

FACT SHEET

Number 10

State Shared Revenues

April 1999

State shared revenues make up a large portion of state aid to local governments. This fact sheet explains the state shared revenue program by answering the following questions:

- (1) Why are shared revenues important?
- (2) What are the purposes of the shared revenue program?
- (3) What is the basic shared revenue formula?
- (4) What are the implications of local spending decisions on the amount of shared revenue?

Why are shared revenues important?

The shared revenue program is the state's second largest general purpose revenue (GPR) program. Table I below shows the ten largest state GPR programs for 1997-98. General purpose revenues are primarily generated through the state's income, sales and excise (cigarettes and alcohol) taxes. Other GPR sources include taxes on utilities, insurance and estates. Table I shows the percentage each program uses of general purpose revenues.

TABLE I			
TEN LARGEST GENERAL FUND PROGRAMS			
1997-98			
Ten Largest General Revenue Programs	(Million \$)	% of Total	Cumulative % of Total
	Amount		
Elementary & Secondary School Aid	\$3,662.2	37.8%	37.8%
Shared Revenue	1,008.6	10.4	48.2
Medical Assistance	904.8	9.3	57.5
UW System	876.8	9.0	66.5
Correctional Services	556.8	5.7	72.2
School Tax Levy Credit	469.3	4.9	77.1
Community Social Services and Youth Aids	174.6	1.8	78.9
Tax Relief to Individuals	173.9	1.8	80.7
AFDC and Other Public Assistance	149.7	1.5	82.2
WI Tech College System Aids	111.9	1.2	83.4
Subtotal	8,088.6	83.4%	
All Other Programs	1,605.9	16.6%	100%
TOTAL	\$9,694.5	100%	

Source: 1998 Annual Fiscal Report, Office of the State Controller

Note: The amount shown for the shared revenue program is slightly higher in this chart than is represented elsewhere in this paper, because it includes the 1998 estimated payments for the shared revenue program (\$950.2 million), the municipal expenditure restraint program (\$48 million) and the small municipalities shared revenue program (\$10 million).

The shared revenue program totals a little over \$1 billion dollars in 1997-98 and accounts for roughly 10% of expenditures of the state's general purpose revenues. The final column indicates the amount of GPR cumulatively used by each program. The shared revenue program and elementary and secondary school aids account for almost 50% of all general revenues.

What are the purposes of the shared revenue program?

The formula used to allocate shared revenues has three purposes: (1) equalize property tax bases among jurisdictions, (2) provide a standard base of aid for each person in a jurisdiction, and (3) reimburse jurisdictions for property taxes on electric utilities that are collected by the state. The corresponding components of the shared revenues program that reflect these purposes are the: (1) aidable revenues payment, (2) per capita payment, and (3) utility payment.

Payment Component	Estimated 1999 Payments (Million \$) Amount	Percent
<i>Municipalities (Cities, Villages, Towns)</i>		
Aidable Revenues	\$607.1	79.7%
Per Capita	142.7	18.7
Utility	11.7	1.6
Minimum	28.4	3.7
Maximum	(28.4)	-3.7
Subtotal	\$761.5	100%
<i>Counties</i>		
Aidable Revenues*	\$157.4	83.2%
County Mandate**	20.2	10.7
Utility	11.5	6.1
Minimum	21.7	11.5
Maximum	(21.7)	-11.5
Subtotal	\$189.1	100%
Total Shared Revenues	\$950.6	

Source: Wisconsin Department of Revenue.

**The aidable revenue component for counties uses a different standard valuation per person. For 1999 payments, the standard value per person will be \$48,796 for municipalities and \$47,964 for counties.*

***The county mandate component is similar to the per capita payments made to municipalities, but differs in amount. For 1999 per capita payments, municipalities will receive \$27.13 and counties will receive \$3.85 per capita under the county mandate component.*

The importance of each program purpose can be determined by looking at the amount paid under each component. Using the total 1999 estimated shared revenue payments of \$950.6, Table II above shows the distribution and percentage of dollars across program components for both counties and municipalities. Municipalities are defined as towns, cities and villages for this program. Roughly 80% of shared revenue payments are allocated through the aidable revenue component, which is designed to equalize tax base among local governments.

What is the basic shared revenue formula?

To many people, the most confusing part of the shared revenues formula is the "aidable revenues" component, which is explained in some detail below. The state tallies the amount of payment under each component and notifies each municipality and county of their "total" shared revenue payment in September for the following year. The state pays 15% of the total shared payment in July and 85% in November.

Per Capita Payment. The per capita component is established by a set amount in the budget, which has been \$142,706,480 since 1982, and the population figures established by the Department of Administration. Because population has been increasing throughout the state, the per capita payment has slowly been decreasing. The per capita payment has gone from \$30 in 1982 to \$27.13 in 1999.

Utility Payment. The utility component has three parts: (1) a payment for light, heat and power companies taxed by the state, (2) a payment for spent nuclear fuel storage and (3) a payment for electric generating plants. Since many municipalities and counties do not receive this payment, it is not detailed here. For those interested in the detailed calculation of the utility payment, see the press release by the Department of Revenue on shared revenue payments or request Informational Paper #18 from the Legislative Fiscal Bureau (608/266-3847).

Aidable Revenues. The state establishes a standard equalized value of wealth, expressed in property value per person, for municipalities and another standard value for counties. There are two standard values because GPR revenues are separately budgeted for counties and for municipalities under the shared revenue program. The 1999 standard value for municipalities is \$48,796 and for counties is \$47,964. These statewide standard values are then compared to the per capita property value for each municipality and county. The municipal per capita property value excludes the value of manufacturing property; but, the county per capita value includes manufacturing property value. Municipal or county per capita values that are less than the statewide standard value will receive the percentage difference of their aidable revenues. Take the Village of Sweetwater with a per capita equalized value of \$38,796. The village will receive 20.5% of its aidable revenues:

Standard Value	\$48,796	(100%)
Sweetwater Value	<u>\$38,796</u>	<u>(79.5%)</u>
	\$10,000	(20.5%)

By contrast, a municipality with a per capita value equal to or greater than \$48,796 would not be eligible to receive an aidable revenues payment.

Aidable revenues are equal to the 3-year average of a local governments' revenue effort which includes:

- (1) Local purpose property taxes for municipalities (excludes school and other levies).
- (2) County sales and use tax.
- (3) Wheel tax.
- (4) Mobile home fees.
- (5) Special assessments.
- (6) Various permit fees.
- (7) Various user charges and fees that are a substitute for the property tax.
- (8) Substitute charges for private sewer service costs.
- (9) Solid waste and recycling costs.
- (10) Retail charges for fire protection purposes.
- (11) Equalization aids (aidable revenue payments).

Local governments can only include those revenues as a part of their local effort for which they have the authority to levy the tax or fee. In calculating the 3-year average of a local government’s aidable revenues, 100 percent of municipal revenues and 85 percent of county revenues are included in the formula. For 1999 payments, the 3-year average used the calendar years of 1995, 1996 and 1997.

Minimum Guaranteed Payments. Because the payment for aidable revenues is based on equalized value, local tax effort, and population, the aidable revenue payment a county or municipality receives may vary from year to year. To avoid wide fluctuations in the aidable revenues payment, a minimum guaranteed payment is built in such that no county or municipality will receive a payment of less than 95% of its prior year’s payment. Counties and municipalities that are entitled to increased payments are allocated increases from the pool of payment reductions. Therefore, increased payments are limited by the amount of payment reductions in a year.

For county shared revenue payments, allowable increases are limited to 3.6% in 1999 with \$21.7 million redistributed among counties. For 1999, municipal shared revenue payment increases are limited to 2.9% with \$28.4 million redistributed.

Calculation. Assuming the Village of Sweetwater’s 3-year average for locally raised revenues was \$2 million, then the village would be eligible for an “aidable revenues” payment of \$409,870 based on the following calculation:

$$\left(1 - \frac{\$38,796}{\$48,796} \right) \times \$2,000,000 = \$409,870$$

Percentage Difference in Local Per Capita Value to a Statewide Standard Value	3-Year Average of Aidable Revenues	Aidable Revenues Payment
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The aidable revenues payment is subject to the minimum and maximum restrictions. For the village to receive the \$409,870 payment, the amount cannot be less than 95% of the village’s prior year payment nor can the \$409,870 payment exceed the allowable percentage increase in a given year. Assuming that the \$409,870 falls within the payment restrictions, Sweetwater would also receive a per capita payment of \$27.13 per person and may be eligible for a utility payment. If the village had a population of 600 people, the per capita payment would equal \$16,278.

What are the possible implications of local spending decisions on the amount of shared revenue?

Critics of the “aidable revenues” component argue that it encourages higher spending levels among local governments. Sometimes, however, local governments must highly tax their relatively small tax base to provide essential services. Assuming that a municipality or county has a lower level of per capita value compared to the statewide standard value, they will receive more money through the shared revenue formula if they increase their local revenue effort. However, this increase in the state aidable revenues payment is limited in the following ways:

- (1) Counties can only include 85% of their local revenues in the formula.
- (2) The formula uses a 3-year average; therefore, short-term increases are leveled somewhat by other years’ patterns. If increases in local taxes are not sustained, then they do not have a lasting effect on shared revenue payments.
- (3) Increased payments are limited by the total amount of reductions to other municipalities.
- (4) Reductions in state aidable revenues cannot exceed 5% of what municipalities and counties received in the prior year.

Aidable revenue payments are reduced in response to increases in local per capita property value and decreases in local revenues. Some examples of when a local government may receive a reduced payment are:

- (1) The property tax base is significantly increased without offsetting increases in either population or local revenues. A large commercial property, such as a WalMart store, locates in a town outside of city boundaries. The development does not attract new town residents nor require new infrastructure.
- (2) The population of a local government changes significantly, but without an offsetting decrease in property tax base. There is a significant out migration of young people to either go to college or obtain jobs.
- (3) A significant long-term decrease in local revenues. For example, a city decides not to provide certain services, and the private sector then charges individuals for the services. Garbage collection and recycling are common examples.

(Note: Since the property tax for schools is not included as part of local revenues under the current formula, the shift towards the state's financing two-thirds of school costs will not reduce the aidable revenue payments.)



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