

MUNICIPAL AID

Enabling Laws

Act 72 of 2010
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 twenty-nine years to sustain local services particularly after the loss of Federal Revenue Sharing which occurred in the mid-80's. 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%, 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 in the current biennium. Also in this 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%. The street appropriation for 15% of highway revenues should remain the same. Hopefully, those revenues will continue to improve with increased revenue from the severance tax and return to the amounts of previous years. 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.

We respectfully submit our budget request of the following amounts which includes the requested continuation of funds from the Property Tax Relief Fund: **FY 2012 - \$34,257,000; FY 2013 - \$37,283,000.**

Audit Findings

DIVISION OF LEGISLATIVE AUDIT
AUDIT OF :
MUNICIPAL AID
FOR THE YEAR ENDED JUNE 30, 2009

Findings

Recommendations

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

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	2009-2010		2010-2011		2010-2011		2011-2012						2012-2013					
	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	24,731,123	0	27,372,099	0	27,506,526	0	27,372,099	0	30,257,000	0	27,372,099	0	27,372,099	0	33,283,000	0	27,372,099	0
035 Special Revenue to Cities	86,526,683	0	120,000,000	0	120,000,000	0	120,000,000	0	120,000,000	0	120,000,000	0	120,000,000	0	120,000,000	0	120,000,000	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	115,257,806	0	151,372,099	0	151,506,526	0	151,372,099	0	154,257,000	0	151,372,099	0	151,372,099	0	157,283,000	0	151,372,099	0

Funding Sources		%		%		%		%		%		%		%		%
General Revenue 4000010	24,731,123	21.5	27,372,099	18.1	27,372,099	18.1	30,257,000	19.6	27,372,099	18.1	27,372,099	18.1	33,283,000	21.2	27,372,099	18.1
Special Revenue 4000030	90,526,683	78.5	124,000,000	81.9	124,000,000	81.9	124,000,000	80.4	124,000,000	81.9	124,000,000	81.9	124,000,000	78.8	124,000,000	81.9
Total Funds	115,257,806	100.0	151,372,099	100.0	151,372,099	100.0	154,257,000	100.0	151,372,099	100.0	151,372,099	100.0	157,283,000	100.0	151,372,099	100.0
Excess Appropriation/(Funding)	0		0		0		0		0		0		0		0	
Grand Total	115,257,806		151,372,099		151,372,099		154,257,000		151,372,099		151,372,099		157,283,000		151,372,099	

Special Language authorizes carry forward of funding for all Municipal Aid appropriations.

The amount of funding carried forward for FY11 in General Revenue to Cities (034) was \$696,886.

The amount of funding carried forward for FY11 in Special Revenue to Cities (035) was \$70,847.

Property Tax Relief - Cities (35X) of \$4 million each year is contingent upon available surplus funding.

Agency Position Usage Report

FY2008 - 2009						FY2009 - 2010						FY2010 - 2011					
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

Two appropriations, General Revenue to Cities (034) and Special Revenue to Cities (035), provide spending authority for the Treasurer's Office to distribute general and special 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 an increase over Base Level for its general revenue appropriation (034) of \$2,884,901 for FY12 and \$5,910,901 for FY13. This request reflects an approximate 10% increase each year (compounded in the 2nd year) of the biennium over the previously authorized level.

The Municipal League of Arkansas is also requesting that Special Revenue to Cities (035) be continued at the Base Level amounts of \$120,000,000 for each year of the biennium.

The Executive Recommendation provides for Base Level.

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			Agency Request and Executive Recommendation			Agency Request and Executive Recommendation		
		2009-2010 Actual	2010-2011 Budget	2010-2011 Authorized	2011-2012			2012-2013		
					Base Level	Agency	Executive	Base Level	Agency	Executive
Grants and Aid	5100004	24,731,123	27,372,099	27,506,526	27,372,099	30,257,000	27,372,099	27,372,099	33,283,000	27,372,099
Total		24,731,123	27,372,099	27,506,526	27,372,099	30,257,000	27,372,099	27,372,099	33,283,000	27,372,099

Funding Sources		Historical Data			Agency Request and Executive Recommendation			Agency Request and Executive Recommendation		
		2009-2010 Actual	2010-2011 Budget	2010-2011 Authorized	2011-2012			2012-2013		
					Base Level	Agency	Executive	Base Level	Agency	Executive
General Revenue	4000010	24,731,123	27,372,099		27,372,099	30,257,000	27,372,099	27,372,099	33,283,000	27,372,099
Total Funding		24,731,123	27,372,099		27,372,099	30,257,000	27,372,099	27,372,099	33,283,000	27,372,099
Excess Appropriation/(Funding)		0	0		0	0	0	0	0	0
Grand Total		24,731,123	27,372,099		27,372,099	30,257,000	27,372,099	27,372,099	33,283,000	27,372,099

Special Language provides for carry forward of funding. For FY11, the carry forward funding amount was \$696,886.

FY10 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		2011-2012	Pos	Cumulative	% of BL	2012-2013	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	2,884,901	0	30,257,000	110.5	5,910,901	0	33,283,000	121.6

Executive Recommendation

Change Level		2011-2012	Pos	Cumulative	% of BL	2012-2013	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	0	0	27,372,099	100.0	0	0	27,372,099	100.0

Justification

C01	<p>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 in the current biennium. Also in this 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%. The street appropriation for 15% of highway revenues should remain the same. Hopefully, those revenues will continue to improve with increased revenue from the severance tax and return to the amounts of previous years. 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.</p>
-----	---

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			2011-2012			2012-2013		
		2009-2010 Actual	2010-2011 Budget	2010-2011 Authorized	Base Level	Agency	Executive	Base Level	Agency	Executive
Grants and Aid	5100004	86,526,683	120,000,000	120,000,000	120,000,000	120,000,000	120,000,000	120,000,000	120,000,000	120,000,000
Total		86,526,683	120,000,000	120,000,000	120,000,000	120,000,000	120,000,000	120,000,000	120,000,000	120,000,000

Funding Sources										
Special Revenue	4000030	86,526,683	120,000,000		120,000,000	120,000,000	120,000,000	120,000,000	120,000,000	120,000,000
Total Funding		86,526,683	120,000,000		120,000,000	120,000,000	120,000,000	120,000,000	120,000,000	120,000,000
Excess Appropriation/(Funding)		0	0		0	0	0	0	0	0
Grand Total		86,526,683	120,000,000		120,000,000	120,000,000	120,000,000	120,000,000	120,000,000	120,000,000

Special Language provides for carry forward of funding. For FY11, the carry forward funding amount was \$70,847.

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 also received a distribution of \$4 million each year, contingent upon available surplus funding.

The Municipal League of Arkansas requests Base Level for the 2011-2013 biennium.

The Executive Recommendation provides for the Agency Request. 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			Agency Request and Executive Recommendation			Agency Request and Executive Recommendation		
	2009-2010 Actual	2010-2011 Budget	2010-2011 Authorized	2011-2012			2012-2013		
				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	4,000,000	4,000,000	4,000,000	4,000,000
Total Funding	4,000,000	4,000,000		4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Excess Appropriation/(Funding)	0	0		0	0	0	0	0	0
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