

WEST VIRGINIA

Department of Revenue

Budget Overview – FY 23

DAVE HARDY

SECRETARY OF REVENUE



Extraordinary Times

- State revenue streams are very unpredictable.
- COVID and its associated effects have placed unprecedented external pressures on the budget.
- Federal relief dollars (CARES and ARPA) are helpful, but have many complicated strings attached.
- Public health officials are struggling to predict where COVID may go.
- Inflation has escalated.
- All of this makes budgeting very challenging.

Revenue Side

- Revenue sources have shown surprising inexplicable patterns.
- Severance tax has grown remarkably.
- Corporate net income tax has grown as well.
- Federal dollars have temporarily changed our models.
- The Governor has opted for a conservative, cautious revenue projection.
- This is necessitated by the pandemic and its ongoing unpredictability.
- It leaves room for other expenditures as the fiscal year progresses.
- It allows us to avoid the risk of going into a deficit if revenues do not meet expectations.

Expense Side

- Governor instructed us to build an essentially flat budget.
- Our starting point was FY 22 - \$4.570 billion.
- This budget for FY 23 is \$4.645 billion.
- The increase to the proposed budget is \$65.5 million above last year, as revised 1/12/22
- Two exceptions to this notion:
 - Average 5% pay raises for state employees = \$114 million.
 - Additional \$41 million for inmate medical care, including court mandates and health care inflation.
- Today's budget meets these goals.
- The increase is 1.4%, far below the 7% inflation rate.

Fiscal Summary

Economy: Strong Rebound from 2nd QTR 2020 Pandemic Recession

Energy sector recovery from trough at the end of CY2020

Significant price inflation, particularly for energy & automobiles

12-month trailing trend value of foreign exports up > 36% since January 2021 trough

Coal production rising from 2020 trough with higher domestic steam coal sales in 2021

Natural gas prices more than double from last year

WV electric power generation up nearly 19% YTD thru October

Non-farm payroll employment growth of 2.6% (Nov 2021 v Nov 2020) [17,800]

Household survey employment up 2.7% (Nov 2021 v Nov 2020) [20,200]

Federal stimulus eases thru remainder of fiscal year & monetary tapering

Less stimulus may lead to lower inflation over time

Short-term interest rate hike now anticipated around March 2022

High Volatility in General Revenue Fund collection patterns

GRF growth: 12.2% in FY2019; **-5.5%** in FY2020; 11.0% in FY2021; 8.6% YTD in FY2022

Adjusted GRF growth: **-3.2%** in FY2020; 4.7% in FY2021; 18.8% YTD in FY2022

FY 2023 REVENUE FORECAST | DEPUTY SECRETARY MARK MUCHOW

FY2021-2022 General Revenue Fund as of December 31, 2021

COMPONENT	\$ Millions	\$ Millions	\$ Millions	\$ Millions		\$ Millions	\$ Millions	Average	\$ Millions
	ESTIMATE	ACTUAL	YTD	ACTUAL	CHANGE	CHANGE	ACTUAL	ANNUAL	CHANGE
	FY21-22	FY21-22	DIFFERENCE	FY20-21	PERCENT	FY21 to FY22	FY18-19	% CHG	FY19 to FY22
Consumer Sales Tax	\$ 721.900	\$ 787.346	\$ 65.446	\$ 722.018	9.0%	\$ 65.328	\$ 672.542	5.4%	\$ 114.804
Personal Income Tax*	\$ 919.300	\$ 1,036.702	\$ 117.402	\$ 939.425	10.4%	\$ 97.277	\$ 963.501	2.5%	\$ 73.201
Business & Occupation Tax	\$ 51.700	\$ 44.927	\$ (6.773)	\$ 60.112	-25.3%	\$ (15.185)	\$ 53.423	-5.6%	\$ (8.495)
Severance Tax	\$ 137.400	\$ 254.193	\$ 116.793	\$ 69.843	264.0%	\$ 184.350	\$ 209.075	6.7%	\$ 45.118
Corporate Taxes*	\$ 78.200	\$ 172.852	\$ 94.652	\$ 103.041	67.8%	\$ 69.812	\$ 97.511	21.0%	\$ 75.341
Insurance Premium Tax	\$ 57.420	\$ 60.617	\$ 3.197	\$ 58.351	3.9%	\$ 2.266	\$ 60.872	-0.1%	\$ (0.255)
Tobacco Products Tax	\$ 84.700	\$ 85.011	\$ 0.311	\$ 89.221	-4.7%	\$ (4.210)	\$ 89.167	-1.6%	\$ (4.156)
Interest Income	\$ 2.500	\$ 0.021	\$ (2.479)	\$ 6.746	-99.7%	\$ (6.725)	\$ 8.424	-86.5%	\$ (8.403)
Lottery Transfers	\$ 26.400	\$ 31.600	\$ 5.200	\$ 26.526	19.1%	\$ 5.074	\$ 26.846		\$ 4.754
All Other*	\$ 44.571	\$ 44.685	\$ 0.114	\$ 44.198	1.1%	\$ 0.487	\$ 41.282	2.7%	\$ 3.403
TOTAL*	\$2,124.091	\$ 2,517.954	\$ 393.863	\$ 2,119.481	18.8%	\$ 398.473	\$ 2,222.641	4.2%	\$ 295.312

* FY 2021 collections adjusted to remove \$144 million in PIT and \$56 million in CNIT one-time deferred income tax collections.

* FY 2019 collections adjusted to remove \$11.9 million in one-time special revenue transfers.

FY 2023 REVENUE FORECAST | DEPUTY SECRETARY MARK MUCHOW

FY2023 General Revenue Fund Estimates Compared With FY2019 Actual Baseline

	\$ Millions	\$ Millions	\$ Millions		\$ Millions	\$ Millions	
COMPONENT	FY 2023 ESTIMATE	FY 2022 ESTIMATE	DIFFERENCE	CHANGE PERCENT	ACTUAL FY18-19	AVG ANN % CHG 19-23	CHANGE
Consumer Sales Tax	\$ 1,645.000	\$ 1,473.800	\$ 171.200	11.6%	\$ 1,370.157	4.7%	\$ 274.843
Personal Income Tax	\$ 2,491.000	\$ 2,041.300	\$ 449.700	22.0%	\$ 2,096.807	4.4%	\$ 394.193
Business & Occupation Tax	\$ 118.000	\$ 111.000	\$ 7.000	6.3%	\$ 124.523	-1.3%	\$ (6.523)
Severance Tax	\$ 477.400	\$ 319.700	\$ 157.700	49.3%	\$ 462.451	0.8%	\$ 14.949
Corporate Tax	\$ 285.700	\$ 160.300	\$ 125.400	78.2%	\$ 198.032	9.6%	\$ 87.668
Insurance Premium Tax	\$ 116.000	\$ 126.600	\$ (10.600)	-8.4%	\$ 129.111	-2.6%	\$ (13.111)
Tobacco Products Tax	\$ 162.200	\$ 164.600	\$ (2.400)	-1.5%	\$ 171.224	-1.3%	\$ (9.024)
Interest Income	\$ 5.970	\$ 5.500	\$ 0.470	8.5%	\$ 27.776	-31.9%	\$ (21.806)
Lottery Transfers	\$ 65.000	\$ 65.000	\$ -	0.0%	\$ 65.000	0.0%	\$ -
All Other*	\$ 98.766	\$ 101.816	\$ (3.050)	-3.0%	\$ 111.255	-2.9%	\$ (12.489)
TOTAL	\$ 5,465.036	\$ 4,569.616	\$ 895.420	19.6%	\$ 4,756.336	3.5%	\$ 708.700

FY 2023 REVENUE FORECAST | DEPUTY SECRETARY MARK MUCHOW

Official FY2023 Estimates Versus Official FY2022 Estimates - 1.4% Gain is Less Than Inflation
\$ Millions

<u>Tax Source</u>	<u>FY2023</u>	<u>FY2022</u>	<u>Change</u>
Personal Income:	\$2,190.000	2,041.300	148.700
Sales & Use:	1,510.488	1,473.800	36.688
Severance:	250.000	330.700	(80.700)
Corp Income:	150.000	160.300	(10.300)
B&O:	100.000	111.000	(11.000)
Tobacco Excise:	162.200	164.600	(2.400)
Insurance Premium:	116.000	126.600	(10.600)
Lottery-GRF:	65.000	65.000	0
All Other:	101.736	107.316	(5.580)
<i>Total General</i>	<i>\$4,645.424</i>	<i>\$4,580.616</i>	<i>\$ 64.808</i>

Fiscal Outlook Summary

- National economy nearly fully recovered from Pandemic
 - Concerns about demand supply imbalances and inflation
- Tax revenues benefit from strong energy recovery, inflation, fiscal stimulus
- Very strong revenue growth in FY2022, slower growth in FY2023
- Natural gas energy production levels rise more slowly; greater price stability
- Coal production continues around 80 million short-tons due to improved natural gas prices & global recovery
- Major pipeline investment hopefully resumes soon with one major project still alive
- Significant Risk/Concern Areas: Foreign Trade; Construction Industry Volatility; Labor Force Growth; Energy Industry Transitions

QUESTIONS?

DAVE HARDY

SECRETARY OF REVENUE

MARK MUCHOW

DEPUTY SECRETARY OF REVENUE

MICHAEL COOK

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