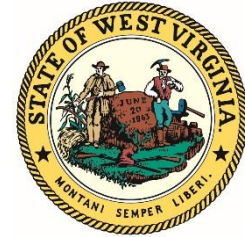


W E S T V I R G I N I A



DEPARTMENT OF REVENUE

Fiscal Forecast – FY 2019

DEPUTY REVENUE SECRETARY MARK B. MUCHOW

Senate Finance Committee

January 11, 2018

Current West Virginia Fiscal Picture

- Economy: Growth Mode Since Second Half of CY2016 – Narrow Recovery Base
 - 12-month trailing trend value of foreign exports up 52% since October 2016
 - Coal production up 15% over last year
 - Natural gas prices up roughly 60% compared to 2016 & Volumes Increase
 - Unemployment rates are down from 6% to 4.6%
 - Employment growth anemic with private sector gain of just 0.6% (November 2017 compared with November 2016)
- Slowly improving employment and wage growth = modest gains in major taxes
- General Revenue Fund collection increases lower than long-term average
- Lottery revenues will fall below prior year receipts, but still exceed estimate
- State Road Fund collections will rise by 20% due to higher fees and taxes
- Overall local government tax revenues will continue to rise
 - Local municipal sales tax revenues may exceed \$80 million
 - Some counties experiencing significant revenue declines due to heavy property tax base reliance on natural resource industry

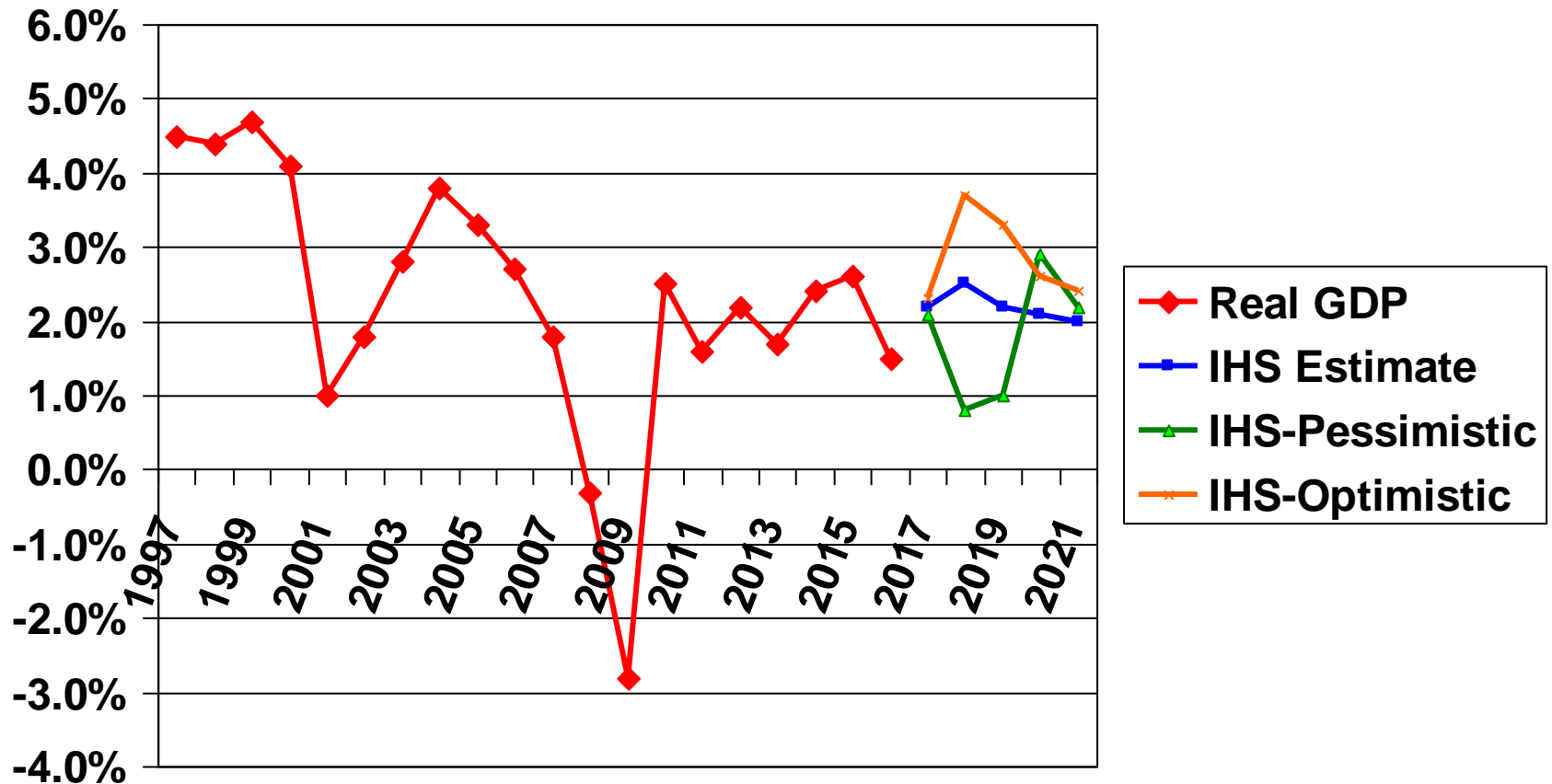
U.S. Economy: IHS Forecast

IHS-Markit Baseline: November 2017

<u>Economic Variable</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Real GDP	2.2%	2.5%	2.2%
CPI	2.1%	1.9%	2.1%
Consumption	2.7%	2.5%	2.2%
Industrial Production	1.7%	2.5%	2.3%
Payroll Employment	1.5%	1.3%	1.0%
Personal Income	3.1%	3.9%	4.8%
Real Disposable Income	1.3%	2.3%	3.0%
Domestic Corporate Profits	5.3%	13.9%	8.7%
10-Year Treasury Note	2.35%	2.81%	3.31%

Real Gross Domestic Product Growth in U.S.

Recovery in 2013-2021
November 2017 Forecast – IHS



Federal Fiscal Belt Loosens

Source: CBO *Monthly Budget Review*, October-December 2017 & U.S. Treasury & OMB

Revenues Through December

<u>Source</u>	<u>\$ Billions Revenue</u>	<u>Percent Change</u>
Ind. Income \$	385	9.0
Corp. Income	66	-13.5
Social Insurance	259	2.9
Other	<u>60</u>	<u>0.4</u>
Total	<u>770</u>	<u>3.9</u>

Year-End Federal Budget Deficits

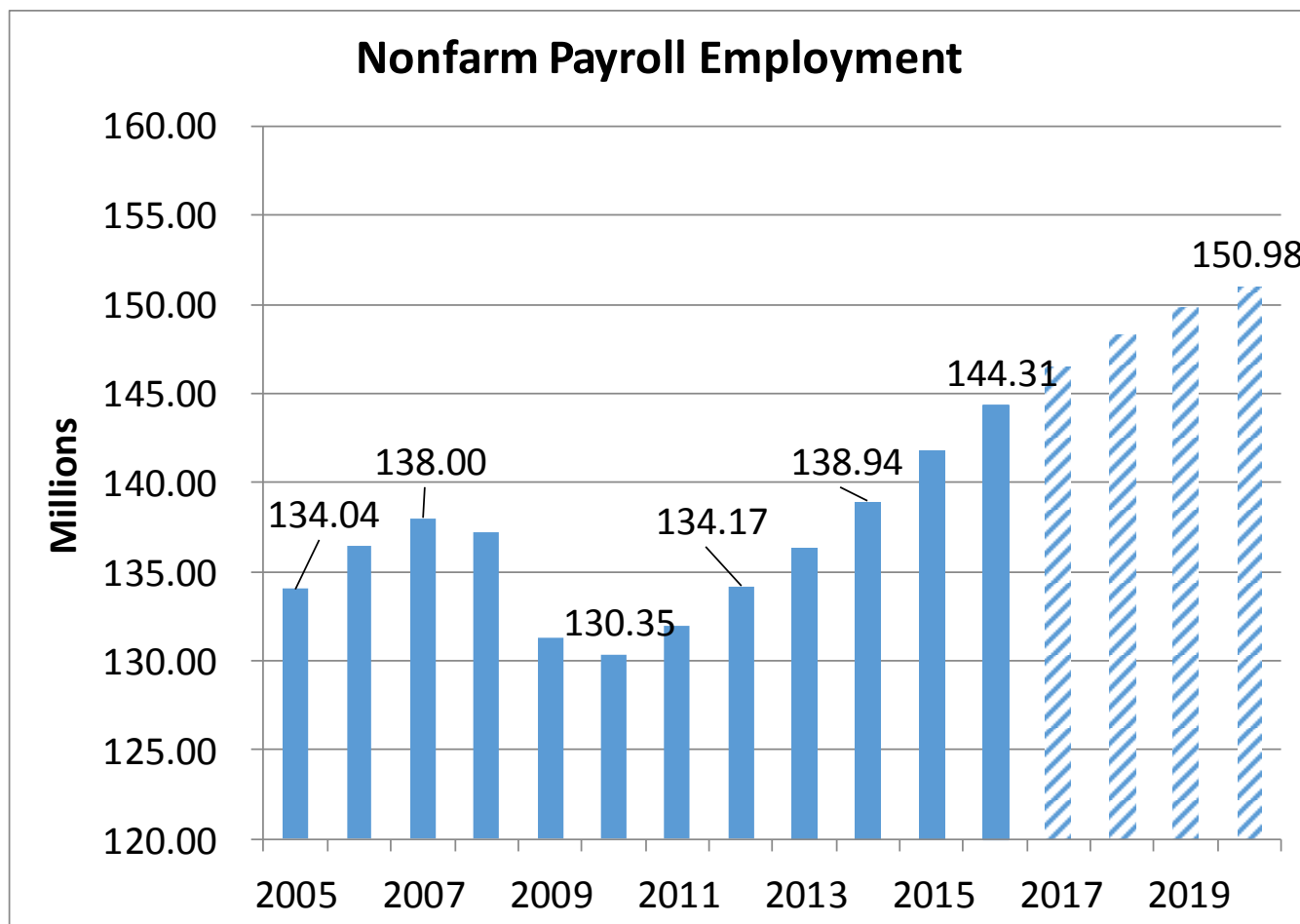
FY2007:	\$ 160.7 Billion
FY2008:	\$ 458.6 Billion
FY2009:	\$1,412.7 Billion
FY2010:	\$1,294.4 Billion
FY2011:	\$1,299.6 Billion
FY2012:	\$1,087.0 Billion
FY2013:	\$ 679.5 Billion
FY2014:	\$ 484.6 Billion
FY2015:	\$ 438.5 Billion
FY2016:	\$ 584.7 Billion
FY2017 Preliminary:	\$ 665.7 Billion
FY2018 Estimates:	\$ 589.5 Billion

Outlays Through December

<u>Category</u>	<u>\$ Billions Outlays</u>	<u>Percent Change</u>
Defense \$	161	+ 7.9
SS Benefits	238	+ 3.4
Medicare	126	+ 1.0
Medicaid	95	- 1.7
Other	<u>292</u>	<u>+ 6.9</u>
Subtotal	911	+ 4.1
Debt Interest	87	+ 14.7
Total	<u>998</u>	<u>+ 5.1</u>

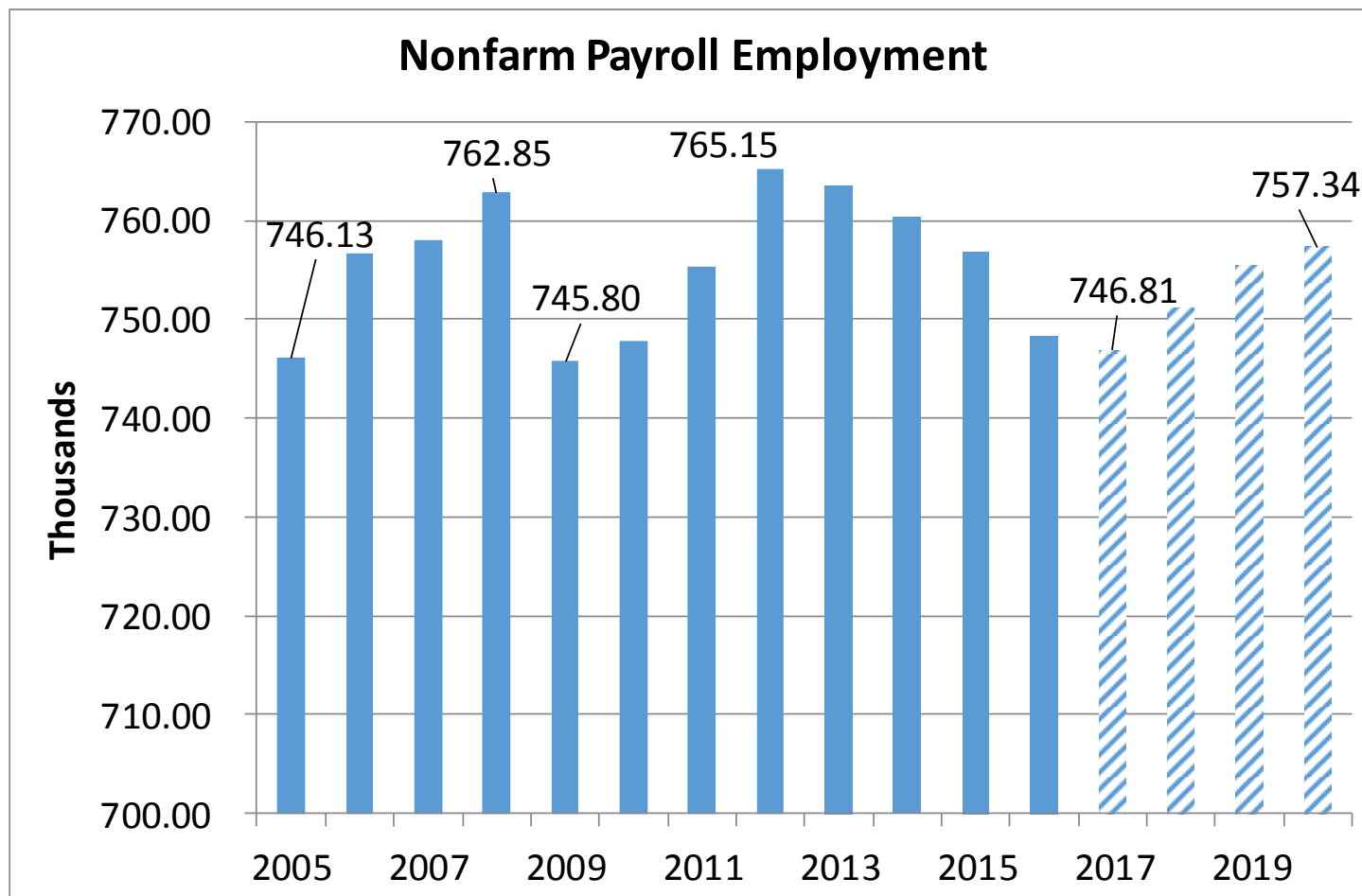
2016-2020: U.S. Employment Projected to Rise by 4.6%

Estimates by HIS-Markit - U.S. Economic Baseline Forecast November 2017



2016-2020: WV Employment Projected to Rise by 1.2%

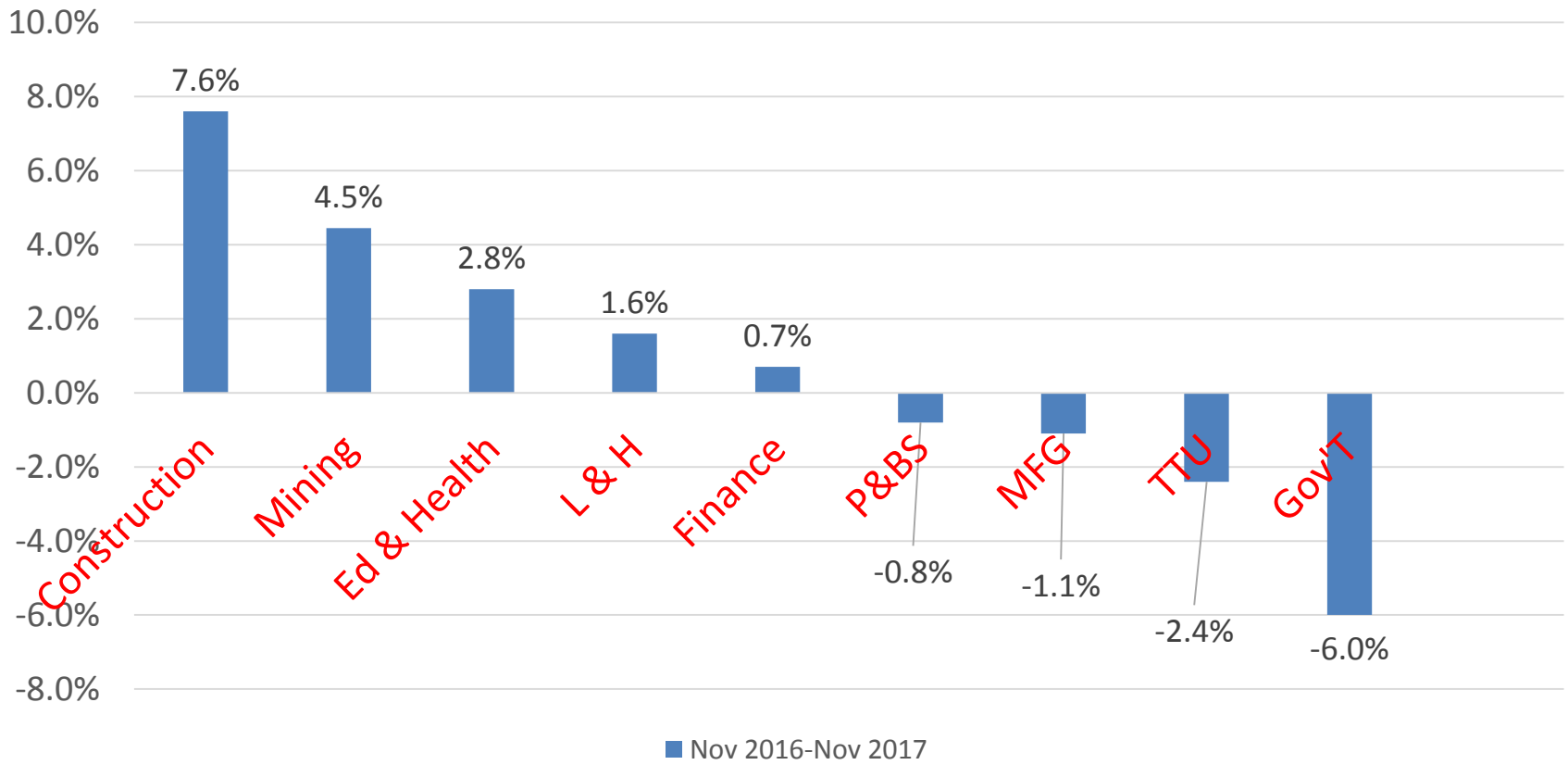
Estimates by HIS-Markit - U.S. Regional Service December 2017 Long Term



WV Payroll Employment Growing Again

Private Sector Up 3,500 Jobs (0.6%) Between Nov 2016 & Nov 2017
3,700 in Education & Health Services; 2,300 in Construction; 900 in Mining

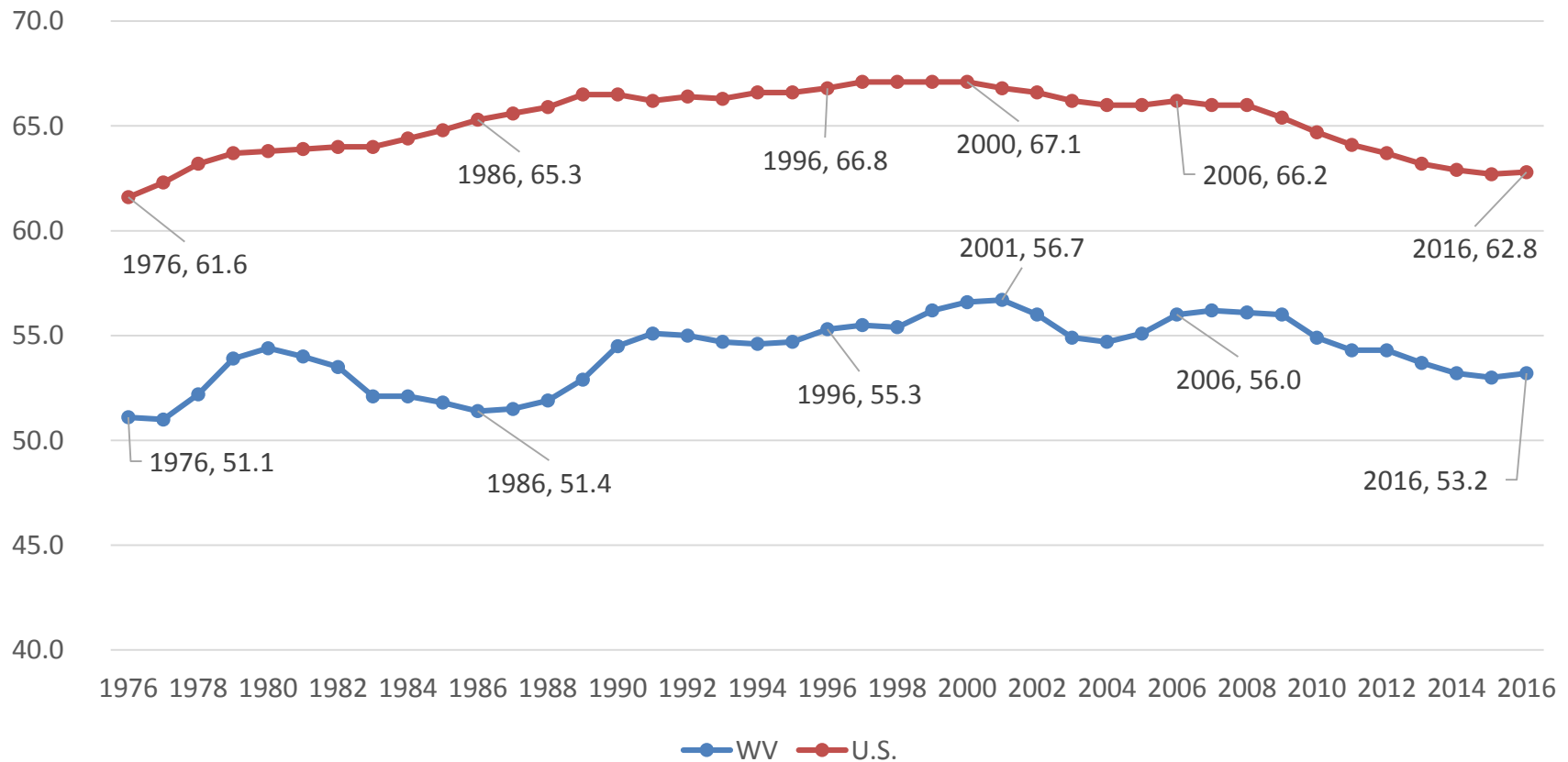
Nov 2016-Nov 2017



Minor Improvement in Labor Force Participation Rates in 2016 Following Trough in 2015

Source: U.S. Bureau of Labor Statistics

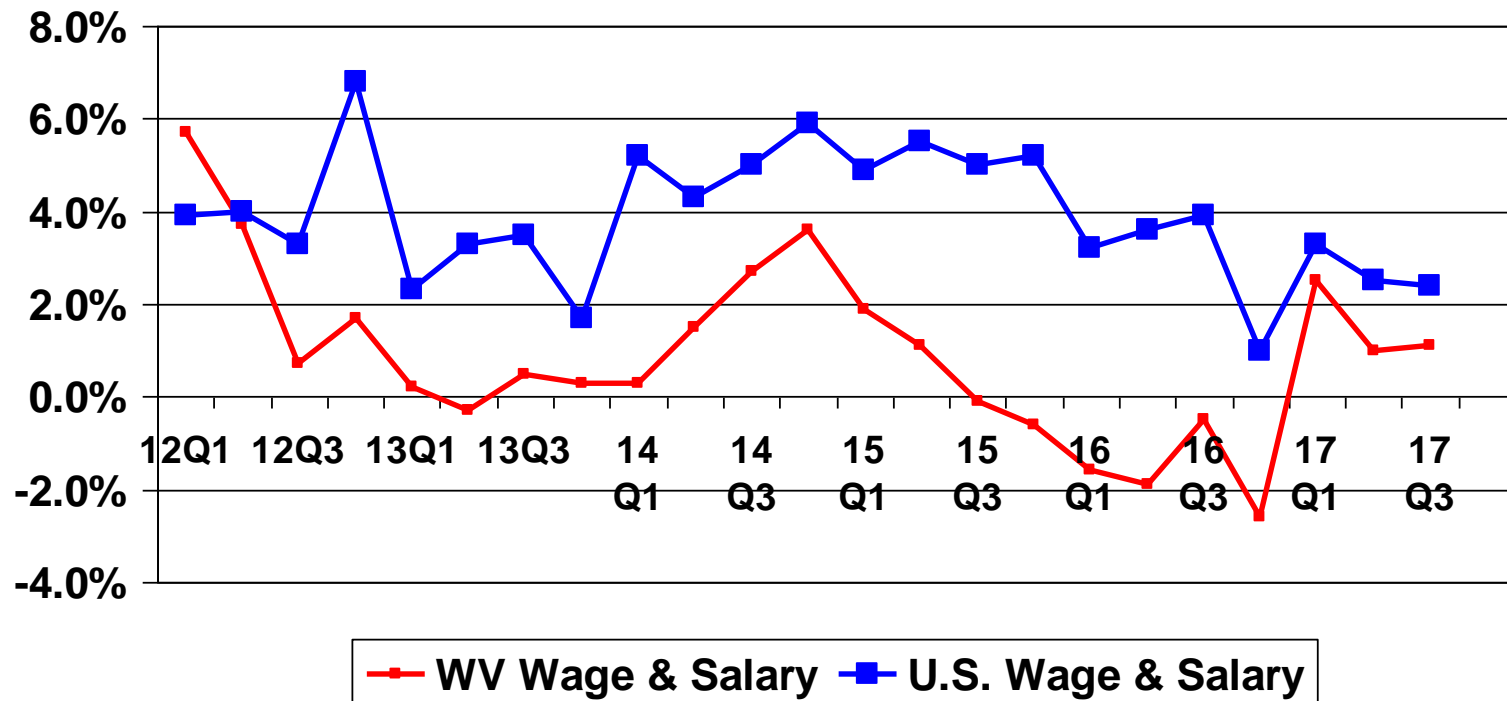
Share of Non-institutional Population in Workforce



WV Wage Growth Recovery Underway

Quarterly Wage & Salary Income Growth Trend -West Virginia & U.S.

Source: U.S. Bureau of Economic Analysis
Seasonally Adjusted Annual Rate

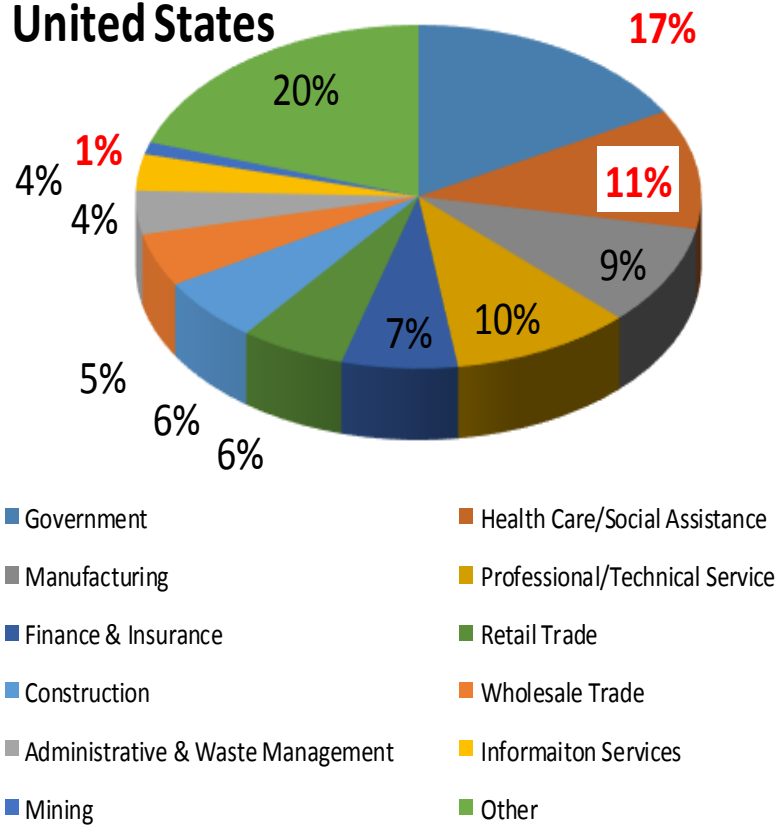


Distribution of Nonfarm Earnings: 2016

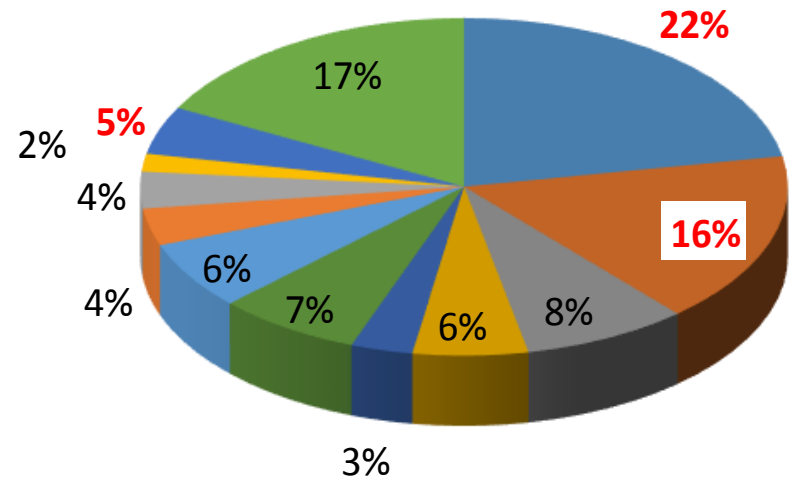
Mining, Health Care & Government Play Bigger Role In WV

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

United States

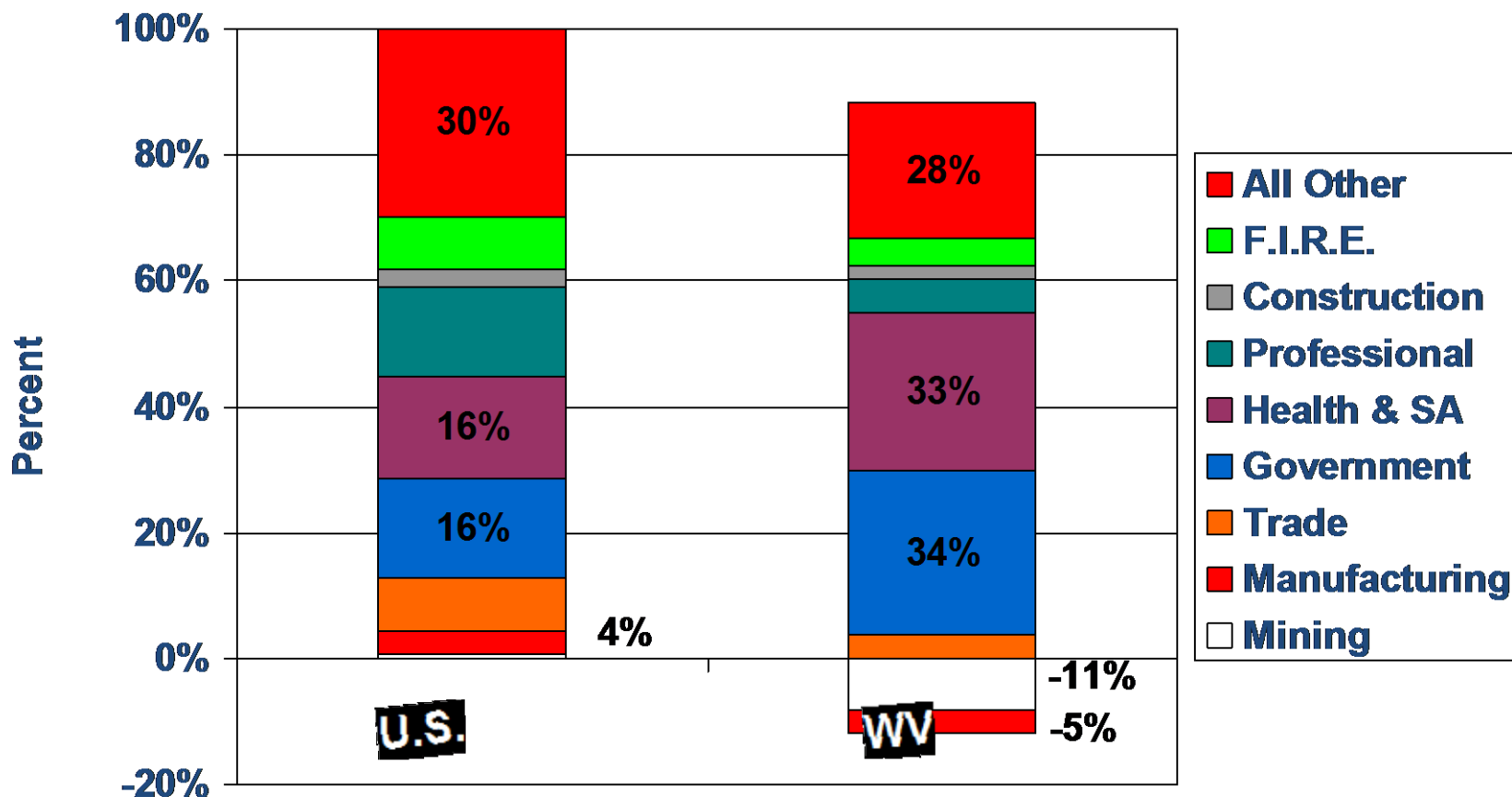


West Virginia



Contribution to Growth in Nonfarm Earnings 2006-2016

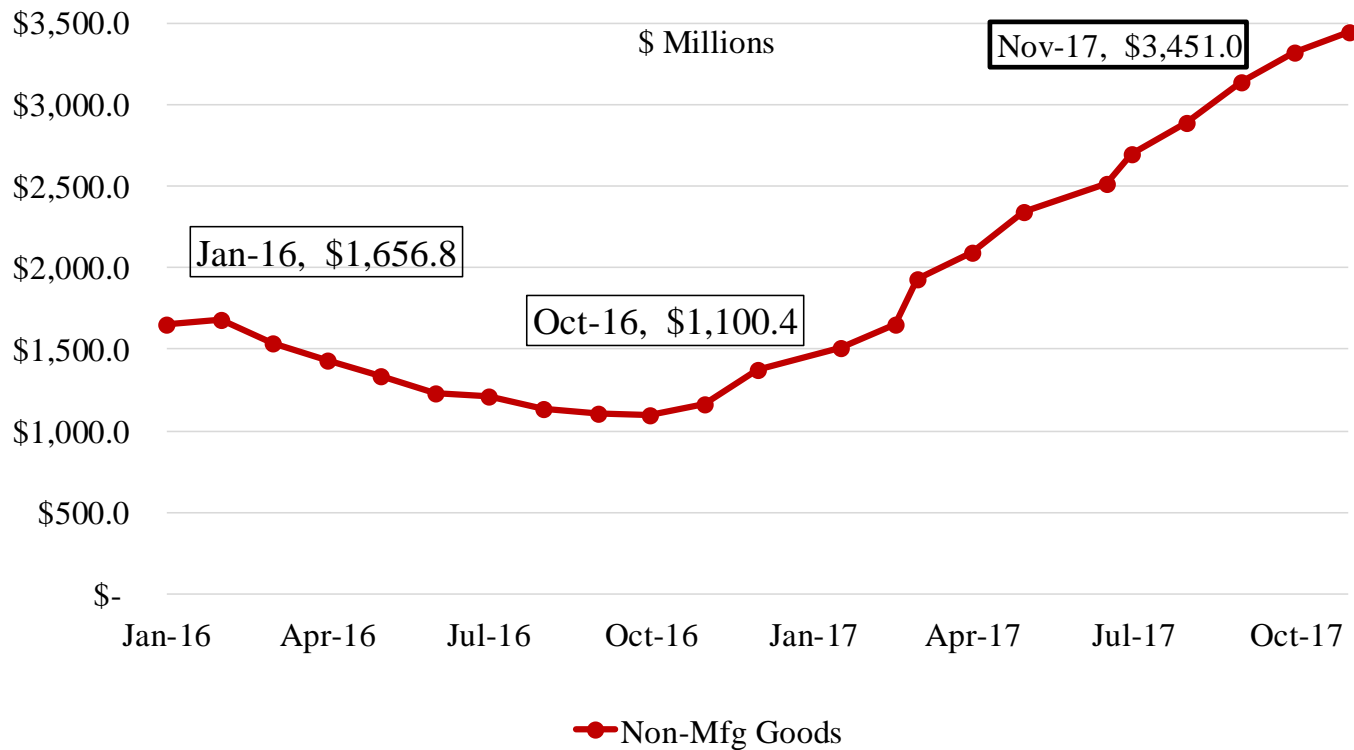
Average Annual Growth 1.6% in WV versus 2.8% U.S. [-2.9% for WV Mining Sector]



Source: U.S. Bureau of Economic Analysis

12-Month Trailing Trend Value of Foreign Non-Manufacturing Good Exports

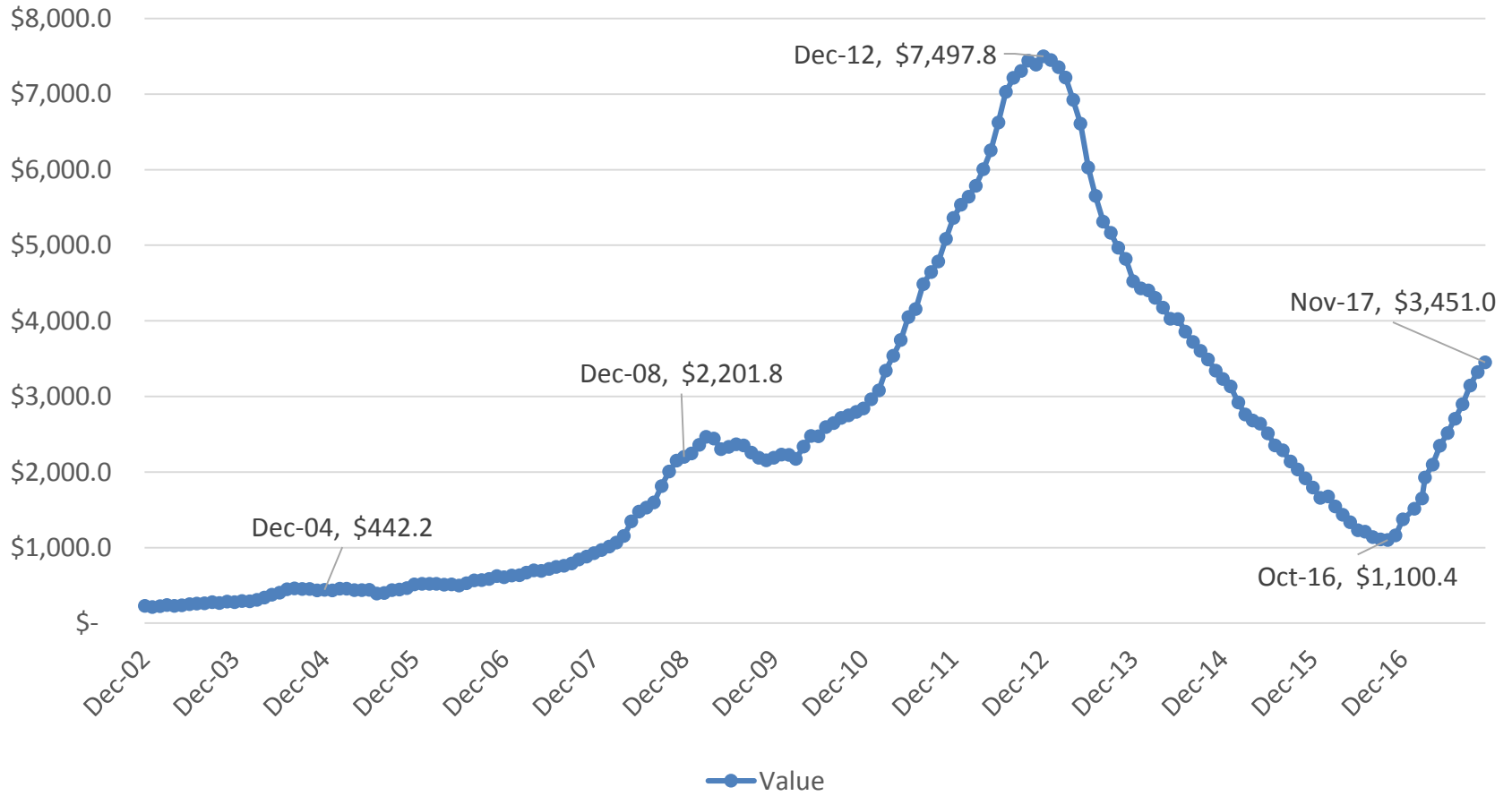
Total Exports Up 52% Since October 2016; Non-Manufacturing Good Exports Up 214%



Longer Term 12-Month Trailing Trend

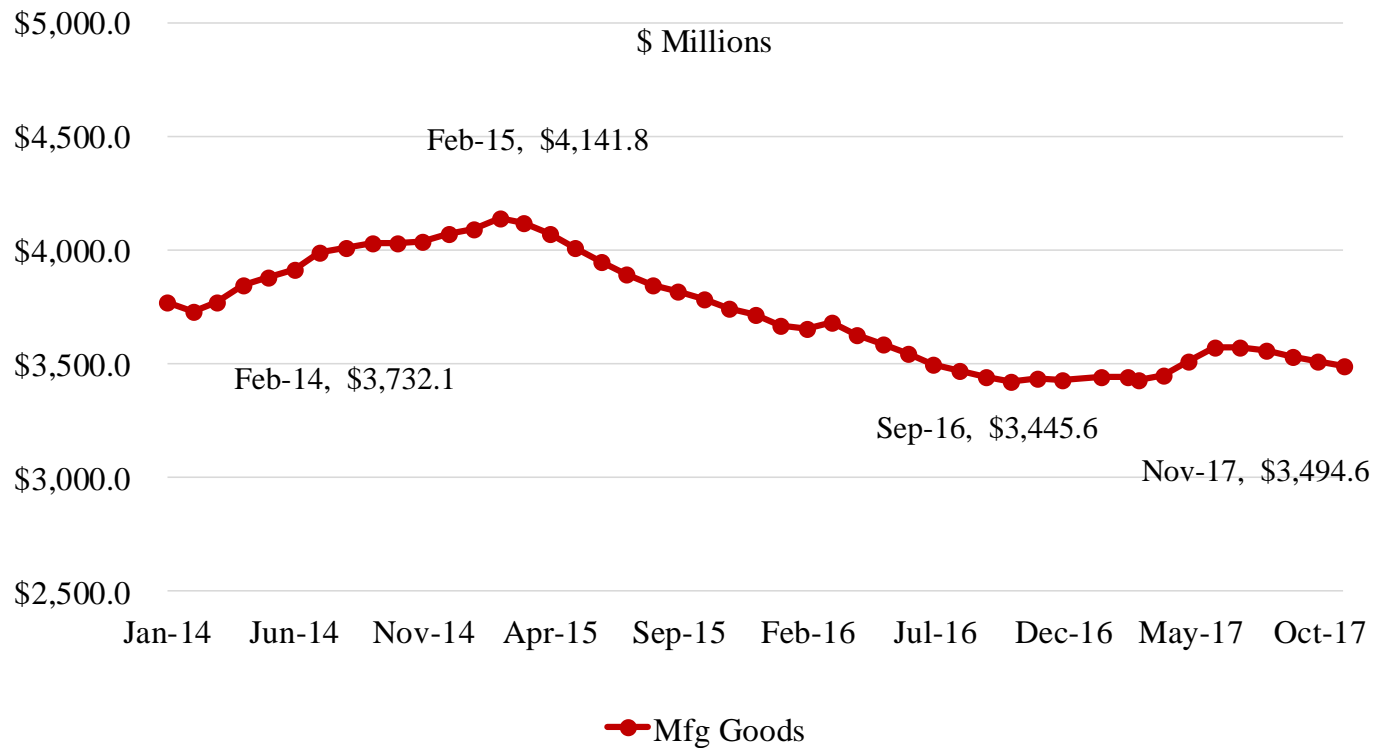
Source: U.S. Census Bureau

Value of WV Non-Manufacturing Good Exports (\$ Millions)



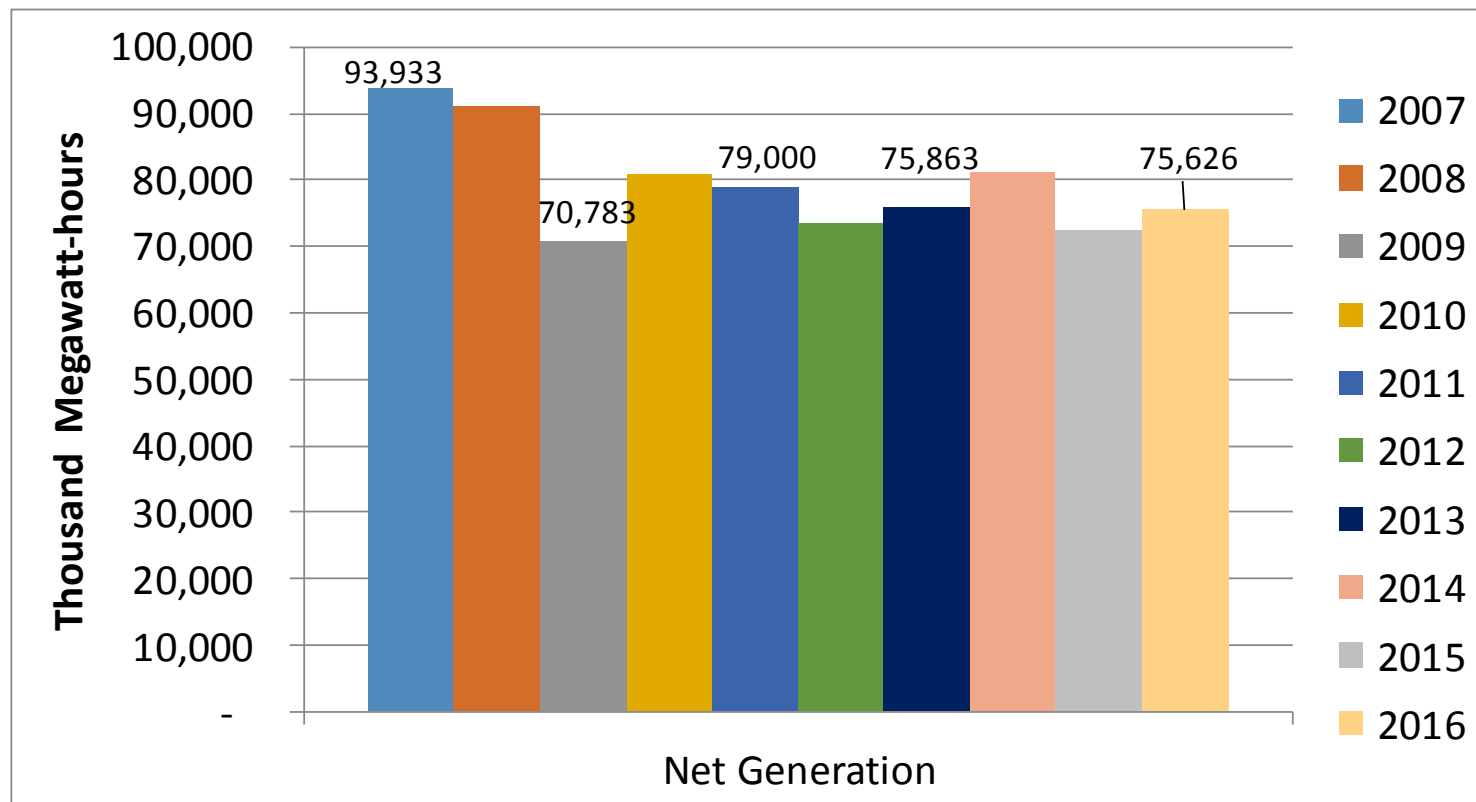
12-Month Trailing Trend Value of Foreign Manufacturing Good Exports

Total Exports Up 52% Since October 2016; Manufacturing Good Exports Up 2%



West Virginia Electric Power Generation: Down 2.7% YTD in 2017 & 22% Below 2007 (Oct)

Source: U.S. DOE, Energy Information Administration

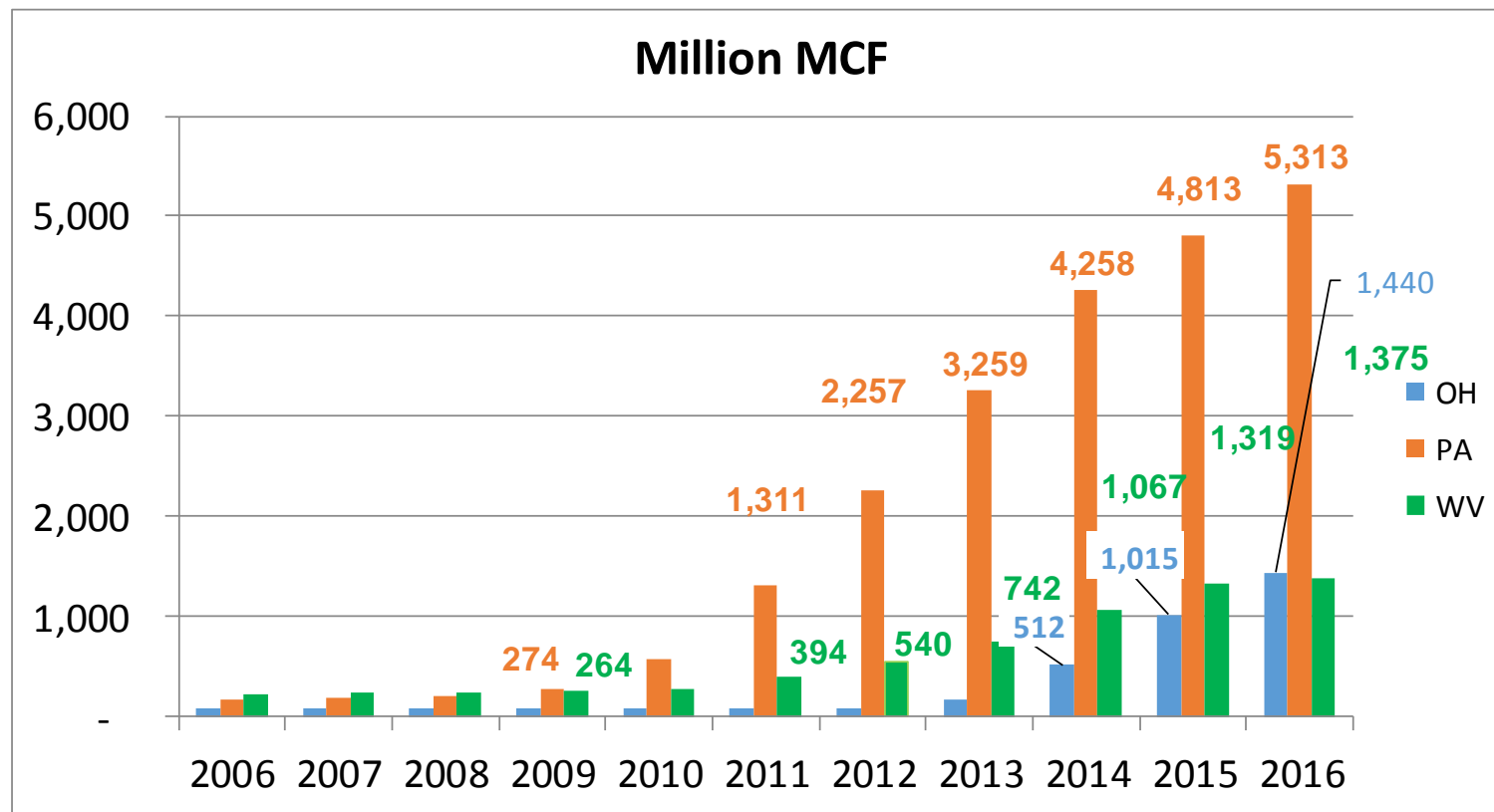


Natural Gas Production by State 2006-2016

U.S. Production up 3.5% per year average in 2011-2016

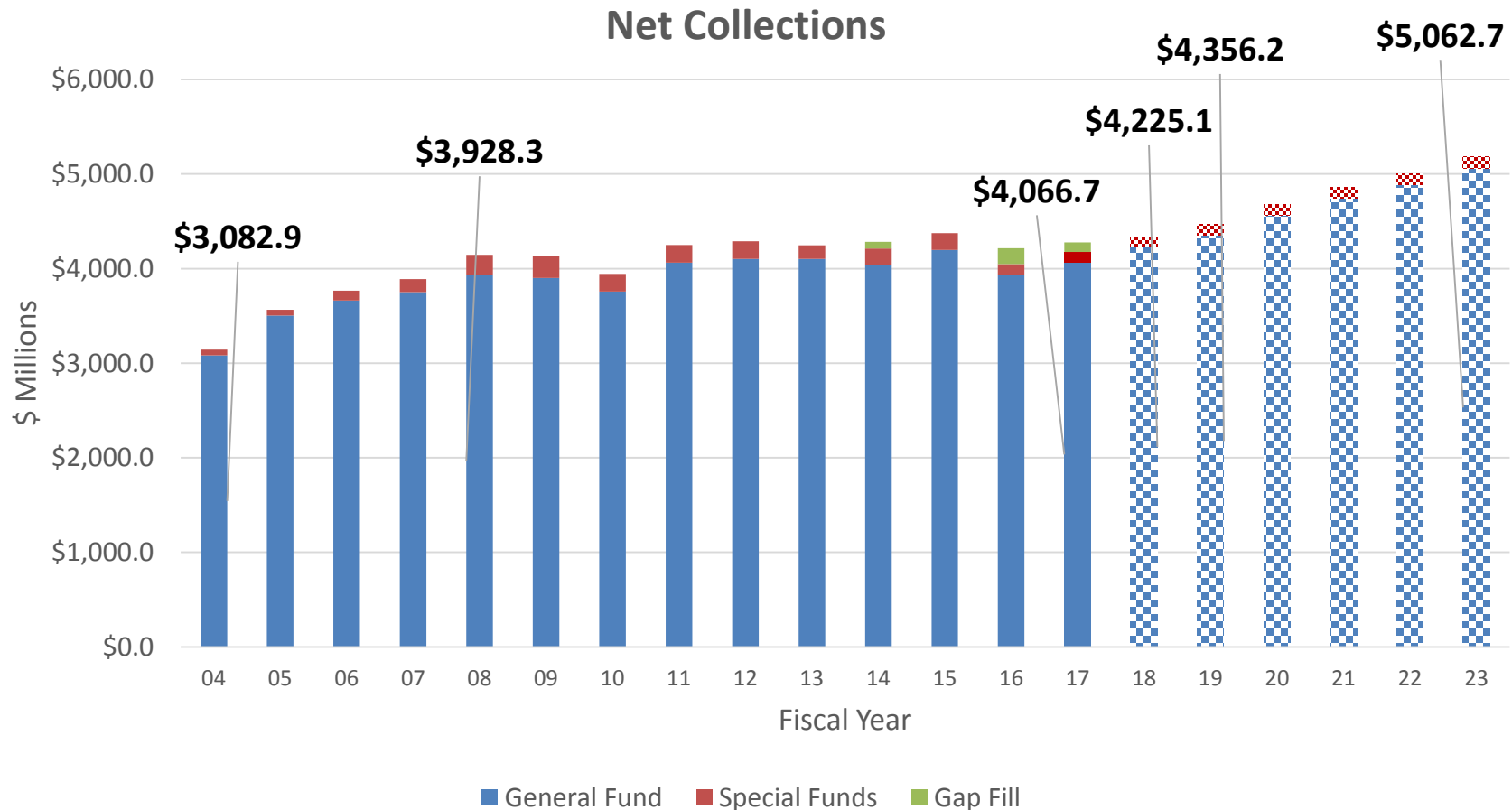
WV Production Up 28.4% per year average in 2011-2016

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



Total General Revenue Fund Revenues

Average Annual Growth: 7.2% 2004-2008; 0.08% 2008-2017;
Projected Average Annual Growth: 3.7% 2017-2023; Total Growth 2007-2017 = 7.4%



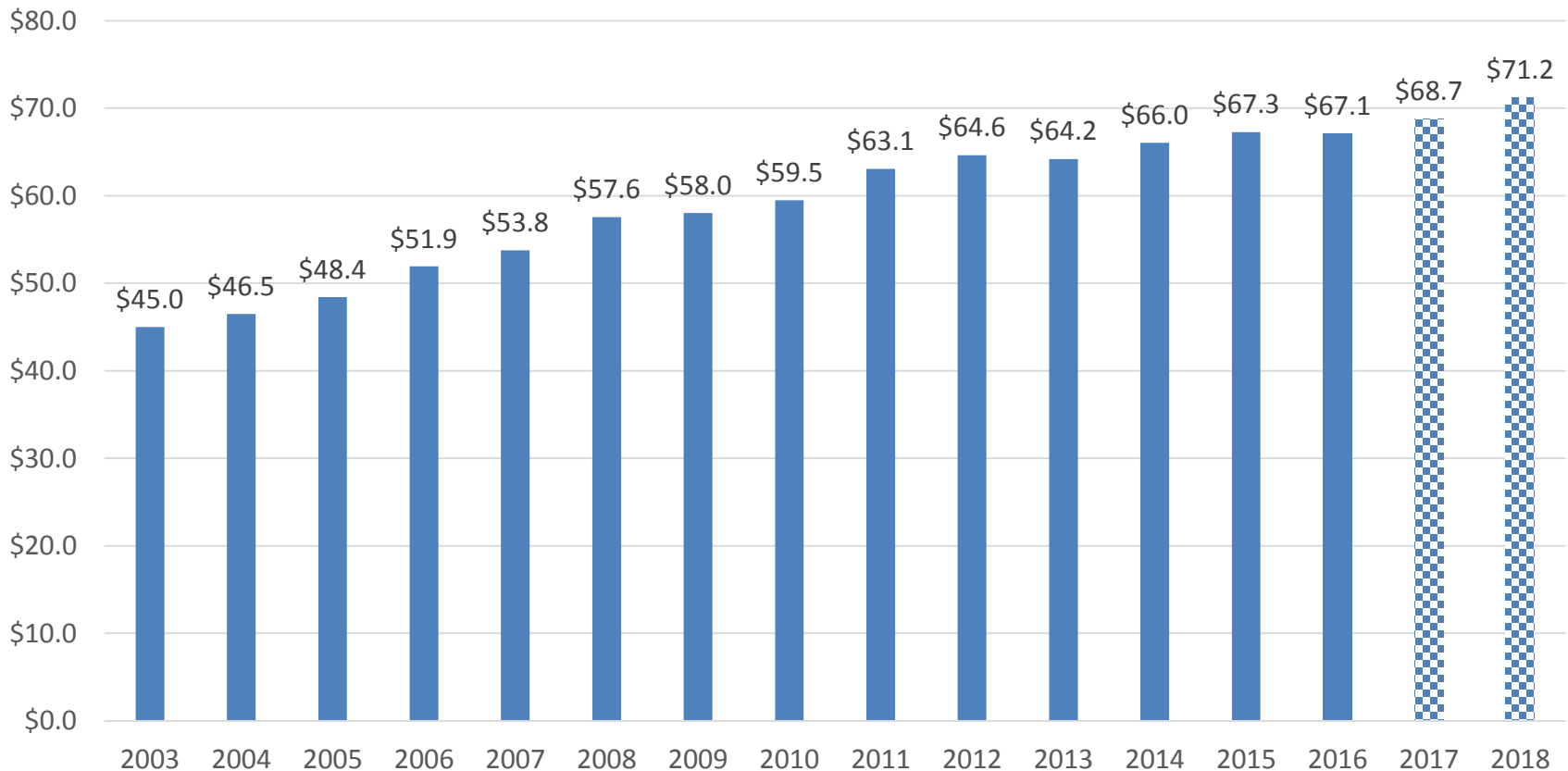
West Virginia Personal Income

28% Growth Between 2007 and 2017

Sources: U.S. Department of Commerce Bureau of Economic Analysis

Forecast- IHS Markit- U.S. Regional Service December 2017 Long-Term

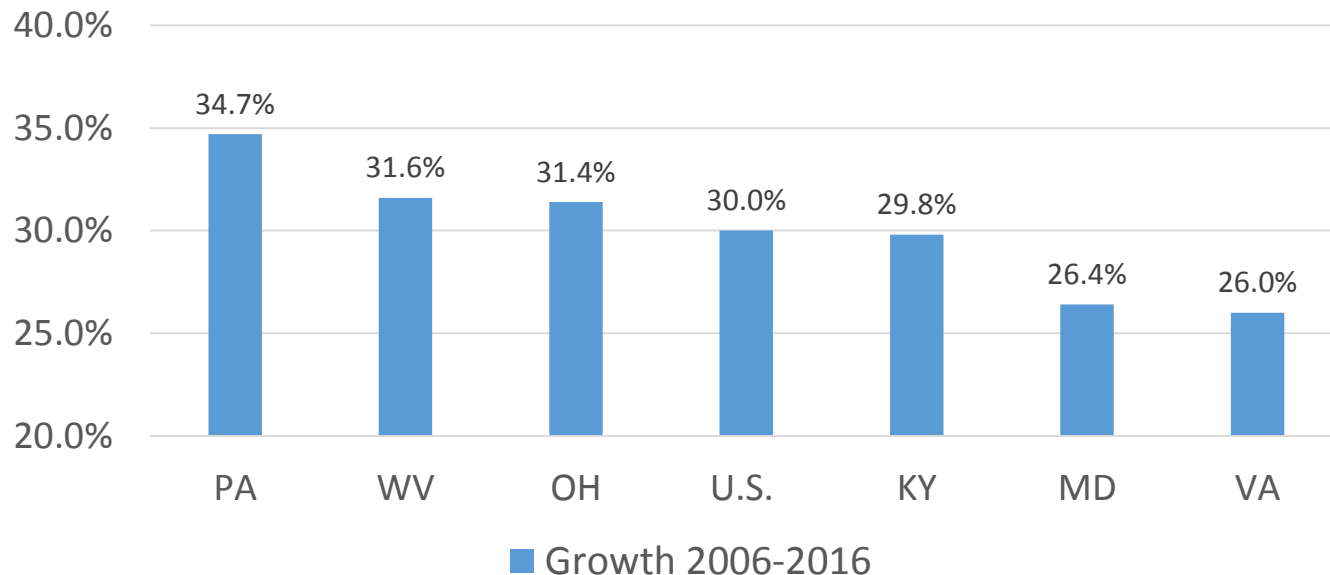
\$ Billions



WV Per Capita Personal Income Growth

- WV Per Capita Income Ratio to U.S. Rises from 74.5% in 2006 to 75.4% in 2016
- Annual growth has averaged 3% per year (\$38,144 in 2016)

Per Capita Personal Income Growth-Past 10 Years



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

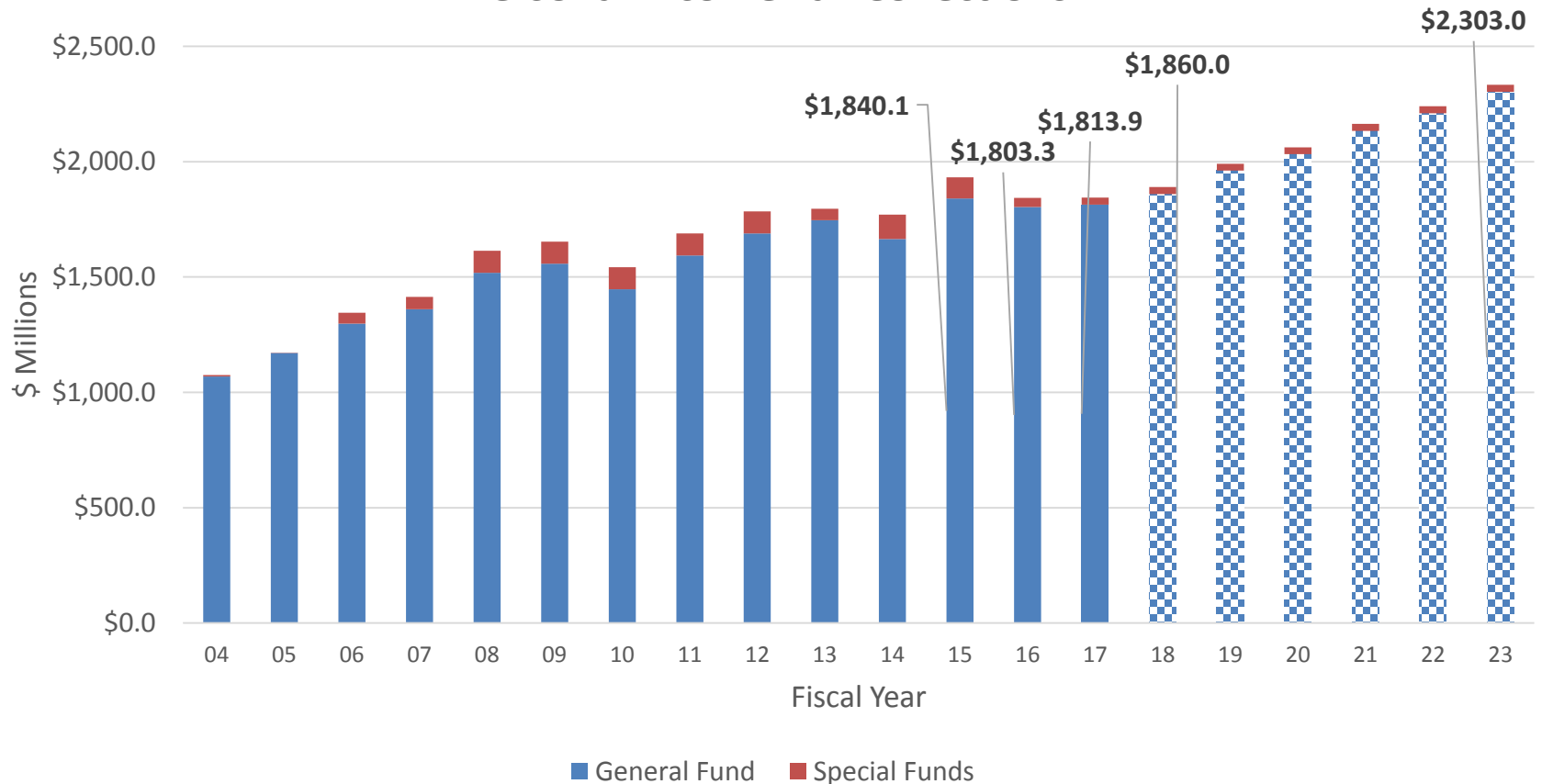
Personal Income Tax

Average Annual Growth: 9.1% 2004-2009; 1.4% 2009-2017

Projected Average Annual Growth: 4.0% 2017-2023

\$ 1,811.675

Personal Income Tax Collections

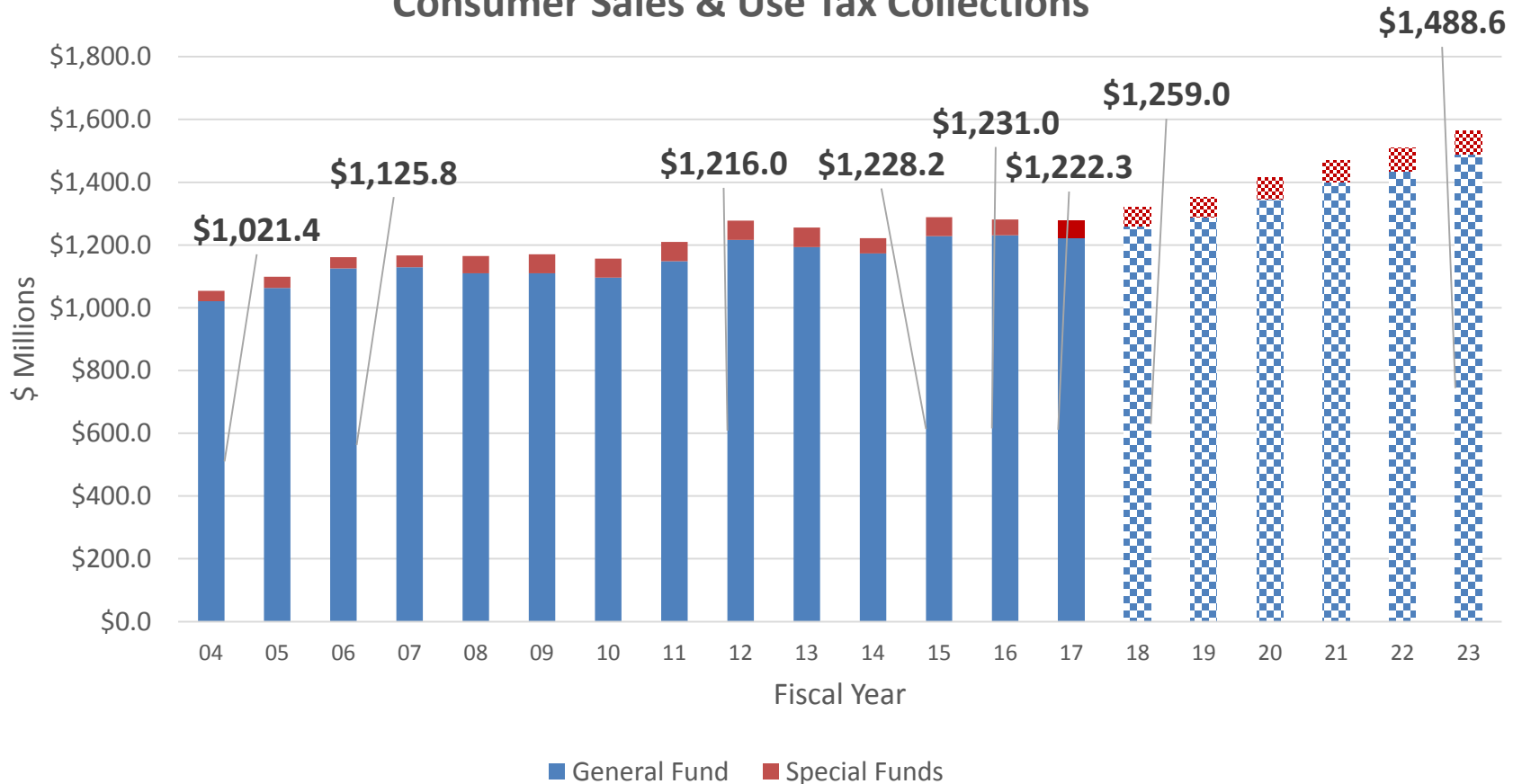


Consumer Sales and Use Tax

Average Annual Growth: 3.5% 2004-2007; 0.9% 2007-2017

Projected Average Annual Growth: 2.8% 2017-2023

Consumer Sales & Use Tax Collections



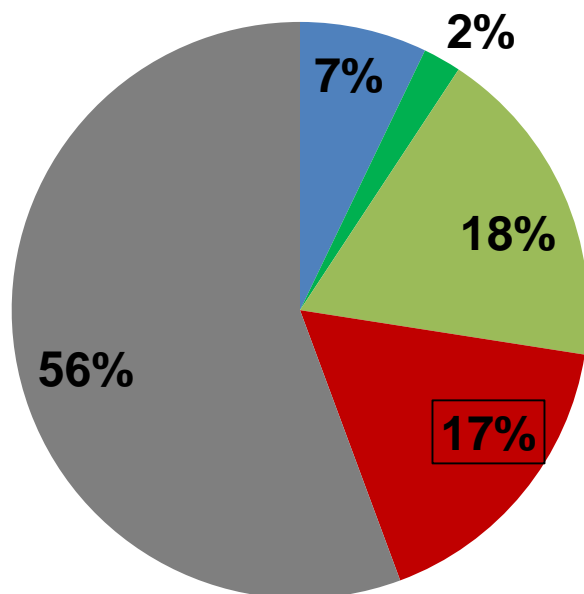
Per Capita Personal Consumption Expenditures 2016

Average Citizen's Consumption of Health Care 11% Higher in WV

Growth in WV: 2.5% [36% Health Care]; Growth in U.S.: 4.0% [21% Health Care]

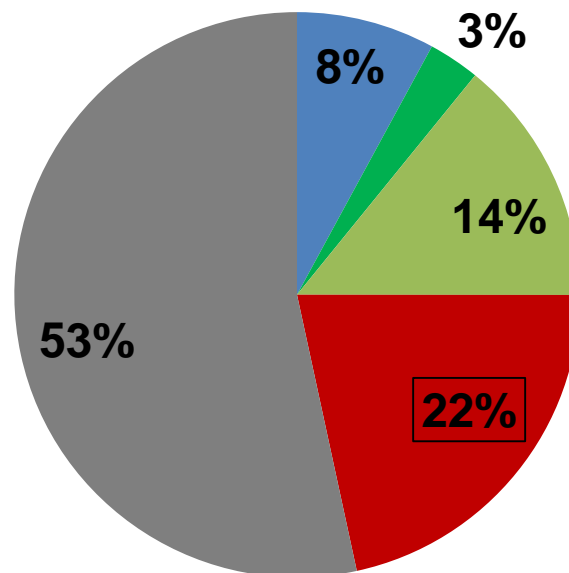
Source: U.S. Bureau of Economic Analysis

United States: \$39,664



Food Energy Housing
Health Care Other

West Virginia: \$34,418



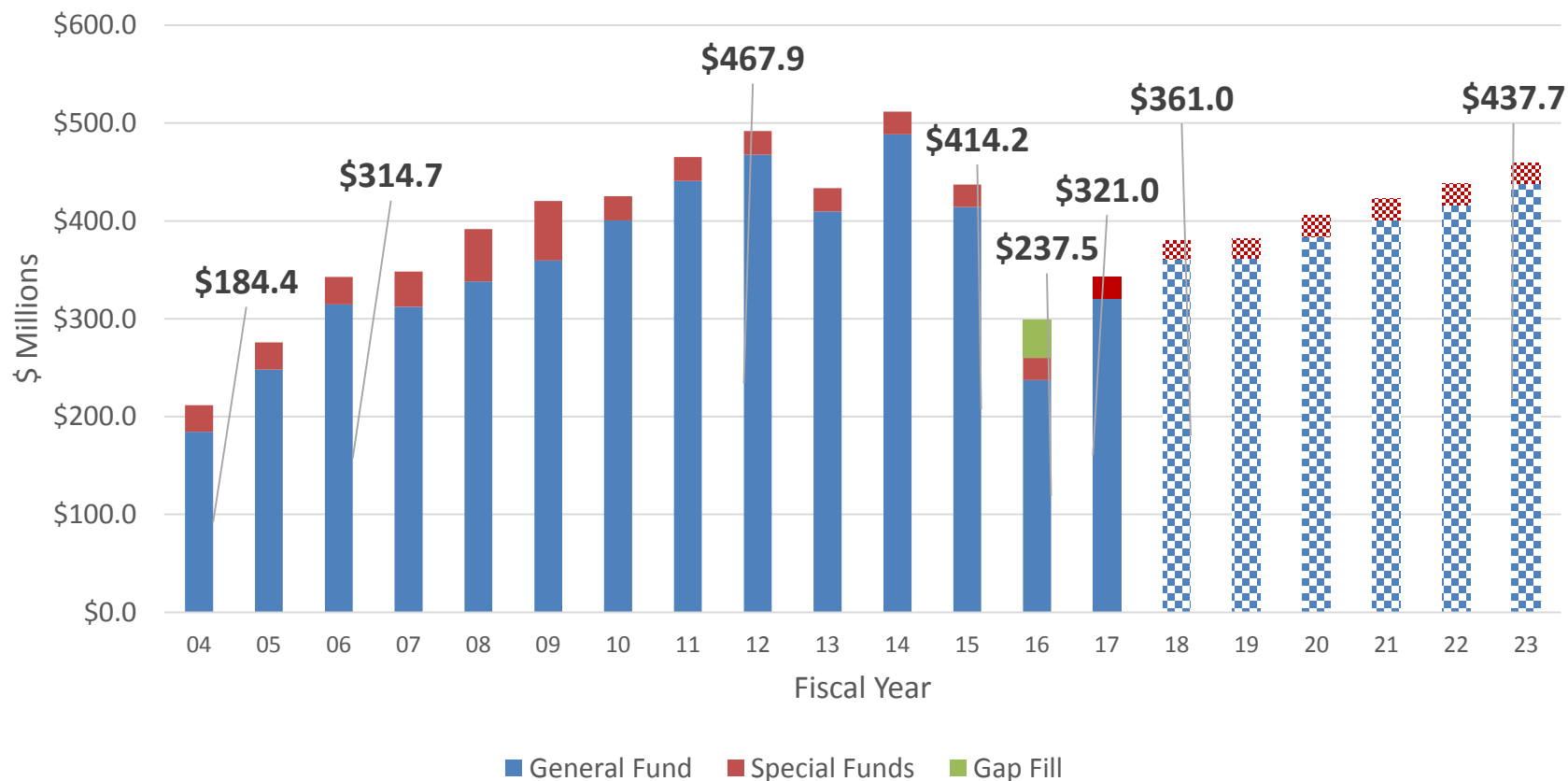
Food Energy Housing
Health Care Other

Severance Tax

Average Annual Growth: 11.1% 2004-2012; -0.2% 2007-2017

Projected Average Annual Growth: 5.0% 2017-2023

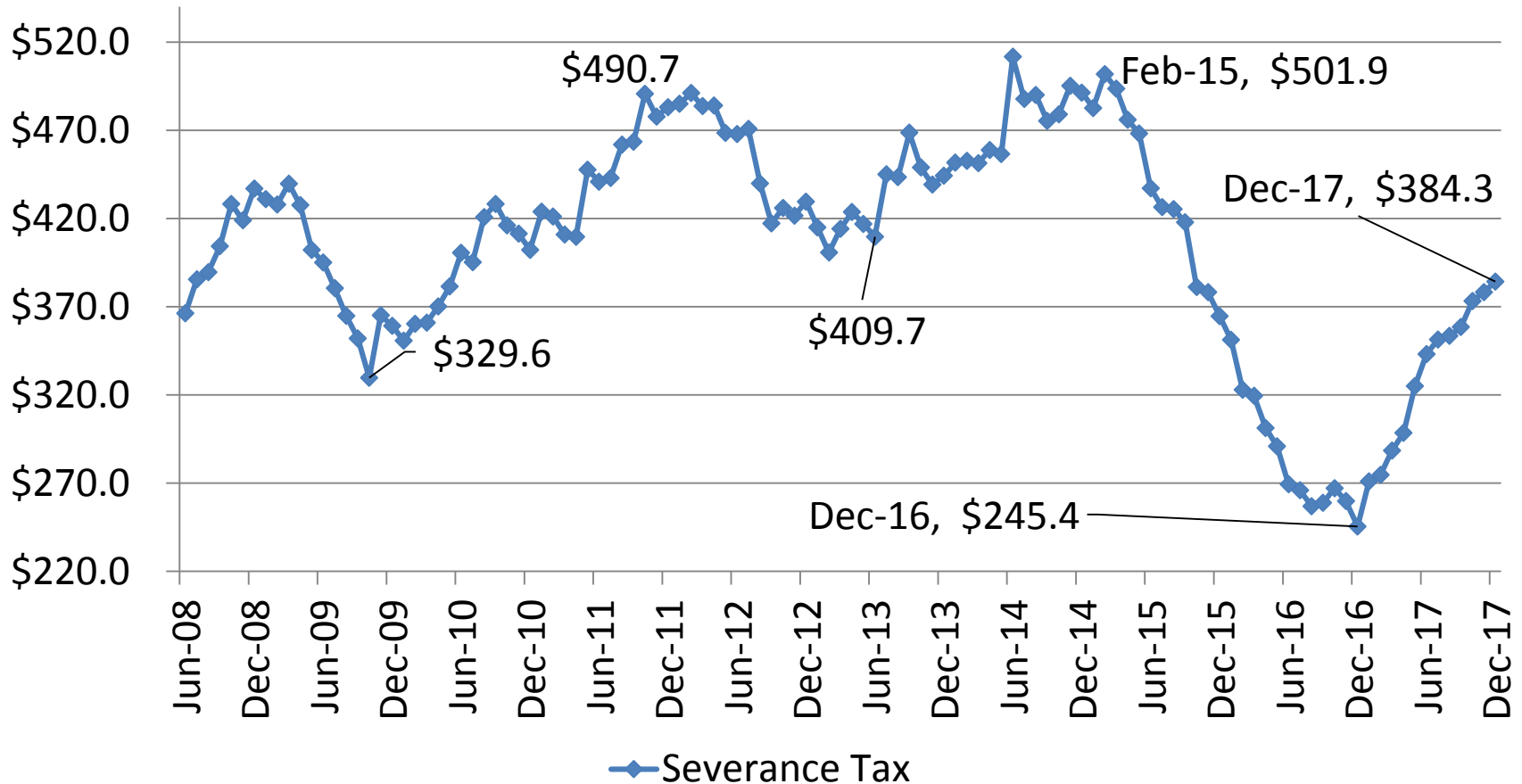
State Severance Tax Collections



Regular Severance Tax (July 2007-Present)

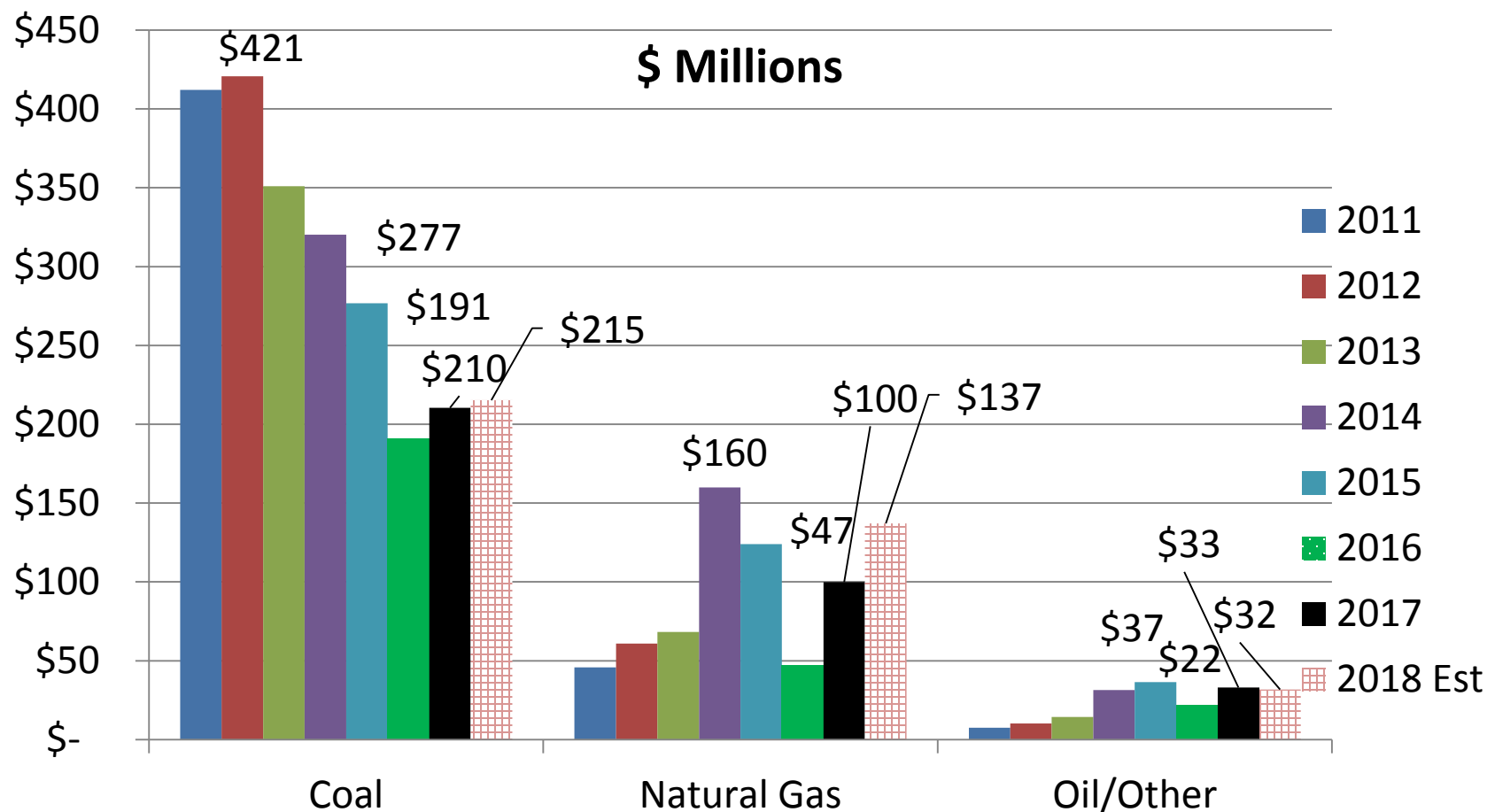
Trailing 12 Month Trend

\$ Millions



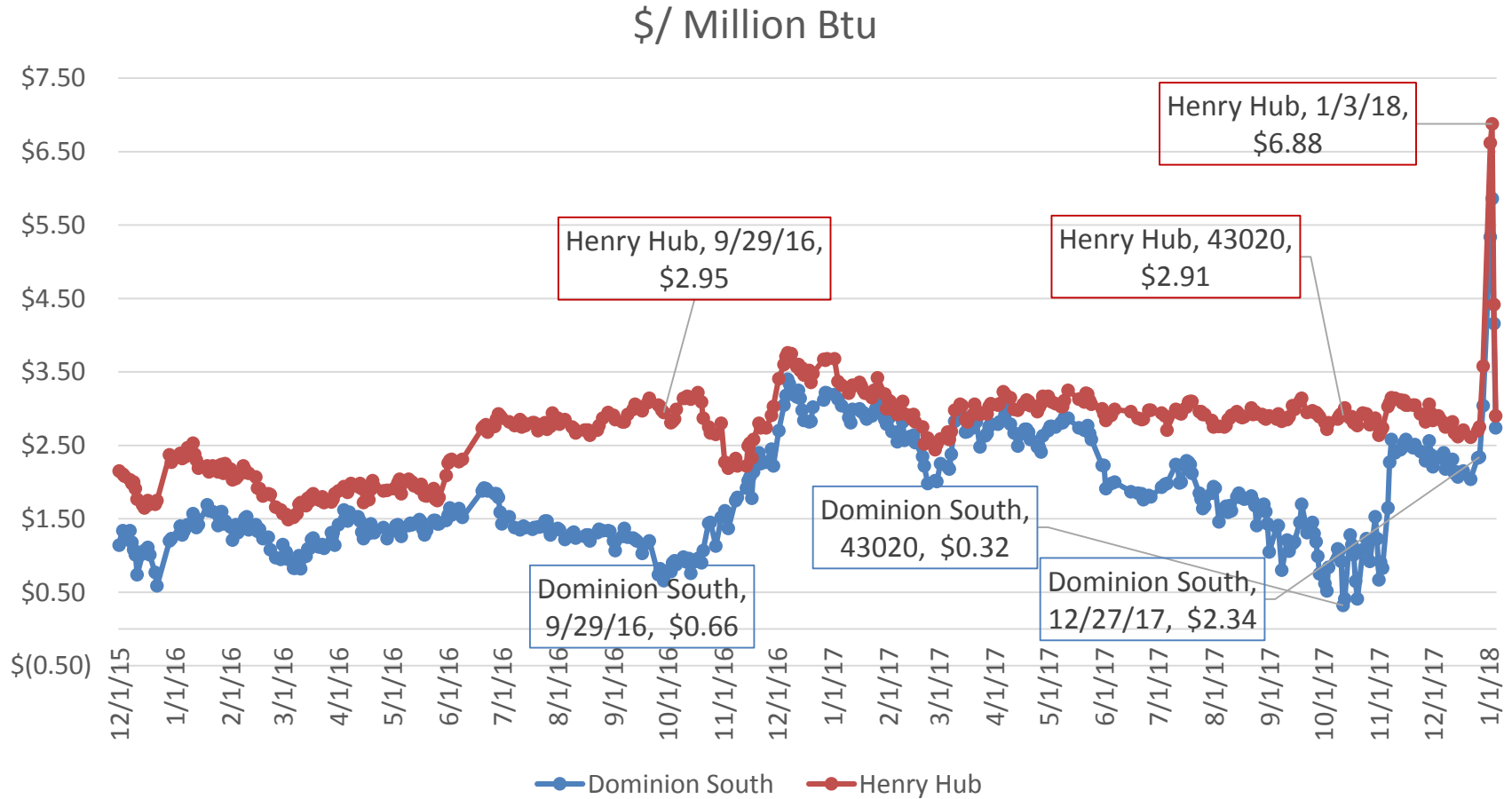
State Severance Tax Collection Trends

Regular Tax on Gross Receipts Net of Local Tax Distributions



Natural Gas Prices: Variation Significant

Source: *Natural Gas Intelligence* Daily (Trade Date) Average Natural Gas Prices

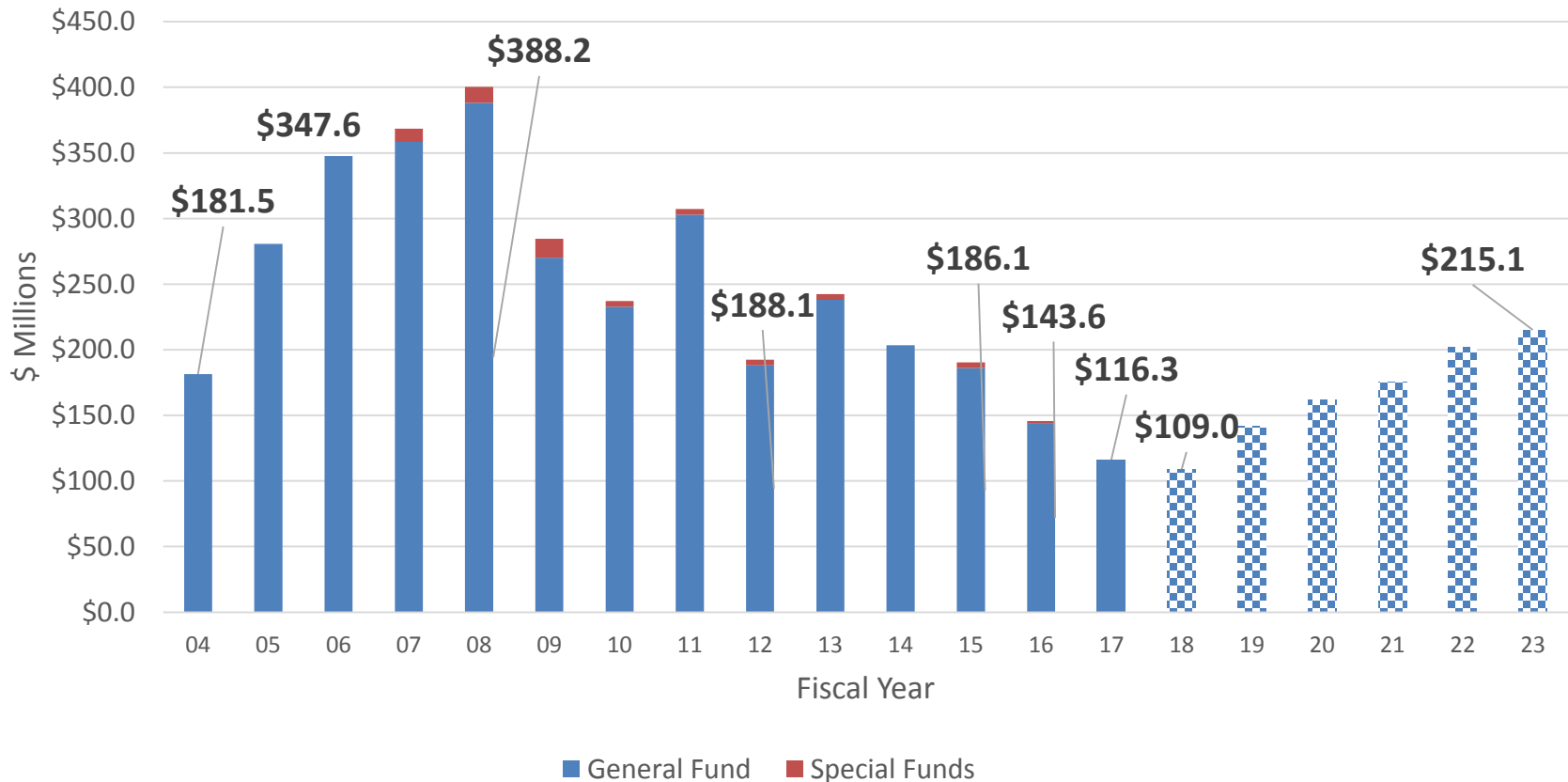


Corporation Net Income Tax

Average Annual Growth: 21.9% 2004-2008; -10.9% 2007-2017

Projected Average Annual Growth: 10.8% 2017-2023

Corporation Net Income Tax Collections

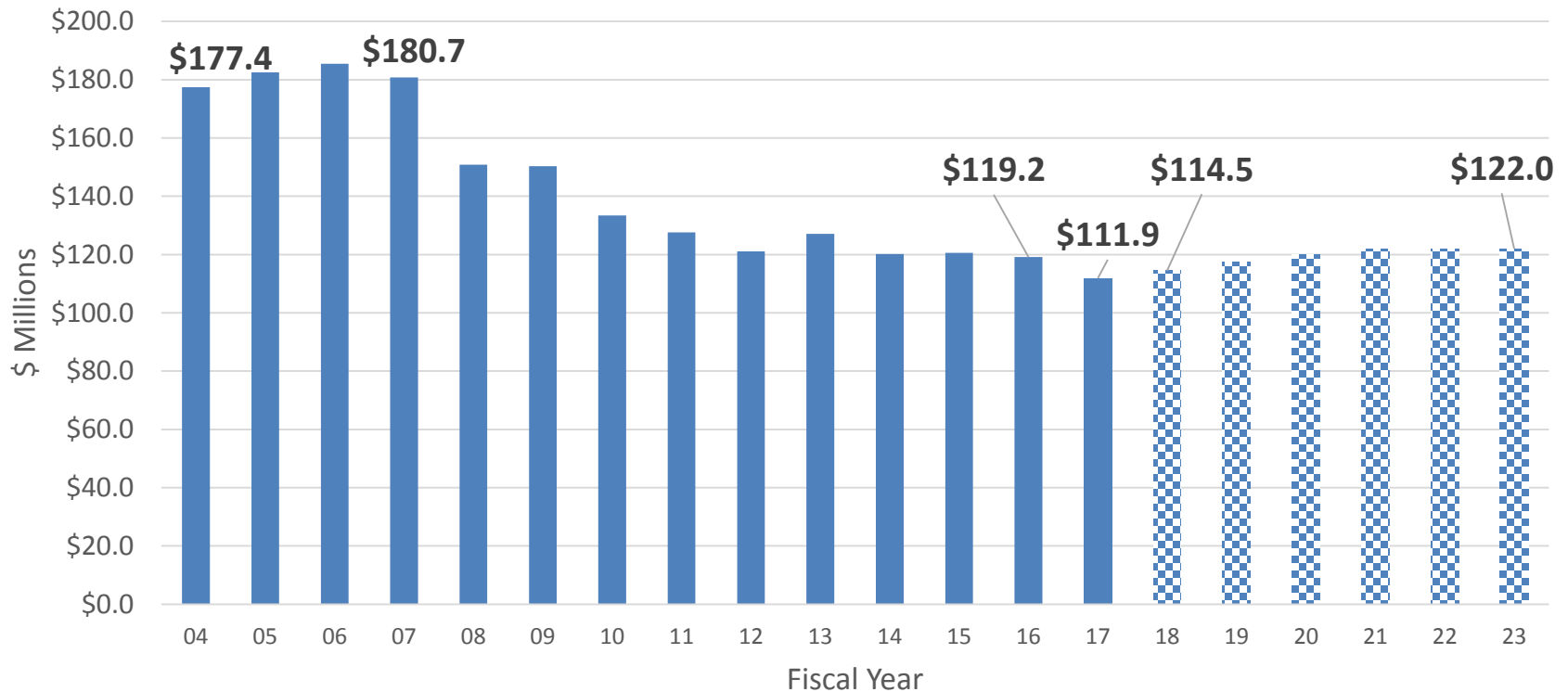


Business and Occupation Tax

Average Annual Growth: 0.6% 2004-2007; -4.7% 2007-2017

Projected Average Annual Growth: 1.4% 2017-2023

B&O Tax Collections

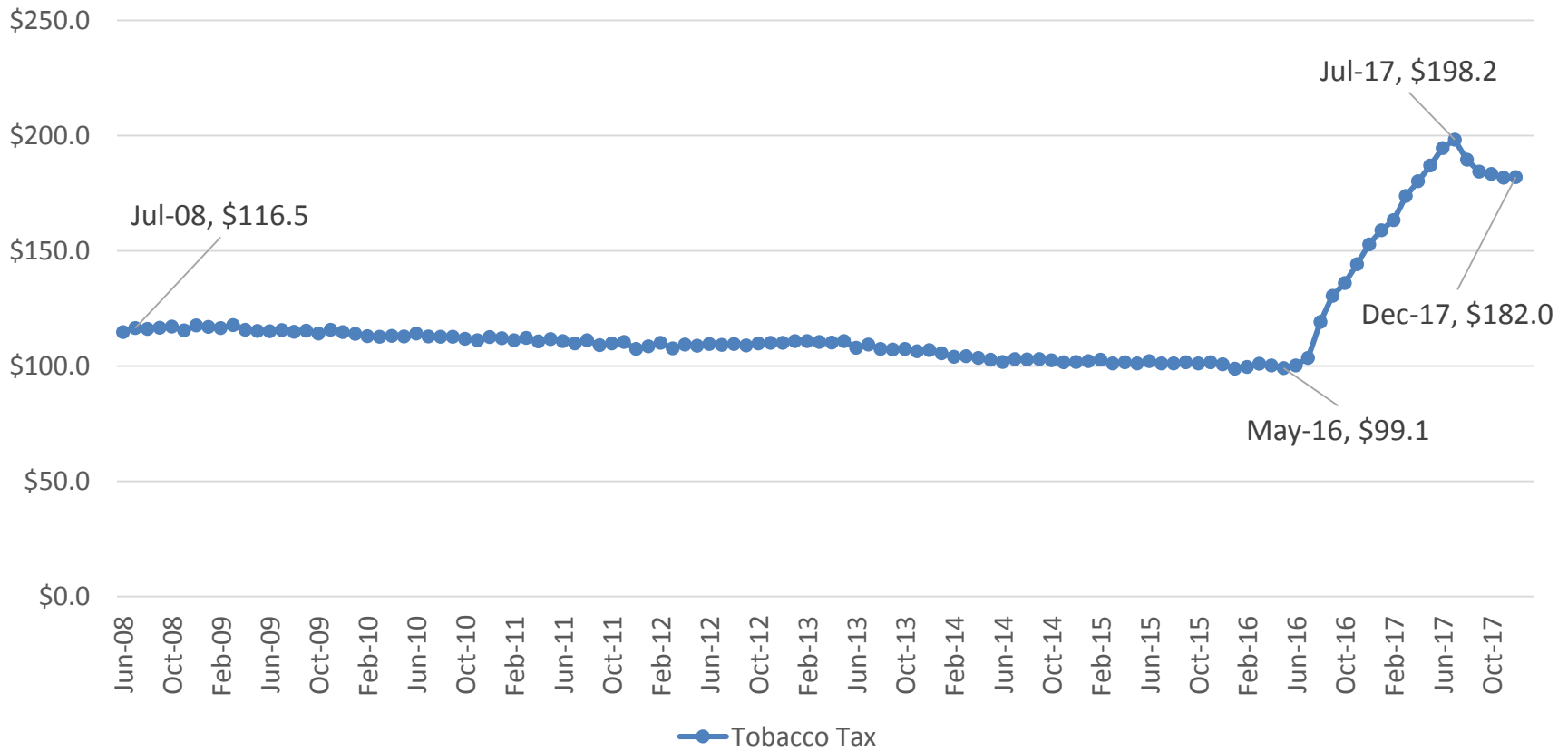


Tobacco Products Tax Collection Trends

2008-2016: -1.7%/Year;

Rate from \$0.55 to \$1.20 as of July 1, 2016; OTP from 7% to 12%

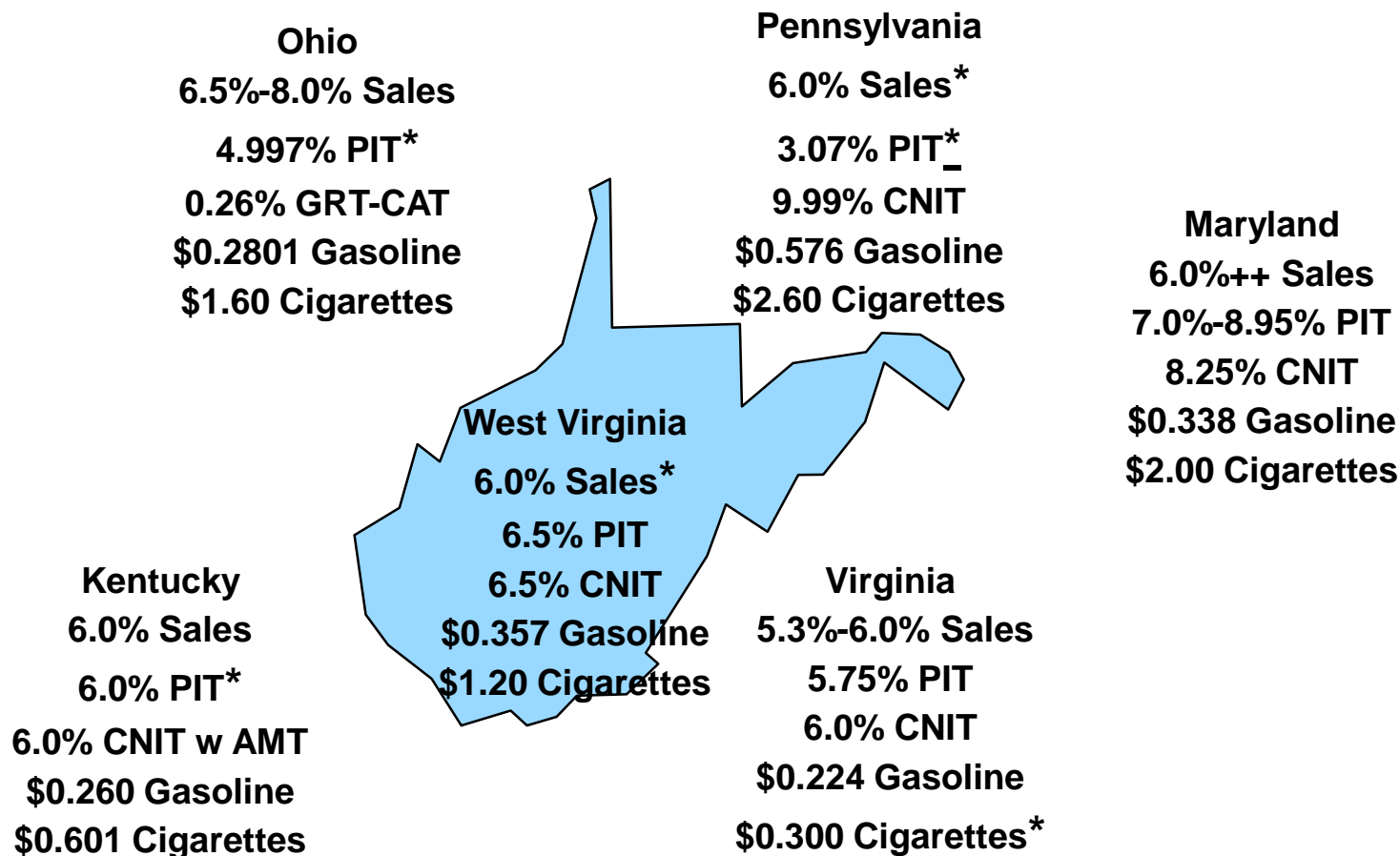
\$ Millions – 12-Month Trailing Trend



COMPARATIVE TAX RATES

As of January 1, 2018

* Additional local taxes may apply



FY2017-2018 General Revenue Fund as of December 31, 2017

	\$ Millions	\$ Millions	\$ Millions	\$ Millions		\$ Millions
	YTD	YTD	YTD	ACTUAL	CHANGE	
<u>COMPONENT</u>	<u>ESTIMATE</u>	<u>ACTUAL</u>	<u>DIFFERENCE</u>	<u>YTD FY16-17</u>	<u>PERCENT</u>	<u>CHANGE</u>
Consumer Sales Tax	\$ 613.500	\$ 593.364	\$ (20.136)	\$ 590.970	0.4%	\$ 2.394
Personal Income Tax	\$ 850.220	\$ 883.188	\$ 32.968	\$ 836.444	5.6%	\$ 46.744
Business & Occupation Tax	\$ 53.500	\$ 48.961	\$ (4.539)	\$ 48.515	0.9%	\$ 0.447
Severance Tax	\$ 155.900	\$ 138.350	\$ (17.550)	\$ 94.484	46.4%	\$ 43.866
Corporate Taxes	\$ 53.300	\$ 68.553	\$ 15.253	\$ 53.766	27.5%	\$ 14.788
Insurance Premium Tax	\$ 58.900	\$ 58.944	\$ 0.044	\$ 58.405	0.9%	\$ 0.539
Tobacco Products Tax	\$ 95.300	\$ 91.799	\$ (3.501)	\$ 104.473	-12.1%	\$ (12.675)
Interest Income	\$ 7.300	\$ 3.512	\$ (3.788)	\$ 1.938	81.2%	\$ 1.574
Lottery Transfers	\$ 26.142	\$ 24.195	\$ (1.947)	\$ 26.142	-7.4%	\$ (1.947)
All Other	\$ 51.868	\$ 57.731	\$ 5.863	\$ 47.325	22.0%	\$ 10.406
TOTAL	\$ 1,965.930	\$ 1,968.597	\$ 2.667	\$ 1,862.462	5.7%	\$ 106.135

FY2017-2018 State Road Fund as of December 31, 2017

	YTD	YTD	YTD	ACTUAL	CHANGE	
<u>COMPONENT</u>	<u>ESTIMATE</u>	<u>ACTUAL</u>	<u>DIFFERENCE</u>	<u>YTD FY16-17</u>	<u>PERCENT</u>	<u>CHANGE</u>
Motor Fuel Excise Tax	\$ 203.700	\$ 206.925	\$ 3.225	\$ 191.605	8.0%	\$ 15.319
Registration Fees	\$ 54.969	\$ 71.499	\$ 16.530	\$ 39.964	78.9%	\$ 31.536
Sales (Privilege) Tax	\$ 116.163	\$ 106.012	\$ (10.151)	\$ 106.279	-0.3%	\$ (0.267)
Highway Litter Control	\$ 0.765	\$ 0.780	\$ 0.015	\$ 0.723	7.9%	\$ 0.057
TOTAL	\$ 375.597	\$ 385.216	\$ 9.619	\$ 338.571	13.8%	\$ 46.645

Estimate VS Actual – Error Rate

Excludes Gap Fill Revenues

Estimates generally as of November prior to start of July-June Fiscal Year

Year	Receipts	Estimate	Error
FY17	\$4,066,716	\$4,187,419	- 2.9%
FY16	3,879.647	4,305.776	- 9.9%
FY15	4,196.310	4,253.951	- 1.4%
FY14	4,047.105	4,136.001	- 2.1%
FY13	4,059.119	4,149.751	- 2.2%
FY12	4,103.305	4,015.621	2.2%
FY11	4,063.786	3,741.680	8.6%
FY10	3,758.372	3,788.000	- 0.8%
FY09	3,901.552	3,902.733	- 0.0%
FY08	3,928.288	3,819.000	2.9%
FY07	3,752.722	3,657.100	2.6%
FY06	3,661.402	3,256.900	12.4%
FY05	3,404.639	3,071.756	10.8%
FY04	3,082.941	3,041.375	1.4%
FY03	2,916.961	2,930.000	-0.4%
FY02	2,824.117	2,800.100	0.9%
FY01	2,718.379	2,717.350	0.0%
FY00	2,638.496	2,664.159	-1.0%
FY99	2,617.868	2,592.900	1.0%
FY98	2,503.343	2,498.500	0.2%

FY2019 Forecast Versus Official FY2018 Estimates

Forecast of 3.1% Growth

\$ Millions

<u>Tax Source</u>	<u>FY2018</u>	<u>FY2019</u>	<u>Change</u>
Personal Income:	\$1,860.000	1,961.000	101.000
Sales & Use:	1,259.000	1,288.500	29.500
Severance:	361.000	361.700	0.700
Corp Income:	109.000	142.100	33.100
B&O:	114.500	117.500	3.000
Tobacco Excise:	194.000	179.700	(14.300)
Insurance Premium:	121.100	123.500	2.400
Lottery-GRF:	65.000	65.000	0
All Other:	141.450	117.170	(24.280)
<i>Total General</i>	<i>\$4,225.050</i>	<i>\$4,356.170</i>	<i>\$131.120</i>

2018-2019 Fiscal Outlook Summary

- West Virginia economy continues growing – lead by energy
- Some rebound in non-energy sectors (construction & manufacturing ?)
- Natural gas prices and production slowly rise pending completion of major infrastructure pipeline projects; Stability for coal
- Increased road construction helps stimulate additional employment growth and tax collection growth
- Federal fiscal stimulus in the form of tax rate reductions and capital expensing stimulate additional short-term economic growth in 2018
- Demographic factors continue to act as brake on growth in State

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



DEPARTMENT OF REVENUE

Questions?