



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #650

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

[LFB 2019-21 Budget Summary: Page 382, #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 municipality and county are set at the same amount that was received in 2012.

County and municipal aid is funded primarily by a GPR, sum sufficient appropriation. A portion of the payment (estimated at \$45.9 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 2018 calendar year payments are made in fiscal year 2018-19, the second year of the 2017-19 biennium.

GOVERNOR

Increase payments under the county and municipal aid program by \$15,061,500 in 2020-21 to provide each county and municipality a 2% increase in their payment for 2020 and thereafter. Set the statutory aid distribution from these sources at \$763,137,200 for the 2020 distribution (payable 2020-21) and thereafter to reflect the recommended 2% increase. The 2% increases for 2020 and thereafter would be based on the \$753,075,700 in total funding (including the MA funding), which would result in total funding of \$768,137,200.

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 2001. 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. Therefore, under the Governor's recommendation, each county and municipality would receive an aid payment in 2020 that is 2% higher than the payment received in 2019.

County and Municipal Revenues and Expenditures

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 2019, than the amount provided in 2003.

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 2011, 2013, 2015, and 2017, based on financial reports these governments filed with DOR. During this period, the percentage of local revenues comprised of state aid has declined from 14.5% to 13.0% for municipalities and from 22.5% to 20.5% for counties. Over the same period, reliance on the property tax has increased for both municipalities and counties, as the percentage of revenues comprised of property taxes increased from 29.2% to 31.0% for municipalities and 28.0% to 29.5% for counties. Furthermore, reliance on long-term debt proceeds increased from 10.1% to 12.2% for municipalities and from 3.4% to 5.4% for counties.

TABLE 1**Municipal and County Revenue Composition
2011, 2013, 2015, 2017**

	Municipalities				Counties			
	<u>2011</u>	<u>2013</u>	<u>2015</u>	<u>2017</u>	<u>2011</u>	<u>2013</u>	<u>2015</u>	<u>2017</u>
State Aid	14.5%	13.2%	12.9%	13.0%	22.5%	20.4%	20.9%	20.5%
Property Taxes	29.2	29.4	29.2	31.0	28.0	27.9	28.4	29.5
Other Taxes	2.7	2.9	3.1	3.1	5.3	5.4	5.8	6.4
Public Charges	14.3	14.7	15.0	15.9	20.0	19.9	20.7	17.0
Long-Term Debt Proceeds	10.1	12.5	12.8	12.2	3.4	2.9	4.1	5.4
Total	70.8%	72.7%	73.0%	75.2%	79.2%	76.5%	79.9%	78.8%

5. Table 2 combines the municipal and county total levies for each year with state aid from county and municipal aid and general transportation aid, and compares the annual change in combined revenues to the annual change in the inflation rate. This table shows that the cumulative difference between the nominal and inflation-adjusted state aid and levy amounts since 2011 is -\$906.9 million for municipalities and -\$766.9 million for counties. This would indicate that the combination of state aid and local levies has not kept up with inflation since 2011, making it difficult for local government to provide the same level of services in real terms. Providing a county and municipal aid increase would provide local governments some ability to keep pace with the cost of providing services in the biennium. Inflation is projected to increase 2.0% annually during the 2019-21 biennium, according to data from IHS Markit. However, if municipalities and counties need additional spending authority, levy increases can be approved through referendum or at town meetings for smaller towns.

TABLE 2**Combined Tax Levy and State Aid Amounts for Municipalities and Counties
Since 2011 and Comparison to Inflation-Adjusted Amounts (\$ in Millions)**

	<u>Combined Levy and Aid</u>	<u>Inflation Adjusted Total</u>	<u>Difference</u>
Municipalities			
2011	\$3,429.1		
2012	3,402.5	\$3,537.4	-\$134.9
2013	3,438.4	3,610.6	-172.2
2014	3,488.5	3,663.5	-175.0
2015	3,562.7	3,722.9	-160.2
2016	3,620.0	3,727.3	-107.3
2017	3,701.6	3,774.4	-72.8
2018	3,818.2	3,854.8	-36.5
2019	3,901.1	3,948.9	<u>-47.8</u>
Total			-\$906.9
Counties			
2011	\$2,207.5		
2012	2,189.4	\$2,277.2	-\$87.8
2013	2,203.6	2,324.4	-120.7
2014	2,228.2	2,358.4	-130.2
2015	2,267.5	2,396.7	-129.2
2016	2,307.5	2,399.5	-92.0
2017	2,352.7	2,429.8	-77.1
2018	2,430.3	2,481.5	-51.2
2019	2,463.5	2,542.2	<u>-78.6</u>
Total			-\$766.9

Property Tax -- Levy Limits

6. 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.

7. 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 Act 145 provided \$406 million annually as property tax relief aid associated with the Wisconsin Technical College System

levy. As a result, since 2005(06), the estimated tax bill for a median-valued home taxed at statewide average tax rates has increased at an average, annual rate of only 0.4%. Over the same 13-year period, the consumer price index has increased at an average, annual rate of 2.0%. If the median-valued home's estimated taxes had increased at the same rate as inflation, the estimated 2018(19) tax bill would be \$639 higher (22.3%), and the home's owner would have paid \$3,891 in more taxes over the 13 years.

8. The Governor's recommendation relative to local levy limits would increase the minimum allowable percentage change that counties and municipalities may increase their allowable levies by from 0% to 2%. Under the provision, the definition of "valuation factor" would change so that the minimum allowable percentage change to county and municipal levies would be 2% rather than 0%. A similar provision would apply to the revenue limit for Wisconsin Technical College System campuses. This modification would allow counties and municipalities to increase their annual levies over their prior year actual levies by the greater of the percentage change in equalized values due to net new construction or 2%. Comparatively, for tax year 2017(18), the statewide average change in levies due to the change in equalized value from net new construction was 1.3% for towns, 1.8% for villages and cities, and 1.5% for counties.

9. While the local levy limit has assisted in limiting property tax increases for taxpayers, such limits can affect local governments' ability to raise sufficient revenues each year, especially for slower growing communities that are unable to increase levies due to limited or no new construction in a year. Local governments, including school districts, do have the ability to exceed the levy limit if the local government's governing body adopts a resolution to that effect, and the resolution is approved at referendum. Also, towns with populations under 3,000 may exceed their levy limits by a vote at the annual town meeting or at a special town meeting, provided the town board previously adopts a resolution supporting the increase and includes the increase on the agenda for the town meeting.

10. 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. As mentioned, local governments funded from the property tax also have the ability to go to referendum to ask voters for additional resources through a property tax levy increase.

11. In recent years, a significant percentage of school district referenda have been approved to exceed their annual revenue limit or to issue debt. According to the Department of Public Instruction, in calendar year 2018, school district voters approved 48 (90%) non-recurring (operations) referenda, 19 (90%) recurring (operations) referenda, and 76 (89%) of debt-related referenda. In comparison, based on preliminary reports filed with DOR for 2018(19), 70 towns passed a resolution to exceed their allowable levy, for a total amount of \$3.8 million of additional levy authority. Also, according to DOR, only 20 county and municipal referenda passed between 2006 and 2018. Approving a county or municipal levy increase through a vote of electors may be more difficult than passing similar referenda for facility improvements at the school district level.

For example, asking for a levy increase at referendum to fund a needed road, street, or related capital improvement may have only limited appeal to voters. This difficulty may occur because unlike improvements to school district facilities, which are typically used by, or associated with, the overall community, municipal and county capital improvements, such as improvements to specific sections of local roads, can affect only voters benefiting most from the improvement. As a result, support for the improvement and the related referendum may be more limited, which can make local governments reluctant to go to referendum and more inclined to finance such improvements with debt.

12. Local governments also have the option to impose a local vehicle registration fee, or "wheel tax". Since 1967, municipalities have had the authority to impose a wheel tax, which is imposed on automobiles and trucks of not more than 8,000 pounds that are registered in the state. Since 1979, counties have had similar authority. There is no limit on the amount of the local registration fee that can be imposed. Any county or municipality that imposes a wheel tax must use the revenues for transportation-related purposes. Currently, 35 local governments impose or have recently adopted an ordinance to impose a wheel tax. However, 33 of those local governments have adopted an ordinance to impose or increase an existing wheel tax since 2015. In 2017, revenues from the wheel tax totaled 3.8% of the total gross property tax levies of all local government imposing the fee that year.

13. While levy limits have generally restricted levy growth, statewide municipal levies have grown at an average annual rate of 2.8% since levy limits were established in 2005(06). This growth is primarily due to allowable levy growth for new construction 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 service provided to these 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. While Table 3 shows the change in county and municipal levies over the past 14 years, the change in individual local government levies will vary.

TABLE 3**Total Statewide Levies for Counties and Municipalities
(\$ in Millions)**

<u>Tax Year</u>	<u>County Levy</u>		<u>Municipal Levy</u>	
	<u>Amount</u>	<u>% Change</u>	<u>Amount</u>	<u>% Change</u>
2005(06)	\$1,671.1		\$2,028.6	
2006(07)	1,723.9	3.2%	2,099.6	3.5%
2007(08)	1,800.8	4.5	2,204.8	5.0
2008(09)	1,856.1	3.1	2,299.0	4.3
2009(10)	1,914.6	3.2	2,372.5	3.2
2010(11)	1,951.4	1.9	2,422.5	2.1
2011(12)	1,972.2	1.1	2,463.2	1.7
2012(13)	1,986.4	0.7	2,499.1	1.5
2013(14)	2,011.0	1.2	2,549.2	2.0
2014(15)	2,046.5	1.8	2,611.0	2.4
2015(16)	2,086.5	2.0	2,668.3	2.2
2016(17)	2,131.7	2.2	2,749.7	3.1
2017(18)	2,196.6	3.0	2,833.4	3.0
2018(19)*	2,229.8	1.5	2,922.1	3.1
Average Annual % Change		2.2%		2.8%

*Preliminary.

Local Use of Borrowing

14. 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 in order to fund significant capital improvements local governments (municipalities and counties) have often looked 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 transportation-related capital improvements is another way that local governments can fund those projects without violating the levy limit restrictions.

15. Local governments have taken on increasing levels of debt to fund capital improvements. Between 2005 and 2017, total outstanding general obligation debt for all local governments has increased by 42.7% and at an average annual rate of 3.2% for counties and 2.9% for municipalities. Annual debt service payments on those obligations increased by 49.9% for all local governments and at an average annual rate of 4.0% for counties and 3.3% for municipalities. In comparison, the Consumer Price Index has increased by 25.5% 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 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.

Potential Aid Increases

16. County and municipal aid payments are made to local governments on the fourth Monday in July (15% of the total) and on the third Monday in November (85% of the total). Municipalities have established their calendar year 2019 levies based on 2019 county and municipal aid payments that will be paid in state fiscal year 2019-20. Therefore, the Governor's proposal to provide a calendar year 2020 increase would allow the additional funding to be considered when local governments establish their 2020 levies. These amounts would be paid by the state to local governments in 2020-21.

17. Table 4 provides the funding amounts that would be required to fund various percentage increases in total county and municipal aid, beginning in 2020-21, if the Committee is interested in providing additional funding to the county and municipal aid program.

TABLE 4

Funding Required for Various County and Municipal Aid Increases

<u>Alternative Increases</u>	<u>2020-21 Change to Base</u>
1%	\$7,530,800 (Alternative 1b)
2% (Governor)	15,061,500 (Alternative 1a)
3%	22,592,300 (Alternative 1c)
4%	30,123,000 (Alternative 1d)

18. Finally, the bill would increase funding in local transportation aid and assistance programs by \$69.2 million over the biennium, including a \$66.2 million increase in general transportation aid (GTA), representing a 10% increase to the calendar year distribution for counties and municipalities for 2020 and thereafter. The Governor's recommended increases in 2019-21 would be in addition to \$126.5 million in increased funding for local aid and assistance programs (GTA, local roads improvement program, and the local bridge assistance program) provided in the 2017-19 budget (2017 Act 59). While county and municipal aid can be used for any purpose approved by local governing bodies, funds for these aid programs must be used for specific purposes. However, these recommended GTA funding increases, if approved, could alleviate some fiscal pressures on local jurisdictions relating to transportation maintenance and may justify maintaining county and municipal aid at its current level [Alternative 2].

ALTERNATIVES

1. Increase funding for county and municipal aid in 2020-21, for payments made in calendar year 2020 and thereafter, by one of the following amounts:

a. Approve the Governor's recommendation to provide \$15,061,500 GPR in 2020-21 to increase funding for county and municipal aid by 2%, for calendar year 2020 and thereafter. The total distribution for county and municipal aid would be \$768.1 million.

ALT 1a	Change to	
	Base	Bill
GPR	\$15,061,500	\$0

b. Provide \$7,530,800 GPR in 2020-21 to increase funding for county and municipal aid by 1%, for calendar year 2020 and thereafter. The total distribution for county and municipal aid would be \$760.6 million.

ALT 1b	Change to	
	Base	Bill
GPR	\$7,530,800	-\$7,530,800

c. Provide \$22,592,300 GPR in 2020-21 to increase funding for county and municipal aid by 3%, for calendar year 2020 and thereafter. The total distribution for county and municipal aid would be \$775.7 million.

ALT 1c	Change to	
	Base	Bill
GPR	\$22,592,300	\$7,530,800

d. Provide \$30,123,000 GPR in 2020-21 to increase funding for county and municipal aid by 4%, for calendar year 2020 and thereafter. The total distribution for county and municipal aid would be \$783.2 million.

ALT 1d	Change to	
	Base	Bill
GPR	\$30,123,000	\$15,061,500

2. Take no action.

ALT 2	Change to	
	Base	Bill
GPR	\$0	-\$15,061,500

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