



Legislative Fiscal Bureau

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May 17, 2007

Joint Committee on Finance

Paper #706

County and Municipal Aid -- Funding Level (Shared Revenue and Property Tax Relief -- Direct Aid Payments)

Bill Agency

[LFB 2007-09 Budget Summary: Page 500, #1]

CURRENT LAW

State law establishes the distribution under the county and municipal aid program at \$859,703,124 annually. Annual payments to each municipality and county are set at the same amount that was received in 2004.

GOVERNOR

Increase funding under the county and municipal aid program by \$15,000,000 GPR in 2008-09 and establish total payments under the program at \$874,703,124 in 2008 and subsequent years. Provide that payments in 2008 to each county and municipality be increased proportionately (a 1.74% increase), relative to each payment received in 2007, so that payments are higher by \$15,000,000 in total. Provide that payments to each county and municipality in subsequent years be set equal to the amount received in 2008. Increase the program's appropriation level by an additional \$100 GPR annually to ensure that the appropriation provides spending authority sufficient to fund the entire distribution. Without this adjustment, the distribution would exceed spending authority by \$24 annually.

DISCUSSION POINTS

1. County and municipal aid is paid in July and November of each year. Therefore, local governments will receive payments for the first year of the coming biennium (2007-08) in

calendar year 2007. Since local governments have already established their 2007 budgets, the proposed increase would first apply to payments in 2008 (2008-09).

2. Since implementing the state policy to provide two-thirds funding of partial school revenues on a statewide basis in 1996-97, state aid to school districts has been the state's primary mechanism for providing local assistance. From 1995 through 2003, funding for shared revenue and its related programs remained unchanged except for modest increases in 2000, 2002, and 2003. In 2000, funding for shared revenue was unchanged from 1999, but the combined funding for shared revenue and related programs increased by 1.1% due to additional funding for the expenditure restraint (+\$9 million), small municipalities shared revenue (+\$1 million), and county mandate relief (+\$604,800) programs. In 2002 and 2003, 1% funding increases occurred for the shared revenue program and for each of the related programs. Table 1 reports the funding changes for shared revenue and its related programs between 1995 (1995-96) and 2008 (2007-08).

TABLE 1
Funding for Shared Revenue and Related Programs, 1995 - 2008
(Amounts in Millions)

	<u>Shared Revenue</u>		<u>County and Municipal Aid</u>		<u>Shared Revenue & Related Programs*</u>	
	<u>Amount</u>	<u>Change</u>	<u>Amount</u>	<u>Change</u>	<u>Amount</u>	<u>Change</u>
1995	\$930.5	--			\$1,012.6	--
1996	930.5	0.0%			1,008.6	-0.4%
1997	930.5	0.0			1,008.6	0.0
1998	930.5	0.0			1,008.6	0.0
1999	930.5	0.0			1,008.6	0.0
2000	930.5	0.0			1,019.2	1.1
2001	930.5	0.0			1,019.2	0.0
2002	939.8	1.0			1,029.4	1.0
2003	949.2	1.0			1,039.7	1.0
2004	33.8	-96.4	\$859.7	--	951.7	-8.5
2005	33.8	0.0	859.7	0.0%	951.7	0.0
2006	38.6	14.2	859.7	0.0	956.4	0.5
2007**	38.2	-1.0	859.7	0.0	956.0	< -0.1
2008**	39.4	3.1	874.7	1.7	972.2	1.7

*Related programs include expenditure restraint, county mandate relief, and small municipalities shared revenue for 1995-2003 and expenditure restraint after 2003.

**Reflects amounts proposed in SB 40 for 2007-08 and 2008-09.

3. In 2004, the county and municipal aid program replaced the shared revenue program as the state's largest local assistance program for general purpose local governments. At the same time, funding for the county mandate relief and small municipalities shared revenue programs was eliminated, but the expenditure restraint program and the utility aid component of the shared

revenue program were continued. In the conversion process, statewide funding was decreased by \$90 million, and payments to each county and municipality were reduced under a formula administered largely on a per capita basis. State assistance to counties and municipalities under the county and municipal aid program and related aid programs decreased by 8.5% in 2004, relative to 2003 assistance under the shared revenue and related aid programs. Since then, county and municipal aid payments to individual local governments have remained unchanged. When funding for the related programs is included, total payments are 0.5% higher than in 2004. Public utility aid, which expends almost \$40 million annually through two appropriations, is the only shared revenue component that continues to operate.

4. Even though shared revenue and county and municipal aid payments have not increased, state aid increases for school districts have helped control tax bill increases. Since 1995(96), the estimated tax bill for a median-valued home taxed at statewide average tax rates has increased at an average, annual rate of 1.9%. Over the same 11-year period, the consumer price index has increased at an average, annual rate of 2.6%. If the median-valued home's estimated taxes had increased at the same rate as inflation, the estimated 2006(07) tax bill would be \$203 higher (7.5%), and the home's owner would have paid \$1,864 more in taxes over the 11 years.

5. Since 1993-94, school districts have been subject to a fiscal control (revenue limits) that was designed to ensure that additional school aid was used both to finance increases in school costs and to provide property tax relief. The school aid formula continues to be an effective mechanism for providing property tax relief and represents an alternative use for the proposed spending increase. On the other hand, the Governor has proposed extending the levy limit on counties and municipalities that expired on January 1, 2007. Like school revenue limits, the levy limit program could be designed to translate aid increases into property tax relief, although the version in SB 40 that the Committee adopted would not do this.

6. Personnel costs represent the largest component of local governments' current operating expenditures. Global Insight, Inc., forecasts employment costs to increase at a more rapid rate than inflation over the next three years. Health insurance costs, a component of employment costs, are projected to increase at nearly twice the rate of inflation or more in each of these years.

TABLE 2

Forecasted Increases in Three Measures Over Three Years

	<u>Consumer Price Index</u>	<u>Employment Costs</u>	<u>Health Insurance Costs</u>
2007	1.8%	3.1%	5.0%
2008	2.1	3.1	4.2
2009	1.9	3.4	3.7

Source: Global Insight, Inc.

7. After the property tax, payments under the county and municipal aid program comprise the largest revenue source for municipalities on a statewide basis. Although other aid programs provide larger aid payments to counties, those payments must typically be expended for certain designated uses, and county and municipal aid payments represent counties' largest discretionary source of local assistance.

8. State law sets the distribution under the county and municipal aid program at \$859,703,124. This includes \$5.0 million that is actually distributed as medical assistance supplemental payments to publicly-operated emergency medical service providers (ambulance services) and \$20.1 million that is withheld from Milwaukee County's payment for child welfare services provided by the state. The proposed funding would provide a 1.74% payment increase to each county and municipality, prior to either of these two adjustments. Currently, the distribution provides \$157,219,848 to counties and \$702,483,276 to municipalities. The proposal would increase payments to counties by \$2,743,154 and increase payments to municipalities by \$12,256,846. The following table provides alternatives to the Governor's recommended increase at various percentage increases over the current funding level.

TABLE 3

Funding Required for Various 2008 County and Municipal Aid Increases

	<u>Counties</u>	<u>Municipalities</u>	<u>Total</u>	<u>Change to Bill</u>
Current Funding	\$157,219,848	\$702,483,276	\$859,703,124	-\$15,000,000
Alternative Increases				
1.0%	\$1,572,200	\$7,024,800	\$8,597,000	-\$6,403,000
1.5	2,358,300	10,537,200	12,895,500	-2,104,500
2.0	3,144,400	14,049,700	17,194,100	2,194,100
2.5	3,930,500	17,562,100	21,492,600	6,492,600

9. The 2005-07 chapter 20 appropriation schedule displays \$854,703,100 annually for the county and municipal aid appropriation. This amount is after the \$5.0 million reduction related to the medical assistance program. The actual distribution totals \$854,703,124, after the medical assistance adjustment. Although this is a sum sufficient appropriation, the Governor requests the appropriation be increased by \$100 annually to ensure that the appropriation provides spending authority sufficient to fund the entire distribution.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to increase funding under the county and municipal aid program by \$15,000,000 GPR in 2008-09 and establish total payments under the program at \$874,703,124 in 2008 and subsequent years. Provide that payments in 2008 to each

county and municipality be increased proportionately, relative to each payment received in 2007, so that payments are higher by \$15,000,000 in total. Provide that payments to each county and municipality in subsequent years be set equal to the amount received in 2008. Increase the program's appropriation level by \$100 GPR annually to avoid underfunding the distribution.

ALT 1	Change to Bill Funding	Change to Base Funding
GPR	\$0	\$15,000,200

2. Modify the Governor's recommendation and provide payment increases in 2008-09 based on one of the following options (these include the \$100 annual increase recommended by the Governor). Provide that payments in 2008 to each county and municipality be increased proportionately, relative to each payment received in 2007, so that the total amount of the increase is distributed. Provide that payments to each county and municipality in subsequent years be set equal to the amount received in 2008.

a. Reduce the Governor's recommendation by \$6,403,000 GPR to provide payment increases in 2008-09 totaling \$8,597,000 (1.0%).

ALT 2a	Change to Bill Funding	Change to Base Funding
GPR	-\$6,403,000	\$8,597,200

b. Reduce the Governor's recommendation by \$2,104,500 GPR to provide payment increases in 2008-09 totaling \$12,895,500 (1.5%).

ALT 2b	Change to Bill Funding	Change to Base Funding
GPR	-\$2,104,500	\$12,895,700

c. Increase the Governor's recommendation by \$2,194,100 GPR to provide payment increases in 2008-09 totaling \$17,194,100 (2.0%).

ALT 2c	Change to Bill Funding	Change to Base Funding
GPR	\$2,194,100	\$17,194,300

d. Increase the Governor's recommendation by \$6,492,600 GPR to provide payment increases in 2008-09 totaling \$21,492,600 (2.5%).

ALT 2d	Change to Bill Funding	Change to Base Funding
GPR	\$6,492,600	\$21,492,800

3. Delete provision.

ALT 3	Change to Bill Funding	Change to Base Funding
GPR	-\$15,000,200	\$0

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