

# West Virginia State and Local Government Finances

## Fiscal Year 2013

This presentation provides high level comparative information on West Virginia government expenditures and revenue for the 2012-2013 fiscal year based largely on data compiled by the U.S. Census Bureau. The 2012-2013 year represents the latest complete survey year for comparative finances among all 50 states. The 50 states represent more than 50 independent laboratories of government finance who provide similar types of services. The major state and local government service categories include Public Welfare (e.g., Medicaid and TANF), Elementary and Secondary Education, Higher Education, Highways, Public Safety, Judicial and Financial Administration, Public Health, Parks, Housing and Community Development, Public Utilities Infrastructure and Unemployment-Related Programs.

On average, one-third of total state and local government expenditures are funded through federal funds with the largest share of those funds dedicated to Medicaid, highways and education programs. In Fiscal Year 2013, West Virginia received roughly \$4 billion in federal funds, including nearly \$2.29 billion for Medicaid, \$435 million for highways and 347 million for various education-related programs. Among all states, West Virginia ranked 16<sup>th</sup> highest with 34.1 percent of total government funding coming from federal sources. The federal funds share in neighboring states was 35.1% in Kentucky, 28.6% in Maryland, 33.6% in Ohio, 30.4% in Pennsylvania and 22.9% in Virginia. States with larger than average share of low income population tend to receive more federal funding than states with a lower than average share of low income population.

The share of governmental financial responsibility between the state government and local governments varies widely across the country partly due to divergence in tax structures. There is far greater government responsibility at the local government level in states with higher than average reliance on real property taxes such as Florida, New Hampshire, New Jersey, New York, South Dakota and Texas. There is far greater government responsibility at the state level in states with significantly lower than average reliance on real property taxes and higher than average reliance on taxes from natural resources or other various export-related activities. The more centralized government states include Alaska, Arkansas, Delaware, Hawaii, Mississippi, North Dakota and West Virginia. Alaska, North Dakota and West Virginia are major energy producing states with an historical ability to export significant amounts of tax burden to non-residents through energy exports. Commercial and residential real estate tax burdens are significantly below average in Arkansas, Delaware, Mississippi, and West Virginia. The following table illustrates the relative importance of local governments in West Virginia and surrounding states along with a real estate property tax burden comparison measure based on the average itemized deduction for real estate taxes paid by a family with average income of roughly \$86,000 in tax

year 2013. Local governments provide much less financial support and shoulder far less government expenditure responsibilities in West Virginia than in any of the contiguous neighboring states.

<b>Local Government Share of Responsibility 2013</b>					
					\$86,000 Income
Local Share		Local Share		Average	
State	State & Local Government Expenditures	(#1 is Highest) Rank	State & Local Government Taxes Levied	(#1 is Highest) Rank	Itemized Deduction Real Estate Tax
Kentucky	25%	41	30%	40	\$ 1,902
Maryland	35%	20	44%	15	\$ 3,466
Ohio	33%	29	44%	14	\$ 3,347
Pennsylvania	34%	26	43%	18	\$ 4,048
Virginia	36%	17	45%	13	\$ 2,857
West Virginia	21%	46	25%	44	\$ 1,285
National Average	37%		42%		\$ 3,632

Total State and local government expenditures in states with higher than average financial responsibility at the local level tend to spend less per capita than other states. There is greater variance in local government demand for services funded locally.

States with greater than average ability to export tax burden to others tend to spend more per capita than the average state. In many cases, these tax export states effectively offer their residents a lower tax incidence burden relative to the tax burden experienced by residents in other states. The demand for goods and services depends on price. Tax is the price paid for government goods and services. Alaska and Wyoming are among the top spending states in the country in nearly all government service categories because of their significant historical capacity to pass a large share of their costs to non-residents through energy exports. Tax incidence burden on residents is also significantly below average in those two states. By comparison, states who impose a greater than average tax incidence burden on the majority of their residents (e.g., Arizona, Florida, Georgia and Texas) tend to be among the lowest spending states.

In Fiscal Year 2013, West Virginia ranked 33<sup>rd</sup> highest in total State and local government expenditures with total direct government spending of \$8,982 per capita. West Virginia ranked 15<sup>th</sup> highest in per capita State government expenditures and 49<sup>th</sup> highest in per capita local government expenditures. West Virginia ranked 30<sup>th</sup> highest in State and local taxes collected with total collections of \$3,892 per capita. West Virginia ranked 17<sup>th</sup> highest in State tax collections per capita and 46<sup>th</sup> highest in local taxes collected per capita. At the State level, West Virginia ranked among the top 10 states in spending on Higher Education, Highways, Other Education, and Veterans Programs.

West Virginia ranked 15<sup>th</sup> highest in State and local government administrative expenditures per capita in Fiscal Year 2013. Government administrative expenses include financial, judicial, legal, buildings and other administration. Economies of scale play a big role in administrative expenditure costs with less cost in more populous states and higher costs in smaller states. The differences in administrative costs at the local government level are heavily tied to economies of scale and level of overall financial responsibility. The following table compares administrative costs as a share of total expenditures at the State level and at local government level for West Virginia and surrounding states. Data from the 2007 Census was used to illustrate local administrative cost metrics at both the county government level and at the municipal level. Local governments in West Virginia generally allocate a significantly higher than average share of expenditures to government administration. Local government units tend to be much smaller than average in West Virginia with limited government funding responsibilities.

<b>Government Administration Share of Total Government Expenditures</b>				
	2013 Census	2013 Census	2007 Census Data	2007 Census Data
<u>State</u>	<u>State Share</u>	<u>Local Share</u>	<u>County Government Share</u>	<u>Municipal Government Share</u>
<b>Kentucky</b>	<b>2.9%</b>	<b>5.9%</b>	<b>9.8%</b>	<b>11.7%</b>
<b>Maryland</b>	<b>4.1%</b>	<b>7.1%</b>	<b>4.6%</b>	<b>7.3%</b>
<b>Ohio</b>	<b>2.2%</b>	<b>9.1%</b>	<b>14.3%</b>	<b>11.3%</b>
<b>Pennsylvania</b>	<b>3.3%</b>	<b>6.9%</b>	<b>15.0%</b>	<b>9.8%</b>
<b>Virginia</b>	<b>2.4%</b>	<b>7.9%</b>	<b>6.6%</b>	<b>8.0%</b>
<b>West Virginia</b>	<b>3.2%</b>	<b>13.1%</b>	<b>30.1%</b>	<b>11.2%</b>
<b>National Average</b>	<b>2.5%</b>	<b>6.3%</b>	<b>11.6%</b>	<b>8.2%</b>

The following document provides additional information and statistical government expenditure comparisons between West Virginia and other states. Most of the comparisons relate direct government expenditures to resident population because most government services are provided to residents. The sources of data used in this document generally come from the U.S. Census Bureau. The predominant source of data is from the 2013 survey of *State and Local Government Finances* at <http://www.census.gov/govs/local/>.