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# How Stressed are Wisconsin Cities and Villages?

By

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# How Stressed are Wisconsin Cities and Villages?

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The Fiscal Health of Wisconsin Cities and Villages

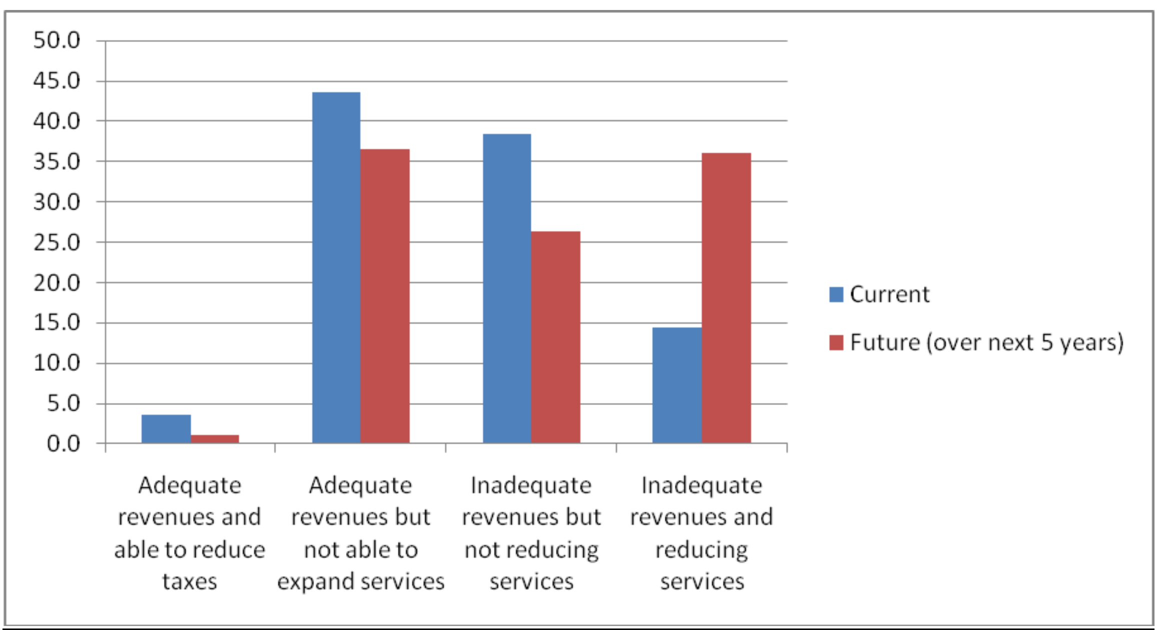

Summary

For the fourth time since 1997, a web-based survey of fiscal health was administered to administrative officials of Wisconsin cities and villages during the summer of 2010. A total of 195 municipalities responded to the survey. Of those administrative officials responding, 53 percent reported that their current revenue base was inadequate and more than 62 percent responded that their fiscal condition in five years will be inadequate. Some of the strategies most actively pursued in response to fiscal stress include the adoption or increase in user fees and charges, improved productivity through better management and pursuit of grants from federal/state governments. Strategies least likely to be pursued include laying off workers, increasing short-term debt and reducing hours of operation.


## Introduction

With the combined effects of the "Great Recession", reflected in the recent decline in property valuation, declining state aids, increasing demand for services and external constraints such as limits imposed on the property tax, one would think that Wisconsin municipalities are under significant fiscal pressure. Based on our recent survey of municipal administrative officials, over half of the responding city and village finance officials claimed that current revenues are "inadequate" (see below). Just over one in ten are faced with a reduction of services. Only seven of the 195 respondents suggested that current revenues are adequate and they are able to reduce taxes. When asked to look into their "crystal balls" about conditions five years from now, nearly four in ten feared that the inadequacy of revenues will force a reduction in services. The intent of this article is to review the findings of the survey, focusing on how municipal officials[1] perceive their current fiscal condition and how they are responding to fiscal stress.

**Current and Future City and Village Financial Prospects: 2010**




[1] The survey was completed by clerks-treasures (32%), administrators (30%), finance directors (24%) and clerks (14%).

In the simplest sense, fiscal stress occurs when local governments face situations where revenues fall short of expenses. But this shortfall can come from several sources. One is that revenues ebb and flow in relation to local economic conditions. Unfortunately, when revenues decline due to economic downturns, the demands to maintain current service levels can often increase fiscal stress. Alternatively, residents demand higher level of services and are unwilling or unable to pay higher taxes and fees to compensate for increases in expenditures. Another reason might be mandates from higher levels of government without adequate increases in resources. Alternatively, state statutes limit the flexibility of local governments to respond to local conditions.

> "Levy limits and maintenance of effort requirements will ultimately deplete our reserves and force reduction/elimination of services." Quote for survey respondent.

While there is no generally agreed upon definition of fiscal condition, there are two common themes to nearly all definitions. First is the ebb and flow of the local economy and second the institutional rules under which local government must function. The current Great Recession is an example of the former and the property tax rate limit is an example of the latter. In the end, the goal is to create an environment where municipalities have the ability to maintain existing service levels, withstand economic disruption, and meet the demands of growth and decline.

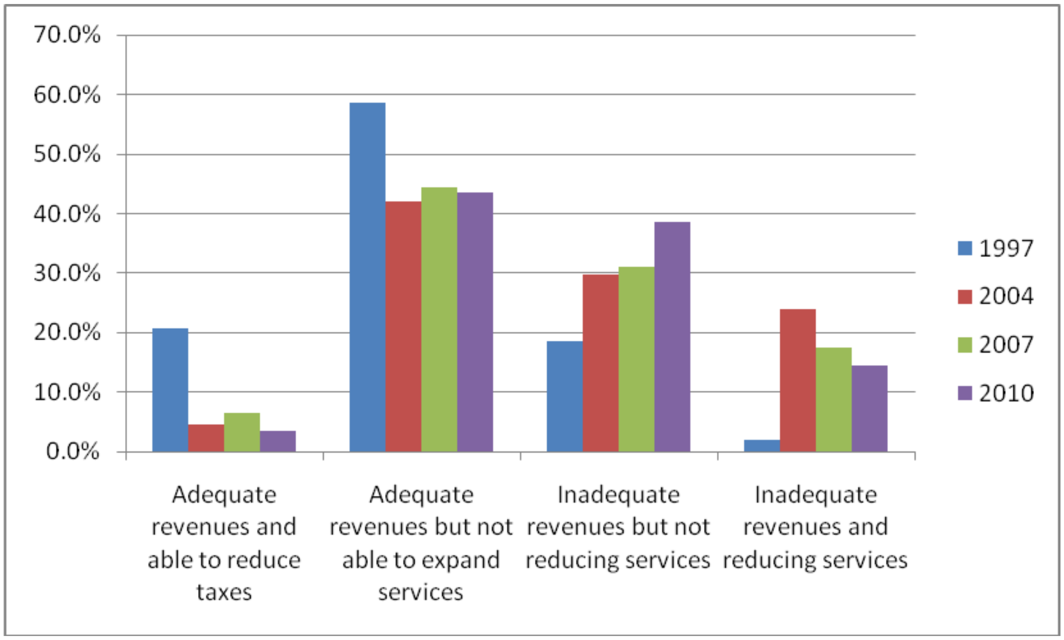
A great deal has been said in recent years about the plight of local government finance in Wisconsin. Local officials tend to emphasize limited growth in state aids and state officials have tended to focus on the rate of property tax growth. This study takes an objective look at the fiscal condition of Wisconsin municipalities through the lenses of municipal officials. More specifically, through the use of a web-based survey we sought to learn the degree of fiscal stress facing municipalities and the strategies being implemented to cope with fiscal stress.

In a survey of cities and villages conducted in 1997, less than one in five municipal officials expressed concern about the adequacy of their fiscal position (Deller, Hinds and Hinman 2001). Compared to 1997, the fiscal health of Wisconsin municipalities has fundamentally changed for the worse. Today, 52.9 percent of the respondents believe that their revenues are "inadequate". Surprisingly, this difference in opinion, however, has not changed over more recent years. In a 2004 survey, 54 percent of respondents felt that their revenues were inadequate, suggesting that at least up until now, municipalities in Wisconsin are weathering the recession.

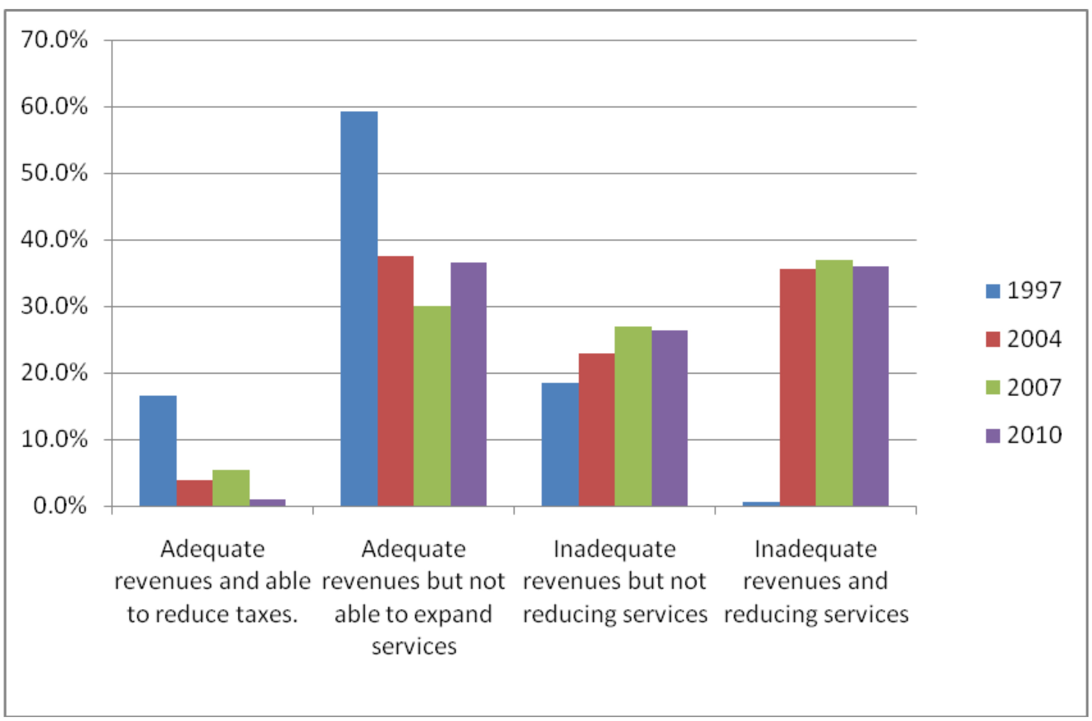
If we ask municipal officials to consider their future (five years) fiscal health, the picture changes little in recent years, yet stands in stark contrast to 1997. Today, a majority (52.4%) believe that their revenues will be inadequate and 36.1 percent report that they will be forced to reduce services. Only two of the 195 respondents believe that they will be in a position to reduce taxes. Compare these results to the same question asked in 1997: a clear majority of respondents in 1997 believed that they had adequate revenues over the next five years and 17 percent thought that they would be able to reduce taxes! Compared to the 2004 results – a time of modest economic growth – today's result differ little. A possible explanation is that a significant part of this pessimistic outlook in 2004 (compared to 1997) was due to the uncertainty surrounding state shared revenues and the serious attention being paid to the proposed Taxpayers Bill of Rights (TABOR). Today, respondents are operating under levy limits and significant economic uncertainty.

> "I wouldn't say 2007-2010 was particularly stressful, but 2010-2012 will be." Quote for survey respondent.

**Current and Future City and Village Financial Prospects**
**1997, 2004, 2007 and 2010**




**Future Financial Prospects (Five Years Ahead)**
**1997, 2004, 2007 and 2010**



## Current Fiscal Conditions

The survey asked eight questions to more specifically gauge the fiscal health of Wisconsin municipalities. The results suggest that in most areas, municipalities have strong fiscal conditions, for instance:

- nearly 80 percent are able to maintain three months of operating expenditures with current cash reserves;
- more than 80 percent have acceptable credit ratings;
- only 25 percent are near debt level capacity;
- 67 percent have been able to roll over cash reserves from the previous budget cycle;
- only 16 percent report unfunded pension liabilities; and
- 65 percent are able to maintain current employee benefit packages.

Table 1 summarizes the responses to the questions about fiscal condition and three additional questions about property tax limits. The percent of respondents who said that their community's current fiscal situation was acceptable split; 50 percent agreed that their current fiscal situation was acceptable and 50 percent disagreed. The findings do provide signs of strong financial management in WI communities in terms of reserves, credit ratings and pension liabilities. A common measure of fiscal condition is unreserved fund balances and while there is no steadfast rule on their appropriate size, a reserve equal to three months of operating expenses is considered adequate. Nearly 80 percent of respondents agreed that they are able to maintain a 3-month cash reserve. Current credit ratings were also strong with 83 percent in agreement that their current rating was acceptable. Most interesting is the extent to which current administrators agree that that their pensions are funded; only 15.6 percent agree their community has unfunded pension responsibilities. Nationally, unfunded pension liabilities have become a real concern and the fact that most pensions are funded bodes well for WI communities. Respondents were also asked about current employee benefit packages; about two-thirds of the officials were in agreement, meaning that their community was able to maintain current packages.

> "Wisconsin doesn't provide municipalities another revenue generating source other than property taxes, user fees, revenue sharing, and other State aids, the overall financial conditions of most Wisconsin municipalities will be depressed greatly for the following reasons: Increased cost of operations & maintenance; the replacement of aging infrastructure and the increasing costs associated with it; and the continued cuts in State revenue sharing and continued imposition of levy". Quote for survey respondent.

The last three questions in Table 1 asked about the current property tax limit. Two-thirds of the officials agreed that the levy limit has negatively impacted their fiscal situation. Given such a finding, it is not be too surprising that 70 percent disagreed that the limit is a sound policy. For supporters of the tax limit, however, the finding that 60 percent of responding municipal officials agreed that the levy limit has forced efficiencies could be considered evidence of the policy's effectiveness.

Based on these survey results, many Wisconsin cities and villages do not appear to be in crisis mode, but current trends are not sustainable. The state legislature will be entering the upcoming biennial budget with a $2.5 billion deficit and local aids account for approximately two-thirds of state GPR expenditures. To confound matters state and national economic conditions are not showing signs of significant improvement and federal stimulus funds to states are ending. Next year could be a very different fiscal environment in which local governments find themselves. Given the dismal outlook, the one survey question in Table 1 about capital projects funding is a bit concerning. Less than one third of respondents agreed that their community has a fully funded capital plan. While it is common for communities to have unfunded capital plans, we are entering unchartered fiscal waters and the fact that most capital plans are not funded could be problematic if resources become further stressed.

## Current Strategies Being Adopted

There are numerous short- and long-term strategies that municipalities can pursue when faced with fiscal stress. For this study we focused on three broad categories: service delivery or management, revenue alternatives, and changes in expenditure policies. We asked administrative officials to indicate the degree to which they agree or disagree with the listed strategies as they describe their community's recent efforts to cope with fiscal stress. We do not attempt to address the political viability of the alternative strategies, but rather seek to gain insights into the current thinking of local officials. We will discuss each in turn.

### *Service Delivery*

Wisconsin city and village municipal leaders were asked to evaluate to what extent they utilized six service delivery improvement strategies. The most frequently utilized strategies include:

- improving productivity through better management (77.8 percent);
- contracting out services (49.1 percent); and
- pursuing regional cooperative agreements (48.8 percent).

The strategies least supported by municipal officials were:

- the reduction of hours for public facilities (20.1 percent);
- eliminating services (25.0 percent); and
- department consolidation (34.1 percent).

### *Revenue Strategies*

When asked about the revenue side of the equation, municipal officials seem to be focusing on two strategies: *increasing user fees and charges* and *pursuing additional grants* from state and local government. Here 67.8 and 90.6 percent, respectively, utilized these two ways to enhance revenues during times of fiscal stress. Slightly more than half (53.8 percent) of Wisconsin city and village officials responding to the survey raised property taxes. Drawing down cash reserves had a mixed reaction; 45.9 percent pursued the approach, however, 52.4 percent did not utilize this particular strategy.

### *Expenditure Strategies*

The most frequently agreed with expenditure strategies include:

- delayed capital expenditures (68.8 percent);
- targeted budget cuts (67.1 percent); and
- delaying routine maintenance (47.7 percent).

The least agreed with expenditure strategies include:

- laying off workers (15.0 percent);
- increasing short-term debt (24.1 percent); and
- a hiring freeze (41.0 percent).

We also asked each respondent to assess their success with various strategies to deal with fiscal stress. The most successful strategy was improving productivity through better management (78.8 percent reported success), followed by pursuing grants (67.5 percent), adoption of fees and charges (66.1 percent), and targeted budget cuts (60.7 percent).

The least successful strategies for dealing with fiscal stress were delaying capital expenditures (28.6 percent reported the strategy as not successful) and delaying routine maintenance expenditures (30.9 percent). It is also important note that for seven listed strategies, more than half of the respondents reported "not applicable" as the strategies have not been tried. These strategies include: laying off workers (75.8 percent reported not applicable), increasing short-term debt (68.7 percent), reducing hours of service (65.6 percent), eliminating services (59.9 percent), creating or expanding enterprise funds (58.6 percent), a hiring freeze (56.4 percent), consolidating departments (56.4 percent).

## Strategies for Fiscal Health

What are some strategies that local officials can think about to strengthen their fiscal health? Eight broad based strategies include:

1. Be more efficient in the production of services;
2. Expand the tax base;
3. Reduce the demand for services;
4. Shift costs to non-residents;
5. Secure new sources of revenue;
6. Increase spending flexibility;
7. Improve management of existing resources; and
8. Diversify revenue sources.

Note that none of these can be described as "quick fixes," rather these are long-term strategies for long term fiscal health. Short-term quick fixes such as across the board reductions in expenditures or deferment of capital improvements or maintenance can come back to haunt local governments in the long term. For example, expenditures on local roads is often the single largest expenditure category for smaller, more rural communities. A common fiscal crisis "solution" is to delay maintenance expenditures. Engineering studies have, however, consistently documented that such strategies lead to a deterioration of infrastructure and larger costs long-term.

> "The levy limit has been slowly strangling our little village. My personal opinion is that our residents vote for people that they feel are fiscally responsible and will not spend needlessly. The board members should be given the faith from our government that they will be responsible with our money. They can see what happens at a local level way better than the state government." Quote from survey respondent.

Local officials and concerned citizens should look upon the current fiscal situation as an opportunity for change rather than a crisis that requires quick answers. Political historians have documented that "radical" long-term changes that have proven to be the foundation of sound public policy come out of times of crisis. It is almost human nature to be more reactive to crisis then proactive, particularly in a political setting. Perhaps the current fiscal crisis is a window of opportunity for innovative communities to make significant strides forward. The future of the local economy may depend upon it.

Table 1
Measuring Fiscal Condition and Attitudes Toward Tax Limits

| | Strongly Disagree | Disagree | Agree | Strongly Agree | Don't Know |
|---|---|---|---|---|---|
| Our current fiscal situation is acceptable. | **10.3** | **38.5** | **40.8** | **9.2** | **1.2** |
| We are able to maintain three months of operating expenditures with current cash reserves. | **5.8** | **13.8** | **51.2** | **27.6** | **1.7** |
| Our current capital improvement plan is fully financed. | **22.1** | **40.1** | **22.7** | **9.3** | **5.8** |
| Our current credit rating is acceptable. | **1.8** | **4.1** | **46.8** | **35.7** | **11.7** |
| We are near our debt level capacity. | **32.8** | **37.9** | **17.2** | **7.5** | **4.6** |
| We have been able to roll over cash reserves from the previous budget cycle. | **8.6** | **21.3** | **55.2** | **12.1** | **2.9** |
| We are faced with unfunded pension responsibilities. | **43.4** | **35.8** | **12.1** | **3.5** | **5.2** |
| We are able to maintain our current employee benefits package. | **1.7** | **28.2** | **59.2** | **6.3** | **4.6** |
| The property tax limit has negatively impacted our fiscal situation. | **3.5** | **24.3** | **37.0** | **29.5** | **5.8** |
| The property tax limit has forced us to improve our efficiency. | **6.3** | **31.0** | **51.2** | **9.2** | **2.3** |
| The property tax limit is a sound public policy. | **28.7** | **41.5** | **15.2** | **2.9** | **11.7** |

**n=172**

Table 2
Agreement With Use of Fiscal Stress Reduction Strategies

| | Not at all | Not very much | Somewhat | A lot | Don't Know |
|---|---|---|---|---|---|
| Improved productivity through better management | 7.0 | 12.3 | 60.8 | 17.0 | 2.9 |
| Contracted out services | 16.8 | 33.0 | 39.9 | 9.3 | 1.2 |
| Consolidated departments | 42.2 | 22.5 | 26.0 | 8.1 | 1.2 |
| Pursued regional cooperative agreements | 24.4 | 23.8 | 40.1 | 8.7 | 2.9 |
| Reduced hours for public facilities | 51.7 | 27.0 | 18.4 | 1.7 | 1.2 |
| Eliminated services | 39.5 | 34.9 | 24.4 | 0.6 | 0.6 |
| Drawn down cash reserves to meet daily operations | 30.0 | 22.4 | 34.7 | 11.2 | 1.8 |
| Raised property tax levies | 13.5 | 32.8 | 50.3 | 3.5 | 0.0 |
| Adopted or increase user fees and charges | 12.9 | 18.7 | 54.4 | 13.5 | 0.6 |
| Created or expanded enterprise funds | 39.6 | 25.4 | 20.1 | 5.9 | 8.9 |
| Pursued grants from federal/state government | 4.1 | 5.3 | 44.4 | 46.2 | 0.0 |
| Refinanced outstanding debt | 36.6 | 15.1 | 34.3 | 13.4 | 0.6 |
| Increased short-term debt | 56.5 | 18.8 | 20.0 | 4.1 | 0.6 |
| Delayed routine maintenance expenditures | 17.9 | 27.2 | 39.3 | 15.0 | 0.6 |
| Delayed capital expenditures | 11.6 | 18.5 | 39.9 | 28.9 | 1.2 |
| Laid off workers | 73.4 | 11.6 | 13.9 | 1.2 | 0.0 |
| Hiring freeze | 44.5 | 12.7 | 28.3 | 12.7 | 1.7 |
| Across the broad budget cuts | 28.9 | 25.4 | 33.0 | 12.1 | 0.6 |
| Targeted budget cuts | 12.1 | 20.8 | 51.5 | 15.6 | 0.0 |

Table 3
Extent to With Communities Use Strategies to Cope With Fiscal Stress

| | Not at all | Not very much | Somewhat | A lot | Don't Know |
|---|---|---|---|---|---|
| Improved productivity through better management | 7.0 | 12.3 | 60.8 | 17.0 | 2.9 |
| Contracted out services | 16.8 | 33.0 | 39.9 | 9.3 | 1.2 |
| Consolidated departments | 42.2 | 22.5 | 26.0 | 8.1 | 1.2 |
| Pursued regional cooperative agreements | 24.4 | 23.8 | 40.1 | 8.7 | 2.9 |
| Reduced hours for public facilities | 51.7 | 27.0 | 18.4 | 1.7 | 1.2 |
| Eliminated services | 39.5 | 34.9 | 24.4 | 0.6 | 0.6 |
| Drawn down cash reserves to meet daily operations | 30.0 | 22.4 | 34.7 | 11.2 | 1.8 |
| Raised property tax levies | 13.5 | 32.8 | 50.3 | 3.5 | 0.0 |
| Adopted or increase user fees and charges | 12.9 | 18.7 | 54.4 | 13.5 | 0.6 |
| Created or expanded enterprise funds | 39.6 | 25.4 | 20.1 | 5.9 | 8.9 |
| Pursued grants from federal/state government | 4.1 | 5.3 | 44.4 | 46.2 | 0.0 |
| Refinanced outstanding debt | 36.6 | 15.1 | 34.3 | 13.4 | 0.6 |
| Increased short-term debt | 56.5 | 18.8 | 20.0 | 4.1 | 0.6 |
| Delayed routine maintenance expenditures | 17.9 | 27.2 | 39.3 | 15.0 | 0.6 |
| Delayed capital expenditures | 11.6 | 18.5 | 39.9 | 28.9 | 1.2 |
| Laid off workers | 73.4 | 11.6 | 13.9 | 1.2 | 0.0 |
| Hiring freeze | 44.5 | 12.7 | 28.3 | 12.7 | 1.7 |
| Across the broad budget cuts | 28.9 | 25.4 | 33.0 | 12.1 | 0.6 |
| Targeted budget cuts | 12.1 | 20.8 | 51.5 | 15.6 | 0.0 |
| Discouraged population growth | 80.7 | 11.7 | 3.5 | 1.2 | 2.9 |

Table 4
Cities and Villages Success With Strategies to Reduce Fiscal Stress

| | **Not at all successful** | **Not very successful** | **Somewhat successful** | **Very successful** | **Don't know** | **Not applicable** |
|---|---|---|---|---|---|---|
| Improved productivity through better management | 0.6 | 3.6 | 63.0 | 15.8 | 6.7 | 10.3 |
| Contracted out services | 1.8 | 9.8 | 41.1 | 12.9 | 4.9 | 29.5 |
| Consolidated departments | 1.8 | 8.0 | 21.5 | 8.6 | 3.7 | 56.4 |
| Pursued regional cooperative agreements | 5.6 | 15.5 | 28.6 | 8.7 | 6.8 | 34.8 |
| Reduced hours for public facilities | 4.3 | 10.4 | 16.0 | 1.8 | 1.8 | 65.6 |
| Eliminated services | 4.9 | 8.0 | 21.6 | 1.2 | 4.3 | 59.9 |
| Drawn down cash reserves to meet daily operations | 3.7 | 14.7 | 27.0 | 4.9 | 4.3 | 45.4 |
| Raised property tax levies | 1.9 | 15.7 | 52.2 | 5.7 | 1.9 | 22.6 |
| Adopted or increase user fees and charges | 2.5 | 11.7 | 54.9 | 11.1 | 3.1 | 16.7 |
| Created or expanded enterprise funds | 3.1 | 6.8 | 20.4 | 6.8 | 4.3 | 58.6 |
| Pursued grants from federal/state government | 9.2 | 16.6 | 43.6 | 23.9 | 2.5 | 4.3 |
| Refinanced outstanding debt | 0.6 | 1.8 | 35.0 | 17.2 | 3.1 | 42.3 |
| Increased short-term debt | 2.5 | 3.7 | 18.4 | 3.7 | 3.1 | 68.7 |
| Delayed routine maintenance expenditures | 3.7 | 27.2 | 29.6 | 2.5 | 6.8 | 30.3 |
| Delayed capital expenditures | 6.8 | 28.6 | 31.7 | 1.9 | 6.2 | 24.8 |
| Laid off workers | 2.5 | 6.2 | 13.0 | 1.2 | 1.2 | 75.8 |
| Hiring freeze | 2.5 | 9.2 | 22.7 | 6.1 | 3.1 | 56.4 |
| Across the broad budget cuts | 3.1 | 10.4 | 38.0 | 1.8 | 3.7 | 42.9 |
| Targeted budget cuts | 2.5 | 8.6 | 54.6 | 6.1 | 4.3 | 23.9 |
| Discouraged population growth | 3.8 | 3.2 | 1.9 | 0.6 | 7.6 | 82.8 |

n=165