Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2005 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number 05-4957/2	Introduction Number SB-717

Description
Modifying and making permanent local levy limits

Fiscal Effect

State:
☒ No State Fiscal Effect
☐ Indeterminate
☐ Increase Existing Appropriations
☐ Decrease Existing Appropriations
☐ Create New Appropriations
☐ Increase Existing Revenues
☐ Decrease Existing Revenues
☐ Increase Costs - May be possible to absorb within agency's budget ☐ Yes ☐ No
☐ Decrease Costs

Local:
☐ No Local Government Costs
☐ Indeterminate
1. ☐ Increase Costs ☐ Permissive ☐ Mandatory
2. ☐ Decrease Costs ☐ Permissive ☐ Mandatory
3. ☐ Increase Revenue ☐ Permissive ☐ Mandatory
4. ☒ Decrease Revenue ☐ Permissive ☒ Mandatory
5. Types of Local Government Units Affected
☒ Towns ☒ Village ☒ Cities
☒ Counties ☐ Others
☐ School Districts ☐ WTCS Districts

Fund Sources Affected
☐ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEGS

Affected Ch. 20 Appropriations

Agency/Prepared By	Authorized Signature	Date
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Fiscal Estimate Narratives

DOR 5/12/2006

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Description Modifying and making permanent local levy limits		

Assumptions Used in Arriving at Fiscal Estimate

CURRENT LAW

Under current law, a county, city, village, or town may not increase its property tax levy by a percentage that exceeds its "valuation factor". This factor equals the percentage change in the unit's equalized value due to new construction less improvements removed between the previous year and the current year, but not less than 2 percent.

Certain adjustments and exceptions to the limit are permitted: (1) The limit does not apply to incremental levies for tax increment financing districts. (2) If a service is transferred to another governmental unit, the levy limit is decreased to reflect the cost of that service, as determined by the department of revenue (DOR). (3) If a service is transferred from another governmental unit, the levy limit is increased to reflect the cost of that service, as determined by DOR. (4) If a city or village annexes territory from a town, the annexing unit's levy limit is increased by the town levy in the annexed area, and the town's levy limit is decreased by an equal amount. (5) The levy limit is increased to reflect any increase in debt service on debts authorized by resolution before July 1, 2005. (6) The levy limit does not apply to debt service on general obligation bonds authorized on or after July 1, 2005. (7) The limit does not apply to county tax levies used to support a county children with disabilities education board. (8) The limit does not apply to levies a first class city levies for school purposes. (9) If a service is provided in parts of a county by the county and in parts of the county by a municipality, and if provision of the service is consolidated at the county level, the county levy limit is increased by the increased cost of providing the service, as determined by DOR.

A county, city, village, or town may exceed the limit if approved by the governing board and subsequently by voters at a referendum, which can be held at any time. For a town with a population of less than 2,000, if the town board supports increasing the levy above the limit, and if the question of exceeding the limit is placed on the published agenda of the annual or a special town meeting, voters at the meeting may approve the increase in lieu of a referendum on the question.

If the levy limit is exceeded, DOR must reduce the entity's county and municipal aid in the following year by an amount equal to the excess levy. All penalties lapse to the state's general fund. DOR must also ensure that the excess levy is not included when determining the base for future year's levy limits.

The levy limit does not apply beginning on January 1, 2007.

LEVY LIMIT UNDER SB 717

The bill changes the levy limits as follows:

(1) The sunset date for the levy limit is repealed, thereby making the levy limit permanent.

(2) A county, city, village, or town would be allowed to increase its levy by a percentage equal to the unit's "valuation factor" plus the "inflation factor". "Valuation factor" is defined as under current law except that the minimum is decreased from 2% to zero. "Inflation factor" is defined as the average annual percentage change in the U. S. Consumer Price Index for all urban consumers, U. S. city average, as determined by the U. S. Department of Labor, for the 12 month period ending on June 30 of the year in which property tax bills are mailed.

(3) Debt service on general obligation debt authorized on or after July 1, 2005 would be exempt from the limit only if the debt issuance is approved by voters at a referendum.

(4) Referendums for exceeding the levy limit in odd-numbered years may be held at any time. However,

referendums for exceeding the limit in even-numbered years would need to be held at the next succeeding spring primary, spring general, fall primary, or fall general elections.

FISCAL EFFECT

Under current law, the levy limit will expire after the December 2006 tax bills are issued. Because the bill makes levy limits permanent, overall levies after December 2006 may be lower than without any limits.

Under the existing limit, counties and municipalities generally may increase their levies by the greater of the percentage change in their equalized value due to net new construction or 2%. Under the bill, counties and municipalities generally may increase their levies by inflation plus the percentage change in their equalized value due to net new construction.

On a statewide basis, the valuation factor for tax bills issued in December 2005 was 2.8%. Given the 2% minimum allowable increase, statewide county levies were permitted to increase by 2.8% and municipal levies were permitted to increase by 3.1% (prior to exceptions and adjustments). If the bill had been in effect for the December 2005 tax bills, the statewide allowable increase would have been 5.8% (3.0% inflation plus 2.8% change in equalized value due to net new construction). This would have permitted an additional $48 million in county tax levies and $60 million in municipal tax levies beyond the increase allowed by the valuation factor under current law.

If the limit under current law were made permanent, the allowable percentage increase in a county's or municipality's levy could never be less than 2%. Under the bill, the allowable percentage increase in a unit's levy limit can never be less than the rate of inflation. Thus, the bill's potential effect on future minimum allowable years' levies will depend on the extent to which inflation exceeds 2% and on future years' percentage increases in equalized value due to net new construction. Since the minimum allowable increase would apply to varying percentages of governmental units each year (and probably to different units each year), and since many units will not levy the maximum allowable amounts, it is not possible to reasonably estimate the increase or decrease in tax levies that this bill would engender.

Long-Range Fiscal Implications