



Legislative Fiscal Bureau

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November 8, 2016

TO: Senator Stephen Nass
Room 10 South, State Capitol

FROM: Rick Olin, Emma Schumann, and Kendra Bonderud

SUBJECT: Property Tax and State Aid Implications Related to the Creation of Fire Service Districts Under LRB-0567/P1

At your request, this memorandum provides information about the property tax and state aid implications of provisions in LRB-0567/P1 ("bill") related to the creation of fire service districts.

Background

In general, the proposed bill would authorize two or more municipalities to jointly create a fire service district, which would be required to provide fire and emergency medical services to participating municipalities. The bill would provide these districts several revenue options, including imposing fees on participating municipalities, incurring debt for capital improvements, and levying property taxes. To establish a property tax base for a district, the district's governing commission and each participating municipality would determine which property, facilities, and other assets would be transferred from the municipality to the district upon its creation.

The initial jurisdiction of the district would consist of the territory of all sponsoring municipalities. No municipality that is part of the jurisdiction of a fire service district could expend funds to support the property or facilities of the district that are related to providing a service that the district provides to that municipality. Any municipality that is part of a fire service district would be required to reduce its budget to reflect the fact that it is no longer spending money on services provided by the district.

Property Tax Levy

The proposal would authorize each fire service district to impose a property tax on property within the district, subject to the state's levy limit program. Upon its creation, a fire service district would be authorized to impose a tax levy equal to the amounts appropriated for fire and emergency medical services by each municipality that is part of district's initial jurisdiction in the succeeding

year. In subsequent years, the district would be allowed to increase its base levy by no more than the percentage change in the district's equalized value due to new construction, less improvements removed, between the previous year and the current year, but not less than zero percent. The base levy is defined as the jurisdiction's prior year actual levy.

Some components of the tax levy are not subject to the limitation, such as for amounts levied for debt service on general obligation debt authorized on or after July 1, 2005. State law also allows for specific adjustments to the limitation, and adjustments can be positive or negative. One such adjustment is for services transferred to another governmental unit. Under the bill, municipalities creating a fire service district would be required to lower their levies by the amount of levy authority transferred to the fire service district.

Like municipalities and counties, fire service districts would be permitted to increase their levies above the amount of the limitation if the increase is approved through the passage of a referendum. The district's governing body would be required to first adopt a resolution specifying the amount of the increase and whether the increase would be extended on a one-time or ongoing basis. Also, the statutes provide specific wording for the ballot question.

Expenditure Restraint Program

Under the bill, a district would be considered a municipality for purposes of receiving a payment under the expenditure restraint program (ERP). ERP provides targeted, general aid to municipalities that meet certain eligibility criteria. First, a municipality must have a full value property tax rate that exceeds five mills. Second, a municipality must restrict the rate of year-to-year growth in its budget to a percentage determined by statutory formula.

Transferring a portion of a municipality's expenditure base to a district could affect a municipality's ERP eligibility or payment amount. If a municipality's expenditures have increased in recent years, the municipality could benefit from transferring a portion of its budget to the fire service district. Such an action could restrict its year-to-year budget growth to a level that would continue to allow the municipality to meet the ERP annual expenditure limit. However, if transferring a portion of its expenditure base to a fire service district causes the municipality's levy to fall below five mills, the municipality would become ineligible to receive an ERP payment. Similarly, a fire service district would not qualify for payment if its expenditures result in a property tax levy that is set below five mills. However, if fire service districts are created that would be eligible for ERP payments, payments made to other qualifying municipalities could be reduced. The statewide funding level for ERP has remained at \$58,145,700 since 2003. Therefore, with everything else remaining the same, an increase in the number of eligible recipients could reduce municipal payment amounts, as payments are calculated based on a municipality's percentage share of total statewide funding.

Payments for Municipal Services

Under current program guidelines, the payments for municipal services program reimburses municipalities for police and fire protection, garbage and trash disposal and collection, and any other direct general government service provided to state facilities. The payment formula involves

allocating a portion of the municipal property tax cost of each service provided to the state-owned facilities within the municipality. Any offsetting revenues, including state aid, are subtracted from the municipality's property tax contribution. The tax cost of each service is multiplied by the ratio of the value of state-owned facilities to the total value of each state improvement within the municipality. This step is repeated for each of the eligible service costs.

The Department of Administration's administrative policy and procedure provides that in rural fire service situations where multiple civil jurisdictions may be serviced by a single fire protection unit (department, district, company, etc.), payment is made to the site municipality unless some form of service agreement has been negotiated between the state agency and the entity providing the fire service to the municipality. It is assumed that fire service costs reported by the site municipality would be reflective of support or payments made by the municipality to the fire protection unit. If this policy were extended to eligible municipalities within a fire service district jurisdiction, the site municipality would continue to receive payments and reimburse the district for services provided to state property.

Shared Revenue

County and municipal aid (shared revenue) provides unrestricted aid to counties and municipalities. Annual county and municipal aid funding levels have remained unchanged since 2012, at a level of \$630,426,171 to municipalities (towns, villages, and cities) and \$122,649,544 to counties.

Creation of the fire service districts would not affect municipal eligibility for county and municipal aid or payment amounts. The formula under which shared revenue payments were previously calculated has been suspended since 2001. Therefore, counties and municipalities are guaranteed payments of the same amount as the prior year unless changes to funding levels are approved by the Legislature. Furthermore, fire service districts would be ineligible to receive payments, so each municipality's share of statewide funding would not decrease.

Forest Fire Protection Grant

The forest fire protection grant program awards grants for up to 50% of the costs of purchasing fire-resistant clothing and fire suppression supplies, equipment, and vehicles. Funds are available to cities, villages, towns, counties, and fire suppression organizations that enter into a written agreement to assist the Department of Natural Resources (DNR) in the suppression of forest fires when requested. Funding amounts would not be affected by the proposed bill. Grants would continue to be awarded to eligible jurisdictions, including Wisconsin fire departments and county/area fire associations. DNR has the authority to promulgate rules regarding the definition of a fire suppression organization, which could be updated to include fire service districts.

DSPS Fire Prevention and Protection Programs

The Department of Safety and Professional Services (DSPS) administers fire prevention and fire protection programs and building codes. DSPS also administers a fire department dues program, which uses revenues collected from insurers doing a fire insurance business in the state to fund state and local fire prevention and fire protection programs. DSPS distributes most of the

revenue collected under the fire department dues revenues to each city, village, or town that either: (a) maintains a local fire department that complies with state eligibility requirements; or (b) enters into an agreement with another city, village, or town to provide eligible fire protection service. Cities, villages, and towns receive a proportionate share of the distributed fire dues, based on the equalized value of real property improvements on land in each city, village, or town, but not less than the amount received in 1979.

The fire service districts created under the bill would not be eligible to directly receive fire dues payments from DSPS. Further, if a city, village, or town would enter into an agreement with a fire service district to provide fire protection service, it is not clear that the city, village, or town would be eligible for fire dues payments. The bill would need to be amended to allow fire service districts to be eligible to directly receive fire dues payments from DSPS. It would also need to be amended if there is an intent to allow a city, village, or town to be eligible to receive fire dues payments if it enters into an agreement with a fire service district to provide fire protection service. Finally, the bill would need to be amended to specify how the fire dues distribution formula would calculate payments to fire service districts or to cities, villages, or towns that enter into an agreement with a fire service district.

If you have any questions on this information, please let us know.

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