

# THE WISCONSIN TAXPAYER

Vol. 85, Number 5 | May 2017

**STATE OF WISCONSIN PROPERTY TAX BILL**

Ass'd. Value Improvements 120,000	Total Assessed Value 140,000	Ave. Assmt. Ratio 0.933	Net Assessed Value Rate (Does not reflect credits) .02414
Est. Fair Mkt. Improvements 128,600	Total Est. Fair Mkt. 150,000	<input type="checkbox"/> A Star in this box means Unpaid Year Taxes	School taxes reduced by school levy tax credit
		2016 Est. State Aids Allocated Tax Dist.	2015 Net Tax
VISC	550,500	575,000	25.46
COUNTY	1,030,000	1,115,675	602.35
MADGERTON	725,000	738,000	803.25
LEGE	2,358,000	2,385,500	243.04
WISCONSIN SCHOOL DIST			1,706.10
		4,814,175	3,297.10
Total			68.54
		First Dollar Credit	111.06
		Lottery & Gaming Credit	3,200.60
		Net Property Tax	3,119.98

## Wisconsin's Many Forms of Property Tax Relief How Effective Are State Aids? Tax Limits? Credits?

*In 2016, state government spent more than \$9.8 billion, or 40% of state taxes and fees, on property tax relief. The spending was in the form of aid to local governments, property tax credits, and selected income tax credits. In addition, it imposed strict property tax limits on local governments. Despite the effort, Wisconsin's property tax burden ranks 11th among the states.*

In Wisconsin and in 26 other states—particularly in New England—the majority of government services are provided by local governments.

Where Wisconsin differs from nearly all these states is how it pays for these services. Here, the combination of state aid and local property taxes account for 78% of local revenues. In only two of the other 26 states—New Hampshire and New Jersey—is that percentage higher.

Part of the reason is that Wisconsin has few local taxes other than the property tax. That is unusual for a state that delivers many services locally and helps explain why our property tax burden is 11th highest of the 50 states (Census Bureau, 2014).

Surveys consistently show the property tax to be the least popular tax in Wisconsin. That, together with the relatively heavy burden, helps explain why politicians of both major parties have long run on property-tax relief plans.

Lawmakers have tried to reduce property taxes in a variety of ways. State aid to local governments is the lead approach. However, credits shown on December property tax bills are the most visible form of relief.

In addition, the state imposes tax limits on schools and local governments. It also provides several income tax credits designed to reduce property tax burdens for specific taxpayers.

Among tax researchers and analysts, debate over the effectiveness of these policies is widespread. That issue will not be settled here. However, each of the main forms of relief are analyzed, beginning with state aid. First, though, Wisconsin's property tax during the post-war years is examined.

### PROPERTY TAX HISTORY

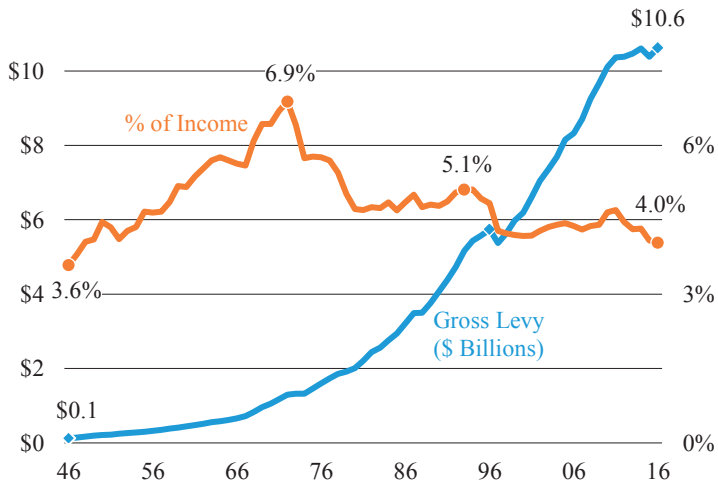
The Wisconsin property tax predates statehood. Prior to the 1911 creation of the income tax, local governments—including municipalities,

### Also in this issue:

- Job Growth, Firm Creation Lags
- More High Schoolers Taking AP Tests
- Government Employment Rises



**Figure 1: Property Tax Levies Rise, But Fall As % of Income**  
 Total Prop. Taxes in Billions (Blue) and as % of Personal Inc. (Orange)



counties, and public schools—were funded almost exclusively with taxes on property.

Today, these same local governments are funded primarily with a mix of property taxes and state aid, supplemented by a few smaller taxes, federal aid, and various fees and charges. Despite these lesser revenue sources, the property tax remains the state’s largest tax, both overall and at the local level.

**Trends**

Since World War II, statewide property taxes have increased from \$126 million in 1946 (taxes levied in 1945, payable in 1946) to \$10.6 billion in 2016 (see Figure 1, blue line). During those years, the levy declined just three times: 0.2% in 1974, 6.3% in 1997, and 2.1% in 2015. Each of the drops was due to increased state aid to local governments combined with local spending or revenue limits.

Climbing levies should not surprise, as Wisconsin’s population and economy have grown significantly over the past 70 years. However, the picture changes after accounting for this economic growth, as measured by personal income. This measure includes wages, benefits, interest and rental income, among others.

Total property tax levies as a share of personal income rose rapidly from 3.6% in 1946 to 6.9% in 1974 (orange line in Figure 1). Since then, they declined to 4.0% of income in 2016.

Despite the decline relative to income, property taxes here remain among the highest in the country,

and state officials continue to explore approaches for reducing them.

**STATE AID AS PROPERTY TAX RELIEF**

The principal way Wisconsin has tried to reduce property taxes is to use state taxes to aid local governments. The magnitude of that effort is unmistakable.

In 2016, local governments (including schools) spent about \$27 billion on services. Had those services been funded as they were in 1900, nearly all would have been paid for with property taxes. The result would have been a tax rate of more than \$55 per \$1,000 of property value, rather than the current \$21 per \$1,000.

The primary reason the tax rate is not \$55 per \$1,000 of value is billions in state aid paid to local governments through a variety of programs. This aid system is rooted in the 1911 creation of the state income tax.

**The Income Tax and State Aid**

Taxing of property faced challenges in 1910. Among them, intangible property, such as stocks, bonds, and money, often escaped taxation as they were

THE WISCONSIN  
**TAXPAYER**

**May 2017 Vol. 85 Number 5**

Publication Number USPS 688-800  
 Periodical postage paid at Madison, Wisconsin

**Subscription Price:**

\$17.97 per year  
 Published each month, except July, by the Wisconsin Taxpayers Alliance,  
 401 North Lawn Avenue, Madison, Wisconsin 53704-5033

**Postmaster:**

Send address changes to *The Wisconsin Taxpayer*,  
 401 North Lawn Avenue, Madison, Wisconsin 53704-5033  
 Phone: 608.241.9789 Fax: 608.241.5807  
 Email: wistax@wistax.org Website: www.wistax.org

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**Table 1:  
State Aids to Local Govts., \$ Millions, 2015-16**

Aid	Amount
K-12 Schools	\$4,970.6
Shared Rev. & Related	964.9
Transportation	657.9
Tech. College	513.9
Public Health	330.1
Other	715.4
Total	8,152.6

relatively easy to hide from assessors. Assessments on some other types of property were inconsistent.

In 1911, the state exempted money, household furniture, and other household goods from the property tax. The income tax was created to replace the local revenues lost.

The 1911 law specified that 70% of income-tax proceeds be returned to the municipality from which they were collected and 20% to the county. The state was to retain 10%. Thus, in addition to creating the nation’s first income tax, lawmakers also launched what became an expansive aid system to reduce local property taxes, or at least limit their growth.

**Aid By Program**

In 2016, state government shared nearly \$8.2 billion (see Table 1), almost a third of all state taxes and fees, with local governments. Federal money passed through the state to local units is excluded here. By far, the largest program aids K-12 schools. In 2016, the Department of Public Instruction distributed almost \$5.0 billion in state taxes to public schools.

Shared revenues and related aids (\$964.9 million) and transportation aids (\$657.9 million) are paid to counties and municipalities. The shared revenue program is a direct descendant of the 1911 aid program. Various “public health” aids go largely to counties.

Combined, state aids and local property taxes totalled \$18.8 billion in 2016, or 70% of the estimated \$27 billion in local spending. Remaining local spending was funded with federal aid (some funneled through the state), other local taxes (e.g., county sales taxes and room taxes), and various charges.

**Aid Trends**

While the state uses many aid programs in an attempt to hold down property taxes, growth in some of these programs has slowed over the past 15 years.

The last major infusions of state aid occurred in 1997 and 2014. In 1997, lawmakers increased school aids by \$860 million. Seventeen years later, they added \$406 million to technical college aids. During 2001-16, however, many aid programs were reduced.

*1996-2001: Aids Rise.* The 1997 school aid increase, combined with a state commitment to providing two-thirds of K-12 revenues, contributed to a 35.7% increase in total state aid to local governments during 1996-2001 (see Figure 2). Aids rose from \$5.34 billion in 1996 to \$7.25 billion in 2001. Following the \$860 million increase in 1997, school aids grew an average of 5.2% per year during 1997-2001.

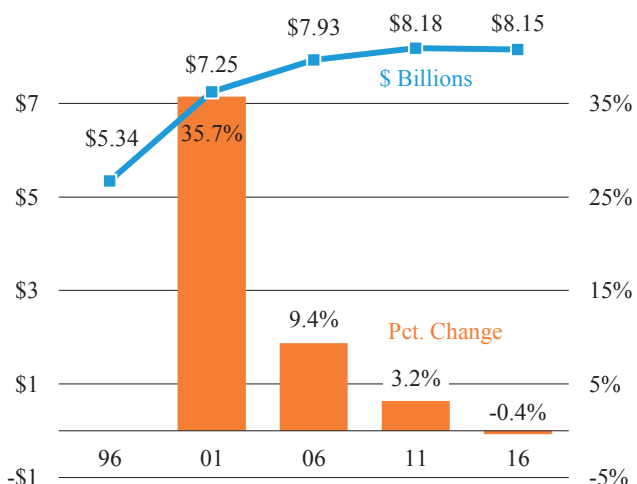
Another major contributor to the aid jump was a near doubling of transportation aids. They rose from \$431.4 million in 1996 to \$812.5 million in 2001.

*2001-11: Growth Slows.* Beginning in 2001 and for the next decade, state budget problems were chronic. To help balance budgets, lawmakers slowed growth in some aids and reduced others.

School aid increases slowed significantly. In 2003, the state eliminated its two-thirds funding commitment. From then until 2011, school aids increased, on average, 1.4% per year, or about one-fourth the 1997-2001 rate.

Shared revenues to municipalities and counties were cut in both 2005 and 2010. Amounts in 2011 (\$893 million) were actually less than those paid in 1993 (\$903.7 million). The state also reduced transportation aids by \$132 million (1.8%) during 2001-11.

**Figure 2: State Aids Grow, Then Flatten**  
State Aid (\$ Billion) to Local Govts. and % Change, 1996-2016



Five-year growth in all state aids to local governments slowed to 9.4% during 2001-06 and to 3.2% during 2006-11 (see Figure 2, page 3).

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**A 1979 study by the Legislative Fiscal Bureau found that, for every \$1 increase in state school aid, 69¢ went to reducing property taxes and 31¢ funded new spending.**

*2011-16.* In 2012, total local assistance declined 7.2% from \$8.18 billion to \$7.59 billion, driven largely by an 8.2% cut in school aids. The following year, shared revenues were reduced 8.1%. However, the immediate local impact of aid cuts was limited due to 2011 Act 10, which reduced benefit costs for local governments and schools.

Since then, aids have increased modestly each year; in 2016, they approached their 2011 level.

**Is State Aid Effective?**

Much academic research has been devoted to the impact of state aid on local taxes and spending. Most studies find aid increases only partially offset property taxes; some of the additional money funds new spending. Estimates of the amount of property tax relief vary.

At least two of those studies examine aids and property taxes in Wisconsin. A 1979 study by the Legislative Fiscal Bureau found that, for every \$1 increase in state school aid during 1960-78, about 69¢ went to reduce property taxes and 31¢ subsidized new spending. A 2002 UW-Madison study found a \$1 increase in per capita shared revenues reduced per capita property taxes between 32¢ and 41¢.

In short, billions of state aid to local governments have reduced the property tax burden. However, that is partially offset by the additional spending it encourages.

**PROPERTY TAX CREDITS**

A second approach to relieving property taxes involves subtracting state tax credits from local property tax bills. Although both aids and credits use state tax dollars, aids go to local governments, while credits benefit taxpayers directly. The credit approach dates from the early 1960s.

**Early History**

During 1952-62, statewide property taxes rose an average of 7.6% per year. There was also concern

about the taxing of business personal property. To address these issues, lawmakers raised the income tax and created a selective sales tax in 1963 to fund \$80.3 million in property tax credits. One credit went only to business owners with taxable personal property, while the other one went to all property taxpayers. Combined, the credits equalled 14.4% of the gross levy.

In 1981, the two credits were merged into one, the Wisconsin state property tax relief credit (or WSPTR), with part of the payments distributed based on the school aid formula. Changes continued in subsequent years until the current formulation, the school levy credit, was created in 1987. The credit was set at \$319.3 million and distributed based on school levies.

**School Levy Credit**

The school levy credit remained at \$319.3 million from 1988 through 1996. It was increased five times since and totalled \$853 million in 2016. As a percent of gross property taxes, the credit has ranged from a high of 9.1% in 1988 to a low of 5.6% in both 1996 and 2006.

**Lottery Credit**

Several years after creation of the Wisconsin Lottery in 1988, the state began using proceeds to fund a second credit on property tax bills. In 1992, the lottery credit totalled \$173.4 million, or 3.7% of the gross levy.

Ten years later, as the lottery matured and initial excitement waned, the credit had fallen to \$105 million, or 1.5% of the levy. During the ensuing 14 years, the lottery credit ranged from 1.1% of the levy in 2010 to 1.7% in 2007. In 2016, distributions totalled \$159.9 million, or 1.5% of the gross levy.

**First Dollar Credit**

A third property tax credit—the first dollar credit—was introduced in 2009. It totalled \$73 million in the first year and \$142 million in the second. In subsequent years, the credit totalled just under \$150 million. In 2016, it equalled 1.4% of the gross levy.

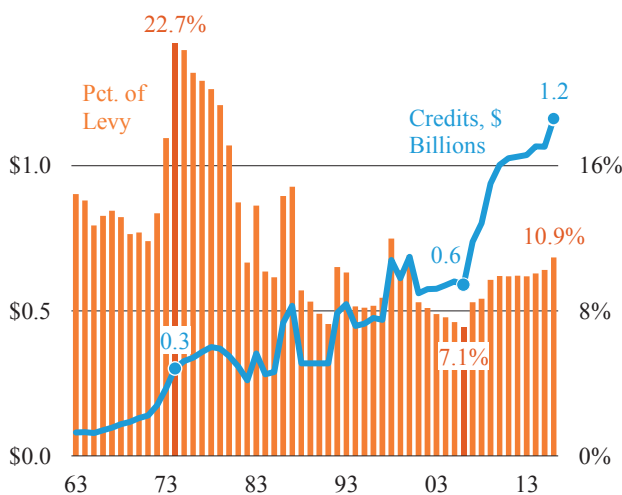
Combined, the three credits totalled \$1.2 billion, or 10.9% of the gross property tax levy in 2016. In other words, state taxes paid for almost 11% of the total property tax bill, while local property taxpayers covered the remaining 89%.

## Are Property Tax Credits Effective?

Direct tax credits are the most visible form of state property tax relief; taxpayers see them on the December tax bill. However, they do not affect how much local governments levy. And for them to provide the same percentage reduction in property taxes each year, state tax support must grow at the same rate as gross levies.

As a percentage of gross levies, state credits peaked in 1974 at 22.7% (see Figure 3). Over the ensuing 32 years, credit totals fluctuated, but trended upward (blue line in Figure 3). However, as a share of the levy, they declined from 22.7% to 7.1% in 2006. Then, despite a doubling of credit funding during 2006-16, their share of levies rose just 3.8 percentage points, from 7.1% to 10.9%.

**Figure 3: Credits Grow, But Lose Value**  
Property Tax Credits (Line, \$ Billion) and % of Levy (Bars), 1963-2016



While credits appear effective at relieving property taxes, they mask the “cost” of local government. Rather than paying the full levy in 2016, property taxpayers paid 89% of the bill. The remainder was not paid by the “state,” but rather by those who paid state income and sales taxes or purchased lottery tickets. In other words, the credits do not really reduce the property tax burden, they simply shift it to those paying other taxes.

Broadly, the beneficiaries of this system are town residents. According to the Department of Revenue, about 26% of general fund taxes and lottery sales came from town residents and businesses in 2014. However, 36% of all property tax credits were paid to property owners in towns. In other words, town

taxpayers paid 72¢ in state taxes for every dollar of property tax credits received.

Residents of villages (\$1.06 in taxes per \$1 of credits) and cities (\$1.19) paid more than a dollar of taxes for each dollar of credit received.

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**Property tax credits have increased from \$301 million in 1974 to \$1.2 billion in 2016. However, they have declined as a share of total property taxes from 22.7% to 10.9%.**

## REVENUE AND SPENDING LIMITS

A third way state government tries to control property taxes is by imposing revenue or spending limits on local governments. Wisconsin schools have been subject to revenue limits since 1993-94. The state imposed tax rate limits on counties in 1993 and stricter levy limits on both counties and municipalities in 2005. Finally, since 2013-14, technical colleges have been subject to revenue limits that combine features of the school and county-municipal limits. In prior years, the colleges faced rate limits.

### K-12 Revenue Limits

School revenue limits cap increases in the combination of state school aids and property taxes. Typically, the two represent about 80% of all school revenues. By controlling changes in both revenue limits and school aids, the state indirectly controls school levies. Districts can increase their levy above state-mandated limits if voters approve a referendum.

Originally, annual limit changes were tied to inflation, but that link was severed in 2009. Since then, lawmakers set allowable changes, if any, in state budgets. Increases were \$75 per student in both 2014 and 2015, and \$0 in the subsequent two years. By comparison, the allowable increase was \$275 per student in 2009, the last year the caps were tied to inflation.

### Levy Limits

In contrast to indirect limits on school levies, the state has directly limited municipal and county property taxes since 2006. Levies are effectively frozen, with changes allowed only to the extent there is new construction. For example, if the value of new construction in a village is 2% of its total value, the board can raise the levy by 2%. Exceptions are made for debt service.

From 1993 through 2011, county operating levies were subject to tax-rate limits. Beginning in 1993-94, a county's operating rate could not exceed its 1992-93 rate. The rate limits were suspended in 2011 and eliminated in 2013. Levy limits, of course, continue.

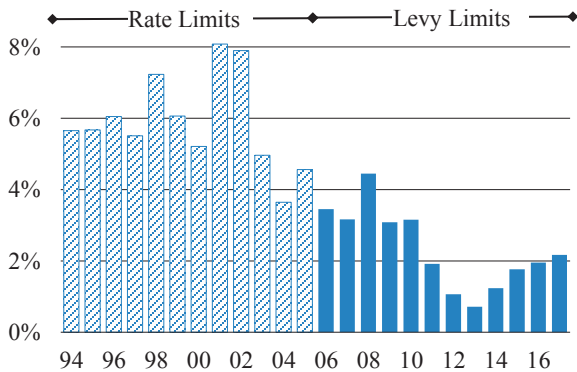
**In 2016, the state funded \$528.3 million in property-tax related credits on the state income tax. Two of the three credits were targeted to low-income households and farmers.**

**Technical College Limits**

Wisconsin technical colleges were subject to an operating rate limit of \$1.50 per \$1,000 of equalized property value from the mid-1970s until 2014. In that fiscal year, the state increased aid to the colleges by \$406 million and imposed revenue limits on them.

Revenues subject to the limits are the sum of operating levies and the new aid. Annual increases in the combination of the two are tied to the rate of new construction in the district.

**Figure 4: Levy Growth Slows Under Levy Limits**  
Annual Change in County Levies, 1994-2016



**Are Tax Limits Effective?**

As mentioned, counties and technical colleges were subject to tax rate limits during most of the 1990s and 2000s. During 1993-2006, annual increases in property values ranged from 6.8% to 9.6%. Since rates are levies divided by values, levy increases could rise at the same rate as values without increasing the rate. For example, if a county's equalized property value rose 8% and the board raised the tax levy 8%, the tax rate would remain unchanged.

Rapidly-rising values 15 to 20 years ago rendered these limits largely ineffective at limiting

property taxes; county levies increased an average of 5.7% per year during 1993-2005 (see Figure 4).

Unlike rate limits, county-municipal levy and school revenue limits have been effective at slowing growth in property taxes. For example, county levies increased an average of 2.2% annually since inception of levy limits, compared to 5.7% per year during the 12 prior years.

A similar pattern holds for school levies, which increased an average of 8.4% annually during 1988-94. With revenue limits in place after that, and the state adding more than \$1 billion to school aids, school property taxes fell 15.4% over the next three years. Since 1997, school levy increases have averaged 3.5% per year, less than half the growth rate prior to revenue limits.

While effective at slowing growth in property taxes, these various limits impact local government budgets. Property taxes are the main funding source for many municipalities, counties, and schools. Capping levies can stress local budgets, particularly when allowable increases are less than inflation. While local governments can exceed the caps with voter approval, the limits reduce "local control" over finances.

**INCOME TAX CREDITS**

Still another way state government tries to reduce property taxes is through the income tax with the homestead, farmland preservation, and property tax/rent credits. The first two are targeted to low-income households and farmers, respectively. The property tax/rent credit can be claimed by nearly all filers, but is capped at \$300 and has not increased since 2000.

**Homestead Credit**

Created in 1964, the homestead credit is calculated based on the relationship between income and property taxes or rent paid. Filers with income under \$8,060 receive a credit equal to 80% of property taxes paid (or qualifying rent). The credit declines as income rises. Filers with incomes above \$24,680 are ineligible for the credit.

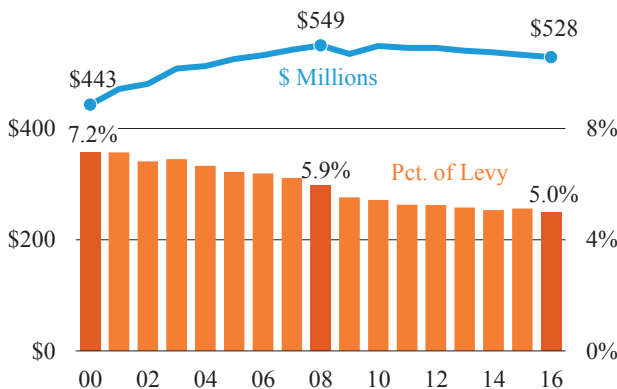
For example, a filer with \$8,000 of income and \$1,000 of property taxes would receive a credit of \$800 (80% x \$1,000). Another filer with the same amount of property taxes but \$18,000 of income would get \$101. However, if that same filer had property taxes of \$1,200, the credit would rise to \$261. The state provided just under \$100 million in homestead credits in 2016.

## Farmland Preservation Credit

Wisconsin had two farmland property tax credits for many years. The farmland preservation credit was created in 1977; the farmland tax relief credit followed in 1989. The two were eliminated in 2009 and replaced with a new farmland preservation credit.

The prior credits were based partly on property taxes paid, while the new per-acre credit is not. The new credit depends on whether the land is in a “farmland preservation zoning district,” and whether it is subject to a “farmland preservation agreement” entered into after July 1, 2009. Farmland credits totalled \$18.4 million in 2016, down from \$47 million in 1995 and \$40 million in 2003.

**Figure 5: Prop. Tax Related Income Tax Credits**  
Total (Line, \$ Million) and % of Levy (Bars), 2000-16



## Property Tax/Rent Credit

A third income tax credit tied to property taxes is the property tax/rent credit. The credit is equal to 12% of property taxes paid, up to a maximum of \$300 (12% x \$2,500 in property taxes). Renters receive an equivalent credit based on rent paid. Taxpayers claimed an estimated \$410 million in property tax/rent credits in 2016.

Combined, these three credits totalled \$528.3 million in 2016 (see Figure 5), or 5.0% of gross property taxes. However, because two of the three are targeted, tax relief for low-income taxpayers and farmers was higher.

## Are Income Tax Credits Effective?

While there is no consensus among tax experts, some believe the property tax is regressive; that is, the tax claims a greater share of income of the poor than of the rich. Proponents of the homestead and property tax/rent credits say they are an efficient way

to reduce property tax regressivity. A Department of Revenue study confirms that effect.

However, using the income tax to relieve property taxes can create confusion. Taxpayers associate these programs with the income tax, not with property tax relief.

## SUMMING UP

When Wisconsin residents think about state government, they often think of highways, state parks, the university system, and prisons. However, when it comes to actual spending, state expenditures on property tax relief far surpass any of these programs.

In 2016, state government spent just over \$24 billion from the taxes and fees it collected. Of that, more than \$9.8 billion went to property tax relief (aids, property tax credits, and income tax credits). Put another way, about 40% of state taxes and fees fund some form of property tax relief.

Much of that tax-relief spending is less effective than state officials believe. Research consistently shows increases in state aid only partially offset property taxes. State credits appear to provide relief, but really are a shift of state income and sales taxes from supporting state programs to funding local services.

Despite significant state resources devoted to this relief, Wisconsin continues to have some of the highest property taxes in the nation. That begs the question: Is there an alternative?

One way to reduce property taxes here would be to remove some government users from it. The governor has proposed replacing the state forestry tax (\$90 million) with state income and sales taxes.

Along with the forestry tax, could state officials find other ways to fund technical colleges (\$434 million) and counties (\$2.1 billion)? Removing these three entities from the property tax would be a permanent—and real—reduction of about 25% in the levy. The state’s property tax burden would drop from 11th among the states to an estimated 28th.

A second option would be to provide local governments with revenue options that could replace property taxes. As mentioned at the outset, for a state so reliant on local government, Wisconsin provides few local revenue options. □

## DATA SOURCES:

U.S. Census Bureau; Wisconsin Departments of Administration and Revenue; Wisconsin Legislative Fiscal Bureau.



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## WISTAX NOTES

■ **Gas Sales Volatile.** A new legislative proposal might change transportation finance in Wisconsin. Currently, Wisconsin roads and highways are funded largely with a 30.9¢ tax on motor fuels and a \$75 vehicle registration fee. If adopted, the proposal would reduce the gas tax and impose the sales tax on motor fuels. The plan would generate more money for transportation if gas prices do not fall.

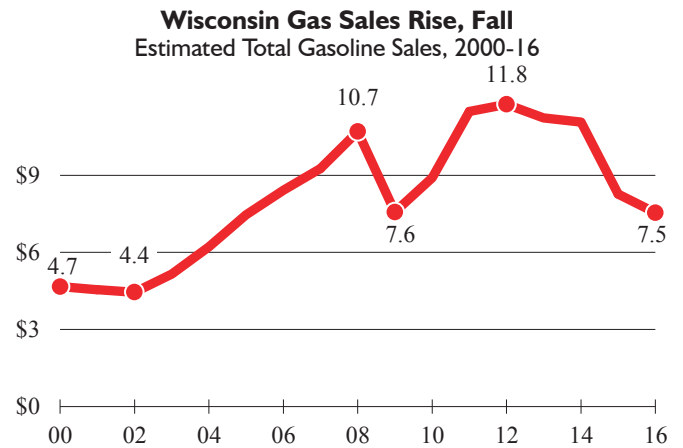
While future gas prices are unknown, history informs what could be expected. Revenues from a sales tax on gasoline will mimic changes in total gasoline sales (gallons times average price), which is shown in the chart. Nearly all of the 2000-16 change in total sales was driven by changing gas prices: The number of gallons sold rose less than 10% over 16 years.

The impact of rising prices is obvious during 2002-08. During those years, the number of gallons sold increased just 1%. However, with gas prices more than doubling from \$1.39 to \$3.30 per gallon, total sales rose from \$4.4 billion to \$10.7 billion. The 2009-12 period was similar.

However, when prices fall, total sales also drop, even when drivers buy more gasoline. During 2012-16, the number of gallons sold increased almost 5%. Yet, due to a 39% decline in prices, total sales fell from \$11.8 billion to \$7.5 billion.

■ **County Sales Taxes Up 3%.** Total collections from the 0.5% sales tax imposed in 62 Wisconsin counties increased 3.0% in 2016, below the 3.4% increase in 2015.

Annual changes in collections varied widely. In 17 counties, sales tax revenues declined year over year, including double-digit declines in Wood (-17.2%) and



Douglas (-10.9%) counties. In three others (Dunn, Lafayette, and Price), collections rose less than 1%.

At the other end of the spectrum, 2016 sales tax revenues rose more than 10% in Marinette (15.5%), Oconto (11.9%), and Oneida (11.0%) counties. In 13 others, collections increased more than 16% from 2015.

The state allows counties to impose a 0.5% sales tax in addition to the state's 5% tax. Sixty-two counties imposed the tax in 2016, a figure that is unchanged since 2010 when Fond du Lac added one. Sheboygan County began collecting the tax on January of this year; Kewaunee County started theirs on April 1. □

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- The 2016 CAFR: State controller sees red, while state officials see black (#7-17)
- Balloon squeezing: Transportation finance and the state budget (#8-17)

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