



Informational Paper 16

Municipal and County Finance

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Introduction

Wisconsin's local government system is comprised of cities (190), towns (1,258), villages (403), 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 2007 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 (\$1,998), followed by villages, counties, and towns. Average per capita expenditures for villages (\$1,614) were 80.8% of the level for cities. County expenditures per person (\$1,243) were lower than both villages and cities. Finally, town expenditures per person (\$470) were only 23.5% of the city average.

Table 1: 2007 Expenditures of Municipalities and Counties

	Towns*			Villages*		
	Amount	Per Capita	Percent	Amount	Per Capita	Percent
General Administration	\$120,347,727	\$71	15.1%	\$104,998,088	\$126	7.8%
Public Safety	136,709,270	81	17.1	257,236,103	309	19.1
Health and Human Services	3,176,568	2	0.4	6,516,861	8	0.5
Transportation	330,875,955	195	41.5	201,759,022	242	15.0
Sanitation	63,314,516	37	7.9	198,996,919	239	14.8
Recreation and Education	22,581,214	13	2.8	79,255,530	95	5.9
Conservation and Development	19,828,072	12	2.5	65,272,166	78	4.9
Principal and Interest	80,202,746	47	10.1	261,746,264	314	19.5
Operation of Utilities	14,706,037	9	1.8	159,093,687	191	11.8
Other	5,956,194	3	0.8	9,668,400	12	0.7
Total	\$797,698,299	\$470	100.0%	\$1,344,543,040	\$1,614	100.0%
	Cities			Counties		
General Administration	\$428,728,715	\$138	6.9%	\$604,528,722	\$107	8.6%
Public Safety	1,385,111,247	444	22.2	949,292,480	168	13.5
Health and Human Services	98,281,092	31	1.6	3,091,854,692	548	44.1
Transportation	893,946,178	287	14.4	1,063,440,787	188	15.2
Sanitation	615,989,154	198	9.9	86,109,046	15	1.2
Recreation and Education	412,568,944	132	6.6	339,948,925	60	4.8
Conservation and Development	330,617,781	106	5.3	164,343,267	29	2.3
Principal and Interest	918,292,627	295	14.8	293,035,252	52	4.2
Operation of Utilities	893,322,557	287	14.3	56,183,824	10	0.8
Other	248,575,841	80	4.0	370,039,451	66	5.3
Total	\$6,225,434,136	\$1,998	100.0%	\$7,018,776,446	\$1,243	100.0%

*Four municipalities did not file financial reports with DOR, thereby triggering state aid reductions. As a result, the town and village totals in this table do not include expenditures for the Town of Buena Vista (Richland) and the villages of Couderay (Sawyer), Lowell (Dodge), and Unity (Marathon).

Table 2: 2007 Revenue Sources of Municipalities and Counties

	Towns*			Villages*		
	Amount	Per Capita	Percent	Amount	Per Capita	Percent
Taxes	\$349,572,114	\$206	43.9%	\$472,043,322	\$567	34.7%
Intergovernmental Revenues	238,652,314	141	29.9	157,306,207	189	11.5
Licenses and Permits	20,866,859	12	2.6	25,035,099	30	1.8
Fines and Forfeitures	3,796,338	2	0.5	11,869,847	14	0.9
Public Charges for Services	64,252,030	38	8.1	199,718,816	240	14.7
Intergovernmental Charges	5,542,203	3	0.7	52,711,381	63	3.9
Long-Term Debt	52,879,635	31	6.6	197,699,507	237	14.5
Interest Income	31,243,349	19	3.9	55,734,493	67	4.1
Utility Revenues	12,959,905	8	1.6	149,872,289	180	11.0
Other	17,557,598	10	2.2	39,967,663	48	2.9
Total	\$797,322,345	\$470	100.0%	\$1,361,958,624	\$1,635	100.0%
	Cities			Counties		
Taxes	\$1,792,581,876	\$575	28.5%	\$2,060,581,064	\$365	29.2%
Intergovernmental Revenues	1,138,732,843	365	18.1	2,092,238,633	370	29.7
Licenses and Permits	88,575,669	29	1.4	20,715,618	4	0.3
Fines and Forfeitures	47,399,255	15	0.8	30,740,627	5	0.4
Public Charges for Services	857,017,147	275	13.6	1,427,442,971	253	20.3
Intergovernmental Charges	390,258,691	125	6.2	889,486,241	158	12.6
Long-Term Debt	596,765,595	192	9.5	181,188,894	32	2.6
Interest Income	227,099,779	73	3.6	151,628,271	27	2.2
Utility Revenues	941,483,508	302	15.0	56,777,953	10	0.8
Other	209,431,723	67	3.3	136,859,559	24	1.9
Total	\$6,289,346,086	\$2,018	100.0%	\$7,047,659,831	\$1,248	100.0%

*Four municipalities did not file financial reports with DOR, thereby triggering state aid reductions. As a result, the town and village totals in this table do not include revenues for the Town of Buena Vista (Richland) and the villages of Couderay (Sawyer), Lowell (Dodge), and Unity (Marathon).

Almost half of all expenditures were devoted to transportation in towns (41.5%) and to health and human services in counties (44.1%). Cities and villages did not have a single dominant category of expenditures, although more than half of all expenditures in villages (53.6%) and cities (51.4%) were attributable to public safety, transportation, and debt service, combined.

Revenues

Revenue patterns for towns, villages, cities, and counties for 2007 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 (\$2,018) and villages (\$1,635), followed by counties (\$1,248) and towns (\$470).

Taxes, intergovernmental revenues, and public charges for services comprised the largest revenue sources for local governments in 2007. Taxes represented the largest revenue source for towns (43.9%), villages (34.7%), and cities (28.5%). The intergovernmental revenues category was 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 2007 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 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 \$43 per person in direct federal aid, which equaled 11.9% of their IGR. Counties received \$28 per person, or 7.5% of their IGR. Direct federal aid averaged \$2 per capita for towns and \$6 per capita for villages, or 1.3% and 3.3% 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 2007. For towns, those aids comprised 80.3% of their total IGR. Shared revenue comprised about half of all intergovernmental revenues for villages (46.6%) and cities (51.2%). On a per capita basis, cities received more shared revenue (\$187) than villages (\$88) or towns (\$37). On the other hand, per capita transportation aid payments were higher for towns (\$76) than for cities (\$55) or villages (\$52).

Counties received the majority (67.8%, or \$251 per person) of their aid in the health and human services area. State shared revenue (\$28 per capita) and transportation aid (\$22 per capita) totaled 13.5%, combined, of all aid to counties.

Aid from other local governments was not a significant part of total intergovernmental revenues. These aids comprised 4.3% of intergovernmental revenue for cities, 4.6% for towns, and 5.7% for villages. This aid was less significant for counties (0.3%).

Table 3: 2007 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	\$1,929,845	\$1	0.8%	\$1,270,592	\$2	0.8%	\$9,563,893	\$3	0.8%	\$3,481,372	\$1	0.2%
Health and Human Services	0	0	0.0	0	0	0.0	11,117,857	4	1.0	79,522,594	14	3.8
Transportation	336,716	<1	0.1	1,367,483	2	0.9	10,636,675	3	0.9	8,468,058	1	0.4
Sanitation	2,774	<1	<0.1	269,000	<1	0.2	3,586,498	1	0.3	0	0	0.0
Culture and Recreation	0	0	0.0	14,000	<1	<0.1	1,195,065	<1	0.1	4,198,936	1	0.2
Community Development	16,800	<1	<0.1	1,015,316	1	0.6	68,521,196	22	6.0	26,718,027	5	1.3
Other	700,993	<1	0.3	1,238,410	1	0.8	31,522,396	10	2.8	34,358,765	6	1.6
Total Federal Aid	\$2,987,128	\$2	1.3%	\$5,174,801	\$6	3.3%	\$136,143,580	\$43	11.9%	\$156,747,752	\$28	7.5%
State Aid (Includes Federal Aid Paid Through the State)												
Shared Revenue	\$63,249,264	\$37	26.5%	\$73,331,838	\$88	46.6%	\$582,770,620	\$187	51.2%	\$156,960,035	\$28	7.5%
Expenditure Restraint	144,689	<1	0.1	4,896,596	6	3.1	53,104,415	17	4.7	0	0	0.0
General Government	0	0	0.0	0	0	0.0	112,933	<1	<0.1	41,087,052	7	2.0
Public Safety	6,005,319	4	2.5	4,264,093	5	2.7	18,551,195	6	1.6	29,196,957	5	1.4
Health and Human Services	0	0	0.0	0	0	0.0	7,179,121	2	0.6	1,417,938,107	251	67.8
Transportation	128,480,491	76	53.8	43,568,534	52	27.7	172,573,495	55	15.2	126,707,077	22	6.0
Sanitation	3,400,367	2	1.4	2,751,917	3	1.8	11,594,410	4	1.0	7,173,232	1	0.3
Culture and Recreation	0	0	0.0	58,563	<1	<0.1	2,743,112	1	0.3	24,223,362	4	1.2
Community Development	378,239	<1	0.2	2,506,447	3	1.6	12,910,800	4	1.1	8,823,593	2	0.4
Forestry and Conservation	8,897,308	5	3.7	144,440	<1	0.1	108,670	<1	<0.1	28,348,070	5	1.4
Payments for Mun. Services	563,544	<1	0.2	488,970	1	0.3	21,426,822	7	1.9	39,758	<1	<0.1
Other	13,544,219	8	5.7	11,197,267	13	7.1	70,921,442	23	6.2	87,702,217	16	4.2
Total State Aid	\$224,663,440	\$132	94.1%	\$143,208,665	\$172	91.0%	\$953,997,035	\$306	83.8%	\$1,928,199,460	\$341	92.2%
Total Local Aid	\$11,001,746	\$7	4.6%	\$8,922,741	\$11	5.7%	\$48,592,228	\$16	4.3%	\$7,291,421	\$1	0.3%
TOTAL	\$238,652,314	\$141	100.0%	\$157,306,207	\$189	100.0%	\$1,138,732,843	\$365	100.0%	\$2,092,238,633	\$370	100.0%

*Four municipalities did not file financial reports with DOR, thereby triggering state aid reductions. As a result, the town and village totals in this table do not include intergovernmental revenues for the Town of Buena Vista (Richland) and the villages of Coudera (Sawyer), Lowell (Dodge), and Unity (Marathon).

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.