

WISCONSIN'S Local Government FINANCE A POLICY PRIMER



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Wisconsin has a large number of municipal governments—1,850 in a state of fewer than 5.4 million residents. Most of these local governments would by most standards be considered small. As can be seen from the data in Table 1 on the next page, over one-half of the state's municipal governments had populations of less than 1,000 in 2001. As a result, the state's 995 smallest municipalities contain just 10.5 percent of the state's population. At the same time, nearly 30 percent of the state's population resides in just 13 municipalities with populations over 50,000. Over half of the population of these municipalities are residents of the state's two largest cities—Milwaukee with a population of 596,000 and Madison with a population of 210,000.

Municipal governments in Wisconsin are organized in one of three different forms—cities, villages, or towns. Most town governments are found in the rural parts of the state. The executive and administrative functions of town governments are generally performed by a board of elected town supervisors. Broad policy decisions are made at an annual town meeting. In villages, executive power rests with a village president who presides over a village board of trustees. Most villages employ a full- or part-time administrator. The chief executive of the majority of city governments is an elected mayor, and the legislative body an elected common council. A few cities use a council-manager system, in which the council appoints a professional manager to serve as chief executive.¹

Municipal Public Services

Although elementary and secondary education is the responsibility of independent school districts, and welfare is administered by county governments, municipal governments in Wisconsin provide an extraordinarily wide range of public services. In

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2000, expenditures by Wisconsin's municipal governments totaled nearly \$3.8 billion.² Table 2 illustrates how this money was divided. The largest expenditure categories are for law enforcement, debt service, local roads, general and financial administration, and fire protection.

The expenditure data in Table 2 highlight the major types of public services provided by municipal governments. These data, however, do not illustrate the great variability in public service responsibilities across municipal governments. For a more disaggregated and detailed view of the services provided by different local governments, see Table 3.

This table divides Wisconsin's 1,850 municipalities into categories by population and type of government, and for each category displays the average level of per capita expenditures for different types of spending. To get a sense of how service responsibilities vary across government types, I calculated the percentage of local governments by type that spent more than \$5 per capita on each category of

TABLE 1

Distribution of Municipal Governments by Population and Type of Government (Based on January 1, 2001, Estimated Population)					
Population Category	Towns	Number of Villages	Cities	Total Number of Municipalities	Percent of Total Population
Less than 500	262	128	0	390	2.3
500-999	490	108	7	605	8.2
1,000-4,999	470	128	90	688	25.2
5,000-9,999	36	17	33	86	11.3
10,000-24,999	7	13	35	55	15.6
25,000-49,999	0	1	12	13	8.5
50,000 and over	0	0	13	13	28.9
Total	1,265	395	190	2,850	100.0

TABLE 2

Current Spending by Municipal Governments in 2000 by Major Expenditure Categories*		
Expenditure Category	Dollar Amounts	Percent of Total
Public Safety		
Law Enforcement	\$695,592,814	18.4
Fire Protection	418,850,714	11.1
Other Public Safety	136,997,566	3.6
Public Works		
Local Road Maintenance and Construction	585,714,737	15.5
Refuse and Garbage Collection and Removal	178,892,191	4.7
Other Public Works	140,059,718	3.7
General Government		
General and Financial Administration	449,461,751	11.9
Debt Service	636,336,654	16.9
Culture and Recreation		
Libraries	135,297,160	3.6
Parks, Recreation, and Cultural Programs	157,988,529	4.2
Economic Development		
Economic Development Activities	160,054,704	4.2
Health and Human Services		
Public Health and Human Services	75,733,508	2.0
Total Current Expenditures	\$3,770,980,046	100.0

*Current spending is defined as total expenditures minus capital outlays.

spending. These calculations show that nearly all town governments are responsible for road maintenance and fire protection, and half of them provide refuse and garbage collection. Because county sheriffs provide law enforcement for most, only a very small number of larger towns use their own resources to finance police services. The same calculations show that village governments generally provide a much broader range of public services. With the exception of libraries and economic development, most villages undertake substantial spending in all major categories. Nearly all city governments provide a full array of municipal public services.

Table 3 also shows some interesting patterns of per capita expenditures. Spending per person differs across municipalities for a number of reasons. Per capita spending may be higher in some municipalities than in others because the residents of the high-spending municipality demand more or higher quality services. Alternatively, high spending in some municipalities could reflect government inefficiency. Higher than average levels of per capita spending in some municipalities may also be attributable to broader service responsibilities and/or higher than average costs.

Costs are not the same thing as spending. The cost of providing basic municipal services refers to the minimum amount of money a municipality must spend to provide these services. In general, per capita costs vary across municipalities because of certain characteristics of a municipality and its residents, over which local public officials have no control. For example, providing fire protection will be more expensive in larger and denser municipalities, especially if many structures are constructed primarily of wood. In these communities, more firefighters and more fire engines will be needed in order to achieve any given level of fire protection. Another example is law enforcement, which tends to cost more in larger communities because the incidence of crime tends to be higher than in smaller communities. Law enforcement also tends to be more costly in larger municipalities because they are usually centers of employment and commerce. Both jobs and shopping bring lots of nonresidents into the community. While this is good for economic development, it

also increases the per-resident costs of providing basic services, including law enforcement.

Conversely, the per capita costs of public services that require substantial amounts of capital equipment, such as road maintenance, tend to be particularly high in small jurisdictions. These high costs occur because the financial responsibility for the purchase and maintenance of this equipment must be spread among a relatively small group of people. By sharing total costs among more people, residents of larger jurisdictions are able to benefit from economies of scale.

Municipal Government Revenues

On average, municipal governments in Wisconsin raise 65 percent of their total revenues from a combination of taxes, special assessments, fees, charges, and various miscellaneous sources. Their remaining revenue comes in the form of grants or transfers from other governments, primarily the state. As illustrated in Table 4, the single most important source of municipal government revenue is the property tax. In addition, some municipal governments raise tax revenue from a lodging tax and a tax on automobiles registered within their boundaries (called a “wheel” tax). By far the largest source of inter-governmental revenue is the state’s Shared Revenue program—the topic of the next section of this primer.

As one would expect, there is a great deal of variation across municipalities both in total revenue per capita and in the composition of that revenue. Table 5 displays revenue data for municipalities characterized by type of government and population size. As illustrated by the data on revenue from the property tax and shared revenue, revenue per capita from these two sources is generally lowest in towns and highest in cities, paralleling the pattern we observed in per capita spending. Property tax mill rates—a one mill tax is equal to a tax of .1 percent of the assessed value of property—also tend to be lowest in towns and highest in cities. This pattern reflects both the higher spending in cities than in towns and the fact that per capita property values are generally higher in towns than in villages, and higher in villages than in cities. Thus, part of the reason that cities have

Higher than average levels of per capita spending in some municipalities may be attributable to broader service responsibilities and/or higher than average costs.

TABLE 4

Municipal Government Revenue by Source, 2000

Revenue Source	Dollar Amounts	Percent of Total
Local Taxes	\$1,766,865,525	42.9
Property Taxes	1,492,313,536	36.3
Special Assessments	63,223,895	1.5
Intergovernmental	1,426,774,397	34.7
Federal Aid	98,082,528	2.4
State Shared Revenue	828,982,693	20.1
State Highway Aid	299,933,272	7.3
Other State and Local Aid	199,898,580	4.9
Fees, Charges, and Miscellaneous	857,363,916	20.8
Licenses and Permits	89,702,876	2.2
Fines, Forfeits, and Penalties	64,316,041	1.6
Public Charges for Services	240,365,747	5.8
Intergovernmental Charges for Services	94,729,064	2.3
Total Miscellaneous Revenue	368,250,188	9.0
Total General Revenue	\$4,114,227,733	100.0

above average property tax mill rates is that municipalities with low property values must use higher mill rates in order to raise any given level of property tax revenues.

The last three columns of Table 5 show some interesting differences in the composition of municipal government revenue in small and large jurisdictions. Within small towns, especially those with populations under 2,500, state highway aids play a very important role in municipal finance. This heavy reliance on highway grants by small towns parallels the high proportion of total municipal spending that these small towns devote to highway maintenance. The data also show that the property tax tends to play a more important role in municipal finance in larger jurisdictions. Thus, the property tax accounts for over 45 percent of municipal revenues in towns with more than 2,500 residents

and in villages with populations over 5,000. The property tax also accounts for a larger share of total revenue in cities with populations over 10,000 as compared with smaller cities.

The Role of State Aid in Funding Municipal Governments

Wisconsin was among the first states to provide financial assistance to its municipal governments, and it continues to provide higher levels of general purpose aid to its municipal governments than do most other states. In 1905, the state of Wisconsin started sharing some of its tax revenue with municipal governments.³ This practice, albeit in a much expanded form, continues today. In 2002, the state is providing nearly \$840 million of shared revenues, or more than 7 percent of its general purpose revenue (GPR) budget, to its city, village, and town gov-

TABLE 5

Municipal Government Revenue in 2000 by Municipal Type and Population Category

Population Category	Number of Municipalities	Property Tax Per Capita	Shared Revenue Per Capita	Property Tax Mill Rate	Property Tax	Percent of General Revenue from Property Tax	Shared Revenue	Highway Aids
Towns								
Less than 500	262	\$194	\$83	2.38	26.5	15.9	39.0	
500-749	266	171	76	2.82	33.8	18.6	33.7	
750-999	224	166	64	2.68	37.1	18.5	30.3	
1,000-2,499	375	140	48	2.05	39.3	17.3	23.9	
2,500-4,999	95	150	38	1.94	45.2	15.2	13.2	
5,000-9,999	36	181	39	2.71	45.4	12.7	8.1	
10,000 and over	7	268	39	4.05	49.4	9.4	6.4	
Total	1,265							
Villages								
Less than 500	128	191	244	4.12	20.5	42.5	7.3	
500-999	108	221	238	5.21	23.2	35.8	6.4	
1,000-4,999	128	344	157	6.65	36.0	20.2	6.5	
5,000-9,999	17	433	72	6.48	45.7	9.0	5.6	
10,000 and over	14	399	72	6.04	45.7	9.6	5.4	
Total	395							
Cities								
Less than 2,500	57	291	286	7.52	24.2	30.2	7.1	
2,500-9,999	73	333	215	7.67	32.3	22.6	6.9	
10,000-24,999	35	390	164	7.69	37.9	17.9	5.9	
25,000-49,999	12	449	147	7.89	43.1	14.7	4.6	
50,000 and over	13	408	201	9.37	38.3	20.9	4.5	
Total	190							
Total/Average	1,850	\$317	\$154	5.61	36.3	20.1	7.3	

ernments. The state is also distributing about \$500 million in additional aid to municipal governments for specific purposes such as road and highway maintenance.

At the beginning, the primary objective of state financial assistance to local governments was to reduce local governments' reliance on the property tax. The object was to replace a tax generally considered to be regressive (placing the heaviest burden on the poor) with more progressive taxes. For its first 60 years, the state's Shared Revenue program returned state tax revenue to the counties and municipalities from where it was initially collected.

By the early 1970s, state policymakers recognized that the distribution of shared revenues did nothing to reduce the fiscal disparities that existed among Wisconsin's local governments. Because most local government tax revenue in Wisconsin comes from the property tax, local governments' ability to raise tax revenue depends primarily on the size of their property tax bases. The differences in tax bases around the state were indeed large, and they remain so today. For example, in 2000, the average property tax base per capita in the 100 municipalities with the highest per capita property wealth was \$213,000, while the average per capita tax base in the 100 municipalities with the smallest tax bases was a mere \$22,300.

In 1971, in response to tax-base disparities, the state legislature modified the shared revenue system so that it would account for "fiscal need" in the distribution of state shared revenues. Equalizing the ability of local governments to pay for public services became an explicit goal of the Shared Revenue program. Initially, aid was targeted to communities with the highest property tax rates. This approach tended to provide more revenue to municipalities with relatively few fiscal resources of their own, but it also provided substantial amounts of aid to local governments whose tax rates were high because they chose high spending levels.

In 1975, the state adopted a new method for distributing the bulk of shared revenues. This new program, called Aidable Revenues, has as its explicit goal the equalization of tax-raising capacity across municipalities. If met, this objective would allow all municipalities that choose the same level of per capita expenditures to

have identical property tax rates, regardless of the size of their tax base. Achieving this goal, which economists refer to as *tax-base neutrality* or *wealth neutrality*, implies that while all jurisdictions choosing the same tax rate are able to spend the same amount per capita on public services, municipalities choosing higher tax rates will be able to enjoy higher levels of per capita spending.

Since the early 1990s, state shared revenues to municipal governments have been allocated through three separate Shared Revenue programs: the core Shared Revenue program, the largest portion of which is allocated using the Aidable Revenues formula; a separate Expenditure Restraint payment; and a Small Municipalities Shared Revenue payment program.

The Shared Revenue Program

The Shared Revenue program distributes grants to local governments using three different formulas. The first allocates a per capita grant of approximately \$27 to each municipal government. By definition, each municipality receives an identical per capita grant with no adjustments for differences among municipalities in needs, tax base, or level of public spending. The second, and the smallest shared revenue allocation, is distributed to local governments containing state-assessed electric utility property. Since these public utilities are taxed by the state and are exempt from local property taxation, these grants compensate local governments for the costs of providing public services to electric utilities.

The third, and by far the largest, component of the Shared Revenue program provides Aidable Revenues to municipalities. This program is designed to guarantee that local property tax rates will reflect only the level of per capita expenditures chosen by each jurisdiction, not the size of a jurisdiction's tax base. In order to achieve this goal, each municipality's grant is defined as a fraction of its level of spending in previous years, where the fraction is inversely related to the size of a municipality's per capita property tax base.⁴ The Aidable Revenue formula works by guaranteeing that each municipality with a per capita tax base smaller than a legislatively chosen guaranteed tax base receives a grant that, when combined with the

The property tax tends to play a more important role in municipal finance in larger jurisdictions.

revenue raised from the local property tax, is equivalent to the amount of money the municipality, at its chosen tax rate, would be able to raise from the property tax if it had the guaranteed base. Municipalities with property tax bases larger than the guaranteed base receive no Aidable Revenue grant through the formula. For shared revenue payments made in 2001, the guaranteed tax base (called officially the *standardized value*) was set at \$53,526 per person. At this value, 899 municipalities had per capita tax bases above the guaranteed tax base. Both to prevent large year-to-year fluctuations in shared revenue entitlements and to guarantee that most municipalities receive an Aidable Revenue allocation, shared revenue payments in any year may not be less than 95 percent of the previous year's payment. Funding for these "minimum payments" comes from placing a limit on the percentage amount by which allocations can grow from year to year. For 2001, 743 municipalities received minimum payments.

After a number of years of annual increases, starting in 1995, appropriations for the Municipal Shared Revenue program were capped at \$761.5 million. Recently, the legislature decided to suspend the use of the formulas, and in their place, appropriate to each municipality in 2002 an amount that is 1 percent higher than their 2001 Shared Revenue allocation.

The Expenditure Restraint Program

The newest form of shared revenue comes from the Expenditure Restraint program. Eligibility for grants from this program is limited to municipalities with property tax rates above five mills that restrict their annual budget growth to the rate of increase in the Consumer Price Index (CPI) and a limited adjustment for growth in their property tax base attributable to new construction. In 2001, 270 municipalities received Expenditure Restraint payments. Among eligible municipalities, aid is distributed proportionally to each municipality's property tax rate in excess of five mills multiplied by their equalized property valuation. Because the tax base in this formula is measured in dollars rather than in per capita terms, just five cities—Milwaukee, Madison, Racine, Kenosha, and Green Bay—re-

ceived almost 40 percent of the \$57 million allocated to the Expenditure Restraint program in 2002.

The Small Municipalities Shared Revenues Program

To be eligible for a grant under the Small Municipalities Shared Revenue program, a municipality must have fewer than 5,000 residents, have a mill rate of one mill or more, and have a property tax base exclusive of the value of manufacturing property of less than \$40 million.⁵ Payments under this program are distributed using a complex formula that provides larger per capita allocations to municipalities with the smallest per capita property tax bases. The legislature appropriated \$11 million to this program in both 2000 and 2001. Funding was increased by 1 percent for 2002. For 2002, 811 municipalities received funding under the Small Municipalities program. Although per capita allocations were fairly modest for many municipalities, 10 municipalities received allocations of more than \$200 per capita under this program.

An Evaluation of Shared Revenue

Over the past decade, the state's shared revenue system has been subject to a substantial amount of criticism. In 1992 and again in 1998, the legislature established task forces to evaluate the shared revenue system and suggest improvements. Both task forces leveled criticism at the formulas used to distribute shared revenues and suggested a number of specific reforms. Although the legislature failed to adopt any of the reform proposals, since 1995 it has essentially frozen shared revenue allocations. In its January 2001 report, the Blue-Ribbon Commission on State-Local Partnerships for the 21st Century (commonly referred to as the Kettl Commission) also criticized the current shared revenue system and recommended major reforms. In early 2002, Governor McCallum proposed the complete elimination of shared revenue. The legislature, although it rejected the governor's proposal, did approve a \$40 million cut in the shared revenue appropriation effective July 1, 2004.

In this section of the primer, I briefly review some of the criticisms of the shared revenue system. I start, however, by evaluating the cur-

The Shared Revenue program makes an important contribution to equalizing property wealth across municipalities.

rent allocation of shared revenue payments. In Table 6, municipalities are characterized by their per capita equalized property tax base. Aside from illustrating the large variation that exists among municipalities in per capita property wealth, the data show that in general, municipalities with small property tax bases receive larger per capita shared revenue allocations than municipalities with more property wealth. Thus, for example, the 345 municipalities with per capita property tax bases between \$25,000 and \$40,000 receive on average a shared revenue allocation of \$217 per capita, while the 147 municipalities with tax bases between \$100,000 and \$200,000 benefit from an average shared revenue allocation of \$37.

The data in Table 6 also show that per capita property wealth is closely related to the share of total municipal revenue coming from shared revenue and from property tax revenue. For example, municipalities with the smallest tax bases rely on the property tax for less than 15 percent of their total revenue, on shared revenues for nearly half their revenue, and on intergovernmental transfers for about 65 percent of total revenue. This contrasts to the pattern in property-wealthy municipalities, which rely on the property tax for about half of their total revenue, while shared revenue accounts for less than 5 percent of revenue. These data suggest that proposals to reduce shared revenue allocations by a constant percentage, say for example, a 20 percent reduction in each municipality's shared revenue allocation, will have very different impacts on property-poor and property-wealthy communities. Property-poor municipalities would face a reduction of 8 percent to 10 percent in total municipal revenue, while the revenue reductions in property-wealthy municipalities would be negligible.

As shown in Table 6, the Shared Revenue program makes an important contribution to equalizing property wealth across municipalities. Nevertheless, the shared revenue system has serious flaws.

For many members of the legislature, by far the most important reason for giving shared revenue grants to local governments is to reduce property taxes. While financial assistance from the state government allows local governments to reduce property tax rates, providing

property tax relief through rate reduction is a highly inefficient way of targeting property tax relief to those taxpayers facing particularly high tax burdens. A reduction in mill rates provides property tax reductions to all taxpayers in a completely untargeted manner and in proportion to the value of their property. Thus, a rate reduction provides the same proportional tax relief to an out-of-state owner of a Wisconsin vacation home or a corporate owner of a shopping center as it does to an elderly couple living off Social Security benefits or a young family struggling to get by on a modest income.

The state could be much more effective in providing property tax relief to those taxpayers for whom the property tax is creating a real hardship if it directly targeted property tax relief to those facing high property tax burdens rather than trying to provide tax relief indirectly through the intergovernmental grant system. Although state policies that target property tax relief are restricted by the uniformity clause of the state constitution, income eligibility could be expanded for the existing homestead credit on the state individual income tax.

The effectiveness of shared revenue in providing tax relief depends in part on what municipal governments choose to do with their shared revenue payments. Each municipal government is free to decide to use all or part of its shared revenue allocation to increase spending on municipal public services. Only in cases when municipalities decide to increase spending by less than the amount of their shared revenue payment is it possible for them to reduce property tax levies. As indicated above, the formula used to allocate Aidable Revenues provides municipal governments with a direct incentive to increase spending rather than reduce property taxes. Recall that the amount of Aidable Revenue a municipality receives is a fraction of its spending (actually revenues) in previous years. Thus, a decision by a local government to increase spending is likely to result in a larger shared revenue allocation in future years than if the municipality decided not to increase spending.

The reason for this apparent inconsistency—using a formula that provides an incentive to spend more in order to achieve a goal of property tax relief—is that it is necessary to use a formula that “matches” municipal spending

Providing property tax relief through rate reduction is a highly inefficient way of targeting property tax relief to those taxpayers facing particularly high tax burdens.

TABLE 6

Municipal Government Revenue in 2000 by Municipal Property Tax Base Per Capita

Equalized Property Tax Base Per Capita	Number of Municipalities	Population	Percent of Total Population	Percent of General Revenue from				Property Tax	Total Intergovernmental Aid	Shared Revenue Per Capita	Property Tax Per Capita
				State Shared Revenue	State Highway Aids	State	Intergovernmental Aid				
Less than \$15,000	4	2,518	0.0	43.7	25.6	77.3	4.8	77.3	\$129	\$17	
\$15,000-\$15,000	77	41,686	0.8	46.1	8.2	62.7	13.6	62.7	300	106	
\$25,000-\$40,000	345	1,441,504	26.7	34.4	14.3	55.2	23.0	55.2	217	167	
\$40,000-\$50,000	402	1,362,390	25.3	23.9	23.4	51.9	31.0	51.9	113	187	
\$50,000-\$75,000	634	1,725,609	32.0	15.7	24.7	45.3	38.2	45.3	64	181	
\$75,000-\$100,000	196	491,734	9.1	10.5	25.0	40.5	41.4	40.5	47	224	
\$100,000-\$200,000	147	290,012	5.4	6.8	26.0	39.9	43.8	39.9	37	283	
\$200,000-\$500,000	41	32,467	0.6	3.4	21.2	32.0	48.6	32.0	41	686	
\$500,000 and over	4	1,389	0.0	1.0	6.9	16.2	58.9	16.2	35	2,530	
Total	1,850	5,389,309	100.0	20.1	7.3	34.7	36.3	34.7	\$154	\$317	

with additional aid in order to achieve another goal of the shared revenue system, namely tax-base neutrality. Thus, although the Shared Revenue program is not very effective in achieving property tax relief, we should ask whether it does a good job in providing tax-base neutrality, which, let us recall, occurs when all municipalities choosing the same tax rate are able to spend the same amount per capita on public services.

In a detailed statistical analysis of the Shared Revenue program conducted for the Wisconsin Department of Revenue, my colleague Richard Green and I concluded that the Shared Revenue program is “quite ineffective in reducing fiscal disparities among local governments and achieving tax-base neutrality” (p. 107).⁶ Although the full argument in support of this statement is quite complex, the basic reasons that the Shared Revenue program is not very effective in achieving tax-base neutrality are easy to understand. The guaranteed tax base (or standardized value) that is integral to the Aidable Revenue formula is set at a level that implies that nearly one-half of all municipalities are outside the formula. For true tax-base neutrality, all municipalities with per capita tax bases above the standardized value should be contributing property tax revenue to fund aid payments to poorer jurisdictions. The use of this so-called “negative aid” would not only be politically difficult to enact, but has been declared unconstitutional by the Wisconsin Supreme Court. Another important feature of the shared revenue system that works against tax-base neutrality is the per capita grant. This part of each municipality’s shared revenue allocation is by definition uncorrelated with property wealth or municipal needs.

The Future of Shared Revenue

Even if the current set of formulas did a better job of achieving tax base neutrality, I would like to argue that this goal, which focuses on the relationship between tax rates and municipal spending is inappropriate, largely because it fails to give any attention to the delivery of actual municipal services. It is important to emphasize that residents of two municipalities that spend the same amount of money per capita may well not receive equal levels of public serv-

ices. This is because, for reasons beyond the control of local government officials, it may cost more money to deliver any set of services in one community than in another.

In a period when the level of state resources devoted to local government finance is likely to shrink, it is particularly important to allocate these limited resources as effectively as possible. One way to improve the effectiveness of shared revenues would be to replace the goal of tax-base neutrality with a goal of fiscal equalization, a concept I would define as ensuring that all municipal governments have available sufficient resources to deliver adequate public services to their residents at a reasonable rate of taxation.

In its final report, the Kettl Commission proposed that the shared revenue system adopt a goal of fiscal equalization. Specifically, they recommended that “Shared Revenue should be transformed . . . into a program that equalizes municipalities’ ability to purchase a basic package of services” (p. 43).⁷ The commission refers to the package of basic service as the municipal “Badger Basics,” and states that its “approach will focus on funding services instead of spending.”

Although a substantial amount of work is required to implement a shared revenue system designed to achieve fiscal equalization, the design of the aid formula needed to achieve this goal is quite straightforward. In essence, the starting point is to define a package of basic services and to determine the minimum amount of money that will be required to deliver these services in each municipality. The second element is to determine the amount of fiscal effort (defined in terms of mill rates) that each municipality must make. The actual dollar contribution that each local government must make toward financing Badger Basics will then depend upon the size of its property tax base. Those municipalities where the cost of providing the package of basic services exceeds the required local contribution would receive a shared revenue payment equal to the difference between the cost of basic services and required local revenues.

As indicated by the spending data presented in Table 3, a wide range exists in the mix of services provided by different types of munici-

One way to improve the effectiveness of shared revenues would be to replace the goal of tax-base neutrality with a goal of fiscal equalization.

pal governments and by different sizes of government. Thus, the definition of basic services will clearly be different in a small rural town than in a large urban center. These differences in service packages will also be paralleled by differences across the types of communities in required mill rates.

In the past, attempts to reform the shared revenue system have been largely unsuccessful because unless new revenues were available, any reform would inevitably result in less money being allocated to some municipalities while others got more. Regardless of the merits of any reform proposal, potential losers would strongly oppose any change. The inevitable result was the maintenance of the status quo.

The state of Wisconsin is facing a very large structural deficit in 2003. Solving the deficit problem will almost certainly require substantial cuts in most state appropriations, including shared revenue. One can only hope that the prospect of large cuts in state aid affecting all local governments will induce local governments to join together and support a major reform of the shared revenue system.

Notes

1. For a fuller description of the governmental organization of municipal governments, see Susan C. Paddock, "The Changing World of Wisconsin Local Governments," Chapter 2 in *Wisconsin Blue Book 1997–98*, Madison, 1997: 99–174. Available at <http://www.legis.state.wi.us/lrb/bb/97bb/ch2.pdf>.

2. Current expenditures are defined as total spending minus capital outlays.

3. In that year, the state started giving municipalities money to replace revenues they lost when the state removed utility property from the local property tax. In 1911, after the enactment of a state income tax, the state began returning 70 percent of the revenue from the new tax to municipalities from which the revenue was collected.

4. In the actual Aidable Revenue formula, the property tax base is defined as the total taxable value of property per capita after exclusion of the value of manufacturing property. Past levels of spending are measured by "local purpose revenues," which are defined as the average over the past three years of property tax levies, special assessments, various user fees and charges, and Aidable Revenue grants.

5. The property tax base ceiling is waived for municipalities with a land area greater than 54 square miles.

6. Richard K. Green and Andrew Reschovsky, "Fiscal Assistance to Municipal Governments," Chapter 5 in *Dollars & Sense; Policy Choices and the Wisconsin Budget*, Volume III, edited by Donald A. Nichols, Madison, Wis.: The Robert M. La Follette Institute of Public Affairs, University of Wisconsin–Madison, 1994.

7. Wisconsin Blue-Ribbon Commission on State-Local Partnership for the 21st Century, Report, Madison, Wis.: Wisconsin Department of Administration, January 2001.



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