SOUTH DAKOTA FARM BUREAU.

BACKGROUNDER

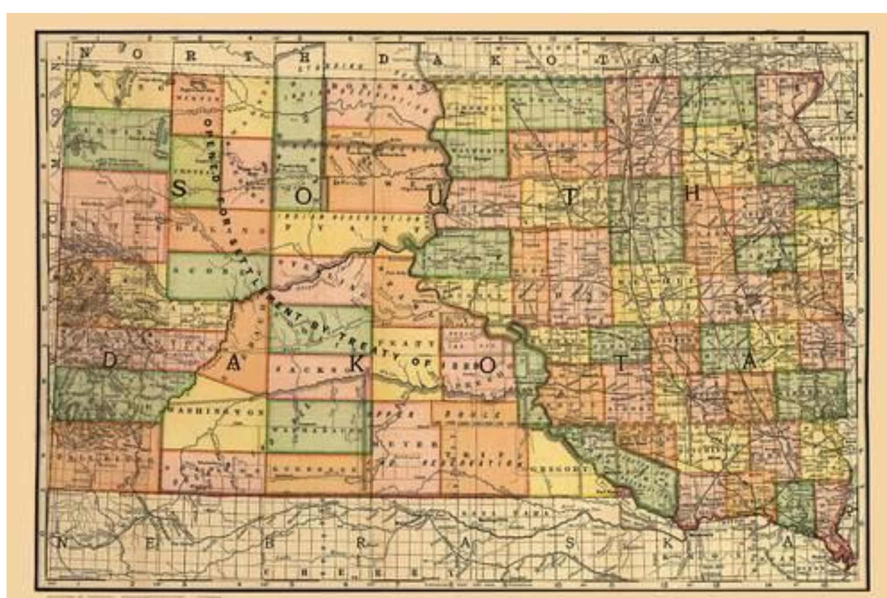
County Government Funding

ISSUE: County government funding has been a reoccurring issue for years. Multiple attempts have been made in the legislature to allow the counties to raise new revenues; however, all these measures have failed due to constituents and Farm Bureau not wanting to increase the tax burden. South Dakota has also experienced high rates of inflation. As a result, the cost of county services that are often mandated by the state have increased substantially. Particularly, mandates surrounding incarceration costs and legal services.

OVERVIEW:
A majority of county government funding is derived from property taxes. Over the decades, South Dakota has made progress in limiting property tax growth. In the 1990s, the legislature passed the property tax cap system which limited the amount of property tax growth to 3% or inflation, whichever is less. The property tax cap can be avoided if the public approves an opt-out. The state has also placed more dollars into the state aid to education formula to offset property taxes. Today, the state covers nearly 60% of the cost for general K-12 education. However, even with these efforts, polling conducted by the South Dakota Retailers in 2022 reveals that South Dakotans view their property taxes as being too high. Specifically, individuals living in the western portion of South Dakota. Furthermore, the legislature attempted to address the issue of county solvency during this past session by looking at regionalization mechanisms for spreading out jail costs and a half-cent gross receipts tax tied to certain projects like jails. Both pieces of legislation failed due to a general aversion toward increasing the taxpayer burden.

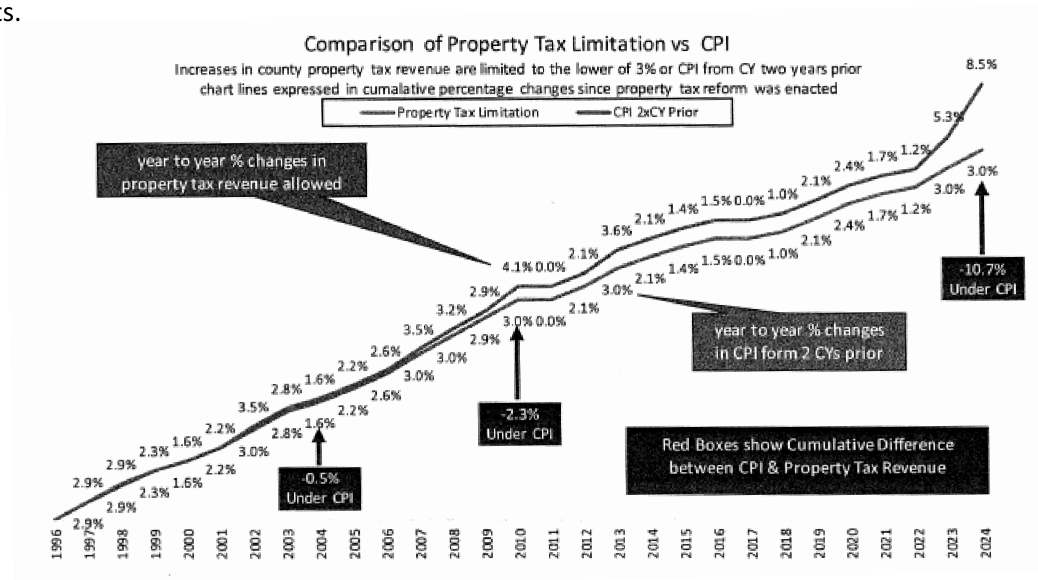
South Dakota counties are required by law to provide certain mandated services. Many of these services come at a cost. Specifically, South Dakota's 66 counties have seen their public defense costs for criminal cases more than double in the last decade. Currently, counties are responsible for providing the funding for the right to counsel indigent people in criminal and juvenile delinquency cases in the trial courts, jails, and court ordered attorneys. The counties also have few options when it comes to paying for these mandated services outside of raising property taxes, which typically comes in the form of an opt-out. If a county does <u>not</u> approve an opt-out, the county can end up in a situation where revenues do not meet the sometimes constitutionally required expenses.

In order to alleviate some of these issues, the legislature has discussed the concept of county consolidation both in boundaries and in elected positions. First, county consolidation by boundaries is nothing new to South Dakota. In 1892, South Dakota had 10 more counties than today (see map). As populations changed, counties absorbed each other to meet the needs of the constituents. The latest county to dissolve was Washabaugh County in the 1980s.



CONSIDERATIONS:

1. SDFB ranks 49th out of 50th in percentage of state contribution for indigent legal services.
2. South Dakota has counties that are projected to go broke by 2025.
3. Attempts to remove the property tax caps have failed with SDFB opposing each attempt. Removing the property tax caps would allow local governments to potentially increase taxes beyond the 3% mark. The reason why then-governor Bill Janklow put these into place was due to the property tax revolts in the 1990s. Included in the revolts was the almost passage of Initiated Measure 1 on the general election ballot. This measure would have frozen assessments at the January 1, 1995 levels and only allowed increases up to 1.25% annually if property improved or transferred ownership. This measure failed by a narrow margin (3,387 votes). California has a similar system as IM 1, and it has not reduced property taxes as tax valuations are different than taxes payable.
4. Below is a chart of the comparison of property tax limitation vs CPI. As seen in the chart, inflation has surpassed the limits.



5. Currently, local governments have received large amounts of federal funds. For example, Minnehaha County received approximately $6 million. Those funds will soon dry up and more opt-outs may be required. Additionally, Minnehaha County right now has seven opt-outs on the books dating back to the year 2000 totaling $16.1 million. While two are permanent and have no established date of expiration, the other five are set to come to term between 2025 and 2044.
6. The county sales tax proposal has never been successful in the legislature.

SDFB POLICY

Taxation General: We support the concept of tax limitation.

Taxation-Sales (2022): We oppose the repeal of the state food sales tax.

Taxation-Sales (2022): We oppose a county sales tax except for the purpose of financing a county jail or for the incarceration costs of county inmates in a regional jail.

DISCUSSION:

1. Does SDFB support county consolidation for both boundaries and elected positions?
2. Should the state become a partner with counties to make mandated services more affordable?
3. Should this be a high priority for South Dakota Farm Bureau?
4. How should SDFB lead with solutions in this space?
5. Who are our partners in eliminating unfunded and underfunded mandates?