RETHINKING REVENUES

A NATIONAL PERSPECTIVE ON FUNDING COUNTIES

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Executive Summary

Rethinking Revenues

Due to a shift in state spending priorities to corrections, K-12 education, and Medicaid, as well as spending cuts due to state budget deficits in both the 2009-11 and 2011-13 biennia, state funding of county services fell from 46% of total revenues in 1987 to 26% in 2019. This shift put pressure on county property taxes despite widespread adoption of the county sales tax. Property taxes funded 41% of county services in 2019, up from 34% in 1987.

After 2008, counties often struggled to generate sufficient revenues to fully fund services. This was largely due to strict property tax limits imposed by the state beginning in 2006 combined with state aid cuts. For over a decade (2008-19), county spending rose less than 1% per year. Adjusted for inflation, spending fell 7% during these years.

The move away from state funding was part of a national trend, with the share of state services funded by state government dropping in 38 states during 1987-2017. However, Wisconsin's funding decline was third largest and its increased use of the property tax was fourth largest among the states.

The lack of significant revenue sources other than property taxes and fees was a major factor in the increased use of the property tax and in the inflation-adjusted spending cuts. While Wisconsin counties can impose a 0.5% sales tax – 68 counties currently avail themselves of this option – the allowable rate is second lowest among 31 states that allow this tax. Further, many states permit counties to use a variety of other taxes and fees, which can ease pressure on the property tax.

The impact that state aid and other revenue sources have on property taxes is borne out in the funding models in states that provide services similar to Wisconsin. For example, in North Dakota, significantly higher state aid led to 2017 county property taxes 11% below Wisconsin's.

The ability to use other revenues, particularly sales taxes, also impacted property taxes. Contrasting approaches were used in Ohio and Minnesota, where state funding of counties was nearly the same as in Wisconsin. Ohio counties are allowed to impose a sales tax up to 2.25%, which helped drive county property taxes 42% below Wisconsin's. Minnesota counties used the sales tax less than Wisconsin counties, pushing property taxes 13% above Wisconsin's.

Finally, New York is a state where high sales tax use allows for less state funding, but also less reliance on the property tax. With an allowable sales tax of up to 4.75%, county property taxes were 31% less than in Wisconsin, despite significantly less aid from the state.

County funding models can be evaluated in many ways. Property taxes have been a focus of Wisconsin lawmakers for many years and provide one lens in which to think about county funding. However, property taxes should not be the sole focus in determining how counties generate revenue to provide essential services. Ideally, county revenue streams would be sufficient to fund the rising cost of county services and would be reliable, balanced, and minimize the financial burden on those least able to pay. Wisconsin's current system does not meet all those criteria.

Rethinking Revenues

A National Perspective on Funding Counties

Dale Knapp, Director

Wisconsin has a long history of providing most public services at the local level. In early statehood, those services were funded locally, primarily with a comprehensive property tax on land, buildings, and most personal possessions.

Funding of local services changed somewhat in 1911 when Wisconsin created the nation's first income tax. The new tax was paired with a reduction in local property taxes. Most of the money the state collected from the income tax was returned to local governments to replace those lost property taxes, giving birth to "shared revenues."

Thus began Wisconsin's arrangement of using state taxes to help fund state-mandated public services that are provided locally. By the 1960s, state funding had grown to about 50% of local budgets (including K-12 schools).

Over the past 30 years, that funding model has shifted, particularly for county governments. Where state tax dollars once funded nearly half the cost of county services in Wisconsin, they now cover only about a quarter of county expenses.

This raises at least three important questions. First, what were the driving factors behind the funding shift? Second, what were the effects? And third, is Wisconsin's current funding model optimal for providing important county services?

These questions might be addressed by taking heed of Justice William Brandeis' words in 1932 that "a single courageous state may, if its citizens choose, serve as a laboratory; and try novel social and economic experiments without risk to the rest of the country." In the context of this study, the state-county financial relationship in other states can provide unique insights into Wisconsin's funding model and clues as to how that model might be improved.

Before jumping into finances, though, it is helpful to fully describe the county relationship with state government in Wisconsin and outline the services Wisconsin counties provide.

WISCONSIN'S STATE-COUNTY RELATIONSHIP

When Wisconsin became a state in 1848, it had 48 counties, with the role of the county varying from county to county. Some served as the providers of local services. Others were the administrators of state services, with towns and municipalities providing the local services.

The 1848 state constitution required the Legislature to "establish but one system of town and county government, which shall be as nearly uniform as practicable." After several court cases, the role of counties as the administrative arm of the state was codified, with towns and municipalities serving as the primary provider of local services.

Today's Counties

Today, counties provide to their residents a wide range of services – most of them state mandated services administered locally by the county. The largest share of every county budget pays for a variety of social and human services programs, including: eligibility determinations for FoodShare, Medical Assistance, and childcare programs; child protective services; mental health, alcohol, and drug addiction treatment programs; youth justice programs, including out-of-home

Wisconsin counties serve as the administrative arm of the state for many programs. Historically, this was reflected by a state/county funding partnership.

services; and long-term support for the elderly and the disabled.

Counties also maintain a variety of records mandated by state law, including those relating to births, deaths, marriages, and property purchases.

There are also county services that are both state and local in nature. For example, while county sheriffs primarily enforce state law, they also enforce various county ordinances. Public works departments maintain state and interstate highways, as well as county highways.

Finally, a few services are strictly local, such as creating and maintaining county parks and trails.

This list is just a portion of the services counties provide to their residents, but it gives a sense of the balance between services administered on behalf of the state and strictly local services.

A RECENT HISTORY OF COUNTY FUNDING

Historically, it was the state-county relationship that drove the structure of county revenues. To help counties pay for the mandated services, the state provided revenues in the form of aids that counties were expected to supplement with local revenues, typically property taxes and fees.

In 1987, for example, state aids, including shared revenue, road aids, and various social service aids, comprised 46% of total county revenues (see Figure 1). Counties raised much of the remainder with local taxes, fees, and other miscellaneous revenues. Property taxes accounted for 34% of total revenues and fees 11% of the total. Other taxes, mostly forest crop and woodland severance taxes along with the county share of real estate transfer fees, were 3% of revenues. Miscellaneous local revenues accounted for 4% of the total and the federal government 2%.

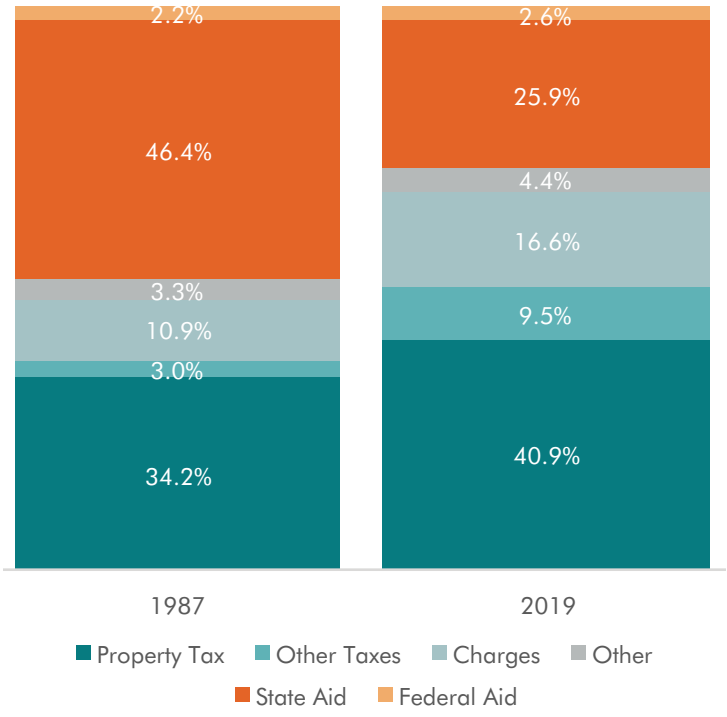
Over time, state aid to counties did not keep pace with service costs. While the state share of funding fell from 1987 to 2000, the sharpest declines occurred during 2000 to 2019. In 2019, state aid to counties was 5% less than in 2000 and 20% less than in 2008.

Why the Aid Cuts?

There are multiple explanations for reduced state aid to counties, but two stand out: (1) a change in state priorities during the 1990s and again after 2004, and (2) large state budget deficits in 2009-11 and 2011-13.

Changing Priorities. In the 1990s, state funding priorities shifted toward corrections and K-12 schools. During that decade many states, including Wisconsin, passed "tough on crime" laws. Two impacts of these laws was that Wisconsin's prison population nearly tripled and corrections spending quadrupled. As a share of state spending, corrections more than doubled from 3.1% 1990 to 6.3% in 2000.

FIGURE 1: Wisconsin County Revenues Mix Shifts
1987 and 2019



Source: Wisconsin Department of Revenue, County and Municipal Revenues and Expenditures

In the mid-1990s, to combat rising property taxes, the state committed to funding two-thirds of K-12 school costs, a move that required the state to add more than $1 billion to the school aid allocation. As school costs continued to grow during the late 1990s and early 2000s, additional state dollars were directed to K-12 education to fund the commitment.

After 2004, Medical Assistance (Medicaid) costs began rising rapidly. During the early 2000s, Medicaid accounted for about 9% of state spending. By 2019, that share had risen to 17%.

The impact of these priority changes on the state budget was significant. Corrections, school aids, and Medicaid combined claimed 41% of state spending in 1990. By 2019, they claimed 59%, resulting in fewer state tax dollars available to fund other services, including state aid to counties.

Budget Deficits. Due partly to the 2007-09 recession, the state faced significant deficits heading into the 2009-11 and 2011-13 biennia. Among other reductions to help balance budgets for those years, the state cut aids to local governments. For counties, that meant reductions of about 13% in the 2010-11 and another 9% in 2012-13. These cuts reduced the state share of county funding from 33% in 2009 to 27% in 2013.

County Response

With fewer dollars coming from the state, counties had few options to pay for the required services they were providing. The three main revenue options for counties are property taxes, sales taxes, and fees. These accounted for 87% of locally-generated revenues in 2009.

Between 1987 and 2019, state funding of county services declined from 46% of the total to 26%. Much of the decline occurred between 2009 and 2019.

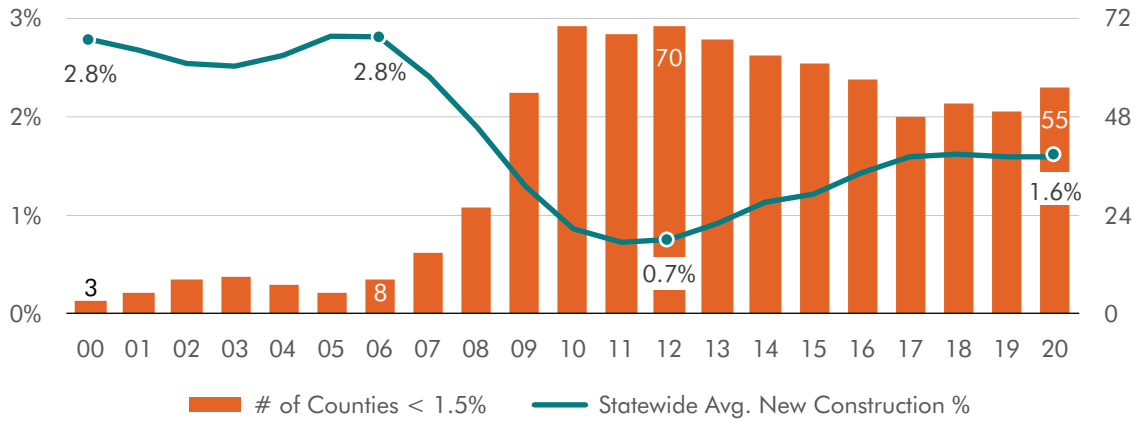
Sales Taxes In Use. In 2009, 61 of the state's 72 counties were using the 0.5% county-option sales tax. For them, this tax was already funding services and was not available to provide additional revenues to offset aid cuts.

Limits on Property Taxes. Counties also faced roadblocks in using property taxes to replace lost state aids. Since 2006, increases in property tax levies for counties (and municipalities) have been tied to property value growth from new construction (see "Comparing County Property Tax Limits" on page 12). While the original law guaranteed a 2% levy increase if the rate of new construction was less than 2%, the 2011-13 state budget eliminated this guarantee beginning with property tax levies for 2012.

Since the guarantee was eliminated, net new construction in the state averaged 1.3% (see Figure 2), which was less than average inflation (1.6%). Moreover, the vast majority of counties had

FIGURE 2: New Construction Growth Modest

Statewide Average Net New Construction (NNC) and Number of Counties With Less Than 1.5% NNC



With state aids to counties cut and property taxes limited by state law, inflation-adjusted county expenditures declined 7% during 2008-19.

growth of less than 1.5% during those years (orange bars in Figure 2). In 2020, 30 of the state's 72 counties had new construction percentages of less than 1%.

The levy limit greatly slowed county property tax growth. Since elimination of the guarantee, county levies rose an average of 1.8% per year, or just 0.2% annually after adjusting for inflation.

Service Impacts. With aids cut and property taxes growing slowly, county expenditure growth slowed. During 2008-19, county expenditures rose 10%, or less than 1% per year. Adjusted for inflation, county spending declined 7% during this period. In other words, since 2008, counties have reduced services in some areas.

While the aid cuts significantly slowed county expenditure growth, they also altered how county services are funded. Recall that the state funded 46% of county spending in 1987. By 2019, that percentage had fallen to 26%. As a result, the county share of funding grew from 51% in 1987 to 71% in 2019.

National Context

To put Wisconsin's experience in a national context, the time period changes slightly. While the U.S. Census Bureau collects data[1] on county finances annually, it is only in years ending in "2" or "7" that the bureau collects financial information from all counties. Thus, the time period examined shifts to 1987-2017.

Wisconsin's long-term move away from state funding of counties since 1987 was part of a national pattern. Census Bureau data show that across all states, the share of county funding coming from state governments declined 3.4 percentage points during 1987-2017, from 31.8% to 28.4%.

Looking at states individually, 30 of 48 states[2] saw the state share of county revenues decline, with reductions ranging from less than one percentage point in four states to more than 10 percentage points in Minnesota, New Jersey, and Wisconsin.

Among states with large shifts away from state funding, the approach to filling those budget gaps varied. In Wisconsin, a combination of sales taxes and property taxes replaced lost state aid. In 1987, only a handful of small rural counties had adopted the sales tax. By 2017, 64 of 72 counties were using it. The sales tax share of county funding rose from less than 1% in 1987 to 6.4% in 2017.

However, sales taxes could not fully replace the lost aid, resulting in property taxes picking up part of the shortfall. The property tax share of county revenues climbed from 20.7% in 1987 to 33.0% in 2017. During this period, Wisconsin's increased use of the property tax was among the highest nationally. The state's 55% increase in county property taxes per $100 of spending was fourth largest nationally.

Other states used different approaches. For example, Minnesota counties filled their state funding gap primarily with additional fees, though the property tax share rose as well. Property taxes per $100 of spending increased 13% there.

In Ohio, where state funding fell 7.9 percentage points, a combination of sales taxes and fees filled the gap. Use of these funding sources allowed for a slight decline in property taxes per $100 of spending despite reduced state aid.

REVENUE SOURCES & USE NATIONALLY

Three funding sources are used in 93% of counties across the United States: property taxes, fees, and state aid. A fourth, federal aid, helped fund services in 70% of counties nationwide in 2017.

Other sources of revenue depend on individual state authorization and are used in fewer counties. For example, 31 states permit counties to impose a general sales tax. As a result, just under 1,700 of

1 U.S. Census Bureau government finance database housed at the Atkinson School of Management at Willamette University.

2 Connecticut and Rhode Island do not have county governments.

Table 1: County Sales Tax Rates
Maximum Allowable Rates, 2020

State	Max Rate	Notes
Alabama	5.00%	
Alaska	5.00%	
Arizona	2.00%	
Arkansas	2.00%	
California	0.25%	
Colorado	6.50%	
Florida	1.50%	
Georgia	3.00%	
Illinois	1.75%	
Iowa	1.00%	Shared with muni's
Kansas	2.00%	
Louisiana	5.00%	
Minnesota	0.50%	
Missouri	2.13%	
Nebraska	0.50%	Only two counties use it; applies to sales outside a muni with a tax
Nevada	1.53%	For special purposes
New Mexico	2.00%	
New York	4.75%	Most counties share a portion of proceeds with municipalities and/or school districts
North Carolina	2.25%	Most at 2%
North Dakota	3.00%	
Ohio	2.25%	
Oklahoma	3.00%	
Pennsylvania	2.00%	Only allowed in Alleghany (1%) & Philadelphia (2%) counties
South Carolina	1.00%	Plus several specific purpose taxes
Tennessee	2.75%	On first $1,600 value for individual item
Texas	2.00%	Most impose 0.5%
Utah	5.00%	
Virginia	1.00%	Plus add-ons for specific purposes
Washington	1.00%	Plus add-ons for specific purposes
Wisconsin	0.50%	
Wyoming	2.00%	

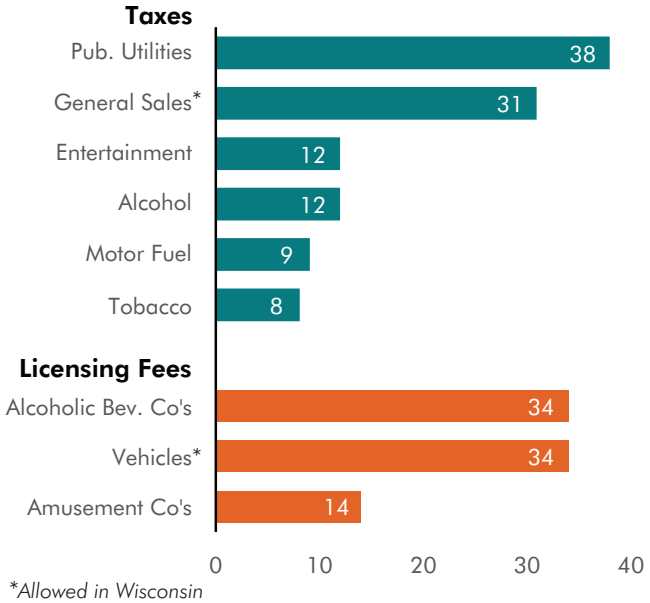
Between 1987 and 2017, Wisconsin's increased use of the property tax to fund county services was fourth highest nationally.

3,029 counties nationwide generate revenue from this tax. Table 1 lists these states and shows the maximum allowable rates in each. Wisconsin's 0.5% rate is among the lowest nationally.

Three states – Indiana, Kentucky, and Maryland – authorize a local income tax to support county services. Other taxes used in some states include those on public utilities (38 states, see Figure 3), alcoholic beverages (12 states), entertainment (12 states), motor fuel (9 states), and tobacco (8 states).

Licensing taxes or fees generate county revenue in some states. Vehicle license fees (sometimes

FIGURE 3: Alternative County Revenues Use
Number of States Allowing Counties to Impose Various Taxes and Fees



*Allowed in Wisconsin

Wisconsin is one of 31 states that allows counties to impose a general sales tax. At 0.5%, Wisconsin's allowable rate is tied for second lowest in the nation.

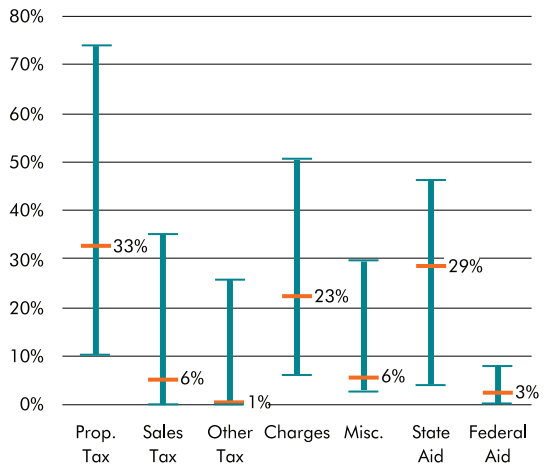
called wheel taxes) are used in 34 states. Licensing fees on businesses that manufacture, import, wholesale, or retail alcoholic beverages are used in 34 states, while licensing fees on amusement-type businesses are allowed in 14 states.

Of the taxes and fees listed above, Wisconsin counties can generate revenue from two: a general sales tax and a wheel tax.

Revenue Mix Differences

The use of various revenue streams differs from state to state. State aid to county government provides a good example. While all states provided aid to county governments in 2017, it varied from just 4% of total county revenues in Georgia but 46% in Pennsylvania (see Figure 4). In Wisconsin, state aids accounted for 29% of county funding in 2017, ninth highest among the 48 states studied.

FIGURE 4: County Rev. Mix, Wis. vs. Elsewhere
Highest and Lowest Share in 48 States; Wisconsin Share in Orange, 2017



The use of property taxes was more varied. Property taxes accounted for just 10% of revenues in Kentucky but 74% in Maine. Wisconsin counties relied on the property tax for one-third of their revenues, 15th highest nationally.

The third universal funding source is fees collected for various services. In North Dakota, fees accounted for just 6% of revenues; in Mississippi they were 50% of all county revenues. Wisconsin ranked in the middle of states, with fees generating 23% of all county government funds.

Funding Tied to Services?

Often, the mix of county revenues is tied to either the amount or the type of services provided. In 2017, in states where counties provided the fewest services as measured by per capita expenditures, counties relied less on state aid; instead, counties funded their services primarily with local sources of revenue. On average in these states, local taxes and fees comprised 81% of total revenues, with state funding accounting for 16%.

By contrast, in states where counties provided a greater amount of services, state government tended to assist more in paying for those services. On average, these states provided 29% of county revenues, with local taxes and fees covering 69%.

Similarly, the types of services a county provides can impact funding and is illustrated in two examples. There are 11 states where hospital spending accounted for more than 20% of county expenditures in 2017. With county hospitals funded largely by fees charged to patients or insurance companies, fee revenues in these states accounted for a much greater share of county revenues than in states without county-run hospitals.

There are also eight states where education spending accounted for more than 20% of county spending. Education, particularly K-12 education, is typically funded with significant amounts of state aid. As expected, these states funded a much greater share of county revenues compared to other states.

A variety of factors determine how much states are willing to fund county services. However, a statistical analysis of per capita spending in a variety of areas shows that state funding tends to be higher in states where counties spend more on

education, public welfare, highways, or judicial services.

COMPARING WISCONSIN'S MODEL

Wisconsin is unusual in that, as of 2017, it was one of only nine states[3] in which counties administered major state social service programs such as SNAP and SSBG.[4] These services fall under the public welfare umbrella in the Census data. Wisconsin is also the only state in which counties maintain state and interstate highways.

Given that funding is often tied to services, the states that require counties to administer state social service programs are ideal comparisons to Wisconsin's funding model. However, in three of the states – New Jersey, North Carolina, and Virginia – education spending is significant, accounting for more than 20% of county expenditures. Because state aid tends to be much higher in "education states," these three states are excluded from the analysis.

There are a variety of ways one might evaluate funding models. For example, state officials might prefer a model that is the least regressive; i.e., the taxes and fees that fund county services take a greater share of income from high-income households and a smaller share from low-income households. Alternatively, officials may look at the stability of revenue streams through economic booms and busts.

3 Colorado, Minnesota, New Jersey, New York, North Carolina, North Dakota, Ohio, Virginia, Wisconsin. Source: National Association of Counties.

4 Supplemental Nutrition Assistance Program (formerly called Food Stamps), and Social Service Block grants. Both provide assistance to low-income families.

State aid to counties tends to be higher in states where counties spend more on education, public welfare, highways, or judicial services.

In Wisconsin, state officials have focused on reducing or limiting the growth of property taxes for more than 25 years. That is the lens through which funding models in these states are examined. First, the funding models in each state are compared and contrasted, with particular focus on state aid, property taxes, and sales taxes.

State Funding

In Wisconsin and the other five non-education "social service states," state aid was higher on average than in other states (28.3% vs. 19.8%, see Table 2). Among these six states, state funding was smallest in Colorado and New York, accounting for 21% of revenues. This level of state funding might be expected in Colorado due to its low spending ($898 per capita). However, it is somewhat unexpected in New York where counties spend significantly more ($2,172 per capita).

At the high end of the state aid spectrum was North Dakota, where state dollars accounted

Table 2: County Funding Models, Property Tax Use Varies

Revenue Shares and Property Taxes Per $100 of Spending

	Taxes					Local	State	Fed.	Prop. Tax/
State	Property	Sales	Other	Charges	Misc.	Total	Aid	Aid	$100 Spend.
Colorado	37.1%	12.6%	3.5%	14.5%	5.9%	73.6%	21.3%	5.1%	$40
New York	19.2%	31.7%	1.6%	18.0%	7.4%	77.8%	21.4%	0.9%	$22
Minnesota	36.2%	0.9%	1.2%	23.8%	7.2%	69.2%	24.5%	6.2%	$36
Wisconsin	33.0%	5.7%	0.7%	22.7%	6.1%	68.2%	28.9%	3.0%	$32
Ohio	19.3%	15.8%	2.0%	24.9%	7.9%	69.9%	29.1%	1.0%	$19
North Dakota	31.0%	4.6%	3.1%	6.3%	8.3%	53.3%	44.5%	2.1%	$28
Average	29.3%	11.9%	2.0%	18.4%	7.1%	68.7%	28.3%	3.0%	$30
All Others	32.9%	6.5%	5.8%	23.4%	8.3%	77.0%	19.8%	3.3%	$35

Wisconsin and Ohio counties are similar in per capita spending and state aid. The main difference between the two is Ohio's higher sales taxes keeps property tax use low.

for 45% of county revenues. By contrast, Wisconsin counties received 29% of their revenues from the state, the same as Ohio counties. State aid to Minnesota counties accounted for 25% of revenues.

The variation in state funding allows for a natural grouping of the states. Colorado and New York use a low state aid model. Minnesota, Wisconsin, and Ohio employ a moderate aid model. North Dakota employs a high aid model.

Local Funding

While state funding generally drives how much counties must raise locally, each of the states studied here chose a slightly different local revenue mix in 2017.

Low Aid States. In 2017, a funding model in which state aid was relatively low was used in Colorado and New York, with the two states approaching local funding quite differently.

While both states allow counties to impose a general sales tax, rates are higher in New York. As a result, the sales tax funded nearly a third of revenues in New York compared to 13% in Colorado. The property tax funded less than 20% of New York county budgets but 37% of county budgets in Colorado. In other words, New York used sales taxes to make up for less state aid while Colorado used property taxes.

Part of this difference may be due to the fact that on a per capita basis, New York counties spent almost two and a half times more than Colorado counties.

Moderate Aid States. Among the three states in the moderate aid group, state governments in Ohio and Wisconsin funded 29% of county revenues. In Minnesota, that number was 25% due partly to higher federal aid.

Wisconsin and Ohio are interesting in that counties spent about the same per capita ($1,113 and $1,142 per capita, respectively) and state governments funded the same share of revenues. The percentage of revenue generated by fees was also similar. The primary difference between the two states was in the use of property and sales taxes. Wisconsin counties relied on the property tax for a third of their revenues; Ohio counties relied on that tax for less than a fifth of its revenue.

Ohio made up for its smaller use of the property tax by using the sales tax more. Sales taxes funded 16% of Ohio county budgets and just 6% of county budgets in Wisconsin. The reason is that Ohio authorizes a higher sales tax than does Wisconsin (2.25% vs. 0.5%). That said, most Ohio counties impose a sales tax of 2% rather than the 2.25% authorized by law.

Minnesota used a slightly different model that relied less on the sales tax (0.6% of revenues) and more on the property tax (36.2%).

High Aid State. In this group of six states, North Dakota was the only example of a high-aid funding model. North Dakota was different from other states in its minimal use of fees to fund services. The 6% of revenues coming from fees was lowest among all states. Despite the large amount of state aid, the property tax share was only slightly less than the share in Wisconsin counties.

Funding Models & Property Taxes. The funding models described above were evaluated by comparing their impact on property taxes. Under Wisconsin's model, county property taxes per $100 of spending were $32 in 2017. In the other five states, they ranged from $19 to $40 per $100 of expenditures. Three states had relative property taxes that were lower than Wisconsin while two had county property taxes that were higher.

A low-aid state (New York), a moderate-aid state (Ohio), and a high-aid state (North Dakota) each had relative county property taxes that were lower than in Wisconsin. In Ohio, higher sales taxes were used to "buy down" property taxes, which were 41% less than Wisconsin's ($19 per $100 of spending vs. $32). In New York, sales tax revenues were sufficient to both replace the lower state aid (compared to Wisconsin) and buy down

the property tax. County property taxes ($22 per $100 of spending) there were 31% less than in Wisconsin.

In North Dakota, significantly more state aid brought county property taxes ($28) to 11% below those in Wisconsin.

The two states with higher property tax use were Minnesota ($36) and Colorado ($40). Minnesota's state aid share was slightly smaller than Wisconsin's and its use of the sales tax was minimal. As a result, county property taxes there were 13% higher than in Wisconsin.

Colorado counties relied on the sales tax more than Wisconsin counties. However, significantly less state aid and less fee revenue pushed the property tax to $40 per $100 of spending, or 25% higher than in Wisconsin.

Takeaways for Wisconsin. As mentioned in the introduction, a look at funding models in other states provides important perspectives on Wisconsin's current model. On the surface, two features stand out. First, while Wisconsin is similar to 30 other states in allowing a local-option sales tax, the allowable rate here is tied for second lowest. The average allowable rate is about 2.3% compared to 0.5% in Wisconsin. Second, many other states allow more revenue options, such as selected sales taxes on alcohol, tobacco, or public utilities, or licensing fees on specific businesses, particularly those involved in the production, distribution, or sale of alcoholic beverages.

A closer look at five states where county services are most similar to those provided by Wisconsin counties shows how different funding models can impact property taxes. In three of those states, property taxes per $100 of spending were less than in Wisconsin. In two states, higher sales taxes were used to buy down the property tax, in the other state funding was significantly more than in Wisconsin.

In the two states with county property taxes higher than Wisconsin's, it was either a lack of alternative local revenues other than the property tax or significantly less state aid that drove up property taxes.

CONCLUSION

The funding of counties in Wisconsin changed significantly over the past 30 years from a model in which the state funded nearly half of county services to one in which it funded just 26% of those services. The former model recognized that most services that counties provide are state services administered by counties and that funding should be split fairly evenly between the state and counties.

Ideally, county revenue streams would be reliable and balanced, and sufficient to fund the rising cost of county services.

The shift away from state funding was not intentional, but rather a result of changing state priorities. It did, however, have two major impacts. First, it required counties to raise revenues, particularly property taxes, to replace state funding. With few revenue options, the property tax increasingly was relied on to pay for these services. From 1987 to 2017, Wisconsin counties' increased use of the property tax was fourth largest nationally.

Second, with state limits on property taxes, county spending, adjusted for inflation, declined 7% from 2008 to 2019. This decline reflects reduced or eliminated services in most counties.

County funding models can be evaluated on a variety of characteristics. Property taxes have been a focus of state lawmakers for many years and provide one lens in which to think about county funding. However, that should not be the only factor in determining how counties generate revenue to provide essential services. Ideally, county revenue streams would be sufficient to fund the rising cost of county services and would be reliable, balanced, and minimize the financial burden on those least able to pay. Wisconsin's current system does not meet all those criteria.

COMPARING COUNTY PROPERTY TAX LIMITS

Most counties across the country face some type of restriction on the amount of property taxes they are allowed to levy. These restrictions take the form of a limit on the property tax rate, a limit on growth of the property tax levy, or a limit on assessed property values which can indirectly cap property taxes.

WISCONSIN LEVY LIMITS

In Wisconsin, the amount of property taxes counties can levy for operating expenses are capped by state-imposed levy limits. Created in the 2005-07 state budget, these limits tie increases in a county's property tax levy to the growth rate of net new construction in the county. Generally, property taxes used for debt service are exempt from the limits. Counties can exceed the limits via referendum.

As enacted, the law provided a 2% floor. In other words, if net new construction in a county was less than 2%, the property tax levy could still be increased by that percentage. Over the ensuing five years, the floor ranged from 2% to 3.86%.

This guaranteed increase was eliminated in the 2011-13 state budget. Thus, effective with property taxes for the 2012 fiscal year, county levy increases are tied solely to the percentage change in new construction.

Over the past ten years (2011 through 2020), statewide net new construction averaged 1.3%, less than the average inflation rate of 1.7%. However, the state average masks county-by-county variation. Twenty of the state's 72 counties had net new construction average 0.8% or less; in another 13 it averaged less than 1%. In other words, Wisconsin's levy limits are quite restrictive.

LIMITS ELSEWHERE

As mentioned above, most other states impose some type of restriction on county property taxes. Comparing them to Wisconsin's limits can be challenging because not all state property tax systems are the same. Instead, this section gives a broad overview of the limits, compiled from information from the National Association of Counties (NACO) and from a 2020 study by the Lincoln Institute of Land Policy.

According to NACO, counties collect property taxes in 45 states. All but four (Georgia, Hawaii, New Hampshire, and Tennessee) impose some limit on county property taxes. Counties are subject to a property tax rate limit in 34 states, a levy limit in 31 states, a property tax freeze in six states, and assessment limits in 15 states. Some states impose more than one limit on county property taxes.

Rate limits are difficult to assess for several reasons. First, not all states tax property at its full value. A rate of $10 per $1,000 of taxable value in a state that taxes at full value is different from that same rate in a state that taxes at 50% of full value. Second, these limits only impact property taxes when a county is at or near the limit. For example, Oregon's rate limit is $10 per $1,000 of property value. An Oregon county with a rate of $7 per $1,000 can increase property taxes significantly without worrying about the cap. However, a county with a rate of $9.90 per $1,000 has limited ability to increase property taxes because it will hit the rate limit.

Levy limits differ among the states in two important ways: the allowable increase in the property tax levy and how the limits can be exceeded, if at all. In five states, levy limits cannot be exceeded. Twenty-one states are similar to Wisconsin in that the levy limits can be exceeded via referendum. In three states, the limits can be exceeded by a vote of the county board.

Allowable increases vary widely. In at least seven states, new construction plays a role directly in the calculations. All of these states, except Wisconsin, add a factor (either inflation or a set percentage) on top of the new construction factor. For example, Arizona's limit is equal to the rate of new construction plus 2%. Colorado allows levies to increase by the rate of new construction plus inflation.

Among states that do not use new construction as a factor, the allowable increase is typically inflation or a percentage set in state law.

Among states with levy limits, Wisconsin's is among the most strict. One state with similarly restrictive limits is Kansas, which allows counties to increase levies by the inflation rate. At times, that limit has been more restrictive than Wisconsin's new construction limit.

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