

# Annexation in Wisconsin: Fiscal Implications for Municipalities

by Mary Edwards\*

This study examined the fiscal impacts of annexation from the perspective of city and town governments in Wisconsin. Ten annexations from 1990 were examined, and financial impacts were measured five years after the annexation took place. The method used to explore the issue was Fiscal Impact analysis.

Fiscal Impact analysis estimates the impact of a development or a land use change on the costs and revenues of governmental units serving the development. The analysis is based on the fiscal characteristics of the communities (revenues, expenditures and land values) and the characteristics of the development or land use change (type of land use, and population associated with land area).

The study used three different approaches to estimate the fiscal impacts of annexation: 1) the per capita multiplier approach, 2) the proportional valuation approach and 3) the case-study method.

\* Mary Edwards is a recent graduate of the Ph.D. program in the Department of Urban and Regional Planning at UW-Madison. She is currently the program manager for the Wisconsin Land Use Research Program, a which focuses on the impacts of development on the urban fringe.

Under all three approaches, the fiscal effects of annexation from the perspective of the taxpayer in both the city and town involved in the annexation was measured as reflected in the tax rate. Tax rates were calculated five years after the annexation as if the annexation did not occur. This rate was compared to the actual rate to determine the effect of the annexation.

The ten cases included a mix of annexations in terms of land use types. Five of the annexations were eventually developed residentially, four as commercial establishments or industrial parks, and one was annexed as agricultural land and remained agricultural land five years after annexation. The primary purpose of the research was to assess the fiscal impacts of annexation and to compare results across the three different fiscal impact methods. The secondary purpose of the research was to highlight the motivations to annexation and perceptions of local officials regarding the fiscal consequences of annexation. This was accomplished through interviews with local staff and officials.

## METHOD MATTERS

The assumptions inherent in each method influence the results of the analysis. A series of critical assumptions underlie each of the fiscal impact methods. Overall, results were consistent across methods in only six of the twenty municipalities, including two towns, and four cities and villages. This reveals how the different assumptions ultimately affect the results of the research.

## WINNERS VERSUS LOSERS

The results indicated that annexation is not necessarily a winner-take-all process. Under all three fiscal impact approaches, clear winners and losers in the same annexation do not emerge as the predominant pattern. Annexation can be fiscally undesirable for both communities or fis-

cally desirable for both communities. The fiscal implications of annexation for taxpayers depend on the method used in the fiscal analysis and the unique financial situation the communities are in at the time of the analysis.

The tables illustrates the summary of winners and losers in the process under each of the three methods. Again, the tax rate indicates whether the municipality experienced a fiscal "win" or a "loss."

## THE HIERARCHY OF LAND USES

According to the hierarchy of land uses, there is variation in the cost-revenue effects of different land uses. Residential uses have been found to be fiscally undesirable to a municipality. Under the case study method, residential annexations generally do not fit into the hierarchy. Under the hierarchy, single family homes are placed near the bottom. In this study, four of the five cities and villages that annexed land and developed it residentially experienced a decrease in the mill rate due to annexation, representing a net fiscal benefit to the city.

Regarding commercial/industrial land uses, two of four resulted in tax rate increases. Again, these results defy the underlying premise of the land use hierarchy of fiscal impacts, that commercial uses are near the top of the hierarchy, generating more in revenue than requiring in public expenditures.

## ANNEXATION FOR FISCAL ADVANTAGE

In examining the results of the case study method, sixty percent of the municipalities bolstered their fiscal position when they annexed the land. This includes four residential annexations and two commercial/industrial annexations. Although the numbers illustrate the benefits of annexation to cities and villages in most cases, they do not speak to whether or not cities seek to annex for fiscal advantage.

## THE ROLE OF INTERGOVERNMENTAL AID

In a typical fiscal impact analysis, inter-governmental revenue is estimated in the same manner as are other revenues, through proportional valuation techniques or on a per capita basis, for example. This research departed from the typical analysis in that, for all three methods, the actual Wisconsin shared revenue formula was simulated for the city and town as if annexation did not occur. This resulted in estimates that are, in some cases, significant to the analysis. A number of cities experienced significant changes in shared revenues due to annexation and the final results depend on these estimates.

## ANNEXATION AS A DEVELOPMENT-DRIVEN PROCESS

Interviewees from towns, cities and villages replied similarly to the question of motivation. Nearly all replied that annexation was driven by development. The presumption that cities annex for fiscal advantage was not conveyed through the interviews. City and village officials cited a number of reasons for annexation. Perceptions about the impact of annexation were unique to each annexation. City and village officials were reluctant to generalize as to the fiscal impacts of annexation.

However, town officials generally agree that annexation results in a fiscal loss, especially cumulative annexations. All interviewees noted that the important issues surrounding annexation go beyond simply the fiscal. Concern was expressed over the fact that annexation may discourage orderly growth and undermine the planning process.

## FISCAL IMPACT ANALYSIS AS A TOOL

Different methods produce different results, and decision makers should be aware of this. Interviewees also noted that the impacts of annexation go beyond the fiscal. It may be misleading to assess an annexation solely on fiscal considerations. Annexation often has economic, environmental, social and political impacts on a community. A tool or series of tools that is able to assess such comprehensive impacts would better assist communities in making wise decisions regarding both annexation and development.

**Table 1. Case Study Method Summary**

| Case No./<br>Type | City/Village |       | Town |       |
|-------------------|--------------|-------|------|-------|
|                   | Wins         | Loses | Wins | Loses |
| 1-Residential     | X            |       |      | X     |
| 2-Residential     | X            |       |      | X     |
| 3-Residential     | X            |       |      | X     |
| 4-Residential     | X            |       |      | X     |
| 5-Residential     |              | X     |      | X     |
| 6-Industrial      |              | X     |      | X     |
| 7-Industrial      | X            |       |      | X     |
| 8-Commercial      |              | X     |      | X     |
| 9-Commercial      | X            |       |      | X     |
| 10-Agricultural   |              | X     |      | X     |

**Table 2. Land Use Multiplier Method Summary**

| Case No./<br>Type | City/Village |       | Town |       |
|-------------------|--------------|-------|------|-------|
|                   | Wins         | Loses | Wins | Loses |
| 1-Residential     |              | X     | X    |       |
| 2-Residential     |              | X     | X    |       |
| 3-Residential     | X            |       | X    |       |
| 4-Residential     |              | X     | X    |       |
| 5-Residential     |              | X     | X    |       |
| 6-Industrial      | X            |       | X    |       |
| 7-Industrial      |              | X     | X    |       |
| 8-Commercial      |              | X     |      | X     |
| 9-Commercial      |              | X     |      | X     |
| 10-Agricultural   |              | X     | X    |       |

**Table 3. Per Capita Multiplier Method Summary**

| Case No./<br>Type | City/Village |       | Town |       |
|-------------------|--------------|-------|------|-------|
|                   | Wins         | Loses | Wins | Loses |
| 1-Residential     | X            |       |      | X     |
| 2-Residential     | X            |       | X    |       |
| 3-Residential     | X            |       | X    |       |
| 4-Residential     |              | X     |      | X     |
| 5-Residential     |              | X     |      | X     |
| 6-Industrial      |              | X     | X    |       |
| 7-Industrial      |              | X     | X    |       |
| 8-Commercial      |              | X     |      | X     |
| 9-Commercial      |              | X     |      | X     |
| 10-Agricultural   |              | X     | X    |       |