

*Pat
file*

CURRENT ISSUES AFFECTING LOCAL GOVERNMENT OFFICIALS

Paper Number Ten

SHOULD LOCAL GOVERNMENTS TAX MOTOR VEHICLES?

Introduction to the Wisconsin "Wheel Tax" Issue

Richard L. Stauber, Editor

Department of Governmental Affairs
University of Wisconsin -- Extension
Madison

May 1985



CURRENT ISSUES AFFECTING LOCAL GOVERNMENT OFFICIALS

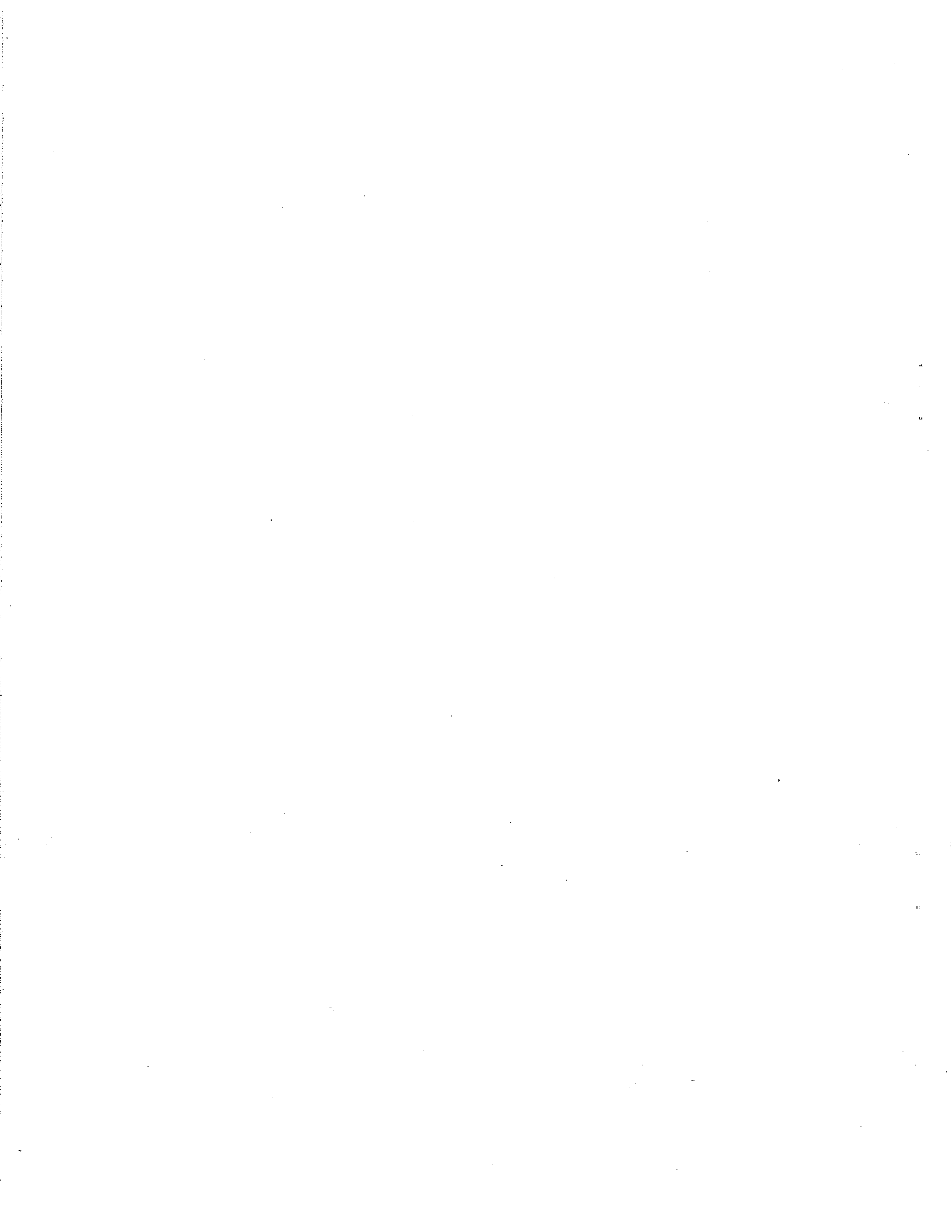
Paper Number Ten

SHOULD LOCAL GOVERNMENTS TAX MOTOR VEHICLES?
Introduction to the Wisconsin "Wheel Tax" Issue

C O N T E N T S

THE REVENUE GAP, Richard Stauber.....	1
WHEEL TAX LAW, <u>Wisconsin Statutes</u>	13
LOCAL TAX OPTIONS, Rick Olin.....	15
CITY WHEEL TAX ANALYSIS, Darrell Dillman.....	21
COUNTY WHEEL TAX ANALYSIS, James Hill.....	27
ESTIMATING WHEEL TAX INCIDENCE, Dennis Collier.....	31
WHEEL TAX AS USER FEE, Mark Hanson.....	43
CRITERIA FOR WHEEL TAX EVALUATION, William Babcock & Richard Stauber.....	51
PAST & FUTURE FEDERAL AID LOSSES, Thomas Solberg.....	61
COUNTY WHEEL TAX BASE & FEDERAL AID, Richard Stauber.....	69

Papers in the Current Issues Affecting Local Government Officials Series may be purchased by check for \$2.50 each from: UW-Extension, 626 Lowell Hall, 610 Langdon St. Madison 53706



"If states do not increase aid to local governments greatly, they might liberalize restrictions placed on localities' ability to raise revenue as an alternative way of helping them." Steven D. Gold, State and Local Fiscal Relations in the Early 1980s

**Intergovernmental Revenue Gap:
An Introduction to the "Wheel Tax" Issue**

Professor Richard L. Stauber
Department of Governmental Affairs
University of Wisconsin--Extension

Counties and municipalities are Wisconsin's "general purpose" local governments. This means they supply most of nearly every vital public service received by Wisconsin's citizens; except education (provided locally by over 400 independent school districts), and national defense. Unfortunately for county and municipal budget-makers: 1) defense spending has been moving ahead of federal aid on the national priorities list and, 2) for Wisconsin state government, education is becoming a much more important spending priority than aid to county and municipal governments.

Shifts in the spending priorities of the state and federal governments have been occurring within a context of property taxpayers' "revolts" and economic "hard times." In recent years these factors and others in Wisconsin (such as state-imposed mandates, and accountability demands) have combined to produce a significant change in the composition of revenues which finance

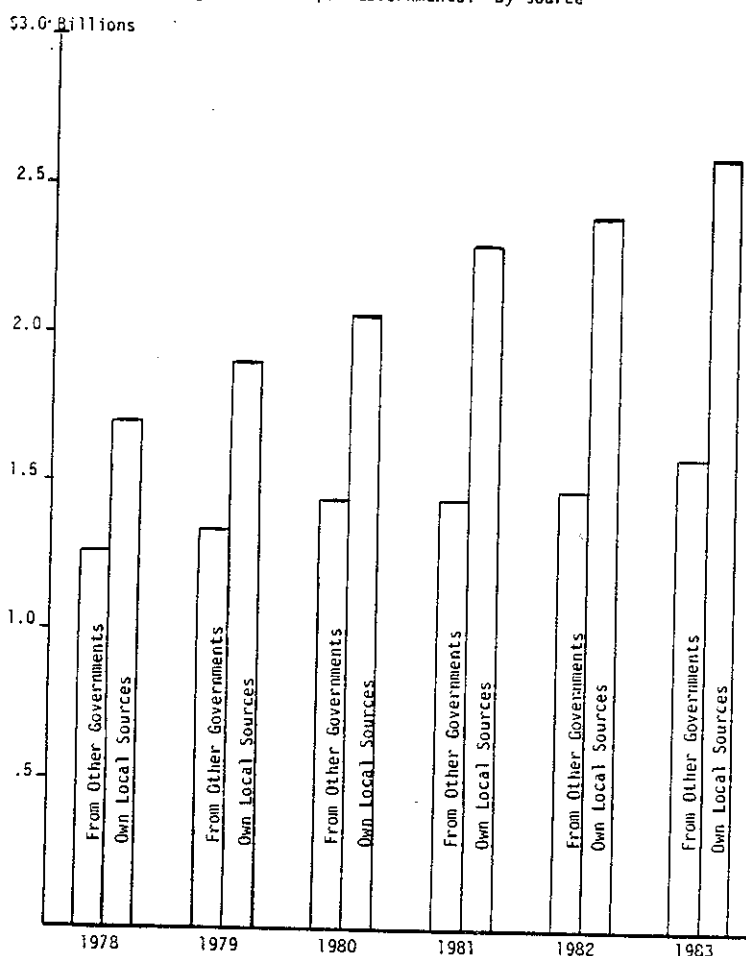
TABLE I
The Increasing Dependence on Locally-Raised Revenue:
Wisconsin's General Purpose Governments, 1978 - 1983

Calendar Year	County and Municipal Government Operating Revenues*			
	Total	Intergovernmental	From Own Local Sources	
			Amount	Percent
1978	\$2,947,856,747	\$1,262,399,117	\$1,685,457,630	57.2%
1979	3,214,943,700	1,335,820,002	1,879,123,698	58.4
1980	3,466,147,045	1,420,777,418	2,045,369,627	59.0
1981	3,725,468,687	1,438,471,736	2,286,996,951	61.4
1982	3,865,213,636	1,470,088,179	2,395,125,457	62.0
1983	4,164,976,061	1,583,383,919	2,581,592,142	62.0
Five Year Increase	+\$1,217,119,314 +41.3%	+\$ 320,984,802 +25.4%	+\$ 896,134,512 +53.2%	73.6% of Total Increase

*Revenue received from all sources except borrowing. Unless otherwise noted, all revenue data are from unpublished reports compiled by the Wisconsin Department of Revenue, Bureau of Local Financial Assistance, Madison.

general purpose local governments. As Table and Figure 1 indicate, there has been a decline of five percentage points in five years in intergovernmental aid as a proportion of total county and municipal revenue. This reduction in the relative level of support has occurred while the absolute dollar amount of intergovernmental assistance has grown by over \$320 million (during this most-recent five year period for which information is available, 1978-1983). Thus, from another perspective, there has been an increase of five percentage points in the share of total revenue that is collected from local sources. From either view, the financial pressure on local officials is the same wherever

FIGURE 1
Total Operating Revenues of Wisconsin
County and Municipal Governments: By Source *



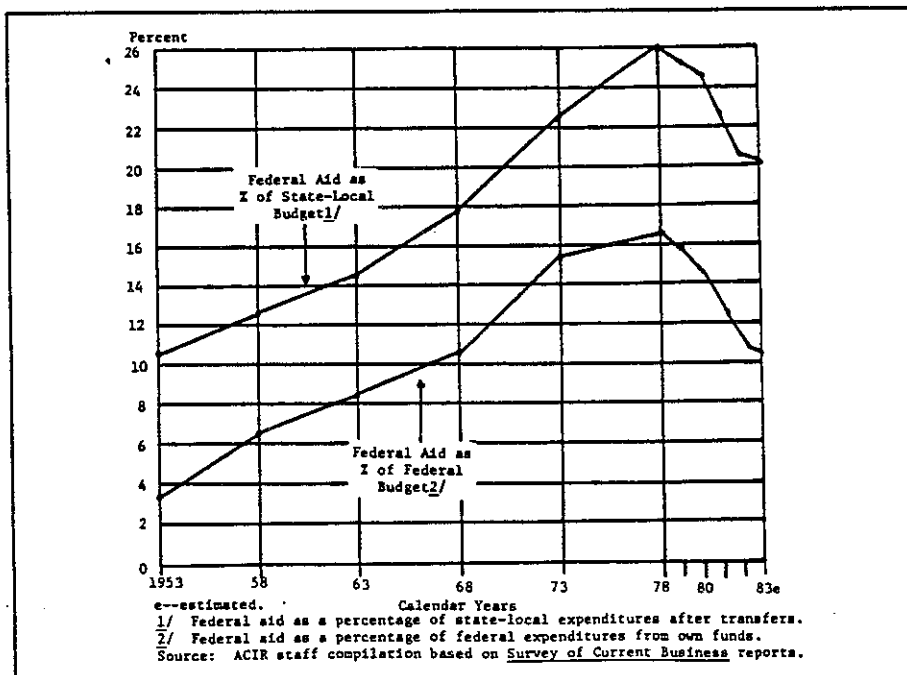
*Approximately 4% of revenue from other governments came from other local governments, rather than the federal or state government. This proportion seems to have remained fairly constant over roughly the time span reported above. See U.S. Bureau of the Census, 1982 Census of Governments and 1977 Census of Governments, Vol. 4, nos. 3 & 4.

there has been a major shift in funding from outside (intergovernmental) sources to inside (local) sources.

The aggregate change in the composition of total revenue has not uniformly affected all of the more than 1,900 county and municipal governments. Many of them apparently have had no serious financial problems. Many others, however, have experienced considerable fiscal stress: not financial disaster or even financial emergencies like the New York City or Cleveland bond defaults; but fiscal stress from the intense pressure to maintain or even increase local governments' expenditures while, concurrently, intense and contradictory pressure is applied to maintain or even reduce local taxes.

Fiscal stress has been a national phenomenon which Wisconsin has not escaped. Beginning around 1979, according to the Advisory Commission on Intergovernmental Relations¹ "federal aid to state and local governments has declined in real terms. Exhibit 2 illustrates the trend of federal aid, with aid as a percentage of state-local budgets reaching a peak of 26% in 1978 then

EXHIBIT 2--THE RISE AND DECLINE OF FEDERAL AID



dipping to 20% by 1983." It is further agreed that "although federal aid actually peaked in 1978 when adjusted for inflation (that is, in constant 1972 dollars), its decline in unadjusted, current dollars first occurred in fiscal 1982."² Inflation and the change in federal aid were related. As one student of the national scene described this difficult time for government officials:³

"This combination of slow economic growth and double-digit inflation--'stagflation'--is causing some governmental units to stretch resources, ration services, cut back programs, make tradeoffs between programs and projects, close facilities, cancel projects, defer maintenance on public works and equipment, abolish positions and lay off employees. Complicating these difficult management problems is the fact that they have to be solved in a political environment composed of clients and public employees who have come to expect and need more services, benefits, and wages from government, and who are not easily persuaded to lower their expectations or make some sacrifices...This gap between the needs and expectations of citizens and government employees for government services and benefits and the inability [to supply them] without putting unacceptable demands on taxpayers' take-home pay defines fiscal stress."

The Dialogue of Fiscal Stress

In Wisconsin during this period the gap between spending demands and easy (outside) revenue effort was widened by a state aid reduction--or shift? or freeze? or growth rate decline? Agreement on who did what to whom is far from unanimous! Spokesmen for Wisconsin municipalities claimed that "many, many cities and villages have had to reduce personnel, cut services, postpone projects and major purchases and raise fees, special charges and other revenue sources to keep property taxes within reason...it has also been necessary in many instances to increase property taxes by significant amounts. What is happening to property taxes and to municipal services makes it clear that further cuts in state payments to localities is not an option open to responsible state leaders."⁴

State leaders, however, have been demanding more responsible spending by local leaders. Both governors during this period called for greater local

government accountability; the former governor referring to the localities as state aid "junkies" and the incumbent governor suggesting that some expensive municipal amenities (and some incredibly low municipal tax efforts), were made possible by state aid "largely because of a lack of accountability."⁵ Local officials complain that high local spending is caused by state-imposed mandates, and lobby against compulsory binding arbitration and for full funding of state-required services: "We have stripped the county's budget to pay for human services programs that the state doesn't fund," according to the Dane County Executive.⁶ And the Milwaukee County Executive threatens to take "state" prisoners out of county detention facilities and "drop them in the lobby of the state office building in downtown Milwaukee and let them figure out how to take care of them," unless the state reimburses the county for its expenses.⁷ The Governor, however, tells municipalities: "We can no longer spend by habit...I predict that while unrestricted shared revenues will continue to be an important feature of local finance in Wisconsin, the days of automatic, formula-based increases are probably over."⁸ Similarly, he warns counties that state legislators are not "going to be inclined to return to the good old days when the shared-revenue pie continued to grow and grow and the only question you had to deal with was how much more counties were going to get from Madison." He tells them it "is not easy for state officials to ask for sacrifices on the part of state employees, both academic and non-academic, and then see no sacrifices or lesser sacrifices being asked by local officials."⁹

The counterclaim by locals is that:¹⁰

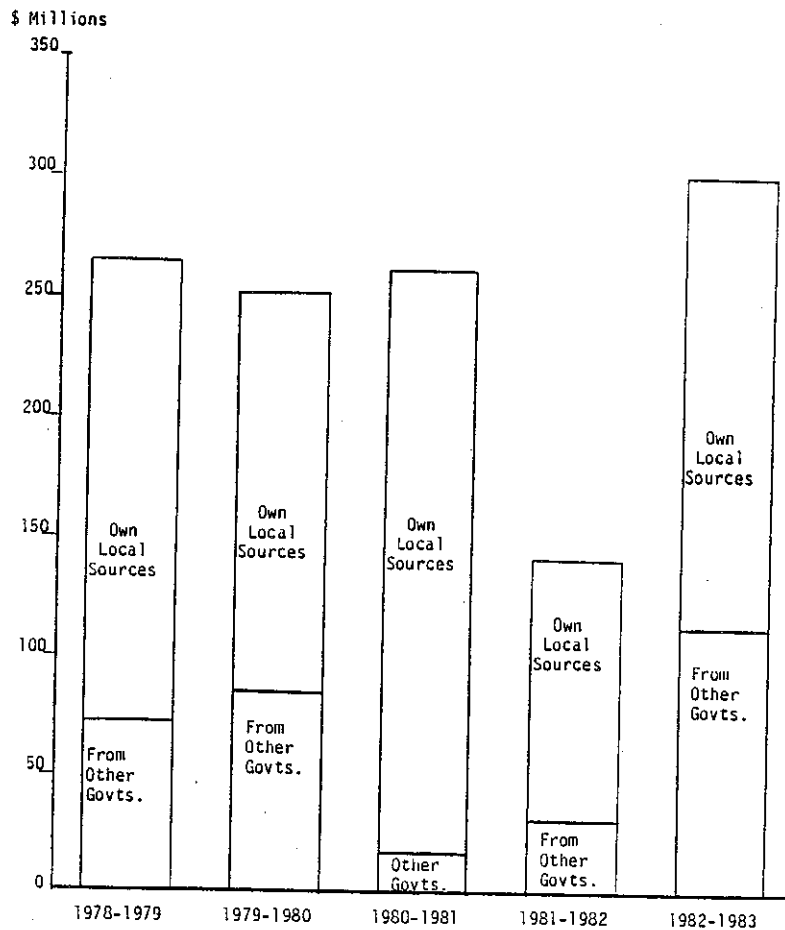
"those who seek to eliminate state payments to local government and the utilization of such funds for other programs really cannot prove that such actions can be justified because local officials are big spenders and that property owners do not benefit from funds received by cities and villages from other levels of government. Those who take that view had better find other arguments."

Such is the dialogue of fiscal stress.

Measuring The Revenue Gap

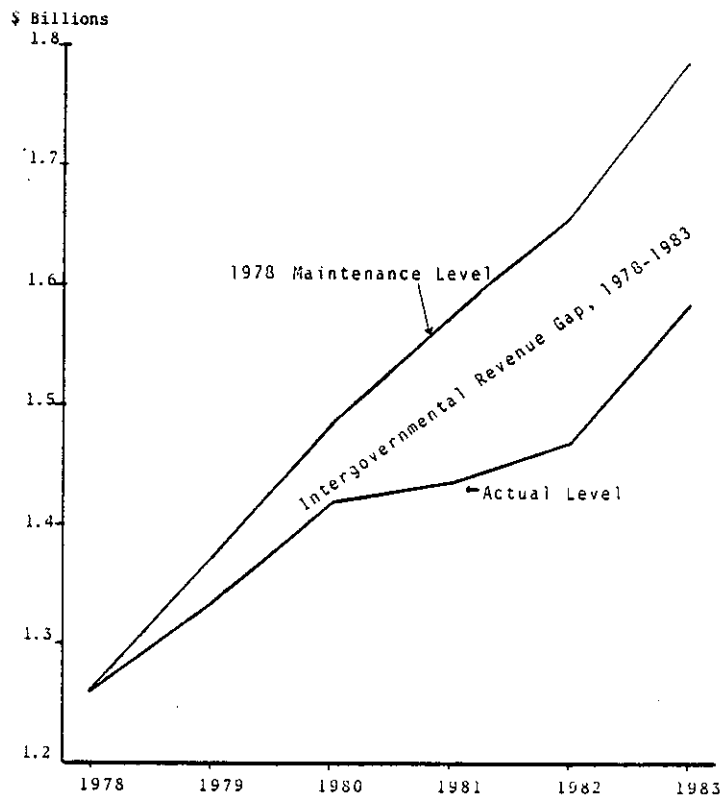
Whoever may have caused it--citizens' and employees' legitimate demands for more local government spending; or local government officials' failure to curb unnecessary spending; or federal and state officials' inability or unwillingness to maintain their share of local government spending support--the absolute increase in county and municipal revenue since 1978 has been remarkable, and the increase by revenue source (local versus intergovernmental) has been remarkably uneven, as shown in Figure 2. The gap which developed between the intergovernmental support level of 1978 and 1983 averaged only one percent--

FIGURE 2
Annual Increase in Total Operating Revenues of
Wisconsin County and Municipal Governments: By Source



age point per year, but the cumulative dollar amount seems surprisingly large. Assuming that their total revenues would have remained the same during this period, regardless of source, then the cumulative intergovernmental revenue shortfall to local governments--at least by one measure--was over \$640 million. This half-billion plus revenue gap is illustrated in Figure 3. It was derived

FIGURE 3
 Intergovernmental Revenue Received Compared to Amount Needed to Maintain 1978 Support Level (42.8% of total): Wisconsin County and Municipal Governments: 1978-1983 33



by calculating the annual difference between the actual amount of intergovernmental dollars received each year and the amount that would have been received if the 42.8% support level of 1978 would have been maintained. The degree to which property taxes have and have not filled the gap is another way of defining fiscal stress in Wisconsin.

The Tax We Love To Hate

Another American phenomenon which Wisconsin has not escaped is the national animosity toward property taxation. After reviewing efforts to diversify local government revenues in the 50 states the Advisory Commission on Intergovernmental Relations concluded in 1984:¹¹

"...although property taxes may be experiencing a modest renaissance, their basic unpopularity will probably preclude a return to their historic role. In each of the 12 years ACIR has polled the public on the question 'Which tax do you think is the worst?' the property tax won over all other state-local taxes. In fact, for 5 years, it was judged the worst tax overall...With property taxes now increasing, the natural question is whether they will fuel similar reactions in the future."

There seems to be no question among state or local officials about how Wisconsin property owners have reacted to the less than "modest" increase in county and municipal property taxes, which in 1983 were nearly 44% higher than they were in 1978. Within the heated and complex dialogue of fiscal stress there was and is a state/local consensus that property taxes are the linchpin: most officials seem to agree that property tax relief is the major administrative and political problem which must somehow be solved. As the Governor explains his priority change for the next budget: "My proposed switch in emphasis from [county and municipal] shared revenue to school related costs reflects no hostility toward local government officials. What it does reflect is my strong belief that additional property tax relief must be channeled through school aids and [property tax] credits."¹²

The 1983 county and municipal property tax levy was \$307 million higher than the levy in 1978, when the average Wisconsin tax rate was among the highest in the nation. Another, less well-known statistic, is equally symptomatic of the pressure which may be building on the tax: the property tax as a percentage of total revenue was the same in 1983 as it was in 1978--

24% of all county and municipal revenue, including intergovernmental aid. "Holding" the property tax proportion of total revenues constant may not feel like "austerity" to the owner whose property tax has jumped 44% in five years. But with the intergovernmental proportion of revenue declining significantly, not increasing the property tax share may have been quite an accomplishment; testimony, perhaps, to the "basic unpopularity" of the tax. It meant that local government officials had to find and use "other" local (non-property tax) sources to fill most of the intergovernmental revenue gap. The 5-year growth in total county and municipal revenue of \$1.217 billion breaks out into these three major pieces: increases of \$321 million in intergovernmental aid, \$307 million in property taxes, and a colossal \$589 million surge from "other" local sources.

This surprising growth in the collection of other local--non-property tax--revenue was all the more remarkable because the property tax was virtually the only "general" tax used by local governments during this period. If the property tax was strained by the intergovernmental revenue gap, then these alternative revenues, extracted from people locally--mostly some form of charges to individuals for specific (rather than general) purposes--were doubly strained. Local alternatives to the property tax may have been underutilized in 1978, but by the end of 1983 it seems likely that most localities in fiscal stress would have discovered them and were utilizing them to their legal and political limits. With this draining off of their property tax alternatives, it is understandable that local officials could look back at their recent funding history and predict that "further reduction in local aids can only lead to increased property tax burdens and/or curtailment of essential services which people need."¹³

The Third Option

In 1984 another option to property tax increases and/or service cuts became viable. Changes in state law now provide counties and municipalities with an improved alternative to the property tax. Commonly known as the "wheel tax" law, it has the potential of raising a substantial sum of money for local government treasuries while adding no local administrative machinery. Local government officials have only to adopt the wheel tax, set the rate, spend the money collected for them by the state, and take the consequences.

The papers in this collection raise and sometimes try to answer the most important policy questions about the wheel tax. Like most public policy issues, there is disagreement over the answers as well as the questions. Local officials will, of course, make their own decisions within their own socio-economic and political environments.

"Should we have a wheel tax?" was a question asked in 1984 by City of Madison and Dane County officials. Most of the essays in this collection were written to help them find the answer. Two papers have been added to provide background information on the key problems of federal aid reductions and limited local revenue alternatives.

There is at least one good reason to believe that many more counties and municipalities will be taking a serious look at the wheel tax in 1985 or 1986: over the next year or two, federal general revenue sharing payments to counties and municipalities are almost certain to be reduced, or eliminated entirely.¹⁴ (See page 69 for an illustration of the potential federal revenue loss and wheel tax replacement rates for county governments.) Loss of this aid program would widen the Wisconsin intergovernmental revenue gap by \$100 million annually; that could force nearly all counties and municipalities to consider some combination of cutting expenditures, raising property taxes, and/or taxing motor vehicles to close the gap.

References

1. Significant Features of Fiscal Federalism 1982-83 Edition, p.1.
2. ACIR, Intergovernmental Perspective , Summer, 1982, p. 8.
3. Charles H. Levine, Managing Fiscal Stress, Chatham House, 1980, p.4.
4. League of Wisconsin Municipalities, The Municipality, March 1982, p. 51.
5. Speech to the League of Wisconsin Municipalities, Arthur, Wis., May 21, 1984.
6. "State of the County," remarks to Dane County Board, Madison, April 18, 1985.
7. Wisconsin Counties Association, Wisconsin Counties, August 1984, p. 7.
8. Speech to the League, May 1984.
9. Speech to the Wisconsin Counties Association, La Crosse, Wi., September 19, 1983.
10. League of Wisconsin Municipalities, The Municipality, November 1983, p. 263.
11. Stephanie Becker, "Local Finance: A Bootstraps Operation," Intergovernmental Perspective, ACIR, Spring 1984.
12. "State Budget Shows Slow Growth in Shared Revenues," The Municipality, League of Wisconsin Municipalities, April 1985, p. 93.
13. League of Wisconsin Municipalities, The Municipality, March 1982, p. 51.
14. Government Finance Officers Association Newsletter, April 1985.

MUNICIPAL OR COUNTY VEHICLE REGISTRATION FEE LAW

West's Wisconsin Statutes Annotated

Volume 39A, 1984

341.35. Municipal or County Vehicle Registration Fee

(1) ANNUAL REGISTRATION FEE. In this section "municipality" means a town, village or city and "motor vehicle" means an automobile or station wagon or motor truck registered under s.341.25(1)(c) at a gross weight of not more than 8,000 pounds. The governing body of a municipality or county may enact an ordinance imposing an annual flat municipal or county registration fee on all motor vehicles registered in this state which are customarily kept in the municipality or county. A registration fee imposed under this section shall be in addition to state registration fees.

(2) EXEMPTIONS. The following vehicles are exempt from any municipal or county vehicle registration fee:

- (a) All vehicles exempted by this chapter from payment of a state vehicle registration fee.
- (b) All vehicles registered by the state under this chapter for an annual fee of less than \$5.

(3m) COUNTY AND MUNICIPAL FEES. If a municipality and the county in which the municipality is located enact ordinances under this section, a motor vehicle customarily kept in the municipality shall be subject to a municipal registration fee and a county registration fee.

(4) NOTICE OF FEES. The governing body of a municipality or county which enacts a municipal or county vehicle registration fee shall notify the department that it has so elected and report the amount of such fee. The municipality or county shall report any change in such amount to the department. The notification shall be made at the time and in the form prescribed by the department.

(5) PAYMENT OF FEES. At the time a motor vehicle is first registered or at the time of registration renewal, the applicant shall pay to the department any fee imposed by a county or municipality under this section in addition to fees required under this chapter.

(6) DEPARTMENT TO REMIT FEES TO MUNICIPALITIES AND COUNTIES. Beginning July 1, 1984, and annually thereafter, the department shall remit those moneys collected under this section, less administrative costs under sub.(6m), to any municipality or county which has imposed a fee under this section. The department may by rule provide that the moneys be remitted at more frequent intervals if the department deems it advisable.

(6m) ADMINISTRATIVE COSTS. The department shall retain a portion of the moneys collected under this section equal to the actual administrative costs related to the collection of these fees. The department shall establish the method for computing the administrative costs by rule and review the methodology annually to ensure full reimbursement of its expenses.

(7) REPLACEMENTS. No municipal or county vehicle registration fee may be imposed on a motor vehicle which is a replacement for a motor vehicle for which a current municipal or county vehicle registration fee has been paid.

(8) RULES. The department shall adopt rules necessary to implement this section.

BACKGROUND PAPER: LOCAL TAX OPTIONS

Rick Olin, Wisconsin Department of Revenue

Division of Research and Analysis

Composition of Local Government Revenues

Compared with other states, Wisconsin local governments make little use of tax sources other than the property tax. This low reliance on other taxes is offset primarily by a greater dependency on intergovernmental revenue and the property tax. In 1981-82, "other" tax sources provided over 19% of municipal general revenue nationally, but less than 1% of municipal general revenue in Wisconsin. Wisconsin municipalities receive almost 50% of their general revenue from intergovernmental revenue while the national average is under 33%. A less striking disparity exists between Wisconsin municipalities' reliance on the property tax (28.3%) and the national municipal average (21.3%). Table 1 summarizes municipal utilization of various revenue sources for 1981-82.

Wisconsin's shared revenue program accounts for the state's heavy municipal reliance on intergovernmental revenue; municipalities in only four states display a higher dependency on this type of revenue. Wisconsin municipalities rely heavily on the property tax because the use of other tax sources has been foreclosed, largely by statutory restrictions. Municipalities in 28 states make use of either a sales tax, income tax or both, but none do so in Wisconsin. Selective sales taxes on items such as alcohol, cigarettes, or gambling generally account for the high level of municipal dependence on "other taxes" in states such as Florida, Georgia and Missouri.

This paper briefly describes current Wisconsin law relating to four potential local nonproperty tax sources.

TABLE 1
 PERCENTAGE DISTRIBUTION OF MUNICIPAL
 GENERAL REVENUE BY SOURCE, 1981-82

	Property Tax	Sales Tax	Income Tax	Other Taxes	Intergov- ernmental Revenue	Other Revenue*
Alabama	6.1	16.7	3.3	12.5	15.9	45.5
Alaska	8.3	3.3	--	1.1	52.6	34.7
Arizona	8.5	18.0	--	5.8	37.5	30.2
Arkansas	6.4	.9	--	10.5	35.9	46.3
California	14.9	14.2	--	12.7	23.4	34.8
Colorado	11.0	26.3	--	8.0	19.0	35.7
Connecticut	54.0	--	--	.7	33.5	11.8
Delaware	17.6	--	12.4	4.4	31.7	33.9
Florida	20.1	--	--	17.4	21.4	41.1
Georgia	18.9	2.1	--	18.3	20.7	40.0
Hawaii	48.3	--	--	11.8	21.7	18.2
Idaho	28.5	--	--	3.8	28.8	38.9
Illinois	20.9	13.6	--	13.4	29.5	22.5
Indiana	28.6	--	--	.7	40.5	30.2
Iowa	28.6	--	--	1.5	28.1	41.8
Kansas	21.5	2.5	--	4.8	15.6	55.5
Kentucky	14.5	--	21.4	6.4	30.2	27.5
Louisiana	10.1	20.0	--	7.3	29.7	32.9
Maine	49.1	--	--	.4	33.4	17.1
Maryland	19.4	--	5.1	3.9	56.0	15.5
Massachusetts	44.4	--	--	.6	42.2	12.2
Michigan	21.5	--	7.6	1.8	33.2	35.9
Minnesota	14.8	.3	--	2.8	29.4	52.7
Mississippi	17.0	--	--	3.7	43.7	35.5
Missouri	8.9	11.0	8.3	16.7	21.8	33.3
Montana	32.0	--	--	3.2	20.8	44.0
Nebraska	22.2	10.4	--	3.7	29.4	34.3
Nevada	6.9	--	--	14.7	43.4	35.0
New Hampshire	56.4	--	--	1.2	27.3	15.1
New Jersey	36.1	--	--	2.1	48.6	13.2
New Mexico	8.5	6.7	--	4.3	46.9	33.5
New York	22.0	7.6	10.7	4.5	40.3	14.9
North Carolina	29.5	--	--	1.6	31.3	37.5
North Dakota	14.5	--	--	3.2	30.2	52.1
Ohio	11.0	--	30.8	2.2	25.9	30.1
Oklahoma	4.7	36.4	--	5.2	14.7	39.0
Oregon	29.1	--	--	9.2	21.7	40.0
Pennsylvania	17.9	--	25.9	6.0	28.4	21.8
Rhode Island	58.3	--	--	.6	35.2	5.9
S. Carolina	27.6	--	--	12.5	31.7	28.2
S. Dakota	23.8	14.8	--	2.0	24.9	34.5
Tennessee	19.8	3.9	--	6.1	31.6	38.5
Texas	25.5	15.1	--	7.8	16.0	35.5
Utah	16.2	19.4	--	10.3	14.9	39.2
Vermont	41.8	--	--	.9	33.0	24.3
Virginia	27.3	5.1	--	13.1	38.6	15.9
Washington	13.3	7.7	--	16.8	30.0	32.2
W. Virginia	9.0	--	--	22.1	25.8	43.1
Wisconsin	28.3	--	--	.9	47.1	23.7
Wyoming	2.9	--	--	2.8	56.0	38.3
U.S. Average	21.3	6.9	5.4	6.8	32.7	26.9

*Interlocal transfers are included in "Other Revenue" to produce totals summing to 100.0.

Source: Advisory Commission on Intergovernmental Relations: Significant Features of Fiscal Federalism - 1982-83 Edition.

The Wheel Tax (Municipal Vehicle Registration Fee)

Section 341.35 of the Wisconsin Statutes authorizes municipalities and counties to levy a tax on automobiles registered in the state and customarily kept in the municipality or county imposing the tax. Previously, the local tax was restricted to one-half the state registration fee, but recent law changes have removed this limit and have simplified the administration of the local tax by allowing it to be "piggybacked" on the state fee. Now, the local government need only notify the state Department of Transportation (DOT) that a local tax has been adopted; DOT will collect the municipal tax at the time the state registration fee is paid. DOT may retain a portion of the local tax to cover its administrative costs. Prior to a 1983 law change, the administration of the wheel tax was entirely local.

No local government uses this tax option currently, although the city of Kenosha did so in 1977 and 1978. In those years, the city collected slightly over \$300,000 per year from the wheel tax, the equivalent of 3% of the municipal purpose levy. The city discontinued using the tax because it was unpopular.

The tax possesses moderate revenue potential--a \$10 fee levied against an estimated 2.2 million automobiles statewide would generate \$22 million. The distribution of the tax base is roughly proportional to population. The incidence of the tax would probably not be progressive, but its incidence would be closely related to the benefits received from local transportation expenditures. For this reason, the fee is most often considered as a means of funding transportation costs.

The Room Tax

Section 66.75 of the Wisconsin Statutes authorizes cities, villages and towns to levy a tax on the furnishing of lodging by motel and hotel operators. The tax is levied in addition to the state sales tax, but no limit is imposed

on the rate of the municipal tax--which ranges from 1% to 7%. In 1982, the room tax generated \$6.4 million in local revenue.

The tax has become increasingly popular among local governments. In 1982, 43 municipalities had a room tax in effect as opposed to only 27 in 1980. The popularity of the tax is probably associated with the recognition that the tax is a vehicle for local governments to shift part of their costs to nonresidents. This may be particularly appropriate in areas where tourists contribute significantly to local government costs.

The room tax has a moderate revenue potential. If all municipalities levied a 5% tax, the total revenue yield would be about \$22.5 million statewide. However, the tax base is not evenly distributed among municipalities. There have been recent attempts by the tourism industry to require that room tax revenues be segregated to fund tourism promotion.

Local Sales Tax

Wisconsin Statutes authorize a .5% county sales tax under s.77.70. Not surprisingly, this authority has never been used since none of the proceeds of the tax would be available to the authorizing county; rather, the total amount would be distributed to the towns, villages, and cities within the county.

Local governments in 26 other states use a local sales tax. In some states, only counties or municipalities are authorized to impose the tax; in others, both counties and municipalities may impose a tax.

The sales tax is the major tax source for municipalities in Alabama, Arizona, Colorado, Louisiana, Missouri, Oklahoma and Utah (see Table 1). Most states limit the rate which local governments may tax, although there are no limits in Alabama, Arizona, North Dakota and Oklahoma. Limits generally fall between .5% and 2%. In Alaska boroughs and municipalities may tax at rates up to 6.0%, but Alaska is the only local sales tax state which does not have a state sales tax.

Local sales taxes are generally "piggybacked" on the state sales tax and collected by the state, thereby considerably simplifying tax administration; a locally administered sales tax would be feasible only in the largest localities.

The use of a local sales tax is advocated on several grounds. First, it possesses substantial revenue raising potential and because of inflation or economic growth it provides automatic revenue increases without increasing rates. A statewide .5% local sales tax would have generated \$121 million in 1983 for Wisconsin local governments. Second, the sales tax enjoys a greater degree of taxpayer acceptance than either the property tax or the income tax. Finally, concerns about the potential for regressivity have been addressed by exempting purchases of necessities from the tax base.

Major design issues pertain to tax rates, the units of local governments which should have access to the tax, distribution of the proceeds in the case of multi-unit taxing jurisdictions, potential shifts in buying patterns, and potential inter-local fiscal disparities.

Local Income Tax

A local income tax is used in varying degrees in other states; however, its use in Wisconsin is specifically prohibited by s.66.70 of the statutes. In Ohio, where it is used by 48% of all municipalities, it accounts for 31% of municipal general operating revenue; in Pennsylvania, where it is used by 86% of all municipalities, it accounts for 26% of municipal general operating revenue. In the remaining states local income taxes are generally restricted to urban areas where it is used as a means of obliging commuters to help pay for the services they receive while working in the city.

Two states restrict the use of local income tax to counties. All 24 counties in Maryland, including the city of Baltimore, impose an income tax, and it accounts for 17% of their revenues. In Indiana, where 42% of all counties impose an income tax, the tax accounts for only 5% of total county revenue.

The tax may be levied as a flat or graduated rate on taxable income, or as a percentage (surtax) of the taxpayer's state income tax liability. The flat rate approach is most prevalent; rates generally range between .25% and 3%. Taxable income is usually defined the same as for state tax purposes, however, distinctions between place of residence and place of employment are more critical to a local income tax.

There are a number of arguments against authorization of a local income tax in Wisconsin, however. Most important is the fact that the state income tax is already heavily utilized in Wisconsin; enacting a local income tax would run counter to current interest in reducing reliance on personal income taxes. A local income tax would also create a new source of disparity in fiscal capacity among municipalities.

CITY WHEEL TAX

TO: Andre Blum, Director of Administration-Madison
FROM: Darrell D. Dillman, Senior Administrative Analyst
SUBJ: ISSUE PAPER - THE WHEEL TAX

INTRODUCTION

Section 341.35 of the Wisconsin Statutes permits municipalities and counties to levy a vehicle registration fee, better known as a "Wheel Tax." This statute allows the governing body of a municipality or county to enact an ordinance imposing an annual flat registration fee on specific types of automobiles registered in Wisconsin and customarily kept within the governing body's jurisdiction.

Although this law has frequently been discussed as a possible method of raising additional revenue, it has also been repeatedly tabled due to administrative difficulties and costs, enforcement problems and the inequity of commuters using local streets and services but residing outside the jurisdiction.

Kenosha is the only Wisconsin municipality to have adopted a wheel tax. During the period of levy limits, Kenosha turned to the wheel tax as a way to raise additional revenue. Using sunset legislation, the city was able to temporarily meet its needs and then allow the ordinance to expire.

Several changes in the law have made it easier to administer and somewhat more palatable to local government. These include requiring the State Department of Transportation (DOT) to collect the fee and reimburse local governments after deducting administrative costs.

THE WHEEL TAX: A DESCRIPTION

The Wheel Tax permits municipal or county governments to levy a flat annual registration fee in addition to the state registration fee, on vehicles kept

within the municipality's or county's jurisdiction and registered in the State of Wisconsin.

The fee would apply only to automobiles, station wagons, light trucks and excludes buses, trucks over 8,000 pounds, trailers, motorcycles, etc. Also, any vehicle exempt from the State vehicle registration fee, or for which the annual fee is less than \$5, would be exempt from the local fee.

Enactment of the wheel tax requires notification of DOT by the enacting government. If a municipality and county governing body enacts the registration fee, the motor vehicle shall be subject to both the municipal and the county fee.

Any fee imposed under this statute shall be paid to DOT at the time of State registration renewal or application and is in addition to State registration fees. Therefore, the State acts as enforcer, collector and distributor of wheel tax revenues.

DOT shall retain a portion of fees collected for administrative costs related to such collections.

Beginning July 1, 1984 and annually thereafter, DOT shall return all fees collected, less related administrative expenses, to the governing body imposing the fee. The exact frequency and schedule of payments by DOT has not as yet been determined.

ESTIMATED REVENUE AND EXPENSES

The most current figures available from the state are as of June 30, 1983. The breakdown by type of vehicle is as follows:

	<u>City of Madison</u>	<u>Dane County</u>
Total	129,006	245,494
Non-Taxable Vehicles	<u>29,899</u>	<u>69,124</u>
Automobiles	<u>99,107</u>	<u>176,370</u>

Gross Revenue (@\$15)	\$1,486,605	(@\$20)	\$3,527,400
Expenses: (\$1.00)	<u>99,107</u>		<u>176,370</u>
Net Revenue	<u>\$1,387,498</u>		<u>\$3,351,030</u>

Assuming a fee of \$15, the gross revenue generated with a registration fee in the City of Madison would be \$1,486,600. The State would charge approximately \$1/car for administering the fee. At a fee of \$20, Dane County would raise \$3,527,400 from the fee and pay the State \$176,370 for administrative expenses, netting revenue of \$3,351,030.

PROGRESSIVITY ANALYSIS

The following chart attempts to compare the "progressivity" of the property tax and wheel tax.

	<u>Property Tax</u>	<u>Wheel Tax</u>
	35¢ per \$1,000 (1.)	\$15
Family A:		
Income (2.) \$ 70,000	.05%	.064%
Home 100,000	\$35.00	-
Cars (3)	-	\$45.00
Family B:		
Income (2.) \$ 45,000	.058%	.067%
Home 75,000	26.25	-
Cars (2)	-	30.00
Family C:		
Income (2.) \$ 25,000	.063%	.060%
Home 45,000	15.75	-
Car (1)	-	15.00

1. An increase in the tax rate of .035 mill (35¢ per \$1,000 of value) would be required to raise the same amount of revenue as a \$15 wheel tax.
2. The percent in the respective columns reflects a percent of income tax each represents.

Family D:

Income (2.)	\$ 15,000	.082%	-
Rents (3.)	35,000	12.25	-
Car (0)	-	-	-

The following assumptions were made in developing the comparisons:

1. Families with higher incomes live in and own homes with higher values; and own more cars than families with lesser incomes.
2. Renters do pay property taxes; and that many of them do not own a car.

If the assumptions are correct, the property tax is more regressive than the wheel tax.

SUMMARY

- The Wheel Tax is a feasible alternative revenue source.
- Administrative costs will be minimal compared to total revenue collected.
- DOT assistance improves enforcement and enhances administrative simplicity.
- Comparable to the property tax as to progressivity.
- Politically unpopular.
- If adopted at the City level only, will not tax commuters living or registering their vehicles outside the City's jurisdiction (inequitable).
- Exempts certain classes of automobiles (e.g., heavy trucks, taxis, motorcycles, etc.) which also use streets and highways.
- There is the possibility of some people transferring the "site" of the vehicle to a location outside the taxing entity. This would probably be minimal and could be lessened if DOT would run checks against the address shown on a driver's license.

3. If value of a rental unit is \$35,000, taxes would increase by \$12.25, eventually reflected in increased rents.

ALTERNATIVES

1. The City adopt a Wheel Tax.
2. The County adopt a Wheel Tax.
3. The City and County adopt a Wheel Tax.
4. The County adopt a Wheel Tax and refund an amount to the municipalities in the County.
5. The County adopt a wheel tax and exempt any municipality that adopts one at the same rate. This would resolve the equity issue (but might require permissive legislation).

RECOMMENDATIONS

The Wheel Tax appears to be no more regressive than the property tax and should be given serious consideration as an alternative source of revenue. This is especially true now that administrative and enforcement problems have been resolved by use of State DOT as the collection agency.

The ideal situation from an equity standpoint, would be for the County to levy a tax (Alternative 4) and refund a portion to municipalities. If the County were to adopt a \$20 Wheel Tax and refund half to municipalities, the City of Madison would get about \$938,000 calculated as follows:

Total Automobiles - County	\$176,370
Total Automobiles - City	\$ 99,107
City's Percentage	56%
Net County revenue at \$20	\$3,351,030
Distributed to Municipalities	\$1,675,515
Madison's Share (56%)	\$ 938,000

The City should plan to initiate a Wheel Tax for 1985 even if the County does not do so. At this point, the advantages outweigh the disadvantages and the revenue to be collected is significant - \$1,387,000.

Alternative 5 should also be considered if details can be worked out with the County.

A point to be considered is that the State often points to the Wheel Tax as a revenue source that local government has not used, and therefore things are not as bad as local officials claim.

COUNTY WHEEL TAX

TO: Roderick Matthews, Chair
Dane County Board of Supervisors

FROM: Jonathan B. Barry
Dane County Executive

RE: EXECUTIVE "BOMBSHELLS" AND OTHER FISCAL ARTILLERY

I want to assure you that I am sensitive to your expressed hope that I avoid dropping bombsHELLS on an unsuspecting County Board in my 1985 budget, and that I refrain from engaging in surprise attacks injurious to your consensus-building efforts. You are quite correct that the 1985 budget will be among the most difficult to fashion in recent memory, and that little purpose will be served by my playing an adversarial role in this process. We are, after all, in this together, and unanimity is always to be revered.

In accordance with your wishes, and to permit you ample time to pursue the consensus we both so fervently desire, I am serving notice that I am seriously and actively considering recommending a \$15 annual county vehicle registration fee in my 1985 budget.

The vehicle registration fee has been under study by my office for nearly a year. The legislature, as you know, made changes in the 1983-85 budget which significantly improved the administrative aspects of the law, and which provided that the registration fees raised by the county are "aidable" under the shared revenue program. Considering these law changes, to say nothing of the property tax pressures we face, I believe the time may be right to move on this issue.

To accomplish this--were I to recommend it--I would have drafted an ordinance amendment to be submitted as part of the budget, with the appropriate revenues therefrom incorporated in the budget document. I imagine that the ordinance amendment would have to be adopted concurrent with the budget, the consequence of not doing so being an increase in the property tax levy.

If I decide to recommend this fee in my budget, I envision that the revenue from the fee be used to directly offset the county highway and transportation department levy. Coincidentally, a \$15 county fee will raise almost exactly as much as the county's current levy for highway and transportation purposes. As a policy matter, I believe this is the only legitimate and appropriate use of these user fee revenues. I am not inclined at this time to propose or support any effort to redistribute these revenues to municipalities within the county. Any "earmarking" of these revenues for specific municipal transportation purposes will have to be accomplished through the normal budgetary process and not through a formula-driven redistribution.

A brief analysis of the impact of this fee on property taxpayers in the city, a suburb and a township is provided below. Viewed in the context of the overall county budget, the fee's annual revenue yield of approximately \$2,800,000 represents 10% of the county's 1984 levy. As the analysis shows, based on the proportion of the county levy to the total levy for all purposes in these sample municipalities (which is fairly representative), virtually every county property taxpayer with one car would pay less in total to the county including a registration fee than he/she would pay without a fee. In general, the larger the county's levy is in relation to the total levy for all purposes, the greater the benefit of a vehicle registration fee is to the property taxpayer.

This proposal represents my present thinking on the matter, subject, of course, to change or abandonment depending on the success of your consensus-building effort. I am inclined to believe that, with your support and stature among county board members, we may well succeed in securing adoption of this measure. I would appreciate the benefit of your thinking as well, and I stand ready to assist you and the board in your efforts.

Taxpayer Impact of County Vehicle
Registration Fee

	<u>Town of Medina</u>	<u>City of Sun Prairie</u>	<u>City of Madison</u>
Total Property Taxes ('84)	\$2,000.00	\$2,000.00	\$2,000.00
County Share ('84) (% of Total Taxes)	\$ 370.00 (18.5%)	\$ 244.00 (12.2%)	\$ 206.00 (10.3%)
Total Property Taxes ('85)*	\$2,200.00	\$2,200.00	\$2,200.00
County Share ('85) w/o wheel tax	\$ 407.00	\$ 268.40	\$ 226.60
Increase in County Share w/o wheel tax	\$ 37.00	\$ 24.40	\$ 20.60
'85 County Share w/wheel tax**	\$ 366.30	\$ 241.56	\$ 203.94
County Levy Change '85 with vs. '85 w/o wheel tax	-\$ 40.70	-\$ 26.84	-\$ 22.66
Net County Levy savings w/wheel tax			
1 vehicle	\$ 25.70	\$ 11.84	\$ 7.66
2 vehicles	\$ 10.70	-\$ 3.16	-\$ 7.34

*Assumes 10% levy increase by each taxing unit.

**Assumes wheel tax represents 10% of total county levy.

To both clarify and elaborate, the proposal I have under consideration is as follows:

1. A \$15 annual vehicle registration fee, adopted by ordinance in conjunction with the 1985 county budget, to be effective with new or renewed vehicle registrations on and after April 1, 1985.
2. The revenue to be derived from the fee will be deposited in the county general fund and credited to the Highway and Transportation Department. The 1985 estimated county property tax levy for the department will be reduced by an amount equivalent to the estimated revenue to be produced by the fee between April 1 and December 31.
3. The county, as the fee-imposing unit, will retain all revenues derived from it. I will take a dim view of any proposal, whether enacted by ordinance or special budget provisions, which provides for "earmarking" or other predetermined "set-aside" amounts to any municipality in advance of line-item appropriations duly enacted by the County Board.
4. As provided by state law, the Wisconsin Department of Transportation would be responsible for the collection and remission of the revenues due the county. The amount to be retained by the DOT to cover administrative costs, and the timing of payments (whether monthly or quarterly) will be determined by administrative rules, which are being drafted at this time. I expect the "skim-off" for state administration to not exceed \$1.00 per registered vehicle at the extreme, and the payment schedule to be quarterly.

INCIDENCE OF THE WHEEL TAX RELATIVE TO THE PROPERTY TAX

Dennis Collier, Graduate Student

La Follette Institute

University of Wisconsin-Madison

Introduction

Taxes are frequently judged in terms of the taxpayer's ability to pay and income is a common measure of ability to pay because it is the source for payment of the tax. A tax may be considered equitable if it is progressive--rising faster than income--or proportionate--rising at the same rate as income. It may be viewed as inequitable if it is regressive--rising slower than income and thus taking up a larger share of the income of low-income individuals than of high-income individuals.

As income rises, people tend to live in more expensive housing and to own more automobiles. But the value of housing and the ownership of automobiles do not increase as rapidly as income, so both the property tax and the wheel tax can be considered regressive. Which is more regressive? Does a municipality, by enacting a wheel tax rather than increasing the property tax, increase or decrease the burden of taxation on lower-income households?

In attempting to answer this question, we will use data applicable to the City of Madison, which is currently considering a wheel tax.

A. Data and Methodology

To determine the regressivity of any tax with respect to income, we must first define income. We will use Wisconsin adjusted gross income (WAGI) as reported on the state income tax return. WAGI is a narrow measure of income.

It excludes non-taxable money income such as social security and welfare payments, as well as imputed income such as unrealized capital gains. As a result, there are more individuals in lower-income categories than there would be if a broader measure of income was used. This is not critical here because we are comparing the relative burdens of the property tax and the wheel tax rather than determining their absolute burden.

We used state income tax data to estimate the property tax paid by Madison taxpayers in different income classes. We assumed that state aggregate data on the property tax/rent credit claims were applicable to Madison. We used the claims, and breakdowns by income class of 1982 WAGI for Madison, to estimate the property tax or its rent equivalent paid by individuals in each income class in the city. However, this estimate understates the property tax burden of the lowest income classes. Only 47.2% of the income tax filers with WAGI less than \$10,000 claimed the state credit, compared to 85% of those with WAGI between \$10,000 and \$20,000 and 95% of those with \$20,000 or more WAGI. Some may not claim the credit because they pay no property taxes; for example, students living with their parents who must file an income tax return because of a part-time job. However, others may pay property taxes but not claim a credit, because the credit applies only when an income tax liability exists. Low-income filers able to reduce tax liability to zero through itemized or standard deductions and personal exemptions have no tax on which to claim a credit.

To correct this understatement, we assumed that 65% of the filers in the lowest income class actually paid property taxes. This increased the total property taxes paid by all income tax filers to 65.3% of the 1982 net property tax levy in Madison, which was \$92,743,503. Residential property provides 61.7% of the assessed value of Madison; thus, about 10% of other property classes is considered housing under our assumptions.

There were approximately 99,100 automobiles registered in the City of Madison in 1983 and this is our estimate of taxable vehicles for the incidence study. We assumed 90% of these automobiles, or 89,200, were non-business vehicles. Using U.S. Bureau of the Census and U.S. Bureau of Labor Statistics data, we estimated the number of automobiles in each income class. Our sources and methods for estimating the breakdown of automobiles by income are discussed in the Appendix.

Findings

Individuals in lower-income classes would pay a higher percentage of the wheel tax than of the property tax, as shown in Table 1. The percentage breakdown of the wheel tax is the same as the percentage breakdown of the number of automobiles because the tax is a flat fee per automobile. Persons with WAGI less than \$10,000 would pay 20.6% of the wheel tax, compared to 13.8% of the property tax; those with incomes less than \$20,000 would pay 44.1% of the wheel tax compared to 27.8% of the property tax.

TABLE 1
1982 PROPERTY TAX AND ESTIMATED AUTOMOBILE OWNERSHIP
IN THE CITY OF MADISON BY CLASS OF WAGI

<u>Income Class</u>	<u>Total WAGI (000)</u>	<u>Property Tax (000)</u>	<u>Percent of Total</u>	<u>Autos</u>	<u>Percent of Total</u>
Less than \$10,000	\$ 147,254.9	\$12,825.9	13.8%	20,425	20.6%
\$10,000-19,999	313,926.7	13,027.3	14.0	23,280	23.5
\$20,000-29,999	315,638.1	11,284.5	12.2	18,555	18.7
\$30,000-49,999	472,466.5	15,126.1	16.3	20,160	20.3
\$50,000 and more	<u>330,684.4</u>	<u>8,305.5</u>	<u>9.0</u>	<u>6,780</u>	<u>6.9</u>
Residential	\$1,579,924.6	\$60,569.3	65.3%	89,200	90.0%
Non-residential	<u> </u>	<u>32,147.2</u>	<u>34.7</u>	<u>9,900</u>	<u>10.0</u>
Total	\$1,579,924.6	\$92,743.5	100.0%	99,100	100.0%

One reason why persons in lower WAGI classes would pay a greater percentage of the wheel tax than of the property tax is that the wheel tax impacts primarily on what we will call the residential sector, that is, households. We have estimated that 90% of the taxable vehicles are owned by this sector, so 90% of the wheel tax would impact on it. In contrast, only 65.3% of the property tax impacts on the residential sector under our assumptions.

Who would bear the burden of the 10% of the wheel tax and the 34.7% of the property tax impacting on the non-residential sector? If the incidence of these taxes, paid primarily by business, could be shifted to consumers through higher prices for goods and services, the burden on lower-income households would increase because consumption takes up a larger portion of the income of the lower-income than higher-income households. Since the amount of the property tax shifted is larger than the amount of the wheel tax shifted (34.7% compared to 10%) the relative regressivity of the wheel tax will be reduced. Still, the wheel tax will remain the more regressive of the two taxes. For the property tax to be as regressive, individuals in the lowest income class (with only 9% of total WAGI) would have to account for 27% of all consumption. Furthermore, all property and wheel taxes on the non-residential sector would have to be shifted to Madison consumers only. Obviously, these two conditions are highly improbable. Thus, the wheel tax can be considered more regressive than the property tax.

Some Examples

While the wheel tax is more regressive overall than the property tax, an increase in the property tax would be more burdensome than the wheel tax for certain low-income individuals--those who do not own automobiles, and many of

them do not, according to the 1980 Census of Housing. Only 44% of the households with money income (not WAGI) less than \$5,000 and 57% of the households with money income less than \$10,000 own automobiles (see Table A-1, Appendix). Nearly 83% of these are renters. This suggests that a wheel tax would be more burdensome on homeowners and less burdensome on renters than would an equivalent increase in the property tax.

Table 2 compares the burden of the wheel tax and an equivalent property tax increase for several different households, under the assumptions used above. We also assume a wheel tax of \$15, raising \$1,486,500 from 99,100 taxable vehicles. Assuming administrative costs of \$1 per vehicle, net revenues are \$1,387,400, so this will be the amount of an equivalent property tax increase, which would require no additional administrative costs. This increase would raise property tax rates in Madison by 33 cents per \$1,000 of assessed value. We will also assume that property tax is 20% of rent and that renters could expect to see the portion of rent attributable to the property tax rising by 1.5%.

In our first example in Table 2, two renters share an apartment and each earns WAGI of \$3,000 and pays \$125 a month in rent. Only Renter A, who owns a car, would pay the \$15 wheel tax. If property taxes were increased instead, both would see their rent rise by \$4.50 annually. If the two shared ownership of the automobile, then the wheel tax would exceed the equivalent property tax increase for both.

TABLE 2
 EXAMPLES OF EFFECTS OF WHEEL TAX AND EQUIVALENT
 PROPERTY TAX INCREASE

	WAGI	Number of Autos				Value Of Home	Rent	Property Tax Increase or Rent Equivalent
		0	1	2	3			
Two Roommates:								
Renter A	\$ 3,000	-	\$15	-	-	-	\$1,500	\$ 4.50
Renter B	3,000	\$0	-	-	-	-	\$1,500	4.50
Retired Couple Owning Home	8,000	0	15	-	-	\$ 75,000	-	24.75
Renter Living Alone	14,000	0	15	-	-	-	3,600	10.80
Family:								
Renting	17,000	-	15	-	-	-	4,200	12.60
Owning	17,000	-	15	-	-	30,000	-	9.90
Family Owning Home	22,000	-	15	30	-	50,000	-	16.50
Family Owning Home	45,000	-	15	30	-	80,000	-	26.40
Family Owning Home	100,000	-	15	30	45	200,000	-	66.00

A retired couple living in a \$75,000 home would find the property tax increase more burdensome if they owned one or no cars. So would a renter with an income of \$14,000 and living alone, if he or she did not own a car; otherwise the wheel tax would be the higher of the two.

A family with \$17,000 WAGI and either renting or owning their own home would find the wheel tax on one car higher than the increase in property taxes. For families with homes valued at \$50,000 and \$80,000, the wheel tax is less burdensome if they own one car, more burdensome if they own two. The family with the \$200,000 home would find the property tax increase more burdensome unless they owned five or more cars.

In summary, low-income individuals and families who own automobiles would find the wheel tax more burdensome than an equivalent increase in the property tax, even without considering the effect of property tax credits. Among low-income individuals, only those who do not own automobiles or who live in housing of value higher than is typical for their WAGI class, like the retired couple in our example, will be hurt more by the property tax increase, though results may be affected by property tax credits.

Effects of Tax Offsets

The wheel tax is ineligible for five property tax relief programs, four of which reduce regressivity of the property tax and thus increase the regressivity of the wheel tax relative to an equivalent property tax increase.

For example, the retired couple with the \$75,000 home in Table 2 might be eligible for a Homestead credit that would reduce their Wisconsin income tax. This tax relief program reduces the regressivity of the property tax directly by providing the largest credits for those with the highest property taxes and the lowest income.

The property tax/rent credit reduces state income tax by 10% of the property tax or rent equivalent. This credit reduces the regressivity of the property tax because the tax, and thus the 10% credit, are a larger portion of the income of lower-income than higher-income households. The Farmland Preservation credit and the Wisconsin State Property Tax Relief payment to taxing jurisdictions have similar effects.

One program that increases regressivity of the property tax is the deduction of the tax from income for federal income tax purposes. Progressive federal income tax rates make this offset of greater benefit to higher-income than lower-income taxpayers. As a result, the deduction reduces the relative regressivity of the wheel tax.

Summary

The wheel tax can be considered more regressive than the property tax because lower-income individuals probably would pay a larger portion of the former tax than the latter. Several offsets tend to reduce the regressivity of the property tax and thereby increase the relative regressivity of the wheel tax. These include the 10% credit for property tax or its rent equivalent, the Homestead and Farmland Preservation credits and the Wisconsin State Property Tax Relief payment. These offsets also make the property tax the easier of the two taxes to export.

The wheel tax impacts more heavily on the residential sector than the property tax because most taxable vehicles are owned by individuals and families. Homeowners own more automobiles than renters, so they will bear a larger share of the wheel tax.

Despite these equity problems, the wheel tax does provide an alternative to a property tax increase if local officials consider the current level of property taxation to be at its upper limit.

APPENDIX

Table A-1 is our estimate of the breakdown of automobiles by various classes of money income; Table A-2 provides a percentage distribution of the auto ownership data in Table A-1.

The primary source for the estimates in Table A-1 was the U.S. Bureau of the Census 1980 Census of Housing, which provided data on vehicles available to Madison housing units by income class in 1979. With these data, shown in Table A-3, we estimated the number of housing units by income class owning one, two and three or more automobiles. We also estimated vehicles per unit with three or more automobiles, with vehicles per unit increasing with income.

Tables A-4 and A-5 show other data from the Bureau of the Census and the U.S. Bureau of Labor Statistics that was useful in estimating automobile ownership by income.

To compare the incidence of the wheel tax with that of the property tax, we needed to convert the housing units in Table A-1 into tax filers, and money income into Wisconsin adjusted gross income. Basically we assumed that the tax filers with the lowest WAGI corresponded with the housing units with the lowest money income. For example, 39.2% of all tax filers in Madison in 1982 had WAGI less than \$10,000. We assumed that these filers included all housing units with money income less than \$10,000 or 29.5% of all housing units, plus a portion of the \$10,000-14,999 money income class, until 39.2% of all housing units and the proportionate number of automobiles they owned had been assigned to the lowest WAGI class. The remaining WAGI classes were filled in the same manner (for example, the \$10,000-19,999 class drawing from the money income classes between \$10,000 and \$24,999), until all automobiles had been allocated.

TABLE A-1

VEHICLES IN MADISON BY MONEY INCOME

Income	Housing Units 3+ Autos	% of Autos Total	Total		Total	% of Autos	Total	% of Autos
			1 Auto	2 Autos				
Less than \$5,000	8,513	12.8%	3,300	270	140	4,260	4.8%	
\$ 5,000-9,999	11,106	16.7	6,200	1,050	245	9,060	10.2	
\$10,000-14,999	10,685	16.1	6,900	1,600	500	11,675	13.1	
\$15,000-19,999	8,888	13.4	5,000	2,550	750	12,500	14.0	
\$20,000-24,999	8,245	12.4	3,800	3,400	800	13,240	14.8	
\$25,000-34,999	10,184	15.3	3,000	4,800	2,200	19,970	32.4	
\$35,000-49,999	5,882	8.9	1,300	3,200	1,325	12,205	13.7	
\$50,000 and more	2,948	4.4	500	1,740	660	6,290	7.0	
Totals	66,451	100.0%	30,000	18,610	6,62	89,200	100.0%	

TABLE A-2

PERCENTAGE OF MADISON HOUSING UNITS OWNING AUTOMOBILES BY MONEY INCOME

Income	PERCENT OF UNITS OWNING...			Total	Autos Per unit
	1 Auto	2 Autos	3+ Autos		
Less than \$5,000	38.8%	3.2%	1.6%	43.6%	0.5
\$ 5,000-9,999	55.8	9.5	2.2	67.5	0.8
\$10,000-14,999	64.6	9.5	2.2	67.5	1.1
\$15,000-19,999	56.3	28.7	8.4	93.4	1.4
\$20,000-24,999	46.1	41.2	9.7	97.0	1.6
\$25,000-34,999	29.5	47.1	21.6	98.2	2.0
\$35,000-49,999	22.1	54.4	22.5	99.0	2.1
\$50,000 and more	17.0	59.0	22.4	98.4	2.1
Average for all classes	45.1%	28.0%	10.0%	83.1%	1.34

TABLE A-3

VEHICLES AVAILABLE TO MADISON HOUSING UNITS BY INCOME CLASS, 1979

<u>Income</u>	<u>Total Units</u>	<u>Units owning</u>		<u>Percent owning</u>		<u>% Owning</u>	<u># Not Owning</u>
		<u>1 Auto</u>	<u>2+ Autos</u>	<u>1 Auto</u>	<u>2+ Autos</u>		
Less than \$5,000	8,513	3,284	410	38.6%	4.8%	43.4	4,819
\$ 5,000-9,999	11,106	6,182	1,262	55.7	11.4	67.1	3,662
\$10,000-14,999	10,685	6,858	2,075	64.2	19.4	83.6	1,752
\$15,000-19,999	8,888	4,966	3,253	55.9	36.6	92.5	669
\$20,000-24,999	8,245	3,756	4,193	45.6	50.9	96.5	296
\$25,000-34,999	10,184	2,994	6,986	29.4	68.6	98.0	204
\$35,000-49,999	5,882	1,322	4,529	22.5	77.0	99.5	31
\$50,000 and more	2,948	516	2,372	17.5	80.5	98.0	60
Totals	66,451	29,878	25,080	45.0%	37.7%	82.7	11,471

Source: U.S. Bureau of the Census, 1980 Census of Housing

TABLE A-4

PERCENTAGE OF UNITS WITH AUTOMOBILES AVAILABLE, BY INCOME, 1977

<u>Income</u>	<u>Percent of Units with ...</u>		
	<u>1 Auto</u>	<u>2 Autos</u>	<u>3 Autos</u>
Less than \$3,000	37.3%	9.2%	1.2%
\$ 3,000-6,999	52.8	9.8	1.6
\$ 7,000-9,999	62.7	17.8	2.7
\$10,000-14,999	57.9	28.0	4.7
\$15,000-24,999	45.7	41.3	9.1
\$25,000 and more	27.3	48.5	22.5

Percent of all units in:

United States	47.5	28.8	7.8
North Central U.S.	46.7	31.7	7.1
Metropolitan areas	45.3	29.6	8.2
Central Cities	45.2	22.6	5.7

Source U.S. Bureau of the Census, Statistical Abstract of the U.S., 1980

TABLE A-5

VEHICLES PER CONSUMER UNIT, BY INCOME

Vehicles per consumer unit in

<u>Income</u>	<u>United States</u>	<u>North Central</u>	<u>Urban Areas</u>
less than \$5,000	0.6	0.6	0.5
\$ 5,000-9,999	0.9	0.9	0.9
\$10,000-14,999	1.3	1.2	1.3
\$15,000-19,999	1.5	1.5	1.5
\$20,000-29,999	1.8	2.0	1.8
\$30,000 and more	<u>2.2</u>	<u>2.3</u>	<u>2.1</u>
All income classes	1.4	1.5	1.4

Source: U.S. Bureau of Labor Statistics, Consumer Expenditure Survey: Diary Data, 1980-81

The Wheel Tax As A User Fee
Mark E. Hanson
Department of Urban and Regional Planning
University of Wisconsin--Madison

Introduction

Local governments allocate a considerable portion of their budgets to transportation infrastructure, maintenance, and operation. In the case of towns, for example, over 50% of their budgets on average are spent on roads.¹ The question that should be asked is whether the local government share of these transportation costs should be paid for by a revenue source other than the local property tax. More specifically, should the wheel tax be implemented as a user fee assessed on transportation system users to pay for some or all of the local transportation services provided?

Linking the wheel tax to local transportation expenditures raises the underlying issue that paying for local transportation services by the property tax has amounted to a subsidy to transportation system users. Regardless of how equitable the property tax may or may not be as a means of paying for transportation services, the cost of these services appear to the users to be lower than they actually are. This "free lunch" perception results in a level of use higher than would otherwise occur if actual costs were charged to users. Given the nature of transportation systems management, increasing levels of use are accommodated for by increasing provision of infrastructure and hence increasing costs. The overuse and overprovision of transportation infrastructure represents an inefficiency--a waste of scarce resources--in the local economy.

The purpose of this paper is to identify the magnitude of the local expenditure on transportation infrastructure, argue why it is a subsidy, and describe how the "wheel tax" would replace the current local property tax-based subsidy.

The Magnitude of Local Government Expenditures on Transportation

Since 1911 when the State Highway Fund was established, state revenues have helped pay for local highway costs. A major revision in the Wisconsin aids formula occurred in 1977 which resulted in, among other things, the use of actual costs in determining highway aids to local governments. Since 1978, local units of government have been required to report their road-related costs to the Department of Transportation. These reports have provided a considerably improved insight into the magnitude and nature of expenditures on transportation by local units of government.

Table 1 provides an example of local road expenditures and aids for one municipality--Madison--in 1983. The average expenditures per person, per housing unit, and per registered automobile also are provided. The annual local share of highway expenditures (which are currently paid almost entirely by local property taxes) amounted to \$69 per person and \$118 per registered automobile. These 1983 expenditure levels were somewhat less than statewide local expenditures which averaged \$99 per person and \$194 per registered automobile.²

Local Expenditures on Roads As A Subsidy

Can the \$11.7 million that Madison spent on roads from local revenues in 1983 be considered a subsidy? Highways are what economists describe as a "public good." In other words, highways are a common property or community resource available for anyone to use as much as they wish subject only to certain rules. The difficulty with public goods is that there is a strong tendency toward overuse, whether the common property be a natural resource (for example, water) or a government-provided good such as a road. With natural resources such as water, pollution and/or depletion often is the result of overuse, and the government response is to impose pollution or consumption controls. With highways, the result is congestion in some