

Economic and Revenue Update

A Briefing for the VACo Finance Steering Committee

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Topics for Discussion

- National and State Economic Indicators
- September Year-to-Date Revenue Collections, Fiscal Year 2021
- 2020 Revenue Forecasting Schedule
- Budget Risks / Considerations
- CARES Act Funding

National and State Economic Indicators

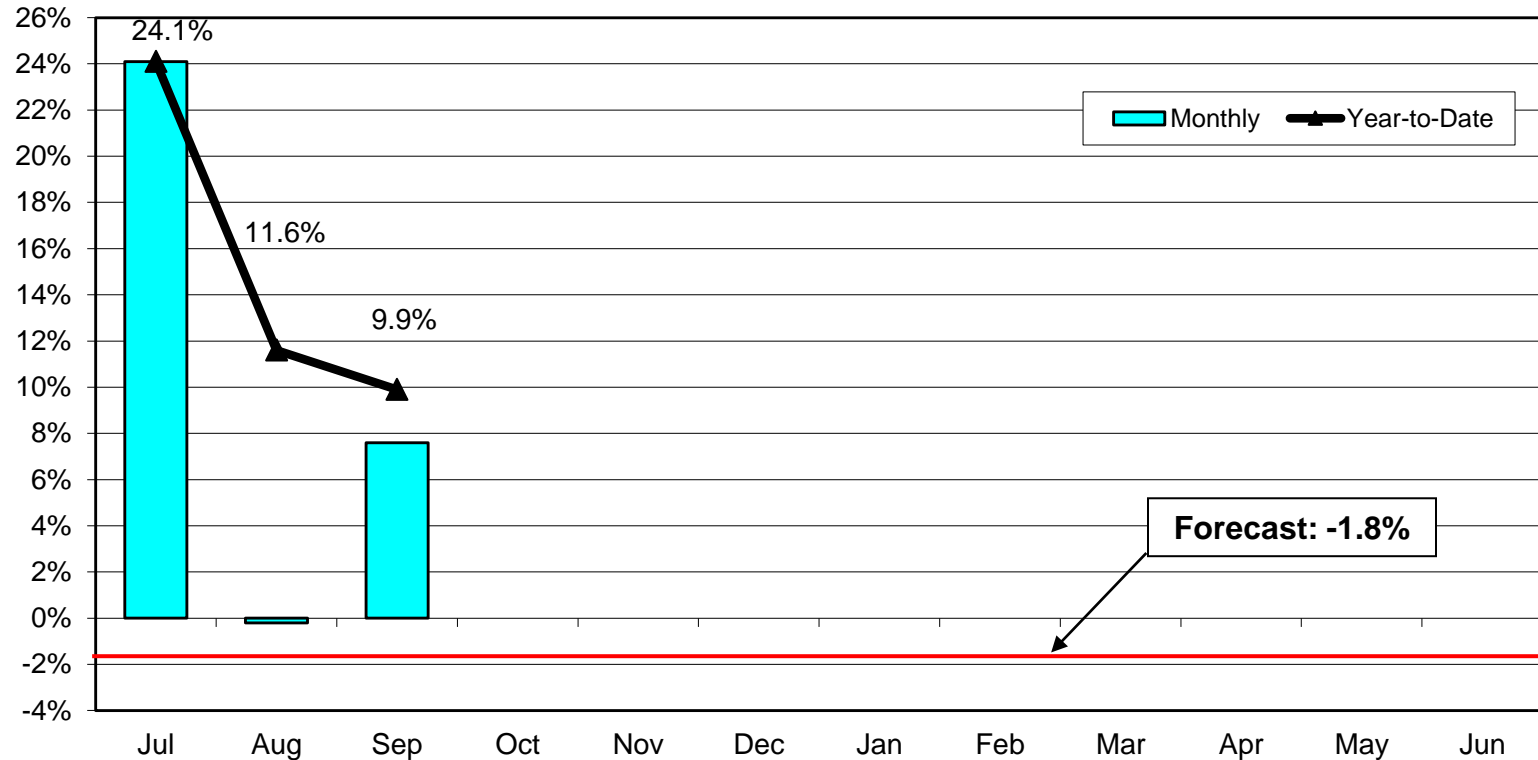
- According to the third estimate, real GDP fell at an annualized rate of 31.4 percent in the second quarter of 2020, the largest decline on record.
 - The prior record was a 10 percent decline in the first quarter of 1958.
- Job growth slowed in September. Payroll employment rose by only 661,000 jobs.
 - This follows gains of 1.5 million in August and 1.8 million in July.
- The national unemployment rate fell from 8.4 percent to 7.9 percent in September, largely due to a contraction of the labor force.
- Initial claims for unemployment fell by 9,000 to 840,000 during the week ending October 3.
- The Conference Board's index of leading indicators rose 1.2 percent in August to 106.5 following increases of 2.0 percent in July and 3.1 percent in June. Although this was the fourth consecutive increase, the reading suggests the recovery is slowing.
- The Conference Board's index of consumer confidence rose from 86.3 to 101.8 in September. Both components improved for the month.
- The Institute of Supply Management index unexpectedly fell from 56.0 to 55.4 in September after three consecutive monthly gains. However; it remains above the expansionary threshold of 50.0.

National and State Economic Indicators

- The CPI rose 0.4 percent in August and stands 1.3 percent above August 2019.
 - Core inflation (excluding food and energy prices) also rose by 0.4 percent, and has increased 1.7 percent from last year.
- At its September meeting, the Federal Reserve left the federal funds target rate unchanged at the range of 0.0 to 0.25 percent and signaled it will keep rates low at least through 2023.
- In Virginia, payroll employment fell 5.2 percent in August compared with last year. Northern Virginia fell 5.3 percent; Hampton Roads employment fell 5.2 percent, and Richmond-Petersburg fell 5.3 percent.
- The seasonally adjusted unemployment rate decreased 1.8 percentage point to 6.1 percent and stands 3.4 percentage points above August of last year.
- The Virginia Leading Index rose 1.6 percent in August after rising 1.7 percent in July.
 - All four components, the U.S. Leading Index, future employment, auto registrations and initial claims improved in August.
 - The indexes for all eleven Virginia metro areas rose for the month.

Growth in Total General Fund Revenue Collections

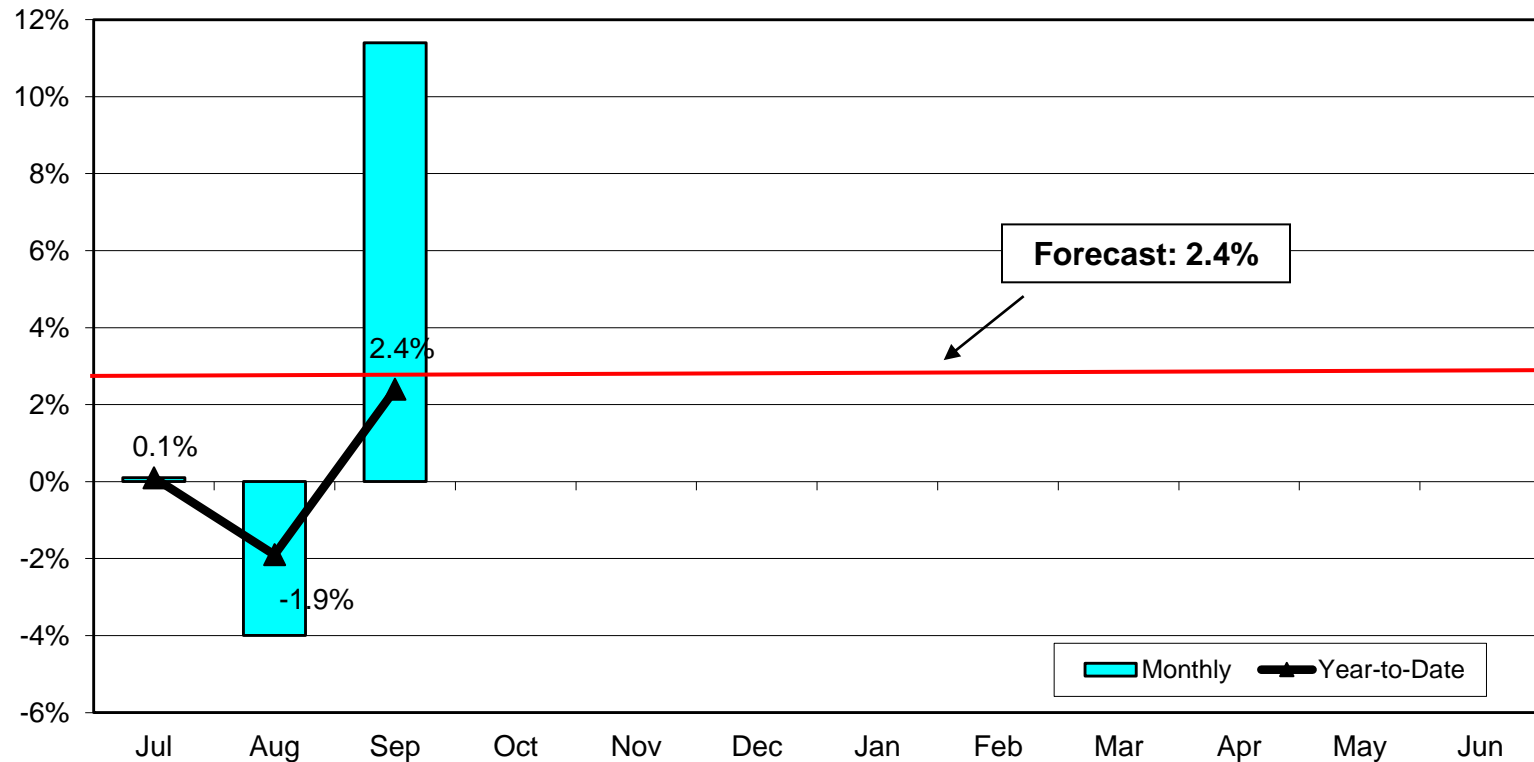
FY21 Monthly and Year-to-Date



Monthly Growth: 24.1% -0.2% 7.6%

- Total general fund revenues increased 7.6 percent in September.
 - September contained one additional deposit day.
- On a year-to-date basis, total revenues increased 9.9 percent, ahead of the annual forecast of a 1.8 percent decline.

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

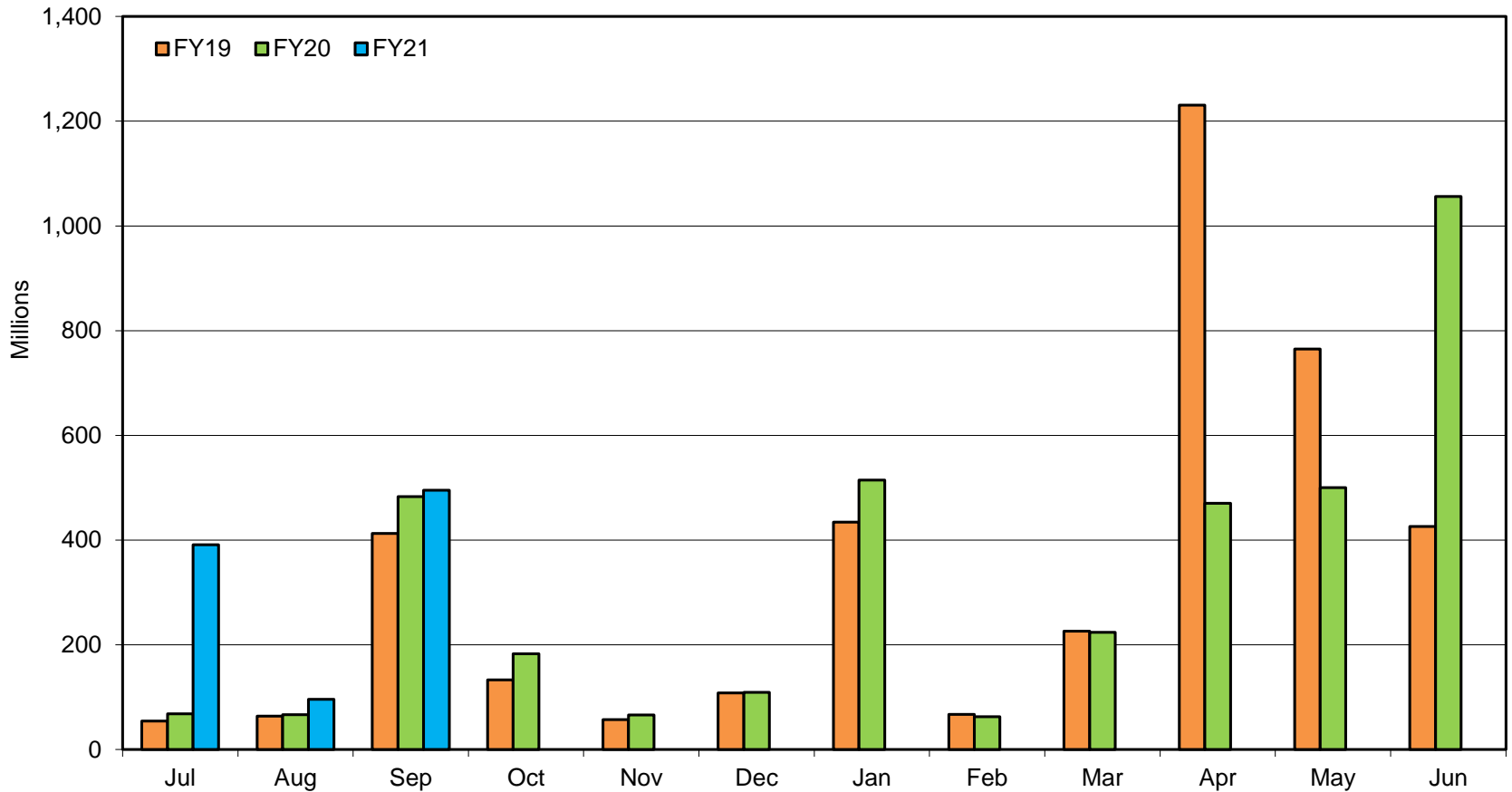


Monthly Growth: 0.1% -4.0% 11.4%

- Collections increased 11.4 percent in September.
 - September contained one additional deposit day.
- Year-to-date, withholding collections have increased 2.4 percent compared with the same period last year, matching the projected annual growth of 2.4 percent.

Nonwithholding Tax Collections

FY19 – FY21 Monthly



- The first individual estimated payment in fiscal year 2021 was due in September. Total monthly nonwithholding collections increased 2.4 percent.
- Year-to-date, collections through the first quarter of fiscal year 2021 were \$982.4 million compared with \$617.6 million in the same period last year, a \$364.8 million increase. However, about \$325.0 million of the increase is due to payments due on June 1 being received in July.

Nonwithholding Tax Collections

Large Individual Payments

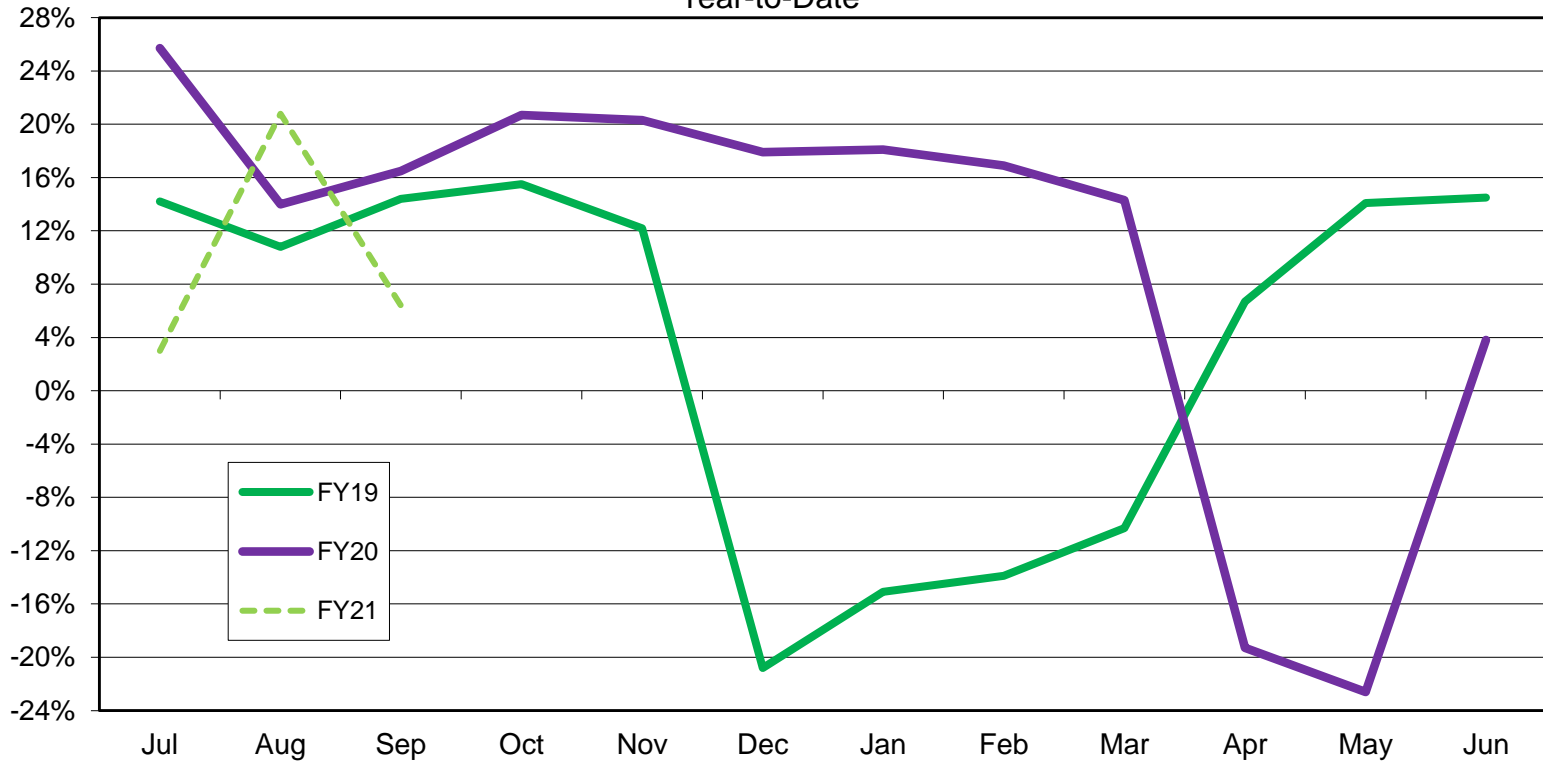
	September		April - May	
	Number of Payments	Total Amount of Payments M\$	Number of Payments	Total Amount of Payments M\$
FY07	149	\$37.7	930	\$330.8
FY08	162	\$38.1	924	\$344.2
FY09	144	\$37.6	511	\$257.9
FY10	81	\$19.0	328	\$112.5
FY11	79	\$18.6	547	\$204.7
FY12	119	\$48.9	521	\$184.4
FY13	115	\$41.5	884	\$327.5
FY14	118	\$34.9	427	\$141.5
FY15	139	\$40.0	606	\$215.5
FY16	171	\$50.1	687	\$220.2
FY17	159	\$54.0	645	\$178.7
FY18	165	\$52.5	646	\$201.8
FY19	212	\$62.4	1,195	\$463.8
FY20	237	\$79.3	1,325	\$512.0
FY21	297	\$89.0	?	?

- FY20 includes the estimated and final payments received in June that were originally due May 1.
- The September payment is more often a “safe harbor” payment than a reflection of current year wage and non-wage income.

Nonwithholding Tax Collections

Growth in Nonwithholding Revenue Collections

FY19, FY20*, and FY21*
Year-to-Date



- FY20 and FY21 are adjusted to move the \$325 million received in July of 2020 back into the month they were due – June 2020.

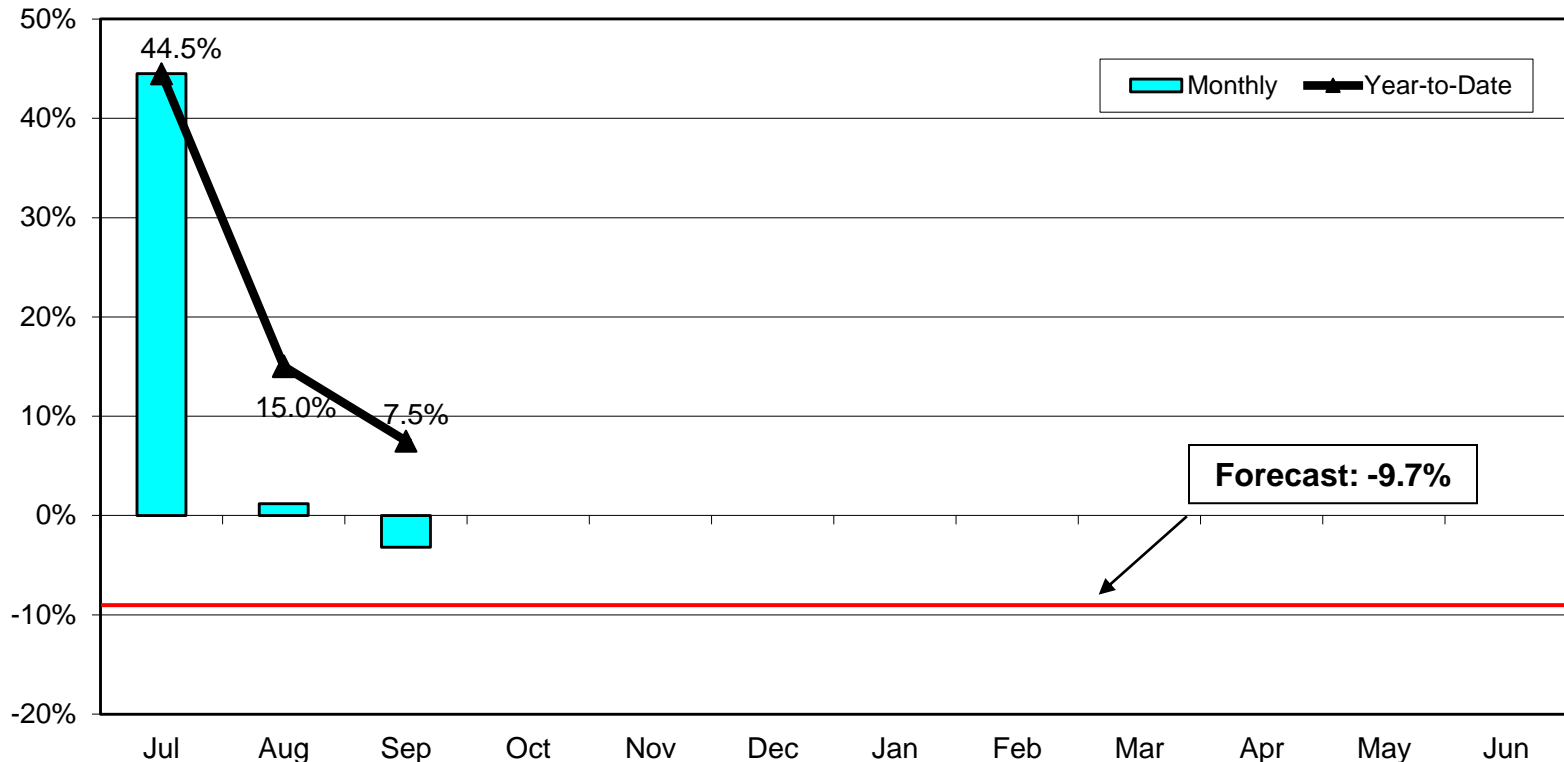
Individual Income Tax Refunds

- Not a significant month.
- Through September, TAX has issued \$280.7 million in individual refunds compared with \$158.5 million in the same period last year.
 - Of the \$122.2 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 8.9 percent from the same period last year, ahead of the annual estimate of a 0.6 percent increase.
 - Adjusting for the payments and returns processed in July that normally should have been done in May and June, year to date growth is only 2.8 percent

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



Monthly Growth: 44.5% 1.2% -3.2%

- Collections of sales and use taxes, reflecting mainly August sales, decreased 3.2 percent in September.
 - Most of the decline was due to AST refunds from large retailers that made their bill payment in June when their business were only opened on a limited basis.
- On a year-to-date basis, collections increased 7.5 percent, ahead of the annual estimate of a 9.7 percent decline.

Net Corporate Income Tax Collections

- Similar to nonwithholding, September is a significant month in corporate income tax collections since the first estimated payment for the fiscal year is due.
 - Collections in corporate income tax increased 17.4 percent in September.
 - This increase appears to be broad-based.
- Through the first quarter of fiscal year 2021, collections in this source have increased 36.1 percent, ahead of the annual estimate of 3.0 percent growth.
 - About 14 percent of the growth is due to about \$35 million of payments received in July that were due in June, similar to the nonwithholding late payments.
- Through the first quarter, 32.2 percent of the projected fiscal year's net corporate payments have been received.
 - This is ahead of the historical average of 25.4 percent.

Recordation and Insurance Premiums Tax

Recordation

- In September, collections increased 54.5 percent compared to last year. Year-to-date collections have increased 35.9 percent compared to last year, ahead of the forecast of a 12.6 percent decline.
- This quarter's collections of \$165.8 million is the largest July-September quarter since the \$130.7 million in July-September of 2007.

Insurance

- 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 September
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>Oct-Jun Req'd to Meet Est.</u>	<u>Prior Year Oct-Jun</u>
Withholding	64.2 %	2.4 %	2.4 %	0.0 %	2.5 %	2.2 %
Nonwithholding	17.2	59.1	(3.6)	62.7	(15.7)	(7.5)
Refunds	(9.0)	77.1	5.1	72.0	(1.7)	4.5
Net Individual	72.3	8.9	0.6	8.3	(1.9)	(0.9)
Sales	15.7	7.5	(9.7)	17.2	(14.3)	2.5
Corporate	4.9	36.1	3.0	33.1	(7.7)	6.8
Wills (Recordation)	2.0	35.9	(12.6)	48.5	(29.0)	25.0
Insurance	1.6	n/a	(6.4)	n/a	(6.4)	(5.6)
All Other Revenue	3.5	(13.3)	(8.1)	(5.2)	(6.7)	0.7
Total	100.0 %	9.9 %	(1.8) %	11.7 %	(5.1) %	0.4 %
Total less Nonwithholding	82.8 %	2.8 %	(1.4) %	4.2 %	(2.7) %	2.4 %

- \$570 million ahead of the Interim forecast through September.

Summary of Fiscal Year 2021 Revenue Collections

Chapter 1289

July through September
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>Oct-Jun Req'd</u> <u>to Meet Est.</u>	<u>Prior Year</u> <u>Oct-Jun</u>
Withholding	62.2 %	2.4 %	5.5 %	(3.1) %	6.5 %	2.2 %
Nonwithholding	18.1	59.1	7.8	51.3	(2.1)	(7.5)
Refunds	(9.1)	77.1	12.5	64.6	6.4	4.5
Net Individual	71.2	8.9	5.3	3.6	4.2	(0.9)
Sales	17.2	7.5	5.0	2.5	4.4	2.5
Corporate	4.5	36.1	0.7	35.4	(10.7)	6.8
Wills (Recordation)	1.7	35.9	(19.7)	55.6	(38.5)	25.0
Insurance	1.9	n/a	16.5	n/a	16.5	(5.6)
All Other Revenue	3.6	(13.3)	(1.9)	(11.4)	1.3	0.7
Total	100.0 %	9.9 %	4.4 %	5.5 %	2.8 %	0.4 %
Total less Nonwithholding	81.9 %	2.8 %	3.6 %	(0.8) %	3.9 %	2.4 %

- \$268 million ahead of the Chapter 1289 forecast through September.

Summary of Fiscal Year 2021 Commonwealth Transportation Fund Revenue Collections

July through September

	As a % of Total <u>Fund</u>	<u>YTD</u> <u>Actual</u>	<u>Annual</u> <u>Estimate</u>	<u>Variance</u>
Motor Fuels Taxes (1)	14.9 %	(8.1) %	16.6 %	(24.7) %
Priority Transportation Fund (2)	2.7	3.9	(1.2)	5.1
Motor Vehicles Sales Tax (3)	13.8	(2.7)	(6.4)	3.7
Retail Sales Tax	15.1	10.9	(9.1)	20.0
Motor Vehicle License Fees	3.3	(5.3)	(17.9)	12.6
All Other Revenue	2.3	63.2	20.7	42.5
Total (4)	52.1 %	2.3 %	(1.5) %	3.8 %

- Motor fuels and vehicle sales tax are expected to slow over the remainder of the fiscal year.

Notes:

(1) Includes aviation and road tax

(2) Insurance premiums tax

(3) Includes rental tax

(4) Total state taxes and fees. 47.9% of the CTF is comprised of various federal, local, and miscellaneous revenues.

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.

Budget Risks / Considerations

- **COVID-19**
 - Federal Fiscal and Monetary Policy
 - Right-sizing in Private Business
 - Long-term Trends
- **Structural Balance**
 - Nonwithholding
 - Excess Revenues
 - New Revenues
 - Expenditure Reductions

CARES Act Funding

Authorized Use of Coronavirus Relief Fund

As of 10/28/2020

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

Current Commitments Approved:

	Obligated in FY 2020	Obligated in FY 2021	Total Obligated
Local Government Allocation - Round 1	\$644,573,383	-	\$644,573,383
Local Government Allocation - Round 2	-	\$644,573,383	\$644,573,383
VDEM - testing (\$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)	\$80,480,698	-	\$80,480,698
DHCD - mortgage and rental assistance (includes \$10M in FY 2020 portion originally approved as part of agency-based requests)	\$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
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	-	\$1,298,038	\$1,298,038
DBHDS - state hospital census support	-	\$2,853,215	\$2,853,215
VDH - point-of-care antigen testing	-	\$16,010,500	\$16,010,500
DHCD - broadband/internet access	-	\$30,000,000	\$30,000,000
DHCD - additional mortgage/rental assistance	-	\$12,000,000	\$12,000,000

Current Commitments Approved - continued:	Obligated in FY 2020	Obligated in FY 2021	Total Obligated
DOE - distribution to schools for reopening	-	\$220,798,208	\$220,798,208
VDH - vaccination program	-	\$22,052,445	\$22,052,445
DMAS - hazard pay for personal care attendants - \$1,500 payment to PCAs who worked between March 12, 2020, and June 30, 2020.	-	\$73,056,734	\$73,056,734
DBHDS - hazard pay	-	\$669,312	\$669,312
DSS - child care for a recovering economy (incl. local capacity and childcare provider stabilization funds)	-	\$58,341,000	\$58,341,000
VDH - additional testing needs - One Lab	-	\$9,929,838	\$9,929,838
VDH - agreement with Unite Us	-	\$10,000,000	\$10,000,000
VDH - DocuSign subscription	-	\$192,250	\$192,250
VDH - COVID-19 communications strategy	-	\$3,450,000	\$3,450,000
VDH - sample testing costs, staffing, overtime	-	\$6,632,255	\$6,632,255
VDH - Virginia Association of Free and Charitable Clinics (VAFCC)	-	\$3,000,000	\$3,000,000
VDH - community mitigation efforts	-	\$41,019	\$41,019
Higher Ed Inst - reimburse COVID-19 expenses for PPE, sanitization, virtual education, etc.	-	\$116,261,410	\$116,261,410
Museums - reimburse COVID-19 expenses for PPE, sanitization, virtual education, etc.	-	\$834,013	\$834,013
VCCS - training vouchers for unemployed	-	\$30,000,000	\$30,000,000
UVA Medical Center – reimbursement for COVID-19 response to expand bed and treatment capacity	-	\$3,442,283	\$3,442,283
VCU Hospital – reimbursement for COVID-19 response to expand bed and treatment capacity	-	\$11,333,374	\$11,333,374
DSBSD - small business assistance grants - additional funds for Rebuild Virginia	-	\$30,000,000	\$30,000,000
Subtotal, Current Commitments Approved	\$982,145,067	\$1,603,335,933	\$2,585,481,000

Commitments Currently Under Review:	Potential FY 2020 Obligation	Potential FY 2021 Obligation	Potential Total Obligated
VDEM - COVID-19 pandemic response	-	\$51,905,902	\$51,905,902
SCC / DHCD - payments to utilities for customer debt relief from conference report		\$120,000,000	\$120,000,000
DJJ - reimburse COVID-19 expenses for PPE, sanitization, medical overtime	-	\$322,427	\$322,427
DOC - reimburse COVID-19 expenses for PPE, sanitization, medical overtime	-	\$6,309,925	\$6,309,925
DVS - reimburse COVID-19 expenses for PPE, sanitization, medical overtime	-	\$59,719	\$59,719
VEC - unemployment assistance from conference report	-	\$210,000,000	\$210,000,000
DSBSD - small business assistance grants supplement from conference report	-	\$5,000,000	\$5,000,000
Elections - voter safety for November election - cleaning, personal protective equipment, additional pay for election day workers, drop boxes from conference report	-	\$10,000,000	\$10,000,000
DMAS - hospitals/health care providers from conference report	-	\$60,000,000	\$60,000,000
DMAS - retainer payments for Medicaid DD waiver day support providers from conference report	-	\$25,000,000	\$25,000,000
DSS - Virginia Federation of Food Banks - \$1.0 million per region from conference report	-	\$7,000,000	\$7,000,000
Statewide - state agencies telework, PPE/sanitizing, DOLI regulation compliance and other eligible operational cost increases from conference report	-	\$60,000,000	\$60,000,000
VDH - reimburse salaries for "public health employees"	-	\$7,948,800	\$7,948,800
DHCD - supplemental emergency housing for homeless from conference report	-	\$3,000,000	\$3,000,000
DBHDS - support for state facilities, central office, and CSBs	-	\$1,904,989	\$1,904,989
Subtotal, Commitments Under Review	-	\$568,451,762	\$568,451,762
Grand Total, Approved and Under Review Commitments	\$982,145,067	\$2,171,787,695	\$3,153,932,762
Balance Remaining To Commit			(\$44,429,926)