

# WV Budget Issues and Forecast

West Virginia Health Innovation Collaborative

Lower Cost Work Group

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# Economic Diversification

## Why is Mining Sector Important to WV?

- Major Growth in WV Population: 1900 – 1950 (109%)
  - Mining industries shape migration patterns in WV
  - Significant population migration to rural areas in WV
  - Significant population to urban areas in U.S.
- Fastest Growth Counties 1900-2010?

• Raleigh:	6.34 times population of 1900
• Berkeley:	5.35 times population of 1900
• Logan:	5.28 times population of 1900
- Stranded Labor Problem (WV is third most rural 51%)
  - Migration is major part of the long-term solution
  - Education enhancement part of solution

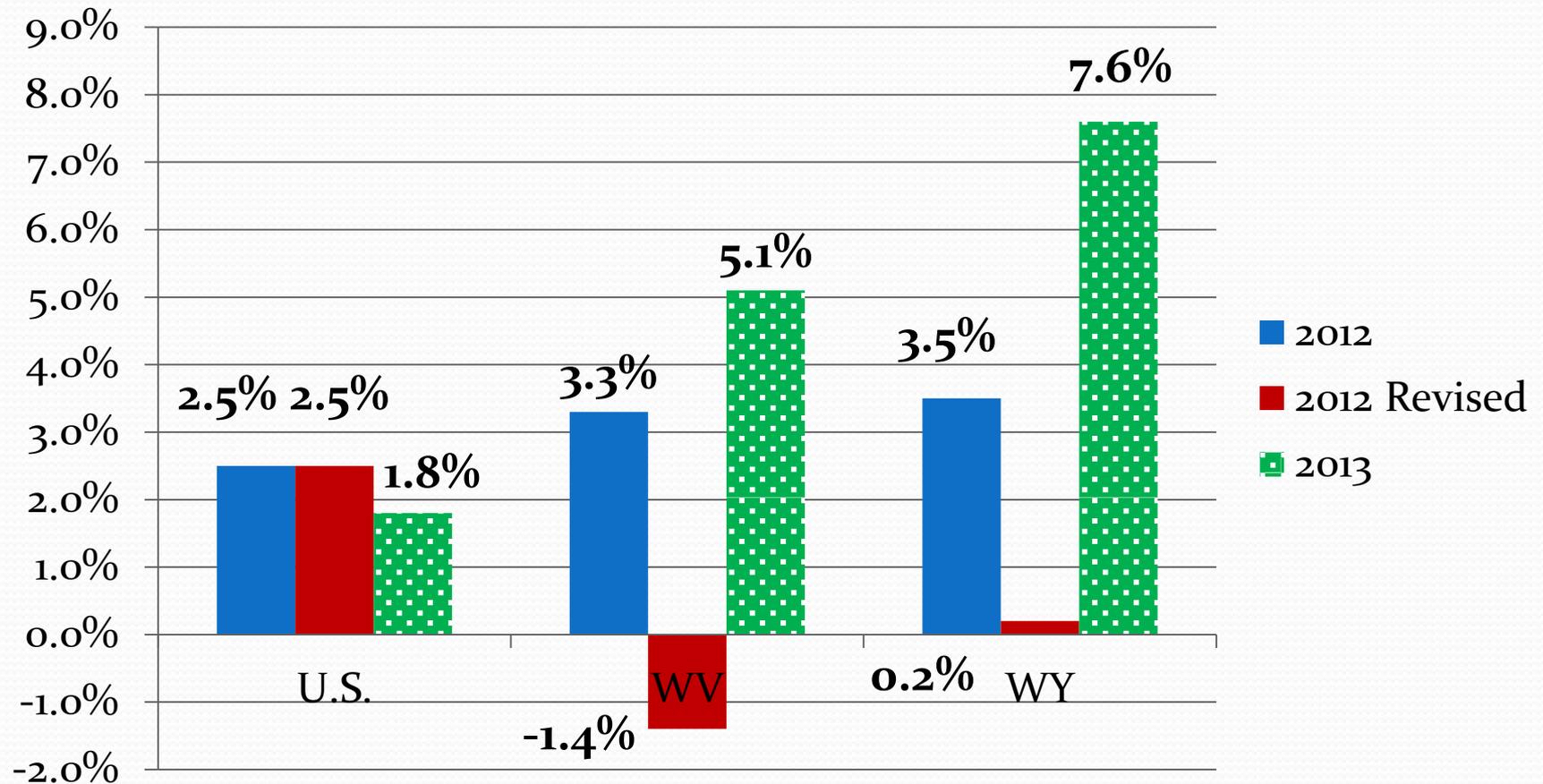
# Economic Data Revision: Impact on Forecasts

- Significant dynamic changes in structure of West Virginia Economy – Harder to measure
- Accurate historic data key to any forecast model
- Significant revisions to key variables result in a shifts in baseline numbers often after release of forecasts

# Revisions to Real GDP Growth in 2012

Major Downward Revision in Coal Producing States

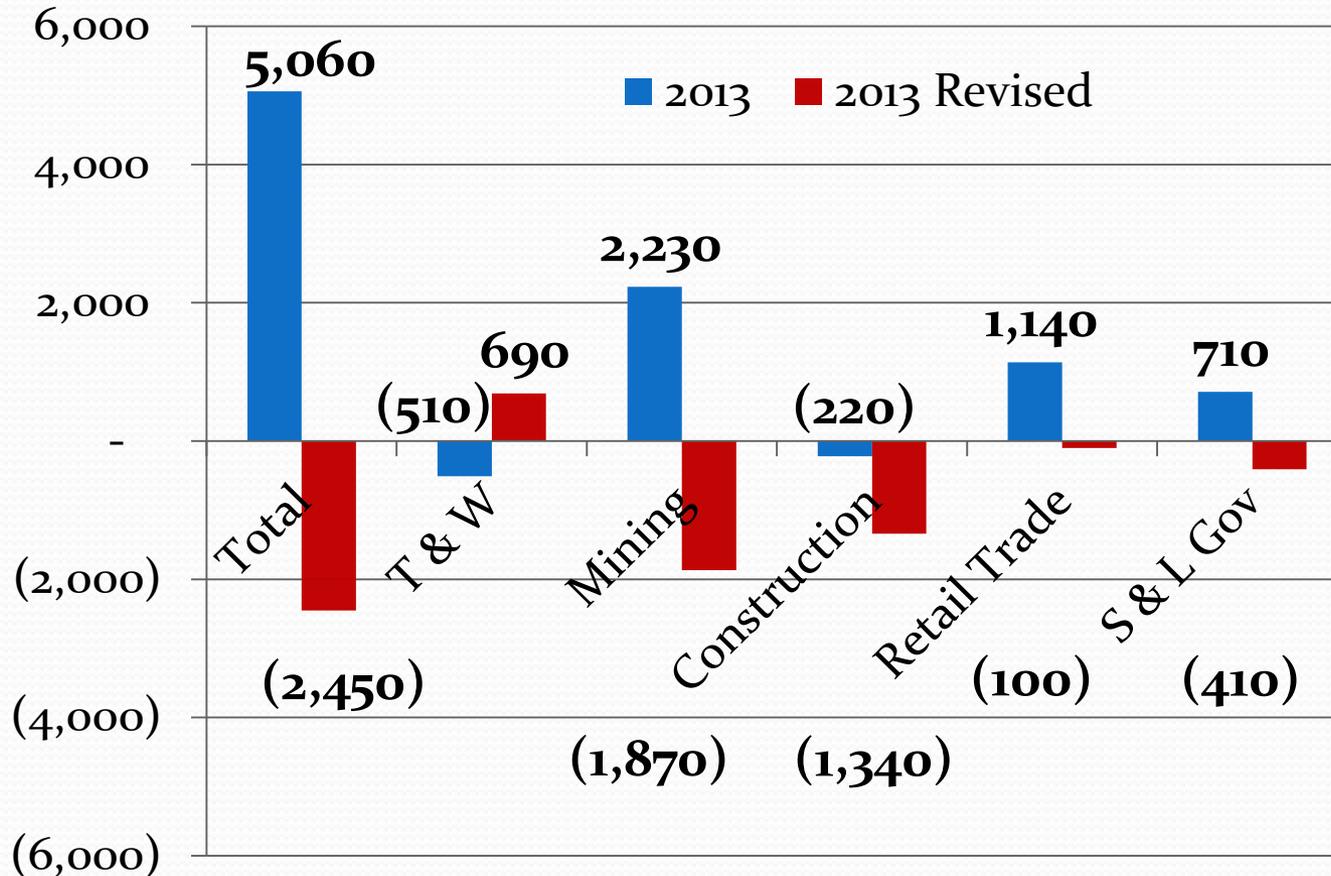
Do We Expect a Repeat in 2013 and 2014?



# Revisions to WV Employment Data in 2013

Major Downward Revision in Mining Employment

Do We Expect a Repeat in 2014?





## Outlook: Gradual Turnaround with Revenue Growth

### Will Future Revenue System Elasticity be Sufficient?

- Major Economic Transformation
  - Shift from Coal to Natural Gas
  - Geographic Shift to Northern West Virginia
- Sluggish National Economic Recovery: 2009-Present
  - Accelerated growth forecast in 2015-16
  - Higher short-term interest rate by mid-2015

# Fiscal Trends 2012-2015

- Two consecutive years of Revenue Decline: 2013-14
- Two consecutive years of 7.5% budget adjustments
- Use of one-time funds to balance FY2014 & FY2015 budgets averaging \$275 million per year
- Depletion of Medicaid Trust Fund with cost growth shifted to General Revenue Fund

# 8 Sources of Revenue: > 98% of General Budget

## Revenue Elasticity in Decline

<u>Revenue Source</u>		<u>Average Change Since FY2007</u>	<u>[FY2012-14]</u>
Personal Income Tax:	(38%)	+5.5%/year	[-0.4%/year]
Consumer Sales Tax:	(26%)	+2.9%/year	[-2.2%/year]
Lottery Funds:	(11%)	+10.1%/year	[-5.1%/year]
Severance Tax:	(11%)	+6.4%/year	[-0.4%/year]
Corporate Income Tax:	( 5%)	-1.8%/year	[+2.9%/year]
<b>B&amp;O Tax:</b>	<b>( 3%)</b>	<b>-2.3%/year since FY1997</b>	
Insurance Premium Tax:	( 2%)	+2.9%/year since FY1997	
<b>Tobacco Excise Tax:</b>	<b>( 2%)</b>	<b>-0.6%/year (FY04)</b>	<b>[-3.6%/year]</b>

# Personal Income Tax Slump:

Partially Due to Temporary Factors

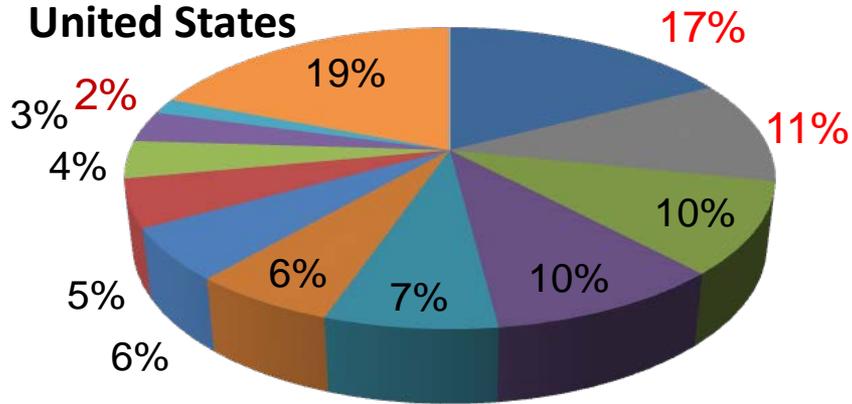
- 1997-2012: Average Growth 5.5%/year
- 2012-2014: -0.4%/year
- Reasons for Stagnation:
  - Temporary Alternative Fuel Vehicle Credit
  - Lack of employment or wage growth in CY2012-13
  - Federal Fiscal Cliff Uncertainty at end of CY2012
- Gradual turnaround due to improved employment outlook & some stability from Washington

# Distribution of Non-Farm Earnings: 2013

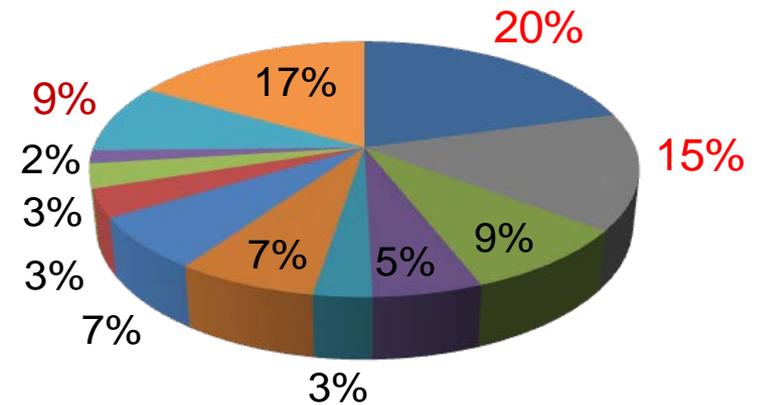
## Mining, Health Care & Government Play Bigger Role In WV

Source: U.S. Department of Commerce, Bureau of Economic Analysis

### United States



### West Virginia



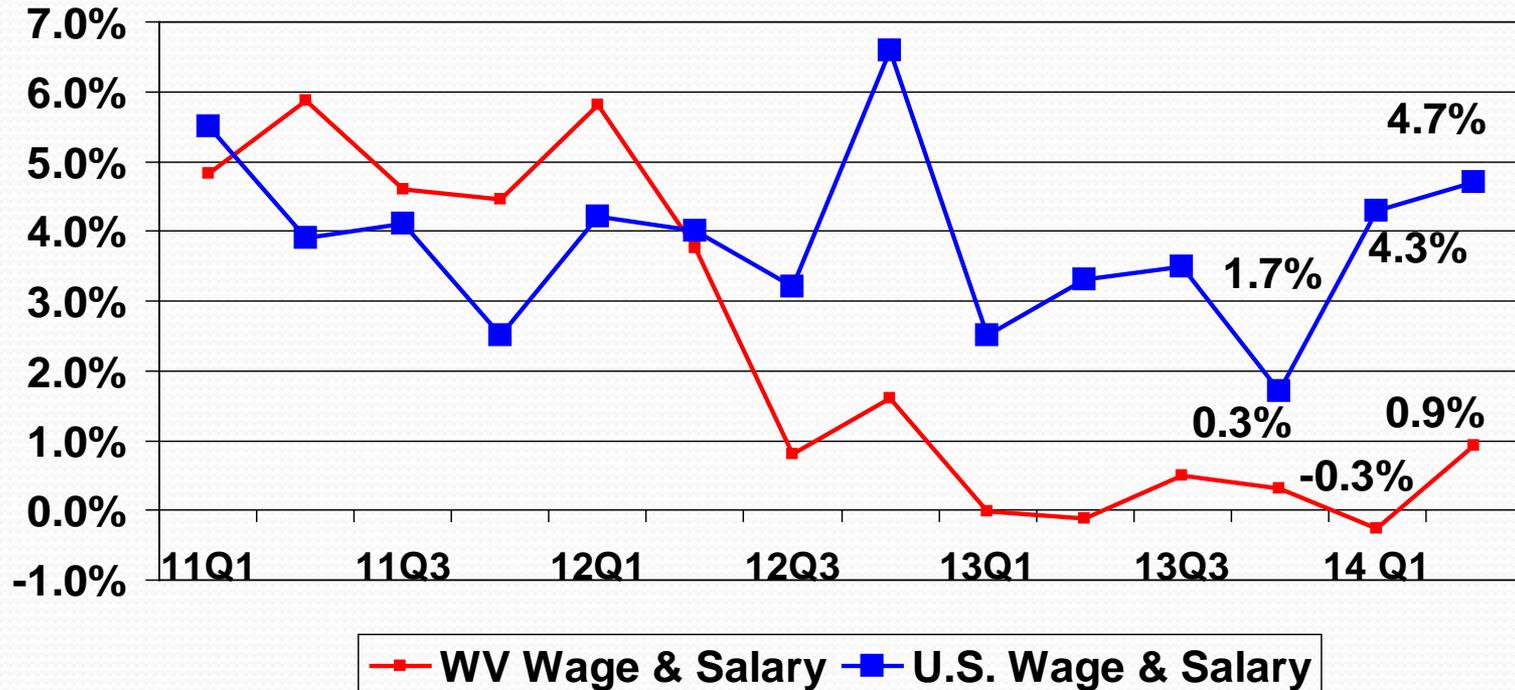
- Government
- Health Care/Social Assistance
- Manufacturing
- Professional/Technical Service
- Finance & Insurance
- Retail Trade
- Construction
- Wholesale Trade
- Administrative & Waste Management
- Information Services
- Mining
- Other

# Wage Growth Very Sluggish Over Past Two Years

Quarterly Wage & Salary Income Growth Trend -West Virginia

Source: U.S. Bureau of Economic Analysis

Seasonally Adjusted Annual Rate

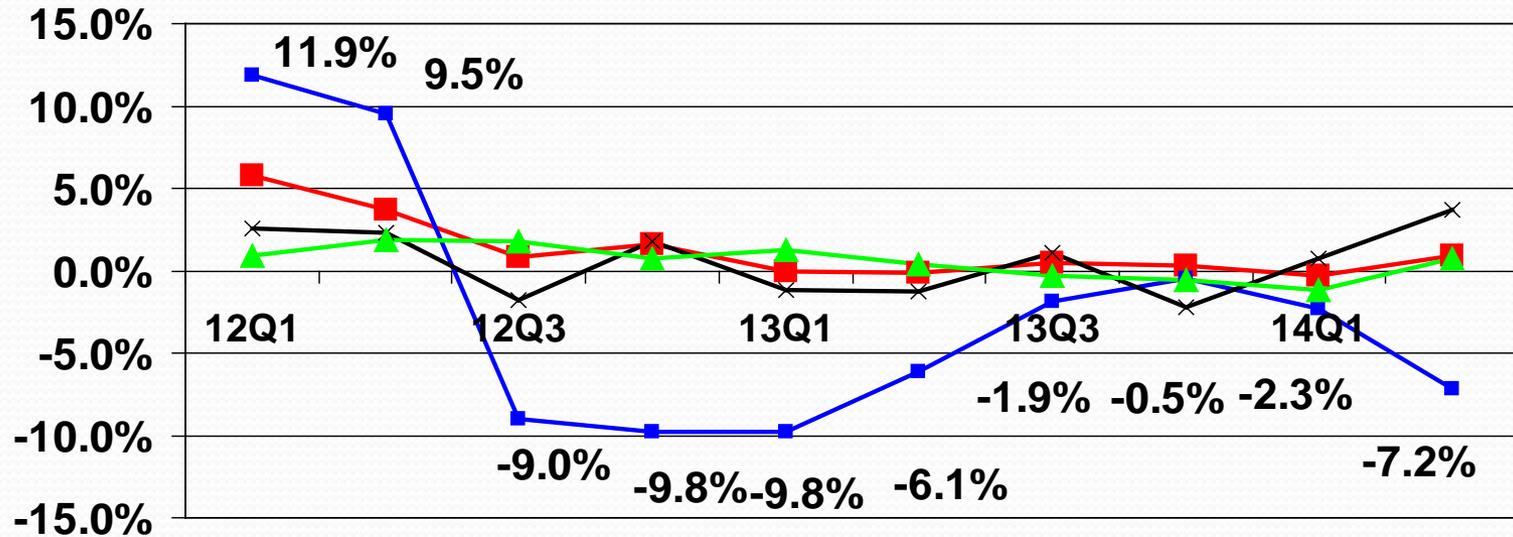


# Sluggish Wage Growth Tied To Mining Industry

## Quarterly Wage & Salary Income Growth Trend -West Virginia

Source: U.S. Bureau of Economic Analysis

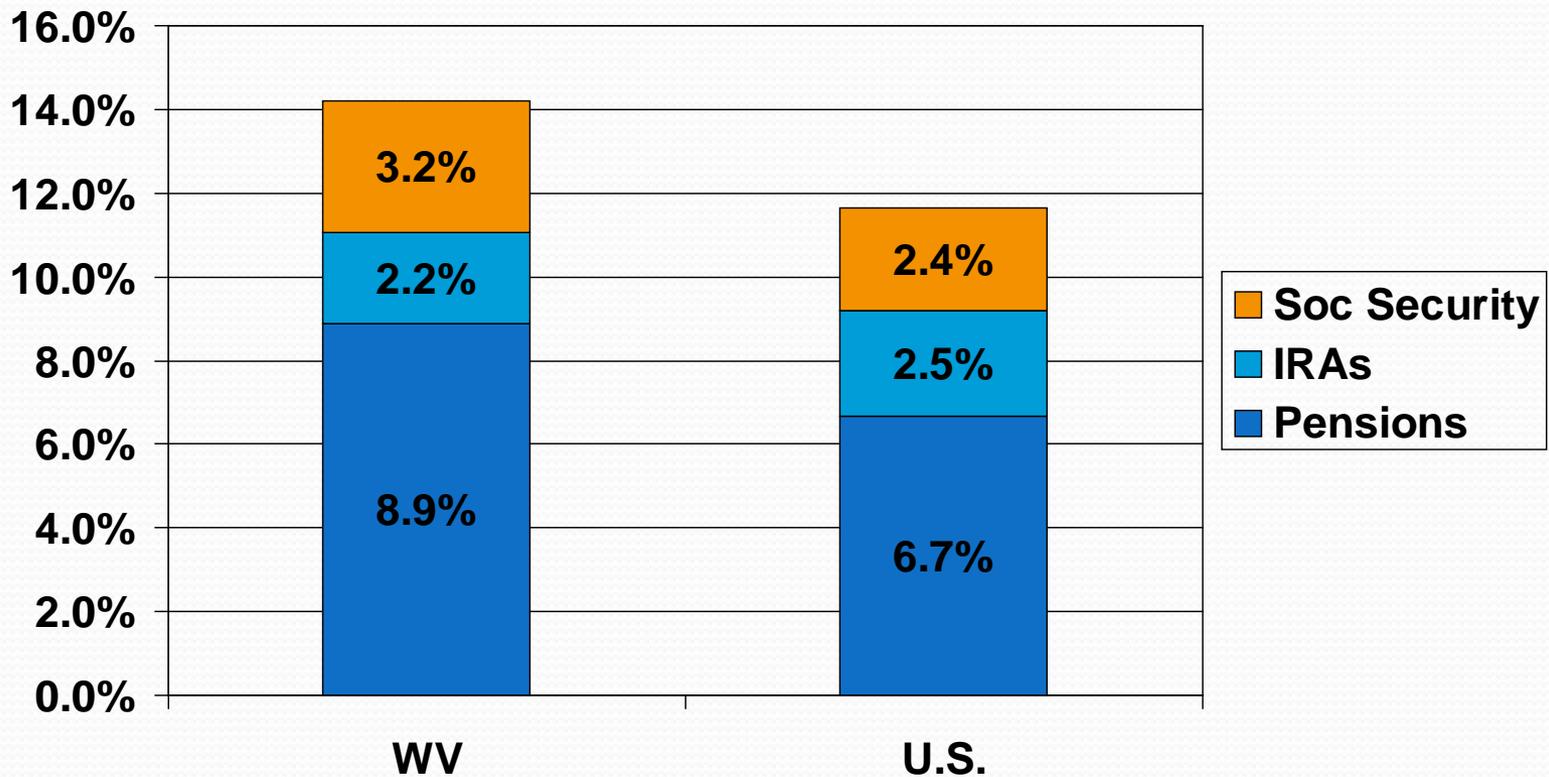
Seasonally Adjusted Annual Rate



■ WV Total ■ Mining × Manufacturing ▲ Government

# Percentage of Adjusted Gross Income Attributable to Retirement Income in 2012

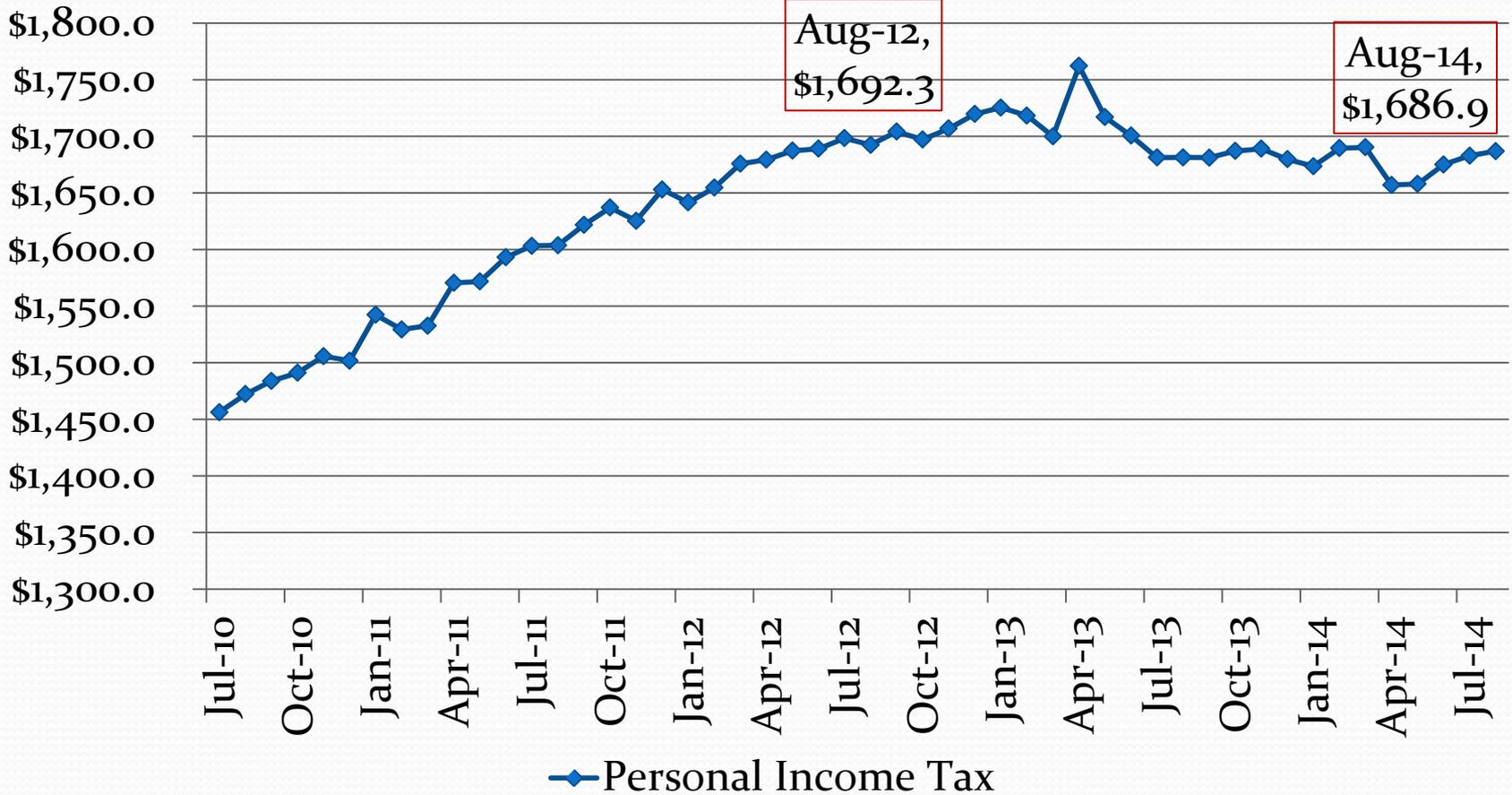
Source: IRS Statistics of Income



# Personal Income Tax: Flat Collection Pattern

Trailing 12 Month Trend

\$ Millions



# Consumer Sales Tax Slump:

Partially Due to Temporary Factors

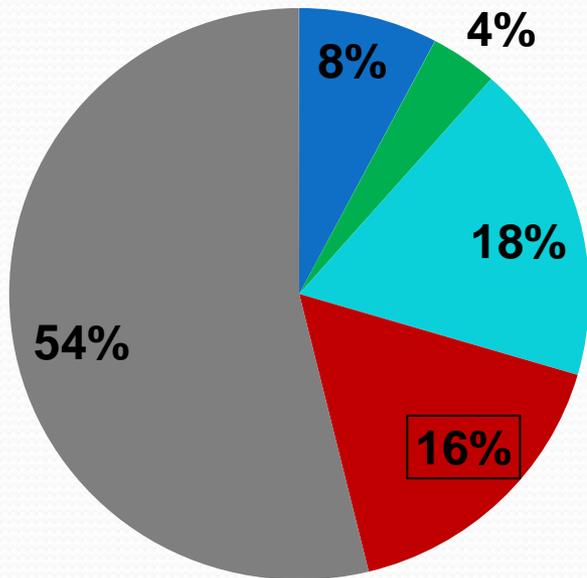
- 1997-2012: Average Growth 2.9%/year
- 2012-2014: -2.2%/year
- Reasons for Stagnation:
  - Lack of wage growth in CY2012-13
  - End of temporary federal payroll tax holiday
  - Phase-out of remaining food tax
  - Growth in remote commerce competition
- Gradual turnaround due to improved employment outlook, some stability from Washington & no more phased-in tax reductions

# Per Capita Personal Consumption Expenditures 2012

Average Citizen's Consumption of Health Care 8% Higher in WV

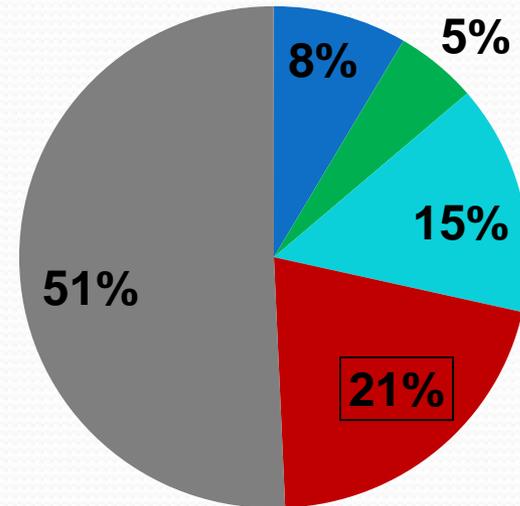
Source: U.S. Bureau of Economic Analysis

**United States: \$35,498**



■ Food    ■ Energy    ■ Housing  
■ Health Care    ■ Other

**West Virginia: \$30,642**

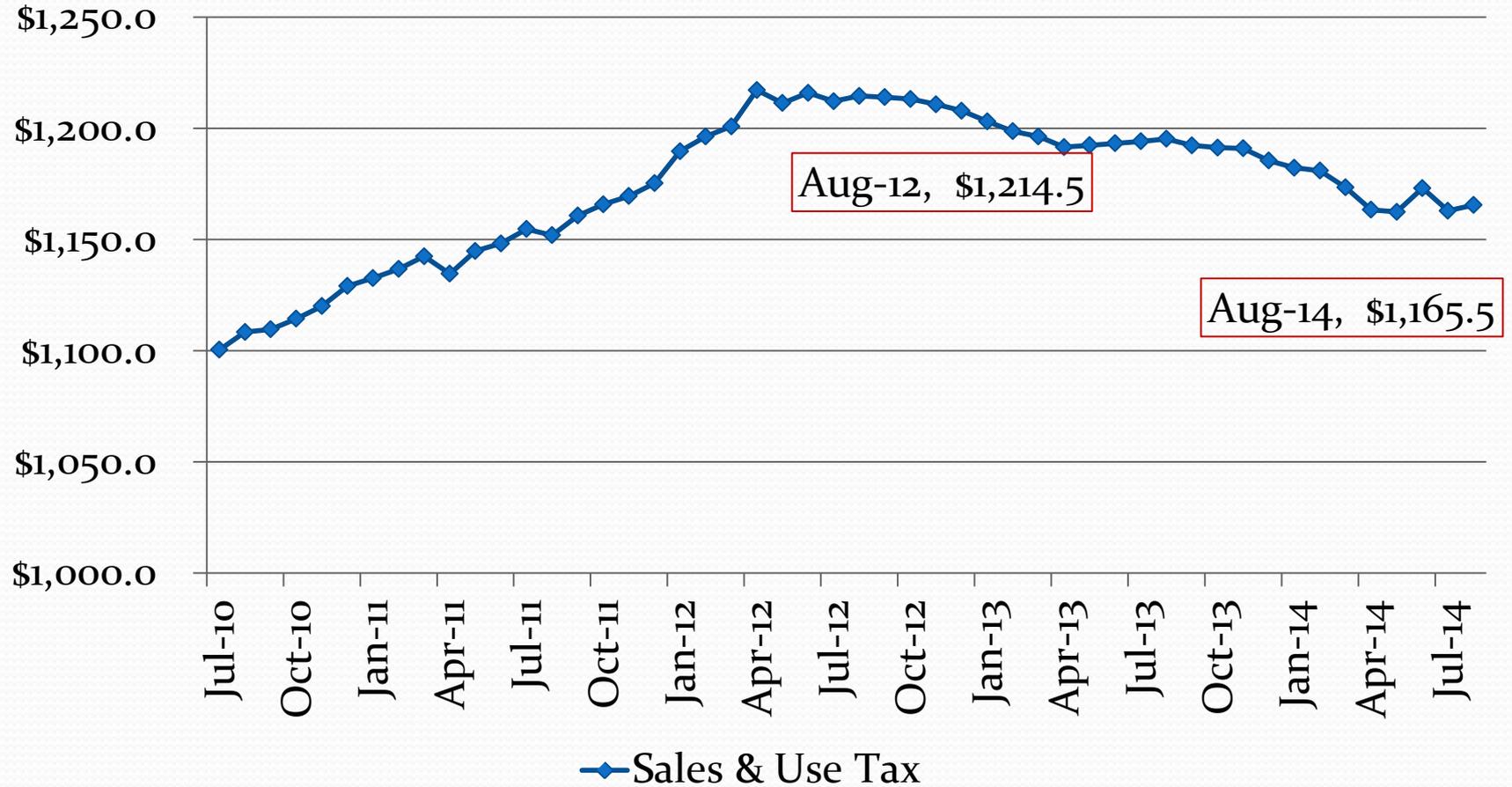


■ Food    ■ Energy  
■ Housing    ■ Health Care  
■ Other

# Consumer Sales Tax: Flat Collection Pattern

## Trailing 12 Month Trend

\$ Millions



# Severance Tax Slowdown:

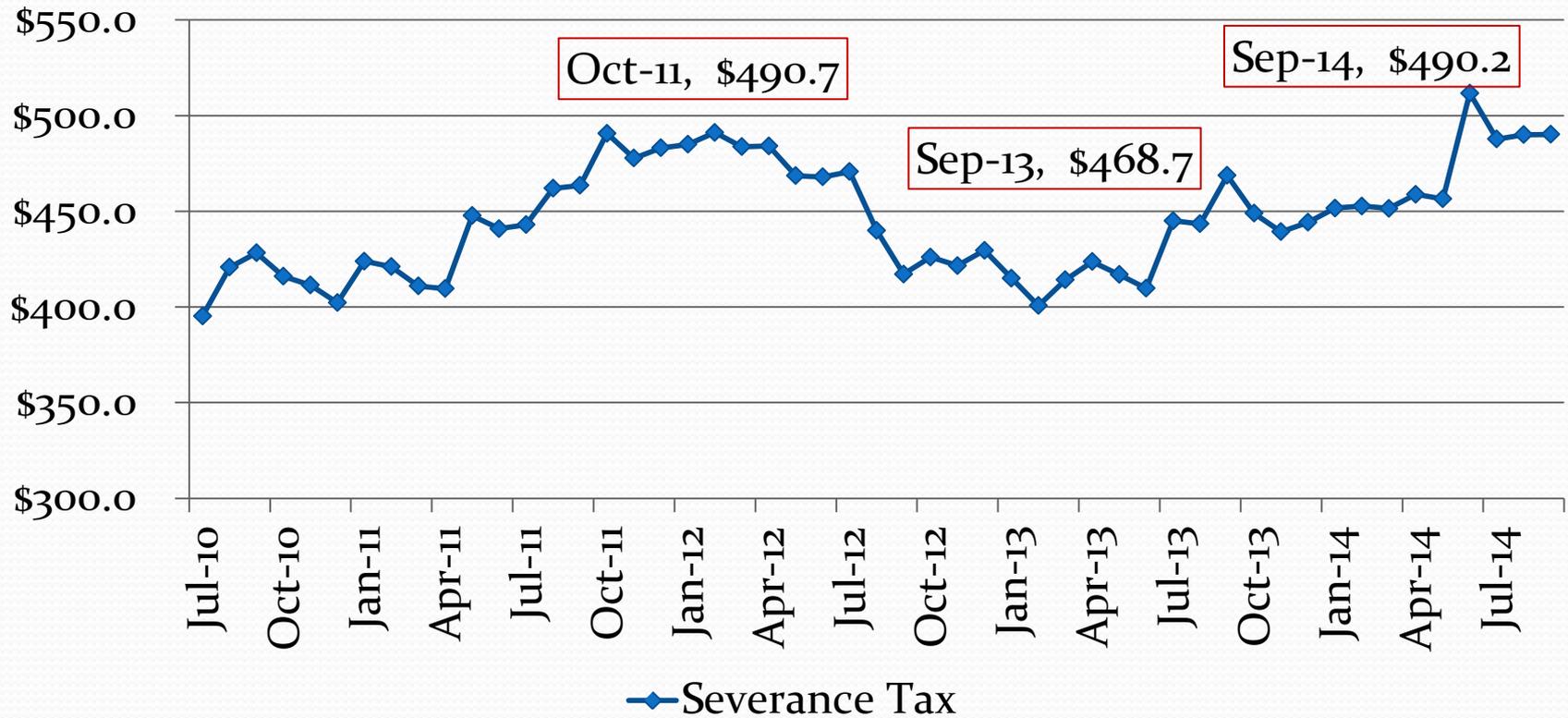
Due to Long-Term Factors

- 1997-2012: Average Growth 6.4<sup>0</sup>/year
- 2012-2014: -0.4<sup>0</sup>/year
- Reasons for Stagnation:
  - Lower coal production & lower coal prices (-25<sup>0</sup>)
  - Loss of major industrial consumers & power plants
  - Greater foreign competition/sluggish world growth
  - Significant offset by natural shale gas growth
- Some improvement due to improved energy price stability & improved natural gas infrastructure

# Regular Severance Tax: Volatile & Flat

Trailing 12 Month Trend

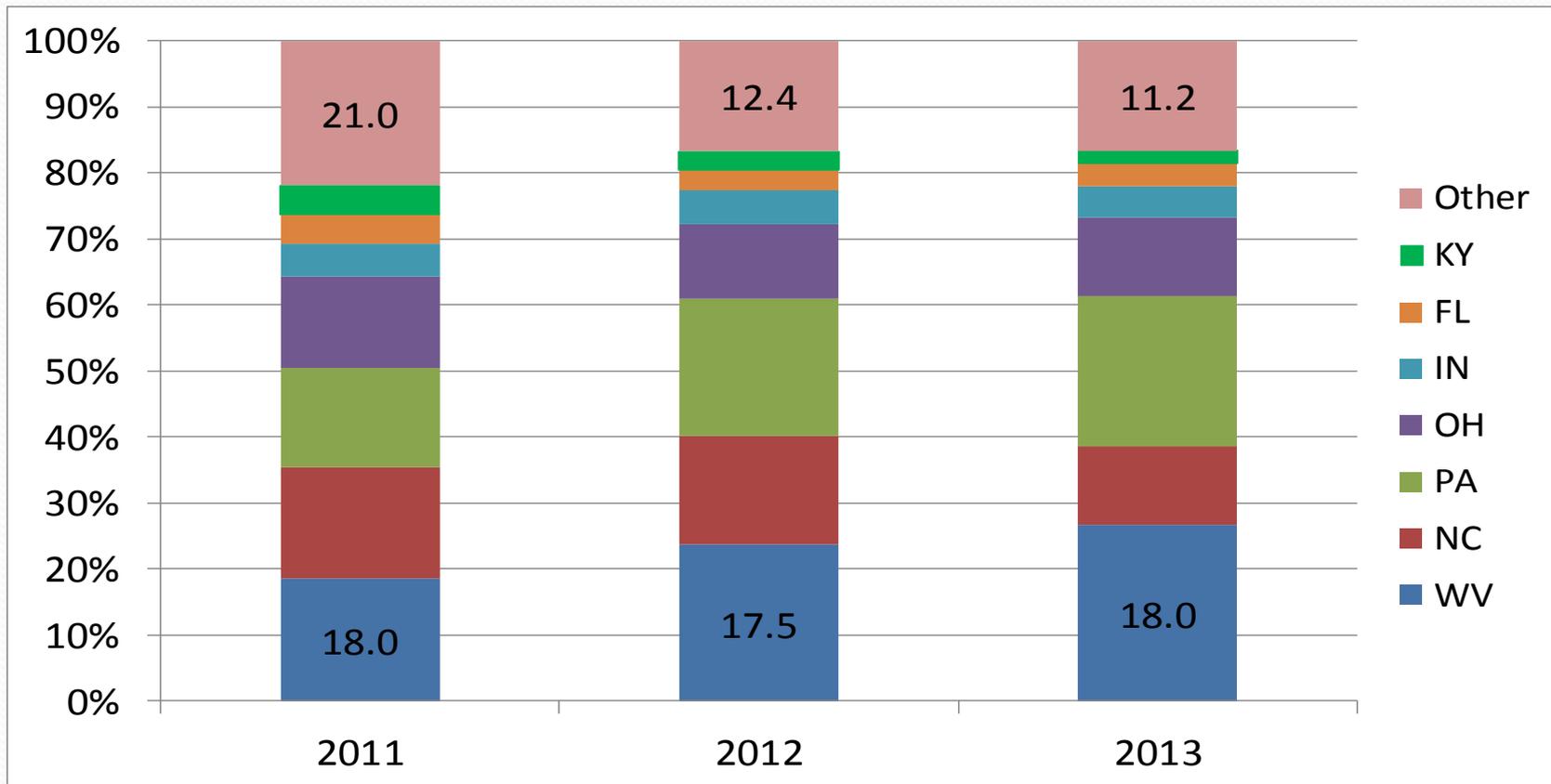
\$ Millions



# Domestic Distribution of WV Coal

Sales to 23 (2013) States-Domestic Distribution Down 23% in 2012 & 9% in 2013

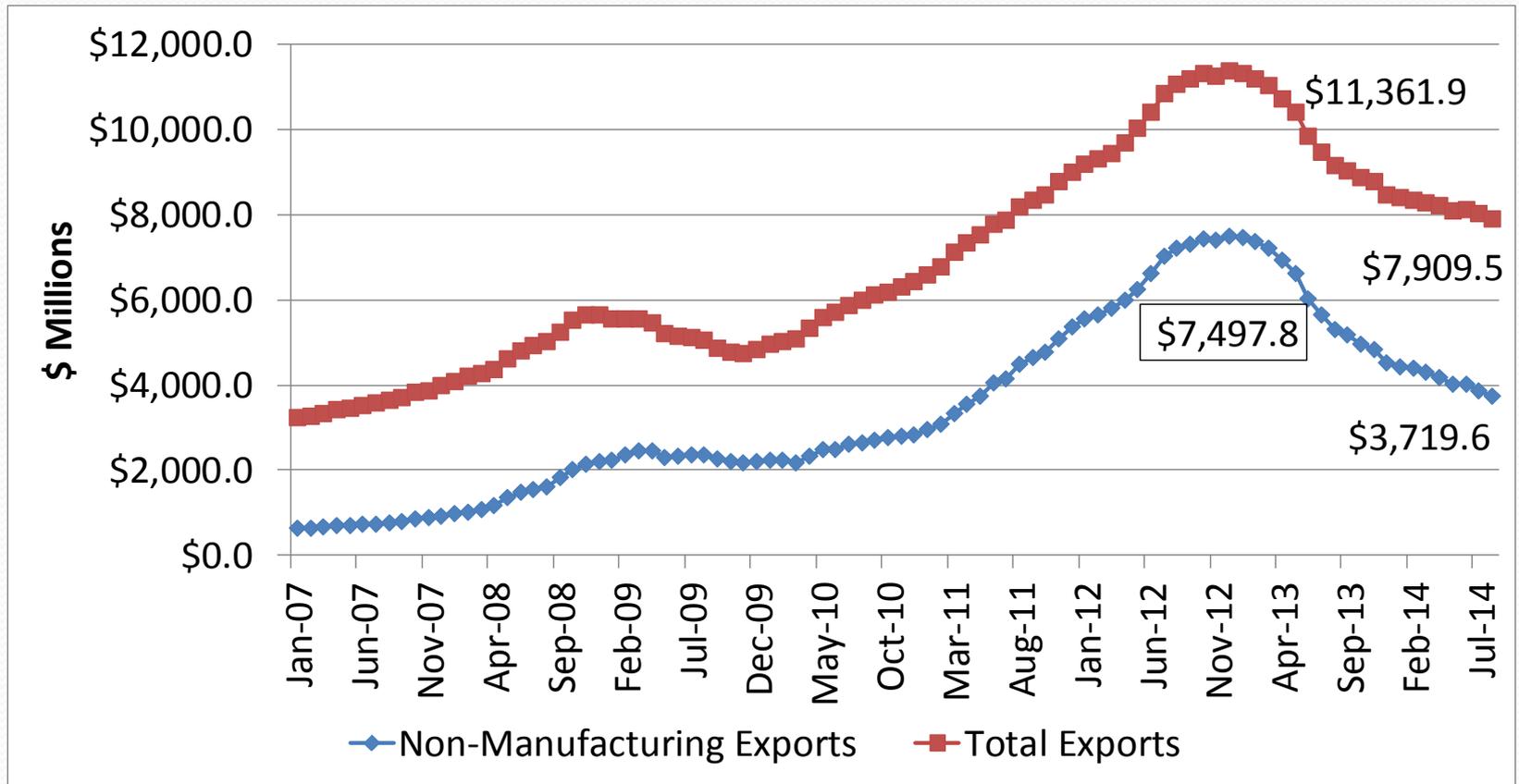
Source: U.S. Department of Energy



# West Virginia Good Exports: Coal Exports Fall

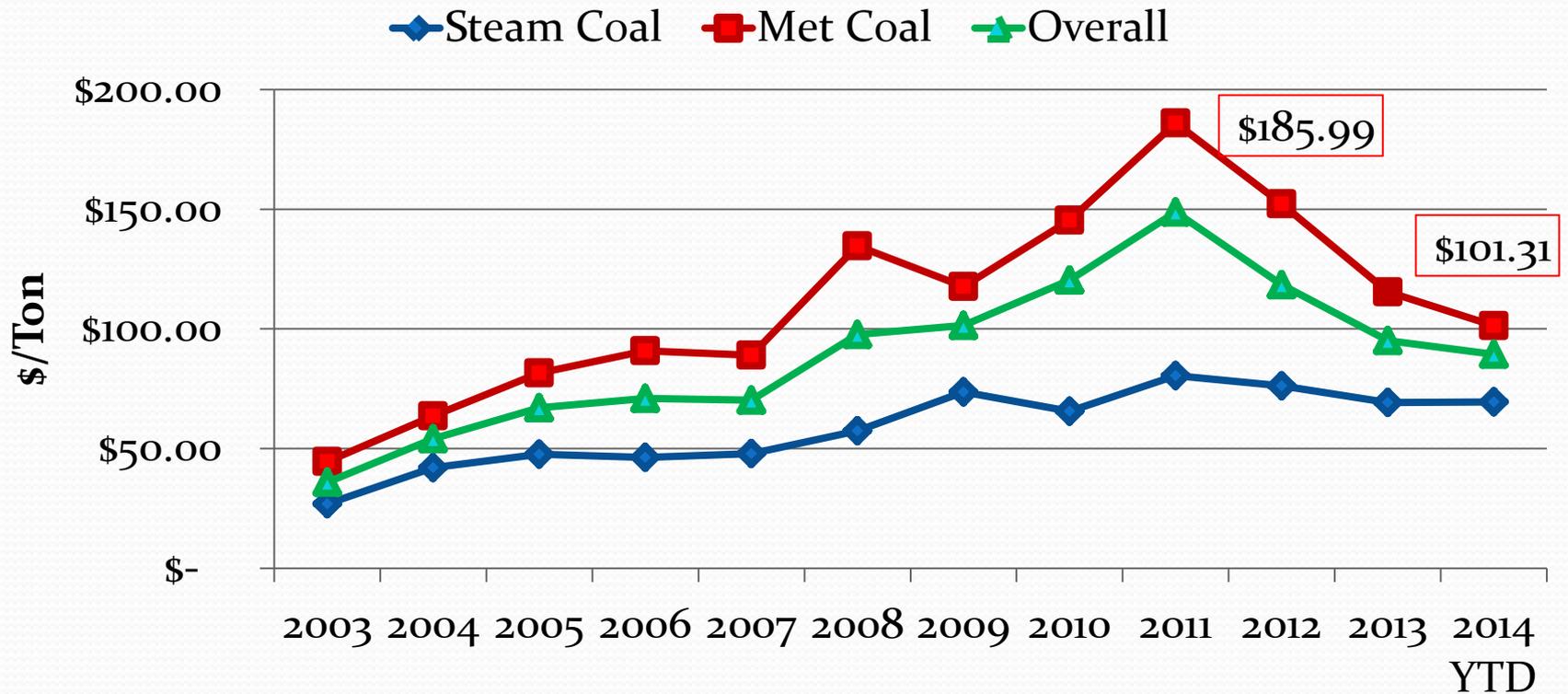
Trailing 12 Month Trend: August 2014

Source: U.S. Census Bureau



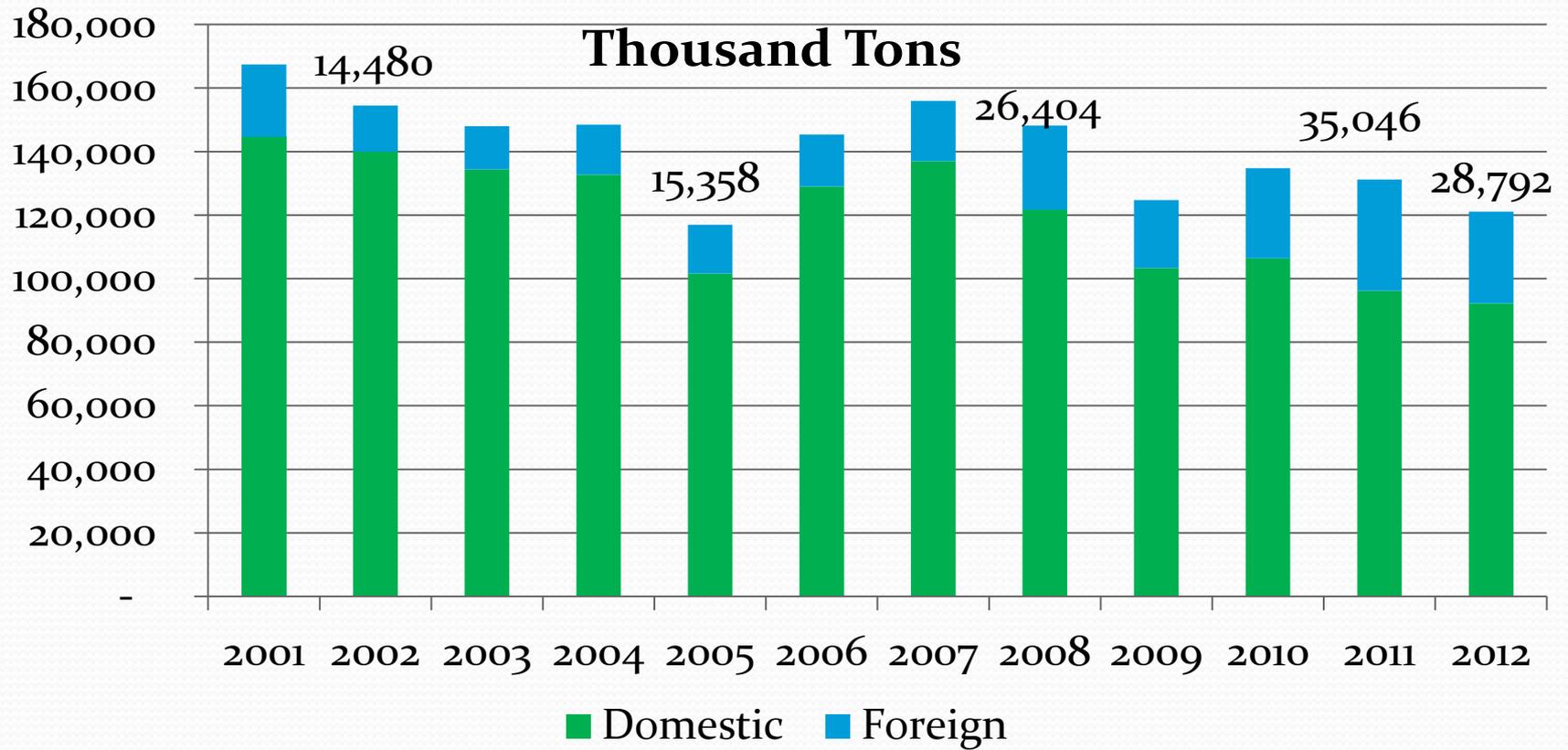
# Export Coal Prices Trend Lower

2013 Met Coal Price Down 24% From Prior Year



# West Virginia Coal Sales (Exports: 10%-2002 to 24%-2012)

Source: U.S. Energy Information Administration, *U.S. Domestic and Foreign Coal Distribution by State of Origin*

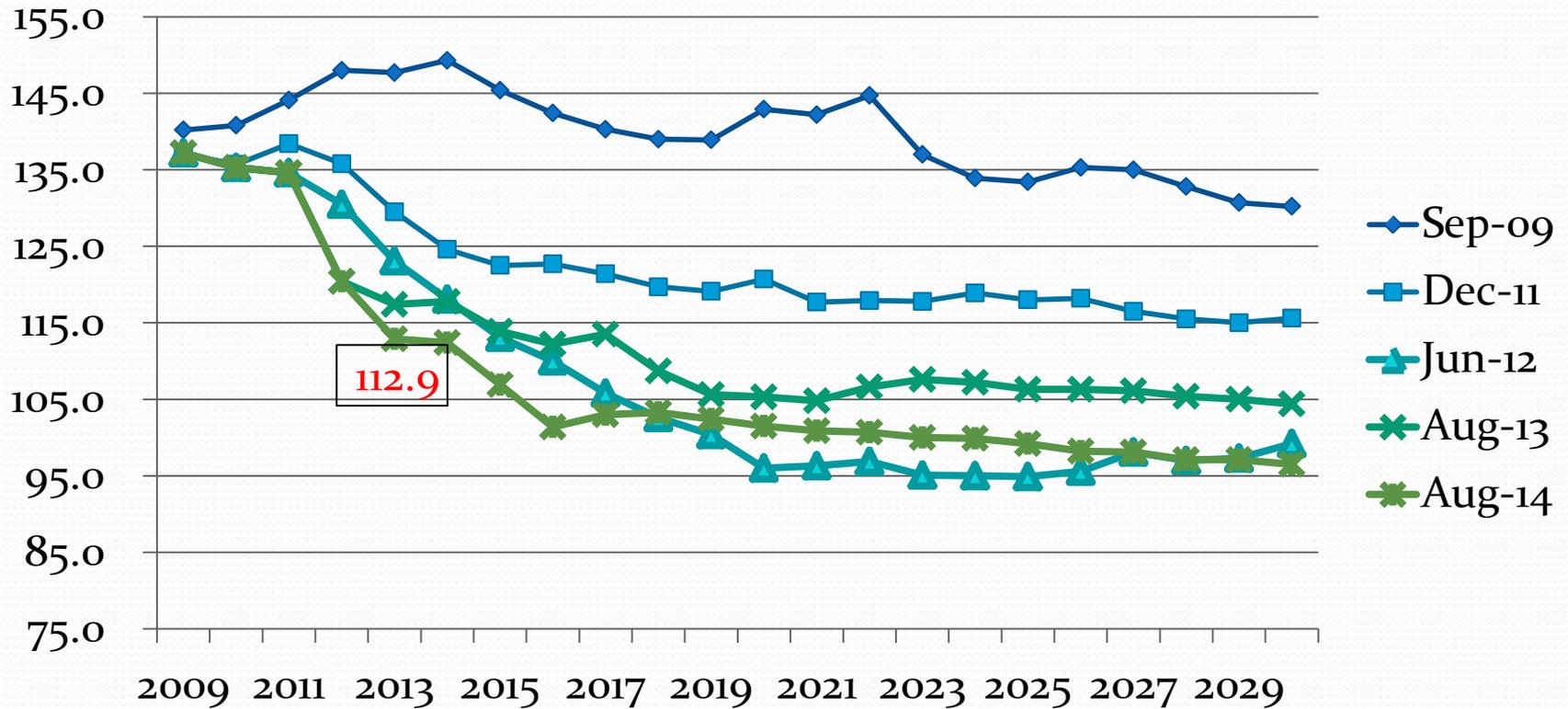


# Consensus Forecast: WV Coal Production

## Some Deterioration Over Time-Stability in Long-Run

Sources: CBER, Marshall University and BBER, West Virginia University

### Millions of Tons

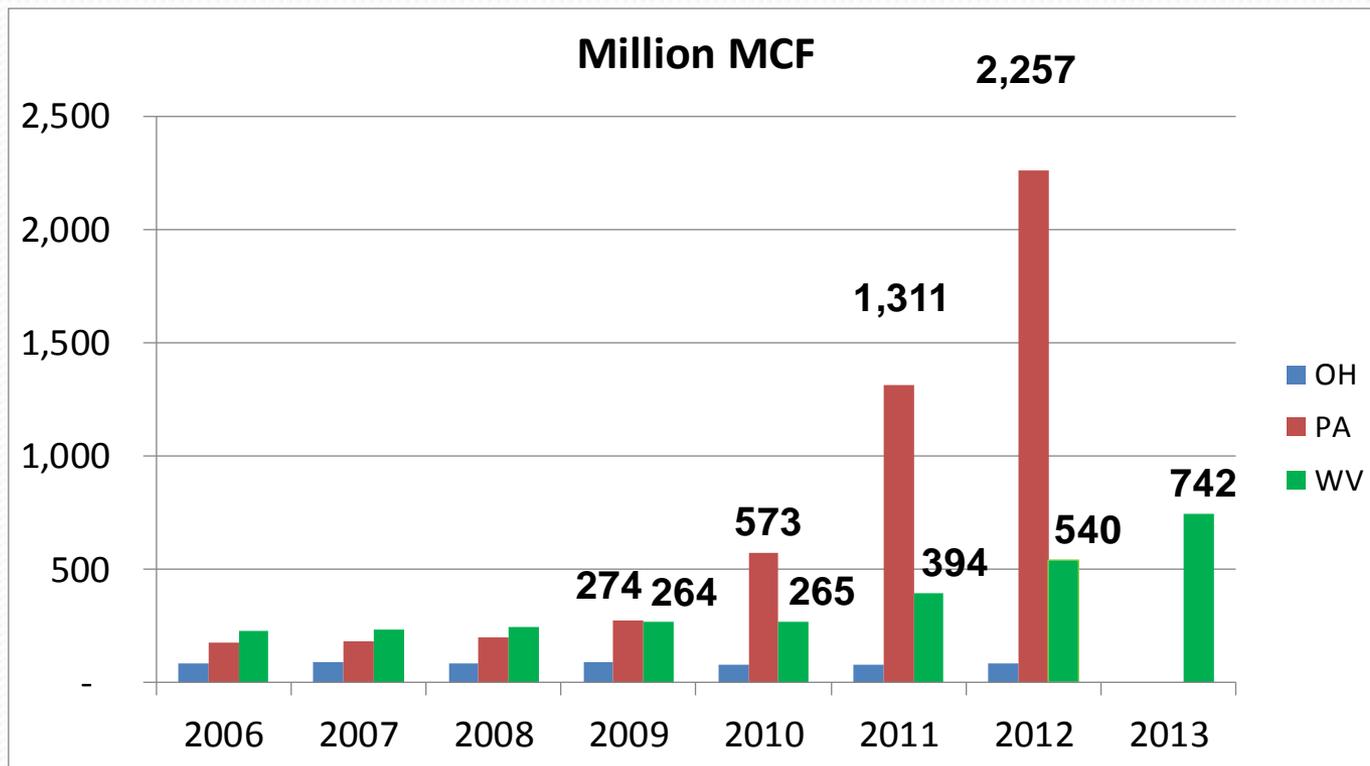


# Natural Gas Production by State 2006-2013

U.S. Production up 5.3% in 2012 and 1.2% in 2013

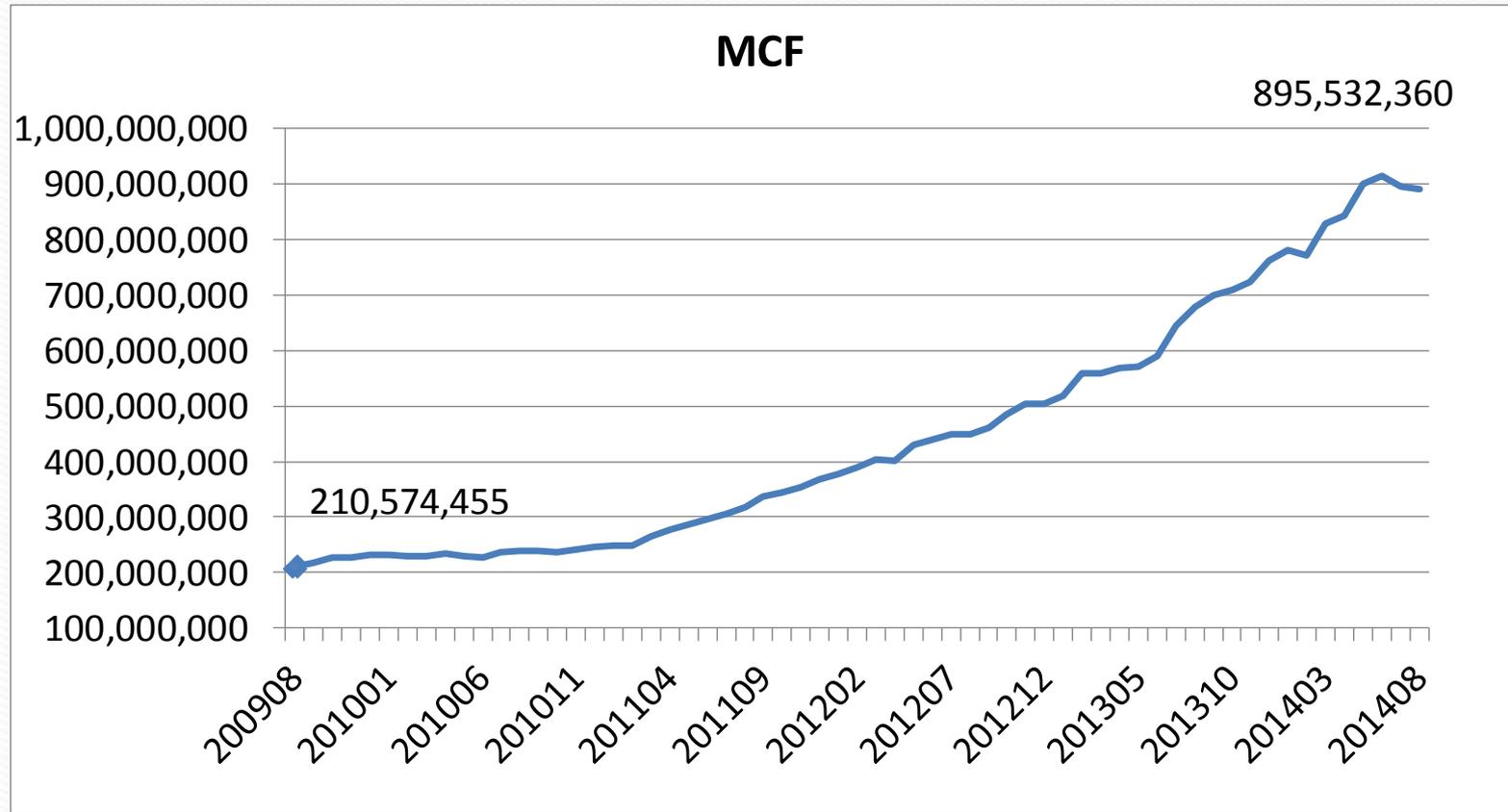
WV Production Up 37.0% in 2012 and 37.4% in 2013

Source: U.S. Department of Energy & WV DEP



# 12 Month Trailing Trend: Taxable Natural Gas Sales

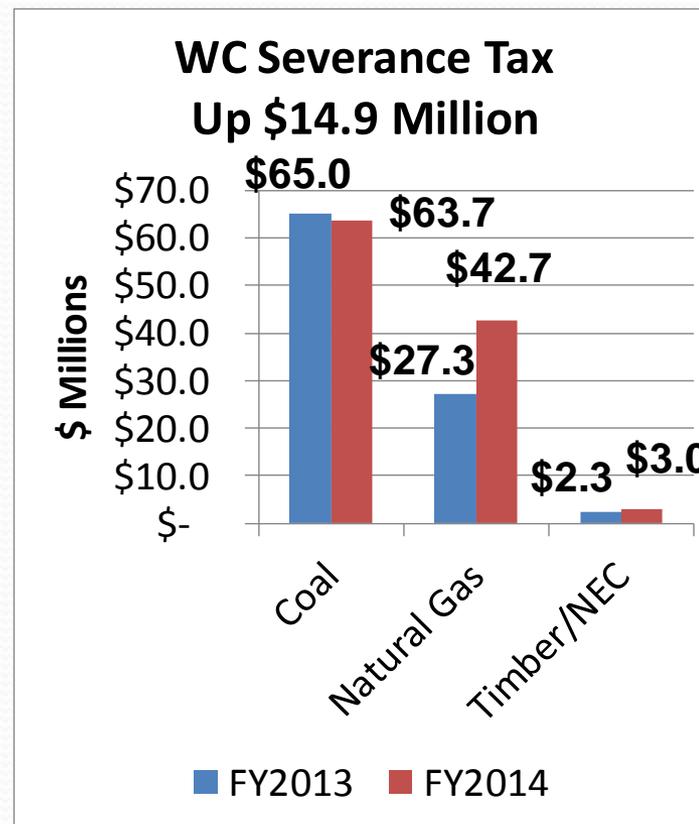
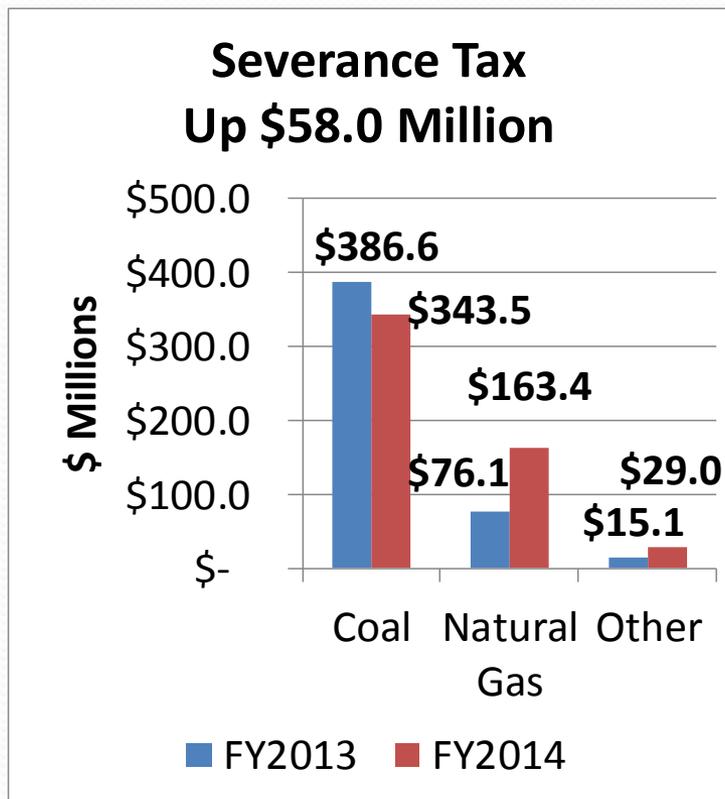
Workers' Compensation Severance Tax Return Data



# FY2014 Severance Tax Collections

Regular Severance: Coal Down 11%; Natural Gas Up 115%; Other Up 92%

WC Severance: Coal Down 2%; Natural Gas Up 57%; Timber Up 33%



# Regular Education Levy Property Tax Revenue Trends 2008-2013

Comparative Data on Changes in Taxable Valuations and Changes in Tax Assessments

<u>County</u>	<u>2008 Taxes</u>	<u>2013 Taxes</u>	<u>Change in Valuations</u>	<u>Change in Tax</u>	<u>Avg Annual Growth</u>	<u>Change 2013-2014</u>
<b>WETZEL</b>	\$ 3,856,517	\$ 8,918,927	111.7%	131.3%	18.3%	16.0%
<b>MARSHALL</b>	\$10,025,878	\$ 19,681,599	86.2%	96.3%	14.4%	5.8%
<b>DODDRIDGE</b>	\$ 2,576,611	\$ 4,279,205	52.9%	66.1%	10.7%	26.4%
<b>TAYLOR</b>	\$ 2,883,357	\$ 4,309,997	44.4%	49.5%	8.4%	9.9%
<b>UPSHUR</b>	\$ 4,969,861	\$ 7,092,746	39.4%	42.7%	7.4%	-8.9%
<b>HARRISON</b>	\$18,008,098	\$ 24,675,387	34.0%	37.0%	6.5%	1.6%
<b>MONONGALIA</b>	\$23,275,224	\$ 30,095,328	32.6%	29.3%	5.3%	9.7%
<b>JEFFERSON</b>	\$21,121,135	\$ 16,534,988	-23.9%	-21.7%	-4.8%	1.9%
<b>BERKELEY</b>	\$28,041,690	\$ 25,412,955	-12.1%	-9.4%	-2.0%	0.1%
<b>BOONE</b>	\$10,705,404	\$ 11,828,270	10.6%	10.5%	2.0%	-10.5%
<b>MCDOWELL</b>	\$ 6,191,216	\$ 7,252,344	16.9%	17.1%	3.2%	-6.4%
<b>LOGAN</b>	\$ 9,195,689	\$ 11,038,969	21.6%	20.0%	3.7%	-3.8%

# Tobacco Tax Revenues Decline:

Long-term Trend Accelerating

- Average Growth (2004-2014): -0.6%/year
- 2012-2014: -3.6%/year
- Reasons for Accelerated Decline:
  - Demographic Changes & Smoking Bans
  - Competition from alternative products
  - Sluggish economy with household income stress
- Little improvement following roll-your-own fix by federal government, E-cigarette competition

# Other Significant Tax Revenue Sources:

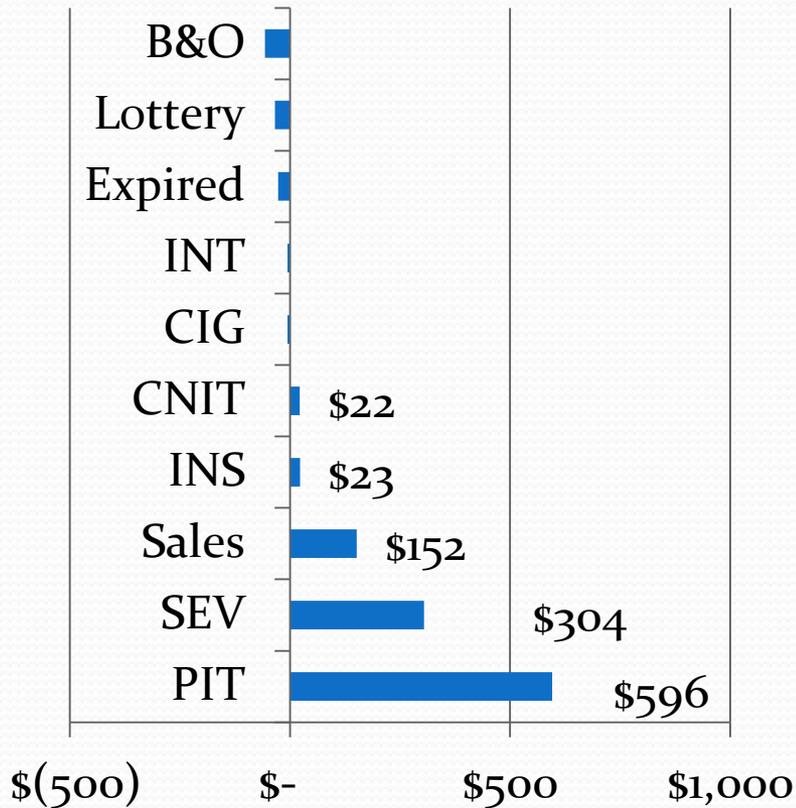
## Mixed Trends

- Business & Occupation Tax:
  - Average Growth (1997-2014): -2.3%/year
  - Tax on electric producers, not end use consumers
  - Fixed Tax – no growth potential
  - Retirement of coal-fired generation capacity lowers revenues
  - Environmental remediation investment lowers revenues
  - New generation facilities generally exempt from tax
- Insurance Premium Tax:
  - Average Growth (1997-2014): 2.9% per year
  - Similar to growth in general sales tax base

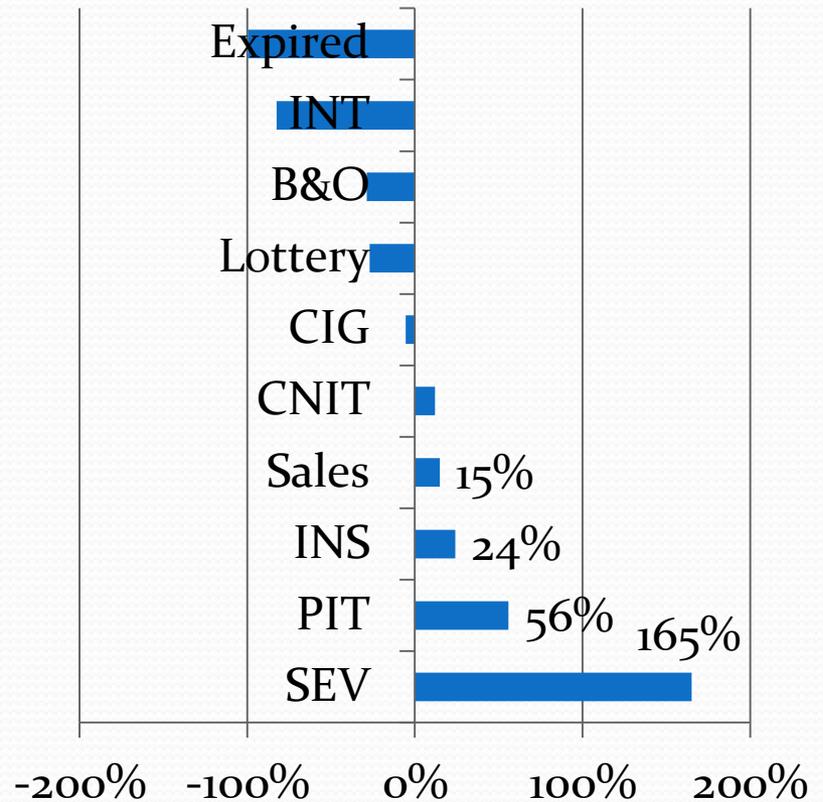
# General Revenue Fund 2004-2014

2.8% Annual Growth Rate (0.5% average over last 6 years)

## 2004-2014 Growth



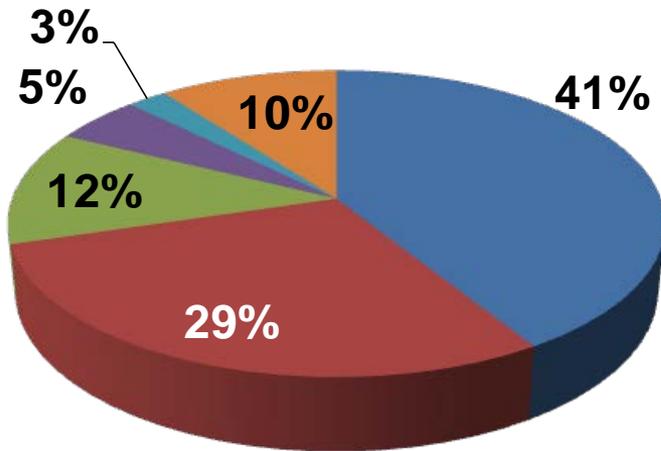
## % Growth 2004-14



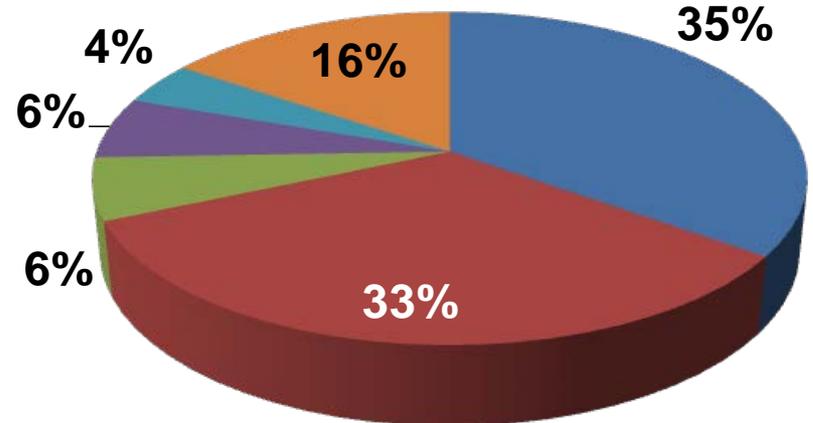
# General Revenue Fund: Sources of Revenue

More Reliance on Severance Tax and Income Tax Revenues

### General Revenue 2014



### General Revenue 2004



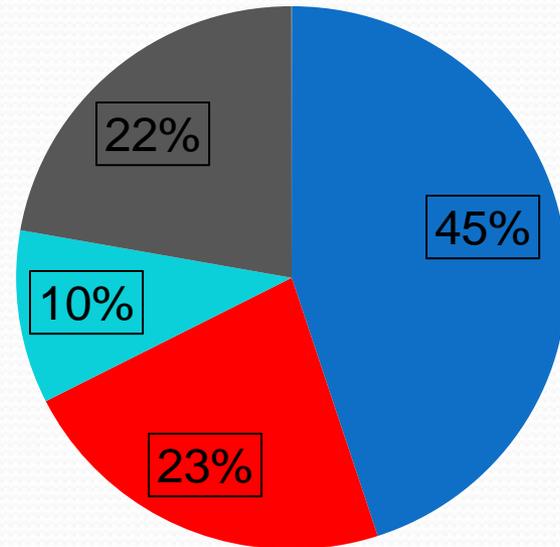
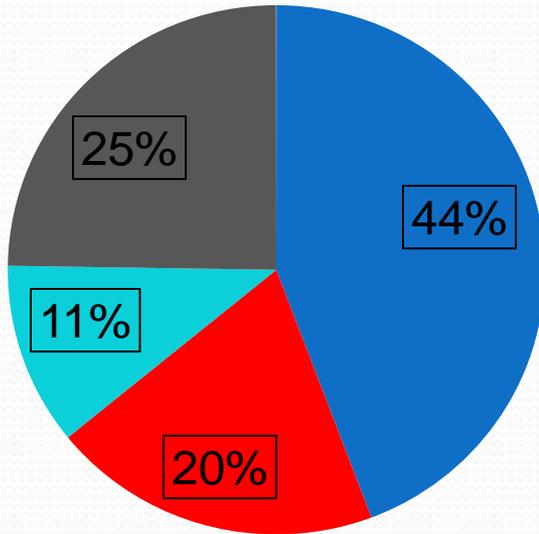
# Changes in General Appropriations

Overall Appropriations: 1.0% per Year Growth

Health & Human Resources: 3.2% per Year Growth

**FY2009: \$4.34 Billion**

**FY2015: \$4.61 Billion**



■ Public Education ■ DHHR  
■ Higher Education ■ All Others

■ Public Education ■ DHHR  
■ Higher Education ■ All Others

# Largest Shares of WV State Budget: How Does WV Rank?

Elementary & Secondary Education

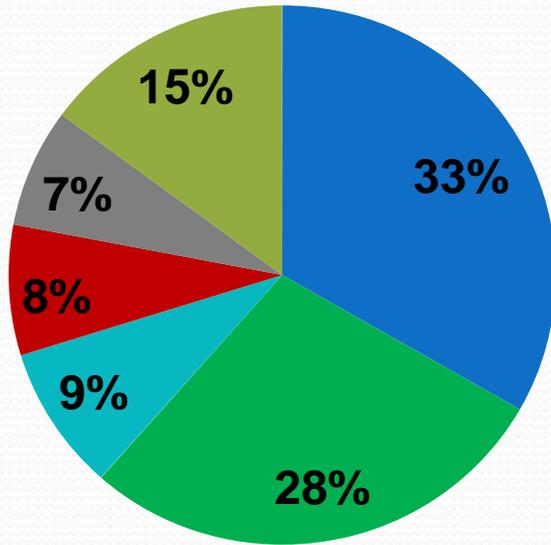
Higher Education & Community and Technical Colleges

Medicaid

# State and Local Government Expenditures 2011

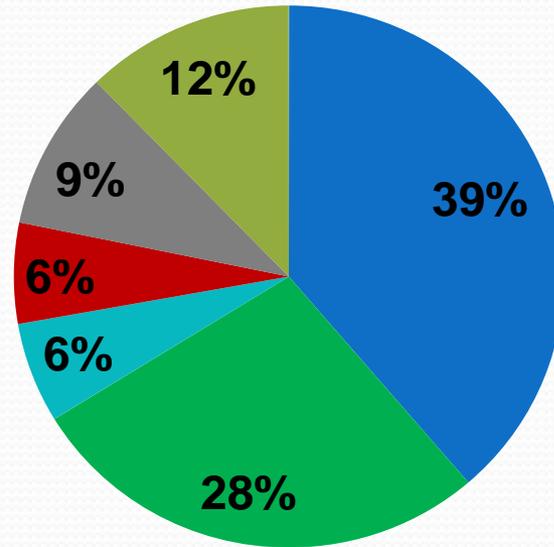
Source: U.S. Census Bureau

## United States: \$2.6 Trillion



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

## West Virginia: \$14.5 Billion



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

# State Government Expenditure Rankings

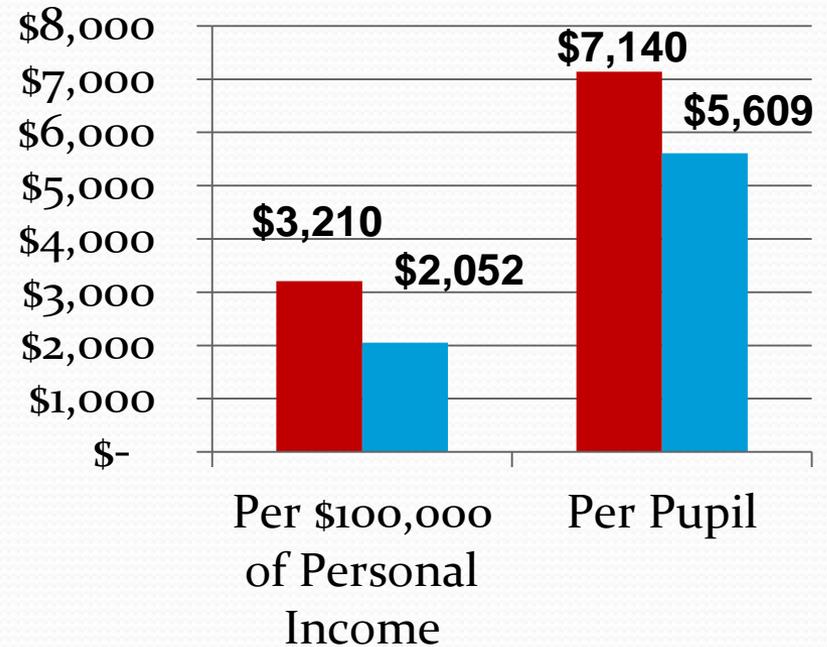
WV State Government Ranks Among Top States in Education Funding

Source: U.S. Census Bureau: Public Education Finances 2012

<u>Rank</u>	<u>Measure FY2012</u>
# 6	State Funds/Income
# 2	Total Funds/Income
#13	State Funds/Pupil
#15	Total Funds/Pupil
#26	Salaries Paid/Pupil
#13	Benefits Paid /Pupil
#20	Instruction Spending
#18	School Administration

## State Government Funding

■ WV ■ Avg State



# State Government Expenditure Rankings

## WV State Government Ranks Among Top States in Higher Education Funding

Sources: "Grapevine" Survey of Center for the Study of Education Policy at Illinois State University & U.S. Census Bureau

### Rank

#10

### Measure: FY2014

State Funds/Income

43% Above Average

KY: 13<sup>th</sup>

MD: 28<sup>th</sup>

OH: 38<sup>th</sup>

PA: 47<sup>th</sup>

VA: 39<sup>th</sup>

#15

State Funds/Resident

15% Above Average

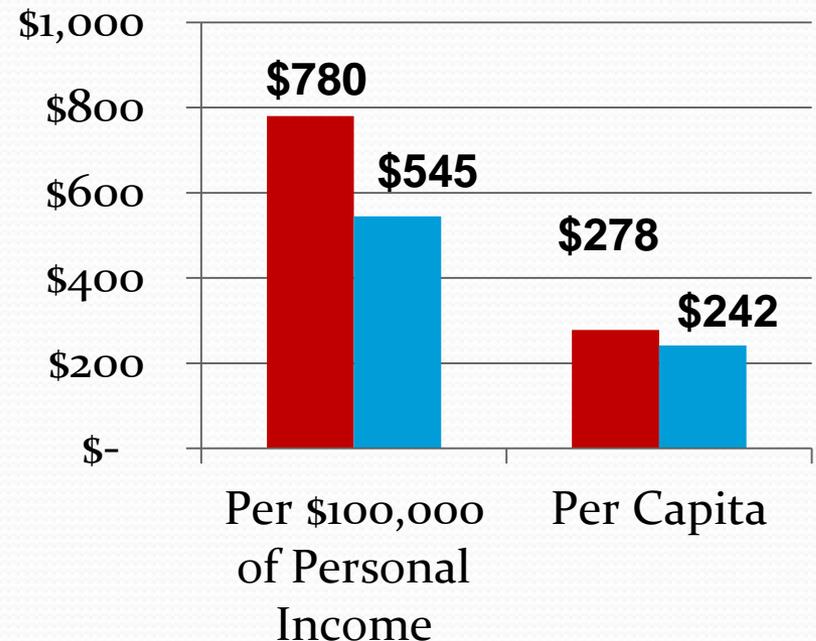
Funding Change 2009-14

Average: -2.9%

KY (-8.0%), MD (5.8%), OH (-16.1%),  
PA (-21.0%), VA (-6.7%), NC (-7.4%)

## State Government Funding

■ WV ■ Avg State



# State Government Expenditure Rankings

## WV State Government Ranks Among Top States in Medicaid Funding

Sources: *State Health Facts*, Kaiser Family Foundation & U.S. Census Bureau

### Rank

#7

### Measure: FY2010

Medicaid Funds/Income

41% Above Average

KY: 14<sup>th</sup>

MD: 35<sup>th</sup>

OH: 17<sup>th</sup>

PA: 18<sup>th</sup>

VA: 50<sup>th</sup>

#14

Medicaid Funds/Resident

13% Above Average

KY: 22<sup>nd</sup>

MD: 21<sup>st</sup>

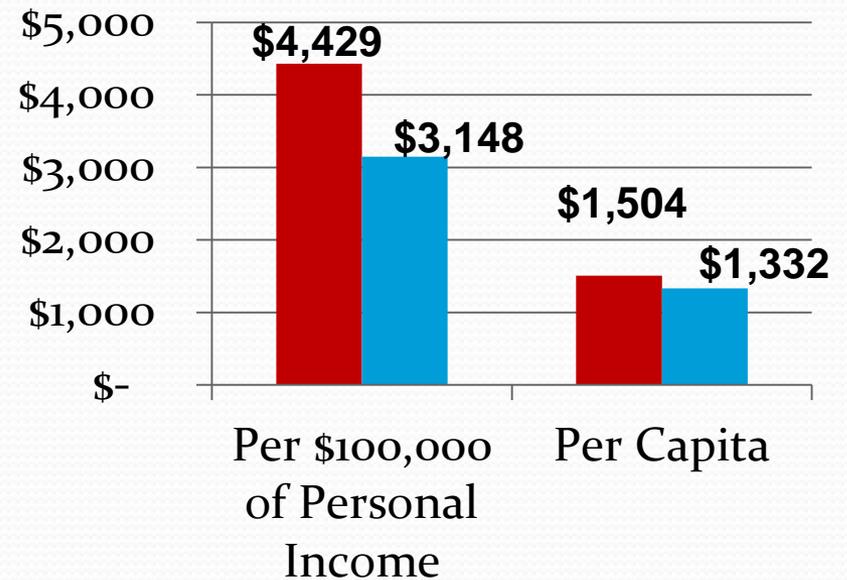
OH: 17<sup>th</sup>

PA: 13<sup>th</sup>

VA: 49<sup>th</sup>

### State Government Funding

■ WV ■ Avg State

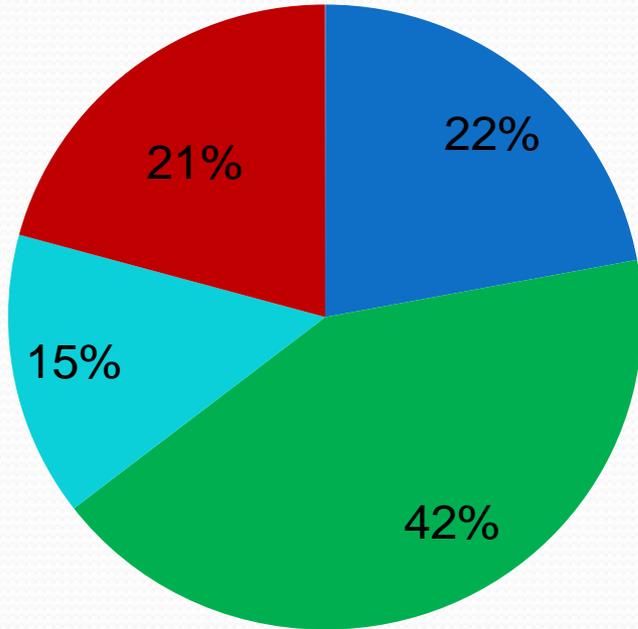


# Medicaid Expenditures by Enrollment Group 2010

Aged and Disabled Account for Three-Fourths of Spending in WV

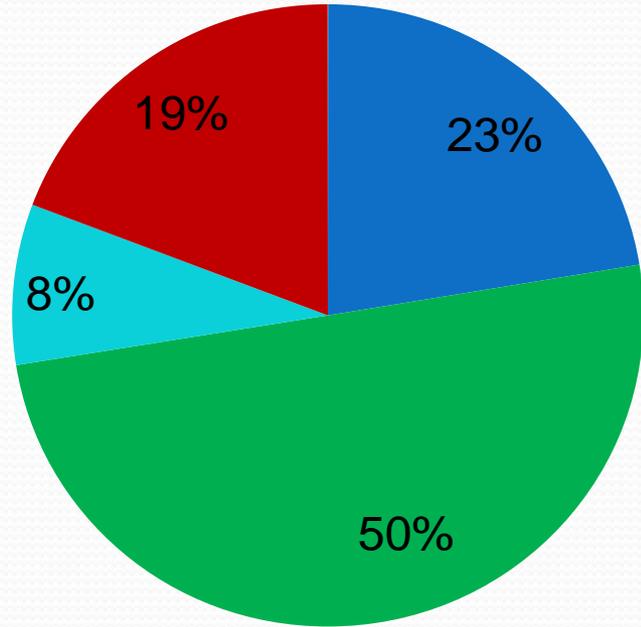
Source: Kaiser Family Foundation

**All States: \$369.3 Billion**



■ Aged ■ Disabled ■ Adult ■ Children

**West Virginia: \$2.5 Billion**



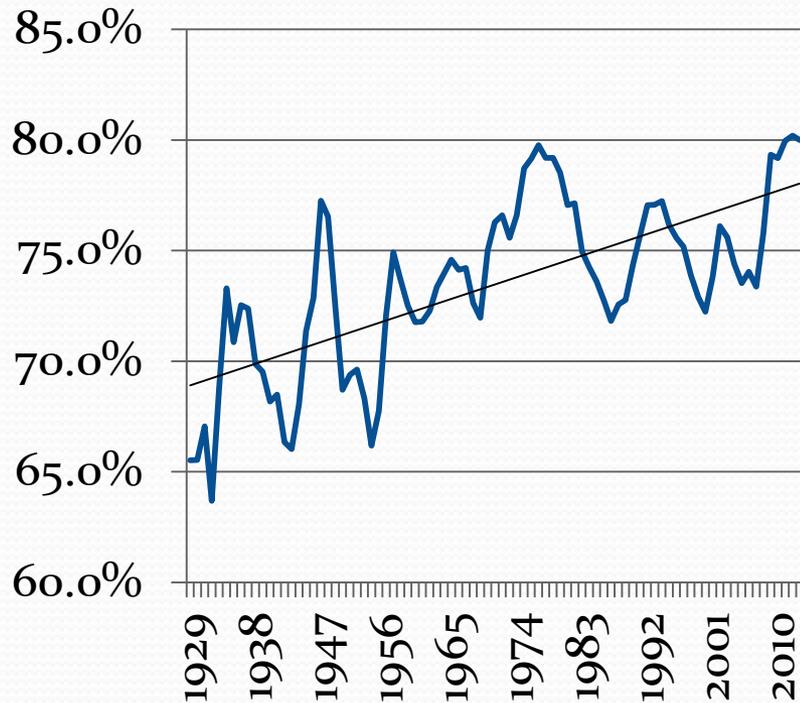
■ Aged ■ Disabled ■ Adult ■ Children

# WV Per Capita Income Converging Toward National Average

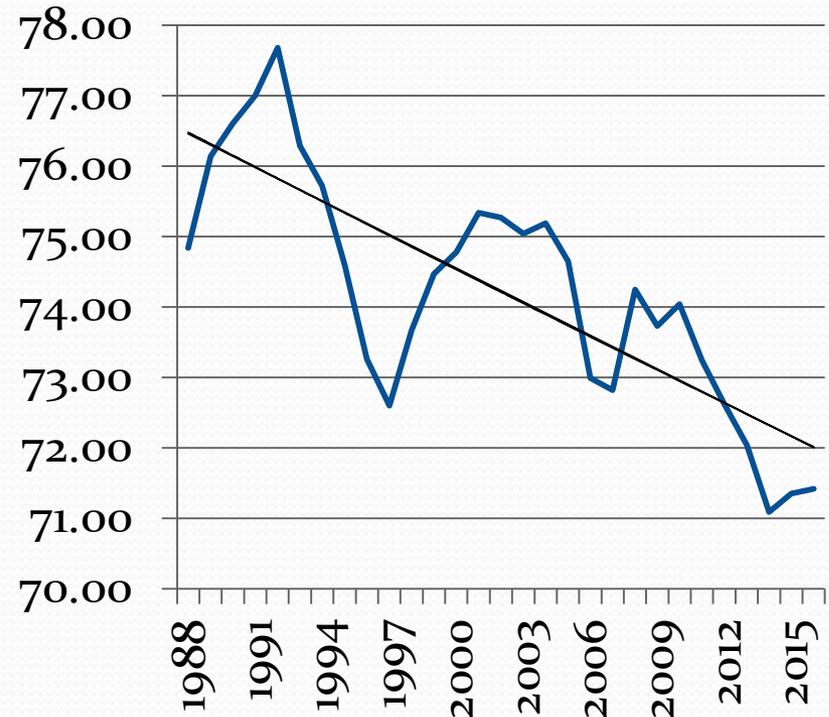
## Federal Share of Medicaid Declines

Sources: U.S. BEA and U.S. Department of Health and Human Services

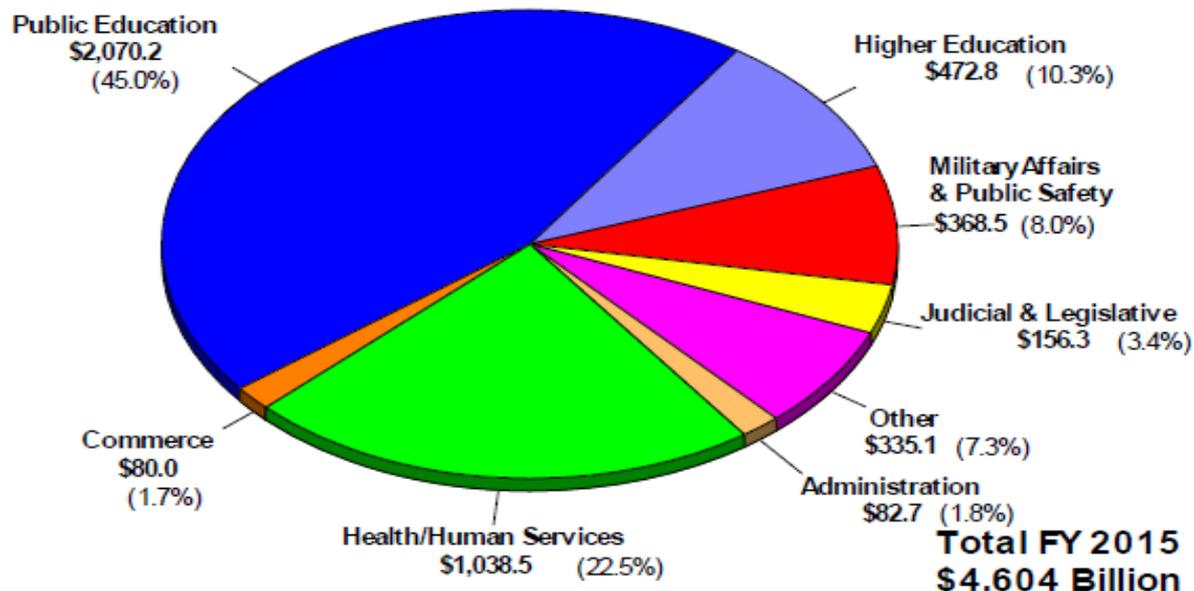
### WV to U.S. Per Capita Income Ratio



### WV FMAP %



# Total Appropriations General, Lottery, & Excess Lottery Fiscal Year 2015 (In Millions of Dollars)

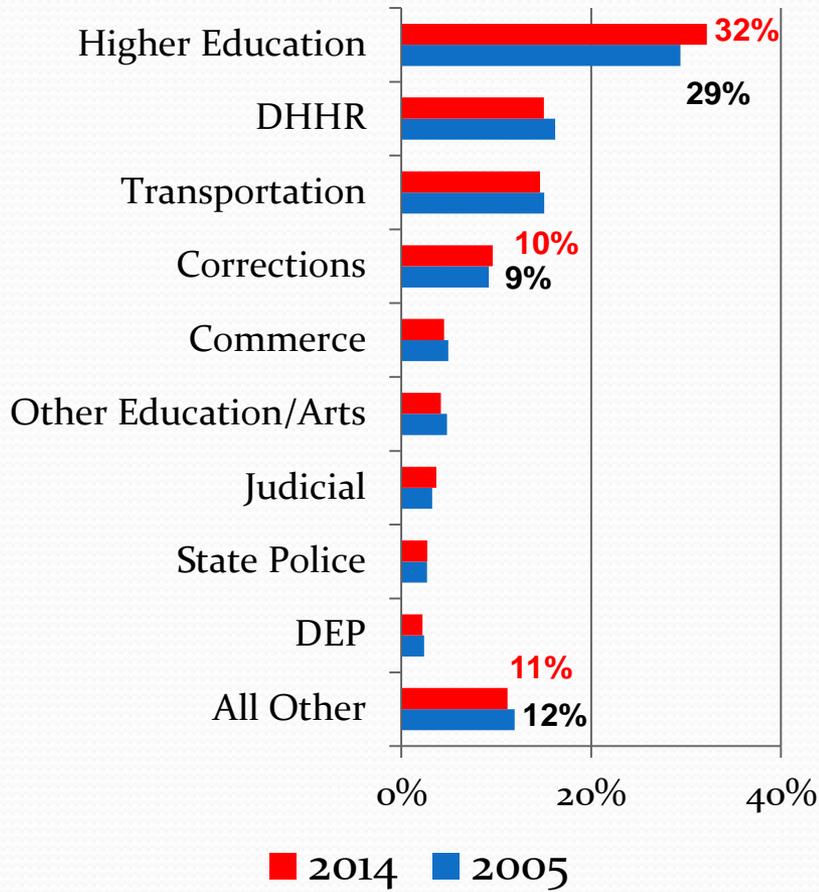


Prepared by: State Budget Office

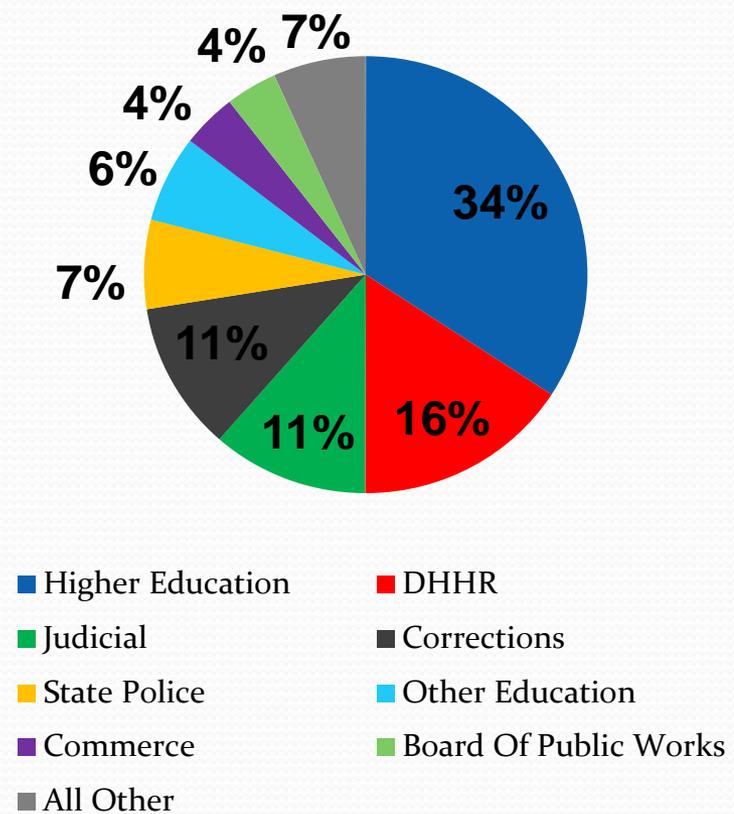
(\$4.604 billion does not double count the \$92.6 million transfer from Excess Lottery to General Revenue Fund.)

# Share of Full-Time Equivalent Employees by Function

7/31/2005 Versus 7/31/2014 - (37,760 FTE; 15,606 General)



## GRF/Lottery Payroll



# Fiscal Year 2015-16 Outlook

Revenue Growth Accelerates-Budget Gap Begins to Narrow

## Revenues

### Positive Factors

1. Natural Gas Severance Tax
2. Property Tax
3. Personal Income Tax
4. Interest Income
5. Sales & Use Tax

### Less Positive Factors

1. Coal Severance Tax
2. B&O Tax
3. Lottery Funds

## Expenditures

### Lower Fiscal Pressure in FY2016

1. Pension Fund Contributions
2. School Aid Formula
3. Workers' Comp Debt (2017)

### Higher Fiscal Pressure in FY2016

1. Medicaid
2. Social Services
3. Corrections

### Budget Gap To Be Closed

1. Targeted Budget Adjustments
2. Rainy Day Funds
3. Hiring Freeze

# Contact Information/Questions

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