

# Budget Brief



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## The Governor's FY 2013 Budget Difficult Decisions Ahead

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Earlier this month, Governor Tomblin released his Fiscal Year 2013 budget, his first as West Virginia's official governor. Governor Tomblin again took a cautious approach to this year's budget with very few major changes. However, several trends and future projections show that difficult decisions lie ahead.

Governor Tomblin proposes a state budget of \$11.58 billion for FY 2013, a 2.1 percent increase over FY 2012. Federal funding totals \$4.1 billion, a decrease of \$35.8 million from FY 2012. The decrease in federal appropriations is mainly due to the exhaustion of West Virginia's share of the American Recovery and Reinvestment Act of 2009, which the state budgeted over several years. Total state appropriations are up \$239.3 million from FY 2012, with most of the growth found in appropriations from the state's Special Revenue Fund, which are up \$172.7 million over FY 2012 levels.

This brief provides an overview of the state's budget, reviews major changes, and examines important budgetary trends. It also identifies challenges and ideas for the future that could keep the state budget healthy and able to provide the public investments needed for prosperity.

### Overview of the Base Budget

Most of the budget's discretionary spending — appropriations that are not tied to specific funding streams or required by the constitution or statute — can be found in the base budget. The base budget includes appropriations from the General Revenue Fund, the Lottery Fund, and the

Excess Lottery Fund (**Table 1**). The base budget comprises less than half of total appropriations. The Governor's FY 2013 base budget totals \$4.5 billion, a 2.2 percent increase over the FY 2012 base enrolled budget with vetos.

TABLE 1  
**The Proposed Base Budget Larger than Previous Year;  
Shift from Lottery Funds to General Revenue**

| Fund Source     | FY 2012 Enrolled       | FY 2013 Proposed       | Difference          | % Change    |
|-----------------|------------------------|------------------------|---------------------|-------------|
| General Revenue | \$4,001,353,800        | \$4,149,751,000        | \$148,397,200       | 3.7%        |
| Lottery         | \$166,305,107          | \$145,025,203          | -\$21,279,904       | -12.8%      |
| Excess Lottery  | \$227,355,292          | \$198,374,890          | -\$28,980,402       | -12.7%      |
| <b>Total</b>    | <b>\$4,395,014,199</b> | <b>\$4,493,151,093</b> | <b>\$98,136,894</b> | <b>2.2%</b> |

Source: WVCBP analysis of West Virginia State Budget Office data. (Note: Totals do not double count Excess Lottery Transfer to General Revenue).

While appropriations from the General Revenue fund are slightly higher for FY 2013 than the previous year, appropriations from both the Lottery and Excess Lottery Funds are down dramatically. According to the governor’s budget message, declining lottery revenues are due to increased competition, particularly from Ohio.

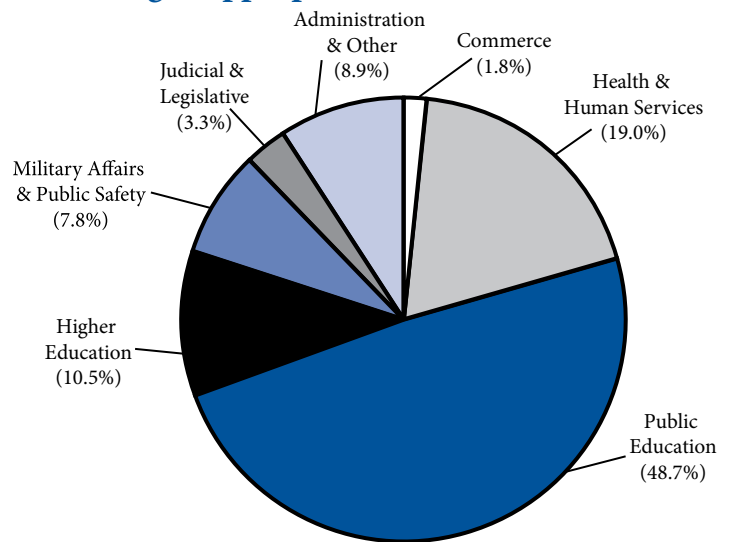
Almost half of the base budget, \$2.2 billion, is dedicated to public education (**Figure 1**). The next largest portions of the base budget are Health and Human Services, at \$871.7 million, followed by Higher Education (\$481.4 million), and Military Affairs and Public Safety (\$357.8 million).

### Major Proposed Changes

Overall, the governor’s proposed base budget for FY 2013 is only \$62.8 million over FY 2012. Most of the governor’s proposed changes to the base budget were minor, with a few exceptions. The major increases include:

- + \$2.3 million for the Joint Committee on Government and Finance
- + \$1.0 million for the Division of General Services
- + \$3.9 million for Local Economic Development Assistance
- + \$6.2 million for Student Enrichment
- + \$5.5 million for State Aid to Schools
- + \$15.0 million for Institutional Facilities Operations
- + \$21.8 million for Social Services
- + \$2.5 million for the Title XIX Waiver for Seniors
- + \$15.3 million for the Division of Corrections
- + \$2.0 million for Community College Workforce Development

**FIGURE 1**  
**Base Budget Appropriations, FY 2013**



Source: WVCBP analysis of West Virginia State Budget Office data.

Decreases below FY 2012 levels in the governor’s proposal for FY 2013 were also small. Some of the larger decreases included:

- \$5.8 million for the State Police
- \$2.9 million for the Adjutant General
- \$6.4 million for the Teachers’ Retirement System

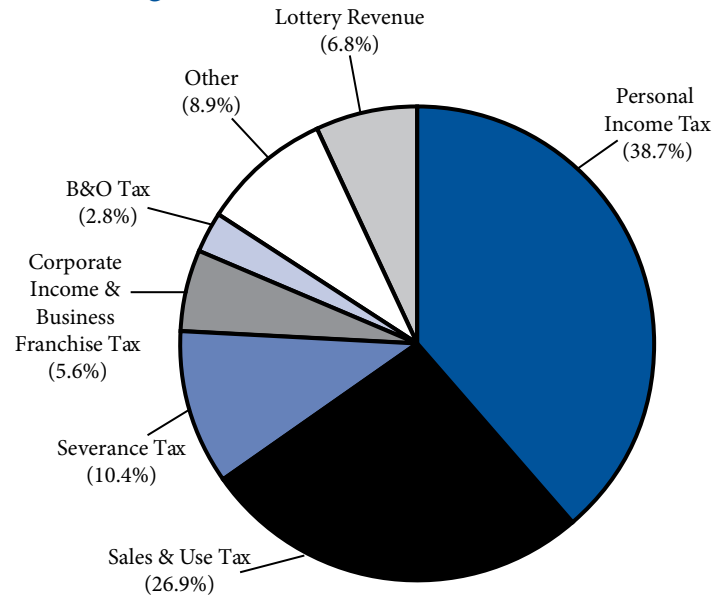
For a line-item breakdown of the increases and decreases in the proposed base budget, see Appendix A.

## Base Budget Revenues

Revenues for the governor’s proposed FY 2013 base budget total \$4.45 billion. The lion’s share of this revenue comes from the personal income tax and the sales and use tax. The severance tax provides over 10 percent of the revenue for the base budget, while lottery revenues make up just under seven percent (**Figure 2**).

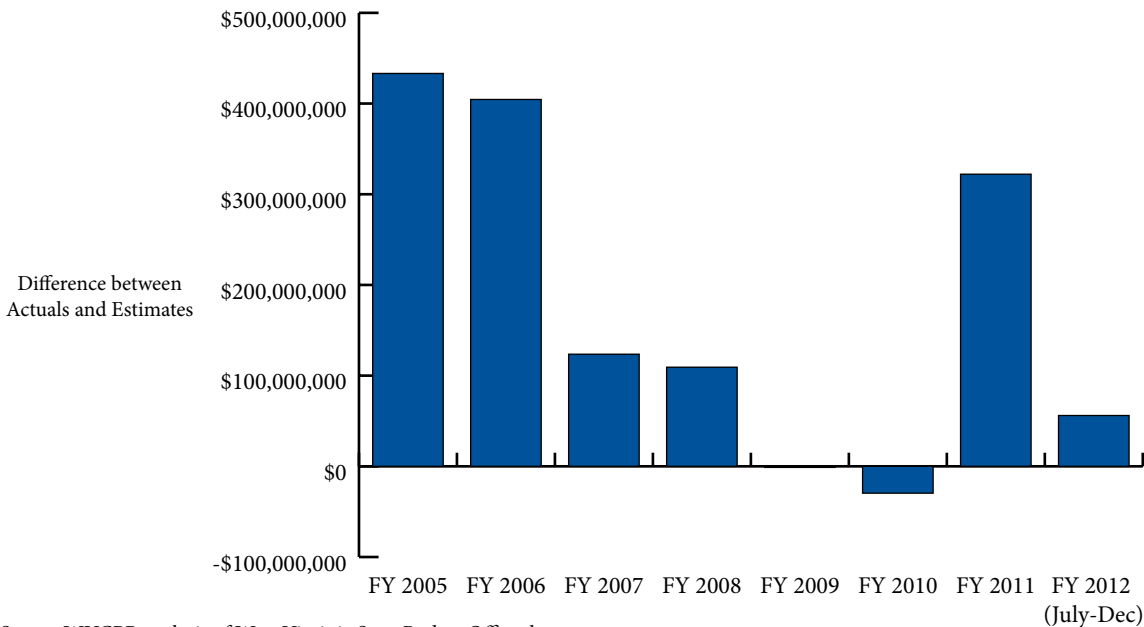
Overall, base budget revenues are estimated to be up 1.8% from FY 2012 estimates. Actual revenue collections for FY 2012 are ahead of projections by \$56 million for the first six months, and the FY 2012 budget is likely to end in a surplus. In the past, general fund revenues have typically been underestimated compared to actual collections. In FY 2011, actual general fund revenue collections were \$322 million over official estimates. Since FY 2005, general fund revenue has been underestimated by an average of nearly \$200 million each year (**Figure 3**).

**FIGURE 2**  
**Base Budget Revenue Estimates, FY 2013**



Source: WVCBP analysis of West Virginia State Budget Office data.

**FIGURE 3**  
**Underestimated General Fund Revenues**



Source: WVCBP analysis of West Virginia State Budget Office data.

## Shrinking Business Tax Revenue

2013 marks the sixth year of cuts to the state’s business taxes. Reductions to the state’s business franchise and corporate net income taxes began in 2007 after recommendations from the Tax Modernization Project, launched by Governor Joe Manchin. Calendar Year 2012 contained one of the biggest single-year cuts, as the business franchise tax fell from 0.34 percent to 0.27 percent, while the corporate net income tax fell from 8.5 percent to 7.75 percent (see **Table 2** for the rate reduction schedule).

TABLE 2  
Business Tax Cuts

| Calendar Year | Business Franchise Tax | Corporate Net Income Tax |
|---------------|------------------------|--------------------------|
| 2007          | 0.70%/0.55%            | 9.00%/8.75%              |
| 2008          | 0.55%                  | 8.75%                    |
| 2009          | 0.48%                  | 8.50%                    |
| 2010          | 0.41%                  | 8.50%                    |
| 2011          | 0.34%                  | 8.50%                    |
| 2012          | 0.27%                  | 7.75%                    |
| 2013          | 0.20%                  | 7.00%                    |
| 2014          | 0.10%                  | 6.50%                    |
| 2015          | 0.00%                  | 6.50%                    |

Source: West Virginia State Tax Department.

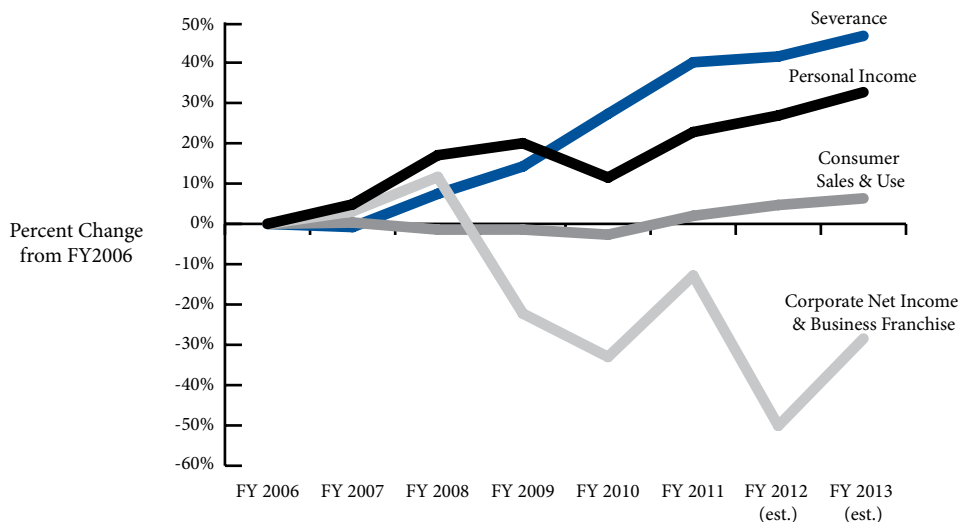
As a result of the rate reductions, revenue from these business taxes has fallen dramatically in the past six years,

as other revenue sources have grown, even throughout the recession. Revenue from the corporate net income and business franchise tax is estimated to be down 28.4 percent from FY 2006 levels, while revenue from the personal income and severance taxes are both up over 30 percent, and revenue from the consumer sales and use tax is up 6.3 percent (**Figure 4**).

As a result of declining business tax revenue, the state’s general revenue fund has grown more reliant on the personal income tax and the severance tax as sources of revenue. The share of revenue from the personal income tax in the general revenue fund increased from 35.4 percent in FY 2006 to 42.4 percent in FY 2013, while the severance tax revenue’s share increased from 8.6 percent to 11.4 percent. The share of revenue from the corporate net income and business franchise tax fell from 9.5 percent to 6.1 percent in that same time period. As the business tax cuts continue, the state grows more reliant on personal income tax revenue as well as the volatile severance tax revenue.

When fully enacted, the State Tax Department has estimated that cuts to the business franchise tax and corporate net income tax will cost the state nearly \$200 million in lost revenue each year. This will put a great deal of strain on the state’s ability to fund important services and programs.

FIGURE 4  
Business Tax Revenues on the Decline



Source: WVCPB analysis of West Virginia State Budget Office data.

## Medicaid

One of the programs likely to feel this strain is Medicaid, the largest program in the state's budget, with total costs of \$3.0 billion in FY 2013, an increase of 0.87% from FY 2012. Medicaid's costs are shared by the state and federal government. For FY 2013, West Virginia's share is \$848 million, while the federal government's share is \$2.15 billion. The state's share of the Medicaid program is derived from a number of sources, including funding from the General Revenue, Lottery, Medical Services Trust Fund, the Provider Tax, and Other State Certified Match.

In FY 2012, appropriations from these sources were not enough to provide for the state's share, and an estimated \$233 million will be spent from surplus balances built up in the Medicaid trust fund. It is anticipated that an additional \$157 million will be spent from these surpluses in FY 2013, exhausting the reserves. General revenue funds will need to make up the remaining shortfall.

The state's share of Medicaid has increased with the elimination of federal stimulus funding as well as increases in per capita income in the state. The Recovery Act temporarily increased the share of Medicaid paid by the federal government, which enabled West Virginia to decrease its own spending on Medicaid in recent years. The elimination of the stimulus funding has put state

funding of Medicaid spending back at pre-stimulus levels. In FY 2006, state spending on Medicaid was 16.6 percent of the base budget, falling to a low of 11.1 percent in FY 2010. For FY 2013, the state's share is estimated to be back up to 18.6 percent (**Figure 5**), as the federal share declined from roughly 82 percent to 72 percent.

While state spending on Medicaid has jumped sharply in the past year due to the elimination of the stimulus funding, its growth over the past few years is comparable to several other parts of the state budget. State spending on Medicaid has grown 48.0 percent between FY 2006 and FY 2013, while general revenue appropriations have increased by 47.2 percent for correctional units, 40.8 percent for juvenile services, and 48.0 percent for the Supreme Court. Meanwhile, corporate net income and business franchise tax revenue fell by 35.8 percent between FY 2009 and 2012.

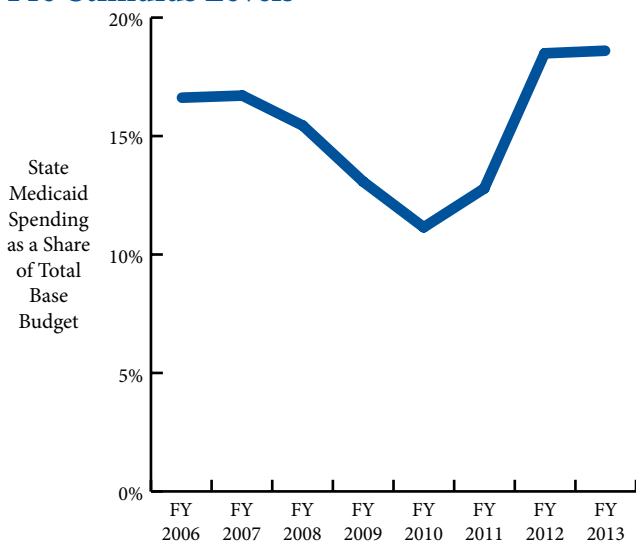
Medicaid coverage is expanding next year from covering those at 34 percent of the federal poverty level to 133 percent. The full cost of the expansion will be covered by the federal government for two years. Since the surpluses in the Medicaid accounts are expected to be exhausted by then, the additional cost will likely be covered by the state's general revenue fund; which at that time will be bearing the full cost of the cuts to the business franchise and corporate net income tax, estimated to be nearly \$200 million.

In an effort to cut costs, the state recently froze enrollment in Medicaid's Aged and Disabled Waiver program. The program uses Medicaid funds to allow elderly and disabled residents to receive in-home care, as an alternative to nursing home care. In 2011, over 7,000 people were served by the Aged and Disabled Waiver program, while the average cost in FY 2009 was \$18,858.<sup>1</sup> Enrollment has now been capped at 8,130 participants, and new enrollees will go on a waiting list until vacancies occur.

While financial eligibility is higher for the waiver than for Medicaid benefits, freezing enrolment could ultimately raise Medicaid costs, as alternative nursing home care is twice the cost of in-home care.<sup>2</sup>

FIGURE 5

### State Spending on Medicaid Back to Pre-Stimulus Levels



Source: State Expenditure Reports 2007-2011, National Association of State Budget Officers (NASBO) and West Virginia State Budget Office data.

## Corrections Spending Skyrocketing

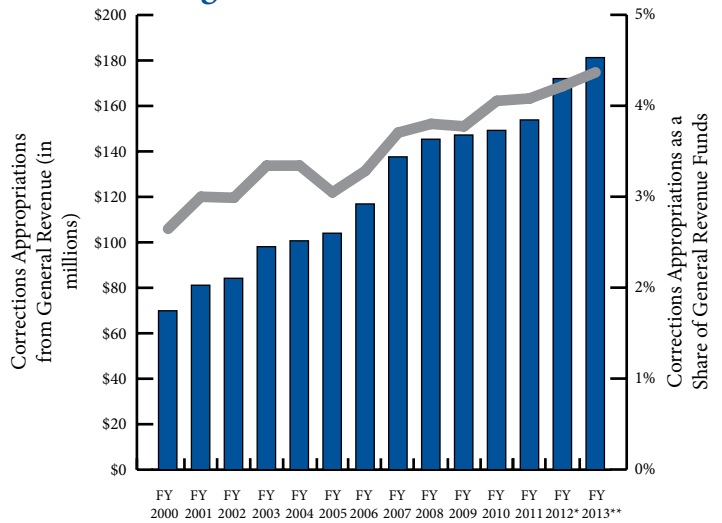
While the state Medicaid program has been growing quickly over the last decade, spending on West Virginia's corrections system has grown even faster. Between FY 2000 and FY 2013, spending for the state's 13 correctional facilities will grow from \$69.9 million to an estimated \$181.3 million – an increase of over 159 percent over 14 years (**Figure 6**). From FY 2000 to FY 2011, state corrections' spending has increased by over 69 percent after adjusting for inflation.

State corrections' spending has also made up a larger share of general revenue spending. From FY 2000 to FY 2013, corrections' spending has grown from 2.65 percent of general revenue spending to approximately 4.37 percent in the governor's budget. The number of inmates has also grown dramatically. In 2009, the number of inmates was almost three times larger than in 1990, growing from 1,575 to 6,240.<sup>3</sup> According to the U.S. Census Bureau, West Virginia's population only grew approximately 3.3 percent during that same time period.<sup>4</sup>

## Disinvestment in Higher Education Is Pushing Tuition Higher

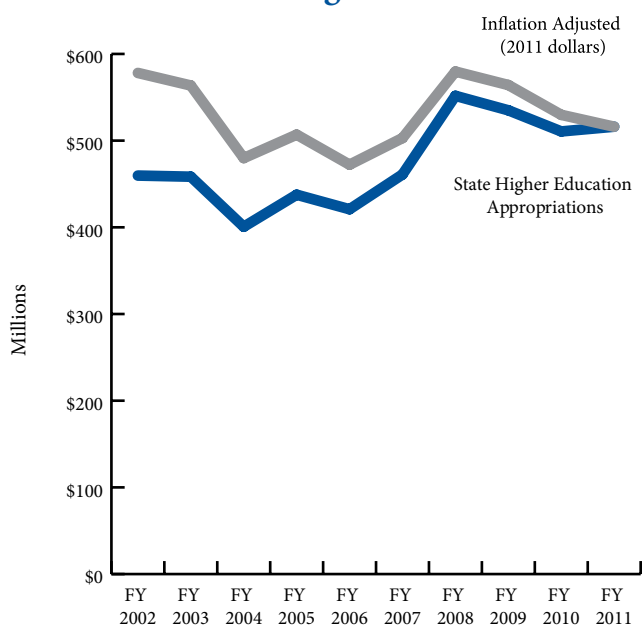
Over the past ten fiscal years, the state's investment in its public universities and community and technical colleges has not kept pace with the skyrocketing cost of in-state tuition and the growing number of students. In 2011, the average undergraduate tuition for in-state students was \$5,147 compared to \$2,816 in 2002.<sup>5</sup> After adjusting for inflation, in-state tuition costs have increased by more than 45 percent over this period. Meanwhile, state higher education appropriations have declined in real terms (2011 dollars) from \$578 million in FY 2002 to \$516 million in FY 2011 (**Figure 7**). This has occurred as student enrollment has increased by 26 percent, from 65,848 in FY 2002 to 82,911 in FY 2011.<sup>6</sup>

**FIGURE 6**  
State Corrections Growing Part of General Revenue Budget



Source: WV Executive Budget, Vol. II, Operating Detail, FY 2003-2013.  
\*Budgeted FY 2012 \*\*Governor's Requested FY 2013

**FIGURE 7**  
Less Investment in Higher Education



Source: WV Executive Budget, Vol. II, Operating Detail, FY 2003-2013. U.S. Bureau of Labor Statistics, CPI-U-RS 2002-2011.

This decline in state spending on higher education is partly responsible for shifting the cost burden onto in-state students over the last ten years. West Virginia spent less on higher education per student in FY 2011 than it did in FY 2002, after adjusting for inflation (Figure 8). In FY 2011, the state spent approximately \$8,779 per student compared to just \$6,224 in FY 2011. This is a decline of more than 29 percent.

At the same time that the state is spending less on higher education, the average loan debt of undergraduates from West Virginia's four-year colleges has also increased. From 2003 to 2010, average loan debts of graduates grew by 24 percent or from \$22,610 to \$28,148, after adjusting for inflation (2010 dollars).<sup>7</sup>

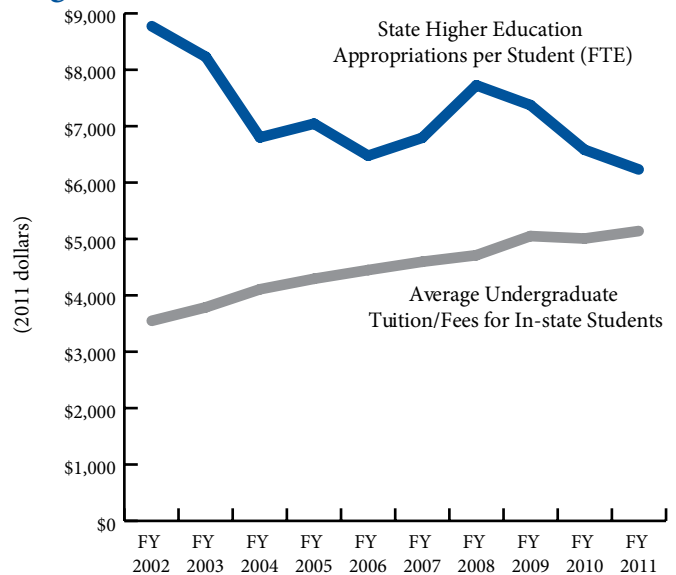
If the state does not invest more in higher education over the coming years, the growing cost of tuition could price many students out of a post-secondary education.

### Rainy Day Fund with More than \$800 Million

While states across the country have been withdrawing money from their rainy day funds to fill in budget gaps, West Virginia has one of the largest rainy day funds in the country. Over the last seven years, the state's two primary budget stabilization funds – Rainy Day Fund A & B – have grown from \$347 million in 2005 to \$819 million at the end of 2011 (Figure 9).

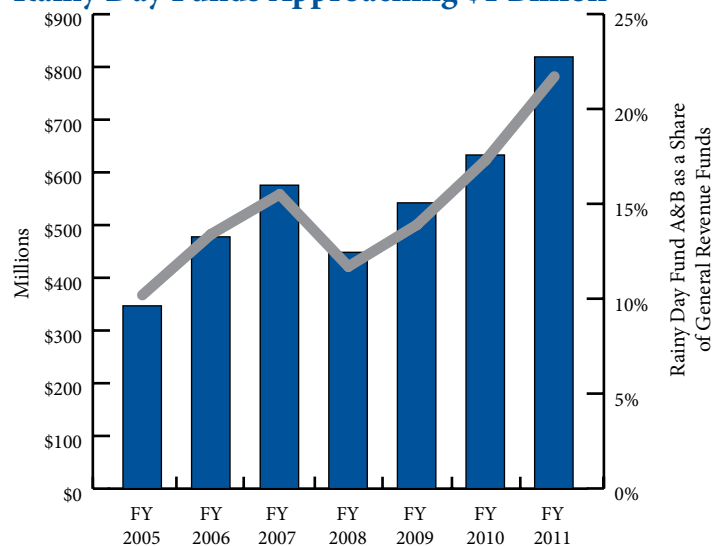
These Rainy Day Funds have also grown as a share of general revenue expenditures. In 2005, they made up 10.2 percent of the general fund, while in 2011 they made up nearly 22 percent. According to the National Association of Budget Officers, West Virginia had the 3rd largest Rainy Day Fund as a percentage of state expenditures in the country in 2011.<sup>8</sup> Only Alaska and Wyoming had larger rainy day funds than West Virginia.

**FIGURE 8**  
**Eroding State Support Is Pushing Tuition Higher**



Source: WV Higher Education Policy Commission, Data Portal and Annual Reports. WV Executive Budget, Vol.II, Operating Detail, FY 2003-2013.

**FIGURE 9**  
**Rainy Day Funds Approaching \$1 Billion**



Source: WV Executive Budget, Vol. I, Budget Report, FY 2007-2013. Note: Rainy Day A&B balance expressed at end of calendar year. General Revenue Funds are actuals for end of SFY of each year.



## Conclusion

While the FY 2013 budget has no shortfall and may even end with a small surplus, projections show growing budget gaps in the future. Current estimates show a shortfall of \$389 million in FY 2014, with gaps greater than \$370 million per year through FY 2016. These gaps will present difficult challenges for West Virginia as it moves forward.

This year's budget highlights some of those growing challenges for West Virginia. Corrections spending has been growing unchecked for years, creating a strain on the budget. While stimulus dollars allowed the state to hold down Medicaid costs for several years, that support

is now gone, and Medicaid spending has caught up to the rest of the budget. As the state makes smaller investments in higher education, rising tuition continues to squeeze the finances of those West Virginians who hope to earn a degree. And, as these issues create challenges to the budget, costly business tax cuts continue to deprive the state of revenue that could be used to address them. In the years ahead, the state will face many difficult decisions, and both program cuts and tax increases will likely be unavoidable. It will be increasingly important that policymakers work to protect the public investments needed to help its citizens prosper.

## Endnotes

- 1 Email correspondence between Paul Miller and Tina Maher, WV DHHR, December 21, 2011.
- 2 Phil Kabler, "State to freeze aged/disabled waiver program," Charleston Gazette, November 30, 2011.
- 3 WV Division of Corrections, 2010 Annual Report. Accessed on January 17, 2012 from <http://www.wvdoc.com/wvdoc/Portals/0/documents/2010-Annual%20Report.pdf>.
- 4 U.S. Census Bureau, State and County Quick Facts.
- 5 Data from the West Virginia Higher Education Report Card 2011 and 2010. Accessed on January 17, 2012 from [https://www.wvhepc.org/commission/2010\\_herc.pdf](https://www.wvhepc.org/commission/2010_herc.pdf).
- 6 These figures are based on annualized full-time equivalent students. Data were retrieved from the WV Higher Education Policy Commission's "data portal" and archived fall enrollment reports. Accessed on January 17, 2012 from [http://wvhepcnew.wvnet.edu/index.php?option=com\\_content&task=view&id=156&Itemid=0](http://wvhepcnew.wvnet.edu/index.php?option=com_content&task=view&id=156&Itemid=0).
- 7 Data from the West Virginia Higher Education Report Card 2011, accessed on January 17, 2012 from [https://www.wvhepc.org/commission/2010\\_herc.pdf](https://www.wvhepc.org/commission/2010_herc.pdf).
- 8 National Association of State Budget Officers, "The 2011 Fiscal Survey of States: Fall 2011," pp.61. Accessed on January 17, 2012 from <http://nasbo.org/LinkClick.aspx?fileticket=y%2fqdEfOcPfs%3d&tabid=65>.



# Appendix A

## Proposed Program & Services Increases/Decreases Above Five Percent

| Department                       | Program/Service                        | FY 2012      | Governor's Proposed FY 2013 | Difference   | Percent Change |
|----------------------------------|--|--------------|-----------------------------|--------------|----------------|
| Executive                        | Predator Control                       | \$247,000    | \$447,000                   | \$200,000    | 81%            |
| Administration                   | Local Economic Development Assistance  | \$3,900,000  | \$7,800,000                 | \$3,900,000  | 100%           |
| Administration                   | Occupational Safety & Health Fund      | \$98,500     | \$200,000                   | \$101,500    | 103%           |
| Administration                   | Coal Dust and Rock Sampling            | \$414,694    | \$567,020                   | \$152,326    | 37%            |
| Education                        | Safe Schools                           | \$4,350,951  | \$5,054,091                 | \$703,140    | 16%            |
| Education                        | Student Enrichment Program             |              | \$6,200,000                 | \$6,200,000  |                |
| Education                        | School Nurse Funding                   | \$292,267    |                             | -\$292,267   | -100%          |
| Education                        | GED Testing                            | \$816,079    | \$1,060,395                 | \$244,316    | 30%            |
| Health and Human Resources       | Center for End of Life                 | \$250,000    | \$466,886                   | \$216,886    | 87%            |
| Health and Human Resources       | Tuberculosis Control                   | \$247,089    | \$393,611                   | \$146,522    | 59%            |
| Health and Human Resources       | Maternal Mortality Review              |              | \$109,363                   | \$109,363    |                |
| Health and Human Resources       | Institutional Facilities Ops           | \$91,856,514 | \$106,851,279               | \$14,994,765 | 16%            |
| Health and Human Resources       | Social Services                        | \$75,571,254 | \$97,380,502                | \$21,809,248 | 29%            |
| Health and Human Resources       | Title XIX Waiver for Seniors           | \$9,587,500  | \$12,087,500                | \$2,500,000  | 26%            |
| Health and Human Resources       | Specialized Foster Care                | \$621,895    | \$310,948                   | -\$310,947   | -50%           |
| Military Affairs & Public Safety | Military Authority                     |              | \$9,042,415                 | \$9,042,415  |                |
| Military Affairs & Public Safety | Beckley Correctional Ctr               | \$2,030,837  | \$1,745,248                 | -\$285,589   | -14%           |
| Military Affairs & Public Safety | Huntington Work Release                | \$908,776    | \$955,458                   | \$46,682     | 5%             |
| Military Affairs & Public Safety | Anthony Center                         | \$4,612,859  | \$5,000,979                 | \$388,120    | 8%             |
| Military Affairs & Public Safety | Huttonsville Correctional Ctr          | \$20,354,352 | \$22,416,775                | \$2,062,423  | 10%            |
| Military Affairs & Public Safety | Northern Correctional Facility         | \$6,858,582  | \$8,093,587                 | \$1,235,005  | 18%            |
| Military Affairs & Public Safety | Prunytown Correctional Ctr             | \$7,025,261  | \$7,403,414                 | \$378,153    | 5%             |
| Military Affairs & Public Safety | Corrections Academy                    | \$1,281,062  | \$1,391,307                 | \$110,245    | 9%             |
| Military Affairs & Public Safety | St. Mary's Correctional Ctr            | \$12,439,068 | \$13,112,606                | \$673,538    | 5%             |
| Military Affairs & Public Safety | Denmar Correctional Facility           | \$4,308,062  | \$4,742,585                 | \$434,523    | 10%            |
| Military Affairs & Public Safety | Ohio County Correctional Ctr           | \$1,605,353  | \$1,803,160                 | \$197,807    | 12%            |
| Military Affairs & Public Safety | Mt. Olive Correctional Facility        | \$19,472,882 | \$20,621,292                | \$1,148,410  | 6%             |
| Military Affairs & Public Safety | Lakin Correctional Facility            | \$8,163,079  | \$8,728,706                 | \$565,627    | 7%             |
| Veterans' Assistance             | Veterans' Toll Free Asst Line          | \$5,015      | \$2,015                     | -\$3,000     | -60%           |
| Veterans' Assistance             | Veterans' Grave Markers                | \$15,750     | \$2,754                     | -\$12,996    | -83%           |
| Higher Education                 | Comm. College Workforce Development    | \$918,000    | \$2,918,000                 | \$2,000,000  | 218%           |
| Higher Education                 | WVU-Sch of Health Sciences             | \$18,098,217 | \$19,300,013                | \$1,201,796  | 7%             |
| Education and the Arts           | Fairs and Festivals                    | \$2,071,731  | \$2,827,271                 | \$755,540    | 36%            |
| Senior Services                  | Roger Tompkins Alzheimers Respite Care | \$1,796,038  | \$2,296,595                 | \$500,557    | 28%            |