



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #594

### **Delete Joint Finance Committee Review of the Payments for Municipal Services Program (Shared Revenue and Tax Relief -- Direct Aid Payments)**

[LFB 2013-15 Budget Summary: Page 434, #6]

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#### **CURRENT LAW**

The Department of Administration (DOA) administers a payments for municipal services (PMS) program that 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. Prior to calculating the annual payments to eligible municipalities, DOA must submit any proposed program guidelines changes to be used in those calculations to the Joint Finance Committee (JFC) and the Committee must approve those proposed changes before DOA can use the modified guidelines in determining future payments. In addition, no later than November 15, DOA must submit a report of the proposed payments that are to be made to municipalities to JFC for approval under a 14-day passive review process. In 2012-13, \$18,584,200 in payments was distributed to eligible municipalities.

#### **GOVERNOR**

Delete the Joint Finance Committee's review and approval of any changes proposed by DOA to the guidelines used in the calculation of state payments to municipalities under the PMS program and of the Department's annual report of proposed PMS payments to municipalities. DOA would continue to be required to submit a copy of the payment report to the Committee each year, but the Committee would have no role in approving the proposed payments.

## DISCUSSION POINTS

1. The PMS program was established in 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 services provided by municipalities to state-owned facilities within their jurisdiction. Payments are made for fire and police protection, extraordinary police services, garbage and trash collection and disposal, and other approved direct services.

2. When the PMS program was created, DOA was provided the authority to negotiate with municipalities for payment amounts or the Department could delegate that authority to other state agencies. Prior to these negotiations, DOA was required to submit the guidelines for such negotiations to the Government Operations Board (the Board consisted of the Senate Finance Committee Chair, the Assembly Finance Committee Chair, two Senate members, and three Assembly members). Upon approval of the guidelines by the Board, DOA could proceed with negotiations. DOA was also required to report the results of its negotiations to the Board for approval and upon approval could make payments to individual municipalities.

3. Under Chapter 39, Laws of 1975, the Joint Finance Committee replaced the Government Operations Board as the entity responsible for reviewing the program guidelines and the DOA report of annual payments. JFC reviewed these items under the Committee's s. 13.10 authority. Under 1987 Act 399, the Committee was provided the authority to approve the annual payment report under the 14-day passive review process. The Governor's recommendation would delete JFC's review of both the guidelines and the annual payment report.

4. The PMS program formula (shown in the attachment to this paper) is the main determinant of a municipality's payment amount. However, after each formula entitlement amount is calculated, DOA has the authority under the program guidelines to make adjustments to an individual municipality's formula amount. The primary adjustment made to the formula payments involves a reduction to a municipality's entitlement amount related to police costs to reflect that a state facility within that municipality has its own public safety staff. Examples include secure prison facilities or a University campus with campus police staff. Both the formula and the allowable adjustments are included in the PMS program guidelines, rather than in the statutes. After any adjustments are made, if total entitlements to all municipalities exceed the amount appropriated for the program in that year (\$18,524,200 under the bill), each municipality's payment is prorated by the same percentage to reflect available funding.

5. When the PMS program was established, no mechanism was put in place for distributing the \$3.25 million in program funds that existed at that time. Hence, the Legislature required DOA to develop program guidelines outlining how the program funds would be distributed. Given the legislative interest in how the initial \$3.25 million distribution was to occur, the Government Operations Board review of the program guidelines was put in place. In 1974, permanent program guidelines were established. Subsequently, the Committee has reviewed and approved changes to these initial program guidelines, but the payment formula and allowable deductions to formula payment entitlement amounts have essentially remained the same.

6. In the past, the distribution of program funds often involved negotiations between municipalities and state agencies regarding issues relating to the costs the state would reimburse both inside and outside the program's calculated formula amounts. These negotiated payments are also subject to the Committee's review. Historically, these negotiations have often involved the reimbursement of waste collection costs at University of Wisconsin campuses. However, in recent years, UW campuses have contracted directly with a waste collection service, rather than through a municipality. As a result, no local property taxes are being used to furnish garbage services at the campus facilities, which meant a municipality with a campus facility is no longer reimbursed under the program for these costs. This has removed a significant amount of the negotiations with local governments over costs and entitlement payments, and leaves the formula as the primary mechanism used in determining payments. Consequently, nearly all payments have been made based on the formula amounts, with the allowable adjustments when necessary. Therefore, negotiated payments, one of the past reasons for JFC's review of PMS program guideline modifications and the annual distribution of PMS program payments, are rarely applicable any longer.

7. In most years, the Committee approves the annual PMS distribution report as calculated by DOA. However, the Committee, through its review, has at times made adjustments to DOA's recommended annual payment report and program guidelines changes. While not inclusive of all such actions, the following examples illustrate the types of Committee actions following its annual review: (a) in November, 1989, the Committee requested that DOA recalculate the annual PMS payment distribution to municipalities because the wrong year was used in determining the value of state facilities in each municipality used in the payment calculations; (b) in December, 1998, despite two minor errors in the aid calculations for two municipalities being discovered as part of its review of the 1999 payment report, the Committee approved the report; (c) in December, 2008, the Committee's review discovered a discrepancy in the 2009 payment report for one municipality, affecting the payments of other municipalities, which was subsequently corrected by DOA, prior to the Committee's approval; and (d) the 2009 payment report was approved by the Committee with the understanding that DOA would submit changes to the program guidelines relating to the corrective action made to the 2009 payment report.

8. DOA maintains that eliminating the JFC review of the guidelines and payment schedule would reduce some of the administrative costs associated with the program. However, DOA indicates that a primary justification for deleting the Committee's statutory review is that the state has other, much larger, aid programs that do not require the Committee's review. The following table compares the PMS program funding with other selected major state aid or tax credit programs, whose funds are distributed by state agencies to local units of government without JFC review of those payments or distributions.

**Comparison of PMS Program Funding to Other  
State Aid and Tax Credit Programs**

<u>Program</u>	<u>Base Funding</u>
Payments for Municipal Services	\$18,584,200
General School Aids	4,293,658,000
County and Municipal Aid	753,075,700
School Levy Tax Credit	747,400,000
General Transportation Aids	403,519,900
First Dollar Credit	150,000,000
Mass Transit Operating Assistance	106,478,300

9. Unlike the PMS program, the distribution formulas for the other state aid and property tax credit programs listed in the above table are specified in statute. The PMS program's formula is only outlined in the PMS program guidelines, which under current law can only be changed with the approval of the Committee. However, if the Committee were to adopt the Governor's recommendations, DOA would have unilateral authority to change the current formula and program guidelines.

10. If the Committee would like to continue to have some authority over the program, the Committee could retain its authority to review and approve any program guideline modifications that arise (Alternative 2). This would allow the Committee to continue to have a say in any significant changes to the program, but DOA would have the authority to distribute program funds without the required annual review and approval of the Committee.

**ALTERNATIVES**

1. Approve the Governor's recommendation to delete the Committee's review and approval of any changes proposed by DOA to the guidelines used in the calculation of state payments to municipalities under the PMS program and of the Department's annual report of proposed payments to municipalities. DOA would continue to be required to submit a copy of the payment report to the Committee each year, but the Committee would have no role in approving the proposed payments.

2. Modify the Governor's recommendation by deleting only the Committee's review and approval of the Department's annual report of proposed payments to municipalities. DOA would continue to be required to submit a copy of the payment report to the Committee each year, but the Committee would have no role in approving the proposed payments. The Committee would retain the authority to review and approve any changes to the PMS program guidelines.

3. Delete provision.

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Attachment

## ATTACHMENT

### 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)