Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2005 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number 05-5003/3	Introduction Number SB-724

Description
Creating a revenue limit for local governmental units, prohibiting the legislature from passing any bill that would exceed a revenue limit, returning excess revenue to taxpayers, elector approval for exceeding the revenue limit, reimbursing the reasonable costs of imposing state mandates, prohibiting the promulgation of certain rules, prohibiting the issuance of certain revenue obligations, and standing to bring a suit to enforce the revenue 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 Special Purpose 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

LFB 5/12/2006

LRB Number **05-5003/3**	Introduction Number **SB-724**	Estimate Type **Original**

Description
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Assumptions Used in Arriving at Fiscal Estimate

See attached.

Long-Range Fiscal Implications

See attached.

ATTACHMENT

Senate Bill 724 would create statutory limitations on certain revenues of the state and local governments. In addition, SB 724 would create a statutory restriction on unfunded mandates on local governments and restrict the purposes for which the state may borrow.

Structure of the Proposed State Limit

The state limit under the bill would first apply to the 2007-08 fiscal year. The limit would replace the current law limit under s. 13.40 of the statutes, which would be repealed. For the 2007-08 fiscal year, the state would be prohibited from retaining (other than in the state budget stabilization fund) more in revenue than it did in the 2006-07 fiscal year, plus its allowable percentage increase under the limit.

For each subsequent fiscal year, the state would be prohibited from retaining (other than in the state budget stabilization fund) more in revenues than it was allowed to retain under the limit in the previous fiscal year, plus its allowable percentage increase under the limit. Since this provision uses the allowable revenue from the previous year rather than the actual revenue, the state would be allowed to carry forward 100% of its unused revenue limit authority.

In addition to the preceding restrictions, the Legislature would be prohibited from passing any bill that would cause the amount of revenue collected to exceed the amount allowed. This prohibition would apply to both revenue in general and to revenue deposited into each segregated fund. In addition, the bill would specify that, beginning with the 2007-08 fiscal year, the Legislature could not pass any bill that would permit moneys in a segregated fund that existed before that fiscal year to be expended for any purpose other than the purpose of the segregated fund.

Allowable Revenue Growth Under the Proposed State Limit

Under the bill, the state would be allowed to increase its revenues by the lesser of the following two percentages: (a) the average of the annual percentage increases, if any, in the Milwaukee-Racine CPI (or a successor index) for each of the three most recent years for which this information is available; and (b) the average of the annual percentage increases, if any, in state personal income for each of the three most recent years for which this information is available. Therefore, for determining allowable growth for the 2007-08 fiscal year, the lesser of the average of the 2003-04, 2004-05, and 2005-06 fiscal year increases in the Milwaukee-Racine CPI and the average of the 2004, 2005, and 2006 calendar year increases in state personal income would be used.

In addition to the growth based on either the Milwaukee-Racine CPI or state personal income, the state would be allowed additional revenue growth equal to the percentage increase in the state's population from the previous year. Therefore, for fiscal year 2007-08, the change in population between 2005 and 2006 would be used. Population would be defined as annual population estimates adjusted by the most recent federal, decennial census, as determined by the Department of Administration.

Revenue Subject to the Proposed State Limit

The bill would define "revenue" comprehensively as all revenue and would then exclude several specific items from this definition. Therefore, unless a source of funds is specifically excluded, it would be subject to the proposed state limit. In addition, moneys retained by a trustee for the purpose of issuing, or paying debt service on, revenue bonds would be included as "revenue".

Under the bill, the following would be excluded from the definition of revenue for the state: (a) moneys used to pay the debt service on economic development bonds; (b) one-time grants; (c) inter-fund transfers; (d) moneys received from the issuance of bonds or from short-term cash borrowing; (e) moneys used to pay a settlement or damage award; and (f) moneys used for expenses arising from a natural disaster or terrorist attack.

In addition, moneys received from the following would be excluded from the definition of revenue: (a) the federal government; (b) the state or a local government for providing governmental services for governmental entities; (c) gifts; (d) settlements or damage awards; (e) real or personal property sales; (f) from medical care provided by a facility that is operated by the state; (g) unemployment insurance taxes; (h) insurance premiums; (i) public employee or retiree payments for fringe benefits; (j) governmental property insurance; (k) investment trusts; (l) private purpose trusts; (m) college savings programs; (n) fees imposed for airport or mass transportation systems; and (o) tuition or fees imposed for university functions.

Adjustments to the Proposed State Limit

The bill would create the following adjustments to the state revenue limit:

1. Reduction in State Aid. The state's revenue limit for a given fiscal year would be reduced by the amount of any reduction in the aggregate amount of state aid provided in that fiscal year to any category of local government (county, city, village, town, special purpose district, school district, or technical college district), as compared to the previous fiscal year.

2. Increase in the Limit by Referendum. The revenue limit for the state could be exceeded if the Legislature adopts a joint resolution providing for an advisory referendum and the electors of the state approve the increase.

Disposition of Excess Revenue

The bill would specify that any revenue received by the state in excess of the state's revenue limit must be deposited into the budget stabilization fund by the Secretary of Administration. However, the total amount in the budget stabilization fund could not exceed 8% of the state's total revenue in the previous fiscal year. If the balance in the fund equals or exceeds 8% on June 30 of a fiscal year, the Legislature would be required to pass a bill to provide that all revenues received by the state in that year in excess of the limit would be used for tax relief in the following fiscal year.

Prohibition on Unfunded State Mandates

The bill would specify that a state law or administrative rule that increases a local government's expenditures could not be enacted by the Legislature, beginning with the 2007-08 fiscal year, or promulgated through the rule making process, beginning on January 1, 2007, unless an appropriation is made to pay the reasonable costs incurred by the local government to comply with the law or rule. This prohibition would not apply to a state law or administrative rule enacted or promulgated in order to comply with a requirement of federal law, including a requirement related to the receipt of federal aid. For purposes of this provision, local governments would be defined to include counties, cities, villages, towns, special purpose districts, school districts, and technical college districts.

Limitation on State Borrowing

The bill would prohibit the Building Commission from entering into any of the following: (a) an agreement to refund any type of borrowing if that refunding would increase the state's debt service obligation in any fiscal year; and (b) an agreement or arrangement relating to any type of borrowing unless the financial benefits accrue proportionately over the life of the agreement or arrangement. The bill would also specify that the Building Commission could only issue revenue bonds for those purposes for which the state may issue general obligation bonds.

Applicability of the Proposed Local Limit

The local limit would apply to counties, municipalities, technical college districts, and special purpose districts (collectively referred to as "local governments"). It would not apply to school districts. The bill would define "special purpose district" as any entity other than the state, a county, a municipality, a school district, a technical college district, or a sanitary or sewerage district that is authorized to collect taxes or fees. This definition would include public inland lake protection districts, local exposition districts, and local professional baseball park and football stadium districts, since these districts have been authorized to collect taxes. The definition would also include any entity that has been authorized to collect fees.

"Municipality" would be defined to include cities, villages, and towns. However, towns that have budgeted revenue (as defined for purposes of the limit) of less than $1,000,000 for

2008 would not be subject to the limit in that year. The $1,000,000 threshold would be increased annually in subsequent years based on the average of the annual percentage increases, if any, in the consumer price index for the Milwaukee-Racine area (the "Milwaukee-Racine CPI") for each of the three most recent years for which this information is available. For example, the threshold for 2009 would equal $1,000,000 increased by the average of the changes in the Milwaukee-Racine CPI for 2005, 2006, and 2007.

A district, utility, or other entity, other than a lake or sanitary district, that receives money from taxes or fees and that is created by a city, village, or town would be included as part of the city, village, or town that created it for purposes of the proposed revenue limit.

Structure of the Proposed Local Limit

The local limit under the bill would first apply to the 2008 calendar year (for counties, municipalities, and special purpose districts) or to the 2006-07 fiscal year (for technical college districts). For the 2008 calendar year or 2006-07 fiscal year, local governments would be prohibited from collecting and retaining more in revenue than they did in the 2007 calendar year or 2005-06 fiscal year, plus their allowable percentage increase under the limit.

For each subsequent calendar year or fiscal year, local governments would be prohibited from collecting and retaining more in revenues than they were allowed to collect and retain under the limit in the previous calendar year or fiscal year, plus their allowable percentage increase under the limit. Since this provision uses the allowable revenue from the previous year rather than the actual revenue, local governments would be allowed to carry forward 100% of their unused revenue limit authority.

Base year revenue for a town that first exceeds the threshold for having revenue limits apply ($1,000,000 indexed for inflation) would be established as $1,000,000 increased annually in subsequent years, through the previous year, based on the average of the annual percentage increases, if any, in the consumer price index for the Milwaukee-Racine area (the "Milwaukee-Racine CPI") for each of the three most recent years for which this information is available. For example, the base for a town first exceeding the threshold for 2011 would equal $1,000,000 increased by the average of the changes in the Milwaukee-Racine CPI for 2005, 2006, and 2007 and then increased again by the average of the changes in the Milwaukee-Racine CPI for 2006, 2007, and 2008.

Allowable Revenue Growth Under the Proposed Local Limit

The bill would allow two types of growth under the local revenue limit, one that applies to all affected governments and a second that varies both by type of government and between governments of the same type. All affected local governments would be allowed to increase their revenues by the lesser of the following two percentages: (a) the average of the annual percentage increases, if any, in the Milwaukee-Racine CPI (or a successor index) for each of the three most recent years for which this information is available; and (b) the average of the annual percentage increases, if any, in state personal income for each of the three most recent years for which this information is available. Therefore, for determining allowable growth for 2006-07 fiscal year budgets, the lesser of the average of the 2002-03, 2003-04, and 2004-05 fiscal year increases in the Milwaukee-Racine CPI and the average of the 2003, 2004, and 2005 calendar year increases in state personal income would be used. For 2008 calendar year budgets, the lesser of the average of the 2004, 2005, and 2006 calendar year increases in the Milwaukee-Racine CPI and state personal income would be used.

In addition to the growth based on either the Milwaukee-Racine CPI or state personal income, each type of government would be allowed additional revenue growth as follows:

1. Technical college districts and special purpose districts would be allowed a percentage increase equal to the percentage increase in their respective populations (although not specified, presumably this would be based on the most recent year available). Therefore, for budgets for calendar year 2008, the change in population between 2006 and 2007 would be used. For budgets for fiscal year 2006-07, the change in population between 2004 and 2005 would be used. Population would be defined as annual population estimates adjusted by the most recent federal, decennial census, as determined by the Department of Administration.

2. Municipalities and counties would be allowed a percentage increase equal to 67% of the percentage increase in their taxable property values attributable to new construction, net of the taxable value of any property removed or demolished (although not specified, presumably this would be based on the most recent year available). Therefore, for municipalities' and counties' 2008 budgets, growth in values due to net new construction from 2006 to 2007 would be used.

Revenue Subject to the Proposed Local Limit

The bill would define "revenue" comprehensively as all revenue (including state aid) and would then exclude several specific items from this definition. Therefore, unless a source of funds is specifically excluded, it would be subject to the proposed local limit. In addition, moneys retained by a trustee for the purpose of issuing, or paying debt service on, revenue bonds would be included as "revenue".

Under the bill, the following would be excluded from the definition of revenue for local governments: (a) taxes levied by a county for the purposes of a children with disabilities education board, if the board existed prior to January 1, 2005; (b) moneys used to pay the debt service on economic development bonds; (c) one-time grants; (d) inter-fund transfers; (e) moneys received by a local government from the state to pay for the cost of future mandates, as required by the bill; (f) moneys received from the issuance of bonds or from short-term cash borrowing; (g) moneys used to pay a settlement or damage award; and (h) moneys used for expenses arising from a natural disaster or terrorist attack.

In addition, moneys received from the following would be excluded from the definition of revenue: (a) the federal government; (b) the state or a local government for providing governmental services for governmental entities; (c) gifts; (d) settlements or damage awards; (e) real or personal property sales; (f) the operation of a telephone, gas, electric, sewerage, or water utility; (g) from nongovernmental sources for medical care provided by a facility that is operated by a local government; (h) insurance premiums; (i) public employee or retiree payments for fringe benefits; (j) governmental property insurance; (k) investment trusts; (l) private purpose trusts; (m) fees imposed for airport or mass transportation systems; and (n) tuition or fees imposed for technical college functions.

Adjustments to the Proposed Local Limit

The bill would create the following adjustments to the local revenue limit:

1. Reduction in the Limit by a Governing Body. The revenue limit for a local government could be reduced by a majority vote of the local government's governing body. Since the limit for subsequent years is based on the allowable revenues for the prior year, a reduction under this authority would permanently lower allowable revenues.

2. Increase in the Limit by Referendum. The revenue limit for a local government could be exceeded only with the approval of the electors of the local government at a referendum. The referendum would have to specify whether the increase in the revenue limit is on a recurring or nonrecurring basis.

3. Increase in the Limit to Retire Special Purpose District Debt. A special purpose district would be allowed to use revenue collected in excess of the limit to retire or defease debt that was incurred prior to January 1, 2006.

Disposition of Excess Local Revenue

Local governments would be required to return any excess revenue to their taxpayers in the year immediately following the year in which they have the excess revenue.

Standing to Sue to Enforce the Local Revenue Limit

The bill would specify that any individual or class of individuals residing in the state would have standing to bring a suit to enforce the new statutory provisions as they relate to the local government in which the individual or class of individuals resides or pays property taxes.

Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):

II. Annualized Costs:	**Annualized Fiscal Impact on funds from:**	
	Increased Costs	Decreased Costs
A. State Costs by Category		
State Operations - Salaries and Fringes	$	
(FTE Position Changes)		
State Operations - Other Costs		
Local Assistance		
Aids to Individuals or Organizations		
TOTAL State Costs by Category	**$**	**$**
B. State Costs by Source of Funds		
GPR		
FED		
PRO/PRS		
SEG/SEG-S		

III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)		
	Increased Rev	Decreased Rev
GPR Taxes	$	$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	**$**	**$**

NET ANNUALIZED FISCAL IMPACT		
	State	Local
NET CHANGE IN COSTS	$	$
NET CHANGE IN REVENUE	$Indeterminate	$Indeterminate

Agency/Prepared By	**Authorized Signature**	**Date**
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