

W E S T V I R G I N I A



DEPARTMENT OF REVENUE

West Virginia Economic & Budget Outlook

DEPUTY REVENUE SECRETARY MARK B. MUCHOW

West Virginia Tax Institute

October 29, 2019

2020 Fiscal Outlook Summary

- Economy: Growth Slowing in 2019 following Strong Growth Since Late 2016
 - Major pipeline investment on “temporary” hold
 - Governor’s Roads to Prosperity Program in full gear
 - General Revenues growth: 3.7% in FY2018; 12.2% in FY2019; -1.2% in FY2020 [-1.8% YTD]
 - 12-month trailing trend value of foreign exports peaked in January 2019
 - Coal production slowing with lower sales in July and August
 - Natural gas prices down 10% to 25% from last year
 - WV electric power exports down to less than 50% of net generation
 - Employment growth of 0.7% (September 2019 compared with September 2018)
- Construction and Health Care Sectors leading areas of job growth
- High Volatility in General Revenue Fund collection patterns
- Local Government revenue growth continues to exceed State revenue growth
 - State continues to assume greater financial responsibilities
 - Growing significant disparity in revenue generation capacity among local governments

FY2018-2019 General Revenue Fund Collections *

	\$ Millions	\$ Millions		\$ Millions
COMPONENT	ACTUAL	ACTUAL	CHANGE	CHANGE
	<u>FY18-19</u>	<u>FY17-18</u>	<u>PERCENT</u>	
Consumer Sales Tax	\$ 1,370.157	\$ 1,247.031	9.9%	\$ 123.126
Personal Income Tax	\$ 2,108.807	\$ 1,925.570	9.5%	\$ 183.237
Business & Occupation Tax	\$ 124.523	\$ 115.003	8.3%	\$ 9.520
Severance Tax	\$ 462.451	\$ 345.914	33.7%	\$ 116.538
Corporate Tax	\$ 198.032	\$ 110.068	79.9%	\$ 87.963
Insurance Premium Tax	\$ 129.111	\$ 124.230	3.9%	\$ 4.882
Tobacco Products Tax	\$ 171.224	\$ 177.839	-3.7%	\$ (6.615)
Interest Income	\$ 27.776	\$ 7.846	254.0%	\$ 19.930
Lottery Transfers	\$ 65.000	\$ 65.000	0.0%	\$ -
<u>All Other</u>	<u>\$ 111.255</u>	<u>\$ 132.758</u>	<u>-16.2%</u>	<u>\$ (21.502)</u>
TOTAL	\$ 4,768.336	\$ 4,251.258	12.2%	\$ 517.078

FY2020 General Fund Revenue Estimates

Year-to-date First Quarter Collections Compared with Estimates & Prior Year

	\$ Millions	\$ Millions	\$ Millions	\$ Millions		\$ Millions
	ESTIMATE	ACTUAL	YTD	ACTUAL	CHANGE	
COMPONENT	FY19-20	FY19-20	DIFFERENCE	FY18-19	PERCENT	CHANGE
Consumer Sales Tax	\$ 332.300	\$ 330.293	\$ (2.007)	\$ 327.229	0.9%	\$ 3.064
Personal Income Tax	\$ 525.100	\$ 503.563	\$ (21.537)	\$ 502.311	0.2%	\$ 1.251
Business & Occupation Tax	\$ 26.200	\$ 35.446	\$ 9.246	\$ 25.766	37.6%	\$ 9.681
Severance Tax	\$ 85.650	\$ 59.254	\$ (26.396)	\$ 96.546	-38.6%	\$ (37.292)
Corporate Tax	\$ 38.100	\$ 50.248	\$ 12.148	\$ 47.052	6.8%	\$ 3.196
Insurance Premium Tax	\$ 30.500	\$ 30.904	\$ 0.404	\$ 29.903	3.3%	\$ 1.001
Tobacco Products Tax	\$ 48.500	\$ 42.886	\$ (5.614)	\$ 46.267	-7.3%	\$ (3.380)
Interest Income	\$ 8.900	\$ 9.262	\$ 0.362	\$ 3.978	132.9%	\$ 5.284
Lottery Transfers	\$ 10.890	\$ 10.751	\$ (0.139)	\$ 10.890	-1.3%	\$ (0.139)
All Other	\$ 21.750	\$ 25.490	\$ 3.740	\$ 28.852	-11.7%	\$ (3.362)
TOTAL	\$1,127.890	\$ 1,098.097	\$ (29.793)	\$ 1,118.793	-1.8%	\$ (20.696)

Economic Growth by Region

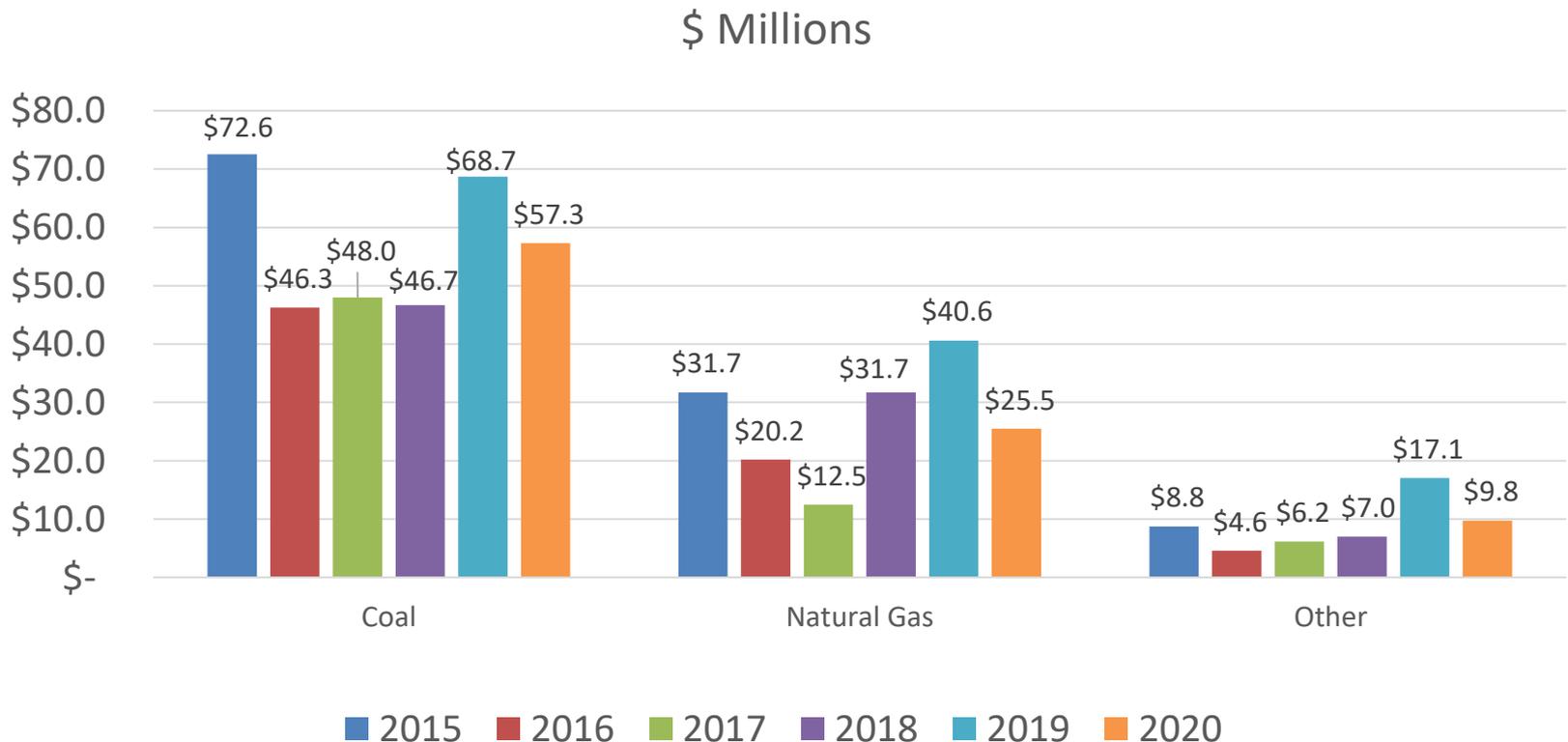
As Reflected By Local Sales Tax Collection Patterns

Sales Tax Collections for Municipalities With More Than 2 Full-Years of Activity

<u>Region</u>	<u>YE 9-18</u>	<u>YE 9-19</u>	<u>Chg 2017-18</u>	<u>Chg 2018-19</u>	<u>Chg Prior Jul-Sep</u>
North Central	\$ 11,793,862	\$ 12,133,910	10.6%	2.9%	-14.8%
Mid-Ohio Valley	\$ 10,535,179	\$ 10,878,935	3.4%	3.3%	1.5%
Eastern Panhandle	\$ 7,762,745	\$ 8,480,944	3.1%	9.3%	10.6%
Northern Panhandle	\$ 9,978,657	\$ 10,348,504	2.4%	3.7%	1.6%
Southern WV	\$ 7,964,484	\$ 8,188,422	2.2%	2.8%	0.2%
Kanawha Valley	\$ 23,127,612	\$ 24,330,172	0.0%	5.2%	2.0%
<u>Lower Ohio Valley</u>	<u>\$ 7,116,535</u>	<u>\$ 7,449,266</u>	<u>-1.7%</u>	<u>4.7%</u>	<u>6.3%</u>
Sum for 36 Cities	\$ 78,279,075	\$ 81,810,152	2.7%	4.5%	0.1%
Total State Sales Tax	\$ 1,343,157,048	\$ 1,426,432,945	5.0%	6.2%	1.1%

Significant Year-to-date Decline in Severance Tax Revenues: Collections Down 27% Through September

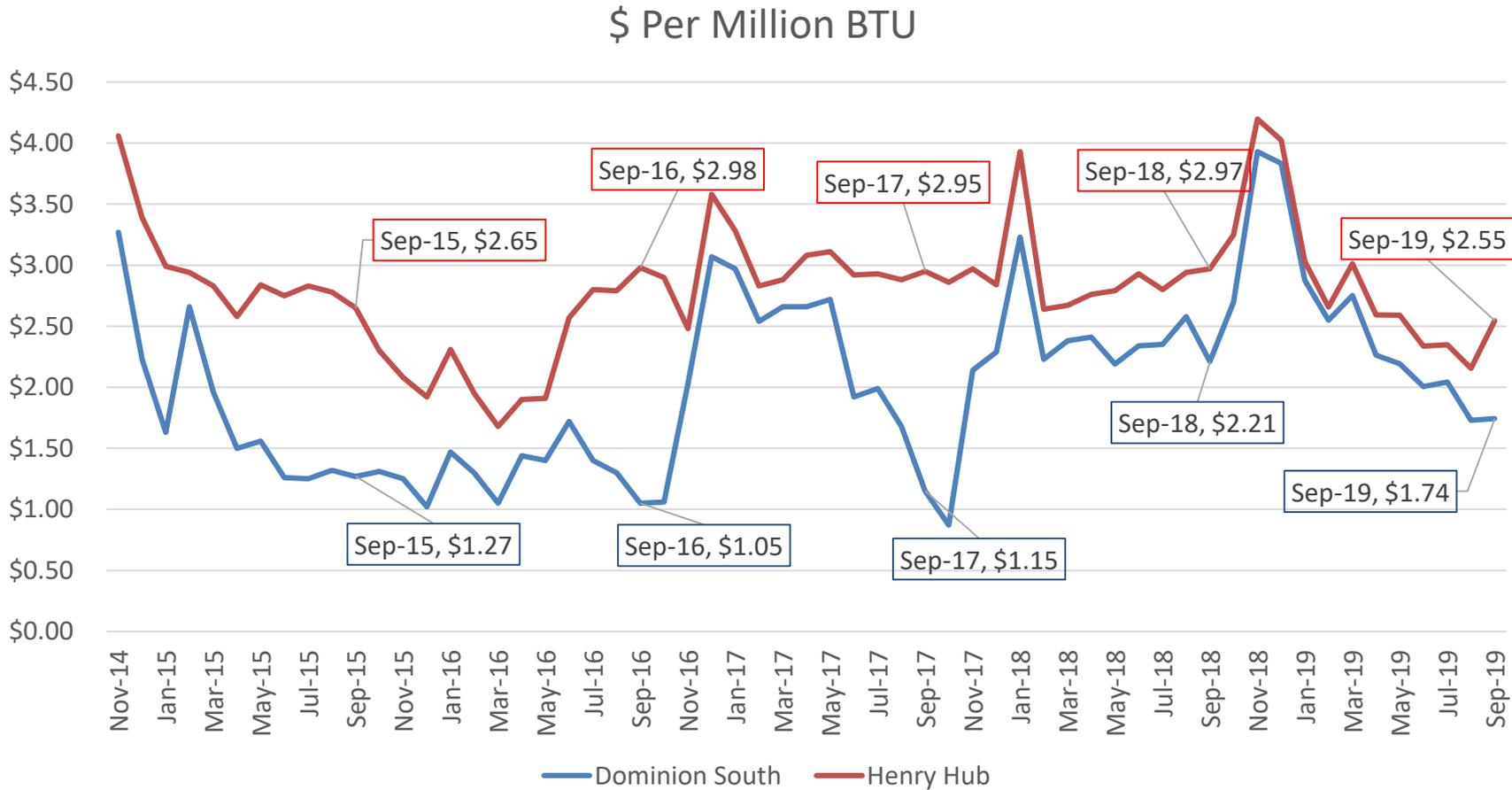
Natural Gas Down 37%; Coal Down 17%; Oil Down 22% Other Gas Liquids Down 69%



Infrastructure Investment Helps Stabilize Prices

Less Deviation From Henry Hub Price in 2018-2019

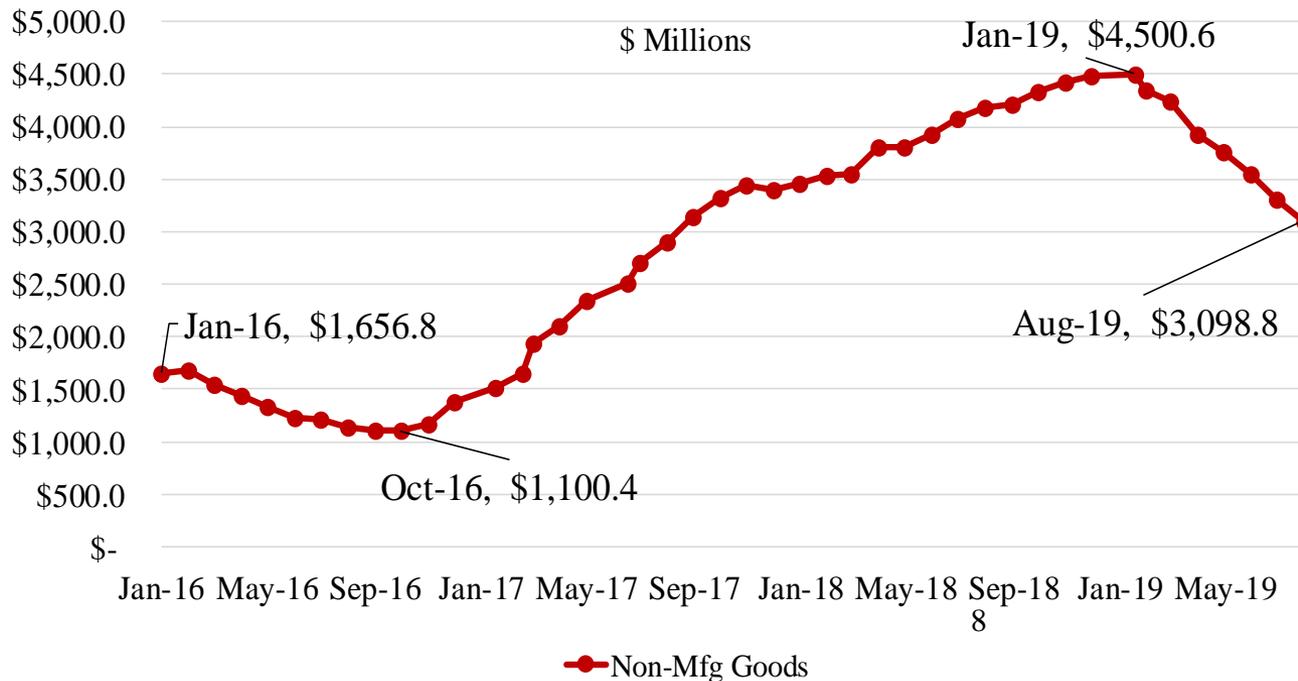
Source: Natural Gas Intelligence



12-Month Trailing Trend Value of Foreign Good Exports

Total Exports Up 41% Since October 2016

Non-Manufacturing Good Exports Up 182%; But Down 31% Since January

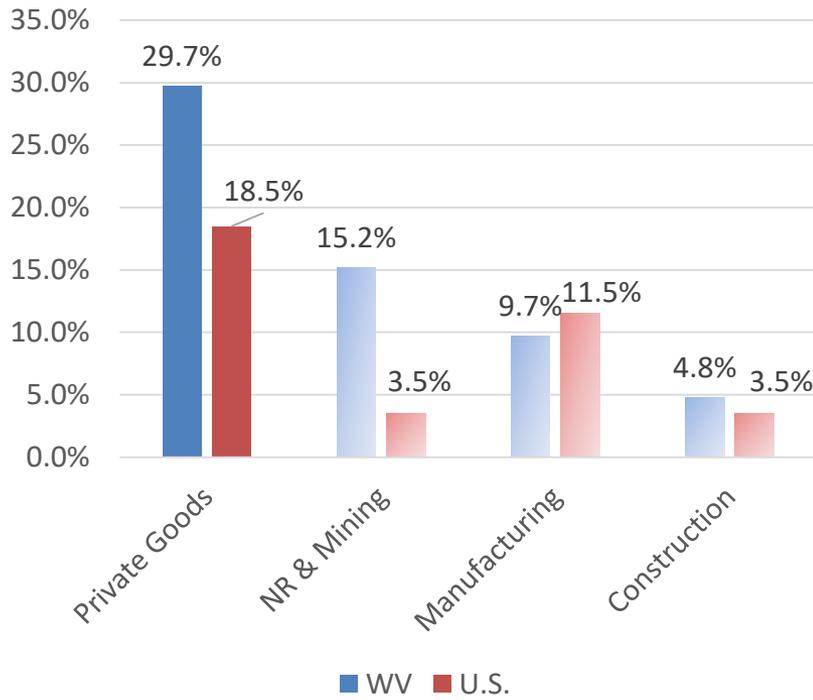


Economic Diversification in WV

More Manufacturing in Rural Areas
More Value-Added Services in Urban Areas

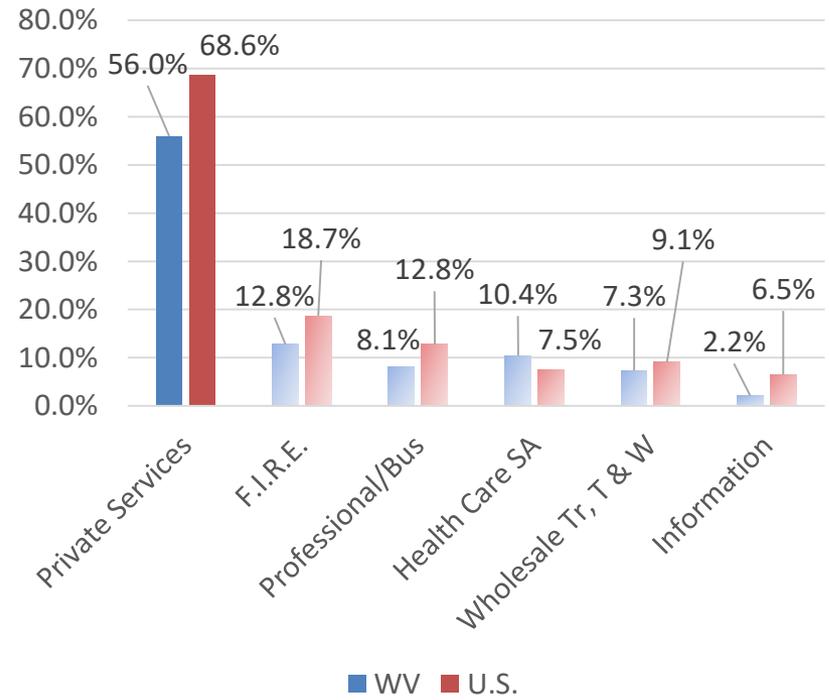
Major Industries in Rural America

Sector Share of Total GDP



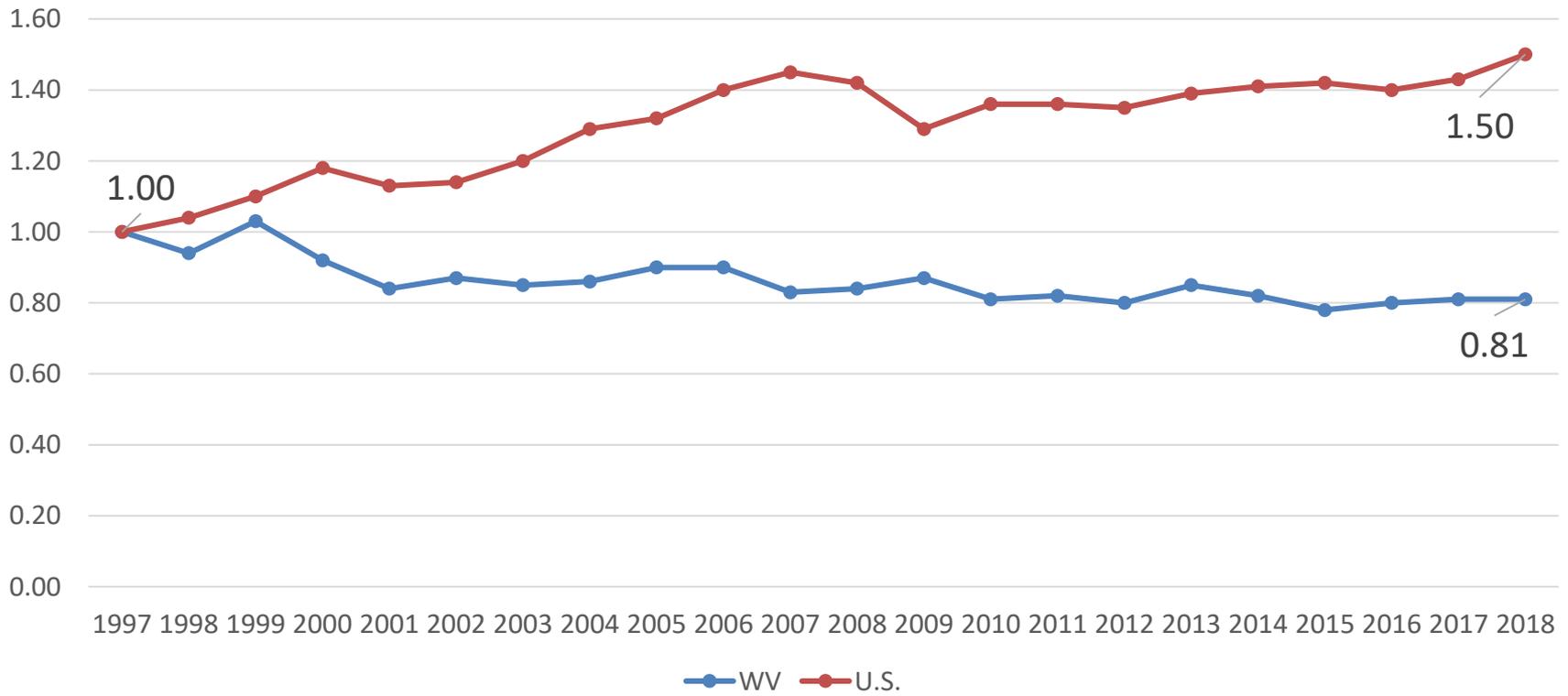
Major Industries in Urban America

Sector Share of Total GDP



U.S. Manufacturing Real GDP up 50% Since 1997

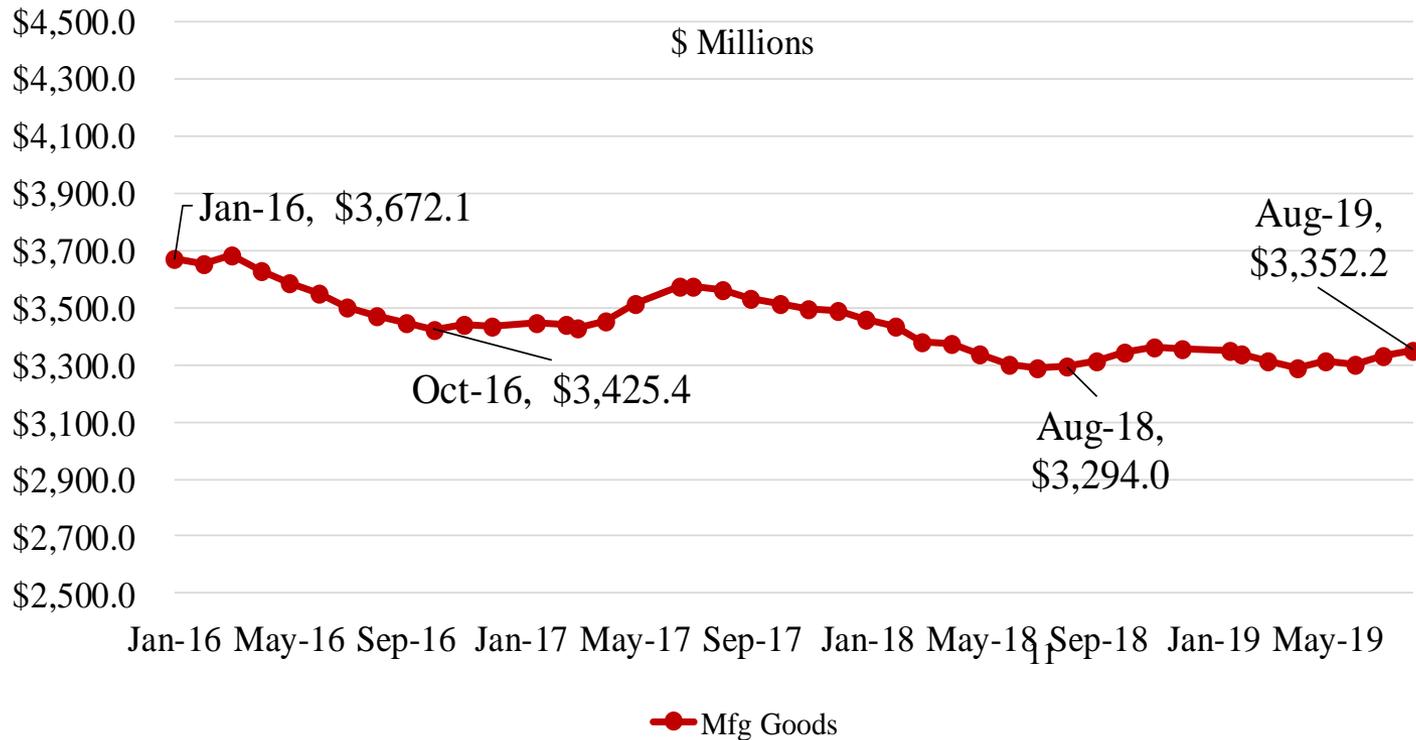
Real Manufacturing GDP Growth
Indexed to 1997=1.00



12-Month Trailing Trend Value of Foreign Good Exports

Manufacturing Exports Down 2% Since October 2016

Manufacturing Good Exports Up 2% in past 12 months

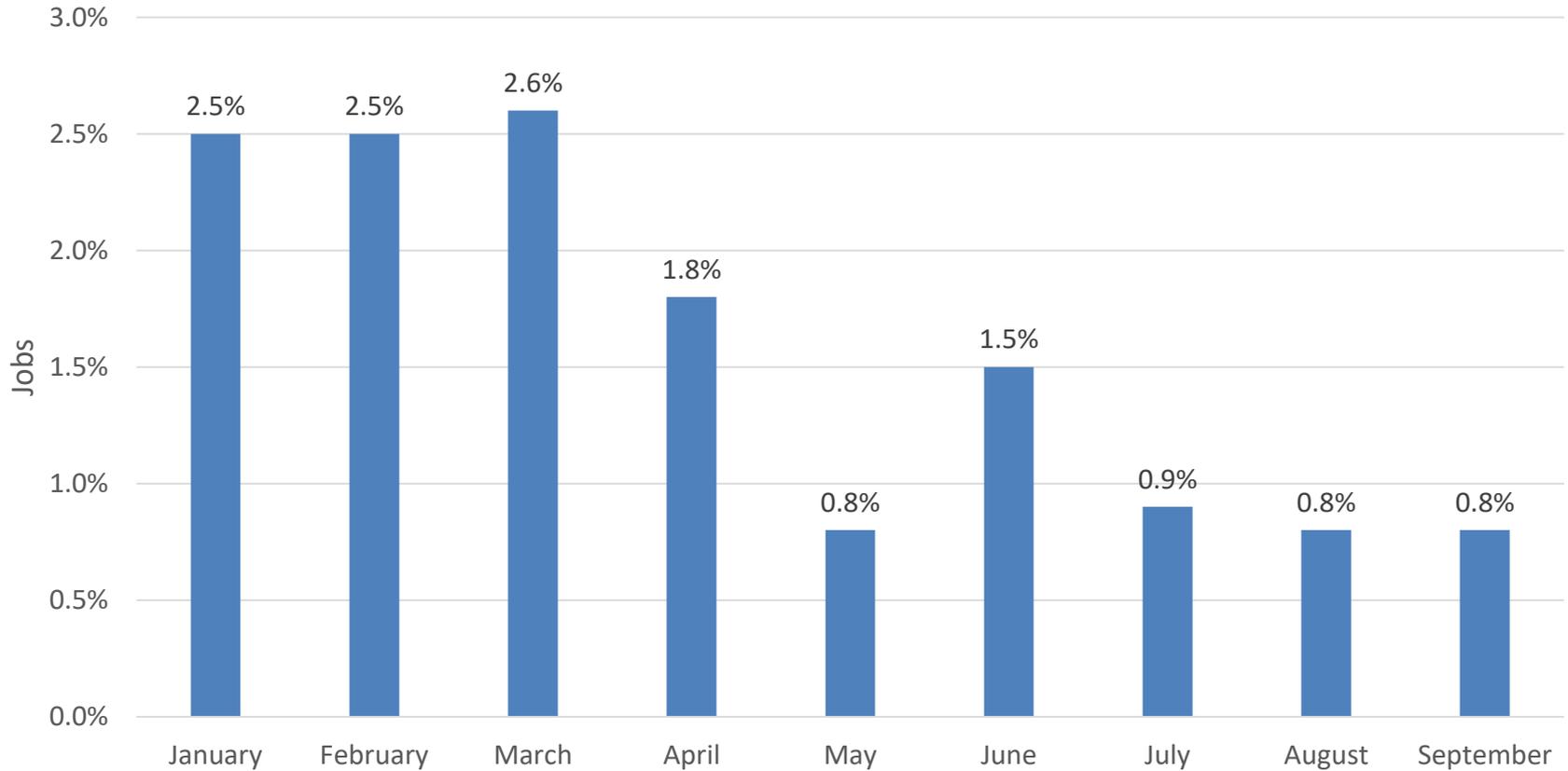


WV Payroll Employment Trends

Nine-Month Average Above 1.5%; Slower Growth in Recent Months

Source: Workforce WV Seasonally Adjusted

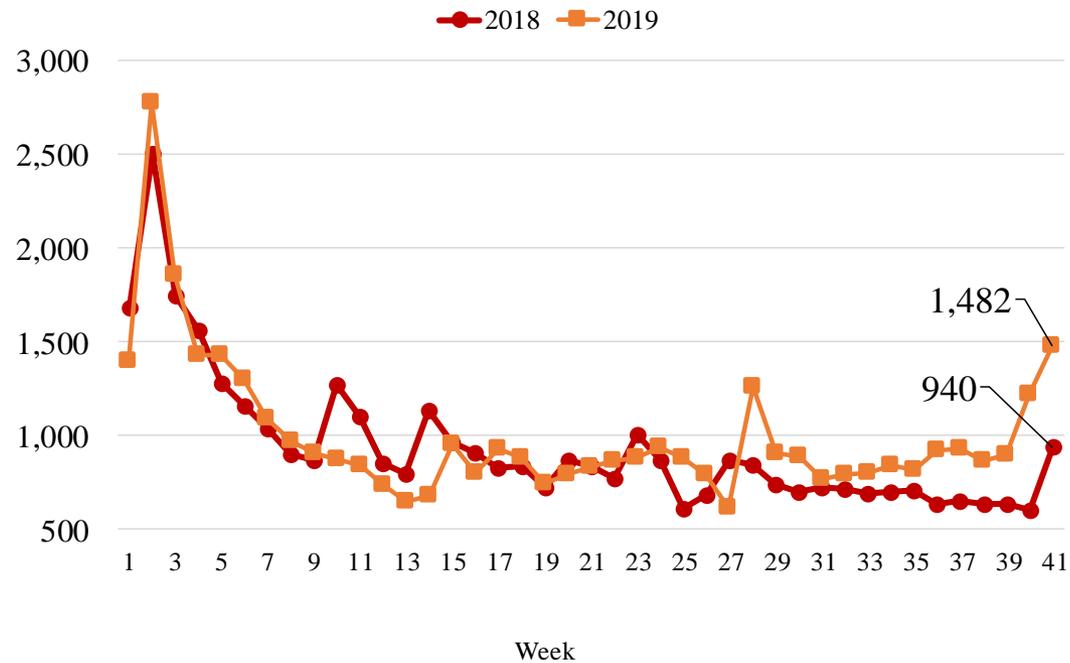
Gain Over Prior Year



WV Initial Weekly Claims for Unemployment Insurance

Claims Beginning to Rise From Prior Year Pattern Since Early July

Source: U.S. Bureau of Labor Statistics



State Budget: Appropriation Side

How was Extra Nearly \$400 Million Allocated?

- One-Time Major Allocations

- State secondary road maintenance: \$104.2 million
- PEIA Stabilization Fund: \$105.0 million
- Revenue Shortfall Reserve Fund: \$ 57.4 million
- Miscellaneous: \$ 27.4 million
- Medicaid: \$ 18.4 million

- On-Going Allocations

- Pay Raises up to 5%: \$105.1 million
- Education Reform: \$ 63.1 million
- West Virginia Invests CTC Program: \$ 10.0 million
- Pension Enhancements: \$ 4.1 million

State Budget & Revenue Issues

Topics for Discussion in 2020 and Beyond

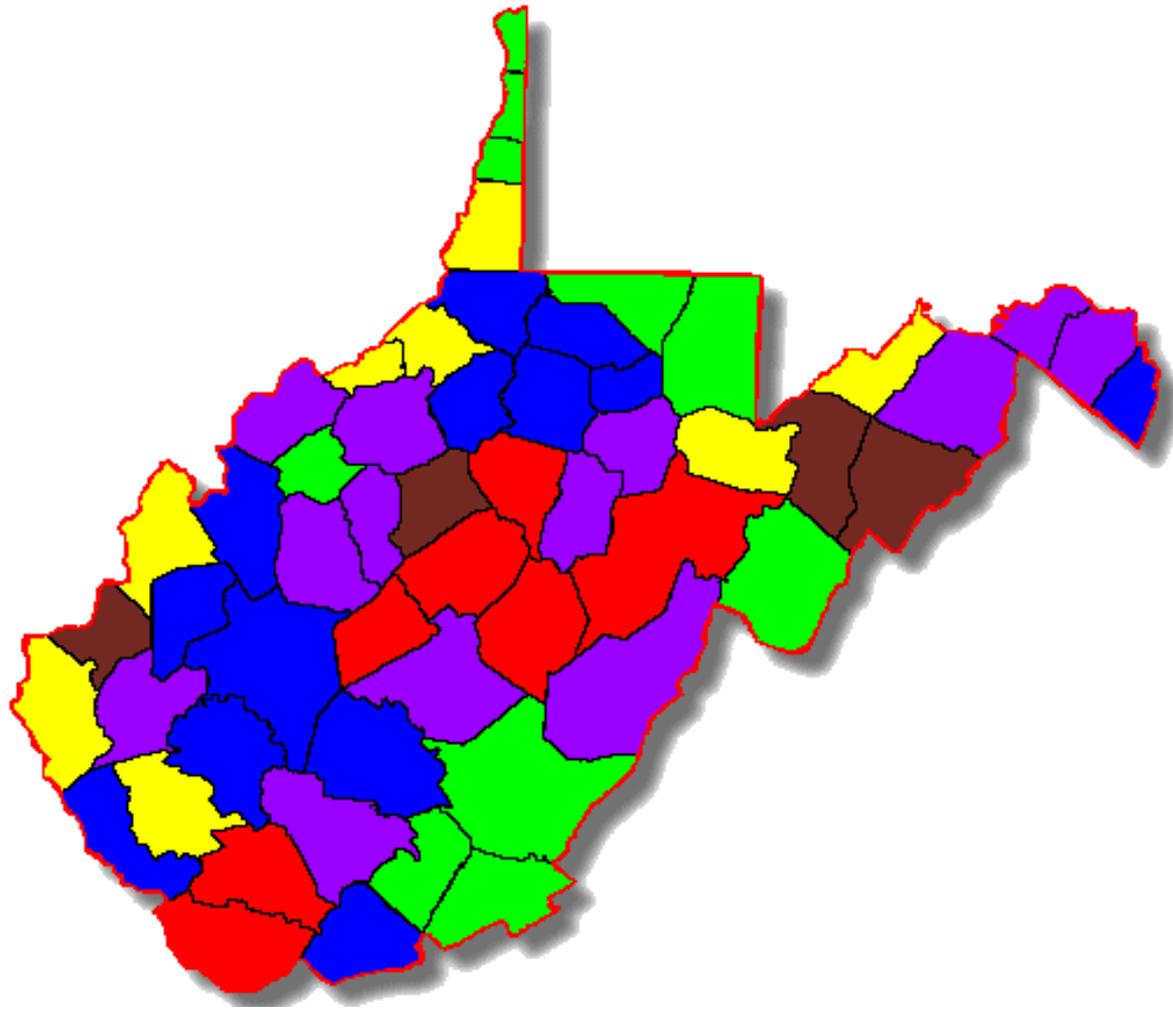
- **State finance matters**
 - Progress on roads should be a positive
 - How to attract downstream manufacturing-cracker plant?
 - Some increase in pension funding necessary
 - Cost pressures relating to drug abuse-family breakdown
 - Long-term expenditure growth > revenue growth
- **Local government finance matters**
 - “State should pay” v local governments share in cost & responsibility
 - Constitutional Amendment (personal property tax)
 - County Home Rule (e.g., 8% v 7% sales tax)
 - State assumption of local jail bill costs
 - Promotion of local government service efficiencies v balkanization

County Commission Revenues Growing Faster Than State Revenues

Sources: U.S. Census Bureau and *Classified Assessed Valuations Taxes Levied*

<u>County</u>	<u>Population</u>	Tax Year 2018		Tax Year 2019		One-Year <u>% Growth</u>	Tax Capacity To <u>State Average</u>
		<u>Property Tax Yield</u>		<u>Property Tax Yield</u>			
DODDRIDGE	8,406	\$ 9,082,390	\$	12,102,141	\$	33.2%	5.38
TYLER	8,746	\$ 4,917,990	\$	7,653,212	\$	55.6%	3.46
WETZEL	15,270	\$ 10,310,323	\$	11,586,304	\$	12.4%	3.04
MARSHALL	30,785	\$ 15,190,405	\$	15,996,605	\$	5.3%	2.82
RITCHIE	9,721	\$ 6,434,296	\$	8,740,374	\$	35.8%	2.61
OHIO	41,755	\$ 10,631,335	\$	11,150,134	\$	4.9%	1.25
HARRISON	67,554	\$ 23,370,392	\$	24,972,302	\$	6.9%	1.24
MONONGALIA	106,420	\$ 27,775,268	\$	27,698,535	\$	-0.3%	1.10
JEFFERSON	56,811	\$ 14,140,405	\$	14,614,894	\$	3.4%	1.07
PUTNAM	56,682	\$ 13,368,015	\$	13,810,913	\$	3.3%	1.06
KANAWHA	180,454	\$ 64,814,096	\$	65,085,330	\$	0.4%	1.05
RALEIGH	74,254	\$ 17,966,805	\$	18,542,498	\$	3.2%	0.83
MCDOWELL	18,223	\$ 3,309,814	\$	3,645,920	\$	10.2%	0.83
BERKELEY	117,123	\$ 21,576,678	\$	22,445,325	\$	4.0%	0.81
BOONE	21,951	\$ 6,218,274	\$	6,139,203	\$	-1.3%	0.80
CABELL	93,224	\$ 24,535,713	\$	25,358,453	\$	3.4%	0.77
WOOD	84,203	\$ 14,525,507	\$	15,160,285	\$	4.4%	0.76
MERCER	59,131	\$ 8,492,041	\$	8,675,602	\$	2.2%	0.61
CALHOUN	7,254	\$ 1,169,551	\$	1,316,169	\$	12.5%	0.56
LINCOLN	20,599	\$ 2,976,995	\$	2,915,235	\$	-2.1%	0.43
ALL COUNTIES	1,805,832	\$ 466,043,977	\$	488,161,383	\$	4.7%	

County Jail Costs Per Capita FY 2017



Source: US Census Bureau and County Commissioner's
Association of West Virginia
October 2017

Fiscal Outlook Summary

- National economy continues to grow more slowly with no Recession in near term
- Tax revenues on track to decline in FY2020 after 12.2% increase in FY2019
- Revenue growth likely to remain tepid in FY2021
- Natural gas energy production rises more slowly & low prices continue
- Coal production eases back by 10 million or more tons
- Major pipeline investment hopefully resumes soon
- Economic resources, including tax revenues are scarce; State needs to work with local governments to more effectively deploy growing local revenues for services
- Significant Risk/Concern Areas: Foreign Trade; Construction Industry Volatility; Labor Force Growth; Energy Industry Transitions

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Questions?