



Legislative Fiscal Bureau

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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 <u>Entitlement</u> | Percent Change in <u>Entitlements</u> | Statewide <u>Payment</u> | Payment as Percent of <u>Entitlements</u> |
|------|---------------------------------|---|-----------------------------|---|
| 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

| <u>Municipality</u> | <u>Actual 2021 Payment</u> | <u>2021 Payment w/ 11.1% Increase</u> | <u>Difference</u> |
|---------------------|--------------------------------|---|-------------------|
| 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 |