



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #700

County and Municipal Aid Payment Reductions (Shared Revenue and Tax Relief -- Direct Aid Payments)

[LFB 2009-11 Budget Summary: Page 568, #1]

CURRENT LAW

The county and municipal aid program provides unrestricted aid to county and municipal governments. The program was begun in 2004 to replace payments formerly made under the shared revenue program, except for the program's utility aid formula, which was maintained as a separate program. In 2004, payments to individual local governments were based on 2003 shared revenue payments (non-utility portion), except that each recipient's payment was reduced, primarily on a per capita basis, to allocate a total reduction of \$90.0 million. Individual and total payments since 2004 have equaled the same amount as in that year. For calendar year 2009 (paid in fiscal year 2009-10), payments will total \$702,483,276 for municipalities and \$157,219,848 for counties, for a combined total of \$859,703,124.

The county and municipal aid program, along with the utility aid program, and the expenditure restraint program are sometimes collectively referred to as the "shared revenue" program. In 2009, payments under the county and municipal aid program constitute 88% of total payments under these three programs.

GOVERNOR

Reduce funding by \$8,547,000 GPR in 2010-11 for making 2010 payments under the county and municipal aid program, a reduction equal to 1% of the county and municipal aid account. Allocate the total reduction separately among municipalities and counties in proportion to current distributions for municipalities and counties from the county and municipal aid account. Specify that initial reductions to individual municipalities and counties would be made based on their share of the total statewide equalized value. Modify these initial reductions so

that no municipality or county has a total reduction exceeding 15% of their current law 2010 payment. Fund these 15% maximum cut modifications by further reducing payments to the remaining municipalities and counties on a per capita basis, also subject to the 15% maximum total reduction. These calculations would be done separately for municipalities and for counties. Specify that for payments in 2011 and thereafter, payments for each municipality and county would equal their 2010 payment.

DISCUSSION POINTS

1. The county and municipal aid program, like many state programs, would be reduced by 1% under the bill. The formula used for making payment reductions for individual counties and municipalities, however, would be based primarily on relative property values, resulting in reductions of varying percentages. The reduction formula has two steps, calculated separately for counties and municipalities. First, the total reduction (\$6,980,259 for municipalities and \$1,566,772 for counties) would be allocated to individual municipalities (or counties) in proportion to their share of the total statewide property value. Second, an additional adjustment would be made to ensure that no municipality's payment reduction exceeds 15% of its prior year payment. That is, for certain municipalities that have high property values in relation to their aid payment, the reduction calculated in the first step would exceed 15%. To decrease these reductions to the 15% level, an additional reduction would be taken from the municipalities whose first-step reduction was less than 15%, based on those municipalities' proportionate share of total population for all such municipalities. This second step of the payment reduction accounts for a relatively small proportion of the total reduction (3.8% for municipalities and 6.3% for counties), so the total payment reductions under the bill would be based primarily on the relative property value calculation.

2. The following table illustrates the payment reduction calculation for a sample municipality, the City of Middleton.

1. City of Middleton Property Value as a Percentage of Statewide Total:

| | |
|---|--------------------------|
| City of Middleton 2008 Equalized Value: | \$2,732,429,600 |
| Divided by Statewide 2008 Equalized Value: | <u>÷ 514,393,963,700</u> |
| Equals City of Middleton Property Value Percentage: | 0.531194% |

2. Multiply City of Middleton Percentage by Total Reduction for Municipalities:

| | |
|--|----------------------|
| City of Middleton Percentage: | 0.531194% |
| Times Total Municipal Reduction under AB 75: | <u>x \$6,980,259</u> |
| Equals First-Step Reduction: | \$37,079 |

3. Maximum Reduction Check:

| | |
|---|------------------|
| City of Middleton First-Step Reduction: | \$37,079 |
| Divided by City of Middleton 2009 County and Municipal Aid Payment: | <u>÷ 317,022</u> |
| Equals First-Step Reduction Percentage: | 11.7% |

Since the first-step reduction is below 15%, the City of Middleton is subject to an additional reduction.

4. Second-Step Reduction to Meet 15% Maximum Reduction Requirement for All Municipalities:

| | |
|--|--------------------|
| City of Middleton Population: | 16,960 |
| Divided by Total Population of Municipalities with First-Step Reduction Under 15%: | <u>÷ 5,485,928</u> |
| Equals City of Middleton Population Percentage: | 0.309155% |
| Times Statewide Total Amount by Which First-Step Reductions Exceed 15%: | <u>x \$268,240</u> |
| Equals City of Middleton Second-Step Reduction: | \$829 |

5. Calculate Total Reduction:

| | |
|--|--------------|
| City of Middleton First-Step Reduction: | \$37,079 |
| Plus City of Middleton Second-Step Reduction: | <u>+ 829</u> |
| Equals City of Middleton Total Reduction: | \$37,908 |
| City of Middleton Total Reduction as a Percentage of 2009 Payment: | 12.0% |

3. Although the bill would reduce total 2010 payments under the county and municipal aid program by 1%, the payments for individual counties and municipalities would range from reductions of 0.1% to 15.0%. Out of the 1,851 municipalities, the formula would result in a payment reduction of at least 10% for 267, and a reduction of 1% or less for 521. Of the 72 counties, 10 would have a reduction of at least 10%, while 37 would have a reduction of less than 1%.

4. The Department of Administration indicates that the reductions in the bill would be based primarily on equalized property values so that those counties and municipalities that have relatively low values would be least impacted by the aid reduction.

5. If the Committee approves of the Governor's recommendation to reduce funding for the county and municipal aid program by 1%, but does not approve of the formula for allocating the reduction, it could adopt a different method. One alternative would be to reduce payments to all counties and municipalities by 1%. Like the uniform 1% reduction applied to most state programs, this alternative would adhere to the principal that all recipients are subject to a uniform, proportional reduction. For purposes of comparison, the City of Middleton would have a payment reduction of \$3,170 under this alternative, versus an estimated \$37,079 under the bill. [Alternative B4]

6. Under the 1% uniform reduction alternative, municipalities (or counties) that currently receive relatively high payments would receive a larger reduction on a per capita basis (payment reduction divided by population) than municipalities that currently receive lower payments. Payment reductions for municipalities would range from less than \$0.10 per capita to over \$5.00 per capita and for counties from \$0.01 per capita to over \$1.00 per capita. Some may support this disparity on the grounds that those municipalities (or counties) that would receive the highest per capita payment reductions currently receive payments that, on a per capita basis, are much higher than municipalities that would receive lower per capita reductions. For instance, those

municipalities that would receive per capita reductions above \$5.00 currently receive payments that exceed \$500 per capita, while municipalities that would receive per capita payment reductions of less than \$0.10 currently receive payments that are less than \$10 per capita.

7. Another alternative would be to make payment reductions on an equal per capita basis, similar to aid reductions made in 2004. Under an equal per capita reduction alternative, each recipient's reduction would be equal to its population times a constant reduction factor. If total reductions, like the reductions under the bill, are limited to 15% of prior year payments, the per capita reduction factor for municipalities would be \$1.23, while the reduction factor for counties would be \$0.28 (based on 2008 estimated population). To illustrate, the City of Middleton's payment reduction would be calculated by multiplying its population (16,960) by the reduction factor for municipalities (\$1.23), which equals \$20,861. In general, reductions for local governments that are less than 1.0% under the bill would be slightly higher under this alternative, and somewhat lower for local governments that would receive a reduction of between 10% and 15% under the bill. The City of Middleton's payment reduction, for instance, would be 6.6% of its payment under this alternative, versus 12.0% under the bill. [Alternative B3]

8. The disparity among the percentage reductions for individual local governments under the bill can perhaps be best understood in light of the relationship between property values and payments under the county and municipal aid program. The county and municipal aid program distributes the funding that was formerly distributed under the aidable revenues, per capita, and minimum guarantee/maximum growth components of the shared revenue program. The formulas for those components have been frozen since the 2001 payments, with only non-formula adjustments until the 2004 payments, when the county and municipal aid program was created with a "permanently frozen" formula. But despite the suspension of the shared revenue formula, the county and municipal aid program's distribution retains the general characteristics of the former program.

9. The bulk of the funding in the shared revenue program was distributed under the aidable revenues component, which was intended to provide higher payments for local governments with low per capita property values (total value divided by population). Local governments with comparatively higher property values received payments only under the per capita component of the program (based entirely on population, not property values), but these payments were much less in comparison to the aidable revenue component payments. Consequently, high property value municipalities and counties received comparatively small shared revenue payments and relied more heavily on their local property tax levies and other local-source revenues, a pattern that continues with the county and municipal aid program.

10. To illustrate the relationship between property values, county and municipal aid program payments, and the reductions under the bill, it may be helpful to consider a comparison of local governments of similar population, but that differ in per capita property values. For instance, the City of Middleton and the City of Menasha had similar 2008 populations (16,960 for Middleton versus 17,408 for Menasha). However, since Middleton's total 2008 property value was about 2.6 times higher than Menasha's (\$2.73 billion versus \$1.04 billion), Middleton's per capita value was

also comparably higher. Specifically, Middleton had a 2008 per capita value of \$161,110 compared to Menasha's per capita value of \$59,697.

11. As can be expected from a payment reduction formula based primarily on property values, the City of Middleton's aid reduction under the bill, in absolute terms, would be greater than the City of Menasha's aid reduction, in roughly the same proportion as the difference in property values. That is, Middleton's aid payment would be reduced by \$37,908, which is about 2.5 times higher than Menasha's reduction of \$14,953. However, the difference in terms of the percentage of prior year aid payments is larger because Menasha's current county and municipal aid payment is much larger. As noted above, Middleton's payment reduction would be 12.0% of its 2009 payment of \$317,022, while Menasha's payment reduction would be just 0.4% of its 2009 payment of \$3,591,792. In other words, absolute payment reductions under the bill would be mostly proportional to property values, but the disparity in percentage reductions is influenced to a greater degree by the differences in current law aid payments.

12. Some may maintain that the larger percentage reduction for local governments with higher per capita property values is justified on the basis that they hold a significant fiscal advantage in providing local government functions, even though they receive relatively small payments under the county and municipal aid program. To illustrate, if both Middleton and Menasha established a property tax rate of five mills on their full value (excluding value in TIF districts for illustrative purposes), Middleton would generate a levy of \$12,490,500, while Menasha would generate \$4,884,800, a difference of \$7,605,700. Menasha's aid payment is higher than Middleton's payment by \$3,274,700, but this makes up just 43% of the tax levy difference.

13. To get a more generalized understanding of the impacts of the bill, the following two tables provide information for all municipalities (Table 1) and counties (Table 2), grouped according to relative per capita property values. Each row in Table 1 represents one-tenth of the 1,851 towns, villages, and cities in the state (ten "deciles"), ranked by per capita property value. That is, the first decile includes the 10% of municipalities with the lowest per capita values, the second decile has per capita values ranking from just above the 10th percentile to the 20th percentile, and so on. Table 2 shows counties in five groups ("quintiles"), since they are fewer in number. For each of these groupings, the tables show the median per capita property value, the median current law per capita aid payment under the county and municipal aid program, and the median payment reductions under the bill and under an alternative that would distribute the reductions based entirely on a per capita basis (as described in Point #7). [Under the alternative described under Point #5, all aid reductions would be 1%, and, therefore, are not shown in the tables.]

TABLE 1

**Per Capita Property Values, 2009 Aid Payments, and Estimated Aid Payment Reductions
Ranked by Property Value Deciles for Municipalities**

| <u>Decile</u> | <u>Median Property Value Per Capita</u> | <u>Median Aid Payment Per Capita</u> | <u>Median Payment Reduction Under The Bill</u> | <u>Median Payment Reduction Under Per Capita Alternative</u> |
|---------------|---|--|--|--|
| 1st | \$39,769 | \$266 | 0.2% | 0.5% |
| 2nd | 52,141 | 181 | 0.4 | 0.7 |
| 3rd | 61,164 | 92 | 0.9 | 1.3 |
| 4th | 68,577 | 63 | 1.6 | 2.0 |
| 5th | 75,588 | 49 | 2.2 | 2.5 |
| 6th | 83,428 | 44 | 2.7 | 2.8 |
| 7th | 94,165 | 30 | 4.4 | 4.1 |
| 8th | 109,934 | 21 | 7.2 | 5.7 |
| 9th | 138,671 | 20 | 9.8 | 6.2 |
| 10th | 241,411 | 20 | 15.0 | 6.2 |

TABLE 2

**Per Capita Property Values, 2009 Aid Payments, and Estimated Aid Payment Reductions
Ranked by Property Value Quintiles for Counties**

| <u>Quintile</u> | <u>Median Property Value Per Capita</u> | <u>Median Aid Payment Per Capita</u> | <u>Median Payment Reduction Under The Bill</u> | <u>Median Payment Reduction Under Per Capita Alternative</u> |
|-----------------|---|--|--|--|
| 1st | \$61,742 | \$58 | 0.4% | 0.5% |
| 2nd | 71,750 | 35 | 0.7 | 0.8 |
| 3rd | 78,618 | 35 | 0.8 | 0.8 |
| 4th | 102,871 | 13 | 2.5 | 2.1 |
| 5th | 151,824 | 3 | 15.0 | 11.0 |

14. As these tables show, current aid payments are highest for those counties and municipalities with the lowest per capita property values. The percentage aid reductions would be lowest for these local governments under both the bill and a per capita reduction alternative, although the disparity between the extremes would be less under the alternative, particularly for municipalities.

15. The following table shows the total reduction in municipal payments (dollar amount and percentage) by type of municipality (town, village, or city) under the bill, and under the per capita reduction and 1% uniform reduction alternatives. As this table shows, cities generally have lower percentage reductions under the bill than towns and villages. There is variability within each category of municipality, but the differences between categories reflect certain general patterns. On

average, cities have lower per capita property values, and, therefore, have historically relied more heavily on the shared revenue and county and municipal aid programs to supplement their property tax levy or other own-source revenues.

| | <u>Governor</u> | | <u>Per Capita Reduction</u> | | <u>Uniform 1% Reduction</u> | |
|----------|-------------------|-------------------|-----------------------------|-------------------|-----------------------------|-------------------|
| | <u>Amount</u> | <u>Percentage</u> | <u>Amount</u> | <u>Percentage</u> | <u>Amount</u> | <u>Percentage</u> |
| Towns | -\$2,523,857 | -4.4% | -\$2,087,971 | -3.7% | -\$565,308 | -1.0% |
| Villages | -1,116,586 | -1.6 | -1,046,159 | -1.5 | -705,129 | -1.0 |
| Cities | <u>-3,339,816</u> | <u>-0.6</u> | <u>-3,846,128</u> | <u>-0.7</u> | <u>-5,709,822</u> | <u>-1.0</u> |
| Total | -\$6,980,259 | -1.0% | -\$6,980,259 | -1.0% | -\$6,980,259 | -1.0% |

16. Payments under the county and municipal aid program are made primarily from the county and municipal aid account, a statutorily designated account within the general fund. However, a portion of the total payment for some individual counties and municipalities is made from the medical assistance program in the form of reimbursements for expenses incurred for transportation for the medical care provided under that program. The effect of this provision is to increase total county and municipal aid payments over the amount in the county and municipal aid account by \$5,000,000, which is the amount of the medical assistance payments. The payment reduction provisions in the bill would be based on the aid payments made from the county and municipal aid account, excluding the medical assistance supplements. Excluding these supplements does not substantially affect the overall reduction calculations since the supplements make up a small portion of the total payments (0.6%). However, since only some counties and municipalities have a portion of their payments composed of these supplements, and this portion may change from year to year, the exclusion of the supplements complicates the calculation of the 15% maximum payment reduction for individual local governments. To create a consistent standard for making these calculations for all local governments, the bill could be amended to specify that the 15% maximum reduction calculation be based on total county and municipal aid program payments. [Alternative B2]

17. Although the county and municipal aid program is one of many state programs that would be cut by 1% under the bill, some local governments have argued that the program is already funded below the level provided in the past, and that it would be unfair to apply the same reduction as would be applied to other programs that have seen steady funding increases over the past decade. Unlike many other large general fund programs, funding for general aid for counties and municipalities has fallen or remained steady for the past several biennia. The following table shows the general fund amounts for the largest five programs in 1998-99 (broad groupings), the funding for those programs in 2008-09, and the percentage change. The "shared revenue" category is composed mostly of the county and municipal aid program (or its predecessor in 1998-99), but also includes utility aid, expenditure restraint, and the county mandate relief and small municipalities shared revenue programs (the latter two were eliminated in 2004).

**State Funding for Five Largest General Fund Programs,
1998-99 and 2008-09 (\$ in Millions)**

| <u>Program</u> | <u>1998-99</u> | <u>2008-09</u> | <u>Percent Change</u> |
|------------------------------|----------------|----------------|-----------------------|
| School Aids | \$3,959.5 | \$5,409.2 | 36.6% |
| Shared Revenue | 1,008.6 | 952.5 | -5.6 |
| Medical Assistance | 927.8 | 1,977.7* | 113.2 |
| University of Wisconsin | 903.6 | 1,164.2 | 28.8 |
| Corrections-Related Programs | 634.2 | 1,154.3 | 82.0 |

* Includes GPR appropriations plus all moneys budgeted from the MA trust fund that substitute for general fund revenues.

18. As the previous table shows, total funding for the shared revenue programs has decreased over this period, whereas other large programs have grown. Adjusted for inflation, the real level of funding for the program has fallen by nearly 28%. This reduction affects all local governments, but given the distribution of funds under the program, would have the greatest impact on those with lower per capita property values that rely more heavily on state aid.

ALTERNATIVES

A. 2010 County and Municipal Aid Funding Level

1. Approve the Governor's recommendation to reduce 2010 county and municipal aid payments by \$8,547,000 and to maintain this lower funding level in 2011 and thereafter.
2. Delete provision.

| | |
|---------------|-----------------------------------|
| ALT A2 | Change to Bill Funding |
| GPR | \$8,547,000 |

B. Payment Reduction Mechanism

1. Approve the Governor's recommendation to reduce 2010 payments to individual municipalities and counties based on their proportionate share of statewide property values, with a maximum reduction of 15% of the prior year payment from the county and municipal aid account, funded with an additional reduction made on a per capita basis. Specify that payments to individual counties and municipalities in 2011 and thereafter would remain at their 2010 amounts.
2. Modify the Governor's recommendation by specifying that the 15% maximum payment reduction would be calculated using each local government's total prior year payment, instead of the portion of the payment made from the county and municipal aid account.

3. Modify the Governor's recommendation by specifying that the payment reductions for individual municipalities and counties would be calculated using uniform per capita reduction factors (one for municipalities and one for counties), with a 15% maximum reduction calculated using each local government's total prior year payment.

4. Modify the Governor's recommendation by specifying that the payment reductions for individual municipalities and counties would be calculated using a uniform percentage for all local governments of total prior year payments.

5. Delete provision.

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