



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

October 13, 2009

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Administration: Changes to Municipal Services Payment Program Guidelines --
Agenda Item V

REQUEST

The Department of Administration (DOA) requests approval of the amended municipal services payment (MSP) program guidelines (copy attached), which are used in calculating municipal entitlements and making annual payments to municipalities.

BACKGROUND

Through the MSP program, the state provides annual payments to reimburse municipalities for all or a portion of property tax supported expenses incurred in providing services to state facilities, which are exempt from property taxation. Payments are made for fire and police protection, extraordinary police services, garbage and trash collection and disposal, and other approved direct services. The intent of the program is to aid in the reduction of local property taxes by making an equitable contribution toward the cost of certain municipally provided services at state facilities. In 2009-10, \$20,649,200 will be paid by the state through the MSP program.

The initial step of the MSP formula involves calculating the net costs incurred by the municipality in providing each eligible service on a municipality-wide basis. The net costs are determined by subtracting municipal revenues that are directly related to a particular service (service charges, specific state or federal aid payments, and intergovernmental subsidies) from the gross costs of providing the service.

The second step in the formula involves calculating the amount of property taxes used to finance the net cost of each service. The municipality's property tax levy for municipal purposes is

divided by the sum of the municipality's property tax levy for municipal purposes and state unrestricted aid payments (this sum equals total general revenue). This ratio, which represents the proportion of the municipality's general revenues provided through the property tax, is multiplied by the net cost of each service to yield the cost financed through the municipal property tax.

The final step involves allocating a portion of the tax cost of each service to the state-owned facilities within the municipality. The tax cost of each service is multiplied by the ratio of the value of state-owned facilities to the total value of real estate improvements within the municipality. This is repeated for each of the three eligible costs (fire and police protection and solid waste handling services) and the three amounts are totaled to yield the municipality's MSP formula entitlement. Municipalities with entitlement amounts of less than \$100 do not receive a payment.

Annually, by November 15, DOA is required to submit a MSP payment report to the Joint Committee on Finance. This report indicates the entitlement amounts for each municipality and the associated payments to be received in the following year (entitlements are prorated to equal the appropriated funding level). This report is submitted to the Committee under a 14-day passive review process. On December 3, 2008, the Committee notified DOA of an objection to the proposed payment report for 2009. In a subsequent memorandum to the DOA Secretary, the Committee indicated that in light of DOA's acknowledgement that the administrative errors in the report have been corrected and appropriate remedial action is being taken with the affected municipalities, the objection was removed. However, the Committee indicated that the objection was being removed with the understanding that DOA must submit recommendations to clarify the program guidelines for the MSP program relating to the administrative errors by no later than August 15, 2009, for review and approval by the full Committee. It was also indicated that it was the Committee's expectation that changes to the program guidelines would address, but not be limited to, intergovernmental agreements among municipalities as they relate to the reimbursements for services provided to state facilities.

Program guidelines have been developed, which govern the MSP entitlement calculations and payment process. Under s. 70.119 of statutes, the Department is required to submit guidelines for negotiated payments to the Committee for its approval. As a result of the Committee's prior action and this statutory provision, the proposed guideline changes are before the Committee for review under s. 13.10 of the statutes.

ANALYSIS

In most instances, when DOA calculates a MSP entitlement amount for a municipality, that municipality is providing local services to a state facility that is located within its boundaries. However, in recent years, DOA has encountered several instances where either a county government is providing services to a state facility or a municipality is providing service to a state facility that is located in a separate municipality. For such circumstances, the existing guidelines do not clearly state how DOA is to calculate the MSP entitlement, nor is it clear which entity should receive the MSP payment. Such instances prompted the Committee to request that DOA submit

modifications to the MSP program guidelines. DOA's proposed guidelines attempt to more clearly define how such MSP entitlement amounts would be calculated, to specify which government would receive the MSP payment, and to require that there be in place an intergovernmental agreement between the governmental entities involved.

Consequently, DOA is proposing modifications to the MSP program guidelines in two areas: (a) instances where services to a state facility are provided by a municipality other than the municipality in which the state facility is located; and (b) instances where the county sheriff provides services to a state facility in an incorporated area that has a local police force.

The proposed guidelines would require a formal intergovernmental agreement between municipalities when a municipality other than the municipality in which the state facility is located provides the eligible services to that state facility. The guidelines would specify that the municipality providing the local service to the state facility would receive the MSP payment from the Department. Also, in determining the MSP entitlement amount, the value of the facilities receiving the service would be added to the value of the state building inventory of the municipality providing the service. The current MSP program guidelines do not require such a formal intergovernmental agreement, are unclear as to which municipality is to be reimbursed in such instances, and do not specify how the entitlement amount associated with such costs is to be calculated.

Also, in instances where a county sheriff's department provides police services to a state facility, the proposed guidelines would delineate a different payment method under the program depending on where the facility is located. If the facility is located in an unincorporated town, counties could continue to file a claim with DOA for a MSP program payment. However, in instances where a county sheriff's department provides police services to a state facility located in an incorporated municipality, the proposed guidelines would specify that the county could not receive a direct MSP payment. Rather, in such instances, the county and municipality could establish an intergovernmental agreement under which the county receives appropriate payment from the municipality for carrying out those services. The proposed guidelines would specify that this payment process would only occur for incorporated municipalities with a local police force. After discussions with DOA program staff on the proposed payment process, it was agreed that this process should apply to all incorporated municipalities regardless of whether they have a local police force.

Also, the proposed guidelines do not indicate how the MSP entitlement would be calculated if a county sheriff's department provides police services to a state facility in the incorporated municipality. Under the instance discussed earlier for municipalities, the proposed guidelines would specify that the MSP payment is to be calculated as if the facility was located within the municipality providing the service. Under similar circumstances, the county would provide the service, but the guidelines would state that the county would not receive a direct MSP payment for services. DOA indicates that it is their intent that the MSP formula would be used in determining the entitlement amount for the municipality in which the facility is located and that the municipality

and county, under a formal intergovernmental agreement, would agree on the compensation the county sheriff's department would receive. However, the proposed guidelines remain unclear as to how the MSP payment is to be calculated for the municipality under such circumstances. In order to clarify the formula process in such instances, the Committee could specify that, for the purpose of calculating such a MSP entitlement amount, the value of the state facility is to be added to the value of the other state facilities in the municipality in which that facility is located. In addition, the guidelines could specify that any payments made by the municipality to the county in these instances, as outlined in the intergovernmental agreement, would be considered eligible police costs that could be used in calculating the MSP entitlement for the municipality in which the state facility is located.

In addition, among other definitional and reference changes, the proposed guidelines would make two other minor changes that would likely have little impact on municipal entitlements under the program. Under the current guidelines, any overpayment or underpayment in excess of \$5,000 to a municipality due to incorrect fiscal data, a building inventory misallocation, or an inadvertent oversight discovered within two years from the date of disbursement is subject to an adjustment to the municipality's payment in subsequent years. Therefore, the current guidelines allow the payment adjustment requirement to be triggered if the underpayment or overpayment total \$5,000 over a two-year period. The proposed guidelines would specify that the \$5,000 overpayment or underpayment would have to occur in one program year for the adjustment requirement to be triggered.

Finally, under the MSP program, local police service costs provided at state facilities are eligible costs used in determining a municipality's entitlement amount under the program. However, reductions are made to municipal entitlements relating to local police service costs involving state facilities that have their own, full-time police forces, such as campus police at state university facilities, and to facilities where, due to the nature of the facility, such as a state correctional facility, a reduced level of local police services are needed. The proposed guidelines would replace the term full-time police force with the term "24-hours a day, seven days a week" police force service. Also, for certain facilities, the proposed guidelines would require that the state police force have full arrest authority before the specific reduction could be made.

ALTERNATIVES

1. Approve the Department of Administration's modifications to the MSP program guidelines.

2. Modify the Department of Administration's MSP program guidelines by specifying that in instances where a county sheriff's department provides police services to a state facility located in an incorporated municipality (with or without a local police force), that, for the purposes of calculating the MSP entitlement amount, the value of the state facility would be added to the value of state facilities in the municipality in which the facility is located. In addition, specify that any compensation made by that municipality to the county sheriff's department for services

conducted at the state facility, as specified in an intergovernmental agreement between the municipality and the county, would be considered an eligible police service expense under the program.

3. Deny the requested modifications to the MSP program guidelines.

Prepared by: Al Runde
Attachment