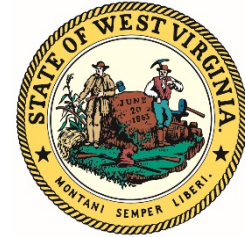


W E S T V I R G I N I A



DEPARTMENT OF REVENUE

Fiscal Forecast – FY 2022

DEPUTY REVENUE SECRETARY MARK B. MUCHOW

House and Senate Finance Committees

February 11, 2021

2021 Fiscal Outlook Summary

- Pre-Pandemic Economy: Continued growth except for energy
 - Governor's Roads to Prosperity Program in full gear
 - Generally stable manufacturing sector
 - Significantly lower energy prices, especially for oil and natural gas
 - Record natural gas production
 - Domestic steam coal sales fall due to natural gas competition
 - Weakening global economy with lower exports
 - Employment levels decrease slightly due to weak energy sector
- Covid-19 Pandemic & sharp recession in March and April
- Sharp V shape economic recovery starting in May
 - Monetary stimulus from Federal Reserve Bank
 - Federal fiscal stimulus (FFCRA and CARES Acts)-Nearly 15% of second QTR income in WV
 - West Virginia response to Pandemic ahead of the curve
- Uncertain short-term outlook for Pandemic & Economy

U.S. Economy: IHS Forecast

IHS-Markit Baseline: November 2020

<u>Economic Variable</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Real GDP	-3.6%	3.1%	2.5%
CPI	1.3%	2.3%	2.6%
Consumption	-3.9%	3.6%	2.2%
Industrial Production	-7.4%	1.8%	2.6%
Payroll Employment	-5.6%	3.6%	2.6%
Personal Income	5.8%	-1.4%	3.6%
Real Disposable Income	5.4%	-3.9%	1.3%
Domestic Corporate Profits	-4.1%	-16.9%	7.6%
10-Year Treasury Note	0.88%	0.97%	1.24%

Federal Fiscal Belt Loosens Big Time

Source: CBO *Monthly Budget Review*, October-December 2020 & U.S. Treasury & OMB

Revenues Through December

<u>Source</u>	<u>\$ Billions Revenue</u>	<u>Percent Change</u>
Ind. Income	\$347	- 9.9
Corp. Income	66	0.8
Social Insurance	321	10.7
Other	<u>70</u>	<u>5.2</u>
Total	<u>803</u>	<u>-0.4</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:	\$ 779.1 Billion
FY2019:	\$ 984.2 Billion
FY2020 Preliminary:	\$3,131.9 Billion
FY2021 Estimate:	\$ 966.1 Billion

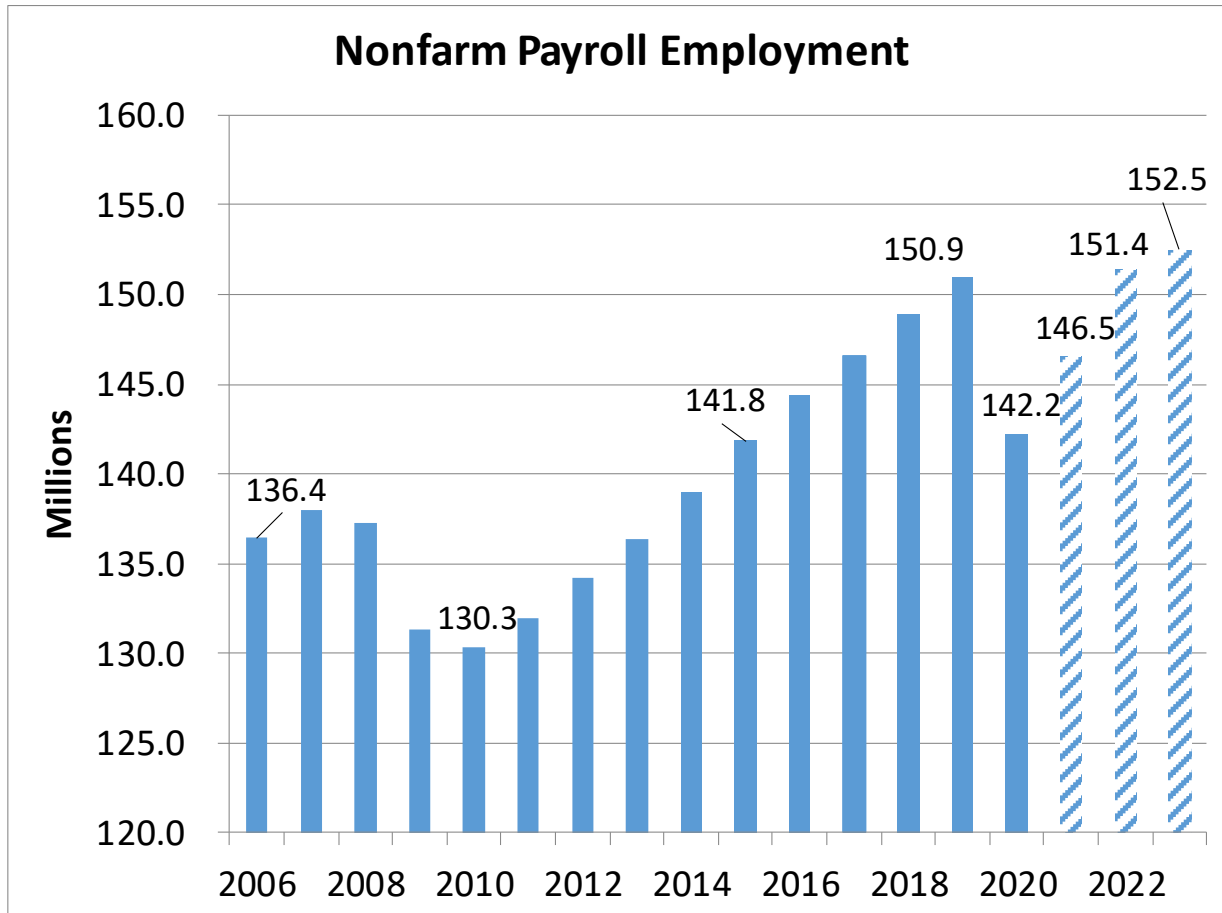
Outlays Through December

<u>Category</u>	<u>\$ Billions Outlays</u>	<u>Percent Change</u>
Defense	\$ 195	+ 4.1
SS Benefits	301	+ 4.9
Medicare	171	+ 3.9
Medicaid	124	+ 22.7
Other	<u>495</u>	<u>+ 44.3</u>
Subtotal	1,286	+ 6.9
Debt Interest	89	- 12.4
Total	<u>1,375</u>	<u>+ 16.5</u>

2019-2023: U.S. Employment Recovery by 2022

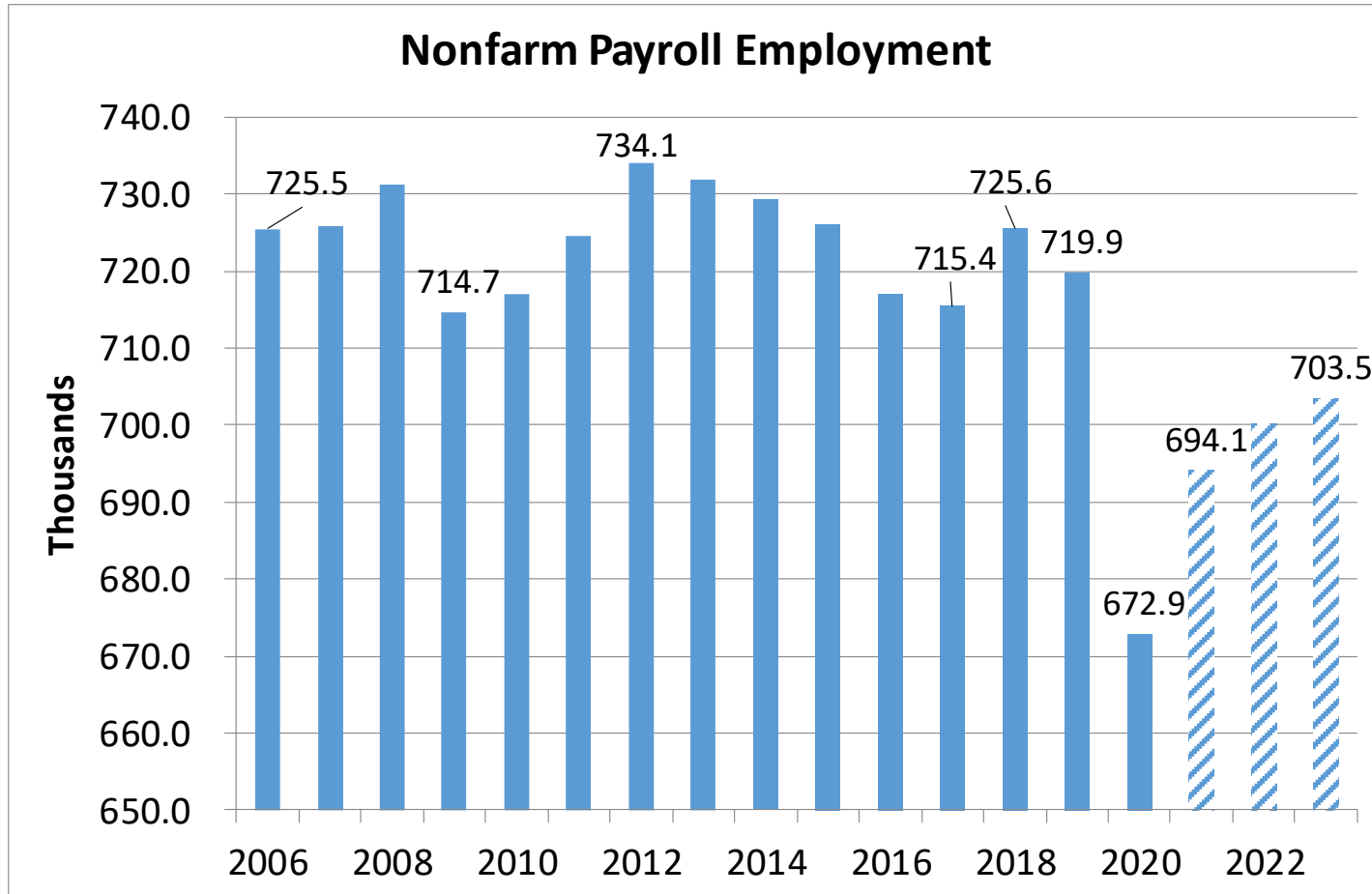
Estimates by IHS-Markit - U.S. Economic Baseline Forecast –January 2021

Historical Data From U.S. Bureau of Labor Statistics



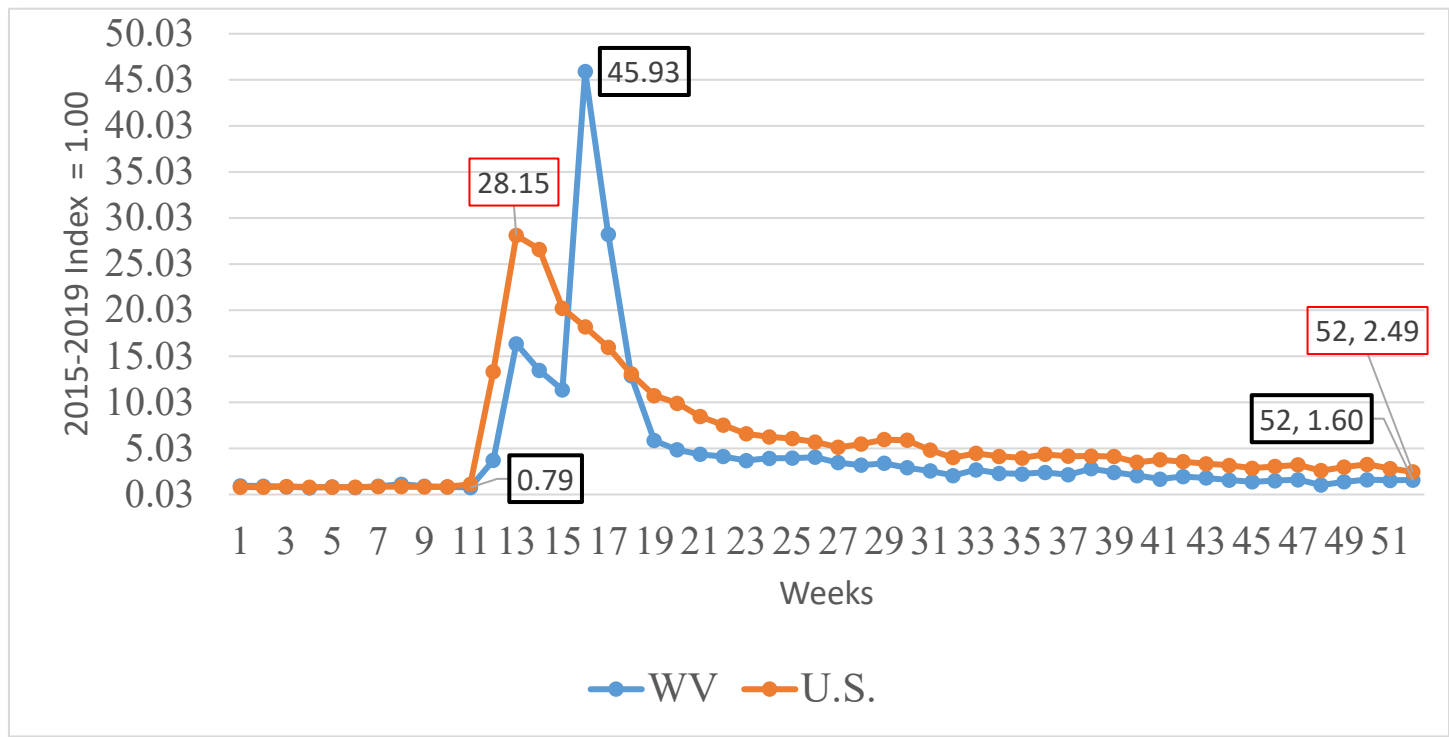
2019-2023: WV Employment Projected to Recover

Estimates by HIS-Markit - U.S. Regional Service November 2020 Long Term
Historical Data from U.S. Bureau of Labor Statistics



2020 WV Initial Weekly Unemployment Claims Peak in Third Week of April

- Indexed to Average Initial Weekly Claims Same Period in 2015-2019 (NSA)

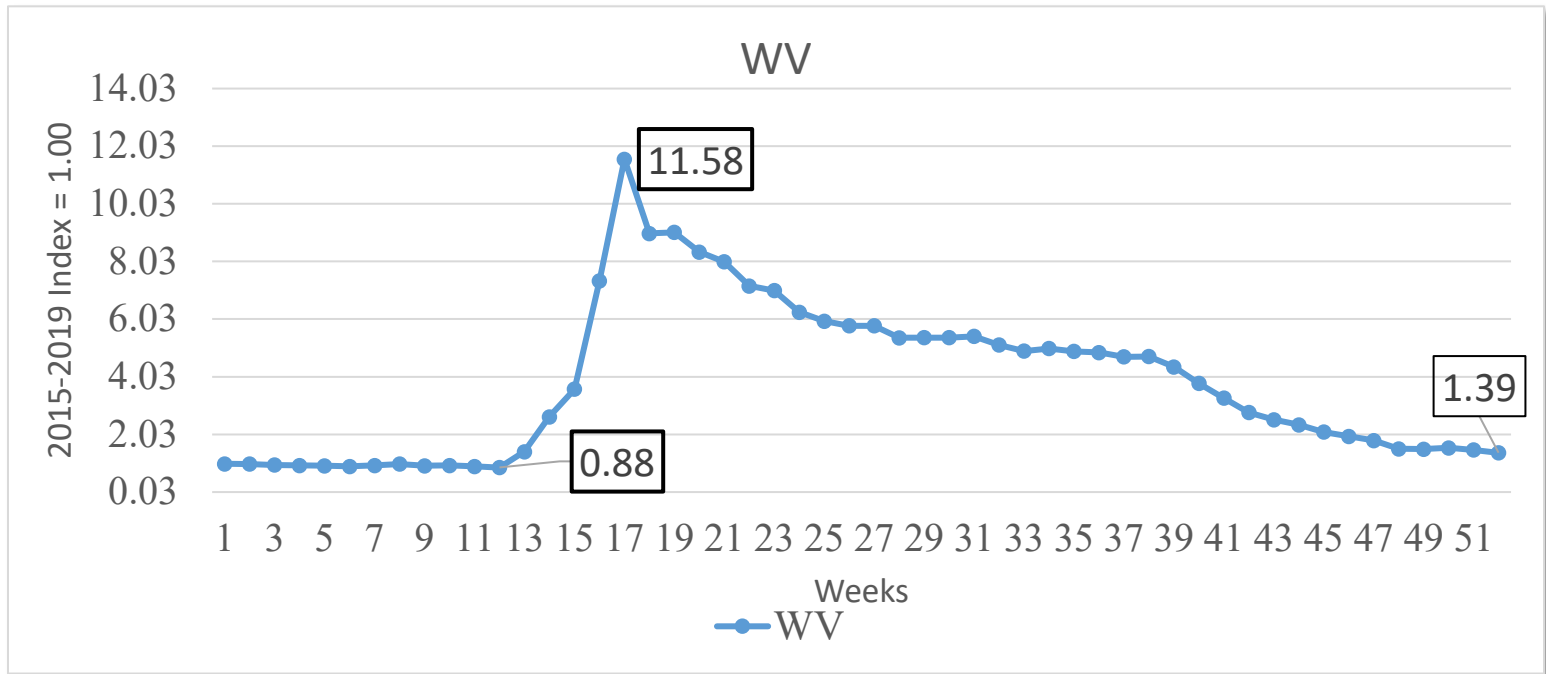


Source: U.S. Bureau of Labor Statistics

2020 Continued Weekly Unemployment Claims

4th Week of April Peak in WV

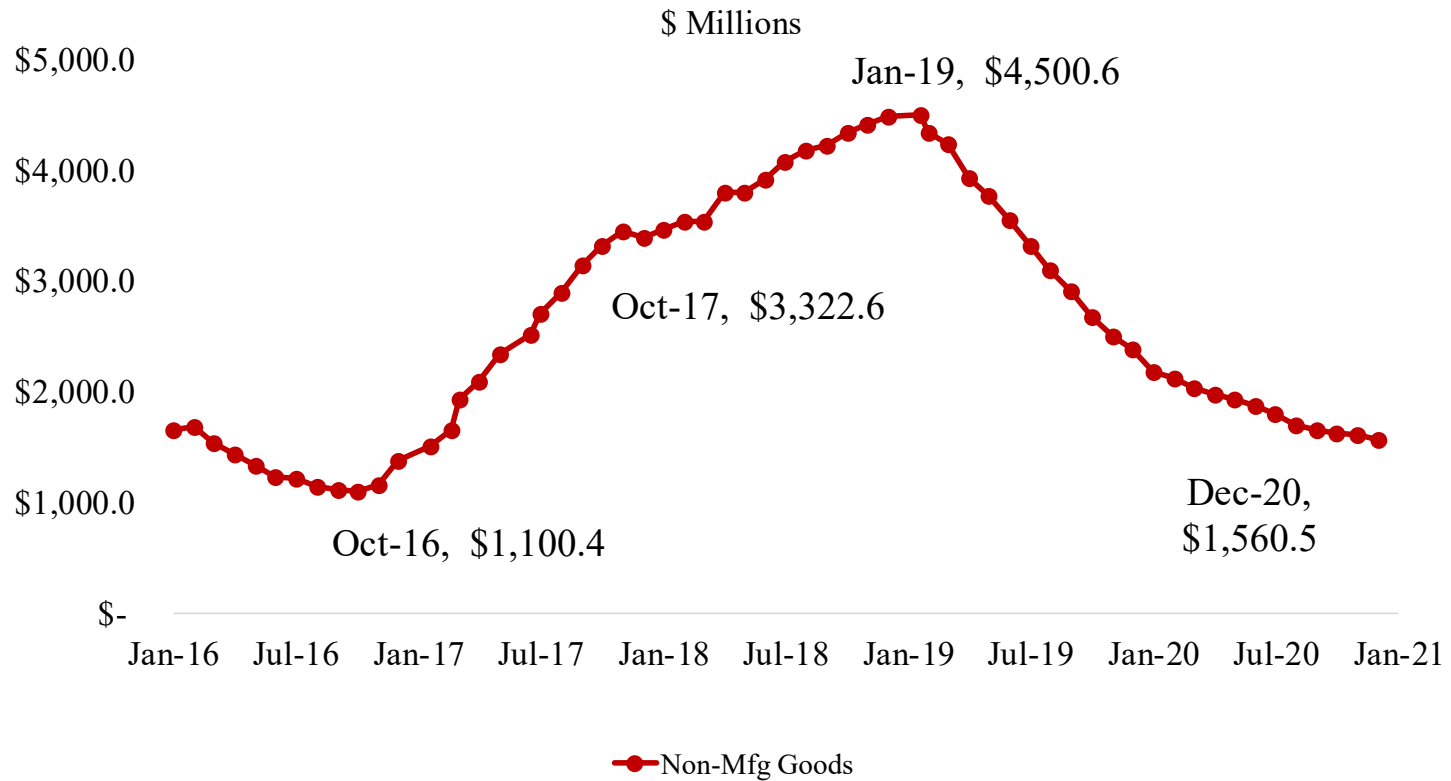
- Indexed to Average Continuing Weekly Claims For Same Period in 2015-2019 (NSA)



Source: U.S. Bureau of Labor Statistics

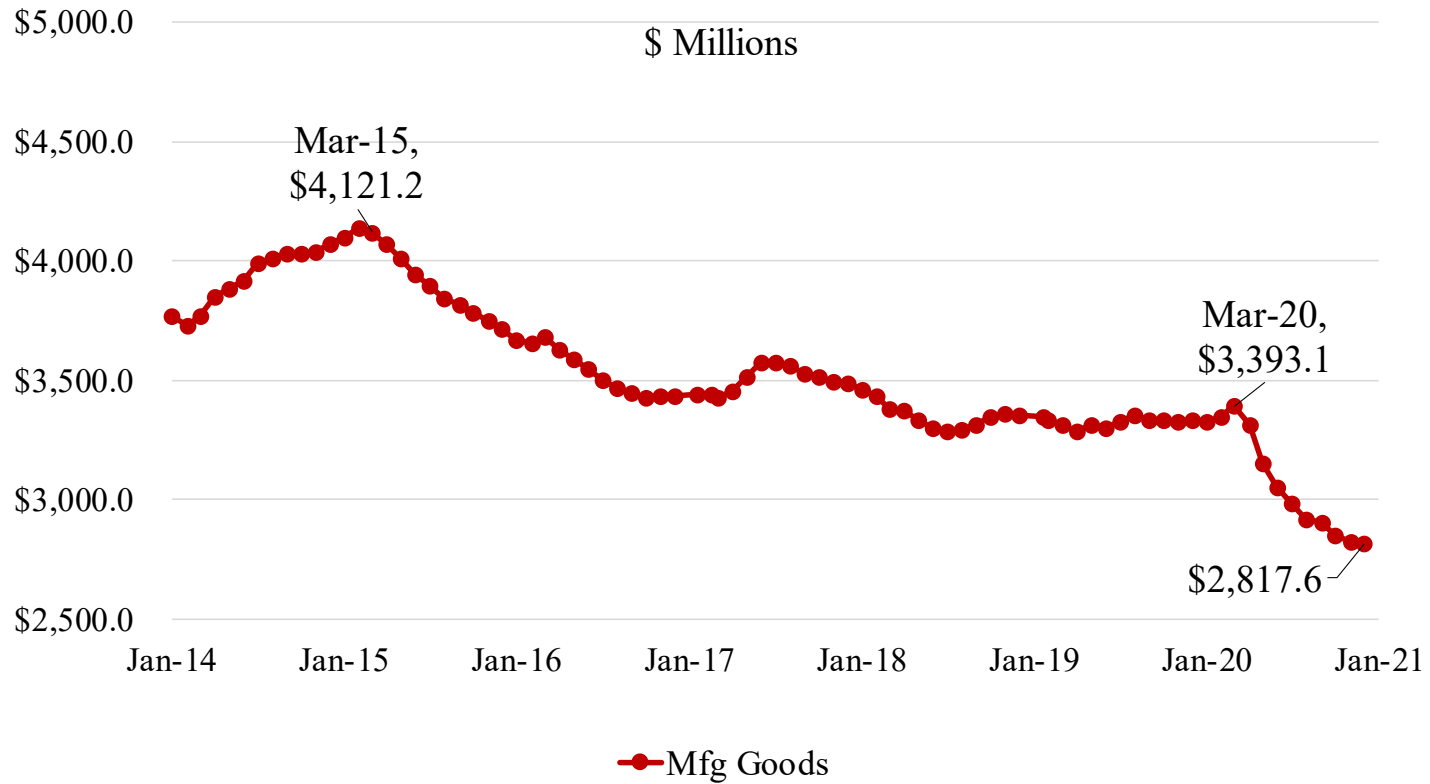
12-Month Trailing Trend Value of Foreign Non-Manufacturing Good Exports

Total Exports Down 4% Since October 2016; Non-Manufacturing Good Exports Up 42%



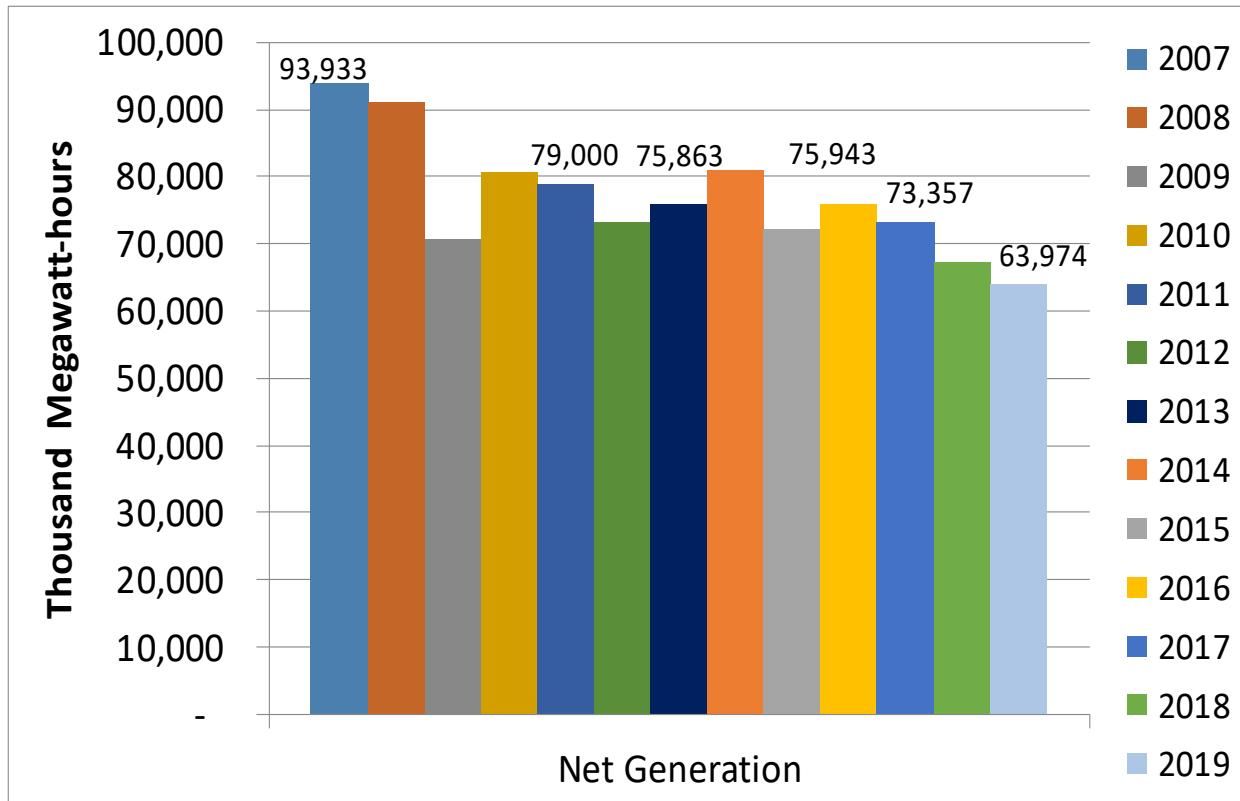
12-Month Trailing Trend Value of Foreign Manufacturing Good Exports

Total Exports Down 4% Since October 2016; Manufacturing Good Exports Down 18%



West Virginia Electric Power Generation: Down 4.9% in 2019; 13.0% YTD in 2020 & 40% Below 2007

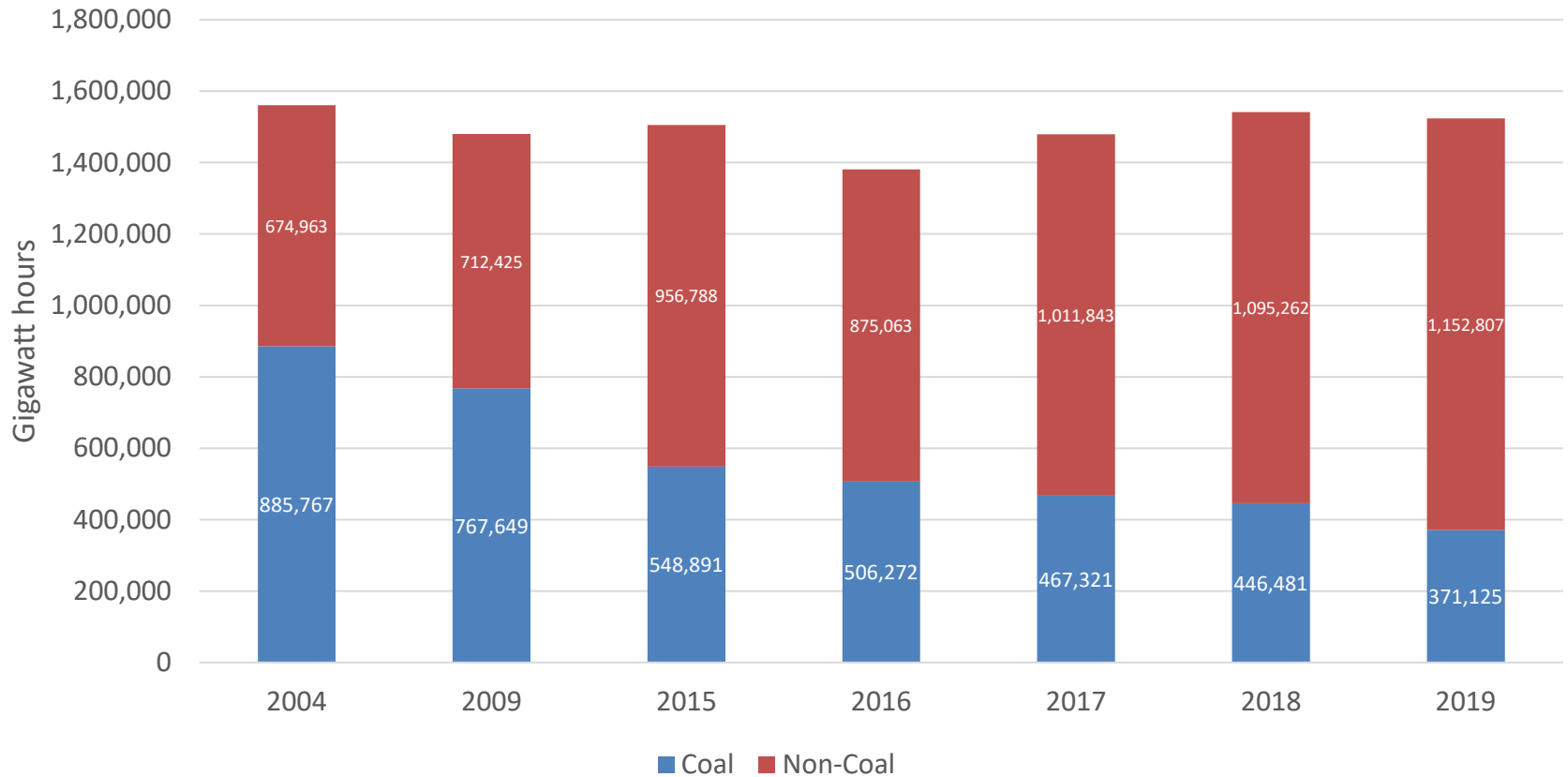
Source: U.S. DOE, Energy Information Administration



Electric Power Generation Trends

Coal Share falls from 57% in 2004 to 24% in 2019 & 20% YTD in 2020

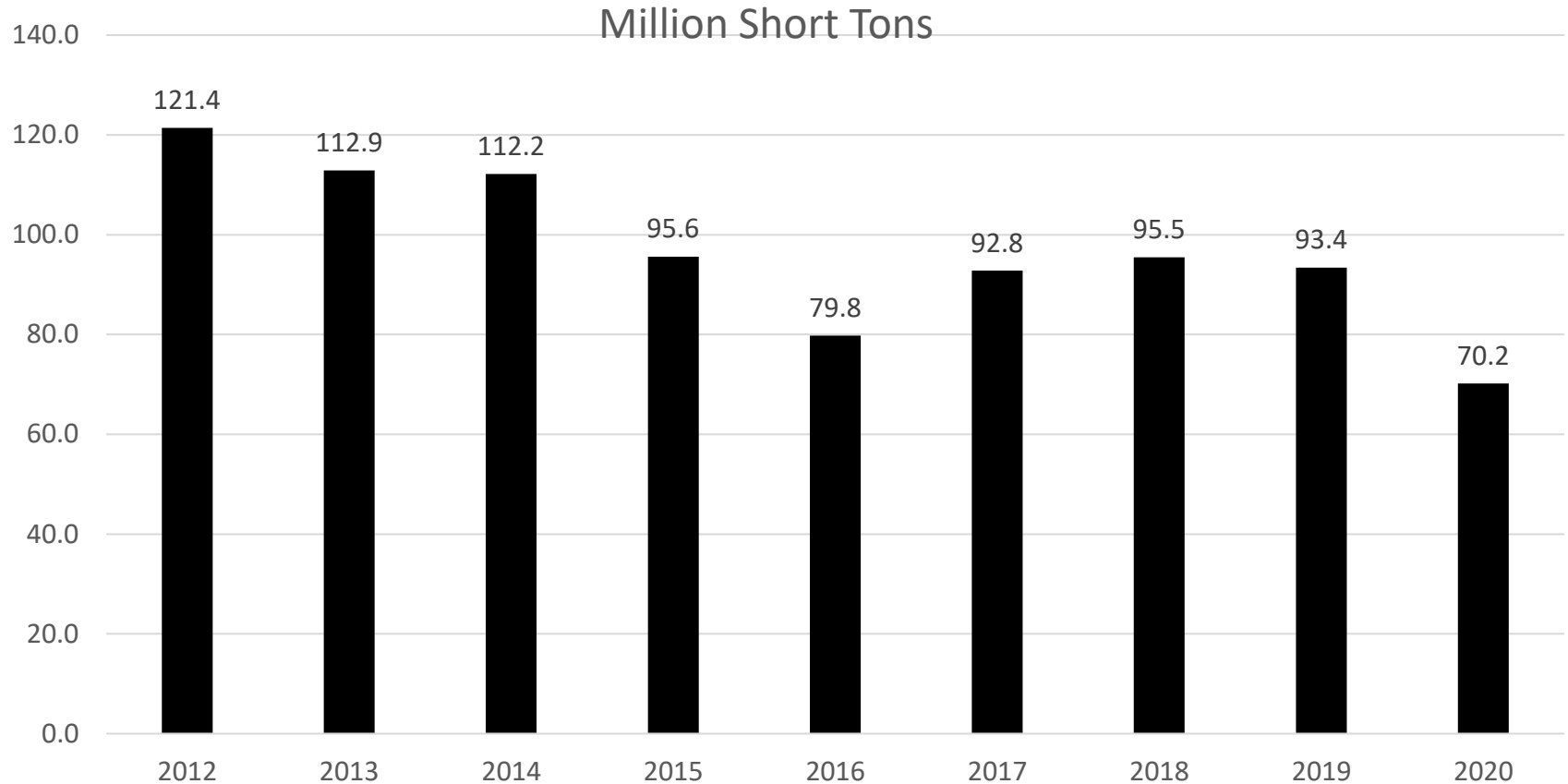
West Virginia Steam Coal Supply States: (FL, IN, KY, MD, MI, NJ, NY, NC, OH, PA, SC, VA, WV)



West Virginia Coal Production

Down 25% in 2020 - Lower Steam Coal Sales

Source: U.S. Department of Energy

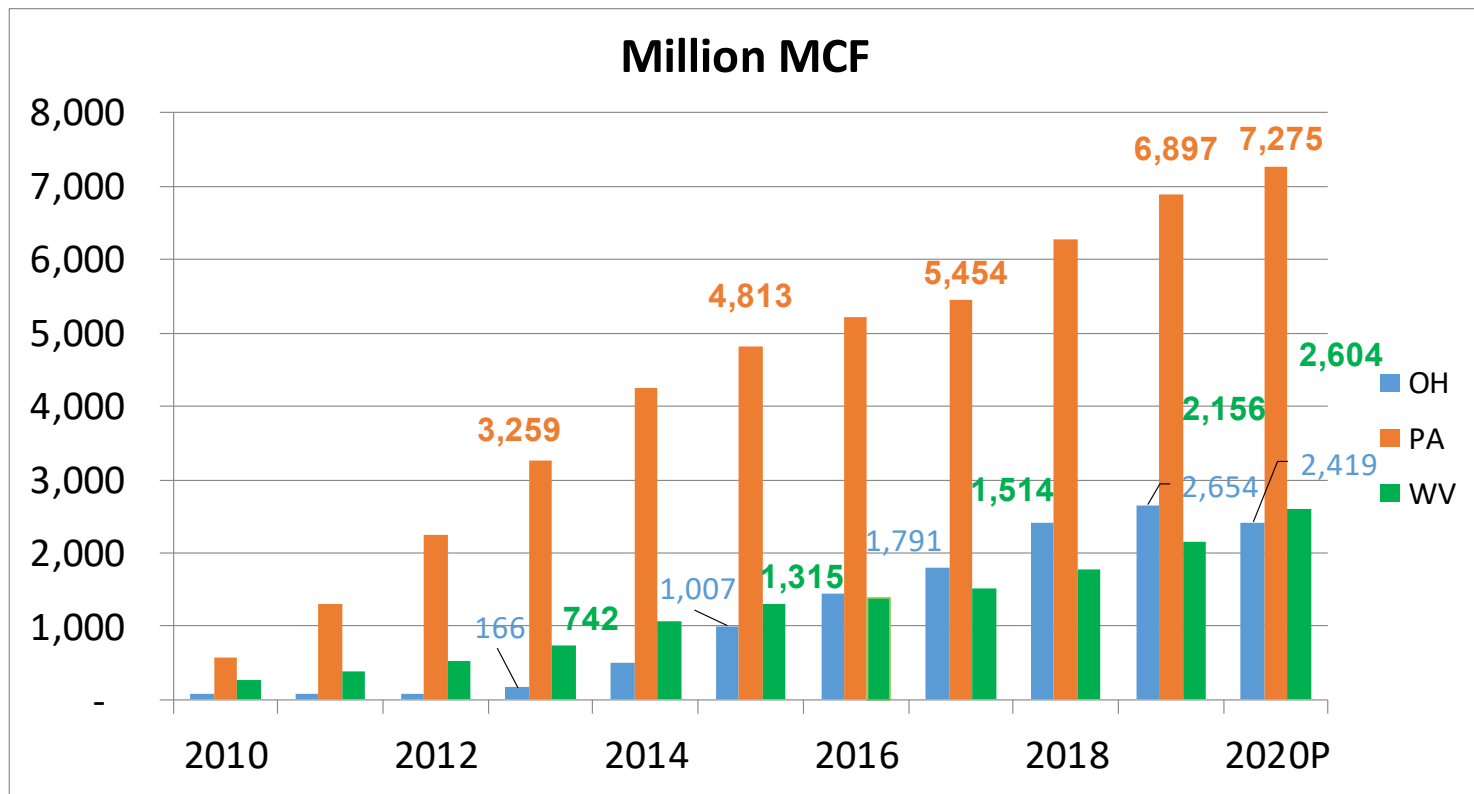


Natural Gas Production by State 2010-2020

U.S. Production up 5% per year average

WV Production Up 25% per year average

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



FY2020 General Revenue Fund Performance Pre-Covid-19 Results Through 3 Quarters

COMPONENT	\$ Millions	\$ Millions	\$ Millions	\$ Millions	Change %
	First 9 Months ESTIMATE	First 9 Months ACTUAL	First 9 Months DIFFERENCE	First 9 Months FY 2018-19	
Consumer Sales Tax	\$ 1,020.200	\$ 1,024.094	\$ 3.894	\$ 1,001.549	2.3%
Personal Income Tax	\$ 1,468.680	\$ 1,434.894	\$ (33.786)	\$ 1,406.890	2.0%
Business & Occupation Tax	\$ 89.500	\$ 101.204	\$ 11.704	\$ 84.495	19.8%
Severance Tax	\$ 265.200	\$ 222.128	\$ (43.072)	\$ 320.788	-30.8%
Corporate Tax	\$ 77.300	\$ 119.992	\$ 42.692	\$ 104.733	14.6%
Insurance Premium Tax	\$ 100.600	\$ 97.061	\$ (3.539)	\$ 98.367	-1.3%
Tobacco Products Tax	\$ 133.000	\$ 129.720	\$ (3.280)	\$ 126.947	2.2%
Lottery Transfers	\$ 46.894	\$ 44.962	\$ (1.932)	\$ 46.894	-4.1%
All Other	\$ 108.360	\$ 129.253	\$ 20.893	\$ 102.085	26.6%
Sub-TOTAL	\$ 3,309.734	\$ 3,303.308	\$ (6.426)	\$ 3,292.748	0.3%

FY2020 General Revenue Fund Performance

COVID-19 4Th Quarter Results

FY 2020 Collections Exclusive of \$200 Million in Income Tax Deferred to FY 2021

COMPONENT	\$ Millions	\$ Millions	\$ Millions	\$ Millions	
	4th QTR ESTIMATE	4th QTR ACTUAL	4th QTR DIFFERENCE	4th QTR FY 2018-19	4th QTR Change %
Consumer Sales Tax	\$ 370.060	\$ 362.477	\$ (7.583)	\$ 368.608	-1.7%
Personal Income Tax*	\$ 686.200	\$ 513.051	\$ (173.149)	\$ 689.917	-25.6%
Business & Occupation Tax	\$ 33.500	\$ 36.143	\$ 2.643	\$ 40.028	-9.7%
Severance Tax	\$ 95.040	\$ 44.921	\$ (50.119)	\$ 141.663	-68.3%
Corporate Tax	\$ 59.680	\$ 31.996	\$ (27.684)	\$ 93.299	-65.7%
Insurance Premium Tax	\$ 31.200	\$ 32.297	\$ 1.097	\$ 30.744	5.1%
Tobacco Products Tax	\$ 44.000	\$ 39.029	\$ (4.971)	\$ 44.277	-11.9%
Lottery Transfers	\$ 18.106	\$ 7.361	\$ (10.745)	\$ 18.106	-59.3%
Sub-TOTAL	\$ 1,337.786	\$ 1,067.275	\$ (270.511)	\$ 1,426.642	-25.2%

* FY 2020 collections include \$23 million from Income Tax Refund Reserve Account versus \$12 million from General Revenue to Reserve Fund in prior year.

FY2020 General Revenue Fund Performance

FY2020-2021 General Revenue Fund Estimates & Prior Year Actual Collections

COMPONENT	\$ Millions	\$ Millions	\$ Millions		\$ Millions		\$ Millions
	ESTIMATE FY19-20	ACTUAL FY19-20	DIFFERENCE	CHANGE PERCENT	ACTUAL FY18-19	CHANGE PERCENT	CHANGE
Consumer Sales Tax	\$ 1,390.260	\$ 1,386.571	\$ (3.689)	-0.3%	\$ 1,370.157	1.2%	\$ 16.414
Personal Income Tax*	\$ 2,154.880	\$ 1,947.946	\$ (206.934)	-9.6%	\$ 2,096.807	-7.1%	\$ (148.862)
Business & Occupation Tax	\$ 123.000	\$ 137.347	\$ 14.347	11.7%	\$ 124.523	10.3%	\$ 12.824
Severance Tax	\$ 360.240	\$ 267.049	\$ (93.191)	-25.9%	\$ 462.451	-42.3%	\$ (195.402)
Corporate Tax	\$ 136.980	\$ 151.988	\$ 15.008	11.0%	\$ 198.032	-23.3%	\$ (46.044)
Insurance Premium Tax	\$ 131.800	\$ 129.358	\$ (2.442)	-1.9%	\$ 129.111	0.2%	\$ 0.247
Tobacco Products Tax	\$ 177.000	\$ 168.750	\$ (8.250)	-4.7%	\$ 171.224	-1.4%	\$ (2.474)
Interest Income	\$ 30.000	\$ 39.208	\$ 9.208	30.7%	\$ 27.776	41.2%	\$ 11.432
Lottery Transfers	\$ 65.000	\$ 52.323	\$ (12.677)	-19.5%	\$ 65.000	-19.5%	\$ (12.677)
All Other	\$ 124.480	\$ 214.319	\$ 89.839	72.2%	\$ 111.255	92.6%	\$ 103.064
TOTAL	\$ 4,693.640	\$ 4,494.857	\$ (198.783)	-4.2%	\$ 4,756.336	-5.5%	\$ (261.478)

* FY 2020 collections include \$23 million from Income Tax Refund Reserve Account versus \$12 million from General Fund to Reserve Fund in prior year.

Closing FY2020 General Revenue Fund COVID-19 Budget Gap

<u>Revenues</u>	<u>\$ Millions</u>
Income Tax Refund Reserve Account	\$ 23.000
Liquor License Renewal Payment Before July 1st	\$ 15.688
Additional Abandoned & Unclaimed Property Receipts	\$ 3.250
Tax Refund Double Accounting Adjustment-OASIS	\$ 4.351
CARES Fund Expenditure Reimbursement	<u>\$ 57.000</u>
Total Revenue Adjustments	<u><u>\$ 103.289</u></u>

Expenditure Authorization Adjustments <u>(Per Governor's Executive Order)</u>	<u>\$ Millions</u>
Medicaid - Substitute Reserve Funds	\$ 150.000
Mediciad - Substitute FMAP Funds*	\$ 36.000
Accounting for Expiring Funds Prior to July 31st	<u>\$ 13.000</u>
Total Expenditure Authorization Adjustments	<u><u>\$ 199.000</u></u>

Total Gap Fill Adjustments \$ 302.289

* Used \$36 million out of \$95 million received

Federal Stimulus for \$75 Billion WV Economy

Major Stimulus Items

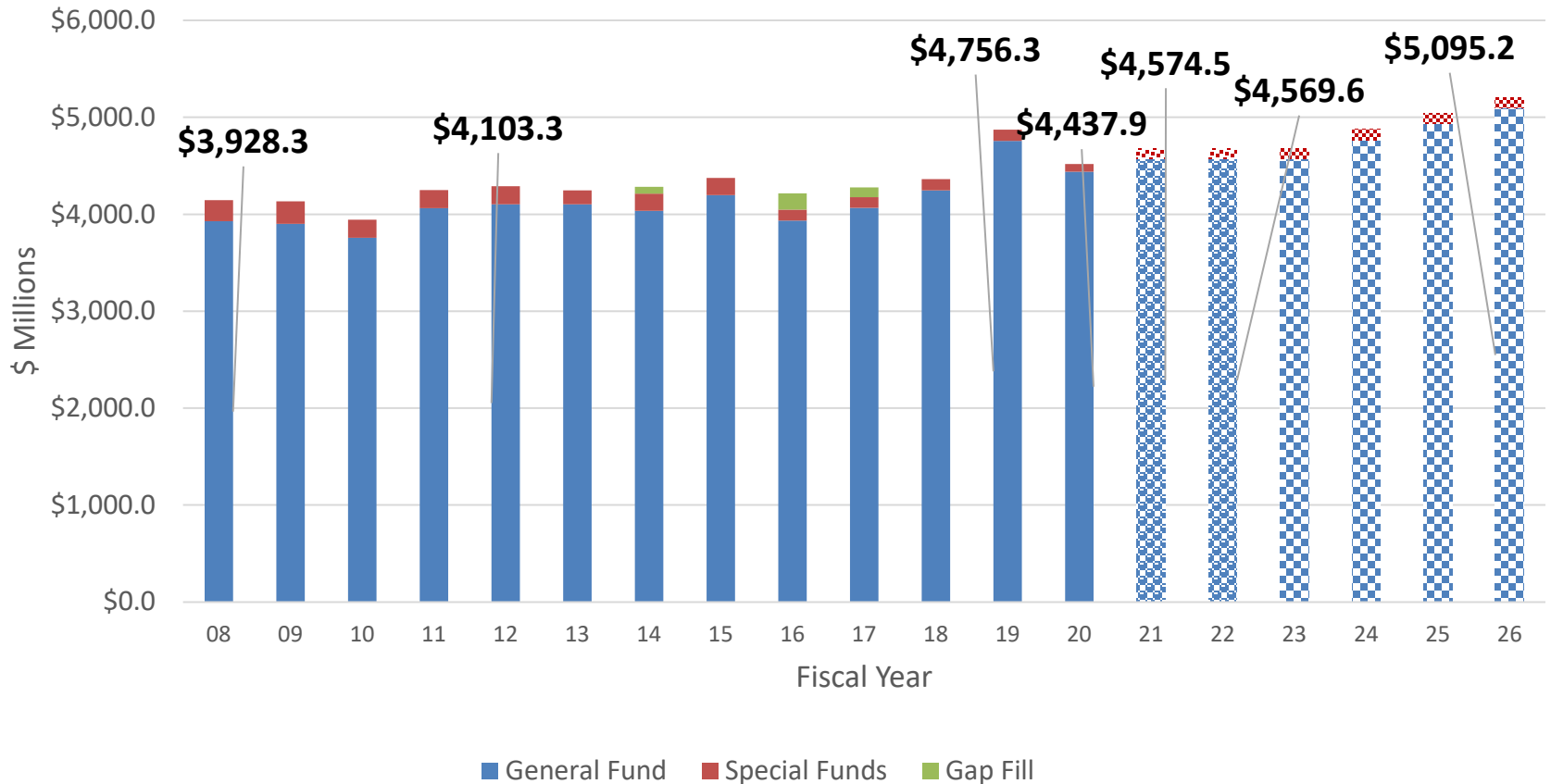
- Paycheck Protection Program (SBA): \$1.8 Billion (17,322)
 - Up to \$10 million-smaller businesses
 - Average: \$104,000 in WV
 - Forgiven if 60% used for payroll retention
 - 1% interest rate 2 years; 5 years after June 5
- Enhanced Medicaid FMAP of 6.2% \$0.05 Billion/Quarter
- Individual Stimulus Payments: \$1.7 Billion (975,000 +)
- Pandemic Emergency Unemployment (PEUC) TBD
 - Additional 13 weeks of benefits
- Federal Pandemic Unemployment (PUC) \$0.9 Billion
 - April 5th-July 31st- Extra \$600/Week
- Pandemic Unemployment Assistance (PUA) TBD
- Extra \$400 Weekly Unemployment: \$0.14 Billion
 - August 1st to mid-September
- State CARES Relief Funds: \$1.25 Billion

Total General Revenue Fund Revenues

Average Annual Growth: 0.8% 2008-2018;

Projected Average Annual Growth: 2.3% 2018-2026; 2020-2022: 1.5%

Net Collections

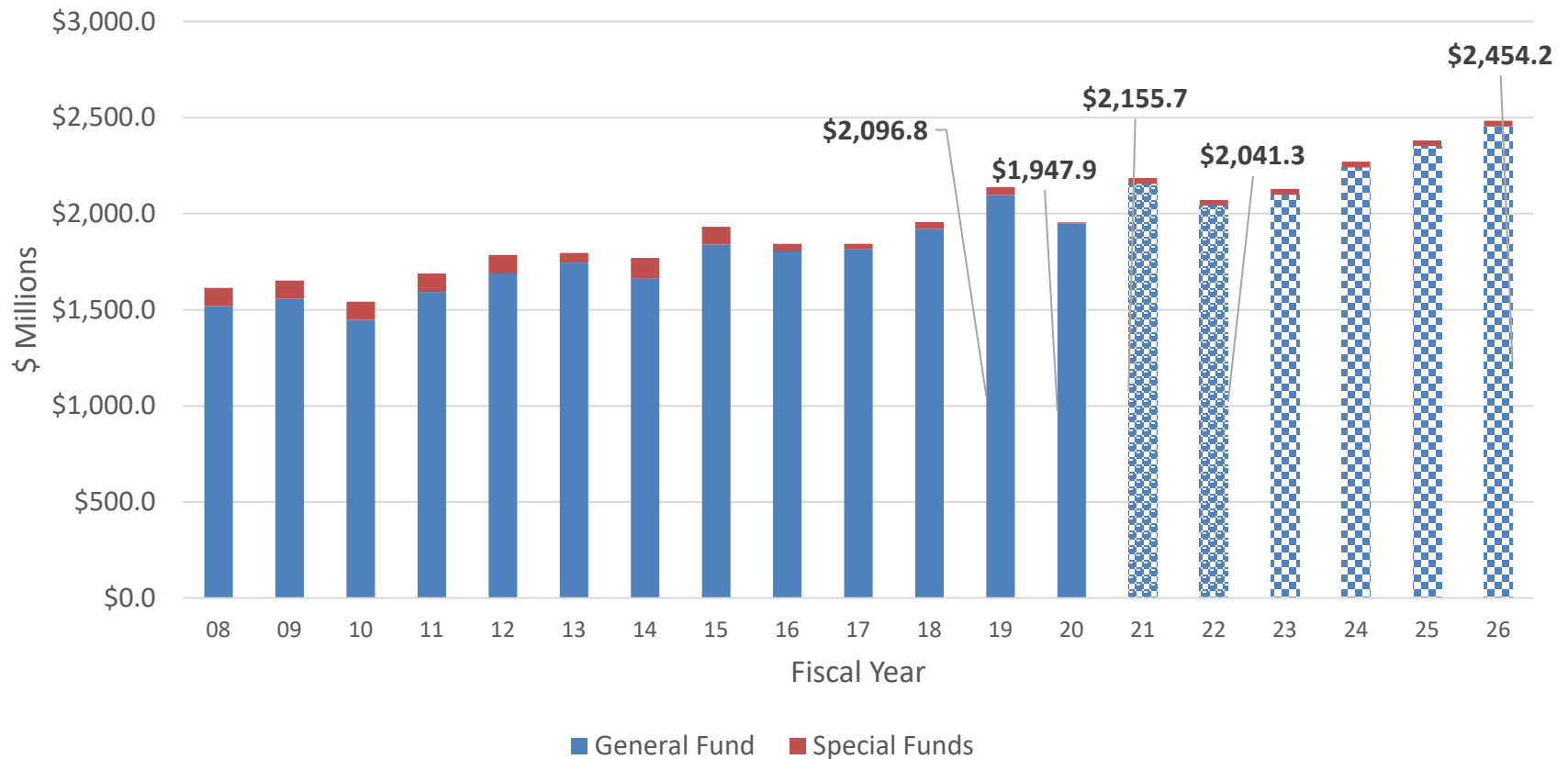


Personal Income Tax

Average Annual Growth: 1.9% 2008-2018

Projected Average Annual Growth: 3.0% 2018-2026; 2020-22: 2.9%

Personal Income Tax Collections

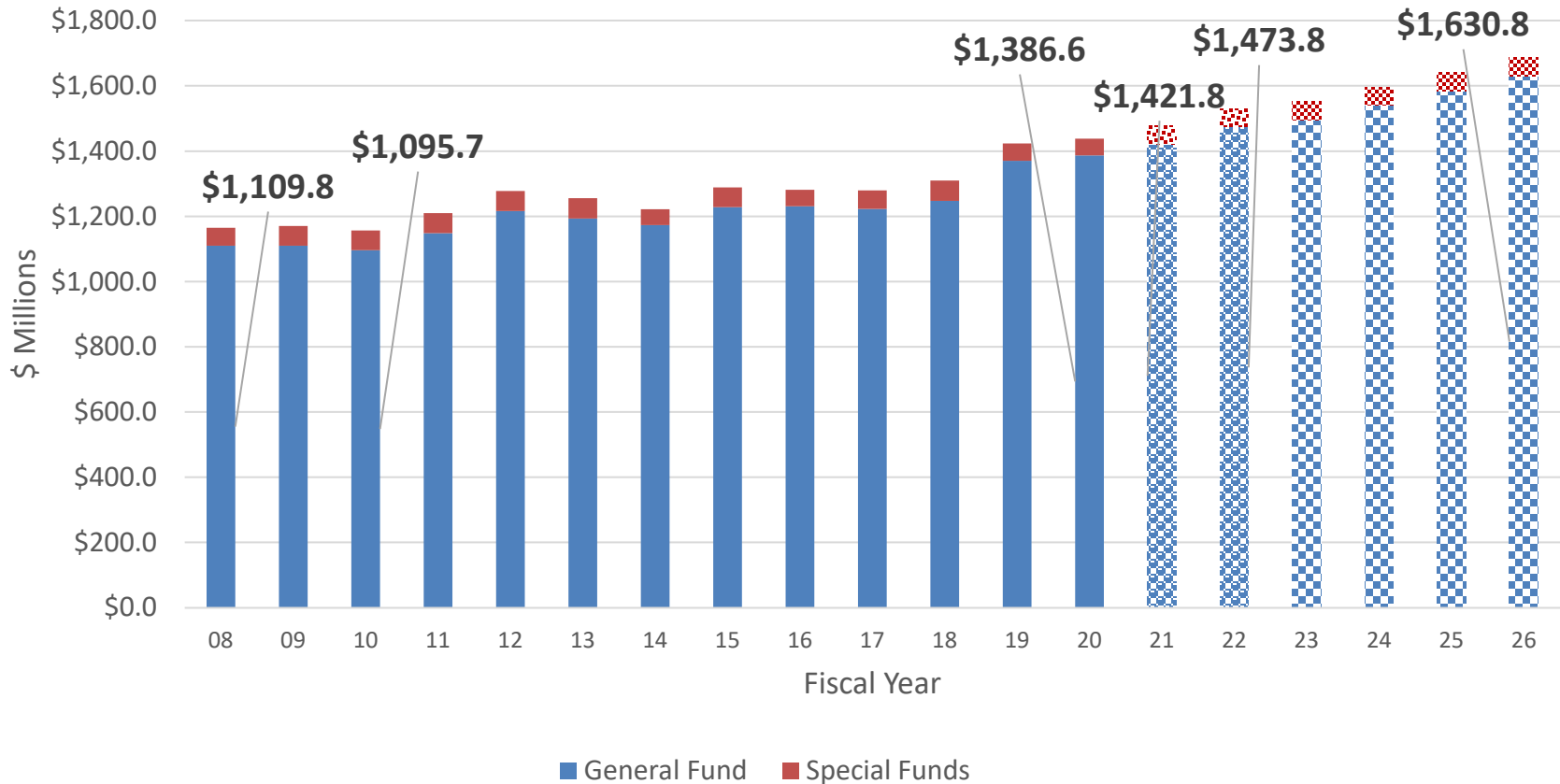


Consumer Sales and Use Tax

Average Annual Growth: 1.2% 2008-2018

Projected Average Annual Growth: 3.2% 2018-2026, 2020-22: 3.1%

Consumer Sales & Use Tax Collections

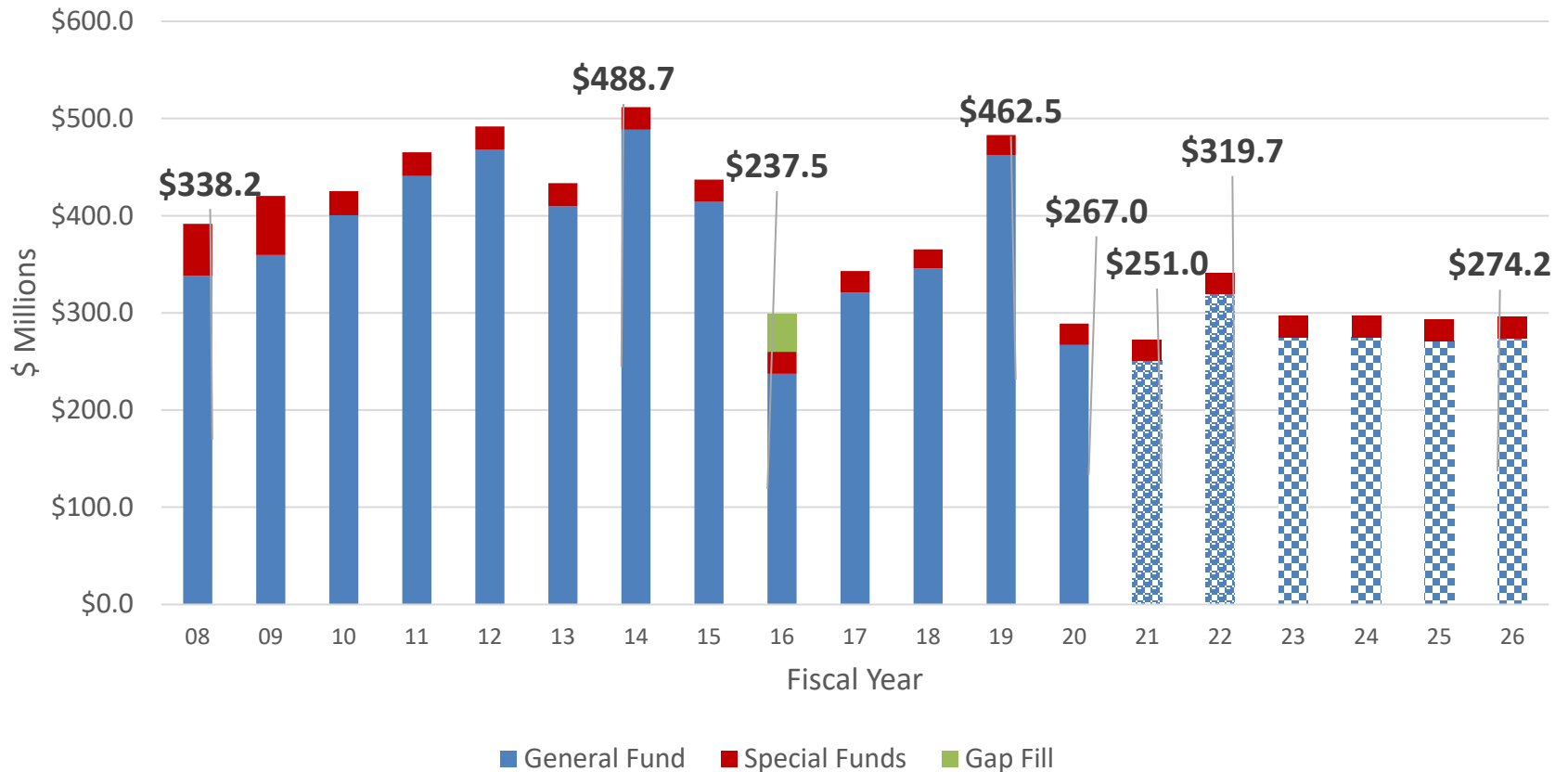


Severance Tax

Average Annual Growth: 0.2% 2008-2018

Projected Average Annual Growth: 2018-2026; -2.9%, 2020-2022: 1.3%

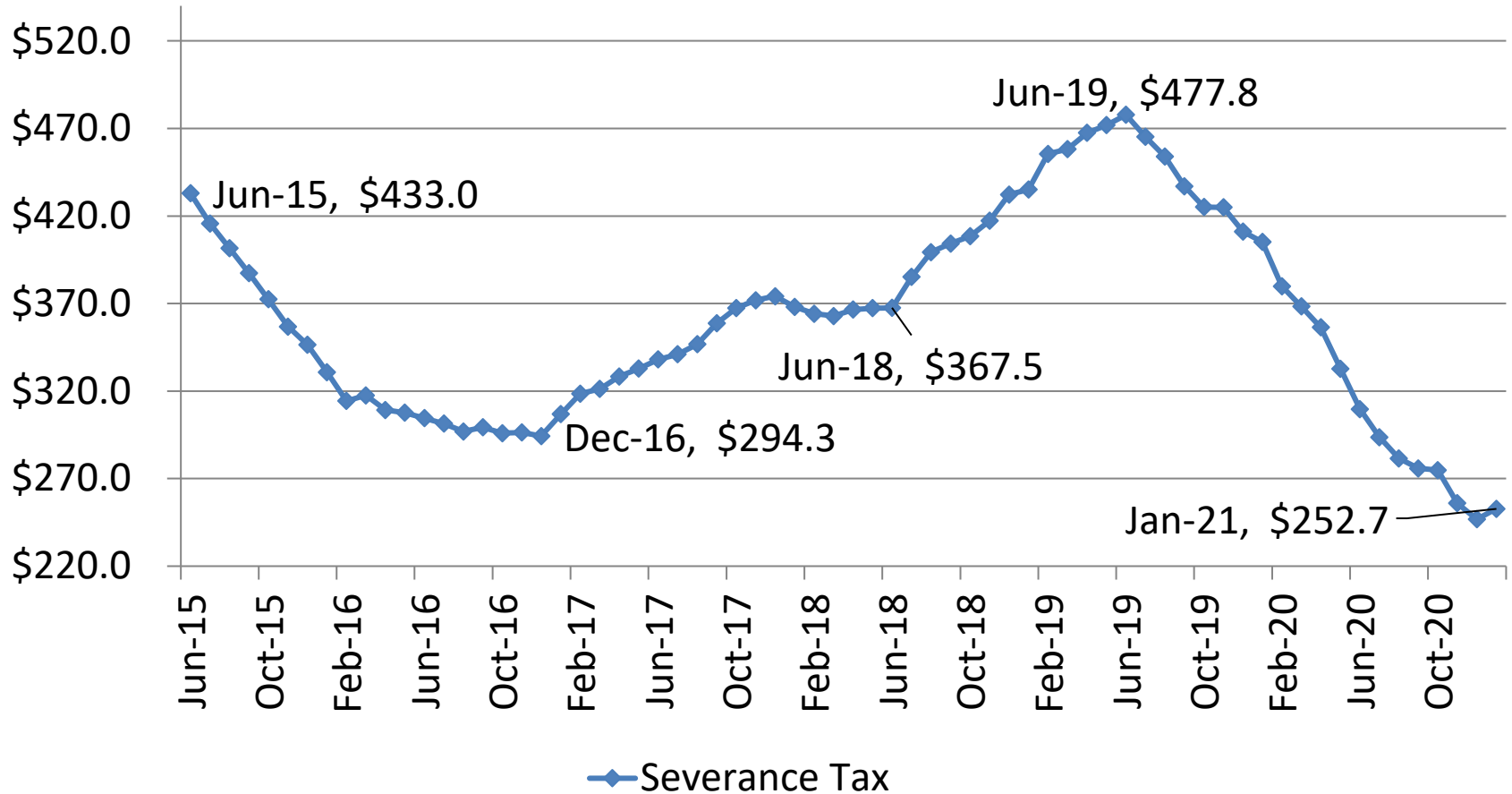
State Severance Tax Collections



Regular Severance Tax (June 2015-Present)

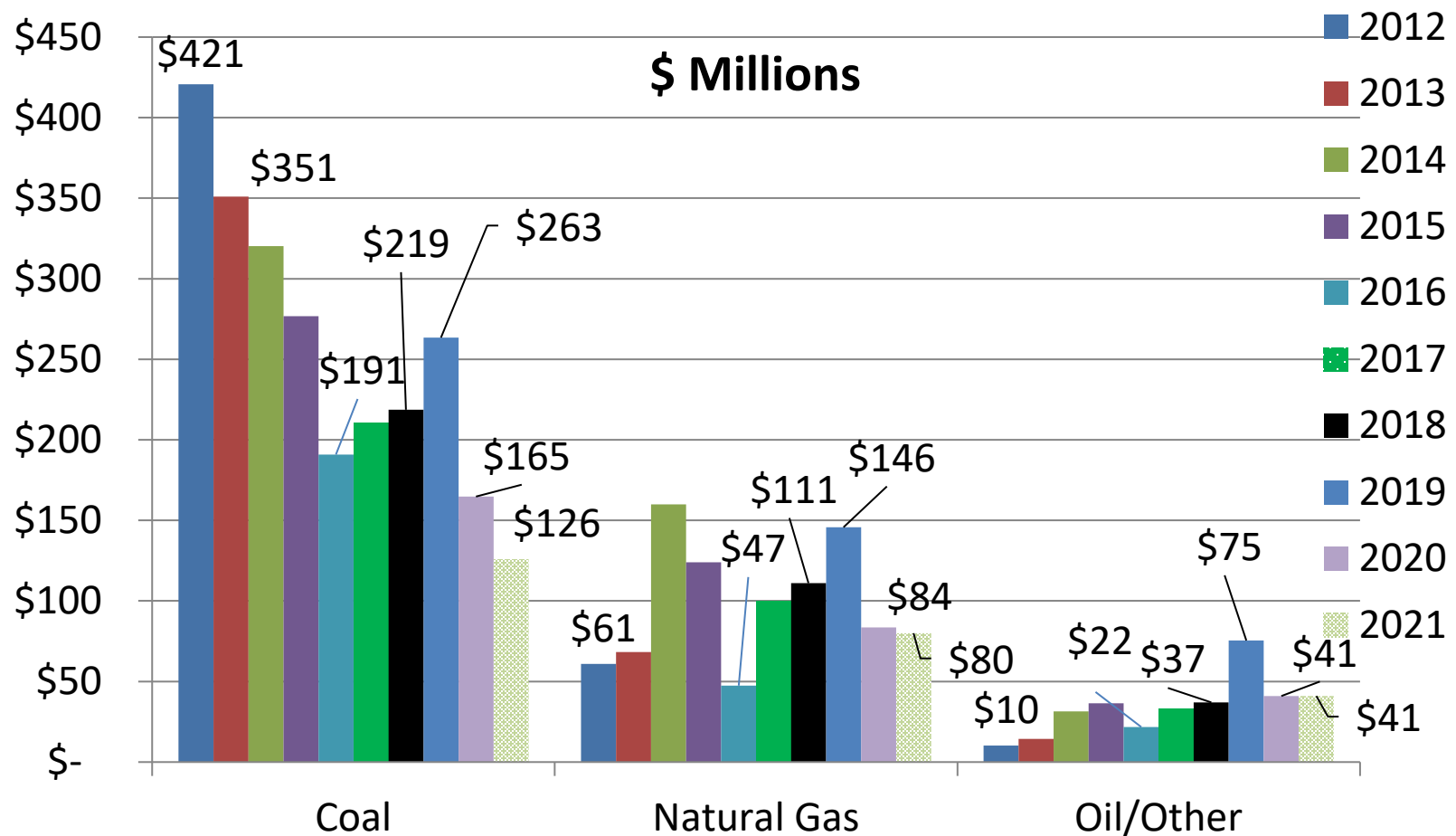
Trailing 12 Month Trend (6th of Month to 5th of Next Month)

\$ Millions



State Severance Tax Collection Trends

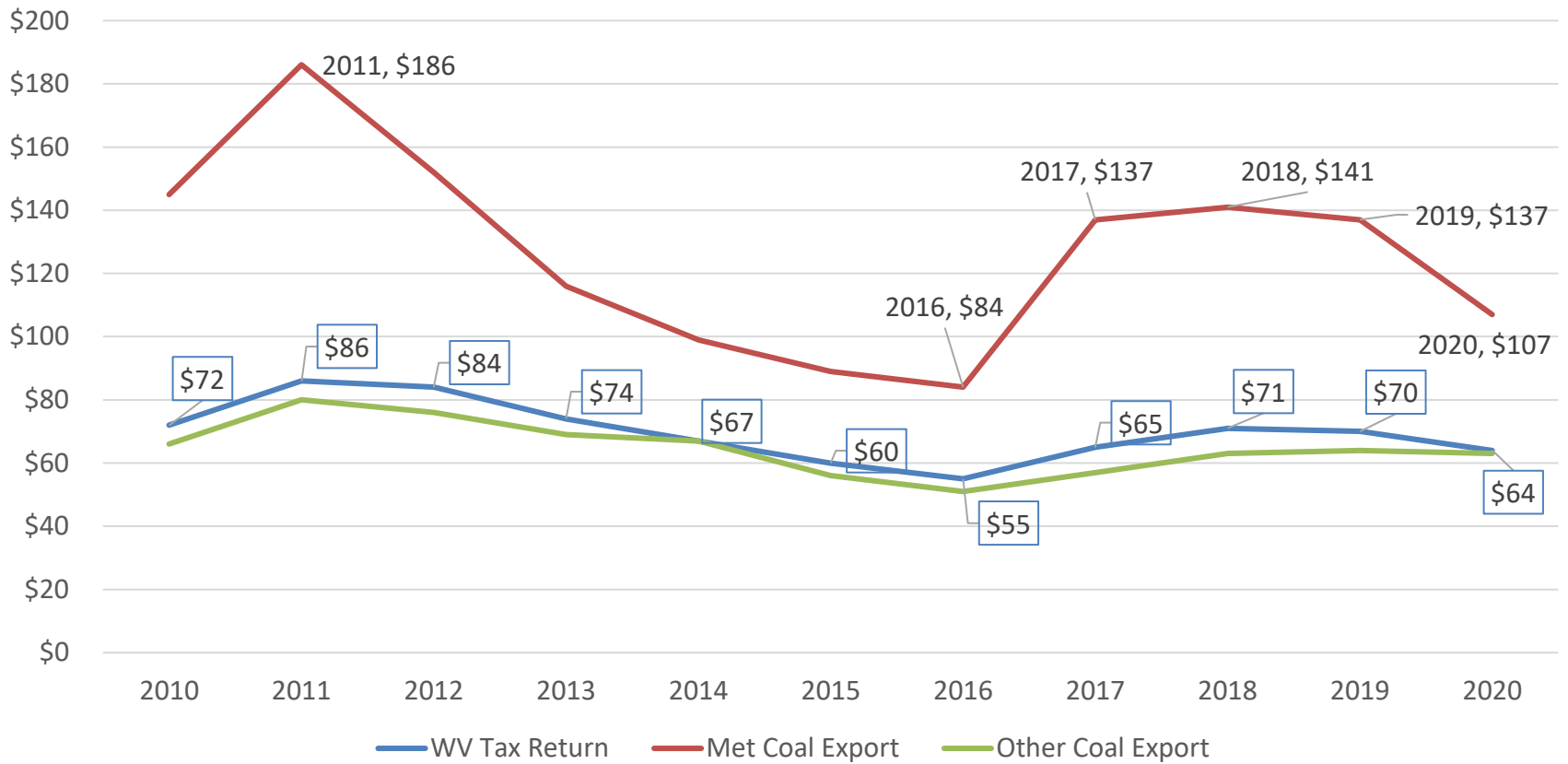
Regular Tax on Gross Receipts Net of Local Tax Distributions



Coal Price Trends 2010-2020

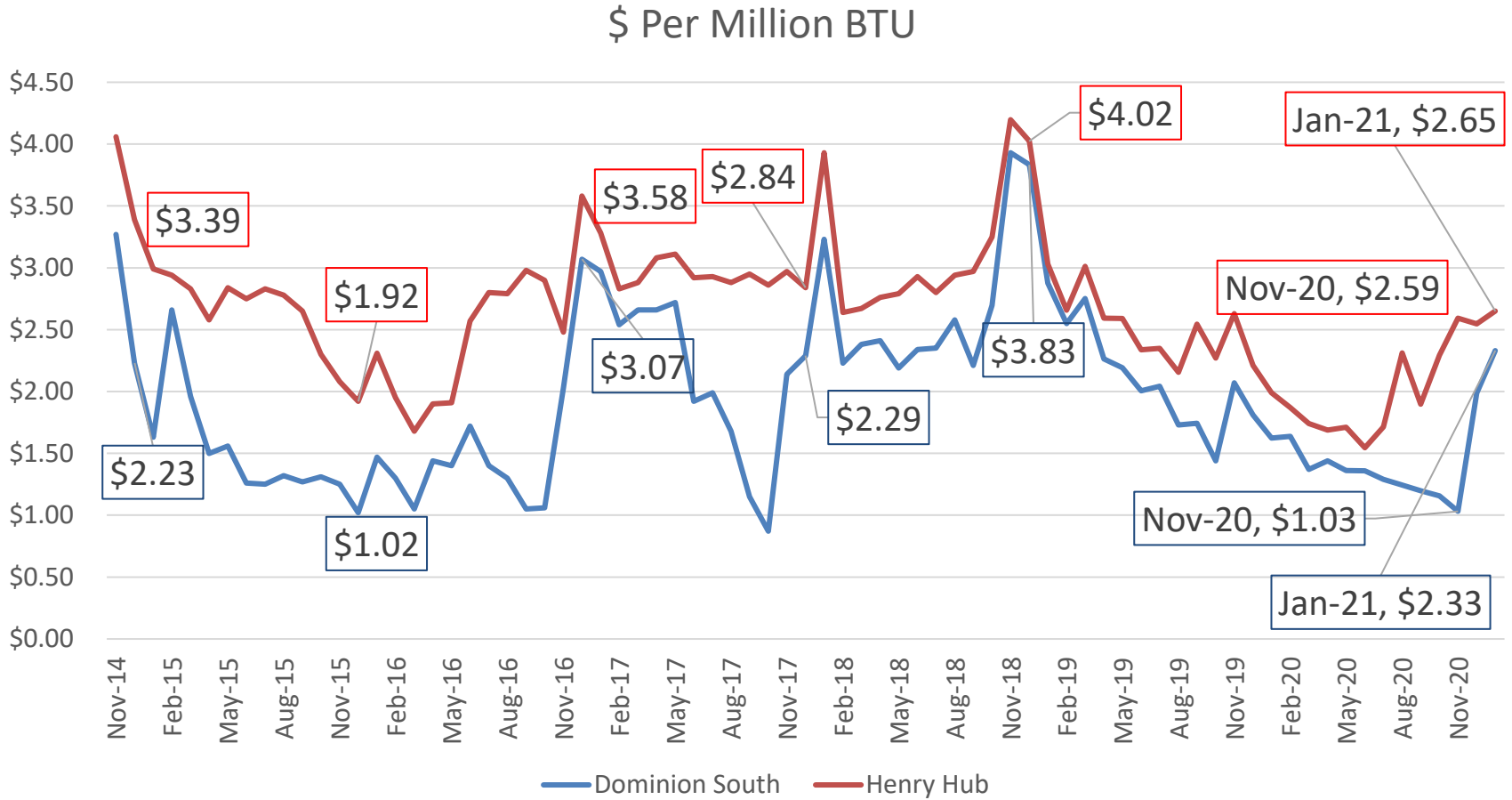
Sources: U.S. Department of Energy & West Virginia Severance Tax Returns
Export Price is based on free alongside ship value

\$ Per Short Ton



Infrastructure Investment Helps Stabilize Prices

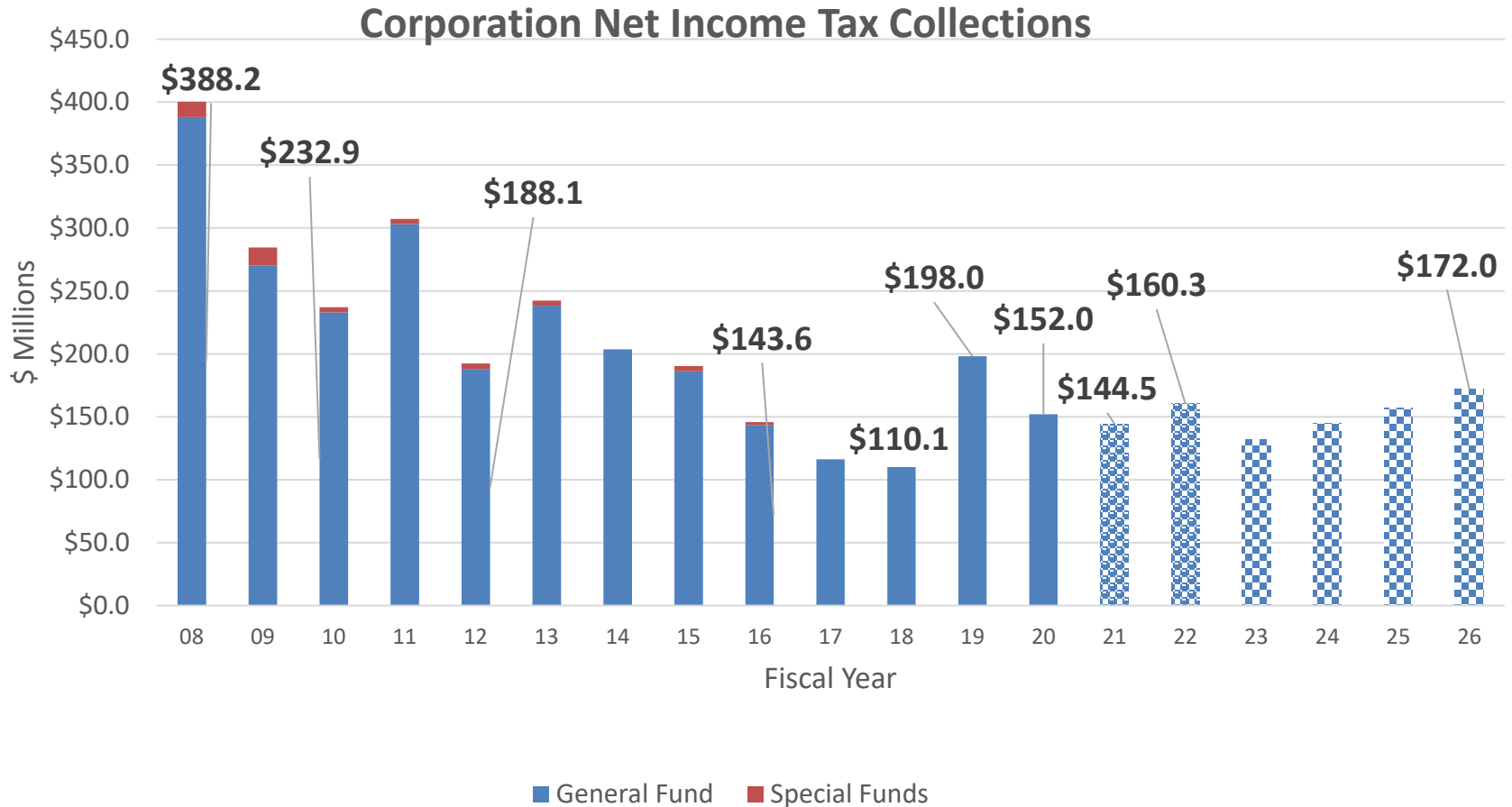
Source: Natural Gas Intelligence



Corporation Net Income Tax

Average Annual Growth: -11.8% 2008-2018

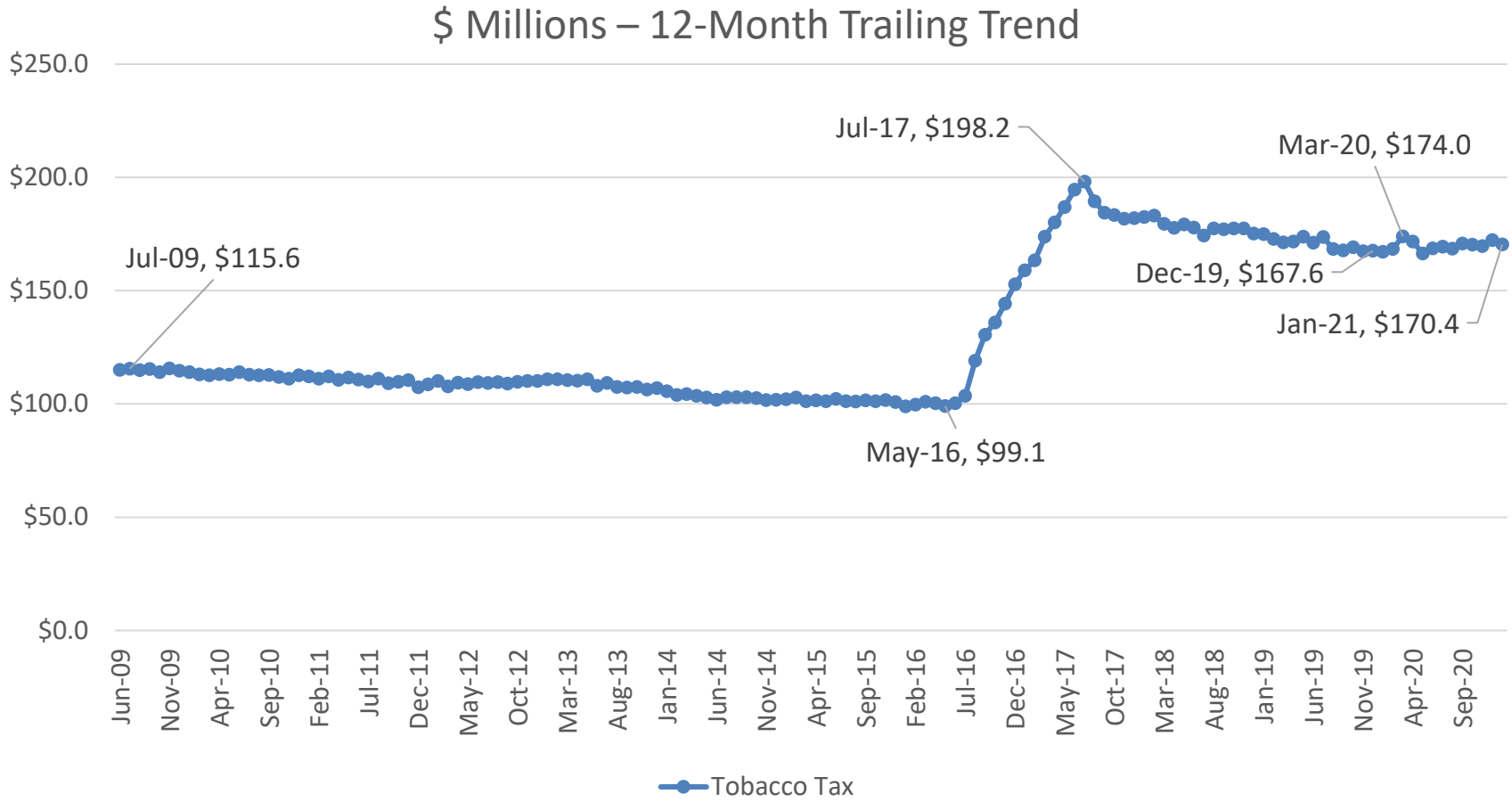
Projected Average Annual Growth: 5.7% 2018-2026



Tobacco Products Tax Collection Trends

2008-2016: -1.7%/Year;

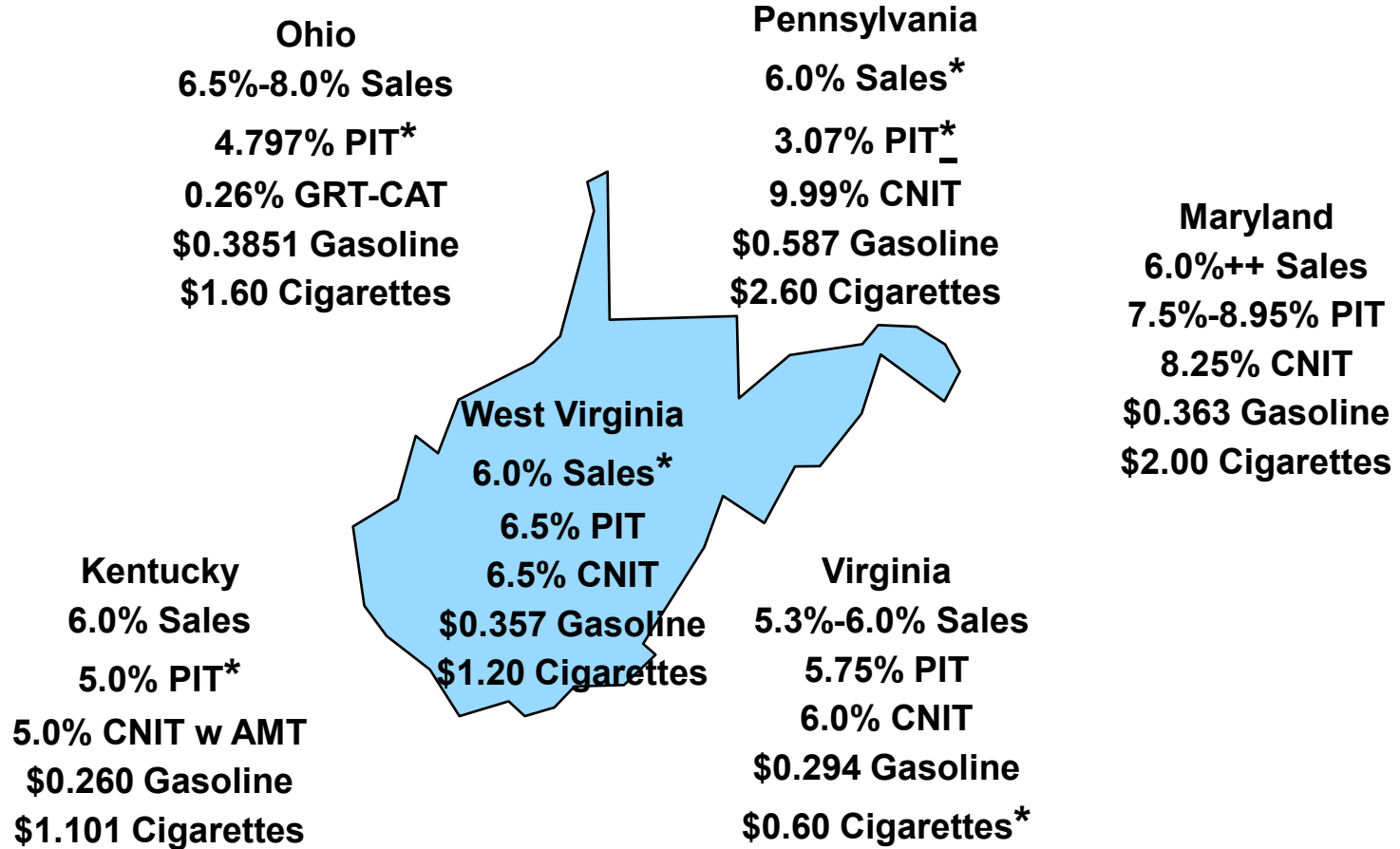
Rate from \$0.55 to \$1.20 as of July 1, 2016; OTP from 7% to 12%



COMPARATIVE TAX RATES

As of January 1, 2021

* Additional local taxes may apply



FY2020-2021 General Revenue Fund as of January, 2021

COMPONENT	\$ Millions	\$ Millions	\$ Millions	\$ Millions	\$ Millions	
	FY20-21	ACTUAL	YTD	ACTUAL	CHANGE	
	ESTIMATE	FY20-21	DIFFERENCE	FY19-20	PERCENT	CHANGE
Consumer Sales Tax	\$ 827.400	\$ 853.539	\$ 26.139	\$ 811.536	5.2%	\$ 42.003
Personal Income Tax	\$ 1,257.700	\$ 1,319.089	\$ 61.389	\$ 1,195.808	10.3%	\$ 123.281
Business & Occupation Tax	\$ 71.300	\$ 66.037	\$ (5.263)	\$ 76.677	-13.9%	\$ (10.640)
Severance Tax	\$ 98.800	\$ 98.851	\$ 0.051	\$ 156.422	-36.8%	\$ (57.571)
Corporate Taxes	\$ 92.000	\$ 171.045	\$ 79.045	\$ 108.573	57.5%	\$ 62.472
Insurance Premium Tax	\$ 62.200	\$ 58.438	\$ (3.762)	\$ 60.994	-4.2%	\$ (2.556)
Tobacco Products Tax	\$ 93.600	\$ 100.340	\$ 6.740	\$ 98.660	1.7%	\$ 1.681
Interest Income	\$ 8.400	\$ 7.454	\$ (0.946)	\$ 27.159	-72.6%	\$ (19.705)
Lottery Transfers	\$ 15.188	\$ 31.257	\$ 16.069	\$ 31.238	0.1%	\$ 0.020
All Other	\$ 63.794	\$ 58.109	\$ (5.685)	\$ 74.008	-21.5%	\$ (15.900)
TOTAL	\$ 2,590.382	\$ 2,764.159	\$ 173.777	\$ 2,641.075	4.7%	\$ 123.084

FY2020-2021 State Road Fund as of January 31, 2021

COMPONENT	\$ Millions	\$ Millions	\$ Millions	\$ Millions	\$ Millions	
	FY19-20	ACTUAL	YTD	ACTUAL	CHANGE	
	ESTIMATE	FY19-20	DIFFERENCE	FY18-19	PERCENT	CHANGE
Motor Fuel Excise Tax	\$ 245.600	\$ 228.057	\$ (17.543)	\$ 276.272	-17.5%	\$ (48.214)
Registration Fees	\$ 92.826	\$ 79.805	\$ (13.021)	\$ 72.245	10.5%	\$ 7.560
Sales (Privilege) Tax	\$ 134.943	\$ 167.736	\$ 32.793	\$ 165.967	1.1%	\$ 1.769
Highway Litter Control	\$ 0.910	\$ 1.156	\$ 0.246	\$ 0.954	21.2%	\$ 0.202
Miscellaneous	\$ 23.963	\$ 70.858	\$ 46.895	\$ 21.964	222.6%	\$ 48.894
TOTAL	\$ 498.242	\$ 547.612	\$ 49.370	\$ 537.401	1.9%	\$ 10.211

FY2022 Forecast Versus Official FY2021 Estimates

Forecast of 0.1% Decline

\$ Millions

<u>Tax Source</u>	<u>FY2021</u>	<u>FY2022</u>	<u>Change</u>
Personal Income:	\$2,155.650	2,041.300	(114.350)
Sales & Use:	1,421.800	1,473.800	52.000
Severance:	250.950	319.700	68.750
Corp Income:	144.500	160.300	15.800
B&O:	126.900	111.000	(15.900)
Tobacco Excise:	155.400	164.600	9.200
Insurance Premium:	131.300	126.600	(4.700)
Lottery-GRF:	65.000	65.000	0
All Other:	123.014	107.316	(15.698)
<i>Total General</i>	<i>\$4,574.514</i>	<i>\$4,569.616</i>	<i>(\$ 4.898)</i>

Fiscal Outlook Summary

- National economy continues to rebound with full recovery by late 2022
- Tax revenues benefit from \$200 million income tax deferrals in FY 2021
- Revenues to remain flat at best in FY2022
- Natural gas energy production levels off & prices improve in short-term
- Coal production bounces back from 65 million short-ton level to near 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

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Questions?