

### **Legislative Agenda Topic: Shared Revenue**

**GOAL:** Collect Madison's fair share of shared revenue from the State of Wisconsin

**ISSUES:** The shared revenue distribution from the State of Wisconsin to the City of Madison has steadily declined in the last several decades. The concern is that the formula utilized to allocate shared revenue among communities does not treat Madison the same as other communities such as Milwaukee. State aid has declined over the years, including shared revenue. All state aid received by the City, including shared revenue, was cut by over 10 percent in 2012.

**BACKGROUND:** Shared revenue (now termed *County and Municipal Aid*) was established in Wisconsin in 1911 in an effort to relieve the property tax burden of cities, towns and villages, by returning a portion of state income taxes to municipalities. The formula has changed several times over the years, and has frequently been reexamined and evaluated for fairness and efficacy. While shared revenue is intended to equalize revenue raising abilities between areas with high property values and those with lower property values but larger populations, the current formula does not consider the costs of providing basic levels of service to community residents. Therefore, the current formula misses the mark of equalizing service provision among communities. Richard K. Green and Andrew Reschovsky of the Robert M. La Follette Institute of Public Affairs determined that the shared revenue program is "quite ineffective in reducing fiscal disparities among local governments and achieving tax-base neutrality." <sup>1, 2</sup>

Over the years budget cuts and changes to the formula have reduced the amount of shared revenue received by the City of Madison (see attached graph). Shared revenue (including utility payments) represented 6.6% of Madison's budget in 2000, while in 2012 the City of Madison received less than half of that proportion or 2.4% of its budget. <sup>3</sup>

While the shared revenue payments have declined, other payments such as the Payment for Municipal Services (PMS) have also declined dramatically. The PMS program reimburses communities for the costs of providing law enforcement and fire protection to state facilities. Since state-owned buildings are not subject to local property tax, shortfalls in funding this program must be made up by local property owners. Historically the program has not always been fully funded, however the current funding level is unprecedented. The 2011- 2013 budget only reimbursed communities for one-half of the costs of these essential services. This was the lowest level of state support since the inception of the program, and left local property owners to subsidize the unfunded portion of this mandate. The City of Madison is reaching out to other

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<sup>1</sup> Reschovsky, Andrew. Wisconsin's Local Government Finance; A Policy Primer. The Robert M. La Follette School of Public Affairs University of Wisconsin Madison. November 2002

<sup>2</sup> Tax-base neutrality or equalization of property wealth among communities was a part of the shared revenue formula (termed *aidable revenues*) until 2004. Today the formula includes only utility payments together with *County and Municipal Aid*.

<sup>3</sup> The City of Madison 2000 actual budget included a \$10,522,998 shared revenue payment from the State, including the utility payment. Shared revenue represented 6.61% of the \$159,267,459 total expenditures in 2000. In 2012 the City of Madison received \$6,164,943 for both *Municipal Aid* and the *Utility Payment*, which corresponds to the shared revenue payment. The 2012 value represents 2.44% of the total expenditures of the 2012 adopted budget.

municipalities to try and increase overall funding for this program which has a significant impact on the City's budget.

**OPPORTUNITIES:** A comparison of Wisconsin's two most populous communities, Milwaukee and Madison, illustrates fiscal disparities in the shared revenue distribution. The total equalized property value for Milwaukee in 2012 is \$26,407,923,000 or \$44,170 per capita. While Madison's equalized property value is \$21,697,080,900 or \$91,587 per capita or a little more than double the Milwaukee value. Therefore, on a per capita valuation basis, it would follow that Milwaukee would receive approximately twice as much state aid. However the Wisconsin Department of Revenue estimated that Milwaukee will receive a shared revenue payment (excluding the expenditure restraint payment) in 2012 of \$218,057,740 compared to Madison's \$6,088,425. The payment per capita is \$365 for Milwaukee and just under \$3 per capita for Madison. These comparisons are somewhat modified when expenditure restraint payments are factored into the equation. In addition the values represent merely a snapshot comparing selected data for only two cities. Nevertheless the disparities between the Milwaukee and Madison payments may represent an opportunity to challenge the formula based on the equity principles upon which the program was initially created.

**CHALLENGES:** Shared revenue distributions have been declining for the past decade and municipalities have repeatedly sought to reform the system. In fact the 2001 Blue-Ribbon Commission on State – Local Partnership for 21<sup>st</sup> Century Report recommended that shared revenue should be transformed into a program that equalizes municipalities' ability to purchase a basic package of services. The difficulty is that communities that benefit from the current system have little interest in seeing the formula changed.

A possible approach to increase shared revenue payments to the City of Madison suggested by the Department of Finance would be an effort to encourage the state to fund the shared revenue program fully. Without challenging the formula, the City could increase its shared revenue distribution if more money was available to the program overall. One advantage of this approach is that many municipalities would likely support the City of Madison in its push for full funding.

The City Attorney recently looked into a legal challenge to the shared revenue formula on both constitutional and statutory grounds and concluded such a challenge was not likely to be successful.

**STRATEGIES:**

- Ask the Finance Department to explain the details, identify other WI cities that could also benefit from changes to the formula & help define a "fair" share
- Request State Legislators to explain the shared revenue status quo to the CC
- Pressure the Legislature to fully fund the shared revenue program
- Advocate for full funding of the payment for municipal services program

**MOVING FORWARD:****Relevant City Departments and Committees:**

Finance Department  
City Attorney's Office  
Long Range Planning Subcommittee  
Board of Estimates

**External Partners:**

League of Wisconsin Municipalities  
Other cities, towns or villages that may feel shortchanged by shared revenue distribution

**Timeline:**

Multi-year legal or advocacy effort

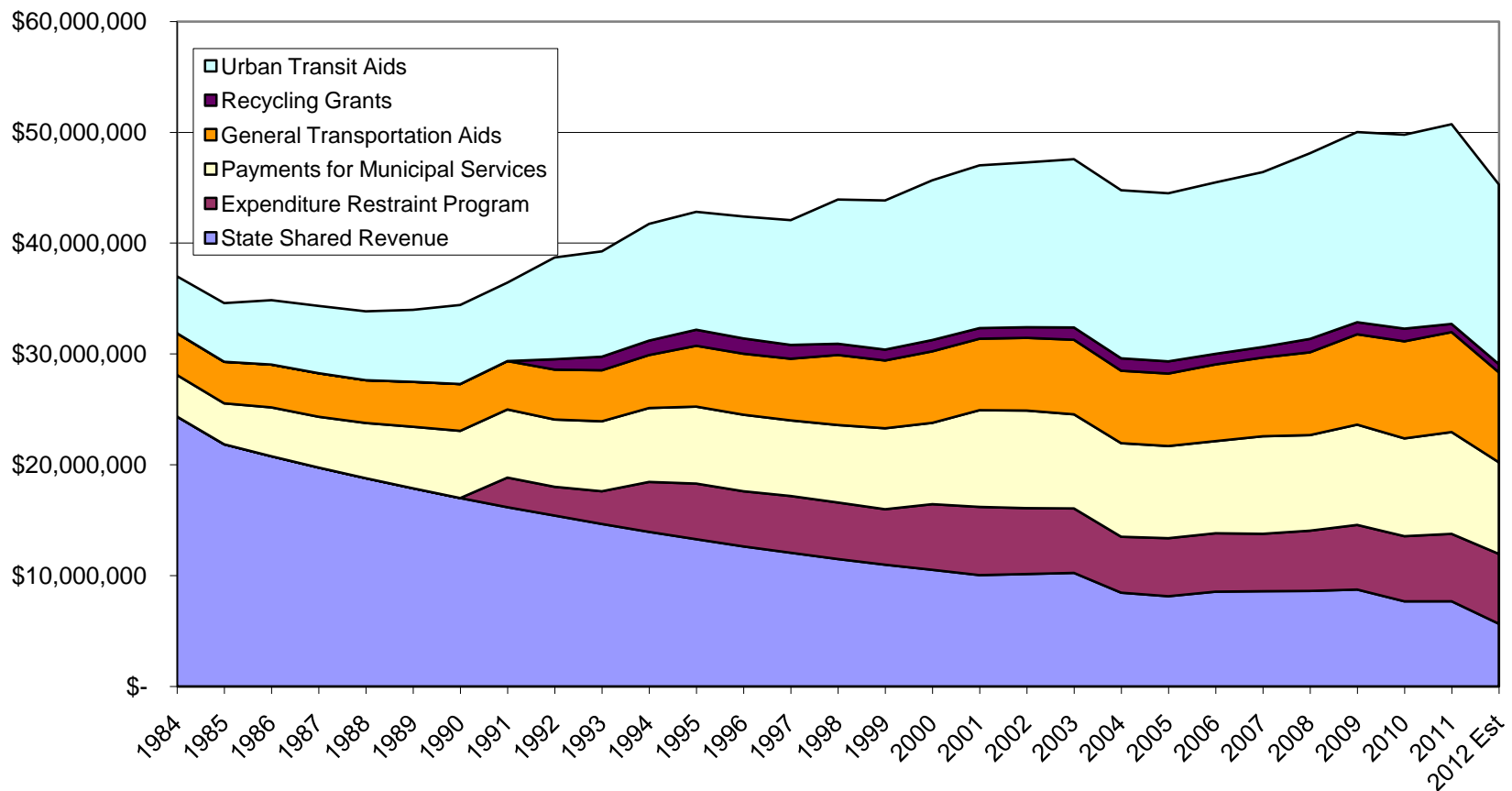
**Milestones/Tracking Progress:**

Need to determine success (perhaps by determining what a "fair" shared revenue formula would be)  
Need to determine goal for Payment for Municipal Services – perhaps 85% of the value of the services

Notes on shared revenue from  
**Dave Schmiedicke, Director**  
**Department of Finance**

- One measure of tax base equalization, which is what shared revenue is meant to address, is that communities that spend at the same level will tax at the same rate per \$1,000 of property value. While there is variability among the state's largest communities (e.g., Racine at 12.21 and Brookfield at 5.76), Madison and Milwaukee's rates are not that different (8.26 and 8.23, respectively in 2011).
- The shared revenue formula has not actually been operative for over 10 years. The amount for each community has been fixed since that time, with cuts to the program being distributed primarily on a per capita and property value per capita basis with limits on the maximum decrease. As property values, spending and population have changed over the last decade, shared revenue has not been redistributed. We are currently working to prepare an analysis, but Madison may have benefited from the formula freeze.
- The state has followed a policy of delivering property tax relief through the school aid formula and direct property tax credits rather than shared revenue. As a result, shared revenue as a share of the state budget has declined considerably over the past 20 years, while school aid has increased.
- Utility aid is not distributed uniformly statewide, but is instead received by communities with power generation facilities as an aid in lieu of tax. Power generation facilities are exempt from local property taxes and are instead subject to a statewide ad valorem tax.
- Another state aid program that more directly benefits Madison is the Municipal Services Payment. This program provides property tax relief to communities that deliver police and fire services to state-owned property. The program is currently prorated at 50% of funding eligibility. Since Madison receives approximately 50% of the aid appropriation for this program, an increase in funding would have a much greater effect on Madison than changes to the shared revenue program.
- Shared revenue in its modern form has been in place since the early 1970's. At that time, a very significant property tax exemption for manufacturing property and equipment was enacted. This had a significant impact on Milwaukee's tax base. The shared revenue formula put into place in the 1970's reflected this change in Milwaukee's tax base and the amount of state aid responded to a need to sustain the City of Milwaukee's revenue base without a large increase in property taxes.

## Total State Aid Payments All General and Transit Aids by Category 1984 - 2010



The graph demonstrates the decreasing amount of shared revenue to the City of Madison from 1984 to 2012. The dollar value has steadily decreased from over \$20,000,000 in 1984 to just over \$6,000,000 in 2012 (including utility payments). The proportion of shared revenue to total expenditures has decreased even more rapidly as expenditures have grown over time. Graph developed by the City of Madison Finance Department.