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Payments for Municipal Services

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Prepared by

Al Runde

Wisconsin Legislative Fiscal Bureau
One East Main, Suite 301
Madison, WI 53703

Payments for Municipal Services Program

The payments for municipal services (PMS) program was established in 1973. Through this 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. 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 will be paid by the state through the PMS program.

Payments are made for fire and police protection, extraordinary police services, garbage and trash 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 by the state agency responsible for the facility receiving the services.

Current Program

The PMS program is administered according to program guidelines developed by the Department of Administration (DOA) and approved by the Joint Committee on Finance. The current guidelines are as follows:

1. Annual payments to towns, villages, and cities are determined largely by formula. Payment adjustments may be made as a result of negotiations between a municipality and DOA.

2. Formula payments are in recognition of fire and police protection and solid waste handling services provided by municipalities that impose no special charge or user fee for these services.

3. The formula attempts to approximate the local costs of eligible services that are attributable to the state facility and financed out of local property tax revenue. Due to various state and federal aid payments, less than 100% of police, fire, and solid waste handling expenditures are supported by the local property tax.

4. Prescribed reductions of payments are made where the state maintains self-provided police protection, reflecting state responsibility for institutional and building safety.

5. The PMS formula does not generally apply to counties. However, payment of claims for county law enforcement services are provided where such services are specifically requested by a facility administrator.

6. If an overpayment or underpayment in excess of $5,000 during one program year is made to a municipality due to incorrect fiscal data, a building inventory misallocation, or an inadvertent oversight and is discovered within two years of the PMS payment being sent to the municipality, an adjustment to that payment will be made in subsequent PMS payment years.

Applying these guidelines results in an estimate of the municipal cost of providing the three services to state-owned property, referred to as the PMS entitlement. Entitlements are calculated on the basis of previous calendar year fiscal information. For example, entitlements calculated for services provided in 2010 are based on 2009 costs, revenues, and property values. The actual payments will be made to municipalities in 2011.

Formula Calculation

The following description of the PMS formula is presented to assist in understanding the sample calculation presented in Table 1. The first step (Step I) in this 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 (Step II) 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.

The final step (Step III) in the formula 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 PMS formula entitlement. Municipalities with entitlement amounts of less than $100 do not receive a payment.

Additional negotiation between the Department of Administration and municipalities on factors related to the state providing its own services or a municipality providing specific services may change the results of the basic formula calculation.

Payments are not made until the Joint Committee on Finance reviews and approves the results of the formula calculations. If the PMS appropriation is not sufficient to fund total entitlements, payments are prorated. If the appropriation exceeds total entitlements, the excess lapses to the general fund.

Table 1: 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 shared revenue, county and municipal 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)

Level of Funding

The relation between PMS entitlements and appropriations since the program's inception can be categorized by time period. Entitlements exceeded appropriations from 1973 to 1977, with proration ranging from 67.2% to 89.0%. Appropriations exceeded entitlements from 1978 to 1982, allowing payments at 100% of entitlements. Since 1982, entitlements have again exceeded appropriations.

Table 2 shows PMS payments and entitlements from 2001 through 2010. 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 and increases in the value of state facilities that outpaced increases in private real estate values, particularly due to the construction of additional state facilities in the City of Madison.

Table 2: 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

For 2010, the PMS appropriation covered 60.8% of the $33.9 million in entitlements. PMS payments were approved for 310 municipalities in that year. 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.

The 1987-89 budget established a procedure for program revenue (PR), program revenue-service (PR-S), and segregated revenue (SEG) appropriations to be charged for municipal services to facilities funded through these appropriations. Payments to municipalities continue to be made from the state's general fund through a general purpose revenue (GPR) appropriation. However, after payments are made, the Department of Administration transfers amounts from the PR, PR-S, and SEG appropriations that fund state facilities 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. Table 3 shows the 2009-10 chargeback amounts by agency. The largest chargeback was incurred by the University of Wisconsin System (75.3% of the total). This figure would be larger, but PR appropriations associated with academic

Table 3: 2009-10 GPR-Earned Amounts from Chargebacks for PMS

Agency	Amount
Administration	$1,295,333
Agriculture, Trade and Consumer Protection	1,831
Board of Commissioners of Public Lands	43
Commerce	698
Corrections	58,348
Educational Communications Board	4,960
Health Services	437,950
Historical Society	89,996
Military Affairs	156,668
Natural Resources	181,125
Public Instruction	56,538
Tourism	4,474
Transportation	167,619
University of Wisconsin System	7,700,094
Veterans Affairs	67,649
Workforce Development	3,244
Total	$10,226,570

student fees are exempt from the chargeback. In total, 2009-10 chargebacks equaled 49.5% of the PMS appropriation for that year.

The major issue related to the PMS program has been whether it should be funded at 100% of entitlements. Some local officials have argued that proration of entitlements results in municipalities not being fully compensated for the services they provide to state facilities. Consequently, the cost of providing municipal services is shifted from the state-owned exempt property to owners of taxable property.

However, it has also been argued that factors, in addition to PMS, tend to offset the local costs associated with tax exempt state facilities. Although no specific data are available to indicate the precise economic benefit to municipalities of having state facilities, direct public investment, public payrolls, and the multiplier effect on local private investment and payrolls are of some value. The location of state facilities may also result in lower-than-average unemployment rates.