u>2.7 %</u>	

Recommend: FY22 Change to the Revenue Forecast

The December to February General Fund Forecast for Fiscal Year 2022

(Dollars in Millions)

February 15, 2021

	Fiscal Year 2022						2020-2022 Biennium		
	December	February	Change	% Growth Over FY21		December	February	Change	
				December	February				
Withholding	\$14,245.9	\$14,245.9	\$0.0	3.7 %	3.7 %	\$27,985.5	\$27,985.5	\$0.0	
Nonwithholding	3,985.4	3,985.4	0.0	0.3	0.3	7,957.3	7,957.3	0.0	
Refunds	<u>(2,130.0)</u>	<u>(2,130.0)</u>	<u>0.0</u>	<u>(3.1)</u>	<u>(3.1)</u>	<u>(4,328.8)</u>	<u>(4,328.8)</u>	<u>0.0</u>	
Net Individual	\$16,101.3	\$16,101.3	\$0.0	3.8	3.8	\$31,614.0	\$31,614.0	\$0.0	
Sales	\$3,705.7	\$3,997.1	\$291.4	2.7	2.9	\$7,315.1	\$7,880.4	\$565.3	
Corporate	1,289.6	1,289.6	0.0	6.3	0.1	2,502.3	2,578.3	76.0	
Wills (Recordation)	467.0	467.0	0.0	(15.0)	(22.3)	1,016.3	1,068.3	52.0	
Insurance	360.8	360.9	0.0	8.1	14.6	694.7	675.8	(19.0)	
All Other Revenue	<u>805.0</u>	<u>805.0</u>	<u>0.0</u>	<u>1.8</u>	<u>1.8</u>	<u>1,595.6</u>	<u>1,595.6</u>	<u>0.0</u>	
Total Revenue	\$22,729.4	\$23,020.9	\$291.4	3.3 %	2.8 %	\$44,738.0	\$45,412.4	\$674.3	
A.B.C. Profits	\$132.7	\$132.7	\$0.0	(4.9) %	(4.9) %	\$272.2	\$272.2	\$0.0	
Sales Tax (0.375%)	405.1	433.8	28.7	2.7	2.9	799.5	855.4	55.9	
Transfers Per Act	<u>103.7</u>	<u>103.7</u>	<u>0.0</u>	<u>(1.6)</u>	<u>(1.6)</u>	<u>209.1</u>	<u>209.1</u>	<u>0.0</u>	
Total Transfers	\$641.5	\$670.2	\$28.7	0.3 %	0.6 %	\$1,280.8	\$1,336.7	\$55.9	
TOTAL GENERAL FUND	<u>\$23,370.9</u>	<u>\$23,691.1</u>	<u>\$320.1</u>	<u>3.2 %</u>	<u>2.7 %</u>	<u>\$46,018.8</u>	<u>\$46,749.1</u>	<u>\$730.2</u>	