THE EMERGING ROLES OF COUNTY GOVERNMENTS IN RURAL AMERICA:

FINDINGS FROM A RECENT NATIONAL SURVEY

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Abstract

County governments are the fastest growing level of local government in the United States. Based on a recent survey of counties in 46 states, this paper presents an overview of the size of county governments, the scope of county government services, and the extent of fiscal stress faced by county governments.

I. Introduction

County governments are the fastest growing level of local government in the United States. In recent years, the administrative and program responsibilities of county governments have expanded as federal programs have been devolved to the local level and as federal and state mandates have proliferated. There is little systematic knowledge about how rural counties implement devolved government programs and the extent to which dismantling and privatization of locally-provided services has occurred. Although the increased role of county governments in economic development is recognized in the literature, empirical documentation is sparse (Reese 1994). Local economic development strategies, such as tax abatements, that appear to have increased in the1990s, are not well-studied in rural areas. Existing research on economic development activities centers almost entirely on states and municipalities, neglecting county governments, which are particularly important for rural people.

Congress, federal agencies, and even county governments themselves operate in an information vacuum with regards to the emerging role of county governments. Compared to the information available on governments at state and municipal levels, there is relatively little standardized information on county governments, and the available information is of relatively low quality. The primary source of secondary data on county governments is the quinquennial Census of Governments, which focuses on revenues, expenditures, and employment in county governments, but provides relatively little information about the nature of services that they provide. The county government data in the Census of Governments is actually provided by states, not counties, and there exists no common methodology across states for gathering county level data. While Census information on county governments appears to be fairly accurate for some states, for other states, researchers have found it to be very unreliable. To help fill this information gap, researchers at Ohio State University and Colorado State University designed and implemented a nation-wide survey of county governments. The survey was funded by the National Research Initiative (NRI) and carried out in conjunction with the National Association of Counties (NACo). Questionnaires were sent in 2000 to over 2800 counties in 46 states (all states except Alaska, Connecticut, Hawaii, and Rhode Island). The survey response was 62 percent (though at the time this paper was written the response rate was 45 percent, so the results presented here should be regarded as preliminary).

This paper is a preliminary report on issues of devolution, local economic development, and welfare reform using data from the national survey of counties. The purpose is to present descriptive statistics on the size of county governments, the scope of county government services (particularly welfare, social, and economic development services) and the degree of fiscal stress faced by county governments.

II. Conceptual Foundations for Analyzing Localization of Growth Strategies

Clarke and Gaile (1992) conclude that cutbacks in federal intergovernmental aid in the 1980s led U.S. cities to turn to own-source revenues for economic development programs. Similar changes appear to have occurred in the 1990s in rural areas in response to federal cutbacks (Johnson and Scott 1997). Counties are the most rapidly growing level of local government (Gold 1996:9), and we anticipate finding that rural counties have expanded their economic development role compared to the past. Our analysis of a 1994 IMCA survey of 256 non-MSA county governments indicates that 60% are leading participants in local economic development initiatives. Analysts have noted increased economic development activity by county governments in many states (Reese 1994). In research conducted in 1999 in six Ohio River Valley states, Lobao, Rulli, and Brown found that 86% of county governments reported having economic development activities, and half of these counties reported an increase in economic development activities since 1990.

Decentralized growth policy in an era of greater capital mobility has important implications for the type of growth strategies likely to emerge locally (Clarke and Gaile 1992). As the federal government diminishes its role in regional economic development, the behavior of local governments is likely to become more atomistic and counties can be expected to increase efforts to attract private business to create growth and generate local income and tax revenues. State and local tax rates are a key focus of interjurisdictional competition for businesses in the late 1990s. The empirical literature on the effects of state and local taxation on economic development is inconclusive (Wasylenko 1997; Becsi 1996), yet it is widely maintained by economic development practitioners that state and local taxes are a major location determinant (Reese 1992), and this belief appears to drive local policies and programs (Courant 1994).

The fiscal federalism literature predicts that as rivalry among local governments for mobile business assets increases, local tax rates get driven down to "benefit levels" (Oates and Schwab 1998): that is, rivalrous local governments tend to adjust taxes or services for each footloose firm to the point where the firm's tax payment is just equal to its private benefit from the public services that the tax finances. The increased interjurisdictional bidding in the form of "package deals" for new manufacturing plants, product distribution centers, and government facilities suggests that taxation of businesses has moved in the direction of "benefit taxation" (Donahue 1997). More than 40 states now have enabling legislative that allows state and local development agencies to offer tax abatements tailor-made for individual businesses as a location inducement. A rational local government with full information would cease attracting businesses when the gain from bidding for another business just equals the cost. This presumes, however, that local governments have the capacity to analyze accurately the costs and benefits of luring mobile capital and the capacity to negotiate a favorable deal for the community. If they do not, it is likely that interjurisdictional competition will lead to increased local government fiscal stress (Qian and Weingast, 1997; Wildasin, 1997; Qian and Roland, 1996). Wildasin (1997) argues that large jurisdictions face softer budget constraints than small jurisdictions because failure to bailout large local governments has more severe consequences for the entire economy. Following this logic, rural county governments are more likely than their urban counterparts to experience fiscal stress as interjurisdictional competition increases since they are generally small, and traditional rural legislative and lobbying coalitions are giving way in many states to urban and suburban coalitions. For example, the 1999 survey by Lobao and Brown in the six Ohio River Valley states found that rural counties are much likely than urban counties to draw on own-source funds rather than external funds to finance economic development activities.

Johnson et al. (1995) extend urban fiscal-stress perspectives to rural counties, finding that structural attributes of non-metro counties, as well as recent decentralization, make them prone to fiscal stress. Structural attributes include an older population which requires more services but contributes less to the economy than working-age populations, population loss which means that revenues must be raised from smaller tax bases, and poorer socioeconomic conditions which force local governments to put increased pressure on tax payers.

For this study, we divide economic development strategies into two categories, which we term, respectively, firm-specific strategies and economic system strategies. Firm-specific strategies are aids to specific businesses, particularly tax breaks, designed to address a perceived immediate impediment to job creation. In contrast, economic-system strategies address longer-run formation of human, physical, or social capital designed to improve the overall economic health of the region. Firm-specific strategies tend to increase profits of a few individual firms without broadly benefiting other firms or households. Firm-specific strategies are likely to generate less surplus for the entire community as compared to economic-system strategies. We expect that county leaders are more likely to adopt firm-specific strategies if neighboring counties have adopted similar policies.

We hypothesize that rural job quality (measured by average wages) and hence well-being will decline in regions with the most intense interjurisdictional competition among local governments. Bigger (often urban and suburban) local governments with relatively large budgets will be able to "cherrypick" the more attractive footloose firms. Small rural county governments may not make it to the bargaining table at all if they lack professional economic development expertise. Or they may make bids less generous than those offered by larger counties that are better able to deal with the risk of fiscal stress associated with tax abatements.

III. Conceptual Foundations for Analyzing Localization of Redistribution Strategies

Analysts argue that local responsibilities for redistribution of goods and services have been increasing since the 1980s. The Urban Institute's New Federalism Project notes that "de-facto devolution occurred as federal government shifted responsibilities to states, and as state governments, facing budget pressures, assigned a low priority to helping local government and became more willing to allow localities to handle their own problems without state interference" (Watson and Gold 1997:2). This shift intensified in the 1990s.

State and local governments would receive less aid; some of the most important programs, such as AFDC, were changed from open-ended, matching grants to block grants; and more local flexibility was given in operating programs (Gold 1977:1). Recent literature on decentralization of public programs makes two key points. First, Staeheli et al. (1997) argue that decentralization represents not just "devolution" (passing of responsibilities from the federal to state and local government) but the dismantling and privatization of programs. Second, this shift "will increase geographic disparities in the role and effect of government," with locales having less material resources and organizational capacity less able to successfully assume redistributive functions (Kodras 1997:80). We conceptualize *localization of redistribution* in terms of county responses to: 1) devolution of specific federal programs; 2) dismantling of services provided to county residents; 3) privatization of services formerly provided to county residents. *We focus on service delivery activities* that directly affect counties' human resource base (e.g., county services related to health, workforce development, elder-child programs). We focus, in particular, on programs stemming from the Personal Responsibility and Work Opportunity Reconciliation Act (PL104-193), which converted the former AFDC program to Temporary Assistance to Needy Families (TANF) in 1996. This bill consolidates federal AFDC funding, state and county AFDC administration, Emergency Assistance (EA), and the Job Opportunity and Basic Skills program into block grants for states. A NACo (1998) survey indicates that 56 percent of county governments administer TANF-related programs, such as welfare-to-work, a figure similar to that found in our six-state pilot test. Some reports suggest welfare reform is stressing county and other local social services (Center for Urban Economic Development 1998; Institute for Women's Policy Research 1998). We will test for the extent to which problems in implementing welfare reform and the dismantling or privatization of public services occur in the same locales.

What types of counties are likely to encounter problems in implementing welfare reform and to have dismantled or privatized public services? How do the new decentralized arrangements affect local well-being? Difficulty in implementing devolved services and the likelihood of dismantling or privatizing public services is expected to be greater in counties that are poorer, rural, and fiscally stressed and where government support for citizen well-being has been weak historically. For welfare, food stamps, SSI and child nutrition programs, "the most remote rural areas, persistent-poverty, income transfer dependent counties, and mining-dependent counties" would be most affected by real declines in social spending (ERS 1997:46). With regard to welfare reform, some analysts anticipate a "spatial mismatch" of jobs that will prevent poorer states and counties from implementing successful workfare programs (Goetz and Freshwater 1997; Jensen and Chitose 1997; Southern Rural Development Center 1997). Past experiences with other block grant programs show that rural areas find it harder to obtain and implement grants (RUPRI 1995). Prior to welfare reform, Nord (1999) found that ADFC benefits were lower in states that are more rural, while there was no rural disadvantage in food stamp levels. The 1999 Ohio River Valley pilot shows that relative to metro counties, non-metro counties lack staff such as grants writers, are less likely to have workforce development and welfare-to-work programs, and are more likely to report pressures due to service demands.

IV. Survey-based Description of County Governments

Size of county government. We measured county government size by the number of employees and categorized counties into eight size categories (0-24, 25-49, 50-99, 100-249, 250-499, 500-749, 750-999, and 1500 or more). For all U.S. counties, the mode is 100-249 employees, with 27 percent of counties reporting employment in this range. For nonmetro counties, the mode is 50-99 employees with 31 percent of nonmetro counties falling in this category. At the lower end of the size range, 4.7 percent of nonmetro counties but only 0.3 percent of metro counties fall into the smallest category (0-24 employees). At the upper end, 38 percent of metro counties but only 0.8 percent of nonmetro counties fall into the largest category (1500 or more employees).

Services provided by county governments. The service provided most widely by county governments is law enforcement. In the U.S. as a whole, 84 percent of counties provide law enforcement, and there are almost no difference between metro and nonmetro counties. The second most widely provided service is 911 service. Seventy nine percent of all counties, 77 percent of nonmetro counties, and 86 percent of metro counties provide this service. The third most widely provided service is health clinic service. Forty-nine percent of all counties, 45 percent of nonmetro counties, and 63 percent of metro counties provide this service.

Among the remaining service, we focus on services for which there were large differences between metro and nonmetro county governments. Water and sewer is provided by 46 percent of metro governments and by 18 percent of nonmetro governments. Bus service is provided by 30 percent of metro governments and by 14 percent of nonmetro governments. Child Care or Head Start is provided by 26 percent of metro governments and by 12 percent of nonmetro governments. Drug and alcohol rehabilitation are provided by 38 percent of metro governments and by 18 percent of nonmetro governments. Elder care is provided by 37 percent of metro governments and by 16 percent of nonmetro governments. Housing assistance is provided by 44 percent of metro governments and by 14 percent of nonmetro governments. Mental health services are provided by 55 percent of metro governments and by 34 percent of nonmetro counties. Nutrition programs are provided by 43 percent of metro counties and by 25 percent of nonmetro counties. Senior citizens programs are provided by 60 percent of metro counties and by 45 percent of nonmetro counties. Public housing is provided by 16 percent of metro counties and by 9 percent of nonmetro counties. Shelters for battered persons are provided by 16 percent of metro counties and by 10 percent of nonmetro counties. Homeless shelters are provided by 10 percent of metro governments and by 3 percent of nonmetro governments.

Other services are provided by a roughly equal share of metro and nonmetro governments. These services are: solid waste removal (36 percent), fire protection (metro, 40 percent; nonmetro, 37 percent), emergency medical services (metro, 43 percent; nonmetro 45 percent), food pantry (metro, 11 percent; nonmetro, 10 percent), hospital (metro, 16 percent; nonmetro, 16 percent), and landfill (metro, 39 percent; nonmetro, 37 percent).

We also asked who produced the services provided by county government, focusing on whether contract services were provided by private companies or non-profit organizations. Among all counties, the services that are contracted out most often are solid waste removal (30 percent of all counties) and public housing (24 percent of all counties). Only 17 percent of nonmetro governments but 43 percent of metro counties had privatized the production or delivery of any of services over the past five years.

In "new economy" services, nonmetro governments lag behind metro governments. Eight two percent of metro governments but only 41 percent of nonmetro governments report that they have a county government web site.

Economic Development Activities of County Governments. Metro and nonmetro governments differ a great deal in the personnel devoted to economic development. Sixty one percent of metro county governments but only 34 percent of nonmetro governments have one or more economic development professionals on their staff.

Even when they have no economic development professions on staff, county governments often engage in economic development planning and implementation. Seventy two percent of all county government but 81 percent of metro governments and 69 percent of nonmetro governments reported playing a role in local economic development. Fifty one percent of all county governments but 54 percent of metro governments and 49 percent of nonmetro governments report that county government is one of the two most important players in economic development in the county.

Forty three percent of all county governments report devoting a portion of their economic development budget to activities designed to promote small business startups. Fifty six percent of county governments engage in attraction of outside businesses. The same percentage of counties – 56 percent – engage in business retention and expansion.

Nonmetro county governments are much more likely to engage in no economic development activities at all than metro governments. Fifty percent of nonmetro counties, compared to 38 percent of metro governments, do not engage in small business development. Forty percent of nonmetro governments, compared to 21 percent of metro governments, do not budget for attraction of outside businesses. Forty percent of nonmetro governments, compared to 20 percent of metro governments, do not engage in business retention and expansion.

In addition to comparing across counties, it is useful to compare a county's economic development activities today with its activities in the past. For all counties, attraction of outside businesses increased at a more rapid rate than small business activities or business retention and expansion. Thirty nine percent of all county governments reported a greater focus on business attraction today than five years ago, though the increase change was much greater in metro counties (50 percent) than in nonmetro counties (34 percent). The economic development activity that increased at the slowest rate is business retention and expansion. Twenty six percent of all governments but 32 percent of metro governments and 24 percent of nonmetro governments reported increases in business retention and expansion.

Nonmetro counties have expanded their economic development activities over the past five years to a lesser extent than metro counties. Two percent of nonmetro counties but 10 percent of metro counties report increased travel over the past five years to recruit new business. Fourteen percent of nonmetro counties but 18 percent of metro counties report more use of tax abatements today than five years ago. Thirteen percent of nonmetro governments but 21 percent of metro governments report engaging in more national advertising of the county as a place to do business as compared to five years ago. Twenty percent of nonmetro counties and 39 percent of metro counties report engaging in more workforce development activities for low-income workers today than five years ago.

Land Use Planning Activities of County Governments. There are enormous differences between metro and nonmetro county government in land use planning activities. Seventy one percent of metro governments but only 31 percent of nonmetro governments have a land use planner on staff. Sixty four percent of metro governments but only 38 percent of nonmetro governments have adopted a land use plan. Seventy percent of metro governments but only 40 percent of nonmetro governments engage in comprehensive planning. Forty percent of metro governments but only 17 percent of nonmetro governments have farmland preservation policies in place. Twenty percent of metro governments but only four percent of nonmetro governments have enacted impact fees. Forty three percent of metro counties but only 19 percent of nonmetro counties have wetland protection policies. Twenty six percent of metro counties but only nine percent of nonmetro counties have enacted growth boundaries. Forty three percent of metro counties but only 23 percent of nonmetro counties engage in watershed planning or management. Sixty three percent of metro counties but only 44 percent of nonmetro counties regulate land use through zoning. Eleven percent of metro counties and 27 percent of nonmetro counties report engaging in no land use planning activities of any kind.

Finances of County Governments. In general, nonmetro county governments report greater fiscal stress than metro governments. Thirty two percent of nonmetro governments but only 22 percent of metro governments report that loss of federal revenue is a "very important" problem. Forty two percent of nonmetro governments and 36 percent of metro governments report that decline in state revenue is a very important problem. Thirty four percent of nonmetro governments but only 10 percent of metro governments report that decline in the tax base is a very important problem. Fifty eight percent of counties – equal in both metro and nonmetro counties – report mandated costs from higher levels of government represent a very important problem.

Nonmetro governments have less capacity to seek grant funds as compared to metro governments. Forty nine percent of metro governments but only 27 percent of nonmetro governments report having a grant writer on staff.

Nonmetro residents appear to prefer leaner local government as compared to metro residents. Forty percent of nonmetro governments but 45 percent of metro governments report that rising service demands from citizens represent a very important problem. Thirty three percent of nonmetro governments but only 20 percent of metro governments report pressures from local taxpayers to reduce taxes represent a very important problem.

Human Services and Welfare Reform Activities of County Governments. Nonmetro county governments report smaller increases in their administrative workload for a number of programs over the past three years, as compared to metro governments. Administrative duties related to childcare are reported to have increased in 37 percent of metro counties but only 19 percent of nonmetro counties. Administrative duties related to food stamps are reported in have increased in 20 percent of metro counties but only 12 percent of nonmetro counties. Administrative duties related to workforce development and training programs are reported to have increased in 45 percent of metro counties but and 27 percent of nonmetro counties.

In general, nonmetro counties report less shortage of funding for human services and related activities as compared to metro counties. Twenty five percent of all counties but 36 percent of metro counties and 21 percent of nonmetro counties report facing funding shortages for services to the aging and elderly. Twenty percent of all counties but 30 percent of metro counties and 16 percent of nonmetro counties report funding shortage for child care and foster services. Twenty one percent of all counties but 33 percent of metro counties and 17 percent of nonmetro counties report funding shortages for transportation.

Nonmetro counties are less involved in welfare reform than metro counties. Thirty five percent of metro counties but only 18 percent of nonmetro counties administer Temporary Assistance to Needy Families (TANF), the primary welfare program in the United States today. Forty three percent of metro counties but only 23 percent of nonmetro counties report having implemented a jobs program for county welfare recipients in response to welfare reform legislation.

V. Conclusions

County governments place an important role in public service provision, economic development, land use planning and regulation, and welfare reform. This paper has focused on differences between metro and nonmetro counties using data from a national survey of counties in 46 states.

Several generalizations can be drawn from the preliminary survey data available as of May, 2001. First, nonmetro county governments are considerably smaller on average than metro governments. Second, while many nonmetro county governments are important service providers, nonmetro governments generally provide fewer services than metro governments. Third, nearly half of nonmetro county governments report playing a key role in economic development in their county, though a much smaller percentage of nonmetro county governments have an economic development profession on staff as compared to metro counties. Furthermore, nonmetro governments report a slower rate of increase over the past five years in economic development activities as compared to metro governments. Fourth, nonmetro county governments are much less likely to engage in land use planning and regulation than metro governments. Fifth, a larger percentage of nonmetro county governments report experiencing fiscal stress as compared to metro governments. Exacerbating this problem, nonmetro county governments are much less likely to have a grant writer on staff. Sixth, nonmetro county governments report less increase in recent years in administrative workload related to human services. Nonmetro counties also report less shortage of funding for human services than metro counties. Seventh, nonmetro counties are less involved in welfare reform activities than metro counties.

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