Targeted Municipal Aid Programs

(Expenditure Restraint and Computer Aid)

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Targeted Municipal Aid Programs
(Expenditure Restraint and Computer Aid)

This paper provides a detailed description of the eligibility criteria and distribution formulas for the expenditure restraint and computer aid programs.

Expenditure Restraint Program

The expenditure restraint program provides targeted, general aid to towns, villages, and cities. The aid is targeted in that municipalities must qualify for a payment by meeting certain eligibility criteria. The payments are characterized as general aid because the dollars are unrestricted, to be spent however the municipality determines. Since 2003, the program's annual distribution has been set at $58,145,700.

The Department of Revenue (DOR) administers the program. By September 15 of each year, the Department provides estimates of the succeeding year's payments to qualifying municipalities. This procedure allows municipalities to anticipate aid amounts when they are setting their budgets for the coming year. Expenditure restraint aid is paid in its entirety on the fourth Monday in July.

Eligibility Criteria

A municipality must satisfy two eligibility criteria to receive an expenditure restraint payment:

1. *Municipal Tax Rate.* A municipality must have a full value property tax rate for operation of city, town, or village government that exceeds five mills. The tax rate for the second year prior to the payment year is used for this test. Therefore, to be eligible for the 2017 payment, a municipality's local purpose tax rate for the 2015 (payable 2016) levy had to exceed $5.00 per thousand of full value. There were 479 municipalities that met this test relative to 2017 aid payments.

2. *Budget Restraint.* A municipality must restrict the rate of year-to-year growth in its budget to a percentage determined by statutory formula.

Municipal Budget

The statutes define "municipal budget" as the municipality's budget for its general fund exclusive of principal and interest payments on long-term debt. State law provides for the exclusion of several other types of expenditures: (a) amounts paid by municipalities under municipal revenue sharing agreements; (b) amounts paid by municipalities as state recycling tipping fees; (c) unreimbursed expenses related to emergencies declared under an executive order of the Governor; (d) expenditures from moneys received pursuant to the federal American Recovery and Revitalization Act of 2009; and (e) expenditures made pursuant to a purchasing agreement with a school district whereby the municipality makes purchases on behalf of the school district. Finally, adjustments are made for the cost of services transferred to or from the municipality seeking to qualify for a payment and to exclude the cost of providing a contracted service to another government.

The statutes prohibit municipalities from meeting the budget test by creating other funds, unless those funds conform to generally accepted accounting principles (GAAP). These principles have been adopted by the Governmental Accounting Standards Board to offer governments guidelines on how to maintain their financial records.

Allowable Rate of Growth

For the year prior to the aid payment, the rate of budget growth cannot exceed the inflation rate plus an adjustment based on growth in municipal property values. The inflation rate is measured as the change that occurred in the Consumer Price Index (CPI) in the one-year period ending in September two years prior to the payment year, but not less than 0%. The property value adjustment is unique for each municipality and equals 60% of the percentage change in the municipality's equalized value due to new construction, net of any property removed or demolished, but not less than 0% nor more than 2%. The allowable increase is known at the time when municipal officials set their budgets.

To be eligible for a 2017 payment, municipalities had to limit their 2016 budget increases to 0.3% to 2.3%, depending on individual municipal adjustments due to property value increases. The Department of Revenue certifies the change in the CPI annually on November 1 to the Joint Committee on Finance. Based on the November 1, 2016, certification, municipalities will be required to limit the growth in their 2017 budgets to no more than 0.9% to 2.9%, depending on their applicable adjustment for growth in property values, to be eligible for a 2018 expenditure restraint payment.

For 2017 payments, 479 municipalities met the tax rate test, but only 310 municipalities also met the budget test. Thus, 169 municipalities either did not meet the budget test or did not submit budget worksheets to DOR on a timely basis.

Each year, the Department of Revenue notifies municipalities meeting the tax rate eligibility requirement. To receive a payment, those municipalities must submit a budget worksheet to DOR by the following May 1. The Department uses the worksheet to verify compliance with the budget restraint requirement. Qualifying municipalities are informed in September of the expenditure restraint payment to be received the following July.

Distribution Formula

The formula for distributing payments is based on municipal levy rates and full values. First, an "excess tax rate" is calculated for each qualifying municipality by subtracting the five-mill standard tax rate from the municipality's property tax rate. Second, an excess levy is calculated by multiplying each municipality's excess tax rate by its full value. Finally, a payment is calculated based on each municipality's percentage share of the total of excess levies for all eligible municipalities. For example, if a municipality's excess levy equals $25 million and the excess levies of all eligible municipalities sum to $500 million, then the municipality would receive 5% ($25 million / $500 million) of the total payments.

If an error is found in the calculation of a payment, the error will be corrected by adjusting the affected municipalities' November county and municipal aid payments. In addition, expenditure restraint payments can be corrected by increasing or decreasing the payments in the succeeding year. A similar correction procedure is used for county and municipal aid payments.

The appendix uses the City of Eau Claire as an example to provide a detailed illustration of the steps in determining the City's eligibility for the program and in calculating its 2017 payment. Table 1 provides information on the distribution of expenditure restraint payments for the period from 2008 through 2017.

Table 1: Expenditure Restraint Payment Distribution Summary

	Number	Percent	Amount	Percent
2008				
Towns	27	8.5%	$178,396	0.3%
Villages	136	42.9	4,817,503	8.3
Cities	154	48.6	53,149,801	91.4
	317	100.0%	$58,145,700	100.0%
2009				
Towns	13	4.7%	$146,056	0.3%
Villages	120	43.8	4,352,872	7.4
Cities	141	51.5	53,646,772	92.3
	274	100.0%	$58,145,700	100.0%
2010				
Towns	14	4.4%	$138,517	0.2%
Villages	149	46.6	4,876,499	8.4
Cities	157	49.0	53,130,684	91.4
	320	100.0%	$58,145,700	100.0%
2011				
Towns	15	4.6%	$176,544	0.3%
Villages	153	47.7	5,017,072	8.6
Cities	153	47.7	52,952,084	91.1
	321	100.0%	$58,145,700	100.0%
2012				
Towns	18	5.3%	$176,312	0.3%
Villages	159	47.2	5,034,773	8.7
Cities	160	47.5	52,934,615	91.0
	337	100.0%	$58,145,700	100.0%
2013				
Towns	23	6.2%	$162,949	0.3%
Villages	185	49.7	5,735,112	9.9
Cities	164	44.1	52,247,639	89.8
	372	100.0%	$58,145,700	100.0%
2014				
Towns	29	8.1%	$239,214	0.4%
Villages	171	47.6	5,811,945	10.0
Cities	159	44.3	52,094,541	89.6
	359	100.0%	$58,145,700	100.0%
2015				
Towns	28	8.0%	$192,230	0.3%
Villages	168	48.1	5,762,632	9.9
Cities	153	43.9	52,190,838	89.8
	349	100.0%	$58,145,700	100.0%
2016				
Towns	24	6.7%	$170,290	0.3%
Villages	178	49.7	5,814,276	10.0
Cities	156	43.6	52,161,134	89.7
	358	100.0%	$58,145,700	100.0%
2017*				
Towns	23	7.4%	$186,894	0.3%
Villages	151	48.7	5,586,889	9.6
Cities	136	43.9	52,371,917	90.1
	310	100.0%	$58,145,700	100.0%

*Based on the Department of Revenue's September, 2016, estimates of 2017 payments.

Computer Aid Program

Since the 1999 property tax levy (payable in 2000), computers, software, and related equipment have been exempt from the property tax. Effective as of 2003(04), an additional exemption was created for cash registers and fax machines, except fax machines that are also copiers. Typically, when property becomes exempt, the taxes that would otherwise be levied on that property are shifted to other properties that remain taxable, resulting in higher property tax bills for those properties. To avoid this effect, the Legislature has authorized computer aid payments to hold taxpayers and local governments harmless from the impacts of these two exemptions.

Each county, municipality, school district, technical college district, and special purpose district, including tax incremental financing (TIF) districts, where exempt computer value is located receives a computer aid payment. Payments equal the value of the exempt property multiplied by the local government's current tax rate. Since these payments are intended to replace the property taxes that would otherwise be paid on the exempt property, there are no restrictions on how the local governments can use the aid.

With assistance from local governments, DOR administers the computer aid program. Prior to the exemption's creation, businesses annually reported the value of their computers and related equipment, along with the value of all other taxable personal property, to the assessor for the municipality where the property was located. The reported value was based on the property's original cost, less an amount for depreciation based on the property's age. Since computers and related equipment became exempt, their owners have been required to continue to report the value of the exempt property using the same procedures in effect prior to 1999. Assessors report the total amount of these values in each municipality to DOR by the second Monday in June of each year, and the Department apportions those values to overlying counties, school districts, technical college districts, and special purpose districts. DOR adjusts the reported values by converting them to full market, or equalized, values. DOR calculates each local government's aid payment by multi-

Table 2: Computer Aid Distribution Summary (In Millions)

	Counties	Towns, Villages, and Cities	School Districts	Technical College Districts	Special Districts	TIF Districts	Total
2006(07)	$10.1	$17.2	$23.4	$4.1	$0.9	$9.4	$65.1
2007(08)	10.3	17.8	24.5	4.2	0.9	10.3	68.0
2008(09)	10.5	18.7	26.3	4.4	0.9	12.9	73.7
2009(10)	10.9	19.4	27.7	4.5	0.9	12.6	76.0
2010(11)	11.6	20.7	30.1	4.8	1.2	13.6	82.0
2011(12)	11.6	20.7	29.6	4.9	1.1	12.6	80.5
2012(13)	11.5	20.6	29.3	4.9	1.1	14.4	81.8
2013(14)	12.1	21.7	30.3	5.1	1.2	16.4	86.8
2014(15)	12.5	22.6	31.1	2.8	1.4	16.0	86.4
2015(16)	13.0	24.2	32.2	2.9	1.5	15.9	89.7

plying the exempt value attributable to that jurisdiction by the jurisdiction's current full value tax rate.

State law requires DOR to notify local governments of their exempt computer values by October 1. After the governments have set their property tax levies for the succeeding year's budget, they can use the values to estimate the amount of computer aid they will receive by multiplying their tax rates by their exempt values. The Department of Administration makes annual payments to local governments, based on the amounts calculated by DOR, on the fourth Monday in July.

Table 2 summarizes the computer aid program's payment history over the last ten years. Because aid payments are the product of exempt values and tax rates, changes in values and rates determine whether or not aid payments increase or decrease. Total aid payments decreased in two of the years displayed in the table. On a statewide basis, aid payments fell by 1.8% for 2011(12) when exempt values decreased by 4.1%, and a 0.4% reduction occurred for 2014(15) when tax rates decreased due to an increase in state aid for technical college districts. Total aid payments increased in each of the other years displayed, and increased by 37.9% over the ten-year period. For 2015(16), total aid payments equaled $89.7 million, a 3.8% increase over 2014(15).

Increases in exempt values are caused by businesses purchasing new or used computers. However, values do not increase unless purchases exceed the value lost through depreciation and retirements.

For 2016(17), DOR has determined a value of $3,822.2 million for exempt computers and related equipment, which is 5.9% higher than the exempt value for 2015(16) of $3,609.5 million.

APPENDIX

Calculation of the 2017 Expenditure Restraint Payment for the City of Eau Claire

Eligibility Tests

1.	**Municipal Tax Rate (per $1,000 of full value)**	
	Eau Claire's 2015(16) Municipal Tax Rate	$8.469157
	Statewide Standard Tax Rate for Municipal Purposes	$5.000000
	Excess Tax Rate, Eau Claire minus State Standard	$3.469157
	Eau Claire qualifies since its tax rate exceeds the state standard.	
2.	**Budget Restraint**	
	Change in Eau Claire's Budget, 2015 to 2016	-3.69%
	Greater of 0% or Percent Change in CPI, Sept., 2014, to Sept., 2015	0.30%
	Value of New Construction Occurring in 2014	$70,799,800
	January 1, 2014, Full Value	$4,461,599,200
	Percent Change	1.587%
	60% of Percent Change, but no less than 0% and no more than 2%	0.952%
	Maximum Allowable Budget Increase: Sum of Inflation Rate and Value Adjustment, Rounded to the Nearest 0.10%	1.30%
	Eau Claire qualifies since its budget change is below 1.30%.	

Calculation of Payment

1.	**Calculate Eau Claire's Excess Levy**	
	Multiply the Municipality's January 1, 2015, Full Value	$4,664,452,100
	By the Excess Tax Rate (Per $1,000 of full value)	X $3.469157
	Eau Claire's Excess Levy Equals	$16,181,716
2.	**Calculate Eau Claire's Share of Payment**	
	Eau Claire's Excess Levy Divided by	$16,181,716
	Total Excess Levies of Eligible Municipalities	÷ $839,845,909
	Eau Claire's Share of Payment Equals	1.9267482%
3.	**Calculate Eau Claire's Payment**	
	Available Funding	$58,145,700
	Multiplied by Eau Claire's Share of Payment	X 1.9267482%
	Eau Claire's Payment Equals	$1,120,321