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Shared Revenue Program

County and Municipal Aid and Utility Aid

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(County and Municipal Aid and Utility Aid)

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Shared Revenue Program
(County and Municipal Aid and Utility Aid)

The state provides general, unrestricted aid to counties and municipalities through several programs. 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.

At times, the programs providing unrestricted aid have been collectively called shared revenue, perhaps because the shared revenue program has been the largest of the programs or because the programs were grouped under a single subchapter of the state statutes entitled shared revenue. The Department of Revenue (DOR) administers these programs. Currently, these programs include county and municipal aid, utility aid, expenditure restraint, and state aid for tax exempt property. The latter two programs are described in the Legislative Fiscal Bureau's informational paper entitled "Targeted Municipal Aid Programs."

The county and municipal aid and utility aid programs, combined with the expenditure restraint aid program, rank as the sixth largest state general fund program in 2022-23, behind general elementary and secondary school aids, medical assistance, correctional operations, the University of Wisconsin system, and the school levy and first dollar tax credits. The state aid programs are fundamental elements of the state's local finance structure and overall program of property tax relief.

Payments for both the county and municipal aid and utility aid programs are made on the fourth Monday in July (15% of the total) and the third Monday in November (85% of the total). DOR notifies local governments on or before September 15 of their estimated payment for the following calendar year.

The federal American Rescue Plan Act (ARPA) enacted in 2021 in response to the COVID-19 pandemic also provided local fiscal recovery funds to Wisconsin counties and municipalities. This aid can be used for specific purposes, but also could be used for more general purposes under certain circumstances.

This paper describes the county and municipal aid and utility aid programs in detail. The paper discusses the funding levels and the funding distribution for each program. The paper also generally describes the federal local fiscal recovery funding under ARPA and its eligible uses. Finally, a historical overview of the shared revenue program is also provided.

County and Municipal Aid Funding Level

The county and municipal aid program remains one of the largest state programs, in terms of total funding level. However, due to reductions in 2004, 2010, and 2012, and little or no growth in other years, it has declined in relative size over the past two decades. In 2004, appropriations for county and municipal aid as a whole made up 6.3% of the total general fund appropriations, but that share decreased to 4.3% of GPR appropriations in 2022.

Funding for the county and municipal aid program has been relatively constant for the past ten years, aside from certain statutory adjustments discussed in the next section of this paper. Since

Table 1: Distribution of Estimated 2023 County and Municipal Aid Payments (In Millions)*

Type of Government	County and Municipal Aid	Percent of Total
Towns	$41.8	5.6%
Villages	63.5	8.4
Cities	525.1	69.7
Municipalities	$630.4	83.7%
Counties	122.6	16.3
Total	$753.0	100.0%

*Based on the Department of Revenue's September, 2022, estimates of 2023 payments. Amounts do not reflect the required statutory adjustments made to these payments.

the 2012 program year, the distribution amount for the county and municipal aid program has been set at $753 million. Table 1 shows the total amount of county and municipal aid that counties and each type of municipality are expected to receive in 2023.

County and Municipal Aid Distribution

The county and municipal aid program, which replaced the shared revenue program, remains the largest local assistance program for municipalities and counties. Prior to the creation of the county and municipal aid program, the shared revenue program distributed aid based on a formula (see the section below, entitled "Historical Overview"). However, that formula was last used to distribute payments to municipalities in 2001 and counties in 2003. Nonetheless, the distributional effect of these formulas is still present to a certain degree in the current aid payments.

Currently, no formula exists for the distribution of county and municipal aid. Aside from certain statutory adjustments discussed below, since 2013 each individual county and municipality receives the same payment as in 2012. Total annual distributions remain at the 2012 level of $753 million.

Statutory Adjustments. Specific statutory reductions to shared revenue are made to county and municipal aid payments each year. Milwaukee County's aid distribution is reduced by $4.0 million each year from 2016 through 2035, which is intended to offset a portion of the state's contribution to the Wisconsin Center District toward the construction of the Bucks arena in Milwaukee. Also, any county or municipality that receives funding through a transit capital assistance program funded with Volkswagen settlement funds will receive a reduction to their county and municipal aid payment, the size of which is dependent on the size of the population their transit system serves. This aid payment adjustment totaled $1,115,400 in 2022.

Payments are also adjusted for certain penalties DOR is allowed to impose, including a penalty for a county or municipality that exceeds their annual levy limit. For 2022, DOR adjusted county and municipal aid payments by a total of $1,041,700 to reflect levy limit penalties.

In addition, under 2019 Act 19, local governments that provide health insurance benefits are required to pay health insurance premiums for the survivors of any law enforcement officer, fire fighter, or emergency medical services practitioner that dies in the line of duty on or after January 1, 2019. These local governments are then to be reimbursed from the county and municipal aid account appropriation, although the aid appropriation was not increased to reflect these reimbursements. Rather, the reimbursements for health insurance premiums would be a "first draw" on that appropriation account. Beginning with the aid distributions in 2021, DOR is to increase the aid payment to a county or municipality that reported health insurance premiums paid for survivors for the year prior to the previous calendar year. DOR is then required to decrease the total amount available to be distributed to all counties and municipalities by the total amount of survivor health insurance premiums reported as paid for the year prior to the previous calendar year. All county and municipal aid payments are then reduced in proportion to each entity's share of the total aid distribution in order to reflect the lower remaining available aid amount resulting from the reimbursement amounts paid to those counties and municipalities that paid survivor insurance premiums. In 2023, these payment adjustments are estimated to total $19,200.

Local Fiscal Recovery Funds

The American Rescue Plan Act of 2021 established the Local Fiscal Recovery Fund (LFRF), which distributed $2.3 billion in discretionary funds to each municipal and county government in Wisconsin. Though governments have broad discretion over the use of these monies, funds received from the LFRF were required to be used in accordance with guidelines set forth by ARPA and the U.S. Department of Treasury. Thus, LFRF monies differ in nature from shared revenue payments, which are unrestricted aid.

ARPA specified that funds received from the LFRF are to be used only for the following purposes: (a) to respond to the coronavirus pandemic or its negative economic impacts; (b) to replace revenues lost as a result of the public health emergency caused by the pandemic, for the purposes of providing government services; (c) to make investments in water, sewer, or broadband infrastructure; (d) to provide premium pay to certain eligible workers who performed essential work during the pandemic; or (e) to transfer funds to certain organizations or other units of government.

LFRF monies may not be deposited into pension funds, or used in a manner that undermines public health responses to the COVID-19 pandemic. Funds must be fully obligated by December 31, 2024, and fully expended by December 31, 2026. Any funds not expended or obligated by those dates must be returned to the Treasury.

As mentioned above, funds may be used to replace revenues lost as a result of the pandemic, for the purposes of providing government services. Treasury defines "government services" as including maintenance or pay-go funded building of infrastructure (including roads), modernization of cybersecurity, health services, environmental remediation, school or educational services, and the provision of police, fire, and other public safety services. Treasury specifies that "government services" does not include paying interest or principal on outstanding debt, replenishing reserve funds, or paying settlements or judgements. As such, LFRF monies may not be used for such purposes. Any local government that fails to comply with the allowed uses of LFRF monies will be required to remit an amount equal to what was spent on an ineligible use to the Treasury.

Treasury has provided a method for each government to calculate their revenue loss, for the purpose of using LFRF monies to provide government services. "Revenue loss" is to be calculated by comparing the government's actual revenue to a counterfactual trend, representing revenues that would have been expected in the absence of the pandemic. When calculating the counterfactual trend, recipient governments were directed to use a growth adjustment equal to the greater or 4.1% annually, or the recipient's average annual growth over the three full fiscal years prior to the public health emergency. Treasury also allowed each unit of local government receiving funds from the LFRF to claim a minimum of $10 million in revenue loss. Local governments that received less than $10 million from the LFRF in total were therefore eligible to use their entire allocation on the broader category of providing government services, and were not required to calculate the amount of revenues lost. However, any government that received more than $10 million from the LFRF and may have had more than $10 million in lost revenues would still be required to complete the revenue loss calculation in order to use more than $10 million of their LFRF allocation for revenue replacement.

Wisconsin counties and municipalities received a combined total of $2.3 billion from the LFRF. Further information on the LFRF, including information on the amount received by each county and municipality in Wisconsin, is provided in the Legislative Fiscal Bureau's informational paper entitled "Federal Coronavirus Relief Legislation -- Discretionary Funds."

Utility Aid Funding Level

Utility aid is the only remaining component of the state's pre-2004 shared revenue program, which existed from 1976 through 2003. Although some elements of the formula used to allocate utility aid during that period remain in use, a new distribution formula was created in 2003 that allocates most of the aid today. Because utility aid is still calculated based on a formula, unlike county and municipal aid, funding levels for the utility aid program change each year. Utility aid is funded from a sum sufficient appropriation from the general fund.

Table 2 breaks down 2023 utility aid payments according to the type of local government receiving this aid. Counties are expected to receive 48.7% of utility aid payments in 2023. Among municipality types, cities are expected to receive the bulk of utility aid payments, followed by towns and villages. While towns are only expected to receive 14.7% of total utility aid payments in 2023, these payments can be significant sources of revenue for towns, particularly where large power production plants are located.

As shown in Table 2, utility aid payments in 2023 will be split more or less evenly between counties and municipalities. This trend is largely consistent with payments made over the past 10 years, as displayed in Table 3. Total utility aid payments have generally increased during this time, as the total statewide generating capacity has increased substantially over the past 10 years. As discussed below, utility aid payments are based in part on generating capacity.

Table 2: Distribution of Estimated 2023 Utility Aid Payments (In Millions)*

Type of Government	Utility Aid	Percent of Total
Towns	$12.4	14.7%
Villages	9.6	11.4
Cities	21.2	25.2
Municipalities	$43.2	51.3%
Counties	41.0	48.7
Total	$84.2	100.0%

*Based on the Department of Revenue's September, 2022, estimates of 2023 payments.

Utility Aid Distribution Formula

Utility aid is provided in recognition of costs that local governments incur in providing services to public utilities. These companies include investor-owned and municipally-owned light, heat, and power companies, qualified wholesale electric companies, transmission companies, electric cooperatives, and municipal electric associations. The costs of providing services to these companies cannot be directly recouped through property taxation, since utilities are exempt from local taxation and are instead taxed by the state. The amount of

Table 3: Utility Aid Payments (In Millions)

	Municipalities		Counties		State Totals	
Year	Amount	Change	Amount	Change	Amount	Change
2013	$35.5		$33.7		$69.2	
2014	36.3	2.3%	34.4	2.1%	70.7	2.2%
2015	37.7	3.9	35.1	2.0	72.8	3.0
2016	37.8	0.3	35.2	0.3	73.0	0.3
2017	38.1	0.8	35.5	0.9	73.6	0.8
2018	38.9	2.1	36.4	2.5	75.3	2.3
2019	38.8	-0.3	36.8	1.1	75.6	0.4
2020	40.1	3.4	37.8	2.7	77.9	3.0
2021	42.4	5.7	40.2	6.3	82.6	6.0
2022	43.8	3.3	41.5	3.2	85.3	3.3
2023*	43.2	-1.4	41.0	-1.2	84.2	-1.3
2013 to 2023		21.7%		21.7%		21.7%

*Estimates provided by the Department of Revenue in September, 2022.

utility aid provided to local governments is calculated entirely independently of the amount of utility tax paid by these companies.

The utility aid distribution formula is based on three types of qualifying properties owned by public utility companies: electric substations; general structures, such as office buildings; and power production plants. Utility aid is calculated based on the net book value of substations and general structures, as well as the generation capacity of power production plants. Utility aid payments also include various incentive aid payments, nuclear storage payments, and decommissioning aid payments. These components of the formula, in addition to various adjustments that have been made to the utility aid program since 2005, are discussed in greater detail in this section.

Value of Substations and General Structures. Aid on substations and general structures is computed by applying a mill rate to the net book value of the qualifying utility property and depends on the type of municipality where the qualifying property is located. Payments to cities and villages are computed at a rate of six mills ($6 per $1,000 of net book value), while payments to towns are computed at a rate of three mills. Payments to counties are computed at three mills if the property is located in a city or village or at six mills if the property is located in a town. Therefore, a total rate of nine mills is applied to the value of all qualifying utility property. The value of utility property at a specific site is limited to $125 million. In 2023, utility aid payments based on the value of these properties totaled an estimated $37.5 million.

Production Capacity. Aid calculations based on production plants are based on the generating capacity of these plants. Payments for municipalities and counties which contain production plants are calculated at the combined rate of $2,000 per megawatt of the plant's name-plate capacity. If the production plant is located in a city or village, the municipality receives two-thirds of the resulting payment, and if the plant is located in a town, the town receives one-third of the resulting payment. The county receives either one-third of the resulting payment if the production plant is located in a city or village, or two-thirds of the resulting payment if the production plant is located in a town. In 2023, utility aid payments made under the capacity-based formula totaled an estimated $37.0 million.

Prior to 2009, payments for production plants that began operating before 2004 were calculated under the nine-mill formula used for substations and general structures, as described above. Two payment guarantees were provided at the time of the transition to the capacity-based formula. First, if the combined municipal and county payments for a production plant would be greater under the mill rate formula, payments would continue to be calculated using the mill rate formula. However, once the payments for the production plant are higher under the capacity-based formula, payments for the production plant will be made under the capacity-based formula thereafter. Payments under the mill rate formula tend to decline over time, as depreciation reduces the net book value of qualifying property.

Second, municipalities containing production plants are guaranteed a payment based on the combined aid payments for production plant, substation, and general structure property in the municipality that is no less than the combined aid payments based on the same property's value in 1990, reduced to reflect the value of property no longer in service. This second guarantee is not extended to counties. In 2022, this provision increased aid to two municipalities -- the towns of Anson (Chippewa County) and Wilson (Sheboygan County).

Combined payments under the mill rate formula and the capacity-based formula cannot exceed a maximum of $425 per capita for municipalities or $125 per capita for counties.

Incentive Aids. Since 2005, incentive aid payments have been made to municipalities and counties that contain qualifying production plants that are newly-constructed or repowered and began operating after December 31, 2003. These payments are excluded from the per capita payment limits, and incentive aid payments can be made under four separate provisions. In 2023, incentive aid payments totaled an estimated $11.6 million.

First, municipalities and counties each receive aid equal to $600 per megawatt of name-plate capacity if they contain a production plant that is not nuclear-powered and has a name-plate capacity of at least one megawatt, provided that the production plant is built: (a) on the site of, or on a site adjacent to, an existing or decommissioned production plant; (b) on a site purchased by a public utility before January 1, 1980, that was identified in an advance plan as a proposed site for a production plant; or (c) on a brownfield or a site adjacent to a brownfield.

Second, municipalities and counties each receive aid equal to $600 per megawatt of name-plate capacity if the production plant has a name-plate capacity of at least 50 megawatts and is a baseload generating facility. A baseload generating facility is defined as an electric generating facility that has a capacity factor that is greater than 60%, as determined by the Public Service Commission. Capacity factor is defined as the anticipated actual annual output of an electric generating facility expressed as a percentage of the facility's potential output. The Public Service Commission is granted the authority to review the capacity factor of a facility at any time.

Third, municipalities and counties each receive aid equal to $1,000 per megawatt of name-plate capacity if the production plant has a name-plate capacity of at least one megawatt and derives energy from an alternative energy resource. Alternative energy resource is defined as a renewable resource or garbage, both as defined under state law, or as nonvegetation-based industrial, commercial, or household waste. If a production plant fires an alternative energy resource together with another fuel, the number of megawatts eligible for a payment is determined by multiplying the number of megawatts that represents the plant's capacity by a percentage equal to the energy content of the alternative energy resource divided by the total energy content of the alternative energy resource and the other fuel, all as determined in the year prior to the payment. Production plants that were in operation prior to December 31, 2003, also qualify for this type of incentive aid payment, but no such plants currently receive the payment.

Finally, municipalities and counties each receive aid equal to $1,000 per megawatt of nameplate capacity if the production plant has a nameplate capacity of at least one megawatt and the facility is a cogeneration production plant, defined as an electric generating facility that produces electricity and another form of thermal energy, including heat or steam, that is used for industrial, commercial, heating, or cooling purposes. Municipalities and counties receiving a payment for a cogeneration plant cannot also receive a payment for a facility that derives energy from an alternative energy resource.

Nuclear Storage. Each municipality and county where spent nuclear fuel is stored receives an annual payment of $50,000. Currently, the state contains four storage sites located at current or former production plants in three counties, so, payments under this distribution total $350,000 annually, with $150,000 distributed to counties and the remainder allocated to municipalities. Payment recipients include: the Town of Carlton and Kewaunee County; the Town of Two Creeks and Manitowoc County; and the Town of Genoa, the Village of Genoa, and Vernon County.

If the storage facility is located within one mile of the municipality's boundary with another municipality, the municipal payment is divided. Beginning in 1996, this provision divided a nuclear storage payment between the Town of Genoa ($10,000) and the Village of Genoa ($40,000), where Dairyland Power Cooperative's La Crosse Boiling Water Reactor is located. Dairyland discontinued generating operations at this facility in 1987, and the spent nuclear fuel was kept in "wet" storage in the Village. In 2012, Dairyland moved the spent nuclear fuel to "dry" storage, at a site in the Town, and the Village annexed part of the storage site. As a result, separate payments of $50,000 each have been made to the Town of Genoa and the Village of Genoa since 2013.

Decommissioning Aid. Payments are extended to municipalities and counties containing production plants that were previously exempt from general property taxes and are decommissioned or closed. Municipal and county payments equal a percentage of the aid that was paid for the plant in the last year the plant was exempt from general property taxes. The percentages decline from 100% in the first year the plant is taxable, to 80% in the second year the plant is taxable, to 60% in the third year the plant is taxable, to 40% in the fourth year the plant is taxable, and to 20% in the fifth year the plant is taxable. In 2023, decommissioning aid payments totaled an estimated $57,140.

The annual decline in decommissioning aid represents a net decrease in the amount of revenue that local governments receive from the state. However, under 2019 Act 45, local governments are allowed to increase their annual levy limit by the amount of the reduction in decommissioning aid each year, in order to compensate for this loss in revenue. Further information on local levy limits can be found in the Legislative Fiscal Bureau's informational paper entitled, "County and Municipal Levy Limits."

Historical Overview

Wisconsin's practice of sharing state taxes with local governments dates back to 1911 when a share of the new state income tax was earmarked for local governments to compensate them for property tax exemptions that were enacted at the same time. Initially, the state employed a "return to origin" shared tax system. Through a number of law changes in the early 1970s, the shared revenue program evolved in place of that system.

Return to Origin, 1911 - 1971

Prior to 1972, state aid was distributed to counties and municipalities on a "return to origin" basis. Enactment of the individual and corporate income tax in 1911 was accompanied by the elimination of the property tax on intangible personal property, household goods, and farm equipment. To compensate local governments for the reduction in tax base, 90% of the income tax collections were distributed to the counties (20%) and municipalities (70%) in which the tax was assessed. As the state's services became more diverse, the percentage of taxes retained by the state increased, and the local percentages decreased. In addition, the state's revenue sources were expanded, and local revenue sharing provisions sometimes accompanied the expansion. For example, a motor vehicle registration fee increase was enacted in 1931. Simultaneously, motor vehicles were exempted from the property tax, and a portion of the state's registration revenues was allocated to municipalities based, in part, on the property tax revenues collected on motor vehicles in a prior year. By 1971, tax sharing provisions had been extended to the state's tax on railroads and utilities, the liquor tax, the inheritance tax, and the tax on fire insurance premiums.

Shared Taxes, 1972 - 1975

In 1971, the return-to-origin based distribution was repealed. Varying percentages of several state tax collections continued to be dedicated for local government, but the amounts were deposited in a municipal and county shared taxes account and distributed to local governments under a "needs-based" allocation, beginning in 1972. Allocations to individual local governments were based on four components: per capita; utilities; percentage of excess levies; and minimum guarantee.

Under the per capita component, combined payments of $35 per person were made to each municipality and county based on the municipality's estimated population. Of this total, five-sixths was distributed to the municipality, and the overlying county received one-sixth. Under the utility component, municipalities and counties received payments based on a statutory mill rate multiplied by the estimated value, less depreciation, of production plants and general structures owned or leased by light, heat, and power companies and electric cooperatives and of all pipeline property used by a pipeline company. (Pipeline property was removed from the utility aid distribution after 1975.) Under the percentage of excess levies component, municipalities with average property tax rates for all purposes that exceeded 17 mills over the three preceding years were eligible for payments. Payments for these municipalities were based on their average rates in excess of 17 mills multiplied by their equalized value, prorated to distribute all of the remaining funding after the per capita and utility allocations. Each eligible municipality's allocation was reduced by 16.25%, with the amount of the reduction being distributed to the overlying county. Under the minimum component, a municipality received a payment if its combined shared revenue and property tax credit payments were less than 90% of the combined payments in the prior year. The minimum payment was set equal to the deficiency, but the combined shared revenue and tax credit payments were limited to no more than $600 per capita.

Shared Revenue, 1976 - 2003

The 1971 distribution system was short-lived and succeeded by another four-component distribution that took effect in 1976. The per capita, utility, and minimum components were retained but modified, and the percentage of excess levies component was replaced by the aidable revenues component. In 1977, the program was renamed "shared revenue" from "shared taxes" to reflect that the dedication of specified percentages of various state taxes had been eliminated. Instead, a shared revenue appropriation was created and changes in the appropriation's funding level were tied to changes in total state general fund tax collections.

The aidable revenues component utilized a distribution formula based on the principle of tax base equalization and allocated state aid to municipalities and counties to offset variances in taxable wealth. Entitlements were calculated using two factors: (1) per capita property values; and (2) net local revenue effort. The lower a local government's per capita property value and the higher its net revenue effort, the greater was the local government's aidable revenues entitlement. The objective of this policy was to allow all counties and municipalities to finance minimum levels of public services, regardless of their ability to finance those services through their property tax base.

Under the 1972-1975 distributions, the per capita component allocated more than half of the total distribution. Soon after the formula changes that took effect in 1976 (Chapter 39, Laws of 1975), aidable revenues became the program's dominant component. By 1980, aidable revenues comprised more than half of the total shared revenue distribution, and by 1985, the aidable revenues share had risen to 80%.

Two factors were largely responsible for this shift. First, the 1975 law change provided for automatic increases in total shared revenue funding, but "froze" the per capita distribution at $185 million (counties were excluded from the per capita distribution beginning in 1982, with the municipal per capita distribution being set at $142.7 million thereafter). This resulted in most of the funding growth being distributed under the aidable revenues component.

Second, funding for two separate state aid programs was incorporated into the shared revenue appropriation in 1981 and 1982. Manufacturers' machinery and equipment (M&E) was exempted from the property tax in 1974, and the taxation of farmers' livestock, merchants' stock-in-trade, and manufacturers' materials and finished products (the "three stocks") was phased out between 1977 and 1981. For both types of property, the Legislature created compensating aid programs for counties and municipalities. Separate aid payments were provided for M&E from 1975 until 1981 and for the three stocks from 1978 to 1980. During these periods, the aidable revenues formula was used to distribute a portion of the M&E aid and all of the three stocks aid. When funding from the two programs was incorporated into the shared revenue program in 1981 and 1982, the additional funding was distributed under the aidable revenues component. The incorporation of these aid programs into the shared revenue program is also noteworthy because it demonstrates that the shared revenue program continued to be used for the same purpose as the original shared tax program -- compensating local governments for tax base lost through legislative action.

As noted above, the 1972 formula changes included a minimum guarantee equal to 90% of each local government's prior year payment, which was intended to ease the transition to the new distribution. The guarantee was retained in 1976 when the aidable revenues component replaced the percentage of excess levies distribution, but the guarantee was scheduled to expire after the 1981 payments. However, the Legislature retained the 90% minimum guarantee effective with 1982 payments and funded those payments by limiting payment increases to those counties and municipalities that were scheduled to receive the largest percentage gains. The maximum percentage increase changed each year so that it "skimmed" payment increases by an amount that equaled the total amount of minimum payments. Subsequently, 1985 Act 29 increased the minimum guarantee from 90% to 95%, effective with payments in 1986. At the 90% level, local governments were more likely to receive minimum payments on a temporary basis.

However, the 95% guarantee resulted in many local governments receiving minimum payments on an ongoing basis. Because minimum payments were funded by limiting payment increases to other local governments, the shared revenue program's ability to redistribute funds to the "neediest" local governments was impaired. This ran counter to the primary policy objective of the shared revenue program -- tax base equalization.

For 1972 to 1977, state aids for counties and municipalities were funded from the shared tax account, in which various percentages of certain enumerated state tax collections were deposited. This mechanism connected those state aid distributions with the original shared tax distributions where local property tax revenues were supplanted with state tax revenues. Legislation in 1977 replaced the shared tax account with the shared revenue account. While this legislation appropriated specific amounts for distribution in 1977 and 1978, the legislation specified that the amounts available for distribution in future years were to increase at the same rate as the percentage increase in state "general fund tax revenue," but no more than 12% and no less than 5%. This mechanism maintained the connection to the original shared tax account. However, the 1977 funding mechanism was never actually employed. Between 1979 and 1986, shared revenue distribution amounts were legislated, although in some years the distribution amounts were set at the funding level that would have resulted in the absence of certain law changes. For example, the distribution levels for 1979 and 1980 were set so as to offset the effects of the state tax reductions legislated in 1979-80. The automatic shared revenue funding mechanism was eliminated by 1985 Wisconsin Act 120, and since 1987, state aid funding levels for counties and municipalities have been legislated.

Related Events, 1987 - 2003

Shared revenue was distributed to all counties and municipalities, so funding increases benefited a wide range of local governments. During the 1990s, three targeted aid programs were created that benefited a smaller number of governments.

The tax rate disparity program was created by 1989 Wisconsin Act 336, and the program's first payments were made in 1991. The program was renamed expenditure restraint in 1994. Although the eligibility criteria changed somewhat in the transition, the program's distribution has been based on the excess levies concept, where qualifying municipalities' local purpose tax rates in excess of a "standard" tax rate are used to calculate payments. To qualify for payments, municipalities must have a local purpose tax rate above the standard rate and must limit the year-to-year increase in their spending to a percentage determined by a statutory formula. The majority of the payment amounts have been distributed to large cities.

The small municipalities shared revenue program was created by 1991 Wisconsin Act 39, but did not receive funding until 1994. Aid was distributed to small municipalities with a local purpose tax rate of at least one mill, and payments were based on a per capita distribution that employed a tax base measure that had some equalizing properties. The number of recipients ranged from 1,142 in 1994 to 773 in 2003. By definition, the aid was targeted to small municipalities, with populations of 5,000 or less and a full value of $40 million or less. This program was discontinued following the 2003 payments, although those payment amounts were included in the base for calculating 2004 county and municipal aid payments.

The county mandate relief program was created in 1993, and the program's first payments were made in 1994. Aid was distributed on a per capita basis to each of the state's 72 counties. Previously, counties had received a per capita allocation under the shared revenue program until 1982. Although named mandate relief, the program was not tied to any specific state mandate. This program was discontinued following the 2003 payments, although those payment amounts were included in the base for calculating 2004 county and municipal aid payments.

Between 1991 and 2003, these targeted state aid payments increased from $25.0 million to $90.5 million, or by 262%. Over the same period, the shared revenue appropriation increased from $869.0 million to $949.2 million, or by 9%. From 1995 until 2001, funding for the shared revenue appropriation remained unchanged at $930.5 million

Final Shared Revenue Formula

The following material provides a general description of the aidable revenues, per capita, and minimum guarantee/maximum growth components of the shared revenue program, which were in effect prior to 2004.

For 2003, $981.6 million in aid payments to municipalities and counties were made under the shared revenue ($949.2 million), county mandate relief ($21.2 million), and small municipalities shared revenue ($11.2 million) programs. Except for the utility aid component of the shared revenue program, payments under these three programs ceased after 2003.

Aidable Revenues Component. Aidable revenues was the dominant component of the pre-2004 shared revenue program. It was based on the principle of tax base equalization and allocated state aid to counties and municipalities to offset variances in taxable property wealth. Entitlements were calculated using two factors: (1) net local revenue effort; and (2) per capita property wealth. The higher a local government's net revenue effort and the lower its per capita property wealth, the greater was the local government's aidable revenues entitlement.

A local government's net revenue effort was measured by its level of "aidable revenues." This equaled 100% of the three-year average of "local purpose revenue" for municipalities and 85% of this average for counties. Local purpose revenue was defined to include the local property tax (exclusive of school and other levies) and other local revenues that were substitutable for the property tax. Per capita property wealth equaled the local government's adjusted property value (total taxable value minus manufacturing real estate value plus exempt computer value) divided by its population.

Aidable revenues entitlements were determined by first comparing each local government's per capita adjusted property value to a standard valuation. The proportion of the standard valuation that a local government lacked determined the percentage of aidable revenues to be reimbursed to the local government.

A local government with a per capita adjusted value equal to 67% of the "standard" and lacking 33% would generate an entitlement equal to 33% of its aidable revenues. Similarly, a local government with a per capita adjusted value equal to 91% of the standard and lacking 9% would generate an entitlement equal to 9% of its aidable revenues. Local governments with per capita adjusted values in excess of the standard were not eligible for aidable revenues entitlements.

The standard valuation was not fixed, but "floated" each year to a level that generated aidable revenues entitlements equal to the total amount of available funds.

Per Capita Component. The per capita component provided a more broad-based aid distribution than aidable revenues. Rather than providing aid to jurisdictions with specific characteristics, the per capita component distributed aid on a universal basis. Without any adjustment for property wealth, expenditure needs, tax rate, or other factors, each city, town, and village received the same municipal per capita payment. Counties were not always eligible to receive per capita payments. However, between 1994 and 2003, payments were distributed to counties on a per capita basis through the county mandate relief program. These payments were funded through a separate appropriation, rather than through the shared revenue appropriation.

Minimum Guarantee and Maximum Growth Components. The minimum guarantee and maximum growth components served to prevent large decreases or increases in payments from occurring in a short period of time. The calculations for the minimum and maximum components excluded the distributions under the utility aid and county per capita (mandate relief) components.

The minimum guarantee ensured that a local government received a shared revenue payment that was equal to at least 95% of the prior year's payment. Thus, payments did not decline by more than 5% a year.

Minimum guarantee payments were internally funded by a floating maximum growth limit. Entitlement amounts for a local government in excess of the maximum limit were "skimmed off" to provide revenues for minimum guarantee payments. Each year, the maximum growth limit was set at a level that generated the exact amount needed for minimum guarantee payments. As under the minimum guarantee, the base for comparison was the prior year shared revenue amount, exclusive of the utility aid and county mandate relief components.

County and Municipal Aid Since 2004

Over the past 20 years, there have been three reductions made to county and municipal aid funding. These reductions were made in the 2004, 2010, and 2012 payment years.

2004 Reduction. The first of these reductions were applied against base payments that consisted of each municipality's or county's combined payments in 2003 under the shared revenue (except for utility aid), county mandate relief, and small municipalities shared revenue programs. The reductions were allocated among local governments through a two-step procedure. First, reductions totaling $40.0 million were allocated among individual municipalities and counties on a per capita basis. Based on 2003 populations, these reductions equaled $3.64 per person. Second, reductions totaling $50.0 million were allocated among the state's 1,851 municipalities, but not among the state's 72 counties. These reductions also were allocated on a per capita basis, except that the reductions could not exceed 15.7% of a municipality's payment subsequent to the initial ($3.64 per person) reduction. These reductions equaled $12.78 per person for those municipalities subject to the full per capita reduction.

Between 2005 and 2009, each local government was provided a payment equal to the payment that it received in 2004. The total distribution under the county and municipal aid program equaled $859.7 million in each year from 2004 through 2009.

2010 Reduction. Total payments were reduced by $29.9 million, to $829.8 million, in 2010. For the purpose of calculating payment reductions for individual governments, the total reduction was first allocated between counties and municipalities, as groups, in proportion to the 2009 payments for both types of governments (a reduction of $5.5 million for county payments and $24.4 million for municipal payments). Payment reductions to individual counties and municipalities were then calculated using a two-step process. First, each local government's payment was reduced from the 2009 level in the proportion that the local government's equalized property value was to statewide equalized value. In the second step, this reduction was adjusted to ensure that no individual local government's payment was reduced by more than 15% from the 2009 payment. In order to make this 15% maximum reduction adjustment, an additional payment reduction was made to all of those local governments that had a first-step reduction that fell below the 15% threshold. This additional reduction was allocated among the applicable counties and municipalities on a per capita basis. In 2011, payments to each individual county and municipality were the same as in 2010.

2012 Reduction. County and municipal aid program payments were reduced by $76.8 million in 2012, to $753.0 million. Of this total, $47.7 million was for municipal aid reductions and $29.1 million was for county aid reductions. For individual municipalities, reductions were based primarily on equalized values, although there was also a population-based component and a maximum reduction component. The factors used to calculate equalized value reductions varied depending upon the size of each municipality, with a higher factor used to calculate the reduction for larger municipalities than for smaller municipalities. For instance, a municipality with a population between 50,000 and 110,000 received a reduction equal to $0.25 times each $1,000 of equalized value, while a municipality with a population between 2,500 and 10,000 received a reduction equal to $0.10 times each $1,000 of equalized value. In total, the formula utilized five such population tiers, although the smallest tier (population under 2,500) did not have a reduction based on equalized value. Since the use of these tiers creates a stair-step effect in reductions (a municipality with a population just below a tier threshold would have an aid reduction significantly smaller than a similarly-valued municipality with a population just above that threshold), a sliding population-based adjustment was added to smooth out these differences. Municipalities with a population under 2,500 only received this population-based reduction.

Following the calculation of these property value- and population-based reductions, the formula applied certain maximum reduction factors. The maximum reduction for any municipality was the lesser of a percentage of the prior year payment (15% for all cities with a population below 110,000 and 25% for all other municipalities) or a property value-based calculation (ranging from $0.35 per $1,000 of value to $0.10 per $1,000 of value, depending upon population tier, with larger rates for larger municipalities).

For counties, the reduction was made on an equal, per-capita basis ($8.76 per person), although the aid reduction for two-thirds of the counties was less than that amount because of a maximum reduction formula component (25% of the prior year payment, or $0.15 per $1,000 of equalized value, whichever was less).