West Virginia budget impasse threatens public employee healthcare

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9 April 2016

Meeting in emergency session March 30, the West Virginia Public Employees Insurance Agency (PEIA) Finance Board re-approved massive cuts to the health insurance plan covering some 230,000 current state public employees, dependents and retirees.

Faced with a more than $120 million budget shortfall, the board initially approved a series of ruthless cuts in December, including steep hikes in deductibles, out-of-pocket costs and premiums, as well as changes in its prescription drug plans. Under the plan, active employees will shoulder nearly $83 million of the budget shortfall, while retirees will bear the remaining $41 million.

The reductions come on top of more than $40 million in health benefit cuts PEIA imposed on public workers and retirees for the current 2015-2016 plan year.

Starting on July 1, current public employees will see their deductibles increase by $500 for single coverage and $1,000 for families, while their annual out-of-pocket maximums will be raised by $1,500 and $3,000, respectively. Depending on their plan, a typical family will pay at least $1,400 in deductibles with an annual out-of-pocket maximum of $9,000.

Current employees will also see changes in their prescription drug plan, the most significant of which is the switch from a co-pay of $25-$30 for preferred brand drugs to 30-35 percent of the drug's cost.

Meanwhile, retirees will be hit with an 8 percent premium increase, along with higher deductibles and out-of-pocket maximums, beginning on January 1, 2017. Other participating plan holders, such as non-state workers from county and municipal agencies, will see premium increases of 3 percent.

In announcing the cuts last October, PEIA executive director Ted Cheatham explained that, "These are fairly draconian cuts to the plan that are being made."

The re-approval of the December plan follows the failure of the West Virginia legislature to appropriate additional funding, despite pledges of support for an additional $43.5 million in funding from the Democratic administration of Governor Earl Ray Tomblin and the Republican-controlled Senate and House of Delegates.

The legislature ended its regular session on March 15 without passing a budget. The *Charleston Gazette-Mail* noted that it marked "the first time in nearly three decades that a budget impasse resulted in the Legislature's failure to pass a budget bill at the end of the regular session." While Governor Tomblin extended the regular session by three days, he refused to grant any additional time because the House and Senate had not made any real progress toward a resolution.

Tomblin is expected to convene a special legislative session to resolve the budget impasse while warning that he does not have the legal authority to continue state government operations, including state payroll and spending, via executive orders if the budget is not passed before the deadline of June 30.

The governor and both chambers of the legislature remain at loggerheads on how to resolve the nearly $240 million deficit for the 2016 budget and a projected $466 million shortfall in 2017.

The state's deteriorating fiscal situation is directly bound up with the global economic crisis and the sharp fall in commodity and energy prices. Severance tax collections on coal and natural gas for the current budget year are half what the state had projected. Personal income and sales tax collections are also beginning to slump as the plunge in coal production ripples through other industries in the state.

According to the West Virginia Office of Miners'

Health, Safety and Training, the state had only 86 operating coal mines with 11,881 miners working as of April 1, down from 97 mines and 15,194 miners in December.

The fall in revenue collections has also been exacerbated by a series of tax cuts implemented by Governor Tomblin and his predecessor, Democrat Joe Manchin, now a US Senator, which have cost the state hundreds of millions of dollars annually since 2006. Since becoming governor in 2010, Tomblin has slashed the state's corporate net income tax rate from 8.5 to 6.5 percent and completely eliminated the Business Franchise Tax at the start of 2015.

In February, Tomblin signed a bill he had proposed to the legislature to eliminate an excess severance tax on coal and natural gas, which had been used to pay down debts to the state's workers' compensation fund. The tax cut will cost the state about $110 million annually when it takes effect in July.

Over the past three years, the Tomblin administration has worked to make up the massive losses in revenue by imposing across-the-board budget cuts for most state agencies totaling 20 percent, including the most recent four percent cut of $94.3 million last October.

In addition to the cuts, Tomblin proposed a budget earlier this year with two regressive tax increases: a 45-cent per pack increase of the state's tobacco tax and the elimination of a sales tax exemption for telecommunications services. The two measures were projected to raise $78 million and $60 million per year, respectively, with $43.5 million earmarked for PEIA.

During the regular session, the Senate passed a budget with $139 million in revenue increases, including a $1 per pack tobacco tax increase projected to raise about $115 million and an elimination of greyhound racing subsidies worth about another $20 million; however, the measures were rejected by the House Finance Committee.

For its part, the House of Delegates passed a budget that, in addition to about $12 million in cuts to state agencies, would sweep $72 million out of various state agency accounts. The latter measure was rejected by the Senate over concerns that state agencies were already utilizing those funds to cope with previously imposed cuts. The House proposal also called for appropriating $32 million from the state's Rainy Day reserve funds; however, Tomblin has vowed to veto any such measure over concerns that draining the $780 million reserve funds could impact the state's bond rating.

In February, House Finance Chairman Eric Nelson received responses from state agencies outlining how they would respond to a hypothetical 6.5 percent additional cut to their budget. According to the *Charleston Gazette-Mail*, the responses indicated that "Another round of state budget cuts would force West Virginia agencies to lay off hundreds of employees, and force closure of state parks and recreational areas, college branch campuses, correctional facilities, State Police detachments and a state hospital."

Even if the legislature approves the additional $43.5 million for PEIA in its special session and the agency is able to implement its backup plan approved in January, current employees would still be burdened with about $6 million in benefit cuts. Moreover, both active and retired workers would see their premiums increase by 12 percent due to a state law which sets an employer-employee premium ratio at 80-20.