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Shared Revenue Modifications -- Distribution of 2002 Payments (Shared Revenue and Tax Relief)

[LFB Summary of the Governor's Budget Reform Bill: Page 77, #1]

CURRENT LAW

The state provides unrestricted state aid to counties and municipalities under four programs: shared revenue; expenditure restraint; county mandate relief; and small municipalities shared revenue. Counties and municipalities budget on a calendar year basis and receive aid under these four programs in the second half of the calendar year, which occurs during the first six months of the state's fiscal year. Aid payments in the first year of the biennium (2001-02) were made during the 2001 calendar year, and the corresponding funding levels were established prior to the beginning of the 2001-03 biennium. Act 16 increased funding for each of the four programs by 1% for 2002 (2002-03) and by an additional 1% for 2003 (2003-04, the first year of the next biennium):

Program	2001 (2001-02)	2002 (2002-03)	2003(2003-04)
Shared Revenue			
Counties	$168,981,800	$170,671,600	$172,378,300
Municipalities	761,478,000	769,092,800	776,783,700
Total	$930,459,800	$939,764,400	$949,162,000
Expenditure Restraint	57,000,000	57,570,000	58,145,700
County Mandate Relief	20,763,800	20,971,400	21,181,100
Small Municipalities Shared Revenue	11,000,000	11,110,000	11,221,100
Total	$1,019,223,600	$1,029,415,800	$1,039,709,900

Aid amounts for local governments under each program are determined according to distribution formulas established under state statute. However, Act 16 suspended the shared revenue distribution formula for municipalities for payments in 2002 and 2003. Instead, each municipality's shared revenue payment in 2002 and 2003 will equal 101% of the amount the municipality received in the prior year. This Act 16 provision will not affect county shared revenue payments and payments under the other three programs.

GOVERNOR

The Governor's proposal would make a number of modifications to the funding levels, distribution formulas, payment dates and funding sources for the shared revenue, expenditure restraint, county mandate relief and small municipalities shared revenue programs. The material below describes the Governor's proposal in full. However, this paper covers only the funding level and distribution of payments for 2002. Other Legislative Fiscal Bureau papers address other aspects of the Governor's proposal.

a. *Funding Levels.* Reduce the combined payments under the shared revenue, expenditure restraint, small municipalities shared revenue (SCIP) and county mandate relief programs as shown in the following table:

	Current Law	Governor's Proposal	Change	Percent Change
2002	$1,029,415,800	$679,415,800	-$350,000,000	-34.0%
2003	1,039,709,900	679,415,800	-360,294,100	-34.7
2004	1,039,709,900	0	-1,039,709,900	-100.0

The proposed funding levels reflect a $350,000,000 annual reduction in 2002 and 2003, the elimination of the 1% increase provided under current law for 2003 (-$10,294,100) and the elimination of all funding for these programs beginning in 2004.

Delete the 1% increase for 2003 in the statutory distribution levels for each of the four affected programs, remove references to the 2003 levels continuing in the future and specify that the statutory distribution levels are subject to the reductions used to save the $350,000,000 annually in 2002 and 2003. Establish a June 30, 2004, sunset for encumbrances and expenditures from the current law appropriations for the four affected programs. Establish a sunset after 2003 for distributions under each of the four affected programs, including all four shared revenue payment components [per capita, aidable revenues, public utility (including payments for spent nuclear fuel storage) and minimum guarantee/maximum growth].

b. *Distribution Formulas.* Establish a formula to reduce 2002 payments determined under the current law distribution formulas by a total of $350,000,000. Apply the reduction to the total amounts otherwise payable for 2002, as determined by the Department of Revenue

(DOR), under shared revenue, expenditure restraint, small municipalities shared revenue and county mandate relief.

Reduce the 2002 payment amount determined for each municipality and county by subtracting an amount based on population, as determined by DOR, so that the statewide reduction in 2002 is $350,000,000. Specify that the payment reduction calculated under this procedure cannot exceed a municipality's or county's total 2002 payment. Require DOR to estimate populations using the results of the 2000 federal decennial census.

Specify that total payments in 2003 under the four affected programs for each municipality and county would equal the amount received in 2002, after the aid reductions. Delete the current law provision establishing each municipality's 2003 shared revenue payment at 101% of the amount received in 2002.

Specify that in applying the aid reductions for individual counties and municipalities, DOR should reduce the component parts in the following order: (a) for counties, first reduce county mandate relief and then reduce shared revenue; and (b) for municipalities, first reduce shared revenue, then reduce small municipalities shared revenue and finally reduce expenditure restraint. This prioritization allows the remaining payments to be charged against specific appropriations, but would not affect the total payment amount received by a county or municipality or the timing of the payment [this provision could affect the timing of municipal payments if the use of permanent endowment (tobacco securitization) funds for shared revenue is deleted].

c. *Payment Dates and Funding Sources.* Specify that the first payment of shared revenue and related programs in 2003 would be made on June 30, rather than on the fourth Monday in July. Create an appropriation from the permanent endowment (tobacco securitization) fund to be used to make the July, 2002, and June, 2003, payments of shared revenue and related programs. Repeal this appropriation on July 1, 2003.

Establish the percentage of each county's and municipality's payment in July, 2002, and June, 2003, to be made from the permanent endowment fund as follows:

July, 2002 = ($580,000,000 - endowment funds applied to debt service) ÷ $679,415,800

June, 2003 = (available endowment funds, as determined by DOA) ÷ $679,415,800

Based on the amounts the administration anticipates being available for shared revenue and related payments from the permanent endowment fund ($380,000,000 in 2002 and $214,000,000 in 2003), these formulas would result in 55.93% of 2002 payments being made in July and 31.50% of 2003 payments being made in June. The following table compares the amount and timing of total payments under the four affected programs under current law and the Governor's proposal:

	Current Law	Governor's Proposal
July, 2002	$203,346,870	$380,000,000
November, 2002	826,068,930	299,415,800
Total	$1,029,415,800	$679,415,800
June, 2003		$214,000,000
July, 2003	$205,380,330	
November, 2003	834,329,570	465,415,800
Total	$1,039,709,900	$679,415,800

The funding reduction and shift in funding sources would result in the following appropriation changes in 2002-03: (a) -$730,000,000 GPR (-$350,000,000 from the payment reduction and -$380,000,000 from the shift to the permanent endowment fund); and (b) $594,000,000 SEG from the permanent endowment fund ($380,000,000 for the July, 2002, payment and $214,000,000 for the June, 2003, payment). The following appropriation changes would occur in the 2003-05 biennium, compared to current law: (a) -$574,294,100 GPR in 2003-04 (-$350,000,000 from the payment reduction, -$10,294,100 from the deletion of the 1% increase from 2002 to 2003 and -$214,000,000 from the shift to the permanent endowment fund); and (b) -$1,039,709,900 GPR in 2004-05, when the four affected programs would be eliminated.

Reduce individual appropriations in 2002-03 as follows to reflect the estimated impact of the overall $730,000,000 GPR decrease in that year, based on the reduction priority established under the bill:

Small municipalities shared revenue	-$6,750,100
Expenditure restraint program account	-33,663,800
Shared revenue account	-668,614,700
County mandate relief account	-20,971,400
TOTAL	-$730,000,000

The relative reductions in these appropriations reflect the accounting treatment of the aid reductions under the bill, but do not have an impact on the size of the reductions for individual local governments, which are established under other bill provisions described above.

DISCUSSION POINTS

1. In September, 2001, DOR provided estimates of 2002 state aid payments under the four programs to counties and municipalities based on Act 16 funding levels. Local governments used these estimates in setting their 2002 budgets. According to news reports, some local officials have taken actions to reduce expenditures in anticipation of state aid reductions. Nonetheless, by the time the budget reform bill becomes law and the exact amount of aid reductions become known, a considerable amount of the local budget year will have elapsed, thereby limiting the budget adjustments available to local officials. If aid reductions are necessary, this timeline underscores the importance of administering the aid reductions in an equitable manner.

2. The Governor has proposed to apportion the $350 million reduction among counties and municipalities on a per capita basis. Based on current estimates of 2002 payments and populations, it is estimated that the aid reduction rate would be $39.21 per capita. Municipalities and counties with current law payments below $39.21 per capita would have their payments eliminated in their entirety.

3. In general, the current law distribution formulas are intended to allocate aid according to relative need, which is measured through factors such as tax capacity. Thus, local governments with low tax capacity receive more aid on a per capita basis than local governments with high tax capacity. The current law policy of distributing aid assumes that local governments with high tax capacity are more able to raise revenues from their own sources and are less in need of assistance from the state. The Department of Administration (DOA) has indicated that the proposed reduction procedure would be administratively straightforward and is based on three considerations, all of which relate to the policy objective of distributing aid according to need. First, a per capita reduction of $39.21 would effectively eliminate the per capita distribution authorized under current law, which is not a "need-based" distribution. Second, DOA indicates that the proposed reduction would preserve a greater percentage of aid distributed on the basis of need. Finally, DOA asserts that when the reductions are measured relative to individual governments' overall budgets, the proposed reductions would have a more uniform percentage impact, relative to other reduction alternatives.

4. To illustrate the reductions' impact on local budgets, DOA projected the 2002 general revenues of individual counties and municipalities and measured the estimated aid reductions as a percentage of 2002 estimated revenues. Although aid reductions were estimated to equal 4% of general revenues on average, reductions would exceed 5% of the estimated revenues of 15 counties and 1,361 municipalities, including 568 municipalities with estimated reductions of 10%, or more. There are 72 counties and 1,850 municipalities in the state.

5. Some local officials have raised concerns over the methodology employed by DOA relative to the impact of the aid reductions. DOA's estimates of general revenues are based on information filed by local governments with DOR on standardized, financial report forms. The report form separates each government's financial activities into two categories -- governmental funds and proprietary funds. Under governmental fund accounting, each unit's governmental funds

include its general fund, as well as any special revenue funds, capital projects funds, debt service funds and permanent funds. Each local government must have a general fund, but some may not have other types of funds. Within these other types of funds, revenues are often limited to funding specific activities. For example, these revenues may be somewhat analogous to the state's motor vehicle registration fee revenues, which are used to repay transportation revenue bonds and fund other activities in the state's transportation fund. By including these revenues in the DOA analysis, some local officials believe the analysis overstates the flexibility that local governments have in absorbing the proposed aid reductions.

6. Comparing the proposed aid reductions to county and municipal governments' general fund budgets may be a better measure of the impact of the proposal. While a comprehensive database of county and municipal general fund budgets is not available on a statewide basis, a proxy for general fund budgets could be used instead. Because the state authorizes counties and municipalities to impose few taxes other than the property tax, the combination of 2001(02) property tax levies and estimated state aid payments could be used as a base from which aid reductions are calculated. Reductions could equal a uniform percentage of each local government's combined revenues. Based on preliminary reports on property tax levies that local governments have filed with DOR, reductions of 9.4% for each county and municipality would occur relative to the combined aid and levy totals for each local government.

7. Another option would be to reduce each local government's payments by a uniform percentage. If the goal is to reduce expenditures by $350 million, a percentage of 34.0% would be employed, since funding for the four programs totals $1,029.4 million.

8. For the three alternatives discussed above, Tables 1, 2 and 3 show the distribution of counties and municipalities according to the estimated aid reduction as a percent of current law aid estimates. On the tables, local governments are grouped according to type of government and by their 2002 adjusted value per capita. The adjusted value per capita is the same figure that would be used to calculate each unit's 2002 aidable revenues entitlement if the aidable revenues formula was allowed to operate in 2002. Based on the Act 16 funding level for shared revenue, the standard value for 2002 under the aidable revenues component would be set at $56,104 for counties and $57,019 for municipalities.

9. If some combination of reductions in other appropriations and revenue enhancements permits a smaller reduction in the four state aid payments, the estimated impacts, as reported in the three tables, could be lessened. For illustration, Tables 4, 5 and 6 show the impact associated with a $200 million reduction. Under a reduction of that amount, a per capita reduction rate of $19.74 is estimated. Under the combined aids and tax levies approach, percentage reductions of 5.1% are estimated. Under the uniform percentage reduction method, the percentage would be set at 19.4%. Tables 7, 8 and 9 show the impact associated with a $100 million reduction. Under a reduction of that amount, a per capita reduction rate of $9.35 is estimated. Under the combined aids and tax levies approach, percentage reductions of 2.5% are estimated. Under the uniform percentage reduction method, the percentage would be set at 9.7%.

10. Generally, the tables indicate that a wider dispersion of percentage reductions in aid would occur under a per capita based reduction procedure than under the "combined aid and tax levies" approach. Under the per capita approach, the number of local governments that would have all their aid eliminated is estimated at 569 under a $350 million reduction, 30 under a $200 million reduction and nine under a $100 million reduction. Under the combined aid and tax levies approach, the number of local governments that would have all their aid eliminated is estimated at 180 under a $350 million reduction, 52 under a $200 million reduction and 17 under a $100 million reduction. Under the uniform percentage approach, no local governments would lose all of their aid. Under the per capita approach, the estimated aid reduction as a percent of each government's combined aid and tax levy would exceed 25% for 294 local governments under the $350 million option, 42 local governments under the $200 million option and 10 local governments under the $100 million option. This compares to uniform percentages of 9.4%, 5.1% and 2.5%, respectively, under the combined aid and tax levy approach.

11. The estimated change in funding at the three amounts and under the three reduction procedures is displayed by type of government on Table 10. Generally, the table shows that the per capita reduction procedure would cause counties and towns to lose above-average percentages of their payments, as a group, and cities and village would lose below-average percentages, as a group. Under the combined aid and levy reduction procedure, each group would trend toward the statewide average, although reductions would not be uniform, as would be the case under the uniform percentage procedure.

12. By imposing aid reductions after local budgets have been set, local governments will be unable to raise significant amounts of additional revenues in 2002. To assist local officials in planning for reductions, the calculations could be based on the estimated payments for 2002 that DOR provided to local governments in September, 2001. Those estimates were provided to assist local governments in setting their 2002 budgets. Otherwise, the reductions would be calculated on the basis of the actual 2002 distribution, as determined under current law, which could differ from the amounts estimated last September.

ALTERNATIVES TO BILL

1. Reduce the combined payments under the shared revenue, expenditure restraint, small municipalities shared revenue (SCIP) and county mandate relief programs in 2002. Reduce the 2002 payment amount determined for each municipality and county by subtracting an amount based on population, as determined by DOR, so that the statewide reduction in 2002 is equal to one of the amounts specified below under (a), (b) or (c). Specify that the payment reduction calculated under this procedure cannot exceed a county's or municipality's total 2002 payment. Require DOR to estimate populations using the results of the 2000 federal decennial census. Specify that in applying the aid reductions for individual counties and municipalities, DOR should reduce the component parts in the following order: (a) for counties, first reduce county mandate relief and then reduce shared revenue; and (b) for municipalities, first reduce shared revenue, then reduce small municipalities shared revenue and finally reduce expenditure restraint. Set the amount of the

reduction at:

(a) $350,000,000 (Governor's recommendation);

(b) $200,000,000; or

(c) $100,000,000.

Base the calculation of the reduction on one of the following:

(d) the actual aid amounts calculated for the 2002 distribution under current law provisions (Governor's recommendation); or

(e) the aid amounts estimated by DOR in September, 2001, for payment in 2002 as reported on the "statement of estimated payments" required under current law.

2. Reduce the combined payments under the shared revenue, expenditure restraint, small municipalities shared revenue (SCIP) and county mandate relief programs in 2002. Modify the Governor's recommendation relative to establishing a formula to reduce 2002 payments Reduce the 2002 payment amount determined for each county and municipality by subtracting an amount based on a percentage of the sum of each county's or municipality's tax levy for 2001(02) and its estimated state aid payments for 2002, so that the statewide reduction in 2002 is equal to one of the amounts specified below under (a), (b) or (c). Specify that the payment reduction calculated under this procedure cannot exceed a county's or municipality's total 2002 payment. Define tax levy for counties as the sum of each county's actual 2001 (payable 2002) debt levy and operating levy less special purpose levies, as determined by DOR for purposes of the county tax rate limit program. Define tax levy for municipalities as the amount of all other town, village or city taxes as determined by DOR on each municipality's statement of taxes for 2001. Specify that in applying the aid reductions for individual counties and municipalities, DOR should reduce the component parts in the following order: (a) for counties, first reduce county mandate relief and then reduce shared revenue; and (b) for municipalities, first reduce shared revenue, then reduce small municipalities shared revenue and finally reduce expenditure restraint. Set the amount of the reduction at:

(a) $350,000,000;

(b) $200,000,000; or

(c) $100,000,000.

Base the calculation of the reduction on one of the following:

(d) the actual aid amounts calculated for the 2002 distribution under current law provisions; or

(e) the aid amounts estimated by DOR in September, 2001, for payment in 2002 as reported on the "statement of estimated payments" required under current law.

3. Reduce the combined payments under the shared revenue, expenditure restraint, small municipalities shared revenue (SCIP) and county mandate relief programs in 2002. Modify the Governor's recommendation relative to establishing a formula to reduce 2002 payments Reduce the 2002 payment amount determined for each county and municipality by subtracting an amount based on a percentage of each county's and municipality's estimated state aid payments for 2002 so that the statewide reduction in 2002 is equal to one of the amounts specified below under (a), (b) or (c). Specify that in applying the aid reductions for individual counties and municipalities, DOR should reduce the component parts in the following order: (a) for counties, first reduce county mandate relief and then reduce shared revenue; and (b) for municipalities, first reduce shared revenue, then reduce small municipalities shared revenue and finally reduce expenditure restraint. Set the amount of the reduction at:

(a) $350,000,000;

(b) $200,000,000; or

(c) $100,000,000.

Base the calculation of the reduction on one of the following:

(d) the actual aid amounts calculated for the 2002 distribution under current law provisions; or

(e) the aid amounts estimated by DOR in September, 2001, for payment in 2002 as reported on the "statement of estimated payments" required under current law.

4. Delete the Governor's recommendation to reduce state aid payments in 2002 under the shared revenue, expenditure restraint, county mandate relief and small municipalities shared revenue programs.

Prepared by: Rick Olin

TABLE 1

Estimated Distribution of 2002 Aid Reduction
$350 Million Reduction Allocated on a Per Capita Basis

Aid Reduction	2001 Adjusted Value Per Capita: Under $45,000		$45,000 - $60,000		Over $60,000		Total	
Towns								
Under 25%	7	0.6%	9	0.7%	18	1.4%	34	2.7%
25% - 50%	158	12.5	110	8.7	41	3.2	309	24.4
Over 50%	81	6.4	308	24.3	533	42.1	922	72.9
Total	246	19.4%	427	33.8%	592	46.8%	1,265	100.0%
Villages								
Under 25%	236	59.7%	9	2.3%	5	1.3%	250	63.3%
25% - 50%	37	9.4	28	7.1	4	1.0	69	17.5
Over 50%	3	0.8	17	4.3	56	14.2	76	19.2
Total	276	69.9%	54	13.7%	65	16.5%	395	100.0%
Cities								
Under 25%	125	65.8%	5	2.6%	1	0.5%	131	68.9%
25% - 50%	7	3.7	18	9.5	5	2.6	30	15.8
Over 50%	0	0.0	6	3.2	23	12.1	29	15.3
Total	132	69.5%	29	15.3%	29	15.3%	190	100.0%
Municipalities								
Under 25%	368	19.9%	23	1.2%	24	1.3%	415	22.4%
25% - 50%	202	10.9	156	8.4	50	2.7	408	22.1
Over 50%	84	4.5	331	17.9	612	33.1	1,027	55.5
Total	654	35.4%	510	27.6%	686	37.1%	1,850	100.0%
Counties								
Under 25%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
25% - 50%	2	2.8	3	4.2	0	0.0	5	6.9
Over 50%	14	19.4	28	38.9	25	34.7	67	93.1
Total	16	22.2%	31	43.1%	25	34.7%	72	100.0%

Note: The preceding percentages are calculated on a group-by-group basis, so that the percentages within each group sum to 100%.

TABLE 2

Estimated Distribution of 2002 Aid Reduction
$350 Million Reduction Allocated as a Percent of Combined Aid and Tax Levies

Aid Reduction	2001 Adjusted Value Per Capita: Under $45,000		$45,000 - $60,000		Over $60,000		Total	
Towns								
Under 25%	188	14.9%	160	12.6%	78	6.2%	426	33.7%
25% - 50%	56	4.4	209	16.5	172	13.6	437	34.5
Over 50%	2	0.2	58	4.6	342	27.0	402	31.8
Total	246	19.4%	427	33.8%	592	46.8%	1,265	100.0%
Villages								
Under 25%	246	62.3%	9	2.3%	4	1.0%	259	65.6%
25% - 50%	29	7.3	29	7.3	4	1.0	62	15.7
Over 50%	1	0.3	16	4.1	57	14.4	74	18.7
Total	276	69.9%	54	13.7%	65	16.5%	395	100.0%
Cities								
Under 25%	103	54.2%	0	0.0%	1	0.5%	104	54.7%
25% - 50%	29	15.3	20	10.5	1	0.5	50	26.3
Over 50%	0	0.0	9	4.7	27	14.2	36	18.9
Total	132	69.5%	29	15.3%	29	15.3%	190	100.0%
Municipalities								
Under 25%	537	29.0%	169	9.1%	83	4.5%	789	42.6%
25% - 50%	114	6.2	258	13.9	177	9.6	549	29.7
Over 50%	3	0.2	83	4.5	426	23.0	512	27.7
Total	654	35.4%	510	27.6%	686	37.1%	1,850	100.0%
Counties								
Under 25%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
25% - 50%	12	16.7	4	5.6	0	0.0	16	22.2
Over 50%	4	5.6	27	37.5	25	34.7	56	77.8
Total	16	22.2%	31	43.1%	25	34.7%	72	100.0%

Note: The preceding percentages are calculated on a group-by-group basis, so that the percentages within each group sum to 100%.

TABLE 3

Estimated Distribution of 2002 Aid Reduction
$350 Million Reduction Allocated According to a Uniform Percentage

Aid Reduction	2001 Adjusted Value Per Capita: Under $45,000		$45,000 - $60,000		Over $60,000		Total	
Towns								
34.0%	246	19.4%	427	33.8%	592	46.8%	1,265	100.0%
Villages								
34.0%	276	69.9%	54	13.7%	65	16.5%	395	100.0%
Cities								
34.0%	132	69.5%	29	15.3%	29	15.3%	190	100.0%
Municipalities								
34.0%	654	35.4%	510	27.6%	686	37.1%	1,850	100.0%
Counties								
34.0%	16	22.2%	31	43.1%	25	34.7%	72	100.0%

Note: The preceding percentages are calculated on a group-by-group basis, so that the percentages within each group sum to 100%.

TABLE 4

Estimated Distribution of 2002 Aid Reduction
$200 Million Reduction Allocated on a Per Capita Basis

Aid Reduction	2001 Adjusted Value Per Capita: Under $45,000		$45,000 - $60,000		Over $60,000		Total	
Towns								
Under 15%	24	1.9%	19	1.5%	24	1.9%	67	5.3%
15% - 25%	138	10.9	99	7.8	33	2.6	270	21.3
Over 25%	84	6.6	309	24.4	535	42.3	928	73.4
Total	246	19.4%	427	33.8%	592	46.8%	1,265	100.0%
Villages								
Under 15%	250	63.3%	13	3.3%	5	1.3%	268	67.8%
15% - 25%	23	5.8	24	6.1	3	0.8	50	12.7
Over 25%	3	0.8	17	4.3	57	14.4	77	19.5
Total	276	69.9%	54	13.7%	65	16.5%	395	100.0%
Cities								
Under 15%	129	67.9%	9	4.7%	1	0.5%	139	73.2%
15% - 25%	3	1.6	14	7.4	5	2.6	22	11.6
Over 25%	0	0.0	6	3.2	23	12.1	29	15.3
Total	132	69.5%	29	15.3%	29	15.3%	190	100.0%
Municipalities								
Under 15%	403	21.8%	41	2.2%	30	1.6%	474	25.6%
15% - 25%	164	8.9	137	7.4	41	2.2	342	18.5
Over 25%	87	4.7	332	17.9	615	33.2	1,034	55.9
Total	654	35.4%	510	27.6%	686	37.1%	1,850	100.0%
Counties								
Under 15%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
15% - 25%	2	2.8	3	4.2	0	0.0	5	6.9
Over 25%	14	19.4	28	38.9	25	34.7	67	93.1
Total	16	22.2%	31	43.1%	25	34.7%	72	100.0%

Note: The preceding percentages are calculated on a group-by-group basis, so that the percentages within each group sum to 100%.

TABLE 5

Estimated Distribution of 2002 Aid Reduction
$200 Million Reduction Allocated as a Percent of Combined Aid and Tax Levies

Aid Reduction	2001 Adjusted Value Per Capita							
	Under $45,000		$45,000 - $60,000		Over $60,000		Total	
Towns								
Under 15%	212	16.8%	204	16.1%	92	7.3%	508	40.2%
15% - 25%	31	2.5	149	11.8	123	9.7	303	24.0
Over 25%	3	0.2	74	5.8	377	29.8	454	35.9
Total	246	19.4%	427	33.8%	592	46.8%	1,265	100.0%
Villages								
Under 15%	260	65.8%	11	2.8%	4	1.0%	275	69.6%
15% - 25%	15	3.8	24	6.1	3	0.8	42	10.6
Over 25%	1	0.3	19	4.8	58	14.7	78	19.7
Total	276	69.9%	54	13.7%	65	16.5%	395	100.0%
Cities								
Under 15%	115	60.5%	3	1.6%	1	0.5%	119	62.6%
15% - 25%	17	8.9	15	7.9	1	0.5	33	17.4
Over 25%	0	0.0	11	5.8	27	14.2	38	20.0
Total	132	69.5%	29	15.3%	29	15.3%	190	100.0%
Municipalities								
Under 15%	587	31.7%	218	11.8%	97	5.2%	902	48.8%
15% - 25%	63	3.4	188	10.2	127	6.9	378	20.4
Over 25%	4	0.2	104	5.6	462	25.0	570	30.8
Total	654	35.4%	510	27.6%	686	37.1%	1,850	100.0%
Counties								
Under 15%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
15% - 25%	11	15.3	4	5.6	0	0.0	15	20.8
Over 25%	5	6.9	27	37.5	25	34.7	57	79.2
Total	16	22.2%	31	43.1%	25	34.7%	72	100.0%

Note: The preceding percentages are calculated on a group-by-group basis, so that the percentages within each group sum to 100%.

TABLE 6

Estimated Distribution of 2002 Aid Reduction
$200 Million Reduction Allocated According to a Uniform Percentage

Aid Reduction	2001 Adjusted Value Per Capita: Under $45,000		$45,000 - $60,000		Over $60,000		Total	
Towns								
19.4%	246	19.4%	427	33.8%	592	46.8%	1,265	100.0%
Villages								
19.4%	276	69.9%	54	13.7%	65	16.5%	395	100.0%
Cities								
19.4%	132	69.5%	29	15.3%	29	15.3%	190	100.0%
Municipalities								
19.4%	654	35.4%	510	27.6%	686	37.1%	1,850	100.0%
Counties								
19.4%	16	22.2%	31	43.1%	25	34.7%	72	100.0%

Note: The preceding percentages are calculated on a group-by-group basis, so that the percentages within each group sum to 100%.

TABLE 7

Estimated Distribution of 2002 Aid Reduction
$100 Million Reduction Allocated on a Per Capita Basis

Aid Reduction	2001 Adjusted Value Per Capita: Under $45,000		$45,000 - $60,000		Over $60,000		Total	
Towns								
Under 5%	4	0.3%	5	0.4%	9	0.7%	18	1.4%
5% - 15%	209	16.5	193	15.3	78	6.2	480	37.9
Over 15%	33	2.6	229	18.1	505	39.9	767	60.6
Total	246	19.4%	427	33.8%	592	46.8%	1,265	100.0%
Villages								
Under 5%	206	52.2%	6	1.5%	5	1.3%	217	54.9%
5% - 15%	68	17.2	39	9.9	14	3.5	121	30.6
Over 15%	2	0.5	9	2.3	46	11.6	57	14.4
Total	276	69.9%	54	13.7%	65	16.5%	395	100.0%
Cities								
Under 5%	115	60.5%	2	1.1%	1	0.5%	118	62.1%
5% - 15%	17	8.9	27	14.2	10	5.3	54	28.4
Over 15%	0	0.0	0	0.0	18	9.5	18	9.5
Total	132	69.5%	29	15.3%	29	15.3%	190	100.0%
Municipalities								
Under 5%	325	17.6%	13	0.7%	15	0.8%	353	19.1%
5% - 15%	294	15.9	259	14.0	102	5.5	655	35.4
Over 15%	35	1.9	238	12.9	569	30.8	842	45.5
Total	654	35.4%	510	27.6%	686	37.1%	1,850	100.0%
Counties								
Under 5%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
5% - 15%	11	15.3	4	5.6	0	0.0	15	20.8
Over 15%	5	6.9	27	37.5	25	34.7	57	79.2
Total	16	22.2%	31	43.1%	25	34.7%	72	100.0%

Note: The preceding percentages are calculated on a group-by-group basis, so that the percentages within each group sum to 100%.

TABLE 8

Estimated Distribution of 2002 Aid Reduction
$100 Million Reduction Allocated as a Percent of Combined Aid and Tax Levies

Aid Reduction	2001 Adjusted Value Per Capita						Total	
	Under $45,000		$45,000 - $60,000		Over $60,000			
Towns								
Under 5%	121	9.6%	77	6.1%	44	3.5%	242	19.1%
5% - 15%	125	9.9	314	24.8	256	20.2	695	54.9
Over 15%	0	0.0	36	2.8	292	23.1	328	25.9
Total	246	19.4%	427	33.8%	592	46.8%	1,265	100.0%
Villages								
Under 5%	208	52.7%	5	1.3%	2	0.5%	215	54.4%
5% - 15%	67	17.0	35	8.9	8	2.0	110	27.8
Over 15%	1	0.3	14	3.5	55	13.9	70	17.7
Total	276	69.9%	54	13.7%	65	16.5%	395	100.0%
Cities								
Under 5%	70	36.8%	0	0.0%	1	0.5%	71	37.4%
5% - 15%	62	32.6	21	11.1	3	1.6	86	45.3
Over 15%	0	0.0	8	4.2	25	13.2	33	17.4
Total	132	69.5%	29	15.3%	29	15.3%	190	100.0%
Municipalities								
Under 5%	399	21.6%	82	4.4%	47	2.5%	528	28.5%
5% - 15%	254	13.7	370	20.0	267	14.4	891	48.2
Over 15%	1	0.1	58	3.1	372	20.1	431	23.3
Total	654	35.4%	510	27.6%	686	37.1%	1,850	100.0%
Counties								
Under 5%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
5% - 15%	16	22.2	8	11.1	0	0.0	24	33.3
Over 15%	0	0.0	23	31.9	25	34.7	48	66.7
Total	16	22.2%	31	43.1%	25	34.7%	72	100.0%

Note: The preceding percentages are calculated on a group-by-group basis, so that the percentages within each group sum to 100%.

TABLE 9

Estimated Distribution of 2002 Aid Reduction
$100 Million Reduction Allocated According to a Uniform Percentage

	2001 Adjusted Value Per Capita							
Aid Reduction	Under $45,000		$45,000 - $60,000		Over $60,000		Total	
Towns								
9.7%	246	19.4%	427	33.8%	592	46.8%	1,265	100.0%
Villages								
9.7%	276	69.9%	54	13.7%	65	16.5%	395	100.0%
Cities								
9.7%	132	69.5%	29	15.3%	29	15.3%	190	100.0%
Municipalities								
9.7%	654	35.4%	510	27.6%	686	37.1%	1,850	100.0%
Counties								
9.7%	16	22.2%	31	43.1%	25	34.7%	72	100.0%

Note: The preceding percentages are calculated on a group-by-group basis, so that the percentages within each group sum to 100%.

TABLE 10

Estimated Change in Funding Under Shared Revenue and Related Programs for 2002 Under Three Funding Levels and Three Reduction Procedures by Type of Government (In Millions)

-$350 Million	Current Law Payment	Per Capita Reduction	Per Capita Percent	Aid and Tax Levy Reduction	Aid and Tax Levy Percent	Uniform Percent Reduction	Uniform Percent Percent
Towns	$81.7	-$55.9	-68.5%	-$32.1	-39.3%	-$27.8	-34.0%
Villages	83.7	-26.7	-31.9	-28.7	-34.3	-28.5	-34.0
Cities	672.4	-117.8	-17.5	-169.1	-25.2	-228.5	-34.0
Counties	191.6	-149.6	-78.0	-120.1	-62.7	-65.2	-34.0
Total	$1,029.4	-$350.0	-34.0%	-$350.0	-34.0%	-$350.0	-34.0%

-$200 Million	Current Law Payment	Per Capita Reduction	Per Capita Percent	Aid and Tax Levy Reduction	Aid and Tax Levy Percent	Uniform Percent Reduction	Uniform Percent Percent
Towns	$81.7	-$33.5	-41.0%	-$17.9	-22.0%	-$15.9	-19.4%
Villages	83.7	-13.8	-16.5	-16.6	-19.8	-16.3	-19.4
Cities	672.4	-60.1	-8.9	-93.1	-13.8	-130.6	-19.4
Counties	191.6	-92.6	-48.3	-72.4	-37.8	-37.2	-19.4
Total	$1,029.4	-$200.0	-19.4%	-$200.0	-19.4%	-$200.0	-19.4%

-$100 Million	Current Law Payment	Per Capita Reduction	Per Capita Percent	Aid and Tax Levy Reduction	Aid and Tax Levy Percent	Uniform Percent Reduction	Uniform Percent Percent
Towns	$81.7	-$15.9	-19.4%	-$8.8	-10.8%	-$7.9	-9.7%
Villages	83.7	-6.5	-7.8	-8.2	-9.8	-8.1	-9.7
Cities	672.4	-28.4	-4.2	-45.5	-6.8	-65.4	-9.7
Counties	191.6	-49.2	-25.7	-37.5	-19.6	-18.6	-9.7
Total	$1,029.4	-$100.0	-9.7%	-$100.0	-9.7%	-$100.0	-9.7%

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March 4, 2002 Joint Committee on Finance Paper #1236

Shared Revenue Modifications -- Shared Revenue Payments for 2003 and Thereafter (Shared Revenue and Tax Relief)

[LFB Summary of the Governor's Budget Reform Bill: Page 77, #1]

CURRENT LAW

The state provides unrestricted state aid to counties and municipalities under the shared revenue program and under three related programs. The shared revenue program is comprised of two separate distributions and funding levels -- one for counties and one for municipalities. The municipal distribution is calculated under a formula that consists of four components: (1) aidable revenues; (2) per capita; (3) public utility; and (4) minimum guarantee/maximum growth. The distribution for counties does not include a per capita component, although counties receive aid on a per capita basis under the county mandate relief program. Act 16 suspended the shared revenue distribution formula for municipalities for payments in 2002 and 2003. Instead, each municipality's shared revenue payment in 2002 and 2003 will equal 101% of the amount the municipality received in the prior year. This Act 16 provision will not affect county shared revenue payments.

Act 16 increased funding for the shared revenue program by 1% for 2002 (2002-03) and by an additional 1% for 2003 (2003-04, the first year of the next biennium). The 2003 funding level will remain in effect for subsequent years as well, unless revised by the Legislature:

Program	2001 (2001-02)	2002 (2002-03)	2003(2003-04)
Shared Revenue			
Counties	$168,981,800	$170,671,600	$172,378,300
Municipalities	761,478,000	769,092,800	776,783,700
Total	$930,459,800	$939,764,400	$949,162,000

GOVERNOR

The Governor's proposal would make a number of modifications to the funding levels, distribution formulas, payment dates and funding sources for the shared revenue, expenditure restraint, county mandate relief and small municipalities shared revenue programs. The Governor's proposal is described in full in LFB Paper #1235. However, this paper covers only the funding level and distribution of shared revenue payments for 2003 and thereafter. Other Legislative Fiscal Bureau papers address other aspects of the Governor's proposal.

Specify that total payments in 2003 under the shared revenue program and under three related programs (expenditure restraint, county mandate relief and small municipalities shared revenue) for each municipality and county would equal the amount received in 2002, after any aid reductions enacted for 2002. Delete the current law provision establishing each municipality's 2003 shared revenue payment at 101% of the amount received in 2002.

Delete the 1% increase for 2003 in the statutory distribution level for the shared revenue program, remove references to the 2003 level continuing in the future and specify that the statutory distribution levels for shared revenue and the three related programs are subject to the reductions used to save $350,000,000 annually in 2003. Establish a June 30, 2004, sunset for encumbrances and expenditures from the current law appropriation. Establish a sunset after 2003 for distributions under the shared revenue program, including all four of the program's payment components [per capita, aidable revenues, public utility (including payments for spent nuclear fuel storage) and minimum guarantee/maximum growth].

DISCUSSION POINTS

1. State law directs the Department of Revenue (DOR) to provide estimates each September of the aid payments that each local government will receive in the succeeding year. Local governments use these estimates in setting their succeeding year's budgets. This timetable requires the Legislature to authorize changes in funding levels and in distribution formulas well in advance of when the changes take effect. For example, Act 16 suspends the distribution formulas for municipalities in 2003 and, instead, specifies that each municipality's 2003 payment will equal 101% of its 2002 payment. Also, Act 16 sets an annual funding level for the shared revenue program at $949,162,000 for 2003, even though those payments will be made in the first year of the next biennium. As a result, if the Legislature wishes to make changes to the 2003 distribution, it may be advisable to do so during the current session.

2. In the Governor's summary of the bill, the rationale for eliminating the shared revenue program is tied to the need to redesign the state-local relationship. In developing this rationale, the summary cites the findings of the Commission on State-Local Partnerships for the 21st Century. The Commission concluded that the need to redesign the relationship is predicated on a number of concerns, including high state and local tax burdens, a large number of local governments, local governments' low percentage of own-source revenues and confusion over

accountability with regard to service delivery and taxes.

3. Over time, the shared revenue program has embodied a number of policy objectives. Initially, the program was intended to compensate local governments for tax base lost due to state enacted property tax exemptions. The program was used in this manner as late as 1981 when funding for the aid programs compensating counties and municipalities for the manufacturers' machinery and equipment exemption and the exemption for business inventories and farmers' livestock was folded into the shared revenue appropriation. Currently, the primary policy of the program is to equalize tax base between communities. This has the effect of reducing the disparities in tax rates between local governments, thereby allowing governments with limited amounts of tax base to provide basic levels of service.

4. If there is a desire to continue the shared revenue program, the following table shows several options for funding reductions, based on eliminating the three related programs (expenditure restraint, small municipalities shared revenue and county mandate relief) and making any additional reductions to the shared revenue program. The amount of the combined reductions are identical to those presented in LFB Paper #1235, "Shared Revenue Modifications -- Distribution of 2002 Payments." Since the shared revenue appropriation is divided into separate distributions for counties and municipalities, those amounts should be specified, as well. Further, that division could be made consistently with the reductions applied against payments to counties and municipalities in 2002. Table 1 displays those options based on the alternatives in the previous paper.

TABLE 1

Alternate 2003 Distribution Levels
(No Funding for Three Related Programs)

Reduction Amount and Procedure:	Counties	Municipalities	Total
-$350 Million			
Per Capita	$42,090,500	$637,325,300	$679,415,800
Aid + Levy	71,576,900	607,838,900	679,415,800
Uniform Percent	126,484,600	552,931,200	679,415,800
-$200 Million			
Per Capita	$98,993,300	$730,422,500	$829,415,800
Aid + Levy	119,224,600	710,191,200	829,415,800
Uniform Percent	154,409,600	675,006,200	829,415,800
-$100 Million			
Per Capita	$142,480,600	$786,935,200	$929,415,800
Aid + Levy	154,119,900	775,295,900	929,415,800
Uniform Percent	173,026,300	756,389,500	929,415,800

5. If there is a desire to preserve the three programs related to the shared revenue program, yet still hit an overall reduction level, the preceding amounts would have to be further reduced, with the savings appropriated to the related programs. If the current percentage division between shared revenue and the related programs is preserved, the following amounts would be available for the shared revenue program.

TABLE 2

Alternate 2003 Distribution Levels
(Preserves Proportionate Funding for Three Related Programs)

Reduction Amount and Procedure:	Counties	Municipalities	Total
-$350 Million			
Per Capita	$37,484,600	$585,077,800	$622,562,400
Aid + Levy	63,744,300	558,008,700	621,753,000
Uniform Percent	112,643,500	507,602,300	620,245,800
-$200 Million			
Per Capita	$88,160,500	$670,543,000	$758,703,500
Aid + Levy	106,177,900	651,970,200	758,148,100
Uniform Percent	137,512,600	619,669,700	757,182,300
-$100 Million			
Per Capita	$126,889,000	$722,422,800	$849,311,800
Aid + Levy	137,254,600	711,737,700	848,992,300
Uniform Percent	154,092,100	694,381,200	848,473,300

6. Prior to Act 16, funding for shared revenue was last increased in 1995. If the funding level had grown at the rate of inflation since that time, 2002 funding would be $1,101.6 million. This is $161.8 million greater than the 2002 funding level under current law. Proponents of retaining shared revenue use this rationale to argue that shared revenue funding has already been reduced in real terms and that additional reductions are unwarranted.

7. Another way of examining the history of shared revenue since 1995 is to evaluate how the two major components (aidable revenues and per capita) have changed since that time in regards to meeting formula objectives. The aidable revenues component guarantees each local government a certain tax base per capita. In 1995, this was $41,914 for municipalities and $39,675 for counties. By 2002, this would grow to $57,019 for municipalities and $56,104 for counties. However, the guarantee in 2002 would only have to be $52,896 for municipalities and $50,070 for counties to guarantee the same real, per capita tax base as was guaranteed in 1995. At the lower guarantees, aidable revenues funding would be $185.4 million less than the 2002 amount (if the formula ran in that year).

8. Per capita aid provides a broad-based distribution, assuring some aid to each municipality and county. In 1995, the aid amounts were $142.7 million for municipalities and $20.2 million for counties (paid as county mandate relief). For 2002, the municipal amount was unchanged and the county amount had increased to $21.0 million. In order to provide the same real aid per capita, these distributions would need to be set at $180.1 million for municipalities and $25.5 million for counties. This is a total increase of $41.9 million compared to current law.

9. The previous points show that the ability of the shared revenue program to accomplish various objectives changes over time based on overall funding decisions and the allocation of funding among program components.

10. If the current law funding level for the shared revenue program is significantly reduced, modifications to the current law distribution formulas would be necessary. Modifications could include: (a) changing how the distribution is divided between the aidable revenues, per capita and public utility components; (b) changing the aidable revenues formula to allow more local governments to compete for funding; and (c) changing the minimum guarantee/maximum growth component to reflect the impact of lower overall funding.

11. The division of shared revenue funding between the various components under current law is determined by the sequence in which entitlements are calculated. Entitlements under the per capita and utility aid components are calculated first, so amounts generated under those formulas comprise the "first draw" against the total funding levels. Any remaining amounts are distributed under the aidable revenues component. If the per capita and utility aid formulas are not revised, any reduction in shared revenue funding would be targeted entirely against the aidable revenues distribution. Table 3 reports the 2001 shared revenue distribution by component. Amounts under the minimum guarantee/maximum growth component are not shown because that component redistributes amounts allocated under the per capita and aidable revenues components. Once a funding level has been determined, these percentages could be used to allocate the funding among the components and set the new distribution amounts for the per capita and utility aid components. If that approach is taken, utility aid amounts would have to be allocated on a pro rata basis. A separate issue paper has been prepared on utility aid (LFB Paper #1237), which includes an alternative to separate the utility aid funding into a new appropriation.

TABLE 3

Shared Revenue Distribution by Component, 2001

	Public Utility	Per Capita	Aidable Revenues	Total Shared Revenue
Counties	8.5%	0.0%	91.5%	100.0%
Municipalities	1.8	18.8	79.4	100.0
Total	3.1%	15.3%	81.6%	100.0%

12. Accounting for over 80% of the total distribution, aidable revenues is the dominant shared revenue component. It is based on the policy of tax base equalization, where relatively greater amounts of aid are distributed to local governments with lower tax capacities, as measured by each government's adjusted property value per capita. In periods with limited fiscal resources, it could be argued that the available resources should be targeted to those with the greatest need. Focusing aid reductions first on the per capita distribution has been suggested as a way of accomplishing this goal. However, except for any utility aid payment, this could effectively end participation in the shared revenue program for many local governments, depending on changes to the minimum guarantee.

13. A local government is eligible for an aidable revenues entitlement if its per capita adjusted full value is below the standard value. Separate standard values are calculated for the county and municipal distributions, and the standard values change from year to year so as to distribute all of the available funding. For 2001, the standard values were set at $52,566 for counties and $53,256 for municipalities. At those levels, 45 of the state's 72 counties and 1,088 of the state's 1,850 municipalities were eligible for funding. If funding reductions are not accompanied by formula changes, the number of local governments eligible for aidable revenues entitlements will decline. Table 4 shows the estimated effect of aid reductions of $350 million, $200 million and $100 million relative to the 2001 distribution and assumes those reductions were applied entirely to aidable revenues funding in proportion to the current, overall county and municipal funding amounts.

TABLE 4

Effect of Funding Reductions on 2001 Aidable Revenues Distribution

	Actual 2001 Distribution	$350 Million Reduction	$200 Million Reduction	$100 Million Reduction
Counties				
Distribution	$154,549,205	$90,985,330	$118,226,991	$136,388,098
Standard Value	$52,566	$47,927	$49,920	$51,265
Number Eligible	45	36	41	42
Number Ineligible	27	36	31	30
Percent Ineligible	37%	50%	43%	42%
Municipalities				
Distribution	$604,859,946	$318,423,821	$441,182,160	$523,021,053
Standard Value	$53,256	$42,410	$46,841	$49,996
Number Eligible	1,088	681	865	979
Number Ineligible	762	1,169	985	871
Percent Ineligible	41%	63%	53%	47%

14. Aidable revenues entitlements are calculated by multiplying sharing percentages by average local revenues. Sharing percentages are calculated by comparing each local government's per capita adjusted full value to the standard value. Average local revenues are the revenues raised by each local government over three prior years, divided by three. County revenues are reduced to 85% of their three-year average. Local revenues are comprised of property tax collections and other revenues considered to be substitutable for the property tax. These other revenues include: other local taxes; special assessments; various permit fees; various user charges and fees; proxies for private sewer service costs, solid waste and recycling costs and retail charges for fire protection purposes; and certain state aids (aidable revenues entitlements and computer reimbursement aid).

15. The number of local governments that a funding reduction would cause to become ineligible for aidable revenues entitlements could be decreased by reducing the amount of local revenues that are aided. For example, if the definition of local revenues had been limited to general local taxes and the currently enumerated state aids, an additional 199 local governments would have generated aidable revenues entitlements in 2001. Table 5 shows the effects of changing the local revenue definition to include only taxes and aids relative to the amounts displayed in Table 4 under the $350 million, $200 million and $100 million funding reductions. Although the number of counties eligible for entitlements would increase by two or less, the number of municipalities eligible for entitlements would increase by more than 100 under each funding amount. However, in aggregate, entitlements for municipalities with lower per capita values would decrease to allow this broader participation.

TABLE 5

Combined Effects of Funding Reductions and Change in Local Revenues Definition on 2001 Aidable Revenues Distribution

	$350 Million Reduction	$200 Million Reduction	$100 Million Reduction
Counties			
Distribution	$90,985,330	$118,226,991	$136,388,098
Standard Value	$48,466	$50,594	$52,024
Number Eligible	37	41	44
Number Ineligible	35	31	28
Percent Ineligible	49%	43%	39%
Municipalities			
Distribution	$318,423,821	$441,182,160	$523,021,053
Standard Value	$45,373	$51,583	$55,977
Number Eligible	800	1,039	1,174
Number Ineligible	1,050	811	676
Percent Ineligible	57%	44%	37%

16. The minimum guarantee/maximum growth component of the shared revenue program prevents large, year-to-year decreases or increases in payments. If a local government's entitlements under the aidable revenues and per capita components are less than 95% of its prior year actual payment, the entitlements are supplemented through the minimum guarantee so that the decrease equals only 5%. Minimum payments are funded by limiting the increase in payments to other local governments to a maximum percentage increase. Any increases in entitlements in excess of the percentage are "skimmed-off." The maximum percentage changes each year so that the total amount skimmed through the maximum provision equals the total amount supplemented under the minimum provision.

17. If the current shared revenue formulas are retained and funding for 2003 is reduced relative to funding for 2002, the minimum/maximum component may be unable to offset minimum payment supplements with maximum payment reductions in the transition year. There could be few or no governments experiencing payment increases, which would be needed to fund the minimum supplements. Also, minimum/maximum provisions reduce the impact associated with other formula changes that may be enacted to address the effects of the funding reduction. In response, the minimum/maximum component could either be suspended for the transition year, modified to provide a lower minimum guarantee or repealed.

18. The minimum guarantee was cited as one factor that hampers the shared revenue program's "ability to reduce disparities between the state's richer and poorer communities" in the January, 2001, report by the Commission on State/Local Partnerships for the Twenty-First Century. Also, the Commission found that the program "contains incentives for municipalities to increase their spending." In response to these concerns, the Commission recommended transforming shared revenue "into a program that equalizes municipalities' ability to purchase a basic package of services." If a radical change to the current distribution formula is desired, an expenditure-based distribution formula could be developed to replace the current program. The formula could be designed to encourage cost-effective service delivery, and also could incorporate other policies advanced by the Commission. Because some lead time would be needed to develop and authorize a new distribution formula, shared revenue payments could be frozen in 2003 at their 2002 amounts. As an incentive to develop and enact a new distribution formula, the current distribution formula could be repealed.

19. Milwaukee County is currently required to make an annual contribution of $58,893,500 to the Department of Health and Family Services (DHFS) for the provision of child welfare services in Milwaukee County. This contribution is made as follows: (a) through a reduction of $37,209,200 from the amount DHFS distributes as the basic county allocation under community aids; (b) through a reduction of $1,583,000 from the federal substance abuse prevention and treatment (SAPT) block grant that DHFS distributes as a categorical allocation under community aids; and (c) through a deduction of $20,101,300 from shared revenue payments. Under the bill, Milwaukee County's annual contribution for child welfare services would be reduced from $58,893,500 to $38,792,200, beginning July 1, 2004, to reflect the proposed elimination of shared revenue. If Milwaukee County's shared revenue payment is eliminated or significantly reduced, the Bureau of Milwaukee Child Welfare would face a funding shortfall. If there is a desire to continue

the Bureau's services at the current level, its funding should be supplemented from other sources.

20. Any formula changes that are adopted will change the distribution of shared revenue. Depending on the choices that are made, new formulas could have distributions that vary significantly from current law and from one another. As an example, Table 6 compares the distribution of aid under current law with two alternate distributions at a $350 million lower funding level. The first alternative retains the current per capita distribution, reduces aidable revenues funding by $350 million, limits local purpose revenues to local taxes and aids and retains a minimum guarantee. The second alternative deletes the per capita distribution, reduces aidable revenues funding by $207.3 million, retains the current law aidable revenues distribution formula and eliminates the minimum guarantee. As shown, the first alternative would distribute aid in a pattern somewhat comparable to the pattern under current law. The second alternative would distribute a higher percentage of aid to local governments with lower per capita values.

TABLE 6

Comparison of Shared Revenue Distribution by Value Per Capita Categories
Current Law Versus Two Alternatives With Lower Funding and Formula Modifications
(Amounts in Millions)

	Current Law		First Alternative		Second Alternative	
Value/Capita	Amount	% of Total	Amount	% of Total	Amount	% of Total
Counties						
Under $20,000	$0.0	0.0%	$0.0	0.0%	$0.0	0.0%
$20,000 to $30,000	0.0	0.0	0.0	0.0	0.0	0.0
$30,000 to $40,000	72.4	42.8	46.5	44.1	67.9	64.4
$40,000 to $50,000	70.2	41.6	42.3	40.2	31.8	30.2
Over $50,000	26.4	15.6	16.6	15.7	5.7	5.4
Total	$169.0	100.0%	$105.4	100.0%	$105.4	100.0%
Municipalities						
Under $20,000	$4.7	0.6%	$3.2	0.7%	$5.1	1.1%
$20,000 to $30,000	342.4	45.0	234.2	49.3	287.6	60.5
$30,000 to $40,000	168.4	22.1	96.8	20.4	116.3	24.5
$40,000 to $50,000	151.3	19.9	78.3	16.5	58.5	12.3
Over $50,000	94.7	12.4	62.5	13.1	7.5	1.6
Total	$761.5	100.0%	$475.0	100.0%	$475.0	100.0%

21. Short-term suspension of aid formulas often occurs to postpone shifts in aid that would otherwise occur. The longer a formula is suspended, the less relevant it becomes in determining an aid policy. Over time, aid resources are used more to stabilize local budgets and less to accomplish any of the objectives that were desired when the aid program was created.

22. If shared revenue is reduced, but not eliminated, the future aid policy chosen to allocate the lower aid amounts can be shaped to meet the goals of the Legislature. The 2002 aid reductions discussed in LFB Paper #1235 deal with a short-term response given that local governments have already set their budgets for this year. The formula alternatives discussed in this paper represent possible choices to establish an aid policy for the future, when local governments will have more time to respond. A revised formula could be used beginning in 2003. Alternately, if the Legislature wants to build in an opportunity to revisit the issue before the revised formula affects local budgets, the revisions could be delayed to 2004 and 2003 payments could be set at a specified percentage of 2002 payments.

ALTERNATIVES TO BILL

1. Approve the following provisions in the Governor's recommendation related to the shared revenue distribution for 2003 and thereafter. Specify that total payments in 2003 under the shared revenue program and under three related programs (expenditure restraint, county mandate relief and small municipalities shared revenue) for each municipality and county would equal the amount received in 2002, after any aid reductions enacted for 2002. Delete the current law provision establishing each municipality's 2003 shared revenue payment at 101% of the amount received in 2002. Delete the 1% increase for 2003 in the statutory distribution level for the shared revenue program, remove references to the 2003 level continuing in the future and specify that the statutory distribution levels for shared revenue and the three related programs are subject to the reductions used to save $350,000,000 annually in 2003. Establish a June 30, 2004, sunset for encumbrances and expenditures from the current law appropriation. Establish a sunset after 2003 for distributions under the shared revenue program, including all four of the program's payment components [per capita, aidable revenues, public utility (including payments for spent nuclear fuel storage) and minimum guarantee/maximum growth].

2. Retain the shared revenue program subject to the following modifications:

a. *Funding*. Set the total shared revenue distribution, the county distribution and the municipal distribution as follows, effective with payments for 2003 and thereafter.

(1) Establish shared revenue funding levels consistent with the policy of repealing the expenditure restraint, county mandate relief and small municipalities shared revenue programs and making proportionate reductions to the county and municipal shared revenue distributions and that are consistent with the policy adopted to make aid reductions in 2002 and one of the following overall aid reductions (see Table 1 for specific details):

(a) $350 million;
(b) $200 million; or
(c) $100 million.

(2) Establish shared revenue funding levels consistent with the policy of making

proportionate reductions to the expenditure restraint, county mandate relief and small municipalities shared revenue programs and making proportionate reductions to the county and municipal shared revenue distributions and that are consistent with the policy adopted to make aid reductions in 2002 and one of the following overall aid reductions (see Table 2 for specific details):

(a) $350 million;
(b) $200 million; or
(c) $100 million.

b. *Funding by Component -- Counties.* Set each component of the county distribution at the following percentages:

(1) 8.5% for public utility aid and 91.5% for aidable revenues; or

(2) 100.0% for aidable revenues.

c. *Funding by Component -- Municipalities.* Set each component of the municipal distribution at the following percentages:

(1) 1.8% for public utility aid, 18.8% for per capita aid and 79.4% for aidable revenues; or

(2) 19.1% for per capita aid and 81.9% for aidable revenues; or

(3) 100.0% for aidable revenues.

d. *Aidable Revenues.* Modify the definition of local purpose revenues to include only the general local taxes and state aid amounts included under the current law definition.

e. *Minimum Guarantee/Maximum Growth Component.* Modify the minimum guarantee/maximum growth payment provisions as follows:

(1) Suspend the provisions for the 2003 shared revenue distribution;

(2) Establish a minimum guarantee for 2003 and thereafter that allows a 10% spread between the minimum guarantee and maximum growth percentages;

(3) Establish a minimum guarantee for 2003 and thereafter that allows a 20% spread between the minimum guarantee and maximum growth percentages; or

(4) Repeal the provisions, effective with the 2003 shared revenue distribution.

f. *Temporary Formula Suspension.* Set the 2003 payment amount for each local government at a fixed percentage of the 2002 payment amount, based on the funding level approved for payments in the two years. Make any approved formula modifications effective with 2004 payments.

g. *Cost-Based Aid Distribution Formula.* Repeal the existing distribution formula after the distribution for 2003 and specify that the 2004 distribution be based on a formula that measures tax capacity and expenditure levels. (The specifics of the distribution formula would be specified in subsequent legislation.)

3. Create a sum sufficient, GPR annual appropriation to provide funding for the Bureau of Milwaukee Child Welfare in the Department of Health and Family Services. Set the appropriation at an amount equal to $20,101,300 minus any amounts deducted from the shared revenue payment for Milwaukee County that are used to fund the same services. Modify the Governor's proposal to lower the contribution from Milwaukee County by specifying that the County's annual contribution would equal $38,792,200 plus an amount equal to the lesser of the County's shared revenue payment for the year or $20,101,300.

4. Delete the Governor's recommendation to reduce in 2003 and eliminate in 2004 state aid payments under the shared revenue program.

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