Legislative Fiscal Bureau
One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

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

[LFB 2011-13 Budget Summary: Page 399, #5]

CURRENT LAW

Through the payments for municipal services (PMS) program, the state has provided annual payments since 1973 to reimburse municipalities for all or a portion of property tax supported expenses incurred in providing services to state facilities, which are exempt from property taxation. The intent of the program is to aid in the reduction of local property taxes by making an equitable contribution toward the cost of certain municipally provided services. In 2010-11, $20,649,200 GPR will be paid by the state through the PMS program.

Initially, the annual PMS payments to municipalities are funded 100% from the program's GPR appropriation. However, the program has a procedure for PR, PR-S, and SEG appropriations to be charged for municipal services to facilities funded through these appropriations. After the payments are made from the GPR appropriation, the Department of Administration (DOA) charges back any PR, PR-S, and SEG operations appropriations that fund state facilities and transfers monies from those appropriations to the general fund as GPR-Earned. In effect, the general fund is charged only for services to facilities associated with programs financed through the general fund. In 2009-10, GPR expenditures for the program were offset by $10,226,570 in GPR-Earned chargeback amounts.

GOVERNOR

Reduce funding by $2,065,000 GPR annually for the payments for municipal services program, from a base level of $20,649,200 to $18,584,200, which represents a 10% reduction. Reduce the estimated GPR-Earned through agency chargebacks under the program by $1,022,200 annually, from $10,399,000 to $9,376,800, to reflect the reduced funding level for payments.

DISCUSSION POINTS

1. PMS payments are made for fire and police protection, extraordinary police services,

solid waste collection and disposal, and other approved direct services. Municipal services such as water, sewer, and electrical power that are financed in whole, or in part, by special charges or user fees must be paid for directly by the state agency responsible for the facility receiving the services. The annual entitlement for each eligible municipality is determined largely by formula and, in a few instances, through additional negotiation with DOA. The formula attempts to approximate the amount of reimbursable services provided to state facilities that are financed out of local property tax revenue. Under this formula, entitlements are calculated as a percent of municipal police, fire, and solid waste costs, with the percent being calculated as the result of the value of state facilities as a percent of the combined value of taxable buildings and state facilities multiplied by property tax revenues as a percent of county and municipal aid, expenditure restraint, shared revenue utility aid, and property taxes combined. Entitlements are calculated on the basis of previous calendar year fiscal information. For example, entitlements calculated for services provided in 2011 will be based on 2010 costs, revenues, and property values. The actual payments will be made to municipalities in 2012.

2. If the sum of the formula entitlements exceeds the appropriation for the PMS program, the payments are prorated. In the past, payments have varied from 60.8% of entitlements to 100% of entitlements. Table 1 shows PMS payments and entitlements from 2001 through 2010. If the funding level under the Governor's recommendation had been in place for the 2010 PMS calculation, that funding level would have reimbursed 54.7% of the statewide PMS entitlements in that year. 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 or increases in the value of state facilities compared to private real estate values due to the construction of additional state facilities.

TABLE 1

Statewide PMS Entitlements and Payments

Year	Statewide Entitlement	Percent Change in Entitlements	Statewide Payment	Payments as Percent of Entitlements
2001	$24,241,421		$21,781,000	89.9%
2002	25,507,169	5.2%	21,998,800	86.2
2003	25,021,635	-1.9	21,998,800	87.9
2004	24,938,461	-0.3	21,998,800	88.2
2005	24,960,894	0.1	21,998,800	88.1
2006	27,501,410	10.2	21,998,800	80.0
2007	27,438,400	-0.2	21,998,800	80.2
2008	27,124,333	-1.1	21,998,800	81.1
2009	30,794,333	13.5	20,649,200	67.1
2010	33,947,903	10.2	20,649,200	60.8

3. For the 2010 calculation (paid in February, 2011), PMS payments were approved for 310 municipalities. Payments ranged from $66 to the Town of Estella in Chippewa County, which had $109 in entitlements, to $9.2 million to the City of Madison, which had entitlements of $15.1 million. The 20 largest PMS payment recipients (listed below in Table 2) accounted for 88.9% of

the payments to all eligible municipalities. Table 2 compares the actual February, 2011, PMS payment amount to the 2011 payment that would have been received with a 10% funding reduction, in order to illustrate the potential effect of the Governor's recommendation.

TABLE 2

Potential Payment Reduction to the 20 Largest PMS Payment Recipients

Municipality	Actual 2011 Payment	2011 Payment With 10% Reduction	Reduction
Madison (City)	$9,185,812	$8,267,231	-$918,581
Milwaukee	1,967,579	1,770,821	-196,758
Oshkosh	1,115,138	1,003,624	-111,514
La Crosse	982,368	884,131	-98,237
Stevens Point	667,683	600,915	-66,768
Green Bay	613,094	551,785	-61,309
Eau Claire	579,408	521,467	-57,941
Kenosha	417,097	375,387	-41,710
Menomonie	364,430	327,987	-36,443
Whitewater	352,940	317,646	-35,294
Platteville	297,023	267,321	-29,702
River Falls	269,867	242,880	-26,987
Superior	257,814	232,033	-25,781
Waukesha	221,753	199,578	-22,175
Fond du Lac	200,061	180,055	-20,006
Wausau	195,735	176,162	-19,573
Madison (Town)	184,312	165,881	-18,431
Chippewa Falls	165,451	148,906	-16,545
Janesville	164,498	148,048	-16,450
Sheboygan	140,261	126,235	-14,026
Total	$18,342,324	$16,508,093	-$1,834,231

4. The Governor has indicated that the PMS funding reductions under the bill are part of the state's across-the-board reductions to many state aid programs. He has indicated that these reductions in state aid would be offset by the changes to the state's collective bargaining laws included under 2011 Act 10. Under this reasoning, it is believed that the collective bargaining changes would lead to reduced payroll costs for those local governments, which would allow them to absorb the state aid reductions. Specifically, the Governor has pointed to the Act 10 provisions that would require local employees to pay the full employee share of their pension contributions (generally 5.8% of salary) and additional health care premiums, both previously paid by the governmental employer, as the means by which local governments could reduce their payroll costs.

5. However, while the reasoning that the Act 10 collective bargaining changes will assist local governments by offsetting state aid reductions may hold for local aid programs that assist every municipality in the state, the proposed 10% reduction in PMS funding would not be

shared by all municipalities in the state. Rather, the proposed reduction would inordinately hit a small number of municipalities. Only 310 of the state's 1,851 municipalities (16.7%) received a PMS payment in 2011, and as discussed earlier, 20 of those municipalities received 88.9% of 2011 PMS payments. For these municipalities, the PMS aid reduction would be in addition to the other local aid reductions in the bill. These municipalities could have more difficulty generating sufficient enough payroll reductions to offset both the proposed reduction in their PMS payment and the reduction in their other aid payments.

6. In past years, a municipality could have increased its property tax levy in order to make up for any PMS aid reduction, which would have essentially shifted the cost of providing municipal services to state facilities to other taxable properties within that municipality. However, because the Governor is also recommending a somewhat restrictive levy limit, these municipalities may not be able to offset the reduced PMS aid through additional property tax levies. Instead, these municipalities could have to reduce overall local expenditures.

7. Municipalities that have a significant number of state facilities receive some benefit from having those state facilities located within their area or region of the state. UW System campuses and colleges are significant employers within the municipalities in which they are located, as are prison facilities and other major state installations. In addition, aside from the direct employment at these facilities, local economies receive ancillary economic benefits as those employed at the state facilities spend their income in that local economy. Stable, if not higher, home and property values associated with having a large state employer in the region are also a benefit. It is with this understanding of the positive economic benefits to their region that municipalities around the state often vie to have state facilities located in their region. Given the economic benefits derived from having state facilities located within these municipalities, the concentration of the proposed PMS aid reduction on these few communities could be defensible, despite the concern that those municipalities may not be able to reduce their payroll costs under Act 10 to completely offset the aid reduction.

8. The Governor's budget recommendation would reduce the PMS appropriation by 10%, which would also reduce the annual GPR-Earned amounts associated with the agency chargebacks by 10%. The bill would reduce GPR-Earned amounts associated with the chargebacks by $1,022,200 annually. In February, 2011, actual agency chargebacks associated with the 2011 PMS payments were established at $10,470,600 (50.7% of payments) or $71,600 higher than the 2010-11 base level GPR-Earned amount of $10,399,000 (50.4% of payments). Using this updated chargeback amount for the 2011-13 biennium would result in estimated GPR-Earned amounts under the bill of $9,423,500 annually, which is $46,700 higher annually than the original $9,376,800 annual GPR-Earned estimate.

9. Table 3 shows the funding and agency chargeback amounts associated with different percentage rate changes in funding for the payment for municipal services program. The table also indicates the net fiscal effect under each percentage change, which is the funding change to the bill minus the change in agency chargebacks [Alternative 2].

TABLE 3

Funding Needed for Various Percentage Changes

% Change	Change to Base Funding 2011-12	Change to Base Funding 2012-13	Change to Bill Funding 2011-12	Change to Bill Funding 2012-13
0%	$0	$0	$2,065,000	$2,065,000
-2	-413,000	-413,000	1,652,000	1,652,000
-4	-826,000	-826,000	1,239,000	1,239,000
-6	-1,239,000	-1,239,000	826,000	826,000
-8	-1,652,000	-1,652,000	413,000	413,000
-10 (Bill)	-2,065,000	-2,065,000	0	0

% Change	Change in Agency Chargebacks 2011-12	Change in Agency Chargebacks 2012-13	Net Fiscal Effect 2011-12	Net Fiscal Effect 2012-13
0%	$1,093,800	$1,093,800	$971,200	$971,200
-2	884,400	884,400	767,600	767,600
-4	675,000	675,000	564,000	564,000
-6	465,600	465,600	360,400	360,400
-8	256,200	256,200	156,800	156,800
-10 (Bill)	46,700	46,700	-46,700	-46,700

10. The previous point presented various options that would restore some or all of the funding for the PMS program If Committee determines that municipalities should be more fully reimbursed for their costs at state facilities, or if Committee decides that the benefits of having state facilities in a community outweigh the costs of providing services to that community, options could be selected based on a targeted share of formula entitlements that the state would fund. Since 2001, statewide PMS entitlements have grown by an average of 3.8% per year. If this continues, entitlements would equal $35.24 million in 2011 (payments made in 2011-12) and $36.58 million in 2012 (payments made in 2012-13).

11. Table 4 shows the funding, agency chargebacks, and net fiscal effect of options that would target a percentage of the estimated entitlements identified in the previous point.

TABLE 4

Funding Needed at Various Percentages of Estimated PMS Entitlements

% of Entitlements	Change to Base Funding 2011-12	Change to Base Funding 2012-13	Change to Bill Funding 2011-12	Change to Bill Funding 2012-13
100%	$14,590,800	$15,930,800	$16,655,800	$17,995,800
75	5,780,800	6,785,800	7,845,800	8,850,800
50	-3,029,200	-2,359,200	-964,200	-294,200
33	-9,020,000	-8,577,800	-6,955,000	-6,512,800
25	-11,839,200	-11,504,200	-9,774,200	-9,439,200

% of Entitlements	Change in Agency Chargebacks 2011-12	Change in Agency Chargebacks 2012-13	Net Fiscal Effect 2011-12	Net Fiscal Effect 2012-13
100%	$8,492,400	$9,171,800	$8,163,400	$8,824,000
75	4,025,100	4,534,700	3,820,700	4,316,100
50	-442,200	-102,500	-522,000	-191,700
33	-3,480,000	-3,255,700	-3,475,000	-3,257,100
25	-4,909,500	-4,739,600	-4,864,700	-4,699,600

ALTERNATIVES

1. Approve the Governor's recommendation to reduce funding by $2,065,000 GPR annually for the payments for municipal services program, from a base level of $20,649,200 to $18,584,200, which represents a 10% reduction. In addition, decrease the GPR-Earned through agency chargebacks under the program from $10,399,000 to $9,423,500, to reflect the reduced funding level for payments and the reestimated agency chargeback percentage. As a result of this reestimate, GPR-Earned amounts would increase by $46,700 annually compared to the bill.

ALT 1	Change to Bill Revenue
GPR	$93,400

2. Modify that Governor's recommendation by specifying one of the following percentage changes in funding and make the corresponding changes to the GPR-Earned amounts compared to the bill.

% Change	Change to Bill (GPR) 2011-12	2012-13	Biennium	Change in Agency Chargebacks (GPR-Earned) 2011-12	2012-13	Biennium	Net Fiscal Effect After Chargebacks 2011-12	2012-13	Biennium
-2%	$1,652,000	$1,652,000	$3,304,000	$884,400	$884,400	$1,768,800	$767,600	$767,600	$1,535,200
-4	1,239,000	1,239,000	2,478,000	675,000	675,000	1,350,000	564,000	564,000	1,128,000
-6	826,000	826,000	1,652,000	465,600	465,600	931,200	360,400	360,400	720,800
-8	413,000	413,000	826,000	256,200	256,200	512,400	156,800	156,800	313,600

3. Modify the Governor's recommendation by targeting one of the following percentages of estimated entitlements and make the corresponding changes to the GPR-Earned amounts compared to the bill.

% of Entitlements	Change to Bill (GPR) 2011-12	2012-13	Biennium	Change in Agency Chargebacks (GPR-Earned) 2011-12	2012-13	Biennium	Net Fiscal Effect After Chargebacks 2011-12	2012-13	Biennium
100%	$16,655,800	$17,995,800	$34,651,600	$8,492,400	$9,171,800	$17,664,200	$8,163,400	$8,824,000	$16,987,400
75	7,845,800	8,850,800	16,696,600	4,025,100	4,534,700	8,559,800	3,820,700	4,316,100	8,136,800
50	-964,200	-294,200	-1,258,400	-442,200	-102,500	-544,700	-522,000	-191,700	-713,700
33	-6,955,000	-6,512,800	-13,467,800	-3,480,000	-3,255,700	-6,735,700	-3,475,000	-3,257,100	-6,732,100
25	-9,774,200	-9,439,200	-19,213,400	-4,909,500	-4,739,600	-9,649,100	-4,864,700	-4,699,600	-9,564,300

4. Delete provision.

ALT 4	**Change to Bill** Revenue	Funding
GPR	$2,187,600	$4,130,000

Prepared by: Al Runde