FISCAL STRESS IN RURAL AMERICA: SOME STRAWS IN THE WIND

by

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Introduction

There can be no doubt that rural America has been experiencing, and will probably continue to experience, serious economic difficulties. These difficulties have their most obvious roots in the depressed state of the farm economy. Low farm incomes have, in turn, had serious adverse effects on business activities in many small towns that serve predominantly agricultural areas (Ginder, Stone, and Otto; Leistritz, et al.). Sooner or later, such economic stress in rural America could be expected to have an adverse effect on the tax bases of governments serving rural areas with consequences for the supply of a broad range of public services.

The purpose of this paper is to explore the current fiscal condition of state and local governments serving rural America. We shall attempt to detect symptoms of fiscal stress, to identify some probable contributing influences in terms of changing federal aid, tax structure, state-local division of revenues and responsibilities, and shifting forces in the private sector, particularly agriculture. Finally, we will attempt to identify some strategies for coping with fiscal stress in rural communities.

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Economic Stress versus Fiscal Stress

Economic stress and fiscal stress are separate, but interrelated, concerns. Economic stress is defined as financial difficulties at the household level that impair the ability of a given household to maintain a standard of living to which it is accustomed. It is generally associated with reductions (or very slow growth) in jobs or income and its symptoms are increases in unemployment and underemployment.

Economic stress is often highly localized. Regions or areas that are highly specialized in their economic bases are vulnerable to disturbances in the market (either cyclical or secular) that affect only a narrow spectrum of industries. Such disturbances can have serious adverse consequences on jobs and income in particular communities, giving rise to fiscal as well as economic stress.

Fiscal stress refers to unplanned declines in tax revenues and(or) increased expenditure demands that the tax base is unable to support. Fiscal stress can follow upon economic stress, but it need not. The time profile of the tax base in any given community does not necessarily replicate perfectly the time profile of the economic base. Imperfections, for example, in assessment of property for tax purposes may cause temporary declines in real estates values not to be registered on the tax base. If the economic stress is the result of cyclical disturbances, individual taxpayers may have financial difficulties in paying their taxes, but there may be little impact on local government revenues or expenditures.

In other cases, localized economic stress can have little impact on the fiscal operations of local governments because of institutionalized roles of the state government. There may be economic stress in a number

of communities within a state that is, overall, relatively prosperous. If the government of that state is generous in aid to political subdivisions, and(or) bears out of its own treasury responsibilities for a great number of services that in other states may be furnished by local governments, the fiscal stress may be difficult to detect. That is not to say fiscal stress may not exist; merely that it is maybe so localized and so confined to a relatively narrow spectrum of government services that it will not be detected without careful, detailed analysis of operations of every unit of government in every state.

Unfortunately, the data to undertake a detailed analysis of fiscal stress are available only from the Census of Governments performed on a five-year interval. The latest such data available are from the 1982 census, and they are not sufficiently current to provide much help in looking at current problems occasioned by the economic situation of U. S. agriculture. Data on economic stress (which is likely to precede fiscal stress) are available on a more timely basis than fiscal indicators. Thus, we are now at a point where we can identify some clear signs of economic stress for the last two years, but the combined lags in fiscal impact and fiscal data mean that symptoms of fiscal stress are just beginning to emerge.

Role of State Governments

A further problem with analyzing fiscal stress by examining only local governments lies in the fact that there is a great deal of diversity among the various states in the way in which tax and expenditure systems are organized. In some states, local governments have broad taxing powers and wide responsibilities for services; in other states,

state government plays a major role and local governments have only very limited taxing power or service responsibilities.

Every state shares revenue to some degree with its local governments, but the degree varies widely. In Hawaii, only about 6 percent of local government revenues come from the state; in California and Wisconsin, about 43 percent is provided by the state (ACIR, 1986).

States also share expenditure responsibilities with local governments. In New York, the state accounted for 43 percent of combined state-local expenditures in 1984; in North Dakota, the state accounted for 77 percent (ACIR, 1986a).

Public education is traditionally the major beneficiary of state and local expenditures. Nationally, states provided 48 percent of the public school expenditures in 1984, but in New Hampshire, the state share amounted to only eight percent, whereas in Hawaii, the state share was 91 percent. (ACIR, 1986a).

Complicating the picture even further is the great diversity of special programs like homestead exemptions and special tax treatment of agricultural property that exists across states (Walzer and Chicoine).

Yet another source of complexity is the diversity of local government entities and the different roles that they play in different states. There are counties, municipalities, townships (particularly in New England), school districts, and a myriad of special purpose districts. A study of fiscal condition of counties might be quite useful in assessing fiscal stress in the rural South, but less so in the Northeast where other types of governments carry out the bulk of local service provision.

In recent years, the federal government had played an important role in local public finance. In 1984, direct federal aid was 11 percent of own-source revenues of local governments, down from a peak of 18 percent in 1979. Local governments in rural areas are generally more dependent upon federal transfers than are governments in urban areas. Hence, the scheduled termination of General Revenue Sharing has special significance for rural America.

Any assessment of the fiscal condition of rural governments must begin with recognition of this great institutional diversity in fiscal arrangements. The complexity of the institutional environment serves to cushion local fiscal impacts resulting from localized economic distress. But the degree of the cushioning depends upon the governmental and tax structure in each state. Hence, symptoms of fiscal stress deriving from economic stress in the farm sector may show more quickly in some states than others simply because of differences in the institutional environments in the various states.

All this implies that no meaningfully assessment of the fiscal condition local governments in rural America can be undertaken outside the context of the individual states. And any meaningful definition of fiscal stress must account for the diverse institutional environment in which the fiscal system of each state operates.

Selection of States

Because the economic bases of the various states tend to be more diversified than those of their constituent communities, we would expect that one would be less likely to detect signs of fiscal stress at the state than at the local government level. By the same logic, if symptoms of fiscal stress are detectable at the state level, there is good

reason to feel that such stress is also present at the local level within those states.

If the problems in the agricultural economy are producing fiscal stress at the state level, we would anticipate that the symptoms are most apt to be evident in states where agriculture represents a significant part of the economic base. Which are these states?

We have identified 15 states for special attention. These states have the following critical characteristics: 1) the percent of personal income derived from farming is equal to, or greater than, the national average (1.8 percent), 2) average population density is below the national average (83 persons per square mile), and 3) the percent of the population living in nonmetropolitan areas is equal to, or greater than, the U.S. average (24 percent).

The 15 states so identified are listed in Table 1. They represent all major regions in the country and exhibit considerable diversity in fiscal structure, income levels, and types of agriculture.

Symptoms of Fiscal and Economic Stress in Farm States

There is no single symptom that is a definitive indicator of fiscal stress. At the state level, however, there are some objective indicators that, interpreted in context, suggest fiscal stress. We have concentrated on the following in the time period(s) indicated: 1) tax capacity (1983), 2) change in tax effort (1975-83), 3) fiscal blood pressure (ratio of tax effort to tax capacity: 1983), 4) changes in effective property tax rates (1984), 5) dependence upon federal grants (1984), and 6) major increases in state taxes (1983-85).

All of these indicators are monitored by the U.S. Advisory Commission on Intergovernment Relations (ACIR) which publishes them on a timely basis (ACIR, 1986a).

Sources of indicators of fiscal stress at the local government level are far more serendipitous. Monitoring of local government finance varies greatly from state to state. In some states, like New Jersey, an agency of state government monitors local government finances quite closely and systematically; in some states, no systematic monitoring occurs at all. Individual analysts in state agencies, governmental associations, or research institutes and universities, have undertaken studies that are useful in providing indicators of fiscal stress in scattered areas.

One obvious potential indicator of fiscal stress might be changes in the bond ratings assigned to state and local governments. A cursory examination of bond rating changes during the past two years, however, indicates relatively few changes associated with the bonds of general-purpose governments. Recent work by Loviscek and Crowley shows that bond ratings are affected by numerous factors, chief of which is population change, and even then, there are substantial lags in adjustments of the ratings.

Two draft studies motivated by the present problems of agriculture, one prepared for the Subcommittee on Intergovernmental Relations of the U.S. Senate Committee on Governmental Affairs (U.S. Senate), and the other prepared by ACIR to supplement that of the Subcommittee (ACIR, 1986b), provide some evidence of conditions but only for selected crop reporting districts of ten states. Hence, until the 1987 Census of Governments becomes available, assessment of the fiscal condition of local

governments in rural America must be based on a examining a few straws in the wind.

In Table 1, we present a variety of indicators related to both economic and fiscal stress in these 15 states. Indicators reported in Columns 2-7 pertain primarily to fiscal stress; those in Columns 8-10 pertain to economic stress. For comparison purposes, we also show the average of the indicators for the remaining 35 states, or (in some cases) the U.S. average.

There is enough variation among the 15 states to make any generalizations questionable. Yet the data do enable us to pinpoint stress symptoms in individual rural states. Particularly, the economic indicators (changes in personal income, unemployment, and SSI caseload), which are more current than some of the fiscal indicators and also tend to precede changes in tax receipts and expenditures, show a greater pattern of stress in rural states relative to the non-rural states than can be observed in the fiscal data. This pattern suggests that fiscal indicators have probably worsened in the last two years, but currently available data are not picking up the fiscal impacts of slow income growth and rising unemployment.

Vermont is the only northeastern state meeting our criteria for examination. Vermont shows some symptoms of moderate fiscal stress: tax capacity is below average, fiscal blood pressure is higher, and the state is exceptionally dependent upon grants, but the number of tax increases registered in Vermont is only equal to the average in nonfarm states. Except for the SSI caseload, the economic indicators for Vermont compare favorably to the reference group.

Table 1. Fiscal and Economic Stress Symptoms, Rural States

State	Tax Capacity	Tax Effort	Fiscal Blood Pressure	Effective Property Tax Rate	Grant Dependence	State Taxes	Personal Income	UnN Rate	SSI Payments
Northeast									
VT	94	-12%	116	N/A	30.3%	4	+55%	4.5%	+9.0%
South AL	75	+10%	118	-45%	23.7%	4	+46%	8.0%	+3.5%
AR	78	+6%	103	-9%	29.0%	6	+48%	9.4%	+3.5%
MS	68	-1%	131	-30%	28.3%	10	+50%	10.0%	+3.0%
West									
ID	83	+6%	86	-31%	25.2%	4	+46%	7.9%	+15.1%
MT	105	+2%	100	-13%	26.5%	4	+36%	8.8%	+18.8%
OR	95	+7%	97	-1%	22.1%	6	+34%	7.8%	+16.4%
WA	101	+3%	91	-42%	23.5%	8	+40%	8.0%	+12.0%
Midwest									
IA	91	+17%	99	-7%	19.3%	6	+36%	7.9%	+13.4%
KS	102	+8%	107	-19%	19.0%	8	+44%	5.5%	+11.7%
MN	97	+6%	111	-29%	21.0%	5	+49%	7.5%	+2.4%
NB	101	+11%	96	-15%	18.5%	7	+47%	6.1%	+9.3%
ND	111	-12%	90	-1%	19.9%	4	+57%	6.8%	+14.6%
OK	115	+10%	62	0	19.5%	10	+49%	7.1%	+0.6%
SD	87	+3%	104	-9%	27.8%	9	+57%	5.2%	-0.6%
Ave.[1]	117	+3%	117	-28%	21.9%	4	+53%	6.9%	+7.4%

[1]All averages are nonfarm states excluding Alaska, except for change in personal income, which include Alaska, and unemployment rate and change in SSI caseload, which includes all states.

Notes: Fiscal capacity, effort (change in effort 1975-83), and fiscal blood pressure are as defined in the Representative Tax System. National averages for capacity and effort are scaled to 100 each year. Property tax rates are for FHA insured houses only. Grant dependence is share of federal grants to local governments as a share of local revenues. Tax changes (state) reflect major increases in specific state taxes in each state. Personal income growth is in nominal terms, 1981-1985 (1st Quarter). SSI is the percentage change in the Supplementary Security Income caseload in each state, 1980 to 1985

The three Southern states examined---Alabama, Arkansas, and Mississippi---suffer from chronic fiscal stress. All three have low tax capacity and rising tax effort with fiscal blood pressure and federal grant dependence above that of the reference group. While property taxes have fallen sharply in Alabama and Mississippi, Arkansas and Mississippi have had more tax increases in the 1983-85 period than the average for nonfarm states. All three states exhibit signs of economic stress. Unemployment is above that of the reference states and the growth in personal income slower. Only the welfare caseloads, which are chronically high, have not increased as fast as the national average in the last five years.

The western states---Idaho, Montana, Oregon, and Washington---show the best health of the 15. But at least one of these states---Oregon---has several indicators of stress. Idaho and Oregon suffer from moderately low tax capacity, and both show rising tax effort when compared to nonfarm states. While property tax rates have fallen generally across the country, there has been only a modest reduction in Oregon. Oregon, and to a lesser extent, Montana, exhibit grant dependence. State tax increases were more numerous than in the reference states in Oregon and Washington, but that may result from the fact that Oregon has no state sales tax and Washington no state income tax. Personal income has performed relatively poorly in all four of these states, unemployment is above the national average, and SSI caseloads have risen sharply.

Much of the concern over fiscal stress has been focused on the Midwest. Examination of indicators for the seven Midwestern states shown in Table 1 will suggest that such a focus is appropriate, a finding

consistent with other studies (U.S. Senate, ACIR, 1986b, Connaughton and Madsen).

Five of the seven Midwestern states show rising tax effort, and in three, fiscal blood pressure exceeded that of the reference group of nonfarm states. In all of these states except Minnesota, property tax rates fell less than in the reference group. Based on 1983 data, only South Dakota showed markedly limited tax capacity, but the capacity of Iowa and Minnesota was below that of the reference group. The decline in farmland values since 1983 has, undoubtedly, reduced the tax capacity of all these states in ways not reflected in our indicators.

Examination of the economic stress indicators shows that unemployment (which reflects the most recent data) is above the national average in Iowa, Oklahoma, and Minnesota, all of which were well below the national average in 1979. In the other Midwestern states, unemployment remains below the national average, but has risen more rapidly than the average since 1979. SSI caseloads in four of the seven states have risen faster than the national average, and personal income rose more rapidly than in the reference states only in the two Dakotas (although both states registered poorer performances on personal income in the most recent year).

If we were to attempt to rank states in terms of fiscal stress, the highest scores would go to the chronically stressed state governments in the South, with Vermont and Washington accorded fairly low marks. In terms of changing situations, however, virtually all the farm states exhibit indicators that, when compared to other states, suggest a deteriorating fiscal conditions. On the basis of Table 1, the most severe stress symptoms appear in Arkansas, Kansas, Oregon, Iowa, Minnesota, and

Oklahoma. Recent declines in oil and gas revenues are not reflected in our data, and represent a double "hit" on several of these states, particularly Kansas, Mississippi, Montana, North Dakota and Oklahoma. Indeed, because of their heavy dependence upon energy and mineral revenues, ACIR suggests that North Dakota and Montana face the most serious fiscal stress of any states in the nation (ACIR, 1986b).

If there is evidence of fiscal stress at the state level in some states, there is almost certainly fiscal stress in a number of local governments within those states. There may also be fiscal stress in some parts of other states where no stress is evident at the state level. The lack of comprehensive data, however, makes it virtually impossible to pinpoint such local stress quickly.

There is, however, scattered evidence of economic stress in the 702 farm-dependent counties identified by USDA (Bender, et al). Table 2 contains the results of a shift-share analysis of employment changes in these counties compared to the all U.S. counties (less Michigan, for which data were unavailable) for the period beginning with the first quarter of 1978 and extending to the first quarter of 1985. A brief examination of that table provides some overview of what is happening to the economic bases of farm-dependent counties.

The farm dependent counties gained 186,000 jobs during the six-year period, but had job growth in these counties been equal to the national rate, they would have gained 258,000 jobs. In one important respect, such job growth as did occur in these counties was counter to national trends. Farm-dependent counties gained manufacturing jobs while manufacturing jobs were declining nationally. But based on recent work in the South by Rosenfeld, Bergman and Rubin, it is likely that this growth

in manufacturing employment is concentrated in only a relatively small number of the farm-dependent counties.

Outside of manufacturing, job-growth in farm dependent counties outperformed national growth only in the government sectors. Indeed, these counties lost agricultural, mining, and miscellaneous jobs at a faster rate than the national decline. While the counties did score positive gains in the rapidly growing trade and service sectors, the rate of gain was considerably below the national average, resulting in negative share effects.

Since about 20 percent of the gain in jobs in farm-dependent counties in the 1987-86 period is accounted for by the local government sector, fiscal stress at the local level in these counties can have feedback effects on local economic stress quickly. In the 1970's rapidly rising farmland values increased the property tax base in many of these counties. The counties also benefited fiscally from various types of federal aid, particularly General Revenue Sharing. Now, according to a draft report of the Senate Subcommittee on Intergovernmental Relations, the real agricultural tax base has shrunk by 20 percent since 1982. Between 1980 and 1985, federal aid to state and local governments fell by 25 percent in constant dollars. So the financial conditions that supported one of the largest sources of new jobs in farm-dependent counties have ceased to exist.

Yet another source of data for some local governments in farm areas is the Subcommittee Report (U.S. Senate), which is based on a survey of local governments in rural, multi-county crop reporting districts in eight states (Arkansas, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, and North Dakota). It presents the most current picture

available of local government fiscal conditions in rural America. The picture is one of serious problems, but of problems that vary in their specific nature and intensity across state lines.

Table 2. Shift-Share Analysis of Employment Changes in Agricultural Counties of U.S., First Quarter 1978-First Quarter 1985.*

Industry	Emp. Change 1978-85	National Growth	Compositional Effect	Share Effect
		-- 000's ---		
Ag, Mining & Misc.	23	21	8	-6
Manuf.	11	48	-56	19
Const.	-6	10	0	-17
TCPU (a)	5	11	-2	-4
Whsale	-3	19	1	-23
Retail	14	48	12	-46
FIRE (b)	12	10	7	-4
Serv.	45	34	45	-33
Fed. Govt.	8	4	-3	6
State Govt.	10	6	-1	6
Local Govt.	40	51	-20	8
TOTAL	186	258	0	-72

*Data are missing for Michigan.
aTransportation, Communications and Public Utilities.
bFinance, Insurance and Real Estate.

While there have been declines in agricultural land values in all parts of the country except the Northeast, the impacts on the local tax base vary. The Subcommittee report shows that due to the special assessment procedures used on agricultural land the values carried on the tax books of farmland have remained about constant in current dollar terms in all states except Minnesota. These procedures moderated the runup in the tax base during the boom in farmland prices and have moderated the decline except in Minnesota where actual market prices are used in making tax assessments. However, most states require periodic

adjustment of commodity price and input cost information used in assessing farm land values, and as those new prices are factored into the formulas, major reductions in the property tax base will occur in some areas.

South Carolina provides an example of what is likely to happen in other states. The preferential assessment for farmland in South Carolina is based on use value with periodic adjustments made in the formula to reflect changes in the net farm income situation. Such adjustments were to be made in 1986. But upon making the adjustments, it was found that 80 percent of the agricultural land in the state had negative farm use value. Since agricultural land accounted for only about two percent of all taxable property in the state, reducing the tax value of farm land to zero in South Carolina would have had only a minor impact on revenues statewide. But in some school districts, farmland represented almost 20 percent of the value of taxable property, and in order to prevent serious fiscal problems in some localities, the legislature voted to postpone the routine adjustment.

In the areas studied by the Subcommittee in Iowa, Minnesota, Nebraska and North Dakota, more than 45 percent of the local property tax base is accounted for by agricultural land. In Minnesota, 78 percent of the value of the local property tax base was accounted for by farmland. Hence, the concerns that led the South Carolina legislature to postpone adjustments in its use-value assessment formula are even more serious in these and other states where farm land is a larger component of the property tax base.

Just how serious these concerns are depends to some extent upon the relative importance of the property tax as a local revenue source. The

importance varies widely. Property taxes produce more than 40 percent of the local revenues in Kansas, Montana, and Nebraska, lower in other states studies by the Subcommittee. In Nebraska local governments are particularly vulnerable to declines in agricultural land values. In Kansas and Montana, declining farmland values are compounded by declines in the value of oil and gas properties.

The Subcommittee Report concludes, therefore, that local fiscal stress rooted directly in problems of agriculture is evident in Nebraska, and to a lesser but important extent in Iowa, Minnesota, and North Dakota. Problems may also exist in other states which were not studied.

These conclusions, as they pertain to Nebraska, are supported by independent work. Johnson detected substantial declines in non-agricultural real estate values in small Nebraska towns, and in his work with Forsythe, found evidence of growing property tax delinquency in some counties of central Nebraska.

The important point to keep in mind is that while signs of stress are evident, there are lags in that stress becoming manifest. Whatever problems local governments in rural America now face, they are likely to intensify over the next two or three years as reassessment of property occurs and as further reductions in federal aid are effected.

We must not leave the subject of local government stress without a brief mention of infrastructure problems, many of which are centered in special purpose districts. There are several national surveys of infrastructure needs (ABT Associates, Choate and Walter). In our own work in South Carolina, we have focused on public water supply systems.

These systems, generally governed by lay boards,are plagued by inappropriate accounting procedures and poor financial management. Our work shows that these that are borrowers from FmHA have benefited somewhat from FmHA oversight and exhibit greater stability in their finance (Tinubu, p.92-97). Even so, FmHA has often found it necessary to roll over the debt of several systems. Elimination of the credit provided by FmHA to water systems will have serious adverse consequences in South Carolina, and we have no reason to believe the situation will be greatly different in many other states (Thurmond Institute).

Fiscal Stress, Fiscal Crisis and Fiscal Shock Absorbers

Fiscal Structure and Shock Absorbers

Fiscal stress does not automatically translate into fiscal crisis, or financial emergency, as that latter term has been defined by ACIR (ACIR, 1973). There are structural safeguards that can mitigate the impact of fiscal stress on provision of public services.

The first line of defense for local governments is the state, which shares its revenue base and some responsibilities for service delivery. The capacity of the state to cushion the loss of local revenues resulting from localized economic stress depends upon two factors. The first is the sensitivity of the state tax system to widespread changes in local income, sales and wealth. The second is the structure of the state-local tax, expenditure, and intergovernmental grant system which can be the vehicle for mitigating local fluctuations in the local tax base.

Both factors must be considered in light of whether the source of economic stress is cyclical or secular market disturbances. Stress resulting from the latter poses a much more difficult problem. We will

first examine the ability of the state-local system to mitigate local fiscal stress on a short-term basis in response to cyclical disturbances.

Structural factors that determine the role of the state as a backup and stabilizer, and also the resiliency of the local revenue system, are: 1) property tax dependency, 2) state share of total tax collections, 3) state aid as a percentage of local revenues, 4) state share of total expenditures and of educational expenditures, and 5) existence of circuit breakers and homestead exemptions with state reimbursement to local governments.

Taken together, low property tax dependency, a larger state role in revenues, expenditures and local aid, and circuit breakers and homestead reimbursement would provide a substantial package of "automatic stabilizers" to insulate local governments from the vagaries of the local economy.

Information concerning such stabilizing factors in the 15 farm states, and where relevant, national comparisons, is provided in Table 3. Note that circuit breakers are more widely used in the farm states than nationally (12 out of 15 farm states versus 30 out of all 50 states). Homestead exemptions are also more popular in these 15 states than nationally (13 out of 15 farm states versus 24 out of all 50 states). The circuit breaker, an income tax credit (usually only for low income property owners) for property taxes paid, makes it easier to raise property tax revenues, but the homestead exemption is a burden on local governments unless reimbursed by the state.

Of the 15 states examined, we find that local governments in Vermont appear to be most vulnerable. Fortunately, few signs of fiscal stress

Table 3. Structural Factors in Fiscal Systems Mitigating Localized Fiscal Stress, 15 Farm States.

State	State Share of: State-Local Revenue	Total Expenditures	Education Expenditures	State Aid as % of Local Revenue	Property Tax Dependence	Circuit Breaker	Homestead Exemption
Northeast							
VT	61.3%	67%	37%	24.4%	99.3%	Y+	Y,N
South							
AL	74.0	63	81	32.8	40.7	Y+	Y,N
AR	75.8	65	65	38.5	80.3	Y-	Y,N
MS	76.9	63	69	41.3	94.2	N	Y,Y
West							
ID	72.0	64	69	39.9	95.8	Y-	Y,N
MT	55.5	53	50	22.7	95.6	Y-	N
OR	52.4	53	31	27.1	90.8	Y+	Y,N
WA	73.7	63	80	40.7	63.4	N	Y,N
Midwest							
IA	72.0	58	45	33.2	98.1	Y-	Y,N
KS	58.3	49	46	23.6	87.1	Y-	N
MN	71.5	60	57	39.0	95.6	Y++	Y,Y
NE	54.0	48	31	20.6	96.3	N	Y,Y
ND	74.8	77	64	41.1	96.3	Y-	Y,N
OK	69.7	61	68	35.3	56.8	Y--	Y,N
SD	51.9	58	31	18.8	86.4	Y-	N
U.S. Average*	64.1	59	52	34.2	78.0		

*Average of nonfarm states excluding Alaska.

Notes: Columns 2-4 represent state share in combined state-local revenues, combined state-local spending and combined state-local education spending. Column 5 is state aid as a percentage of local revenues. Column 6 is share of local own-source revenues derived from the property tax. A "Y" in Column 7 indicates there is a circuit breaker, with + and - suggesting whether it is broader-based or more or less generous than the average. Under the heading "Homestead Exemption," the first "Y" or "N" indicates whether one exists and the second "Y" or "N" indicates whether it is reimbursed by the state

Source: ACIR, 1986a.

were detected in Vermont. There is also considerable vulnerability in Iowa, Kansas, Nebraska, Oregon and South Dakota. Since local fiscal stress also appears to be serious in several of these states, this vulnerability could mean a real potential for fiscal crisis in the Midwest.

Local governments in the Southern states have a heavy dependency upon state government and are relatively well insulated from problems unless they are statewide and persistent. Similarly, the fiscal structure of Minnesota, North Dakota and Oklahoma will tend to mitigate somewhat fiscal impacts upon local governments stemming from localized economic stress. However, such mitigation is not likely if the economic stress is both statewide and long-term, producing fiscal stress on state government. Since symptoms of state level distress were detected in all of the Midwestern states examined, all rural governments in those states, to a greater or lesser degree, must be judged vulnerable to fiscal crisis.

Stress from Secular Trends

A case can be argued that the economic stress now present in some parts of rural America can be traced, at least in part, to long-term trends in the American and global economy (Drucker). We will not attempt to argue that case here except to note briefly that a recent evaluation by the U.S. Office of Technology Assessment (OTA) indicates that emerging agricultural technologies are likely to have significant effects on the structure of the nation's agriculture. Such technology-induced structural change can often mean shifts in regional comparative advantages and the relocation of the centers of various types of production (Dunford and Perrons). Even if the geographic focus of production

is not significantly affected, the structure of production often changes. In the context of the present discussion, the OTA report would suggest a movement away from relatively modest-sized family farms that have characterized Midwestern agriculture toward the larger-scale operations usually associated with the irrigated areas of California.

Such change would have profound ramifications for local governments in the Midwest, where we observe emerging signs of fiscal stress most vividly. Both revenues and the demand for government services would be affected. While adjustments to such change are certainly possible, a rather prolonged period of fiscal stress might occur as those adjustments are made. Even in those states where the existing fiscal structure cushions local governments from fiscal stress, major reforms would be needed. Those cushions are not well-designed to cope with prolonged problems arising from major changes in the economic and social structure of an entire state or region if fiscal stress should result in fiscal crisis.

A 1973 ACIR study (ACIR, 1973), updated in 1985 (ACIR, 1985), provides some overview of the backup mechanisms (beyond the structural devices reviewed above) established in the various states to cope with financial emergencies of local governments. Five states have no mechanisms in place at all. All other states have some provisions in law, although they vary greatly from rather close routine supervision and monitoring of local government revenues and expenditures to emergency procedures for dealing with local government default on debt obligations. In New Jersey, for example, the Local Government Board (a state agency) can exercise powers equivalent to receivership.

While no prediction is offered here than a substantial number of local governments in rural America will soon face the sort of fiscal crisis that means a financial emergency, the symptoms of stress that are detectable makes such emergencies a real possibility, at least in some areas. Given the chaos that such emergencies would almost certainly cause, prudence suggests that each state might re-examine its existing provisions for dealing with local government financial emergencies. The process recommended by ACIR follows generally that established in New Jersey and involves: 1) monitoring the fiscal condition of local governments on a regular and systematic basis, 2) defining an orderly process by which state intervention occurs when a fiscal crisis appears imminent, and 3) granting powers to specified agents of the state to intervene and place the fiscal affairs of the threatened government in receivership.

In addition, several states have already acted to create infrastructure banks (Zorn). These banks are designed to provide credit to local governmental units for capital expenditures connected to water and sewer systems, streets, roads and bridges, and related infrastructure facilities. As the community development programs of FmHA are phased out, alternative credit sources such as might be provided by such infrastructure banks will become increasingly important. Those states that have not moved to establish such institutions are apt to find the need for them increasingly apparent.

Conclusions

Because of the nature of the data available for evaluation of the fiscal condition of governments in rural America, any conclusions about the existence of fiscal stress must be based on some straws in the wind.

Those straws are there. They suggest that the level of fiscal stress in rural America has increased and that in some areas, particularly in the more agriculturally-dependent counties of the Midwest, conditions are developing that could lead to very serious financial problems.

Yet generalizations are difficult. In some states sufficient diversity exists in the state economy so that fiscal stress is confined largely to individual localities. Given a fiscal structure in those states that provides substantial support to local governments from state revenues, the fiscal problems in communities experiencing stress is unlikely to reach a crisis level. In any event, if the state economy remains reasonably strong, the state will be able to provide rescue operations for local governments and crisis can be headed off.

In other states, however (notably Iowa, Mississippi, Nebraska, North Dakota, and Oklahoma), the fiscal condition of state governments is serious and the ability of these states to provide rescue operations for local governments cannot be taken for granted. The problem appears to be most critical in those states with a heavy dependence upon both agriculture and upon oil and gas.

Whatever the current level of fiscal stress, it will almost certainly increase before it begins to subside. The nature of the fiscal institutions in most states assures that there is a lag between the onset of economic stress and the onset of fiscal stress. Reassessment of property will reduce the property tax base in many communities. In addition, the elimination of General Revenue Sharing and possibly other programs of federal assistance to local governments will exacerbate the problems of all local governments, but be particularly stressful on

those in rural America as the full fiscal effects of the agricultural depression are realized.

With only a few straws in the wind, it would be unduly alarming to warn that a full-fledged fiscal crisis is about to erupt in rural America. We are not without institutional defenses against such a crisis. Yet as agriculture undergoes a restructuring and as a new international division of labor evolves, those institutions may be pushed to the breaking point in some states. The potential for crisis is clearly present, and that potential raises important questions about federal responsibility.

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