



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #595

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

[LFB 2011-13 Budget Summary: Page 396, #2]

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. Since the creation of the program, payments to individual local governments have generally been based upon the amount received in the previous year, effectively freezing the old shared revenue distributional formulas. However, overall aid reductions were made in 2004 and in 2010, resulting in aid reductions from the final, formula-based distribution. For calendar year 2011, payments will total \$678.1 million for municipalities and \$151.7 million for counties, for a combined total of \$829.8 million.

Payments are made on a calendar year basis, in July and November. Consequently, for instance, the 2011 calendar year payments will be made in fiscal year 2011-12, the first year of the 2011-13 biennium.

GOVERNOR

Reduce funding by \$96,000,000 GPR in 2012-13 for making 2012 payments under the county and municipal aid program, a reduction of 11.6% relative to total 2011 payments. Specify that, of this amount, payments to municipalities (towns, villages, and cities) would be reduced by \$59,500,000 and payments to counties would be reduced by \$36,500,000.

Specify that aid payments to individual counties and municipalities in 2013 and thereafter would be equal to the reduced amount each county and municipality would receive in 2012.

County Aid Reduction Formula

For each county, the aid payment reduction is calculated by multiplying a per capita formula constant by the county's population. This reduction is subject to a maximum reduction factor, which is equal to the lesser of 50% of the county's 2011 county and municipal aid payment or -\$0.15 multiplied by each \$1,000 of the county's equalized value. The formula constant is established at a level such that the total reduction for all counties equals \$36,500,000. Based on 2010 Census population and equalized value data, the formula constant would be approximately -\$8.78 per capita.

Municipal Aid Reduction Formula

For the purpose of determining aid reductions to individual municipalities, the bill would establish five tiers, based on the following population ranges: (a) less than 2,500; (b) equal to or greater than 2,500, but no greater than 10,000; (c) greater than 10,000, but no greater than 50,000; (d) greater than 50,000, but no greater than 110,000; and (e) greater than 110,000.

For each municipality, the aid reduction formula, with certain exceptions, consists of two components, one based upon population and the other based on equalized property value. The final aid adjustments are also constrained by a maximum reduction factor that limits the aid loss to the lesser of either 50% of the municipality's 2011 aid payment or an amount based on equalized property value. These three components of the formula are described below.

Population-Based Aid Reduction

The population-based reduction factor is determined by multiplying population by a per capita formula constant and then multiplying the result by a coefficient index. The per capita formula constant is established at a level such that the total reduction from all municipalities equals \$59,500,000. Using 2010 equalized value and Census population data, that formula constant is approximately -\$9.58 per capita. The coefficient index ranges from 0 to 1, depending upon where an individual municipality's population falls within the population range of its tier. That is, for municipalities at the bottom of the range for their tier, the coefficient would approach 0, for those in the middle of the range, it would be around 0.5, and for those at the top of the range, it would approach 1. Consequently, the total population-based reduction (formula constant X coefficient index) will range from \$0 to -\$9.58 per capita. The exception to this formula is that the coefficient is 1 for all municipalities in the top tier (the cities of Madison and Milwaukee), so the aid reduction under this component for those municipalities would be -\$9.58 per capita.

The specific formula for determining the population reduction component is as follows:

[Municipal Population (P)] multiplied by [Formula Constant (-\$9.58)] multiplied by [Coefficient Index], where the Coefficient Index is established as follows:

<u>Population Tier</u>	<u>Coefficient Index</u>
< 2,500	$\frac{P}{2,500}$
2,500 to 10,000	$\frac{P - 2,500}{7,500}$
10,000 to 50,000	$\frac{P - 10,000}{40,000}$
50,000 to 110,000	$\frac{P - 50,000}{60,000}$
> 110,000	1

Property Value-Based Aid Reduction

Under the property value-based aid reduction formula component, a mill rate reduction factor, which differs for each population tier, is multiplied by the municipality's equalized value. The resulting reduction is added to the population-based reduction component. For municipalities in the smallest population tier (population under 2,500), there is no property value-based reduction component (in effect, a mill rate reduction factor of \$0.00).

The specific formula for determining the property value-based aid reduction is as follows:

[Each \$1,000 of Equalized Value] multiplied by [Mill Rate Reduction Factor], where the Mill Rate Reduction Factor is established as follows:

<u>Population Tier</u>	<u>Mill Rate Reduction Factor</u>
< 2,500	\$0.00
2,500 to 10,000	-0.10
10,000 to 50,000	-0.15
50,000 to 110,000	-0.25
> 110,000	-0.30

Maximum Reduction Limits

The aid reduction for each municipality is limited to the lesser of 50% of the municipality's 2011 county and municipal aid payment or a maximum property value-based aid reduction, which differs by tier.

The formula for determining the maximum aid reduction is as follows:

Lesser of: [50% of 2011 Aid Payment] or [(Each \$1,000 of Equalized Value) multiplied by (Maximum Reduction Mill Rate Factor)], where the Maximum Reduction Mill Rate Factor is established as follows:

<u>Population Tier</u>	<u>Maximum Reduction Mill Rate Factor</u>
< 2,500	-\$0.10
2,500 to 10,000	-0.15
10,000 to 50,000	-0.25
50,000 to 110,000	-0.30
> 110,000	-0.35

DISCUSSION POINTS

1. The bill would reduce total 2012 aid payments under the county and municipal aid program by \$96,000,000, relative to 2011 aid payments. Of this amount, \$59,500,000 would be taken from payments made to municipalities, an 8.8% reduction, while \$36,500,000 would be taken from payments made to counties, a 24.1% reduction.

2. In general terms, the aid reductions for both counties and municipalities are based on population and equalized property values. For municipalities, the property value-based reductions are higher for municipalities with a larger population. For instance, the property value component of the reduction is equal to \$0.10 for every \$1,000 of equalized value (or 0.01% of total value) for a municipality with a population between 2,500 and 10,000, but is equal to \$0.25 for every \$1,000 of equalized value (0.025% of total value) for a municipality with a population between 50,000 and 110,000. The reductions for both municipalities and counties are subject to a maximum reduction factor, which limits the aid reduction to the lesser of 50% of the 2011 aid payment, or a property value-based factor, which, for municipalities, varies depending upon the population of the community. For an illustration of the calculation for a county and several municipalities, see the attachment.

3. The next two tables summarize the estimated aid reductions by type of government (town, village, city, or county) and, for municipalities, by population category (using the population tiers established by the bill's formula). Since the highest municipal population tier (greater than 110,000) has just two municipalities (the cities of Milwaukee and Madison), and since these two

cities differ considerably with respect to the aid reduction, they are shown separately. The average reductions for each category are expressed in three ways: (a) as a percent of the 2011 aid payment; (b) on a per capita basis (dollar reduction divided by population); and (c) as a share of equalized value (dollar reduction divided by each \$1,000 of property value). [Conceptually, this last measure represents the amount that local governments would have to increase the mill rate to replace the aid reduction, holding taxable value constant.]

**Measures of Estimated Reduction by Government Type,
SB 27/AB 40**

<u>Type of Government</u>	Reduction Expressed as		
	<u>Percent of 2011 Payment</u>	<u>Per Capita</u>	<u>Per \$1,000 of Equalized Value</u>
Towns	-19.0%	-\$5.78	-\$0.051
Villages	-10.6	-8.18	-0.087
Cities	-7.6	-13.55	-0.190
All Municipalities	-8.8%	-\$10.46	-\$0.120
All Counties	-24.1%	-\$6.42	-\$0.074

**Measures of Estimated Reduction by Population Tier,
SB 27/AB 40**

<u>Population Tier</u>	Reduction Expressed as		
	<u>Percent of 2011 Payment</u>	<u>Per Capita</u>	<u>Per \$1,000 of Equalized Value</u>
< 2,500	-5.9%	-\$4.45	-\$0.042
2,500 to 10,000	-11.3	-8.57	-0.089
10,000 to 50,000	-12.2	-10.87	-0.122
50,000 to 110,000	-11.4	-17.21	-0.272
> 110,000			
City of Milwaukee	-4.5	-17.37	-0.350
City of Madison	-50.0	-13.62	-0.143

4. The previous tables show some broad patterns for how the proposed reduction formula affects municipalities. In particular, because the property value-based reduction factors are higher for larger municipalities, the reductions for municipalities in the larger population tiers are larger, on a per capita basis and as expressed in terms of equalized value.

5. Although these tables may illustrate some general patterns, caution should be used in interpreting the averages for municipal groupings, since there can be considerable variation within each group. On March 15, this office distributed a memorandum titled "Distribution of County and Municipal Aid Under the Governor's 2011-13 Budget" to all legislators showing estimates of the reductions to individual municipalities and counties under the bill. In addition to providing an estimate of the reduction for each unit of local government, the printout expressed the reduction for each county and municipality using the three different measures used in the tables above.

6. A second analysis prepared by this office, titled "Taxes and State Aid Payments for Counties and Municipalities" was distributed on May 2, 2011. This analysis included both taxes levied by counties and municipalities and the major state aid payments that they receive. Compared to the distributional pattern of reductions under individual aid programs, the overall reductions under the bill are more closely grouped. This analysis shows that, under the bill, all three types of municipal government would have an average reduction in their combined taxes plus aid payments of about 3% (-3.1% for towns, -3.0% for villages, and -3.4% for cities), while the average county reduction is estimated at 2.4%.

7. To illustrate the variability between local governments, as well as other aspects of the proposed aid reduction formula, the following table compares data for two cities (Marinette and Verona) that have similar populations, but that vary considerably on key characteristics related to municipal finance.

	<u>City of Marinette</u>	<u>City of Verona</u>
2010 Population	10,968	10,619
2010 Equalized Value	\$597,053,400	\$1,527,783,100
2011 Aid Payment	\$4,601,295	\$146,606
Estimated Aid Reduction	-\$92,101	-\$73,303
As a % of Payment	-2.0%	-50.0%
Per Capita	-\$8.40	-\$6.90
Per \$1,000 of Eq. Value	-\$0.154	-\$0.048

8. One notable difference between these two cities is the amount of aid currently received (\$4,601,295 versus \$146,606). On a per capita basis, the City of Marinette receives \$420, while the City of Verona receives \$14. Statewide, 176 municipalities have a per capita aid payment below \$15, while 33 have a per capita payment over \$400. Among counties, nine have a per capita payment of under \$3, while two have a per capita payment over \$100.

9. The differences between municipalities in the amount of aid currently received, like the two shown in the table above, are generally a reflection of differences in the distributional patterns of the components of the old shared revenue program upon which the county and municipal aid program distribution was based when it was created in 2004. In particular, the aidable revenues

component of that formula, which accounted for the bulk of total payments, distributed aid on the basis of per capita property values and local revenues. Since the City of Marinette had (and still has) below-average per capita property values, it received an aidable revenues payment exceeding \$393 per capita under that formula component, prior to the suspension of the formula. The City of Verona, by contrast, had (and has) per capita property values that are above the statewide average, so it received no aid under that component. The City of Verona received aid only under the per capita component, which was about \$27 per resident prior to the suspension of the formula.

10. As this example illustrates, although the aidable revenue component of the shared revenue formula is no longer operative, the current aid entitlements under the county and municipal aid program often still reflect the equalizing nature of that former formula. It should be noted, however, that municipalities have changed in both population and property values since the suspension of the shared revenue formulas, and these changes have not been taken into account with the current aid allocations. For instance, the population of the City of Verona has grown by 49% since 2001, while the population of the City of Marinette has fallen by 9%. [These diverging population changes are also a contributing factor in the current differences in per capita aid payments.]

11. It should also be noted that, while the county and municipal aid program distribution has some equalizing characteristics of the old aidable revenues formula, it does not fully equalize per capita property value disparities. That is, although a city like Marinette receives significantly more aid than a city like Verona, the difference in state aid does not necessarily make up for disparities in property values. To illustrate, if both cities had a property tax rate of 7.7 mills (the approximate statewide average for cities), the City of Verona would generate a levy of \$11.8 million, while the City of Marinette would generate a levy of \$4.6 million, a difference of \$7.2 million. The difference in the two cities' aid payments is \$4.5 million. Consequently, in this particular example, the aid payment Marinette receives is not sufficient to make up the difference in the fiscal capacity between the two cities.

12. Another notable difference between the two cities is the estimated aid payment reduction under the bill, as expressed as a percentage of 2011 aid payments. As shown in the table, the City of Verona's aid would be reduced by 50%, the maximum reduction allowed under the bill, while the City of Marinette's aid would be reduced by 2%. However, the City of Marinette's aid reduction is \$18,798 more than the City of Verona's aid reduction (-\$92,101 versus -\$73,303). That is, in terms of the budget impact that the proposed aid reduction formula would have on municipalities, the City of Marinette would have to absorb a larger cut than the City of Verona. Likewise, if each city were to increase its levy to make up the difference, the City of Marinette would have to increase its tax rate by over three times as much as the City of Verona. Because of the levy limit provisions in the bill, such an increase may require the passage of a referendum. Given the disparity in the tax rates needed to make up this difference, it may be more difficult for such a referendum to pass in a city like Marinette than in a city like Verona.

13. The Department of Administration indicates that the proposed formula for allocating aid reductions was designed to generally match aid reductions with the potential for realizing

savings from payroll reductions associated with the employee pension and health insurance contribution requirements included in 2011 Act 10. For municipalities, the aid reductions would be larger (as a percentage of equalized value) for those with a greater population, in recognition that larger municipalities typically have a larger employee payroll base from which to generate payroll reductions. Reductions for all governments were based generally on property values in order to take into consideration the fiscal capacity of each community. That is, for those local governments that choose to increase their levy to replace the aid loss (which could require the passage of a referendum), the amount of that increase would be limited by the mill rate maximum factors specified in the formula. The Department indicates that county aid payments were reduced by a greater percentage than for municipalities because aid payments under the program generally make up a smaller proportion of county budgets.

14. The general principle behind the administration's approach to the aid reduction was that, despite aid reductions, changes to the current level of local government services could be minimized because the changes to employee compensation and union collective bargaining rights included in Act 10 will allow local governments to maintain services by lowering employee compensation costs. Several criticisms have been raised concerning this claim, as well as, more generally, of the current aid policy. Some of these criticisms, expressed in public testimony before the Committee as well as in other venues, are summarized in the following points:

- A significant portion of the payroll reductions resulting from the Act 10 changes may occur in separately-funded enterprises (such as a municipal water utility), as opposed to local government general fund functions. Consequently, whereas the aid reductions affect the local government's general fund, not all payroll reductions accrue to that part of the local budget.
- Although larger municipalities generally receive greater reductions, on a property value basis, very small municipalities also receive aid reductions. Since many municipalities in the smallest tier have few employees and those they have are often not participating in the Wisconsin Retirement System, these small municipalities have little capacity to absorb an aid reduction without an impact on municipal services.
- Local governments differ in their current employee compensation policies, which may make it more difficult for some than others to absorb aid reductions through the payroll reductions, as specified under Act 10. That is, some provide employee fringe benefit packages that already require the Act 10 minimum level of employee contributions for pension and health care plans. Others, because of local labor market conditions, may find it necessary to increase employee wages to compensate for the Act 10 fringe benefit contribution requirements, partially or fully offsetting the fringe benefit savings.
- Some local governments have current contracts with employee unions that preclude realizing the payroll savings associated with Act 10. For these local governments, service reductions may be the only choice for absorbing the aid reduction.
- Some municipalities, in response to the levy limits and aid reductions enacted over

the past several years, may have initiated efficiency measures to reduce costs, putting them at a relative disadvantage in absorbing additional, proposed aid reductions compared to other municipalities that have not taken these measures. For instance, some municipalities may have already entered into service agreements with other municipalities to achieve savings. For those municipalities, achieving additional savings may be more difficult.

- Since the property value- and population-based aid formulas that were originally used to distribute the shared revenue payments have essentially been frozen for a decade, the changes in these formula factors occurring in the intervening years have not been taken into account in the state's aid policy. Consequently, the existing distribution contains numerous distortions that many judge as unfair. Any attempt to apply a formula-based reduction to the existing distribution, therefore, also is seen as unfair.
- Similar to the previous point, many view the current disparities in per capita aid payments between municipalities as unfair, and may judge the proposed formula reductions as inadequate in addressing these discrepancies. By contrast, local governments with low per capita property values may note that the program is already inadequate to equalize some discrepancies in local governments' fiscal capacities, and additional reductions, however allocated, will exacerbate that inadequacy.

15. Many of the criticisms outlined above relate to the variations among local governments in both aid payments and fiscal capacity. Local budgets also differ with respect to the preferences of their residents regarding the level of services provided, as well as the cost of providing services. It would be difficult, if not impossible, to craft an aid formula that satisfactorily addresses concerns for all parties. In some cases, service reductions will result from the reduction in aid, regardless of how those reductions are allocated.

16. On April 6, 2011, the League of Wisconsin Municipalities released an analysis based on a survey of 35 large municipalities that found estimated expenditure reductions would not completely offset those municipalities' estimated state aid reductions. The League found that not all of the expenditure reductions estimated by the Governor from employee retirement and health insurance contributions would be realized because some municipalities had previously negotiated contributions and because contributions from municipal utility employees accrue to enterprise funds rather than the municipality's general fund. The League estimated that the expenditure reductions cover only 61% of the estimated aid loss, but the League analysis includes recycling grants. If those grants are excluded, the percentage would increase to 73%.

17. At the request of this office, the Wisconsin Counties Association contacted its members and asked them to conduct an analysis similar to the municipal analysis. Like the municipalities, most of the 19 counties that responded indicated that they would not be able to achieve the same level of expenditure reductions from employee retirement and health insurance contributions that the Governor projected. Reductions may not be realized because employees already contribute to their retirement or health insurance benefits or because existing contracts "lock in" employer-employee contribution levels through 2012. Most counties included a variety of aid

programs in their analysis, and based on that data, 13 of the 19 counties project that some portion of their aid reduction would be unfunded. The unfunded portion of these counties' aid reductions range from 1% to 75%. However, if the aid reductions are limited to county and municipal aid, general transportation aid, court-related aid programs, youth aids, and child support aids, seven of the 18 counties would have some portion of their aid reduction unfunded, and the percentage of unfunded aid reductions range from 2% to 64%. Finally, if the aid reductions are limited to county and municipal aid and general transportation aid, only three of the 18 counties would have a portion of their aid reductions unfunded, and the percentage of unfunded aid would range from 18% to 58%.

18. The Committee, in earlier action, voted to establish a permanent local property tax levy limit that would generally hold local levies to a level that, without growth in new construction or the passage of a referendum to exceed the limit, would be below the general rate of inflation in most years. Consequently, many local governments may be required to either reduce services on an ongoing, year-to-year basis, or else seek ways to deliver services at a lower cost, including by requiring additional employee contributions to fringe benefit costs to lower payroll. As noted above in the comparison of the cities of Marinette and Verona, the passage of a referendum, if required, to replace lost aid could be more difficult for counties and municipalities with lower property values, since it would generally require a larger tax rate increase. In the context of the proposed levy limit provision, some may argue that the Governor's proposed aid reduction should be reduced or deleted [Alternatives #A4 or #A5].

19. Instead of, or in addition to, changes in the funding level for the county and municipal aid program, the formula for allocating the reductions could be changed. Some of these alternatives are discussed in the following points.

20. When the county and municipal aid program was created in 2004, aid payments to individual local governments were initially based on the amount that each received under a portion of the old shared revenue program. However, since the total amount distributed was \$90 million less than the sum of these 2003 payments, individual payments were reduced, generally on a per capita basis (with certain maximum reduction limits). Between 2005 and 2009, each local government received a payment equal to the payment that it received in 2004. Then in 2010, the total amount of aid distributed was again reduced, this time by \$29.9 million. In this case, reductions were allocated primarily in proportion to each local government's share of statewide equalized property values, although a per capita component and maximum reduction factor were also used.

21. If the Committee approves the Governor's proposal to reduce funding for the county and municipal aid program, the Committee could adopt various alternative methods for allocating the reductions. As noted above, the bill would generally impose greater aid reductions for the larger municipalities, on the grounds that they have larger payrolls from which to absorb the reductions. Some may make the case, however, that larger municipalities face challenges that smaller municipalities do not and, therefore, it should not be assumed that they can as easily absorb the reductions. As alternatives to the bill's aid reduction formula, the general approach utilized in 2004 (per capita) or 2009 (proportional share of property value) could be used for municipalities. In

neither case did these formulas create distinctions based on municipal size. [Neither approach would yield a significantly different result from the bill for counties, so these alternatives are discussed only for municipalities.]

22. The following table shows the average reductions under a per capita reduction formula, with a 50% maximum reduction limit [Alternative #B2], using the same measures shown in the tables under Point #3. Because of the maximum reduction limit, this approach would not result in the same per capita reduction for all municipalities, but the average per capita reduction is more uniform across categories. This approach would result in a larger reduction, measured as a percentage of 2011 payments, than under the bill for towns and smaller municipalities in general, although as a share of property value, the reduction would still be larger for cities and larger municipalities.

Measures of Estimated Reduction by Government Type, Per Capita Reduction Formula

<u>Type of Government</u>	Reduction Expressed as		
	<u>Percent of 2011 Payment</u>	<u>Per Capita</u>	<u>Per \$1,000 of Equalized Value</u>
Towns	-31.1%	-\$9.44	-\$0.083
Villages	-13.2	-10.20	-0.109
Cities	-6.2	-11.07	-0.155
All Municipalities	-8.8%	-\$10.46	-\$0.120

Measures of Estimated Reduction by Population Tier, Per Capita Reduction Formula

<u>Population Tier</u>	Reduction Expressed as		
	<u>Percent of 2011 Payment</u>	<u>Per Capita</u>	<u>Per \$1,000 of Equalized Value</u>
< 2,500	-13.8%	-\$10.44	-\$0.100
2,500 to 10,000	-12.8	-9.75	-0.101
10,000 to 50,000	-11.3	-10.08	-0.113
50,000 to 110,000	-7.6	-10.42	-0.181
> 110,000			
City of Milwaukee	-3.0	-11.42	-0.230
City of Madison	-41.9	-11.42	-0.120

23. The following table shows the same information as the previous tables for a formula,

similar to the one used to allocate reductions in 2010, based on each municipality's proportionate share of property values, with a per capita factor to make residual reductions to limit reductions to 50% of the 2011 aid payment [Alternative #B3]. As shown, the overall pattern of aid reductions under this formula is similar to that under the per capita reduction formula shown above, although there will be significant variations for individual municipalities.

Measures of Estimated Reduction by Government Type, Proportional Property Value Formula

<u>Type of Government</u>	Reduction Expressed as		
	<u>Percent of 2011 Payment</u>	<u>Per Capita</u>	<u>Per \$1,000 of Equalized Value</u>
Towns	-32.7%	-\$9.93	-\$0.087
Villages	-13.6	-10.50	-0.112
Cities	-6.0	-10.73	-0.150
All Municipalities	-8.8%	-\$10.46	-\$0.120

Measures of Estimated Reduction by Population Tier, Proportional Property Value Formula

<u>Population Tier</u>	Reduction Expressed as		
	<u>Percent of 2011 Payment</u>	<u>Per Capita</u>	<u>Per \$1,000 of Equalized Value</u>
< 2,500	-14.2%	-\$10.77	-\$0.103
2,500 to 10,000	-13.0	-9.89	-0.103
10,000 to 50,000	-11.5	-10.23	-0.114
50,000 to 110,000	-7.3	-11.06	-0.175
> 110,000			
City of Milwaukee	-2.5	-9.58	-0.193
City of Madison	-50.0	-13.62	-0.143

24. In general, the municipalities that would fare better under the two alternative reduction formulas outlined in the previous two points, compared to the bill's formula, have lower per capita property values than those municipalities that would fare worse. For instance, the (weighted) average of per capita property values for those that would fare better under the formula described in the previous point is \$59,147, whereas the average per capita property value of municipalities that would fare worse is \$85,787.

25. Another approach to modifying the reduction allocation formula would be to change the maximum reduction factor, a change that could be applied to the bill's reduction allocation formula or any of the alternative formulas described above. Under the bill, the aid reduction for each local government would be limited to the lesser of 50% of its 2011 aid payment, or a property value-based factor (\$0.15 for each \$1,000 of equalized value for counties, and ranging from \$0.10 to \$0.35 for each \$1,000 of equalized value, depending upon population tier, for municipalities). Some concerns have been raised regarding the 50% maximum reduction factor, on the grounds that many local governments that would stand to lose one-half of their current aid already are receiving the smallest aid payments, on a per capita basis. Establishing a lower maximum reduction percentage could be done either by reallocating the change among other local governments through the formula to maintain the same overall reduction, or by providing additional funding for the program to maintain the same aid reduction for local governments not subject to the maximum. The following table shows the amounts that would have to be reallocated (or new funding provided) to establish a different maximum reduction percentage for municipalities and counties [Alternative #A2 for funding and Alternative #C2 for alternative maximum reduction percentages].

<u>Maximum Aid Reduction</u>	<u>Amount Reallocated/New Funding Provided</u>		
	<u>Municipalities</u>	<u>Counties</u>	<u>Totals</u>
45%	\$1,626,000	\$1,172,900	\$2,798,900
40	3,368,800	2,478,200	5,847,000
35	5,239,700	3,890,600*	9,130,300
30	7,234,400	5,358,200*	12,592,600
25	9,433,400	7,413,400*	16,846,800
20	12,159,500	10,355,200*	22,514,700

*For counties, establishing a maximum percentage reduction at the 35% level or lower could not be done by reallocating funding from other counties, since the sum of the maximum reduction for all counties would be less than the total aid reduction under the bill.

26. A different approach would be to add a third maximum reduction factor to ensure that no municipality or county receives an aid reduction that results in a payment below \$10 per capita for municipalities or below \$5 per capita for counties. Under this approach, municipalities and counties with a current per capita aid payment below those levels would not receive an aid reduction. As with the modifications to the maximum percentage reduction described above, this adjustment could be made by either reallocating the total available aid among other local governments, or additional funds could be provided to make this adjustment. For municipalities, the amount of the reallocation (or additional funds needed to hold others harmless) would be \$2,811,600, and for counties, this amount would be \$2,479,600 [Alternative #A3 for funding and Alternative #C3 for the maximum reduction formula adjustment].

Technical Modifications

27. If the Committee adopts the Governor's recommendation to reduce funding for the

county and municipal aid program and to utilize the specified formula for allocating reductions to individual local governments, a few technical modifications are advisable to correctly reflect the intent of the provision. First, references to 2011 aid payments to individual local governments should be clarified to refer to the total aid payment, rather than the portion of the aid payment made from the county and municipal aid account. Second, provisions related to the reduction formula should be modified to clarify the intent that the 50% maximum payment reduction provision should apply to all municipal tiers.

ALTERNATIVES

A. Funding Level

1. Approve the Governor's recommendation to reduce funding for 2012 aid payments under the county and municipal aid program by \$96,000,000.

2. Modify the Governor's recommendation by providing additional GPR funding, as shown in the table, to make certain modifications to the maximum reduction provisions (under Alternative #C2) to lessen the aid reduction for certain municipalities and counties without imposing additional reductions on other municipalities and counties.

	<u>Maximum Reduction % for Municipalities</u>	<u>Additional Funding</u>
a.	45%	\$1,626,000
b.	40	3,368,800
c.	35	5,239,700
d.	30	7,234,400
e.	25	9,433,400
f.	20	12,159,500

	<u>Maximum Reduction % for Counties</u>	<u>Additional Funding</u>
g.	45%	\$1,172,900
h.	40	2,478,200
i.	35	3,890,600
j.	30	5,358,200
k.	25	7,413,400
l.	20	10,355,200

3. Provide \$5,291,200 in 2012-13 (\$2,811,600 for municipalities and \$2,479,600 for counties) to establish a \$10 and \$5 per capita aid minimum, respectively (Alternative #C3), without

affecting the aid payment for other municipalities and counties.

ALT A3 Change to Bill Funding	
GPR	\$5,291,200

4. Modify the Governor's recommendation by providing additional GPR funding in 2012-13, as shown in the table, to reduce funding for the county and municipal aid program by a specified percentage of the reduction under the bill. Make a proportional adjustment to the mill rate factors in the proposed formula in order to allow payment reductions to individual municipalities to be reduced. [Under this alternative, the aggregate reductions to municipalities and counties would be in proportion to the reductions under the bill, although payment reductions to individual local governments would depend upon the formula approved for making those reductions.]

<u>Percent of Bill Reduction</u>	<u>Additional Funding</u>
a. 75%	\$24,000,000
b. 50	48,000,000
c. 25	72,000,000

5. Delete provision.

ALT A5 Change to Bill Funding	
GPR	\$96,000,000

B. Basic Reduction Allocation Formula

1. Approve the Governor's recommendation to allocate aid reductions to individual municipalities and counties as described in the summary section of this paper. Modify the provision to make a technical modification to the formula to specify that references to 2011 aid payments to individual local governments means the total payment received, instead of the portion of the payment made from the county and municipal aid account.

2. Modify the Governor's recommendation (including the technical modification) by substituting a reduction allocation formula that reduces aid payments to each local government on a per capita basis, subject to a maximum reduction factor (under the "C" alternatives).

3. Modify the Governor's recommendation (including the technical modification) by substituting a reduction allocation formula (similar to the one used for reducing aid payments in

2010) that utilizes a proportionate share of statewide equalized property values, with an additional per capita adjustment to accommodate a maximum reduction factor (under the "C" alternatives).

C. Maximum Reduction Adjustments

1. Approve the Governor's recommendation to establish a maximum aid reduction for individual local governments as the lesser of 50% of their 2011 aid payment, or a property value-based factor, as described in the summary section of this paper. Modify the provision to make a technical modification, clarifying the intent that the 50% maximum reduction provision should apply to all municipal tiers.

2. Modify the Governor's recommendation (including the technical modification) by establishing a modified maximum percentage reduction, as follows:

For Municipalities:

- a. 45%
- b. 40
- c. 35
- d. 30
- e. 25
- f. 20

For Counties:

- g. 45%
- h. 40
- i. 35
- j. 30
- k. 25
- l. 20

3. Modify the Governor's recommendation (including the technical modification) by adding an additional maximum reduction factor, such that no municipality would receive a payment reduction resulting in a per capita payment less than \$10 in 2012 and no county would receive a payment reduction resulting in a per capita payment less than \$5 in 2012.

Prepared by: Jon Dyck
Attachment

ATTACHMENT

Sample Calculations for Counties and Municipalities

This attachment provides sample calculations for counties and municipalities, to illustrate the use of the bill's aid reduction formulas. The first example shows the aid reduction calculation for a county. The next two examples shown are for municipalities for which the maximum reduction factors would limit the total reduction to an amount below what the basic formula would otherwise establish. The last example shows a municipality for which the basic formula reduction is less than the maximum reduction.

Sample Calculation for Grant County

2010 Population:	51,208	County Formula Constant: -\$8.77554
2010 Equalized Value:	\$2,802,563,500	2011 Aid Payment: \$2,360,037
Maximum Reduction Factor:	-\$0.15 per \$1,000 of value	

- *Basic Formula Aid Reduction:*

[$(\text{Population}) \times (\text{Formula Constant}) = \text{Basic Formula Aid Reduction}$]

For Grant County,

$$51,208 \times -\$8.77554 = -\$449,378$$

- *Maximum Reduction Adjustment:*

[$\text{Lesser of } (50\% \text{ of 2011 Aid Payment}) \text{ or } ((\text{Equalized Value}/\$1,000) \times -\$0.15)$]

For Grant County,

$$\begin{aligned} 50\% \text{ of 2011 Aid payment: } & -0.5 \times \$2,306,037 = -\$1,180,019, \text{ or} \\ (\$2,802,563,500/\$1,000) \times -\$0.15 & = -\$420,385 \end{aligned}$$

Since -\$420,385 is the lesser amount, this is the maximum aid reduction.

- *Final Reduction:*

Since the formula reduction (-\$449,378) exceeds the maximum reduction (-\$420,385), the final aid reduction is -\$420,385.

Sample Calculation for the City of Milwaukee

2010 Census Population:	594,833
2010 Equalized Value:	\$29,520,783,200
2011 Aid Payment:	\$227,275,131

Population Tier Factors (>110,000):

Coefficient Index:	1
Mill Rate Reduction Factor:	-\$0.30 per \$1,000 of value
Maximum Reduction Mill Rate Factor:	-\$0.35 per \$1,000 of value

- *Population-Based Aid Reduction:*

[$(\text{Population}) \times (\text{Formula Constant}) \times (\text{Coefficient Index}) = \text{Population-Based Aid Reduction}$]

For the City of Milwaukee,

$$594,833 \times \$9.57941 \times 1 = -\$5,698,150$$

- *Property Value-Based Aid Reduction:*

[$(\text{Equalized Value}/\$1,000) \times (\text{Mill Rate Reduction Factor}) = \text{Property Value-Based Reduction}$]

For the City of Milwaukee,

$$(\$29,520,783,200/\$1,000) \times -\$0.30 = -\$8,856,235$$

- *Total Reduction (prior to any maximum reduction adjustment):*

[$\text{Population-Based Reduction} + \text{Property Value-Based Reduction}$]

For the City of Milwaukee,

$$(-\$5,698,150) + (-\$8,856,235) = -\$14,554,385$$

- *Maximum Reduction Adjustment:*

[Lesser of (50% of 2011 Aid Payment) or ($(\text{Equalized Value}/\$1,000) \times -\$0.35$)]

For the City of Milwaukee,

$$\begin{aligned} 50\% \text{ of 2011 Aid Payment: } & -0.5 \times \$227,275,131 = -\$113,637,566, \text{ or} \\ (\$29,520,783,200/\$1,000) \times -\$0.35 & = -\$10,332,274 \end{aligned}$$

Since $-\$10,332,274$ is the lesser amount, this is the maximum aid reduction.

- *Final Reduction:*

Since the formula reduction $(-\$14,554,385)$ exceeds the maximum reduction $(-\$10,332,274)$, the final aid reduction is $-\$10,332,274$.

Sample Calculation for the Village of Lake Delton

2010 Census Population:	2,914
2010 Equalized Value:	\$1,405,021,700
2011 Aid Payment:	\$27,844

Population Tier Factors (2,500 to 10,000):

Coefficient Index: $[(2,914 - 2,500)/7,500] = 0.0552$

Mill Rate Reduction Factor: -\$0.10 per \$1,000 of value

Maximum Reduction Mill Rate Factor: -\$0.15 per \$1,000 of value

- *Population-Based Aid Reduction:*

$[(\text{Population}) \times (\text{Formula Constant}) \times (\text{Coefficient Index}) = \text{Population-Based Aid Reduction}]$

For the Village of Lake Delton,

$$2,914 \times \$9.57941 \times 0.0552 = -\$1,541$$

- *Property Value-Based Aid Reduction:*

$[(\text{Equalized Value}/\$1,000) \times (\text{Mill Rate Reduction Factor}) = \text{Property Value-Based Reduction}]$

For the Village of Lake Delton,

$$(\$1,405,021,700/\$1,000) \times -\$0.10 = -\$140,502$$

- *Total Reduction (prior to any maximum reduction adjustment):*

$[\text{Population-Based Reduction} + \text{Property Value-Based Reduction}]$

For the Village of Lake Delton,

$$(-\$1,541) + (-\$140,502) = -\$142,043$$

- *Maximum Reduction Adjustment:*

$[\text{Lesser of } (50\% \text{ of 2011 Aid Payment}) \text{ or } ((\text{Equalized Value}/\$1,000) \times -\$0.15)]$

For the Village of Lake Delton,

50% of 2011 Aid Payment: $-0.5 \times \$27,844 = -\$13,922$, or
 $(\$1,405,021,700/\$1,000) \times -\$0.15 = -\$210,753$

Since $-\$13,922$ is the lesser amount, this is the maximum aid reduction.

- *Final Reduction:*

Since the formula reduction $(-\$142,043)$ exceeds the maximum reduction $(-\$13,922)$, the final aid reduction is $-\$13,922$.

Sample Calculation for the City Superior

2010 Census Population:	27,244
2010 Equalized Value:	\$1,654,068,800
2011 Aid Payment:	\$7,937,747

Population Tier Factors (10,000 to 50,000):

Coefficient Index:	$[(27,244 - 10,000)/40,000] = 0.4311$
Mill Rate Reduction Factor:	-\$0.15 per \$1,000 of value
Maximum Reduction Mill Rate Factor:	-\$0.25 per \$1,000 of value

- *Population-Based Aid Reduction:*

$[(\text{Population}) \times (\text{Formula Constant}) \times (\text{Coefficient Index}) = \text{Population-Based Aid Reduction}]$

For the City of Superior,

$$27,244 \times \$9.57941 \times 0.4311 = -\$112,509$$

- *Property Value-Based Aid Reduction:*

$[(\text{Equalized Value}/\$1,000) \times (\text{Mill Rate Reduction Factor}) = \text{Property Value-Based Reduction}]$

For the City of Superior,

$$(\$1,654,068,800/\$1,000) \times -\$0.15 = -\$248,110$$

- *Total Reduction (prior to any maximum reduction adjustment):*

$[\text{Population-Based Reduction} + \text{Property Value-Based Reduction}]$

For the City of Superior,

$$(-\$112,509) + (-\$248,110) = -\$360,619$$

- *Maximum Reduction Adjustment:*

$[\text{Lesser of } (50\% \text{ of 2011 Aid Payment}) \text{ or } ((\text{Equalized Value}/\$1,000) \times -\$0.25)]$

For the City of Superior,

$$\begin{aligned} 50\% \text{ of 2011 Aid Payment: } & -0.5 \times \$7,937,747 = -\$3,968,873 \text{ or} \\ (\$1,654,068,800/\$1,000) \times -\$0.25 & = -\$413,517 \end{aligned}$$

Since -\$413,517 is the lesser amount, this is the maximum aid reduction.

- *Final Reduction:*

Since the formula reduction (-\$360,619) does not exceed the maximum reduction (-\$413,517), the final aid reduction is -\$360,619.