

Budget surplus may not last long

State could be looking at some huge deficit

By Phil Kabler, Staff writer

West Virginia has enjoyed a couple of years of budget surpluses, but rising health-care and pension costs will quickly outpace the ability of the state's 1930s-era tax system to raise revenue, state legislators heard Monday.

Roger Smith, director of the Department of Administration's budget section, told an interim committee that costs of providing current levels of state services and benefits will grow at more than \$200 million a year through 2011, more than twice as fast as projected increases in tax revenues.

That means without changes to the state's tax structure, the state will face an \$85.1 million budget deficit for the 2008-09 budget year, and that deficit is projected to grow to more than \$300 million by 2010-11, he said.

"In '09, all of a sudden, we're \$90 million short, and come 2011, we're \$300 million short," Smith said.

Smith and Mark Muchow, state director of fiscal economy, discussed state revenue and economic forecasts with House and Senate Finance Committee members. Gov. Joe Manchin is expected to call a special session on tax reform this fall.

Driving the deficit will be increasing costs to maintain Medicaid and Public Employees Insurance Agency health-care benefits at current levels.

Medicaid costs are projected to increase \$67.8 million in the 2007-08 budget year, and grow to a \$99.6 million hike in 2011. PEIA costs are to go up \$27.6 million in '07-08, and increase to \$82.7 million in 2011.

"Basically, what you're saying...is we don't have the money to provide the level of government services the people have told us they want," said Delegate John Doyle, D-Jefferson.

Muchow said West Virginia's ability to raise revenue from taxes is well below the national average, noting that the state is ranked 47th in per capita income, 50th in retail sales per household, 47th in average sale price for homes, and 50th in percentage of population employed.

Also burdening state finances are the more than \$5 billion of unfunded pension liabilities, which is forcing the Legislature to spend millions each year to pay down those deficits over decades.

In the current budget, \$574 million of tax dollars and lottery profits — or 14.3 percent of the overall budget — is going to pay down the unfunded liabilities.

Said Senate Finance Chairman Walt Helmick, D-Pocahontas, "As finance chairman, I have to deal with it everyday — how are we going to pay for that huge debt?"

"Think of all the programs we could fund, or all the tax reductions we could do, if we didn't have to pay that \$340 million a year," Doyle added, referred to the annual base payment to the Teachers Retirement Fund deficit.

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**West Virginia Amusement
& Limited Video Lottery
OPERATORS ASSOCIATION**

PO Box 2549
Charleston, WV 25329

WVALVLOA@aol.com

304.342.1737 phone
304.342.1737 fax