WISCONSIN POLICY FORUM

MUNICIPAL REVENUES RISE SHARPLY BUT NOT UNIFORMLY

With the passage last summer of state legislation known as 2023 Wisconsin Act 12, most Wisconsin municipalities this year are receiving their first substantial increase in state shared revenue in a generation. A 3.7% rise in December property tax levies also contributed to a historic revenue increase for municipalities as a group in 2024. However, these increases varied widely by community, with some receiving much larger amounts per capita than others – a disparity that means some may be seeing little relief from budget challenges.

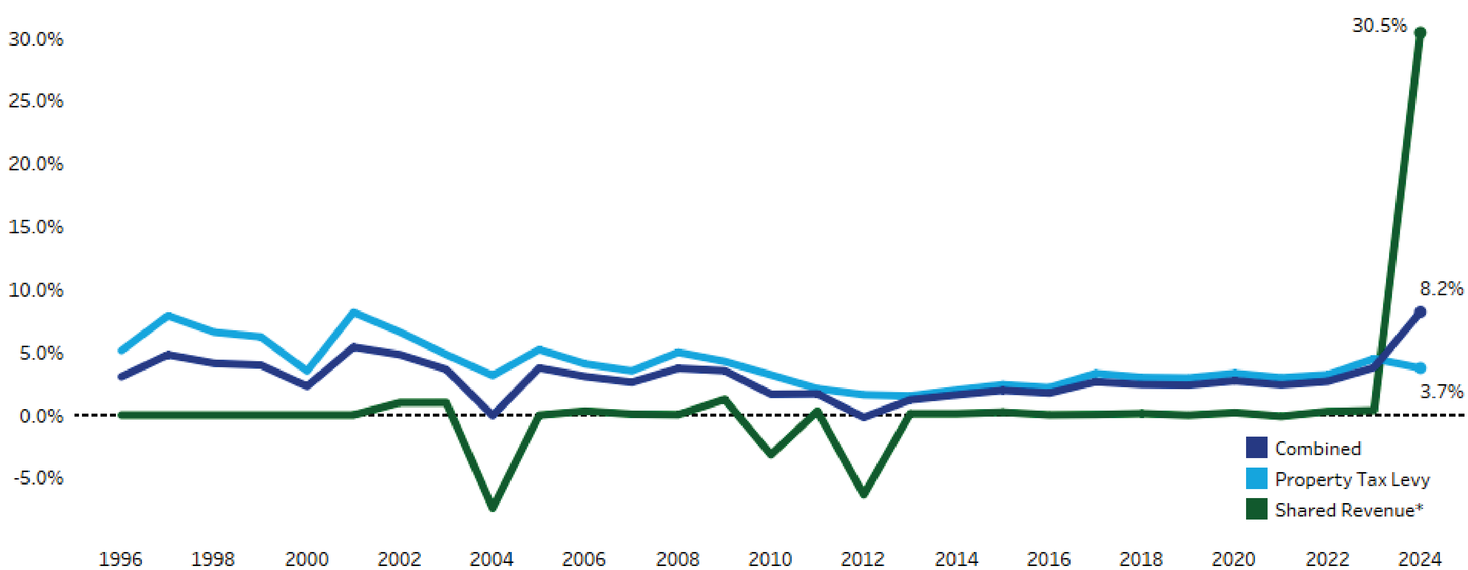
Preliminary data show Wisconsin's more than 1,800 cities, villages, and towns levied $3.48 billion in property taxes on December 2023 bills. The resulting 3.7% increase from the $3.35 billion levied in December 2022 is less than the 4.5% increase the year prior, but larger than any other year since 2009.

At the same time, historic legislation passed last summer increased the main source of state aid to municipalities, known as shared revenue, by 30.5% - from $674.2 million last year to $879.5 million this year.

The combined collective impact for municipalities is an 8.2% increase in revenues from their two largest sources – property taxes and shared revenue. This average statewide increase is the most in at least three decades and likely much longer (see Figure 1). However, the actual increases for individual cities, villages, and towns differ widely. While some smaller communities have seen a substantial percentage increase in their revenues, in others the effect has been much more modest.

In this piece, we analyze preliminary data from the Wisconsin Department of Revenue (DOR) on property tax bills sent out in December 2023. We look also at the distribution of the additional shared revenue payments to better understand the impact of Act 12 on different types of communities.

Figure 1: Act 12 Spurs Largest Growth in Main Municipal Revenue Sources in Decades
Year-over-year change in revenue collections by source, municipalities statewide



Source: Wisconsin Department of Revenue. *County and Municipal Aid plus Utility Aid. 2022 and 2024 shared revenue amounts are estimated. Municipalities include towns, villages, and cities. 2023 and 2024 amounts exclude handful of municipalities with incomplete data.

MUNICIPAL PROPERTY TAX LEVIES GROW IN MOST COMMUNITIES

In 2011, a change in state law limited increases in municipal property tax levies for operations to the percentage increase in net new construction. That change significantly slowed levy increases for a decade, but in the past two years they have risen somewhat more rapidly. The 3.7% increase in December 2023 property tax bills (for use in 2024 municipal budgets) was lower than the previous year but is also the second-highest of any year since 2011.

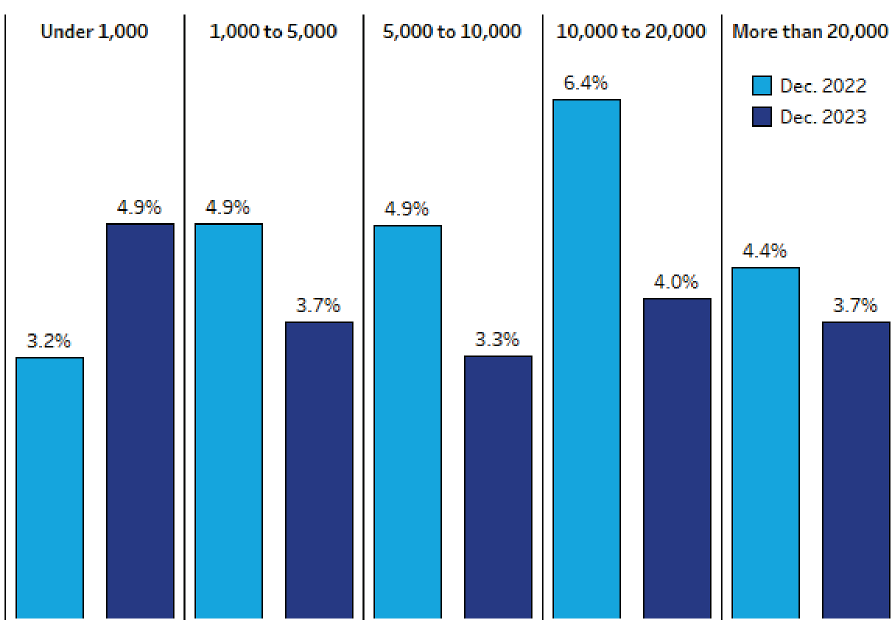
When broken down by municipal population, we see in Figure 2 that the increases in December 2022 bills were higher than those in December 2023 in almost all categories. Still, as was largely the case last year, municipalities of all sizes increased levies by 3% to 5%.

Madison, for example, raised its property tax levy by 4.7% on December tax bills to $286.5 million. That increase is the second-highest of the 10 largest cities, behind only Eau Claire (5.4%).

The city of Milwaukee – which will also see a large influx of new revenue from a 2% sales tax that went into effect on January 1 – raised its levy by a more modest 2.2%, from $311.0 million on bills mailed in December 2022 to $317.7 million on bills issued this past December. This increase is the second-lowest of any of the 10 largest cities in the state, above only Janesville (2.0%).

Figure 2: Municipalities of Many Sizes Raised Levies by Less

Change in levy from prior year by municipal population, bills issued in Dec. 2022 versus 2023



Source: Wisconsin Department of Revenue

ACT 12 RAISED SHARED REVENUE, BUT UNEVENLY

Last summer, Governor Tony Evers signed into law 2023 Wisconsin Act 12, which substantially increased appropriations for the state's shared revenue program. For the past decades, shared revenue, which includes components such as County and Municipal Aid (CMA) and Utility Aid, had stalled and even decreased in some years. In 1995 – as far back as we have data – the state shared about $761.5 million with municipalities. By 2012, that dropped to a low of $665.2 million, and by 2023 had barely risen to $674.2 million.

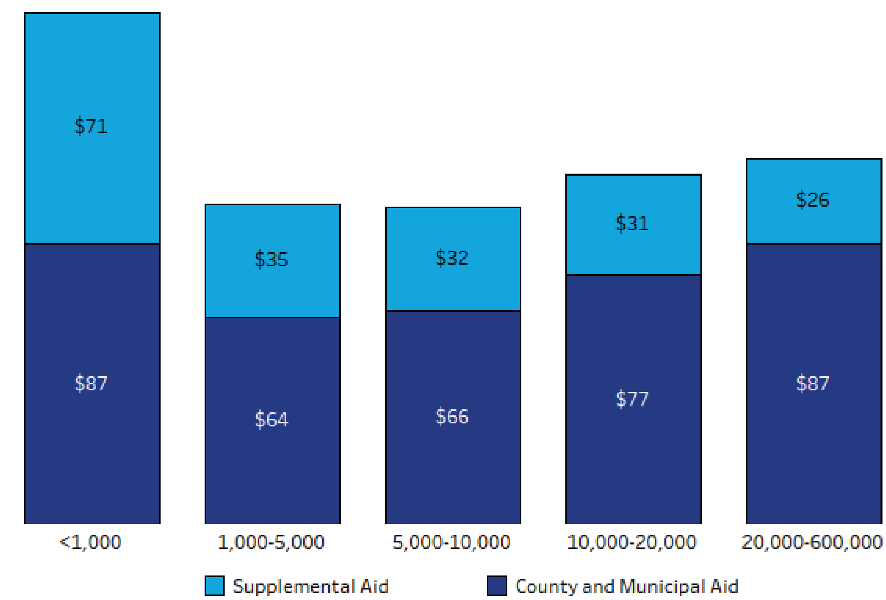
The Forum has found that over time, the importance of state aid to municipalities – of which shared revenue is the largest component – has dwindled; it was the leading source of municipalities' general revenue throughout most of the 1980s and early 1990s but as of 2015 represented only around 20% of general revenue.

Under the state shared revenue payments prior to Act 12, communities with lower property values traditionally received larger amounts. In 2024, municipalities will still receive the identical base amounts of CMA that they received under that system in 2023, but Act 12 also created a new bucket of supplemental county and municipal aid. That supplemental aid is being distributed based on a formula that favors small communities by providing larger per capita payments. In future years, the legislation will increase both the supplemental and other county and municipal aid payments by the percentage increase in state sales tax collections.

Under the new formula, the increase to shared revenue varies widely across Wisconsin municipalities. Communities with populations under 1,000 received $46.1 million in 2023 in CMA, but will receive $83.5 million in 2024 – an increase of 81.3%. But for municipalities with populations above 20,000, their total of $390.9 million in

Figure 3: Small Munis Benefit Most From Act 12

2024 County and Municipal Aid plus Supplemental Aid per capita, by municipal population



Source: Wisconsin Department of Revenue

CMA in 2023 will rise by 19.0% to $465.2 million in 2024.

The disparity in increases is more noticeable on a per capita basis. In 2023, municipalities with populations above 20,000 – except for Milwaukee – got $87 per capita in county and municipal aid, the exact same amount that those with populations of less than 1,000 received. After the passage of Act 12, however, municipalities besides Milwaukee with populations above 20,000 will receive on average $114 per resident in CMA, compared to $157 per resident for those with populations under 1,000 (see Figure 3).

Milwaukee itself will see an additional $21.7 million in supplemental aid ($38 per capita), a 10% increase on the $217.5 million ($378 per capita) the city received last year (Act 12 established a 10% minimum increase for Milwaukee and Madison while all other municipalities were guaranteed minimum increases of 20%). This increase is the smallest on a percentage basis – but the largest in terms of dollar amount – of any municipality in the state. When this elevated shared revenue total is added to the amount budgeted for the city's new 2% sales tax, the city will see an additional $205.7 million in funding in 2024 (although some of that amount is offset by added costs produced by Act 12, as we explained in our 2024 city budget brief).

The city of Madison, meanwhile, will receive a 55.8% increase – larger than the minimum – in its county and municipal aid from an additional $2.9 million in supplemental aid. Still, due in part to its relatively high property values, Madison's total county and municipal aid will amount to just $28 per capita, the third-lowest amount of any municipality in the state. Save for Waukesha ($34 per capita), the remaining eight largest cities in the state will receive at least $76 per capita in CMA, and seven of those eight will receive at least $100 per capita.

While those per capita amounts are not insignificant, they pale in comparison to those received by many smaller communities. The Village of Big Falls, the smallest incorporated municipality in the state with a population of just 58, received $29,283 in CMA in 2023, or a little over $500 per resident. Act 12's formula for supplemental aid tended to favor small municipalities and guaranteed that each town, village, and city would receive at least $30,000 total. Consequently, in 2024, Big Falls will receive $60,291 in CMA, for a per capita total of $1,040 that is the largest in the state by more than $100. There are 31 municipalities – Big Falls included – that will receive at least 20 times more per capita in CMA in 2024 than Madison.

WHAT THIS MEANS

For many municipalities around Wisconsin, the Act 12 funding will have a significant impact on their budgets starting in 2024. Across all communities with under 1,000 residents, the combined 81.3% increase in county and municipal aid and 4.9% rise in property taxes will raise the total amount from these two largest sources of municipal revenue by 20.3%.

The state's largest municipalities – those with populations above 20,000 – will also benefit, but not by nearly as much. Their CMA totals will rise by 19.0%, and taken together with a 3.7% increase in property taxes, they will have an additional 6.4% in revenue on average from these two sources compared to what they received last year.

This increase for large municipalities, while certainly the largest in a number of years, should also be viewed in the context of an 8% increase in the rate of inflation (as measured by the Consumer Price Index) in 2022 and a 4.1% inflation rate in 2023. Combined, from 2011 to 2023, growth in property taxes and shared revenue for all municipalities was over $200 million less than what it would have been had increases been tied to the Consumer Price Index (CPI).

The passage of Act 12 was in many ways historic, sharing hundreds of millions of dollars in state tax collections with Wisconsin's 1,800-plus municipalities. Coupled with an above average property tax increase, the aid will give a substantial boost to local government budgets in 2024 and provide more regular revenue increases in the future. However, Act 12's effects varied widely by community. Larger cities in the state received much less per capita, particularly in areas with high property values. That may put pressure on those communities moving forward to make spending cuts or continue the trend of higher local tax increases.