Informational Paper 19

Targeted Municipal Aid Programs
(Expenditure Restraint and Computer Aid)

Wisconsin Legislative Fiscal Bureau

January, 2009

Targeted Municipal Aid Programs
(Expenditure Restraint and Computer Aid)

Prepared by

Rick Olin

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

Targeted Municipal Aid Programs

(Expenditure Restraint and Computer Aid)

This paper provides a detailed description of the eligibility criteria and distribution formulas for the expenditure restraint and computer aid programs.

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 2009 payment, a municipality's local purpose tax rate for the 2007 (payable 2008) levy had to exceed $5.00 per thousand of full value. There were 380 municipalities that met this test relative to 2009 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 2009 payment, municipalities were required to limit their 2008 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, 2008, certification, municipalities will be required to limit the growth in their 2009 budgets to no more than 4.4% to 6.4%, depending on their applicable adjustment for growth in property values, to be eligible for a 2010 expenditure restraint payment.

For 2009 payments, 380 municipalities met the tax rate test, but only 273 municipalities also met the budget test. Thus, 107 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.

The appendix 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 2009 payment. Table 1 provides information on the distribution of expenditure restraint payments for the period from 2000 through 2009.

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 fax machines 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

Table 1: Expenditure Restraint Payment Distribution Summary

	Number	Percent	Amount	Percent
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%	$461,094	0.8%
Villages	152	45.1	5,198,193	8.9
Cities	152	45.1	52,486,413	90.3
	337	100.0%	$58,145,700	100.0%
2006				
Towns	36	11.4%	$239,473	0.4%
Villages	133	42.2	5,338,424	9.2
Cities	146	46.4	52,567,803	90.4
	315	100.0%	$58,145,700	100.0%
2007				
Towns	24	7.4%	$144,689	0.3%
Villages	147	45.4	4,896,596	8.4
Cities	153	47.2	53,104,415	91.3
	324	100.0%	$58,145,700	100.0%
2008				
Towns	27	8.5%	$178,396	0.3%
Villages	136	42.9	4,817,503	8.3
Cities	154	48.6	53,149,801	91.4
	317	100.0%	$58,145,700	100.0%
2009				
Towns	13	4.8%	$146,107	0.3%
Villages	119	43.6	4,334,188	7.4
Cities	141	51.6	53,665,405	92.3
	273	100.0%	$58,145,700	100.0%

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 to local governments based on the amounts calculated by DOR. From 2000 through 2006, payments were made on or before the first Monday of May, but beginning in 2007, the payment date was changed to the fourth Monday in July. 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). Over the next five years, payments decreased each year until reaching to $65.1 million in 2006(07). Payments rose 4.5% to $68.0 million in 2007(08). Table 2 summarizes the computer aid program's payment history over the last five years.

Because aid payments are the product of exempt values and tax rates, changes in values and rates determine whether or not aid payments increase or decrease. Beginning in 2003(04) statewide average property tax rates decreased in each of the following four years, from $21.31 per $1,000 of value in 2003(04) to $18.56 per $1,000 of value in 2006(07), but increased slightly to $18.58 per $1,000 of value in 2007(08). Exempt computer values increased 4.7% over the five-year period in Table 2, from $3,145.3 million in 2003(04) to $3,291.7 million in 2007(08), but that growth has been erratic, decreasing 2.2% in 2004(05) and increasing 2.7% in 2005(06), 0.5% in 2006(07), and 3.7% in 2007(08). Increases in exempt values are caused by businesses purchasing new or used computers. However, values do not increase unless purchases exceed the value lost through depreciation and retirements. These factors can result in sizeable valuation reductions each year due to technological improvements.

For 2008(09), DOR has determined a value of $3,494.3 million for exempt computers and related equipment, which is 6.2% higher than the exempt value for 2007(08) of $3,291.7 million.

Table 2: Computer Aid Distribution Summary (In Millions)

	Counties	Towns, Villages, and Cities	School Districts	Technical College Districts	Special Districts	Tax Increment Districts	Total
2003(04)	$11.7	$19.8	$26.9	$4.6	$1.1	$9.4	$73.5
2004(05)	11.1	18.7	25.9	4.3	1.1	9.2	70.3
2005(06)	10.8	18.3	24.6	4.3	1.0	8.7	67.7
2006(07)	10.1	17.2	23.4	4.1	0.9	9.4	65.1
2007(08)	10.3	17.8	24.5	4.2	0.9	10.3	68.0

APPENDIX

Calculation of the 2009 Expenditure Restraint Payment for the City of Eau Claire

Eligibility Tests

1.	**Municipal Tax Rate (per $1,000 of full value)**	
	Eau Claire's 2007(08) Municipal Tax Rate	$7.103292
	Statewide Standard Tax Rate for Municipal Purposes	$5.000000
	Excess Tax Rate, Eau Claire minus State Standard	$2.103292
	Eau Claire qualifies since its tax rate exceeds the state standard.	
2.	**Budget Restraint**	
	Eau Claire's 2007 to 2008 Budget Increase	3.58%
	Percent Change in CPI, Sept., 2006, to Sept., 2007	2.30%
	Value of New Construction Occurring in 2006	$90,744,700
	January 1, 2006, Equalized Value	$3,951,641,300
	Percent Change	2.30%
	60% of Percent Change, but no less than 0% and no more than 2%	1.38%
	Maximum Allowable Budget Increase: Sum of Inflation Rate and Value Adjustment, Rounded to the Nearest 0.10%	3.70%
	Eau Claire qualifies since its budget increase is below 3.70%.	

Calculation of Payment

1.	**Calculate Eau Claire's Excess Levy**	
	Multiply the Municipality's January 1, 2007, Full Value	$4,110,178,800
	By the Excess Tax Rate (Per $1,000 of full value)	X $2.103292
	Eau Claire's Excess Levy Equals	$8,644,906
2.	**Calculate Eau Claire's Share of Payment**	
	Eau Claire's Excess Levy Divided by	$8,644,906
	Total Excess Levies of Eligible Municipalities	÷ $474,940,419
	Eau Claire's Share of Payment Equals	1.8202085%
3.	**Calculate Eau Claire's Payment**	
	Available Funding	$58,145,700
	Multiplied by Eau Claire's Share of Payment	X 1.8202085%
	Eau Claire's Payment Equals	$1,058,373