May 19, 2016

West Virginia Senate
West Virginia House of Delegates

Members of the West Virginia Legislature,

You are now tasked with addressing West Virginia's overspending problem. On the verge of adjournment, state lawmakers had taken significant steps to structurally balance the budget through spending restraint and without tax increases. Unfortunately, it wasn't enough.

West Virginia's economy is struggling. **At 6.5 percent, the state unemployment rate is the second worst in the nation and far greater than the national average of 4.9 percent.** This is due in part to the Environmental Protection Agency's regulatory assault against coal and the state's lack of significant private sector industrial diversity. It is also due to an uncompetitive tax code.

The impact of unemployment, stymied economic growth, an aging population, and sustained out-migration of state residents has caught up with the state government's out-of-control growth. **Without significant reforms, the state will remain uncompetitive regionally, nationally, and it will struggle to pay for government's promises in the short or long-term.**

Fortunately, reforms to labor policy are beginning to change the state's trajectory. The repeal of the state's prevailing wage mandate and the embrace of a right-to-work law, which allows workers to maintain employment without requirements to pay a union dues or fees, will make the state more appealing to external investment and save taxpayers hundreds of thousands of dollars in the years to come.

This year and this week, however, some are calling for temporary "fixes" to balance the budget, including targeted tax increases on consumers. **Imposing tax hikes on residents will do little to make West Virginia more attractive to investment or stop residents from continually fleeing to other states.**

Tax reform, on the other hand, will do just that. A recent report, co-authored by the Beacon Hill Institute (BHI) and the Cardinal Institute for West Virginia Policy found that across the board tax cuts would have the greatest positive impact on private sector employment, investment, and the added effect of an increase in disposable income.

The long-term goal of lawmakers should be a transition to a consumption-based tax code as opposed to taxes on income or business property, which negatively impact decisions to work, save and invest. This can be accomplished without a loss of revenue for the state.

Flattening the state income tax by eliminating the bottom four brackets and reducing the top rate to 5.85 percent could be paired with an expansion of the sales tax base to include more products and services. Using dynamic scoring, the revenue impact would be negligible.

Another option is an elimination of sales tax exemptions and a dramatic reduction of the rate imposed on these products and services. If offset with an expansion of the sales tax base, the state sales tax of 6 percent could be cut in half to roughly 3 percent, without a loss of revenue for the state while providing significant tax relief to low-income consumers.

Americans for Tax Reform recently found that over the past decade, the 10 states with the lowest tax burden saw GDP growth that was 24 percent greater than the 10 states with the highest tax burden. **The economic impact of tax policy is why tax reform must be revenue-neutral at worst and not be used as a Trojan Horse for tax increases.**

Some will continue to demand that tax increases be a part of the budget. **West Virginia does not have a revenue problem; the state government has an overspending problem.** At $12,910, per-capita government spending in West Virginia was the third highest in the nation in 2014. It should be noted that the two states with higher per-capita spending – Alaska and Wyoming – don't impose income taxes and currently have among the lowest tax burdens among any states.

Significant portions of the budget are consumed by public education, public safety, and health care and not all of that money is put to good use. In fact, an estimated $100 million a year is wasted by bureaucrats on Medicaid because of improperly awarded managed care contracts obtained without competitive bidding.

Similar waste exists at the Division of Highways, where Deloitte identified 15 instances of waste that cost taxpayers $25-50 million a year in cost overruns because of the inefficient use of resources.

Transparency could solve some of these problems. **Requiring that every state and local government agency or department make account balances, contracts, and expenditures available online for public consumption would be a good first step.**

We urge the legislature to keep in mind the importance of spending restraint, transparency and a low-tax burden on consumers and small businesses as you prepare to meet again for special session.

Sincerely,

Grover Norquist
President, Americans for Tax Reform

Jason Huffman
State Director, Americans for Prosperity - WV

AMERICANS for TAX REFORM
www.atr.org

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WEST VIRGINIA

Cc: Governor Earl Ray Tomblin