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News Release

Immediate Release **March 29, 2017**

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West Virginia Has One of Nation's Largest Revenue Shortfalls

(Charleston, WV) - West Virginia is among the ten states with the largest revenue shortfalls, according to a new report released today. Revenues in thirty-three states - two-thirds of all U.S. states - have fallen or will fall short of the amount needed to continue funding existing programs and services for residents this year, next year, or both, and West Virginia has one of the biggest funding gaps in the country. It is facing a $123 million revenue shortfall this fiscal year, and is projecting a $498 million shortfall next year.

Many States Face Revenue Shortfalls: States Can Take Steps to Strengthen Their Tax Systems and Reserves, a new Center On Budget and Policy Priorities report, notes that the mid-year shortfalls and resulting budget problems - which are partly due to state policymakers' ill-advised tax-policy changes - are likely the first sign of continuing problems. More states expect mid-year revenue shortfalls this year than in any year since 2010, according to the National Association of State Budget Officers, and more than half of the 33 states lack the revenue needed to maintain services at existing levels in 2018.

States facing shortfalls cut spending, increase revenues, or tap rainy day funds or other reserves to close budget gaps. So far in 2017, states have mainly used reserve funds and spending cuts to balance their budgets, rather than raising revenues. But, for next year, policymakers in some states, such as Kansas and Alaska, are considering tax increases.

West Virginia has faced a deficit during the last four consecutive budgets. The legislature has closed the budget gap with more than $600 million in cuts, rainy day funds, and an increase in the tobacco tax, but has failed to address the lingering structural problem.

"West Virginia should avoid making current budget problems worse with ill-advised tax cuts and incentives and one-time budget fixes and instead work to build a solid fiscal foundation to see the state through bad times and help its communities thrive in good times," said Ted Boettner, West Virginia Center on Budget and Policy Executive Director.

There are a number of reasons that state revenue growth is slowing, despite the continued national economic recovery, including: falling energy prices, costly and ill-advised tax cuts, and slowing stock market growth. Sluggish stock market growth in 2015 and the beginning of 2016 slowed income tax collections. The stock market rebounded in late 2016, but income tax collections are still lagging expectations.

However, slowing revenues are just one element of uncertainty about how states will be able to meet their responsibilities. States cannot control all the factors contributing to their budget uncertainty. For example, they face potential cuts to federal grants that comprise nearly a third of their budgets, and proposals to restrict future growth in federal support for low-income health care or food assistance through fixed funding (block grants); or other types of caps that would make these programs less responsive to economic downturns.

However, they can take steps now to strengthen their tax systems and reserves to protect revenues in the coming years. To prevent and cope with revenue slowdowns that are leading to budget problems, states should:

- Avoid ill-advised tax cuts and incentives that would deplete revenues and worsen budget problems.
- Avoid depleting budget reserves while the economy continues to grow and, if possible, build budget reserves to protect public investment and limit the damage from future recessions.
- Begin now to plan for potential future loss of federal support.
- Reject artificial spending limits. Strict, arbitrary formulas to limit revenues and spending, such as Colorado's so-called "Taxpayer Bill of Rights" (TABOR), hamstring a state's ability to adapt to changing needs.
- Address structural problems in state revenue systems. Antiquated tax systems ill-suited to the 21st-century economy hamper states' ability to restore school funding, cope with cuts in federal support, and invest in the future.
- Diversify revenue sources to improve the stability of tax collections, since different taxes respond differently to economic changes.

These measures will be particularly important for states to cope with reduced state revenues during future economic downturns especially if the federal government begins playing a smaller role.