Targeted Municipal Aid Programs

(Expenditure Restraint and Small Municipalities Shared Revenue)

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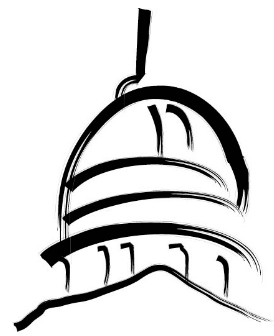

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Targeted Municipal Aid Programs

(Expenditure Restraint and Small Municipalities Shared Revenue)

Introduction

The expenditure restraint and small municipalities shared revenue programs provide targeted, general aid to towns, villages, and cities. The aid is targeted in that municipalities must qualify for a payment by meeting certain eligibility criteria. The payments are characterized as general aid because the dollars are unrestricted, to be spent however the municipality determines. The distributions for 2003 are set at $58,145,700 for the expenditure restraint program and $11,221,100 for the small municipalities shared revenue program. Under provisions included in 2001 Wisconsin Act 109 (the 2001-03 budget adjustment bill), the small municipalities shared revenue program will be suspended after 2003 and the funding will be transferred to a new program, entitled "county and municipal aid."

The Department of Revenue (DOR) administers the programs. By September 15 of each year, the Department provides estimates of the succeeding year's payments to qualifying municipalities. This procedure allows municipalities to anticipate aid amounts when they are setting their budgets for the coming year. Small municipalities shared revenue is paid 15% on the fourth Monday in July and the balance on the third Monday in November, on the same schedule as shared revenue. Expenditure restraint aid is paid in its entirety on the fourth Monday in July.

This paper provides a detailed description of the programs' eligibility criteria and distribution formulas.

Expenditure Restraint Program

Eligibility Criteria

A municipality must satisfy two eligibility criteria to receive an expenditure restraint payment:

1. *Municipal Tax Rate.* A municipality must have a full value property tax rate for operation of city, town, or village government that exceeds five mills. The tax rate for the second year prior to the payment year is used for this test. Therefore, to be eligible for the 2003 payment, a municipality's local purpose tax rate for the 2001 (payable 2002) levy had to exceed $5.00 per thousand of full value. There were 475 municipalities that met this test relative to 2003 aid payments.

2. *Budget Restraint.* A municipality must restrict the rate of year-to-year growth in its budget to a percentage determined by statutory formula.

Municipal Budget

The statutes define "municipal budget" as the municipality's budget for its general fund exclusive of principal and interest payments on long-term debt. Three statutory adjustments to the budgeted amounts are allowed. First, amounts paid by municipalities as state recycling tipping fees are excluded. Second, budgeted amounts are adjusted for the cost of services transferred to or from the municipality seeking to qualify for a payment. Third, amounts paid by municipalities under municipal revenue sharing agreements are excluded. The statutes prohibit municipalities from meeting the budget test by creating other funds, unless those funds conform to generally accepted accounting principles (GAAP). These principles have been adopted by the Governmental Accounting Standards Board to offer governments guidelines on how to maintain their financial records.

Allowable Rate of Growth

For the year prior to the aid payment, the rate of budget growth cannot exceed the inflation rate plus an adjustment based on growth in municipal property values. The inflation rate is measured as the change that occurred in the Consumer Price Index (CPI) in the one-year period ending in September two years prior to the payment year. The property value adjustment to the CPI rate is unique for each municipality and equals 60% of the percentage change in the municipality's equalized value due to new construction, net of any property removed or demolished, but not less than 0% nor more than 2%. The allowable increase is known at the time when municipal officials set their budgets.

To be eligible for a 2003 payment, municipalities were required to limit their 2002 budget increases to 3.2% to 5.2%, depending on individual municipal adjustments due to property value increases. The Department of Revenue certifies the change in the CPI annually on November 1 to the Joint Committee on Finance. Based on the November 1, 2002, certification, municipalities will be required to limit the growth in their 2003 budgets to no more than 1.5% to 3.5%, depending on their applicable adjustment for growth in property values, to be eligible for a 2004 expenditure restraint payment.

For 2003 payments, 475 municipalities met the tax rate test, but only 292 municipalities also met the budget test. Thus, 183 municipalities either did not meet the budget test or did not submit budget worksheets to DOR on a timely basis.

Each year, the Department of Revenue notifies municipalities meeting the tax rate eligibility requirement. To receive a payment, those municipalities must submit a budget worksheet to DOR by May 1. The Department uses the worksheet to verify compliance with the budget restraint requirement. Qualifying municipalities are informed in September of the expenditure restraint payment to be received the following July.

Distribution Formula

The formula for distributing payments is based on municipal levy rates and full values. First, an "excess tax rate" is calculated for each qualifying municipality by subtracting the five mill standard tax rate from the municipality's property tax rate. Second, an excess levy is calculated by multiplying each municipality's excess tax rate by its full value. Finally, a payment is calculated based on each municipality's percentage share of the total of excess levies for all eligible municipalities. For example, if a municipality's excess levy equals $25 million and the excess levies of all eligible municipalities sum to $500 million, then the municipality would receive 5% ($25 million / $500 million) of the total payments.

If an error is found in the calculation of a payment, the error will be corrected by adjusting the affected municipalities' November shared revenue payments. In addition, expenditure restraint payments can be corrected by increasing or decreasing the payments in the succeeding year. A similar correction procedure is used for shared revenue payments.

The tax rate disparity program preceded the expenditure restraint program from 1991 to 1993. During those years, annual funding of $25 million was provided. The program was renamed, effective with 1994 payments, and the minimum required tax rate was changed from the statewide municipal average (almost 6.5 mills) to five mills, an eligibility requirement related to per capita tax base was removed, and the funding was increased to $42 million. After the annual funding level was increased to $48 million in 1995, the program's funding level remained unchanged until 2000, when annual funding was set at $57 million. Annual increases of 1% were authorized for 2002 and 2003. Table 1 summarizes the effects of these funding and formula changes.

The share of payments received by cities has declined from about 98% under the tax rate disparity program to 90% in 2003 under the expenditure restraint program. The share of payments received by villages has increased from less than 3% under the tax rate disparity program to 8% in 2003 under the expenditure restraint program. Towns' share of payments has increased since the 1994 modifications, but remains just over 1% of the total 2003 distribution.

Appendix I uses the City of Mayville as an example to provide a detailed illustration of the steps in determining the city's eligibility for the program and in calculating its 2003 payment.

A number of changes will be made to several county and municipal state aid programs as a result of provisions included in 2001 Wisconsin Act 109. However, Act 109 did not make any substantive modifications to the expenditure restraint program. Therefore, under current law, the 2003 funding level of $58,145,700 will remain in effect for the distributions in 2004 and thereafter.

Table 1: Tax Rate Disparity and Expenditure Restraint Payment Distribution Summary

	Number	Percent	Amount	Percent	Average
			Tax Rate Disparity		
1991					
Towns	25	16.1%	$67,033	0.3%	$2,681
Villages	47	30.3	270,575	1.1	5,757
Cities	83	53.6	24,662,392	98.6	297,137
	155	100.0%	$25,000,000	100.0%	$161,290
1992					
Towns	29	16.7%	$90,430	0.4%	$3,118
Villages	60	34.4	485,607	1.9	8,093
Cities	85	48.9	24,423,963	97.7	287,341
	174	100.0%	$25,000,000	100.0%	$143,678
1993					
Towns	21	13.3%	$36,415	0.1%	$1,734
Villages	57	36.1	607,923	2.4	10,665
Cities	80	50.6	24,335,662	97.5	304,446
	158	100.0%	$25,000,000	100.0%	$158,223
			Expenditure Restraint		
1994					
Towns	65	27.1%	$310,721	0.7%	$4,780
Villages	82	34.2	1,976,087	4.7	24,099
Cities	93	38.7	39,713,192	94.6	427,024
	240	100.0%	$42,000,000	100.0%	$175,000
1995					
Towns	37	14.9%	$213,452	0.4%	$5,769
Villages	95	38.2	3,529,755	7.4	37,155
Cities	117	47.0	44,256,793	92.2	378,263
	249	100.0%	$48,000,000	100.0%	$192,771
1996					
Towns	40	15.7%	$307,119	0.6%	$7,678
Villages	5	37.4	3,362,561	7.0	35,395
Cities	119	46.9	44,330,320	92.4	372,524
	254	100.0%	$48,000,000	100.0%	$188,976
1997					
Towns	58	18.4%	$531,480	1.1%	$9,163
Villages	138	43.8	3,939,559	8.2	28,548
Cities	119	37.8	43,528,961	90.7	365,790
	315	100.0%	$48,000,000	100.0%	$152,381
1998					
Towns	49	16.7%	$537,612	1.1%	$10,972
Villages	112	38.2	3,788,113	7.9	33,822
Cities	132	45.1	43,674,275	91.0	330,866
	293	100.0%	$48,000,000	100.0%	$163,823
1999					
Towns	47	16.1%	$570,785	1.2%	$12,144
Villages	110	37.7	3,916,732	8.2	35,607
Cities	135	46.2	43,512,483	90.6	322,315
	292	100.0%	$48,000,000	100.0%	$164,384
2000					
Towns	42	14.9%	$609,629	1.1%	$14,515
Villages	104	37.0	4,682,275	8.2	45,022
Cities	135	48.0	51,708,096	90.7	383,023
	281	100.0%	$57,000,000	100.0%	$202,847
2001					
Towns	30	11.1%	$844,429	1.5%	$28,148
Villages	105	38.9	5,019,086	8.8	47,801
Cities	135	50.0	51,136,485	89.7	378,789
	270	100.0%	$57,000,000	100.0%	$211,111
2002					
Towns	39	12.9%	$768,297	1.3%	$19,700
Villages	128	42.2	5,147,973	9.0	40,219
Cities	136	44.9	51,653,730	89.7	379,807
	303	100.0%	$57,570,000	100.0%	$190,000
2003					
Towns	29	9.9%	$708,015	1.2%	$24,414
Villages	120	41.1	4,825,676	8.3	40,214
Cities	143	49.0	52,612,009	90.5	367,916
	292	100.0%	$58,145,700	100.0%	$199,129

Small Municipalities Shared Revenue Program

Eligibility Criteria

The small municipalities shared revenue (SMSR) program was created in 1991 as part of the biennial budget act, but no funding was provided until 1994. In the initial proposal to create the program, it was named the small community improvement program (SCIP), and this acronym continues to be used as a reference to the program. A municipality must meet three eligibility criteria to receive a SMSR payment:

1. *Municipal Population.* A municipality must have a population of 5,000 or less. Each year, the Department of Administration estimates the population of each municipality, and the population for the year prior to the payment is used to determine eligibility under this provision. For purposes of the 2003 payment, 2002 population estimates are used. There were 1,681 municipalities that met this test for 2003.

2. *Municipal Tax Rate.* A municipality must have a full value property tax rate for operation of city, town, or village government equal to at least one mill. The tax rate for the second year prior to the payment year is used to make this determination. Therefore, to be eligible for the 2003 payment, a municipality's local purpose tax rate for the 2001 (payable 2002) levy had to exceed $1.00 per thousand of full value. Of the 1,681 municipalities with populations below 5,000, there were 1,544 municipalities that met this test relative to 2003 aid payments.

3. *Full Value.* The total full value for a municipality must be $40 million or less, except for municipalities with a land area exceeding 54 square miles. There is no maximum allowable value for municipalities larger than 54 square miles. This determination is based on equalized values, exclusive of manufacturing real estate, plus the value of tax-exempt computers, for the year prior to the payment year. Therefore, 2002 values are used for the 2003 payment. Of the 1,681 municipalities with populations below 5,000, there were 854 municipalities that met this test relative to 2003 aid payments.

For payments made in 2003, 773 municipalities met all three eligibility criteria.

Distribution Formula

The formula for distributing payments is based on three components, which include a basic formula, a minimum guarantee, and a maximum payment constraint.

Basic Formula. The basic formula uses a per capita allocation equal to the greater of $10 or an amount based on a percentage of $55. This percentage declines as the municipality's value (net of manufacturing real estate, plus the value of tax-exempt computers) approaches $40 million. The formula for calculating the per capita aid rate can be expressed mathematically as:

$$\left[100\% - \frac{\text{Net Value}}{\text{\$40 Million}} \quad \text{x} \quad \$55 \right]$$

or $10, whichever is greater

A municipality with an adjusted value of $10 million has 25% of the $40 million standard and would receive a per capita allocation equal to 75% of $55, or $41.25. Municipalities with values above $32,727,273 receive the $10 per capita guarantee. That guarantee also applies to municipalities with land areas in excess of 54 square miles and net values over $40 million.

Minimum Guarantee. Each eligible municipality is guaranteed a minimum entitlement equal to the difference between $18,000 and the municipality's net full value multiplied by 0.072%. The amount cannot be less than $0. This formula reduces the minimum guarantee by $720 for each $1 million in value, until the guarantee is phased-out at a value of $25 million.

Maximum Constraint. A municipality's entitlement cannot exceed the greater of $10,000 or the difference between $45,000 and the municipality's net full value multiplied by 0.175%. The formula reduces the maximum allowable payment by $1,750 for each $1 million in value, until the $10,000 level is reached at a value of $20 million.

Payment Distribution. The program's initial, 1994 funding level of $10 million was increased to $14 million for 1995. However, the funding level was reduced to $10 million effective with 1996 payments and remained at that level through 1999. The funding level was raised to $11 million annually for the distributions in 2000 and 2001. Annual increases of 1% were authorized for 2002 and 2003.

Between 1994 and 1999, entitlements under the three formula components exceeded the program's appropriations. Since 2000, the appropriated amounts have exceeded entitlements. As a result, entitlements were prorated by factors of less than 100% between 1994 and 1999 and by factors exceeding 100% between 2000 and 2003. Entitlements equaled $7,634,052 in 2003 and the appropriation equaled $11,221,100, so payments equaled 147.0% of entitlements.

Table 2 summarizes the program's distribution for 1994 through 2003. Over this period, average payment amounts have increased most significantly in years where funding changed. For example, average payments increased 43% in 1995 and 17% in 2000 and decreased 27% in 1996. However, in years where there was no funding change, average payments increased by 3% to 4%. This is due to fewer municipalities qualifying for payments.

Table 2: Small Municipalities Shared Revenue Distribution Summary

	Number	Percent	Amount	Percent	Average
1994					
Towns	824	72.2%	$6,659,361	66.6%	$8,082
Villages	275	24.1	3,008,083	30.1	10,938
Cities	43	3.7	332,556	3.3	7,734
	1,142	100.0%	$10,000,000	100.0%	$8,757
1995					
Towns	815	73.0%	$9,409,382	67.2%	$11,545
Villages	261	23.4	4,146,721	29.6	15,888
Cities	40	3.6	443,897	3.2	11,097
	1,116	100.0%	$14,000,000	100.0%	$12,545
1996					
Towns	792	72.7%	$6,628,099	66.2%	$8,369
Villages	263	24.1	3,086,391	30.9	11,735
Cities	35	3.2	285,510	2.9	8,157
	1,090	100.0%	$10,000,000	100.0%	$9,174
1997					
Towns	761	72.4%	$6,591,480	65.9%	$8,662
Villages	257	24.4	3,117,783	31.2	12,131
Cities	34	3.2	290,737	2.9	8,551
	1,052	100.0%	$10,000,000	100.0%	$9,506
1998					
Towns	727	71.7%	$6,491,602	64.9%	$8,929
Villages	254	25.1	3,221,630	32.2	12,684
Cities	32	3.2	286,768	2.9	8,961
	1,013	100.0%	$10,000,000	100.0%	$9,872
1999					
Towns	703	71.8%	$6,444,587	64.4%	$9,167
Villages	249	25.5	3,294,813	33.0	13,232
Cities	26	2.7	260,600	2.6	10,023
	978	100.0%	$10,000,000	100.0%	$10,225
2000					
Towns	650	71.0%	$6,914,072	62.9%	$10,637
Villages	245	26.7	3,830,012	34.8	15,633
Cities	21	2.3	255,916	2.3	12,186
	916	100.0%	$11,000,000	100.0%	$12,009
2001					
Towns	621	70.6%	$6,825,556	62.0%	$10,991
Villages	239	27.1	3,915,849	35.6	16,384
Cities	20	2.3	258,595	2.4	12,930
	880	100.0%	$11,000,000	100.0%	$12,500
2002					
Towns	573	70.7%	$6,823,847	61.4%	$11,909
Villages	225	27.7	4,094,032	36.9	18,196
Cities	13	1.6	192,121	1.7	14,779
	811	100.0%	$11,110,000	100.0%	$13,699
2003					
Towns	541	70.0%	$6,815,066	60.7%	$12,597
Villages	221	28.6	4,236,151	37.8	19,168
Cities	11	1.4	169,883	1.5	15,444
	773	100.0%	$11,221,100	100.0%	$14,516

There are 427 municipalities that received a 1994 payment, but no longer qualify. Of these municipalities no longer eligible for payments, 391 have adjusted values that exceed the $40 million standard, 51 have tax rates below one mill, and one has a population over 5,000. There are 16 municipalities that now meet neither the minimum tax rate nor maximum value criteria. Finally, 58 municipalities will receive payments in 2003, but did not qualify for payments in 1994.

Appendix II uses the Town of Delmar in Chippewa County as an example to provide a detailed illustration of the steps in determining the town's eligibility for the program and in calculating its 2003 payment.

2001 Wisconsin Act 109 Modifications

A number of changes will be made to several county and municipal state aid programs, including the small municipalities shared revenue program, as a result of provisions included in 2001 Wisconsin Act 109.

After the 2003 distributions under the shared revenue, small municipalities shared revenue, and county mandate relief programs, the language authorizing these programs will remain in the state statutes, but payments under them will be suspended, except for the utility aid component of the shared revenue program. Payments under the utility aid component of the shared revenue program will continue in 2004 and beyond.

Beginning in 2004, the Act authorizes payments to municipalities and counties under a new program entitled "county and municipal aid." Funding from the suspended programs will be transferred to the new program. Under these provisions, distributions under the small municipalities shared revenue program will not occur after 2003.

APPENDIX I

Calculation of the 2003 Expenditure Restraint Payment for the City of Mayville

Eligibility Tests

1.	**Municipal Tax Rate (per $1,000 of full value)**		
		Mayville's 2001(02) Municipal Tax Rate	$7.27188
		Statewide Standard Tax Rate for Municipal Purposes	$5.00000
		Excess Tax Rate, Mayville minus State Standard	$2.27188
		Mayville qualifies since its tax rate exceeds the state standard.	
2.	**Budget Restraint**		
		Mayville's 2001 to 2002 Budget Increase	2.88%
		Percent Change in CPI, Sept., 2000, to Sept., 2001	3.20%
		Value of New Construction Occurring in 2000	$3,826,600
		January 1, 2000, Equalized Value	$228,547,500
		Percent Change	1.67%
		60% of Percent Change, but no less than 0% and no more than 2%	1.00%
		Maximum Allowable Budget Increase: Sum of Inflation Rate and Value Adjustment, Rounded to the Nearest 0.10%	4.20%
		Mayville qualifies since its budget increase is below 4.20%.	

Calculation of Payment

1.	**Calculate Mayville's Excess Levy**		
		Multiply the Municipality's January 1, 2001, Full Value	$241,127,900
		By the Excess Tax Rate (Per $1,000 value)	X $2.27188
		Mayville's Excess Levy Equals	$547,814
2.	**Calculate Mayville's Share of Payment**		
		Mayville's Excess Levy Divided by	$547,814
		Total Excess Levies of Eligible Municipalities	÷ $515,375,715
		Mayville's Share of Payment Equals	0.1062941%
3.	**Calculate Mayville's Payment**		
		Available Funding	$58,145,700
		Multiplied by Mayville's Share of Payment	X 0.1062941%
		Mayville's Payment Equals	$61,805

APPENDIX II

Calculation of the 2003 SMSR Payment for the Town of Delmar (Chippewa County)

Eligibility Tests

1.	**Municipal Purpose Tax Rate Must Equal At Least 1 Mill**	
	Delmar's 2001(02) Municipal Purpose Tax Levy	$60,000
	Delmar's 2001 Full Value	÷ $36,783,500
	Delmar's 2001(02) Tax Rate per $1,000	$1.63
2.	**Municipal Population Cannot Exceed 5,000**	
	Delmar's Preliminary 2002 Population	953
3.	**Municipal Adjusted Full Value Cannot Exceed $40 Million**	
	Delmar's 2002 Full Valuation	$36,836,800
	Delmar's 2002 Manufacturing Full Value	-$85,100
	Delmar's 2002 Value of Exempt Computers	$4,200
	Delmar's 2002 Adjusted Full Valuation	$36,755,900

Calculation of Payment

1.	**Calculate the Entitlement Under the Basic Formula**	
	2002 Adjusted Full Valuation	$36,755,900
	Divided by $40 Million	91.89%
	Difference Between 100.00% and 91.89%	8.11%
	$10 or 8.11% Times $55, Whichever is Greater	$10.00
	2002 Preliminary Population	953
	Per Capita Amount Times Population	$9,530
2.	**Entitlements Cannot Be Less Than the Minimum Guarantee**	
	Delmar's 2002 Adjusted Full Valuation	$36,755,900
	Multiplied by the Minimum Guarantee Factor	X 0.072%
	Result of Valuation Times Minimum Guarantee Factor	$26,464
	$18,000 Minus $26,464	- $8,464
	The Minimum Guarantee Equals the Greater of -$8,464 or $0	$0
3.	**Entitlements Cannot Exceed the Maximum Constraint**	
	Delmar's 2002 Adjusted Full Valuation	$36,755,900
	Multiplied by the Maximum Guarantee Factor	X 0.175%
	Result of Valuation Times Maximum Guarantee Factor	$64,323
	$45,000 Minus $64,323	-$19,323
	The Maximum Constraint Equals the Greater of -$19,323 or $10,000	$10,000
	Since Delmar's basic entitlement is below $10,000, there is no adjustment under this provision.	
4.	**Calculate Delmar's Payment**	
	Delmar's Entitlement Under (1), (2), and (3)	$9,530
	Total Entitlements Statewide	$7,634,052
	Delmar's Share (0.12484%) Times Available Funding ($11,221,100)	$14,008