

West Virginia budget gap widens, economy worsens

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The West Virginia legislature concluded last week without agreement on a budget bill, as the state's revenues continue to plummet. The office of Democratic governor Earl Ray Tomblin released figures March 15 showing the budget gap has widened to \$239 million, including a loss of \$92.4 million more than previously projected due to "downward pressure on energy prices, and less economic growth than originally forecast for both the national and state economy."

The West Virginia Center on Budget & Policy (WVCBP) reports that if the projection is realized, the state will collect only \$137.5 million from corporations and businesses in fiscal year 2017—an all-time low for the historically distressed state.

The state's finances are bound up with the coal and natural gas industries, which have been buffeted by the fall-off in global commodity prices and the slowdown in industrial output in China, as well as declining demand in the United States.

According to the governor's office, personal income tax collections are expected to decline by \$20.5 million below earlier estimates. Revenue from the so-called severance tax on coal and natural gas companies is projected to fall \$17.6 million below previous estimates. Corporate income taxes are projected to decline by 17 percent, resulting in a loss of \$28.6 million more than anticipated.

It is likely that Tomblin will call a special session in April to continue deliberations on the budget. The new bill would take effect beginning in the new fiscal year, July 1.

The WVCBP notes that the projected plunge in revenue is "largely due to the elimination of the business franchise tax and the reduction of the corporate net income tax rate from 9 percent to 6.5

percent in 2015."

Before 2008, when these tax cuts took effect, corporate and business franchise taxes accounted for \$388 million in state revenue. In 1990, these taxes made up 12 percent of the state's general revenue fund, compared to less than 4 percent today.

During its regular session, the legislature was preoccupied with numerous reactionary measures on abortion, right-to-work, voter ID, and drug testing for welfare recipients. At no point in budget deliberations was raising the corporate tax rate a topic of discussion.

The governor proposed closing the \$239 million shortfall largely through higher tobacco taxes and the repeal of a sales tax exemption on telecommunications. Republican senate finance chair Mike Hall has suggested combining budget cuts with tapping into the state's Rainy Day reserve fund. "We could sit here and slash and burn, but we want to vet them out," Hall said of the budgets of various state agencies.

West Virginia's bond rating is based in part on the existence of the \$784 million Rainy Day fund, and ratings agencies are watching the budget deliberations closely. Tomblin opposes using reserves, making the "slash and burn" approach more likely. Higher education, highway funding, and social services are all in the crosshairs.

In the past three years, Tomblin has cut 20 percent of the state's general revenue budget.

Before concluding its session, the House requested state agencies to consider how to cut a further 6.5 percent from their budgets. Among the consequences would be the elimination of an estimated 350 jobs in the college and university system, the closure of at least four community college campuses; and the layoff of 166 workers at state hospitals.

Social infrastructure is being sacrificed to the benefit

of big business, and particularly the coal industry. Although Tomblin signed legislation last month dropping a 56-cent-per-ton coal tax at a cost of \$51.5 million to the state, the coal industry is lobbying for further cuts to the general severance tax rate, from 5 percent to a mere 2 percent.

Severance taxes are a charge on the extraction of coal or natural gas, usually a few cents per ton, to compensate the communities from which the resources are “severed.” Local and county governments are heavily dependent on the tax.

The West Virginia Coal Association has said cutting the tax would save 1,864 jobs and increase the state’s gross domestic product by \$299 million a year. The influential lobby group’s vice president, Chris Hamilton, claimed “if our legislature fails to enact the 3 percent rate cut immediately, these savings would not occur and the consequences would be disastrous.”

The “job savings” projected by the industry are a drop in the bucket compared to the losses that have impacted the state. In the last year alone, West Virginia lost 12,700 jobs, bringing the total workforce to under 760,000.

The economic crisis is deepening across the state. Unemployment for February stood at 6.5 percent, and after the holiday temporary hiring, the jobless rate rose in every one of the state’s 55 counties. The state’s labor force participation rate, hovering below 50 percent, is the lowest in the country.

WorkForce West Virginia data indicate that in the past month:

- Alpha Natural Resources laid off 1,109 coal miners in Boone, McDowell and Raleigh counties.
- Blackhawk Mining laid off 226 miners in Kanawha, Logan and Mingo counties.
- Arch Coal issued pink slips to 140 in Webster County.
- Walter Energy cut 120 mining jobs in Fayette and Nicholas counties.
- Carter Roag Coal Company laid off 173 Randolph County miners.
- Rail company CSX announced the closure of its Huntington Division, affecting 121 employees.
- Southwestern Energy Company laid off 97 in Lewis County.
- Chemical and fuel firm Thomas Logistics axed 58 positions in Morgantown.

- Oil industry company Baker Hughes laid off 90 employees in Harrison County.

- Wal-Mart closed its McDowell County location, leaving 140 without jobs.

Several counties register official unemployment rates in the double digits. According to WorkForce West Virginia, Calhoun County reported a jobless rate of 16.9 percent. McDowell and Mingo counties have unemployment rates of more than 14 percent.

Property values in the southern coalfield counties are spiraling downward. Boone County lost 17 percent of its total property value in the past two years, according to the state auditor’s office. Mingo County has lost 15 percent.

Public school district budgets have suffered drastic declines in funding. In Boone County, the closure of coal mines has resulted in the loss of \$4.3 million in school funding in the last year and the loss of students whose parents must leave in search of work. The county district has announced the closure of schools and the elimination of 80 positions at the end of the school year.

In McDowell County, enrollment has declined 17.4 percent over the past decade. The county school district has shed 10 to 20 positions each year. This year, it is cutting 19 teachers and 16 service staff.

Cuts in school staffing are a statewide phenomenon, even in non-coal-producing areas. In Huntington’s Cabell County, enrollment has increased over the past decade. Nevertheless, the county board of education approved cutting 61 positions and transferring 97 others. The district is expecting to lose \$2.6 million in state funding.



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