



# Local Government Expenditure and Revenue Limits

Informational Paper 12

Wisconsin Legislative Fiscal Bureau

January, 2017



# Local Government Expenditure and Revenue Limits

Prepared by

Russ Kava and Rick Olin

Wisconsin Legislative Fiscal Bureau  
One East Main, Suite 301  
Madison, WI 53703  
<http://legis.wisconsin.gov/lfb>



# Local Government Expenditure and Revenue Limits

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 2016-17, these aids represent 85% 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 a certification 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 amount, 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."

### **Relationship Between Revenue Limit, General Aid, and Levy**

Because of the way school district revenue limits are structured, revenue limits, state general aid, and the local property tax levy are closely interrelated, both on a statewide level and for individual districts.

If the state provides additional revenue limit authority, it could be funded from either general aid or the local levy. If an amount of general aid funding equal to the additional revenue limit authority is provided, there would be no statewide levy impact. If no additional general aid funding is provided, school boards would have the authority to increase their levy by an amount equal to the additional revenue limit authority.

If the state reduces revenue limit authority, it would result in the reduction either in general aid or the local levy. If state aid were reduced by an amount equal to the reduced revenue limit authority, the statewide levy would remain unchanged. If general aid funding were maintained, the statewide levy would be reduced by an amount equal to the reduced revenue limit authority.

The same dynamic with respect to revenue limit, general aid, and levy also exists for an individual district.

### **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 2016-17 revenue limit, the average of the 2013, 2014, and 2015 September memberships is used to calculate the 2015-16 base year revenue per pupil. Then, the average of the 2014, 2015, and 2016 September memberships is used to determine the 2016-17 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. By law, the definition of summer enrollment includes 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. A specified amount of state aid is then transferred from the resident district to the nonresident district. 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 result, a district with a net gain in pupils receives a net positive aid transfer that does not count against its revenue limit. A district with a net loss of pupils experiences a net negative aid transfer and cannot increase its property tax levy to offset the 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. By law, however, only 75% of pupils who transfer between school

districts are counted in the membership of the sending district.

Statutes specify whether pupils attending schools in other K-12 programs are included in the enrollment count of their district of residence for revenue limit purposes. The following pupils are included in the revenue limit enrollment for their district of residence:

- Pupils attending the Challenge Academy program operated by the Department of Military Affairs.
- Pupils attending an independent charter school authorized by any of the five entities that were allowed to authorize schools under the 2015-17 budget. These five entities are the Office of Educational Opportunity in the UW System, the Gateway Technical College District Board, the College of Menominee Nation, the Lac Courte Oreilles Ojibwa Community College, and the Waukesha County Executive.
- Pupils attending a private school under the Special Needs Scholarship Program.

By law, the general aid for the district of residence of pupils in the above programs is reduced by an amount equal to the payments made for those pupils to the schools of attendance. Districts may not increase their levies to offset these general aid reductions.

The following pupils are not included in the revenue limit enrollment for their district of residence:

- Pupils attending an independent charter school authorized by an entity that had that ability prior to the 2015-17 budget. These entities are the City of Milwaukee, UW-Milwaukee, and UW-Parkside.
- Pupils attending a private school under a private school choice program.

Districts do, however, receive a revenue limit

adjustment related to certain incoming pupils in the Racine and statewide choice programs. This adjustment is described in the "Nonrecurring Adjustments" section of this paper.

There are reductions made to the general aid to the Milwaukee Public Schools related to the Milwaukee private school choice program and to general aid statewide for pupils attending independent charter schools authorized by entities that had that ability prior to the 2015-17 budget. Statutes do not specify any unique treatment of these aid reductions for revenue limit purposes. As a result, districts are able to levy to offset these aid reductions under revenue limits.

### Per Pupil Adjustment and Per Pupil Aid

A district's base revenue per pupil under revenue limits 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.

**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    |
| 2015-16 | 0.00     |
| 2016-17 | 0.00     |

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 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.

Under the 2013-15 budget (2013 Act 20), the per pupil adjustment was set at \$75 in 2013-14 and 2014-15, with no per pupil adjustment allowed in 2015-16 and in each year thereafter.

A one-time categorical per pupil adjustment aid appropriation was established in the 2011-13 budget. A district was eligible for a \$50 per pupil matching aid payment from this appropriation in 2012-13 if it utilized the revenue limit authority generated by the \$50 per pupil adjustment under revenue limits in that year.

An ongoing per pupil aid appropriation was

established in the 2013-15 budget under which each district receives a statutorily-specified per pupil aid payment outside of revenue limits. A district's current three-year rolling average pupil count under revenue limits is used to calculate the aid payment. Table 2 shows the per pupil payments for each year as well as the change to the prior year's payment.

**Table 2: Per Pupil Aid**

|         | Payment | Change to Prior Year |
|---------|---------|----------------------|
| 2012-13 | \$50    |                      |
| 2013-14 | 75      | \$25                 |
| 2014-15 | 150     | 75                   |
| 2015-16 | 150     | 0                    |
| 2016-17 | 250     | 100                  |

### Sample Calculation of Revenue Limit

Table 3 provides an example of how the revenue limit is calculated, using the 2016-17 per pupil adjustment. (For the purposes of illustration, it is assumed that the district shown in Table 3 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.



**Table 3: Sample Calculation of Revenue Limits for 2016-17**

|   | Sept.<br>2013                              | Sept.<br>2014 | Sept.<br>2015 | Sept.<br>2016 |
|---|--|---------------|---------------|---------------|
| Enrollment  | 1,000                                      | 1,012         | 1,036         | 1,024         |
| 2013 thru 2015 Average Pupils = 1,016   |  |               |               |               |
| 2014 thru 2016 Average Pupils = 1,024   |  |               |               |               |
| 2015-16 Base Revenue =  | \$10,000,000                               |               |               |               |
| 2016-17 General School Aid =  | \$6,000,000                                |               |               |               |
| Step 1: 2015-16 Base Revenue ÷ 2013 thru 2015 Average Pupils = Base Revenue Per Pupil       |  |               |               |               |
|   | $\$10,000,000 \div 1,016 = \$9,842.52$     |               |               |               |
| Step 2: Base Revenue Per Pupil + Per Pupil Adjustment = Current Revenue Per Pupil           |  |               |               |               |
|   | $\$9,842.52 + \$0.00 = \$9,842.52$         |               |               |               |
| Step 3: Current Revenue Per Pupil x 2014 thru 2016 Average Pupils = 2016-17 Maximum Revenue |  |               |               |               |
|   | $\$9,842.52 \times 1,024 = \$10,078,740$   |               |               |               |
| Step 4: 2016-17 Maximum Revenue - General School Aid = Maximum Limited Property Tax Levy    |  |               |               |               |
|   | $\$10,078,740 - \$6,000,000 = \$4,078,740$ |               |               |               |

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

Under the 2015-17 budget, a school district may issue to up \$2,000,000 in debt for the costs associated with an environmental remediation project on district-owned property under a remediation plan approved by the Department of Natural Resources and the Environmental Protection Agency. This debt issuance is not subject to referendum requirements, and the associated debt service costs are not subject to the district's revenue limit.

### **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 specified 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. The act requires districts to include information about expenditures for community service activities in their annual audit.

Act 306 also prohibits districts from expending money on ineligible community service costs, as defined by DPI in administrative rule. By rule, ineligible costs are defined as: (a) costs for any program or service that is limited to only school district pupils; (b) costs for any program or service whose schedule presents a significant barrier for age-appropriate school district residents to participate in the program or service; (c) costs that are not the actual, additional cost to operate the program or service; and (d) costs that would be incurred by the school district if the program or service were not provided by the district. Under Act 306, a district's revenue limit is reduced, on a non-recurring basis, by the amount of any ineligible expenditures for community services activities in the previous school year.

### **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 dis-

trict'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. For the purpose of this adjustment, base revenue per pupil includes the per pupil adjustment. 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 for 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 dis-

trict.

*Consolidated School Districts.* The 2015-17 budget created a revenue limit adjustment for consolidated districts. Under this adjustment, a consolidated district receives a recurring revenue limit adjustment in the sixth year after consolidation equal to 75% of the consolidation aid that is outside of revenue limits received by the district in the fifth year after consolidation.

A consolidated district is eligible for additional general aid for the first five years after the consolidation. That aid is outside of revenue limits. Under the equalization aid formula, the factors used to calculate aid (the cost ceilings and guaranteed valuations) are increased by 15%. Consolidated districts are also eligible for special adjustment aid under which the new district is guaranteed to receive at least as much general aid as the separate districts received in the year prior to consolidation.

*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 2016-17, 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 with a positive per pupil adjustment and a meaningful low revenue adjustment.

*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 or in excess of the expenditures, and a timeline for cost recovery for the expenditures. An evaluation 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 any 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. This adjustment is applicable if a property taxpayer contests an assessment and the value of the property is then reduced by the action of a court or a reviewing authority. In such a case, the taxpayer can request a refund from the Department of Revenue (DOR) of taxes previously paid on the higher value. Because the school district is legally entitled to receive the full amount of the original levy, the district can recover the refunded amount through this adjustment. The amount of this adjustment is determined by DOR.

Districts are also able to recover property taxes that are deemed uncollectible by an underlying municipality. This occurs when a municipality is unable to collect the full amount from a property taxpayer, even though the full levied amount has been sent to the district under the settlement process. The municipality can request that the school district return the uncollectible amount. In these cases, the district can recover the amount returned to the municipality through a "chargeback levy" that is outside of its revenue limit, rather

than through an adjustment.

*Incoming Choice Pupils.* Beginning in 2015-16, districts in which certain pupils participating in the Racine and statewide private school choice programs reside received a revenue limit adjustment related to those pupils. Under the 2015-17 budget, the full cost of payments for incoming choice pupils (defined by law as pupils who began participating in the programs in the 2015-16 school year or later) was reduced from the general aid of those pupils' district of residence. Under the 2015-17 budget, the revenue limit adjustment for 2015-16 was equal to each district's base revenue per pupil multiplied by the number of incoming choice pupils. Under 2015 Act 289, beginning in 2016-17, the revenue limit adjustment is equal to the amount of the general aid reduction.

## **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 amount will be recurring (permanent) or nonrecurring (temporary).

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. An amount approved under a recurring referendum is included in a district's base for determining the revenue limit for the next school year. An amount approved under a nonrecurring referendum is added to the district's revenue limit in the applicable year, but is removed from a district's base revenue for the next 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 limit for subsequent years.

### 2016-17 Allowable Revenue Per Pupil

Table 4 shows the distribution of school districts by allowable revenue per pupil under revenue limits, including all adjustments, in 2016-17. As shown in Table 4, revenue per pupil ranges from \$9,200 (Belmont) to \$19,882 (North Lakeland), with a statewide average of \$10,438. The median revenue per pupil (\$10,440) is nearly equal to the statewide average. Eighty percent of all districts have revenue per pupil of between \$9,443 and \$12,129.

---

### Technical College District Revenue Limit

---

Each of the 16 district boards in the Wiscon-

**Table 4: Distribution of School Districts by Allowable Revenue per Pupil in 2016-17 School Year**

| Revenue Per Pupil    | Number of School Districts | Percent of Total            | Cumulative Percent of Total |
|----------------------|----------------------------|-----------------------------|-----------------------------|
| \$9,500 and Under    | 51                         | 12.1%                       | 12.1%                       |
| \$9,501 to \$9,750   | 43                         | 10.2                        | 22.3                        |
| \$9,751 to \$10,000  | 35                         | 8.3                         | 30.6                        |
| \$10,001 to \$10,500 | 93                         | 22.1                        | 52.7                        |
| \$10,501 to \$11,000 | 64                         | 15.2                        | 67.9                        |
| \$11,001 to \$12,000 | 84                         | 20.0                        | 87.9                        |
| \$12,001 to \$13,000 | 20                         | 4.8                         | 92.6                        |
| Over \$13,000        | <u>31</u>                  | <u>7.4</u>                  | 100.0                       |
|                      | 421                        | 100.0%                      |                             |
| Median               | \$10,440                   | 10 <sup>th</sup> Percentile | \$9,443                     |
| Average              | \$10,438                   | 90 <sup>th</sup> Percentile | \$12,129                    |
| Lowest               | \$9,200                    | Highest                     | \$19,882                    |

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

sin Technical College System (WTCS) are subject to a limit on property taxation for all purposes except debt service. Under 2013 Act 145, no district can increase its 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 2016-17, 15 districts levied to the maximum allowed under their revenue limits. One district (Waukesha County) levied less than the maximum allowed under its revenue limit. In 2016-17, valuation factors ranged from 0.6% (Nicolet) to 2.0% (Madison).

From 2005-06 through 2013-14, the overall WTCS operational tax levy increased by an average of 2.9% 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 operational levy decreased by 64.9% as a result of the \$406 million of property tax relief aid included in 2013 Act 145. In 2015-16 and 2016-17, the operational levy increased by 3.2%, and 3.7%, respectively.

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

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 2017 payment, municipalities had to limit their 2016 budget increases to 0.3% to 2.3%, depending on individual municipal adjustments due to property value increases. Out of the 479 municipalities that would otherwise have been eligible for a 2017 payment, only 310 met the budget test. The other 169 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 Legislature has made several modifica-

tions 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 govern-



ment 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.

A second "carryforward" adjustment was created in 2015 Wisconsin Act 55, effective with 2015 tax levies. Local governments claiming this adjustment cannot also claim the preceding adjustment and, unlike that adjustment, not claiming this adjustment does not waive the negative adjustment related to a reduction in debt service on debt authorized before July 1, 2005. Under the second carryforward adjustment, a carryforward factor is calculated for each year equal to the difference between the local government's valuation factor and the actual percent increase in its levy attributable to the valuation factor. A local government's maximum carryforward adjustment equals the sum of the factors for the five preceding years, except the five-year period cannot include any year before 2014(15) and the sum of the five factors cannot exceed 5%. Claiming the adjustment requires a two-thirds vote of the local government's governing body, and a local government cannot claim this adjustment unless its level of outstanding general obligation debt in the current year is less or equal to its level of general obligation debt in the preceding year. Claiming the adjustment in one year offsets the carryforward factors in the five preceding years, thereby reducing the potential carryforward of this adjustment in future years.

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. This adjustment does not apply to fees or payments for garbage collection if the local government owned and operated a landfill on January 1, 2013. Any negative adjustment is waived if the local government's governing 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 con-

solidated 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; 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.

Over the last three years, no counties have incurred a levy limit penalty, while the number of municipalities with levy limit violations has increased slightly from 27 for 2013(14), to 31 for 2014(15), and to 37 for 2015(16). Levy amounts exceeding limits totaled \$244,611 for 2013(14), \$676,332 for 2014(15), and \$376,118 for 2015(16). Statewide, there were 1,852 municipalities levying taxes of almost \$2.7 billion in 2015(16), so the number of violators and the amount of excess levies are relatively minor. This may be attributable to the structure of the penalty -- a dollar for dollar reduction in state aid.

---

### **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. Since

the Act 32 suspension applied only for two years, 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. Under the tax rate limit, 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.

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;
- the debt was authorized prior to August 12, 1993;
- the debt is used to refund existing debt;

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

- the debt is issued for acquiring, developing, remodeling, constructing, and equipping land, buildings, and facilities for regional projects;

- the debt is issued for acquiring or installing energy efficient equipment; 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.