

### Fiscal Estimate - 2003 Session

Original     
  Updated     
  Corrected     
  Supplemental

<b>LRB Number</b> <b>03-3982/2</b>	<b>Introduction Number</b> <b>SB-477</b>
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**Subject**  
 Levy limits for local governments, school district revenue limits

**Fiscal Effect**

**State:**

<input type="checkbox"/> No State Fiscal Effect	<input checked="" type="checkbox"/> Increase Existing Revenues	<input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget
<input type="checkbox"/> Indeterminate	<input checked="" type="checkbox"/> Decrease Existing Revenues	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<input type="checkbox"/> Increase Existing Appropriations		<input type="checkbox"/> Decrease Costs
<input checked="" type="checkbox"/> Decrease Existing Appropriations		
<input type="checkbox"/> Create New Appropriations		

**Local:**

<input type="checkbox"/> No Local Government Costs		
<input type="checkbox"/> Indeterminate		
1. <input type="checkbox"/> Increase Costs	3. <input type="checkbox"/> Increase Revenue	5. Types of Local Government Units Affected
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	
2. <input type="checkbox"/> Decrease Costs	4. <input checked="" type="checkbox"/> Decrease Revenue	
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<input type="checkbox"/> Permissive <input checked="" type="checkbox"/> Mandatory	

Towns       Village       Cities  
 Counties       Others  
 School Districts       WTCS Districts

<b>Fund Sources Affected</b>	<b>Affected Ch. 20 Appropriations</b>
<input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS	20.566 (2)(a), 20.835 (1)(e) and (2)(c) and (dm)

<b>Agency/Prepared By</b> DOR/ Daniel Huegel (608) 266-5705	<b>Authorized Signature</b> Dennis Collier (608) 266-5773	<b>Date</b> 2/24/2004
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## Fiscal Estimate Narratives

DOR 2/24/2004

LRB Number	<b>03-3982/2</b>	Introduction Number	<b>SB-477</b>	Estimate Type	<b>Original</b>
<b>Subject</b>					
Levy limits for local governments, school district revenue limits					

### Assumptions Used in Arriving at Fiscal Estimate

#### PROPERTY TAX LEVIES

The bill makes several changes to the laws on property taxing powers of technical college districts, school districts, counties, and municipalities. The changes for technical colleges, counties, and municipalities would apply for the 2004/05 and 2005/06 property tax years. The changes for schools would be permanent.

**Technical Colleges:** Under current law, a technical college board may not impose an operating tax levy at a rate that exceeds 1.50 mills on equalized value. There is no limit on the tax rate for debt service. Under the bill, the total tax levy could not increase over the prior year's levy by more than 2.6%.

**School Districts:** Under current law, school districts operate under a revenue limit that restricts growth in their per pupil "revenue". "Revenue" is defined as the tax levy for operations and non-referendum debt service plus general (non-categorical) state aid. The per pupil revenue limit increased by about \$241 for 2004/05. Future years' increases are indexed for inflation. Under the bill, the per pupil revenue limit for 2004/05 would increase by \$120 per pupil, and the limit for 2005/06 and any school year thereafter would increase by \$100 per pupil.

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

**Municipalities:** Under current law, there is no limit on tax levies imposed by municipalities. Under the bill, a municipality's total tax levy could not increase over the prior year's levy by more than the percentage change in its equalized value due to net new construction (excluding construction in tax incremental financing districts).

Certain adjustments to the limits would be allowed. Technical colleges, counties, and municipalities would be allowed to exclude debt service levies for debt issued under board resolutions approved before July 1, 2004, or for referendum-approved debt. Levy limits could be exceeded if approved at a referendum or, for towns with a population of less than 2,000, at an annual or special town meeting. Tax incremental levies would be excluded from the levies subject to the limit. Limits would be adjusted for transfers of service from or to other governmental units, and for annexations of territory. The limit would not apply to the levies for first class city (Milwaukee) schools and for county-operated children with disabilities education boards.

In order to estimate the potential effect of the bill on property tax levies, the following assumptions were made: (1) Affected governments' tax levies would be imposed at the maximum allowed under the bill. (2) There would be no referendum-approved debt issues or increases in levy limits. (3) The adjustments for service transfers and annexations would net to zero. (4) Debt levies for technical colleges, school districts, and counties would remain at current levels. Data on municipal debt levies are not available. Using data from financial report forms for 2002, municipal debt service levies were assumed to equal the tax levy for governmental funds (all funds excluding proprietary and fiduciary funds) times the percentage of governmental funds expenditures used for debt service.

At the time this estimate was prepared, data for the 2003/04 were not yet complete. Therefore, the effect on the 2002/03 property tax levy was estimated instead. Based on the assumptions noted above, if this bill had been in effect for 2002/03 property taxes, the statewide total net property tax levy would have been about \$6.7 billion. This represents a reduction of about \$200 million, or 3%, from the actual levies for that year.

## INCOME TAX

Current individual income tax law allows a nonrefundable school property tax credit against income tax liability equal to 12% of property taxes or rent constituting property taxes up to \$2,500. The maximum credit is \$300. Based on a simulation on the 2001 Individual Income Tax Model adjusted for 2003 law, a 3% decline in property taxes would decrease the amount of the credit, and increase state income taxes, by about \$6.7 million.

## HOMESTEAD CREDIT

Under the Homestead Credit, certain low-income households receive a payment from the state to help offset part of their property taxes or rents. The 3% decline in property taxes engendered by this bill would reduce credit expenditures by an estimated \$1.0 million.

## FARMLAND PRESERVATION CREDIT

Under the Farmland Preservation Credit, certain owners of farmland are eligible for a property tax relief credit based on income and property taxes paid. The 3% decline in property taxes engendered by this bill would reduce the amount of the credit by an estimated \$0.5 million.

## UTILITY TAXES

Certain companies operating in Wisconsin are taxed under the state's utility tax statutes on an ad valorem basis. DOR annually determines the taxable value of these companies' property allocable to Wisconsin for taxation purposes. The tax on airlines, conservation and regulation companies, municipal electric association projects, pipelines, and railroads is calculated using the state average net property tax rate. For telephone companies, the tax is based on the taxable property in a given municipality times the prior year's net rate in that municipality. Revenues from the airline and railroad tax are paid to the transportation fund. All other revenues are paid to the general fund.

Based on projected tax collections for FY04, the 3% reduction in property taxes engendered by this bill would reduce state ad valorem utility taxes by a total of about \$4.0 million, with \$3.5 million allocated to the general fund and \$0.5 million to SEG-Transportation funds.

## EXEMPT COMPUTER AID

The state aid for exempt computers is an annual payment to local governments that levy property taxes equal to the property taxes that would have been levied on exempt computers if they were taxable. The payment in May 2003 was about \$73 million. The 3% reduction in property taxes engendered by this bill would reduce computer aid payments by about \$2.2 million.

## ADMINISTRATIVE COSTS

The Department would incur one-time costs of \$162,400 in FY04 for audit staff hired for a part of the year to audit and administer the levy freeze and for computer programming. Ongoing costs for 2.0 auditors would be \$144,500 beginning in FY05.

## Long-Range Fiscal Implications

## Fiscal Estimate Worksheet - 2003 Session

Detailed Estimate of Annual Fiscal Effect

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<b>LRB Number</b> 03-3982/2		<b>Introduction Number</b> SB-477	
<b>Subject</b>			
Levy limits for local governments, school district revenue limits			
<b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>			
FY05: \$162,400 for part-year staffing and computer programming costs			
<b>II. Annualized Costs:</b>		<b>Annualized Fiscal Impact on funds from:</b>	
		Increased Costs	Decreased Costs
<b>A. State Costs by Category</b>			
State Operations - Salaries and Fringes	\$144,500		
(FTE Position Changes)	(2.0 FTE)		
State Operations - Other Costs			
Local Assistance			-2,200,000
Aids to Individuals or Organizations			-1,500,000
<b>TOTAL State Costs by Category</b>	<b>\$144,500</b>		<b>\$-3,700,000</b>
<b>B. State Costs by Source of Funds</b>			
GPR	144,500		-3,700,000
FED			
PRO/PRS			
SEG/SEG-S			
<b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)</b>			
	Increased Rev	Decreased Rev	
GPR Taxes	\$6,700,000		\$-3,500,000
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			-500,000
<b>TOTAL State Revenues</b>	<b>\$6,700,000</b>		<b>\$-4,000,000</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>			
	State	Local	
NET CHANGE IN COSTS	\$-3,555,500		\$
NET CHANGE IN REVENUE	\$2,700,000		\$-200,000,000
<b>Agency/Prepared By</b>			
DOR/ Daniel Huegel (608) 266-5705		<b>Authorized Signature</b>	<b>Date</b>
		Dennis Collier (608) 266-5773	2/24/2004