

Informational Paper 12

Local Government Expenditure
and Revenue Limits

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Prepared by

Russ Kava and Rick Olin

Wisconsin Legislative Fiscal Bureau
One East Main, Suite 301
Madison, WI 53703

Local Government Expenditure and Revenue Limits

This paper describes the six methods by which the state imposes fiscal controls on local units of government:

- Revenue limits on school districts
- Limit on compensation increases for certain school district employees
- Levy rate limit on technical college districts
- Levy rate limit on counties
- Expenditure restraint program for municipalities
- Levy limit on counties and municipalities

School District Revenue Limits

The 1993-95 state budget (1993 Act 16) imposed revenue limits on school districts for the five-year period 1993-94 through 1997-98. The revenue limits were modified and made permanent in the 1995-97 state budget (1995 Act 27). Under the limits, the annual increase in a school district's per pupil revenue derived from general school aids, computer aid, and property taxes is restricted. In general, the allowable increase in revenue per pupil cannot exceed \$256.93 in 2006-07, which is adjusted annually for inflation under the indexing provisions of 1997 Act 27. The following sections describe, in more detail, the various components of the revenue limit.

Definition of Revenues Subject to the Limit

The limit is on the amount of revenue obtained through the combination of general school aids, computer aid, and the property tax levy.

General school aids consist of equalization aid,

integration (Chapter 220) aid, and special adjustment (hold harmless) aid. In total, these aids represent nearly 90% of the funds provided as state aid to school districts.

Under 1997 Act 237, a property tax exemption was provided for certain kinds of computer equipment. The state now makes annual payments to local units of government, including school districts, equal to the amount of property tax that would have otherwise been paid on the exempt equipment. Computer aid paid to school districts is considered to be state aid for revenue limit purposes.

On October 15 of each year, the Department of Public Instruction (DPI) provides school districts with an estimate of their general school aid for the current school year. The difference between a school district's revenue limit and the October 15th general school aid estimate, less the district's computer aid eligibility, determines the maximum amount of revenue that the district is allowed to raise through the property tax levy.

Special provisions apply to the treatment of property tax levies for debt service and for community service activities. In addition, school districts may be eligible for various adjustments to the revenue limit. These provisions are described in subsequent sections of this paper.

Actual general school aids, computer aid, and property tax revenues received in the prior school year are used to establish the base year amount in order to compute the allowable revenue increase for the current school year. A school district is not required to levy a property tax which, when combined with its general school aid payment and computer aid payment, results in the maximum

amount allowed under the revenue limit.

Prior to 1995-96, if a school district did not increase its revenues to the maximum level, the district could not carry forward any of the unused revenue authority to the following school year. Since 1995-96, however, school districts have been able to carry forward a percentage of the unused revenue authority to the following school year.

Definition of Pupil Enrollment

A three-year rolling average of a school district's pupil enrollment is used to determine the allowable revenue increase under the limit. Specifically, the number of pupils is based on the average of a school district's membership count taken on the third Friday in September for the current and two preceding school years. For example, the average of the 2003, 2004, and 2005 September memberships was used to calculate the 2005-06 base year revenue per pupil. Then, the average of the 2004, 2005, and 2006 September memberships was used to determine the current year revenue per pupil in 2006-07. School districts can count 40% of the full-time equivalent (FTE) summer school enrollment in classes taught by licensed teachers in the membership counts in each year of the three-year average. School districts are also able to count in membership students attending the Youth Challenge program operated by the Department of Military Affairs.

Only those pupils who are residents of the district are counted for membership purposes. Pupils who transfer between school districts under the state's public school open enrollment program are counted by the resident school district, rather than the school district of attendance. The statutes specify that any net transfer of equalization aid between school districts under the open enrollment program does not affect the definition of state aid for purposes of revenue limits. As a result, a transfer of aid received by a school district does not count against its revenue limit and a school district

that has a net transfer of equalization aid to other school districts cannot increase its property tax levy to offset this aid loss.

Pupils who transfer between school districts under the integration (Chapter 220) program are counted in the membership of the sending district and not the receiving district; however, only 75% of pupils who transfer between school districts are counted in the membership of the sending district.

Pupils attending schools in the Milwaukee parental choice program and the Milwaukee-Racine charter school program are excluded from membership under revenue limits by Milwaukee Public Schools and the Racine Unified School District.

Allowable Revenue Increases

The maximum allowable increase in revenue per pupil is indexed for inflation each year. Prior to 1995-96, school districts had the option of increasing their revenues by either a flat dollar amount per pupil or the rate of inflation, whichever resulted in the higher revenue amount for the district. For 1993-94, the inflation rate option was 3.2% and for 1994-95 it was 2.3%. The inflation option was eliminated by 1995 Act 27. Table 1 summarizes the per pupil increases allowed under the limit since 1993-94.

Sample Calculation of Revenue Limit

Table 2 provides an example of how the revenue limit is calculated, based on the 2006-07 limit. (For the purposes of illustration, it is assumed that the district shown in Table 2 does not have any summer school enrollment and does not receive computer aid.)

Treatment of Debt Service Levies

Whether or not debt service is subject to the limit depends on when and how a school district's

Table 1: Allowable Revenue Increase

| | Per Pupil |
|---------|-----------|
| 1993-94 | \$190.00 |
| 1994-95 | 194.37 |
| 1995-96 | 200.00 |
| 1996-97 | 206.00 |
| 1997-98 | 206.00 |
| 1998-99 | 208.88 |
| 1999-00 | 212.43 |
| 2000-01 | 220.29 |
| 2001-02 | 226.68 |
| 2002-03 | 230.08 |
| 2003-04 | 236.98 |
| 2004-05 | 241.01 |
| 2005-06 | 248.48 |
| 2006-07 | 256.93 |

borrowing decisions were made. Specifically, the following debt service is not subject to the limit:

- Revenues needed for the payment of any general obligation debt service, including refinanced debt, authorized by a resolution of the school board only (that is, without a referendum) prior to August 12, 1993, which was the effective date of 1993 Act 16.

- Revenues needed for the payment of any general obligation debt service, including refinanced debt, approved by referendum at any time.

In other words, borrowing authorized by school board resolution only (without a referendum) after August 12, 1993, is subject to the revenue limit. In addition, the revenue limit is structured in such a way that if a school district's excluded debt service is declining, the district is not able to transfer the cost reductions to its operating budget.

Treatment of Community Service Levies

School districts can establish a separate fund for community service activities. The fund is used to account for activities that are not elementary and secondary educational programs but have the primary function of serving the community, such as adult education, community recreation programs such as evening swimming pool operation and softball leagues, elderly food service programs, non-special education preschool or day care services. School districts are allowed to adopt a separate tax levy for this fund.

Table 2: Sample Calculation of Revenue Limits for 2006-07

| | Sept. 2003 | Sept. 2004 | Sept. 2005 | Sept. 2006 |
|------------|---------------|---------------|---------------|---------------|
| Enrollment | 1,000 | 1,012 | 1,036 | 1,024 |

2003 thru 2005 Average Pupils = 1,016
 2004 thru 2006 Average Pupils = 1,024

2005-06 Base Revenue = \$9,000,000
 2006-07 General School Aid = \$5,500,000

Step 1: 2005-06 Base Revenue ÷ 2003 thru 2005 Average Pupils = Base Revenue Per Pupil
 $\$9,000,000 \div 1,016 = \$8,858.27$

Step 2: Base Revenue Per Pupil + Allowable Increase = Current Revenue Per Pupil
 $\$8,858.27 + \$256.93 = \$9,115.20$

Step 3: Current Revenue Per Pupil x 2004 thru 2006 Average Pupils = 2006-07 Maximum Revenue
 $\$9,115.20 \times 1,024 = \$9,333,965$

Step 4: 2006-07 Maximum Revenue - General School Aid = Maximum Property Tax Levy
 $\$9,333,965 - \$5,500,000 = \$3,833,965$

Prior to 2001-02, this community service levy was included under revenue limits. The 2001-03 state budget (2001 Act 16) removed community service levies from revenue limits and partial school revenues, beginning in 2001-02. Under the provisions of Act 16, a school district may levy any amount for community service activities irrespective of the district's revenue limit. The Act 16 exclusion of the community service levy from partial school revenues meant that this levy was excluded when calculating the cost of state two-thirds funding of partial school revenues. The state's two-thirds funding commitment was repealed in the 2003-05 budget (2003 Act 33).

Adjustments to the Revenue Limit

Transfer of Service and Boundary Changes. Adjustments involving increases and decreases to the limit are allowed for transfers of service responsibilities between a school district and another governmental unit (including a school district) or for changes in a school district's boundaries. The approval and determination of these adjustments based on the increase or decrease in costs is made by DPI.

If a school district assumes responsibility for a child with a disability or a limited-English speaking pupil, its revenue limit is increased by the estimated cost of providing service less the estimated amount of categorical aid that the district will receive for the pupil in the following school year, as determined by the State Superintendent.

Low-Revenue Districts. Any school district with base revenue per pupil that was less than the low-revenue ceiling of \$8,100 in 2005-06 and \$8,400 in 2006-07 and each year thereafter is allowed to increase its per pupil revenues up to the low-revenue ceiling. Base revenue per pupil is determined by: (a) calculating the sum of the district's prior year general school aids, computer aid, and property tax levy (excluding levies exempted from the limit); (b) dividing the sum

under (a) by the average of the district's September membership for the three prior school years; and (c) adding the allowable per pupil revenue increase (\$256.93 in 2006-07) to the result. If a school district has resident pupils who were solely enrolled in a county children with disabilities education board program, costs and pupils related to that program are factored into the district's base revenue calculation.

Carryover of Unused Revenue Authority. Prior to the 2005-07 budget (2005 Act 25), if a school district did not levy the maximum amount allowed under its revenue limit in that year, the district's revenue limit in the following school year was increased by an amount equal to 75% of the underlevy in the prior year. If a school district underlevied in the prior year and also received a positive general school aid adjustment in the current year, such a district could carry forward 100% of any underlevy up to the amount of the aid adjustment, as well as 75% of any remaining underlevy. Act 25 modified the adjustment for carryover of unused revenue limit authority from 75% to 100%, effective with the calculation of revenue limits for the 2004-05 school year and deleted the separate provision for districts that receive positive prior year aid adjustments.

Declining Enrollment. Since 1998-99, if a school district's three-year rolling average pupil enrollment is less than the prior year three-year rolling average, the district receives a one-year nonrecurring adjustment to its revenue limit in a dollar amount equal to 75% of what the decline in the three-year rolling average memberships would have generated.

Federal Impact Aid. If a school district received less federal impact aid than it received in the previous school year, the revenue limit otherwise applicable to the district in the subsequent school year is increased by an amount equal to the reduction in such aid.

School District Consolidation. School districts which consolidate are entitled to receive additional general school aid for a five-year period. This additional aid is excluded from the general school aid definition, which places this additional aid outside of revenue limits.

School District Reorganization. Under 1997 Act 286, procedures were established under which a school district can be created out of the territory of existing school districts. That act, as modified by 2005 Act 219, established special provisions that govern the initial calculation of revenue limits for a new school district. The funds needed to pay the debt service of certain debt associated with reorganizations under these provisions are not subject to revenue limits. Also, each school district from which territory is detached to create a school district will have its revenue limit increased in the year that the reorganization takes effect by 5% of its general school aid.

Capital Improvement Fund. Under 1999 Act 17, a school district's revenue limit could be increased by an amount equal to the amount deposited into a capital improvement fund created under the provisions of that act. Act 17 specified that a school board, by a two-thirds vote, could create a capital improvement fund before July 1, 2000, for the purpose of financing the cost of acquiring and improving sites, constructing school facilities, and major maintenance of, or remodeling, renovating, and improving school facilities. The fund could only be created if: (a) a tax incremental district (TID) that is located in the school district terminates before the maximum number of years that it could have existed; and (b) the value increment of the TID exceeds \$300 million. In each year until the year in which the TID would have been required to terminate, the school board could deposit in the fund an amount equal to that portion of the school district's positive tax increment of the TID, as calculated by the Department of Revenue, with the balance of the positive tax increment used to reduce the tax levy. Monies could not be

expended or transferred to any other fund without voter approval of a referendum.

In May, 2000, the Board of the Kenosha School District adopted a resolution creating a capital improvement fund to utilize the value increment from the Village of Pleasant Prairie's TID. No other district in the state created a capital improvement fund under the provisions of Act 17. Through 2006-07, the Kenosha School District has not utilized the revenue limit increase allowed under these provisions.

Large Area/Low Enrollment. Under 2001 Act 16, a school district that met certain criteria was granted a recurring revenue limit adjustment in the 2001-02 school year only. A district was eligible for the adjustment if the district had an enrollment of fewer than 450 pupils in the 2000-01 school year and the district was at least 275 square miles in area. The amount of the adjustment was based on the reduction in the district's enrollment from the 1996-97 school year to the 2000-01 school year. If the decline was less than 10%, the adjustment was \$100,000. If the decline was at least 10% but not more than 20%, the adjustment was \$175,000. If the decline was more than 20%, the adjustment was \$250,000. Under these provisions, in 2001-02, the South Shore School District received a \$250,000 adjustment and Glidden and Winter School Districts each received a \$175,000 adjustment.

Integration Transfer Program. Under 2001 Act 16, a recurring revenue limit adjustment was provided in the 2001-02, 2002-03, and 2003-04 school years to school districts that implemented an integration transfer program between July 1, 1993, and September 1, 2001. The adjustment in each year was equal to one-third of the integration transfer aid program payment received by the district in 1994-95. The Wausau School District received a revenue limit adjustment under these provisions. The District began an intradistrict transfer program in the 1993-94 school year and received an initial payment of \$579,800 under the program in 1994-95.

Thus, the District received a revenue limit adjustment of \$193,300 in each of the three specified years.

Override by Referendum

A school district can exceed its revenue limit by receiving voter approval at a referendum. The school board must approve a resolution supporting inclusion in the school district budget an amount which exceeds the revenue limit. The resolution must specify whether the proposed excess revenue is for a recurring or nonrecurring purpose, or both.

The school board can either call a special referendum or hold the referendum at the regular primary or general election dates. The vote may not be held sooner than 42 days after filing of the board's resolution. If the resolution is approved by a majority of those voting on the question, the school board can exceed the limit by the amount approved. Only excess revenues approved for a recurring purpose can be included in a district's base for determining the revenue limit for the next school year.

Penalties for Exceeding the Limit

If a school district exceeds its maximum allowable revenue without referendum approval, DPI must reduce the district's state equalization aid payment by the excess revenue amount. The penalty is imposed in the same school year in which the district raised the excess revenue. The withheld aid amount lapses to the state's general fund. In cases where a school district's equalization aid is less than the penalty amount, DPI must reduce the district's other state aid payments until the remaining excess revenue is covered. If the aid reduction is still insufficient to cover the excess revenues, the school board would be ordered by the State Superintendent to reduce the property tax levy by an amount

equal to the remainder of the excess amount or refund the amount with interest, if taxes have already been collected. This provision does not apply to property taxes levied for the purpose of paying the principal or interest on valid bonds or notes issued by a school board. If the board violates the order, any resident of the district could seek injunctive relief. The excess revenue is not included in determining the district's limits for subsequent years.

2006-07 Allowable Revenue Per Pupil

Table 3 shows the distribution of school districts by allowable revenue per pupil under revenue limits, including all adjustments, in 2006-07. As shown in Table 3, revenue per pupil ranges from \$8,313 (Genoa City J2) to \$16,262 (Phelps), with a statewide average of \$9,149. The fact that the median revenue per pupil (\$9,085) is lower than the average indicates a concentration of districts below the statewide average. Eighty percent of all districts have revenue per pupil of between \$8,464 and \$10,454.

Table 3: Distribution of School Districts by Allowable Revenue per Pupil in 2006-07 School Year

| Revenue Per Pupil | Number of School Districts | Percent of Total | Cumulative Percent of Total |
|----------------------|----------------------------|-----------------------------|-----------------------------|
| \$8,500 and Under | 55 | 13.0% | 13.0% |
| \$8,501 to \$9,000 | 135 | 31.8 | 44.8 |
| \$9,001 to \$9,500 | 97 | 22.9 | 67.7 |
| \$9,501 to \$10,000 | 63 | 14.9 | 82.5 |
| \$10,001 to \$10,500 | 33 | 7.8 | 90.3 |
| \$10,501 to \$11,000 | 21 | 5.0 | 95.3 |
| \$11,001 to \$12,000 | 9 | 2.1 | 97.4 |
| Over \$12,000 | <u>11</u> | <u>2.6</u> | 100.0 |
| Total | 424 | 100.0% | |
| Median | \$9,085 | 10 th Percentile | \$8,464 |
| Average | \$9,149 | 90 th Percentile | \$10,454 |
| Lowest | \$8,313 | Highest | \$16,262 |

*Except for the average, the Norris School District has been excluded.

Limit on Compensation Increases for Certain School District Employees

In both the 1993-95 state budget (1993 Act 16) and the 1995-97 state budget (1995 Act 27), changes were made to the mediation-arbitration procedures of the statutes as they apply to represented school district professional employees (school teachers). Initially, 1993 Act 16 imposed temporary limitations (in effect from August 12, 1993, through June 30, 1996) on the aggregate amount of salary and fringe benefits increases that a school board must offer its represented school teacher employees if the school board wished to avoid binding arbitration on the economic issues in dispute for a successor collective bargaining agreement. Act 16 also established similar temporary limitations on the aggregate amount of salary and fringe benefits increases that could be provided to nonrepresented school district professional employees. Under 1995 Act 27, all of these temporary limitations were made permanent. These limitations are summarized below. [Further information on collective bargaining can be found in the Legislative Fiscal Bureau's informational paper entitled, "Dispute Resolution Procedures for Municipal Employees."]

Qualified Economic Offer Provisions for Teachers

Whenever a school district employer makes what is termed a qualified economic offer (QEO) to its professional teaching employees, the availability of binding arbitration procedures on the economic issues in dispute becomes subject to certain additional statutory limitations. Upon making a QEO applicable to salary and fringe benefits adjustments for teaching employees, a school district employer may avoid compulsory, final, and binding arbitration on the unresolved economic issues. In such a case, the parties may proceed to interest arbitration only on the remaining

unresolved noneconomic issue portions of the parties' final offers, if any, but only after agreement has been reached on the economic issues in dispute.

A valid QEO must contain the following general elements:

- First, the employer must maintain both the existing employee fringe benefits package and the district's percentage contribution effort to that package. The employer must provide any annual funding increase required to maintain these fringe benefits provisions up to the equivalent of 1.7% of total compensation and fringe benefits costs per full-time equivalent employee for the total number of covered employees. Where the annual cost to continue the fringe benefits package and the employer's contribution effort to it requires less than a 1.7% increase, the employer must pass on the difference between the lower percentage level and 1.7% (the fringe benefits savings) as an additional element of the salary offer, as described below.

Where the additional costs of meeting the fringe benefits continuation requirements are between 1.7% and 3.8% of total compensation and fringe benefits costs, the employer's QEO must still fully fund the increased fringe benefits costs that are in excess of 1.7%. In providing this additional fringe benefits funding for amounts above 1.7%, the QEO's salary offer component may be reduced by the amount necessary to fund the higher fringe benefits costs. In the case where the additional costs of meeting the fringe benefits continuation requirements exceed 3.8% of total compensation and fringe benefits costs, the employer's QEO must still fund all of these higher fringe benefits costs. In providing this additional fringe benefits funding, the QEO's salary offer component may provide for decreases in current salaries sufficient to fund the fringe benefits costs in excess of 3.8%.

- Second, subject to any of the possible fringe

benefits funding offsets described above, the employer must provide an annual average increase in the aggregate cost for all salary items of at least 2.1% of total compensation and fringe benefits costs per full-time equivalent employee for the total number of covered employees. The combined amount of new salary and fringe benefits funding from the employer must at least equal 3.8% of total compensation and fringe benefits costs for the proposal to constitute a bona fide QEO.

- Third, as a first draw against the increased salary funding provided under the offer, the employer must pay any salary increases to eligible employees due to attaining an additional year of teaching service with the employer. Teachers' salary schedules typically include annual, seniority-based pay increases (generally referred to as step progressions) during the first dozen or so years of employment. If there is insufficient salary funding generated under the QEO to provide a full single step increase for each eligible employee, the amount of the required step increase must be prorated. The salary funds generated under the QEO that remain once the employer has provided for all step costs must then be used to fund general salary increases for all eligible employees in the bargaining unit.

- The salary range structure, number of steps, requirements for attaining a step, or assignment of a position to a salary range may not be modified unilaterally under a QEO. However, a school district employer and its represented professional employees may, by mutual agreement, decide to alter the existing salary range structure, number of steps, requirements for attaining a step, or the assignment of a position to a salary range.

Since the enactment of 1999 Act 9, any salary increases to eligible employees due to a promotion or the attaining of additional professional qualifications (generally referred to as lane

progressions) are no longer included under the salary cost component that must be funded within the QEO. As a result, any such amounts represent additional costs to the employer that are funded outside the QEO.

Limitation on the Term of Teacher Collective Bargaining Agreements

The duration of the collective bargaining agreement between school district employers and their professional teaching staff who are subject to interest arbitration procedures is set statutorily. Under current law, all collective bargaining agreements in Wisconsin involving school teacher professional employees have a uniform two-year duration corresponding to the state's fiscal biennium (July 1 of each odd-numbered year through June 30 of the ensuing odd-numbered year).

Limitation on Salary and Fringe Benefits Increases for Nonrepresented Personnel

Nonrepresented school district professional employees who are not covered by a collective bargaining agreement subject to statutory mediation-arbitration procedures are primarily administrators, principals, and similar managerial employees. Under current law, the total amounts available for salary and fringe benefits increases for this employee group during any 12-month period ending on June 30 may not exceed the greater of:

- An amount generated by multiplying 3.8% of the total prior year's cost of salaries and fringe benefits for such employees; or

- The average total percentage increase in total salary and fringe benefits increases per employee provided by the school district for the most recent 12-month period ending on June 30 for its represented professional employees.

Limitation on the Term of School District Administrators' Contracts

The length of a contract between a school district and any school district nonrepresented professional employee may not exceed two years in length. Such a two-year contract may provide for one or more extensions of one year each. Further, if at least four months prior to the expiration of an administrator's contract, a school board fails to give notice of either renewal or nonrenewal, the contract then in force will continue for two years.

Technical College District Tax Rate Limit

District boards in the Wisconsin Technical College System (WTCS) are subject to a limit on the rate of property taxation for all purposes except debt service. Each of the 16 WTCS districts cannot exceed a tax rate of \$1.50 per \$1,000 (1.5 mills) of its equalized property valuation. In 2006-07, one district (Fox Valley) was at the 1.5 mill limit and an additional three districts (Milwaukee, North Central, and Western) exceeded 1.4 mills. From 1996-97 through 2006-07, the WTCS tax levy has increased by an average of 6.4% annually due to growth in equalized valuations above the rate of inflation and the exclusion of debt from the limit. While there is no limit on the debt levy rate, major building projects (\$1,000,000 or more) are generally subject to referendum approval. Further information regarding WTCS funding is provided in the Legislative Fiscal Bureau's informational paper entitled, "Wisconsin Technical College System."

County Tax Rate Limit

The 1993-95 state budget (1993 Wisconsin Act

16) imposed a tax rate limit on the general operations portion of each county's levy beginning with the 1993 tax levy (payable in 1994). For purposes of the control, each county's total tax levy and rate are separated into two components. The debt levy and debt levy rate are comprised of amounts for debt service on state trust fund loans, general obligation bonds, and long-term promissory notes, while the operating levy and operating rate are comprised of all other taxes. Each county's operating levy is limited to no more than an amount based on its prior year's allowable levy plus an adjustment equal to the percent change in the county's equalized value. For example, if a county's equalized value increases, or decreases, by 5%, its allowable levy will increase, or decrease, by 5%. This mechanism has the effect of limiting each county's tax rate to the rate that was in effect in 1992(93), the year before the tax rate limit took effect, unless a county has claimed an adjustment to its levy.

Two statutory adjustments to operating levies are allowed. First, adjustments to the operating levy are allowed for services transferred between the county and other local governments. Second, a county may increase its operating levy above the allowable amount if that increase is approved through referendum.

Although the focus of the control is the operating levy, the debt levy is indirectly controlled. Each county is prohibited from issuing new debt that would be repaid from the county's debt levy, unless one of the following conditions is met:

- the debt does not cause the county's debt levy rate to exceed the prior year's allowable debt levy rate, which is derived from the county's actual 1992(93) tax rate, based on the "reasonable expectation" of the county board;
- the debt is approved through referendum if it would cause the county's debt levy rate to exceed the county's allowable debt levy rate;

- the debt was authorized prior to August 12, 1993;
- the debt is used to pay unfunded service liability contributions under the Wisconsin retirement system;
- the debt is used to refund existing debt;
- the debt is authorized by a 75% vote of the county board;
- the debt is issued to comply with court orders and judgments; or
- the debt is issued to provide liability insurance and risk management services authorized under state statute.

If a county exceeds its operating levy rate, the county's shared revenue or county and municipal aid payments are reduced by the amount of the excess. If the excess exceeds those payments, the county's transportation aid payment is reduced by the remaining amount. The Department of Revenue administers the county tax rate limit. Based on a preliminary review of tax rate limit worksheets, it appears that no counties violated the limit with respect to their 2006(07) tax levies.

Municipal Expenditure Restraint Program

Municipalities are not subject to a permanent, mandatory fiscal control. However, as a condition for receiving aid under the expenditure restraint program, municipalities must limit the year-to-year growth in their budgets to a percentage determined through a statutory formula. To receive aid, they must also have a municipal purpose tax rate in excess of five mills. Annual funding for the program was set at \$58,145,700 for 2003 and has remained at that level since then.

The statutes define "municipal budget" as the municipality's budget for its general fund exclusive of principal and interest payments on long-term debt. Three statutory adjustments to the budgeted amounts are allowed. First, amounts paid by municipalities as state recycling tipping fees are excluded. Second, budgeted amounts are adjusted for the cost of services transferred to or from the municipality seeking to qualify for a payment. Third, amounts paid by municipalities under municipal revenue sharing agreements are excluded. The statutes prohibit municipalities from meeting the budget test by creating other funds, unless those funds conform to generally accepted accounting principles (GAAP). These principles have been adopted by the Governmental Accounting Standards Board to offer governments guidelines on how to maintain their financial records.

The percentage limitation on budgets equals the change in the Consumer Price Index (CPI) plus an adjustment based on growth in the municipality's property value. The property value adjustment is unique for each municipality and equals 60% of the percentage change in the municipality's equalized value due to new construction, net of any property removed or demolished. The adjustment is limited to no less than 0% and no more than 2%. The allowable increase is known at the time when municipal officials set their budgets.

To be eligible for a 2007 payment, municipalities had to limit their 2006 budget increases to 3.3% to 5.3%, depending on individual municipal adjustments due to property value increases. Out of the 413 municipalities that would otherwise have been eligible for a 2007 payment, only 318 met the budget test. The other 95 municipalities either did not meet the test or did not submit budget worksheets to the Department of Revenue in a timely manner.

This program is described in greater detail in the Legislative Fiscal Bureau's informational paper entitled, "Targeted Municipal Aid Programs."

County and Municipal Levy Limit

2005 Wisconsin Act 25 imposed a levy limit for the 2005(06) and 2006(07) property tax years on counties and municipalities. The Act prohibited any county, city, village, or town from increasing its total levy in either of the two years by more than the percentage change in the local government's January 1 equalized value due to new construction, less improvements removed, between the previous year and the current year, but not less than two percent. Increases above the limit could be approved through the passage of a referendum.

Adjustments and exclusions to the limit were allowed in certain instances, including for debt service. The limitation did not apply to debt service for general obligation debt authorized on or after July 1, 2005. For debt authorized by a resolution of the local government before July 1, 2005, an adjustment equal to any increase in debt service was allowed. Other adjustments extended to tax levy amounts related to the transfer of services, the consolidation of services, and the annexation of territory. The limitation did not apply to levies for school districts, if levied by a first class city (Milwaukee), tax increment districts, and county children with disabilities education boards. Also, the limitation did not apply to levies related to certain increases in charges imposed by joint fire departments. If a county or municipality

imposed a levy exceeding its limit, the local government's next county and municipal aid payment was reduced by the amount of the excess. Relative to the 2005(06) levy, 97 local governments exceeded the limit and incurred penalties totaling \$656,479. This included total penalties of \$654,434 imposed on 92 municipalities and of \$2,045 imposed on five counties.

These provisions were sunset on January 1, 2007. Consequently, the levy limit only applied to the tax levies in 2005 (payable in 2006) and 2006 (payable in 2007).

Finally, provisions in Act 25 also impose a limitation on state forestry tax collections. Although not technically a local government fiscal control, the provisions are described here, nonetheless. The state forestry tax is imposed on all taxable property in the state, and the proceeds from the tax are used for purposes of acquiring, preserving, and developing the state's forests. Act 25 modified the statutory provision that set the rate for the tax at 0.2 mills and, instead, requires the Department of Revenue to adjust the rate of taxation for the state forestry tax so that the amount of taxes levied in a year increases relative to the amount levied in the previous year by 2.6%. This provision first applied to the amount levied in 2005 (payable in 2006) and also applies in 2006(07) and 2007(08). The mill rate that applies in the third year will be the rate of the tax imposed in all subsequent years.