

WEST VIRGINIA

Department of Revenue

Budget Overview – FY 24

DAVE HARDY

SECRETARY OF REVENUE



HISTORIC TIMES

- State revenue streams continue to set records.
- Interest rates are rising; investment returns are down but improving.
- Inflation has continued but is declining.
- FY 23 will produce a record surplus.
- FY 22 unappropriated surplus is approximately \$526 million.
- All of this creates a historic window of opportunity.

REVENUE SIDE

- Revenue sources have shown record breaking growth.
- Severance tax has grown YTD by 112.8%, particularly in natural gas.
- Corporate net income tax has grown YTD by 11.8%.
- PIT has increased YTD by 13.6%.
- Consumer Sales Tax has grown YTD by 5.8%.
- Interest revenue has increased from \$21,000 YTD to \$38 million.
- The Governor has always opted for a conservative, cautious revenue projection.
- Our FY 23 surplus will be over \$1.7 billion.
- It leaves room for other expenditures as the fiscal year progresses.

EXPENSE SIDE

- Governor instructed us to build an essentially flat budget.
- Our starting point was FY 23 - \$4.636 billion.
- This budget for FY 24 is \$4.884 billion.
- Exceptions to this notion:
 - Average 5% pay raises for state employees = \$115 million.
 - Increased PEIA subsidies of \$59 million to increase reimbursement rates.
 - School aid formula increased by \$35 million.
- Today's budget meets these goals, but it also has a very large surplus section.
- The Budget Bill increase is 5.35%, far below the FY 22 inflation rate of 7%.

FISCAL SUMMARY

Economy: Strong Growth and High Inflation

- Energy sector-strong demand relative to supply.
- Significant price inflation, particularly for energy.
- 12-month trailing trend value of foreign exports up > 67% since January 2021 trough.
- Coal production up 6% over past year with average price doubling by May 2022.
- Natural gas prices up 80% from CY 21 to CY 22; production up 5%.

Federal stimulus eases thru remainder of fiscal year & monetary tapering

- Less stimulus and tighter monetary policy will lead to lower inflation over time
- Short-term interest rate hikes of 425 basis points YTD; expect 75 basis points more

High Volatility in General Revenue Fund collection patterns

- GRF growth: **-5.5%** in FY 20; 11.0% in FY 21; 18.1% in FY 22; 21.2% YTD in FY 23
- Adjusted GRF growth: **-3.2%** in FY 20; 4.7% in FY 21; 22.1% in FY 22

INFLATION TRENDING LOWER

- The Federal Reserve uses the Personal Consumption Expenditure Price Index (PCE Index) to track inflation in the U.S. economy.
- The PCE Index peaked at an annualized rate of 7.0% for the year ending June 30, 2022.
- The PCE Index has declined steadily since June 2022 to 5.5% as of November 2022.
- The Federal Reserve's objective target for inflation is around 2%.