**Fiscal Facts: Local Debt on the Rise**

Local government debt in Wisconsin hit record levels in 2020, driven by low-interest rates, infrastructure needs, and a little-known incentive in state law.

At the end of 2020, cities, counties, and other local governments owed $11.04 billion, an increase of $566 million over the prior year and the most on record -- even after adjusting for inflation and population growth. Total debt owed by local governments in Wisconsin rose in 2020 by 5.4%.

At the end of 2000, cities, villages, towns, and counties in Wisconsin together owed $5.23 billion in general obligation debt, the equivalent of $7.86 billion in 2020 dollars. By the end of 2020, the total debt in raw dollars had more than doubled, and had risen by 40.5% after adjusting for inflation.

Most of that increase was due to an increase in debt owed by the state’s 602 cities and villages, while counties have borrowed less heavily over the past decade. Though most debt is owed by cities, the fastest growth in debt since 2015 has been in Wisconsin towns.

Wisconsin Department of Revenue data used for this analysis data includes only general obligation (G.O.) debt, or debt that municipalities and counties have pledged their property tax levy and other local taxes to repay.

Several forces have pushed up local borrowing in recent years, including a need to replace aging infrastructure, update IT systems, and until recently, low-interest rates. The state’s limits on property tax levies may also lead to more borrowing.

State law limits the amount that local governments can raise property taxes annually for their operations to the rate of new construction in a community. The law, however, also provides an exception equal to the amount needed to make additional G.O. debt payments, giving towns and other local governments an incentive to borrow for expenses they previously might have paid with cash.

One positive development is that recent robust growth in property values has significantly increased the capacity of local governments to repay their debts, given Wisconsin’s model of heavy reliance on property taxes to fund local governments. However, currently rising interest rates could create new challenges by increasing the costs of new debt and slowing the growth in property values.

The trend of rising debt is not entirely negative. Debt is an essential tool for local governments, and many may have benefited in recent years by using previously low-interest rates to help address their infrastructure needs. Yet for years, the Forum has warned that rising debt levels could start to crowd out other spending on key local services such as public safety. In some large cities such as Milwaukee, that fear already is becoming a reality.

Policymakers may want to consider a range of options to slow the growth in local debt, from incentivizing local governments to team up on capital projects and purchases such as a new road or fire engine to giving local governments more flexibility in raising revenues.

*This information is a service of the Wisconsin Policy Forum, the state’s leading resource for nonpartisan state and local government research and civic education. Learn more at* [*wispolicyforum.org*](https://wispolicyforum.org/research/state-tax-burden-up-but-overall-burden-still-falling/)*.*