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Expenditure Restraint Program
Municipal Levy Restraint Program
(Shared Revenue and Tax Relief -- Direct Aid Payments)

[LFB 2005-07 Budget Summary: Page 444, #4 and #5]

CURRENT LAW

Municipalities are not subject to a mandatory fiscal control, but some municipalities voluntarily comply with a fiscal control in order to receive an aid payment under the expenditure restraint program. To receive a payment, municipalities must meet two eligibility criteria. First, a municipality must have a municipal purpose property tax rate in excess of five mills in the year that is two years prior to the year of the aid payment. Second, a municipality must limit the year-to-year growth in its budget to a percentage determined through a statutory formula. The statutes define municipal budget as the municipality's budget for its general fund exclusive of principal and interest payments on long-term debt. The percentage limitation on budgets equals the sum of the percentage change in the consumer price index (CPI) and the percentage change in the municipality's tax base due to new construction, less any improvements removed, but not less than 0% nor more than 2%.

The formula for distributing payments is based on municipal tax rates and full values. First, an "excess tax rate" is calculated for each eligible municipality by subtracting the five mill standard tax rate from the municipality's 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 excess levies for all municipalities. Since 2003, the program's annual distribution has been set at $58,145,700.

GOVERNOR

Sunset payments under the expenditure restraint program after payments in 2006 and prohibit any moneys from being encumbered or expended from the program's appropriation after December 31, 2006. Because this provision would first affect payments in 2007, which would occur in the 2007-09 biennium, there would be no fiscal effect in the 2005-07 biennium.

Create a municipal levy restraint program and create two sum sufficient appropriations to make state aid payments to eligible municipalities. Set the distribution level for the municipal levy restraint payment account appropriation at $58,145,700 GPR annually, beginning in 2007. Set the distribution level for the municipal levy restraint bonus payment account appropriation at $10,000,000 GPR annually, beginning in 2007. Require the payments for each year's distribution to be made on the fourth Monday in July.

Provide payments from the two appropriations to municipalities if in the December that is two years before the aid payment, the municipality has both a municipal tax rate that is greater than five mills and has a municipal tax levy that is no greater than the municipality's maximum allowable levy, as defined under this program. (The proposed language relative to the second condition should be clarified to achieve this intent.)

Define municipal tax levy, for purposes of determining eligibility and computing aid payments, as the total taxes levied, other than tax incremental levies, for each town, village, or city on the statement of taxes filed with the Department of Revenue (DOR). Provide that a municipality's tax levy would be adjusted based on the following conditions: (a) if a municipality transfers to another governmental unit responsibility for providing any service that it provided in the preceding year, the municipality's tax levy for the preceding year would be decreased to reflect the amount that the municipality levied to provide the service; and (b) if a municipality increases the services that it provides by adding responsibility for providing a service transferred to it from another governmental unit that provided the service in any year, the municipality's tax levy for the preceding year would be increased to reflect the cost of providing that service. Define municipal tax rate as the municipality's tax levy divided by its taxable value. Define taxable value as the municipality's equalized value, as determined under current law, excluding the value increments in any tax increment districts.

Define maximum allowable levy as the municipality's tax levy in the year two years before the aid payment, increased by a percentage equal to 85% of the sum of two percentages, based on inflation and value growth, rounded to the nearest 0.01%.

Define the inflation factor as a percentage equal to the average annual percentage change in the consumer price index for all urban consumers, U. S. city average, as determined by the U.S. Department of Labor, for the 12 months ending on June 30 of the year that is two years before the year of the aid payment. Define the valuation factor as a percentage equal to 60% of the percentage change in the equalized value due to new construction, less improvements removed, for the region in which the municipality is located between the year two years before the year of the payment and the previous year, but not less than 0% nor greater than 2%. (The Department of Administration has requested a technical amendment to AB 100 to achieve this intent.)

Define nine separate regions consisting of five to 10 geographically contiguous counties for purposes of calculating the municipal valuation factor and direct DOR to assign each municipality to a region based on the county in which the municipality is located, as follows:

Region 1	Brown, Door, Florence, Kewaunee, Manitowoc, Marinette, Oconto, and Sheboygan counties;
Region 2	Calumet, Fond du Lac, Green Lake, Marquette, Menominee, Outagamie, Shawano, Waupaca, Waushara, and Winnebago counties;
Region 3	Buffalo, Crawford, Jackson, La Crosse, Monroe, Pepin, Pierce, Trempealeau, and Vernon counties;
Region 4	Adams, Forest, Juneau, Langlade, Lincoln, Marathon, Oneida, Portage, Vilas, and Wood counties;
Region 5	Ashland, Bayfield, Burnett, Douglas, Iron, Price, Rusk, Sawyer, Taylor, and Washburn counties;
Region 6	Columbia, Dane, Dodge, Jefferson, Rock, and Sauk counties;
Region 7	Kenosha, Milwaukee, Ozaukee, Racine, Walworth, Washington, and Waukesha counties;
Region 8	Grant, Green, Iowa, Lafayette, and Richland counties; and
Region 9	Barron, Chippewa, Clark, Dunn, Eau Claire, Polk, and Saint Croix counties.

Direct DOR to assign municipalities that are located in more than one county to the region containing the county that contains the greater amount of the municipality's taxable value.

Specify that the maximum allowable levy does not apply to amounts levied for the payment of any general obligation debt service, including debt service on debt issued or reissued to fund or refund outstanding obligations, interest on outstanding obligations, or the payment of related issuance costs or redemption premiums, secured by the full faith and credit of the municipality. Provide that if the county and municipal aid payment to a municipality is less than in the previous year, the municipality's maximum allowable levy would be increased to reflect the reduction.

Calculate each eligible municipality's payment from the municipal levy restraint payment account appropriation by: (a) subtracting five mills from the municipality's tax rate; (b) multiplying that amount by the municipality's taxable value; (c) dividing that amount by the sum of all such amounts for all eligible municipalities; and (d) multiplying the resulting percentage by $58,145,700.

Calculate each eligible municipality's payment from the municipal levy restraint bonus payment account appropriation by: (a) subtracting the municipality's tax levy from its maximum allowable levy; (b) dividing that amount by the sum of all such amounts for all eligible municipalities; and (c) multiplying the resulting percentage by $10,000,000.

Direct DOR to administer the program by calculating payments, by notifying eligible municipalities of their estimated payment amounts in the year preceding the aid payment, by certifying to the Joint Committee on Finance the appropriate percentage change in the consumer price index that is used to determine the inflation factor on August 1, of each year, and by making adjustments to levies to reflect service transfers.

Because this program's first aid payments would occur in July, 2007, which is in the 2007-09 biennium, the proposal would have no direct fiscal effect in the 2005-07 biennium. However, by limiting municipal property tax increases in 2005(06) and 2006(07), the 2005-07 funding levels for the computer aid, homestead tax credit, farmland preservation credit, and property tax/rent credit programs would be indirectly affected.

DISCUSSION POINTS

1. Fiscal controls, such as the one proposed under these provisions, are a mechanism to reduce Wisconsin's property tax level, which ranks above-average relative to other states. For 2001-02 (the most recent year compiled by the U.S. Department of Commerce), Wisconsin's level of state and local property taxes per $1,000 of personal income exceeds the national average by 27.3%, and Wisconsin's per capita level of state and local property taxes exceeds the national average by 22.6%. Since 2001-02, the estimated property tax bill for the typical homeowner has increased faster than the rate of inflation, as have gross property tax levies. These observations are discussed more fully in the Legislative Fiscal Bureau issue paper entitled "Levy Limit for Counties and Municipalities" (Paper #685).

2. Local officials cite a number of factors as the cause for property tax increases. They view the state as partially responsible for the increases because the state has imposed mandates on local governments and funding for state aid has not kept pace with inflation. In 2004, funding for the state's largest municipal aid program was decreased by $70 million. Local officials often object to state-imposed local fiscal controls as state interference in the local decision-making process. Local officials view themselves as better able than the state to evaluate the need for public services in their communities and their taxpayers' ability to pay for those services.

3. AB 100 proposes both a levy limit for all municipalities and a levy restraint program

that would provide aid to municipalities with tax rates exceeding five mills if the municipality adheres to a fiscal control similar to, but more restrictive than, the proposed levy limit. By linking local fiscal controls with state aid payments, local governments can decide to forego the state aid. In this way, state policy objectives can be balanced against the goal of local control. This balancing can be affected by the amount of aid at risk and the other policy objectives associated with the aid payment. Linking a new aid payment to a desired behavior creates a positive incentive to adjust the desired behavior.

4. The provisions in AB 100 have the effect of converting the expenditure restraint program to a municipal levy restraint program in 2007. The proposal would retain the requirement that municipalities have a tax rate in excess of five mills, but it would change the requirement that limits increases in budgeted expenditures to a requirement that limits increases in municipal purpose property tax levies. The municipal levy restraint program would use a distribution formula that is identical to that used for the expenditure restraint program, and would distribute an identical amount of state aid ($58,145,700). However, the bill would also authorize the distribution of an additional $10 million as a "bonus" payment under a formula where aid payments would be proportional to the amount that each qualifying municipality's levy falls below the levy limit.

5. Because the $10 million in additional funding would be paid in July, 2007, the expenditure would occur in the 2007-09 biennium and represents an advance commitment. When combined with increases in other tax relief appropriations proposed in AB 100 and the proposed delay of the computer aid payment, advance commitments in the "shared revenue and tax relief" portion of the budget total $266 million. This implies that the "first" $266 million in revenue growth in the 2007-09 biennium would be used to fund these increases. As an example, AB 100 anticipates $485.3 million in general purpose revenue growth in the first year of the 2005-07 biennium. Assuming similar revenue growth in the first year of the 2007-09 biennium, the $266 million increase would use 55% of the additional revenues. The $10 million increase under the levy restraint program would use 2% of the additional revenues.

6. The levy limit proposed under the municipal levy restraint program differs from the levy limit that AB 100 proposes for all municipalities in several ways. First, the valuation factor under the levy limit program would be "capped" at no more than 2% under the municipal levy restraint program. Second, the allowable percentage increase in levies would be reduced to 85% of the percentage allowed under the levy limit program, which the administration indicates is intended to produce levies lower than those allowed under the bill's levy limit. Third, the municipal levy restraint program would not authorize adjustments to the allowable levy for annexations, referenda, or town meetings, as authorized under the levy limit program. This configuration may violate the principle of administrative simplicity, which suggests that individuals are most likely to modify their behavior if there are understandable rules and predictable consequences. Therefore, imposing multiple fiscal controls and distribution formulas may not have the desired effect on local decisions. If the Committee decides to replace the expenditure restraint program with a levy restraint program, the Committee could use whatever levy limit it adopts as the eligibility test for the aid payment to avoid having two tests.

7. A number of municipalities would be excluded from the municipal levy restraint program. Based on 2004(05) tax rates, the proposed program would apply to only 451 of the state's 1,851 municipalities. While these municipalities levied 78.6% of the municipal purpose taxes, the remaining 1,400 municipalities levied $414.3 million in taxes and contain 46.8% of the statewide tax base and 36.3% of the state's population. It could be argued that these properties and population should be excluded from the control because they are subject to lower tax rates. Nonetheless, they comprise a significant portion of the state. If there is a desire to extend a fiscal control that is tied to a state aid payment to all municipalities, the control would need to be tied to a state aid program that provides payments to all 1,851 municipalities. The county and municipal aid program is the only state aid program that provides unrestricted state aid to all municipalities. However, linking existing aid, especially if it is substantial, to a desired behavior creates a situation that may be viewed more as a penalty for not engaging in the behavior, rather than as a reward for engaging in the behavior.

8. If municipalities have difficulty meeting the eligibility test, the proposed allocation formula may have unintended distributional effects. For example, the 451 municipalities with 2003(04) tax rates above five mills increased their levies in 2004(05) by almost $70 million, in total, but would have been allowed to increase their levies by about $40 million, in total, to be eligible for a levy restraint aid payment. To receive a bonus payment, they would have had to reduce their levies below the $40 million threshold. If those reductions had totaled only $5 million, municipalities would have received aid payments equal to twice the amount of their levy restraint.

9. AB 100 proposes to sunset the expenditure restraint program, which utilizes a fiscal control based on spending. AB 100 would replace that control with one focused on tax levy increases. Unless the municipalities currently receiving expenditure restraint aid significantly modify their behavior, the expenditure restraint program's conversion to a levy restraint program would have a significant redistributive effect. Among the 336 municipalities scheduled to receive 2005 expenditure restraint payments, only 114 adopted 2004(05) levies that would have been lower than the allowable levies under the levy restraint program. Among the remaining 222 municipalities, 22 adopted levies exceeding their allowable percentages by 0.5% or less and may have been able to make adjustments to comply with the proposed limit. Such adjustments would have been more difficult for the 24 municipalities with levy increases exceeding their estimated allowable increases by 0.5% to 1.0% and the 176 municipalities with increases exceeding their estimated allowable increases by more than 1.0%.

10. On the other hand, it may be unrealistic to expect all municipalities with tax rates over five mills to qualify for levy restraint aid each year. Experience with the expenditure restraint program suggests that many aid recipients do not remain in compliance with that program's eligibility requirements. Some municipalities may not have a tax rate exceeding five mills in every year, and other municipalities may choose not to comply with the program's fiscal control. Over the last ten years, only 16% of the 565 municipalities receiving expenditure restraint payments have received an aid payment in every year, and only 27% have received payments in at least eight of the ten years (Table 1). Payments were received in five or fewer years by over half (55%) of the total number of recipients.

TABLE 1

Number of Municipalities Receiving Expenditure Restraint Aid By the Number of Years a Payment Was Received, 1996 - 2005

Number of Payments	Number of Municipalities	Percent of Total	Cumulative Percentage
10	93	16%	16%
9	28	5	21
8	30	6	27
7	45	8	35
6	58	10	45
5	51	9	54
4	60	11	65
3	53	9	74
2	60	11	85
1	87	15	100
Ten-Year Total	565	100%	100%

11. A fiscal control based on spending, such as under the expenditure restraint program, will have different impacts than a control based on taxes. A control with a focus on spending implies a policy objective of limiting the size or scope of government. A control with a focus on taxes implies a policy objective of reducing local governments' reliance on the property tax. A fiscal control will achieve a greater level of effectiveness if it is designed on the basis of a clearly articulated public policy objective.

12. State aid is one reason that different types of fiscal controls have different impacts on individual local governments. The most recent year for which DOR has tabulated local revenue and expenditure data is 2003. Using that data, Table 2 shows the distribution of municipalities based on the percentage of their general expenditures within the governmental funds category funded through the shared revenue program and its related programs. On average, shared revenue funded 15.5% of municipal expenditures. However, shared revenue funded less than 10% of expenditures for 31% of all municipalities, and more than 25% of expenditures for 26% of all municipalities, including 51% of all villages. Generally, shared revenue funded a smaller percentage of expenditures in towns and a larger percentage in cities. Villages were the most varied in terms of their reliance on shared revenue.

TABLE 2

Shared Revenue and Related Programs as a Percent of General Expenditures Within the Governmental Funds Category By Type of Municipality, 2003

	Towns	Villages	Cities	Total
Number				
Under 10%	425	103	45	573
10% to 25%	608	92	95	795
25% to 50%	214	129	48	391
Over 50%	17	73	2	92
Total	1,264	397	190	1,851
Percent				
Under 10%	34%	26%	24%	31%
10% to 25%	48	23	50	43
25% to 50%	17	33	25	21
Over 50%	1	18	1	5
Total	100%	100%	100%	100%

13. Based on the 2003 financial information, Tables 3 and 4 relate the variation in state aid reliance to the impact resulting from the two types of fiscal controls. Table 3 illustrates the potential impact of a 3% across-the-board increase in tax levies on municipal spending, assuming no other increases in the municipalities' revenue sources. Within this context, it should be noted that each municipality's payment under the county and municipal aid program is "frozen" indefinitely at its 2004 level. A 3% levy control would have limited spending increases (unless fees or other non-levy and non-aid revenues were raised) to less than 1% for 46% of all municipalities, including 67% of all cities and villages. While 30% of all towns would have been able to increase their spending level by 1.5% or more, only 13% of all villages and 6% of all cities could have increased their expenditures at that rate.

TABLE 3

Distribution of General Expenditures Increases Permitted Under a 3% Across-the-Board Levy Limit Based on 2003 Financial Information

	Towns	Villages	Cities	Total
Number				
Under 1%	457	266	128	851
1.0% to 1.5%	431	81	51	563
1.5% to 2.0%	289	36	10	335
Over 2.0%	87	14	1	102
Total	1,264	397	190	1,851
Percent				
Under 1%	36%	67%	67%	46%
1.0% to 1.5%	34	20	27	30
1.5% to 2.0%	23	9	5	18
Over 2.0%	7	4	1	6
Total	100%	100%	100%	100%

14. Table 4 illustrates the potential impact of a 3% across-the-board increase in expenditures on municipal purpose property tax levies, assuming no other increases in municipalities' revenue sources. To achieve the allowable expenditure level, levy increases of more than 10% would have been allowed in the majority of cities (60%) and villages (59%). Towns display greater variation relative to the allowable percentage increase in taxes.

TABLE 4

Distribution of Municipal Tax Levy Increases Permitted Under a 3% Across-the-Board Expenditure Limit Based on 2003 Financial Information

	Towns	Villages	Cities	Total
Number				
Zero Levy	17	2	0	19
3.0% to 5.0%	170	24	3	197
5.0% to 7.5%	457	68	25	550
7.5% to 10.0%	267	69	47	383
Over 10.0%	353	234	115	702
Total	1,264	397	190	1,851
Percent				
Undefined	1%	1%	0%	1%
3.0% to 5.0%	14	6	2	10
5.0% to 7.5%	36	17	13	30
7.5% to 10.0%	21	17	25	21
Over 10.0%	28	59	60	38
Total	100%	100%	100%	100%

15. The preceding analysis indicates that due to variation in the percentage of expenditures funded by state aid, a levy limit may offer more restrictive expenditure increases than anticipated and an expenditure control may allow larger increases in levies than anticipated. Nonetheless, it should be acknowledged that taxing and spending levels are related and controlling one will also control the other, to some degree. In addition, the two controls will have other secondary impacts. For example, a property tax control would likely cause some local governments to make use of other revenue sources, such as fees. Likewise, a spending control could lead to some local governments reclassifying certain operating expenditures as capital assets to be funded with debt.

16. Because fiscal controls will likely trigger behavioral responses by local officials, the design of a control should balance effectiveness against flexibility. Exclusions and adjustments to a control may make it more flexible, but the control will also be less likely to meet its intended policy objectives. If the control offers few exclusions or adjustments, it may be viewed as inflexible, and local officials may be able to persuade taxpayers to override the control or legislators to amend the control. In AB 100, the proposed levy restraint program's fiscal control would offer adjustments for service transfers and state aid reductions and exclusions for amounts levied for tax increments and general obligation debt service (DOA has indicated that this exclusion should extend only to amounts resulting from new debt). The levy limit proposal included in AB 100 would offer the same adjustments and exclusions and would also extend an adjustment for annexations. In addition,

AB 100's levy limit could be overridden through referendum or by vote at an annual or special town meeting (if the town's population is below 2,000). A number of other adjustments could be provided for other occurrences, such as an unusually low base year levy, service consolidations, an unused portion of the prior year's allowable levy or spending, natural disasters, emergencies, or court orders.

17. Each of the preceding adjustments and exclusions may appear to be reasonable when evaluated alone, but in combination, they could undermine the effectiveness of the fiscal control. Unlike AB 100's levy limit proposal, which would be sunset after two years, the municipal levy restraint program is intended to be ongoing. This heightens the importance of balancing the program's flexibility with its effectiveness.

18. Depending on the number of adjustments or exclusions that are authorized, the program's allowable rate of increase could be adjusted in a way that achieves the desired level of effectiveness. Fiscal controls utilize an allowable rate of increase, typically expressed in percentage terms, to be applied against a local government's tax levy or expenditures. For example, if a large number of exclusions or adjustments are authorized, it may be advantageous to specify a more restrictive allowable rate of increase.

19. The allowable rate of increase could be measured in several ways. The expenditure restraint program limits spending increases to a percentage equal to the sum of the inflation rate and an adjustment based on growth in municipal property values. The inflation rate is measured as the change that occurred in the consumer price index. The property value adjustment 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%. AB 100 proposes a similar measure for the municipal levy restraint program, but the value adjustment would be calculated on a regional basis and the combined percentage would be reduced to 85% of its initial value. In Enrolled AB 58, the Legislature voted to limit each municipality's tax levy increase to 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%, with no inflationary adjustment. Table 5 compares the statewide average increases that would have been allowed under the levy limit proposals in Enrolled AB 58 and AB 100 with the allowable statewide rates of increase under the municipal levy restraint proposal.

TABLE 5

Estimated Allowable Rates of Increase in Tax Levies Calculated on a Statewide Basis Under Three Controls, 2001-04

	Enrolled AB 58	-------- AB 100 Levy Limit --------			AB 100
	Levy Limit, New Construction	Growth (60%)	Consumer Price Index	Combined Factors	Municipal Levy Restraint
2001	2.7%	1.6%	3.4%	5.0%	4.3%
2002	2.5	1.5	1.8	3.3	2.8
2003	2.5	1.5	2.2	3.7	3.1
2004	2.6	1.6	2.2	3.8	3.2

20. If the municipal levy restraint program had been in effect in 2004(05), allowable rates of levy increase would have ranged from 2.7% in Region 5 to 3.6% in Regions 6 and 9. Under the bill, the value factor would be calculated on a regional basis. The stated purpose of the regional calculation is to encourage municipalities to work cooperatively to attract economic development. A regional calculation would also "even out" year-to-year fluctuations in allowable rates of increase, relative to the increases that would be allowed if the value factor was calculated separately for each municipality. Relative to this latter calculation, a regional calculation would result in lower rates of allowable increase for municipalities experiencing the highest rates of growth and, presumably, the greatest need for levy increases. For the 451 municipalities with 2004(05) tax rates exceeding five mills, Table 6 reports the difference in allowable rates of increase between a municipal and regional calculation of the value factor. For example, the table shows that 74 municipalities would have had a limit that was between 0.1% and 0.5% higher if the limit was calculated on a municipal basis, rather than on a regional basis.

TABLE 6

Difference in Estimated Allowable Rates of Levy Increase Using a Municipal and Regional Calculation of the Value Factor, Municipalities with 2004(05) Tax Rates Over 5 Mills

Difference in Estimated 2004(05) Allowable Rates of Increase, Municipal Calculation Minus Regional Calculation of Value Factor	Number of Municipalities
More than 0.5% Lower	169
0.1% to 0.5% Lower	91
0.1% Lower to 0.1% Higher	85
0.1% to 0.5% Higher	74
More than 0.5% Higher	32

21. A fiscal control requires some enforcement mechanism. Like the expenditure restraint program, municipalities that fail to meet the program's eligibility criteria would not receive an aid payment in the succeeding year under the proposed municipal levy restraint program. A similar response could be utilized if a fiscal control is imposed under the county and municipal aid program. However, such a response may be viewed as too punitive because county and municipal aid payments fund a larger percentage of municipal expenditures, on average, than expenditure restraint payments. Instead, municipalities could forfeit an aid amount equal to all, or part, of the levy or spending in excess of the allowable limitation. If an amount equal to all of the excess is withheld, there would be no advantage in exceeding the limitation. Withheld amounts could be redistributed to other municipalities or lapse to the state's general fund.

ALTERNATIVES

1. With three exceptions, approve the Governor's recommendation to do the following: (a) sunset payments under the expenditure restraint program after payments in 2006; (b) create a municipal levy restraint program to make payments beginning in 2007 to each municipality with a municipal purpose tax rate in excess of five mills if the municipality has a tax levy that is no greater than its allowable levy as determined through a formula based on the inflation rate and the rate of tax base growth due to new construction calculated on a regional basis; and (c) create two sum sufficient appropriations with annual funding levels of $58,145,700 GPR and $10,000,000 GPR, respectively, to make payments to eligible municipalities based on the portion of their tax levies attributable to tax rates exceeding five mills and the amount by which their levies are below the allowable amounts. To achieve the proposal's original intent, modify the Governor's original recommendation regarding calculation of the allowable levy to clarify that: (a) the calculation pertains to the levy that is adopted in the year that is two years prior to the year of the aid payment; (b) the calculation of the valuation factor is based on construction that occurs between the year that is two years prior to the aid payment and the previous year; and (c) the calculation excludes debt service only for debt authorized on or after July 1, 2005, rather than excluding all debt service.

2. Delete the Governor's recommendation to create a municipal levy restraint bonus payment with an annual funding level of $10 million, beginning in 2007. To achieve the proposal's original intent, modify the Governor's original recommendation regarding calculation of the allowable levy to clarify that: (a) the calculation pertains to the levy that is adopted in the year that is two years prior to the year of the aid payment; (b) the calculation of the valuation factor is based on construction that occurs between the year that is two years prior to the aid payment and the previous year; and (c) the calculation excludes debt service only for debt authorized on or after July 1, 2005, rather than excluding all debt service.

3. Delete the Governor's recommendation to create a municipal levy restraint program and, instead, do one or more of the following:

a. Modify the expenditure restraint program by renaming the program the municipal levy restraint program and replacing the program's budget test with the levy limit requirement proposed in AB 100, including any modifications adopted by the Committee, effective with payments in 2007;

b. Modify the county and municipal aid program to provide that the amount of any municipality's levy exceeding the allowable levy as determined under the levy limit program proposed in AB 100, including any modifications adopted by the Committee, would be deducted from the municipality's next succeeding county and municipal aid payment; and/or

c. Modify the county and municipal aid program to provide that the amount of any municipality's expenditures exceeding the allowable expenditures as determined using the same formula as for the expenditure restraint budget test would be deducted from the municipality's next succeeding county and municipal aid payment.

4. Delete provision.

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