

## **Impact on City of Milwaukee of Various Provisions of JFC Budget relative to the Governor's Budget (Preliminary Analysis)**

### **SHARED REVENUE**

#### **Distribution & Funding Level**

The Emergency Budget Repair Bill (Act 109) that was enacted in July of 2002 reduced overall shared revenue payments (including ERP & SMSR) by a total of \$40 million, to be distributed equally between counties and municipalities on a per capita basis. The Governor's budget maintained those cuts and proposed an additional \$70 million in cuts, to be distributed across all municipalities on a per-capita basis. As a result, Milwaukee's 2004 and 2005 shared revenue payment would decrease by roughly \$9.8 million relative to 2003.

The JFC proposal would delete the \$20 million per capita cut for municipalities in Act 109 and would alter the mechanism for distributing the \$70 million cut. Incorporated municipalities with populations under 2500 and unincorporated municipalities under 5000 would receive cuts equal to approximately 11.5% of their current shared revenue payments. The other 223 municipalities' cuts would be determined by distributing funding through a "cost based" formula under which spending, up to the statewide average, on "basic municipal services" qualifies for aid, the level of which is determined by a sharing factor. A poverty factor would be applied to five municipalities that have high poverty rates. The formula includes guarantees and hold harmless provisions, including a guaranteed \$23 per capita. One component of the formula distributes \$10 million of the total funding through a supplemental ERP program.

The JFC proposal would fund \$182.4 million of shared revenue with funds available through the federal Jobs and Growth Tax Relief Act and would require these funds to be used for police and fire costs. Otherwise JFC does not place any requirements on the use of shared revenue.

Although the JFC reduces overall cuts relative to the governor by \$20 million, Milwaukee's cut under the proposal increases by \$14.2 million to \$24 million. While the policy reasons behind the formula are difficult to discern, the outcomes reveal the following net effects:

The cuts redistribute resources away from Metro Milwaukee to other regions.  
The Metro Milwaukee region's net loss is \$2.8 million.

The cuts redistribute resources away from the poorest communities.  
Only 56% of our poorest communities get additional aid, 44% actually get cut further.  
But 77% of our richest communities get additional aid, only 23% face additional cuts.

The cuts redistribute resources away from large municipalities toward small municipalities.  
Only \$7.2 million (36%) of the additional funding goes to the large municipalities.

#### **2004 Shared Revenue Cut (in millions of dollars):**

Governor:	-9.8
JFC:	<u>-24</u>
<b>Difference:</b>	<b>-14.2</b>

**Shared Revenue – Other Provisions**

**\$10 Million Shift to Medical Assistance:** The governor would have redistributed \$10 million in shared revenue through the Medical Assistance program. The JFC budget would eliminate this provision.

**Consolidation Incentive Program -Act 109** created a Consolidation Incentive Program to be funded by up to \$45 million in shared revenue payments. Both the governor’s and JFC’s budget eliminates that program and the associated redistribution of shared revenue.

**OTHER AIDS TO LOCAL GOVERNMENTS**

**General Transportation Aids**

The governor proposed increasing the total amounts available for both the General Transportation Aids and the Local Roads Improvement Program by 2.5%. Under the governor’s proposal, Milwaukee’s estimated 2004 GTA payment was estimated at \$23.9 million.

The JFC would eliminate the 2.5% increase, reducing Milwaukee’s estimated aid by roughly \$800,000 to \$23.1 million.

**2004 GTA Change (in millions of dollars):**

Governor:	0.8
JFC:	0
Difference:	-0.8

**Recycling Fund**

Both the governor and the JFC reduce municipal recycling grant base funding by \$5 million to maintain an annual award of \$24.5 million. Milwaukee will receive an estimated \$2.8 million in recycling grants in 2003.

**Brownfields Grants**

The governor recommended transferring the responsibility for all brownfields grants from the Department of Commerce to the Department of Natural Resources and providing base level funding of \$9.2 million. 2003 Act 1 (Emergency Repair Bill) decreased the 2001-03 funding under this program by \$7.4 million. The governor also recommended consolidating the various brownfield grant programs in DNR and Commerce into a single program under DNR.

JFC would delete the consolidation of the brownfields grant programs.

**Lottery Tax Credit Reimbursement**

Under current law, homeowners that receive a lottery credit are required to file an application with the City of Milwaukee and/or county treasurer, who must certify that the individual still qualifies. The DOR reimburses the treasurer or City of Milwaukee \$.70 per certification. This reauthorization is scheduled to occur in 2004, but the governor’s budget did not appropriate the estimated \$960,000 for the reimbursement payments.

The JFC would eliminate the five-year certification requirement and the associated reimbursement, as recommended by a Wisconsin Counties Association proposal. It would modify that proposal to require county treasurers and the city to implement an alternative policy.

**Other Aids:**

Payment for Municipal Services. Both the governor and JFC proposals include no change to the Payment for Municipal Services program, which provides funding to local municipalities for lost property value due to state owned tax-exempt property. Milwaukee will receive an estimated \$2.7 million under this program in 2003 and an estimated \$2.6 million in 2004.

Computer Aid Payments. Both the governor and JFC proposals fully fund the computer aid payment, which provides funds to offset the loss in tax revenue resulting from tax-exempt computer property. Both decrease estimated payments to reflect depreciation of equipment. Milwaukee's 2003 computer aid payment is estimated to be \$3.8 million.

**CONTROLS ON LOCAL REVENUES**

**Levy Limits**

The JFC budget would prohibit municipalities and technical college districts from increasing their local tax levy for taxes payable in 2004-2006 by more than 2.6 percent for technical colleges or by a percent equal to the percentage increase in new construction less improvements removed. The estimated impact of this provision for Milwaukee is a loss of \$11.2 million. This estimate is based on a five-year trend of levy increases. A similar estimate would be made under an assumption of holding the tax rate constant.

In combination with the JFC shared revenue cuts, the levy freeze will reduce revenue otherwise available to Milwaukee by over \$36 million. Furthermore, because the new construction factor is virtually negligible for Milwaukee, we will essentially not be able to compensate for any loss in shared revenue or other state aids, forcing us to decrease our operating budget by an amount equal to those losses – over \$24 million. In contrast, other municipalities have a growth factor that will sufficiently compensate for their loss in shared revenue, allowing their budgets to grow.

The provision does allow for some exceptions to the freeze to account for transfers of services between levels of government, annexations, and debt service increases for debt authorized prior to enactment of the bill. Some municipalities have passed resolutions in the past weeks to authorize a level of debt to allow for the possibility of future borrowing needs. There is no allowable increase to account for inflation, contractual salary increases or uncontrollable, unforeseen cost increases.

In addition to the lost revenue, a freeze would have several other negative impacts on the City. A levy freeze is a negative factor for rating agencies and could threaten the city's AA rating, increasing costs of future borrowing and reducing the value of bonds for existing bond holders. The freeze would also reduce the income generated by Tax Incremental Financing District, threatening the ability to pay off the debt service costs by the TID deadline.

**2004 Levy Freeze Impact (in millions of dollars):**

Governor:	N/A
JFC:	-11.2
Difference:	-11.2

## **Referendum Option**

The JFC budget would allow towns with populations below 2,000 to exceed their levy limits through resolution at a town hall meeting. All other units of government subject to the limit would be required to approve any levy increase via a referendum. To replace the \$24 million shared revenue loss, the City of Milwaukee would have to ask our citizens to agree to a tax rate increase of \$1.18, or an additional \$177 for a median homeowner. On average, other municipalities would be able to restore their cuts with a 21-cent rate increase, a \$27 increase for a median homeowner.

## **PROPERTY TAXATION**

### **Manufacturing Assessments**

The governor proposed shifting the responsibility for identifying and assessing all manufacturing property from the state to each taxation district and consolidating the seven regional offices of the Bureau of Equalization down to six.

The JFC proposal eliminates this provision and restores \$2.2 million, 27 positions, and responsibility for all manufacturing assessments to the DOR. In addition, it would authorize DOR to impose a fee on municipalities to cover one-half of the costs of manufacturing assessments. Each municipality's fee would be in proportion to the value of manufacturing property within that municipality.

## **INDIVIDUAL AIDS & CREDITS**

### **BadgerCare**

The governor recommends increasing funding for BadgerCare to account for a reestimate of caseloads and federal financial participation rates.

### **Homestead Tax Credit**

Both the Governor and JFC would fully fund the estimated claims under this credit. However, the shared revenue levels and the property tax levy freeze under the JFC proposal would decrease eligibility and payments under this program. The costs of this program are estimated to decrease under the JFC proposal by \$2 million in 2004 and \$3.6 million in 2005 relative to the governor's proposal.

## **EMPLOYEE RELATIONS – Municipal Employee Relations Act**

The governor would prohibit arbitrators from giving greater weight to specific factors when making decisions on labor contracts. Currently a greater weight must be given to the existence of laws that restrict the jurisdiction's expenditure or revenue growth and the greatest weight must be given to the economic condition of the jurisdiction. Under the governor's proposal, these factors must be given the same level of consideration as all other factors. These weights were originally included at the recommendation of a labor/management committee and are critical to the city during interest arbitration.

The JFC would eliminate this change and maintain the weighting factors.

## **LIBRARIES & K12 EDUCATION**

### **Library Aids**

Aid to Public Library Systems is maintained at the 2003 level of \$14.2 million for both 2004 and 2005. The governor proposes funding \$2.1 million of this from SEG funds and the remainder

from GPR. Milwaukee currently qualifies for \$1.7 million of the overall funding, which contributes to the total of \$2.5 million that goes directly to the Milwaukee County Federated Library System. This level funding is particularly challenging because the libraries in MCFLS have maintenance of effort requirements as a condition of participation.

### **Equalization Aid**

The governor proposes several changes to school equalization aids, which offset the property tax levy needed to fund school costs. The most significant change is that the governor would no longer fund 2/3 the cost of school aids. Under current law, school aids would have increased statewide by \$150 million in 2004 and by \$296.5 million in 2005. The governor's budget would cut these levels in both years, providing only an additional \$40 million in 2004 and \$60 million in 2005. As a result of these changes alone, aid to MPS will decrease by roughly \$8 million in 2004 and roughly \$18 million in 2005 relative to current law.

The JFC would also eliminate the 2/3 requirement, but would increase equalization aid by \$32 million in 2004 and \$57 million in 2005, relative to the governor. MPS's aid would increase by an estimated \$3 million as result of this change and other changes.

### **Primary Aid**

The governor's proposed budget would phase-out the primary aid guarantee, which ensures that all districts receive aid for their first \$1,000 in per pupil expenditures, regardless of their relative property wealth. (affects roughly 30 districts) However, a separate hold harmless provision would remain that ensures that no district's payment can be less than the 85% of the prior year, therefore the savings from this change would phase in over several years. This change alone will increase aid to MPS by roughly \$150,000 in 2004, a .03% increase and roughly \$500,000 in 2005, a .08% increase over current law.

The JFC would eliminate this provision, restoring primary aid.

### **Revenue Limits**

The governor also would increase the revenue limit for low-spending districts. Currently revenue limits do not apply for districts spending \$6900 or less per pupil. The governor would exempt from revenue limits any districts spending less than \$7400 in 2004 and \$7800 in 2005. This is anticipated to apply to just under 100 districts (22%). Milwaukee Public Schools will not see an increase in their revenue limit as a result of this change. However, as any of these districts choose to increase their spending in 2004, they will generally qualify for more equalization aid in 2005. This will decrease aid to most other districts, starting in 2005 and beyond.

The per pupil revenue limits would not be changed under the governor's proposal for other districts, and would increase as under current law, \$236 per pupil in 2004 and \$243 per pupil in 2005. MPS's allowed budgetary increase would be capped based on those per pupil increases.

The JFC would lower the revenue limit increase to \$120 in both 2004 and 2005. This will result in a revenue loss to MPS of over \$11 million in 2004. The increase in aid mentioned above will not offset this cut in spending ability. Rather the aid increase will decrease the portion of MPS's budget which is property tax funded.

### **K-4 Funding**

The JFC would reduce the amount of funding for non-special education four-year old kindergarten students. Currently, districts can count these children for revenue purposes as either .5 of .6 FTE. The JFC would lower this to .25. Currently almost all MPS elementary and K-8 schools offer four-year old kindergarten and qualify at the .6 level. This will result in an further loss in MPS revenue. This will lower the FTE membership in the Milwaukee Parental Choice Program from 11,721 to 11,421, decreasing funding to MPCP.

### **Chapter 220 – Interdistrict Aid**

The JFC would reduce the amount of funding that “sender” districts receive under this program. Currently, districts can count qualifying children that reside in their district but attend school in another for revenue purposes as either .75 FTE. The JFC would lower this to .65 in 2004 and .5 in 2005. Currently, MPS receives most of this aid, so this will result in yet a greater loss in MPS revenue. Receiving district aid would also be decreased.

### **Special Education**

The JFC would increase special education funding by \$6 million over the biennium.

### **Aid to Milwaukee Public Schools**

The governor & JFC would eliminate \$1.4 million in TANF funding that currently is awarded to Milwaukee Public Schools annually to offset the costs of programs established as part of the desegregation settlement. This funding was outside of the revenue limits and, therefore, not funded by property tax.

### **Payments to Milwaukee Parental Choice and Charter Programs**

Under current law, the per-pupil payment for the choice and charter programs increases annually by the same amount that public school revenue limits increase. The governor recommends lowering this annual increase to \$55 per student, from \$236 in FY04 and \$243 in FY05. This will result in a lower overall payment for these programs and therefore a decrease in the amount of equalization aid reduced from other districts. As a result of these changes, aid to Milwaukee Public Schools is estimated to increase by just under \$1 million.

The JFC would increase the per student payments for MPCP students from \$5838 under the governor’s proposal to \$5882 in 2004 and from \$5866 to \$5943 in 2005. Factoring in the decrease in FTE from the K-4 program this will decrease aid to MPS by \$230,000, relative to the governor’s budget.

### **TEACH Grant Program Eliminated**

The largest program under the TEACH board would be eliminated and the remaining functions transferred to DPI. MPS currently receives roughly \$5.8 million under the grant program that will be eliminated. This funding was outside of the revenue limit, so was not funded by property tax dollars.

The JFC proposes transferring the functions to DOA instead of DPI.

### **Employee Relations – School Districts**

The Governor recommends eliminating the QEO and requiring school districts to include policy issues as subjects of bargaining. The JFC eliminates this provision, maintaining the QEO.

## **TRANSPORTATION**

### **Transportation Fund Transfers**

The governor proposes shifting \$270 million in 2004 and \$230 million in 2005 from the transportation fund to the general fund to cover ongoing costs of shared revenue and school aids.

The JFC would maintain these transfers. It would also transfer 20% of the sales tax on motor vehicle sales from the general fund to the Transportation fund starting in July of 2005. It is estimated that this transfer would be \$48 million in 2005-06.

### **Borrowing Authority & Use of Bonding**

The governor would authorize an additional \$1.6 million in Transportation revenue bonds for major highway development, state highway rehabilitation and the Marquette interchange. However, the proposed use of bonding would only increase by \$693 million.

The JFC would reduce revenue bond authority by \$820 million relative to the governor and would increase general obligation bonding by \$377 million. The overall bonding authority for highway programs in 2003-05 under JFC would increase by \$680 million. However, the proposed use of bonding for highway purposes would increase by \$750 million.

### **General Transportation Aid & Local Road Improvement**

The governor proposed increasing aid under both of these programs by 2.5%.

The JFC would eliminate that increase, reducing biennial funding relative to the governor by \$18 million in GTA and \$8.9 million in LRIP. (SEE other local aids for impact to Milwaukee)

### **Legal Blood Alcohol Concentration lowered to .08**

Currently a person may not operate a vehicle with a BAC of .10, the governor proposes lowering this to .08. This will qualify the state for additional federal dollars.

The JFC deletes this provision because a separate bill (AB 88) is expected to pass which will accomplish the same outcome. The JFC did not adjust the assumption of additional funding, in anticipation of passage of AB 88.

### **Vehicle Registration Fee Increase**

The governor proposes increasing the vehicle registration fee from \$45 to \$55 and the title transfer fee from \$8.50 to \$18.50. He also recommends continuing the environmental impact fees beyond their December 31, 2003 sunset and increasing the fee from \$9 to \$10.50. The total cost for transferring a new title will therefore go from \$27 to \$36.50 (including the supplemental title transfer fee of \$7.50).

The JFC would maintain these increases but would move the effective date of these changes to October 1, 2003, instead of January 1, 2004.

### **Highway Funding**

The governor proposes cutting aids for the major highway program and the state highway program from current levels by \$20 million and \$97 million, respectively in 2004. The governor did not enumerate new major highway projects.

The JFC would fund the state highway program at \$555 million annually, relative to \$450 million (2004) and \$490 million (2005) under the governor's proposal. The JFC would fund the major highway program at \$240 million annually, compared to \$218 million (2004) and \$222 million (2005) under the governor's proposal. This represents an increase of \$185 million over the biennium for the state highway program and \$40 million for major highway projects, relative to the governor. In addition, JFC would enumerate four new major highway projects.

#### **Rail Infrastructure and Service**

The governor and JFC propose additional funding to reflect anticipated costs for the 3-year Milwaukee to Chicago Amtrak contract currently under negotiation, including an additional stop at Mitchell airport. (\$1.1 million in FY04 and \$1.75 in FY05)

#### **Funding for Canal Street**

Under current law, DOT must award grants totaling \$10,000,000 to the city of Milwaukee to fund the reconstruction of West Canal Street in the city of Milwaukee if the city contributes \$10,000,000 toward the project. This bill expands the allowable use of these funds to include the extension of West Canal Street to USH 41 at Miller Park in the city of Milwaukee.