Final 2025 Budget Makes Deep Cuts to Medicaid; Fails to Meet Important Needs

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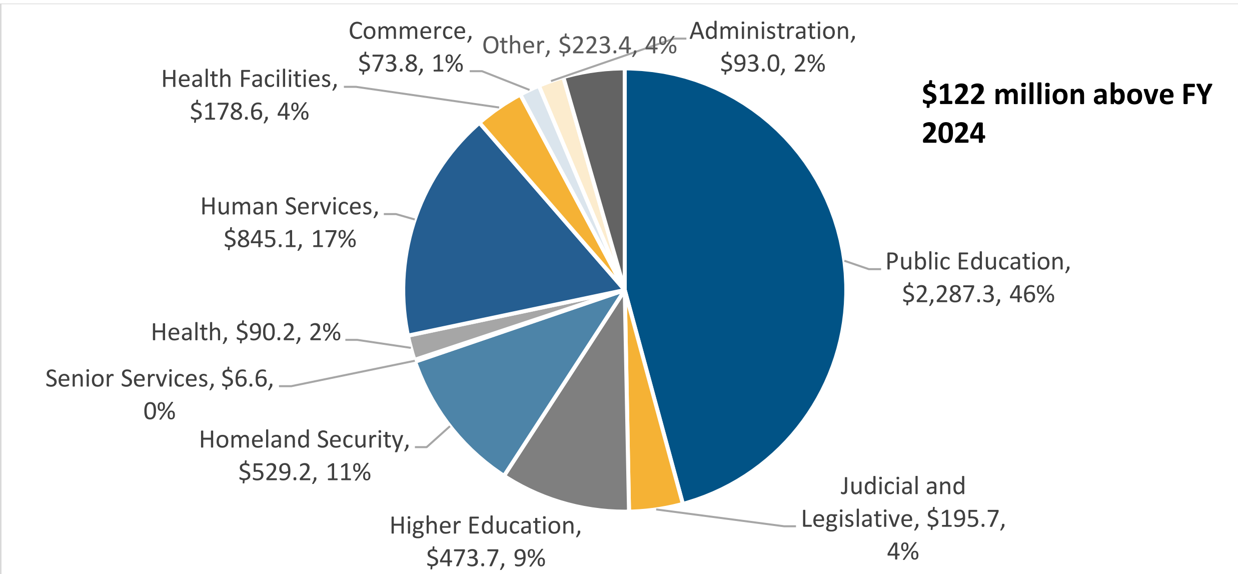
Overview

Late in the evening on the final day of the 2024 regular session, lawmakers passed what they referred to as a "skinny budget" totaling $4.997 billion in general revenue for FY 2025. The enacted budget reflects a spending increase of $122 million over FY 2024's budget, but it is $226 million less than what the governor originally proposed and 12 percent, or over $700 million, less than the FY 2019 budget after adjusting for inflation.[1]

Figure 1

FY 2025 General Revenue Budget $4.997 Billion

Appropriations from general revenue (millions)



Source: WVCBP analysis of WV State Budget Office data

After several years of essentially "flat" budgets, multiple crises have emerged including significant vacancies due to lack of competitive pay in Child Protective Services (CPS), public schools, and correctional facilities. And without adequate increases in state spending to keep up with rising costs to deliver services, more challenges are likely on the way as federal COVID relief dollars expire that were plugging holes in the state budget related to Medicaid, public education, and child care. After adjusting for inflation, the FY 2025 budget is $716 million less than the FY 2019 budget.[2]

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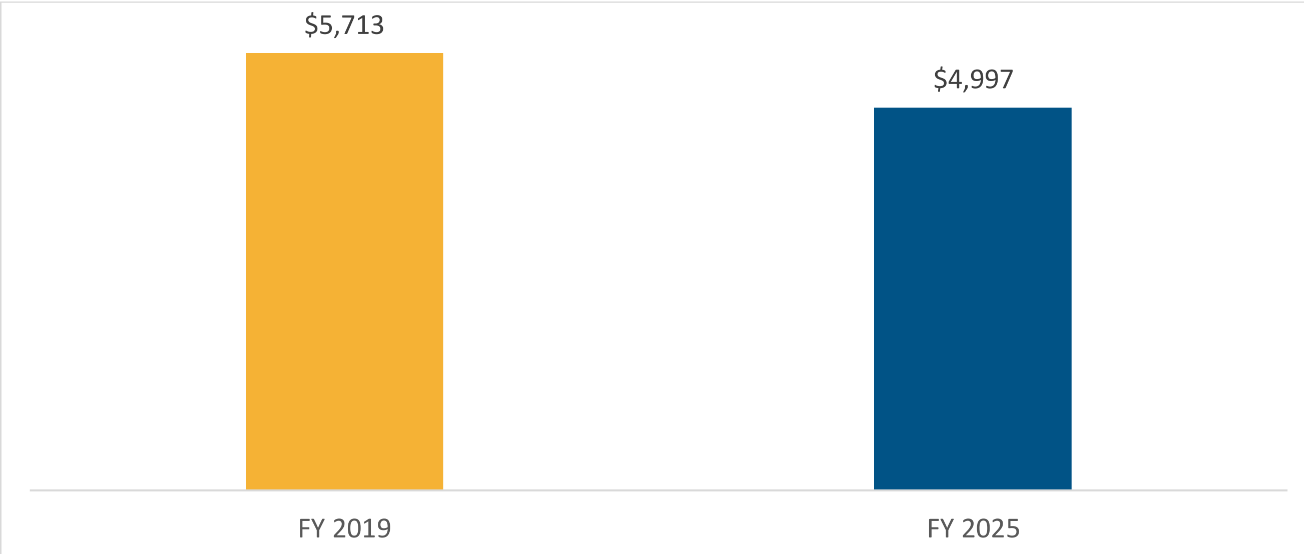
[1] WVCBP analysis of Governor's Proposed FY 2025 Budget, SB 200, and Bureau for Labor Statistics data.
[2] Ibid.

Figure 2

Even With Increases, FY 2025 Budget Significantly Below FY 2019

FY 2019 general revenue actual expenditures compared with FY 2025 general revenue appropriations, inflation-adjusted to February 2024 dollars (millions)



Source: WVCBP analysis of WV State Budget Office and Bureau of Labor Statistics data

The enacted budget came in $226 million below the governor's proposed budget and $268 million below the FY 2025 revenue estimate, which is the amount of revenue the governor's administration expects the state to bring in during the new fiscal year. While lawmakers pointed to uncertainty around a potential clawback of federal COVID education funds as a reason to set aside FY 2024 surplus dollars rather than allocate them, there was not much discussion about the logic behind underfunding the general revenue budget relative to the revenue estimate.[3] The most likely explanation is that lawmakers are concerned about the uncertainty related to automatic tax cut triggers that could reduce revenues by over $200 million in the middle of the fiscal year, something the WVCBP warned could create dramatic budgeting challenges each year so long as the triggers remain in place.[4]

New Spending: Public Employee Pay Raises and Social Security Tax Cuts

The main spending increase in the budget was for the average five percent public employee pay raise, promised by lawmakers to offset PEIA premium increases. Additionally, legislators passed HB 4880, which phases out the income tax on Social Security benefits for the top 10 percent of seniors. West Virginia already exempts Social Security benefits from income taxation for most older West Virginians. Once fully phased in, that tax cut is expected to reduce general revenue by $37 million annually. [5]

[3] Willingham, Leah, "Potential $465M Federal Clawback Raises Concerns About West Virginia Schools," *Associated Press*, March 8, 2024.

[4] Coyne, Caity, "Lawmakers reach budget compromise; pay rases, Social Security tax cuts included without triggers," *West Virginia Watch*, March 10, 2024.

[5] HB 4880 Fiscal Note, 2024 Legislative Session.

Ongoing Spending Allocated With One-time Surplus Funds

Additionally, lawmakers allocated $120 million in FY 2024 surplus revenues to several areas including higher education, tourism, Medicaid, and the Hope Scholarship, the state's private school voucher program. Notably, the allocations to tourism, Medicaid, and the Hope Scholarship all reflect annual, base budget spending that will continue in future years and should be accounted for in the regular budget.

The Hope Scholarship surplus allocation of $27.3 million more than doubles the budget of that program compared with the governor's proposed budget and the FY 2024 allocation.

Final Budget Makes Deep Medicaid Cuts

Finance leaders in the Legislature repeatedly pointed to fiscal uncertainty as a reason to pass a budget significantly smaller than the governor's proposal, which meant that many of his priorities did not make the final cut.[6]

The biggest casualty of the "skinny budget" was the Medicaid program. While the governor's budget contained increased appropriations as well as support for an increase in the tax on Managed Care Organizations (MCOs) to address rising costs due to inflation and the end of the increased pandemic-era federal match, the final budget enacted by the Legislature axed both of these proposals. As such, the FY 2025 enacted budget leaves Medicaid with an approximate $147 million state funding shortfall ($79 million in reduced base budget program allocations, $12 million in reduced administrative funding, and $56 million from the failure to pass the MCO tax increase). Because Medicaid is a state-federal matching program, each dollar reduction in state funds forfeits federal dollars. All told, the reduction in state Medicaid funding in the FY 2025 enacted budget compared with the governor's budget proposal could reduce the total Medicaid budget by $628 million, or almost 12 percent of the entire Medicaid program.[7]

Figure 3

Enacted FY 2025 Budget Makes Deep Cuts to Medicaid

Reduction in FY 2025 Medicaid budget allocations compared with governor's proposed budget and with projected federal funding match loss (millions)

Source: WVCBP analysis of WV State Budget Office data

[6] Coyne, Caity, "Lawmakers reach budget compromise; pay rases, Social Security tax cuts included without triggers," *West Virginia Watch*, March 10, 2024.

[7] WVCBP analysis of SB 200, Governor's Proposed FY 2025 Budget, and Kaiser Family Foundation FMAP data.

During the legislative session, Medicaid officials testified that they have not asked for a funding increase for Medicaid in a decade. In recent years, rather than increasing spending, lawmakers have been able to reduce state Medicaid allocations through the general revenue budget, particularly during the pandemic when the federal match increased and papered over the state budget hole that is now apparent with the expiration of federal COVID funding for Medicaid.[8]

The Medicaid cuts in the general revenue budget span several programs, the largest of which is a broad cut to medical services, along with an $11 million cut to the I/DD waiver program, and smaller cuts to funding for rural hospitals, teaching hospitals, and the Traumatic Brain Injury (TBI) waiver program. Again, because of the federal match that comes with Medicaid spending, the cuts to each of these programs would be three to four times greater than the state spending reduction alone.

The enacted budget also cuts the Children's Health Insurance Program (CHIP) by $1.3 million compared with the governor's proposed budget. CHIP provides health insurance to approximately 25,00 children and pregnant women.[9]

Safety Net Supports for Families Cut or Left Unaddressed

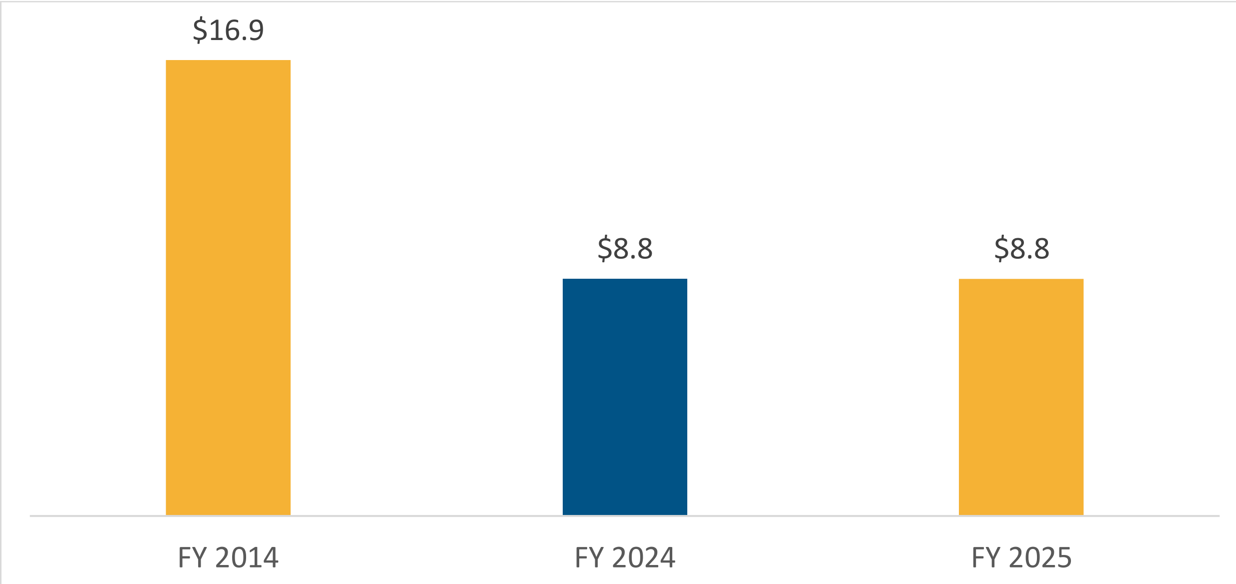
Heading into the session, the governor and legislative leaders said funding for child care was a top priority, with a package of seven bills introduced to increase supports for families and to stabilize child care providers who are facing a funding cliff with the end of federal COVID funds.[10] The most important legislation for child care providers would have allocated about $40 million to the child care development program to reimburse providers more robustly, a policy that was temporarily put into place during the pandemic to ensure stability. Ultimately, none of those bills passed and there was no funding increase for child care in the final budget. In recent years, child care funding has not just remained flat but has been reduced, down nearly 50 percent in nominal dollars compared with FY 2014.

[8] Allen, Kelly, "Policymakers Must Prioritize Vital Medicaid Investment That Boosts health, Providers, and State Economy," West Virginia Center on Budget and Policy, December 18, 2023.
[9] West Virginia Children's Health Insurance Program Annual Report, 2021.
[10] Ferrell Knisely, Amelia, "West Virginia's child care desert becomes a priority for business-minded governor and lawmakers," *West Virginia Watch*, January 12, 2024.

Figure 4

No Increase for Child Care Development

FY 2014 general revenue expenditures for child care development compared with FY 2024 and FY 2025 appropriations (millions)



Source: WVCBP analysis of WV State Budget Office data

In the final budget, lawmakers also reduced funding for the Temporary Assistance for Needy Families (TANF) program, another state-federal matching program and the state's only cash assistance program for very low-income families. In the enacted budget, the line item for the TANF Maintenance of Effort, or required state match, was reduced by $2.5 million, which means that the state will lose that much in federal dollars as well. In addition to providing cash assistance for very low-income families, TANF is also the primary source of funding for child welfare supports that aid primary prevention to keep children with their families as well as to fund supports for foster families.

Additionally, the final budget eliminated the governor's proposal for funding to hire 100 new CPS workers; instead, the line item for CPS workers was reduced by $4.9 million in the FY 2025 budget compared to the FY 2024 budget.

Flood Resiliency Funding Eliminated

One of the largest cuts happened in the Governor's Civil Contingent Fund, which in the FY 2025 proposal included $50 million for Congressional Earmark Maintenance of Effort and $50 million for Flood Resiliency projects. That $100 million was left out of the final FY 2025 budget.

Looking Ahead

The FY 2025 budget continues to fall short of meeting the needs of West Virginians, eroding funding for public services and programs through attrition and failing to keep up with inflation. During the pandemic, infusions of federal funding into our public education system, Medicaid, and child care infrastructure essentially hid holes in the state budget that are now becoming more apparent.

Income tax cuts enacted in 2023 are also constraining much-needed spending in programs that serve West Virginians. The first round of tax cuts reduced revenues by $600 million annually, with an additional $200 million to be lost in FY 2025 when property tax rebates go into effect. Additionally, annual tax cut triggers could continue to reduce the income tax, our single largest state revenue source, until it is eliminated with no replacement revenue. Those lost hundreds of millions of dollars could be spent reducing child poverty, ensuring that our public schools have the resources and support staff they need, and stabilizing child care providers and higher education institutions among many other valid needs.

While lawmakers are expected to come back for a special session later this spring to address some spending needs they failed to enact in the budget, they likely will only allocate FY 2024 surplus funds—and the significant surpluses of prior years are not expected to be available in the future given the deep tax cuts and slowing of temporary factors like high energy prices and inflation that drove increased revenues. Surplus funds are considered one-time allocations and should not be used for ongoing spending, but the holes that lawmakers will be plugging with these temporary dollars are ongoing needs that need to be in the regular budget. This will likely create a larger crisis in coming years when far fewer surplus dollars are expected to be available.

Moreover, the revenue uncertainty that plagued lawmakers during this session will continue to be an issue every legislative session that the automatic tax cut triggers remain in place. Until lawmakers break the tax cut fever, they will not be able to sustainably meet the needs of our people.

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