

Local Government Expenditure and Revenue Limits



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This paper describes the five methods by which the state imposes fiscal controls on local units of government:

- Revenue limits on school districts
- Revenue limits on technical college districts
- Expenditure restraint program for municipalities
- Levy limit on counties and municipalities
- Levy rate limit on counties

School District Revenue Limits

The 1993-95 budget (1993 Act 16) imposed revenue limits on school districts for the five-year period 1993-94 through 1997-98. The revenue limits were modified and made permanent in the 1995-97 budget (1995 Act 27). The following sections describe, in more detail, the various components of the revenue limit.

Revenues Subject to the Limit

Under revenue limits, the amount of revenue a district can raise from general school aids, computer aid, and property taxes is restricted. Actual general school aids, computer aid, and property tax revenues received by a district in the prior school year are used to establish the base year amount in order to compute the district's allowable revenue for the current school year.

Revenues that districts receive from state categorical aids (such as special education, transportation, and per pupil aid) and from federal aid are not subject to revenue limits. Also, any revenue that districts receive from other local non-property tax sources (such as student fees, ticket

sales, or interest income) is outside of revenue limits.

The general school aids appropriation funds equalization aid, integration (Chapter 220) aid, and special adjustment aid. An appropriation for high poverty aid was created in the 2007-09 budget (2007 Act 20), which provides additional general aid to eligible districts. In 2014-15, these aids represent 86% of the funds provided as state aid to school districts.

Under 1997 Act 237, a property tax exemption was provided for certain kinds of computer equipment. The state makes annual payments to local units of government, including school districts, equal to the amount of property tax that would have otherwise been paid on the exempt equipment. Computer aid paid to school districts is considered to be state aid for revenue limit purposes.

On October 15 of each year, the Department of Public Instruction (DPI) provides school districts with an estimate of their general school aid payment for the current school year. The difference between a district's revenue limit and the October 15th general school aid estimate, less the district's computer aid and high poverty aid eligibility, determines the maximum amount of revenue that the district is allowed to raise through the property tax levy.

Special provisions apply to the treatment of property tax levies for debt service and for community service activities. In addition, school districts may be eligible for various adjustments to the revenue limit. These provisions are described in subsequent sections of this paper.

Separate statutory provisions govern the

calculation of revenue limits for school districts that consolidate or that are created from the territory of existing districts. Information on these provisions can be found in the Legislative Fiscal Bureau's informational paper entitled "School District Reorganization."

Definition of Pupil Enrollment

A three-year rolling average of a school district's pupil enrollment is used to calculate the district's revenue limit. Specifically, the number of pupils is based on the average of a district's membership count taken on the third Friday in September for the current and two preceding school years. For example, for the 2014-15 revenue limit, the average of the 2011, 2012, and 2013 September memberships is used to calculate the 2013-14 base year revenue per pupil. Then, the average of the 2012, 2013, and 2014 September memberships is used to determine the 2014-15 current year revenue per pupil.

Districts can include in their membership counts 40% of the full-time equivalent (FTE) summer enrollment in academic summer classes or laboratory periods that are for necessary academic purposes, as defined in administrative rule by DPI. Under 2013 Act 257, the definition of summer enrollment was expanded to include interim session classes for districts providing year-round school, as well as online classes offered in the summer or interim sessions for pupils in grades 7-12 who complete or receive credit for a class that fulfills a high school graduation requirement.

Only those pupils who are residents of the district are counted for membership purposes. Pupils who transfer between districts under the open enrollment program are counted by the resident district, rather than the district of attendance. The statutes specify that any net transfer of equalization aid between districts under the open enrollment program does not affect the definition of state aid for purposes of revenue limits. As a re-

sult, a transfer of aid received by a district does not count against its revenue limit and a district that has a net transfer of equalization aid to other districts cannot increase its property tax levy to offset this aid loss.

Pupils who transfer between school districts under the integration (Chapter 220) program are counted in the membership of the sending district and not the receiving district. However, only 75% of pupils who transfer between school districts are counted in the membership of the sending district.

Districts are able to count in their membership students attending the Challenge Academy program operated by the Department of Military Affairs.

Pupils attending a private school in a parental choice program or a public school in the independent "2r" charter school program are not included in the revenue limit enrollment of any school district.

Per Pupil Adjustment

A district's base revenue per pupil is changed by a per pupil adjustment amount to determine its current year revenue per pupil. Table 1 summarizes the per pupil adjustments allowed under the limit since 1993-94.

For the first two years of revenue limits, school districts had the option of increasing their revenues by either the per pupil adjustment or the rate of inflation, whichever resulted in the higher revenue amount for the district. For 1993-94, the inflation rate option was 3.2% and for 1994-95 it was 2.3%. The inflation option was eliminated by 1995 Act 27.

For the next three years, the per pupil adjustment was set at a specific dollar amount under the 1995-97 and 1997-99 budget acts. Beginning in 1998-99, the per pupil adjustment was indexed

Table 1: Per Pupil Adjustment

1993-94	\$190.00
1994-95	194.37
1995-96	200.00
1996-97	206.00
1997-98	206.00
1998-99	208.88
1999-00	212.43
2000-01	220.29
2001-02	226.68
2002-03	230.08
2003-04	236.98
2004-05	241.01
2005-06	248.48
2006-07	256.93
2007-08	264.12
2008-09	274.68
2009-10	200.00
2010-11	200.00
2011-12	-5.5%
2012-13	\$50.00
2013-14	75.00
2014-15	75.00

for inflation each year. The inflation increase was the percentage change, if not negative, in the consumer price index for all urban consumers between the preceding March and second-preceding March.

Under the 2009-11 budget (2009 Act 28), the inflation adjustment was deleted and the per pupil adjustment was set at \$200 in 2009-10 and 2010-11.

Under the 2011-13 budget (2011 Act 32), the per pupil adjustment in 2011-12 was set at a 5.5% reduction, rather than a flat dollar amount. While the per pupil reduction amount varied among districts, the statewide average reduction was \$554 per pupil. In 2012-13, the per pupil adjustment was set at \$50. A related one-time categorical aid appropriation was also established under Act 32 for 2012-13 only, under which a district would be eligible for a \$50 per pupil matching aid payment if it utilized the revenue limit authority generated by the \$50 per pupil

adjustment under revenue limits in that year.

Under the 2013-15 budget (2013 Act 20), the per pupil adjustment was set at \$75 in 2013-14 and 2014-15. Under Act 20, there will be no per pupil adjustment in 2015-16 and in each year thereafter. A per pupil aid appropriation was also established in Act 20 under which each district received a \$75 per pupil aid payment in 2013-14 and a \$150 per pupil payment in 2014-15 and each year thereafter, outside of revenue limits. A district's current three-year rolling average pupil count under revenue limits is used to calculate the aid payment.

Sample Calculation of Revenue Limit

Table 2 provides an example of how the revenue limit is calculated, based on the 2014-15 limit. (For the purposes of illustration, it is assumed that the district shown in Table 2 does not have any summer school enrollment and does not receive computer aid.)

Treatment of Debt Service Levies

Whether or not debt service is subject to the limit depends on when and how a school district's borrowing decisions were made. Specifically, the following debt service is not subject to the limit:

- Revenues needed for the payment of any general obligation debt service, including re-financed debt, authorized by a resolution of the school board only (that is, without a referendum) prior to August 12, 1993, which was the effective date of 1993 Act 16.
- Revenues needed for the payment of any general obligation debt service, including re-financed debt, approved by referendum at any time.

In other words, borrowing authorized by school board resolution only (without a referendum) after August 12, 1993, is subject to the reve-

Table 2: Sample Calculation of Revenue Limits for 2014-15

	Sept. 2011	Sept. 2012	Sept. 2013	Sept. 2014
Enrollment	1,000	1,012	1,036	1,024
2011 thru 2013 Average Pupils =	1,016			
2012 thru 2014 Average Pupils =	1,024			
2013-14 Base Revenue =	\$10,000,000			
2014-15 General School Aid =	\$6,000,000			
Step 1: 2013-14 Base Revenue ÷ 2011 thru 2013 Average Pupils = Base Revenue Per Pupil	$\$10,000,000 \div 1,016 = \$9,842.52$			
Step 2: Base Revenue Per Pupil + Allowable Increase = Current Revenue Per Pupil	$\$9,842.52 + \$75.00 = \$9,917.52$			
Step 3: Current Revenue Per Pupil x 2012 thru 2014 Average Pupils = 2014-15 Maximum Revenue	$\$9,917.52 \times 1,024 = \$10,155,540$			
Step 4: 2014-15 Maximum Revenue - General School Aid = Maximum Limited Property Tax Levy	$\$10,155,540 - \$6,000,000 = \$4,155,540$			

nue limit. In addition, the revenue limit is structured in such a way that if a school district's excluded debt service is declining, the district is not able to transfer the cost reductions to its operating budget.

Treatment of Community Service Levies

School districts can establish a separate fund for community service activities. The fund is used to account for activities that are not K-12 educational programs but have the primary function of serving the community, such as adult education, community recreation programs (such as evening swimming pool operation and softball leagues), elderly food service programs, non-special education preschool or day care services. School districts are allowed to adopt a separate tax levy for this fund.

Prior to 2001-02, this community service levy was included under revenue limits. The 2001-03 budget (2001 Act 16) removed community service levies from revenue limits and partial school revenues, beginning in 2001-02. Under the provisions of Act 16, a district could levy any amount for community service activities irrespective of the

district's revenue limit. The Act 16 exclusion of the community service levy from partial school revenues meant that this levy was excluded when calculating the cost of state two-thirds funding of partial school revenues. The state's two-thirds funding commitment was repealed in the 2003-05 budget (2003 Act 33).

A separate, two-year limit was placed on community service levies in the 2013-15 budget (2013 Act 20). Under Act 20, a district could not levy more for community service activities in 2013-14 and 2014-15 than it did in the most recent year preceding 2013-14 in which the district levied for those activities. This limit was modified for certain districts under 2013 Act 46. Under Act 46, if a district levied more for community service programs in 2011-12 than it did in 2012-13, and the community service levy for the district in either of those years was less than \$1 million, its limit was the amount it levied for community service activities in 2011-12.

For a district to exceed its limit on the community service levy, the school board was required to adopt a resolution to exceed the limit by a speci-

fied amount and submit the resolution to the electors of the district for approval. The limit applicable to the district would be increased by the specified amount if approved by a majority of those voting on the question.

Act 20 also required districts using the community service levy in 2013-14 and 2014-15 to identify, either in the budget summary for its annual meeting or written agenda for the meeting at which the school board set the district's levy, or in the minutes of a board meeting at which a modification was adopted, the expenditures that will be funded from the levy and a statement of how they meet DPI's criteria for use of the community service fund. Each district was required to post that information on its Internet site and to submit the information to DPI, which was also required to post the information on its Internet site.

DPI was also required to submit a report to the Joint Committee on Finance by December 1, 2014, describing the community service levies for 2013-14 and 2014-15. The DPI report indicated that the statewide limit on community service levies under Acts 20 and 46 for the two years was \$87.6 million. School districts levied a total of \$79.6 million in 2013-14 and \$79.8 million in 2014-15 for community service activities.

Additional limitations on community service expenditures were put in place under 2013 Act 306. Act 306 prohibited districts from expending money on ineligible community service costs, as defined by DPI in administrative rule, and requires districts to include information about expenditures for community service activities in their annual audit. Under that act, a district's revenue limit is reduced, on a nonrecurring basis, by the amount of any ineligible expenditures for community services activities in the previous school year, beginning in 2015-16.

Adjustments to the Revenue Limit

Statutes specify a number of adjustments that

can be made to a district's revenue limit. These adjustments are either recurring (permanent) or nonrecurring (one-time). If an adjustment is recurring, the amount of the adjustment is added to the district's revenue limit in the current year and remains in the district's base revenue in subsequent school years. If an adjustment is nonrecurring, the amount of the adjustment is added to the district's revenue limit in the current year, but is then removed from the district's base revenue for the revenue limit calculation in the following school year.

Recurring Adjustments

Transfer of Service and Boundary Changes. Adjustments involving increases and decreases to the limit are allowed for transfers of service responsibilities between a school district and another governmental unit (including another school district) or for changes in a school district's boundaries. The approval and determination of these adjustments based on the increase or decrease in costs is made by DPI.

If a district assumes responsibility for a special education pupil or a limited-English proficient pupil, its revenue limit is increased by the estimated cost of providing service less the estimated amount of categorical aid that the district will receive for the pupil in the following school year, as determined by the State Superintendent.

Carryover of Unused Revenue Authority. A school district is not required to levy the maximum property tax amount allowed under its revenue limit. If a school district does not levy the maximum amount allowed in a given school year, the district's revenue limit in the following year is increased by an amount equal to the underlevy in the prior year. This adjustment is reduced by the amount of any nonrecurring revenue limit authority from the prior year.

Low Revenue Adjustment. Any school district with base revenue per pupil that is less than the

low revenue ceiling of \$9,100 per pupil in a given year is allowed to increase its per pupil revenues up to that amount. Base revenue per pupil is determined by: (a) calculating the sum of the district's prior year general school aids, computer aid, and property tax levy (excluding levies exempted from the limit); (b) dividing the sum under (a) by the average of the district's enrollment for the three prior school years; and (c) adding the allowable per pupil revenue increase (\$75 in 2014-15) to the result. If a school district has resident pupils who were solely enrolled in a county children with disabilities education board program, costs and pupils related to that program are factored into the district's base revenue calculation.

Federal Impact Aid. If a school district receives less federal impact aid than it received in the previous school year, the revenue limit otherwise applicable to the district in the subsequent school year is increased by an amount equal to the reduction in such aid. Federal impact aid provides assistance to districts that lose property tax revenues due to the presence of tax-exempt federal property within their boundaries and that have costs associated with federally-connected children enrolled in the district.

Capital Improvement Fund. Under 1999 Act 17, a school district's revenue limit could be increased by an amount equal to the amount deposited into a capital improvement fund created under the provisions of that act. Act 17 specified that a school board, by a two-thirds vote, could create a capital improvement fund before July 1, 2000, for the purpose of financing the cost of acquiring and improving sites, constructing school facilities, and major maintenance of, or remodeling, renovating, and improving school facilities. The fund could only be created if: (a) a tax incremental district (TID) that is located in the school district terminates before the maximum number of years that it could have existed; and (b) the value increment of the TID exceeds \$300 million. In each year until the year in which the

TID would have been required to terminate, the school board could deposit in the fund an amount equal to that portion of the school district's positive tax increment of the TID, as calculated by the Department of Revenue, with the balance of the positive tax increment used to reduce the tax levy. Monies could not be expended or transferred to any other fund without voter approval of a referendum.

In May, 2000, the Board of the Kenosha School District adopted a resolution creating a capital improvement fund to utilize the value increment from the Village of Pleasant Prairie's TID. No other district in the state created a capital improvement fund under the provisions of Act 17. Through 2014-15, the Kenosha School District has not utilized the revenue limit increase allowed under these provisions.

Nonrecurring Adjustments

Declining Enrollment. If a school district's three-year rolling average pupil enrollment is less than the prior year three-year rolling average, the district receives a nonrecurring adjustment to its revenue limit in a dollar amount equal to 100% of what the decline in the three-year rolling average enrollments would have generated in revenue limit authority.

Prior Year Base Revenue Hold Harmless. Under 2007 Act 20, a nonrecurring adjustment was created for districts with severe declining enrollment. Under this adjustment, a school district's initial revenue limit for the current year is, in certain cases, set equal to its prior year's base revenue. This hold harmless applies if a district's initial revenue limit in the current year, after consideration of the per pupil adjustment and low revenue adjustment, but prior to any other adjustments, is less than the district's base revenue from the prior year. For some districts with relatively large declines in enrollment, the initial revenue limit for the current year can still be less than the district's prior year base revenue, even

after the per pupil adjustment and low revenue adjustment are calculated.

Adjustment for Energy Efficiency Measures. The 2009-11 budget created a nonrecurring adjustment for energy efficiency measures. This adjustment was modified in both the 2011-13 and 2013-15 budgets. Under the adjustment, a school district's revenue limit is increased by the amount spent by the district in that year on a project to implement energy efficiency measures or to purchase energy efficient products. The project must result in the avoidance of, or reduction in, energy costs or operational costs, and be governed by a performance contract entered into under statutory municipal law provisions. A school board must adopt a resolution to use this adjustment.

The adjustment may be used for the payment of debt service on bonds and notes issued or state trust fund loans obtained to finance the project. Such bonds or notes may not be issued or loans be obtained for a period exceeding 20 years, and the resolution adopted by a school board is valid for each year in which the board pays debt service on the bond, note, or state trust fund loan.

If a school district issues a bond or note or obtains a state trust fund loan to finance the project, the amount of debt service included under the adjustment is the amount paid in the calendar year that begins on January 1 of the school year in which the district's revenue limit is increased. If a district issues a bond or note or obtains a state trust fund loan to finance a project and the district's utility costs are measurably reduced as a result of the project, the savings must be used to retire the bond, note, or state trust fund loan.

Under DPI rule, the school board resolution to use this adjustment must state the amount to be levied and expended, the specific new expenditures, the performance indicators that will measure the cost savings of the expenditures in an amount equal to the expenditures, and a timeline for cost recovery for the expenditures. An evalua-

tion of the performance indicators must also be included in the district's budget summary document in the following year, and in the district's newsletter or in the published minutes of a school board meeting. The board is also required to reduce the district's revenue limit in the following year by the amount levied, if any, for which there is not a documented energy expenditure.

Adjustment for Certain Open Enrollment Pupils. Under 2011 Act 114, the open enrollment program was modified to allow certain pupils to apply to open enroll throughout the year, rather than only during the regular application period. That act also created a revenue limit adjustment related to those pupils, which is equal to the amount of any aid transfer in the previous year for an open enrollment pupil who was not included in the district's revenue limit enrollment count on the third Friday of September in the previous school year. This adjustment was made nonrecurring in the 2013-15 budget.

Adjustment for Refunded or Rescinded Property Taxes. The 2011-13 budget created a nonrecurring revenue limit adjustment equal to the amount of any refunded or rescinded property taxes paid by the school board in the year of the levy if the valuation represented by the refunded or rescinded taxes result in a redetermination of the district's equalized value by the Department of Revenue.

Referendum

A school district can exceed its revenue limit by receiving voter approval at a referendum. The school board must approve a resolution supporting inclusion in the school district budget of an amount which exceeds the revenue limit. The resolution must specify whether the proposed excess revenue is for a recurring or nonrecurring purpose, or both.

The school board can either call a special referendum or hold the referendum at the regular primary or general election dates. The vote may

not be held sooner than 70 days after filing of the board's resolution. If the resolution is approved by a majority of those voting on the question, the school board can exceed the limit by the amount approved. Only excess revenues approved for a recurring purpose can be included in a district's base for determining the revenue limit for the next school year.

Penalties for Exceeding the Limit

If a school district exceeds its maximum allowable revenue without referendum approval, DPI must reduce the district's state equalization aid payment by the excess revenue amount. The penalty is imposed in the same school year in which the district raised the excess revenue. The withheld aid amount lapses to the state's general fund. In cases where a school district's equalization aid is less than the penalty amount, DPI must reduce the district's other state aid payments until the remaining excess revenue is covered. If the aid reduction is still insufficient to cover the excess revenues, the school board would be ordered by the State Superintendent to reduce the property tax levy by an amount equal to the remainder of the excess amount or refund the amount with interest, if taxes have already been collected. This provision does not apply to property taxes levied for the purpose of paying the principal or interest on a valid bond or note issued or state trust fund loan obtained by a school board. If the board violates the order, any resident of the district could seek injunctive relief. The excess revenue is not included in determining the district's limits for subsequent years.

2014-15 Allowable Revenue Per Pupil

Table 3 shows the distribution of school districts by allowable revenue per pupil under revenue limits, including all adjustments, in 2014-15. As shown in Table 3, revenue per pupil ranges from \$9,183 (Plymouth) to \$20,946 (Washington), with a statewide average of \$10,184. The

Table 3: Distribution of School Districts by Allowable Revenue per Pupil in 2014-15 School Year

Revenue Per Pupil	Number of School Districts	Percent of Total	Cumulative Percent of Total
\$9,250 and Under	24	5.7%	5.7%
\$9,251 to \$9,500	59	13.9	19.6
\$9,501 to \$9,750	55	13.0	32.6
\$9,751 to \$10,000	44	10.4	43.0
\$10,001 to \$10,500	99	23.4	66.4
\$10,501 to \$11,000	47	11.1	77.5
\$11,001 to \$12,000	54	12.8	90.3
Over \$12,000	<u>41</u>	<u>9.7</u>	100.0
	423	100.0%	
Median	\$10,180	10 th Percentile	\$9,347
Average	\$10,184	90 th Percentile	\$11,957
Lowest	\$9,183	Highest	\$20,946

*Except for the average, the Norris School District has been excluded.

median revenue per pupil (\$10,180) is nearly equal to the statewide average. Eighty percent of all districts have revenue per pupil of between \$9,347 and \$11,957.

Technical College District Revenue Limit

District boards in the Wisconsin Technical College System (WTCS) are subject to a limit on property taxation for all purposes except debt service. Under 2013 Act 145, beginning in 2014-15, each of the 16 WTCS districts cannot increase revenue in any year by a percentage greater than its valuation factor. For purposes of this revenue limit, revenue is defined as the sum of the tax levy and the state property tax relief aid included in 2013 Act 145. State general and categorical aids are not subject to the revenue limit. Tax levy excludes taxes levied for the purpose of paying principal and interest on valid bonds and notes, other than noncapital notes. Valuation factor means a percentage equal to the greater of zero, or the percentage change in the district's

equalized value due to new construction, less improvements removed.

There are some adjustments allowed to the revenue limit. First, the limit is increased each year by an amount equal to the amount of any refunded or rescinded property taxes paid by the district board, if those taxes result in a redetermination of the district's equalized valuation by the Department of Revenue (DOR). Second, if a district board's allowable revenue is greater than its actual revenue in any year, the revenue limit in the following school year is increased by the difference between the prior year's allowable revenue and actual revenue, as determined by DOR, up to a maximum increase of 0.5%, if approved by a three-fourths vote of the district board. The WTCS Board is required to reduce state general aid payments by an amount equal to any excess revenue collected by a district board, except under certain circumstances related to clerical errors. Finally, for a district board to exceed the revenue limit, the board can submit the proposed excess revenue for voter approval in a referendum.

In 2014-15, nine districts collected revenue equal to their allowed revenue limits. Four districts (Nicolet, Northeast Wisconsin, Southwest Wisconsin, and Waukesha County) collected revenue below their allowed revenue limit, while three districts (Gateway, Mid-State, and Moraine Park) exceeded their allowed limit. These three districts used a provision of 2013 Act 20, under which any district with a tax levy below its limit could increase its levy in the following year by the difference between the district's actual and allowable levy, up to 0.5%. As described above, a similar carry-forward provision was included in 2013 Act 145 for districts that collect revenue below their allowable revenue limit beginning in 2014-15.

From 2003-04 through 2013-14, the overall WTCS tax levy increased by an average of 3.3% annually due to growth in equalized valuations in

the earlier years, the exclusion of debt from the limit, and unchanged or decreased state general aid for WTCS districts. However, in 2014-15, the levy decreased by 64.9% as a result of the \$406 million of property tax relief aid included in 2013 Act 145. While there is no limit on debt levy, major building projects (\$1,500,000 or more) are generally subject to referendum approval. Further information regarding WTCS funding is provided in the Legislative Fiscal Bureau's informational paper entitled, "Wisconsin Technical College System."

Municipal Expenditure Restraint Program

Municipalities are not subject to a mandatory expenditure control. However, as a condition for receiving aid under the expenditure restraint program, municipalities must limit the year-to-year growth in their budgets to a percentage determined through a statutory formula. To receive aid, they must also have a municipal purpose tax rate in excess of five mills. Annual funding for the program was set at \$58,145,700 for 2003 and has remained at that level since then. DOR administers the expenditure restraint program.

The statutes define "municipal budget" as the municipality's budget for its general fund exclusive of principal and interest payments on long-term debt. State law provides for the exclusion of several other types of expenditures: (a) amounts paid by municipalities under municipal revenue sharing agreements; (b) amounts paid by municipalities as state recycling tipping fees; (c) unreimbursed expenses related to emergencies declared under an executive order of the Governor; (d) expenditures from moneys received pursuant to the federal American Recovery and Revitalization Act of 2009; and (e) expenditures made pursuant to a purchasing agreement with a school district whereby the municipality makes purchases on behalf of the school district. Finally, ad-

justments are made for the cost of services transferred to or from the municipality seeking to qualify for a payment and to exclude payments received from another government for providing a contracted service.

The statutes prohibit municipalities from meeting the budget test by creating other funds, unless those funds conform to generally accepted accounting principles (GAAP). These principles have been adopted by the Governmental Accounting Standards Board to offer governments guidelines on how to maintain their financial records.

For the year prior to the aid payment, the rate of budget growth cannot exceed the inflation rate plus an adjustment based on growth in municipal property values. The inflation rate is measured as the change that occurred in the Consumer Price Index (CPI) in the one-year period ending in September two years prior to the payment year, but not less than 0%. The property value adjustment is unique for each municipality and equals 60% of the percentage change in the municipality's equalized value due to new construction, net of any property removed or demolished, but not less than 0% nor more than 2%. The allowable increase is known at the time when municipal officials set their budgets.

To be eligible for a 2015 payment, municipalities had to limit their 2014 budget increases to 1.6% to 3.6%, depending on individual municipal adjustments due to property value increases. Out of the 464 municipalities that would otherwise have been eligible for a 2015 payment, only 340 met the budget test. The other 124 municipalities either did not meet the test or did not submit budget worksheets to DOR in a timely manner.

This program is described in greater detail in the Legislative Fiscal Bureau's informational paper entitled "Targeted Municipal Aid Programs."

County and Municipal Levy Limit

Since the 2005(06) property tax year, DOR has administered a levy limit program that restricts the year-to-year increases in county and municipal property tax levies. The limits for 2005(06) and 2006(07) were imposed under provisions created by 2005 Wisconsin Act 25, but those provisions were sunset on January 1, 2007. The limits were re-imposed for 2007(08) and 2008(09) by 2007 Wisconsin Act 20 and for 2009(10) and 2010(11) by 2009 Wisconsin Act 28. Both acts included provisions that repealed or sunset the limits after the specified years. Provisions in 2011 Wisconsin Act 32 extended the levy limit program on a permanent basis. Since then, the 2013 Legislature made several modifications to the levy limit.

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. For example, the allowable levy may be increased to reflect increases in debt service for general obligation debt authorized by a resolution of the local government before July 1, 2005. If the debt service on general obligation debt issued before July 1, 2005, is less for the current year than for the previous year, the allowable levy is decreased by the amount of the debt service decrease. However, the decrease in levy authority is not imposed if the local government does not claim another adjustment based on its allowable levy from the prior year. Under that adjustment, if a local government's allowable levy in the preceding year exceeded its actual levy in the same year, the local government may claim an increase in its allowable levy in the current year equal to the unused levy authority in the preceding year. The increase under this adjustment is limited to not more than either 0.5% or 1.5% of the prior year levy, based on the size of the municipal or county governing body and the margin of approval. An increase of up to 0.5% requires a majority vote of the governing body. An increase of more than 0.5%, but not more than 1.5%, requires a three-quarters vote if the county, city, or village governing body has at least five members, a two-thirds vote if the county, city, or village governing body has fewer than five members, and a two-thirds vote by a town board for the resolution advancing the proposal to the town meeting, followed by a majority vote at that meeting.

Levy authority is also reduced when a local government imposes fees or payments in lieu of taxes for certain services that were funded with property tax revenues in 2013. The negative adjustment equals the amount of fees or payments in lieu of taxes that are received in the first year of service and the increase in fees or payments in lieu of taxes in subsequent years. Services subject to the adjustment include garbage collection, fire protection, snow plowing, street sweeping, and storm water management. Any negative adjustment is waived if the local government's govern-

ing body adopts a resolution to that effect, and the resolution is approved at referendum.

Other adjustments to the levy limit include amounts levied:

- to fund services transferred from (positive) or to (negative) another governmental unit;
- on territory annexed by a city or village (the adjustment is equal to the tax levied by the town on that territory in the preceding year and is a positive adjustment for the annexing city or village and a negative adjustment for the town from which the territory was annexed);
- for any increase in lease payments related to a lease revenue bond issued before July 1, 2005;
- for the cost of consolidating an existing county service by extending the county service to a municipality that provided the same service previously;
- to make up any shortfall in a municipality's general fund due to the loss of revenue from the sale of water or another commodity to a manufacturing facility that has discontinued operations; and
- to jointly provide a service under an inter-governmental cooperation agreement on a consolidated basis with another political subdivision (offsetting positive and negative adjustments).

In addition, a county or municipality containing a tax increment district that has terminated may 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 municipality's prior year equalized value.

Amounts levied for certain purposes are not subject to the levy limit. These exclusions to the

levy limit include amounts levied:

- for debt service on general obligation debt authorized on or after July 1, 2005;

- by a county or municipality to make up for a revenue shortfall for debt service on a revenue bond issued by that local government;

- by a county or municipality to make up for a revenue shortfall for debt service on a revenue bond issued by the county or municipality or a joint fire department that is used by a joint fire department to pay for a fire station;

- by the City of Milwaukee or Milwaukee County for debt service on appropriation bonds (for payment of employee retirement system liability);

- by a county or municipality to make up any revenue shortfall for debt service on certain bonds designed to be repaid with the proceeds from special assessments;

- by a municipality as a tax increment;

- by a county for a county children with disabilities education board;

- by a first class city (Milwaukee) for school purposes;

- by a county for town bridge and culvert construction and repair;

- by a county to make payments for public libraries if the county does not maintain a consolidated library system and contains residents who are not residents of a municipality that maintains a public library;

- by a county for a countywide emergency medical services system;

- by a village to pay for police protection services, but only in the year immediately after the village's incorporation and only if the town which

preceded the village did not have a police force;

- for unreimbursed expenses related to declared emergencies (may be used to replenish cash reserves and must be claimed either in the year the emergency is declared or in the following year);

- for refunded or rescinded taxes, provided DOR has determined that the equalized value of the municipality or county is changed as a result of the consideration of the value represented by the refunded or rescinded taxes; and

- for charges assessed by a joint fire department if the charges would cause a municipality to exceed its levy limit, if the other municipalities served by the joint fire department adopt resolutions supporting the municipality exceeding its limit, and if the total charges assessed by the joint fire department increase on a year-to-year basis by a percentage less than or equal to the percentage change in the consumer price index plus 2%.

Increases above the limit can be approved through the passage of a referendum. The local government's governing body that wishes to exceed its limit must adopt a resolution specifying the amount of the increase and whether the increase is to be extended on a one-time or ongoing basis. The statutes provide specific wording for the ballot question, which must include the allowable levy and percentage increase without a referendum and the amount of the levy and percentage increase under the referendum.

Certain towns can bypass the referendum procedure. Towns with populations under 3,000 may exceed their levy limits by a vote at the annual town meeting or at a special town meeting, provided the town board previously adopts a resolution supporting the increase and includes the increase on the agenda for the town meeting.

If a county or municipality imposes a levy exceeding its limit, DOR must impose a penalty

by reducing the local government's next county and municipal aid payment by the amount of the excess. Penalties are not imposed when the excess is less than \$500, and DOR can waive the penalty if it finds that a county or municipality exceeded its limit due to a clerical error resulting from a mistake in the local government's equalized value or in the preparation of the tax roll. If the penalty exceeds a local government's county and municipal aid amount, the remaining penalty is carried forward and applied against future aid payments.

Relative to the 2013(14) levy, 27 local governments exceeded the limit and incurred penalties totaling \$244,593. This included total penalties of \$101,764 imposed on 20 towns and \$142,829 imposed on seven villages. Among these municipalities, one town and one village also had carry-forward penalties totaling \$592,171, and four other municipalities did not exceed their 2013(14) levy limit but had carry-forward penalties totaling \$363,492 from prior years. While the 2013(14) and carry-forward penalties total \$1,200,256, reductions to 2014 county and municipal aid payments equal only \$182,877. The remaining \$1,017,379 will be carried forward and applied as county and municipal aid reductions in future years. No cities or counties incurred penalties for 2013(14) or had carry-forward penalties from prior years.

County Tax Rate Limit

2011 Wisconsin Act 32 suspended the county tax rate limit program for property tax years 2011(12) and 2012(13). The suspension may have been related to other provisions in Act 32 making the levy limit program permanent. However, the Act 32 suspension applied only for two years, and the tax rate limit was scheduled to take effect again for the 2013(14) property tax year. However, 2013 Wisconsin Act 20 sunset the tax

rate limit, making the Act 32 suspension permanent.

Prior to these acts, state law imposed a tax rate limit on the general operations portion of each county's levy, beginning with the 1993 tax levy (payable in 1994). For purposes of the control, each county's total tax levy and rate were separated into two components. The debt levy and debt levy rate were comprised of amounts for debt service on state trust fund loans, general obligation bonds, appropriation bonds (for payment of employee retirement system liability by Milwaukee County), and long-term promissory notes, while the operating levy and operating rate were comprised of all other taxes. Each county's operating levy was limited to no more than an amount based on its prior year allowable levy plus an adjustment equal to the percent change in the county's equalized value. For example, if a county's equalized value increased, or decreased, by 5%, its allowable levy would increase, or decrease, by 5%. This mechanism had the effect of limiting each county's tax rate to the rate that was in effect in 1992(93), the year before the tax rate limit took effect, unless a county claimed an adjustment to its levy.

Although the focus of the control was the operating levy, the debt levy was indirectly controlled, and the statutory provisions pertaining to the debt levy remain in effect. Under those provisions, each county is prohibited from issuing new debt that would be repaid from the county's debt levy, unless one of the following conditions is met:

- the debt does not cause the county's debt levy rate to exceed the prior year's allowable debt levy rate, which is derived from the county's actual 1992(93) tax rate, based on the "reasonable expectation" of the county board;
- the debt is approved through referendum if it would cause the county's debt levy rate to exceed the county's allowable debt levy rate;

- the debt was authorized prior to August 12, 1993;

- the debt is used to pay unfunded service liability contributions under the Wisconsin retirement system;

- the debt is used to refund existing debt;

- the debt is authorized by a 75% vote of the county board;

- the debt is issued to comply with court orders and judgments;

- the debt is issued to provide liability insurance and risk management services authorized under state statute; or

- the debt is issued by Milwaukee County to pay unfunded prior service liability with respect to an employee retirement system.

The preceding provisions are not administered by a state agency. Instead, the bond market ensures that any newly-issued county debt conforms to the enumerated provisions.