

Kiss warns budget cuts may not be enough to balance budget

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By [Phil Kabler](#)

After another shortfall in state revenue collections, Revenue Secretary Bob Kiss warned Thursday that West Virginia could soon reach the point where spending cuts and money shifts will no longer be enough to balance the budget.

Revenue collections were short \$7.5 million in August, and state officials again blamed a downturn in severance taxes.

“The next couple of years are going to be critical for the state as you look at the budget,” Kiss said, noting that the Tomblin administration has made significant budget cuts over the past few years in order to balance state spending.

“At some point, once you cut to the bone, the only way to address the structural imbalance is to have a revenue increase,” Kiss said.

Asked whether the potential need to increase taxes to balance the budget is at odds with efforts of the Legislatures’ Joint Committee on Tax Reform, Kiss said, “What I hope, and what I see them doing, is coming up with a way to have a more competitive tax structure that at the end of the day is, at minimum, revenue-neutral, if not revenue-positive.”

Kiss conceded that part of the current funding deficit is the result of cuts in the corporate net tax and elimination of the business franchise tax and the sales tax on food, which combined amount to more than \$300 million a year in lost tax revenue.

“I’m not suggesting that was not a good policy decision,” he said of the cuts, saying no one expected that the tax cuts would result in immediate growth in the state economy. Deputy Revenue Secretary Mark Muchow said the weak spot in August revenue collections was again in collections of severance taxes on coal and natural gas, which at \$24 million was \$16 million below projections.

For the first two months of the 2015-16 budget year, severance tax collections are running nearly \$20 million below estimates, crippled by plummeting prices for coal and natural gas, and by a downturn in coal production, causing the taxes to fall 58 percent below projections for the year, Muchow said.

Prices for coal have plunged 43 percent in the past year, while natural gas prices have fallen 22 percent, even though natural gas production has increased, he said.

“The bad news for the natural gas industry is that prices are so low, future exploration and drilling are coming to a stop,” Muchow said.

Meanwhile, he said worldwide demand for West Virginia coal is plunging.

In 2012, West Virginia was averaging \$600 million a month of exports of non-manufactured materials, exports consisting almost entirely of coal. In July, those exports had dropped to \$87 million, Muchow said.

Take out severance taxes, and state revenue looks relatively healthy, with most other taxes coming in at or slightly above projections, Kiss said.

The two biggest sources of state tax revenue – personal income taxes and consumer sales taxes – are doing well, Muchow said.

Personal income tax collections for the first two months of the budget year are at \$255.86 million, about \$9 million above projections, Muchow said. That's up about 7 percent over last year, with payroll withholding taxes up 13 percent.

Meanwhile, sales tax collections of \$188 million for the two months are slightly ahead of projections, and would have been higher, except for a change in the payment schedule that shorted July collections, but will be made up next June, he said.

"The broader economy is growing a little bit," Muchow said. "It shows up in the income and sales taxes."

Efforts to diversify the state economy should have another milestone later this month with the groundbreaking for a major Procter & Gamble manufacturing facility in Martinsburg, he noted.

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