Targeted Municipal Aid Programs

(Expenditure Restraint, Computer Aid,
and Small Municipalities Shared Revenue)

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Prepared by

Rick Olin

Wisconsin Legislative Fiscal Bureau
One East Main, Suite 301
Madison, WI 53703

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This paper provides a detailed description of the eligibility criteria and distribution formulas for the expenditure restraint and computer aid programs. Also, information about the small municipalities shared revenue program is provided.

Expenditure Restraint Program

The expenditure restraint program provides targeted, general aid to towns, villages, and cities. The aid is targeted in that municipalities must qualify for a payment by meeting certain eligibility criteria. The payments are characterized as general aid because the dollars are unrestricted, to be spent however the municipality determines. Since 2003, the program's annual distribution has been set at $58,145,700.

The Department of Revenue (DOR) administers the program. By September 15 of each year, the Department provides estimates of the succeeding year's payments to qualifying municipalities. This procedure allows municipalities to anticipate aid amounts when they are setting their budgets for the coming year. Expenditure restraint aid is paid in its entirety on the fourth Monday in July.

Eligibility Criteria

A municipality must satisfy two eligibility criteria to receive an expenditure restraint payment:

1. *Municipal Tax Rate*. A municipality must have a full value property tax rate for operation of city, town, or village government that exceeds five mills. The tax rate for the second year prior to the payment year is used for this test. Therefore, to be eligible for the 2005 payment, a municipality's local purpose tax rate for the 2003 (payable 2004) levy had to exceed $5.00 per thousand of full value. There were 460 municipalities that met this test relative to 2005 aid payments.

2. *Budget Restraint*. A municipality must restrict the rate of year-to-year growth in its budget to a percentage determined by statutory formula.

Municipal Budget

The statutes define "municipal budget" as the municipality's budget for its general fund exclusive of principal and interest payments on long-term debt. Three statutory adjustments to the budgeted amounts are allowed. First, amounts paid by municipalities as state recycling tipping fees are excluded. Second, budgeted amounts are adjusted for the cost of services transferred to or from the municipality seeking to qualify for a payment. Third, amounts paid by municipalities under municipal revenue sharing agreements are excluded. The statutes prohibit municipalities from meeting the budget test by creating other funds, unless those funds conform to generally accepted accounting principles (GAAP). These principles have been adopted by the Governmental Accounting Standards Board to offer governments guidelines on how to maintain their financial records.

Allowable Rate of Growth

For the year prior to the aid payment, the rate of budget growth cannot exceed the inflation rate plus an adjustment based on growth in municipal property values. The inflation rate is measured as the change that occurred in the Consumer Price Index (CPI) in the one-year period ending in September two years prior to the payment year. The property value adjustment to the CPI rate 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%. The allowable increase is known at the time when municipal officials set their budgets.

To be eligible for a 2005 payment, municipalities were required to limit their 2004 budget increases to 2.3% to 4.3%, depending on individual municipal adjustments due to property value increases. The Department of Revenue certifies the change in the CPI annually on November 1 to the Joint Committee on Finance. Based on the November 1, 2004, certification, municipalities will be required to limit the growth in their 2005 budgets to no more than 2.3% to 4.3%, depending on their applicable adjustment for growth in property values, to be eligible for a 2006 expenditure restraint payment.

For 2005 payments, 460 municipalities met the tax rate test, but only 336 municipalities also met the budget test. Thus, 124 municipalities either did not meet the budget test or did not submit budget worksheets to DOR on a timely basis.

Each year, the Department of Revenue notifies municipalities meeting the tax rate eligibility requirement. To receive a payment, those municipalities must submit a budget worksheet to DOR by May 1. The Department uses the worksheet to verify compliance with the budget restraint requirement. Qualifying municipalities are informed in September of the expenditure restraint payment to be received the following July.

Distribution Formula

The formula for distributing payments is based on municipal levy rates and full values. First, an "excess tax rate" is calculated for each qualifying municipality by subtracting the five-mill standard tax rate from the municipality's property 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 of excess levies for all eligible municipalities. For example, if a municipality's excess levy equals $25 million and the excess levies of all eligible municipalities sum to $500 million, then the municipality would receive 5% ($25 million / $500 million) of the total payments.

If an error is found in the calculation of a payment, the error will be corrected by adjusting the affected municipalities' November county and municipal aid payments. In addition, expenditure restraint payments can be corrected by increasing or decreasing the payments in the succeeding year. A similar correction procedure is used for county and municipal aid payments.

Appendix I uses the City of Eau Claire as an example to provide a detailed illustration of the steps in determining the City's eligibility for the program and in calculating its 2005 payment. Table 1 provides information on the distribution of expenditure restraint payments for the period from 1996 through 2005.

A number of changes were made to several county and municipal state aid programs as a result of provisions included in 2001 Wisconsin Act 109. However, Act 109 did not make any substantive modifications to the expenditure restraint program. Therefore, under current law, the 2005 funding level of $58,145,700 will remain in effect for the distributions in 2006 and thereafter.

Table 1: Expenditure Restraint Payment Distribution Summary

	Number	Percent	Amount	Percent
1996				
Towns	40	15.7%	$307,119	0.6%
Villages	5	37.4	3,362,561	7.0
Cities	119	46.9	44,330,320	92.4
	254	100.0%	$48,000,000	100.0%
1997				
Towns	58	18.4%	$531,480	1.1%
Villages	138	43.8	3,939,559	8.2
Cities	119	37.8	43,528,961	90.7
	315	100.0%	$48,000,000,	100.0%
1998				
Towns	49	16.7%	$537,612	1.1%
Villages	112	38.2	3,788,113	7.9
Cities	132	45.1	43,674,275	91.0
	293	100.0%	$48,000,000	100.0%
1999				
Towns	47	16.1%	$570,785	1.2%
Villages	110	37.7	3,916,732	8.2
Cities	135	46.2	43,512,483	90.6
	292	100.0%	$48,000,000	100.0%
2000				
Towns	42	14.9%	$609,629	1.1%
Villages	104	37.0	4,682,275	8.2
Cities	135	48.0	51,708,096	90.7
	281	100.0%	$57,000,000	100.0%
2001				
Towns	30	11.1%	$844,429	1.5%
Villages	105	38.9	5,019,086	8.8
Cities	135	50.0	51,136,485	89.7
	270	100.0%	$57,000,000	100.0%
2002				
Towns	39	12.9%	$768,297	1.3%
Villages	128	42.2	5,147,973	9.0
Cities	136	44.9	51,653,730	89.7
	303	100.0%	$57,570,000	100.0%
2003				
Towns	29	9.9%	$708,015	1.2%
Villages	120	41.1	4,825,676	8.3
Cities	143	49.0	52,612,009	90.5
	292	100.0%	$58,145,700	100.0%
2004				
Towns	27	8.8%	$420,325	0.7%
Villages	134	43.8	5,482,828	9.4
Cities	145	47.4	52,242,547	89.9
	306	100.0%	$58,145,700	100.0%
2005				
Towns	33	9.8%	$458,816	0.8%
Villages	152	45.2	5,343,941	9.2
Cities	151	45.0	52,342,943	90.0
	336	100.0%	$58,145,700	100.0%

Computer Aid Program

Since the 1999 property tax levy (payable in 2000), computers, software, and related equipment have been exempt from the property tax. Effective as of 2003(04), an additional exemption was created for cash registers and fax machines, except those that are also copiers. Typically, when property becomes exempt, the taxes that would otherwise be levied on that property are shifted to other properties that remain taxable, resulting in higher property tax bills for those properties. To avoid this effect, the Legislature has authorized computer aid payments to hold taxpayers and local governments harmless from the impacts of these two exemptions.

Each county, municipality, school district, technical college district, and special purpose district, including tax increment districts, where exempt computer value is located receives a computer aid payment. Payments equal the value of the exempt property multiplied by the local government's current tax rate.

With assistance from local governments, the Department of Revenue (DOR) administers the computer aid program. Prior to the exemption's creation, businesses annually reported the value of their computers and related equipment, along with the value of all other taxable personal property, to the assessor for the municipality where the property was located. The reported value was based on the property's original cost, less an amount for depreciation based on the property's age. Since computers and related equipment became exempt, their owners have been required to continue to report the value of the exempt property using the same procedures in effect prior to 1999. Assessors report the total amount of these values in each municipality to DOR by May 1 of each year, and the Department apportions those values to overlying counties, school districts, technical college districts, and special purpose districts. DOR adjusts the reported values by converting them to full market, or equalized, values. DOR calculates each local government's aid payment by multiplying the exempt value attributable to that jurisdiction by the jurisdiction's current full value tax rate.

State law requires DOR to notify local governments of their exempt computer values by October 1. After the governments have set their property tax levies for the succeeding year's budget, they can use the values to estimate the amount of computer aid they will receive by multiplying their tax rates by their exempt values.

The Department of Administration makes annual payments, based on the amounts calculated by DOR, to local governments by the first Monday of May. Payments totaled $64.8 million in the program's initial year and increased over the next two years to total $76.8 million in 2001(02). Payments of just under $73.5 million were made in 2002(03) and 2003(04). Table 2 summarizes the computer aid program's payment history since its inception.

Table 2: Computer Aid Distribution Summary (In Millions)

	Counties	Towns, Villages, and Cities	School Districts	Technical College Districts	Special Districts	Tax Increment Districts	Total
1999(00)	$10.5	$17.3	$25.5	$3.9	$1.1	$6.5	$64.8
2000(01)	11.9	20.0	28.2	4.5	1.2	8.2	74.0
2001(02)	12.3	20.5	28.4	4.7	1.3	9.6	76.8
2002(03)	11.8	20.1	27.1	4.6	1.2	8.6	73.4
2003(04)	11.7	19.8	26.9	4.6	1.1	9.4	73.5

Over the program's first five years, statewide tax rates have decreased. In response to decreasing tax rates, aid payments will also decrease unless the amount of exempt value increases at a rate sufficient to offset the effects of lower tax rates. Exempt computer values increased by 14.4% from 1999 to 2000 and by 6.6% from 2000 to 2001. However, values decreased by 1.4% in 2002 and increased by only 2.7% in 2003. Initial increases in exempt values may have been due to improved compliance in reporting exempt values during the program's initial years. Also, values have changed in response to economic conditions, with the value reduction in 2002 coinciding with the 2001 national economic recession. Finally, DOR employs a depreciation schedule of only four years for valuing computers, reflecting the rapid rate at which computers become obsolete. For 2004(05), DOR has determined a value of $3,077.1 million for exempt computers and related equipment, which is 2.2% lower than the exempt value for 2003(04) of $3,145.3 million.

Small Municipalities Shared Revenue Program

The small municipalities shared revenue (SMSR) program was created in 1991 as part of the biennial budget act, but no funding was provided until 1994. In the initial proposal to create the program, it was named the small community improvement program (SCIP), and this acronym continued to be used as a reference to the program. Payments were made to municipalities with low populations and property values, provided they levied taxes at a rate equal to at least one mill. Table 3 summarizes the program's distribution for 1994 through 2003.

Under provisions included in 2001 Wisconsin Act 109, the small municipalities shared revenue program was suspended after payments were made in 2003. This provision was in addition to other changes to several county and municipal state aid programs.

After the 2003 distributions under the shared revenue, small municipalities shared revenue, and county mandate relief programs, the language authorizing these programs remains in the state statutes, but payments under them have been suspended, except for the utility aid component of the shared revenue program. Payments under the utility aid component of the shared revenue program continue to be made.

Beginning in 2004, Act 109 authorizes payments to municipalities and counties under a new program entitled "county and municipal aid." Funding from the suspended programs has been transferred to the new program. Under these provisions, distributions under the small municipalities shared revenue program have not occurred since 2003 and will not occur in the future.

Table 3: Small Municipalities Shared Revenue Distribution Summary

	Number	Percent	Amount	Percent
1994				
Towns	824	72.2%	$6,659,361	66.6%
Villages	275	24.1	3,008,083	30.1
Cities	43	3.7	332,556	3.3
	1,142	100.0%	$10,000,000	100.0%
1995				
Towns	815	73.0%	$9,409,382	67.2%
Villages	261	23.4	4,146,721	29.6
Cities	40	3.6	443,897	3.2
	1,116	100.0%	$14,000,000	100.0%
1996				
Towns	792	72.7%	$6,628,099	66.2%
Villages	263	24.1	3,086,391	30.9
Cities	35	3.2	285,510	2.9
	1,090	100.0%	$10,000,000	100.0%
1997				
Towns	761	72.4%	$6,591,480	65.9%
Villages	257	24.4	3,117,783	31.2
Cities	34	3.2	290,737	2.9
	1,052	100.0%	$10,000,000	100.0%
1998				
Towns	727	71.7%	$6,491,602	64.9%
Villages	254	25.1	3,221,630	32.2
Cities	32	3.2	286,768	2.9
	1,013	100.0%	$10,000,000	100.0%
1999				
Towns	703	71.8%	$6,444,587	64.4%
Villages	249	25.5	3,294,813	33.0
Cities	26	2.7	260,600	2.6
	978	100.0%	$10,000,000	100.0%
2000				
Towns	650	71.0%	$6,914,072	62.9%
Villages	245	26.7	3,830,012	34.8
Cities	21	2.3	255,916	2.3
	916	100.0%	$11,000,000	100.0%
2001				
Towns	621	70.6%	$6,825,556	62.0%
Villages	239	27.1	3,915,849	35.6
Cities	20	2.3	258,595	2.4
	880	100.0%	$11,000,000	100.0%
2002				
Towns	573	70.7%	$6,823,847	61.4%
Villages	225	27.7	4,094,032	36.9
Cities	13	1.6	192,121	1.7
	811	100.0%	$11,110,000	100.0%
2003				
Towns	543	69.8%	$6,789,503	60.5%
Villages	224	28.8	4,263,264	38.0
Cities	11	1.4	168,333	1.5
	778	100.0%	$11,221,100	100.0%

APPENDIX I

Calculation of the 2005 Expenditure Restraint Payment for the City of Eau Claire

Eligibility Tests

1.	**Municipal Tax Rate (per $1,000 of full value)**	
	Eau Claire's 2003(04) Municipal Tax Rate	$7.285426
	Statewide Standard Tax Rate for Municipal Purposes	$5.000000
	Excess Tax Rate, Eau Claire minus State Standard	$2.285426
	Eau Claire qualifies since its tax rate exceeds the state standard.	
2.	**Budget Restraint**	
	Eau Claire's 2003 to 2004 Budget Increase	3.56%
	Percent Change in CPI, Sept., 2002, to Sept., 2003	2.30%
	Value of New Construction Occurring in 2002	$81,348,500
	January 1, 2002, Equalized Value	$3,105,363,300
	Percent Change	2.62%
	60% of Percent Change, but no less than 0% and no more than 2%	1.57%
	Maximum Allowable Budget Increase: Sum of Inflation Rate and Value Adjustment, Rounded to the Nearest 0.10%	3.90%
	Eau Claire qualifies since its budget increase is below 3.90%.	

Calculation of Payment

1.	**Calculate Eau Claire's Excess Levy**	
	Multiply the Municipality's January 1, 2003, Full Value	$3,330,560,800
	By the Excess Tax Rate (Per $1,000 of full value)	X $2.285426
	Eau Claire's Excess Levy Equals	$7,611,750
2.	**Calculate Eau Claire's Share of Payment**	
	Eau Claire's Excess Levy Divided by	$7,611,750
	Total Excess Levies of Eligible Municipalities	÷ $516,546,529
	Eau Claire's Share of Payment Equals	1.4735846%
3.	**Calculate Eau Claire's Payment**	
	Available Funding	$58,145,700
	Multiplied by Eau Claire's Share of Payment	X 1.4735846%
	Eau Claire's Payment Equals	$856,826