

EXECUTIVE SUMMARY

DOLLARS AND SENSE

Is it time for a new municipal financing framework in Wisconsin?



WISCONSIN

POLICY FORUM

ABOUT THE WISCONSIN POLICY FORUM

The Wisconsin Policy Forum was created on January 1, 2018, by the merger of the Milwaukee-based Public Policy Forum and the Madison-based Wisconsin Taxpayers Alliance. Throughout their lengthy histories, both organizations engaged in nonpartisan, independent research and civic education on fiscal and policy issues affecting state and local governments and school districts in Wisconsin. The Wisconsin Policy Forum is committed to those same activities and to that spirit of nonpartisanship.

PREFACE AND ACKNOWLEDGMENTS

We wish to acknowledge and thank the League of Wisconsin Municipalities, Wisconsin REALTORS Association, and Greater Milwaukee Committee, which together helped fund this research. We also thank those groups who shared or gathered data used in this report, including Willamette University and the Wisconsin Legislative Fiscal Bureau.

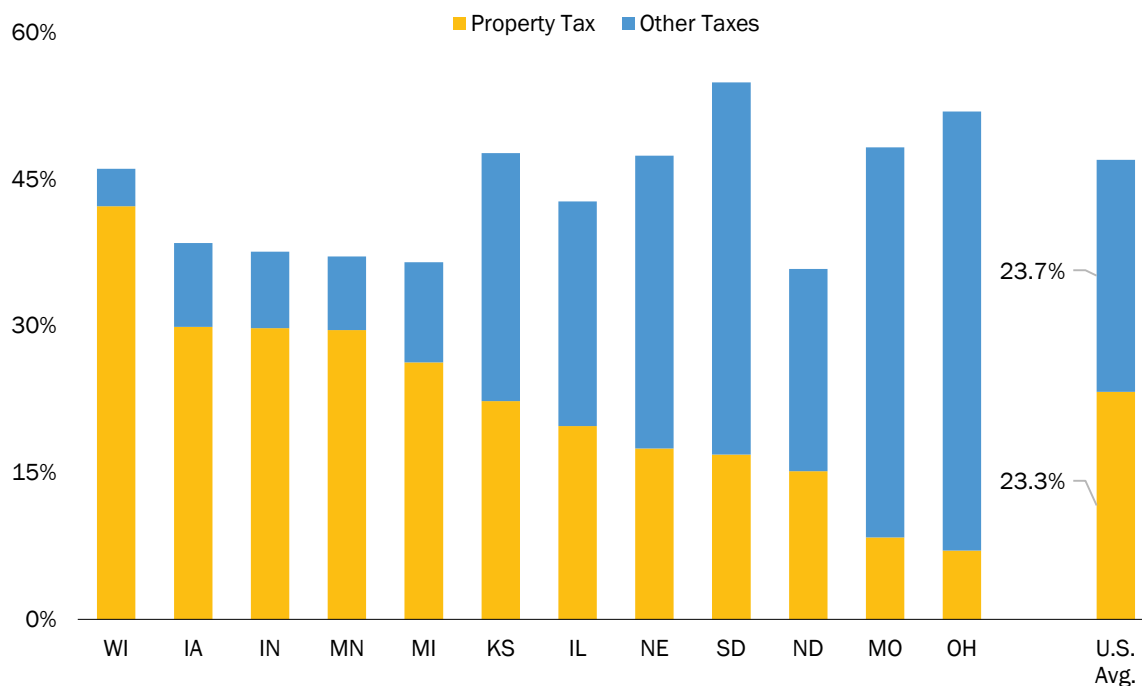
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More than a century ago, Wisconsin made the choice to use state income and later sales taxes to provide aid to local governments while generally not allowing municipalities to levy those same taxes. Today, cities and villages in Wisconsin rely on the property tax to a greater degree than most states nationally and any other state in the Midwest region.

In past generations, large state aid payments helped hold down property taxes in Wisconsin while also providing funding for local services. Yet, with state aid payments stagnant for years and municipalities now under tight state-imposed caps on property taxes, questions are mounting about whether local officials can sustain appropriate service levels in areas such as public safety, streets, libraries, and parks.

In 2017, the Public Policy Forum published *On the Money?*, an award-winning report that looked at the city of Milwaukee's revenue sources. The study found that, in limiting Milwaukee to the property tax and not allowing its first-class city to levy sales or income taxes, Wisconsin took a unique approach when compared to those used by other states for cities of a similar size.

Figure 1: Wisconsin Relies Most on Property Tax in Midwest
Property Tax & Other Taxes as Share of Municipal Revenue, 2015



Sources: Willamette University, U.S. Census Bureau

This follow-up report looks at the finance frameworks used by the 50 states for *all* of their municipalities and again finds that Wisconsin stands out:

- According to U.S. Census data compiled by Willamette University, in 2015 Wisconsin municipalities received 42.2% of their revenues from the property tax but only 1.6% from

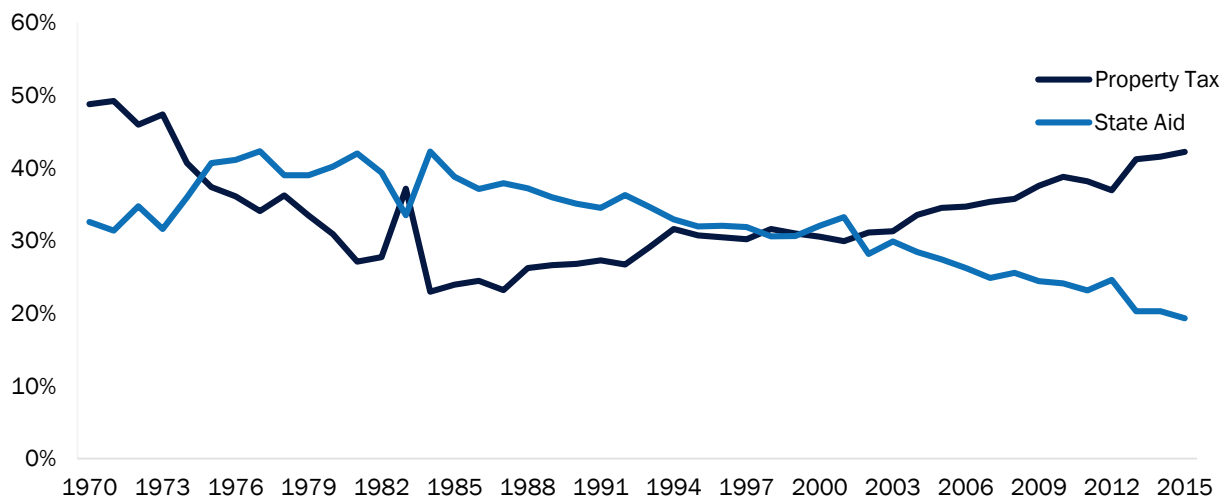
sales and income taxes combined. Nationally, municipalities got only 23.3% of their revenues from the property tax with an additional 21.3% from sales and income taxes.

- Wisconsin municipalities rank seventh nationally among states for being the most reliant on the property tax for their revenues. *No other Midwestern state relies so heavily on the property tax and so little on other taxes to pay for municipal services.* (See Figure 1 on page 4.)
- The state ranks much lower nationally for its reliance on municipal sales taxes (43rd) and total municipal taxes (26th). The combined state and local sales tax rate in Wisconsin (5.44% on average) is also the lowest in the Midwest.
- First implemented in 2006, state caps on property tax increases have slowed the growth in municipal levies and helped to lower Wisconsin's overall tax burden. However, among the 10 states most reliant on municipal property taxes, Wisconsin appears to have the tightest cap on increases, restricting tax growth to the rate of net new construction.
- Total expenditures for Wisconsin municipalities amounted to \$2,205 per capita in 2015, compared to the U.S. average of \$3,443, giving this state a national rank of 36th. However, these numbers are not a reliable apples to apples comparison because cities in some states are responsible for more functions than others. Wisconsin ranks 15th nationally for spending by all local governments including municipalities, counties, and schools.

Wisconsin municipalities' reliance on property taxes has resulted, in part, from the failure of state aid to keep pace with inflation. As Figure 2 shows, state aid provided a larger share of municipal revenues in Wisconsin than property taxes from 1975 to 1997. Today property taxes account for more than twice as much municipal revenue as state aid.

Figure 2: Property Tax Overtakes State Aid

% of General Revenue by Source for WI Municipalities, 1970-2015



Sources: Willamette University, U.S. Census Bureau

Several state decisions contributed to this. First, in the 1996-97 school year, the state committed to funding two-thirds of the overall state and local cost for K-12 schools. The state also has enlarged

the prison system, made a series of tax cuts, and expanded Medicaid health programs. As a result, any new state revenue generated from year to year has been largely spoken for before it reaches local governments.

Some signs of fiscal stress have appeared in recent years among the cities and villages of the state, including rising debt levels, modest declines in street quality, and a greater use of local vehicle registration fees, or wheel taxes. Moreover, in the November 2018 election, citizens in at least nine municipalities, including the city of Kenosha, voted to exceed state property tax limits.

The financial challenges facing cities and villages cannot solely be attributed to their revenues. Many face spending pressures from issues such as aging infrastructure and unfunded obligations to retirees. In addition, untapped possibilities likely exist for enhanced service sharing or consolidation among local governments.

Still, the fact that Wisconsin’s revenue framework for municipalities is so out of line with most other states (and all Midwestern states) should be cause for re-examination. The table below summarizes the broad potential approaches that Wisconsin policymakers could consider:

Table 1: Pros and Cons of Change

Option	Pros	Cons
Do nothing	Politically safer in short run; cities and villages keep using the currently reliable property tax, which is tied to their residents	WI remains outlier in the Midwest; fees, property taxes, and funding challenges will likely rise; cities get little money from commuters or visitors
Rely more on fees	Revenues are fairly reliable and tied to services delivered; more modest shift in terms of politics and policy	More regressive and still often focused on residents rather than outsiders. Absent changes in state law, new revenues still limited
Allow local option sales taxes	Revenues would grow with economy and include commuters and visitors; communities would have more local control; could offset property taxes	Sales tax is regressive and could raise overall taxes; "tax islands" could impact compliance costs and local economies
Increase state sales taxes	Statewide tax and distribution of proceeds could avoid favoring wealthy communities and avert tax islands; could offset property taxes	Sales tax is regressive and could raise overall taxes; as in recent decades, state could end up keeping more of the money and not share it with municipalities
Allow local income taxes	Progressive tax that grows with economy; could apply to residents and commuters; could boost local control and offset property taxes	Raises state's already above average income taxes and potentially overall taxes; "tax islands" could impact compliance costs and local economies

Wisconsin voters and their leaders will need time to decide whether and how to approve an alternative revenue framework for cities and villages. However, the urgency to take up these issues is real. Signs of stress are appearing and, with unemployment low and revenues growing, the state is better placed to address them than at any time since 2000. We hope this report provides policymakers with useful information to trigger and inform this needed debate.

