FISCAL IMPLICATIONS OF POPULATION DECLINES AND DEMOGRAPHIC CHANGES IN SMALL RURAL MUNICIPALITIES

NORMAN WALZER, SENIOR RESEARCH SCHOLAR,
NORTHERN ILLINOIS UNIVERSITY CENTER FOR GOVERNMENTAL STUDIES
ANDY BLANKE, RESEARCH SPECIALIST,
NORTHERN ILLINOIS UNIVERSITY CENTER FOR GOVERNMENTAL STUDIES

Demographic trends suggest continued population declines and increases in the elderly population of small rural communities during the next decade and beyond. These changes could have significant implications for communities facing a need to provide the types of services needed to not only retain current residents but also to attract others. These changes in service delivery are occurring even while property tax bases are eroding, and tax rates are increasing. This article examines the evidence suggesting demographic trends and models the determinants of effective property tax rates in smaller Illinois municipalities. Factors associated with higher effective property tax rates include the decline of the property tax base, lower reliance on intergovernmental aid and charges and fees, less retail trade area captured, more services provided, and proximity to metro areas. The analysis also includes a discussion of innovative local economic development strategies in small municipalities to combat pending population declines.

INTRODUCTION

Pending demographic trends during the next decade and beyond will have important impacts on how local governments finance the services they provide. Expected population declines along with growth in elderly populations may mean that rural counties and small communities will have to provide a different combination of services, possibly with fewer revenues. Older residents may need more health-related services or accommodations in infrastructure facilities and may want more cultural and leisure activities to continue living in these places. Some, but not all, of these services will be provided by municipalities.

On the revenue side, aging residents will likely live in smaller houses or in group quarters, some of which will be publicly subsidized. Others may qualify for Senior Citizen Homestead Exemptions that reduce the aggregate property

tax base. Residents with lower incomes may spend less, which can reduce local sales tax revenues and possibly affect current user fees.[1]

In addition, older residents typically need more health and social services provided by local governments. These services will be necessary to maintain a high quality of life and make the communities attractive places to live. Given the expected growth in numbers, elderly residents could be an important target group for smaller communities to retain or attract. However, success in this strategy will mean that residents have access to health services and/or transportation facilities.

Fortunately, some of these services are provided by either other units of government, such as a county or special district, or by private agencies. Advances in telehealth and telemedicine are bringing these services to remote areas with access to high-speed Internet. Recent expansions in Internet supported by the State of Illinois will also allow residents to work remotely, which will make rural areas in Illinois more attractive for future residents. Nevertheless, necessary changes to meet the needs of elderly and other residents are unique to each community and must be seriously considered in designing a population recruitment strategy.

The combination of these factors (declining revenues and increasing service demands) will likely put pressure on local public officials in balancing budgets, in some cases requiring higher property tax rates. This article examines fiscal implications of the demographic and fiscal trends along with strategies that state and local governments might use to address these issues. The first section describes population trends overall and by age cohort in rural Illinois counties. Attention then turns to local property taxes and factors associated with effective property tax rates. Third, we briefly discuss how the 2020 COVID-19 downturn may affect small town finances. The article concludes with examples of revitalization efforts in several small communities in Illinois.

POPULATION TRENDS

Maintaining a desired level of population growth is essential for funding public services. The tax base is directly related to population. Further, several population cohorts are especially important, namely the youth, working age, and elderly populations. The ratio of these populations (sometimes called the "dependency ratio") is strongly related to economic and fiscal health.

The data show that for Illinois, this picture is not good (Table 1) both in terms of overall population and for the important cohorts. Significant population declines are forecast for many small rural counties and, while they do not necessarily apply to all municipalities, reliable projections for all minor civil divisions are not readily available, so these projections are used as a proxy in later analyses. In 2019, projections indicated that 87 of 102 counties will lose population between 2019 and 2029 (Economic Modeling Specialists, Inc., 2019). Of the 15 counties with projected gains, all but two — Moultrie County and Effingham County — are in metropolitan areas.

TABLE 1

PROJECTED POPULATION CHANGE BY AGE GROUP, 2019-2029*

COUNTY SIZE	TOTAL POPULATION	UNDER 25	AGES 25-44	AGES 45-64	AGES 65+
Illinois	-0.8%	-4.3%	-2.7%	-9.1%	22.4%
Non metro counties by population size in 2019					
Under 10,000	-3.8%	-6.5%	-7.4%	-13.2%	15.1%
10,000 - 24,999	-3.0%	-2.9%	-6.5%	-13.0%	13.3%
25,000 - 49,999	-3.1%	-4.3%	-6.1%	-13.2%	15.2%
50,000+	-2.4%	-3.6%	-4.6%	-14.4%	18.5%
Metropolitan counties	-0.6%	-4.4%	-2.3%	-8.5%	23.6%

Source: Economic Modeling Specialists, Inc., 2019.
**Projections do not reflect the impacts of the COVID-19 pandemic.*

Out-migration is driving part of these trends. According to the U.S. Census Bureau, 98 of 102 counties in Illinois lost population from net out-migration between 2010 and 2019. Only three counties had a net inflow of residents — Kendall, Monroe, and Williamson — with the inflow attributable almost entirely to in-migration.

While rural counties (those not in a metropolitan statistical area as defined by the U.S. Office of Management and Budget), on average, will decline between 2.4% to 3.8% depending on population size. Elderly population cohorts will increase 15.1% in counties smaller than 10,000 and 13.3% in those between 10,001 and 25,999. Metro counties will have the largest growth in elderly people

(23.6%), but it will be in large centers, possibly reflecting out-migration from surrounding rural areas for more suitable housing or health services.

SOURCES OF REVENUES

Population trends can have profound effects on the composition and growth of revenues for local governments. In this section, we analyze the trends in tax bases and revenue growth and the structure of revenues in small Illinois municipalities.

TRENDS

Tax bases in small municipalities decreased in the post-recession period due partly to a sluggish economy over several years (Table 2). The average equalized assessed valuation (EAV) in these municipalities was $30,940,127 in 2009 at the lowest point of the Great Recession (National Bureau of Economic Research, 2020). Ten years later, the average was $30,823,192 (0.4% decrease) while inflation, as measured by the Illinois Municipal Price Index (MPI) increased 25.9% (Walzer and Blanke, 2020b). Declines in the property tax base may have pressured local officials to raise tax rates if they had unused taxing capacity or possibly to draw down uncommitted financial reserves. (Sohl, Blanke, and Walzer, 2016).

A sample of 708 Illinois municipalities with populations less than 10,000 is used to explore factors affecting effective property tax rates in small municipalities. The sample includes all municipalities in this size range with audited annual financial information in the Illinois Office of the Comptroller financial databases for Fiscal Year (FY) 2009, FY 2015, and FY 2019. The Census of population estimated 1,078 municipalities with fewer than 10,000 residents in 2018, so the current sample represents 65.7% of municipalities in this size group.

A comparison of changes in effective property tax rates (property tax payments relative to house value) in sample municipalities shows that these rates increased by an average of 18 cents per $100 of EAV between 2010 and 2018 (a change of 9.94%). Estimated total population remained stable — increasing less than 1% — but both home values and total EAV declined on a per resident basis. This stagnation of population and the property tax base occurred in a time of rising costs for public services (as indicated by changes in MPI).

TABLE 2

REVENUE AND TAX BASE TRENDS IN 1,078 MUNICIPALITIES BELOW 10,000 POPULATION

	2009/2010	2018/2019	% CHANGE (CURRENT)	% CHANGE (CONSTANT)
Illinois Municipal Price Index (2010 = 100)	98.5	123.9	25.83%	
Average population in sample (2010-2018)	1,870	1,883	0.7%	
Total EAV (2009-2018)*	$30,940,127	$30,823,192	-0.4%	-16.8%
Median home value (2010-2018)	$100,663	$99,173	-1.5%	-17.7%
EAV per resident (2009-2018)*	$16,546	$16,369	-1.1%	-18.6%
Property tax per resident (2009-2019)*	$183	$249	36.0%	8.0%
State revenue per resident (2009-2019)*	$133	$145	9.0%	-13.2%
Federal revenue per resident (2009-2019)*	$14	$20	42.9%	10.2%
Service charges per resident (2009-2019)*	$435	$554	27.4%	1.2%
Charges from enterprise funds (component of service charges)*	$390	$510	30.8%	3.9%
Effective property tax rate ($ per $100 home value, 2010-2018)	$1.81	$1.99	$9.94%	
Sales tax per resident (2009-2019)*	$149	$191	28.19%	1.5%

**For a sample of 708 municipalities with continuous Comptroller data.*
Source: Illinois Municipal League and Center for Governmental Studies at Northern Illinois University, Illinois Municipal Price Index, 2019; U.S. Census Bureau, 2006-2010 and 2014-2018 American Community Survey 5-Year Estimates; Illinois Office of the Comptroller, FY 2009 and FY 2019 financial databases.

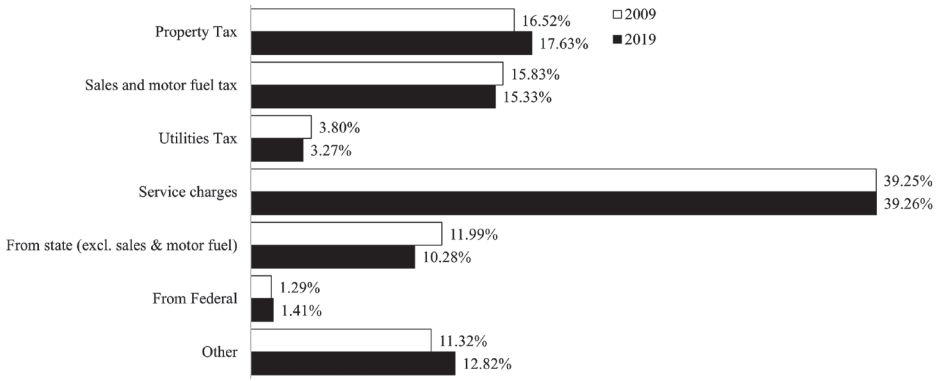
State aid to municipalities increased from $133 per resident to $145 in current dollars between 2010 and 2018, but the purchasing power declined 13.2% after removing inflation effects. As state aid eroded in constant dollars, small municipalities relied more heavily on property taxes, sales taxes, and user charges, which increased on a per resident basis, even in constant dollars. Property taxes per capita increased 8% in real terms, sales taxes by 1.5%, and user charges in funds other than enterprise funds by 1.2%.

STRUCTURE

In FY 2019, the average municipality collected 39.3% of its revenue from fees and enterprise fund charges, the largest source of revenue. Nearly all these charges came from enterprise funds for services such as water supply and sanitation (92.1% of total fees and charges in FY 2019). Property taxes constituted the second greatest source of total revenue (17.6%) with sales and motor fuel taxes representing 15.3%. Amounts collected depend mainly on local sales, with an additional local tax imposed under special conditions. The revenue structure of these municipalities has changed relatively little during the past 10 years, with most revenue sources shifting by half a percentage point or less. However, municipalities became slightly less reliant on state aid and somewhat more reliant on property taxes.

FIGURE 1

SOURCES OF REVENUES FOR MUNICIPALITIES BELOW 10,000 RESIDENTS, 2009 AND 2019*



Source: Illinois Office of the Comptroller, FY 2009 and FY 2019 financial databases.
**Excludes municipalities without audited financial information in both the FY 2009 and FY 2019 editions of the comptroller database. There were 708 municipalities with data for both years.*

Demographic changes can greatly affect the structure and trends noted above. Working-age populations represent major sources of revenues for local retail activities. The Baby Boom population cohort has reached retirement age and will reduce their participation in the labor market. In addition, more youth in rural areas pursuing higher education have led to a job mismatch where local

employment opportunities are not attractive enough to entice young graduates to return to their hometowns.

Employers regularly report difficulties finding employees with up-to-date skills in rural areas, and projected declines in working-age populations will aggravate this concern, possibly causing further disinvestment in these areas. These trends may make some small rural communities shift from a local employment base to a home base for commuters to regional employment centers. If so, commuters will likely spend more money in the centers where they work, further aggravating declines in sales taxes in small towns.

FACTORS DETERMINING EFFECTIVE PROPERTY TAX RATES

Setting property tax rates is one of the most important decisions that local governments make, both in political and economic senses. Illinois is widely known for having some of the highest effective property tax rates among states (Cammenga, 2020). Further increases in property taxes combined with potential declines or slower growth in house values will disadvantage smaller communities in attracting and retaining both businesses and residents. Understanding recent trends and factors associated with the property tax rate can help in understanding the need for policy adjustments.

The data for this analysis is from several publicly available sources for the period since 2015. Although longer-term trends since 2010 were described earlier to provide a broader perspective, this analysis more closely focuses on recent trends. Effective property tax rates (EPTR) will be the dependent variable for this analysis. They are more useful in comparing local taxes than property tax levies per resident, which do not adjust for differences in home value (Cammenga, 2020). This variable was calculated from data contained in the American Community Survey published by the U.S. Census Bureau.

INDEPENDENT VARIABLES

Levels of local taxes are determined by economic conditions, demands for public services, availability of revenue sources including service charges and intergovernmental aid, and other factors (known as the causal or "independent" variables).

One of the variables of most interest is the percentage of population over age 65. This variable will give us a sense about how property tax rates must change

to provide essential public services in the face of the profound demographic change identified earlier.

EPTRs are affected immediately by changes in property tax bases, namely EAV. To maintain even constant levels of services, nominal tax rates must increase when assessed valuation decreases. Rural areas have seen relatively slow growth or sometimes declines in per capita assessed valuations (constant dollars) since the 2009 recession. In the sample municipalities with populations below 10,000, EAV per resident declined 1.1%. Likewise, the median home value for municipalities in this size range declined 1.5% between 2010 and 2019. Past studies have shown that areas with higher home values typically have lower effective tax rates (Siniavskaia, 2016).

Availability of federal and/or state aid offsets a need to raise local revenues in financing services. The high effective property tax rates in Illinois partly reflect relatively low state government support (31st from top) for public education, which places more burden on local property taxes, although not necessarily on municipalities. (U.S. Census Bureau, 2018a). That ranking has been consistent during the post-recession period. Sample municipalities (i.e., the 708 municipalities below 10,000 residents with revenue information in the Comptroller database for all years examined) obtained 10.3% of their revenues from state income tax and project funds and 1.4% from the federal government.

However, in 2011, the share of state income tax distributed to municipalities decreased from 10% to 6% with a temporary state income tax increase. In 2017, the percentage dropped to 5.45% of individual income tax collections and 6.16% of corporate income tax collections. In FY 2021, the local share of individual income taxes is 6.06% and 6.845% for corporate income tax collections. (Illinois Municipal League, 2020). In a study of fiscal responses to the Great Recession, cuts in state aid were directly linked to increases in local property taxes (Dye and Reschovsky, 2008). Thus, declines in this key funding source shifted more of the burden to local property taxes.

Service charges are also included as a control variable given their importance as a revenue source in small municipalities. According to a 2018 survey, 74.1% of municipalities increased water and sewer rates since 2015 while 37.6% raised property tax rates (Walzer and Blanke, 2018b). In some cases, increasing charges and fees may be an alternative to raising property tax rates. Even though property taxes and service charges are not directly interchangeable due to the nature of enterprise funds, increasing user fees is, nevertheless, a

prevalent strategy in local governments nearing their property tax rate limits (Zhang and Hou, 2019).

Economic conditions can also impact local tax rates. A trade-area-capture index comparing local sales to statewide sales per capita is used to adjust for differences in local economic conditions (Deller, 2019). Municipalities that retain more purchases locally can possibly rely less on property taxes. Relying more on sales tax can provide property tax relief for municipalities, although it also makes revenues more vulnerable to economic downturns (Afonso, 2013).

The institutional structure of governments plays an important role in determining service provision and tax rates. Home rule frees municipal governments from many statutory restrictions on revenue-raising powers, including those on tax rates that can be used with local funds faced by non-home rule municipalities. In times of growing fiscal pressures resulting from declines in tax bases or rising costs, local officials can raise the tax rates on each fund beyond the statutory limits, and these higher rates could translate into higher EPTRs. In recent years, some business leaders have expressed concerns about home rule municipalities raising property taxes in a state that already has high tax rates compared to other states.[2] However, historically, property tax rates in Illinois municipalities with home rule increased at roughly the same rate as those without home rule (Banovetz, 2002). Home rule status is included in the current analysis to study the effects of this still-contested aspect of municipal finances.

The scope of services provided by municipal governments is an important determinant of property tax collections and is measured by 2017 staffing patterns — full-time and part-time employment for 25 services reported in the U.S. Census Bureau's Annual Survey of Public Employment and Payroll. An index of services was calculated where one point per service area means at least one full-time or part-time employee. Municipalities with a broader scope of services are expected to have a higher EPTR. Past studies suggest that areas requiring more public services typically need higher property tax rates to fund those services (Siniavskaia, 2016; Emrath, 2002).

Proximity to a metro area can affect EPTR in several ways, including higher local wealth, more traffic, and higher wages for municipal employees. A state-level study found that states with more housing in urban areas had lower effective property tax rates, which was attributed to economies of scale in providing services in more densely populated areas (Gravelle, 2000). To adjust

for this effect, municipalities were assigned a value of two if located in a metro county, one if adjacent to a metro area, or zero if rural. Likewise, countywide employment was included to adjust for possible losses in manufacturing employment in the post-recession period, which could increase EPTRs. Property tax levies are often linked with local wage levels (Albouy and Hanson, 2014), but high-paying manufacturing jobs declined during the Great Recession while the need to fund municipal services remained.

RESULTS

We analyzed the data using an ordinary least squares regression analysis of the EPTR on the independent variables. The regression results (Table 3) provide several insights into factors affecting effective property tax rates in small municipalities. Significant positive relationships indicate factors associated with higher tax rates. Controlling for other variables shows a statistically significant negative relationship between the elderly population and effective property tax rates. The implications of this are not completely clear given that municipalities with large numbers of elderly residents may need more specialized services. However, these services may be provided in larger neighboring centers or by other public agencies serving the area. Also, many residents over age 65 may still be employed or be early in their retirement years — and therefore have a strong positive economic impact — and so do not yet need additional specialized services. Without controlling for other factors, municipalities with more residents over age 65 also captured more of the retail trade area (correlation coefficient of 0.074, significant at a 5% confidence interval).

The variable most strongly associated with lower 2018 EPTR is a reliance on service charges in 2015. Municipalities selling more services may have avoided property tax increases by raising user charges instead (Walzer and Blanke, 2018b). Other factors associated with lower effective tax rates include a share of revenue from state and federal sources, property tax base growth, strong sales tax base, and a more elderly population.[3]

In terms of institutional or structural variables, municipalities closer to metropolitan areas have higher property tax rates. They most likely need to offer a broader range of services and may pay higher wages to offset higher housing prices. Those in counties with a high concentration of manufacturing employment, a proxy measure for vulnerability to the 2009 recession, also had higher effective tax rates. Apparently, the costs for services outweigh other advantages such as additional user fees. Home rule status does not significantly

TABLE 3

RESULTS FROM ORDINARY LEAST SQUARES (OLS) REGRESSION; DEPENDENT VARIABLE IS EFFECTIVE RESIDENTIAL PROPERTY TAX RATE

VARIABLE	SOURCE	STANDARDIZED COEFFICIENT AND RELATIONSHIP TO PROPERTY TAX RATE
Proximity to metropolitan areas	U.S. Department of Agriculture, Economic Research Service, Rural Urban Continuum Codes, 2013	0.20 Significant positive (t = 5.63**)
Scope of services	U.S. Census Bureau, Annual Survey of Public Employment and Payroll, 2017	0.11 Significant positive (t = 3.41**)
Manufacturing employment	U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages, 2015	0.07 Significant positive (t = 2.06*)
Home rule status	Illinois Office of the Comptroller, FY 2015 financial database	0.06 Not significant (t = 1.84)
Government structure index	Calculated from counts of local governments by type at a county level, 2017 Census of Governments	-0.06 Not significant (t = -1.77)
Change in EAV, 2009-2015	Illinois Office of the Comptroller, FY 2009 and FY 2015 financial databases	-0.10 Significant negative (t = -3.30**)
Retail trade area captured	Calculated based on sales tax revenue from Illinois Office of the Comptroller and median household income from the American Community Survey	-0.14 Significant negative (t = -4.31**)
Population over age 65	U.S. Census Bureau, American Community Survey five-year estimates, 2011-2015	-0.15 Significant negative (t = -4.54**)
Reliance on state and federal aid	Illinois Office of the Comptroller, FY 2015 financial database	-0.26 Significant negative (t = -7.10**)
Reliance on service charges	Illinois Office of the Comptroller, FY 2015 financial database	-0.34 Significant negative (t = -9.24**)

*Observations: 708 Illinois municipalities. Adj. R Squared = 0.314, F = 33.369**. Durbin Watson coefficient = 1.92, within the normal range. All variables have VIFs below 1.5, indicating that collinearity is not a concern.*

affect effective property tax rates, indicating that municipalities did not necessarily take advantage of fewer property tax restrictions.

The strong relationship between service charges and property tax rates is especially important because shifting to user charges could have a regressive impact on taxpayers. Past declines in EAV are associated with higher effective property tax rates. Thus, if future population declines continue and user charges become more important, the burden could fall more heavily on lower-income populations. This situation could increase in the future with growth in elderly populations.

POSSIBLE IMPACTS OF THE COVID-19 PANDEMIC

Fiscal trends may have changed since the start of 2020 due to the COVID-19 pandemic and associated mitigation measures. It is too early to tell the full impact of the pandemic on local finances. Since many residents in small towns work in surrounding larger centers, employment changes in these places will directly affect financing practices. As of this writing, several analyses of potential impacts are available regarding the early stages of the pandemic, recognizing the uncertainty caused by issues like the length and severity of the pandemic and the rate at which the economy will recover.

The Federal Reserve Bank of Chicago published the results of a survey of business conditions in April and May 2020 with responses from chamber of commerce members in the bank's seventh district (Lavelle and Walstrum, 2020). The 318 responses from Illinois (47% of those surveyed) are spread among business sectors that include entertainment, tourism and recreation, manufacturing, restaurants, real estate, and agriculture. The findings provide preliminary insights into businesses' perceptions about the potential impact of the economic downturn. For example, 53% of rural respondents (compared with 47% in metro areas) reported a large decrease in output. Likewise, 68% of rural respondents (55% in metro areas) reported large decreases in revenues, and 72% of rural respondents (56% in metro areas) reported a large decrease in profits. These preliminary numbers suggest that rural businesses may have been more adversely affected than metro businesses.

Stay-at-home orders directly affected consumer-based enterprises, including restaurants, entertainment and tourism, and retail. These business sectors are prominent in many small towns in rural areas and are important in the local economies, especially sales tax receipts. For example, in 2019,

eating and drinking places represented 16.9% of the sales taxes collected by municipalities.[4] Likewise, gas stations represented 18.4% of municipal sales tax and motor fuel tax revenue, but travel declined significantly during the stay-at-home orders because of event cancellations and more employees working remotely. These businesses were most directly affected by furloughs or terminations in manufacturing businesses in regional centers, seriously affecting the surrounding small towns. The length of the recovery will be especially important to businesses in small municipalities.

INNOVATIVE APPROACHES

Given expected demographic shifts and possible fiscal impacts from the COVID-19 pandemic, a logical question is what small communities can do to sustain or revitalize their local economies in times of financial stress. With increases in the elderly population, more longtime business owners will retire, sometimes with difficulties finding investors to take over the business even when it is profitable. Several communities are trying new approaches.

MAINTAINING OR REBUILDING THE LOCAL ECONOMY

This will be challenging in small communities as Internet purchases with faster delivery methods continue to erode brick-and-mortar businesses. Smaller market sizes threaten the ability of current businesses to survive, let alone prosper. Attempts to encourage more local shopping will be needed.

LaSalle, Illinois (population 6,094 in 2018) is using an innovative buy-local effort with a "Locally LaSalle" citywide shopping card. The intent is that residents and participating businesses will purchase the cards to give as gifts or rewards, thereby keeping the shopping local. The cards can be purchased in any amount from various places, including from specific businesses and online. The cards have no expiration date and can be spent with any business participating in the program. The program is low-cost for participating businesses and offers yet another option for people to give a gift or reward, while supporting local retail and service activities. This program or similar efforts could be explored by other small towns for possible consideration.

In Toulon, Illinois (population 1,153 in 2020), population declines and competition from larger stores in surrounding areas led to the closure of the downtown grocery store. Operating as a Community Supported Enterprise (CSE), residents formed a limited liability corporation, pooled

their investment money, purchased the building, and — with Tax Increment Financing (TIF) monies and a commercial loan — rehabbed it. After working with several managers, a grocery store operator in the neighboring City of Wyoming managed the store until economic conditions closed both stores. The community group then converted the building to office space and rented it to local businesses (Illinois Institute for Rural Affairs, 2019).

Recognizing a continued need for a local grocery store, residents formed a second CSE and started one with a deli in 2019. Financing arrangements included selling shares at $500, plus using funds from a TIF and a U.S. Small Business Administration subsidized loan from a local financial institution. The venture contributed to the community in several ways: it provided access to basic grocery items, plus it rehabilitated a section of the community, enhancing its viability for future development. Providing additional services are under consideration to expand the local market.

Winchester, Illinois (population 1,593 in 2010) and Mount Pulaski (population 1,481 in 2018) also faced losses of grocery stores. In both cases, working with the Illinois Cooperative Development Center managed by the Illinois Institute for Rural Affairs, they rehabbed stores that offer basic groceries plus fresh produce and other local items. These efforts involved finding niche markets like fresh produce and local meats that are not offered by chain stores. Likewise, residents played an active role in the transition process and daily operations, which strengthens the local commitment to the success of the operation. Both are successful examples of communities adjusting to expected demographic trends. They engage residents and others to invest money and time in sustainable local establishments to revitalize the community, provide social capital, and make it a more attractive place to live.

TRANSITIONING BUSINESSES TO NEW OWNERS

Finding ways to help retiring business owners sell their businesses is a growing challenge in small towns. The Redefine Your Retirement (RedTire) program at the University of Kansas successfully transitions businesses to the next generation using an electronic matchmaking system between owners interested in retiring and people who are willing to invest in a local business. Owners can provide summary information about operations and financials on a website, and interested investors apply to the program to obtain the businesses' information. Since 2012, the program has succeeded in transitioning a variety of businesses, such as meat packing, dental services, pharmacies, and publishing houses, to

new owners (University of Kansas School of Business, 2020). This type of effort retains local businesses and jobs as well as provides access to basic, necessary services.

MODERNIZING FRAMEWORKS FOR DELIVERING PUBLIC SERVICES

Continued population declines will make some communities too small to efficiently provide specific essential public services, especially those with high fixed capital costs. School districts in rural areas already have consolidated to reduce administration costs while maintaining competitive programs. Continued demographic trends will provide more pressure for local governments to collaborate in service delivery, both for higher quality of service and less reliance on property taxes.

Small rural towns have several options to maintain local services when their population is too small to provide the service locally at a reasonable cost to residents. They can collaborate with county governments (e.g., contracting with the county sheriff's office for routine patrols). This arrangement occurs in some places and perhaps can be expanded. In other cases, the county government may not be well-positioned to provide additional services, which may require creating a special district or other intergovernmental service agreements. These communities can also evaluate opportunities to coordinate with other governments through intergovernmental agreements or mergers to possibly deliver services at reduced costs (see Walzer and Blanke, 2018a).

CONCLUSIONS

Our analysis offers several insights:

- EAVs decreased slightly (0.4%) in the post-recession period compared with an estimated increase of less than 1% in population. At the same time, the MPI estimates that costs of goods and services purchased by local governments increased by 25.9%.
- Reliance on property taxes increased while reliance on sales taxes and motor fuel taxes declined slightly in relative importance.
- Average property taxes per resident increased 36% even while EAV decreased 1.5% during this period. This suggests a substantial increase in property tax bases.

- Factors associated with higher effective property tax rates included loss of EAV, less reliance on intergovernmental aid, less reliance on charges and fees, less retail area captured, more services provided, and proximity to metro areas. The percentage of elderly residents was associated with lower tax rates. Home rule authority was not significantly related to tax rates when other factors were considered.

- Addressing the effects of both the long-term demographic trends and the economic downturn will require innovative local strategies that encourage buying local and ways to transition businesses to new owners as current owners retire.

Looking forward to the next few years during the recovery, changes in these variables may affect effective tax rates in comparable ways.

Expected demographic trends have clear implications for small towns, especially in rural areas. The full impact of these trends, if they continue, is far from certain, but strategies to deal with them are currently needed. In the past, there was a definite correlation between tax rates and revenue from user charges. As pressures on property taxes continue to mount and user charges and fees increase, the burden for financing services may become more regressive unless strategies for relieving pressure on the property tax can be realized. This paper suggests several possible ways to do this.

Finally, no one yet knows the full impact of the COVID-19 pandemic. What is clear already is that there will be substantial changes in economic activity. Innovations are being initiated in telehealth, distance learning, and Internet buying. Comparable approaches may arise that will modernize the delivery of other services, as well. There has been discussion in the news media that residents in metro areas will consider relocating to more rural environments, especially as they consider retirement opportunities (Tate, 2020). It is too early to speculate about these possibilities, but they should be explored and tested further as ways for smaller municipalities to deal with long-term demographic trends.

Norman Walzer retired as Senior Research Scholar at the Northern Illinois University (NIU) Center for Governmental Studies and now works on special projects researching state and national policy issues. Previously, he was founding director of the Illinois Institute for Rural Affairs located at Western Illinois

University. In 2019, the Illinois Municipal League awarded him a Lifetime of Service Award for work on projects affecting Illinois municipalities.

Andy Blanke is a Research Specialist for the Center for Governmental Studies at NIU. He specializes in data analysis and has been involved in several statewide data projects, including the Department of Commerce and Economic Opportunity five-year strategic plan, the Enterprise Zone Data Assistance Program, special projects for NIU, and the Local Efficiency Assessment Planning (LEAP) program funded by the Governor's Rural Affairs Council. He also manages updates for the Municipal Price Index.

ENDNOTES

[1] Property is assessed every four years, so there can be a lag between changes in economic conditions and evaluation for property taxes.

[2] https://www.bettergov.org/news/cash-scramble-illinois-towns-eye-home-rule/

[3] Several caveats to the analysis are needed. A Breusch-Pagan test suggests that the dataset is heteroskedastic (i.e., effective property tax rates do not vary consistently in relation to the variables examined). Also, the model does not control for spatial relationships that might occur within the data (e.g., specific parts of the state might have consistently higher or lower effective tax rates relative to the control variables).

[4] Illinois Department of Revenue, Sales Tax Statistics, 2019.

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