

West Virginia Fiscal Situation and Outlook

West Virginia Chamber of Commerce
72nd Annual Meeting



Deputy Secretary of Revenue

Mark Muchow

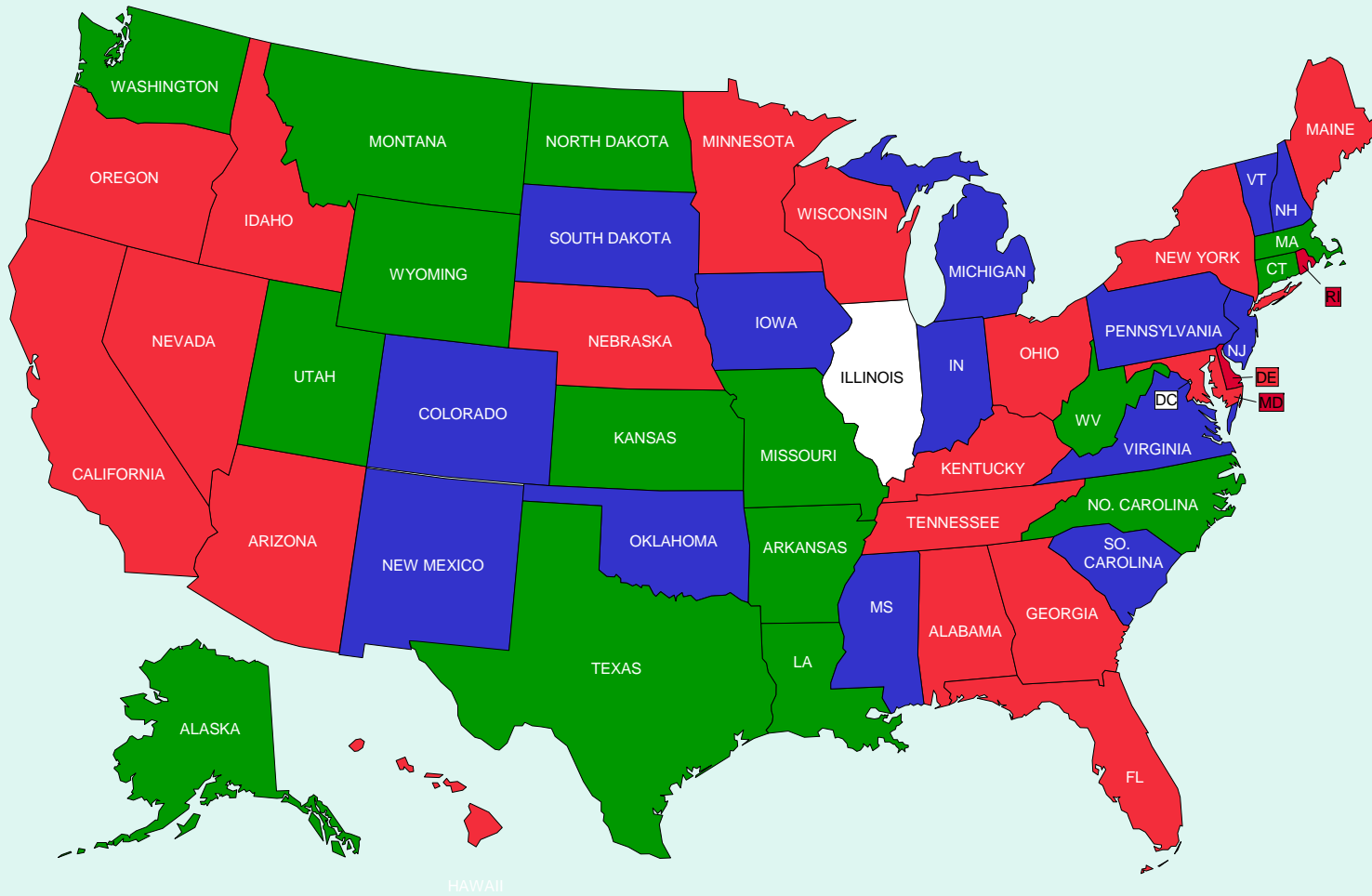
August 28, 2008

Greenbrier Resort

State Fiscal Outlook Overview

- FY2008: bad year-most states, good year- WV
 - Energy Sector: growth especially in last six months
 - Farm Sector: Solid prices for corn & other products
 - Depreciating dollar good for exports – bad for inflation
 - Housing/Finance Sectors in recession
 - Consumer: Less real spending especially on taxable goods
- FY2009: worse year–most states, okay year-WV
 - Income tax collection trends lag economic trends
 - Sales tax collections weaken due to consumer pullback
 - Property tax collections should adjust to housing prices
 - Destination gaming revenues hurt by transportation costs
 - Severance taxes beat to a different drummer

STATE REVENUES: FY 2008 COLLECTIONS VERSUS ESTIMATES



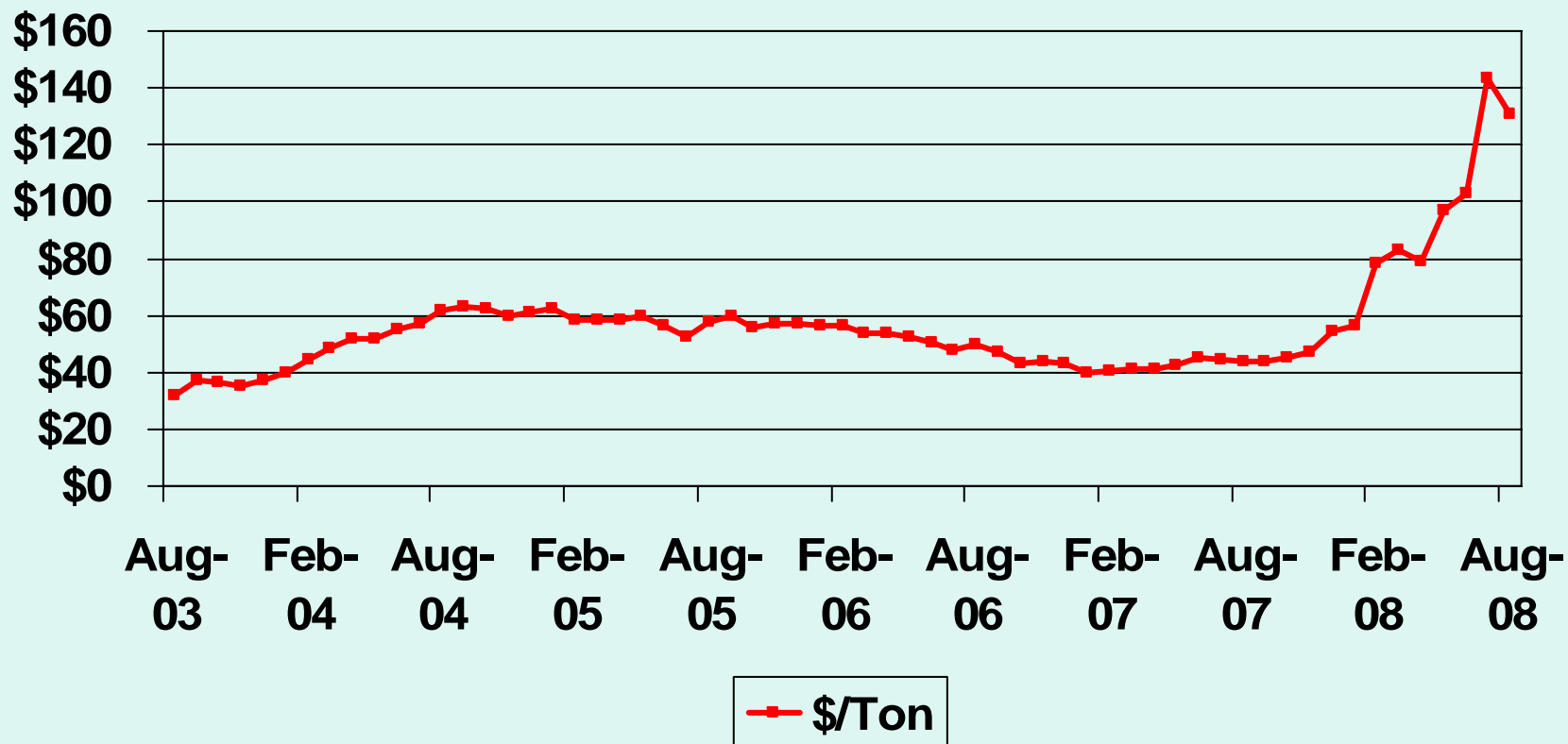
Higher
On Target
Lower
N/A

Source: National Association of State Budget Officers,
The Fiscal Survey of States: June 2008

Spot Prices for Coal on the Rise

Central Appalachian Coal Futures – First Trading Day of the Month

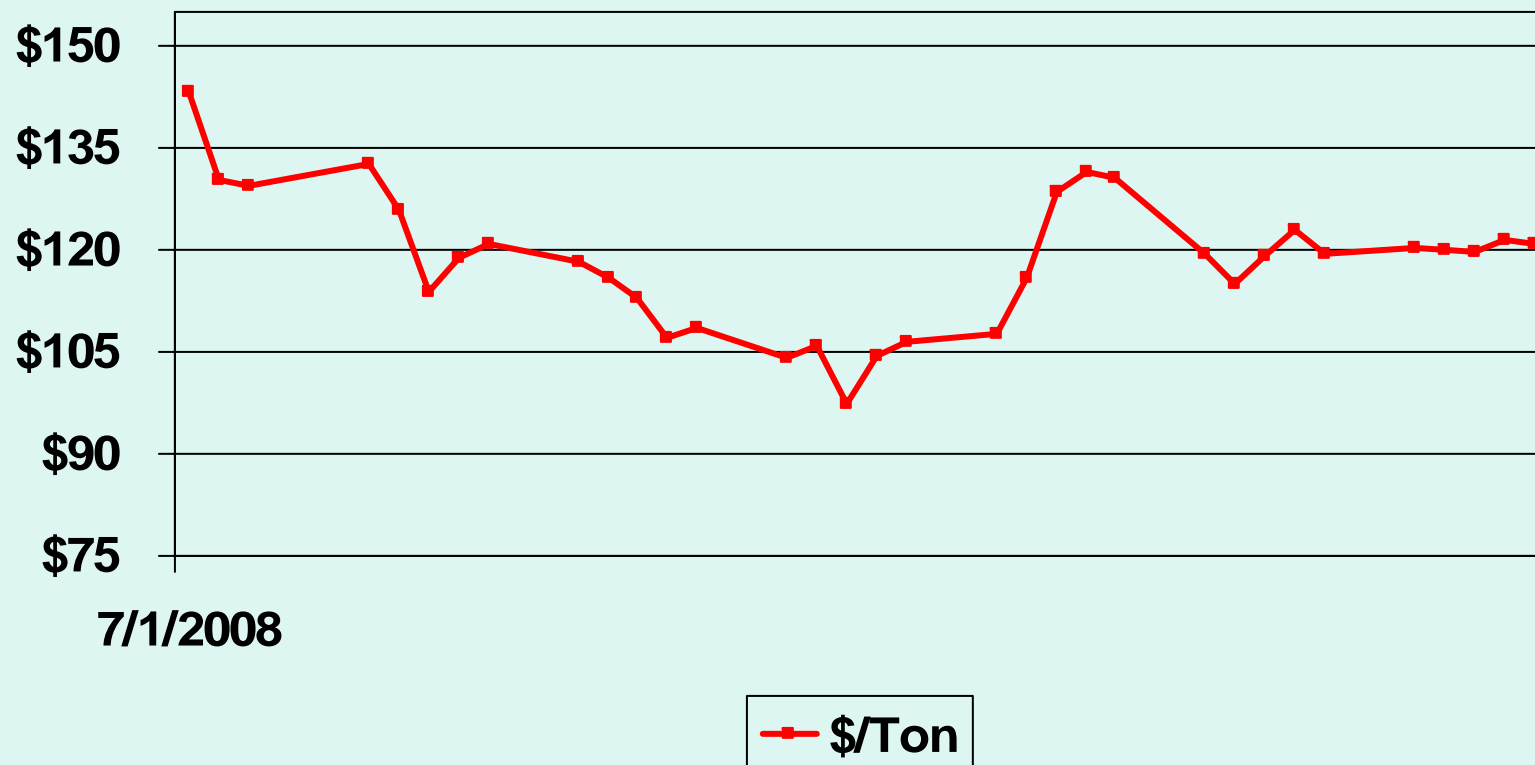
Source: New York Mercantile Exchange



Extreme Volatility - Spot Prices for Coal

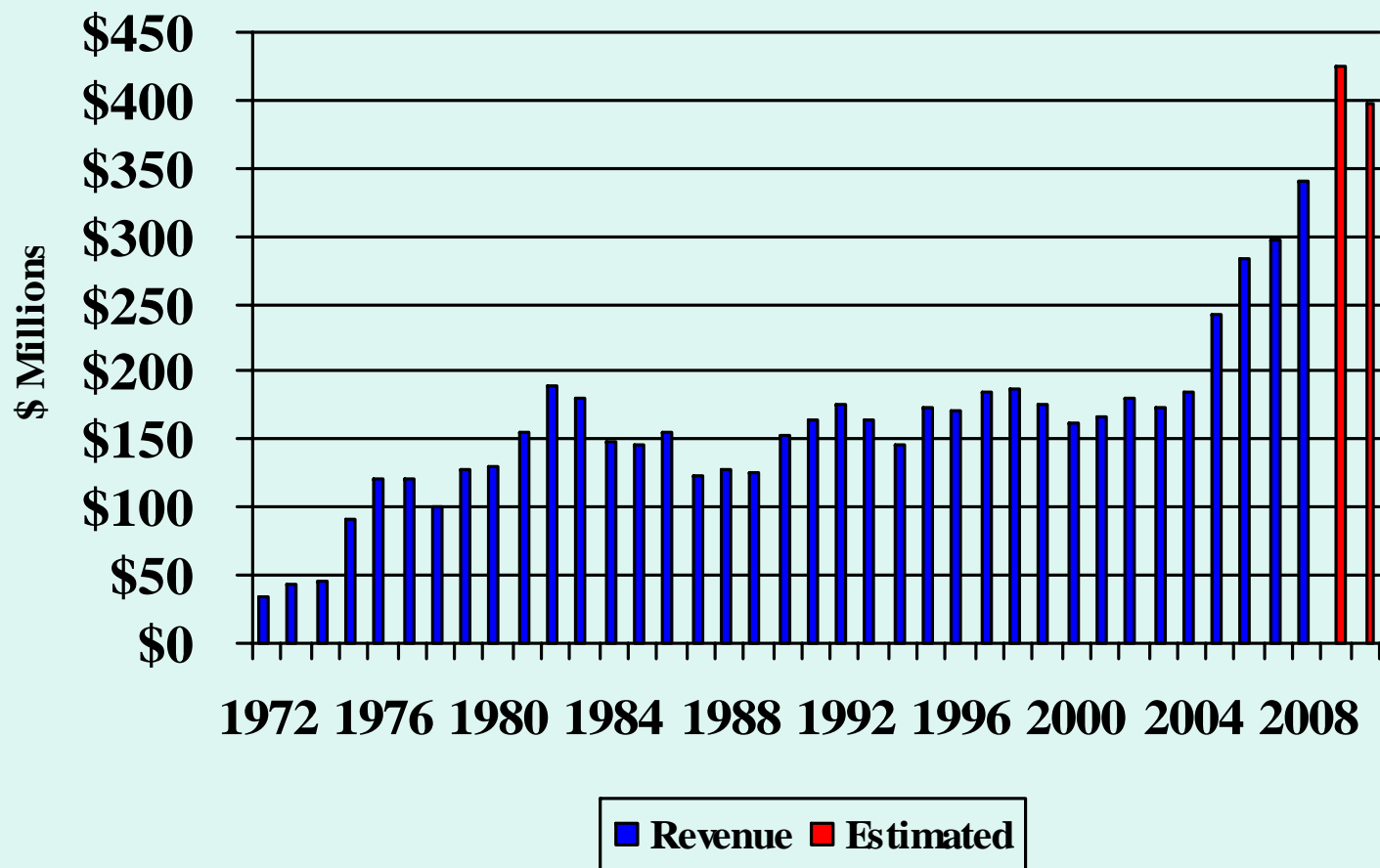
Central Appalachian Coal Futures: July 1, 2008 – August 15, 2008

Source: New York Mercantile Exchange



Expect a New Plateau For Severance Tax Revenues

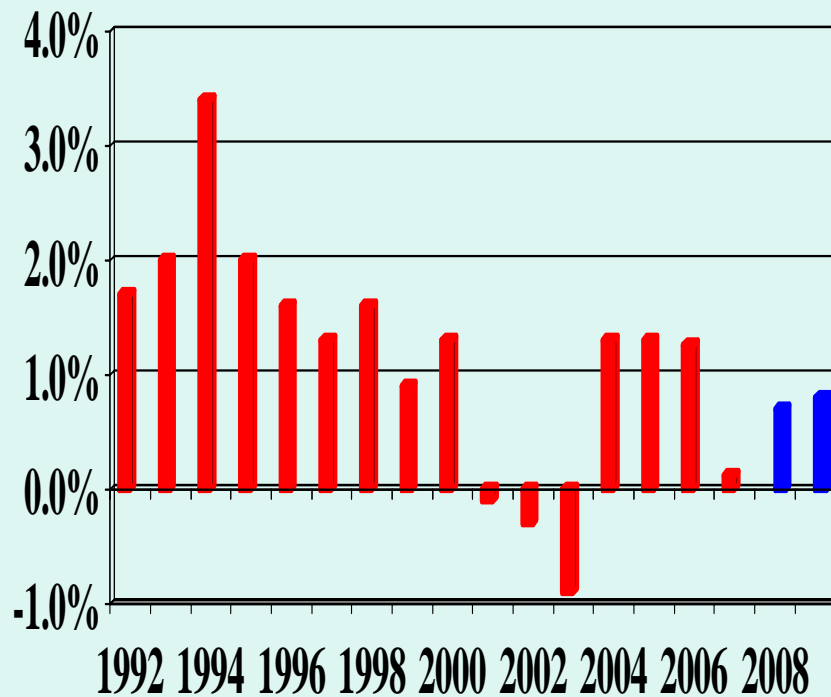
Coal Severance Tax Revenue



Payroll Employment Growth in 2007

Goods Producing -1.7%; Private Services 0.5%; Government 0.3%

Source: WORKFORCE WV & Tax Estimates



■ Job Growth ■ Estimate

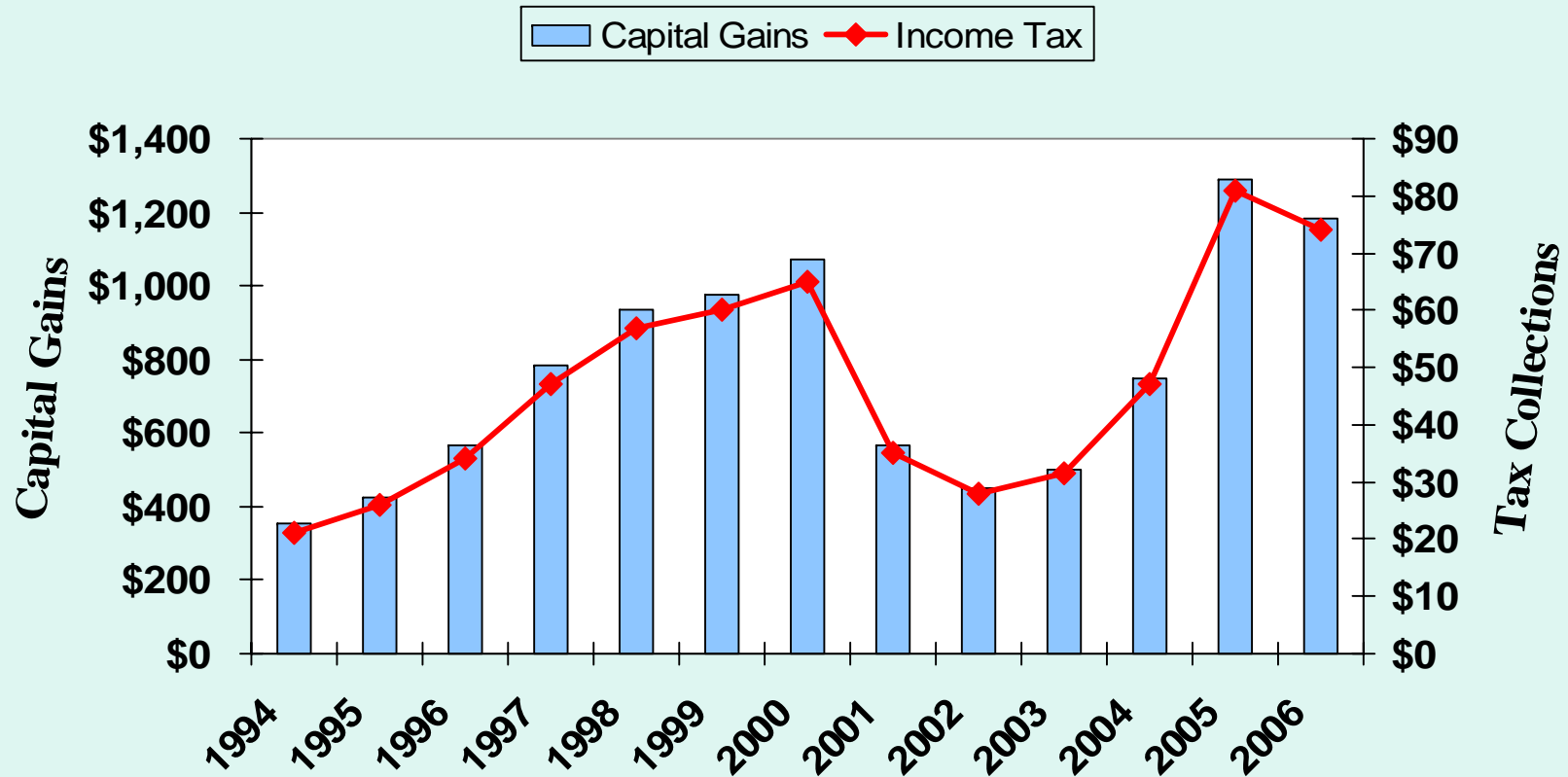
Private Payrolls up < 0.1%

- Health Care/SA +1,300
- Retail Trade + 800
- Mining + 700
- Prof/Bus Service + 700
- Local Government + 600
- Leisure & Hospitality + 400
- Manufacturing - 2,000
- Construction - 700
- State Government - 600

Capital Gains and Personal Income Tax

\$ Millions

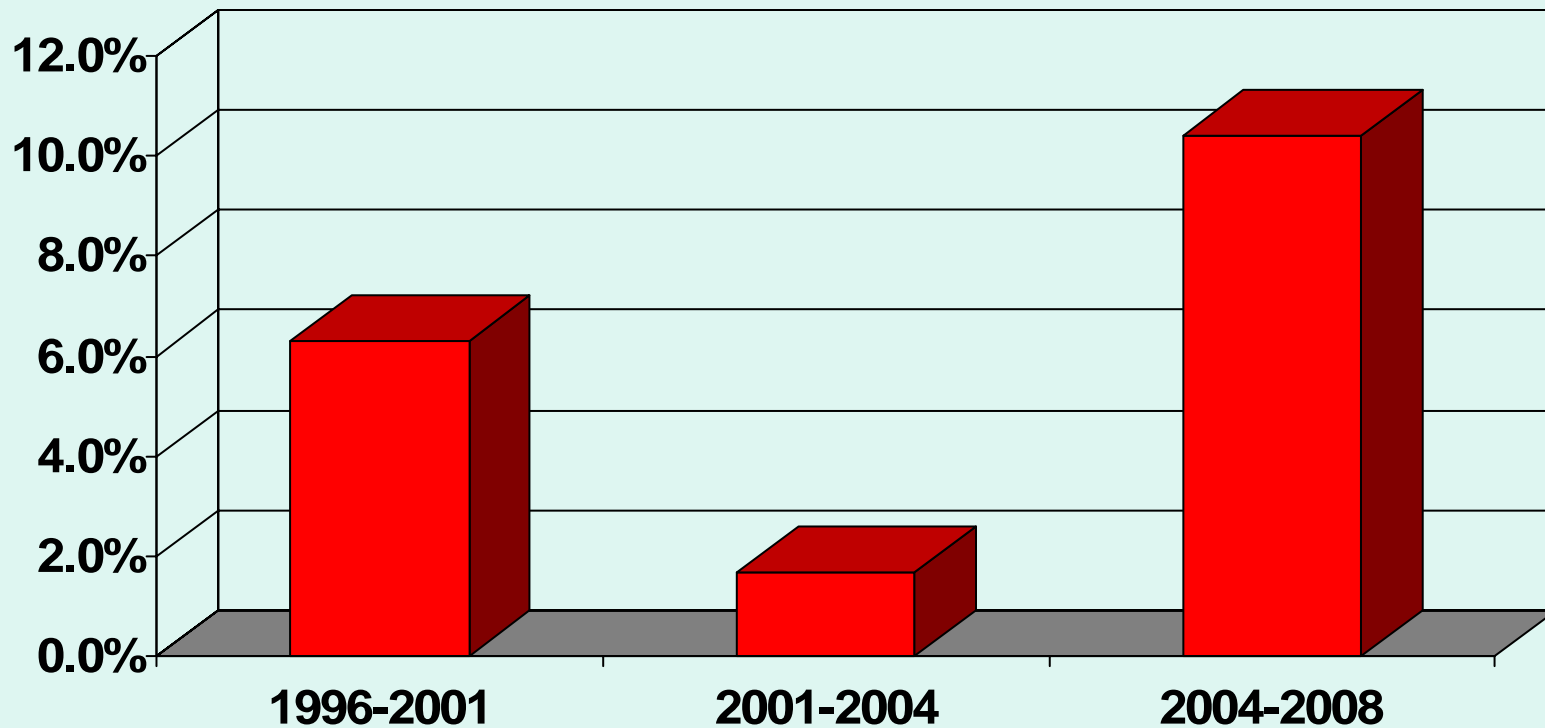
Source: IRS Statistics of Income & Tax Department Estimates



Average Annual Growth - Income

Mild Recession in 2001 with Stock Market Correction
Capital Gains Surge Prior to 2001 and From 2004 to 2007

Personal Income Tax



Sales Tax Changes: 2006-2007

More than \$90 million reduction in FY2008

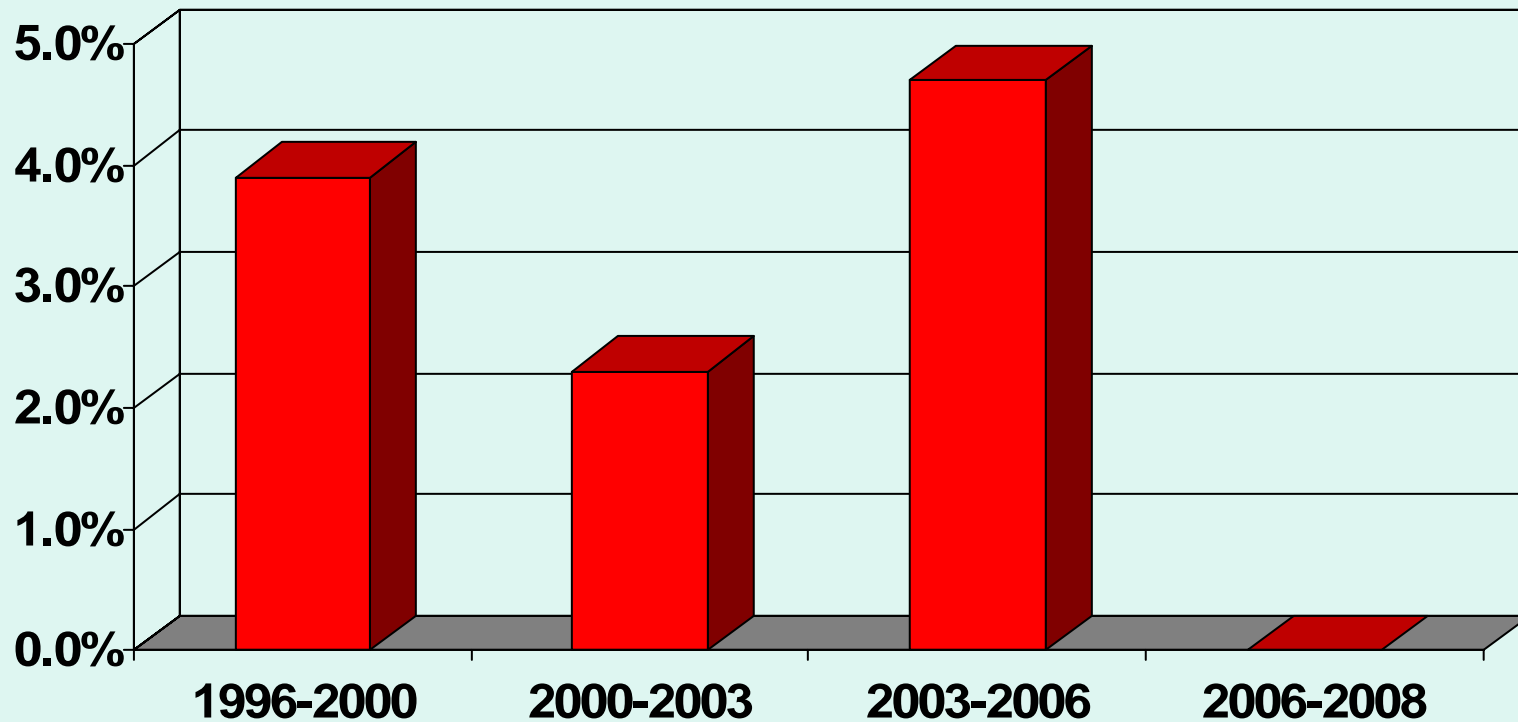
- Sales tax rate on food for home consumption cut from 6% to 4%
 - Reduction to 5% on January 1, 2006 & to 4% on July 1, 2007
 - Cumulative \$50 million dollar tax reduction
- Prescription drug exemption extended to purchases by health care providers
 - Effective July 1, 2007
 - \$10 million annual tax reduction going forward
 - FY2008 revenues reduced by additional \$30 million due to court-related settlements
- Direct use exemptions extended to contractors making purchases on behalf of a tax exempt entity
 - Effective July 1, 2007
 - Estimated \$6 million annual tax reduction

Average Annual Growth - Sales

Mild Recession in 2001

Tax Reductions & Court Decision in 2006-2008

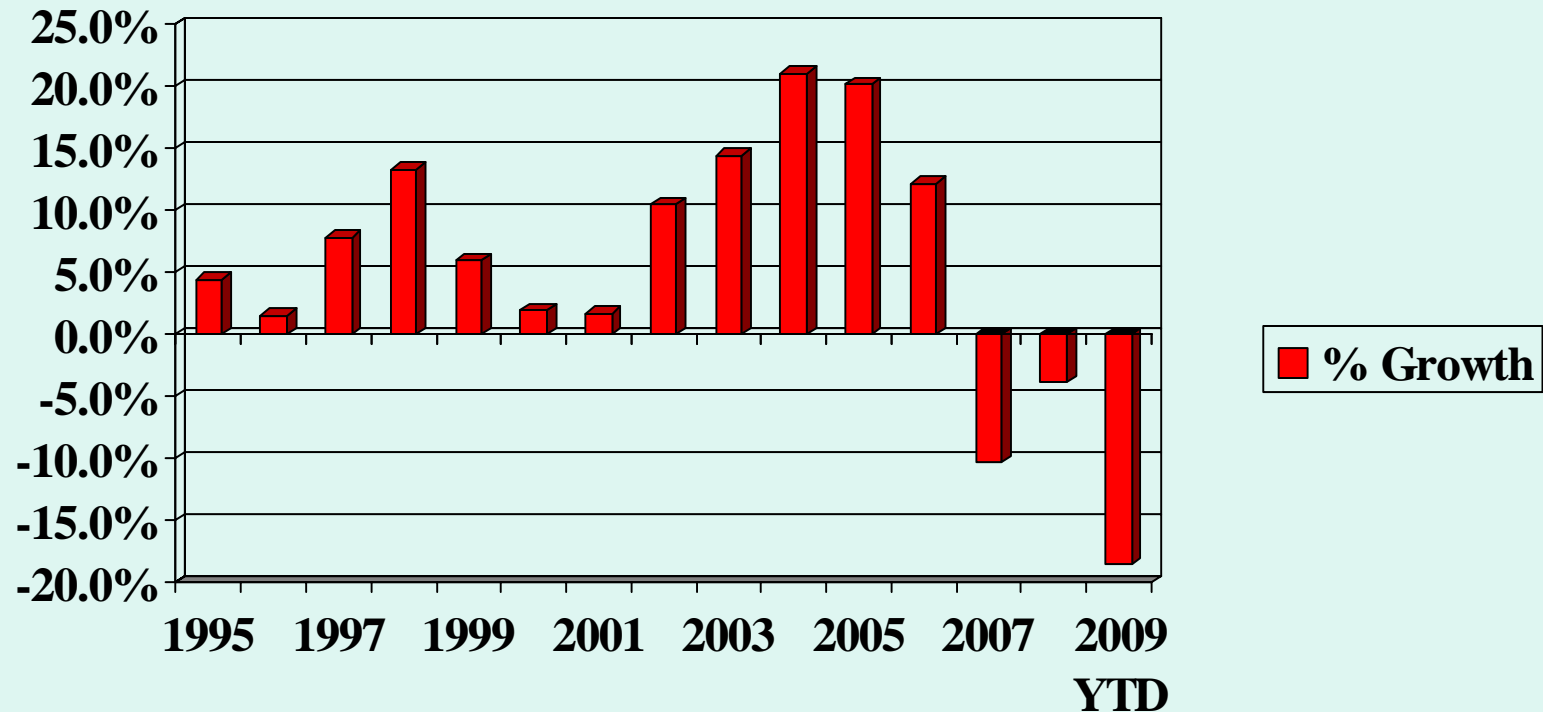
Sales and Use Tax



WV Real Estate-A Hot Commodity Cools Down

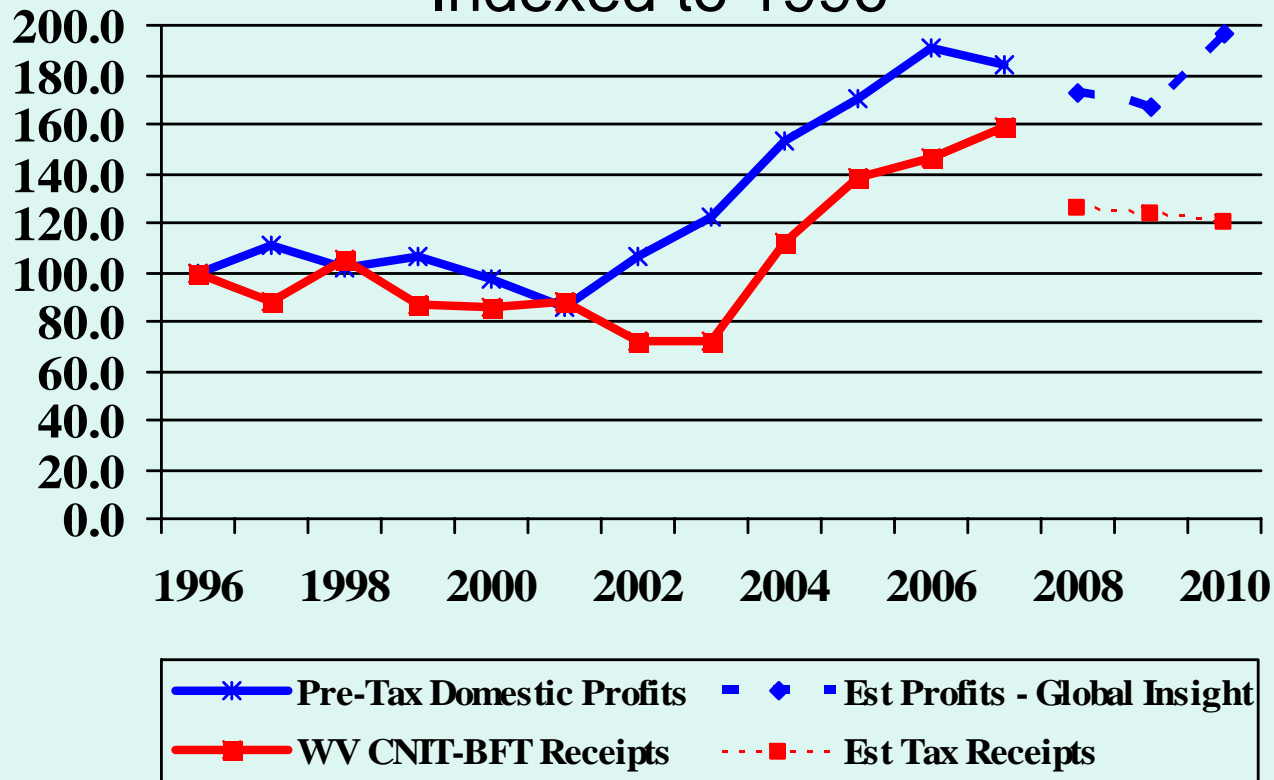
Property Transfer Tax Collection Trends 1995-2009

FY2009 YTD: - 19%



Corporate Tax: Lower Profits & Tax Reduction

Domestic Corporate Profits & WV Tax Trends:
Indexed to 1996



Sources of \$1.066 Billion Gain 2004-2008

[8.1% annual growth rate] \$ Millions

Revenue Source	FY2004 Revenue	Increase FY04-08	YTD FY2009
Corp Net Income/Business Franchise Tax	\$ 181.5	+ \$218.7 120%	- \$ 5.6 - 34%
Severance Tax	\$ 208.4	+ \$181.8 87%	+ \$ 19.3 64%
Personal Income Tax	\$1,074.9	+ \$539.2 50%	- \$ 14.8 - 12%
Consumer Sales & Use Tax	\$1,051.5	+ \$103.3 10%	- \$ 7.3 - 7%
Interest Income	\$ 7.0	+ \$ 45.7 553%	- \$ 1.2 - 26%

Conclusions

- Severance Tax collections will keep WV in the black in FY2009
 - Half of coal tax collections > base year [FY2006] go to WC Debt Fund
 - WC Debt Fund provision expires in FY2010
- The forecast assumes a correction in income tax receipts in FY2009
 - 1.8% decrease in Personal Income Tax collections
 - 21.2% decrease in Corporate Income/Franchise Tax collections
 - Higher than expected energy prices & inflation may lead to better results
- Sales & Use Tax collections will likely fall below estimate in FY2009
 - Collections may fall short of estimate by significantly more than 1%
 - Inflation, excluding food and energy, is around 2.5%
- Inflation may be a concern in FY2010 budget, but forecast includes assumption of more normal inflation patterns [2%-3%] by 2009-2010