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# targeted municipal aid programs

(expenditure restraint and  
exempt property aid)

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# Targeted Municipal Aid Programs

## (Expenditure Restraint and Exempt Property Aid)

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

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### Expenditure Restraint Program

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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 considered general aid because the dollars are unrestricted, to be spent however the municipality determines. From 2003 through 2017, the program's annual distribution was set at \$58,145,700. However, beginning with payments for 2018, total funding for the program appropriation is increased by \$1,166,000 (for total funding level of \$59,311,700) each year through 2022 to make separate, annual payments of \$583,000 to the Village of Maine in Marathon County and the City of Janesville in Rock County. These payments are in addition to any amounts the two municipalities would otherwise receive under the formula, but are not included in the total funding distributed to all municipalities under the formula.

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 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 2021 payment, a municipality's local purpose tax rate for the 2019 (payable 2020) levy had to exceed \$5.00 per thousand of full value. There were 463 municipalities that met this test relative to 2021 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. State law provides for the exclusion of several other types of expenditures: (a) amounts paid by municipalities under municipal revenue sharing agreements; (b) amounts paid by municipalities as state recycling tipping fees; (c) expenditures of state grant payments for municipal costs associated with development occurring in an electronics and information technology manufacturing zone; (d) unreimbursed expenses related to emergencies declared under an executive order of the Governor; (e) expenditures from moneys received pursuant to the federal American Recovery and Revitalization Act of 2009; (f) expenditures made pursuant to a purchasing agreement with a school district whereby the municipality makes purchases

on behalf of the school district; and (g) the payment of premiums by a municipality for hospital, surgical, and other health insurance for an eligible surviving spouse and dependent children of a law enforcement officer, fire fighter, or medical services practitioner, who dies in the line of duty. Finally, adjustments are made for the cost of services transferred to or from the municipality seeking to qualify for a payment and to exclude the cost of providing a contracted service to another government.

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, but not less than 0%. 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%. The allowable increase is known at the time when municipal officials set their budgets.

To be eligible for a 2021 payment, municipalities had to limit their 2020 budget increases to 1.9% to 3.9%, 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, 2020, certification, municipalities will be required to

limit the growth in their 2021 budgets to no more than 1.4% to 3.4%, depending on their applicable adjustment for growth in property values, to be eligible for a 2022 expenditure restraint payment.

For 2021 payments, 463 municipalities met the tax rate test, but only 323 municipalities also met the budget test. Thus, 140 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 the following 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% ( $\$25 \text{ million} / \$500 \text{ million}$ ) 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

**Table 1: Expenditure Restraint Payment Distribution Summary**

	Number	Percent	Amount	Percent
<b>2012</b>				
Towns	18	5.3%	\$176,312	0.3
Villages	159	47.2	5,034,773	8.7
Cities	<u>160</u>	<u>47.5</u>	<u>52,934,615</u>	<u>91.0</u>
	337	100.0%	\$58,145,700	100.0%
<b>2013</b>				
Towns	23	6.2%	\$162,949	0.3%
Villages	185	49.7	5,735,112	9.9
Cities	<u>164</u>	<u>44.1</u>	<u>52,247,639</u>	<u>89.8</u>
	372	100.0%	\$58,145,700	100.0%
<b>2014</b>				
Towns	29	8.1%	\$239,214	0.4%
Villages	171	47.6	5,811,945	10.0
Cities	<u>159</u>	<u>44.3</u>	<u>52,094,541</u>	<u>89.6</u>
	359	100.0%	\$58,145,700	100.0%
<b>2015</b>				
Towns	28	8.0%	\$192,230	0.3%
Villages	168	48.1	5,762,632	9.9
Cities	<u>153</u>	<u>43.9</u>	<u>52,190,838</u>	<u>89.8</u>
	349	100.0%	\$58,145,700	100.0%
<b>2016</b>				
Towns	24	6.7%	\$170,290	0.3%
Villages	178	49.7	5,814,276	10.0
Cities	<u>156</u>	<u>43.6</u>	<u>52,161,134</u>	<u>89.7</u>
	358	100.0%	\$58,145,700	100.0%
<b>2017</b>				
Towns	22	7.1%	\$133,523	0.2%
Villages	152	49.0	5,640,261	9.7
Cities	<u>136</u>	<u>43.9</u>	<u>52,371,916</u>	<u>90.1</u>
	310	100.0%	\$58,145,700	100.0%
<b>2018</b>				
Towns	29	8.8%	\$168,850	0.3%
Villages	157	47.7	5,403,460	9.1
Cities	<u>143</u>	<u>43.5</u>	<u>53,739,390</u>	<u>90.6</u>
	329	100.0%	\$59,311,700	100.0%
<b>2019</b>				
Towns	18	5.4%	\$91,401	0.2%
Villages	168	50.8	5,400,163	9.1
Cities	<u>145</u>	<u>43.8</u>	<u>53,820,135</u>	<u>90.7</u>
	331	100.0%	\$59,311,700	100.0%
<b>2020</b>				
Towns	22	6.9%	\$202,428	0.3%
Villages	158	49.4	5,692,701	9.6
Cities	<u>140</u>	<u>43.7</u>	<u>53,416,570</u>	<u>90.1</u>
	320	100.0%	\$59,311,700	100.0%
<b>2021*</b>				
Towns	16	5.0%	\$75,679	0.1%
Villages	157	48.6	5,433,170	9.2
Cities	<u>150</u>	<u>46.4</u>	<u>53,802,851</u>	<u>90.7</u>
	323	100.0%	\$59,311,700	100.0%

\*Based on the Department of Revenue's September, 2020, estimates of 2021 payments.

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 2021 payment. Table 1 provides information on the distribution of expenditure restraint payments for the period from 2012 through 2021.

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### Exempt Property Aid Programs

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#### Computer Aid

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 computer aid payments to hold taxpayers and local governments harmless from the impacts of these two exemptions.

Prior to 2018, each county, municipality, school district, technical college district, and special purpose district, including tax incremental districts (TIDs), where exempt computer value was located received a computer aid payment. Payments equaled the value of the exempt property multiplied by the local government's current tax rate.

However, 2017 Act 59 sunset the method for calculating the aid payments after payments for the 2016(17) property tax year were made in July, 2017. In July, 2018, each taxing jurisdiction re-

ceived an aid payment equal to the payment it received in the prior year, multiplied by a factor of 1.0147. Each taxing jurisdiction that received an aid payment in the prior year received a 2019 aid payment equal to the 2018 payment increased by 2.42%, or the change in inflation. Beginning in 2020, the aid payment is frozen at the 2019 amount, with only those entities receiving a payment in 2017 continuing to receive a payment. There are no restrictions on how the local governments can use the aid.

One ongoing modification to a municipality's computer aid payment can occur despite aid payment amounts being frozen as of 2019. If a tax incremental financing district, had received an aid payment prior to 2018, and the TID is terminated, DOR provides the municipality in which the TID was located with the aid that had been provided to the district.

With assistance from local governments, 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. The Department of Administration (DOA) makes annual payments to local governments on the fourth Monday in July.

From 1999, when computers and related equipment became exempt, through 2017, the owners of such property were required to continue to report the value of the exempt property using the same procedures in effect prior to 1999. Prior to 2017 Act 59, assessors reported the total amount of these values in each municipality to DOR by the second Monday in June of each year, and the Department apportioned those values to overlying counties, school districts, technical college districts, and special purpose districts. DOR adjusted the reported values by converting

them to full market, or equalized, values. DOR then calculated each local government's aid payment by multiplying the exempt value attributable to that jurisdiction by the jurisdiction's current full value tax rate.

However, 2017 Act 59, in conjunction with freezing existing recipients' payments at 2019 levels, repealed the requirement that owners of exempt computer property annually report the value of their exempt property to the local assessor. As a result, taxing jurisdictions that add exempt computer value after 2017 will no longer be compensated with an aid payment for the taxes that would have otherwise been levied on that property. Rather, only those municipalities with exempt computer property values in 2017 will continue to be compensated, and only for the value that existed at that time, aside from any payment adjustment due to an expiring TID.

Table 2 summarizes the computer aid program's payment history over the last ten years. Because aid payments prior to 2018 were the product of exempt values and tax rates, changes in values and rates determined whether or not aid payments increased or decreased. Total aid payments decreased in two of the years displayed in the table. On a statewide basis, aid payments fell by 1.8% for 2011(12) when exempt values decreased by 4.1%, and a 0.4% reduction occurred for 2014(15) when tax rates decreased due to an increase in state aid for technical college districts. Total aid payments increased in each of the other years displayed, and increased by 19.6% over the ten-year period. Total aid payments for 2019(20) and each year thereafter have been frozen at their 2018(19) levels of \$98,047,059. With the exception of municipalities with a TID that has terminated, each taxing district will receive a constant amount each year,

### **Exempt Personal Property Aid**

2017 Act 59 created a property tax exemption for personal property classified as machinery,



**Table 2: Computer Aid Distribution Summary (In Millions)**

	Counties	Towns, Villages, and Cities	School Districts	Technical College Districts	Special	TIF Districts	Total
2010(11)	11.6	20.7	30.1	4.8	1.2	13.6	82.0
2011(12)	11.6	20.7	29.6	4.9	1.1	12.6	80.5
2012(13)	11.5	20.6	29.3	4.9	1.1	14.4	81.8
2013(14)	12.1	21.7	30.3	5.1	1.2	16.4	86.8
2014(15)	12.5	22.6	31.1	2.8	1.4	16.0	86.4
2015(16)	13.0	24.2	32.2	2.9	1.5	15.9	89.7
2016(17)	13.2	24.9	32.1	3.1	1.7	19.2	94.2
2017(18)	13.4	25.7	32.6	3.1	1.7	19.1	95.7
2018(19)	13.8	27.1	33.4	3.2	1.8	18.9	98.0
2019(20)	13.8	29.3	33.4	3.2	1.8	16.6	98.0

tools, and patterns not used for manufacturing purposes, effective with property assessed as of January 1, 2018. On September 8, 2020, the Tax Appeals Commission in *Master Gallery Foods vs Wisconsin Department of Revenue* clarified that the term "used in manufacturing" excludes the exemption from property tax of any machinery, tools, and patterns that are used in any way in manufacturing, which in this case means such property used at all in the production of cheese and related products. The Commission identified specific types of machinery, tools, and patterns owned by the petitioner that the Commission considered not exempt because they are used in manufacturing, even though not exclusively, or are used in the production process or include activities involving a work in process. The Commission also ordered DOR and the petitioner to work together to determine which items owned by the petitioner used in the production process would not be exempt and which would be exempt. Once this work is complete, the Commission is expected to issue a final order.

The Legislature authorized personal property aid payments to hold local governments harmless of lost taxable value and to hold taxpayers harmless by negating any shift in property taxes to the remaining taxable property that would otherwise occur due to this exemption. Act 59 required that municipalities report to DOR the amount of prop-

erty taxes imposed on non-manufacturing machinery, tools, and patterns in 2017 on behalf of themselves and other local taxing jurisdictions. Taxing jurisdictions were also required to report to DOR, in a time and manner determined by DOR, any information that DOR considered necessary to determine aid payments.

Under Act 59, each taxing jurisdiction's personal property aid payment equals the amount of property taxes levied in the 2017(18) property tax year by that jurisdiction on personal property assessed as non-manufacturing machinery, tools, and patterns as of January 1, 2017. Beginning in 2018(19) and thereafter, payments to taxing jurisdictions will remain at the same level. Any payments to tax increment districts (TIDs) will be discontinued in the year after the district closes. As a result, the state's total payment amount will decrease as TIDs that previously received payments are closed.

For 2018(19) payments, DOR did not collect, nor did municipalities provide, information pertaining to the amount of property taxes levied on machinery, tools, and patterns not used for manufacturing purposes. Instead, DOR used a proxy method to calculate 2018(19) aid payments for all taxing jurisdictions. As a result, DOR's method of calculation of aid payments differs from the actual amount of taxes levied on the ex-

empt personal property for tax year 2017(18).

Because DOR's method of calculating 2018(19) aid payments was based on an approximation of taxes levied, the initial, 2018(19) payments to taxing jurisdictions were lower or higher than they would have been had they been based on actual amounts of taxes levied on personal property. In June, 2019, the Marathon County Circuit Court ordered DOR to correct the 2018(19) payments and to use actual amounts going forward. DOR adjusted the 2020(21) aid payments to reflect the corrected aid 2018(19) aid amounts. Taxing jurisdictions that were overpaid in 2018(19) will have their 2020(21) payments reduced by the amount that they were overpaid, while jurisdictions that were underpaid in 2018(19) will receive correspondingly higher 2020(21) payments. Subsequent year's aid payments will not be affected by this ruling.

Similar to payments for exempt computer property going forward, taxing jurisdictions that add this type of exempt property after 2017 will not be compensated for the taxes that could have otherwise been levied on that property. Only those municipalities with exempt personal property values in 2017, will be compensated, and only for the value that existed at that time. Furthermore, Act 59 required that exempt personal property aid payments be included in the calculation of county and municipal levy limits, school revenue limits, and technical college district revenue limits.

Personal property aid payments are made on or before the first Monday in May. Total aid payments for tax year 2019(20), and each subsequent year, are \$74.7 million.

### **Video Service Provider Fee Reduction Aid**

2019 Act 9 required municipalities to reduce fees assessed on certain video service providers, beginning in 2020. Municipalities were required

to reduce their fees by .5%, effective January 1, 2020, and by 1%, effective January 1, 2021. A state aid program was created to hold municipalities harmless for the associated reduction in revenue. Aid payments are made out of a GPR sum-certain appropriation.

Municipalities were required to report the following information to DOR (a) by August 15, 2019, the actual video service provider fee revenues received in 2018, and the provider's estimated gross receipts on which the fee revenues are based; (b) by August 15, 2020, the actual video service provider fee revenues received in 2019 and the provider's estimated gross receipts on which the fee revenues are based; (c) the actual annual revenues received from the video service provider fee each year, beginning in 2021, as part of the municipal financial report filed each year with DOR. DOR is also required to certify the aid payment to each municipality that is eligible to receive a payment on or before October 1 of each year. The Department of Administration is responsible for distributing the payments on or before the fourth Monday in July.

In 2020-21, municipalities are to receive an aid payment equal to .5% of their reported gross receipts of the video service provider fee reported for 2018. In 2021-22, each municipality is to receive an aid payment equal to 1% of their reported gross receipts reported in 2019. Each year thereafter, each municipality's aid payment is to equal their 2021-22 aid payment. Based on the data reported to DOR, aid payments totaled \$5.0 million in 2020-21. On October 1, 2020, DOR provided 2021 estimated payments totaling \$10.0 million statewide. However, because the aid payments are made from a sum certain appropriation, the 2021-22 appropriation would have to be increased by \$5.0 million over the 2020-21 base amount in order to make the \$10.0 million in estimated 2021 payments to municipalities.

## APPENDIX

### Calculation of the 2021 Expenditure Restraint Payment for the City of Eau Claire

#### *Eligibility Tests*

1.	<b>Municipal Tax Rate (per \$1,000 of full value)</b>	
	Eau Claire's 2019(20) Municipal Tax Rate	\$7.857116
	Statewide Standard Tax Rate for Municipal Purposes	\$5.000000
	Excess Tax Rate, Eau Claire minus State Standard	\$2.857116
	<b>Eau Claire qualifies since its tax rate exceeds the state standard.</b>	
2.	<b>Budget Restraint</b>	
	Change in Eau Claire's Budget, 2019 to 2020	-0.55%
	Greater of 0% or Percent Change in CPI, Sept., 2018, to Sept., 2019	1.71%
	Value of New Construction Occurring in 2018	\$102,829,200
	January 1, 2018, Full Value	\$5,453,961,400
	Percent Change	1.885%
	60% of Percent Change, but no less than 0% and no more than 2%	1.131%
	Maximum Allowable Budget Increase: Sum of Inflation Rate and Value Adjustment, Rounded to the Nearest 0.10%	2.80%
	<b>Eau Claire qualifies since its budget change is below 2.80%.</b>	

#### *Calculation of Payment*

1.	<b>Calculate Eau Claire's Excess Levy</b>	
	Multiply the Municipality's January 1, 2019, Full Value	\$5,724,551,200
	By the Excess Tax Rate (Per \$1,000 of full value)	<u>X \$2.857116</u>
	<b>Eau Claire's Excess Levy Equals</b>	\$16,355,707
2.	<b>Calculate Eau Claire's Share of Payment</b>	
	Eau Claire's Excess Levy Divided by	\$16,355,707
	Total Excess Levies of Eligible Municipalities	<u>÷ \$908,067,274</u>
	<b>Eau Claire's Share of Payment Equals</b>	1.8011558%
3.	<b>Calculate Eau Claire's Payment</b>	
	Available Funding	\$58,145,700
	Multiplied by Eau Claire's Share of Payment	<u>X 1.8011558%</u>
	<b>Eau Claire's Payment Equals</b>	\$1,047,295