

Renewing a Sustainable & Equitable State and Local Government Funding Partnership

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LOCAL GOVERNMENT EDUCATION PROGRAM

Disclaimer

The policy recommendation at the end of this presentation is a recommendation of the Local Government Funding Task Force, and does not reflect the views of the University of Wisconsin Madison, the UW-Madison Division of Extension, or the UW-Madison Division of Extension's Local Government Education Program

Local Government Funding Task Force

Members:

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Goal of the Task Force

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 for their residents
- Local government is funded equitably with a sustainable funding 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

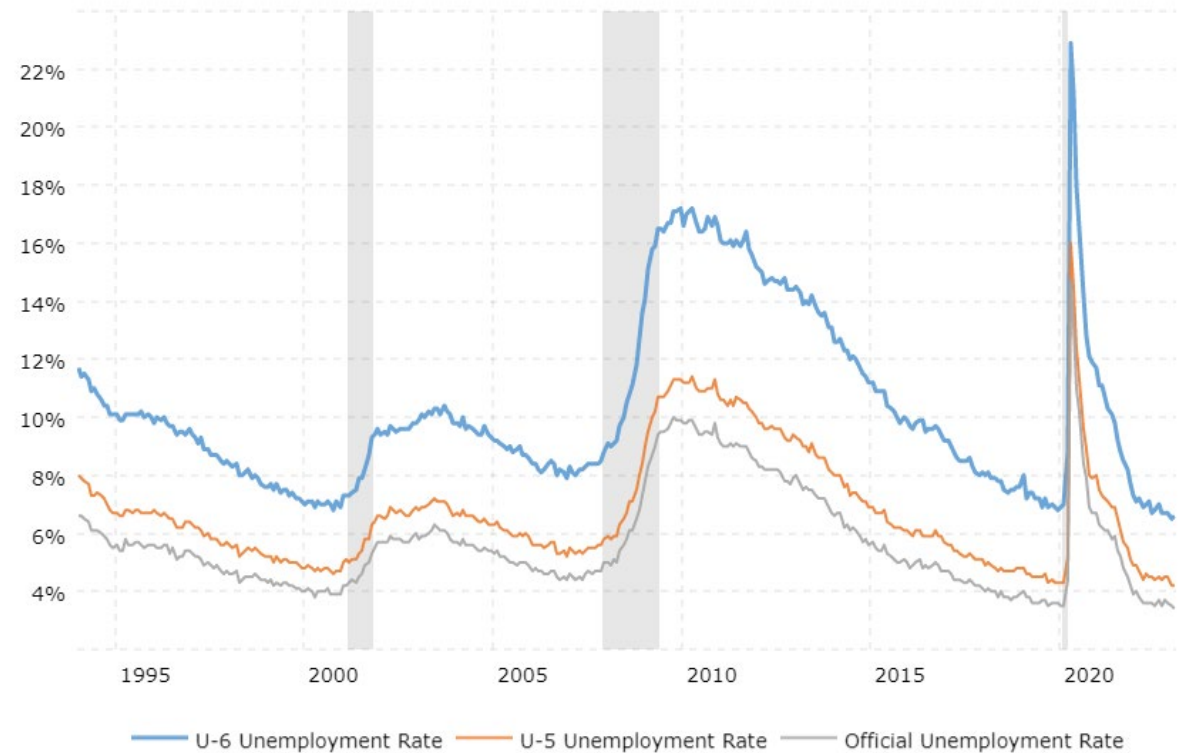
Local government funding is heavily reliant on property tax system and is decoupled from Wisconsin's overall economy, thus local governments are experiencing:

- 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, greater debt, and an over-reliance on the property tax system
 - An ever-evolving list of state mandates, primarily where state does not fully fund required services
- Outdated State Aid Amounts/formulas
 - Stagnant or reduced state aids (unrestricted state aids, often termed “shared revenues”)

Economic Challenges

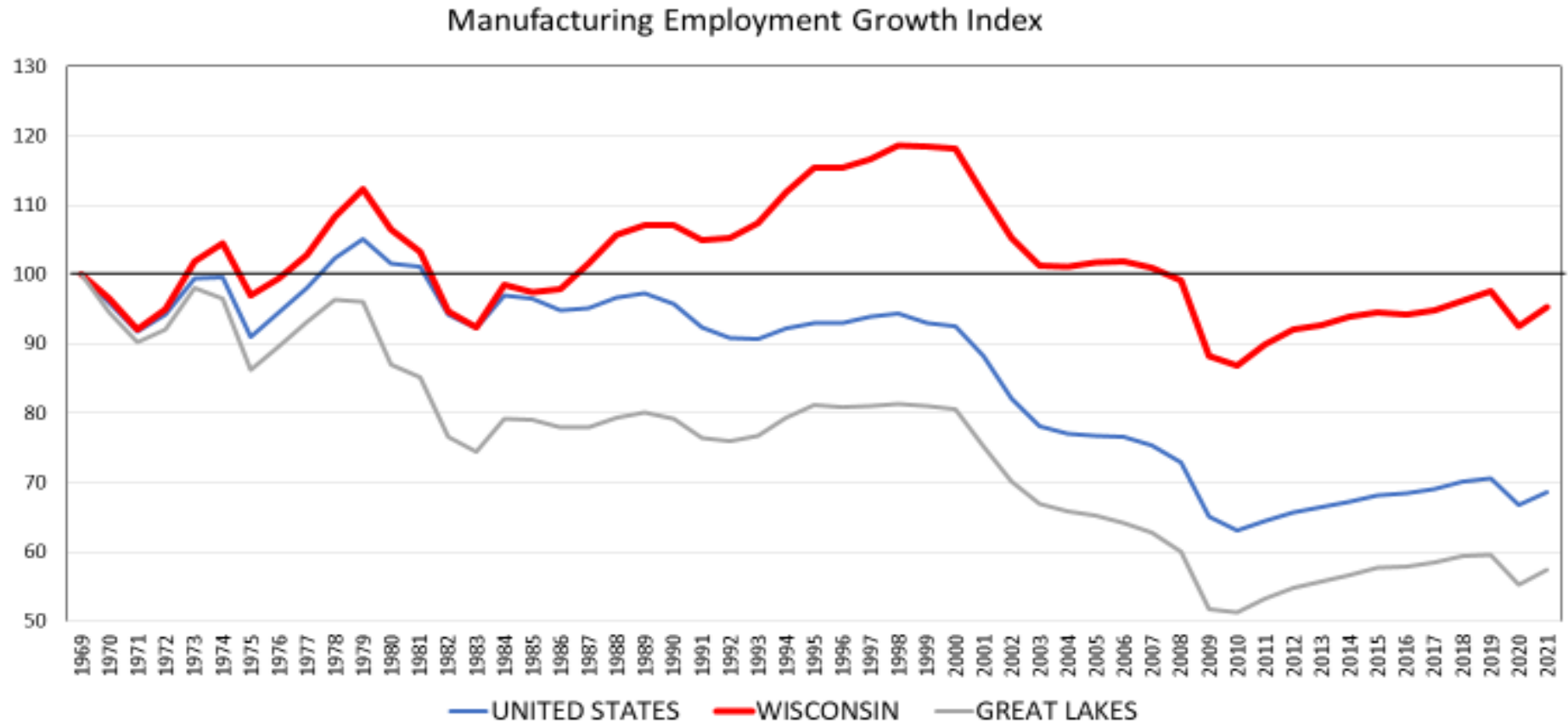
Since 2001 the State of Wisconsin has experienced:

- 3 economic recessions
- Terrorism concerns regarding public utilities
- A global pandemic
- Globalization policies that challenged Wisconsin's market competitiveness
- Mental health/drug epidemic

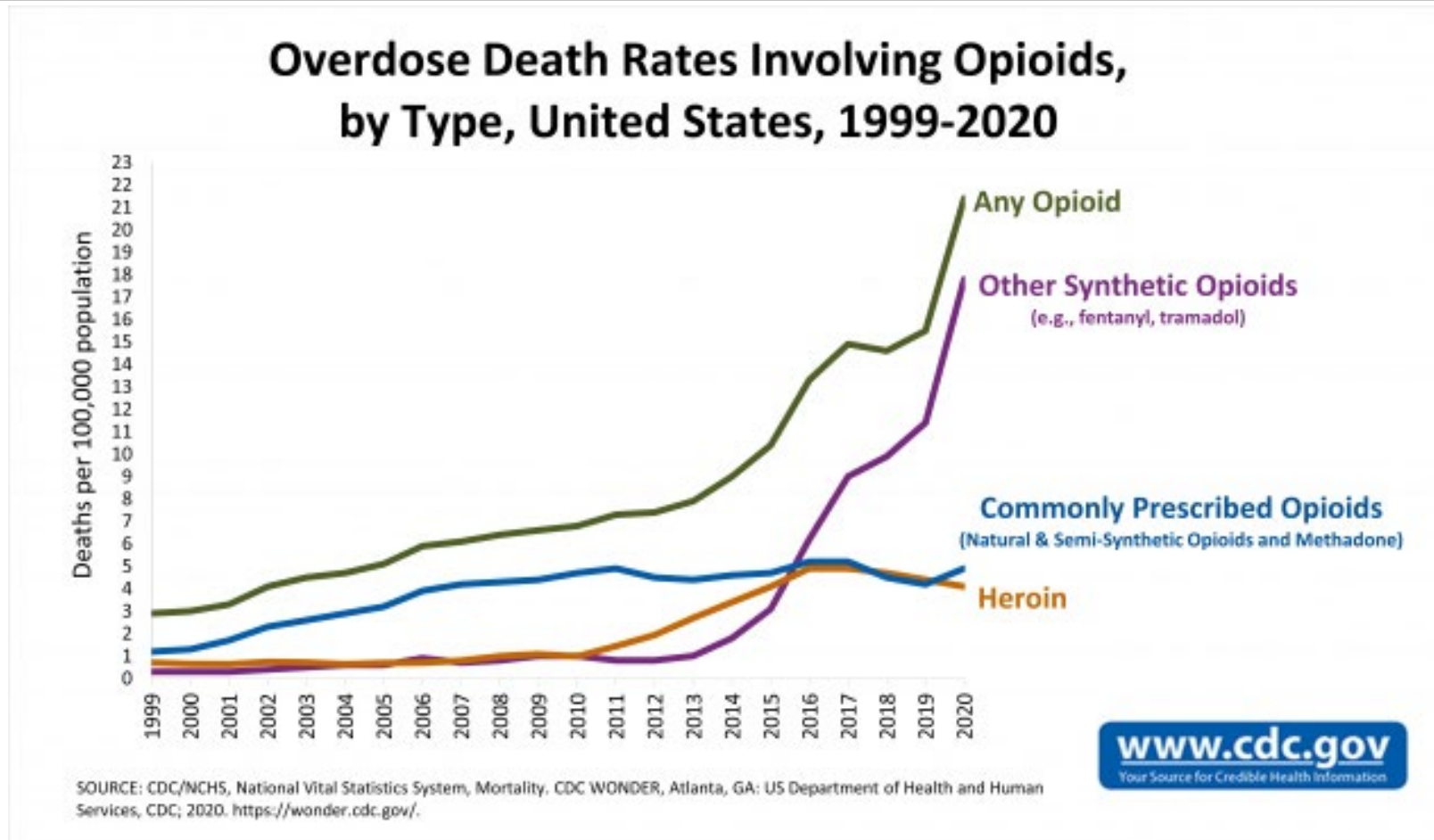


Source: Macrotrends.net

Economic Challenges



Economic Challenges



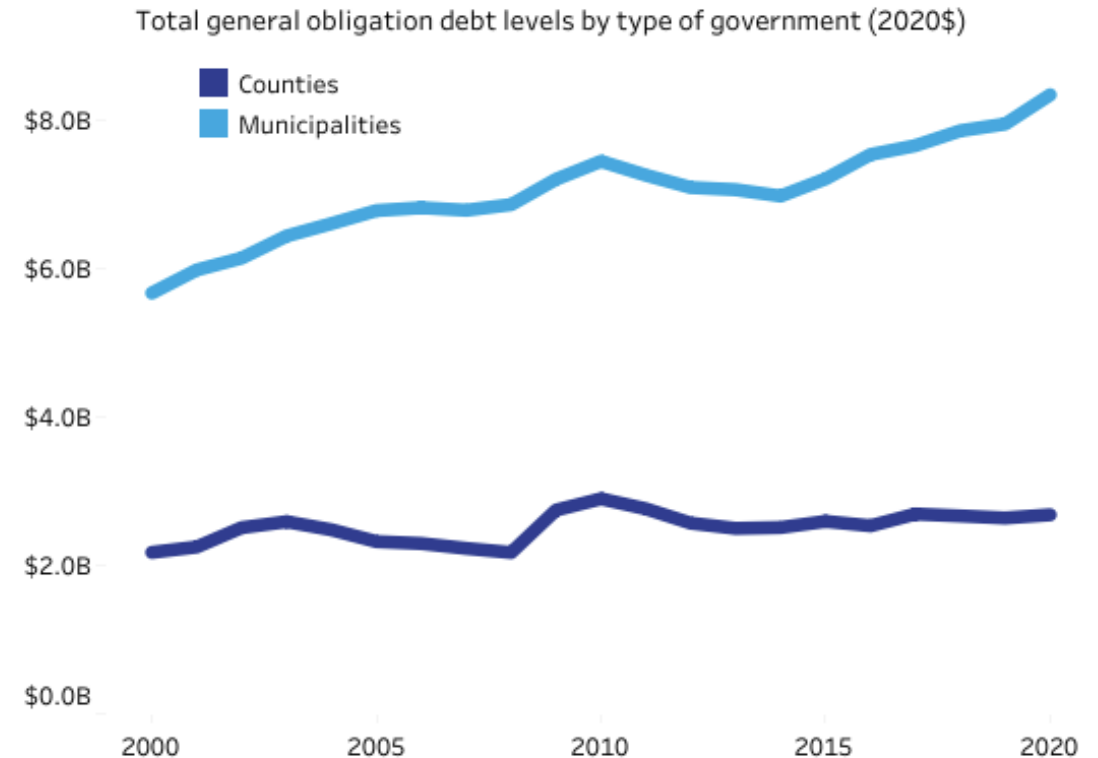
State Fiscal Limitations

Levy limits

- Wisconsin Act 25 implemented levy limits initially (2005, sunset 2007)
- Permanently implemented in 2011
- Levy limits do not impact G.O. Debt service (issued after 2005)
- State limitations on user fees
 - Garbage collection, fire protection, snow plowing, street sweeping, or storm water management (if service were funded by levy in 2013)

Property Tax exclusions

- Use-Valuation
- Personal Property Exemptions
- Managed Forest Law



Source: WI Policy Forum, November 2022

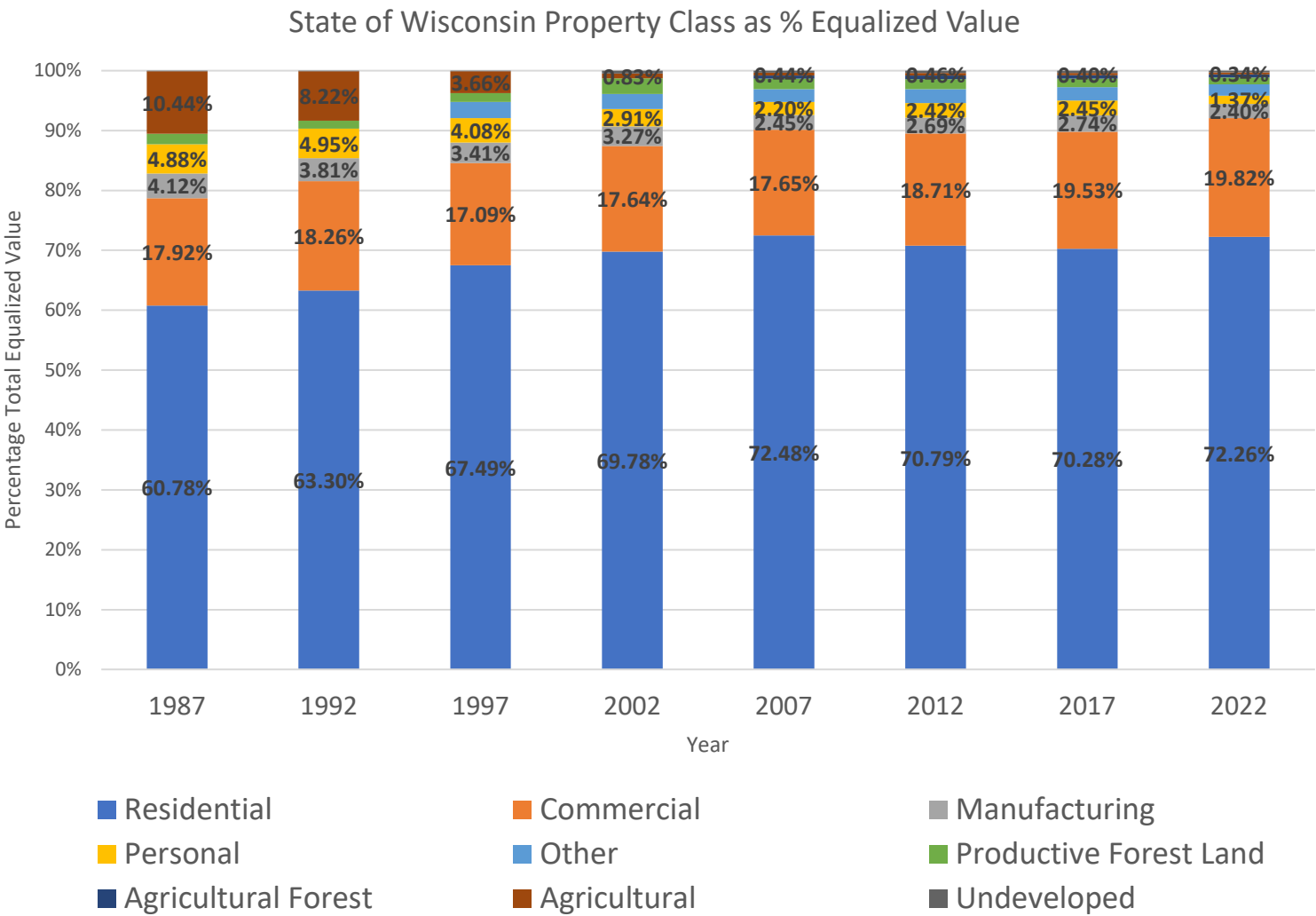
<https://wispolicyforum.org/research/local-debt-on-the-rise/>

Property tax burden shift

Use valuation

Personal Property Exemptions

Changes in WI economy shifting from manufacturing

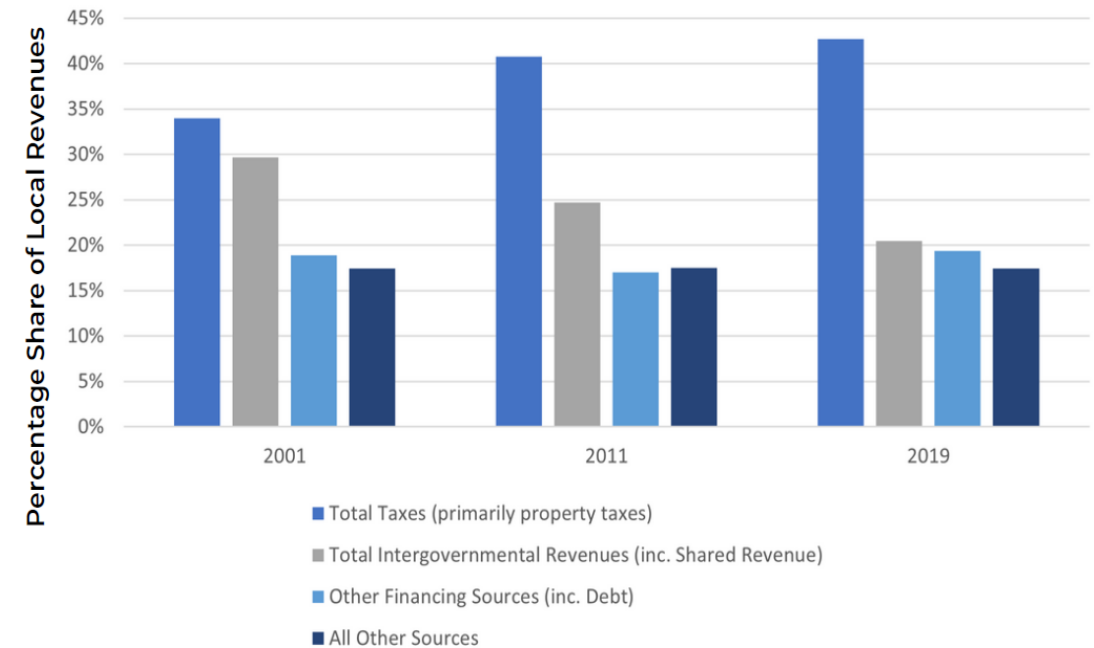


Local Government Revenue Sources

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

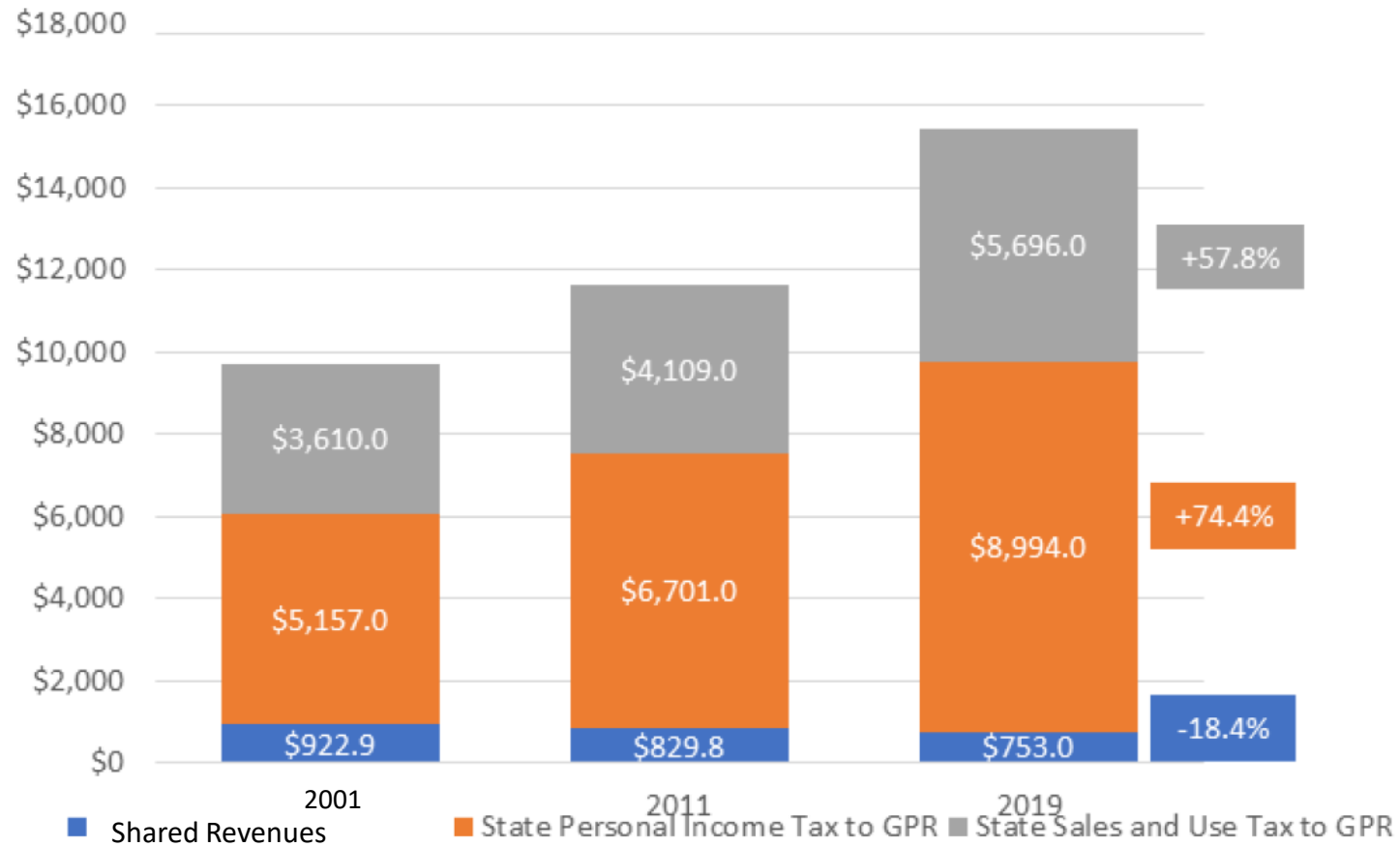


Table 2 - Property Tax Share of Local Revenues has Increased While Intergovernmental Revenues (Including Shared Revenue) has Decreased



Percentage Share of State Revenues and Local Shared Revenues

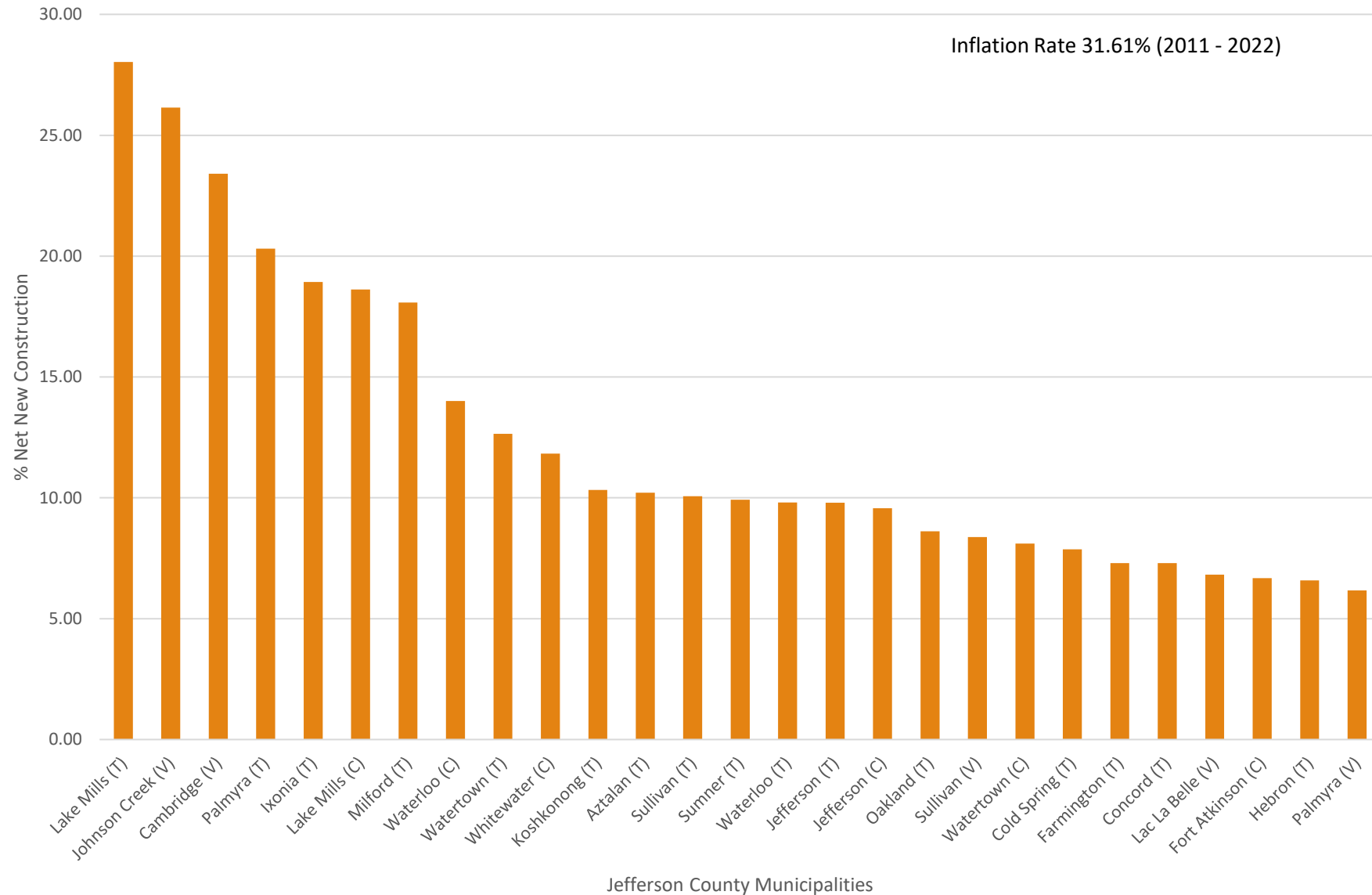
Table 5 - County/Municipal Aid Compared to State Personal Income and Sales Tax Changes (\$ Millions)



Total Aggregated Net New Construction (2011 - 2022)

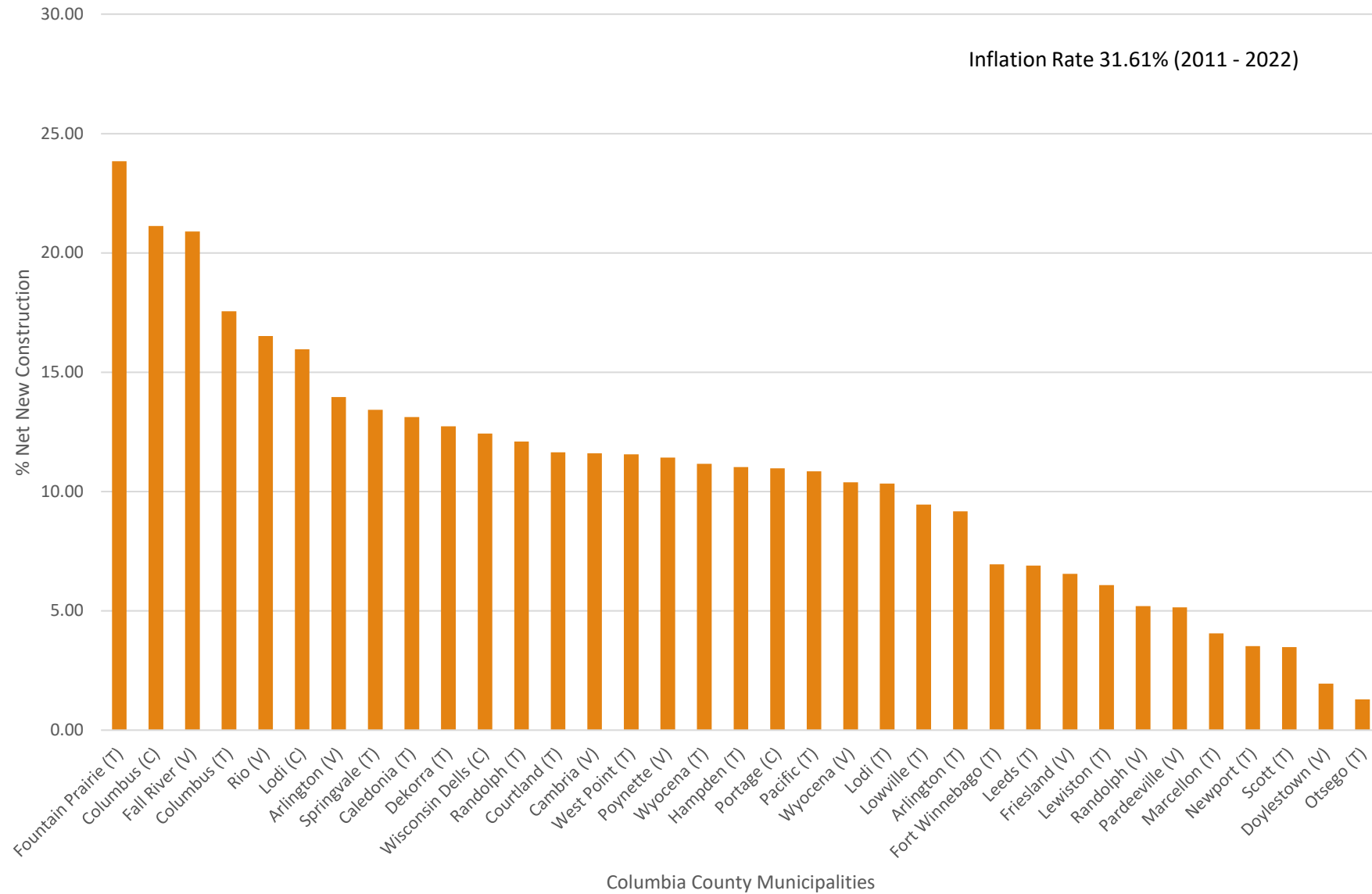
Split Districts NNC are combined

Inflation Rate 31.61% (2011 - 2022)



Total Aggregated Net New Construction (2011 - 2022)

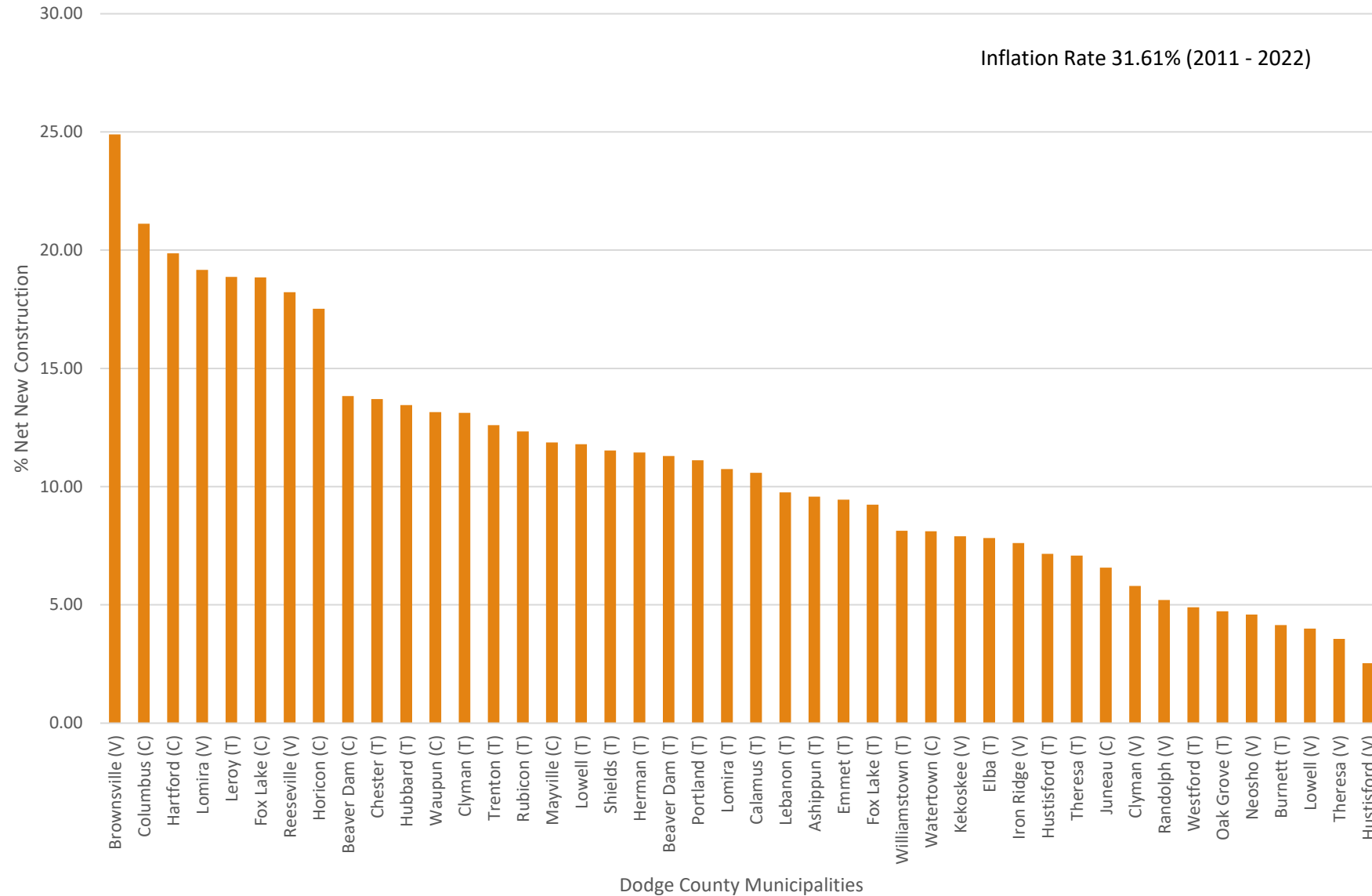
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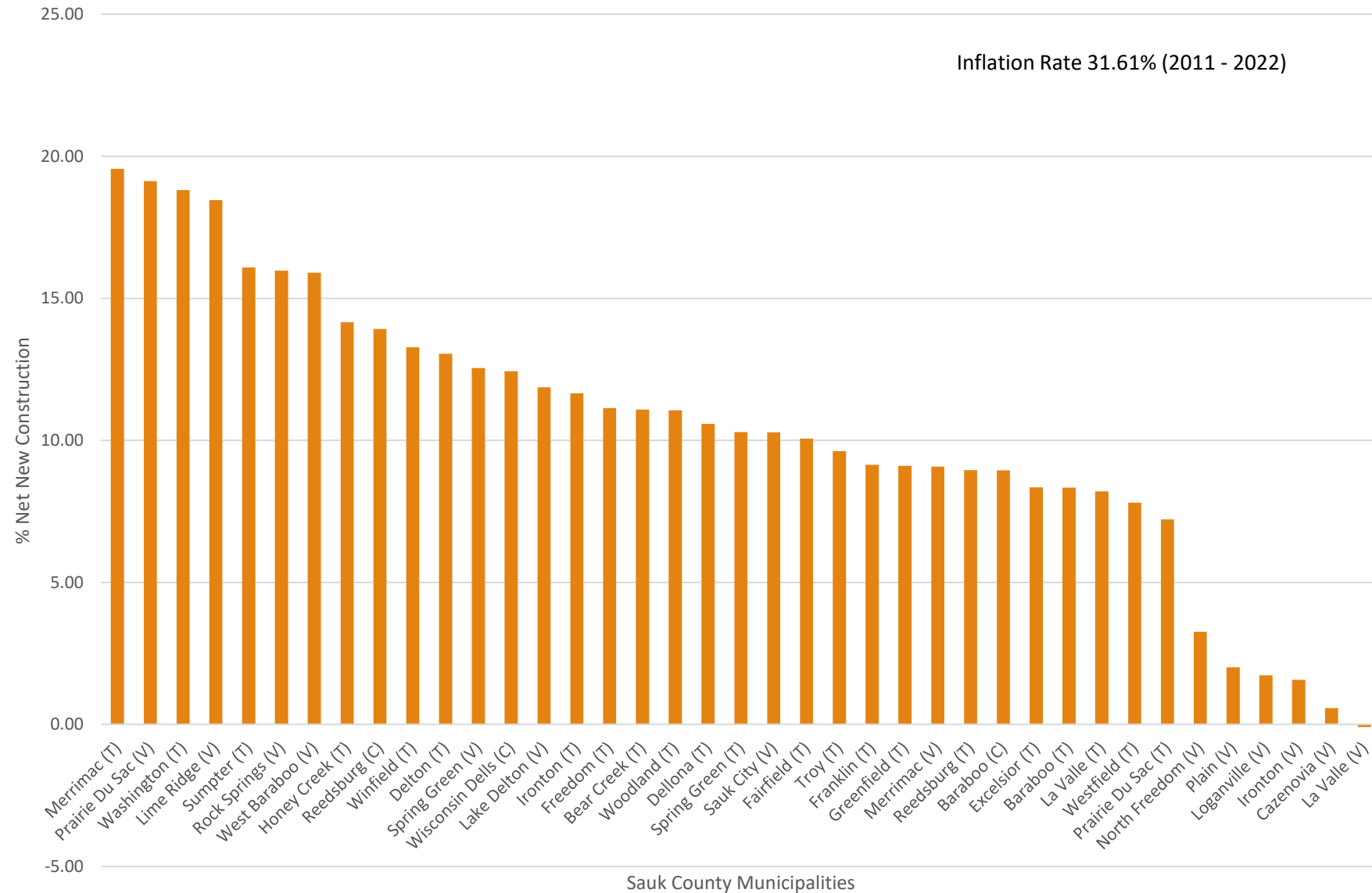
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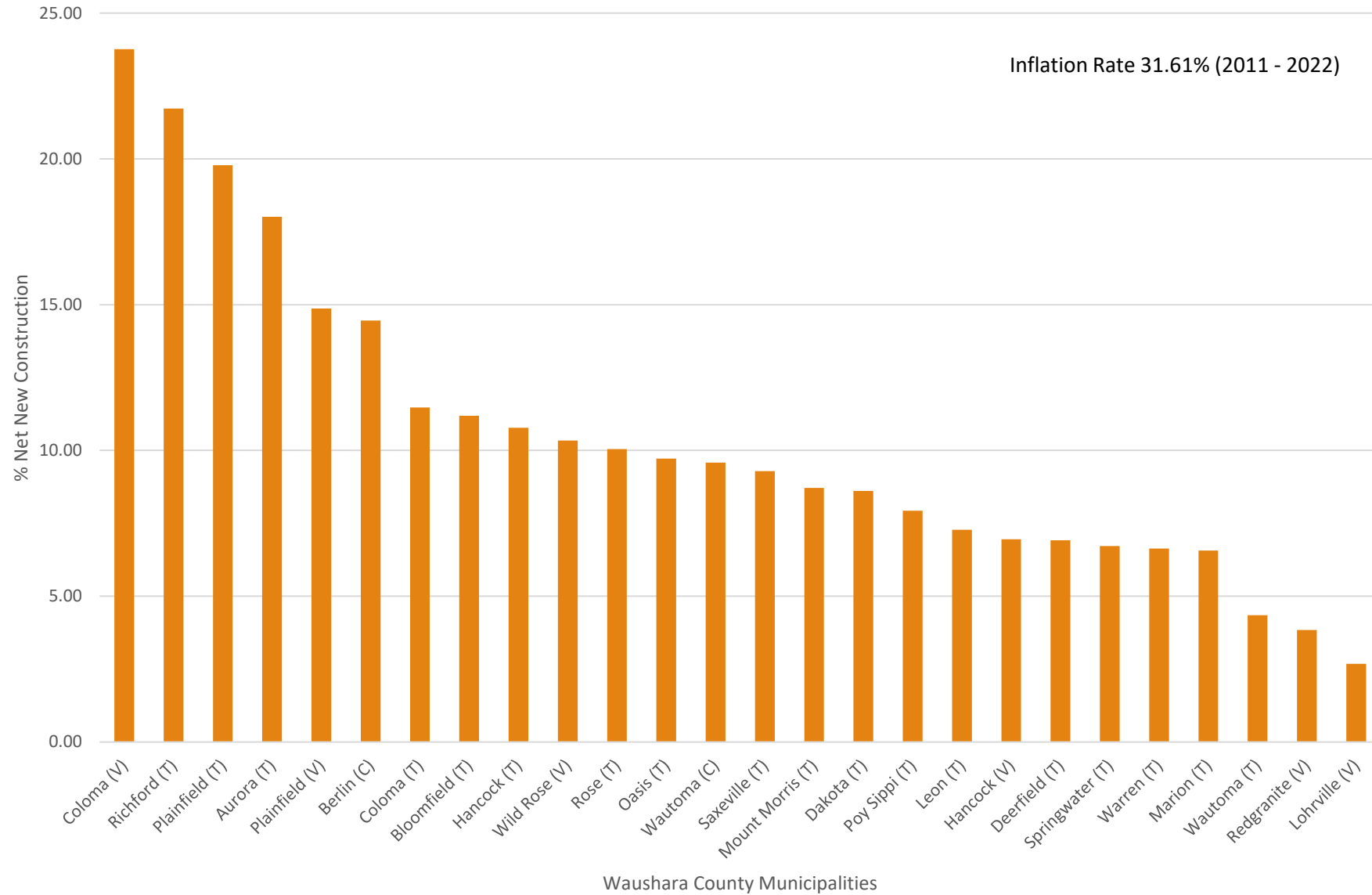
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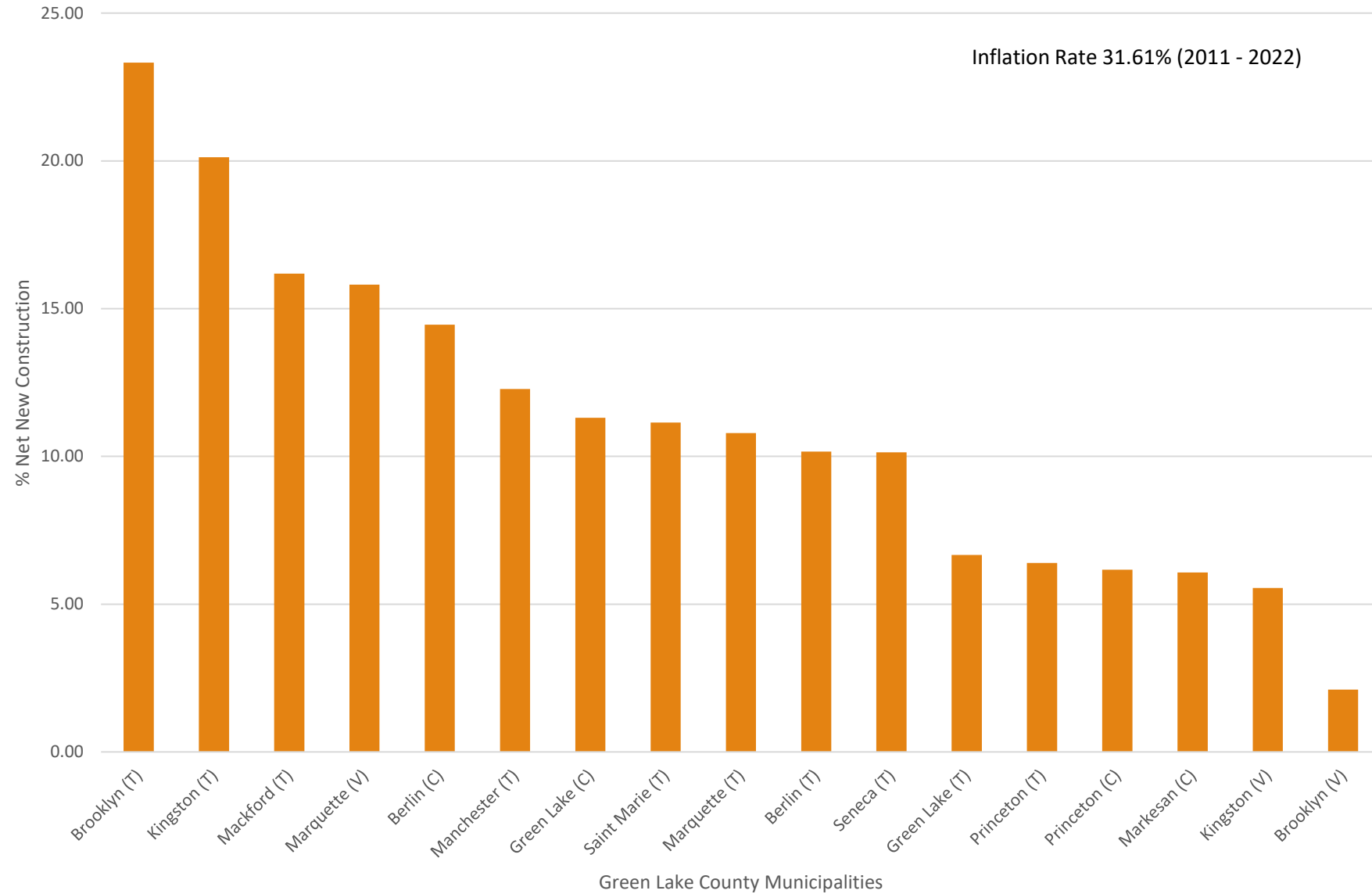
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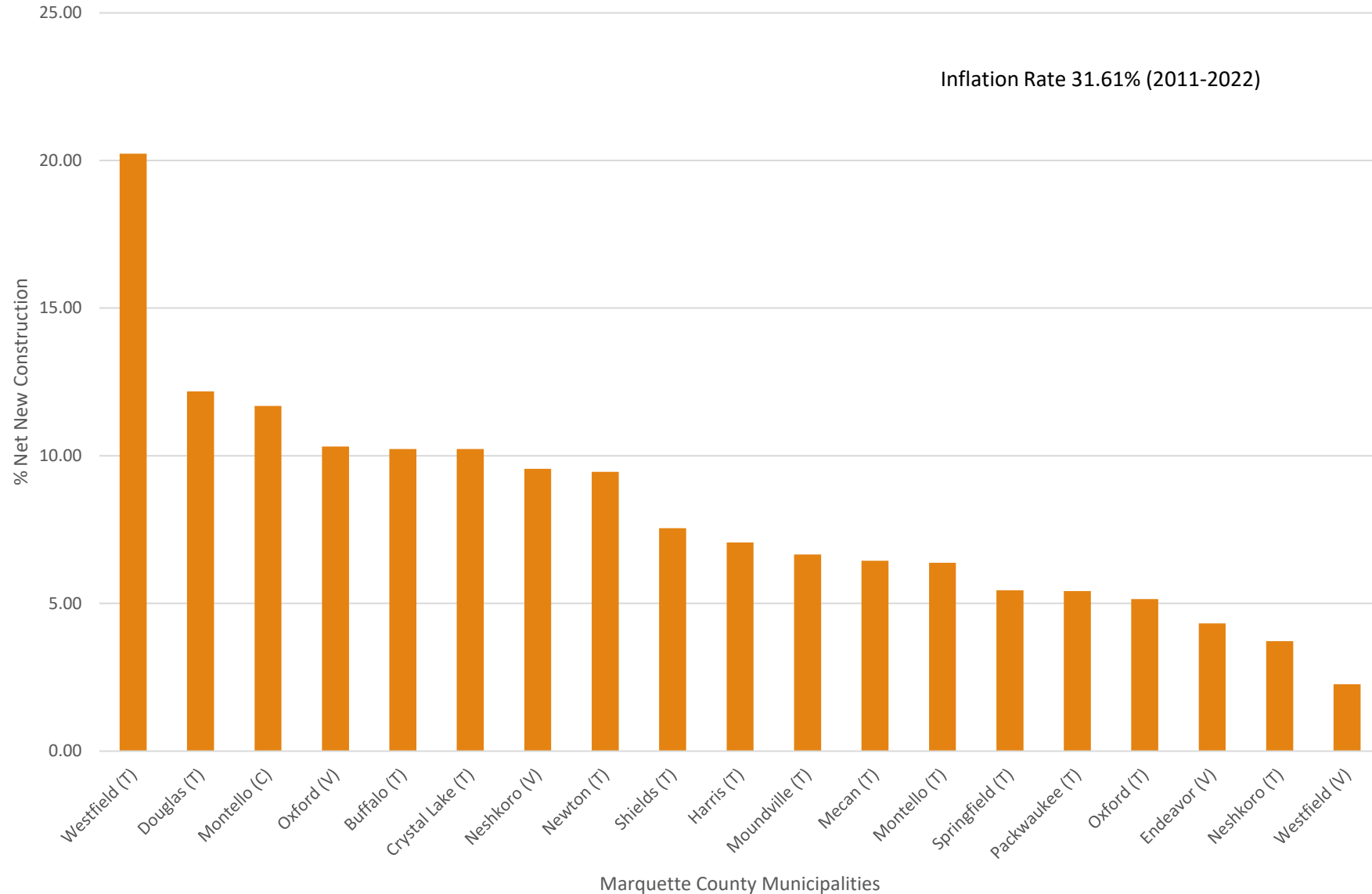
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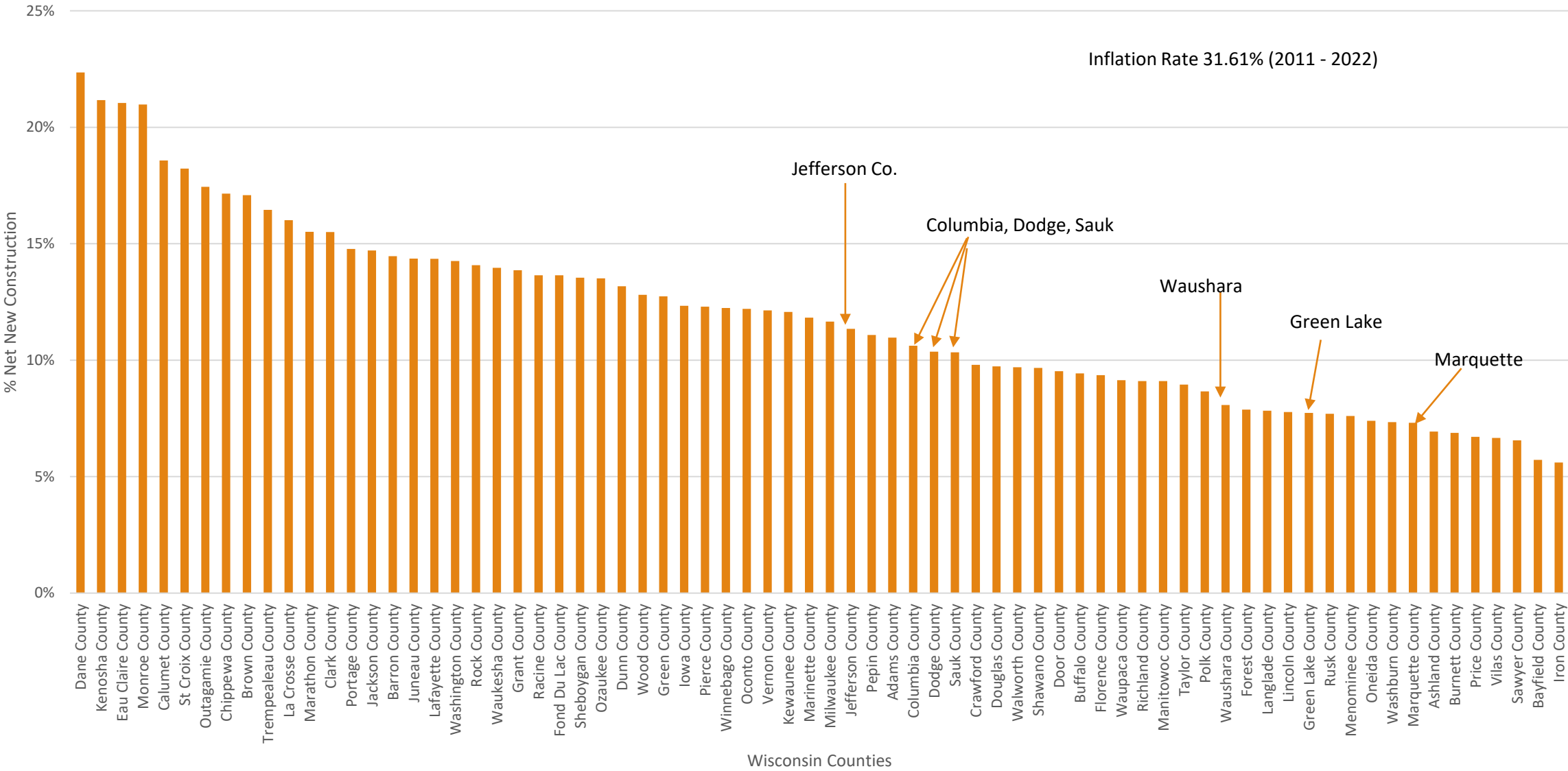


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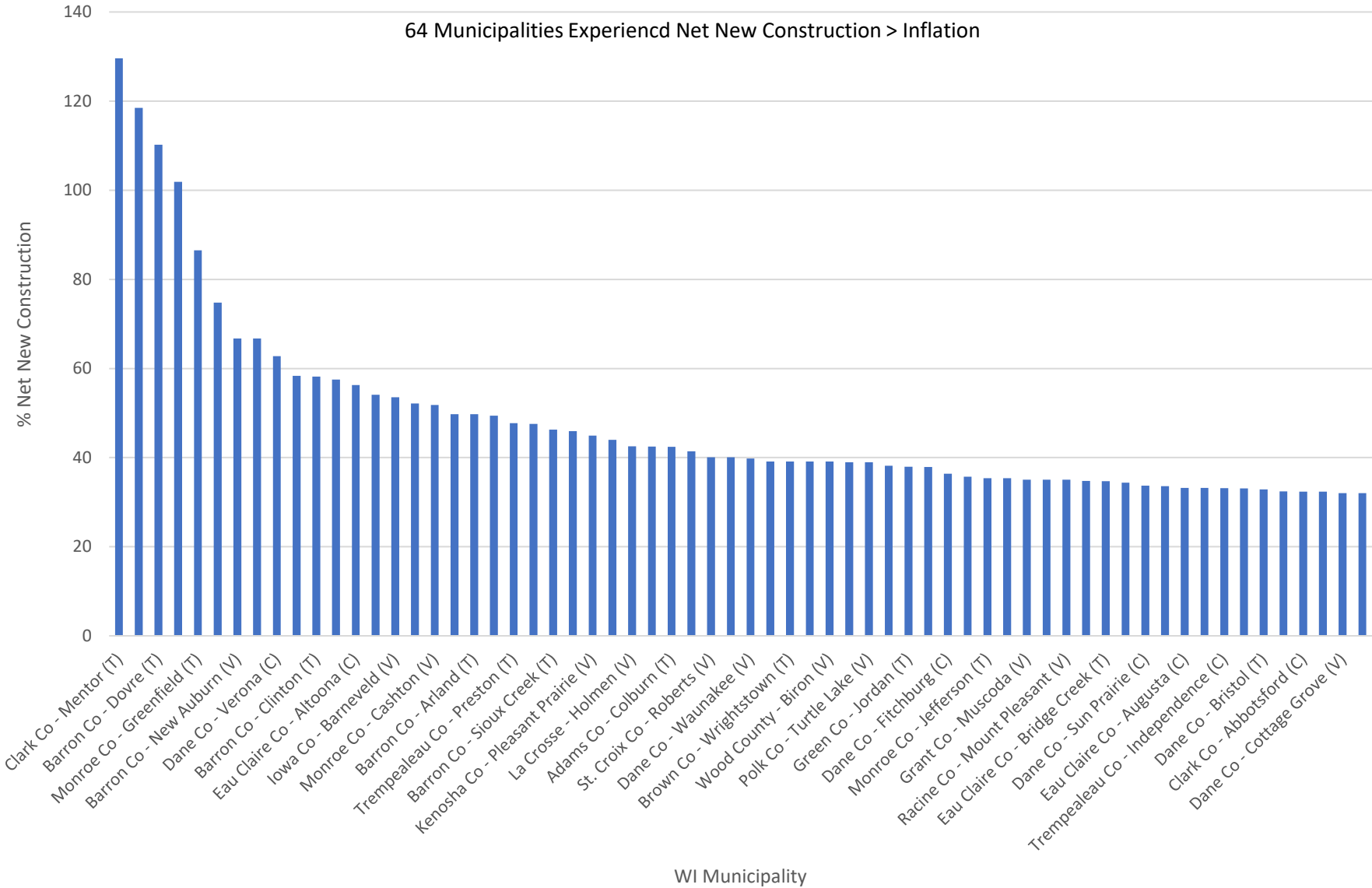
Split Districts NNC are combined



Wisconsin Counties
Total Aggregated Net New Construction 2011-2022



Aggregated % Net New Construction (2011 - 2022)



Conclusions

- State cuts to shared revenues have increased reliance on the property tax
- Levy Limits incentivize using general obligation debt as an immediate-term method to fund capital costs
- Reliance on user fees remains steady despite their regressive nature and state limitations on some uses
- Eliminating the shared revenue formula has reduced fairness
- Increasing state tax revenues are generating >\$7B tax surplus, but yet to share with County/Local municipalities

Recommendation

Local Government Funding Task Force

Dedicate \$0.01 of the \$0.05 State Sales Tax to Local Governments

- Sales tax could be distributed using an equity-based, or regional based formula
- This approach ties local government's fiscal capacity more to the state economy, rather than residential and commercial property values
- Diversifies local government's revenue streams
- Renews the State/Local Government funding partnership
- Restores essence of local control

Questions/Comments

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