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Economic outlook says West Virginia won't suffer as much as other states

By Jake Stump

CHARLESTON, W.Va. — Financial analysts are predicting one of the worst budget years in recent memory for state governments, though West Virginia is expected to do slightly better than most.

Eighteen states have projected shrinking budgets for fiscal year 2009, which began Monday, according to a report compiled by the National Governors Association and the National Association of State Budget Officers.

While West Virginia isn't one of the 18, officials here expect a decline in revenues from the previous year.

The state is looking at a \$68 million net decrease in tax revenues, including sales, personal income and corporate income, according to one of the reports. But that isn't necessarily a bad thing, Deputy Revenue Secretary Mark Muchow said. The drop is attributed to tax cuts granted by Gov. Joe Manchin and the Legislature, he said.

Maryland on the other hand is projecting a \$760 million net increase in tax revenues, largely due to a series of major tax hikes there, Muchow said.

West Virginia just wrapped up fiscal year 2008 with a record \$3.9 billion in tax collections, about \$109 million more than had been projected.

So that \$68 million net decrease for 2009 might seem like a drop in the bucket.

Muchow credited high energy prices from resources such as coal and natural gas for the state's successful year in tax collections. Severance tax collections shot up from the previous year to \$338.2 million.

The state also collected \$338 million in corporate business taxes, another increase from recent years. Muchow expects those collections to decrease by about \$87 million this fiscal year.

"Corporate profits are in a declining state," Muchow said. "Often times, especially with the corporate tax, there's an upward growth followed by a downward drift. The biggest negative for the coming year is probably the corporate income tax."

A weakening corporate world could also cause distress to personal income. Muchow said the state collected \$1.5 billion in personal income taxes for the budget year, which was largely driven by the stock market.

"We should see more sluggish results in the personal income tax," Muchow said. "Capital gains were up significantly in recent years but it looks like this year will be a weak year for stocks."

The National Governors Association report says that many states should expect continued financial pressures from a variety of sources, including health care, Medicaid, employee pensions and infrastructure.

"Fallout from the housing market decline, coupled with dramatic increases in the price of energy, is having a negative impact on state revenues, particularly corporate and sales tax revenues," said Raymond C. Scheppach, executive director of the governors' association. "Governors know that meeting increasing expenditure expectations with limited revenues will present challenges even after the national economy rebounds."

The report, titled the Fiscal Survey of the States, shows that general fund spending, which finances the day-to-day costs of operating government, is projected to rise just 1 percent, compared to 6.7 percent in an average year. That marks the

third-lowest spending increase in the past 31 years, according to the association. The report, however, concludes that West Virginia appears on target to meet or exceed its revenue expectations while 20 other states will likely fall below expectations.

Another recent study, from the Nelson A. Rockefeller Institute of Government, also depicts West Virginia flourishing while dozens of other states suffer. The institute reported West Virginia as one of four states in 2008 that had tax collections up 10 percent or more from January through March, compared to the same quarter in 2007.

“Budget wise, we should be in very good shape,” Muchow said about the current fiscal year.

While the national economy struggles, energy-producing states such as Alaska, Wyoming and

New Mexico are thriving. Muchow puts West Virginia in the same boat.

Having a Rainy Day Fund of \$575 million also helps, state officials said.

State Budget Director Mike McKown said money in the Rainy Day Fund is 14 percent more than the general revenue budget.

“If you have 8 or 9 percent more in your fund, you’re in good shape, but we have 14,” McKown said.

A handful of states don’t even have such budget stabilization funds.

“Most surrounding states have had budget problems in the last year,” McKown said. “They’ve had to raise taxes and look for ways to fund highways. Meanwhile, West Virginia has cut taxes and we’ve had a surplus. So in that respect, West Virginia is very stable.”