

# The Economy, the Budget and What Government Can Afford

2010 Legislative Briefing Session

February 9, 2010

Mark Muchow, Deputy Secretary

Department of Revenue

# Long-Term Economic Issues for WV

- Lack of Economic Diversification
  - Coal and Government Services are dominant sectors
- Low Per Capita Economic Output
  - Only two-thirds of national average
  - Ranks 49<sup>th</sup> out of 50 states
- Low Per Capita Income
  - Generally Ranks 49<sup>th</sup> out of 50 states
- Lowest Labor Force Participation Rate in Nation

# Demand Factors for Government

- Price of Government (Taxes) to Individual versus Value of Promised Government Benefits
  - Social Security, Medicare, Medicaid priced below cost
  - OPEB priced below cost
- Ability to Pay Taxes create additional demand relative to Benefit Taxes
- Indirect taxes create additional demand relative to direct taxes – Who pays matters!
  - WV tax structure favors residents over economic growth
  - Promise Scholarship would be less popular if funded by income taxes
- Population Density, Demographics & Economic Health

# What is your Definition of too Much Government?

- Too Many Government Employees?
- Too Many Entitlements?
- Tax Load Too High Relative to Services?
- Specific “Too Much Government” More Difficult to Define

# West Virginia State Government Employment

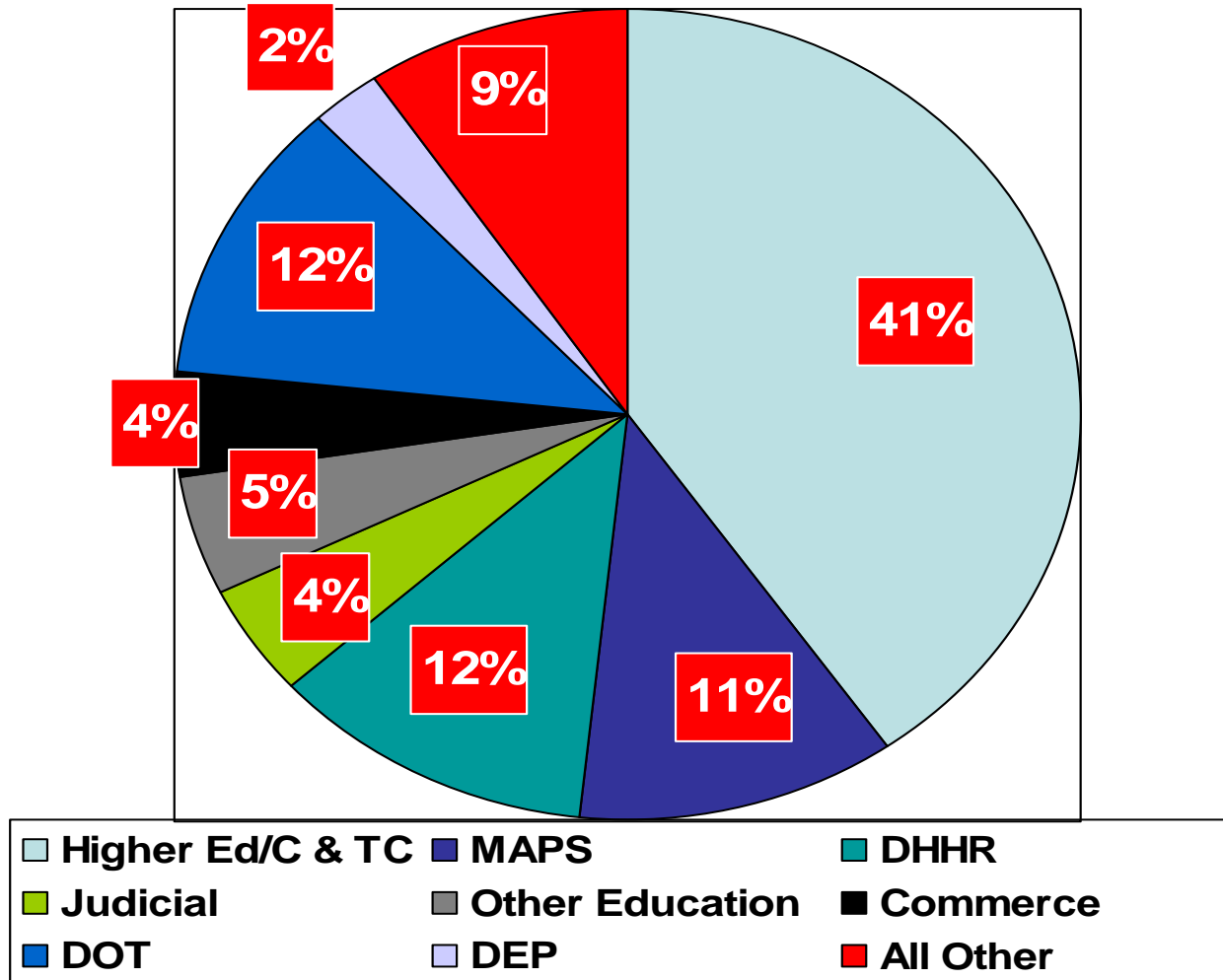
Comparison

From January 19, 2005

To December 31, 2009

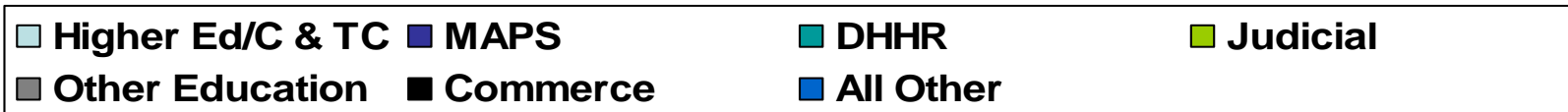
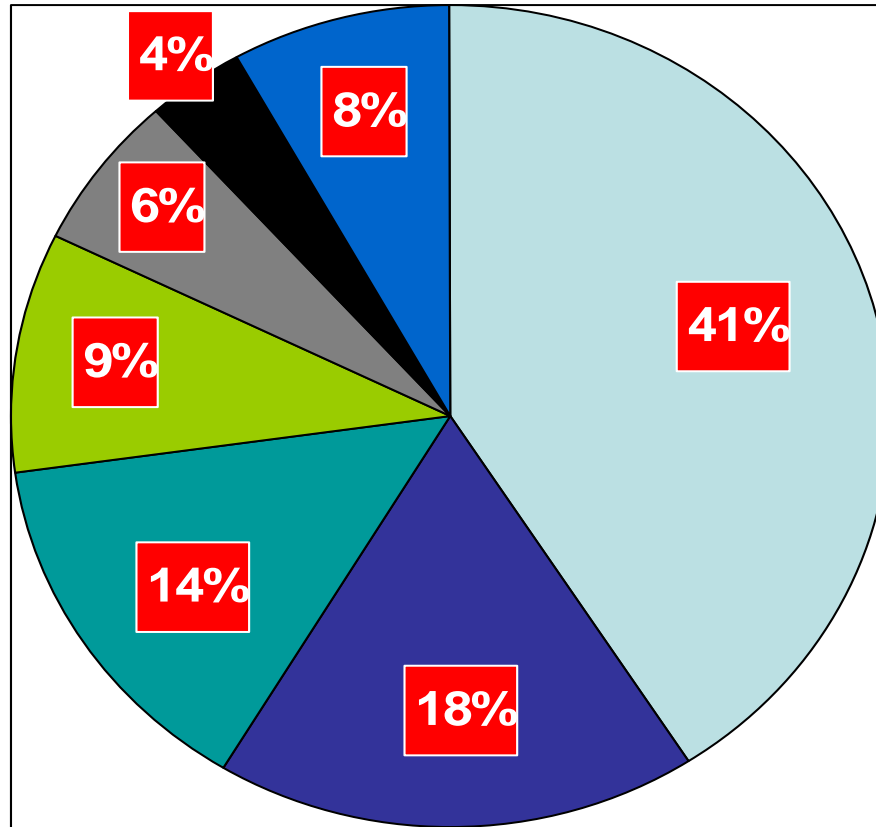
# Total State Payroll

As of December 31, 2009: \$1,477.2 million



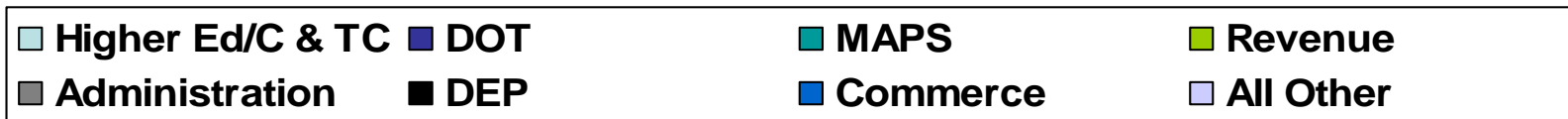
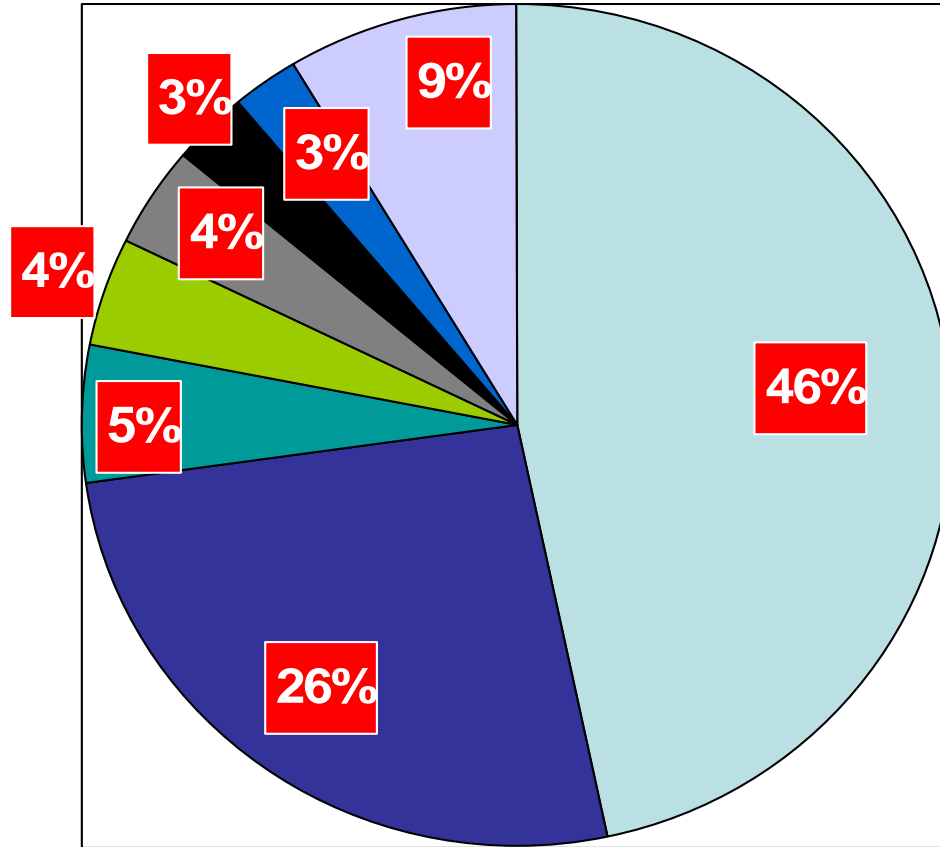
# General Revenue Fund Payroll

As of December 31, 2009: \$692.9 million



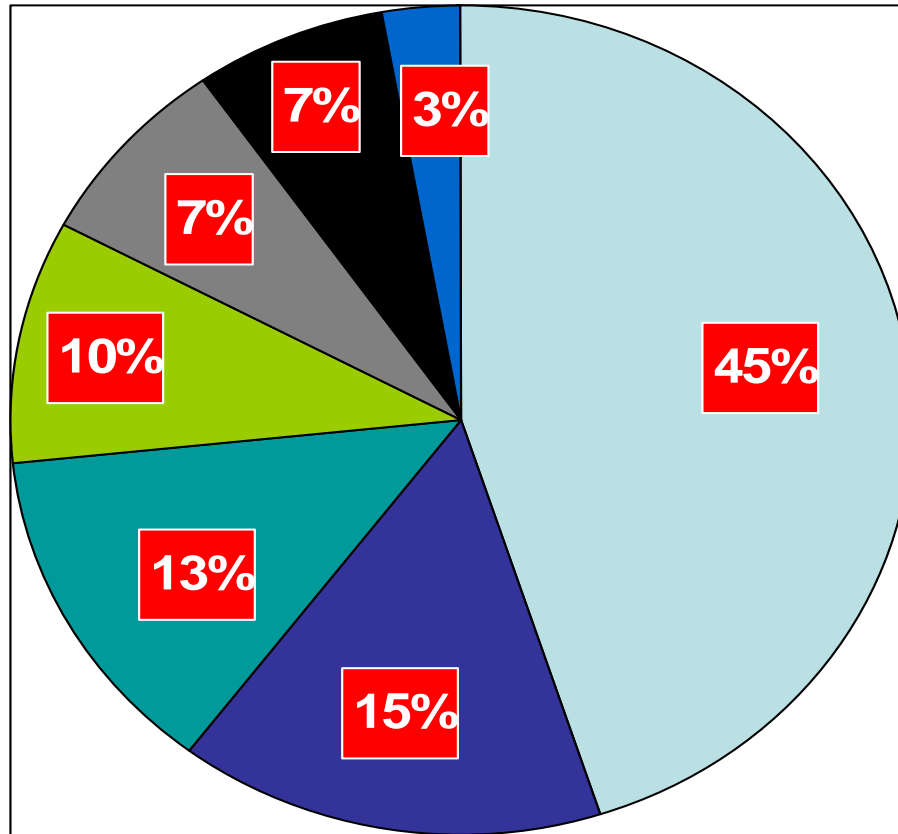
# Special Revenue & Lottery Fund Payroll

As of December 31, 2009: \$638.1 million



# Federal Revenue Fund Payroll

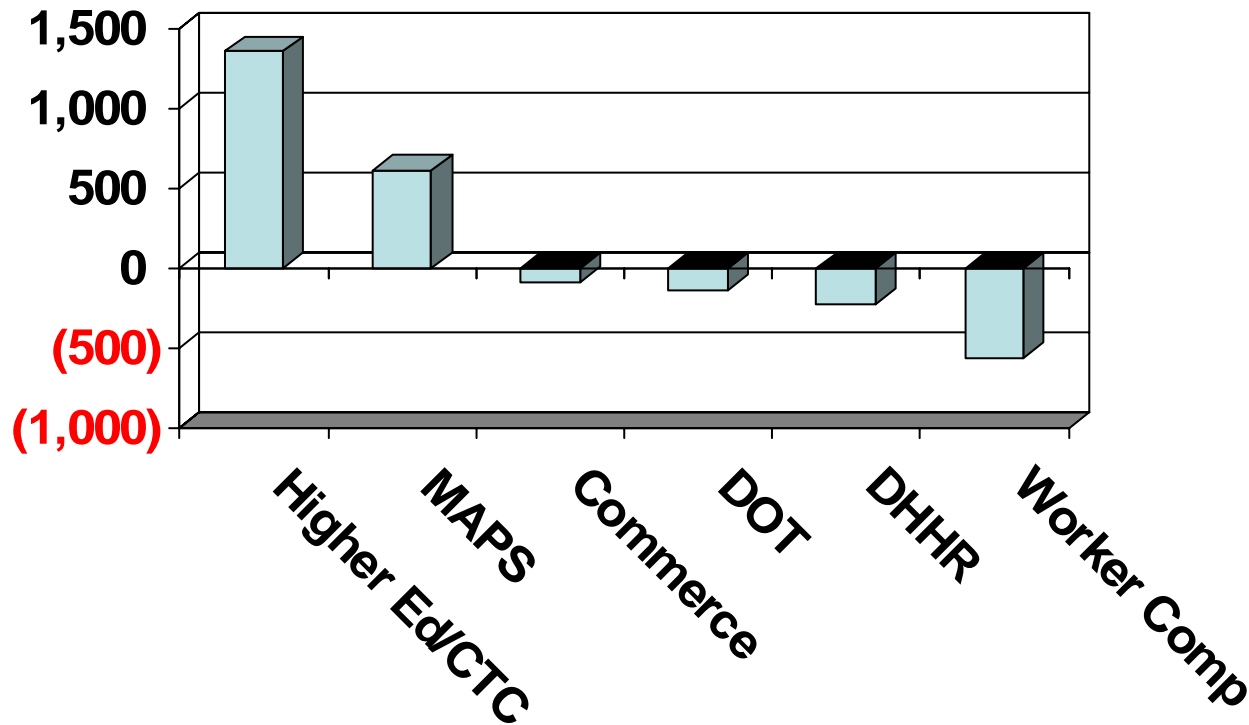
As of December 31, 2009: \$146.2 million



■ DHHR ■ Other Ed ■ Commerce ■ DEP ■ MAPS ■ Higher Ed/C & TC ■ All Other

# Growth in Higher Education Net Decline in Other State Government

Change in FTE's 2004-2009



# Net Gain in State FTE's

1,202 or 3.4% from January 2005 to December 2009

## Employment Increase

WVU Net:	+ 728
Other Higher Ed:	+ 397
Technical Colleges:	<u>+ 229</u>
Subtotal:	+1,354

Corrections:	+ 211
Veteran's Affairs:	+ 128
Juvenile Services:	+ 124
State Police:	+ 56
Regional Jails:	<u>+ 49</u>
Subtotal:	+ 568

## Employment Decrease

Workers' Comp Net:	- 564
(-800 WCC)	
(+236 OIC)	

DHHR Net:	- 227
Rehabilitation S:	- 152
Transportation:	- 140
Commerce Net:	- 85
DEP:	- 39
PSC:	- 25
ABCC:	<u>- 20</u>
Subtotal:	- 688

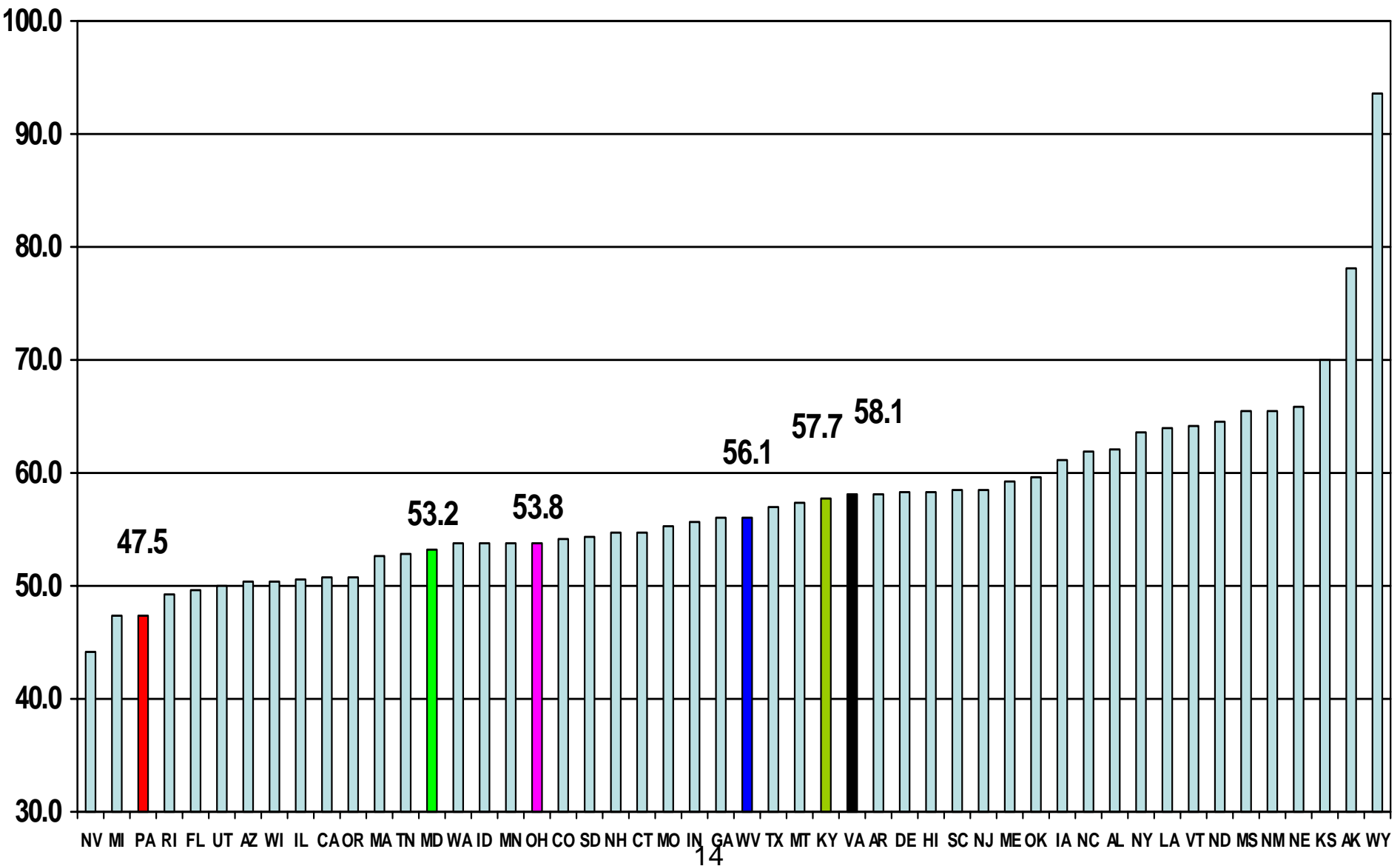
50 State Comparison  
State & Local Government Employment:  
March 2008

Source: U.S. Census Bureau  
Government Employment &  
Population Estimates

# How Does West Virginia Compare?

- WV is median state with 56.1 FTE State and local government employees per 1,000 residents
  - KY & VA employ more government workers
  - MD, OH & PA employ less government workers
- Average state employs fewer FTEs in areas of education, highways, natural resources & financial administration
  - Overall difference is 1.07 FTE [1,940]
  - Education difference is 1.92 FTE [3,481]
- Lowest 5 states with least government employment employ less in education, highways, natural resources & financial administration
  - Overall difference between 5 lowest & WV is 7.93 FTE [14,377]
  - Education difference is 6.26 FTE [11,350]
  - Highways difference is 1.93 FTE [3,499]
  - Natural Resource difference is 0.68 FTE [1,233]
  - Financial Administration difference is 0.63 FTE [1,142]

# State & Local Government FTE's Per 1,000 Residents: March 2008



# West Virginia Government Employment Versus Overall U.S. Average

West Virginia Exceeds Overall Average by 1.07 FTE or 1.9%

## WV Exceeds Average

	<u>FTE</u>	<u>%</u>
Education:	+ 1.92	6.5
K-12 ED:	+ 0.77	3.4
Higher ED:	+ 0.76	11.8
Other ED:	+ 0.39	126.6
Highways:	+ 1.58	88.9
Nat Resource:	+ 0.72	115.9
Fin Admin:	+ 0.59	43.7
Sub Total:	<u>+ 4.81</u>	

## WV Below Average

	<u>FTE</u>	<u>%</u>
Police:	- 1.06	-33.6
Hospitals:	- 1.01	-30.5
Fire Protect:	- 0.59	-51.1
Corrections:	- 0.50	-20.1
Transit:	- 0.47	-59.5
Health:	- 0.38	-25.8
Libraries:	- 0.21	-47.4
Utilities:	- 0.10	-11.5
Sub Total:	<u>- 4.32</u>	

# West Virginia Government Employment Versus Lowest 5 State Average

West Virginia Exceeds Lowest 5 Average by 7.93 FTE or 16.5%

## WV Exceeds Average

	<u>FTE</u>	<u>%</u>
Education:	+ 6.26	25.0
K-12 ED:	+ 4.19	21.8
Higher ED:	+ 1.58	28.0
Other ED:	+ 0.49	233.6
Highways:	+ 1.93	133.9
Nat Resource:	+ 0.68	101.8
Fin Admin:	+ 0.63	47.9
Sub Total:	<u>+ 9.50</u>	

## WV Below Average

	<u>FTE</u>	<u>%</u>
Police:	- 1.02	-32.9
Fire Protect:	- 0.48	-46.0
Corrections:	- 0.45	-18.5
Transit:	- 0.30	-48.6
Judicial:	- 0.27	-17.5
Health:	- 0.12	-10.3
Libraries:	- 0.09	-28.1
Gov Admin:	- 0.09	- 8.3
Sub Total:	<u>- 2.82</u>	

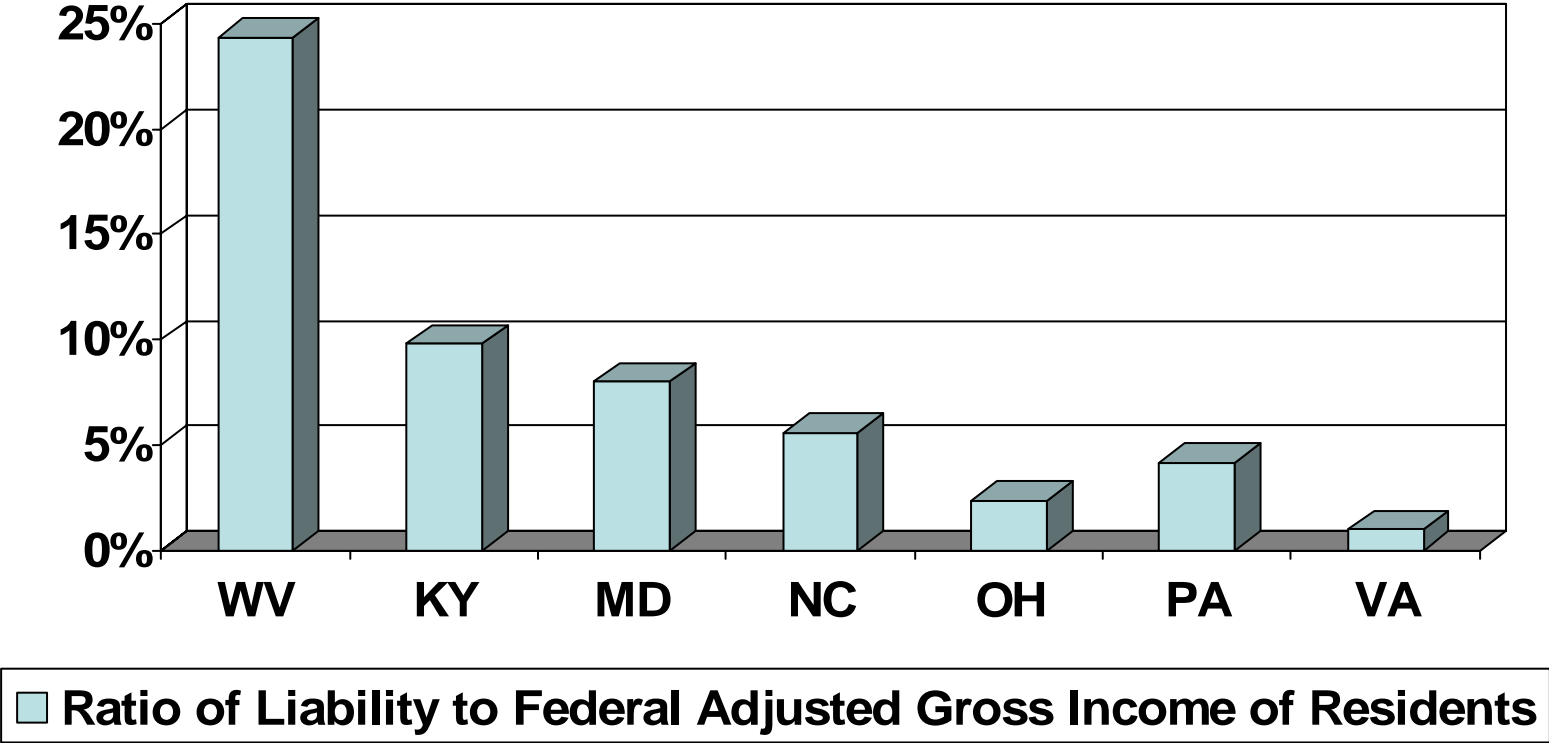
# OPEB Liability & WV Tax Base

Benefits Growing Faster Than  
Revenue

# Other Post Employment Benefit (OPEB) Liability

Sources: Pew Center on States Report & IRS Statistics of Income

## Liability for Public Retiree Subsidy Higher in WV

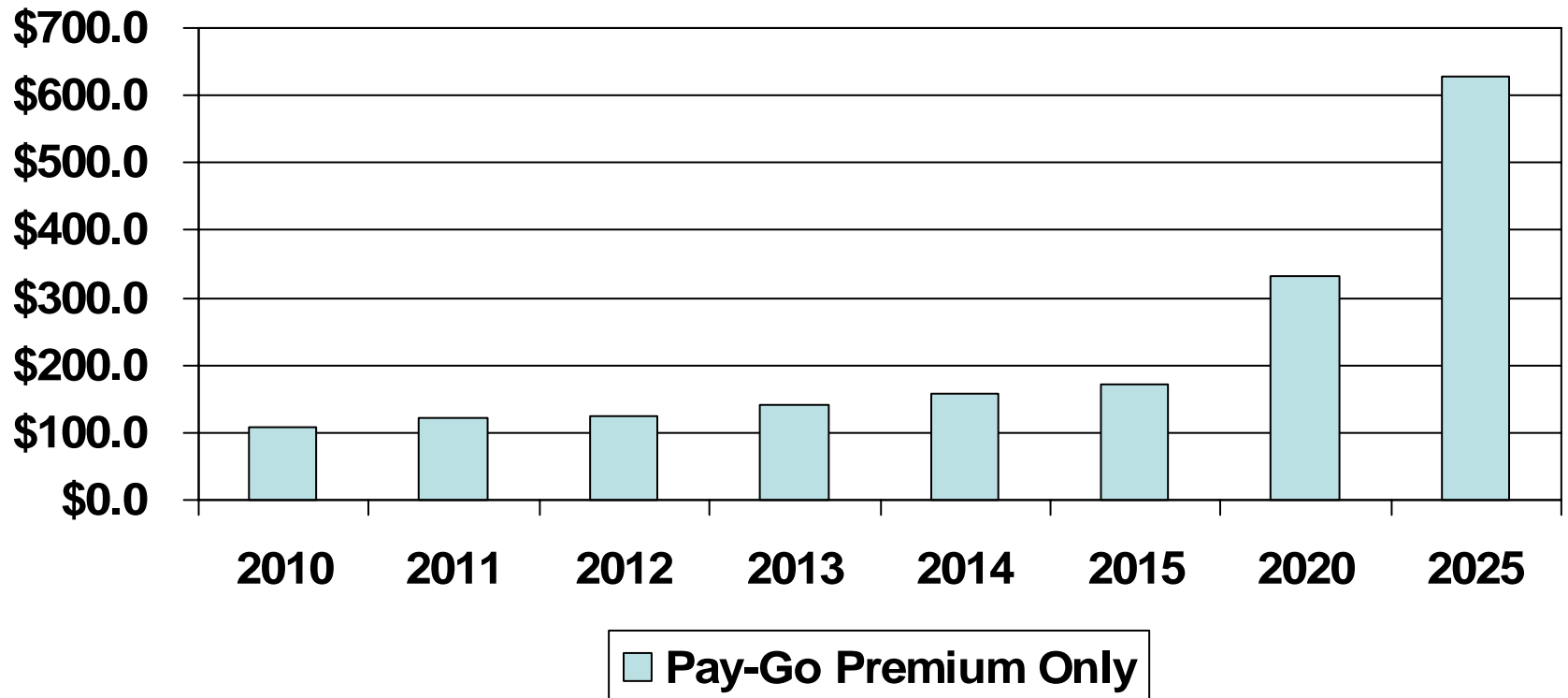


# How will WV pay for Subsidized Health Care for Retirees?

Current Plan with Cut-off for New Hires on or After July 1, 2010

Annual OPEB Pay-Go Growth Rate of 12.5% is 3 Times Revenue Growth Rate

**\$ Millions**

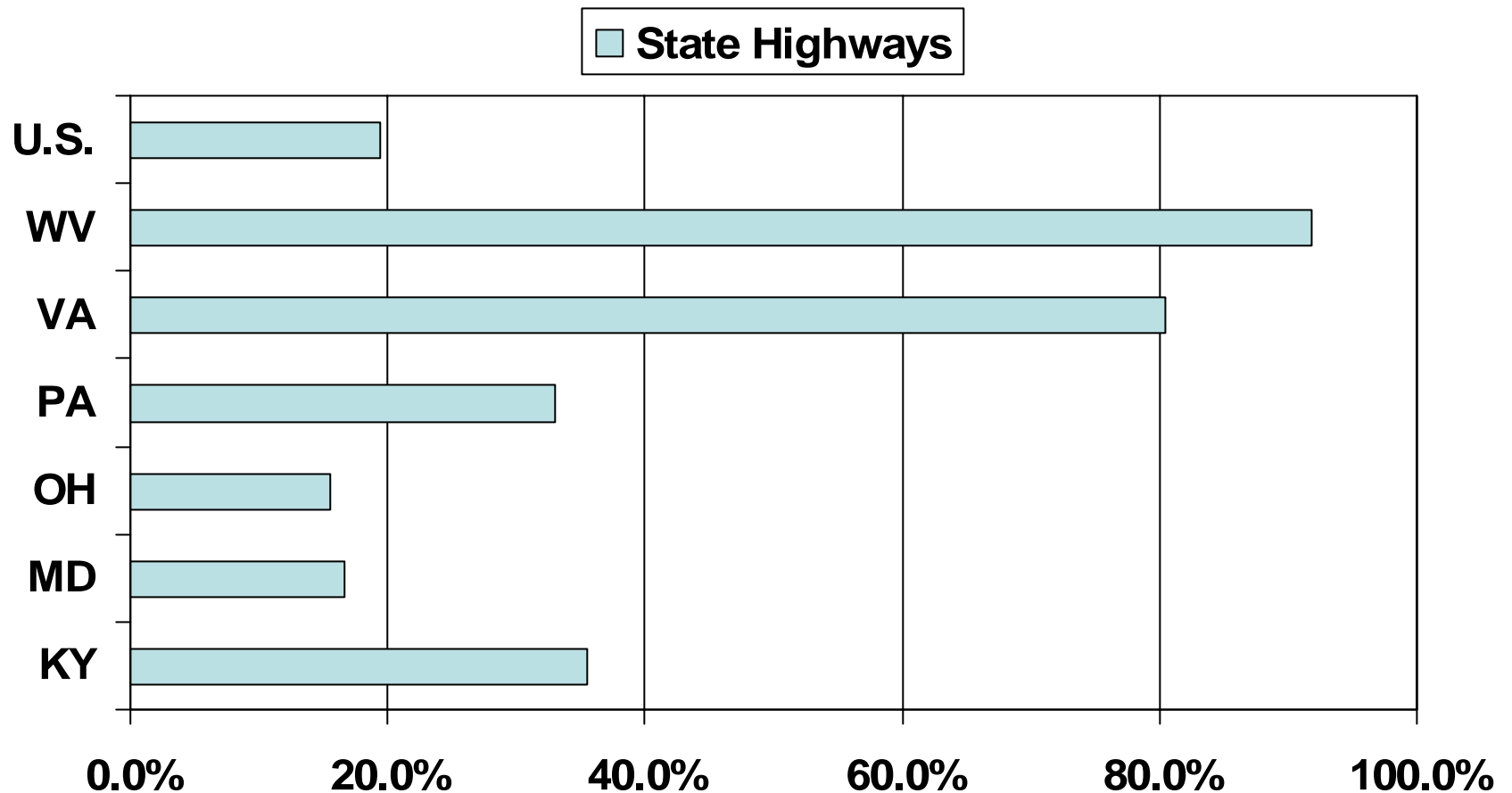


# Role of Motor Fuel Tax in Funding of State Roads

West Virginia has more roads and  
greater than average state  
responsibility

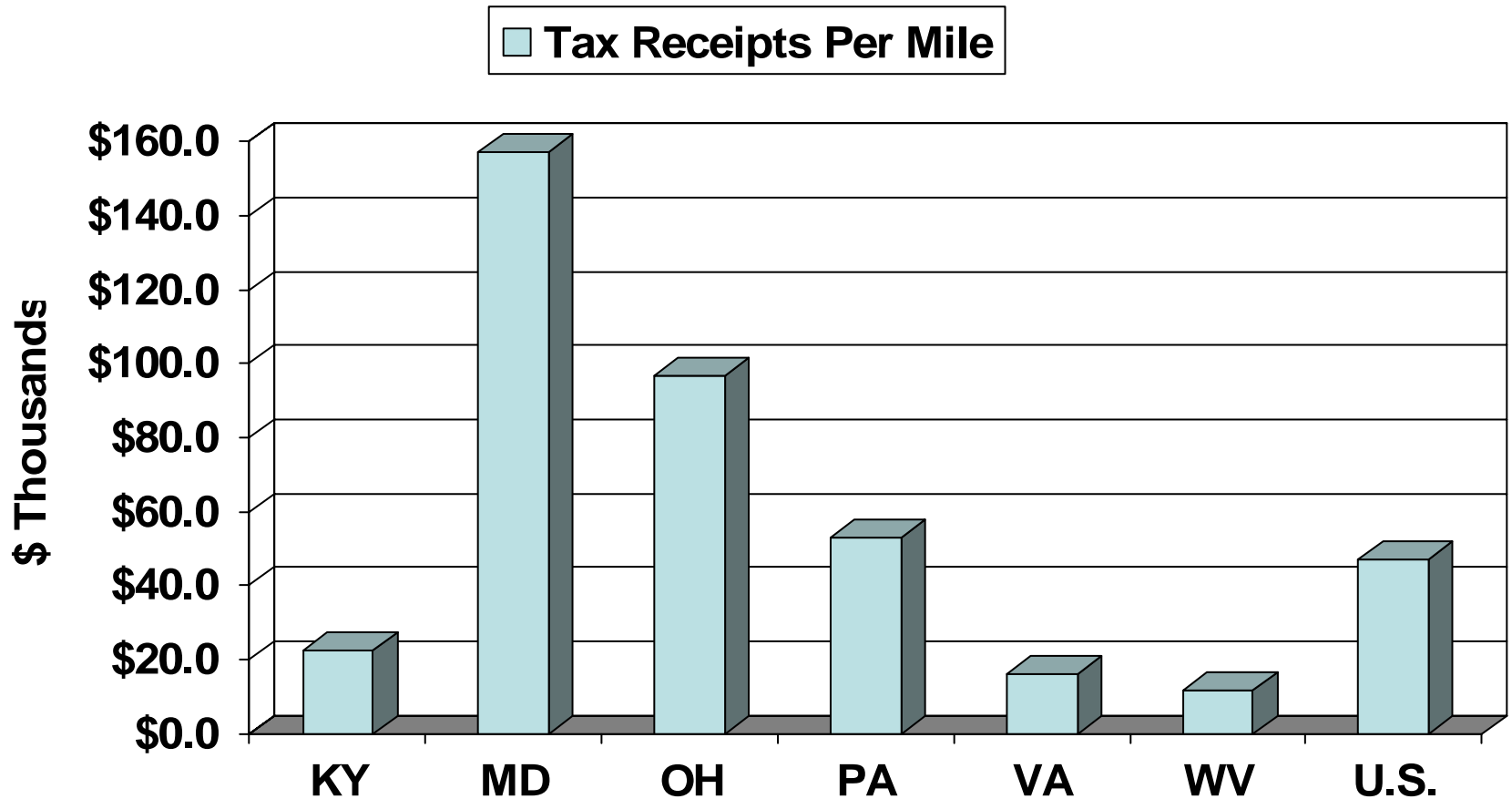
# Share of Total Highway Miles Owned by State Highway Agency – 2006

Excludes State Toll Roads (Source: Federal Highway Administration)



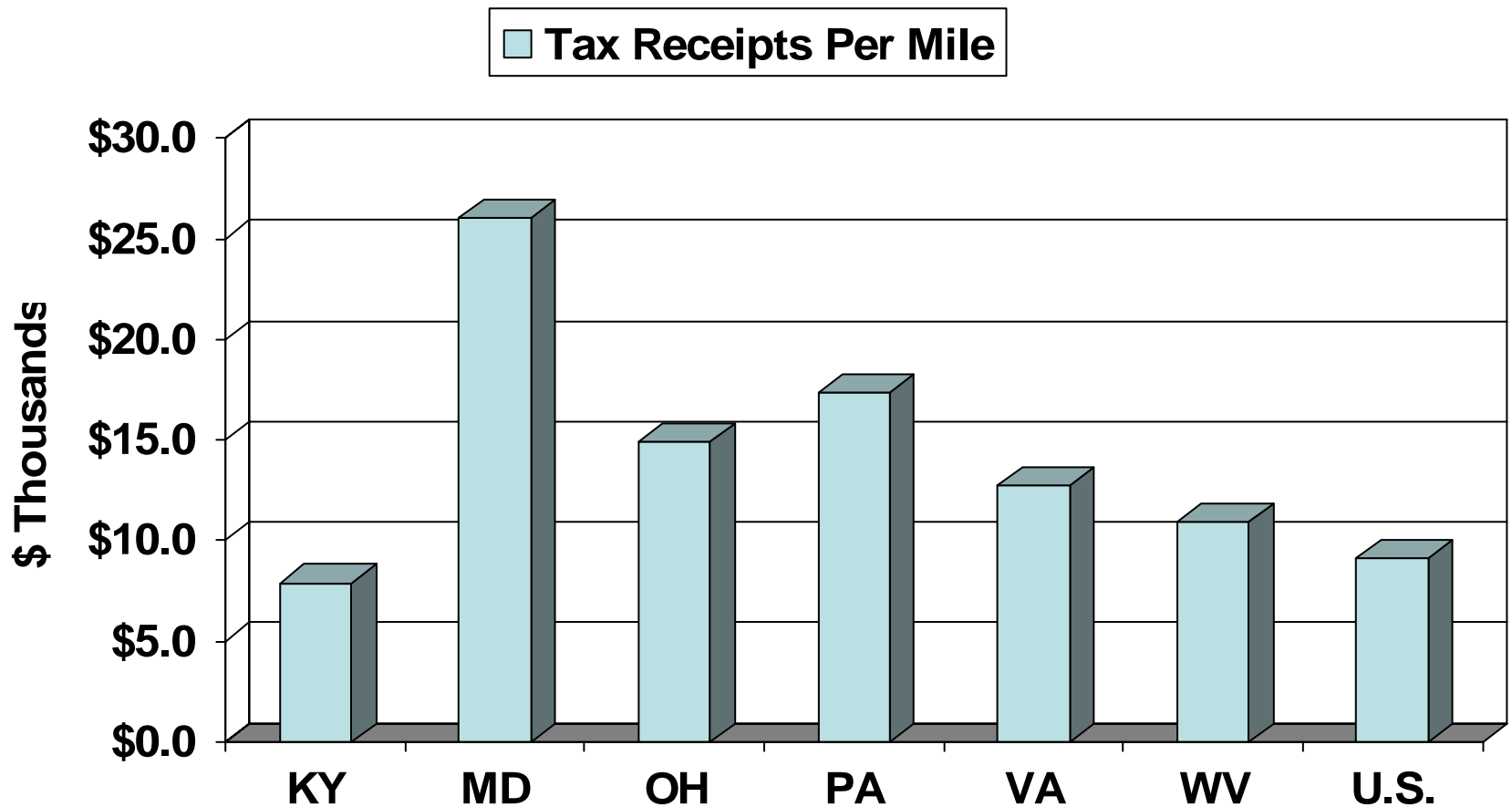
# State Motor Fuel Tax Receipts Per Mile of State-Owned Highway – FY2008

Sources: U.S. Census Bureau, *State Government Tax Collections* and Federal Highway Administration



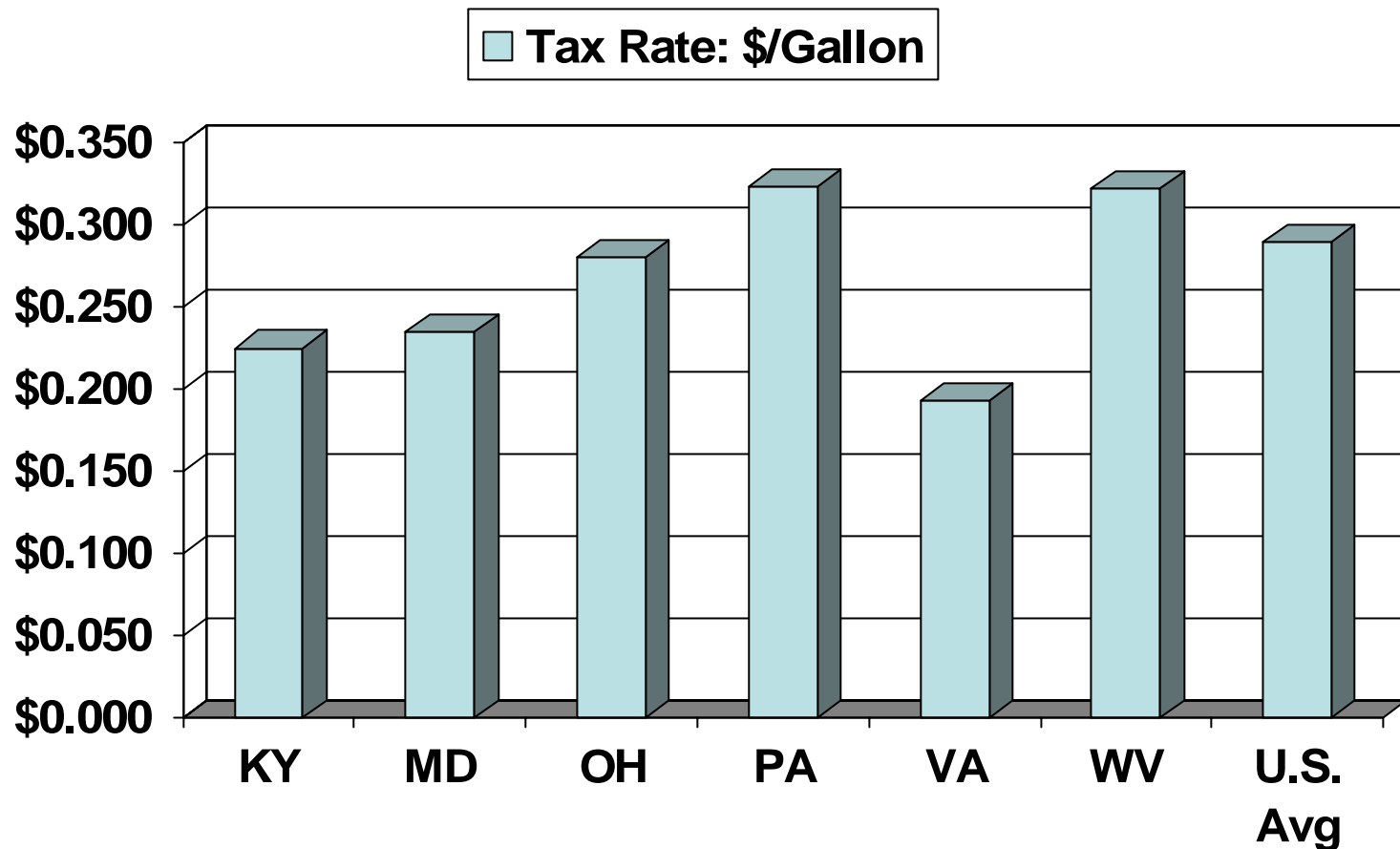
# State Motor Fuel Tax Receipts Per Total Miles of Highway – FY2008

Sources: U.S. Census Bureau, *State Government Tax Collections* and Federal Highway Administration



# State & Local Motor Fuel Tax Rates – October 2009

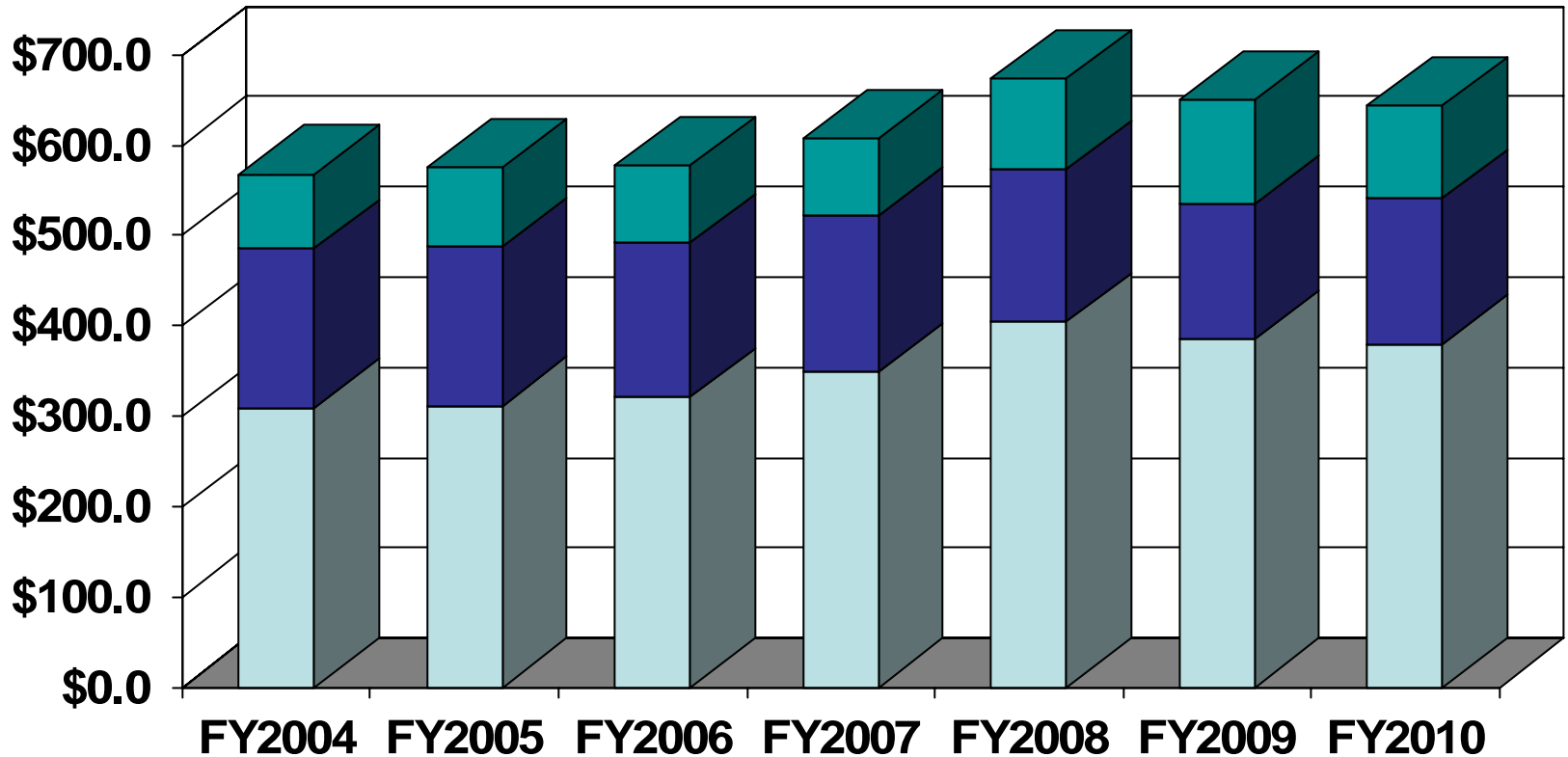
Source: American Petroleum Institute



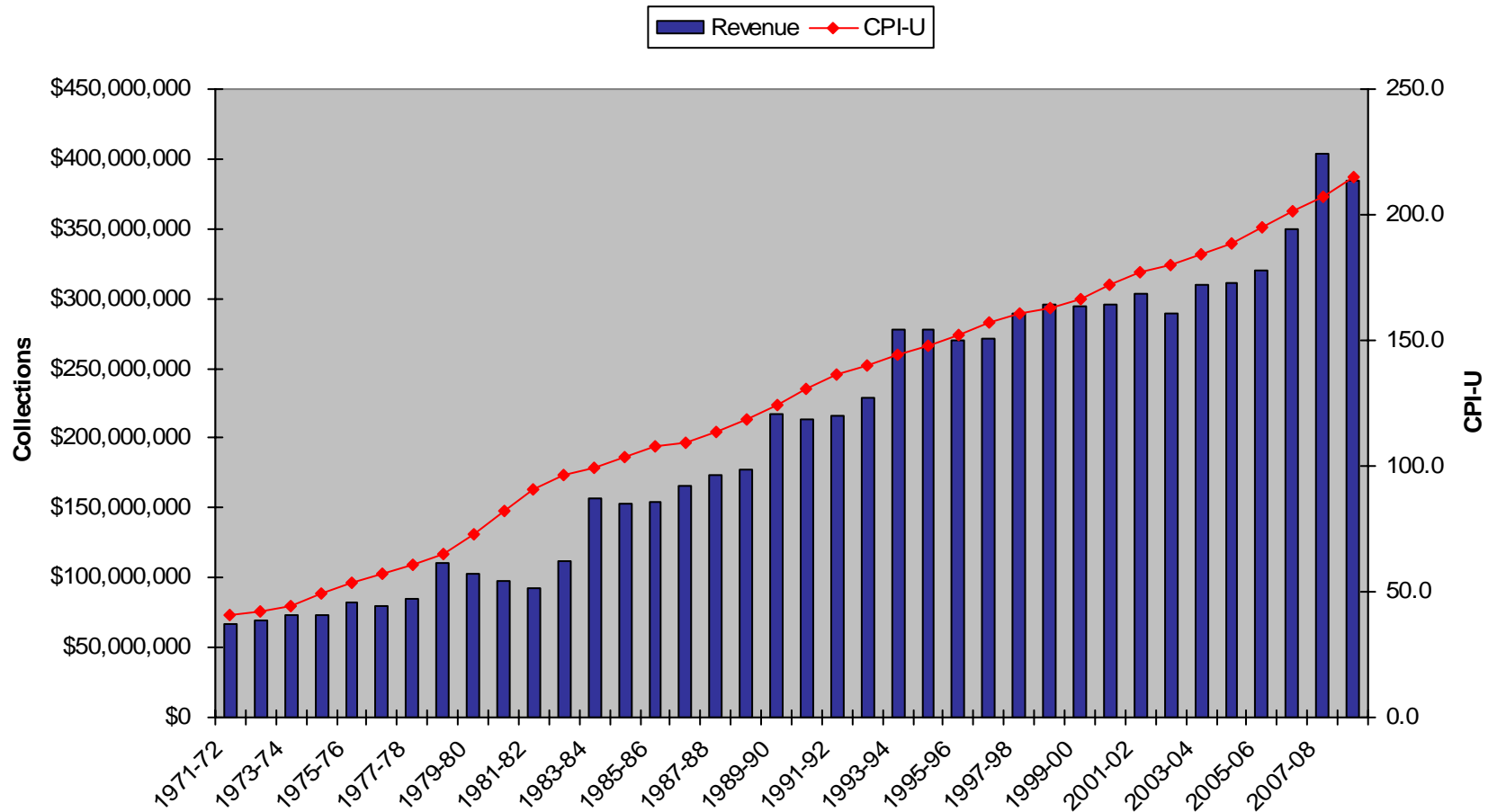
# State Road Funds

Motor Fuel Tax share rises from 54% to 60%  
Motor Vehicle Sales Tax share falls from 31% to 23%  
General Revenue Funds account for 4% in FY2009

Motor Fuel Tax Vehicle Sales Tax Net Other



# Motor Fuel Tax Collections & CPI-U 1972-2009



# Personal Property Taxes and Economic Growth

How we tax ourselves matters  
more than

How much we tax ourselves

# States Without Business Personal Property Taxes Experience Higher Economic Growth

## **States without Business Personal Property Taxes**

- Delaware ranks Highest in Per Capita Gross State Product (GSP)
- New York ranks 3<sup>rd</sup> in GSP
- New Jersey ranks 5<sup>th</sup> in GSP
- Alaska ranks 6<sup>th</sup> in GSP – Natural Resource State
- Minnesota ranks 9<sup>th</sup> in GSP
- Illinois ranks 13<sup>th</sup> in GSP
- Hawaii ranks 17<sup>th</sup> in GSP
- New Hampshire ranks 18<sup>th</sup> in GSP
- North Dakota ranks 20<sup>th</sup> in GSP – Natural Resource State
- South Dakota ranks 21<sup>st</sup> in GSP
- Pennsylvania ranks 26<sup>th</sup> in GSP

# States With Business Personal Property Taxes Experience Lower Economic Growth

Lowest Economic Output in States without Significant Abatement Programs

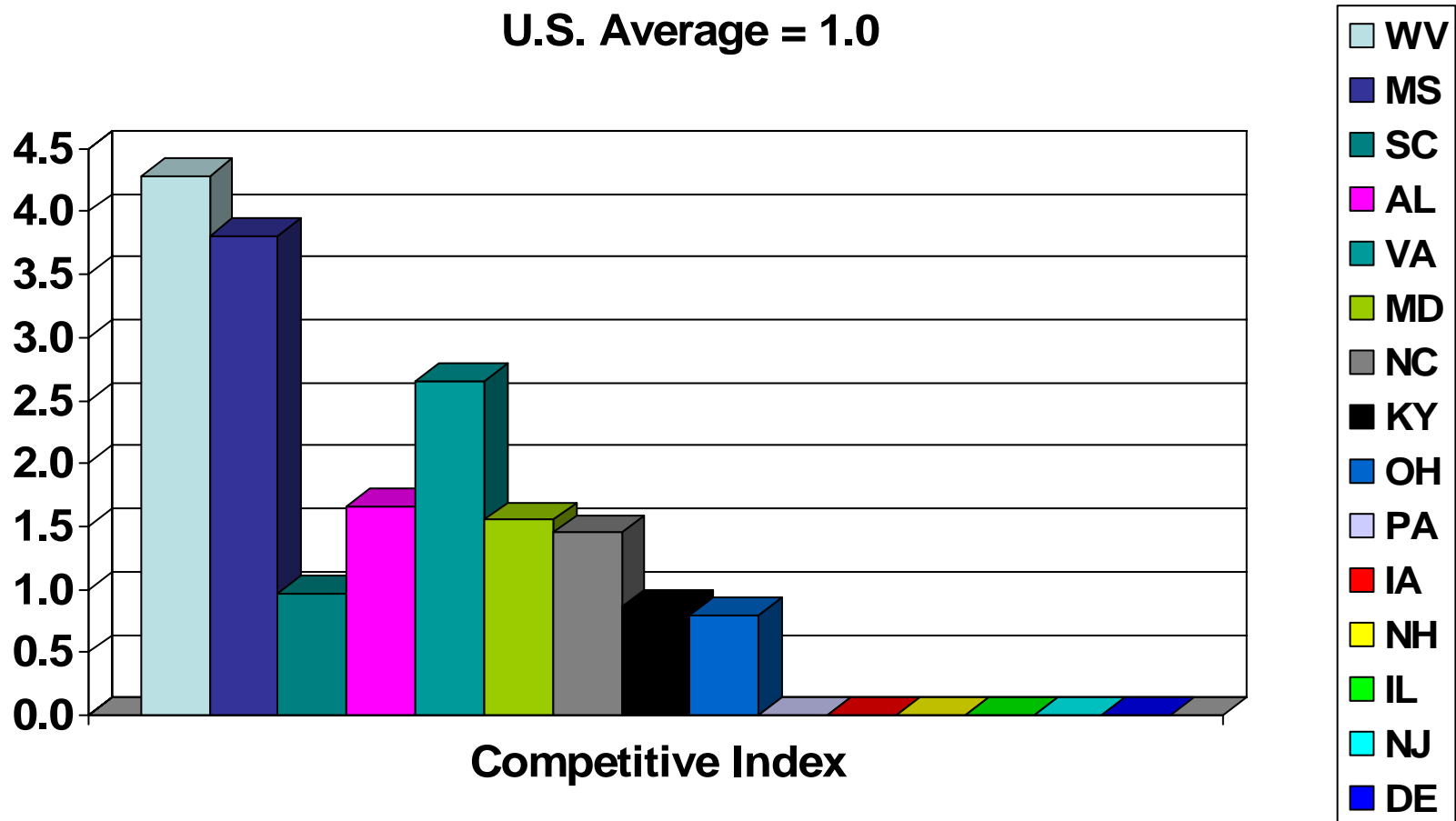
## **States with Business Personal Property Taxes**

- Mississippi ranks Last in Per Capita Gross State Product (GSP)
- West Virginia ranks 49<sup>th</sup> in GSP
- Arkansas ranks 48<sup>th</sup> in GSP
- Montana ranks 47<sup>th</sup> in GSP – Natural Resource State
- South Carolina ranks 46<sup>th</sup> in GSP
- Oklahoma ranks 45<sup>th</sup> in GSP – Natural Resource State
- Alabama ranks 44<sup>th</sup> in GSP
- Kentucky ranks 43<sup>rd</sup> in GSP
- Michigan ranks 37<sup>th</sup> in GSP
- Indiana ranks 34<sup>th</sup> in GSP
- Florida ranks 33<sup>rd</sup> in GSP
- Ohio ranks 32<sup>nd</sup> in GSP [State just phased out its tax]

# Business Personal Property Tax Competitiveness Index, FY2004

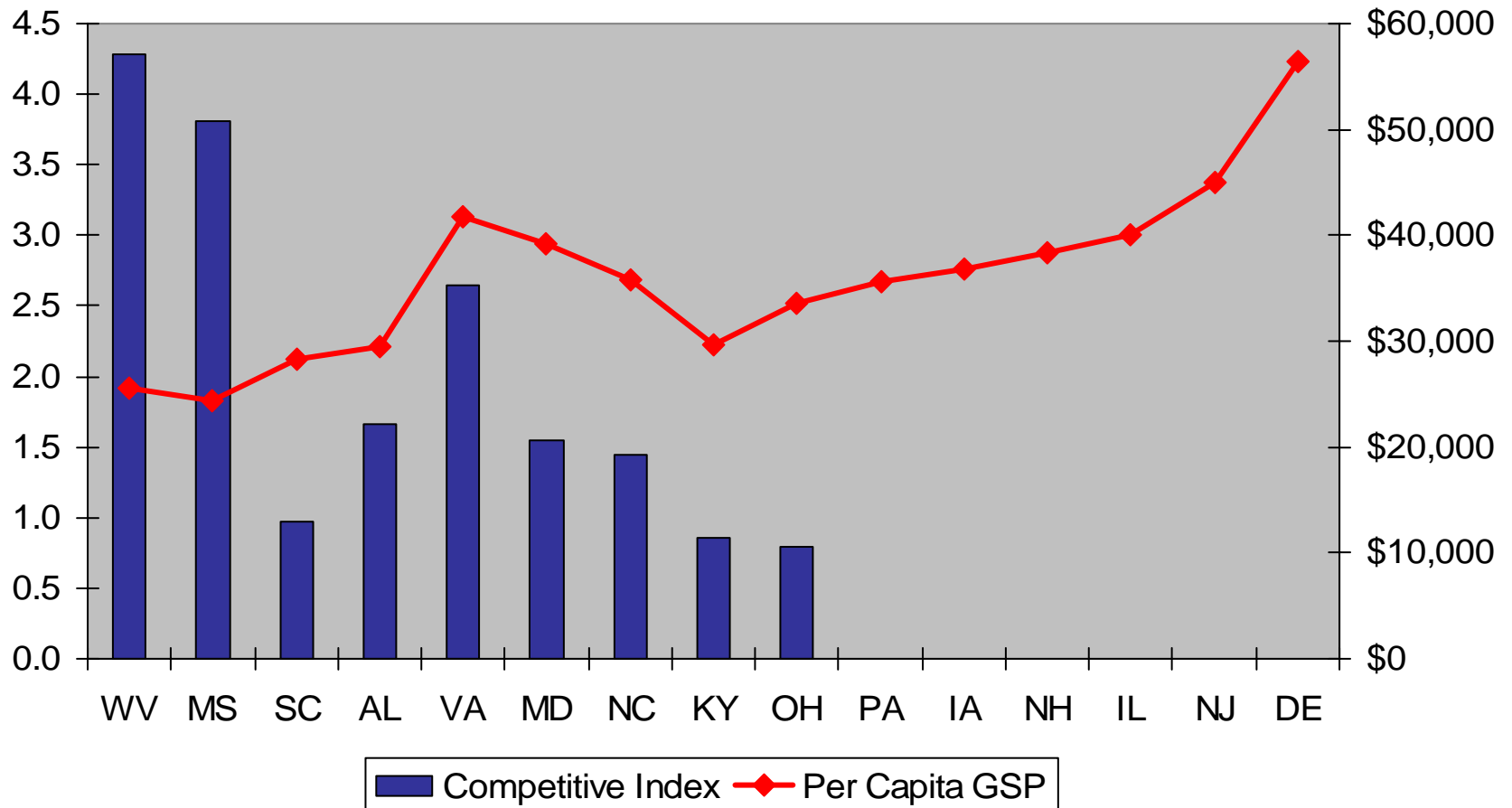
Source: *Property Taxes on Business Capital*, Ernst & Young Tax Services  
March 2006

**U.S. Average = 1.0**



# Business Personal Property Tax Competitiveness Index, FY2004

Source: *Property Taxes on Business Capital*, Ernst & Young Tax Services  
March 2006



# Iowa's Economy Expanding

After State Eliminated Personal Property Tax in Late 1990s

Comparison of Iowa & WV Gross State Product to National Average

## Ratio to U.S. GSP

