

# BUDGETS GET TIGHTER FOR WISCONSIN TOWNS

*The financial struggles of big cities in Wisconsin have received more attention, but the state's much smaller towns face struggles of their own. Their reliance on local property taxes has grown in recent decades as state aid has slowed. Town borrowing also has risen to record levels in recent years despite the fact that towns are putting less of their overall budgets into road maintenance and construction – their traditional core priority.*

Over the past generation, cities and villages around Wisconsin have faced mounting financial pressures as state aid has stagnated and the state has tightened limits on local property taxes. The Wisconsin Policy Forum has documented those trends in a series of reports, most notably “[Dollars and Sense](#),” a 2019 study that looked in part at the relatively few local tax options available to cities and villages in the state.

As this report will make clear, towns have been buffeted by these same headwinds. In 1990, property taxes made up 36.8% of general revenues for towns in Wisconsin while state aid accounted for 45.1%, according to data from the state Department of Revenue (DOR). A generation later, the numbers have been flipped. In 2020, property taxes made up 48.2% of general revenues for towns and state aid only 30.3%. Smaller towns are somewhat less dependent on property taxes but larger towns are even more reliant.

Towns have also stepped up their borrowing over the past decade. The debt backed by towns' full taxing power rose by 44.7% between 2014 and 2020 to \$472.3 million. After adjusting for both population and inflation, town debt now stands at record levels. Borrowing and debt payments have risen even as towns have devoted less of their overall spending to maintaining local roads – their traditional first priority.

There are some bright spots for these small communities, including the state's relatively strong commitment to provide aid for local roads in general and town roads in particular. For many local services,

## How We Looked at the Data

This report looks at the finances of Wisconsin towns based on reports filed by local officials with the state Department of Revenue and the U.S. Census Bureau. It looks at the core government functions that are funded through taxes and other key revenues such as state aid. The analysis leaves out town enterprises that are run more like businesses through what are known as proprietary funds, but little is lost since towns have relatively few of those funds.

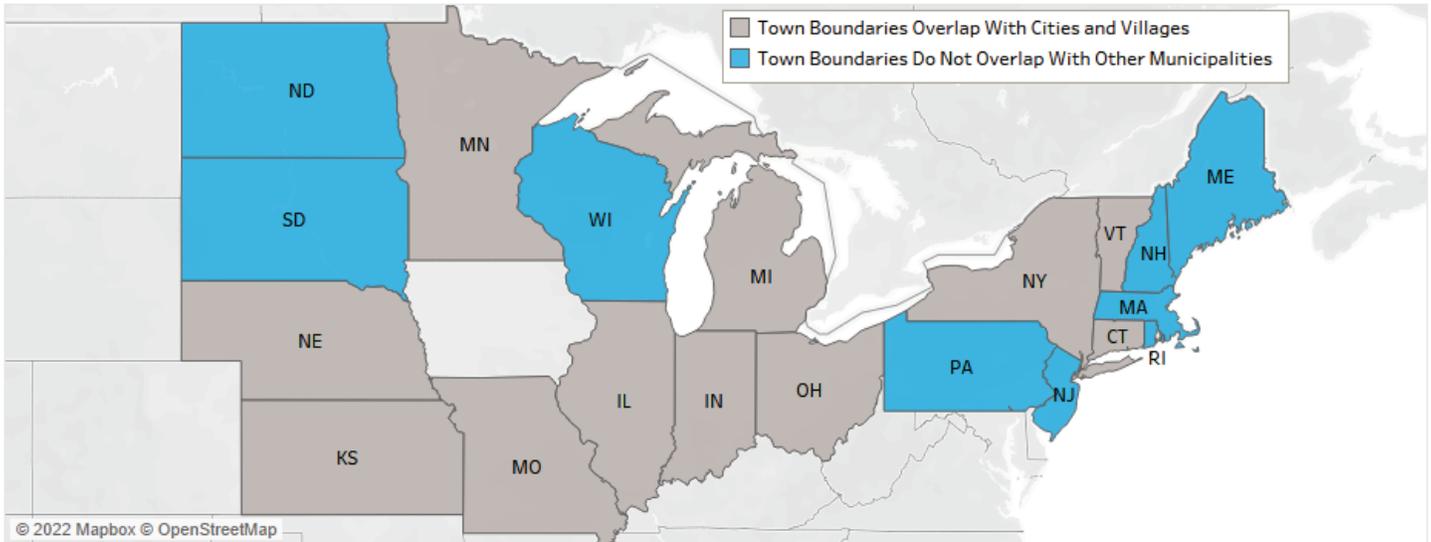
towns also have a greater ability to lean on other local units of government such as counties and nearby cities and villages. Yet on the whole, the trends point to challenges ahead for towns to maintain services such as roads and fire and emergency medical services (EMS) for their residents, particularly in rural areas of the state with relatively low incomes and fewer prospects for economic development.

## TOWNS IN WISCONSIN

Wisconsin is one of only 20 states with town governments, with most of those states located in New England and the Midwest. Town government was brought to Wisconsin by New Englanders in the 1800s and has a rich tradition here. In one of the nation's few examples of direct democracy, town residents in Wisconsin can vote at the annual meeting on their town property tax levy, the pay for town officers, and the method for electing the town board. To provide services, towns often rely on local residents working in roles such as firefighters for relatively low pay or even on a volunteer basis.

**Figure 1: Town Governments Concentrated in Northeast, Midwest**

States with town governments and their characteristics, 2017



Source: U.S. Census Bureau

In 11 states, including the Midwest states of Illinois, Kansas, Michigan, Minnesota, Missouri, Nebraska, Indiana, and Ohio, town boundaries can overlap with cities and villages, so state residents may potentially live in both a town and city or village. Wisconsin is one of nine states – all in the Northeast or Midwest – in which towns do not overlap with other municipalities and state residents live in either a town, a village, or a city (see Figure 1).

Besides their borders, towns also differ across states in the range of services they provide – from relatively few to a broad array. In Wisconsin, towns differ from other municipalities in that only cities and villages are incorporated and have broad “home rule” powers under the state Constitution to govern their local affairs and provide a wide range of services. Towns in this state are not incorporated or accorded home rule status and instead can perform only certain functions such as road maintenance and construction as provided by state law.

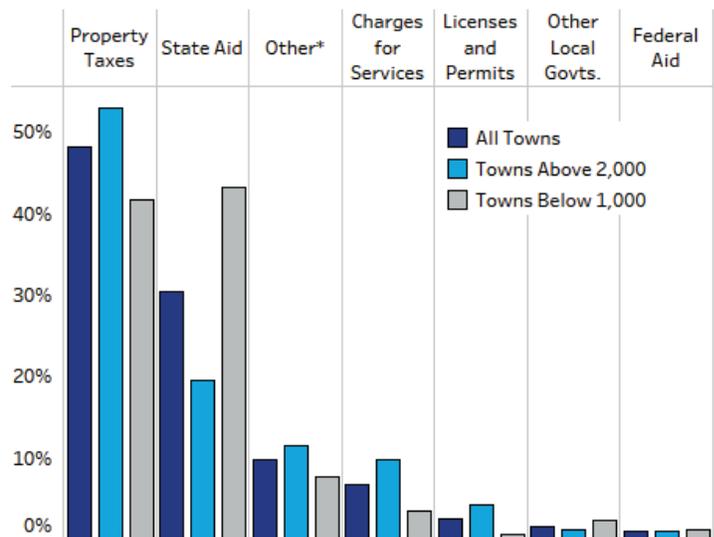
There are an eye-popping 1,248 towns in Wisconsin, down from 1,265 in 2000 but still the third-most among the nine states where they do not overlap with other municipalities. Wisconsin towns traditionally have been a six-mile by six-mile square that followed surveyors’ township boundaries. The number of towns and the area they cover has slowly declined over time as some of their territory has been annexed into cities or villages – either decreasing the size of the town or eliminating it entirely – and small numbers of towns have incorporated to become cities or villages themselves.

In 2020, about 1.6 million people lived in Wisconsin towns, which translated into an average of 1,304 per town and 27.8% of the state’s population overall. The population of towns rose substantially in the 1990s, peaked in 2003, and has been generally declining since 2010.

As discussed on page 7, a relatively small number of towns such as the Town of Grand Chute in Outagamie County are much larger than other towns and are almost more like cities and villages in having more complex finances and a wider range of services. In

**Figure 2: Property Tax, State Aid Dominate Town Revenues**

Share of general revenue by source and by population of town, 2020



Source: Wisconsin Department of Revenue; \*other includes revenues such as taxes on forest land and lodging, special assessments, tax increments, interest income, fines, and other revenues.



some financial areas such as fund balances, these larger towns can skew the overall statewide numbers and picture.

## TOWN REVENUES

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. Other major sources of revenue for towns include state aid – particularly payments for roads – and to a lesser extent charges for services (see Figure 2 on page 2). Notably, the smallest towns are much more reliant on state aid and somewhat less reliant on property taxes, while the largest towns receive less of their overall budgets from state aid and rely even more heavily on property taxes.

Overall, towns took in \$928.2 million in general revenues in 2020, a substantial amount but still only a fraction of what larger local units of government such as counties, cities, and villages received. DOR data show property taxes in 2020 accounted for nearly half of the total revenues at \$447.1 million and nearly all of the taxes levied by towns. All other levies, including taxes on certain forest land, room taxes on hotel stays, tax increments, and payments made by governments in lieu of taxes totaled just under \$33 million in 2020.

The other funding sources for towns include state aid at \$281.5 million in 2020, or somewhat less than one-third of general revenues. Federal aid is typically a

relatively minor part of town revenues but it has risen during the pandemic, with Wisconsin towns receiving \$166.5 million in total payments in 2021 and 2022 combined through the Local Fiscal Recovery Fund established by the American Rescue Plan Act.

The other notable sources of town revenues include charges for services at \$62.4 million in 2020, mainly for trash collection, solid waste disposal and recycling, and to a lesser extent for ambulance use. Licenses and permits that year totaled \$22.4 million for towns, with most of those going for building and inspection permits and for business and occupational licenses. Other funding sources include special assessments, aid from and charges to other local governments, and interest income.

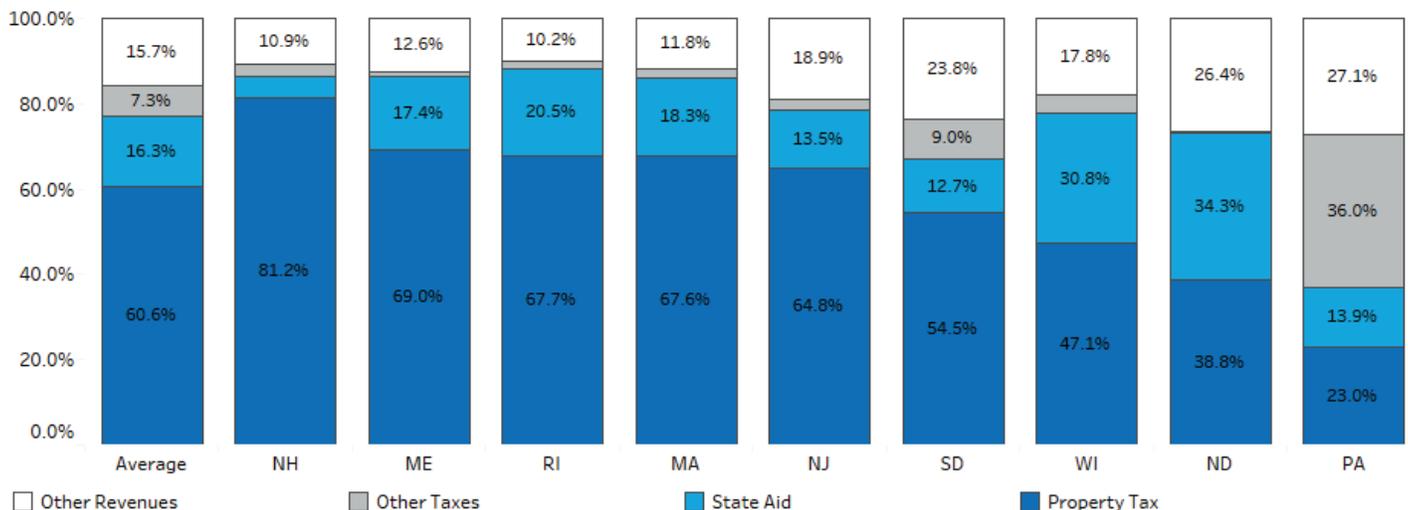
Because towns provide lower levels of service than cities and villages, their residents pay less in taxes. In 2020, towns in Wisconsin levied an average of \$275 per resident in property taxes and cities and villages averaged \$619. To some degree, town residents may still be able to benefit from services from other local governments in their area such as libraries or parks, sometimes without cost and at other times by paying an additional fee or tax.

## A NATIONAL COMPARISON

As already noted, only eight other states have towns that are essentially comparable to those in Wisconsin, at least in terms of their borders and territory. The small

**Figure 3: WI Towns Rely More on State Aid, Less on Property and Other Taxes**

Share of town general revenue by selected sources and state, 2017



Sources: U.S. Census Bureau and Willamette University



size of this group, the fairly broad range of services they provide, and the fact that most of these states are in New England limits the usefulness of any comparisons. Still, we make a limited number of them here to provide at least some national context.

Among the comparison states, U.S. Census Bureau data show Wisconsin towns are somewhat less dependent on the property tax and more dependent on state aid to pay for local services (see Figure 3 on page 3). However, this comparison needs to be tempered with the understanding that New England states are among the most reliant on the property tax nationally. Towns in some other comparison states also make a greater use of other revenues besides the property tax, including income taxes in Pennsylvania and charges for services in North Dakota and Pennsylvania.

Not surprisingly, Wisconsin towns spend less than many of their counterparts in more densely populated New England states. In 2017, Wisconsin towns had \$502 in direct general expenditures per capita while the nine-state group averaged \$1,457 per capita, or close to three times as much. However, this comparison is of limited value since some towns in other states such as Massachusetts and Rhode Island spend significant sums in areas such as education and police in which Wisconsin towns spend little or nothing. Wisconsin towns, however, were among the top spenders on roads as a share of their overall budget and to a lesser extent in per capita terms.

## STATE AID NOT KEEPING PACE

Over the past generation, state aid to towns barely kept pace with inflation even prior to the current period of rapidly rising consumer prices, leaving towns more and more dependent on local property taxes to provide services. The trend has been primarily driven by an increase in road aids but a loss in shared revenue, the main form of state aid to local governments and the one with the least strings attached.

In 1990, towns received \$76.2 million in shared revenue payments from the state, according to DOR data. Adjusted for inflation, that equates to \$150.9 million in 2020 dollars. By 2020, that amount had dropped 63% to \$55.8 million, even though the population of the state's towns was despite recent declines still larger in 2020 than in 1990. As a result, shared revenues fell from 24.3% of town general

revenues in 1990 to just 6% in 2020 (see Figure 4). That latest year would have been modestly lower still had the state's financial statements for towns not started to include certain additional small state payments to local governments as shared revenue.

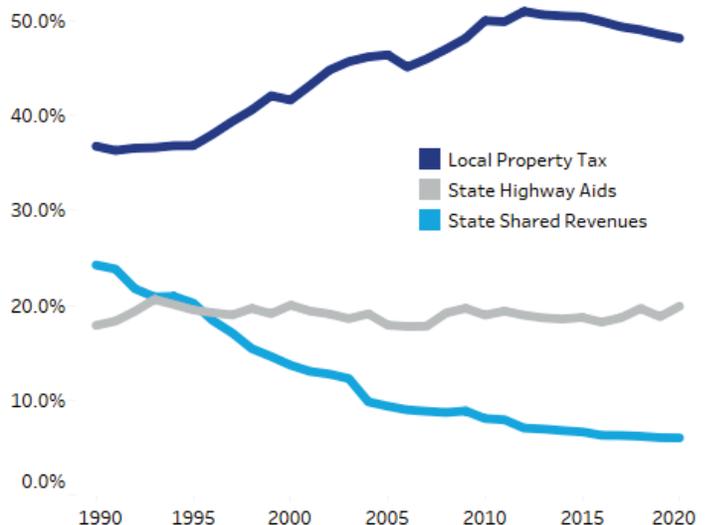
This gradual trend of lagging shared revenue to towns was intensified by cuts made to the overall program in 2004, 2010, and 2012 as well as the 2004 elimination of a component of shared revenue that targeted small municipalities specifically.

One bright spot for towns is that state aid for roads and infrastructure has increased by a larger amount than shared revenue fell. State road aids have overtaken shared revenue as the most important form of state aid to towns, rising from \$56.2 million in 1990 (\$111.3 million in 2020 dollars) to \$184.7 million in 2020.

The bulk of state road payments came from general transportation aids (GTA) at \$164.2 million in 2020 along with \$11.5 million from the Local Road Improvement Program. As our [December 2021 report](#) on GTA payments showed, that program has grown more quickly than most other forms of state aid and towns have fared somewhat better under the program since 1990 than larger municipalities or counties.

However, in 1990 towns received \$141.7 million in all types of state aid (\$280.6 million in 2020 dollars). In 2020, towns received \$281.5 million, leaving the total

**Fig. 4: Town Property Taxes Rise as Shared Revenue Falls**  
Share of town general revenue by source, 1990-2020

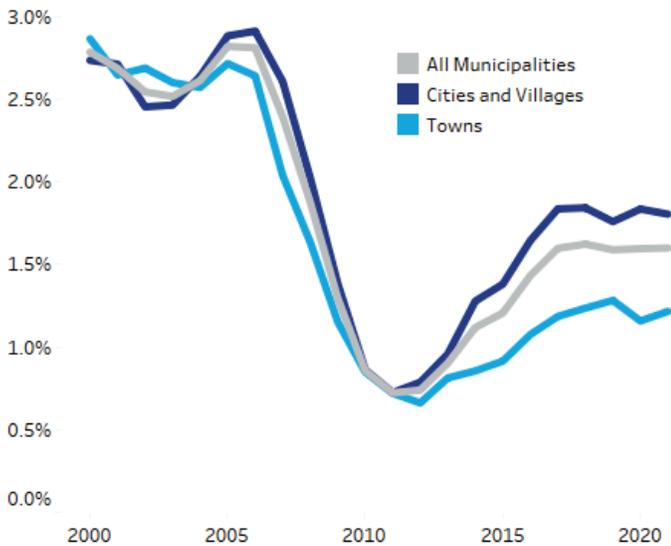


Source: Wisconsin Department of Revenue



**Fig. 5: Towns Lag Cities and Villages in New Construction**

Yearly avg. % increase in property values due to construction, 2000-20



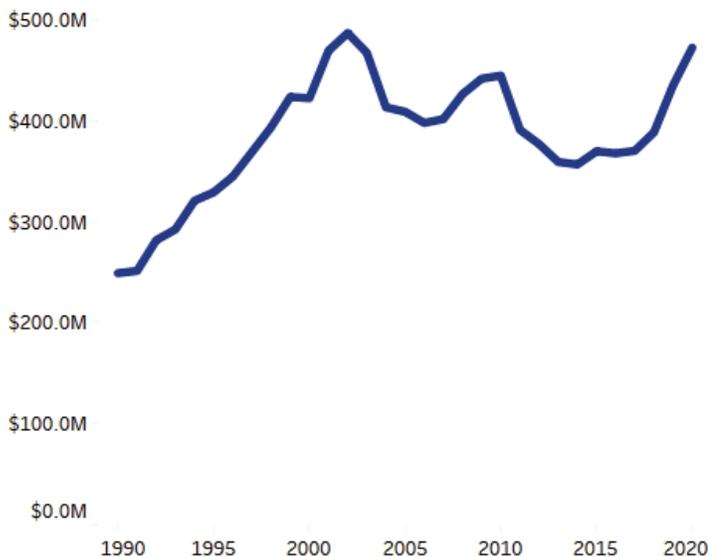
Source: Wisconsin Department of Revenue

roughly the same after adjusting for the effects of inflation despite towns having 8.1% more residents in 2020.

Throughout this report, we adjust town revenues and spending for inflation using the Consumer Price Index (CPI), which tracks a broad basket of consumer goods and services. However, towns do not purchase all of those goods and instead spend more on certain costs such as road construction, which have increased much more rapidly than CPI in recent years. For that reason,

**Figure 6: Town Debt Nears New High**

Town general obligation debt in 2020\$, 1990-2020



Source: Wisconsin Department of Revenue

adjusting for inflation using CPI may underestimate the cost pressures facing towns.

## PROPERTY TAXES ALSO CAPPED

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. That poses a challenge for towns given the caps that the state placed on property tax increases starting in 2006. The limits are applied to municipal and county property taxes used for operations and are linked to the yearly percentage increase in property values in a community due to net new construction. From 2006 to 2010, the limits allowed all communities a “floor” of between a 2% and 3.86% annual increase in property taxes. Starting in 2011, however, property taxes were frozen except for increases due to new construction, voter referenda, and some other exceptions.

The limits pose a particular problem for rural towns with relatively little new development over the past decade. As Figure 5 shows, 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.

That is particularly true for Wisconsin towns, which had only a 1.2% average increase in property values due to new construction for 2021, compared to 1.8% for cities and villages and 1.6% for all municipalities combined. Through their annual meeting or a special meeting, the citizens in towns with less than 3,000 residents do have the unique ability to vote to raise their property tax levy by more than the state limit – a step that a city or village could only take through a referendum. DOR data, however, suggest that town meetings are only rarely used to exceed levy limits.

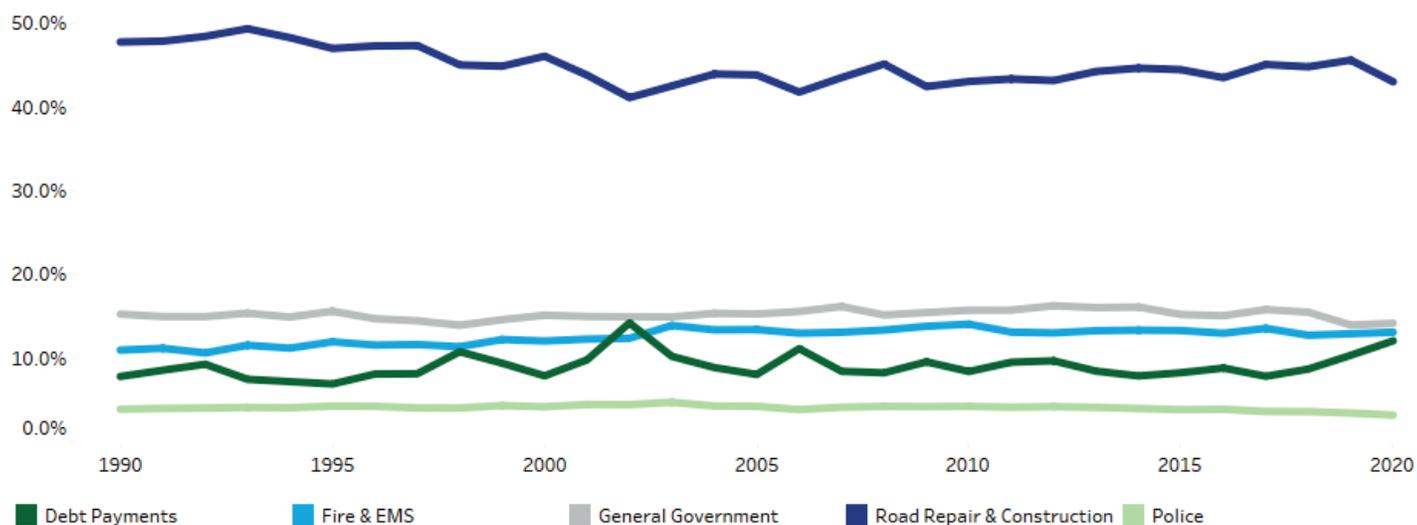
## DEBT ON THE RISE

The state levy limit, however, also provides an exception for debt payments, giving towns and other local governments an incentive to borrow for expenses they previously might have paid for in cash. In fact, debt levels for towns and other municipalities have grown substantially in recent years, likely due to increased borrowing for roads and other capital projects.



**Figure 7: Town Spending on Debt Payments Up, Police Down**

Share of town operating and capital expenditures by area, 1990-2020



Source: Wisconsin Department of Revenue

General obligation debt, a form of borrowing backed by towns' full taxing power, rose from \$326.3 million in 2014 (\$356.7 million in 2020 dollars) to \$472.3 million in 2020, a 32.4% increase even after adjusting for inflation (see Figure 6 on page 5). The 2020 figure was only somewhat below the inflation-adjusted peak of \$486.8 million in town debt in 2002. If the numbers are further adjusted for the fact that towns have fewer residents today than in 2002, per capita debt for towns is now at record levels.

Not surprisingly, that has led to an increase as well in town debt payments despite very low interest rates until recently. The rise in borrowing and debt payments might be less worrisome for towns if it results from major upgrades in infrastructure or other areas that will pay dividends in the future. As we will see in the next section, however, there are reasons to doubt whether towns are meeting their infrastructure needs.

### ROAD SPENDING RECEDES WITHIN TOWN BUDGETS

Towns provide fewer services than cities and villages and have long focused on a few core functions, with road maintenance and construction being by far the most important. Towns have a logical and crucial role to play in this area, since they are home to 61,516 miles of local roads, or 60.3% of all local roads in the state, according to [Legislative Fiscal Bureau data](#).

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. 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 1990, towns across Wisconsin devoted 47.8% of their operating and capital spending (known as governmental expenditures) to road maintenance and construction, according to DOR data. By 2020, the percentage had dropped to 43% (see Figure 7). This drop in the share of town budgets going to roads is somewhat surprising given relatively strong state road aids and the increase in town borrowing, which presumably goes mainly toward road construction and other capital projects.

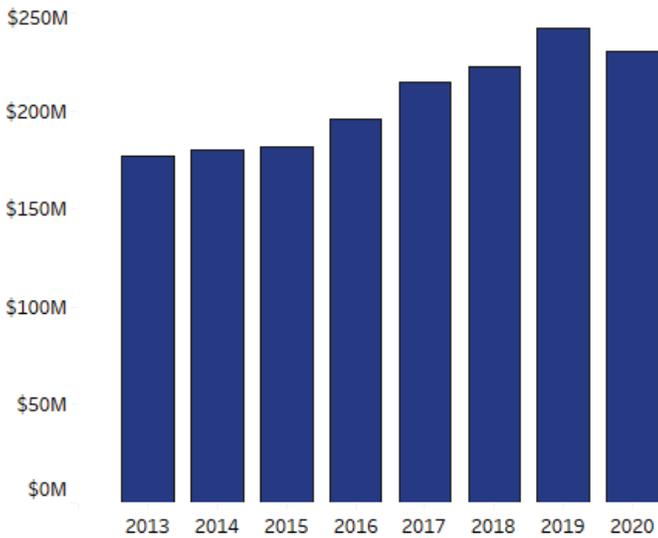
Part of the reason for that may be that towns have reduced the share of their spending going to road maintenance, from 36.7% in 1990 to 29.7% in 2020. The share going to road construction, on the other hand, has actually risen just modestly over those 30 years from 11.1% to 13.4%.

The decline of road spending as a share of overall town budgets underlines a finding in last year's [report on the GTA program](#) by WPF and the University of Wisconsin-Milwaukee Institute of Physical Infrastructure and Transportation (IPIT). That report noted that small towns



**Fig. 8: Fund Balances Grow for Limited Number of Towns**

Town fund balances\* in raw dollars, 2013-2020



Source: Wisconsin Department of Revenue; \*data are for the 151 out of 1,248 towns statewide that reported fund balance data for each of these years.

reported to the state eligible road and related construction costs that were only about one-fifth of the towns' need as estimated by an IPIT model. That was below the investment reported by other types of municipalities and, as the report said, "raises the question of whether smaller towns may be underinvesting in capital improvements."

Meanwhile, the share of town spending going to debt payments has risen in recent years, climbing from 7.8% in 1990 to 12.1% in 2020. Only in 2002 did town debt payments account for a larger share of total spending in the available data. This recent increase has occurred despite what were in 2020 and prior years relatively low interest rates. Since then, interest rates have risen, making these debt expenses an issue to watch.

In addition, towns have increased the share of their budgets going to fire and emergency medical services (EMS) from 10.9% in 1990 to 13.1% in 2020. That may reflect, at least in part, trends we have highlighted in other [recent research](#): an aging population leading to more medical emergencies as well as challenges in finding firefighters and EMS workers who are willing to work on a part-time, hourly, or volunteer basis – the staffing model favored by towns given their low call volumes and small budgets. In response, some towns have begun exploring partnerships with other local governments to help deliver these services.

Meanwhile, towns have modestly decreased the share of their budgets going to law enforcement from 3.9% in 1990 to 3.2% in 2020. Though notable, the drop is less significant given that towns generally rely on the county sheriff's department or other entity for law enforcement.

### SOME TOWNS BUILD UP BALANCES

Most towns in Wisconsin do not report to the state any balances they may hold in their accounts, limiting the value of these data. Yet of the 151 towns, or roughly 12%, that reported end of year fund balance data for 2013 through 2020, total balances for the group rose 30.3% over the eight-year period, from \$176.7 million to \$230.4 million (see Figure 8).

That is a positive trend, since those balances represent sums that in at least some cases could be used to make debt payments, address pressing capital needs, limit short-term borrowing, or strengthen reserves. However, readers should not jump to too many conclusions about the balances.

First, the data covers only a small share of the towns and most of the balances come from an even smaller number of communities – just 20 relatively large towns account for more than half of the statewide reported balances for towns. These towns are more urbanized and densely populated than other towns statewide and therefore are likely a poor proxy for understanding the circumstances of other more rural communities.

In addition, the data cover the general fund and any other governmental funds the towns have and combine funds that are restricted for a specific purpose with unassigned reserves that are truly available to meet new needs. For example, some towns might simply be reporting funds borrowed for construction projects that will be spent relatively soon and do not represent any long-term improvement in the town's finances.

### CONCLUSION

A legacy of settlers from New England, Wisconsin's towns represent a small-scale version of local government that is close to community residents but also often lacks economies of scale. Over the past generation, towns have become more dependent on property taxes to provide local services even as challenges have arisen to their traditional workforce of local volunteers or relatively low-paid workers. For example, even though towns are devoting more of their



budgets to fire and EMS services, many are still facing staffing shortages for these departments and are considering contracting with larger neighboring municipalities for these services, often at a higher cost.

As towns rely more on the property tax, they are more exposed to the impact of state limits on local property tax increases. Those impacts are likely even greater for towns than other local governments given their lower levels of new construction – the metric used to set the state caps for communities.

Given the state exception allowing property taxes to be increased for debt payments, it is perhaps not surprising that town borrowing and debt payments have risen in recent years, crowding out other priorities within their budgets. This poses a potential threat moving forward as interest rates begin to rise.

Meanwhile, towns are devoting a much smaller share of their spending to roads, their traditional main priority. 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.

For now, federal pandemic aid will provide some support for towns but communities must commit those funds by the end of 2024. Going forward, policymakers may wish to consider options to help ensure towns can meet community needs despite their financial and workforce challenges. Potential solutions include help for towns that seek to share or consolidate services with other local governments, find new sources of revenues, or experiment with other ways to gain greater efficiencies. The benefits could be felt not only in those communities but across the entire state.

