

### Fiscal Estimate - 2011 Session

Original     
  Updated     
  Corrected     
  Supplemental

<b>LRB Number</b> <b>11-2040/1</b>	<b>Introduction Number</b> <b>AB-0279</b>	
<b>Description</b> Relating to: excluding from the calculation of expenditure restraint payments expenditures made pursuant to a purchasing agreement with a school district		
<b>Fiscal Effect</b>		
<b>State:</b> <input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate <input type="checkbox"/> Increase Existing Appropriations <input type="checkbox"/> Increase Existing Revenues <input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input type="checkbox"/> Decrease Existing Appropriations <input type="checkbox"/> Decrease Existing Revenues <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Create New Appropriations <input type="checkbox"/> Decrease Costs		
<b>Local:</b> <input type="checkbox"/> No Local Government Costs <input checked="" type="checkbox"/> Indeterminate 1. <input type="checkbox"/> Increase Costs      3. <input type="checkbox"/> Increase Revenue                          5. Types of Local Government Units Affected <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input checked="" type="checkbox"/> Towns <input checked="" type="checkbox"/> Village <input checked="" type="checkbox"/> Cities 2. <input type="checkbox"/> Decrease Costs      4. <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Counties <input type="checkbox"/> Others <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts		
<b>Fund Sources Affected</b> <b>Affected Ch. 20 Appropriations</b> <input type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS		
<b>Agency/Prepared By</b> DOR/ Daniel Huegel (608) 266-5705	<b>Authorized Signature</b> Paul Ziegler (608) 266-5773	<b>Date</b> 10/14/2011

## Fiscal Estimate Narratives

DOR 10/14/2011

LRB Number	11-2040/1	Introduction Number	AB-0279	Estimate Type	Original
<b>Description</b> Relating to: excluding from the calculation of expenditure restraint payments expenditures made pursuant to a purchasing agreement with a school district					

### Assumptions Used in Arriving at Fiscal Estimate

#### CURRENT LAW

In order to qualify for an expenditure restraint payment (ERP), a municipality must meet the following two conditions:

(1) The municipal-purpose property tax rate, equal to the municipal-purpose property tax levy excluding incremental levies for tax incremental financing (TIF) districts divided by the municipality's equalized value excluding the incremental value of TIF districts, must be at least 5 mills. For ERP payments in 2011, the tax rate for the 2009/10 property tax year was used.

(2) The "municipal budget" for the year before payment may not increase over the budget for the prior year by more than an inflation factor" plus a "valuation factor".

The "inflation factor" equals the average annual percentage change in the U. S. Consumer Price Index for all urban consumers for the 12-month period ending on September 30 prior to the budget year. For 2010 budgets, the "inflation factor" was measured over the 12-month period ending September 2009.

The "valuation factor" equals 60% of the percentage change in the municipality's equalized value due to net new construction, but no more than 2% and no less than 0%. For 2010 budgets, the "valuation factor" was calculated using data on net new construction in 2008.

The "municipal budget" equals general fund expenditures excluding principal and interest on long-term debt, recycling fees paid for solid waste disposal, revenues shared with other local governments under revenue sharing agreements, expenditures financed under the American Recovery and Reinvestment Act of 2009 (P. L. 111-5), and unreimbursed expenditures related to an emergency declared by the Governor. For ERP payments in 2011, the "municipal budget" for 2009 and 2010 were compared.

A qualifying municipality's payment is calculated as follows:

(a) subtract 5 mills from the municipal-purpose property tax rate, (b) multiply the amount from (a) by the municipality's total equalized value, (c) divide the amount from (b) by the state total of all amounts under (b), and (d) multiply the amount from (c) by the amount available for ERP payments (currently set at \$58,145,700).

#### PROPOSED LAW

The bill creates an additional exclusion to the definition of "municipal budget" for ERP payment eligibility purposes. The new exclusion is for municipal expenditures made under an agreement with a school district whereby the municipality makes purchases on behalf of the school district.

#### FISCAL EFFECT

The proposal takes effect for ERP payments in 2011.

ERP payments for 2011 were paid on July 25, 2011. Of the 388 municipalities whose municipal-purpose tax rate exceeded 5 mills, 321 qualified for an ERP payment. If the bill allows additional municipalities to qualify for an ERP payment in 2011, then payments for 2011 will need to be recalculated. As a result, payments to the 321 current law recipients will be reduced, resulting in their need to repay part of the payment they received in July.

On September 15, 2011, the Department of Revenue (DOR) notified municipalities of the amount of their

ERP payments to be made in July 2012. Of the 418 municipalities whose municipal-purpose tax rate exceeded 5 mills, 337 qualified for an ERP payment. If the bill allows additional municipalities to qualify for an ERP payment in 2012, then estimated payments for 2012 will need to be recalculated. As a result, estimated payments to the 337 current law recipients will be reduced.

For ERP payments in 2013 and beyond, to the extent that the bill allows more municipalities to qualify for an ERP payment than allowed under current law, payments for current law recipients will be lower under the bill.

Information on expenditures by a municipality made pursuant to a purchasing agreement with a school district whereby the municipality makes purchases on behalf of a school district are not separately reported on existing municipal financial reports filed with the DOR. The DOR is therefore unable to estimate the extent to which ERP payments could be redistributed under the bill.

#### **ADMINISTRATIVE COSTS**

The DOR will incur one-time costs related to programming for the change in the "municipal budget" definition, changing the forms for reporting municipal financial data, and for answering questions from local officials. It is expected that these costs can be absorbed in currently allocated resources.

#### **Long-Range Fiscal Implications**