



Local Government Expenditure and Revenue Limits

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

- Revenue limits on school districts
- Levy rate limit on technical college districts
- Expenditure restraint program for municipalities
- Levy limit on counties and municipalities
- Levy rate limit on counties

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 revenue limits, the amount of revenue a district can raise from general school aids, computer aid, and property taxes is restricted. 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. Actual general school aids, computer aid, and property tax revenues received by a district in the prior school year are used to establish the base year amount in order to compute the district's allowable revenue for the current school year.

The general school aids appropriation funds equalization aid, integration (Chapter 220) aid,

and special adjustment aid. An appropriation for high poverty aid was created in the 2007-09 state budget (2007 Act 20), which provides additional general aid to eligible districts. In 2012-13, these aids represent 87% 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 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 payment for the current school year. The difference between a district's revenue limit and the October 15th general school aid estimate, less the district's computer aid and high poverty 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.

Definition of Pupil Enrollment

A three-year rolling average of a school district's pupil enrollment is used to calculate the district's revenue limit. Specifically, the number of pupils is based on the average of a district's

membership count taken on the third Friday in September for the current and two preceding school years. For example, for the 2012-13 revenue limit, the average of the 2009, 2010, and 2011 September memberships is used to calculate the 2011-12 base year revenue per pupil. Then, the average of the 2010, 2011, and 2012 September memberships is used to determine the 2012-13 current year revenue per pupil. 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. Districts are also able to count in membership students attending the Challenge Academy 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 districts under the open enrollment program are counted by the resident district, rather than the district of attendance. The statutes specify that any net transfer of equalization aid between 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 district does not count against its revenue limit and a district that has a net transfer of equalization aid to other 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 and Racine parental choice programs and the Milwaukee-Racine charter school program are excluded from the revenue limit membership of the Milwaukee Public Schools and the Racine

Unified School District.

Per Pupil Adjustment

A district's base revenue per pupil is changed by a per pupil adjustment amount to determine its current year revenue per pupil. Table 1 summarizes the per pupil adjustments allowed under the limit since 1993-94.

Table 1: Per Pupil Adjustment

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
2007-08	264.12
2008-09	274.68
2009-10	200.00
2010-11	200.00
2011-12	-5.5%
2012-13	\$50.00

For the first two years of revenue limits, school districts had the option of increasing their revenues by either the per pupil adjustment 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.

For the next three years, the per pupil adjustment was set at a specific dollar amount under the 1995-97 and 1997-99 budget acts. Beginning in 1998-99, the per pupil adjustment was indexed for inflation each year. The inflation increase was the percentage change, if not

negative, in the consumer price index for all urban consumers between the preceding March and second-preceding March.

Under the 2009-11 budget (2009 Act 28), the inflation adjustment was deleted and the per pupil adjustment was set at \$200 in 2009-10 and 2010-11.

Under the 2011-13 budget (2011 Act 32), the per pupil adjustment in 2011-12 was set at a 5.5% reduction, rather than a flat dollar increase. While the per pupil reduction amount varied among districts, the statewide average reduction was \$554 per pupil. In 2012-13, the per pupil adjustment was set at \$50. A related one-time categorical aid appropriation was also established under Act 32 for 2012-13 only, under which a district would be eligible for a \$50 per pupil matching aid payment if it utilized the revenue limit authority generated by the \$50 per pupil adjustment under revenue limits in that year. (Additional information on the aid appropriation can be found in the Legislative Fiscal Bureau's informational paper entitled "State Aid to School Districts.") Under Act 32, there will be no per

pupil adjustment in 2013-14 and in each year thereafter.

Sample Calculation of Revenue Limit

Table 2 provides an example of how the revenue limit is calculated, based on the 2012-13 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 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.

Table 2: Sample Calculation of Revenue Limits for 2012-13

	Sept. 2009	Sept. 2010	Sept. 2011	Sept. 2012
Enrollment	1,000	1,012	1,036	1,024
2009 thru 2011 Average Pupils =	1,016			
2010 thru 2012 Average Pupils =	1,024			
2011-12 Base Revenue =	\$10,000,000			
2012-13 General School Aid =	\$6,000,000			
Step 1: 2011-12 Base Revenue ÷ 2009 thru 2011 Average Pupils = Base Revenue Per Pupil	$\$10,000,000 \div 1,016 = \$9,842.52$			
Step 2: Base Revenue Per Pupil + Allowable Increase = Current Revenue Per Pupil	$\$9,842.52 + \$50.00 = \$9,892.52$			
Step 3: Current Revenue Per Pupil x 2010 thru 2012 Average Pupils = 2012-13 Maximum Revenue	$\$9,892.52 \times 1,024 = \$10,129,940$			
Step 4: 2012-13 Maximum Revenue - General School Aid = Maximum Limited Property Tax Levy	$\$10,129,940 - \$6,000,000 = \$4,129,940$			

- Revenues needed for the payment of any general obligation debt service, including re-financed 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.

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 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 another 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 district assumes responsibility for a special education pupil or a limited-English proficient 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 Adjustment. Any school district with base revenue per pupil that was less than the low revenue ceiling of \$9,000 per pupil in 2011-12 and 2012-13 and \$9,100 per pupil in 2013-14 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 (\$50 in 2012-13) 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.

Under the 2011-13 budget act, a one-time general aid appropriation was created to provide aid to districts that utilized the low revenue adjustment in 2011-12. Information on this aid program can be found in the Legislative Fiscal Bureau's informational paper entitled "State Aid to School Districts."

Carryover of Unused Revenue Authority. A school district is not required to levy the maxi-

mum property tax amount allowed under its revenue limit. If a school district does not levy the maximum amount allowed in a given school year, the district's revenue limit in the following year is increased by an amount equal to the underlevy in the prior year. This adjustment is reduced by the amount of any nonrecurring revenue limit authority from the prior year.

Declining Enrollment. 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 100% of what the decline in the three-year rolling average memberships would have generated in revenue limit authority.

Prior Year Base Revenue Hold Harmless. Under 2007 Act 20, an adjustment was created for districts with severe declining enrollment. Under this adjustment, a school district's initial revenue limit for the current year is, in certain cases, set equal to its prior year's base revenue. This hold harmless applies if a district's initial revenue limit in the current year, after consideration of the per pupil adjustment and low-revenue ceiling, but prior to any other adjustments, is less than the district's base revenue from the prior year. This adjustment is nonrecurring. For some districts with relatively large declines in enrollment, the initial revenue limit for the current year can still be less than the district's prior year base revenue, even after the per pupil adjustment and low revenue ceiling adjustment are calculated.

Under 2011 Act 32, the calculation of this adjustment did not apply in the 2011-12 or 2012-13 school years. Instead, in the 2011-12 school year, any district that received a prior year base revenue hold harmless adjustment in 2010-11 received a nonrecurring revenue limit adjustment equal to the 2010-11 adjustment amount. In the 2012-13 school year, any district that received a prior year base revenue hold harmless adjustment

in 2010-11 and that received no equalization aid in 2010-11 received a nonrecurring revenue limit adjustment equal to the 2010-11 adjustment amount. Under Act 32, the calculation of the adjustment will be restored beginning in the 2013-14 school year.

Federal Impact Aid. If a school district receives 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. Federal impact aid provides assistance to districts that lose property tax revenues due to the presence of tax-exempt federal property within their boundaries and that have costs associated with federally-connected children enrolled in the district.

School District Consolidation. School districts which consolidate are entitled to receive additional general school aid for a five-year period. During this period, the formula factors used to calculate equalization aid for the consolidated district are increased by 15%, and the consolidated district is guaranteed to receive at least as much general aid as the separate districts did the year before consolidation. 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 reor-

ganization 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 2012-13, the Kenosha School District has not utilized the revenue limit increase allowed under these provisions.

Adjustment for Energy Efficiency Measures. The 2009-11 budget act created a nonrecurring adjustment for energy efficiency measures, beginning in the 2009-10 school year. This adjustment was modified in the 2011-13 budget act. Under the adjustment, a school district's revenue

limit is increased by the amount spent by the district in that year on a project to implement energy efficiency measures or to purchase energy efficient products. The project must result in the avoidance of, or reduction in, energy costs or operational costs, and be governed by a performance contract entered into under statutory municipal law provisions. A school board must adopt a resolution to use this adjustment.

The adjustment may be used for the payment of debt service on bonds and notes issued to finance the project. Such bonds or notes may not be issued for a period exceeding 20 years, and the resolution adopted by a school board is valid for each year in which the board pays debt service on the bonds or notes.

Under DPI rule, the school board resolution to use this adjustment must state the amount to be levied and expended, the specific new expenditures, the performance indicators that will measure the cost savings of the expenditures in an amount equal to the expenditures, and a timeline for cost recovery for the expenditures. An evaluation of the performance indicators must also be included in the district's budget summary document in the following year, and in the district's newsletter or in the published minutes of a school board meeting. The board is also required to reduce the district's revenue limit in the following year by the amount levied, if any, for which there is not a documented energy expenditure.

Adjustment for Certain Open Enrollment Pupils. Under 2011 Act 114, the open enrollment program was modified to allow certain pupils to apply to open enroll throughout the year, rather than only during the regular application period. That act also created a revenue limit adjustment related to those pupils, which is equal to the amount of any aid transfer in the previous year for an open enrollment pupil who was not included in the district's revenue limit enrollment count on the third Friday of September in the previous school year.

Adjustment for Refunded or Rescinded Property Taxes. The 2011-13 budget act created a nonrecurring revenue limit adjustment equal to the amount of any refunded or rescinded property taxes paid by the school board in the year of the levy if the valuation represented by the refunded or rescinded taxes result in a redetermination of the district's equalized value by the Department of Revenue.

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 of 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 70 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.

2012-13 Allowable Revenue Per Pupil

Table 3 shows the distribution of school districts by allowable revenue per pupil under revenue limits, including all adjustments, in 2012-13. As shown in Table 3, revenue per pupil ranges from \$9,045 (Walworth J1) to \$20,038 (North Lakeland), with a statewide average of \$9,884. The fact that the median revenue per pupil (\$9,798) is lower than the average indicates a concentration of districts below the statewide av-

Table 3: Distribution of School Districts by Allowable Revenue per Pupil in 2012-13 School Year

Revenue Per Pupil	Number of School Districts	Percent of Total	Cumulative Percent of Total
\$9,250 and Under	84	19.9%	
\$9,251 to \$9,500	68	16.1	35.9%
\$9,501 to \$9,750	52	12.3	48.2
\$9,751 to \$10,000	42	9.9	58.2
\$10,001 to \$10,500	66	15.6	73.8
\$10,501 to \$11,000	46	10.9	84.6
\$11,000 to \$12,000	39	9.2	93.9
Over \$12,000	<u>26</u>	<u>6.1</u>	100.0
	423	100.0%	
Median	\$9,798	10 th Percentile	\$9,136
Average	\$9,884	90 th Percentile	\$11,376
Lowest	\$9,045	Highest	\$20,038

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

erage. Eighty percent of all districts have revenue per pupil of between \$9,136 and \$11,376.

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.

Under 2011 Act 32, an additional limit was created on property taxes levied by technical college boards. A district board's tax levy in 2011 and 2012 was prohibited from exceeding the greater of the following: (a) the district board's tax levy in 2010; or (b) the amount generated using the mill rate used for the tax levy in 2010. Exemptions are provided for refunded or rescinded property taxes, if those taxes result in a re-determination of the district's equalized valuation by the Department of Revenue. The WTCS Board is required to reduce state general aid payments by an amount equal to any excess levy imposed by a district board, except under certain circumstances related to clerical errors. In addition, for a district board to exceed the levy limit otherwise applicable in 2011 or 2012, the board is required to submit a proposed excess levy for a special referendum. No board has requested such a referendum. In any case, a technical college district's mill rate could not exceed 1.5 mills.

In 2012-13, two districts (Milwaukee and Western) were at the 1.5 mill limit and an additional five districts (Blackhawk, Chippewa Valley, Fox Valley, Northcentral and Southwest Wisconsin) exceeded 1.4 mills. From 2002-03 through 2012-13, the WTCS tax levy has increased by an average of 3.8% annually due to growth in equalized valuations in the earlier years, the exclusion of debt from the limit, and

unchanged or decreased state general aid for WTCS districts. While there is no limit on the debt levy rate, major building projects (\$1,500,000 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."

Municipal Expenditure Restraint Program

Municipalities are not subject to a mandatory expenditure 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 Department of Revenue (DOR) administers the expenditure restraint program.

The statutes define "municipal budget" as the municipality's budget for its general fund exclusive of principal and interest payments on long-term debt. State law provides for the exclusion of several other types of expenditures: (a) amounts paid by municipalities as state recycling tipping fees; (b) amounts paid by municipalities under municipal revenue sharing agreements; (c) unreimbursed expenses related to emergencies declared under an executive order of the Governor; (d) expenditures from moneys received pursuant to the federal American Recovery and Revitalization Act of 2009; and (e) expenditures made pursuant to a purchasing agreement with a school district whereby the municipality makes purchases on behalf of the school district. Finally, adjustments are made for the cost of services transferred to or from the municipality seeking to qualify for a payment.

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.

For the year prior to the aid payment, the rate of budget growth cannot exceed the inflation rate plus an adjustment based on growth in municipal property values. The inflation rate is measured as the change that occurred in the Consumer Price Index (CPI) in the one-year period ending in September two years prior to the payment year, but not less than 0%. 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, but not less than 0% nor more than 2%. The allowable increase is known at the time when municipal officials set their budgets.

To be eligible for a 2013 payment, municipalities had to limit their 2012 budget increases to 2.7% to 4.7%, depending on individual municipal adjustments due to property value increases. Out of the 436 municipalities that would otherwise have been eligible for a 2013 payment, only 372 met the budget test. The other 64 municipalities either did not meet the test or did not submit budget worksheets to DOR 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

Since the 2005(06) property tax year, DOR

has administered a levy limit program that restricts the year-to-year increases in county and municipal property tax levies. The limits for 2005(06) and 2006(07) were imposed under provisions created by 2005 Wisconsin Act 25, but those provisions were sunset on January 1, 2007. The limits were re-imposed for 2007(08) and 2008(09) by 2007 Wisconsin Act 20 and for 2009(10) and 2010(11) by 2009 Wisconsin Act 28. Both acts included provisions that repealed or sunset the limits after the specified years. Provisions in 2011 Wisconsin Act 32 extended the levy limit program on a permanent basis, as described below.

The Act 32 provisions prohibit any county, city, village, or town from increasing its "base" levy in any year 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 zero percent. The base levy is defined as the prior year actual levy for the county or municipality.

Act 32 also provides for adjustments and exclusions to the limit. When the levy for a designated purpose is an adjustment to the limit, the allowable levy is increased by the amount of the levy for the designated purpose. The levy, including the adjusted amount, becomes the base levy from which the succeeding year's allowable levy is calculated. Adjustments can be expressed both as increases or decreases to the allowable levy. For example, Act 32 provides an adjustment equal to any increase in debt service for general obligation debt authorized by a resolution of the local government before July 1, 2005. Exclusions to the levy limit are initially applied identically to an adjustment, in that the allowable levy is increased by the amount of the levy for the purpose designated by the exclusion. However, the levy for the designated purpose is not included in the base levy from which the succeeding year's allowable levy is calculated. For example, Act 32

provides an exclusion for debt service on general obligation debt issued on or after July 1, 2005.

Under prior law, the base levy for 2009(10) and 2010(11) was defined as the prior year allowable levy. While Act 32 changed the definition of base levy to the prior year actual levy, it created four adjustments related to the allowable levy. First, the Act created a negative adjustment equal to any decrease in debt service for general obligation debt authorized by a resolution of the local government before July 1, 2005. Second, for 2011(12), a local government could claim an adjustment if that government's 2010(11) actual levy was less than its allowable levy. The adjustment equaled the amount of the difference, not to exceed 0.5% of the prior year levy. If a local government did not claim this adjustment, it was permanently exempted from the negative adjustment for decreasing debt service, described above. Third, an adjustment calculated in the same manner as the second adjustment was available in 2012(13) for any local government with an allowable levy in 2011(12) in excess of its actual levy. However, unlike in 2011(12), claiming or not claiming this adjustment had no bearing on the treatment of the negative debt service adjustment. The two preceding adjustments could not be claimed unless approved by a supermajority vote of the local government's governing body. Fourth, beginning with the levy for 2013(14), an adjustment for allowable levies in excess of actual levies may be claimed without requiring a supermajority vote of the governing body.

Other adjustments to the levy limit include amounts levied:

- to fund services transferred from (positive) or to (negative) another governmental unit;
- on territory annexed by a city or village (the adjustment is equal to the tax levied by the town on that territory in the preceding year and is a

positive adjustment for the annexing city or village and a negative adjustment for the town from which the territory was annexed);

- for any increase in lease payments related to a lease revenue bond issued before July 1, 2005;
- for the cost of consolidating an existing county service by extending the county service to a municipality that provided the same service previously;
- to make up any shortfall in a municipality's general fund due to the loss of revenue from the sale of water or another commodity to a manufacturing facility that has discontinued operations; and
- to jointly provide a service under an inter-governmental cooperation agreement on a consolidated basis with another political subdivision (offsetting positive and negative adjustments).

In addition, a county or municipality containing a tax increment district that has terminated may adjust its allowable levy in the first year that DOR does not certify a tax increment. Under the adjustment, the county's or municipality's allowable levy is increased by an amount equal to the maximum allowable levy for the previous year multiplied by a percentage equal to 50% of the value of the terminated district in the prior year divided by the municipality's prior year equalized value.

Other exclusions to the levy limit include amounts levied:

- by a municipality as a tax increment;
- by a county for a county children with disabilities education board;
- by a first class city (Milwaukee) for school purposes;

- by a county for town bridge and culvert construction and repair;

- by a county to make payments for public libraries if the county does not maintain a consolidated library system and contains residents who are not residents of a municipality that maintains a public library;

- by a county for a countywide emergency medical services system;

- by a county or municipality to make up for a revenue shortfall for debt service on a revenue bond issued by that local government;

- by a county or municipality to make up for a revenue shortfall for debt service on a revenue bond issued by a joint fire department to pay for a fire station;

- by a village to pay for police protection services, but only in the year immediately after the village's incorporation and only if the town which preceded the village did not have a police force;

- by the City of Milwaukee or Milwaukee County for debt service on appropriation bonds (for payment of employee retirement system liability);

- for unreimbursed expenses related to declared emergencies (may be used to replenish cash reserves and must be claimed either in the year the emergency is declared or in the following year);

- for refunded or rescinded taxes, provided DOR has determined that the equalized value of the municipality or county is changed as a result of the consideration of the value represented by the refunded or rescinded taxes; and

- for charges assessed by a joint fire department if the charges would cause a municipality to

exceed its levy limit, if the other municipalities served by the joint fire department adopt resolutions supporting the municipality exceeding its limit, and if the total charges assessed by the joint fire department increase on a year-to-year basis by a percentage less than or equal to the percentage change in the consumer price index plus 2%.

Increases above the limit can be approved through the passage of a referendum. The local government's governing body that wishes to exceed its limit must adopt a resolution specifying the amount of the increase and whether the increase is to be extended on a one-time or ongoing basis. The statutes provide specific wording for the ballot question, which must include the allowable levy and percentage increase without a referendum and the amount of the levy and percentage increase under the referendum.

Certain towns can bypass the referendum procedure. Towns with populations under 2,000 may exceed their levy limits by a vote at the annual town meeting or at a special town meeting, provided the town board previously adopts a resolution supporting the increase and includes the increase on the agenda for the town meeting.

If a county or municipality imposes a levy exceeding its limit, DOR must impose a penalty by reducing the local government's next county and municipal aid payment by the amount of the excess. Penalties are not imposed when the excess is less than \$500, and DOR can waive the penalty if it finds that a county or municipality exceeded its limit due to a clerical error resulting from a mistake in the local government's equalized value or in the preparation of the tax roll. If the penalty exceeds a local government's county and municipal aid amount, the remaining penalty is carried forward and applied against future aid payments.

Relative to the 2011(12) levy, 12 local governments exceeded the limit and incurred penal-

ties totaling \$569,501. This included total penalties of \$212,601 imposed on nine towns, \$311,385 imposed on two villages, and \$45,515 imposed on one city. In addition, four other towns were subject to penalties carried over from 2010(11), while two towns and one village exceeding the limit in 2011(12) also had penalties carried over from 2010(11).

County Tax Rate Limit

Act 32 suspended the county tax rate limit program for property tax years 2011(12) and 2012(13). The suspension may be related to other provisions in Act 32 making the levy limit program permanent. However, the Act 32 suspension applied only for two years, and the tax rate limit will take effect again for the 2013(14) property tax year.

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, appropriation bonds (for payment of employee retirement system liability by Milwaukee County), 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;
- the debt is issued to provide liability insurance and risk management services authorized under state statute; or
- the debt is issued by Milwaukee County to pay unfunded prior service liability with re-

spect to an employee retirement system.

If a county exceeds its operating levy rate, the county's county and municipal aid payment is reduced by the amount of the excess. If the ex-

cess exceeds that payment, the county's transportation aid payment is reduced by the remaining amount. DOR administers the county tax rate limit.