

Fiscal Estimate Narratives

DOR 5/27/2003

LRB Number	03-2023/1	Introduction Number	AB-330	Estimate Type	Original
Subject					
Consolidation incentive payments to offset loss of shared revenue					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, the state shared revenue program will be replaced in 2004 by a new program referred to as county and municipal aid. This program will distribute money to local governments as follows:

(1) A utility payment for counties and municipalities based on the net book value of qualifying utility property located in locality. The limit on qualifying value in a given municipality is \$125 million per utility company or, for a jointly owned facility, \$125 million for the plant.

(2) An expenditure restraint payment for those municipalities whose municipal tax rate exceeded 5 mills and whose growth in spending did not exceed a prescribed level.

(3) A consolidated incentive payment for municipalities and counties under which recipients can receive a payment of up to 75% of the estimated cost savings in the first year due to consolidation of services by two or more local governments. A merger of two or more municipalities qualifies as a consolidation. Total payments in a given year may not exceed \$45 million. If potential payments exceed \$45 million, actual payments are prorated. This payment is funded by proportional reductions in the county and municipal aid payment.

(4) A county and municipal aid payment. In 2004, this payment is initially set at the total payment under the shared revenue program less utility, expenditure restraint, and small municipal shared payments. From this amount, two subtractions are made: (a) a per capita reduction totaling \$40 million spread on a per capita basis across municipalities and counties, and (b) a proportional reduction to fund the consolidation incentive payment. In 2005 and thereafter, this payment is initially set at the amount paid in 2004 after the per capita reduction of that year but excluding any payments from or reductions for funding the consolidation incentive payment.

Under the bill, the consolidation incentive payment is to be increased to reflect any reductions in payments under the county and municipal aid program that are caused by the consolidation. Such consolidations are expected to have no effect on payments under the county and municipal aid component since the base for this payment has already been established. Since the data for utility payments and expenditure restraint payments will change from year to year, consolidations could affect these payments. The following illustrate the types of payments that could occur under the bill:

(1) Utility payments: The utility payment under current law to a municipality created by the merger of two or more municipalities would be based on the total value of qualifying property, with the \$125 million applying to the total. Under the bill, if the total value of qualifying property under current law in the merging municipalities exceeded \$125 million, the \$125 million limit would not apply in the year the consolidation incentive payment is made.

(2) Expenditure restraint payments: Under current law, a municipality created by the merger of two or more municipalities may not qualify for a payment even though one or more of the former municipalities would have qualified. Under the bill, the payment on behalf of any qualifying municipality would be made in the year the consolidation incentive payment is made.

Any increase in the consolidation incentive payment engendered by this bill would be funded in one of the following shifts in aid payments. If the total payment is less than the \$45 million cap, the proportional reduction in county and municipal aid payments would increase. If the total payment is more than \$45 million, the proration factor applied to consolidation incentive payments would be reduced. Thus, the bill would lead to a shift in aid payments. Currently available information does not permit a reasonable estimate of the potential shift in county and municipal aid payments this bill would engender.

Long-Range Fiscal Implications