

## Chapter P

### State and Local Revenue System

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This chapter reviews the many revenue sources for cities, villages, towns, and counties. State school aid programs are discussed in Chapter D of the Briefing Book and transportation aid programs are discussed in Chapter Q of the Briefing Book.

Since 1972, Wisconsin has employed a system through which revenue collected by the state is distributed to counties and municipalities. This system was designed to provide property tax relief and equalize revenue among the municipalities. Though the equalization objective has been relaxed somewhat, the system remains in place and accounted for the transfer of nearly a billion dollars in fiscal year (FY) 2009. The program has traditionally been referred to as “shared revenue,” which still is the largest component of it, but since a major overhaul in 2004, they are more generally referred to as “unrestricted aid programs.”

General program revenue (GPR) represented about 42% of the state budget for 2009-11, and is the largest and most flexible of the state revenue sources. It is also the largest source of funds for transfers to counties and municipalities. Almost 60% of GPR is transferred as unrestricted aid to counties, cities, villages, towns, and school districts. As the name implies, unrestricted aid may be spent at the discretion of the recipient, and is not restricted to a specific purpose or program (as opposed to “categorical” aid).

In addition to these transfer payments from the state, local governments in Wisconsin rely heavily upon the property tax to fund their programs and services. The property tax is the largest source of combined state and local tax revenue in Wisconsin. As compared to local governments in other states, local governments in Wisconsin rely more heavily upon the property tax and intergovernmental revenues and rely less upon revenues from fees and miscellaneous charges.

# Recent Significant Activities

## Tax and Spending Limits

Section 5 of Article VIII of the Wisconsin Constitution constrains the Legislature from running a deficit budget. Any deficit existing at the end of a fiscal year must be remedied in the following fiscal year. Section 20.003 (4m), Stats., is entitled "Required General Fund Structural Balance." The statutory requirement under s. 20.003 (4m) is designed to ensure that each fiscal year of a biennial budget is structurally balanced by subtracting any carry-over balances from the prior year from on-going revenues. See Wisconsin Legislative Fiscal Bureau (LFB) Informational Paper 71, *State General Fund Expenditure Limits* (January 2009), for a detailed discussion and analysis of these budgetary restraints.

One of the more significant and contentious issues that has occupied legislative attention for many of the recent legislative sessions involves the proposed imposition of tax and spending limits on the state and local governments. Both statutory and constitutional limits were considered by the Legislature. These issues are likely to be revisited in future sessions.

In **2005 Enrolled Assembly Bill 100** (the 2005-07 Biennial Budget Bill), the Legislature approved expenditure limits on state government. The legislation provided that, beginning in FY 2007-08, state GPR appropriations and certain other expenditures may not exceed the amount of those expenditures in the previous FY as increased by the prior year's percentage increases in the Consumer Price Index (CPI) and in state population plus 1%. Amounts received over the expenditure limits would be required to be deposited in a fund designated as the "taxpayer protection fund." Moneys in the taxpayer protection fund could only be appropriated upon a recommendation from the Governor and approval by a vote of 3/4ths of those voting in each house of the Legislature. In addition, if the balance in the taxpayer protection fund exceeds 10% of allowable expenditures, that amount would be required to be returned to taxpayers as a reduction in state income taxes.

These provisions were deleted from the bill by the Governor, using his partial veto.

Also in **2005 Enrolled Assembly Bill 100**, the Legislature would have prohibited any city, village, town, or county from increasing its total property tax levy over the prior year's levy by more than a percentage equal to the percentage change in equalized property value due to new construction, less improvements removed. Adjustments to the property tax levy limits would be allowed under specified circumstances, including the repayment of certain debts. Also, amounts in excess of the levy limits could be approved by voters in a referendum. The expenditure limits would have applied to property tax levies collected in 2006, 2007, and 2008. In addition, technical colleges would have been prohibited from increasing their property tax levy by more than 2.6% over the prior year's levy.

The Governor used his partial veto to modify these provisions. As enacted in **2005 Wisconsin Act 25**, any city, village, town, or county is prohibited from increasing its total property tax levy over the prior year's levy by more than 2% or the percentage change in equalized property value due to new construction, less improvements removed, whichever is greater. In addition, the expenditure limits will apply to property tax levies collected in 2006 and 2007, but not 2008. Also, the levy limits on technical colleges were vetoed.

The levy limit program was modified and reauthorized in **2007 Wisconsin Act 20** (the 2007-09 Biennial Budget Act). Initially, the 2007-09 Budget Bill maintained the

maximum allowable levy increase at the greater of 2% or the percentage change in equalized property value due to new construction, less improvements removed. Via the Governor’s partial veto, 2007 Wisconsin Act 20 allows increases that do not exceed 3.86% for levies in 2007-08. The Act does not specify “whichever is greater” although the administration indicates the provision will be interpreted in that manner.

Under **2009 Wisconsin Act 28**, in 2010, any city, village, town, or county is allowed to increase its levy over its maximum allowable levy in 2009 by no more than 3% or the percentage increase in equalized value due to net new construction, whichever is greater. Changing the formula to calculating from last year’s allowable levy as opposed to the actual levy enables an entity that taxed below its limit in the prior year to “recapture” that levy in the following year. The 3% levy limit imposed under Act 28 sunsets on December 31, 2010.

**2005 Assembly Joint Resolution 77 and Senate Joint Resolution 63** were identical constitutional amendments that would have imposed revenue limits on the state and local governments. These were before the Legislature on first consideration during the 2005-06 Legislative Session. They would have limited the annual growth in revenues by a formula that would include, depending upon the unit of government affected, the percentage increase in the CPI, population growth, enrollment growth, or property value growth. In the final days of the 2005-06 Legislative Session, a number of substitute amendments were offered to these proposals. However, none of these proposed constitutional amendments were approved by both houses of the Legislature prior to adjournment.

**2007 Assembly Joint Resolution 99** would have imposed revenue limits in a similar manner to the limits proposed by 2005 Assembly Joint Resolution 77 and Senate Joint Resolution 63. 2007 Assembly Joint Resolution 99 failed to gain approval by either house of the Legislature prior to adjournment.

**Upcoming Issues**

An issue that may resurface in the 2011-12 Legislative Session is the adoption of spending and taxation restrictions on both local governments and the state. This issue was debated in recent sessions, and is sometimes referred to as “Taxpayer Bill of Rights (TABOR).” Both amendments to the Constitution that would limit state and local spending and taxation and statutory changes to freeze property taxes were debated by the Legislature. Proposed constitutional changes and statutory tax freezes may be debated again in the upcoming session. Additional related issues that are likely to surface include a reexamination of local aid formulas, state mandates to local governments, and the consolidation of services between local governments.

## Major Sources of Wisconsin State and Local Tax Revenue

The major sources of 2008 state and local tax revenue in Wisconsin are shown in Table 1. The property tax, the individual income tax, and the state sales tax accounted for nearly 90% of the \$24,270,400,000 collected in 2008.

**UUTABLE 1****2008 Wisconsin State and Local Revenue  
by Major Tax Source**

<b>Tax</b>	<b>\$ Amount</b>	<b>Percent of Total</b>
Property (Net) <sup>1</sup>	9,250,300,000	38.11
Individual Income	6,713,700,000	27.65
State Sales	4,268,000,000	17.59
Corporate Income	837,800,000	3.45
Excise <sup>2</sup>	540,200,000	2.23
Public Utility	324,200,000	1.34
County Sales	277,900,000	1.15
Other <sup>3</sup>	2,058,300,000	8.48
<b>Total</b>	<b>24,270,400,000</b>	<b>100.00</b>

<sup>1</sup> Levied in 2007 and collected in 2008.

<sup>2</sup> Figure is for calendar year 2008.

<sup>3</sup> Includes the following taxes: inheritance and estate, insurance company premiums, real estate transfer, lawsuits, and other.

**Sources:** Property tax: Wisconsin Department of Revenue (DOR) – Town, Village and City Taxes, 2007.

County sales: Unpublished data from the Wisconsin DOR.

Other taxes: Wisconsin Department of Administration – Annual Fiscal Report, Budgetary Basis, 2008.

## Sources of Wisconsin Local Government Revenue Compared to U.S. Average

Table 2 compares the sources of local government (including school districts) revenues in Wisconsin to the average for all local governments in the United States. The table is based upon the most recent data (2005-06) from the U.S. Census Bureau.

Local governments in Wisconsin rely more upon the property tax and upon revenues received from other levels of government as revenue sources and less upon charges and nonproperty taxes to pay for government services and programs, on average, than do other local governments in the United States.

**TABLE 2**

**2005-06 Sources of Local Government General Revenue - Wisconsin Compared to U.S. Average**

<i>Source of Revenue</i>	<i>Wisconsin</i>	<i>U.S. Average</i>
Property Tax	35.5%	28.0%
General Sales Tax	1.2%	4.5%
Income Tax (individual and corporate)	NA	2.32%
Other Taxes	1.2%	2.3%
Charges and Miscellaneous Revenues	16.5%	22.8%
Intergovernmental Revenues	45.4%	38.3%

**Source:** U.S. Department of Commerce, Census Bureau; State and Local Government Finances, 2005-06.

## State General Expenditures for Local Government Assistance: 2007-09 Budget

Of the \$28,035,709,400 budgeted in 2007 Wisconsin Act 20 for state spending from GPR in the 2007-09 biennium, \$15,575,000,000, or 56% of the total, is for assistance to local government. As shown in Table 3, below, the largest amount of state aid to local government, \$10,700,000,000, or 38% of **all** GPR expenditures, is budgeted for general and categorical aids to elementary and secondary schools. An additional \$1,265,000,000 is distributed as a property tax credit to reduce school property tax levies. The second largest amount, \$1,905,000,000, or 7% of all GPR expenditures, is distributed as county and municipal aids to municipalities and counties

**TABLE 3**

**2007-09 State General Fund Expenditures for Local Assistance\***

<i>Expenditure</i>	<i>\$ Amount</i>	<i>Percent of Total</i>
Elementary and Secondary School Aids	10,296,746,200	67.3
Shared Revenues to Municipalities and Counties	1,857,718,900	12.1
School Levy Tax Credit	1,697,625,200	11.1
Community and Juvenile Correctional Services	503,577,700	3.3
Environmental Aids	196,502,100	1.3
Technical College System Aids	273,943,800	1.8
Long-Term Care Programs	175,619,400	1.2
Other	294,314,900	1.9
<b>Total</b>	<b>15,296,048,200</b>	<b>100.0</b>

**Source:** LFB.

\*As contained in 2007 Wisconsin Act 20.

## Property Tax Levy, 1990-2007

Table 4 shows the gross property tax levy and the percentage increase in the gross property tax levy for the years 1990 through 2007. State laws enacted during the 1990s had a noticeable effect on the rate of property tax increases during the period. In 1994, the state generally restricted the annual increase in school district revenue per pupil from general school aid and property taxes. In 1994, the state also imposed limits on the aggregate amount of salary and fringe benefit increases which a school board may offer to its professional employees (termed a "Qualified Economic Offer," or QEO) to avoid compulsory arbitration. In 1995 and 1996, school district property tax levies were frozen, with the state paying the additional school costs; in 1997, the state began funding 2/3rds of school district costs. In 2009, the state repealed the 1994 Qualified Economic Offer Rule. The state maintains its policy of 2/3rds funding, but some of this money goes to property owners rather than the school directly.

**TABLE 4**

***Property Tax Levy, Amount, and Percentage Increase,  
1990-2008***

<b><i>Year of Levy</i></b>	<b><i>\$ Amount</i></b>	<b><i>Percentage Increase</i></b>
1990	4,388,000,000	7.6
1991	4,733,000,000	7.9
1992	5,169,000,000	9.2
1993	5,438,000,000	5.2
1994	5,572,000,000	2.5
1995	5,739,000,000	3.0
1996	5,378,000,000	-6.3
1997	5,636,000,000	4.8
1998	5,975,000,000	6.0
1999	6,191,000,000	3.6
2000	6,605,000,000	6.7
2001	7,044,000,000	6.7
2002	7,364,000,000	4.5
2003	7,687,000,000	4.4
2004	8,151,000,000	6.0
2005	8,327,000,000	2.2
2006	8,706,000,000	4.6
2007	9,251,000,000	6.2
2008	9,284,000	.4

# Major General State Aid Programs for Municipalities and Counties

## County and Municipal Aid

2001 Wisconsin Act 109 and 2003 Wisconsin Act 33 revised the system under which shared revenue and other aid payments to counties, cities, villages, and towns are calculated. The shared revenue program (except for the public utility component of the shared revenue program), the county mandate relief program, and the small municipalities shared revenue program were replaced with a program called “county and municipal aid” beginning with payments made in 2004.

Under this program, each county and municipality received aid payments based on the sum of its payments in 2003 under the shared revenue program (excluding utility aid), county mandate relief, and small municipalities shared revenue program. The amount in 2004, as compared to 2003, was reduced by \$70 million, of which the share for each municipality and county was calculated on a per capita basis. Payments under the county and municipal aid program in 2005 and 2006 for each county, city, village, and town will be the same as the payments received in 2004.

Table 5 shows the shared revenue and county and municipal aid payments to counties and municipalities by total amount and annual percentage increase for the years 1987-2007.

**TABLE 5**  
**Shared Revenue and County and Municipal Aid Payments, Amounts, and Annual Percentage Increase, 1987-2007**

<b>Year</b>	<b>\$ Amount</b>	<b>Percentage Change in Funding</b>
1989	807,400,000	2.0
1990	835,600,000	3.5
1991	869,000,000	4.0
1992	886,000,000	2.0
1993	903,700,000	2.0
1994	920,300,000	1.8
1995	950,600,000	3.3
1996	950,600,000	0.0
1997	950,600,000	0.0
1998	950,600,000	0.0
1999	950,600,000	0.0
2000	951,200,000	0.6
2001	951,200,000	0.0
2002	960,700,000	1.0
2003	970,300,000	1.0
2004	893,500,000	-7.9
2005	893,500,000	0.0
2006	898,300,000	0.5
2007	899,200,000	0.1
2008	899,600,000	0.0
2009	916,900,000	1.0
2010	890,000,000	-1.1

**Sources:** LFB and DOR, unpublished data.

## Utility Aid

Utility aid is the only component of the shared revenue program that remains following that program's replacement by the county and municipal aid program in 2004. Utility aid compensates local governments for costs they incur in providing services to heat, light, and power companies and for the location of utility property in their territory. [s. 79.04, Stats.] Property owned by these companies is exempt from municipal and county property taxation. In lieu of property taxation, heat, light, and power companies pay a gross receipts tax to the state.

In general, the public utility distribution for a particular unit of local government is computed by multiplying a fixed rate by the net book value of public utility property within the boundaries of the local government. Payments to cities and villages are computed at a rate of \$6 per thousand dollars of net book value of qualifying utility property. Payments to towns are computed at a rate of \$3 per thousand dollars of net book value. Payments to counties are at the \$3 per thousand rate if the property is located in a city or village or at \$6 per thousand if the property is located in a town. Therefore, a total rate of \$9 per thousand dollars of net book value is applied to the full value of all qualifying utility property in determining the amount of the public utility payment.

However, in computing the amount of the distribution, the value of utility property at a specific site is limited to \$125,000,000. In addition, generally, each municipality and county is guaranteed a payment of \$75,000 if a utility plant with a capacity of 200 megawatts or greater is located within its borders. Also, each municipality and county where spent nuclear fuel is stored receives an annual payment of \$50,000.

Utility aids paid with respect to new plants that begin operation in 2004 are calculated based on generating capacity rather than property value. Utility aids paid to municipalities and counties that contain these production plants are paid at the rate of \$2,000 per megawatt of generating capacity. For production plants located in cities and villages, the city or village receives 2/3rds of the payment. For production plants located in towns, the town receives 1/3rd of the resulting payment. The county receives the amount of utility payment not paid to a city, village, or town.

The total amount of utility aid paid annually to a city, village, or town may not exceed an amount that is \$300 times the municipality's population. The total amount of utility aid paid annually to a county may not exceed an amount that is \$100 times the county's population.

An additional type of utility aid payment, which began in 2005, applies to municipalities and counties that contain qualifying production plants that begin operation after December 31, 2003. These payments are made at the rate of either \$600 or \$1,000 per megawatt of generating capacity, depending upon the type of facility. The amount of incentive aid payment to a municipality or county is not subject to the per capita payment limits for utility aid.

## Expenditure Restraint Program for Municipalities

The expenditure restraint program allows cities, villages, and towns to receive state aid if they limit their year-to-year budget growth as specified by statute and have a municipal purpose tax rate in excess of five mills (\$5 per thousand dollars of property value). The expenditure restraint program is administered by the DOR.

- Eligibility** To be eligible for an expenditure restraint payment, a city, village, or town must:
- Have a property tax levy rate greater than five mills. The mill rate is based on the municipality’s equalized value less tax increments and tax incremental values under the tax incremental financing law.
  - Limit the increase in its municipal budget over the previous municipal budget by a percentage determined by statutory formula.

For purposes of the eligibility requirement, “municipal budget” represents the municipality’s general fund, less principal and interest on long-term debt. A municipality is prohibited, in order to qualify for a payment under the expenditure restraint program, from establishing a fund, other than a general fund, that does not conform to generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board.

The permitted rate of growth for a municipal budget for purposes of eligibility for the expenditure restraint program is the inflation rate plus an adjustment to that rate based on growth in municipal property values. The inflation rate is the percentage equal to the average annual percentage change in the U.S. CPI for all urban consumers, U.S. city average, for the 12-month period ending on September 30 two years prior to the payment year. The inflation rate is adjusted by adding to it a property “valuation factor” which is a percentage equal to 60% of the percentage change in the municipality’s equalized value due to new construction, less improvements removed, but not less than 0% nor more than 2%.

**Distribution Formula** If eligible, a city, village, or town receives a payment under the expenditure restraint program according to the following formula, which is based on municipal levy rates and full values: (1) five mills is subtracted from the municipality’s property tax levy rate to produce the “excess tax rate”; (2) the municipality’s equalized value, including the value of tax increments, is multiplied by the municipality’s excess tax rate to produce the “excess levy”; (3) the municipality’s excess levy is divided by the total of excess levies for all municipalities that qualify (resulting in the municipality’s percentage share); and (4) the municipality’s percentage share is multiplied by the amount appropriated for the expenditure restraint program.

**Data on Expenditure Restraint Payments** Table 6, below, summarizes the payment over time of tax rate disparity payments and expenditure restraint payments. The table includes the number of towns, villages, and cities that received payments in each year; the percentage of all towns, villages, and cities that receive payments; the total amount of payments received; the percentage of total payments received by towns, villages, and cities as a class; and the average payment received by towns, villages, and cities. The first portion of the table refers to “tax rate disparity payments” because the program was initially designated as a tax rate disparity program. However, effective with 1994 payments, the program was renamed the expenditure restraint program.

**TABLE 6****Tax Rate Disparity and Expenditure Restraint  
Payment Distribution Summary**

	Number of Municipalities	Percentage of All Municipalities	Total Payment \$ Amount	Percentage of All Dollars	Average Payment \$ Amount
<b>2001</b>					
Towns	30	11.1	844,429	1.5	28,148
Villages	105	38.9	5,019,086	8.8	47,801
Cities	135	50.0	51,136,485	89.7	378,789
	270	100.0	57,000,000	100.0	211,111
<b>2002</b>					
Towns	39	12.9	768,297	1.4	19,699
Villages	128	42.2	5,147,973	8.9	40,218
Cities	136	44.9	51,653,727	89.7	379,806
	303	100.0	57,569,997	100.0	189,999
<b>2003</b>					
Towns	30	10.1	724,827	1.3	24,160
Villages	122	41.2	4,985,806	8.6	40,867
Cities	144	48.7	52,435,065	90.1	364,132
	296	100.0	58,145,698	100.0	196,438
<b>2004</b>					
Towns	27	8.8	420,325	0.7	15,567
Villages	134	43.8	5,482,828	9.4	40,916
Cities	145	47.4	52,242,547	89.9	360,293
	306	100.0	58,145,700	100.0	190,018
<b>2005</b>					
Towns	33	9.79	461,094	0.79	13,973
Villages	152	45.1	5,198,193	8.94	34,199
Cities	152	45.1	52,486,413	90.27	345,305
	337	100.0	58,145,700	100.00	172,539
<b>2006</b>					
Towns	36	11.43	239,473	0.41	6,652
Villages	133	42.22	5,338,424	9.18	40,139
Cities	146	46.35	52,567,803	90.41	360,053
	315	100.00	58,145,700	100.00	184,590
<b>2007</b>					
Towns	24	7.41	144,689	0.25	6,029
Villages	147	45.37	4,896,596	8.42	33,310
Cities	153	47.22	53,104,415	91.33	347,088
	324	100.00	58,145,700	100.00	179,462
<b>2008</b>					
Towns	27	8.5	178,396	0.3	6,607
Villages	136	42.9	4,817,503	8.3	35,423
Cities	154	48.6	53,149,799	91.4	345,129
	317	100.00	58,145,700	100.00	387,159
<b>2009</b>					
Towns	13	4.8	146,107	0.3	11,239
Villages	119	43.6	4,334,188	7.4	36,422
Cities	141	51.6	53,665,404	92.3	380,606
	273	100.00	58,145,700	100.00	428,267

**Source:** LFB.

## Additional References

1. At the beginning of each legislative session, the **LFB** prepares informational papers that describe the fiscal relationship between the State of Wisconsin and local governments. These informational papers, which include descriptions of Wisconsin state and local finances and taxation, may be found at <http://www.legis.state.wi.us/lfb/index.html> (click on Publications).
2. The Wisconsin **DOR** has prepared a number of publications that describe state and local taxation and various state aid programs. These publications may be found at <http://www.dor.state.wi.us/html/pubs.html>.
3. The **Wisconsin Taxpayers Alliance** frequently describes and analyzes state and local finances in its monthly publication, *The Wisconsin Taxpayer*, and in its periodical, *Focus*. The Wisconsin Taxpayers Alliance can be contacted at <http://www.wistax.org>.

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