

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



DEPARTMENT OF REVENUE

West Virginia's Budget Challenges

Legislative Lookahead
Charleston Newspapers
January 12, 2015

Cabinet Secretary **Robert S. Kiss**

Budget snapshot

Review of Fiscal Year 2014 Budget Results

- ✓ Balanced with 7.5% budget cuts affecting 25% of Budget
- ✓ Balanced with Hiring Freeze and Special Appropriations

Review of Fiscal Year 2015 Budget Matters

- ✓ Balanced with 7.5% cuts (3.75% for Higher Education)
- ✓ Balanced with \$100 million from Rainy Day Fund A
- ✓ Estimated \$80 million shortfall in Medicaid Program
- ✓ Improved Excess Lottery Fund Bond Coverage

Fiscal Year 2016 Budget Development

- Estimated \$195 Million Budget Gap to be Closed
- Targeted reductions and some use of Rainy Day Funds

Highlights

Ended FY 2014 with a surplus of \$18.3 million.

- Mid-year budget adjustments

Doing what it takes to maintain fiscal balance.

- Revenues for FY 2015 YTD are \$34 million below estimates.
- Projected budget gap of about \$195 million for FY 2016.

Statutory and budgetary action.

- Addressed adequate debt service coverage ratios limits in our Excess Lottery Fund and a cross-collateral mechanism for Lottery Bonds.

Maintain strong Rainy Day Funds.

- More than \$856 million (20%) of General Revenue.

Highlights

Made 100% of pension-required contributions

- Improved all funding ratios.

Paying our bills on time.

- Strong general revenue cash flow.

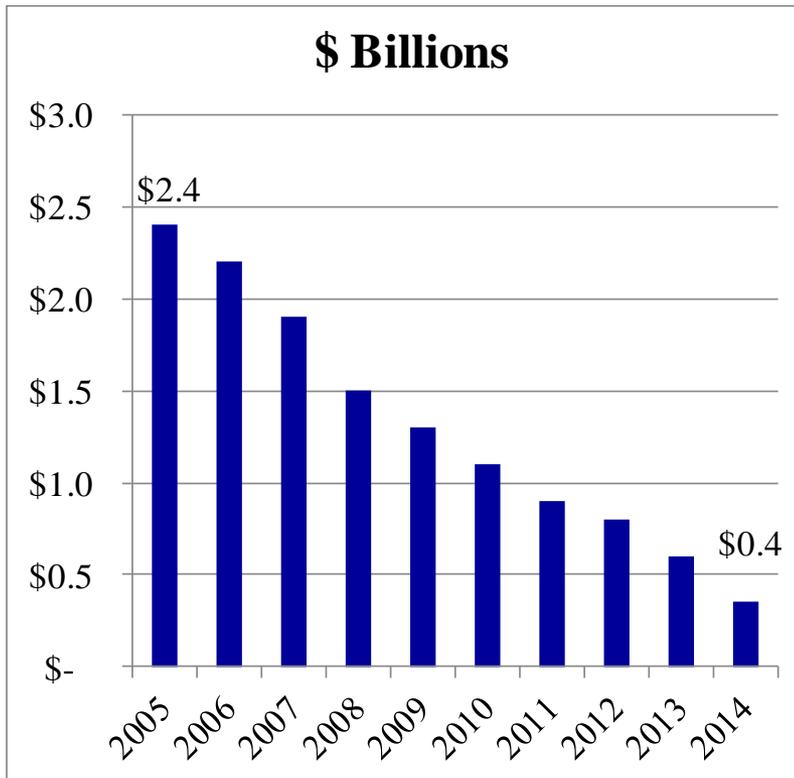
Workers' Compensation outlook is quite bright.

- By the end of FY2015, the unfunded liability is expected to be less than \$270 million.
- Debt expected to be FULLY funded by the end of CY2016 with the return of the dedicated personal income tax collections of \$60.4 million to the State General Revenue Fund as early as FY2017.

Update on Workers' Compensation

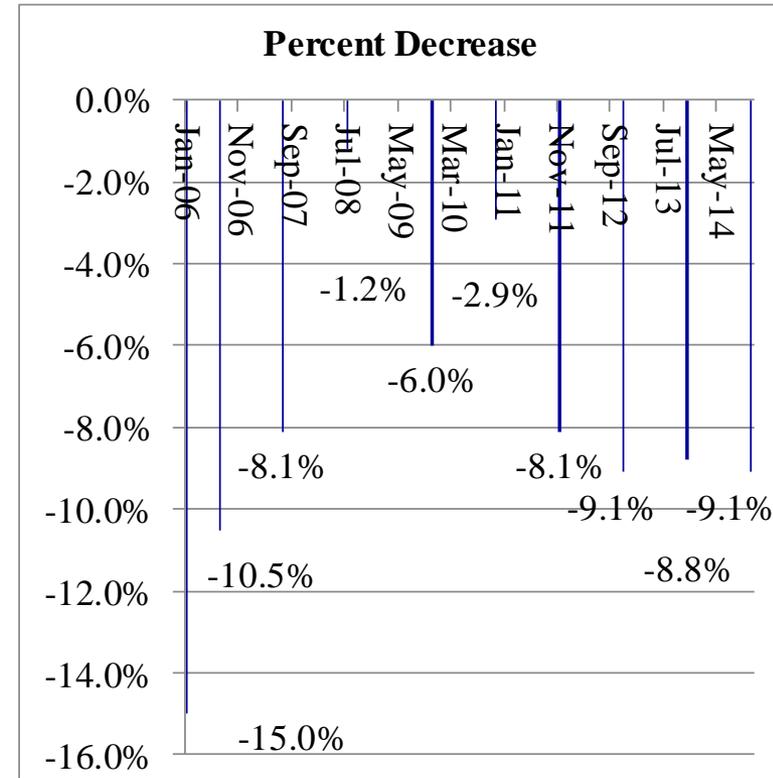
Unfunded Liability:

Old Workers' Compensation Fund



WV Workers' Compensation

Rate Decreases 2006-2014



- Since 2006 privatization, employer premiums cut 56.3%.
- Unfunded liability in Old Fund projected to be \$0 by end of CY2016.

Highlights

Ranked 7th for responsible financial management

- Also according to the Cato Institute, Governor Tomblin is the highest ranked Democratic governor in the country for responsible financial management.



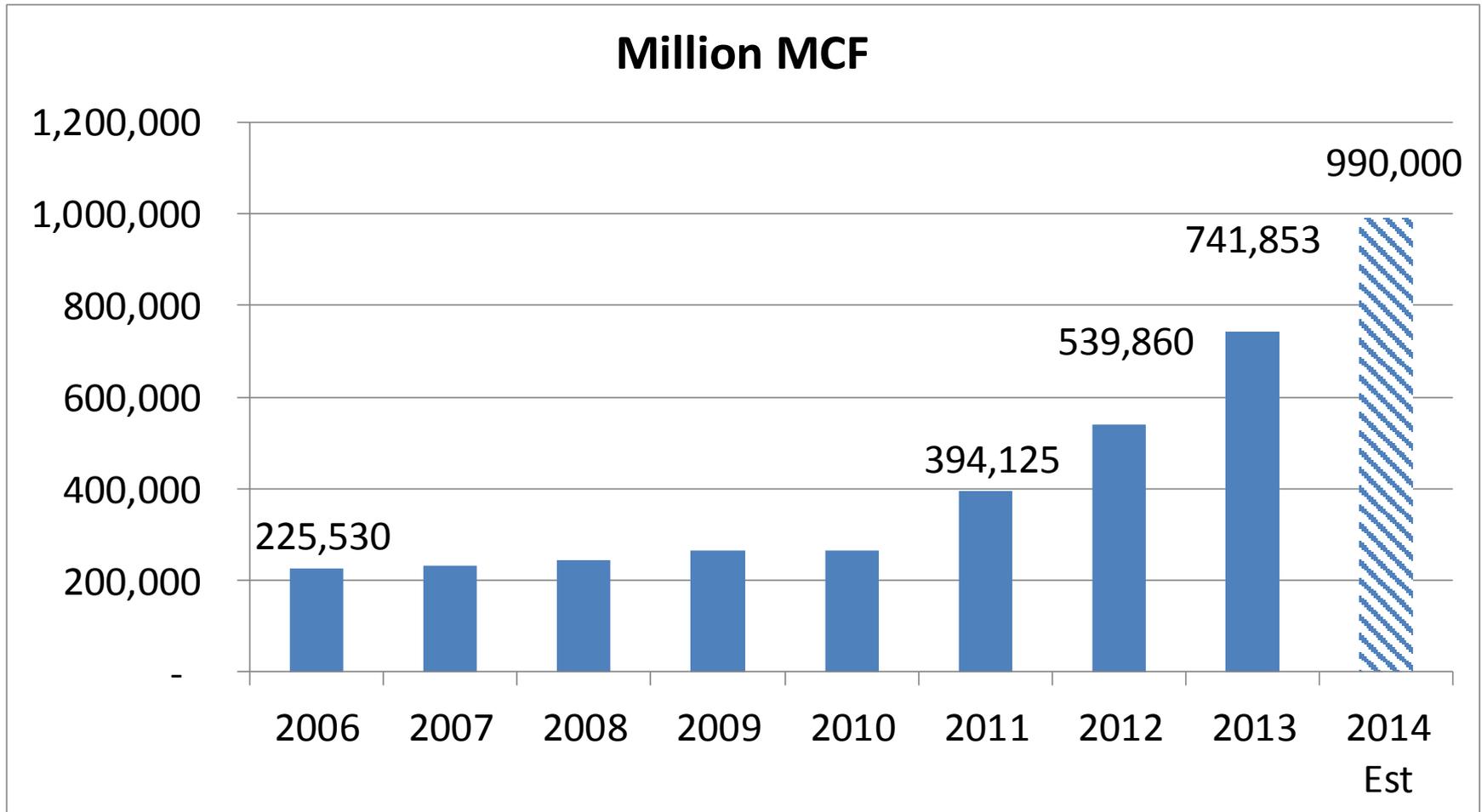
Economic highlights

State is performing well compared to the rest of the nation (2006-2013).

- WV ranked 15th highest in average annual real GDP growth of nearly 1.4% (0.9% U.S.)
- WV ranked 7th highest in average annual per capita personal income growth of 3.3% (U.S. 2.3%)
- WV ranked 2nd highest in increase in natural gas proved reserves behind PA with an increase of more than 8.3 trillion cubic feet in 2013 (27% of total gain in U.S.)

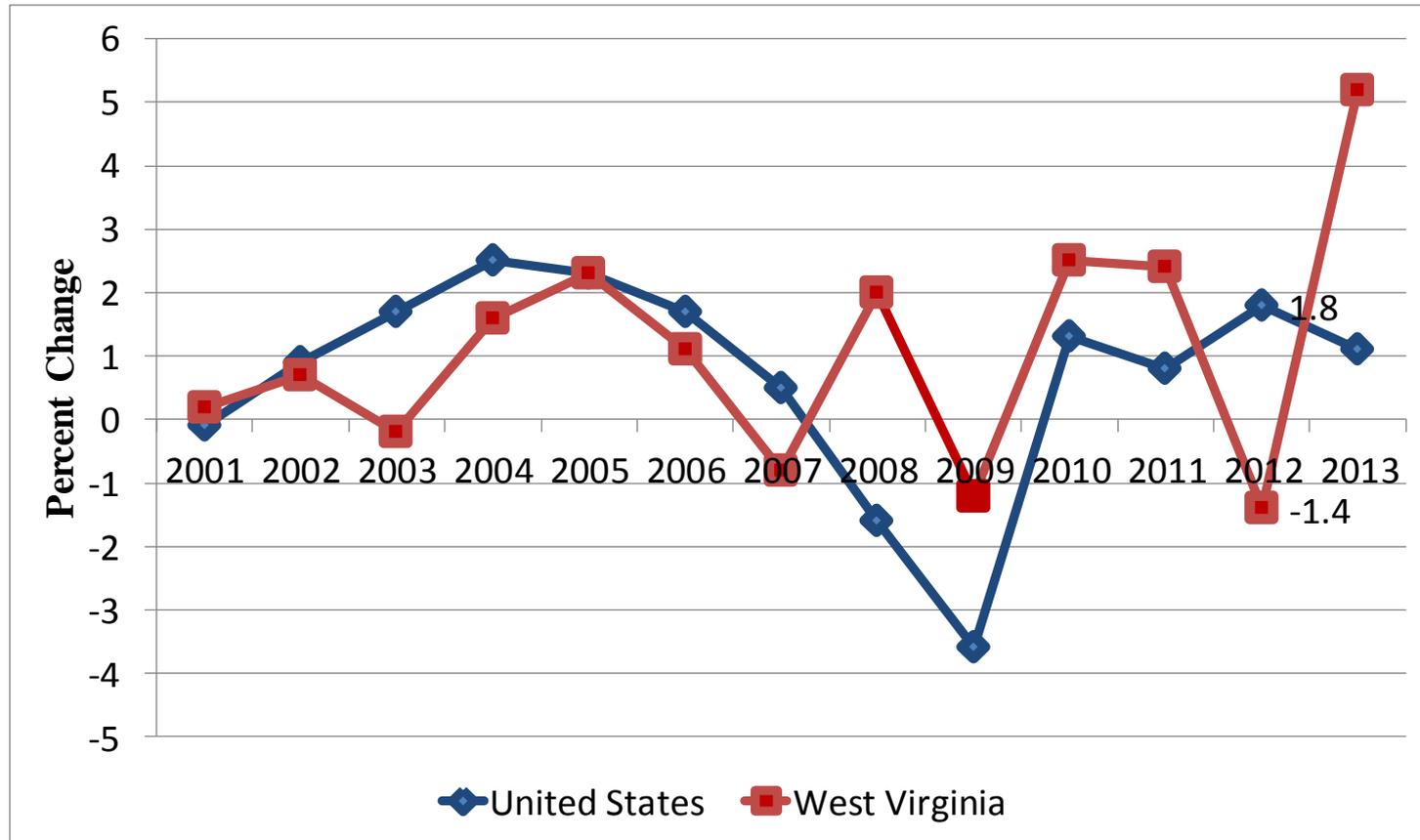
Natural Gas Production

West Virginia up 37% in both 2012 and 2013



Annual Per Capita Real GDP Growth

Generally higher in West Virginia since 2008

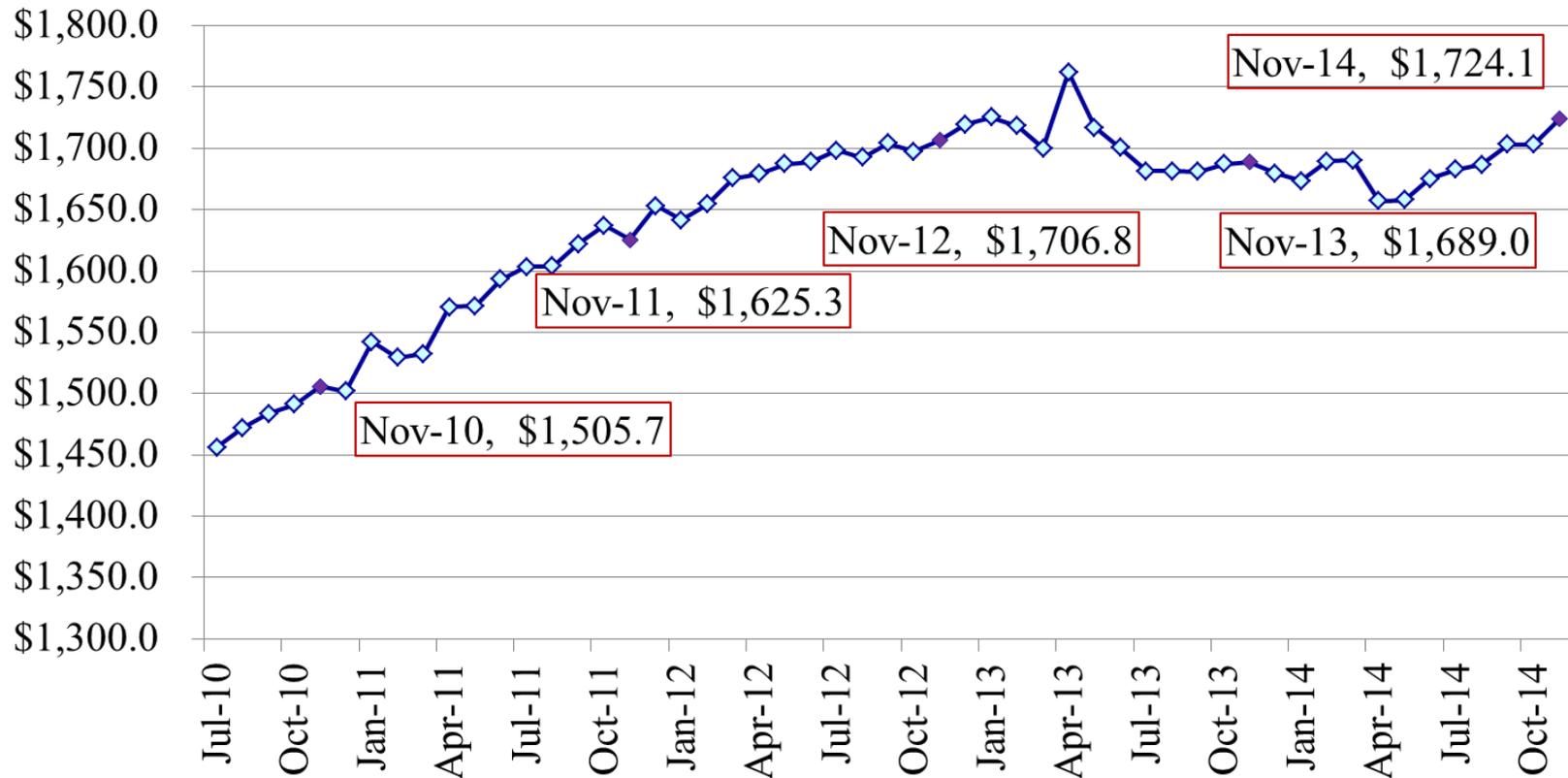


Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Personal Income Tax

Renewed growth in FY2015

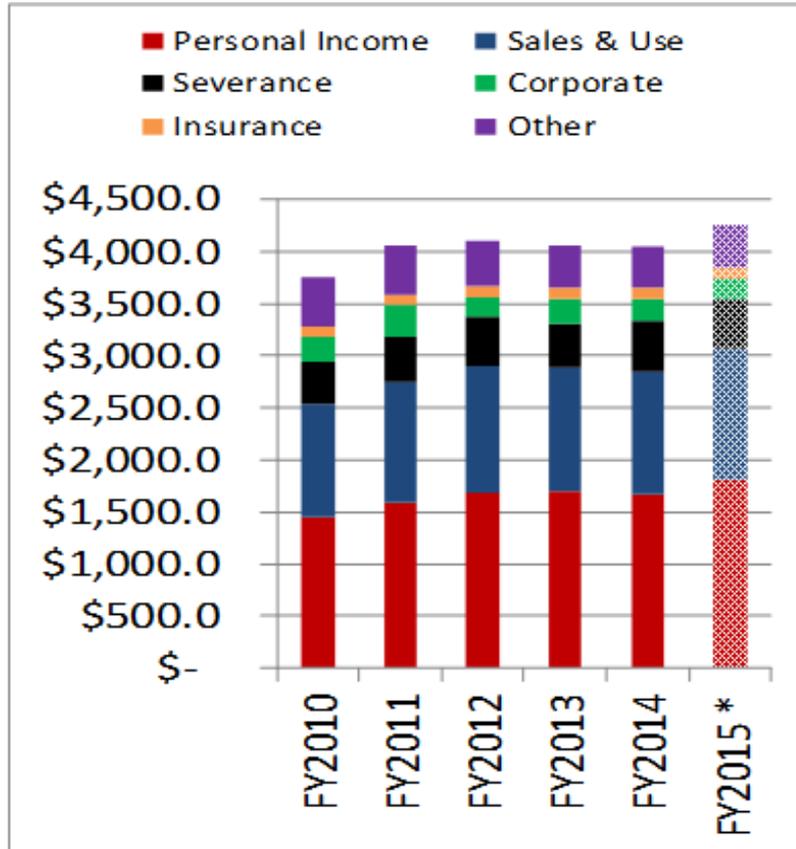
TRAILING 12-MONTH TREND
(in millions)



FY2015 Results as of November

State General Revenue Fund

1.9% Average Annual Growth Rate 2010-2014



Reasons for Flat Revenue Trend

Economic

- Falling energy prices and lower coal demand
- Weak wage growth & federal payroll tax increase
- Turmoil in federal government and health care sectors

FY2011-FY2014 (millions)

MOTOR VEHICLE TAX CREDIT - \$64M (one-time)

| FY11 | FY12 | FY13 | FY14 |
|------|------|------|------|
| \$0 | \$0 | \$29 | \$36 |

FOOD TAX PHASE-OUT -\$79M

| FY11 | FY12 | FY13 | FY14 |
|------|------|------|------|
| \$0 | \$11 | \$52 | \$79 |

BUSINESS TAX CHANGES -\$85M

| FY11 | FY12 | FY13 | FY14 |
|------|------|------|------|
| \$15 | \$30 | \$58 | \$85 |

FY2015 General Revenue Fund Estimate is 6.1% above actual FY 2014 collections.

Sum of Permanent State Tax Reductions

Fiscal Impact Years 2006-2016 (in millions)

Business Taxes

| | |
|-------------------------------------|--------|
| Corporation Income Tax (9% to 6.5%) | \$69.0 |
| Phase Out Franchise Tax | 150.0 |
| Repeal Charter Tax & Telecom Taxes | 7.0 |
| Other Tax Changes Net | 10.0 |

| | |
|---|-----------------|
| Total Net Business Tax Reduction | \$ 236.0 |
|---|-----------------|

Individual Taxes

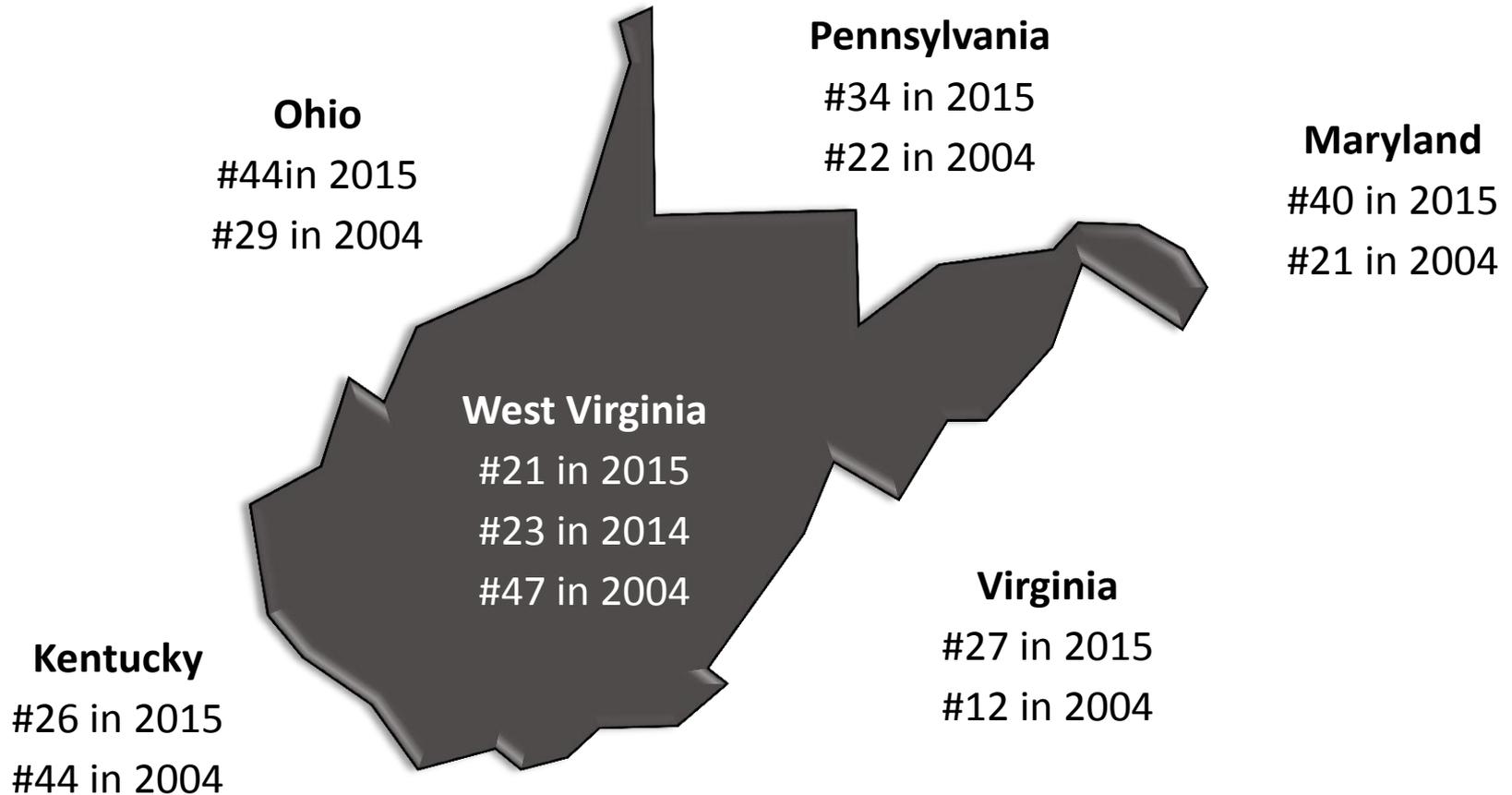
| | |
|------------------------------|---------|
| Repeal Sales Tax – Groceries | \$162.0 |
| Low-Income Tax Credits/Other | 27.0 |

| | |
|---|----------------|
| Total Net Individual Tax Reduction | \$189.0 |
|---|----------------|

| | |
|--------------------------------------|----------------|
| Grand Total Net Tax Reduction | \$425.0 |
|--------------------------------------|----------------|

State Business Tax Climate Index, FY2015

#1 (Best) to #50 (Worst)



Source: Tax Foundation, 2015 State Business Tax Climate Index (2014)
Tax Foundation, Background Paper, October 2004, No. 45

General Revenue Fund Expectations

Long-term average growth is between 3.5% and 4.0% per year since 1990.

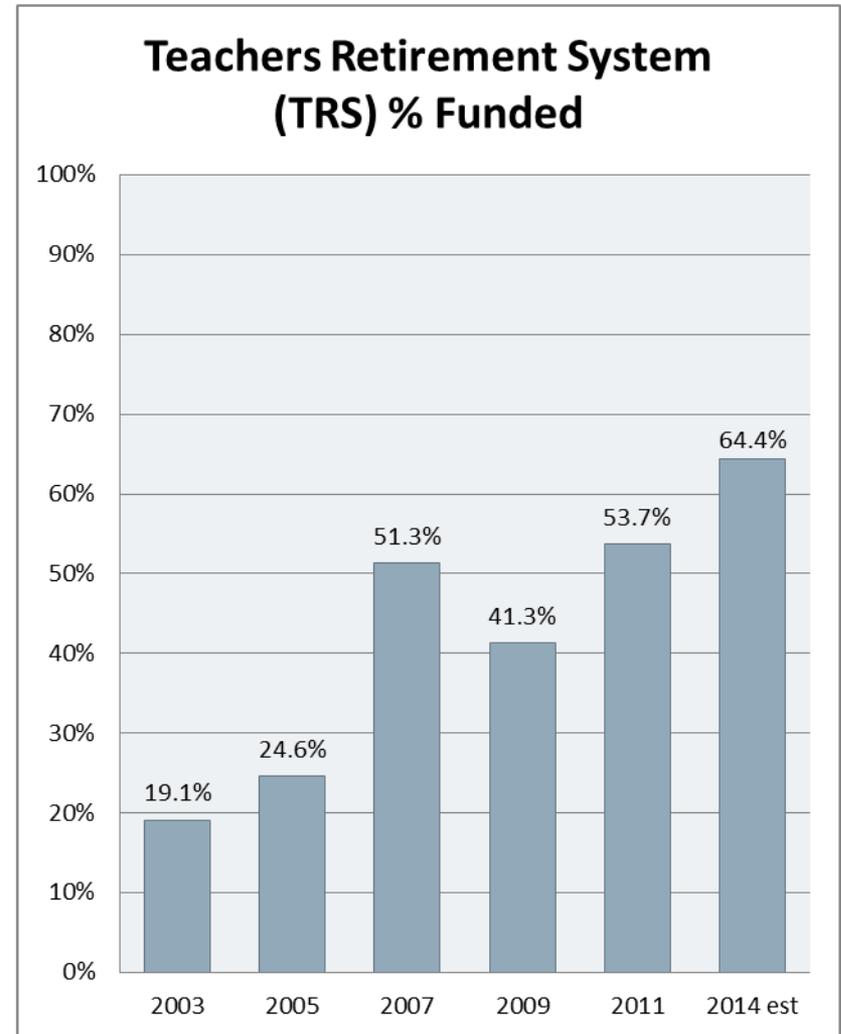
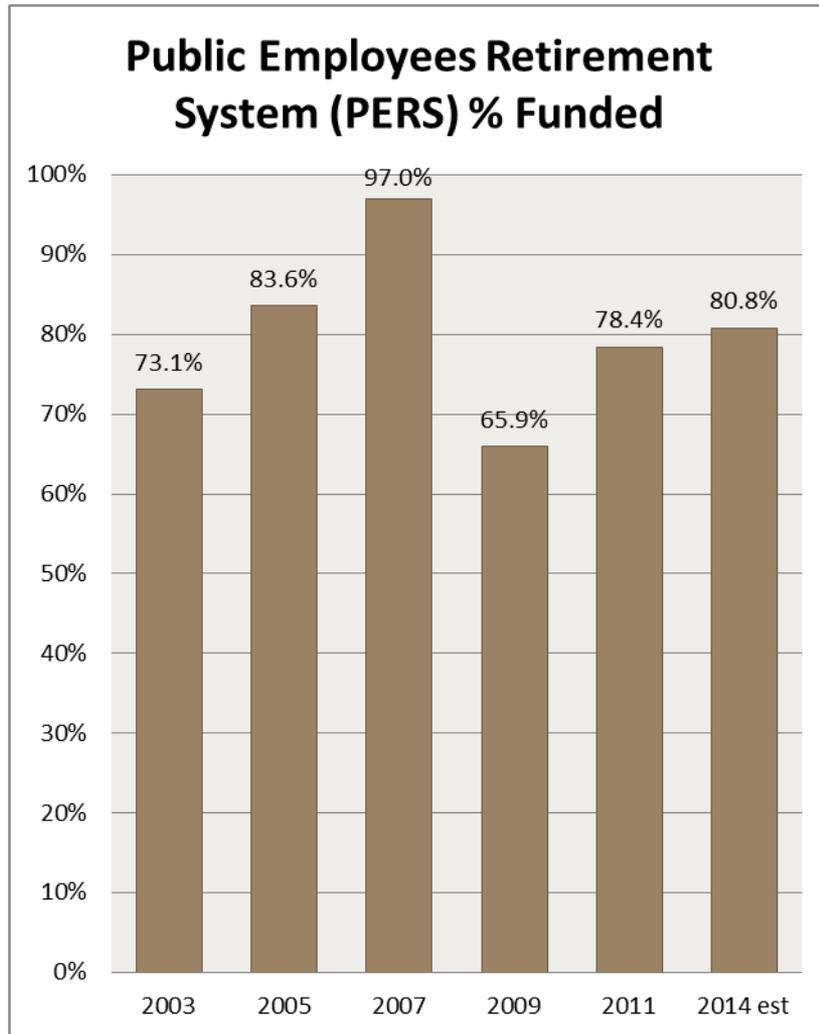
- FY2011: +8.1%
- FY2012: +1.0%
- FY2013: -1.1% (Does not include one-time \$45 million revenue transfer)
- FY2014: -1.2% (Does not include net one-time \$95.5 million revenue transfers)
- FY2015 Est: +6.1% (Includes one-time enhancements of \$42 million)
 - Outlook: +4.5% as of November 30, 2014
 - \$64 million shortfall with range between \$25 million and \$95 million
 - Fiscal Momentum: Positive from August thru November
 - Stable to rising energy prices result in smaller shortfall
 - Falling energy prices result in greater shortfall

General Revenue Fund Expectations

FY2015 – Budget actions to be taken to balance current year's shortfall:

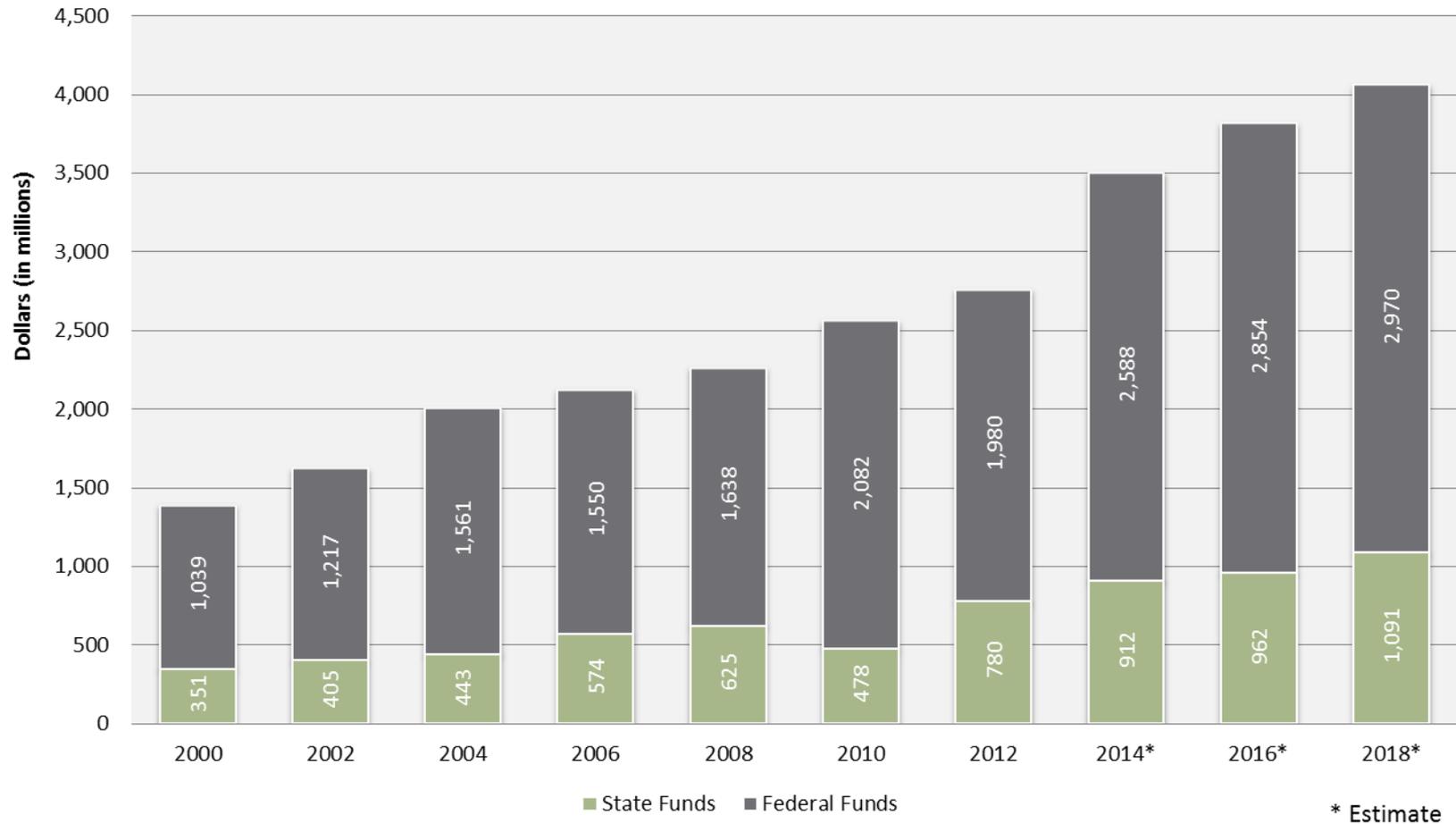
- Continue a General Revenue hiring freeze.
- Possible use of Income Tax Refund Reserve Account.
- Use FY2014 General Revenue Fund surplus and FY2014 surplus lottery funds to fill in Medicaid Gap.
- If needed, expire to the General Revenue Fund selected Special Revenue accounts' excess cash.

Pension Plan Funding Ratios Improving

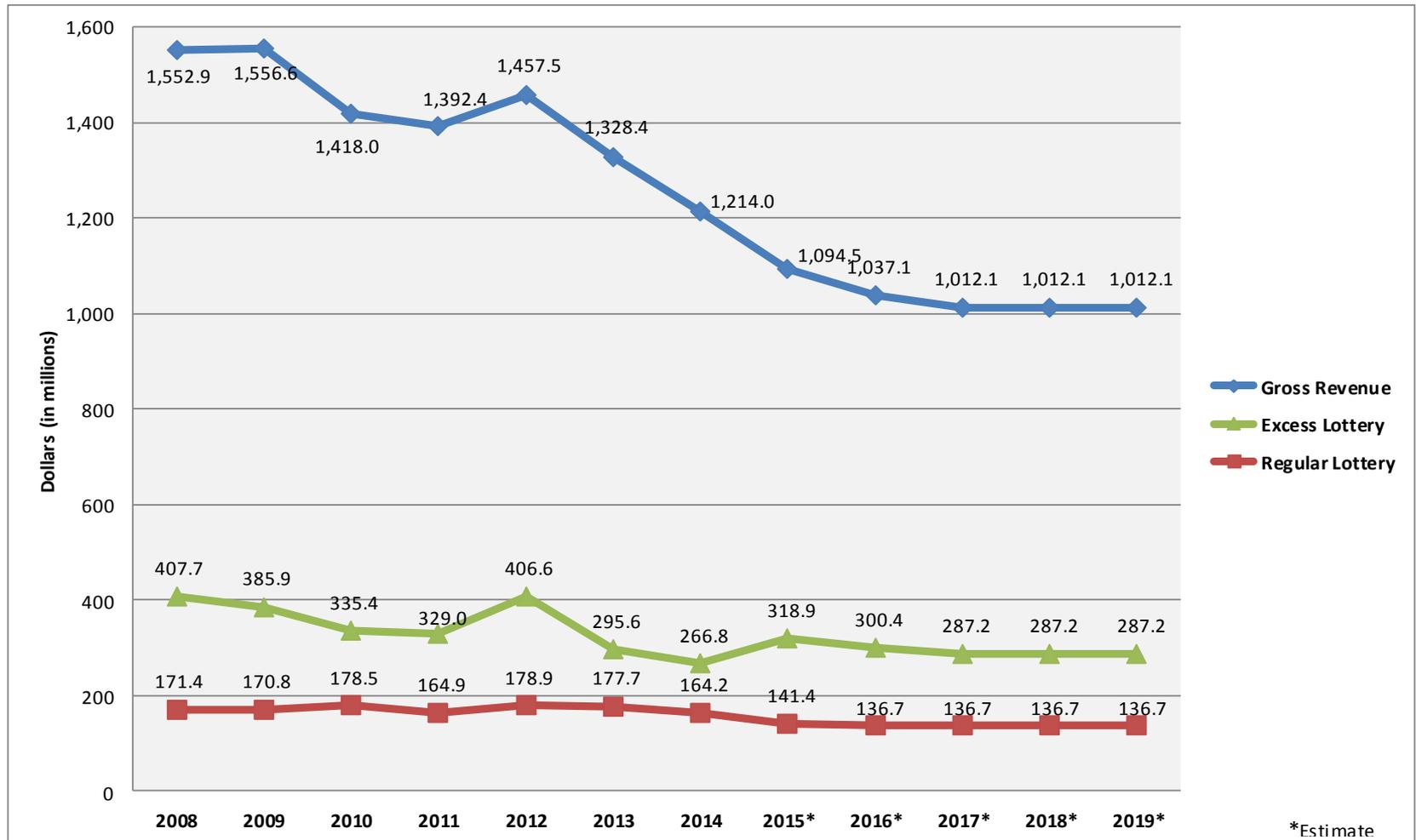


Medicaid Expenditures

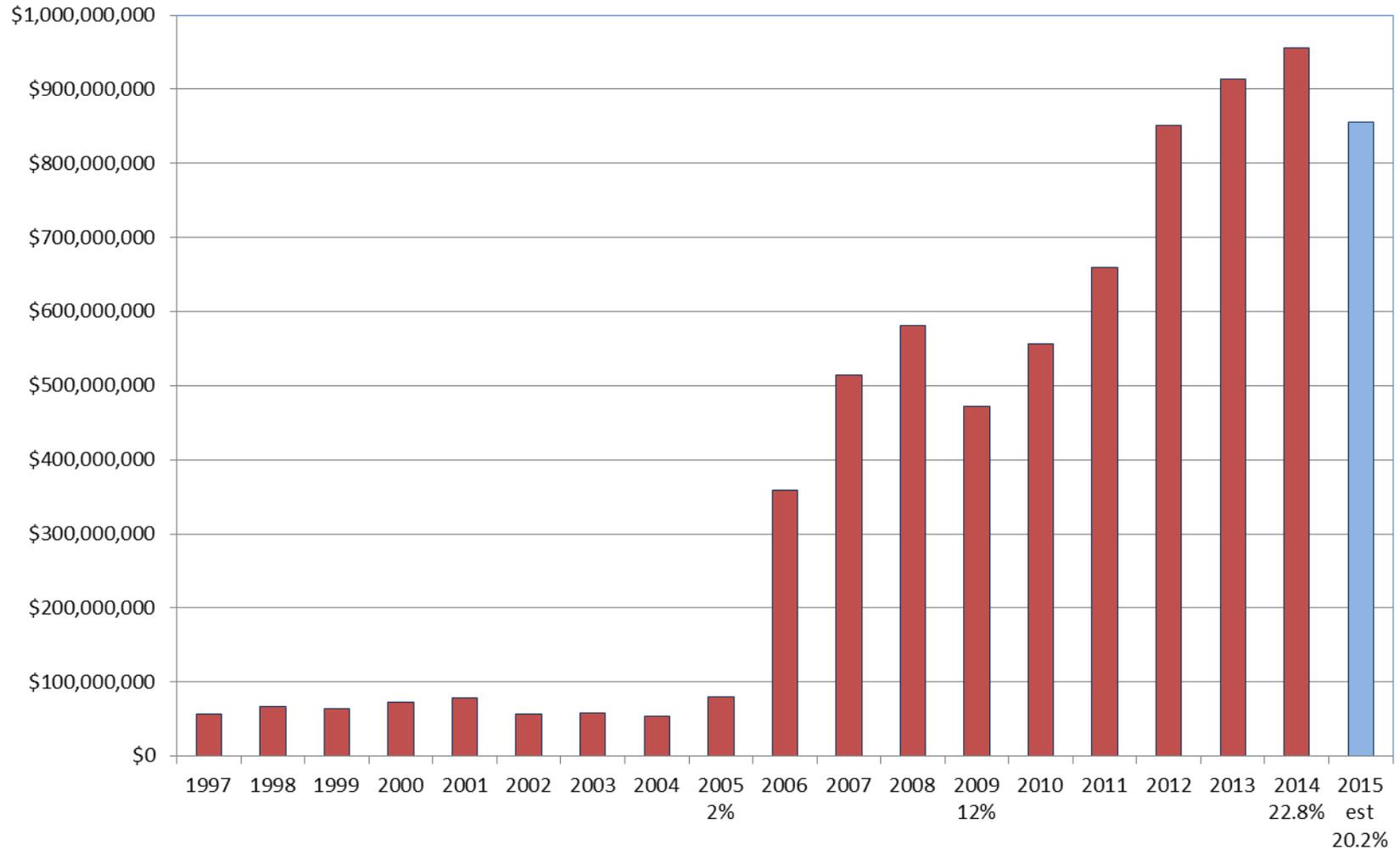
Medicaid Expenditures



West Virginia Lottery Funds



Rainy Day Balance at End of Fiscal Year



GOVERNOR'S BUDGET
FY2016

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Questions?