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**Payments for Municipal
Services Program**

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Payments for Municipal Services Program

The payments for municipal services (PMS) program was established in 1973. Through this program, the state provides annual payments 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 will be paid by the state through the PMS program.

Payments are made for fire and police protection, extraordinary police services, garbage and trash 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 by the state agency responsible for the facility receiving the services.

Current Program

The PMS program is administered according to program guidelines developed by the Department of Administration (DOA) and approved by the Joint Committee on Finance. The current guidelines are as follows:

1. Annual payments to towns, villages, and cities are determined largely by formula. Payment adjustments may be made as a result of negotiations between a municipality and DOA.

2. Formula payments are in recognition of fire and police protection and solid waste handling

services provided by municipalities that impose no special charge or user fee for these services.

3. The formula attempts to approximate the local costs of eligible services that are attributable to the state facility and financed out of local property tax revenue. Due to various state and federal aid payments, less than 100% of police, fire, and solid waste handling expenditures are supported by the local property tax.

4. Prescribed reductions of payments are made where the state maintains self-provided police protection, reflecting state responsibility for institutional and building safety.

5. In the past, while the PMS formula had not generally applied, counties could receive PMS payments on claims for county law enforcement services that were provided when such services were specifically requested by a state facility administrator. However, the program guidelines have since been modified to eliminate program payments to counties. Rather, counties can indirectly receive reimbursement for eligible costs through an intergovernmental agreement with the municipality in which the state facility receiving the county services is located. Any payment made to the county by the municipality for those services can then be submitted as an eligible cost to be included with the costs used to determine that municipality's formula payment.

6. If an overpayment or underpayment in excess of \$5,000 during one program year is made to a municipality due to incorrect fiscal data, a building inventory misallocation, or an inadvertent oversight and is discovered within two years of the PMS payment being sent to the municipality, an adjustment to that payment will be made in subsequent PMS payment years.

Applying these guidelines results in an estimate of the municipal cost of providing the three services to state-owned property, referred to as the PMS entitlement. Entitlements are calculated on the basis of previous calendar year fiscal information. For example, entitlements calculated for services provided in 2022 are based on 2021 costs, revenues, and property values. The actual payments will be made to municipalities in 2023.

Formula Calculation

The following description of the PMS formula is presented to assist in understanding the sample calculation presented in Table 1. The first step (Step I) in this formula involves calculating the net costs incurred by the municipality in providing each eligible service on a municipality-wide basis. The net costs are determined by subtracting municipal revenues that are directly related to a particular service (service charges, specific state or federal aid payments, and intergovernmental subsidies) from the gross costs of providing the service.

The second step (Step II) in the formula involves calculating the amount of property taxes used to finance the net cost of each service. The municipality's property tax levy for municipal purposes is divided by the sum of the municipality's property tax levy for municipal purposes and state unrestricted aid payments (this sum equals total general revenue). This ratio, which represents the proportion of the municipality's general revenues provided through the property tax, is multiplied by the net cost of each service to yield the cost financed through the municipal property tax.

The final step (Step III) in the formula involves allocating a portion of the tax cost of each service to the state-owned facilities within the municipality. The tax cost of each service is multiplied by the ratio of the value of state-owned facilities to

Table 1: Sample Calculation of PMS Entitlement

Step I: Determine Net Cost of Providing Service

A.	Gross Service Costs [Personnel, fringe benefits, equipment, capital development, etc.]	\$2,480,000 (A)
B.	Direct Service Revenues [Specific state aid, specific federal aid, subsidies, service fees, etc.]	280,000 (B)
C.	Net Service Costs [(A)-(B)]	2,200,000 (C)

Step II: Determine Portion of Net Cost Supported By Local Property Tax

[Assumes that unrestricted state aid payments are used locally to help defray part of the net cost.]

D.	Municipal Property Tax Levy	\$7,480,000 (D)
E.	Sum of General Aids [State county and municipal aid, utility aid, and expenditure restraint]	7,920,000 (E)
F.	Total General Revenue [(D)+(E)]	15,400,000 (F)
G.	Percentage of General Revenue Provided By the Tax Levy [(D)÷(F)]	.485714 (G)
H.	Net Cost Supported by Local Property Tax [(C)x(G)]	1,068,571 (H)

Step III: Determine Portion of Net Cost That is Attributable to State Facilities

I.	Value of State-Owned Property (Net of land)	\$32,900,000 (I)
J.	Value of Locally-Owned, Taxable Property (Net of land)	616,200,000 (J)
K.	Total Value of Improvements to Property [(I)+(J)]	649,100,000 (K)
L.	Proportion of Total Value Which is State-Owned [(I)÷(K)]	.050686 (L)
M.	PMS Entitlement [(H)x(L)]	54,161 (M)

the total value of real estate improvements within the municipality. This is repeated for each of the three eligible costs (fire and police protection and solid waste handling services) and the three amounts are totaled to yield the municipality's PMS formula entitlement. Municipalities with an entitlement amount of less than \$100 do not receive a payment.

Additional negotiation between DOA and municipalities on factors related to the state providing its own services or a municipality providing specific services may change the results of the

basic formula calculation.

Prior to 2013 Wisconsin Act 20, annual PMS payments could not be made until the Joint Committee on Finance reviewed and approved the results of the formula calculations. Act 20 removed the Committee's role in approving the annual payment distribution, but retained the Committee's role in approving any changes to the program guidelines.

If the PMS appropriation is not sufficient to fund total entitlements, payments are prorated. If the appropriation exceeds total entitlements, the excess would lapse to the general fund.

Level of Funding

The relation between PMS entitlements and appropriations since the program's inception can be categorized by time period. Entitlements exceeded appropriations from 1973 to 1977, with proration ranging from 67.2% to 89.0%. Appropriations exceeded entitlements from 1978 to 1982, allowing payments at 100% of entitlements. Since 1982, entitlements have again exceeded appropriations and payments have again been prorated.

Declining entitlement amounts in some years could have been due to several factors, including lower total costs of services provided to state facilities, sales of state facilities, or other real estate values outpacing the value of state facilities within eligible municipalities. In other years, just the opposite occurred as entitlements increased significantly due to increases in police and fire service costs and increases in the value of state facilities that outpaced increases in private real estate values, particularly due to the construction of additional state facilities in the City of Madison.

Table 2 shows PMS payments and entitlements

Table 2: Statewide PMS Entitlements and Payments

Year	Statewide Entitlement	Percent Change in Entitlements	Statewide Payment	Payments as Percent of Entitlements
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

from 2013 through 2022. Statewide entitlements grew by 17.1% over the 10-year period. Over the same period, the PMS has remained at a constant level of \$18.6 million annually. Together, these two factors have resulted in a significant decline in the percentage of statewide entitlements covered by the PMS appropriation.

For 2022, the PMS appropriation covered 38.12% of the \$48.7 million in entitlements. PMS payments were approved for 366 municipalities in that year. 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 on \$21.7 million in entitlements.

The 1987-89 budget established a procedure for program revenue (PR), program revenue-service (PR-S), and segregated revenue (SEG) appropriations to be charged for municipal services to facilities funded through these appropriations. Payments to municipalities continue to be made from the state's general fund through a general purpose revenue (GPR) appropriation. However, after payments are made, DOA transfers amounts from the PR, PR-S, and SEG appropriations that fund state facilities to the general fund as GPR-Earned. In effect, the general fund is charged only for services to facilities associated with programs financed through the general fund.

Table 3 shows the 2021-22 chargeback amounts by agency. The largest chargeback was incurred by the University of Wisconsin System (72.6% of the total). This figure would be larger, but PR appropriations associated with academic student fees are exempt from the chargeback. In total, 2021-22 chargebacks equaled 48.3% of the PMS appropriation for that year.

The major issue related to the PMS program has been whether it should be funded at 100% of entitlements. Some local officials have argued that proration of entitlements results in municipalities not being fully compensated for the services they provide to state facilities. Consequently, the cost of providing municipal services is shifted from the state-owned exempt property to owners of taxable property.

However, it has also been argued that factors, in addition to PMS, tend to offset the local costs associated with tax exempt state facilities. Although no specific data are available to indicate the precise economic benefit to municipalities of

having state facilities, direct public investment, public payrolls, and the multiplier effect on local private investment and payrolls are of some value. The location of state facilities may also result in lower-than-average unemployment rates for the corresponding municipalities.

Table 3: 2021-22 GPR-Earned Amounts from Chargebacks for PMS

Agency	Amount
Administration	\$1,242,081
Corrections	39,321
Educational Communications Board	5,211
Health Services	349,725
Historical Society	40,006
Kickapoo Reserve Management Board	1,259
Natural Resources	202,564
Public Instruction	41,360
State Fair Park Board	191,646
Transportation	271,671
University of Wisconsin System	6,517,732
Veterans Affairs	72,003
Workforce Development	<u>1,543</u>
Total	\$8,976,122