



## Legislative Fiscal Bureau

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May 21, 2003

Joint Committee on Finance

Paper #671

### **County and Municipal Aid in 2004 -- Level of Funding Reduction (Shared Revenue and Tax Relief -- Direct Aid Payments)**

[LFB 2003-05 Budget Summary: Page 380, #1 and Page 382, #3]

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#### **CURRENT LAW**

Beginning in 2004, payments to municipalities and counties will be made under a new program entitled "county and municipal aid." Each municipality and county will receive a payment in 2004 based on the sum of its payments in 2003 under the shared revenue (except for utility aid), small municipalities shared revenue, and county mandate relief programs. Payments will equal the 2003 amounts, reduced on a per capita basis, so that the sum of all reductions equals \$40 million. Total county and municipal aid payments for 2004 are estimated at \$911.3 million. Additional payments totaling \$89.6 million are estimated under the utility aid and expenditure restraint programs, so combined payments under the three programs are estimated at \$1,000.9 million. These payments are scheduled to be made in July and November, 2004, which is in the second year of the 2003-05 biennium.

#### **GOVERNOR**

Require DOR to apply additional per capita reductions totaling \$70,000,000 to the 2004 payments to municipalities under the county and municipal aid program. Provide that this reduction, when combined with the reduction authorized under current law, cannot exceed the payments that would otherwise be made to each municipality. County and municipal aid payments for 2005 and thereafter would equal the amounts distributed in 2004, as decreased by the proposed \$110,000,000 in total reductions.

In addition, the Governor proposed a \$10,000,000 funding reduction in 2003 (2003-04) and in 2004(2004-05) related to a proposal to provide a corresponding amount through the medical assistance program to local governments that provide emergency transportation services.

On March 17, 2003, the Secretary of the Department of Administration informed the Committee that the Governor proposes to replace that provision with an amendment that would "better reflect the Governor's intent." That issue is described in an LFB Issue Paper under the Department of Health and Family Services.

## **DISCUSSION POINTS**

1. Under 2001 Wisconsin Act 16 (the 2001-03 biennial budget), the base budgets for most state operations appropriations (less debt service and fuel and utilities) were reduced by 5% annually. Additional savings equal to 1.55% annually were administratively imposed. In the 2001-03 budget adjustment bill, the Governor proposed making additional reductions in GPR state operations appropriations for a number of state agencies equal to 3.5% in 2001-02 and 5.0% in 2002-03. Although the Legislature modified many of the proposed reductions, across-the-board reductions imposed under 2001 Wisconsin Act 109 totaled \$104.4 million, only slightly below the Governor's proposal.

2. In the 2001-03 biennium, funding for the shared revenue, expenditure restraint, county mandate relief, and small municipalities shared revenue programs was not reduced. Instead, funding for the four programs was increased by 1% in 2002-03 and by 1% in 2003-04, the first year of the 2003-05 biennium. Under current law for the four programs, state assistance to municipalities and counties will total \$1,039.7 million in 2003-04. These payments will be made in calendar year 2003.

3. After payments are made in 2003 (2002-03), Act 109 directs payments under the shared revenue program, except for utility aid, and payments under the county mandate relief and small municipalities shared revenue programs to be sunset. These programs' funding will be consolidated under a single appropriation for "county and municipal aid" beginning in 2004 (2004-05). Act 109 reduced funding for the new program by \$40.0 million, relative to the programs that preceded it. The reduction would be divided equally between payments to municipalities (-\$20.0 million) and payments to counties (-\$20.0 million). In SB 44, the Governor proposes to reduce 2004-05 funding for the county and municipal aid program by an additional \$70.0 million. The bill would apply the additional reduction entirely against payments to municipalities.

4. In response to the state aid reductions, municipalities and counties can increase their property tax levies, reduce their expenditures, or increase other revenues. Other than the property tax, alternate tax sources available to municipalities and counties are limited by state law, but municipalities and counties can impose a variety of fees. The impact of state aid reductions on property tax levies and local expenditure levels is estimated in the remainder of this analysis based on the assumption that, on a statewide basis, 50% of the aid reductions will result in increased property taxes and 50% will result in decreased expenditures.

5. In 2002(03), statewide property taxes totaled \$1,794.7 million for municipalities and \$1,490.5 million for counties. Based on the aid reduction authorized in Act 109 and historic trends

regarding municipal and county tax levy increases, statewide increases of 6.6% for municipalities and 7.2% for counties are estimated in 2003(04). This assumes that half of the entire Act 109 state aid reduction would result in increased property taxes. If an identical assumption is applied regarding the \$70.0 million aid reduction proposed in SB 44, municipal tax levies would increase by 8.5% on a statewide basis. Since SB 44 does not propose further reductions in county aid, there would be no change in the estimated rate of increase in county tax levies (7.2%).

6. Based on the aid reduction authorized in Act 109, recent levels of funding for state aids, and historic trends regarding the growth in property values and tax levies, the tax bill for a median-valued home in Wisconsin taxed at the statewide average tax rate is estimated to increase from \$2,517 in 2002(03) to \$2,611 in 2003(04), or by \$94 (3.7%). Under SB 44, the municipal and county taxes on that residence would increase by an additional \$13. Because SB 44 contains other provisions that would reduce the level of state funding of statewide partial school revenues from two-thirds in 2002(03) to 64.75% in 2003(04), the total tax bill would increase by an estimated \$158, or 6.3%. Of that amount, \$50 is due to the lower school aids funding level.

7. Most municipal and county discretionary spending is funded with property taxes and unrestricted state aids. By combining 2002(03) tax levies with 2003 unrestricted state aid totals, the effect of the proposed reduction on discretionary spending can be estimated. Based on this approach and assuming that spending decreases would be used to offset half the aid reduction, the combined aid reductions authorized under current law and proposed under SB 44 represent 1.7% of 2003 estimated, statewide municipal discretionary spending and 0.6% of 2003 estimated, statewide county discretionary spending. By assuming that half of the aid reduction would be replaced with tax levy increases and that municipal and county tax levies continue to increase at their historic rates, year-to-year increases in discretionary spending are estimated at 2.4% for municipalities and 5.2% for counties.

8. If additional state aid reductions are sought, their impact can be estimated in a similar fashion. Table 1 shows the estimated impact of state aid reductions on municipal and county tax levies. By applying the \$40.0 million aid reduction equally to municipalities and counties, Act 109 reduced state aid funding under the shared revenue and related aid programs for municipalities by 2.4% and for counties by 10.3%. By applying the \$70.0 million aid reduction exclusively to municipalities as proposed in SB 44, the municipal reduction would increase to 10.6%, and the municipal and county percentage reductions would be more comparable. The following analysis assumes that if additional reductions are proposed, this parity between municipal and county reductions would be maintained. The effects of aid reductions totaling \$70.0 million, \$120.0 million, and \$170.0 million are illustrated.

9. Table 1 reflects the impact of the three alternate aid reduction amounts on municipal and county property tax levies. In addition to the effect of the aid reductions, statewide municipal and county taxes are estimated for 2003(04) based on historic trends and current law provisions. Under the aid reduction alternatives, municipal tax levy increases would range from 8.5% to 10.8% and county tax levy increases would range from 7.2% to 7.8%.

**TABLE 1**

**Estimated Impact of State Aid Reductions on Municipal and County Tax Levies  
(In Millions)**

	<u>Municipal</u>	<u>County</u>	<u>Total</u>
2002(03) Tax Levy	\$1,794.7	\$1,490.5	\$3,285.2
2003(02) Estimated Increase Under:			
Current Law	\$117.6	\$106.8	\$224.4
Change to 2002(03)	6.6%	7.2%	6.8%
Alternative 1 (Governor)	\$70.0	\$0.0	\$70.0
Estimated Tax Effect	35.0	0.0	35.0
Combined Increase	152.6	106.8	259.4
Percent Change	8.5%	7.2%	7.9%
Alternative 2 (-\$120 M)	\$110.2	\$9.8	\$120.0
Estimated Tax Effect	55.1	4.9	60.0
Combined Increase	172.7	111.7	284.4
Percent Change	9.6%	7.5%	8.7%
Alternative 3 (-\$170 M)	\$150.9	\$19.1	\$170.0
Estimated Tax Effect	75.5	9.6	85.0
Combined Increase	193.1	116.4	309.4
Percent Change	10.8%	7.8%	9.4%

10. Table 2 illustrates the estimated impact of state aid reductions on municipal and county spending levels. Since there is no statewide database for 2003 municipal and county budgeted expenditures, the combination of tax levies and unrestricted state aid is used as a proxy of municipal and county spending. Because the use of other tax sources is limited by state law and most fee and regulatory revenues are used to fund activities related to those revenues, the combination of tax levies and unrestricted state aid may be seen as a reasonable representation of municipal and county discretionary spending. However, municipalities and counties are subject to many of the same spending pressures as the state. These may include increases in utility, health insurance, and debt service costs. This analysis includes these items as discretionary expenditures, although local officials may argue that their control over these items is limited. On the table, the alternate aid reductions represent 1.7% to 3.2% of 2003 estimated, statewide municipal discretionary expenditure levels and 0.6% to 1.2% of 2003 estimated, statewide county discretionary expenditure levels. By combining estimated county and municipal aids, as reduced under the three alternatives, with the tax levy estimates reported on Table 1, 2004 spending levels can be estimated. Under this analysis, year-to-year spending increases would range from 0.9% to

2.4% for municipalities and from 4.6% to 5.2% for counties. These estimates are reported in Table 2.

**TABLE 2**  
**Estimated Impact of State Aid Reductions on Discretionary Spending**  
**(In Millions)**

<u>2003 Estimated Expenditures</u>	<u>Municipalities</u>	<u>Counties</u>	<u>Combined Total</u>
2002(03) Taxes	\$1,794.7	\$1,490.5	\$3,285.2
2003 State Aids	<u>846.1</u>	<u>193.6</u>	<u>1,039.7</u>
2003 Total	\$2,640.8	\$1,684.1	\$4,324.9
Alternative 1 Aid Reduction	\$70.0	\$0.0	\$70.0
Combined with Act 109	90.0	20.0	110.0
Estimated Spending Reduction	45.0	10.0	55.0
Percent of 2003 Total	1.7%	0.6%	1.3%
Estimated 2004 Spending	\$2,704.0	\$1,771.5	\$4,475.5
Percent Change from 2003	2.4%	5.2%	3.5%
Alternative 2 Aid Reduction	\$110.2	\$9.8	\$120.0
Combined with Act 109	130.2	29.8	160.0
Estimated Spending Reduction	65.1	14.9	80.0
Percent of 2003	245.9%	019.8%	1.8%
Estimated 2004 Spending	\$2,683.9	\$1,766.6	\$4,450.5
Percent Change from 2003	1.6%	4.9%	2.9%
Alternative 3 Aid Reduction	\$150.9	\$19.1	\$170.0
Combined with Act 109	170.9	39.1	210.0
Estimated Spending Reduction	85.5	19.5	105.0
Percent of 2003	3.2%	1.2%	2.4%
Estimated 2004 Spending	\$2,663.5	\$1,762.0	\$4,425.6
Percent Change from 2003	0.9%	4.6%	2.3%

11. Table 3 incorporates the tax increase amounts from Table 1 into tax bill estimates. The estimated tax amounts are compared to the tax bill estimate for 2002(03) and to the 2003(04) tax bill estimate under current law provisions.

**TABLE 3**

**Estimated Impact of State Aid Reduction Alternatives on Tax Bills  
(Median-Valued Home Taxed at the Statewide Average Rate)**

	2002(03) <u>Based on Actual Data</u>	2003(04) <u>Based on Current Law</u>
Home Value	\$126,473	\$132,796
Estimated Tax Bill	\$2,517	\$2,611
Change		94
Percent Change		3.7%

Est. 2003(04) Tax Bills Under SB 44 and:	Aid Reduction (In Millions)	Estimated Tax Bill	<u>Change to Prior Year</u>		<u>Change to Current Law</u>	
			<u>Amount*</u>	<u>Percent Change</u>	<u>Amount*</u>	<u>Percent Change</u>
Alternative 1	\$70.0	\$2,675	\$158	6.3%	\$64	2.5%
Alternative 2	120.0	2,684	167	6.6	73	2.8
Alternative 5	170.0	2,693	176	7.0	82	3.1

\*\$50 of the increase is due to the lower school aid funding level under SB 44

12. The amounts in the three tables are intended to give the Committee an impression of the potential statewide impact of three reduction amounts on municipal and county tax levies and expenditure levels. The impact would vary between local governments depending on the local government's reliance on state aid as a funding source. Also, the procedure that is used to extend the reductions will affect local governments differently. Alternate reduction procedures are discussed in LFB Issue Paper #670.

**ALTERNATIVES**

1. Approve the Governor's recommendation to reduce county and municipal aid payments to municipalities in 2004 and thereafter by \$70,000,000.

2. Modify the Governor's recommendation by increasing the amount of the reduction in county and municipal aid payments in 2004 and thereafter. Set the amount of the reduction at \$110,200,000 for municipalities and \$9,800,000 for counties.

<u>Alternative 2</u>	<u>GPR</u>
2003-05 FUNDING (Change to Bill)	- \$50,000,000

3. Modify the Governor's recommendation by increasing the amount of the reduction in county and municipal aid payments in 2004 and thereafter. Set the amount of the reduction at \$150,900,000 for municipalities and \$19,100,000 for counties

<u>Alternative 3</u>	<u>GPR</u>
<b>2003-05 FUNDING</b> (Change to Bill)	- \$100,000,000

4. Delete provision.

<u>Alternative 4</u>	<u>GPR</u>
<b>2003-05 FUNDING</b> (Change to Bill)	\$70,000,000

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