



## Legislative Fiscal Bureau

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February 10, 2021

TO: Members  
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Administration: Section 13.10 Request for Changes to Municipal Services Payment Program Guidelines -- Agenda Item I

### REQUEST

The Department of Administration (DOA) requests approval of proposed amendments to the municipal services payment (MSP) program guidelines, which are used in calculating the program's annual municipal entitlement amounts and making annual payments to municipalities.

Annually, by November 15, DOA is required to submit a MSP payment report to the Joint Committee on Finance. This report indicates the entitlement amounts for each municipality and the associated payments to be received in the following year. This report is submitted to the Committee for informational purposes only.

On November 11, 2020, DOA submitted its annual MSP payment report to the Committee. Along with that report, DOA also submitted proposed changes to the MSP program guidelines. Under s. 70.119, of the statutes, the Department is required to submit guidelines for negotiated payments to the Committee for approval. Any changes to the guidelines must be approved by the Committee before DOA can proceed with the program payments under those guidelines. The proposed guideline changes are before the Committee for review under s. 13.10 of the statutes.

### BACKGROUND

Through the MSP 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. Payments are made for eligible fire and police protection, garbage and trash collection and disposal, and other approved direct services. 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 at state facilities. In 2020-21, \$18,584,200 GPR

will be paid by the state to a total of 363 municipalities through the MSP program.

Payments to municipalities are made from the state's general fund, through a sum certain, general purpose revenue appropriation. After payments are made, DOA transfers amounts from agency program revenue, program revenue-service, and segregated revenue appropriations from state agencies that fund facilities for which an MSP payments are received. In effect, the general fund is only charged for services to facilities associated with programs financed through the general fund. In 2019-20, GPR-Earned amounts credited to the general fund associated with these chargebacks totaled \$9,131,218.

MSP Formula. Annual MSP entitlement payments to towns, villages, and cities are determined by formula. The costs used in the formula calculation are based on the previous calendar year's fiscal information. For example, entitlements calculated for services provided in 2020 are based on 2019 costs, revenues, and property values. The actual payments is then made to municipalities in early 2021.

The initial step of the MSP 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 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. For the purposes of calculating total general revenue, unrestricted state aid equals the sum of a municipality's state aid under county and municipal aid, utility aid, and expenditure restraint programs.

The final step 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 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 MSP formula entitlement. Municipalities with entitlement amounts of less than \$100 do not receive a payment.

Adjustments for Police Costs. As mentioned earlier, municipal police service costs are eligible costs used in determining a municipality's formula entitlement amount under the program. However, the current program guidelines allow for reductions to be made to this component of municipal entitlements for certain state facilities that have their own, 24-hour police forces with arrest authority, such as campus police at UW-System facilities. Reductions to this component of the entitlement formula can also be made for municipalities that host facilities where a reduced level of local police services are needed due to the nature of the facility, such as a state correctional facility or a UW-

System two-year campus with 24-hour security personnel. The guidelines allow DOA to make a negative adjustment to a municipality's formula entitlement for police and related services to reflect the level of local support that these state facilities receive. The policy reason for such a reduction is that for certain UW-System campuses, the institution may provide its own police or security services, which lessens the need for the host municipality to provide police services. Also, for these facilities, as well as state correctional facilities, only a limited scope of local police services may be needed, depending on the level of security at the facility, the level of public access to the facility, and the ability of facility's population to have free movement. In these cases, the police services portion of the base entitlement is reduced to reflect the decreased level of municipal police services required at the state facility.

Under the existing guidelines, DOA also has authority to make positive adjustments to police service costs in recognition of the widely varying needs, local cooperative agreements, and the quality and quantity of state and local police services. DOA is not proposing any changes to the guideline provisions that relate to any of the positive adjustments to police service costs. In no instance can the combination of negative and positive adjustments exceed 100% of the original formula entitlement, nor can the amount of entitlement for police service be reduced by an amount in excess of the amount expended by the state for police services at a given facility.

Proration of MSP Payments. If the MSP appropriation is not sufficient to fund total entitlement amounts in a year, DOA has statutory authority to prorate payments to each municipality based on the amount of available funding. For 2021 program payments, the calculated entitlements totaled \$53,703,005. DOA prorated the payment to each municipality to equal 34.6% of their formula entitlement amount (\$18,584,200 appropriation/\$53,705,005 in formula entitlements). The proration level has ranged from 34.6% to 51.8% over the last 10 years.

## **ANALYSIS**

The proposed guidelines would make several minor clarifications to the description of the program as well as make changes to the adjustments allowed under the police services component of the entitlement formula. The guidelines for the MSP program have not been amended since 2009. Since that time, DOA indicates that the level of police services provided to certain state facilities by municipal governments has shifted. DOA indicates that in discussions with municipal officials and Department of Corrections staff, and through investigation, the Department found that changes to the guidelines are needed to adjust the entitlement formula to more accurately reflect the level of police services provided by municipalities at these facilities. Therefore, DOA is recommending that changes be made to the existing guideline provisions that allow for negative adjustments to be made to the base police services formula entitlement amount as follows:

- a. Increase the reduction to the entitlement amount from 40% to 50% of the base entitlement for facilities with self-provided security personnel but generally unrestricted public access (such as, UW two-year campuses without dormitories);
- b. Increase the reduction to the entitlement amount from 50% to 80% of the base entitlement for facilities with self-provided police protection with full arrest authority but generally

unrestricted public access and free movement of the institutional population (such as, UW four-year campuses);

c. Decrease the reduction to the entitlement from 80% to 50%, of the base entitlement for minimum and medium security correctional facilities with restricted public access; and

d. Decrease the reduction to the entitlement from 90% to 50%, of the base entitlement for maximum security institutions with highly restricted public access.

DOA has indicated that these proposed changes would more accurately reflect the level of local police services provided to state facilities. The existing guidelines already note that local police services are needed less than 25% of the time to assist state police personnel and security personnel at each of the facilities affected by the amended guidelines. However, DOA has indicated that the level of police investigative services has increased in all host communities, for correctional facilities at all security levels. A reference to the higher level of investigative services needed at affected correctional institutions would be specifically enumerated in the proposed guidelines, and would remain in the guidelines if the proposed changes are approved by the Committee.

If the Committee approves the proposed guideline changes, the amended guidelines would be used to calculate the 2021 payments that would be paid in early, 2022. The proposed changes would likely alter the distribution of MSP payments among the municipalities currently sharing the \$18.6 million in MSP funding. For example, under the proposed changes, those municipalities with an affected campus facility would receive a greater negative adjustment to their police services formula entitlement amount, while those municipalities with an affected prison facility would receive less of a negative adjustment to their police services formula entitlement amount. DOA indicates that of the 363 municipalities that will receive a payment in 2021, 46 would be directly affected by the proposed guidelines. While most of the affected municipalities host UW or DOC facilities, a few facilities operated by the Department of Health Services, the Department of Natural Resources, the Department of Administration, and the State Fair Park would also be affected. Further, if the overall adjusted entitlements increase as a result of these guideline changes, municipalities that host other, unaffected types of state facilities may see a modest decrease in their MSP payment, as each municipality's aid payment would have to be further prorated to accommodate the higher costs. Conversely, if the proposed changes reduce overall program entitlement amounts compared to the current guidelines, then municipalities with unaffected state facilities may see a modest increase in their MSP payment due to a lower proration of their payment.

If the Committee does not approve the proposed guideline changes, the current adjustments to the formula entitlement would continue to apply and the distribution of future MSP payments would be unaffected.

## **ALTERNATIVES**

1. Approve the Department of Administration's modifications to the MSP program guidelines, including the proposed changes to the negative adjustments to the police services formula entitlement amounts.

2. Deny the requested modifications to the MSP program guidelines (adjustments to the police services component of the formula would continue to be made in the same manner as in past years).

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