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TO: Representative Amy Loudenbeck
Room 209 North, State Capitol

FROM: Rick Olin, Fiscal Analyst

SUBJECT: Examples of the Terminated TID Adjustment Under the Levy Limit Program

At your request, this memorandum provides information about the levy limit adjustment for tax increment districts (TIDs) that have terminated. Two hypothetical examples of terminating TIDs are examined, as well as the impact of changing the adjustment's calculation.

Since the 2005(06) property tax year, the Department of Revenue (DOR) has administered a levy limit program that restricts the year-to-year increases in county and municipal property tax levies. The state's levy limit program prohibits 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.

Under the limit, state law 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 or decreased 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. 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.

Adjustments can be expressed both as increases or decreases to the allowable levy. One adjustment extends to a county or municipality containing a TID that has terminated and permits the county or municipality to 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 a percentage equal to 50% of the incremental value of the terminated district in the prior year divided by the county's or municipality's prior year equalized value.

The attached table illustrates two examples of the effect the adjustment could have on allowable tax levies, based on two TIDs that you selected. Neither TID has terminated, so the exercise is hypothetical. The analysis is based on allowable levies for 2014(15) and the 2014 equalized values of the two TIDs. The analysis assumes that the only adjustments allowed in the two municipalities are the automatic increase based on each municipality's new construction percentage and the terminated TID adjustment. The calculations do not include amounts levied for debt service on general obligation debt issued after July 1, 2005, an exclusion under the levy limit program.

The two TIDs that you selected are TID #4 in the Village of Clinton and TID #10 in the City of Beloit. Both municipalities are located in Rock County. TID #4 was created by Clinton in 1998, and its mandatory termination date is 2021. Its base value of $17.8 million had increased to $35.1 million in 2014, so its current incremental value equals $17.3 million. Created in 2001 with a base value of $1.8 million, Beloit's TID has increased $139.0 million in value to $140.8 million. The mandatory termination date for TID #10 in Beloit is 2023. In addition to examining the potential current law impact of terminating the two TIDs, you asked about the effect of increasing the adjustment from 50% to 85% of a TID's final value.

For 2014(15), Clinton may increase its base levy of $418,706, excluding its prior year levy for general obligation debt service, by $456 (0.109%), based on Clinton's 2014 tax base growth due to new construction. The 2014 incremental value of TID #4 equaled $17,319,400, which represents 14.84% of Clinton's 2014 equalized value of $116,682,200. Under the current law adjustment, Clinton would be able to increase its adjusted levy by an additional 7.42% (50% x 14.84%), or $31,075. If the terminated TID adjustment was changed to 85% of the value increment, the additional increase in the adjusted levy would equal 12.62% (85% x 14.84%), or $52,827. Assuming the Village used all of the allowable increase, the tax rate per $1,000 of value would equal $3.36 under the current (50%) TID adjustment and $3.52 under the modified (85%) TID adjustment.

Beloit's 2014(15) base levy, excluding prior year general obligation debt service, equals $10,001,174. With a 1.057% rate of tax base growth due to new construction, Beloit's allowable levy will increase $105,712 to $10,106,886. In 2014, TID #10 had an incremental value of $139,026,900, representing 9.45% of Beloit's total equalized value of $1,471,696,200. The current law adjustment for terminated TIDs would allow Beloit to increase its levy by an additional $472,391, or 4.72% (50% x 9.45%). If the terminated TID adjustment was changed to 85% of the value increment, an increase in base levy authority of $803,065 would result, or 8.03% (85% x 9.45%). Tax rates per $1,000 of value would be $6.57 under current law and $6.77 under the 85% alternative, assuming the City elects to levy the full amount allowed.

The preceding amounts are displayed in the attached table. This analysis does not include a number of other adjustments and exclusions that are available to municipalities and that could be used by Clinton and Beloit (including the debt service exclusion that both used in the prior year). Also, municipal officials may elect not to levy the full amount allowed under the levy limit program. Therefore, this analysis does not predict the level of future tax levies. Instead, it indicates the levels that would be allowed under certain conditions.

If you have any questions on this information, please let me know.

RO/lb
Attachment

ATTACHMENT

Hypothetical Allowable Levy Calculations for Two Municipalities Under the Terminated TID Adjustment of the Levy Limit Program, 2014(15)

	Village of Clinton	City of Beloit
Calculation of Automatic Increase		
2013(14) Actual Tax Levy	$864,297	$14,181,945
Debt Service Exclusion	-445,591	-4,180,771
Adjusted Tax Levy (Base Levy)	418,706	10,001,174
Net New Construction Percentage	0.109%	1.057%
Formula-Based Increase	456	105,712
Allowable Levy Prior to Other Adjustments	419,162	10,106,886
Tax Increment District (TID)		
TID Number	#4	#10
TID Base Value	$17,807,300	$1,763,400
TID Current Value	35,126,700	140,790,300
TID Incremental Value	17,319,400	139,026,900
2014 Equalized Value of Municipality	116,682,200	1,471,696,200
Percent Incremental Value	14.84%	9.45%
Terminating TID -- Current Law		
Percent Adjustment (50%)	7.42%	4.72%
Adjustment to Base Levy	$31,075	$472,391
Allowable Levy (includes formula-based increase)	450,237	10,579,277
Tax Rate Per $1,000 of Value -- Allowable	3.36	6.57
Terminating TID -- Alternative		
Percent Adjustment (85%)	12.62%	8.03%
Adjustment to Base Levy	$52,827	$803,065
Allowable Levy (includes formula-based increase)	471,989	10,909,951
Tax Rate Per $1,000 of Value -- Allowable	3.52	6.77