

WCA Testimony on "Wisconsin Taxpayer Protection Amendment"

TO: Honorable Members of the Senate Select Committee on Taxpayer Protection Amendment and Honorable Members of the Assembly Committee on Ways and Means

FROM: Craig Thompson, Legislative Director

DATE: February 15, 2006

RE: Senate Joint Resolution 63

In response to Senate Joint Resolution 63 (SJR 63), the "Wisconsin Taxpayer Protection Amendment," the Wisconsin Counties Association has the following comments as it pertains to county government. In order to comply with the wishes of the authors, this testimony is confined to the specific challenges we believe counties will face under the current version of this constitutional amendment and does not address our views regarding the prudence of the proposal as a whole.

SJR 63 amends the Wisconsin Constitution to prohibit any county government's overall revenues from increasing by more than the increase in the Consumer Price Index plus the percent change in that county's population from one year to the next. There is the ability to go to referendum to exceed that limit.

CHALLENGE

The first and largest problem we feel counties will face with this provision centers around the unique, joint funding relationship between state and counties in Wisconsin. Counties primary function is to administer state created and mandated programs. The most notable of these services are the circuit court system, the human services delivery system and the juvenile justice system.

Each of these delivery systems was clearly designed to be funded by the state with some minimal "buy-in" from the county administering the program. Human services, for example, were designed to be paid for by Community Aids from the state with a mandatory 10% match from counties. Since 1986, however the state has failed to provide any inflationary increases (not to mention caseload increases). The total amount of dollars allocated in 2005 for Community Aids is actually less than it was in 1986. County property taxes have filled in for the lack of state funding and increased by nearly \$300 million during that period. If the state had provided CPI plus population increases during this period, counties would be receiving an additional \$210 million – reducing those property tax dollars needed by over 2/3.

Funding for courts through the Circuit Court Support Grant and juvenile justice through Youth and Family Aids has seen the same frozen funding from the state over the past several decades (see attachments).

The purpose of this testimony is not to point out past ills or to debate the public policy merit of the state fully funding its mandates. The point is to illustrate that if past practice continues, as it would seem reasonable to assume since the state failed to provide increases when it was not under a revenue cap, then counties will be expected to provide the inflationary increases on behalf of our absent funding partner and on our own behalf and still stay within the population plus inflation cap. If this

scenario were to occur it will negatively impact programs and services counties provide in Wisconsin. That is simply a statement of fact.

The following is an analogy to demonstrate the point. Let's say Bob and Jim rent an apartment together and agree to split the rent. The rent is \$400 per month. Bob and Jim each pay \$200 per month. At the end of the first year the landlord increases the rent by ten percent. The new rent is \$440 per month. Bob's name is on the lease. Jim decides he is going to continue paying \$200 per month. Bob therefore, has to pay \$240 per month resulting in a twenty percent increase in his payment even though the rent only went up ten percent.

In practice the counties are Bob. The only differences being that this hasn't occurred for one year, it has occurred for twenty years and the counties can't choose to not renew the lease.

In other words if we are to simply lock-in the current funding split between state and counties for these programs then the state would have to begin providing the inflation plus population increases on its current share of the programs and the counties would increase its share by inflation plus population. This scenario would not resolve the current funding inequities but it also would not make the situation any worse than it is today in terms of reliance on the property tax to fund these state programs.

PROPOSED SOLUTION

The solution to this problem would be to require the state to provide inflation plus population increases to its service provider (the counties) for courts, human services and juvenile justice programs. This would maintain the status quo in the funding split between state and counties.

CHALLENGE

The second issue is specific to rates at the state institutions.

Under current law if a juvenile in a county is ordered by a judge to an out of home placement the county must pay for the cost of that placement. In many cases that out of home placement is in one of the state run Juvenile Correctional Institutions (JCI's). The state JCI's charge the county a daily rate for each juvenile residing in the facility. The state sets these daily rates. Last budget the daily rate increased by 9%. The previous biennial budget increased the daily rate by 12%.

Until 1996 there was statutory language that required the state to provide a commensurate increase in the Youth and Family Aids appropriation for any increase in the daily rate at the JCI's. Since this language has been removed increases in the daily rates have risen precipitously.

Counties are also required by statute to pay for the cost of a resident of that county that is committed to one of the state's Mental Health Institutes. The daily rate at these institutes is nearly \$700 per day. Several of these placements can decimate any county's budget not to mention a smaller county.

PROPOSED SOLUTION

The solution to the JCI problem would be to reinstate the statutory language requiring the state to provide a commensurate increase in the Youth and Family Aids appropriation for any increase in the JCI rates.

The solution to the mental health placements would be to institute a shared responsibility provision for mental health placements where the state and county each bear a share of the cost of a mental health placement. (specific proposal enclosed).

CHALLENGE

SJR 63 does take into account “transfer of services” allowing the level of government assuming a new service to increase its cap room to offset the cost and the level of government relinquishing those services will have their cap reduced by the corresponding amount. The problem appears to be that if the state were to provide more funding for an existing mandate without fully transferring the service that it would count against the state’s cap room. This would provide yet another disincentive for the state to fund its mandates and remove the cost from the property tax.

PROPOSED SOLUTION

Include language which exempts any state funding of existing mandates from the state’s cap.

AREAS OF AGREEMENT

There are two provisions in the current draft of the joint resolution that we believe are essential to remain in the joint resolution as well. The first provision states that if the state reduces aids to local government that the cap on the state be reduced by the equivalent amount. The current funding pressures facing state government such as Medical Assistance and Corrections are going to continue to demand significant attention. If this provision is not included the easy solution would be to cut local aids in order to provide increases in these areas and remain under the inflation plus population cap. (Example: The state budget increased by approximately 60% between 1987 and 2003 while the amount of dollars allocated for Community Aids actually decreased over that same period.)

Second, is the provision that states that a local unit of government will not be required to comply with a new mandate if there is not sufficient funding to carry it out? The reasons this provision is necessary are self evident. While it will not address the funding shift onto the property tax which has occurred as a result the existing mandates such as those mentioned above, it will help the situation from getting worse.

CONCLUSION

If all of the recommendations proposed in this testimony were enacted SJR 63 would not necessarily have a debilitating effect on services counties are required by the state to provide. It is important to point out, however, that even under this scenario we have not addressed the property tax problem in Wisconsin. We continue to believe the most crucial and unfair burden on the citizens of this state is the high level of property taxes. One of the main reasons for this is that Wisconsin funds more services through property taxes than most other states. SJR 63 does nothing to resolve that issue. It would be inaccurate to lead the public to believe that amending the constitution in this manner is going to reduce their property taxes.

Thank you for considering our comments.

Additional information is available at this link: [Senate Joint Resolution 63.pdf](#)

February 15, 2006

TO: Honorable Members of the Senate Select Committee on Taxpayer Protection Amendment and Honorable Members of the Assembly Committee on Ways and Means

FROM: Adam Payne
Administrative Coordinator
County of Sheboygan

DATE: February 15, 2006

RE: Senate Joint Resolution 63/ LRB-3511/1 Proposed Constitutional Amendment

Dear Senator Grothman and Committee Members,

Thank you for the opportunity to provide input regarding the proposal to amend the Wisconsin Constitution creating a revenue limit for state and local government. The following are the initial questions, suggestions and concerns that I submit for your review and consideration:

- The proposed revenue limit formula does not correlate with the expense increases Counties have experienced related to providing state mandated services such as the courts, juvenile justice and many health and human services. For example, Sheboygan County provides \$2.1 million of tax levy to implement state mandated court functions, and \$10.8 million of tax levy for state mandated health and human services. These two areas alone represent 30% of Sheboygan County's total property tax levy. *The amendment should require the State to provide sufficient funding for existing mandated programs, and at minimum, provide for an annual percentage increase in CPI plus the percentage increase in population for each mandated program. In addition, until the major issue of unfunded or under funded mandates is addressed, the amendment should provide for a more generous levy limit formula or other means to offset unfunded or under funded State and Federal Mandates.*
- The proposal prohibits the State from imposing any new unfunded mandates on Counties. However, the State is the sole determiner as to what the reasonable costs incurred by a local government are. Though it is refreshing to see a proposal where the State will accept responsibility for any new programs it requires, the State's track record of determining what the reasonable costs are to implement has not been good. *To be fair and address the crux of the problem, the amendment should require the State to implement a process of assessing all current State mandated programs and prohibit it from imposing any mandates that it cannot reasonably fund. In addition, the local unit of government impacted should have input on determining the costs incurred to comply with a State mandate.*
- The proposal excludes any new State mandate that is enacted in order to comply with a requirement of federal law. If a new State mandate is enacted in response to a federal requirement, and that is exempt from the State providing payment to a local unit of government for the reasonable costs to administer the program, should not the associated cost necessary to implement also be excluded from the imposed revenue limit? *The amendment should allow for some relief regarding unfunded or under funded mandates imposed due to federal law.*
- The proposal excludes revenue from bonding in the base year (2008). However, in subsequent years, bonding is included in the definition of revenue, which will guarantee the

failure of local government to adequately maintain capital equipment, and infrastructure that is critical to the citizens of Wisconsin. General obligation bonds are used for capital projects and are not available to fund operating costs. In addition, the Governmental Accounting Standards Board does not classify borrowed dollars as revenue. Though the proposal excludes “municipal economic development bonds” from the definition of revenue, there is no definition included to describe municipal economic development bonds. *The amendment should clarify that all bond proceeds are not defined as revenue. In addition, specifically exempt from the revenue limit pre-existing debt service requiring larger payments in future years, or the refinancing of existing debt to reduce long-term cost to taxpayers by accelerating larger payments in a shorter time frame.*

- The proposal provides the State with an “emergency reserve fund” to retain excess revenue. Why is the State allowed to place some excess revenue into a stabilization fund while other units of government may not? This is an important and responsible management tool that should be provided to all levels of government in order to respond to emergencies as well as maintain a healthy bond rating. *The amendment should provide a similar stabilization or emergency reserve fund for County government.*
- In general, the proposal discourages the expansion of services that pay for themselves from special assessments or fees. For example, if the public would like a County to add more campsites to a local park, and the camp rental fees pay for the campsites, the fees from the campsites would be included in the revenue, which is subject to the cap. *The amendment should exempt special assessments or fees. As this and other examples above illustrate, it is difficult to account for or anticipate everything.*
- The proposal does not address the manner by which excess revenue is to be returned. *The amendment should clarify that excess revenue may be used the following year to reduce the property tax levy.*

Please note that I have other concerns with the proposal. One of the problems of fast tracking this proposal is that it does not allow for a thorough opportunity to consider all of the implications and anticipate all situations. Thus, what I am offering here should be considered as a partial list of concerns.

In summary, thank you again for the opportunity to provide input today. With all due respect, though I appreciate and share your desire to reduce the tax burden for Wisconsin Citizens, I do not support an amendment to the State Constitution as the vehicle for the proposed changes. I believe it is much more appropriate for statutory language.

However, if the suggestions and concerns identified above are included in the proposal, they will help ensure that this approach may truly be a step forward. If current unfunded or under funded State mandates and related responsibilities are not addressed in this proposal, the legislature is failing to address the problem and setting up Wisconsin for failure.

Sincerely,

Adam Payne