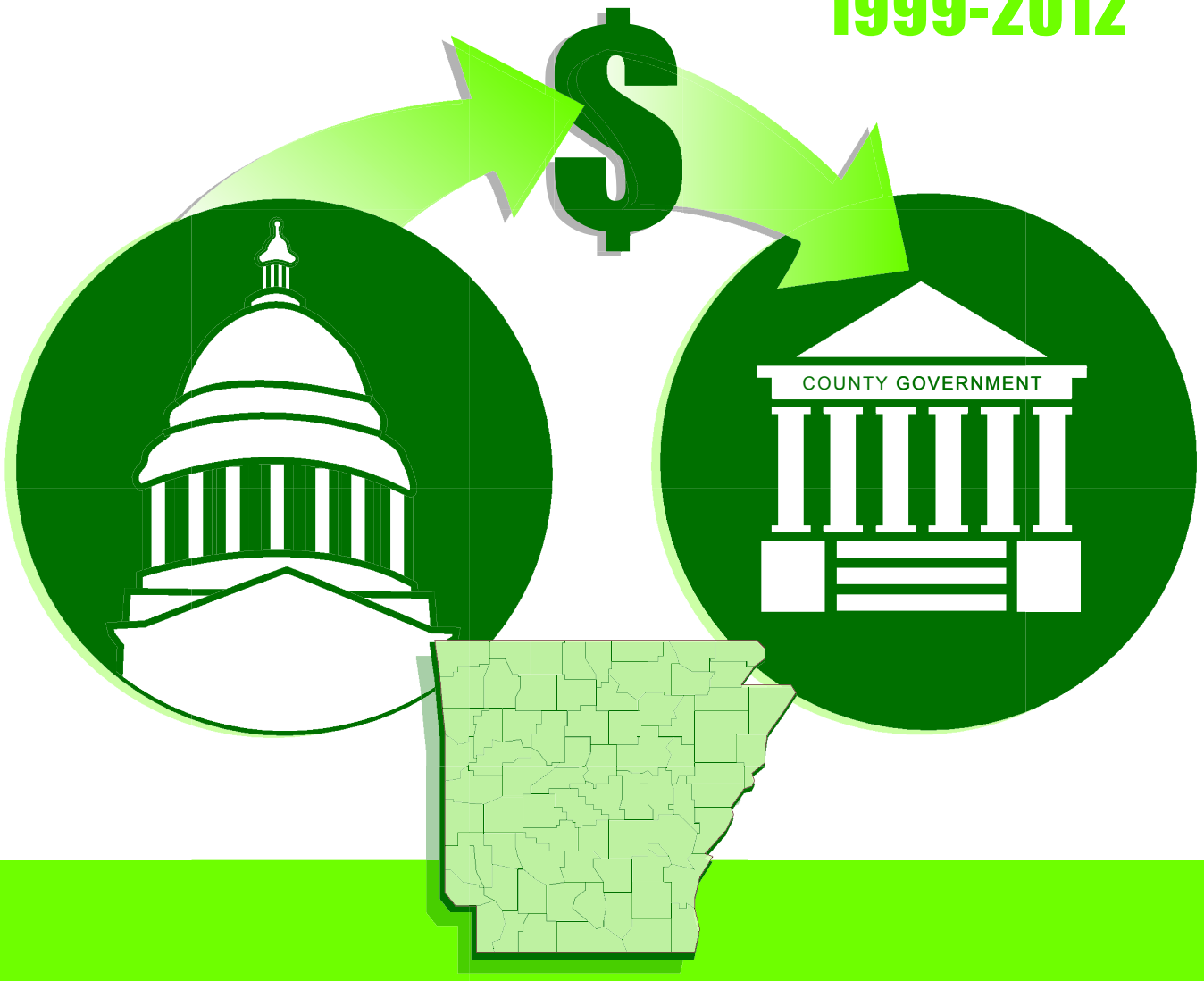
MP516

State and Federal Revenue Received by County Governments in Arkansas

1999-2012



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State and Federal Revenue Received by County Governments in Arkansas: 1999–2012

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Highlights

Intergovernmental transfers are important to every county in the state. But some counties depend on them more heavily than others, and those counties are greatly affected by changes in the level of state and federal government transfers. A look at intergovernmental transfers in Arkansas counties over a 13-year period shows that:

- Federal transfers fluctuated greatly from year to year, accounting for between 13% and 31% of total intergovernmental transfers during the 1999 to 2012 study period.
- State intergovernmental transfers fluctuated less from year to year but decreased as a share of total intergovernmental transfers, from 87% in 1999 to 80% in 2012.
- Rural counties in general received a greater share of their total revenue from state intergovernmental transfers than did urban counties.
- Because total intergovernmental revenue grew so slowly over the 13-year period, in most counties it became a smaller share of the total revenue received by county governments.

Total and per capita **state intergovernmental revenue** decreased from 1999 to 2012. But this doesn't tell the whole story. Comparing Arkansas' four regions and its five different economic sectors reveals that:

- The Delta and Urban regions experienced declines in total state intergovernmental revenue from 1999 to 2012, while the Highlands and Coastal Plains saw increases during the same period.
- The Delta had the greatest decline in state funding from 1999 to 2012 (8%).
- Services-dependent counties received much more funding from the state in 2012 than in 1999, and their per capita transfers increased 13%.
- In contrast, federal/state government-dependent counties experienced a large decrease in state funding, and their per capita state transfers dropped 39% during this period.

Arkansas counties rely on state intergovernmental transfers, and rural counties, especially, depend on them. Many of these counties experienced a decline in state funding between 1999 and 2012 – making it even more difficult to raise revenue to pay for local services.

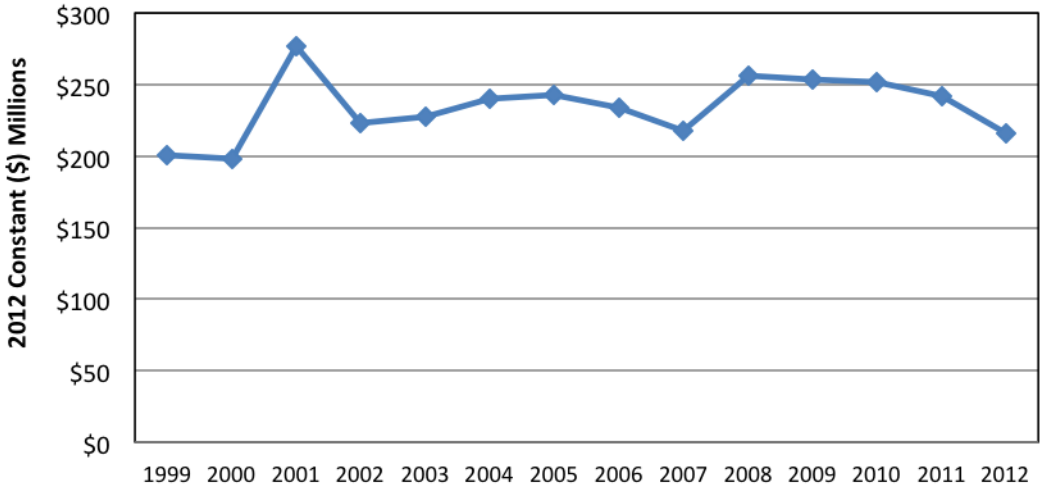
Overview

Intergovernmental revenue from the state and federal governments is vitally important to Arkansas county governments. It was the largest single source of revenue for 34 of the 75 Arkansas counties in 2012. In total, intergovernmental revenue accounted for $216 million of $993 million or 22% of total county government revenue in Arkansas in 2012.[1]

Total intergovernmental revenue fluctuated from year to year due to the allocation of major project funding and the amount of disaster assistance provided. Even greater than this year-to-year difference is the difference among counties in the amount of intergovernmental revenue they receive and in the degree to which they rely on it. Without revenue from the state and federal governments, some counties would have to either raise tax rates to extremely high levels or eliminate services.

Total intergovernmental revenue in 2012 constant dollars increased from $201 million in 1999 to nearly $216 million in 2012, an 8% increase.[2] However, as seen in Figure 1, this increase would have been much greater had intergovernmental revenue not declined steadily from 2008 to 2012. The spike in 2001 (reaching $277 million) was due to increased disaster assistance resulting from an ice storm that damaged local infrastructure.

Figure 1. Total Intergovernmental Revenue Received by County Governments (1999–2012)



Sources: Arkansas Legislative Audit and U.S. Department of Labor

[1] At the time of this publication, the 2012 legislative audit report for Scott County had not been released; therefore, 2011 values were used as proxy values for 2012 in the case of Scott County.

[2] All dollar values are reported in 2012 constant (real) dollars unless otherwise specified. The South Urban (SU) consumer price index (CPI) was used to adjust revenues for inflation. The revenues were then indexed to 2012 dollars so that 2012 nominal and real dollars were equal.

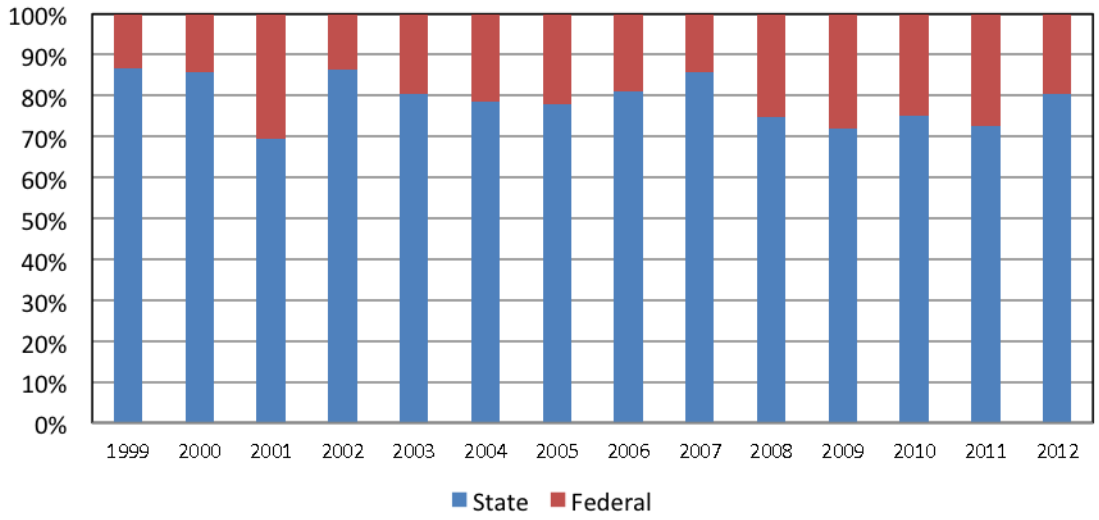
From the State

A large share of intergovernmental revenue comes from the state. *How* large a share varied considerably from 1999 to 2012. As a whole, the state provided between 69% and 87% of total intergovernmental transfers during this period (Figure 2). But the dollar amounts the state gave counties did not vary greatly from year to year because the sources of that revenue are relatively stable.

They include:

- state general turnback.
- highway revenue turnback.
- state aid road funds.
- severance taxes collected by the state, forest reserves, and proceeds from the sale of forfeited land.
- sales or lease of public property.
- community block grants.

Figure 2. Share of Total County Intergovernmental Revenue by Source (1999–2012)



Source: Arkansas Legislative Audit

From Federal Transfers

In contrast to state revenue, federal transfers to county governments fluctuate greatly from year to year, depending on the special projects funded and the level of disaster assistance provided (for example, the ice storm in 2001). Counties receive federal funds from the revenue generated by:

- federal forest resources in the county.
- sale or lease of public domain lands in the county.
- special projects.
- disaster relief assistance.

In this study, the authors examine the sources, distribution and trends of both federal and state intergovernmental revenue during the 13-year period from 1999 to 2012.

Federal Intergovernmental Revenue

Although counties typically receive less from federal transfers than from the state, federal transfers still represent a significant portion of county government revenue and are trending upward (Figure 3).

- Federal intergovernmental transfers to counties in Arkansas increased 60% from $27 million in 1999 to $43 million in 2012, with a peak of nearly $85 million in 2001.
- The share of total county revenue received from the federal government also increased slightly during this period – from 3% in 1999 to 4% in 2012, with a high of 10% in 2001.

A large amount of the revenue received from the federal government is for special projects, disaster relief or county roads.

Part of the revenue derived from federal forest resources or the lease of federal land is given to counties to be used in their county road fund.

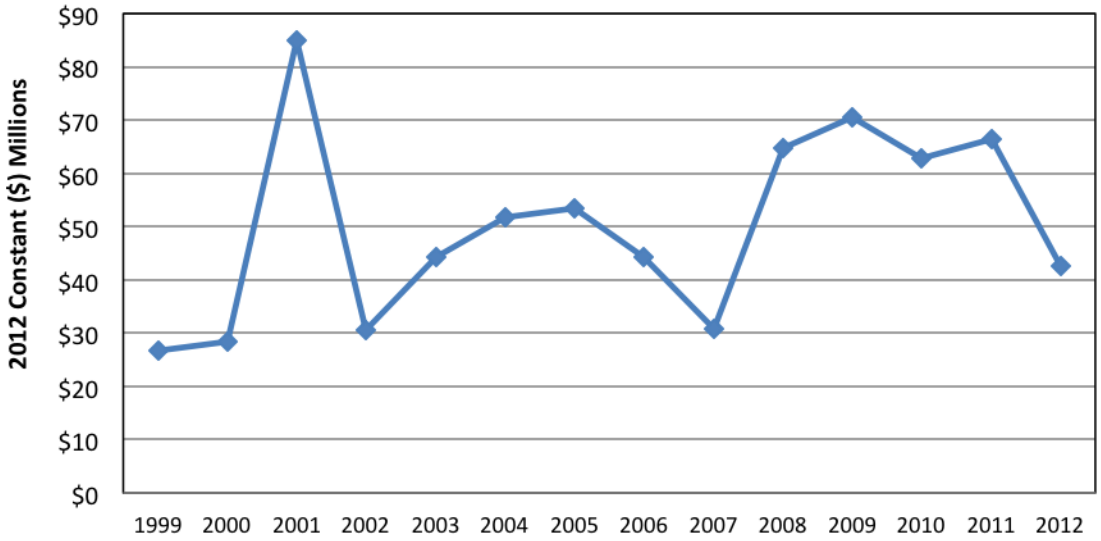
Substantial federal transfers are sometimes received for special projects or in response to natural disasters. Such was the case in 2001, the year of the ice storm, when federal intergovernmental transfers peaked at $85 million as the federal government provided counties with additional funds in the form of disaster relief to aid in repair of local infrastructure.

The level of federal funding can also be significantly increased with special project funding. In 2003, Grant County received nearly $7 million (current dollars) in federal transfers to assist with the cleanup of a chemical stockpile.

The reasons for these major transfers vary and are unpredictable, making it difficult to forecast future federal transfers.

Since most of the funding received from the federal government is for special projects and disaster relief, substantial variations in federal funding are observed among counties and over time. Therefore, it is difficult to predict which year, or in which area of the state, counties

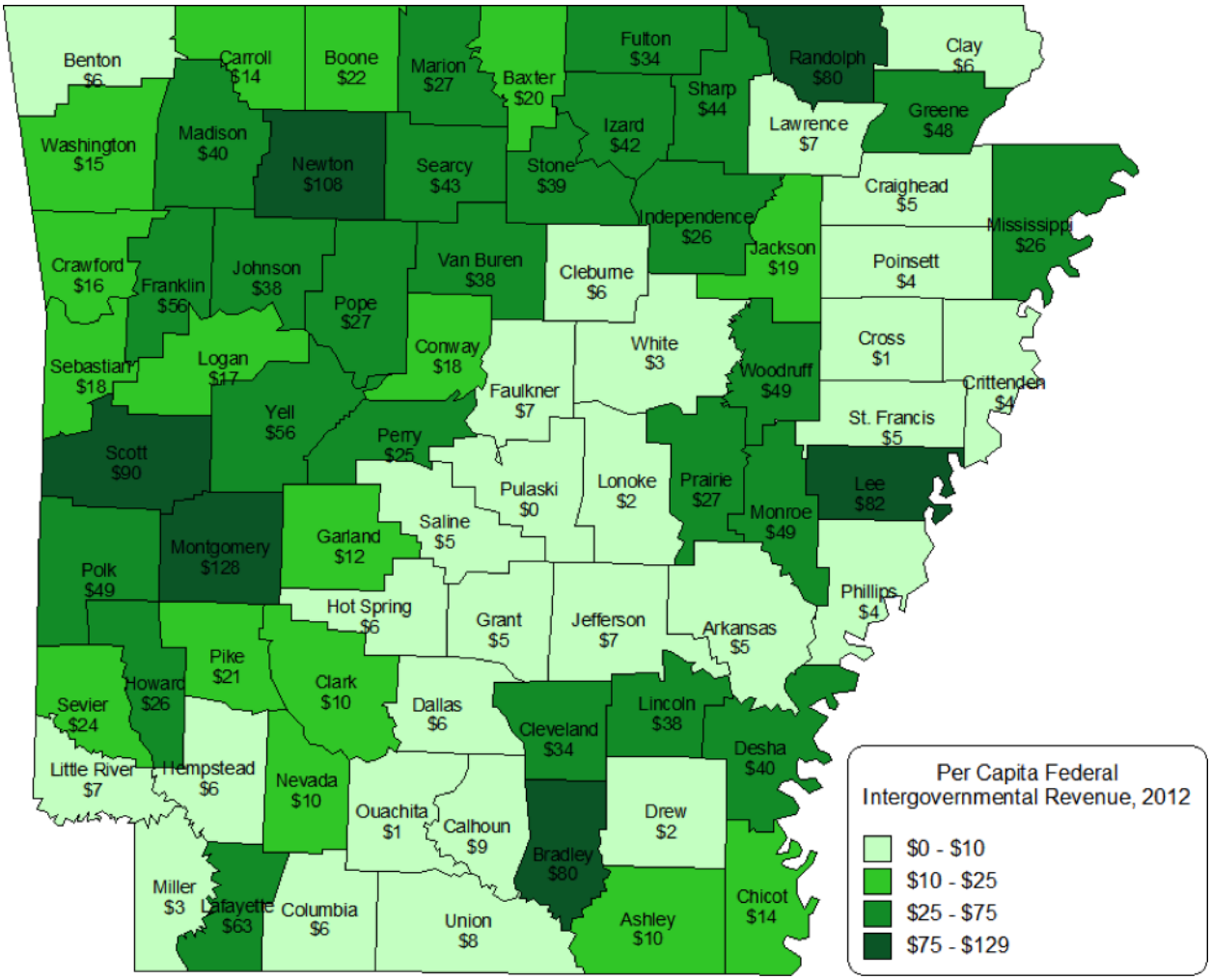
Figure 3. Federal Intergovernmental Revenue Received by County Governments (1999–2012)



Sources: Arkansas Legislative Audit and U.S. Department of Labor

will receive substantial federal funding. As Figure 4 shows, in 2012 there was a great variation among Arkansas counties in federal funds received on a per capita basis, ranging from less than $1 (Pulaski County) to just over $128 (Montgomery County).

Figure 4. Per Capita Federal Intergovernmental Revenue Received by County Governments (2012)



Sources: Arkansas Legislative Audit and U.S. Census Bureau

State Intergovernmental Revenue

Whether funding law enforcement, county road improvements or general county operations, a large portion of county revenue comes from the state.

- State intergovernmental revenue at $173 million accounted for 17% of total county revenue in 2012.
- However, state transfers to county governments **decreased** by 1% from 1999 to 2012, while total county expenditures **increased** by 32% during the same period.

Many counties, especially poor rural counties, are highly dependent on state funding to finance county services.

Revenue Categories

Much of the state funding has few restrictions on use of the funds, other than the broad designations for the county highway system or general county government.

In 2012:

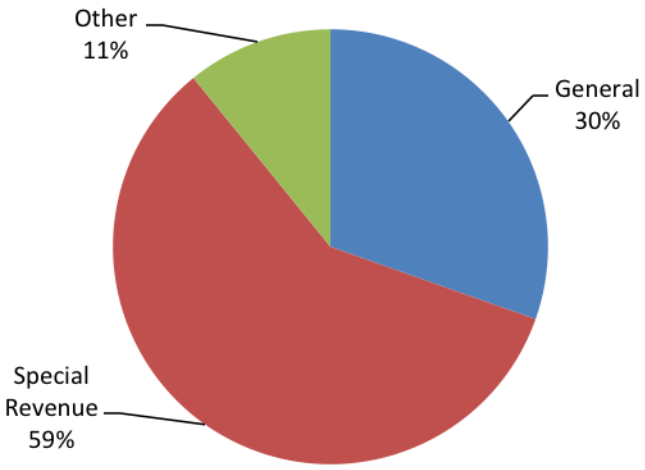
- Over half (59%) of the revenue received from the state went into the special revenue fund, which includes state highway revenue turnback, state aid to secondary roads, state severance taxes and other special revenue.
- A significant portion of state funding (30%) was for general county operations, while a lesser amount (11%) was provided for other projects (Figure 5).

The amount the state transfers to each county depends on a number of factors, including but not limited to the land area, the size of the population and how much of the population is rural. The two largest categories of transfers, special revenue and general revenue, have different formulas for allocating funds to counties.[i]

Special revenue, the largest category, is primarily funded from motor vehicle registration and license fees, the gasoline tax, special motor vehicle permits, special motor fuel taxes and severance taxes. Counties may use these funds to support the county highway system.

General revenue is received from the state general revenue fund, which comes from a variety of sources, including but not limited to sales

Figure 5. Share of State Intergovernmental Revenue by Fund (2012)



Source: Arkansas Legislative Audit

and use taxes, individual income taxes, corporation franchise and income taxes, cigarette taxes and permits and employment agency licenses. This revenue is intended to be placed in the county's general fund and to be used for "general county purposes, unless otherwise appropriated by the quorum court."[3]

Total State Funding

While total state transfers to county governments changed only slightly (-1%) from 1999 to 2012 (Figure 6), there were year-to-year fluctuations, and many counties experienced a considerable decline in the real dollar amount of funds received from the state during this period.

State intergovernmental revenue decreased from $174 million in 1999 to $173 million in 2012, with year-to-year variations.

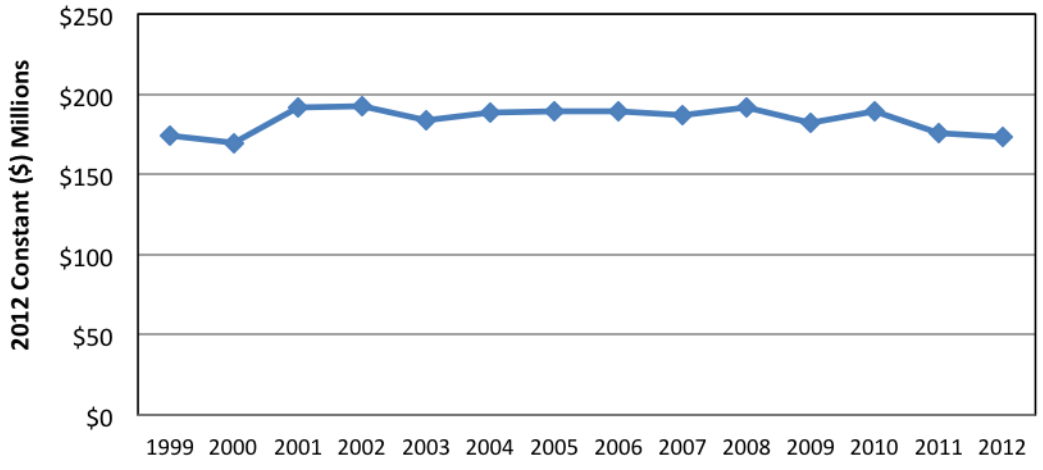
- Total state intergovernmental transfers reached $192 million in 2001 and 2002.
- State funds then declined to under $190 million in 2003.
- There was an increase to $192 million again in 2008.
- By 2012, state funds declined to $173 million.

While total state intergovernmental revenue decreased, there was considerable variation in the changes in state funding among counties from 1999 to 2012.

- Thirty-eight counties received less from state intergovernmental transfers in 2012 than in 1999. Revenue declines ranged from less than 1% to 45%.
- Eleven counties lost 20% or more of their state revenue during this period.
- Conversely, 37 counties received more state funds in 2012 than in 1999, with increases ranging from less than 1% to 74%.
- Eighteen counties saw an increase of 20% or more in state funds from 1999 to 2012.

Figure 7 shows the variety of changes in state funding that occurred among counties from 1999 to 2012.

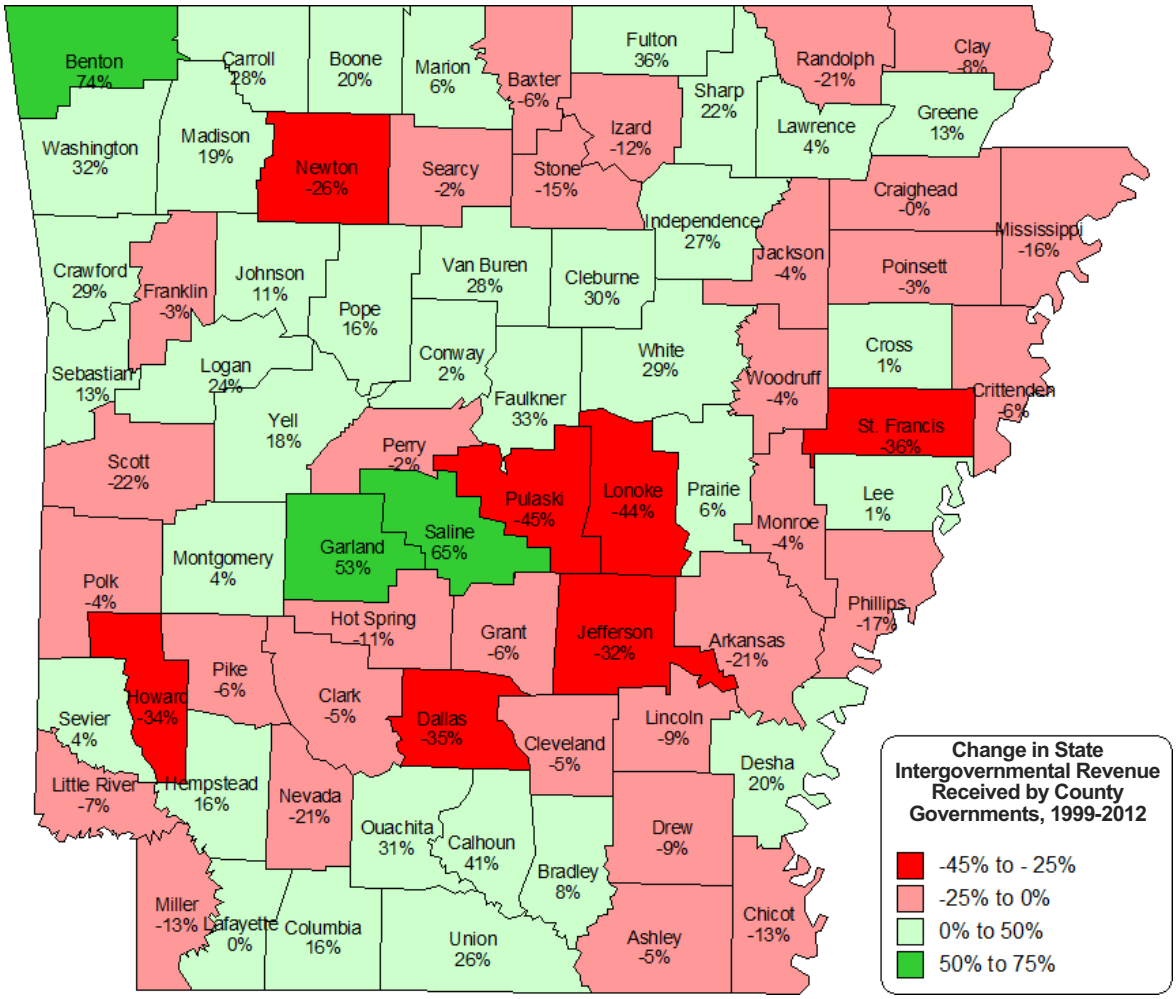
Figure 6. State Intergovernmental Revenue Received by County Governments (1999–2012)



Sources: Arkansas Legislative Audit and U.S. Department of Labor

[3]**Source:** *Arkansas County Judges Procedures Manual* published by the Association of Arkansas Counties, October 2014.

Figure 7. Change in State Intergovernmental Revenue Received by County Governments (1999-2012)



Sources: Arkansas Legislative Audit and U.S. Department of Labor

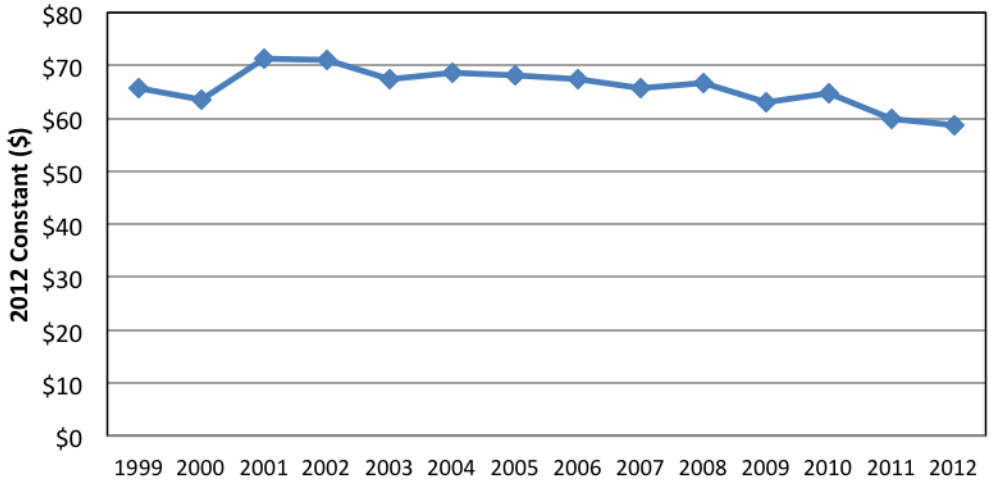
State Funding Per Capita

The decrease in per capita state intergovernmental transfers was more dramatic than the decrease in total. There was an 11% decrease in per capita state intergovernmental revenue provided to county governments from 1999 to 2012 from $66 in 1999 to $59 in 2012. Figure 8 shows this trend.

As with total state intergovernmental revenue, the change in per capita revenue from 1999 to 2012 varied greatly among counties.

- Thirty-nine counties had increasing and 36 counties had declining per capita state revenue during the study period.
- Most counties with declining total state intergovernmental revenue also had declining per capita state revenue, although there were eight exceptions (e.g., Phillips, Chicot, Monroe).
- Six counties (Conway, Faulkner, Greene, Johnson, Sevier and Washington) had increasing state intergovernmental revenue but declining per capita revenue because their populations increased faster than their state revenue transfers.

Figure 8. Per Capita State Intergovernmental Revenue Received by County Governments (1999–2012)



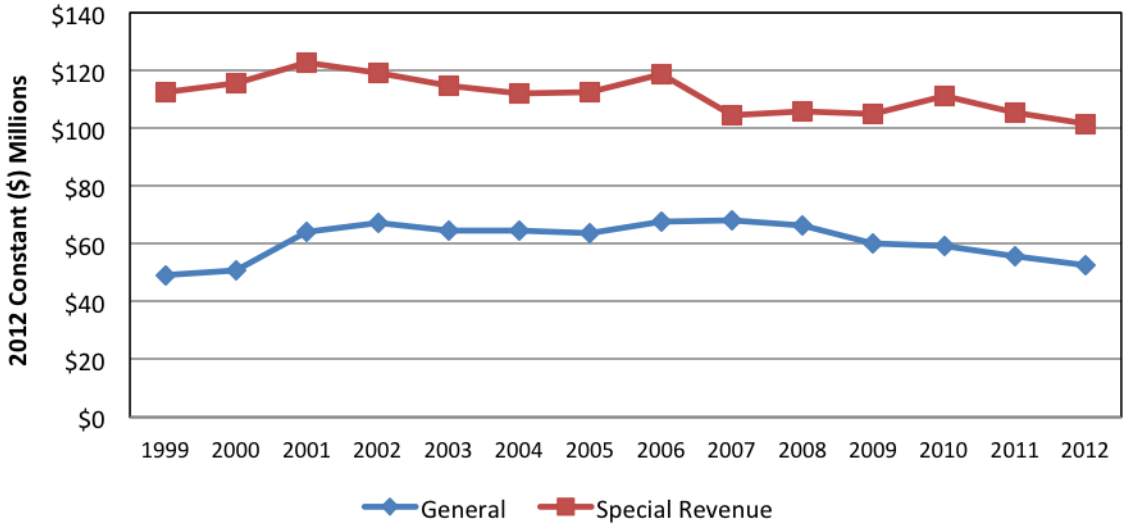
Sources: Arkansas Legislative Audit, U.S. Census Bureau and U.S. Department of Labor

General and Special Revenue

When looking at the two main sources of state intergovernmental revenue, it is apparent that special revenue accounted for a larger share of intergovernmental revenue than state general revenue for the entire study period. However, special revenue decreased over the study period while state general revenue increased (Figure 9).

- State general revenue turnback to counties increased by 7% from $49 million in 1999 to $53 million in 2012.
- Special revenue dropped 10% from $113 million in 1999 to $102 million in 2012.
- However, general revenue turnback declined more rapidly than special revenue from 2008 to 2012.

Figure 9. General and Special State Intergovernmental Revenue Received by County Governments (1999–2012)



Sources: Arkansas Legislative Audit and U.S. Department of Labor

Comparisons of State Intergovernmental Revenue

Because of the vast differences in the amount of state funding and reliance on this funding among counties to support local services, we analyze the data to determine if these differences are observed between regions of the state or between counties with differing economic bases. This will help identify characteristics of counties that are heavily dependent on intergovernmental revenue and thus greatly affected by changes in state and federal government transfers. State government funding is analyzed using three classification schemes.

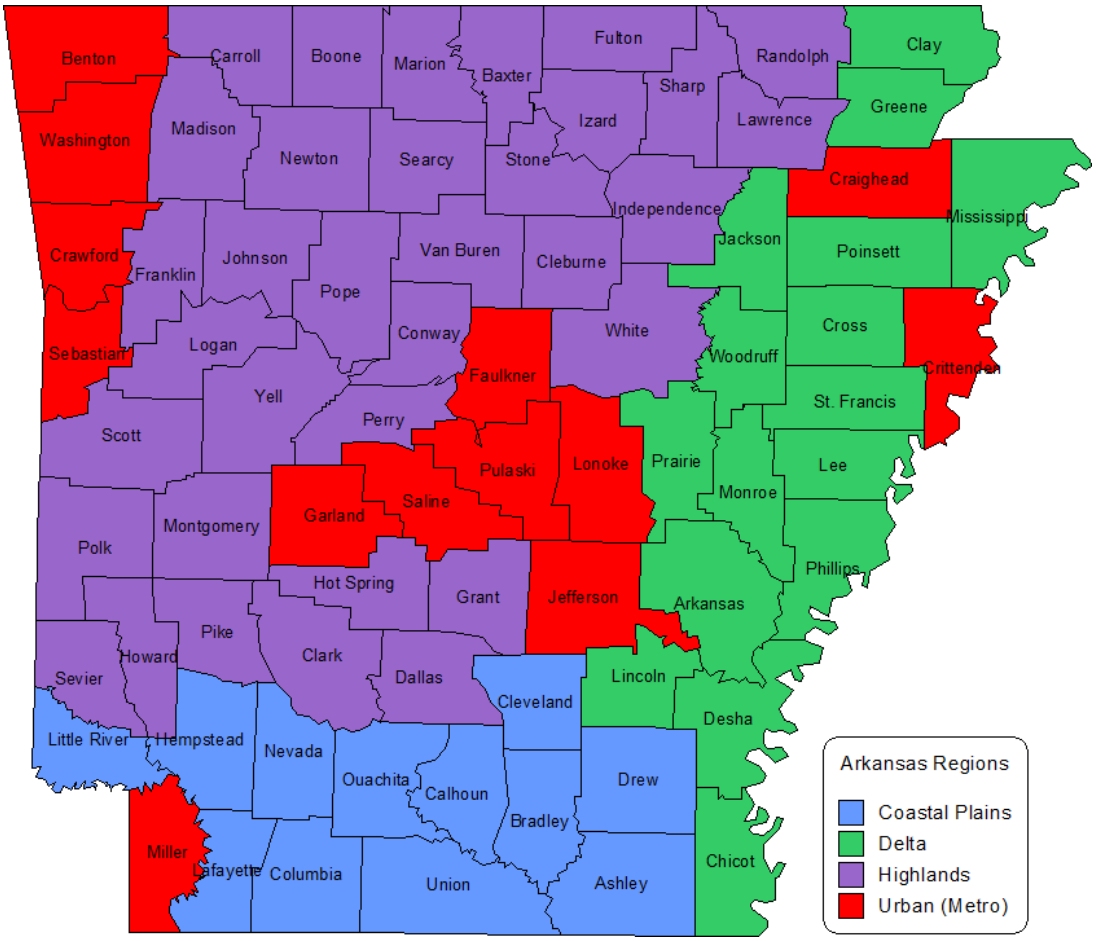
1. **Metro (urban) versus non–metro (rural)**
2. **Regions of the state: urban and three rural regions (Coastal Plains, Delta and Highlands)**
3. **Economic dependency**

The first classification system compares metro and non-metro counties as defined in the 1999 Census designation. There are 13 metro and 62 non-metro counties in Arkansas.

To make comparisons among rural areas of the state, the rural counties are divided into three separate geographic categories – the Coastal Plains, the Delta, and the Highlands. Figure 10 illustrates the four regions of the state.

The economic dependency classification system was developed by the Economic Research Service of the USDA and categorizes counties by their major economic base.[ii]

Figure 10. Arkansas Regions

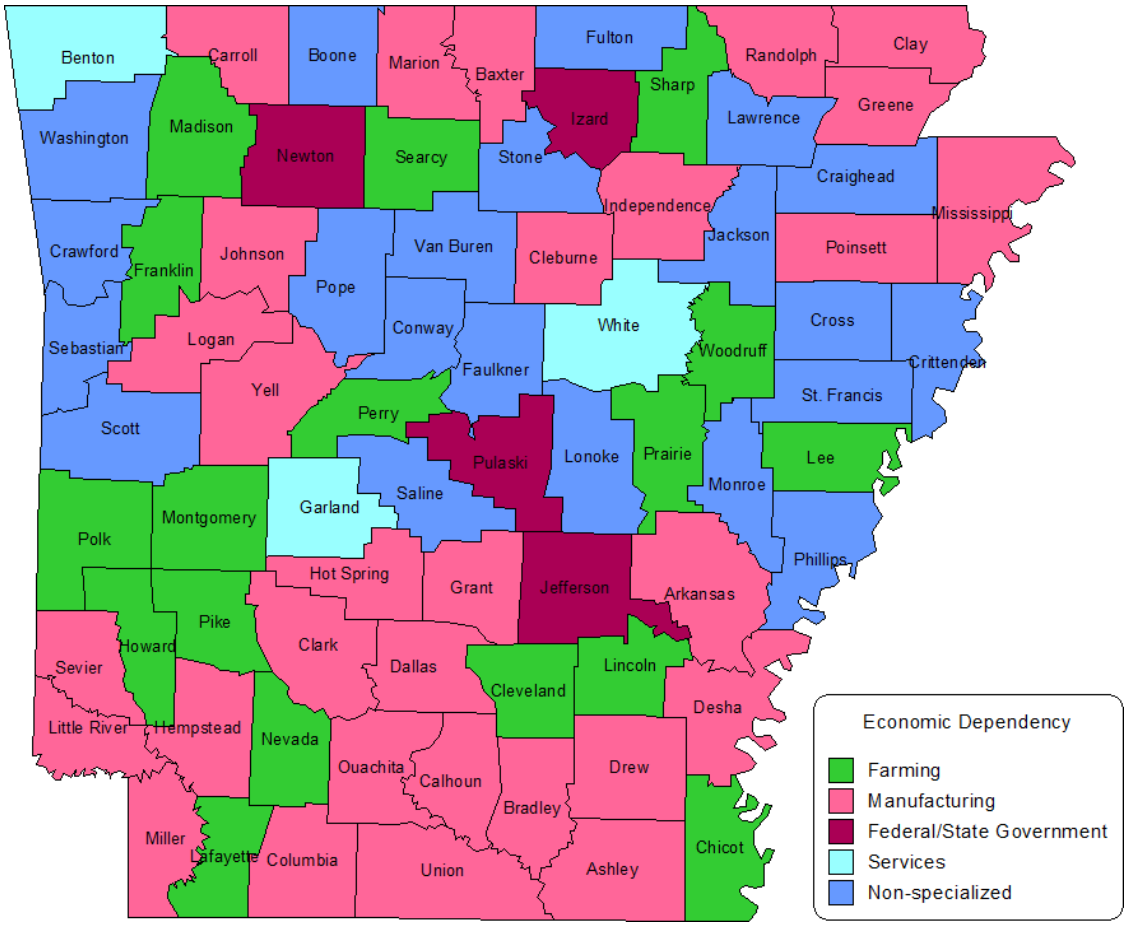


Source: Cooperative Extension Service (*Rural Profile of Arkansas*)

This study uses the six economic dependency classifications (see Figure 11) to identify counties as one of the following:

- Farming-dependent
- Mining-dependent
- Manufacturing-dependent
- Federal/State Government-dependent
- Services-dependent
- Non-Specialized.

Figure 11. Economic Dependence Classification



Source: USDA Economic Research Service

Metro and Non-Metro Differences

The state provides more funding to non-metro counties as a whole, and they rely more heavily on state funding to pay for local services.

In 2012:

- Non-metro counties, which had less than half (43%) of the state's population in 2012, received 66% of total state transfers or $115 million.
- Metro counties received $58 million in the same year.
- This translates to approximately $91 per person in non-metro counties compared to $34 per person in metro counties.

Metro and non-metro counties differed not only in total amounts of state funding received but also showed different trends over the 13-year study period. Non-metro counties saw a 2% increase from 1999 to 2012, while metro counties saw a 4% decrease during the same period.

This trend is even more apparent when looking at state intergovernmental revenue per person:

- State intergovernmental revenue increased by 1% in non-metro counties (from $90 in 1999 to $91 in 2012).
- State intergovernmental revenue declined by 21% in metro counties (from $44 in 1999 to $34 in 2012).

When considering state intergovernmental revenue as a share or percentage of total revenue, we can see that non-metro counties receive a larger share of their total revenue from the state than do metro counties (Figure 12).

However, state funds as a share of total county revenue decreased in both metro and non-metro counties during the 13-year period.

From 1999 to 2012:

- The share of total revenue accounted for by state intergovernmental revenue in metro counties declined from 17% in 1999 to 13% in 2012.
- During the same period, non-metro counties also experienced a decline from 27% in 1999 to 22% in 2012.

The decline in the percent of total revenue coming from state funds necessitates generating more funds from other sources to keep up with increasing expenditures. However, many non-metro counties are losing population and have a declining local tax base, which makes it even more difficult to generate additional revenue from local sources.

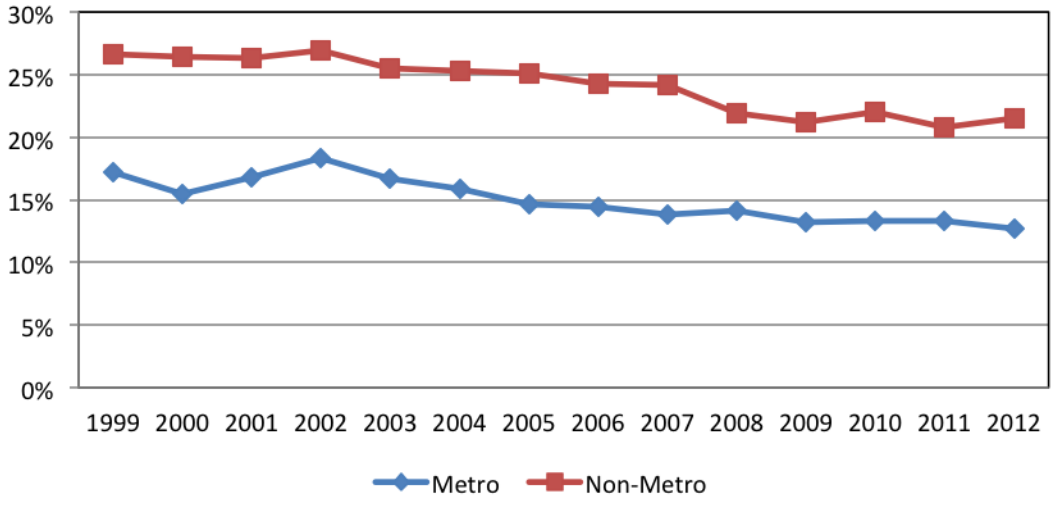
Regional Differences

State intergovernmental revenue differed among the regions of the state by both dollar value and the magnitude of change over time (Figure 13).

From 1999 to 2012:

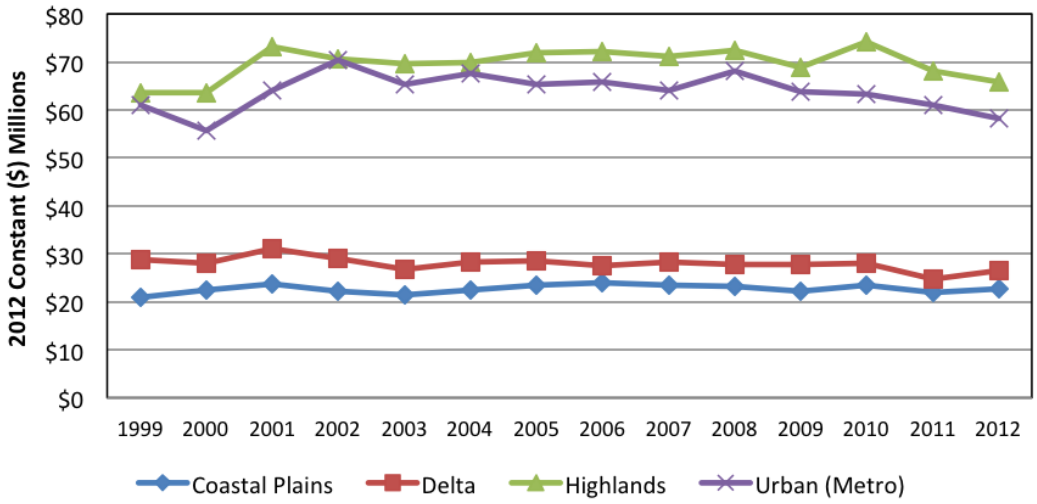
- The Coastal Plains and Highlands experienced increases in state intergovernmental revenue of 9% and 3%, respectively.
- In contrast, state funding declined by 8% in the Delta and 2% in the Urban region.

Figure 12. State Intergovernmental Revenue as a Share of Total Revenue by Region (1999–2012)



Source: Arkansas Legislative Audit

Figure 13. State Intergovernmental Revenue by Region (1999–2012)



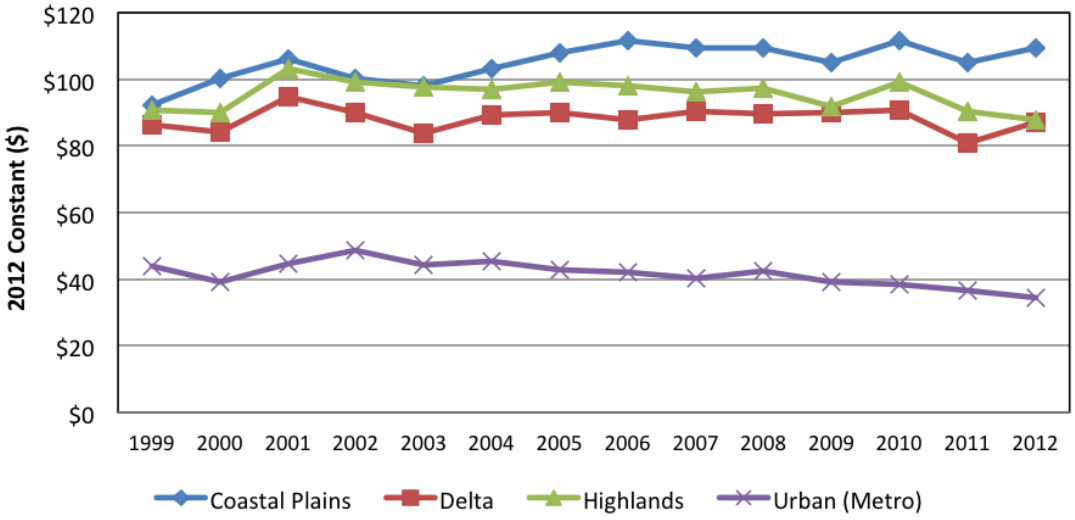
Sources: Arkansas Legislative Audit and U.S. Department of Labor

On a per capita basis, the Coastal Plains and Delta regions experienced increased state intergovernmental revenue from 1999 to 2012, while the Urban and Highlands regions experienced decreases (Figure 14).

- The increase in the Coastal Plains was greatest at 18%.
- The Delta saw a 1% increase.
- State revenue in the Highlands decreased by 3%.
- The largest decline occurred in the Urban region at 21%.

State intergovernmental revenue accounted for a larger share of total county government revenue in the rural regions of the state, but this share declined in all three rural regions between 1999 and 2012. The share of state intergovernmental revenue declined by six percentage points in the Highlands, five percentage points in the Delta and one percentage point in the Coastal Plains. However, state funds accounted for at least 20% of total county revenue in each rural region for the entire 13-year period.

Figure 14. Per Capita State Intergovernmental Revenue by Region (1999–2012)



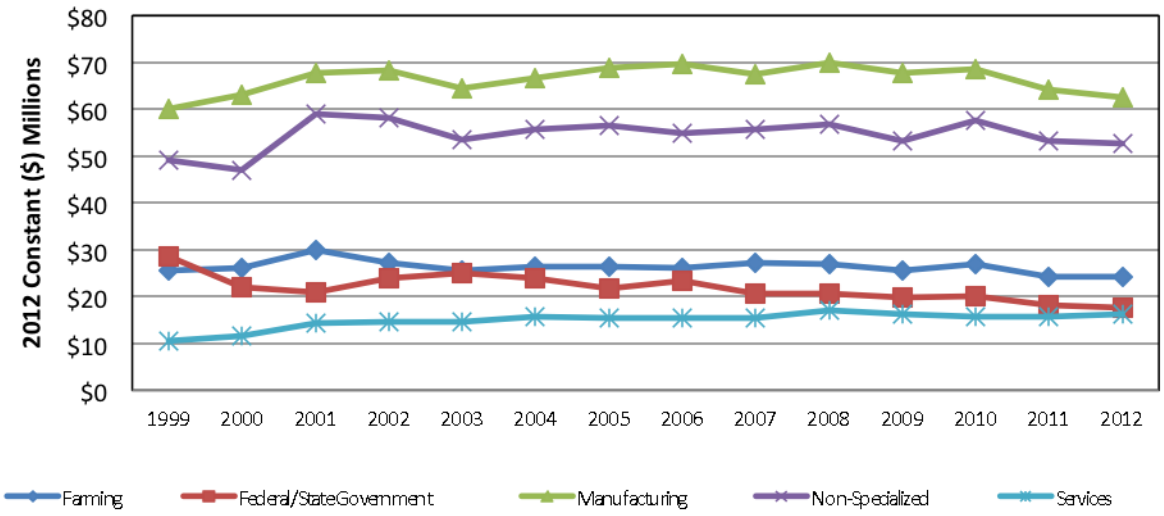
Sources: Arkansas Legislative Audit, U.S. Census Bureau and U.S. Department of Labor

Economic Dependency Differences

More diversity in state intergovernmental revenue is revealed when counties are analyzed by their economic dependency classification (Figure 15). From 1999 to 2012, the biggest changes occurred in the services- and federal/state government-dependent counties.

- Services-dependent counties saw the greatest percentage increase in total state intergovernmental revenue of all the economic dependence classifications, increasing 53% – from about $11 million in 1999 to $16 million in 2012.
- At the same time, federal/state government-dependent counties saw the greatest decrease, falling 39% – from $29 million in 1999 to $18 million in 2012.

Figure 15. State Intergovernmental Revenue by Economic Dependence (1999–2012)



Sources: Arkansas Legislative Audit and U.S. Department of Labor

Per capita state intergovernmental revenue by dependency classification for the period 1999-2012 are illustrated in Figure 16.

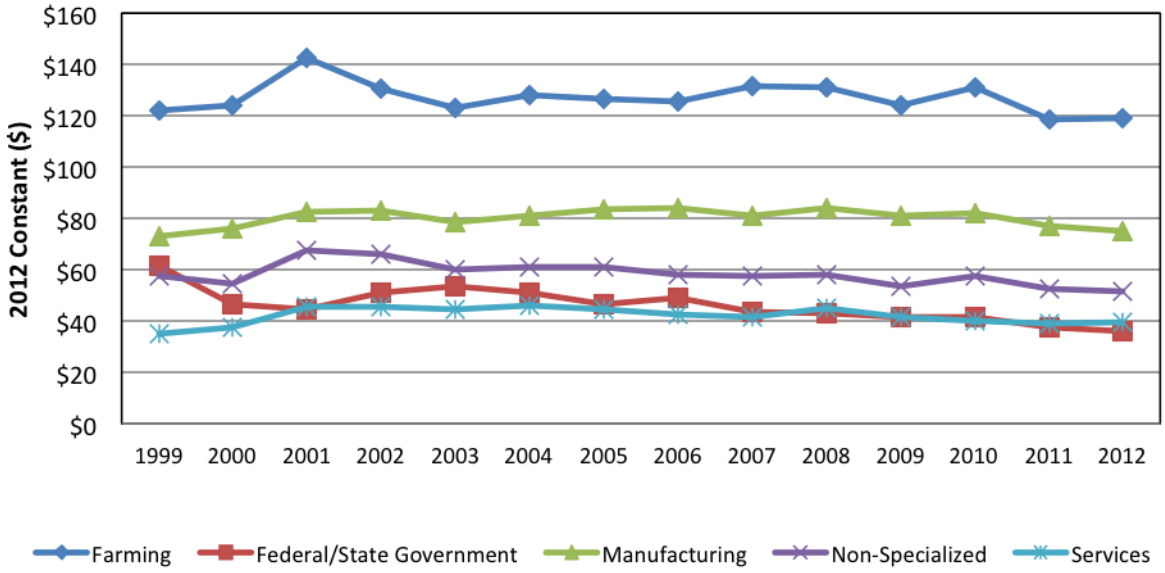
- The federal/state government, non-specialized and farming-dependent counties saw declines during this period of 39%, 9% and 3%, respectively.
- Manufacturing counties saw an increase of 5%.
- Services-dependent counties experienced the greatest increase, 13% (from $35 in 1999 to $40 in 2012).

Despite the decline in per capita state transfers to farming-dependent counties, these counties received substantially more state intergovernmental revenue per capita than any other economic dependency classification for the entire study period. In 2012 farming-dependent counties received three times more than services- and federal/state government-dependent counties.

The analysis of state intergovernmental revenue per $1,000 of personal income by economic dependence is illustrated in Figure 17. All five groups based on economic dependence saw a decrease from 1999 to 2012.

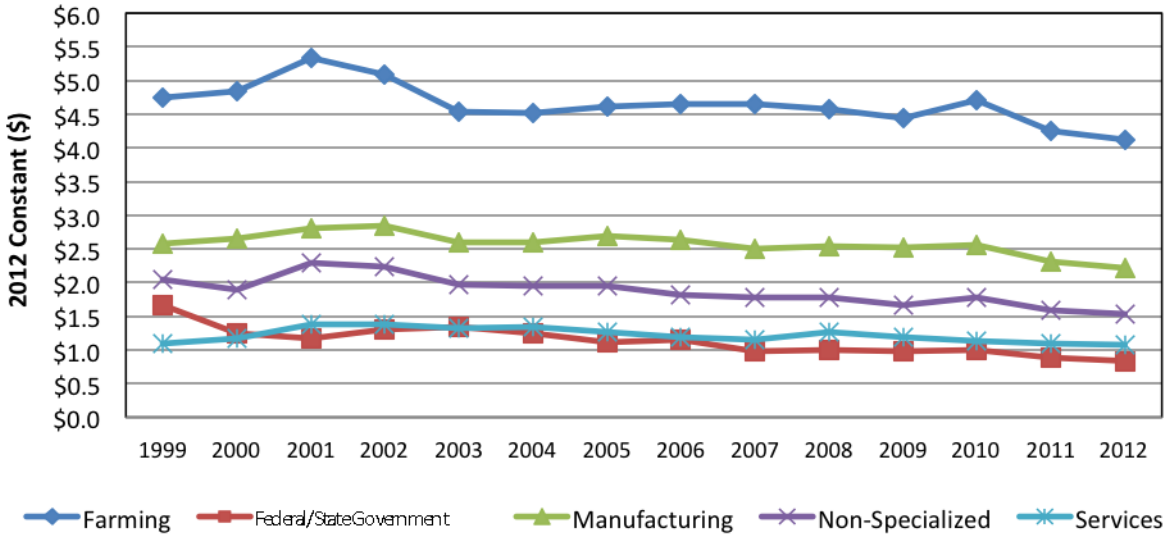
- Federal/state government-dependent counties saw the greatest decline, 50%.
- This was followed by declines in farming-dependent, non-specialized and manufacturing-dependent counties of 32%, 25% and 14%, respectively.
- Services-dependent counties experienced the smallest decrease, only 1%.

Figure 16. Per Capita State Intergovernmental Revenue by Economic Dependence (1999–2012)



Sources: Arkansas Legislative Audit, U.S. Census Bureau and U.S. Department of Labor

Figure 17. State Intergovernmental Revenue Per $1,000 of Personal Income by Economic Dependence (1999–2012)



Sources: Arkansas Legislative Audit, U.S. Department of Labor and Bureau of Economic Analysis

In absolute terms, farming-dependent counties received more state funding per $1,000 of personal income than the other economic dependency categories, remaining over $4.00 for the 13-year period while the others ranged between $0.84 and $2.84.

Another difference among counties based on their economic classifications is in how much they rely on state intergovernmental revenue to fund local services.

Farming-dependent counties were much more dependent on state intergovernmental revenue than were counties in other economic classifications, especially those counties classified as federal/state government- or services-dependent. In 2012, 25% of total county revenue in farming-dependent counties came from state intergovernmental revenue, as compared to only 14% in services-dependent counties and 12% in federal/state government-dependent counties.

Summary

County governments in Arkansas receive a substantial share (22% in 2012) of their revenue from the state and federal governments. While the state provides the largest share of intergovernmental revenue to county governments, this source of revenue decreased from 1999 to 2012. Federal funds, which accounted for between 13% and 31% of total intergovernmental transfers during the study period, grew by 60% overall. However, these funds fluctuate greatly from year to year depending on disaster assistance and special project funding given to counties.

State transfers to county governments vary greatly among counties and regions of the state. Rural counties, which had less than one-half of the state's population in 2012, received around two-thirds (66%) of state transfers in 2012. State transfers accounted for 22% of rural county governments' funding compared to only 13% for urban counties. However, state transfers have become smaller shares of total revenue for both urban and rural counties from 1999 to 2012. State transfers as a share of total county government revenue declined from 17% to 13% in urban counties and from 27% to 22% in rural counties during this period. Even though state revenue as a share of total revenue is declining, 24 counties still received over one-fourth of their total revenue from state transfers in 2012.

Many counties are even more dependent on intergovernmental transfers if federal transfers are included. Over one-half (39) of Arkansas counties received one-fourth or more of their funding from intergovernmental transfers in 2012. Therefore, changes in state and federal transfers greatly affect county government revenue and the ability of county governments to pay for infrastructure and services.

Endnotes

[i] **State General Turnback** is from state general revenues and is apportioned to counties as follows: (1) 75% is divided equally among the 75 counties and (2) 25% is divided in the proportion that the population of each county bears to the total population of the state as shown by the most recent decennial or special federal census.

State Highway Revenue Turnback is primarily from fees for registration and licensing of motor vehicles and gasoline tax and is apportioned as follows:

(1) 31% is divided proportionally by area,
(2) 17.5% is divided proportionally by motor vehicle license fees collected,
(3) 17.5% is divided proportionally by population,
(4) 13.5% is divided proportionally by the rural population, and
(5) 20.5% is divided equally among the 75 counties.

[ii] **Economic Dependencies** – A method of classification from the Economic Research Service of the USDA. The ERS has six different economic dependency classifications according to the primary source of income in a county. If a county has one industry that accounts for at least 30% of the income, it is described as being dependent on that industry. Counties that do not have one industry which comprises at least 30% are classified as non-specialized counties.

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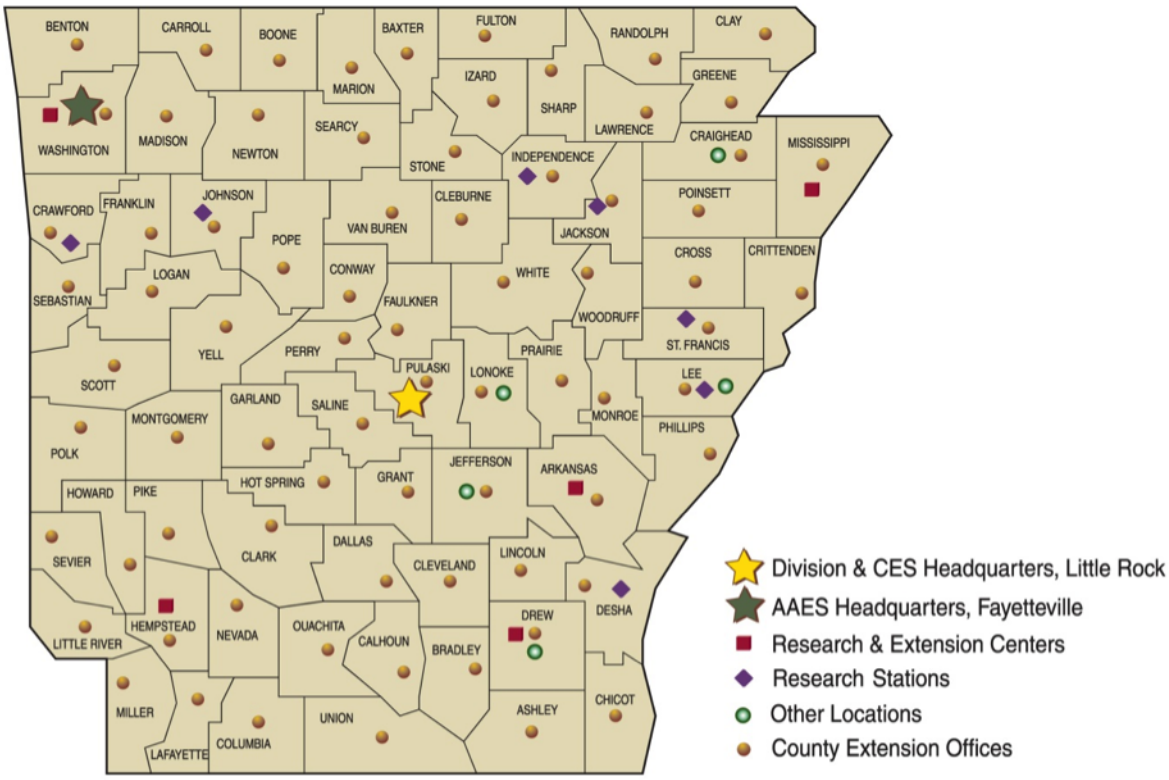

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