
Confronting West Virginia's Looming Budget Crisis

Revenue Options to Sustain Investments in the Mountain State

Covenant House

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presented by

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Budget Rules to Remember

- The fiscal year begins July 1st and ends June 30th.
- The budget must be balanced (true in 49 states).
- The budget does not contain the money we spend each through the tax code (tax expenditures).
- Governor exercises significant budget power. This includes line-item veto power (takes 3/5 to override veto) and producing the revenue estimate and most fiscal notes. Unlike 36 other states, West Virginia does not have a legislative fiscal office.
- Two-thirds of General Revenue Fund is constitutionally or statutorily protected.
- The budget is always in flux.



Importance of State Budget



620,000 – approximate number of West Virginians who receive health care coverage (Medicaid/CHIP) who are children, seniors, disabled, and low-income adults.

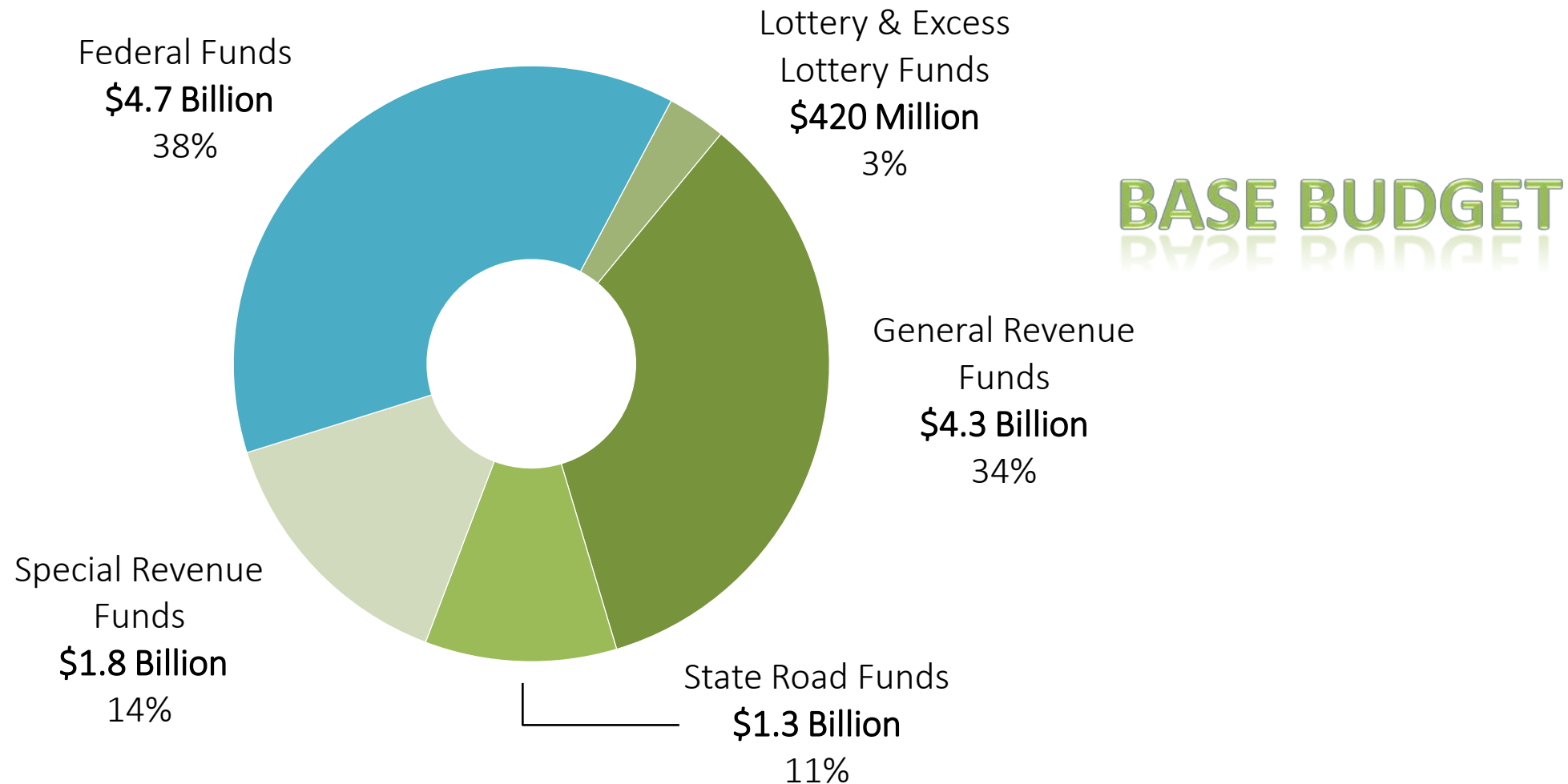
277,000 – approximate number of children enrolled in K-12 public school system in West Virginia.

36,000 – approximate miles of road overseen by the West Virginia Department of Highways.

88,000 – approximate number of students enrolled in public higher education institutions in West Virginia.

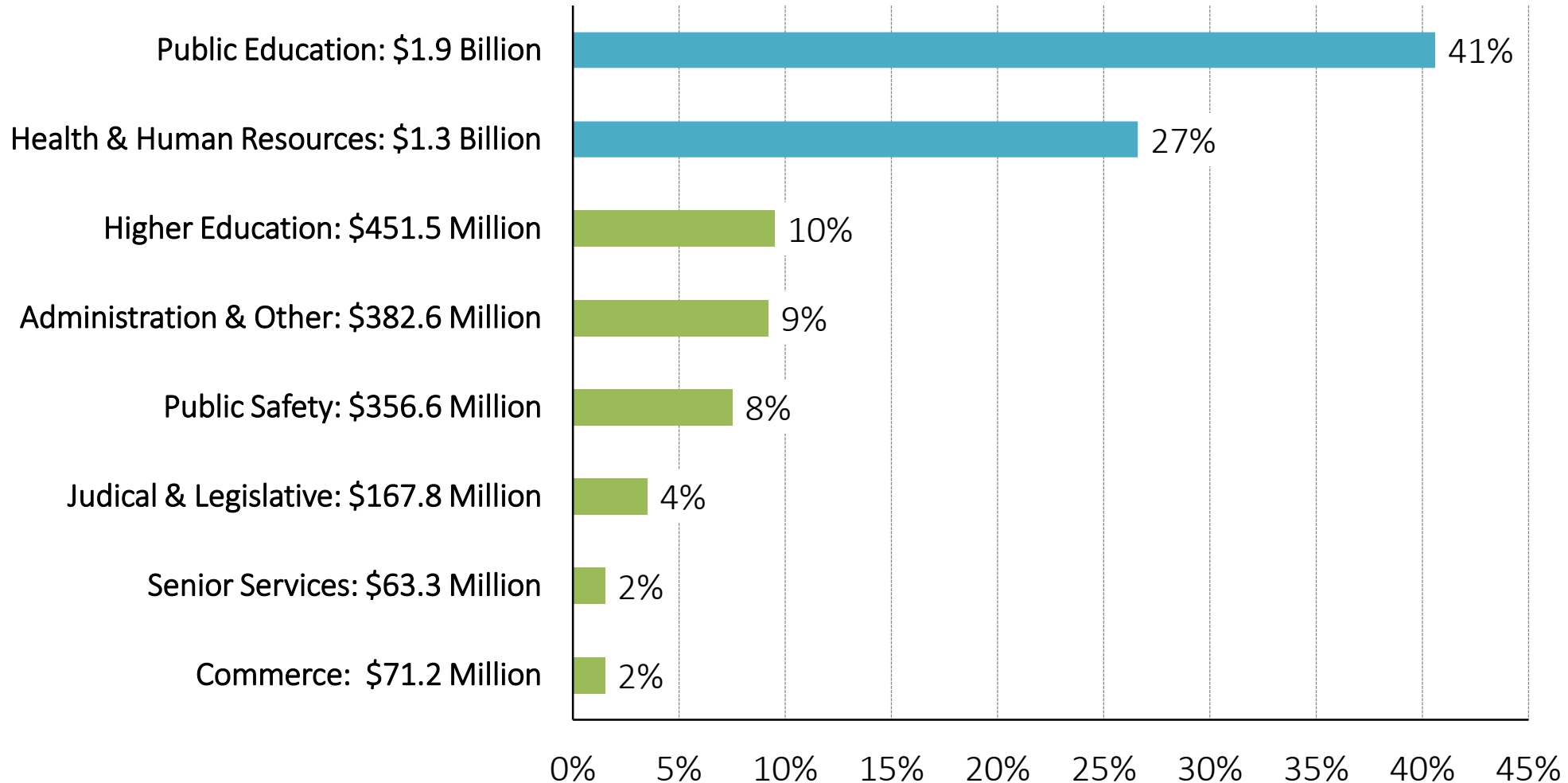
State Funds Account for Nearly Two-Thirds of West Virginia's State Budget

Governor's FY 2017 Appropriated Budget = \$12.5 Billion



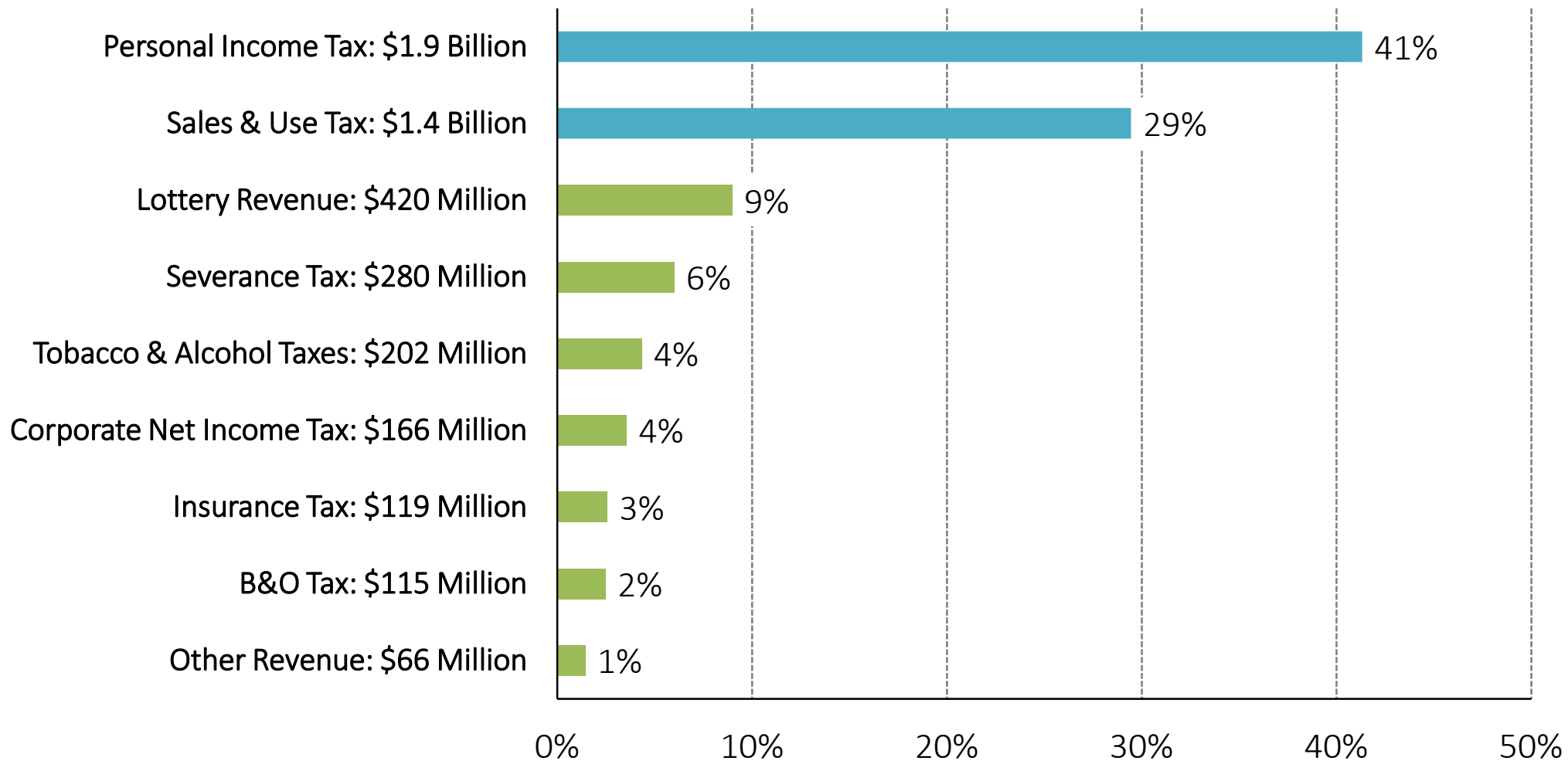
More Than Two-Thirds of Base Budget Spending Supports Education and Health and Human Services

Governor's FY 2017 Base Budget Appropriations = \$4.7 Billion

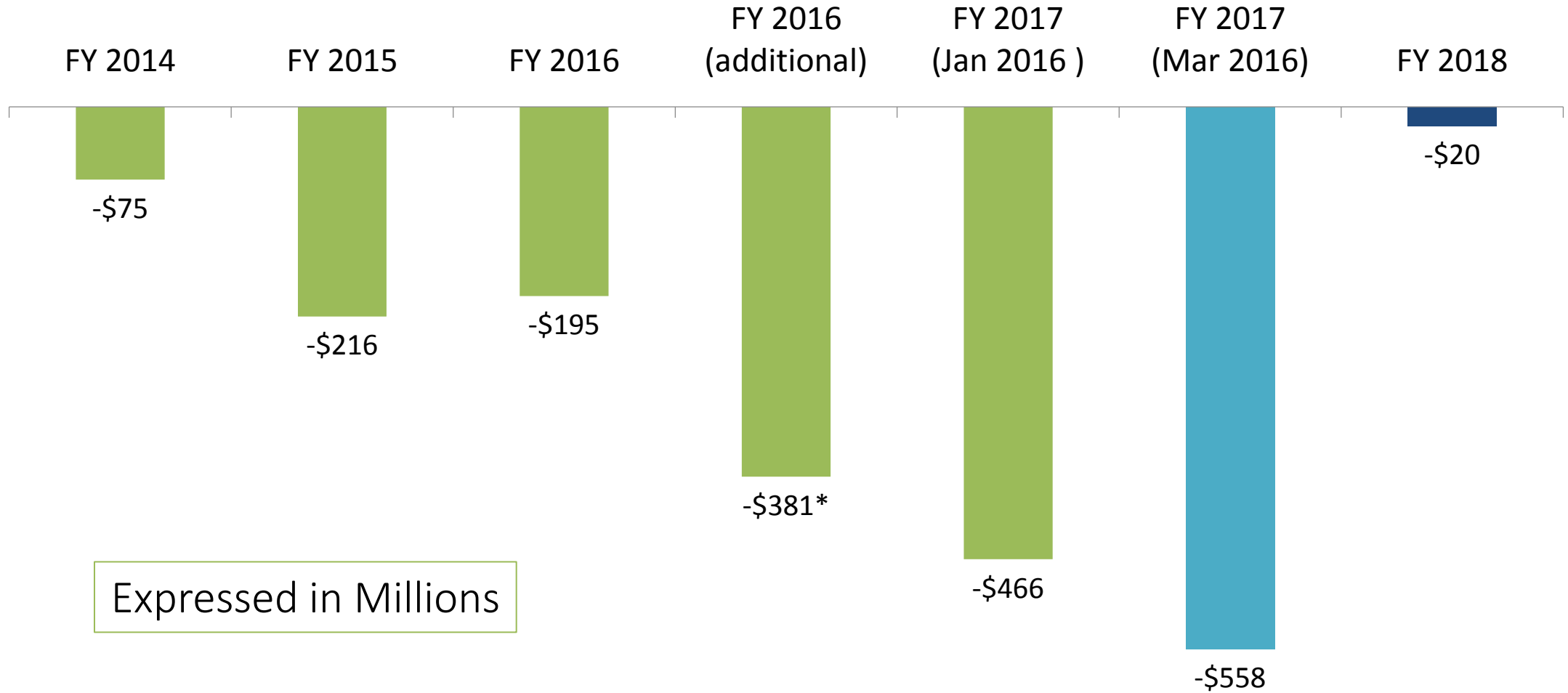


More Than Two-Thirds of Base Budget Revenue Comes From Income and Sales Tax Collections

Governor's FY 2017 Base Budget Revenue Appropriations = \$4.7 Billion



West Virginia has had Persistent Budget Gaps Since 2014

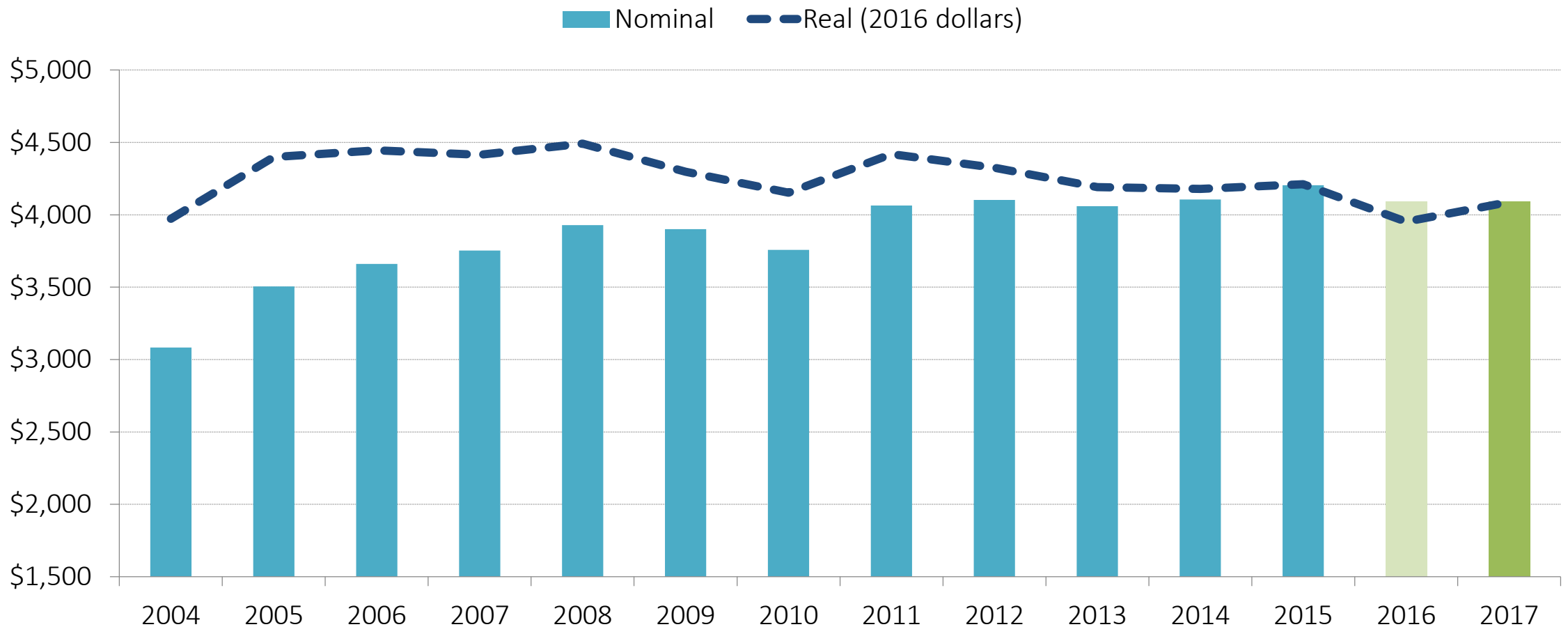


Source: West Virginia State Budget Office. *Note: On current pace, shortfall is projected to be \$122 million less. Nine month collections down \$146 million (July to March 2016)

General Revenue Fund Expected to be Below 2012

\$311 million below 2005, adjusting for inflation

General Revenue Fund collections, FY2004-FY2017 (in thousands)



Source: WVCBP analysis of WV State Budget Office data. Note: FY16 assumes current revenue pace of 95% of FY16 original revenue estimate.

Base Budget Spending Down Across the Board

Medicaid and Supreme Court only growing departments

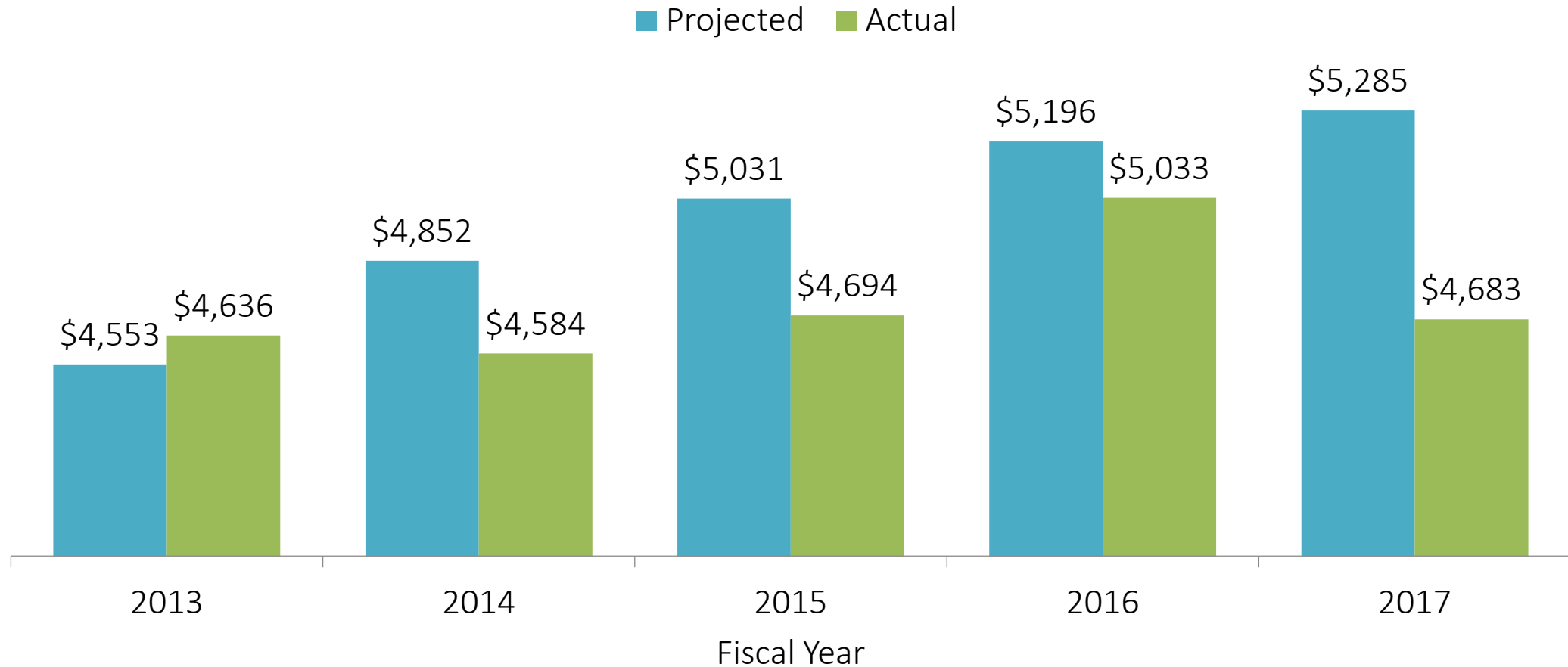
FY 2012 Actual and FY 2017 Governor's Proposed Base Budget Expenditures (thousands)

Department	FY 2012	FY 2017	Difference	Percent Change
Legislature	\$31,082	\$24,022	-\$7,060	-23%
Judicial	\$126,817	\$143,760	\$16,943	13%
Executive	\$60,051	\$36,570	-\$23,481	-39%
Administration	\$165,480	\$114,779	-\$50,701	-31%
Commerce	\$90,071	\$71,173	-\$18,898	-21%
Education	\$2,074,822	\$1,928,645	-\$146,177	-7%
Education and the Arts	\$52,825	\$49,510	-\$3,315	-6%
Environment	\$12,309	\$6,633	-\$5,676	-46%
Health and Human Resources	\$847,518	\$1,261,494	\$413,976	49%
Military Affairs & Public Safety	\$366,541	\$356,579	-\$9,962	-3%
Revenue	\$205,964	\$168,490	-\$37,474	-18%
Transportation (Doesn't include Road Fund)	\$7,589	\$5,885	-\$1,704	-22%
Veterans Assistance	\$10,604	\$10,499	-\$105	-1%
Senior Services	\$64,224	\$63,280	-\$944	-1%
Higher Education	\$514,890	\$451,495	-\$63,395	-12%
Misc. Boards & Commissions	\$64,989	\$55,000	-\$9,989	-15%
Total Base Budget	\$4,630,776	\$4,682,814	\$52,038	1.10%

Source: WVCBP analysis of WV State Budget Office data.

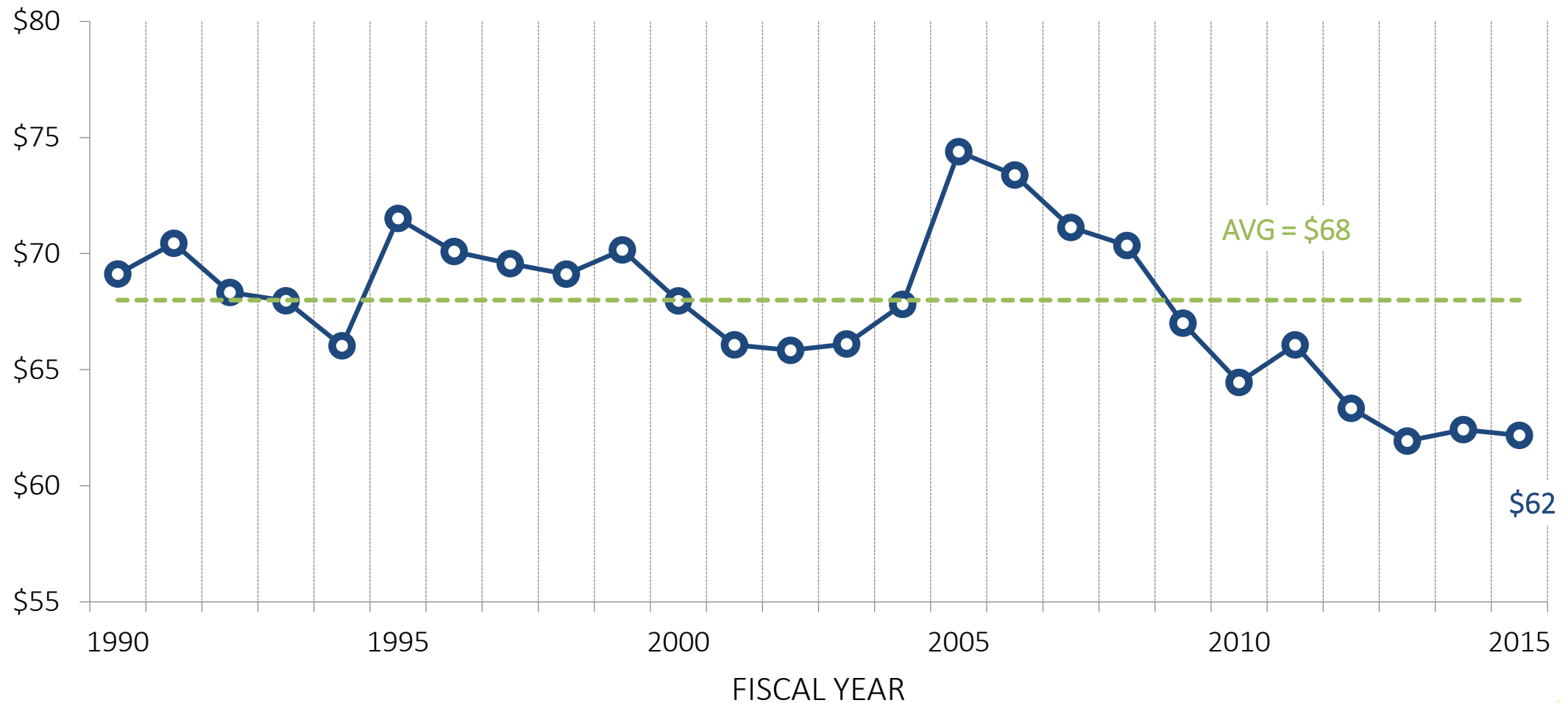
2017 Base Budget \$600 million Less than projected in 2012

Actual and Projected Base Budget Expenditures, FY 2013-2017 (thousands)



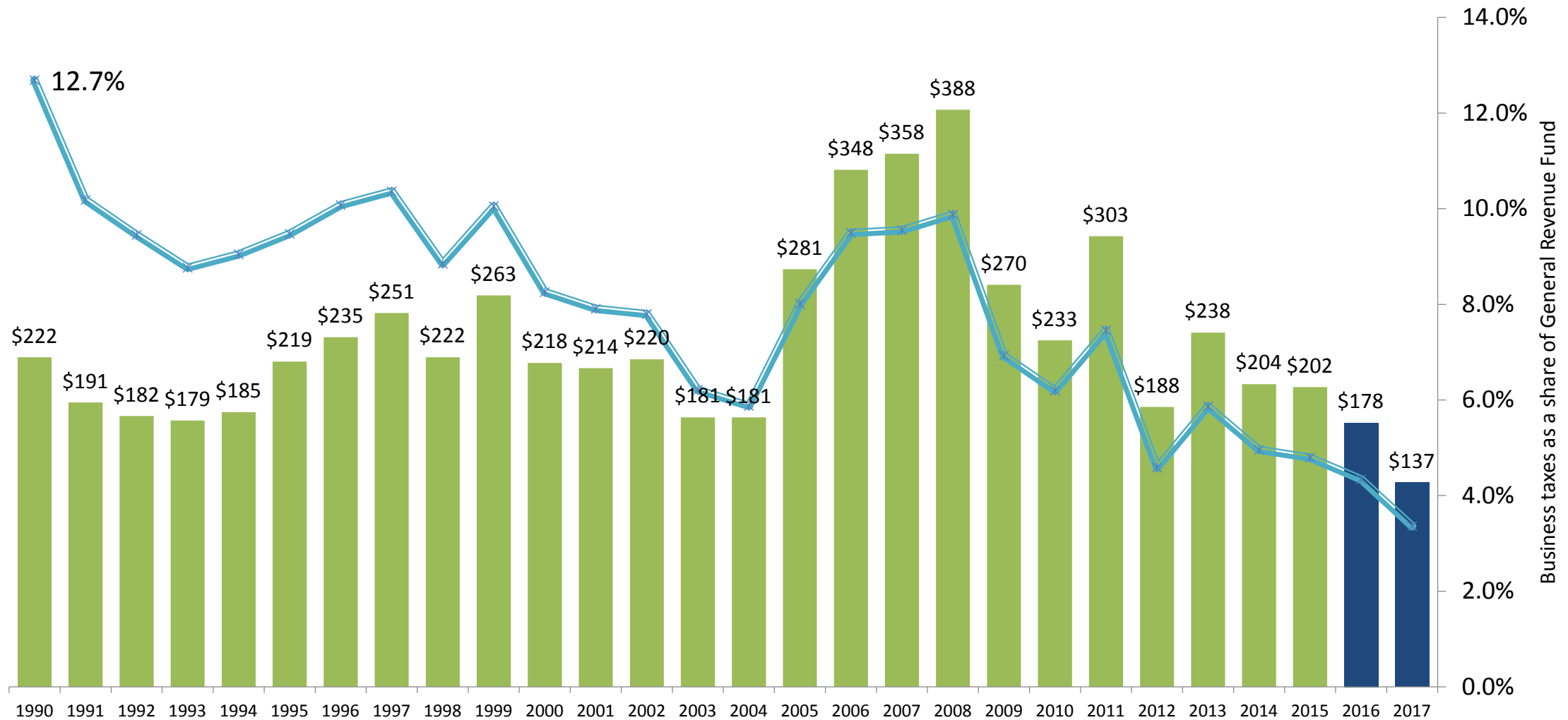
As Revenue Falls Relative to the State's Economy, West Virginia Loses Ability to Invest in Human and Physical Capital

General Revenue Funds as a Share of State Personal Income (per \$1,000 of Personal Income)



The Decline of the Corporate Net Income and Business Franchise Tax

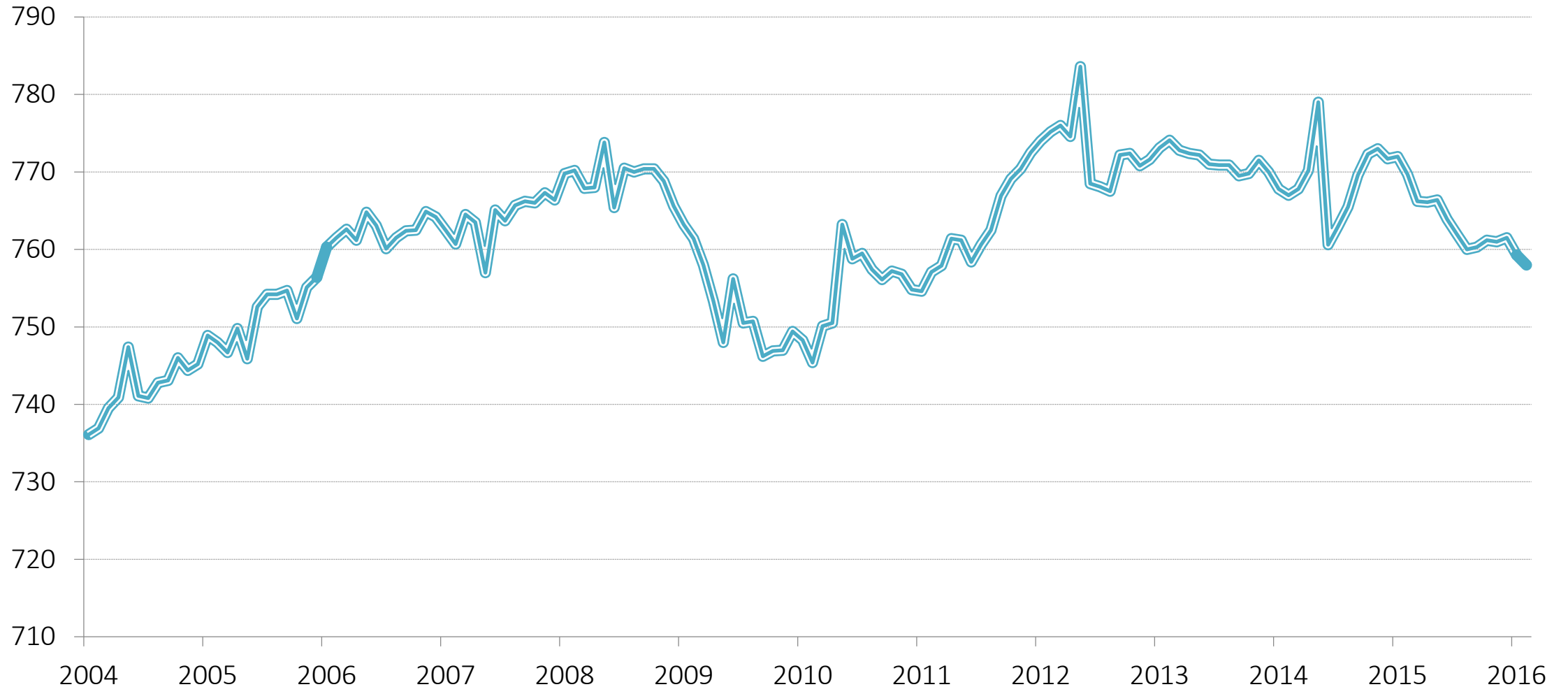
Down by \$250 million since 2008, shrinking from 10% in 2008 of GRF to 3% 2017 (in millions)



Source: West Virginia State Budget Office data.

Another Economic Recession in West Virginia

Nonfarm jobs at 2006 levels, seasonally adjusted (in thousands)

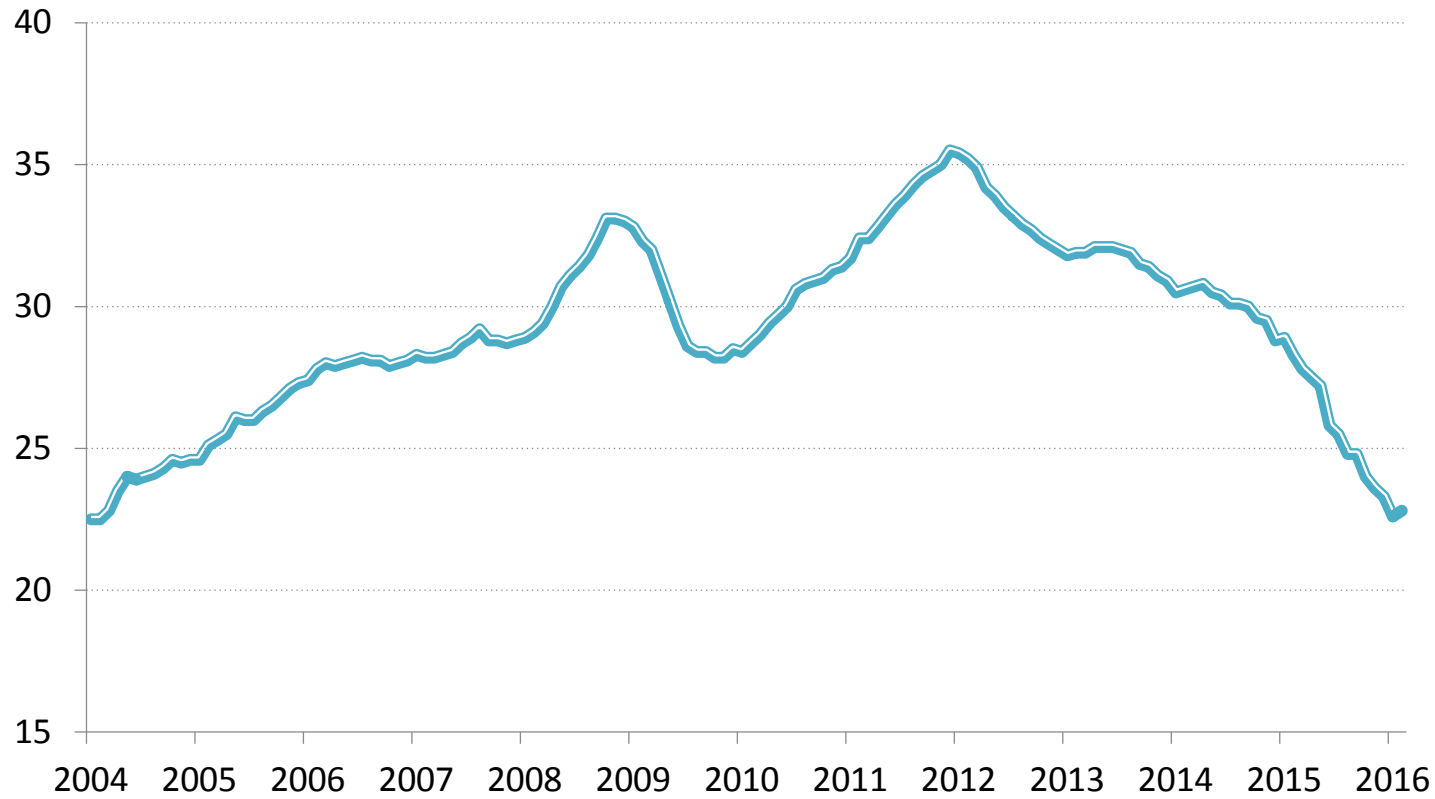


Mining Economy in West Virginia taking a hit

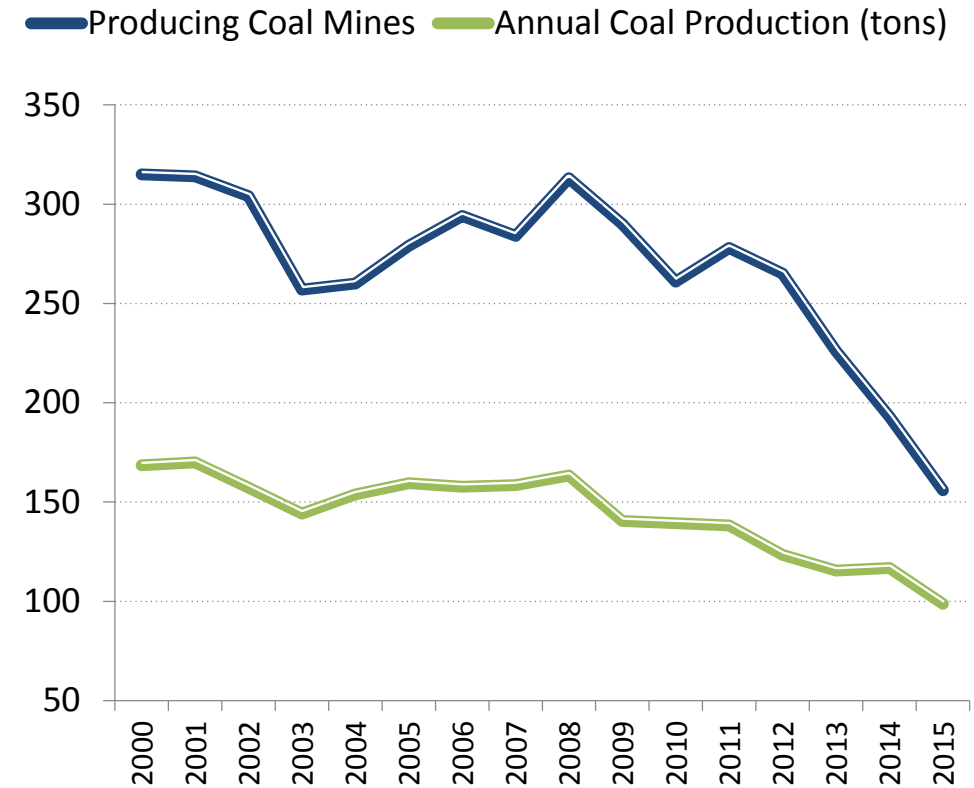
About 13,000 fewer jobs since 2011 peak, production under 100 million tons in 2015

Mining & Logging Jobs, 2004-2016

(seasonally adjusted, in thousands)



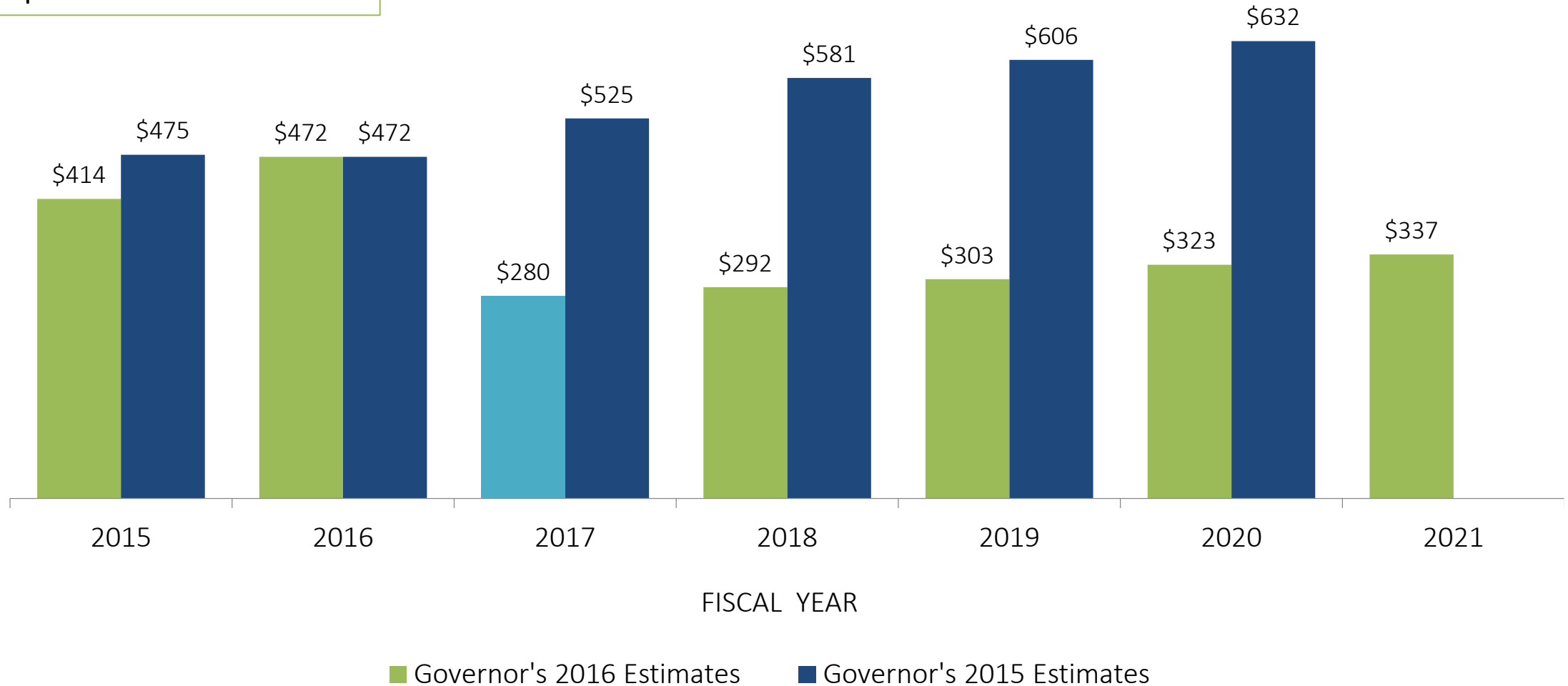
WV Coal Mining Production and Producing Coal Mines, 2000-2015



Major Revisions in Severance Taxes Highlight Weak Energy Economy

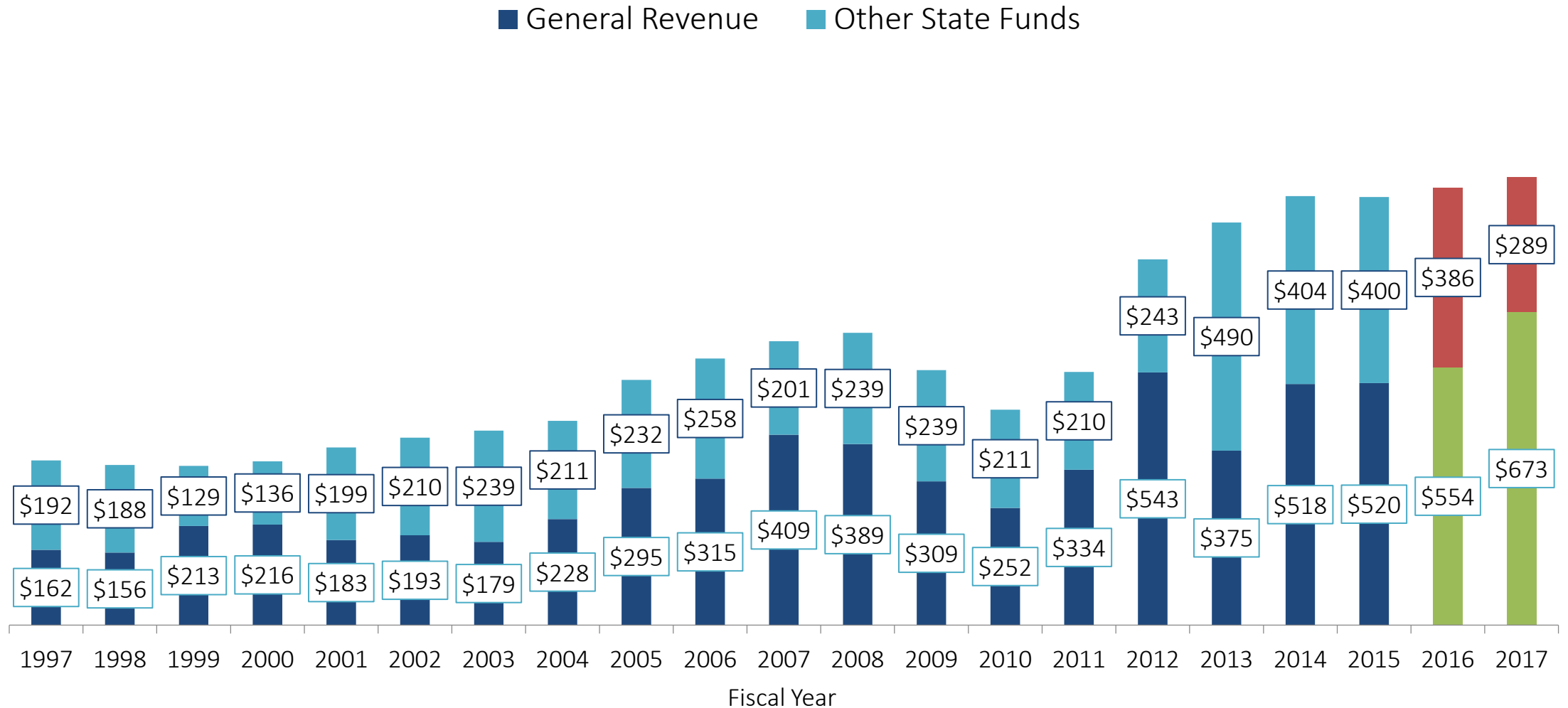
*Updated March 2016 estimate for FY2017 now \$262.5 million, -\$17.6 million

Expressed in Millions



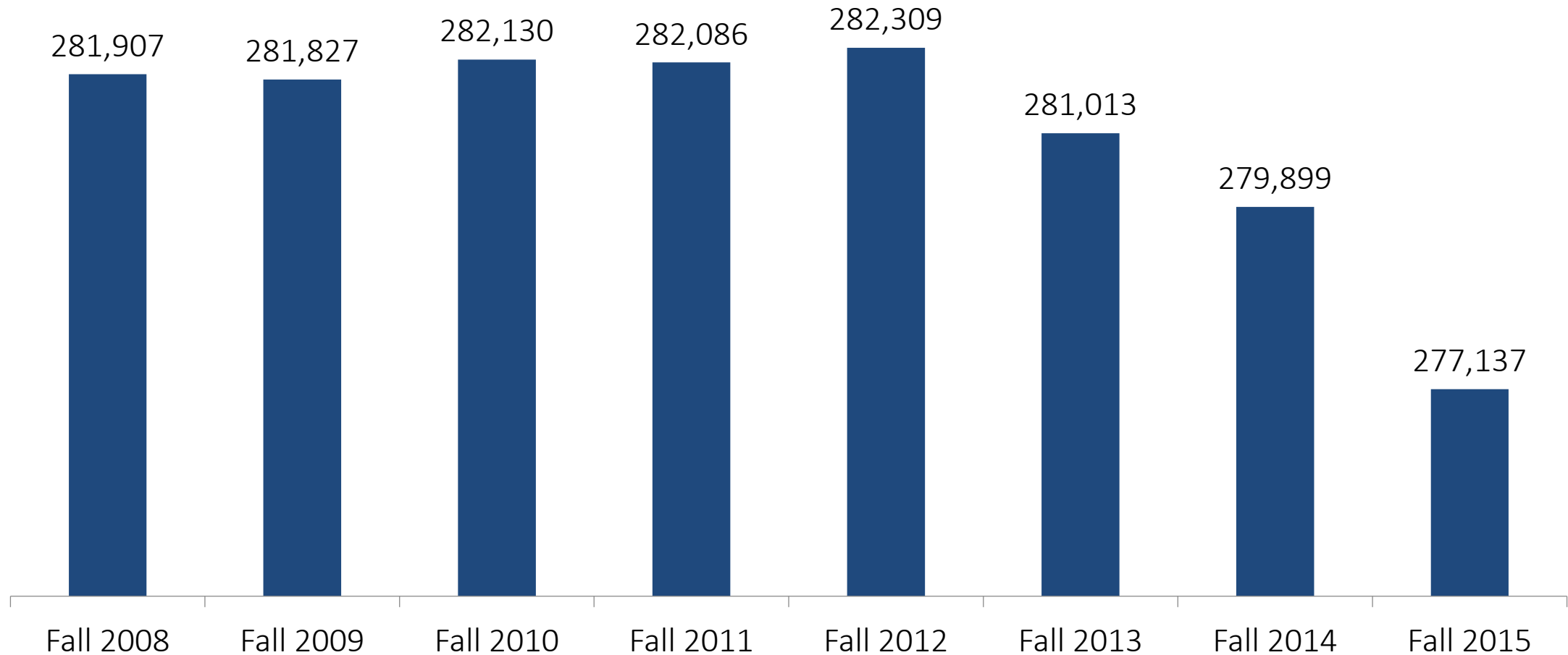
State Spending on Medicaid Continues to Grow

Medicaid spending has increased from 11 percent of GRF in 2007 to 15.5 percent in 2017 (in millions)



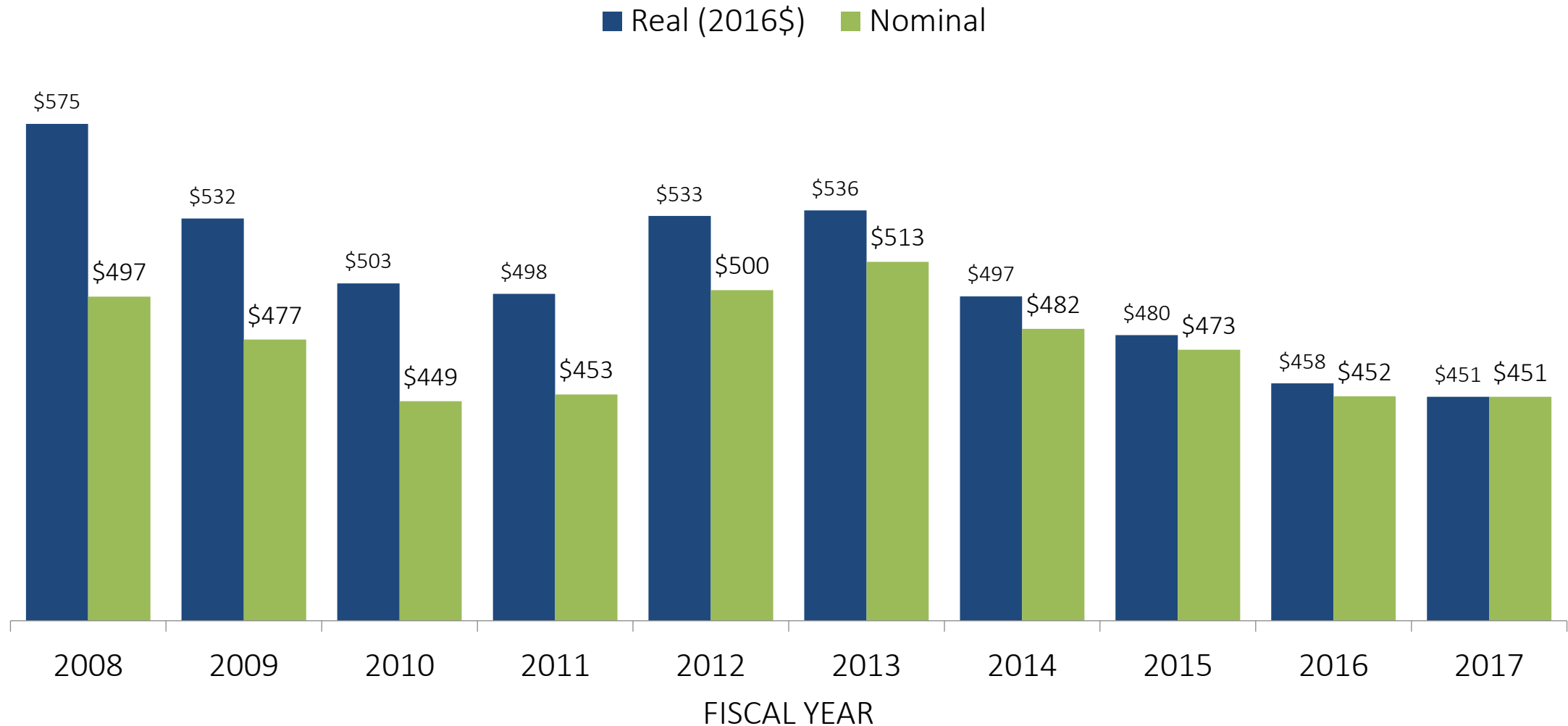
Drop in K-12 Student Enrollment Has Eased Budget Gaps

State Aid to Schools Down \$172.5 million since 2013



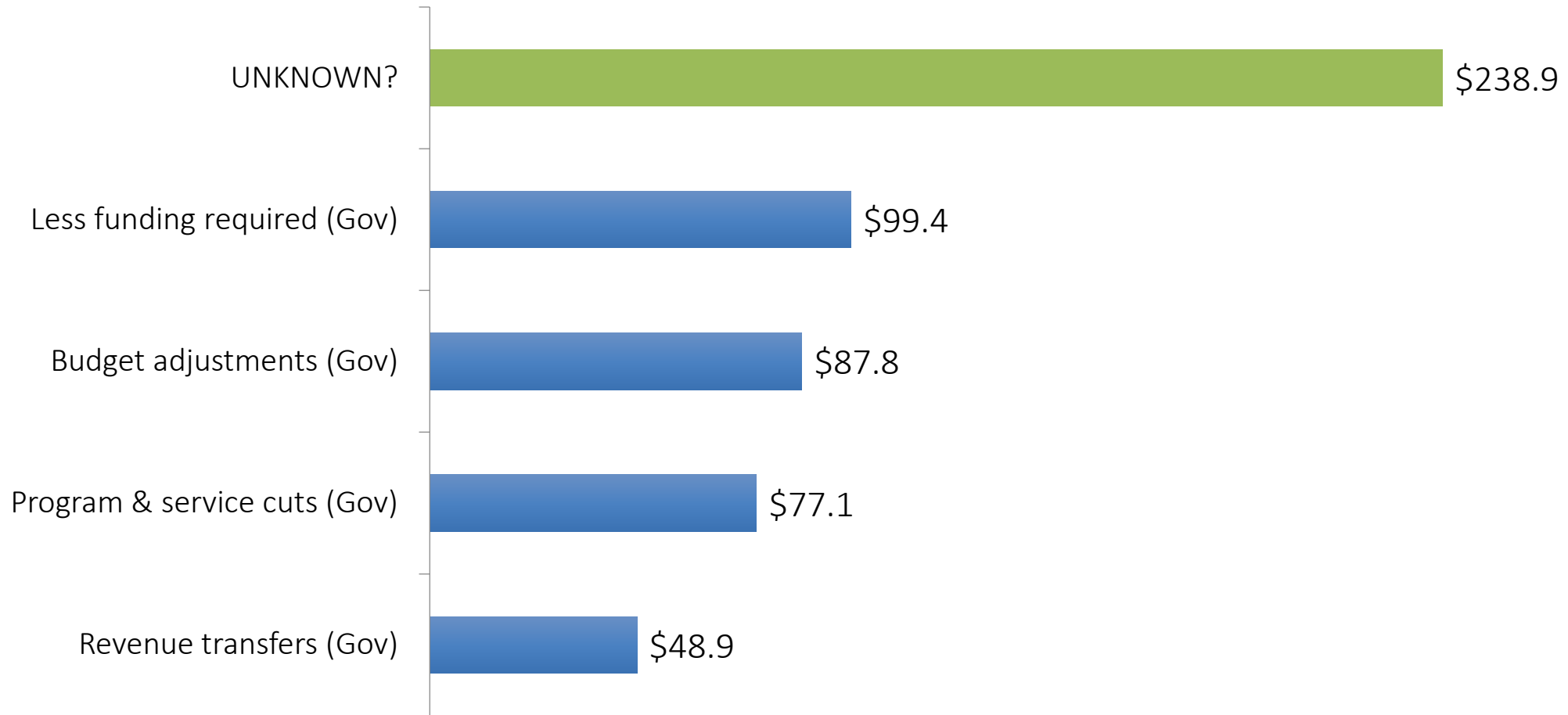
West Virginia Has Made Substantial Cuts to Higher Education

Since 2008, West Virginia has Reduced Higher Ed Funding by \$124 million (adjusting for inflation)



Budget Gap Closed Mostly Closed with Spending Cuts

New Base Budget Gap for FY 2017 = \$552 million



Hypothetical Budget Scenarios from Governor Tomblin

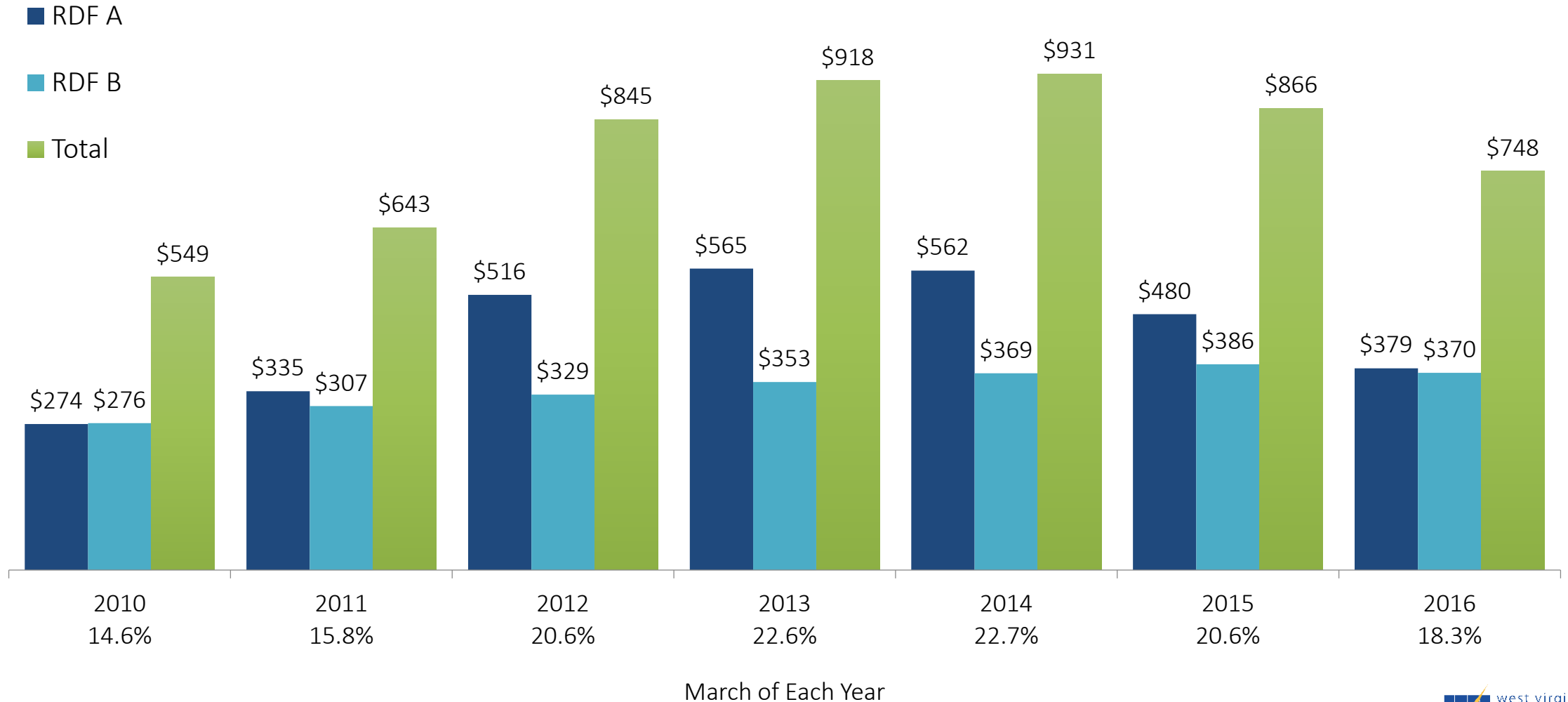
New Base Budget Gap for FY 2017 = \$270 million?

- **OPTION 1:**
 - 4% cut to public education – 805 teachers and 495 services workers laid off
 - 8% cut to higher education – and eliminate PROMISE Scholarship with \$43 million gap in PEIA funding left.
- **OPTION 2:**
 - 6.8% cut to public education – 1,369 teachers and 841 services workers laid off
 - 18 percent cut to higher education and phase out of PROMISE Scholarship, but fully funding PEIA.
- **OPTION 3:**
 - 6.8% cut to public education, close six state police detachments and six tax offices.
- **OPTION 4:**
 - Eliminate the Departments of Commerce, Education and the Arts, Environmental Protection, Revenue (excluding Tax Dept., Transportation, Veterans' Assistance, Senior Services and the State Police, resulting in the elimination of 2,758 positions.
- **OPTION 5:**
 - Spending reduction of \$150 million and \$120 million tax increases
 - 2% cut to public education
 - 10% cut to higher education
 - Fully fund PEIA



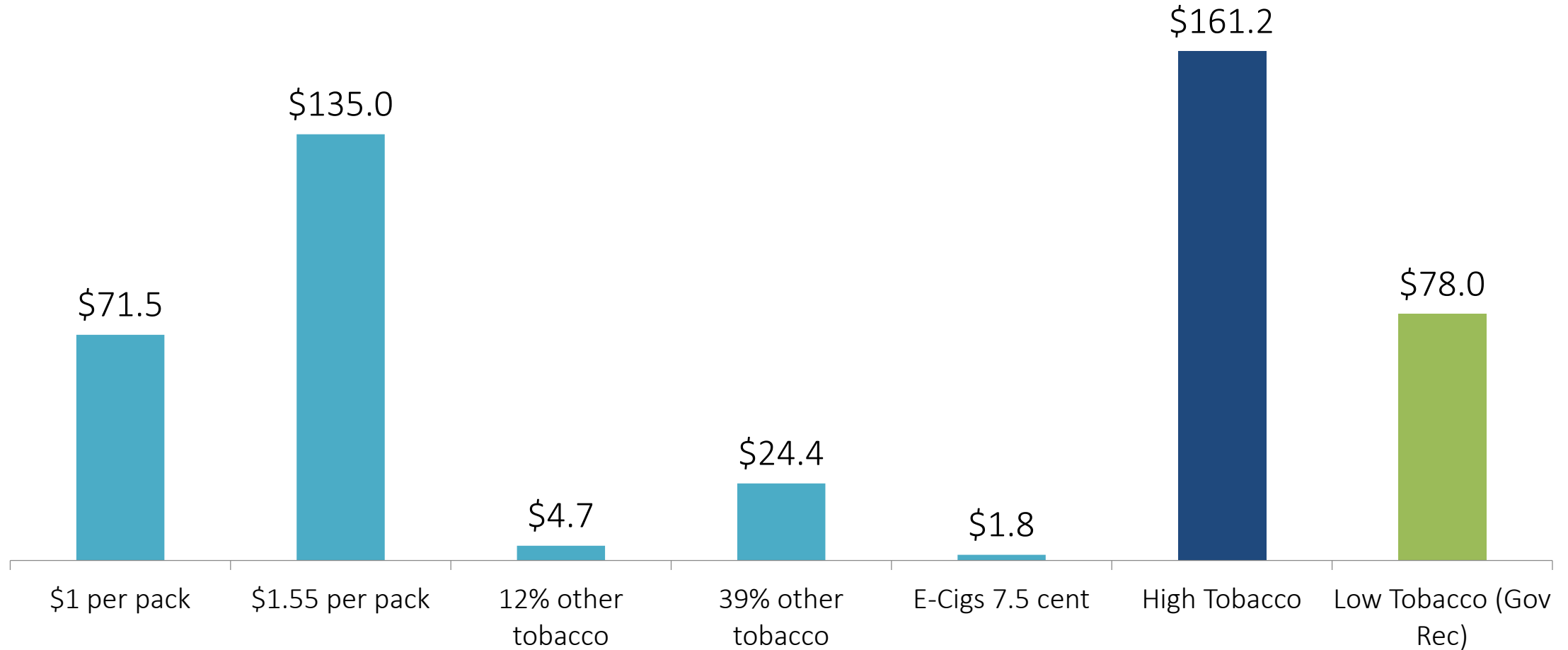
Revenue Shortfall Reserve Fund Balances

Rainy Day Fund A at lowest point since 2011



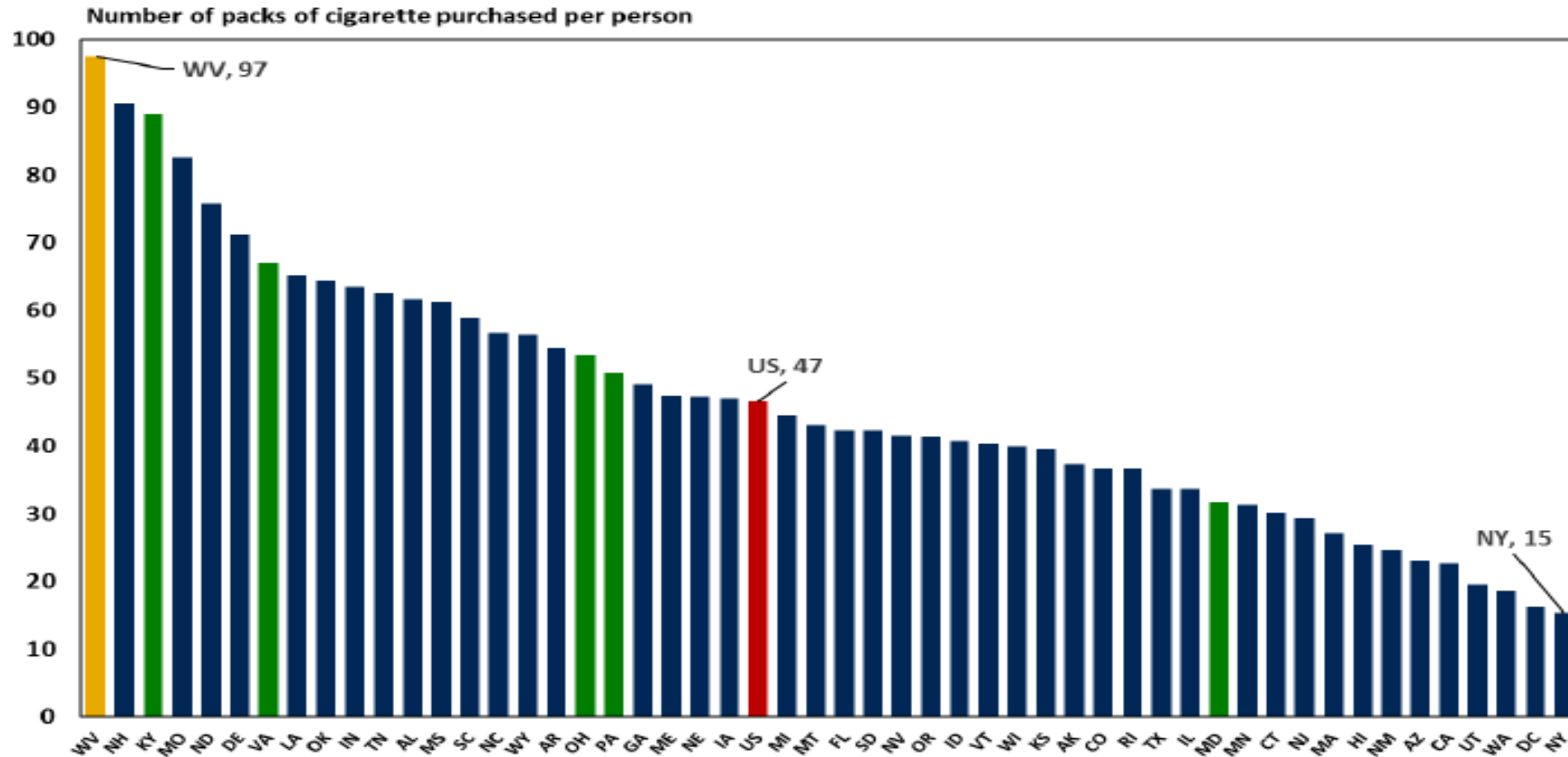
Revenue Options: Raising Tobacco Taxes

U.S. average rate \$1.61 per pack



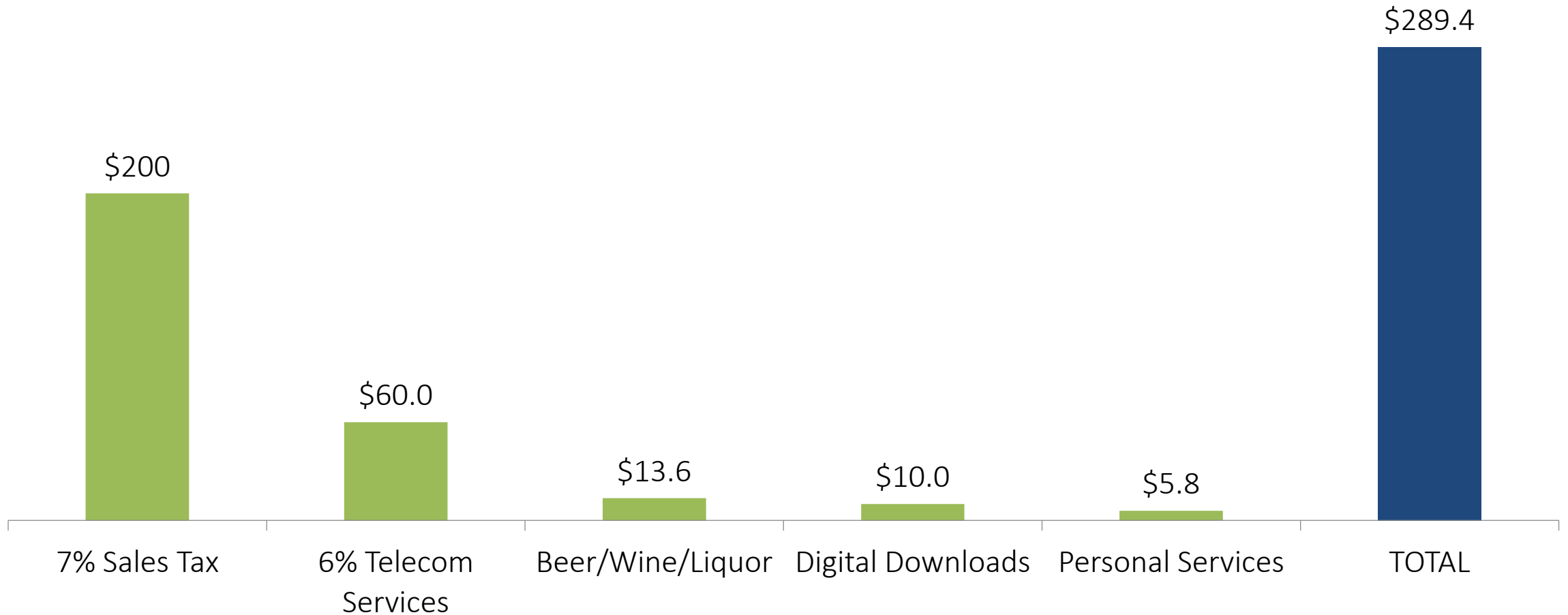
West Virginia leads nation in pack per person

WV per pack tax 6th lowest in the United States



Source: The Tax Burden on Tobacco Volume 49, 1970-2014, Centers for Disease Control and Prevention

Additional Revenue Options (in millions)



Additional Revenue Options (in millions)

