

Research Brief

Municipal Accountability: Spending Increases Continue To Outpace Revenue Increases

Municipal government spending across Southeast Wisconsin increased 5.8% from 2000 to 2001, the latest year of available data. This is three times the rate of inflation. Although this increase is smaller than the 9.4% rise in expenditures for the entire state, revenue increases in the region lagged behind expenditures at 4.1%. Average per-capita revenue increases in the seven-county region were **half** of expenditure increases.

The revelation of increased spending combined with a lower rate of revenue growth comes at a time when the Governor has proposed cutting \$90 million over the next biennium from shared revenue and aid to counties. As legislators debate the final outcome of state aid to municipalities, taxpayers must be aware that municipalities will be straining to meet current service demand with existing revenue streams.

This is not a new message; expenditure gains between 1999 and 2000 also outpaced revenue. What is new is that the rate of increase in the just released data is greater than that experienced in the previous reporting period. What remains to be seen is whether the threat of diminishing state aid, brewing over the past two years, results in slower expenditure growth in the next reporting period. If it does not, taxpayers can expect to hear local policymakers calling for new service cuts, tax increases, or increased borrowing.

This report highlights the findings from our full report on government revenue and spending across the 147 municipalities in seven counties. To view a complete report and to find out how your municipality compares with its peers in the region, visit www.publicpolicyforum.org or contact the PPF at 633 W. Wisconsin Ave., Suite 406, Milwaukee, WI 53203, 414-276-8240.

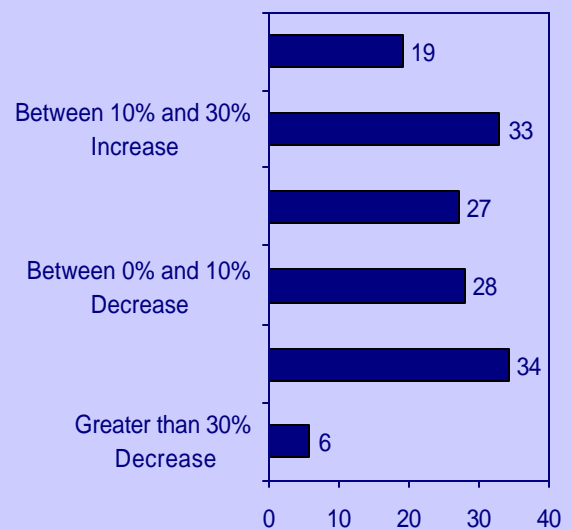
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2001 Spending and Revenue Report

Nineteen municipalities across the region increased their spending more than 30% from 2000, while only six decreased their spending that much. Such large changes may be indicative of substantial capital spending rather than operating costs. Taxpayers should contact their municipalities in order to determine the extent of and reason for spending changes.

Figure 1. Number of Municipalities and Per-Capita Spending Increases



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Robert W. Baird & Co., headquartered in Milwaukee, is a major underwriter and advisor to municipalities and government agencies throughout the Midwest. Baird is a member of the New York Stock Exchange and other principal exchanges. Baird is the top ranked firm in Wisconsin and ranks second in the Midwest for advising on municipal bond issues.

Revenue Options: Reliance on Local Taxes Increases...



As Figure 2 highlights municipalities rely primarily on three revenue sources: taxes, state aids, and fees and charges. Over 80% of the revenue from taxes originates from general property taxes. (Other tax sources include taxes collected from tax incremental finance districts and payments in lieu of taxes, as well as special assessments.)

Reliance on taxes has increased since 2000 (47% vs. 44%), whereas state aid has decreased (28% vs. 29.1%). Federal aid revenue remained steady at 3%.

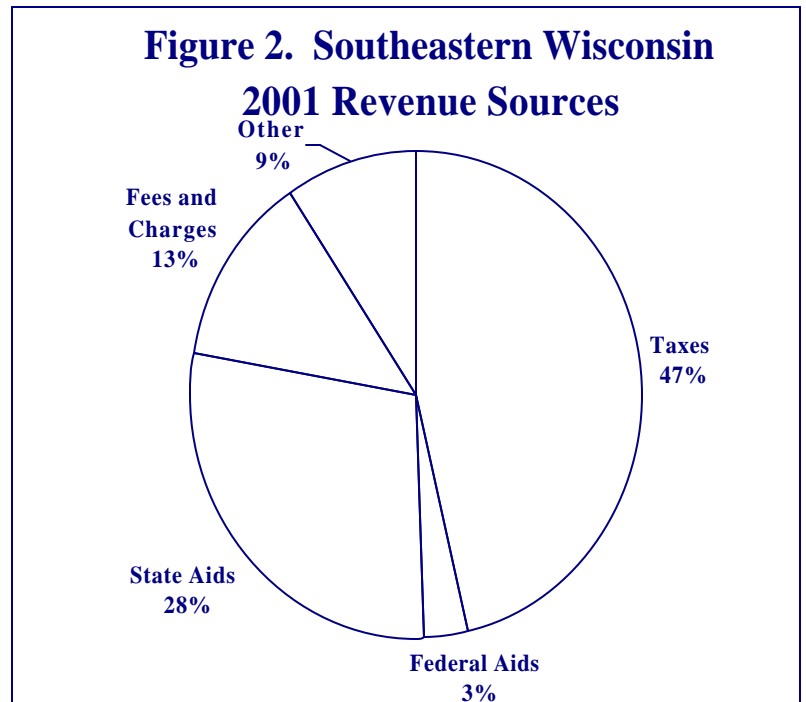
Examining revenue options from the perspective of the municipality is informative. For each major revenue category, the municipality which received the most per-capita revenue relative to the remaining municipalities in Southeastern Wisconsin is highlighted here.

TAXES: The Village of Chenequa received the most per-capita tax revenue in 2001 (\$2,339 vs. \$431 for Southeast Wisconsin). This is most likely a result of the high property wealth in the village. The high level of taxation also reflects a choice that residents and government officials have made. The higher-than-average tax revenue corresponds with higher spending on police.

STATE AIDS: The City of Milwaukee received the most per-capita state aid revenue in 2001 (\$497 vs. \$262 for Southeast Wisconsin). State aid is correlated with property wealth. Generally, the higher the per-capita property wealth the lower the per-capita state aid. As a result, Milwaukee's relatively high per-capita state aid helps to level the playing field in terms of the capacity of the City to raise revenue.

FEES AND CHARGES: The Village of Lannon tops the list in per-capita revenue from fees and charges (\$730 vs. \$119 for Southeast Wisconsin). The proceeds are partly driven by collection of sewer fees from other governments.

FEDERAL AID: The City of West Allis takes in \$81 (vs. \$29 for Southeast Wisconsin) to lead the region in per-capita federal aid. The higher-than-average federal aid is partly due to aid for comprehensive redevelopment efforts underway in the municipality.



... As Cuts to State Shared Revenue Seem Likely



OTHER: The Town of Paris takes in \$1,355 in “other” revenue compared to \$87 for Southeast Wisconsin. The town is able to receive this revenue from interest earnings and the proceeds of landfills. Specifically, privately owned landfills are located in the Town of Paris, and the government made agreements with owners whereby the town receives payments for hosting landfills.

A Closer Look at State Aid to Municipalities

The state shared revenue program was started in 1911 when the state income tax was first imposed. A substantial portion of the revenue received from this tax was returned to local governments. Specifically, income tax revenue was given back to local governments proportionately.

In the 1960s, the state changed its shared revenue policy because the proportionality principle caused the wealthiest communities to receive the most revenue; as a result, the spending capacity disparity between wealthy and poor communities was exacerbated. Thus, the revenue sharing policy was changed to provide more state aid to those communities with lower property wealth.

Another key type of state aid provided to local governments is state highway aids. This aid is used to partially offset the cost of maintaining and improving the road system owned by local governments. Across the region, the ratio of state shared revenue to state highway aids is 4.4 to 1; however, in 56 of the 147 municipalities, per-capita highway aid surpasses per-capita shared revenue. These municipalities likely do not stand to lose as much in current budget deliberations as those municipalities that depend upon shared revenue to equalize their tax bases. Table 1 shows the top 25 communities where highway aid per-capita surpasses shared revenue.

The Public Policy Forum’s annual analysis of municipal revenues and expenditures is based on financial information that municipalities reported to the Wisconsin Department of Revenue (DOR) for the calendar year 2001 (the most recent year for which data are available). Most of the information provided to the DOR and reported here is from municipalities’ governmental funds (the general fund, capital projects fund, special revenue funds, and debt service fund).

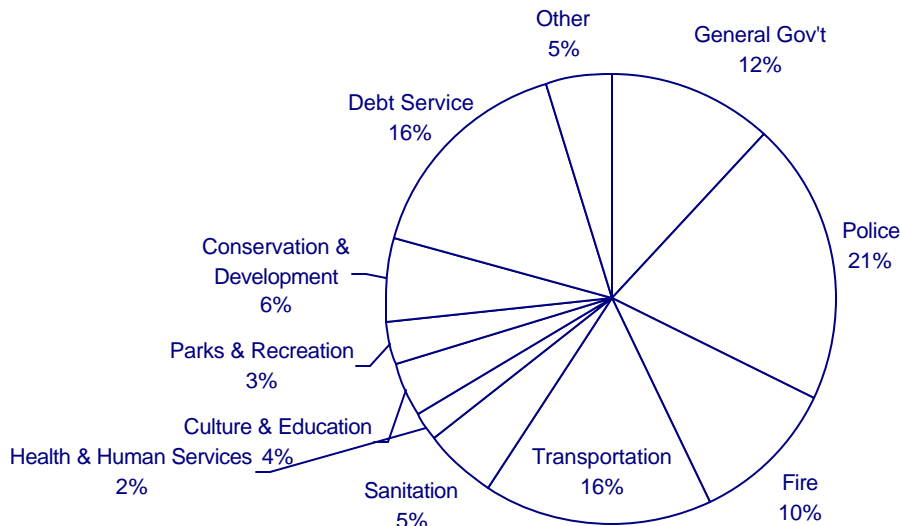
Table 1. Top 25 Municipalities in 2001 with Highest Ratio of Highway Aid to Shared Revenue

	Per-cap Shared Revenue	Per-Cap Highway Aid
Village of Oconomowoc Lake	\$22.52	\$128.40
Village of Fontana	\$25.66	\$119.76
Village of Chenequa	\$73.90	\$243.03
Town of Linn	\$25.83	\$83.27
Town of Sharon	\$31.51	\$80.55
Village of Williams Bay	\$26.64	\$62.11
Town of La Grange	\$20.42	\$46.27
Village of River Hills	\$73.47	\$164.38
Village of Belgium	\$48.72	\$108.12
Town of Wayne	\$25.09	\$54.38
Town of Richmond	\$22.99	\$47.48
Town of Belgium	\$27.24	\$53.27
Town of Whitewater	\$29.83	\$56.50
Village of Sussex	\$27.28	\$49.92
Town of Walworth	\$25.61	\$45.24
City of Lake Geneva	\$54.02	\$91.71
Town of La Fayette	\$25.19	\$42.37
City of Mequon	\$26.58	\$42.15
Town of Darien	\$24.76	\$39.17
Village of Twin Lakes	\$26.43	\$41.80
Town of Brookfield	\$26.80	\$42.11
Town of Waterford	\$25.90	\$40.49
Town of Delavan	\$28.48	\$44.17
City of Glendale	\$50.98	\$75.13
Village of Lac La Belle	\$23.61	\$33.87



Municipalities Spend Most Money on Police, Transportation, and Debt Service

Figure 3. 2001 SE Wisconsin Municipal Government Spending



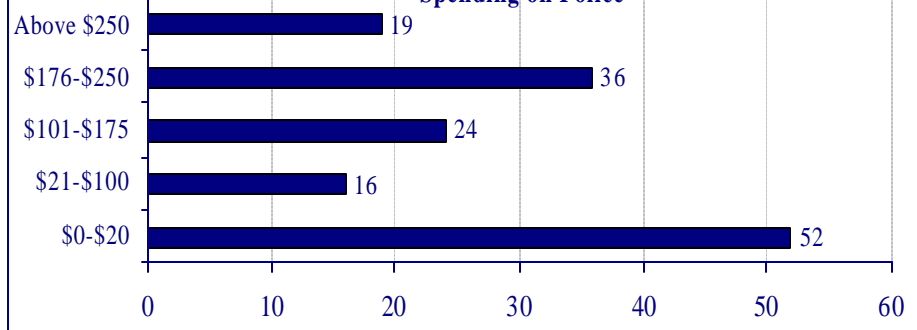
Police, transportation, and debt service accounted for 53% of total municipal expenditures in 2001 (Figure 3). The dominance of police expenditures has remained steady since 2000, while debt service spending increased two percentage points over the previous reporting period. These patterns are heavily influenced by the bigger cities in the region.

The more urban municipalities tend to put more money into police spending than the smaller, rural cities, villages, and towns that compose much of the rest of Wisconsin.

Specifically, 25% of Milwaukee's and 21% of Racine's expenditures are for police. Yet, in smaller communities, especially townships, no direct expenditures are made on police. Of the 147 municipalities examined, 33 fit this description (Figure 4). These statistics suggest that total police spending in more urban counties skew the total distribution of spending in Southeast Wisconsin toward police over other functions.

In three out of the seven counties, Ozaukee, Walworth, and Washington, the largest percentage of their municipal governments' money is spent on transportation. Additionally, the most substantial percentage, 43%, of municipalities spent more on transportation than on any other category. These municipalities and county aggregates are more typical of spending patterns in the state as a whole, where municipalities spent the most on transportation, \$213, followed by police and debt service, both \$147. The final two county aggregates, Kenosha and Racine, spent the most money on debt service.

Figure 4. Number of Municipalities and Per-Capita Spending on Police



Growth in Debt Service Spending Drives Change in Local Expenditures



Total general obligation debt increased 10% in Southeastern Wisconsin municipalities from 2000-2001. An increase in debt requires an increase in debt payment. It is not surprising, then, that debt service spending grew the most of any other spending category between 2000 and 2001 in both Southeastern Wisconsin and the state as a whole. From 2000-2001 debt service spending increased 17%, from just over \$283 million to \$333 million, for the region.

Paying for projects today with borrowed money is a sound fiscal policy when the projects have lasting value. Problems arise, of course, if municipalities are borrowing to fund projects that are operational in nature, such as on-going maintenance.

Municipal general obligation debt is limited by the State of Wisconsin to 5% of the municipality's total equalized value. All municipalities in Southeast Wisconsin comply with this law, and most are significantly below this limit. In addition to legal limits, municipalities operate under a code of intergenerational equity. This concept states that if equity exists, current taxpayers are paying for services that they receive rather than services that future generations will receive, while at the same time, costs are not deferred so that future generations will have to pay for services that current taxpayers are receiving. It is difficult to measure whether municipalities are practicing intergenerational equity in debt finance. What is clear is that taxpayers in Southeastern Wisconsin need to be aware of the rising costs of debt service and to ask policymakers for clarification of these increases.

Table 2 lists municipalities wherein per-capita debt service exceeds \$200. For purposes of this table the 26 municipalities that have no debt service payments in 2001 are not included. The state average per-capita payment was \$147 in 2001 compared with a regional average of \$172.

Visit our website to see how debt and debt payment in your municipality compares with the state average at www.publicpolicyforum.org

Table 2. Municipalities Where 2001 Per-Capita Debt Service Spending is Greater than \$200

Municipality	Per-Cap Debt Service
City of Glendale	\$2,148
City of Burlington	\$1,516
Village of Darien	\$856
Village of Lannon	\$816
Village of Fredonia	\$692
Village of Thiensville	\$490
Village of Waterford	\$474
City of Port Washington	\$468
Village of Lac La Belle	\$439
City of Whitewater	\$431
Village of East Troy	\$369
Village of Sturtevant	\$352
City of Delavan	\$340
Village of Fontana	\$328
Village of Jackson	\$327
Village of Slinger	\$316
Village of Butler	\$315
Village of Mukwonago	\$299
Village of Chenequa	\$292
City of Lake Geneva	\$268
Village of North Prairie	\$264
Village of Menomonee Falls	\$241
Town of Bristol	\$233
City of West Bend	\$226
City of Oconomowoc	\$223
Village of Germantown	\$220
City of Greenfield	\$213
City of New Berlin	\$213
City of Franklin	\$212
Village of Grafton	\$210
Village of Sussex	\$209
City of Racine	\$209
Village of Eagle	\$204



Municipal Expenditures in SE Wisconsin Total \$2.1 Billion in 2001

SUMMARY OF SPENDING AND REVENUE ACROSS THE SEVEN COUNTIES OF SOUTHEASTERN WISCONSIN

- Total expenditures increased 5.8 percent from 2000 to 2001, over three times the rate of inflation.
- Thirty-two municipalities experienced a greater than 20 percent one-year increase in expenditures, which may be due to capital projects.
- Southeast Wisconsin municipalities experienced a 17 percent increase in debt service spending, although municipalities across the state increased their debt service more, 25 percent.
- Spending on police, roads, and debt service accounted for the majority of municipal spending in 2001 in Southeast Wisconsin.

To learn more about spending and revenue across the 147 municipalities in Southeastern Wisconsin, please see our full report, “Local Government Revenue and Spending in Southeastern Wisconsin,” available online at www.publicpolicyforum.org.

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