

Economic and Revenue Update

(Includes Post-GACRE Policy Adjustments)

A Briefing for the Money Committees

Aubrey L. Layne Jr., MBA, CPA

Secretary of Finance

Commonwealth of Virginia

www.finance.virginia.gov

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Topics for Discussion

- National and State Economic Indicators
- January Year-to-Date Revenue Collections, Fiscal Year 2019
- Next Steps
- Income Tax Return Processing Recovery Schedule

National and State Economic Indicators

- According to the third estimate, real GDP grew at an annualized rate of 3.4 percent in the third quarter of 2018, following 4.2 percent in the second quarter.
- Payroll employment rose by 304,000 jobs in January, well above expectations.
 - The December gain was revised down from 312,000 to 222,000.
 - Furloughed workers impacted by the partial federal government shutdown were counted as employed in this report.
- The national unemployment rate increased from 3.9 to 4.0 percent in January.
 - In this survey, furloughed government employees were counted as unemployed.
- Initial claims for unemployment fell by 19,000 to 234,000 during the week ending February 2.
 - The four-week moving average rose by 4,500 to 224,750.
- The Conference Board's index of leading indicators fell 0.1 percent in December, following a 0.2 percent increase in November and a 0.3 percent decline in October, suggesting economic growth may have weakened.
- The Conference Board's index of consumer confidence fell 6.4 points to 120.2 in January as the federal government shut down for 35 days. Both the expectations and current conditions components decreased for the month.
- Conditions in the manufacturing sector improved in January. The Institute of Supply Management index rose from 54.3 to 56.6, a level consistent with continued growth.

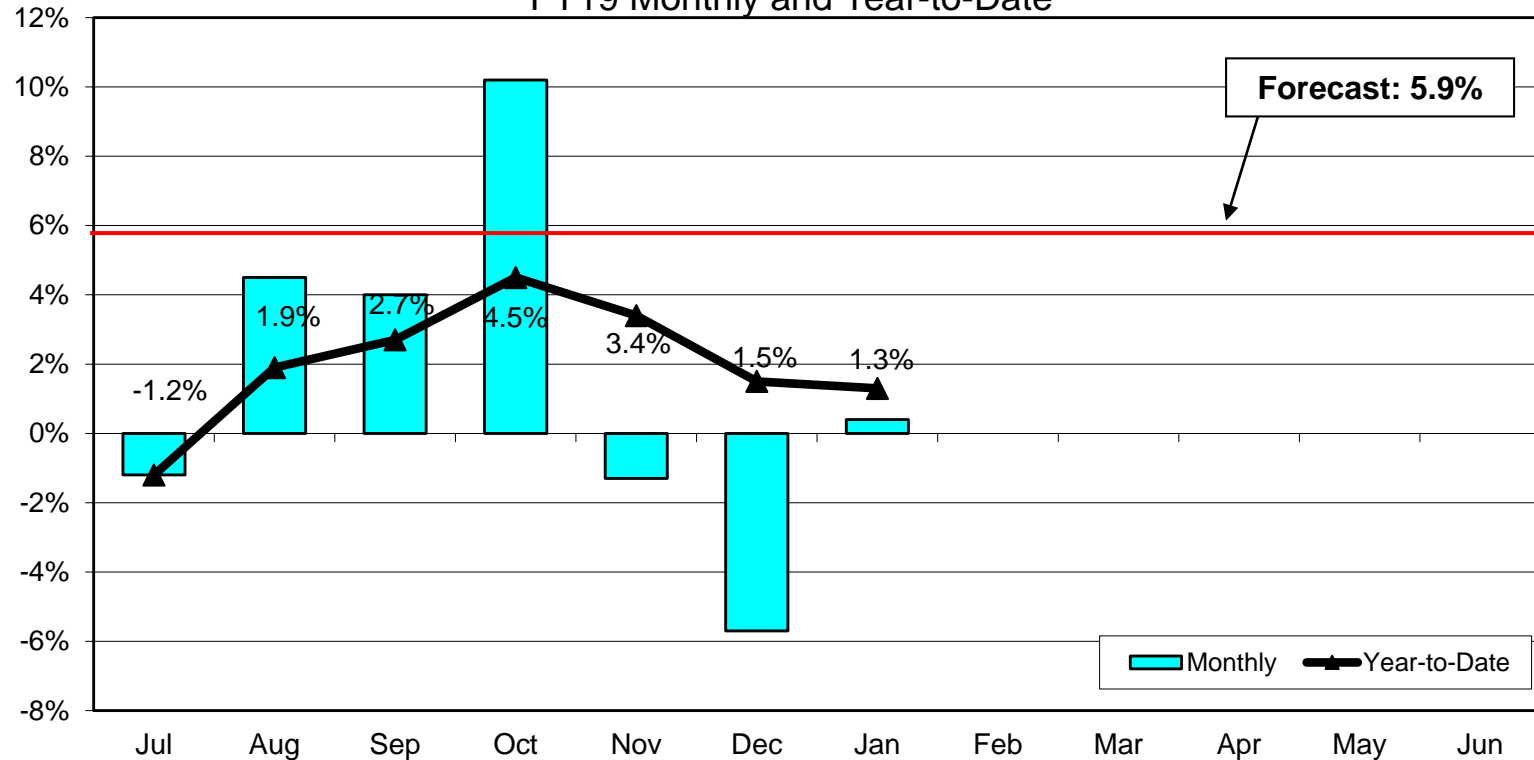
National and State Economic Indicators

- The CPI declined 0.1 percent in December after remaining flat in November, and stands 1.9 percent above December 2017.
 - Core inflation (excluding food and energy prices) rose by 0.2 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 2.25 to 2.5 percent.
- In Virginia, payroll employment rose 1.8 percent in December from December of last year. Northern Virginia posted growth of 0.8 percent; Hampton Roads rose 1.7 percent; and Richmond-Petersburg rose 1.6 percent.
- The seasonally adjusted unemployment rate held steady at 2.8 percent in December, the lowest rate since April 2001.
- The Virginia Leading Index was unchanged in December after declining 0.1 percent in November.
 - Auto registrations and future employment improved in December while initial claims rose and the U.S. Leading Index decreased.
 - The indexes for Roanoke, Richmond, and Lynchburg fell, and the indexes for Hampton Roads and Northern Virginia were unchanged. The remaining regional indexes increased in December.

Growth in Total General Fund Revenue Collections

(Includes Post-GACRE Policy Adjustments)

FY19 Monthly and Year-to-Date

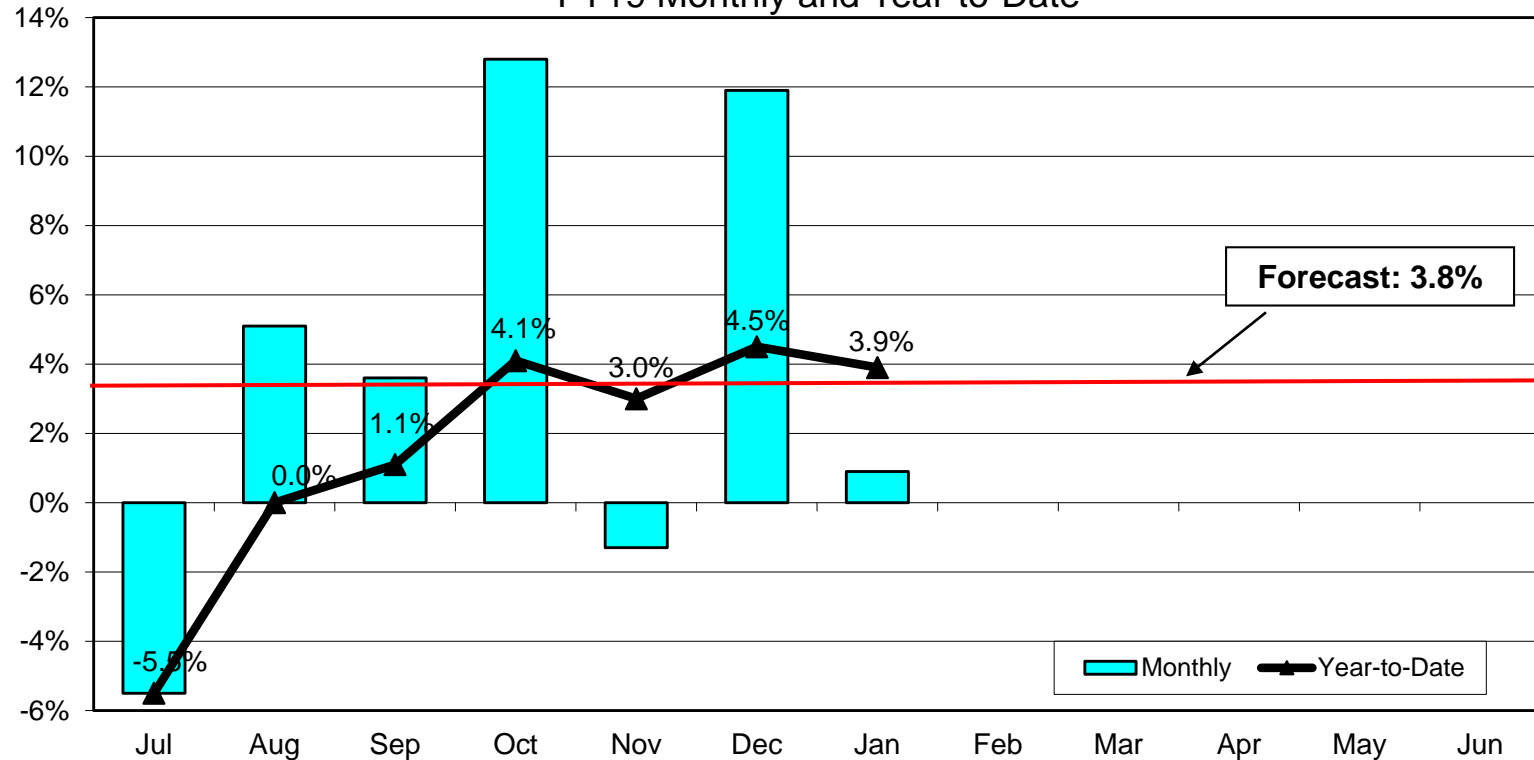


Monthly Growth: -1.2% 4.5% 4.0% 10.2% -1.3% -5.7% 0.4%

- Total general fund revenues increased 0.4 percent in January.
 - Payroll withholding and sales tax collections both increased less than 1 percent.
 - Payroll withholding had increased 14.0 percent last January.
 - Sales tax receipts were for December activity and many retailers reported soft to declining late December sales.
- On a year-to-date basis, total revenues increased 1.3 percent, behind the annual forecast of a 5.9 percent increase.

Growth in Withholding Tax Collections

(Includes Post-GACRE Policy Adjustments)
FY19 Monthly and Year-to-Date

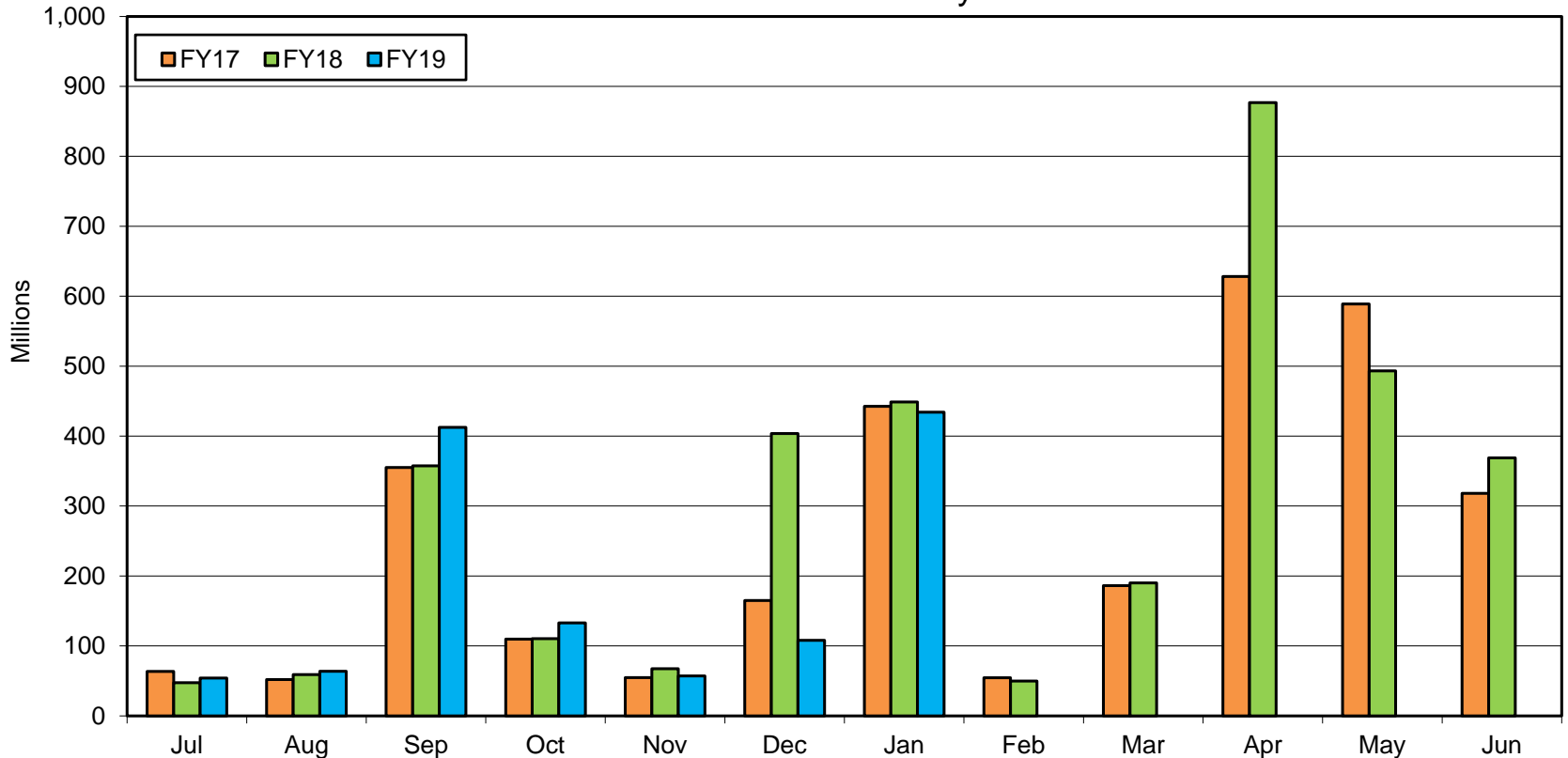


Monthly Growth: -5.5% 5.1% 3.6% 12.8% -1.3% 11.9% 0.9%

- Collections increased 0.9 percent in January.
 - The federal government shutdown did not have an effect this month because the shutdown ended and back pay was issued.
- Year-to-date, withholding collections have increased 3.9 percent compared with the same period last year, ahead of the projected annual growth of 3.8 percent.

Nonwithholding Tax Collections

FY17 - FY19 Monthly



- December and January are significant months for collections in this source, but analysis of growth at this point is limited by the timing of payments and unknown effects of federal tax reform.
 - January 15th is the due date for the fourth estimated payment for tax year 2018.
 - After increasing 40.3 percent for the two month period last year, mainly due to a surge in payments last December, receipts fell 36.4 percent this year.
- Year-to-date, collections decreased 15.5 percent, behind the annual estimate of 15.2 percent growth. This is expected as significant amounts of revenue associated with tax conformity are scheduled to be paid in the April-June quarter.

Individual Income Tax Refunds

(Includes Post-GACRE Policy Adjustments)

- Not a significant month.
- Through January, TAX has issued \$339.8 million in individual refunds compared with \$332.6 million in the same period last year.
- The main income tax filing season normally begins in February.

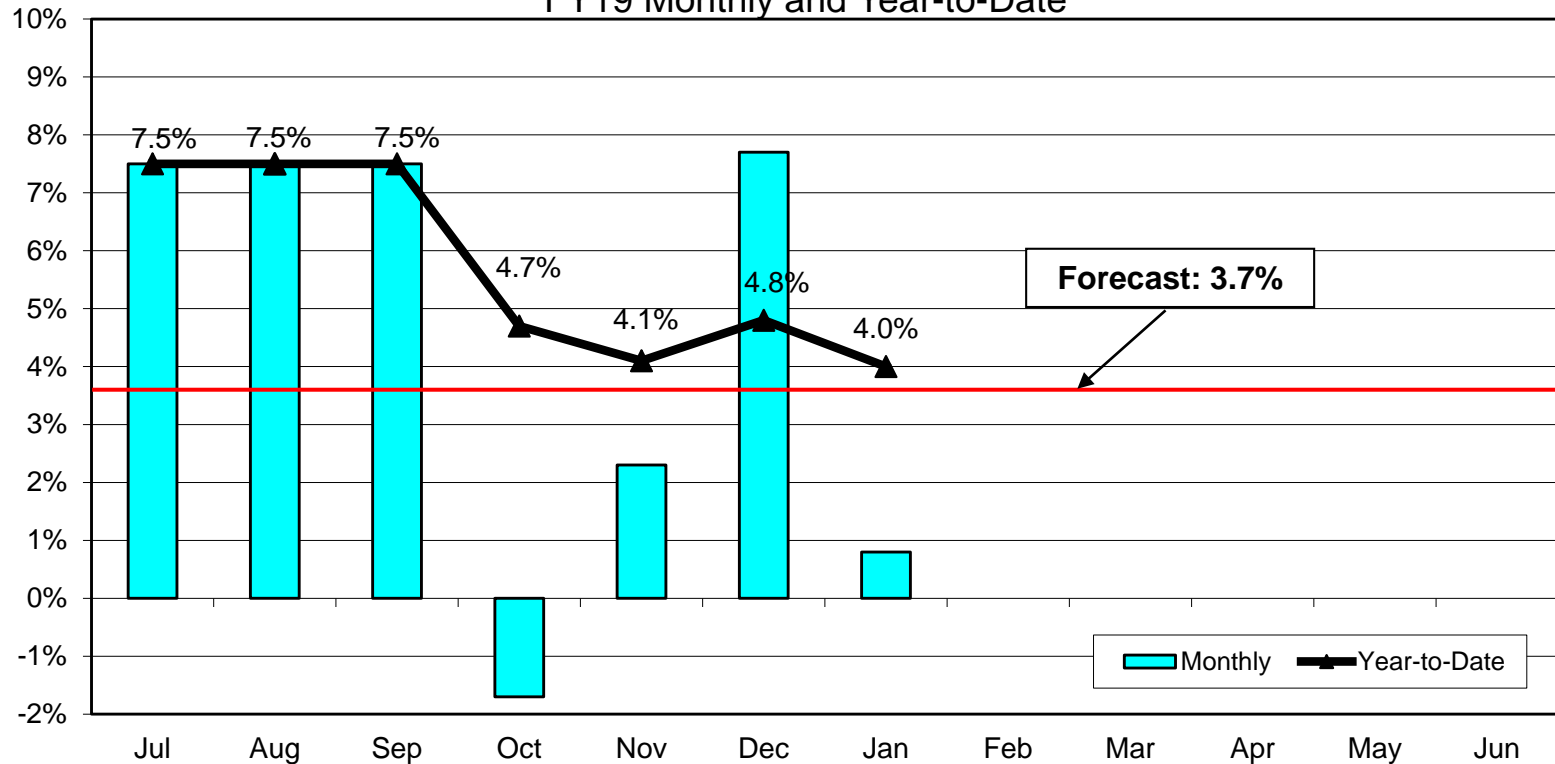
Net Individual Income Tax

(Includes Post-GACRE Policy Adjustments)

- Through the first seven months of the fiscal year, collections of net individual income tax increased 0.4 percent from the same period last year, behind the annual estimate of a 6.7 percent increase.

Growth in Sales Tax Collections

(Includes Post-GACRE Policy Adjustments)
FY19 Monthly and Year-to-Date



Monthly Growth: 7.5% 7.5% 7.5% -1.7% 2.1% 7.7% 0.8%

- Collections of sales and use taxes, reflecting mainly December sales, increased 0.8 percent in January.
- On a year-to-date basis, collections increased 4.0 percent, ahead of the annual estimate of 3.7 percent growth.

Net Corporate Income Tax Collections

(Includes Post-GACRE Policy Adjustments)

- Collections were \$23.2 million in January as compared to \$35.4 million last January.
- Refunds accounted for part of the decline as they were \$19.3 million as compared to \$12.3 million last January.
- On a year-to-date basis, collections in this source have decreased 1.8 percent, behind the annual estimate of 5.6 percent growth.

Recordation and Insurance Premiums Tax

(Includes Post-GACRE Policy Adjustments)

Recordation

- In January, collections decreased 2.0 percent compared to last year. Year-to-date collections have decreased 4.8 percent compared to last year, ahead of the forecast of a 6.7 percent decline.

Insurance

- This is not a significant month for collections, however refunds are issued this month. Monthly receipts were -\$41.9 million as compared to -\$52.7 million last January.
 - Final payments are due March 1, and estimated payments are due in April and June.

Summary of Fiscal Year 2019 Revenue Collections

(Includes Post-GACRE Policy Adjustments)

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	61.8 %	3.9 %	3.8 %	0.1 %	3.7 %	6.4 %
Nonwithholding	19.0	(15.5)	15.2	(30.7)	38.4	11.4
Refunds	(9.4)	2.2	3.3	(1.1)	3.5	0.2
Net Individual	71.5	0.4	6.7	(6.3)	15.6	9.9
Sales	17.1	4.0	3.7	0.3	3.4	3.0
Corporate	4.3	(1.8)	5.6	(7.4)	12.8	(4.7)
Wills (Recordation)	1.8	(4.8)	(6.7)	1.9	(9.2)	3.2
Insurance	1.9	22.4	17.0	5.4	16.2	8.5
All Other Revenue	3.5	12.0	3.0	9.0	(4.0)	(0.6)
Total	100.0 %	1.3 %	5.9 %	(4.6) %	11.8 %	7.1 %
Total less Nonwithholding	81.0 %	3.8 %	3.9 %	(0.1) %	4.0 %	5.8 %

Summary of Fiscal Year 2019 Revenue Collections

(GACRE November Standard and \$70 million Withholding Adjustment)

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	63.6 %	3.9 %	3.8 %	0.1 %	3.7 %	6.4 %
Nonwithholding	17.2	(15.5)	1.4	(16.9)	14.2	11.4
Refunds	(9.8)	2.2	5.4	(3.2)	6.1	0.2
Net Individual	70.9	0.4	3.0	(2.6)	6.6	9.9
Sales	17.5	4.0	3.7	0.3	3.4	3.0
Corporate	4.1	(1.8)	(1.6)	(0.2)	(1.3)	(4.7)
Wills (Recordation)	1.8	(4.8)	(6.7)	1.9	(9.2)	3.2
Insurance	1.9	22.4	17.0	5.4	16.2	8.5
All Other Revenue	3.6	12.0	3.5	8.5	(3.1)	(0.6)
Total	100.0 %	1.3 %	3.0 %	(1.7) %	5.2 %	7.1 %
Total less Nonwithholding	82.8 %	3.8 %	3.3 %	0.5 %	2.5 %	5.8 %

Next Steps

- Analysis of year-to-date collections data and recent economic developments formed the basis of the mid-session forecast review.
 - No adjustments to the forecast were recommended.

Income Tax Return Processing Recovery Schedule

Day	BACKLOG	DATE	Daily Processing Count	New Submissions	Ending Backlog Inventory
1	1,000,000	Monday, February 18, 2019	125,000	80,000	955,000
2	920,000	Tuesday, February 19, 2019	125,000	80,000	910,000
3	795,000	Wednesday, February 20, 2019	125,000	80,000	865,000
4	670,000	Thursday, February 21, 2019	125,000	80,000	820,000
5	545,000	Friday, February 22, 2019	125,000	80,000	775,000
6	420,000	Saturday, February 23, 2019	175,000	80,000	680,000
7	245,000	Sunday, February 24, 2019	125,000	80,000	635,000
8	120,000	Monday, February 25, 2019	125,000	80,000	590,000
9	-5,000	Tuesday, February 26, 2019	125,000	80,000	545,000
10		Wednesday, February 27, 2019	125,000	80,000	500,000
11		Thursday, February 28, 2019	125,000	70,000	445,000
12		Friday, March 01, 2019	125,000	70,000	390,000
13		Saturday, March 02, 2019	175,000	70,000	285,000
14		Sunday, March 03, 2019	175,000	70,000	180,000
15		Monday, March 04, 2019	125,000	70,000	125,000
16		Tuesday, March 05, 2019	125,000	70,000	70,000
17		Wednesday, March 06, 2019	125,000	70,000	15,000
18		Thursday, March 07, 2019	85,000	70,000	0