

# Memo

**To:** Members, Board of Estimates  
**From:** Andrew J. Statz, Mayor's Office  
**Date:** June 8, 2009  
**Re:** Summary of State Budget Bill (AB 75) – Joint Committee on Finance's Amendments

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The Joint Committee on Finance (JCF) recently finished its action on the state's 2009-11 biennial budget bill. This memo summarizes changes made by JCF to the Governor's recommendations as summarized in a memo presented to the Board of Estimates dated March 23, 2009.

The net impact of the changes described below is a combination of decreased payments and increased fees paid by the City to the state of about \$900,000 for CY10.

Because several steps remain in the state budget process including Governor's vetoes, the impacts summarized below remain in flux until the bill is signed. Also, hand-written amendments to motions presented during JCF deliberations complicate matters. The Legislative Fiscal Bureau has not yet published its all-inclusive comparative summary of Governor's recommendations and JCF amendments, which may reveal some additional details and policy changes not captured in this memo. Further, many of these fiscal impacts can only be calculated as the City of Madison's own budget process moves along and estimates firm up.

**Timing.** In this memo, state fiscal years that run from July 1 through June 30 are abbreviated as SFY. For example, the state fiscal year that runs from July 1, 2009, through June 30, 2010 is SFY10. Calendar-based City fiscal years are CY. Given overlapping fiscal years it is possible that changes made during SFY10 could impact the City's current CY09 budget, which is the case for several recycling fee increases described below.

**Levy Limit.** JCF action largely left the Governor's version of the levy limit unchanged. The bill allows for an increase of 3% or growth due to net new construction, whichever is greater, and retains current language relating to certain exemptions for debt service.

Given what is possible for 2009 borrowing, Madison's levy limit remains in the range of 3%, which is the statutory minimum, to 8%. The actual amount will likely gravitate to around 6%. JCF amendments permit the levy limit to be based on two years' maximum allowable levy (rather than the adopted levy amounts). This will likely increase the maximum allowable levy, but at this time it is not known by how much.

**Payments for Municipal Services (PMS).** Local governments receive payment for providing police, fire and garbage services to state-owned properties that are exempt from local property tax.

Because entitlements continue to grow and the budget bill does not increase total funding, local governments will continue to see a proration of PMS payments. For CY09, payments were prorated to 81% of total calculated entitlements. If the program had been fully funding for CY09, the City's receipt would have been \$2.1 million more. The JCF version of the bill exempts this shortfall from the Expenditure Restraint Program eligibility formula as described below.

Concerns were raised about the Governor's recommendation to transfer administration of this program from the Department of Administration to the Department of Revenue without staff resources. JCF action reversed the transfer of the administration of this program and retained its current staffing level.

The current version contains no statutory changes to the formula that impact the City. However, total funding for the program is reduced by \$220,000 annually, which is part of the 1% across-the-board cuts to non-federal appropriations. In CY09, Madison's receipt amounted to 41% of the total program. Assuming this share remains constant, Madison's receipt will be cut by about \$90,200 in CY10.

**2009 adopted budget amount: \$9,043,803**  
**Decrease for 2010: about \$90,200**

**Expenditure Restraint Program (ERP).** There are two separate statutory formulas that govern eligibility for ERP payments and the amount of those payments.

Eligibility formula. The City's expenditure growth from CY09 to CY10 will determine whether it is eligible for ERP funds in CY11. The eligibility formula is driven by 60% of a municipality's net new construction and changes in the Consumer Price Index (CPI). JCF amendment provides that the CPI adjustment may not be less than 0%. Still, given that CPI growth has been slow and new construction has lagged, the threshold for eligibility will likely be tight.

Some relief is provided by JCF's addition of a one-time exemption to the eligibility formula for shortfalls under the Payment for Municipal Services (PMS) program. As described above, the PMS program has a history of paying municipalities less than their entitlement amount for providing police, fire and garbage services to tax-exempt state facilities. Because the eligibility formula is a comparison of a prior year's budget to the following year's budget, this one-time exemption increases the base expenditures for subsequent City budgets. The JCF amendment specifies that this increase may occur in non-levy supported spending only.

Assuming net new construction is less than 2.8% (which was used for the 2009 calculation after being multiplied by 60%) and that CPI does not increase beyond the year-to-date average of 1%, the ERP eligibility limit may be less than 2.7%.

Payment amount. Because the payment formula is driven by other municipalities' budget performance, it is hard to reliably predict the City's receipt for CY10. As is past practice, the 2009 payment amount should be our planning number for 2010.

**2009 adopted budget amount: \$5,833,569**  
**Increase for 2010: assumed flat**

**Shared Revenue (aka: County and Municipal Aid Payments).** The Governor proposed a 1% cut in SFY11 that would have impacted CY10 payments. JCF action increased this cut to 3.5%.

Running statewide cuts through a formula, the Governor's recommendation to cut 1% would have cost Madison \$324,700. Simply inflating this cut from 1% to 3.5% yields a cut to Madison of about \$1.1 million for CY10.

The increased cut continues to be allocated based on a local government's share of statewide property values. However, if the amount of the cut exceeds 15% of a community's total shared revenue payment, the overage is redistributed to other communities based on population. This is a modification of the previous formula, which makes the amount to be redistributed unknown.

Because several communities exceeded the 15% maximum cut under the original 1% cut and its formula, it is highly likely that even more communities will be reaching the 15% cut under a 3.5% cut. Because the factors used to calculate the initial cut are not in hand and because of a slight modification in the allocation formula, it is not possible to know the exact cut to Madison at this time. However, it is safe to assume that the cut will likely be more than \$1.1 million.

Concerns regarding the use of one-time funding from the wireless 911 segregated fund and federal stimulus funding remain.

**2009 adopted budget amount: \$8,762,331**  
**Decrease for 2010: about \$1.1 million**

**Regional Transit Authority (RTA).** There were no sweeping amendments to the Governor's recommendation to create a Dane County RTA. A referendum is required to establish the RTA. Once established, it can assess up to a 0.5% sales tax to establish, maintain and operate a local transportation system that includes elevated railroads, subways, underground railroads, motor vehicles, motor buses, and any combination of these, and any other form of mass transportation.

Municipalities within the Metropolitan Planning Organization (MPO) boundaries are automatically part of the RTA. JCF added language that could allow DeForest to opt out of participation in the RTA.

JCF also adjusted the membership of the RTA board to, at least in part, correct for an additional position representing Madison that the Governor did not intend.

**Transit Aid.** JCF retained the Governor's recommendations to increase transit aid by about 2% in CY10 and 3% in CY11. As enumerated in statutory language, Madison is scheduled to receive \$17,496,400 in CY10 and \$18,021,300 in CY11.

**2009 adopted budget amount: \$17,158,400**  
**Increase for 2010: \$338,000**

**General Transportation Aid (aka: Highway Aid).** JCF reversed the Governor's recommendation to cut 1% in CY10 and instead provided increases of 2% for CY10 and 3% for CY11.

Assuming distribution formulas remain constant, the City's receipt in CY10 will increase by about \$163,000.

**2009 adopted budget amount: \$8,169,668**  
**Increase for 2010: about \$163,000**

**Computer reimbursement.** The state reimburses local governments for the tax-exempt status of computers, cash registers and fax machines owned by businesses. JCF did not change the Governor's recommendation to increase total program funding by \$8.2 million in SFY10 and an additional \$3.6 million in SFY11 to reflect changing tax rates.

Assuming that the total program funding increase is distributed equally, the 2010 amount could be as much as 10% or \$200,000 higher than 2009.

**2009 adopted budget amount: \$2,188,770**  
**Increase for 2010: about \$200,000**

**Tipping fees and recycling aid.** In combination, JCF increased tipping fees from \$5.90 per ton under current law to \$13 per ton.

Two of the three increases take effect July 1, 2009, and impact the City's CY09 budget. They are the environmental repair tipping fee (which goes from \$0.85 to \$2.50 per ton) and the non-point account tipping fee (which goes from \$0.75 to \$3.20 per ton). The third goes into effect October 1, 2009. This is the recycling tipping fee that goes from \$4 to \$7 per ton.

Based on 57,000 tons per year, these combined fee increases could cost the City as much as \$160,000 in CY09 and \$405,000 in CY10.

It is currently assumed that there are no changes in recycling aid payments.

**2009 adopted budget amounts: \$1,200,000 in aid and \$1,596,000 for tipping fees**  
**Cost increase for 2009: \$159,600**  
**Cost increase for 2010: \$405,000**