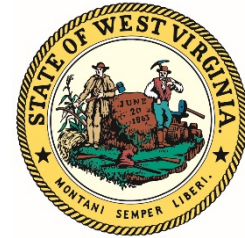


W E S T V I R G I N I A



DEPARTMENT OF REVENUE

Fiscal Forecast – FY 2020

DEPUTY REVENUE SECRETARY MARK B. MUCHOW

Senate Finance Committee

January 10, 2019

Current West Virginia Fiscal Picture

- Economy: Growth Accelerates Since Late 2016
 - Major pipeline investment & employment growth beginning in late Spring 2018
 - Governor's Roads to Prosperity Program in full gear
 - General Revenues grow by 3.7% in FY2018; 13.5% in 1st Half of FY2019
 - 12-month trailing trend value of foreign exports up 68% since October 2016
 - Coal production up roughly 20% since 2016
 - Weighted natural gas prices up 9% CY-to-date & volumes increase 12.4% in CY2017
 - Private Sector employment growth of 1% (2018 compared with 2017)
 - Average hourly earnings growth near 6%; Strong growth in Construction & Health Care
 - Federal Tax Reform (Tax Cut) Stimulus [Tax Foundation: average tax cut = 2.3% of income]
- Above average employment growth in Construction Sector contributes to double-digit gains in major taxes in FY2019
- High Volatility in General Revenue Fund collection patterns
- Lottery revenues will exceed prior year receipts
- State Road Fund collections will exceed estimates; up 20% since FY2017

U.S. Economy: IHS Forecast

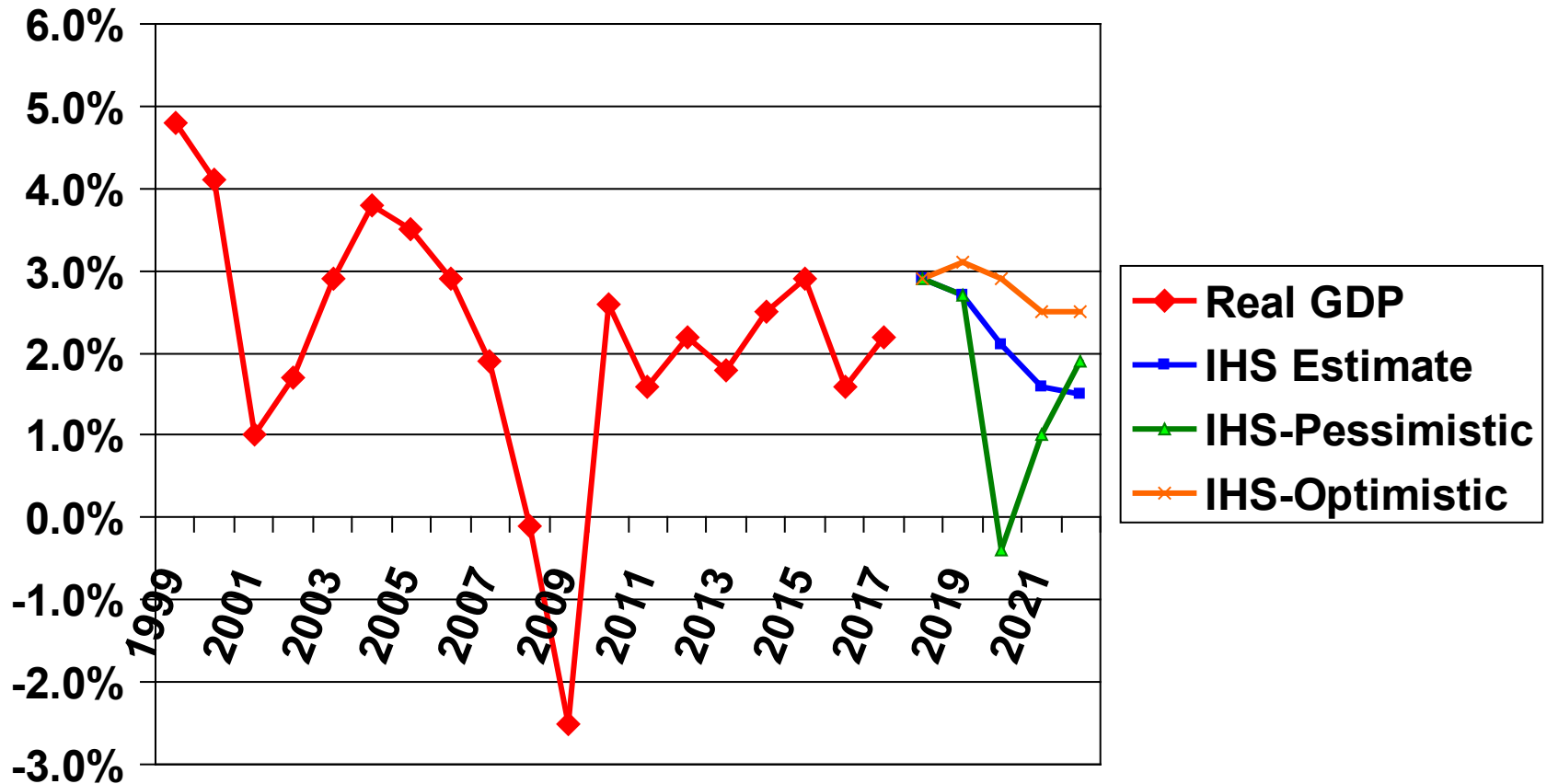
IHS-Markit Baseline: November 2018

<u>Economic Variable</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Real GDP	2.9%	2.7%	2.1%
CPI	2.5%	2.5%	1.9%
Consumption	2.7%	2.8%	2.4%
Industrial Production	3.7%	2.7%	2.2%
Payroll Employment	1.6%	1.5%	1.1%
Personal Income	4.5%	4.5%	4.9%
Real Disposable Income	2.8%	2.2%	2.9%
Domestic Corporate Profits	8.9%	9.0%	0.4%
10-Year Treasury Note	2.94%	3.41%	3.55%

Real Gross Domestic Product Growth in U.S.

Expansion in 2013-2022 With Slower Growth by 2020

November 2018 Forecast – IHS



Federal Fiscal Belt Loosens

Source: CBO *Monthly Budget Review*, October-December 2018 & U.S. Treasury & OMB

Revenues Through December

<u>Source</u>	<u>\$ Billions</u> <u>Revenue</u>	<u>Percent</u> <u>Change</u>
Ind. Income \$	374	- 4.2
Corp. Income	53	-14.7
Social Insurance	274	5.9
Other	<u>70</u>	<u>20.8</u>
Total	<u>771</u>	<u>0.2</u>

Year-End Federal Budget Deficits

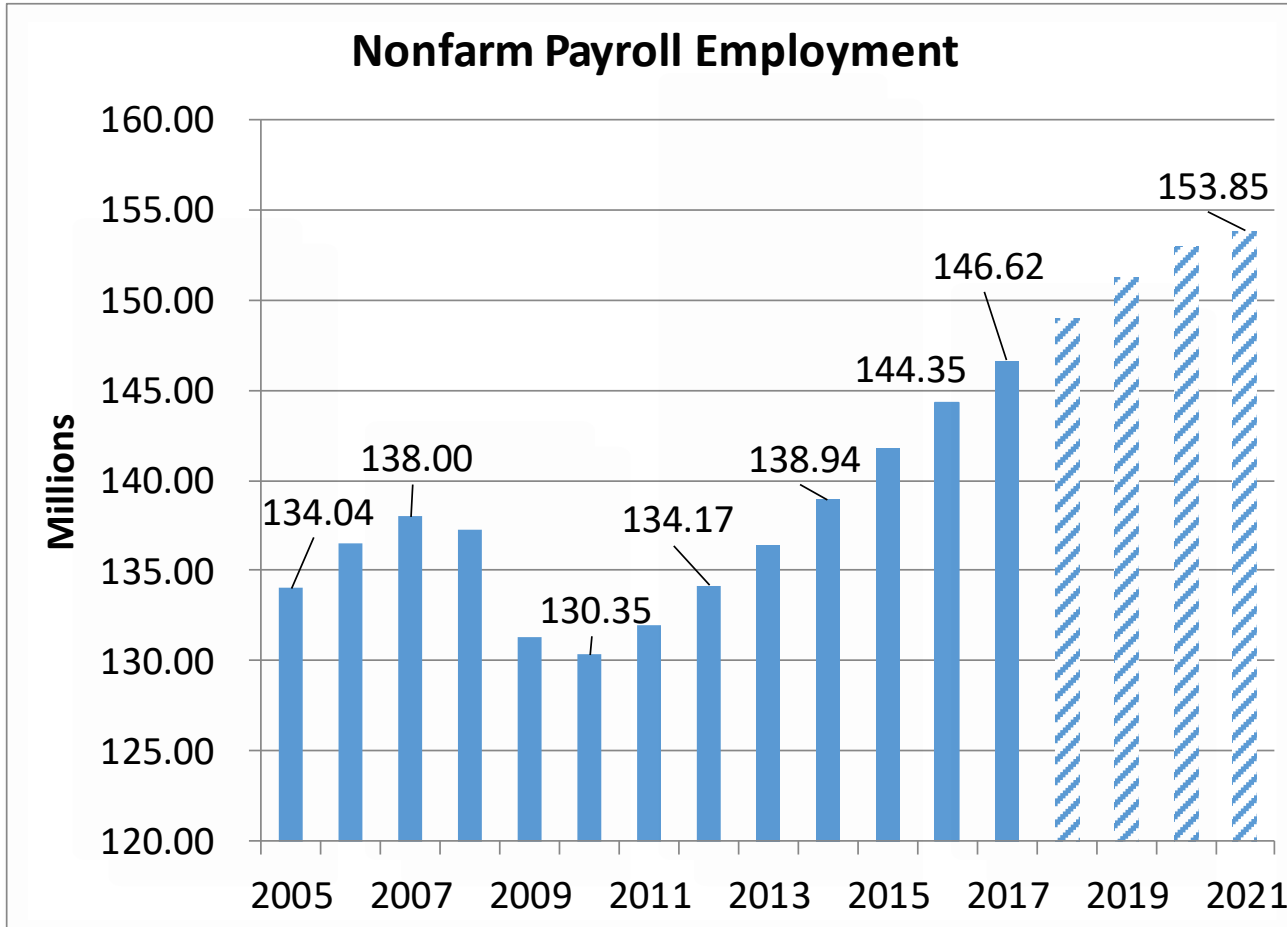
FY2007:	\$ 160.7 Billion
FY2008:	\$ 458.6 Billion
FY2009:	\$1,412.7 Billion
FY2010:	\$1,294.4 Billion
FY2011:	\$1,299.6 Billion
FY2012:	\$1,087.0 Billion
FY2013:	\$ 679.5 Billion
FY2014:	\$ 484.6 Billion
FY2015:	\$ 438.5 Billion
FY2016:	\$ 584.7 Billion
FY2017:	\$ 665.4 Billion
FY2018 Preliminary:	\$ 779.0 Billion
FY2019 Estimate:	\$1,085.3 Billion

Outlays Through December

<u>Category</u>	<u>\$ Billions</u> <u>Outlays</u>	<u>Percent</u> <u>Change</u>
Defense \$	173	+ 5.8
SS Benefits	250	+ 5.0
Medicare	152	+ 1.7
Medicaid	96	+ 1.6
Other	<u>316</u>	<u>+ 2.3</u>
Subtotal	986	+ 3.5
Debt Interest	102	+ 19.4
Total	<u>1,088</u>	<u>+ 4.8</u>

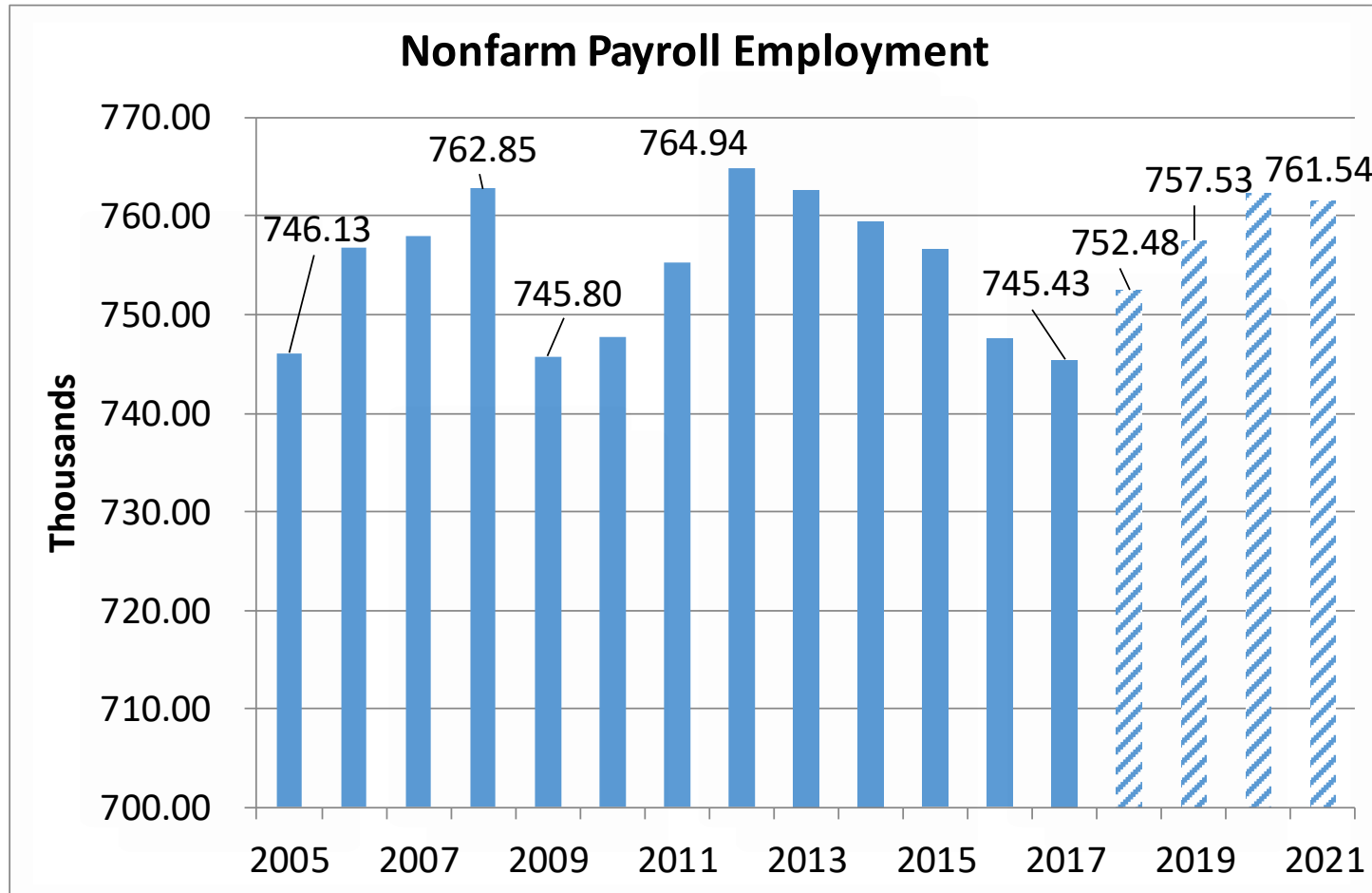
2017-2021: U.S. Employment Projected to Rise by 4.9%

Estimates by HIS-Markit - U.S. Economic Baseline Forecast November 2018



2017-2021: WV Employment Projected to Rise by 2.2%

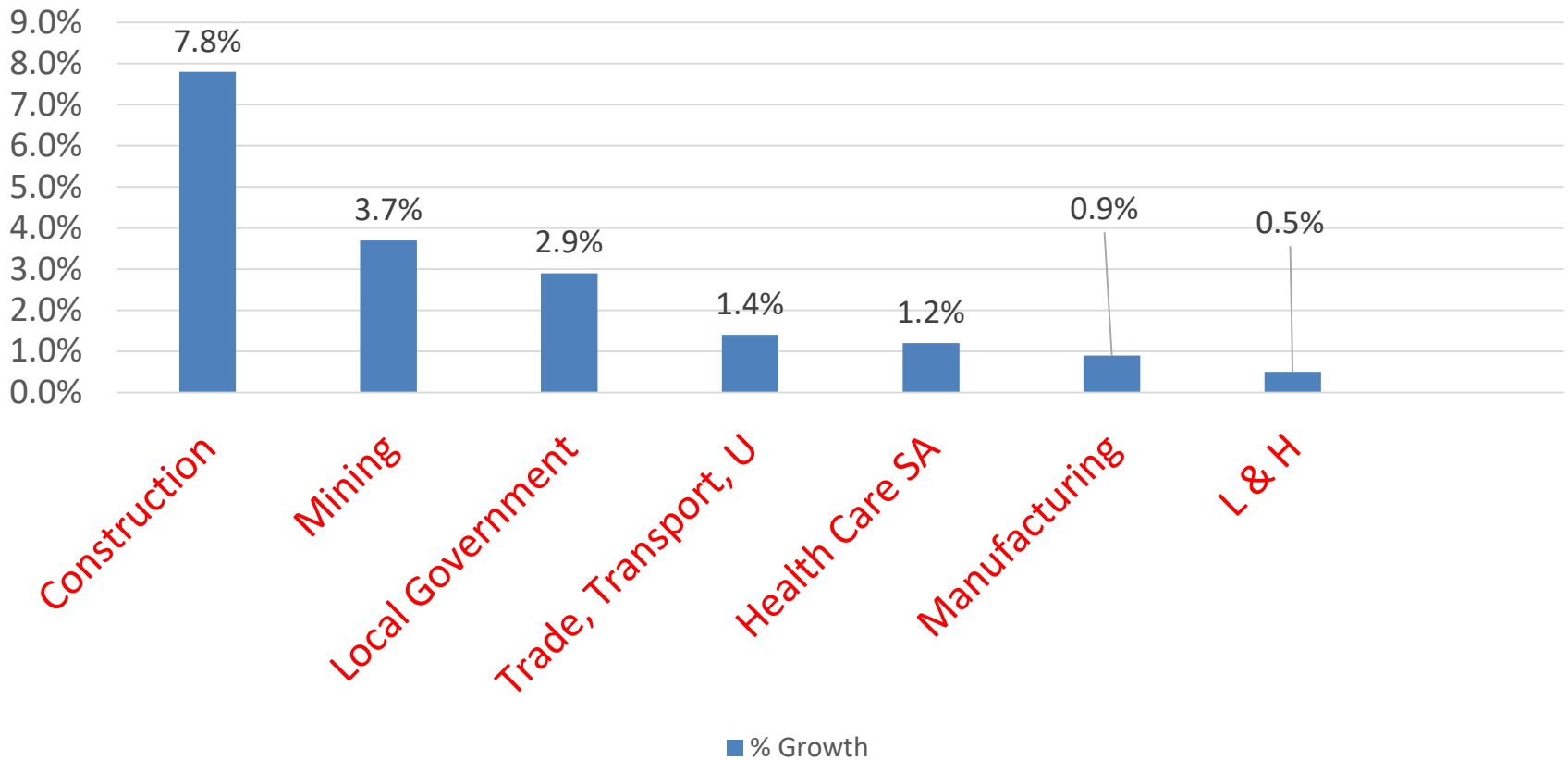
Estimates by HIS-Markit - U.S. Regional Service December 2018 Long Term



WV Payroll Employment Growth in 2018 To Date

Private Sector Up 6,100 Jobs (1.0%); Overall up by roughly 8,000
3,700 in Education & Health Services; 2,300 in Construction; 900 in Mining

2018 versus 2017- First 11 Month Average



Gas Pipeline Construction: 2018-2019

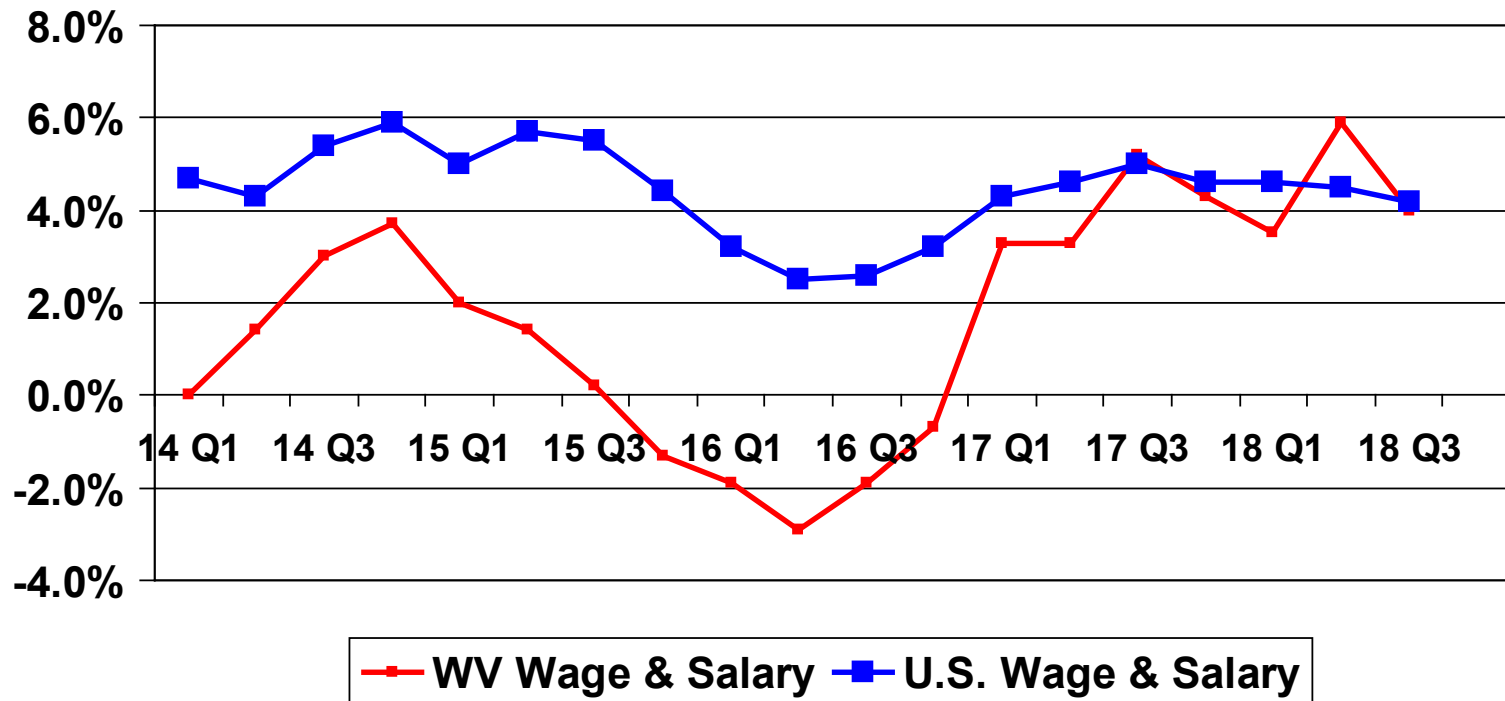
Large Investment in Short-Window

<u>Pipeline Project</u>	<u>Capital Investment & Jobs</u>	
Atlantic Coast	\$883 million;	3,093
Mountain Valley	\$811 million;	4,500
Mountain Xpress	\$2,000 million;	9,000
Eastern Panhandle	\$ 30 million	
Rover	\$100 million+	2,000
Goff Connector		

WV Wage Growth Near U.S. Average Since 2017

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

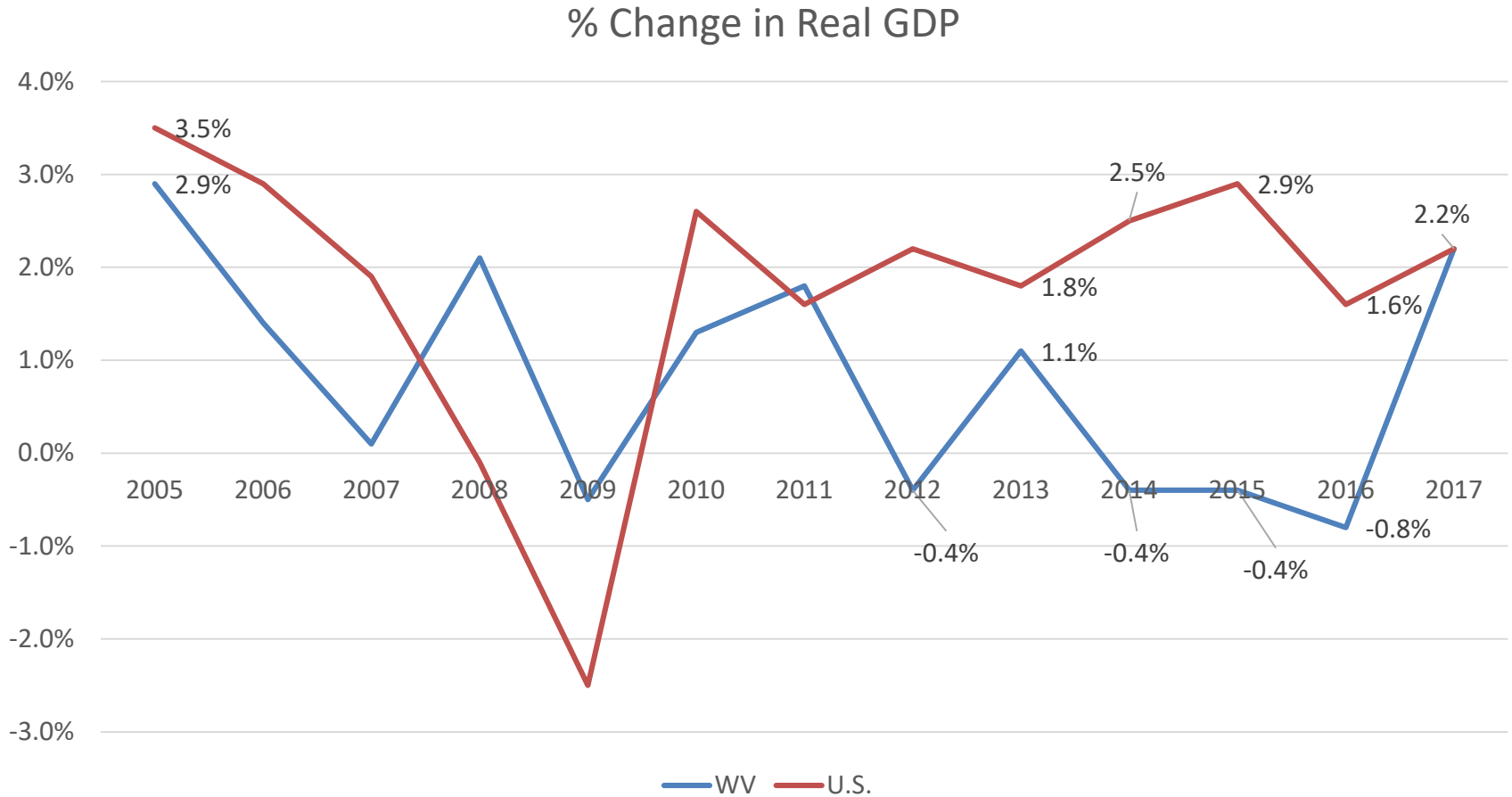
Source: U.S. Bureau of Economic Analysis
Seasonally Adjusted Annual Rate



WV Economy Returns to Growth in 2017 & 2018

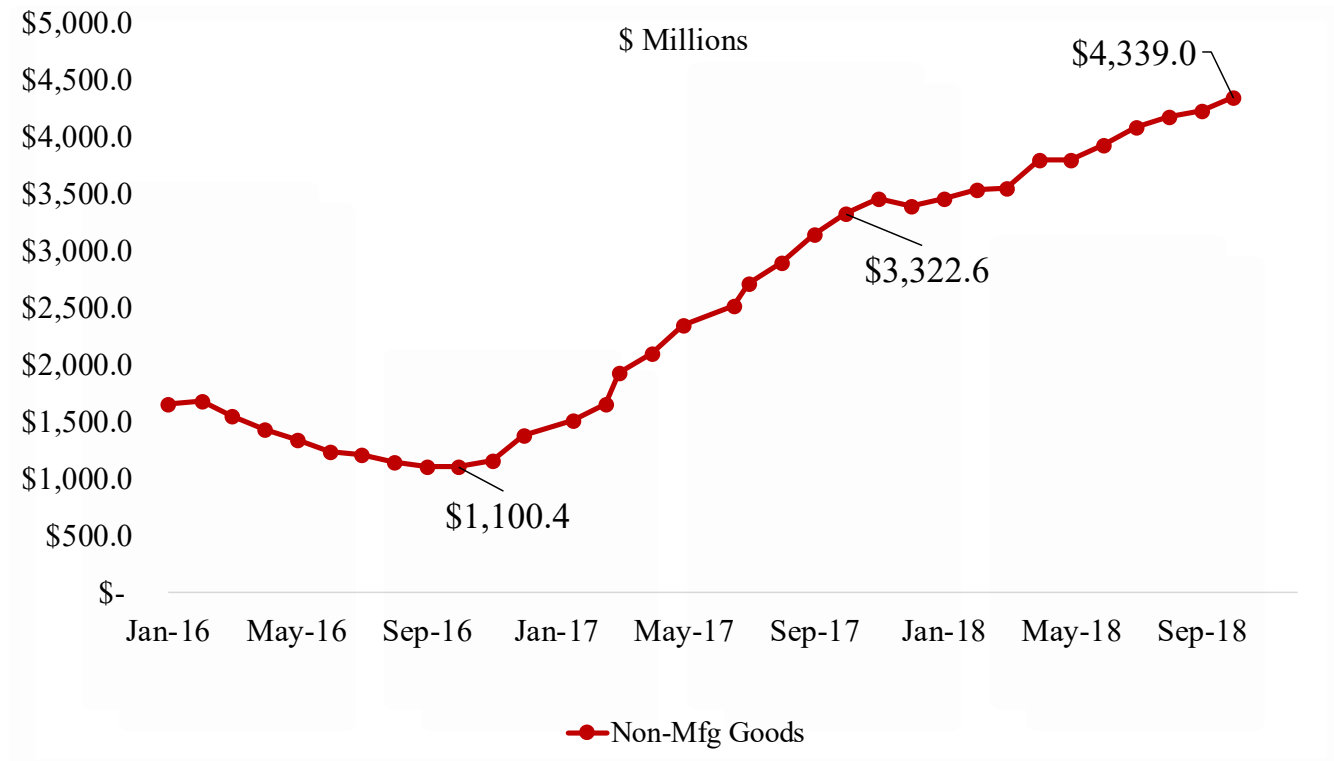
State Ranked 17th Highest in Real GDP Growth in 2017

Source: U.S. Bureau of Economic Analysis



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

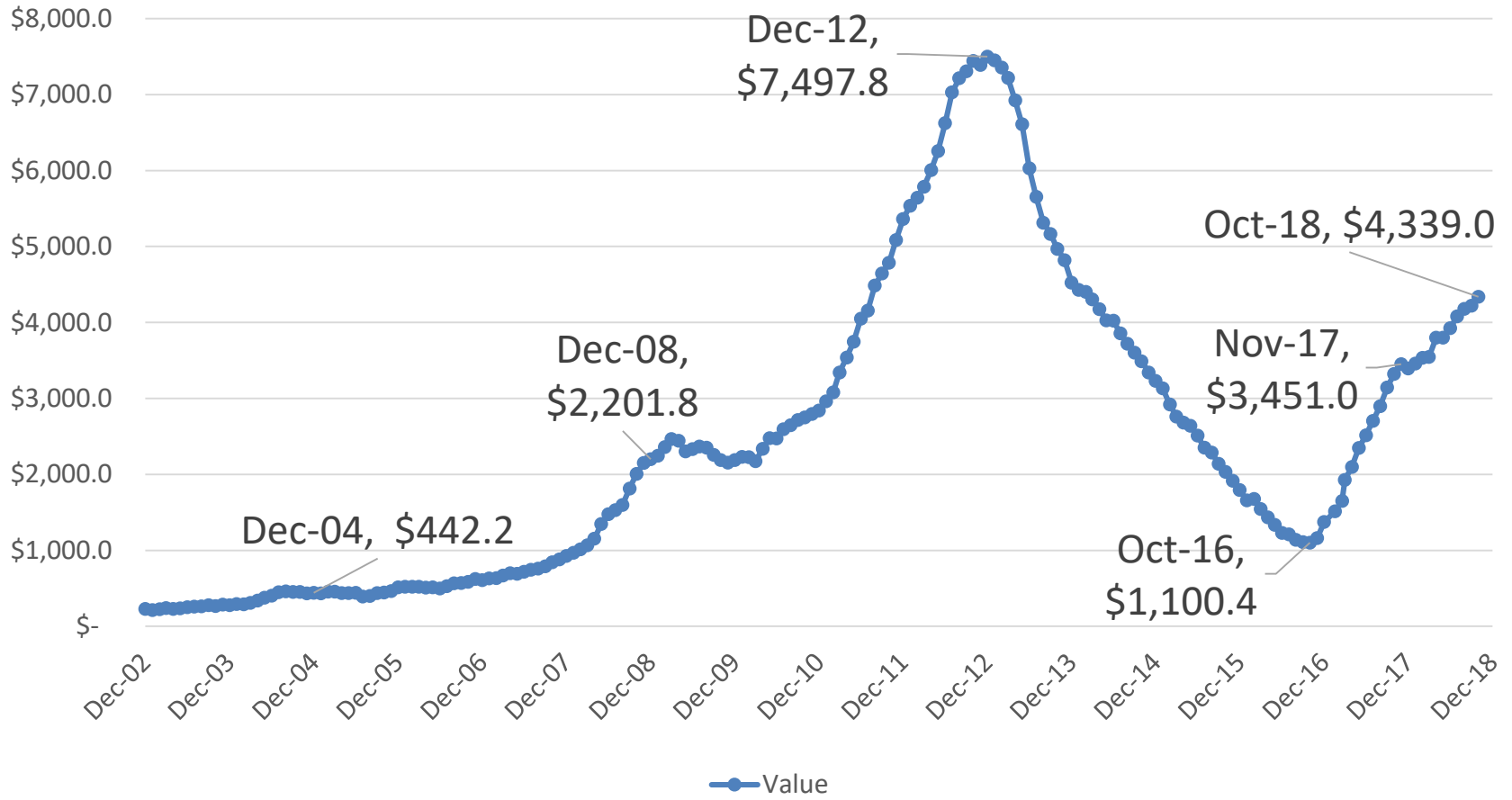
Total Exports Up 68% Since October 2016; Non-Manufacturing Good Exports Up 294%



Longer Term 12-Month Trailing Trend

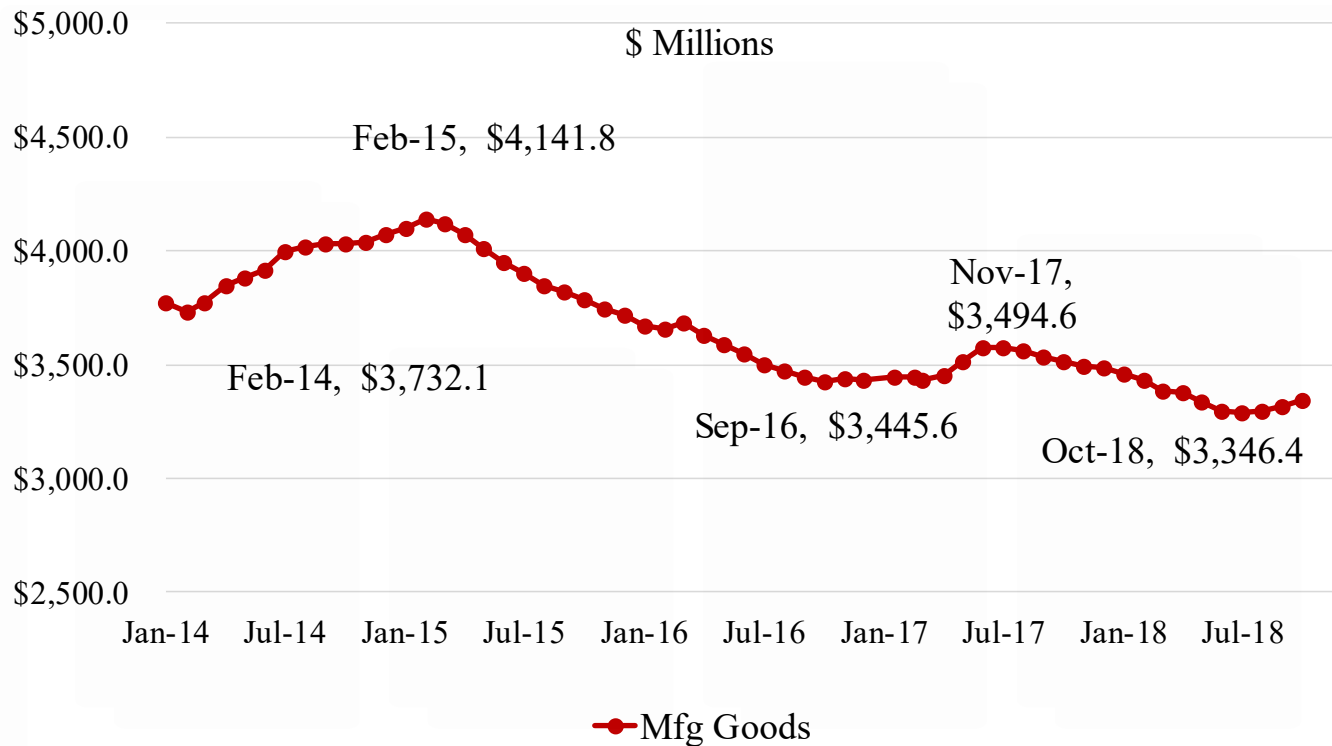
Source: U.S. Census Bureau

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



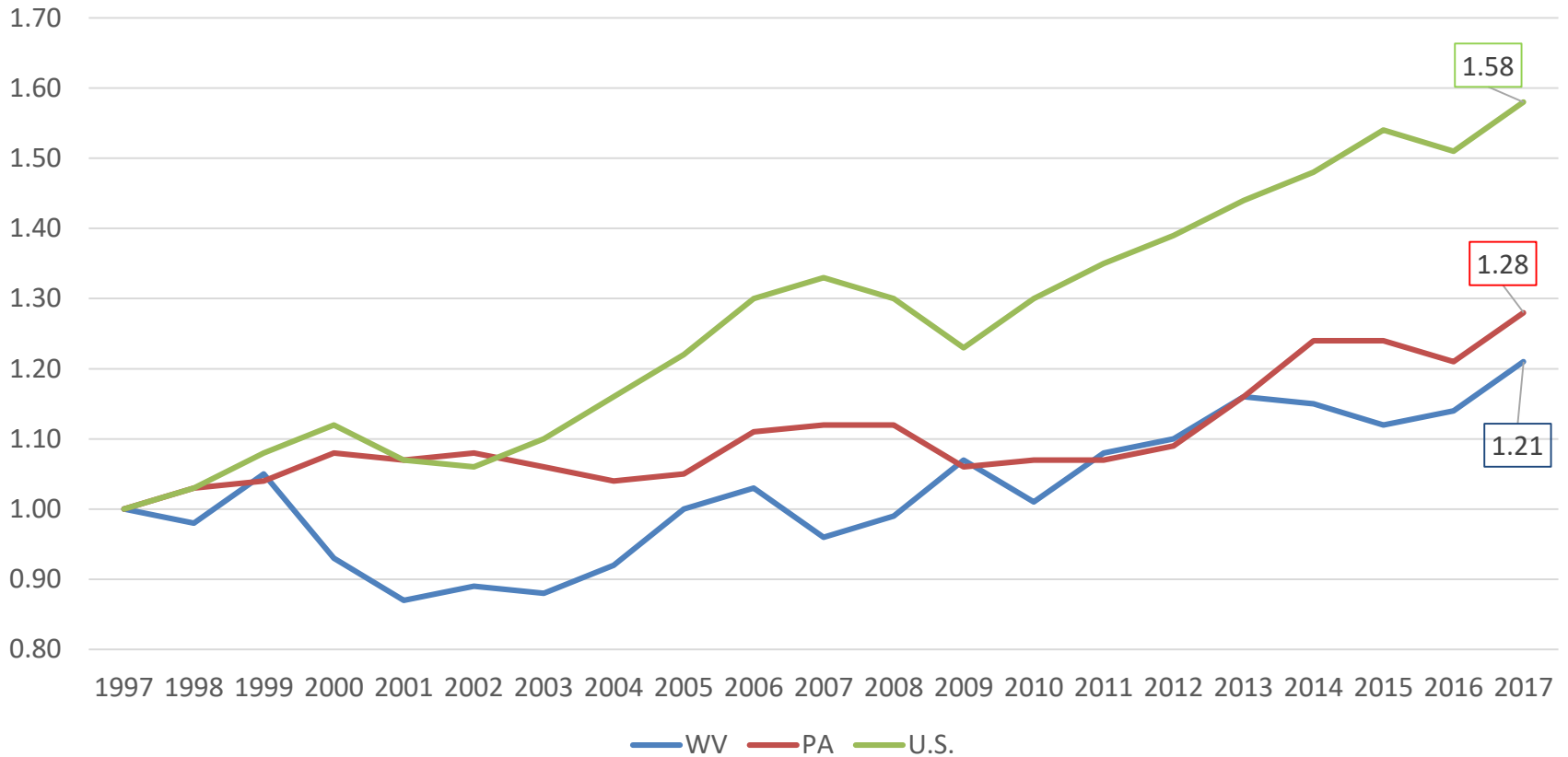
12-Month Trailing Trend Value of Foreign Manufacturing Good Exports

Total Exports Up 68% Since October 2016; Manufacturing Good Exports Down 2%



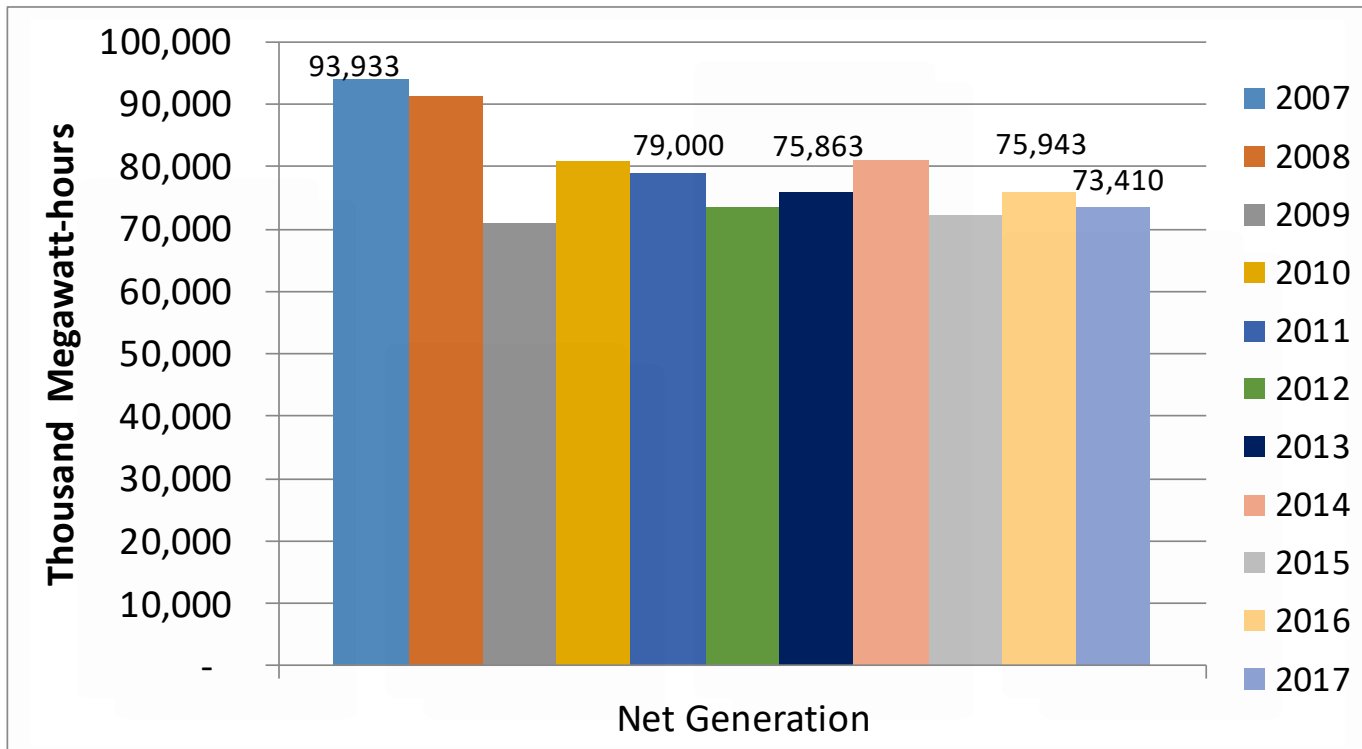
WV Manufacturing Output Growth Lagging

Current \$ Manufacturing GDP Indexed: 1997=1.00



West Virginia Electric Power Generation: Down 7.1% YTD in 2018 & 27% Below 2007 (Oct)

Source: U.S. DOE, Energy Information Administration

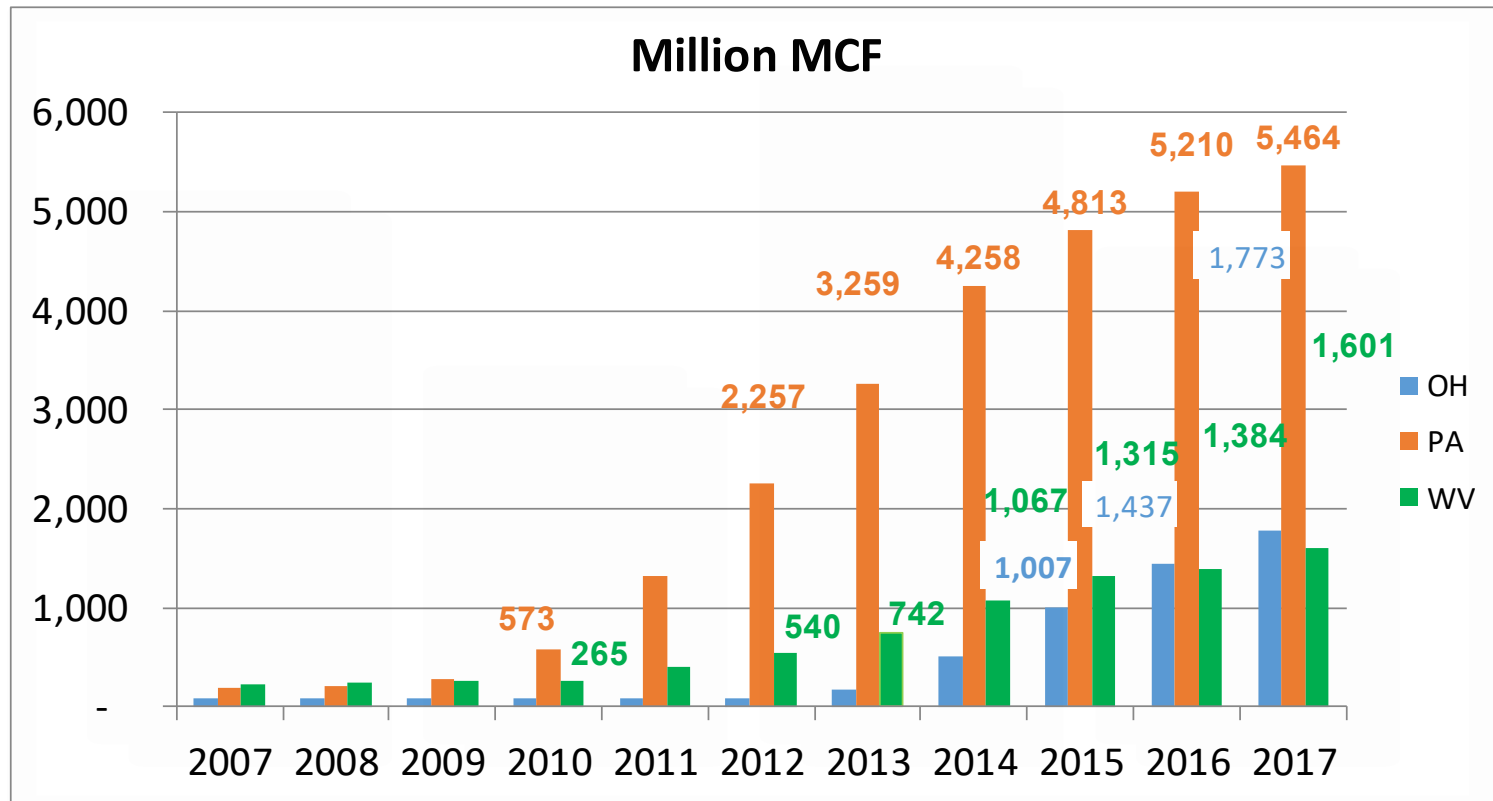


Natural Gas Production by State 2007-2017

U.S. Production up 3.3% per year average in 2011-2017

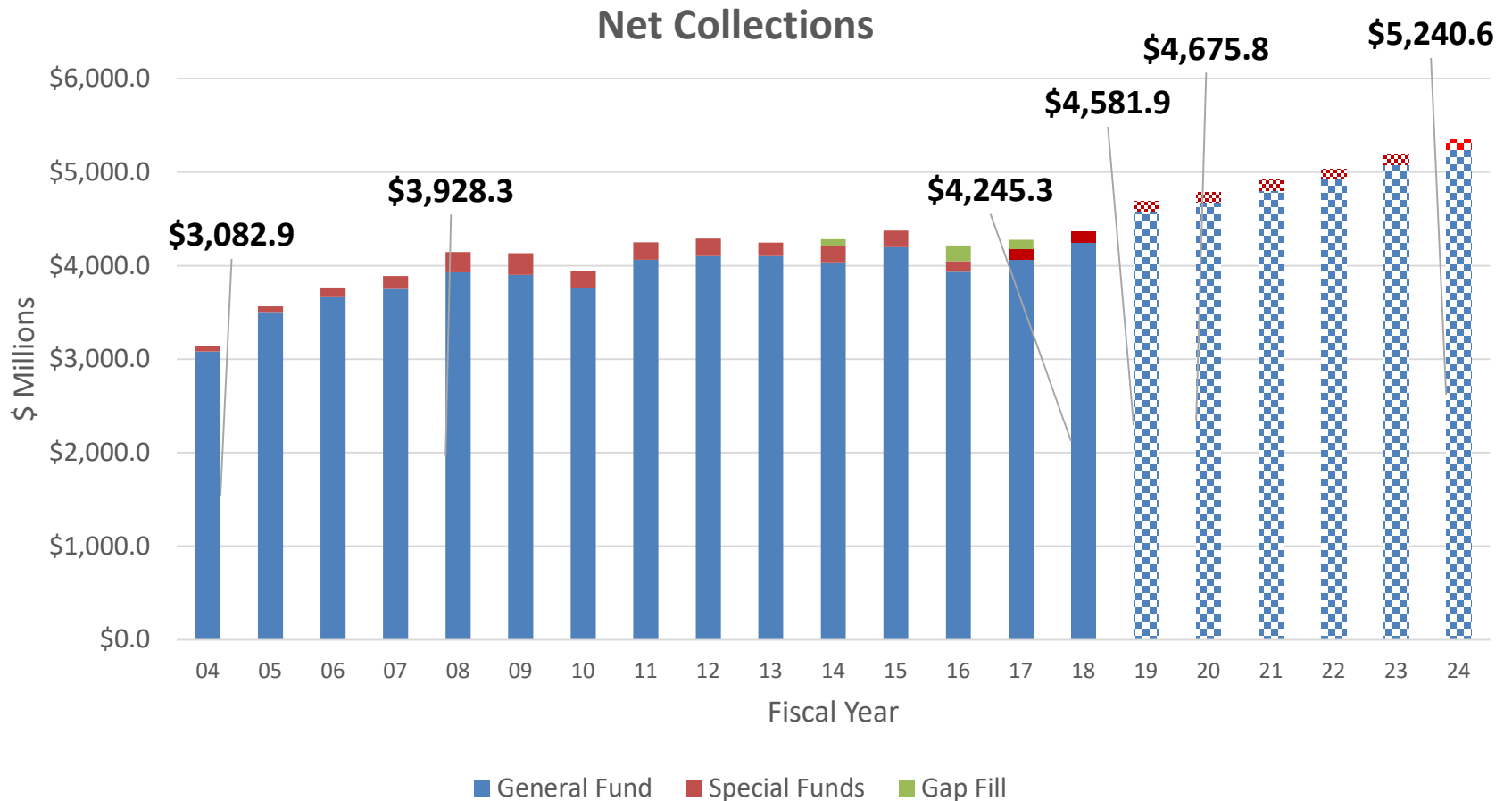
WV Production Up 26.3% per year average in 2011-2017

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



Total General Revenue Fund Revenues

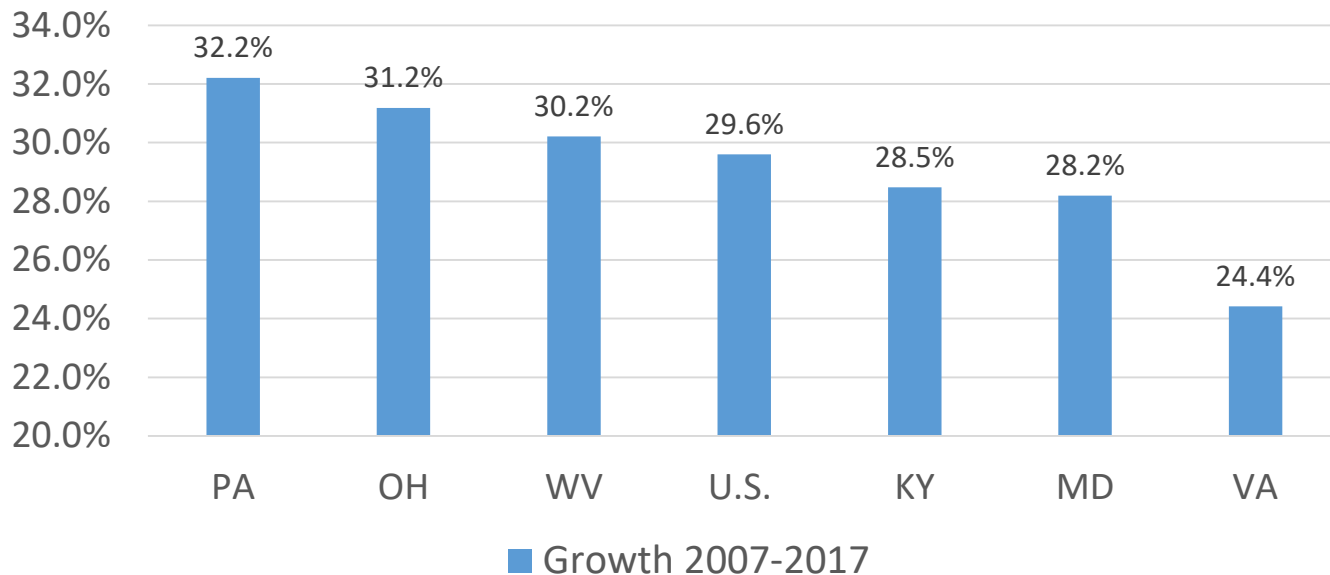
Average Annual Growth: 7.2% 2004-2008; 0.8% 2008-2018;
 Projected Average Annual Growth: 1.9% 2018-2024; 2018-2020: 4.9%



WV Per Capita Personal Income Growth

- 74.5% of U.S. Average
- Annual growth has averaged 2.7% per year (\$38,479 in 2017)

Per Capita Personal Income Growth-Past 10 Years



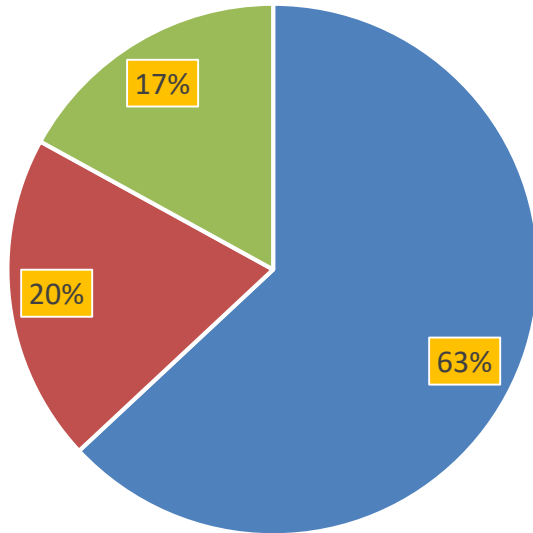
Source: U.S. Department of Commerce, Bureau of Economic Analysis

Transfer Payments Play Bigger Role in WV

Personal Income by Major Source: 2017

U.S. Personal Income

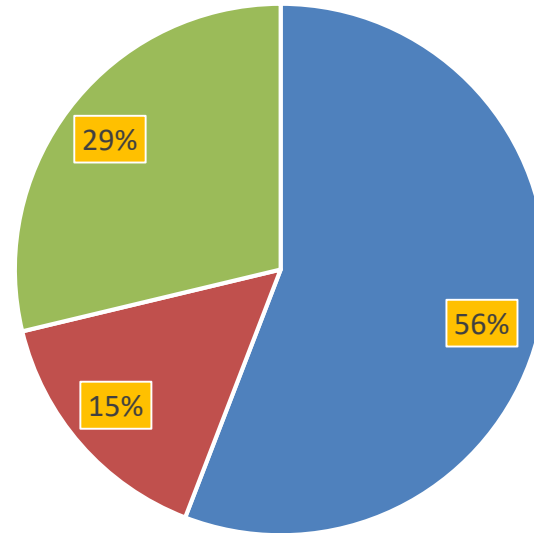
Personal Income



■ Earnings ■ Div, Int, Rent ■ Transfer Payments

West Virginia Personal Income

Personal Income



■ Earnings ■ Div, Int, Rent ■ Transfer Payments

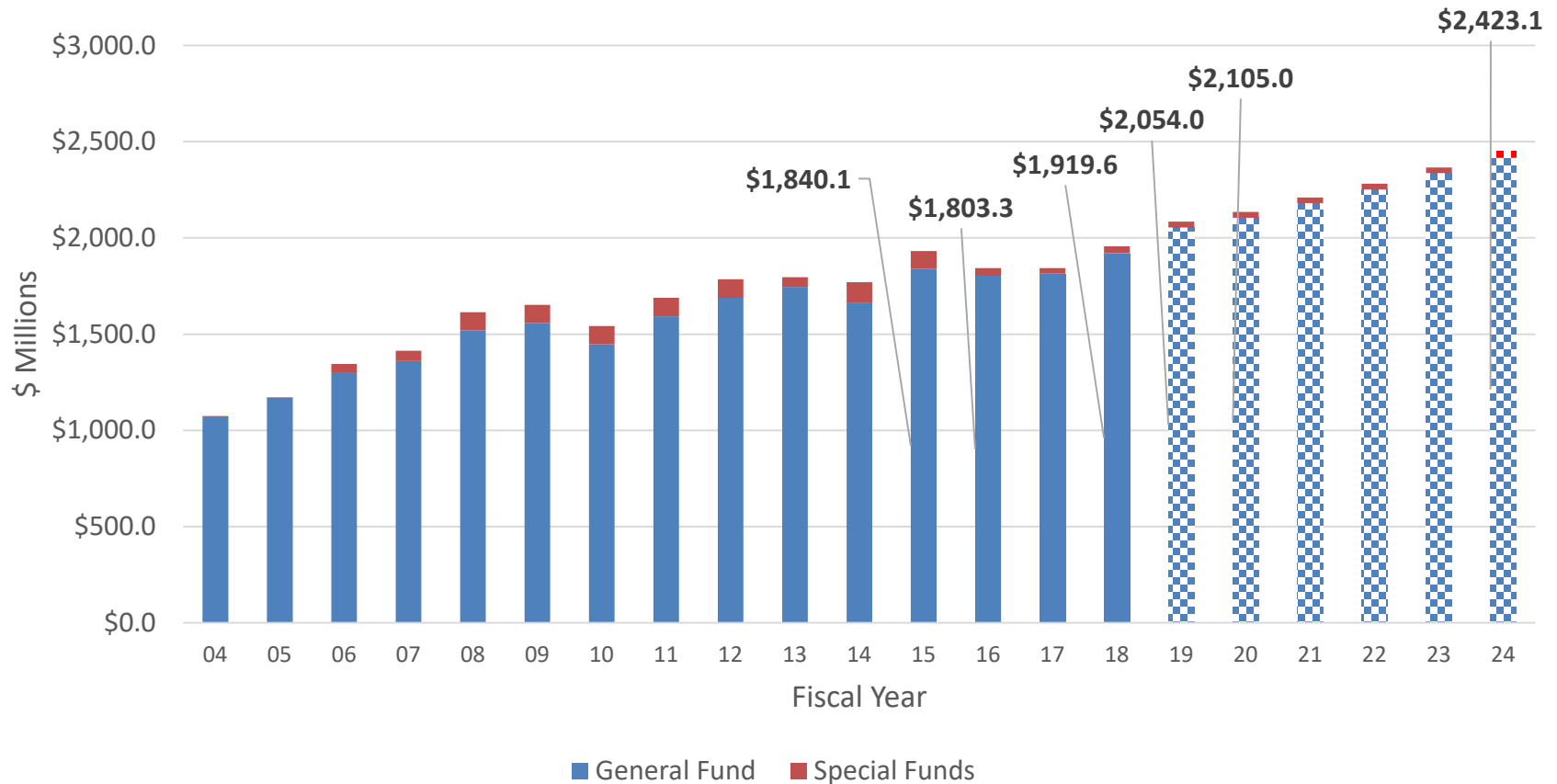
Personal Income Tax

Average Annual Growth: 9.1% 2004-2009; 2.4% 2009-2018

Projected Average Annual Growth: 4.1% 2018-2024

\$ 1,811.675

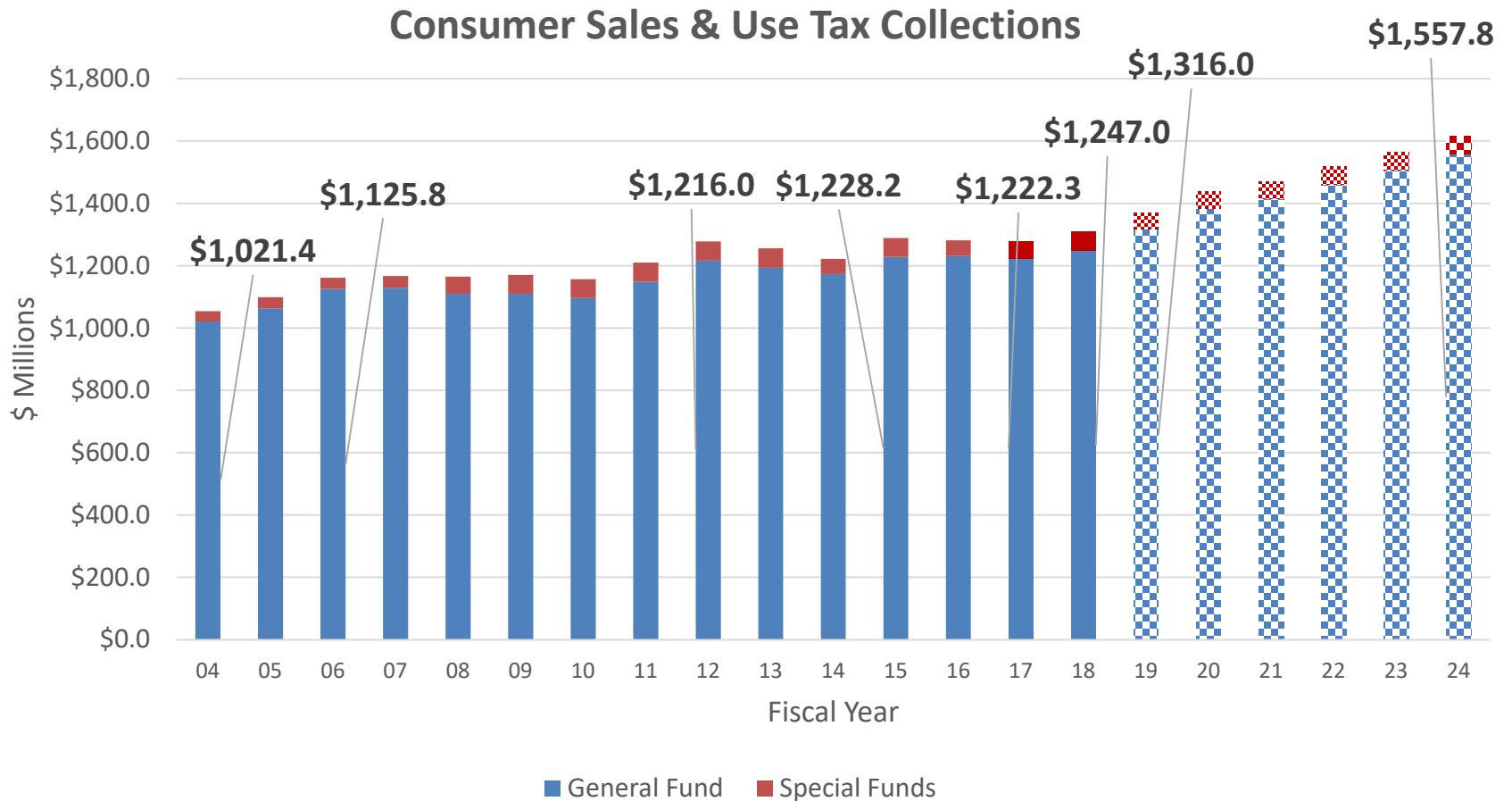
Personal Income Tax Collections



Consumer Sales and Use Tax

Average Annual Growth: 3.5% 2004-2007; 1.1% 2007-2018

Projected Average Annual Growth: 3.5% 2018-2024



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>Population</u>	<u>YE 9-17</u>	<u>YE 9-18</u>	<u>12 Mth Chg</u>	<u>Chg Prior Jul-Sep</u>
North Central	48,957	\$ 10,662,272	\$ 11,793,862	10.6%	27.8%
Mid-Ohio Valley	47,384	\$ 10,073,214	\$ 10,417,363	3.4%	9.5%
Eastern Panhandle	34,150	\$ 7,288,683	\$ 7,515,197	3.1%	6.6%
Northern Panhandle	46,823	\$ 7,516,808	\$ 7,699,099	2.4%	0.4%
Southern WV	18,276	\$ 5,774,407	\$ 5,899,412	2.2%	12.4%
Kanawha Valley	77,203	\$ 21,801,985	\$ 21,795,675	0.0%	7.0%
Lower Ohio Valley	51,275	\$ 7,242,954	\$ 7,116,535	-1.7%	-1.1%
Sum for 28 Cities	324,068	\$ 70,360,322	\$ 72,237,144	2.7%	9.3%
Total S&L Sales Tax	1,820,000	\$ 1,282,984,438	\$ 1,346,072,868	4.9%	11.8%

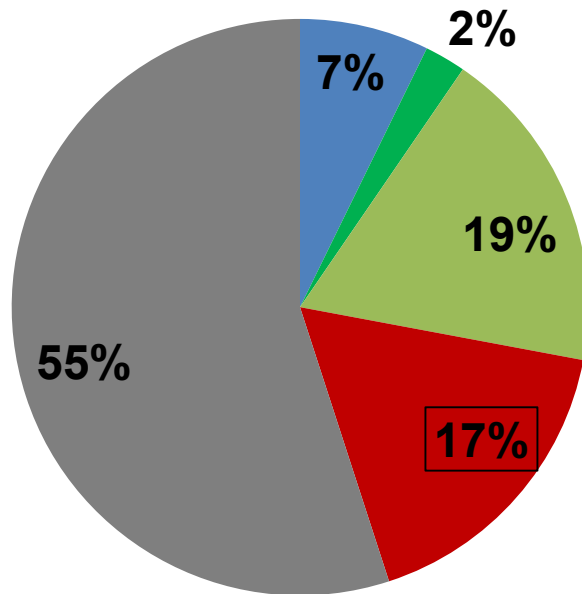
Per Capita Personal Consumption Expenditures 2017

Average Citizen's Consumption of Health Care 13.8% Higher in WV

Growth in WV: 2.7% [38% Health Care]; Growth in U.S.: 4.3% [18% Health Care]

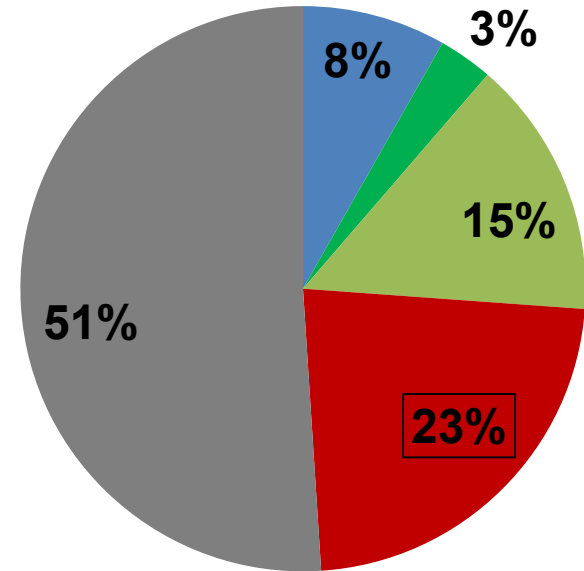
Source: U.S. Bureau of Economic Analysis

United States: \$40,878



■ Food ■ Energy ■ Housing
■ Health Care ■ Other

West Virginia: \$34,758



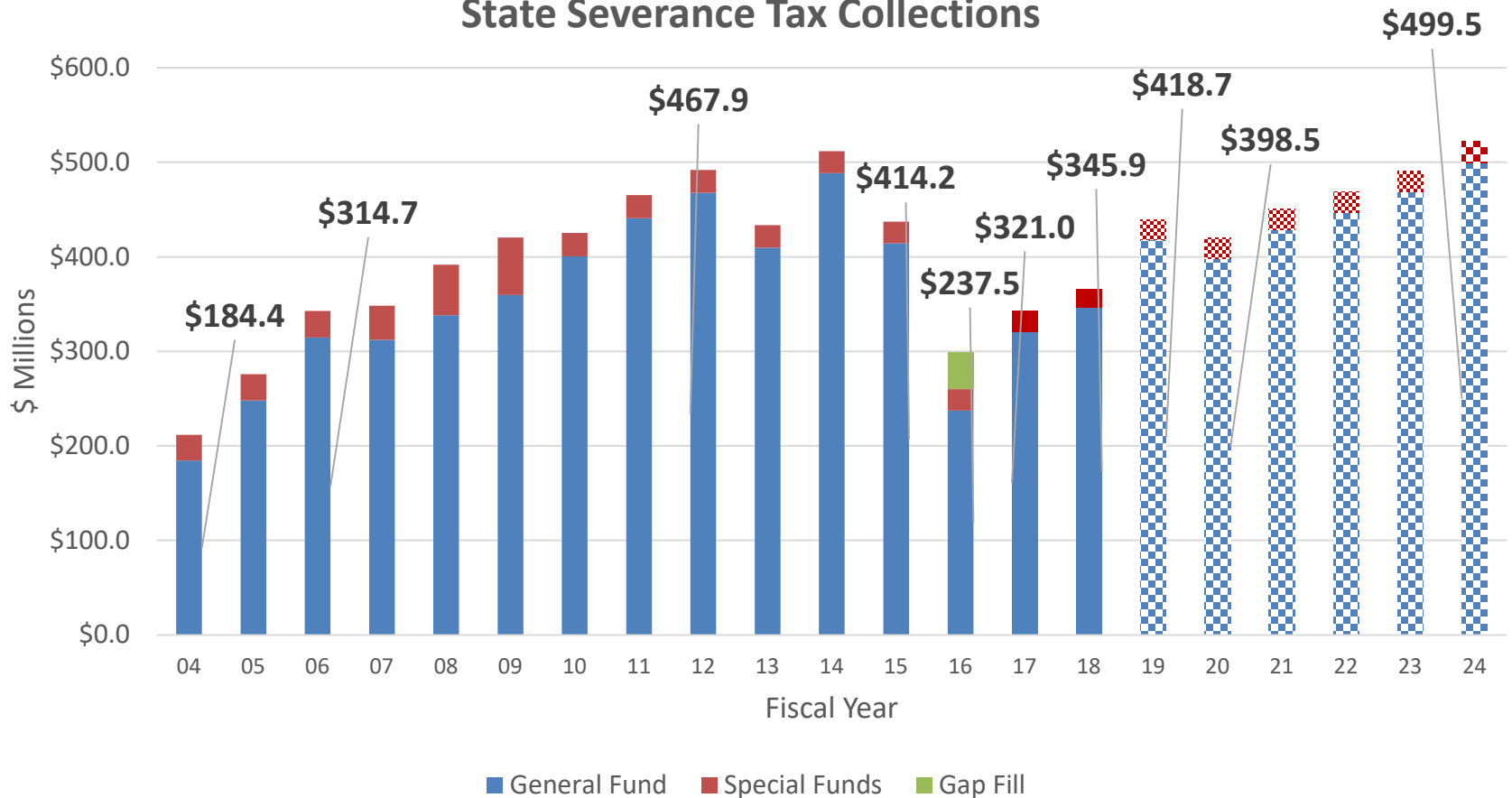
■ Food ■ Energy ■ Housing
■ Health Care ■ Other

Severance Tax

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

Projected Average Annual Growth: 6.2% 2017-2024

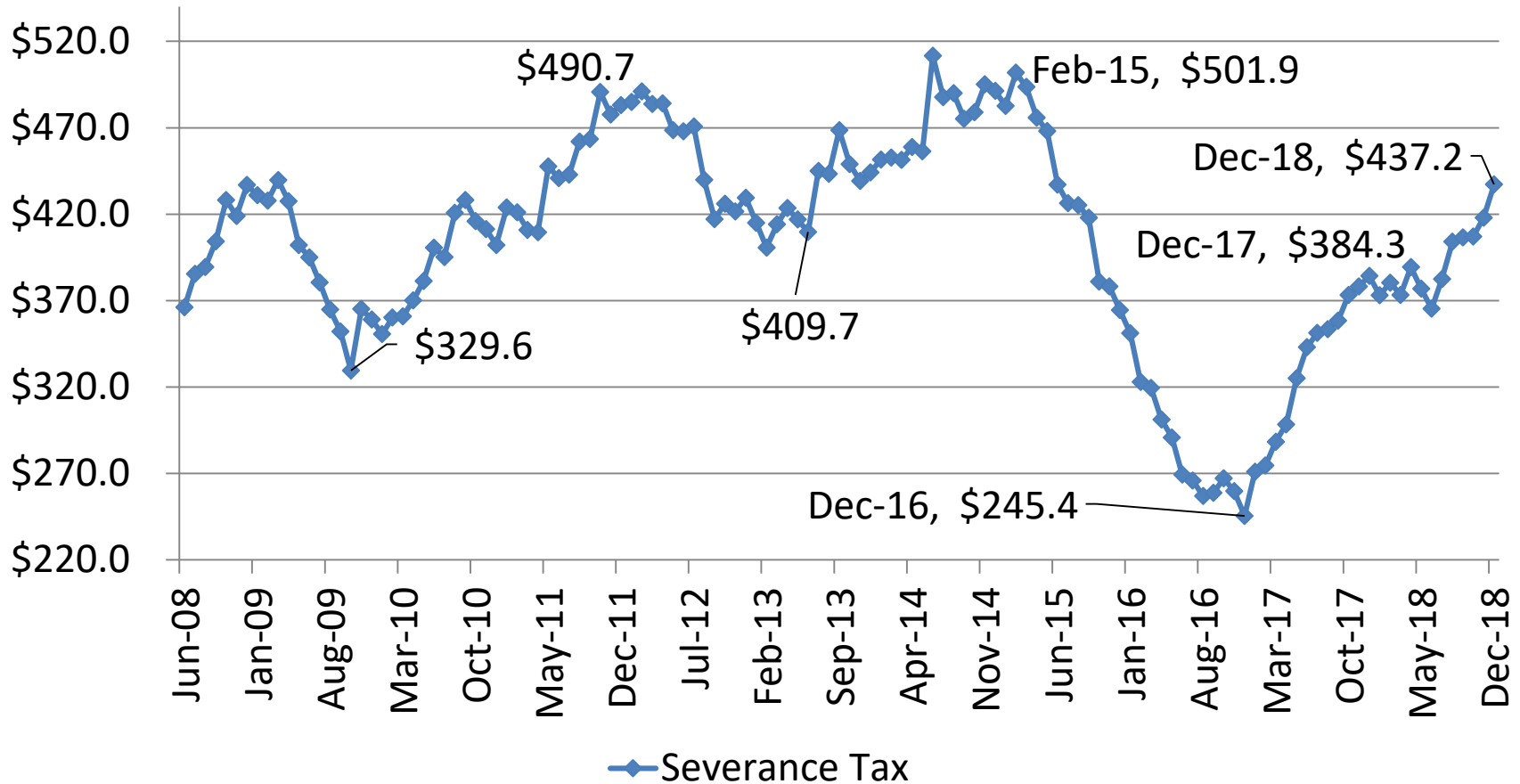
State Severance Tax Collections



Regular Severance Tax (July 2007-Present)

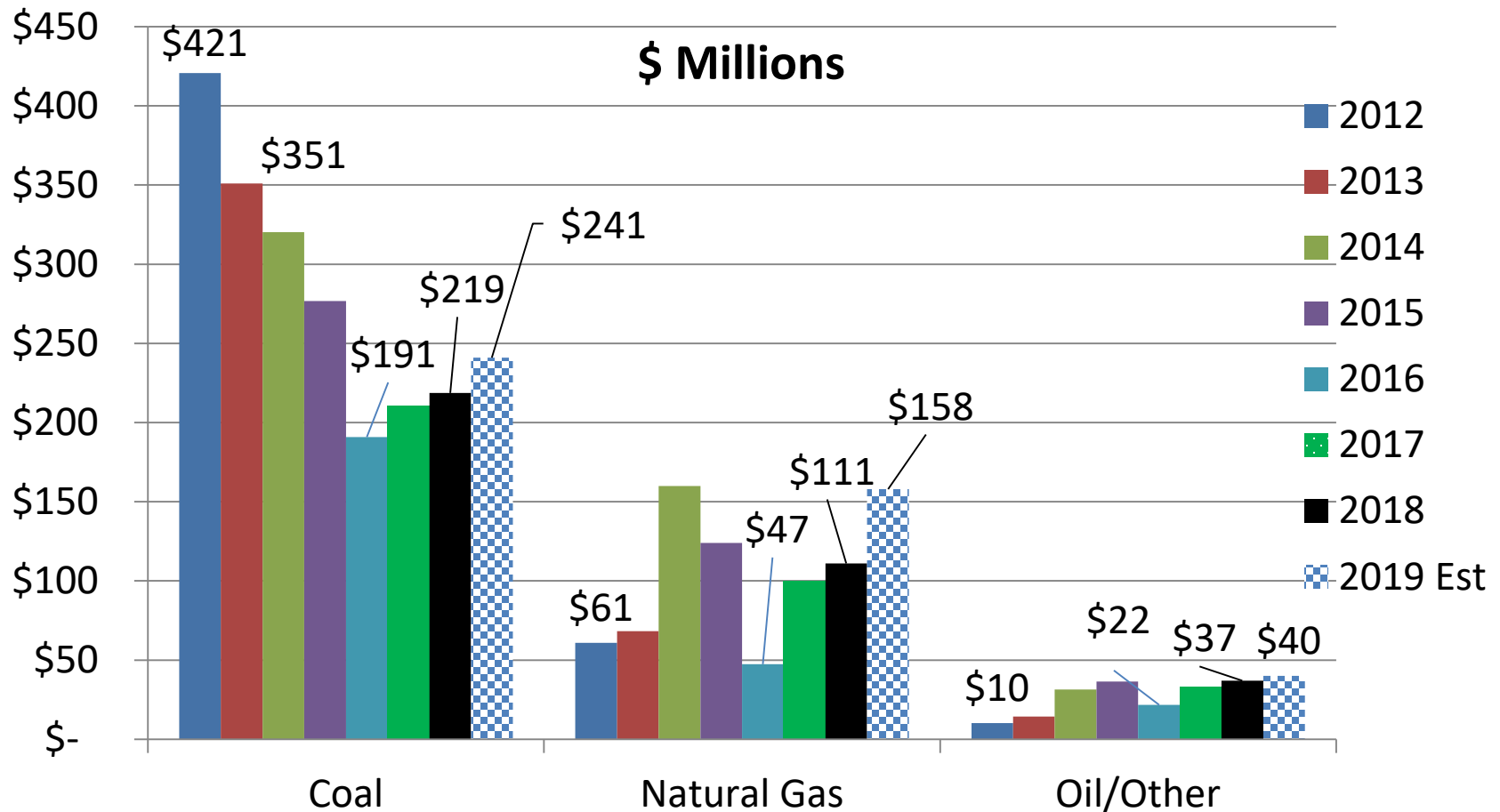
Trailing 12 Month Trend

\$ Millions



State Severance Tax Collection Trends

Regular Tax on Gross Receipts Net of Local Tax Distributions



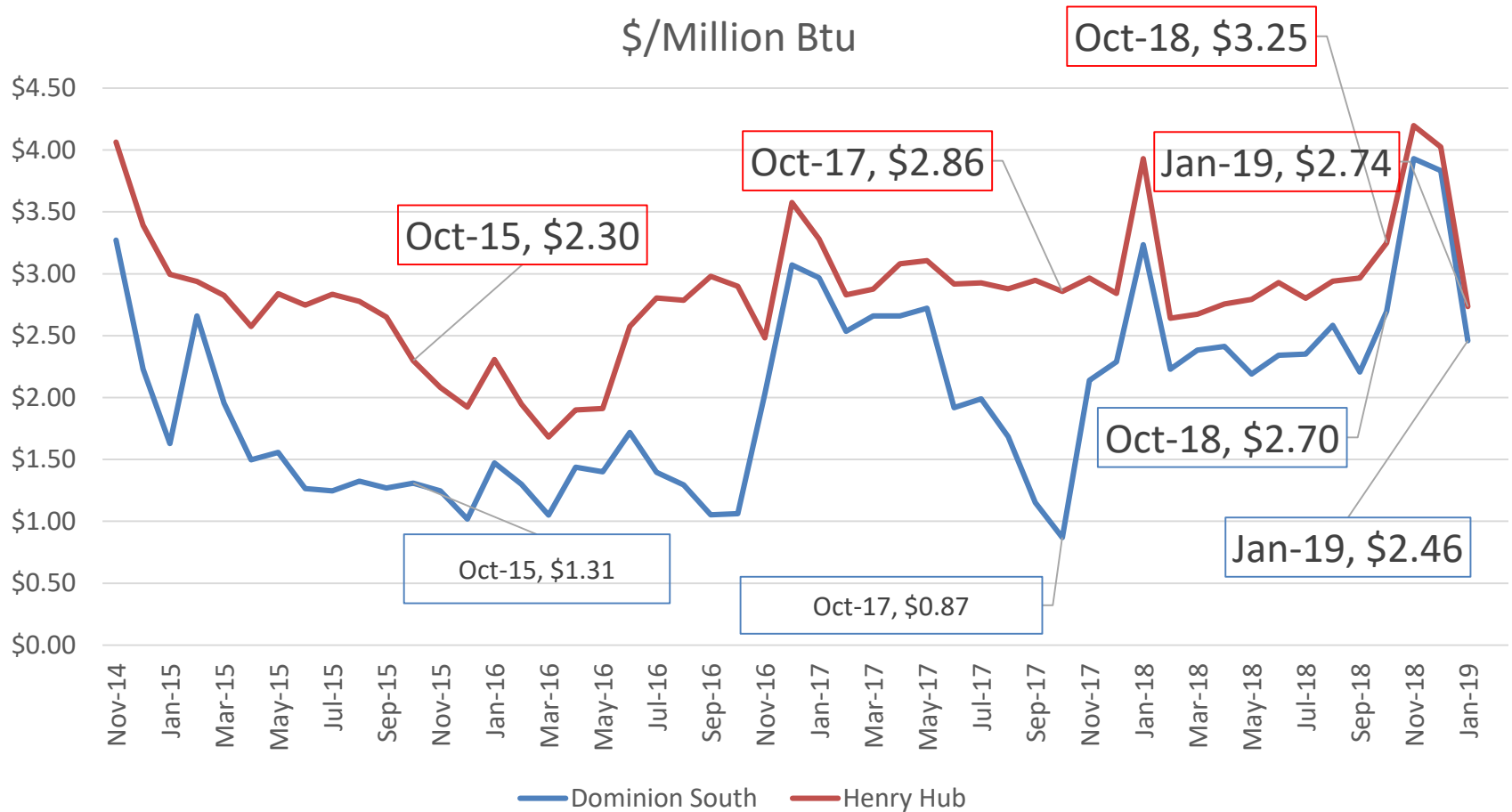
U.S. Coal Exports Thru 3rd Quarter 2018

Source: U.S. Department of Energy

- Steam coal exports up 44.3% to 40.8 million tons
 - Asia up 66.6% [India & South Korea – 14.4 million tons]
 - North America up 28.4% [Mexico – 3.6 million tons]
 - Europe up 7.7% [Netherlands, Germany U.K. & Spain – 8 million tons]
 - Africa up 156% [Egypt – 2.8 million tons]
 - South America up 25.3% [Chile – 0.7 million tons]
- Steam coal prices up 8.3% to \$62.81
- Met coal exports up 14.5% to 46.3 million tons
 - Europe up 15.1% [Netherlands, Turkey, Ukraine & Italy – 11.7 million]
 - Asia up 8.1% [China, India, Japan & South Korea – 13 million tons]
 - North America up 16% [Canada & Mexico- 3.6 million tons]
 - South America up 20.3% [Brazil & Argentina – 6.7 million tons]
 - Africa up 39.1% [Morocco & Egypt – 1.8 million tons]
- Met coal prices down 1.6% to \$137.89

Natural Gas Prices: Smaller Variation-Higher Price

Source: *Natural Gas Intelligence* Monthly Average Natural Gas Prices

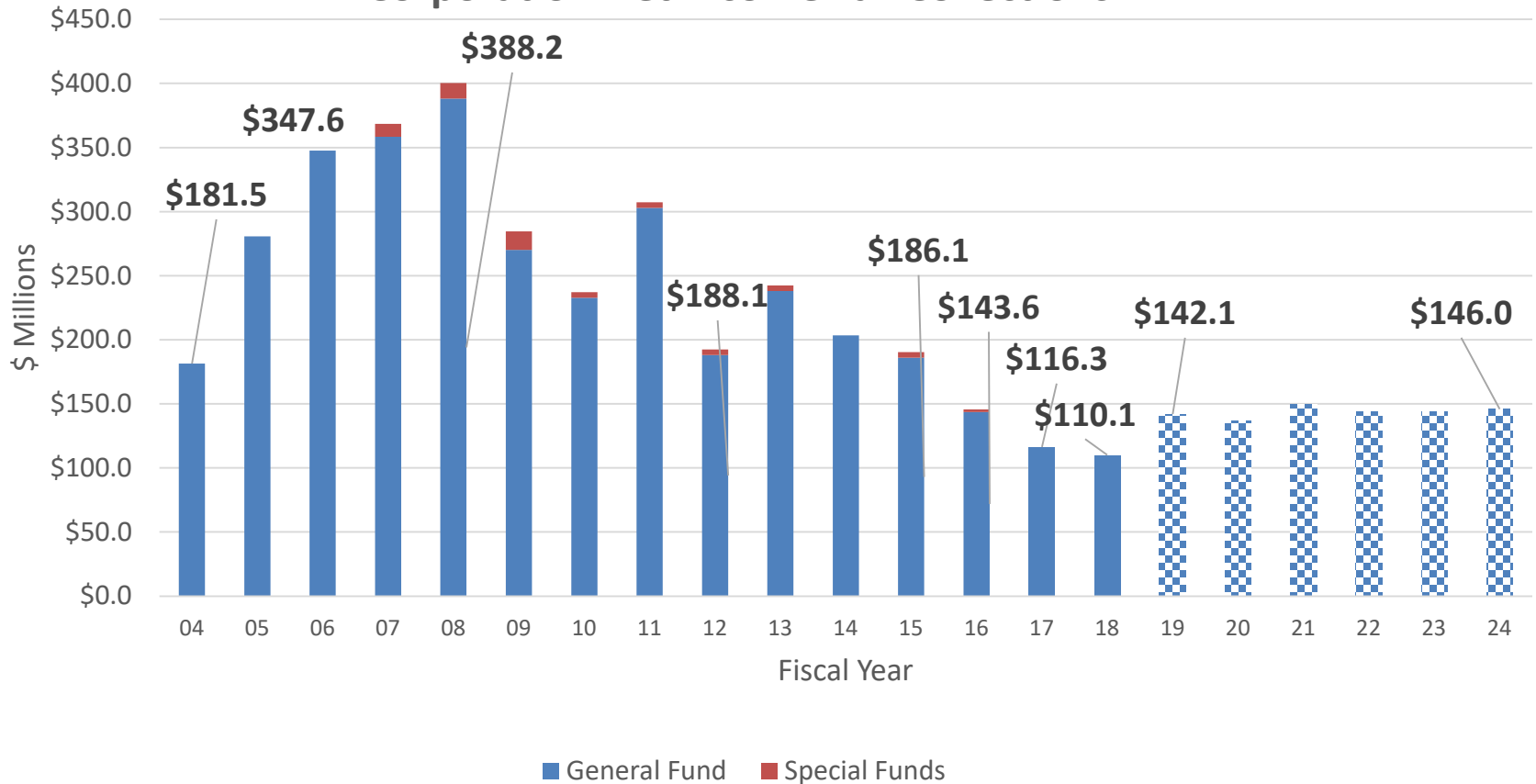


Corporation Net Income Tax

Average Annual Growth: 21.9% 2004-2008; -12.1% 2008-2018

Projected Average Annual Growth: 4.8% 2018-2024

Corporation Net Income Tax Collections

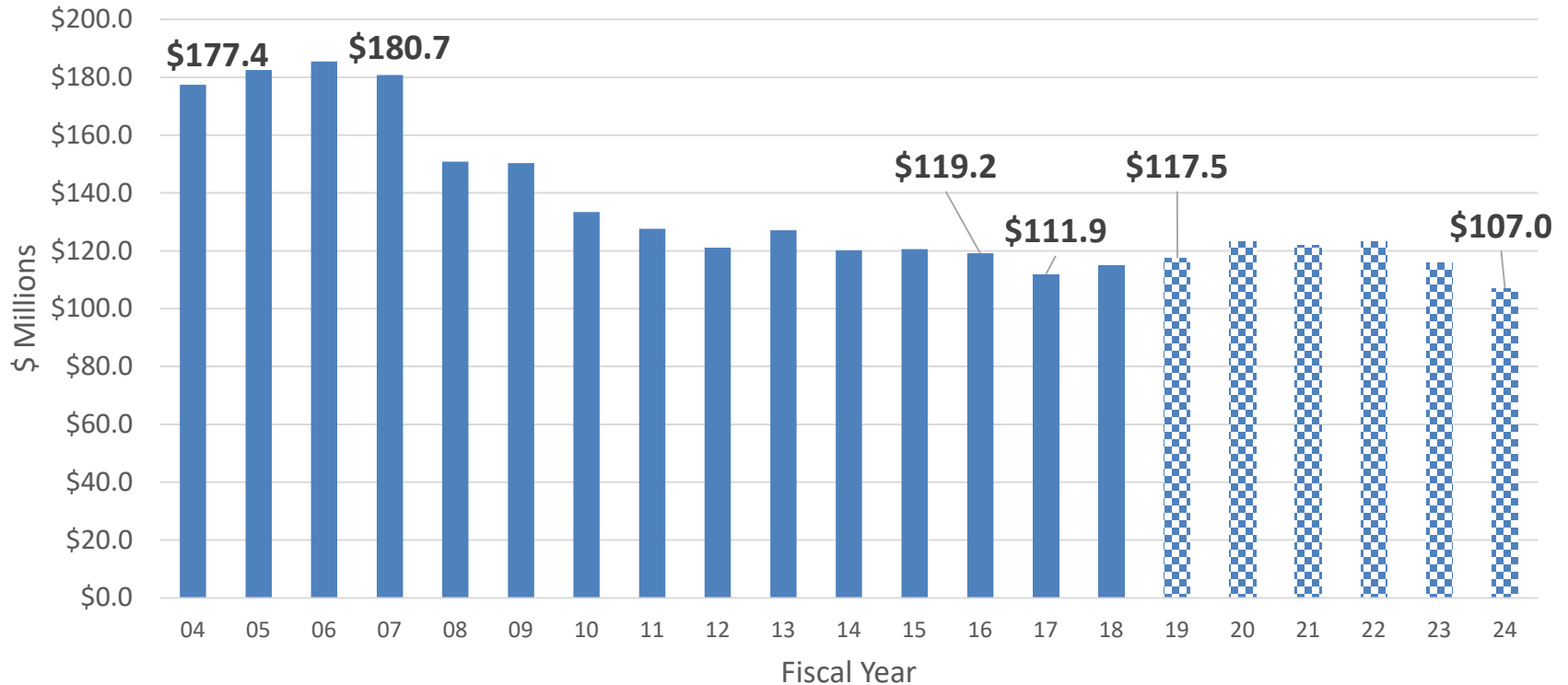


Business and Occupation Tax

Average Annual Growth: 0.6% 2004-2007; -4.4% 2007-2018

Projected Average Annual Growth: -1.3% 2018-2024

B&O Tax Collections

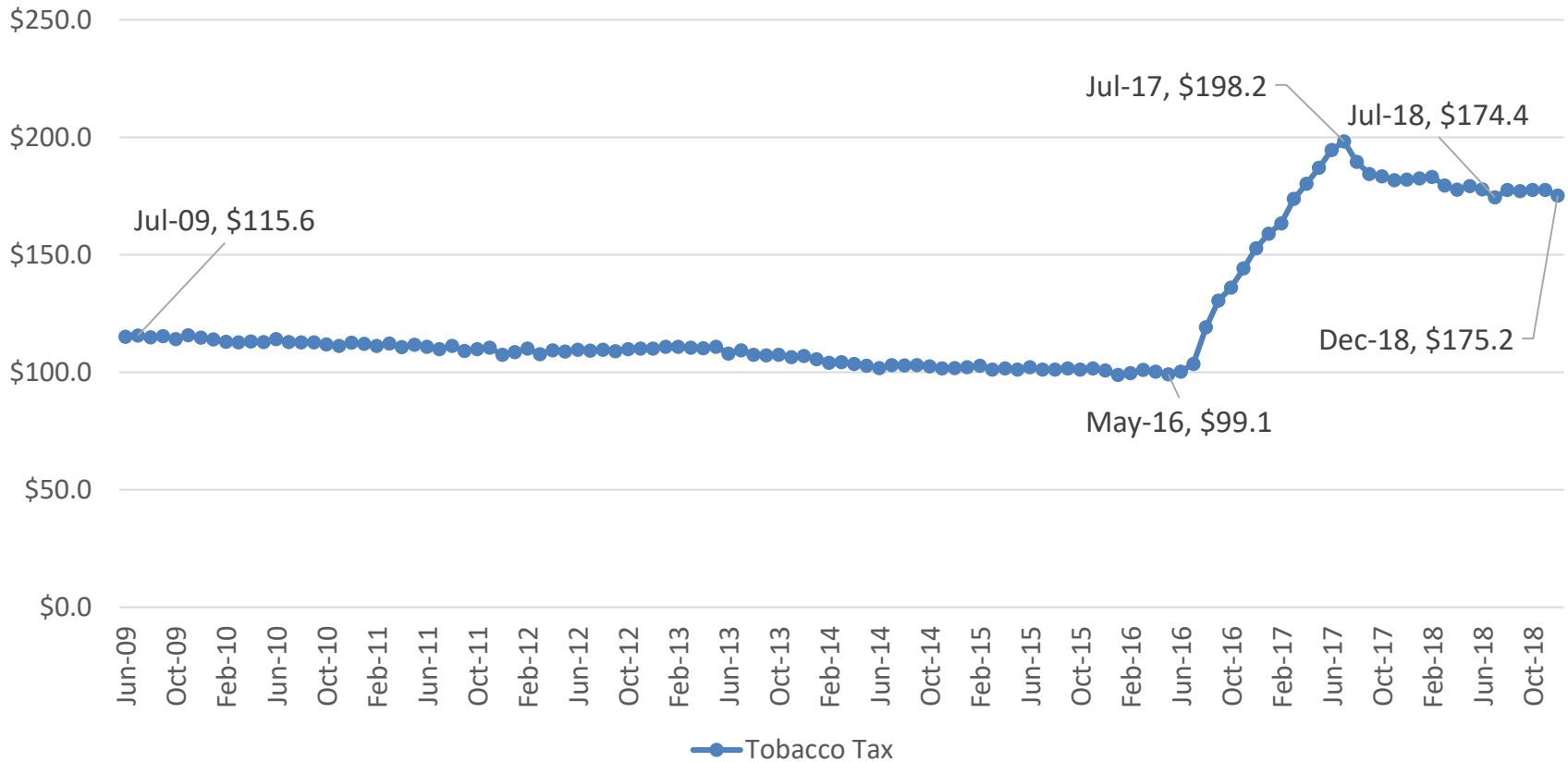


Tobacco Products Tax Collection Trends

2008-2016: -1.7%/Year;

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

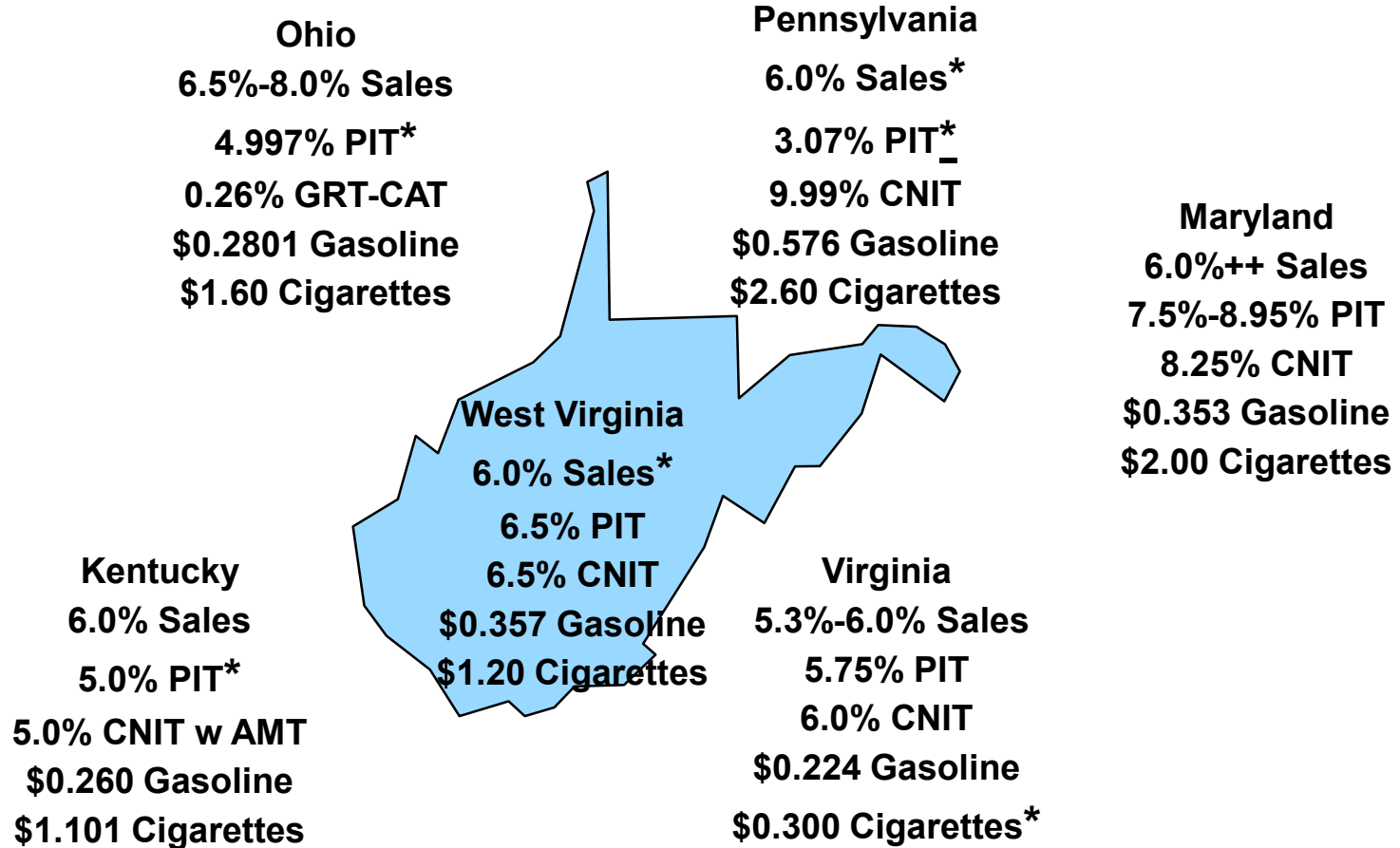
\$ Millions – 12-Month Trailing Trend



COMPARATIVE TAX RATES

As of January 1, 2019

* Additional local taxes may apply



FY2018-2019 General Revenue Fund as of December 31, 2018

	\$ Millions	\$ Millions	\$ Millions	\$ Millions		\$ Millions
	YTD	YTD	YTD	ACTUAL	CHANGE	
<u>COMPONENT</u>	<u>ESTIMATE</u>	<u>ACTUAL</u>	<u>DIFFERENCE</u>	<u>YTD FY17-18</u>	<u>PERCENT</u>	<u>CHANGE</u>
Consumer Sales Tax	\$ 633.700	\$ 672.542	\$ 38.842	\$ 593.364	13.3%	\$ 79.178
Personal Income Tax	\$ 911.500	\$ 963.501	\$ 52.001	\$ 883.188	9.1%	\$ 80.313
Business & Occupation Tax	\$ 51.900	\$ 53.423	\$ 1.523	\$ 48.961	9.1%	\$ 4.461
Severance Tax	\$ 149.900	\$ 209.075	\$ 59.175	\$ 138.350	51.1%	\$ 70.726
Corporate Taxes	\$ 72.000	\$ 97.511	\$ 25.511	\$ 68.553	42.2%	\$ 28.958
Insurance Premium Tax	\$ 57.720	\$ 60.872	\$ 3.152	\$ 58.944	3.3%	\$ 1.928
Tobacco Products Tax	\$ 91.100	\$ 89.167	\$ (1.933)	\$ 91.799	-2.9%	\$ (2.631)
Interest Income	\$ 9.200	\$ 8.424	\$ (0.776)	\$ 3.512	139.9%	\$ 4.912
Lottery Transfers	\$ 23.400	\$ 26.846	\$ 3.446	\$ 24.195	11.0%	\$ 2.651
All Other	\$ 48.308	\$ 53.229	\$ 4.921	\$ 57.731	-7.8%	\$ (4.502)
TOTAL	\$2,048.728	\$2,234.589	\$ 185.861	\$ 1,968.597	13.5%	\$ 265.992

FY2018-2019 State Road Fund as of December 31, 2018

	YTD	YTD	YTD	ACTUAL	CHANGE	
<u>COMPONENT</u>	<u>ESTIMATE</u>	<u>ACTUAL</u>	<u>DIFFERENCE</u>	<u>YTD FY17-18</u>	<u>PERCENT</u>	<u>CHANGE</u>
Motor Fuel Excise Tax	\$ 238.300	\$ 243.497	\$ 5.197	\$ 206.925	17.7%	\$ 36.572
Registration Fees	\$ 69.420	\$ 76.761	\$ 7.341	\$ 71.499	7.4%	\$ 5.262
Sales (Privilege) Tax	\$ 108.481	\$ 117.154	\$ 8.673	\$ 106.012	10.5%	\$ 11.142
Highway Litter Control	\$ 0.765	\$ 0.716	\$ (0.049)	\$ 0.780	-8.2%	\$ (0.064)
Miscellaneous	\$ 10.723	\$ 11.490	\$ 0.767	\$ 42.940	-73.2%	\$ (31.450)
TOTAL	\$ 427.689	\$ 449.618	\$ 21.929	\$ 428.156	5.0%	\$ 21.462

FY2020 Forecast Versus Official FY2019 Estimates

Forecast of 2.0% Growth

\$ Millions

<u>Tax Source</u>	<u>FY2019</u>	<u>FY2020</u>	<u>Change</u>
Personal Income:	\$2,054.000	2,105.000	51.000
Sales & Use:	1,351.000	1,384.060	33.060
Severance:	418.700	398.500	(20.200)
Corp Income:	142.100	136.980	(5.120)
B&O:	117.500	123.000	5.500
Tobacco Excise:	179.700	177.000	(2.700)
Insurance Premium:	123.500	131.800	8.300
Lottery-GRF:	65.000	65.000	0
All Other:	130.420	154.480	24.060
<i>Total General</i>	<i>\$4,581.920</i>	<i>\$4,675.820</i>	<i>\$ 93.900</i>

2019-2020 Fiscal Outlook Summary

- National economy continues to grow with no Recession in near term
- Tax revenues on track to rise by more than 8% in FY2019 after 3.7% in FY2018
- Revenue growth slows in FY2020
- Natural gas energy production continues to rise & prices stabilize
- Coal exports contribute to growth in short-term
- Major pipeline investment continues in CY2019
- Fiscal stimulus from Federal Tax Cuts & Jobs Act lessens over time
- Significant Risk/Concern Areas: Foreign Trade; Construction Industry Volatility; Labor Force Growth; Energy Industry Transitions
- Demographic factors continue to act as brake on growth in State

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DEPARTMENT OF REVENUE

Questions?