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The Budget and Performance of West Virginia's General Revenue Fund

Dave Hardy, Cabinet Secretary
West Virginia Department of Revenue

Dave Hardy is Cabinet Secretary of the West Virginia Department of Revenue. He also serves as the governor's designee on both the Municipal Home Rule and the Board of Treasury Investments.

Secretary Hardy has more than 33 years of experience in private legal practice and is also a certified public accountant with decades of experience balancing the budget for the Mountain State's most populous county. He has a combined 21 years of service to the citizens of Kanawha County, first as a member of Charleston City Council (1995 to 2001), and later as a commissioner on the Kanawha County Commission (2001 to 2017).

He earned bachelor's degrees in history, government and accounting from West Virginia University Institute of Technology. Secretary Hardy earned his law degree from the University of Tennessee College of Law.

In 1993, he was named a partner at Jackson Kelly law firm. In 2012, he formed the Hardy Pence firm, which specializes in mining and energy law.

Secretary Hardy has served on the board of the Clay Center for the Arts & Sciences and the Charleston Area Alliance.

The primary purpose of West Virginia's General Revenue Fund (GRF) is to collect and hold tax revenues from various sources for the expenses and appropriations detailed in the governor's executive budget. The two primary GRF expenditures are education and health care. In fiscal year 2017, education spending involved 57 percent of GRF expenditures. West Virginia provides significant funding for local school districts as well as the public university and college system.

Appropriations to the Department of Health and Human Resources (DHHR) comprised roughly 25 percent of fiscal year 2017 GRF expenses. Medicaid is the primary DHHR expenditure at $220 million. The DHHR also provides various services such as drinking water treatment and substance abuse care, as well as significant funding for medical, psychiatric, retirement and hospice care.

The three primary sources of revenue for West Virginia's GRF are income, sales and severance taxes. In fiscal year 2017, personal income taxes – the tax on a person's individual income from wages and salary – comprised 44 percent of the GRF. The West Virginia state sales tax rate is currently six percent, meaning that six percent of the sale price on transactions where goods and services are traded at the retail level is collected by the state government. Thirty percent of the GRF in fiscal year 2017 was provided by sales tax. Severance taxes are the rate at which the state is paid for the removal of its natural resources, which is typically five percent of gross receipts. Another eight percent of the GRF is financed via the severance tax. The final 20 percent is funded by various sources, such as the Tobacco Products Tax, Insurance Tax, Business and Occupation Tax and Corporate Net Income Tax.

Depending on severance taxes for a large share of GRF revenues is somewhat uncommon, but is a more regular practice for states such as Texas, Montana and Alaska, whose economies are heavily invested in energy production. As of fiscal year 2014, West Virginia's severance as a

share of total tax revenue was fifth in the nation, sandwiched between Texas and New Mexico. Severance tax revenues in fiscal year 2017 were comprised of $210 million from coal, $100 million from natural gas and $33 million from oil and other sources.

The natural gas industry has been growing rapidly in the past 10 years, and coal continues to be a large source of revenue. The energy market is volatile, however, and the yearly budget depends on tax revenue from extraction industry activity. This can make predicting a yearly budget, which finances key programs throughout the state, considerably challenging. To show the recent instability in severance tax revenue, GRF total revenues from severance taxes in fiscal year 2015 were $92 million more than in 2017. A 21 percent dip in revenues is extremely large and could mean the loss of hundreds of jobs.

West Virginians depend on government spending for education and health care, and over 100,000 individuals are employed by state monies. Teachers, social workers and judges hold critical roles in society and deserve job stability from fiscal year to fiscal year. So, instead of overspending in good years and cutting jobs in bad years, the Department of Revenue manages a Revenue Shortfall Reserve Fund known as the Rainy Day Fund. The first half of the surplus in any fiscal year goes directly into the Rainy Day Fund, which can be pulled from when there is a dip in energy prices or if natural disaster strikes. West Virginia Code mandates that the Rainy Day Fund should maintain a balance of 13 percent of the total appropriations for the GRF.

As fiscal year 2018 nears its end, the performance of West Virginia's GRF is best described in a report from the credit rating agency Fitch Ratings: "The revision of the outlook to 'stable' from 'negative' incorporates recent stability in key revenue sources… Ratings are supported by the still sizable level of reserves at the state's disposal, which provides financial cushion as the state strives for budgetary equilibrium with its evolving economy."[1]

Financial indicators in West Virginia have been positive in 2018. Coal production increased from 80 million tons to 93 million tons and is projected to remain relatively stable in the short term. Severance tax revenue is forecasted to grow by 12.5 percent, and improvements in pipeline capacity for natural gas are expected to provide a new measure of consistency in the energy production industry. The Rainy Day Fund currently stands at 17 percent of fiscal year 2018's projected GRF and the state expects to end the year above estimate.

West Virginia's GRF is indicative of current stabilizing forces that will ultimately lay a foundation for diverse economic development. V

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[1] *http://www.fitchratings.com/site/pr/10028299*