Renewing a Sustainable & Equitable State and Local Government Funding Partnership

Local Government Funding Task Force

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EXECUTIVE SUMMARY

Goal

Renew the state and local government partnership through a logical and sustainable revenue source tied to the Wisconsin economy to ensure:

- Local governments can provide core services to their residents.
- Local government is funded equitably with a sustainable source tied to the current state of the economy.
- A reduction in the overdependence on the property tax, as a percentage of local government revenues, ultimately benefiting residents and businesses.

Challenges

Local government funding is currently decoupled from the overall Wisconsin economy. Thus, state finances are healthy, as evidenced by a large surplus, while local governments are experiencing:

- Economic Challenges
  - Increasing costs to provide local services due to rising inflation and increasing operational demands.
- State Fiscal Limitations
  - State limitations on local government revenues including levy limits.
  - Increasing service challenges, debt, and an over-reliance on the property tax.
  - An ever-evolving list of state mandates and reporting requirements, primarily where the state does not fully fund required services.
- Outdated State Aid Amounts and Formulas
  - Stagnant or reduced state aids and an actual reduction of shared revenues both in real and nominal terms

Recommendation:

Invest One Cent of the Existing State Sales Tax in Local Governments.

Shifting to the sales tax aligns local government capacity with the Wisconsin economy and will:

- Create a shared revenue strategy such as the economy changes, the state and local partnership is similarly impacted, good and bad.
- Provide a logical, sustainable revenue source.
- Allow the direction of resources to meet resident service needs.
- Distribute revenue to local governments via an equity-based formula or a regional-based system to ensure all local communities have the resources to provide core services.
- Require an equitable adjustment or replacement of local government's existing revenue sources to prevent winners and losers.

Local governments are seeking a logical, sustainable revenue source.

Benefits

The Local Government Funding Task Force identified this policy recommendation as the best way to renew a state and local government funding partnership in recognition that a strong partnership produces more trust and collaboration between each other, as well as creates a quality of life that helps our communities attract and retain residents and businesses.

INTRODUCTION

Wisconsin is about providing its residents with opportunity, fairness, and a superior quality of life. We accomplish this through education, access to services, entrepreneurialism, and harnessing our natural and agricultural resources, all of which create thriving communities.

These communities provide services to residents in cooperation with the state government. Through these services, local governments serve as strategic economic assets for the state.

We are a state that values its local communities. It is through these communities that we grow our businesses, raise our families, and provide opportunities for all through effective and efficient services – especially public safety.

We are a state that values its local communities – small towns, quaint villages, bustling cities, and its various counties - large and small, rural and urban. It is through these communities that we grow our businesses, raise our families, and provide opportunities for all through effective and efficient services – public safety, transportation, health, social and community support services, libraries and schools, locally centered planning and development, public works and parks and recreation.

The state and local partnership is premised on the fact that policies and programs are most effective and most accepted by the public when they are created and implemented by the level of government closest to those they impact. In other words, local governments should ideally lead on issues that directly impact their residents. Providing these services locally enables variation in the service level and cost across local governments. It also empowers residents to hold their local elected officials accountable for their government's performance. Local government also plays a role in increasing residents' trust in their government. Gallup 2021 Trust in Government Poll (as well as other longstanding Gallup polls) documents declining levels of trust in government generally in the United States. It concludes that local government remains the level at which people hold the most trust.[1]

Wisconsin's approach to funding local government was built on a *long and historic partnership*. The state collects revenue, primarily income and sales tax, then shares those revenues with local governments so that these services reach all corners of Wisconsin. Over time, this partnership, and sharing of state revenues, has changed. The result is that Wisconsin communities have become steadily more reliant on local property taxes to meet the challenge of funding their services.

[1] https://news.gallup.com/poll/355124/americans-trust-government-remains-low.aspx

In 1911, the state created “shared revenues” and provided 90% of the state income tax to local governments to fund services and limit property taxes. Shared revenue funding was frozen in time in 2004 (see Appendix pages 1-5 for additional information).

Today, just 6.8%[2] of state revenue is directed to local governments. This current approach:

- Increases the reliance on property taxes.
- Contributes to regional inequities.
- Incentivizes using short-term budget fixes like debt service and deferred maintenance.
- Incentivizes the utilization of special fees.
- Forces service cuts and staff reductions.
- Limits local government autonomy.
- Limits proactive planning.

Today, just 6.8% of state revenue is directed to local governments – in 1911, it was 90%.

The quality of the state and local government relationship in Wisconsin dictates the ability of local governments to effectively and efficiently meet their residents’ required and desired service needs. When the relationship is strong, there is more trust, collaboration, and a higher quality of life that helps attract and retain people and businesses. When the relationship is weak, Wisconsinites suffer. The current state budget surplus provides opportunities to restore the state-local government partnership in a way that improves the quality of government services, protects taxpayers, and increases financial transparency.

The WTA, WCA, and the League collectively recognize a need to renew the funding partnership with the State of Wisconsin.

The Wisconsin Towns Association, Wisconsin Counties Association, and the League of Wisconsin Municipalities collectively recognized the need to renew the local partnership with the State of Wisconsin to provide their resident services.

This mutual interest led to the creation of the Local Government Funding Task Force (LGFT) to collect and review data[3], utilize technical expertise and policy research of the Local Government Institute; UW Oshkosh, Whitburn Center; and the UW Madison-Extension’s Local Government Education Program. This document represents the work of the LGFT.

[2] 2021-23 Wisconsin State Budget, Summary of Provisions, 2021 Act 58, Legislative Fiscal Bureau, August 2021
[3] Data used for this report was primarily Legislative Fiscal Bureau and Wisconsin Department of Revenue data, which is available from 2001 to 2019.

LOCAL GOVERNMENT FISCAL AND SERVICE CHALLENGES

There is growing evidence that the state-local fiscal partnership is not working as well as it could in Wisconsin. The causes of the deterioration are complex and often in the eye of the beholder. However, trend data from the Wisconsin Department of Revenue (DOR) demonstrate the growing fiscal stress and corresponding pressure on local government service capacity.

Local government funding is currently decoupled from the overall Wisconsin economy. Thus, state finances are healthy, as evidenced by a large surplus, while local governments are experiencing:

Economic Challenges

- Increasing costs to provide local services due to rising inflation and increasing operational demands.

State Fiscal Limitations

- State limitations on local government revenues, including levy limits.
- Increasing service challenges, debt, and an over-reliance on the property tax.
- An ever-evolving list of state mandates and reporting requirements, primarily where the state does not fully fund required services.

Outdated State Aid Amounts and Formulas

- Stagnant or reduced state aids and an actual reduction of shared revenues.

Revenue limitations (levy limits) and outdated state aids force local governments to reduce services and staffing, borrow more, and defer maintenance on critical public infrastructure. None of these bode well for our communities' short and long-term futures.

Restoring a healthy state-local partnership begins with recognizing the incompatibility of a local government funding system frozen in time with a changing economy and an ever-evolving demand for local services.

The state surplus creates a significant opportunity for immediate action to renew the state-local government partnership.

Economic Challenges

Over the past twenty years, the state and its local governments have faced many challenges, including three economic recessions, a global pandemic, national and global economic competitiveness, and a growing property tax burden. Rising inflation and increasing operational demands also reduce the resources available for other essential public services, such as transportation systems, water infrastructure, wastewater treatment, social services, and mental health needs.

These challenges (as well as others) have weakened the state and local government partnership. Over the last 20 years, state tax revenues have been shifted away from local government and towards other priorities, putting more pressure on local property taxpayers. With state revenue sharing diminishing, local governments have become more dependent on property taxes.

Between 2001 and 2019,
- **Personal income tax collections increased by 74.4%,**
- **State sales tax collections increased by 57.8%,**
- **Shared revenue to local governments decreased by 12.88%.**

While the cost of providing services has significantly increased, shared revenues have not kept pace. This is despite increasing state tax collections and a pandemic, as noted below.

- Between 2001 and 2019, the Consumer Price Index (CPI) has risen 37.6%.
- From August 2021 to August 2022, the CPI increased by 8.3%.
- Between 2010 and 2020, the U.S. Census Bureau states that Wisconsin's median household income increased from $50,351 to $67,094.
- According to the Wisconsin Department of Revenue, between 2001 and 2019, personal income tax collections increased by 74.4%, state sales tax collections increased by 57.8%, while shared revenue to local governments decreased by 12.88%.
- Wisconsin, like the rest of the world, experienced unprecedented challenges caused by the COVID-19 disruption.

Despite these challenges, Wisconsin's local governments have been remarkably resilient as the partnership has weakened. For many years, many local communities have found ways to maintain services despite declining state fiscal support, changing state and federal requirements, capped levies, and uncertain economic conditions.

However, even resilient local governments are near their breaking point. Rising inflation is making all services and capital projects more expensive. The likely result is that essential services, like public safety and others, along with road/street projects, will suffer staffing shortages and other costly delays. The challenge of finding qualified staff, combined with increasing health care costs, and other operations costs are straining local government budgets like never before.

Many local Governments are at their breaking point – causing service reduction and elimination.

State requirements (fiscal, regulatory, and operational) on local government rarely come with full financial support. Nor do such requirements, in most instances, account for increasing service demands or inflation.

These challenges impact how local government services are funded and delivered. Demands for services at all levels are increasing. For example, law enforcement, fire, and emergency medical services (EMS) (collectively “public safety”) are experiencing increasing demands in service calls, training requirement costs, and concerns regarding staffing availability, as well as significant wage and benefit costs required to recruit and retain staff.

The volunteer model for fire departments and EMS in some communities has now approached a crisis level. The lack of volunteers creates longer response times and forces a transition to a paid staff model. Then, finding qualified paid staff becomes the issue.

State Fiscal Limitations

Levy limits present another challenge for local governments. Since 2009, strict revenue limits have capped annual property tax levy increases to the percentage change in local equalized value due to net new construction (new construction less property renewal). The levy change cannot be less than zero (i.e., a loss of equalized value does not require a tax cut). Wisconsin has one of the nation's most restrictive property tax levy caps, though a local government may exceed revenue limits via a successful referendum.[4] However, as noted on appendix page 10, this approach is little used, and is more difficult for communities with a low property tax base, or have a relatively high reliance on property taxes to fund local operations.

Adding to the levy limit challenge is shifting the property tax burden from all land types and taxing structures to residential and commercial properties. Reductions in personal property tax and increases in exempt property effectively shift the tax burden to the remaining residential and commercial properties. Retail stores are fighting this shift by litigating how their property taxes are determined. These changes increase the burden on the remaining property tax owners to fund local government services (see Appendix pages 9 & 10 for additional information).

There are also unfunded service requirements placed on all local governments. In counties, for example, the state sets the court’s fine and fee schedules, a significant portion of which is returned to the state, leaving local governments (i.e., property taxpayers) to cover the remaining circuit court costs. For other local governments, the state fee schedule covers only part of the service cost to issue a license or permit, requiring local governments to fund the service cost difference through the levy.

[4] Towns under 3,000 population can do so via a Town Meeting

Outdated State Aid Amounts and Formulas

Understanding the current state of local government finance requires a historical overview of changes to local government finance in Wisconsin. Taxes on real and personal property have been the primary source of local government finances since before statehood and calls for property tax relief have echoed since that time. As the state grew and the economy expanded, the property tax did not fully reflect economic activity, and its ability to generate revenues for local government services varied considerably across the state. In response, a state income tax was authorized by voters through an amendment to the Wisconsin Constitution to help relieve the property tax burden and attempt to make property tax bases more equitable at the local level. At that time, 90 percent of income taxes were "returned to source" --retained in the community and county where they were generated, and 10% offset state costs to administer the tax.

If the administrative costs were less, the difference would go to local governments. One might view this as the first break in the state and local fiscal partnership when it was determined that the actual administrative costs were lower. The state kept the entire 10% amount and used the difference to fund other state programs. [5]

Effective and efficient service delivery requires a renewed state-local government partnership.

Over time, as the economy continued to evolve, property tax burdens again increased, and the issue of relative tax capacity continued to be a major issue for equitable service levels among all local governments. State-level programs also expanded over time, both in response to federal mandates and as more efficient and effective ways to ensure access to services, such as health care, higher education, and public safety, including the state-county court and correctional systems, was implemented.

[5] Genesis of Wisconsin’s Income Tax Law, Interview with D.O. Kinsman, 1937, https://content.wisconsinhistory.org/digital/collection/wmh/id/11649/

To help reduce the property tax burden and provide all Wisconsin communities with the ability to provide essential local government services in support of economic vitality and growth, the legislature replaced the "return to source" element of the income tax with a "shared revenue" program that sought to provide state aid to "equalize" the local property tax base. Under this approach, tax rates on property would not be that different in each community as long as the level of services for public safety, public works, transportation, and other services were not that different between communities.

This change was first implemented in the early 1970s and generally remained in place for the next thirty years. In 2004, in response to state budget deficits, changes in state tax policy, and a focus on delivering local property tax relief through the state school aid formula, the shared revenue distribution formula was suspended, and the total funding level reduced. Further reductions to shared revenue occurred again in 2010 and 2012.

The elimination of the shared revenue formula in 2004 has also prevented state funding distributions from changing in response to a changing Wisconsin. The results are growing inequities between different regions with varying economic bases. In other words, a frozen formula generates conflict by not recognizing the unique needs of different communities. Instead, it treats Wisconsin as a state with a population, economy, and values frozen in 2004.

A strong Wisconsin economy requires effort from the state of Wisconsin and its myriad of local governments to create the conditions for prosperity. A robust local tax climate does not matter if the state tax climate is weak, and vice-versa.

WHY IS A STATE AND LOCAL GOVERNMENT PARTNERSHIP IMPORTANT?

There is no perfect way to fund local government. Still, a commitment to a renewed state-local partnership that funds local government based on a modern economy can be the foundation for reforms that:

A commitment to a renewed state-local partnership will fund local government based on a modern economy as a foundation for reform.

- Increase transparency so Wisconsinites can easily understand where their tax dollars are going.
- Recognize the need to keep the overall tax burden on Wisconsin residents, regardless of the taxing entity, in check.
- Provide a degree of local government flexibility so that local governments can fund services at a level consistent with their residents' unique needs and values. Such flexibility can also accommodate the structural differences between local governments.
- Incentivize responsible long-term budgetary practices.
- Prioritize simplicity to increase efficiency and resident understanding.
- Limit future property tax increases.

CONCLUSION

The data presented in this document tell a straightforward story of Wisconsin's local government's fiscal challenges.

- State cuts to shared revenue have increased reliance on the property tax.
- Levy limits incentivize using general obligation debt as an immediate-term method to fund capital costs without other revenue for pay-as-you-go to help limit interest costs.
- Reliance on user fees remains steady despite their regressive nature and state limits on some uses.
- Eliminating the shared revenue formula removed fairness as a guiding value in the distribution of state aid.
- Anecdotal evidence suggests local government debt is increasing to meet operational and infrastructure needs.
- Increasing state tax revenues are generating a $6.6 billion surplus (likely growing) but have not led to corresponding tax relief for local taxpayers.

In summary, changed priorities at the state level have shifted Wisconsin residents' tax burden to local property taxpayers, incentivized debt financing that may have long-term consequences for taxpayers, and increased the complexity of local government budgeting. Restoration of the state-local fiscal partnership can reduce the burden on state and local property taxpayers, increase efficiency in service delivery through enhanced local government flexibility, increase fiscal transparency, and eliminate the negative incentives that may create long-term problematic fiscal practices.

From a regulatory perspective, the state enacts an ever-evolving list of mandates and reporting requirements with which local governments must comply. From a financial perspective, the partnership is premised on sharing state income and sales tax revenues through shared revenue. Historically, shared revenue was used to ensure local governments could provide services regardless of their tax base while keeping property taxes in check.

As local governments struggle to provide services and control their tax levy, increases in state tax revenues have helped generate an estimated $6.6 billion state budget surplus.[6] The state surplus creates a significant opportunity for immediate action to renew the state-local government partnership.

The Task Force's recommendation to renew the state and local government partnership and provide a local government funding source that is tied to the modern economy follows below.

[6] DOA Division of Executive, Budget and Finance, Department of Administration, November 2022

POLICY RECOMMENDATION

Renew the State-Local Government Partnership and tie Local Government Funding to the Modern Economy

Invest One Cent of the Existing State Sales Tax in Local Governments.

The state/local partnership should share the same revenue approaches so that as the economy changes, both partners are similarly impacted, good and bad. Currently, the state of Wisconsin has a 5% state sales tax. Providing 1/5 of that tax revenue to local governments (1/5 to local governments and 4/5 to the state) will provide local governments with a diversified revenue source and reduce the reliance on the property tax as a percentage of local government revenues.

To illustrate how tying local government revenues to the economy consider the funding impacts from 2001 to 2019:

- Personal income tax collections increased by 74.4%,
- State sales tax collections increased by 57.8%,
- Shared revenue to local governments decreased by 12.88%.

The revenue generated via the sales tax could be distributed using an equity-based or a regional-based formula, along with a hold-harmless that does not arbitrarily create winners and losers. Such an approach ties the local government's fiscal capacity to the state's economic trajectory. This recommendation recognizes that an equitable adjustment or replacement of existing major local government revenue sources preventing winners and losers is likely.

The Local Government Funding Task Force identified this policy recommendation as the best way to renew a state and local government funding partnership. The state budget surplus exists in part because of the positive trajectory of the Wisconsin economy. Local governments are seeking to be placed on a similar footing. A similar approach will provide residents with essential services without raising their overall local tax burden. Local governments seek this approach that will allow them to benefit from the modern economy, as does the state, moving forward.

The property ownership funding approach made sense in the 1800 and 1900s. So does moving to a new funding approach grounded on the modern service economy based on income and retail sales. This approach will allow local government spending to align with economic conditions while reducing reliance on the property tax.

APPENDIX

Major Local Government Funding Sources

The following sections explain the major revenue sources for Wisconsin local governments. In addition, we detail trends that illustrate the negative consequences of a weakening state-local partnership. The major revenue sources noted below are shared revenues, property taxes, general obligation debt, and public fees for services.

Shared Revenue (as a part of Intergovernmental Revenues) [7]

The Legislative Fiscal Bureau (LFB) traces shared revenue back to 1911 when 90% of the new state income tax collected from residents went back to their local government. The basic concept was to reimburse local governments for revenue reductions caused by changes in the personal property tax.

Eventually, the state replaced the income tax system with a new “shared revenues” approach. The new approach was designed to keep property taxes manageable while ensuring local governments could provide needed services regardless of their local property tax base.

A commitment to a renewed state-local partnership will fund local government based on a modern economy as a foundation for reform.

The need-based formula adopted in 1971 distributed funds based on a minimum guarantee, population, utilities, and excess levies. This change ended the prior "return to origin" system, which resulted in wealthy communities growing wealthier while poorer communities stagnated or worse.

In 1976, there was another shared revenue program modification. The new system retained a minimum guarantee and still accounted for population and utilities. However, the legislature replaced the excess levy component with an equity component. Specifically, the formula sought to equalize the tax base, meaning local governments with high per-capita property values received comparably less state aid and vice versa.

There were several small changes between 1976 and 2004, but the basic framework stayed consistent. Local governments received state funds for general purposes at a level determined primarily by their per-capita property values. However, in 2004 shared revenue (county and municipal aid) payments were reduced from $930.5 million to $859.7 million. This 7.9% reduction signified the transition from the four-pronged shared revenue program to the new approach, eliminating the shared revenue formula and freezing allocations. Shared revenue was cut again in 2010 and 2012 and continues to be distributed without a guiding formula.

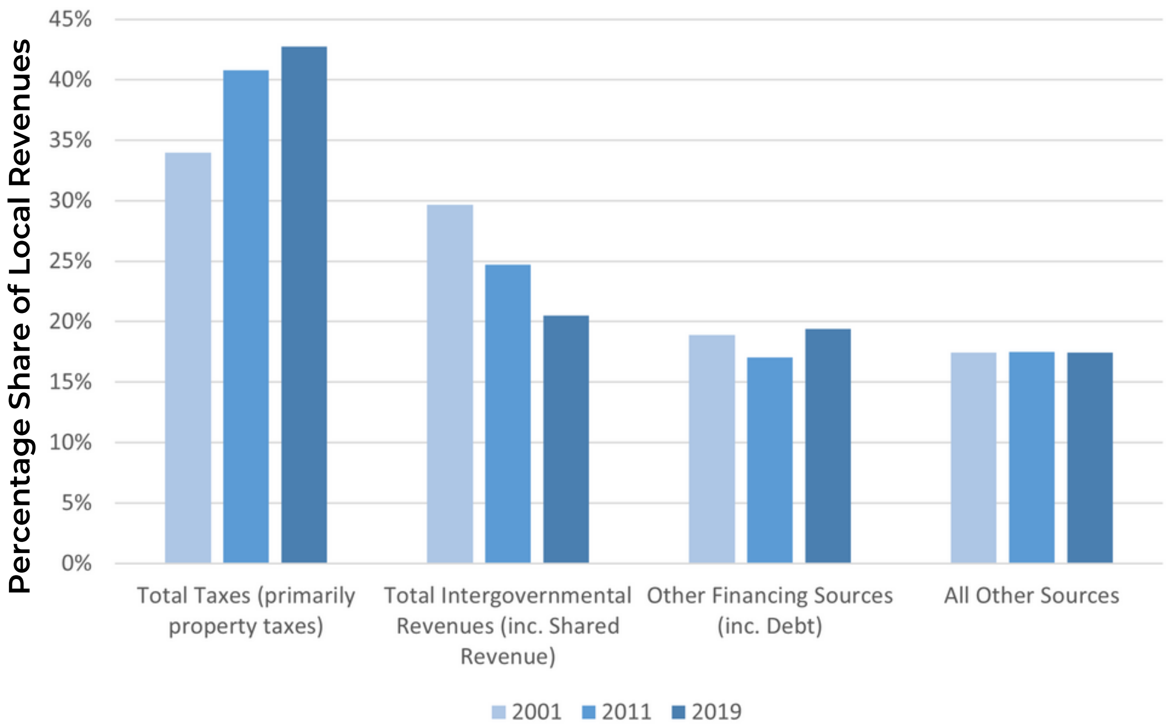
[7] The Department of Revenue Shared Revenue data includes both County/Municipal and Utility Aids. Except where noted, for data consistency, we use the DOR data. Many state and local officials use "Shared Revenues" to describe county/municipal aid (CMA). Table 5, using Legislative Fiscal Bureau reports, illustrates how CMA changes compare to state personal income and sales/use taxes.

The tables below display trends for major local government revenue sources and inflation between 2001 and 2019.

Table 1 – Property Tax Share of Local Revenue Has Increased While Intergovernmental Revenues (Including Shared Revenue) Has Decreased (by year).

Table 1 shows that from 2001 to 2019, property taxes as a share of all major local revenues rose from 34% to 43%. Over the same period, shared revenues as a share of all major local revenues decreased from 30% to 20%. As shown, the cuts and freeze have impacted local governments of all types.

Table 1 - ***Property Tax Share of Local Revenues has Increased While Intergovernmental Revenues (Including Shared Revenue) has Decreased***

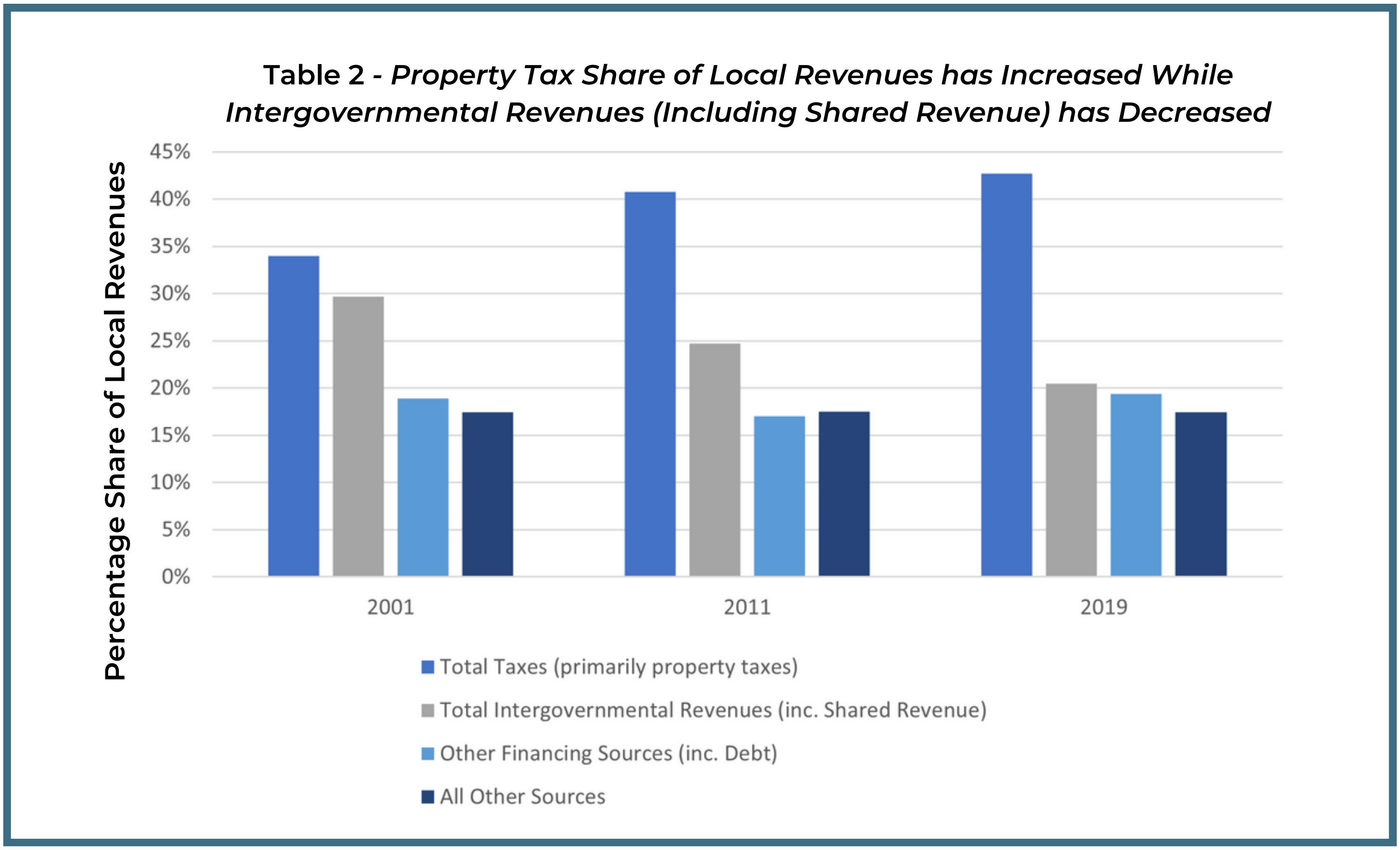


Source: DOR Local Government Dashboard; LFB Informational Papers on State General Fund Tax Collections

The local tax climate, quality of life, and services can attract, retain, or deter intellectual and economic development in our local communities.

Table - 2, Property Tax Share of Local Revenue has Increased While Intergovernmental Revenues (Including Shared Revenue) Has Decreased (by type).

Table 2 provides the same information by revenue source, illustrating a side-by-side view of revenue sources.



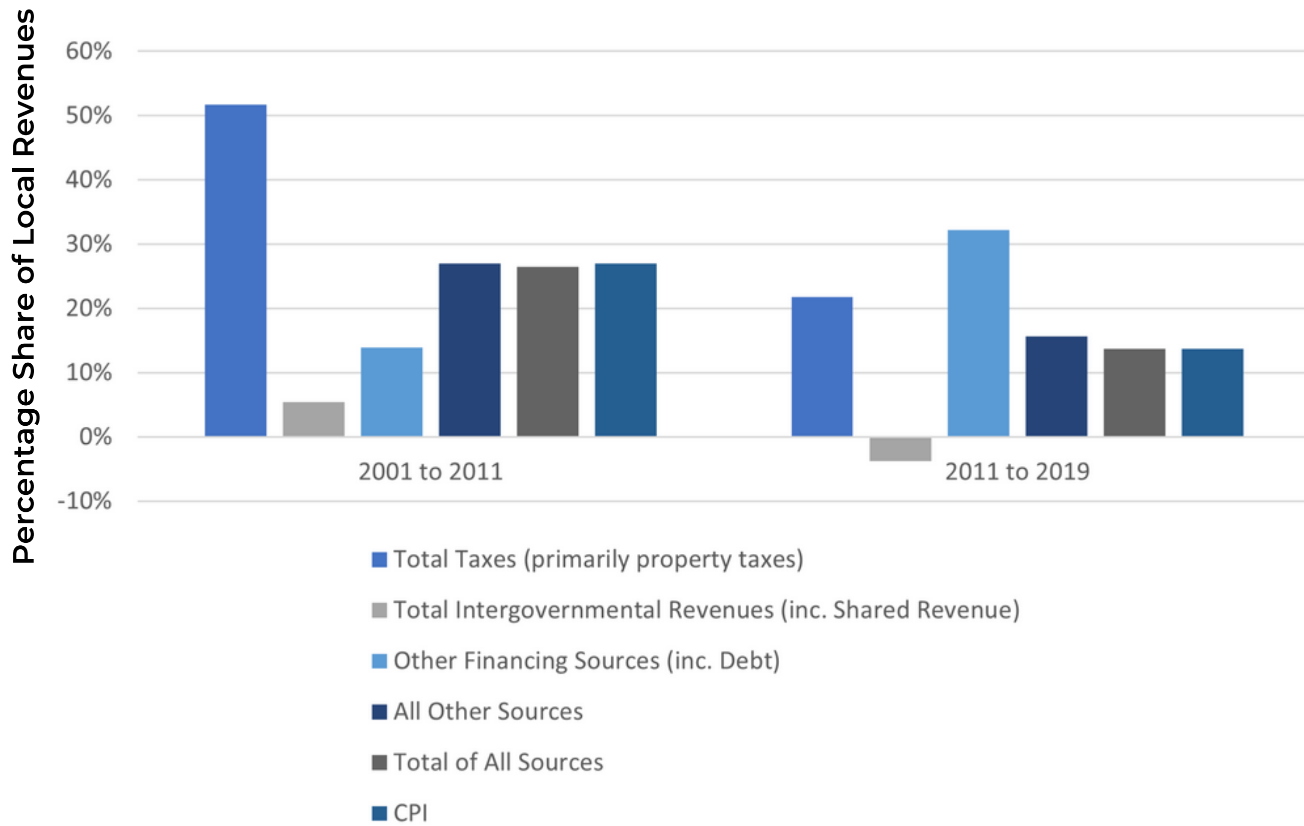
Source: DOR Local Government Dashboard; LFB Informational Papers on State General Fund Tax Collections

In 2001, property taxes were 34% of local revenues and in 2019 it was 43%.

Table 3 – Intergovernmental Revenues (Including Shared Revenue) Has Not Kept Pace with Property Taxes, Other Local Revenues, or the Consumer Price Index

From 2001 to 2019, the cost of living, as measured by the Midwest-Urban Consumer Price Index, increased by 37.6%, while the total amount of Intergovernmental Revenues (including shared revenue) to local governments decreased by 12.88%.

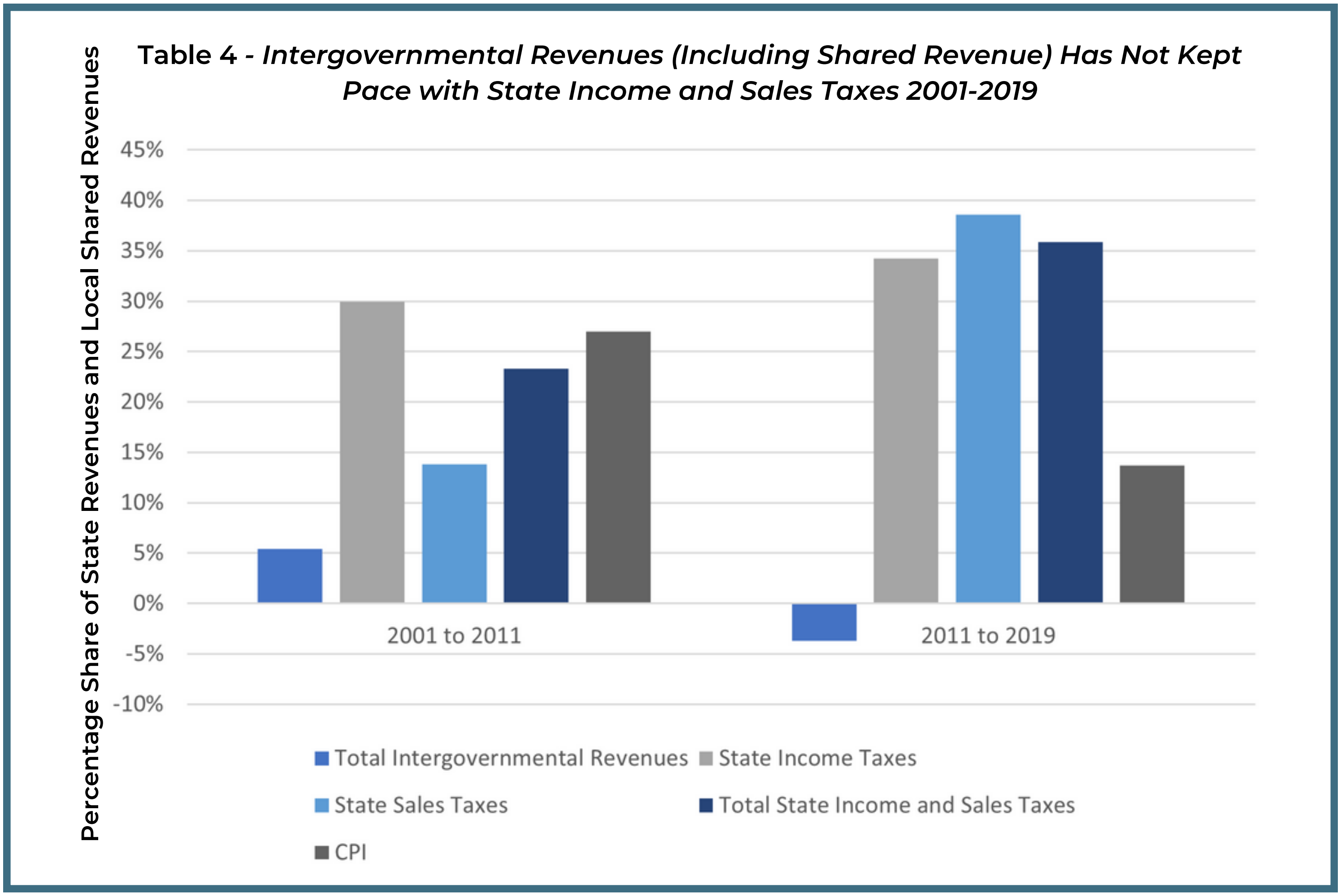
Table 3 - ***Intergovernmental Revenues (Including Shared Revenue) Has Not Kept Pace with Property Taxes, Other Local Revenues, or the Consumer Price Index.***



Source: DOR Local Government Dashboard; LFB Informational Papers on State General Fund Tax Collections

Table 4 – Intergovernmental Revenues (Including Shared Revenue) Have Not Kept Pace with State Income and Sales Taxes from 2001-2019.

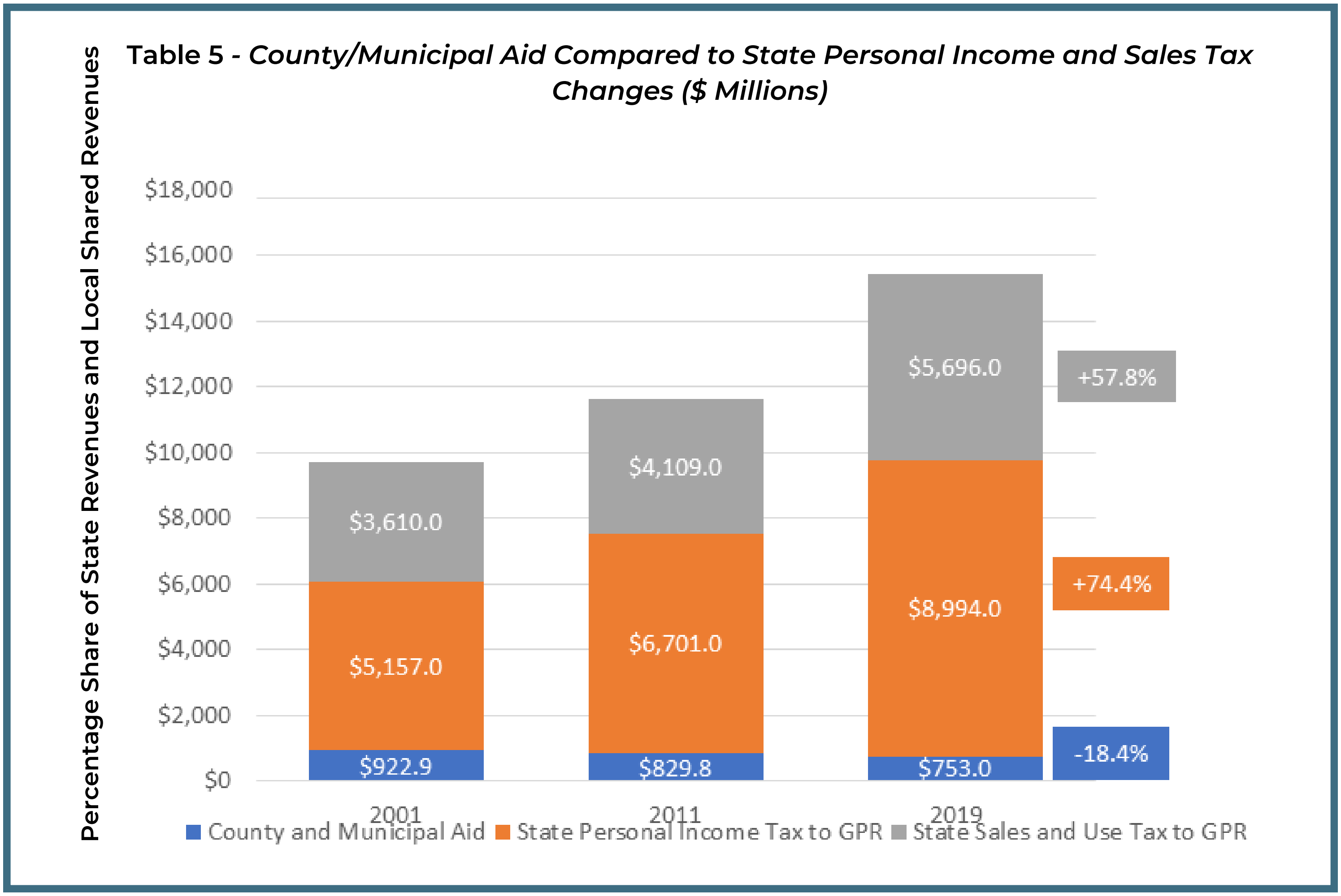
Table 4 illustrates that from 2001 to 2011, there was a balance between state income and sales taxes, Intergovernmental Revenues (Including Shared Revenue), and CPI. Since 2011, a significant imbalance has developed between shared revenues, the income tax, and sales taxes. Compared to the CPI, state revenues outpace CPI significantly, while shared intergovernmental revenues lag far behind.



Source: DOR Local Government Dashboard; LFB Informational Papers on State General Fund Tax Collections

Table 5 – County/Municipal Aid Compared to State Income and Sales Tax Changes

Table 5 illustrates how state county/municipal aids (CMA) have changed between 2001 and 2019 versus state income and sales/use tax revenue collections. Since 2001, CMA has decreased by 18.4%, while state personal income and sales/use taxes have significantly increased by 74.4% and 57.8%, respectively.

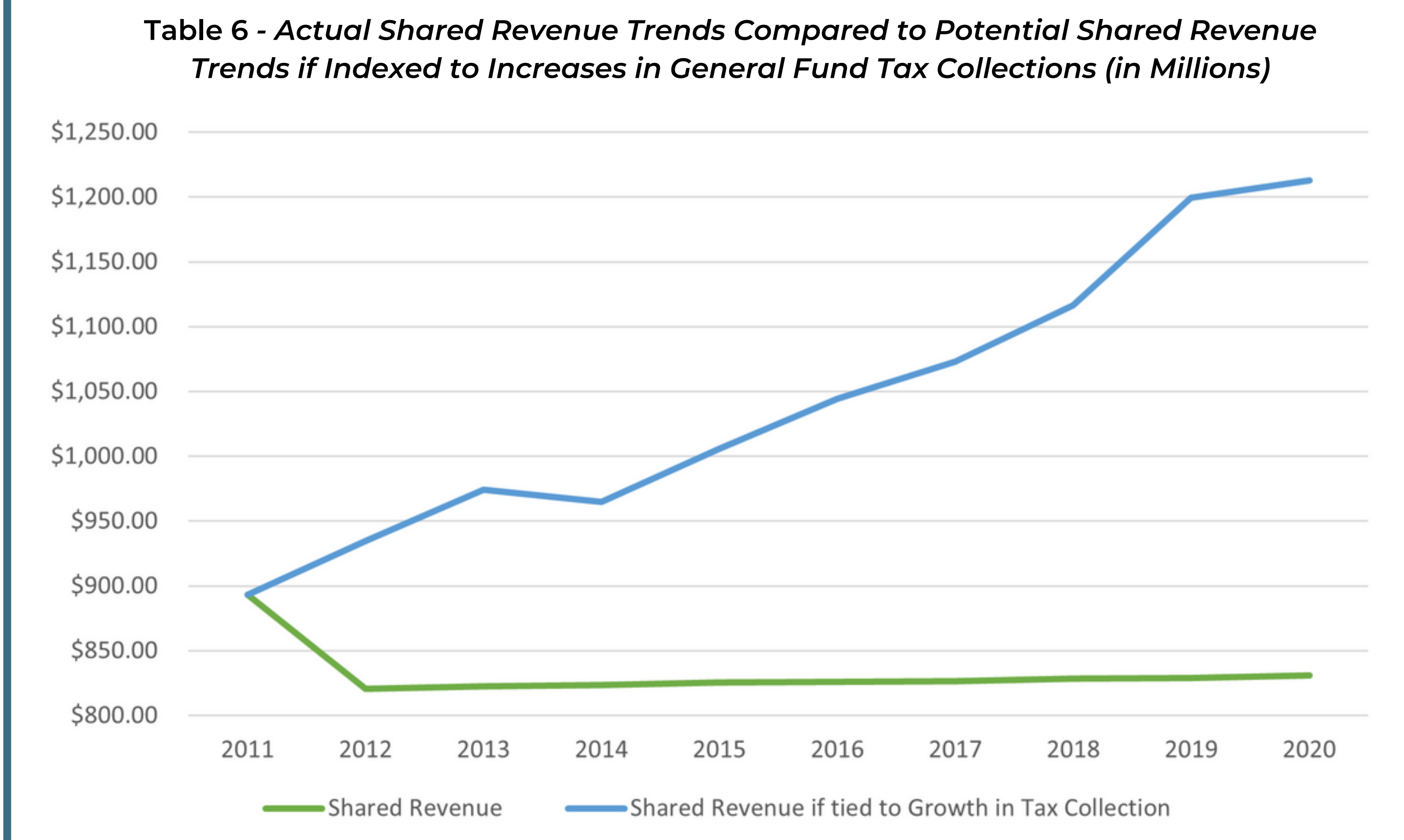


Source: Legislative Fiscal Bureau Informational Papers #18, 2003, 2011 and 2019

As the Tables 1-5 (above) note, whether it is Intergovernmental Aids, Shared Revenues or County and Municipal Aids, state support for local governments has declined from 2001 to 2019. While state revenues have significantly increased.

Table 6 - Actual Shared Revenue Trends Compared to Potential Shared Revenue Trends if Indexed to Increases in General Fund Tax Collections.

This table illustrates the impact on total shared revenues if they grew at the same rate as state revenues from 2011 to 2020. Shared revenues would have been $380 million higher using the same growth rate.



Source: Legislative Fiscal Bureau

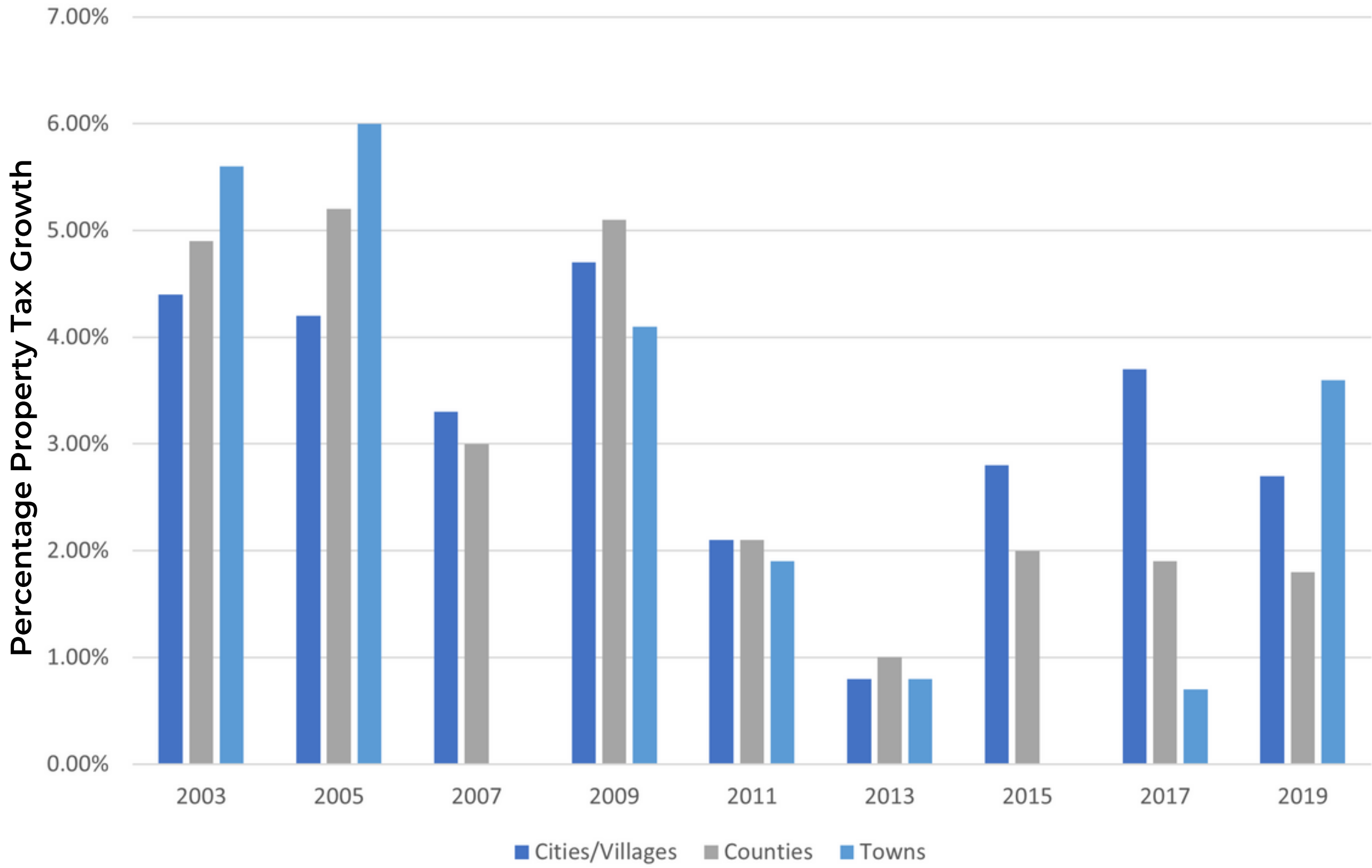
Property Taxes

The changes to shared revenue in 2004, 2010, and 2012 have changed how Wisconsin municipal governments raise revenue to pay for essential services. The most significant impact relates to the property tax.

Table - 7 - Annual Property Tax Growth

This table illustrates Wisconsin's local government's overall annual property tax revenue trends. As can be seen, there have been increases in overall property tax revenues and property tax revenues per capita since 2003.

Table 7 - *Annual Property Tax Growth*



Source: Wisconsin Department of Revenue. (Note: growth in towns in 2007 was 0%)

Since 2009, strict revenue limits have capped annual property tax levy increases to the percentage change in local equalized value due to net new construction (new construction less property renewal). The levy change cannot be less than zero (i.e., a loss of equalized value does not require a tax cut). Wisconsin has one of the nation's most restrictive property tax levy caps, though a local government may exceed revenue limits via a successful referendum.[8] However, as noted on page 5, this approach is little used.

2005 Wisconsin Act 25 implemented levy limits for the first time, and they were sunset on January 1, 2007, but then reauthorized. The sunset and reauthorization went on a couple more times, and in the 2011 budget bill, Wisconsin Act 32, the levy limit program was extended permanently.

Wisconsin has one of the most restrictive property tax levy caps in the nation.

[8] Towns under 3,000 population can do so via a town meeting

The policy intention of levy limits was to limit property tax growth. Nevertheless, local government's annual property tax revenues increased between 2002 and 2019. Between 2001 and 2009, the average annual growth in property tax revenues to local government was 4.5%. From 2009 to 2019, after the imposition of revenue limits, the annual average growth was 2.2%. The increase reflects local governments finding creative ways to raise new revenue despite strict limits, including increased debt use and incentivizing new construction.

Table 8 - Property Tax Level in Wisconsin:

(Taken from Legislative Fiscal Bureau 2021 Informational Paper 15, LFB Table 3). The data in this table illustrate Wisconsin local governments' heavy reliance on property tax. Two widely used measures of tax levels are property taxes per $1,000 of personal income and property taxes per capita. It notes Wisconsin's ranking under these measures since 1970. Wisconsin's property tax level exceeded the U.S. average under both measures in all periods examined. This comparison is based on the most recent data provided by the U.S. Census Bureau and the Bureau of Economic Analysis.

Table 8 - *Property Tax Level in Wisconsin*

Table 3: Wisconsin State and Local Property Taxes Per $1,000 of Personal Income and Per Capita Compared to Other States*

	Property Taxes Per $1,000 of Personal Income			Property Taxes Per Capita		
	Amount	Rank	Percent of U.S. Average	Amount	Rank	Percent of U.S. Average
1970	$63.35	4	138.5%	$220.50	6	131.6%
1975	52.13	13	116.6	271.09	14	112.2
1980	35.43	19	119.7	360.45	16	119.2
1985	43.46	10	137.2	571.81	12	131.1
1990	43.24	13	126.2	736.13	16	118.1
1995	47.73	8	137.6	1,018.49	11	133.3
2000	38.58	10	122.4	1,058.69	12	119.9
2005	43.24	11	127.9	1,405.66	12	123.7
2010	46.15	9	123.9	1,694.34	13	118.7
2015	36.74	15	112.3	1,624.73	15	107.6
2018	34.20	17	105.9	1,679.92	20	100.3

*Includes the District of Columbia.
Source: U.S. Census Bureau and Bureau of Economic Analysis.

Source: Legislative Fiscal Bureau 2021 Informational Paper 15

Property Tax Exemption Impacts

Property tax exemptions increase the property tax burden on remaining property owners, typically residential and commercial land use.

The Payment for Municipal Services program, use-value assessment, the Managed Forest Law, and other approaches are intended to limit property taxes to specific property types.

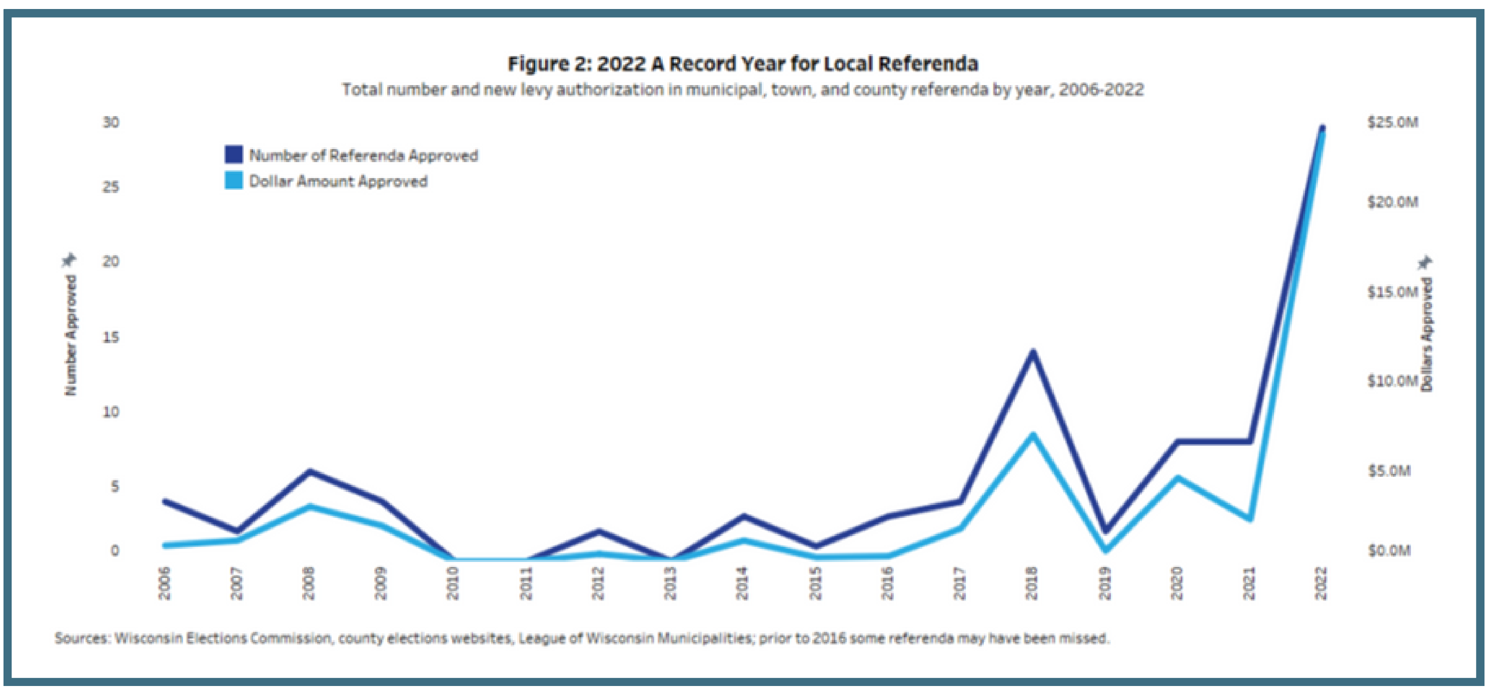
Initially, state reimbursement payments to local governments were enacted to cover part of the exemption cost. However, since enactment, these exemption reimbursements have remained the same. Since the reimbursement payments did not increase as the exempted property value increased, many local governments lost funding over time.

An example is the "Payment for Municipal Services Program," a state program that reimburses local governments for services provided to universities, prisons, and other significant property tax-exempt state facilities. According to the state, less than 38% of the local governments' costs of providing those services are funded.

Levy Limit Referendums

As noted above, a local government may exceed the levy limit through a local referendum. [9] However, most local elected officials are not interested in promoting a referendum to raise already high property taxes or to offset property tax exemptions and a lack of state shared revenue. As the Wisconsin Policy Forum chart affirms (below), this approach is little used.

However, despite these mounting challenges that local governments face, 2022 was the highest referenda year ever, with 40+ referendum.[10] The fact remains that even in 2022, only 2.2% of all Wisconsin local governments viewed the referenda approach as a viable way to increase revenues.



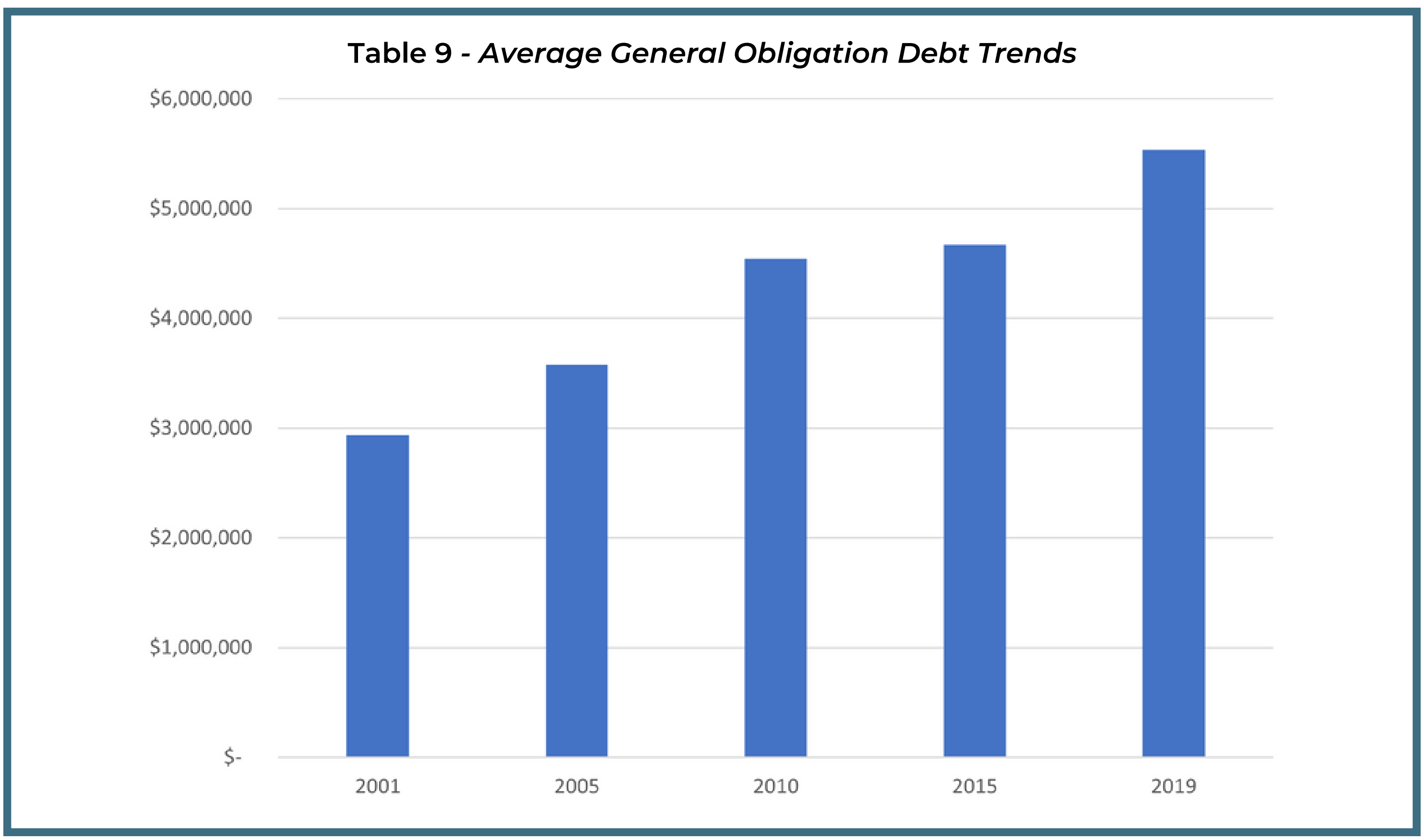
[9] Towns under 3,000 population may hold a Town Meeting to raise the levy
[10] A Record Year for Referenda, Wisconsin Policy Forum, November 2022

General Obligation Debt

Revenue limits also are linked to growth in general obligation debt. *Table 9 – Average General Obligation Debt Trends* notes an 88.7% growth in average general obligation debt for Wisconsin local government between 2001 and 2019 and a corresponding 69.3% growth in average debt service per capita. Importantly, debt service on general obligation debt issued after 2005 is not subject to levy limits, meaning increases in debt and debt service are a significant reason property taxes are increasing despite revenue limits. Again, regardless of the intent of levy limits, they are incentivizing increased use of debt financing as a levy increase revenue option for local governments. The impact of debt service on local tax levies will likely grow more significant as interest rates increase. Table 8 illustrates how using debt to finance local government's infrastructure and operating costs has risen.

The total debt owed by local governments in Wisconsin rose by 5.4% in 2020, reaching the highest level on record. On December 31, 2020, cities, counties, and other local governments owed $11.04 billion, an increase of $566 million over the prior year and the most ever even after adjusting for inflation and the growth in population in the state over time. [11]

Table 9- Average Local Government General Obligation Debt Trends



[11] Wisconsin Policy Forum, November 2022 Focus

Source: Wisconsin Department of Revenue

A Wisconsin Policy Forum paper recently confirmed this information through 2020.[12] Further, Moody's rating report for Wisconsin notes that slow economic expansion and property tax caps will constrain local government revenue growth.[13]

Public Fees (charges for services) *[14]*

The next major source of revenue for Wisconsin's local government is public fees for services or user fees. Wisconsin local governments are allowed to charge user fees for government services. However, a 2013 statutory change required local governments to reduce their tax levy when shifting certain services previously funded by the tax levy to user charges. This levy reduction applies to fees collected to pay for the following:

- Garbage collection
- Snow plowing
- Stormwater
- Fire protection
- Street sweeping

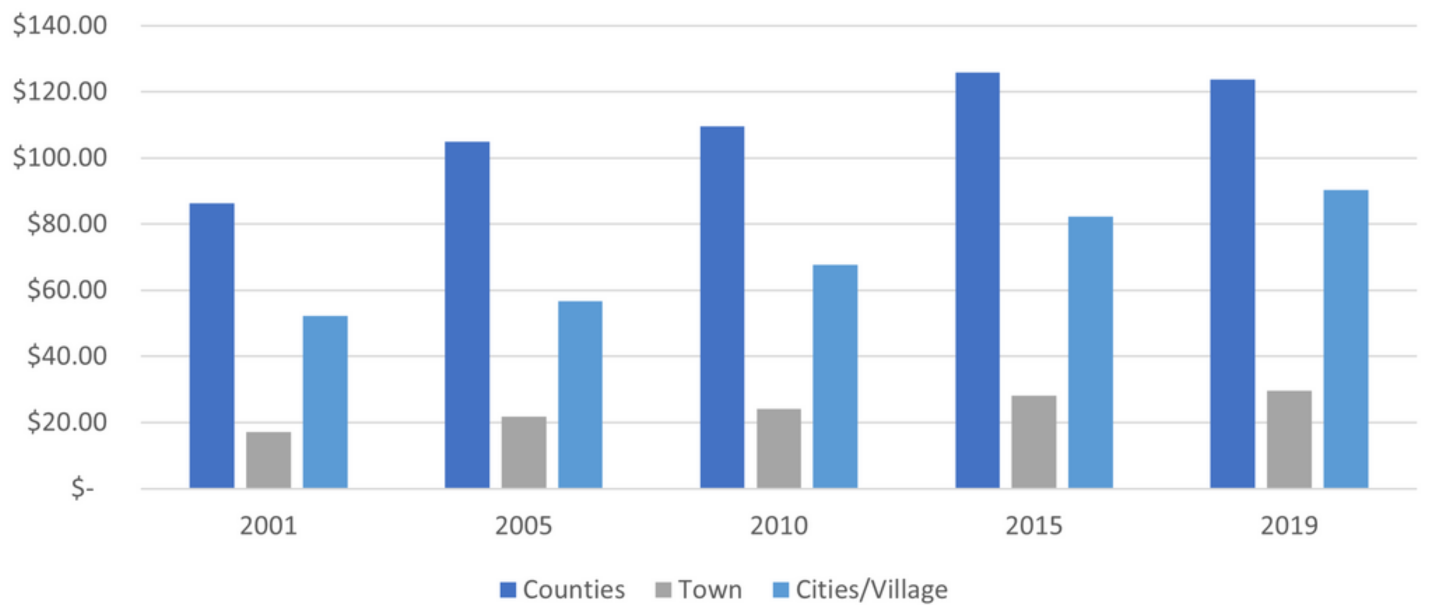
Therefore, the levy reduction does not apply for services historically funded by user charges, such as recycling. Further, user fees are regressive, as everyone pays the same fee regardless of income.

[12] https://wispolicyforum.org/research/local-debt-on-the-rise/
[13] Moody's Wisconsin Outlook Report, September 4, 2019
[14] We use term "fees" versus the DOR's terminology "public charges for services", as service fees is common term used by most local governments.

Table 10 - Fees for Services

This table notes the average user charges of local government (by type). Though increases have not been as dramatic as other revenue sources (averaging 15% of total revenues), there is steady growth despite the 2013 changes reducing flexibility for local governments seeking to diversify their revenue sources. Further, the lack of a state-local government partnership and rising costs create a revenue/expense squeeze that forces local governments to seek additional creative ways to provide critical services.

Table 10 - ***Average Local Government Fees for Services, 2001 to 2019***



Source: Wisconsin Department of Revenue

Additionally, the state sets the fee/fine amounts and requires a substantial percentage of the fee to be returned to the state. Often the fee amount, even if retained locally, does not cover the actual service cost. This leaves local governments having to fund the fee versus service cost difference, typically out of the property tax.

Local Government Funding Task Force – Formation and Background

The Local Government Funding Task Force (LGFT) was created to collect and review data and utilize technical expertise and policy research of the Local Government Institute; UW Oshkosh, Whitburn Center; and the UW Madison-Extension's Local Government Education Program.

Led by Co-chairs Timothy Hanna and Daniel Foth, the LGFT started its work in January 2022 to review and understand the local government funding data, issues, impacts, and regional economies. This document is the culmination of the LGFT's work, noting local government revenue, and expense challenges, and a policy recommendation.

Members:

- Timothy Hanna, Executive Director, Local Government Institute of Wisconsin
- Daniel Foth, Local Government Specialist, UW Madison – Extension's Local Government Education Program
- Scot Simpson, City Administrator - City of River Falls
- Mark Rohloff, City Manager - City of Oshkosh
- Dale Knapp, Director of Research & Analytics, Wisconsin Counties Association
- Adam Payne, County Administrator - Sheboygan County
- Lester Lewis, Chair - Town of Molitor
- David Schmiedicke, Finance Director - City of Madison
- Joe Ruth, Legal Counsel - Wisconsin Towns Association
- William Mielke, COB-Ruekert-Mielke
- Tom Wilson, Town Attorney / Administrator / Clerk-Treasurer, Town of Westport, Retired

Ex-Officio:

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