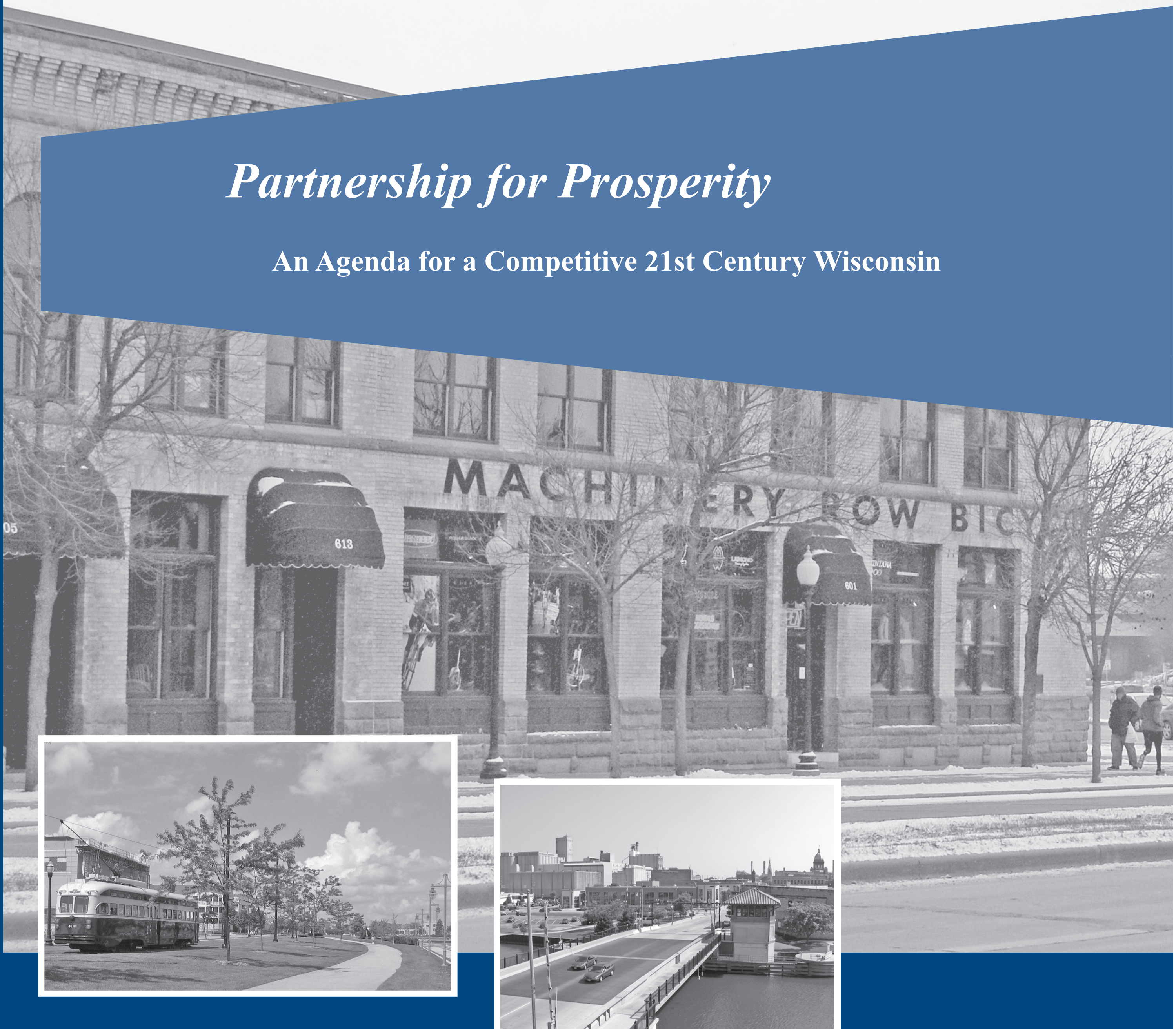
League of
Wisconsin
Municipalities

Partnership for Prosperity

An Agenda for a Competitive 21st Century Wisconsin



Partnership for Prosperity:

An Agenda for a Competitive 21st Century Wisconsin

Thriving cities and villages are a key to Wisconsin's long-term economic success. To compete globally, Wisconsin needs to develop quality communities that can attract and retain talent and enterprise and spur job creation. Wisconsin cities and villages provide the core services that businesses and people expect and need from their local governments, including police and fire protection, sewer and water, roads and other transportation infrastructure, garbage collection, recycling, libraries, and parks.

At a time when our state and local resources are diminishing, it is imperative the state receive a strong return on its investment in local services. The state should invest its limited resources where most of the state's economic activity is already occurring and where the most jobs are being created. By doing so, the state is more efficiently targeting its resources to maximize job growth outcomes. The state should focus its support and limited resources for local government on cities and villages because:

- Wisconsin's metropolitan regions already account for 75 percent of the state's Gross Domestic Product.
- Wisconsin cities and villages are home to:
  - 70 percent of the state's population
  - 87 percent of all manufacturing property
  - 89 percent of all commercial property
- Most of the small businesses created in Wisconsin get their start in cities and villages.
- Cities and villages are where nearly all technology based entrepreneurship and knowledge based economic activity occurs in Wisconsin.

This agenda proposes a commitment of action in partnership between the state and its municipalities to assist communities in providing key services and amenities that contribute to a high quality of life and facilitate Wisconsin's economic growth and job creation. The following proactive legislative agenda is designed to create a new state-local partnership for prosperity to drive the state's economy forward by:

- Helping communities continue to provide quality local services while controlling property taxes.
- Investing in local transportation infrastructure.
- Enhancing and promoting economic development best practices, like the expansion of the historic tax credit that was accomplished last session (2013 Wisconsin Act 62).

Partnership for Prosperity Legislative Agenda

Sustainable Funding for Local Services

Municipalities are responsible for providing the public services necessary for a high quality of life and economic vitality. The delivery of quality services depends on having reliable and sufficient revenues. Wisconsin municipalities receive most of their revenue from two sources: property taxes and state revenue sharing programs. We recommend the following policy changes to ensure financial stability and flexibility for municipalities:

A. REDI for Jobs Plan

Create a new Regional Economic Development Incentive (REDI) program to supplement and ultimately replace shared revenue. A version of REDI was originally introduced as 2009 Assembly Bill 833/Senate Bill 532. REDI calls for increasing funding for the shared revenue program annually by the same percentage that the state general fund expenditures grew over the previous budget. Under REDI, the current shared revenue appropriation would continue to be distributed to municipalities in the same manner it has been in recent years. Any new dollars added to the program would be distributed to cities, villages and towns according to the following formula:

Distribute any additional dollars to shared revenue according to the following formula:

b. One-third to be distributed by economic regions based on the percentage growth in *new private sector jobs* created from the previous year.

a. Two-thirds to be distributed statewide on a per capita basis to cities, villages, and towns that levy at least 1 mill. Percentage adjustments would be made to each municipality's population based on an average of the following two factors: per capita property value and per capita adjusted gross income.

B. Tie Levy Limits to Rate of Inflation

The current state imposed levy limit allows a municipality to increase its levy over the prior year by the percentage increase in equalized value from net new construction. While every community is different, in 2014, the growth in the state's total equalized value from net new construction was 1.12 percent. Levy limits this strict are unsustainable and are negatively impacting the ability of municipalities to provide the services necessary for economic development and job growth. The minimum allowable annual growth in a community's tax levy should be at least the rate of inflation.

C. Modify New Construction Adjustment for Levy Limits

A municipality's current maximum allowable levy is the percentage increase in equalized value from *net* new construction. Net new construction is new construction minus buildings demolished. A limit based on net new construction negatively impacts older urban areas engaged in redevelopment projects. The maximum allowable levy should be the percentage change in the municipality's equalized value due to new construction, not *net* new construction.

D. Create Economic Development Exemption from Levy Limits

Exempt from levy limits the amount municipalities spend on economic development.

Define "economic development" to include development incentives and grants, recruitment and retention efforts, community branding and marketing, urban service area extensions, land acquisition, brownfields clean-up, infrastructure improvements necessary for particular developments, and salaries for staff engaged in economic development.

E. Create an Incentive for Closing TIDs Early

Allow Municipalities to treat more of the growth in value within a terminated TID as net new construction for levy limit purposes. When a TIF district terminates, allow up to 85 percent of the value increment of the former district to be treated as net new construction and added to the municipality's allowable levy. Current law allows up to 50 percent of the value increment to be added to the allowable levy.

F. Encourage Municipalities to Hold Down Spending by Expanding the Expenditure Restraint Program

To receive payments under the Expenditure Restraint Program (ERP), municipalities must limit the year-to-year growth in their budgets to a percentage equal to CPI plus 60 percent of the percentage change in the municipality's equalized value due to net new construction. To receive aid, a municipality must also have a municipal purpose tax rate in excess of five mills.

To be eligible for a 2014 payment, municipalities had to limit their 2013 general fund increases to 2.4 percent plus 60 percent of the percentage change in the municipality's equalized value due to next new construction. There are over 1,800 cities, villages and towns in Wisconsin. Out of the 454 municipalities that had tax rates exceeding 5 mills and were potentially eligible for a 2014 payment, only 359 met the budget test. The other 95 municipalities either did not meet the test or did not submit budget worksheets to DOR in a timely manner.

We recommend increasing funding for this successful program, which has been frozen at $58 million since 2003. Increased funding will create more of a financial incentive for eligible communities to strive to meet the program's spending limits and qualify for ERP dollars. We also recommend that a portion of any funding increase be set aside in a separate pot as a bonus payment available only to those communities that limit their general fund increases a certain percentage (e.g., 5 percent) below the current budget test of CPI plus 60 percent of net new construction.

Transportation Funding

The State's Transportation Fund must be adequately funded to build and maintain a modern transportation system that works seamlessly to move commerce and people. A safe, efficient and well-maintained transportation system, including transit, is critical to Wisconsin's economic prosperity and quality of life. Wisconsin needs to reverse its chronic underfunding of our state and local transportation systems.

According to the most recent (2012) figures available, the condition of Wisconsin's highway system is below average. The pavement on less than half of it is rated "good" based on smoothness. Thirty-five states had highways in better condition, including three neighboring states. The situation is significantly worse in the state's 15 urbanized areas. There, only 15 percent of the highway system is rated good; just over half is considered "acceptable." (Source: *Filling the Potholes: Addressing Local Transportation Funding in Wisconsin;* A Wisconsin Taxpayers Alliance Study for the Local Government Institute.)

If Wisconsin is to compete successfully with other states for jobs and workers over the next 30 years, it will need high-quality infrastructure. That means the system of state and Interstate highways needs to be modern and efficient for producers looking to deliver their goods to consumers. It also means local transportation infrastructure must be able to move workers efficiently from where they live to where jobs are. Yet, the percentage of local transportation related costs that the state reimburses has steadily declined, shifting ever more of the cost onto property taxpayers. When the current general transportation aid formula was established in 1988, cities and villages received payments covering 24 percent of their costs. Today, general transportation aid payments equal on average about 13 percent of municipal costs.

To counter this unsustainable trend we propose the following recommendations:

A. Increase funding for GTA

At a minimum, restore the $30 million cut that was made to the share of cost component of the program in the 2011-2012 state budget.

B. Modify GTA Distribution Formula

The current method of distributing GTA is based on 20th century goals of making sure dairy and other farm products get to market. Such an exclusive focus no longer makes sense if Wisconsin is to succeed in today's global economy. The formula should be modified to direct more resources to where most job creation and economic activity takes place, which is in Wisconsin cities and villages. GTA currently covers nearly 40 percent of towns' reported costs and only 13% of municipal transportation related costs. The proposed solution: Eliminate the rate per-mile payment option and distribute GTA to all local governments, including towns, exclusively on a share of cost basis.

C. Realign Distribution of Local Road Improvement Program (LRIP)

Prioritize spending in cities and villages, where 70 percent of state's population resides and most of the state's economic activity occurs. The state should reprioritize how it distributes limited LRIP dollars to better reflect where the state's population lives and works. LRIP was established in 1991 to assist local governments in improving seriously deteriorating local streets and roads. Total funding for the program is $59 million. LRIP has an entitlement and a discretionary component.

The $27 million **discretionary component** is currently distributed as follows: 43 percent to counties; 48 percent to towns; and 8.3 percent to municipalities. A portion of the program is also earmarked for certain specific projects.

The $32 million **entitlement program** is currently distributed as follows: 43 percent to counties; and 28.5 percent to municipalities; and 28.5 percent to towns.

A higher percentage of LRIP dollars should be allocated to projects in cities and villages where the economic payoff will be greater and the investment is more likely to stimulate additional economic opportunities and job creation.

D. Enact Regional Transportation Authority Enabling Legislation

Enact legislation similar to 2009 Assembly Bill 282/Senate Bill 205, authorizing local governments to create RTAs with ability to levy a sales tax to raise sufficient revenue to finance both road and transit capital costs and operations.

About the League

The League of Wisconsin Municipalities is a voluntary not-for-profit, non-partisan association of Wisconsin cities and villages working to advance municipal government. First established in 1898, the League provides a variety of services to its members including, legislative advocacy, information sharing, legal advice, education and training, and insurance options. The League's membership consists of 394 villages and all 190 cities. For more information about the League's legislative agenda contact: Jerry Deschane, Executive Director <jdeschane@lwm-info.org>; or Curt Witynski, Assistant Director <witynski@lwm-info.org>; or visit <www.lwm-info.org>.

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