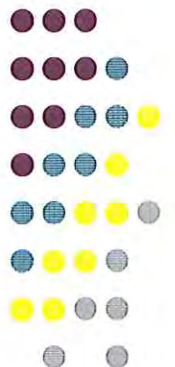


Municipal and County Finance

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Introduction

Wisconsin's local government system is comprised of cities (190), towns (1,257), villages (403), counties (72), school districts (424), 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.

State law requires local governments to have balanced budgets, but current year revenues and expenditures may not be exactly equal. Balances from previous years may fund current year services, and outlays may be part of a multi-year capital project funded with proceeds from debt issued in a prior year. Also, revenues may fluctuate above or below budgeted levels due to economic conditions. This is particularly true for interest income, licenses and permits, and sales or excise taxes.

For 2009, county revenues exceeded county expenditures by \$268.8 million on a statewide basis. This occurred due to county contributions to retirement or pension plans for unfunded liabilities (expenditures that are anticipated for future years). The revenues used to fund those contributions were obtained primarily through borrowing.

Municipal and County Expenditures and Revenues

Expenditures

An examination of expenditures illustrates the

variation in local government service levels. Table 1 presents 2009 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 (DOR). 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 (\$2,165), followed by villages, counties, and towns. Average per capita expenditures for villages (\$1,663) were 76.8% of the level for cities. County expenditures per person (\$1,303) were lower than both villages and cities, but higher than the per capita expenditure level in towns (\$496), which equaled only 22.9% of the city average.

Cities and villages did not have a single dominant category of expenditures, although almost half of all expenditures in villages (47.7%) and cities (46.7%) was attributable to public safety, transportation, and sanitation, combined. The most significant expenditure category in towns (41.0%) was

Table 1: 2009 Expenditures of Municipalities and Counties

	Towns			Villages*		
	Amount	Per Capita	Percent	Amount	Per Capita	Percent
General Administration	\$122,920,468	\$72	14.5%	\$108,197,824	\$126	7.6%
Public Safety	150,466,830	88	17.8	270,247,384	316	19.0
Health and Human Services	3,194,711	2	0.4	6,110,905	7	0.4
Transportation	347,017,746	203	41.0	194,337,950	227	13.6
Sanitation	73,767,395	43	8.7	215,674,557	252	15.1
Recreation and Education	24,125,394	14	2.9	80,043,121	93	5.6
Conservation and Development	12,038,010	7	1.4	66,516,980	78	4.7
Principal and Interest	85,442,367	50	10.1	296,839,314	347	20.9
Operation of Utilities	20,035,098	12	2.4	171,945,360	201	12.1
Other	<u>7,465,168</u>	<u>5</u>	<u>0.8</u>	<u>13,570,041</u>	<u>16</u>	<u>1.0</u>
Total	\$846,473,187	\$496	100.0%	\$1,423,483,436	\$1,663	100.0%

	Cities			Counties		
	Amount	Per Capita	Percent	Amount	Per Capita	Percent
General Administration	\$415,743,367	\$133	6.1%	\$1,100,337,755	\$193	14.9%
Public Safety	1,497,475,956	479	22.1	1,032,486,825	181	13.9
Health and Human Services	98,193,640	31	1.5	2,737,313,250	481	36.9
Transportation	958,741,949	307	14.2	1,081,971,521	190	14.6
Sanitation	703,144,387	225	10.4	94,045,337	17	1.3
Recreation and Education	448,477,542	143	6.6	334,167,483	59	4.5
Conservation and Development	329,894,205	106	4.9	165,840,996	29	2.2
Principal and Interest	1,103,561,955	353	16.3	338,499,255	60	4.6
Operation of Utilities	952,861,466	305	14.1	6,227,992	1	0.1
Other	<u>260,209,098</u>	<u>83</u>	<u>3.8</u>	<u>521,685,150</u>	<u>92</u>	<u>7.0</u>
Total	\$6,768,303,565	\$2,165	100.0%	\$7,412,575,564	\$1,303	100.0%

*One municipality did not file its financial report with DOR, thereby triggering a state aid reduction. As a result, the village totals in this table do not include expenditures for the Village of Couderay (Sawyer County).

Table 2: 2009 Revenue Sources of Municipalities and Counties

	Towns			Villages*		
	Amount	Per Capita	Percent	Amount	Per Capita	Percent
Taxes	\$374,153,502	\$219	44.5%	\$533,685,053	\$623	36.5%
Intergovernmental Revenues	253,490,803	149	30.1	173,463,389	203	11.9
Licenses and Permits	15,622,727	9	1.9	20,356,228	24	1.4
Fines and Forfeitures	3,449,927	2	0.4	11,707,460	14	0.8
Public Charges for Services	68,893,412	40	8.2	212,081,281	248	14.5
Intergovernmental Charges	6,166,875	4	0.7	58,817,189	68	4.0
Long-Term Debt	66,387,333	39	7.9	238,797,699	279	16.3
Interest Income	11,188,946	6	1.3	16,471,036	19	1.1
Utility Revenues	14,884,607	9	1.8	157,002,172	183	10.7
Other	<u>27,329,142</u>	<u>16</u>	<u>3.2</u>	<u>40,157,462</u>	<u>47</u>	<u>2.8</u>
Total	\$841,567,274	\$493	100.0%	\$1,462,538,969	\$1,708	100.0%

	Cities			Counties		
	Amount	Per Capita	Percent	Amount	Per Capita	Percent
Taxes	\$1,974,598,872	\$632	29.5%	\$2,182,529,931	\$384	28.4%
Intergovernmental Revenues	1,189,686,445	381	17.8	1,925,772,668	339	25.1
Licenses and Permits	75,661,929	24	1.1	16,526,601	3	0.2
Fines and Forfeitures	45,457,572	15	0.7	29,058,337	5	0.4
Public Charges for Services	945,878,191	303	14.1	1,341,840,377	236	17.5
Intergovernmental Charges	420,682,854	134	6.3	910,866,378	160	11.8
Long-Term Debt	771,367,265	247	11.5	681,301,276	119	8.9
Interest Income	72,950,885	23	1.1	54,672,962	9	0.7
Utility Revenues	980,017,119	313	14.6	8,880,715	2	0.1
Other	<u>223,553,931</u>	<u>71</u>	<u>3.3</u>	<u>529,903,747</u>	<u>93</u>	<u>6.9</u>
Total	\$6,699,855,063	\$2,143	100.0%	\$7,681,352,992	\$1,350	100.0%

*One municipality did not file its financial report with DOR, thereby triggering a state aid reduction. As a result, the village totals in this table do not include revenues for the Village of Couderay (Sawyer County).

transportation, and health and human services comprised the largest expenditure category in counties (36.9%). Debt service was the largest expenditure category for villages (20.9%) and the second largest expenditure category for cities (16.3%).

Revenues

Revenue patterns for towns, villages, cities, and counties for 2009 are displayed in Table 2. The table includes ten revenue sources, which are described in more detail 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 (\$2,143) and villages (\$1,708), followed by counties (\$1,350) and towns (\$493).

Taxes, intergovernmental revenues, and public charges for services comprised the largest revenue sources for local governments in 2009. Taxes represented the largest revenue source for towns (44.5%), villages (36.5%), cities (29.5%), and counties (28.4%). The intergovernmental revenues category was the second largest revenue source for towns (30.1%), cities (17.8%), and counties (25.1%). Public charges for services were the third most important revenue source for towns (8.2%), villages (14.5%), cities (14.1%), and counties (17.5%). 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. Proceeds from long-term debt comprised the second largest source of revenue for villages (16.3%).

Intergovernmental Revenues

Detail on 2009 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, and 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 and counties, 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 \$48 per person in direct federal aid, which equaled 12.4% of their IGR. Counties received \$31 per person, or 9.1% of their IGR. Direct federal aid averaged \$2 per capita for towns and \$13 per capita for villages, or 1.7% and 6.4% of their total IGR, respectively.

Shared revenue (which includes county and municipal aid) and state transportation aid were the largest sources of aid to municipalities in 2009. For towns, those aids comprised 83.2% of their total IGR. Shared revenue comprised about half of all intergovernmental revenues for villages (44.3%) and cities (49.3%). On a per capita basis, cities received more shared revenue (\$188) than villages (\$90) or towns (\$38). On the other hand, per capita transportation aid payments were higher for towns (\$85) than for cities (\$58) or villages (\$56).

Counties received the majority (62.4%, or \$211 per person) of their aid in the health and human services area. State shared revenue (\$29 per capita) and transportation aid (\$24 per capita) totaled 15.7%, combined, of all aid to counties.

Aid from other local governments was not a significant part of total intergovernmental revenues. These aids comprised 5.1% of intergovernmental revenue for towns, 5.5% for cities, and 5.6% for villages. This aid was less significant for counties (0.2%).

Table 3: 2009 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	\$2,382,647	\$1	0.9%	\$2,404,816	\$3	1.4%	\$14,700,535	\$5	1.2%	\$5,280,051	\$1	0.3%
Health and Human Services	0	0	0.0	14,479	< 1	< 0.1	9,836,156	3	0.8	79,736,759	14	4.1
Transportation	1,263,258	1	0.5	804,270	1	0.5	12,919,704	4	1.1	16,678,965	3	0.9
Sanitation	16,078	< 1	< 0.1	0	0	0.0	3,626,747	1	0.3	0	0	0.0
Culture and Recreation	0	0	0.0	1,078	< 1	< 0.1	1,575,609	1	0.1	4,799,035	1	0.2
Community Development	15,855	< 1	< 0.1	1,964,651	2	1.1	68,313,140	22	5.8	28,052,844	5	1.5
Other	499,245	< 1	0.2	5,881,139	7	3.4	37,082,964	12	3.1	40,148,863	7	2.1
Total Federal Aid	\$4,177,083	\$2	1.7%	\$11,070,433	\$13	6.4%	\$148,054,855	\$48	12.4%	\$174,696,517	\$31	9.1%
State Aid (Includes Federal Aid Paid Through the State)												
Shared Revenue	\$65,119,427	\$38	25.7%	\$76,759,502	\$90	44.3%	\$586,795,032	\$188	49.3%	\$165,350,131	\$29	8.6%
Expenditure Restraint	146,056	< 1	0.1	4,352,872	5	2.5	53,646,772	17	4.5	0	0	0.0
General Government	2,366	< 1	< 0.1	14,279	< 1	< 0.1	228,691	< 1	< 0.1	37,048,825	7	1.9
Public Safety	6,467,411	4	2.5	5,859,634	7	3.4	20,584,097	7	1.7	31,260,610	6	1.6
Health and Human Services	0	0	0.0	258,592	< 1	0.1	5,110,090	2	0.4	1,201,316,862	211	62.4
Transportation	145,685,907	85	57.5	47,897,836	56	27.6	182,619,272	58	15.4	136,814,334	24	7.1
Sanitation	3,912,782	2	1.5	3,344,096	4	1.9	13,390,450	4	1.1	7,579,688	1	0.4
Culture and Recreation	158,567	< 1	0.1	497,784	1	0.3	3,227,684	1	0.3	28,702,722	5	1.5
Community Development	489,012	< 1	0.2	2,464,300	3	1.4	12,145,831	4	1.0	11,937,405	2	0.6
Forestry and Conservation	8,479,251	5	3.3	209,104	< 1	0.1	130,056	< 1	< 0.1	33,601,480	6	1.7
Payments for Mun. Services	538,648	< 1	0.2	461,620	1	0.2	21,283,087	7	1.8	618,650	< 1	< 0.1
Other	5,302,610	3	2.1	10,615,740	12	6.1	76,984,984	25	6.5	91,764,593	16	4.8
Total State Aid	\$236,302,037	\$139	93.2%	\$152,735,359	\$179	88.0%	\$976,146,046	\$312	82.1%	\$1,745,995,300	\$307	90.7%
Total Local Aid	\$13,011,683	\$8	5.1%	\$9,657,597	\$11	5.6%	\$65,485,544	\$21	5.5%	\$5,080,851	\$1	0.2%
TOTAL	\$253,490,803	\$149	100.0%	\$173,463,389	\$203	100.0%	\$1,189,686,445	\$381	100.0%	\$1,925,772,668	\$339	100.0%

*One municipality did not file its financial report with DOR, thereby triggering a state aid reduction. As a result, the village totals in this table do not include intergovernmental revenues for the Village of Couderay (Sawyer County).

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. 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, room 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 includes user fees and other revenues from water, gas, electric, and other miscellaneous utilities.

Other. This includes miscellaneous revenues.

Total. This is the sum of the preceding ten categories.