

Fiscal Estimate Narratives

DOR 05/07/2001

LRB Number 01-2716/1	Introduction Number AB-229	Estimate Type Original
Subject Restructuring municipal shared revenue		

Assumptions Used in Arriving at Fiscal Estimate

This bill makes several changes to the state shared revenue program. These changes would take effect for shared revenue payments in 2002 unless otherwise noted. These changes are:

COUNTY SHARED REVENUES

Under current law, county shared revenue payments are frozen at about \$169.0 million and funded from the appropriation for general shared revenue payments. Under the bill, county shared revenues remain frozen at about \$169.0 million, but are funded from a separate appropriation. The bill makes no changes in the county mandate payment, currently funded at about \$20.7 million. Thus, total payments to counties under the bill would remain unchanged at \$189.7 million.

EXPENDITURE RESTRAINT PAYMENT

This payment provides unrestricted aid to municipalities with a municipal-purpose equalized value tax rate of 5 mills or more that limit growth in their general fund budgets to no more than the percentage change in the Consumer Price Index plus a factor (of not less than 0% or more than 2%) equal to 60% of the percentage change in equalized value due to net new construction. Under current law, funding for this payment is frozen at \$57 million. The bill increases funding for this program by \$6 million to \$63 million by shifting money from another municipal shared revenue program.

MUNICIPAL SHARED REVENUES

Under current law, municipal shared revenues consists of four payments: a utility payment, a per capita payment, an aidable revenues payment, and a minimum-maximum adjustment. Funding is from a general shared revenue appropriation. The bill makes the following changes to municipal shared revenues:

Utility payment: Funding for this payment, currently about \$13.3 million, is switched from the general shared revenue appropriation to a new appropriation for "municipal services aid".

Per capita payment: This payment has been frozen at about \$141.7 million since 1982. It is funded from the general shared revenue appropriation. Each municipality currently receives about \$26.71 per resident. The bill repeals this payment and replaces it with a "regional growth-sharing" payment.

Regional growth-sharing payment: This payment is funded by dedicating 5% of state sales and use tax collections (aid payments in 2002 are based on collections in fiscal 2001) for a new appropriation called the "municipal growth sharing account". Payments in 2002 are projected to be about \$182 million (\$40.3 million more than the current per capita payment). The appropriation is divided among "growth sharing regions" (between 7 and 25 in number as defined by the Legislature or by Department of Revenue rule) based on state sales and use tax collections in each region. Each region's share is allocated to the eligible municipalities therein on a per capita basis. Each municipality would receive a payment in 2002. But, beginning in 2003, a municipality must meet two tests to qualify for this payment. First, a municipality would need to limit growth in its general fund budget to the level used to determine eligibility for the expenditure restraint payment. Second, a municipality would need to enter into a certain number of "area cooperation compacts" for certain specified services. These services are law enforcement, housing, emergency services, fire protection, solid waste collection and disposal, recycling, public health, animal control, transportation, mass transit, land use planning, boundary agreements, libraries, parks and recreation, culture, purchasing, and electronic government. Between 2003 and 2005, the municipality must have "area cooperation compacts" with at least 2 municipalities or counties to perform 2 of the indicated functions. After 2006, the municipality must have "area cooperation compacts" with at least 4 municipalities or counties for law enforcement and at least 5 other indicated functions. A municipality that fails either test will not receive a growth-sharing payment; the money it could have received will be redistributed among the municipalities in its region that do qualify for payments.

Aidable revenues payment: This payment seeks to equalize the ability of municipalities to finance their activities regardless of differences in per capita property value. The payment equals a municipality's "aidable revenues" (a 3-year average of its property tax levy and selected fees) times a "tax base weight" (a measure of how much a municipality's equalized value per capita falls below some standard value). When calculating per capita value, the value of manufacturing real property is excluded and the value of exempt computers is included. This payment is funded from the general shared revenue appropriation at an amount equal to the total appropriation minus the utility and per capita payments. This results in a payment of about \$605.5 million. The bill repeals this payment and replaces it with an "aidable expenditures" payment.

Aidable expenditures payment: Like the aidable revenues payment, this payment seeks to equalize the ability of municipalities to finance their activities regardless of differences in per capita property value. The payment equals a municipality's "aidable expenditures" (the prior year's expenditures for general government, public safety, and health and human resources, but no more than the 1997-1999 average expenditures for these items inflated since 1999 by the same factor used to determine eligibility for the expenditure restraint payment) times a "tax base weight" (a measure of how much a municipality's per capita value falls below some standard value). When calculating per capita value, total taxable value is used. This payment is funded from a new appropriation for "municipal services aid". The initial appropriation for 2002 is estimated to be about \$573.5 million (equal to the current shared revenue appropriation of \$761.5 million minus the estimated "municipal growth-sharing account" appropriation of \$182 million and minus the \$6 million transferred to expenditure restraint payments). The appropriation for 2003 and beyond would be frozen at the 2002 level. Since municipal shared revenue utility payments are funded from this appropriation, the amount available for aidable expenditure payments in 2002 would be about \$560.2 million, or \$45.3 million less than is now distributed under the aidable revenues formula.

Minimum-maximum adjustment: The minimum payment currently guarantees that a municipality's shared revenues payment (excluding utility payments) in a given year may not be less than 95% of the prior year's payment. Minimum payments are funded by limiting growth in shared revenues to a "maximum allowable increase" percentage set at so that total payment reductions exactly equal total minimum payments. Under the bill, the new "regional growth sharing" payment is included in the calculation of the minimum payment and "maximum allowable increase" only if it is paid in both the prior and current year. Otherwise, the "regional growth sharing" payment is excluded from both years.

TOTAL FUNDING AND PAYMENT SHIFTS

Although total funding for the various shared revenue programs remains constant at about \$761.5 million, this bill would cause a major redistribution of payments. In general, aid payment changes appear strongly related to per capita spending in "aidable" categories, with high per capita spenders experiencing payment increases and low spenders experiencing payment decreases. There is also a weak tendency for places with high percentages of their equalized value in manufacturing realty to experience payment decreases while places with low percentages of their equalized value in manufacturing realty experience payment increases.

ADMINISTRATIVE COSTS

The Department would incur additional costs to administer the revised shared revenue system, as follows:

Division of income, sales, and excise taxes: The division would need to establish a new data collection system and tax forms (1) to capture sales data for the counties that do not have a county sales tax or stadium tax, (2) to capture data for sales that occur in "non-nexus" counties (example: a retailer whose only store in the state is in Dane County ships an order via the Post Office to a customer in another county), (3) to answer questions about the new data collection needs, and (4) to audit the increased number of tax forms that will be filed. Total one-time costs are estimated to be \$1,323,500 in FY02, consisting of \$1,105,900 for development of a new computer system, \$77,000 in equipment (primarily furniture and computers), and \$140,600 for the initial printing, mailing, and scanning of the first years' forms. On-going annual costs are estimated to be \$299,000 beginning in FY03, consisting of salaries and fringe benefits for for 2.5 FTE auditors and audit support staff, salaries and fringe benefits of limited-term employees, and the costs of mailing and processing the increased number of tax forms. These costs would not be incurred under a formula-based distribution or other approach using data currently available.

Division of state and local finance: The division would need to review compliance with area cooperation compacts, calculate budget limits for and review budgets of all 1,850 municipalities, review expenditures for consistency and correctness in reporting, and prepare defenses when municipalities challenge the department's findings that they do not qualify for the growth-sharing payment. One-time costs for permanent property, primarily furniture and computers, are estimated to be \$43,200 in FY02. The division estimates that it would need an additional 8.0 FTE positions to carry its new and revised activities at an annual cost of \$465,600 beginning in FY02 (consisting of \$443,200 in salaries and fringe benefits and \$22,400 in telephone, computer maintenance, and other staff support costs).

Total costs: FY02 costs include both one-time development costs and a portion of ongoing costs and 8.0 FTE; they total \$1,832,000. Continuing annual costs total \$764,600 and an additional 2.5 FTE beginning in FY03. Permanent FTE positions needed total 10.5 positions.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2001 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Subject			
Restructuring municipal shared revenue			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
\$1,832,000 (including both development and first-year ongoing costs, plus 8.0 FTE) in FY02.			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations - Salaries and Fringes		\$564,900	
(FTE Position Changes)		(10.5 FTE)	
State Operations - Other Costs		199,700	
Local Assistance			
Aids to Individuals or Organizations			
TOTAL State Costs by Category		\$764,600	\$
B. State Costs by Source of Funds			
GPR		764,600	
FED			
PRO/PRS			
SEG/SEG-S			
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)			
		Increased Rev	Decreased Rev
GPR Taxes		\$	\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues		\$	\$
NET ANNUALIZED FISCAL IMPACT			
		State	Local
NET CHANGE IN COSTS		\$764,600	\$
NET CHANGE IN REVENUE		\$None	\$See
Agency/Prepared By		Authorized Signature	Date
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