EXECUTIVE SUMMARY

Counties provide front line support for the health, safety and prosperity of communities and residents. But they are struggling to deliver essential services around the country. States increasingly limit counties’ capacity to raise adequate revenue to fund their activities. At the same time, state and federal governments are imposing more mandates on counties, without providing adequate funding. Counties have adopted additional fiscal solutions, but they are not sufficient to cover the needs of their residents and communities. NACo conducted interviews with state associations of counties and state and county officials in each of the 48 states with county governments between February and July 2016 to better understand county funding sources, state revenue limits, federal and state mandates on counties, new fiscal challenges and county fiscal solutions. Supplemented by additional research of state statutes, tax codes and local government finance literature, this analysis shows that:

1 **STATES ARE LIMITING COUNTIES’ REVENUE AUTHORITY TO FUND ESSENTIAL SERVICES.** Property taxes and sales taxes are the main general revenue sources for most counties. While counties in 45 states collect property taxes, most often they keep less than a quarter of the property taxes collected in a state (23.7 percent). The bulk of property taxes in a state (49.9 percent) goes to schools. Forty-two (42) states place limitations on county property tax authority and the number of restrictions has expanded extensively since 1990s. Nearly half (45 percent) of current state caps on county property taxing authority have been enacted or modified since 1990. Only 29 states authorize counties to collect sales taxes, but with restrictions. Twenty-six (26) impose a sales tax limit and 19 ask for voter approval.

2 **COUNTIES ARE STRUGGLING WITH MORE STATE AND FEDERAL MANDATES, NOT FULLY COVERED BY STATE AND FEDERAL AID.** Many county services are mandated by the states or the federal government, from activities in criminal justice and public safety, health and human services, transportation and infrastructure, to administration of elections and property assessments. U.S. Environmental Protection Agency (EPA) regulations comprise the federal mandate burden most likely to be cited by the state associations of counties and other officials interviewed. According to the interviews, nearly three-quarters (73 percent) of states have escalated the number and/or cost of mandates for counties, over the past decade, decreased state funding to counties over the past decade or done a combination of both.

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COUNTIES ARE ADJUSTING TO NEW FISCAL CHALLENGES ON THE HORIZON. Several developments are challenging local fiscal conditions across the nation. Marijuana legalization provided a new revenue stream for counties in five of the 25 states that passed this measure before November 2016 elections, but costs associated with potential substance abuse problems and driving under the influence may prevent counties from receiving a net financial benefit from this new source of revenue. In 14 states, plummeting prices for oil and natural gas over the past two years have erased much of the annual severance tax revenue received by counties. The “sharing economy,” a technological development best exemplified by AirbnB and Uber, is challenging county revenue structures. According to the interviews with the state association of counties and other officials, counties in nine states are experiencing fiscal losses because of home sharing. The rapid proliferation of ‘dark store’ big-box retailers’ property valuation appeals is another issue confronting counties in more than 12 states. This approach argues for use of vacant big box stores as comparables for the assessment of operating retail store locations.

COUNTIES ARE PURSUING VARIOUS SOLUTIONS TO ENSURE QUALITY SERVICE DELIVERY DESPITE FISCAL CONSTRAINTS. Counties throughout the country partner with cities, other counties, nonprofit organizations and the private sector to deliver high-quality services to their residents in a cost efficient manner. For example, Iowa counties are part of more than 23,000 agreements with other local governments for service delivery ranging from ambulance services to public libraries. Further, 37 states grant counties the authority to create and/or manage special-purpose tax districts to fund specific services. In 22 of the 37 states, counties must first obtain voter approval. Finally, some states have passed legislation specifically meant to curb the imposition of unfunded mandates. For example, Alabama Constitution requires a two-thirds approval of any such mandate by the state legislature; furthermore, the state cannot enforce the mandate until the following fiscal year.

County government roles and responsibilities continuously evolve as local conditions and needs change with shifting economies, aging populations or overburdened infrastructure. Local elected officials understand best the impact of legislation or administrative regulations on the county economy and county government budget. Counties need the state and the federal governments to provide full funding to cover for the compliance costs with the mandates they impose. Likewise, increased county autonomy regarding revenue generation and service provisions would relieve some of the fiscal pressures. The continued partnership with the state and federal governments is essential to counties’ ability to effectively and successfully support thriving communities across the country.

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LOCAL Elected OFFICIALS UNDERSTAND BEST THE IMPACT OF LEGISLATION OR ADMINISTRATIVE REGULATIONS ON THE COUNTY ECONOMY AND COUNTY GOVERNMENT BUDGET.

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