

Economic and Revenue Update

A Briefing for the Money Committees

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Topics for Discussion

- National and State Economic Indicators
- September Year-to-Date Revenue Collections, Fiscal Year 2022
- September Year-to-Date Commonwealth Transportation Fund Collections, Fiscal Year 2022
- 2021 Revenue Forecasting Schedule

National and State Economic Indicators

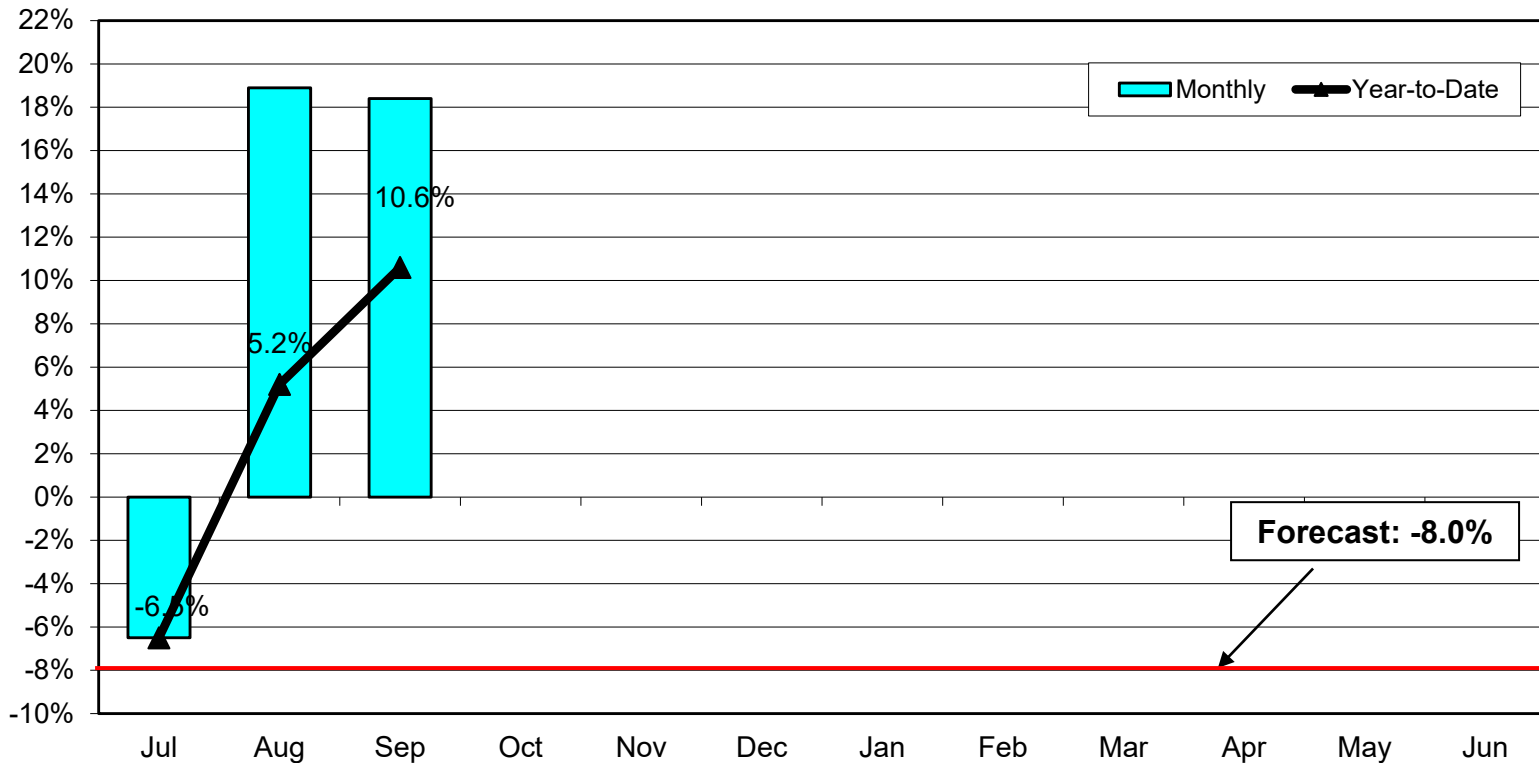
- According to the third estimate, real GDP rose at an annualized rate of 6.7 percent in the second quarter of 2021, following 6.3 percent in the first quarter.
- The labor market added only 194,000 jobs to payrolls in September; however, July and August gains were revised up by a combined 169,000, bringing the three-month average job gain to 550,000.
- In a separate report, the unemployment rate fell 0.4 to 4.8 percent in September.
- Initial claims for unemployment fell from 364,000 to 326,000 during the week ending October 2. The four-week moving average rose from 341,000 to 344,000. In a healthy economy, new filings are typically below 250,000.
- The Conference Board's index of leading indicators rose 0.9 percent in August, ahead of expectations, and follows growth of 0.8 percent in July and 0.6 percent in June.
- The Conference Board's index of consumer confidence fell from 115.2 to 109.3 in September with the resurgence of Covid-19. Both the current conditions and expectations components declined for the month.
- The Institute of Supply Management index rose from 59.9 to 61.1 in September. The Delta variant is causing problems in the global supply chain, weighing on U.S. manufacturing.

National and State Economic Indicators

- The CPI rose 0.3 percent in August and stands 5.2 percent above August of last year.
 - Core inflation (excluding food and energy prices) rose 0.1 percent and stands 4.0 percent above a year ago.
- At its September meeting, the Federal Reserve left the federal funds target unchanged at the range of 0.0 to 0.25 percent.
- In Virginia, payroll employment rose 2.2 percent in August from August of last year. Employment in Northern Virginia rose by 2.8 percent; Hampton Roads rose 1.5 percent; and Richmond-Petersburg rose 0.4 percent.
- The seasonally adjusted unemployment rate fell 0.2 percentage point to 4.0 percent and stands 3.0 percentage points below a year ago.
- The Virginia Leading Index fell 0.6 percent in August after rising 1.3 percent in July.
 - The U.S. Leading Index increased in August while auto registrations and future employment declined and initial claims increased.
 - The Blacksburg index rose modestly in August while the indexes for the remaining metro areas fell.

Growth in Total General Fund Revenue Collections

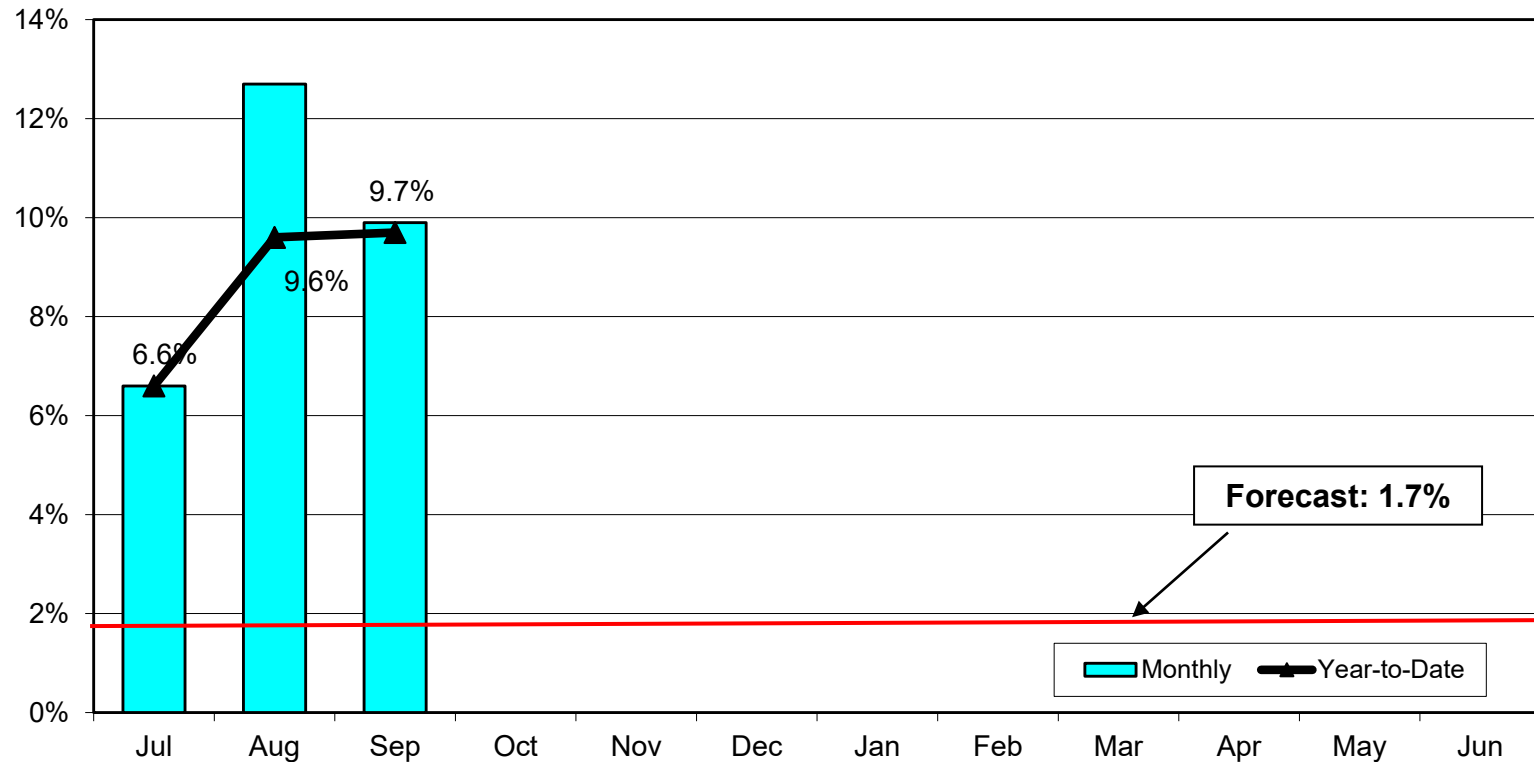
FY22 Monthly and Year-to-Date



Monthly Growth: -6.8% 18.9% 18.4%

- Total general fund revenues increased 18.4 percent in September.
 - Growth driven by payroll withholding, robust sales tax collections and strong growth in individual and corporate estimated payments.
- On a year-to-date basis, total revenues increased 10.6 percent, ahead of the annual forecast of an 8.0 percent decline.
 - This is comparing the fiscal year 2022 Chapter 552 forecast to actual fiscal year 2021 collections.

Growth in Withholding Tax Collections FY22 Monthly and Year-to-Date

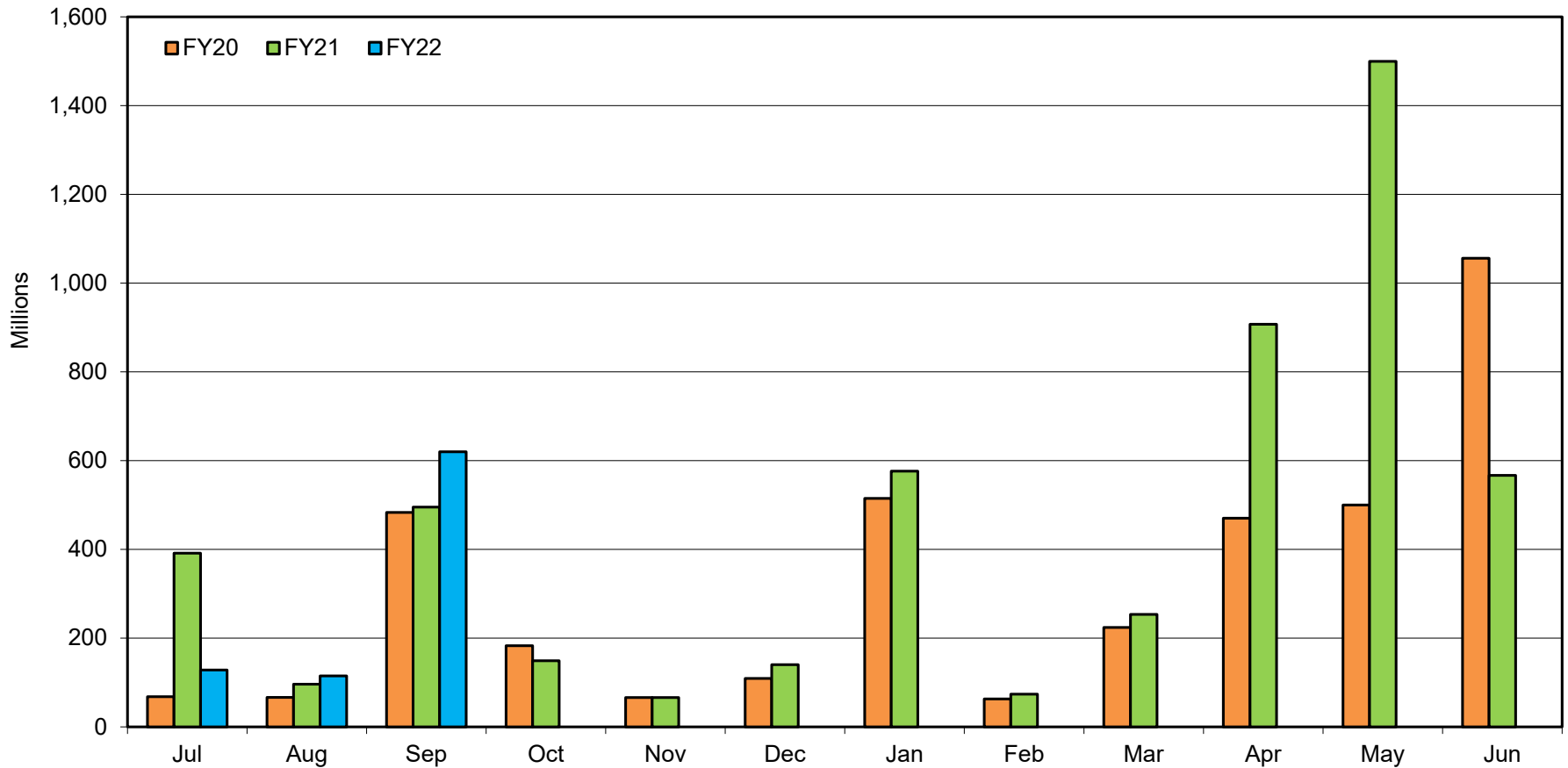


Monthly Growth: 6.6% 12.7% 9.9%

- Collections increased 9.9 percent in September.
 - Broad-based growth across industries.
- Year-to-date, withholding collections have increased 9.7 percent compared with the same period last year, ahead of the projected annual growth of 1.7 percent.

Nonwithholding Tax Collections

FY19 – FY21 Monthly



- September estimated payments increased 25.2 percent as strong growth was seen in higher-income taxpayers.
- Next significant data point is the calendar year 2021 fourth estimated payment due January 15, 2022.

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	1,783	\$706.0
FY22	428	\$139.9	?	?

- 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.

Individual Income Tax Refunds

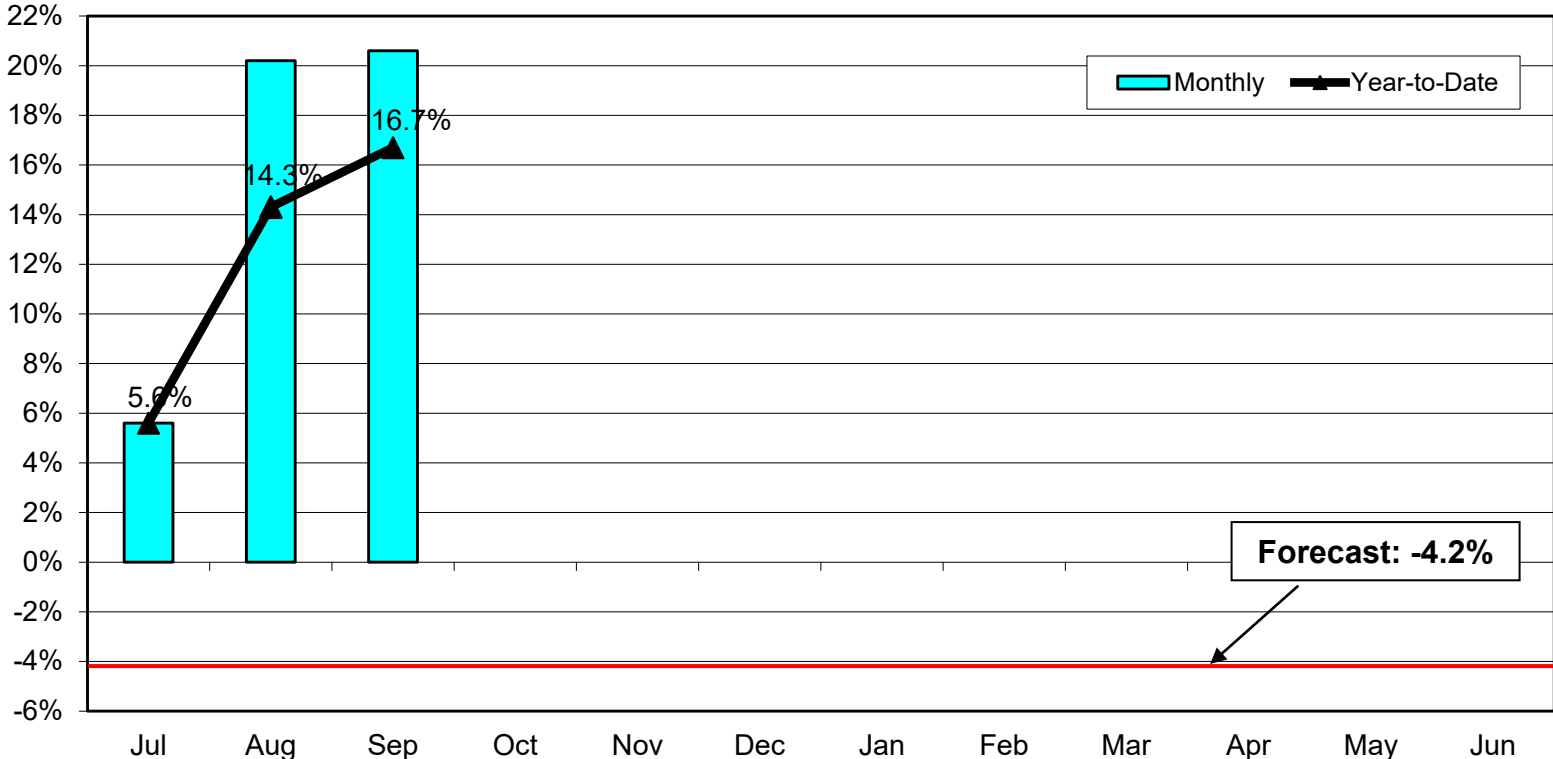
- Not a significant month.
- Through September, TAX has issued \$175.2 million in individual refunds compared with \$280.7 million in the same period last year.
 - Of the \$280.7 million issued last year, approximately \$110 million was due to refunds received for processing in July versus June as numerous 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 7.6 percent from the same period last year, ahead of the annual estimate of a 7.6 percent decline.
 - Adjusting for the payments and returns processed in July last year that normally should have been done in May and June, year-to-date growth is 15.0 percent.

Growth in Sales Tax Collections

FY22 Monthly and Year-to-Date



Monthly Growth: 5.6% 20.2% 20.6%

- Collections of sales and use taxes, reflecting mainly August sales, increased 20.6 percent in September.
 - Broad-based growth as much of the Virginia economy was open this month as compared to last August.
- On a year-to-date basis, collections increased 16.7 percent, ahead of the annual estimate of a 4.2 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 41.3 percent in September.
 - This increase appears to be broad-based.
- Through the first quarter of fiscal year 2022, collections in this source have increased 36.5 percent, ahead of the annual estimate of 16.1 percent decline.
- Through the first quarter, 36.1 percent of the projected fiscal year's net corporate payments have been received.
 - This is ahead of the historical average of 25.3 percent.

Recordation and Insurance Premiums Tax

Recordation

- In September, collections increased 6.2 percent compared to last year. Year-to-date collections have increased 9.0 percent compared to last year, ahead of the forecast of a 31.3 percent decline.
- This quarter's collections of \$165.8 million is the largest July-September quarter since the \$150.8 million in July-September of 2006.

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 \$180.7 million before deposits are made to the General Fund.

Summary of Fiscal Year 2022 Revenue Collections

Chapter 552 Forecast

July through September
Percent Growth over Prior Year

Major Source	As a % of Total Revenues	YTD Actual	Annual Estimate	Variance	Oct - Jun Req'd to Meet Est.	Prior Year Oct - Jun
Withholding	62.2 %	9.7 %	1.7 %	8.0 %	(0.7) %	5.5 %
Nonwithholding	17.0	(12.2)	(25.4)	13.2	(28.5)	32.9
Refunds	(9.4)	(37.6)	11.4	(49.0)	19.7	(1.6)
Net Individual	69.8	7.6	(7.6)	15.2	(11.9)	13.9
Sales	17.4	16.7	(4.2)	20.9	(9.4)	13.7
Corporate	5.6	36.5	(16.1)	52.6	(31.1)	54.3
Wills (Recordation)	2.0	9.0	(31.3)	40.3	(44.3)	42.1
Insurance	1.6	n/a	(0.6)	n/a	(0.6)	0.7
All Other Revenue	3.6	0.8	(4.0)	4.8	(5.1)	7.8
Total	100.0 %	10.6 %	(8.0) %	18.6 %	(13.1) %	15.8 %
Total less Nonwithholding	83.0 %	15.8 %	(3.3) %	19.1 %	(8.8) %	11.8 %

- \$998.0 million ahead of the Chapter 552 forecast through September.

Summary of Fiscal Year 2022 Commonwealth Transportation Fund Revenue Collections

July through September

	As a % of Total <u>Fund</u>	<u>YTD Actual</u>	<u>Annual Estimate</u>	<u>Variance</u>
Motor Fuels Taxes (1)	18.7 %	33.3 %	25.3 %	8.0 %
Priority Transportation Fund (2)	2.7	5.7	(0.4)	6.1
Motor Vehicles Sales Tax (3)	13.6	21.8	(18.0)	39.8
Retail Sales Tax	17.6	12.2	(3.9)	16.1
Motor Vehicle License Fees	2.9	(14.9)	(16.1)	1.2
All Other Revenue	3.0	13.9	(25.1)	39.0
Total (4)	58.5 %	16.5 %	(2.4) %	18.9 %

- Motor vehicle and retail sales tax collections are expected to slow over the remainder of the fiscal year due to supply chain constraints and less favorable comparative months from the previous fiscal year.

Notes:

(1) Includes aviation and road tax

(2) Insurance premiums tax

(3) Includes rental tax

(4) Total state taxes and fees. 41.5% of the CTF is comprised of various federal, local, and miscellaneous revenues.

2021 Revenue Forecasting Schedule

- **October 13** – *Joint Advisory Board of Economist (JABE)* reviews outlook for the current and next biennium (FY22 – FY24).
- **November 22** – *Governor’s Advisory Council on Revenue Estimates (GACRE)* reviews economic and revenue outlook for current and next biennium (FY22 – FY24).
- **December 16** – Governor releases revised forecast and budget actions for 2020 - 2022 biennium and introduces 2022 – 2024 budget.