



Municipal and County Finance

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Introduction

Wisconsin's local government system is comprised of cities (190), towns (1,264), villages (397), counties (72), school districts (426), technical college districts (16), and a number of other special purpose districts. This paper provides an overview of the financial characteristics of Wisconsin's general purpose local governments--towns, villages, cities, and counties. It includes descriptions of expenditure and revenue patterns and the role of intergovernmental revenues in local finance. It concludes with a brief discussion of the rationale for state aid programs.

Municipal and County Expenditures and Revenues

Expenditures

An examination of expenditures illustrates the variation in local government service levels. Table 1 presents 2003 statewide total and per capita expenditures of towns, villages, cities, and counties for ten categories of general operations. This information is compiled from annual financial reports filed with the Department of Revenue.

Included in the reports and Table 1 are amounts expended by local enterprises, such as water, electric, or parking utilities. Appendix I supplies a more detailed listing of the items included in each function.

Several points relevant to the data should be noted. First, some functions are not uniformly provided by all local governments. Second, governments do not use uniform methods for allocating costs to the various expenditure categories. Third, service levels may vary due to factors other than population. For example, high per capita expenditures for public safety in a municipality may be due to a concentration of commercial and manufacturing property, as opposed to a high service level for the residents of the municipality. Despite these cautions, the expenditure data can be used to draw some general conclusions about local government services.

Cities had the highest per capita level of expenditures (\$1,836), followed by villages, counties, and towns. Average per capita expenditures for villages (\$1,473) were 80.2% of the level for cities. County expenditures per person (\$1,169) were lower than both villages and cities. Finally, town expenditures per person (\$427) were only 23.3% of the city average.

Table 1: 2003 Expenditures of Municipalities and Counties

	<u>Towns</u>			<u>Villages</u>		
	Amount	Per Capita	Percent	Amount	Per Capita	Percent
General Administration	\$103,922,968	\$61	14.2%	\$85,296,467	\$118	8.0%
Public Safety	139,431,222	82	19.1	196,248,301	272	18.5
Health and Human Services	3,181,108	2	0.4	3,882,617	5	0.4
Transportation	306,561,459	179	42.0	151,348,025	210	14.2
Sanitation	56,627,232	33	7.8	157,157,058	218	14.8
Recreation and Education	16,932,481	10	2.3	69,841,011	97	6.6
Conservation and Development	12,361,848	7	1.7	48,788,165	68	4.6
Principal and Interest	75,331,630	44	10.3	229,348,693	318	21.6
Operation of Utilities	8,596,510	5	1.2	112,213,823	156	10.6
Other	<u>7,310,118</u>	<u>4</u>	<u>1.0</u>	<u>7,686,636</u>	<u>11</u>	<u>0.7</u>
Total	\$730,256,576	\$427	100.0%	\$1,061,810,796	\$1,473	100.0%
	<u>Cities</u>			<u>Counties</u>		
General Administration	\$385,891,035	\$126	6.9%	\$605,389,876	\$110	9.4%
Public Safety	1,207,880,267	395	21.5	824,658,541	150	12.8
Health and Human Services	90,195,016	30	1.6	2,501,067,228	456	39.0
Transportation	824,025,970	269	14.7	972,388,624	177	15.2
Sanitation	541,098,121	177	9.6	73,253,469	13	1.1
Recreation and Education	378,579,007	124	6.7	308,379,311	56	4.8
Conservation and Development	428,068,835	140	7.6	145,394,130	27	2.3
Principal and Interest	896,177,612	293	16.0	537,078,027	98	8.4
Operation of Utilities	654,115,302	214	11.7	38,714,664	7	0.6
Other	<u>209,225,878</u>	<u>68</u>	<u>3.7</u>	<u>412,018,078</u>	<u>75</u>	<u>6.4</u>
Total	\$5,615,257,043	\$1,836	100.0%	\$6,418,341,948	\$1,169	100.0%

Table 2: 2003 Revenue Sources of Municipalities and Counties

	<u>Towns</u>			<u>Villages</u>		
	Amount	Per Capita	Percent	Amount	Per Capita	Percent
Taxes*	\$321,109,864	\$188	42.6%	\$359,370,127	\$499	31.6%
Intergovernmental Revenues	239,043,060	140	31.7	157,906,361	219	13.9
Licenses and Permits	20,821,322	12	2.7	21,141,378	29	1.8
Fines and Forfeitures	3,685,663	2	0.5	8,997,673	13	0.8
Public Charges for Services	60,966,578	36	8.1	142,003,500	197	12.5
Intergovernmental Charges	5,990,532	3	0.8	41,996,449	58	3.7
Long-Term Debt	55,690,073	32	7.4	238,855,023	332	21.0
Interest Income	9,593,700	6	1.3	16,805,331	23	1.5
Utility Revenues	8,142,568	5	1.1	106,192,741	147	9.3
Other	<u>28,765,105</u>	<u>17</u>	<u>3.8</u>	<u>44,851,707</u>	<u>62</u>	<u>3.9</u>
Total	\$753,808,465	\$441	100.0%	\$1,138,120,290	\$1,579	100.0%
	<u>Cities</u>			<u>Counties</u>		
Taxes*	\$1,536,048,378	\$502	27.7%	\$1,785,994,472	\$325	27.9%
Intergovernmental Revenues	1,253,184,726	410	22.6	1,900,118,985	346	29.7
Licenses and Permits	77,722,548	25	1.4	18,847,432	3	0.3
Fines and Forfeitures	41,278,006	14	0.7	29,774,355	5	0.5
Public Charges for Services	709,333,282	232	12.8	1,128,074,479	206	17.6
Intergovernmental Charges	321,898,620	105	5.8	723,859,571	132	11.3
Long-Term Debt	660,872,735	216	11.9	277,228,175	51	4.3
Interest Income	78,462,374	26	1.4	46,192,386	8	0.7
Utility Revenues	695,431,521	227	12.5	36,088,998	7	0.6
Other	<u>174,993,543</u>	<u>57</u>	<u>3.2</u>	<u>457,224,578</u>	<u>83</u>	<u>7.1</u>
Total	\$5,549,225,733	\$1,814	100.0%	\$6,403,403,431	\$1,166	100.0%

*Includes property taxes, county sales taxes, special assessments, and other local taxes.

Almost half of all expenditures were devoted to transportation in towns (42.0%) and to health and human services in counties (39.0%). Cities and villages did not have a single dominant category of expenditures, although more than half of all expenditures in villages (54.3%) and cities (52.1%) were attributable to public safety, transportation, and debt service, combined.

Revenues

Revenue patterns for towns, villages, cities, and counties for 2003 are displayed in Table 2. The table includes ten revenue sources that are described in Appendix II. In addition to total revenue collected, Table 2 reports per capita amounts and the percent that each revenue category is of total revenues.

Total revenues were comparable to the corresponding expenditure totals for each type of local government. Thus, the highest per capita revenues were recorded in cities (\$1,814) and villages (\$1,579), followed by counties (\$1,166) and towns (\$441).

Taxes, intergovernmental revenues, and public charges for services comprised the largest revenue sources for local governments in 2003. Taxes represented the largest revenue source for towns (42.6%), villages (31.6%), and cities (27.7%). Intergovernmental revenues were the largest revenue source for counties (29.7%). Most county charges for services are derived from functions such as mental health services, nursing homes, hospitals, and other health and human services, where third party reimbursements account for much of the revenues.

Intergovernmental Revenues

Detail on 2003 intergovernmental revenues (IGR) is provided in Table 3. Aids are arranged under three broad categories: (1) direct federal aid;

(2) state aid, including federal aid paid through the state; and (3) aid from other local governments. Counties receive most of the federal aid paid through the state. Separate figures are shown only for the larger aid programs. Most lines include several separate aid programs that fund similar types of local service. State aid does not reflect state property tax credits, which, although paid to municipalities, must be passed through to taxpayers as a credit against gross property taxes.

Direct federal aid plays a relatively small role in intergovernmental revenues. Cities received \$69 per person in direct federal aid, which equaled 16.7% of their IGR. Counties received \$30 per person, or 8.7% of their IGR. Direct federal aid averaged \$2 per capita for towns and \$11 per capita for villages, or 1.4% and 4.9% of their total IGR, respectively.

Shared revenue and state transportation aid were the largest sources of aid to municipalities in 2003. For towns, those aids comprised 82.6% of their total IGR. Shared revenue comprised about half of all intergovernmental revenues for villages (47.6%) and cities (49.8%). On a per capita basis, cities received more shared revenue (\$204) than villages (\$104) or towns (\$43). On the other hand, per capita transportation aid payments were higher for towns (\$72) than for cities (\$56) or villages (\$53).

Counties received the majority (62.9%, or \$218 per person) of their aid in the health and human services area. State shared revenue (\$32 per capita) and transportation aid (\$24 per capita) totaled 16.0%, combined, of all aid to counties.

Aid from other local governments was not a significant part of total intergovernmental revenues. These aids comprised 4.1% of intergovernmental revenue for cities, 5.0% for towns, and 5.1% for villages. This aid was less significant for counties (0.4%).

Table 3: 2003 Intergovernmental Revenues to Municipalities and Counties

	Towns			Villages			Cities			Counties		
	Amount	Per Capita	% of Total	Amount	Per Capita	% of Total	Amount	Per Capita	% of Total	Amount	Per Capita	% of Total
Direct Federal Aid												
Public Safety	\$1,954,013	\$1	0.8%	\$3,157,625	\$4	2.0%	\$10,243,139	\$3	0.8%	\$5,943,932	\$1	0.3%
Health and Human Services	0	0	0.0	591,202	1	0.4	9,508,994	3	0.8	58,058,223	11	3.1
Transportation	559,214	< 1	0.2	80,248	< 1	< 0.1	7,164,495	2	0.6	29,778,900	5	1.6
Sanitation	7,016	< 1	< 0.1	262,721	< 1	0.2	1,868,615	1	0.1	0	0	0.0
Culture and Recreation	0	0	0.0	0	0	0.0	1,745,689	1	0.1	2,292,973	0	0.0
Community Development	111,171	< 1	< 0.1	1,326,800	2	0.8	130,965,085	43	10.5	36,905,462	7	1.9
Other	<u>715,582</u>	<u>< 1</u>	<u>0.3</u>	<u>2,355,491</u>	<u>3</u>	<u>1.5</u>	<u>47,919,110</u>	<u>16</u>	<u>3.8</u>	<u>32,392,463</u>	<u>6</u>	<u>1.7</u>
Total Federal Aid	\$3,346,996	\$2	1.4%	\$7,774,087	\$11	4.9%	\$209,415,127	\$69	16.7%	\$165,371,953	\$30	8.7%
State Aid (Includes Federal Aid Paid Through the State)												
Shared Revenue	\$73,662,081	\$43	30.8%	\$75,233,077	\$104	47.6%	\$623,502,997	\$204	49.8%	\$173,061,665	\$32	9.1%
Expenditure Restraint	724,827	< 1	0.3	4,985,806	7	3.2	52,435,067	17	4.2	0	0	0.0
Small Municipalities												
Shared Revenue	6,789,503	4	2.8	4,263,264	6	2.7	168,333	< 1	< 0.1	0	0	0.0
General Government	0	0	0.0	0	0	0.0	0	0	0.0	36,868,630	7	1.9
Public Safety	5,854,414	3	2.5	3,708,789	5	2.3	15,893,728	5	1.3	30,884,685	6	1.6
Health and Human Services	0	0	0.0	0	0	0.0	6,166,381	2	0.5	1,194,465,285	218	62.9
Transportation	123,886,084	72	51.8	38,325,411	53	24.3	171,884,166	56	13.7	130,801,564	24	6.9
Sanitation	4,080,734	2	1.7	2,693,079	4	1.7	12,964,321	4	1.0	7,142,894	1	0.4
Culture and Recreation	0	0	0.0	0	0	0.0	2,117,868	1	0.2	28,117,227	5	1.5
Community Development	136,661	< 1	0.1	3,084,611	4	2.0	15,896,561	5	1.3	11,130,323	2	0.6
Forestry and Conservation	4,477,542	3	1.9	73,227	< 1	< 0.1	100,356	< 1	< 0.1	32,837,145	6	1.7
Payments for Mun. Services	470,950	< 1	0.2	404,295	1	0.3	21,354,195	7	1.7	39,635	< 1	< 0.1
Other	<u>3,620,222</u>	<u>2</u>	<u>1.5</u>	<u>9,317,152</u>	<u>13</u>	<u>5.9</u>	<u>69,414,059</u>	<u>23</u>	<u>5.5</u>	<u>81,824,990</u>	<u>15</u>	<u>4.3</u>
Total State Aid	\$223,703,018	\$131	93.6%	\$142,088,711	\$197	90.0%	\$991,898,032	\$324	79.2%	\$1,727,174,043	\$315	90.9%
Total Local Aid	<u>\$11,993,046</u>	<u>\$7</u>	<u>5.0%</u>	<u>\$8,043,563</u>	<u>\$11</u>	<u>5.1%</u>	<u>\$51,871,567</u>	<u>\$17</u>	<u>4.1%</u>	<u>\$7,572,989</u>	<u>\$1</u>	<u>0.4%</u>
TOTAL	\$239,043,060	\$140	100.0%	\$157,906,361	\$219	100.0%	\$1,253,184,726	\$410	100.0%	\$1,900,118,985	\$346	100.0%

Rationale for State Aid to Local Governments

States provide aid to local units of government for a number of reasons. Although not exhaustive, the following list describes several of these reasons.

1. *Spreading Costs.* Some local services are provided to residents of other communities. State aid may help to ensure that local residents do not bear the entire burden of providing these services. For example, major streets in urban areas serve commuters from other areas. State transportation aid helps to offset the cost borne by urban residents.

2. *Tax Base Equalization.* The purpose of tax base equalization is to provide funds to equalize local governments' fiscal capacity by channeling proportionately larger amounts of aid to fiscally weak jurisdictions. Local governments vary in the amount of tax base per resident and the costs of providing local services. Through equalization, tax rates are equalized for local governments possessing equal spending levels. Although the state no longer distributes aid to municipal and county governments under tax base equalization, general state aids to elementary and secondary school districts are allocated under an equalizing formula.

The policy of tax base equalization has been pursued for several reasons. First, it can remove fiscal capacity as a barrier to providing local

services. Second, equalization may accomplish a limited degree of income redistribution, providing more state assistance to areas with low total fiscal capacity. Third, equalization can reduce the variance in local tax rates, making it easier for areas with low fiscal capacity to compete for new development.

3. *Replacing Lost Tax Base.* The exemption of a class of property from local taxation may result in a burdensome shift in taxes to owners of the remaining taxable property. State aid can cushion and spread the burden of the revenue lost due to the exemption.

4. *Substituting State Taxes for Local Taxes.* Using state aid to help finance local government may improve the overall equity in the state-local tax system. The state income tax, in particular, is generally perceived to be more progressive, equitable, and better related to the taxpayer's ability to pay than the property tax.

5. *Funding Local Mandates.* Local governments provide a wide variety of services that are required by state law. The provision of state aid helps to offset the cost of these services.

A concern raised with state aid is the trade-off between stimulating local expenditures and substituting state revenues for local revenues. Either or both responses by local governments are possible. Depending on the state's reasons for providing local aid, provisions can be built into the aid system to address this concern.

APPENDIX I

Explanations of Expenditure Categories Used in Table 1

General Administration. These are the resources expended for legislative, judicial, and general government support, including governing boards, judges, attorneys, clerks, treasurers, assessors, financial administration, and planning activities.

Public Safety. This includes police, fire, emergency communications (911), ambulance, and correctional facilities.

Health and Human Services. This includes health programs, drug abuse, mental health, services to the aged, medical and health care services for indigent individuals, veterans programs, income maintenance administration, and other human service programs.

Transportation. This includes highway maintenance, traffic control, street lighting, bicycle trails, parking lots, meters and ramps, mass transit, airports, and docks and harbors.

Sanitation. This includes sanitary sewers and treatment plants for sewer departments, refuse collection, storm water drainage, and landfill operations.

Recreation and Education. This includes libraries, recreation programs, parks, recreational facilities,

and educational programs.

Conservation and Development. This includes expenditures for public housing, economic development, county forestry projects, conservation of natural resources, and administration of planning policies and zoning laws.

Principal and Interest. This includes repayment of the principal and interest on bonds, long-term notes, installment contracts, and state trust fund loans and interest on temporary loans. It does not include the payment of principal on temporary loans.

Operation of Utilities. This includes operating expenses of water, electric, gas, and other miscellaneous utilities.

Other. This includes surplus funds applied to reduce the tax levies of other jurisdictions, expenditures from internal services accounts, and miscellaneous expenditures not classified elsewhere.

Total General Operations and Enterprises. This is the sum of the preceding ten categories.

APPENDIX II

Explanations of Revenue Categories Used in Table 2

Taxes. This includes the municipal and county shares of general property taxes, county sales taxes, special assessments, and other miscellaneous local taxes.

Intergovernmental Revenues. This includes direct federal aid, state aid, federal aid paid through the state, and aid from other local governments.

Licenses and Permits. This includes liquor licenses, building and zoning permits, and other regulatory permits and fees.

Fines and Forfeitures. This includes police fines, contract forfeitures, judgments, and damage awards.

Public Charges for Services. This includes fees charged for a variety of public services, such as parking fees, golf course fees, mental health service fees, and other user charges.

Intergovernmental Charges for Services. This includes revenues received from other governmental units for services provided.

Long-Term Debt. This includes proceeds from long-term general obligation bonds, notes, state trust fund loans, and installment purchase contracts.

Interest Income. This includes interest earned on invested funds and interest and penalty charges on special assessments.

Utility Revenues. This iuser fees and other revenues from water, gas, electric, and other miscellaneous utilities.

Other. This includes miscellaneous revenues.

Total General Operations and Enterprises. This is the sum of the preceding ten categories.