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Office of the Mayor
David J. Cieslewicz, Mayor

Memo

To: Members, Board of Estimates

From: Andrew J. Statz, Mayor's Office

Date: March 23, 2009

Re: Summary of State Budget Bill (AB 75) – Governor's Recommendations

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The Governor's 2009-11 biennial budget bill has been sent to the Joint Committee on Finance (JCF). The following is a summary of the Governor's recommendations contained in the current version that have tangible financial implications for the City of Madison. After JCF amendments, the bill will be taken up by the Assembly and Senate. Assuming substantial differences exist between those two versions, a conference committee will review and amend the bill. Finally, the Governor will review the bill for potential vetoes before signing it into law.

Given that we are early in this process, the impacts summarized below will be in flux until the bill is signed. Also, the Legislative Fiscal Bureau budget papers that address individual topics for JCF deliberations have not yet been published. These papers provide a much more complete analysis of the Governor's recommendations and potential alternatives. Lastly, many of the impacts can only be calculated as the City's own budget process moves along and estimates firm up.

Timing. The state budget is on a July 1 though June 30 fiscal year. The City budgets on a calendar year basis. In this memo, state fiscal years are abbreviated as SFY; City fiscal years are CY.

Given overlapping fiscal years, it is critical that any reductions or restrictions come in CY10 or later and not during the City's current CY09 budget. The current administration is aware of this issue and has been careful to craft changes to impact CY10 or later.

Levy Limit. The current version of the budget bill allows for an increase of 3% or growth due to net new construction, whichever is greater.

Because the formula contains certain exemptions for debt service, the amount of debt service remains the most sensitive variable in determining Madison's levy limit for 2010. Because the debt service amount for 2010 depends on what is borrowed during 2009, that amount is currently unknown.

Under the statutory formula, the levy limit for the 2009 budget was increased by about 2% due to the value of retiring TIF districts. That situation will not be repeated for the 2010 levy limit calculation.

Given what is possible for 2009 borrowing, the levy limit will be in the range of 3%, which is the statutory minimum, to 8%. The actual amount will likely gravitate to around 6%.

Expenditure Restraint Program (ERP). The current version contains no significant changes to the ERP eligibility or payment formulas. Because both formulas are 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.

Eligibility for ERP payments is based on past budgets. 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 a municipality's net new construction and changes in the Consumer Price Index (CPI).

Given that the late months of 2008 saw a *deflation* in the CPI and growth since then has been slow, the threshold for eligibility will likely be tight. Accordingly, keeping expenditure increases under the ERP threshold is may be the most significant state-imposed requirement for the City's CY10 budget.

The eligibility formula is also based on total budgeted expenditures. Typically, a year-end appropriation is needed to cover agency expenditures. This amount contributes to the total budgeted expenditure amount. The total needed for the year-end appropriation will not be known for several months.

Assuming net new construction is less than 2.8% which was used for the 2009 calculation and assuming that CPI does not increase beyond the year-to-date average of 1%, the ERP eligibility limit may be less than 2.7%. The year-end appropriation will likely increase this amount.

2009 adopted budget amount: $5,833,569

Shared Revenue (aka: County and Municipal Aid Payments). There is a general purpose revenue (GPR) cut of 1% in SFY11 that impacts CY10 payments. The cut is prorated by a local government's share of statewide property values. If the amount of the cut exceeds 15% of that community's payment, the overage is redistributed to other communities based on population. Based on calculations by Department of Revenue, we assume that Madison's payment for CY10 will be reduced by about $324,700.

There are some concerns regarding the funding source of this program. First, the balance of the 911 wireless segregated fund will be used to offset $25 million GPR in SFY10, which is most likely our CY09 payment. Currently, counties and wireless service providers get funding from this cell phone surcharge to offset wireless 911 implementation costs. The surcharge sunset in November 2008, and in the current version of the bill the funds are being applied to Shared Revenue. It is unknown if counties will push for and succeed in keeping this funding.

Second, in SFY11 there is an appropriation of $50 million in federal funding. This is federal stimulus funding. It comes from an appropriation created for distributing federal stimulus funding not otherwise allocated in the budget bill. If the state does not get the full $650 million it is planning on or if this funding is allocated to other purposes during budget deliberations, we could see additional cuts in our CY10 payment.

The bill specifies that future payment will equal recipients' 2010 amounts. With federal stimulus funding being largely one-time in nature, this establishes a future deficit in the program. In the subsequent biennium, either GPR must be restored, an alternate fund source identified, or a cut in total program funding is required.

2009 adopted budget amount: $8,762,331

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

<u>Proration</u>. Historically, growth in total program funding has not kept pace with calculated entitlement amounts. Because entitlements continue to grow and the bill does not increase total funding, local governments will see further proration in 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.

Administration. Under the current version of the budget bill, administration of this program moves from the Department of Administration (DOA) to the Department of Revenue (DOR) without staff resources. DOR had responsibility for this program in the past, and its administration of it was troubling for the City.

DOR calculations of 2002 payments indicated Madison's entitlement grew 47% in one year but its receipt was to decline by 6% or about $490,000. These dramatic changes were inconsistent, illogical and unexplained. More recently, under DOA's administration of the program, errors include a pending underpayment of $185,900 for 2006 that was investigated by the Mayor's Office and overpayments to Kenosha and Janesville for police services they do not actually provide to local UW campuses. These issues reflect the program's complex inventory of state buildings and entitlement calculations. Moving such a complex and often labor-intensive program without adequate staffing could have negative and unpredictable impacts on the City's receipt in future years.

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.

The amount paid to Madison depends on the value of state-owned buildings as calculated by DOA and any recent construction of state buildings in Madison compared to all other municipalities with state-owned property. These variables are not known until disclosed by DOA, which makes an accurate prediction of 2010 payment amounts impossible. Accordingly, the 2009 amount less $90,200 is our best planning number.

2009 adopted budget amount: $9,043,803

Regional Transit Authority (RTA). The current version states that Dane County must adopt a resolution to establish an RTA. Municipalities within the Metropolitan Planning Organization (MPO) boundaries are automatically part of the RTA. This includes cities of Fitchburg, Madison, Middleton, Monona, Stoughton, Sun Prairie, and Verona; the villages of Cottage Grove, Maple Bluff, McFarland, Shorewood Hills, and Waunakee; and the towns of Blooming Grove, Bristol, Burke, Cottage Grove, Dunn, Dunkirk, Madison, Middleton, Pleasant Springs, Rutland, Springfield, Sun Prairie, Verona, Westport, and Windsor.

Once established, the RTA can assess up to a 0.5% sales tax. These funds are to be used to establish, maintain and operate a comprehensive, unified local transportation system. A "transportation system" is defined as including elevated railroads, subways, underground railroads, motor vehicles, motor buses, and any combination of these, and any other form of mass transportation.

A board of directors is created with two members appointed by Dane County, two appointed by the City of Madison, one appointed by the Governor, and one each appointed by Sun Prairie and Fitchburg.

Transit Aid. The DOA summary of the Governor's recommendations state that payments to Madison and all other recipients of transit aid will increase 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. These amounts actually reflect increases of 1.97% in CY10 and 3% in CY11.

To provide an even 2% increase in CY10 to Madison and all other recipients, the budget would need to be increased by about $242,000 in each SFY. If this increase is not provided, Madison's CY10 receipt will be about $5,100 less.

2009 adopted budget amount: $17,158,400

General Transportation Aid (aka: Highway Aid). The increase of 3% from the 2007-09 biennial budget remains in place for CY09. There is a 1% cut in CY10.

The formula is driven by a mileage aid rate of $1,995. This reflects a 1% across-the-board reduction. Assuming distribution formulas remain constant, the City's receipt in CY10 will decrease by about $81,700 and will remain at that level for CY11.

2009 adopted budget amount: $8,169,668

Tipping fees and recycling aid. The recycling and environmental tipping fees go up $4.40 per ton. The current rate is $5.897 per ton.

With the increased fee, basic calculations suggest the City will pay the state an additional $250,000 per year. Recycling efficiency and demonstration grants are repealed, but the City does not currently get any of this funding.

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

Computer reimbursement. The state reimburses local governments for the tax exempt status of computers, cash registers and fax machines owned by businesses. Reflecting changing tax rates and equipment value, total funding increases $8.2 million in SFY10 and an additional $3.6 million in SFY11.

The amount paid to the City depends on the value of the equipment that is exempt and (to a lesser extent) the local tax rate. Last year's amount increased a lot because of an increase in equipment value. The value of exempt equipment will be determined by the Assessor's Office mid-year, but it is unlikely that the subsequent increase will be as substantial for the 2010 payment.

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