

# Fast Facts

## Mid-Year Budget Cuts Premature

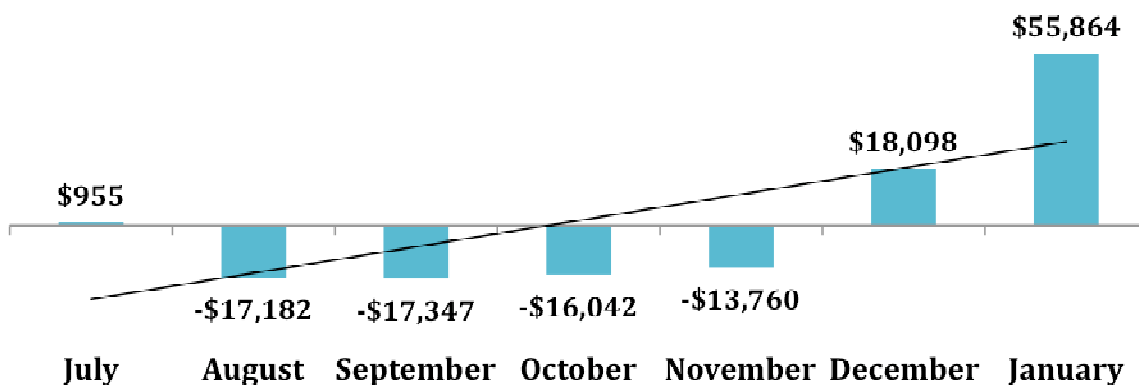
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When year-to-date budget revenues declined by \$13.7 million in November, the Governor reacted by ordering state agencies to cut 3.4 percent of their budgets. The decision was based on a projected budget shortfall of \$120.8 million for FY 2010. At the end of January, seven months into the fiscal year (July 09-June 10), year-to-date budget revenue collections exceeded estimates by \$55.8 million. As Figure 1 below shows, the trend is moving toward a surplus, not a projected deficit. In order for the state to have a FY 2010 budget shortfall of \$120.8 million by the end of the fiscal year, monthly revenue collections would have to average about -\$35 million over the next five months. So far, monthly revenue collection targets have been off by no more than \$17.3 million.

**Figure 1: FY 2010 Monthly Revenue Collections \$56 Million Above Estimates**



The uptick in recent revenue collections is due to better than expected Severance, Corporate Net Income and Business Franchise, and Personal Income tax collections. Year-to-date (July 09-Jan 10), Severance taxes are up by \$65 million, Corporate Income and Business Franchise are up \$30 million and Personal Income is up by \$6.8 million. The fact the Personal Income tax collections – which serve as a good barometer of overall economic activity (withholdings and estimated payments) – are above estimates is a sign that collections will continue above or near original estimates.

### State Economy Needs Investments to Recover from Great Recession

While it appears West Virginia has survived the worst of the Great Recession, the unemployment rate still stands at a 16-year high of 9.1 percent. Because there's a lack of private sector investment and consumption in the state's economy, cutting state investment could lead to more job loss in the Mountain State and jeopardize our recovering economy. State spending fuels the state and local economy by providing programs and services to both needy clients as well as spending on local private businesses that contract with the state to fulfill many of these services.<sup>1</sup> To avoid any further job loss, the Legislature should take a cautious, wait-and-see approach before committing to premature, and possibly unnecessary, cuts to the state budget.

<sup>1</sup> For each dollar of public spending, economist Mark Zandy with Moody's Economy.Com projects that it will create a multiplier effect of \$1.52 in the state and local economy.