Reform the Municipal Employment Relations Act as follows: UA
• Prohibit final offers submitted by unions under the Municipal Employment Relations Act from exceeding the community’s allowable increase in the property tax levy limit. (2009 AB 450)
• Prohibit local government employers participating in the Wisconsin Retirement System from paying the first 3 percent of the employee’s required contributions under the WRS on behalf of any newly hired employees. (2007 AB 449)
• Under binding interest arbitration, prohibit an arbitrator from taking into account wage and benefit increases in other jurisdictions when choosing between the employer and the union’s final offer.
• Require an arbitrator to favor the offer that most closely matches the local economic conditions and the budget of the local government.
• Prohibit an arbitrator from giving consideration to a local government’s fund balance (e.g., the existence and size of a community’s reserve fund) when choosing between competing offers.
• Make a municipal employer’s decision to contract out for the provision of municipal services a permissive subject of collective bargaining. (2007 AB 447)
• Allow either party to unilaterally open up contracted compensation settlements until 2014.

Collective Bargaining on Health Insurance. Enact legislation similar to 2007 SB 46/AB 110 allowing local governments to choose, without the need to collectively bargain, the Wisconsin Employee Trust Fund’s health insurance program or a substantially similar plan for their employees.

State Mandates
Repeal or fund state mandates imposed on municipalities, especially the following: UA
• Stormwater standard requiring communities to reduce their total suspended solids 40 percent by 2013.
• Water quality standards dramat- ically limiting the amount of phos- phorous allowed in municipal wastewater treatment plant effluent.
• Maintenance of effort on emer- gency services spending.
• Maintenance of effort on libraries.

Efficient Delivery of Services
Make it Easier for Municipalities to Consolidate. Enact legislation similar to 2009 AJR 65, amending the Wisconsin constitution to create an exception to the uniformity clause that would allow a municipal governing body to establish different tax rates in recently consolidated parts of a community. Such a change would allow local governments to address the biggest stumbling block to consolidating two neighboring communities tax rate disparity due to service level differences.

Allow Creation of Public Safety Departments. Enact legislation similar to 2009 AB 312, allowing municipalities the option of combining their police and fire departments into a single protective services department.

Other Priorities
Exempt Full Service Restaurants from Liquor License Quota. Enact legislation similar to 2009 AB 466, creating an exemption to the state-imposed limit on the number of liquor licenses a municipality can issue for new full service restaurants that locate within the community.

Modify Nature-Based Outdoor Recreation Requirement in Stewardship Program. Under current law, municipalities may use Stewardship grants to fund nature-based outdoor recreation projects only. This has not always been the case. Prior to 2000, municipalities could use Stewardship dollars to develop soccer and baseball fields as well as playgrounds, tennis and basketball courts and other outdoor recreational facilities. State policymakers should modify the nature based requirement and restore the ability of municipalities to use at least a portion of Stewardship dollars to help fund a broad spectrum of local outdoor recreation projects.

Include Municipalities in State Led Cleanup Efforts Involving Chemical Spills Near Municipal Wells. Under current law, cleanup of chemical spills contaminating municipal groundwater or drinking water is supervised and regulated by the Department of Natural Resources and the Department of Agriculture, Trade and Consumer Protection pursuant to a memorandum of understanding between the agencies. Current law does not require that these agencies notify or seek input from the municipalities affected by a spill. In fact, the agencies have asserted that any municipal involvement in the remediation process requires a statutory change. We support changing state law to make it possible for a municipality affected by a chemical spill to be engaged with the state in the remediation process.

The state shared revenue program is a key component of Wisconsin’s state and local relationship. It is also an important part of the state’s overall program of property tax relief. During the last ten years, however, funding for the program has been cut on several occasions, the most recent being a 3.5 percent cut that took effect in 2010. In 2002 Governor McCallum even proposed eliminating shared revenue in a bid to fix the state’s fiscal difficulties. In 1981-82 shared revenue represented 15 percent of the state’s general fund expenditures. It currently makes up 6 percent.

State policy makers need to be informed about the history and rationale for the shared revenue program. It is imperative that the program continue to be maintained and funding levels increased to previous levels.

History
The state created the shared revenue program in 1911 to address the negative effects of a new property tax exemption on local governments. The state, desiring to keep local governments from losing property tax base, in the beginning, shared revenue was referred to as a shared tax system. At the outset, 70 percent of the income tax revenue continued on page 14
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to municipalities, 20 percent to counties, and 10 percent to the state for administrative costs.

Initially, the state employed a "return to origin" shared tax system where a percentage of certain state taxes was earmarked for return to local governments based on the taxpayer's locality. In other words, a percentage of sales or income tax revenue paid by residents and businesses in a community was returned to the community. Consequently, wealthier, economically successful communities received more shared revenue payments than poorer, less economically active communities.

In the early 1970s, the state legislature increased funding for shared revenue and significantly modified how it was distributed. The "return to origin" approach was replaced with a complex tax base "equalizing" distribution formula. Consequently, a major goal of the shared revenue program became to equalize local governments revenue-raising capacity by sending proportionately larger amounts of aid to fiscally weaker municipalities. Under this distribution formula, poorer communities generally received proportionally more aid than wealthier communities.

The "equalizing" distribution formula was suspended in 2002. Since 2002, shared revenue payments have been distributed strictly on a historical basis. In the absence of any cuts in funding, each community receives roughly the same amount in shared revenue that it received the year prior.

More detailed information on the history of the shared revenue program is available from the Wisconsin Legislative Fiscal Bureau, Shared Revenue Program, Informational Paper 18, which is posted on the Fiscal Bureau's Web page at <http://legis.wisconsin.gov/fbhs>.

Rationale for the Shared Revenue Program

While the policy of the state replacing lost local revenues caused by the creation of property tax exemptions has been a strong justification for the shared revenue program since its inception, several other equally important policy goals justify its existence and warrant its continuation. These include the following:

1. Substituting State Taxes for Local Taxes. Using state aid to help finance local government improves the overall equity and efficiency in the state-local tax system. The state income tax, for example, is generally perceived to be more progressive, equitable and better related to a taxpayer's ability to pay than the property tax. Moreover, it is much more efficient for the state to collect income and sales taxes than it is to have such collections made by a hodgepodge of 1,800 local taxing jurisdictions. In many states local sales or income taxes piggyback onto state taxes. Wisconsin's shared revenue program is similar to such a piggyback state-local tax system.

2. Property Tax Relief. Shared revenue payments help municipalities avoid relying exclusively on the property tax to pay for vital local services like police, fire, streets, libraries, and parks. Under current law, the total amount of shared revenue payments the state plans to distribute to all local governments in 2011 is $894.6 million. Needless to say, if these payments were eliminated or reduced, residential homeowners and business owners would experience higher property tax bills, higher fees, and/or dramatically reduced public services.

3. Funding Local Mandates. Local governments provide a wide variety of services that are required by state law. State aid helps to offset the cost of providing such services.

4. Spreading Costs. Some local services are provided to residents of other communities. Examples are:

- Commuters from outside a city who use city streets, city buses, and parking garages when working in the city.
- County residents who use municipal libraries, parks, and museums.

Shared revenue helps to ensure that local residents do not bear the entire burden of providing these services for non-residents.

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Tax Base Equalization. While the equalization formula for distributing shared revenue has not been applied since 2002, the echo of that formula continues to influence how shared revenue is distributed among municipalities to this day. For example, a community with high property values like Brookfield continues to receive less shared revenue than communities like Beloit or Ashland, which have lower equalized values. Consequently, the shared revenue program continues to equalize local governments' revenue raising capacity by sending proportionately larger amounts of aid to fiscally weaker municipalities.

Criticism of Shared Revenue

Over the years, critics of shared revenue, like Governor Scott McCallum, have made two main arguments in support of discontinuing the program:

1. The shared revenue system is not a good way to fund local services because the ultimate spenders are not required to levy the taxes they expend and, therefore, are less accountable to the citizenry for their spending decisions.

2. Unrestricted shared revenue payments spur local spending.

Neilson argues that shared revenue is a highly effective way to fund local services, noting that Wisconsin has a lower per capita spending rate than many other states. He also argues that shared revenue provides local governments with the flexibility to make informed decisions about how to spend the money.

The Municipality January 2011
More detailed information on the history of the shared revenue program is available from the Wisconsin Legislative Fiscal Bureau, Shared Revenue Program, Informational Paper 18, which is posted on the Fiscal Bureau’s Web page at [http://legis.wisconsin.gov/lfb/].

RATIONS FOR THE SHARED REVENUE PROGRAM

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CRITICISM OF SHARED REVENUE

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1. The shared revenue system is not a good way to fund local services because the ultimate spenders are not required to levy the taxes they expend and, therefore, are less accountable to the citizenry for their spending decisions.

2. Unrestricted shared revenue payments spur local spending. Neither of these arguments hold up under close examination.

1. ISSUE OF ACCOUNTABILITY

Most of the money spent by local officials to provide local services is raised locally in the form of property taxes, special assessments and fees. In 2007, about 18.1 percent of city revenues came from state aids consisting primarily of shared revenue and transportation aids. Only about 11.5 percent of village resources came from state aids. Locally imposed taxes represented the largest revenue source for villages (34.7 percent) and cities (28.5 percent). Naturally, citizens and local taxpayers groups closely scrutinize municipal budgets every year to ensure that their tax bills are not unnecessarily increased because of superfluous spending.

Neither the electorate nor local officials distinguish between shared revenue, property taxes or other revenue sources when considering whether a particular expenditure might be excessive or non-essential. As long as property tax revenues, fees, and other locally raised funds support most of a municipality’s budget, municipal spending decisions will be subject to the same level of scrutiny by the electorate as if the entire budget was funded by the local property tax.

Municipal leaders are part-time officials living in the same neighborhoods as the people who elect them. Local officials receive complaints and complaints on a daily basis about the quality and cost of services that they provide. Residents have continuing direct input into municipal spending decisions. Local elected officials are held accountable for their spending decisions at the ballot box every two years.

2. SHARED REVENUE DOES NOT SPUR SPENDING

The claim that shared revenues leads to excessive spending by municipalities can be refuted by looking at the numbers. Wisconsin’s shared revenue program is fairly unique among the states. Most states simply authorize local governments to raise revenue at the local level through income, sales and property taxes. If shared revenue leads to unnecessary spending by local governments, then Wisconsin local governments should compare unfavorably to local governments in other states when it comes to spending. This is not the case, however. Wisconsin local governments are not high spenders compared to local governments in other states. Based on the most recent national data (from 2008), Wisconsin ranked 27th in total state and local spending (measured as a percentage of income). The national average for “direct general spending” by state and local government in 2008 was $7,886 per capita. In Wisconsin, it was $7,541 per capita – or $345 below the national average. In addition, Wisconsin ranked 41st (10th lowest) in total state and local government employee relative to population. Source: The Wisconsin Budget Project.