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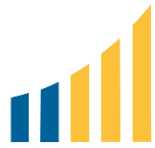
WEST VIRGINIA CHAPTER



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Missed Opportunities: Overview of Governor's Proposed FY 2020 State Budget

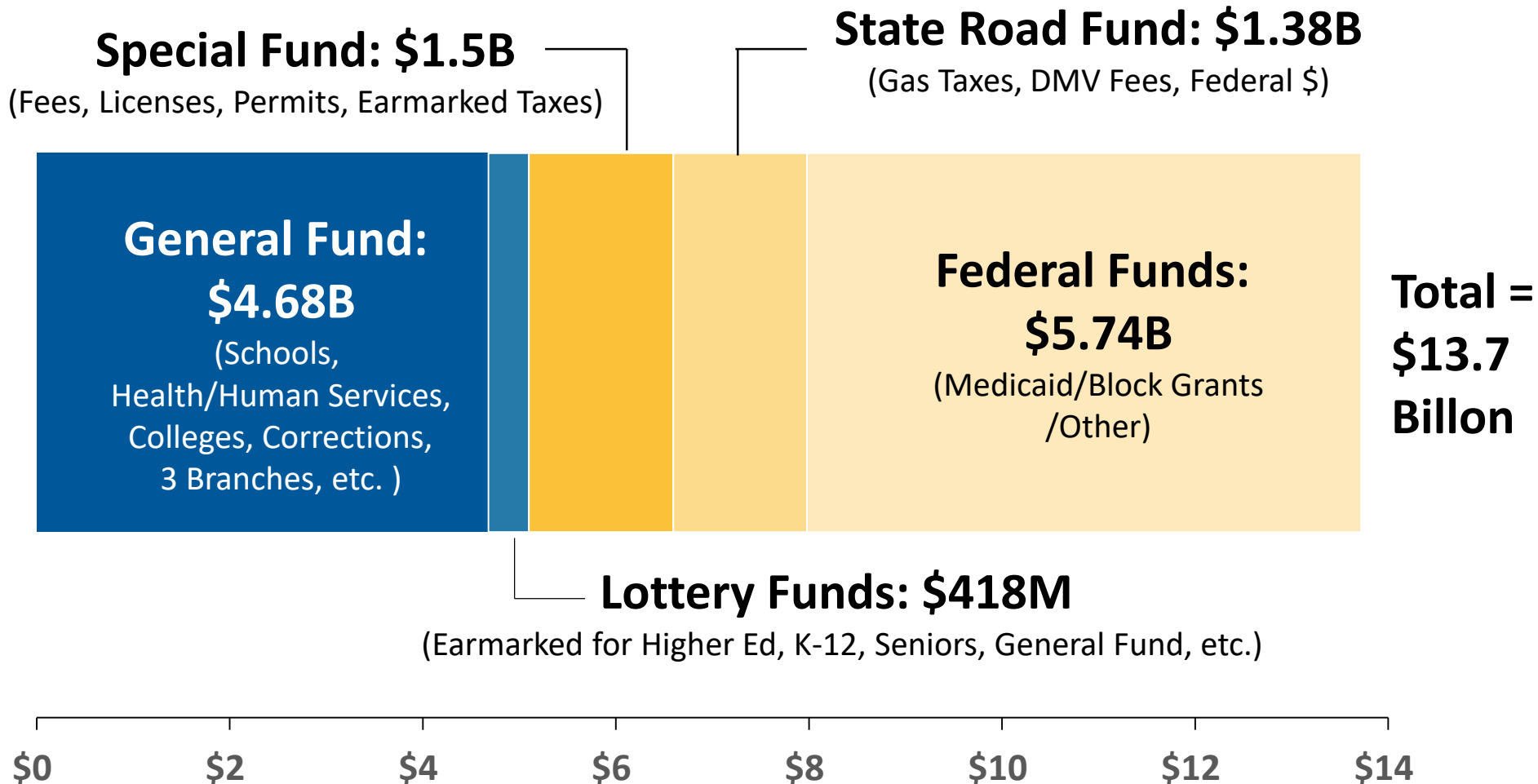
Ted Boettner
Executive Director
West Virginia Center on Budget & Policy

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

Presentation Overview

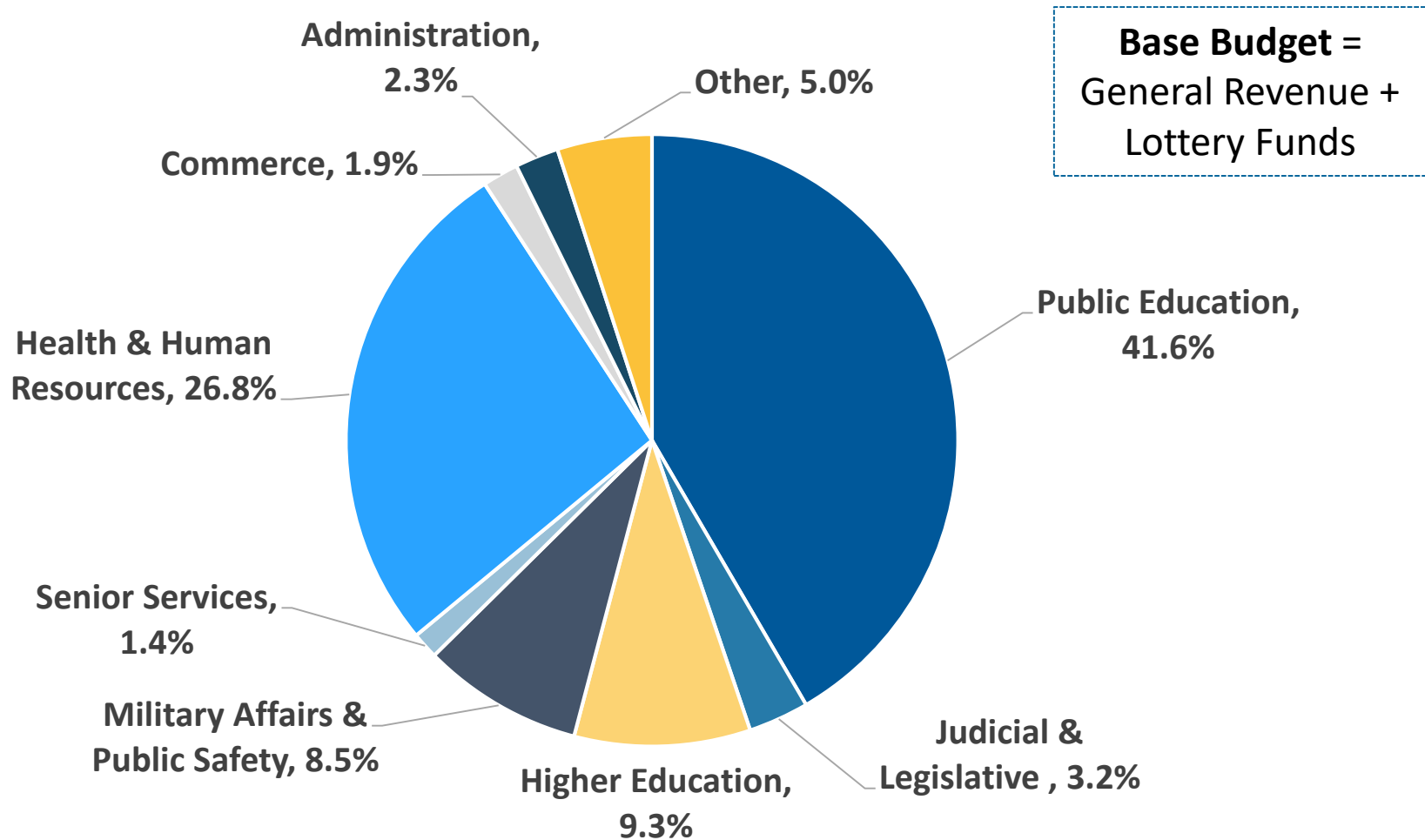
- **Overview of Governor Justice's FY 2020 Budget:**
 - Budget Increases
 - Budget Reductions
 - Revenue Projections
- **Tax and Budget Trends:**
 - The Lost Decade
 - Higher Education
 - Foster Care Services
 - GRF collections as share of state economy
- **Tax Proposals**
 - Who Pays? State and Local 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



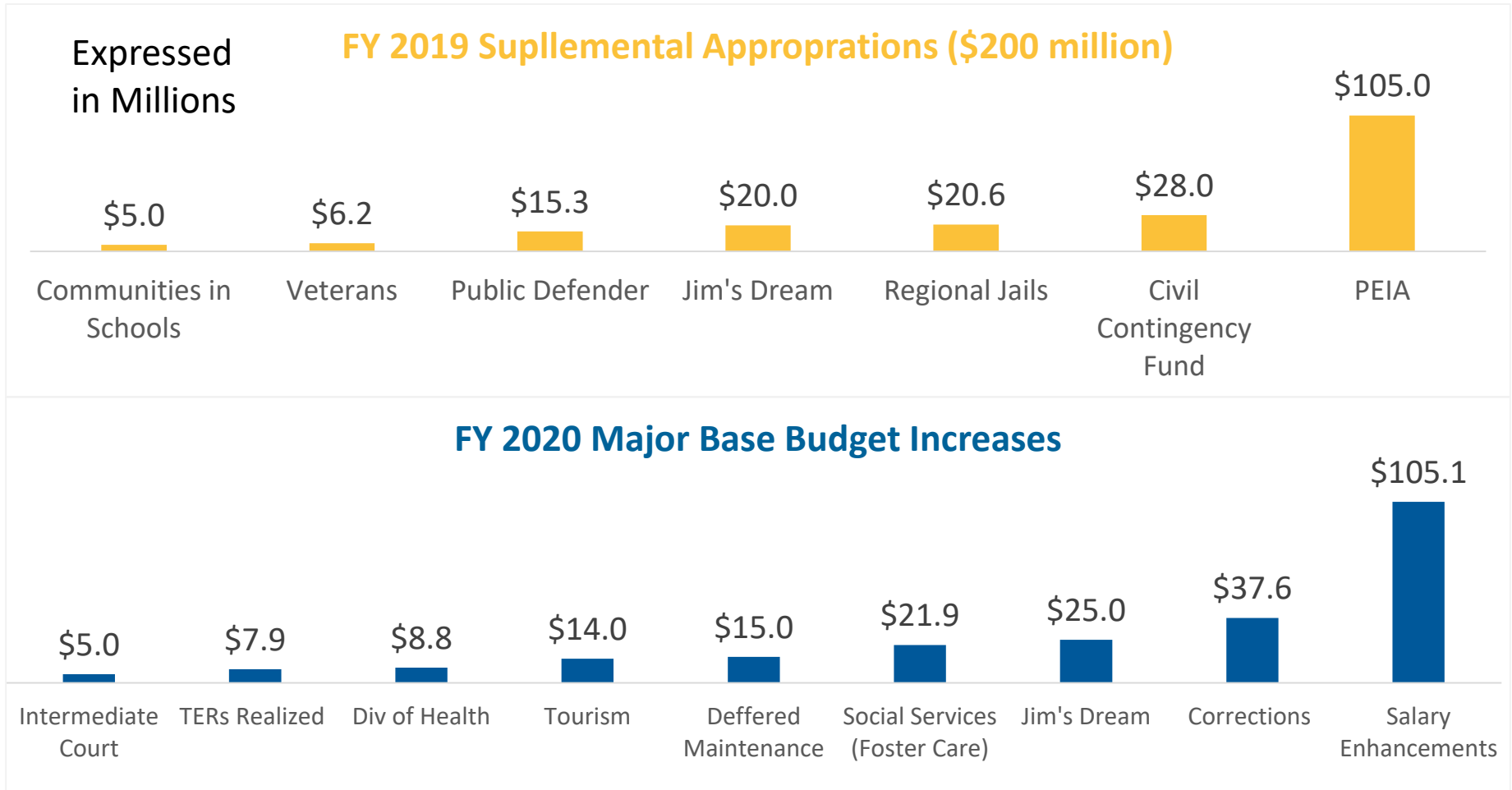
Governor's Proposed Base Budget Appropriations

Fiscal Year 2020 = \$5.028 Billion



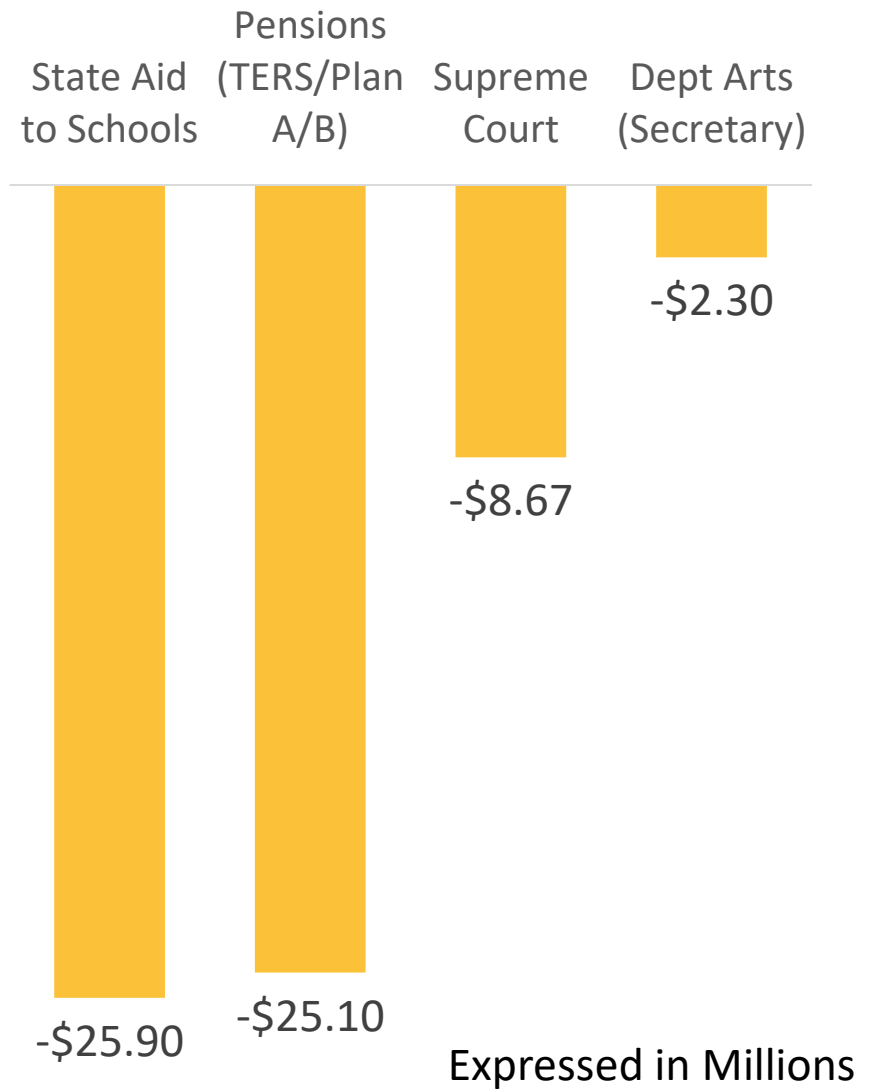
Governor's Base Budget Proposals

FY 2019 Supplementals and FY 2020 Base Budget Increases



Governor's Base Budget Proposals

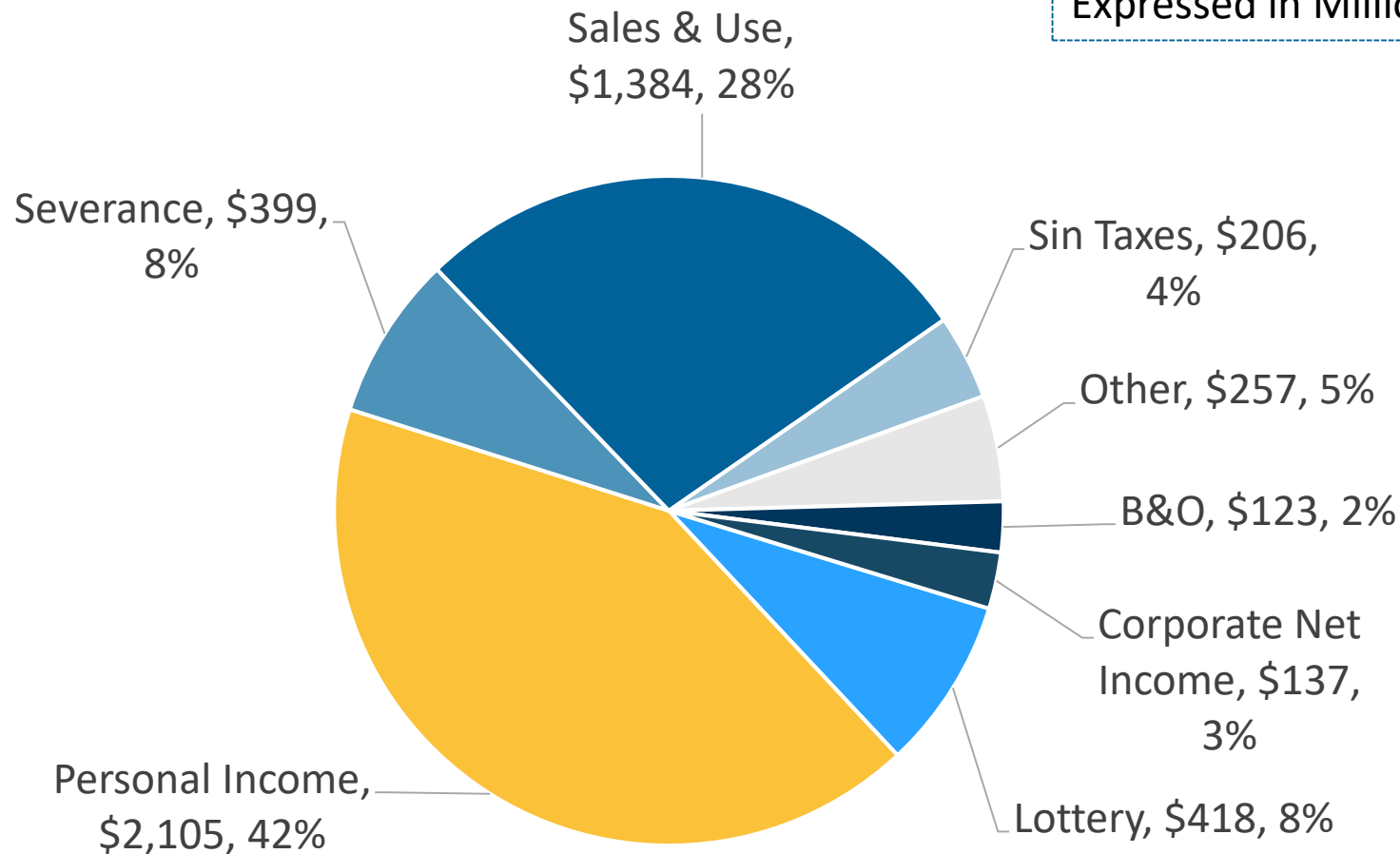
FY 2020 Major Base Budget Decreases



Governor's Proposed Base Budget Revenues

Fiscal Year 2020 = \$5.028 Billion

Expressed in Millions

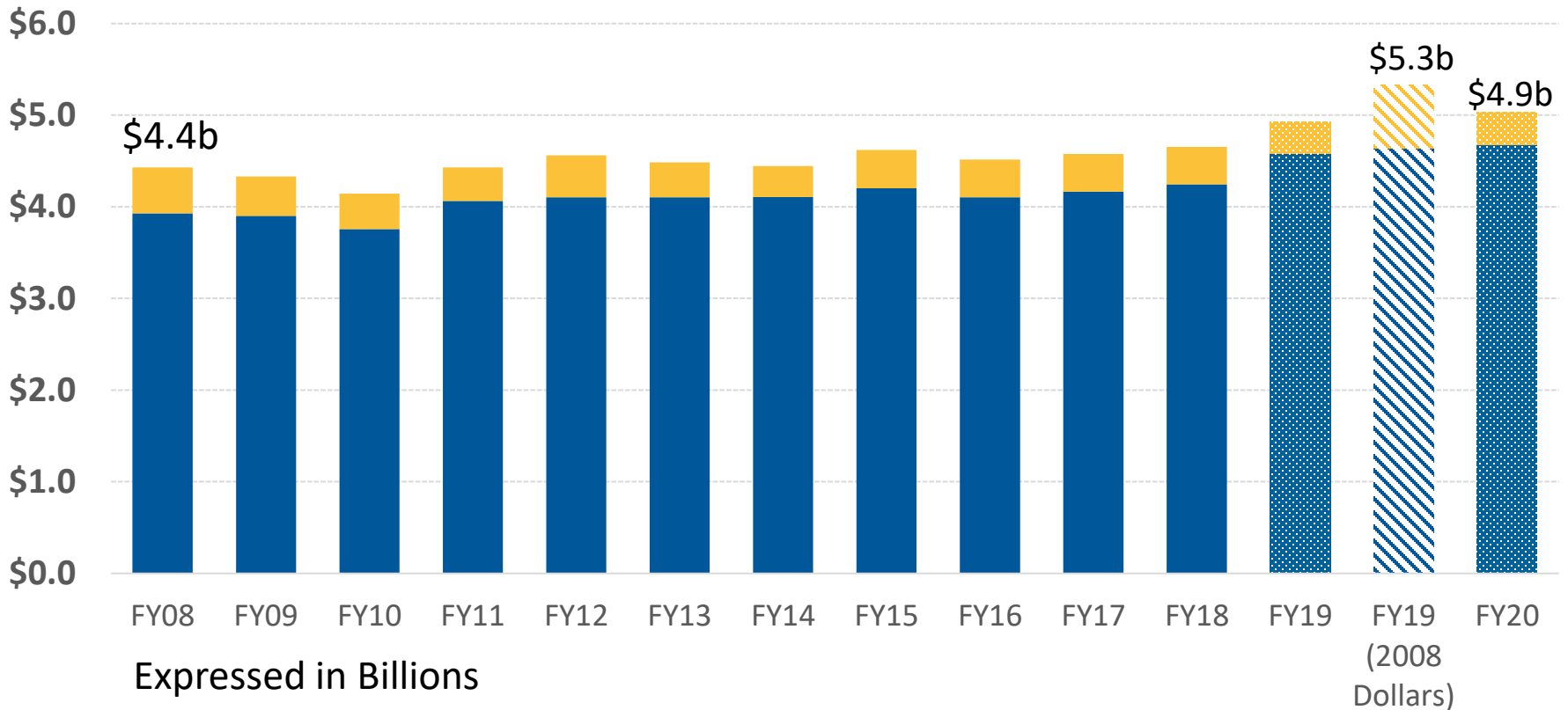


Stagnant Base Budget Collections

Lottery & General Revenue Collections, FY 2006-2020

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

■ General Revenue Fund ■ Lottery



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

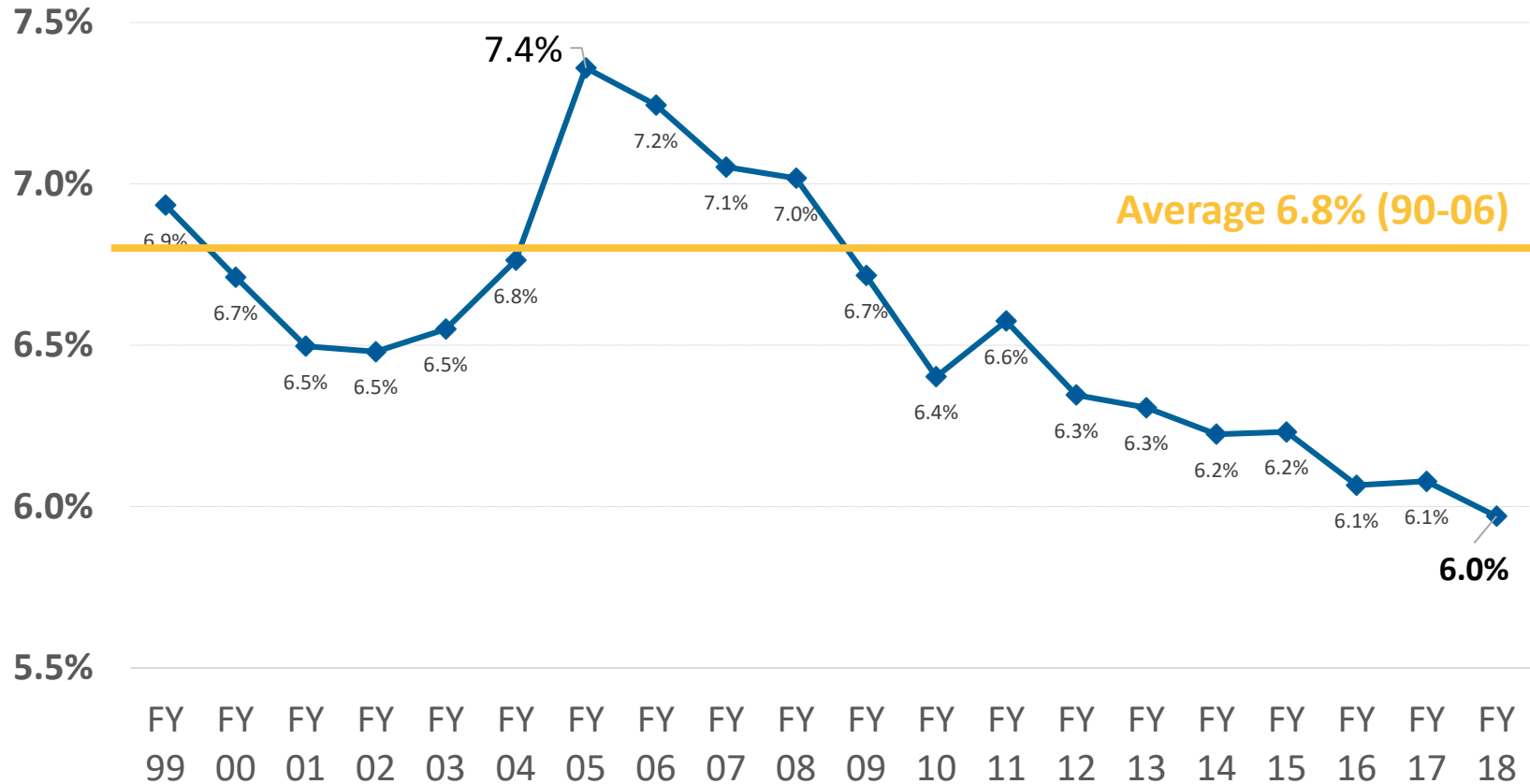
Major Factors Impacting West Virginia's Budget Changes Over the Last Decade

- **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**) and 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 a 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

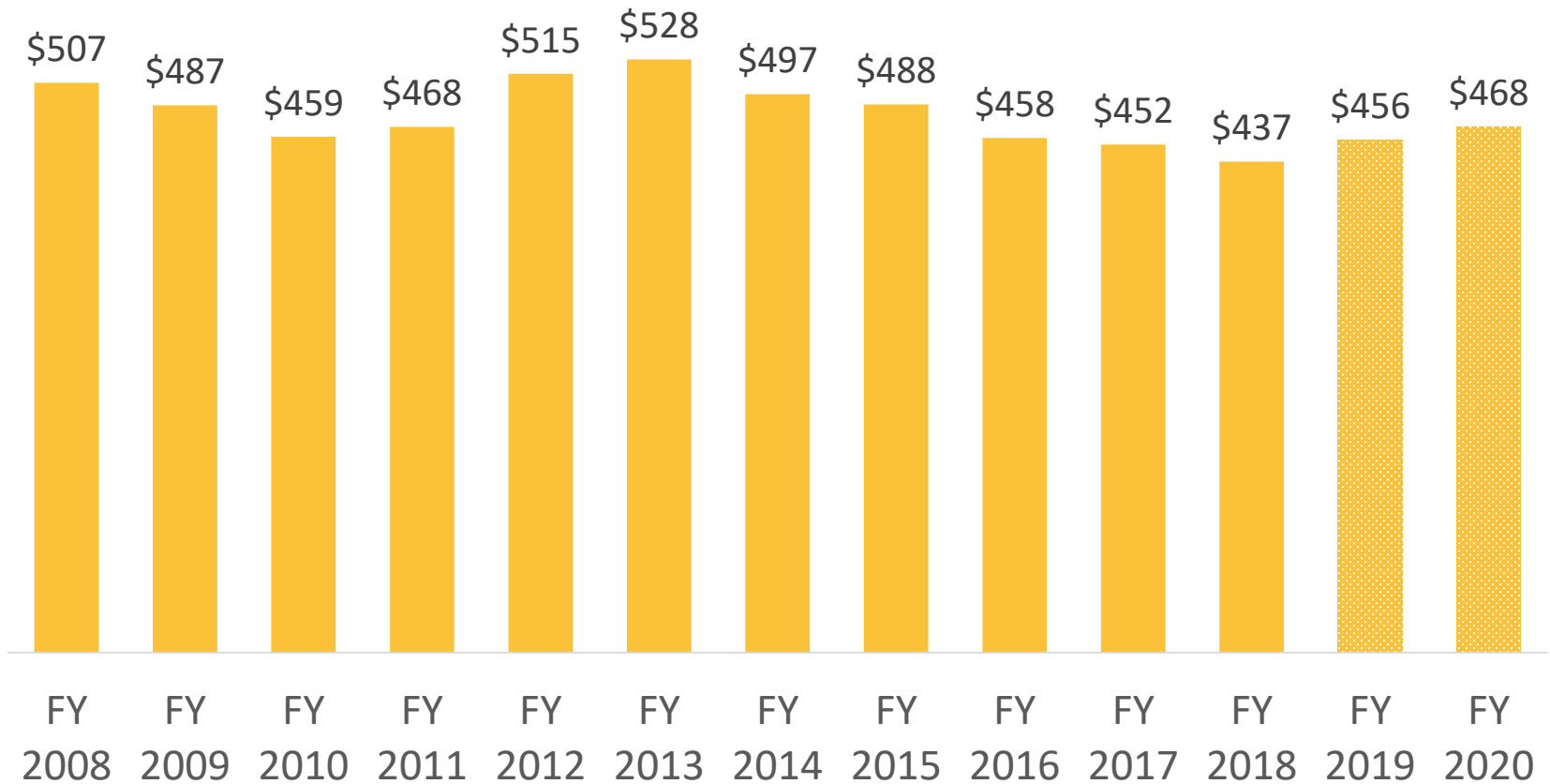
General Revenue Fund collections as a Share of Personal Income



Higher Education Funding Down

\$60 million reduction from 2013 to 2019, \$130 million

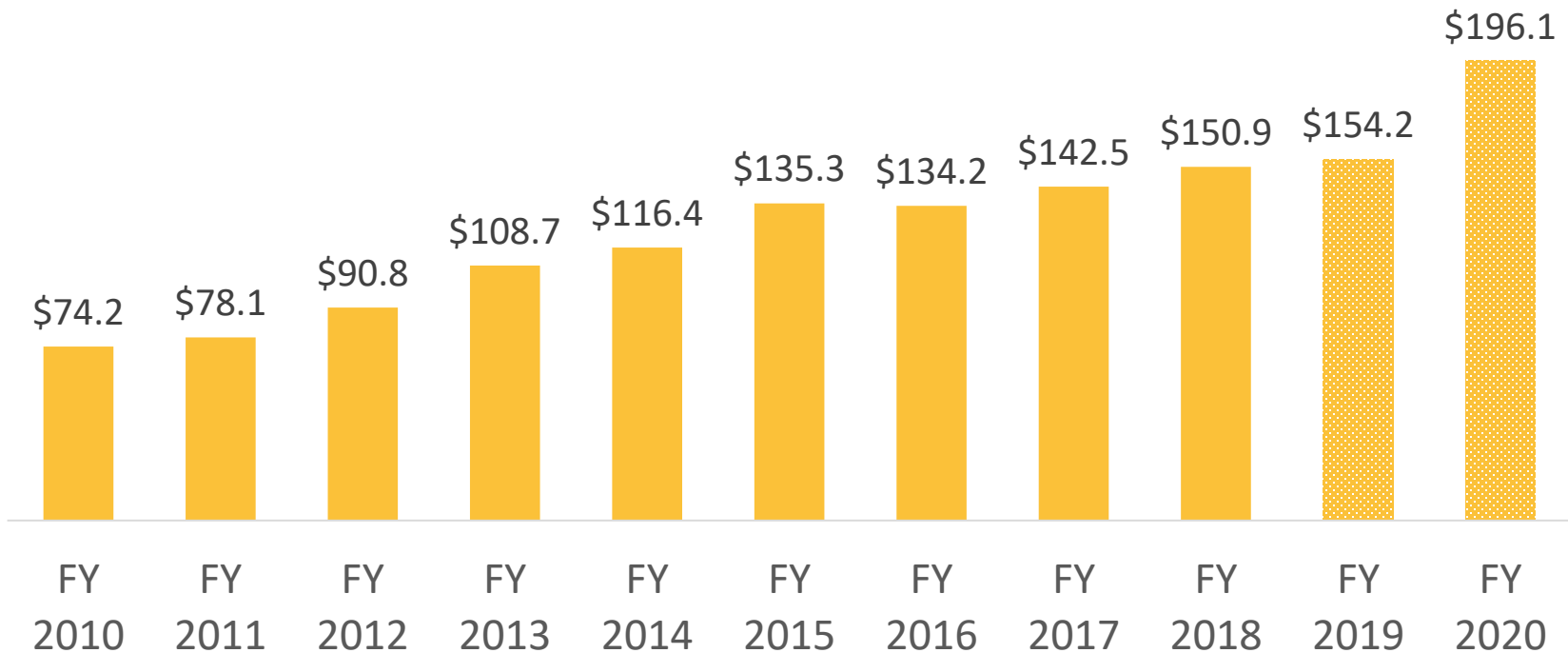
Base Budget Spending, FY 2008-FY 2020, Expressed in Millions



Dramatic growth in foster care

Social Services could grow by \$122 million by FY 2020

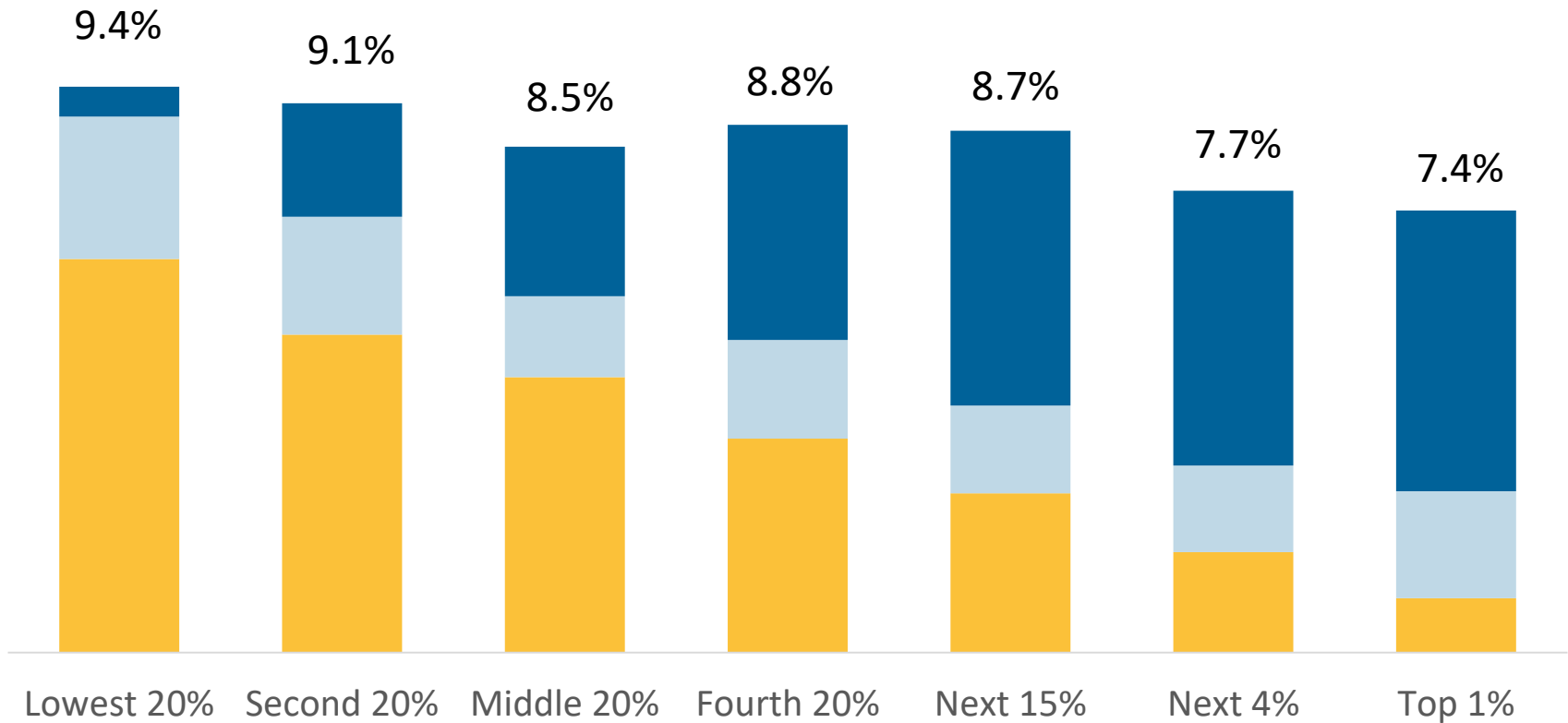
Base Budget Spending, FY 2010-FY 2020, Expressed in Millions



West Virginia State and Local Taxes

Shares of Family Income for Non-Elderly Taxpayers 2018

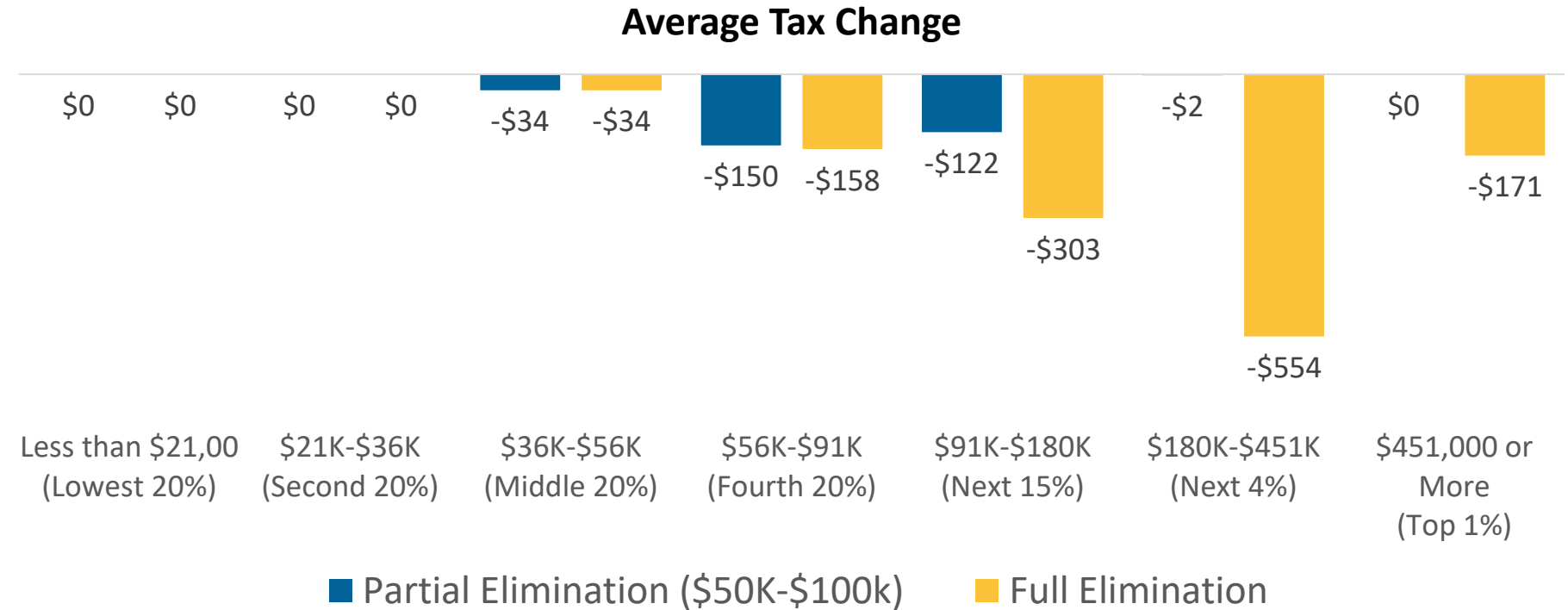
■ Sales & Excise ■ Property ■ Income



Eliminating tax on Social Security

Full repeal of state tax on Social Security favors wealthy

Partial repeal favors upper-middle class most



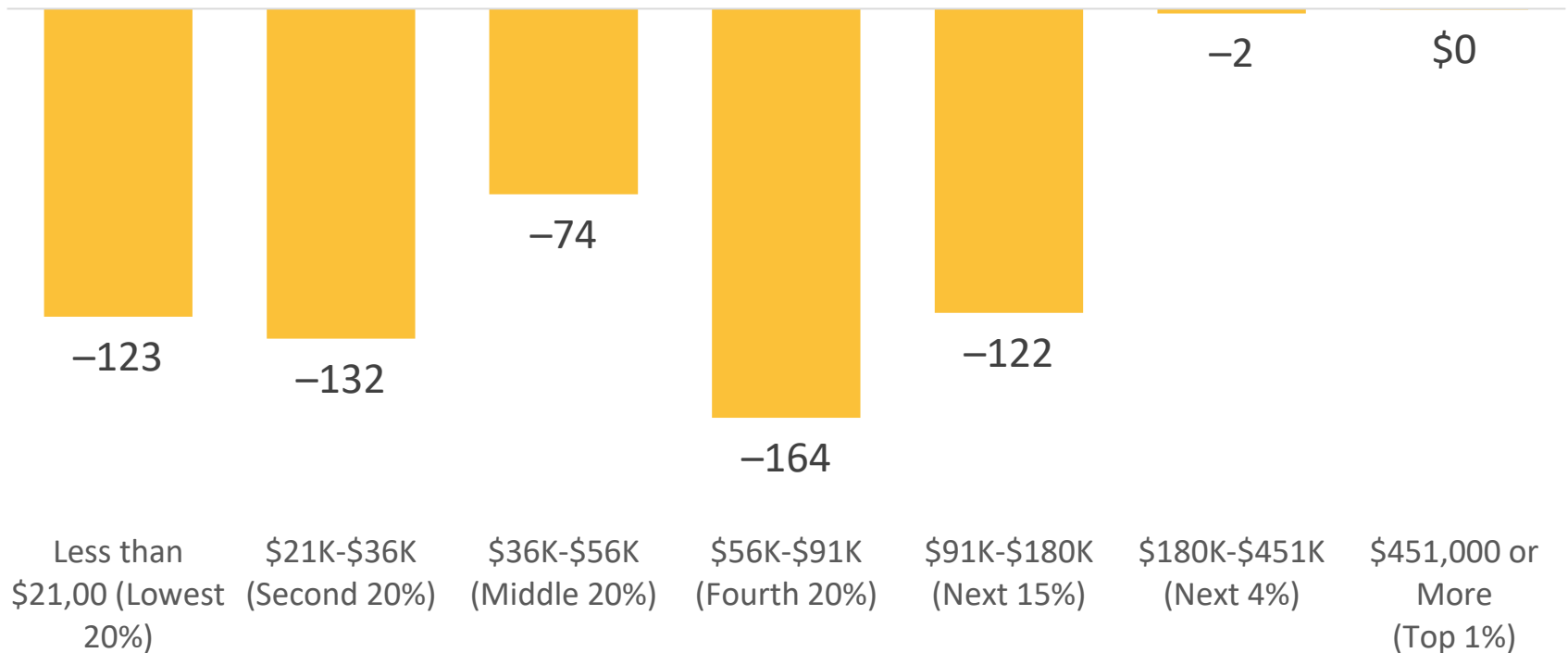
	Partial	Full
Share of Tax Cut Received by Bottom 80%	67%	36%
Share of Tax Cut Received by Top 20%	33%	64%

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

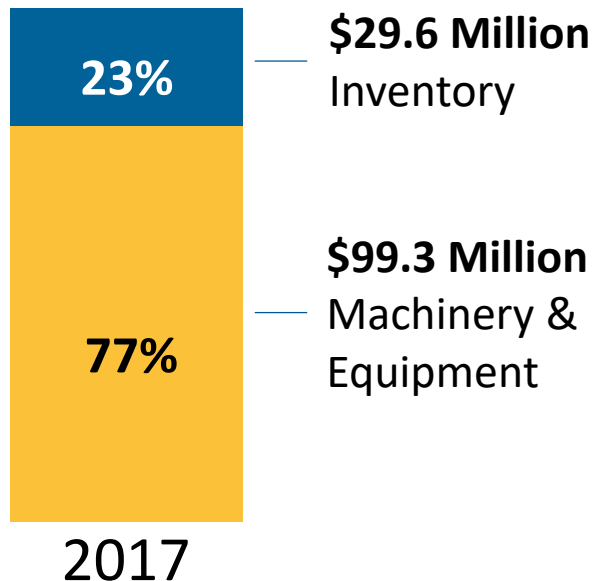
Average Tax Change



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**)



- 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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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
- Sian Mughan and Geoffrey Propheeter, “Estimating the Manufacturing Employment Impact of Eliminating the Tangible Personal Property Tax: Evidence from Ohio,” *Economic Development Quarterly*, Volume 31, Issue 4, 2017