

Fiscal Estimate - 2005 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 05-1634/1	Introduction Number SB-28	
Subject		
Levy limits for municipalities, counties, and technical college districts, and school district revenue limits		
Fiscal Effect		
State:		
<input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate <input type="checkbox"/> Increase Existing Appropriations <input checked="" type="checkbox"/> Increase Existing Revenues <input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input checked="" type="checkbox"/> Decrease Existing Appropriations <input checked="" type="checkbox"/> Decrease Existing Revenues <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Create New Appropriations <input type="checkbox"/> Decrease Costs		
Local:		
<input type="checkbox"/> No Local Government Costs <input type="checkbox"/> Indeterminate 1. <input type="checkbox"/> Increase Costs 3. <input type="checkbox"/> Increase Revenue 5. Types of Local Government Units Affected <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input checked="" type="checkbox"/> Towns <input checked="" type="checkbox"/> Village <input checked="" type="checkbox"/> Cities 2. <input type="checkbox"/> Decrease Costs 4. <input checked="" type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input checked="" type="checkbox"/> Mandatory <input checked="" type="checkbox"/> Counties <input type="checkbox"/> Others <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input checked="" type="checkbox"/> Mandatory <input checked="" type="checkbox"/> School Districts <input checked="" type="checkbox"/> WTCS Districts		
Fund Sources Affected		
<input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input checked="" type="checkbox"/> SEG <input type="checkbox"/> SEGS Affected Ch. 20 Appropriations 20.835 (1)(e), (2)(c), (2)(dm), 3(b), and 3(q); SEG Transportation Revenue		
Agency/Prepared By	Authorized Signature	Date
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Fiscal Estimate Narratives
DOR 2/14/2005

LRB Number	05-1634/1	Introduction Number	SB-28	Estimate Type	Original
Subject					
Levy limits for municipalities, counties, and technical college districts, and school district revenue limits					

Assumptions Used in Arriving at Fiscal Estimate

PROPERTY TAX LEVIES

The bill places limits on increases in property taxes for technical colleges, school districts, municipalities, and counties which apply to the three years after enactment. Thus, if the bill is enacted in 2005, the limits will apply for the 2005/06, 2006/07, and 2007/08 property tax years. The bill also permanently reduces allowable growth in per pupil revenues for school districts.

Counties: Under current law, a county's operating tax rate and debt service tax rate may not exceed the rates for the 1992/93 tax year. Under the bill, a county's total tax levy may not increase over the prior year's total tax levy by more than the percentage change in its equalized value due to net new construction outside of tax incremental financing districts.

Municipalities: Under current law, no limits are placed on municipal tax levies. Under the bill, a municipality's total tax levy, excluding tax incremental levies, may not increase over the prior year's total tax levy, excluding tax incremental levies, by more than the percentage change in its equalized value due to net new construction outside of tax incremental financing districts.

School Districts: Under current law, growth in school district revenue from the tax levy for operations and non-referendum debt service plus general state aid is limited. For the 2004/05 school year, most school districts were permitted to increase their revenue by about \$241 per pupil. This per pupil amount is adjusted annually for inflation. Under the bill, the allowable increase in per pupil revenue for 2005/06 would be set at \$120 per pupil, and the limit for 2006/07 and subsequent school years would be set at \$100 per pupil.

Technical College Districts: Under current law, the operating tax levy for a technical college district may not exceed 1.50 mills on equalized value and the debt service tax levy is not limited. Under the bill, the total tax levy may not increase over the prior year's total levy by more than 2.6%.

The bill permits certain adjustments to the proposed levy limits. Counties, municipalities, and technical colleges could exclude levies for debt service on debts approved before July 1, 2005 and debt approved by referendum thereafter. Any levy limit could be exceeded upon approval by the governing board and by voters at a referendum. Limits would be adjusted for annexations of territory and for transfers of service from or to other governmental units. The limit would not apply to the levies for first class city (Milwaukee) schools and for county-operated children with disabilities education boards.

ASSUMPTIONS FOR LEVY PROJECTIONS

The fiscal effects of the bill discussed below are based on projections of levies under current law and under the bill for the 2005/06, 2006/07, and 2007/08 property tax years. Although the bill directs that certain debt levies are not subject to the limit, it is not possible to adjust for the exclusion of these debt levies since the data on the current amount of such levies are generally unavailable. As a result, the levy projections for current law and for under the bill were based on total property tax levies for each type of governmental unit.

In preparing the projections, additional assumptions were made, as follows:

Property Values: It was assumed that equalized value would grow, both under current law and the bill, by 7.98% per year, equal to the average rate of growth for the last five years.

School Districts: The allowable growth in per pupil revenue for school districts under current law was projected to be \$247.50 in 2005/06, \$252.75 in 2006/07, and \$256.75 in 2007/08. The allowable growth in

per pupil revenue specified in the bill is \$120 in 2005/06 and \$100 in 2006/07 and thereafter. It was assumed that 100% of each year's allowable growth in school revenue would be funded from property taxes. The number of pupils was assumed to be 871,000 for all three years.

Other Governmental Units: Under current law, the annual rate of growth in property tax levies were assumed to be 6.58% for technical colleges, 5.83% for counties, and 5.62% for municipalities, based on the average annual rate of growth in levies for the past five years. Under the bill, the annual rate of growth in property tax levies was assumed to be 2.60% for technical colleges, as set in the bill, and 2.66% for counties and municipalities, based on the average annual growth in equalized value due to net new construction for the past five years.

Based on the assumptions noted above, a comparison of net property taxes (after deducting the school levies credit) under current law and the bill shows the following: In 2005/06, a reduction in total net taxes from \$8.167 billion to \$7.900 billion, for a \$267 million, or 3.3% reduction. In 2006/07, a reduction in total net taxes from \$8.671 billion to \$8.119 billion, for a \$552 million, or 6.4% reduction. In 2007/08, a reduction in total net taxes from \$9.195 billion to \$8.342 billion, for a \$853 million, or 9.3% reduction.

STATE TAXES AND EXPENDITURES

These reductions in property taxes would also affect other taxes and expenditures, as discussed below. Years with respect to these fiscal estimates refer to state fiscal years FY06 to FY08.

INCOME TAX

Individuals may claim a nonrefundable school property tax or rent credit against their income tax liability equal to 12% of property taxes or rent constituting property taxes up to \$2,500. The maximum credit is \$300. The reductions in property taxes over the three years would reduce these credits by \$4.1 million, \$12.5 million, and \$21.5 million, respectively.

HOMESTEAD CREDIT

The Homestead Credit provides certain low-income households with a state payment to offset part of their property taxes or rents. The reductions in property taxes over the three years would reduce these credits by \$0.5 million, \$1.2 million, and \$2.0 million, respectively.

FARMLAND PRESERVATION CREDIT

The Farmland Preservation Credit provides certain owners of farmland with a property tax relief credit based on income and property taxes paid. The reductions in property taxes over the three years would reduce these credits by \$0.4 million, \$1.2 million, and \$1.9 million, respectively.

UTILITY TAXES

For some utility companies, the state utility tax is determined on an ad valorem basis. For airlines, conservation and regulation companies, municipal electric association projects, pipelines, and railroads the tax rate used equals the state average net property tax rate. For telephone companies, the tax rate is based on net rates in the municipality where the property is located. Revenues from the airline and railroad tax are paid to the State Transportation Fund. All other revenues are paid to the General Fund.

The reductions in property tax rates over the three years would reduce state SEG-transportation revenues by \$0.7 million, \$1.3 million, and \$1.8 million, respectively. For state GPR revenues, the reductions would be \$3.1 million, \$6.0 million, and \$8.7 million, respectively.

EXEMPT COMPUTER AID

Exempt computer aids are an annual state payment to local governments equal to the property taxes that would have been levied on exempt computers if they were taxable. The reductions in property tax rates over the three years would reduce exempt computer aid expenditures by \$2.3 million, \$4.5 million, and \$6.5 million, respectively.

SUMMARY

A summary of the effects on local governments and the state for the three property tax years is shown in the

attached table.

ADMINISTRATIVE COSTS

Administrative costs of the bill would be absorbed by the Department.

Long-Range Fiscal Implications

Summary of Fiscal Effect of 2005 SB 28:

(dollar amounts in millions)

Local Fiscal Effects - Property Tax Reductions

<u>Unit</u>	<u>2005/06</u>	<u>2006/07</u>	<u>2007/08</u>
School districts	128.5	261.5	398.0
Technical colleges	23.5	49.2	77.2
Counties	51.2	106.8	166.9
Municipalities	57.8	120.3	188.0
TIF districts	<u>5.9</u>	<u>13.8</u>	<u>22.9</u>
Total reduction	266.9	551.6	853.0

State Fiscal Effects - GPR

<u>Revenues</u>	<u>2005/06</u>	<u>2006/07</u>	<u>2007/08</u>
State utility taxes	-3.1	-6.0	-8.7

<u>Expenditures</u>	<u>2005/06</u>	<u>2006/07</u>	<u>2007/08</u>
Property tax/rent credit	-4.1	-12.5	-21.5
Homestead credit	-0.5	-1.2	-2.0
Farmland preservation credit	-0.4	-1.2	-1.9
<u>Exempt computer aid.</u>	<u>-2.3</u>	<u>-4.5</u>	<u>-6.5</u>
Total expenditures	-7.3	-19.4	-31.9

Net effect on GPR balance	4.2	13.4	23.2
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State Fiscal Effects - SEG (Transportation)

<u>Revenues</u>	<u>2005/06</u>	<u>2006/07</u>	<u>2007/08</u>
State utility taxes	-0.7	-1.3	-1.8

Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

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LRB Number 05-1634/1		Introduction Number SB-28	
Subject			
Levy limits for municipalities, counties, and technical college districts, and school district revenue limits			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
	State Operations - Salaries and Fringes	\$	
	(FTE Position Changes)		
	State Operations - Other Costs		
	Local Assistance		
	Aids to Individuals or Organizations		
	TOTAL State Costs by Category	\$	\$
B. State Costs by Source of Funds			
	GPR		
	FED		
	PRO/PRS		
	SEG/SEG-S		
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)			
		Increased Rev	Decreased Rev
	GPR Taxes	\$	\$
	GPR Earned		
	FED		
	PRO/PRS		
	SEG/SEG-S		
	TOTAL State Revenues	\$	\$
NET ANNUALIZED FISCAL IMPACT			
		State	Local
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$See text	\$See text
Agency/Prepared By		Authorized Signature	Date
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