



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #593

### **Expenditure Restraint Program Budget Test -- Contracted Services (Shared Revenue and Tax Relief -- Direct Aid Payments)**

[LFB 2013-15 Budget Summary: Page 434, #5]

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#### **CURRENT LAW**

To qualify for an aid payment under the expenditure restraint program, a municipality must satisfy two tests. First, its municipal purpose tax levy must be greater than five mills. Second, it must limit the year-to-year growth in its general fund budget. In calculating the change in budgets, adjustments to budgeted expenditures are made to reflect certain specified events, such as for services transferred from one government to another.

#### **GOVERNOR**

Modify the current law provision authorizing the adjustment for transferred services under the budget test to specify that a municipality transferring a contracted service shall include in its budget any payment to the other governmental unit and that any municipality receiving a payment for a contracted service shall not include the amount of the payment in its budget. Specify that this provision first applies to payments made in 2014.

#### **DISCUSSION POINTS**

1. The purpose of the proposed change to the budget test is to address situations in which a municipality provides a service to another unit of government under contract. For example, the City of Green Bay recently entered into a contract with the Village of Allouez to provide fire protection services to the Village. The payments made by the Village to the City are part of the City's general fund, as are the expenditures made on behalf of the Village. The budget provision is intended to decrease the expenditures subject to the budget test by the amount of payments received

for providing such contracted services.

2. The budget language incorporates the concept of an adjustment for contracted services with the current adjustment for the transfer of services. The current adjustment deals with cases in which the responsibility for providing a service is transferred between units of government. Adjustments under the budget test in this case are made to the base year. However, in the case of contracted services, the responsibility for providing the service remains with the original entity and AB 40 proposes adjustments to the target year for purposes of the budget test. Therefore, the budget language tries to incorporate two differing concepts in one provision, with results that do not appear to achieve the intended result.

3. If the Committee agrees that an adjustment is warranted for contracted services, the statutory language in the budget could be amended to create two separate adjustments, the current one for transferred services and a totally new one for contracted services. The contracted services adjustment would apply only to the municipality providing the contracted service. The municipality receiving the service would continue to include the cost of the service in its budget.

## **ALTERNATIVES**

1. Approve the Governor's recommendation to create an expenditure restraint adjustment for contracted services, but structure the adjustment as a new provision, applying only to the municipality providing the contracted service, rather than as a modification to the current adjustment for transferred services.

2. Delete provision.

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