



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: <http://legis.wisconsin.gov/lfb>

June, 2023

Joint Committee on Finance

Paper #712

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

[LFB 2023-25 Budget Summary: Page 583, #13]

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 2022-23, \$18,584,200 GPR will be paid by the state through the PMS program.

Initially, the annual PMS payments to municipalities are fully funded 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 those 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 2022-23, GPR expenditures for the program were offset by \$9,118,800 in GPR-REV chargeback amounts, or approximately 49.1% of the \$18,584,200 GPR appropriation.

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 financed 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 percentage of municipal police, fire, and solid waste costs, with the entitlement being calculated as a result of the value of state facilities as a percentage of the combined value of taxable buildings and state facilities, multiplied by property tax revenues as a percentage of county and municipal aid, expenditure restraint, utility aid, and property taxes combined. Entitlements are calculated on the basis of previous calendar year fiscal information. For example, entitlements calculated for 2022 will be based on 2021 costs, revenues, and property values. The actual payments will be made to municipalities in 2023.

2. Since the 2011-13 budget, the funding level for the PMS program has been set at \$18,584,200. If the sum of the calculated formula entitlements exceeds the appropriation for the PMS program, the payments are prorated. The table below shows PMS payments and entitlements from 2013 through 2022. During that time, payments have ranged from 44.6% 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, increases in the value of state facilities, or limited increases in municipal property tax levies and no change in state aids.

Statewide PMS Entitlements and Payments

<u>Year</u>	<u>Statewide Entitlement</u>	<u>Percent Change in Entitlements</u>	<u>Statewide Payment</u>	<u>Payments as Percent of Entitlements</u>
2013	\$41,647,069		\$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	34.6
2020	53,703,005	0.1	18,584,200	34.6
2021	48,291,564	-10.1	18,584,200	38.5
2022	48,749,028	0.9	18,584,200	38.1

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 87.9% in 2003. The last increase in funding for PMS payments was in 2002, and program funding was reducing 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.

4. Assembly Bill 43/Senate Bill 70 would increase the PMS appropriation by 5.0%, or by \$929,200 annually, which would also increase the GPR-REV amounts associated with the agency chargebacks by 5.0%. As a result, an estimated 49.1% of the funding increase, or \$455,900 annually,

would be returned to the general fund as GPR-REV associated with agency chargebacks. [Alternative 1]

5. For the 2022 calculation (paid in February, 2023), PMS payments were approved for 366 municipalities. Payments ranged from \$39 to the Town of Calumet in Fond du Lac County, which had \$102 in entitlements, to \$8.3 million to the City of Madison, which had \$21.7 million in entitlements. The 20 largest PMS payment recipients (listed in the Attachment to this paper) accounted for 88.7% of the payments to all eligible municipalities in 2023.

6. The Attachment compares the actual February, 2023, PMS payment amounts to the 2023 payments that would have been received by the 20 largest PMS payment recipients in that year, if funding for the program had been increased to \$19,513,400. At that level of funding in that year, 2023 PMS payments would have been prorated at 40.0% of calculated entitlements, compared to the current law proration of 38.1%.

7. The PMS appropriation does not fully compensate municipalities for the estimated 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.

8. Rather than providing a 5% increase, as recommended by the administration, the Committee could instead provide only an adjustment for the level of inflation expected in the biennium. The Consumer Price Index (CPI) is projected to increase by 2.5% between 2023 and 2024 and by 2.2% between 2024 and 2025. Providing corresponding increases in PMS payments in those years would result in an overall funding level of \$19,048,800 GPR in 2023-24 and \$14,467,900 in 2024-25 (an increase of \$464,600 GPR in 2023-24 and \$883,700 GPR in 2024-25 over current funding levels). At this level of funding, GPR-REV amounts associated with agency chargebacks would increase by \$228,000 in 2023-24 and \$433,600 in 2024-25. [Alternative 2]

9. While the funding level for the PMS program has remained constant since 2011, the CPI has increased by a total of 30.1% over that time. The Committee could therefore choose to provide an increase of this amount, which would result in a level of reimbursement for providing municipal services comparable to the level of reimbursement at the time that funding for the program was set at its current appropriated amount. Increasing funding for the program by 30.1% beginning in 2023-24 would result in total funding of \$24,178,000 GPR annually, or an increase of \$5,593,800 GPR over current funding levels. At this funding level, GPR-REV amounts associated with agency chargebacks would increase by \$2,744,700 annually. [Alternative 3]

10. 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 4].

ALTERNATIVES

1. Increase funding by \$929,200 GPR annually for the payments for municipal services program, from a base level of \$18,584,200 to \$19,513,400, which represents a 5.0% increase. Increase GPR-Earned amounts associated with agency chargebacks by \$455,900 annually.

ALT 1	Change to Base	
	Revenue	Funding
GPR	\$911,800	\$1,858,400

2. Increase funding by \$464,600 GPR in 2023-24, which represents a 2.5% increase, and by \$883,700 GPR in 2024-25, which represents a 2.2% increase. Funding for the payments for municipal services program would increase from a base level of \$18,584,200 to \$19,048,800 in 2023-24 and \$19,467,900 in 2024-25. Increase GPR-Earned amounts associated with agency chargebacks by \$228,000 in 2023-24 and \$433,600 in 2024-25.

ALT 2	Change to Base	
	Revenue	Funding
GPR	\$661,600	\$1,348,300

3. Increase funding by \$5,593,800 GPR annually, from a base level of \$18,584,200 to \$24,178,000, which represents a 30.1% increase. Increase GPR-Earned amounts associated with agency chargebacks by \$2,744,700 annually.

ALT 3	Change to Base	
	Revenue	Funding
GPR	\$5,489,400	\$11,187,600

4. Take no action.

Prepared by: Noga Ardon
Attachment

ATTACHMENT

Potential Payment Increases to the 20 Largest PMS Payment Recipients

<u>Municipality Name</u>	<u>Current Law Payment</u>	<u>Alternative 1</u>	<u>Alternative 2</u>	<u>Alternative 3</u>
Madison	\$8,283,272	\$8,697,431	\$8,490,351	\$10,776,517
Milwaukee	2,410,306	2,530,820	2,470,563	3,135,802
Oshkosh	1,055,390	1,108,159	1,081,774	1,373,060
La Crosse	792,015	831,615	811,815	1,030,409
Green Bay	467,723	491,108	479,416	608,506
Eau Claire	467,274	490,638	478,956	607,923
Stevens Point	414,716	435,452	425,084	539,545
Menomonie	316,836	332,678	324,757	412,203
Waukesha	276,879	290,722	283,801	360,218
Superior	250,863	263,406	257,134	326,372
Whitewater	249,555	262,033	255,794	324,670
River Falls	229,923	241,419	235,671	299,129
Wausau	206,296	216,611	211,453	268,390
Somers	195,988	205,787	200,888	254,980
West Allis	194,553	204,280	199,416	253,113
Fond du Lac	165,295	173,560	169,428	215,049
Platteville	139,432	146,404	142,918	181,401
Janesville	127,056	133,409	130,232	165,300
West Bend	117,238	123,100	120,169	152,527
Chippewa Falls	114,324	120,041	117,183	148,736

