



MID-SESSION REVENUE REVIEW

A BRIEFING FOR GOVERNOR YOUNGKIN

February 18, 2022

SUMMARY: IHS MARKIT RAISES CURRENT YEAR FORECAST BUT EXPECTS GROWTH TO MODERATE

- Real GDP growth estimates were revised upward in the current fiscal year, but growth is expected to slow in FY 2023 and 2024.
 - Consumer spending remains strong due to gains in household wealth and in personal income, but growth is projected to decelerate going forward.
 - The biggest risks are additional COVID variant outbreaks, inflation, labor participation rates, and supply chain issues.
- In Virginia, the forecast for wage growth in FY 2022 was revised upward, while total personal income projections were lowered as the stimulative effects of federal COVID relief measures wane.
- Employment growth projections – both for the U.S. and Virginia – increased in FY 2022 but were lowered for FY 2023 and 2024.

ECONOMIC OUTLOOK UNCHANGED

Key U.S. and Virginia Economic Indicators October 2021 and January 2022 Forecasts

U.S.	21	22	23	24	Virginia	21	22	23	24
Real GDP					Employment				
Oct '21 Official	1.6	4.5	3.7	2.6	Oct '21 Official	(2.5)	2.8	1.1	0.8
Jan '22 Standard		4.8	3.3	2.4	Jan '22 Standard		2.9	1.0	0.3
Consumer Spending					Personal Income				
Oct '21 Official	2.9	5.3	2.7	2.6	Oct '21 Official	6.2	4.6	3.9	4.3
Jan '22 Standard		5.8	2.5	2.4	Jan '22 Standard		3.8	4.7	4.4
Employment					Wages & Salaries				
Oct '21 Official	(2.8)	4.2	2.7	1.3	Oct '21 Official	4.6	6.4	5.3	4.6
Jan '22 Standard		4.5	2.3	0.8	Jan '22 Standard		7.1	5.6	4.4
Personal Income					Average Wage				
Oct '21 Official	7.2	1.0	4.4	5.1	Oct '21 Official	7.2	3.5	4.2	3.7
Jan '22 Standard		2.3	4.3	4.9	Jan '22 Standard		4.1	4.6	4.1

WE ARE RECOMMENDING A FY 2022 TOTAL GENERAL FUND INCREASE OF \$1.25 BILLION – *HERE IS WHY...*

- The major sources have shown unprecedented strength during the first seven months of the fiscal year.
- All changes reflect “*money in the bank*” adjustments.
- Significant uncertainty remains with respect to FY 2023 and 2024; therefore, no adjustments to the forecast are recommended beyond the current fiscal year at this time.

RECOMMENDED CHANGE TO THE REVENUE FORECAST

The December to February General Fund Forecast for Fiscal Year 2022
(Dollars in Millions)

2/18/2022

Major Sources	Fiscal Year 2021		Fiscal Year 2022				
	Actual	% Growth	December	February	Change	% Growth Over FY21	
			December	February	Change	December	February
Withholding	\$14,012.9	4.7 %	\$14,838.7	\$15,267.2	\$428.5	5.9 %	9.0
Nonwithholding	5,217.0	37.1	5,206.2	5,346.6	140.4	(0.2)	2.5
Refunds	(1,926.2)	5.2	(2,125.2)	(2,050.1)	75.1	10.3	6.4
Net Individual	\$17,303.7	12.7 %	\$17,919.7	\$18,563.7	\$644.0	3.6 %	7.3 %
Sales	\$4,166.2	12.4 %	\$4,427.8	\$4,640.4	\$212.6	6.3 %	11.4 %
Corporate	1,515.7	49.8	1,721.5	2,009.6	288.1	13.6	32.6
Wills (Recordation)	679.7	40.6	593.7	650.7	57.0	(12.6)	(4.3)
Insurance	363.1	0.7	394.3	419.3	25.0	8.6	15.5
All Other Revenue	\$ 850.1	3.2	874.7	874.7	0.0	2.9	2.9
Total Revenue	\$24,878.5	14.4 %	\$25,931.7	\$27,158.4	\$1,226.7	4.2 %	9.2 %
A.B.C. Profits	\$ 177.9	29.4 %	\$161.4	\$161.4	\$0.0	(9.3) %	(9.3) %
Sales Tax (0.375%)	458.4	12.9	487.3	510.7	23.4	6.3	11.4
Transfers	122.3	(23.8)	99.9	99.9	0.0	(18.3)	(18.3)
Total Transfers	\$ 758.6	7.8 %	\$748.6	\$772.0	\$23.4	(1.3) %	1.8 %
TOTAL GENERAL FUND	\$ 25,637.1	14.2 %	\$26,680.3	\$27,930.4	\$1,250.1	4.1 %	8.9 %

ANALYSIS BY SOURCE...

Withholding

- “*Money in the Bank*” through January due to growing 11.4 percent versus the annual forecast of 5.9 percent translates to picking up \$428.5 million.
- Maintain annual 5.9 percent growth in February to June – about half of last year’s pace.
- No significant change in economic outlook since GACRE.

Mid-Session Forecast	\$15,267.2
December Forecast	<u>\$14,838.7</u>
Additional Revenue	\$428.5

Sales and Use taxes

- “*Money in the Bank*” through January due to increasing 15.7 percent versus the annual forecast of 6.3 percent translates to picking up \$212.6 million.
- Maintain annual February to June will grow at 6.3 percent – significant slowdown from last year’s 20.3 percent.
- Federal direct stimulus checks substantially boosted consumer spending last spring.

Mid-Session Forecast	\$4,640.4
December Forecast	<u>\$4,427.8</u>
Additional Revenue	\$212.6

ANALYSIS BY SOURCE...

Corporate Income Taxes

- “*Money in the Bank*” through January due to increasing 55.0 percent versus the annual forecast of 13.6 percent translates to picking up \$288.1 million.
- Maintain annual February to June growth at 13.6 percent – significant slowdown from last year’s 60.0 percent.

Mid-Session Forecast	\$2,009.6
December Forecast	<u>\$1,721.5</u>
Additional Revenue	\$288.1

Individual Nonwithholding Income Tax

- “*Money in the Bank*” through January due to the first two estimated payments increasing ahead of forecast.
- Maintain annual 12.0 percent growth in May and June estimated payments.
- Maintain final payments declining by 8 percent since there are no additional data.
- Net nonwithholding income taxes are raised by \$140.4 million

Mid-Session Forecast	\$5,346.6
December Forecast	<u>\$5,206.2</u>
Additional Revenue	\$140.4

ANALYSIS BY SOURCE (CONTINUED)...

Individual Income Tax Refunds

- The completion of tax year 2020 extension refunds was below expectations.
- Continue assumption that refunds during the February to June will increase 10.3 percent.
- \$75.1 million fewer refunds are expected to be issued.
- Lower amount of refunds issued increases the bottom line.

Mid-Session Forecast	\$2,050.1
December Forecast	<u>\$2,125.2</u>
Additional Revenue	(\$75.1)

Wills (Recordation) and Insurance Premiums Taxes

- “*Money in the Bank*” through January as both sources performed better than expected.
- Recordation taxes increased 3.0 percent for the first 7 months and continue to assume a 12.6 percent decline in the spring.
 - \$57.0 million pick-up
- Insurance premium tax payments and refunds were a net \$75.3 million through January, as estimated payments increased and refunds were lower than expectations.
 - \$25.0 million pick-up
- Maintain annual GACRE-approved growth rates for the remaining 5 months of the fiscal year.

SUMMARY OF FISCAL YEAR 2022 REVENUE COLLECTIONS

MID-SESSION FORECAST

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	56.2 %	11.4 %	9.0 %	2.4 %	5.9 %	11.0 %
Nonwithholding	19.7	8.1	2.5	5.6	(0.8)	42.7
Refunds	(7.5)	(25.2)	6.4	(31.6)	17.8	(1.3)
Net Individual	68.4	12.7	7.3	5.4	1.0	25.2
Sales	17.1	15.7	11.4	4.3	6.3	20.3
Corporate	7.4	55.0	32.6	22.4	13.7	60.0
Wills (Recordation)	2.4	3.0	(4.3)	7.3	(14.0)	44.9
Insurance	1.5	63.2	15.5	47.7	8.5	3.3
All Other Revenue	3.2	13.0	2.9	10.1	(4.4)	13.4
Total	100.0 %	15.4 %	9.2 %	6.2 %	2.4 %	25.4 %
Total less Nonwithholding	80.3 %	16.6 %	10.9 %	5.7 %	3.6 %	19.8 %