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

[LFB 2021-23 Budget Summary: Page 536, #1]

CURRENT LAW

State law establishes the distribution under the county and municipal aid program at $748,075,700 annually. Also, $5 million of funding comes from the medical assistance (MA) program for reimbursements for emergency medical transportation services provided by local governments for total funding of $753,075,700. Annual payments to each county and municipality are set at the same amount that was received in 2012.

County and municipal aid is funded primarily by a capped, GPR, sum sufficient appropriation. A portion of the payment (estimated at $53.3 million annually) is funded from a SEG appropriation from the police and fire protection fund. Payments are made on a calendar year basis, in July and November. Consequently, the 2020 calendar year payments are made in fiscal year 2020-21, the second year of the 2019-21 biennium.

DISCUSSION POINTS

Background

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. 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 2011. 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.

3. Since the conversion from the shared revenue program to the county and municipal aid program, three reductions to the state funding level have occurred (2004, 2010, and 2012). As a result, county and municipal aid is 20.7% lower in 2021 than the amount provided in 2003

County and Municipal Revenues and Expenditures

4. Municipal and county governments are funded from several different revenue sources. Table 1 shows the municipal and county revenue composition for the five largest revenue sources for 2013, 2015, 2017, and 2019, based on financial reports these governments filed with DOR. During this period, the percentage of local revenues comprised of state aid has declined from 13.2% to 12.3% for municipalities, and from 20.4% to 18.0% for counties. Over the same period, municipal government reliance on property taxes and public charges has increased as a share of total revenues while county government's reliance on other taxes and long term debt proceeds has increased.

TABLE 1

Municipal and County Revenue Composition
2013, 2015, 2017, 2019

	Municipalities				Counties			
	2013	2015	2017	2019	2013	2015	2017	2019
State Aid	13.2%	12.9%	13.0%	12.3%	20.4%	20.9%	20.5%	18.0%
Property Taxes	29.4	29.2	31.0	30.0	27.9	28.4	29.5	26.8
Other Taxes	2.9	3.1	3.1	3.1	5.4	5.8	6.4	6.6
Public Charges	14.7	15.0	15.9	15.2	19.9	20.7	17.0	15.7
Long-Term Debt Proceeds	12.5	12.8	12.8	12.1	2.9	4.1	5.4	7.0
Total	72.7%	73.0%	75.8%	72.7%	76.5%	79.9%	78.8%	74.1%

5. Since the 2005(06) property tax year, the Department of Revenue (DOR) has administered a levy limit program that restricts the year-to-year increases in county and municipal property tax levies. During the early years of the levy limit program some minimum annual growth in levies was allowed. However, the current 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.

6. Local levy limits and state aid increases for school districts and related tax credits have been provided to help control local property tax bill increases. Also, 2013 Wisconsin Act 145 provided $406 million annually as property tax relief associated with the Wisconsin Technical College System levy. As a result, since 2010(11), the estimated net tax bill for a median-valued home taxed at statewide average tax rates has increased by 1.6%. Over the same ten-year period, the consumer price index increased by 17.2%.

7. 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. 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. While they need to demonstrate and convince their electors of the need, local governments do have the ability to ask voters at referendum for additional resources through the property tax levy.

8. While levy limits have generally restricted levy growth, statewide municipal levies have grown at an average annual rate of 2.2% and counties have grown at 2.9% since levy limits were established in 2005(06). This growth is primarily due to allowable levy growth for net new construction (NNC) and to various exclusions and exemptions that can be applied to the levy limit (such as debt service on debt issued for capital improvement projects). These increases in total property tax levies assist local governments in meeting some of the higher costs of providing government services each year. However, some of the allowable levy increases associated with newly constructed homes or commercial properties are in part used to pay for the local government services provided to those properties. Thus, the levy increases associated with these improvements are not entirely available to fund the increased cost of providing government services to existing homes and commercial properties, or to operate any newly constructed public facilities financed through the issuance of debt.

9. Despite this growth in statewide county and municipal levies over the past 16 years, the change in individual local government levies will vary. Again, this growth is in part due to the NNC adjustment factor made to the prior year actual levy for each county and municipality. NNC is largely a factor of whether a municipality is growing, and expanding its tax base through improvements to residential, commercial and other categories of the property tax base. However, not all municipalities are growing and expanding their property tax base through NNC improvements at the same rate. As a result, the levy limit is more restrictive to the areas of the state that are experiencing the least growth in their property tax base. This is demonstrated in the following table, which categorizes each type of local government by the percentage growth in NNC.

TABLE 2

Allowable Levy Growth from Net New Construction by Type of Local Government

	2019							
	Towns		Villages		Cities		Counties	
	Count	% of Total	Count	% of Total	Count	% of Total	Count	% of Total
0%	47	3.8%	44	10.7%	8	4.2%	26	36.1%
0% to 1%	665	53.2	190	46.1	69	36.3%	39	54.1
1% to 2%	415	33.2	97	23.5	78	41.1%	6	3.2
2% to 3%	78	6.2	38	9.2	21	11.1%	1	0.5
3% to 4%	24	1.9	17	4.1	9	4.7%	0	0.0
4% to 5%	7	0.6	13	3.2	1	0.5%	0	0.0
5% or more	13	1.0	13	3.2	4	2.1%	0	0.0
Total	1,249		412		190		72	
Median % Growth		0.9%		0.8%		1.2%		1.2%
	2020							
	Towns		Villages		Cities		Counties	
	Count	% of Total	Count	% of Total	Count	% of Total	Count	% of Total
0%	58	4.6%	43	10.4%	4	2.1%	28	38.9%
0% to 1%	705	56.5	184	44.6	76	40.0	37	51.4
1% to 2%	385	30.8	107	25.9	73	38.4	6	8.3
2% to 3%	69	5.5	29	7.0	21	11.1	1	1.4
3% to 4%	12	1.0	22	5.3	9	4.7	0	0.0
4% to 5%	9	0.7	17	4.1	5	2.6	0	0.0
5% or more	10	0.8	11	2.7	2	1.1	0	0.0
Total	1,248		413		190		72	
Median % Growth		0.8%		0.8%		1.1%		1.0%

10. As shown in Table 2, the median percentage growth rates for each type of government the past two years have ranged from 0.8% to 1.2%. Further, a majority of town, village and county governments experienced NNC growth of less than 1%, while a majority of city governments had growth in NNC below 2%. Alternatively, a certain amount of towns, villages, and cities grew their tax base associated with NNC at a much faster pace. For example, in 2019, 44 towns (3.5%), 43 villages (10.4%), and 14 cities (7.4%) had an adjustment to their levy associated with NNC 3% or higher. Similarly, in 2020, 31 towns (2.5%), 50 villages (12.1%), 16 cities (8.4%) had an adjustment to their levy associated with NNC of 3% or higher. Counties, due to their much larger tax base, had more concentrated growth rates in both years.

11. Typically, municipalities and counties use tax levy or issue general obligation bonds to fund capital improvements. Given the levy limit restrictions, and absent a referendum to exceed those restrictions, their ability to "cash" fund a significant amount of capital improvements may be limited. As a result, county and municipal governments often look 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 capital improvements is another way that local governments can fund those projects without violating the levy limit restrictions.

12. Local governments have taken on increasing levels of debt to fund capital improvements. Between 2005 and 2019, total outstanding general obligation debt for all local governments has increased by 55.3%, and at an average annual rate of 2.9% for counties and 3.3% for municipalities. In comparison, the Consumer Price Index has increased by 30.9% in total and at an average annual rate of 1.9% over the same period. Providing an increase in county and municipal aid would provide local governments with additional 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.

13. While statewide property tax levies have outpaced inflation since 2005, much of the that growth is associated with new housing stock and other new development, which represent additional costs for county and municipal governments, with little new levy available to cover growing costs associated with existing housing and commercial stock. In addition, individual communities with more limited growth have not experienced the levy increases experienced by the faster growing areas of the state that are driving the statewide levy increases.

14. The administration indicates that because county and municipal aid has been reduced both in real and nominal dollars for years, localities have had to either increase property taxes if the tight and uneven levy limits permit it, or in the many localities with little new construction growth, likely reduce services. In either situation, the administration notes that residents are not served well. Providing $15,061,500 in 2021-22 and $30,424,300 in 2022-23 to increase funding for county and municipal aid by 2%, in both calendar year 2021 and 2022, would assist local governments with their annual budgets. [Alternative 1]

Federal Coronavirus Funding

15. In response to the public health emergency caused by the coronavirus pandemic, several federal bills have been enacted to provide direct financial support to state and local governments. The first of these was the CARES Act, which was enacted on March 27, 2020 and included the creation of the Coronavirus Relief Fund (CRF), which provided Dane County, Milwaukee County, and the City of Milwaukee $250 million directly from the CRF. Funds received from the CRF were subject to several restrictions in terms of how they could be used. Governments receiving these funds were restricted to using the funds only in response to the public health emergency, and funds were not allowed to be used to replace revenues lost as a result of the pandemic. Additionally, the deadline for use of these funds was December 30, 2021.

16. In addition, the state of Wisconsin received approximately $2.0 billion from the CRF, and distributed approximately $201.0 million to municipal, county, and tribal governments in the state

through the Routes to Recovery program. The funds were distributed according to population, with each government receiving a minimum of $5,000. Governments were subject to the same restrictions on the uses of these funds as the CRF.

17. The American Rescue Plan Act (ARPA) was enacted on March 11, 2021, and created both the State Fiscal Recovery Fund and the Local Fiscal Recovery Fund (LFRF). Every local government in Wisconsin will receive a payment from the LFRF. Monies received from the LFRF are generally restricted to making investments in broadband, sewer, water and storm water infrastructure, or to provide premium pay for essential workers. LFRF monies may not be used to offset a reduction in net tax revenues, or deposited into pension funds or rainy day funds, or be used to offset reductions in net tax revenue. Table 3 below shows the estimated amounts that will be received by units of local government from the LFRF.

TABLE 3

Wisconsin LFRF Allocations by Government Type
($ in Millions)

Towns	$160.1
Villages	97.6
Cities	929.4
Total	$1,187.1
Counties	$1,129.2

18. However, under ARPA, LFRF monies may also be more broadly used for the provision of government services, to the extent of a reduction in revenue, or "revenue loss" due to the pandemic can be demonstrated by the local governments in the state. Otherwise, local governments would be generally limited to spending LFRF monies on allowable infrastructure (broadband, sewer, water and storm water) or premium pay to workers. Thus, if a "revenue loss" can be demonstrated by a local unit of government in a year, that governmental unit has greater flexibility as to how they can use the LFRF monies in that year.

19. Guidance from the U.S. Treasury defines "government services" broadly as including maintenance or pay-go funding 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. The Treasury guidance also provides a method for calculating "revenue loss" for the purposes of using LFRF monies for the provision of government services, in addition to providing a definition of "general revenue" for the purpose of this calculation. "General revenue" is defined to include revenues collected by a recipient government and generated from its underlying economy, as well as other types of revenue that are available to support government services. This definition includes tax revenues, certain intergovernmental transfers, including those from the state to local units of government, charges (including toll revenues, public hospital revenues, and public education institution revenues), and other "own source" revenues, including rents, royalties, lottery proceeds, and fines. In calculating general revenues, recipient governments are directed to sum across all revenue streams.

20. "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 will use a growth adjustment equal to the greater of 4.1% annually, or the recipient's average annual revenue growth over the three full fiscal years prior to the public health emergency (2017-2019). Each recipient government is to calculate its own "revenue loss" for the purpose of determining the amount of LFRF monies that may be used to fund government services each year. The calculation of the annual "revenue loss" is to be completed as of December 31, beginning in 2020, and each year thereafter through 2023. If any carryover LFRF monies remain at the end of each year, and if a "revenue loss" can be demonstrated in a subsequent year, that local government would again have the flexibility to use those LFRF monies for the provision of government services up to the amount of "revenue loss" shown in that year.

21. For illustration purposes only, Table 4 provides an example of the "revenue loss" calculation for a fictional Village of Badgerville, a growing municipality in a growing county. The Village received a $900,000 allocation from the LFRF. The Village's base year revenue, in 2019, was $10,191,700, and the Village's three-year average growth prior to the public health emergency was 3.6%, which is lower than the allowable growth of 4.1%. As a result, the Village, in calculating its revenue loss as of December 31, 2020, could increase its base year revenue by 4.1%, which results in counterfactual revenue amount of $10,609,600. This counterfactual revenue amount is then subtracted from the Village's actual revenue in 2020 of $10,554,700, which results in a demonstrated "revenue loss" of $54,900 lower than the counterfactual revenue. Therefore, in 2021, Badgerville would have the added flexibility to use up to $54,900 of its LFRF allocation for the more broad provision of government services. Further, given NNC's impact on allowable levy increases, the state's slower growing local governments will likely be able to demonstrate greater "revenue losses." As shown in Table 4, this "revenue loss" calculation is to be computed, each year through December, 2023. The Village of Badgerville would continue to demonstrate a "revenue loss" each year. Therefore, if the Village has any of the $900,000 LFRF allocation remaining at the end of each year, the Village could use some or all of those carryover funds up the annual "revenue loss" amount on a broader array of government services.

TABLE 4

Estimated "Revenue Loss" for the Village of Badgerville

	2020	2021	2022	2023
Actual Revenue (Estimated)	$10,554,700	$10,930,600	$11,319,900	$11,723,100
Counterfactual Revenue	10,609,600	11,044,500	11,497,400	11,968,800
"Revenue Loss"	-$54,900	-$113,900	-$177,500	-$245,700

22. While local units of government have received federal coronavirus aid for specific purposes, and some governments with an annual "revenue loss" may be able to use LFRF funds for more broad government services purposes, that funding is one-time in nature. Typically, one-time

funds are best used to pay one-time costs, like capital projects or other infrastructure improvements, rather than for the provision ongoing government services. Therefore, county and municipal governments may be reluctant to fund the type of ongoing staff and government services that county and municipal aid typically helps fund because when the LFRF funds are exhausted, ongoing revenues must be found to cover those costs, or those costs and services may have to be reduced.

23. Local governments are receiving federal LFRF monies aid that can be used for either specific purposes, or for more broad purposes, if an annual "revenue loss" can be shown. However, county and municipal aid is considered an intergovernmental revenue and must be included in actual revenues each year when calculating annual "revenue loss". Therefore, providing annual aid increases in the biennium would negatively impact county and municipal "revenue loss" calculations, by narrowing the gap between the counterfactual and actual revenues. This would, in turn, would reduce the flexibility that local governments would have to spend those LFRF funds on the broader array of government services.

24. Providing an aid increase in both 2021 and 2022 would affect the "revenue loss" calculation for LFRF funds for 2021, 2022 and 2023, which would reduce the amount of "revenue loss" a local government could demonstrate in that year. Conversely, providing only a county and municipal aid increase in 2022 would only impact the last two years of this calculation, allowing local governments the ability to use a larger share of these funds on a broader array of government services during the early years in which these funds are available. In addition, local governments have already established their 2021 budgets, and set 2020(21) levies in late, 2020. Accordingly, there may not be a need for an increase in county and municipal aid payments in the first year of the biennium. Instead, the Committee could provide $15,061,500 GPR in 2022-23 to increase funding for county and municipal aid by 2%, for calendar year 2022 and thereafter. The total distribution for county and municipal aid would be increased to $763.1 million. This funding would address some of the budget concerns facing local governments, but would only impact the final two years of the LFRF "revenue loss" calculation when much of that funding may have already been committed or spent. [Alternative 2]

25. Given the amounts of federal funding that are expected to be received by local governments to address the ongoing economic impact of the pandemic, there may not be a need for the state to increase county and municipal aid payments. Moreover, the additional state aid would be included as actual revenue will likely negatively impact the annual "revenue loss" calculation and limit the amount of LFRF monies available to local governments to use more broadly for the provision of government services. [Alternative 3]

ALTERNATIVES

1. Provide $15,061,500 GPR in 2021-22 and $30,424,300 GPR in 2022-23 to increase funding for county and municipal aid by 2%, in both calendar year 2021 and 2022. Set the total distribution for county and municipal aid at $763.1 million in 2021-22 and $778.5 million in 2022-23 and thereafter.

ALT 1	Change to Base
GPR	$45,485,800

2. Provide $15,061,500 GPR in 2022-23 to increase funding for county and municipal aid by 2%, for calendar year 2022 and thereafter. Set the total distribution for county and municipal aid at $763.1 million.

ALT 2	Change to Base
GPR	$15,061,500

3. Take no action.

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