Minnesota Mandates: County Government Fiscal Stress in an Era of Declining State Support

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Abstract

Minnesota counties are experiencing more than just financial burdens from state mandates these days. Counties and local governments currently are seeking the most effective solution of implementing state mandates; leaving behind the argument of no mandates without funding to "give us mandates that work". In my analysis I combined county budgetary and demographic data, with phone survey data gathered from Minnesota counties. I anticipate results that will show a wide variety in county administrator attitudes towards state mandates and varying local capacity to meet them. Costly state mandates, such as health services, and large county populations have proven significant in explaining the allocation of state funding to counties. However, my analysis shows that there are reasons beyond these that explain where state funding is dispersed.

Introduction

Many of the counties all over the United States face many of the same types of concerns. Increased state imposed mandates caused by state budget deficits and expenditure limits are just one area of concern for county governments. Decreases in state funding for these mandated programs and services, as well as revenue and expenditure restrictions were placed on counties by states in order to protect their populations from over taxation. However, states maintain their position on counties by continuing mandated programs and services, while leaving the responsibility for funding options at the county level.

Unfunded or under funded mandates from states, bring about more than just fiscal stress. Many county officials argue that mandates reduce local authority and distract from local priorities. To meet state mandates counties often move funds from county projects or programs in order to fund the state program or service.

Over the past years, there was a great initiative to end unfunded mandates at the federal level. Newt Gingrich, during the term of former President Bill Clinton, pushed for policy reform with his Contract With America, and the Unfunded Reform Act of 1995. Some could argue that Gingrich achieved successful mandate reform. However, some would also argue, and correctly, that not all federal mandates are completely funded. After this national act to reform unfunded mandates, concern at the federal level seemed to diminish, leading to concerns at the state level.

Literature Review

Many may be wondering how county, state, and federal governments alike got into this situation with unfunded and under funded mandates that they are facing today. Before the 1930s and the Great Depression the United States had a system of dual federalism, where the states had authority to give the federal government power from the states. During the Great Depression and Franklin Roosevelt's terms federalism changed into what is known as cooperative federalism. States began to rely on the federal governments for funding during the depression and the federal government grew, as did the amount of programs and grants given to the states. (Saffell and Basehart, 2005)

According to previous research done by Beverly Cigler (1993), these challenges became apparent around the 1970's. During this time decentralizing fiscal federalism occurred. "Local governments' responsibilities increased, as did the complexity of intergovernmental relations. Today, state and local governments are the nation's key service providers; they have important policy-making and economic development responsibilities." (p.181) Although there was some decentralizing the 1970s became a time that is known for its "coercive" federalism. Under coercive federalism, the federal government still gave states grants; however the federal government added stipulations the state had to meet in order to qualify for this aid. (Saffell and Basehart, 2005)

During the 1970's and 1980's there was a reaction to the recession and reduction in aid, which caused states to raise taxes and assume more responsibilities. However, since states saw an increase in revenue, many programs and services were established "…in such areas as environmental and natural resources, economic development, health care and human services, education, business, and insurance regulation." (Cigler, 1993, p. 182) As a result, state expenses and roles increased. "Under Ronald Reagan's "new federalism" plan, the first substantial effort was made to reduce the tide of centralization that had been growing since the 1930s." (Saffell and Basehart, 2005, p. 45) Reagan announced that under this new federalism, those programs would be shifted toward state and local governments by 1990. However, this was not taken seriously by congress and Reagan's opponents, and was dropped. Although after Reagan's first term, federal aid to state and local governments was cut by nearly six and a half billion dollars. (Saffell and Basehart, 2005)

During the early 1990's states were forced to make budget cuts, as well as invoke tax increases as a result of another national recession and the first gulf war. Demand for their programs and services made abolishing them relatively impossible. Local and state governments now had the obligation to continue these services and explain to taxpayers why their taxes and fees would continue to increase.

During former president Clinton's terms he pronounced the need for smaller government along with the "devolution revolution". "Although President Clinton issued an executive order on unfunded mandates shortly after he took office, he found mandates and preemptions convenient ways to support his domestic programs when the federal deficit made it difficult to find additional funding." (Saffell and Basehart, 2005, p. 46) During President Bush's term around 2001, "…the preoccupation with fighting terrorism and the war in Iraq have resulted in making federalism issues a low priority for the Bush administration." (Saffell and Basehart, 2005, p. 48)

Currently President Obama is suggested to have made a shift toward "progressive federalism". Progressive federalism allows the states more control and authority to act on an issue without federal regulation in order to determine the best solution to the issue at hand. "…it may be the states that have to best initial take on it, and try different regulatory methods until we fasten on a single national solution." (Schwartz, 2009)

Federal Government

In order to maintain fiscal control over programs, some reformers such as Newt Gingrich, under his Contract With America, pushed through an Act calling for reform in unfunded mandates. The Unfunded Reform Act of 1995 was passed by congress, and was seen as a solution to the problem of unfunded mandates, which would be able to eliminate and control federal mandates, and help regulate state and local mandates as well.

As for the effects of the UMRA, opinions vary. According to Brain Riedl, a researcher for the conservative Heritage Foundation found two federal mandates of significance on the state and local government since the Unfunded Reform Act of 1995. The first being the minimum wage increase, and then the reimbursement reduction for Food Stamps administrative costs, which only account for less than one percent of state budgets (Riedl, 2003)

The federal government recognizes that unfunded mandates are a problem. However, when it comes to federal mandates, the federal government denies that under funding from their programs effect state or local governments. Since 1995 the Congressional Budget Office (CBO) has only acknowledged three mandates that were not completely funded "…an increase in minimum wage in 1996, a reduction in the federal funding to administer the Food Stamp program in 1997, and a provision preempting state taxes on premiums for prescription drug coverage contained in the Prescription Drug and Medicare Improvement Act of 2003…" (Mandate Monitor, 2004)

Although the federal government only recognizes the three laws as being unfunded, many more mandates can slip under the radar if the mandates do not exceed the Unfunded Mandate Reform Act threshold for intergovernmental mandate. This threshold was set at fifty million in

1996, and it is adjusted annually to account for inflation. "…NCSL study identifies at least $29 billion in cost shifts to the states in the current fiscal year." (Mandate Monitor, 2004)

Colleen Landkamer, the Commissioner of Blue Earth County Minnesota gave her statement to various subcommittees of the United States Senate about the issue of mandates, on the tenth anniversary of the UMRA, speaking on the shortfalls of this law. Some of Landkamer's reasoning was that the UMRA only identifies the estimated costs of mandates, not the actual costs. That the UMRA excludes mandate costs that require the enforcement of "…constitutional rights, provide for national security…" (Landkamer, 2005) Thereby, mandates that are in place to protect the United State and the population's constitutional rights, that happen require large amounts of funds to operate accordingly are excluded from the acknowledged list of under funded mandates, because of the category in which they are placed.

In an article by Carl Tubbesing from the National Conference of State Legislators the Unfunded Mandate Reform Act has been ineffective during George W. Bush's terms in office. "During the first six years of his tenure, President Bush governed with a congress controlled by the GOP. It was during this period that the federalism headiness dissipated and the rollercoaster began its descent. Unfunded mandates returned- to the tune of $30 billion a year." (Tubbesing, 2007) With the passing of the No Child Left Behind, Help America Vote act, and the REAL ID added to the unfunded mandates, setting requirements in areas previously seen as the state's jurisdiction.

Although much progress has been made in eliminating or controlling unfunded mandates, there are still avenues through which the federal government's shifting costs to sub-national governments and remains a concern for state and local governments.

State Government

Even with all the complaints of cost shifting from the federal government to state governments, states continue to do the same to their counties. According to the state of Minnesota this is justified because the state has constitutional authority to impose mandates on local governments. "…Legislature may provide by law the creation, organization, consolidation, division and dissolution of local governments and their functions…" (State Mandates on Local Governments, 2000) This is a very understandable right of the state legislature to mandate programs so that the state government can provide citizens with the same accessibility to programs across all areas in the state. By imposing requirements through counties, because counties are subunits of a state government. "Most local officials think that state imposed requirements on local governments are appropriate if at least partially funded" (State Mandates on Local Governments, 2000) So as long as the state continues to have this basic constitutional authority it will be seen as appropriate to impose mandates on county governments due to the fact that they are seen as extensions of the state government.

In an article by Lawrence Grossback (2002) based on the survey done in 2000, State mandates on local government by the Minnesota Office of Legislative Auditor there were loopholes the state of Minnesota legislator's could use in order to avoid fully funding state requirements. This is "…a reimbursement provision that allows local governments to suspend implementation of a mandate if state funding falls below a certain level. The law, however, requires the legislature to make reference to the statute in order to designate a mandate as being subject to this provision; to date, no such designation has been made." (p. 186)

Funding levels are not the only cause for conflict between state and county governments over mandates, according to a survey taken by the Office of Legislative Auditor in 2000, there are three reasons why counties disapprove of mandates: "…they preempt local authority, entail excessive reporting or procedural requirements, or are not adequately funded." (State Mandates on Local Governments, 2000)

County Government

Mandates have many of these effects on counties; but the largest and most debated are funding issues and the fiscal effects on counties. In order for county officials to fund mandates passed down by the state they often must increase revenue by increasing taxes and fees. However, as a result of revenue restrictions by state governments, county officials are having a difficult time funding all of their planned expenditures.

The restrictions on increasing taxes have been found to force counties to "…turn to fees as a financing option. The result is higher fee burdens for county residents." (Johnston, Pagano, Russo Jr., 2000, p. 91) The research also shows that revenue burdens are not offset through aid. "Counties rely on states for financing authority, and state law determines the extent of county service responsibilities. Consequently, in matters of both taxing and spending, counties' destinies are driven largely by state decisions." (Johnston, Pagano, Russo Jr., 2005, p. 87)

Other research on the topic of tax and expenditure limits finds that "Several factors, including state grants and restrictions of local power…and environmental conditions (especially the population in poverty), reduce property-tax reliance." (McCabe and Feiock, 2005) In 2000, there was a survey released by the Minnesota Office of Legislative Auditor, which sought Minnesota county official's opinions on state mandates. In an article summarizing the results of the survey, Lawrence Grossback described briefly the general results of the survey, along with proposed solutions to ease the tensions between state and local governments regarding mandates. Grossback (2002) stated that the survey results found that “Local government concerns appear to be rooted in larger issues of local control, the division of services among levels of government, and the willingness of the state to support mandates with appropriate levels of funding.” (p. 190) This research shows that state funding of mandated programs and services is not the sole issue among local and state governments.

The results from the survey taken by the Minnesota Office of Legislative Auditor in 2000, when asked what the three most problematic requirements and regulations were showed to be in the area of general government, with levy limits with forty-six counties seeing this as a problem and truth in taxation with nineteen counties. (State Mandates on Local Governments, 2000)

Methods and Analysis

Theory and Hypothesis

While previous research mostly has looked at the financial difficulty of mandates, whether passed down from the federal or state level. My research on the effects of state mandates on local counties primarily consists of Minnesota County official’s opinions on state mandates. By analyzing Minnesota county data I hope to show the concern and need for innovative thinking to resolve the issues that are created as a result of state mandates. My theory is that most, if not all of the county officials will have an issue with the state imposing mandates onto their counties, and therefore find most mandated programs and services unreasonable. I expect most counties to want more flexibility with state mandates, as well as the ability to choose to not implement mandates if they are not fully state funded. I expect an increase in forgoing and reducing priorities as the percentage of revenue towards mandates increases. I also expect to find that with property tax revenue as well as state revenue, that reasonability with mandates will be significant with those areas.

Method

In order to analyze Minnesota county official's opinions on state mandates. I gathered county demographic data from the County and City Data Book of 2007. (U.S. Census Bureau) I added to this county budget information from fiscal years 2005 and 2006 from the Minnesota Office of the State Auditor. Then in order to analyze included the views on county officials, I had to create a brief survey asking various questions of county administrators or auditors about state mandates. By doing a phone survey to county administrators and county auditors I was able to collect data from sixty-one of the eighty-seven counties in Minnesota.

Analysis

When asked, nearly all of the county officials that responded have had to increase taxes and fees over the past ten or fifteen years in order to fund state mandates. When asked if they expected to have to increase taxes and fees over the next five years as a result of state mandates, all of the officials that responded to the survey said that they would be forced to increase taxes and fees in order to fund state mandates. In order to determine county official's opinion on what they considered to be the most problematic mandate in terms of funding, the results showed that three mandates were seen as problematic; social services; out of home placement; and truth in taxation. When asked if the county should continue to provide state mandated programs and services even if not completely funded, nearly forty of the sixty-one counties agreed that services should be continued regardless of state funding. Also worth noting, when asked if counties should have more flexibility with state mandates if they are not completely state funded, over forty of the sixty-one respondents agreed that counties should have more flexibility or control over state mandates unless completely funded.

(Figure I about here)

Figure I shows the range in percentage of Minnesota's counties' budget that go toward funding state mandates. The range is lowest at 50-54% of county revenue going towards mandates, to the highest being 85-89%. The category with the most counties included is, 65-69% with nearly thirty percent of the sixty-one respondent counties. The second largest area is 70-74% with roughly twenty-two percent of the sixty-one respondents.

(Figure II about here)

Figure II shows a comparison of the areas of percentage of revenue going toward state mandates and whether or not a county has had to forgo local priorities as a result of state mandates. According to Figure II the category with the largest percent of counties saying that over the past ten to fifteen years they have had to forgo local priorities as a result of mandates were; 65-69% with roughly eighty percent of the respondents in that area, and 80-84% with just fewer than ninety percent saying they have had to forgo local priorities. When just looking at these two categories it would suggest a pattern of increasing yes responses as the percentage of revenue increase. However, when looking at all of the categories there is no significant pattern; with the areas 70-74%, 75-79%, and 85-89% at levels of fifty percent or fewer of the respondent in those categories having had to reduce local priorities.

(Figure III about here)

Figure III shows a comparison of the areas of percentage of revenue going toward state mandates and whether or not a county has had to reduce local programs or services as a result of state mandates. Unlike Figure II with no significance as the percentage of revenue going towards mandates increase, there is significance found in figure III. The trend starts between the areas of 70-74% through 85-89%. In 70-74% there were a little over forty percent of the respondents that said that they have had to reduce local programs or services as a result of state mandates. Area 75-79% had roughly seventy percent of the respondents that had to reduce programs or services, area 80-84% with under ninety percent, and finally area 85-89% with all of the respondents in the area having had to reduce local programs or services in the past ten to fifteen years. This pattern is suggestive and also confirms my hypothesis that as more of a county's budget is going toward funding state mandates, the more the county has had to reduce local programs or services to make up for lack of funding from the state.

(Figure IV about here)

Figure IV shows a combination of Figures I and II and the percentage of county budget going toward state mandates. The category with the greatest percentage of counties that had to both forgo local priorities and reduce local programs or services was 80-84% with nearly eighty percent of the respondents in that category. The other areas do not show any significant increases as the percentage of revenue toward mandates increases. This is worth noting because it is common to hear county officials argue that state mandates are affecting their county's priorities and services.

(Figure V about here)

Figure V shows the range of property tax revenue for the year 2006. The lowest percentage of property tax revenue received is eight percent of the county's total revenue, whereas the highest percentage of property tax revenue received is fifty-three percent of the county's total revenue. This large range of property tax received would suggest a large opinion difference on state mandate reasonability.

(Figure VI about here)

Figure VI shows the range of state aid revenue for the year 2006. The lowest percentage of state aid revenue received is nearly six percent of the county's total revenue, whereas the highest percentage of state aid revenue received is just over fifty-five percent of the county's total revenue. This large range of state aid received would suggest, same as property tax received, that there would be a large opinion difference on state mandate reasonability.

(Table I about here)

Table I shows a correlation of county demographic and budget data with a reasonability index. The reasonability index combines reasonability scores from seven difference areas of state mandates; general government, public safety, environment, recreation, human services, health services and economic mandates. The theory is that the combination of state mandates is less reasonable to county officials than a particular state mandate would be. When the reasonability index was correlated with various demographic and budget data there were no significant findings. All of the tests came back with either a positive or negative weak scores, the strongest being -.228.

(Table II about here)

Table II is also a correlation including county budget and demographic data, but with the areas of state mandates separated into seven categories; general government, public safety, environment, recreation, human services, health services, and economic areas. When state mandate areas were separated into their own category there are numerous correlations that are significant. Most worth noting are the areas with the most amounts of significant findings; in public safety and human services. Public safety is found to be significant when correlated with the amount of murders committed, total amount of spending in human services in 2006, total amount spend in recreation in 2006, total amount spent in general government in 2006, total state aid from 2006, total property tax revenue from 2006, and total amount of expenditures in 2006. Reasonability was coded as 1: Very Reasonable, 2: Reasonable, 3: Unreasonable, and 4: Very Unreasonable. Due to this coding a negative relationship shows a more reasonable opinion of state mandates, whereas a positive relationship shows a more unreasonable opinion of state mandates. In the category of public safety all of the significances were a negative weak relationship, with either having a significance level of .05 or .01. The second state mandate area worth noting is human services which was found to have significance when correlated with high school degree or higher, percentage of population that is Asian, the amount of murders committed, total spent in human services in 2006, total spent in health services in 2006, total spent in recreation in 2006, total spent in public safety in 2006, total spent in general government in 2006, total amount of state aid received in 2006, total amount of property tax revenue received in 2006, and total amount of expenditures from 2006. All of these significant relationships are negative weak relationships, either having a significance level of .05 or .01. The only positive significant relationship in this correlation is in the area of economic mandates and high school degree or higher, at a significance level at .05. Positive significant relationships, resulting from the coding method, suggest a more unreasonable opinion of state mandates. The categories of state mandates with negative relationships are more reasonable opinions of the mandate category. These results suggest that county official's opinions are more oriented toward a particular area of state mandates than with relation to their property tax and state aid revenue amounts, or overall opinion of state mandates when combined, as previous research has argued.

Discussion and Conclusion

According to the survey results of the eighty-seven counties in Minnesota, the sixty-one respondents have had to increase fees and taxes in the past fifteen years. As a result of state mandates, about sixty percent of the survey respondent said they had to reduce local programs and services, and even had to forgo local priorities. With the average county spending between sixty and eighty percent of their budget to fund state mandates, it is easy to see why some county officials have had to make cutbacks in their local planning. When asked whether or not they would reduce local programs and services in the next five years as a result of mandates, the counties in an overwhelming majority replied that they would. When the reasonability of state mandates in various areas of government were compared with county budget and demographic data there were many interesting significances in state mandate areas of human services and public. When the reasonability index proved to have no significant findings, it suggested that reasonability is dependent on what area the state is mandating programs or services.

Figure I:

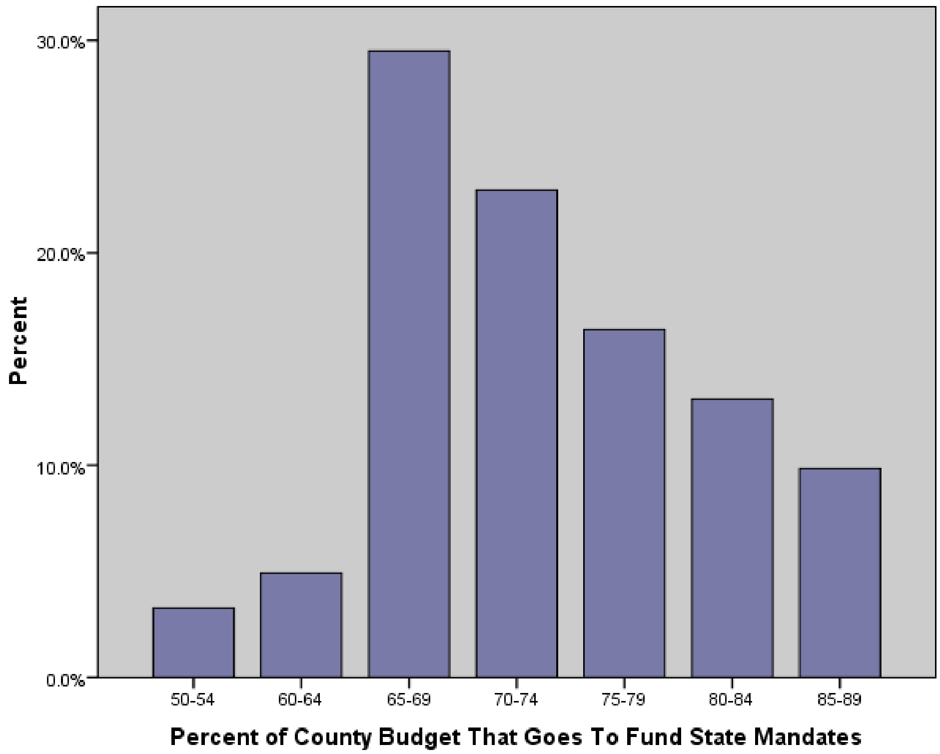
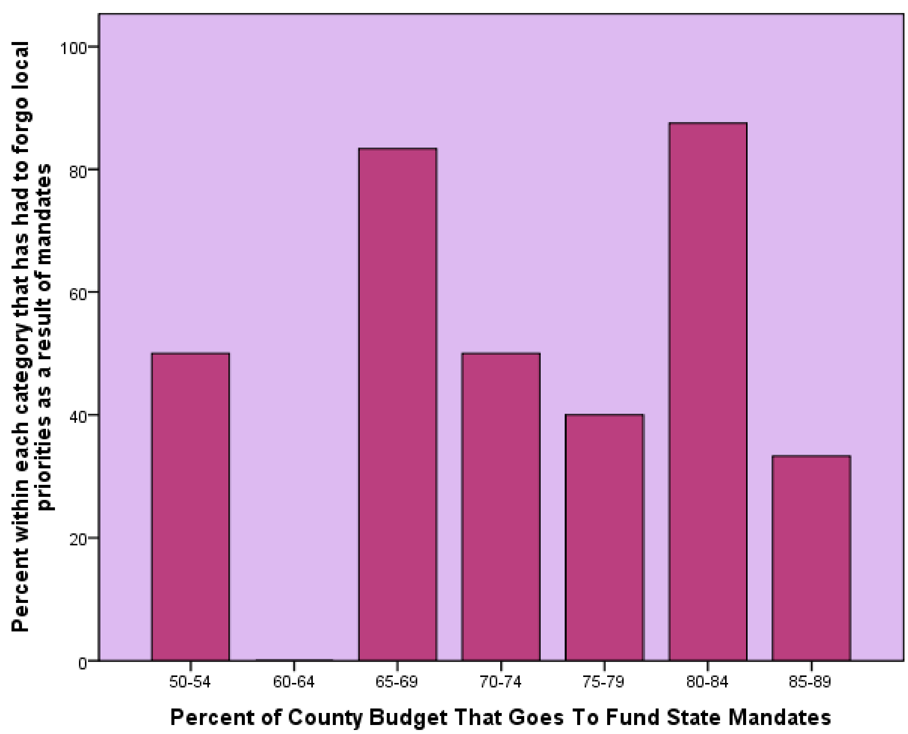


Figure II:



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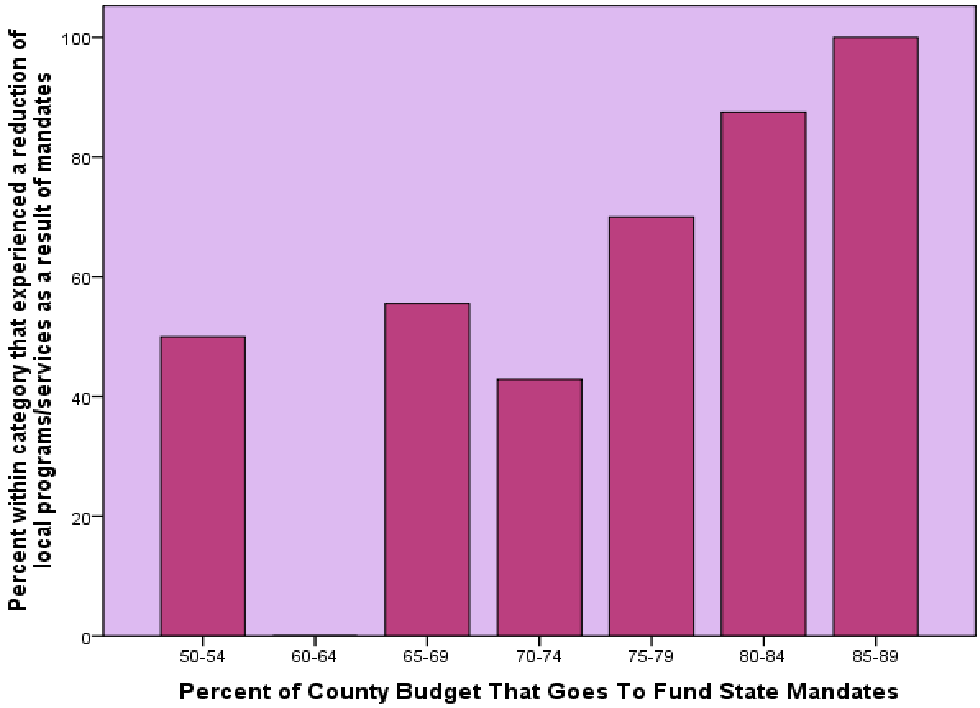

FigureIV:

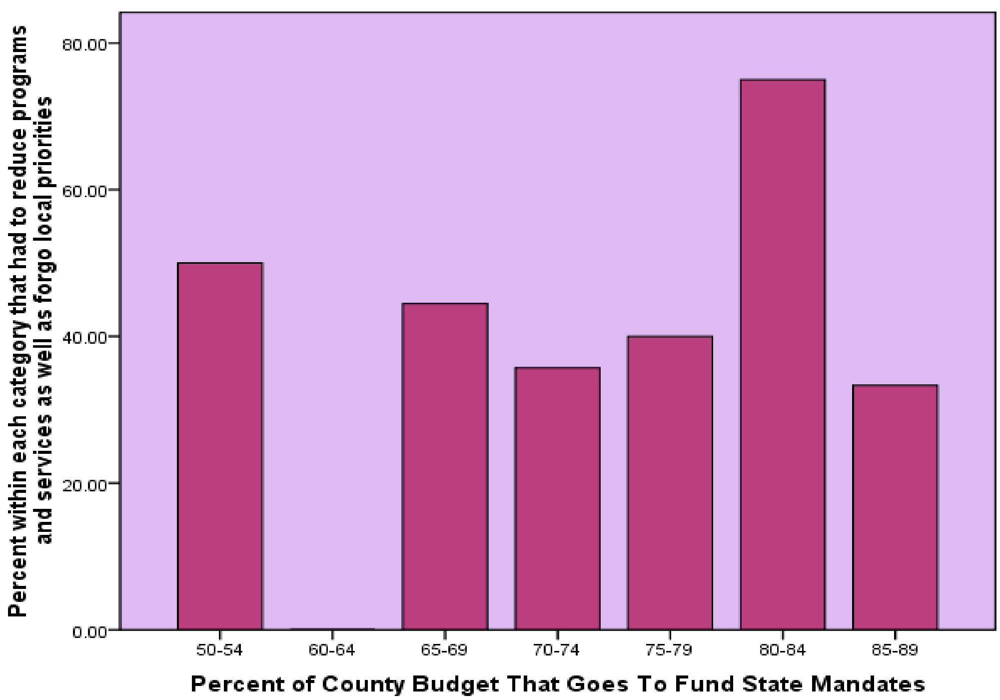

Figure V:

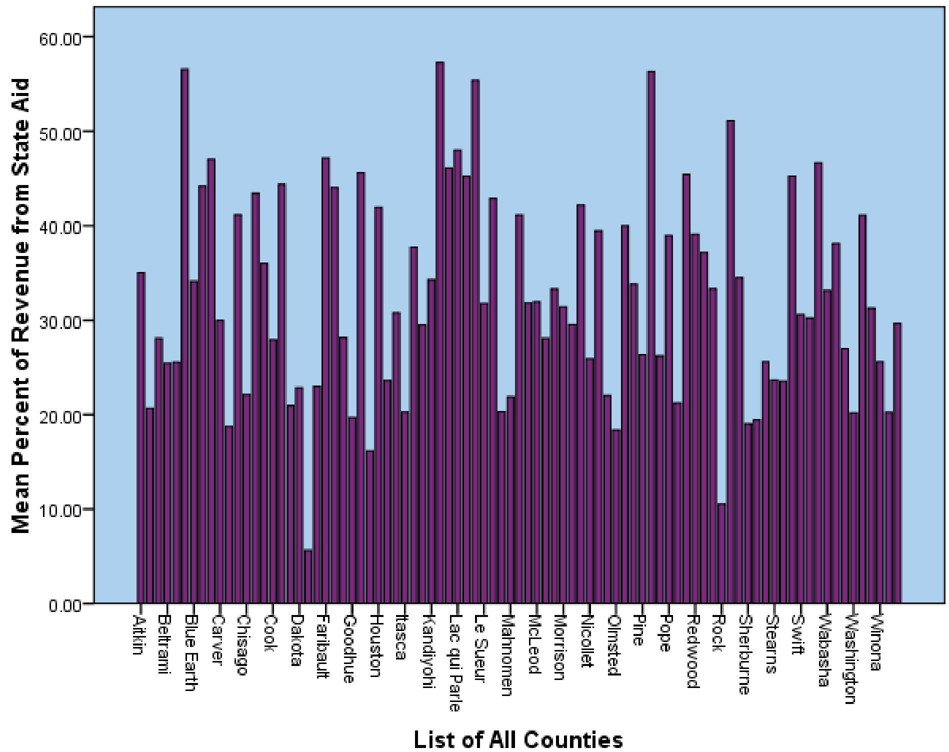

Figure VI:

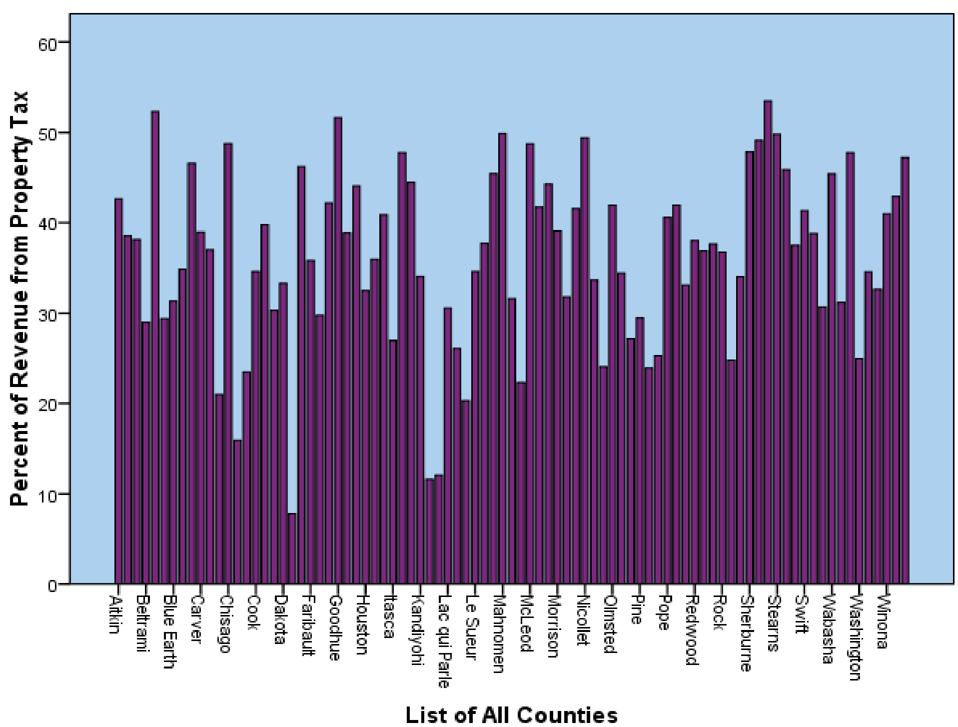

Table 1:

Correlation of County Demographic Data, Budget Data, and Reasonability of State Mandates

	Reasonability Index
Demographics:	
High School or Higher	-.083
% White	-.031
% Black	-.228
Number of Murders	-.157
% Democrat	.199
% Republican	-.205
Budget:	
Human Services	-.123
Health Services	-.142
Economic Services	-.069
Recreation	.124
Public Safety	-.111
General Government	-.200
Federal Aid ’06	-.031
State Aid ’06	-.149
Property Tax Revenue ’06	-.179
Expenditures ’06	-.160

Significant at .05 *

Significant at .01**

Table 2:

Correlation of County Demographic Data, Budget Data, and Reasonability of State Mandates

	General Government Mandates	Public Safety Mandates	Environment Mandates	Recreation Mandates	Human Service Mandates	Health Service Mandates	Economic Mandates
Demographics:							
High School or Higher	.043	-.168	-.018	-.190	-.292*	-.199	.292*
% of Pop (White)	-.086	.064	-.005	-.131	.094	-.034	-.022
% of Pop (Black)	-.084	-.203	-.059	-.148	-.234	-.206	.058
% of Pop (Asian)	-.110	-.241	.021	-.032	-.302**	-.080	.097
Amount of Murders	-.227	-.312**	.150	.060	-.390**	-.150	.045
% of Pop (Democrat)	-.139	-.052	-.140	-.161	-.083	.058	-.157
% of Pop (Republican)	.136	.045	.140	.161	.077	.051	.164
Budget:							
Human Services	-.103	-.261*	.090	-.056	-.367**	-.142	.114
Natural Resources	.022	.110	.096	.095	.073	.180	-.043
Health Services	-.014	-.243	-.069	.067	-.301*	-.059	-.042
Economic Services	-.005	-.127	.004	.072	-.223	-.009	.000
Recreation	-.145	-.331**	.072	-.002	-.421**	-.224	.036
Public Safety	-.069	-.198	.014	-.012	-.332**	-.073	.101
General Government	-.074	-.312*	-.025	-.023	-.390**	-.141	.018
Total State Aid (2006)	-.099	-.276*	.113	.000	-.385**	-.122	.069
Total Property Tax Revenue (2006)	-.060	-.279*	-.028	-.037	-.377**	-.137	.047
Expenditures (2006)	-.086	-.300*	.060	-.010	-.477**	-.224	-.036
Percent of State Aid	-.051	.166	.202	.150	.082	.242	-.154
Percent of Property Taxes	.125	-.041	-.065	-.201	.021	-.236	.080

Significant at .05* (Two-Tailed)

Significant at .01 (Two-Tailed)**

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