

Economic and Revenue Update

A Briefing for the Money Committees

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Topics for Discussion

- National and State Economic Indicators
- May Year-to-Date Revenue Collections, Fiscal Year 2021
- Next Steps
- Revenue Surplus Considerations

National and State Economic Indicators

- According to the second estimate, real GDP rose at an annualized rate of 6.4 percent in the first quarter of 2021, following 4.3 percent in the fourth quarter of 2020.
- Payroll employment rose by 559,000 jobs in May.
 - The leisure and hospitality sector contributed the largest gain.
- The national unemployment rate fell from 6.1 to 5.8 percent in May.
- Initial claims for unemployment fell from 405,000 to 385,000 during the week ending May 29, the lowest level since the pandemic began, although still above the pre-pandemic average.
- The Conference Board's index of leading indicators rose 1.6 percent in April, stronger than expected, and follows a rise of 1.3 percent in March.
- The Conference Board's index of consumer confidence fell from 117.5 to 117.2 in May. The current conditions component improved and the expectations component declined for the month.
- The Institute of Supply Management index rose from 60.7 to 61.2 in May. It has remained above the expansionary threshold of 50.0 since June of last year.

National and State Economic Indicators

- The CPI rose 0.8 percent in April and stands 4.2 percent above April 2020.
 - Core inflation (excluding food and energy prices) rose 0.9 percent, and has increased 3.0 percent from last year.
- At its April 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 rose 7.7 percent in April compared with last year. Northern Virginia rose 8.2 percent; Hampton Roads employment rose 8.8 percent, and Richmond-Petersburg rose 5.7 percent.
- The seasonally adjusted unemployment rate fell 0.4 percentage point to 4.7 percent and stands 6.6 percentage points below April of last year.
- The Virginia Leading Index rose 0.8 percent in April after falling 0.5 percent in March.
 - All four components: auto registrations, future employment, initial unemployment claims, and the U.S. leading index improved for the month.
 - The indexes for all metro areas increased in April.

Federal Stimulus Funds Help Drive Economic Growth

Grant Funds

Authorizing Legislation	\$ in thousands
American Rescue Plan Act Total	\$13,908,995
CARES Act Total	\$7,889,888
Consolidated Appropriations Act Total	\$3,503,845
Coronavirus Preparedness and Response Act Total	\$18,464
Families First Coronavirus Response Act Total	\$360,744
Paycheck Protection Program and Health Care Enhancement Act Total	\$224,641
Other Grant Action	
Executive Action Total	\$720,800
TOTAL GRANT FUNDS	\$26,627,378

Non-Grant Funds

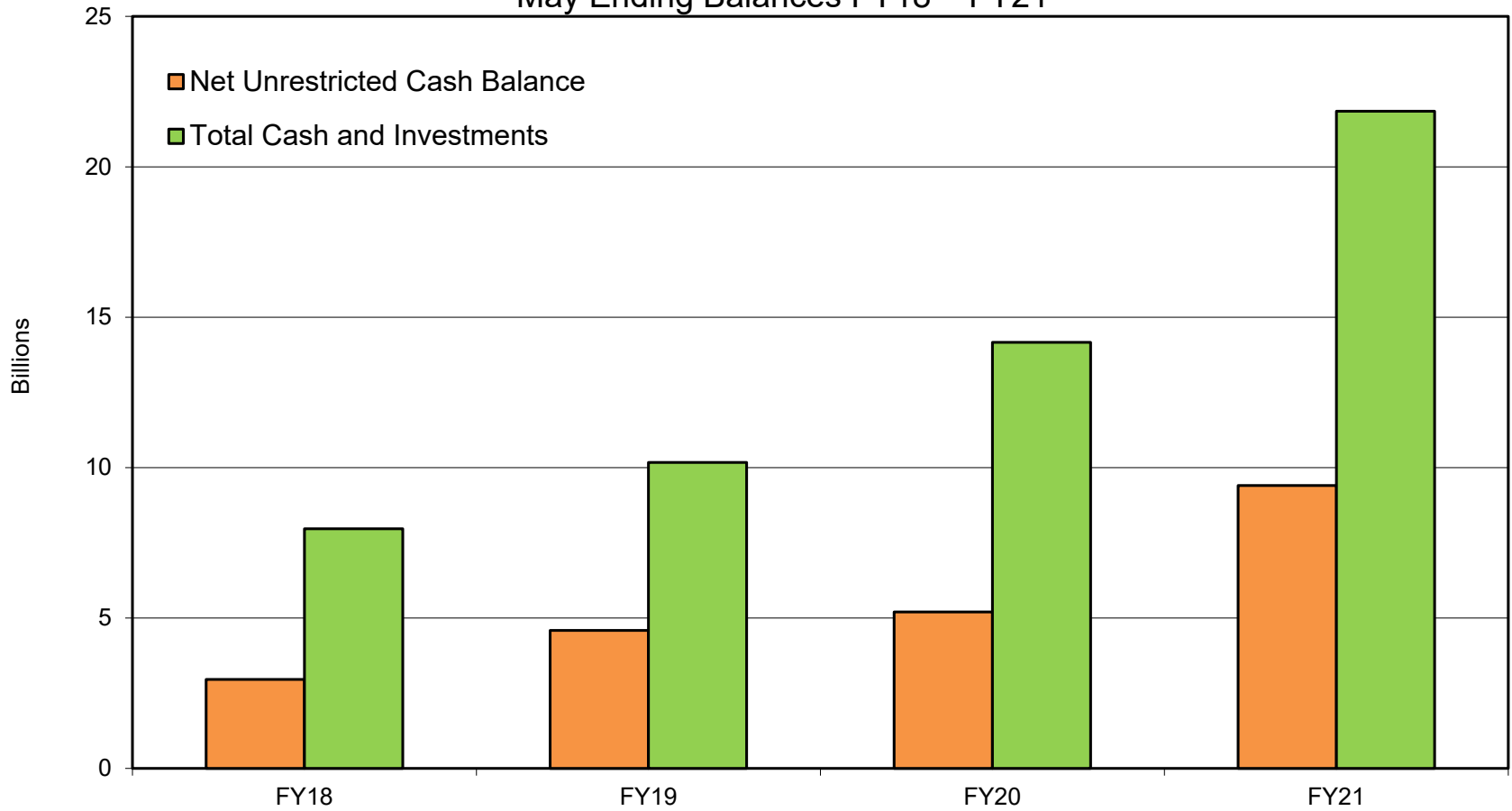
Authorizing Legislation	\$ in thousands
American Rescue Plan Act Total	\$9,323,938
CARES Act Total	\$41,805,507
CARES Act, Families First Coronavirus Response Act Total	\$316,545
TOTAL NON-GRANT FUNDS	\$51,445,990
GRAND TOTAL	\$78,073,368

Source: Federal Funds Information for States (FFIS), dated 6-8-2021

NOTE: Non-grant funds include unemployment payments, economic injury disaster loans, the majority of the paycheck protection program, economic impact payments, and the municipal liquidity facility notes (never used). Executive Actions are the Lost Wages Grants.

Monthly Cash and Investments

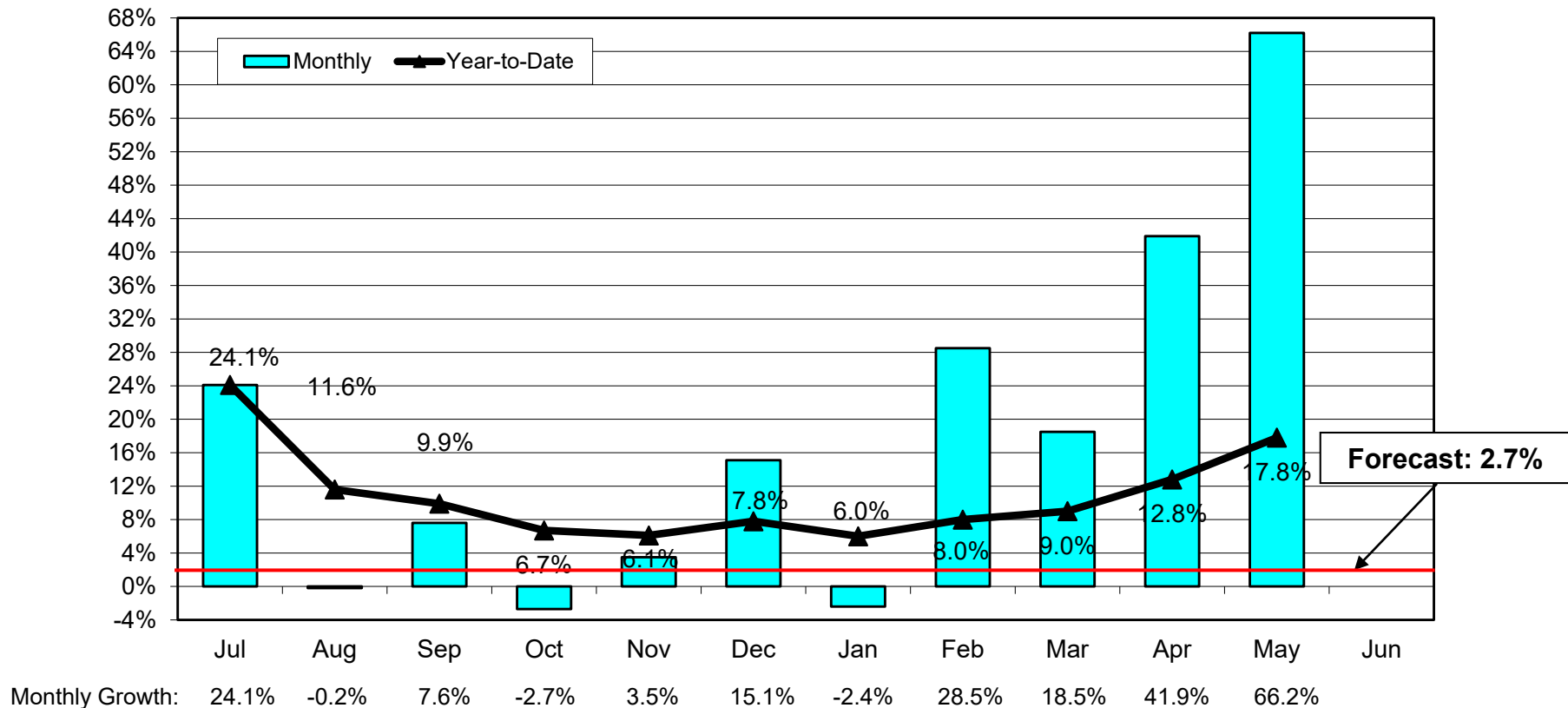
May Ending Balances FY18 – FY21



- Current net unrestricted cash balance of \$9.4 billion represents an 80.9% increase over the prior year (May 31).

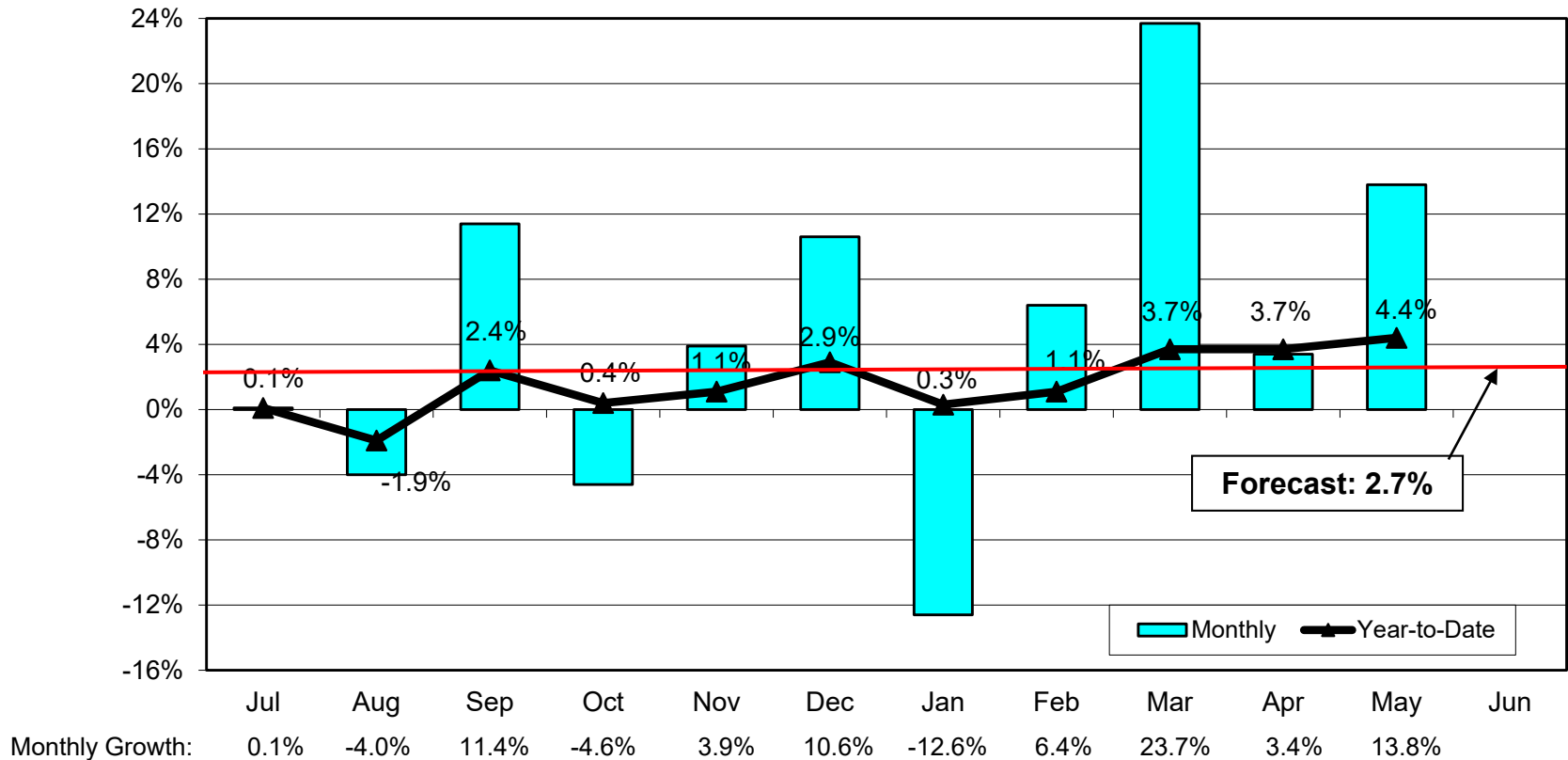
Growth in Total General Fund Revenue Collections

FY21 Monthly and Year-to-Date



- Total general fund revenues increased 66.2 percent in May.
 - Over 85 percent of the monthly increase is due to a return to having the individual income tax filing date in the month of May. Individual final payments normally due May 1 were due on May 17, matching the Federal due date, as compared to June 1 last year.
 - There were also strong receipts in withholding, sales and recordation taxes.
- On a year-to-date basis, total revenues increased 17.8 percent, ahead of the annual forecast of 2.7 percent growth.

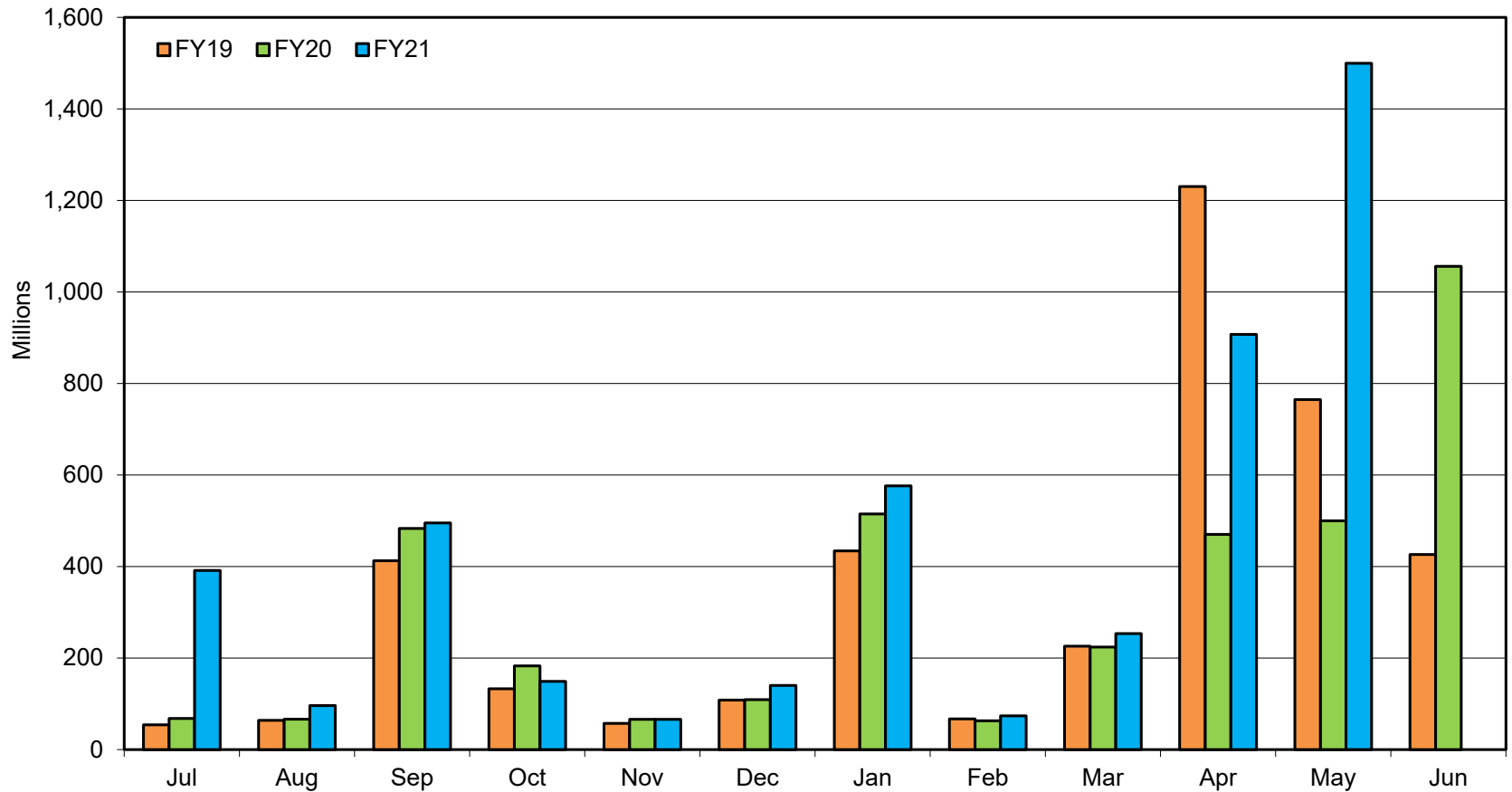
Growth in Withholding Tax Collections FY21 Monthly and Year-to-Date



- Collections increased 13.8 percent in May.
 - Growth was broad-based across all employers.
- Year-to-date, withholding collections have increased 4.4 percent compared with the same period last year, ahead of the projected annual growth of 2.7 percent.

Nonwithholding Tax Collections

FY19 – FY21 Monthly



- May receipts were up significantly as the May 1 filing date for final tax year 2020 was due May 17, matching the federal due date. Last year the due date was moved to June 1.
- There is no equivalent historical data to compare this year or last year for analysis.

Individual Income Tax Refunds

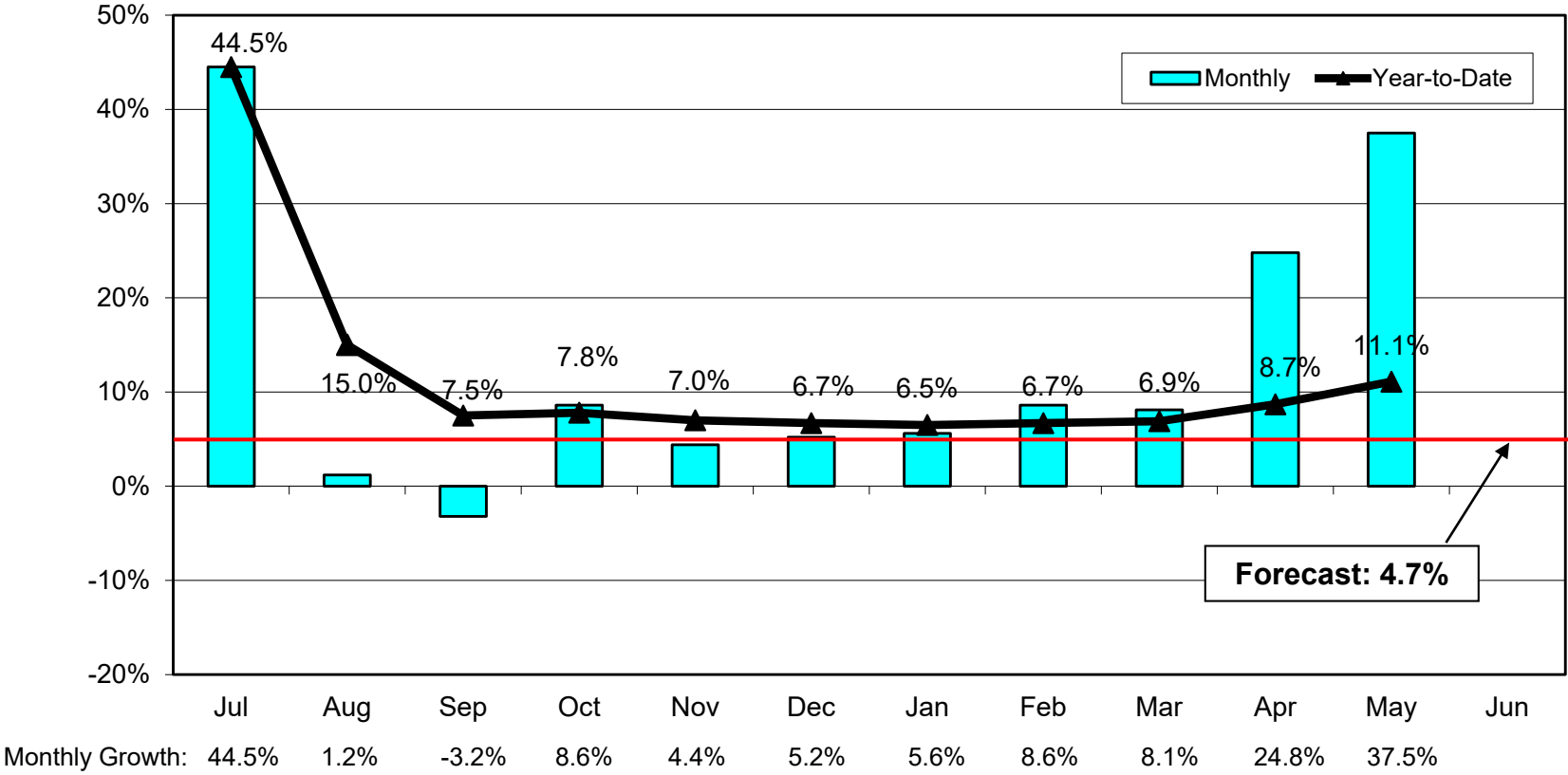
- Through May, TAX has issued \$1,815.7 million in individual refunds compared with \$1,695.9 million in the same period last year, a 7.1 percent increase as compared to the annual estimate of 23.7 percent growth.
- For the filing season, Tax has issued 2.3 million refunds – the same number as last year.
 - Average check size has increased about 2.0 percent.

Net Individual Income Tax

- Year-to-date collections of net individual income tax increased 17.5 percent from the same period last year, ahead of the annual estimate of 0.6 percent growth.

Growth in Sales Tax Collections

FY21 Monthly and Year-to-Date



- Collections of sales and use taxes, reflecting mainly April sales, increased 37.5 percent in May as parts of the economy are opening and price inflation is occurring.
 - Strength in sales tax collections were broad-based, except for grocery store sales as there was no hoarding of groceries like there was last April.
- On a year-to-date basis, collections increased 11.1 percent, ahead of the annual estimate of 4.7 percent growth.

Net Corporate Income Tax Collections

- This is not a significant month.
- On a year-to-date basis, collections in this source have increased 60.1 percent, ahead of the estimate of 27.4 percent growth.

Recordation Tax Collections

- Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – increased 46.2 percent in May.
 - On a year-to-date basis, collections have increased 41.1 percent as compared to the forecast of a 24.4 percent increase.

Insurance Premiums Tax

- This is not a significant month.
- For the fiscal year-to-date, net insurance premiums tax collections are \$242.0 million compared with \$229.7 million during the same period last year.

Summary of Fiscal Year 2021 Revenue Collections Chapter 552 Forecast

July through May

Percent Growth over Prior Year

Major Source	As a % of Total Revenues	YTD Actual	Annual Estimate	Variance	Jun Req'd to Meet Est.	Prior Year Jun
Withholding	61.6 %	4.4 %	2.7 %	1.7 %	(15.6) %	2.3 %
Nonwithholding	17.8	69.2	4.4	64.8	(164.2)	147.8
Refunds	(10.2)	7.1	23.7	(16.6)	233.1	42.5
Net Individual	69.2	17.5	0.6	16.9	(107.3)	42.1
Sales	17.4	11.1	4.7	6.4	(39.1)	(7.8)
Corporate	5.8	60.1	27.4	32.7	(83.3)	32.0
Wills (Recordation)	2.7	41.1	24.4	16.7	(129.1)	21.3
Insurance	1.4	5.4	(12.7)	18.1	(44.3)	1.9
All Other Revenue	3.5	(2.6)	(4.0)	1.4	(11.4)	9.1
Total	100.0 %	17.8 %	2.7 %	15.1 %	(88.7) %	26.8 %
Total less Nonwithholding and Corporate		6.3 %	0.8 %	5.5 %	(45.2) %	(1.8) %

- Due to the return of normal filing dates, outside the May 17 filing date for individual income tax payments, a meaningful comparison will not be available until preliminary close.

Next Steps

- **June**
 - Individual, corporate and insurance companies have their second estimated payment due June 15.
 - Accelerated Sales Tax (AST) bill is due on June 30 and is expected to generate almost \$200 million in general fund revenues.

What Happens When There Is A General Fund Revenue Surplus?

What Happens When There Is A General Fund Revenue Surplus?

- A general fund revenue surplus becomes part of the year end balances and is subject to specific adjustments provided in the Constitution and state law, as well as other accounting requirements.
- The adjustments are part of the process that involves multiple calculations made to prepare the Commonwealth's balance sheet for the year end.
- A surplus in "*certified tax revenues*" (income and sales tax) may trigger requirements for deposits into the **Revenue Stabilization Fund** or the **Revenue Reserve Fund**.

Several Key Provisions Govern the Disposition of a General Fund Surplus

- **Article X, Section 8, Constitution of Virginia**
Limit of tax or revenue; Revenue Stabilization Fund
- **§ 2.2-1829, Code of Virginia**
Reports of Auditor of Public Accounts; Fund deposits and withdrawals.
- **§ 2.2-1831.3, Code of Virginia**
Commitment of funds for Revenue Reserve Fund.
- **§ 10.1-2128, Code of Virginia**
Virginia Water Quality Improvement Fund established; purposes.
- **§ 2.2-1514, Code of Virginia**
Commitment of general fund for nonrecurring expenditures.
- There are other situation-based adjustments that are part of the balance sheet calculations that may claim portions of the surplus such as authorized deficits or sum sufficient liabilities for natural disasters.

Revenue Stabilization Fund: Constitutional Deposit Provision

Article X. Taxation and Finance

Section 8. Limit of tax or revenue; Revenue Stabilization Fund

The General Assembly shall establish the Revenue Stabilization Fund. ***The Fund shall consist of an amount not to exceed fifteen percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales*** as certified by the Auditor of Public Accounts for the three fiscal years immediately preceding. The Auditor of Public Accounts shall compute the fifteen percent limitation of such fund annually and report to the General Assembly not later than the first day of December. ***"Certified tax revenues" means the Commonwealth's annual tax revenues derived from taxes on income and retail sales as certified by the Auditor of Public Accounts.***

The General Assembly shall make deposits to the Fund to equal at least fifty percent of the product of the certified tax revenues collected in the most recently ended fiscal year times the difference between the annual percentage increase in the certified tax revenues collected for the most recently ended fiscal year and the average annual percentage increase in the certified tax revenues collected in the six fiscal years immediately preceding the most recently ended fiscal year.

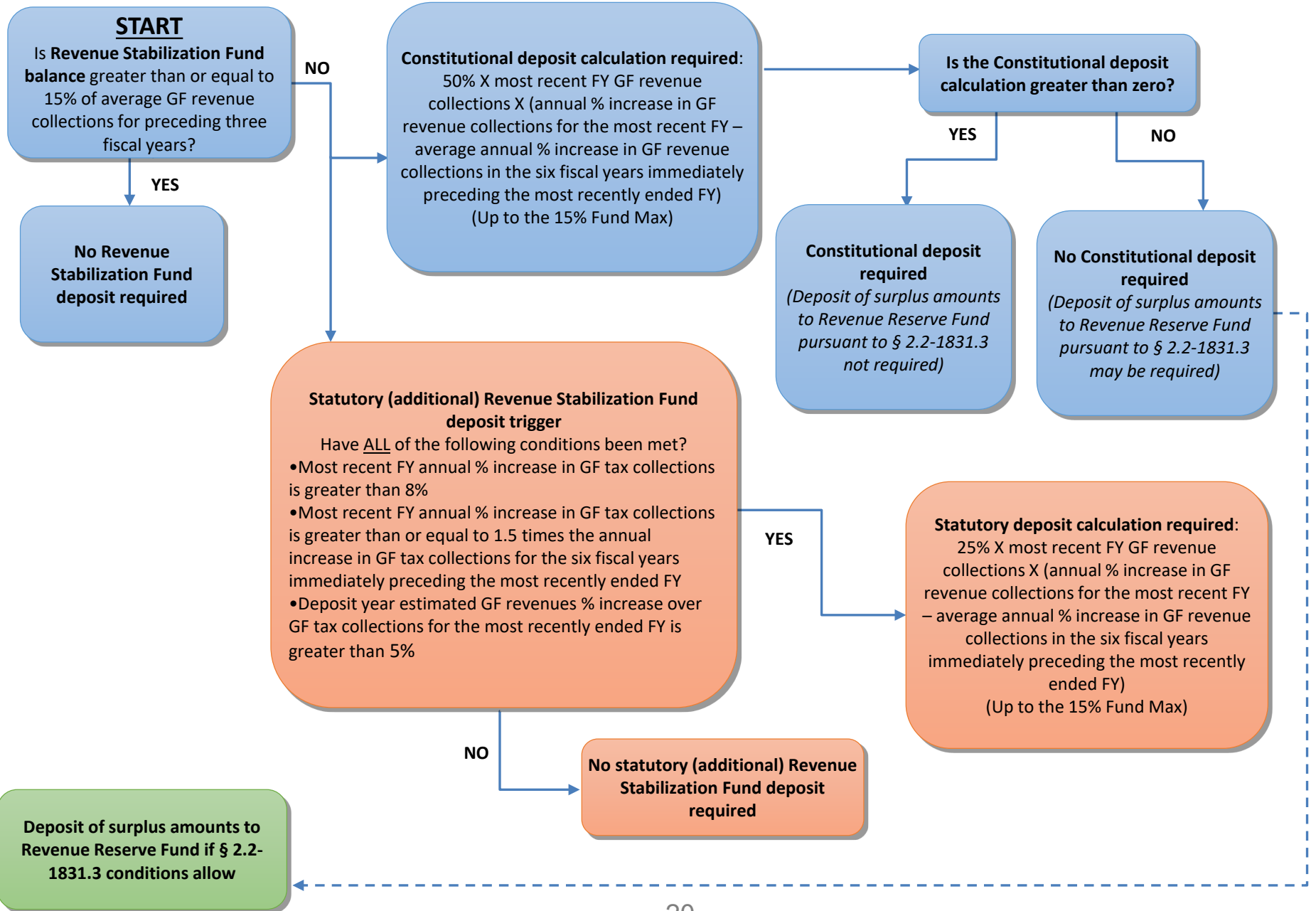
Revenue Stabilization Fund: Statutory Deposit Provision

(commonly known as the “super-deposit”)

§ 2.2-1829. Reports of Auditor of Public Accounts; Fund deposits and withdrawals.

B. If the report of the Auditor of Public Accounts, pursuant to subsection A, indicates that the annual percentage increase in the certified tax revenues collected in the most recently ended fiscal year is ***eight percent or greater than the certified tax revenues collected for the immediately preceding fiscal year and that such annual percentage increase in the certified tax revenues for the most recently ended fiscal year is also equal to or greater than 1.5 times the average annual percentage increase in the certified tax revenues collected in the six fiscal years immediately preceding the most recently ended fiscal year***, the Governor shall include in his budget recommendations, submitted to the General Assembly in the subsequent session pursuant to § [2.2-1509](#), an additional amount for deposit to the Fund in excess of any mandatory deposit to the Fund required by Article X, Section 8 of the Constitution of Virginia. Such additional amount shall be equal to at least 25 percent of the product of the certified tax revenues collected in the most recently ended fiscal year multiplied by the difference between the annual percentage increase in the certified tax revenues collected for the most recently ended fiscal year and the average annual percentage increase in the certified tax revenues collected in the six fiscal years immediately preceding the most recently ended fiscal year. ***Any such additional deposits to the Fund shall be included in the Governor's budget recommendations submitted to the General Assembly in the subsequent session pursuant to § [2.2-1509](#) only if the estimate of general fund revenues prepared in accordance with § [2.2-1503](#) for the fiscal year in which the deposit is to be made is at least five percent greater than the actual general fund revenues for the immediately preceding fiscal year.***

Deposit of Year-End Surplus to the Revenue Stabilization Fund



After Determining the Required Deposits to the Revenue Stabilization Fund, the *Water Quality “Part A”* Deposit Must Be Calculated

§ 10.1-2128. Virginia Water Quality Improvement Fund established; purposes.

A. There is hereby established in the state treasury a special permanent, nonreverting fund, to be known as the "Virginia Water Quality Improvement Fund." The Fund shall be established on the books of the Comptroller. The Fund shall consist of sums appropriated to it by the General Assembly which shall include, **unless otherwise provided in the general appropriation act, 10 percent of the annual general fund revenue collections that are in excess of the official estimates in the general appropriation act** and 10 percent of any unrestricted and uncommitted general fund balance at the close of each fiscal year whose reappropriation is not required in the general appropriation act. The Fund shall also consist of such other sums as may be made available to it from any other source, public or private, and shall include any penalties or damages collected under this article, federal grants solicited and received for the specific purposes of the Fund, and all interest and income from investment of the Fund. Any sums remaining in the Fund, including interest thereon, at the end of each fiscal year shall not revert to the general fund but shall remain in the Fund. All moneys designated for the Fund shall be paid into the state treasury and credited to the Fund. Moneys in the Fund shall be used solely for Water Quality Improvement Grants. Expenditures and disbursements from the Fund shall be made by the State Treasurer on warrants issued by the Comptroller upon the written request of the Director of the Department of Environmental Quality or the Director of the Department of Conservation and Recreation as provided in this chapter.

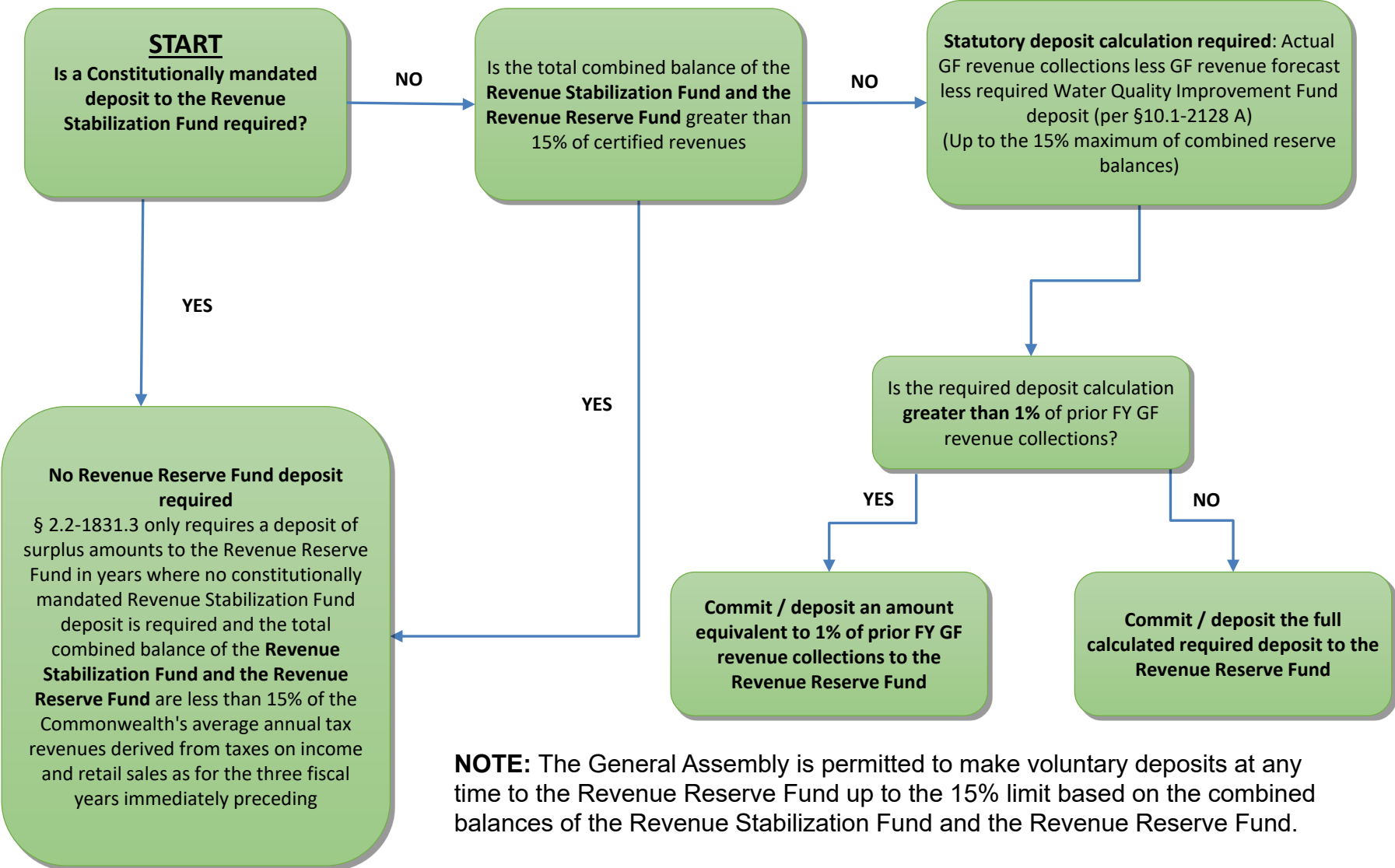
By Law, If the Surplus Does Not Trigger a Deposit to the Revenue Stabilization Fund, a Deposit to the Revenue Reserve May Be Required

§ 2.2-1831.3. Commitment of funds for Revenue Reserve Fund.

B. Whenever there is a fiscal year in which general fund revenues do not result in a mandatory deposit to the Revenue Stabilization Fund required by Article X, Section 8 of the Constitution of Virginia, the Comptroller shall, at the end of the fiscal year, commit within his annual report pursuant to § [2.2-813](#) ***the amount of the general fund revenue in excess of the official forecast for that prior fiscal year, less any deposit to the Virginia Water Quality Improvement Fund pursuant to subsection A of § [10.1-2128](#), for deposit into the Fund.*** Such amount committed for deposit into the Fund shall not exceed one percent of the total general fund revenues for the prior fiscal year.

F. At no time shall the combined amount in the Fund and the Revenue Stabilization Fund created pursuant to § [2.2-1828](#) exceed 15 percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales as certified by the Auditor of Public Accounts for the three fiscal years immediately preceding.

Deposit of Year-End Surplus to the Revenue Reserve Fund



Water Quality “Part B” Deposit

Must Be Calculated After Determining the Required Deposits to the Revenue Stabilization Fund, the Revenue Reserve Fund, *Water Quality “Part A”* – and Other Restrictions and Commitments

§ 10.1-2128. Virginia Water Quality Improvement Fund established; purposes.

A. There is hereby established in the state treasury a special permanent, nonreverting fund, to be known as the "Virginia Water Quality Improvement Fund." The Fund shall be established on the books of the Comptroller. The Fund shall consist of sums appropriated to it by the General Assembly which shall include, unless otherwise provided in the general appropriation act, 10 percent of the annual general fund revenue collections that are in excess of the official estimates in the general appropriation act and **10 percent of any unrestricted and uncommitted general fund balance at the close of each fiscal year whose reappropriation is not required in the general appropriation act.** The Fund shall also consist of such other sums as may be made available to it from any other source, public or private, and shall include any penalties or damages collected under this article, federal grants solicited and received for the specific purposes of the Fund, and all interest and income from investment of the Fund. Any sums remaining in the Fund, including interest thereon, at the end of each fiscal year shall not revert to the general fund but shall remain in the Fund. All moneys designated for the Fund shall be paid into the state treasury and credited to the Fund. Moneys in the Fund shall be used solely for Water Quality Improvement Grants. Expenditures and disbursements from the Fund shall be made by the State Treasurer on warrants issued by the Comptroller upon the written request of the Director of the Department of Environmental Quality or the Director of the Department of Conservation and Recreation as provided in this chapter.

§ 2.2-1514, Code of Virginia

Requires Commitment of Certain General Fund Balances for Nonrecurring Expenditures, Including Transportation

B. At the end of each fiscal year, the Comptroller shall commit within his annual report pursuant to § [2.2-813](#) as follows: **67 percent of the remaining amount of the general fund balance that is not otherwise restricted, committed, or assigned for other usage within the general fund shall be committed by the Comptroller for deposit into the Commonwealth Transportation Fund established pursuant to § [33.2-1524](#) or a subfund thereof, and the remaining amount shall be committed for nonrecurring expenditures.** No such commitment shall be made unless the full amounts required for other restrictions, commitments, or assignments including but not limited to (i) the Revenue Stabilization Fund deposit pursuant to § [2.2-1829](#), (ii) the Virginia Water Quality Improvement Fund deposit pursuant to § [10.1-2128](#), but excluding any deposits provided under the Virginia Natural Resources Commitment Fund established under § [10.1-2128.1](#), (iii) capital outlay reappropriations pursuant to the general appropriation act, (iv) (a) operating expense reappropriations pursuant to the general appropriation act, and (b) reappropriations of unexpended appropriations to certain public institutions of higher education pursuant to § [23.1-1002](#), (v) pro rata rebate payments to certain public institutions of higher education pursuant to § [23.1-1002](#), (vi) the unappropriated balance anticipated in the general appropriation act for the end of such fiscal year, (vii) interest payments on deposits of certain public institutions of higher education pursuant to § [23.1-1002](#), and (viii) the Revenue Reserve Fund deposit pursuant to § [2.2-1831.2](#) are set aside. The Comptroller shall set aside amounts required for clauses (iv) (b), (v), and (vii) beginning with the initial fiscal year as determined under § [23.1-1002](#) and for all fiscal years thereafter.

Any Surplus in Excess of \$439.2 Million Will Trigger a Revenue Stabilization Fund Deposit

Sample based on an assumed surplus of \$1.0 billion in certified revenue

Forecast of Certified Revenues (income and retail sales taxes)	\$	21,035,600,000
Estimated Surplus from certified revenues	\$	1,000,000,000
Estimated total certified revenues for FY 2021	\$	22,035,600,000

Revenue Stabilization Fund

Annual growth in FY 2021 based on \$1 billion surplus	7.62%
Six-year average annual growth in certified revenues	4.88%

Growth in excess of six-year average	2.74%
50% of excess growth	1.37%
Estimated Required Revenue Stabilization Fund Deposit	\$ 301,735,834

Revenue Reserve Fund

Revenue growth in excess of forecast up to 1% of general fund revenue	Not Required
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Water Quality “Part A”

10% of revenue surplus	\$ 100,000,000
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Water Quality “Part B”

10% of balances not restricted, committed, or assigned - assumes no other balance sheet requirements have to be met	TBD
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Total of Revenue Stabilization Fund and Water Quality (Parts A and B) \$ 401,735,834

Non-recurring funds

Transportation - 2/3 of remaining balance after Water Quality B	TBD
Other non-recurring - 1/3 of remaining balance after Water Quality B	TBD

Note: There may be other adjustments that would have to be included in an actual year-end calculation.