

"If Wisconsin could design its local government funding system from scratch, what would be the best and most equitable way to fund town government services?"

– by Zoe Schmidtknecht

What a great question! I am excited to answer as not only is my dad a town chairperson and we discuss topics like these, but I attended the American Legion Auxiliary Girls Badger State this past summer. This was a weeklong government/leadership conference in Oshkosh designed to educate the delegates on the function of government. It made me excited to learn how I can personally make a difference in our government system, not only at the local level, but a state and national level as well.

I believe the local government has done a fantastic job in finding ways to currently fund our town government services. With that being said, as the essay question says the funding system can be designed from scratch, my ideas would be implemented without having to worry about slowly phasing them in.

First off, there would be no property taxes. Charging landowners property tax is unfair and basically a punishment for your success. Landowners are paying for their “item” over and over until it is sold. There are many sources of income, other than property tax, that would be the best and most equitable ways to fund our town government services.

According to wisctowns.com., the state’s 1250 towns provide fundamental services to about 95% of Wisconsin’s geography and 30% of its population. In addition, they are responsible for 54% of the roads yet receive less than 5% of the road funding in the state. With that being said, I propose the main source of funding would be to come directly from state sales and income tax (without increasing income tax). This is already happening via the shared revenue fund, but the amount needs to be increased significantly. ¹According to U.S. Census data compiled by Willamette University, in 2015 Wisconsin municipalities received 42.2% of their revenues from the property tax but only 1.6% from sales and income taxes combined. Nationally, municipalities got only 23.3% of their revenues from the property tax with an additional 21.3% from sales and income taxes.

²Wisconsin is currently ranked the 5th highest state for property tax rates. The percentage that towns receive

from sales tax would need to be increased. Currently, towns only receive about 6.5% of the funds handed out (see table 2). And remember how towns are responsible for over 54% of the roads?

This hardly seems fair or adequate.

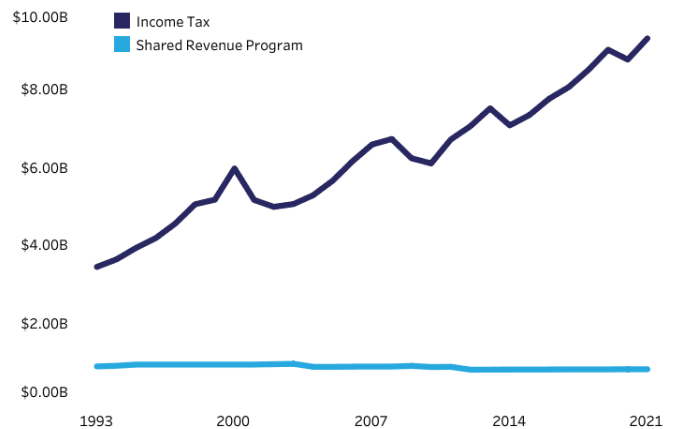
This also would help solve the problem that state aid is not keeping up with the cost of inflation which in turn puts the burden on the property owner (see figures 3&4). This is also a problem as in 2006, the state put a cap on what property tax increases can be with the exception of increases for debt payments – and we all know how loans work so this is less than ideal. Considering that Wisconsin is currently in a surplus largely because of COVID relief monies³ - local sales tax would need to be raised to closer to 9-12% with the counties adding in their .5%. These numbers may sound like a lot, but people would also retain more of their money and would have the ability to choose how it is spent (i.e., buying a KIA vs a Mercedes) without being hit with quarterly or annual lump sum tax payment. And sales tax would require less overhead than property or income tax as you would not have to handle refunds, tax deductions, etc.

Table 2: Distribution of Estimated 2021 County and Municipal Aid and Utility Aid Payments (In Millions)*

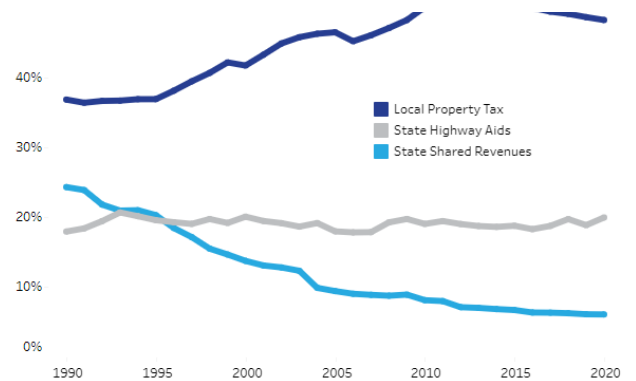
Type of Government	County and Municipal Aid	Utility Aid	Total	Percent of Total
Towns	\$42.1	\$10.7	\$52.8	6.4%
Villages	63.2	9.1	72.3	8.7
Cities	<u>525.1</u>	<u>19.6</u>	<u>544.7</u>	<u>65.6</u>
Municipalities	\$630.4	\$39.4	\$669.8	80.7%
Counties	<u>122.6</u>	<u>37.2</u>	<u>159.8</u>	<u>19.3</u>
Total	\$753.0	\$76.6	\$829.6	100.0%

*Based on the Department of Revenue's November, 2020, estimates of 2021 payments. Amounts do not reflect the required statutory adjustments made to these payments.

Figure 3: Shared Revenues Not Keeping Up with Income Taxes
Total state income tax revenue vs. shared revenue payments to counties and municipalities, 1993-2021



Sources: Legislative Fiscal Bureau, Department of Administration



Source: Wisconsin Department of Revenue

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: the most important form of state aid to towns, rising from \$56.2 million in

In addition, a fair and equitable way is to keep the sales tax on items and services people are using. Property owners do not always have children (public schools are funded heavily by property taxes), they may never need a veterinarian or ever get a massage. It gives the choice to the people. If you want that candy bar, you will be taxed. If you want to help your sick pup or kitty, you will be taxed. If you want to fix your plumbing, you will

be taxed. But it may make you choose between the iPhone 14 and a Motorola smartphone. Property tax is certainly not equitable considering if one is not able to pay their taxes, the property you have bought and paid for can be taken away from you. With property tax, does one ever truly “own” their property?

Other sources of income would continue to come from lottery sales, fuel taxes, registration fees, user fees, etc. Today, net proceeds from the lottery sales go directly towards property tax relief. As in my scenario, there would be no property tax so these funds would go directly to the municipalities to help fund governments services. Eliminating the second biggest expense of lotto games would also help boost the profits. ⁴The second high expense (other than the prizes) goes towards compensation to retailers for commission and incentives (approximately 62 million in 2020-2021, see Table 1). There is no question about whether the lottery is popular, it is always advantageous for a business to offer the games than not as it brings that clientele inside.

Table 1
Wisconsin Lottery Operating Expenses
 (in millions)

Operating Expense Type	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Prize Expenses	\$363.0	\$404.4	\$431.9	\$453.5	\$559.7
Retailer Compensation	41.3	46.5	49.7	50.9	62.8
Game Development and Production	18.9	19.7	20.2	21.5	25.5
Product Information	7.5	8.5	8.5	8.4	8.4
Other ¹	9.6	8.1	10.5	8.6	8.7
Total	\$440.3	\$487.2	\$520.8	\$542.9	\$665.1

¹ Includes salaries and fringe benefits, supplies and services, and depreciation.

So, if
 could
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scratch and keep it fair and equitable, the funds would not come from property tax but from income and sales tax, lottery sales, fuel taxes, registration fees, and user fees.

¹<https://www.lwm-info.org/1543/Creating-Wisconsins-Future>

²<https://belonghome.com/blog/property-taxes-by-state>

³<https://www.jsonline.com/story/news/politics/2022/12/15/wisconsins-record-high-6-6-billion-budget-surplus/69723864007/>

⁴State of Wisconsin Legislation Audit Bureau Wisconsin Lottery Report 22-7, June 2022