



Comparing State and Municipal Revenue Sources

Curt Witynski, Deputy Executive Director, League of Wisconsin Municipalities

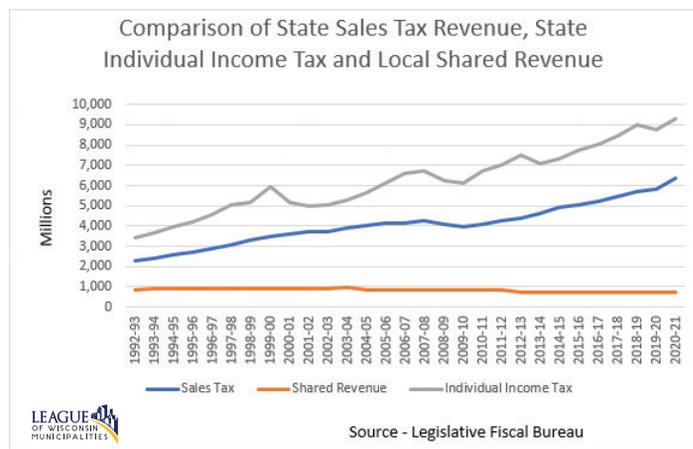
Unless you are a tax policy nerd, reading this article may put you to sleep but it will also show critical differences between how the state of Wisconsin and its municipalities are funded. State government revenues are diverse and grow with the state's economy, while municipal revenue sources lack these critical qualities. Read on to learn more.

What are the three largest sources of revenue for state government in Wisconsin? The state has two major funds – the general fund and the transportation fund.¹ The general fund is by far the larger of the two. General fund tax collections are used to fund all state operations other than transportation, including most state agencies, the UW System, local government aids, the state prison system, and the Medicaid program. This article focuses on general fund revenue sources.

In 2019-20, Wisconsin general fund tax collections totaled \$17.5 billion. While many different taxes provide revenues to the general fund, the three major general fund taxes are the individual income tax, the general sales and use tax, and the corporate income/franchise tax. In total for 2019-20, these three taxes represented 92.3% of general fund tax collections.²

In 2019-20, the individual income tax totaled \$8.7 billion. This amount comprised 50% of total general fund tax collections in 2019-20. Sales and use tax collections totaled \$5.8 billion that year, comprising 33.3% of the total, and corporate income/franchise tax collections totaled \$1.6 billion, or 9%.³

A closer look at the state sales tax. Wisconsin's sales tax rate has been 5% since 1982. Without changing the tax rate, the state has nevertheless experienced a steady growth in sales tax revenues year after year as the state's economy grows. The only two years that Wisconsin saw a reduction in state sales tax revenue was during the great recession, 2008-2009 and 2009-2010. In 2009-2010 total sales tax revenue was \$3.9 billion. Ten years later the state collected almost \$2 billion more in sales tax revenue without increasing the tax rate. The average annual growth rate in non-recession years (2010-11 through 2018-19) has been 4.2%. Revenue from the sales tax constituted approximately one-third of total general fund revenues for most of that period.⁴



Does the state collect any property taxes? No. While the property tax is the largest source of combined state and local tax revenue in Wisconsin, the state no longer collects any for its own use. Prior to 1900, the property tax was the state government's largest tax. As the state's economy has diversified, the state government has come to rely on other tax sources and has established various aid programs to reduce local reliance on the property tax. The last remaining state property tax was the state forestation tax, which was repealed by 2017 Act 59, but was previously levied at a rate of \$0.17 per \$1,000 of value, raising about \$98 million annually.⁵

What are the three largest sources of revenue for municipal government in Wisconsin? Property taxes, public charges for services, and intergovernmental revenues like shared revenue and transportation aids, comprised 60.0% or more of total revenues for cities and villages in 2019. For each, taxes (almost exclusively property taxes) represented the largest revenue source for a community's general fund, 36.7% for villages, and 30.8% for cities. Public charges for services were the second largest revenue source for villages (17.1%) and cities (15.7%). This includes fees charged for a variety of public services, such as parking, garbage collection, parks and recreation, golf, and other user charges. Intergovernmental revenues were the third largest source of revenues for villages (9.3%) and cities (14.5%). This includes direct state aid programs such as shared revenue, expenditure restraint, and general transportation aids.⁶

The property tax is the only major source of tax revenue for cities and villages in Wisconsin. According to the U.S. Census Bureau, in 2017-18, the property tax made up 68.2% of all local government tax revenues in Wisconsin and accounted for 34.4% of all local government revenues in the state.⁷

In 2020-21, cities, villages, and towns levied \$3.11 billion in property taxes. In 2010-11, cities, villages, and towns levied \$2.42 billion. On average, between 2010-11 and 2020-21, the total city, village, and town levy increased by 2.53% annually. Source: Wisconsin Department of Revenue.

Municipalities do not control their key revenue sources.

Municipalities in Wisconsin have little control over two of their top three sources of revenue for paying for municipal operations. In general, municipalities face tight property tax limits and can only raise taxes for operations by the percentage increase in property values due to new construction occurring within their borders. The average rate of net new construction across the state has not exceeded 1.7% since 2008 and went as low 0.7% in 2011 and 2012.

The state determines whether and how much to fund intergovernmental revenues. Funding levels for all state aid programs other than general transportation aids have been cut or stagnant over the last decade.

In contrast to Wisconsin, cities in the neighboring states of Iowa, Minnesota, and Illinois have more diverse revenue sources to rely on to pay for local services and capital projects, including local option sales taxes.

Conclusion. The state has a more diverse tax revenue stream than cities and villages. Also, the state’s sales tax grows with the economy and automatically produces a steady annual growth in revenue (4.2% between 2010 and 2019). Municipal revenue sources on the other hand are narrow and tightly controlled by the state and have not experienced steady and dependable annual growth.

About the Author:

Curt Witynski is the League’s Deputy Executive Director. After managing the League’s lobbying program for 22 years, he has handed that responsibility over to Toni Herkert. Curt joined the League staff as assistant legal counsel in 1987. Before becoming Deputy Executive Director, Curt served as the League’s Legal Counsel for eight years. Contact Curt at witynski@lwm-info.org

1. The Transportation Fund provides the largest source of funding for the state’s transportation programs, which included General Transportation Aids for local governments. Gross annual Transportation Fund revenue (including transfers from other funds) exceeded \$2.1 billion in the 2019-20 fiscal year. The two primary sources of revenue are from the motor vehicle fuel tax and vehicle registration fees, which together make up 88% of total revenues to the fund. Legislative Fiscal Bureau Informational Paper on Transportation Finance, January 2021.
 2. Legislative Fiscal Bureau Informational Paper on General Fund Tax Collections, January 2021.

3. Legislative Fiscal Bureau Informational Paper on General Fund Tax Collections, January 2021.
 4. Legislative Fiscal Bureau Informational Paper on the Sales and Use Tax, January 2021.
 5. Legislative Fiscal Bureau Informational Paper on Property Tax Level in Wisconsin, January 2021.
 6. Legislative Fiscal Bureau Informational Paper on Municipal and County Finance, January 2021.
 7. Legislative Fiscal Bureau Informational Paper on Property Tax Level in Wisconsin, January 2021.

Inflation Impacting Ability to Budget



In March 2022, we approved a purchase contract for a Vac Truck. Last week we were informed that the price has increased \$31,000 and the truck will be ready next week.

With levy limits and other budget constraints, how can municipalities plan for equipment purchases in a fluctuating market? Is there something that can be done legislatively to help combat these increases or allow an adjustment to the levy limit to accommodate the current economy?

Brenda Ayers, WCMC | City Administrator, City of Lodi

And, if you haven’t yet, read “Inflation Adds to Existing Budget Pressures” in the July 2022 *The Municipality*, for additional real-life examples.

★ Are levy limits, inflation, and flat shared revenues hurting your ability to serve your citizens? Please tell us about it. The League needs these stories for its advocacy campaign. Send Jerry Deschane, the League’s Executive Director, the details (jdeschane@lwm-info.org).