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A Legislative History of Shared Revenue in Wisconsin

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A LEGISLATIVE HISTORY OF SHARED REVENUE IN WISCONSIN

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I. INTRODUCTION

Wisconsin provides financial assistance to school districts, municipalities (cities, villages and towns) and counties through 2 mechanisms: 1) shared revenue and 2) state aid. In addition, the state provides property tax relief to individuals.

In Wisconsin, "shared revenue" is revenue shared by the state with its local units of government (municipalities and counties) for undesignated, no-strings-attached use. Unlike shared revenue, state aids are designated payments for specific purposes or activities. State aids are granted for items in such areas as health and social services, transportation, and education. Property tax relief is distributed to individuals as homestead tax credits and property tax credits, with the municipalities acting only as transfer agents.

Part of the Progressive Era legislation, the shared revenue program extends back to 1911, when the state income tax was enacted. The program has undergone numerous changes since that time, the most recent being by the 1983 Legislature, and is now, once again, the object of considerable discussion. Governor Anthony Earl and others have suggested various proposals to change the shared revenue program. Ideas being offered for consideration include: 1) changing shared revenue payments from undesignated, no-strings-attached payment to a designated payment (like state aid); 2) reducing the shared revenue appropriation and increasing state aid to schools; 3) revising the shared revenue formula "to reward municipalities that save money, not those that spend money"; 4) eliminating the automatic growth provision in the shared revenue formula; and 5) providing personal income tax reductions which would be financed by reducing shared revenues.

Prior to 1911, the state generated revenue primarily from the taxation of railroads, life insurance companies, utilities (most of which was returned to local units), and inheritances, and from the state property taxes collected locally. For example, the state levied a seven-tenths mill tax for common school purposes and a two-sevenths mill tax for the university fund.

Chapter 658, Laws of 1911, enacted personal and corporate income taxes and provided for the shared distribution of their revenues. This was the first tax shared by the state with *all* units of local government (other taxes had been shared with certain local units), and was considered a substitute for those items — intangibles, household goods, and farm equipment — that were exempted from the personal property tax by the law. This established a precedent for future exemptions.

Although shared revenue has been derived primarily from the state personal and corporate income taxes, it should be noted that, since 1919, 14 temporary surtaxes have been levied on the income tax. These revenues, however, were not included in the shared distribution, but were retained by the state. Since 1911, other revenues have also been shared with local units, namely: the public utility tax, highway privilege taxes (registration and title fees), liquor taxes, the inheritance tax, and fire insurance dues. There was also a copper production tax, but it never generated any revenues. A brief summary of these taxes and their formulas follows the development of the income tax distribution in this bulletin and precedes the development of the shared revenue account, wherein all such taxes are commingled in one account.

This bulletin will concentrate on the development of the shared distribution of the income tax from 1911 until 1971, and the development of the shared revenue account since 1971.

Since its creation, the shared revenue program has evolved from an "origin" system to a "needs" system. The origin system existed until 1972, and the formula for distribution of the shared revenue

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was based on "where it was initially raised". Originally, the state kept 10% of the income tax and returned 20% to the counties and 70% to the municipalities in which the revenue originated. The percentages were substantially equivalent to the expenditures of these levels of government prior to the income tax.

The formula for the needs system (created by the 1971 Legislature to become effective on January 1, 1972) is based primarily on "population and relative local property tax burdens".

From 1972 until 1977, the shared revenue account was funded by fixed percentages of those state-collected taxes which were earmarked for sharing. In 1977, this earmarking of various state taxes was repealed, effective at the end of the 1977 fiscal year. Thus, the earmarking system, which had existed since 1911, came to an end. It was replaced with appropriations from general purpose revenue (GPR). The law included an automatic growth provision tied to the growth of state tax collections, with a minimum growth rate of 5% and a maximum growth rate of 12%. However, the Legislature made specific, annual appropriations. The new shared revenue account was appropriated approximately $313 million in 1977, while in 1984, the figure was approximately $715 million.

II. A CHRONOLOGY OF CHANGES IN THE SHARED REVENUE DISTRIBUTION FORMULA

The format used in this section of the bulletin is to summarize each major law affecting shared revenue distribution, followed by background information which may indicate the concerns leading to the law's changes. Note, however, that such background information may not directly affect specific formula changes, but, rather, merely indicate the problems and proposals being considered at that time.

A. The Beginning — The Origin Formula (Chapter 658, Laws of 1911)

1. The 1911 Distribution Formula

Chapter 658, Laws of 1911 (Senate Bill 573), established the state income tax and repealed the property tax on intangible personal property, household goods, and farm equipment. All other personal property taxes were permitted an offset against the income tax. The law centralized administration of the new income tax in the State Tax Commission, which was directed to divide the state into assessment districts and appoint an assessor of incomes for each district.

The formula providing for the distribution of revenue generated from the income tax was: 1) 10% to the state, 2) 20% to the county, and 3) 70% to the municipality in which the tax was "assessed, levied and collected".

2. Background on the 1911 Distribution Formula

The enactment of the law was the result of an in-depth study by the Special Joint Committee of the Wisconsin Legislature on the Income Tax with assistance from the State Tax Commission. The income tax replaced the property tax on intangibles, household goods and farm equipment, which was considered inequitable and difficult to administer. Intangibles, for example, could be hidden from the assessors. Thus, the concept of replacing revenue when property tax exemptions were enacted was established. Since the property tax was levied locally, the income tax, as a replacement tax, continued the origin concept. Also, the origin concept was natural at a time when people lived in the same community in which they worked and utilities generated and sold electricity in the same community in which they were located. It was later technology that enabled them to transmit over long distances.

Prior to the introduction on May 19, 1911, of Senate Bill 573 (enacted as Chapter 658), the committee introduced another income tax measure — Assembly Bill 158 — on January 27, 1911, which failed to pass. The distribution formula percentages differed in the 2 bills; the Senate bill distributed more to the state and counties.

	1911 AB-158	1911 Chapter 658 (SB-573)
State	2.5%	10%
County	12.5%	20%
Municipality	85%	70%

During a joint hearing of the Senate and Assembly held on January 31, 1911, on Assembly Bill 158, it was noted that the 2.5% allocation to the state would be sufficient to meet the costs of administering the law.

In its report of April 28, 1911, the Special Joint Committee on the Income Tax provided the following explanatory statement of its proposed percentage division of the shared revenue distribution formula:

"From a report of the state tax commission it is learned that in 1908, 6.5 per cent of the taxes collected in the state were applied to state purposes, 21.5 per cent to county purposes, and 72 per cent were applied to town, city and village purposes. Since by a previous section [of the legislative proposal] the expenses of assessing incomes, both by the state tax commission and by the local county assessor of incomes, are to be paid out of the state treasury, it is provided by this section that 10 per cent of the revenue derived from the income tax shall go to the state; 20 per cent to the county, and 70 per cent to the local unit. This the committee believes is a very equitable distribution."

In its *Fourth Biennial Report* (1909), the State Tax Commission showed the 1907 property tax collection as being $3.4 million for the state, $5.7 million for the counties, and $17.3 million for the municipalities. Furthermore, the commission contended that since the school tax was returned to the municipalities for school purposes, it should be deducted from the state and added to the local tax. This would have made the collections: $1.7 million or 6.503% (state), $5.7 million or 21.543% (counties) and $18.98 million or 71.954% (municipalities).

After enactment of the law, Governor Francis E. McGovern included the following comments about the shared revenue distribution formula and the proposed uses for this distribution in a memorandum issued on July 13, 1911:

"To begin with it should be understood that practically every penny of revenue raised by this bill over and above the cost of administration will go to support local government. It will be spent to pave streets, build roads and bridges, maintain hospitals and jails, provide fire and police protection and support the courts for those who pay the tax. None of the net proceeds will be sent away to the state capitol or to Washington, but all will be expended at home. By the terms of this law ten per cent of the revenue raised under it will go to the state, twenty per cent to the county and seventy per cent to the town, city or village in which it is collected. But the entire expense of administration will be borne by the state. This cost may even exceed the portion allowed the state and cannot be much less. One may therefore very safely say that the entire net proceeds of this tax will go into the local treasury.

"This feature of the bill is significant in two respects:

"In the first place, it affords a complete answer to the criticism frequently made that an income tax is sound in principle but should be administered by the national government, rather than by the state. Do our people really wish to be taxed further to support the government at Washington in preference to augmenting the revenues of the city, town or village in which they live? Uniformity in taxation methods among the different states is highly desirable; but such uniformity may be secured by cooperation among the states as well as by federal legislation. Besides it should never be forgotten that the prime object of taxation is revenue: and fiscal laws should be so framed as to secure revenue where it is most needed. Because personal property taxation has broken down and the burden upon real estate is daily increasing the prime desideratum at this time is improvement in local taxation. This improvement is here attempted by providing an income tax. It comes to the people of Wisconsin, therefore, as a relief rather than as a burden; as a substitute for something that has failed rather than as an additional tax.

"In the second place, this feature renders utterly untenable the claim that the taxation of incomes will injure business or drive capital from the state. The expense of local government must be borne somehow. It must be met by the people of each locality out of their material resources. It is now raised by taxation of land and personal property. As soon as this law is put into operation it will be defrayed in part at least by the taxation of incomes. Hand in hand with this change will go the abolition of personal property taxation and a reduction in the tax upon real estate. After this year personal property taxation will practically cease; this bill specifically exempts money, credits, household furniture, wearing apparel, tools, farm machinery, and practically all stocks and bonds, and permits those who pay taxes on other forms of personal property to deduct the amount from their income tax. But the total amount of local taxes will not be either increased or diminished; it will only be more widely and equitably distributed. Thus the tax burden of each community will remain the same and there is absolutely no reason why anyone with money to invest should now think of leaving Wisconsin or hesitate about coming here. The fact is that the framers of this bill have conscientiously striven and with good success — so to shape it as to encourage industry, stimulate enterprise and induce capital to invest in our state."

B. 1917 Changes (Chapter 485, Laws of 1917)

Between the establishment of the 1911 distribution formula (based on origin) and the establishment of the 1971 distribution formula (based on need), several changes occurred in the shared revenue program. Although major changes in the distribution formula percentages occurred in the 1925 and 1961 sessions of the Legislature, there were other formula changes of lesser magnitude.

1. The 1917 Distribution Formula

Chapter 485, Laws of 1917, revised the municipality portion of the shared revenue distribution formula. Although municipalities were still entitled to 70%, the percentage was qualified. The statutory language was changed from "70% of the total revenue" to "ten per cent to the state, twenty per cent to the county and the balance to the town, city or village in which the tax was assessed, levied and collected, except when such balance exceeds 2 per cent of the equalized value of such town, city or village under section 1073, such excess shall be paid to the county to be distributed and paid to the several towns, cities and villages of the county, according to the school population therein". [Section 1073 related to county apportionment of taxable property.] Thus, the percentages remained the same, but a limit was placed on the amount individual municipalities could receive. The result was to provide for a more equalized shared revenue distribution to the municipalities within any county in which a single town, village or city was the place of origin of an unusual amount of revenue from the personal or corporate income tax.

2. Background on the 1917 Distribution Formula

The State Tax Commission did not discuss the above change in either its *Eighth Biennial Report* (1916) or *Ninth Biennial Report* (1918). The commission focused its attention on several other matters including the repeal of the personal property tax and personal property tax offset, the revision of income tax rates, and assessment administration. There was concern that if the personal property tax were repealed, the return from the income tax in a few towns and villages would not equal the amount they had received from the tax on merchants' and manufacturers' stock. The commission, however, thought that this situation would be partially met by changing the distribution formula to 15% (state), 25% (counties) and 60% (municipalities); but these recommendations were not enacted by the 1917 Legislature.

C. 1923 Unsuccessful Legislative Proposals

1. Proposed Legislation

Although no legislation was enacted by the 1923 Legislature affecting shared revenue distribution, there was a flurry of unsuccessful activity on the matter. Several bills were introduced that would have changed the formula to increase the state's share of the revenue in order to replace the state's mill taxes and provide aid to schools. Table 1 compares these measures.

Governor John J. Blaine's suggestion was incorporated in 1923 Senate Bill 314. The other 1923 proposals were similar.

Table 1: Sampling of 1923 Legislative Proposals on Shared Taxes Which Failed to Pass

1923 Proposal	Distribution Percentages
Senate Bill 314	63-1/3% to state, to a maximum of $7.8 million (of which a maximum of $4 million would be reapportioned back for school purposes). Surplus over the maximum $7.8 million was to be returned to counties on basis of assessed valuations, after deducting $500,000 for state general fund purposes. 36-2/3% to municipality.
Senate Substitute Amendment 1 (as amended)	60% to state, 40% to municipality.
Senate Bill 446	50% to state, 10% to county and 40% to municipality.
Assembly Bill 250	50% to state, 10% to county and 40% to municipality.
Assembly Substitute Amendment 1	60% to state, 40% to municipality.
Senate Substitute Amendment 1	50% to state, 10% to county and 40% to municipality.

Source: National Industrial Conference Board, *The Tax Problem in Wisconsin*, 1924.

2. Background on 1923 Proposals

It appears that these unsuccessful attempts were related to Governor Blaine's special message to a joint session of the Legislature on March 28, 1923, which proposed specific changes in taxation, including shared distribution. The Governor's message recommended changes to 30% to the state to replace certain mill taxes, 33-1/3% to the state for local school purposes, and 36-2/3% for localities. This did not mean, however, that the state was suddenly taking a much larger share; a considerable portion was to be distributed for educational purposes. The Governor explained his proposals as follows:

"Section 71.19, relating to the apportionment of the income tax revenue, provides that 30% of the tax shall be paid into the state treasury, not exceeding in any one year $3,800,000, in lieu of [state] mill taxes for the University and normal schools, $1,000,000 of which is appropriated by Section 20.251 to the teachers' retirement fund; 33-1/3% not exceeding in any one year $4,000,000, is payable into the state treasury in lieu of [state] mill taxes and other taxes for educational purposes, largely for common schools, to be distributed as now provided by law for school purposes. The balance of 36-2/3% is paid to the town, city or village in which the tax is assessed.

"The first two instalments, as you will note, are $7,800,000. If the two percentage instalments exceed such amount, the surplus thereof is returned to the counties, on the basis of their assessed valuation; except for the protection of the state treasury against deficiencies in less prosperous years one-half thereof, not exceeding $500,000, is retained in the state treasury, as heretofore mentioned.

"The effect of such apportionment relieves the real and personal property of the state of the following amounts, based on the last available official data, namely:

Interest on certificates of indebtedness, tax	$ 159,319
Free high schools tax	175,000
Graded schools tax	200,000
University mill tax	1,723,017
Normal school mill tax	765,790
Common schools mill tax	3,016,318
On the additional distribution to the common schools, out of the $4,000,000	608,782
Making a total of tax reduction on real and personal property	$6,648,236
The income taxpayers are relieved of the surtax under teachers' retirement fund of	1,000,000
TOTAL	$7,648,236
Leaving excess of the amount apportioned to the state treasury and to school funds of	151,764
Out of this excess is payable to the city of Milwaukee for teachers' retirement fund	102,000
Leaving small balance of	$ 49,764

"The net result is the repeal of all mill taxes and all special taxes on real and personal property which are paid into the state treasury, and the repeal of the last permanent surtax on income taxpayers.

"The advantage of this plan is to have but two systems of taxation, namely: taxes on real and personal property for local purposes, and income taxes for the purposes above designated doing away with surtaxes on incomes and mill taxes on real and personal property. ....

"The state under this bill retains a very small part in the state treasury, and re-distributes practically all the income taxes on three bases, namely:

(1) According to the assessed valuation, through relieving real and personal property from mill taxes and special taxes;

(2) By re-distributing a portion of the income tax on the basis of the present school apportionment law; and

(3) Leaving in the district where the tax is assessed 36-2/3% of the whole tax.

"This system of distribution is much more liberal than any system of distribution in any other income tax state.

"The state, however, should not retain any larger sum than the demands of the state treasury require.

"Under the plan recommended, real and personal property is relieved of a tax of $6,648,236, according to the last year when the data is available, $1,000,000 more relief in general property tax than provided in any other proposed bill.

"Income taxpayers are released from the present surtax for the teachers' retirement fund.

"The city of Milwaukee has returned an amount equal to the average amount that such city would receive under the present teachers' retirement surtax law.

"Many words have been wasted in promises to the common schools of the state, and no substantial aid has resulted from those words. This plan contributes an additional sum of $608,782 to the common schools, a permanent contribution in excess of any other proposed bill.

"Section 71.19, you will observe, is the keystone of the proposed policy. To modify or change the apportionment made by said section will mean that the plan suggested must be discarded as a whole.

"The net effect of the suggested plan returns to the communities 70% of the income tax, 33-1/3% being re-distributed on the basis of the school apportionment, and 36-2/3% being redistributed to the towns, cities and villages where the taxpayer resides, and of course the general property of the state is relieved of the additional mill tax and special tax, retaining in the state treasury the million dollars appropriated to the teachers' retirement fund and the small balance heretofore more specifically set forth.

"The entire expense of administration is borne by the state."

D. 1925 Changes (Chapter 57, Laws of 1925)

1. The 1925 Distribution Formula

Chapter 57, Laws of 1925, provided for the first major revision of the 1911 distribution formula (the 10, 20 and 70% distribution percentages). Chapter 57 increased the state percentage of the distribution formula from 10% to 40% and decreased the county percentage from 20% to 10%, thus decreasing the municipality percentage from 70% to 50%. Hence, the distribution was changed from *10%, 20% and 70%* to *40%, 10% and 50%*. Although the percentages changed, the "2% excess equalized value of property factor" (established by Chapter 485, Laws of 1917) remained the same. The law also repealed the personal property tax offset against the income tax, which had been enacted in 1911, thus increasing the amount of income tax collected.

2. Background on the 1925 Distribution Formula

The 1925 law was foreshadowed by the unsuccessful 1923 proposals. These were followed by an interim study conducted by Professor Harley Lutz of Stanford University, at the request of Governor Blaine and Attorney General Herman L. Ekern. The controversial bill went through several changes before enactment. As introduced in 1925 Senate Bill 122, the formula for both personal and corporate income taxes was 45% to the state, 10% to the counties and 45% to the municipalities in which the tax was assessed, levied and collected. As enacted, the formula was 40%, 10% and 50%, respectively.

In a December 1925 article (*National Income Tax Magazine*), Blaine stated that the new law "provided that the increased revenue resulting from this change [repeal of the personal property tax offset] should be used for the reduction of property taxes, and to this end increased the share of the income taxes going to the state and required that every dollar received by the state from the income tax should be applied towards the remission of the state taxes on property."

In its 1950 report, the Legislative Council's Committee on Taxation stated:

> "Due to the repeal of the property tax offset, the absolute amount of revenue to counties and localities did not change very much in the following year, but the amount retained by the state was increased. Subsequently, a larger amount of general expenditures and state aids was paid from income tax revenue and a smaller percentage from state property taxes until the state relinquished the property tax to the localities in 1931 [1933]" (Based on unpublished manuscript by Harold M. Groves).

E. 1927-1959 Changes

Between the 1925 and 1961 sessions, the shared revenue distribution formula remained at 40% to the state, 10% to the county and 50% to the municipality (established by Chapter 57, Laws of 1925).

Although not affecting the formula, it should be noted, however, that Chapter 403, Laws of 1933, repealed the state tax on all general property.

Several changes (in addition to statutory renumbering) occurred during this period which dealt with: 1) the amount of the percentage of the "excess value of property" factor for the municipality's share, 2) certain amounts set aside before distribution, and 3) the shared revenue distribution schedule.

1. Excess Value of Property Factor

The flip-flopping of the percentages regarding the "excess value of property" factor occurred as follows:

Session Law	Percentage of Excess Value of Property
Chapter 448, Laws of 1931	Reduced percentage from 2% to 7/10 of 1%.
Chapter 249, Laws of 1937	Increased percentage from 7/10 of 1% to 1%.
Chapters 164 and 553, Laws of 1943	Increased percentage from 1% to 2%, but also scheduled to revert back to 1% at end of WWII.
Chapter 59, Laws of 1953	Increased percentage from 1% to 2%

As previously mentioned, the "excess value of property" factor was created by Chapter 485, Laws of 1917. The law provided that when the amount distributed to a municipality exceeded 2% of its equalized value, the excess would be paid to the county for distribution to municipalities on the basis of their school population. Thus, with the reduction of the excess to 1% by the 1931 law, the amount going to a county would increase, and an increase in the excess to 2% would decrease the amount going to a county.

2. Set-Asides (Skim-Offs) Before Distribution

Between 1925 and 1959, the Legislature reduced the amount of tax shared by means of set-asides (skim-offs) before distribution. These included:

(1) Chapter 142, Laws of 1939, which set aside a sum for administration of the income tax.

(2) Chapter 525, Laws of 1943, and Chapter 600, Laws of 1949, which set aside an annual appropriation for school aids.

(3) Chapter 614, Laws of 1953, which set aside 14% of the corporate income tax collection and 8% of the individual income tax collection for the state's general fund in lieu of the teachers' retirement surtax, which was repealed. Furthermore, the 2% discount, which was formerly allowed for full payment of income tax liability, was repealed, and the revenue was retained by the state (the state imposed a 2% charge on installment payments).

Consequently, these set-asides reduced the amount of income tax revenue available for sharing with local units of government.

F. 1961 Changes (Chapter 620, Laws of 1961)

1. The 1961 Distribution Formula

Chapter 620, Laws of 1961, provided for a different distribution formula for the personal income tax and the corporate income tax. Revenues from both taxes were distributed as follows:

(1) *Personal income tax:* From July 1, 1961 to September 30, 1962, 31% was distributed to local units of government. From October 1, 1962 and thereafter, 33% was distributed to local units of government. Of these percentages to local units of government, distribution was five-sixths to municipalities and one-sixth to counties of the situs of income. Therefore, the state would retain the following percentages: 69% from July 1, 1961 to September 30, 1962, and 67% from October 1, 1962 and thereafter.

(2) *Corporate income tax:* 49% was distributed to municipalities and counties, of which five-sixths was for municipalities and one-sixth for counties, and 51% to the state.

In addition, Chapter 620 abolished the set-aside (so-called "skim-off") provisions and established a new distribution schedule for these shared taxes.

An explanation of Chapter 620 by the Wisconsin Taxpayer's Alliance (*1961 Legislative Service*) stated: "The amounts counties and municipalities will receive from income taxes remain the same as under the old law. However, the method of computing these amounts is changed. Under the old law, municipalities received 50% and counties 10% of income taxes derived therein after skim-offs for administration, teachers' retirement surtax equivalent, 2 percent discount, school aids and surtax. Now skim-offs are abolished and new percentages established. The effect is to give counties and municipalities the same amount as before, with the state keeping additional revenue from tax rate increases".

2. Background on the 1961 Distribution Formula

Besides changing the income tax distribution formula, 1961 Chapter 620 was a landmark tax revision measure which established a selective sales and use tax, provided for a withholding feature for the income tax, and increased income tax rates. A fixed sum of the sales and use tax was distributed to municipalities (with an average full-value rate in excess of 14 mills) to be used as tax credits for every property taxpayer.

The percentages in the income tax distribution formula were changed as a result of "....the inauguration of withholding and the forgiveness of 65% of 1961 personal income taxes" (Legislative Bulletin 32, League of Wisconsin Municipalities, January 3, 1962). The intent of the change was to "guarantee to local units of government that they will receive no less in the future from income taxes than they would receive if withholding had not been inaugurated". Thus, the new figures were designed to provide the same amount of local revenue as the old formula percentages would have yielded.

1961 Chapter 620 was introduced as 1961 Assembly Bill 716 by the Joint Committee on Finance, by request of Governor Gaylord Nelson. AB-716 was considered a compromise proposal between 1961 Assembly Bill 510 (considered a Democratic proposal), also introduced by the Joint Committee on Finance, by request of the Governor; and 1961 Senate Bill 707 (considered a Republican proposal), introduced by the Committee on Legislative Procedure.

1961 Chapter 620 was preceded by comprehensive tax studies by the University of Wisconsin Study Committee on Tax Impact, cochaired by Professors Harold M. Groves and W. Donald Knight, and by the Continuing Revenue Survey Commission, chaired by Miller Upton (also known as the Blue Ribbon Commission), which was created by Chapter 585, Laws of 1959. Commissioner of Taxation John A. Gronouski was the research director for the commission.

a. Summary of Continuing Revenue Survey Commission Recommendations

In its *Final Report*, December 1960, the commission criticized the shared revenue distribution system, claiming it resulted in wide disparities in the local property tax rates, consisted of too many different formulas, and promoted municipal fragmentation. Any historic justification was no longer applicable; the effects of changes in taxes on the system must also be considered. Therefore, the commission proposed a new distribution system which would change the emphasis from shared taxes to grants-in-aid, reduce the property tax, and institute a single framework for the distribution of state-collected revenues. The proposed new system would utilize a single formula and would put the revenues to be distributed into a single fund. One-half would be distributed on the basis of property, income and population, and one-half as an equalization fund for property tax relief. Although the general recommendations of the commission on distribution were not to be substantially enacted for another decade, they are significant for what they foreshadowed.

b. Commission Recommendations

A detailed explanation of the commission's evaluation and recommendations follows:

"Shared Taxes

"A. Evaluation of Present Sharing System

The Commission concludes that Wisconsin's present sharing system is open to serious criticism on the following grounds:

(1) It contributes to wide disparities in the resulting property tax rates as among the taxpayers in the 1,828 local units. The problem is not confined to a handful of extreme cases. The 1,828 local units are scattered across a wide band of variation in the mill rates they are compelled to set after budgeting their respective portions of the shared taxes. In 1959, 13.5% of the local units had mill rates (on equalized value) of less than 20 mills; 50.4% had mill rates of 20 to 27.50 mills; and 36.1% had mill rates of 27.50 or more. Of course, variations in local traditions, tastes and problems make it impossible to define a uniform mill rate which would be fair for all communities. However, the gross disparities in the mill rates which result from the present method of sharing the income tax and the utility tax in particular, cannot be defended in logic, justice or practicality. The present sharing system tends to widen the band of disparity. The objective of a good distribution system should be to narrow the band and thus to avoid severe disparities in the burden borne by property taxpayers in financing essential public services.

(2) The present sharing system is a miscellaneous bundle of a number of distinct and complex systems. The allocation procedures give rise to disputes and they consume needless time and expense in auditing and in corrective refund payments. A single state fund to be shared by a single formula is a desirable objective.

(3) The present sharing systems tend to preserve, if not to promote, municipal fragmentation.

(4) Events have diminished or removed such justification as there may have been historically for the several sharing systems now in force. Income taxes, for example, are shared on a basis determined in 1911 and modified in 1925. In each of these years, the theory was to "replace" revenues lost to local government by changes in the tax treatment of personal property. Even in 1911 and 1925, this replacement was without precision; that is, local government, in the mass, was awarded certain shares of the income tax without

regard to the specific replacement needs of specific communities. Population shifts and economic changes have made these formulas obsolete. The organization of a complex modern economy weakens the concept of residence as the sole standard for sharing. Particularly in large urban areas, the citizen is served by the facilities of several local units, and frequently his place of employment and his municipality of legal residence are not the same. The financial problems of a municipality are not alone attributable to the civic requirements of its own residents. A combination of several characteristics of a community — its property values, the income of its residents, its population — would provide a more meaningful index than only one of its characteristics.

(5) With respect to taxes on utilities, particularly electrical generating facilities, technical developments have also undermined the concepts upon which sharing is based. Large plant facilities have become essential because they promote economy of operation. As a result, utility plants of considerable size are frequently located in small communities. The size of the plant is not related to the size of community of situs (the principle factor in the present distribution formula) but rather to the growth, usage and problems of the entire area served by the utility. Further, an entire area (not a single community) is covered by the franchise which creates the demand and the resultant tax liability. Also, the present distribution system requires accounting detail and auditing procedures which are unduly expensive both for the government and the utilities. It would be desirable to spread utility tax revenues more widely and more simply.

"B. Effect of Certain Major Taxation Proposals on Distribution System

It is not enough to evaluate the present distribution system in terms of the present revenue gathering structure. It is necessary also to consider how it would respond to such proposals as: (1) exemption of certain forms of personal property; (2) enactment of a general sales tax; or (3) basic increases in the regular rate structure of the individual income tax.

(1) The elimination of merchants' and manufacturers' stocks and livestock from local tax rolls, without replacement of the lost revenues, will produce considerable dislocation in local finance. Moreover, this dislocation will vary radically among the 1,828 local units, since some depend heavily, some very little, upon revenue from personal property. Dollar-for dollar replacement of this revenue loss would eliminate this dislocation. However, dollar-for-dollar replacement would involve perpetuating the entire personal property assessment procedure, with all its vagaries, no longer for the collection of revenue, but merely to measure the "replacement" payment which a particular community might receive from the state. Nothing in the present sharing formulas would meet the resulting problem. Some new approach which reflects the reduced property tax base of particular communities is essential.

(2) Existing sharing formulas would obviously not apply — automatically, at least — to the revenues which the state would gather from a general sales tax. This would require the breaking of new ground.

(3) If the additional revenue which would result from a major increase in the regular rate structure of the individual income tax were to be distributed according to the present distribution formula, the already radical disparities would be seriously exaggerated. Many communities now enjoying remarkably low property tax rates would be given a considerable additional advantage.

"C. Major Features of Proposed Distribution System

(1) Change the emphasis from shared taxes to grants-in-aid.

The plan will retain in part the historical basis of sharing state collected taxes, such as the income tax, public utility taxes, etc., with local units of government to replace local tax sources when certain exemptions were made or taxes were taken over by the state. The total amount shared statewide would not be reduced — in fact, the amount would be augmented. For example, local governments would still continue to receive 60 percent of the normal income tax collections. However, when it comes to the distribution of the tax, a grant system would be substituted for the present sharing formulas. One formula would apply for the grant, and all of the present sharing formulas for each particular tax would be repealed. The emphasis at the local level would be on the grant principle rather than on the sharing principle.

(2) Reduce property taxes with special attention given to taxpayers in those areas or units of government where the property tax is particularly burdensome.

(3) Have a single, simple, broad framework for the distribution of state collected revenues which would be easily adaptable to any future changes in the revenue system.

The new distribution system may seem quite complex, yet it is relatively easy to apply and administer. This is especially true when compared with the complexities of the numerous formulas now used for sharing state collected taxes. This formula could be used for any additional revenue which might be distributed in the future without the necessity of providing another distribution formula.

"D. Detailed Description of Proposed Distribution System

The total amounts of present shared taxes, with a few exceptions, would be distributed according to a single formula rather than by the use of separate formulas for each type of tax as is done now. To this there is added the further proposal for some type of general property tax relief. Instead of across-the-board relief, however, an equalization type of relief is suggested.

The procedure of the plan may be summarized briefly, with the amounts showing how the plan would have operated for the 1960 fiscal year. A fund would be created composed of:

(1) Present shared taxes ($115.2 million) *plus*

(2) An amount for general property tax relief ($22.1 million) *plus*

(3) The amount of tax now raised from personal property taxes on livestock and merchants' and manufacturers' inventories ($53.3 million)

It must be borne in mind that in addition to this fund to be distributed to the local units, the plan provides that the local costs of public assistance be assumed by the state. Although this is not part of the distribution system, it represents savings to local governments of $24.6 million.

The fund ($190.6 million), comprised of the amounts under (1), (2) and (3) above, would be distributed to the local units as follows:

(1) *One-half* on the basis of property, income and population ($95.3 million).

a. 40 percent on the full value of locally taxable property ($38.12 million)

b. 40 percent on the basis of net taxable income ($38.12 million)

c. 20 percent on the basis of population ($19.06 million)

The amount for each local unit would be determined by the percentage which the property, net taxable income and population in each case bears to the state total.

(2) *One-half* as an equalization fund for property tax relief ($95.3 million). At this point, full value rates are computed (based on assessments remaining after personal property tax exemption) using the property tax levy, special assessments and occupational taxes and special levies as the total local effort. The sum is then prorated on a graduated equalization scale: approximately 5% of the first 15 mills, 10% of the next 2.5 mills, 20% of the next 2.5 mills, 30% of the next 2.5 mills, 40% of the next 2.5 mills and 50% of the remaining full value levy in excess of 25 mills.

The percentages used in the suggested plan were arrived at after an elaborate series of tests to determine the proportions which would best serve the objectives set forth by the Commission. For example, in the formula are to be found the two major measures of fiscal capacity—full value of property and net taxable income. Also included are two major indexes of fiscal requirements—population and local effort.

It must be realized that the formula assumes a substantial amount of additional state collected taxes. This amount was assumed to be $100 million annually made up of the following items:

Additional funds for property tax relief	$ 22.1 million
State assumption of local costs of public assistance	24.6 million
GENERAL PROPERTY TAX RELIEF	46.7 million
Personal property tax replacement	53.3 million
TOTAL PROPERTY TAX RELIEF	$100.0 million

Under the present distribution system shared taxes are apportioned among cities, villages, towns counties and, in some instances, school districts. In the development of the system here proposed, the state's 1,828 municipalities (cities, villages and towns) served as the primary group of distribution units. However, it is the Commission's intent that a portion of the total package be allocated to counties, and that this be sufficient in amount so that the proportion of county costs borne by the state will approximate the proportion now defrayed by shared taxes.

School district participation in the present tax distribution is limited to some districts that qualify for a part of the shared utility tax received by municipalities. The Commission recommends that participation be broadened to include all school districts; that cities, villages and towns be required to allocate to school districts of which they are a part a percentage of their revenue from the municipal shared tax fund equal to the ratio of the school tax rate to the total tax rate.

With the adoption of this distribution system a small proportion of the state's municipalities, which presently enjoy substantial shared tax revenue, will incur a loss of revenue. In the Commission's judgment a transitional device is required to permit gradual adjustment by those communities whose rates are increased by more than five percent *and* whose rates exceed the statewide average. Under this proposal payments will be made to these communities on the basis of 100 percent of the difference between the previous rate and their new rate the first year, 80 percent the second year, 60 percent the third year, 40 percent the fourth year, and 20 percent the fifth year.

The formula herein recommended provides the basic framework for an equitable shared tax distribution system. However, the formula is not dependent upon the specific amount of money which is used in the model presentation."

Table 2 summarizes the income tax distribution percentages from 1911 through 1969, prior to the significant change in 1971. It should be noted that a change in the distribution formula which seemingly favors the state vis-a-vis local governments does not necessarily have that effect. Other factors, such as, for example, changes in the property tax or increases in income tax rates, may result in no substantial change in local revenue from the income tax.

Table 2: Income Tax Distribution Percentages from 1911 to 1969.

Period	Distribution Percentages		Enabling Legislation
1911-1924	Municipalities	70%	Chapter 658, Laws of 1911
	Counties	20%	
	State	10%	
1925-1960	Municipalities	50%	Chapter 57, Laws of 1925
	Counties	10%	
	State	40%	
1961-1969	*Personal Income Tax*		Chapter 620, Laws of 1961
	Local units	31-33%	
	State	69-67%	
	Corporate Income Tax		
	Local units	49%	
	State	51%	

Source: Laws of Wisconsin.

G. Other Shared Taxes Prior to 1971

In addition to the income tax, the state shared several other taxes, each according to a different formula, prior to 1971. The state shared the liquor and highway privilege taxes with all units of local government, the inheritance tax with counties, and the utility tax and fire insurance dues with particular units of local government. The Wisconsin Task Force on Local Government Finance and Organization (Tarr Task Force) contained the following historical summaries of these taxes in its *Final Report* (January 1969).

1. Utility Taxes

"Until 1854 all railroad and utility property was assessed by local units of government, and the taxes on the property supported local services. But this was impractical because local assessors did not always know the worth of specialized properties.

"An 1854 law ended the historic practice of local utility assessments. The State levied a gross earnings tax instead. In 1895 the gross earnings tax was extended to include street railways and affiliated light, heat and power companies.

"In 1905 the State began taxing railroad property on an ad valorem (according to value) basis, levying the tax on the true cash value taxed at the average Wisconsin full value property tax rate. The State retained all the tax except the tax on the terminals of lakeport cities used for transferring freight or passengers between cars and vessels. In these cases, the State collected the tax but revenue was returned to the municipality.

"An act of 1905, which went into effect in 1908, placed street railways and the connected light, heat and power utilities on an ad valorem basis. The State Treasurer collected the tax and retained 15% for the State while the remainder was sent to local units of government on the basis of gross receipts from operation in each municipality. In 1911 this apportionment formula was altered to reflect both the location of gross receipts as well as the location of property. Counties began to share 20% of this tax in 1917. In 1963 the distribution was fixed at 17% for the State, 19-1/2% for the county and 63-1/2% for the municipality.

"The historic case of *Burkhardt Milling and Electric Power Co. vs. City of Hudson* [162 Wis. 361] in 1916 had a profound effect on the apportionment of utility taxes. In a 4 to 3 decision the State Supreme Court changed the way utility taxes were apportioned to municipalities. The municipal share had been determined by averaging the percentage of total utility property and the percentage of total utility business in each municipality and applying this average to the total tax. The court ruling said that the property valuation and business transacted must be added together to find the ratio of the local unit's apportionment. Since the 1916 decision, the community with the concentration of utility property is favored over the community with a concentration of utility sales.

"Several recent changes in the statutes applied to utility tax distribution. A law enacted in 1925 directed towns and villages in counties with a population less than 50,000 to distribute one-half of the utility tax receipts to school districts located within the municipality, on the basis of the value of the utility property in the district.

"The State has adopted a central assessment system and levies a tax on railroads and public utilities on the basis of the State-wide average full value tax rate. The tax on railroads is retained by the State with the minor exception of rail to water terminal property located in one municipality. The tax on such property is returned to the municipality. Municipalities receive 63-1/2% of the gross property tax revenues from utilities, counties 19-1/2%, and the State 17%. Telephone companies are taxed on the basis of their gross revenues with the State retaining all of the tax on toll revenue and 15% of the tax on local exchange revenue. The local unit receives the remaining 85% of the local exchange revenues."

2. Liquor Tax

"Wisconsin enacted the Liquor Tax in 1934 with the proceeds (after deduction of certain costs) distributed to local units of government on the basis of census population. Since then, the Legislature has passed two increases in the rate of taxation, but in each case the State has retained the revenue provided by the increase. At the present time, the State receives 55.55% of the tax collected; local units receive the remainder."

3. Highway Privilege Tax (Registration Fees)

"The Legislature exempted motor vehicles from local property tax assessments in 1931, and at the same time provided that the registration fee collected in lieu of the tax would be shared with local units of government. Thus municipalities receive 20% of the base registration and title fees on all motor vehicles, except trucks. On trucks, municipalities receive 11% of the revenue collected by the State."

4. Inheritance Tax

"Counties retain 7.5% of the inheritance tax revenues as compensation for their share in the cost of collection. The remainder is remitted to the State." [The inheritance tax was created by Chapter 355, Laws of 1899, with the counties retaining 15% and the state receiving 85%.]

5. Fire Insurance Dues

"Localities whose fire departments meet certain standards receive the entire revenue from a 2% annual tax on fire insurance premiums collected in the particular municipality."

H. Replacing the Origin Formula with the Needs Formula (Chapter 125, Laws of 1971)

1. The 1971 Distribution Formula

Since the inception of the shared tax program in 1911, the most dramatic change occurred in 1971. Chapter 125, Laws of 1971 (the 1971-72 Executive Budget Act), made far-reaching changes in the distribution program, specifically: 1) replacing the origin formula for income taxes and several other formulas for other taxes with a single needs formula; 2) establishing a Municipal and County Shared Taxes Account; and 3) changing percentages of taxes earmarked for sharing. The provisions in Chapter 125 became effective January 1, 1972.

Varying percentages of all the taxes shared were subsequently placed in a combined Municipal and County Shared Taxes Account. The percentages of the income tax earmarked for distribution immediately prior to 1971 were 33% to local units (personal income) and 49% to local units (corporate income). Under the 1971 law, the percentages earmarked to go into the combined account for distribution were 24.60% (personal income) and 41.47% (corporate income). The initial effect of the 1971 percentage change was to freeze the dollar amount of the municipalities' share at the pre-1971 level. All future increases in revenue would go to the state, but would largely be returned to local units in the form of state aids. Table 3 shows the percentages of all the taxes earmarked for the combined account for distribution to local units of government.

Table 3: Earmarked Taxes Which Comprised the Municipal and County Shared Taxes Account, Created by Chapter 125, Laws of 1971

Type of Tax	Statute Reference	Percentage
Income		
Personal.	Sec. 71.14 (8)	25.17% (from 11/1/71 to 7/31/72) 24.66% (from 8/1/72 and thereafter)
Corporate	Sec. 71.14 (8)	40.34% (from 11/1/71 to 7/31/72) 41.47% (from 8/1/72 and thereafter)
Utilities		
Urban transit	Sec. 71.18 (3)	83% of the special tax on urban transit companies which is paid.
Light, heat & power companies, conservation or regulation company or pipeline company	Sec. 76.24 (3)	83% of taxes paid before reduction by credit provided for by shared tax account provisions.
Telephone companies	Sec. 76.38 (7)	85% of the telephone license fees on exchange businesses.
Electric cooperative associations	Sec. 76.48 (4)	100% of the license fees for electric cooperative associations.
Highway Privilege		
Trucks, road tractors	Sec. 86.35	11% of net registration and title fees
Other motor vehicles.	Sec. 86.35	20% of net registration and title fees.
Liquor		
Intoxicating liquor	Sec. 139.13	38.48% of the occupational taxes on intoxicating liquor (after the removal of 4% for administration).

Source: 1971 Wisconsin Statutes.

There was created a single shared taxes distribution formula, the so-called "needs" formula, consisting of 4 components: per capita, utilities, percentage of levies, and minimum guarantee.

Per capita component was a payment "which is an amount paid to each municipality and county on the basis of its estimated population". Chapter 125 provided that this amount would be equal to \$35 times the estimated population of a municipality or county.

Utilities component was a payment "which is an amount paid to each municipality and county having certain types of utility property located within it". Chapter 125 provided that the payments be "based on the value of qualifying utility property, net of land and depreciation, located in the municipality or county".

Percentage of levies component, also referred to as the "excess levies" payment, was a payment "based on a community's total tax rate and property value". The percentage of levies payments was funded by the tax revenues remaining in the Municipal and County Shared Taxes Account after the distribution of the per capita and utilities payments to municipalities and counties.

Minimum guarantee component was a payment to municipalities if "the 1972 shared tax payment and 1972 real property tax credit to a municipality is less than 90% of the 1971 shared tax payment and 1971 real property tax credit to the municipality". This payment was an amount equal to the difference between "a municipality's total shared revenue and general property tax relief payments and 90% of its payment in the previous year".

2. Background on the 1971 Distribution Formula

The shared revenue changes enacted by Chapter 125, Laws of 1971, can be attributed primarily to the recommendations of the Task Force on Local Government Finance and Organization (Tarr Task Force). However, recommendations to establish a shared revenue account and single distribution formula can be traced at least as far back as the Continuing Revenue Survey Commission (see "Background for the 1961 Distribution Formula" section). Other committees which addressed the shared revenue problem during the decade were the Legislative Council's Committee of 25 (a 1963-65 interim committee) and the Governor's Commission on Education (which issued a November 1970 report).

a. Legislative Council's Committee on 25

The Committee of 25 was assigned to survey the "future of the state government", with particular attention to several areas including "the appropriateness of present shared tax and state aid concepts". In the shared tax area, the committee focused on the financing of public schools with the utility tax distribution.

In its May 1964 report, the committee called the allocation formula a "hodgepodge", the result of a "long history of expedient statutory amendments to serve specific situations without concern for the overall effect or philosophy of distribution". The present distribution was based on "the location of utility property and the business transacted within the municipality". The school district distribution was based on "value of the utility property in such district as it bears to the total value of the utility property in the municipality". The municipality's share was 63.5%, and the municipality calculated the school share. The county received 19.5%, and the state retained 17%. The percentages allocated by a municipality to school districts varied by the size of the county.

Subsequently, the Legislative Council introduced 1965 Assembly Bill 545, which would have required each municipality that receives a share of the state utility tax receipts to distribute 50% of the receipts to the school districts within the municipality. If more than one district was within the municipality, the distribution would be divided among the districts based on the valuation of the taxable property in each district compared to the total valuation of the municipality. The city of Milwaukee would still be required to share 25% of its utility tax receipts with the school district.

Assembly Bill 545 failed to pass the Legislature.

b. The Wisconsin Task Force on Local Government Finance and Organization (Tarr Task Force)

The Task Force on Local Government Finance and Organization (Tarr Task Force) was created by the Legislature in 1967 (Chapter 22, Laws of 1967) to study: 1) Wisconsin's present methods of sharing taxes and the relationship of the distribution to the adequacy of local government revenues; and 2) the feasibility of authorizing local governments to levy additional taxes.

(1) Summary

The task force found problems of equity in the formulas and confusion in administration. It recommended a single distribution formula based on the needs of the local unit rather than the origin of the income.

(2) Task Force View of Problems in the Shared Taxes Program

In its final report (January 1969), the Tarr Task Force noted that the income and utility taxes accounted for 97% of the total shared taxes. The taxes which provided the remaining revenues to local units of government were the inheritance tax, liquor tax, highway privilege tax (registration and title fees), and fire insurance dues.

The task force commented that "Few states equal Wisconsin in the support given to local government .... Despite the generous way Wisconsin shares its revenue with units of local government there are many difficulties which are increasing in intensity". The task force suggested that the increasing difficulties with the shared tax program centered primarily around 2 areas: 1) the formulas used in the distribution of the shared taxes — resulting in an equity problem, and 2) the administration of the shared taxes program — resulting in confusion and a financial burden.

Because the income tax distribution was based on a "place of origin" factor and the utility tax distributions similarly favored municipalities with "utility property over those with utility sales", an increasing problem with equity existed. The result of this inequity was the formation of "tax islands". The task force defined a tax island as "a municipality where the property owners pay an unusually low property tax because of the large amount of shared taxes the municipality receives".

For example, if a municipality had a concentration of profitable enterprises (such as a utility) or a concentration of high-income citizens, the municipality would gain sufficient shared revenue to keep its property taxes low. The task force continued:

"It is obvious that a 'tax island' may exist because of the income tax sharing formula, just as was the case in the utility tax distributions. Any community fortunate enough to have a concentration of profitable enterprise or high-income citizens will gain sufficient shared revenue to keep its property taxes low. Such frequently is the case in many Wisconsin communities.

"The opportunity to live in a 'tax island' often is alleged as a reason for the movement of wealthy people from cities to suburbs, a movement which ultimately creates incorporated villages adjacent to cities. Milwaukee is surrounded by incorporated municipalities, many of which levy much lower property taxes. This movement reduces a city's tax base and removes some of the human talents essential to solutions of city problems. Also industry moves or expands in municipalities which have lower tax rates, thereby further reducing the tax base of the central city."

The task force appeared to be voicing the same concerns about inequity as had the Continuing Revenue Survey Commission in 1960.

In addition, the task force determined that there were several problems concerning the administration of the shared taxes program including:

(1) Municipalities often found it difficult to determine their allocation of shared taxes accurately. When municipalities became too optimistic in their shared taxes income expectations, the unanticipated deficit had to be alleviated by property tax increases.

(2) Many municipalities, to combat the problem of inaccurate allocations, employed special agents or sent their own representatives (sometimes known as "tax ferrets") to the Wisconsin Department of Revenue to check for mistakes in their shared taxes allocation. For example, the city of Milwaukee had a full-time employe who did nothing but check income tax returns. This resulted in "considerable administrative cost both for the Department of Revenue and for the municipalities".

(3) Erroneous shared taxes income assumptions by municipalities and administrative burdens (both local and state) were also compounded by the fact that the distribution system called for the preparation and sending of 8 to 10 checks per year to each municipality and county.

(3) Task Force Recommendations

The major change recommended by the task force was the change from the origin formula to a needs formula.

During hearings the task force reported that many witnesses favored a tax-sharing system based on local need, but did not suggest methods to determine need. The task force stated:

"One method is to determine the per capita amount spent for police, fire or health services. If a municipality spent more than the average, it would not receive State support for the excess amount. The difficulty with this approach is that expenditures by government units vary depending upon many factors, including geographical considerations, density of population, income and local policies of spending. An average per capita cannot reflect these variations. If need is measured on the basis of density of population or income per capita, then local variations in required services cause a bias. In any event, the lack of uniform municipal accounting systems makes comparisons of costs between units of government nearly impossible. As a result this approach was dropped.

"A second alternative seems more suitable as a representation of community needs: to assume that the tax rate itself expresses local requirements. This alternative stipulates that a municipality determines its expenditure level, subtracts the revenue it receives from State payments and special charges, and raises the remainder from property taxes. The underlying assumption is that the local elected governing body knows best the requirements of the local government and can balance these against the tax capacity of the community. This alternative may worry critics who fear that prudent judgment will be unable to control spending, but it has the advantage of compensating for the variations between communities which no comprehensive scheme of categorical payments could possibly consider. Furthermore, there is no evidence that general purpose assistance disbursed through the school aid formula has encouraged reckless spending. Thus members of the Task Force have accepted the willingness of a community to tax itself as a meaningful gauge of local needs."

The task force recommended a formula with 3 main features:

"....the present division of tax collections between the State and units of local government will be retained, and with these allocations to local units a municipal fund will be established; individual sharing formulae for each tax will be replaced by a single distribution; the distribution will be based upon a $30 per capita payment plus a property tax relief disbursement for levies exceeding 20 mills."

The task force concluded that the new, single distribution formula would meet the "tests of simplicity and equitability". Further, "the county share under the new distribution formula would be 15.79% of the total municipal shares in the county".

c. Governor's Commission on Education (Kellett)

The Governor's Commission on Education (also known as the Kellett Commission) was created in January 1969 to make a comprehensive evaluation of Wisconsin's educational systems. Tangentially, the commission touched on the use of tax dollars for education, including shared taxes.

The commission in its November 1970 final report, "A Forward Look", made the following evaluation and recommendation:

"The distribution of shared taxes for support of general local government should take into consideration need and local effort. This Commission is not charged with the responsibility for revising overall state tax policy. However, when present tax policy is hurting the educational program in the state, it is necessary to make recommendations in this area.

"As pointed out above, education takes a low priority in the total system of state shared taxes. We believe education is among the state's most important responsibilities, and that the tax sharing formula should be revised to acknowledge this. The present formula has resulted in providing state funds to municipalities which make a minimal local tax effort to provide municipal services.

"The Commission concludes that the present system of distributing shared taxes is inequitable, and that this inequality is a *serious obstacle to equalization of educational opportunity*. This has been well brought out by the Tarr Task Force, and we endorse the proposals of that Task Force in this regard. We therefore recommend that the distribution of shared taxes take into account need and local effort, that shared tax distribution provide for equalization based on these factors, but that a limit on the spending of individual municipalities be imposed, above which the state would reduce or stop sharing in these costs."

I. 1975 Changes (Chapter 39, Laws of 1975)

1. The 1975 Distribution Formula

Chapter 39, Laws of 1975 (the 1975-76 Executive Budget Act), subsequently, made several changes in the shared taxes distribution formula.

The major change was the creation of the "aidable revenues" component of the formula, which replaced the percentage of levies component. It was designed to help local units that had a lower tax base and higher taxes. Chapter 39 provided for 2 aidable revenues formulas, one for municipalities and one for counties. The aidable revenues formula for both municipalities and counties was base primarily on : 1) average local purpose revenues (defined as "the sum of the 3 prior years local purpose revenues divided by 3"); 2) per capita property valuation; and 3) standard valuation, which was set at $30,000. For municipalities, aidable revenues meant "the average local purpose revenues". For counties, aidable revenues (for 1976) meant "one-fourth of the average local purpose revenues"; and for 1977 and thereafter, meant "the sum of one-fourth of the average local purpose revenues, plus an amount representing the difference between the current year's average local purpose revenues and the 1976 average local purposes revenues". In its January 1977 report, "Shared Taxes", the Legislative Fiscal Bureau explained the new aidable revenues component as follows:

> "New formula — Property tax base factor provides higher payments to local units with lower property tax bases and higher locally-raised revenue in previous three years. Measurement of local revenue effort was expanded to include fees and other revenue as well as property taxes. However, local revenue effort for shared tax purposes now only takes into account revenue raised for municipal and county purposes.
>
> "Old formula — Provided higher payments to local units with higher-than average tax rates for all purposes including schools."

Chapter 39 made additional changes in other components of the shared taxes distribution formula as follows:

(1) Per capita component — The total state allotment for this payment was frozen at the 1976 funding level ($185 million). From this allotment, per capita payments to local units were increased from the former level of $35 to $40, of which municipalities received $33.50 and counties received $6.50. Therefore, because of the funding level freeze, increases in the population would result in decreases in per capita payments.

(2) Public utility component — A municipality in which is located a utility plant with a rated capacity of at least 250 megawatts will receive a payment of $100,000 per year and counties will receive $50,000 for the first 4 years after construction commences. Beginning with the fifth year, payments to municipalities were to be based on a rate of 3 mills (formerly 11 mills) times the net book value of the utility plant (up to a maximum of $100 million — formerly, no limit), with a limit of $300 per person. Beginning with the fifth year, utility payments for counties were equal to one-half of the amount received by the municipalities therein. Transitional payments were also provided under this component.

(3) Minimum guarantee component — The minimum payment equaled at least the payment received in 1975 (formerly, 90% of the previous year's total).

2. Background on the 1975 Distribution Formula

In his Biennial Budget Message of January 28, 1975, to the 1975 Wisconsin Legislature, Governor Patrick J. Lucey proposed additional refinements to improve the equity of the shared tax distribution system:

> "Four years ago, we initiated a major reform of Wisconsin's system of sharing taxes with municipalities and counties. This reform has helped to ease and equalize property tax burdens throughout the state.
>
> "However, some serious problems remain. Many communities continue to receive more money in shared taxes from the state than they raise themselves. (About 18% of the communities in Wisconsin have virtually no municipal tax rate yet receive shared tax payments.) And shared utility taxes continue to pay for all or most of the municipal budget in a number of utility communities.
>
> "Since our 1971 reforms, the passage of federal revenue sharing, plus the announcement of construction plans for major new power plants in Wisconsin, have added new elements which must be considered in appraising our shared tax system. In the coming biennium we must follow through on the improvements we achieved four years ago and adapt them to our changing circumstances.
>
> "The shared tax distribution reforms that I am proposing today would effectively address the inequities which remain. Specifically:
>
> — *utility payments* would be based on a sliding scale more closely related to the costs to the locality of servicing the property involved;
>
> — *per capita payments* would be related to the level of locally raised revenues;
>
> — *excess levies payments* would be based on an improved measure of local tax effort, which would exclude school taxes (already equalized under Chapter 90), and include fees and some other non-property tax revenues previously left out.

"Both the gains and the losses under these reforms would be phased in over time. This approach would, I believe, allow an adequate and reasonable period of transition and adjustment for all concerned.

J. 1977 Changes (Chapter 29, Laws of 1977)

1. The 1977 Distribution Formula

Chapter 29, Laws of 1977 (the 1977-78 Executive Budget Act), replaced the Municipal and County Shared Tax Account, funded by various earmarked state taxes, with a Municipal and County Shared Revenue Account, funded by a general purpose revenue (GPR) appropriation. Thus, this change replaced the shared tax concept, whereby local units received a certain percentage of various state taxes, with the appropriation concept. At this point, "shared taxes" became known as "shared revenue". The appropriation to the shared revenue account had an automatic growth rate provision, which was based upon the increase in the state general fund tax collections. The automatic growth rate provision included a minimum growth rate of 5% and a maximum growth rate of 12%. However, this provision was largely inoperative because the Legislature made specific appropriations.

2. Background on the 1977 Distribution Formula

Stating that his budget was proposing no change in the basic distribution formula, Governor Patrick J. Lucey recommended simplification of the funding process and a guaranteed annual growth rate in the account ("Budget in Brief", January 1977).

In his budget message (January 25, 1977), he said:

"The shared tax program is too complicated and does not provide for reliable growth. The program needs to be streamlined and simplified.

"Beginning in 1978, I propose a guaranteed annual increase in overall payments tied to the yearly percentage growth in Wisconsin personal income. There would be a minimum guarantee of 5 per cent growth, and there would be a ceiling of 10 per cent on growth in any one year.

"This proposal will mean overall shared revenue growth of about 9 per cent a year in the next biennium. If the economy continues to recover, it will provide more than enough funds to support that commitment to regular growth in shared taxes."

a. The Commission on State-Local Relations and Financing Policy (Wallace Commission)

(1) Summary

Governor Patrick J. Lucey established the Commission on State-Local Relations and Financing Policy in October 1975 by Executive Order 21. The commission, chaired by Henry L. Wallace, became known as the "Wallace Commission". It was directed to study a wide range of problems concerning intergovernmental relations and finances. Among these was how to make Wisconsin's system of government financing more equitable and efficient.

The commission recommended greater equalization of disparities between municipalities, but some members voiced concern that emphasis on the aidable revenues portion over the per capita portion would penalize rural municipalities.

(2) Discussion of Shared Taxes by the Commission

In its review of the shared taxes program, the Wallace Commission recognized:

"....shared taxes are capable of achieving their goal of supporting basic services specifically through the per capita payments feature in the shared tax formula. Similarly, we recognize that the aidable revenues portion of the formula is capable of providing support for basic levels of service while at the same time equalizing the ability of local units to finance those same services. Given the components of the shared tax program, we acknowledge the fact that the shared tax program is capable of achieving a greater degree of equity between and among municipalities and, by virtue of its structure, is capable of meeting the stated goals.

"The Commission believes that the shared tax program has been a desirable part of an ongoing attempt to support minimum services and equalize the ability of local governments to finance services. The goal of local government finance based on more progressive revenue sources (shared taxes) is an admirable one. Further, the shared tax program has been a desirable policy tool to this end at a time when the major portion of property tax relief is not distributed based on ability to pay, nor do local general purpose units have access to viable alternative revenue sources which are progressive in incidence. Within this context, a shared tax program, which seeks to equalize the ability of local governments to finance a basic level of service through the sharing of more progressive state tax revenues, is based on sound policy."

(3) Commission Recommendations

"The Commission recommends that the shared tax program be revised to more nearly equalize disparities between municipalities in the relationship between their available revenue sources and their financial requirements. The shared tax formula should take into account the burden imposed upon central cities in providing services to commuters."

(4) Additional Recommendations by Individual Members

Statement by Senator Walter Hollander and Representatives Laurence Day, Earl Schmidt and Kenneth Schricker:

"We do not believe it is equitable to the rural areas of the State that State shared tax payments emphasize the aidable revenue portion of the formula to the detriment of the per capita payment portion. This, in essence, rewards big spenders and penalizes those municipalities which have been efficient or even frugal.

"It is somewhat confusing to be presented with statistics indicating that municipal costs per capita in rural municipalities are higher than in urban municipalities and at the same time be presented with statistics showing that the former many times meet their governmental costs completely with only the per capita payment portion of the shared tax formula. Both rural and urban municipalities receive the same per capita payments, but it is exclusively the former which are thrifty enough to require no further State monies under the aidable revenue portion of the formula.

"We hasten to add that many services in rural areas, e.g., sewage, water and garbage, are handled by the individual and require little, if any, public expenditures. Nonetheless these persons are entitled to State shared tax payments inasmuch as they are also a point source of the revenue collected by the State income and sales tax.

"If the rural areas are to lose their per capita payments, at the very least those monies should go to expand substantially the Homestead Tax Credit program rather than be consumed by those municipalities which benefit greatly from the aidable revenue portion of the formula."

Statement by Mr. Norman Gill (public member):

"I concur in the Commission's recommendation to make the shared tax formula more equitable, but the Commission should have strengthened that recommendation by indicating the manner in which that formula should be revised, as follows:

1. Eliminate all the complicated formulae for determining the percentages of various taxes allocated to the shared tax fund, and establish a general state aid program for municipalities, comparable to state aids for schools, with an appropriation from general state funds.
2. Eliminate the per capita portion of the program and combine it with the aidable revenues program.
3. Allocate a specific portion of the fund to counties, and the balance to cities, villages and towns.
4. Distribute the funds on the basis of a formula which more nearly equalizes disparities between municipalities in the relationship between their available revenue sources and their financial requirements."

K. 1979 Changes (Chapters 1, 34 and 221, Laws of 1979)

1. The 1979 Distribution Formula

Three acts of the 1979 Wisconsin Legislature provided for the further refinement of the shared revenue program; Chapters 1, 34 (the 1979-80 Executive Budget Act) and 221 (the 1980 Budget Adjustment Act), Laws of 1979.

Chapter 1, Laws of 1979, specified the amount of the funds which were to be entered temporarily in the shared revenue account. This temporary specification was for the 1979 and 1980 shared revenue distributions. According to the Legislative Fiscal Bureau, "Without this action, growth in the shared revenue account would have slowed in response to the tax reductions also enacted in Chapter 1, Laws of 1979".

Chapter 34, Laws of 1979, provided for several modifications in the shared revenue program, including the following:

(1) Excluded the value of manufacturing property from the aidable revenues formula in determining a municipality's per capita property wealth. The Legislative Fiscal Bureau stated that the "change was made in response to concerns that inclusion of manufacturing property overstated the property wealth available to support municipal services to a community's residents and also acted as a disincentive for municipalities to promote and accept industrial development".

(2) Revised the county aidable revenues formula concerning the calculation of the county's revenue effort from an effort equal to 25% of the average local purpose revenue and an amount representing the increase in average local purpose revenues, if any, over the 1976 average local purpose revenues to 30% of the average local purpose revenues.

(3) Increased the shared revenue minimum guarantee payment.

Chapter 221, Laws of 1979, increased the dollar figure in the definition of "standard valuation" from $30,000 to $31,000. "Standard valuation" is used in connection with determining aidable revenues entitlement for both municipalities and counties.

2. Background on the 1979 Distribution Formula

a. Blue Ribbon Tax Reform Commission

On January 26, 1978, Acting Governor Martin Schreiber created the Tax Reform Commission by Executive Order 52. The commission, chaired by former State Senator Robert Knowles, was to conduct a comprehensive examination of the state tax system. This included an examination of the personal and corporate income tax, sales tax, inheritance tax, and property tax.

On January 22, 1979, Governor Lee Sherman Dreyfus continued the commission until March 1, 1979.

In June 1979, the commission issued its final report. Included in the report were the following recommendations for the shared revenue program by commission members Senator Scott McCallum and Mr. George Kaiser:

> "Changes in the state's formulas for distribution of aids and shared taxes to localities have been dramatic in their magnitude and result in the past eight years. While there have been many beneficial results, the effect in many communities has also been to:
>
> 1. Reduce incentive for communities to hold down costs and to eliminate unnecessary services.
> 2. Reduce incentive to attract or expand industrial tax base.
> 3. Develop shared tax formulas so complex that municipal officials and interested citizens cannot accurately project these revenues (thereby affecting the local budgeting process) and further precluding local officials from comparing the fiscal effect of a series of formula changes on the community.
>
> "The state needs to seriously rethink the merits of the concept of "tax base neutrality" and design shared tax policies which have economic and political merit beyond the dollars being distributed."

b. Background on 1979 Chapter 34

(1) Summary

Shared Revenue Account Total Appropriation — 1979 Chapter 1 reduced taxes and statutorily fixed the shared revenue amounts. The Governor's budget bill (eventually enacted as 1979 Chapter 34) proposed increasing the funding to reflect automatic growth and to offset the impact of the tax reduction program, but this was superseded by 1979 Chapter 1. The Joint Committee on Finance provided additional sums for the shared revenue program as specified in 1979 Chapter 1. As passed, the Legislature deleted the additional sum for the first year of the biennium but would have retained it for the second year. The Governor, however, vetoed the second year sum. Thus, the effect was to keep the fixed amount as appropriated in 1979 Chapter 1 and not offset the impact of 1979 Chapter 1.

Shared Revenue Minimum Payments Supplement — The Governor recommended providing a sum to reflect statutory requirements on minimum payment supplements for 1979. The Joint Committee on Finance provided an additional supplement to extend the payment to 1980, but would have phased down the amount in subsequent years. As passed, the Legislature provided an additional sum for each year in an effort to make up the entire difference between the 1975 and 1979 payment levels, and substitute a supplement in 1981 for the phase down. The Governor vetoed the extension to 1981 and reduced the size of the supplement for 1979 and 1980 to his and the committee's figures.

Shared Revenue Formula Changes — The Joint Committee on Finance modified the aidable revenues component of the shared revenue formula and provided for a guaranteed utility payment to certain counties. While this proposal would have excluded the value of manufacturing real estate from total property value, the version passed by the Legislature would have excluded 50% of such property for 1980 only. The Governor vetoed the 50% provision.

(2) Detailed Explanation by the Legislative Fiscal Bureau

The Legislative Fiscal Bureau ("1979-81 Wisconsin State Budget — Enacted as Chapter 34, Laws of 1979"), summarized the recommendations of the Governor, the Joint Committee on Finance, and the Legislature's final version of the shared revenue formula as follows:

"1. Shared Revenue Account Total Appropriation

GOVERNOR: In SB 79, increase the 1978-79 level of funding of $339,591,000 for municipal and county shared revenue (excluding the minimum guarantee supplement) to $380,343,000 in 1979-80 and $397,871,000 in 1980-81 to reflect automatic growth and to fully offset the impact of the Governor's proposed tax reduction program in 1979-80 only. Under current law, shared revenue account growth is tied to the rate of growth of general state tax collections. Consequently, state tax reduction will result in less growth in shared revenue than would otherwise have occurred. Chapter 1, Laws of 1979 (the tax reform and reduction act) replaced the Governor's recommendation in SB 79 by statutorily fixing amounts of $372,000,000 in 1979-80 (the amount used for local budgeting purposes) and $413,000,000 in 1980-81. After 1980, the shared revenue total would again be tied to the growth rate in state tax collections.

JOINT FINANCE: Provide an additional $8,300,000 in 1979-80 and $8,800,000 in 1980-81 to the shared revenue account to fully offset the estimated impact of the tax reform and reduction program enacted by Chapter 1, Laws of 1979.

LEGISLATURE: Delete the additional $8,300,000 in 1979-80 but retain the additional $8,800,000 in 1980-81.

VETO BY GOVERNOR: Delete the additional $8,800,000 in 1980-81.

"2. Shared Revenue Minimum Payments Supplement

GOVERNOR: Provide up to $8,500,000 LTR in 1979-80 to reflect current statutory requirements to make-up all or a portion of the amount by which each municipality's 1979 shared revenue payment (excluding utility payments) is less than the 1975 payment level. Under current law, this appropriation would expire after the 1979 distribution and no minimum guarantee would be provided in 1980-81.

JOINT FINANCE: Provide an additional supplement of $8,500,000 LTR in 1980-81 to extend the minimum guarantee payment. After the 1980 distribution, funding for minimum guarantee payments would be phased down by 20% ($1,700,000) each year. In addition to municipal minimum guarantee payments, the supplement would be used as a funding source to provide minimum guarantee payments to counties adversely affected by the proposed change in the county aidable revenue formula (see Item No. 3).

LEGISLATURE: Provide an additional $2,500,000 in 1979 and $3,500,000 in 1980 to the minimum guarantee supplement to increase the likelihood of making up the entire difference between formula payments and 1975 payment levels. Further, delete the 20% phase-out provisions for the minimum guarantee supplement and instead authorize up to $12,000,000 for 1981. The statutes would be silent as to the minimum guarantee after 1981.

VETO BY GOVERNOR: Limit the extension of the minimum guarantee supplement to 1980, rather than 1981, and reduce the size of the supplement for 1979 and 1980 to $8,500,000 annually.

"3. Shared Revenue Formula Changes

GOVERNOR: No provision.

JOINT FINANCE: Make the following changes in the shared revenue formula beginning in 1980. These changes affect the distribution of shared revenue but have no state fiscal effect.

a. Modify the aidable revenue formula by excluding the value of manufacturing real estate from total property value in the calculation of municipal aidable revenue payments. This exclusion would not apply to counties.

The effect of this change would be to shift roughly $3,400,000 of aidable revenue payments to municipalities with a greater than average concentration of manufacturing property, based on 1979 data.

b. Modify the county aidable revenue formula by deleting a formula factor (current average local purpose revenue minus average local purpose revenue in 1976) which tends to increase payments to some counties and instead, increase the percentage of average county purpose revenue that is allowed as aidable revenue from 25% to 30%. Counties which are affected in 1979 by the positive increase component, which would be eliminated in 1980, would participate in a minimum guarantee payment based on their 1979 shared revenue payment (excluding the utility component). Funding for these guarantee payments would be provided from the $8,500,000 supplement for minimum guarantee payments (see Item No. 2 above). In addition, the Department of Revenue would be required to study the treatment of counties under the aidable revenue formula and provide a report with recommendations to the Joint Committee on Finance no later than January 1, 1980.

c. Modify the aidable revenue formula by excluding occupational taxes from the definition of local purpose revenues. Approximately $125,000 would be shifted within the aidable revenue formula in 1980.

d. Provide a guaranteed utility payment of $75,000 to counties (which is currently provided to municipalities) for utility plants with a capacity of 200 megawatts or greater. Approximately $200,000 would be distributed according to the utility instead of the aidable revenue formula.

LEGISLATURE: Modify the aidable revenue component of the shared revenue formula by excluding 50% of the value of manufacturing real estate from total property value in the calculation of municipal aidable revenue payments for 1980 only and require the Department of Revenue to submit a report to the Joint Committee on Finance by January 15, 1980 regarding the treatment of manufacturing property under the aidable revenue formula.

VETO BY GOVERNOR: Modify the Legislature's provision to exclude 50% of the value of manufacturing real estate for 1980 only by permanently excluding 100% of the value of manufacturing real estate in calculating aidable revenue payments. Also, delete requirement of a report regarding the treatment of manufacturing property under the aidable revenue formula."

c. Background on 1979 Chapter 221

(1) Summary

Shared Revenue Formula Change — The Governor proposed increasing the standard valuation used to determine aidable revenues. Although the Joint Committee on Finance would have deleted this provision, the Legislature reinserted an increased standard valuation but at a lower level than the Governor's. The Governor accepted this figure but vetoed the "hold harmless payment provision" established by the Legislature.

Shared Revenue Minimum Guarantee Payment — The Governor proposed extending the minimum guarantee payment to 1981 but limited municipal payments to 62% of the deficiency. The Joint Committee on Finance would have modified this by increasing the supplement to approximately 100% of the deficiency. The Legislature substituted a sum sufficient appropriation for a sum certain appropriation to ensure that minimum payments were at 100% of deficiency. The Governor's veto modified the formula for computing the deficiency for 1981, thereby reducing the minimum guarantee payment.

(2) Detailed Explanation by the Legislative Fiscal Bureau

The Legislative Fiscal Bureau ("1980 Annual Budget Review — Assembly Bill 1180 — Enacted as Chapter 221, Laws of 1979"), summarized the recommendations of the Governor, the Joint Committee on Finance, and the Legislature's final version of the shared revenue formula as follows:

"1. Shared Revenue Formula Change

GOVERNOR: Increase the current $30,000 standard valuation used in the determination of aidable revenue payments to $34,000. This change would result in distributional shifts in shared revenue payments but would have no state fiscal effect. This change would be effective for the 1981 shared revenue distribution.

JOINT FINANCE: Delete provision.

LEGISLATURE: Increase the standard valuation to $31,000 beginning in 1981 and establish for 1981 only a new shared revenue hold harmless payment for municipalities and counties adversely affected by the standard valuation change. A sum sufficient appropriation estimated to be $2.7 million would fund this new hold harmless in 1981-82. There would be no fiscal effect in the 1979-81 biennium.

VETO BY GOVERNOR: Delete the provision for establishment of the new hold harmless payment but retain the provision to increase the standard valuation to $31,000. The deletion of the new hold harmless payment reduces state expenditures by $2,700,000 in 1981-82. There is no fiscal effect in 1979-81.

"2. Shared Revenue Minimum Guarantee Payment

GOVERNOR: Extend for one year (to 1981) shared revenue minimum guarantee payment provisions, but limit municipal payments for that year to 62% of statutorily defined deficiency. An amount not to exceed $8,500,000 would be required in 1981-82 to fund this extension. There would be no fiscal effect in the 1979-81 biennium.

JOINT FINANCE: Modify the Governor's provisions for extending the minimum guarantee payment to 1981 by deleting the restriction that guarantee payments not exceed 62% of deficiency and increasing the 1981-82 minimum guarantee supplement from $8,500,000 to $15,000,000. These changes would allow minimum guarantee payments to be paid at approximately 100% of the deficiency.

LEGISLATURE: Modify Joint Finance provisions for extending the minimum guarantee payment to 1981 by providing a sum sufficient appropriation rather than the $15,000,000 sum certain appropriation to ensure that minimum guarantee payments are paid at 100% of deficiency. The standard valuation change described in Item no. 1 is estimated to reduce the minimum guarantee cost by $300,000, to $14,700,000, in 1981-82. There would be no fiscal effect in the 1979-81 biennium.

VETO BY GOVERNOR: Modify, for 1981 payments, the formula for computing a municipality's deficiency between current and 1975 shared revenue payments. Previously, the deficiency was equal to the decrease, if any, in the sum of current per capita and aidable revenue payments from the sum of 1975 per capita, 1975 "percentage of levies," and 1975 minimum guarantee payments. As a result of the item veto the deficiency will be equal to the decrease, if any, in the sum of current aidable revenue payments and the November portion of per capita payments from the sum of the 1975 "percentage of levies" payment and the November portion of the 1975 per capita payment. The formula for computing county deficiencies is not altered. The Governor's veto is estimated to reduce minimum guarantee payments by $2,600,000 to $12,100,000, in 1981-82. There is no fiscal effect in 1979-81."

L. 1981 Changes (Chapters 20, 61, 93 and 317, Laws of 1981)

1. The 1981 Distribution Formula

Modification of the shared revenue program's distribution formula continued during the 1981 session of the Legislature "to enhance and refine the equalization character of the shared revenue formula". These modifications were enacted by Chapter 20 (the 1981-82 Executive Budget Act), Laws of 1981 and Chapters 61, 93 and 317 (budget adjustment acts), Laws of 1981.

Chapter 20, Laws of 1981, affected the following parts of the shared revenue program:

(1) Per capita component: Beginning with the 1982 shared revenue distribution, the "per person dollar amount" component used in the per capita formula was reduced from $40 to $30. Although the per capita payments were fixed in the 1982 statewide distribution appropriation at $30 per person, the amount was allowed to vary in subsequent distributions as the state's population varied, decreasing with an increasing population.

Counties were no longer eligible to receive their share (one-sixth) of this per capita payment. They became entitled, however, to a larger percentage of the "average local purpose revenue" component in the aidable revenues entitlement payments.

(2) Aidable revenues component: Two components of the aidable revenues formula were revised: "standard valuation" and "average local purpose revenue". The standard valuation figure was revised from the fixed $31,000 figure to a variable figure. The effect was to allow for the exact distribution of the specific annual appropriation for this component. Prior to this change, there was a sum sufficient appropriation.

Chapters 61 and 93, Laws of 1981, created a special 1981 adjustment to provide additional payments to municipalities and counties with actual payments lower than their estimated payments.

Chapter 317, Laws of 1981, delayed the implementation of the change in the sewer service revenue definition "due to the impact that this change had on some municipalities". To prevent any adverse effect caused by the change in the sewer service revenues limitation, Chapter 317 established a sewer service revenue minimum guarantee payment (scheduled to expire after the 1983 distribution).

Chapters 20, 93 and 317, Laws of 1981, all had an effect on the distribution of payments schedule.

2. Background on the 1981 Distribution Formula

a. Summary

Shared Revenue: Aidable Revenues Component — Concerning 1981 Chapter 20, the Governor proposed modifying the aidable revenues component formula by changing the definition of local purpose revenues, increasing the base county aidable revenues, and allowing a flexible standard valuation. The Joint Committee on Finance version, adopted by the Legislature, changed the Governor's definition of local purpose revenues by reinstating some revenues deleted by the Governor and adding others, increased the county aidable revenues percentage higher than the Governor's version, and agreed with the Governor's flexible standard valuation. The Governor's vetoes further modified the local purpose revenues definition. The outcome was to shift some aids.

1981 Chapter 317 changed the definition of eligible sewer service revenues for inclusion in the definition of local purpose revenues.

Shared Revenue: Per Capita Component — Concerning 1981 Chapter 20, the Governor proposed increasing the per capita payment and, thus, increasing the municipal share. Furthermore, the 1982 manufacturers' machinery and equipment payment, which had been a separate per capita appropriation, would be consolidated into the 1982 shared revenue payment, and the per capita shared revenue payments would be based on estimates of the preceding year's population instead of the current year's population. The Joint Finance Committee and the Legislature reduced the Governor's per capita payment to an annual fixed amount and provided that only municipalities would receive such fixed payments.

Shared Revenue: Utility Payments — Concerning 1981 Chapter 20, the Governor recommended that if a plant of 200 megawatts is located in 2 municipalities or counties, the minimum guarantee payment would be apportioned between them. There were other technical changes. The Joint Committee on Finance and the Legislature deleted these provisions.

Shared Revenue: Minimum Guarantee and Maximum Growth Limits — Concerning 1981 Chapter 20, the Governor recommended a permanent minimum guarantee payment based on a sum certain rather than a sum sufficient appropriation. The changes would have increased the level for the biennium. The Joint Committee on Finance and the Legislature deleted the conversion to a sum certain for 1982, altered the 1981 minimum guarantee formula, and reduced the 1981 payment as part of the budget-balancing mechanism. For 1982, they modified the Governor's minimum guarantee payment by broadening the base for the guaranteed payments, and substituted funding through maximum growth limits for the sum certain supplemental appropriation for 1982 through 1984. After 1984, a sum sufficient supplemental appropriation was provided to fund the payments.

1981 Chapter 93 replaced the single minimum guarantee and maximum growth mechanism with 2 separate minimum guarantee and maximum growth mechanisms, one for shared revenue and one for Wisconsin state property tax relief credits.

Shared Revenue: Growth Provisions — Concerning 1981 Chapter 20, the Governor would have changed the formula for increasing the revenue in the shared revenue account so that the growth rate was less. The Joint Finance Committee and the Legislature deleted the provision, and, thus, the growth was higher.

b. Detailed Explanation by the Legislative Fiscal Bureau

The Legislative Fiscal Bureau ("1981-83 Wisconsin State Budget — Enacted as Chapters 20, 93 and 317, Laws of 1981") summarized the recommendations of the Governor, the Joint Committee on Finance, and the Legislature concerning various components and the growth provision for the shared revenue formula as follows:

"1. Shared Revenue: Aidable Revenues Component

Chapter 20:

GOVERNOR: Beginning in 1982, modify the aidable revenues formula as described below. These modifications will generate significant shifting of aids, but will not have a state fiscal effect.

a. *Definition of Local Purpose Revenue.* Modify the definition of local purpose revenue to include local taxes, special assessments, sanitation and sewage fees, and tax base equalization aids. More specifically, local purpose revenue would include the levy for municipal or county purposes; room tax; municipal vehicle registration fees; taxes levied by sanitary and sewage districts; fees for refuse collection, sewage services and landfill services raised by municipalities or counties through their general operations or enterprises, or raised by sanitation or sewerage districts and inland lake rehabilitation districts; special assessments levied by municipalities or counties for capital improvements, and aids paid according to the aidable revenue formula. This definition of local purpose revenue includes revenues not in the current definition (taxes raised by sewage and sanitary districts, and sanitation fees raised by sewage, sanitation and inland lake rehabilitation districts and tax base equalization aids) and excludes many items that are currently included in local purpose revenue (interest and rental income, traffic fines and other regulation and compliances revenues, and many fees and charges such as court fees, golf fees and parking fees, for example). The effect of including tax base equalization aids is to make the aidable revenues formula more comparable to the general school aid formula.

b. *County Sharing Factor.* Base county aidable revenues upon 55% of average local purpose revenue rather than 30%.

c. *Standard Valuation.* Allow the standard valuation to be set each year at a value that will generate formula determinations equal to available funds. Under current law, the standard valuation is fixed at $31,000 and formula determinations are increased or decreased by a uniform percentage to expend the amount of available funds. "Floating" the standard valuation would produce a standard valuation of approximately $38,000 in 1982."

JOINT FINANCE/LEGISLATURE: Modify the Governor's proposal as follows:

a. *Definition of Local Purpose Revenue.* Modify the Governor's proposed definition of local purpose revenue as follows:

(1) Add back the following currently eligible revenues to local purpose revenue:

(a) Mobile home fees;

(b) Regulation fees (permits and licenses) except for liquor, business, occupational and cable TV licenses;

(c) General government service fees such as clerk, zoning and treasurer's fees except for register of deeds fees;

(d) Public safety service fees such as ambulance, police and fire call fees;

(e) Inspection service fees;

(f) Health and social service fees except for services by 51.42/.437 boards and other service fees reimbursed by third parties, welfare repayments, and fees from Older American Projects;

(g) Transportation service fees such as parking ramps and meters and docks and harbor fees except for airport fees, private road maintenance fees and sale of highway materials;

(h) Leisure activity service revenues such as library fees, museum, zoo, golf and swimming pool fees except for stadium, fair and exhibit, auditorium and celebration fees;

(i) Conservation and development of natural resources service fees such as park use fees, except for forestry fees and weed cutting fees.

(2) Add the following new component to local purpose revenue:

(a) For municipalities only, a proxy for private sewer service costs equal to $25 times the municipality's population less public expenditures for sewer services and individual septic tank replacement grants payments under s. 144.245;

(3) Exclude the room tax from local purpose revenue.

This definition of local purpose revenue would maintain the Governor's provision to add tax base equalization aids, tax levies of sanitary and sewage districts, and sewer charges of sanitary, sewage and inland lake rehabilitation districts and to exclude, in addition to those revenues outlined above, woodland and forest crop taxes, retained sales tax, special charges, compliance fees, judicial service fees and costs, interest and rental income and sewer charges not charged to residents in the municipality.

b. *County Sharing Factor.* Modify Governor's provision by raising for counties the percentage of average local purpose revenue eligible as aidable revenues to 70% in 1982 and annually increase this factor by 5% in following years until 100% is reached in 1988.

c. *Standard Valuation.* Include Governor's provisions to float the standard valuation. In conjunction with other recommendations by the Joint Committee on Finance, the standard valuation would float to a level of approximately $42,000 in 1982.

Further, provide that the Department of Revenue may use estimates for years prior to 1981 in implementing the changes to local purpose revenue for revenues not delineated in available reports filed with the Department.

VETO BY GOVERNOR: Modify the definition of local purpose revenue as follows: (1) delete provision which reduces a municipality's sewer proxy by amount received for individual septic tank replacement grants and delete the requirement that the Department of Natural Resources compile the information on the septic tank grant payments; (2) delete from the definition of local purpose revenue all health and social services revenues rather than limiting the exclusion to health and social services revenues that are reimbursed by third parties; and (3) include sewer revenues from public utilities and government units located within the municipality.

Chapter 317: Delay and phase in the implementation of Chapter 20, Laws of 1981 (the 1981-83 biennial budget act), change the definition of eligible sewer service revenues to require that, for the 1982 shared revenue distribution, two of the three years of local purpose revenues be based on the prior law definition of eligible sewer service revenues. The 1983 shared revenue distribution would be based on the prior law definition for one of the three years of local purpose revenues. In 1984, the shared revenue distribution would be based fully on the new definition of eligible sewer revenues. (Chapter 20, Laws of 1981, limited eligible sewer service revenues to only those sewer service revenues that were derived from individuals within the municipality, effective for the 1982 shared revenue distribution.)

In addition, establish a new minimum guarantee payment for municipalities and counties to fully offset any payment decreases due to the delay and phase-in of the Chapter 20 definition of eligible sewer service revenues and provide a sum sufficient appropriation, estimated at $2,100,000 GPR in 1982-83, to fund the minimum guarantee. Finally, provide a technical modification to the 1982 shared revenue formula to require that all components be computed on the basis of actual data and the formula modification of this act.

"2. Shared Revenue: Per Capita Component

Chapter 20:

GOVERNOR: Beginning in 1982 provide a per capita payment of $37.69 per person for municipalities and $4.31 per person for counties, for a total of $42.00 per person. The municipal share of per capita payments would be increased by this change. (The Department of Revenue has indicated that the intention was to provide for municipal per capita payments of $35.18 and county per capita payments of $6.82, which would retain the current split between the municipality and county.) Under current law, the total shared revenue per capita payment is equal to the lesser of $40 per person or $184,965,950 divided by the present year's population. In 1982, an estimated $38.90 per person would be paid. In addition, per capita payments of an estimated $2.42 are to be made, under current law, through the M&E appropriation. The sum of both per capita payments is estimated to be $41.32 in 1982, $34.61 paid to the municipality and $6.71 paid to the county. Under the Governor's recommendation, the 1982 M&E payment would be consolidated into the 1982 shared revenue payment. Finally, provide that per capita shared revenue payments be based on estimates of the preceding year's population rather than the current year's population. Changes in total per capita payments will be reflected as changes in the amount of funds available for distribution as aidable revenues but will not have a state fiscal effect."

JOINT FINANCE/LEGISLATURE: Delete Governor's provisions and provide instead that beginning in 1982 per capita payments be reduced to an annual fixed amount (estimated at $142.6 million) equal to $30 times the state's 1982 population and further provide that only municipalities would receive a per capita payment. There would not be an additional per capita payment under M&E since the M&E distribution is consolidated into the shared revenue account ....

"3. Shared Revenue: Utility Payments

Chapter 20:

GOVERNOR: Base utility payments on the value of utility property two years preceding the year of distribution rather than the preceding year. Further, provide that the per capita limits on utility payments be based on population estimates of the prior year rather than the current year. Also, provide that the initial $100,000 payment to municipalities and counties for large utility plants (250 or more megawatts capacity) during the first four years of construction be paid in the succeeding year if the Public Service Commission certifies to the Department of Revenue prior to August 10 that construction has commenced. If notification is received after August 10, the initial payment would be made two years later. Under current law, the $100,000 payment is paid in the year construction begins if the Department is notified by November of that year. Finally, provide that, when a plant of 200 megawatts is located in two municipalities or counties, the $75,000 minimum guarantee payment be apportioned to the municipalities or counties by the proportion of value in each municipality or county, with a minimum of $15,000 provided to each municipality or county. It appears that, under current law, if a utility plant is located in two or more municipalities and counties, the local governments involved would be ineligible for the $75,000 minimum guarantee payment.

These changes in utility payments would affect the distribution of state aids, but would not have a state fiscal effect. Changes in total utility payments would be offset by changes in funds available for aidable revenues payments."

JOINT FINANCE/LEGISLATURE: Delete provision.

"4. Shared Revenue: Minimum Guarantee and Maximum Growth Limits

Chapter 20:

GOVERNOR: Provide a sum certain appropriation of $13,200,000 for 1981 minimum guarantee payments rather than the current sum sufficient appropriation estimated at $13,290,700. Also, establish a minimum guarantee payment, for 1982 and thereafter, equal to the positive difference, if any, between 90% of the prior year's payments (including the personal property tax relief transfer and manufacturers' machinery and equipment payment) and the current year's payments. Provide a sum certain appropriation of $4,000,000 in 1982 for minimum guarantee payments. Under current law, the minimum guarantee payment would expire after 1981. These changes will provide minimum guarantee payments in 1981-83 that exceed the 1980-81 level doubled ($17,000,000) by $200,000.

JOINT FINANCE/LEGISLATURE: Delete the Governor's provision to convert the 1982 minimum guarantee payment to a sum certain appropriation. Also, provide that the 1981 minimum guarantee formula be altered to use only 74% of the 1981 aidable revenue payment in computing the deficiency so that the consolidation of the 1981 personal property tax relief (PPTR) transfer payment does not affect the level of minimum guarantee payments. Finally, provide that 1981 minimum guarantee payments be reduced by an estimated $140,800 (approximately 1.07%) as part of the $8,250,000 reduction of shared revenue and tax credit payments adopted as part of provisions to balance the 1981-83 budget.

Modify the Governor's provision for a permanent minimum guarantee payment in 1982 and thereafter as follows: (1) broaden the payments upon which the 90% guarantee is based to include tax credits (general property tax relief (GPTR), personal property tax relief (PPTR) and the newly established Wisconsin tax credits) in addition to shared revenue, PPTR transfer and M&E payments; (2) delete the sum certain supplemental appropriation and instead in 1982 through 1984 fund minimum guarantee payments internally through maximum growth limits of 15% in 1982 and 20% in 1983 and 1984 on consolidated shared revenue payments and tax credits.

After 1984 provide a sum sufficient supplemental appropriation to fund minimum guarantee payments. Any funds remaining after minimum guarantee deficiencies are fully satisfied would be distributed according to a municipality's or county's proportionate share of total consolidated shared revenue payments and tax credits."

Chapter 93: Replace the single minimum guarantee and maximum growth mechanism established in Chapter 20, Laws of 1981, with two separate minimum guarantee and maximum growth mechanisms, one for shared revenue and one for Wisconsin state property tax relief credits.

For shared revenue, beginning in 1982, guarantee that a municipality's or county's shared revenue payments would not decline below 90% of the prior year's payment (inclusive of any M&E payment). Minimum guarantee payments would be funded by a floating maximum growth limit (estimated at approximately 18% for 1982). The maximum growth limit would be set at a level that would generate the exact amount needed for minimum guarantee payments. It should be noted that any amount received by a municipality or county under the special 1981 adjustment or any repayment of the adjustment in subsequent years would be excluded from the calculation of either the minimum guarantee or the maximum growth limits.

"5. Shared Revenue: Growth Provisions

Chapter 20:

GOVERNOR: Provide that, in 1983 and future years, the shared revenue account would increase over the prior year by an amount equal to the total aidable revenues component multiplied by the growth rate in general fund tax collections. Under current law, the growth rate in tax collections is applied to the total shared revenue account, and not just the aidable revenues component. In 1983, growth in the shared revenue account would be between $10 million and $24 million less than under current law due to this change. The effect is cumulative for future years.

In addition, the years used to compute the growth rate in state general fund tax collections would be moved back one year in comparison to current law. Actual tax collection data would be used to compute the growth for odd-numbered years' distributions. Beginning with the 1984 distribution, estimates of tax collections as prepared for the November budget compilation would be used to determine the distribution amount for even-numbered years.

JOINT FINANCE/LEGISLATURE: Delete the Governor's provision for increasing the shared revenue account in 1983 and future years by an amount equal to the total aidable revenues payments times the growth rate in state tax collections. Growth in 1983 and future years would instead be based on current law provisions increasing the total shared revenue account by the growth rate in state tax collections within the limits of 5% and 12%. In 1983, growth in the shared revenue account would be approximately $20 million higher under this growth rule, given the shared revenues funding established by the Joint Committee on Finance and the Legislature.

Also, delete the Governor's recommendations to move back the years used for determining shared revenue growth and to use estimated tax collections in certain years."

The 1981 special adjustment payment was established by Chapters 61 and 93, Laws of 1981, as a result of mistiming between the federal census population estimates used in computing shared revenue payments and the issuance of the shared revenue payments. Because the federal census population estimates were not available in final form until after the estimates of 1981 shared revenue payments were made in October 1980, "the actual 1981 shared revenue payments were, for a number of municipalities, much lower than the budgetary estimates sent them". Thus, the special 1981 adjustment payment guaranteed municipalities an actual 1981 shared revenue payment equal to at least 92% of the estimate. If the actual 1981 payment was less than 92%, the municipality or county received a special adjustment payment to raise their 1981 total payment to 92% of the estimate. The 1981 special adjustment payments were scheduled to expire after the 1985 distribution because of entitlement restrictions.

M. 1983 Changes (1983 WisAct 27)

1. The 1983 Distribution Formula

1983 Wisconsin Act 27 (the 1983-84 Executive Budget Act) made the following changes in the shared revenue program:

(1) Set the 1983 shared revenue account appropriation at $714.6 million and froze this figure for 1984 by suspending the automatic growth provision. For 1984, an additional minimum guarantee of $8.6 was provided so that no municipality's payment was less than its 1983 payment. Wisconsin Act 27 also provided that the $8.6 million be included in the base for growth in the shared revenue account in the future.

(2) Established a new schedule for shared revenue payments to municipalities and counties based on a 3-year phase-in plan.

2. Background on the 1983 Distribution Formula

a. Summary

The purpose of the changes in the 1983 law was to provide property tax relief, but still stay within the state's resources. The Governor recommended suspending the automatic growth provisions for

1983 and 1984 shared revenue payments and setting statutory distributions. His distributions would have represented a 12% increase in 1983 over 1982 and a 5% increase in 1984 over 1983. The Joint Committee on Finance proposal would have reduced the Governor's 1984 distribution. As enacted, the law followed the committee's proposal, but provided a supplemental minimum guarantee for the 1984 shared revenue payment.

b. Detailed Explanation

The *Executive Budget Policy Issue Papers (January 1983)*, prepared by the Department of Administration for the 1983-85 Biennial Budget, posed the question, "What should be the funding level and method of distribution for Shared Revenue and Wisconsin State Property Tax Relief (WSPTR)?". The question was analyzed as follows:

"Problem Definition

The 1983-85 budget must establish funding levels for Shared Revenue and WSPTR that ensure a strong commitment to local governments and property tax relief, but at the same time stay within the state's resources. Commitments that are made in this budget will be kept.

"Analysis

The 1982 funding for shared revenue was authorized by the Legislature at $675 million but because of a partial veto of Chapter 93, Laws of 1981, the amount actually distributed was $638 million. Under current law, shared revenue funding is to grow at the rate of growth in state revenues and the Secretary of Revenue is to provide municipalities with a funding estimate for the coming year each September. Because of disagreement over which of the two figures represented the shared revenue base the Secretary of Revenue, in September, 1982, provided two estimates of 1983 payment levels. The low estimate, which used $638 million as the base with a 12% growth factor, projected a 1983 payment level of $714.6 million. The high estimate used $675 million as the base also with a 12% growth factor and projected a 1983 payment of $756 million. Local governments were advised to use the lower figure of $714.6 million in preparing their 1983 property tax levies. Since those levies have now been set and tax bills distributed, local government finances would be severely disrupted if less than $714.6 million was distributed in 1983.

The Governor recognizes the $675 million as the shared revenue base in this budget and recommends 1983 shared revenue funding at $714.6 million, a 5.9% increase over the base. The rate of growth in taxes for 1983 is now projected to be 7.5% instead of the 12% previously projected. If 1982 tax law changes had not been enacted, the rate would have been under 5% — less than the statutory minimum of shared revenue growth under the formula. The Governor's proposed funding level for shared revenue in 1984 is $750.3 million. This represents a 5% growth rate over the 1983 funding level. It is also recommended that the formula growth for shared revenue, based on growth in state revenues, be suspended for the 1983-85 biennium. This shared revenue funding level will maintain the state's commitment to local governments in 1983 while providing a 12% increase over the prior year's actual amount and an increase in 1984 which is roughly the expected rate of inflation. This funding level provides a reasonable level of growth to the program given the state's fiscal constraints and will enable local governments to undertake fiscal planning with confidence because the funding levels are set and are within the ability of the state to fund."

The Legislative Fiscal Bureau ("1983-85 Wisconsin State Budget — Enacted as 1983 Wisconsin Act 27") summarized the recommendations made by the Governor, the Joint Committee on Finance, and the Legislature's final version of the shared revenue funding level and automatic growth provisions as follows:

"*GOVERNOR:* Suspend automatic growth provisions for determining 1983 and 1984 shared revenue payments and, instead, statutorily set distributions at $714,600,000 for 1983 and $750,300,000 for 1984. Provide $39,600,000 GPR in 1983-84 and $75,300,000 GPR in 1984-85 over the base year appropriation of $675,000,000 (prior to the lapse of $37 million to the general fund) for a biennial appropriation increase of $114,900,000 GPR. The $714,600,000 in 1983 represents an increase of 5.9% over the $675,000,000 appropriated in 1982 and a 12% increase over the $638,000,000 actually distributed to municipalities in 1982. Under the proposal, 1984 shared revenue would be 5% higher than the distribution in 1983.

Current law provides for growth in the shared revenue account equal to the growth in state general fund tax collections over the previous year's collections. Based on current revenue estimates, with no changes in tax law, this would result in growth of 7.4%, to an appropriation level of $725 million for 1983-84 and growth of 5.6%, to an appropriation level of $765.6 million, for 1984-85. Enactment of the tax increases proposed by SB 83 would result in general fund revenue growth greater than the 12% maximum growth allowed for the shared revenue appropriation. If the growth provisions were to remain in effect and the tax law changes were adopted, the shared revenue distribution for 1984 would be estimated to be $812 million.

"*JOINT FINANCE:* Adopt the Governor's provision to set the shared revenue distribution at $714,600,000 for 1983; however, reduce the 1984 distribution from $750,300,000 as proposed in SB 83 to $714,600,000, for an appropriation reduction of $35,700,000 GPR in 1984-85.

"*LEGISLATURE:* Provide an additional $8,600,000 GPR in 1984-85 to fund a supplemental minimum guarantee for the 1984 shared revenue payment. Under this provision, each municipality and county would be guaranteed the *lesser* of (a) 100% of its 1983 payment under the per capita, aidable revenues and minimum guarantee components or (b) the amount which the municipality or county would have received under those three components in 1984 if $750.3 million had been distributed. The base used for the minimum guarantee excludes the sewer service minimum guarantee payment and the 1981 special adjustment payment as well as the utility payment. If the sum of the payments exceeds the $8.6 million appropriated, minimum guarantee payments will be prorated.

"In addition, provide that the $8.6 million appropriated in 1984 for the additional minimum guarantee payments be included in the base for growth in the shared revenue account in future years."

III. SHARED REVENUE TODAY

When it was enacted in 1911, the income tax was considered to be a more equitable tax which could replace revenue lost through property tax exemptions and mitigate the general burden caused by the property tax. It was distributed on a simple, fixed percentage basis to the localities in which the revenue originated. Today, shared revenue distributions to Wisconsin municipalities and counties are made from the Municipal and County Shared Revenue Account in the General Fund. Monies are appropriated to the shared revenue account on a sum sufficient basis to meet the requirements of the distribution formula. Now, the distribution is based on an equalization formula to meet local needs. The local tax base and the revenue effort are the major factors considered.

The distribution formula is comprised of 4 permanent components. In addition, the 1984 distribution formula had 2 temporary components. The 4 permanent shared revenue components are: 1) per capita; 2) aidable revenues; 3) utility; and 4) minimum and maximum payments. Of the 4 components, the aidable revenues component is the most significant. For 1985, the Wisconsin Department of Revenue estimated that the aidable revenues component represents 79% of the shared revenue distribution; the per capita component, 19%; and the utilities component, 2%. The fourth component insures that local units receive a minimum payment but do not exceed a maximum payment. The 2 temporary shared revenue components are: 1) special 1981 adjustment repayments (which are to expire after the 1985 distribution payments); and 2) 1984 minimum guarantee payment (which expired after the 1984 distribution).

In the distribution of shared revenue, municipalities (cities, villages and towns) are eligible to receive revenue payments through all the possible shared revenue components; counties, however, are not eligible to receive revenue from the per capita component. Their eligibility was repealed in 1981.

A. The Shared Revenue Components of the Distribution Formula

1. Per Capita Component

Of the 4 permanent components, the "per capita" component is the least complex. Simply, each municipality receives a per capita payment based on its population. Each municipality receives the same level of per capita payment without any adjustments. The amount was $29.89 per person in 1983 and was estimated to be $29.75 in 1984. The reason for the decrease is that the total distribution for this component has been frozen at the amount distributed in 1982—$142.7 million. Thus, as the state population has increased, the per capita rate has slightly decreased from the $30 per person payment in 1982. This is known as the "final distribution per capita factor", which is the "product of the 1982 population of this state times $30 divided by the state's current year's population".

This decrease in the per capita amount thus gives less weight to this component of the distribution formula.

2. Aidable Revenues Component

The "aidable revenues" component of the shared revenue formula distributes payments on the basis of 2 factors: 1) "per capita property wealth"; and 2) "net revenue effort". Per capita property wealth is the comparative wealth of the municipality as measured by taxable value per capita. The total equalized value of all taxable property (except manufacturing real estate for municipalities) is divided by population. Net revenue effort is local financial effort as measured by "aidable revenues".

The meaning of "aidable revenues" differs for municipalities and counties. For municipalities, "aidable revenues" means the average local purpose revenues, which are revenues for the 3 prior years divided by 3. "Local purpose revenues" comprise general purpose taxes; special assessments; various license, permit and inspection fees; various user charges and fees that represent general local burdens; parking utility receipts; a proxy for private sewer service costs; and tax base equalization aids. For counties, however, "aidable revenues" is equal to the following percentages of the "average local purpose revenue": 80% in 1984, 85% in 1985, 90% in 1986, 95% in 1987 and 100% in 1988 and subsequent years.

In determining the aidable revenues payment for a municipality or county, the Legislative Fiscal Bureau ("Shared Revenue", 1984) explained:

> "....the aidable revenues payment is determined by first comparing a municipality's or county's net value per capita to the standard valuation ($35,800 in 1984). The proportion of the standard valuation which a municipality is lacking determines the percentage of aidable revenues which will be reimbursed to the municipality. For example, a municipality with a net per capita tax base of $22,000 had 61% of the 'standard' and lacked 39%. The municipality would generate an entitlement equal to 39% of its aidable revenues (eligible local purpose revenues raised, on average, over the prior three years). Similarly, a municipality with 1984 net per capita value of $30,000 lacked 16% of the standard. Its entitlement would be 16% of its aidable revenues. A municipality with net per capita full value in 1984 in excess of $35,800 was not eligible for any aid under this component of the shared revenue formula."

"Standard valuation" is the figure computed by the Wisconsin Department of Revenue, through an iterative process, at a level that most nearly approximates the sum of the aidable revenues entitlements fund for all municipalities and counties. Thus, the standardized valuation figure is not a fixed figure but fluctuates with changes in available revenue appropriated to the fund. For 1985, the standardized valuation figure is estimated at $35,300. In contrast, the 1984 figure was $35,800; the 1983 figure, $39,500; and the 1982 figure, $36,600.

For a clearer understanding of the "aidable revenues" component, see Table 4.

Table 4: Computation of Aidable Revenues Component of the Shared Revenue Formula

Part 1: Municipalities Entitlement

$$\text{Aidable Revenues Entitlement} = \left[1 - \frac{\text{Net Per Capita Property Value}}{\text{Standard Valuation}}\right] \times \text{Aidable Revenues} \times \text{Proration Factor}$$

Where:

(a) Net Per Capita Property Value	=	(Total full value of taxable property in municipality) - (Full value of manufacturing real estate) divided by population
(b) Aidable Revenues	=	Average "local purpose revenue" over three preceding years
(c) Local Purpose Revenue	=	General local taxes + special assessments + eligible regulation fees + eligible revenues for services to private parties + proxy for sewer service costs + equalization aids
(d) Standard Valuation	=	Level of municipal full value of taxable property, in per capita terms, which will generate a statewide total of aidable revenues entitlements which matches funding available for this component.
(e) Proration Factor	=	A value close to 1.0 used to adjust individual payments equally so that they sum to the total aidable revenues entitlement when the standard value is rounded to the nearest $100.

Part 2: County Entitlement

$$\text{Aidable Revenues Entitlement} = \left[1 - \frac{\text{Per Capita Property Value}}{\text{Standard Valuation}}\right] \times \text{Aidable Revenues} \times \text{Proration Factor}$$

Where:

(a) Per Capita Property Value	=	Total value of taxable property in county divided by population
(b) Aidable Revenues	=	70% of average local purpose revenues in 1982 75% of average local purpose revenues in 1983 80% of average local purpose revenues in 1984 85% of average local purpose revenues in 1985 90% of average local purpose revenues in 1986 95% of average local purpose revenues in 1987 100% of average local purpose revenues in 1988 and thereafter
(c) Local Purpose Revenues	=	Same as for municipalities
(d) Standard Valuation	=	Same as for municipalities
(e) Proration Factor	=	Same as for municipalities

Source: Legislative Fiscal Bureau, "Shared Revenue Program", January 1984.

In its publication, "Shared Revenue Program" (January 1984), the Legislative Fiscal Bureau stated that the major objective of the aidable revenues component of the shared revenue distribution formula is "tax base equalization". Tax base equalization is a "policy of minimizing the differences between municipalities' ability to raise revenue by providing state aids which allow a municipality to support any given level of per capita expenditures with the same local property tax rate as other municipalities with the same level of expenditures, regardless of property tax wealth".

3. Utility Component

The public utility component entitlement is restricted to municipalities and counties in which public utilities are located. Because public utilities are taxed by the state rather than by local units of government, the public utility component compensates the local unit for their services to the utilities and the possible loss of tax base. The basic utility component entitlement is computed as a mill rate applied against the utility's net book value (there is a limit of $100 million net book value). Although the mill rate varies, depending upon whether a utility is located in a city or village or in a town, a total of 9 mills is paid on all qualifying public utility payments. The mill rate varies as follows:

Cities and villages.......................... 6 mill rate ($6 per $1,000 net book value)
Towns.. 3 mill rate ($3 per $1,000 net book value)
Counties .... 6 mill rate if utility located in a town); 3 mill rate if located in a city or village)

If the public utility is located in more than one municipality, the total public utility payment is apportioned between the involved municipalities.

There are several limitations regarding the basic public utility payment. As indicated, there is a limitation of a rate of either 3 or 6 mills per $1,000 net book value on public utilities, and a maximum net book evaluation on public utility property of $100 million. In addition, the following limits are also applied to the basic payment:

(1) Public utility payments are limited to $300 per capita for municipalities and $100 per capita for counties.

(2) Counties and municipalities have minimum guarantee utility payments. For counties, there is a $75,000 guarantee payment for a utility plant with a 200 or more megawatt capacity. For municipalities, the guaranteed payment is based on a declining percentage scale based on the 1975 utility payment to municipalities — 30% of the 1975 payment in 1982, 20% in 1983, 10% in 1984 and 0% in 1985; or $75,000 if the utility plant has a 200 megawatt capacity.

(3) During the first 4 years of construction, the utility formula does not apply to new utility plants rated at over 250 megawatts. Instead, municipalities and counties receive an annual payment of $400,000 during this period.

4. Minimum and Maximum Guarantee Payments Component

The minimum guarantee payment was established to ensure that each municipality and county receives a shared revenue payment equal to at least 90% of its payment for the previous year. This payment excludes consideration of public utility payments, special adjustment payments, and sewer service revenue payments. If a municipality's or county's payment is less than 90%, the municipality or county has an aids deficiency. Subsequently, a municipality or county that has an aids deficiency receives a payment from the amounts withheld from municipalities and counties which exceed the maximum payment limits. This aids deficiency payment is equal to the municipality's or county's proportion of all the aids deficiencies of municipalities and counties for that year.

"The minimum guarantee payment serves as a cushion to prevent large decreases in payments from occurring in a short period of time" (Legislative Fiscal Bureau). Since the public utility and sewer service revenue payments and the special adjustment repayments are excluded from the minimum guarantee, "a municipality's or county's total shared revenue payment could decrease by more than 10%". Furthermore, "major formula changes are the most common source of large payment decreases, but payment decreases can also be the result of year-to-year property values and population changes."

If a municipality or county exceeds the maximum payment limits, the excess amount is placed into a fund to assist "aids deficiency" municipalities and counties. The Wisconsin Statutes provide for a maximum payment based on the municipality's or county's allowable shared revenue payments and a "maximum allowable increase". The statutes define "maximum allowable increase" as being a percentage equal to the sum of the aids deficiencies in the particular year in question.

5. Temporary Components

The 1981 special adjustment payment component was a payment to municipalities and counties. If the 1981 entitlement of a municipality or county was less than 92% of its October 1980 estimate, the municipality or county was to receive a special adjustment payment equal to the difference between 92% of its October 1980 estimate and its 1981 entitlement. However, the repayment was not to exceed 15% of a municipality's or county's 1982 entitlement. If the total repayment was not made in 1982 because of this limit, the repayment would continue through 1985, if necessary.

The 1984 minimum guarantee payment provided that each municipality and county was guaranteed in 1984 the lessor of either 100% of its 1983 shared revenue payment or the amount that the municipality or county would have received in 1984 if the Governor's recommendation of $750.3 million had been appropriated and distributed (the Legislature had frozen the 1984 shared revenue appropriation at $714.6 million).

B. Scheduling and Distribution of Shared Revenue Payments (permanent components)

The Department of Administration, upon certification by the Department of Revenue, distributes shared revenue payments to each municipality and county as follows:

(1) *Payments on the 4th Monday in July:* 1984 — 15%, 1985 — 20%, 1986 and thereafter — 25% of the estimated payment.

(2) *Payments on 3rd Monday in September:* 1984 — 25%, 1985 — 25%, 1986 and thereafter — 25% of the estimated payment.

(3) *Payments on 3rd Monday in November:* 1984 — 60%, 1985 — 55, 1986 and thereafter — 50% of the estimated payment.

C. Appropriations for the Shared Revenue Program

Under Section 20.835 (1) of the Wisconsin Statutes, the Legislature has made the following appropriations to meet the requirements of the shared revenue account established under Section 79.01 (2) and to provide for the distributions from the shared revenue account to counties, towns, villages and cities. Table 5 summarizes the appropriations provided.

Table 5: Shared Revenue Distributions for Fiscal Years 1969-70 to 1984-85.

Fiscal Year	Shared Revenue Account	Source Type	Fiscal Year	Shared Revenue Account	Source Type
1969-70*	$249,952,000	LTR	1977-78	$261,938,000	LTR
1970-71*	$271,495,000	LTR	1978-79	$350,059,000	LTR
1971-72	$272,741,000	LTR	1979-80	$403,730,500	LTR
1972-73	$309,265,500	LTR	1980-81	$470,315,400	LTR
1973-74	$280,986,000	LTR	1981-82	$512,523,700	GPR
1974-75	$283,607,000	LTR	1982-83	$675,075,000	GPR
1975-76	$282,012,000	LTR	1983-84	$714,600,000	GPR
1976-77	$312,810,000	LTR	1984-85	$714,600,000	GPR

General purpose revenues, identified by the abbreviation "GPR", consist of "general taxes miscellaneous receipts and revenues collected by state agenices which are paid into a specific fund, lose their identity, and are then available for appropriation by the legislature".

Local tax revenues, identified by the abbreviation "LTR", consisted of "such portions of state-collected taxes which are paid into the general fund and distributed to localities under Section 20.835". The use of the LTR appropriation was repealed by Chapter 20, Laws of 1981.

*Appropriation for shared taxes. At this time shared taxes consisted of revenue generated from the: normal income tax, utility tax, severance tax, liquor tax, low-grade iron ore tax and fire department dues.

Source: Chapter 20, Wisconsin Statutes.

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