VIRGINIA'S ECONOMIC OUTLOOK

A PRESENTATION FOR THE STATE COUNCIL OF HIGHER EDUCATION FOR VIRGINIA: BOARD OF VISITORS ORIENTATION

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TOPICS FOR DISCUSSION

ECONOMIC UPDATE

GENERAL FUND REVENUES

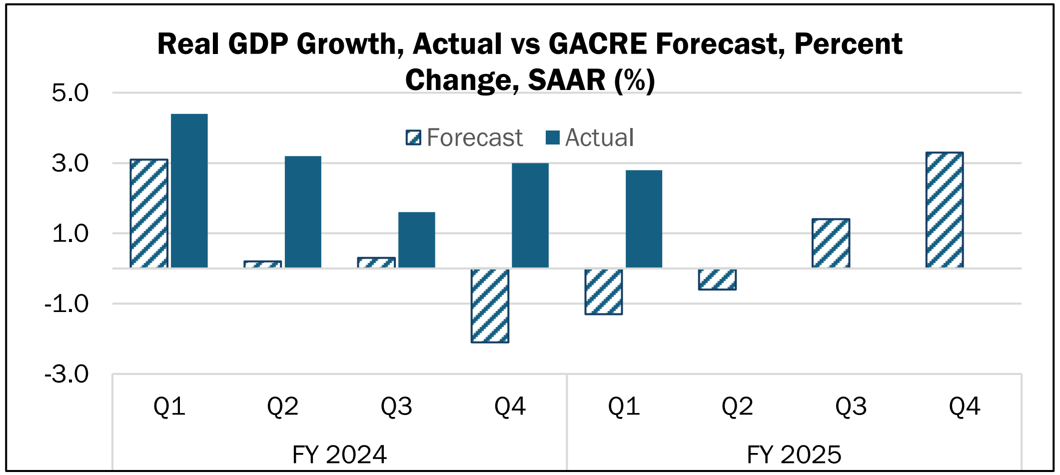
LOOKING AHEAD

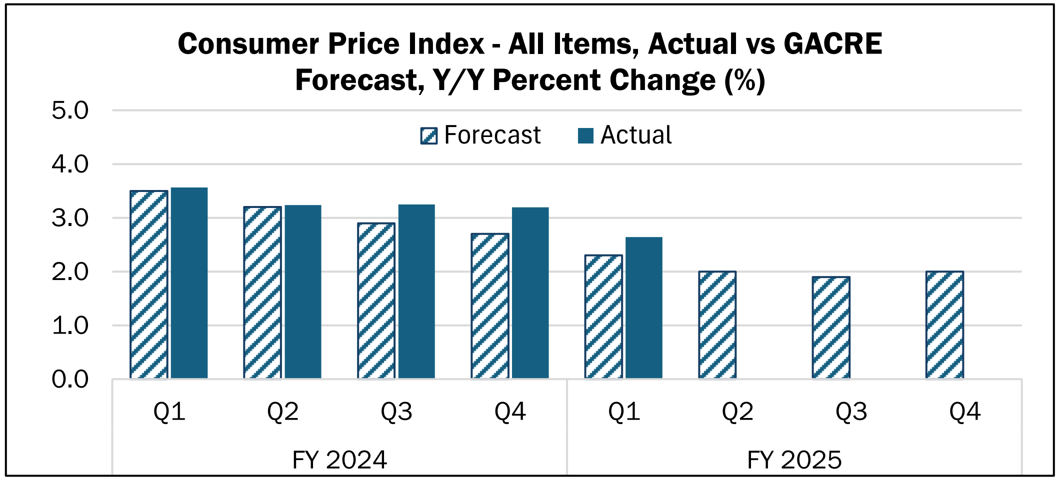
HIGHER ED BUDGET TRENDS

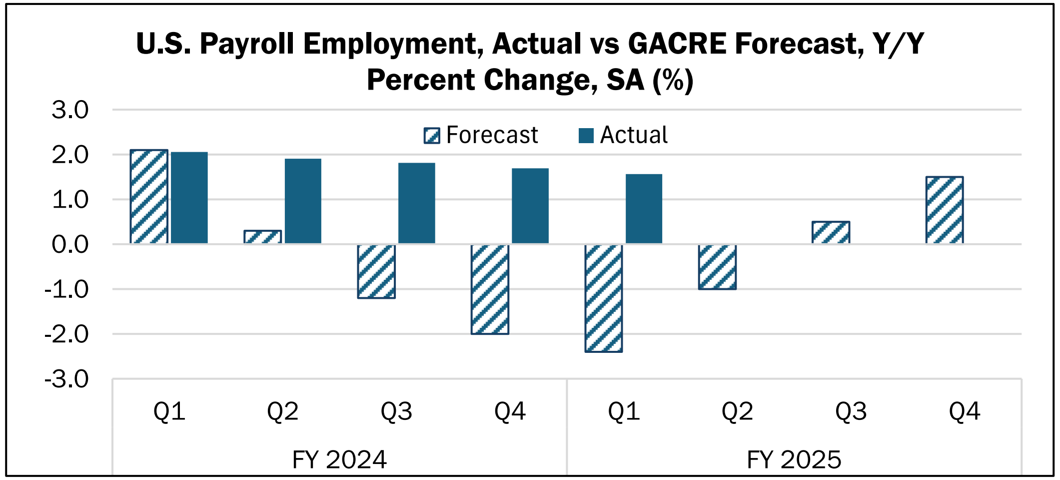
WITH RECESSION CONCERNS UNREALIZED, ECONOMIC GROWTH EXCEEDS EXPECTATIONS

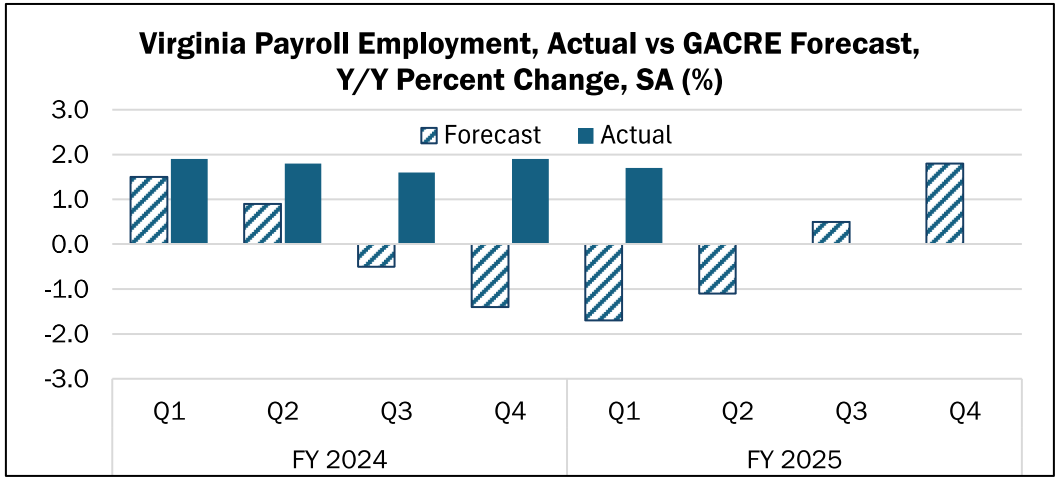
- Current budget is based upon the December 2023 forecast, which anticipated a mild recession in the following 12 months reflecting WSJ Economic Forecasting Survey and the input of a majority of GACRE participants.
- Persistently high inflation and interest rates, rising concerns about the consumer, a fear of a federal government shutdown, and rising geopolitical tensions led to a forecast of a recession starting in the second calendar quarter and lasting six to nine months.
- Economic performance remained stronger than anticipated with inflation slowing, jobs and wages growing and steady consumer demand resulting in significant outperformance.
- U.S. Real GDP increased at a rate of 2.8 percent in Q3 and 3.0 percent in Q2.
- September payroll employment in Virginia was 1.5 percent higher than prior year with an unemployment rate of 2.9 percent versus 4.1 percent for the U.S.
- Following September's 50 basis point cut, the Fed lowered rates by a further 25 basis points on November 7.

THE ECONOMY IS OUTPERFORMING CHAPTER 2 ASSUMPTIONS WHICH ANTICIPATED A RECESSION



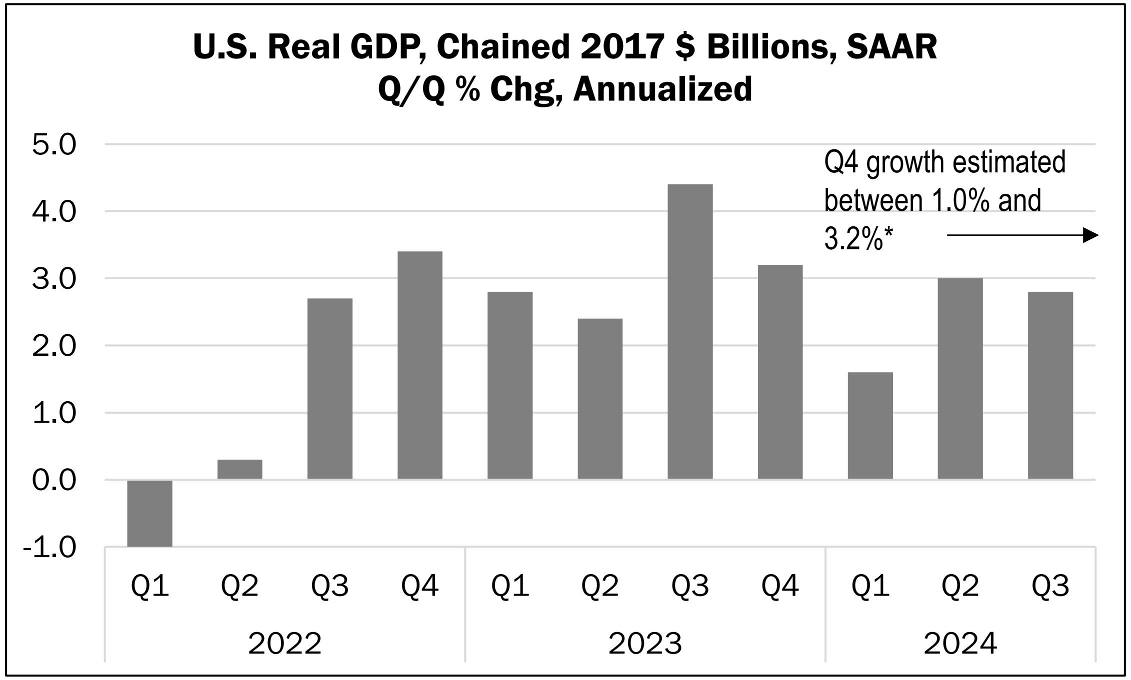




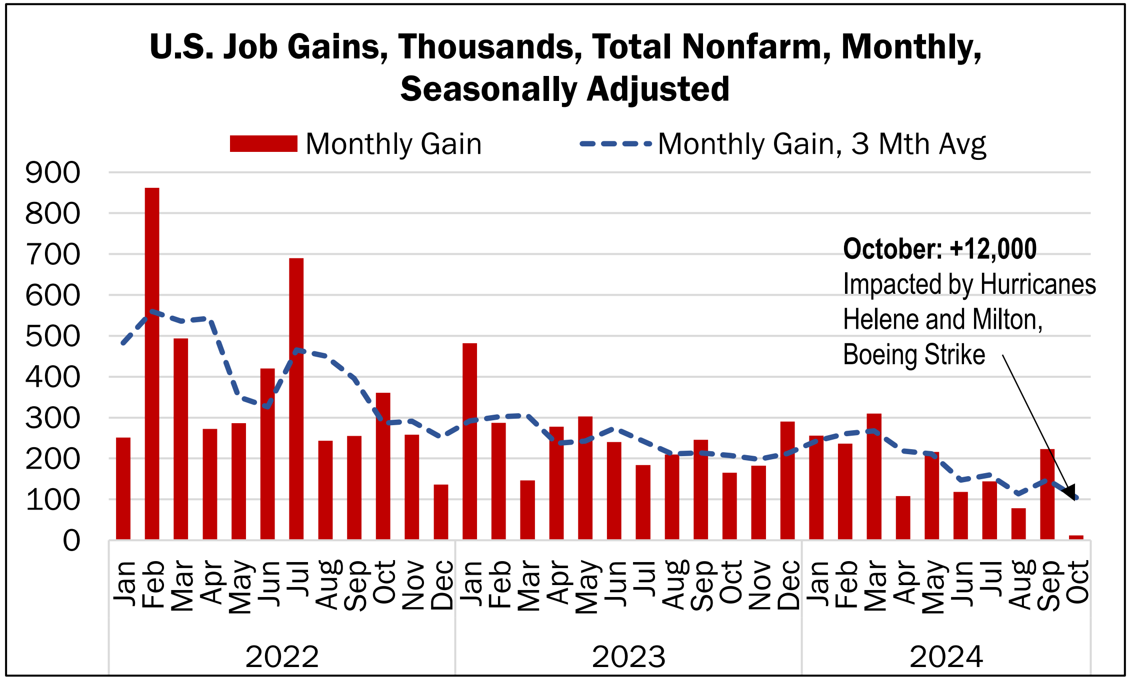


Sources: 2023 GACRE Economic Outlook, October Mild Recession Scenario; Moody's Analytics; Federal Reserve Bank of St. Louis; U.S. Bureau of Economic Analysis.

U.S. ECONOMY CONTINUES GROWING AT A HEALTHY PACE



Source: U.S. Bureau of Economic Analysis.*NY Fed Nowcast Estimates.

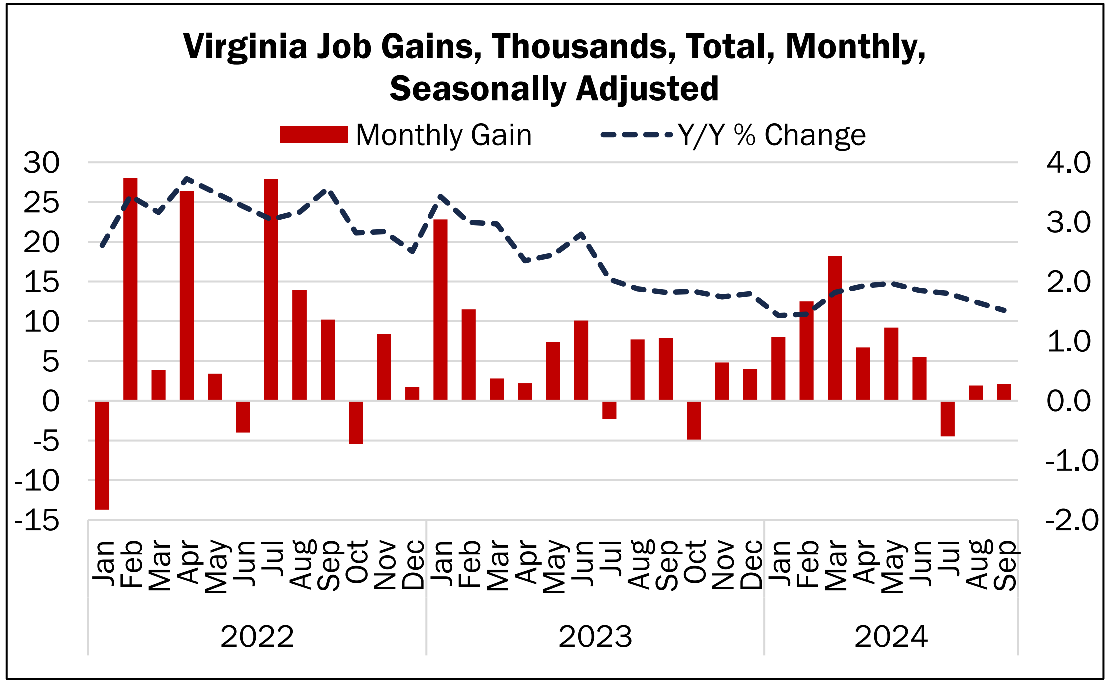


Source: US Bureau of Labor Statistics (Establishment Survey).

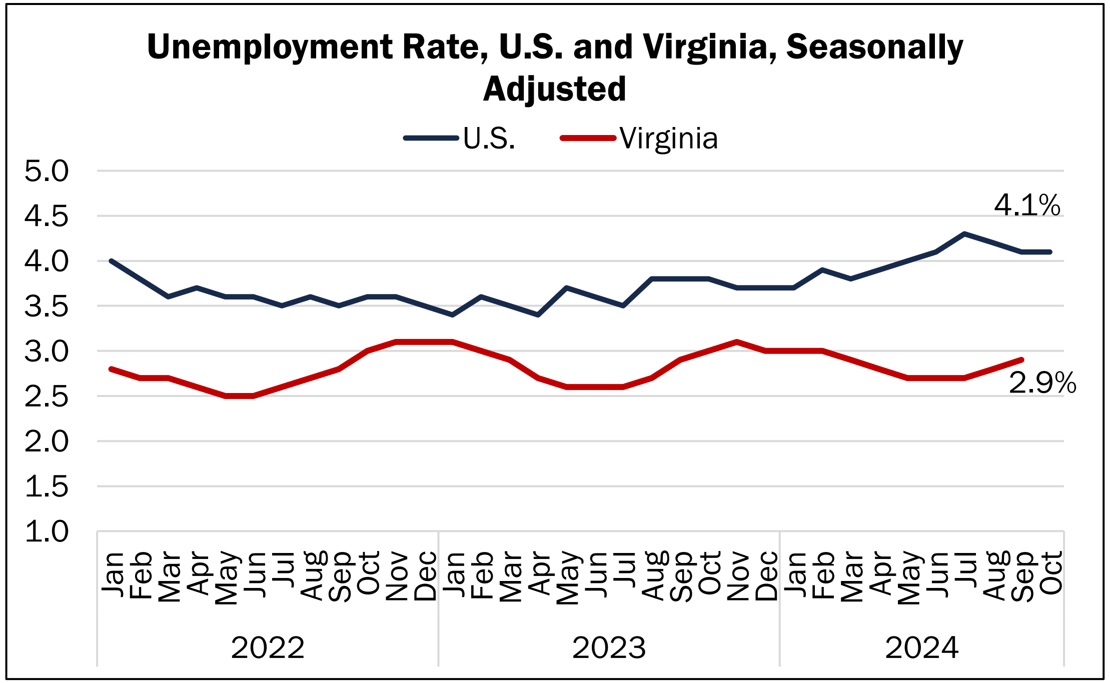
- Real GDP increased at an annual rate of 2.8 percent in Q3 2024 and 3.0 percent in Q2 of 2024.
- The October jobs report was weaker than expected, adding just 12,000 jobs for the month, but monthly results were heavily impacted by Hurricanes Helene and Milton, and the Boeing Strike, which combined subtracted an estimated 100,000 jobs from the monthly survey.** In addition, job gains for August and September were revised down by a total of 112,000.

***Moody's Analytics estimate.*

VIRGINIA EMPLOYMENT CONSISTENTLY GROWING AT 1.5 TO 2.0 PERCENT YEAR-OVER-YEAR, UNEMPLOYMENT WELL BELOW THE U.S.



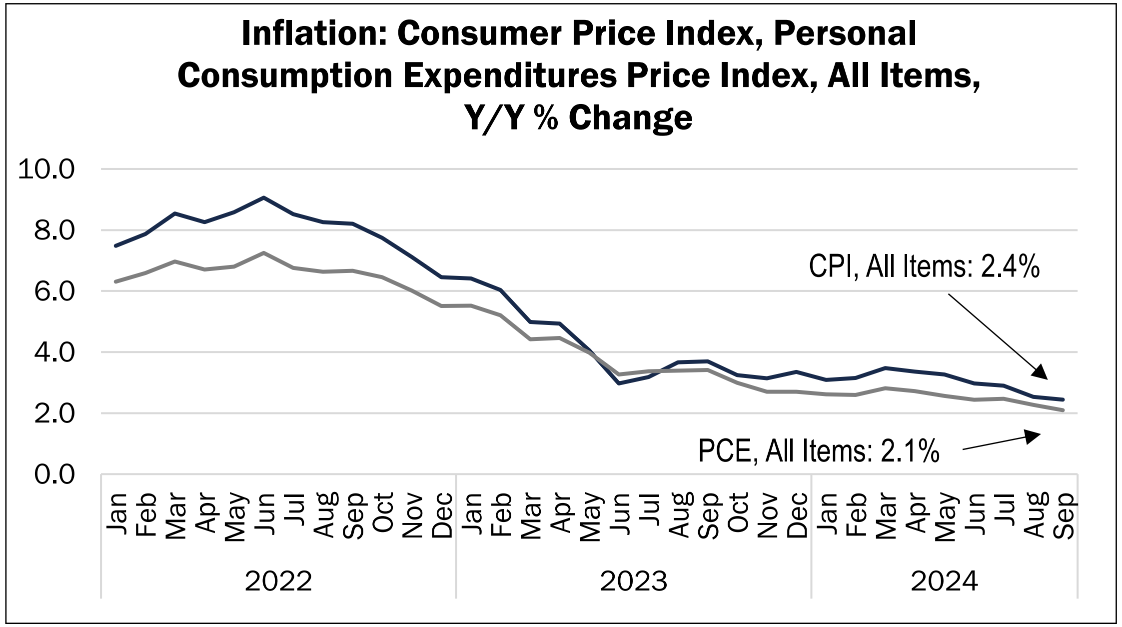
Source: US Bureau of Labor Statistics

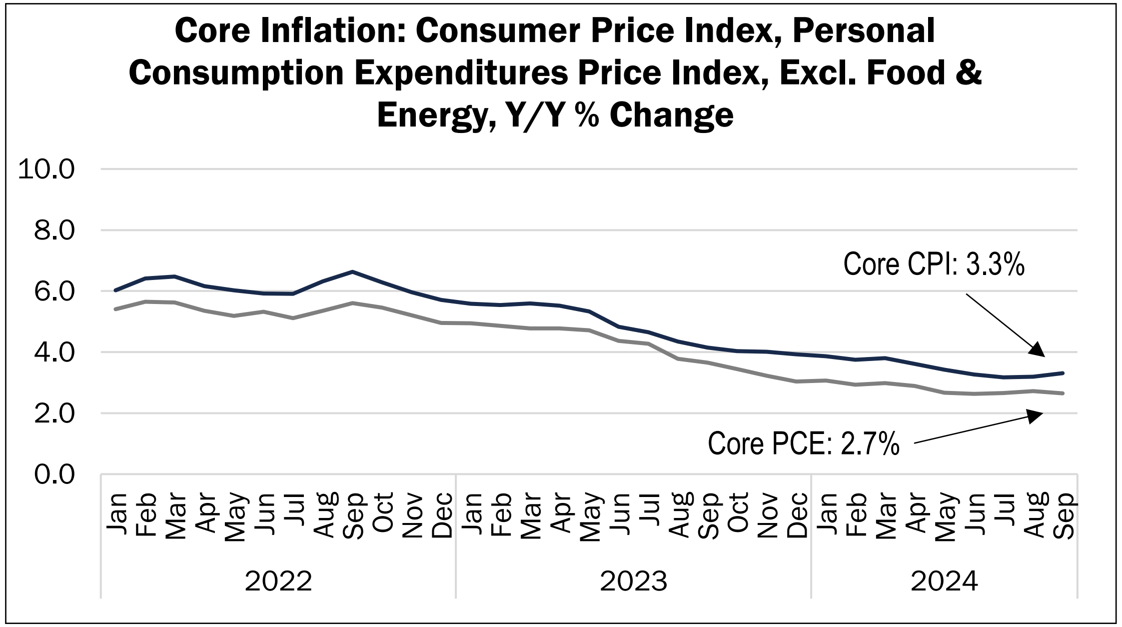


Source: US Bureau of Labor Statistics

- In September payroll employment in Virginia was 1.5 percent higher than prior year. Total nonagricultural employment, from the monthly establishment survey increased month-over-month by 2,100 to 4.25 million. Private sector employment increased by 1,200 while government employment increased by 900. The largest job gains occurred in Leisure and Hospitality (+2,200) and Professional and Business Services (+1,100).
- Virginia's unemployment rate increased slightly to 2.9 percent in September, 1.2 percentage points below the nationwide rate.

LONG-TERM INFLATION MEASURES CONTINUE TO MODERATE

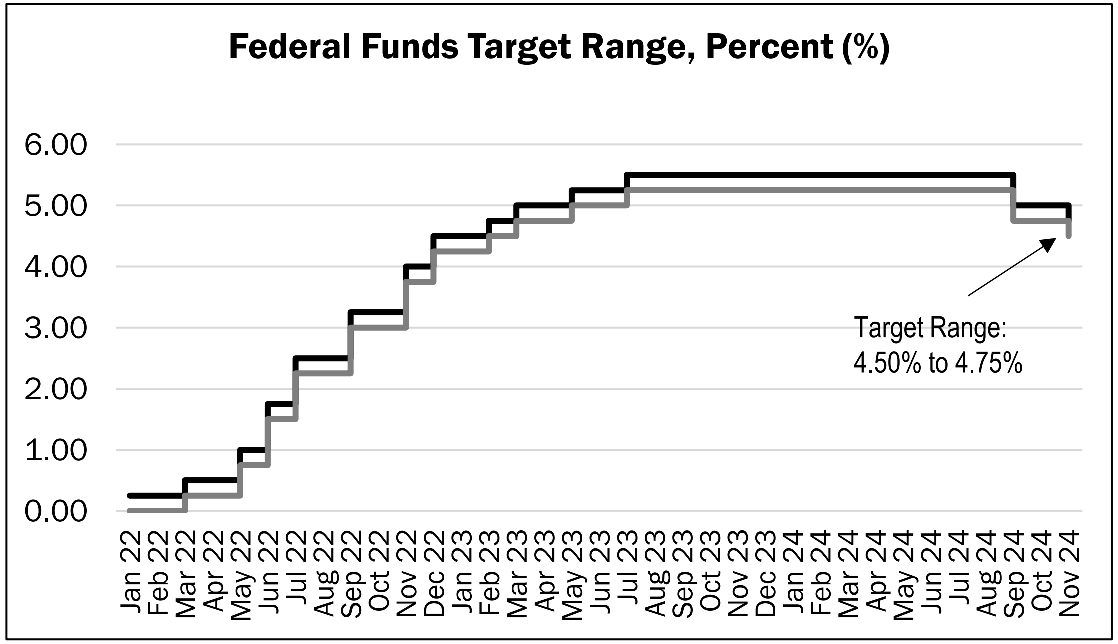




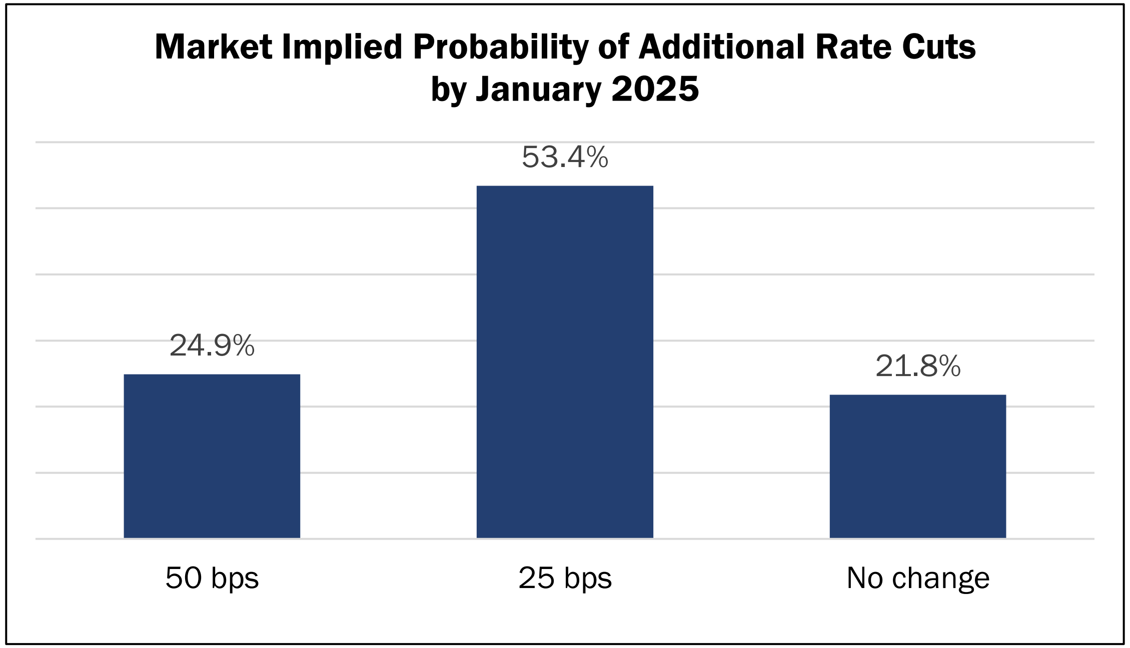
Sources: Federal Reserve Bank of St. Louis; US Bureau of Labor Statistics; US Bureau of Economic Analysis (CPI is not seasonally adjusted; PCE is seasonally adjusted).

- The Federal Reserve's preferred inflation measure, the year-over-year change in the personal consumption expenditure (PCE) price index fell from 2.3 percent to 2.1 percent versus the Fed's 2-percent target. The 12-month change in the Core PCE was unchanged at 2.7 percent.
- The 12-month change in the Consumer Price Index (CPI) for September was 2.4 percent, 0.1 percentage points lower than the previous month, while the Core CPI increased from 3.2 percent to 3.3 percent.

FED CUTS INTEREST RATES BY 50 BPS IN SEPTEMBER AND 25 BPS IN NOVEMBER; FURTHER CUTS EXPECTED



Source: Federal Reserve of St. Louis, Federal Reserve Board.



Source: CME Group, FedWatch Tool, Nov 10, 2024.

- Following September's half-point cut, the Federal Reserve lowered the federal funds rate by a further 25 basis points, as expected. The Fed sees risks to inflation and employment as roughly in balance and is expected to continue loosening policy.
- Fed Funds futures contracts prices indicate that the market is pricing in a 53 percent likelihood of one additional 25 bps cut over the Fed's next two meetings (December 18 and January 29).

REVENUE COLLECTIONS CONTINUE TO GROW YEAR-OVER-YEAR, EXCEEDING THE FORECAST

FY 2024

- FY 2024 general fund revenues were $1.5 billion higher (5.5 percent) than FY 2023. Payroll withholding accounted for one-half ($761 million) of the year-over-year increase and grew 4.8 percent over FY 2023.
- FY 2024 revenues exceeded the December forecast by $1.72 billion and surpassed the revised forecast assumed in the amended FY 2024 budget (Ch 1) by $1.17 billion. Nonwithholding and refunds accounted for 94 percent ($1.1 billion) of unplanned revenues, while other revenue sources combined were within 3 percent of the forecast.

FY 2025 Year-to-Date

- With one full quarter of FY 2025 collections, general fund revenues are ahead of last year by 9.9 percent ($656.3 million) driven mainly by a year-over-year increase in net individual income taxes.
- Relative to the official forecast developed in the fall of 2023, year-to-date revenues through September were $601.4 million higher than projected and $395.8 million higher than projected for the month of September.
- Among the major revenue sources, nonwithholding collections for September increased 35.6 percent ($277.4 million) year-over-year and 34.7 percent ($346.9 million) year-to-date. Compared to the year-to-date forecast, nonwithholding revenues are 56.4 percent ($485.7 million) ahead.
- Payroll withholding taxes for the month increased 4.2 percent ($51.9 million) year-over-year and 5.5 percent ($210.3 million) year-to-date. Compared to the year-to-date forecast, withholding revenues are 6.4 percent ($243.3 million) ahead.
- Sales and use taxes for September, reflecting August sales, increased 0.1 percent ($0.2 million) year-over-year and 1.5 percent ($17.6 million) year-to-date. Compared to the year-to-date forecast, sales and use taxes are 2.0 percent ($23.2 million) ahead.

GF REVENUES GREW 12.4 PERCENT YEAR-OVER-YEAR IN SEPTEMBER AND ARE UP 9.9 PERCENT FISCAL YEAR-TO-DATE

	September				FYTD			
SOURCE, $ Mil	**FY 24**	**FY 25**	**Change $**	**Change %**	**FY 24**	**FY 25**	**Change $**	**Change %**
Withholding	$1,234.3	$1,286.2	$51.9	4.2%	$3,822.1	$4,032.4	$210.3	5.5%
Non-withholding	779.1	1,056.5	277.4	35.6%	1,000.0	1,346.9	346.9	34.7%
IIT Refunds	(144.9)	(125.4)	19.4	-13.4%	(443.5)	(338.8)	104.7	-23.6%
Net Individual Income	$1,868.5	$2,217.3	$348.8	18.7%	$4,378.6	$5,040.5	$661.9	15.1%
Sales & Use Tax	396.0	396.2	0.2	0.1%	1,189.3	1,206.9	17.6	1.5%
Corporate Gross	419.3	383.1	(36.3)	-8.6%	553.8	504.5	(49.3)	-8.9%
Corporate Refunds	(9.1)	(15.0)	(5.8)	64.2%	(37.7)	(97.6)	(59.9)	159.1%
Net Corporate Income Tax	410.2	368.1	(42.1)	-10.3%	516.2	406.9	(109.3)	-21.2%
Wills, Suits, Deeds	30.3	34.2	3.8	12.6%	104.4	115.2	10.8	10.3%
Interest Income	102.8	138.5	35.6	34.7%	327.7	349.5	21.8	6.7%
All Other	41.3	48.0	6.7	16.3%	115.4	168.9	53.5	46.4%
Total GF Revenues	**$2,849.3**	**$3,202.3**	**$353.1**	**12.4%**	**$6,631.5**	**$7,287.9**	**$656.4**	**9.9%**

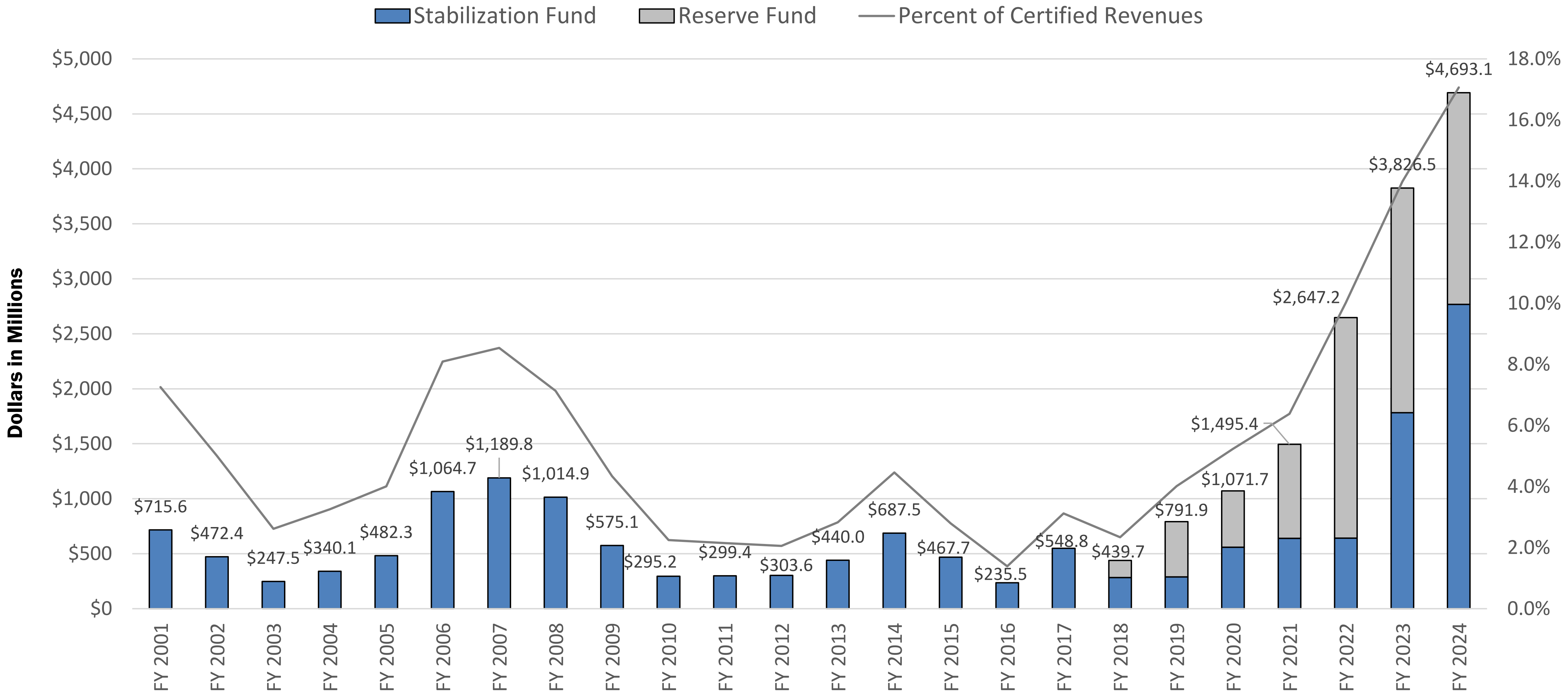
- For the month of September, general fund revenues grew 12.4 percent ($353.1 million), driven mainly by growth in nonwithholding revenues.
- Nonwithholding collections increased by 35.6 percent ($277.4 million) compared to September last year, and refunds were down 13.4 percent ($19.4 million).
- On a year-to-date basis, general fund revenues increased 9.9 percent ($656.4 million) through the first three months of Fiscal Year 2025, driven mainly by higher net individual income.

YTD COLLECTIONS ARE 9.0 PERCENT ABOVE THE OFFICIAL FORECAST AND UP 3.5 PERCENT EXCLUDING NONWITHHOLDING AND REFUNDS

	September				FYTD			
SOURCE, $ Mil	**Actuals**	**Projected**	**Variance $**	**Variance %**	**Actuals**	**Projected**	**Variance $**	**Variance %**
Withholding	$1,286.2	$1,200.7	$85.5	7.1%	$4,032.4	$3,789.1	$243.3	6.4%
Non-withholding	1,056.5	670.9	385.6	57.5%	1,346.9	861.2	485.7	56.4%
IIT Refunds	(125.4)	(73.8)	(51.6)	69.9%	(338.8)	(242.7)	(96.1)	39.6%
Net Individual Income	$2,217.3	$1,797.8	$419.5	23.3%	$5,040.5	$4,407.6	$632.9	14.4%
Sales & Use Tax	396.2	394.1	2.1	0.5%	1,206.9	1,183.7	23.2	2.0%
Corporate Income Tax	368.1	413.7	(45.6)	-11.0%	406.9	496.4	(89.5)	-18.0%
Wills, Suits, Deeds	34.2	37.7	(3.5)	-9.4%	115.2	122.7	(7.5)	-6.1%
Interest Income	138.5	118.6	19.9	16.8%	349.5	342.7	6.8	2.0%
All Other	48.0	44.6	3.4	7.7%	168.9	133.4	35.5	26.6%
Total GF Revenues	**$3,202.3**	**$2,806.6**	**$395.8**	**14.1%**	**$7,287.9**	**$6,686.5**	**$601.4**	**9.0%**
Total, Excl. NWH and Refunds	**$2,271.3**	**$2,209.5**	**$61.8**	**2.8%**	**$6,279.8**	**$6,068.0**	**$211.8**	**3.5%**

- Withholding collections continued to exceeded projections this September by $85.5 million (7.1 percent) while nonwithholding collections exceeded projections by $385.6 million (57.5 percent).
- Year-to-date total general fund revenues are ahead of projections by $601.4 million (9.0 percent).
- The positive variance to forecast was partially offset by lower-than-expected net corporate income tax collections and higher than projected individual income tax refunds.

RESERVE FUND BALANCES OF $4.7 BILLION (17.4 PERECNT) EXCEED 15 PERCENT STATUTORY CAP



AMONG TRIPLE-AAA RATED STATES, VIRGINIA HAS PRIORITIZED RESERVE FUND GROWTH

Rainy Day Funds as Percent of GF Expenditures

AAA States, FY 2019

Texas	21%
Georgia	10%
South Dakota	10%
Iowa	9%
Indiana	9%
Minnesota	9%
North Carolina	8%
Utah	7%
South Carolina	7%
Tennessee	6%
Delaware	5%
Maryland	5%
Florida	5%
Virginia	4%
Missouri	3%

#14 to #3

AAA States, FY 2024

Texas	22%
North Carolina	16%
Virginia*	15%
South Dakota	15%
Iowa	11%
Ohio	11%
Maryland	9%
Indiana	9%
Minnesota	9%
Utah	8%
Tennessee	8%
Florida	7%
Missouri	6%
Delaware	6%
Georgia	N/A

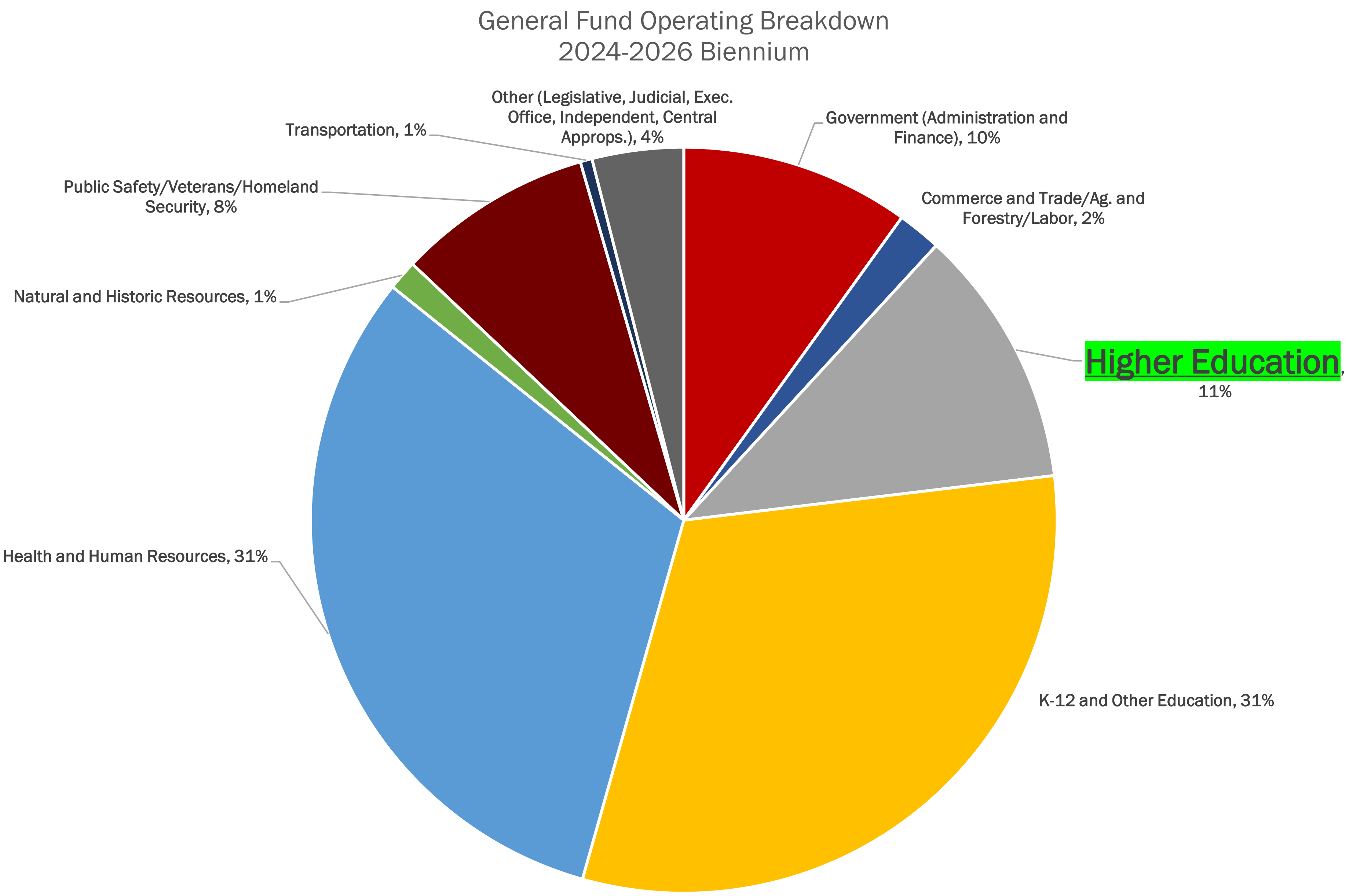
Currently 17.4%

Source: National Association of State Budget Officers "The Fiscal Survey of States"

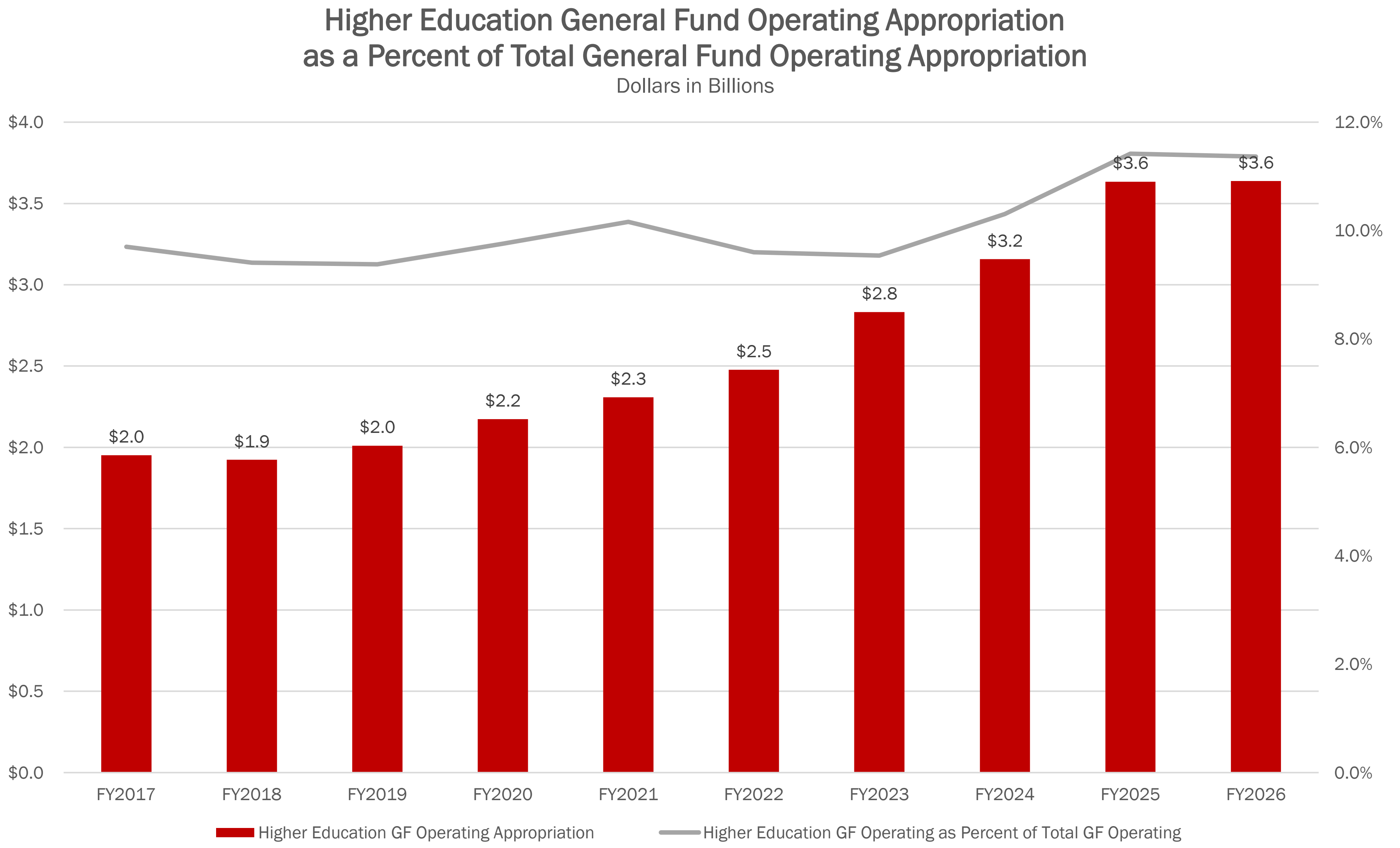
CONCLUSION

- The Commonwealth economy continues to be strong through the first quarter of FY2025, continuing trends experienced since FY2022.
- Strong individual income revenue sources supported by continued job growth, wage increases, non-withholding income and consumer spending provide a solid base for the near/intermediate term revenue growth.
- The moderation in inflation has provided the Fed the opportunity to reduce rates by 75 basis points over the past two months while watching mixed signals in the labor market.
- While markets have responded favorably to the election, the decisions regarding the continuation of TCJA tax policies, follow through on other economic concepts and critical geopolitical tensions discussed during the campaign will be watched closely.
- GACRE meets on November 25th to discuss the implications of recent events for Virginia and its key revenue drivers.

HIGHER ED MAKES UP 11% OF GENERAL FUND OPERATING APPROPRIATION



GENERAL FUND OPERATING APPROPRIATION GROWTH



LESS CAPITAL INVESTMENT AFTER PERIOD OF HEIGHTENED FUNDING WITH INCREASED FOCUS ON MAINTENANCE

	16-18 Biennium	18-20 Biennium	20-22 Biennium	22-24 Biennium	24-26 Biennium
Higher Ed Capital	$ 111.0	$ 1,521.5	$ 1,347.6	$ 1,146.1	$ 475.4
Maintenance Reserve	$ 116.0	$ 167.2	$ 169.0	$ 222.6	$ 279.3

*FY24-26 BIENNIUM DOES NOT REFLECT ADDITIONAL CAPITAL THAT MAY BE AUTHORIZED IN THE AMENDED 2025 BUDGET SESSION