

Fiscal Estimate Narratives

LFB 1/31/2005

LRB Number 05s0009/2	Introduction Number SSA1-SB28	Estimate Type Supplemental
Subject Levy limits for municipalities, counties, technical colleges; school district revenue limits		

Assumptions Used in Arriving at Fiscal Estimate

See attached.

Long-Range Fiscal Implications

No effect after three years.

Senate Bill 28 and Assembly Bill 58 would impose levy limits on counties, municipalities, and technical college districts and modify school district revenue limits. Senate Bill 28 was introduced on January 25 and Assembly Bill 58 was introduced on January 27. Both bills were referred to the Joint Committee on Finance. Senate Substitute Amendment 1 to SB 28 and Assembly Substitute Amendment 1 to AB 58, which are identical, were introduced on January 27. This paper summarizes the substitute amendments and provides information on their fiscal effect.

SUMMARY OF SUBSTITUTE AMENDMENTS

County and Municipal Levy Limit

The substitute amendments would limit the rate of increase in the property tax levy of each county and municipality to the jurisdiction's percentage change in tax base due to new construction, less improvements removed, as determined for January 1 equalized values in the year of the levy, but not less than zero. The limit would not apply to any tax increments from a tax incremental financing district.

The levy limit would be sunset three years after the substitute amendments' effective date. Therefore, if enacted during the current year, the control would apply to taxes levied in 2005 (payable in 2006), 2006 (payable in 2007), and 2007 (payable in 2008). The tax rate limit imposed on counties under current law would remain in effect throughout and after this three-year period.

The Department of Revenue (DOR) would administer the levy limit for counties and municipalities.

The substitute amendments would authorize several adjustments to the allowable levy:

Transfers of Service. A local government that transfers a service to another governmental unit would have its levy limit decreased to reflect the cost that the local government would have incurred to provide the service, as determined by DOR. A local government that assumes responsibility for providing a service previously performed by another governmental unit would have its levy limit increased to reflect the cost of that service, as determined by DOR.

Annexations. The allowable levy for municipalities involved in annexations would be adjusted to reflect the levy on that property in the prior year. The levy limit for a city or village annexing property would be increased by an amount equal to the town taxes levied on the property in the previous year. The levy limit for the town previously containing the annexed property would be reduced by an identical amount.

Debt Service. Adjustments for amounts levied for debt service would be permitted under either of two provisions. First, if the amount needed for debt service in the current year exceeds

the amount of debt service in the previous year, the levy limit for the county or municipality would be increased by the amount of the difference, as determined by DOR, if the additional amount is required to service debt authorized through a resolution adopted by the county or municipality before July 1, 2005. Second, for debt authorized on or after July 1, 2005, amounts needed for debt service would not be subject to the limitation if the debt is authorized by referendum and is secured by the full faith and credit of the county or municipality. For purposes of the levy limit, debt service would be defined to include debt service on debt issued or reissued to fund or refund outstanding obligations of the county or municipality, interest on outstanding obligations, or the payment of related issuance costs or redemption premiums.

County Children With Disabilities Education Boards. The limitation would not apply to amounts levied by a county for a county children with disabilities education board. State law authorizes counties to establish special education programs to provide services to children with disabilities. Although school districts generally provide these services, four counties have fiscally independent special education programs. They include Brown, Calumet, Racine, and Walworth counties, although Racine County is discontinuing its program in 2005.

First Class City Levies for Schools. The limitation would not apply to amounts levied by a first class city for school purposes. Chapter 120 of the state statutes establishes the governance structure for most school districts, but any district located in a city of the first class is organized under Chapter 119 of the statutes. Currently, Milwaukee Public Schools (MPS) is the only school district operating under Chapter 119. In such districts, state law directs the school board to submit its budget to the common council, and the common council is required to levy a tax "equal to the amount of money required by the board." The substitute amendments clarify that the levy for school purposes is not part of the city's levy for purposes of the levy limit. As a school district, MPS is subject to revenue limits.

Referendum to Exceed Limit. A county or municipality would be permitted to exceed its levy limit by an amount approved both by its governing body in a resolution and by its electors in a referendum. The resolution and referendum would have to specify whether the proposed increase in the levy is for the next fiscal year only or if it would apply on an ongoing basis. In 2005 or 2007, the local government would be authorized to call a special referendum. In 2006, such a referendum would have to be held at the same time as the spring primary or election or September primary or November general election.

The referendum question would have to be submitted to the electors as follows: "Under state law, the increase in the levy of the (name of county or municipality) for the tax to be imposed for the next fiscal year, (year), is limited to%, which results in a levy of \$.... Shall the (name of the county or municipality) be allowed to exceed this limit and increase the levy for the next fiscal year, (year), by a total of%, which results in a levy of \$....?". The clerk of the county or municipality would have to submit the results of the referendum to DOR within 14 days of the referendum. If the increase is approved for only one year, the amount of the increase would be subtracted from the base used to calculate the levy limit for the next year.

Town Meeting Vote to Exceed Limit. Towns with populations under 2,000 would be allowed to exceed the levy limit if the increase is approved at the annual town meeting or a special town meeting. The town clerk would have to certify the results of the town meeting vote to DOR within 14 days after a vote approving an increase in the town's levy limit.

Technical College District Levy Limit

The substitute amendments would limit the rate of increase in the property tax levy of each technical college district to 2.6% per year. The levy limit would be sunset three years after the substitute amendments' effective date. Therefore, if enacted during the current year, the control would apply to taxes levied in 2005 (payable in 2006), 2006 (payable in 2007), and 2007 (payable in 2008). The tax rate limit imposed on technical college districts under current law (1.5 mills for the operating levy) would remain in effect throughout and after this three-year period. The Department of Revenue (DOR) would administer the levy limit for technical college districts.

The substitute amendments would authorize several adjustments to the allowable levy:

Transfers of Service. A district that transfers a service to another governmental unit would have its levy limit decreased to reflect the cost that the district would have incurred to provide the service, as determined by DOR. A district that assumes responsibility for providing a service previously performed by another governmental unit would have its levy limit increased to reflect the cost of that service, as determined by DOR.

Debt Service. Adjustments for amounts levied for debt service would be permitted under either of two provisions. First, if the amount needed for debt service in the current year exceeds the amount of debt service in the previous year, the levy limit for the district would be increased by the amount of the difference, as determined by DOR, if the additional amount is required to service debt authorized through a resolution adopted by the district's board before July 1, 2005. Second, for debt authorized on or after July 1, 2005, amounts needed for debt service would not be subject to the limitation if the debt is authorized by referendum and is secured by the full faith and credit of the district. For purposes of the levy limit, debt service would be defined to include debt service on debt issued or reissued to fund or refund outstanding obligations of the district, interest on outstanding obligations, or the payment of related issuance costs or redemption premiums.

Referendum to Exceed Limit. A district would be permitted to exceed its levy limit by an amount approved both by the district board in a resolution and by its electors in a referendum. The resolution and referendum would have to specify whether the proposed increase in the levy is for the next fiscal year only or if it would apply on an ongoing basis. In 2005 or 2007, the district board would be authorized to call a special referendum. In 2006, such a referendum would have to be held at the same time as the spring primary or election or September primary or November general election.

The referendum question would have to be submitted to the electors as follows: "Under state law, the percentage increase in the levy of the (name of district) for the next fiscal year, (year), is limited to%, resulting in a levy of \$.... Shall the (name of the district) be allowed to exceed this limit such that the percentage increase for the next fiscal year, (year), will be%, resulting in a levy of \$....?". The district board would have to submit the results of the referendum to DOR within 14 days of the referendum. If the increase is approved for only one year, the amount of the increase would be subtracted from the base used to calculate the levy limit for the next year.

School District Revenue Limits

Current Law. Under revenue limits, the annual increase in a school district's per pupil revenue derived from general school aids, computer aid, and property taxes is restricted. Actual general aids, computer aid, and property tax revenues received in the prior year are used to establish the base year amount in order to compute the allowable revenue increase for the current school year. A per pupil revenue limit increase is added to the base revenue per pupil for the current school year. There are several adjustments that are made to the standard revenue limit calculation, such as the declining enrollment adjustment, transfer of service, and the low-revenue ceiling. The difference between a district's revenue limit and the October 15 general school aid estimate provided by the Department of Public Instruction, less the district's computer aid eligibility, determines the maximum amount of revenue the district is allowed to raise through the property tax levy for these controlled revenues. School property taxes for referenda-approved debt and the community service levy are not subject to revenue limits. In addition, school districts may obtain either recurring or nonrecurring increases to their revenue limits through referendum approval.

In 2004-05, the per pupil adjustment is \$241.01. Based on current projections of inflation, it is estimated that the per pupil adjustment would be \$248 in 2005-06 and \$252 in 2006-07.

SSA I/ASA I. For school districts, the per pupil adjustment under revenue limits would be reduced to \$210 in 2005-06 and to \$200 in 2006-07 and thereafter. Under the substitute amendments, the per pupil adjustment would be reduced by an estimated \$38 per pupil from current law in 2005-06, and by an estimated cumulative amount of \$90 per pupil in 2006-07.

FISCAL EFFECT

Estimated Effect on Property Taxes

Based on preliminary reports, gross property tax levies are estimated to total \$8,152.1 million on a statewide basis for 2004(05). Assuming no change in state aid appropriations or other law changes affecting local governments, levies are estimated to increase by 5.9% in 2005(06) and 6.0% in 2006(07). These estimates were calculated based on trends displayed in

actual property tax levies between the 1996(97) and 2004(05) tax years. For school districts, the levies are estimated based on trends in enrollment and in various adjustments under revenue limits. Gross property tax levies would increase on a statewide basis by an estimated 4.1% both in 2005(06) and 2006(07) under the provisions in the substitute amendments. Table 1 reports these amounts by type of taxing jurisdiction.

Between 1996 and 2004, new construction, on average, added 2.6% to the statewide tax base each year. Based on the assumption that this trend will continue, municipal and county property tax levy increases of 2.6% over the next two years are estimated under the substitute amendment. If the distribution of new construction in the state varies from the distribution of property tax levies, statewide levy increases for municipalities and counties could vary from the projected 2.6% level. The modifications to school revenue limit provisions would result in statewide levy increases estimated at 5.5% in 2005(06) and 5.4% in 2006(07) for school districts. The substitute amendment would allow for increases of 2.6% each year for technical college districts. These estimates are based on the assumptions that state aid will remain unchanged over the next two years and that, under the provisions of the substitute amendments, additional debt will not be authorized that would result in levies excluded from the control and no referenda will be adopted authorizing additional tax levy increases.

Statewide property tax levies would increase at rates higher than the rates estimated for municipalities, counties, and technical college districts because of the higher estimated levies for school districts and because the levies of special purpose districts and the levy for the state forestry tax would not be limited. Under current law provisions, gross property taxes are estimated at \$8,636.0 million in 2005(06) and \$9,152.7 million in 2006(07). Under the substitute amendments, statewide gross property taxes of \$8,487.1 million in 2005(06) and \$8,832.0 million in 2006(07) are estimated. The levies over the next two years under the substitute amendments would be somewhat higher if referenda are adopted or if additional amounts are needed to fund debt approved prior to July 1, 2005.

Also, Table 1 includes estimates of the impact of the various tax amounts on the median-valued home taxed at the statewide average tax rate. Home value estimates are based on the 2000 median home value for Wisconsin reported in the 2000 decennial census, adjusted to reflect the annual change in residential property values due to economic factors (appreciation) as reported by the Department of Revenue. Due to new construction, there will be more tax base in 2005 and 2006 than in 2004, so the estimated tax increase on a median-valued home under each set of assumptions is less than the estimated rate of increase in statewide tax levies. Although statewide tax levies are estimated to increase at a rate that is 1.5% higher than the rate of increase in tax base due to new construction, the substitute amendments would produce taxes on a median-valued home that are estimated to increase by 2.7% in 2005(06) and 2.3% in 2006(07). This occurs due to the interaction of the rates of change assumed for home values (5.4%), statewide equalized values (7.5%), and property tax levies (4.1%). For properties with lower rates of change in their values, the resulting tax bill increase would be lower, and tax bill reductions would occur for some properties.

TABLE 1

Property Tax Estimates Under Current Law and Fiscal Control Proposal

	Preliminary	Current Law Estimates		SSA 1/ASA 1 Estimates	
	Estimate 2004(05)	2005(06)	2006(07)	2005(06)	2006(07)
Tax Levies (In Millions)					
Municipalities	\$1,949.8	\$2,055.0	\$2,166.0	\$2,000.4	\$2,052.5
Counties	1,615.3	1,700.9	1,791.0	1,657.3	1,700.4
School Districts	3,610.7	3,843.0	4,094.0	3,810.7	4,016.4
Technical College Districts	590.8	620.4	651.4	606.2	621.9
Other Non-TID Jurisdictions	165.0	174.5	184.6	174.5	184.6
Tax Increment Districts	<u>220.5</u>	<u>242.2</u>	<u>265.7</u>	<u>238.0</u>	<u>256.2</u>
Gross Property Tax Levies	\$8,152.1	\$8,636.0	\$9,152.7	\$8,487.1	\$8,832.0
Change to Prior Year		483.9	516.7	335.0	344.9
Change to Current Law				-148.9	-320.7
Percent Change					
Municipalities		5.4%	5.4%	2.6%	2.6%
Counties		5.3	5.3	2.6	2.6
School Districts		6.4	6.5	5.5	5.4
Technical College Districts		5.0	5.0	2.6	2.6
Other Non-TID Jurisdictions		5.8	5.8	5.8	5.7
Tax Increment Districts		<u>9.8</u>	<u>9.7</u>	<u>7.9</u>	<u>7.7</u>
Gross Property Tax Levies		5.9%	6.0%	4.1%	4.1%
Tax Bill Estimate					
Median-Valued Home	\$142,814	\$150,526	\$158,654	\$150,526	\$158,654
Tax Bill Estimate	\$2,706	\$2,833	\$2,956	\$2,780	\$2,844
Change to Prior Year		127	123	74	64
Change to Current Law				-53	-112
Percent Change to Prior Year		4.7%	4.3%	2.7%	2.3%

The figures in Table 1 provide estimates for the state as a whole. The tax impacts in individual municipalities would vary considerably from these figures. Municipal and county levies would vary based on the amount of new construction occurring in each municipality and county. For example, new construction in 2003 (used to determine January 1, 2004, equalized values) was less than 1% in 331 municipalities and greater than 4% in 268 municipalities, although the statewide average was 2.6%. For counties, new construction was less than 2% in 26 counties and greater than 3% in 10 counties. School district levies would vary by district depending on the actual amount of general school aids received and whether each district would levy to the maximum allowed under revenue limits.

Finally, the substitute amendments would affect tax increment districts. Because property tax levels would be lower than under current law, fewer tax increments would be generated, thereby increasing the length of time necessary to repay development costs and retire districts.

However, it should be noted that the proposed fiscal controls are temporary and would affect individual districts differently depending on how they are structured.

Estimated Effect on Local Government Expenditures

The property tax is the largest tax source for Wisconsin local governments, and the combination of property taxes and unrestricted state aids funds the majority of local governments' discretionary spending. Many of the other revenues raised by local governments are dedicated to fund specific services, similar to the state's program and segregated revenues. Table 2 reports the effects of the proposed fiscal control on local governments' discretionary spending financed from these sources, assuming no increases in unrestricted state aids.

TABLE 2

**Estimated Effect of Proposed Fiscal Control on
Local Government Discretionary Spending Assuming No State Aid Increases
(\$ in Millions)**

	<u>2004(05)</u>	<u>2005(06)</u>	<u>2006(07)</u>
School Districts			
Property Tax Levy	\$3,610.7	\$3,810.7	\$4,016.4
Unrestricted State Aid	<u>4,248.3</u>	<u>4,248.3</u>	<u>4,248.3</u>
Total	\$7,859.0	\$8,059.0	\$8,264.7
Percent Change		2.5%	2.6%
Municipalities			
Property Tax Levy	\$1,949.8	\$2,000.4	\$2,052.5
Unrestricted State Aid	<u>777.6</u>	<u>777.6</u>	<u>777.6</u>
Total	\$2,727.4	\$2,778.0	\$2,830.1
Percent Change		1.9%	1.9%
Counties			
Property Tax Levy	\$1,615.3	\$1,657.3	\$1,700.4
Unrestricted State Aid	<u>174.7</u>	<u>174.7</u>	<u>174.7</u>
Total	\$1,790.0	\$1,832.0	\$1,875.1
Percent Change		2.3%	2.4%
Technical College Districts			
Property Tax Levy	\$590.8	\$606.2	\$621.9
Unrestricted State Aid	<u>118.4</u>	<u>118.4</u>	<u>118.4</u>
Total	\$709.2	\$724.6	\$740.3
Percent Change		2.2%	2.2%

Estimated Effects on School Levy of Possible Aid Increases

Under the substitute amendments, the per pupil adjustment for revenue limits would be reduced to \$210 in 2005-06 and to \$200 in 2006-07 and in each subsequent year. It is estimated that, with the proposed adjustments, statewide school district revenue limit authority would be reduced by \$33 million in 2005-06 and by \$78 million in 2006-07 compared to current law. The

property tax impact of the reduction in revenue limit authority in the 2005-07 biennium would depend on the amount of general school aids funding provided in each year. No change to general aids is included under the substitute amendments, but general aids funding could be modified in the 2005-07 biennial budget process. If, for example, an additional \$50 million in 2005-06 and \$100 million in 2006-07 in general school aids funding is provided, the statewide school property tax levy would increase to \$3,761.4 million in 2005-06 and \$3,918.0 million in 2006-07, an increase of 4.2% in each year over the prior year. If an additional \$100 million in 2005-06 and \$200 million in 2006-07 in general school aids funding is provided, the statewide school levy would increase to \$3,712.2 million in 2005-06 and \$3,819.6 million in 2006-07, an increase of 2.8% and 2.9% in each year, respectively, over the prior year. If an additional \$150 million in 2005-06 and \$300 million in 2006-07 in general aids funding is provided (which under current law would maintain the estimated overall 2004-05 level of 63.75% state support during the biennium), the statewide school levy would increase to \$3,663.0 million in 2005-06 and \$3,721.2 million in 2006-07, an increase of 1.5% and 1.6% in each year, respectively, over the prior year.

Estimated Effect on State Property Tax Relief Programs

The estimated property tax reductions under the substitute amendments would decrease the estimated cost of other state property tax relief programs as follows: (a) -\$1.3 million in 2005-06 and -\$2.6 million in 2006-07 for computer aid payments; (b) -\$0.8 million in 2005-06 and -\$1.8 million in 2006-07 for the homestead tax credit; and (c) -\$0.2 million in 2005-06 and -\$0.5 million in 2006-07 for the farmland preservation credit. In addition, state income tax collections would increase by an estimated \$2.4 million in 2005-06 and \$5.5 million in 2006-07 due to reduced property tax/rent credits.