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

CURRENT LAW

The county and municipal aid program provides unrestricted aid to county and municipal governments. However, overall aid reductions were made in 2004, 2010, and 2012, resulting in reductions from the final, 2001 formula-based distribution. For calendar year 2017, payments will total $630.4 million for municipalities and $122.7 million for counties, for a combined total of $753.1 million statewide.

County and municipal aid is funded primarily by a GPR, sum sufficient appropriation. A portion of the payment (estimated at $51 million for 2016-17) is funded from a SEG appropriation from the police and fire protection fund. Also, $5 million of total funding comes from the medical assistance program for reimbursements for emergency medical transportation services provided by local governments. Payments are made on a calendar year basis, in July and November. Consequently, the 2017 calendar year payments will be made in fiscal year 2017-18, the first year of the 2017-19 biennium.

GOVERNOR

Maintain the total county and municipal aid distribution of $753.1 million annually. (Under a separate provision, the Governor recommends reducing the county and municipal aid GPR appropriation by $1.95 million in 2018-19 through 2027-28 to reflect a recommended reduction in Milwaukee County's aid payment due to the state providing the County $26 million in Volkswagen settlement funds to purchase transit buses.)

DISCUSSION POINTS

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. In general, states provide aid to local units of government for a number of reasons. Although not exhaustive, the following list describes several of these reasons:

Spreading Costs. Some local services are provided to residents of other communities. State aid may help to ensure that local residents not bear the entire burden of providing these services.

Tax Base Equalization. The purpose of tax base equalization is to provide funds to equalize local governments' fiscal capacity by channeling proportionately larger amounts of aid to fiscally weak jurisdictions. Local governments vary in the amount of tax base per resident and the costs of providing local services. Through equalization, tax rates are equalized for local governments possessing equal spending levels.

Replacing Lost Tax Base. The exemption of a class of property from local taxation may result in a burdensome shift in taxes to owners of the remaining taxable property. State aid can cushion and spread the burden of the revenue lost due to the exemption.

Substituting State Taxes for Local Taxes. Using state aid to help finance local government may improve the overall equity in the state-local tax system. The state income tax, in particular, is generally perceived to be more progressive, equitable, and better related to the taxpayer's ability to pay than the property tax.

Funding Local Mandates. Local governments provide a variety of services that are required by law. The provision of state aid helps to offset the cost of these services.

3. 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 2001. 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.

4. Since the conversion from the shared revenue program to the county and municipal aid program, three reductions to the state funding level have occurred. The 2012 reduction was in

response to provisions in 2011 Wisconsin Act 10 relating to public employee costs, which some contended gave municipalities and counties the ability to absorb the funding reduction. The following table provides statewide shared revenue funding since 2003.

TABLE 1

Total Shared Revenue Funding
($ in Millions)

Year	Amount*	Change
2003	$949.7	
2004	859.7	-9.5%
2005	859.7	0.0
2006	859.7	0.0
2007	859.7	0.0
2008	859.7	0.0
2009	859.7	0.0
2010	829.8	-3.5
2011	829.8	0.0
2012	753.1	-9.2
2013	753.1	0.0
2014	753.1	0.0
2015	753.1	0.0
2016	753.1	0.0
2017 (est.)	753.1	0.0
2017 Change from 2001	-196.6	-20.7%

*Payments do not reflect the $4.0 million reduction to Milwaukee County's county and municipal aid payment specified in 2015 Act 60 (Bucks Arena). The $4.0 million reduction begins in 2016 and will continue until the 2035 calendar year payment.

5. Even though shared revenue payments have not increased, state aid increases for school districts and related tax credits have helped control tax bill increases. Also, 2013 Act 145 provided $406 million annually as property tax relief aid associated with the Wisconsin Technical College System levy. Since 2005(06), the estimated tax bill for a median-valued home taxed at statewide average tax rates has increased at an average, annual rate of 0.4%. Over the same 11-year period, the consumer price index has increased at an average, annual rate of 1.9%. If the median-valued home's estimated taxes had increased at the same rate as inflation, the estimated 2016(17) tax bill would be $503 higher (17.6%), and the home's owner would have paid $2,701 more in taxes over the 11 years.

6. County and municipal governments and school districts account for most of local property tax bills. For 2016(17), school district levies are estimated to comprise 45.0% of the

property tax bill. To assist school districts in providing services, the Governor has recommended increasing funding for per pupil aid by $508.7 million and for other categorical aids by $66.7 million over the biennium. The per pupil and other categorical aid funding is outside the revenue limits for school districts, which results in additional resources available to the district. No additional county and municipal aid funding is provided for counties and municipalities, whose levies are estimated to comprise 45.2% of the 2016(17) property tax bill.

7. Since the 2005(06) property tax year, the Department of Revenue has administered a levy limit program that restricts the year-to-year increases in county and municipal property tax levies. The 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.

8. While the local levy limit has assisted in limiting property tax increases for taxpayers, such limits can affect local governments' ability to raise sufficient revenues each year, especially for slower growing communities that are unable to increase levies due to limited or no new construction in a year. Local governments do have the ability to exceed the levy limit if the local government's governing body adopts a resolution to that effect, and the resolution is approved at referendum. Also, towns with populations under 3,000 may exceed their levy limits by a vote at the annual town meeting or at a special town meeting, provided the town board previously adopts a resolution supporting the increase and includes the increase on the agenda for the town meeting. In addition, school districts can exceed their annual revenue limits through referenda for operating costs or facility improvements.

9. 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. The Committee has heard testimony that local governments are having difficulty funding needed transportation-related 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.

10. In recent years, a significant percentage of school district referenda have been approved. According to the Department of Public Instruction, in calendar year 2016, school district voters approved 38 (81%) non-recurring (operations) referenda, 20 (83%) recurring (operations) referenda, and 64 (77%) of debt-related referenda. In comparison, according to the Department of Revenue, only 14 county and municipal referenda passed between 2006 and 2015 (information on 2016 referenda is not yet available). Approving a municipal levy increase through a vote of electors may be more difficult than passing similar referenda for facility improvements at the school district level. For example, asking for a levy increase at referendum to fund a needed road, street, or related capital improvement may have only limited appeal to voters. This difficulty may occur because unlike improvements to school district facilities, which are typically used by, or associated with, the overall community, municipal and county capital

improvements, such as improvements to specific sections of local roads, often affect only voters benefiting most from the improvement. As a result, support for the improvement and the related referendum may be more limited.

11. Typically, municipalities and counties use tax levy (cash) or issue general obligation bonds to fund capital improvements. Given the limitations of local fiscal controls and absent a referendum to use current levy to fund significant capital improvements, local governments (municipalities and counties) have often looked 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 transportation-related capital improvements is another way that local governments can fund those projects without violating the levy limit restrictions. Local governments have taken on increasing levels of debt to fund such capital improvements. Between 2005 and 2015, total outstanding general obligation debt for all local governments has increased by 30.7% and at an average annual rate of 3.1% for counties and 2.6% for municipalities. Annual debt service payments on those obligations increased by 56.8% for all local governments and at an average annual rate of 3.1% for counties and 5.0% for municipalities. In comparison, the Consumer Price Index has increased by 21.4% in total and at an average annual rate of 2.0% over the same period. Providing an increase in county and municipal aid could provide local governments needed 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.

12. In lieu of providing additional county and municipal aid, the Committee could consider a limited exclusion to the municipal levy limit for transportation infrastructure construction projects. See LFB Paper #585 for a discussion of such an exclusion.

13. County and municipal aid payments are made to local governments on the fourth Monday in July (15% of the total) and on the third Monday in November (85% of the total). Municipalities have established their calendar year 2017 levies based on 2017 county and municipal aid payments that will be paid in state fiscal year 2017-18. As a result, if additional funding is provided, providing it in the calendar year 2018 would allow the additional funding to be considered when local governments establish their 2018 levies. These amounts would be paid by the state to local governments in 2018-19.

14. If the Committee is interested in providing additional funding to the county and municipal aid program, Table 2 provides the funding amounts that would be required to fund various percentage increases in county and municipal aid, beginning in 2018-19.

TABLE 2

Funding Required for Various County and Municipal Aid Increases

Alternative Increases	Total	2018-19 Change to Bill
1%	$7,530,800	$7,530,800 (Alternative 1a)
2%	15,061,500	15,061,500 (Alternative 1b)
3%	22,592,300	22,592,300 (Alternative 1c)
4%	30,123,000	30,123,000 (Alternative 1d)
5%	37,653,800	37,653,800 (Alternative 1e)

15. While levy limits have generally restricted levy growth, statewide municipal levies have grown at an average annual rate of 2.8% since levy limits were established in 2005(06). However, the change in individual municipal levies will vary from changes in the statewide levies. The following table provides municipal levies over the past 12 years.

TABLE 3

Total Statewide Levies for Towns, Villages, and Cities
($ in Millions)

Tax Year	Levy	% Change
2005(06)	$2,028.6	
2006(07)	2,099.6	3.5%
2007(08)	2,204.8	5.0
2008(09)	2,299.0	4.3
2009(10)	2,372.5	3.2
2010(11)	2,422.5	
2011(12)	2,463.2	1.7
2012(13)	2,499.1	1.5
2013(14)	2,549.2	2.0
2014(15)	2,611.0	
2015(16)	2,668.3	2.2
2016(17)*	2,749.7	3.1

*Preliminary.

16. Local governments also have another revenue option to meet their transportation infrastructure needs. Since 1967 municipalities have had the authority to impose a local vehicle registration fee or "wheel tax", which is imposed on automobiles and trucks of not more than 8,000 pounds that are registered in the state. Since 1979, counties have had similar authority. There is no limit on the amount of the local registration fee that can be imposed. Any county or municipality that imposes a wheel tax must use the revenues for transportation-related purposes.

Since 1967, 23 local governments have imposed or adopted an ordinance to impose a wheel tax. However, 14 of those local governments have adopted an ordinance to impose a wheel tax in just the last two years. In 2015, revenues from the wheel tax totaled 2.8% of the total gross property tax levies of all local government imposing the fee that year.

17. Finally, while a funding increase to county and municipal aid was not provided, AB 64/SB 30 includes a total of $75.9 million in increases to other transportation-related local aid programs. In the 2017-19 biennium, the Governor's recommendations would increase funding for counties and municipalities for the local roads improvement program by $14.0 million (25.2% increase in the biennium), the general transportation aids program by $56.9 million (8.5% increase for municipalities and 12.9% increase for counties in 2018 and thereafter), and the local bridge assistance program by $5 million (7.6% increase in the biennium). While county and municipal aid can be used for any purpose approved by local governing bodies, funds for these aid programs must be used for specific purposes. However, these recommended funding increases could alleviate some fiscal pressures on local jurisdictions relating to transportation maintenance and may justify maintaining county and municipal aid at its current level [Alternative 2].

ALTERNATIVES

1. Increase funding for county and municipal aid in 2018-19, for payments made in calendar year 2018 and thereafter, by one of the following amounts:

a. Provide $7,530,800 GPR in 2018-19 to increase funding for county and municipal aid by 1%, for calendar year 2018 and thereafter. The total distribution for county and municipal aid would be $760.6 million.

ALT 1a	**Change to**	
	Base	**Bill**
GPR	$7,530,800	$7,530,800

b. Provide $15,061,500 GPR in 2018-19 to increase funding for county and municipal aid by 2%, for calendar year 2018 and thereafter. The total distribution for county and municipal aid would be $768.1 million.

ALT 1b	**Change to**	
	Base	**Bill**
GPR	$15,061,500	$15,061,500

c. Provide $22,592,300 GPR in 2018-19 to increase funding for county and municipal aid by 3%, for calendar year 2018 and thereafter. The total distribution for county and municipal aid would be $775.7 million.

ALT 1c	Change to	
	Base	Bill
GPR	$22,592,300	$22,592,300

d. Provide $30,123,000 GPR in 2018-19 to increase funding for county and municipal aid by 4%, for calendar year 2018 and thereafter. The total distribution for county and municipal aid would be $783.2 million.

ALT 1d	Change to	
	Base	Bill
GPR	$30,123,000	$30,123,000

e. Provide $37,653,800 GPR in 2018-19 to increase funding for county and municipal aid by 5%, for calendar year 2018 and thereafter. The total distribution for county and municipal aid would be $790.8 million.

ALT 1e	Change to	
	Base	Bill
GPR	$37,653,800	$37,653,800

2. Maintain current law.

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