

Municipal and County Finance



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Introduction

Wisconsin's local government system is comprised of cities (190), towns (1,255), villages (405), 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.

Even though local governments adopt balanced budgets, 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.

In this paper, Tables 1, 2, and 3 present statewide revenue and expenditure data compiled from annual financial reports filed by municipalities and counties with the Department of Revenue (DOR) for 2011. Four municipalities did not file reports for 2011 with DOR and will incur penalties in the form of state aid reductions. These municipalities include the Town of Prairie du Chien in Crawford County, the Village of Unity in Clark and Marathon counties, the Village of Couderay in Sawyer County, and the Town of Stinnett in Washburn County.

Municipal and County Expenditures and Revenues

Expenditures

An examination of expenditures illustrates the variation in local government service levels. Table 1 presents 2011 statewide total and per capita expenditures of towns, villages, cities, and counties for 10 categories of general operations. The totals include amounts expended by local enterprises, such as electric, gas, water or other 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 (\$2,233), followed by villages, counties, and towns. Average per capita expenditures for villages (\$1,698) were 76.0% of the level for cities. County expenditures per person (\$1,236) were lower than both villages and cities, but higher than the per capita expenditure level in towns (\$498), which equaled only 22.3% of the city average.

Table 1: 2011 Expenditures of Municipalities and Counties*

	Towns			Villages		
	Amount	Per Capita	Percent	Amount	Per Capita	Percent
General Administration	\$123,332,443	\$75	15.0%	\$113,641,710	\$129	7.6%
Public Safety	142,612,528	86	17.4	281,602,886	321	18.9
Health and Human Services	3,256,421	2	0.4	6,372,212	7	0.4
Transportation	346,780,584	210	42.2	198,447,503	226	13.3
Sanitation	70,898,188	43	8.6	230,101,515	262	15.4
Recreation and Education	23,234,238	14	2.8	85,699,245	98	5.8
Conservation and Development	12,311,187	7	1.5	73,479,537	84	4.9
Principal and Interest	78,651,194	48	9.6	296,469,761	338	19.9
Operation of Utilities	12,479,965	8	1.5	191,447,936	218	12.9
Other	8,154,741	5	1.0	12,775,252	15	0.9
Total	\$821,711,489	\$498	100.0%	\$1,490,037,557	\$1,698	100.0%

	Cities			Counties		
	Amount	Per Capita	Percent	Amount	Per Capita	Percent
General Administration	\$408,092,455	\$129	5.8%	\$681,522,478	\$120	9.7%
Public Safety	1,541,615,377	488	21.8	1,107,136,028	194	15.7
Health and Human Services	95,103,575	30	1.3	2,526,412,382	444	35.9
Transportation	952,857,820	301	13.5	1,171,121,012	206	16.7
Sanitation	710,518,879	225	10.1	107,555,922	19	1.5
Recreation and Education	470,874,575	149	6.7	339,352,156	60	4.8
Conservation and Development	298,453,747	94	4.2	160,150,422	28	2.3
Principal and Interest	1,204,050,484	381	17.1	371,102,444	65	5.3
Operation of Utilities	1,043,435,646	330	14.8	6,461,353	1	0.1
Other	335,225,883	106	4.7	565,661,774	99	8.0
Total	\$7,060,228,441	\$2,233	100.0%	\$7,036,475,971	\$1,236	100.0%

* Two towns and two villages did not file their 2011 financial reports with DOR, thereby triggering state aid reductions. As a result, the town and village totals in this table are not comprehensive.

Table 2: 2011 Revenue Sources of Municipalities and Counties*

	Towns			Villages		
	Amount	Per Capita	Percent	Amount	Per Capita	Percent
Taxes	\$393,015,995	\$238	47.3%	\$553,704,933	\$631	36.7%
Intergovernmental Revenues	250,380,357	151	30.1	190,127,888	217	12.6
Licenses and Permits	15,958,445	10	1.9	21,319,350	24	1.4
Fines and Forfeitures	3,184,740	2	0.4	11,258,402	13	0.7
Public Charges for Services	71,616,574	43	8.6	238,700,095	272	15.8
Intergovernmental Charges	7,930,297	5	0.9	61,097,999	70	4.0
Long-Term Debt	40,227,910	24	4.8	204,486,787	233	13.5
Interest Income	6,274,046	4	0.8	11,264,170	13	0.8
Utility Revenues	12,197,092	7	1.5	175,044,244	199	11.6
Other	30,564,729	18	3.7	43,743,800	50	2.9
Total	\$831,350,185	\$502	100.0%	\$1,510,747,668	\$1,722	100.0%

	Cities			Counties		
	Amount	Per Capita	Percent	Amount	Per Capita	Percent
Taxes	\$2,084,302,440	\$659	29.2%	\$2,319,156,415	\$407	33.4%
Intergovernmental Revenues	1,243,552,266	393	17.4	1,775,536,673	312	25.5
Licenses and Permits	83,360,714	26	1.2	17,634,543	3	0.3
Fines and Forfeitures	44,181,815	14	0.6	25,829,269	5	0.4
Public Charges for Services	1,041,721,633	330	14.6	1,387,660,709	244	20.0
Intergovernmental Charges	531,393,218	168	7.4	937,775,159	165	13.5
Long-Term Debt	716,377,789	227	10.0	233,020,039	41	3.3
Interest Income	62,958,477	20	0.9	38,373,669	7	0.5
Utility Revenues	1,104,486,114	349	15.5	8,133,481	1	0.1
Other	226,044,809	72	3.2	208,852,801	37	3.0
Total	\$7,138,379,275	\$2,258	100.0%	\$6,951,972,758	\$1,222	100.0%

* Two towns and two villages did not file their 2011 financial reports with DOR, thereby triggering state aid reductions. As a result, the town and village totals in this table are not comprehensive.

Cities and villages did not have a single dominant category of expenditures, although almost half of all expenditures in villages (47.6%) and cities (45.4%) was attributable to public safety, transportation, and sanitation, combined. The most significant expenditure category in towns (42.2%) was transportation, and health and human services comprised the largest expenditure category in counties (35.9%). Debt service was the largest expenditure category for villages (19.9%) and the second largest expenditure category for cities (17.1%).

Revenues

Revenue patterns for towns, villages, cities, and counties for 2011 are displayed in Table 2. The table includes 10 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 (\$2,258) and villages (\$1,722), followed by counties (\$1,222) and towns (\$502).

Taxes, intergovernmental revenues, and public charges for services comprised the largest revenue sources for local governments in 2011. Taxes represented the largest revenue source for towns (47.3%), villages (36.7%), cities (29.2%), and counties (33.4%). The intergovernmental revenues category was the second largest revenue source for towns (30.1%), cities (17.4%), and counties (25.5%) and the fourth largest revenue source for villages (12.6%). Public charges for services were the second largest revenue source for villages (15.8%), the third most important revenue source for towns (8.6%) and counties (20.0%), and the fourth largest revenue source for cities (14.6%). Most county charges for ser-

vices 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. The third largest source of revenue was proceeds from long-term debt for villages (13.5%) and charges from electric, gas, water, and other utilities for cities (15.5%).

Intergovernmental Revenues

Detail on 2011 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 \$63 per person in direct federal aid, which equaled 15.9% of their IGR. Counties received \$36 per person, or 11.5% of their IGR. Direct federal aid averaged \$3 per capita for towns and \$21 per capita for villages, or 1.9% and 9.4% of their total IGR, respectively.

County and municipal aid, including public utility aid, and state transportation aid were the largest sources of aid to municipalities in 2011. For towns, those aids comprised 81.8% of their total IGR. County and municipal aid comprised the largest share of intergovernmental revenues for villages (38.6%) and cities (46.3%). On a per capita basis, cities received more county and municipal aid (\$182) than villages (\$84) or towns (\$36). On the other hand, per capita transporta-

Table 3: 2011 Intergovernmental Revenues to Municipalities and Counties*

	<u>Towns</u>			<u>Villages</u>			<u>Cities</u>			<u>Counties</u>		
	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	\$2,015,761	\$1	0.8%	\$1,356,547	\$2	0.7%	\$29,824,789	\$9	2.4%	\$4,977,239	\$1	0.3%
Health and Social Services	0	0	0.0	0	0	0.0	11,669,458	4	0.9	70,818,502	12	4.0
Transportation	1,248,870	1	0.5	2,803,008	3	1.5	13,216,498	4	1.1	37,097,743	7	2.1
Sanitation	9,216	< 1	< 0.1	701,422	1	0.4	19,086	0	< 0.1	0	0	0.0
Culture and Recreation	0	0	0.0	432,733	< 1	0.2	1,740,477	1	0.1	6,646,642	1	0.4
Community Development	418,658	< 1	0.2	6,754,266	8	3.5	90,313,400	29	7.3	35,539,387	6	2.0
Other	<u>966,142</u>	<u>1</u>	<u>0.4</u>	<u>5,887,670</u>	<u>7</u>	<u>3.1</u>	<u>51,336,037</u>	<u>16</u>	<u>4.1</u>	<u>48,373,625</u>	<u>9</u>	<u>2.7</u>
Total Federal Aid	\$4,658,647	\$3	1.9%	\$17,935,646	\$21	9.4%	\$198,119,745	\$63	15.9%	\$203,453,138	\$36	11.5%
State Aid (Includes Federal Aids Paid Through the State)												
County and Municipal Aid	\$59,120,813	\$36	23.6%	\$73,481,033	\$84	38.6%	\$575,908,556	\$182	46.3%	\$162,445,783	\$29	9.2%
Expenditure Restraint	176,545	< 1	0.1	5,017,072	6	2.7	52,952,083	17	4.3	0	0	0.0
General Government	0	0	0.0	199,338	< 1	0.1	60,108	< 1	< 0.1	36,762,993	6	2.1
Public Safety	6,587,613	4	2.6	5,452,762	6	2.9	19,025,184	6	1.5	33,913,981	6	1.9
Health and Human Services	341	< 1	< 0.1	413,250	1	0.2	4,514,347	1	0.4	1,087,497,761	191	61.2
Transportation	145,649,844	88	58.2	50,392,137	57	26.5	192,831,720	61	15.5	134,672,472	24	7.6
Sanitation	2,827,326	2	1.1	2,104,884	2	1.1	9,178,688	3	0.7	5,549,429	1	0.3
Culture and Recreation	212,605	< 1	0.1	6,470,468	7	3.4	3,084,444	1	0.2	27,822,510	5	1.6
Community Development	505,083	< 1	0.2	4,431,977	5	2.3	12,845,001	4	1.0	18,484,302	3	1.0
Forestry and Conservation	9,081,516	5	3.6	187,051	< 1	0.1	157,566	< 1	0.0	34,751,819	6	2.0
Payments for Mun. Services	574,234	< 1	0.2	333,754	< 1	0.2	20,090,881	6	1.6	582,650	< 1	< 0.1
Other	<u>7,380,816</u>	<u>4</u>	<u>3.0</u>	<u>12,001,227</u>	<u>14</u>	<u>6.3</u>	<u>87,827,296</u>	<u>28</u>	<u>7.1</u>	<u>19,796,255</u>	<u>3</u>	<u>1.1</u>
Total State Aid	\$232,116,736	\$140	92.7%	\$160,484,953	\$183	84.4%	\$978,475,874	\$309	78.7%	\$1,562,279,955	\$274	88.0%
Total Local Aid	<u>\$13,604,974</u>	<u>\$8</u>	<u>5.4%</u>	<u>\$11,707,289</u>	<u>\$13</u>	<u>6.2%</u>	<u>\$66,956,647</u>	<u>\$21</u>	<u>5.4%</u>	<u>\$9,803,580</u>	<u>\$2</u>	<u>0.5%</u>
TOTAL	\$250,380,357	\$151	100.0%	\$190,127,888	\$217	100.0%	\$1,243,552,266	\$393	100.0%	\$1,775,536,673	\$312	100.0%

*Two towns and two villages did not file their 2011 financial reports with DOR, thereby triggering state aid reductions. As a result, the town and village totals in this table are not comprehensive.

tion aid payments were higher for towns (\$88) than for cities (\$61) or villages (\$57).

Counties received the majority (61.2%, or \$191 per person) of their aid in the health and human services area. County and municipal aid (\$29 per capita) and transportation aid (\$24 per capita) totaled 16.8%, combined, of all aid to counties.

Aid from other local governments was not a significant part of total intergovernmental revenues. These aids comprised 5.4% of intergovernmental revenue for towns and for cities, and 6.2% for villages. This aid was less significant for counties (0.5%).

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. Al-

though 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 10 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 10 categories.