

For Immediate Release**March 25, 2009**

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New Report Challenges State Budget Cuts, Offers Alternatives

Slashing the state budget during a recession is unwise and unnecessary, according to a new report released today by the West Virginia Center on Budget and Policy. Governor Manchin's proposal to cut nearly \$200 million in spending from next year's budget would jeopardize the state's economic recovery and hurt those most affected by the recession.

"Cutting state spending is the wrong tool for the problem," said Ted Boettner, the Center's director and co-author of the report, *Balancing the State Budget: Raise Revenues before Cutting Programs*. "Spending cuts should be considered only after all opportunities for raising revenues have been exhausted. Our paper outlines six revenue options that, together, would bridge the state's budget gap without reducing public services that families count on."

The no-frills budget originally proposed by the Governor in February was only 1.87 percent above this year's budget. There are no easy cuts to be made. Extracting \$200 million from next year's spending would:

- *Impede economic recovery.* Public spending, especially in times of recession, helps fuel the economy, stabilize businesses, and preserve jobs. Economists view state government spending as having a strong stimulus effect, generating \$1.36 in economic activity for every dollar spent. The same effect – in reverse – applies to reductions in public spending: A \$200 million state budget cut would translate into an overall economic loss of \$272 million.
- *Trigger further job loss.* State spending supports thousands of jobs in both the public and private sectors. Spending cuts would result in lay-offs not only of public employees, but also of workers in private sector companies that contract with the state to provide a wide range of goods and services. For example, a 2003 study by the WVU Bureau of Business and Economic Research found that a 10-percent reduction in Medicaid spending would result in the loss of 3,268 jobs statewide.
- *Erode public services that support and protect the state's most vulnerable citizens.* Reduced spending would jeopardize essential services, such as public health, law enforcement, and services for children, seniors and people with disabilities. Many of these programs have been operating with little or no increase in recent years and are unable to absorb further cuts without reducing services. At the same time, rising unemployment is

boosting demand for safety net programs, since only 36 percent of jobless West Virginians receive unemployment insurance.

“Unlike the federal government, states must balance their budgets rather than operate with a deficit,” said Julie Pratt, co-author of the report. “Difficult decisions must be made. In the absence of ideal solutions, the preferred options should be those that do the least harm to the economy and to the families who are struggling to make ends meet.”

The report examines six options for balancing the state budget by enhancing revenues, rather than cutting programs. The options fall into two categories:

- *Maximize existing funding.* Two of the options involve taking full advantage of funds that are already available to the state to use in the event of budget shortfalls. One is to use federal Recovery Act funds where appropriate to avert cuts in spending and services. The other is to use a modest portion of the state’s Rainy Day Funds. Together, these options would generate at least half of the total amount needed to balance the budget.
- *Increase certain taxes.* Four of the options involve raising certain taxes, primarily on the businesses and individuals most able to pay them. They include delaying recently approved business tax cuts, reinstating the West Virginia estate tax, and increasing the personal income tax for the highest earners. A quarter of the projected revenues from the proposed tobacco tax increase are also included, with the majority reserved for expanding and improving health care for the uninsured.

The report emphasizes that no single revenue option will fill the budget gap, but a combination of these and perhaps other alternatives could balance the state budget without worsening the recession, furthering job loss, or reducing needed services.

“With nearly 60,000 West Virginians out of work, this is the time to expand – not slash – public investment in the economy,” said Boettner.

The West Virginia Center on Budget and Policy is a policy research organization that is nonpartisan, nonprofit, and statewide. It focuses on how policy decisions affect all West Virginians, especially low- and moderate-income families. The full report can be viewed and downloaded at www.wvpolicy.org.