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Fees Take on Increased Importance for Local Governments

With rising costs in areas like fringe benefits and infrastructure, stagnant state aids, and restrictions on property tax levies and other local taxes, municipalities and counties in Wisconsin are challenged in addressing their budget pressures. Our latest research finds, however, that they have increasingly turned to fees for services—also known as charges—to support their operations.

Between 2000 and 2017, fee-for-service revenues generated by Wisconsin local governments increased at twice the rate of inflation. Additionally, these revenues surpassed the most prominent form of state aids—shared revenue—as a percentage of combined municipal and county government revenue.

We first observed this trend toward increasing reliance on fees as a share of municipal revenue in our recent *Dollars and Sense* report, which drew on U.S. Census data. Here we look at the issue in more detail using local government data reported to the state Department of Revenue (DOR).

Fees for services are charges paid by individuals and businesses for a direct government service such as garbage collection and disposal, sewer, residential snow and ice removal, and parking. These charges may also include fees for the use of court services or recreational facilities, such as parks, swimming pools, or golf courses.

This category does not include some revenues popularly known as "fees" such as vehicle registration fees, which are categorized as taxes by DOR. The increases in fee collections have happened despite a state law that forces a property tax reduction if a government starts using fees or fee increases to pay for certain services that were funded in part or in full through the property tax as of 2013.

Revenue Trends

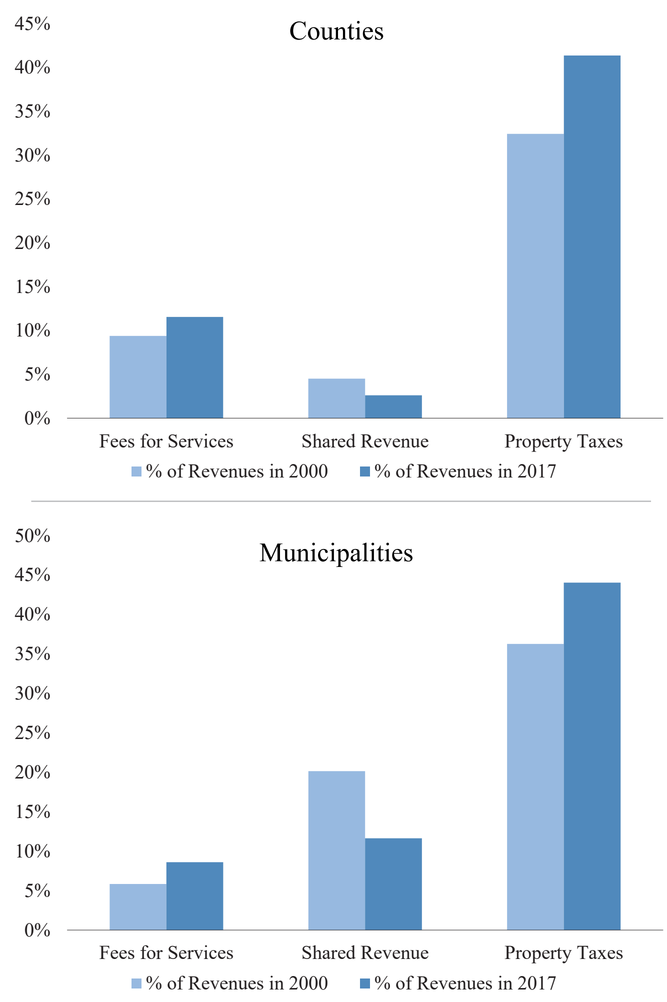
Between 2000 and 2017, fee-for-service revenue collected by counties and municipalities increased 90%, from $594.7 million to $1.13 billion. For comparison, consumer prices rose by 42.3% due to inflation over that same period. Fee revenues represented 7.5% of total municipal and county revenues in 2000 but that figure rose to 9.9% by 2017. (Total revenues in this report do not include borrowing proceeds and some other financing sources.)

Counties rely more heavily on fees than municipalities, though the proportional growth in county fee revenues was not as great as that experienced by municipal governments. Fee revenue as a share of overall county revenues increased 2.1 percentage points between 2000 and 2017, rising from 9.4% to 11.5%. Municipalities (cities, villages, and towns) experienced a larger increase of 2.8 percentage points, with fees increasing from 5.8% of total revenue to 8.6%.

Figure 1 shows the growth in the share of revenues from charges since 2000 for municipalities and counties as compared to two other major revenue sources: shared revenues and property taxes (not including levies for tax increment districts). Combined, fees for services for municipalities and counties increased over the period at an annual rate of 3.8%, shared revenue declined by 0.9% per year, and property taxes increased by 3.5%.

It is important to note both property taxes and charges for service have grown significantly over the period examined despite state-imposed restrictions on each for part of that time. In the case of fee-for-service revenue, the law allows local governments to adopt increases in most fees to cover increases in the cost of the services that are funded with those fees. Per recently enacted state law, however, if counties and municipalities wish to adopt new fees to replace property taxes

Figure 1: Fees, Shared Revenue, and Property Taxes as % of County and Municipal Revenue, 2000 versus 2017



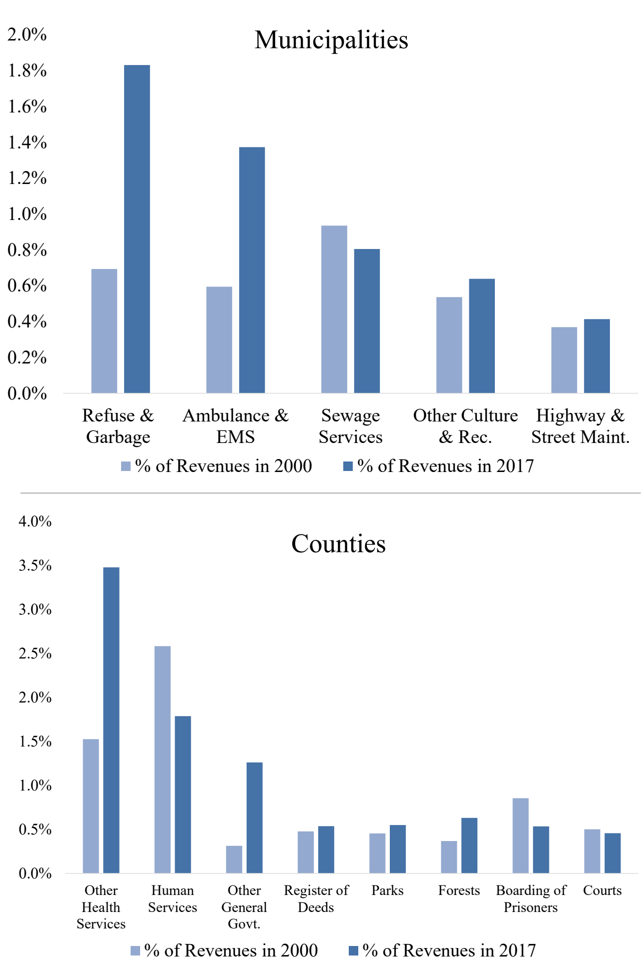
Source: Department of Revenue

for certain services, then they must reduce property taxes by an equivalent amount.

Fee Trends

There are 47 types of fees for services reported to DOR, but a handful of categories account for most county and municipal revenues. (See Figure 2.) The majority (80%) of fee revenues collected in 2017 by counties were derived from eight categories, led by other health services (30%) and human services (15%). Municipalities collected the majority (60%) of their fee revenues from five service categories, with garbage collection (21%) and ambulance and emergency medical services (16%) generating the largest portions.

Figure 2: Share of County and Municipal Revenues Generated by Select Fees, 2000 Versus 2017



Source: Department of Revenue

Fee collections associated with certain services increased as a share of total revenue over time, while others decreased. For example, in 2000, 2.6% of county revenue came from human services, which include activities like child support collections and senior citizen program fees. By 2017, these fees had dropped to 1.8% of total revenue.

Part of the changes reflect fees being added or eliminated over time. Compared to 2000, municipalities on net reported revenues for 238 fewer cases across the 47 fee categories by 2017. Some of the largest reductions were in general government and highway and street maintenance and construction fees. However, even as some fees were dropped, the amount of revenue collected may still have increased. Ambulance and EMS fee revenue increased by $61 million, even though 48 fewer municipalities reported these revenues in 2017. This is not unexpected, given the rise in overall health care costs. Meanwhile, refuse and garbage collection revenues increased by $85.5 million and 1.1 percentage points as a share of overall revenue, likely due in part to 149 additional municipalities collecting the fee by 2017.

For counties, growth was observed in several fee categories shown in Figure 2. Increases both in dollars and as a share of total revenue occurred in fees for other health services (which includes health inspections and home nursing care), other general government (which includes services such as clerk, treasurer, and coroner), register of deeds, parks, and forests. Notably, "other health services" revenue increased by $121.3 million and "other general government" increased by $53 million. Decreases occurred in human services and boarding of prisoners, while court fees held steady as a share of revenue.

The vast majority of municipalities and counties receive 20% or less of their general revenue from fees. Among those with higher shares, no striking pattern emerges in terms of population or geographic area.

Conclusion

We have documented the challenges faced by local officials in covering rising costs with available revenues in several recent reports and budget briefs. On the one hand, growth in fee revenues might be viewed positively given that fees are relatively reliable revenues that are tied to the services being delivered. On the other, some fees may be seen as regressive and burdensome for those least able to pay. Given the shift that has already occurred toward greater use of fees, policymakers may see value in debating whether and how it should continue.

Looking forward, fee-for-service trends are not likely to drastically change course. The Joint Finance Committee rejected a proposal by Governor Evers to repeal the law that requires counties and municipalities to reduce their property tax levies by an amount equal to any revenues collected from new or additional fees for service that replace property taxes (though the budget-writing panel did approve removal of storm water fee revenues from the requirement). However, municipalities and counties are likely to count on increases in existing fees—to the extent they are legally allowable—as a means of tempering the fiscal challenges they face. ☐

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