State of West Virginia’s
Budget Forecast

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

State Budget Office
FY 2015 Preliminary Results

- 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

- Personal Income
- Sales & Use
- Severance
- Corporate
- Insurance
- Overall

![Graph showing revenue growth by category](image)
### State of West Virginia
#### Summary of FY 2015 Budget
(in thousand $s)

<table>
<thead>
<tr>
<th>General Revenue Fund</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Official Estimate FY 2015 Revenue</strong></td>
<td>$4,253,951</td>
</tr>
<tr>
<td><strong>Actual FY 2015 Collections</strong></td>
<td>4,193,310</td>
</tr>
<tr>
<td><strong>Shortfall</strong></td>
<td>-$60,641</td>
</tr>
</tbody>
</table>

**How Shortfall was balanced:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2015 Vetos</td>
<td>12,600</td>
</tr>
<tr>
<td>Mid year cuts</td>
<td>38,907</td>
</tr>
<tr>
<td>Expire TRAFFIC (revenue)</td>
<td>7,500</td>
</tr>
<tr>
<td>Income Tax Reserve Fund (revenue)</td>
<td>3,000</td>
</tr>
</tbody>
</table>

**FY 2015 Budget Surplus (before expirations)** | $1,366
**FY 2015 estimated expirations & unappropriated balance** | 11,434
**Estimated surplus at end of FY 2015** | $12,800

**Lottery Revenue Funds**
- **FY 2015 estimated surplus from current year activity** | $47,900

**Rainy Day Funds**
- **Balance at end of FY 2015 (20.2% of general revenue)** | $869,100
Rainy Day Balance at End of Fiscal Year
FY 2016 Budget Summary

- 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)

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

<table>
<thead>
<tr>
<th></th>
<th>General Revenue</th>
<th>Lottery</th>
<th>Federal &amp; Special</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>WVU</td>
<td>135,496,034</td>
<td>3,488,143</td>
<td>1,289,935,640</td>
<td>1,428,919,817</td>
</tr>
<tr>
<td>Marshall</td>
<td>63,851,764</td>
<td>579,782</td>
<td>188,985,540</td>
<td>253,417,086</td>
</tr>
<tr>
<td>State Financial Aid</td>
<td>62,718,899</td>
<td>19,000,000</td>
<td>-</td>
<td>81,718,899</td>
</tr>
<tr>
<td>Admin &amp; Other 4 year</td>
<td>81,739,558</td>
<td>33,146,564</td>
<td>495,486,637</td>
<td>610,372,759</td>
</tr>
<tr>
<td>C&amp;T College System</td>
<td>65,486,916</td>
<td>-</td>
<td>140,620,734</td>
<td>206,107,650</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>409,293,171</strong></td>
<td><strong>56,214,489</strong></td>
<td><strong>2,115,028,551</strong></td>
<td><strong>2,580,536,211</strong></td>
</tr>
</tbody>
</table>
ECONOMY &
REVENUE
TRENDS
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 4th highest growth of 5.1% (2.2% U.S.)

State performance compared to the rest of the nation (2004-2014)
- WV ranked 24th highest in average annual real GDP growth of 1.3% (nearly 1.4% U.S.)
- WV ranked 9th 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

![Graph showing annual per capita real GDP growth comparison between the United States and West Virginia from 2001 to 2014.]
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)
2014-2018: WV Employment Projected to Rise by 2.7%
Estimates by IHS Economics U.S. Regional Service June 2015 Long Term

Non-Farm Payroll Employment

Thousands

FORECASTS
**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.
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

![Graph showing the trend of General and Lottery Funds from 2007 to 2020. The graph illustrates the increase in both Base Revenues and Base Expenditures over the years.](image-url)