One Region ✶ One Future ✶ Growing Southeastern Wisconsin ✶

Regional Report

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State Shared Revenue and the Future of Regional Cooperation

Recent political history and state budget crises have coincided to bring about a sharp retreat from the state's century-old practice of returning much of its income tax collections to local governments. There is nothing to suggest this is merely a temporary retreat. Shared revenue, as municipalities and counties have known it, appears over. The current replacement for shared revenue, municipal and county aid, may look and feel like shared revenue, but because it is not based on a formula, it is more vulnerable in the state legislature to future cuts or even elimination. As a result, local and state governments must begin now to think creatively about how to finance government in the future, as well as the nature of the state's relationship with local government.

The openness of local governments to new, creative solutions means there is a golden opportunity in the 2005-2007 biennial budget for the state to make forward-looking policy changes that will encourage regional cooperation and strengthen regional economies. Shared revenue has already been redefined; now is the time to redefine regional cooperation.

Models Wisconsin policymakers should be aware of include:

- **Property tax-base sharing:** Allowing local governments to share their tax bases by pooling revenue attributable to growth in property values, base property values, or both. Local governments can use the resulting revenue to provide regional amenities. This model is currently in effect in Racine County and in Minneapolis/St. Paul, Minnesota.

- **Income tax-base sharing:** Allowing local governments to establish local income taxes and share the revenue. A regional tax might be established, or wages of non-residents might be taxed by the municipality in which the employer is located. A version of this model is in effect in Philadelphia, Pennsylvania.

- **Sales tax-base sharing:** Allowing local governments to establish local sales taxes and share the revenue. Again, a regional tax could be established or a portion of local sales taxes could be pooled and redistributed in a region. An example of this model was proposed for Sacramento, California.

- **Regional service models:** In this model, a regional taxing district is established to levy a regional tax, usually a sales tax, and provide a regional service, often transportation or cultural facilities. Southeastern Wisconsin already has an example of this type of district in the stadium district. Denver's Cultural and Scientific District is a better example of a service district resulting from regional cooperation.

Regional strategies for navigating the uncertain future seem to hold the most promise. Regional cooperation that acknowledges the regional economy and addresses fiscal disparities promises to reap benefits for all jurisdictions in the region. State incentives for developing inter-jurisdictional cost-saving agreements will certainly spark regional discussions, but these discussions should not be limited to small, service-specific partnerships. Broad coalitions of both municipal and county governments have a better chance of truly securing new revenue sources and allowing growth to benefit the entire region.

State Shared Revenue and the Future of Regional Cooperation

Wisconsin's state shared revenue program has undergone extreme changes in the past two biennial budget deliberations. These changes have manifested themselves in a $90 million reduction in state shared revenue to local governments in 2004. These reductions occur at a time when Wisconsin's local governments depend on shared revenue, on average, for 19% of their total revenue.

Shared revenue has long been attractive to state elected officials looking to balance a tight state budget. Many also argue that the shared revenue program provides local officials with a perverse incentive to increase spending. For these and other reasons, fundamental changes have recently come to the program.

But from the point of view of local boards and executives, state shared revenue is merely the return of locally-generated revenue, revenue that was never meant to stay in the state's coffers. Local officials also point to their own tight budgets and to clamor at the local levels for property tax freezes or reductions when asking the state to maintain the program.

In the midst of this debate, the Public Policy Forum has undertaken a three-year project to encourage regional thinking when discussing and making public policy at either the state or local level. As part of this project, the Forum reviews the state shared revenue program as it was and is now, outlines some of the program's incentives and disincentives to regional cooperation, and describes several alternative models of tax-base sharing, including some currently being considered in Wisconsin.

Origins of Wisconsin's State Shared Revenue Program

The current state shared revenue program's origins lie in the start of the state income tax in 1911. The state gave a portion of state income tax revenue back to the locality in which a taxpayer resided as compensation to the local taxing body for the state's exemption of certain types of personal property. In fact, the state retained only 10% of the income tax proceeds—70% went to the taxpayer's municipality of residence and 20% to the county of residence. In 1971 several changes were made to the legislation, with the result being a new distribution formula and the end of the prior "return-to-origin" scheme.

The new shared revenue distribution program was designed with three goals: 1) to provide property tax relief, 2) to equalize revenue-raising ability among municipalities, and 3) to compensate municipalities for tax-exempt utility property. It is the tax-base equalization goal that has been the driving factor of the program and the source of recent debate. Before the 2001 changes, the "aidable revenues" portion of the program, designed to equalize tax base among local governments, accounted for about 80% of the program's costs annually.

Equalization is an attempt to allow localities with low tax capacity—low property values—to enjoy similar revenue to higher tax capacity communities at similar tax rates. Without equalization, a municipality with low property values would have to tax its residents at a much higher rate in order to provide the same services as high tax capacity communities. However, it is equalization's effect on spending that has made it so controversial. Under the program, communities with greater spending could expect to recoup more state shared revenue than those that spent less. This was seen as a perverse incentive of the program and, in addition, made it less likely that communities would try to capture cost-savings over the long run, further compounding the disincentive.

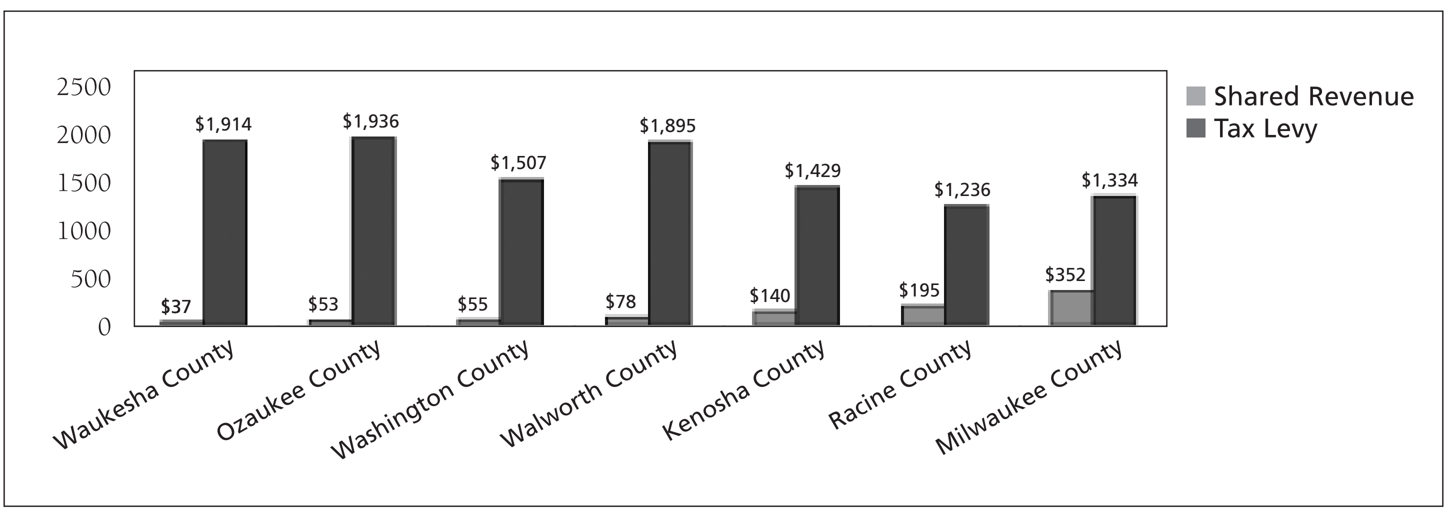
The state shared revenue program as it operated from 1971 to 2001 was actually comprised of four different components: 1) a small, fixed per-capita payment; 2) a utility payment, which itself was based on three components; 3) the aidable revenues payment, which is what is typically considered "state shared revenue;" and 4) an adjustment payment guaranteeing that no local government receives less than 95% of the previous year's payment.

In addition to the four components listed above, the Small Municipalities Shared Revenue Program was put into effect in 1994 for municipalities with fewer than 5,000 population and less than $40 million in equalized property value. There is also a program called the Expenditure Restraint Payment, which was enacted in 1990 as the Tax Rate Disparity Payment and was targeted at high-tax rate communities that limited their spending growth. Finally, the County Mandate Relief Program provided aid to each county in proportion to population.

From 1995 to 1999, the total amount distributed by the state shared revenue program held steady at $950.6 million per year. The program grew 0.1% to $951.2 million in 2000 and 2001. Had the 2001-2003 state budget not made changes to the program, it was estimated to grow 1% to $960.7 million in 2002 and another 1% the following year.

However, for 2002 and 2003 the state shared revenue formula was suspended. In 2002, municipalities received 101% of their 2001 payments. In 2003, municipalities received 101% of the 2002 payments, minus about $7.6 million. There was a similar reduction for counties totaling about $2.4 million. These reductions were equal to the amount the counties and municipalities received in aid from the Wisconsin Department of Health and Family Services (DHFS) for providing transportation services for medical care.

CHART 1 LOCAL REVENUE PER CAPITA, 2004 (AGGREGATED BY COUNTY)



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Shared Revenue in Disguise? County and Municipal Aid Program

Under the 2001-2003 budget adjustment bill, the old state shared revenue, small municipalities revenue, and county mandate relief programs are still on the books, but as of 2004, payments are no longer being made under their provisions. (Except for the utility payment component of state shared revenue, which will continue and is not discussed here.)

When then-Governor Scott McCallum originally floated the idea of abolishing state shared revenue in his 2001-2003 budget proposal, municipalities as diverse as Milwaukee and Bayfield came together to renounce the idea. So where was the outcry over the elimination of shared revenue payments in 2004? Well, local officials know that it is merely the name that is gone, for now at least.

The new program is designed to reduce the amount of state revenue received by each municipality. Instead of state shared revenue, there is now a "County and Municipal Aid" account in the state budget. The account will be appropriated so as to fund the sum of the 2003 state shared revenue, small municipalities revenue, and county mandate relief payments, minus $90 million. Each county and municipality payment will be based on the 2003 payment, and the $90 million reduction – totaling $70 million from municipalities and $20 million from counties – will be apportioned among the localities on a per capita basis. Additionally, DHFS reductions will continue and total approximately $10 million per year.

The estimated payments to counties and municipalities under the new aid program (including the utility payment) total $970.3 million in 2003. This reduction, coupled with moving the program out of the state's general purpose revenue (GPR) fund, moved shared revenues from being the second largest state aid program in 1998 to fourth largest in 2003.

TABLE 1 LARGEST STATE AID PROGRAMS

Rank	1998	$ (Millions)	% of Total State Aid
1	Elementary & Secondary School Aid	$3,662.20	37.8%
2	Shared Revenues*	$1,008.60	10.4%
3	Medical Assistance	$904.80	9.3%
4	UW System	$876.80	9.0%
5	Correctional Services	$556.80	5.7%
Rank	**2003**	**$ (Millions)**	**% of Total State Aid**
1	School Aids	$4,756.10	41.1%
2	Medical Assistance	$1,038.60	9.0%
3	UW System	$1,063.80	9.2%
4	Shared Revenues	$970.30	8.4%
5	Corrections and Related	$852.90	7.4%

**Includes all components of shared revenue programs.*

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Although large, the decline in shared revenue from 1998 to 2003 pales in comparison to the cut in just one year from 2003 to 2004. This aforementioned $90 million cut reduces state aid to local government by 9.1%, to $881.6 million in 2004. Municipal and County Aid is projected to remain flat or incrementally rise from 2004 to 2005.

CHART 2 SHARED REVENUE OR MUNICIPAL AND COUNTY AID, 1995-2005 (IN MILLIONS)

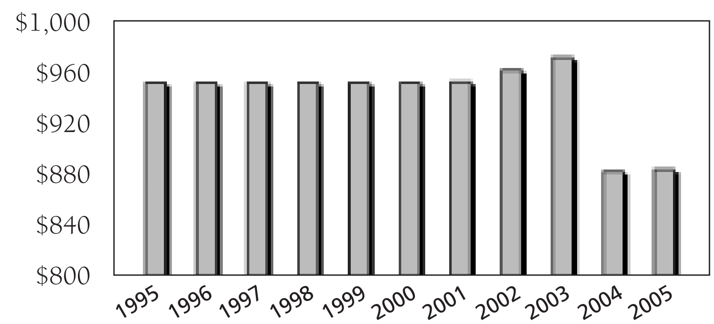

CHART 3 SHARED REVENUE AS PERCENT OF TOTAL REVENUE, SE WISCONSIN, 2001

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State Incentives for Regional Cooperation

In effect, of the original three goals of the state shared revenue program, only two remain in the new law, property tax relief and the utility payment. The county and municipal aid program makes no attempt to further equalize taxing ability among communities. By no longer tying the aid payment to spending, the new program will, in theory, slow spending. The new law also is designed to work in concert with another legislative provision to encourage more efficient spending—a monetary incentive for regional cooperation.

State shared revenue has been important to local governments because of their limited ability to raise local revenue. Local governments in Wisconsin are only able to establish taxes on property and hotel/motel rooms. The remainder of their revenue comes from the fees they establish for their services and from state aid. When localities' revenue-producing limitations are coupled with their residents' opposition to increased property taxes, state aid becomes an important element of the county or municipal budget.

CHART 4 REVENUE AND EXPENDITURES PER CAPITA, 2001

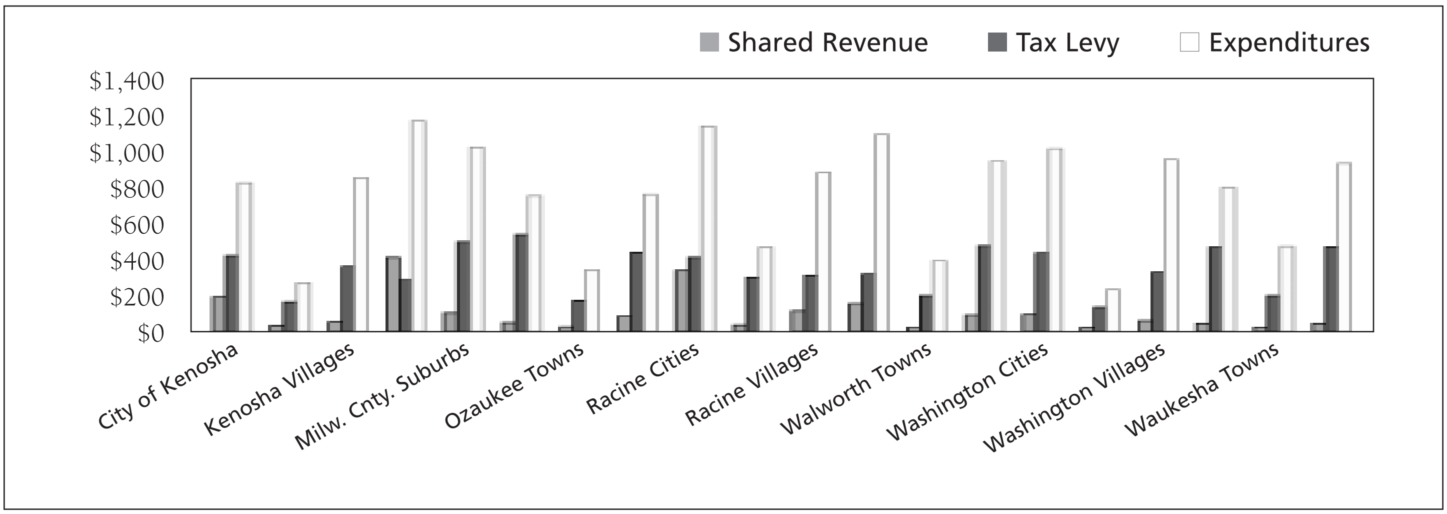
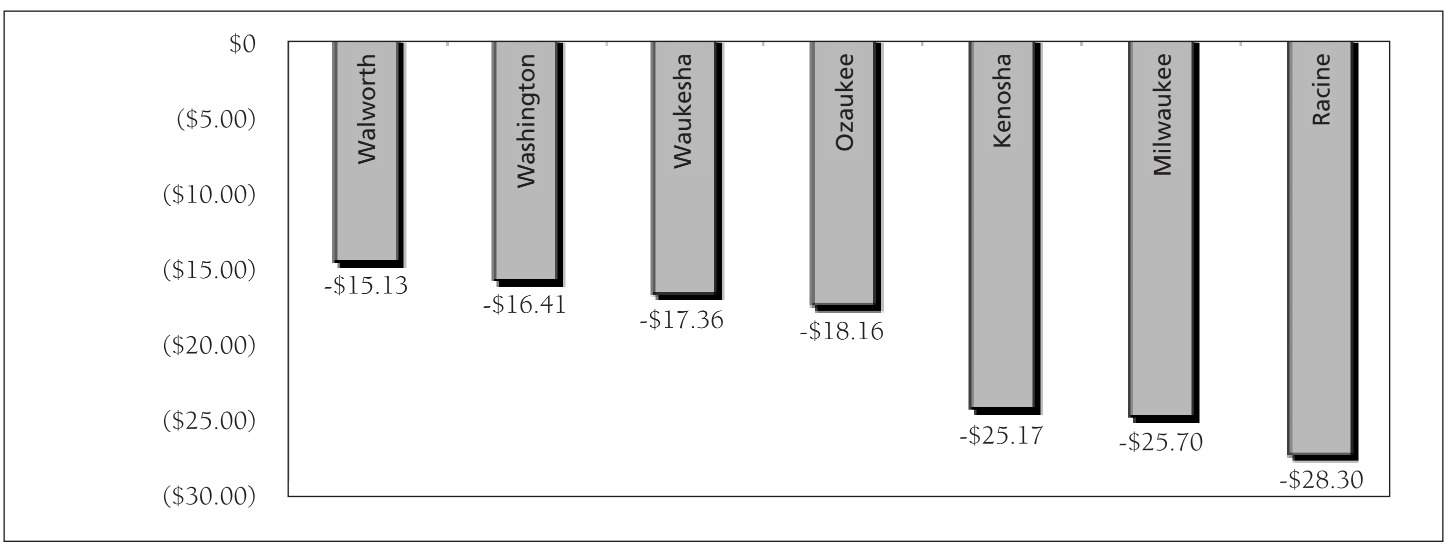


CHART 5 REDUCTIONS IN MUNICIPAL SHARED REVENUE PER CAPITA, 2001-2004 (AGGREGATED BY COUNTY)



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Local governments are now facing the harsh reality that state shared revenue, as they have known it, is over and future state aids will not be nearly as generous. Thus, even without a new statute requiring it, local governments would likely be looking to each other for innovative ways to reduce costs by sharing services. Under WI Stat. 66.0317, metropolitan area municipalities and counties will soon be required to enter into cooperative agreements with at least two other communities for at least two services.

Municipalities and counties will also soon be eligible for $45 million of "consolidation incentive payments" annually. Starting in 2005, they must apply for the payments prior to September 1 of each year by submitting copies of their shared service agreements and estimated cost savings from those agreements. An agreement is only eligible for the incentive payment in its first year and the payment is not to exceed 75% of the expected cost savings. These incentive payments will be paid for by reducing each local government's county and municipal aid payment on a proportional basis. This reduced payment will become the new basis upon which future aid payments are figured, thus not only encouraging immediate cost savings, but sustainable ones, as well.

State Disincentives to Regional Cooperation

As noted above, the most criticized aspect of state shared revenue has been its perceived incentive to grow local spending. The shared revenue payment was thought not only to allow low tax capacity communities to provide more services, but also to encourage all communities to spend at a rate designed to maximize the shared revenue payment, which was partially based on a local government's costs.

Researchers from UW-Oshkosh investigated this perception by comparing municipalities' changes in shared revenue with their changes in per capita personal income and the government spending changes that resulted from each. They found that the state shared revenue program did indeed result in a higher rate of spending than would be expected from the personal income of the residents.

For every dollar increase in per capita income, UW-Oshkosh researchers found per capita expenditures increased 12 to15 cents. However, for every dollar increase in shared revenue per capita, per capita expenditures increased 46 to 55 cents. This is the result of rational decision-making on the part of local officials; if they had substituted shared revenues for local revenues on a dollar-per-dollar basis, they would not have received as much shared revenue in the future. The researchers found that local officials also were able to provide some property tax relief under the formula and did not simply supplement local revenues with state revenues. They found that property taxes per capita decreased 32 to 41 cents for every dollar of shared revenue received. Thus, shared revenue was used both to increase local spending and to put downward pressure on property taxes. The authors concluded that their findings are the result of the design of the shared revenue program, which simultaneously sought to provide property tax relief while equalizing the ability to spend (Deller, Maher, and Lledo, 2001).

Indeed, the devil was in the details of the design. While the shared revenue program came with no strings attached in terms of how the revenue was spent, it did place limitations on how spending could effect future shared revenue payments. For example, the formula used a three-year expenditure average—short-term increases in spending could be leveled out by the lower spending of other years. In addition, increases in shared revenue to some municipalities were funded by decreases in shared revenue to other local governments, which were each limited to losses of less than 5% of the prior year's payment.

Therefore, the old formula-based state shared revenue program did little to encourage regional cooperation and much to enable local governments to provide some property relief while still growing their expenditures. Local governments relied on the payments to fund nearly 19% of their budgets, on average. But state officials had long warned local leaders not to become dependent on the revenue. The new program is designed to wean communities from state aid while allowing county and municipal officials some time to develop new sources of local revenue.

One Region

Regional Cooperation and Tax-Base Sharing

One way local policymakers may find new sources of revenue is through tax-base sharing with other communities. Tax-base sharing is a form of regional cooperation in which two or more governments are able to tax the same tax base, whether it be the property tax base, sales tax base, or even a local income or wage tax base. Wisconsin's state shared revenue program differs from a tax-base sharing program in that only the state can establish the tax on the tax base at issue—the state personal and corporate income tax. The revenues generated by the state's tax policies are then shared with local governments, but the local governments have no input into the tax policy from which the revenue comes. Thus, the incentive for local governments to cooperate is the ability to help set the policies that would determine their revenue flows. Tax-base sharing also has the potential to be much more equitable within regions than shared revenue, because local governments are the ones establishing the payout agreement.

However, because of the state shared revenue program's previous equalization component, tax-base sharing has not been necessary in most of Wisconsin. In regions where low tax-capacity communities are located near higher tax-capacity communities, state shared revenue pre-empted any tax-base sharing agreements that might have occurred. But with recent changes to the shared revenue program, tax-base sharing may well come into its own in Wisconsin.

In fact, a tax-base sharing system is now in effect in Racine and a model regional plan has been drafted by the Wisconsin Alliance of Cities. The Public Policy Forum's work on regional cooperation has resulted in our firm belief that all such models should be explored. Now is the time for creative solutions to local governments' budget woes, as well as property owners' burdensome tax liabilities.

Models of Tax-Base Sharing: Property Taxes

Eastern Racine County, Wisconsin

In the late 1990s, the City of Racine found itself in the position of providing water and sewer infrastructure and quality of life amenities to surrounding communities that were growing and enjoying much higher tax capacity than the city itself. It could not sustain this generosity on its declining tax base. Because Racine's tax rate was already two to six times higher than in surrounding communities, it could not squeeze any more from its tax base; so the city and its suburbs entered into a tax-base sharing agreement.

The agreement has two components. First, the suburbs contract with the city to purchase future capacity at the wastewater facility, ensuring their ability to grow, in exchange for representation on the utility's governance board. At the same time, all entities in the agreement pool a portion of their 1999 tax base and the annual growth in their industrial and commercial property tax bases. The total amount contributed to the pool is redistributed to the participating communities based on their relative fiscal capacities. The program ensures that payments are made only from high tax-capacity communities and received only by lower tax-capacity communities. The City of Racine is the beneficiary of most of the payments out of the pool and will spend the new revenue on redeveloping its aging infrastructure and reclaiming brownfield sites. In addition, a portion of the surplus income generated by the water utility (due to growth in the suburbs) is returned to the City of Racine to be spent on regional amenities, such as the library, zoo, and art museum. It is thought that eventually the agreement will allow Racine to lower its tax rate, which in turn will reduce the tax-base sharing payments from the surrounding suburbs under the formula upon which they have agreed.

TABLE 2 EASTERN RACINE 2005 TAX-BASE SHARING PAYMENTS

Community	Contribution/Distribution
Town of Caledonia	-$235,404
Village of Mount Pleasant	-$682,245
Town of Raymond	-$20,238
Town of Yorkville	-$33,340
Village of Elmwood Park	-$3,168
Village of North Bay	-$8,000
Village of Sturtevant	-$96,627
Village of Wind Point	-$49, 408
Total Contributions	**-$1,128,430**
Town of Somers	+$1,550
City of Racine	+$1,126,880
Total Distributions	**+$1,128,430**

Pros and Cons of Racine

Pro: Redistributes based on need. Only low tax-capacity communities can receive pay-outs. This design element ensures that the redistribution of the tax base growth flows in the most equitable direction.

Pro: Contributions based on growth and on 1999 tax base. To redistribute growth only could reinforce existing inequities—communities with lower tax capacity that experience considerable growth could end up contributing to higher capacity communities.

Con: Excludes residential property values. This results in continued reliance on state shared revenue to redistribute personal income. It also means wealthy communities with little commercial or industrial land could pay into the pool less than their fair share of the region's total growth.

Minneapolis / St. Paul, Minnesota

The model that often comes to mind when discussing tax-base sharing is the Minnesota model. In 1975 municipalities in the seven-county Twin Cities area started contributing 40% of the growth of their commercial and industrial property tax base to a regional pool. A uniform tax rate is applied to the pool and the tax revenues are redistributed via a need-based formula that includes each community's population and tax capacity.

In the Minnesota model, need is measured by the ratio of a municipality's per capita property values to the average per capita property values of all other jurisdictions in the pool. This is not the best measure of fiscal need. A large city may have a high per-capita valuation but also considerably greater expenses due to low wealth in its population. And, in fact, Minneapolis has in some cases contributed more to the pool than it has received in distributions in a given year.

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Pros and Cons of Minnesota

Pro: Shares commercial and industrial growth. This minimizes the negative fiscal impact throughout the region of private sector location decisions.

Pro: Redistributes based on need. Much of the disparity in tax capacity in the region has been reduced over that past 29 years.

Con: Redistributes portion of growth. That the majority of the growth (60%) stays in the growing municipality results in continuing competition among communities and reinforces fiscal disparities.

Con: Excludes residential property values. Bedroom communities may not be contributing their fair share to the pool.

Con: Need measured by property values only. The formula sometimes results in redistribution from communities with low property values to those with high property values.

City of Charlottesville / Albemarle County, Virginia

In Virginia, tax bases that fall within city jurisdictional boundaries escape county taxation—city and county tax bases do not overlap, as is the case in every other state in the nation. This creates competition between city and county governments; cities want to annex unincorporated land and grow their tax bases, while counties, which would lose taxing jurisdiction over the newly annexed land oppose any growth in city boundaries. Virginia passed legislation in 1979 enabling cities and counties to share tax jurisdiction and providing fiscal incentives for cities to agree to do so to reduce city incentives for annexation and the costly legal battles that would inevitably occur.

The Charlottesville/Albemarle program encompasses residential and commercial property. The city and the county each contribute the same percentage of their property tax revenues to the pool. The pool is divided between the two governments using a formula that accounts for differences in population and relative tax effort, so as to achieve greater equalization.

Pros and Cons of Virginia

Pro: Redistributes percent of total property value. Pooling a percent of all property tax revenue, not just growth and not just commercial, results in more equitable sharing of all types of growth, including past growth.

Pro: Reduces city annexations. This provides the county with incentive to pursue economic development in unincorporated areas. In the past, the city would wait for the county to invest in the new development and then would seek to annex the land, which would no longer be taxable by the county.

Pro: Limits legal battles. By reducing uncertainty about the taxable status of property in areas adjacent to city boundaries, new development proceeds quickly in collaboration with the city and the county.

Con: City and county tax rates must match. County residents experienced a big jump in property taxes when the sharing plan was implemented. Although the county's tax base grew, its tax rate grew as well because the program requires it to match the city's.

Models of Tax-Base Sharing: Income Taxes

Wisconsin Alliance of Cities

Although the Wisconsin Alliance of Cities (WAC) model proposes sharing regionally a portion of the annual growth in state corporate and personal income taxes, the model is not technically tax-base sharing, but is really a new formula to share the growth in state general purpose revenues (GPR). Because income taxes are state taxes, local municipalities have no influence over the tax rates and thus are not truly sharing the tax base, only the tax revenues.

WAC proposes that current municipal and county aids be frozen as a base. On top of this base, 13 defined regions of the state (plus a "rest of the state" region) would share 6.3% of the growth in state GPR. The cities, villages, and towns in each region would receive their portion of the growth as follows: 25% of the growth (the state pool) is distributed to all cities, villages and towns as an increase to their base, the remaining 75% of the growth (the regional pool) is distributed to "full-service" municipalities, those levying 3 mills or more. The distribution of the regional pool is determined by each region's relative contribution to the total growth in state GPR. In other words, the growth due to each region stays in each region. The actual amount each full-service municipality in a region receives is based on a need index, which likely would be defined by population, tax capacity and/or poverty.

Pros and Cons of WAC

Pro: Defines economic regions. By implementing state policy based on defined economic regions, planning, development, and other policy areas could become more regionally focused.

Pro: Redistributes within regions based on need. This continues the equalization goal of the original state shared revenue program.

Pro: Requires continued existence of shared revenue program. Shared revenue base payments help addresses inter-region disparities.

Pro: Redistributes personal and corporate income taxes. This shares growth in the citizens' wealth and in corporate revenue, both important contributors to a region's economy.

Con: Requires continued existence of state shared revenue program. By assuming state general purpose revenues will continue to be shared, no incentive for other regional tax-base sharing is provided.

Con: Does not share the tax base, only the tax revenue. Leaves municipalities vulnerable to state policy changes over which they have little influence.

City of Philadelphia

The City of Philadelphia enacted a wage tax in 1939 to help the city meet its budget in the midst of the Depression. The tax on the wages of workers who earned their income in the city but lived outside its borders was an innovative source of significant revenue for the city. Other municipalities soon pressured the state to allow them to level local income taxes as well. When that power was granted, however, individuals who paid the Philadelphia wage tax were exempted from having to pay the local income tax of their jurisdiction of residence.

The result was a wage tax that soon became the major revenue source for the City of Philadelphia and angry suburbs that were unable to raise similar revenue. A model heralded as an example of regional cooperation when it was enacted has become a source of regional antagonism, due to legislative decisions. Had Philadelphia's suburbs been allowed to tax the income of their residents working in the city, a true sharing of the income tax base would have resulted.

Pros and Cons of Philadelphia

Pro: Regional amenities supported by region's citizens. Taxing the wages of non-resident earners allows the City to support its many historical and cultural amenities often enjoyed by non-residents.

Con: Only city taxes income of city workers. Because the incomes of suburban residents cannot be taxed by the suburbs, the resulting incentive is for suburbs to compete with the city for major employers, so as to build their own wage tax base.

Con: Wage tax rate set by city. The suburbs not only cannot access the wage tax base, they have no input into the tax rate or how the revenue is spent.

Models of Tax-Base Sharing: Sales Taxes

The property and income tax bases are not the only tax bases affecting the regional economy. The sales tax base also could be used to increase local revenues. Sharing the proceeds of the sales tax base across jurisdictional boundaries provides many of the same incentives as sharing growth in the property tax base. It alleviates some of the fiscal disparity between jurisdictions due to uneven commercial development, mitigates some of the negative effects of locational decisions of major retailers, and redistributes personal wealth among jurisdictions.

Sacramento, California

A proposal in Sacramento to share sales tax revenue among the 18 municipalities in the metro region was introduced in the California State Legislature in 2001. The original proposal called for all sales taxes in the region to be pooled and redistributed based on population, but the bill was modified to pool only sales tax revenue from new development. The distribution scheme was also modified, to distribute 1/3 of the pool according to population, while another third would remain in the community where the development is located. The final third would go to Sacramento, provided it met certain smart growth goals, including affordable housing creation, open space preservation, and infill development. If Sacramento failed to meet the goals, the revenue would go to the Sacramento Area Council of Governments to use on regional projects.

The bill was passed by California's Assembly in 2002, but never voted on by the state Senate.

Pros and Cons of Sacramento

Pro: New source of revenue for cities. California municipalities are severely limited in their ability to raise property taxes by California state law.

Pro: Redistributes based on need. One third of the pool is distributed on a per capita basis, but the urban core of Sacramento receives the largest portion of the pool.

Pro: Encourages in-fill development. The built-in incentives for economic development in underdeveloped areas encourage growth in low tax-capacity areas. Sacramento must meet certain guidelines to receive the bulk of its distribution.

Con: Redistributes growth only. The plan would pool only sales taxes attributable to new development. Growth-only sharing reaffirms existing disparities.

Con: Creates new sales taxes. Sales taxes are more regressive than property taxes.

Models of Tax-Base Sharing: Regional Service Models

A regional service model differs from the models discussed above. In the sharing models outlined above, the pooled resources are redistributed to each community, which continues to provide its own services (or contract with other communities to provide them, as in Racine). In a regional service model, the local governments pool revenues, which are then used to support the provision of services to the residents of all contributing jurisdictions. Examples of such service models typically take the form of regional transit districts or cultural asset districts. A cultural asset district is a mechanism for metropolitan areas to finance civic institutions that are patronized by the region's public, such as zoos, museums, professional sports stadiums, performing arts centers, and significant historic renovations.

Southeast Wisconsin Professional Baseball Park District

In 1995, Wisconsin Act 56 created the Southeast Wisconsin Professional Baseball Park District to oversee the design and construction of a new stadium for the Milwaukee Brewers Baseball Club. To finance project costs, the District was authorized to issue revenue bonds and to impose a 0.1 percent local sales and use tax in Milwaukee, Ozaukee, Racine, Washington, and Waukesha counties. The District estimates the tax will be retired by 2014.

Despite the stadium being located in Milwaukee County, it was argued that the presence of a new ballpark was an economic boon to the entire region and that the home county should not shoulder the entire cost of construction. This regional service district is not an example of regional cooperation, as, except for Milwaukee County, all the counties involved were opposed to the measure and the creation of the district was not subject to a public referendum.

Pros and Cons of Milwaukee

Pro: Relatively low sales tax levy. The one-tenth of one percent levy was enough to fund the district because of the large number of participating counties.

Con: Funded by sales tax. Sales taxes are more regressive than property taxes and do not have an equalization effect.

Con: State-imposed tax district. Legislation left many local citizens and politicians feeling powerless and without adequate representation in deliberations over district creation.

Con: Controversial use of tax district. The regional service model more typically pools funds for multiple non-profit cultural uses.

Con: Appointed district board. The tax revenues are spent by non-elected officials with oversight resting mainly with legislative audits.

Scientific and Cultural Facilities District, Denver, Colorado

Created in 1988, this particular district was one of the first cultural districts of its kind in the United States and was approved by a voter referendum. Created initially to fund large regional attractions like the zoo, the public museum, and local arts centers, the district today has grown to distribute over $35 million annually to more 300 cultural organizations in the seven-county area. The district is funded by a one-tenth of one percent sales and use tax covering the seven neighboring counties, which coincide with the boundaries of the area's Regional Transportation District to ease tax collection administration. The district is subject to reauthorization every ten years, most recently in 1994.

Pros and Cons of Denver

Pro: Reauthorization every ten years. Long-term authorization offers funding assurances and budgetary stability for regional cultural entities.

Pro: Reauthorization by referendum. Ballot proposal ensures citizen participation and ownership of the funding process.

Pro: Funds many amenities. Beneficiaries are spread across a wide spectrum of cultural offerings. This presumably legitimizes the district in the eyes of taxpayers and limits the funding process from being bogged down by negotiations over funding a few big-money projects.

Con: Funded only by sales tax. Sales taxes are more regressive than property taxes and do not have an equalization effect.

Con: Appointed district board. Non-elected officials levy taxes on the electorate that can only voice their opinion on the district itself every ten years.

One Future

The Public Policy Forum is facilitating creation of a shared vision action plan for regional cooperation in southeastern Wisconsin based on research and analysis. During the next three years, the Forum will encourage the region to think and act in ways that promote its long-term economic and social health, including . . .

- Developing a Southeastern Wisconsin Leadership Network;
- Establishing priorities for regional action;
- Making the case to citizens that regional cooperation is vital to our future;
- Benchmarking progress toward the shared vision.

The Forum is seeking partners to support its effort. If you would like to participate, provide leadership, or offer financial support, please contact:

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Acting regionally on issues that are regional in nature is in our economic and social long-term interest.

For more information about the Public Policy Forum and its work, please go to our web site: www.publicpolicyforum.org.