

West Virginia's Economy, Budget & Tax Structure

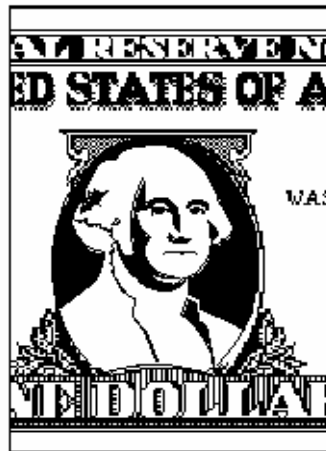
Roger Smith and Mark Muchow
W.Va. Department of Revenue
May 12, 2006

Total Estimated Revenue FY 2007

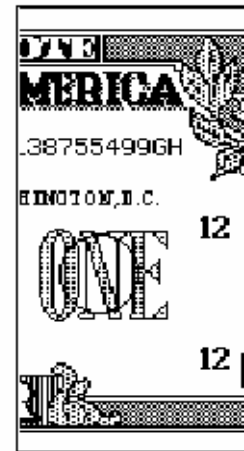
\$13.96 Billion



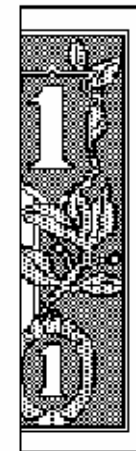
Special Revenue
Funds
26.9¢



Federal
Funds
39.4¢

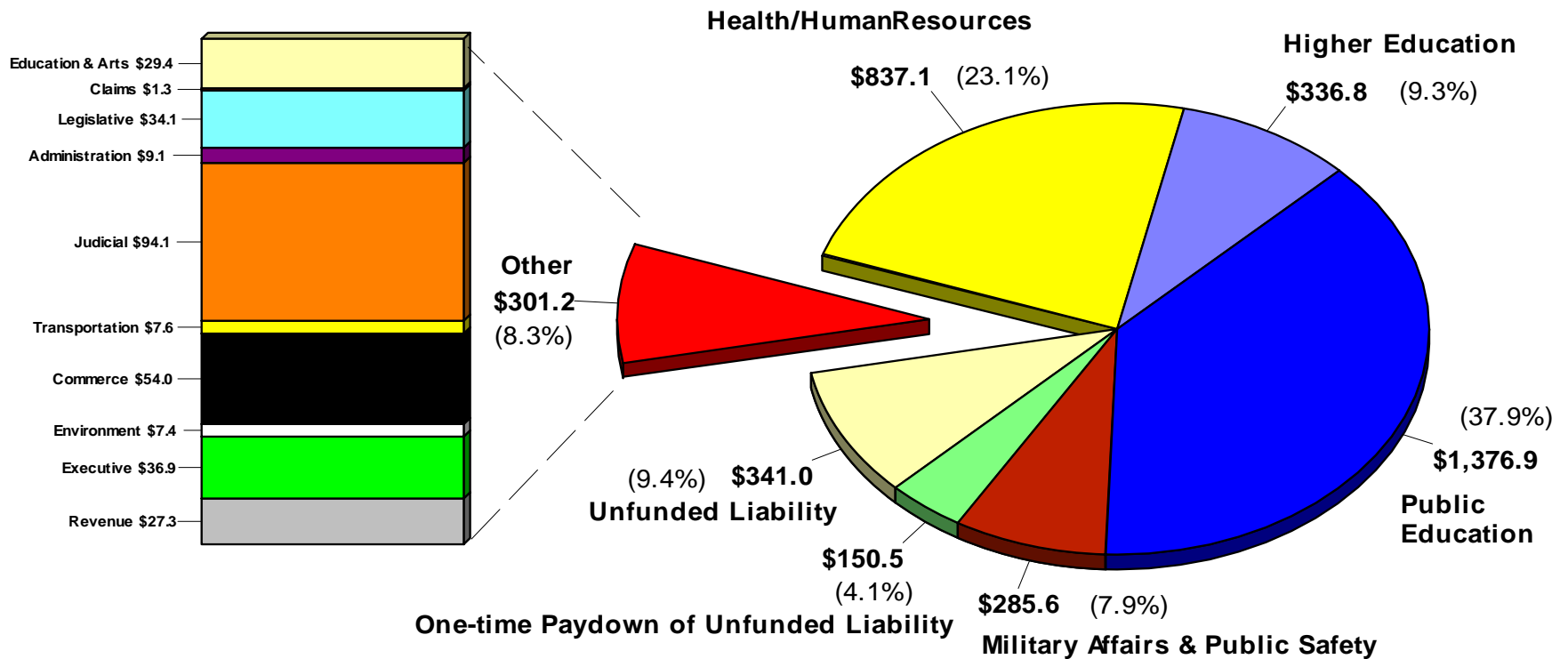


General
Revenue
26.3¢



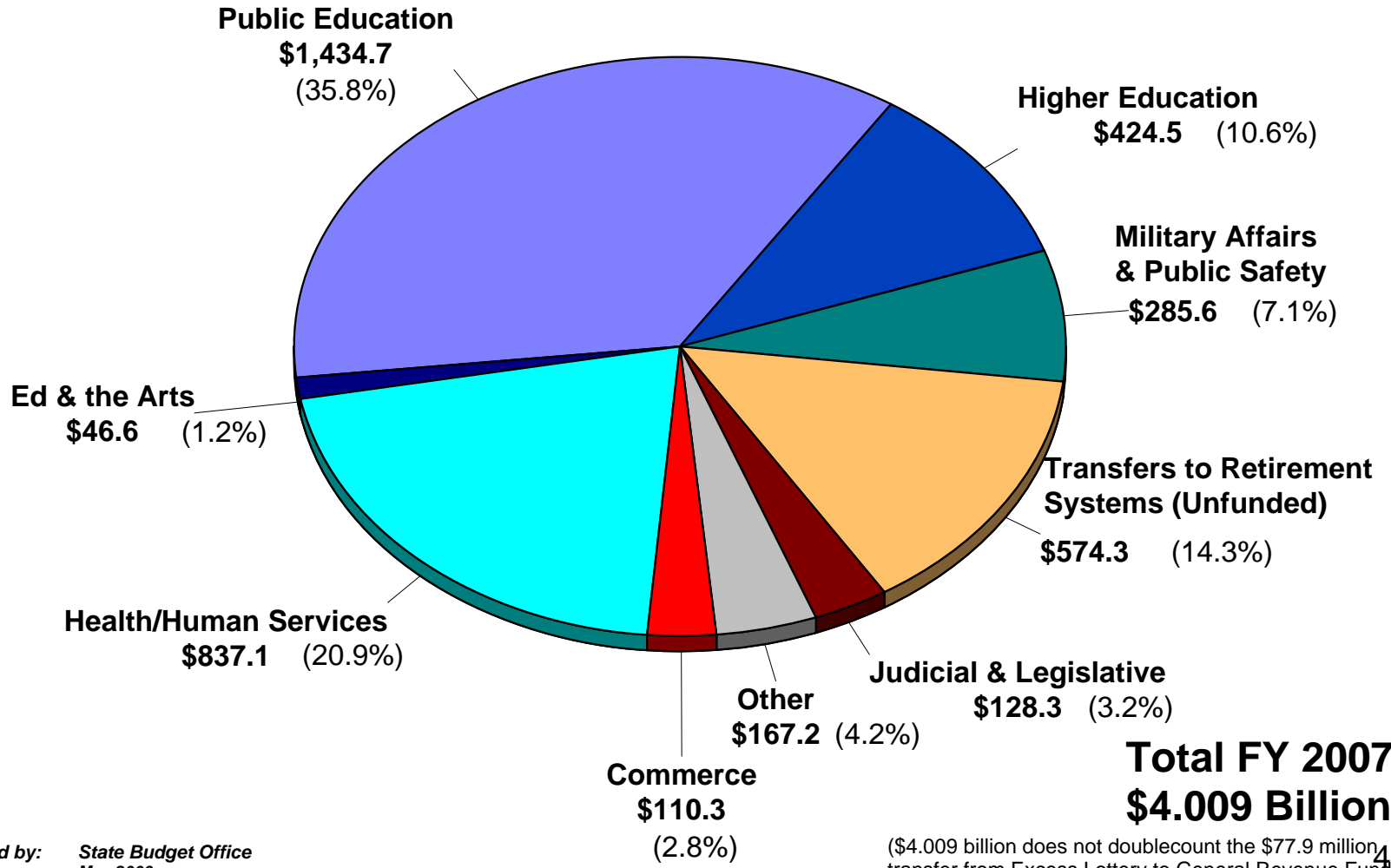
State
Road
7.4¢

General Revenue Fund Appropriations Fiscal Year 2007 (In Millions of Dollars)



Total FY 2007 \$3.629 Billion

Total Appropriations General, Lottery, & Excess Lottery Fiscal Year 2007 (In Millions of Dollars)



Prepared by: State Budget Office
May 2006

(\$4.009 billion does not doublecount the \$77.9 million transfer from Excess Lottery to General Revenue Fund.)

Five Year Financial Plan (estimated in millions)

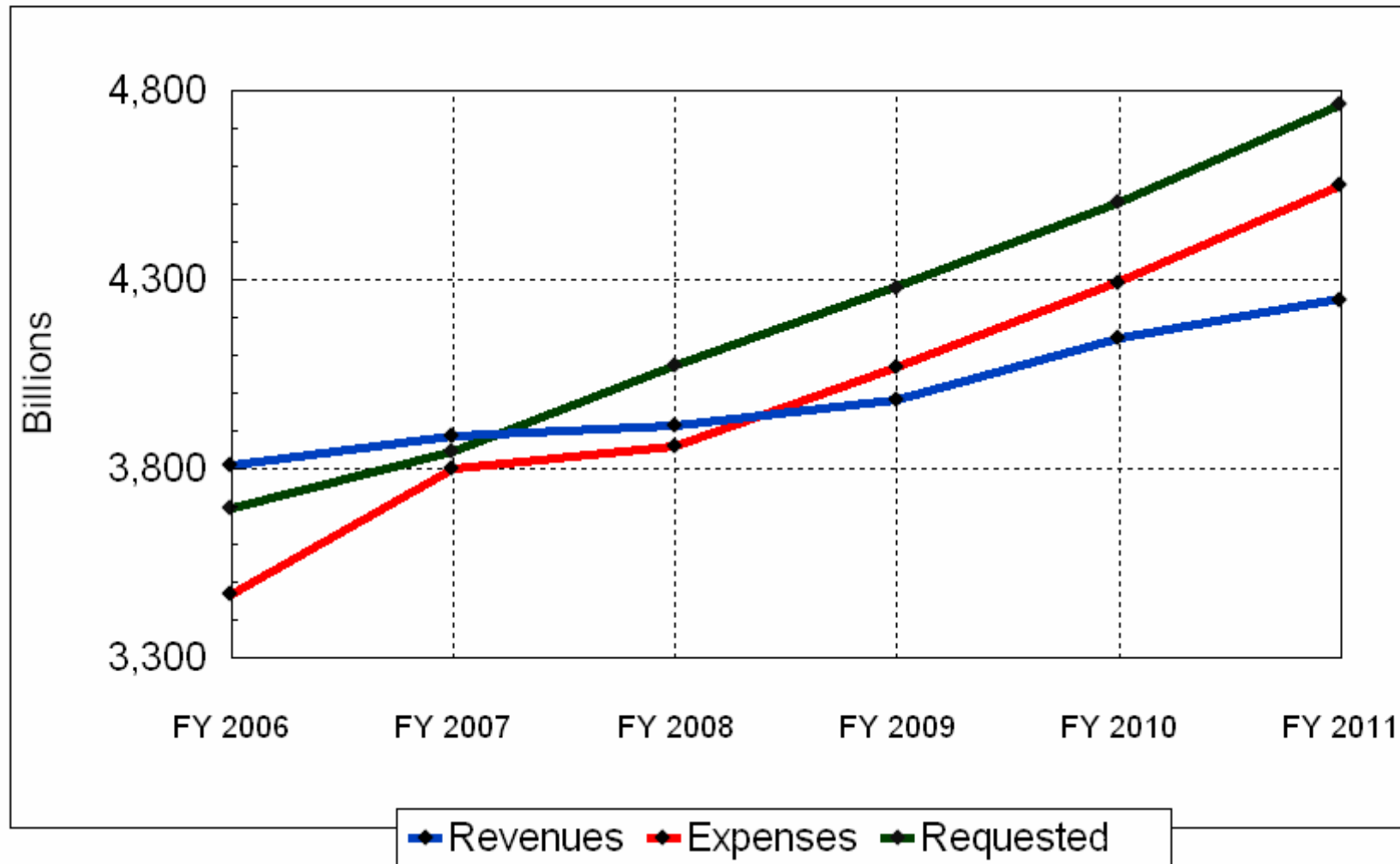
FY 2007 - FY 2011

	Budgeted	Projected			
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
<u>Estimated Revenue</u>					
Total Available	4,008.8	+29.2	+69.4	+161.7	+103.0
 Expenditure Growth:					
Base Budget FY 2006	3,566.3				
Retirement System Contributions	0.1	13.0	-0.9	13.9	14.3
Public Employees Insurance Agency Premiums	0.0	27.6	33.0	49.7	82.7
State Aid to Schools	-7.2	22.3	17.8	17.6	-0.4
Medicaid	60.0	67.8	79.3	88.9	99.6
Correctional and Juvenile Facilities Operations	10.8	10.2	7.8	2.2	2.2
Unanticipated Expenditures/Program Enhancements	2.3	35.0	40.0	45.0	50.0
Public Education - Gap Fill (4 years)	25.9	21.3	20.9	0.0	0.0
Other*	116.5	12.8	9.9	8.9	8.9
Total Ongoing Expenditures	3,774.7	+210.0	+207.8	+226.2	+257.3
One-Time Surplus Transfers to Teachers Retirements	233.8				
Accumulated Balance	0.3	53.3	-85.1	-149.6	-303.9

*Other includes PROMISE Scholarship, Supreme Court, Public Education Statutory Increases and Enhancements, Behavioral Health, Tobacco Settlement Shortfall, Trooper Longevity and Enhanced Entry Salary, and annualization of November 1, 2005 Salary Increases.

Revenue, Expenditure, and Requested

General Revenue Fund, Lottery Fund, and Excess Lottery Surplus
FY 2006 through FY 2011

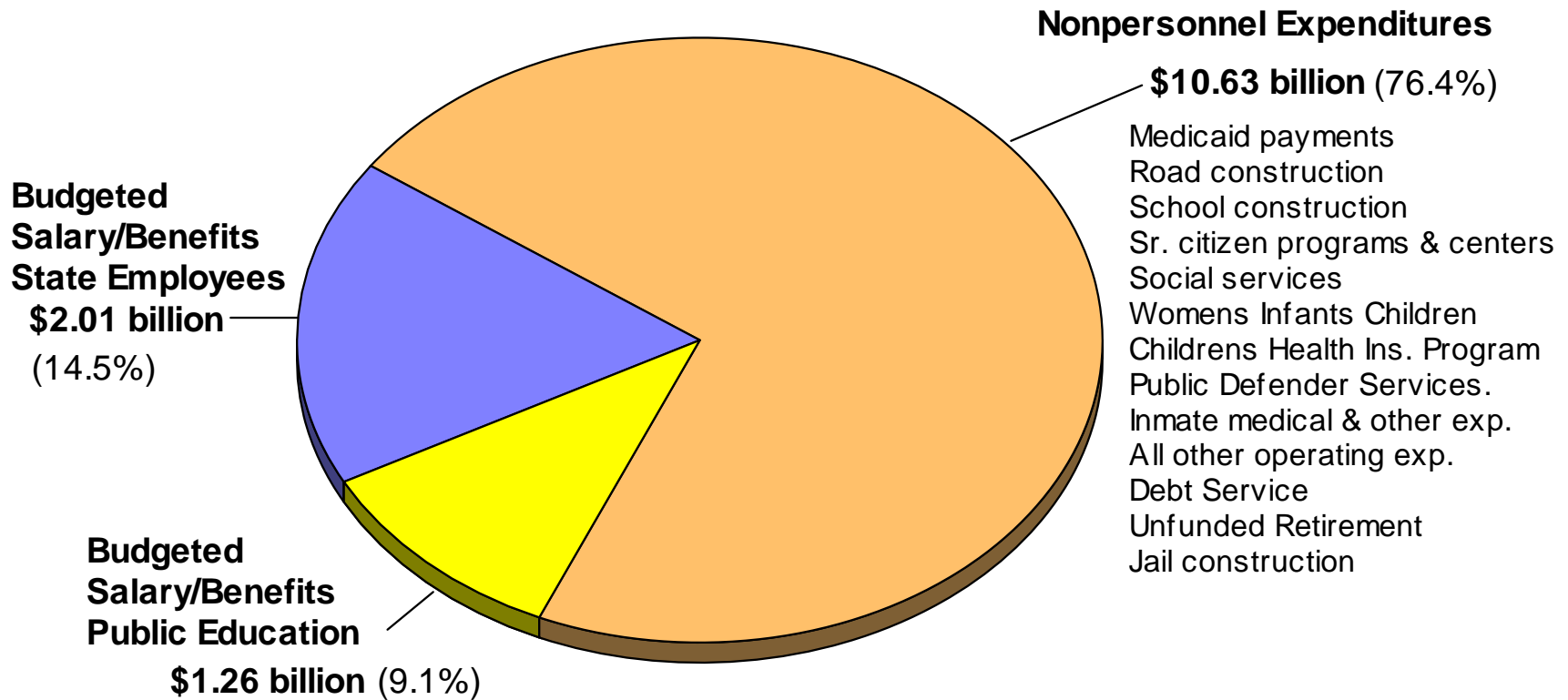


UNFUNDED RETIREMENT LIABILITIES
(In Millions)

<u>System</u>	<u>UAL</u>	<u>%Funded</u>	<u>Surplus Contributions *</u>
Teachers Retirement System			\$408.4
7/1/2003	5,052.9	19.1%	
7/1/2004	5,013.3	22.2%	
7/1/2005	4,990.4	24.6%	
Public Safety Plan A			\$294.0
7/1/2003	348.5	22.2%	
7/1/2004	344.0	25.6%	
7/1/2005	124.0	74.4%	
Judges Retirement System			\$0.0
7/1/2003	43.9	54.6%	
7/1/2004	22.2	74.1%	
7/1/2005	15.8	82.6%	

* Will save \$700+ million over the life of the retirement plans

Total Estimated Expenditures All Funds Fiscal Year 2007



**Total FY 2007
\$13.9 Billion**

SUMMARY CONCLUSIONS

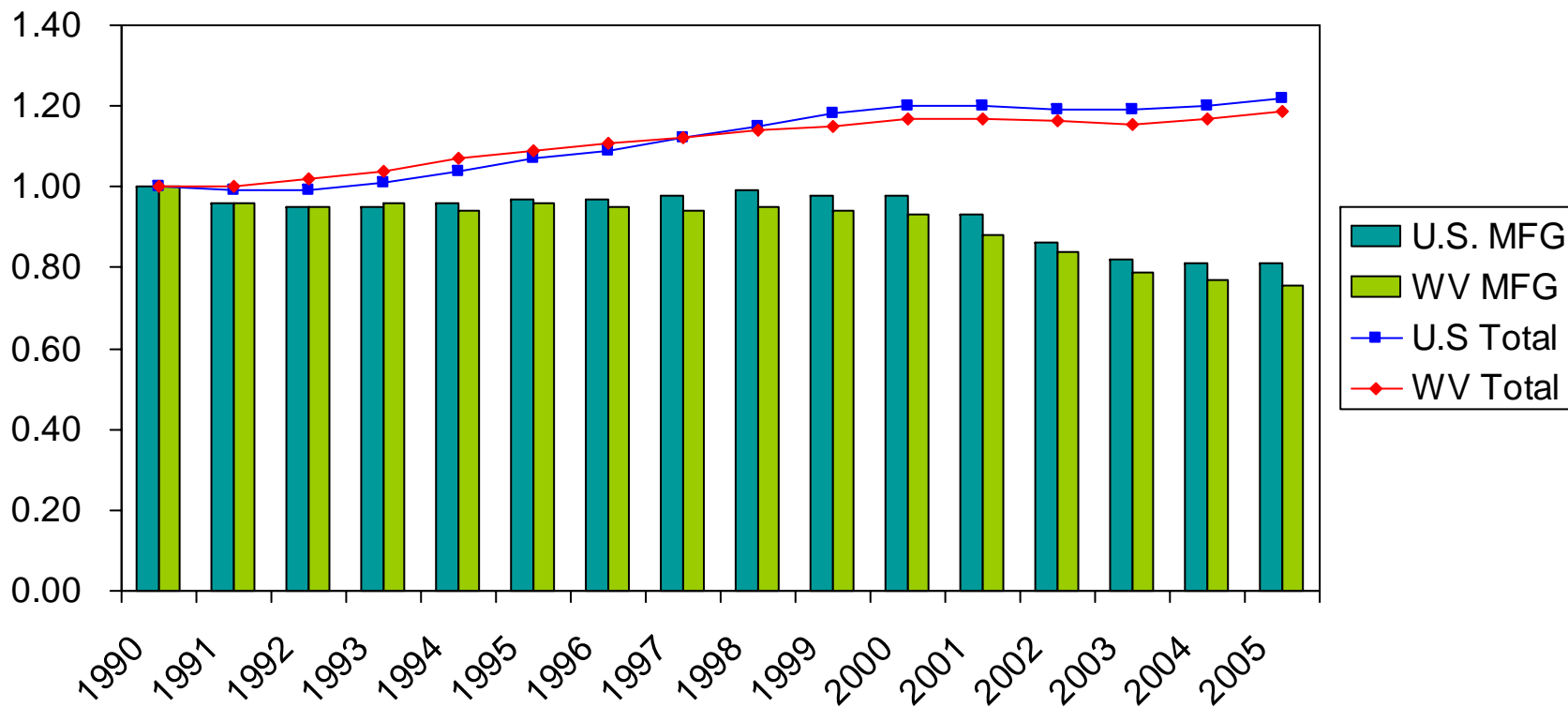
- **Tax Capacity** – Low per capita economic output & limited property tax greatly constrain ability to fund government services
- **Demand** – Demand for government service is higher than average due to demographics, economic conditions and price signals (taxes)
- **Centralization** – Most services financed at the State level
- **Direct Taxation-Individuals** – Direct tax burden on individuals associated with combined personal income tax, sales tax and property tax is significantly below average for most income groups
- **Indirect Taxation-Individuals** – Indirect tax burden on individuals associated with various taxes imposed upon business activity is significantly above average.
- **Unfunded Liabilities** – Stretched finances contribute to unfunded liabilities, an uncompetitive tax structure & a weaker economy

OVERVIEW

- Relative performance of WV Economy v U.S.
- Tax capacity measurements
- State government role & local government role
- How does WV compare with other states?
 - Income taxes
 - Consumption taxes
 - Property taxes
 - Direct taxes upon individuals and indirect taxes levied upon business
- Conclusions

Total Employment & Manufacturing Employment 1990-2005 Comparison Between West Virginia and U.S. Totals

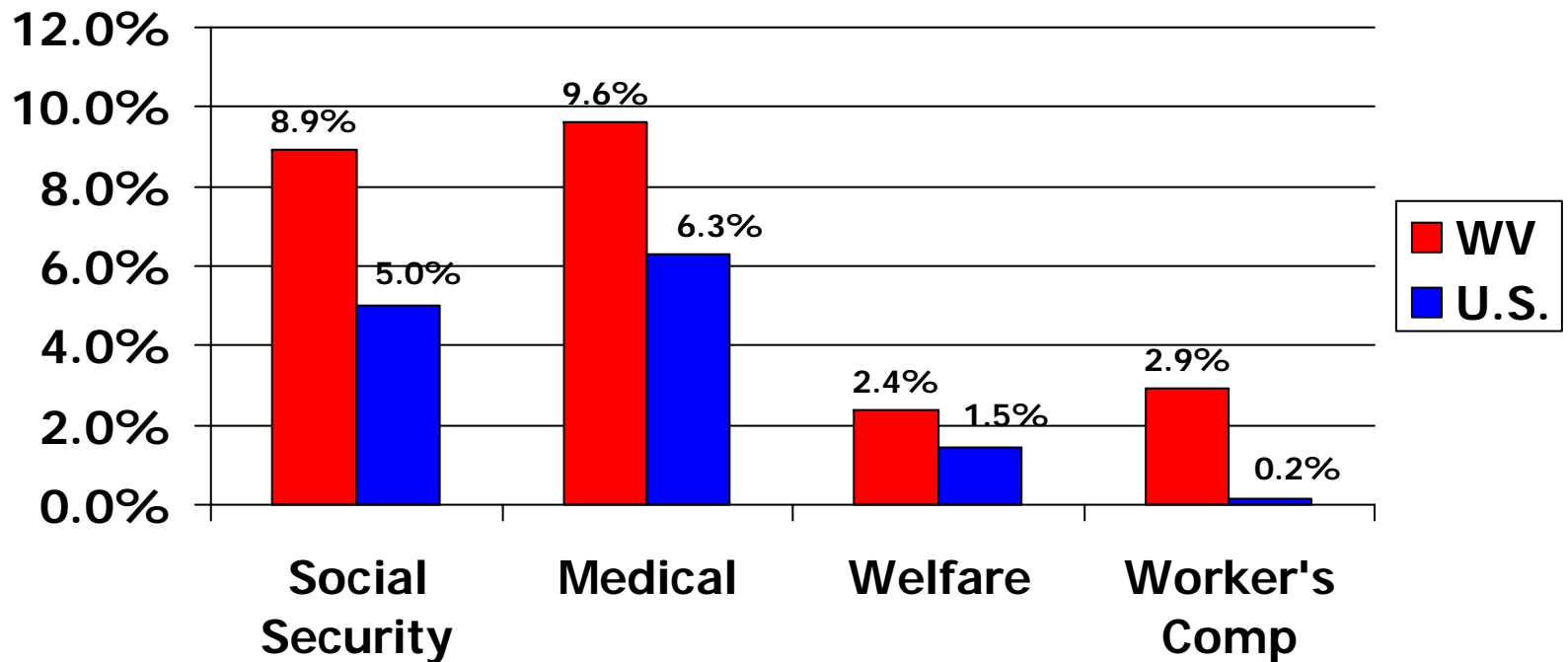
Indexed to 1990 = 1.00



Transfer Payment Share of Total Personal Income

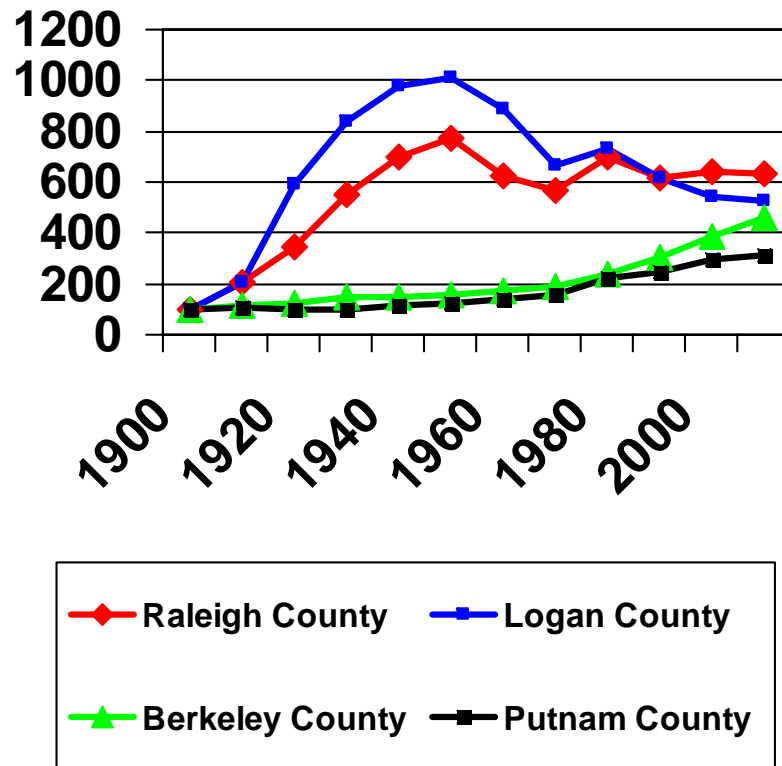
Nearly 27% of total personal income in West Virginia

Source: U.S. Bureau of Economic Analysis-2004



West Virginia's Vital Statistics

Population Growth 1900-2004
Indexed to 1900



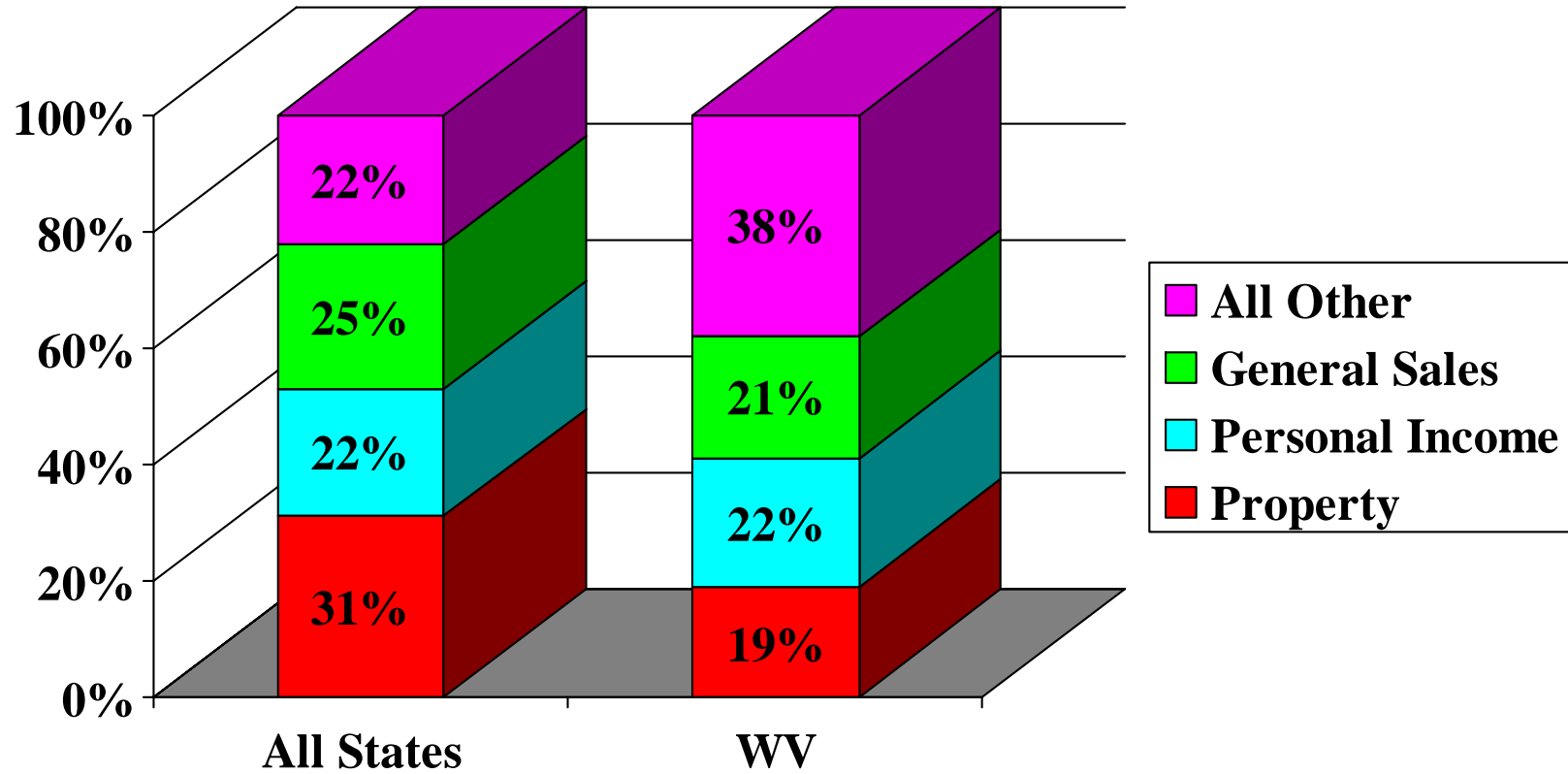
Tax Capacity Measures

- 47th in Per Capita Income
- 50th in Retail Sales per Household
- 47th in Average Home Price
- 50th in Employment as % of Population
- 50th in Population under 18
- Highest Median Age - 40

Per Capita State & Local Tax Revenues – 2001-02

<u>Tax Source</u>	<u>WV</u>	<u>All States</u>
General Sales	\$ 533	\$ 792
Personal Income	572	721
Property	498	992
General Corporate	122	100
Public Utilities	121	72
Other Taxes	721	539
<i>TOTAL</i>	<u>\$2,567</u>	<u>\$3,216</u>

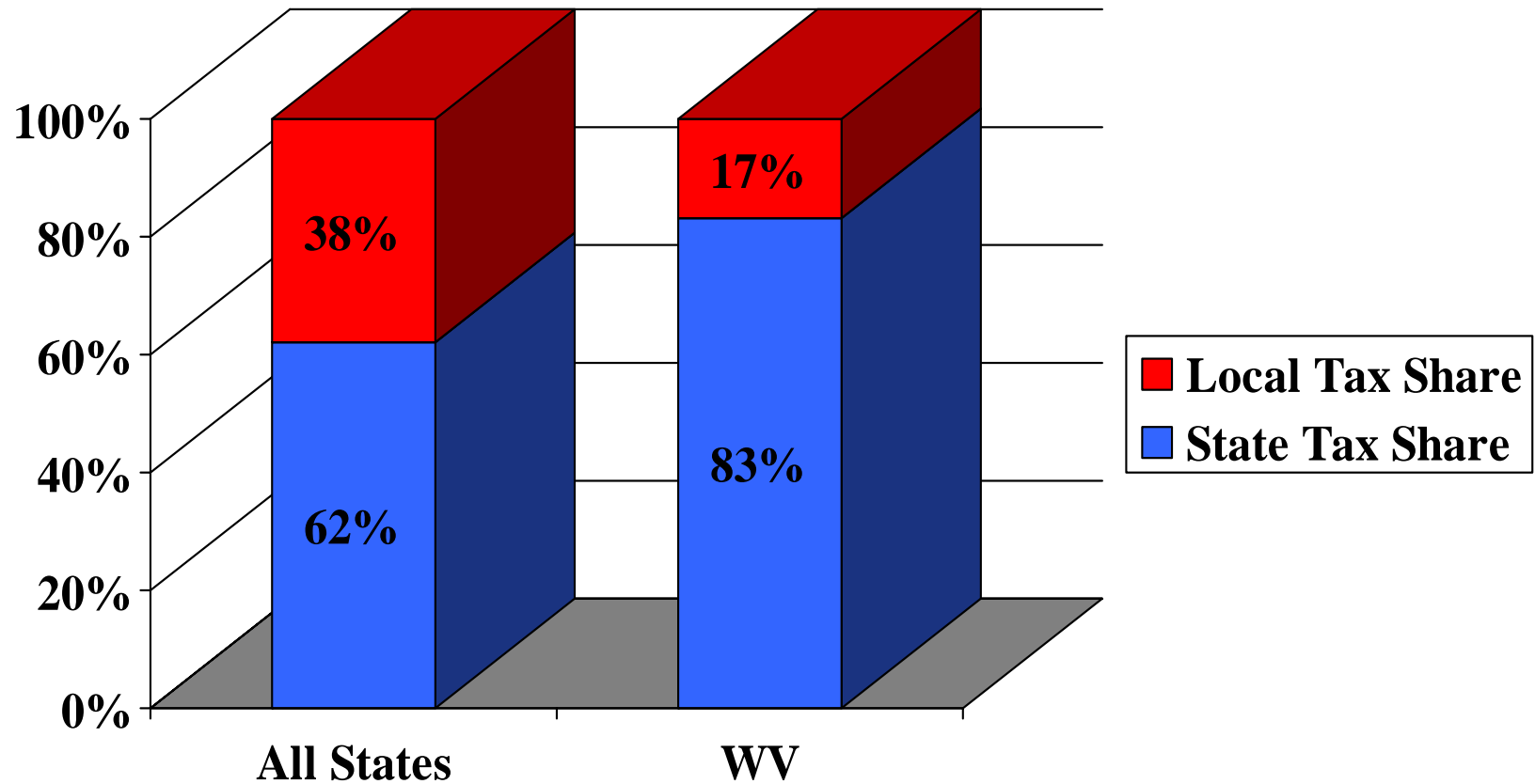
STATE & LOCAL TAX COLLECTIONS 2001-02



Other: corporate, gross receipt, severance, utility, & excise.

STATE TAX SHARE VERSUS LOCAL TAX SHARE

State Government controls use of Regular Education Levy



Fiscal Federalism: Funding Source Matters

History of Centralization Trend

1929 – 80% of revenue – **Local**

1932

Property Tax Limitation Amendment

[local revenues fall 50%]

1933 - B&O Tax expands

[Revenue rises 6 fold +]

1934 - Sales Tax created

1936 – 55% of revenue - **State**

1961 - Personal Income Tax created

2004 - 80% of revenue - **State**

[85%+ if regular education levy and Lottery added]

Type

Accountability

Resources

Federal:

Low

High

State:

Moderate

Moderate

Local:

High

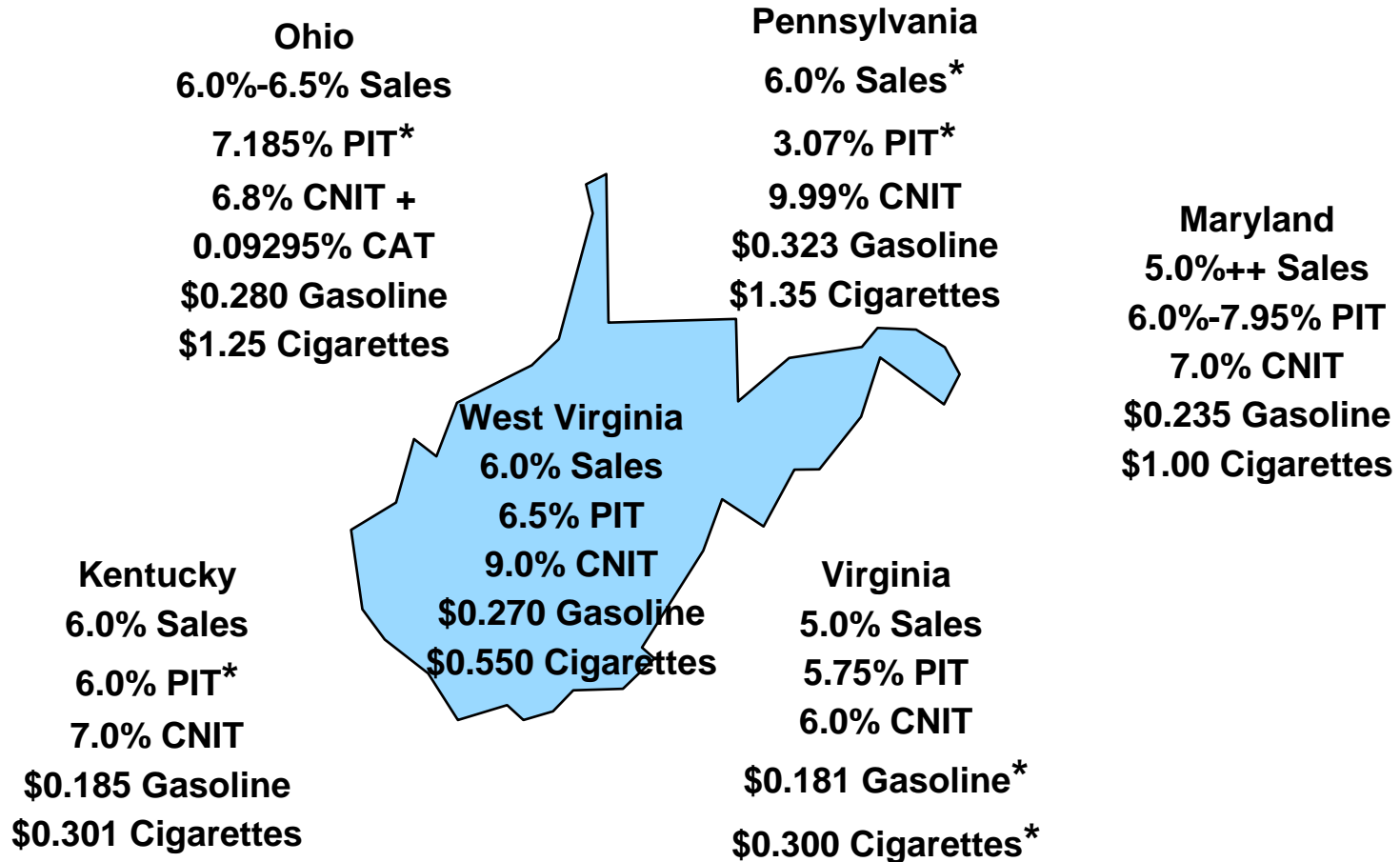
Low

Balanced Budget Requirement at State and Local level

COMPARATIVE TAX RATES

As of January 1, 2006

* Additional local taxes may apply



PIT - Personal Income Tax
CNIT - Corporate Net Income Tax

Per Capita State Personal Income Tax Collections

Sources: U.S. Census Bureau, State Government Tax Collections 2005 and IRS SOI - 2003 Returns

<u>State</u>	<u>Per Capita</u>	<u>Rank</u>	<u>\$39,000 Family</u>
Massachusetts	\$1,514	1	\$1,994
New York	1,459	2	2,221
Virginia	1,104	7	1,680
Maryland	1,011	10	2,346
North Carolina	971	13	2,022
Ohio	823	16	2,037
Kentucky	728	26	2,430
Pennsylvania	666	32	1,773
<i>West Virginia</i>	<i>645</i>	<i>33</i>	<i>1,708</i>
TOTAL	<u>\$ 747</u>		<u>\$1,725</u>

Local Personal Income Taxes – 17 States

Source: U.S. Census Bureau, State and Local Government Finances 2002

<u>State</u>	<u>Revenue</u>	<u>Share of Tax</u>	<u>Rank</u>
Maryland	\$2.94 billion	33%	1
Kentucky	0.82 billion	29%	2
Ohio	3.46 billion	22%	3
Pennsylvania	2.78 billion	18%	4
New York	4.63 billion	10%	5
Delaware	0.05 billion	9%	6
Indiana	0.58 billion	9%	7
Michigan	0.50 billion	6%	8
<i>TOTAL</i>	<u><i>\$16.24 billion</i></u>	<u><i>4%</i></u>	

State Corporate Tax as % of Private Industry GSP

Source: U.S. Census Bureau, State Government Tax Collections 2005 and Bureau of Economic Analysis GSP 2004

* States with Minimum Taxes or Additional Franchise Taxes

<u>State</u>	<u>Private GSP Share</u>	<u>Top Rate</u>	<u>Rank</u>
Alaska	2.15%	9.4%	1
New Hampshire*	1.01%	8.5%	3
<i>West Virginia*</i>	<i>0.68%</i>	<i>9.0%</i>	<i>5</i>
Pennsylvania*	0.60%	9.99%	7
North Carolina*	0.58%	6.9%	9
Kentucky*	0.53%	7.0%	11
Maryland	0.43%	7.0%	18
Ohio*	0.36%	8.5%	29
Virginia	0.22%	6.0%	41
<i>TOTAL</i>	<u><i>0.40%</i></u>	<u><i>7.0%</i></u>	

Many States Impose Additional Tax or Have AMT for Revenue Stability

Sample of States With Minimum Corporate Income Tax Requirements

<u>State</u>	<u>Description of Minimum Tax</u>		
Kentucky	Greater of \$175, 0.095% Gross Receipts or 0.75% of Gross Profits		
Ohio	\$50-\$1,000 depending upon gross receipts or Net Worth Tax of 0.596% → 0.26% Gross Receipts by 2010		
Texas	Greater of 0.25% Net Worth or 4.5% Earned Surplus		
Arizona	\$50	Minnesota	5.8% AMT
California	\$800	Montana	\$50
Idaho	\$20	Maine	Graduated AMT
Rhode Island	\$250	Florida	3.3% AMT
Utah	\$100	New Hampshire	0.5% BET (Income VAT)
Vermont	\$250	New Jersey	\$500 or AMT

Per Capita State General Sales Tax Collections

Sources: U.S. Census Bureau, State Government Tax Collections 2005 and D.C. Tax Burden Study

* Includes 5% Motor Vehicle Privilege Tax

<u>State</u>	<u>Per Capita</u>	<u>Rank</u>	<u>\$39,000 Family</u>
Hawaii – 4%	\$1,676	1	\$ 439
Florida – 7.5%	1,071	3	615
Ohio - 7.5%	715	24	600
<i>West Virginia</i> *- 6%	700	26	606
Pennsylvania – 7%	649	28	520
Kentucky – 6%	622	31	557
North Carolina–7.5%	530	38	641
Maryland – 5%	516	40	607
Virginia – 5%	409	45	604
<i>TOTAL</i>	<u>\$ 717</u>		<u>\$ 635</u>

Federation of Tax Administrator's Sales Tax On Services Survey

www.taxadmin.org

# of Services	9	20	168
<u>State</u>	<u>Professional</u>	<u>Personal</u>	<u># Services</u>
Hawaii	9	20	131
New Mexico	9	20	127
South Dakota	5	19	122
<i>West Virginia</i>	1	17	92
Ohio	0	12	56
Pennsylvania	0	6	49
Maryland	0	3	36
Kentucky	0	2	27
Virginia	0	3	15

Local General Sales Taxes – 35 States

Source: U.S. Census Bureau, State and Local Government Finances 2002

* Groceries subject to tax by local governments

<u>State</u>	<u>Revenue</u>	<u>Share of Total</u>	<u>Rank</u>
Louisiana*	\$2.51 billion	52%	1
Arkansas*	0.59 billion	48%	2
Oklahoma*	1.07 billion	39%	3
Alabama*	1.22 billion	38%	4
New York	8.02 billion	18%	14
North Carolina*	1.17 billion	17%	17
Virginia*	0.79 billion	10%	23
Ohio	1.30 billion	8%	25
Pennsylvania	0.17 billion	1%	31
<i>TOTAL</i>	<u><i>\$42.76 billion</i></u>	<u><i>12%</i></u>	

Special Sales-Consumption Taxes

Types of Selective Sales/Consumption Taxes

- Severance Taxes
- Insurance Premium Taxes
- Motor Fuel Taxes & Motor Vehicle License Fees
- Tobacco & Alcoholic Beverage Excise Taxes
- Public Utility Taxes
- Local Selective Sales/Consumption Taxes
 - B&O Tax or other business privilege
 - Public Utility Tax
 - Other - Hotel Tax, Meals Tax, Amusement Tax, Motor Fuel Tax

Per Capita State Severance Taxes

Sources: U.S. Census Bureau, State Government Tax Collections 2005 &
Bureau of Economic Analysis Gross State Product 2004

<u>State</u>	<u>Per Capita</u>	<u>Rank</u>	<u>GSP</u>	<u>Rank</u>
Wyoming	\$1,583	1	\$11,782	1
Alaska	1,394	2	11,036	2
New Mexico	370	3	2,472	5
<i>West Virginia</i>	<i>169</i>	<i>6</i>	<i>1,905</i>	<i>7</i>
Kentucky	55	10	610	11
Ohio	1	27	115	24
Virginia	0	31	174	20
Pennsylvania	0	N/A	217	19
Maryland	0	N/A	29	42
<i>TOTAL</i>	<u>27</u>			

Per Capita State & Local Motor Fuel Tax Collections

Sources: U.S. Census Bureau, State Government Tax Collections 2005 & State & Local Government Finances 2002

<u>State</u>	<u>Per Capita</u>	<u>Rank</u>	<u>Tax Rate</u>	<u>ST-Road</u>
Montana	\$205	1	27.75	80%
North Dakota	191	2	23.00	68%
<i>West Virginia</i>	<i>176</i>	<i>3</i>	<i>27.00</i>	<i>94%</i>
North Carolina	154	10	29.90	85%
Pennsylvania	153	12	32.30	77%
Ohio	146	16	28.00	55%
Maryland	134	22	23.50	65%
Virginia	121	33	18.10	83%
Kentucky	119	34	18.50	83%
<i>TOTAL</i>	<u>\$ 117</u>		<u>23.25</u>	<u>62%</u>

Motor Vehicle License Fees & Sales Tax Rate

Sources: U.S. Census Bureau, State Government Tax Collections 2005

* Tax on Sale of Motor Vehicle: **Additional Local Taxes may apply

<u>State</u>	<u>Per Capita</u>	<u>Rank</u>	<u>Tax Rate*</u>
Oklahoma	\$162	1	3.25%
Montana	158	2	-----**
Maryland	93	10	5.00%
Pennsylvania	71	20	6.00%**
Ohio	70	22	5.50%**
North Carolina	63	28	3.00%
Virginia	52	35	3.00%
Kentucky	50	39	6.00%
<i>West Virginia</i>	<i>49</i>	<i>40</i>	<i>5.00%</i>
<i>TOTAL</i>	<u>\$ 69</u>		<u>5.00%</u>

Note: Motor vehicle sales taxes are deductible for federal income tax purposes, but privilege taxes are not deductible.

Per Capita Tobacco Taxes & Cigarette & Beer Tax Rates

Sources: U.S. Census Bureau, State Government Tax Collections 2005

Cigarette Tax Rate per pack of 20; Beer Tax Rate per Gallon of Beer

<u>State</u>	<u>Per Capita</u>	<u>Rank</u>	<u>Cigarettes</u>	<u>Beer</u>
Rhode Island	\$127	1	\$2.46	\$0.10
Michigan	117	2	2.00	0.20
Pennsylvania	83	7	1.35	0.08
<i>West Virginia</i>	<i>57</i>	<i>16</i>	<i>0.55</i>	<i>0.18</i>
Ohio	51	24	1.25	0.18
Maryland	49	25	1.00	0.09
Virginia	14	47	0.30	0.26
Kentucky	9	48	0.30	0.08
North Carolina	5	50	0.30	0.53
<i>TOTAL</i>	<u>45</u>		<u>0.80</u>	<u>0.19</u>

Local Special Sales-Other Taxes

Source: U.S. Census Bureau, State and Local Government Finances 2002

<u>State</u>	<u>Revenue</u>	<u>Share of Total</u>	<u>Rank</u>
Nevada	\$0.75 billion	30%	1
Oregon	0.72 billion	19%	2
Virginia	1.74 billion	19%	3
Alabama	0.59 billion	18%	4
Hawaii	0.15 billion	18%	5
<i>West Virginia</i>	<i>0.20 billion</i>	<i>18%</i>	<i>6</i>
Florida	3.52 billion	18%	7
Kentucky	0.43 billion	15%	10
Pennsylvania	1.69 billion	11%	17
<i>TOTAL</i>	<u><i>\$30 billion</i></u>	<u><i>10%</i></u>	

WV Local Business & Occupation Tax

Source: West Virginia State Auditor's Office FY2005-2006 Budgeted Tax Collections

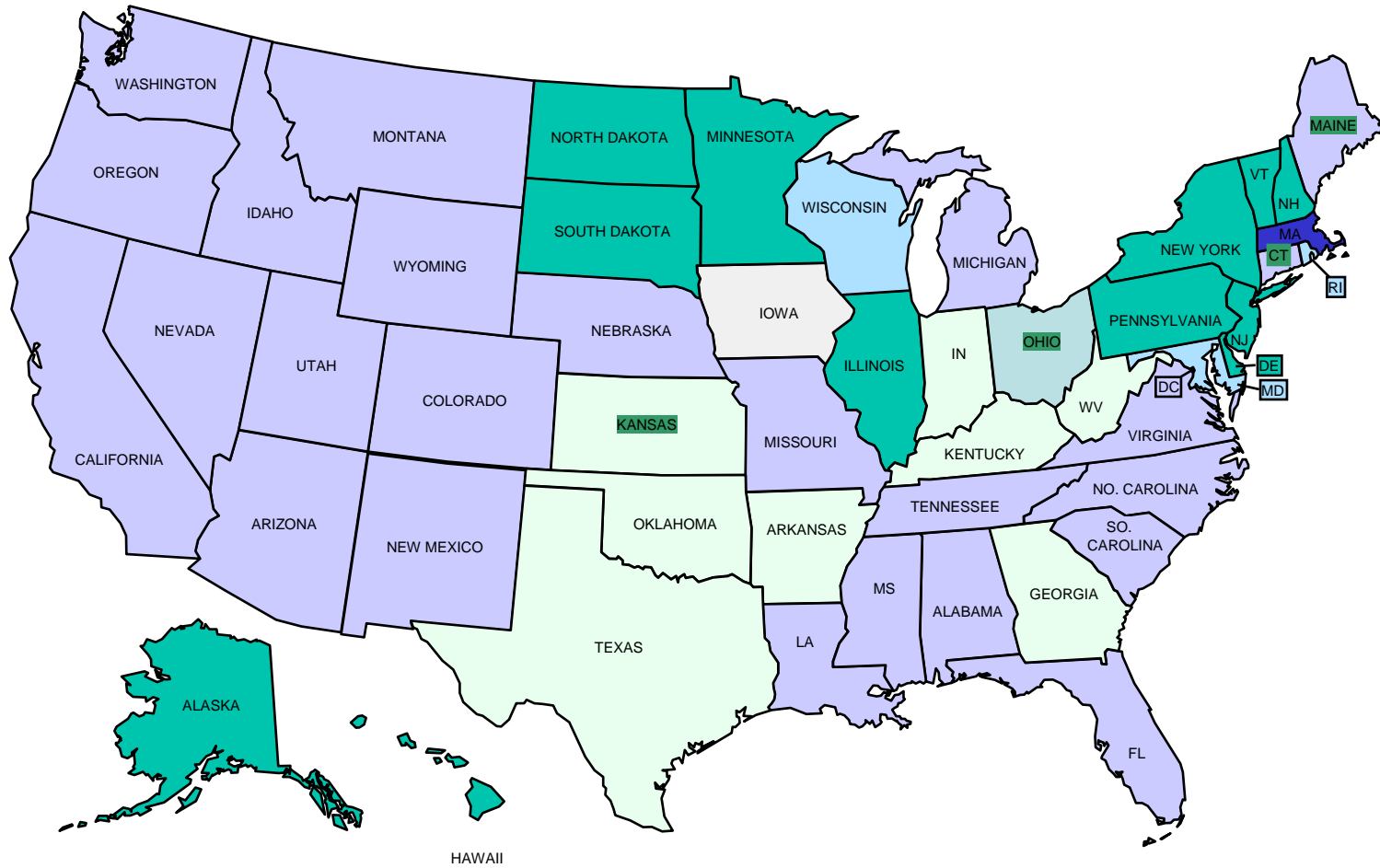
<u>Municipality</u>	<u>Revenue</u>	<u>% of Tax</u>
Charleston	\$32.5 M	72%
Huntington	13.4	67%
Parkersburg	9.5	68%
Morgantown	9.2	70%
Wheeling	8.7	60%
Beckley	7.9	71%
South Charleston	7.4	61%
Clarksburg	5.9	70%
Martinsburg	5.2	69%
Fairmont	3.7	61%
Total	<u>\$152.2</u>	

Per Capita State & Local Property Tax Collections

Sources: U.S. Census Bureau, State and Local Government Finances 2002 & IRS SOI-2003

<u>State</u>	<u>Per Capita</u>	<u>Rank</u>	<u>\$39,000 Family</u>
New Jersey	\$1,872	1	\$4,401
Connecticut	1,760	2	3,324
Maryland	993	16	1,915
Ohio	933	23	1,668
Virginia	921	26	1,568
Pennsylvania	885	28	2,435
North Carolina	653	38	1,240
<i>West Virginia</i>	<i>499</i>	<i>42</i>	<i>738</i>
Kentucky	483	45	1,022
<i>TOTAL</i>	<u>\$ 969</u>		<u>\$2,089</u>

COMPARATIVE PROPERTY TAX BASE



- | | |
|---|---|
| Real Property Only | Real Property & Fixtures Only |
| Real and Personal Property | Real Property, Fixtures & Inventory |
| Real and Personal Property Except Inventory | Real Property, Fixtures & Machinery |

Local Property Tax Variance – 40% of Tax Voter Approved

Rural Class III Locations

Average Rate is 2.24%

Urban Class IV Locations

Average Rate is 2.93%

<u>County</u>	<u>Rate</u>	<u>Variance</u>
Doddridge	2.854%	+ 27%
Brooke	2.817%	26
Cabell	2.770%	24
Tyler	2.729%	22
Harrison	2.638%	18
Pocahontas	1.382%	- 38%
Preston	1.381%	38
Pendleton	1.371%	39
Randolph	1.367%	39
Hardy	1.352%	40

<u>City</u>	<u>Rate</u>	<u>Variance</u>
Barboursville	3.5196%	+ 20%
Sistersville	3.4788%	19
Huntington	3.4096%	16
Clarksburg	3.3876%	16
S. Charleston	3.1488%	7
Charleston	2.9072%	- 1%
Parkersburg	2.8980%	1
Morgantown	2.6384%	10
Elkins	1.8612%	36
Beverly	1.6544%	44

Local Taxes Per Capita & Property Tax Share

Source: U.S. Census Bureau, State and Local Government Finances 2002

<u>State</u>	<u>Total</u>	<u>Rank</u>	<u>Property Share</u>	<u>Rank</u>
New York	\$2,389	1	59%	43
New Jersey	1,917	2	98%	1
Connecticut	1,775	3	98%	2
Maryland	1,683	4	57%	44
Ohio	1,408	13	66%	36
Virginia	1,300	16	72%	31
Pennsylvania	1,260	17	70%	32
North Carolina	859	38	77%	27
Kentucky	690	44	55%	46
<i>West Virginia</i>	<i>612</i>	<i>49</i>	<i>82%</i>	<i>19</i>
TOTAL	<u>\$1,167</u>		<u>74%</u>	

Average Direct Tax for \$39,000 Income Family

Source: IRS Statistics of Income-2003 and District of Columbia Comparative Study

<u>State</u>	<u>Income</u> <u>Tax</u>	+	<u>Real</u> <u>Property</u> <u>Tax</u>	+	<u>DC Study</u> <u>Sales</u> <u>Tax</u>	=	<u>Total</u>	<u>% WV</u>
Vermont	\$1,838		\$2,808		\$ 472		\$5,118	168%
Maryland	2,346		1,915		607		4,868	160%
Illinois	1,135		2,877		842		4,854	159%
Pennsylvania	1,773		2,435		520		4,728	155%
Maine	2,036		2,101		473		4,610	151%
U.S. Average	1,725		2,089		635		4,449	146%
Ohio	2,037		1,668		600		4,305	141%
Kentucky	2,430		1,022		557		4,009	131%
North Carolina	2,022		1,240		641		3,903	128%
Virginia	1,680		1,568		604		3,852	126%
South Carolina	1,881		985		514		3,380	111%
Arkansas	1,719		647		813		3,179	104%
West Virginia	1,708		738		606		3,052	100%
Alabama	1,548		533		715		2,796	92%
Louisiana	1,237		634		887		2,758	90%

SUMMARY CONCLUSIONS

- **Tax Capacity** – Low per capita economic output & limited property tax greatly constrain ability to fund government services
- **Demand** – Demand for government service is higher than average due to demographics, economic conditions and price signals (taxes)
- **Centralization** – Most services financed at the State level
- **Direct Taxation-Individuals** – Direct tax burden on individuals associated with combined personal income tax, sales tax and property tax is significantly below average for most income groups
- **Indirect Taxation-Individuals** – Indirect tax burden on individuals associated with various taxes imposed upon business activity is significantly above average.
- **Unfunded Liabilities** – Stretched finances contribute to unfunded liabilities, an uncompetitive tax structure & a weaker economy

Appendix A – Tax Burden Comparisons

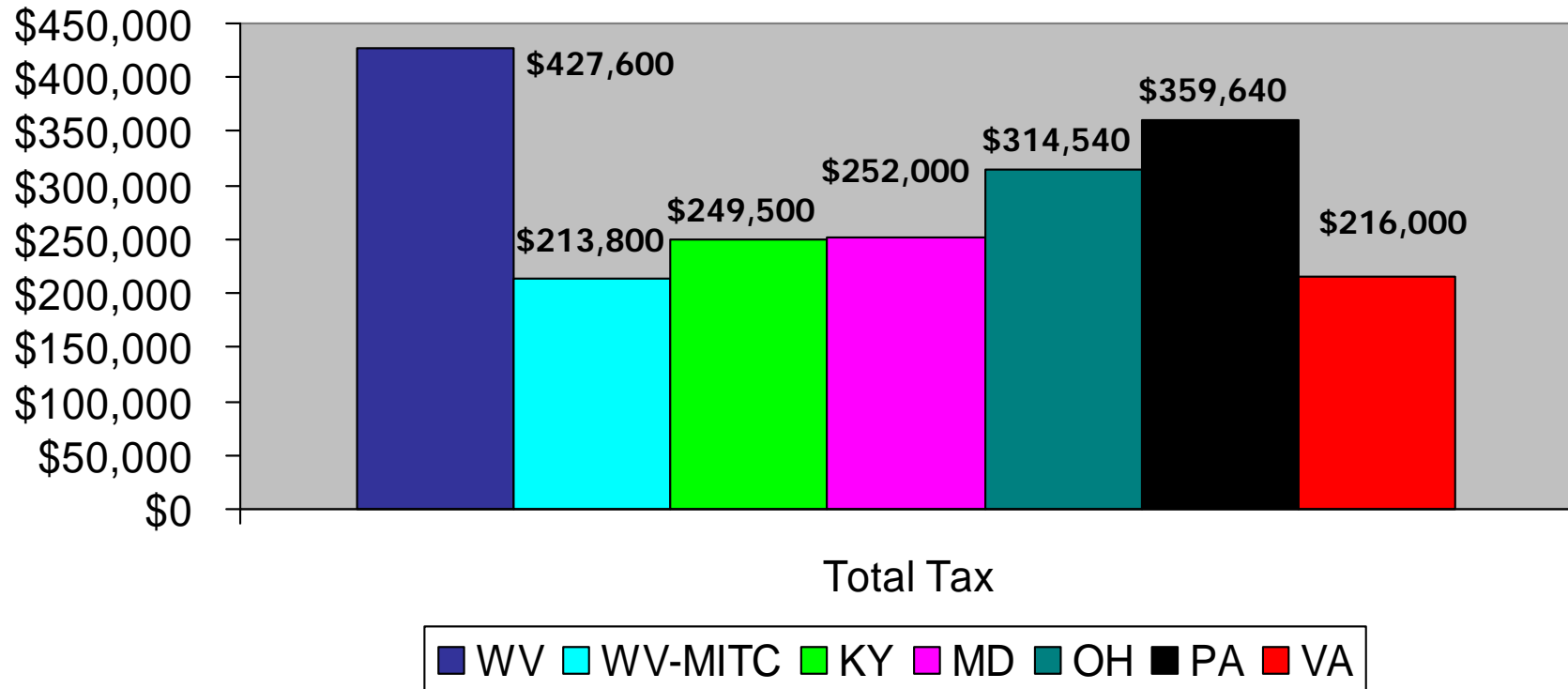
Indirect Business Taxes

- Corporation Net Income Tax: Hypothetical Taxpayers
 - Manufacturing with and without Manufacturing Investment Tax Credit
 - Non-Manufacturing
 - \$0 Net Income Scenario
- Property Tax Comparisons: Hypothetical Taxpayers
 - Industrial Taxpayer – Personal Property without taxable inventory and with inventory
 - Industrial Taxpayer – Total Property Tax, including 50% real estate
 - Note on comparative burdens indexed to median state
 - Index = 100.0 = Median State burden
 - Index > 100.0 = Higher Tax Burden (e.g., 125.0 = 25% higher)
 - Index < 100.0 = Lower Tax Burden (e.g., 88.0 = 12% lower)

State Corporate Tax Burden-Hypothetical Manufacturer

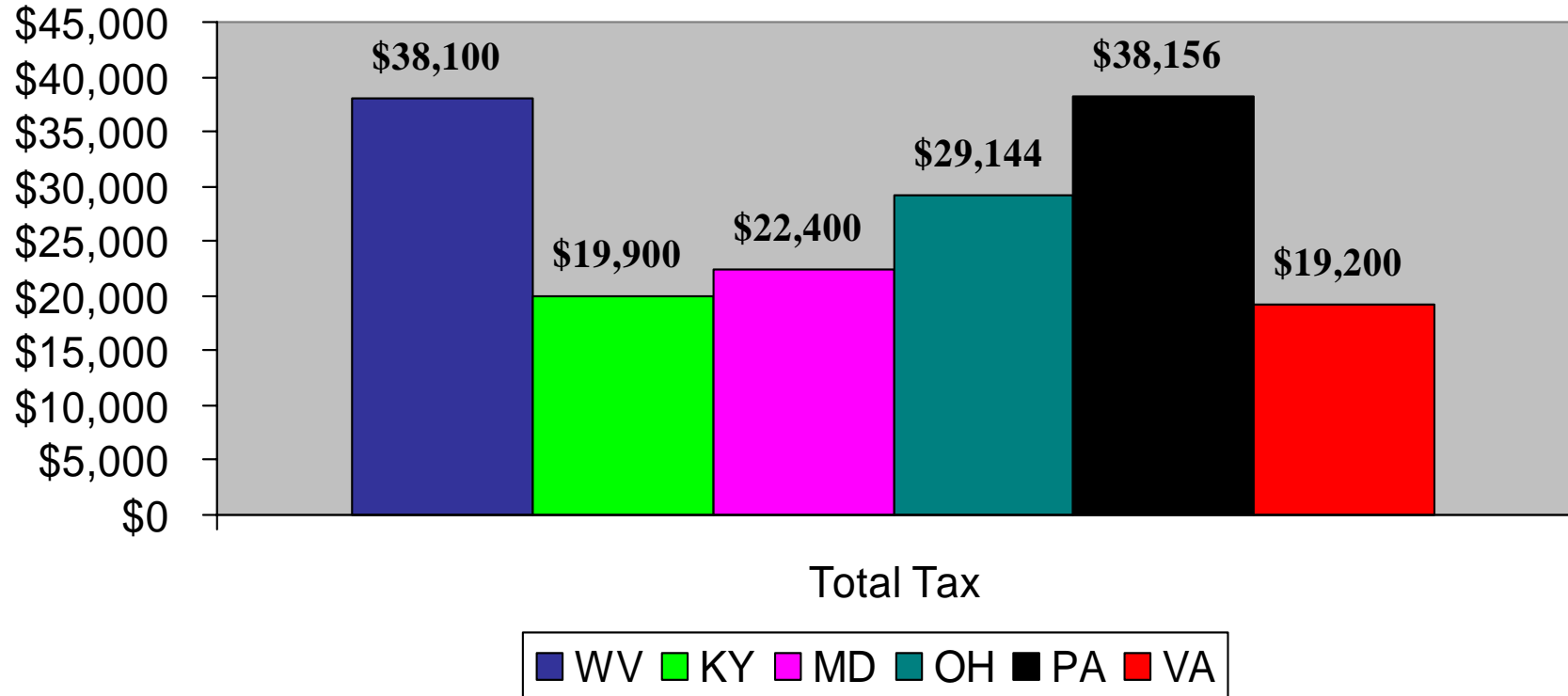
Gross Receipts: \$80 M, Taxable Income: \$3.6 M, Net Equity: \$14.8 M

Manufacturing Investment Tax Credit (MITC) makes WV more competitive.



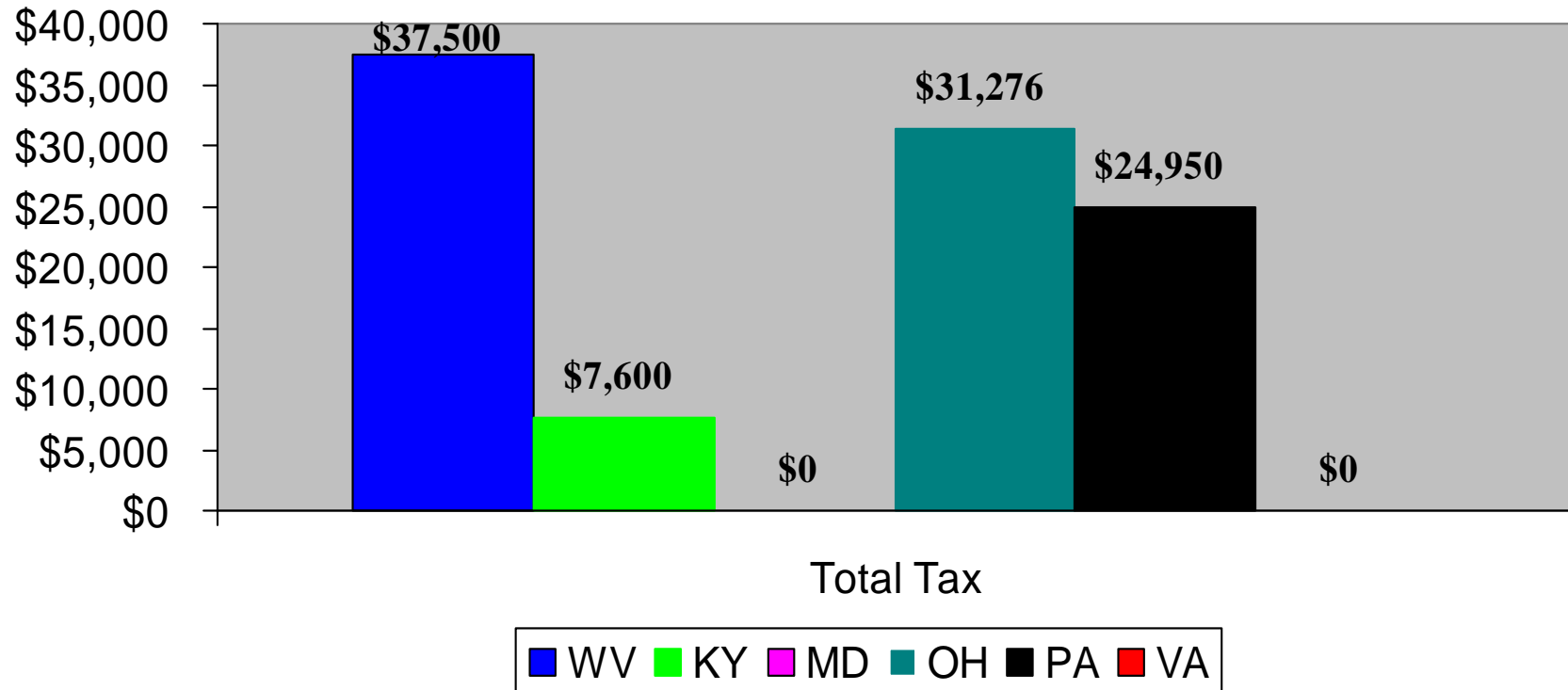
State Corporate Tax Burden-Hypothetical Non-Manufacturer

Gross Receipts: \$10 M, Taxable Income: \$0.32 M, Net Equity: \$1.24 M



State Corporate Tax Burden: Hypothetical Taxpayer With \$0 Net Income

Gross Receipts: \$8.0 M, Taxable Income: \$0 M, Net Equity: \$5.0 M

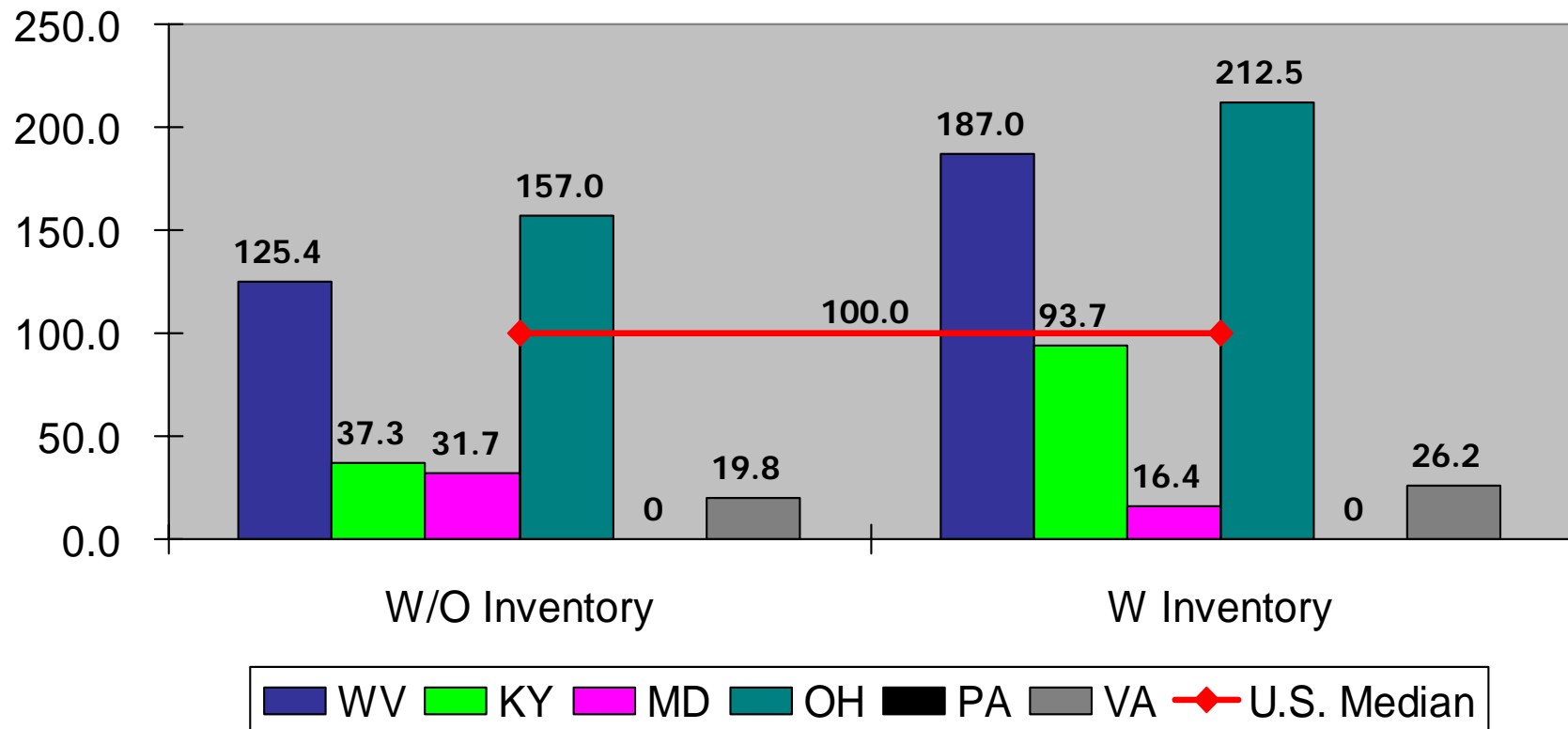


Industrial Personal Property Taxes

Example: 40% of Total Personal Property is Inventory

Source: Minnesota Taxpayer's Association: Payable Year 2002

Tax Year 2002: Average Class III Rate in WV

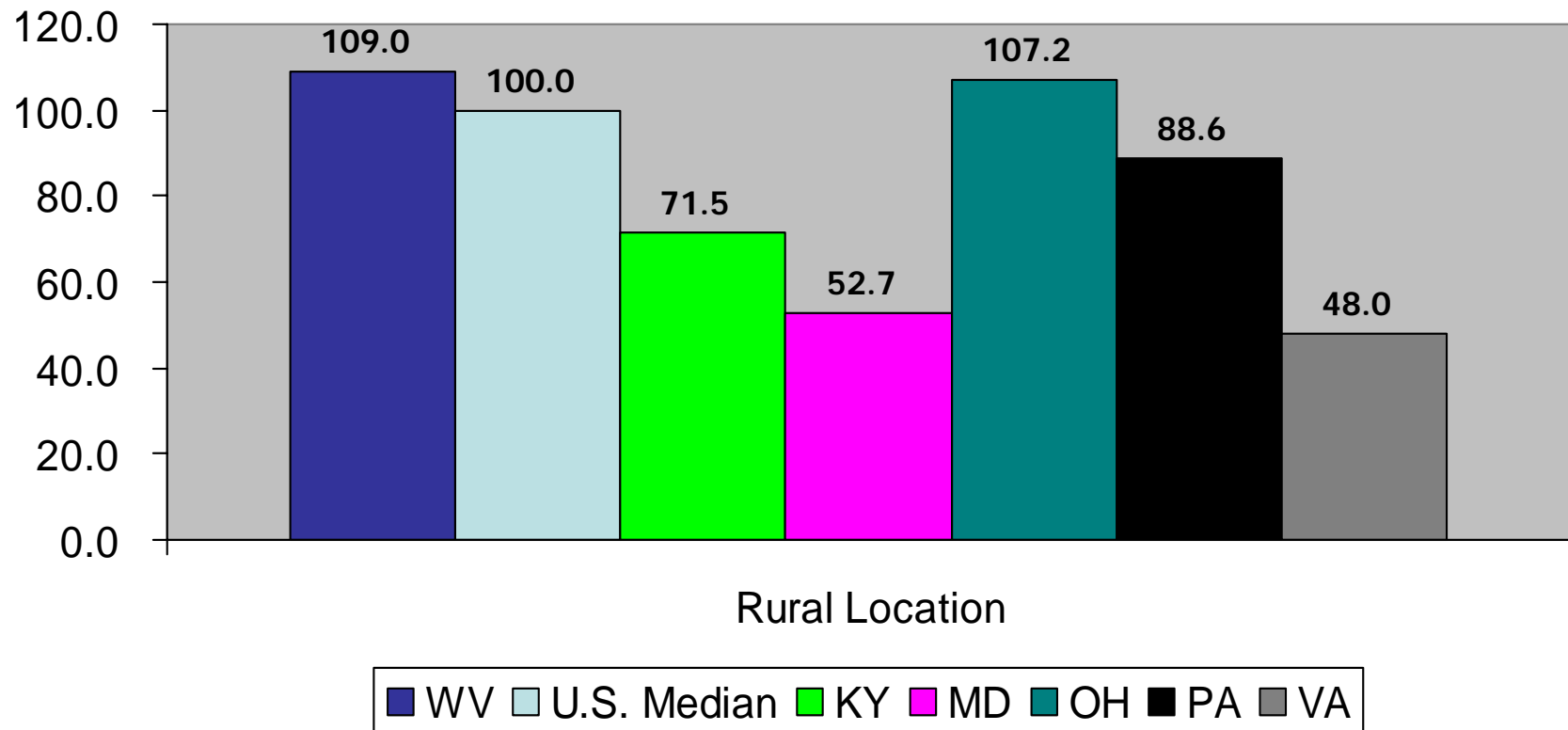


Total Industrial Property Taxes

50% Real Estate, 30% M&E & Fixtures, 20% Inventory

Source: Minnesota Taxpayer's Association: Payable Year 2002

Tax Year 2002: Average Class III Rate in WV



Appendix B – Tax Burden Comparisons

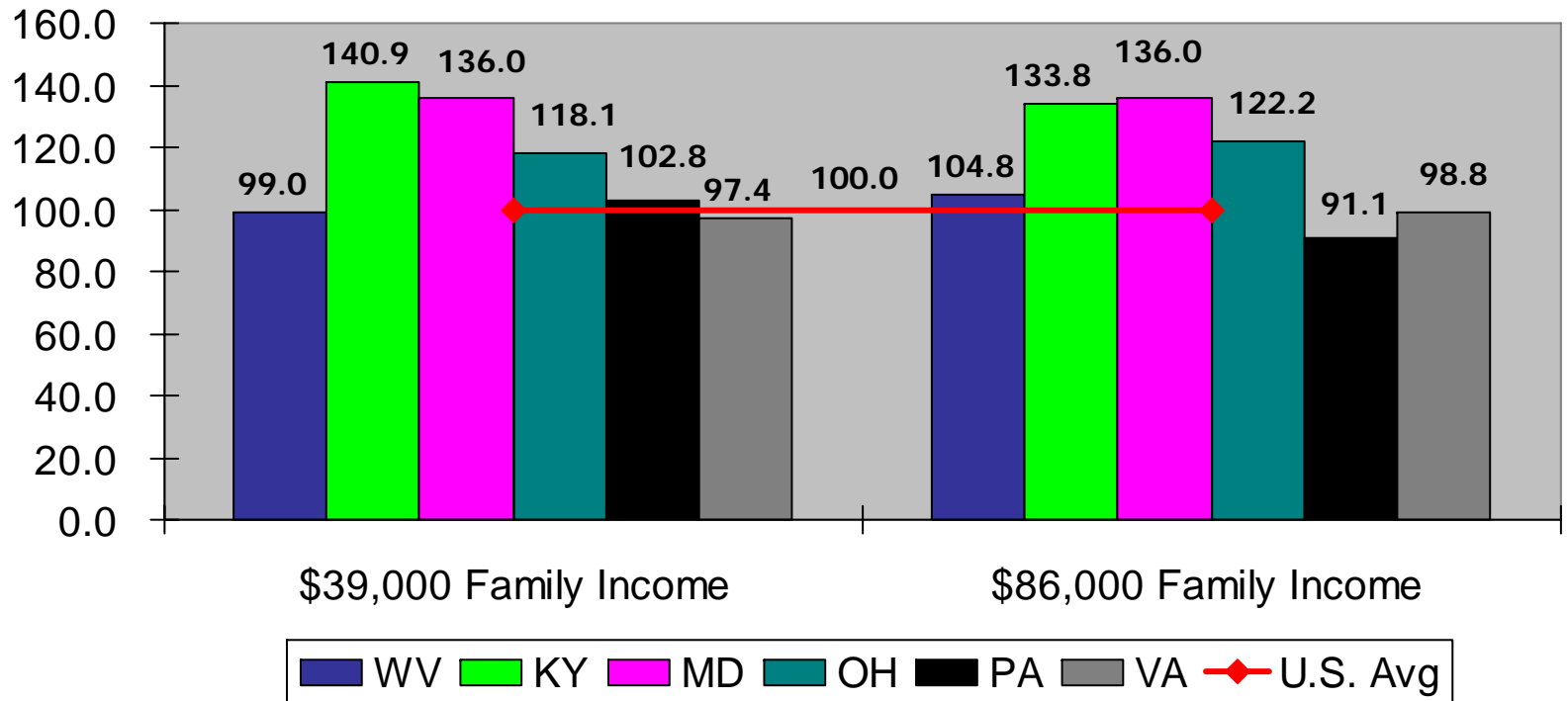
Direct Taxes on Individuals

- State & Local Personal Income Tax: Average Itemized Deduction
 - Family Income of \$39,000
 - Family Income of \$86,000
- State & Local Sales Tax: Tax Burden In Largest City of Each State
 - Family Income of \$39,000
 - Family Income of \$86,000
- Real Property Tax: Average Federal Itemized Deduction
 - Family Income of \$39,000
 - Family Income of \$86,000
- Note on comparative burdens indexed to average state (Median-Sales)
 - Index = 100.0 = Average State burden
 - Index > 100.0 = Higher Tax Burden (e.g., 125.0 = 25% higher)
 - Index < 100.0 = Lower Tax Burden (e.g., 88.0 = 12% lower)

WV Personal Income Taxes

Itemized Deduction Near National Average

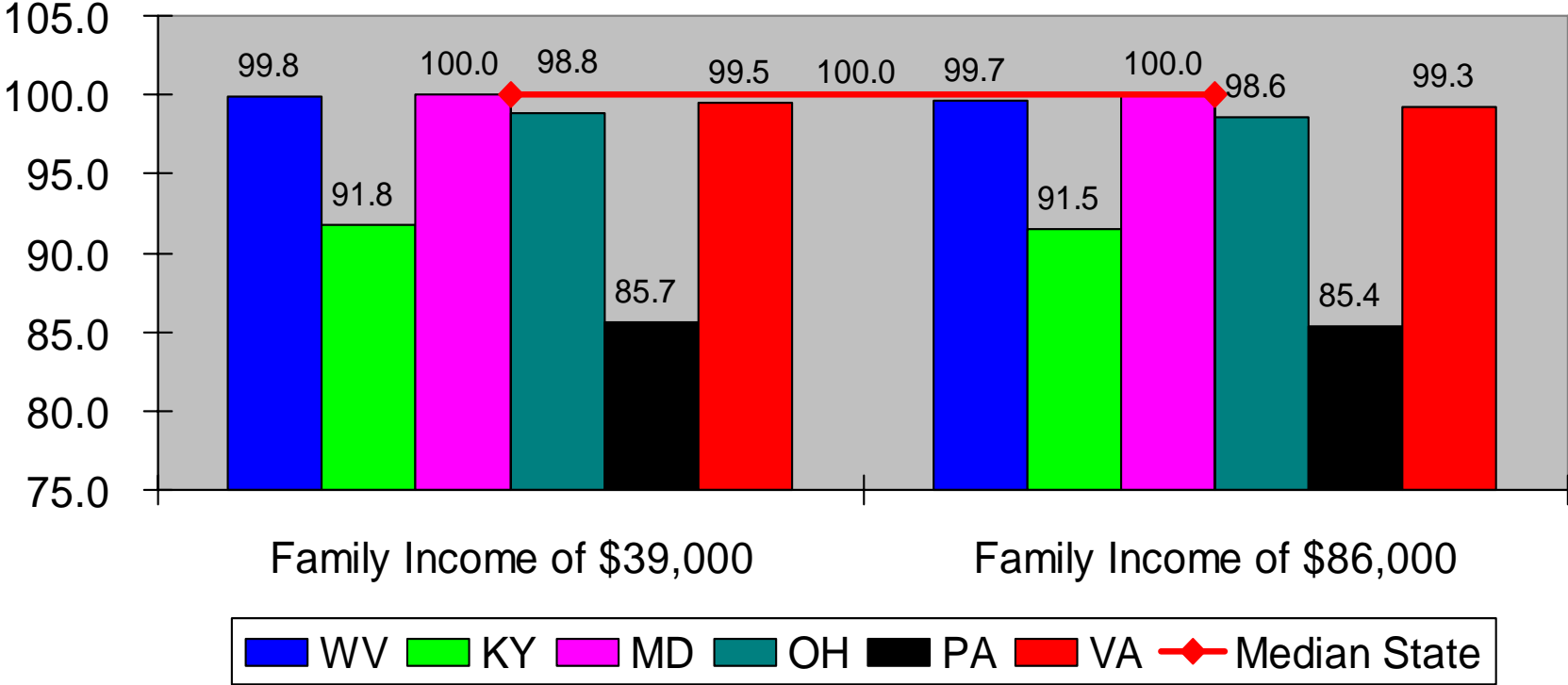
Source: IRS Statistics of Income - 2003



Individual State & Local Sales Tax Burden

Total Burden Near Level of Median State

Source: Calculations based upon "Tax Rates and Tax Burdens in the District of Columbia-A Nationwide Comparison-2003" August 2004.



WV Residential Property Taxes

Itemized Deduction is One-Third of National Average

Source: IRS Statistics of Income - 2003

