



## Fiscal Estimate Narratives

DOR 1/11/2008

LRB Number	07-3508/1	Introduction Number	AB-0788	Estimate Type	Original
<b>Description</b> Creating an exception to local levy limits for certain fire protection services					

### Assumptions Used in Arriving at Fiscal Estimate

For the tax levy imposed in December 2007 and 2008, current law imposes a limit on the amount by which a municipality may increase its levy. In general, a municipality may not increase its levy by a percentage that is greater than a minimum percentage (3.86% for 2007 and 2% for 2008) or the percentage increase in the municipality's equalized value due to net new construction. The law permits several exceptions and adjustments when calculating the limit, such as the cost of services transferred to or from another government, annexations of territory, and debt service on debts authorized on or after July 1, 2005. The law also permits an adjustment for the amount levied to pay for charges assessed by a joint fire department, but only to the extent that the municipality would otherwise exceed the levy limit.

The bill creates a new exception to the levy limit for municipalities under which the levy used to pay for contracted fire protection services would be excluded if the services are not purchased from another city, village, or town.

Under current law, municipalities have four options regarding how fire protection services are provided: (1) establishing a municipal fire department, (2) establishing a joint fire department with one or several other municipalities, (3) contracting with another municipality, or (4) contacting with a private fire department (organized under Chapter 213 of the Statutes) or a non-profit fire department (organized under Chapter 181 of the Statutes). Under the bill, the portion of the levy used to pay for fire protection charges from a private fire department or a non-profit fire department would not be subject to the levy limit.

Based on data from financial reporting forms filed with the Department of Revenue, total municipal expenditures for fire protection services in 2005 was about \$577.3 million. Assuming that these expenditures were funded from property taxes in proportion to each municipality's general revenues, the estimated portion funded from municipal property taxes was about \$234.6 million. A breakdown of expenditures and estimated property tax funding by population class is shown in the attached table.

Of the estimated \$234.6 million in fire protection expenditures financed from property taxes, a large portion will not qualify for the levy limit exception created under the bill because, as a municipality's population increases, it becomes more likely that fire protection services are provided from the municipality's own fire department. However, for smaller municipalities, the amounts on the table could be understated since it is common for towns that contract with two or more fire departments to spread the cost, via a property tax levy, across the areas served by the respective fire departments. In addition, since current law permits a town with a population of less than 2,000 to exceed the levy limit by approval at a town meeting, and given the variability in how fire expenditures are financed, it is not possible to determine how much of the \$43.4 million these towns spend on fire protection may already be excludable from the levy limit under current law.

The Department of Revenue does not collect information which permits identification of which of the four fire protection options a municipality has chosen. It is therefore not possible to estimate the actual amount of property tax levies which would no longer be subject to the levy limit as a result of the bill.

### Long-Range Fiscal Implications

## Analysis of Fire Protection Expenditures in 2005

<b>Class</b>	<b>Number of Municipalities</b>	<b>2005 Total Population</b>	<b>Fire Protection Expenditures</b>	<b>Estimated Funding From Property Tax</b>
Over 25,000	28	2,107,140	327,227,904	126,015,636
10,000 to 24,999	58	879,206	83,213,323	37,786,453
5,000 to 9,999	88	627,173	45,320,020	20,483,235
2,500 to 4,999	172	589,386	37,988,465	16,267,723
1,000 to 2,499	536	822,220	50,550,607	22,075,483
Under 1,000	969	555,632	33,044,251	12,012,315
<b>Total</b>	<b>1,851</b>	<b>5,580,757</b>	<b>577,344,570</b>	<b>234,640,846</b>