

Counties Face Complex Budget Issues

The funding of county government in Wisconsin has been fairly constant for decades. Three primary sources of revenue — local property taxes, state aid, and an optional 0.5% sales tax — combine to generate about three-quarters of all county revenues.

One of the great challenges with this funding system is that counties have limited control over their revenues. State aids are set by the Legislature and governor every two years in the state budget. Since 2005, property taxes have been capped by levy limits. As a result, county revenues increased an average of 1.9% per year from 2005-2022, less than the average annual inflation rate of 2.4%.

While their funding is slightly different, Wisconsin municipalities have also struggled with revenue growth due to stagnant state aid and levy limits. In the fall of 2022, state legislators and the governor recognized the challenges local governments have been facing and began working with the WCA, the League of Wisconsin Municipalities, and the Wisconsin Towns Association to provide additional state funding.

After almost nine months of work by these organizations with local government leaders, state legislators and the governor, 2023 Wisconsin Act 12 was signed into law. This legislation helped counties in three important ways.

First, beginning in 2024, it increased the county portion of county and municipal aids by 55%, from \$123 million to \$191 million. While the dollar and percent increases varied by county, everyone saw significant increases in these aids.

Second, the state put aside \$300 million for local governments to work with each other to generate cost

savings in providing services. While these dollars are capped at \$10 million per year and are only available for a limited time, they provide significant financial incentives to improve how local services are provided.

And third, annual increases in shared revenues from the state are now tied to changes in state sales taxes. In other words, a portion of local funding is tied to the state economy and local governments have a tangible stake in state economic growth. Counties have had that to some degree with the county sales tax. This takes that ownership to another level.

The new state investment in local government was historic. It significantly increased a slice of the county “revenue pie.” At the same time, it should be recognized that this “slice” is relatively small compared to other county revenue sources.

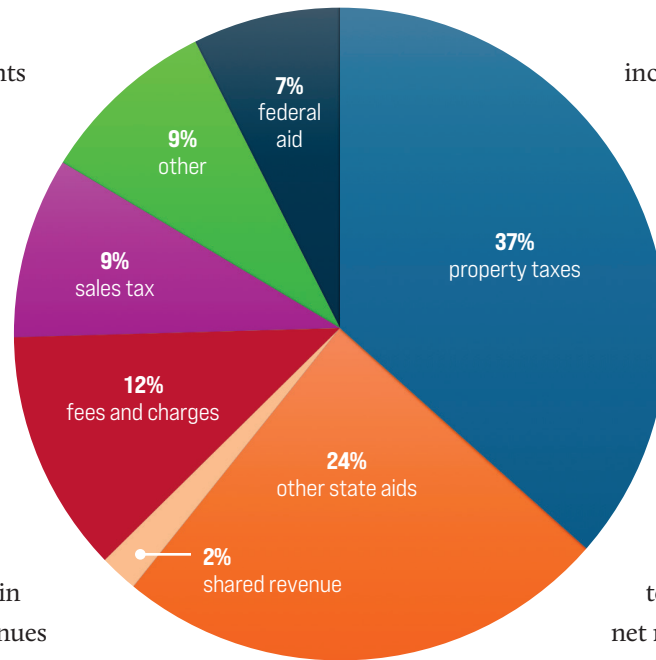
The county and municipal aid portion of shared revenue comprised 1.9% of all county revenue in 2022 (data for 2023 are not yet available). While important, this is one of the smallest revenue sources for many counties. For example, the property tax accounted for about 37% of total county revenue in 2022. Other state aid, primarily those for health and human services programs, comprised about 24% of funding while county sales tax collections represented about 9% of the total.

► Future

As mentioned above, perhaps the most noteworthy function of 2023 Act 12 was to link growth in shared revenue payments to the percentage growth in state sales tax collections. Wisconsin’s Legislative Fiscal Bureau projects a 2.3% increase in sales tax collections in fiscal year 2025,

2022 County Revenue Sources

Source: Wisconsin Department of Revenue



which means county governments will receive a 2.3% increase in their county and municipal aid payments. This ties local governments to the economic success of the entire state instead of just their county. When the state succeeds, local government shares in that success.

In addition, while the state investment was historic, it may not immediately fill all the gaps in local funding. With county revenues growing below the rate of inflation for nearly 20 years, it will take time for this new funding formula to fill those holes. However, county officials will know that these funds will grow from year to year.

In the short term, county officials understand that local demand for their services continues to grow. New shared revenue dollars help a lot. But outside of that, where can they turn?

The local option sales tax is limited to 0.5%, except in the city and county of Milwaukee, which were allowed to

increase their rates slightly due to 2023 Act 12. In most counties, local sales tax revenues have risen significantly over the past couple of years, but growth this year is small and is expected to be small next year.

That leaves the local property tax, the biggest source of county revenue.

These revenues have not kept pace with inflation due to levy limits, which are tied to net new construction.

While the limits largely achieved their stated goal of restricting growth in property taxes, they

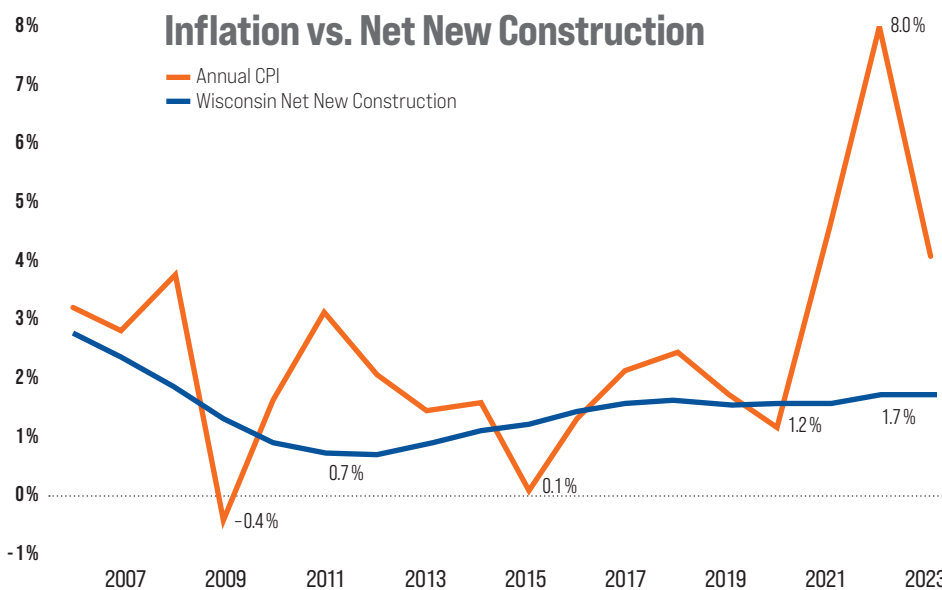
continue to strain county budgets. In 14 of the 18 years since levy limits were implemented, the average allowable increase was outpaced by inflation. Thus, in most years, goods and services increased in costs faster than local governments were able to raise revenue.

Shared revenue reform is helping counties navigate complex budget issues. Yet, county governments still face various challenges. Levy limits will likely continue to

increase slower than the rate of inflation. The shrinking size of the workforce will cause county government and local businesses to struggle to maintain and attract young, talented professionals, which can further exacerbate local and state budget problems.

County governments will continue to work efficiently, as they have always done, in order to properly fund core public services, such as county courts and law enforcement. ■

Forward Analytics is a Wisconsin-based research organization that provides state and local policymakers with nonpartisan analysis of issues affecting the state.



Source: U.S. Bureau of Labor Statistics