Shared Revenue and Tax Relief

Direct Aid Payments

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3	County and Municipal Aid Program -- Police and Fire Protection Funding for Next Generation 911 (Paper #416)

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June, 2021 | Joint Committee on Finance | Paper #555

County and Municipal Aid Increase (Shared Revenue and Tax Relief -- Direct Aid Payments)

[LFB 2021-23 Budget Summary: Page 536, #1]

CURRENT LAW

State law establishes the distribution under the county and municipal aid program at $748,075,700 annually. Also, $5 million of funding comes from the medical assistance (MA) program for reimbursements for emergency medical transportation services provided by local governments for total funding of $753,075,700. Annual payments to each county and municipality are set at the same amount that was received in 2012.

County and municipal aid is funded primarily by a capped, GPR, sum sufficient appropriation. A portion of the payment (estimated at $53.3 million annually) is funded from a SEG appropriation from the police and fire protection fund. Payments are made on a calendar year basis, in July and November. Consequently, the 2020 calendar year payments are made in fiscal year 2020-21, the second year of the 2019-21 biennium.

DISCUSSION POINTS

Background

1. County and municipal aid provides general, unrestricted aid to counties and municipalities. Unlike categorical aid, which must be used for a specific purpose, unrestricted state aid can be used for any activity approved by the local governing body. Typically, the aid is commingled with the local government's other revenues and is not directly tied to any specific function. As such, it supplants other types of revenues that would otherwise be raised to fund the local government's functions.

2. The current county and municipal aid program replaced the earlier shared revenue program as the largest local assistance program for municipalities and counties in 2004. However, in 2002 and 2003, legislative changes were made to the earlier shared revenue program that continue to impact county and municipal aid payments today. 2002 Wisconsin Act 16 (the 2001-03 biennial budget) suspended the municipal shared revenue formulas and, instead, provided a uniform, 1% annual payment increase for 2002 and 2003 on the combined aid amounts calculated under the various components of the shared revenue formula for 2011. As a result, since the county and municipal aid program was created in 2004, municipalities have received the same amount as the prior year, except in years when funding levels changed due to legislation.

3. Since the conversion from the shared revenue program to the county and municipal aid program, three reductions to the state funding level have occurred (2004, 2010, and 2012). As a result, county and municipal aid is 20.7% lower in 2021 than the amount provided in 2003

County and Municipal Revenues and Expenditures

4. Municipal and county governments are funded from several different revenue sources. Table 1 shows the municipal and county revenue composition for the five largest revenue sources for 2013, 2015, 2017, and 2019, based on financial reports these governments filed with DOR. During this period, the percentage of local revenues comprised of state aid has declined from 13.2% to 12.3% for municipalities, and from 20.4% to 18.0% for counties. Over the same period, municipal government reliance on property taxes and public charges has increased as a share of total revenues while county government's reliance on other taxes and long term debt proceeds has increased.

TABLE 1

Municipal and County Revenue Composition
2013, 2015, 2017, 2019

	Municipalities				Counties			
	2013	2015	2017	2019	2013	2015	2017	2019
State Aid	13.2%	12.9%	13.0%	12.3%	20.4%	20.9%	20.5%	18.0%
Property Taxes	29.4	29.2	31.0	30.0	27.9	28.4	29.5	26.8
Other Taxes	2.9	3.1	3.1	3.1	5.4	5.8	6.4	6.6
Public Charges	14.7	15.0	15.9	15.2	19.9	20.7	17.0	15.7
Long-Term Debt Proceeds	12.5	12.8	12.8	12.1	2.9	4.1	5.4	7.0
Total	72.7%	73.0%	75.8%	72.7%	76.5%	79.9%	78.8%	74.1%

5. Since the 2005(06) property tax year, the Department of Revenue (DOR) has administered a levy limit program that restricts the year-to-year increases in county and municipal property tax levies. During the early years of the levy limit program some minimum annual growth in levies was allowed. However, the current levy limit program prohibits any county, city, village, or town from increasing its "base" levy, or prior year actual levy, in any year by more than the percentage change in the local government's January 1 equalized value due to new construction, less

improvements removed, between the previous year and the current year, but not less than zero percent. Some exclusions or adjustments are also applied.

6. Local levy limits and state aid increases for school districts and related tax credits have been provided to help control local property tax bill increases. Also, 2013 Wisconsin Act 145 provided $406 million annually as property tax relief associated with the Wisconsin Technical College System levy. As a result, since 2010(11), the estimated net tax bill for a median-valued home taxed at statewide average tax rates has increased by 1.6%. Over the same ten-year period, the consumer price index increased by 17.2%.

7. Some local officials contend that stagnant county and municipal aid payments, combined with local levy limits, affect local governments' ability to both fund their operations and carry out needed capital improvements. With some limitations, as costs increase and infrastructure erodes, local governments must identify sources of funding that supplement property tax levies and current county and municipal aid payments. While they need to demonstrate and convince their electors of the need, local governments do have the ability to ask voters at referendum for additional resources through the property tax levy.

8. While levy limits have generally restricted levy growth, statewide municipal levies have grown at an average annual rate of 2.2% and counties have grown at 2.9% since levy limits were established in 2005(06). This growth is primarily due to allowable levy growth for net new construction (NNC) and to various exclusions and exemptions that can be applied to the levy limit (such as debt service on debt issued for capital improvement projects). These increases in total property tax levies assist local governments in meeting some of the higher costs of providing government services each year. However, some of the allowable levy increases associated with newly constructed homes or commercial properties are in part used to pay for the local government services provided to those properties. Thus, the levy increases associated with these improvements are not entirely available to fund the increased cost of providing government services to existing homes and commercial properties, or to operate any newly constructed public facilities financed through the issuance of debt.

9. Despite this growth in statewide county and municipal levies over the past 16 years, the change in individual local government levies will vary. Again, this growth is in part due to the NNC adjustment factor made to the prior year actual levy for each county and municipality. NNC is largely a factor of whether a municipality is growing, and expanding its tax base through improvements to residential, commercial and other categories of the property tax base. However, not all municipalities are growing and expanding their property tax base through NNC improvements at the same rate. As a result, the levy limit is more restrictive to the areas of the state that are experiencing the least growth in their property tax base. This is demonstrated in the following table, which categorizes each type of local government by the percentage growth in NNC.

TABLE 2

Allowable Levy Growth from Net New Construction by Type of Local Government

	2019							
	Towns		Villages		Cities		Counties	
	Count	% of Total	Count	% of Total	Count	% of Total	Count	% of Total
0%	47	3.8%	44	10.7%	8	4.2%	26	36.1%
0% to 1%	665	53.2	190	46.1	69	36.3%	39	54.1
1% to 2%	415	33.2	97	23.5	78	41.1%	6	3.2
2% to 3%	78	6.2	38	9.2	21	11.1%	1	0.5
3% to 4%	24	1.9	17	4.1	9	4.7%	0	0.0
4% to 5%	7	0.6	13	3.2	1	0.5%	0	0.0
5% or more	13	1.0	13	3.2	4	2.1%	0	0.0
Total	1,249		412		190		72	
Median % Growth		0.9%		0.8%		1.2%		1.2%

	2020							
	Towns		Villages		Cities		Counties	
	Count	% of Total	Count	% of Total	Count	% of Total	Count	% of Total
0%	58	4.6%	43	10.4%	4	2.1%	28	38.9%
0% to 1%	705	56.5	184	44.6	76	40.0	37	51.4
1% to 2%	385	30.8	107	25.9	73	38.4	6	8.3
2% to 3%	69	5.5	29	7.0	21	11.1	1	1.4
3% to 4%	12	1.0	22	5.3	9	4.7	0	0.0
4% to 5%	9	0.7	17	4.1	5	2.6	0	0.0
5% or more	10	0.8	11	2.7	2	1.1	0	0.0
Total	1,248		413		190		72	
Median % Growth		0.8%		0.8%		1.1%		1.0%

10. As shown in Table 2, the median percentage growth rates for each type of government the past two years have ranged from 0.8% to 1.2%. Further, a majority of town, village and county governments experienced NNC growth of less than 1%, while a majority of city governments had growth in NNC below 2%. Alternatively, a certain amount of towns, villages, and cities grew their tax base associated with NNC at a much faster pace. For example, in 2019, 44 towns (3.5%), 43 villages (10.4%), and 14 cities (7.4%) had an adjustment to their levy associated with NNC 3% or higher. Similarly, in 2020, 31 towns (2.5%), 50 villages (12.1%), 16 cities (8.4%) had an adjustment to their levy associated with NNC of 3% or higher. Counties, due to their much larger tax base, had more concentrated growth rates in both years.

11. Typically, municipalities and counties use tax levy or issue general obligation bonds to fund capital improvements. Given the levy limit restrictions, and absent a referendum to exceed those restrictions, their ability to "cash" fund a significant amount of capital improvements may be limited. As a result, county and municipal governments often look to borrowing to fund such projects. Because local governments are allowed to exclude from the local levy limit any amounts levied to pay for general obligation debt issued after 2005, issuing such debt for capital improvements is another way that local governments can fund those projects without violating the levy limit restrictions.

12. Local governments have taken on increasing levels of debt to fund capital improvements. Between 2005 and 2019, total outstanding general obligation debt for all local governments has increased by 55.3%, and at an average annual rate of 2.9% for counties and 3.3% for municipalities. In comparison, the Consumer Price Index has increased by 30.9% in total and at an average annual rate of 1.9% over the same period. Providing an increase in county and municipal aid would provide local governments with additional financial assistance, which could be used by local governments to assist in funding their operations or in funding capital projects in lieu of additional borrowing.

13. While statewide property tax levies have outpaced inflation since 2005, much of the that growth is associated with new housing stock and other new development, which represent additional costs for county and municipal governments, with little new levy available to cover growing costs associated with existing housing and commercial stock. In addition, individual communities with more limited growth have not experienced the levy increases experienced by the faster growing areas of the state that are driving the statewide levy increases.

14. The administration indicates that because county and municipal aid has been reduced both in real and nominal dollars for years, localities have had to either increase property taxes if the tight and uneven levy limits permit it, or in the many localities with little new construction growth, likely reduce services. In either situation, the administration notes that residents are not served well. Providing $15,061,500 in 2021-22 and $30,424,300 in 2022-23 to increase funding for county and municipal aid by 2%, in both calendar year 2021 and 2022, would assist local governments with their annual budgets. [Alternative 1]

Federal Coronavirus Funding

15. In response to the public health emergency caused by the coronavirus pandemic, several federal bills have been enacted to provide direct financial support to state and local governments. The first of these was the CARES Act, which was enacted on March 27, 2020 and included the creation of the Coronavirus Relief Fund (CRF), which provided Dane County, Milwaukee County, and the City of Milwaukee $250 million directly from the CRF. Funds received from the CRF were subject to several restrictions in terms of how they could be used. Governments receiving these funds were restricted to using the funds only in response to the public health emergency, and funds were not allowed to be used to replace revenues lost as a result of the pandemic. Additionally, the deadline for use of these funds was December 30, 2021.

16. In addition, the state of Wisconsin received approximately $2.0 billion from the CRF, and distributed approximately $201.0 million to municipal, county, and tribal governments in the state

through the Routes to Recovery program. The funds were distributed according to population, with each government receiving a minimum of $5,000. Governments were subject to the same restrictions on the uses of these funds as the CRF.

17. The American Rescue Plan Act (ARPA) was enacted on March 11, 2021, and created both the State Fiscal Recovery Fund and the Local Fiscal Recovery Fund (LFRF). Every local government in Wisconsin will receive a payment from the LFRF. Monies received from the LFRF are generally restricted to making investments in broadband, sewer, water and storm water infrastructure, or to provide premium pay for essential workers. LFRF monies may not be used to offset a reduction in net tax revenues, or deposited into pension funds or rainy day funds, or be used to offset reductions in net tax revenue. Table 3 below shows the estimated amounts that will be received by units of local government from the LFRF.

TABLE 3

Wisconsin LFRF Allocations by Government Type
($ in Millions)

Towns	$160.1
Villages	97.6
Cities	929.4
Total	$1,187.1
Counties	$1,129.2

18. However, under ARPA, LFRF monies may also be more broadly used for the provision of government services, to the extent of a reduction in revenue, or "revenue loss" due to the pandemic can be demonstrated by the local governments in the state. Otherwise, local governments would be generally limited to spending LFRF monies on allowable infrastructure (broadband, sewer, water and storm water) or premium pay to workers. Thus, if a "revenue loss" can be demonstrated by a local unit of government in a year, that governmental unit has greater flexibility as to how they can use the LFRF monies in that year.

19. Guidance from the U.S. Treasury defines "government services" broadly as including maintenance or pay-go funding of infrastructure (including roads), modernization of cybersecurity, health services, environmental remediation, school or educational services, and the provision of police, fire, and other public safety services. The Treasury guidance also provides a method for calculating "revenue loss" for the purposes of using LFRF monies for the provision of government services, in addition to providing a definition of "general revenue" for the purpose of this calculation. "General revenue" is defined to include revenues collected by a recipient government and generated from its underlying economy, as well as other types of revenue that are available to support government services. This definition includes tax revenues, certain intergovernmental transfers, including those from the state to local units of government, charges (including toll revenues, public hospital revenues, and public education institution revenues), and other "own source" revenues, including rents, royalties, lottery proceeds, and fines. In calculating general revenues, recipient governments are directed to sum across all revenue streams.

20. "Revenue loss" is to be calculated by comparing the government's actual revenue to a counterfactual trend, representing revenues that would have been expected in the absence of the pandemic. When calculating the counterfactual trend, recipient governments will use a growth adjustment equal to the greater of 4.1% annually, or the recipient's average annual revenue growth over the three full fiscal years prior to the public health emergency (2017-2019). Each recipient government is to calculate its own "revenue loss" for the purpose of determining the amount of LFRF monies that may be used to fund government services each year. The calculation of the annual "revenue loss" is to be completed as of December 31, beginning in 2020, and each year thereafter through 2023. If any carryover LFRF monies remain at the end of each year, and if a "revenue loss" can be demonstrated in a subsequent year, that local government would again have the flexibility to use those LFRF monies for the provision of government services up to the amount of "revenue loss" shown in that year.

21. For illustration purposes only, Table 4 provides an example of the "revenue loss" calculation for a fictional Village of Badgerville, a growing municipality in a growing county. The Village received a $900,000 allocation from the LFRF. The Village's base year revenue, in 2019, was $10,191,700, and the Village's three-year average growth prior to the public health emergency was 3.6%, which is lower than the allowable growth of 4.1%. As a result, the Village, in calculating its revenue loss as of December 31, 2020, could increase its base year revenue by 4.1%, which results in counterfactual revenue amount of $10,609,600. This counterfactual revenue amount is then subtracted from the Village's actual revenue in 2020 of $10,554,700, which results in a demonstrated "revenue loss" of $54,900 lower than the counterfactual revenue. Therefore, in 2021, Badgerville would have the added flexibility to use up to $54,900 of its LFRF allocation for the more broad provision of government services. Further, given NNC's impact on allowable levy increases, the state's slower growing local governments will likely be able to demonstrate greater "revenue losses." As shown in Table 4, this "revenue loss" calculation is to be computed, each year through December, 2023. The Village of Badgerville would continue to demonstrate a "revenue loss" each year. Therefore, if the Village has any of the $900,000 LFRF allocation remaining at the end of each year, the Village could use some or all of those carryover funds up the annual "revenue loss" amount on a broader array of government services.

TABLE 4

Estimated "Revenue Loss" for the Village of Badgerville

	2020	2021	2022	2023
Actual Revenue (Estimated)	$10,554,700	$10,930,600	$11,319,900	$11,723,100
Counterfactual Revenue	10,609,600	11,044,500	11,497,400	11,968,800
"Revenue Loss"	-$54,900	-$113,900	-$177,500	-$245,700

22. While local units of government have received federal coronavirus aid for specific purposes, and some governments with an annual "revenue loss" may be able to use LFRF funds for more broad government services purposes, that funding is one-time in nature. Typically, one-time

funds are best used to pay one-time costs, like capital projects or other infrastructure improvements, rather than for the provision ongoing government services. Therefore, county and municipal governments may be reluctant to fund the type of ongoing staff and government services that county and municipal aid typically helps fund because when the LFRF funds are exhausted, ongoing revenues must be found to cover those costs, or those costs and services may have to be reduced.

23. Local governments are receiving federal LFRF monies aid that can be used for either specific purposes, or for more broad purposes, if an annual "revenue loss" can be shown. However, county and municipal aid is considered an intergovernmental revenue and must be included in actual revenues each year when calculating annual "revenue loss". Therefore, providing annual aid increases in the biennium would negatively impact county and municipal "revenue loss" calculations, by narrowing the gap between the counterfactual and actual revenues. This would, in turn, would reduce the flexibility that local governments would have to spend those LFRF funds on the broader array of government services.

24. Providing an aid increase in both 2021 and 2022 would affect the "revenue loss" calculation for LFRF funds for 2021, 2022 and 2023, which would reduce the amount of "revenue loss" a local government could demonstrate in that year. Conversely, providing only a county and municipal aid increase in 2022 would only impact the last two years of this calculation, allowing local governments the ability to use a larger share of these funds on a broader array of government services during the early years in which these funds are available. In addition, local governments have already established their 2021 budgets, and set 2020(21) levies in late, 2020. Accordingly, there may not be a need for an increase in county and municipal aid payments in the first year of the biennium. Instead, the Committee could provide $15,061,500 GPR in 2022-23 to increase funding for county and municipal aid by 2%, for calendar year 2022 and thereafter. The total distribution for county and municipal aid would be increased to $763.1 million. This funding would address some of the budget concerns facing local governments, but would only impact the final two years of the LFRF "revenue loss" calculation when much of that funding may have already been committed or spent. [Alternative 2]

25. Given the amounts of federal funding that are expected to be received by local governments to address the ongoing economic impact of the pandemic, there may not be a need for the state to increase county and municipal aid payments. Moreover, the additional state aid would be included as actual revenue will likely negatively impact the annual "revenue loss" calculation and limit the amount of LFRF monies available to local governments to use more broadly for the provision of government services. [Alternative 3]

ALTERNATIVES

1. Provide $15,061,500 GPR in 2021-22 and $30,424,300 GPR in 2022-23 to increase funding for county and municipal aid by 2%, in both calendar year 2021 and 2022. Set the total distribution for county and municipal aid at $763.1 million in 2021-22 and $778.5 million in 2022-23 and thereafter.

ALT 1	**Change to Base**
GPR	$45,485,800

2. Provide $15,061,500 GPR in 2022-23 to increase funding for county and municipal aid by 2%, for calendar year 2022 and thereafter. Set the total distribution for county and municipal aid at $763.1 million.

ALT 2	**Change to Base**
GPR	$15,061,500

3. Take no action.

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June, 2021 Joint Committee on Finance Paper #556

Video Service Provider Fee Payment
(Shared Revenue and Tax Relief -- Direct Aid Payments)

[LFB 2021-23 Budget Summary: Page 537, #6]

CURRENT LAW

The video service provider fee reduction aid payment is meant to hold municipalities harmless for revenues lost due to state-imposed reductions in fees municipalities assessed on certain video service providers. In order to receive a payment municipalities are required to submit information on the provider's reported gross receipts on which the fees are based to the Department of Revenue (DOR). DOR is required to certify the amount of the payment due to each taxing jurisdiction the Department of Administration (DOA), and DOA is to make the payment on or before the 4th Monday in July.

The payment is funded by a GPR, sum certain appropriation, which has base level funding of $5,000,000. In 2021-22 and each year thereafter, the cost of the payment is estimated to increase to $10,008,200.

DISCUSSION POINTS

1. 2019 Wisconsin Act 9 (the 2019-21 biennial budget) required municipalities to reduce fees assessed on certain video service providers, beginning in 2020. Municipalities were required to reduce their fee rate by 0.5%, effective January 1, 2020, and by 1%, effective January 1, 2021. A state aid program was created to hold municipalities harmless for the associated reduction in revenue. As passed by the Legislature, the aid payment were to be made for 10 years, with final payments being distributed in 2029. The Governor vetoed the 10-year limiting on the payments. As a result, the payment will be distributed to municipalities on an ongoing basis.

2. For aid payments distributed in 2020, each municipality's payment was to equal 0.5% of

the reported gross receipts on which the fee revenues were received in 2018. Beginning with aid payments distributed in 2021, and each year thereafter, each municipality's payment would be based on 1.0% of the reported gross receipts on which the fee revenues were received in 2019. Municipalities are required to report these amounts to DOR. After the information needed to calculate the 2021 payment is provided, each municipality is to receive a payment each in year equal to the amount it will receive in 2021.

3. During deliberations on the 2019-21 biennial budget, the Joint Finance Committee initially created the payment as a sum sufficient appropriation. Subsequently, in an action of the Assembly, the appropriation was converted to a sum certain appropriation. This action was adopted by the full Legislature and enacted under Act 9. As a result, the ongoing appropriation is limited to $5,000,000 in expenditures.

4. At the time aid program was created, the cost of the payment was estimated to be $5,000,000 in 2020-21, associated with the required 0.5% fee rate reduction. It was expected that this cost would increase to $10,000,000 in 2021-22 and thereafter, following the increase in the fee rate reduction to 1% effective January 1, 2021. However, the sum certain appropriation is not sufficient to make these payments for 2021-22.

5. In 2019, 519 municipalities submitted the required information to DOR. Based on that information, DOR distributed $5,000,000 in video service provider fee aid payments in July, 2020. In 2020, 533 municipalities reported the required information to DOR. Based on information reported for 2019, DOR notified municipalities on October 1, 2020 of their July, 2021, payment amounts. While DOR has provided estimates of the total payments for 2021-22 of $10,000,000 based on those filings, the actual amount of total payments are expected to be certified by DOR is $10,008,200 for 2021-22. However, the base level funding for the existing sum certain appropriation is only $5,000,000 for 2021-22, which is not sufficient to make the July, 2021, payments. Further, DOA has no authority to prorate the amount of payments certified by DOR.

6. The Governor recommends that the video service provider fee aid payment appropriation be converted to a sum sufficient appropriation. This would allow DOA to make payments in whatever amount DOR certifies that it would take to provide municipalities a payment equal to 1% reported gross receipts for 2019. Though it is unlikely that the payments would exceed the 2021 payments in future years, converting the appropriation to a sum sufficient appropriation would ensure that the aid payment would be fully funded in such a scenario. The estimated increase in base level funding would equal $5,008,200 each year, for a total appropriation of $10,016,400. [Alternative 1].

7. Conversely, because municipalities have already reported the required information needed for DOR to calculate the 2021 payment amounts, the total payment amount is known. In addition, that same amount is to be paid in future years. Therefore, there is likely no need to convert the appropriation to a sum sufficient appropriation. Rather, the Committee could increase the $5,000,000 in base level funding in the existing sum certain appropriation by $5,008,200 each year to provide the $10,008,200, which would fully fund the payment amounts for 2021, and each year thereafter. This would require an increase in base level funding equal to $5,008,200 each year, or by $10,016,400 for the biennium. [Alternative 2].

8. The Committee could choose not to provide the additional funding on an ongoing basis and instead allow municipalities to increase their video service provider fees by the additional 0.5% that these fees were reduced in 2021, beginning in 2022 and thereafter. The allowable increase in the fee could first take effect on January 1, 2022. This would lessen the loss in local revenue by changing the currently required 1.0% fee reduction back to a 0.5% fee reduction. As a result, less funding would be required to hold municipalities harmless for the revenue reduction in 2022-23 and thereafter [Alternative 3]. As municipalities have already reduced their video service provider fees associated with the 2021 payments (2021-22), this alternative would still require an increase in base level funding of $5,008,200 GPR in 2021-22. However, if the required fee reduction is set at 0.5% instead of 1.0%, this amount could subsequently be reduced in 2022-23 and thereafter, to a total appropriation level of $5,004,100 GPR.

9. If the Committee would choose to not provide any additional funding for the video service provider fee, there would not be sufficient funding for the appropriation to make the video service provider payments as required under current law. Further, municipalities would not be fully compensated for the loss in their video service provider fees revenues associated with the required increase to the fee rate reduction from 0.5% to 1.0%. In this event, the Committee, at a minimum, could provide DOA with the authority to prorate the payment amounts base on available funding [Alternative 3]. Otherwise, it would remain unclear as to what authority DOA would have to make different payment amounts than the amounts certified by DOR.

ALTERNATIVES

1. Convert the sum certain GPR appropriation for the video service provider fee aid payment to a sum sufficient GPR appropriation. Provide $5,008,200 annually to make the estimated payments of $10,008,200 annually.

ALT 1	**Change to Base**
GPR	$10,016,400

2. Provide $5,008,200 annually to the existing sum certain GPR appropriation to make video service provider fee aid payments of $10,008,200 annually.

ALT 2	**Change to Base**
GPR	$10,016,400

3. Specify that the required fee reduction be established at 0.5% rather than 1.0%, beginning January 1, 2022. Provide $5,008,200 in 2021-22 to the existing sum certain GPR appropriation to make video service provider fee payments totaling $10,008,200 in 2021-22. Thereafter, specify that the ongoing appropriation would be $5,004,100.

ALT 3	**Change to Base**
GPR	$5,012,300

4. Take no action on the funding level. Provide DOA the authority to prorate the annual video service provider fee payments in the event the appropriation funding level is not sufficient to fund the annual aid amounts certified by DOR. Municipalities would not be fully reimbursed for lost revenues associated with the required fee rate reduction. [This authority is needed to provide DOA the ability to make payments in an amount different that those amounts certified by DOR].

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June, 2021 | Joint Committee on Finance | Paper #557

Payments for Municipal Services
(Shared Revenue and Tax Relief -- Direct Aid Payments)

[LFB 2021-23 Budget Summary: Page 538, #7]

CURRENT LAW

Through the payments for municipal services (PMS) program, the state has provided annual payments since 1973 to reimburse municipalities for all or a portion of property tax supported expenses incurred in providing services to state facilities, which are exempt from property taxation. The intent of the program is to aid in the reduction of local property taxes by making an equitable contribution toward the cost of certain municipally provided services. In 2020-21, $18,584,200 GPR will be paid by the state through the PMS program.

Initially, the annual PMS payments to municipalities are funded 100% from the program's GPR appropriation. However, the program has a procedure for PR, PR-S, and SEG appropriations to be charged for municipal services to facilities funded through these appropriations. After the payments are made from the GPR appropriation, the Department of Administration (DOA) charges back any PR, PR-S, and SEG operations appropriations that fund state facilities and transfers monies from those appropriations to the general fund as GPR-REV. In effect, the general fund is charged only for services to facilities associated with programs financed through the general fund. In 2019-20, GPR expenditures for the program were offset by $9,131,218 in GPR-REV chargeback amounts.

DISCUSSION POINTS

1. PMS payments are made for fire and police protection, extraordinary police services, solid waste collection and disposal, and other approved direct services. Municipal services such as water, sewer, and electrical power that are finance in whole, or in part, by special charges or user fees must be paid for directly by the state agency responsible for the facility receiving the services. The

annual entitlement for each eligible municipality is determined largely by formula and, in a few instances, through additional negotiation with DOA. The formula attempts to approximate the amount of reimbursable services provided to state facilities that are financed out of local property tax revenue. Under this formula, entitlements are calculated as a percent of municipal police, fire, and solid waste costs, with the percent being calculated as the result of the value of state facilities as a percent of the combined value of taxable buildings and state facilities multiplied by property tax revenues as a percent of county and municipal aid, expenditure restraint, shared revenue utility aid, and property taxes combined. Entitlements are calculated on the basis of previous calendar year fiscal information. For example, entitlements calculated for services provided in 2021 will be based on 2020 costs, revenues, and property values. The actual payments will be made to municipalities in 2022.

2. If the sum of the formula entitlements exceeds the appropriation for the PMS program, the payments are prorated. Table 1 shows PMS payments and entitlements from 2011 through 2020. Since the 2011 budget, the funding level for the PMS program has been set at $18,584,200. During that time, payments have ranged from 51.8% of entitlements to 34.6% of entitlements. Increasing entitlement amounts in each of these years could be due to several factors, including increases in the cost of services provided to state facilities or increases in the value of state facilities.

TABLE 1

Statewide PMS Entitlements and Payments

Year	Statewide Entitlement	Percent Change in Entitlements	Statewide Payment	Payment as Percent of Entitlements
2011	$35,844,068		$18,584,200	51.8%
2012	37,384,052	4.3%	18,584,200	49.7
2013	41,647,069	11.4	18,584,200	44.6
2014	44,162,447	6.0	18,584,200	42.1
2015	45,371,602	2.7	18,584,200	41.0
2016	48,975,279	7.9	18,584,200	37.9
2017	48,650,175	-0.7	18,584,200	38.2
2018	47,777,335	-1.8	18,584,200	38.9
2019	53,625,738	12.2	18,584,200	34.7
2020	53,703,005	0.1	18,584,200	34.6

3. The last year in which the appropriation covered 100% of entitlement costs was 1982, and the highest percentage of entitlement cost covered in the last 20 years was 94.5% in 2000. The last increase in funding for PMS payments was in 2002 and program funding was reduced in both the 2009-11 and 2011-13 budgets. Funding for PMS payments has been set at $18,584,200 GPR since 2011, when funding for the program was reduced by 10%, from a previous level of $20,649,200 GPR. Reversing this reduction would require an increase in funding for the program of $2,065,000 GPR.

4. The Governor's budget recommendation would increase the PMS appropriation by 11.1%, which would also increase the annual GPR-REV amounts associated with the agency chargebacks by 11.1%. Roughly 50% of the funding increase would be returned to the general fund

as GPR-REV associated with agency chargebacks. DOA estimates a GPR-REV increase associated with the recommended aid increase included in the Governor's recommendations of $1,032,500 annually. [Alternative 1]

5. For the 2020 calculation (paid in February, 2021), PMS payments were approved for 363 municipalities. Payments ranged from $35 to the Town of Waterford in Racine County, which had $100 in entitlements, to $7.8 million to the City of Madison, which had $22.6 million in entitlements. The 20 largest PMS payment recipients (listed in the attachment) accounted for 88.1% of the payments to all eligible municipalities in 2021. The Attachment to this paper compares the actual February, 2021, PMS payment amount to the 2021 payment that would have been received if funding for the program had been increased to $20,649,200.

6. As payments have been prorated since 2011, the PMS program does not fully compensate municipalities for the costs of providing services to state facilities. Consequently, a portion of the cost of providing municipal services is either unreimbursed by the state, or else shifted from the state-owned exempt property to owners of taxable property. Due to levy limits, municipalities cannot increase their levies in order to cover the costs of providing these services. As such, municipalities may need to redirect revenues away from other initiatives in order to provide these services.

7. While the funding level for the PMS program has remained constant since 2011, the Consumer Price Index (CPI) has increased by 15.1% during over that same period. Increasing funding for the program by this amount would result in total funding of $21,390,400 GPR, or a $2,806,200 GPR increase over current funding levels. Providing this funding increase in each year of the biennium would result in a partially offsetting increase in GPR-REV amounts of $1,403,100 annually. [Alternative 2]

8. Municipalities that have a significant number of state facilities receive some benefit from having those state facilities located within their area or region of the state. UW System campuses and colleges are significant employers within the municipalities in which they are located, as are prison facilities and other major state installations. In addition, aside from the direct employment at these facilities, local economies receive ancillary economic benefits as those employed at the state facilities spend their income in that local economy. Stable, if not higher, home and property values associated with having a large state employer in the region are also a benefit. It is with this understanding of the positive economic benefits to their region that municipalities around the state often vie to have state facilities located in their region. Given the economic benefits derived from having state facilities located within these municipalities, it could be argued that funding for PMS payments should not increase, but rather remain at the current law level of $18,584,200 GPR [Alternative 3].

ALTERNATIVES

1. Increase funding by $2,065,000 GPR annually for the payments for municipal services program, from a base level of $18,584,200 to $20,649,200, which represents an 11% increase. Increase GPR-Earned amounts associated with agency chargebacks by $1,032,500 annually.

ALT 1	Change to Base	
	Revenue	Funding
GPR	$2,065,000	$4,130,000

2. Increase funding by $2,806,200 GPR annually, from a base level of $18,584,200 to $21,390,400, which represents a 15.1% increase. Increase GPR-Earned amounts associated with agency chargebacks by $1,403,100 annually.

ALT 2	Change to Base	
	Revenue	Funding
GPR	$2,806,200	$5,612,400

3. Take no action.

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Attachment

ATTACHMENT

Potential Payment Increase to the 20 Largest PMS Payment Recipients

Municipality	Actual 2021 Payment	2021 Payment w/ 11.1% Increase	Difference
Madison (City)	$7,805,984	$8,673,353	$867,369
Milwaukee	2,087,445	2,319,393	231,948
Oshkosh	1,049,299	1,165,893	116,594
La Crosse	924,093	1,026,774	102,681
Stevens Point	507,705	564,119	56,414
Eau Claire	490,876	545,420	54,544
Green Bay	459,394	510,440	51,046
River Falls	424,842	472,049	47,207
Superior	346,135	384,596	38,461
Menomonie	292,932	325,482	32,549
Whitewater	279,097	310,109	31,012
Waukesha	229,584	255,095	25,510
West Allis	224,678	249,643	24,965
Wausau	222,838	247,598	24,761
Somers	194,432	216,037	21,604
Platteville	182,450	202,723	20,273
Mauston	172,281	191,424	19,143
Fond du Lac	167,951	186,613	18,662
New Lisbon	162,550	180,612	18,062
Chippewa Falls	145,190	161,323	16,133