

WEST VIRGINIA CENTER ON
BUDGET & POLICY

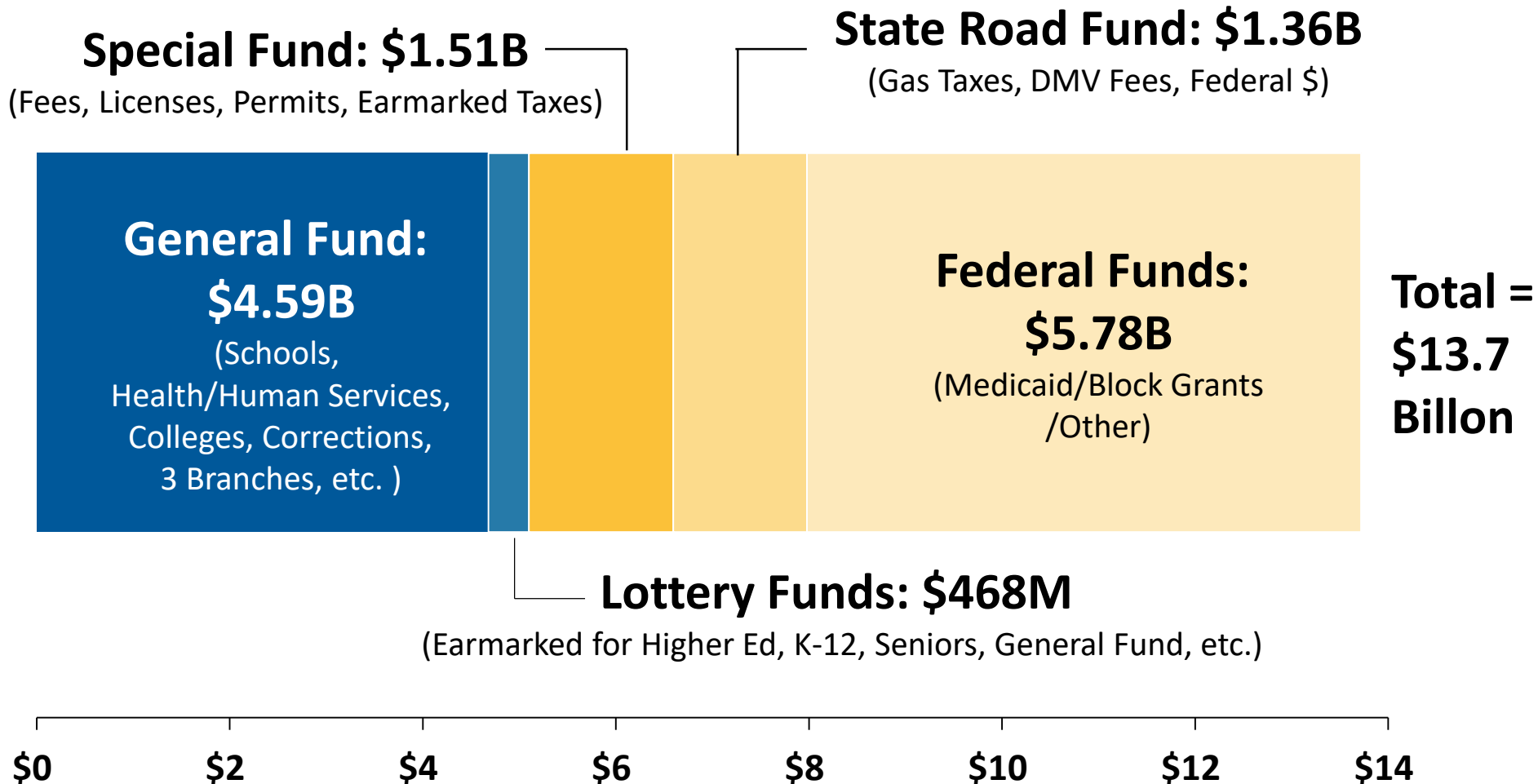
wvpolicy.org | @WVCBP

Back to the Future: Overview of Governor's Proposed FY 2021 State Budget

Ted Boettner
Executive Director
West Virginia Center on Budget & Policy

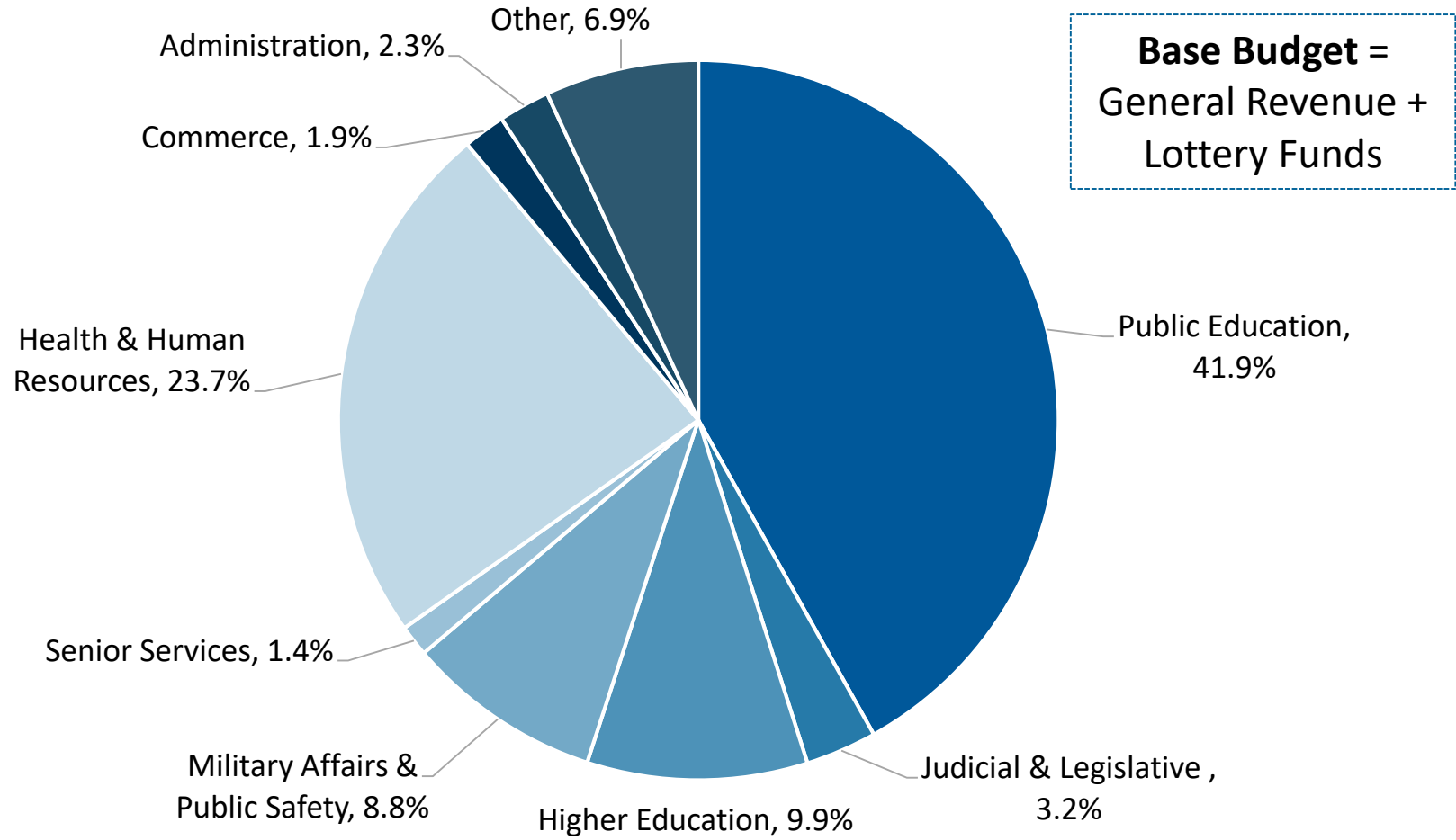
7th Annual WVCBP Budget Breakfast
Charleston Marriott Town Center
January 15, 2020 – 7:30am-9am

Governor's FY 2021 Appropriated Budget



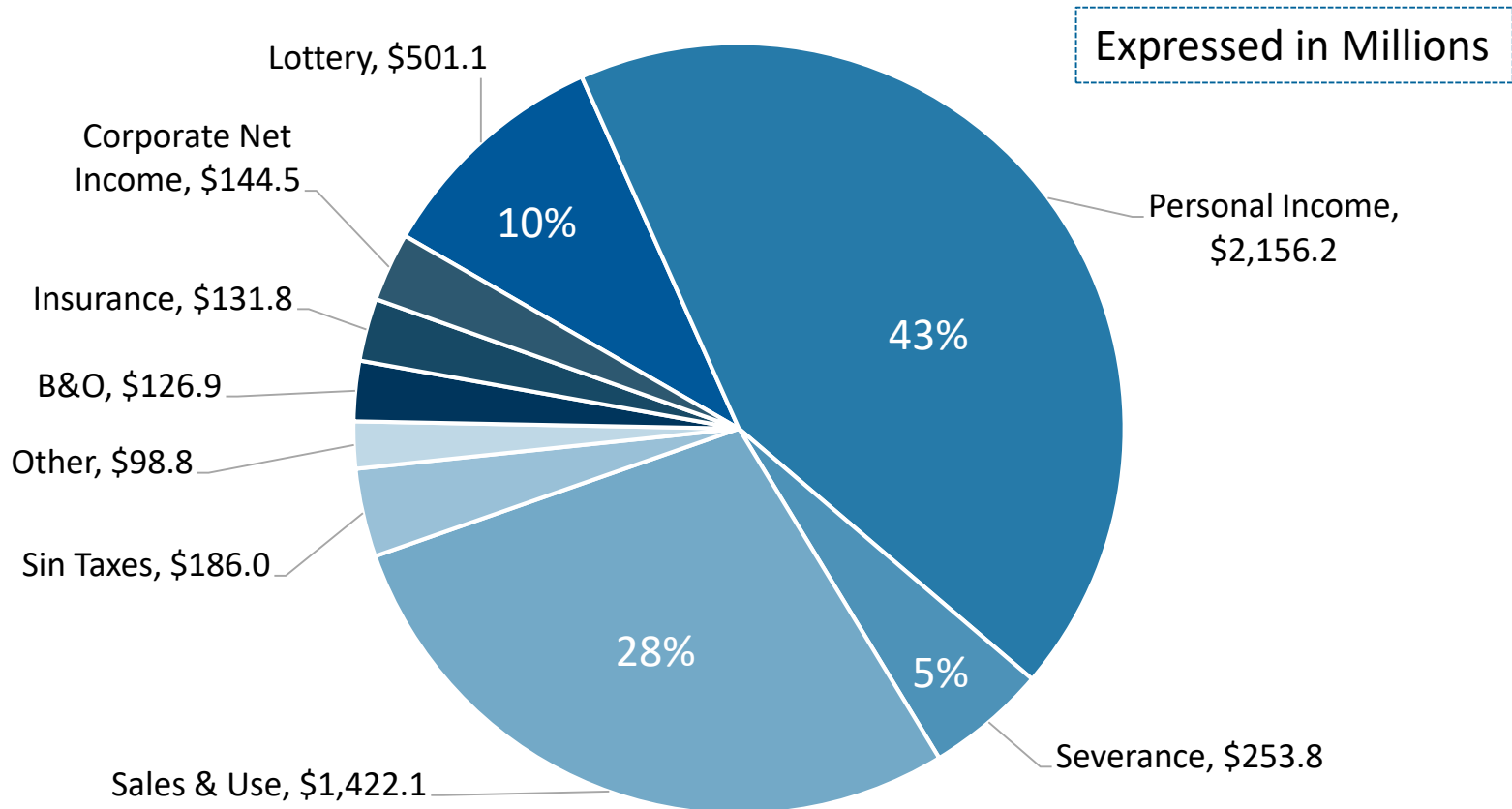
Governor's Proposed Base Budget Appropriations

Fiscal Year 2021 = \$5.053 Billion



Governor's Proposed Base Budget Revenues

Fiscal Year 2021 = \$5.028 Billion

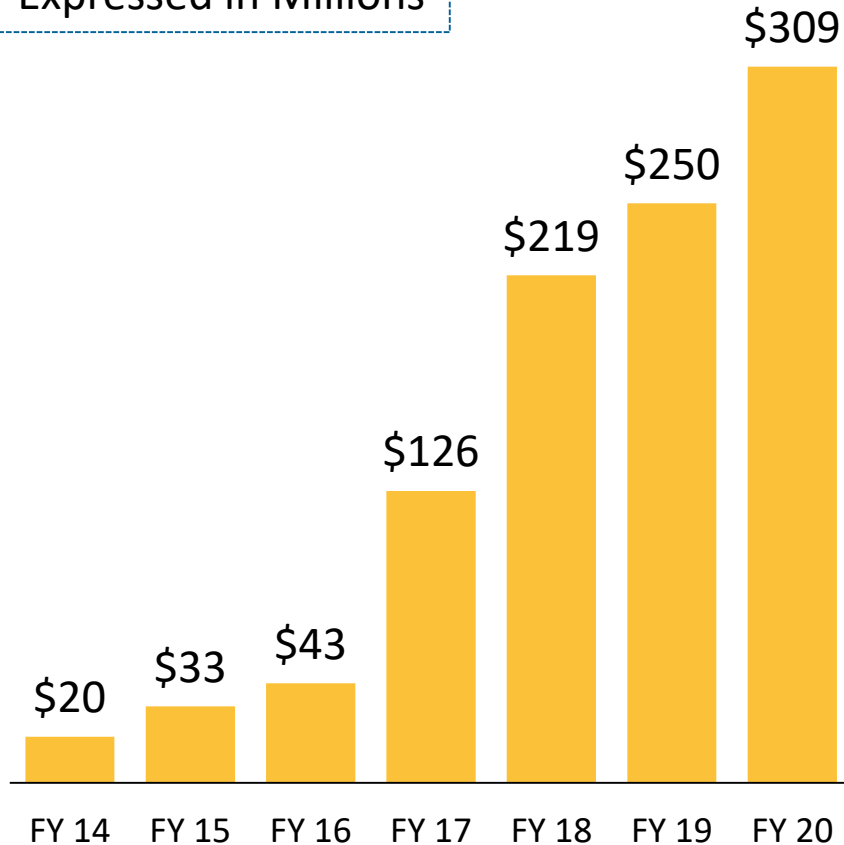


+\$173 million in Onetime Reductions (Mostly Medicaid Surplus)

Medicaid Surplus Revenue Funds

FY 2014-FY 2020

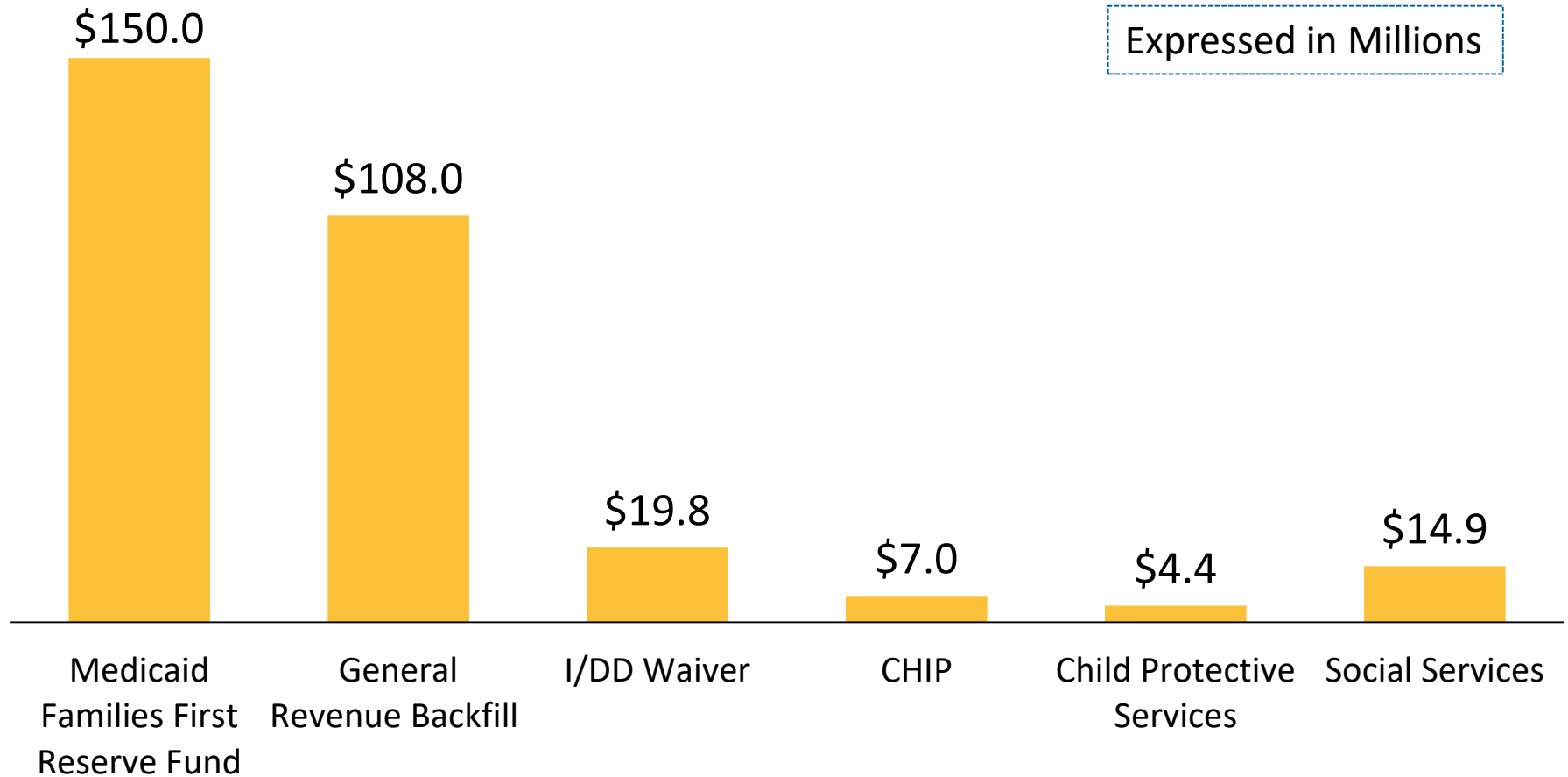
Expressed in Millions



- The Federal Medical Assistance Percentage (FMAP) has grown from **71.09** in 2014 to **74.99** in 2020 (1:3.00), a savings of \$117 million on \$3 billion.
- 50,000 decline in Medicaid enrollment (552,000 to 502,000)
- Rx drug savings
- Managed Care (MCOs)
- One-time funds (surpluses, base building)

Source: West Virginia State Budget Office

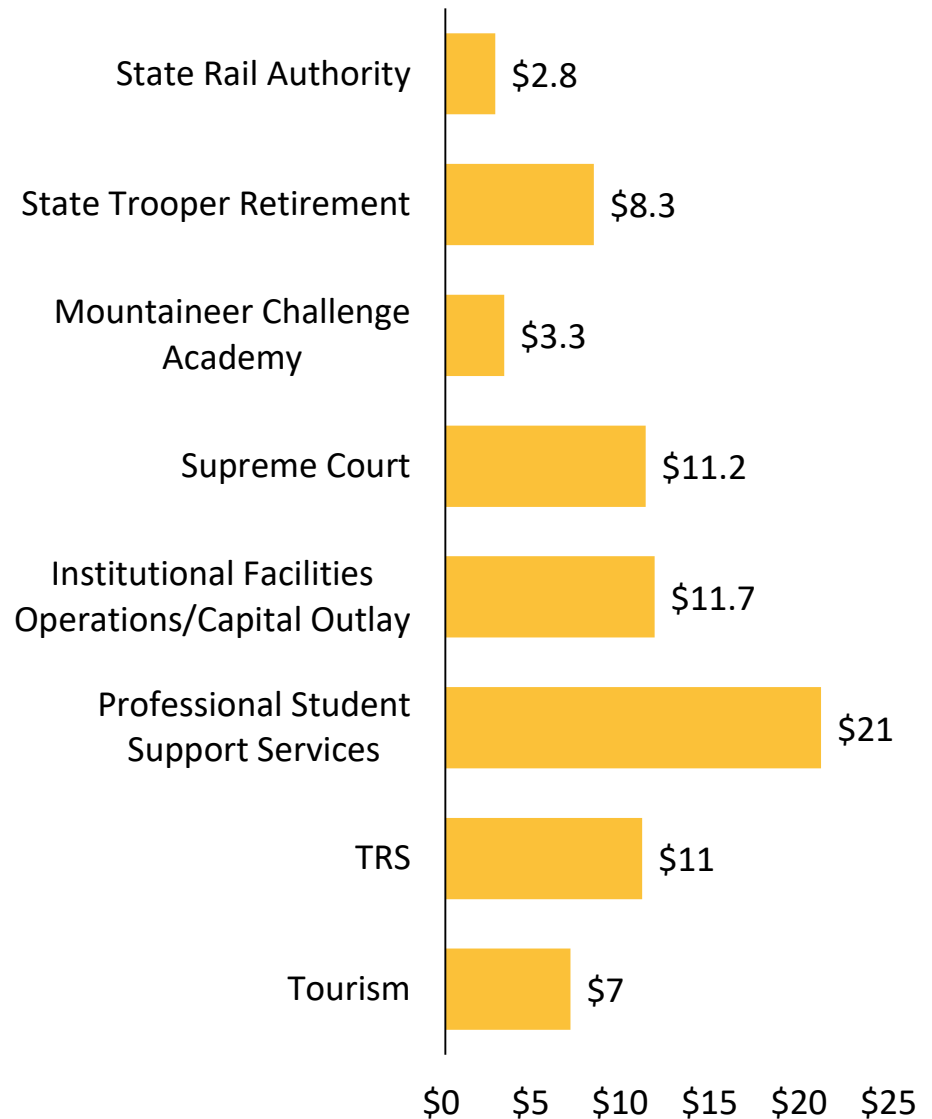
Governor's Proposals for Medicaid Surplus Revenue Funds (FY 21)



Source: West Virginia State Budget Office

Governor's Base Budget Proposals

Other FY 2021 Major Base Budget Increases

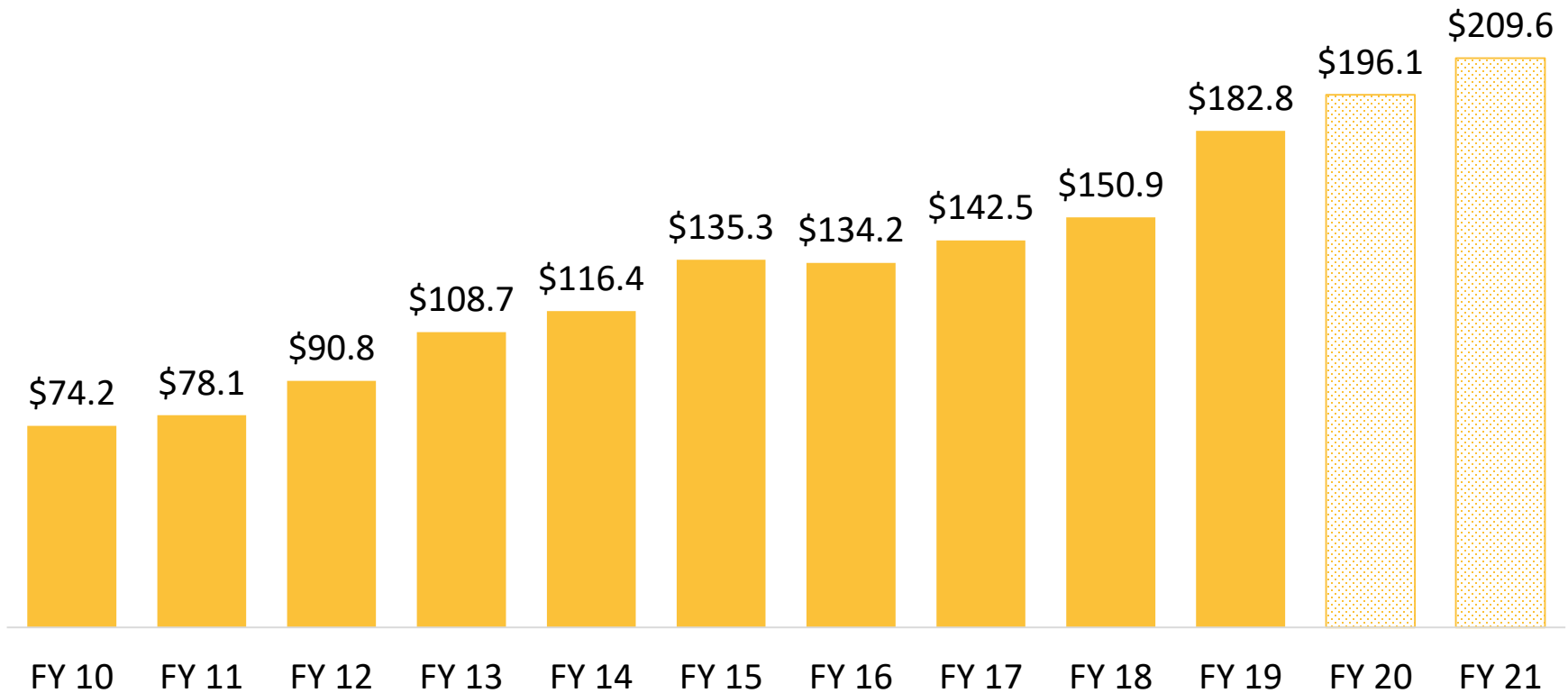


Expressed in Millions

Dramatic growth in foster care

Social Services has grown by \$135 million since FY 2010

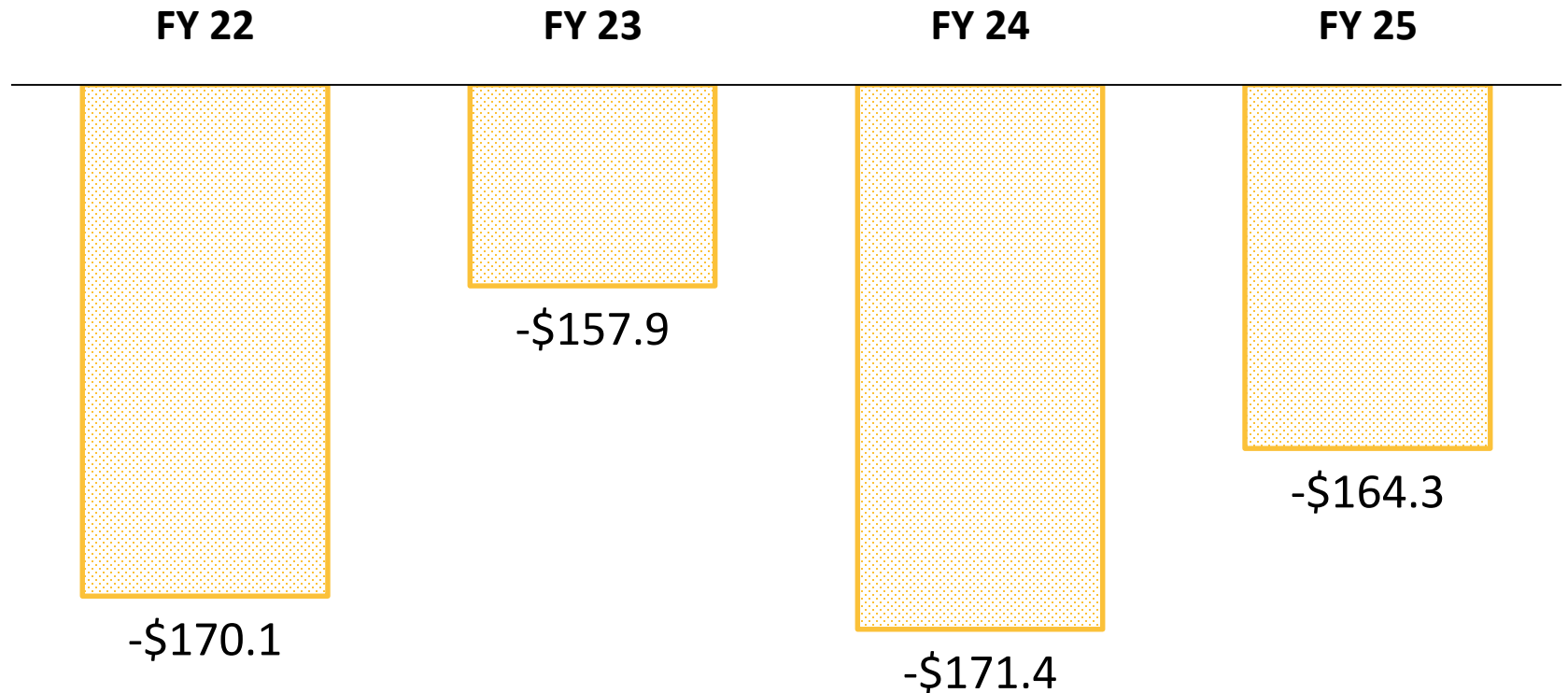
Base Budget Spending, FY 2010-FY 2021, Expressed in Millions



Large projected budget deficits next year and beyond

Projected Budget Gaps, FY 2022-FY 2025

Expressed in Millions



Source: West Virginia University Business Bureau of Business and Economic Research, Economic Forecasts 2014-2019

Major Takeaways from Governor's FY 2021 Budget

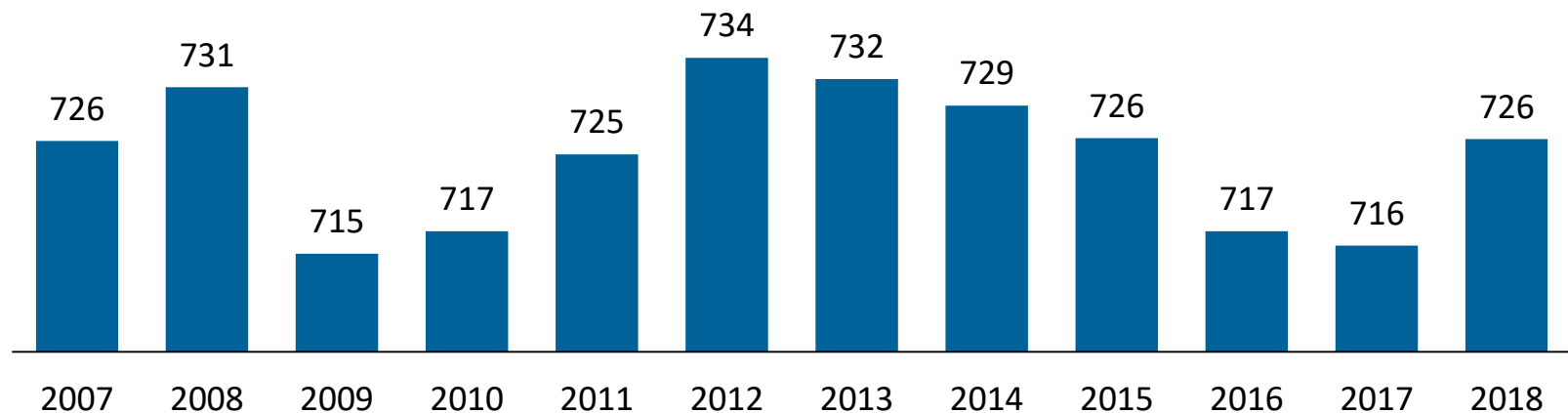
- ✓ Revenue projections from last year (FY 2020) projected \$221 million more in general revenue fund collections for FY 2021. Severance forecast down \$174.5 million from last year. In 2016 (FY17) estimated GRF collections were \$460 million above this year's estimate for FY 2021.
- ✓ Six-Year Financial Plan shows no additional money for Higher Education from FY21-FY24, but substantial growth in Medicaid in FY 2024 (+\$106.7 million) and moderate growth in corrections, DHHR, and PEIA. No salary enhancements for two years (+\$23m in FY 2023).
- ✓ State continues to significantly **underfund higher education** and needs to adequately fund agencies across the board to meet growing needs and pay gaps.
- ✓ Energy economy (property taxes), lottery and Medicaid surpluses, and declining school enrollment allowing state to fill budget holes. Between FY 2012 and FY2019, lottery funds had an average annual surplus of **\$68 million** or **14%**.
- ✓ West Virginia continues to have a **structural budget deficit** (spending > revenue) from major tax cuts enacted between 2006 and 2015. State needs to raise additional revenues to meet current needs and to invest in our people and communities to build a stronger economy.

West Virginia's Lost Decade

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

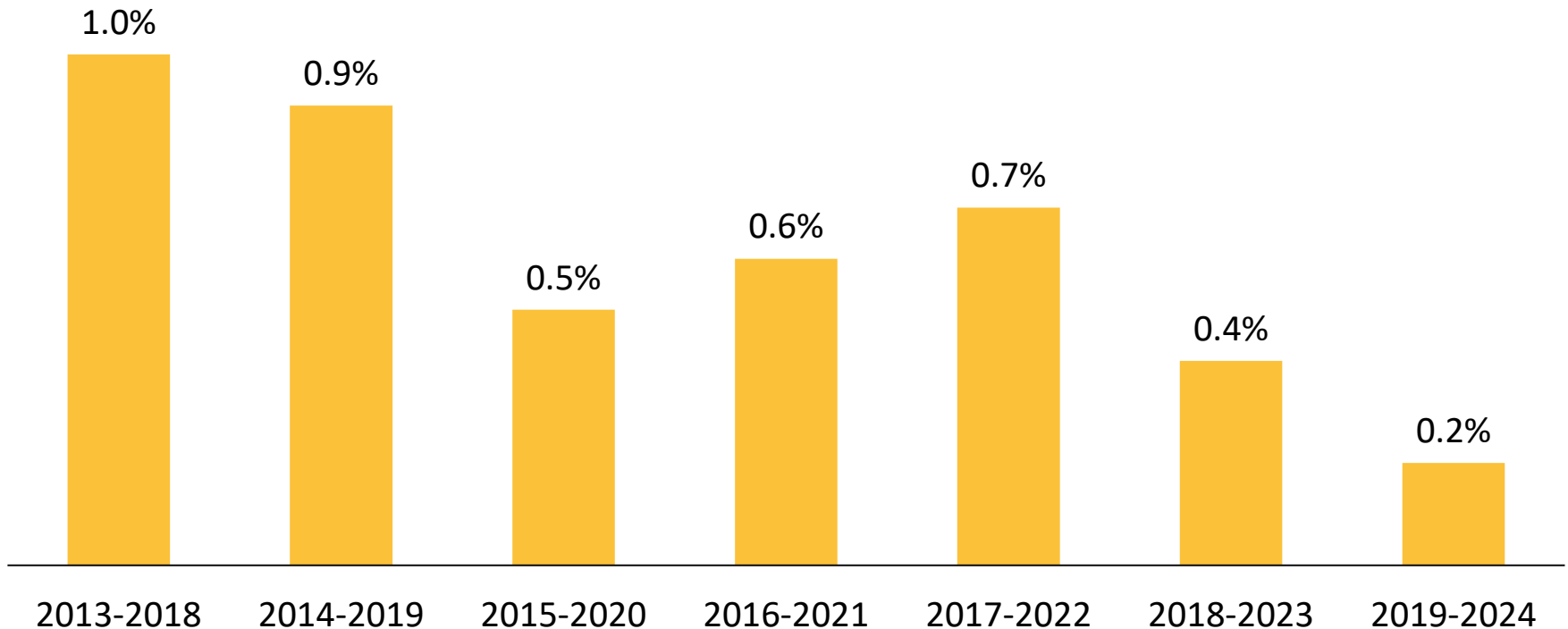
- **Great Recession:** Private sector payroll employment down **3,900** from December 2007 to November 2019, but up **22,400** from November 2017 (seasonally adjusted).
- **Population decline:** WV population declined by **63,076** from 2012 to 2019 (July 1).

Nonfarm payroll employment, annual average, in thousands



West Virginia's Economic Outlook is Weakening

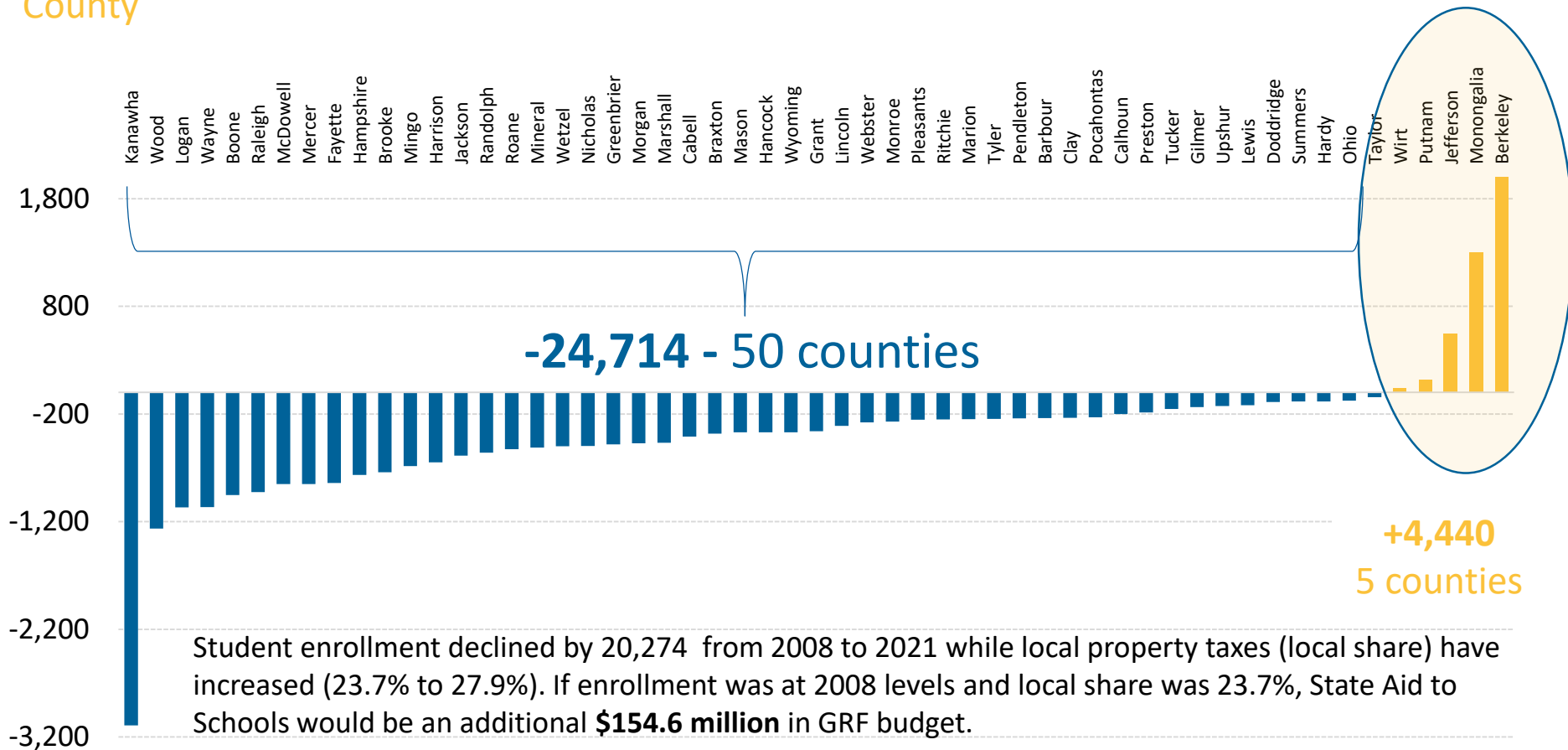
WVU BBER Forecasted Average Annual Employment Growth



Source: West Virginia University Business Bureau of Business and Economic Research, Economic Forecasts 2014-2019

School enrollment declined by 20,274 from 2008-09 to 2019-20

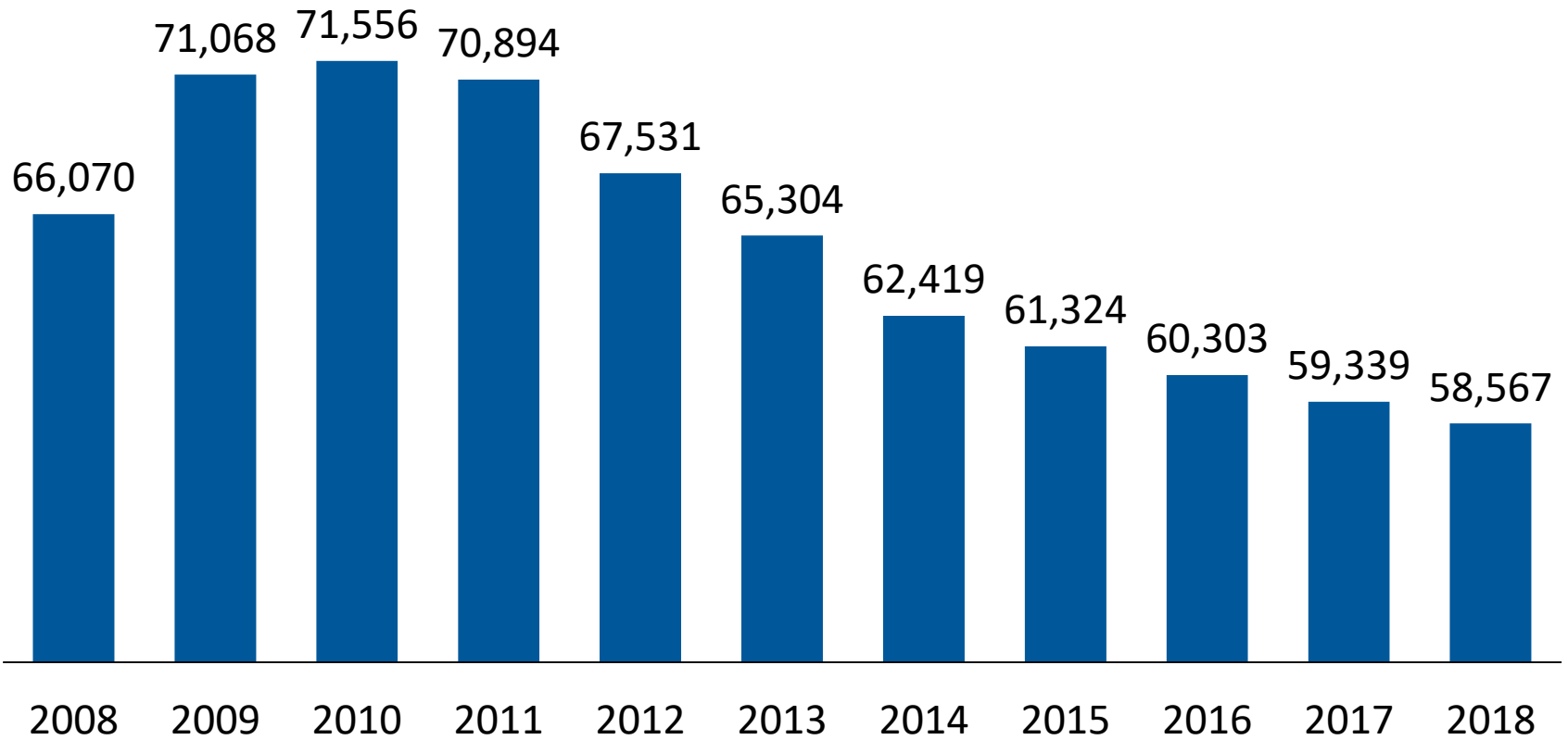
Only five counties experienced enrollment growth and 84% was in Berkeley and Monongalia County



Source: West Virginia Department of Education

In-State Public College Enrollment Down over 12,000

WV Public Four-Year (HEPC) and Two-Year (CTCS) Fall Headcount, 2008-2018

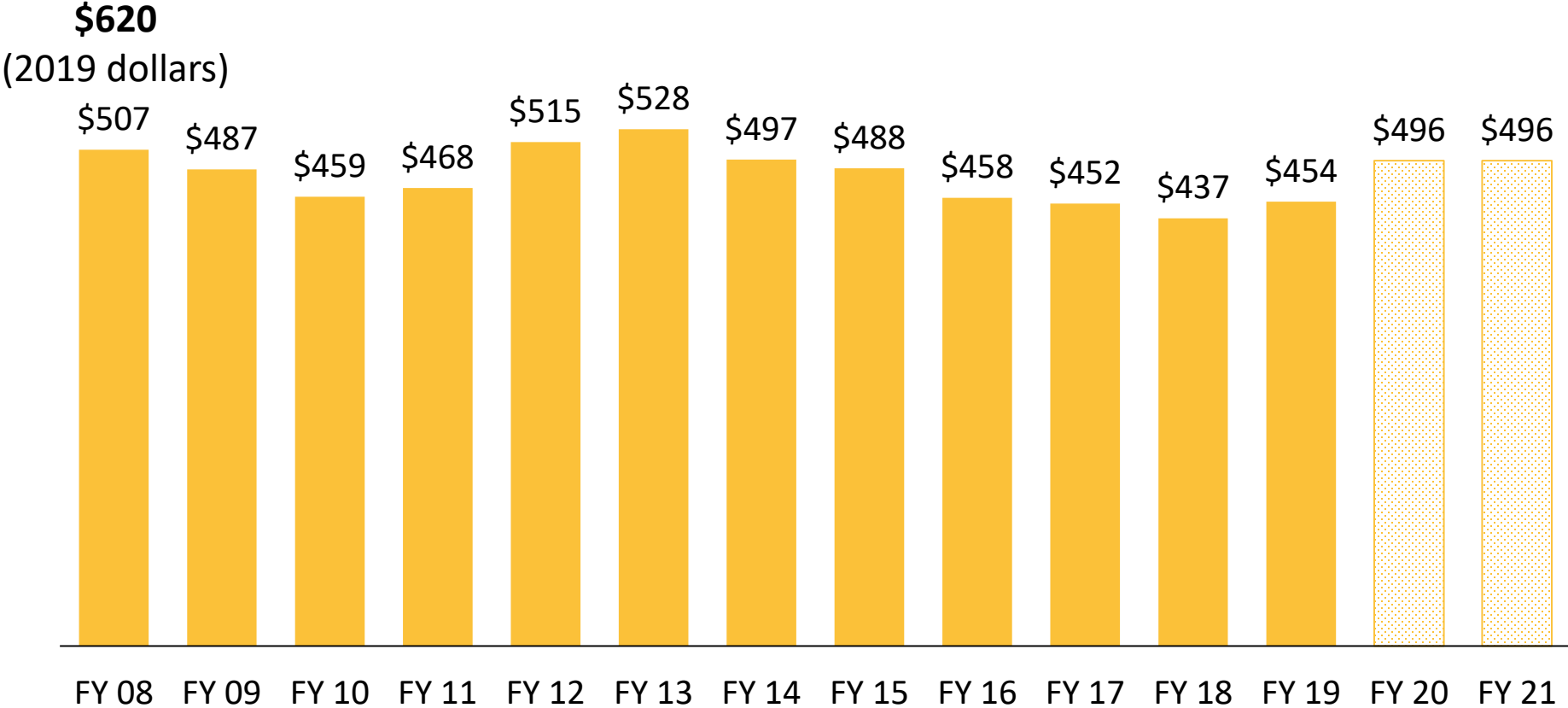


Fall Headcount by Year

Higher Education Funding Down

\$32 million reduction from FY13 to FY19, down \$124 million from FY 08 (today's dollars)

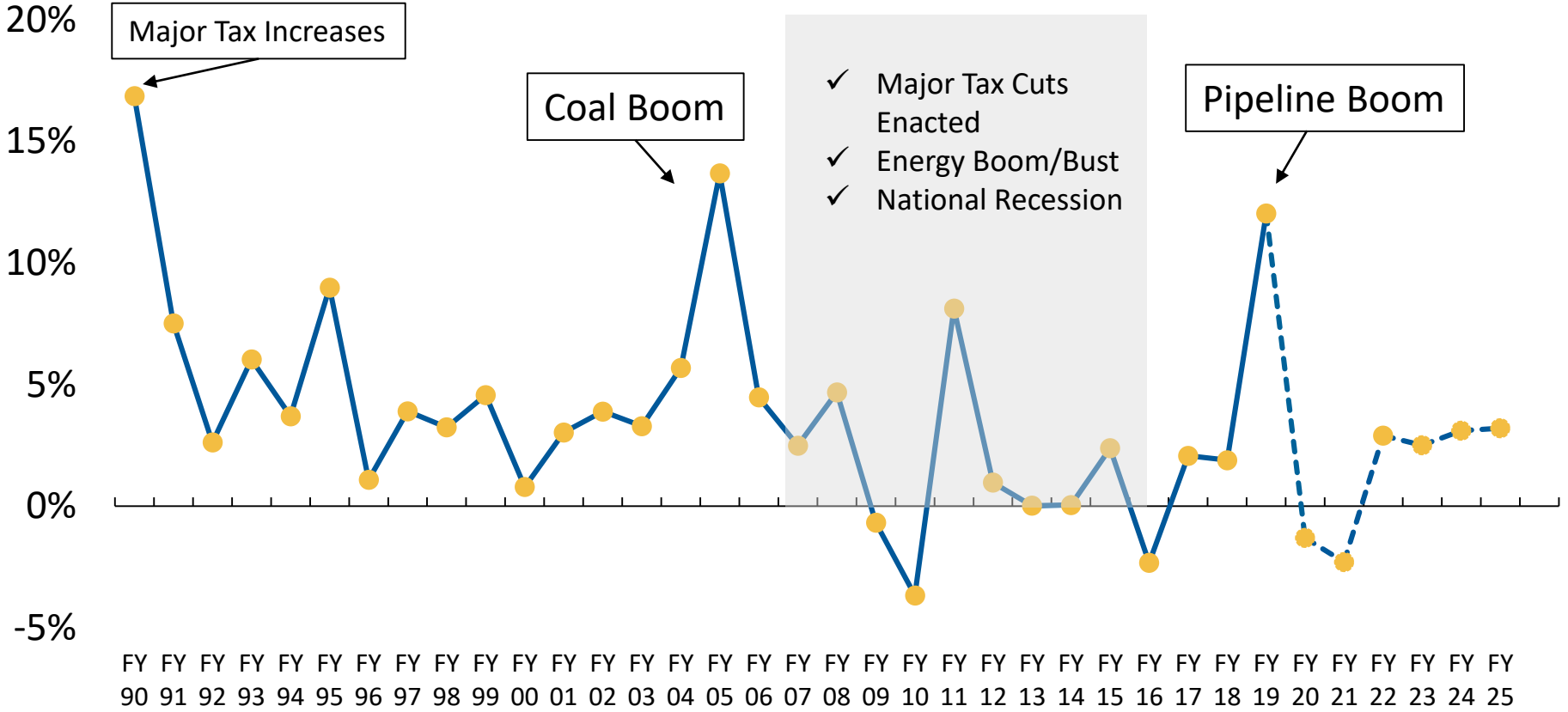
Base Budget Spending, FY 2008-FY 2021, Expressed in Millions



General Revenue Growth Slowed Dramatically After Major Tax Cuts

Annual Average Growth of General Revenue Fund Collections, FY 1990-2019

Before Major Tax Cuts: 1990-2005 = 5.6% - During Major Tax Cuts 2006-2016 = 1.5% - 2017-2024 = 2.7%

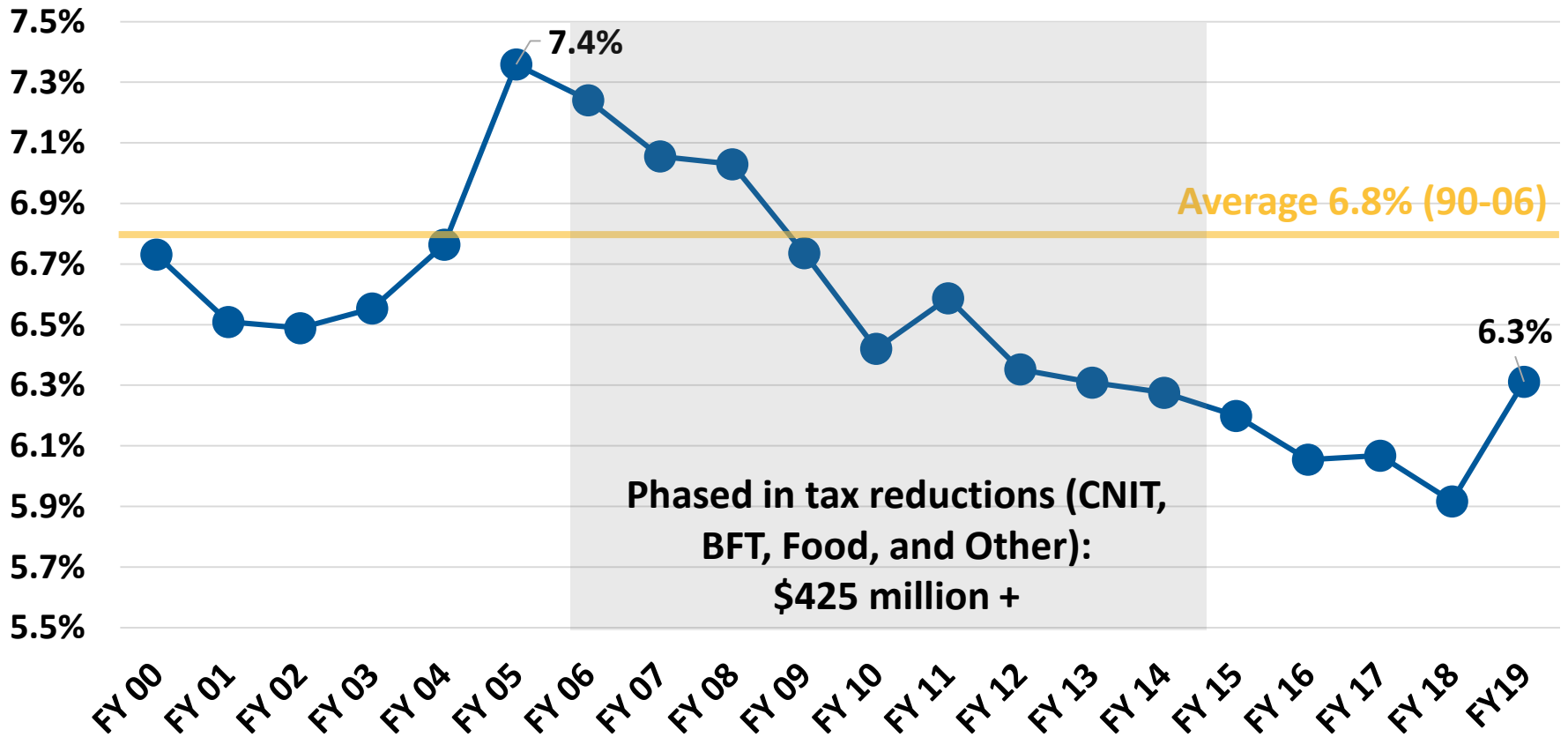


Source: WV State Budget Office

Taxes are low and investments down

At 6.8%, FY 2019 GRF collections would be additional \$368 million

General Revenue fund collections as a share of state personal income



Source: WVCPB analysis of data from U.S. Bureau of Economic Analysis (revised quarterly income data) and WV State Budget Office (September 2019)

The Great Tax Shift from Corporations to Families in West Virginia, 2005 to 2019

\$331 million

Tobacco (+\$80)
 Online Sales (+\$30)
 Motor Vehicle (+\$147)
 Local Sales (+\$74)

Grocery Tax Repeal (-\$162)
 Family Tax Credit (-\$18)
 Homestead Tax Cuts (-\$8)

-\$188 million

Progressive Tax Cuts

BFT Repeal (-\$150)
 Cut CNIT (-\$69)
 Manufacturing (-\$35)
 Repeal Charter (-\$7)
 Repeal Inheritance (-\$20)
 Timber Severance (-\$4)
 Workers' Comp (-\$109)
 Steam Coal Sev. (-\$64)
 Super Coal Credit (-\$20)

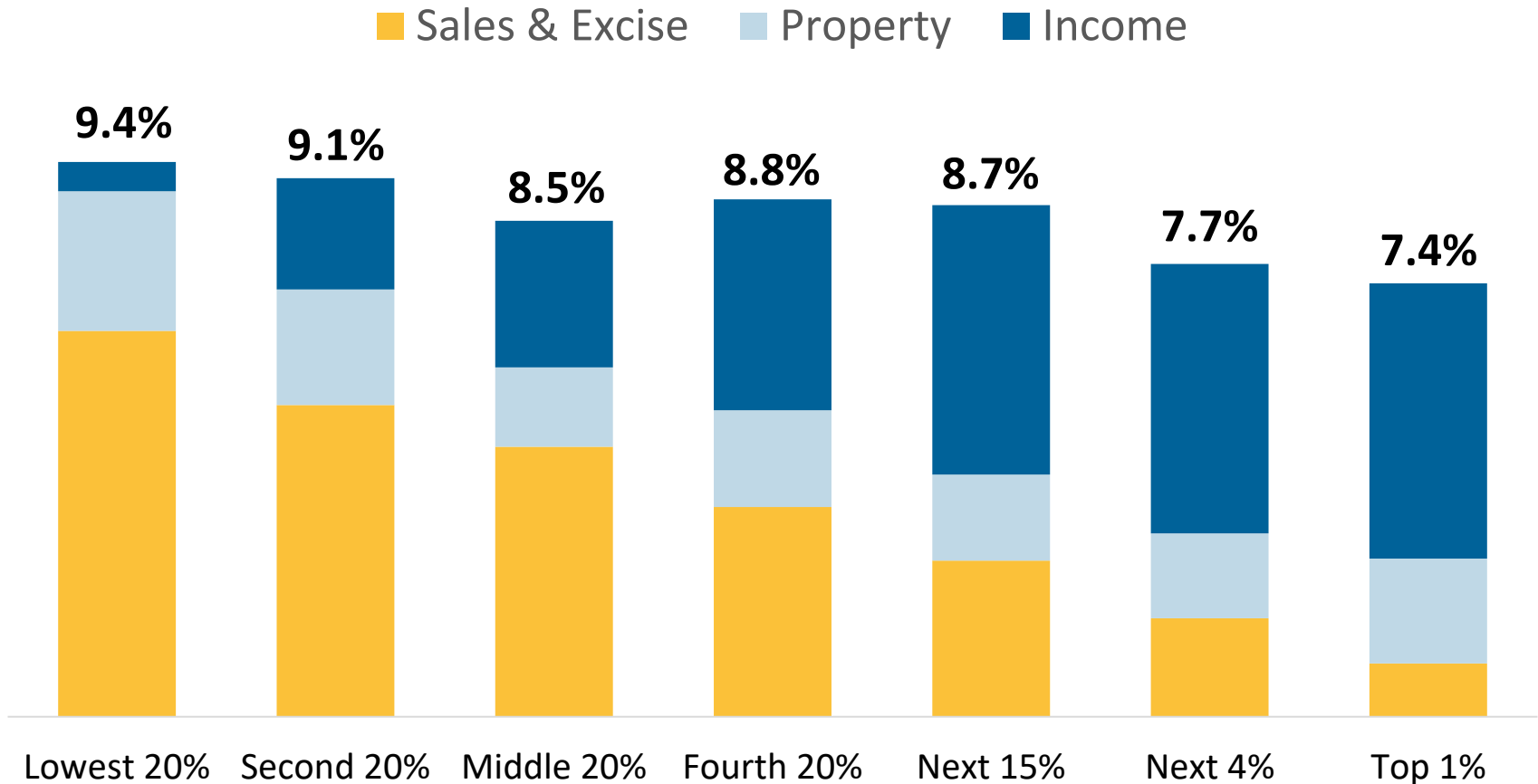
-\$478 million

Regressive Tax Cuts

Regressive Tax Increases

West Virginia State and Local Taxes

Shares of Family Income for Non-Elderly Taxpayers, 2018

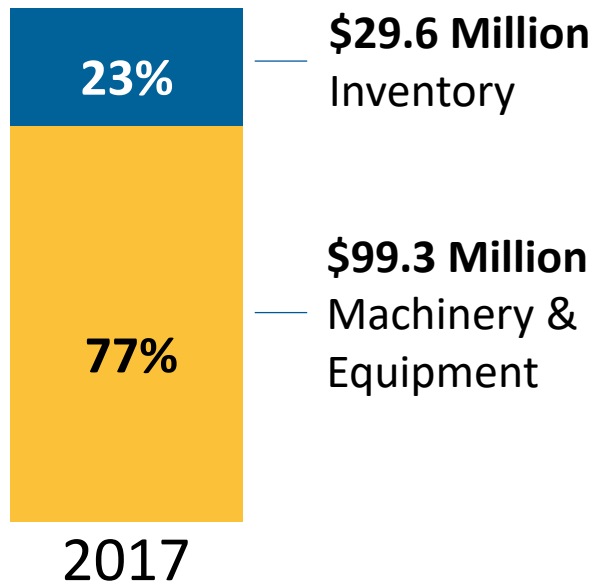


Source: Institute on Taxation and Economic Policy, Who Pays?

Repeal of “Inventory” Tax

Phase out industrial inventory, machinery, and equipment property tax

\$130 million tax cut mainly for manufacturers and coal producers (**SJR11 – 2019**)



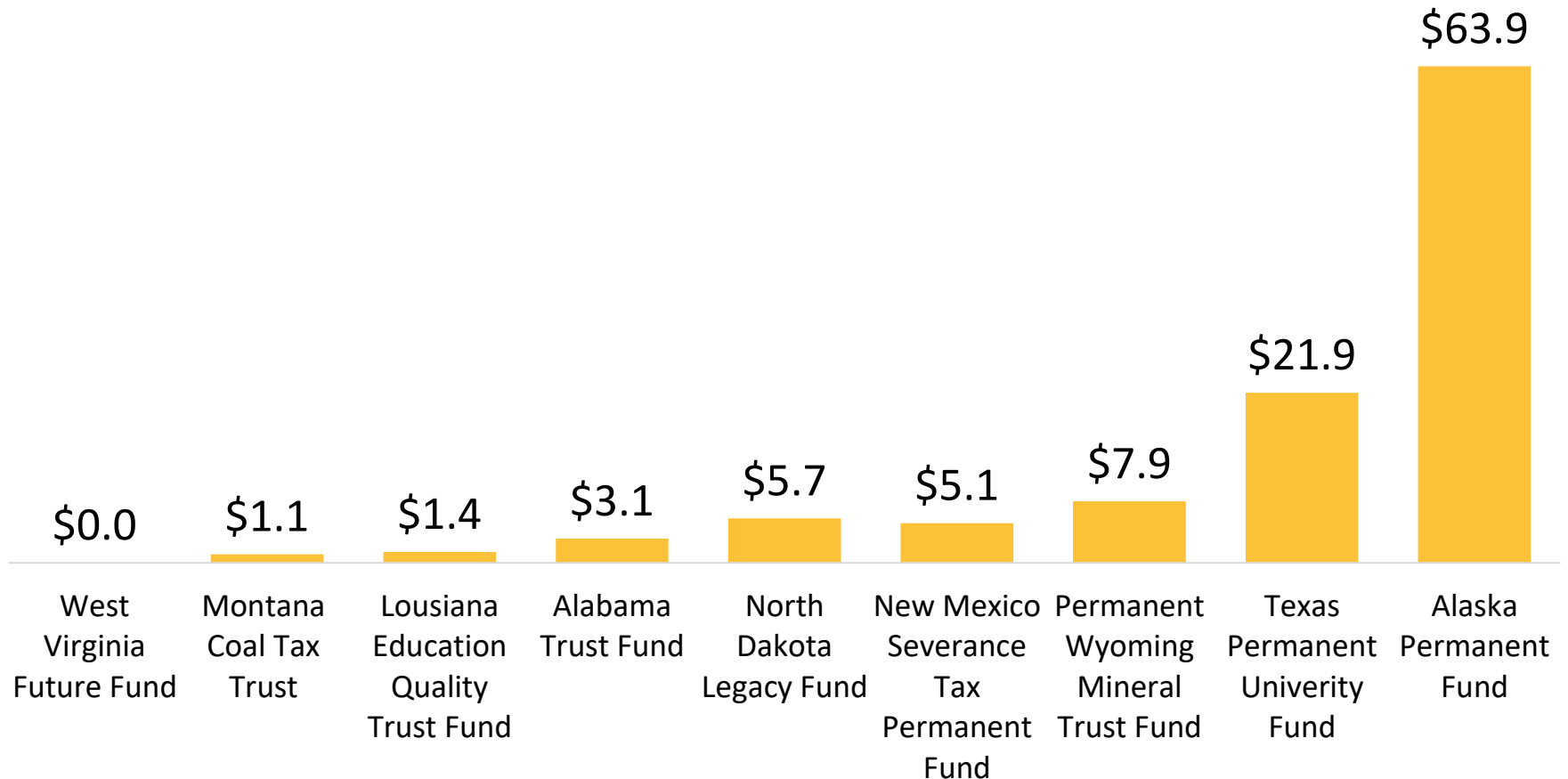
- While 11 states tax inventory and M&E, 26 states tax M&E.
- There is no obvious relationship between manufacturing employment growth and/or industrial property tax rates or states that tax BPPT between 2011-2017 (e.g. Texas/South Carolina)
- Highly exportable tax (76% in MN).
- WV effective industrial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

Policies to Power Shared Prosperity

- **Create Better Jobs:** Raise state minimum wage, enact paid sick leave, create refundable state EITC, enact paid family & medical leave, enact fair scheduling, expand health and pension coverage, and expand overtime pay.
- **Invest in Education & Children:** Expand early child care and education, boost child assistance, and raise school and public employee pay, and make college tuition free
- **Build a Stronger Future:** Fund the WV Future Fund, close corporate tax loopholes, raise taxes on the wealthy and natural gas extraction.

U.S. States with Permanent Natural Resource Funds

Natural resource funds by size (in billions)



It's easy to join our mailing list!

Just send your email address by text message:

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
- 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