



THE WISCONSIN TAXPAYER

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State Funding of Local Government How Does Wisconsin Differ From Other States?

State capitol and western Wisconsin city

In 2009, Wisconsin state government funded more than 40% of local government spending, a percentage that was higher than in 42 states. Our “equalizing” state-local finance system allows poor communities to provide basic local services without very high tax rates. However, it may also lead to higher property and income taxes. The system can also lead to tension between state and local officials, and frustration for taxpayers.

In many ways, government finance in Wisconsin has been unusual for more than a century. The nation’s first state income tax was created here in 1911 to return monies to local governments in hopes of reducing property taxes. Ever since, the Badger State budget has not been so much a state budget as a tool for funding local services.

Even during the past decade, with recurring deficits and spending retrenchment, up to two-thirds of state taxes and fees went to a long and varied list of local assistance and property tax relief efforts. That is not to say that state aids to schools, counties, and municipalities did not suffer. They did, which is one of the drawbacks to Wisconsin’s approach to public finance.

With state and local government joined at the “fiscal hip,” the relationship between the two can be problematic. In good times, there is tension between state and local leaders: State officials mandate services and demand local fiscal discipline, while their local counterparts resent the top-down micromanagement and express concern over the amount of aid received.

In bad times, a slumping economy slows state tax collections, and aids to local governments are often reduced. As the state’s fiscal problems are passed on to local governments, even more tension is introduced into the state-local relationship.

For taxpayers, the consequences of this relationship can be frustrating.

State and local decision makers blame each other for rising property taxes and diminished services. The ultimate casualty is public accountability.

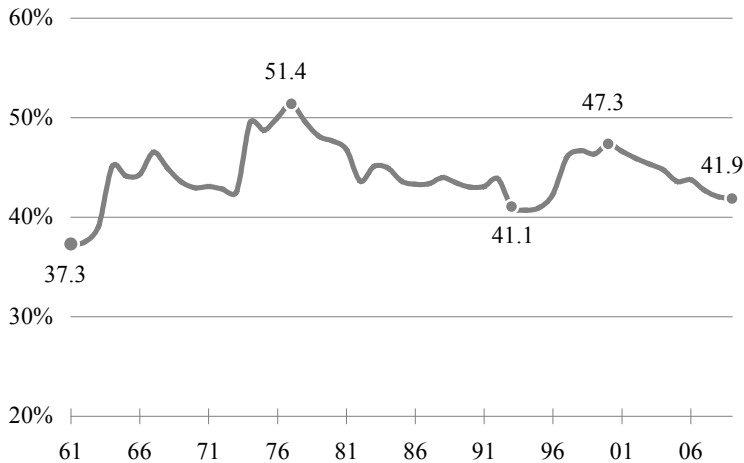
With the bitterness of the 2009-13 budget battles and their cuts to school and local government aids likely behind us, the state is in a position to begin thinking about reform to the state-local financial system. The history, mechanics, and impact of the Wisconsin approach need to be understood as well as its strengths and weaknesses.

Also in this issue:

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Figure 1: State Aids as % of Local Budgets (Inc. Schools) 1961-2009



SOME BRIEF HISTORY

The history of Wisconsin state government aiding local governments in Wisconsin dates back more than 100 years. Because of their ethnic and religious backgrounds, early settlers believed government had some obligation to provide public services. And they wanted those services provided locally.

Income Taxes and Revenue Sharing

With the creation of the income tax in 1911, state government began to raise more revenue that could be shared with local governments. While 90% of income tax revenues were originally returned to municipalities and counties, by 1925 that share had been reduced to 50% as state officials needed more revenue to fund a growing list of progressive initiatives.

Over time, state government has increased the amount of money going back to local governments, funding those increases with new taxes and with increases on taxes already in place. Reasons for the additional aid included property tax relief, tax equity, and replacement of local taxes and tax base lost through state action. Along the way, the state commitment to funding K-12 education repeatedly grew.

Figure 1 shows state aid as a percent of local (municipal, county, and school) budgets from 1961 through 2009. In 1961, state dollars funded less than 40% of local spending. That percentage reached 51.4% in 1977 and stood at just under 42% in 2009. State budget problems in the past decade are evident in the recent decline in levels of state assistance.

Changes in Aid Policy

Fluctuations in state assistance for funding local services occurred due to the many changes in state

aid and property tax relief programs over the past half century.

Property Tax Credits. To ease local property taxes, Wisconsin created a state-funded \$80 million credit in the early 1960s. Over the years, the credit grew to nearly \$900 million, with major increases occurring in 1986, 1997, 2007, 2008, and 2009. A lottery credit was added in the late 1980s. As of 2011, state property tax credits totaled more than \$1 billion.

Aid Increases. Other efforts to reduce property taxes included greater direct aid to schools and local governments. Major school aid increases occurred in 1974 (+36%), 1986 (15%), 1991 (14%), 1995 (13%), and 1997 (32%). As of 2011, state government paid for about 45% of K-12 school costs.

Shift to Equalization. As mentioned, the state shared revenue program was originally designed to return state income taxes to the municipality of origin. However, in the early 1970s it was changed, with lawmakers adding an equalizing feature to provide more aid to municipalities and counties with lower property values.

For example, Verona and Portage are similar-sized communities, each with about 10,000 residents.

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However, Verona’s tax base (total property value) is about 2.5 times larger than Portage’s. If the two cities were to fund the same local services using only property taxes, Portage’s tax rate would be 2.5 times higher than Verona’s. Equalization helps to reduce these kinds of inequities.

Replacing Tax Base. State aid was also increased to pay for tax base removed from the local tax rolls. In 1961, some livestock and various business stocks and inventories (Line A stocks) were partially exempted from the property tax, with the state reimbursing local governments for lost revenues. In the mid-1970s, manufacturing machinery and equipment was exempted from the property tax; Line A stocks were fully exempted a few years later. Computer equipment was exempted in the late 1990s. In most cases, the state promised to replace local revenue lost with increased aid.

As aid programs were created or changed, one side effect was often increased complexity and reduced taxpayer understanding and accountability.

STATE TAXES AND AIDS

A deeper understanding of Wisconsin state-local finance requires knowledge of the sources of state revenues and their uses. State taxes and fees are discussed next, followed by details on the various ways state government aids local government.

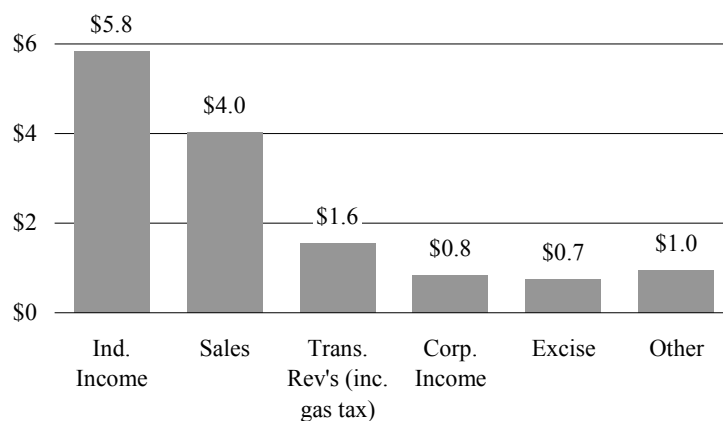
State Taxes

To fund its own operations, as well as various aid programs, Wisconsin state government collected \$13.9 billion in taxes, fees, and lottery proceeds in 2010. Of that total, about two-thirds funded state aid, while the remainder paid for state agency operations, the UW System, and various aids to individuals. The Earned Income Tax Credit and Homestead Credit are examples of the latter. The three largest state revenue sources are the individual income, sales, and gas taxes.

Income Tax. The income tax is state government’s largest revenue source, generating approximately \$5.8 billion (see Figure 2) in 2010. Withholding from salaries and wages comprise the largest portion of income tax collection. However, capital gains and losses, interest, dividends, and retirement income are also subject to the income tax.

Sales and Use Tax. The sales and use tax is the state’s second-largest revenue source, at about \$4 billion in 2010. Wisconsin’s 5% state sales tax applies to the sale of tangible personal property, unless exempt,

Figure 2: State Taxes and Fees
2010 (\$ Billions)



and some specified services. For example, food and prescription drugs are not subject to the sales tax in Wisconsin. Vehicle repair services are taxed, while health care services are not.

Transportation Revenues. Combined, various transportation taxes and fees were the third-largest revenue source in 2010, generating approximately \$1.6 billion intended for transportation-related expenses. Segregated transportation fund revenues are largely gas taxes, but also include vehicle registration fees, and other taxes and charges.

State government also generates revenue from the corporate income tax (\$844 million), various excise taxes, including those on tobacco and alcohol (\$739 million), utility taxes (\$342 million), conservation fees such as hunting and fishing licenses (\$193 million), and other miscellaneous taxes and fees (\$421 million).

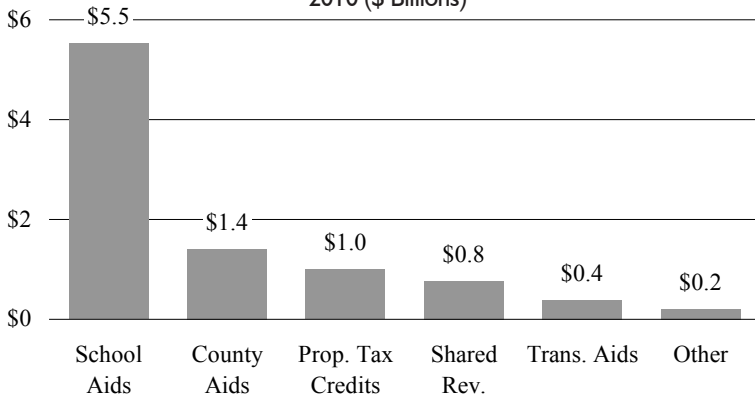
State Aids

In 2010, Wisconsin state government sent about \$9.3 billion to local governments through various aid programs and property tax credits. According to the Wisconsin Department of Revenue (DOR), about 65% of the state money sent to local governments was intended to equalize tax bases among municipalities, counties, and school districts. Approximately 25% was for cost sharing, and 10% was direct property tax relief.

School Aids. School aid is the largest local assistance program. In 2010, it totaled \$5.5 billion (see Figure 3, page 4) and accounted for nearly 60% of all state aid to local governments.

School aid takes two forms, general and categorical. General aids are distributed using a formula based

Figure 3: State Aid by Program
2010 (\$ Billions)



on per student spending and property value. Districts with low per student property values receive more aid than those with high values. The formula is designed so that districts with similar per student spending have similar school tax rates. In other words, it equalizes tax base among school districts. In 2010, general aid was more than \$4.5 billion.

Categorical aid is a form of cost sharing between schools and the state (and sometimes the federal government), and is based on specific district activities or spending. The largest categorical aid is for special education, where the state and local school districts share the cost. Other cost-sharing categoricals include transportation, class-size reduction, and libraries.

State government’s commitment to funding K-12 schools has risen significantly over the years. School aids covered about 15% of school spending in 1950, 30% in 1970, and almost 50% now.

Shared Revenues. The state shared revenue program provided \$761.3 million in aid to counties and municipalities in 2010. State budget problems during the past decade led to freezing and then reducing the shared revenue appropriation. Moreover, payments are no longer adjusted based on property values (i.e., the equalization component no longer exists). That said, the distribution of per capita property values has not changed much over the past 10 years. Thus, due to past equalization, communities with low property values prior to the change continue to receive more shared revenue than those with higher values.

County Aids. Counties help administer various state programs, particularly those in health and human services. The state helps offset these costs through county aids, which totaled \$1.4 billion in 2010.

Transportation Aids. The state also provides local government aids from the transportation fund. These

include aid for general highways, bike and pedestrian paths, and mass transit, among others. Transportation aid, a form of cost sharing, totaled \$390.6 million in 2010.

Property Tax Credits. The state also funds property tax credits that provide direct property tax relief for taxpayers on their property tax bills. Wisconsin has three credits: school levy, first dollar, and lottery. The school levy credit (\$747.4 million)—the largest of the three—is distributed based on the size of the school property tax levy in a community.

LOCAL DETAIL

Though brief, the preceding discussion illustrates the complexity of state-local finance in Wisconsin. Much of that complexity can be attributed to policies that send aid to communities other than where it originated. The state-local relationship is now explored from that perspective. Figures cited below are DOR estimates for 2010.

Taxes and Aids by County

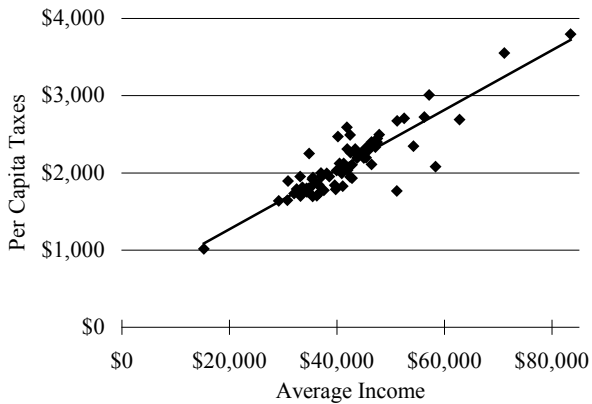
One way to explore the distinction between state taxes paid and state aid received is by county. Tax figures are estimates of all state taxes paid by residents of a county. Aid payments reported in this section include not just county aids, but also aids to all local governments and schools within each county.

Taxes and Fees. Population and income affect revenue collections. The state’s most populous counties tend to send more tax dollars to Madison than the least populous. And since taxes paid are somewhat related to income, residents in counties with higher average incomes tend to pay more taxes than those in counties with lower incomes.

Data Details

State revenue and aid figures are from the Wisconsin Department of Revenue’s “State Taxes and Aids by Municipality and County for Calendar Year 2010” report. In compiling this report, department staff used economic models and estimates to assign taxes and fees to individual municipalities and counties. Aids, including state assistance to all local governments and schools, were then assigned to municipalities and counties. For example, if a school district spans three municipalities, its state aid is apportioned among those municipalities. Similarly, state aid received by county government is apportioned among municipalities in that county.

Figure 4: Taxes and Income Related
Taxes Paid Per Capita and Avg. Income, by County, 2010



The state’s most populous county (Milwaukee) accounted for an estimated 15.7% of all state taxes and fees collected in 2010, a share nearly equal to that of Wisconsin’s 45 least populated counties combined. In fact, more than half of all state taxes and fees was collected from taxpayers in Wisconsin’s seven most populous counties: Milwaukee, Dane, Waukesha, Brown, Racine, Outagamie, and Winnebago. The smallest amounts were paid by residents of Menominee, Florence, Iron, Pepin, and Forest counties.

The tie between resident income and taxes paid is highlighted when state taxes paid are examined on a per capita basis. Figure 4 shows the strong relationship between state taxes paid by residents of a county and their average income. For example, residents of Ozaukee County had the highest average income (\$83,443) and paid the most per person in state taxes and fees (\$3,798). Residents of Menominee County had the lowest average income (\$15,226) and paid the fewest taxes and fees (\$1,014).

On a per capita basis, counties whose residents paid the most state taxes were Ozaukee, Waukesha, Dane, and Washington. As well as Menominee, those paying the least per capita were in Forest, Rusk, Buffalo, and Burnett counties.

State Aids. Like tax collections, total aid payments vary by county due largely to population. Again, the most populous counties receive a large share of aid. According to DOR, over one-third of total aids went to the state’s four most populous counties: Milwaukee, Dane, Waukesha, and Brown.

However, while tax payments vary by income, aid is affected by property values. Per capita, aids ranged from \$3,396 in Menominee to \$1,074 in Waukesha. In addition to Menominee, other counties that received

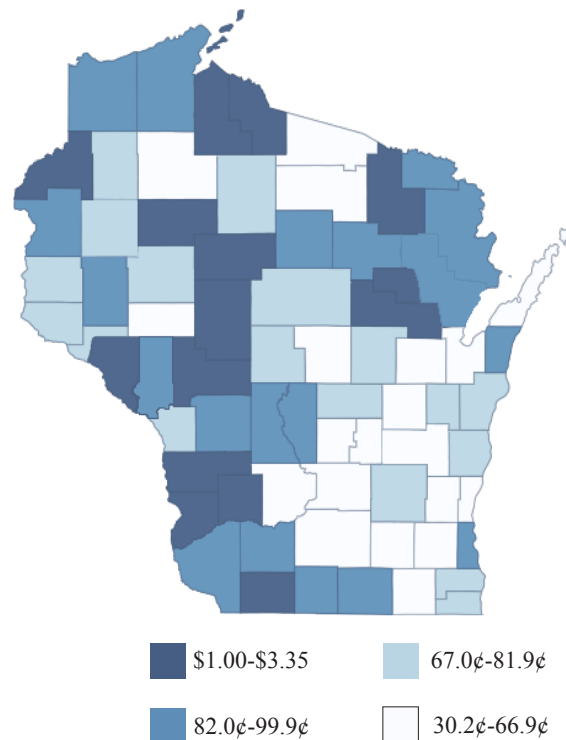
more than \$2,000 in aid per capita were Ashland, Crawford, Rusk, Rock, Trempealeau, Buffalo, Iron, and Jackson. As mentioned, some aid programs are equalizing; that is, they are tied to property values. All counties (except Iron) receiving more than \$2,000 in aid per resident had per capita property values 15% or more below the state average.

Aids Relative to Taxes. The relationship between the state taxes it generates and the aid it receives could be thought of as a county’s “return” on taxes paid. Whether that return is large or small depends on many factors.

Income is critical for taxes paid. Generally, citizens with high incomes are going to pay more income and sales taxes. Property values are important for aid since bulk of state aids are “equalizing” (i.e., determined in part by per capita property values). High-income, high-value counties generally pay more in taxes but receive less in aid, particularly aid that has an equalizing component. Low-income, low-value communities generally have a higher “return” on taxes paid.

Figure 5 shows which counties received more or less in state aid than was collected in estimated state taxes from individuals living in these counties. On average, for every dollar the state collected, 67¢ was

Figure 5:
“Return” on State Tax Dollars Paid
State Aid as % of State Taxes Paid, by County
Avg. = 67¢



returned to local governments in aid. The remainder was used to pay for state administration, the UW System, and aids to individuals.

As the map shows, 20 counties (white) received equal to or less than the state average; their “return” was low. Waukesha (30.2¢ in aid for each dollar paid

High-income, high-value communities generally pay more in taxes and receive less in state aid. Low-income, low-value communities generally get a higher “return” on taxes paid.

in state taxes), Ozaukee (31.6¢), Washington (42.2¢), and Dane (43.2¢) counties received the smallest amount of aid per dollar paid.

These are generally high-income, high-property-value counties. As Table 1 demonstrates, average income in these counties topped \$53,000 and state taxes paid were more than \$2,800 per capita. Average property values in these 20 counties were nearly \$120,000 per capita, while aids averaged less than \$1,400 per person. Statewide, incomes averaged just under \$47,000, while per capita property values were \$87,195.

Another eighteen counties received less than 82¢ in aid for each tax dollar collected by the state. These counties received a slightly higher return on tax dollars than the statewide average. They tended to be below average on both income and property values. However, their average aid (\$1,690) was slightly above the statewide norm (\$1,635).

Fifteen counties received more in state aid than was paid in state taxes. Menominee County’s ratio was the highest, at \$3.35 in aid for each dollar of state taxes paid. Following Menominee were Rusk (\$1.36), Ashland (\$1.28), and Crawford (\$1.25) counties. Average incomes and taxes paid were significantly below average in these counties, while aids were more

than 20% above the statewide norm. Table 2 provides detail for all 72 counties.

By Large Municipality

Examining tax and aid payments at a county level can be misleading in some cases. A look at taxes paid and aids received at the municipal level can provide a more accurate view.

For example, Milwaukee County includes the relatively poor City of Milwaukee and some “better-off” suburbs. Residents of Milwaukee County paid \$2,309 in state taxes per capita and received \$1,914 in aids per capita. City of Milwaukee residents paid less in taxes (\$1,986), but received more aid (\$2,086)

The state’s 50 most populous communities range in size from Milwaukee (594,833 people) to Menomonee (16,264). Combined, these cities, villages, and towns provided 47% of all state taxes and received 45% of all state aid in 2010.

Taxes. As with counties, population is related to the total amounts of taxes paid and aids received. In fact, 8.5% of all state taxes were paid by Milwaukee residents. And the state’s 10 largest cities accounted for nearly one-quarter of state taxes paid.

As was shown with counties, relative income also matters for taxes paid in municipalities. The relatively high-income communities of Mequon (\$5,881), Brookfield (\$4,505), Middleton (\$4,106), Ashwaubenton (\$3,595), and Menomonee Falls (\$3,540) paid the most (among the 50 largest municipalities) in taxes per capita. Superior (\$1,917), Beloit (\$1,937), Milwaukee (\$1,986), Racine (\$2,031), and Watertown (\$2,018) paid the least.

Aids. As the state’s largest city, Milwaukee received more than 13% of all state aid, while the state’s 10 largest cities took in more than 26% of the total. Per capita, the most state aid went to Pleasant Prairie (\$3,111), Beloit (\$2,602), Mount Pleasant (\$2,267), Grand Chute (\$2,255), and Milwaukee (\$2,086).

Pleasant Prairie and Mount Pleasant are both part of the Racine School District, which receives considerable school aid. School aids were also above average in Grand Chute.

Aids Relative to Taxes. The City of Beloit received the most in state aid relative to the taxes its residents paid (\$1.34 in aid for every \$1 of taxes paid). Milwaukee (\$1.05) was the only other major municipality that received more in state aid than its residents paid in taxes. Superior (94¢) and Pleasant Prairie (92¢)

**Table 1:
Income, Property Values Affect “Return”**
Per Capita Taxes and Aids, Average Income, Prop. Value Per Capita, 2010

Return on Tax Dollar	Avg. Per Capita		Avg. Prop. Value Income	Per Capita
	Taxes	Aids		
30.2¢ - 66.9¢	\$2,828	\$1,389	\$53,585	\$117,411
67.0¢ - 81.9¢	2,266	1,690	44,748	77,428
82.0¢ - 99.9¢	2,179	1,889	39,826	71,349
\$1.00 - \$3.35	1,751	1,994	32,827	76,185

Table 2:
Revenues Collected and Aids Received, by County
 Total and Per Capita Revenues and Aids, and "Return" (Aid Per Tax Dollar), 2010

County	Taxes Paid		State Aid		Aid Per Tax \$	County	Taxes Paid		State Aid		Aid Per Tax \$
	Total (\$ Mil.)	Per Cap.	Total (\$ Mil.)	Per Cap.			Total (\$ Mil.)	Per Cap.	Total (\$ Mil.)	Per Cap.	
Adams	\$36.2	\$1,733	\$31.3	\$1,500	\$0.87	Marathon	\$328.0	\$2,447	\$250.1	\$1,866	\$0.76
Ashland	29.0	1,792	37.2	2,300	1.28	Marinette	83.4	1,997	74.1	1,774	0.89
Barron	91.4	1,993	74.8	1,631	0.82	Marquette	27.2	1,763	16.9	1,100	0.62
Bayfield	29.3	1,954	26.9	1,794	0.92	Menominee	4.3	1,014	14.4	3,396	3.35
Brown	671.6	2,708	448.4	1,808	0.67	Milwaukee	2,188.3	2,309	1,813.6	1,914	0.83
Buffalo	23.0	1,694	28.1	2,069	1.22	Monroe	87.2	1,952	79.3	1,775	0.91
Burnett	26.2	1,698	28.6	1,853	1.09	Oconto	75.1	1,994	74.7	1,983	0.99
Calumet	114.9	2,347	77.3	1,578	0.67	Oneida	89.7	2,491	43.3	1,203	0.48
Chippewa	128.8	2,064	103.3	1,655	0.80	Outagamine	472.4	2,674	307.9	1,742	0.65
Clark	59.1	1,703	61.5	1,772	1.04	Ozaukee	328.2	3,798	103.8	1,202	0.32
Columbia	132.0	2,322	86.5	1,523	0.66	Pepin	14.4	1,933	11.7	1,563	0.81
Crawford	30.0	1,805	37.5	2,252	1.25	Pierce	72.4	1,764	58.0	1,415	0.80
Dane	1,469.4	3,011	634.7	1,300	0.43	Polk	80.7	1,826	71.9	1,627	0.89
Dodge	194.8	2,195	131.6	1,482	0.68	Portage	160.7	2,295	104.1	1,487	0.65
Door	72.0	2,590	37.6	1,352	0.52	Price	32.0	2,261	23.1	1,630	0.72
Douglas	81.3	1,841	79.0	1,788	0.97	Racine	467.0	2,390	330.2	1,690	0.71
Dunn	85.4	1,948	74.5	1,699	0.87	Richland	31.6	1,752	34.1	1,892	1.08
Eau Claire	265.7	2,691	153.6	1,556	0.58	Rock	351.4	2,192	335.8	2,094	0.96
Florence	8.2	1,847	7.9	1,786	0.97	Rusk	24.3	1,644	33.0	2,239	1.36
Fond du Lac	237.1	2,333	158.7	1,561	0.67	Sauk	153.0	2,469	96.0	1,549	0.63
Forest	15.2	1,637	16.9	1,818	1.11	Sawyer	32.3	1,951	20.4	1,235	0.63
Grant	91.4	1,785	89.1	1,741	0.98	Shawano	77.3	1,842	78.2	1,863	1.01
Green	80.8	2,193	69.7	1,892	0.86	Sheboygan	277.2	2,399	196.9	1,705	0.71
Green Lake	40.4	2,121	25.1	1,320	0.62	St. Croix	175.4	2,080	133.4	1,582	0.76
Iowa	49.9	2,107	43.9	1,853	0.88	Taylor	37.2	1,798	40.4	1,951	1.08
Iron	11.2	1,893	12.2	2,064	1.09	Trempealeau	60.8	2,109	59.8	2,077	0.98
Jackson	37.4	1,831	41.7	2,041	1.12	Vernon	51.8	1,741	57.8	1,942	1.12
Jefferson	188.4	2,251	111.1	1,328	0.59	Vilas	48.2	2,250	28.6	1,333	0.59
Juneau	48.0	1,800	44.9	1,683	0.93	Walworth	237.0	2,318	127.9	1,251	0.54
Kenosha	386.9	2,325	313.1	1,881	0.81	Washburn	30.9	1,941	21.1	1,327	0.68
Kewaunee	41.9	2,035	37.0	1,800	0.88	Washington	359.1	2,723	151.6	1,150	0.42
La Crosse	275.0	2,399	188.3	1,642	0.68	Waukesha	1,384.9	3,552	418.6	1,074	0.30
Lafayette	29.9	1,776	33.6	1,997	1.12	Waupaca	111.2	2,121	88.9	1,696	0.80
Langlade	38.3	1,920	35.1	1,756	0.92	Waushara	44.4	1,811	34.6	1,414	0.78
Lincoln	58.4	2,032	50.9	1,771	0.87	Winnebago	416.6	2,495	258.7	1,549	0.62
Manitowoc	182.5	2,241	144.6	1,776	0.79	Wood	172.6	2,308	130.6	1,747	0.76
						<i>Total/Avg.</i>	13,948.9	2,453	9,299.8	1,635	0.67

each garnered more than 90¢ in aids for each dollar of taxes paid.

Communities with the smallest return—the least aid per tax dollar—were Mequon (15¢), Brookfield (21¢), New Berlin (24¢), Middleton (26¢), and Menomonee Falls (31¢). All had relatively high average incomes and property values. Table 3 shows tax

rapid, even wrenching economic and social change. Also, few would argue it is complex, with goals that are sometimes conflicting and, in some cases, controversial.

If policymakers were to contemplate an update or major overhaul of state-local finance in Wisconsin, what strengths might they build on and what weaknesses might they want to rework or eliminate?

Tax Collection. One advantage of state government playing an active role in helping finance local services or supplementing local tax base is that it is easier to collect revenues at the state than at the local level. The statewide tax base is much larger than any tax base in any individual community or group of communities.

However, because state taxes generally claim a fixed share of income or sales, their revenues are more difficult to predict and generally fluctuate more with economic conditions than do local property taxes. Property tax rates float with program and revenue needs. Thus, because they are impacted by economic cycles, local government aids are vulnerable when state tax revenues fall.

Because state taxes generally claim a fixed share of income or sales, their revenues generally fluctuate more with economic conditions than do local property taxes.

and aid information for the 20 largest communities. Information for other large cities and villages is available at www.wistax.org/facts.

Pros and Cons

Wisconsin’s approach to state-local finance has a long history. In its early years, it was groundbreaking; at times since, it has attracted major reform efforts. But, like any large public institution, it has aspects that are probably outdated after decades of

Table 3:
Revenues Collected and Aids Received, by Most Populous Municipalities
Total and Per Capita Revenues and Aids Among 20 Largest Communities (Calendar Year 2010)

Municipality	State Rev's Collected:			State Aids Received:			
	Revenues (\$ Mil.)	% of Tot.	Per Capita Rev's	Aids (\$ Mil.)	% of Tot.	Per Capita Aids	Aids as % of Taxes Paid
1 Milwaukee	\$1,181.4	18.0%	\$1,986	\$1,240.7	29.4%	\$2,086	105.0%
2 Madison	669.7	10.2	2,872	247.9	5.9	1,063	37.0
3 Green Bay	252.3	3.8	2,425	181.0	4.3	1,739	71.7
4 Kenosha	210.4	3.2	2,121	167.4	4.0	1,688	79.6
5 Racine	160.1	2.4	2,031	122.0	2.9	1,548	76.2
6 Appleton	184.3	2.8	2,538	107.7	2.6	1,483	58.4
7 Waukesha	204.3	3.1	2,888	68.1	1.6	962	33.3
8 Oshkosh	150.0	2.3	2,270	88.7	2.1	1,343	59.2
9 Eau Claire	189.0	2.9	2,868	91.4	2.2	1,387	48.4
10 Janesville	143.8	2.2	2,262	118.8	2.8	1,868	82.6
11 West Allis	131.7	2.0	2,180	91.5	2.2	1,515	69.5
12 La Crosse	118.3	1.8	2,306	75.6	1.8	1,472	63.8
13 Sheboygan	105.6	1.6	2,142	87.0	2.1	1,765	82.4
14 Wauwatosa	150.6	2.3	3,247	77.7	1.8	1,674	51.6
15 Fond du Lac	105.0	1.6	2,441	61.7	1.5	1,433	58.7
16 New Berlin	133.8	2.0	3,380	32.4	0.8	820	24.3
17 Wausau	92.5	1.4	2,364	67.0	1.6	1,713	72.4
18 Brookfield	170.8	2.6	4,505	36.0	0.9	949	21.1
19 Beloit	71.6	1.1	1,937	96.2	2.3	2,602	134.4
20 Greenfield	86.9	1.3	2,366	47.1	1.1	1,283	54.2

Even when the economy is strong, a change in state politics, priorities, or budgeting behavior affects local governments. With nearly two-thirds of state tax dollars going to forms of local assistance, state fiscal issues can quickly become local problems.

This was evident in the last two state budgets when large state imbalances led to reductions in school aids, shared revenues, and other local assistance.

Property Tax Reduction. A significant portion of state aid is meant to replace, or at least relieve, local property taxes. How effective this has been is debatable. Despite spending billions of state tax dollars on local property tax relief, Wisconsin's property taxes rank among the 10 highest in the nation.

Moreover, it could be argued that income taxes here are high because state aid commitment is significant and the aid system is fueled primarily by state income taxes.

Equalization. One of the main aims of Wisconsin's state-local finance system is to equalize local property tax wealth among communities. Without state assistance, property-poor municipalities, counties, and school districts would be able to provide basic services only by imposing relatively high property tax rates. Equalization of tax base allows these units of government to provide public services at "affordable" tax rates.

Politicians and local taxpayers can and do differ on the wisdom of the equalization approach. But even if tax base equalization is uniformly seen as a good policy, some analysts point out that the goal can be accomplished with fewer state dollars. To the degree that there are excess state revenues going to local aid, the reason has more to do with "bringing-home-the-bacon" politics than economic efficiency.

Accountability. State tax dollars fund more than 40% of local government spending, effectively dividing responsibility for local service financing between two levels of government. As mentioned earlier, when local property taxes rise, local officials can point to stagnant or declining aid as the cause. In such cases, state officials can argue that local officials are the ones making local taxing and spending decisions. Clearly, it is difficult for local citizens to demand accountability when it is impossible to assign responsibility.

Spending. Some economists have entered this fray with what they call the "flypaper effect." At both the federal and state levels, in Wisconsin and elsewhere,

researchers have found evidence that aid from a higher level of government is viewed as a windfall that can be spent. That is, in the Badger State context, state aid, ostensibly provided to relieve property taxes, might encourage expansion of local programs and thus, eventually higher local property taxes.

Wisconsin's system is somewhat different from most, as state government's role in funding local governments here is higher than in all but seven states.

Local Control. Wisconsin's system often reduces local control over taxes and spending. Significant state subsidies for local services are often used by decision-makers in Madison to justify mandating local government action or inaction. While some mandates may be needed to protect citizens, local leaders and their constituents are often quick to point out that such directives impair local decision making.

In recent decades, a new development on the mandate front is state-imposed limits on local revenue collection. School districts face state revenue limits, while counties and cities have to comply with caps on their property tax levies. Supporters point out, however, that authority ultimately rests with citizens who can vote via local referendum to override state limits.

State-Local Tension. Many of these problems with Wisconsin's finance system create tension between state and local officials. State officials point to—and they provide as justification for mandates, restrictions, and fiscal limits—rising local property taxes.

Local officials are quick to counter. They have long criticized the state for unfunded mandates and inadequate aid payments.

Issues of equity or aid fairness compound the tension by creating friction between local officials. Aid differences among cities and villages or among school districts can generate tension between big and small communities and between rich and poor ones.

STATE-LOCAL FINANCE ELSEWHERE

If the Wisconsin way of structuring state and local government finance is somewhat unusual, as has often been said, then the obvious question is: How do other states do it?

As it turns out, fairly wide variation exists among the states in how and to what degree other state governments "share" revenues with their local governments.

State Revenue and Local Budgets

One way to compare the states is by the share of local budgets funded by state government. Local governments have three main revenue sources: federal, state, and local (in this section we look only at state and local sources). The state share of these

Not all states have state-local finance systems like Wisconsin's. Some are more centralized, with state government playing a dominant role, while others are more decentralized in both revenue collecting and spending.

revenues funding local budgets suggests the extent to which local governments depend on state aid for providing services.

In two states, local governments received little state aid in 2009 (Massachusetts 5.8% and Hawaii 10.6%), while in three—Vermont (69.1%), Arkansas (55.3%), and New Mexico (54.5%)—local governments were highly dependent on state aid (see Figure 6).

In the remaining 45 states, local governments received between 20% and 50% of their revenue from their state government. In 10 states, state aid accounted for 23%-29% of local government revenues. In 26 states, the percentage ranged between 30% and 39%, and in the final nine, between 40% and 49%. Michigan (44.5%), Minnesota (43.0%), and Wisconsin (41.9%) all fall within this range. Indeed, only seven state governments provide a higher share of local government revenues than does Wisconsin.

By Spending, Revenue Share

A second way to look at the state-local relationship is by the state's share of state-local revenues

and expenditures. To aid understanding, states are considered centralized, decentralized, or hybrids.

Centralized States. A centralized state-local finance system is one in which state government does most of the revenue collecting and service delivery.

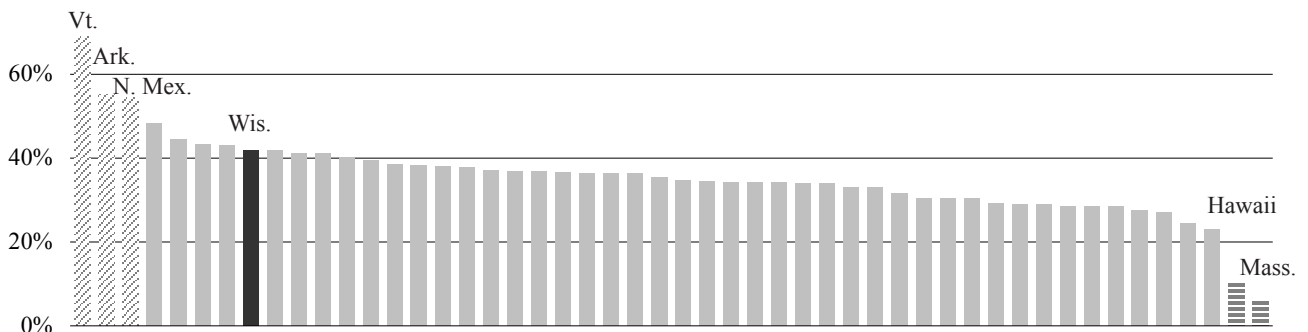
Hawaii offers the purest example of a centralized state-local finance system. In 2009, its state government collected more than 75% of Hawaii's combined state-local revenues and was responsible for nearly 80% of all state-local spending. Other states that tended to be centralized were Vermont, Delaware, Alaska, and West Virginia. All told, 20 states had state government doing most of the revenue collection and most of the spending.

A state may tend to be centralized for several reasons. One is geography. Both Alaska and Hawaii have some unique geographic features that may make centralization more efficient. Another is affluence. Poor states may find a strong state government more able to fund services. With low property values, local governments often find it hard to raise sufficient funds to provide local services. West Virginia is one example.

Accountability can be one advantage of a centralized approach. As state government is doing the bulk of revenue collecting and spending, taxpayers know whom to hold responsible for the amount of taxes paid and the quality of services received. Critics of centralized systems argue that they can produce "one-size-fits-all" policies that overlook local concerns or preferences.

Decentralized States. Conversely, in a decentralized state, the onus is on local governments to generate revenues and provide public services. In 2009, there was no decentralized counterpart to Hawaii where local governments did more than 75% of revenue

Figure 6:
State Share of Local Budgets
State Aids as % of Local Revenues, 2009



collecting and spending. States have become more centralized, at least in terms of revenue collection, over the last 40 years.

However, some states remain more decentralized than others. The best examples are the seven states in which local governments collected more than half of all state-local revenues and did more than half of all state-local spending. These states were Colorado, Florida, Georgia, Illinois, Nevada, New York, and Texas. Of these seven, Florida and Nevada were the most decentralized. Florida local governments collected 58.4% of all revenue and did 64.4% of all spending. In Nevada, local governments collected 54.4% of revenues and did 68.1% of spending.

Accountability can be a major advantage in a decentralized state. Generally, public finance experts think it wise for the same governmental unit to both fund and deliver services, or to put it another way, to do both revenue collecting and spending. Taxpayers can turn to local officials for answers to questions about taxes or services. Moreover, the decentralized approach has the added advantage of being close to the people served, allowing the specific preferences of the community to be recognized.

A disadvantage of decentralization is that it may generate wide variation in the level of services provided. If communities vary widely in tax capacity, poor ones may have to offer fewer services than rich ones.

Hybrids. Many states combine centralized and decentralized approaches. In 23 states, state government collected most of the revenues and local governments spent most of the money to provide services. Wisconsin is an example of this system.

A hybrid system can alleviate inequities in service provision by drawing on a statewide tax base—raising revenues to assist poor communities funding local services. However, hybrid systems are susceptible to the drawbacks discussed on pages eight and nine.

HOW TO DECIDE

Wisconsin's approach to state-local finance is very different from Hawaii's or Vermont's. But would the Badger State be better off with one of those systems?

A 1997 report by the National Conference of State Legislatures (NCSL) informs the discussion. The report identified three questions key to state-local decision making:

- First, should government provide the service or is it more efficiently provided privately?
- Second, if it should be publicly provided, which level of government—state or local—should deliver the service?
- And, regardless of how delivered, which level of government should fund the service?

The latter two questions are particularly relevant here, as they address the Badger State's unusual fiscal system. The NCSL report goes on to provide some guiding principles for a sound state-local finance system.

Transparency. Good government dictates that decision making should be both seen and heard. Spending and taxing decisions need to be made in public view. When observed, Wisconsin's open meetings laws create transparency. However, the large number of aid programs, many with unfathomable formulas, often make it difficult for the public to understand how local services are funded.

Service Provision and Taxes. Generally, NCSL believes it is preferable to provide the service at the level of government closest to the people. Wisconsin does this to a large degree. Local governments here do more than 55% of state-local spending, a percentage higher than in all but 15 states.

It is also preferable to fund services at the same level where they are provided. This is a weakness of the Wisconsin system, since state government generates most of the revenues and local governments deliver most of the services.

Ideally, revenues and services should be matched. In Wisconsin, an example is the gas tax and vehicle registration/license fees, which pay for roads and other transportation. On the other hand, property taxes in Wisconsin fund some services not related to property (e.g., technical colleges).

Equity and Capacity. A final principle of a good system is that communities should be able to provide a basic level of service at an affordable cost. Thus, there should be some level of tax base equity, either naturally or artificially through use of state aid. This is one of the main purposes of Wisconsin's aid system. □

DATA SOURCES:

National Conference of State Legislatures; U.S. Census Bureau; Wisconsin Department of Revenue; WISTAX calculations.



Wisconsin Taxpayers Alliance

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WISTAX NOTES

■ Production of Joint Legislative Council Committees.

The Joint Legislative Council (JLC) is a 22-member committee consisting of the majority and minority party leadership of both houses of the legislature, the co-chairs and ranking minority members of the Joint Committee on Finance, and an additional five senators and five representatives.

The JLC creates special study committees to report to the legislature. These committees consist of legislators and citizens who are interested in or knowledgeable about the topic studied. The special committees are primarily responsible for producing substantive legislation.

The JLC recently submitted its General Report to the 2011-12 legislature summarizing its activity from July 1, 2010, to June 30, 2011. During this time, the JLC continued two statutory committees and created 15 special committees. Of the 15 special committees, only 12 had opportunities to propose legislation (one will report to the 2013-14 legislature, one never met, and one was adjourned because the legislature convened a special session to address the issue). Nine of the 12 special committees made recommendations for the JLC.

Of the 12 committees that produced reports, the JLC took action on eight committee reports. In total, the JLC introduced 14 bills (There were two assembly bills that had accompanying senate bills. They are counted as two bills and not four).

Of these 14 bills introduced by the JLC, the legislature failed to enact all but one of them. The only bill to become a law was Assembly Bill 144, relating to creating a commission on financial aid consolidation and modernization, which was passed as Act 176. □



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