



THE CITY OF

**WATERTOWN**

*Opportunity runs through it.*

## Local Government Finance Reform

Mayor Emily McFarland

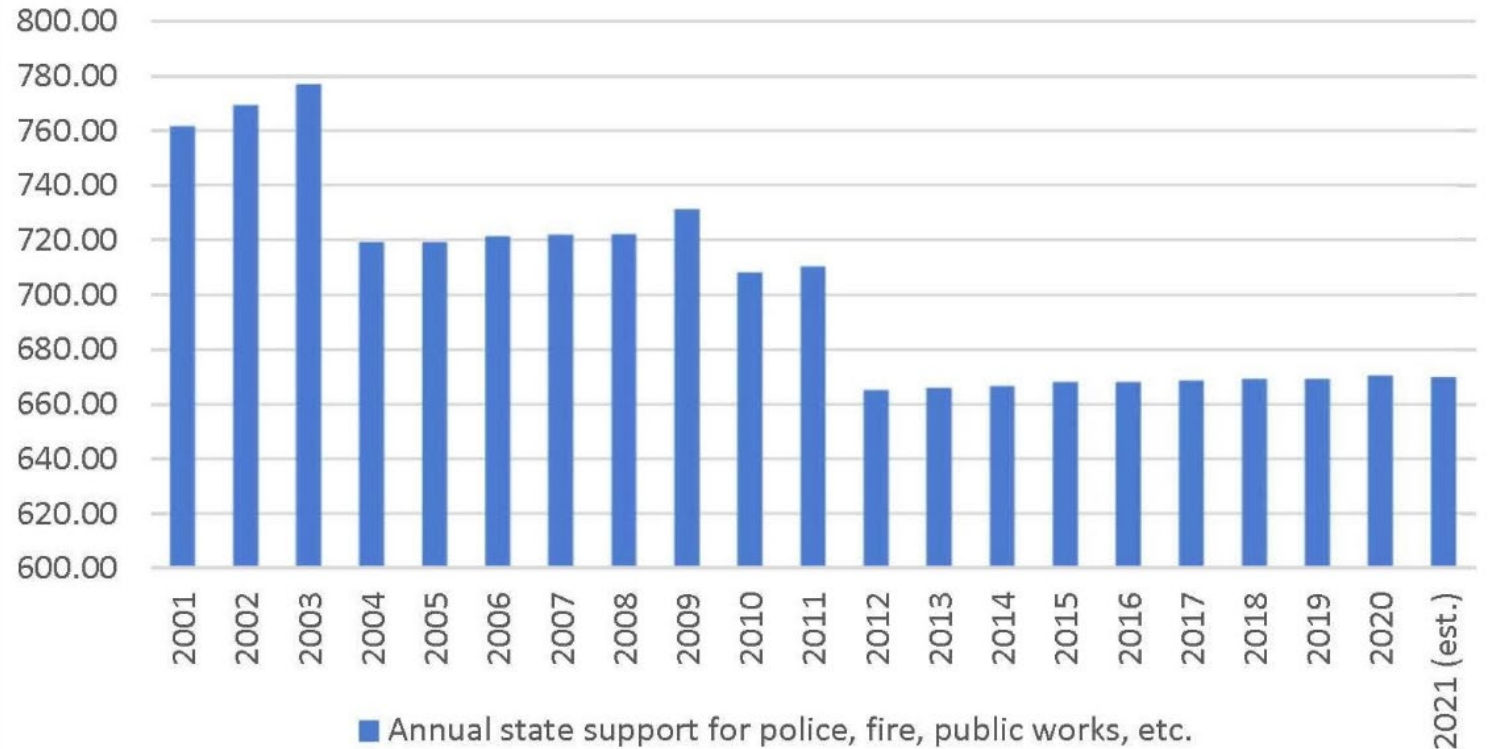
CARW Legislative Day – April 26, 2023

## The Basics

- Cities/villages in Wisconsin are funded in two major ways:
  - Property taxes
  - State aids
    - Shared revenue
    - Expenditure Restraint
    - Misc. revenues (transportation aid, computer aid)

### Declining Shared Revenues

(In Millions)



Source: Legislative Fiscal Bureau, 2019-2021 Budget Summary  
[https://docs.legis.wisconsin.gov/misc/lfb/budget/2019\\_21\\_biennial\\_budget/](https://docs.legis.wisconsin.gov/misc/lfb/budget/2019_21_biennial_budget/)

# The Basics

## Expenditure Restraint (ERP)

- Provides a financial payment in exchange for restraining your expenditures
- In 2016, the city's ERP limit was \$109,689 and our health insurance premium alone rose \$191,611
- In 2017, the city's ERP limit allowed for a 1.2% increase; this was the year we discussed turning off every other street light to save around \$250,000

## City of Watertown

### EXPENDITURE RESTRAINT

Below is a summary of the General Fund Budget for last decade with the allowable increase to qualify for Expenditure Restraint Payments. This annual revenue source for the General Fund averages \$425,000. Participation in the Expenditure Restraint Program is voluntary. To continue to qualify for payments, the City must keep the increase in General Fund budgeted expenditures below a percentage determined by the combination of increase in Consumer Price Index as well as a growth factor that is dependent on the City's net new construction.

YEAR	GENERAL FUND	ALLOWABLE	ACTUAL	BUDGET CHANGE
2013	\$15,387,856	2.4%	1.30%	\$203,385
2014	\$15,546,213	2.0%	1.03%	\$158,357
2015	\$15,824,611	1.8%	1.79%	\$278,398
2016	\$15,934,300	0.7%	0.69%	\$109,689
2017	\$16,124,600	1.2%	1.19%	\$190,300
2018	\$16,525,000	2.6%	2.48%	\$400,400
2019	\$17,019,051	3.1%	2.99%	\$494,051
2020	\$17,459,202	2.6%	2.59%	\$440,151
2021	\$17,788,817	1.9%	1.89%	\$329,615
2022	\$18,371,317	3.3%	3.27%	\$582,500
2023	\$19,357,439	7.9%	5.37%	\$986,122

# The Basics

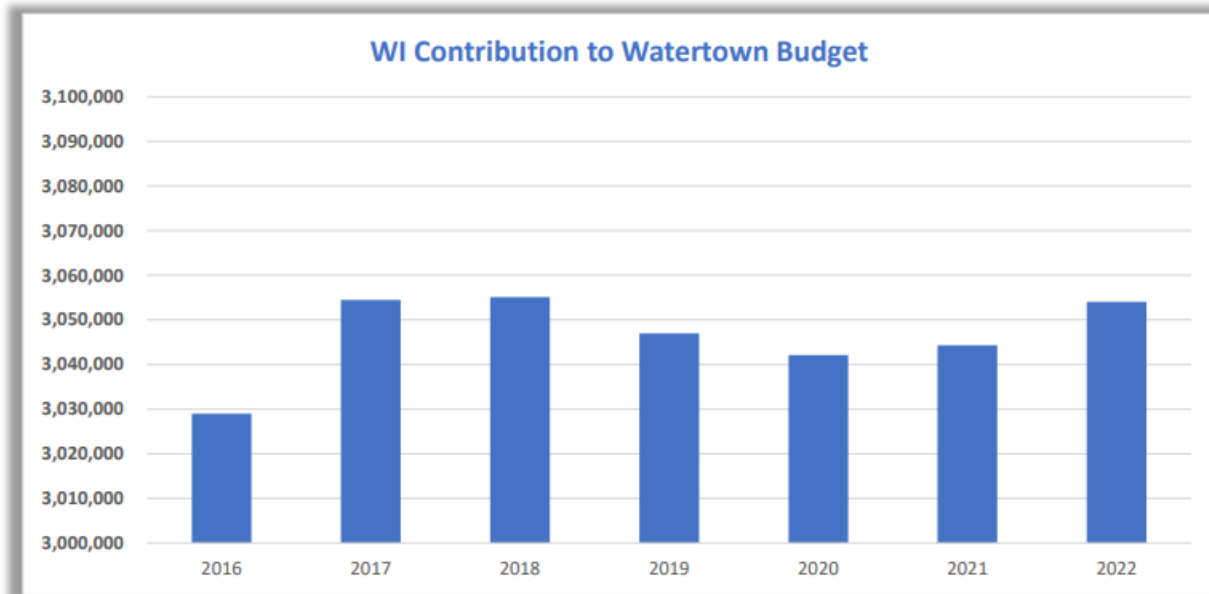
- Cities/villages are restrained in two major ways:
  - Levy limits- a limit is set and then is difficult to move
    - A municipality is allowed to increase its levy over the amount it levied in the prior year by the percentage increase in equalized value from net new construction.
      - If no new construction occurred in your community, then your allowable levy increase is zero percent.
  - Inability to generate substantial revenue
    - Limitations on utilities
    - Limitations on sales tax; counties can issue this tax

# How Did We Get Here

- The funding level for county and municipalities has declined
- The model is old and hasn't been adjusted in a complete way
  - Created in 1911 with the plan to provide 90% of the revenue back to local gov; today that is less than 7%
  - This results in an overreliance on property taxes

## WI Contribution to City

	2016	Pr Yr Incr	2017	Pr Yr Incr	2018	Pr Yr Incr	2019	Pr Yr Incr	2020	Pr Yr Incr	2021	Pr Yr Incr	2022	Pr Yr Incr
Shared Taxes WI	2,619,092	1.77%	2,619,188	0.00%	2,619,732	0.02%	2,617,627	-0.08%	2,617,405	-0.01%	2,619,820	0.09%	2,622,010	0.08%
Expend Restraint	409,900	3.81%	435,263	6.19%	435,362	0.02%	429,351	-1.38%	424,716	-1.08%	424,485	-0.05%	432,030	1.78%
Total WI	3,028,992	2.04%	3,054,451	0.84%	3,055,094	0.02%	3,046,978	-0.27%	3,042,121	-0.16%	3,044,305	0.07%	3,054,040	0.32%



The net increase from 2016 to 2022, a seven-year period, is only \$25,048 more WI contribution.

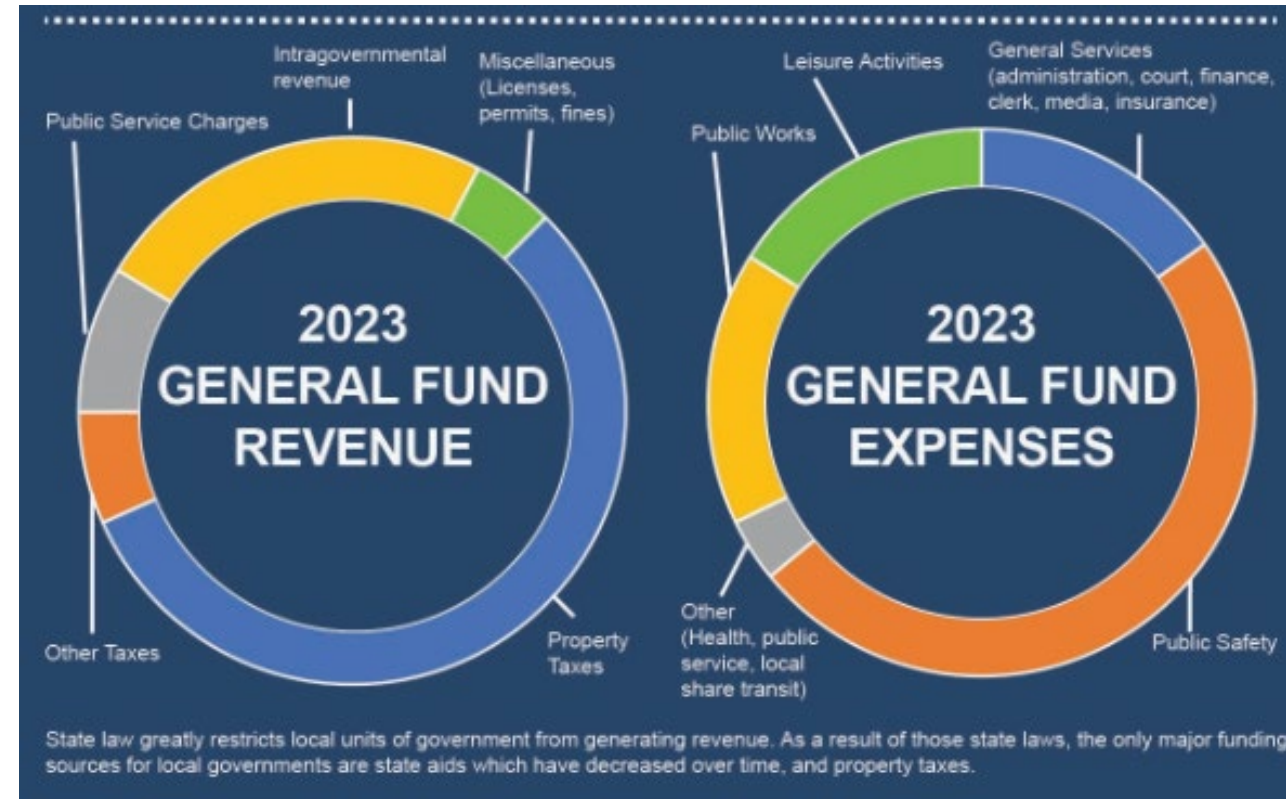
# Why It Matters

- Overreliance on property taxes limits the abilities of cities/villages
- Amenities that your customers are seeking become difficult to fund
- The financial partnership developers are seeking becomes incredibly difficult to manage
  - This leads developers to other municipalities that can → increases their new construction → allows them to raise their levy → allows them to grow and others not
  - This has been the case, but now those municipalities are hitting their literal boundaries and development is getting difficult



# Why It Matters

- Current system is making basic services that developers and their customers expect, difficult to manage and maintain
  - Police, fire, road improvement, etc.
- Market demand shifts; cities are the nucleus of development and we're functioning with decades old financial capacity



- Municipalities are HOME.

# How Do We Fix It

- Create a plan that is growing, sustainable and more
- Create a plan that lessens our reliance on property taxes
- Current discussions in the legislature and in the Governor's Office



# The Important Role You Play

- **Advocacy:** share your personal experiences as a professional and as a resident
- **Education:** tell others in your network how critical it is to support municipalities
- **Encourage:** encourage that one call, text, or mention in a meeting
- **Support:** your local municipalities are doing their best to make it all happen

# Contact



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