

# **State of West Virginia's Budget Forecast**

**West Virginia Higher Education Policy Commission  
Board of Governor's Summit  
August 8, 2015**

**State Budget Office**

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## FY 2015 Preliminary Results

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- FY 2015 general revenue fund ended \$-60.6 million (-1.4%) below estimate with \$60.4 million of the total shortfall attributable to severance tax (mostly in last quarter).
- Lottery revenues were \$47.9 million above estimate.
- State Road Fund revenues were \$41.4 million (+5.9%) above estimate.



# FY2015 Results

**General Fund: \$60.6 million (1.4%) below estimate [3.6% adjusted increase]**

## FY2015 Results: Major Taxes- 88%

### Personal Income Tax **10.6%**

- \$176.0 M (9.1% adjusted)
- Withholding Tax: Up 5.1% (4.3% adjusted)

### Sales Tax **4.7%**

- Up 4.7% or \$55.1 M
- Adjusted collections up 3.8%

### Severance Tax **-15.2%**

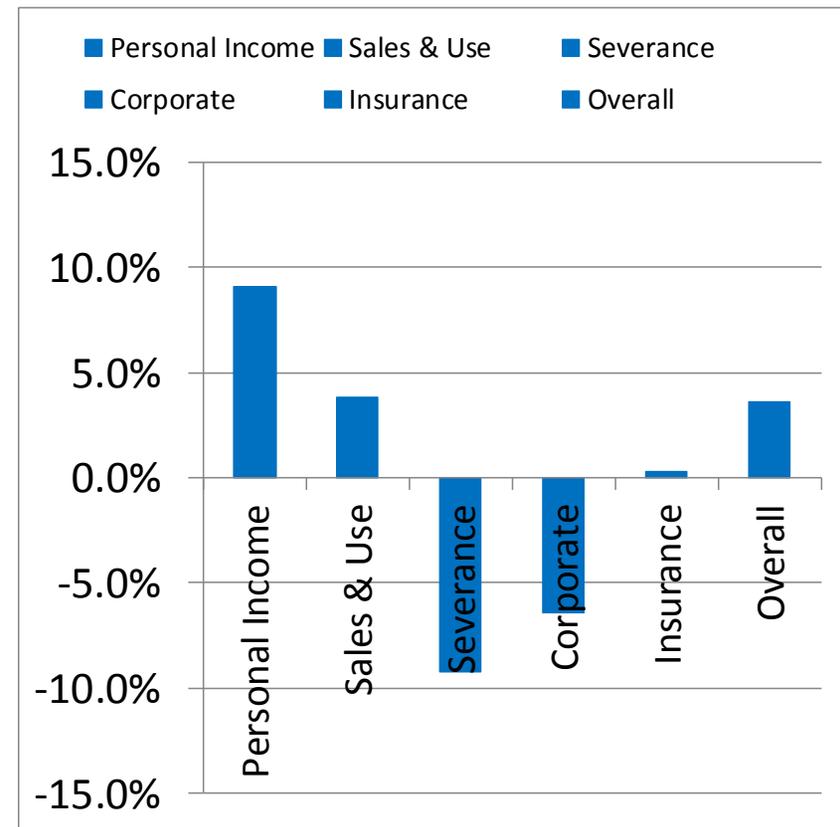
- Adjusted collections down 9.2%
- Coal down 11.8%, Natural gas down 12.2%

### Corporate Tax **-8.6%**

- No more Business Franchise Tax as of 1/2015
- Adjusted collections down 6.4%

## FY2015 GRF Growth

3.6% Absent Revenue Timing Transfers





# State of West Virginia

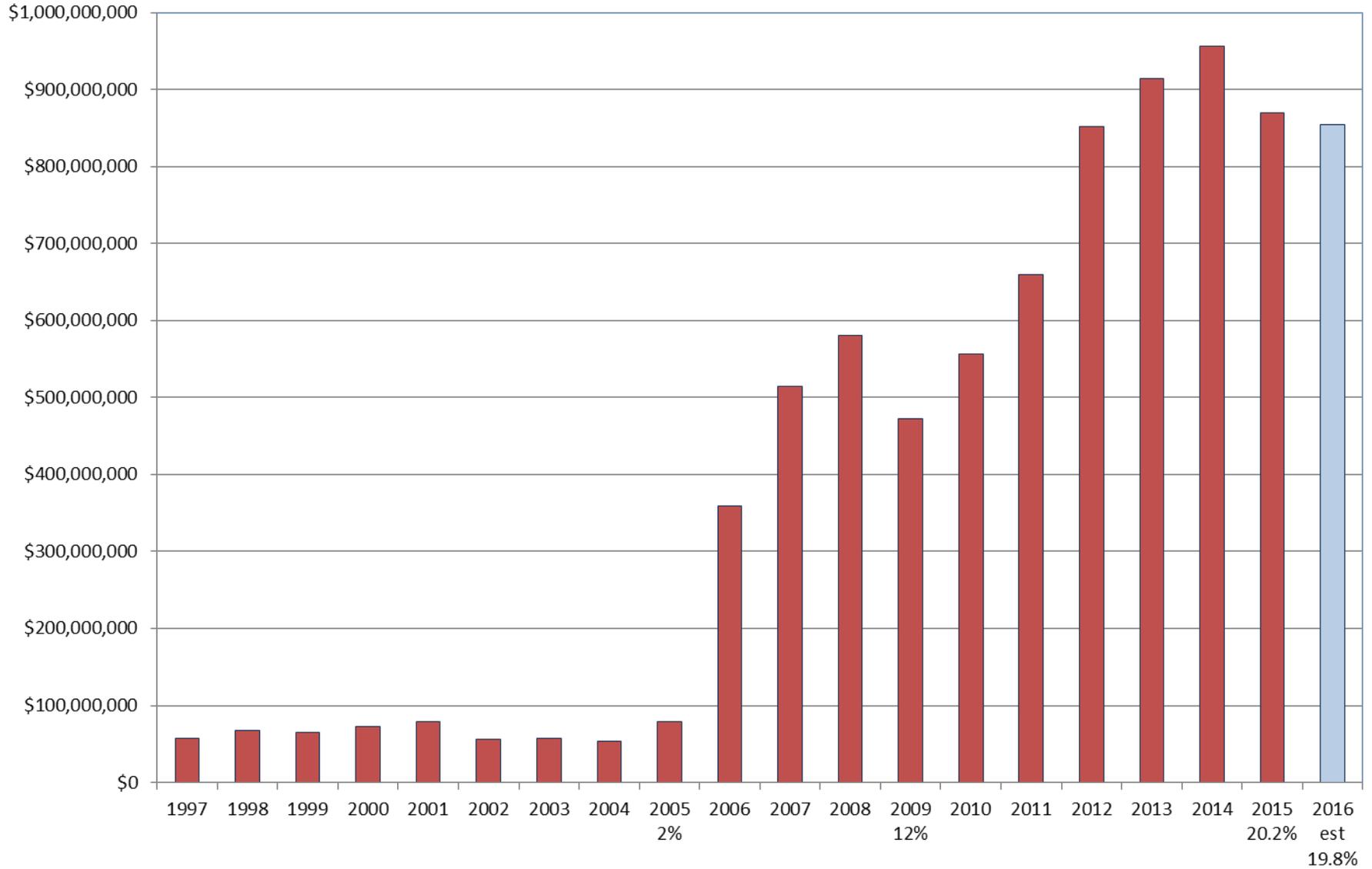
## Summary of FY 2015 Budget

(in thousand \$s)

<u>General Revenue Fund</u>		
Official Estimate FY 2015 Revenue		\$4,253,951
Actual FY 2015 Collections		<u>4,193,310</u>
Shortfall		-\$60,641
How Shortfall was balanced:		
	FY 2015 Vetos	12,600
	Mid year cuts	38,907
	Expire TRAFFIC (revenue)	7,500
	Income Tax Reserve Fund (revenue)	3,000
	FY 2015 Budget Surplus (before expirations)	\$1,366
	FY 2015 estimated expirations & unappropriated balance	<u>11,434</u>
	Estimated surplus at end of FY 2015	\$12,800
<u>Lottery Revenue Funds</u>		
	FY 2015 estimated surplus from current year activity	\$47,900
<u>Rainy Day Funds</u>		
	Balance at end of FY 2015 (20.2% of general revenue)	\$869,100



# Rainy Day Balance at End of Fiscal Year





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**FY 2016  
Budget  
Review**



## FY 2016 Budget Summary

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- We again faced a difficult budget year in fiscal year 2016 – a projected budget gap of \$195 was closed. Medicaid continues to be a major expenditure driver.
- After the introduction of the proposed budget, we received updated pension required contribution figures and updated school aid funding requirements, which reduced base expenditures in the general revenue fund.
- Continued agreement between the executive and legislative branches to make 100% of pension required contributions and to return to structural balance as soon as possible while minimizing the use of the rainy day fund.
- The budget passed by the legislature was fiscally very similar to the Governor’s proposed budget – no new taxes or major expenditure initiatives.
  - After line-item veto cuts by the Governor, Rainy Day Fund tapped for just \$14.8 million versus \$85 million estimate in December.
  - Ongoing FY2016 Base Budget of \$4.72 Billion is \$86.9 million less than the ongoing FY2015 Base Budget.
- FY 2016 Base budget cuts sustained despite good financial news on pension funding.



# State of West Virginia

## General Revenue Fund

(in Thousand \$s)

	FY 2014 Actual	FY 2015 Budgeted	FY 2015 Preliminary Final	FY 2016 Budgeted
<b>Revenues:</b>				
Personal Income Taxes	\$1,664,066	\$1,809,600	\$1,840,049	\$1,860,500
Consumer Sales Taxes	1,173,097	1,253,500	1,227,886	1,269,800
Severance Taxes	488,686	474,600	414,173	471,700
Other Taxes and Revenues	780,256	716,251	721,702	703,776
	<b>\$4,106,105</b>	<b>\$4,253,951</b>	<b>\$4,203,810</b>	<b>\$4,305,776</b>
<b>Expenditures:</b>				
Education	\$2,008,073	\$2,041,883	\$2,030,545	\$1,958,236
<b>Higher Education</b>	<b>419,557</b>	<b>416,496</b>	<b>415,036</b>	<b>409,293</b>
Health and Human Resources	866,328	1,011,433	927,385	1,181,312
Military and Public Safety	332,027	368,276	332,876	361,978
Other	340,010	403,263	369,066	385,820
Reappropriated	122,575	0	118,516	0
	<b>\$4,088,570</b>	<b>\$4,241,351</b>	<b>\$4,193,424</b>	<b>\$4,296,639</b>
Surplus from Current FY	\$17,535	\$12,600	\$10,386	\$9,137



# State of West Virginia Higher Education Funding FY 2016 Budgeted

	General Revenue	Lottery	Federal & Special	Total
WVU	135,496,034	3,488,143	1,289,935,640	1,428,919,817
Marshall	63,851,764	579,782	188,985,540	253,417,086
State Financial Aid	62,718,899	19,000,000	-	81,718,899
Admin & Other 4 year	81,739,558	33,146,564	495,486,637	610,372,759
C&T College System	65,486,916	-	140,620,734	206,107,650
<b>Total</b>	<b>409,293,171</b>	<b>56,214,489</b>	<b>2,115,028,551</b>	<b>2,580,536,211</b>



**ECONOMY &  
REVENUE  
TRENDS**



## Economic Highlights: U.S. Bureau of Economic Analysis

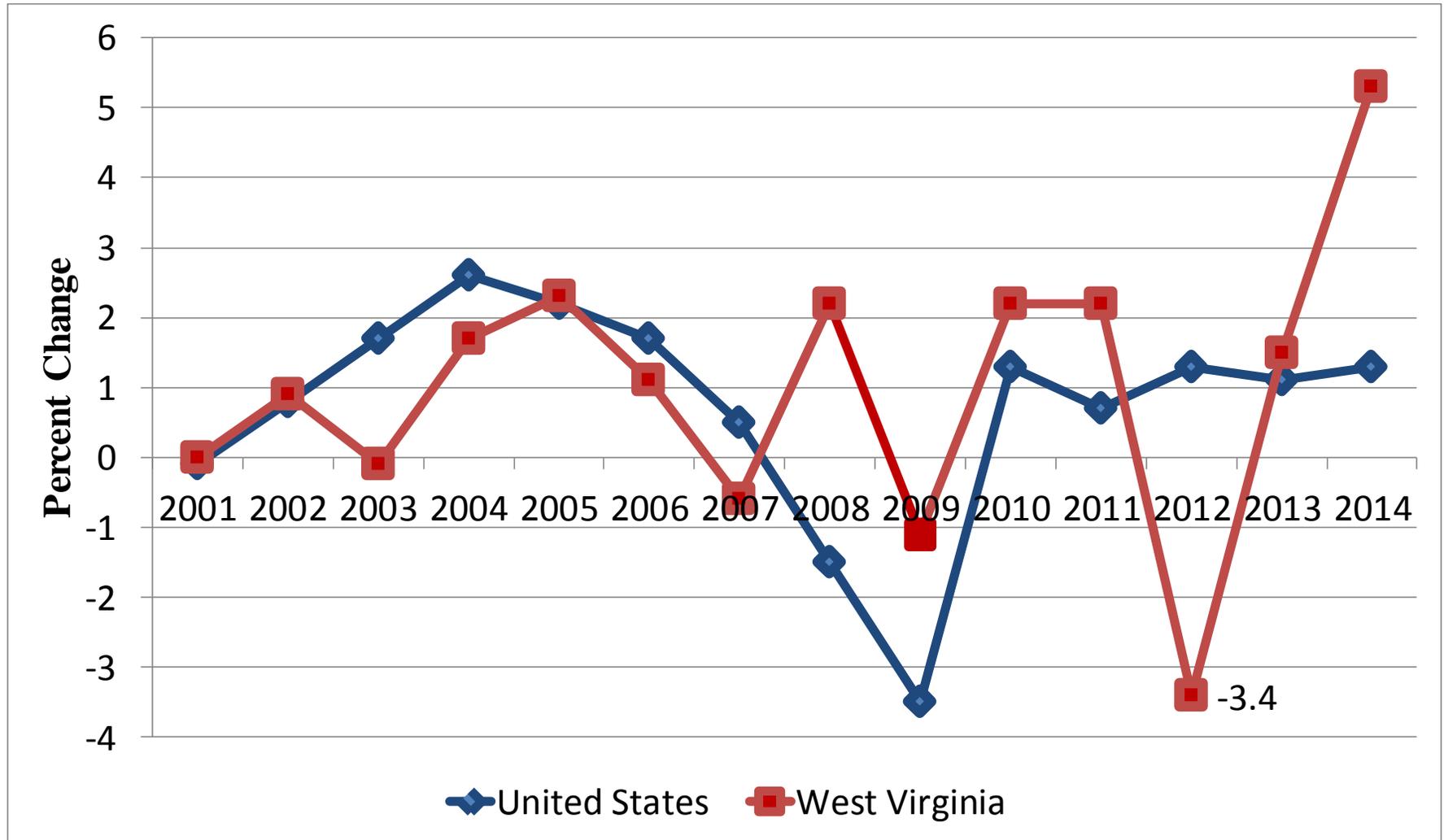
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- West Virginia is in a state of transition with energy mix switching from coal to natural gas
  - Natural gas production up six fold since 2004 to 1.2 trillion cubic feet
    - Pipeline infrastructure struggles to keep up with growth in supply
  - Coal production down more than 20% since 2004 to 112 million tons
  - Economic measurement: Real GDP 2014: WV 4<sup>th</sup> highest growth of 5.1% (2.2% U.S.)
- State performance compared to the rest of the nation (2004-2014)
  - WV ranked 24<sup>th</sup> highest in average annual real GDP growth of 1.3% (nearly 1.4% U.S.)
  - WV ranked 9<sup>th</sup> highest in average annual per capita personal income growth of 3.7% (U.S. 3.0%)
  - WV personal income (nominal) rose by 2.9% in 2014 versus U.S. increase of 3.9%
  - Non-farm employment increased 3.3% versus a 5.5% increase in U.S. payroll employment
  - State's unemployment rate of 7.4% in June 2015 versus 5.3% for the U.S.



# Annual Per Capita Real GDP Growth: Generally Higher in West Virginia Since 2008

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



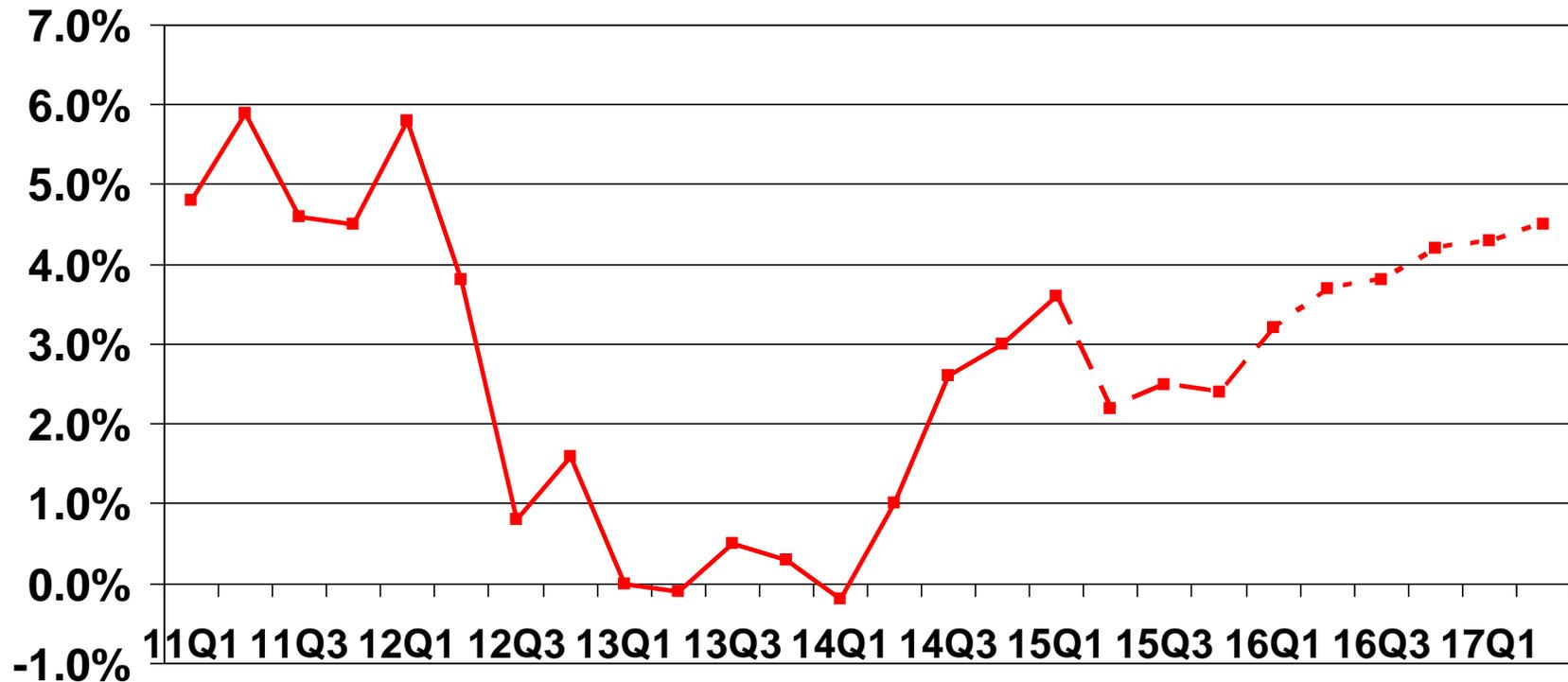


# Wage Growth: Slowing Short-Term, Improving Long-Term

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

Source: U.S. Bureau of Economic Analysis with IHS Economics Estimates (June 2015)

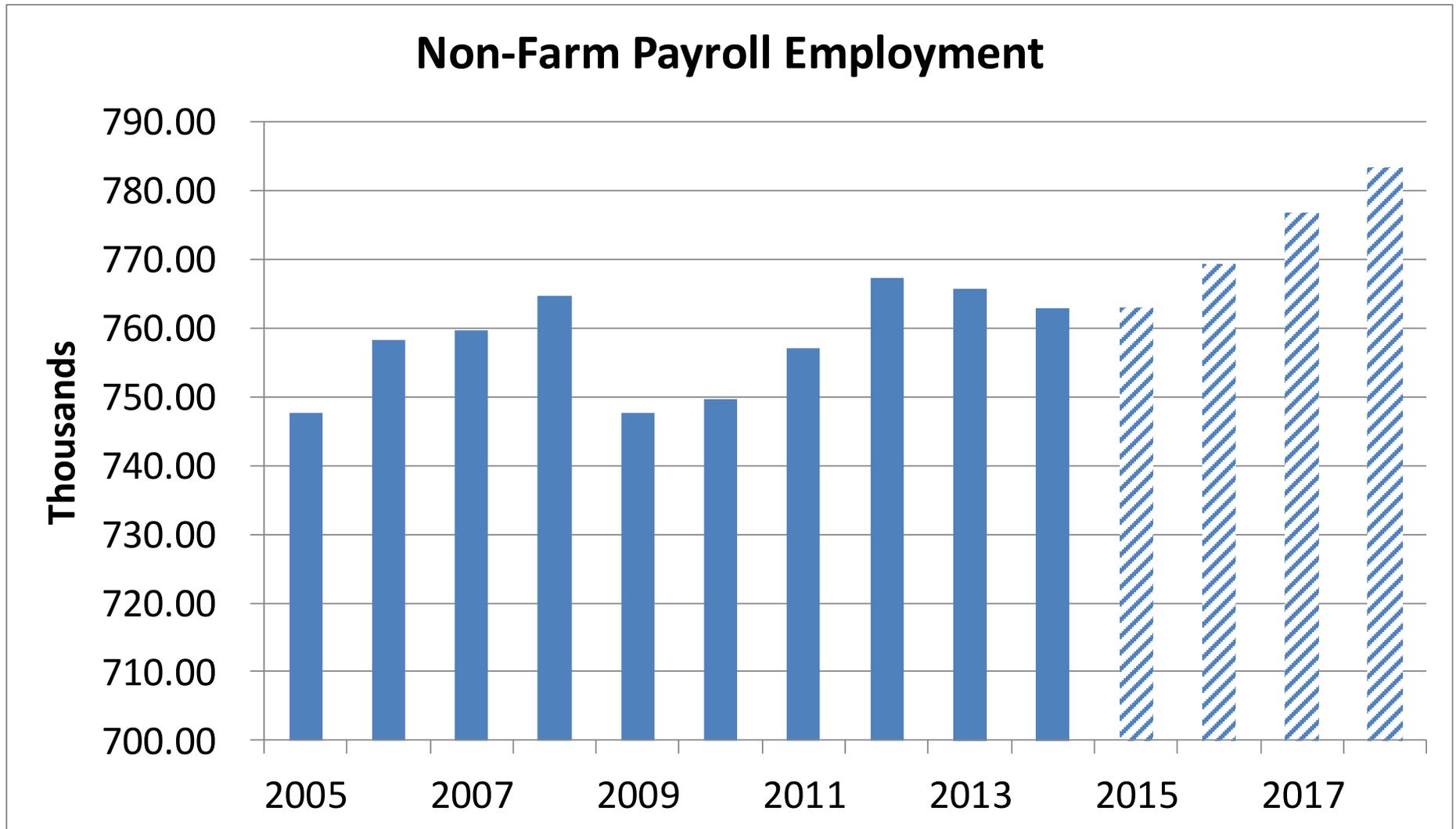
Seasonally Adjusted Annual Rate





# 2014-2018: WV Employment Projected to Rise by 2.7%

Estimates by IHS Economics U.S. Regional Service June 2015 Long Term







## Forecasting Mitigations and Challenges

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### *Mitigations:*

- State took corrective actions in FY 2016 Budget to reduce baseline expenditures by \$87 million.
- \$60.4 million in Personal Income Tax comes available at end of CY 2016 with payoff of Worker's Compensation Liability
  - An additional \$30 million per year will be dedicated to OPEB liability and a remaining \$5 million per year would be dedicated to a future yet-to-be-defined benefit for certain retirees under current Law.
- \$11 million in Lottery Funds previously dedicated to workers compensation debt also becomes available for Legislative appropriation beginning in FY2017.
- Roughly \$100 million in annual severance taxes dedicated to workers compensation debt relief (56 cents per ton of coal, 4.7 cents per 1,000 cubic feet of natural gas and 2.78% of timber production gross receipts) are removed by current Law.
- Under current Law, a 1.22% timber production gross receipts tax would be re-imposed once the tax dedicated to workers compensation is removed.
  - This tax would fund certain Division of Forestry operations currently funded out of the State General Revenue Fund.



## Forecasting Mitigations and Challenges

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### *Challenges:*

- West Virginia is in a state of transition.
  - Historically, revenues have largely been driven by the coal industry.
  - Natural Gas production and distribution have increased in recent years and particularly in 2015.
  - Planned pipeline development projects to be completed between now and 2018 should help reduce infrastructure bottlenecks that limit natural gas sales and prices at the present time.
- The Economy has seen notable shifts in revenue sources and the Administration is actively working to evaluate those impacts on forecasts.
- West Virginia's Six Year Plan is currently being revised to reflect overall economic shifts in the State. A large budget gap has developed for the upcoming FY 2017.
- Increased Pension costs, as result of lower than expected earnings in FY 2015.
- Medicaid – continues to be a major expenditure driver.
- Public Employee health care costs will require additional funding if current plan offerings are continued.



# General and Lottery Funds

