

Fiscal Estimate Narratives

DOR 5/19/2023

LRB Number	23-3047/1	Introduction Number	SB-0301	Estimate Type	Original
Description county and municipal aid; imposing a city sales tax and an additional county sales tax to pay the unfunded actuarial accrued liability of city and county retirement systems; requiring newly hired city and county employees of certain city agencies and counties to be enrolled in the Wisconsin Retirement System; fire and police commissions of first class cities; eliminating the personal property tax; reporting certain crimes and other incidents that occur on school property or school transportation; advisory referenda; local health officers; local public protection services; exceptions to local levy limits; local regulation of certain quarry operations; emergency services; local approval of projects and activities under the Warren Knowles-Gaylord Nelson Stewardship 2000 Program; requiring a referendum; and granting rule-making authority					

Assumptions Used in Arriving at Fiscal Estimate

The fiscal estimate pertains to the provisions administered by the Department of Revenue.

Shared Revenue

The bill creates a trust fund designated as the local government fund. In 2024, counties and municipalities will receive a county and municipal aid payment equal to the amount of the payment received by the county or municipality in 2012. In subsequent years, a county or municipality will receive a county and municipal aid payment equal to the amount credited to the county and municipal aid account of the local government fund multiplied by the proportion of the total of county and municipal aid payments that the county or municipality received in 2024.

Beginning in 2024, the bill provides supplemental aid to counties and to cities, villages, and towns. The bill specifies separate formulas for distributing this supplemental county and municipal aid in 2024 for each of the following groups: 1) counties; 2) municipalities with less than 5,000 in population; 3) municipalities with between 5,000 and 30,000 in population; and 4) municipalities with over 30,000 in population.

Under the bill, each municipality receives a supplemental county and municipal aid payment equal to at least 10 percent of municipality's county and municipal aid payment. In subsequent years, a county or municipality will receive a supplemental county and municipal aid payment equal to the amount credited to the supplemental county and municipal aid account of the local government fund multiplied by the proportion of the total of supplemental county and municipal aid payments that the county or municipality received in 2024.

Under the bill, grants received from the state or federal government for the purpose of providing law enforcement, fire protection, and emergency medical services are excluded from being considered in determining eligibility for an expenditure restraint program payment.

The bill also creates a program to provide innovation grants to counties and municipalities that apply for such grants. The innovation grants are awarded to counties and municipalities that submit an innovation plan to transfer certain county or municipal services to a county, municipality, nonprofit organization, or private entity, and to be approved, a plan must realize a projected savings of at least 10 percent of the total cost of providing the service.

Other changes made under the bill include eliminating grants made to local government units through the Medical Assistance program for providing transportation for medical care.

The department estimates the county supplemental aid payments at \$49.99 million. The amount breakdown is \$10.32 million for the levy formula, \$3.60 million for the \$50,000 payment, and \$36.07 million for per capita adjustment payment.

The department estimates the municipal supplemental aid payments at \$176.42 million. Approximately \$82.86 million in supplemental payments will go to municipalities with populations under 5,000, while \$47.18 million will go to municipalities with populations between 5,000 and 30,000. Municipalities with populations above

30,000 will receive total payments of \$46.38 million. Of the total population, approximately 30 percent reside in municipalities under 5,000, 33 percent reside in municipalities between 5,000 and 30,000, and 36 percent reside in municipalities above 30,000.

Excluding grants received from the state or federal government for the purpose of providing law enforcement, fire protection, and emergency medical services from expenditure restraint program (ERP) will have no fiscal effect but could result in additional municipalities qualifying for the payment, and thereby reducing the amount received by other qualifying municipalities. Under s. 79.01, ERP funding is set at \$58,145,700, but the bill repeals this section. The bill does reference 2021 stats. under s. 79.05(3)(d) of the ERP calculation.

Under the bill, the department may distribute a total of up to \$300 million in payments for qualifying innovation grants. The grants would provide payments to local governments for specified cost saving measures resulting in an indeterminate fiscal effect based on a local governments ability to develop such plans.

Eliminating the payments for medical assistance program transportation to local governments will have no fiscal effect as the amounts received from the medical assistance payments are deducted from shared revenue payments.

Sales and Use Tax

The bill authorizes a first-class city and a county in which a first-class city is located to impose sales and use taxes, the revenue from which must be used to pay the unfunded actuarial accrued liability of the city and county retirement systems and to increase public safety services.

Under the bill, a county in which a first-class city is located (currently, Milwaukee County) may impose an additional sales and use tax at a rate not exceeding 0.375 percent of the sales price of tangible personal property, goods, and services sold or used in the county. The bill also allows a first-class city to impose a sales and use tax at a rate not exceeding 2.0 percent of the sales price of tangible personal property, goods, and services sold or used in the city.

Under the bill, Milwaukee County may raise the county sales tax by 0.375% of the sales price. Using CY 2022 department data for Milwaukee County and assuming 5% growth for 2023, 2% growth for 2024, and a January 1, 2024, effective date, the department estimates county sales tax collections to increase in Milwaukee County by approximately \$72.6 million on an annualized basis.

Under the bill, it is possible for the City of Milwaukee to impose a 2.0% sales tax. Assuming the city's share of the Milwaukee County sales tax base is 50%, the department estimates sales tax collections to be approximately \$193.6 million starting in 2024.

The actual amounts will depend on the results of local referenda, effective dates of new taxes, and changes to local economic conditions.

Elimination of the Personal Property tax

Under the bill, beginning with the property tax assessments as of January 1, 2024, no items of personal property will be subject to the property tax. Under current law, generally, public utilities, including railroad companies, are subject to a license fee imposed by the state instead of being subject to local property taxes. This bill creates a personal property tax exemption to the license fee for railroad companies to comply with the requirements of the federal Railroad Revitalization and Regulatory Reform Act. The bill also makes several technical changes related to the repeal of the personal property tax, such as providing a process whereby manufacturing establishments located in this state that do not own real property in this state may continue to claim the manufacturing income tax credit.

For 2022, statewide personal property less buildings on leased land totaled \$9,453,873,500, and the department estimates the personal property aid payment at \$173.84 million.

The bill will reduce the increment value of most tax increment districts (TID). For uniformity with new TID districts, the department will need to re-determine each TID's base value. Since a breakdown of increment value is not available by property class, the impact on increment value is indeterminate.

Conservation Fund

Under the bill, FY 2023 GPR transfers to the conservation fund would have declined by an estimated \$1,582,600 due to lower equalized values. The FY 2023 conservation fund transfer totaled \$126,453,900 for forestry programs managed by the Department of Natural Resources.

Chapter 76 Railroad Taxes

The department estimates the bill will reduce railroad tax revenues to the transportation fund by \$8,000,000. The bill does not provide a GPR transfer from the general fund to offset the lost revenue.

Levy Limit Reductions for service transfers

The bill repeals levy limit subtractions and additions for service transfers between political subdivisions.

In 2021-22, the levy limit service transfer provisions reduced municipal levies by \$771,259, and increased County levies by \$1,303,995.

Local government spending reports

The bill requires DOR to annually produce a comparative local government spending report from information DOR annually collects from counties, municipalities, and public officers regarding the collection of taxes, receipts from licenses, and the expenditure of public funds and to create and maintain a web page on its Internet site to display the information contained in the report.

The department currently offers numerous reports and data visualizations on data collected from local governments regarding equalized values, assessed values, net new construction, property taxes, shared revenues, tax increment finance, Wisconsin real estate sales, special forest tax laws, levy limits, and a local government dashboard with revenue and expenditure data.

Maintenance of effort for protective services

The bill requires political subdivisions to certify to DOR that the political subdivision is maintaining a level of law enforcement and fire and emergency medical services that is at least equivalent to that provided in the previous year. County and municipal aid payments to political subdivisions that do not satisfy the maintenance of effort requirement are reduced by 15 percent.

The department does not currently collect data on maintenance of effort for law enforcement, fire, and emergency medical services. The provision would have an indeterminate fiscal effect on shared revenue payments resulting in less revenue for political subdivisions who do not meet the requirement. Based on Municipal Finance Report data, political subdivisions spent \$2.81 billion in 2021 and \$2.73 billion in 2020 for law enforcement (including emergency communications), fire, and emergency medical services.

Administrative Costs

The department estimates one-time administrative costs at \$2,702,300 and ongoing costs of \$433,500 for computer programming, training staff, revising TID bases, updating forms and documents, and providing external communications on the law changes. The department's ongoing cost will require an additional 6.0 FTE in position authority.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2023 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect): \$2,702,100 for administrative costs and \$300 million for the innovation grants.		
II. Annualized Costs:	Annualized Fiscal Impact on funds from:	
	Increased Costs Decreased Costs	
A. State Costs by Category		
State Operations - Salaries and Fringes	\$433,500	\$
(FTE Position Changes)	(6.0 FTE)	
State Operations - Other Costs		
Local Assistance	400,243,000	
Aids to Individuals or Organizations		
TOTAL State Costs by Category	\$400,676,500	\$
B. State Costs by Source of Funds		
GPR	174,275,400	
FED		
PRO/PRS		
SEG/SEG-S	226,401,100	
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)		
	Increased Rev	Decreased Rev
GPR Taxes	\$	\$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		-9,582,600
TOTAL State Revenues	\$	\$-9,582,600
NET ANNUALIZED FISCAL IMPACT		
	<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS	\$400,676,500	\$
NET CHANGE IN REVENUE	\$-9,582,600	\$

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