

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 19, 2021

Fiscal Summary

- Economy: Strong Rebound from 2nd QTR 2020 Pandemic Recession
 - Energy sector recovery from trough at the end of CY2020
 - Significant price inflation, particularly for energy & automobiles
 - 12-month trailing trend value of foreign exports up > 25% since January 2021 trough
 - Coal production rising from 2020 trough with higher domestic steam coal sales in 2021
 - Natural gas prices up nearly fourfold from same period last year
 - WV electric power generation up 24.8% YTD thru July
 - Non-farm payroll employment growth of 3.6% (August 2021 v August 2020) [24,100]
 - Household survey employment up 4.5% (August 2021 v August 2020) [32,500]
- Federal stimulus eases thru remainder of fiscal year & monetary tapering
 - Less stimulus may lead to lower inflation over time
 - No short-term interest rate hikes anticipated until late 2022 or 2023
- High Volatility in General Revenue Fund collection patterns
 - GRF growth: 12.2% in FY2019; -5.5% in FY2020; 11.0% in FY2021; -3.6% YTD in FY2022
 - Adjusted GRF growth: -3.2% in FY2020; 4.7% in FY2021; 14.9% YTD in FY2022

FY2021 General Revenue Fund Performance

General Revenue Fund Collections Rebound From FY2020 Downturn

COMPONENT	\$ Millions	\$ Millions		\$ Millions	\$ Millions	Average	\$ Millions
	ACTUAL FY20-21	ACTUAL FY19-20	CHANGE PERCENT	CHANGE FY20 to FY21	ACTUAL FY18-19	ANNUAL % CHG	CHANGE FY19 to FY21
Consumer Sales Tax	\$1,537.245	\$1,386.571	10.9%	\$ 150.674	\$ 1,370.157	5.9%	\$ 167.088
Personal Income Tax*	\$2,154.788	\$2,068.946	4.1%	\$ 85.843	\$ 2,108.807	1.1%	\$ 45.981
Business & Occupation Tax	\$ 133.128	\$ 137.347	-3.1%	\$ (4.218)	\$ 124.523	3.4%	\$ 8.605
Severance Tax	\$ 274.256	\$ 267.049	2.7%	\$ 7.207	\$ 462.451	-23.0%	\$ (188.195)
Corporate Taxes*	\$ 264.487	\$ 207.988	27.2%	\$ 56.499	\$ 198.032	15.6%	\$ 66.455
Insurance Premium Tax	\$ 118.061	\$ 129.358	-8.7%	\$ (11.297)	\$ 129.111	-4.4%	\$ (11.050)
Tobacco Products Tax	\$ 171.187	\$ 168.750	1.4%	\$ 2.437	\$ 171.224	0.0%	\$ (0.037)
Interest Income	\$ 9.661	\$ 39.208	-75.4%	\$ (29.546)	\$ 27.776	-41.0%	\$ (18.115)
Lottery Transfers	\$ 65.000	\$ 52.323	24.2%	\$ 12.677	\$ 65.000		\$ -
All Other*	\$ 104.763	\$ 157.319	-33.4%	\$ (52.556)	\$ 111.255	-3.0%	\$ (6.492)
TOTAL*	\$4,832.577	\$4,614.857	4.7%	\$ 217.719	\$ 4,768.336	0.7%	\$ 64.241

* Adjusted FY21 & FY20 collections to remove impact of roughly \$200 million in deferred income tax collections due in FY20.

* Adjusted for transfers to Income Tax Refund Reserve Fund (Reserve Fund) of \$12 million in FY19 & \$45 million in FY21.

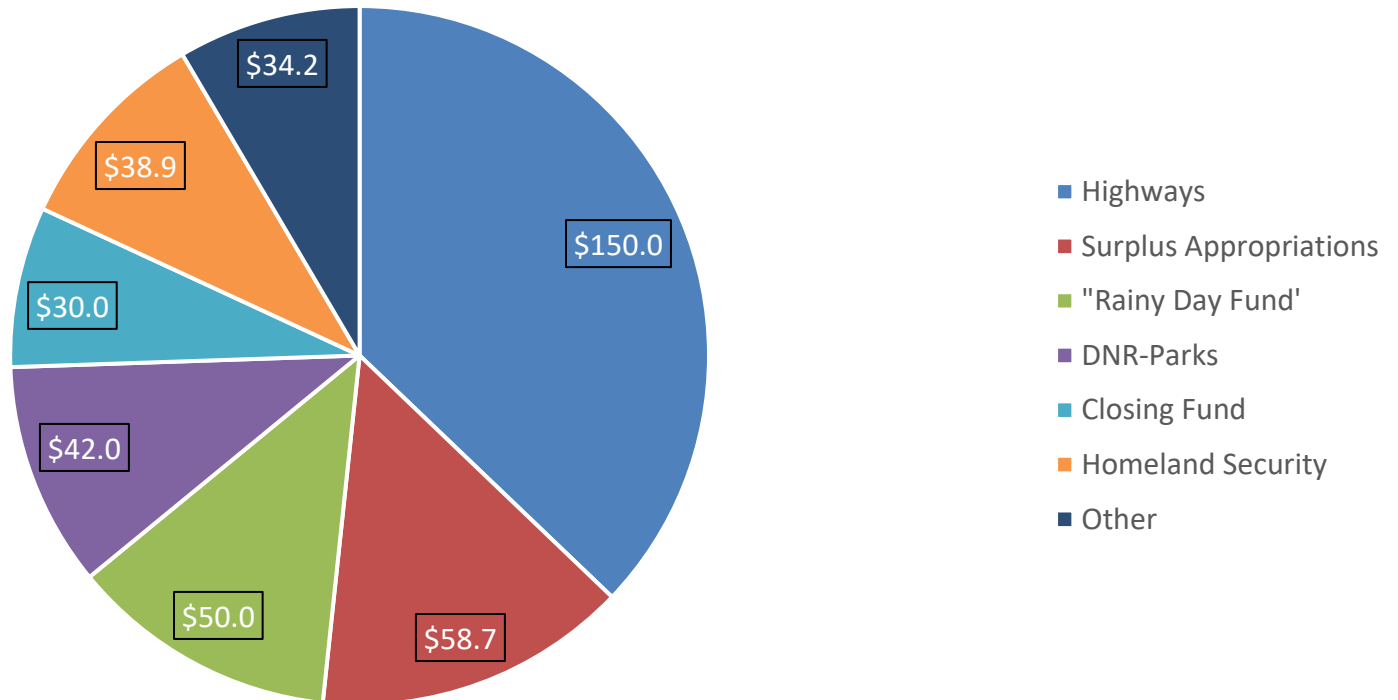
* FY20 revenues adjusted to remove \$57 million in CARES Funds & \$23 million in payments from Reserve Fund.

June 2021 Surplus Appropriations

\$403.8 Million

Actual Collections Above FY 2021 Appropriations by \$9.3 million

\$ Millions



FY21 State Road Fund Collections

Solid Growth in Motor Vehicle Sales Tax Offsets Declines Elsewhere

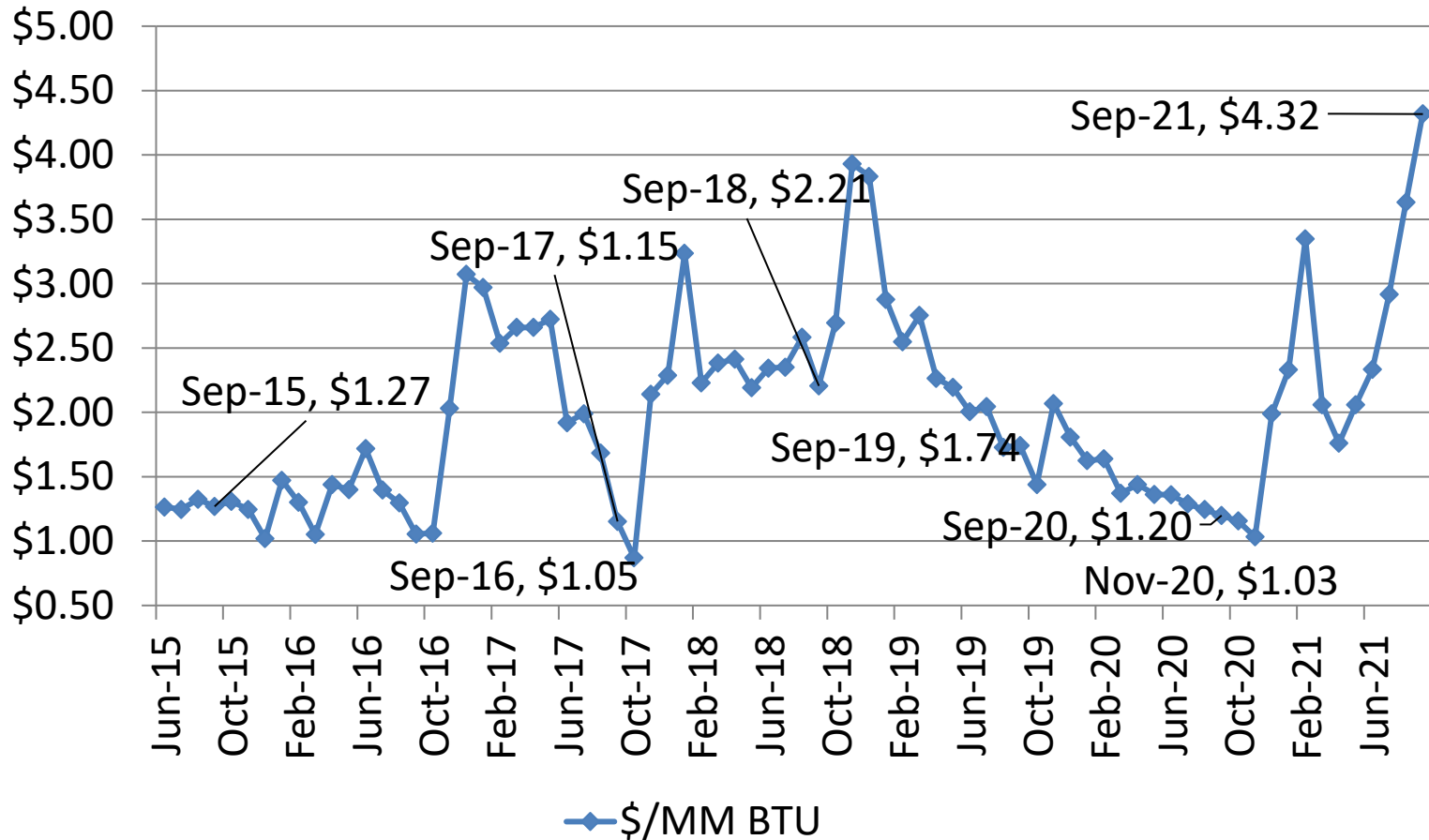
COMPONENT	\$ Millions	\$ Millions		\$ Millions	\$ Millions	Average	\$ Millions
	ACTUAL	ACTUAL	CHANGE	FY20 to FY21	ACTUAL	ANNUAL	FY19 to FY21
	FY20-21	FY19-20	PERCENT	CHANGE	FY18-19	% CHG	CHANGE
Motor Fuel Excise Tax	\$ 399.542	\$ 427.273	-6.5%	\$ (27.731)	\$ 443.428	-5.1%	\$ (43.886)
Registration Fees	\$ 136.484	\$ 122.724	11.2%	\$ 13.761	\$ 168.785	-10.1%	\$ (32.301)
Sales (Privilege) Tax	\$ 300.975	\$ 265.516	13.4%	\$ 35.459	\$ 236.137	12.9%	\$ 64.838
Highway Litter Control	\$ 1.879	\$ 1.483	26.7%	\$ 0.396	\$ 1.666	6.2%	\$ 0.213
Miscellaneous*	\$ 223.090	\$ 33.861	558.8%	\$ 189.230	\$ 122.671	34.9%	\$ 100.419
TOTAL	\$1,061.970	\$ 850.856	24.8%	\$ 211.114	\$ 972.687	4.5%	\$ 89.283

* FY21 includes \$50 million in Federal CARES Relief Funds & \$150 million in General Fund Supplemental Appropriations.

* FY19 includes \$104 million in General Fund Supplemental Appropriations.

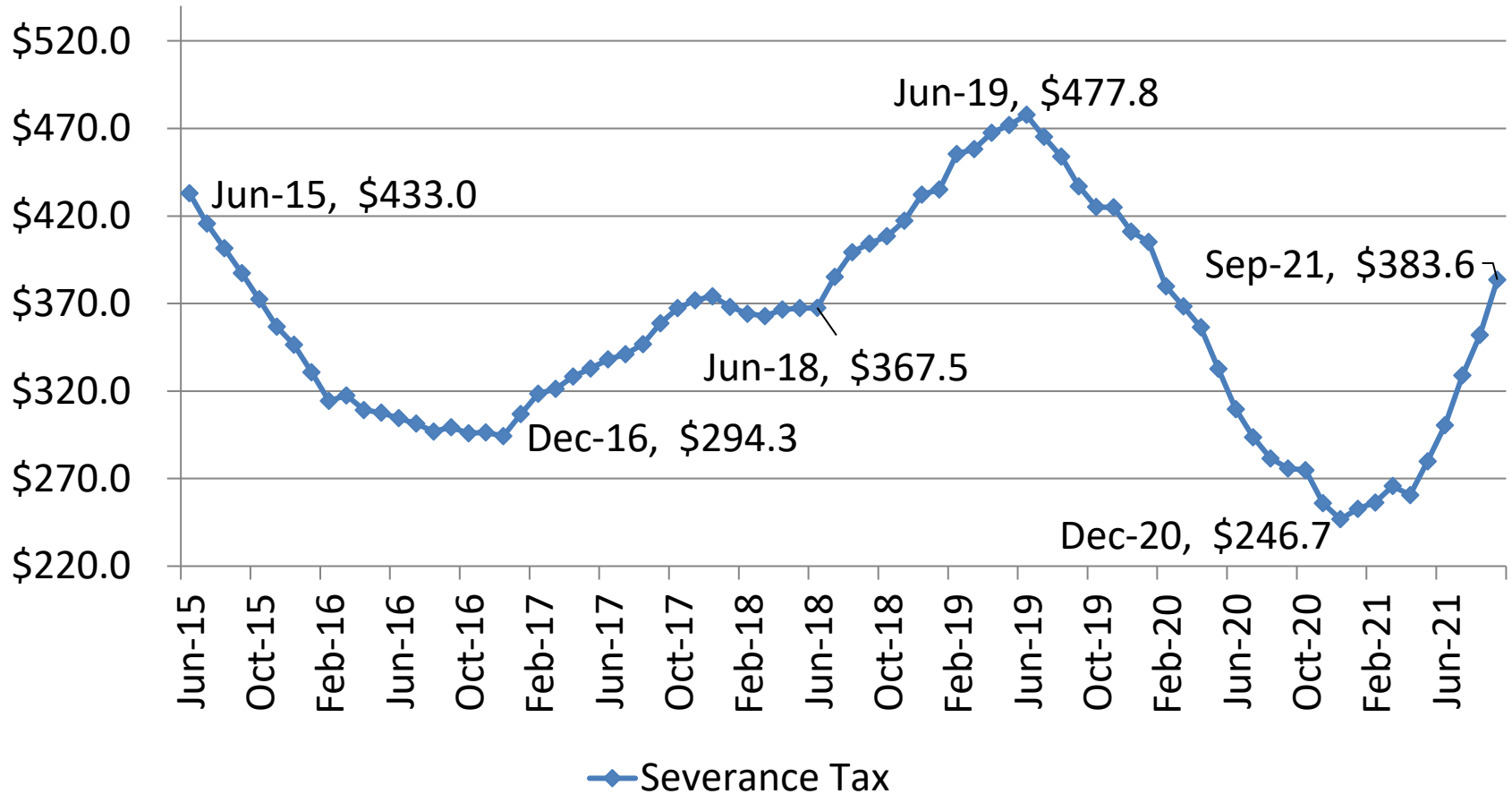
Eastern Gas Hub Price (June 2015-Present)

\$/Million BTU



Regular Severance Tax

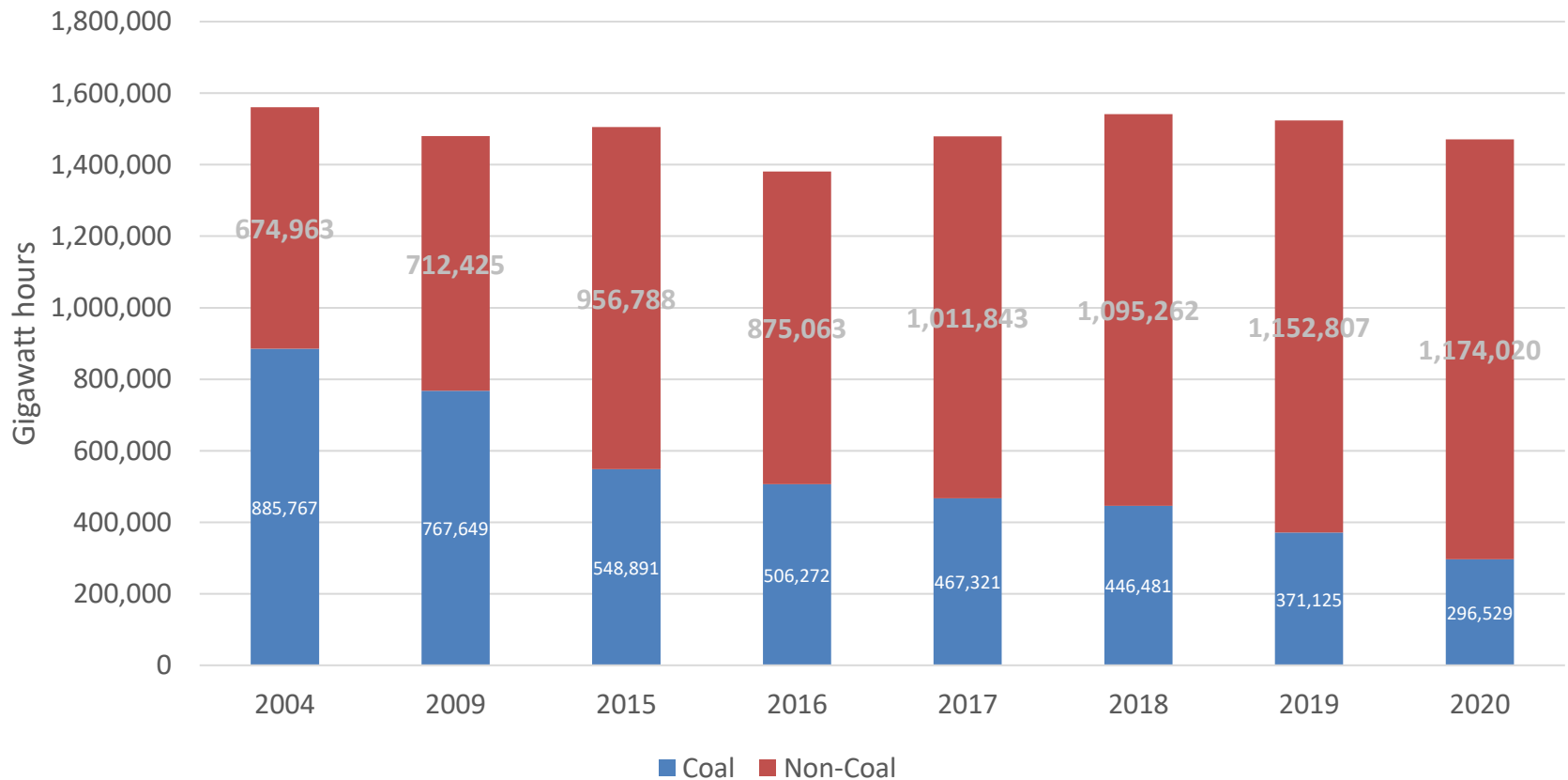
Trailing 12 Month Trend (6th of Month to 5th of Next Month)
\$ Millions



Electric Power Generation Trends

Coal Share falls from 57% in 2004 to 20% in 2020

West Virginia Steam Coal Supply States: (FL, IN, KY, MD, MI, NJ, NY, NC, OH, PA, SC, VA, WV)

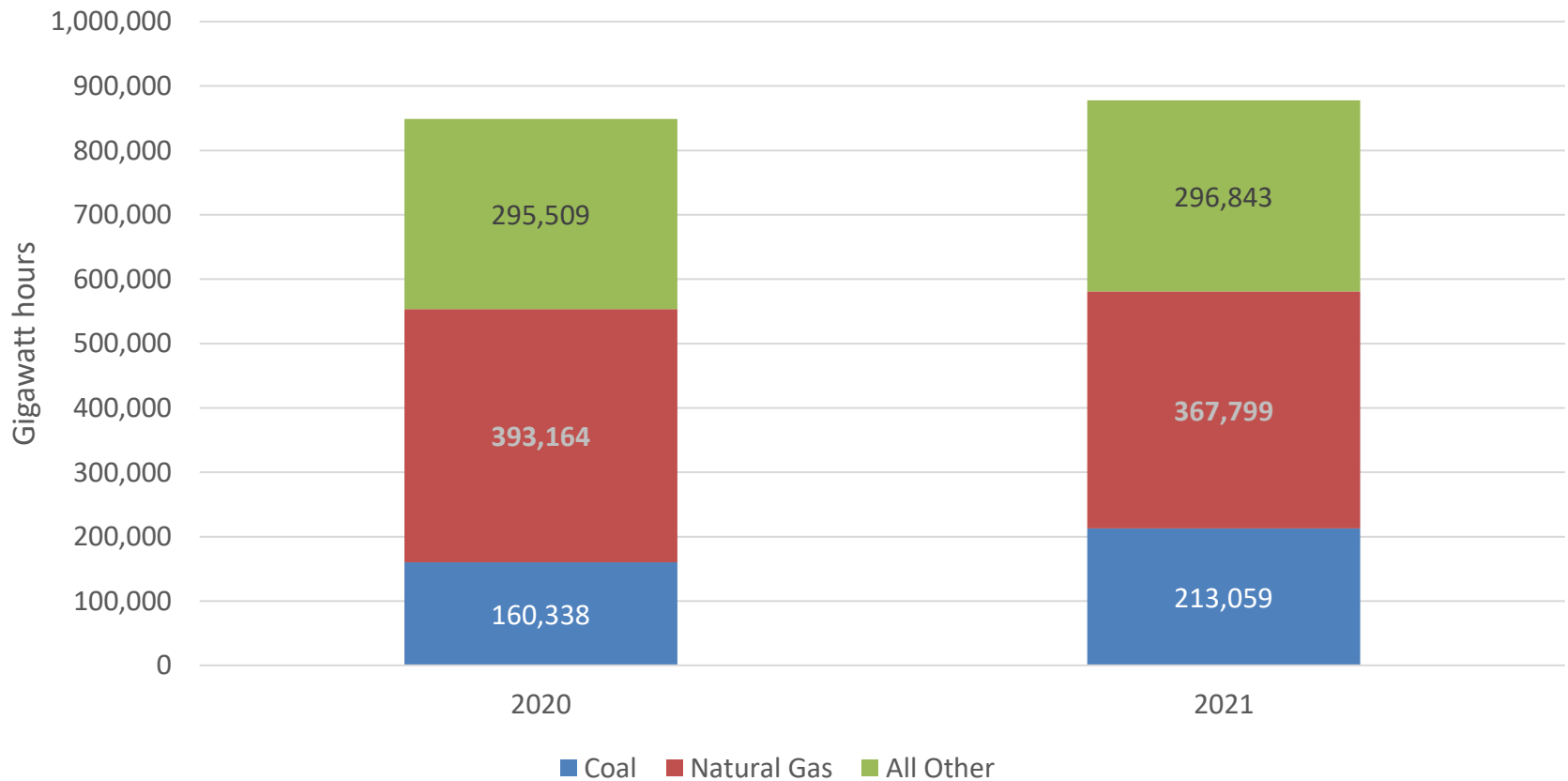


Electric Power Generation Trends

Coal up 32.9%: Share rises from 18.9% in 2020 to 24.3% in 2021 as of YTD

West Virginia Steam Coal Supply States: (FL, IN, KY, MD, MI, NJ, NY, NC, OH, PA, SC, VA, WV)

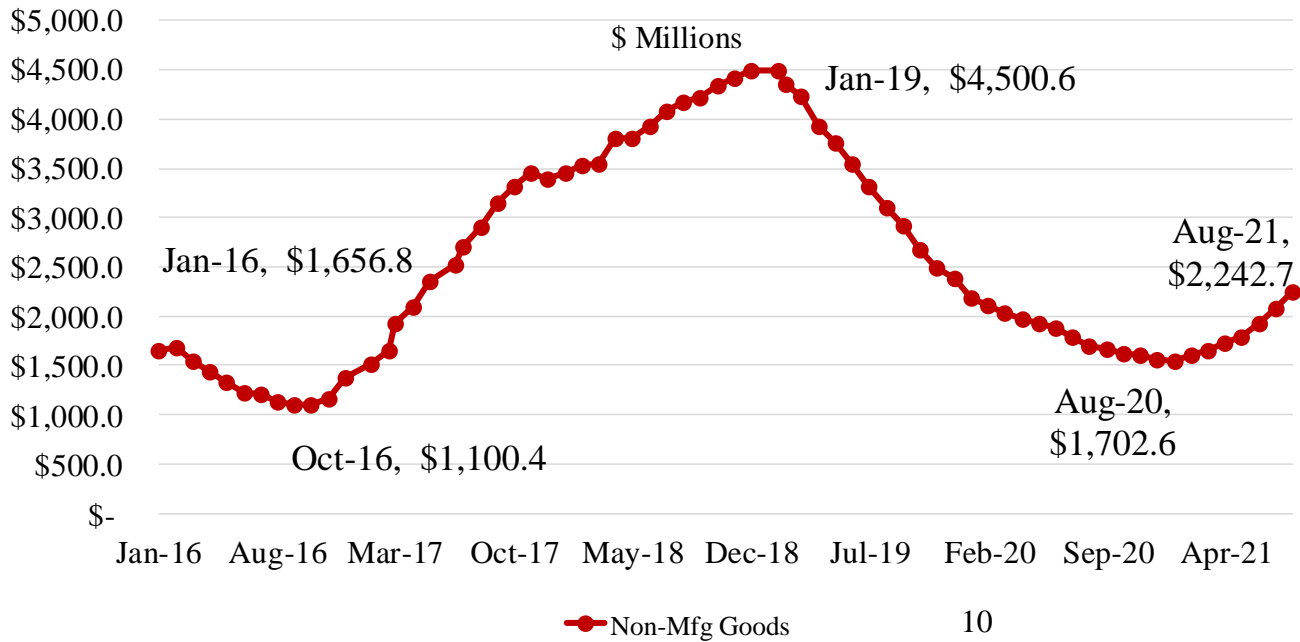
YTD as of July



12-Month Trailing Trend Value of Foreign Good Exports

Non-Manufacturing Good Exports Up 104% Since October 2016

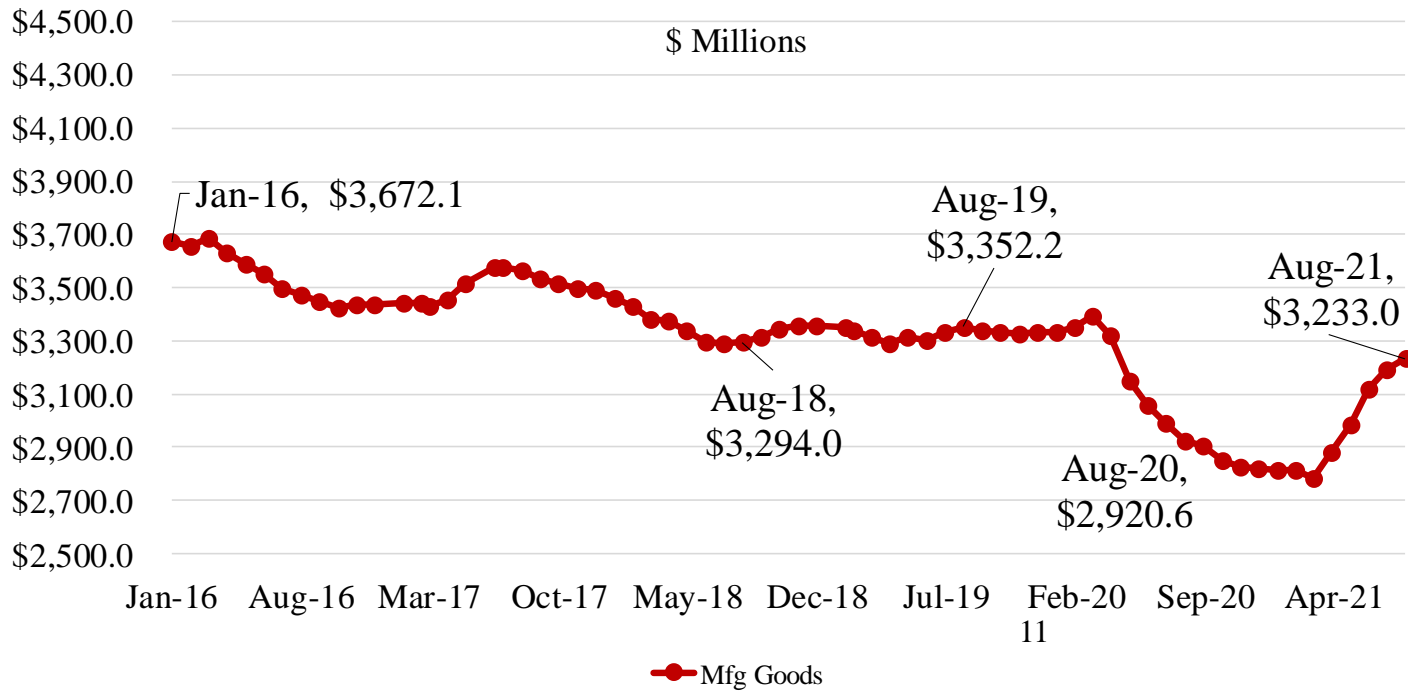
Non-Manufacturing Good Exports Up 32% Since August 2020



12-Month Trailing Trend Value of Foreign Good Exports

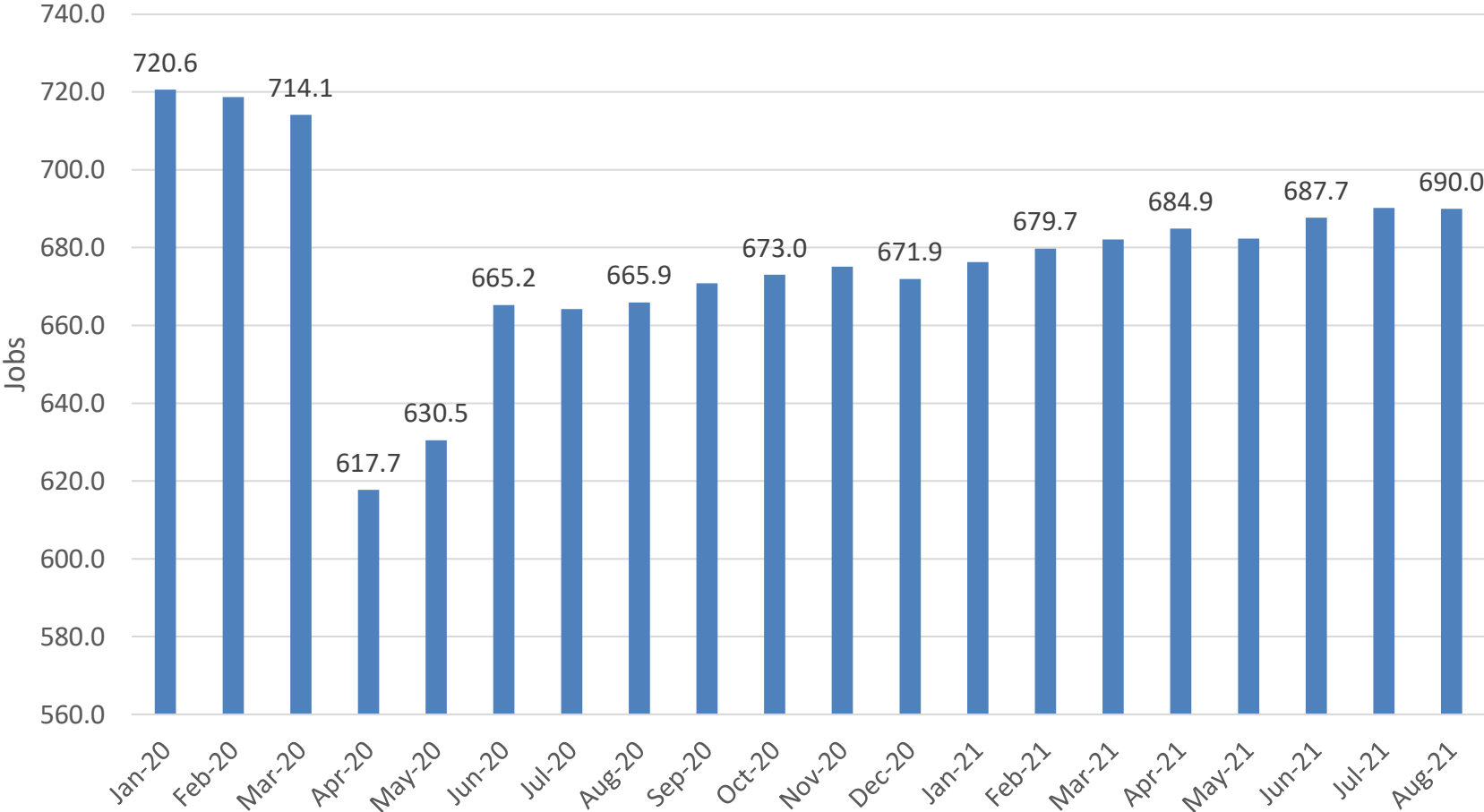
Manufacturing Exports Down 12% Since January 2016

Manufacturing Good Exports Up 11% in past 12 months



WV Payroll Employment Trends: > 70% Recovery

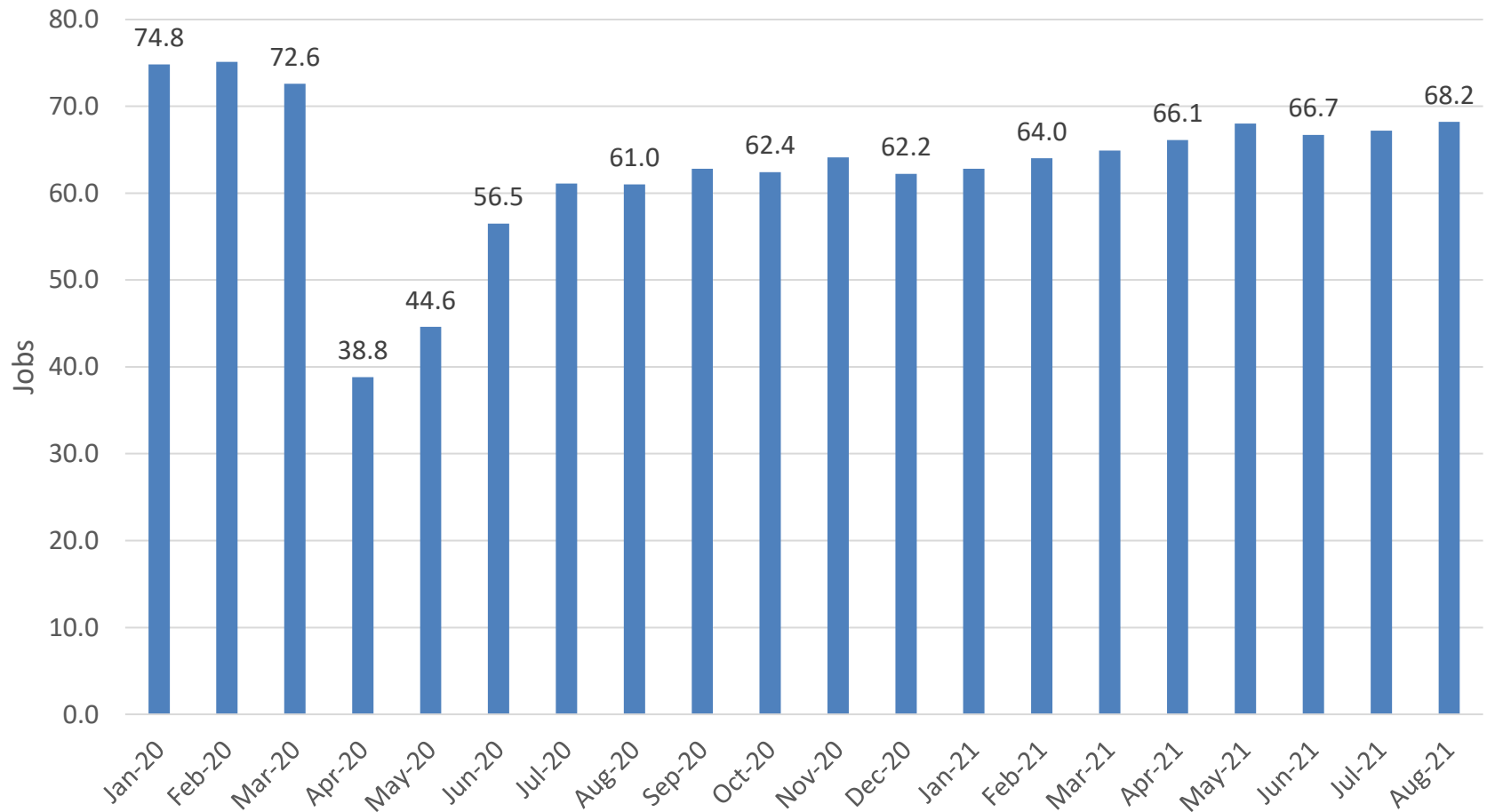
Source: U.S. Bureau of Labor Statistics Seasonally Adjusted



WV Leisure & Hospitality Payroll Employment Trends

One-Third of Total Job Losses with > 80% Recovery

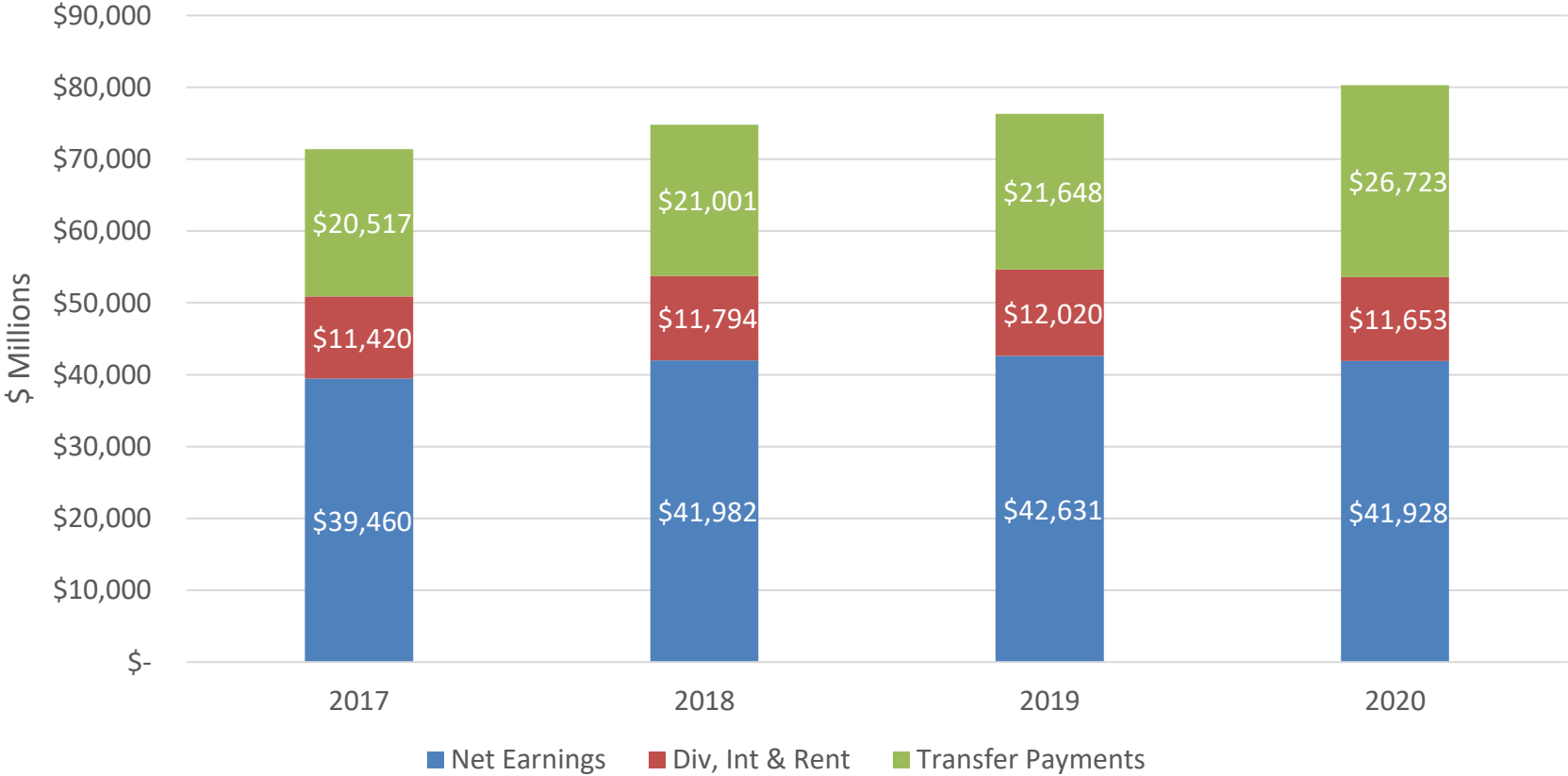
Source: U.S. Bureau of Labor Statistics Seasonally Adjusted



WV Personal Income by Component

Source: U.S. Bureau of Economic Analysis: Last Update September 23, 2021

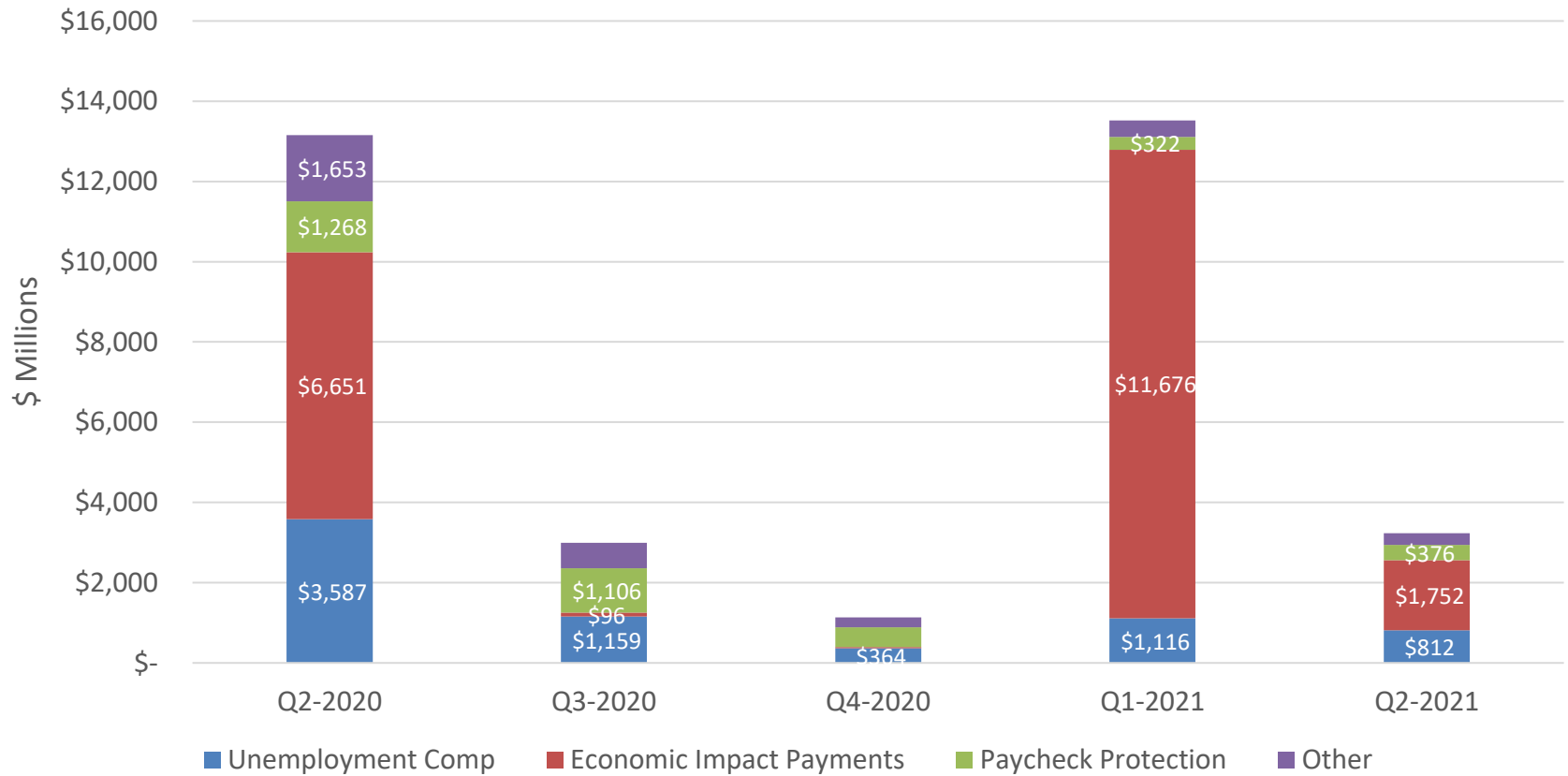
Seasonally Adjusted Annual Rates



Federal Pandemic Response Programs-WV

Source: U.S. Bureau of Economic Analysis: Last Update September 23, 2021

Seasonally Adjusted Annual Rates



Federal Stimulus for \$75 Billion WV Economy

Major Stimulus Items

Adding Some Numbers Together - Federal Pandemic Relief

	\$ Millions			
<u>Type</u>	<u>Amount To Date</u>		<u>Notes</u>	
Economic Impact Payments	\$	4,849	Source; IRS	
Unemployment Compensation	\$	2,429	Source: Tax Foundation	1/27/2020 to 9/11/2021
Paycheck Protection Program Loans/Grants	\$	811	Source: SBA	
Advance Child Tax Credit Payments	\$	310	301,000 children	4 by mid-Oct
 Direct Aid To Individuals & Business	 \$	 8,398		
<u>State Government Aid</u>				
Medicaid Enhancement	\$	400	6.2% FMAP	1/2020 to 12/2021
CARES Funds	\$	1,250		
ARPA Funds	\$	1,355	\$	677.74
 Total Direct State Government	 \$	 3,005		
 Direct ARPA Aid - WV Local Governments	 \$	 670		

FY2022 YTD General Revenue Fund Collections

FY2021-2022 General Revenue Fund as of September 30, 2021

COMPONENT	\$ Millions	\$ Millions		\$ Millions	\$ Millions	Average	\$ Millions
	ACTUAL FY21-22	ACTUAL FY20-21	CHANGE PERCENT	CHANGE FY21 to FY22	ACTUAL FY18-19	ANNUAL % CHG	CHANGE FY19 to FY22
Consumer Sales Tax	\$ 370.028	\$ 350.728	5.5%	\$ 19.300	\$ 327.229	4.2%	\$ 42.800
Personal Income Tax*	\$ 512.725	\$ 470.486	9.0%	\$ 42.240	\$ 502.311	0.7%	\$ 10.414
Business & Occupation Tax	\$ 26.429	\$ 31.669	-16.5%	\$ (5.241)	\$ 25.766	0.9%	\$ 0.663
Severance Tax	\$ 96.806	\$ 22.614	328.1%	\$ 74.192	\$ 96.546	0.1%	\$ 0.260
Corporate Taxes*	\$ 75.281	\$ 49.768	51.3%	\$ 25.513	\$ 47.052	17.0%	\$ 28.229
Insurance Premium Tax	\$ 30.433	\$ 27.754	9.7%	\$ 2.679	\$ 29.903	0.6%	\$ 0.530
Tobacco Products Tax	\$ 43.881	\$ 45.028	-2.5%	\$ (1.147)	\$ 46.267	-1.7%	\$ (2.386)
Interest Income	\$ 1.307	\$ 6.499	-79.9%	\$ (5.192)	\$ 3.978	-31.0%	\$ (2.671)
Lottery Transfers	\$ 13.288	\$ 11.351	17.1%	\$ 1.937	\$ 10.890		\$ 2.398
All Other*	\$ 23.597	\$ 23.092	2.2%	\$ 0.505	\$ 23.504	0.1%	\$ 0.093
TOTAL*	\$ 1,193.775	\$ 1,038.989	14.9%	\$ 154.787	\$ 1,113.446	2.3%	\$ 80.330

* FY 2021 collections adjusted to remove \$144 million in PIT and \$56 million in CNIT one-time deferred income tax collections.

* FY2019 collections adjusted to remove \$5.3 million in one-time special revenue transfer.

State Budget & Revenue Issues

Topics for Discussion in 2022 and Beyond

- State finance matters
 - Where to allocate ARPA funds – infrastructure & broadband.....
 - Future role of State income tax?
 - Energy industry tax revenue volatility & State finances
 - Energy infrastructure & diversification
 - Progress on roads: a positive – (long-term funding?)
 - Broadband.....
 - How to attract downstream manufacturing-cracker plant?
 - Cost pressures relating to drug abuse-family breakdown
- Local government finance matters
 - Where to allocate ARPA Funds
 - Constitutional Amendment (personal property tax)
 - County Home Rule (e.g., 8% v 7% sales tax)
 - Future role of municipal B&O Tax?
 - State assumption of local jail bill costs
 - Promotion of local government service efficiencies v balkanization

Fiscal Outlook Summary

- National economy continues to recover from Pandemic-Employment gap closes
- Revenues on track to rise sharply in FY2022 after 4.7% adjusted increase in FY2021
- Transitory inflation sticks around through FY2022 with gradual slowdown
- Natural gas prices lead on inflation front until demand rebalances
- Coal production rises from 65 million tons toward 85 million tons
- Major pipeline investment hopefully resumes soon
- Federal government policy uncertainty remains a big factor
- State & local governments must decide on best uses for ARPA funds
- Significant Risk/Concern Areas: Foreign Trade; Construction Industry Volatility; Labor Force Growth; Energy Industry Transitions

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Questions?