WEST VIRGINIA CENTER ON BUDGET & POLICY

Issue Brief

Missed Opportunities:
The West Virginia FY 2020 Proposed Budget

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Overview and Key Findings

Governor Jim Justice's FY 2020 budget includes new spending initiatives and pay raises while avoiding spending cuts as the state's financial situation shows signs of stability. While the FY 2020 budget is an improvement after years of budget cuts, it represents a missed opportunity to reverse the damage of past mistakes and invest in a future shared prosperity.

This brief will provide an overview of the governor's FY 2020 budget proposal, and the underlying factors that are influencing the state budget, and how future actions could change the dynamics of the state budget. The brief will also explore steps policymakers can take to ensure that the budget not only provides a better foundation for economic prosperity but that it also protects vulnerable children and families and helps push more people out of poverty.

Key Findings

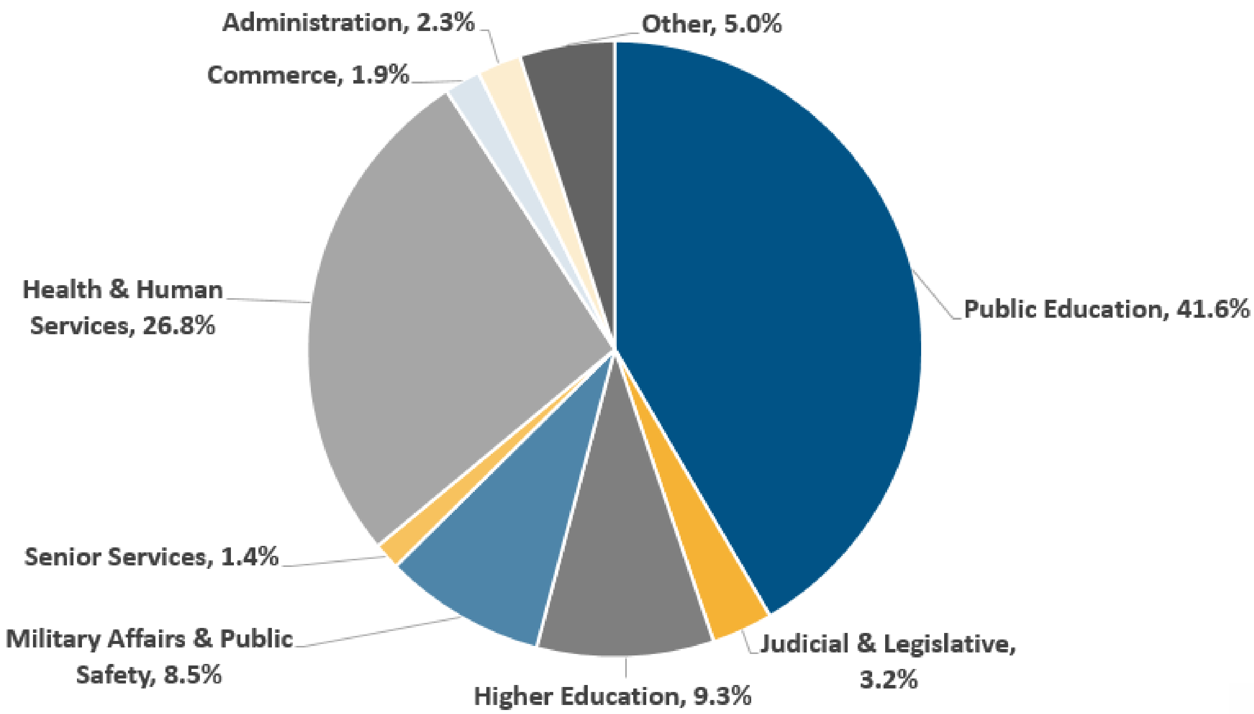
- Recent revenue growth could change based on the shale and subsequent construction boom subsiding, or an economic slowdown nationally.
- Past cuts to higher education have not been restored, as the state continues to underfund higher education.
- Medicaid continues to lack a dedicated source of funding from the budget, instead relying on supplementals and surpluses.
- Public employee pay raises, corrections payments, and "Jim's Dream" represent the bulk of new spending.
- Savings in public education spending have been used to backfill the budget and alleviate the costs of tax cuts, rather than being re-invested.
- Proposed tax cuts could jeopardize the budget's stability and threaten future investments.

Governor's Proposed FY 2020 Base Budget

Governor Justice's proposed 2020 base budget appropriations total $5.028 billion, including $4.68 billion from the General Revenue Fund and $418 million from the Lottery funds, including re-appropriated surpluses. General Revenue spending is up $294 million, or 6.7 percent, from FY 2019's final approved budget. The two largest areas are appropriations for public education and health and human services, which make up more than two thirds of the base budget.

Figure 1

Public Education and Medicaid Are Large Pieces of Governor's Proposed FY 2020 Base Budget
Governor's Proposed Base Budget Appropriations, FY 2020

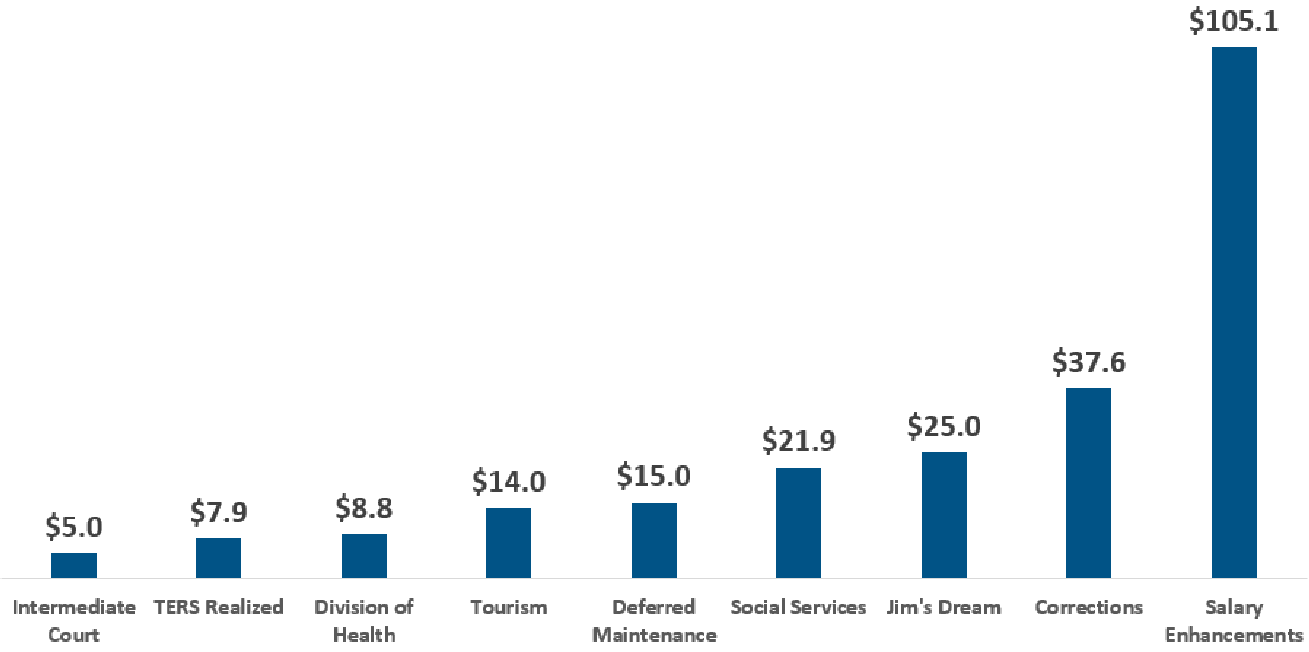


Source: West Virginia State Budget Office

The governor's proposed FY 2020 base budget is $188 million more than the FY 2019 base budget. Major expenditure increases in the base budget include $105.1 million for a five- percent pay increase for public employees, $37.6 million for corrections, which includes $30.9 million is for Regional Jail per diem payments for correctional inmates held in regional jails, $21.9 million for Social Services, which includes foster care, $15 million for deferred maintenance for state buildings, and $14 million for tourism. Also included in the FY 2020 proposed budget is $25 million for "Jim's Dream," a proposed rehabilitation and workforce readiness transition program. The governor also increased Judicial expenditures by $5 million to pay for a proposed intermediate court of appeals.

Figure 2

FY 2020 Major Budget Increases (millions)

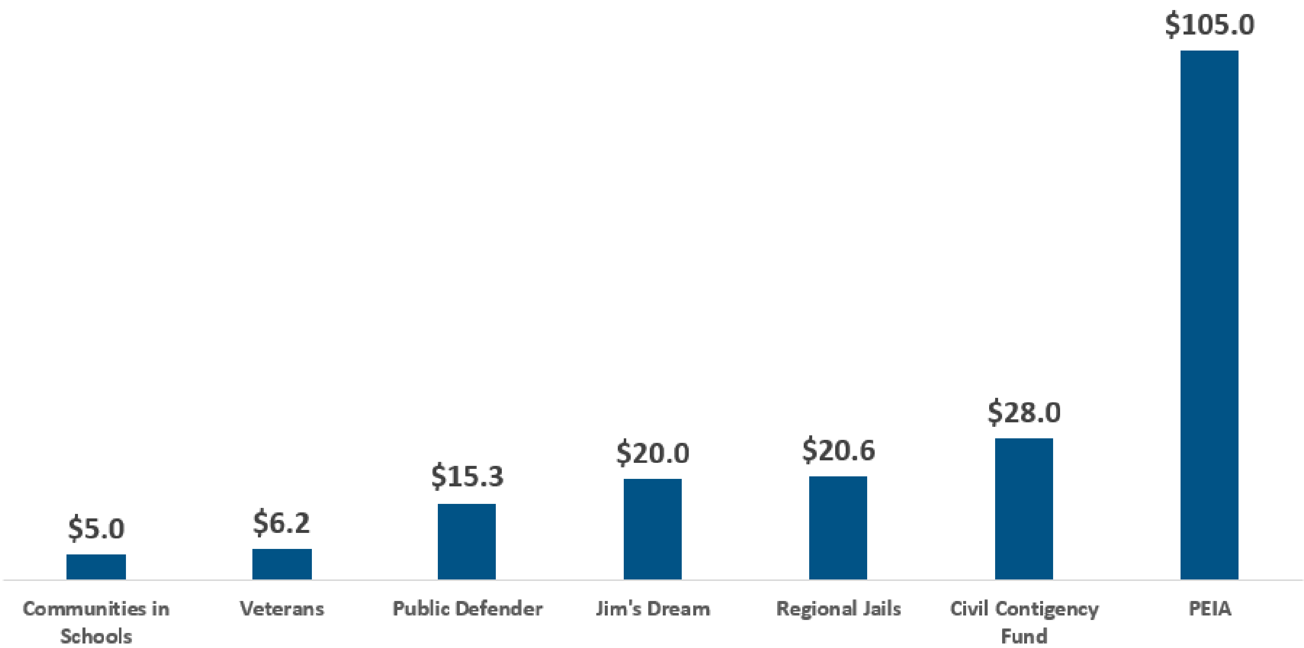


Source: West Virginia State Budget Office

In addition to the FY 2020 base budget expenditure increases, the governor is also proposing $200 million in FY 2019 Supplemental Appropriations. Over half of the supplemental appropriations are dedicated to PEIA, with another $20 million for "Jim's Dream."

Figure 3

FY 2019 Supplemental Appropriations (millions)

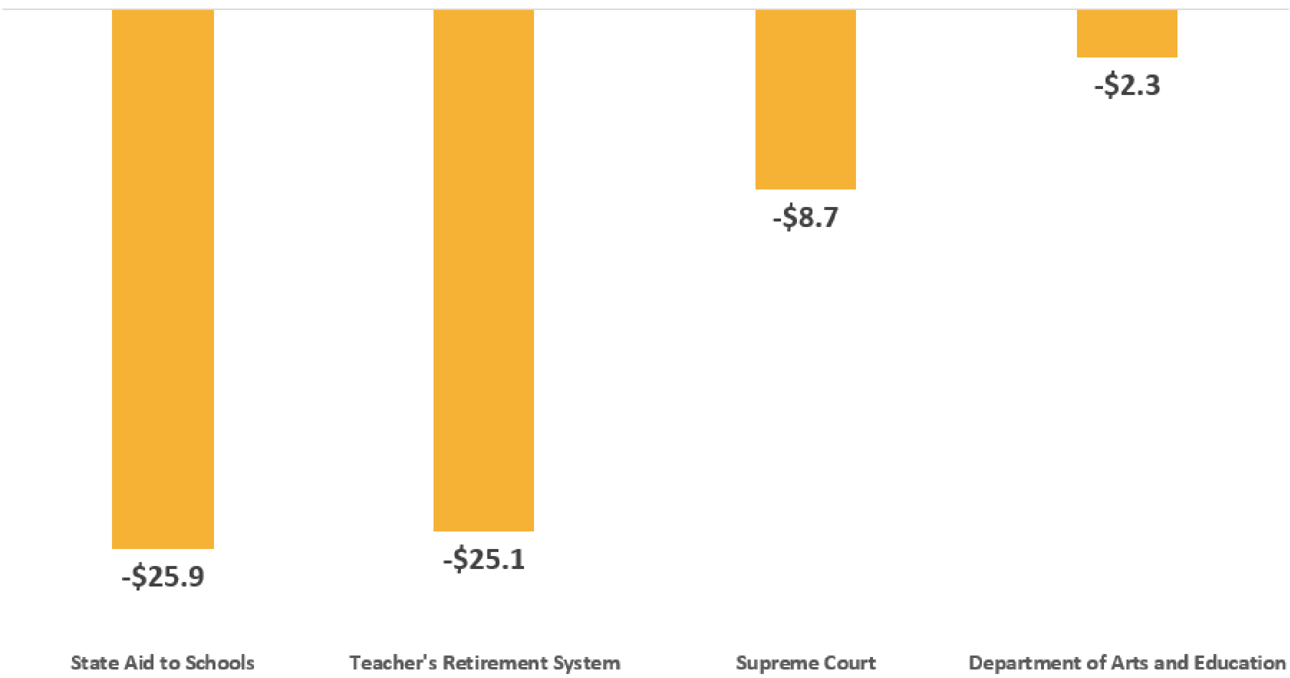


Source: West Virginia State Budget Office

The governor's proposed budget also includes some major budget decreases, including a $25.6 million decrease in state aid to schools, due to declining enrollment and increases in local property tax collections. Due to higher investment returns, the Teacher's Retirement System also required less funding, resulting in a $25.1 million decrease. Decreases in the request for funding for the Supreme Court and the elimination of the Secretary's Office for the Department of Arts and Education make up the other budget decreases.

Figure 4

FY 2020 Proposed Budget Decreases



Source: West Virginia State Budget Office

Areas of Concern

While the FY 2020 budget does not face the large gaps of the past few years, there are several areas of concern that could turn into problems in the near future.

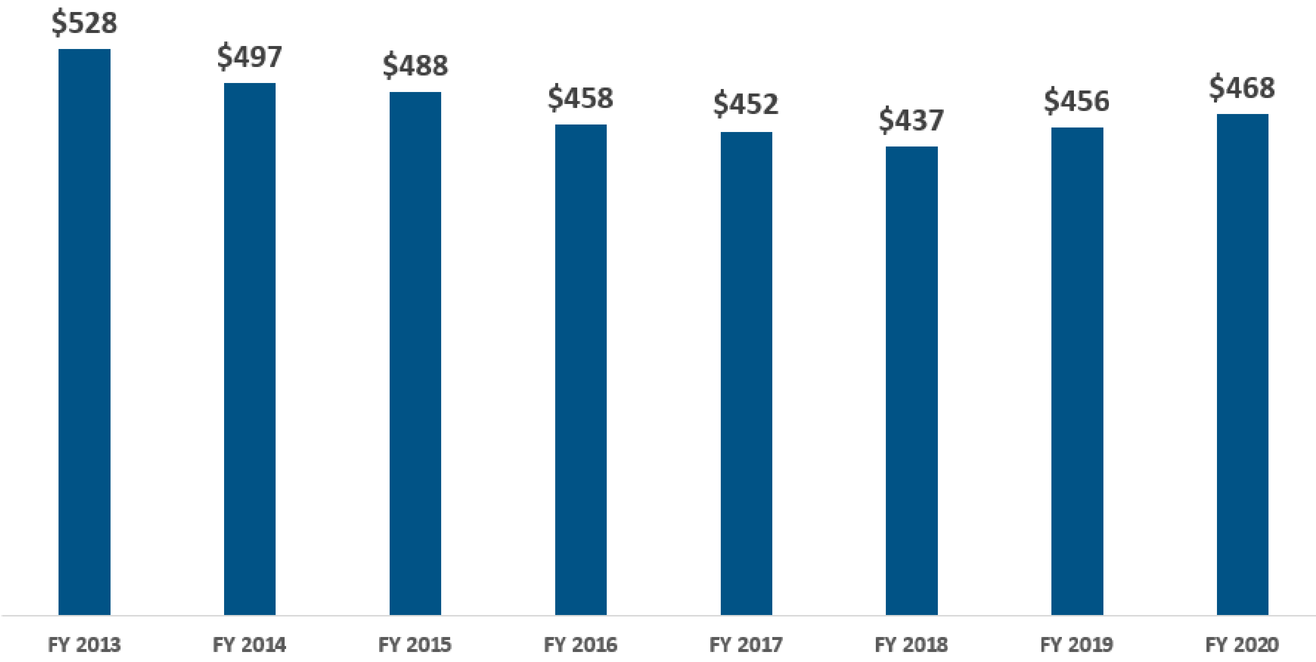
As mentioned above, the governor proposed using $105 million in supplemental funds to help pay for PEIA. With PEIA costs growing by approximately 7.5 percent per year, the program needs $50 million in additional funding every year, meaning it needs $50 million this year, another $50 million on top of that next year, and so on, just to maintain current benefit levels. The governor's PEIA Task Force recently failed to identify a permanent funding source for PEIA. Using one-time supplemental funds to pay for PEIA only works as a temporary solution and does not fix the underlying funding problem.

Medicaid presents a similar concern for future budgets. At $4.5 billion in state and federal funding, Medicaid is the state's largest program in the budget. The governor's FY 2020 proposal includes no new base budget funding for Medicaid, instead surpluses from previous years are used. In addition, while the state projects that program costs will grow at roughly three percent per year, and while the Federal Match rate is set to decline, the Six-Year plan (maybe briefly explain what the six-plan is and who decides it?) includes no additional base budget funding for Medicaid. Once again, the state is planning to rely on one-time sources of revenue to pay for the state's largest program.

Another area of the budget that saw no funding increase in the FY 2020 proposal, or in future projections, is higher education which has borne the brunt of budget cuts as the state navigated multiple years of shortfalls. Base budget expenditures for higher education in the FY 2020 proposal are $60 million below their FY 2013 levels. These cuts to higher education have hurt the state's investment in its workforce causing tuition increases and declining enrollment.

Figure 5

Base Budget Higher Education Spending (millions)



Source: WV State Budget Office

Savings in State Aid to Schools, But Not for Good Reasons

The state budget has been saving millions per year through changes in the school aid formula, but not all the changes are a positive for the state. First, the boom in natural gas production and pipeline construction have led to large increases in local property taxes, which increase the local share of the school aid formula and reduce the state's share. In 2008, the local share of the school aid formula accounted for 23.7 percent of the total allowance. By 2020, the local share had increased to 28.5 percent. That increase in the local share will save the state $80.1 million in 2020.

While rising local property tax revenue, even if temporary, is a positive development that has saved the state money, other savings in the school aid formula represent negative signs. School enrollment has been on the decline in West Virginia, a sign of an aging population and weak economy. Between 2008 and 2020 school years, West Virginia school enrollment has fallen by 16,559 students. Since the school aid formula is based, in part, on enrollment, the decline has resulted in significant savings for the state. If enrollment had simply remained flat since 2008, the state's share of the school aid formula would be $74.1 million higher in FY2020.

Between rising property taxes and declining enrollment, the state is saving $154.2 million through the school aid formula in FY2020. Without those savings, the budget gaps of the past few years would have been even higher, and there likely would be no surplus this year to pay for the governor's proposed supplemental expenditures.

Revenues Increasing, For Now

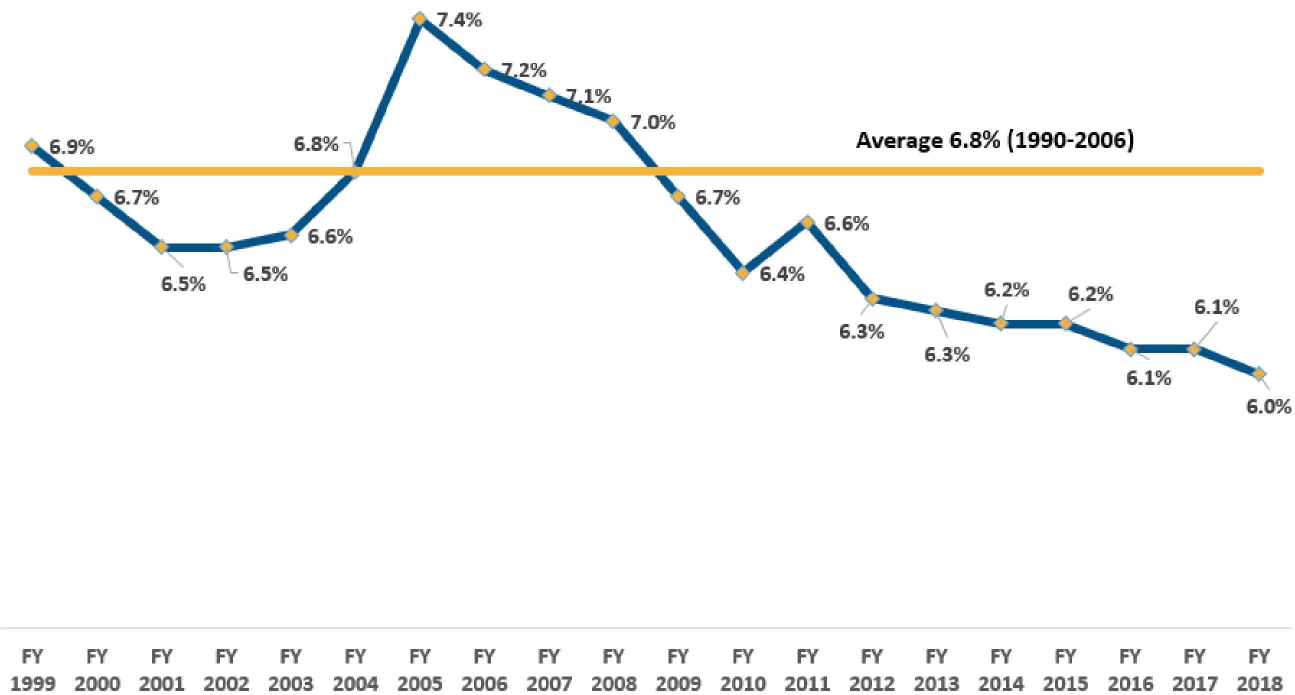
Rebounding energy prices and natural gas pipeline infrastructure investments have boosted state revenues in recent months. After growing by 3.7 percent in FY 2018, General Revenue Fund collections grew by 13.0 percent in the first half of FY 2019. That growth is expected to slow down over the second half of the fiscal year, with General Revenue Funds expected to grow by 4.9 percent from FY 2018 to FY 2019.

Revenues are expected to continue to grow at around five percent for FY 2020 but are expected to slow to roughly 2.9% per year between FY 2020 and FY 2024, as pipeline construction projects finish. January 2019's revenue report showed revenues coming in $3 million below estimates. The governor's budget proposal is counting on a large surplus in FY 2019 to fund the supplemental expenditures.

Despite recent growth, revenues are still well below historical averages, as years of tax cuts have taken their toll. Historically, state tax collections have averaged 6.8 percent of total state personal income. As tax cuts were phased in starting in 2007, the figure has steadily dropped, reaching 6.0 percent in FY 2018. If revenue collections had merely grown at the same rate as personal income, and maintained that 6.8 percent average, the state would have collected an additional $590 million in FY 2018.

Figure 6

General Revenue Fund Collections as a Share of State Personal Income



Source: WVCBP analysis of West Virginia State Budget Office and Bureau of Economic Analysis Data

More Tax Cuts on the Horizon

Governor Justice is once again pushing his "Just Cut Taxes and Win" proposal, which would amend the state's constitution to phase out the industrial inventory, machinery, and equipment property tax. This would result in a $140 million tax cut mainly for manufacturers, coal, and natural gas producers in the state. Most businesses would continue to pay the property tax on their inventories and equipment.

Like past business tax cuts, this proposal would be largely ineffective at creating economic growth. There is no obvious relationship between manufacturing employment growth and industrial property tax rates, or between states that do and do not tax business personal property.

Figure 7

No Relationship Between Industrial Property Tax Rates and Manufacturing Job Growth

Source: WVCBP Analysis of Bureau of Economic Analysis and Lincoln Land Institute data

West Virginia's property tax revenue largely funds schools and local governments. While the governor's proposal calls for the state to reimburse schools and local governments from the General Revenue Fund, that would still mean less funding from the state for education and other budget priorities.

Another tax cut proposed by the governor working its way through the legislative process is the elimination of the tax on Social Security income. While politically popular, and described as a "middle class" tax cut, the beneficiaries are largely high-income retirees. Low- and middle-income retirees in West Virginia would see only a small or even no tax cut under the proposal. West Virginia already offers an $8,000 decreasing modification per individual over age 65, which eliminates most income tax liability for low- and middle- income West Virginians that rely heavily on Social Security. As a result, 64 percent of the proposed tax cut would go to those making above $91,000, while costing the state $50 million.

Conclusion

West Virginia's needs are many, and for the first time in a number of years, the state appears to have the resources to start addressing some of them. Instead of taking steps to build a foundation for shared prosperity, Governor Justice's FY 2020 budget proposal is a missed opportunity.

His proposal relies on $200 million in one-time supplemental revenues, instead of building permanent solutions into the budget for funding PEIA and Medicaid. While strong revenue growth is beginning to taper off, the governor is proposing more dubious and expensive tax cuts. Building a stronger economy that works for everyone begins with investments made in the state budget. These investments should include:

- Enacting a Paid Family and Medical Leave Program
- Creating a refundable state Earned Income Tax Credit
- Boosting childcare assistance
- Making higher education debt free
- Raising the severance tax to fund the Future Fund
- Closing corporate tax loopholes, reenacting the Estate Tax, and increasing the tobacco and soda tax

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