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Joint Committee on Finance

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Technical College Levy Limits (WTCS)

[LFB 2013-15 Budget Summary: Page 508, #6 and Page 509, #7]

CURRENT LAW

Under current law, property taxes levied by each technical college district for all purposes except debt service are limited to \$1.50 per \$1,000 (1.5 mills) of the district's equalized property valuation, which is referred to as the operational mill rate.

Under 2011 Act 32, a district board's tax levy in 2011 and in 2012 is prohibited from exceeding the greater of the following: (a) the district board's tax levy in 2010; or (b) the amount generated using the mill rate used for the tax levy in 2010. Exemptions are provided for refunded or rescinded property taxes, if those taxes result in a redetermination of the district's equalized valuation by the Department of Revenue (DOR). The System Board is required to reduce state general aid payments by an amount equal to any excess levy imposed by a district board above the levy limit, except under certain circumstances related to clerical errors.

For a district board to exceed the levy limit otherwise applicable in 2011 or 2012, the board is required to submit a proposed excess levy for a special referendum. The district board is required to notify the Wisconsin Technical College System (WTCS) Board and submit a copy of the resolution to the Board. In lieu of a special referendum, the district board may choose to hold the referendum at the next succeeding spring primary or election or partisan primary or general election, if the election is to be held no sooner than 42 days after the filing of the resolution by the district board. In any case, a district's mill rate could not exceed 1.5 mills.

Capital expenditures in excess of \$1,500,000 must be approved by referendum, excluding remodeling or improvement projects and expenditures financed with gifts, grants, or federal funds. A referendum is also required if a district proposes to borrow in excess of \$1,500,000 for remodeling or improvement projects. District boards are prohibited from spending more than \$1,000,000 in reserve funds consisting of property taxes, and investment earnings on those

revenues, to finance capital projects in excess of \$1,500,000. A district's total bonded indebtedness may not exceed 2% of its equalized property valuation.

GOVERNOR

Repeal the 1.5 mill rate limitation on a technical college levy for purposes other than debt service. Specify that the change would first apply to the tax levy imposed in 2013.

Prohibit a technical college district board's tax levy in 2013 or in any year thereafter from increasing by a percentage that exceeds the district's valuation factor. For the purposes of this provision, define "valuation factor" to mean a percentage equal to the greater of zero percent or the percentage change in the district's January 1 equalized value from the prior year, due to aggregate new construction less improvements removed, in municipalities wholly located in the district, as determined by the Department of Revenue. A municipality under this provision would mean a city, village, or town.

Provide that, if a district board's allowable levy in 2013 or any year thereafter is greater than its actual levy in that year, then the limit otherwise applicable to the district board in the succeeding year is increased by the difference between the prior year's allowable levy and the prior year's actual levy, as determined by DOR, up to a maximum increase of 0.5% of the actual levy in the prior year, if the district board approves the increase by a three-fourths vote.

As under current law, for a district board to exceed the levy limit, the board is required to adopt a resolution and submit the proposed excess levy for a special referendum. In lieu of a special referendum, the district board may choose to hold the referendum at the next succeeding spring primary or election or partisan primary or general election, if the election is to be held no sooner than 70 days after the filing of the resolution by the district board.

DISCUSSION POINTS

1. WTCS receives funding from three primary sources: (a) property taxes; (b) state aid; and (c) tuition and fees. In 2011-12, WTCS districts collected property tax revenue of \$771.3 million (67.0%), tuition and fees of \$279.0 million (24.2%), and direct state aid of \$101.2 million (8.8%). This property tax figure includes both the operational levy and the levy for debt service. Additional sources of revenue include self-financing operations, debt proceeds, and contracted services to business and industry. WTCS receives federal funding primarily in the form of financial aid to students, which is partially included in the tuition revenues total.

2. The property tax, the largest source of revenue for WTCS, totaled \$771.3 million in 2011-12 and \$786.8 million in 2012-13. A mill rate limit for technical college districts has been in place since the system's creation in 1911, and was raised and lowered several times, before settling at 1.5 mills in the mid-1970s. In the early 1990s, most districts were levying at or near the 1.5 mill rate limit. The importance of the mill limit was somewhat minimized by rapid rises in property values in the late 1990s and early 2000s, which for several years permitted tax revenues to rise even

at lower mill rates.

3. By 2005-06, 12 districts levied less than 1.40 mills and only one district levied at the 1.5 mill rate limit for the operational levy. Statewide, property values have decreased in each year since 2008-09. As property values began to decline, average mill rates increased, while districts at the 1.5 rate limit experienced declines in operating revenue. Due to the combined effects of decreases in values, the 1.5 mill rate limit and the Act 32 levy freeze, the statewide operational levy has declined the past two years.

4. The operational levy totaled \$621.4 million in 2010-11, decreased to \$617.2 million in 2011-12, and decreased again, to \$610.2 million, in 2012-13. The following table shows the statewide equalized value (excluding the value increment in tax incremental financing districts) and a breakdown of the total WTCS levy from 2002-03 through 2012-13.

WTCS Statewide Tax Levy and Average Mill Rate (\$ in Millions)

	<u>Equalized Value</u>		<u>Operational Levy</u>			<u>Debt Levy</u>			<u>Total Levy</u>		
	Amount	% Change	Amount	% Change	Mill Rate	Amount	% Change	Mill Rate	Amount	% Change	Mill Rate
2002-03	\$327,322.3	7.3%	\$430.3	5.8%	1.31	\$111.6	6.2%	0.34	\$541.9	5.9%	1.66
2003-04	352,120.7	7.6	450.7	4.8	1.28	114.6	2.7	0.33	565.3	4.3	1.61
2004-05	381,588.7	8.4	477.4	5.9	1.25	113.4	-1.1	0.30	590.8	4.5	1.55
2005-06	416,563.8	9.2	506.2	6.0	1.22	115.7	2.1	0.28	622.0	5.3	1.49
2006-07	455,759.5	9.4	531.9	5.1	1.17	118.7	2.6	0.26	650.6	4.6	1.43
2007-08	482,403.7	5.8	561.0	5.5	1.16	119.6	0.8	0.25	680.6	4.6	1.41
2008-09	498,432.0	3.3	591.3	5.4	1.18	123.3	3.1	0.25	714.6	5.0	1.43
2009-10	495,804.3	-0.5	613.0	3.7	1.24	129.6	5.1	0.26	742.6	3.9	1.50
2010-11	480,629.2	-3.1	621.4	1.4	1.29	136.0	4.9	0.28	757.3	2.0	1.58
2011-12	472,273.6	-1.7	617.2	-0.7	1.31	154.0	13.3	0.33	771.3	1.8	1.63
2012-13	456,706.1	-3.3	610.2	-1.1	1.34	176.6	14.7	0.39	786.8	2.0	1.72

5. In 2012-13, five districts (Fox Valley, Milwaukee, Northcentral, Southwest, and Western) had a tax rate over 1.49 mills. Nine districts levied less than 1.40 mills, and the statewide average was 1.336 mills. Debt service levies ranged from 0.163 mills to 0.635 mills in 2012-13, and the statewide average was 0.387 mills for debt service. Operational and total tax levies and mill rates by district are shown below. Amounts are shown in millions of dollars.

WTCS District Operational and Total Tax Levies and Mill Rates (\$ in Millions)

District	2011-12				2012-13					
	Operational		Total*		Operational			Total*		
	Amount	Mill Rate	Amount	Mill Rate	Amount	% Change	Mill Rate	Amount	% Change	Mill Rate
Blackhawk	\$15.89	1.415	\$20.04	1.784	\$15.89	0.00%	1.438	\$20.42	1.90%	1.848
Chippewa Valley	29.60	1.456	35.40	1.742	29.60	0.00	1.476	35.40	0.00	1.766
Fox Valley	50.00	1.499	59.72	1.791	48.81	-2.38	1.499	64.12	7.37	1.969
Gateway	51.16	1.244	58.90	1.433	51.16	0.00	1.340	59.44	0.92	1.557
Lakeshore	17.71	1.261	21.96	1.563	17.71	0.00	1.292	22.02	0.28	1.606
Madison Area	92.93	1.342	118.39	1.709	92.93	0.00	1.371	123.08	3.96	1.816
Mid-State	16.37	1.353	20.56	1.699	16.37	0.00	1.379	20.59	0.15	1.735
Milwaukee Area	108.04	1.500	140.16	1.946	102.78	-4.87	1.500	145.13	3.55	2.118
Moraine Park	30.15	1.243	35.95	1.482	30.15	0.00	1.285	36.15	0.56	1.541
Nicolet Area	18.09	1.017	20.47	1.150	18.09	0.00	1.056	20.88	2.05	1.219
Northcentral	22.85	1.499	30.81	2.023	22.27	-2.51	1.497	30.20	-2.00	2.029
Northeast WI	43.64	1.207	58.90	1.628	43.64	0.00	1.228	58.90	0.00	1.657
Southwest WI	11.09	1.500	15.73	2.128	10.96	-1.15	1.499	15.60	-0.81	2.135
Waukesha Co.	53.64	1.075	62.43	1.251	53.64	0.00	1.117	62.43	0.00	1.301
Western	24.81	1.500	34.69	2.097	24.87	0.24	1.500	35.09	1.15	2.116
WI Indianhead	<u>31.28</u>	0.992	<u>37.20</u>	1.180	<u>31.28</u>	0.00	1.040	<u>37.34</u>	0.40	1.242
Statewide	\$617.25	1.307	\$771.29	1.633	\$610.15	-1.15%	1.336	\$786.79	2.01%	1.723

*Total levy including debt service.

6. Debt service costs are specifically exempted from statutory tax levy limitations for municipalities. However, a technical college district's bonded indebtedness may not exceed 2% of its equalized property valuation. In addition, building projects costing more than \$1,500,000 must be approved by referendum, excluding remodeling or improvement projects and expenditures financed with gifts, grants, or federal funds. A referendum is also required if a district proposes to borrow in excess of \$1,500,000 for remodeling or improvement projects. Finally, district boards are prohibited from spending more than \$1,000,000 in reserve funds, consisting of property tax revenues and investment earnings on those revenues, to finance capital projects in excess of \$1,500,000. Under 2011 Act 32, the referendum requirement does not apply to the portion of a capital expenditure funded with student housing payments for the purchase or construction of a student residence facility, if the district board uses no revenue from tax levy, state aid, or tuition to acquire the facility.

7. Beginning in 2013, under the Governor's recommendation, a district's levy could increase by a percentage equal to the change in the district's equalized value due to aggregate new construction, excluding improvements removed, in municipalities wholly included within the district. The statewide incremental increase provided under the bill is estimated to be \$4.5 million. That amount would allow operating revenues for WTCS to increase to approximately \$614.7 million in 2013-14, which would be less than the amounts collected in 2010 or in 2011. However, tying the rate of increase in the levy to the net new construction increase would provide the same treatment to technical colleges as has been applied to other local units of government, including

villages, towns, cities, and counties.

8. One concern that has been raised relating to the proposed levy limit permanently replacing the 1.5 mill rate limit is that certain districts will have less capacity to meet program demand. A district that currently has an operating levy that is less than 1.5 mills can increase the mill rate to generate additional property tax revenue to address operating needs. The proposed levy limit would eliminate that ability, as such a district could only increase its operating levy by the percentage increase in value attributable to net new construction, unless a greater increase would be approved by referendum.

9. As an alternative to AB 40, the limit that applies only during the 2011-13 biennium could be made permanent. Under this approach, a district could continue to use the same tax rate as in the prior year, or could levy the same amount as in the prior year, but in no case could the mill rate for operating purposes exceed 1.5 mills. Under this approach, if there would be value growth from whatever cause in a district, the district's operating levy could increase by that percentage amount. In addition, if there would be a decline in value in a district, the district could increase its mill rate (but could not exceed 1.5 mills) to offset some, or all, of the decline that otherwise would result in the operating levy. Continuing the approach used in the 2011-13 biennium could provide additional flexibility to some districts, but would continue a set of controls that resulted in absolute declines in the operating levy for technical college districts in the 2011-13 biennium, due to statewide values declining in those years.

10. The language in the bill specifies that only those municipalities "wholly located" within a technical college district will be included for the purpose of calculating the valuation factor. Therefore, the 159 municipalities that are split between two or more technical college districts would be excluded from the new construction calculation for those districts. These split municipalities represent approximately \$22 billion in equalized value (TID-out) statewide, and in 2012, the value of net new construction across the split municipalities equaled \$162.1 million, an increase of 0.726% over the previous year. However, the fiscal effects of excluding these municipalities will vary for individual technical college districts.

11. In four technical college districts (Mid-State, Moraine Park, Southwest WI, and Waukesha County), the excluded municipalities constitute more than 10% of the value in the district (after excluding tax increment districts). For those technical colleges in particular, the exclusion of split municipalities could have a substantial impact on both levy limits and on property taxpayers. Over time, the exclusion of split municipalities could distort the valuation factor, if significant future construction occurs in those areas. The value in these municipalities would be excluded from both the numerator and the denominator of the calculation. If a disproportionately large share of construction were to occur in excluded areas, the district's revenues could be suppressed. On the other hand, if a disproportionately low level of new construction would occur in excluded areas, then the levy limit could be increased by a higher percentage than can be absorbed by the growth in value, raising property taxes.

12. An alternative has been suggested by DOR to address this concern in a way that would not incur significant administrative costs. Under this alternative, DOR could apportion the net new construction value in each split municipality proportionally to the affected technical

colleges, based on the percentage of value located in each district. For example, if 60% of a municipality's overall property value were located within one district, then 60% of the value of net new construction recorded for the municipality would be assigned to that district. Under this option, the WTCS operating levy could increase by an estimated \$4.6 million, or approximately \$100,000 more than under the bill, because the growth rate in split municipalities is slightly higher than the statewide average. This method would not necessarily be an accurate proxy for where new construction actually occurred, but it would have the benefit of including in the calculation all new construction, demolitions, and property value in the state.

ALTERNATIVES

1. Approve the Governor's recommendation to repeal the 1.5 mill rate limitation on a technical college levy for purposes other than debt service, and to prohibit a technical college district board's tax levy in 2013 or in any year thereafter from increasing by a percentage that exceeds the district's valuation factor, based on the percentage change in equalized value due to net new construction in municipalities wholly within the district. Provide that a district board may carry over unused levy authority to the following year, up to a maximum increase of 0.5% of the prior year's actual levy, upon a three-fourths vote by the district board.

2. Modify the Governor's recommendation to include all municipalities located in a technical college district in the calculation of net new construction for the valuation factor. Require DOR to apportion the value of net new construction in a split municipality proportionately between the affected technical college districts, based on the percentage of the municipality's equalized value that is located in each district.

3. Delete provision and, instead, make permanent the limits on WTCS districts that apply in the 2011-13 biennium.

4. Delete provision. Under this alternative, technical college districts would not be subject to a levy limit, but the current law mill rate limit of \$1.50 per \$1,000 of value would continue to apply.

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