Rural Budget Crunch

Small Towns In The Midwest Feel Effects Of Flagging Farm Economy

USDA Farmline
News Service

WASHINGTON, D.C. – Good roads, a school system, and adequate police and fire protection are among the basic services taxpayers have come to expect from their local government. If a pothole needs patching or a street sign needs fixing, they depend on city hall to take care of the problem.

But in some parts of the country--namely in the rural areas where agriculture makes up a large portion of the economic base--local governments are having a much tougher time funding these services.

Declining farmland values and the ripple effects of a weak farm economy have whittled down the tax revenues of many western and midwestern communities, according to Tom Stinson, until recently an economist with USDA's Economic Research Service and now an economics professor at the University of Minnesota. At the same time, Stinson adds, rising farm sector unemployment has increased the demand for public services in such areas as education, job retraining and placement, and mental health counseling.

The analyst suggests that many governmental units, primarily county governments and school boards, are being caught in a financial vise of rising costs and falling revenues. The elimination of the federal revenue sharing program--until recently a key source of money for some counties, cities, and townships--and possible cuts in state aid add to their concerns.

As a result, Stinson says, many rural governments face the possibility of substantial belt-tightening for the rest of the 1980's, and possibly beyond.

Declining farmland values account for much of the reduction in tax revenues. The value of an average acre of U.S. farmland has fallen from a peak of $823 in 1982 to $596 early this year.

In much of the United States, property taxes account for about 27 percent of local tax revenues, but this figure can average 50 to 70 percent in some parts of the West and Midwest.

Some Findings

Stinson analyzed tax bases in agriculture-dependent rural counties of Arkansas, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, and North Dakota. Some of his findings are reported in a recent issue of USDA's *Farmline* magazine:

• Tax delinquency rates have increased substantially. The dollar value of overdue taxes more than doubled in parts of Iowa and Minnesota between 1980 and 1985. In some Nebraska counties, delinquencies rose 70 percent in the same period.

• Based on 1982 levels of local government spending, declines in agricultural property values over the last few years could have produced a combination of tax increases and expenditure cuts in some areas that range from $13 to $199 per person.

"The decline in farmland values has been well documented for several years, but it's only now that rural cities and counties are realizing they have a problem," Stinson says. "That's because assessed land values in some areas are only adjusted periodically."

Alternative Sources Strained

Falling property tax revenues alone probably wouldn't put many rural communities on the edge of financial hardship, Stinson says. When reduced tax revenues coincide with cuts in income from other sources, however, local governments may be forced to trim budgets and raise tax rates--a situation currently facing some school boards, townships, and county governments in Arkansas, Minnesota, and Nebraska.

Although figures vary from state to state, rural communities presently count on state aid for an average of about 38 percent of their revenue basis. Federal aid, miscellaneous taxes, and user fees make up about 35 percent, and property taxes the remaining 27 percent.

In the past, many fiscally strapped local governments looked to the state or federal government for help. But many states are also experiencing budget woes. Stinson notes that in six of the eight states he studied, budget officials announced midyear serviced reductions because of less-than-expected revenues.

On the national level, aid cutbacks have also been underway. According to the economist, federal aid to state and local governments--when measured in 1972 constant dollars--has declined by about 17 percent, from $218 billion in 1980 to about $180 billion in 1985.

The major source of federal aid was the revenue sharing program. Since the program began in 1973, about $85 billion has been pumped into state, county, and city budgets. Many cities and counties used the money as a "rainy day" source of income for budget balancing and unexpected expenses.

But federal budget concerns resulted in the program's elimination. Stinson notes that as federal lawmakers strive to meet deficit reduction targets established by the Gramm-Rudman-Hollings Act, any increase in federal aid for existing programs is unlikely.

Balancing Act

The economist predicts that county governments and school systems will be most directly affected by aid cutbacks and tax declines. In the areas Stinson studied, about 67 percent of farm-generated property taxes went to fund the local school system, another 30 percent went to the county government, and the remaining 3 percent to townships for services such as highway repair and police and fire

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