



Legislative Fiscal Bureau

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TO: Senator Duey Stroebel
Room 18 South, State Capitol

FROM: Emma Drilias, Fiscal Analyst

SUBJECT: Tax Incremental Districts and County and Municipal Levy Limits

As you requested, this memorandum provides information on tax incremental districts (TIDs) as they relate to county and municipal levy limits. Specifically, this memorandum provides information on the allowable levy calculation based on net new construction as well as information on how the levy limit is adjusted in cases of retiring TIDs and the subtraction of property from a TID.

Allowable Levy

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. Under s. 66.0602(2), a county, city, village, or town may not increase its "base" levy (prior year actual 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 ("net new construction"), between the previous year and the current year, but not less than zero percent. In this calculation, counties and municipalities use the total equalized value of the jurisdiction, including the equalized value of taxable property within TIDs ("TID-in equalized value"). Therefore, the net new construction calculation includes the change in equalized value due to new construction of taxable property within the TID. As an example, the January 1, 2016, TID-in equalized value for the City of Marshfield was \$1,461,314,300 and the 2017 net new construction value was \$16,139,100. Therefore, the City of Marshfield could have increased its base levy by up to 1.10% (\$16,139,100 divided by \$1,461,314,300) for the 2017(18) tax year. However, it should be noted that not all counties and municipalities levy up to their total allowable levy. For 2016(17), 41.7% of counties and 54.5% of municipalities had unused levy capacity under the levy limit.

Adjustments and Exclusions

State law provides for a number of adjustments and exclusions to the levy 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.

Under s. 66.0602(3)(dm), a county or municipality containing a TID that has terminated may adjust its base 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 amount determined by dividing the value increment of the terminated district in the prior year by the county or municipality's prior year equalized value. In this calculation, equalized value is exclusive of any TID value increments ("TID-out equalized value").

2017 Act 223 created a separate adjustment to the levy limit to allow a county or municipality to increase its levy in the first year in which an area subtracted from a TID is not part of the TID's value increment. Under the adjustment, to determine the allowable levy, the county's or municipality's base levy is also increased by a percentage equal to 50% of the amount determined by dividing the value increment of the TID's subtracted territory in the prior year by the county or municipality's prior year equalized value. In this calculation, equalized value is exclusive of any TID value increments ("TID-out equalized value").

By allowing a county or municipality to increase its levy by 50% of the most recent TID value increment divided by the equalized value, these adjustments allow both the taxing jurisdictions as well as the property tax owners to share in the benefits of an expanded tax base. Such a policy can provide incentives for local governments to use the tax incremental financing (TIF) tool to grow their tax bases while also providing tax relief to local taxpayers. For example, if these adjustments allowed taxing jurisdictions to increase their levies by 100% of the TID value increment divided by the equalized value, property tax bills would be higher. Conversely, if the adjustments did not exist, municipalities would have no incentive to use TIF to expand their tax base.

Impact on Levy

Counties and municipalities incur costs for providing services, such as snow removal and police and fire protection, to properties located within a TID. By including annual construction within a TID in the net new construction calculation, the allowable levy for a municipality (outside the TID) is higher than if the construction in the TID were not included. This provides the municipality with the potential to increase its levy outside the TID to cover some of the municipality's costs incurred associated with the property development inside the TID. The policy concern related to how a municipality is to fund the municipal services provided to the property within a TID was recognized in a different fashion in the enabling legislation for the Foxconn project,

2017 Act 58. Act 58 allowed for tax increment expenditures to include a limited amount of the cost of constructing or expanding fire stations, purchasing police and fire equipment, and the cost of general government operating expenses related to providing police and fire protection services. As a result, the TIF levy, rather than the municipal (Mount Pleasant) levy, will cover these costs. Without this provision, the allowable Village of Mount Pleasant levy associated with the significant expected value growth within the Foxconn TID could have been imposed on municipal taxpayers to fund such services within the TID. Any such levy would have then been borne by owners of other property within that local government's jurisdiction, but outside of the TID through the net new construction adjustment mentioned earlier.

I hope this information helps. Please contact me with additional questions.

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