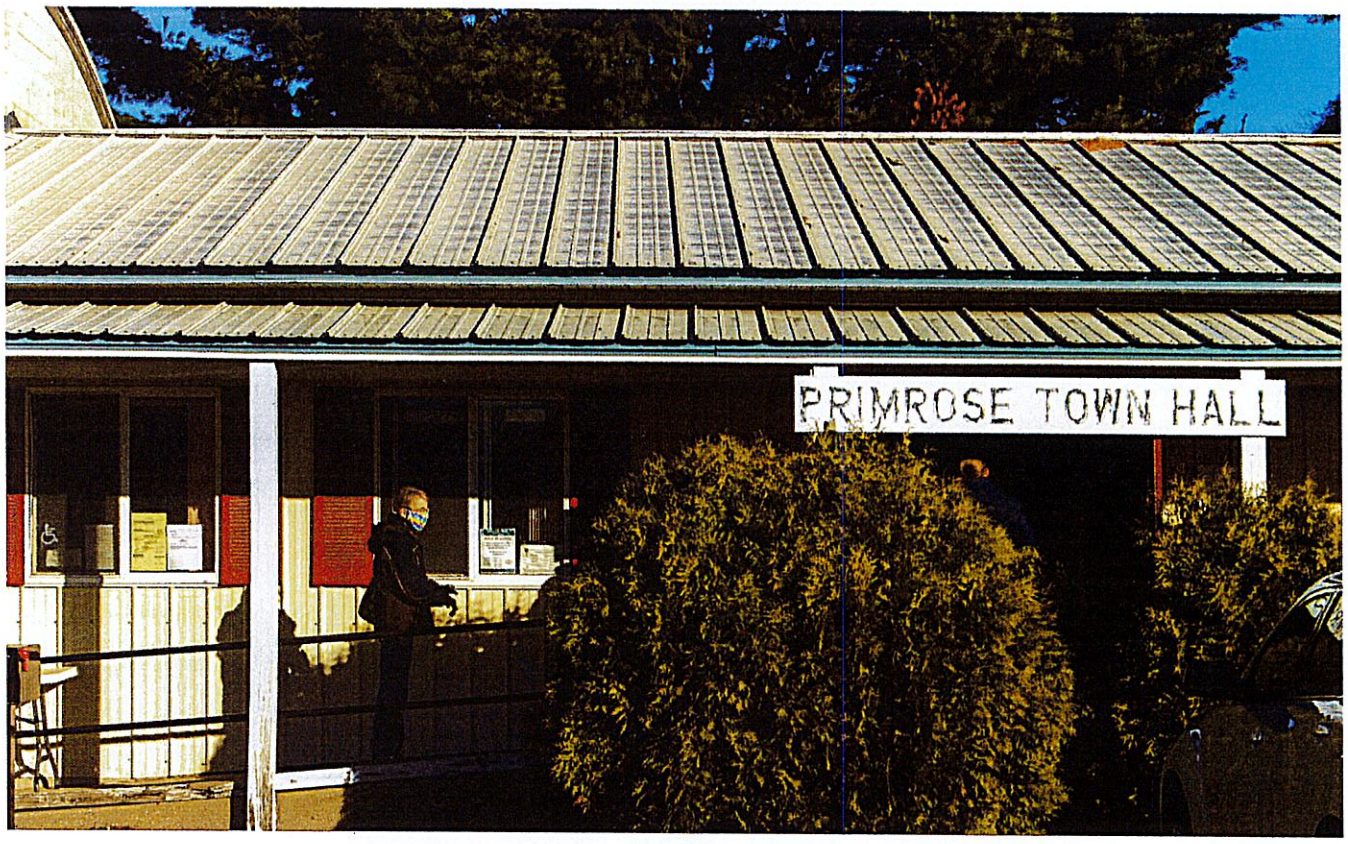
WISCONSIN EXAMINER

Towns face budget crunch, leading to more debt and less services, report finds

BY: **HENRY REDMAN** - JUNE 20, 2022 6:45 AM



Primrose Town Hall on Election Day (photo by Henry Redman)

The nearly 1,250 towns in Wisconsin are facing a budget crunch. Shared revenue they receive from the state government has dwindled, leading them to increase property taxes and take on debt while the services they provide – mostly fire, EMS and road maintenance – see budget cuts, according to a new report from the Wisconsin Policy Forum.

Wisconsin is one of the few states in the country that has town governments separate from cities and villages. The towns in Wisconsin are home to 1.6 million people – about one-third of the state's citizens – and town governments face many of the same budget problems as bigger municipalities, though the small size of towns creates unique problems as they struggle to stay afloat, the report found.

The largest problem for town budgets, according to the report, is a decline in state aid coupled with a tightening of property tax limits.

In 1990, state aid accounted for 45.1% of general revenues for towns while property taxes made up 36.8%. Three decades later that has flipped, with property taxes making up 48.2% of revenues and state aid 30.3%. The larger towns in the state are the most reliant on property taxes, according to the report.

The drastic decline in shared revenue has hurt municipalities big and small across the state, yet cuts to shared revenue over the years and the elimination of a program specifically designed to send money to small governments has hit town governments hard.

Adjusted for inflation, town governments received the 2020 equivalent of $150.9 million in 1990. In 2020 they received $55.8 million.

Over this period, town governments have seen an increase in the amount of state aid they receive for road construction, but not nearly at the rate shared revenue has decreased.

With the loss of shared revenue, town governments have turned to property tax increases to stay afloat. Town residents, who receive less government services such as libraries or parks than

their neighbors in larger communities with more amenities, still pay less overall in property taxes but those taxes have gone up over the last 30 years.

"To fund local services, towns rely more on property taxes than other local governments in Wisconsin, which is notable given that other local governments in the state are themselves heavily reliant on this tax," the report states.

This shift toward property tax revenue comes with limits. The state set caps on how much a local government can increase property taxes in 2006. Property tax increases are dependent on how much new construction takes place in a given municipality. In rural communities without much development, there isn't much new construction to allow for tax increases.

"With state aid barely keeping pace with inflation and few other local taxes available, towns have funded a larger share of services over time through the property tax," the report states. "That poses a challenge for towns given the caps that the state placed on property tax increases starting in 2006 ... The limits pose a particular problem for rural towns with relatively little new development over the past decade. The yearly net new construction rates for Wisconsin communities have fallen substantially since the real estate boom in the 2000s and have generally trailed the rate of inflation in recent years."

The state's budget rules for local governments do include an exception for debt payments, which gave an incentive to town governments to borrow more and more money to cover costs they might have previously paid in cash, according to the report.

Per capita debt for town governments is at record levels, yet the debt is going to expensive projects such as road maintenance, the report found. Debt payments have grown as a portion of town spending, which the report says could be troubling as interest rates rise in the face of inflation.

Towns hold more than 60% of the state's local roads, yet the amount of money they spend on upkeep and construction has dropped.

"With their cold winters and large numbers of rural roads, Wisconsin and other northern states like the Dakotas have some of the highest per capita road costs in the nation and a substantial share of those expenses are borne by towns," the report states. "Yet as town budgets have experienced greater stress in recent years, they have spent less of their budget on road maintenance and more on other needs."

In addition to the declining spending on road maintenance, town governments have had to increase the amount they're spending on fire and EMS services, a trend the report links to an aging population requiring more medical care. As the spending on these services have increased, the towns have struggled to staff the departments, leading some to consider contracting with larger neighbors – which comes at a higher cost.

The squeeze on town budgets, the report states, has ripple effects for the whole state. Roads that towns are responsible for connect to a broader system, for example.

"Towns are devoting a much smaller share of their spending to roads, their traditional main priority," the report states. "This finding underscores previous research that suggested that towns were spending less on local road construction than what was actually needed to maintain our current statewide infrastructure. Though most towns count only a small number of residents, they are the most numerous form of local government in the state and their challenges still ripple across Wisconsin. Road networks, in particular, depend on a shared investment across a region to ensure a strong system."