

Fiscal Base and Impacts in Park County Wyoming

By

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The following analysis evaluates the fiscal drivers of county government in the Park County economy. Government's role is to provide services to local residents and businesses. Residents and respective businesses require government services to live and operate a business (roads, emergency services, etc.) Issues that affect local government's ability to fund services for residents and businesses can in turn affect the viability of businesses and the satisfaction of residents. Fiscal stability of local government therefore is as important to the local economy as the viability and stability of local industry. The two components are linked.

There are two objectives for this section: 1) to evaluate the trends in fiscal capacity for county government, and 2) to evaluate the fiscal impacts to county government from conversion of agricultural lands to residential development. The latter focuses exclusively on the effect of agricultural land and public land grazing on county government fiscal stability. (Other issues such as mineral production, endangered species, etc. are not covered in the study due to data requirements and scope.) Rural land use issues, or open space issues are an increasingly important issue for Wyoming Counties. Previous work on fiscal impacts of exurban development have identified this issue as a growing problem for many counties (Coupal, Taylor, McLeod 2002). On average, conversion of 35 acres of agricultural lands to a residential parcel costs \$1.13 in county expenditures for \$1.00 of tax revenue. This analysis focuses exclusively on the economic – fiscal relationships for Park County. The model developed is a long run model that measures changes in revenues and expenditures from land use and the overall economic activity in the county.

I. Fiscal Capacity (Revenues)

This portion of the analyses focuses on the overall changes in expenditures and revenues for county government. Three indices of capacity are analyzed: 1) sales tax revenues, 2) assessed valuation, and 3) county expenditures. The results provide a baseline for county fiscal issues.

Park County has a highly diverse economic base for the region. Mineral production is a dominant source of tax revenues, but the county also generates revenues and incurs public expenditures from other sectors ranging from tourism to manufacturing. Each component of the economic base that drives the local economy has its own fiscal characteristics. Like many Wyoming counties, the local fiscal base is dominated by mineral revenues, (Figure 1.) However, since 1990 that base has declined in importance significantly, with residential and commercial sectors increasing. The county's location next to Yellowstone National Park and the high amenity land within its boundaries are conducive to second home growth and businesses for employment in areas with high amenities.

Figure 1. Proportion of Assessed Valuation for Property in Park County, Wyoming.

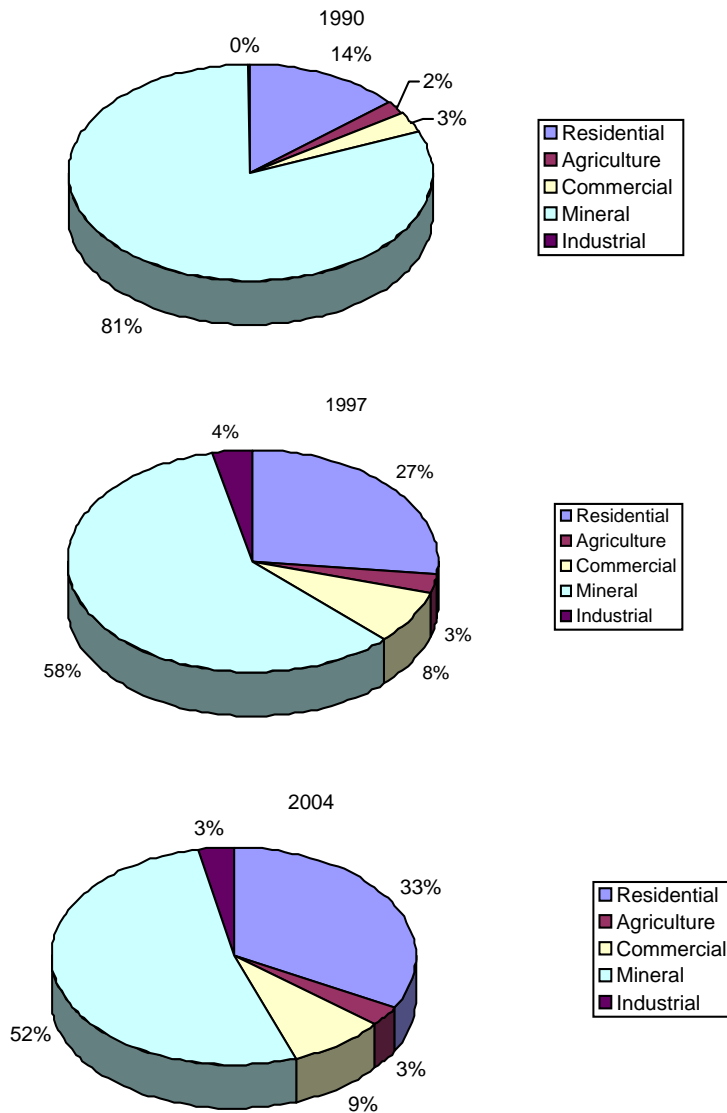
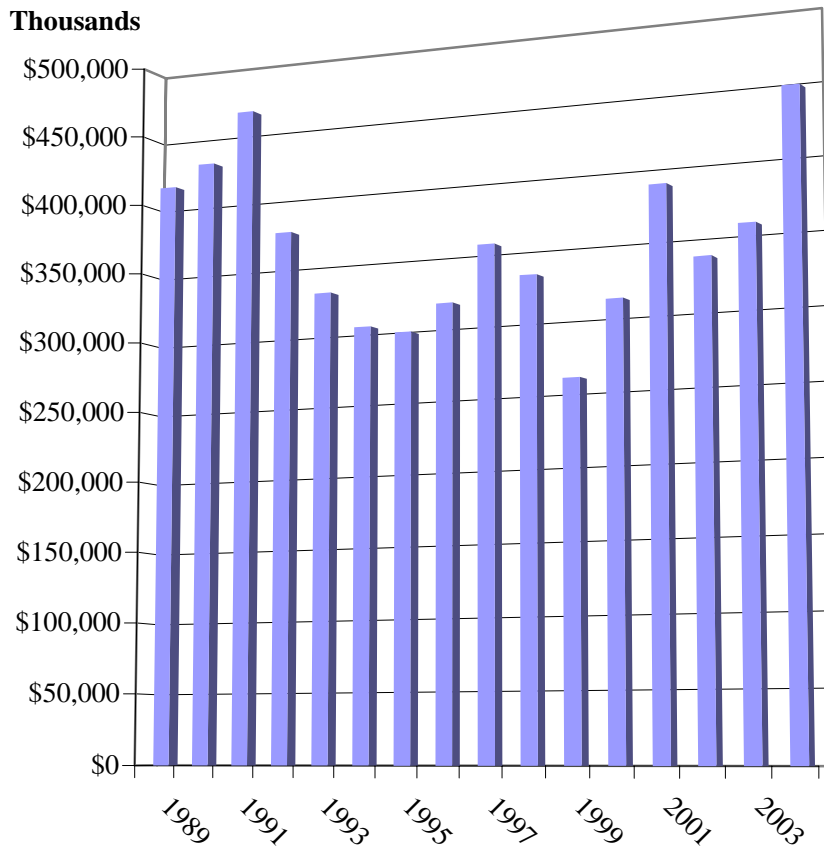


Figure 2 presents total assessed value (local and State assessed valuation by the county over the analysis period). Due to the reliance on oil and gas and due to low energy prices during the mid-nineties, assessed valuation dropped by as much as 44 percent from the early part of the decade, but then began to climb again due in part to the current energy

boom. As a result total assessed value for Park County has matched its early nineties levels.

Figure 2. Total Assessed Valuation in Park County, 1989 to 2003.



Converting those estimates to a per capita perspective and adjusting for inflation suggests a more complex issue for the county, Figure 3. On a per capita basis assessed valuation has been declining in real terms. As mineral production has leveled off and residential and commercial have increased along with population growth, the tax base for given level of service is being stretched. Without declining levels of government services the county will eventually need to increase its tax rates. An alternative is to rely more heavily on other sources of funding.

Sales Tax Capacity

Sales tax collections in Park County totaled over \$23 million in FY 2004, of which the state retains about 55 percent (Figure 4). Overall sales taxes increased 10 percent per year in nominal terms and three percent per year in real terms. The retail sector is the largest source with over 54 percent with Services and public administration generating 14.6

percent and 9.5 percent respectively. The growth from FY03 to FY04 was for the most part proportional across industry categories and relates to a 1 percent special purpose tax which became effective April 1, 2003. Retail collections as a proportion of total remained close to 54 percent. In real terms sales tax collections increased over the period on average of 7 percent per year.

Figure 3. Real assessed valuation per capital for Park County (2003=100).

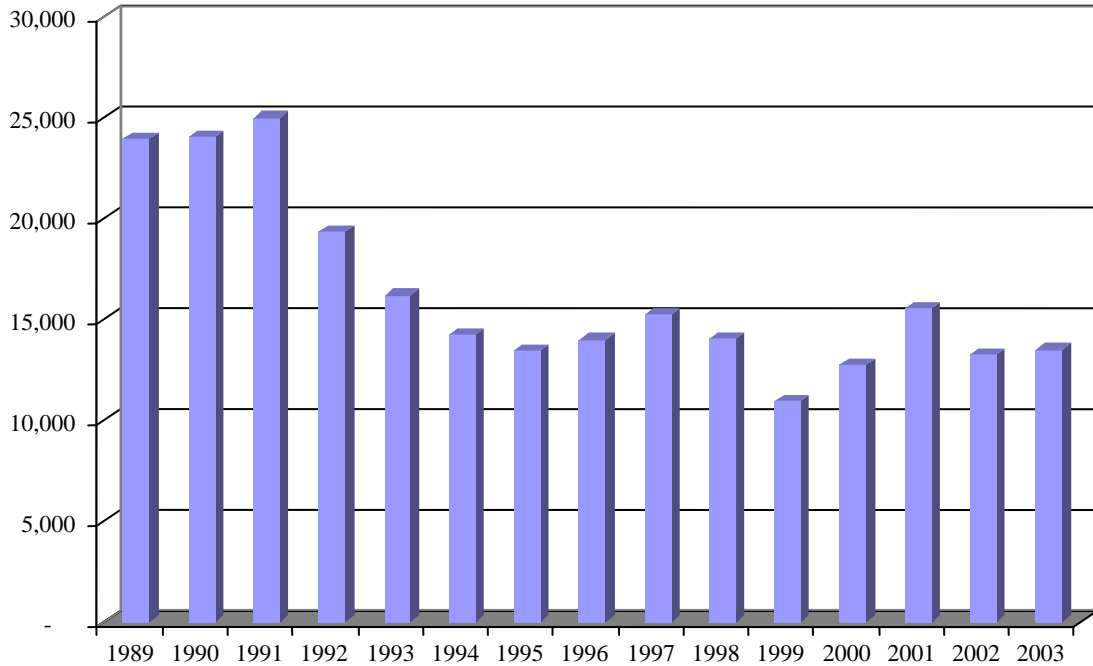
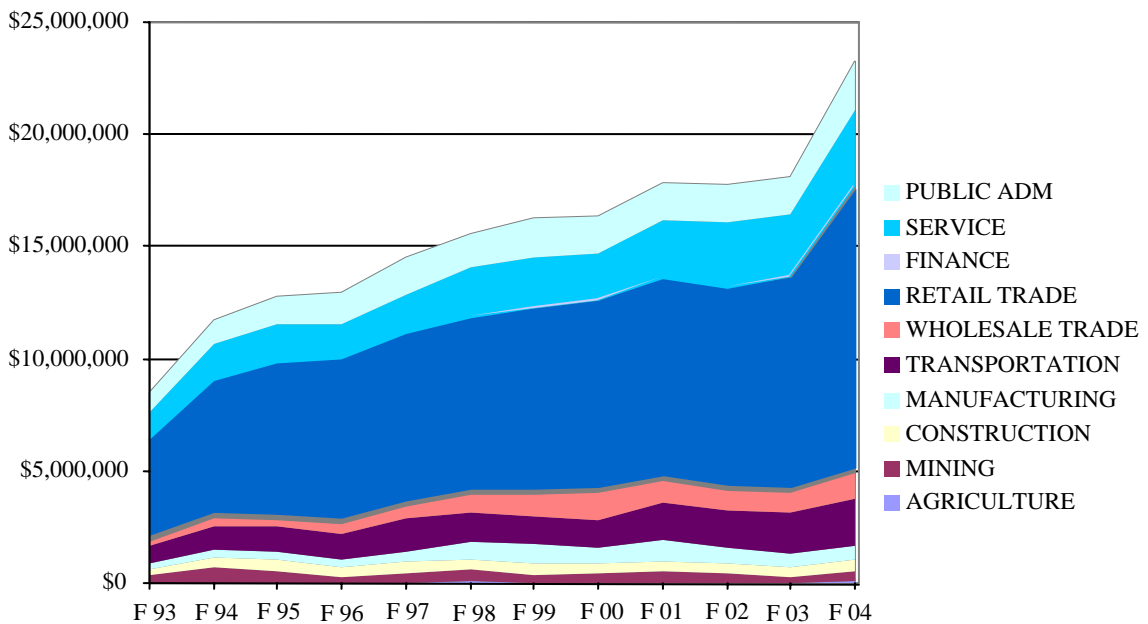
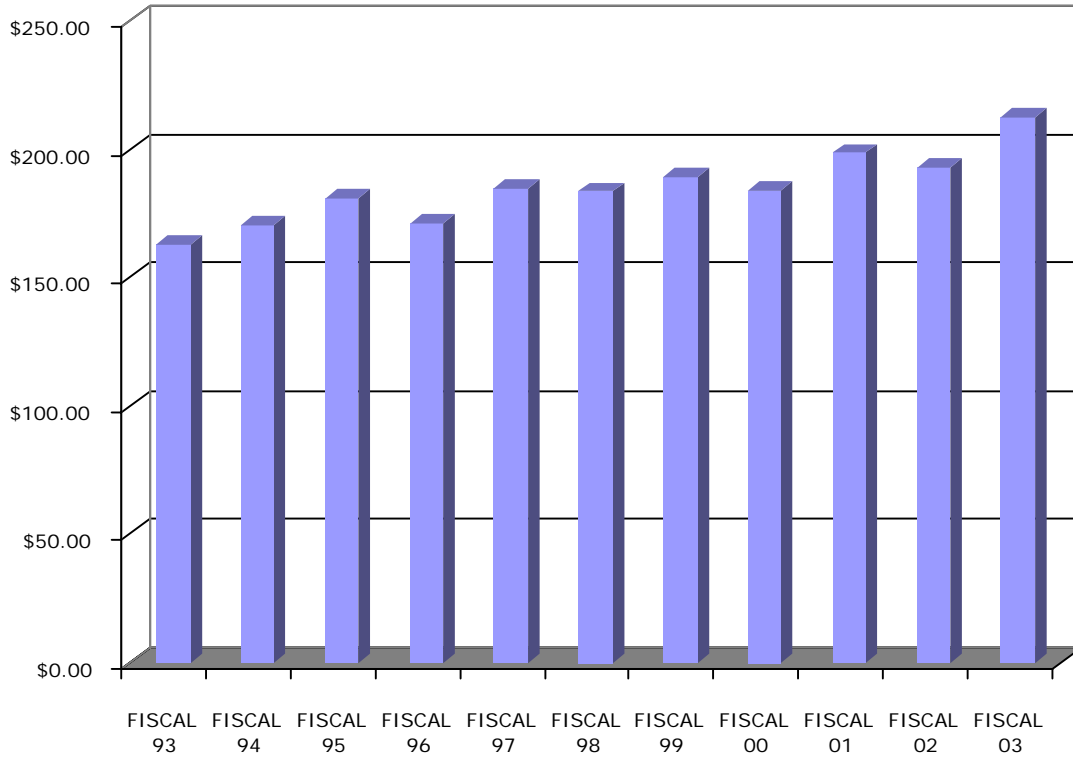


Figure 4. Sales Tax Collections in Park County, F93 – F04.



On a per capita basis sales tax distributions (the amount of sales tax collections that come back to the county) have been increasing at a rate of 3 percent per year (Figure 5). Unlike the per capita assessed valuations, the sales tax base is maintaining capacity given inflation and population increase.

Figure 5. Real Sales Tax distributions per capita (2003=100)

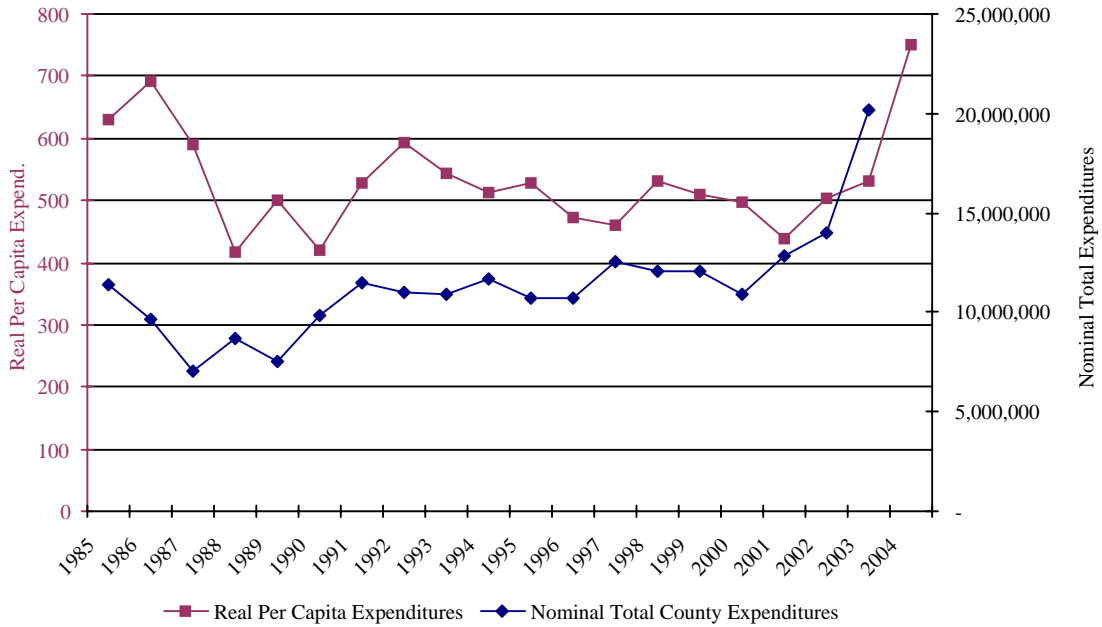


Fiscal Capacity (Expenditures)

The final component of the county’s fiscal base is its expenditure capacity. It is important to keep in mind that taxes and revenue generation are for the provision of public services and infrastructure, which are expenditure related. So policies by local government need to be evaluated from the perspective of both the revenue generation effects and expenditure effects.

Expenditures have been increasing at a nominal rate of 5 percent per year and totaling almost \$14 million in 2003, but then jumped to \$20 million in 2004 (Figure 6). The jump in 2004 ended a general slide in the 1990s of per capita expenditures.

Figure 6. Nominal County Government Expenditures and Real Expenditures per capita for Park County, Wyoming 1985 – 2004.



II. Fiscal Impacts of Federal Land Grazing Policy

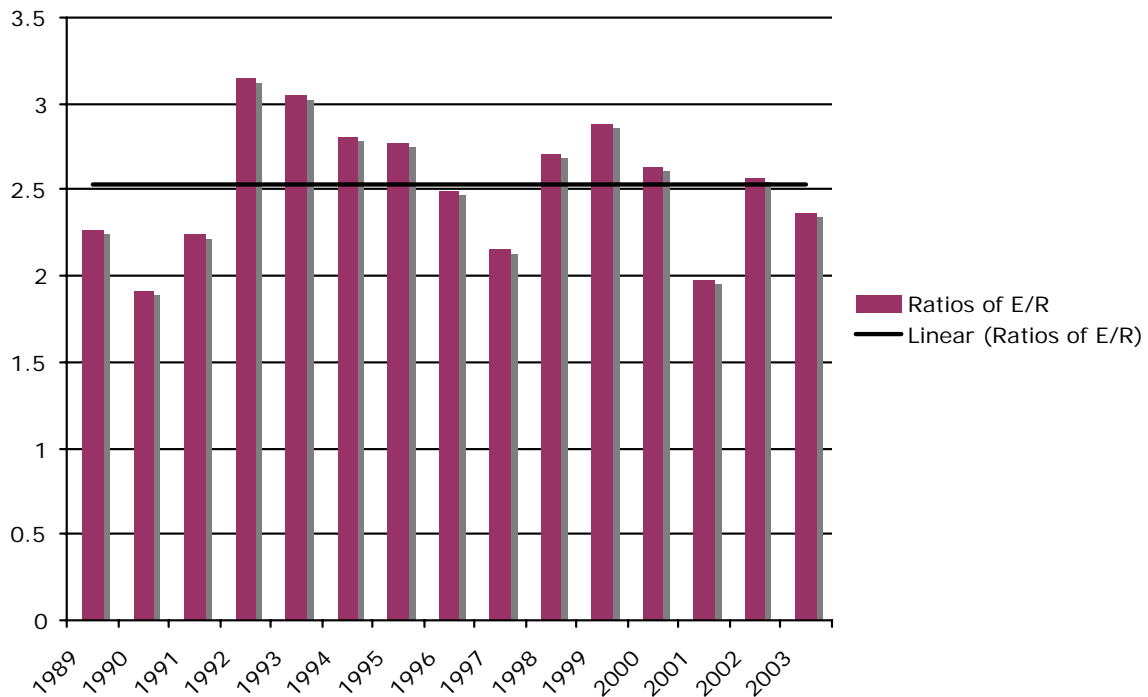
This section summarizes the results of the statistical analysis of changes in agricultural land use and public grazing land. Previous sections summarized the effects (and importance) of public grazing to the producer and the local economy. We extend this issue now to the local public sector. As discussed above, local government services can be an important part of the viability of local businesses. The provision of public services such as roads, education, security and emergency services can all be instrumental in lowering a firms cost of doing business (or increasing a firms cost of doing business.) Conversely different firms and land uses provide different levels of revenues and expect different levels of service. This analysis will focus on the issue of conversion of agricultural land to rural residential.

As established in previous sections economic viability of much of ranching in Park County requires public lands grazing resources. Removing those resources can potentially force producers out of business. In high amenity areas private land that is not economically viable as agricultural land can be sold as rural residential lots. So changing public grazing may increase the rate of agricultural land conversion. This conversion can in turn have significant fiscal effects on both revenue and expenditure generation. Previous studies in Wyoming and throughout the West have measured the overall fiscal effects of land conversion in counties. Coupal, Taylor, and McLeod (2002) estimated that conversion of 35 acres of agricultural land to residential use cost the county \$1.13 for every dollar in revenue. This study only considered operating expenditures and operating revenues. Statewide estimates are similar. Other studies have been conducted throughout

the West, and in other counties in Wyoming, and have all resulted in similar estimates (AFT 2001).

This study extends the analysis over longer time span and incorporates infrastructure expenditures as well. A set of statistically based fiscal impact models were developed to calculate revenue changes and expenditure changes for county government. The models incorporate all categories of county services and all sources of revenues: Property taxes, sales taxes, and intergovernmental transfers. The models are designed to predict total revenues and expenditures as a function of categories of economic activity. These include population change, mineral production (in the form of industry earnings), National Park Service visitation on the eastside, farm earnings or agricultural land, and other sources of economic activity. In contrast to the earlier study (Coupal, Taylor, McLeod 2002) this model is a long run model, and thereby captures spending or revenue generation that for one reason or another is deferred over a year or two. The study covers the years 1989 to 2003.

Figure 7. Expenditure to Revenue ratios for county government from conversion of 35 acres of agricultural land to one household residence.



Results show that replacing 35 acres of agricultural land with one average size household generates more revenues, but considerably more county expenditures. For every dollar of tax revenue generated an average of \$2.53 of expenditures are incurred by the county. An important qualification of this main result is that this is an average and is not an iron clad rule. If rural growth was better planned or was clustered, this ratio could change. It was not in the scope of this project to estimate the fiscal effects of clustering.

Figure 7 presents calculated ratios of county government expenditures to county government revenues for each year of the analysis period. Ratios ranged from a low of 1.9 to a high of 3.1.

Conclusions

There are several strengths and challenges in Park County Governments' fiscal capacity. The challenges will require planning, participation, and cooperation by local, state, and federal agencies. The growth in sales tax revenues is an important strength in the County's fiscal base. On a per capita basis sales tax distributions have been growing in real terms. As the economy moves from a commodity-based, natural resource dependency to a service-based natural resource dependency, sales taxes become a more important source of local public financing. This growth may be limited however, since many services do not pay taxes under the current tax structure.

On an issue that could be viewed as a strength or a challenge depending upon the context, per capita expenditures have declined in real terms. Real per capita expenditures have declined by one percent per year over the last 18 years. As long as the public views the level of services to be sufficient then the decline suggests efficiency gains by county managers.

The challenges will require planning, participation, and cooperation by local, state, and federal agencies. Probably the most important challenge is the decline in real assessed valuation per capita. Ad valorem taxes are the most important source of revenue for local government operations, from schools to roads. The results suggest that population change is outpacing major revenue sources such as revenues derived from mineral production, and that commercial/residential sources of property taxes are not taking up the slack.

The final challenge identified in this study concerns the net fiscal impacts of exurban development. The analysis developed in this study estimates that on average, replacement of 35 acres of agricultural land with one household generates approximately \$2.50 in expenditures for every dollar of revenue. So even though revenues increase as land is converted to rural residential use, expenditures on average increase by a greater amount. Over the period of study the ratio of expenditure increases to revenue increases ranged from 1.9 to 3.1.

In summary Park County is like many resource based counties in the West, dependent upon the multiple use of public lands from grazing to mining to recreation. Likewise its tax base is also dependent upon the same mix of economic uses of public lands. Successful land use planning by local government in cooperation with federal agencies is needed to maintain county government services at the current level.