



JOINT COMMITTEE ON GOVERNMENT AND FINANCE

MARCH 2022

AGENDA
JOINT COMMITTEE ON GOVERNMENT AND FINANCE
March 11, 2022

2:00 p.m. – 3:00 p.m.

Senate Finance Room

- 1. Approval of January 11, 2022, minutes:**
- 2. Other Business**
- 3. Adjournment**

JOINT COMMITTEE ON GOVERNMENT AND FINANCE

(Speaker Hanshaw)

January 11, 2022

4:00 p.m. – 5:00 p.m.

Senate	House
Blair, Chair	Hanshaw, Chair
Baldwin (absent)	Boggs
Plymale	Capito (absent)
Takubo (absent)	Householder (absent)
Tarr	Howell
Trump	Skaff
Weld	Summers

Speaker Hanshaw: “All right, good afternoon all let’s go ahead and call this meeting to order. It appears to the chair we do have a quorum present. Let’s first turn to the minutes of the December 6th, 2021, meeting. Those minutes are in all the meeting packets distributed to the members. Please take a moment and look at those draft minutes. Are there questions from any members about the draft minutes? If not, chair recognizes the President.”

President Blair: “...approve the minutes from December the 6th, 2021.”

Speaker Hanshaw: “The question is on President Blair’s motion that the draft minutes of the December 6, 2021, meeting of the Joint Committee be approved. Is there discussion on the motion? If not, those in favor of the motion will please say aye, those

opposed please say no. The ayes have it, that motion is adopted, the draft minutes are approved as distributed.

Let's move in now to our monthly and quarterly reports. Secretary Carmichael is unavailable today and will not be with us for the broadband update. Let's then, first...we'll begin with lottery today."

Director Myers: "Good evening, Mr. Speaker, Mr. President, members of the committee. We have sent the financials for the month of November to the committee, they should be in your packets. If there are any questions on those, I'd be glad to answer them, but I did want to run through just a few of the sales results for lottery in the last...or fiscal year to date and the instant ticket sales this year are running \$10 million dollars ahead of last year which is about 13%. Our Powerball sales with the recent Powerball Jackpot, we actually had a \$1.4 million dollar week last week with that large jackpot. Our total draw games for this year are running ahead of last year by 17.1% or \$5.7 million dollars ahead of the previous year. So total traditional lottery is up \$15.8 million dollars this year. Racetrack video lottery is up 20, almost 24%, that's \$46.3 million dollars. They again have not reached pre-pandemic levels; they are running though only about \$2.4 million dollars behind the average for the year. So, that's better condition than we've had there in quite some time. Limited video lottery is up 10.45% over the previous year, up \$23.2 million at \$245.9 million. The sports wagering is up \$370,000 over the previous year, 17% above that at \$2.65 million. The iGaming revenues are...really not much comparison...they're up about \$4 million dollars over the previous year at \$5.5 million but we didn't have a full year of iGaming in that previous year so...but it is running ahead of sports wagering so it's really been a little better product than we expected. So, total revenues for lottery this

year we're running at \$96.6 million in sales ahead of last year which is 17.62% and that is at \$645.3 million dollars. Are there any questions?"

Speaker Hanshaw: "Thank you, Mr. Myers. Questions from any of the members about the lottery report? Delegate Howell."

Delegate Howell: "Thank you for being here. When you say ahead of last year, you're talking about calendar year or are we talking about fiscal year, so we're talking six months?"

Director Myers: "That is fiscal year, year to date. Both years, through January 1st, that'd be July 1st through January 1st both years."

Delegate Howell: "Okay, thank you."

Speaker Hanshaw: "Others? Okay if not, Mr. Myers thank you very much."

Director Myers: "Thank you."

Speaker Hanshaw: "Mr. Muchow."

Secretary Muchow: "Good afternoon, I'm Mark Muchow, Department of Revenue and hopefully you have the December numbers in front of you. December, General Revenue Fund collections total \$506.8 million dollars, the estimate was \$382.4, that was \$124.4 million above estimate but what was really impressive is compared to last year we were up 32.6%. That's getting into record growth territory there. In terms of the individual components for the month of December, the severance tax was 300% higher than last year. Strong performance, particularly in metallurgical coal, the price of metallurgical coal in the last quarter, fourth quarter, went up significantly. Several companies are getting

well over \$200 a ton...that's beginning to retreat a little bit. Natural gas prices, up a good bit of the fall, that's...natural gas prices have retreated recently...cold spell, see if it lasts...the cold spell sometimes will pull those prices back up again but up significantly from last year. 300% increase on the severance tax, year to date severance tax collections are 264% ahead of last year that's \$184 million dollars of extra revenue. We collected as much in six months as we've almost collected all of last fiscal year, that's how fast that's grew. Amazing.

The other taxes of interest and basically there's four taxes that account for all the growth and the revenues and surplus and severance is one of them. Another one would be sales tax, sales tax collections were close to \$154 million in December, the estimate was \$133.9, 18.1% ahead of last year. So, probably some inflation in the economy, certainly a lot of extra spending in the economy. Year to date, we exceed estimate by \$65.4 million and we're 9% ahead of last year. We're seeing upward momentum on the tax collection front that has continued and is probably going to continue at least through January. Personal income tax collections in December, \$181.8 million, estimate was \$155 million, that was \$26.8 million above estimate, 13.9% ahead of last year. Year to date, collections are running \$117.4 million ahead of estimate. Technically, we're 4.3% below last year but last year we got \$144 million dollars in July that wasn't there this year. If you adjust for that, we're up 9% on personal income tax year to date. So, personal income and sales tax both, for the first six months of the year up about 9% compared to last year. Strong withholding growth, up 9.3, payroll employment numbers are running close to 3% ahead of last year as we continue to recover in terms of payroll employment. Probably the star of all the taxes...other than the severance tax...is the corporate income tax. We

collected \$79.1 million in December, the estimate was 28, we're up by \$51 million dollars, 96% ahead of last year...and to put the December number in perspective...\$79 million dollars...about three or four years ago our total collections for an entire fiscal year were \$110 million, we collected 79 in one month. Year to date, we've collected \$172.9 million, that's \$94.7 million above estimates, 8.7% ahead of last year but last year we got about \$56 million at the beginning of the year, when you take that into account, we're up 50-60% over last year, really strong growth on the corporate side. The corporate tax growth phenomenon is across the country, it's not just here, of course mostly multi-state corporations pay that. So, very strong performance, those four sources of revenue. Severance, sales, personal income, and corporate income account for virtually all the surplus and virtually all the revenue growth in the General Revenue Fund year to date.

Moving to the State Road Fund, State Road Fund collections...the grand total including federal reimbursements \$116 a half-million in December, the estimate was \$108.9, we were 9.3% ahead of last year, and about \$7.6 million ahead of estimate. Year to date we've collected \$708.2 million, the estimate is \$758.8, that's \$50.5 million below estimate but that's below estimate only because Highways likes to have a very high estimate for federal reimbursements, I guess if money ever shows up. Compared to last year collections are up 6.6% or \$43.6 million. All that's the federal reimbursements, federal reimbursements are up 52.7% or \$91.7 million dollars compared to last year but we're still \$38.1 million technically below the estimate. Motor Fuel Tax continues to recover, in December we were a little bit below estimate by about \$1.8 million but the last day of December was a holiday for state employees, not a holiday for banking...so any fuel tax money that was due on the last day of December came in in January so I wouldn't

worry so much about the December Motor Fuel Tax. Year to date Motor Fuel Tax collections are running above estimate by about \$660,000 dollars or 6% ahead of last year. That's the recovery, more folks are driving or beginning to get back to normal on the fuel. Motor Vehicle Sales Tax continues to do well, in December we were 18.6% ahead of last year, \$6.9 million, year to date \$27.3 million ahead of estimate and 5.8% ahead of last year. It's not so much the number of vehicles, it's the price of vehicles that's driving the Motor Vehicle Sales tax receipts. Registration Fees are the one downer, registration fees in December were only \$5.3 million, we were below last year by 44 and a half percent, year to date \$61.8 million, \$17.3 million below estimate and pretty close to 11% below last year. So, we still have a little bit of catchup to do on registration and DMV related fees. That's what I have to offer for the month, if you have any questions."

Speaker Hanshaw: "Okay, questions of Mr. Muchow? Going once, going twice...okay Mark, we thank you."

Secretary Muchow: "Thank you."

Speaker Hanshaw: "Let's take the Workforce West Virginia Unemployment Compensation Report now."

Director McCauley: "Good evening, Chris McCauley, Director of Unemployment. Mr. Speaker, Mr. President, members of committee you have...I provided November's information but I want to give you where we are as of today and the Trust Fund balance as of today is \$304,889,505.73. That leads me to give an update, we're about a month out from the February 15th date of where that reduction can happen if it stays above the \$220 million. Unless something major happens, I don't anticipate that changing. So, we

are in preparation now of looking at programming, letters to employers, to prepare for that so when our charging statements go out in April it will depict the drop from \$12,000 to 8...to \$9,000 excuse me, 25%. So, we're working on that right now and hopefully it will stay at that so...questions?"

Speaker Hanshaw: "Questions of any member? Okay."

Director McCauley: "Thank you."

Speaker Hanshaw: "Thank you, very much. All right, let's take the PEIA, BRIM, and Real Estate Report now. Mr. Secretary, good evening."

Secretary Scott: "Good evening, how are you all doing this evening?"

Speaker Hanshaw: "Very well."

Secretary Scott: "Good, so you have before you the reports for BRIM, PEIA, and Real Estate Division. You'll notice that year to date for BRIM and PEIA, that we have continued to receive claim pressure, our claims are up but also you can see that our investment returns are down as well which is a trend across the industry. In addition, we have ten new leasing changes that are in the Real Estate Division Report. So, do you all have any questions?"

Speaker Hanshaw: "Okay, questions of the PEIA, BRIM, or Real Estate Report for Secretary Scott? Okay Mark, thank you very much."

Secretary Scott: "All right, thank you very much."

Speaker Hanshaw: "All right, DHHR."

Commissioner Beane: “Mr. Speaker, Mr. President, Cindy Beane, Commissioner, Bureau for Medical Services standing in for Deputy Secretary Jeremiah Samples who I’m happy to report is home with the birth of a new baby and mamma and baby are doing well. You have your reports before you. Medicaid, our enrollment for January is up to a little over 621,000 and we’re projecting a fiscal year surplus of \$279 million. Are there any questions?”

Speaker Hanshaw: “Okay, let’s take that one first, let’s take the Medicaid Report first. Questions from any member about the Medicaid Report? Okay, if not we’ll move on to the CHIP Report. Okay Cindy, thank you very much.”

Commissioner Beane: “Thank you.”

Speaker Hanshaw: “Mr. Slaughter.”

Director Slaughter: “Afternoon, ladies and gentlemen. Should have the November performance report with you and keeping with the theme of the year, which is up one month down the next, this reflects the same thing. November, we’re down 0.6%, fiscal year to date we’re up 1.4, 20 years 8.3, those...of course 20-year number sounds great. I can tell you December was up, keeping with the same theme so we’re probably up around two, two and a half percent and that gives us halfway through the year we’re somewhere in the three and a half, four percent range...which given last year’s return seems...I’m pretty happy with that.

As far as the portfolio is concerned, we’re a little overweight to international at present. That’s due to one, relative valuations, two, tech, which is one of the most highly valued or I mean...from a return or valuation standpoint is so probably overvalued it’s

international, it's low tax, so that tends to be...if there's going to be a rotation...which we think their might be with the normalization out of the pandemic, international may benefit and so that we have a little bit of overweight there. Given the inflationary pressures, we've had a flow duration for quite a long time at fixed income and we'll continue to do that going forward. Be happy to take questions."

Speaker Hanshaw: "Okay, questions of Mr. Slaughter on the IMB Report? Delegate Summers...you're on."

Delegate Summers: "Thank you for being here. The question I have had to do with the letter that went out from the Consumer Research Group, and I don't know if you saw that it was on December 2nd and it came out and it was addressed to ten different governors, Governor Justice being one of those and it was issuing a warning to us that a lot of our pension funds are invested with the Black Rock Investment Firm. Can you talk about that?"

Director Slaughter: "Well...first of all, we do have money with Black Rock but it's an S&P 500 Index Fund, which I understand their concern with Black Rock is...it's been awhile since I read that letter so I'm not sure if I remember exactly what's in it but I think it had, didn't it have something to do with their Chinese...their support of China and so forth? So, yeah it's...the S&P 500 doesn't have any China exposure in that respect so..."

Delegate Summers: "So, you feel comfortable with us being involved with Black Rock with our State Pensions?"

Director Slaughter: "I do—"

Delegate Summers: "Okay."

Director Slaughter. “—I do, it’s...it’s I don’t know, I consider the CEO’s statements about China to be just...I take them with a huge grain of salt about...he’s a CEO trying to sell his fund and he’s got to sell it to a lot of different people. So, he’s got to say things that people...that a lot of different people are going to take comfort with and some...you can’t always be everything to everybody.”

Delegate Summers: “Okay, if you feel good, I feel good. Okay.”

Speaker Hanshaw: “Questions of Mr. Slaughter about the IMB Report? Yes, Senator Plymale.”

Senator Plymale: “Thank you. Craig, if you all start looking forward, you know...we have the actuarial analysis that we...what we have to gain at seven and a half percent. What’s your all’s look where we start looking at the end of the fiscal year where we might be?”

Director Slaughter: “Um...asking me to look out into the future...”

Senator Plymale: “Well but you’re six months into it. You said we’re at three and a half I think.”

Director Slaughter: “Yeah, well yes...six months into it we’re probably...we’re approximately three and half, maybe four percent if we’re lucky. We haven’t valued December yet...so that...I mean that suggests that if we can continue at that same pace, we would make...I think we would make our...the bogey...because now the assumed rate of return is now 7%. The CPRB lowered it this past year, it’s no longer seven and a half. So, we’re...that’s good progress towards that goal and I think there’s a...you know predicting future is you know...fraught with dangers I guess but—”

Senator Plymale: “Well but I mean when we’re looking at average, you’re saying your average over 20 years is 8.3 but if you look at over the last few years...you know we did have one year that was pretty...not very good. So, where...in terms of this you do have some forecasting I mean I know that you have people that forecast where you think you might be.”

Director Slaughter: “Well we don’t...we don’t forecast short term that precisely. We really...you got to remember the thing about the short term is that’s the least...the most difficult to actually forecast...what’s going to happen in a short term. In a long term, we do have...we feel pretty confident about 7%. I can tell you what I think is most likely to happen, although when I say most likely it’s at best a 50% chance.”

Senator Plymale: “Well I understand this is a...sort of a forecast that could not happen, I understand that.”

Director Slaughter: “Yeah but you know the...I think there’s a reasonable chance that stocks hold up. I don’t really have this expectation that we’re going to have a...a fall, or a drawdown in stocks but you know fixed income is not going to do very well. I mean with rising...interest rates are probably going to rise, people are expecting them to rise, they’re...if you look at the—”

Senator Plymale: “Yeah.”

Director Slaughter: “—bond market’s rising and rising interest rates are horrible for fixed incomes so you can expect maybe a zero return there. So that’s part of the portfolio that’s not going to do anything...but again there’s so much money on the sidelines ready to be spent if the pandemic wains, which it seems to me like it is.

It's...we're you know, normalizing...the virus itself is kind of becoming a little more...a little tamer, which allows the economies around the world to become a little more open, get back to normal and so economic activity can normalize and if it normalizes then that's....it just allows you know...GDP, economic growth to continue and with so much money on the sidelines there's a good chance that things will keep going. Now, I don't expect huge returns out of stocks this coming year. You know, I think single digit returns are probably the expectation at best and that might be enough to get us there because we got a lot of other things, our private equity, private credit, hedge funds, they can...they are likely to do better...they'll, they should...the hedge funds and private equity...or not hedge...private equity should perform better than equity. The hedge funds and private credit in real estate should produce returns somewhere in between fixed income and equity so..."

Senator Plymale: "So, how long...how many years now has it been since the West Virginia legislature started the Investment Management Board?"

Director Slaughter: "It started in 1997."

Senator Plymale: "Ninety-seven. So, pretty good track record from where you've...you know where it was before. Thank you."

Director Slaughter: "And I want to thank you for your role in getting that done because—"

Senator Plymale: "Well..."

Director Slaughter: "—I know you're one of the principal parties in—"

Senator Plymale: “Believe me I can see where we would be right now if we hadn’t done that. We would have...we would have you know defaulted on pension; we’d been in the same shape Kentucky’s in right now with their pensions.”

Director Slaughter: “Yeah, could be yeah.”

Senator Plymale: “Thank you.”

Speaker Hanshaw: “What year was that Senator?”

Senator Plymale: “...(inaudible)...just because I...you’re not going to tell me what grade you were in. What grade were you in in ninety-seven?”

Speaker Hanshaw: “I was not in the legislature.”

Director Slaughter: “I can’t remember him when he wasn’t here.”

Senator Plymale: “I knew where you was going with that.”

Speaker Hanshaw: “Further questions about the IMB report? Okay Craig, we thank you very much.”

Director Slaughter: “Thank you.”

Speaker Hanshaw: “All right, the Workers Compensation Report.”

Commissioner McVey: “Good afternoon, Mr. Speaker, Mr. President, members of the committee. You have our month in report for the month of November with the financials. I will tell you that all of the funds are very stable although we haven’t had as good of an investment year, it’s still been decent enough that we have all of the claims covered in each of the funds and I am here today to answer any questions you may have.”

Speaker Hanshaw: “Okay, the Workers Compensation Report. Yes, Delegate Summers.”

Delegate Summers: “Thank you, Commissioner. I don’t have a question, but could you see me after because I’m trying to send something to you and I can’t seem to get it to your email.”

Commissioner McVey: “Uh okay”

Delegate Summers: “Okay.”

Commissioner McVey: “Be happy to stick around.”

Delegate Summers: “Okay, thank you.”

Speaker Hanshaw: “Okay, other questions for the Workers Compensation Report? Okay, Commissioner thank you very much.”

Commissioner McVey: “Thank you, I appreciate it.”

Speaker Hanshaw: “Okay as usual for the benefit of the members, the Board of Treasury Investments Report is in your packet. If there’s no objection, we will forego the planned discussion about bridge utilization for broadband until a time when Secretary Carmichael can be here to field some of those questions. Oh, I’m sorry Highways is here...Mr. Secretary is that a topic you...how would the members like to proceed? Just wait? Okay, our apologies Mr. Secretary we’ll wait until a time when you and Secretary Carmichael can both be available for us at the same time.”

President Blair: “...(inaudible)...or I would have said something earlier.”

Speaker Hanshaw: “All right with that, President Blair.”

President Blair: “I move we adjourn.”

Speaker Hanshaw: “President Blair’s motion is that the committee adjourn. Those in favor will please say aye, those opposed will please say no. The motion is adopted, the committee is adjourned. Thank you all.”

2022-2023 Interim Dates

April 24-26

May 22-24 (at Morgantown/WVU)

June 12-14

July 24-26

NO August

Sept. 11-13

NO Oct.

Nov. 13-15 (at Cacapon State Park/Berkeley Springs)

Dec. 5-6

Jan. 8-10