**Basic Review of Local Government Revenues**

***Draft: Not yet reviewed by internal or external sources.***

The basic review of the property tax demonstrated the importance of that revenue source to local governments’ *general funds*, which are monies that are used to flexibly support the day-to-day operations of the government. In order to more fully understand the pressure on the property tax, it is necessary to look at what other revenue sources are available to local governments to meet rising costs and service demand.

The stacked bar charts below show that local governments since 1987 have seen a decrease in the relative proportion of shared revenue to their total revenues, have generally seen a decline in the percent of intergovernmental aid, and have relied more heavily on debt, interfund transfers, and sale of property for financing operations, services and infrastructure. The GREAT software includes general revenue, special revenue and debt revenue sources for operating and capital budgets. Not included are trust, proprietary and internal service funds. Between 1987 and 2006 state shared revenue went from 7.9% to 2.9% of county general budgets.









Towns, cities and villages saw an even greater decline in state shared revenue as a percent of their general budgets between 1987 and 2006: towns from 17% to 5%, cities from 25.7% to 12.9%, and villages from 17% to 6.3%. The reason state shared revenue is singled out as an intergovernmental aid is that Wisconsin has a long history of sharing its collected taxes with local governments.

Overall, state shared revenue has increased over the years, but it has not kept pace with the cost and service pressures faced by local governments. Towns saw a 42% increase between 1987 and 2006, counties 66%, villages a 81% and cities 90% in shared revenues. The graph on page 3 shows the increase in shared revenue since 1987 and reflects how it was frozen in 2004. Increases have been due to slight budget adjustments and slight increases in utility aid and the expenditure restraint program. Another way to view this almost level increase is to look at the next graph, which shows the per capita change in shared revenue for counties, towns,





cities and villages. Counties showed a per capita increase of $16 to $34 between 1987 and 2006, towns from $28 to $48, villages from $83 to $188, and cities from $109 to $204. What is striking about this graph is that it shows the relative flatness of this revenue source for local governments. Prior to the shared revenue formula being frozen, the bulk of its distribution depended upon a per capita equalized value amount and the level of local fiscal effort. Cities and villages with their denser populations would typically have lower per capita equalized values and with more services, demonstrate a higher fiscal effort.

Shared revenue, however, is only one source of intergovernmental aid (from the state and federal government to local governments). The table on page 4 shows how total intergovernmental aid has increased between 1987 and 2006 for counties (284%), towns (192%), cities (133%) and villages (168%). It is noteworthy here to say that counties receive a greater amount of federal and state aid because they provide health and human services. The graph on page 4 shows the per capita amount of intergovernmental aid from 1987 to 2006. Counties had $94 per capita intergovernmental aid in 1987 and $389 in 2006, towns aid went from $69 to $220, cities from $146 to $354, and villages from $119 to $314.





All of these graphs have been controlled for inflation as they are in current dollars. As a percentage of local government budgets, intergovernmental aids have declined between 1987 and 2006. Iintergovernmental aids went from 42% of county revenues in 1987 to 34% in 2006, for towns from 31% to 19%, for cities from 35% to 22%, and for villages from 23% to 13%.

Another interesting category of revenues on the bar charts shown on pages 1 and 2 are the “other” revenues, displayed as a deep purple section of the bar chart. “**Other**” revenues consist of:

Rental income, insurance recoveries, delinquent taxes, property sales (not sales of major fixed assets), donations, refunds, interest income, special assessments, tax increments, real estate transfer fees (counties), sales tax (counties), in lieu of tax payments, forestry program payments, and mobile home fees.

This category of revenues increased for counties from 6.4 % in 1987 to 10% in 2006, for towns from 5% to 6.2%, and for villages from 13% to 13.7%. Cities saw no change with these revenues making up 12.7% in both years. Since the GREAT software includes debt, and therefore the capital budgets of local governments, one would expect that interest income earnings on unexpended debt and fund balances would make up a small but not insignificant part of the budget. The graph below shows the cyclical nature of interest income, and borrowing, for local governments. While returns on idle funds vary from year to year, it is likely that the cycle reflects the larger borrowing patterns of local governments in response to interest rates and the completion of projects. Counties increased their interest income in 2006 by 400% from 1987.



Perhaps a better measure of interest income as part of local governments’ revenues is to look at a per capita amount. The graph on the next page shows that interest income rose higher for some local governments, such as cities and villages, compared to towns and counties. This may reflect a difference in needed capital expenditures, capital expenditures as a percentage of the overall budget, available general fund revenues for capital expenditures and financing philosophies. For example, towns showed an interest income of $5.05 per person in 1987 and $11.06 in 2006. The majority of capital expenditures made by most towns is for roads and the availability of state general transportation aid may limit their need for borrowing funds to finance road maintenance and improvements. Counties saw an increase in per capita interest income from $4.81 to $22.81 from 1987-2006. During this period, many counties constructed or expanded their jails, courthouses and other facilities. Cities and villages show the largest increases in interest income. For cities the change from 1987-2006 was $12.53 to $41.01 per person and for villages, $9.34 to 29.84.



To put interest income in perspective, the graph below shows a total revenue per capita amount for counties ($1066), towns ($507), cities ($1415), and villages ($1124) in 2006.



What revenue sources then would likely increase between 1987-2006 in the “other”category for local governments? Counties really saw the greatest percentage increase in this category as a part of their overall revenues, which is no doubt reflects increased sales tax revenues from more counties adopting the tax, and increased amounts of the real estate transfer fee during the busy real estate periods. See the graph on page 7 that shows this increase in other taxes of roughly 1100%. Both revenue sources are presently *only* available to counties. It is likely that for cities, villages and towns, their use of tax increments and special assessments during this time period as an alternative to the property tax increased. While counties can have environmental tax incremental districts, these are not widely used. And towns, just recently were able to have tax incremental finance districts for agriculture, forestry and tourism industries.



The table below shows the greater use of special assessments by towns and the steady use by villages and cities to finance infrastructure. Between 1987 and 2006, towns increased their use of special assessments by 179%, cities by 74%, and cities by 64%. On a per capita basis, this translates into roughly $21 per person in villages, $15 in cities, and $11 in towns. Special assessments are used to take infrastructure costs off the general property tax roll that benefit individual properties, such as water and sewer lines.



Tax incremental districts (TID) are another alternative means that villages and cities have used to finance infrastructure, and most recently towns have begun to do so. The nature of TIDs is that they have a set life, and therefore, come in and out of existence depending up their use and success by local governments. The next graph shows the increasing per capita value, and likely use, of TIDs as an alternative to the property tax. Cities have roughly $133 per capita of their revenue raised through tax increments, villages have $91 per capita and towns $25.



Fees, penalties, charges to the public, and charges for intergovernmental services have also increased as a percentage of each local governments’ revenues. Looking at the bar chart on page 1, this category of revenue for counties went from 9.8% of revenues in 1987 to 15.5%. Part of this can be explained by the several cost reimbursement programs the county provides with the state and federal governments. As reimbursements stay the same or increase more slowly than costs, counties are put in the position to recoup the costs increase in full or in part by raising fees for service. Cities also had an increased percentage of their budget financed through fees (7.7% to 10.1%) by raising, in part, those fees associated with the many services they offer (park, civic center, bus service, parking, etc.). Towns and villages experienced negligible increases in this category (1.2% and .6% respectively), due in part to the fact that most of these municipalities do not have the number of services cities do where fees can be increased to cover costs. Where they do have fees, such as for utilities, these are often placed in a proprietary fund. That data is not included in the GREAt software. Finally, as a revenue source, service fees are often restricted by law, cannot exceed costs, and often local policy limits the extent to which fees can be used with certain affected populations (i.e., youth, elderly, disabled) and/or lowers the fee to encourage use of a service. Not shown in any graph or table here, counties had $149.27 in fees and charges in 2006, towns had $42.24, cities had $128.17, and villages had $126.94.

As mentioned previously, the data in the GREAT software includes the capital budget for the general fund and special revenues. Using the bar charts on pages 1 and 2, the largest revenue source for local governments (except counties) in 2006 was other financing sources. Other financing sources includes proceeds from long-term debt, proceeds from refunding bonds, sale of major assets, and interfund transfers. Interfund transfers include transfers from other funds to finance operations. These often include surplus monies held in reserve for emergencies or current surpluses from proprietary funds. The graph on page 9 shows an increase of roughly 500% in this revenue category for towns, cities and villages. Decreasing operating revenues, such as intergovernmental aid, has moved local governments to evaluate their operating budgets and move items into the capital budget. This is not necessarily a bad financial move as many local governments were financing capital purchases from their operating budget.



The amount of other financing sources per capita for each local government is shown below. Counties and towns derive relatively little revenue per capita from this source, even though it is a significant portion of their budget. In 2006, counties received $82 per person from these sources and towns received $190. By contrast, cities received $394 per person from these sources and villages $409.



So, what is to be made of all of this? Local government general operating and capital budgets have seen relative declines in the percentage of intergovernmental aid in their local budgets that have resulted in relying more on debt, fees and charges, alternatives to the property tax (tax incremental financing and special assessments), and with the case of counties, on another allowed tax – the sales tax. The revenue picture, however, is only one side of public finance. One must look at local expenditures, cost pressures, and service demands.