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Use of Segregated Revenues for Shared Revenue and County and Municipal Aid (Shared Revenue and Tax Relief -- Direct Aid Payments)

[LFB 2003-05 Budget Summary: Pages 381 and 382, #2 and #3]

CURRENT LAW

The shared revenue program has a funding level for 2002 (2002-03) of $939,764,400. This was financed with $361,214,800 GPR and $578,549,600 SEG. The SEG funding represented a one-time replacement of GPR funds with proceeds from tobacco securitization. For 2003 (2003-04), the shared revenue distribution will increase to $949,162,000. The shared revenue GPR appropriation is a sum sufficient, so this entire amount would be appropriated from the general fund. For 2004 (2004-05), payments for all shared revenue components, except the utility aid component, will be sunset. The other components, plus the small municipalities shared revenue and county mandate relief programs, will be replaced by the county and municipal aid program, with an estimated 2004 (2004-05) distribution of $911,336,600. The county and municipal aid GPR appropriation is also a sum sufficient, so this entire amount would be appropriated from the general fund.

GOVERNOR

Create an annual appropriation comprised of transportation fund revenues to make shared revenue payments in 2003 (2003-04) and county and municipal aid payments in 2004 (2004-05). Create an annual appropriation comprised of utility public benefits fund revenues to make county and municipal aid payments in 2004 (2004-05). Create an exception for the transportation fund payments from the current law provision that requires all payments from the transportation fund to be made only on the order of the Secretary of DOT. Authorize DOR to determine the manner in which payments to counties and municipalities shall be comprised of amounts from the existing GPR and newly-created SEG appropriations. Repeal the reference to the transportation fund appropriation in the shared revenue appropriation, effective July 1, 2004. Repeal the two

SEG appropriations for county and municipal aid and the transportation fund payments exception on July 1, 2005.

Provide $230,000,000 SEG in revenues from the transportation fund for the shared revenue program in 2003-04. Provide $170,000,000 SEG in revenues from the transportation fund and $20,000,000 SEG in revenues from the utility public benefits fund for county and municipal aid payments in 2004-05.

DISCUSSION POINTS

1. Of the $400 million from the transportation fund, $230 million would be used to fund payments under the shared revenue program in 2002-03. The 2002-03 shared revenue appropriation will fund payments to municipalities and counties in 2003. Municipalities and counties set their budgets for 2003 last fall, based in part on estimates of 2003 state aid payments provided to them by the Department of Revenue, as required by state law. If the transportation fund transfer is not adopted and replacement funding is not provided, municipalities and counties would be confronted with a $230 million shortfall in their budgets for the last six months of 2003.

2. Counties and municipalities receive state aid for local transportation services through the general transportation aid program. Although some municipalities receive payments under a mileage-based formula, most of the aid is distributed under a cost-based formula. For 2003, the general transportation aid formula will reimburse counties 25.8% and municipalities 20.5% of their average transportation costs. The Department of Administration has indicated that the use of transportation fund revenues to partially fund county and municipal aid payments is based on the recognition that the general transportation aid distribution reimburses counties and municipalities for only part of their transportation-related expenditures. A similar argument could be applied to the proposed use of revenues from the utility public benefits fund for county and municipal aid payments in 2004. The county and municipal aid program is the successor to the shared revenue program, which includes a public utility aid component that is designed to compensate counties and municipalities where public utility property is located, since they are not able to tax that property.

3. Historically, the shared revenue program has been funded with general purpose revenues. However, 2001 Wisconsin Act 109, the budget adjustment bill, reduced the program's GPR appropriation for 2002 (2002-03) from amounts established in 2001 Wisconsin Act 16, the biennial budget bill, and substituted $578.5 million in SEG funding. Proceeds from tobacco securitization were used to fund the SEG appropriation on a one-time basis. Due to timing considerations, the shared revenue program's funding level for the first year of each biennium is usually established in the preceding biennium, and Act 16 set the 2003 (2003-04) shared revenue appropriation at $949.2 million. Although this funding level represents only a 1% increase over the base year amount, a GPR funding increase of 162.8% would be required to meet the Act 16 commitment. This percentage overstates the program's actual funding increase and caused confusion regarding the actual level of the increase in shared revenue funding.

4. In 2004-05, the county and municipal aid program will replace the shared revenue program. The new program's funding level under the bill is estimated at $831.3 million (an $80 million reduction from current law), and the bill proposes to fund the program through a $641.3 million GPR appropriation and two SEG appropriations with combined funding of $190.0 million, from the transportation fund and the utility public benefits fund. The bill would repeal the two SEG appropriations after payments are made for 2004-05. As a result, GPR funding would have to increase by 29.6% in 2005-06 to maintain the program's estimated, overall 2004-05 funding level. This could result in confusion and misunderstanding in the 2005-07 biennium regarding the appropriate funding level for the program.

5. Revenues for the utility public benefits fund are generated through a fee collected from the customers of all electric utilities and members of retail electric cooperatives. Under this structure, the fees are collected monthly and transferred to the Department of Administration. Current law requires 2004-05 county and municipal aid payments to be made in July (15%) and November (85%) of 2004, which are the first and fifth months of the 2004-05 state fiscal year. Since utility public benefits fees are collected monthly, the fund's cash flow may not be adequate to make the July and/or November aid payments (DOR would determine when to apply the SEG funds to payments). A similar cash flow issue may exist regarding the use of transportation fund revenues, because transportation fund revenues are collected on a rather even basis throughout the fiscal year, while expenditures are less evenly distributed. In particular, large payments to highway contractors occur in the summer and early fall, while major aid payments are made in July and October. Adding a July and/or November shared revenue payment averaging nearly 15% of transportation fund revenues would exacerbate the cash flow pattern in the first half of the fiscal year and may require interfund borrowing.

6. During the 2001 legislative session, the Senate version of the budget adjustment bill would not have used tobacco securitization proceeds to directly fund part of the 2002-03 shared revenue payments. Instead, the Senate voted to transfer the tobacco securitization proceeds to the state's general fund and not specify how the proceeds were to be used. If the Legislature decides that the use of proceeds from the transportation fund and utility public benefits fund for general fund expenditures is necessary, the SEG fund proceeds could simply be transferred to the general fund. This would avoid potential confusion over the 2005-07 county and municipal aid funding level and allow the cash flow concerns related to the two SEG funds to be avoided.

ALTERNATIVES

1. Approve the Governor's recommendation to use $400 million in transportation fund appropriations and a $20 million utility public benefits fund appropriation to directly fund shared revenue and county and municipal aid payments.

2. Delete the Governor's recommendation. Increase the 2003-04 GPR, sum sufficient appropriation for the shared revenue program by $230,000,000 and increase the 2004-05 GPR, sum sufficient appropriation for the county and municipal aid program by $190,000,000. Provide for

transfers to the general fund of $230,000,000 from the transportation fund in 2003-04 and of $170,000,000 from the transportation fund and $20,000,000 from the utility public benefits fund in 2004-05.

Alternative 2	GPR	SEG	TOTAL
2003-05 REVENUE (Change to Bill)	$420,000,000	- $420,000,000	$0
2003-05 FUNDING (Change to Bill)	$420,000,000	- $420,000,000	$0

3. Delete the Governor's recommendation. Increase the 2003-04 GPR, sum sufficient appropriation for the shared revenue program by $230,000,000 and increase the 2004-05 GPR, sum sufficient appropriation for the county and municipal aid program by $190,000,000.

Alternative 3	GPR	SEG	TOTAL
2003-05 FUNDING (Change to Bill)	$420,000,000	- $420,000,000	$0

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