Legislative Fiscal Bureau

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Shared Revenue Modifications
Expenditure Restraint Funding Level
(Shared Revenue and Tax Relief -- Direct Aid Payments)

[LFB 2001-03 Budget Summary: Page 600, #1 and Page 605, #4]

CURRENT LAW

The shared revenue program is comprised of two separate distributions and funding levels -- one for municipalities and one for counties. The funding level for the municipal distribution is set at $761.5 million, and payments are calculated under a formula that consists of four components: (1) aidable revenues; (2) per capita; (3) public utility; and (4) minimum guarantee/maximum growth.

The aidable revenues component distributes most of the aid under a formula that is based on the policy of tax base equalization. Under that policy, aid is allocated to offset variances in taxable property wealth. The aidable revenues distribution formula calculates entitlements using two measures for each municipality: (1) per capita property value; and (2) the three-year average of revenues raised by the municipality. The lower a municipality's per capita property value and the higher its average revenues, the greater is the municipality's aidable revenues entitlement. In 2001, $605.5 million, or 79.5% of the entire municipal distribution, will be distributed initially under the aidable revenues component.

Under the per capita distribution, aid is distributed to each municipality in proportion to its population. Funding for the distribution has been set at $142.7 million since 1982 and, for 2001, equals an estimated $26.71 for each person residing in a municipality. The minimum guarantee ensures that each municipality's combined entitlements under the aidable revenues and per capita components equal at least 95% of the amount the municipality received in the prior year. If the combined entitlements are below the 95% level, the municipality's entitlements are supplemented with a minimum payment. Minimum payments are internally funded by a floating maximum growth limit. Combined aidable revenues and per capita entitlements that are in excess of the maximum limit are "skimmed off" to provide revenues for minimum guarantee payments. For 2001, an estimated $28.0 million will be redistributed from municipalities on the maximum to municipalities on the minimum, and year-to-year payment changes are estimated to range from declines of up to 5% to increases of up to 2.9%.

Under the public utility component, aid is provided to municipalities containing certain types of public utility property, which is subject to state taxation, in lieu of local property taxes. In general, utility aid equals the value of the qualifying property multiplied by three mills, if the property is located in a town, or six mills, if the property is located in a city or village. Utility aid payments are estimated at $13.3 million in 2001. Utility aid is not included in the minimum and maximum calculations described above.

For 2001, $57 million in state aid will be paid to 270 municipalities under the expenditure restraint program. To receive a payment, a municipality must satisfy two eligibility criteria. First, its municipal purpose tax rate must exceed five mills. Second, the municipality must limit the rate of year-to-year growth in its budget to a percentage that is based, in part, on the percentage change in the Consumer Price Index and, in part, on the percentage change in the municipality's tax base due to new construction. Aid payments for eligible municipalities are calculated according to that part of each eligible municipality's levy in excess of five mills as a percent of that part of all eligible municipalities' levies in excess of five mills.

GOVERNOR

In the biennial budget bill, the Governor proposes replacing the municipal shared revenue program with a municipal aid distribution comprised of payments from two new appropriations, beginning with aid payments in 2002. The total distribution from the two appropriations would equal $755.5 million in 2002, or $6.0 million less than will be distributed to municipalities under the shared revenue program in 2001. However, the Governor also proposes increasing the distribution under the expenditure restraint program by $6.0 million.

Funding for a "municipal growth-sharing account" would be set at an amount equal to 5% of state sales and use tax collections in the fiscal year two years prior to the year of the aid payment. Based on estimated sales and use tax collections for 2000-01, $182.0 million would be appropriated to the account for the 2002 distribution. The balance of the $755.5 million, or $573.5 million, would be appropriated to a "municipal services account."

The bill would create a new municipal aid distribution called "growth-sharing regions entitlements" to be paid from the municipal growth-sharing account. Aid would be allocated to growth-sharing regions in proportion to the amount of state sales and use tax collected from each region. Each region's aid would be reallocated to the municipalities within the region based on each eligible municipality's population as a percent of the population of all eligible municipalities in the region. The Department of Revenue (DOR) would have to define the regions by administrative rule, but the bill stipulates that the total number of regions must range from seven to 25.

All municipalities would receive a growth-sharing entitlement in 2002. Beginning in 2003, municipalities would have to meet two eligibility criteria to receive an entitlement. First, municipalities would have to certify to DOR that they have entered into a specified number of area cooperation compacts with counties or other municipalities. Second, municipalities would have to limit the growth in their budgets to the percentages determined under the budget restraint provision of the expenditure restraint program.

The bill would create a second municipal aid distribution called "aidable expenditures entitlements" to be paid from the municipal services aid account. Funding for the distribution would equal the amount appropriated to the account, less any public utility aid distributed to municipalities. Like the aidable revenues component authorized under current law, aidable expenditures entitlements would be based on the policy of tax base equalization. Aid would be calculated by multiplying each municipality's aidable expenditures by its tax base weight.

The bill would define aidable expenditures to include amounts expended for general government operations, law enforcement, fire protection, ambulance services, other public safety services and health and human services. For each municipality, the bill would define aidable expenditures as the lesser of the amounts expended in these categories in the year two years prior to the aid payment or the average of the amounts expended in the designated categories in 1998, 1999 and 2000. Each year, the average amount for each municipality would be adjusted by a percentage identical to the percentage calculated under the budget restraint provision of the expenditure restraint program.

Under the bill, each municipality's tax base weight would equal one minus the percentage obtained by dividing the municipality's per capita property value in the year before the payment by a standardized per capita property value. The standardized value would change from year to year so that the entire amount of aid in the appropriation would be distributed. The value used under the bill would differ from that used under current law in that the proposed measure would include the value of manufacturing real estate and would exclude the value of exempt computers.

The minimum guarantee and maximum growth provisions authorized under current law would be modified to reflect the proposed entitlements. Each municipality would be guaranteed 95% of its prior year payment, exclusive of any utility aid, and minimum payments would be funded by "skimming" amounts in excess of a floating maximum percentage from municipalities that experience payment increases. However, beginning in 2003, minimum and maximum calculations would be modified to exclude growth-sharing entitlements for municipalities that are not eligible to receive a growth-sharing entitlement in the current year or did not receive a growth-sharing entitlement in the prior year.

Funding would total $818.5 million both under current law and the proposal. Under current law, aid payments are comprised of $761.5 million in shared revenue payments and $57.0 million in expenditure restraint payments. Under the proposal, aid payments would include $182.0 million in growth-sharing entitlements, $560.2 million in aidable expenditures entitlements, $13.3 million in utility aid and $63.0 million in expenditure restraint payments.

Based on estimated municipal aid payments for 2001, the following table compares funding under current law and the proposal.

Funding for Municipal Aid
(In Millions)

	Current Law	Governor
Aidable Revenues	$605.5	$0.0
Aidable Expenditures	0.0	560.2
Per Capita	142.7	0.0
Growth-Sharing	0.0	182.0
Utility Aid	13.3	13.3
Expenditure Restraint	57.0	63.0
Total	$818.5	$818.5

DISCUSSION POINTS

1. In April, 2000, the Governor created the Commission on State-Local Partnerships for the 21st Century. The Commission was chaired by Professor Don Kettl and consisted of 32 members from throughout the state. Over the succeeding ten months, the Commission examined the organization, functions and finances of Wisconsin local governments and how local governments relate to state government. The Commission made 139 recommendations, including several regarding the system of distributing state aid to municipal governments.

2. The Commission identified several problems with the current shared revenue program for municipalities. These included a "frozen" funding level, local officials' difficulty in predicting the level of state aid they will receive, the program's inability to "reduce disparities between the state's richer and poorer" municipalities, and the distribution formula's inclusion of "incentives for municipalities to increase their spending." The Commission rejected an "incremental" approach to address these problems and, instead, recommended that the program be "significantly revised" to promote a broad set of principles adopted by the Commission. While the Commission made a number of recommendations based on these problems and principles, two of the Commissions recommendations are directly related to the municipal shared revenue proposal:

- the equalizing component of shared revenue should be transformed into a program that equalizes municipalities' ability to purchase a basic package of services" (Recommendation # 44); and

- the per capita component of shared revenue should be transformed … into a program that creates incentives for municipalities to collaborate and to share in the economic growth that their collaboration helps to generate." (Recommendation #45).

3. While the proposal is based on the Commission's recommendations, additional detail was necessary to transform the recommendations into a legislative draft. In reaction to this process, some former Commissioners have offered legislative testimony questioning the extent to which the proposal reflects the Commission's intent. The Commission recognized that this would be a difficult process because it requires "crafting the right balance … between the state government's role in equalizing the differences among the state's communities and local governments' pursuit of greater operating flexibility."

4. The proposal would modify the existing distribution formulas, but does not provide additional funding. As a result, the current funding of $818.5 million would be redistributed among municipalities. The amount of funds redistributed is estimated at more than $81 million, prior to the application of minimum and maximum payment limitations, and at about $15 million after the application of minimum and maximum payment limitations.

5. Without additional funding, the proposed changes to the distribution formulas would create "winners" and "losers" relative to current law. It is not possible to accurately identify the winners and losers and the magnitude of their payment changes because the bill does not identify the growth-sharing regions among which $182.0 million in growth-sharing entitlements would be made. However, entitlements can be estimated, assuming the regions conform to predetermined boundaries. If the regional boundaries reflected those of regional planning commissions (RPCs) and the counties not in an RPC are grouped with Dane County, entitlement decreases are estimated for 38% of all municipalities and entitlement increases are estimated for 62% of all municipalities. Additional information on the potential impact of these changes on individual municipalities was provided in a March 26, 2001, memorandum from this office to all members of the Legislature.

Percent Change in Initial Entitlements By Type of Municipality
Growth-Sharing Regions Based on RPC Boundaries

	Towns	Villages	Cities	Total	Percent
Decreases					
Over 50%	20	52	12	84	4.5%
25% to 50%	117	137	53	307	16.6
0% to 25%	181	76	61	318	17.2
Total Decreases	318	265	126	709	38.3%
Increases					
0% to 25%	370	48	32	450	24.3%
25% to 50%	377	43	14	434	23.5
Over 50%	200	39	18	257	13.9
Total Increases	947	130	64	1,141	61.7%
Total Municipalities	1,265	395	190	1,850	100.0%

6. The Assembly created a Select Committee on State and Local Finance to consider the recommendations of the Commission on State-Local Partnerships for the 21st Century. The Committee held public hearings on the municipal shared revenue proposal and eight other bills related to recommendations of the Commission in Brookfield, Cleveland, La Crosse, Madison, Oshkosh and Platteville. Based on testimony offered at those hearings and a concern over the redistributive impacts of the proposal, the Committee has asked the Joint Committee on Finance to remove the proposed shared revenue changes from the budget. The Assembly Committee intends to continue to evaluate problems and develop alternatives to the current aid distribution system. In this pursuit, the Assembly Committee has requested the assistance of the Legislative Fiscal Bureau and intends to also involve the University of Wisconsin-Extension, local officials, members of the Commission and the Departments of Administration and Revenue.

7. If the Committee elects to continue its consideration of the Governor's recommendations on this subject, additional issue papers would be prepared relative to the features that could be incorporated into a new aid program. On the other hand, the Committee could decide to take no action on this proposal. This would end the Committee's consideration of the proposed changes to the municipal shared revenue formula for inclusion in the state's 2001-03 budget.

ALTERNATIVES TO BASE

1. Continue to review and analyze the shared revenue modifications of the bill.

2. Take no action on the proposed modifications to the municipal shared revenue formula.

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