ALTERNATIVE REVENUE SOURCES

Michael Ley, CMC, Partner
Vicki Hellenbrand, CPA, Partner

League of Wisconsin Municipalities Annual Conference
October 30, 2003
• Frozen shared revenue appropriations from 1995 – 2002 forced municipalities to use property taxes from higher property values, charges and fees, and service reductions to balance their budgets.

• 2003 and 2004 cuts in shared revenues and property tax limit pressures are further increasing pressures for alternative revenue sources.
Magnitude of Shared Revenue Reductions: 2003 – 2004

In Total

• Shared revenue appropriations were reduced $90 million from 2003 to 2004, from $1,039.7 million to $949.7 million, or 8.6% for all cities, villages, towns, and counties
Magnitude of Shared Revenue Reductions: 2003 – 2004 (Cont.)

- For Cities and Villages ($ millions)

<table>
<thead>
<tr>
<th></th>
<th>Cities</th>
<th>Villages</th>
<th>Total Cities &amp; Villages</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>679.3</td>
<td>84.5</td>
<td>763.8</td>
</tr>
<tr>
<td>2004</td>
<td>634.7</td>
<td>76.5</td>
<td>711.2</td>
</tr>
<tr>
<td>% Reduction</td>
<td>6.6%</td>
<td>9.5%</td>
<td>6.9%</td>
</tr>
</tbody>
</table>

Source: Wisconsin Department of Revenue and Legislative Fiscal Bureau
Revenue Sources of Wisconsin Cities and Villages in 2001 (Total $6.4 billion)

- Taxes 26.6%
- Intergovernmental Revenues 21.0%
- Public Charges for Services 13.7%
  (Sewer service fees 6.5%)
  (Other fees & charges* 7.2%)

*Parking, stormwater, airport, recycling, mass transit, municipal gas, zoos, museums, swimming pools and golf courses
Revenue Sources of Wisconsin Cities and Villages in 2001 (Total $6.4 billion) (Cont.)

- Long-Term Debt 12.4%
- Utility Revenues 11.4%
- Intergovernmental Charges 4.7%
- Interest Income 3.3%
- Licenses & Permits 1.3%
Revenue Sources of Wisconsin Cities and Villages in 2001 (Total $6.4 billion) (Cont.)

- Fines & Forfeitures 0.8%
- Other 4.7%
  100%

Source: Wisconsin Department of Revenue
Alternative Sources of Fee and Charges Revenue

- User Fees
- Special/Area/Street & Arterial Assessments
- Developer Fees/Exactions
- Impact Fees
- Stormwater Fees/Utility
- Direct Billing of Public Fire Protection
Assessments

- Statute 66.07
- Allows for assessments to property owners for the “cost of installing or constructing any public work or improvement”
- Must demonstrate benefit received
Assessments

• Include direct and indirect costs
  – Construction costs
  – Damages
  – Capitalized interest
  – Legal (not related to challenges)
  – Engineering/architectural
  – “reasonable charge for the services of the administrative staff”

• Costs come in lower...refund
Exactions

WI Statute Chapter 236

• Broad authority to impose exactions on developers
• Exactions are a condition of development approval

• 236.13(2)(a) - “Governing body, as a condition of approval, may require that the subdivider make and install any public improvements reasonably necessary”
Traditional Exactions

- Dedication of land
- Payment of fees in lieu of dedication
- Installation of on-site improvements
- Negotiated dedications of land or cash payments
Issues with 236

- Doesn’t really include *off-site* improvements
- Focuses on subdivisions vs. all development
- Payments at plat approval
Utility Establishment

- Utilities always have money....
- New focus on utilities as a funding mechanism
  - Budget woes - expenditure restraint, past talk of levy limits
  - Looking to match fees to the entities that cause the costs
  - New mandates – increases in expenditures
Common uses:

- Water, Wastewater, Electric
- Newer utilities:
  - Stormwater
  - Recycling/garbage
  - Transportation
  - Fiber Optic/telecommunications
Stormwater Utilities

- Over 20 established utilities in WI
- Popular due to new EPA regulations
- Common threads:
  - Spending time on public education
  - Several going to referendum
    - Some not successful
    - Arguments coming from business community vs. residents
    - Non-profits are affected but may not make the biggest appeal against it
Getting Started

• Determine your issues:
  – Loss of shared revenue
  – Unfunded mandates
  – Increased cost
  – Impacts of growth
  – Equitability of fees – those who contribute to the problem pay for the problem
Determine Your Costs

- What is the cost of Stormwater operations – forecasted for 5 years
  - Annual operation costs (street sweeping)
  - Annual maintenance costs
  - Capital costs
  - Annual debt service
  - New costs to meet regulations

- What would you want to recover via user fees?
Considerations

- Could consider a go slow approach
  - Move certain costs over
    - Unfunded mandates
    - New capital projects
    - Current maintenance projects
- Takes time...start early
- Public education is key, involve businesses/nonprofits on a task force
- User fees must be equitable, but try to avoid a too complicated system
User fees

• Billed on utility bills
• Based on impervious area
• Often include credits for on-site improvements
• Residents typically pay less
  – Average: Approx. $45 per year
  – Low $10 – high $100
Other Utilities

• Telecommunications – mostly communities with an electric utility
  – Some offer Cable TV and other services

• Transportation – not yet in WI, is happening in other states

• Garbage/recycling – user fees on the utility bills – doesn’t have to be a utility