FUNDING COUNTY SERVICES: WHAT WE CAN LEARN FROM OTHER STATES

–Dale Knapp, Director of Research & Analytics, Wisconsin Counties Association

Like other states, Wisconsin funds county services with a combination of state and federal aid, local taxes, and fees. In many cases, that is where the similarity ends. State aid varies widely from state to state. All counties use property taxes to fund services, but some states allow counties to impose other taxes as well. Fee revenues also vary and often depend on the types of services a county provides.

That does not mean we cannot learn from other states. Alternate ways of funding county governments may allow the state to achieve objectives, such as property tax relief, that are tangential to the funding of county services.

An upcoming study by Forward Analytics examines county funding differences in detail. Some of the initial findings are discussed here.

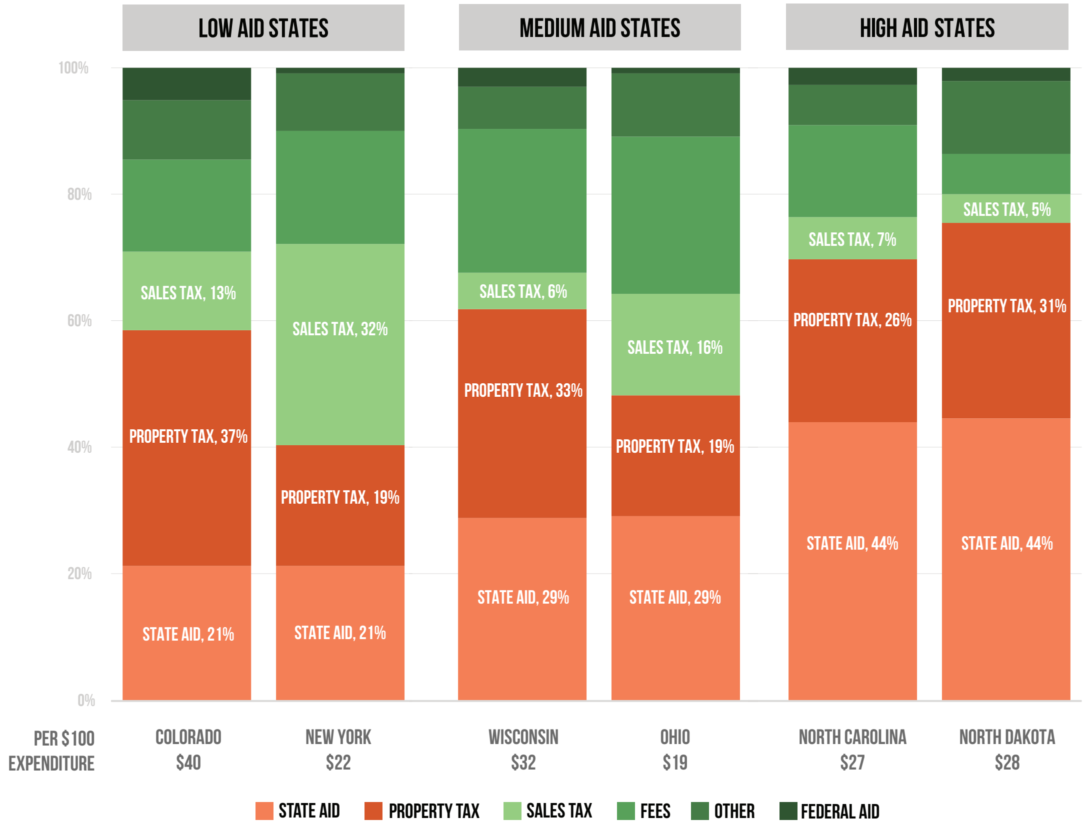
Dale Knapp

FUNDING DRIVEN BY SERVICES?

In some ways, the amount and types of services drives county funding. For example, U.S. Census Bureau figures for 2017 show that in states where counties provided the fewest services, as measured by per capita expenditures, counties relied greatly on local

continues

REVENUE MIX (SHARES OF TOTAL) AND IMPACT ON PROPERTY TAXES



sources of revenue (median = 83%) to fund their services. In states where counties provided the most services, the median share was 68%.

The types of services can also affect funding. There are 11 states where hospital spending accounted for more than 20% of county budgets. County hospitals are funded largely by fees charged to patients or insurance companies. Thus, in these states, fees accounted for a greater share of revenues than in other states.

WISCONSIN IS UNUSUAL

Wisconsin is unusual in that it is one of only nine states[1] in which counties administer three major state social service programs: TANF, SNAP, and social service block grants. It is also the only state in which counties maintain state and interstate highways. Many other services Wisconsin counties provide are mandated by state law.

In states like Wisconsin, one would expect state government to provide a significant share of revenues to help pay for the state services counties are providing. What level of state aid is "significant" can be debated, but Census figures for 2017 show that counties in these nine states generated more of their revenues from state funds (median = 29%) than counties in other states (median = 17%).

Among the nine states, state aids ranged from 17% of revenues in New Jersey to 45% in North Dakota. Wisconsin counties fell in the middle at 29% of total revenues coming from the state. This range of state funding can be used to highlight different funding arrangements and explore their impact on property taxes.

The figure on page 37 shows revenue mix in six of the nine states, grouped by state share of funding. It also shows the amount of property taxes levied per $100 of county spending.

In 2017, Ohio was similar to Wisconsin in both the share of revenues coming from the state and the share generated from fees. It was also similar in the share coming from a combination of property taxes and sales taxes. However, with Ohio allowing counties to levy sales taxes up to 2.25%, counties there generated much more revenue from sales taxes than did Wisconsin counties. The result was a lower county property tax compared to Wisconsin ($19 vs. $32 per $100 spending).

North Carolina and North Dakota highlight two versions of a funding model that uses large amounts of state aid. Wisconsin's county funding looked similar in 1987 when more than 40% of county revenues came from the state. While the two states differed in the use of fees and sales taxes, the high levels of state aid allowed counties in both those states to use property taxes less than Wisconsin counties.

Finally, Colorado and New York are examples of a low-aid model. While counties in the two states used state aid at the same rate, they differed in the use of sales taxes. County sales tax rates are 4% in New York and range from 0.25% to 6.25% in Colorado, with about three quarters of counties there imposing a rate of 2% or less. Despite Colorado's sales tax rates being much higher than Wisconsin's, revenues were not sufficient to offset lower state aid. The result was higher property taxes. New York's higher sales tax rates offset both the lower aid and some property taxes, driving property taxes per $100 of spending below Wisconsin's.

CONCLUSION

When thinking about county funding, the primary focus should be on creating a system that adequately funds county services. The system can then be altered to achieve other goals, such as limiting the negative impacts of regressive taxes and fees on low-income families, or the effects of high property taxes on residents and businesses. Looking to other states can highlight the pros and cons of various funding schemes. ◆

Endnote

1 Colorado, Minnesota, New Jersey, New York, North Carolina, North Dakota, Ohio, Virginia, and Wisconsin.