Fiscal Stress after the Great Recession: A Study of Rural Counties in the U.S.

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Study Sponsor
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Rationale
• ‘Great Recession’ caused fiscal challenges for local governments
• Literature is more focused on cities
• Rural counties have not received adequate research attention
• Fiscal stress in rural America after the end of the ‘Great Recession’
• Innovative ways in dealing with fiscal stress
Objectives of the Study

- To enhance our understanding of recent county government fiscal condition and management in response to the recession
- To see the resulting changes in state-local government relations, within a context of post-recession fiscal austerity
- To focus more closely on rural areas

Study Framework

- Survey of state Counties’ Association EDs
- Online survey
  - How have counties have recovered post-recession?
  - What are the fiscal prospects in short-term future?
  - 3 areas: revenues, intergovernmental fiscal relations, and spending
- Direct telephone interviews
- January-April 2016
- Median experience of EDs was 10 years

Study Regions

- Currently 54 Counties’ Associations
- Online (36% response)
  - 7 Western; 5 Midwest; 4 South; 2 Northeast
- Telephone interviews (40% response)
  - 4 Western; 6 Midwest; 7 South; 3 Northeast
- 54% overall response rate representing 63% of all counties
Revenues

- Property tax revenue: slight increase
- Fees, licenses, transfers, etc.: more substantial increase
- Sales tax revenue: where applicable, spilt decline & increase
- Tax delinquencies: increased
- Home foreclosures: stable
- Rural population change: majority declined

Revenue Outlook 2017+

- Property tax rates: generally increase
- Sales tax rates: somewhat increase
- Fees and licenses: more than half anticipate increase

Intergovernmental Relations

- Federal aid: remained stable or declined
- State aid: majority declined
- Debt levels: half said no change; six said increase
- New debt: no change or somewhat increased
- Infrastructure spending: majority witnessed increase
Managing Spending
- Employee levels – somewhat declined
- Wages – somewhat increased
- Privatization – somewhat increased
- Pension funding – most about the same
- Employee benefits – substantial increase
- Retired employee benefits – substantial increase

Management Outlook 2017+
- Human services spending – anticipate increase
- Inter-local cost-sharing – anticipate increase
- Filling vacant positions – anticipate no change
- Future wages – anticipate increase
- Employee share of healthcare premiums – anticipate increase
- Reliance on general fund balance – anticipate increase

Qualitative Phone Interviews
- Co. Assn. EDs: strictly a county perspective
- Open-ended questions
  - State policies and state/local fiscal relations that help/hurt county fiscal conditions
  - Top issues facing rural counties
  - Innovative response strategies employed by rural counties
- Most states in legislative session
- Interviews 20 minutes – 1 hour+
State Policies Negatively Affecting Counties

- General disconnect between state and local
  - Lack of understanding and trust
- Residual economic recession effects
  - Dramatic state aid cuts never restored
- Lack of local control
  - States constrain/compel action
- Tax and expenditure limitations
  - Impinge on local control and constrain local autonomy

State Policies Negatively Affecting Counties

- Unfunded mandates
  - Compel new service responsibilities w/o new revenue
  - States withdraw assistance w/o lifting mandates
- Tax base erosion
  - Exempting classes of property and transactions for economic/energy development
- Natural resource dependence
  - Boom/bust cycles

State Policies Positively Affecting Counties

- Very little
  - Revenue enhancement, if any, are modest
  - Significant local government assistance are legacy policies
- Targeted aids
  - Transportation, emergency dispatch, road & bridge
- One-time funding
  - Ongoing aids replaced by limited pools available by application
- Gas tax increases
  - State tax enhancement sharing
- Energy states
  - Assistance for rapid growth
**Rural County Needs/Challenges**

- **Economic opportunity**
  - Declining population and tax base to support public finances
- **Leadership**
  - Out-migration impacting leadership/volunteer replacement
- **Infrastructure**
  - Aging roads & bridges, water & wastewater, schools
  - Counties need financial help
- **Population movement**
  - Out-migration in many areas
  - In-migration to amenity-rich areas

**Rural County Needs/Challenges**

- **Service reorganization**
  - Community-based services for mental health and corrections
  - Forgoing Medicaid expansion
  - Increasing law enforcement needs
- **Health and education**
  - Local needs related to health/mental health growing faster than assistance
  - Local schools (buildings, equipment, technology) antiquated

**Rural Innovation**

- **Few examples offered**
- **Regionalization**
  - Mental health, economic development, public health, law enforcement
- **Consolidation and informal cooperation**
  - Emergency dispatch, solid waste
- **Case studies ongoing**
  - Less than meets the eye
Discussion & Conclusions

• Great Recession catalyzed a "reset" of state-local government fiscal relations
  – Aid/revenue sharing curtailed/eliminated
  – Transfer of responsibilities and unfunded mandates
  – TELs limiting flexibility
  – Local needs and responsibilities growing
    • Health
    • Mental health
    • Community-based services
    • Law enforcement
    • Infrastructure
• Fiscal stress/fiscal distress will likely continue

Discussion & Conclusions

• "New Public Finance" LaPlante and Honadle, 2011
• Change in state-local government fiscal relations is permanent
  – Enduring revenue constraints
  – Rising liabilities for retirement benefits
  – Rising health care costs
  – Aging population
  – Uncertainty over future budget demands and resource limitations
• Tax resources will be more scarce in the future

Discussion & Conclusions

• Pre-recession model of state-local public finance is broken
• Needed change will be difficult in current climate
  – Longer-term view
  – Focus on sustainability
  – Full accounting of future needs and obligations
  – Greater local government flexibility
  – Local government structural reform
  – Public employee pension reforms
  – Expanding constituencies for "public goods"
Study Findings Report

• White paper available at:

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