Revenues and Expenditures

[Enter name of student here]

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# **Answer 1**

The average of general sales tax for 6 states has come to be 8.82 % whereas percentage of my state is 9.4% which is a bit higher than average. West Virginia State is placed at fourth rank among the six states under consideration (F.Fox, 2002). Western Virginia collects much lower sales tax as compared to country average and relies heavily on property taxes for income generation. This will also mean that overall prices of residential property will be lower in the state because people will not be willing to buy houses on which they have to pay heavy taxes

The imposition of taxes on various transactions can be found in much of the modern civilizations. Some tax collection has been reported as early as 2000 BC when sales tax was levied on general commodities. Romans took sale tax concept to rest of the Europe. Spain had national sales tax in the year 1342 with rates which escalate to 10 to 15%. There were many taxes imposed during the U.S. civil war which were combined to form the general sales tax. In the US, using sales tax dates back to the Pennsylvania license tax that was applied initially in the year 1821. The modern state taxes were developed as a result of depression of 1930’s. Initially theses taxes were progressive in nature which means that higher priced products will have a higher percentage of tax. This method was replaced by a flat rate of three percent in the year 1934. The first sales tax was levied in West Virginia in the year 1933 (F.Fox, 2002) There are some states in the country which have no sales tax including Alaska. In the year 1999, sales taxes for state raised $ 164.4 billion while local sales taxes also raised an additional $ 36.2 billion making a total of $ 200.6 billion for the year. This collection of sales tax represented 2.58% of the personal income, consistent with the figures of almost whole decade. Percentage of sales taxes to personal income increased in the 1960’s till 1980’s, but stabilized gradually towards the year 2000 (F.Fox, 2002). For a very long period of time, sales tax was the largest source of income for government and it still provides about one third of the total government revenue. The replacement of sales tax with the personal income tax was done because personal income tax is a form of direct tax. Revenues from direct taxes come straight from the pockets of consumers. Direct taxes have progressive rates and are charged to a wider range of people as compared to the indirect taxes. Indirect taxes have a single fixed rate that is charged to all people (F.Fox, 2002).

# **Answer 2**

Property taxes are one of the major sources of revenue for both local and state governments. In 2011, property taxes made up 34.6 percent of total local revenues and 63.9 percent of local own-source revenue (Moreno, 2019). In public finance, expenditures are pointed out first and then revenues are collected to meet these expenditures. Property and other taxes are adjusted according to the specific needs of economy.

State and local governments typically rely on income, sales and property taxes as their sources of tax revenues. There is a flow of resources from the federal government to state government and from state government to the local governments. Some states rely on the transfers from federal government to meet their expenses but most of the states initiate their own revenue streams in form of property taxes. From 1981 to 2008, property taxes remained stable as a percentage of total revenues and tax revenues for local governments. Due to a decline in other revenue sources, the percentage contribution of property taxes increased after 2008 (Moreno, 2019). The housing crisis that led to the great recession did not have a considerable impact on property tax revenues. If there is a change in value of property, property taxes will be affected after some time because property taxes are calculated at the year-end values of any property. When property taxes were at their highest value in 2009, values of houses had already gone down for the last two years. Consequently, there was a continuous decline in property tax revenues for six quarters on the trot. Lutz (2008) suggested that the time lag between housing prices and property taxes is generally three years and elasticity of property taxes with respect to house prices is 0.4 which shows that a decline in price of houses will result in a lower reduction in revenues from property taxes. Thus, government will have to increase the taxes at lower percentage as compared to the decrease in housing prices.

If we talk about local governments, property tax is more important to areas in the Northeast than in the Southern part of the country. All six states mentioned in this discussion lie to the North east of the USA. Thus, property tax will be less important to these states as compared to states in the South. Louisiana and Hawaii are two states with lowest property taxes and both these states are in southern parts of the country. On the other hand, New Jersey and New Hampshire have the highest rate of property taxes and both these states are in the Northeastern part of the country (Moreno, 2019). In some of the Northeast states, property taxes account for more than 30% of total revenues whereas in the Southern part, most states rely on property taxes for less than 20% of their total revenues. Average property tax burden for an individual tend to be close to $ 1000 per year. A very small number of counties have an amount more than the average. From 2007 till 2011, 60 percent of the counties had an average burden between $ 500 and $ 1500. In about 13 percent of the counties, people paid less than the country average. Only a few counties had an average individual tax bill exceeding $ 4000. There is a less concentration of property taxes as a share of home prices as compared to taxes in terms of dollars paid. Small percentage of counties had a property tax bill that is in excess of 2 percent of value of homes in that area.

There is a difference among states when self-reported property tax burdens are considered. Most states have a property tax revenue per person from $ 1000 to $ 3000 but many states fall out of this range. From 2007-2011, ten states exceeded $ 3000 in terms of average property tax collection. Eight southern states had an average tax burden of less than $ 1000. When payments are considered in terms of value of houses, fourteen states paid between 0.5 and 1.5 percent in taxes. 11 states paid more than 1.5 percent of the value of houses. Variation in property tax burden is due to the differences in laws followed by various states. There is not much difference between housing prices or tax rates across various states. New York has the most variation in property tax burden relative to other states both in terms of absolute dollars paid and property taxes as a share of housing prices. New Jersey has a high variance in property taxes paid in dollar terms. Counties surrounding the New York City was among those which paid the highest property taxes per homeowner. All these counties paid property taxes in excess of $ 8500. The counties with highest property tax burden are from New York and New Jersey areas with twenty-two of the top25 counties were from these states in terms of property tax revenue earned. The counties that earned lowest amount of property taxes were in majority from Alabama and Louisiana. States towards the North East part of the country tend to have higher percentage of property taxes as calculated against housing values.

Property tax will continue to serve as an important source of revenue for the various states. As far as the current scenario is concerned, we see that there are higher property taxes in all the states under consideration with New Jersey being on the top. As discussed earlier, the difference between various states is due to different laws followed by them. If we see in detail, there is a higher percentage of local government revenues in property taxes as compared to the receipts from federal government. This means that Western Virginia government relies heavily on property taxes from the local sources. Property tax is usually tied to the education spending and has important implications for school financing and health of education as a sector. When we study property tax as a percentage of housing expenditure, it affects cost of residential investment, the housing sector and the personal finances of people.

# **Answer 3**

Over a period of time, local school districts were responsible for funding K-12 education in the country with the help of property taxes. Since 1970, the burden of K-12 education has been equally divided among the state and local governments. The federal support has been less than ten percent of the total amount. Across the states, there is a considerable variability in the expenditure made ranging from 28 percent in Illinois to more than 90 percent in Vermont and Hawaii. States and districts share costs theoretically but state governments have greater power to influence education spending and distribution of funds to the concerned school districts. Policies set by the state governments affected both state and local funding to the public education. Education funding formulas are used by states to estimate their ability to contribute towards education and determine the minimum amount of funding per student in each area. There is a considerable difference between goals set by states in terms of education funding which means that all students across one state will have same resources available in terms of education funding. Students with higher needs should have more access to resources. There is another concern for the policymakers to ensure equity for the taxpayers. One form of this equity is that all people pay the tax at same rate regardless of where they live. Another form of equity is that the districts are funding education according to the tax collection made by them and their overall fiscal capacity. People who have experienced an unusual increase in property value will not have to pay increased property taxes and state funds have to be targeted to districts which do not have enough resources. Lastly, policy makers have to analyze whether the model used by states to fund schools provides sufficient resources so that adequate level of education can be provided to the children.

These issues are further complicated by the fact that there is no direct correlation between student needs and ability of district to fund education. Most states consider the ability of districts to fund schools as part of their funding model. A simple way to think about this is in terms of the total value of property that can be taxed as per the number of students in that district. At any given tax rate, a district with more wealth per student will raise more revenue as compared to a district with less property wealth. The students in districts with less property wealth need more resources to fund their education. Property wealth depends upon the amount and type of property in the district along with the house prices. Some cities have large population of disadvantaged students and abundant property wealth at the same time. In many states, there is no or weak relationship between wealth per student and median family income and poverty rates. Average correlation across 16 states was 0.25 (Chingos & Blagg, 2017). These 16 states included three states which have been studied by us and more specifically, they included my designated state Western Virginia.

Many funding formulas try to provide more resources to students with higher needs because the relationship between district ability to pay and student needs is not a strong one. For every district, there is a basic level of combined contribution from state and local funding which may be adjusted for student needs depending upon characteristics of district and students. This will allow that more funds flow to students having higher needs. Many states adjust the level of funding based on the size of various districts. Smaller districts will have lower funds per student available to them and districts will huge areas will have a higher transportation cost to incur. Most states analyze student’s characteristics in order to fund schools. Some states see special education as their primary funding base while others see English language learners as a funding base. Another aspect to decide on funding base for districts is to use a weighted average and number of enrolled students is used as a weight. With weights allocated, there will be a little more amount of funding required but the distribution will be equitable. Weights can also be attached to the amount of funding allocated for each category. There are certain disadvantages of using weights for funding allocation. Some states might try to increase the number of students who will be weighted higher and thus will try and increase the funding. There is another important consideration for states regarding the enrollment calculation at any given point in time. Funding based on attendance will result in lower funding for schools having lower attendance rates. These schools will have problems in allocating fund proportionately to all the students (Shores & Ejdemyr, 2017). These schools will have to allocate more resources to serve disadvantaged students. Some states have tried to implement a variant of weightage formula by allocating higher weights to the students having higher needs.

There are separate funding formulas which result in 72 percent of the funding to go to K -12 schools in any district. In the discussion such as this, district is used as a basic unit of analysis. The first calculation for states is the funding level of each district and later student needs are categorized into different bases. A number of states calculate the resources required to provide education to children e.g. school staff salaries. Once the district targets have been identified, states will have to decide on the percentage of this funding provided by the state government. States typically contribute more towards the districts that have higher number of students and it generates lower amount of money in terms of property taxes (Chingos & Blagg, 2017).

Foundation aid or grant has been used by 37 states as of 2015 (Chingos & Blagg, 2017). A minimum amount per student is decided by the state and then an estimate is developed regarding the district’s ability to pay.

Some states will not get any funding in this scenario because they can meet the basic amount on their own. In the scenario studied by us, West Virginia is already earning a higher percentage of property taxes as compared to the country as a whole. This means that it can generate enough funds for financing the education on its own. Among the six states which are under consideration, only Delaware is the state that will receive some portion of funding from the federal government. All other states are self-sufficient in this regard. The expenditures made by the various states present a logical picture. The state that receives some funding has to spend a huge percentage on education because there will be more students and less tax generated. In other words, the tax per student is low in this case. The Western Virginia state is also spending high percentage on education meaning that there may be a very large number of students to be catered in this state. Maryland is the state that is ranked number 5 on tax collection as well as spending on education. This means that the state is undertaking proportionate spending on education out of its tax revenues. Pennsylvania is another strange example because it is earning taxes which are just above the US average but it is spending huge amount on education that is well above the US average spending. We can conclude that education spending is almost equally important for all the six states considered.

# **Answer 4**

Public welfare expenditures include helping the needy and poor families through cash payments, security incomes and other payments made directly to individuals. Some payments are made to physicians and other service providers under various programs. In the year 2016, state and local governments spent $ 638 billion or twenty-two percent of total spending on public welfare. Almost all the spending on welfare was undertaken as a part of operational costs, such as payments made to medical practitioners etc. The largest payment with respect to operational costs were vendor payments for medical services which was $ 451 billion in 2016 or 84 percent of state and local welfare spending. The remaining amount was used to provide cash assistance to the needy families. Public welfare funding is directly provided to individuals by state agencies. Some of these programs are partially funded by the federal government. A larger percentage from state direct general spending goes to public welfare as compared to local direct general spending. 91 percent of state and local direct spending on welfare happened on the state level. In 35 states, local spending is less than 5 percent of total direct general spending on public welfare. In all states, local spending accounts for less than 20 percent of the total direct spending on public welfare. California, NY and Wisconsin were the top three states that spent highest amounts on public welfare. The major source of funds for public welfare spending is federal transfer which amounted to $ 422 billion in 2016 and measured up to 66 percent of state and local public welfare spending. The remaining 34 percent were managed by state and local funds.

In 1977, state and local spending on welfare amounted to $ 137 billion while in 2016, the same spending amounted to $ 638 billion. Much of this expenditure was made due to the increasing cost of healthcare. From 1977 to 2016, there was a slow growth in state spending as compared to public welfare spending. In 1977, 13 percent of the amount went to public welfare whereas in 2016, this proportion was 22 percent. State and local government spent $ 1972 on public welfare per person in 2016. Federal rules are used to identify people who will benefit from public welfare spending (Hahn, Aron, Lau, Pratt, & Okoli, 2017). The accessibility options for different people are specified from within the available programs. There is a difference in proportions of population that take up social welfare programs offered by the federal government. States must take serious actions to simplify the processes required to undertake some social welfare payments (Cross-Center Initiatives, 2017).

The highest welfare spending per capita is recorded in the District of Columbia and it amounted to $ 5332. The least spending was undertaken by Georgia which amounted to $ 1139. Among the six states under consideration, VA spends less than $ 1500 on public welfare. DE is the only state that has spent more than $ 2500 on public welfare. Three of these states fall in $ 2000- 2500 category (Cross-Center Initiatives, 2017). There is a problem with using per capita spending as a metric to measure public welfare spending. The reason is that there is no information regarding state demographics in this measure. The states which spend heavily on medical facilities show that they have a higher number of old age and disabled persons as compared to other states because these two segments account for almost two thirds of total spending on medical aspects. States which spend lower on healthcare tend to have a higher number of children in their population because children are inexpensive to cover in terms of medical aid. Another factor affecting lower per capita spending is the strict eligibility criterion for such payments. Another metric that can be used to measure health care spending is spending as a share of low-income population. The District of Columbia spent $ 19426 according to this measure. There are certain rules set by federal government for eligibility of health care payments but states can alter these eligibility criteria according to their own needs. These alterations are referred to as waivers in the system. States that have higher proportions of African American population tend to implement much strict policies regarding eligibility criteria including harsher initial screening. There are no clear documentation for decision making criteria of welfare payments if we do not consider the racial differences. Policy maker and case workers have been found to be racially triggered when accessing a case. Policy makers should consider the effects of previous reforms on a majority of population before implementing new programs. One aspect may pertain to the restructuring of programs according to local needs which results in many deserving families and individuals being deprived of their rightful receipts (Hahn, Aron, Lau, Pratt, & Okoli, 2017).

There are certain programs undertaken by the Western Virginia state in terms of welfare. Children health Insurance program provides health insurance to children who are eligible to receive such payments. The main aim of this initiative is to make sure that there is an equitable health system for all children across the state. The eligibility for this program includes residence in West Virginia and being under 19 years of age. Another initiative is named head start which is aimed at increasing the number of students registering at schools especially from the lower income families. The eligibility criteria also includes a maximum level of income that individuals must have.

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