PROPOSED LOCAL GOVERNMENT REVENUE ENHANCEMENTS
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General Introduction:
Looking at the revenue base for local government in the State of Wisconsin, two facts become readily apparent. The only form of local taxation authorized for public schools, municipalities, and most other local governments is the property tax. Secondly, other forms of revenue come from the state contingent upon the bi-annual budget preparation process. While some of the key public service institutions in the state have received regular, even significant, funding increases (universities and public schools) other service providers (municipalities and counties) have seen virtually no increase over the past decade. Please note that the following table illustrates the lack of increases in State aides for the State’s Shared Revenue Programs from 2001-2008. As you will note, the dollar amount is actually somewhat lower in 2008 than it was in 2001, with virtually no percentage increase. State aides are also fixed for 2009 at that same amount, resulting in nine years without any increase in funding.

<table>
<thead>
<tr>
<th>Year</th>
<th>Shared Revenue</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>$16,862,968</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>$17,030,764</td>
<td>0.99%</td>
</tr>
<tr>
<td>2003</td>
<td>$17,199,286</td>
<td>0.98%</td>
</tr>
<tr>
<td>2004</td>
<td>$16,599,324</td>
<td>-3.61%</td>
</tr>
<tr>
<td>2005</td>
<td>$16,601,407</td>
<td>0.01%</td>
</tr>
<tr>
<td>2006</td>
<td>$16,601,008</td>
<td>0.00%</td>
</tr>
<tr>
<td>2007</td>
<td>$16,601,266</td>
<td>0.00%</td>
</tr>
<tr>
<td>2008</td>
<td>$16,601,274</td>
<td>0.00%</td>
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As a consequence, property taxes are high and the public harbors a great deal of resentment at receipt of that large single tax bill, which is inevitably distributed the week before Christmas. State legislative control over virtually all of the “other” funding sources for local governments has politicized the process and hurt local bond ratings for some communities since a significant portion of their annual operating revenue is controlled by a third party.

The state’s current fiscal condition is going to require dramatic steps to get anywhere close to a balanced budget. If cuts in the magnitude of $5 billion are made from the state budget and spread throughout the general fund supported activities, government services throughout the state including the educational institutions will have to be curtailed by a significant degree. Consequently, revenue enhancements including tax and fee increases are going to be required in 2009. The following proposal outlines a way that the state can solve the “budget” problem while minimizing impact on taxpayers and keeping the state competitive for continued economic development.
High and Low State Taxes

While both property and income taxes are viewed as being high in the State of Wisconsin, a look at the sales tax rates produces a somewhat different story. Basic sales state tax rates in Minnesota are 6.5% and 6.25% in Illinois. Michigan’s rate is at 6%. The effective rate of sales taxes paid, particularly in Illinois, however, is considerably higher. In the Winnebago County area, including the Village of Roscoe and the City of Rockton, the rate is 7.25%. In Machesney Park and the City of Rockford, the rate is 8.25%. Rates throughout the Chicago metropolitan area would generally range above 8.25%, peaking at the City of Chicago sales tax rate, which is 10.25%. Consequently, raising state sales taxes would seem to be a more palatable option than increases in either the property or income tax.

Further, advantages of the sales tax include:

1. Sales taxes are paid in small amounts each year by consumers receiving that large property tax bill the week before Christmas or having to file an income tax return in April.

2. As long as food and prescription drugs are excluded from the tax, most of the concerns about the regressive nature of the sales tax can be addressed. Shopping beyond life’s necessities requires some discretionary decisions on the part of consumers who have multiple options available to minimize the payment of sales taxes if income limitations present a significant concern.

3. As a destination state for recreation and leisure activities, Wisconsin receives a significant number of visitors each year. Virtually all of our recreation destination sites, from the Dells to the Northwood’s and Door County, are shopping Mecca’s and a significant percentage of any sales tax increase would be paid by non-resident visitors.

How would the tax be allocated?

While there are many ways to allocate the taxes, it is suggested that the state retain its current 5% sales tax but eliminate special interest exceptions or “loop holes” to increase collections off the base.

Municipalities in the state, including Town governments, would be allowed a 1% sales tax rate to be collected by the state and distributed on a county-wide formula basis. Schools would receive a 1% sales tax to be collected by the state and distributed on a county-wide formula basis and counties would retain the ½% sales tax which would again be collected by the state and disbursed to each county based on point-of-sale. A total tax rate in the State of Wisconsin would be 7.5% which would still be competitive with many other states in the Midwest.

How would the new sales tax be distributed to local units of government?

Distributing sales taxes on a point-of-sale basis creates a huge equalization problem. This results from the fact that retail stores which will collect and remit most of the sales
taxes tend to cluster. Most counties in the state can easily identify one or two retail sales clusters where all of these stores, and often car dealerships, are located in a relatively small geographical area. If the sales taxes are distributed on point-of-sale, one or two jurisdictions in each county will likely experience all of the benefits even though residents from all jurisdictions in the county are shopping in these retail clusters. A better system would be to follow the equalization process already established in the State of Wisconsin. Sales taxes should be distributed on a county-wide basis equalized using either the current state formula or some other similar mechanism to ensure that distribution is in part based upon need (per capita income/taxing effort) as well as partly based on population. The use of a formula would ensure a relatively equalized distribution of revenue between all school and general purpose local governments on a county by county basis.

**What would the additional sales tax generate in revenue?**
Current numbers regarding sales tax revenue available through the state show that each 1% of sales tax generates approximately $850 million in revenue on a statewide basis. Obviously, an increase of two cents on the sales tax would generate revenue in the magnitude of $1.7 billion with half of that being allocated to public education and the other half allocated toward local general purpose units of government. The state could then offset its shared revenue aids to both local governments and public education by a corresponding amount. Over the next two year biennium, this additional revenue source would produce approximately $3.4 billion. The state still needs to “review” its expenditure requests from various agencies of state government and may need to make a few other adjustments in fees or existing state taxes, but should then be able to create a state budget closer to true balance, where actual projected recurring revenues match ongoing expenditure needs. This process would also avoid draconian cuts in state government, local education, and critical municipal services, all of which jointly contribute significantly to creating the high quality of life which is one of the state’s major attractions.

While the weakening national economy will undoubtedly have some impact on these projections, we are unlikely to see a significant downturn for a prolonged period of time. A revenue plan of this nature would likely lead to a resolution of funding needs of both state and local governments, including public educational institutions, for many years into the future. Having alternative funding sources available to local governments and public schools will certainly have a very positive future impact on the need for property tax increases, which will also be appreciated by property owners throughout the state.

**How would the sales taxes be used, to cover cost increases or to provide property tax relief?**
Obviously, through legislative action, the state could mandate either offsets in property tax income or reduction in State aides for the local government jurisdictions who are receiving the new sales tax revenue. Under current circumstances, it is presumed that the state would first reduce its aides to both education and local governments (by the amount of new sales tax revenue received) to help bring the state’s budget into balance, thereby helping to eliminate the structural deficit which has plagued state government for several
years. The state could also legislatively mandate that local governments reduce their property tax levies to offset a portion of any new revenue, but less “offset” would then be available to help the state budget. Going forward, property tax rates would also be positively impacted as local jurisdictions account for projected sales tax increases before considering property tax increases. The details of such a plan would be included in any final bill considered for adoption by the legislature.

Isn’t the sales tax regressive and won’t this punish low income people?
Many people still believe that the sales tax is regressive and discriminatory towards lower income residents. There are several facts that should be considered, however, before that assumption is accepted at face value.

1. It is imperative that groceries and prescription drugs remain exempt from the sales tax. If the tax is applied to those critical necessities, then low income and many senior residents will pay an unfair portion of any increased sales taxes. Current law exempts these items and those exemptions should remain in effect (along with medical costs) even if other “carve-outs” from the sales and use tax base are legislatively corrected.

2. The sales tax is paid in small amounts each time we shop for purchases other than food and drugs, generally on a discretionary basis. Consumers have multiple options as to when they shop, how much they buy, and how expensive the merchandise is that they wish to acquire. Low income residents can, and often do, use yard sales, second hand shops, and even barter/trade goods to minimize their cash outlays, which would certainly reduce the sales tax burden. Wealthy people who are purchasing luxury cars, boats, or high quality furniture and antiques are certainly going to pay a much larger percentage of the annual sales tax bill than would low to moderate income residents who are living on a tight budget.

3. Regardless of income, the sales tax is much easier and more convenient for virtually all tax payers than dealing with that huge property tax bill delivered the week before Christmas or having to complete and file that income tax return each April. Few businesses concern themselves with the sales tax rate in doing site selection pro-forma work while property taxes in particular, receive close scrutiny from anyone contemplating sighting a business or industrial facility. Even if businesses do have a concern about sales taxes, the proposed 7.5% rate would be very competitive with Illinois and other states in the upper Midwest.

4. The sales tax is unique in that it is the only one of the three major forms of taxation paid by non-residents. As a tourist destination state, Wisconsin is in a particularly strong position to benefit significantly from sales and use taxes paid by out of state residents that are visiting here during all four seasons of the year. The use of various facilities, car and boat rentals, not to mention general retail shopping, are popular in all of the state’s various tourist destinations. While it is hard to determine a percentage of sales taxes paid by out of state residents, it
certainly is significant because of the predominant tourism industry in this state. Once again, tourists rarely inquire about the sales tax rate and even if someone is conscious of those costs, 7.5% would be cheaper than the sales taxes paid by almost all of the visitors coming here from Illinois as well as many other states.

**Conclusion:**
This is a proposal that the state should consider to maintain a better balance between the three primary forms of taxation used to fund both state and local government services. Certainly, a better balance in the State of Wisconsin would eliminate much of the discontent that has built over the years as a result of high property taxes. Now that the state faces a significant fiscal crisis, it is time to talk seriously about how we fund state and local government services going forward. We must also create a better balance between the available revenue sources not only for the convenience and benefit of residents, but also to keep our state competitive when recruiting job creating economic development opportunities.