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Healthy Kids and Families Coalition

West Virginia University

Institute for Labor Studies and Research
Missed Opportunities: Overview of Governor’s Proposed FY 2020 State Budget

Ted Boettner
Executive Director
West Virginia Center on Budget & Policy

6th Annual WVCBP Budget Breakfast
Charleston Marriott Town Center
January 16, 2019 – 7:30am-9am
Presentation Overview

• Overview of Governor Justice’s FY 2020 Budget:
  • Budget Increases
  • Budget Reductions
  • Revenue Projections

• Tax and Budget Trends:
  • The Lost Decade
  • Higher Education
  • Foster Care Services
  • GRF collections as share of state economy

• Tax Proposals
  • Who Pays? State and Local Taxes in WV
  • Elimination of income tax on Social Security
  • Phase out of industrial personal property taxes

• Policies to Power Shared Prosperity
  • Avoiding the “resource curse”
  • Invest in our future by raising needed revenue
  • Building a stronger middle class
Governor’s FY 2020 Appropriated Budget

Special Fund: $1.5B
(Fees, Licenses, Permits, Earmarked Taxes)

General Fund: $4.68B
(Schools, Health/Human Services, Colleges, Corrections, 3 Branches, etc.)

State Road Fund: $1.38B
(Gas Taxes, DMV Fees, Federal $)

Federal Funds: $5.74B
(Medicaid/Block Grants /Other)

Lottery Funds: $418M
(Earmarked for Higher Ed, K-12, Seniors, General Fund, etc.)

Total = $13.7 Billion
Governor’s Proposed Base Budget Appropriations

Fiscal Year 2020 = $5.028 Billion

- Public Education, 41.6%
- Health & Human Resources, 26.8%
- Higher Education, 9.3%
- Military Affairs & Public Safety, 8.5%
- Senior Services, 1.4%
- Commerce, 1.9%
- Administration, 2.3%
- Other, 5.0%
- Judicial & Legislative, 3.2%
- Commerce, 1.9%

Base Budget = General Revenue + Lottery Funds
Governor’s Base Budget Proposals
FY 2019 Supplementals and FY 2020 Base Budget Increases

### FY 2019 Supplemental Appropriations ($200 million)

<table>
<thead>
<tr>
<th>Expressed in Millions</th>
<th>FY 2019 Supplemental Appropriations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communities in Schools</td>
<td>$5.0</td>
</tr>
<tr>
<td>Veterans</td>
<td>$6.2</td>
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<tr>
<td>Public Defender</td>
<td>$15.3</td>
</tr>
<tr>
<td>Jim’s Dream</td>
<td>$20.0</td>
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<tr>
<td>Regional Jails</td>
<td>$20.6</td>
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<tr>
<td>Civil Contingency Fund</td>
<td>$28.0</td>
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<tr>
<td>PEIA</td>
<td>$105.0</td>
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### FY 2020 Major Base Budget Increases

<table>
<thead>
<tr>
<th>FY 2020 Major Base Budget Increases</th>
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<tbody>
<tr>
<td>------------------------------------</td>
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<tr>
<td>Intermediate Court</td>
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<td>TERs Realized</td>
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<td>Div of Health</td>
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<td>Tourism</td>
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<tr>
<td>Deferred Maintenance</td>
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<tr>
<td>Social Services (Foster Care)</td>
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<tr>
<td>Jim’s Dream</td>
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<tr>
<td>Corrections</td>
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<tr>
<td>Salary Enhancements</td>
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</tbody>
</table>
Governor’s Base Budget Proposals

FY 2020 Major Base Budget Decreases

- State Aid to Schools: -$25.90
- Pensions (TERS/Plan A/B): -$25.10
- Supreme Court: -$8.67
- Dept Arts (Secretary): -$2.30

Expressed in Millions
Governor’s Proposed Base Budget

Revenues

Fiscal Year 2020 = $5.028 Billion

Expressed in Millions

- Lottery, $418, 8%
- Sin Taxes, $206, 4%
- Corporate Net Income, $137, 3%
- B&O, $123, 2%
- Other, $257, 5%
- Severance, $399, 8%
- Personal Income, $2,105, 42%
- Sales & Use, $1,384, 28%
- Other, $257, 5%
- Corporate Net Income, $137, 3%
- Lottery, $418, 8%
- Sin Taxes, $206, 4%
- B&O, $123, 2%
- Other, $257, 5%
- Severance, $399, 8%
- Personal Income, $2,105, 42%
- Sales & Use, $1,384, 28%
Stagnant Base Budget Collections
Lottery & General Revenue Collections, FY 2006-2020

FY20 revenue projection is $143 million above FY19 (original) projection

Expressed in Billions

Governor's Proposed FY 2020 Budget
Major Takeaways from Governor’s FY 2020 Budget

✓ Revenue projections could change based on shale and construction boom subsiding or another national recession.
✓ FY19 supplementals - if approved – means spending current surpluses before the end of the year.
✓ Six-Year Financial Plan shows no additional money for Medicaid or Higher Education from FY21-FY24, but substantial growth in corrections, PEIA, social services, and pensions.
✓ State continues to underfund higher education and had decided to not fill vacancies in state government (incentivizing privatization).
✓ Medicaid continues to be a shell game with the proper dedicated funding streams.
✓ Teacher and school service personnel pay raises ($67.7m) are nearly equivalent to reductions in school aid formula ($62.8m).
✓ Instead of expanding access to Pre-K or making it less expensive to go to college, public education reductions have been used to backfill budget.
West Virginia’s Lost Decade

Major Factors Impacting West Virginia’s Budget Changes Over the Last Decade

- **State Aid to Schools/ Colleges**: Student enrollment declined by 16,559 from 2008 to 2020 while local property taxes (local share) have increased (23.7% to 28.5%). If enrollment was at 2008 levels and local share was 23.7%, State Aid to Schools would be an additional **$154.2 million** in GRF budget. In-state resident public college enrollment down **10,902** (FTEs) from 2011 to 2017.

- **Medicaid**: The Federal Medical Assistance Percentage (FMAP) has grown from **71.09** in 2014 to **74.34** in 2019. Other factors, Managed care (MCOs), one-time funds (surpluses), Rx savings, and Medicaid expansion has boosted health care sector.

- **Energy shift**: Natural gas production has grown **six-fold** from 2010 to 2017, while coal production is down 65 million tons from 2008 to 2017 (but up 20% since 2016). Mining (real) GDP up $2.1 billion from 2008 to 2017, along with pipeline work.

- **Major tax changes**: Elimination of Business Franchise Tax (**$150m**), grocery tax (**$167m**), reduction in Corporate Net Income Tax rate (**$69m**), Workers’ Comp Taxes (**$250m** at peak), Increase in tobacco taxes (**$76m**), Amazon law (**$12m**), and online remote retailers (**$20m**).

- **Great Recession**: Nonfarm employment down **6,200** from December 2007 to November 2018, down 15,000 from 2012 peak but up 10,000 from 2017 trough.

- **Population decline**: WV population declined by **50,932** from 2012 to 2018 (July 1).

- **Conservative Lottery Fund(s) estimate**: Between FY 2012 and FY2018, lottery funds had an average annual surplus of $67 million or **13.6%**.
Taxes are low and investments down

At 6.8%, FY 2018 GRF collections would be additional $590 million

General Revenue Fund collections as a Share of Personal Income
Higher Education Funding Down
$60 million reduction from 2013 to 2019, $130 million
Base Budget Spending, FY 2008-FY 2020, Expressed in Millions
Dramatic growth in foster care

Social Services could grow by $122 million by FY 2020

Base Budget Spending, FY 2010-FY 2020, Expressed in Millions
West Virginia State and Local Taxes
Shares of Family Income for Non-Elderly Taxpayers 2018

- **Lowest 20%**: 9.4%
- **Second 20%**: 9.1%
- **Middle 20%**: 8.5%
- **Fourth 20%**: 8.8%
- **Next 15%**: 8.7%
- **Next 4%**: 7.7%
- **Top 1%**: 7.4%

- **Sales & Excise**:
  - Lowest 20%
  - Second 20%
  - Middle 20%
  - Fourth 20%
  - Next 15%
  - Next 4%
  - Top 1%

- **Property**:
  - Lowest 20%
  - Second 20%
  - Middle 20%
  - Fourth 20%
  - Next 15%
  - Next 4%
  - Top 1%

- **Income**:
  - Lowest 20%
  - Second 20%
  - Middle 20%
  - Fourth 20%
  - Next 15%
  - Next 4%
  - Top 1%
Eliminating tax on Social Security

Full repeal of state tax on Social Security favors wealthy
Partial repeal favors upper-middle class most

Average Tax Change

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Partial Elimination ($50K-$100k)</th>
<th>Full Elimination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $21,000</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>$21K-$36K</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>$36K-$56K</td>
<td>$-150</td>
<td>$-158</td>
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<tr>
<td>$56K-$91K</td>
<td>$-122</td>
<td>$-303</td>
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<tr>
<td>$91K-$180K</td>
<td>$-2</td>
<td>$-554</td>
</tr>
<tr>
<td>$180K-$451K</td>
<td></td>
<td>$0</td>
</tr>
<tr>
<td>$451,000 or More</td>
<td></td>
<td>$-171</td>
</tr>
</tbody>
</table>

Share of Tax Cut Received by Bottom 80%
- Partial: 67%
- Full: 36%

Share of Tax Cut Received by Top 20%
- Partial: 33%
- Full: 64%
Adding an Earned Income Tax Credit

Partial repeal of state tax on Social Security

Provides sizable tax cuts for bottom 80 percent w/ 15% refundable state EITC

Average Tax Change

-123
-132
-74
-122
-164

Less than $21,000 (Lowest 20%)
$21K-$36K (Second 20%)
$36K-$56K (Middle 20%)
$56K-$91K (Fourth 20%)
$91K-$180K (Next 15%)
$180K-$451K (Next 4%) $451,000 or More (Top 1%)
Repeal of “Inventory” Tax
Phase out industrial inventory, machinery, and equipment property tax

$130-$140 million tax cut for mainly for manufacturers and coal producer (SJR9 – 2018)

Governor’s Proposed FY 2020 Budget

2017

<table>
<thead>
<tr>
<th>77%</th>
<th>$99.3 Million</th>
</tr>
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<tbody>
<tr>
<td>23%</td>
<td>$29.6 Million</td>
</tr>
</tbody>
</table>

- While 11 states tax inventory and M&E, 26 states tax M&E.
- There is no obvious relationship between manufacturing employment growth and/or industrial property tax rates or states that tax BPPT between 2011-2017 (e.g. Texas/South Carolina)
- Highly exportable tax (76% in MN).
- WV effective industrial property tax rates are near national average.
- Small cost of doing business and it pays for public goods manufactures need (schools, public safety).
- Recent (2017) academic study found that removing the tax lead to significant manufacturing jobs losses in Ohio.
- Could result in tax shift (households) and/or less funding for schools and other budget priorities.
Policies to Power Shared Prosperity

• Raise state minimum wage
• Enact paid sick leave
• Create refundable state EITC
• Enact paid family & medical leave
• Boost child care assistance
• Fund the WV Future Fund by raising Severance Tax
• Close corporate income tax loopholes, reenact Estate Tax
• Increase tobacco and soda tax
• Make college debt free
• Invest in public education and expand affordable health care.
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Text JOINWVCBP to 22828 to get started.

Message and data rates may apply.
Sources

• WV State Budget Office
• U.S. Bureau of Economic Analysis
• Institute on Taxation and Economic Policy (ITEP)
• Lincoln Land Institute/George Washington University
• WV Department of Revenue
• U.S. Bureau of Labor Statistics
• Minnesota Department of Revenue
• WVCBP reports