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March 4, 2002 Joint Committee on Finance Paper #1238

Shared Revenue Modifications -- Payments for 2003 and Thereafter Under Programs Related to Shared Revenue (Shared Revenue and Tax Relief)

[LFB Summary of the Governor's Budget Reform Bill: Page 77, #1]

CURRENT LAW

The state provides unrestricted state aid to counties and municipalities under shared revenue and three related programs. Those programs include expenditure restraint, county mandate relief and small municipalities shared revenue (SMSR). Act 16 increased funding for each of the programs by 1% for 2002 (2002-03) and by an additional 1% for 2003 (2003-04, the first year of the next biennium):

Program	2001 (2001-02)	2002 (2002-03)	2003(2003-04)
Expenditure Restraint	$57,000,000	$57,570,000	$58,145,700
County Mandate Relief	20,763,800	20,971,400	21,181,100
Small Municipalities Shared Revenue	11,000,000	11,110,000	11,221,100
Total	$88,763,800	$89,651,400	$90,547,900

GOVERNOR

The Governor's proposal would make a number of modifications to the funding levels, distribution formulas, payment dates and funding sources for the shared revenue, expenditure restraint, county mandate relief and small municipalities shared revenue programs. The Governor's proposal is described in full in LFB Paper #1235. However, this paper covers only the funding level and distribution of expenditure restraint, county mandate relief and small municipalities shared revenue payments for 2003 and thereafter. Other Legislative Fiscal Bureau papers address other aspects of the Governor's proposal.

Specify that total payments in 2003 under the shared revenue program and under the three related programs (expenditure restraint, county mandate relief and small municipalities shared revenue) for each municipality and county would equal the amount received in 2002, after any aid reductions enacted for 2002.

Delete the 1% increase for 2003 in the statutory distribution level for each of the three affected programs, remove references to the 2003 level continuing in the future and specify that the statutory distribution levels are subject to the reductions used to save $350,000,000 annually in 2003. Establish a June 30, 2004, sunset for encumbrances and expenditures from the current law appropriations for the three affected programs. Establish a sunset after 2003 for distributions under the three affected programs.

DISCUSSION POINTS

1. State law directs the Department of Revenue (DOR) to provide estimates each September of the aid payments that each local government will receive in the succeeding year. Local governments use these estimates in setting their succeeding year's budgets. Due to the state fiscal year in which the payments are actually made, this timetable requires the Legislature to authorize changes in funding levels and in distribution formulas well in advance of when the changes take effect. For example, Act 16 set an annual, combined funding level for the expenditure restraint, county mandate relief and small municipalities shared revenue programs at $90,547,900 for 2003, even though those payments will be made in the first year of the next biennium. As a result, if the Legislature wishes to make changes to the 2003 distributions, it may be advisable to do so during the current session.

2. The expenditure restraint program distributes state aid to municipalities that meet two eligibility requirements. First, a municipality must have a local purpose tax rate that exceeds five mills. Second, a municipality must restrict the year-to-year growth in its budget to a percentage based on the rate of inflation and growth in the municipality's tax base due to new construction. Since 1994, between 240 and 315 of the state's 1,850 municipalities have qualified for aid under these criteria, including 300 municipalities for 2002 payments.

3. The small municipalities shared revenue program distributes state aid to municipalities that meet three eligibility criteria. First, the municipality's population cannot exceed 5,000. Second, the municipality must have a local purpose tax rate of at least one mill. Third, the municipality must have an adjusted full value of $40 million, or less. If the municipality's total land area exceeds 54 square miles, the full value requirement is not applied. Since 1994, the number of municipalities that have qualified for payments has declined each year, from 1,142 in 1994 to 811 in 2002. This compares to 1,850 municipalities statewide.

4. Each of the state's 72 counties receives an annual payment under the county mandate relief program. The distribution is not contingent on eligibility requirements, and payments are allocated to counties on a per capita basis. Because funding has increased from $4.7 million in 1994 to $21.0 million for 2002, the reimbursement rate has increased over that period from $0.94 per person to $3.88 per person.

5. Since the county mandate relief program's distribution is more broad-based, a wider constituency may exist for its continuation. On the other hand, during periods of limited financial resources, targeted aid programs, such as expenditure restraint and SMSR, may result in a more efficient use of state resources.

6. The three programs are related to the shared revenue program because each program provides unrestricted aid to general purpose local governments and because they possess complementary policy objectives. Consequently, it may be appropriate to determine the funding level for each program relative to the funding level for the shared revenue program. The primary policy of the shared revenue program is to equalize local governments' tax base relative to their spending levels. Under this policy, local governments with comparable spending levels will impose comparable tax burdens, regardless of their levels of tax base. This occurs because state aid is used to supplement the tax base that some local governments lack relative to other local governments.

7. Under tax base equalization, differences in local governments' tax rates are primarily the result of different spending levels, which may be reflective of different service needs. Under the expenditure restraint program, aid is distributed to local governments with tax rates over five mills, so that a proportional reduction in the portion of their tax rates over five mills is achieved. In this manner, the program reduces the disparity in municipal purpose tax rates. The small municipalities shared revenue program is intended to provide aid to municipalities with a tax base that is so limited that the municipality may have difficulty providing a basic level of services. The county mandate relief program offers supplementary resources to each county on a uniform basis.

8. The Commission on State-Local Partnerships for the 21st Century documented the state's large number of local governments, and that number was cited as a factor that contributes to Wisconsin's high tax burden in the Governor's budget summary. It could be argued that the state's aid system may contribute to patterns of inefficient service delivery by prolonging local governments that are not viable. Given the state's limited fiscal resources, arguments could be made to eliminate each of the programs. For example, the expenditure restraint program's role in limiting the year-to-year growth in municipal budgets may become less important if the Governor's proposal to impose a levy limit on municipal governments is adopted. Second, compared to a statewide average municipal purpose tax rate of 5.69 mills in 2000(01), municipalities receiving SMSR had an average municipal purpose tax rate of only 3.16 mills, and 741 of the 880 aid recipients had rates below the statewide average. Finally, despite its name, the county mandate relief program has insufficient resources ($21 million) to effectively address those mandates that counties have identified as being the most burdensome.

9. The Governor has proposed to reduce funding for shared revenue and the three

related programs in 2002 and to set each municipality's and county's 2003 payment at the same amount received in 2002. If there is a desire to continue the three related programs, as well as the shared revenue program, Table 1 shows several options for funding reductions. The amounts in the table complement the reduction options presented for 2002 in LFB Paper #1235, "Shared Revenue Modifications -- Distribution of 2002 Payments" and the reduction options presented for 2003 in Table 2 of LFB Paper #1236, "Shared Revenue Modifications -- Shared Revenue Payments for 2003 and Thereafter."

TABLE 1

Alternate 2003 Distribution Levels

Reduction Amount and Procedure:	Expenditure Restraint	County Mandate Relief	Small Municipalities Shared Revenue
-$350 Million			
Per Capita	$43,795,700	$4,605,900	$8,451,800
Aid + Levy	41,769,400	7,832,600	8,060,800
Uniform Percent	37,996,300	13,841,100	7,332,600
-$200 Million			
Per Capita	$50,193,100	$10,832,800	$9,686,400
Aid + Levy	48,802,900	13,046,700	9,418,100
Uniform Percent	46,385,000	16,897,000	8,951,500
-$100 Million			
Per Capita	$54,076,600	$15,591,600	$10,435,800
Aid + Levy	53,276,700	16,865,300	10,281,500
Uniform Percent	51,977,500	18,934,200	10,030,800

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to specify that total payments in 2003 under the shared revenue program and under the three related programs (expenditure restraint, county mandate relief and small municipalities shared revenue) for each municipality and county would equal the amount received in 2002, after any aid reductions enacted for 2002. Delete the 1% increase for 2003 in the statutory distribution level for each of the three affected programs, remove references to the 2003 level continuing in the future and specify that the statutory distribution levels are subject to the reductions used to save $350,000,000 annually in 2003. Establish a June 30, 2004, sunset for encumbrances and expenditures from the current law

appropriations for the three affected programs. Establish a sunset after 2003 for distributions under the three affected programs.

2. Repeal the expenditure restraint, county mandate relief and small municipalities shared revenue programs as of December 31, 2002, effective with the distributions for 2003. Specify that the notice requirement for September, 2002, relative to estimated payments for 2003, would not include estimates for payments under the three programs.

3. Establish expenditure restraint, county mandate relief and small municipalities shared revenue funding levels for 2003 and thereafter that are consistent with the policy of making proportionate reductions to those programs and to the county and municipal shared revenue distributions and that are consistent with the policy adopted to make aid reductions in 2002 and one of the following overall reductions (see Table 1 for specific details):

a. $350,000,000;

b. $200,000,000; or

c. $100,000,000.

4. Delete the Governor's recommendation to reduce in 2003 and eliminate in 2004 state aid payments under the expenditure restraint, county mandate relief and small municipalities shared revenue programs.

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