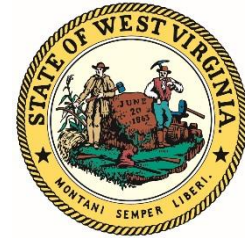


W E S T V I R G I N I A



# DEPARTMENT OF REVENUE

## Fiscal Forecast – FY 2023

DEPUTY REVENUE SECRETARY MARK B. MUCHOW

House and Senate Finance Committees

January 13, 2022

# Fiscal Summary

- Economy: Strong Rebound from 2<sup>nd</sup> 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

# U.S. Economy: IHS Forecast

IHS-Markit Baseline: November 2021

<b><u>Economic Variable</u></b>	<b><u>2021</u></b>	<b><u>2022</u></b>	<b><u>2023</u></b>
<b>Real GDP</b>	<b>5.5%</b>	<b>4.3%</b>	<b>2.9%</b>
<b>CPI</b>	<b>4.5%</b>	<b>3.3%</b>	<b>2.1%</b>
<b>Consumption</b>	<b>8.0%</b>	<b>3.4%</b>	<b>2.3%</b>
<b>Industrial Production</b>	<b>5.5%</b>	<b>4.4%</b>	<b>3.2%</b>
<b>Payroll Employment</b>	<b>2.7%</b>	<b>3.9%</b>	<b>1.9%</b>
<b>Personal Income</b>	<b>6.5%</b>	<b>1.0%</b>	<b>5.0%</b>
<b>Real Disposable Income</b>	<b>1.7%</b>	<b>-3.0%</b>	<b>2.9%</b>
<b>Domestic Corporate Profits</b>	<b>22.7%</b>	<b>-0.9%</b>	<b>0.8%</b>
<b>10-Year Treasury Note</b>	<b>1.47%</b>	<b>1.85%</b>	<b>2.25%</b>

# Federal Fiscal Belt Still Loose

Source: CBO *Monthly Budget Review*, November 2021 & U.S. Treasury & OMB

## Revenues Through November

<u>Source</u>	<u>\$ Billions Revenue</u>	<u>Percent Change</u>
Ind. Income	\$283	39.7
Corp. Income	12	105.2
Social Insurance	218	8.7
Other	<u>52</u>	<u>10.2</u>
<b>Total</b>	<b><u>565</u></b>	<b><u>23.5</u></b>

## 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:	\$ 983.6 Billion
FY2020:	\$3,129.2 Billion
FY2021 Preliminary:	\$2,772.2 Billion
FY2022 Estimate:	\$1,837.0 Billion

## Outlays Through November

<u>Category</u>	<u>\$ Billions Outlays</u>	<u>Percent Change</u>
Defense	\$ 126	- 1.5
SS Benefits	191	+ 3.6
Medicare	113	- 2.8
Medicaid	88	+ 10.7
Refundable Tax Credits	49	+325.2
Other	<u>294</u>	<u>- 3.6</u>
<b>Subtotal</b>	<b>862</b>	<b>+ 4.4</b>
Debt Interest	61	- 0.5
<b>Total</b>	<b><u>923</u></b>	<b><u>+ 4.1</u></b>

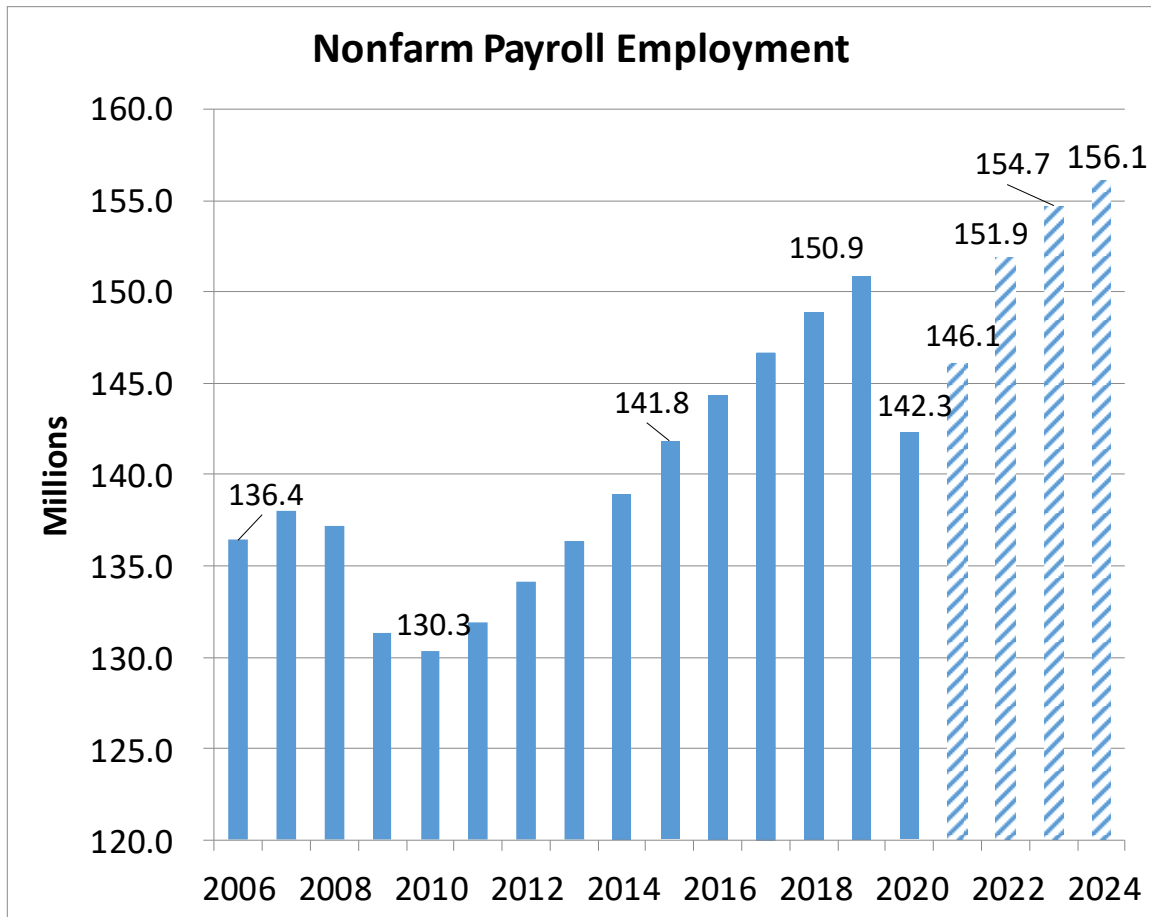
# Federal Fiscal Pandemic Response

Nearly \$5.5 Trillion – 22% of U.S. Economy

- Coronavirus Preparedness and Response Supplemental Act (3/2020): \$ 16,6 Billion
- Families First Coronavirus Response Act (3/18/2020): \$192.0 Billion
  - 6.2% State Medicaid Match Enhancement
- Coronavirus Aid Relief and Economic Security Act (CARES) (3/27/2020): \$ 2.0 Trillion
  - Direct payments to Taxpayers [\$1,200 per adult + \$500 per child] (\$290 billion)
  - Expansion of Unemployment benefits - \$270 billion
  - Small business support (PPP) - \$380 billion
  - Aid to certain large companies & S&L governments - \$500 billion
- Paycheck Protection Program & Health Care Enhancement Act (4/24/2020): \$483.0 Billion
- Consolidated Appropriation Act (12/27/2020): \$868.0 Billion
  - Direct payments to Taxpayers [\$600 per person] (\$164 billion)
  - Small business aid: \$302 billion
  - Increased unemployment benefits [\$300/week] \$119 billion
- American Rescue Plan (ARPA) (3/1/2021): \$ 1.9 Trillion
  - Direct payments to Taxpayers [\$1,400 per person] (\$411 billion)
  - Direct aid to S&L governments (\$362 billion)
  - Extension of unemployment benefits (\$203 billion)
  - Tax credits [1 year - enhanced child tax credit & EITC] (\$176 billion)

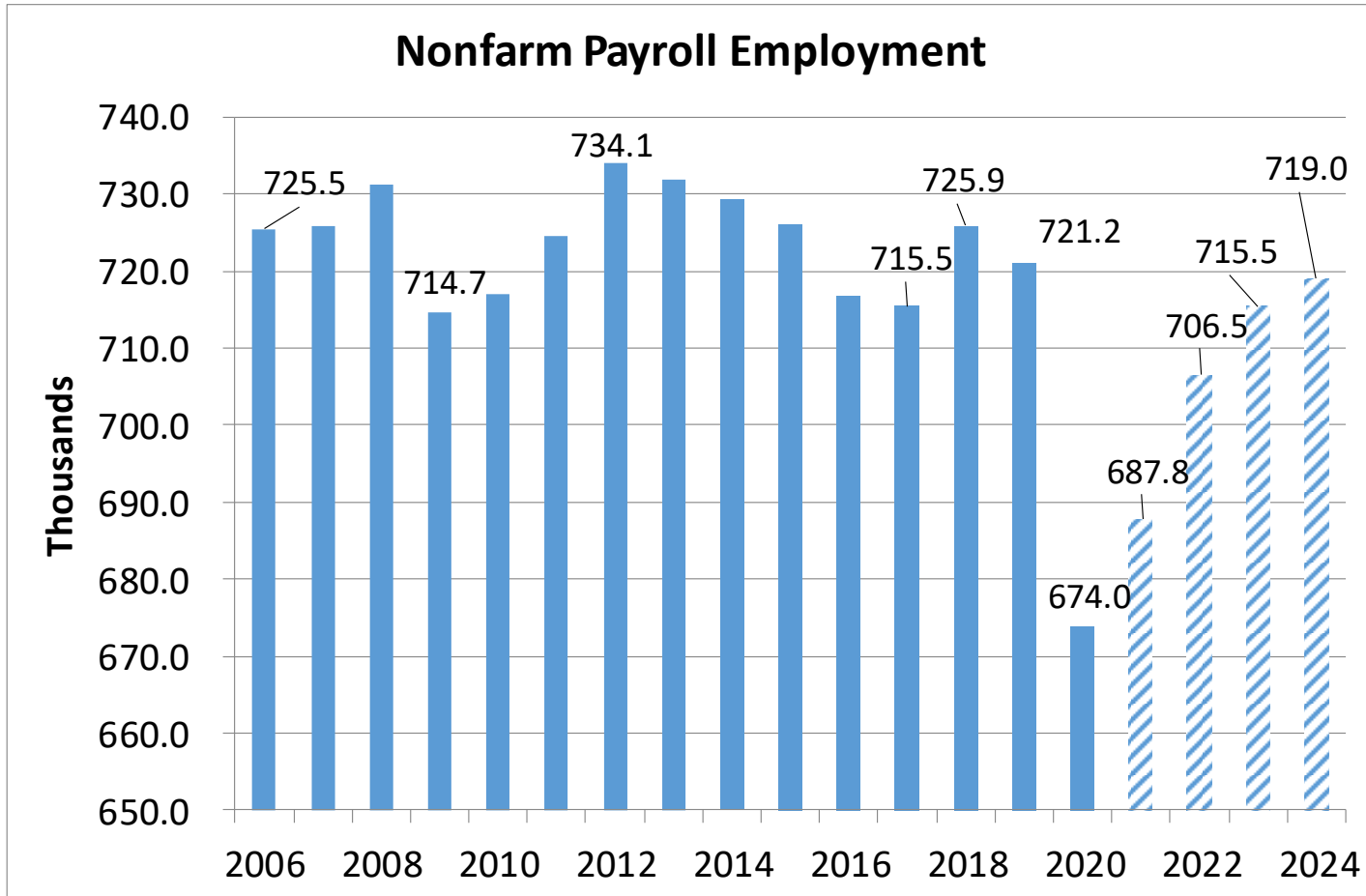
# 2020-2024: U.S. Employment Recovery by 2022

Estimates by IHS-Markit - U.S. Economic Baseline Forecast –November 2021  
Historical Data From U.S. Bureau of Labor Statistics



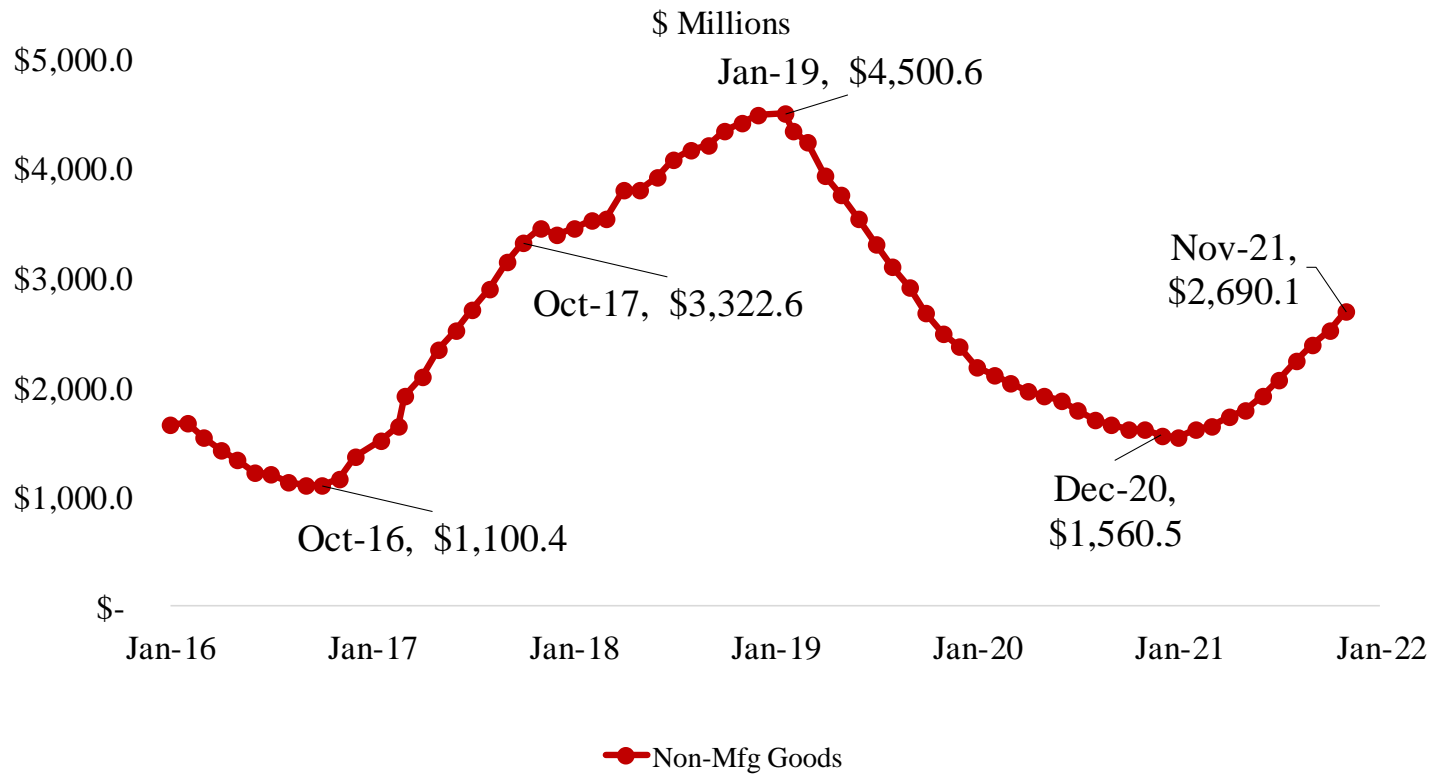
# 2020-2024: WV Employment Projected to Recover

Estimates by HIS-Markit - U.S. Regional Service November 2021 Long Term  
Historical Data from U.S. Bureau of Labor Statistics



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

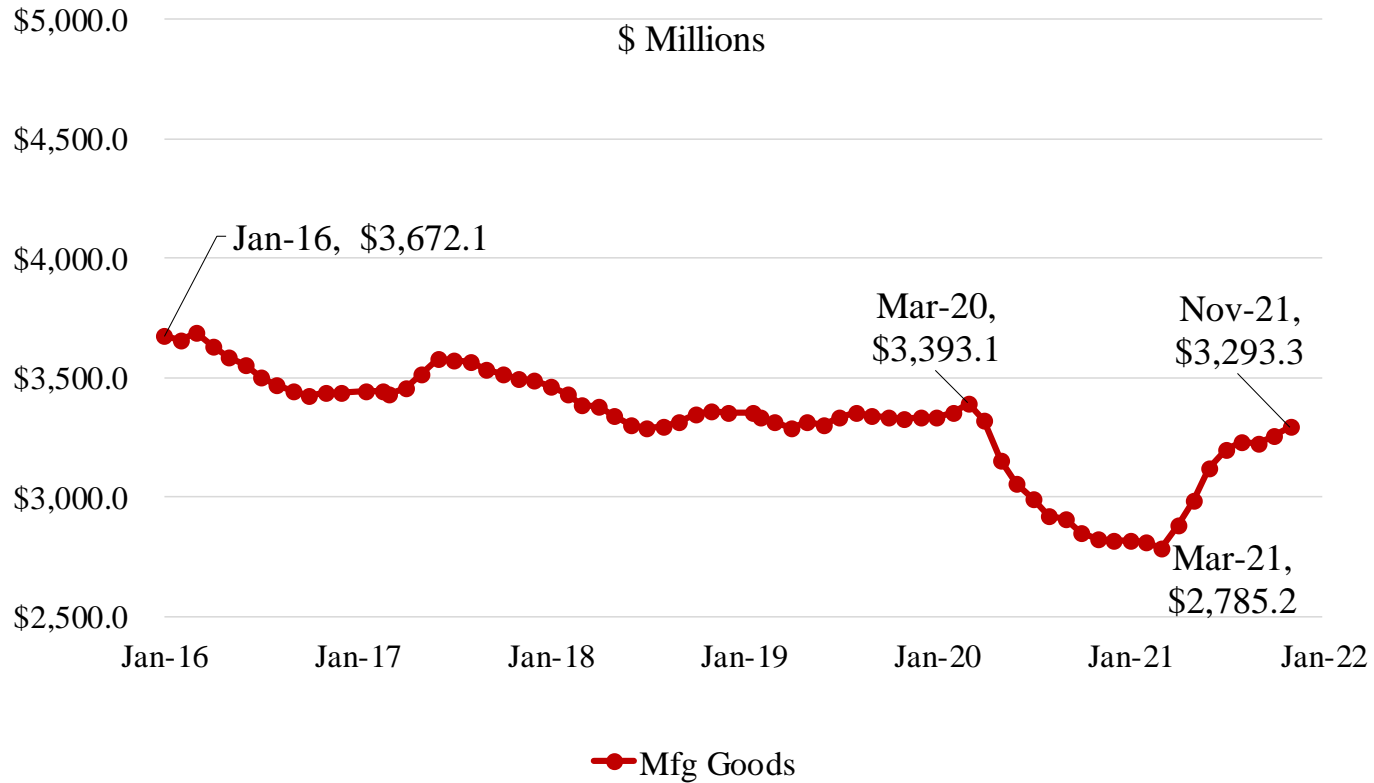
Total Exports Up 31% Since October 2016; Non-Manufacturing Good Exports Up 144%





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

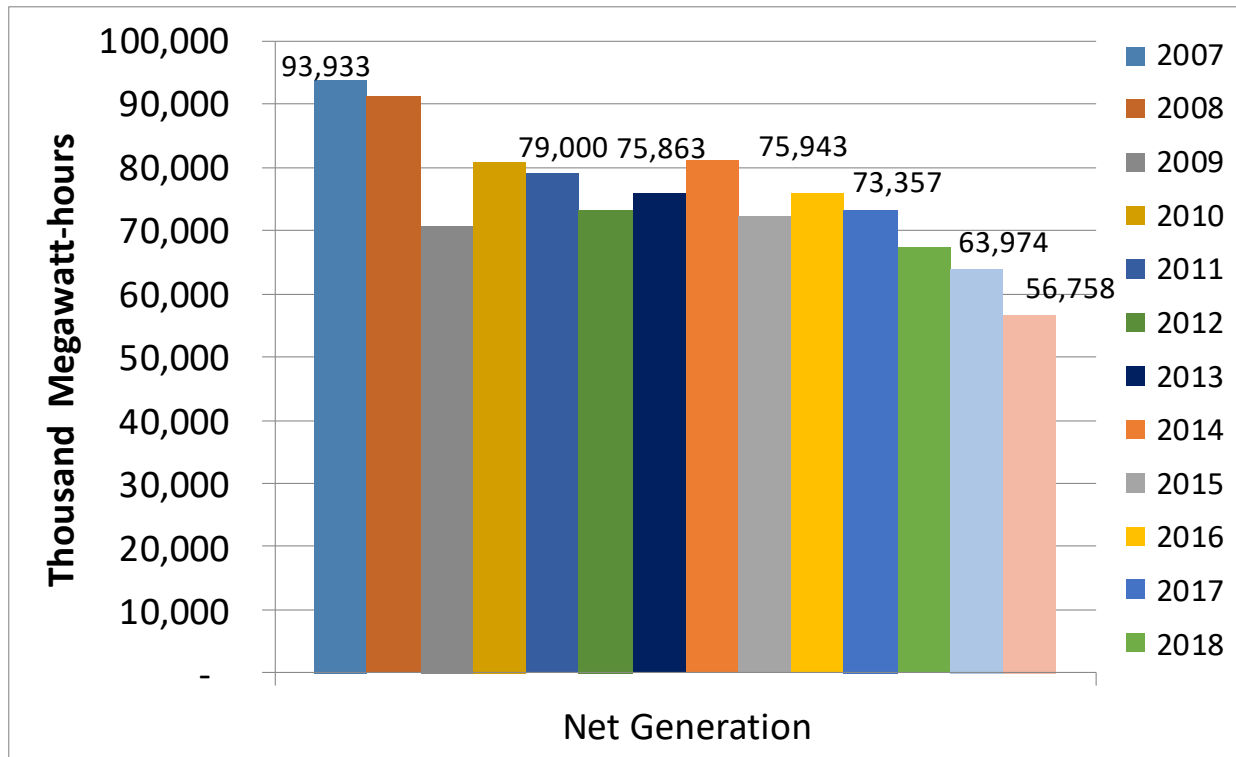
Total Exports Up 31% Since October 2016; Manufacturing Good Exports Down 4%



# West Virginia Electric Power Generation:

Down 11.2% in 2020; Up 18.9% YTD in 2021

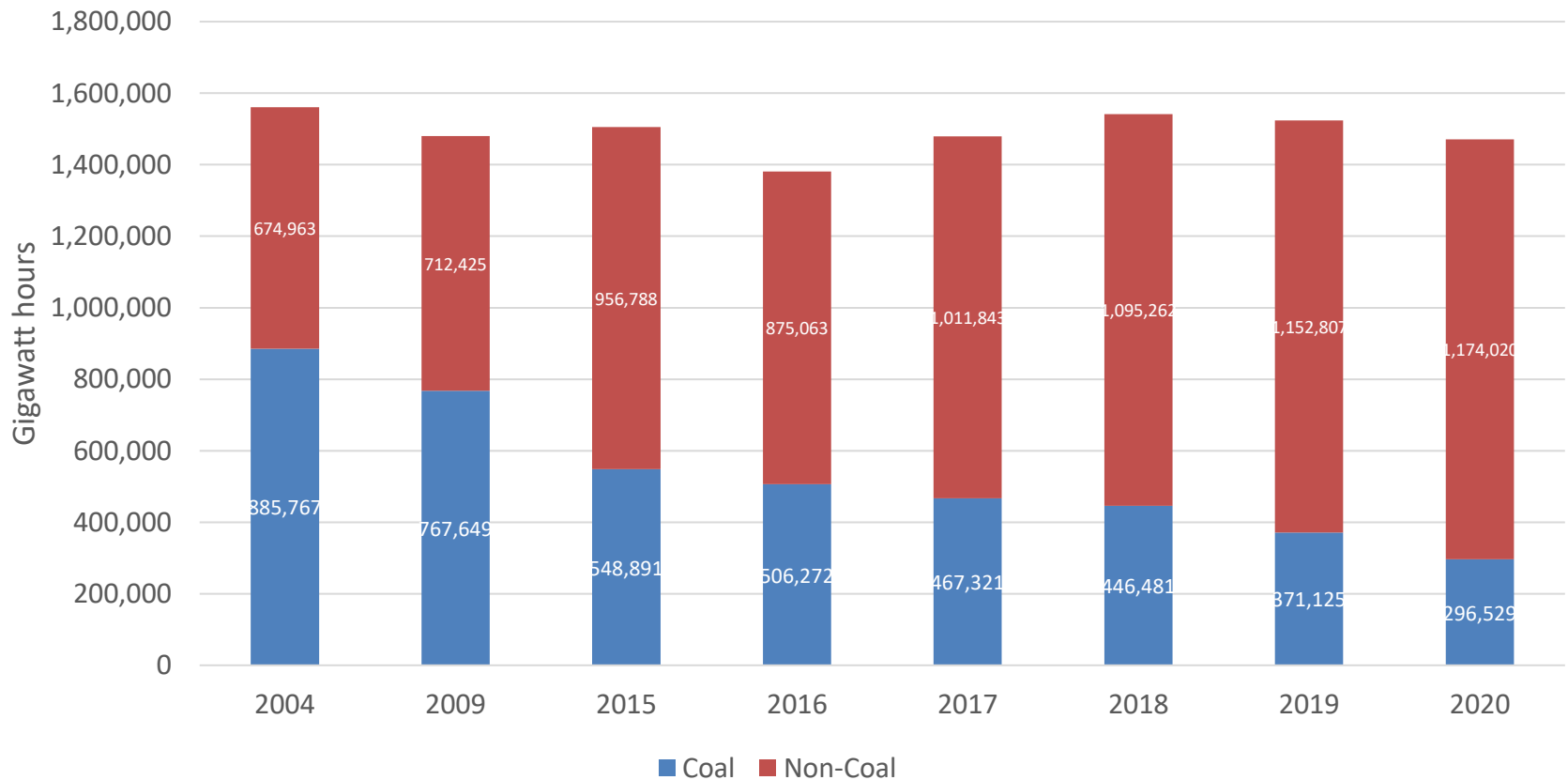
Source: U.S. DOE, Energy Information Administration



# Electric Power Generation Trends

Coal Share falls from 57% in 2004 to 20% in 2020 & 23.5% YTD in 2021

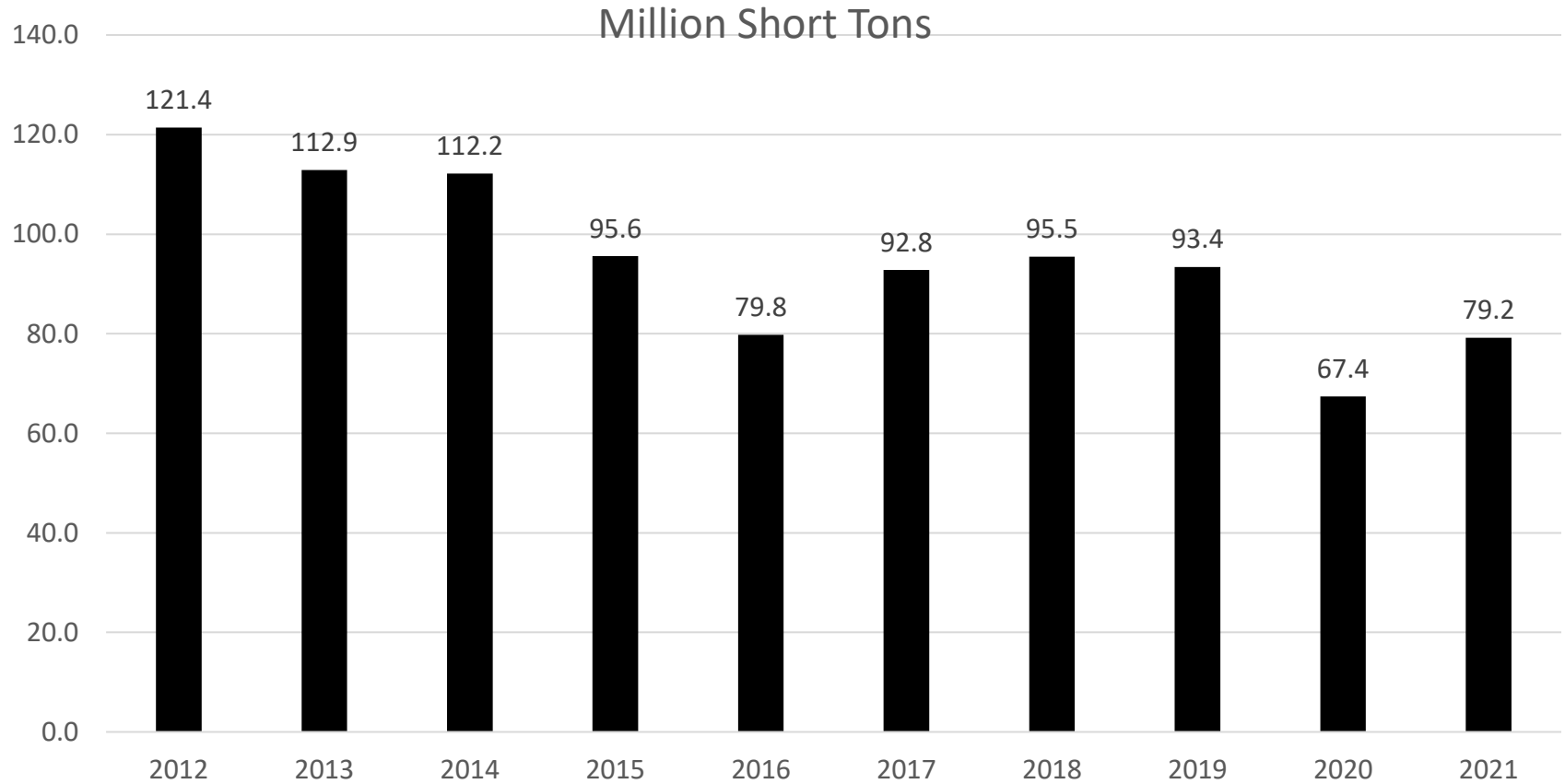
West Virginia Steam Coal Supply States: (FL, IN, KY, MD, MI, NJ, NY, NC, OH, PA, SC, VA, WV)



# West Virginia Coal Production

Up 18% in 2021 - Steam Coal Sales Rebound; Some Met Growth at Year-End

Source: U.S. Department of Energy

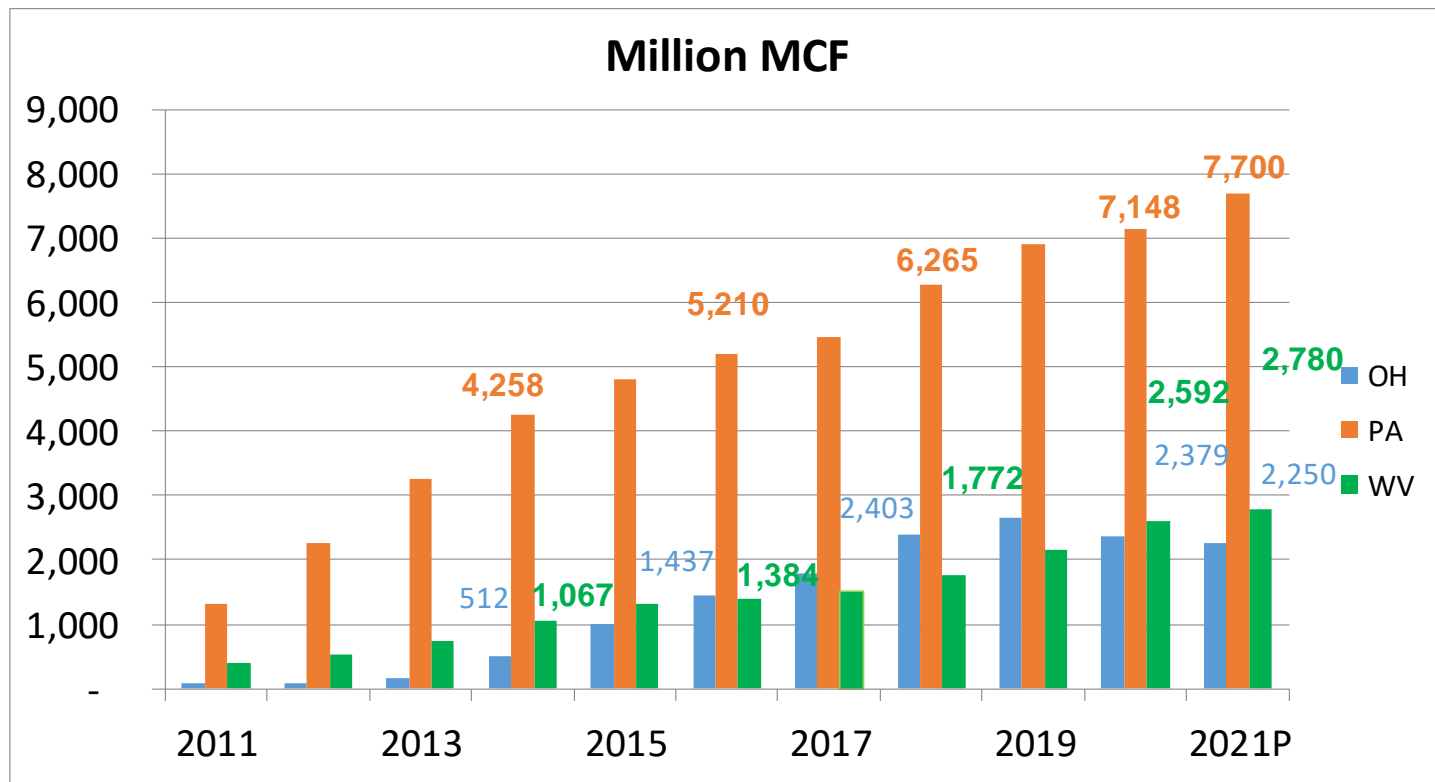


# Natural Gas Production by State 2011-2021

U.S. Production up 4% per year average

WV Production Up 22% per year average

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



# FY2021 General Revenue Fund Performance

## General Revenue Fund Collections Rebound From FY2020 Downturn

COMPONENT	\$ Millions	\$ Millions		\$ Millions	\$ Millions	Average	\$ Millions
	ACTUAL	ACTUAL	CHANGE	CHANGE	ACTUAL	ANNUAL	CHANGE
	FY20-21	FY19-20	PERCENT	FY20 to FY21	FY18-19	% CHG	FY19 to FY21
Consumer Sales Tax	\$1,537.245	\$1,386.571	10.9%	\$ 150.674	\$ 1,370.157	5.9%	\$ 167.088
Personal Income Tax*	\$2,154.788	\$2,068.946	4.1%	\$ 85.843	\$ 2,108.807	1.1%	\$ 45.981
Business & Occupation Tax	\$ 133.128	\$ 137.347	-3.1%	\$ (4.218)	\$ 124.523	3.4%	\$ 8.605
Severance Tax	\$ 274.256	\$ 267.049	2.7%	\$ 7.207	\$ 462.451	-23.0%	\$ (188.195)
Corporate Taxes*	\$ 264.487	\$ 207.988	27.2%	\$ 56.499	\$ 198.032	15.6%	\$ 66.455
Insurance Premium Tax	\$ 118.061	\$ 129.358	-8.7%	\$ (11.297)	\$ 129.111	-4.4%	\$ (11.050)
Tobacco Products Tax	\$ 171.187	\$ 168.750	1.4%	\$ 2.437	\$ 171.224	0.0%	\$ (0.037)
Interest Income	\$ 9.661	\$ 39.208	-75.4%	\$ (29.546)	\$ 27.776	-41.0%	\$ (18.115)
Lottery Transfers	\$ 65.000	\$ 52.323	24.2%	\$ 12.677	\$ 65.000		\$ -
All Other*	\$ 104.763	\$ 157.319	-33.4%	\$ (52.556)	\$ 111.255	-3.0%	\$ (6.492)
<b>TOTAL*</b>	<b>\$4,832.577</b>	<b>\$4,614.857</b>	<b>4.7%</b>	<b>\$ 217.719</b>	<b>\$ 4,768.336</b>	<b>0.7%</b>	<b>\$ 64.241</b>

\* Adjusted FY21 & FY20 collections to remove impact of roughly \$200 million in deferred income tax collections due in FY20.

\* Adjusted for transfers to Income Tax Refund Reserve Fund (Reserve Fund) of \$12 million in FY19 & \$45 million in FY21.

\* FY20 revenues adjusted to remove \$57 million in CARES Funds & \$23 million in payments from Reserve Fund.

# FY2022 General Revenue Fund Performance

## 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
<b>TOTAL*</b>	<b>\$ 2,124.091</b>	<b>\$ 2,517.954</b>	<b>\$ 393.863</b>	<b>\$ 2,119.481</b>	<b>18.8%</b>	<b>\$ 398.473</b>	<b>\$ 2,222.641</b>	<b>4.2%</b>	<b>\$ 295.312</b>

\* 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.

# FY2022 General Revenue Fund Performance

Growth Accelerating in Recent Months

## December General Revenue Fund Collections

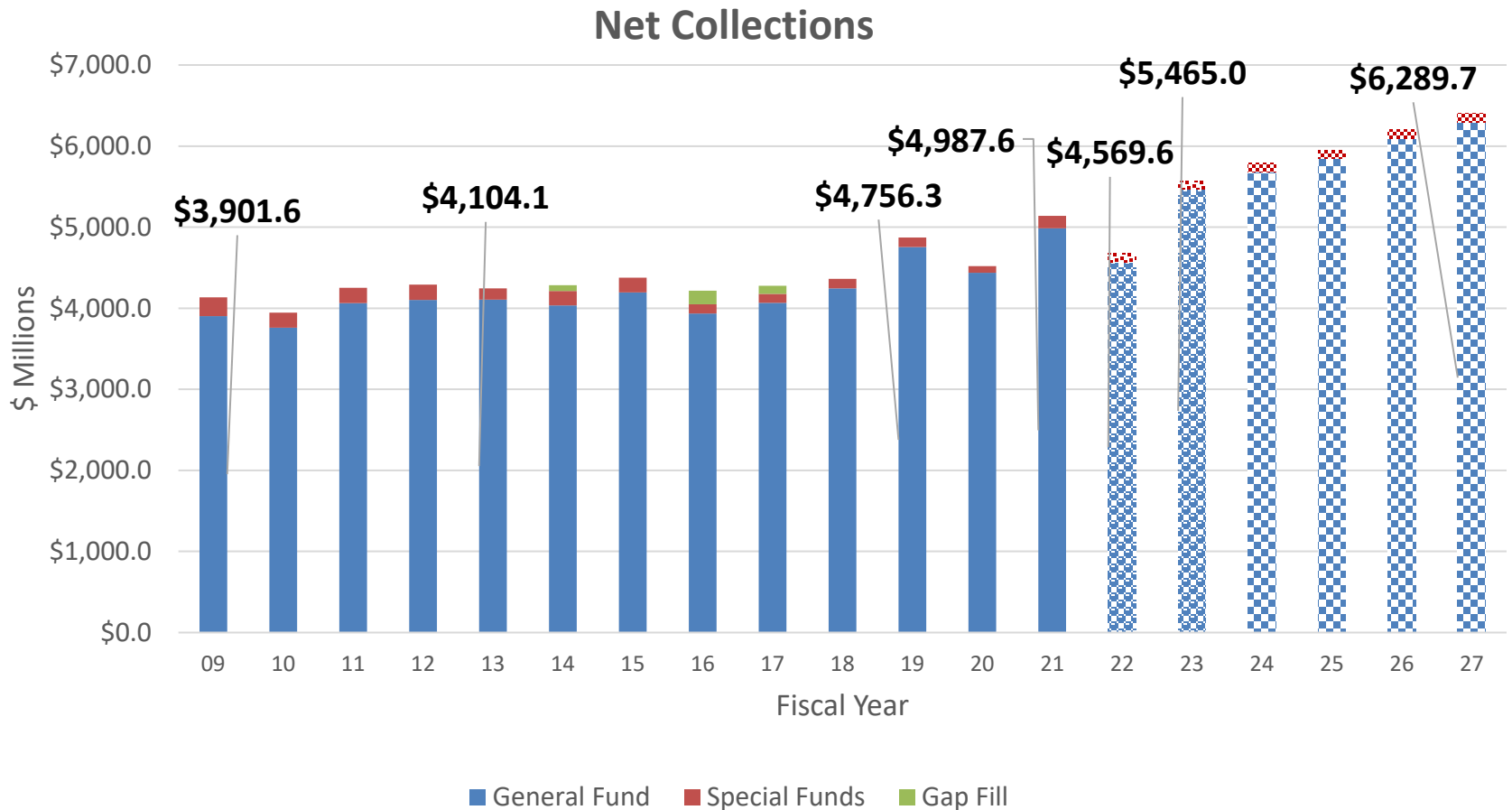
COMPONENT	\$ Millions	\$ Millions	\$ Millions	\$ Millions		\$ Millions	\$ Millions	Average	\$ Millions
	ESTIMATE	ACTUAL	DECEMBER	ACTUAL	CHANGE	CHANGE	ACTUAL	ANNUAL	CHANGE
	FY21-22	FY21-22	DIFFERENCE	FY20-21	PERCENT	FY21 to FY22	FY18-19	% CHG	FY19 to FY22
Consumer Sales Tax	\$ 133.900	\$ 153.997	\$ 20.097	\$ 130.383	18.1%	\$ 23.614	\$ 124.155	7.4%	\$ 29.842
Personal Income Tax	\$ 155.000	\$ 181.831	\$ 26.831	\$ 159.603	13.9%	\$ 22.228	\$ 169.869	2.3%	\$ 11.962
Business & Occupation Tax	\$ 6.900	\$ 3.307	\$ (3.593)	\$ 9.118	-63.7%	\$ (5.811)	\$ 7.954	-25.4%	\$ (4.647)
Severance Tax	\$ 32.200	\$ 62.575	\$ 30.375	\$ 15.633	300.3%	\$ 46.943	\$ 45.266	11.4%	\$ 17.309
Corporate Taxes	\$ 28.000	\$ 79.144	\$ 51.144	\$ 40.393	95.9%	\$ 38.751	\$ 48.723	17.6%	\$ 30.421
Insurance Premium Tax	\$ 0.200	\$ 0.270	\$ 0.070	\$ (0.030)	-989.6%	\$ 0.300	\$ (0.012)	NM	\$ 0.282
Tobacco Products Tax	\$ 14.100	\$ 13.743	\$ (0.357)	\$ 16.788	-18.1%	\$ (3.045)	\$ 13.862	-0.3%	\$ (0.119)
Interest Income	\$ 0.400	\$ (0.176)	\$ (0.576)	\$ (0.407)	-56.6%	\$ 0.230	\$ 1.544	NM	\$ (1.720)
Lottery Transfers	\$ 4.400	\$ 5.916	\$ 1.516	\$ 4.426	33.7%	\$ 1.490	\$ 5.272		\$ 0.643
All Other	\$ 7.301	\$ 6.223	\$ (1.078)	\$ 6.296	-1.2%	\$ (0.074)	\$ 6.280	-0.3%	\$ (0.057)
<b>TOTAL</b>	<b>\$ 382.401</b>	<b>\$ 506.829</b>	<b>\$ 124.428</b>	<b>\$ 382.203</b>	<b>32.6%</b>	<b>\$ 124.626</b>	<b>\$ 422.912</b>	<b>6.2%</b>	<b>\$ 83.917</b>



# Total General Revenue Fund Revenues

Average Annual Growth: 2.0% 2009-2019;

Projected Average Annual Growth: 3.5% 2019-2027; 2021-2023: 4.7%

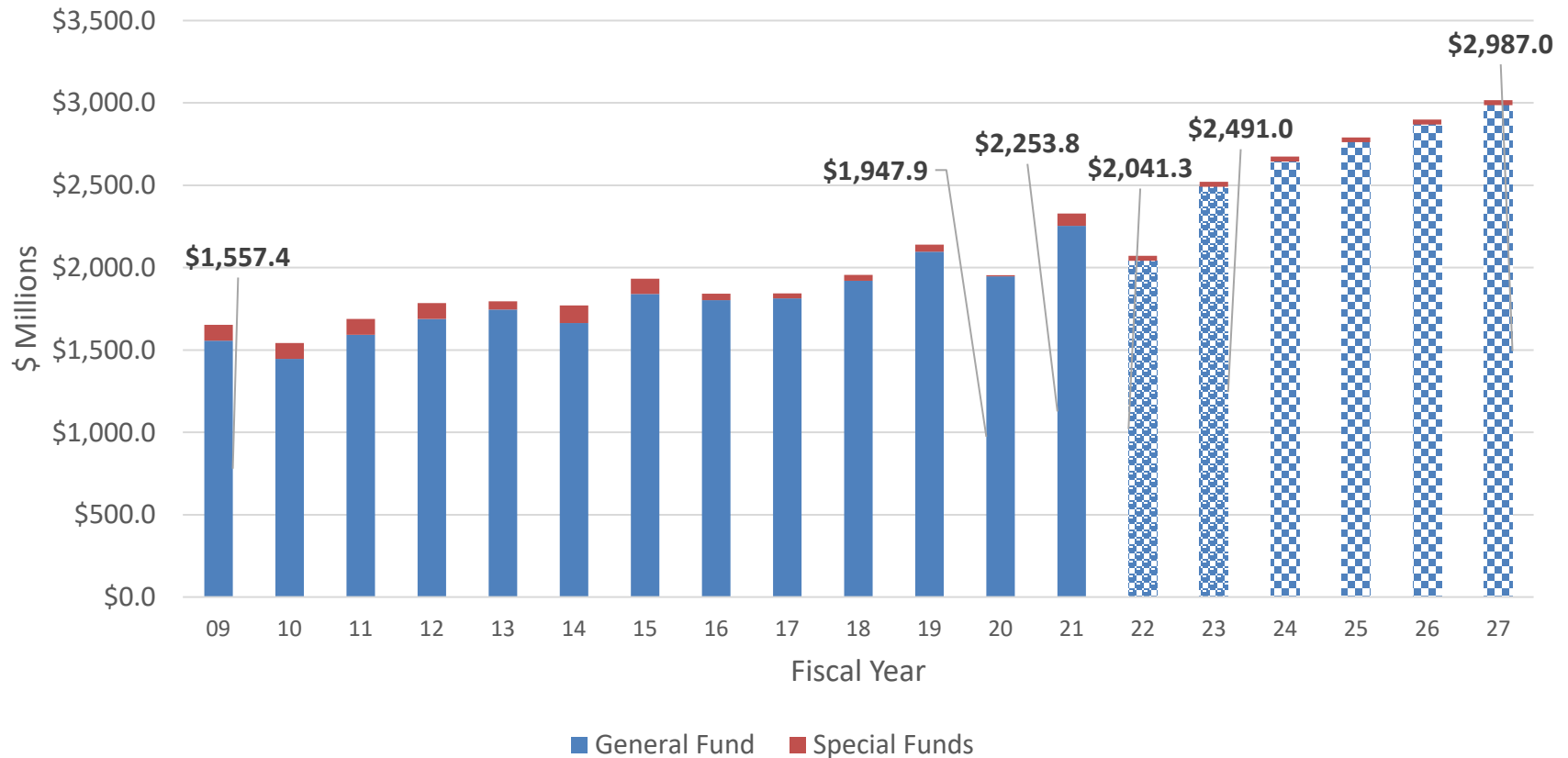


# Personal Income Tax

Average Annual Growth: 2.6% 2009-2019

Projected Average Annual Growth: 4.4% 2019-2027; 2021-23: 4.0%

## Personal Income Tax Collections

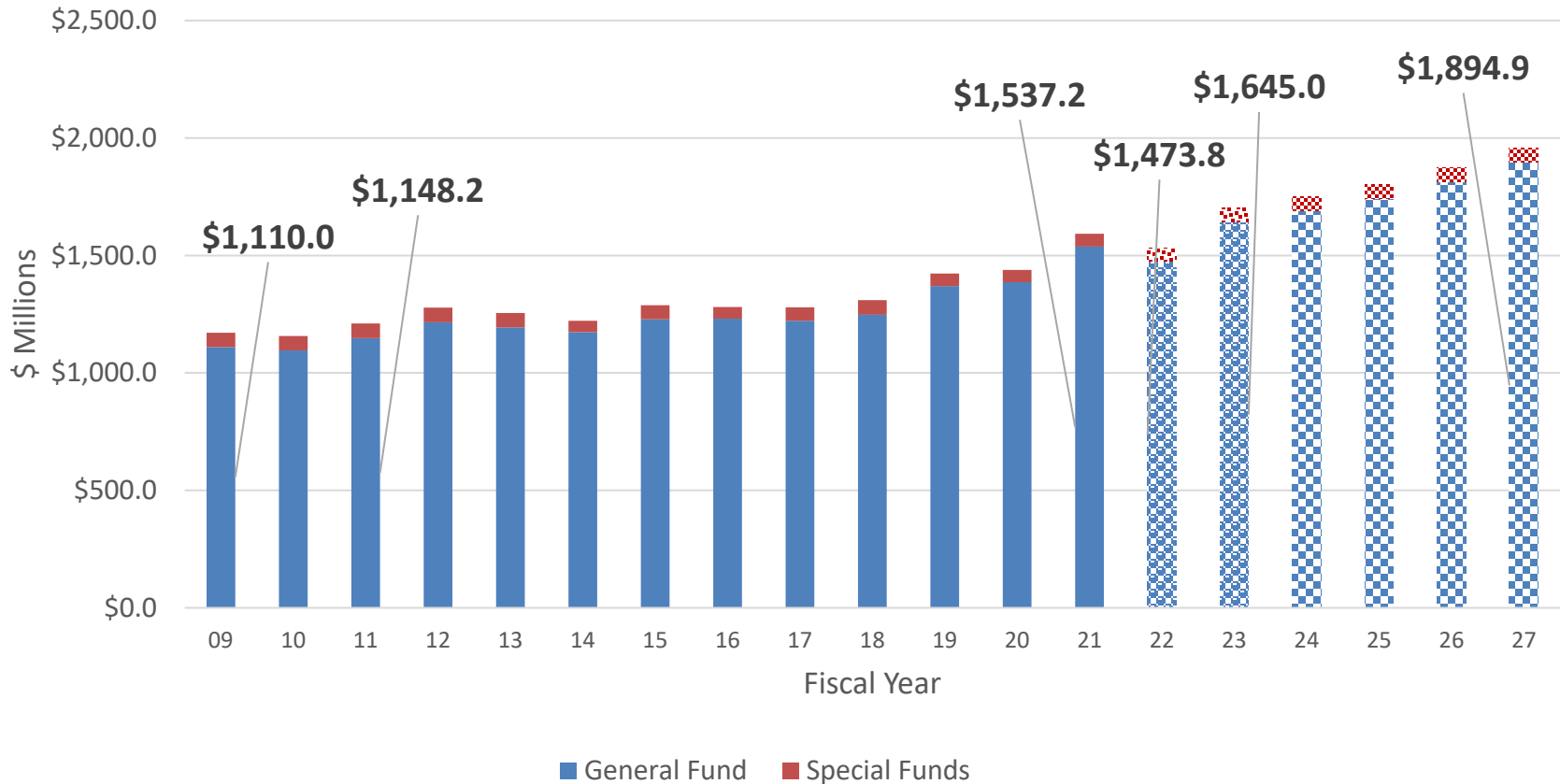


# Consumer Sales and Use Tax

Average Annual Growth: 2.0% 2009-2019

Projected Average Annual Growth: 4.0% 2019-2027, 2021-23: 3.4%

## Consumer Sales & Use Tax Collections

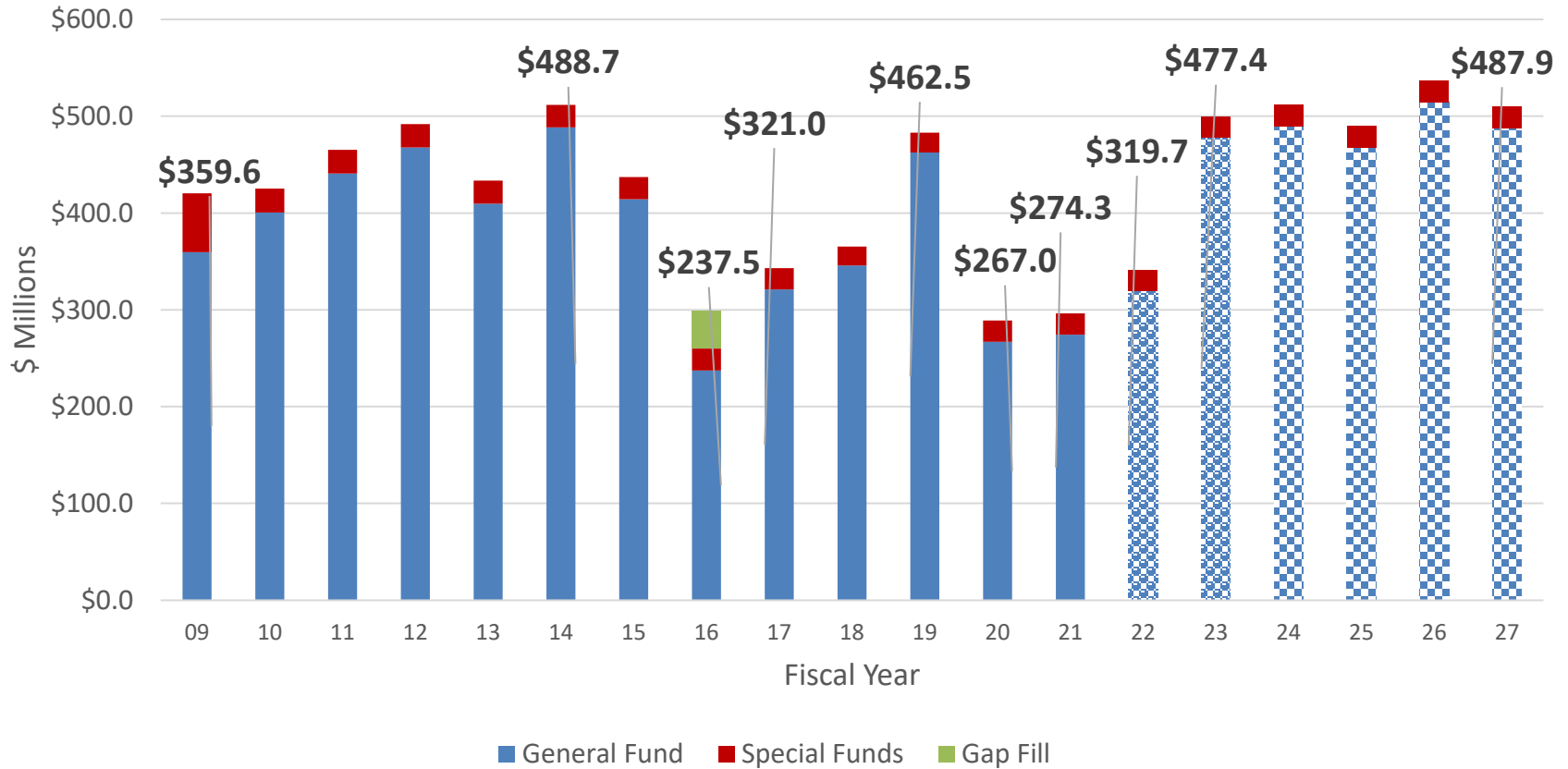


# Severance Tax

Average Annual Growth: 1.4% 2009-2019

Projected Average Annual Growth: 2019-2027; 0.7%, 2021-2023: 29.8%

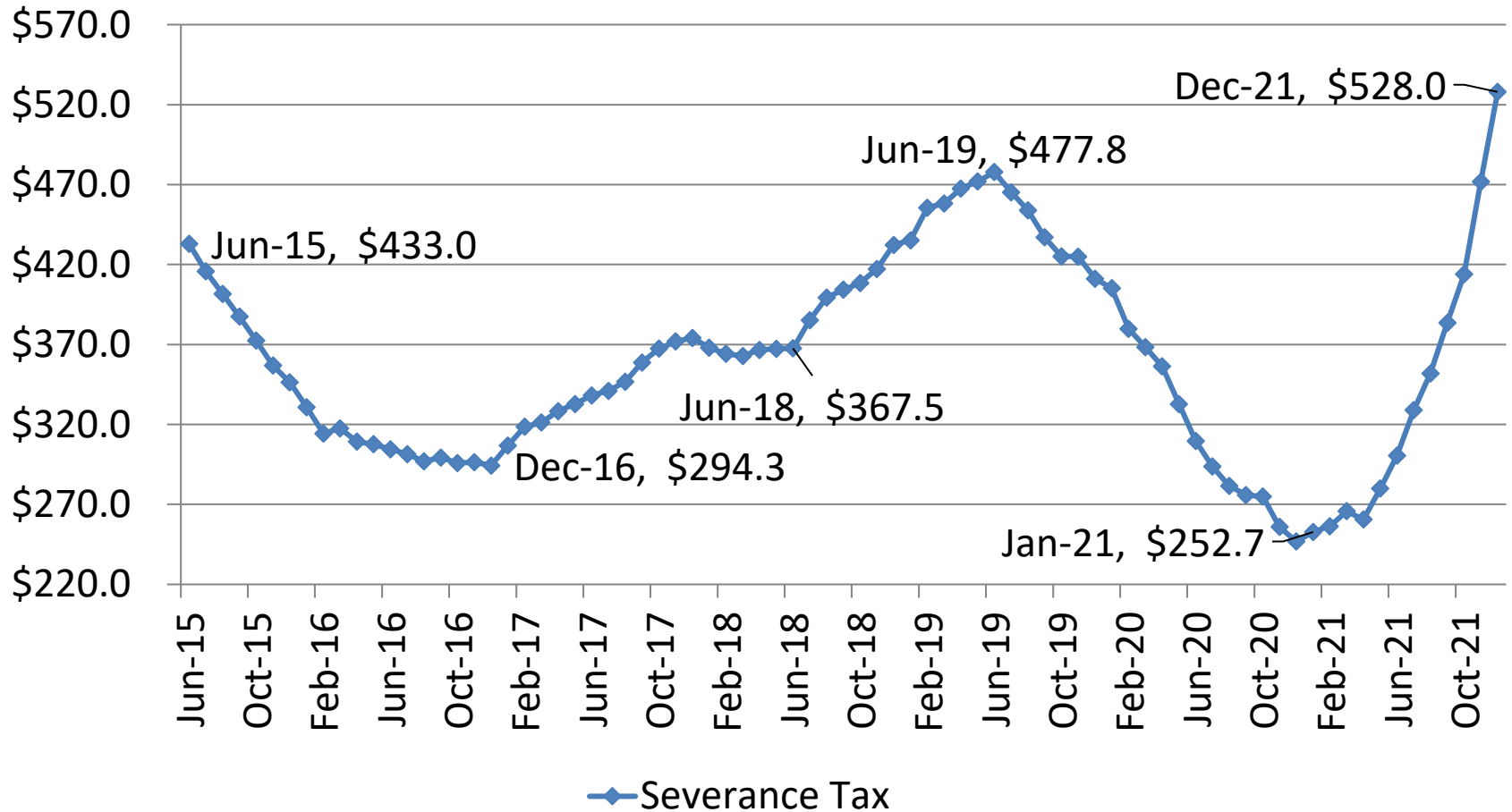
## State Severance Tax Collections



# Regular Severance Tax (June 2015-Present)

Trailing 12 Month Trend (6<sup>th</sup> of Month to 5<sup>th</sup> of Next Month)

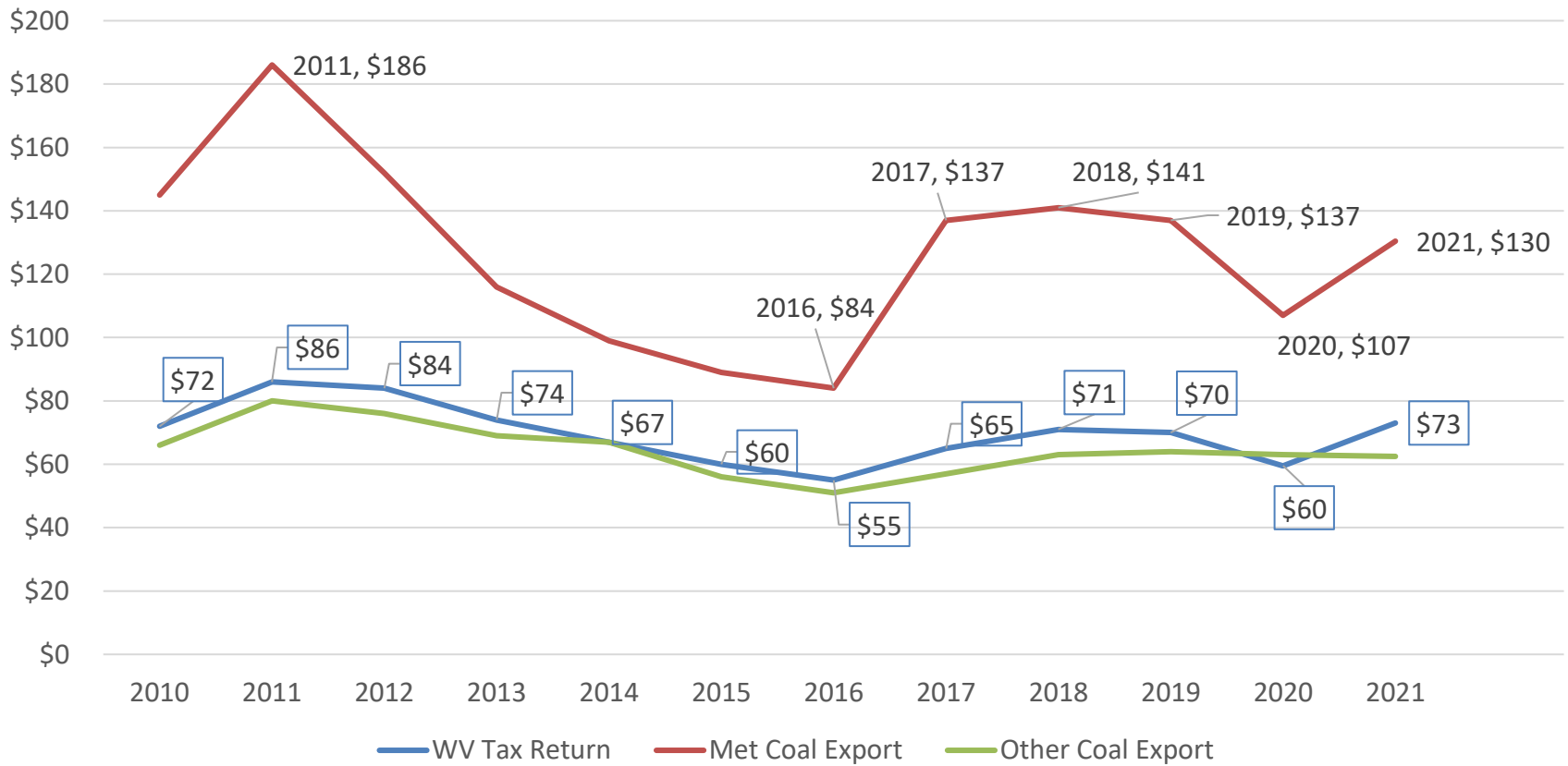
\$ Millions



# Coal Price Trends 2010-2021

Sources: U.S. Department of Energy & West Virginia Severance Tax Returns  
Export Price is based on free alongside ship value: YTD as of 9/30/2021

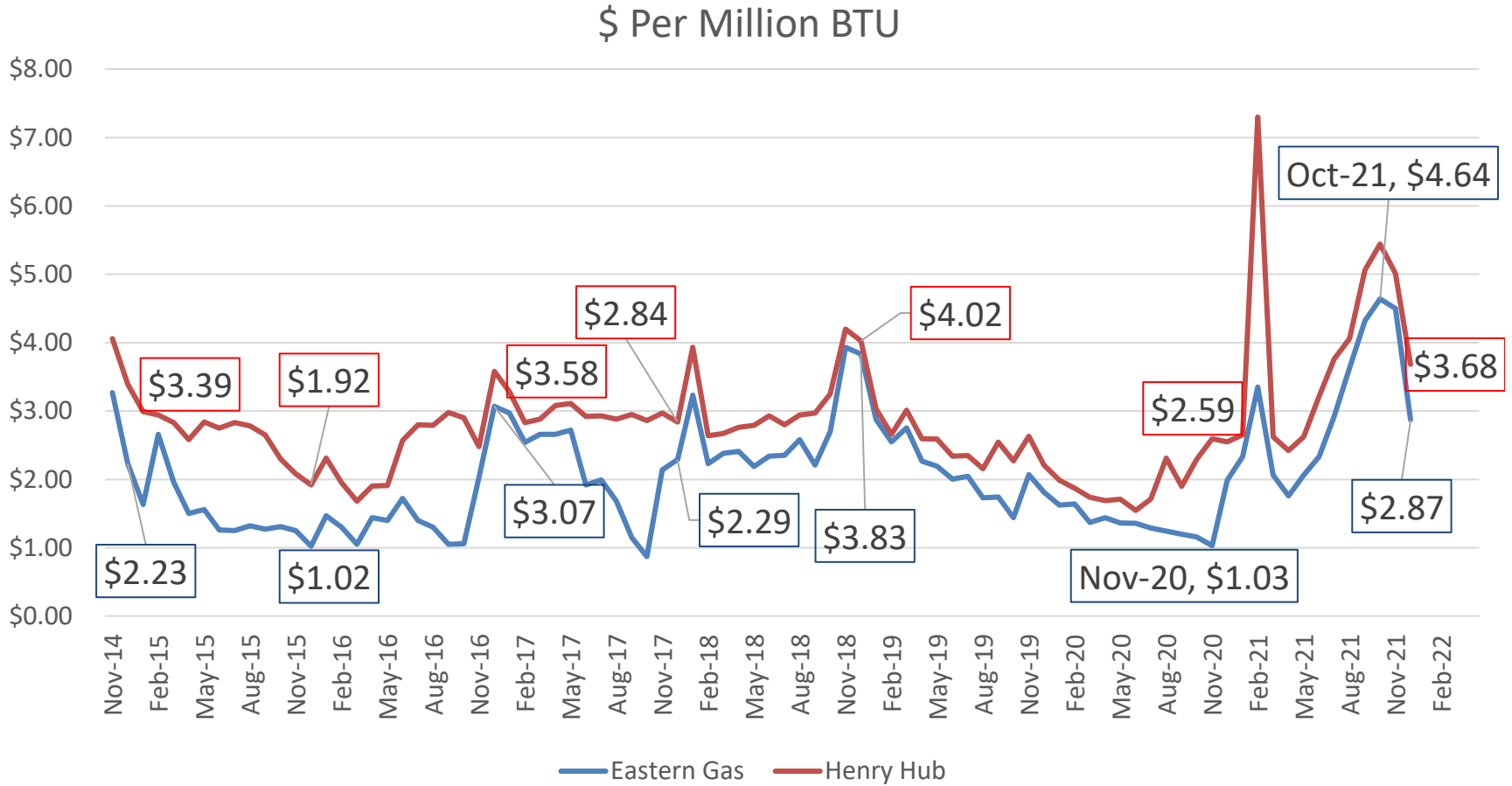
\$ Per Short Ton



# Natural Gas Prices Up More Than 200% in 2021

Unweighted Average Price Up From \$1.39 in 2020 to \$3.06 in 2021

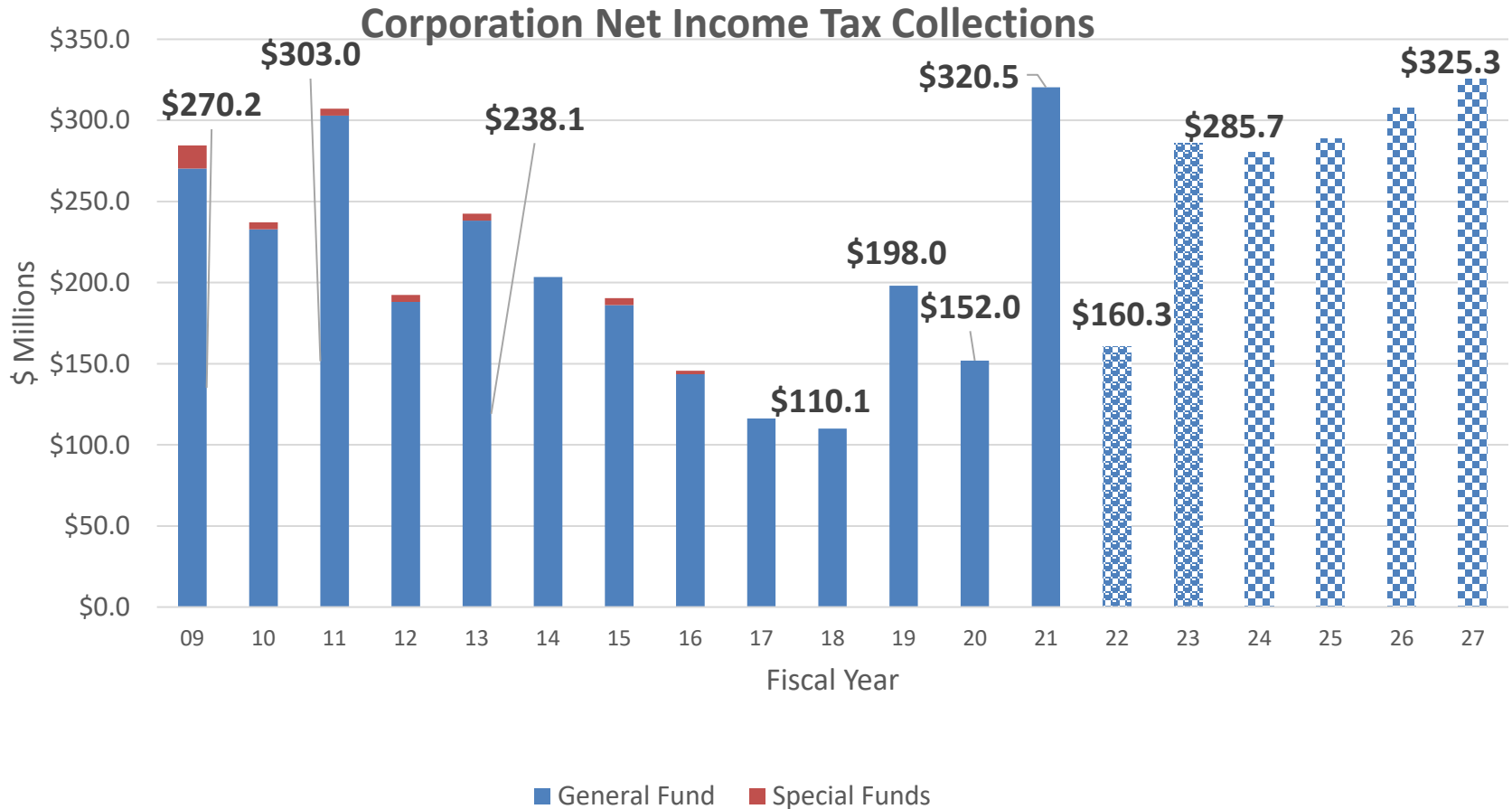
Source: Natural Gas Intelligence



# Corporation Net Income Tax

Average Annual Growth: -3.1% 2009-2019

Projected Average Annual Growth: 6.4% 2019-2027

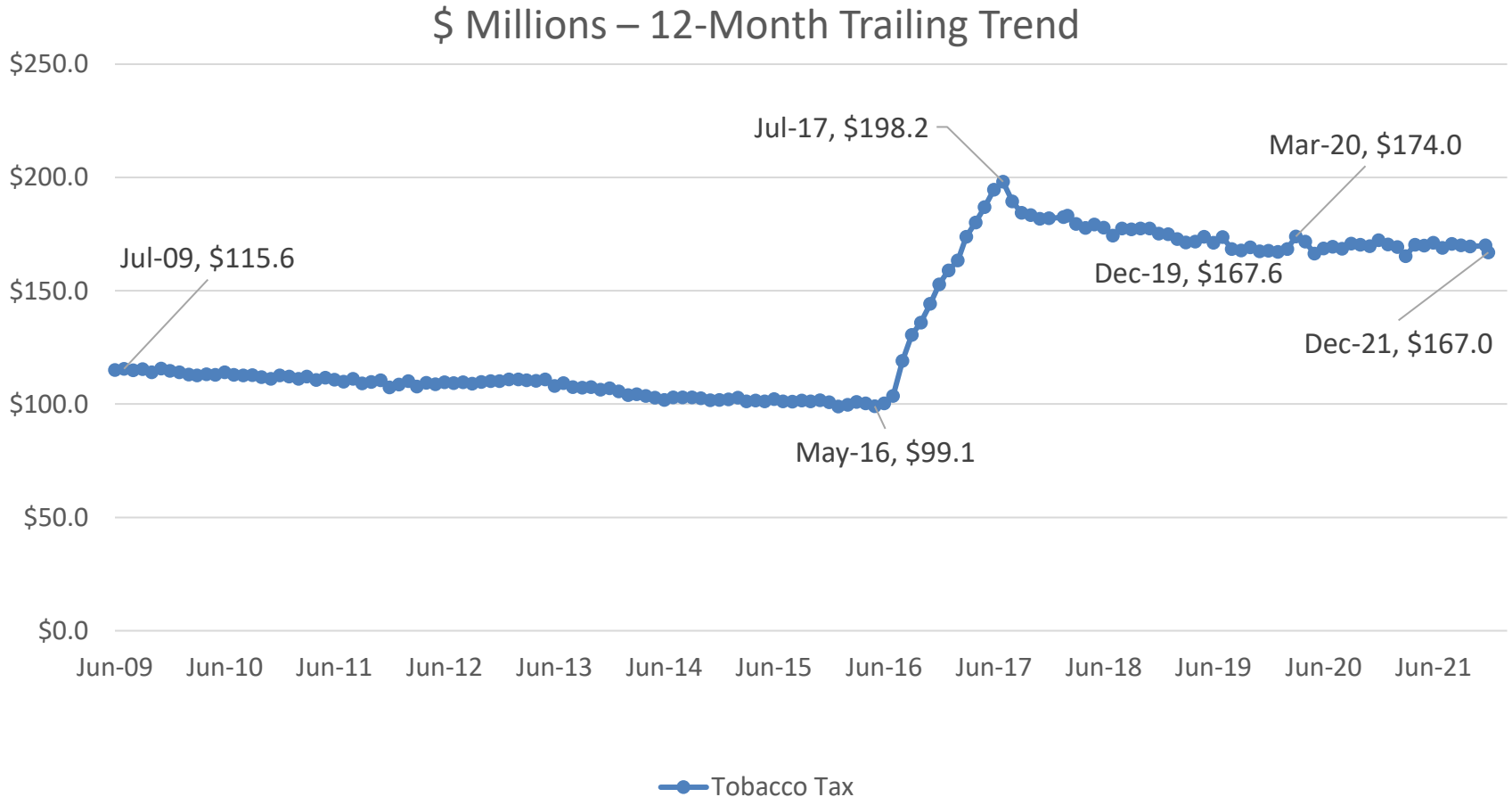




# Tobacco Products Tax Collection Trends

2008-2016: -1.7%/Year;

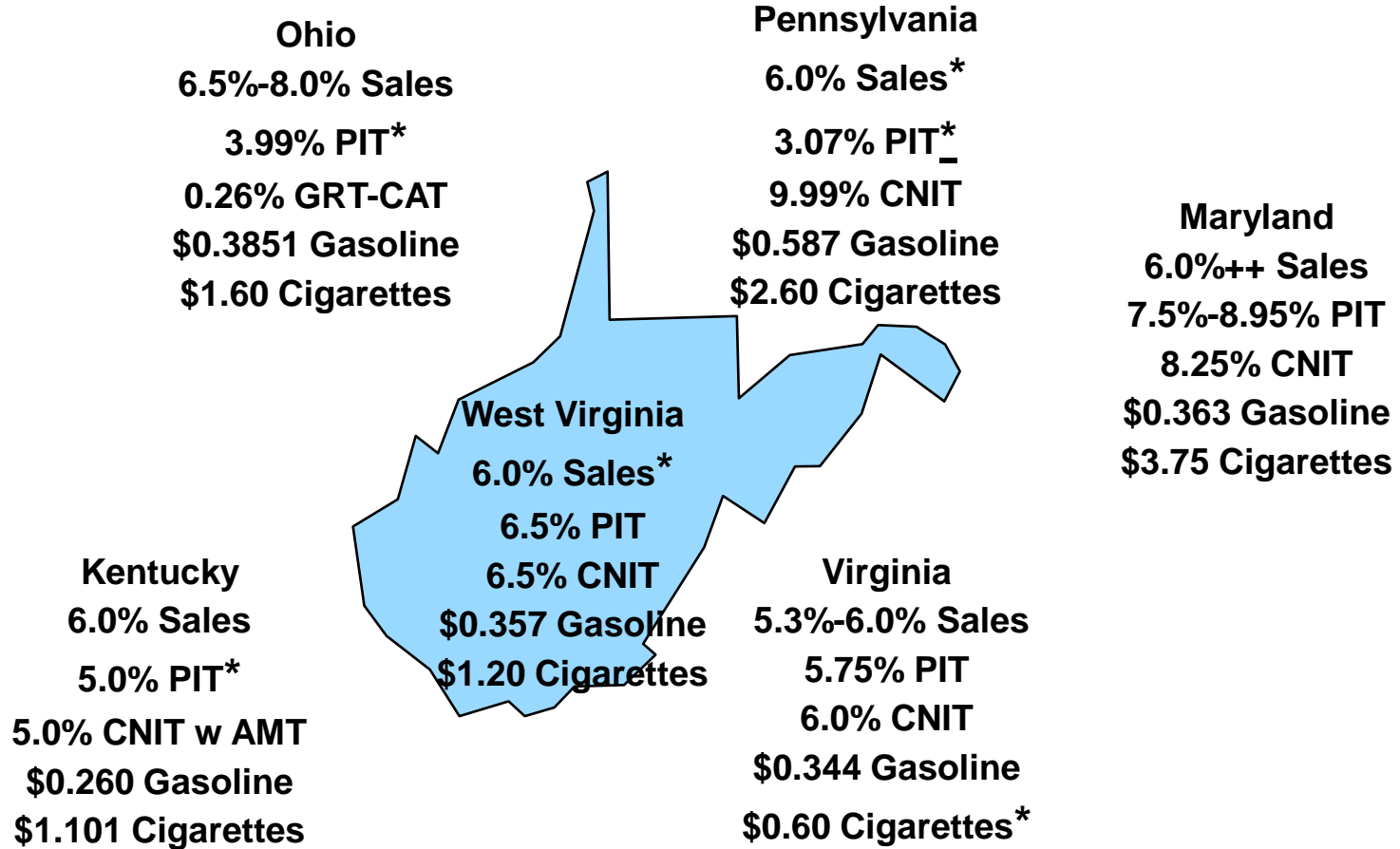
Rate from \$0.55 to \$1.20 as of July 1, 2016; OTP from 7% to 12%



# COMPARATIVE TAX RATES

As of January 1, 2022

\* Additional local taxes may apply



# Unofficial FY2023 General Revenue Estimates

## FY2023 General Revenue Fund Estimates Compared With FY2019 Actual Baseline

	\$ Millions	\$ Millions	\$ Millions		\$ Millions	\$ Millions	
<b>COMPONENT</b>	<b>FY 2023 ESTIMATE</b>	<b>FY 2022 ESTIMATE*</b>	<b>DIFFERENCE</b>	<b>CHANGE PERCENT</b>	<b>ACTUAL FY18-19</b>	<b>AVG ANN % CHG 19-23</b>	<b>CHANGE</b>
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	\$ 329.925	\$ 147.475	44.7%	\$ 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)
<b>TOTAL</b>	<b>\$ 5,465.036</b>	<b>\$ 4,579.841</b>	<b>\$ 885.195</b>	<b>19.3%</b>	<b>\$ 4,756.336</b>	<b>3.5%</b>	<b>\$ 708.700</b>

\* FY 2022 Official Estimate revised upward by \$10.225 million on January 12, 2022.

# 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	329.925	( 79.925)
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)
<b><i>Total General</i></b>	<b><i>\$4,645.424</i></b>	<b><i>\$4,579.841</i></b>	<b><i>\$ 65.583</i></b>

# 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

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



# DEPARTMENT OF REVENUE

Questions?