

## Pay More, Get Less: The West Virginia FY 2022 Budget Proposal

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### Overview

Governor Jim Justice has proposed what he describes as a “flat” budget for FY 2022, with only minor changes from the FY 2021 budget. While the state budget remained stable during the COVID-19 pandemic, that stability relied on tapping reserves, federal stimulus funding, and other temporary measures. The future budget picture remains troubling, with projected revenues far below initial estimates, while the reserves the state has been relying on to balance the budget are being depleted. In addition, the governor is proposing a major tax overhaul that would both increase overall taxes on the average low- and middle-income household and create an immediate \$185 million budget gap.

### Key Findings

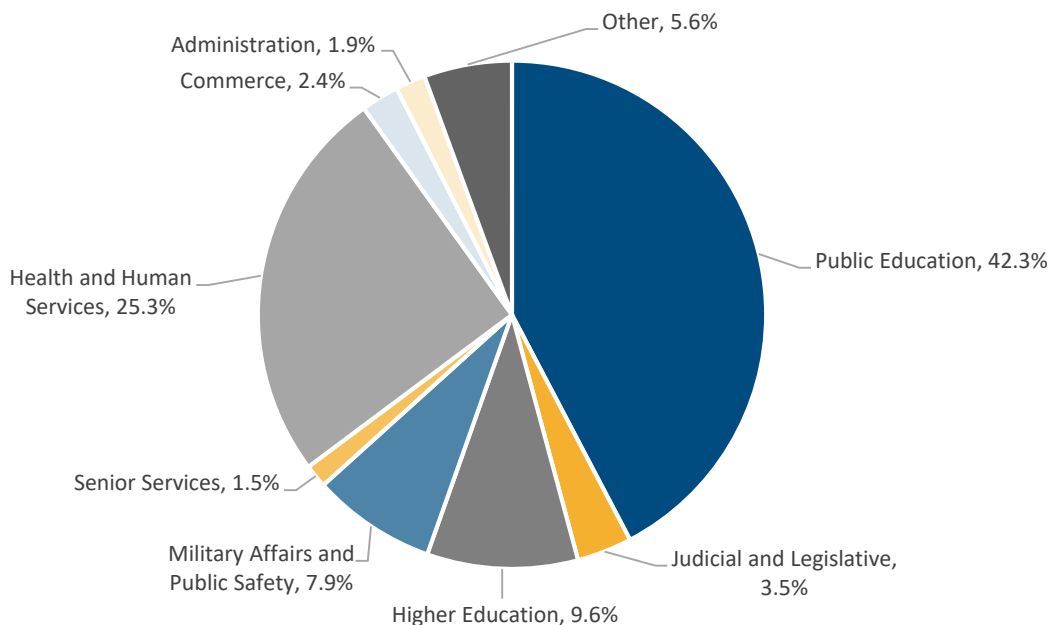
- FY 2022 base budget appropriations are \$57 million below the final FY 2021 budget.
- The FY 2020 budget was balanced with \$300 million in one-time budget maneuvers, including using \$150 million in Medicaid reserve funds.
- Medicaid reserve funds are also being used to balance the FY 2021 and FY 2022 budgets. By FY 2025 the reserve funds will be depleted, and by FY 2026 Medicaid will be facing a \$153 million shortfall.
- An increase in the federal match for Medicaid under the CARES Act will save the state \$300 million in calendar year 2022. Overall, West Virginia citizens, businesses, and state and local governments have received over \$7 billion from the CARES Act, which has boosted the economy and aided the budget.
- The governor’s proposed plan to cut the income tax and raise sales and other taxes would lead to an immediate \$185 million loss in revenue, while raising taxes on the average low- and middle-income household.

### Governor’s Proposed FY 2022 Base Budget

Governor Justice’s proposed FY 2022 base budget appropriations total \$4.92 billion, including \$4.57 billion from the General Revenue Fund and \$415 million from the Lottery funds. The FY 2022 proposed budget is \$57 million below the FY 2021 final enrolled budget, and \$175 million below the FY 2020 final enrolled budget. Public education and health and human services are the two largest areas of the base budget, accounting for more than two-thirds of base budget appropriations (Figure 1).

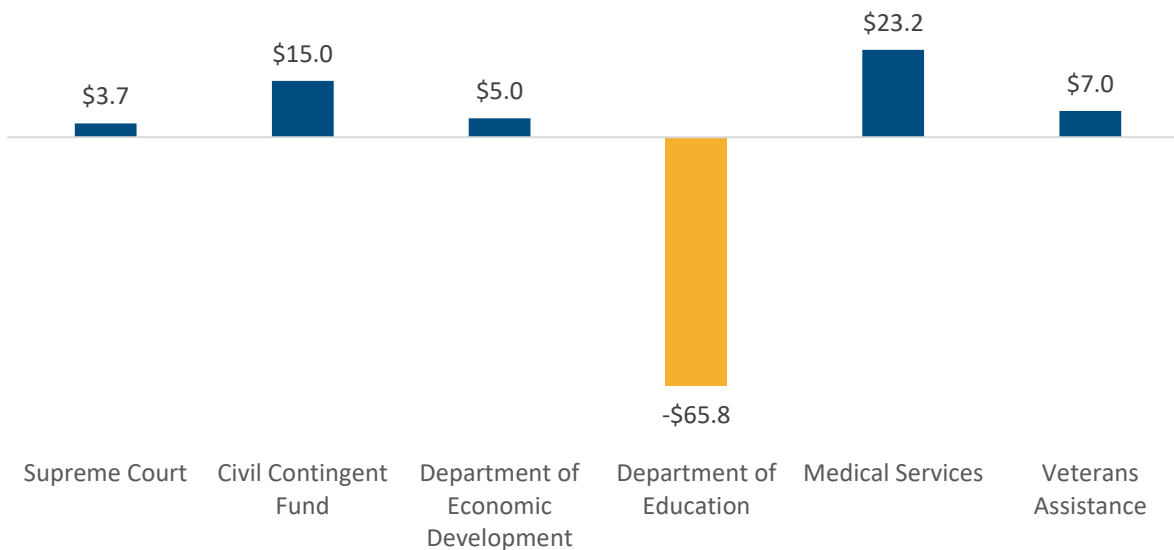
Governor Justice has proposed what he describes as a “flat” budget for FY 2022, with almost no changes from the FY 2021 budget. The only major changes include a decrease of \$65.8 million for public education, largely through the school aid formula reflecting declining enrollment and increased local property taxes, an increase of \$23.2 million in general appropriations for Medicaid, which offsets a decrease in lottery appropriations, and \$15 million from the Civil Contingent Fund for Milton Flood Wall (Figure 2). Other areas of the budget are left untouched, meaning no new investments in making higher education more affordable, mitigating rising food and housing insecurity during the pandemic, improving schools, or addressing looming issues with public employee health care (PEIA).

Figure 1  
**Governor’s Proposed Base Budget Appropriations, FY 2021**



Source: West Virginia State Budget Office

Figure 2  
**Flat Budget Means No New Investments in the State’s Needs**  
 Change in General Revenue appropriations, FY 2021 – FY 2022 (millions)

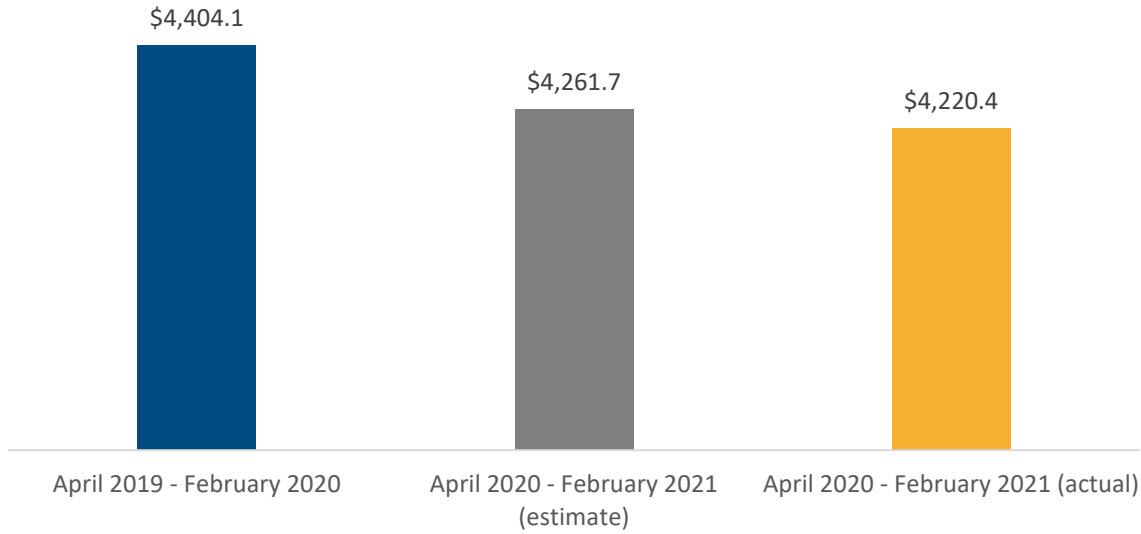


Source: West Virginia State Budget Office

**Federal Stimulus and One-Time Budget Maneuvers Prevented Major Budget Problems**

As the state’s economy was struck by the pandemic, so were the state’s finances. As of December 2020, total nonfarm employment in the state was down by 42,700 jobs, or 6 percent, compared to pre-pandemic. State tax revenue is also down with the loss of jobs and economic activity. General Revenue collections for April 2020 through February 2021 were \$41 million below estimates, and \$183 million below the same months the previous year (Figure 3).

Figure 3  
**State Tax Revenue Down \$41 Million During Pandemic**  
**General Revenue collections, actual and estimated (millions)**



Source: West Virginia State Budget Office

The state’s economy, and therefore the budget, would have been in much worse shape had it not been for the various provisions included in the federal CARES Act, which allotted over \$7 billion in aid to West Virginia through stimulus checks, enhanced unemployment benefits, and relief funding for state and local governments (Table 1).

Table 1  
**Federal Stimulus Packages Have Kept West Virginia Afloat During Pandemic**  
**CARES Act and other relief funding for West Virginia, 2020 and 2021**

Relief Funding Source	Amount
1 <sup>st</sup> Round of Stimulus Checks (2020)	\$1.7 billion
2 <sup>nd</sup> Round of Stimulus Checks (2021)	\$948 million
Enhanced Unemployment Benefits	\$1.1 billion
Pandemic Unemployment Assistance	\$147 million
Pandemic Emergency Unemployment Compensation	\$104 million
Paycheck Protection Program	\$1.8 billion
State CARES Act Relief Funding	\$1.3 billion
Enhanced Medicaid Match Rate (2020)	\$280 million
Enhanced Medicaid Match Rate (2021)	\$300 million

Source: Institute on Taxation and Economic Policy, U.S. Department of Labor, Center on Budget and Policy Priorities, WV Governor’s Office, U.S. Small Business Administration

## Reserves and One-Time Budget Maneuvers Helped Balance the Budget

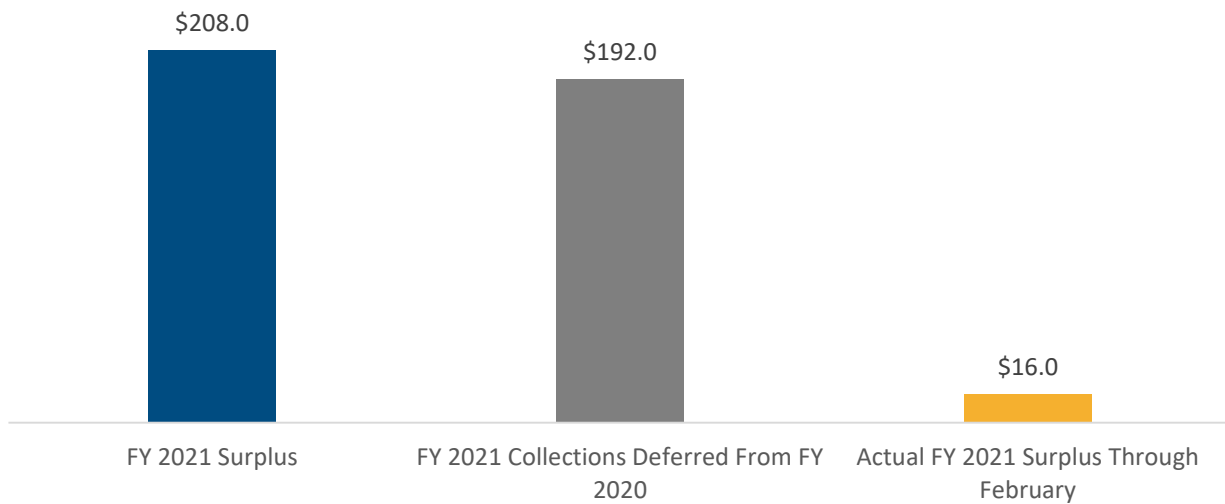
In his State of the State address, Governor Justice noted that despite the pandemic, West Virginia ended FY 2020 and started FY 2021 with a surplus. However, it is important to note that this surplus is in large part due to the state tapping reserve funds and other one-time budget maneuvers that helped the state manage the pandemic.

FY 2021 started with a surplus due to moving “Tax Day” from April to July. As part of the pandemic relief, the governor delayed the due date for personal and corporate tax returns by three months. As a result, \$192 million in personal and corporate income tax revenue that was supposed to be collected in April, as part of FY 2020, was instead collected in July, as part of FY 2021. Without that change, the state would have only a modest surplus of \$16 million to date for FY 2021 (Figure 4).

Figure 4

### One-Time Budget Maneuvers Created FY 2021 Surplus

FY 2021 surplus with and without deferred collections from FY 2020 (millions)



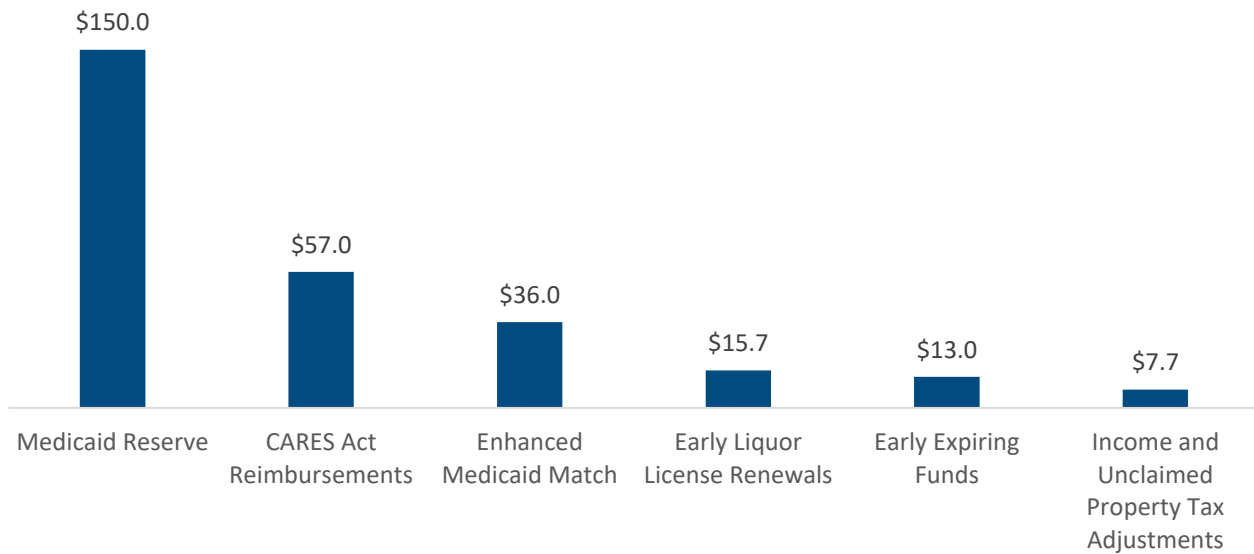
**Source:** WVCBP analysis of West Virginia Tax Department and West Virginia Senate Finance Committee data

Even with deferring \$192 million in tax collections to FY 2021, FY 2020 still ended with a surplus. However, that surplus only occurred after \$300 million in budget adjustments, including using CARES Act relief funds as well as relying on the CARES Act’s enhanced federal Medicaid match rate. But the biggest reason FY 2020 ended with a surplus was the use of \$150 million in Medicaid reserve funds (Figure 5).

Figure 5

**\$300 Million in Reserves and One-Time Adjustments Balanced FY 2020 Budget**

**FY 2020 budget adjustments (millions)**



**Source:** West Virginia State Budget Office

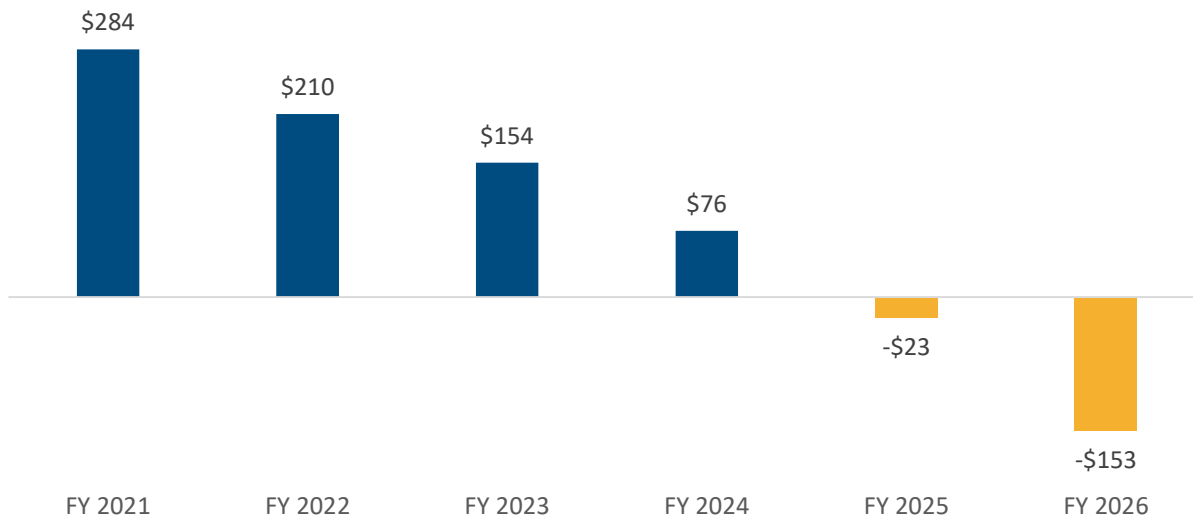
West Virginia has built up a large reserve of Medicaid funding in recent years due to a number of factors. The state’s Federal Medical Assistance Percentage (FMAP) has grown in recent years, from 71.09% in 2014 to 74.99% in 2020, meaning the federal government is providing more Medicaid funding. The CARES Act increased the FMAP even further, providing the state another \$280 million in 2020, and an estimated \$300 million in 2021. In addition, costs savings from prescription drugs and managed care organizations, as well as fewer medical procedures performed during the pandemic, all contributed to the program’s reserve fund.

The Medicaid reserves have helped the state weather its budget problems, but doing so has covered up a longer-term revenue problem where current revenues fall short of meeting the needs of our state. As Figure 5 showed, the state used \$150 million from the reserve to balance the FY 2020 budget, and according to the state Department of Health and Human Resources, the state is planning on using the reserves again to balance the FY 2021 and FY 2022 budgets. However, such maneuvers will quickly deplete the reserves. The reserve fund is expected to be exhausted in FY 2025, and Medicaid will be facing a \$153 million shortfall in FY 2026 (Figure 6). The “surpluses” the state is currently enjoying quickly evaporate once the Medicaid reserves are depleted.

Figure 6

### Medicaid Reserves Contribute to Budget Surpluses, But Will Soon Be Exhausted

Medicaid fund balance, FY 2021 – FY 2026 (millions)



Source: West Virginia Department of Health and Human Services

### Proposal to Cut the Income Tax Would Make a Bad Budget Situation Worse

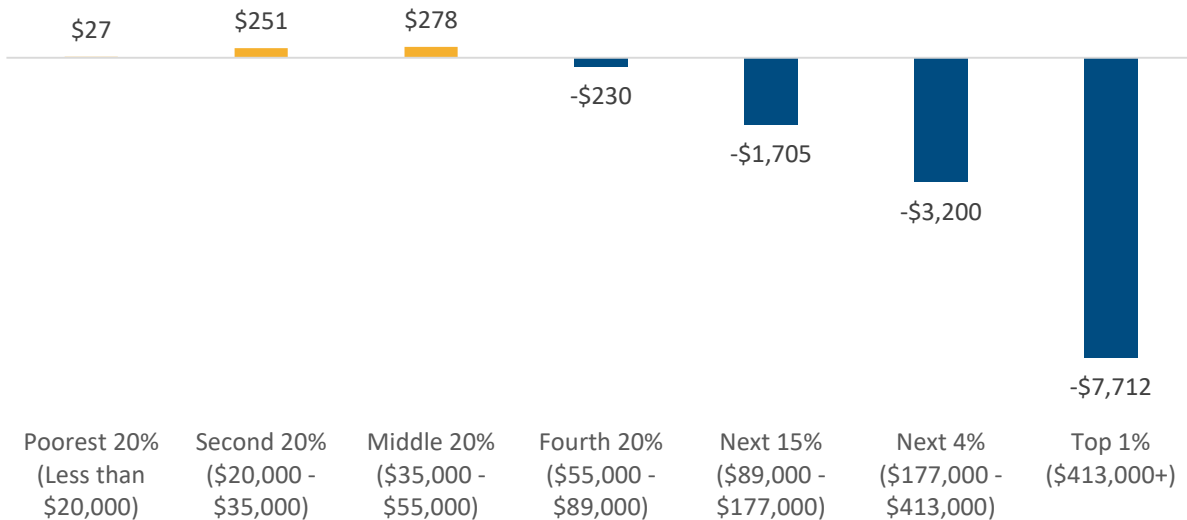
Before the legislative session began, Governor Justice announced that his goal of eliminating the state’s income tax would be a major part of the 2021 legislative agenda. The first part of his plan was introduced with a bill to cut the income tax by 60 percent, and partially offset that lost revenue by increasing the state sales tax from 6.0 percent to 7.9 percent, expanding the sales tax to cover more professional and other services, and increasing excise taxes on tobacco products, beer, wine, liquor, and alcohol. Also included in the proposal were a new sales tax on “luxury goods,” changes to the state severance tax, and a sales tax relief credit for low-income households.

The net effect of the governor’s proposal would be a dramatic change in who pays state taxes in West Virginia, shifting the responsibility onto working families to make room for tax breaks for the wealthy. Altogether, these changes would lower General Revenue Fund collections by an estimated \$185 million in the first full year of implementation, all but guaranteeing that the state will have to make painful budget cuts, while simultaneously increasing overall taxes on the average taxpayer in the bottom 60 percent of households in West Virginia (Figure 7).

Figure 7

**Justice’s Tax Plan Raises Taxes on the Average Taxpayer in the Bottom 60 Percent of Households, While Still Creating a \$185 Million Budget Hole**

Average tax change by income group from Governor Justice’s tax proposal



Source: Institute on Taxation and Economic Policy

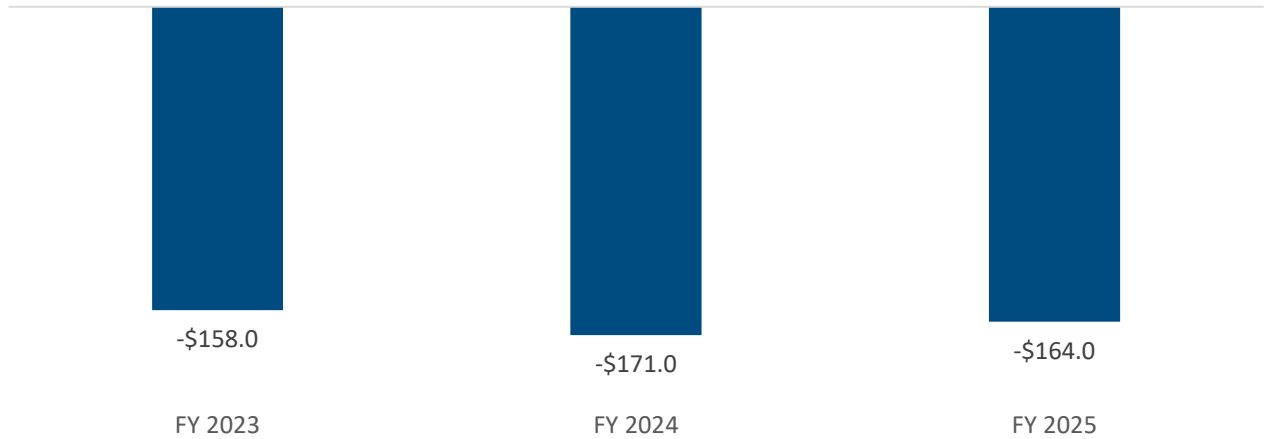
The net loss of \$185 million would put West Virginia in an immediate budget crunch. But despite the significant cost of the governor’s plan, the lawmakers considering it are being asked to do so without a complete picture of West Virginia’s future budget projections. For the first time in recent memory, the governor’s FY 2022 budget proposal does not include a six-year outlook, which normally outlines spending plans for future years and is an essential tool for identifying expected inflation and growth in agency budgets.

While this tool was left out of the governor’s FY 2022 budget proposal, the six-year outlook for FY 2021 showed significant budget gaps in the coming years, despite no new spending on higher education, declining state spending on the school aid formula, and only \$157 million in new spending for Medicaid over that time frame. What’s more, the structural revenue issues and budget gaps shown in the FY 2021 outlook have likely only worsened (Figure 8).

Figure 8

**FY 2021 Shows Troubling Budget Gaps for West Virginia, Even Before Any Tax Cuts**

**Projected budget gaps in the FY 2021 six-year outlook (millions)**



**Source:** West Virginia State Budget Office

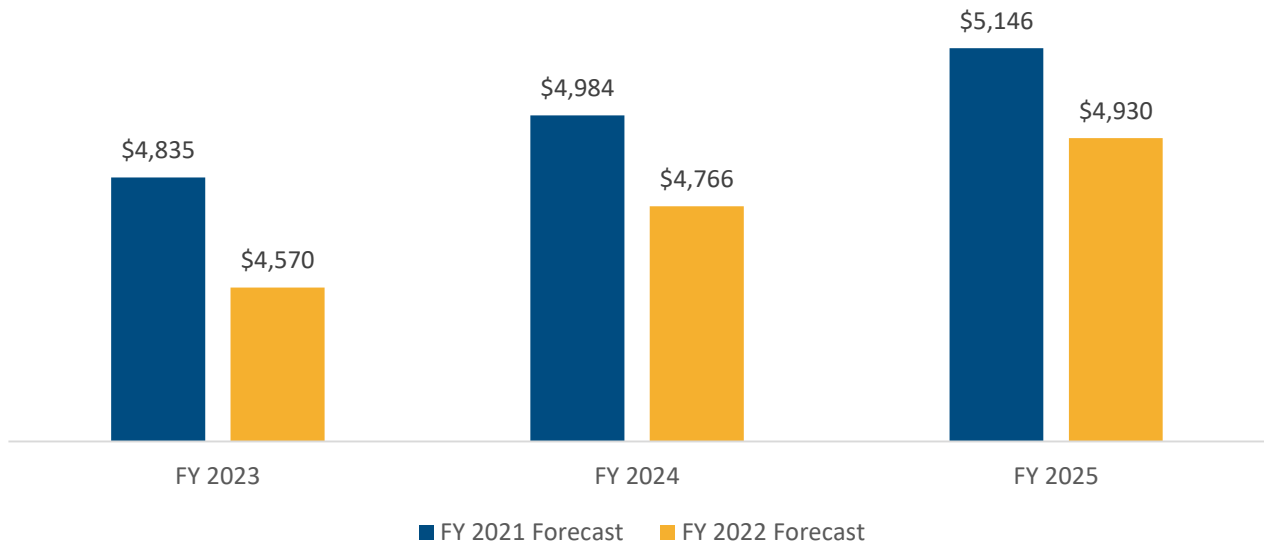
While the FY 2022 budget does not contain a new six-year outlook for expenditures, it does include new revenue projections, which show a deteriorating budget situation compared to one year ago. For example, the new General Revenue projection for FY 2023 is \$4.57 billion. That is \$264 million below the projection from the FY 2021 budget, which already showed a \$158 million shortfall for FY 2023. For each year that the FY 2021 six-year outlook showed a budget shortfall, revenue projections have since worsened, even before the governor’s tax cut proposal is accounted for (Figure 9).



Figure 9

### West Virginia's Future Revenue Projections Are Deteriorating, Even Before Any Tax Cuts

Future General Revenue projections, FY 2021 and FY 2022 forecasts (millions)



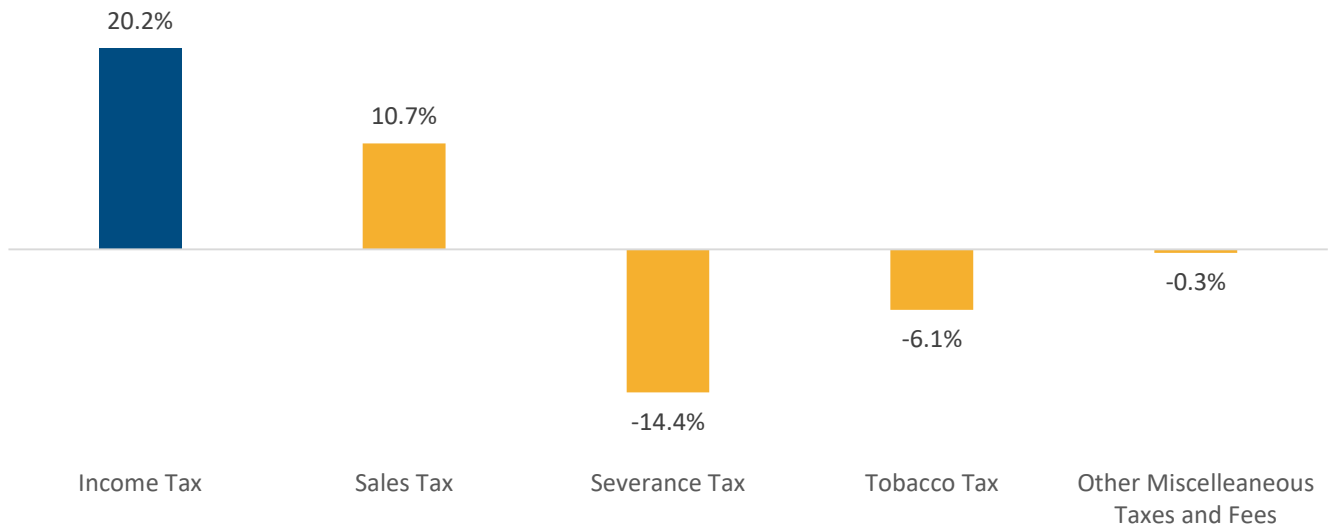
Source: West Virginia State Budget Office

Replacing over \$1 billion in personal income taxes with \$900 million in sales and other excise taxes would not only create an immediate \$185 million additional gap in the budget, but the budget problems would likely grow larger over time. That is because the state income tax is more stable and grows more quickly than the proposed replacement revenue sources. According to the official state budget projections, state income tax revenue is projected to grow by 20.2 percent from FY 2022 to FY 2026. In comparison, state sales tax revenue is projected to grow only 10.7 percent. Meanwhile, severance tax revenue is projected to decline by 14.4 percent, and tobacco tax revenue is projected to decline by 6.1 percent. The state's "other" revenue, which includes beer, wine, and liquor tax revenue, is projected to decline by 0.3 percent (Figure 10).

Figure 10

**Governor Justice’s Tax Plan Would Replace the Income Tax with Slower-Growing Sales and Consumption Taxes, Creating Larger Budget Gaps in the Future**

Projected revenue growth, FY 2022 – FY 2026



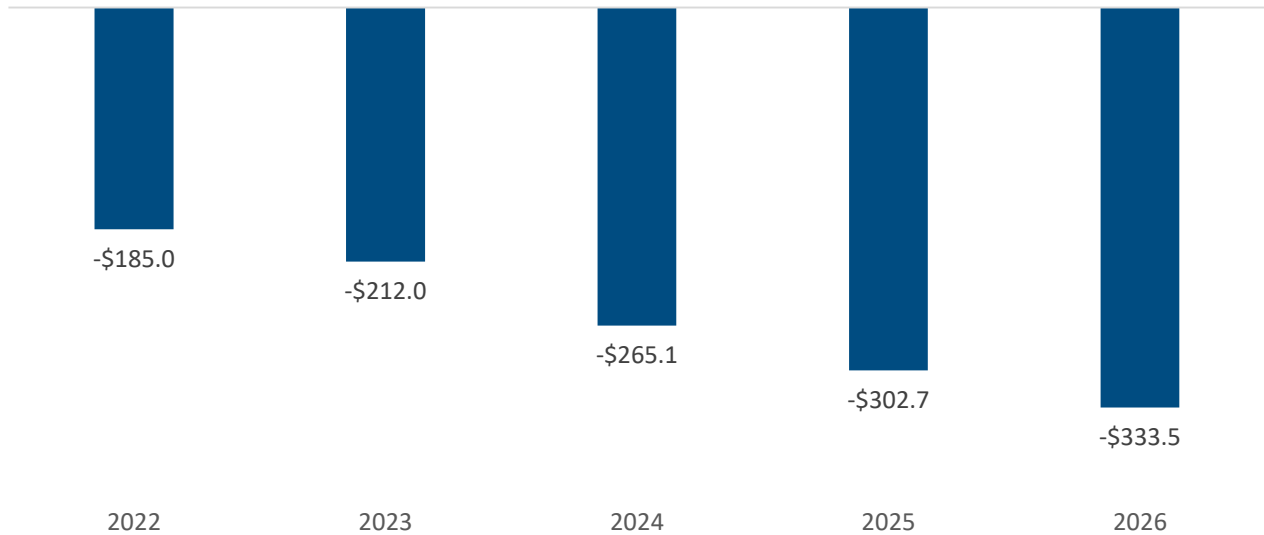
**Source:** West Virginia State Budget Office

Even with the increases in the sales and other taxes, the current projected revenue growth rates suggest that the immediate \$185 million revenue shortfall created by the governor’s proposal would grow to over \$333 million as the income tax is replaced by slower-growing and declining sales, severance, and other consumption taxes (Figure 11).

Figure 11

### Revenue Losses from Governor’s Tax Plan Grow Larger Over Time

**\$185 million revenue shortfall grows to \$333 million as income taxes are replaced by slower-growing sales and other consumption taxes**



**Source:** WVCBP analysis of West Virginia State Budget Office data and Governor Justice’s State Income Tax Repeal Plan bill abstract

### Conclusion

West Virginia was fortunate to make it through the pandemic and recession without any budget cuts in 2020. But without federal aid and reserve funds, the state budget would be in far worse shape. As it currently stands, the budget is on shaky financial ground, with reserves running dry and revenue growth significantly curtailed. The governor’s tax plan threatens the state’s financial future, and would turn a flat budget that already falls short of meeting the state’s needs into one that requires substantial and painful cuts.

Past tax cuts have already failed West Virginia, creating no economic growth, forcing cuts to higher education and public health, and leading to a decade of underinvestment. It is vital that West Virginia does not double down on these past failures. New sources of revenue should be explored, but not in order to pay for tax cuts for the wealthy. Instead we should be looking for ways to both meet current needs and to invest in our people and communities to build a stronger, more equitable economy.

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