



# Economic and Revenue Update

## *A Briefing for the Money Committees*

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# Topics for Discussion

- National and State Economic Indicators
- August Year-to-Date Revenue Collections, Fiscal Year 2019
- Next Significant Data Points
- 2018 Revenue Forecasting Schedule
- Hurricane Florence Financial Update
- Natural Disaster Sum Sufficient Liability
- Known Funding Commitments / Risks
- 2019 Individual Tax Filing Season Issues

# National and State Economic Indicators

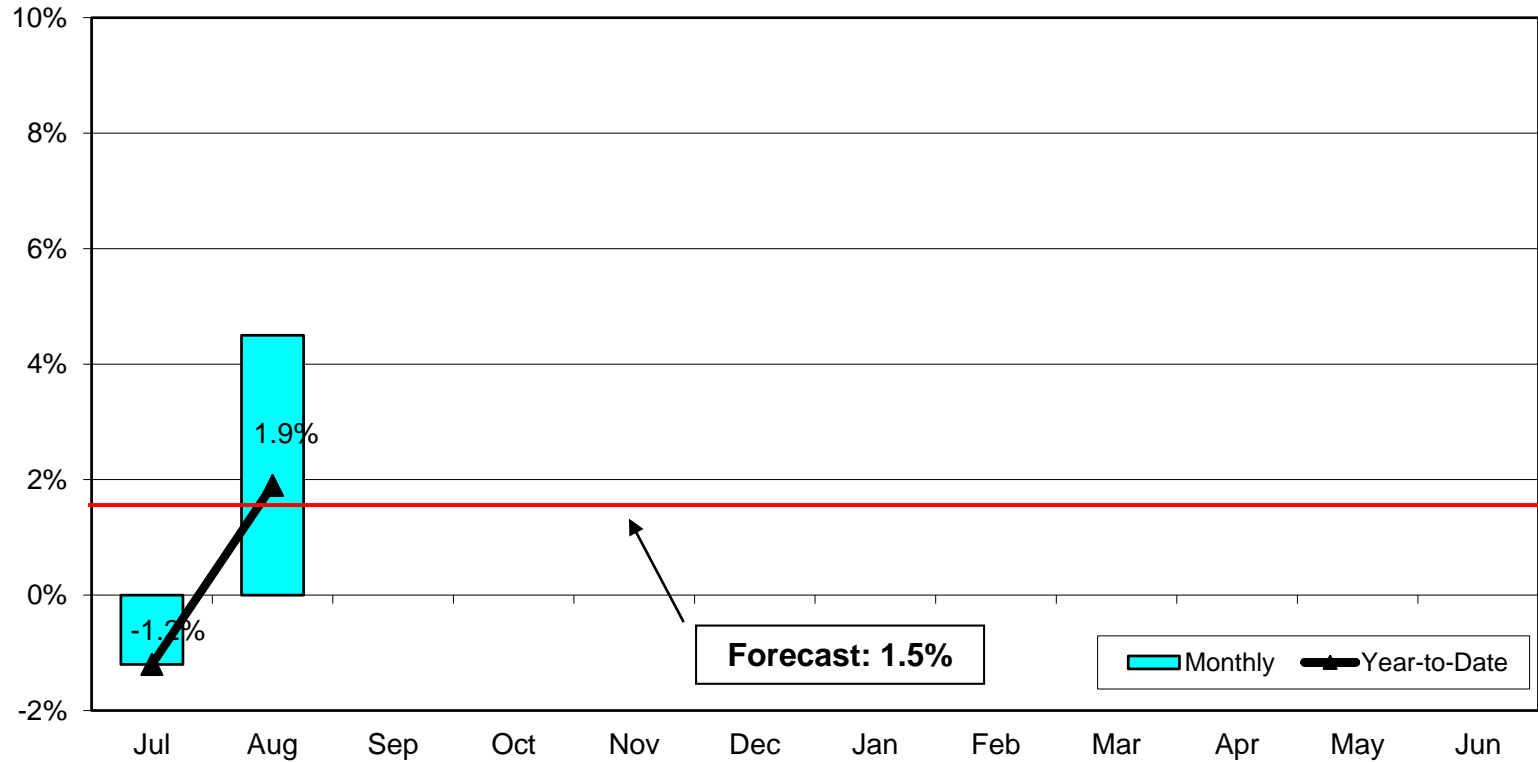
- According to the second estimate, real GDP grew at an annualized rate of 4.2 percent in the second quarter of 2018, following 2.2 percent in the first quarter.
- Payroll employment rose by 201,000 jobs in August, exceeding expectations.
- The national unemployment rate was unchanged at 3.9 percent in August.
- Initial claims for unemployment fell by 10,000 to 203,000 during the week ending September 1.
  - The four-week moving average declined by 2,750 to 209,500.
  - Claims are at the lowest level since December 6, 1969.
- The Conference Board's index of leading indicators rose 0.6 percent in July, following a 0.5 percent increase in June, suggesting the economic expansion should strengthen over the coming months.
- The Conference Board's index of consumer confidence rose 5.5 points to 133.4 in August. Both the expectations and current conditions components increased for the month.
- Activity in the manufacturing sector accelerated in August. The Institute of Supply Management index rose from 58.1 to 61.3, above expectations.

# National and State Economic Indicators

- The CPI rose 0.2 percent in July after increasing 0.1 percent in June and stands 2.9 percent above July 2017.
  - Core inflation (excluding food and energy prices) also rose by 0.2 percent, and has increased 2.3 percent from last year.
- At its August meeting, the Federal Reserve left the federal funds target rate range unchanged at 1.75 to 2.0 percent.
- In Virginia, payroll employment rose 1.9 percent from July of last year. Northern Virginia posted growth of 1.9 percent; Hampton Roads rose 1.0 percent; and Richmond-Petersburg rose 1.6 percent.
- The seasonally adjusted unemployment rate fell 0.1 percentage point to 3.1 percent in July, the lowest rate since August 2007.
- The Virginia Leading Index rose 0.2 percent in July after falling 0.2 percent in June.
  - The U.S. leading index, future employment, and initial claims improved in July while auto registrations declined.
  - The indexes increased in Northern Virginia, Richmond, Roanoke, Lynchburg, Charlottesville, Harrisonburg, Blacksburg, and Staunton. The indexes declined in Winchester and Bristol, while the Hampton Roads index was unchanged in July.

## Growth in Total General Fund Revenue Collections

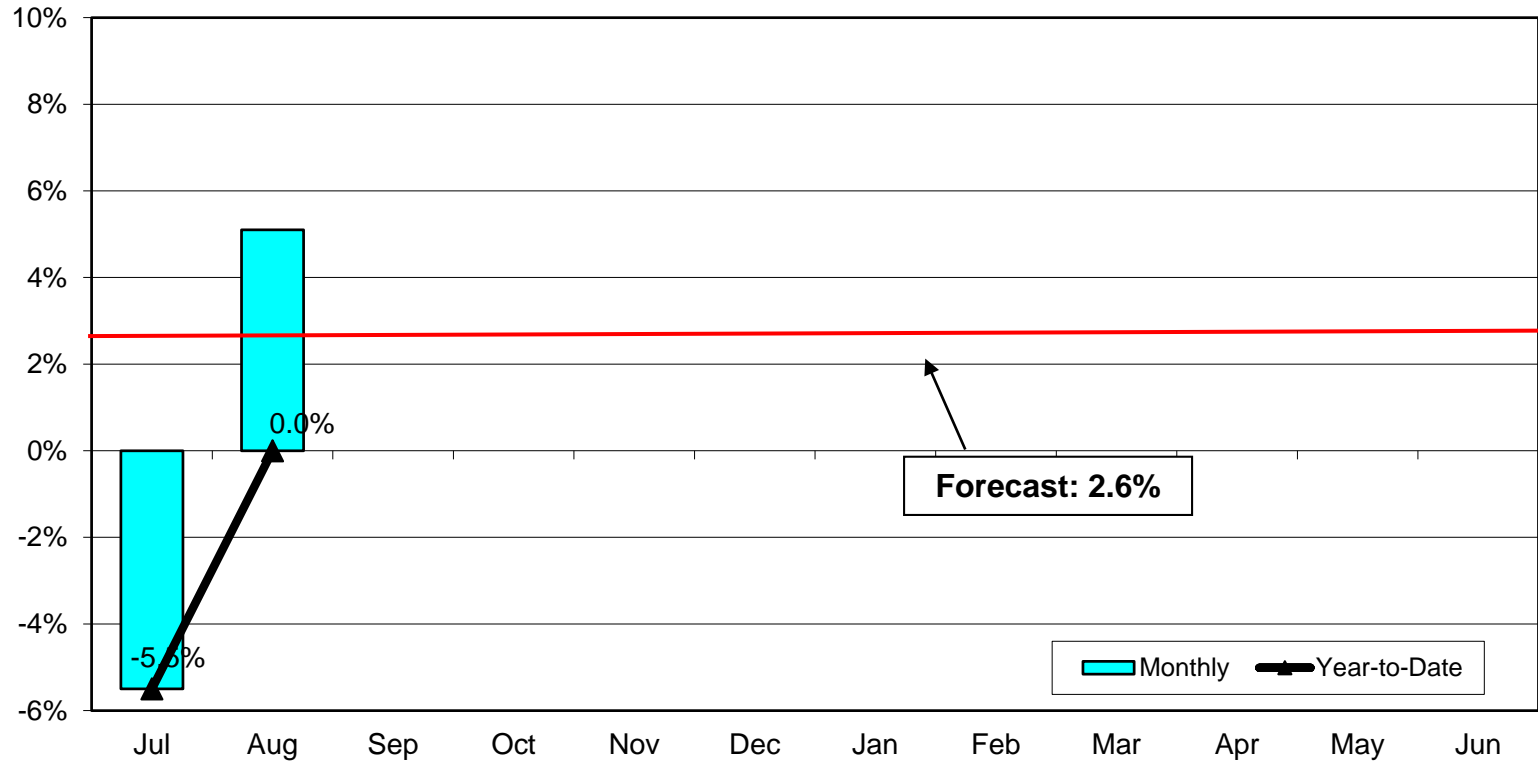
### FY19 Monthly and Year-to-Date



Monthly Growth: -1.2% 4.5%

- Total general fund revenues increased 4.5 percent in August.
  - Payroll withholding and sales tax receipts posted solid months.
- On a year-to-date basis, total revenues increased 1.9 percent, ahead of the annual forecast of a 1.5 percent increase.

## Growth in Withholding Tax Collections FY19 Monthly and Year-to-Date



Monthly Growth:    -5.5%    5.1%

- Collections increased 5.1 percent in August reflecting solid job and wage gains.
- Year-to-date, withholding collections are flat compared with the same period last year, behind the projected annual growth rate of 2.6 percent.

## **Individual Nonwithholding**

- Collections through August were \$117.8 million compared with \$106.3 million in the same period last year.

## **Individual Income Tax Refunds**

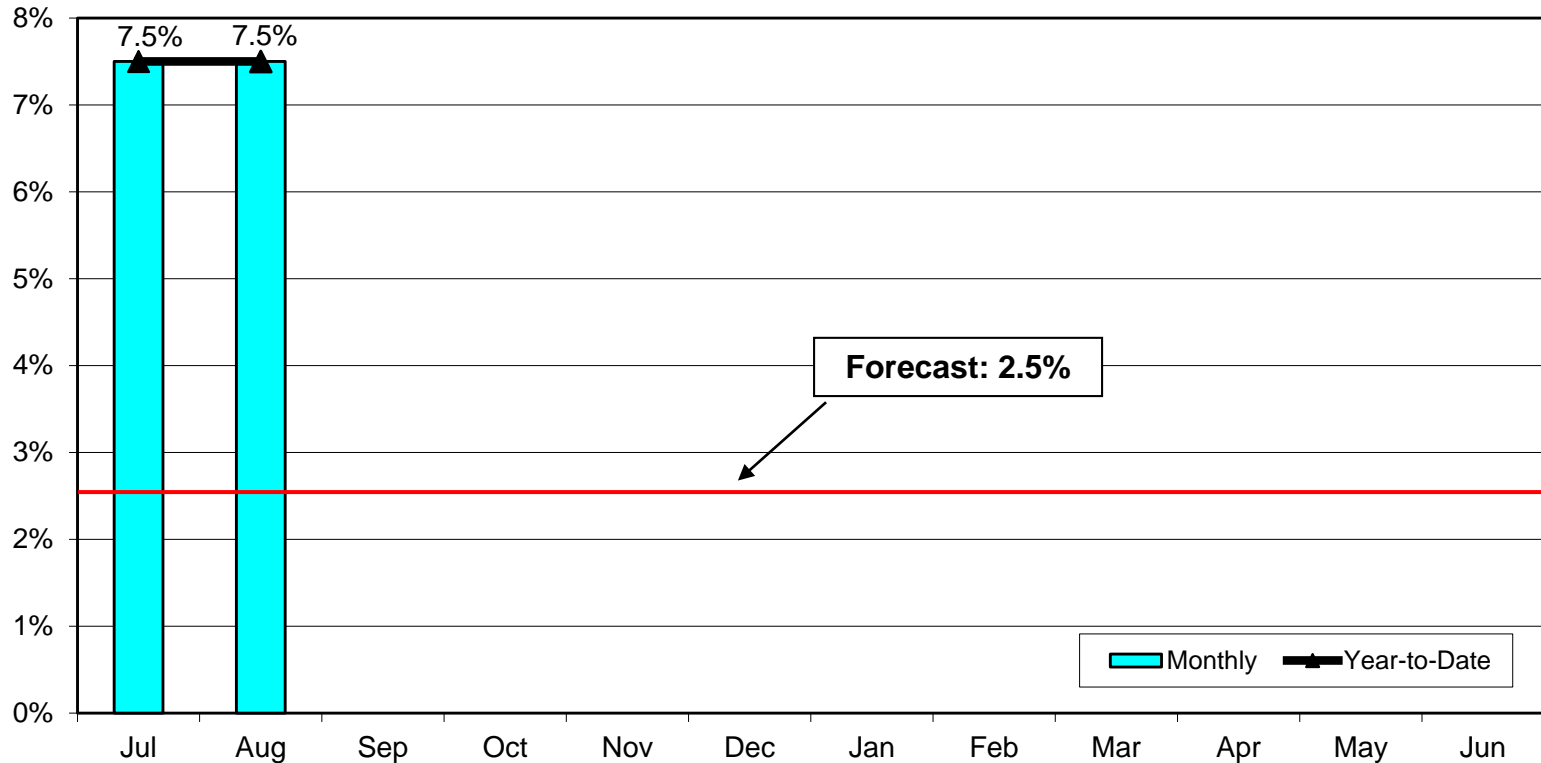
- Through August, TAX has issued \$92.2 million in individual refunds compared with \$87.2 million in the same period last year.

## **Net Individual Income Tax**

- Through the first two months of the fiscal year, collections of net individual income tax increased 0.3 percent from the same period last year, behind the annual estimate of a 0.6 percent increase.

## Growth in Sales Tax Collections

### FY19 Monthly and Year-to-Date



Monthly Growth: 7.5% 7.5%

- Collections of sales and use taxes, reflecting mainly July sales, had a 7.5 percent increase in August.
  - Growth is overstated by about 4 percentage points due to a few one-time large prior year refunds issued last August.
- On a year-to-date basis, collections increased 7.5 percent, ahead of the annual estimate of 2.5 percent growth.



## **Net Corporate Income Tax Collections**

- Through the first two months of the fiscal year, \$38.5 million has been collected in this source, compared with \$34.7 million over the same period last year. August is not typically a significant month for this source.

## **Recordation and Insurance Premiums Tax**

### Recordation

- In August, collections declined by 1.4 percent and are down 6.1 percent for the first two months of the fiscal year.

### 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 \$168.7 million before deposits are made to the General Fund.

# Summary of Fiscal Year 2019 Revenue Collections

July through August

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>Sep-Jun Req'd</u> <u>to Meet Est.</u>	<u>Prior Year</u> <u>Sep-Jun</u>
Withholding	63.8 %	0.0 %	2.6 %	(2.6) %	3.1 %	5.8 %
Nonwithholding	16.7	10.8	(3.0)	13.8	(3.4)	16.0
Refunds	(10.2)	5.8	7.7	(1.9)	7.8	2.0
Net Individual	70.3	0.3	0.6	(0.3)	0.6	9.0
Sales	17.6	7.5	2.5	5.0	1.8	3.4
Corporate	4.5	11.0	5.8	5.2	5.6	2.1
Wills (Recordation)	2.0	(6.1)	3.1	(9.2)	5.3	0.1
Insurance	1.9	na	11.4	na	11.4	(0.9)
All Other Revenue	3.7	15.8	3.9	11.9	2.3	(1.7)
<b>Total</b>	<b>100.0 %</b>	<b>1.9 %</b>	<b>1.5 %</b>	<b>0.4 %</b>	<b>1.4 %</b>	<b>6.8 %</b>

# Summary of Fiscal Year 2019 Revenue Collections

July through August

FY	Total Collections	Revenue Collections Through:											
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
2000	10,788.5	699.1	1,435.8	2,503.0	3,210.6	3,977.8	5,080.0	6,067.5	6,704.5	7,374.1	8,411.9	9,663.1	10,788.5
2001	11,105.3	688.0	1,452.7	2,546.4	3,312.7	4,106.3	5,052.9	6,295.8	6,981.1	7,652.5	8,696.8	9,998.9	11,105.3
2002	10,679.0	705.4	1,483.7	2,485.4	3,315.4	4,136.9	5,071.2	6,184.7	6,794.7	7,459.8	8,388.0	9,414.6	10,679.0
2003	10,867.1	644.3	1,409.6	2,513.3	3,324.3	4,109.7	5,203.2	6,320.5	6,933.6	7,547.7	8,579.5	9,539.0	10,867.1
2004	11,917.9	699.3	1,553.7	2,724.3	3,618.2	4,449.1	5,570.2	6,721.0	7,377.9	8,130.2	9,393.7	10,423.6	11,917.9
2005	13,687.3	772.5	1,698.8	3,009.8	3,998.0	4,964.5	6,295.1	7,684.7	8,415.7	9,300.7	10,745.5	12,012.3	13,687.3
2006	14,834.3	840.5	1,987.8	3,445.8	4,510.5	5,537.3	7,006.6	8,542.7	9,306.7	10,273.3	11,758.2	13,253.6	14,834.3
2007	15,565.8	1,059.7	2,158.2	3,707.7	4,778.6	5,873.0	7,303.6	8,882.9	9,684.8	10,658.1	12,180.5	13,883.2	15,565.8
2008	15,767.0	1,095.6	2,231.1	3,842.1	5,023.2	6,085.2	7,540.8	9,175.5	9,916.1	10,920.8	12,664.1	14,131.9	15,767.0
2009	14,315.1	1,126.9	2,188.0	3,679.9	4,848.9	5,861.6	7,278.9	8,667.9	9,307.9	10,173.1	11,572.9	12,811.3	14,315.1
2010	14,219.5	1,036.2	2,027.7	3,407.0	4,482.0	5,465.7	6,960.9	8,258.9	8,861.4	9,752.5	11,157.9	12,394.4	14,219.5
2011	15,040.2	867.4	1,911.7	3,348.1	4,462.9	5,537.9	7,062.6	8,523.8	9,226.6	10,228.2	11,655.4	13,113.5	15,040.2
2012	15,846.7	955.4	2,080.6	3,573.2	4,722.6	5,903.2	7,356.7	8,868.2	9,692.1	10,770.1	12,347.9	13,927.3	15,846.7
2013	16,684.6	938.0	2,137.6	3,619.5	4,948.9	6,091.0	7,615.0	9,421.8	10,229.6	11,242.1	12,855.0	14,757.7	16,684.6
2014	16,411.4	1,059.9	2,201.4	3,722.3	4,980.1	6,134.4	7,670.6	9,371.5	10,151.7	11,242.9	13,017.7	14,526.7	16,411.4
2015	17,735.6	1,208.9	2,370.4	3,972.6	5,286.0	6,451.6	8,189.9	9,871.8	10,821.7	12,041.3	13,997.6	15,595.1	17,735.6
2016	18,040.1	1,088.3	2,309.0	4,066.3	5,312.6	6,538.5	8,318.1	10,111.0	11,048.9	12,360.6	14,185.1	15,883.0	18,040.1
2017	18,695.1	1,128.1	2,495.9	4,211.3	5,500.4	6,890.2	8,651.3	10,576.8	11,548.5	12,934.7	14,697.5	16,472.7	18,695.1
2018	19,880.8	1,188.6	2,572.0	4,382.3	5,770.2	7,227.8	9,165.2	11,189.5	12,267.0	13,605.4	15,682.0	17,482.1	19,880.8
Average	14,846.4	936.9	1,984.5	3,408.4	4,495.0	5,544.3	6,968.0	8,459.8	9,224.8	10,193.1	11,683.5	13,120.2	14,846.4
% of Total	100.0%	6.3%	13.4%	23.0%	30.3%	37.3%	46.9%	57.0%	62.1%	68.7%	78.7%	88.4%	100.0%
2019													
Chapter 2	20,173.7	1,174.7	2,620.8										
% of Estimate		5.8%	13.0%										

## September Is the Next Significant Data Point

- Estimated payments are due 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.

## 2018 Revenue Forecasting Schedule

- **October 11** – *Joint Advisory Board of Economist (JABE)* reviews outlook for the current and next biennium (FY19 – FY22).
- **November 19** – *Governor’s Advisory Council on Revenue Estimates (GACRE)* reviews economic and revenue outlook for current and next biennium (FY19 – FY22).
- **November 21** – General Fund Agencies’ Final Adjustments to Revenues and Transfers are due to the Department of Taxation.
- **December 18** – Governor releases revised forecast and budget actions for 2018 – 2020 biennium – along with a long-term revenue forecast to FY26.

# Hurricane Florence Financial Update

\$ 2,200,000	DMA - 300 people for 2 weeks, supplies & equipment.
\$ 500,000	Activation of the EOC for 2 weeks, OT costs, meals and logistical support.
\$ 1,900,000	Costs incurred by other state agencies.
\$ 591,122	Type III (Full) IMT, 30 people, lodging and meals, 2 weeks
\$ 109,872	Type I Communication Cache, 8 people, lodging and meals, 2 weeks
\$ 98,826	NIMS Type IV Standing/Floodwater Team, 5 people, lodging & meals, 2 weeks
\$ 693,308	NIMS Type I HazMat Entry Team, 30 people, lodging and meals, 2 weeks
\$ 303,212	NIMS Swiftwater Rescue Team, 19 people, lodging and meals, 2 weeks
\$ 100,000	After Action Report
\$ 20,000,000	Urban Search & Rescue - Virginia TF1&2 [10 day mission(s)]
\$ 1,300,000	3 days of the 100 bus option of the bus contract
\$ 32,000,000	7 days of 24 hour ops for state manage shelters, maximum capacity of 5,800 individuals
<b>\$ 59,796,340</b>	<b>Total Estimate - 2 weeks</b>

*\*Estimates submitted by the Virginia Department of Emergency Management (VDEM) on September 11, 2018.*

# Outstanding Liability from Natural Disaster Sum Sufficient Authorizations = \$17.1 million

*(as of June 30, 2018)*

**FY 2017 YEAR-END LIABILITY REPORTED TO DOA** **\$11,232,049**

**FY 2018 NEW AUTHORITY** **\$10,728,646**

Decision Brief signed 2/6/18	<b>Winter Storm Jonas (2016 Snow Storm)</b>	\$3,024,127
Decision Brief signed 2/21/18	<b>February 2016 Tornadoes</b>	\$54,519
EO 66 (2017)	<b>Charlottesville Unite the Right rally</b>	\$600,000
EO 70 (2017)	<b>September 2017 Hurricane Harvey</b>	\$100,000
EO72 (2017)	<b>September 2017 Hurricane Irma</b>	\$4,350,000
EO 76 (2017)	<b>January 2018 Winter Storm Grayson (Snow)</b>	\$550,000
EO 4 (2018)	<b>February 2018 Severe Weather (Floods)</b>	\$900,000
EO 5 (2018)	<b>March 2018 Storm Riley (Wind)</b>	\$250,000
EO 7 (2018)	<b>April 2018 Severe Weather</b>	\$600,000
EO 10 (2018)	<b>May-June 2018 Severe Weather</b>	\$300,000

**FY 2018 APPROPRIATION TRANSFERRED TO VDEM** **(\$4,890,635)**

**FY 2018 YEAR END LIABILITY** **\$17,070,060**

# Natural Disaster Sum Sufficient Liability

(as of June 30, 2018) – detail

Fiscal Year Opened	Open Disaster	Total Authority (Decision Brief, E.O.)	Liability Adjustment (Relinquished Authority)	Adjusted Authority	Appropriation Transferred To VDEM (BEX)	Unappropriated Authority (Unfunded Liability)	Original Authority Mechanism
FY10	December 2009 Snow <sup>1</sup>	7,511,725	(3,181,228)	4,330,497	4,246,352	84,145	EO 105 (2009)
FY10	February 2010 Snow <sup>1</sup>	5,867,063	(1,204,820)	4,662,243	4,419,125	243,118	EO 7 (2010)
FY11	2011 Tornado Donation Program	600,000	-	600,000	367,487	232,513	Decision Brief signed 5/8/11
FY12	Hurricane Irene	14,442,062	-	14,442,062	13,363,910	1,078,152	EO 40 (2011)
FY12	2011 Earthquake	10,187,268	-	10,187,268	10,187,268	-	EO 38 (2011)
FY12	2011 Floods (Tropical Storm Lee)	1,453,360	-	1,453,360	852,050	601,310	Decision Brief signed 6/19/12
FY13	June 2012 Storms/Derecho	4,396,308	-	4,396,308	4,060,854	335,454	EO 49 (2012)
FY13	Hurricane Sandy	3,013,818	-	3,013,818	2,257,283	756,535	EO 53 (2012)
FY15	2015 Feb Winter/March Snow Storms	625,740	-	625,740	625,740	-	EO 38 (2015)
FY16	Severe Weather/Joaquin <sup>1</sup>	2,630,000	(800,000)	1,830,000	1,830,000	-	EO 48 (2015)
FY16	Winter Storm Jonas (2016 Snow Storm)	4,824,127	-	4,824,127	1,822,713	3,001,414	EO 51 (2016)
FY16	February 2016 Tornadoes <sup>1</sup>	623,681	-	623,681	623,681	-	EO 53 (2016)
FY16	Tazewell County Floods	167,615	-	167,615	75,674	91,941	Decision Brief signed 3/15/16
FY16	June 2016 Floods <sup>1</sup>	1,600,000	(1,000,000)	600,000	215,124	384,876	EO 56 (2016)
FY17	Hurricane Hermine <sup>1</sup>	550,000	-	550,000	265,817	284,183	EO 58 (2017)
FY 17	Hurricane Matthew	4,675,000	-	4,675,000	2,215,825	2,459,175	EO 60 (2017), Stafford Act
FY 17	Winter Storm Helena <sup>1</sup>	550,000	-	550,000	264,627	285,373	EO 62 (2017)
FY 17	March 2017 Winter Storm Stella <sup>1</sup>	250,000	-	250,000	100,391	149,609	EO 63 (2017)
FY 18	Charlottesville Unite the Right rally	600,000	-	600,000	535,424	64,576	EO 66 (2017)
FY 18	September 2017 Hurricane Harvey	100,000	-	100,000	-	100,000	EO 70 (2017)
FY 18	September 2017 Hurricane Irma	4,350,000	-	4,350,000	23,773	4,326,227	EO72 (2017)
FY 18	January 2018 Winter Storm Grayson (Snow)	550,000	-	550,000	-	550,000	EO 76 (2017)
FY 18	February 2018 Severe Weather (Floods)	900,000	-	900,000	8,153	891,847	EO 4 (2018)
FY 18	March 2018 Storm Riley (Wind)	250,000	-	250,000	388	249,612	EO 5 (2018)
FY 18	April 2018 Severe Weather	600,000	-	600,000	-	600,000	EO 7 (2018)
FY 18	May-June 2018 Severe Weather	300,000	-	300,000	-	300,000	EO 10 (2018)
<b>TOTALS</b>		<b>\$ 71,617,767</b>	<b>\$ (6,186,048)</b>	<b>\$ 65,431,719</b>	<b>\$ 48,361,659</b>	<b>\$ 17,070,060</b>	

**Notes:**

<sup>1</sup> Denotes disasters that have been closed since the June 30, 2018, year end report relinquishing \$1.4 million of the sum sufficient authorization.



# Known Funding Commitments / Risks

- **Major Employment and Investment (MEI) Project Approval Commission Obligations**
  - **Micron Technology, Inc. - \$70 million**
- **Virginia Retirement System (VRS) Investment Earnings**
- **Federal Actions**
  - Grants Funding
  - Budget
- **Agency Projects**
  - **VITA – Northrop Grumman Settlement / Transition - \$100 million**
  - DOA / DHRM – Human Resource System Replacement
  - Virginia State Police Communications – *Statewide Agencies Radio System (STARS)*
- **Transportation Funding**
- **Capital Allocation**
  - Priority
  - Deferred Maintenance
- **Hurricane Florence**
  - **September 11, 2018 - \$60 million (authorized)**

# Tax Conformity

## Certainty for 2018 Filing Season Is Critical

- Conformity means that Virginia generally adopts the federal definitions of income, such as any *above-the-line* modifications.
- Virginia does not currently conform to any Tax Cuts and Jobs Act (“TCJA”) provisions to the extent they are effective for Taxable Years 2018 and after.
- Virginia needs to advance the date of conformity to December 31, 2018 so that the 2019 filing season can begin.
- Once the date of conformity is advanced, other policy adjustments (*if any*) to Virginia law can be discussed to adjust for changes in federal law.
- Taxpayers, tax practitioners, and software vendors have historically assumed that Virginia will advance its date of conformity each year. Taxpayers will begin filing their 2018 income tax returns in January 2019.
- Failure to enact timely conformity legislation would negatively impact many constituents, including hundreds of thousands of individual taxpayers.
- In addition, if Virginia fails to advance the date of conformity:
  - Individuals would be required to complete additional forms to make up to 20 complex modifications on their Taxable Year 2018 returns.
  - Businesses would be required to make up to 30 additional modifications.

# Impact of Decomforming (Not Conforming) from the Tax Cuts and Jobs Act (TCJA)

## Estimated Impact (Taxable Year 2018)

	Conform to TCJA	Deconform from TCJA
<b>*Individual Provisions</b>	<b>\$376.2 million</b>	<b>\$181.6 million</b>

*\*Estimates run through the Chainbridge model; includes impact to both residents and non-residents.*

### Other Considerations:

- Additional individual tax preparations costs
- Increased Department of Taxation compliance costs