"Unmandated" State Funds for Counties:
Buck Sharing vs. Buck Passing

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"Unfunded state mandates" are fighting words for county officials. When state laws force county governments to provide goods and services without state funds to pay for them, county officials get angry, and with good reason. Such unfunded state mandates take policy responsibilities away from counties and force fiscal responsibilities on them. Even worse, counties usually must increase their least popular revenue source--the property tax--to pay for some or all of the added cost of the mandated functions.

Like them or not, state mandates are here to stay. Local governments almost everywhere in the U.S. are "creatures of the state." Historically, counties in particular have been thought of primarily as "arms of the state." Responsibility for government finance is divided by the states between themselves and a variety of local governments. For example, according to the latest figures from the Census Bureau, local governments in Wisconsin were responsible for 63.1% of Wisconsin's total state and local spending in 1988-89. This was the ninth highest local share in the nation. In 38 states, local governments accounted for less then 60% of total spending and in a dozen states they spent less than half of the total share. (Government Finance in 1988-89, February, 1991.) If local governments refuse to spend enough money on things which the state wants done, then either mandates result or the state itself takes over. Mandates may have few defenders, but state takeover of county functions is not (with some exceptions) the outcome desired by most county or state officials.

State mandates on local governments, therefore, seem to be inevitable, and until the state constitution requires it, *fully funded* state mandates seem to be impossible. Studies have piled up over the years which document unfunded or underfunded mandates but--even though no one seems to like them--no acceptable way has been found to prevent their passage by the legislature. This "buck passing" seems to have become part of the normal legislative process; that is, financing programs may become secondary to the goal of getting them passed or approved by the executive. Congress, for example, does essentially the same thing by placing mandates on the states or by borrowing funds without raising taxes to service the debt, thus passing the tax on to future generations. Likewise, unfunded state mandates pass the cost of state programs on (through the county and other local governments) to the local owners of taxable property or the users of services. Both higher levels of government avoid fiscal responsibility by shifting the burden to taxpayers at another level of government or to another point in time.

County officials should keep fighting unfunded state mandates, but they also should keep a watchful eye on the other side of their fiscal coin, namely, the considerable amount of state "buck sharing" which helps offset the state's "buck passing." Given the contentious debate over state mandates and property tax relief, new county board members might be surprised to learn that property tax revenue accounts for less than one-fourth of the counties' general revenue, while 43% comes from the State of Wisconsin. Wisconsin, in fact, was one of the first states to share substantial portions of its own tax collections with its local governments. This relatively high level of local fiscal dependence on the state does not necessarily make the unfunded mandate problem any less onerous in Wisconsin than it is in other states. The measure of that problem is how much locally-raised revenue is *required* because of state law--something no one knows for certain.

Mandates aside, over 42% of general revenue received by all types of local governments in Wisconsin comes from state government, while the national average is under 34%. This is a significant difference which amounted to the equivalent of over $819 million annually above the national average in 1988-89. Curiously and coincidentally, that wasn't too far from the sum of money ($807 million) which was then being sent to county and municipal governments under the state's shared revenue program, a program which this year will distribute $869 million in "unmandated" funds: money which can be spent at the discretion of local governments for any legal purpose.

Thus, Wisconsin not only provides relatively high levels of fiscal support to its localities, but also distributes a substantial number of dollars with no strings attached. With so much of the state/local responsibility for services being delegated to local governments, this high level of state support seems necessary. The historic intent of these discretionary state payments was to provide replacement dollars for the property tax which would otherwise have to be levied. Property tax dollars may be spent for any legal purpose, so it is consistent to distribute shared revenue dollars without mandating how they should be spent. These funds, which local government officials do not have to raise themselves and which come to them automatically--without application or other red tape--and which can be spent at their own discretion, seem almost too good to be true. Perhaps that's why county officials seem to pay less attention to "unmandated" state funds than they do to unfunded state mandates.

But no local government should take its discretionary shared revenue for granted. *Federal* General Revenue Sharing, for example, had been around since 1972. Then (to the dismay of local government officials everywhere) it disappeared after 1986. That was a loss of nearly $50 million annually for Wisconsin county governments. General Revenue Sharing was a victim of the federal budget deficit mentioned above; its loss has been paid for by counties through reduced spending, increased property taxes, service charges, and adoption of the county sales tax.

Close attention to the *state* distribution formula also is important. Recently, for example, proposals were made to eliminate the "per capita" portion of the shared revenue distribution which sends money to local governments according to the number of residents in each municipal (town, village or city) jurisdiction. Counties do not receive a per capita payment, but they should pay attention to what happens to it because it interacts with another formula element, the so-called "mini-max" or "hold-harmless" adjustment. This provision guarantees localities a minimum percentage of the prior year's payment, including the per capita amount. If municipalities were to lose their per capita payment it would have to come from somewhere else to fulfill the minimum guarantee. Under the present formula, that guarantee already is underfunded by $21.6 million; consequently, much of the make-up for the per capita loss would be taken from county governments. (Much of the current underfunding, in fact, already is taken from the counties' share, as the notes below explain.) The main point is that counties, towns, villages, and cities are all in competition annually for the same, fixed, shared revenue "pie." It is a "zero sum game" because no government can get a bigger slice of the pie without some other government(s) getting less. Everyone could win only if the state increased the size of the shared revenue pie itself.

It is important, therefore, that county board members and the public be reminded just how much (or how little) this state aid means to their individual budgets, and how the formula determines their county's share. That shared revenue formula is summarized in the notes that follow. To illustrate how the formula impacts on individual counties, the explanation is keyed to the column numbers in the table showing each county's estimated share for 1991. These estimates were compiled or derived from files of the Bureau of Local Financial Assistance in the Wisconsin Department of Revenue. Normally, the estimates are very close to the actual amounts distributed. This year, however, larger than normal changes between the estimated and the actual distribution could occur because of adjustments required by the official 1990 Census of Population. The original payment estimate made last fall was based on 1990 population figures as prepared by the state. The law requires the original shared revenue estimates to be recalculated this fall to correct for differences between the state's population figures and the official count made by the U.S. Census Bureau. This could, of course, affect the cash flow for counties, especially where the Census Bureau counted significantly fewer persons than were estimated by the state.

Column 1. **County Governments**--Each of the 72 county governments will receive some portion of the estimated shared revenue distributed to local governments this year, ranging from a low of $50,400 for Florence County to more than $42 million for Milwaukee County. Counties are scheduled to get nearly $161 million, or 18.5% of the shared revenue total; the estimate for cities is about $554 million; towns, $80 million; and villages, $73.5 million. These estimated sums have been rounded down for budget purposes, and total slightly less than the actual amount appropriated. ($869 million.) Unless counties had better information, the amounts for individual counties shown in the table should have been used by county boards last fall to prepare their 1991 budgets. Checks for 15% of their estimated share are mailed to counties in July, with the balance to be paid in November, 1991, subject to the Census and other adjustments.

Column 2. **Utility**--The payment to counties because of utilities is based on the value and location within a county of specific utility company property. Only the value of structures (not land) and only up to $100 million in value (in a single municipality) owned by light, heat, and power companies qualifies counties for this payment. (This utility property is exempt from taxation, which is one rationale given for payment of utility-based state aid.) The payment is divided between the county and the municipalities in which the property is located and is equal to a total of 9 mills ($9 per $1,000 of property value) times the value of the property. If the property is located in a city or village within the county, then the county receives an amount equal to the value times 3 mills, and the municipality gets the remaining 6 mills times the value. However, if the property is located in a town, then the county's payment equals the value times 6 mills and the town gets the 3 mill balance. Also, any county with a utility plant rated at more than 200 megawatts must receive a minimum payment of $75,000 annually. (See Grant, Ozaukee, and Washington counties, for example.) However, no county may receive a total utility payment in excess of $100 per capita. (None have been close to that limit in recent years.)

Column 3. **Equalization**--Property tax base "equalization" payments (also called "percent of aidable revenues" payments) generally are intended to reduce the effect of large per capita differences in taxable property value among local governments. These fiscal disparities in the property tax capacity of different places would--if not compensated for with state aid--result in significantly different tax rates for the same amount of property tax levied per resident. Presumably, for the value-poor places this would create either excessive tax burdens or inadequate service levels or both. Therefore, governments with relatively low taxable property value per capita receive relatively high amounts of shared revenue per capita. At least in theory, this reduces their reliance on the property tax to fund their costs. (Another theory is that it simply increases their spending levels.) Their tax burdens should then become more equal to those of governments with similar costs but with more tax base per capita (who get relatively less, or no, state equalization aid). As extreme examples, see Adams, Burnett, Door, Oneida, Ozaukee, Sawyer, Vilas, Walworth and Waukesha counties, which have so much property value per capita that they receive no equalization aid from the state. At the opposite extreme, counties like Ashland, Clark, Douglas, Menominee, Rusk, and Trempeauleau have less than 55% of the tax base the state "guarantees" them, and therefore should be reimbursed by state equalization aid for no less than 45% of their average, property tax financed, costs. Counties compete at a disadvantage with municipalities for the equalization portion of the shared revenue distribution. Only 85% of county costs (as measured by a "local purpose revenue" effort proxy) are counted when calculating the state's share of county costs, whereas 100% of the municipalities' cost is included in the municipal calculation. Equalization aid is an idea borrowed from school district financing and may be a more appropriate measure for schools--where the "per capitas" are pupils actually enrolled in a district--than it is for counties or municipalities where per capita means the resident population, rather than the number of people actually receiving county and municipal services.

Column 4. **Mini-Max**--The "mini-max" adjustments (also known by the misnomer "hold harmless") shown in the column "disequalize" the shared revenue distribution by either increasing or decreasing the equalization payments shown in column 3. The minimum payment that any county or municipality may receive is 95% of the prior year's adjusted payment. Where the initial amount shown in column 3 is less than 95% of that county's 1990 payment, the 1991 payment is increased (+) by the amount needed to equal 95%. Because this guaranteed minimum is unfunded (remember, this is a "zero sum game") the money is taken from shared revenue which should have gone to "equalize" other governments' fiscal disparities. In practice this means a maximum is placed on the annual equalization aid *increase* which other governments can receive. Money, therefore, is taken away from (-) any county whose initial equalization amount for 1991 exceeds 113% of its 1990 payment. Only 13 of the 72 county governments are "winners" (+) under the "mini-max" adjustment, nine counties are unaffected, and the 50 remaining counties are "losers" (-). The loses are not insubstantial. A dozen counties, for example, lose more than a half million dollars in aid increases because of the adjustment: see Barron, Clark, Dodge, Dunn, Grant, Green, Kewaunee, Lafayette, Marathon, Richland, Rock and Vernon. Counties compete with each other and with municipalities for the equalization aid payments, and they also compete in the minimum/maximum adjustment process. Therefore, the pluses and minuses in column 4 do not balance because counties lost $7.2 million more to municipalities than they gained from them. These adjustments clearly are "disequalizing" because they alter the annual changes in equalization payments which should take place when changes occur in a government's relative per capita value or costs--for example, when costs are driven up by unfunded mandates. If, as suggested above, the per resident value is not a good measure of county and municipal governments' "need" for state aid, then some adjustment may be necessary. A good argument could be made, however, that this $21.6 million "hold harmless" guarantee should be funded by the state, rather than by other governments' shared revenue payments.

Column 5. **Dollar Payment**--The total dollar payment to each county government is the result (rounded) of adding columns 2 and 3 and making the adjustment shown in column 4.

Column 6. **Property Tax Rate Equivalent**--One measure of the relative impact the shared revenue payment has on a county's property tax burden is its property "tax rate equivalent." This figure represents how much higher the county tax rate would have been for 1991 if the shared revenue payment had not been budgeted as an anticipated revenue and used to reduce the levy. The dollar amount in column 5 is divided by the full value of the county's taxable property to produce the rates shown in column 6. Based on these tax rate equivalents, the state shared revenue payment estimate should have reduced county tax rates for 1991 budgets, ranging from 5 cents per $1,000 in Vilas County, to $7.31 per $1,000 in Menominee County. The average property tax relief provided by shared revenue to county governments was $1.14 per $1,000 of property value.

The counties' fiscal frustration with the state may be caused only partly by the state's failure to target adequate funding for programs which it mandates on county governments. The funding gap would not be as wide if the discretionary --"unmandated"--funds for counties (shared revenues) were growing fast enough to compensate them for their increased cost effort to fulfill the state's mandates. But counties are not allowed to compete equally with municipalities for shared revenues. As noted above, only 85% of their cost effort is counted for state aid purposes, vs. 100% for municipalities. In addition, municipalities write off all of their taxable manufacturing property value (over $5 billion this year) when their level of need for state aid is calculated. Therefore, they look much "poorer" in tax base, relative to counties, than they actually are, and thus again capture more aid. Counties also suffered a net loss of $7.2 million in additional aid because of the "mini-max" adjustment, and they will receive none of the per capita distribution, worth $29 per resident to municipalities in 1991. If counties were allowed to compete equally with municipalities for the shared revenue pie, their portion surely would be much larger than the slice they are scheduled to receive this year. At a minimum, the state should consider full funding for the "hold harmless" (95% of last year's aid guarantee) provision; the 'mini-max" adjustment caused by this provision is very counterproductive, and far from harmless.

State Shared Revenue Payments to County Governments: The 1991 Estimates

(1)	(2)	(3)	(4)	(5)	(6)
				Total Payment	
County Govern-ments	Utility Payment	Equalization Payment	Mini(+) Max (-) Adjustment	Dollar Amount (Rounded)	Per $1,000 Property Value
Adams	7,489	none	+45,784	53,200	.09
Ashland	30,614	1,024,837	-241,148	814,000	2.60
Barron	22,517	1,971,419	-610,176	1,380,000	1.38
Bayfield	6,646	255,310	-146,960	114,000	.25
Brown	195,472	7,149,862	-11,948	7,330,000	1.36
Buffalo	304,428	722,650	-421,367	605,000	1.93
Burnett	11,379	none	+62,412	73,700	.15
Calumet	9,823	1,064,946	none	1,070,000	1.21
Chippewa	853,290	1,897,421	-287,278	2,460,000	2.04
Clark	40,511	2,079,566	-617,677	1,500,000	2.52
Columbia	643,161	845,296	-318,090	1,170,000	.90
Crawford	8,762	979,144	-287,503	700,000	1.98
Dane	259,251	3,569,577	+540,624	4,360,000	.36
Dodge	24,141	3,423,279	-580,783	2,860,000	1.55
Door	12,660	none	+85,013	97,600	.06
Douglas	30,333	2,659,513	-36,568	2,650,000	3.24
Dunn	44,863	2,368,522	-564,109	1,840,000	2.56
Eau Claire	85,091	3,620,701	none	3,700,000	1.96
Florence	3,088	125,415	-78,047	50,400	.35
Fond du Lac	69,838	2,573,483	none	2,640,000	1.15
Forest	9,433	322,918	-115,029	217,000	.90
Grant	75,000	2,246,865	-605,549	1,710,000	1.70
Green	9,958	1,107,411	-708,461	408,000	.48
Green Lake	6,455	290,902	-117,435	179,000	.29
Iowa	30,082	454,054	-207,198	276,000	.45
Iron	6,991	282,574	-98,337	191,000	1.13
Jackson	16,279	935,073	-166,542	784,000	2.10
Jefferson	24,696	2,817,620	none	2,840,000	1.70
Juneau	6,491	1,146,305	none	1,150,000	2.14
Kenosha	345,272	3,290,241	+486,118	4,120,000	1.13
Kewaunee	606,708	1,328,834	-574,515	1,360,000	3.03
La Crosse	189,658	3,650,563	-482,703	3,350,000	1.43
Lafayette	8,900	708,979	-597,912	119,000	.26
Langlade	5,945	1,264,382	-209,407	1,060,000	2.38
Lincoln	43,089	2,016,416	-424,180	1,630,000	2.78
Manitowoc	611,631	3,858,295	none	4,460,000	2.50

(1) County Govern-ments	(2) Utility Payment	(3) Equalization Payment	(4) Mini(+) Max (-) Adjustment	(5) Total Payment Dollar Amount (Rounded)	(6) Total Payment Per $1,000 Property Value
Marathon	729,059	6,812,923	-750,727	6,790,000	2.35
Marinette	58,470	1,622,211	-63,378	1,610,000	1.51
Marquette	3,853	258,275	-93,715	168,000	.41
Menominee	761	534,546	-109,741	425,000	7.31
Milwaukee	633,585	38,558,637	+2,898,658	42,090,000	1.64
Monroe	25,922	1,810,994	-253,063	1,830,000	2.37
Oconto	23,739	1,064,344	-250,161	837,000	1.00
Oneida	27,874	none	+110,020	137,000	.10
Outagamie	76,287	3,664,152	-8,640	3,730,000	.91
Ozaukee	75,000	none	+374,131	449,000	.14
Pepin	1,559	751,617	-188,231	564,000	3.59
Pierce	29,951	1,650,837	-109,855	1,570,000	1.95
Polk	40,420	821,389	-20,078	841,000	.84
Portage	56,207	2,584,202	-51,552	2,580,000	1.54
Price	32,066	1,071,625	-462,473	641,000	1.77
Racine	84,880	5,257,198	+452,750	5,790,000	1.21
Richland	13,082	1,509,691	-588,406	934,000	2.50
Rock	240,580	5,817,467	-820,519	5,230,000	1.58
Rusk	59,243	1,416,387	-258,795	1,210,000	4.11
St Croix	37,394	1,037,786	-67,128	1,000,000	.63
Sauk	28,369	1,277,157	none	1,300,000	.89
Sawyer	18,922	none	+67,289	86,200	.15
Shawano	23,781	1,319,280	-57,270	1,280,000	1.43
Sheboygan	421,825	3,952,771	none	4,370,000	1.56
Taylor	8,492	1,395,759	-239,746	1,160,000	3.09
Trempealeau	25,108	1,766,372	-471,782	1,310,000	2.53
Vernon	207,882	1,491,370	-827,703	871,000	1.63
Vilas	5,905	none	+52,952	58,800	.05
Walworth	29,450	none	+256,042	285,000	.08
Washburn	14,362	387,335	-34,000	367,000	.86
Washington	75,000	1,006,811	none	1,080,000	.34
Waukesha	126,426	none	+1,704,477	1,830,000	.13
Waupaca	11,039	1,337,199	-147,511	1,200,000	1.00
Waushara	7,942	193,363	-15,495	185,000	.27
Winnebago	48,042	4,502,577	-25,595	4,520,000	1.12
Wood	81,794	3,330,998	-153,213	3,250,000	1.76
Total	$8,044,222	$160,257,646	-$7,188,170	$160,900,900	1.14

Source: Files of the Bureau of Local Financial Assistance, Wisconsin Department of Revenue.