

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



DEPARTMENT OF REVENUE

WV Budget Issues and Outlook

DEPUTY REVENUE SECRETARY MARK B. MUCHOW

WV Health Innovation Collaborative - Better Value
Work Group

November 18, 2015

2016 Fiscal Outlook Summary

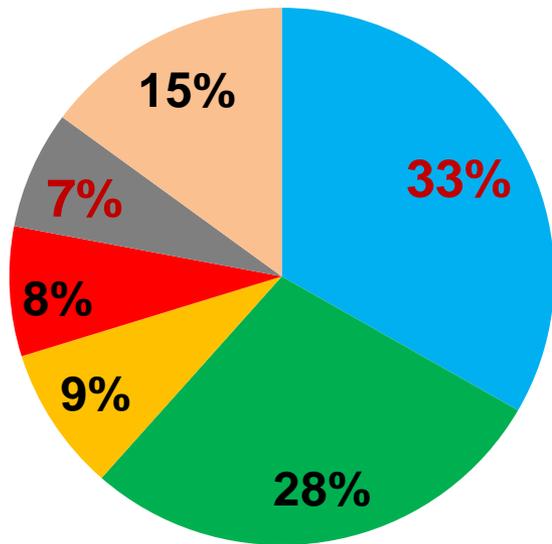
- Lower energy prices reduce severance tax and income tax collections
 - Lower coal production in response to low energy prices
 - Natural gas production surge slows due to transportation bottlenecks
- Lower employment and sluggish wage growth result in lack of significant income tax and sales tax revenue growth
- General Revenue Fund collections will fall below prior year receipts creating sizeable budget gaps in both FY2016 and FY2017
- Lottery revenues will fall below prior year receipts, but still exceed estimate
- State Road Fund collections will fall below prior year receipts
- Overall local government tax revenues will continue to rise
 - Some jurisdictions will experience significant decline
 - Some jurisdictions will experience significant increase

State and Local Government Expenditures 2011: WV Ranks

14th in Per Pupil K-12 Education Funding; 16th in Per Capita Higher Education Funding; 11th in Per Capita Highways Funding; 48th in Per Capita Police Protection

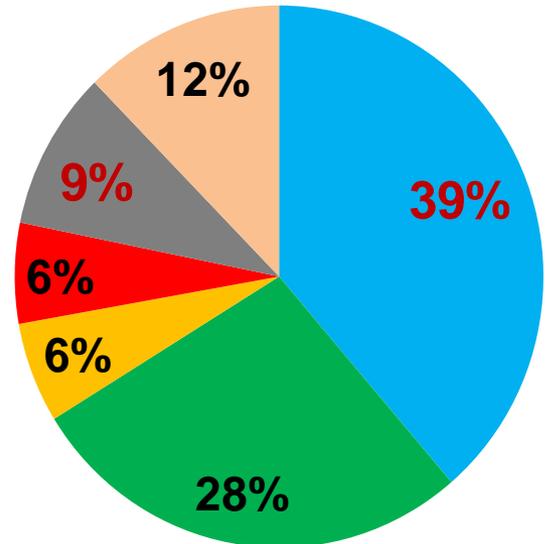
Sources: U.S. Census Bureau & State Higher Education Executive Officers Association

All State Total: \$2.6 Trillion



- Education
- Public Safety
- Transportation
- Social Services/Welfare
- Environment/Housing
- Other

West Virginia: \$14.5 Billion



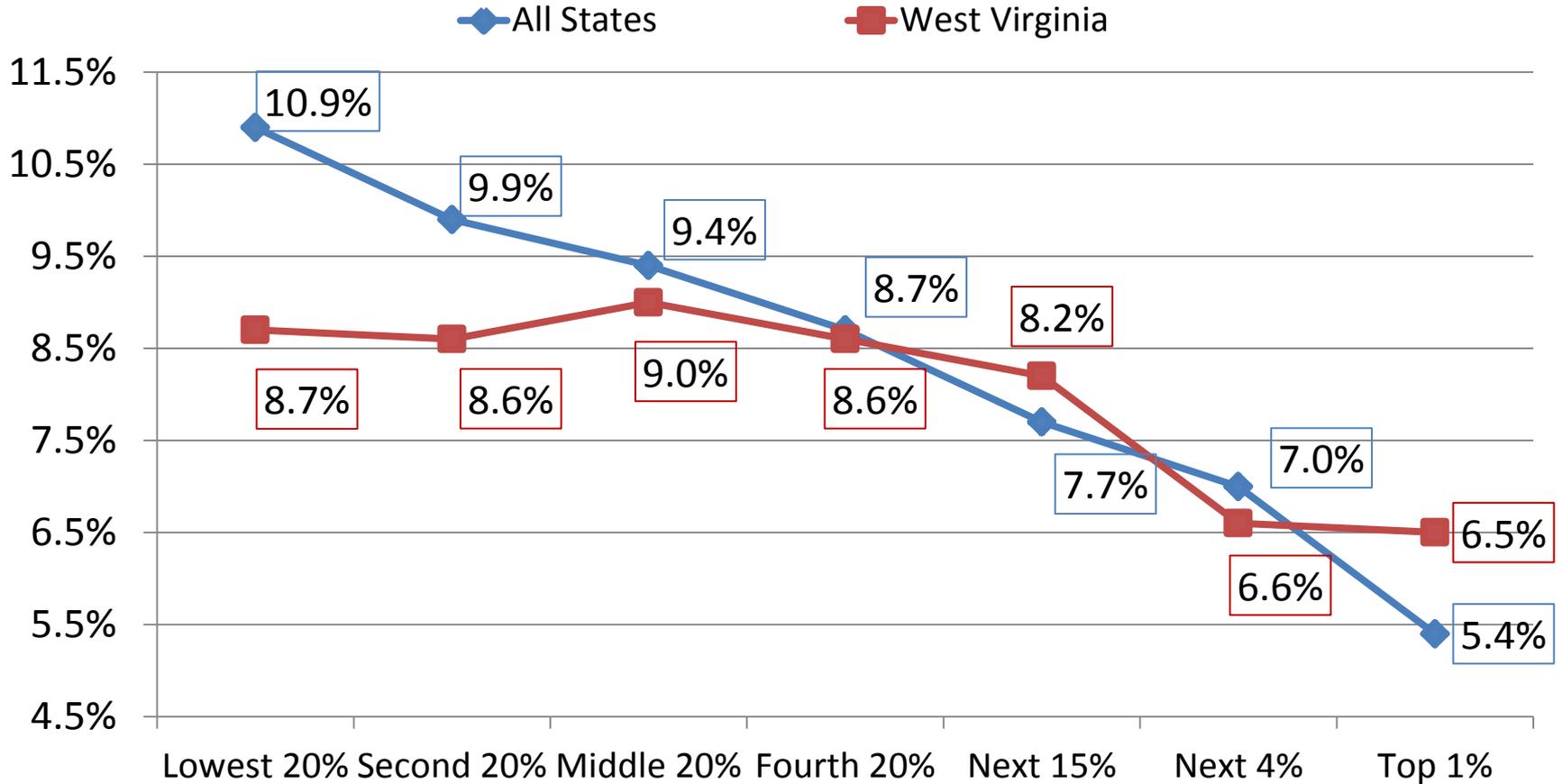
- Education
- Public Safety
- Transportation
- Social Services/Welfare
- Environment/Housing
- Other

Severance Tax Funds: A Contributing Factor Toward Lower Than Average Individual Tax Burden In West Virginia

Estimated Tax Burdens By Income Level: Non-Elderly

Source: Institute on Taxation & Economic Policy: *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States* January 2015

Effective Tax Rate



Examples of Exported Tax Revenues

Out-of-State Tourists (Racetrack Video Lottery, Ski Industry, Whitewater)

Coal Industry exports to other states and countries

Natural Gas exports to other states and countries

Electric Power Generation exports to other states

Cigarette Sales to Out-of-State Residents

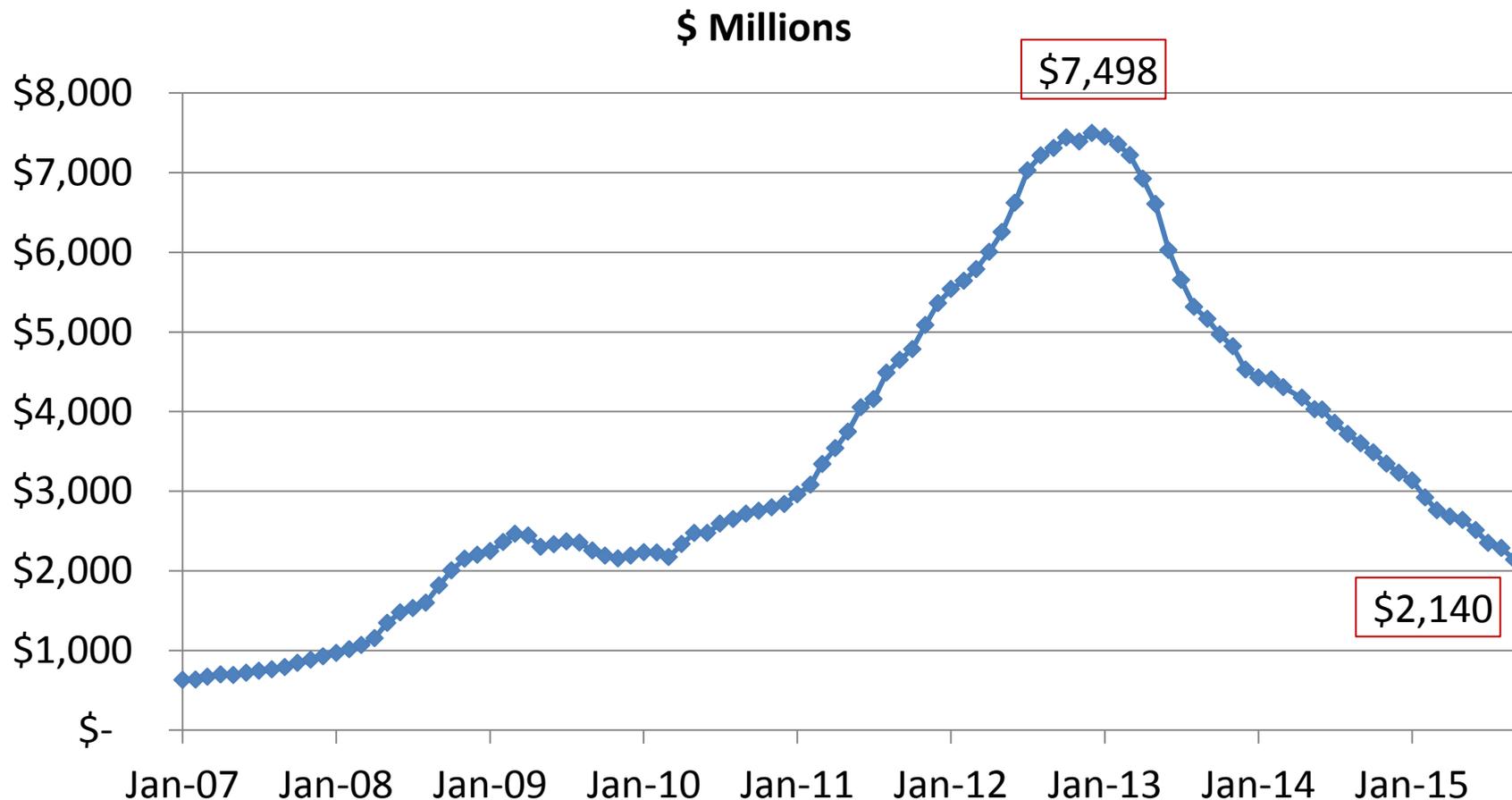
THE ROLE OF EXPORTED TAXES IN GOVERNMENT FINANCE

West Virginia Non-Manufacturing Good Exports

Down 71% Since 2012

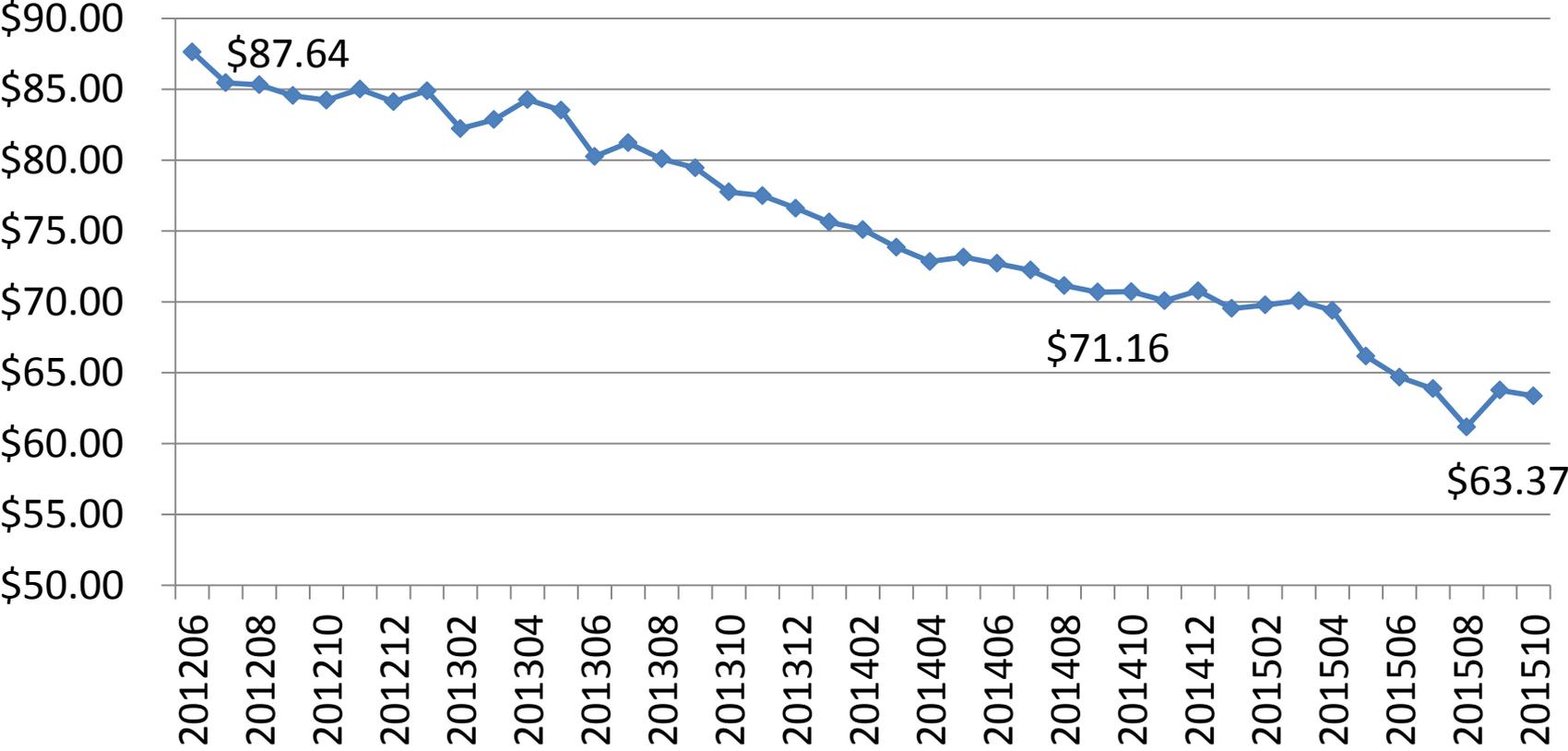
Trailing 12 Month Trend: September 2015

Source: U.S. Census Bureau

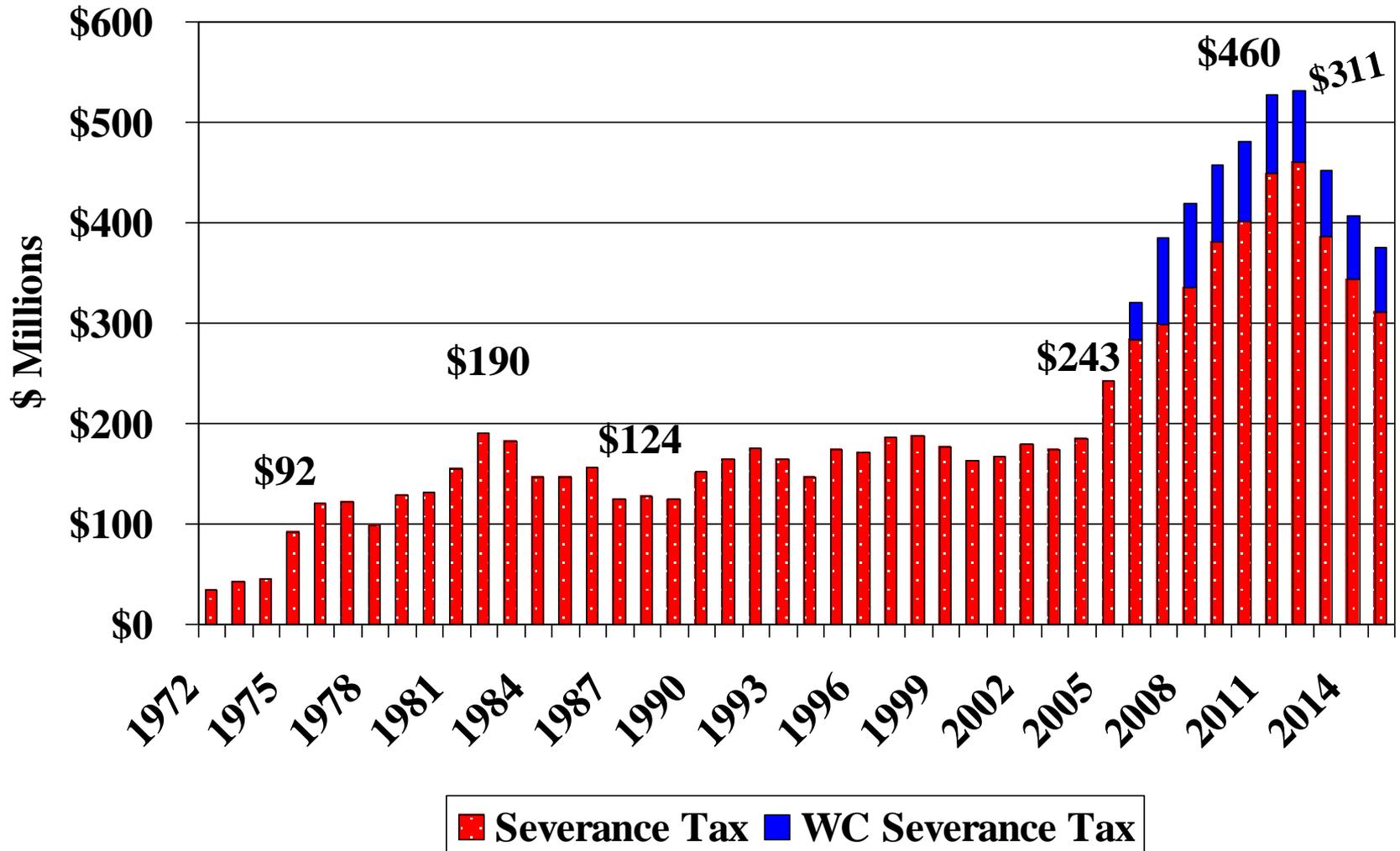


Trailing-Twelve Month Average Coal Price Based on Data Derived From WV Severance Tax Returns

Price/Ton

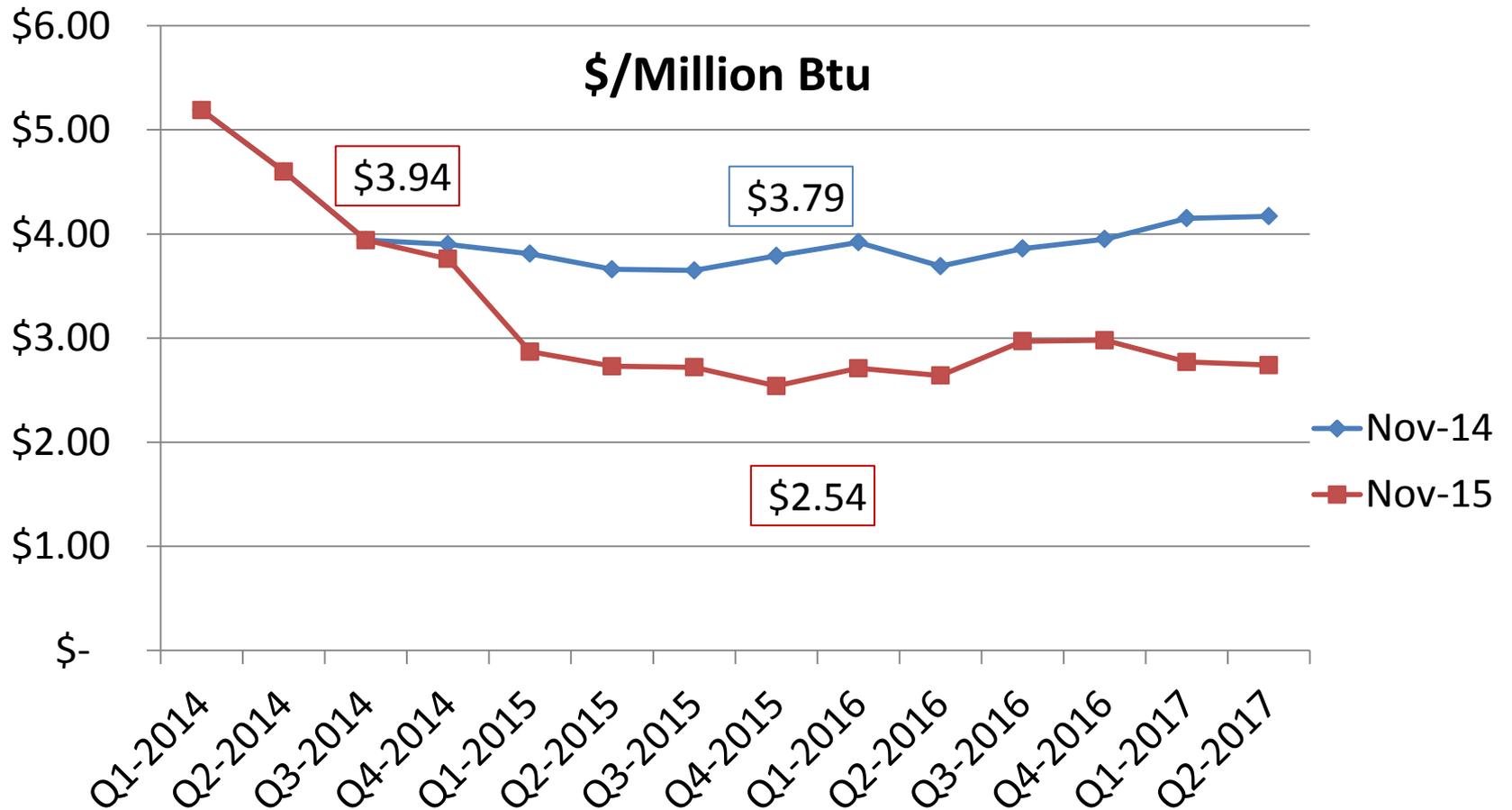


State and Local Coal Severance Tax Revenue Trends: 1972-2015



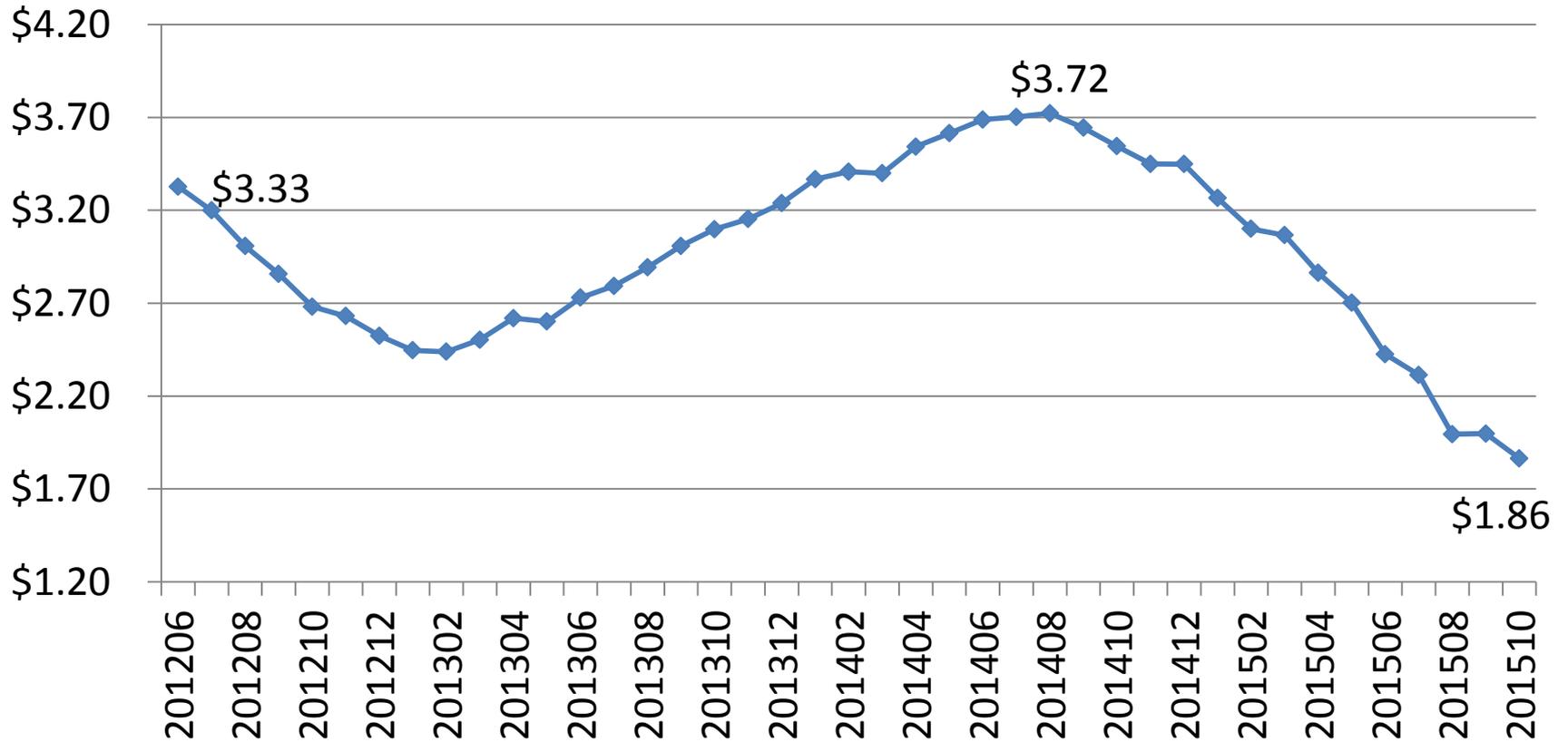
IHS Henry Hub Cash Market Price Forecasts

Source: IHS Baseline U.S. Economic Outlook

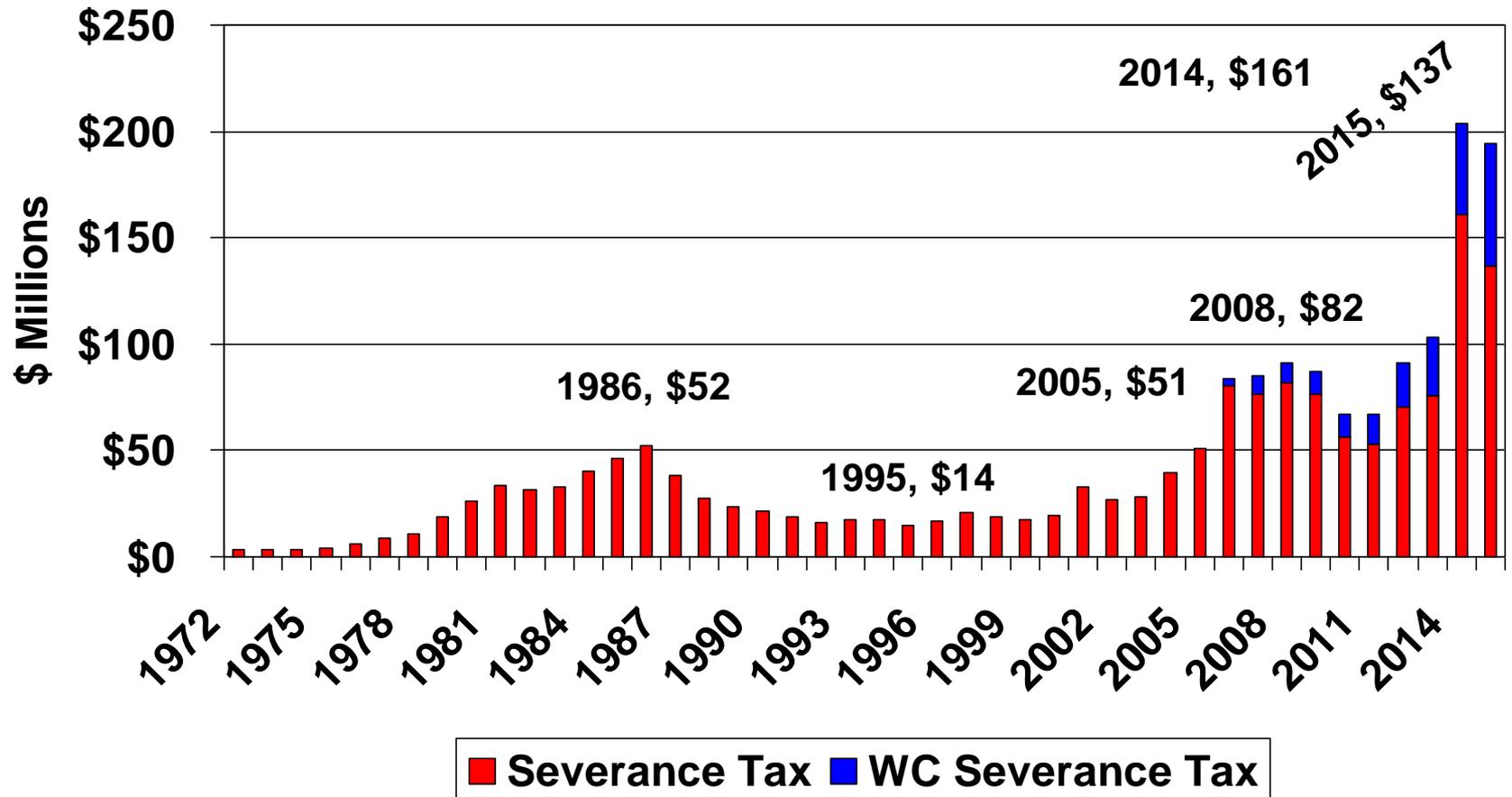


Trailing-Twelve Month Average Well-Head Natural Gas Price Based on Data Derived From WV Severance Tax Returns

Price/MCF



WV Natural Gas Severance Tax Collections by Fiscal Year 1972-2015



Comparative State Revenues as of November 6th

	\$ Millions	\$ Millions		
	November 6 2015	November 6 2014		
<u>GENERAL REVENUE</u>	<u>Cumulative Funds</u>	<u>Cumulative Funds</u>	<u>CHANGE</u>	<u>% CHANGE</u>
SALES & USE	\$ 393.952	\$ 400.142	\$ (6.190)	-1.5%
PERSONAL INCOME	\$ 588.354	\$ 582.052	\$ 6.302	1.1%
B&O	\$ 39.418	\$ 35.643	\$ 3.775	10.6%
SEVERANCE*	\$ 82.475	\$ 147.407	\$ (64.932)	-44.0%
CORPORATE INCOME**	\$ 57.468	\$ 66.924	\$ (9.456)	-14.1%
INSURANCE	\$ 55.892	\$ 54.098	\$ 1.794	3.3%
TOBACCO PRODUCTS	\$ 36.945	\$ 37.987	\$ (1.043)	-2.7%
INTEREST	\$ (0.221)	\$ 0.340	\$ (0.561)	-165.1%
OTHER GENERAL	\$ 42.244	\$ 45.705	\$ (3.461)	-7.6%
GRAND TOTAL	\$ 1,272.951	\$ 1,346.224	\$ (73.272)	-5.4%
<u>STATE ROAD FUND</u>				
LICENSE/REGISTRATION	\$ 26.316	\$ 31.756	\$ (5.440)	-17.1%
MOTOR VEHICLE SALES	\$ 80.138	\$ 77.826	\$ 2.312	3.0%
MOTOR FUEL TAX	\$ 152.484	\$ 162.627	\$ (10.142)	-6.2%
LITTER CONTROL	\$ 0.747	\$ 0.468	\$ 0.279	59.5%
TOTAL ROAD FUND	\$ 259.686	\$ 272.676	\$ (12.991)	-4.8%

Rich County & Poor County Governments in 2015

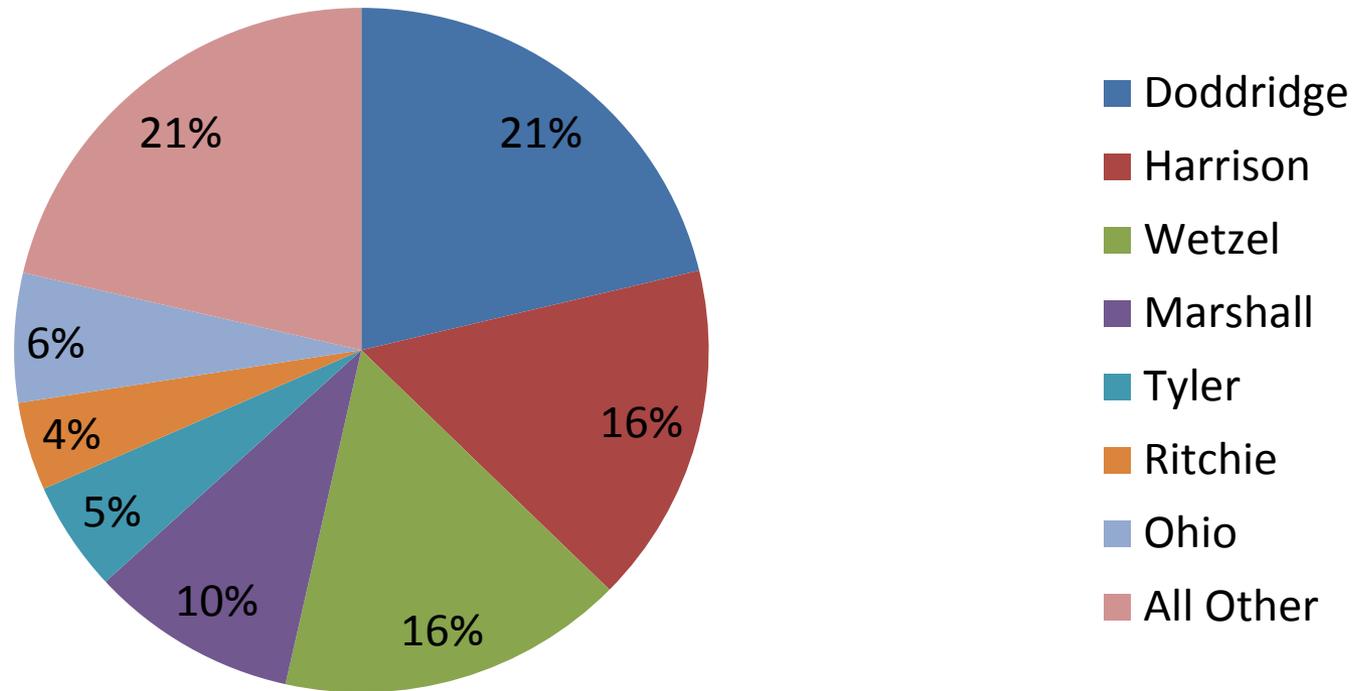
Natural Resources Play Major Role in Property Tax Yield

County	Per Capita Tax Yield 2015 (E rate)	Average Annual Growth 2005-2015	Per Capita Property Tax Rank in 2015	Voter Imposed Tax Rate Share Exclude City	Per Capita Personal Income Rank 2013
<u>Rich County</u>					
Wetzel	\$898	16.3%	1	42%	20
Doddridge	\$845	14.9%	2	45%	54
Marshall	\$812	12.3%	3	43%	4
Monongalia	\$330	6.0%	16	37%	7
<u>Poor County</u>					
Berkeley	\$236	4.1%	38	46%	26
Cabell	\$230	3.2%	41	50%	11
Wood	\$223	1.2%	42	41%	13
Mercer	\$179	2.7%	52	40%	21

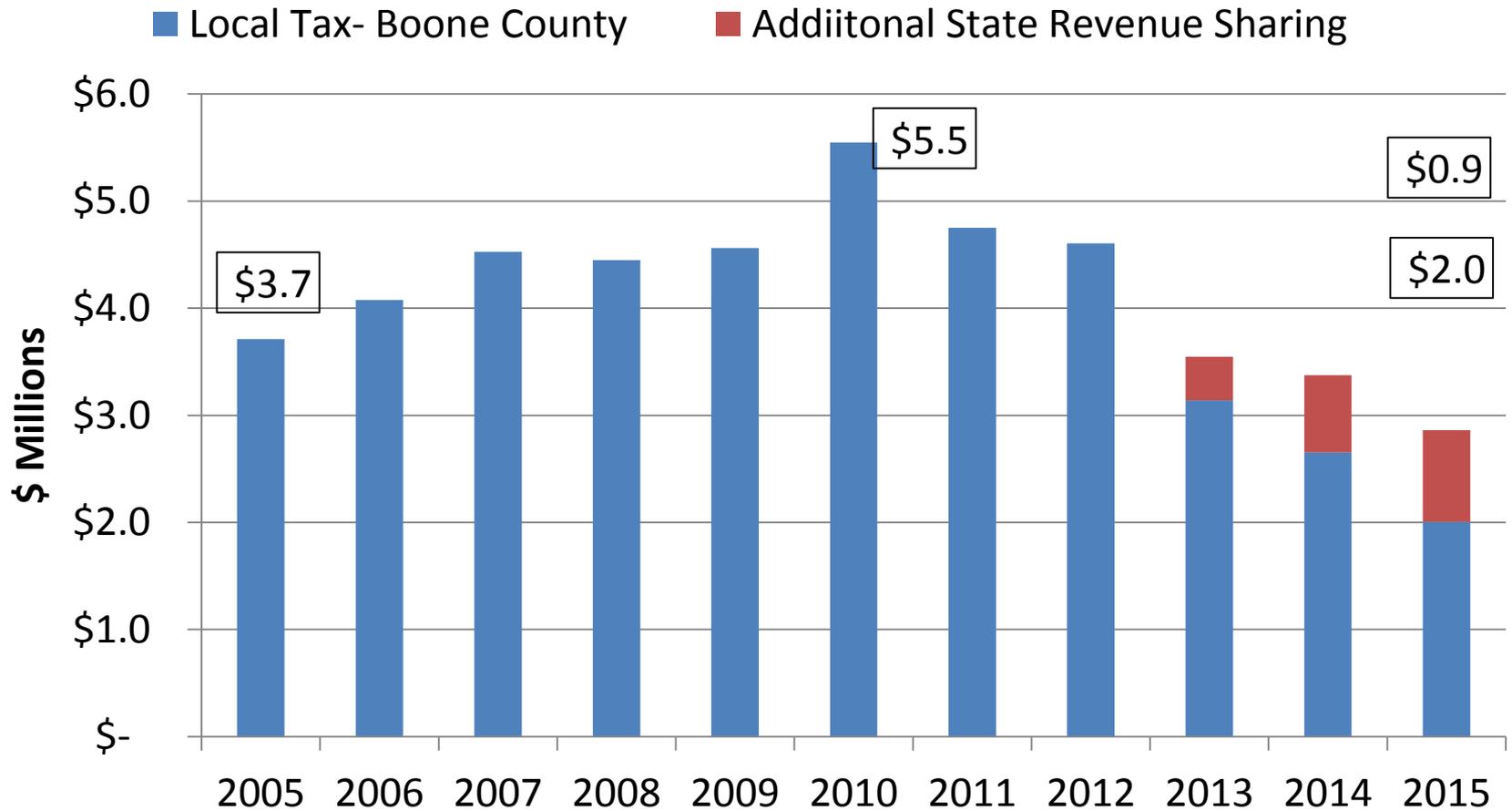
County Share of Gas & Oil Severance Tax Distribution

Two-Thirds of \$11.9 Million to Four Counties

Natural Gas Share 2015

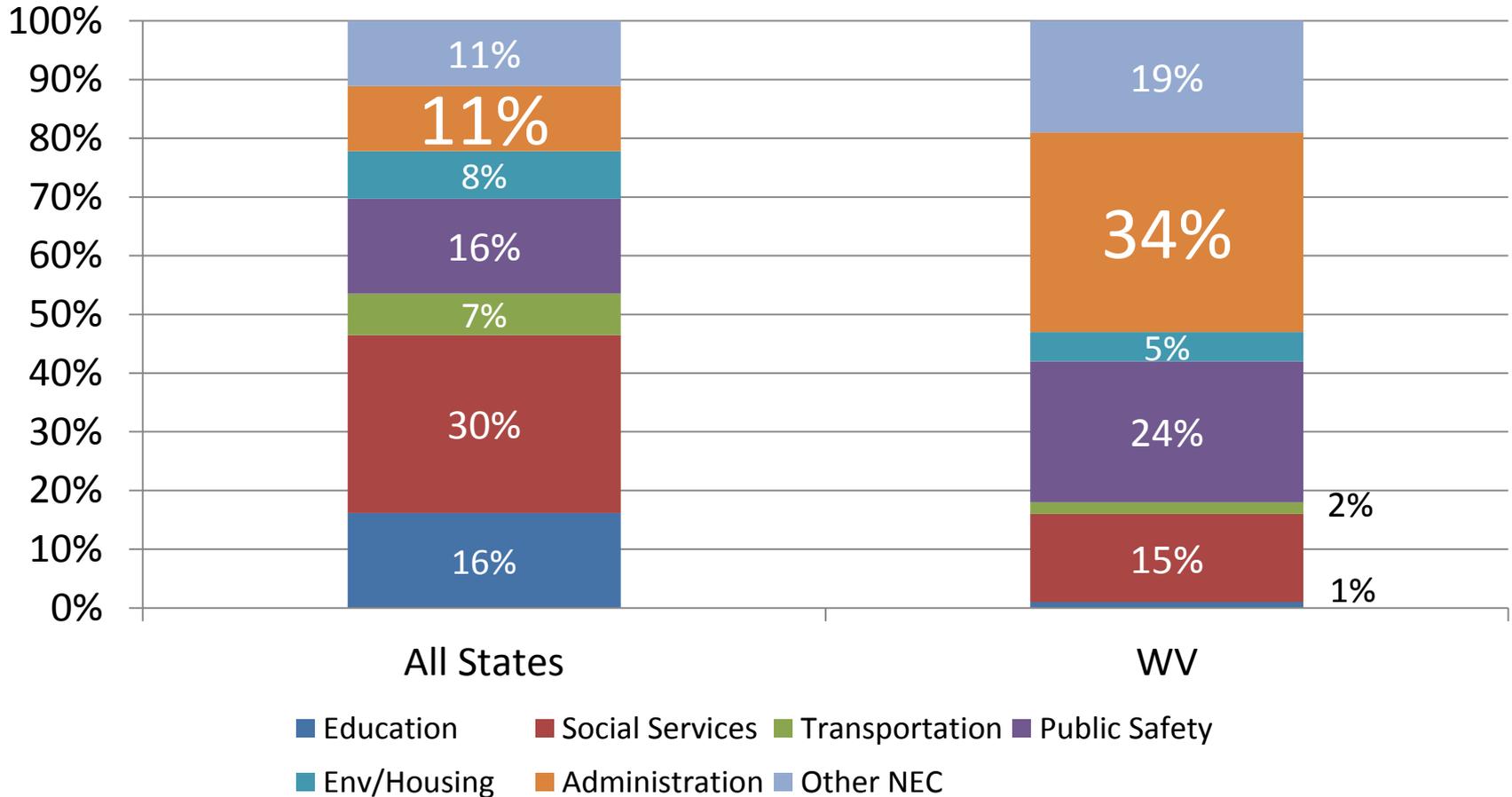


Coal Severance Tax Distributions to **Boone County** Based on Production Share: Year Ending in July



General County Government Expenditures 2012

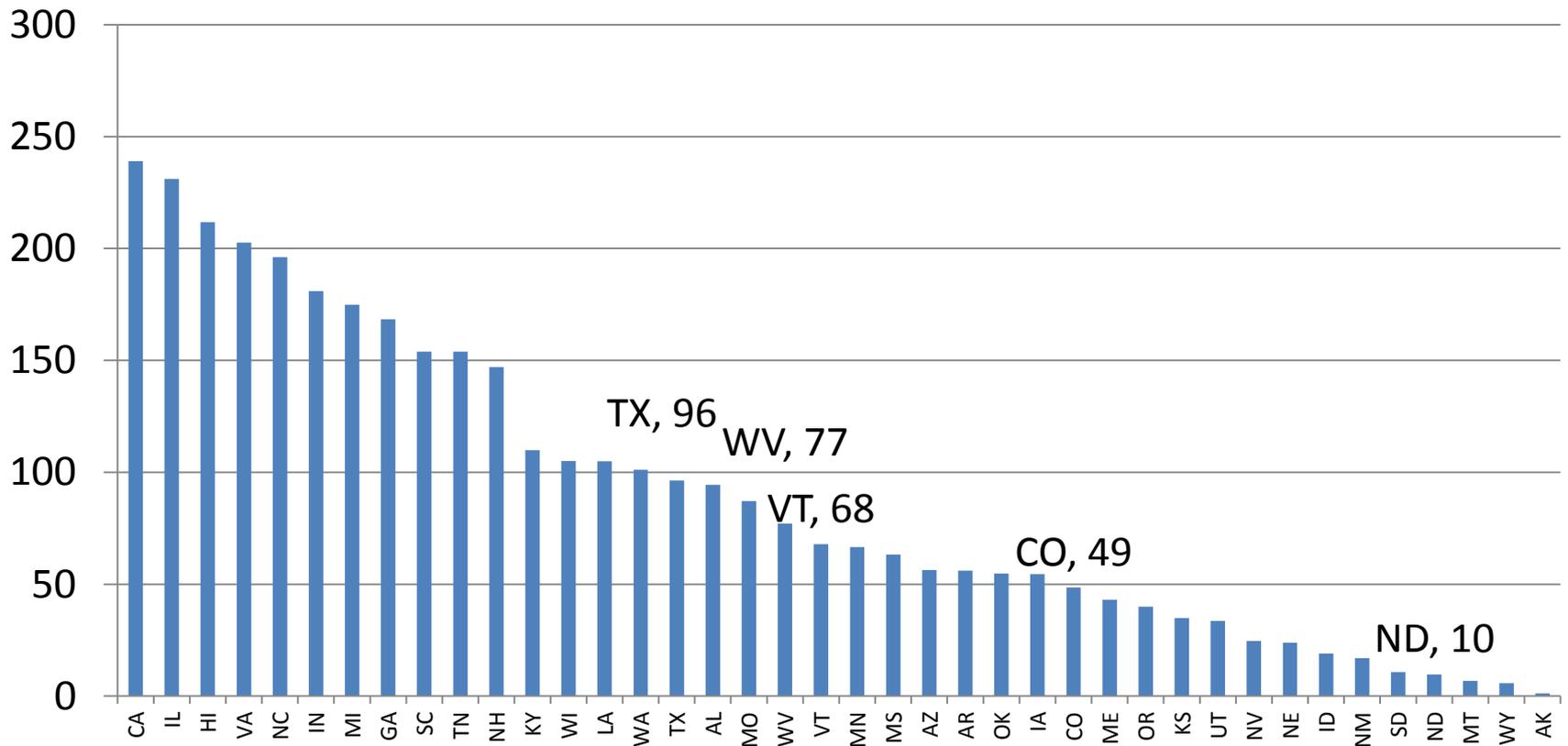
Source: U.S. Census Bureau, *State and Local Government Finances 2012*



WV Ranks 29th Highest in Population Density

Source: U.S. Census Bureau 2010

People Per Square Mile

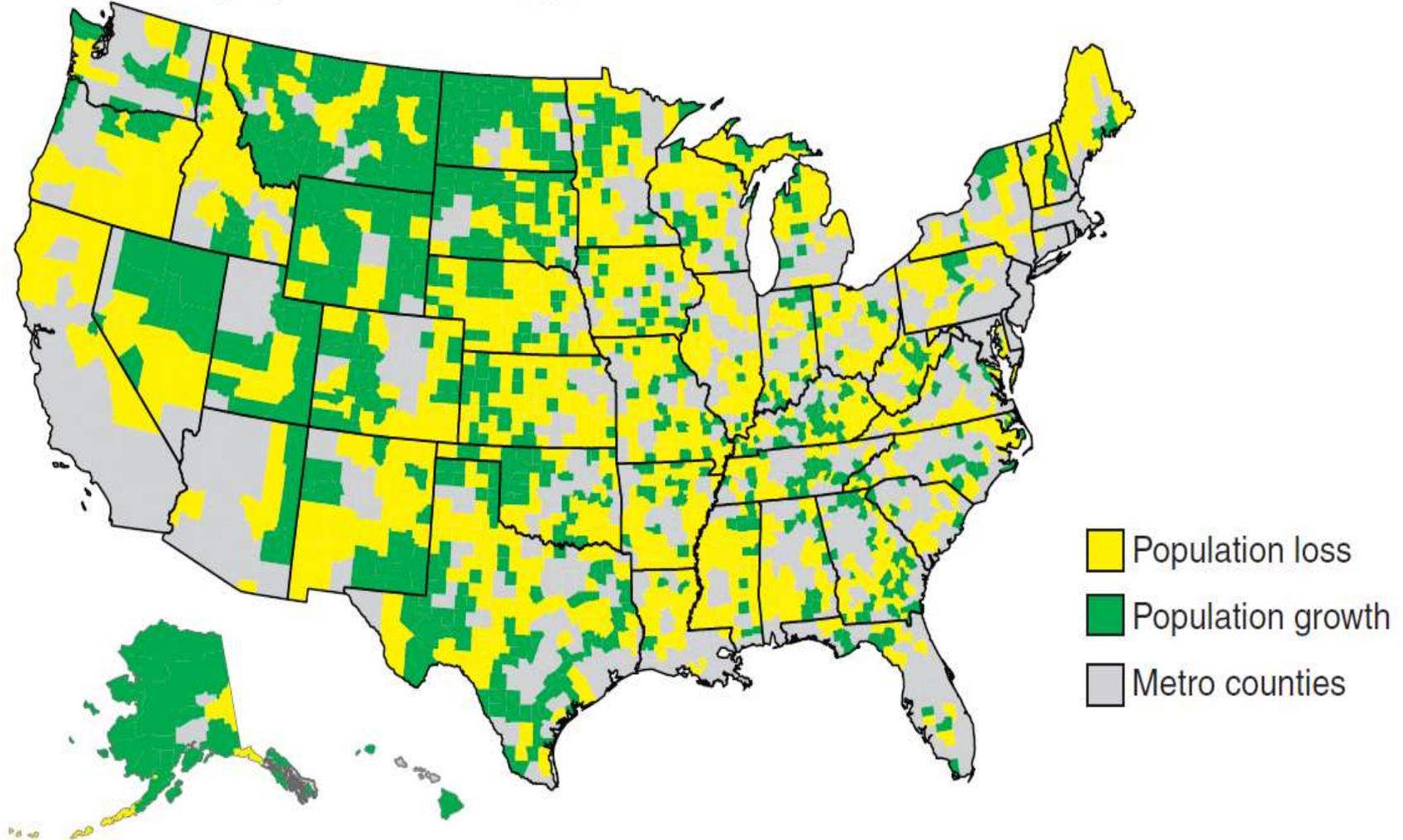


Rural Counties Versus Metro Counties

Source: U.S. Department of Agriculture

- Employment Growth (2Q 2010 to 2Q 2014):
 - Urban employment up 5.0%
 - Rural employment: up 1.1%
 - Most growth in oil & gas extraction counties (3%/year)
 - 2001-2010: Rural employment fell 2%
- Labor Force Participation Declining (2009-2014):
 - Urban from 65.2% to 63.2%
 - Rural: from 62.2% to 60.6% [52.8% in WV]
- Population Growth (15% live in Rural Areas [40% in WV]):
 - 61% of all non-metro counties lost population between 2010-13
 - Falling birth rates and aging population = near 0% natural growth rate
 - Net decline for all rural areas lessened by energy boom counties (ND, MT)
- Education Attainment:
 - Share of population with at least 4 year college degree
 - Urban areas: 32%
 - Rural Areas: 18% [18.3% in WV vs 28.8% for U.S.]
 - Greater growth in counties with better education
 - “Many young adults leave rural areas to attend college, and many of these people remain in urban areas after college due to the higher earnings available to them in those areas.”

Nonmetro population change, 2010-13



Source: USDA, Economic Research Service using data from U.S. Census Bureau.

Fiscal Outlook Summary

- Tax revenues expected to decline in FY2016
- Modest recovery in FY2017
- Energy prices gradually recover to levels significantly below recent historical averages
- Multi-year reconciliation of government service demand with taxpayer willingness to pay is underway
- Expect less fiscal support from the federal government over time
- States with strong local government partners likely to fair best in the future
 - West Virginia hampered by real property tax limitations
 - Home rule seems to be gaining momentum
 - Will government service share responsibility increase at the local level?

Other States' Budget Problems

Alabama - five parks are scheduled to close this week because of budget cuts

Alaska - drop in oil prices has created a deficit of about \$3 billion

California - prospect of more than \$1 billion in spending cuts next year

Colorado - budget proposal for FY17 features \$373M in spending cuts

Connecticut - aiming to close a budget shortfall of \$370M

Illinois - continues to operate without a full budget for FY16

The state does not have enough money to make pension payments

Some lottery winners are not getting paid

Universities are worried about funding for the spring semester

Two credit rating agencies have recently downgraded the state

Louisiana - already facing a looming budget hole of \$412M to \$622M

North Dakota - saw a \$60M drop in tax revenues in first 3 months of FY16

Oklahoma - 6th straight month of receipts coming in lower

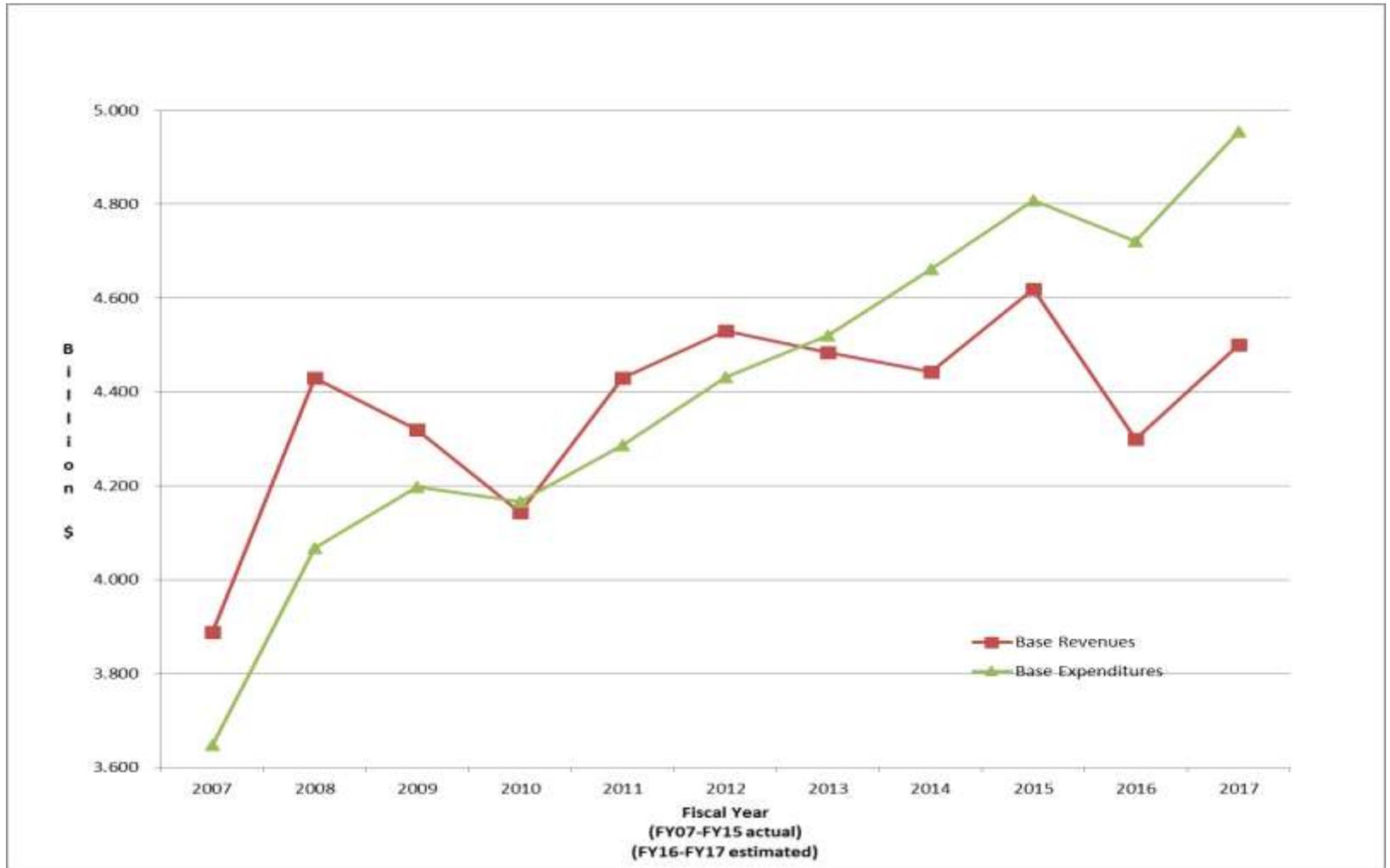
Governor ordered state agencies to begin planning for 10% cuts to nonessential expenses

Pennsylvania - still no FY16 budget

Texas - tax revenue collections are projected to be below forecast by \$2.6 billion over the next two years

Wyoming - revenues through FY18 are now projected to be about \$617M below what the state anticipated

General & Lottery Funds



General Revenue Funds
FY 2016
Summary of Mid-Year Budget Cuts
(in \$s)

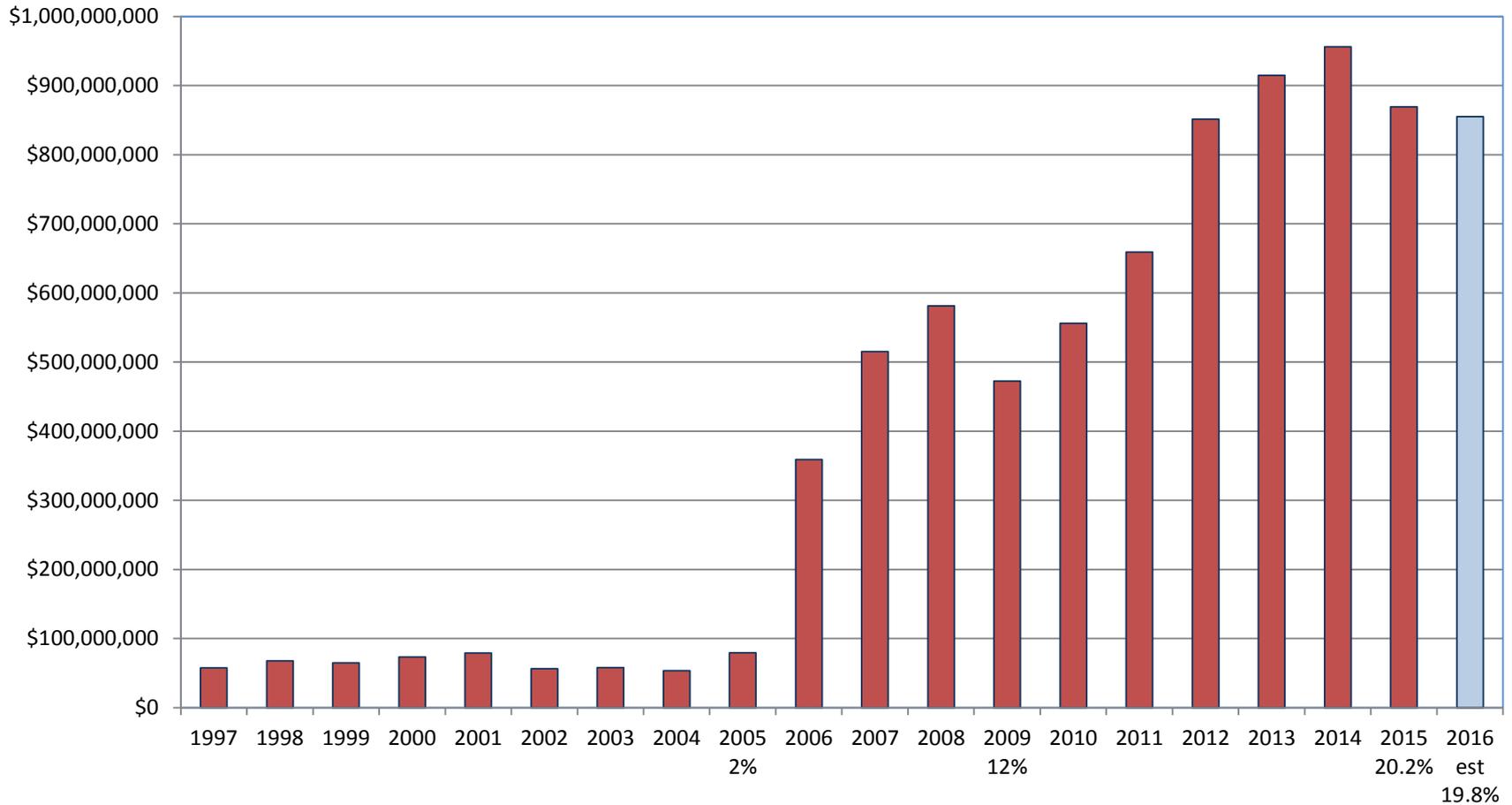
Department	FY 2016 Budget	Excluded from cut	Subject to cut	cut
Judicial	\$ 139,572,495	139,572,495	0	0
Public Education	1,925,407,507	652,206,606	1,273,200,901	16,454,204
Health & Human Services	1,181,311,818	144,050,812	1,037,261,006	41,490,440
Military Affairs & Public Safety	361,978,399	17,458,810	344,519,589	13,780,784
Higher Education	409,293,171	63,968,363	345,324,808	13,812,992
All Others	279,076,013	59,393,350	219,682,663	8,787,307
Total	\$4,296,639,403	\$ 1,076,650,436	\$ 3,219,988,967	\$ 94,325,727

State of West Virginia

General & Lottery Appropriations

<u>Department</u>	<u>FY 2009</u>	<u>% of total</u>	<u>Includes mid-yr cut FY 2016</u>	<u>% of total</u>
Public Education	\$ 1,918,411,298	44%	\$ 1,963,905,829	43%
Health & Human Resources	862,091,049	20%	1,174,243,518	26%
Higher Education	483,015,423	11%	453,736,648	10%
All Others	1,073,107,891	25%	998,196,997	22%
 Total	 <u>\$ 4,336,625,661</u>		 <u>\$ 4,590,082,992</u>	

Rainy Day Balance at End of Year



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Questions?