

WISCONSIN WATCHDOG

Wisconsin's Walworth County zeroes out outstanding municipal debt

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It's rare to find a U.S. municipality that's debt-free, but that's something Walworth County in Wisconsin has been able to accomplish.

While municipal debt grew nationwide to \$495 billion as of the end of 2017, Walworth County owns none of that.

"We've been working a long-range plan towards achieving this goal – identifying capital projects (buildings in need of renovation or replacement, etc.) and setting up policies that result in setting aside excess operating funds for one-time, special purposes – prepaying debt and implementing projects that will save money over their life cycles, as well as making capital investments," Nicole Andersen, Walworth County Deputy County Commissioner, told Watchdog.org.

Relying on debt issuance – general obligation debt securities in particular – amounts to a hidden tax on residents and businesses, according to Cato Institute's Director of Tax Policy Studies Chris Edwards.

"Hundreds and hundreds of jurisdictions put general obligation bond referendums on election ballots, and they're usually approved – 75 percent to 25 percent – whereas tax hikes are largely rejected," Edwards said. "But bonds essentially are taxes, just delayed. In a way, it's more irresponsible [on the part of elected officials] to push for more and more bond and debt issuance – the bills come due after they've left office, while wealthy middlemen [investment banks, state and municipal insurers, law firms, etc.] make lots of money off state and local governments issuing debt securities."

Instituting strict spending rules and guidelines and conducting regular budget review meetings, Walworth County officials consistently have been able to spend less than annual, state-mandated municipal levy caps. That's enabled them to reduce the county's outstanding debt and continue to fund capital investment projects, as well as avoid having to pay back spending over the levy cap to the state dollar for dollar, Andersen explained in an interview.

Walworth County recently broke ground on construction of a new health and human services facility – the first to be funded entirely from accumulated surplus operating funds, Andersen highlighted.

"The budget for the entire project is \$24.1 million," she said. "It was just launched and some work has already been done on the grounds."

Walworth County's success in zeroing out its outstanding debt would not have been possible without strong, consistent support from Walworth County commissioners and board members, Andersen noted.

"Their support has enabled us to stay focused on our long-range plan and utilize surplus funds for specific purposes," she said. "They have shown great restraint by not utilizing those surpluses for other purposes."

Paying off its outstanding debt helps keep taxes down as the county no longer has to pay interest on debt securities and other costs associated with municipal bond issuance.

Corporations routinely issue bonds and other debt securities to fund short and long-term, capital expenditures, but that doesn't mean the government should, according to Cato's Edwards. Unlike private, commercial enterprises, the government has the power, and the privilege, of levying taxes. That comes with a hefty responsibility to the public to see that the funds raised via taxes, or debt issuance, are well spent, he explained.

Local and state governments, as well as the federal government, have a fiscally responsible and prudent alternative to traditional means of budgeting and fiscal management – pay-as-you-go debt financing, as Walworth County is demonstrating.

"It's hard to pin down the exact percentage, but most state and local infrastructure spending is financed based on pay-as-you-go models," Edwards said. "This is true of the federal government, as well. Debt securities issuance enriches the middlemen. It's completely unnecessary."

There is a flip-side to Walworth County's strategic approach to fiscal management and eliminating its outstanding debt, however. The county's ability to consistently spend less than the amount of its levy cap suggests that the possibility of lowering taxes exists. In addition, the county is able to circumvent the need for a public referendum on capital spending projects, according to Sheila Weinberg, CEO of Chicago-based Truth in Accounting.

"The question is: 'Are they collecting too much in taxes?' There are two ways to do government. Here in Illinois, you have to go the voters if you want to carry out a huge capital spending project. By accumulating surpluses from excess taxes, they [Walworth County] don't have to go to the voters for approval," Weinberg explained in an interview.

Referring to data contained in Truth in Accounting's State Data Lab, an online, interactive database system, Weinberg pointed out that Walworth County reported \$148 million in unrestricted assets as of its last fiscal report. That includes pension liabilities and retiree healthcare benefits the county carries on its balance sheet.

"That's rare," Weinberg said.

With the \$148 million in unrestricted assets Walworth County has accumulated, the county is in very good fiscal condition, Weinberg concluded.