

MUNICIPAL AID

Enabling Laws

Act 208 of 2012
A.C.A. §19-5-601

History and Organization

Established by A.C.A. §19-5-601, the Municipal Aid Fund consists of:

- General revenues provided under the Revenue Stabilization Law;
- Special revenues including:
 - Arkansas Highway Revenue Distribution Law - A.C.A. §27-70-201 et seq.
 - Special revenues specified in A.C.A. §19-6-301 subdivision (135)

All distributions of general and special revenues are to be made within ten (10) days after the close of each calendar month to the respective cities of the first and second class and incorporated towns on the basis of population according to the most recent federal decennial or special census. The amount to be apportioned to each city or incorporated town is to be in the proportion that each population bears to the total population of all such cities and incorporated towns.

Of the moneys received by the respective cities and incorporated towns, the general revenues shall be used for general purposes of municipal government, and the special revenues derived from highway revenues shall be used as provided by the Arkansas Highway Revenue Distribution Law, A.C.A. §27-70-201 et seq.

The biennial budget request for the Municipal Aid Fund is prepared and submitted by the Arkansas Municipal League.

Agency Commentary

Revenue to fund Municipal operations comes primarily from three (3) sources: Local Sales Tax, Utility Franchise Fees and State Turnback Funds. Local sales taxes are subject to voter approval and have been used by numerous municipalities over the last thirty-one years to sustain local services particularly after the loss of Federal Revenue Sharing which occurred in the mid-80s. The legislature was very wise to provide

this authority which has enabled cities and towns to take care of their basic needs, primarily the protection of public health and safety. In some municipalities, the use of local sales taxes as a funding vehicle has reached the saturation point, particularly with the state sales tax at 6% (and possibly 6.5%), a 100% increase since the local sales tax authority was originally granted.

Utility franchise fees, once a stable, reliable and growing source of municipal revenue have significantly declined in many cases due to the volatility of energy prices and to the reduction of revenue in the telecommunications area related to increased usage of cell and smart phones. Property taxes are available, but are limited constitutionally for municipalities and are more properly and generally used as a funding vehicle for schools. Based on these facts and circumstances, the most important source of revenue stability for municipalities is municipal aid, i.e., state turnback funds. These funds provide a minimum level of revenue for local needs of municipalities and the funds are used primarily in the area of public safety. In addition, they are used for public health purposes and for local infrastructure needs.

Municipal Aid was basically frozen for over two decades prior to the 2005-2007 biennium when much needed funding was allocated from the state surplus (\$12 million) and received in October 2007. In the 2007-2009 biennium, an annual allocation from the Property Tax Relief Trust Fund (\$4 million) was added and then continued through the current biennium. Also, in the 2009-2011 biennium, an allocation was made from the state surplus (\$2.5 million), with 75% received in October 2009 and the balance received in October 2010. This increased municipal aid produced a per capita amount in calendar 2009 of \$18.13 (with the surplus amount), but declined in calendar 2010 to a per capita amount of \$16.70 following adjustments made in the State budget during the 2010 fiscal year. After the impact of the 2010 census, the per capita turnback amount declined to \$16.26 in calendar 2011. Municipalities were receiving approximately \$21.35 per capita in 1986 for general turnback and received an average of \$16.52 in the years 2000-2006. Clearly, the long term per capita trend for turnback is downward and an increase in the total amount is justified to stabilize city revenues.

The Arkansas Municipal League respectfully requests that you increase the general turnback by 10%. We believe allocations of the requested amount would be a very wise expenditure of state general revenues and one which will assist cities and towns in providing the basic services that citizens of Arkansas utilize every day.

We respectfully submit our budget request of the following amounts which includes the requested continuation of funds from the Property Tax Relief Fund:

FY 2014	\$34,109,309
FY 2015	\$34,109,309

In addition, the Arkansas Municipal League is requesting \$726,651 in unfunded appropriation and Special Language for the Treasurer of State that will allow the Treasurer to distribute this fund balance in FY2014.

Finally, the street turnback (special revenue) appropriation which is funded by receiving a 15% allocation of revenues through the highway distribution law should be increased by \$60 million to \$180 million if Amendment #I is approved in the November 2012 election.

Audit Findings

DIVISION OF LEGISLATIVE AUDIT
 AUDIT OF :
 MUNICIPAL AID
 FOR THE YEAR ENDED JUNE 30, 2011

Findings

Recommendations

The Division of Legislative Audit does not perform an audit for this Agency.

State Contracts Over \$25,000 Awarded To Minority Owned Businesses Fiscal Year 2012

None

Publications

A.C.A. 25-1-204

Name	Statutory Authorization	Required for		# of Copies	Reason(s) for Continued Publication and Distribution
		Governor	General Assembly		
N/A	N/A	N	N	0	N/A

Department Appropriation Summary

Historical Data

Agency Request and Executive Recommendation

Appropriation	2011-2012		2012-2013		2012-2013		2013-2014						2014-2015					
	Actual	Pos	Budget	Pos	Authorized	Pos	Base Level	Pos	Agency	Pos	Executive	Pos	Base Level	Pos	Agency	Pos	Executive	Pos
034 General Revenue to Cities	26,476,810	0	27,372,099	0	27,372,099	0	27,372,099	0	30,835,960	0	30,098,750	0	27,372,099	0	30,109,309	0	29,372,099	0
035 Special Revenue to Cities	88,197,377	0	120,000,000	0	120,000,000	0	120,000,000	0	180,000,000	0	180,000,000	0	120,000,000	0	180,000,000	0	180,000,000	0
35X Property Tax Relief-Cities	4,000,000	0	4,000,000	0	4,000,000	0	4,000,000	0	4,000,000	0	4,000,000	0	4,000,000	0	4,000,000	0	4,000,000	0
Total	118,674,187	0	151,372,099	0	151,372,099	0	151,372,099	0	214,835,960	0	214,098,750	0	151,372,099	0	214,109,309	0	213,372,099	0

Funding Sources		%		%		%		%		%		%		%		%		%
Fund Balance 4000005	726,651	0.6	726,651	0.5			726,651	0.5	726,651	0.3	726,651	0.3	726,651	0.5	0	0.0	0	0.0
General Revenue 4000010	26,476,810	22.2	27,372,099	18.0			27,372,099	18.0	30,109,309	14.0	29,372,099	13.8	27,372,099	18.0	30,109,309	14.1	29,372,099	13.9
Special Revenue 4000030	92,197,377	77.2	124,000,000	81.5			124,000,000	81.5	184,000,000	85.6	182,000,000	85.8	124,000,000	81.5	184,000,000	85.9	182,000,000	86.1
Total Funds	119,400,838	100.0	152,098,750	100.0			152,098,750	100.0	214,835,960	100.0	212,098,750	100.0	152,098,750	100.0	214,109,309	100.0	211,372,099	100.0
Excess Appropriation/(Funding)	(726,651)		(726,651)				(726,651)		0		2,000,000		(726,651)		0		2,000,000	
Grand Total	118,674,187		151,372,099				151,372,099		214,835,960		214,098,750		151,372,099		214,109,309		213,372,099	

Agency Position Usage Report

FY2010 - 2011						FY2011 - 2012						FY2012 - 2013					
Authorized in Act	Budgeted			Unbudgeted	% of Authorized Unused	Authorized in Act	Budgeted			Unbudgeted	% of Authorized Unused	Authorized in Act	Budgeted			Unbudgeted	% of Authorized Unused
	Filled	Unfilled	Total	Total			Filled	Unfilled	Total	Total			Filled	Unfilled	Total	Total	
0	0	0	0	0	0.00 %	0	0	0	0	0	0.00 %	0	0	0	0	0	0.00 %

Analysis of Budget Request

Appropriation: 034 - General Revenue to Cities

Funding Sources: MLM - Municipal Aid Fund

This appropriation provides spending authority for the Treasurer's Office to distribute general revenues designated for the cities.

The Base Level for General Revenue to Cities (034) is \$27,372,099 each year of the biennium.

The Municipal League of Arkansas is requesting a \$2,737,210 increase for its general revenue appropriation and funding each year of the biennium from Category "B" of the Revenue Stabilization Act.

The Municipal League of Arkansas is also requesting unfunded appropriation of \$726,651 and Special Language for the Treasurer of State that will allow the Treasurer to disburse this fund balance in FY2014.

The Executive Recommendation provides for \$2,726,651 in appropriation and \$2,000,000 in additional general revenue funding.

Appropriation Summary

Appropriation: 034 - General Revenue to Cities

Funding Sources: MLM - Municipal Aid Fund

Historical Data

Agency Request and Executive Recommendation

Commitment Item		Historical Data			2013-2014			2014-2015		
		2011-2012 Actual	2012-2013 Budget	2012-2013 Authorized	Base Level	Agency	Executive	Base Level	Agency	Executive
Grants and Aid	5100004	26,469,573	27,372,099	27,372,099	27,372,099	30,835,960	30,098,750	27,372,099	30,109,309	29,372,099
Claims	5110015	7,237	0	0	0	0	0	0	0	0
Total		26,476,810	27,372,099	27,372,099	27,372,099	30,835,960	30,098,750	27,372,099	30,109,309	29,372,099
Funding Sources										
Fund Balance	4000005	726,651	726,651		726,651	726,651	726,651	726,651	0	0
General Revenue	4000010	26,476,810	27,372,099		27,372,099	30,109,309	29,372,099	27,372,099	30,109,309	29,372,099
Total Funding		27,203,461	28,098,750		28,098,750	30,835,960	30,098,750	28,098,750	30,109,309	29,372,099
Excess Appropriation/(Funding)		(726,651)	(726,651)		(726,651)	0	0	(726,651)	0	0
Grand Total		26,476,810	27,372,099		27,372,099	30,835,960	30,098,750	27,372,099	30,109,309	29,372,099

Special Language provides for carry forward of funding. For FY13, the carry forward funding amount was \$726,651. The Arkansas Municipal League is requesting unfunded appropriation and Special Language for the Treasurer of State that will allow the Treasurer to distribute this fund balance in FY2014.

FY12 Actual does not reflect a fund transfer to the Assessment Coordination Department for the Real Property Reappraisal Program (\$1,140,000).

Change Level by Appropriation

Appropriation: 034 - General Revenue to Cities
Funding Sources: MLM - Municipal Aid Fund

Agency Request

Change Level		2013-2014	Pos	Cumulative	% of BL	2014-2015	Pos	Cumulative	% of BL
BL	Base Level	27,372,099	0	27,372,099	100.0	27,372,099	0	27,372,099	100.0
C01	Existing Program	2,737,210	0	30,109,309	110.0	2,737,210	0	30,109,309	110.0
C05	Unfunded Appropriation	726,651	0	30,835,960	112.7	0	0	30,109,309	110.0

Executive Recommendation

Change Level		2013-2014	Pos	Cumulative	% of BL	2014-2015	Pos	Cumulative	% of BL
BL	Base Level	27,372,099	0	27,372,099	100.0	27,372,099	0	27,372,099	100.0
C01	Existing Program	2,000,000	0	29,372,099	107.3	2,000,000	0	29,372,099	107.3
C05	Unfunded Appropriation	726,651	0	30,098,750	110.0	0	0	29,372,099	107.3

Justification

C01	Municipal Aid was basically frozen for over two decades prior to the 2005-2007 biennium when much needed funding was allocated from the state surplus (\$12 million) and received in October 2007. In the 2007-2009 biennium, an allocation was made from the state surplus (\$2.5 million), with 75% received in October 2009 and the balance expected to be received in October 2010. This increased municipal aid produced a per capita amount in calendar 2009 of \$18.13 (with the surplus amount), but is estimated to decline in calendar 2010 to a per capita amount of \$16.66 as a result of adjustments made in the State budget during the past fiscal year. Municipalities were receiving approximately \$21.35 per capita in 1986 for general turnback and received an average of \$16.52 in the years 2000-2006. Clearly, the long term per capita trend for turnback is downward, and goes even lower when the results of the 2010 census are considered. The Arkansas Municipal League respectfully requests that you increase the underlying general turnback by 10%. We believe allocations of the requested amounts would be a very wise expenditure of state general revenues and one which will assist the cities and towns in providing the basic services the citizens of Arkansas utilize every day.
C05	Special Language provides for carry forward of funding. For FY13, the carry forward funding amount was \$726,651. The Arkansas Municipal League is requesting unfunded appropriation and Special Language for the Treasurer of State that will allow the Treasurer to distribute this fund balance in FY2014

**CARRY FORWARD OF ANY REMAINING FUND BALANCES
FROM FISCAL YEAR 2012 TO FISCAL YEAR 2013**

Agency: Municipal Aid, Treasurer of State

Program: General Revenue to Cities

Act #: 322 Section(s) #: 1 & 12

Estimated Carry Forward Amount \$ 727,072.00 Funding Source: General Revenue

Accounting Information:

Business Area: 0076 Funds Center: 034 Fund: MLM Functional Area: CNST

Current law requires a written statement be submitted to the DFA Office of Budget stating the reason(s) to carry forward funding for a program or a specific line item within a program remaining on June 30th of a fiscal year.

Justification for carry forward of fund balance:

Fund balance is a result of General Revenue receipts exceeding authorized distributions.

Actual Funding Carry Forward Amount \$ 726,651.00

Current status of carry forward funding:

The Arkansas Municipal League is requesting unfunded appropriation and Special Language for the Treasurer of State that will allow the Treasurer to distribute this fund balance in FY2014.

Don Zimmerman

Director

08-27-2012

Date

Analysis of Budget Request

Appropriation: 035 - Special Revenue to Cities

Funding Sources: MLM - Municipal Aid Fund

This appropriation provides spending authority for the Treasurer's Office to distribute special revenues designated for the cities.

The Base Level for Special Revenue to Cities (035) is \$120,000,000 each year of the biennium.

The Municipal League of Arkansas is requesting a \$60,000,000 increase for its special revenue appropriation each year of the biennium.

The Executive Recommendation provides for the Municipal League of Arkansas request.

Appropriation Summary

Appropriation: 035 - Special Revenue to Cities

Funding Sources: MLM - Municipal Aid Fund

Historical Data

Agency Request and Executive Recommendation

Commitment Item		Historical Data			2013-2014			2014-2015		
		2011-2012 Actual	2012-2013 Budget	2012-2013 Authorized	Base Level	Agency	Executive	Base Level	Agency	Executive
Grants and Aid	5100004	88,174,905	120,000,000	120,000,000	120,000,000	180,000,000	180,000,000	120,000,000	180,000,000	180,000,000
Claims	5110015	22,472	0	0	0	0	0	0	0	0
Total		88,197,377	120,000,000	120,000,000	120,000,000	180,000,000	180,000,000	120,000,000	180,000,000	180,000,000
Funding Sources										
Special Revenue	4000030	88,197,377	120,000,000		120,000,000	180,000,000	180,000,000	120,000,000	180,000,000	180,000,000
Total Funding		88,197,377	120,000,000		120,000,000	180,000,000	180,000,000	120,000,000	180,000,000	180,000,000
Excess Appropriation/(Funding)		0	0		0	0	0	0	0	0
Grand Total		88,197,377	120,000,000		120,000,000	180,000,000	180,000,000	120,000,000	180,000,000	180,000,000

Change Level by Appropriation

Appropriation: 035 - Special Revenue to Cities
Funding Sources: MLM - Municipal Aid Fund

Agency Request

Change Level		2013-2014	Pos	Cumulative	% of BL	2014-2015	Pos	Cumulative	% of BL
BL	Base Level	120,000,000	0	120,000,000	100.0	120,000,000	0	120,000,000	100.0
C01	Existing Program	60,000,000	0	180,000,000	150.0	60,000,000	0	180,000,000	150.0

Executive Recommendation

Change Level		2013-2014	Pos	Cumulative	% of BL	2014-2015	Pos	Cumulative	% of BL
BL	Base Level	120,000,000	0	120,000,000	100.0	120,000,000	0	120,000,000	100.0
C01	Existing Program	60,000,000	0	180,000,000	150.0	60,000,000	0	180,000,000	150.0

Justification

C01	The street turnback (special revenue) appropriation which is funded by receiving a 15% allocation of revenues through the highway distribution law should be increased by \$60 million to \$180 million if Amendment #I is approved in the November 2012 election.
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Analysis of Budget Request

Appropriation: 35X - Property Tax Relief-Cities

Funding Sources: TPR - Property Tax Relief Trust Fund

Amendment 79 to the Arkansas Constitution proposed limiting the increase in the assessed value of a taxpayer's real property after a countywide reappraisal and a required property tax credit of at least three hundred dollars (\$300) on homestead property. This amendment was adopted at the November 2000 general election and became effective January 1, 2001.

This appropriation provides spending authority for the Treasurer's Office to distribute special revenue to counties based upon a property tax reduction. Beginning with Act 1268 of 2007, the cities have received a distribution of \$4 million each year, contingent upon available surplus funding.

The Municipal League of Arkansas requests Base Level for the 2013-2015 biennium.

The Executive Recommendation provides for the Agency Request for appropriation with \$2,000,000 in funding from the Property Tax Relief Trust Fund. Use of this appropriation is contingent on availability of funding.

Appropriation Summary

Appropriation: 35X - Property Tax Relief-Cities
Funding Sources: TPR - Property Tax Relief Trust Fund

Historical Data

Agency Request and Executive Recommendation

Commitment Item	Historical Data			2013-2014			2014-2015		
	2011-2012 Actual	2012-2013 Budget	2012-2013 Authorized	Base Level	Agency	Executive	Base Level	Agency	Executive
Refunds/Reimbursements 5110014	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Total	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Funding Sources									
Special Revenue 4000030	4,000,000	4,000,000		4,000,000	4,000,000	2,000,000	4,000,000	4,000,000	2,000,000
Total Funding	4,000,000	4,000,000		4,000,000	4,000,000	2,000,000	4,000,000	4,000,000	2,000,000
Excess Appropriation/(Funding)	0	0		0	0	2,000,000	0	0	2,000,000
Grand Total	4,000,000	4,000,000		4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000