Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

May 21, 2003 Joint Committee on Finance Paper #675

County and Municipal Operating Levy Limit (Shared Revenue and Tax Relief -- Direct Aid Payments)

CURRENT LAW

Each county is subject to a tax rate limit on the general operations portion of its levy. For purposes of the control, each county's total tax levy and rate are separated into two components. The debt levy and debt levy rate are comprised of amounts for debt service on state trust fund loans, general obligation bonds, and long-term promissory notes, while the operating levy and operating rate are comprised of all other taxes. Each county's operating levy is limited to no more than an amount based on its prior year's allowable levy plus an adjustment equal to the percent change in the county's equalized value. For example, if a county's equalized value increases, or decreases, by 5%, its allowable levy will increase, or decrease, by 5%. Unless a county has claimed an adjustment to its levy, this mechanism has 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.

Municipalities are not subject to a mandatory fiscal 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. The statutes define municipal budget as the municipality's budget for its general fund exclusive of principal and interest payments on long-term debt. The percentage limitation on budgets equals the change in the Consumer Price Index (CPI) plus an adjustment based on growth in the municipality's property value due to new construction.

GOVERNOR

No provision.

DISCUSSION POINTS

1. The bill does not propose changes either to the county tax rate limit program or the expenditure restraint program. However, the bill proposes a state aid reduction of $70 million to municipal aid payments in 2004. This would be in addition to the $40 million reduction ($20 million each to municipalities and counties) for 2004 included in 2001 Wisconsin Act 109, the 2001-03 budget adjustment bill.

2. Last session in the budget adjustment bill, Governor McCallum proposed reducing state aid to municipalities and counties beginning in 2002. In that bill, the Governor also proposed imposing a levy limit on counties and municipalities. The Governor's summary of the bill stated that eliminating "the need for tax increases to offset the aid reduction" was the policy objective of the proposal. The Assembly's version of that bill included the Governor's levy limit proposal, with some modifications, but the proposal was not included in the Conference Committee's final version of the bill.

3. The Assembly proposal would have prohibited any political subdivision, defined as a county, city, village, or town, from increasing its operating levy in each year by more than a percentage based on the inflation rate and an additional adjustment. The inflation rate would have been defined as the average, annual percentage change in the U.S. consumer price index (CPI) for the 12 months ending on September 30 of the year of the levy. This is the same measure that is used for the expenditure restraint program. For counties, the additional adjustment would have equaled the percentage increase in the county's population from the preceding year to the current year. For municipalities, the additional adjustment would have equaled a percentage equal to 60% of the percentage change in the jurisdiction's equalized value due to new construction, less improvements removed, but no more than 2%. The limitation would not have applied to counties with property tax levy rates below one mill and to municipalities with property tax levy rates below 2.5 mills. Counties and municipalities would have been permitted to make adjustments to their allowable levies to reflect the cost of services transferred to or from another local government and to reflect up to 50% of the difference between the prior year's allowable and adopted levies. The proposal contained a procedure under which a county or municipality could exceed its operating limit if the jurisdiction's governing body adopted a resolution to that effect and the electors of the county or municipality approved the resolution in a referendum.

4. It could be argued that a levy limit program would be somewhat duplicative of the objectives of the county tax rate limit and expenditure restraint programs. On the other hand, it could be argued that neither of the existing programs has provided an effective control for property tax increases. Over the seven-year period from 1996 to 2002, statewide tax levy increases for both counties and municipalities outpaced the change in the CPI by considerable margins. Municipalities that received expenditure restraint payments in both of the corresponding years averaged a lower rate of increase than other municipalities, but even that rate was slightly more than double the inflation rate. However, it should be acknowledged that funding for the shared revenue and related aid programs remained unchanged over much of this period. Due to funding increases for programs related to the shared revenue program, state assistance under the combined programs increased by

0.4% for counties and 0.5% for municipalities over the seven-year period.

TABLE 1

Comparison of Statewide Tax Increases for Counties and Municipalities to Inflation 1996(97) to 2002(03)

	Total Change	Average, Annual Change
Consumer Price Index (CPI-U)	14.7%	2.3%
County Levies	46.5	6.6
Municipal Levies	41.7	6.0
Recipients of ERP in Both Years	33.4	4.9
Other Municipalities	60.2	8.2

5. With regard to counties, the Assembly's proposal was almost identical to the Governor's initial recommendation. In addition to recognizing that the proposed levy limitation would generally be more restrictive than the tax rate limit, concern was expressed regarding tax base reductions in rural counties due to the full implementation of use value assessment and how those reductions would affect county tax rates. In response, the Assembly elected to repeal the tax rate limit on county operating levies. This change was also not included in the Conference Committee's final version of the bill.

6. If a more restrictive control on the growth in county and municipal purpose tax levies is desired, a control similar to the one adopted by the Assembly during the 2001 legislative session could be considered. On a statewide basis, 2002(03) tax levies would have been lower by an estimated 2.8% for counties and 2.5% for municipalities if the Assembly proposal had been in effect for the 2002(03) levy. On a year-to-year basis, estimated increases of 2.1% for counties and 2.3% for municipalities would have resulted. Further, the impact of the Assembly's proposal would increase over time. On a statewide basis, between 2000(01) and 2001(02) and between 2001(02) and 2002(03), county tax levies increased by 7.9% and 5.0%, respectively, and municipal tax levies increased by 6.5% and 4.9%, respectively. If the Assembly provisions had been in effect since the 2001 tax levies, estimated county levies would have increased by 3.3% in 2001(02) and 2.6% in 2002(03), and estimated municipal levies would have increased by 4.0% in 2001(02) and 2.7% in 2002(03). These findings are summarized in Table 2.

TABLE 2

Year-to-Year Change in County and Municipal Property Taxes Under Current Law and Estimated Under 2001 Assembly Proposal

	Counties		Municipalities	
	2001(02)	2002(03)	2001(02)	2002(03)
Actual Change in Tax Levies	7.9%	5.0%	6.5%	4.9%
Estimated Change Under Assembly Proposal Assuming:				
First Effective in 2002(03)	--	2.1%	--	2.3%
First Effective in 2001(02)	3.3%	2.6%	4.0%	2.7%

7. The preceding analysis is based on an examination of the tax levies of individual counties and municipalities, without regard for any distinction between operating and debt levies and assuming no referenda would have been successful. For the two years, the change in the CPI was calculated at 3.2% and 1.5%, respectively. Table 3 shows the distribution of counties and municipalities on the basis of the percentage reduction in their 2002(03) levies, assuming the Assembly proposal would have first applied to 2001(02) tax levies. In aggregate, 2002(03) levies would have been lower by an estimated $95.8 million for counties and $78.8 million for municipalities, based on 2001(02) implementation of levy limits.

TABLE 3

Distribution of Counties and Municipalities by Estimated 2002(03) Levy Reductions Assuming Initial Imposition of Assembly Proposal in 2001(02)

	Counties		Municipalities	
	Number	Percent	Number	Percent
Mill Rates Under Minimum	0	0.0%	871	47.1%
Actual 2002(03) Levy Below the Estimated, Allowable Levy	8	11.1	385	20.8
Estimated 2002(03) Levy Lower by:				
Less than 5%	10	13.9%	202	10.9%
5% to 10%	29	40.3	155	8.4
10% to 20%	23	31.9	157	8.5
Over 20%	2	2.8	80	4.3
Total	72	100.0%	1,850	100.0%

8. Based on preliminary property tax information for 2002(03), a median-valued home with an estimated value of $126,473 that was taxed at the statewide average tax rate would have received a tax bill estimated at $2,517. If the Assembly's levy limit proposal had first been in effect for 2002 tax levies, the estimated 2002(03) tax bill would have been $33 lower (-1.3%). If the Assembly's levy limit proposal had first been in effect for 2001 tax levies, the estimated 2002(03) tax bill would have been $67 lower (-2.7%). These estimates are based on the same assumptions as presented in Point #7.

9. If the impact of this type of levy limit is combined with the state aid reductions authorized under current law (-$40 million) and proposed in SB 44 (-$70 million), counties and municipalities would be confronted with service reductions over the coming years. Based on current levels of combined tax levies and state aid (shared revenue and related aid), 2003 expenditures funded from those revenues would have had to be reduced, on average, by 3.6% for counties and 5.1% for municipalities, assuming the Assembly proposal was first effective for 2002 tax levies. If the Assembly proposal had been first effective in 2001, 2003 expenditures funded from those revenues would have had to be reduced, on average, by 6.9% for counties and 6.4% for municipalities. If the 2001 Assembly levy limit proposal is thought to be too restrictive, an additional adjustment could be authorized to allow local governments to recapture part of the loss in state aid through property tax increases.

10. Table 1 reports that between 1996(97) and 2002(03), statewide tax levy increases averaged 6.0% for municipalities and 6.6% for counties, on an annualized basis. To reflect the state aid reductions authorized in 2001 Wisconsin Act 109 and proposed in SB 44, 2003(04) tax levy increases are estimated at 8.5% for municipalities and 7.2% for counties. These estimates assume that half of the state aid reductions would be translated into tax levy increases. Based on a projected inflation rate of 2.3% and historic trends in new construction and population growth, a levy limit similar to last year's Assembly proposal would limit 2003(04) tax levy increases to an estimated 3.8% for municipalities and 3.3% for counties, on a statewide basis.

11. If there is a desire to extend the policy of state operations reductions to municipalities and counties, a fiscal control that is more restrictive than levy limits could be adopted. A tax levy "freeze" would limit tax levies to their prior year amount. Some flexibility could be incorporated into a freeze for local governments experiencing growth, by providing for adjustments similar to those included in the 2001 Assembly proposal. By eliminating increases for inflation, but providing a municipal adjustment based on new construction and a county adjustment based on population growth, estimated statewide property tax levy increases could be limited to 1.5% for municipalities and 1.0% for counties. A freeze proposal would reduce the real value of the tax levy each year it remains in effect. Therefore, the freeze could be sunset after the 2004(05) tax levies, which would allow the 2005 Legislature to reconsider this issue, or it could be replaced at that time by a limit that includes a CPI adjustment.

12. Local officials are elected to make decisions to establish spending priorities and to determine appropriate taxation levels within their communities. A levy limit program would replace this discretion with a statewide policy that limits how much can be raised and spent within

each county and municipality.

13. The Assembly proposal would have retained local autonomy somewhat by allowing increases to the allowable levy if approved through referendum. If there is a desire for a greater level of control by locally-elected officials, additional levy increases could be allowed if adopted by three-fourths of the members-elect of the local governing body. A similar provision could be extended to the electors of a town in attendance at the town's annual meeting. The municipal purpose levy for towns is set at the annual town meeting, although the meeting can delegate that authority to the town board.

14. If a levy limit is adopted, state costs associated with the homestead tax credit, farmland preservation credit, property tax/rent credit, and computer reimbursement aid programs would be reduced. The amount of the reductions would depend on the features included in the control, as well as other provisions included in the bill that will affect local property tax levels.

ALTERNATIVES

1. Prohibit any county, with a total property tax levy rate greater than or equal to one mill ($1 per $1,000 of value), and any city, village, or town, with a total property tax levy rate greater than or equal to 2.5 mills ($2.50 per $1,000 of value), from increasing its operating levy in each year by more than a percentage determined by statutory formula. For counties, define the percentage as the sum of: (a) the percentage increase in inflation; and (b) the percentage increase in population in the county from the preceding year to the current year. For municipalities, define the percentage as the sum of: (a) the percentage increase in inflation; and (b) the percentage equal to 60% of the percentage change in the municipality's equalized value due to new construction, less improvements removed, between the year of the levy and the year prior to the year of the levy, but not less than 0% nor more than 2%. [This is the same measure used for the expenditure restraint program.] Define "operating levy" as the total county or municipal levy minus any portion of the total levy attributable to the levy for debt service on loans provided by the Board of Commissioners of Public Lands or bonds or promissory notes issued by the county or municipality, less any revenues that abate the debt service levy. Specify that the "total levy rate" equals the total levy divided by the equalized value of the county or municipality, exclusive of any tax incremental district value increment. Specify that, for the purpose of this provision, "inflation" is the average, annual percentage change in the U.S. consumer price index for all urban consumers, U.S. city average, as determined by the U.S. Department of Labor, for the 12 months ending on September 30 of the year of the levy. Specify that "population" means the number of persons residing in the political subdivision, as determined by DOA under current law provisions. Specify that the levy limit shall be adjusted, as determined by DOR, as follows: (a) if a county or municipality transfers to another governmental unit responsibility for providing any service that was provided in the preceding year, the levy increase limit otherwise applicable to the county or municipality is decreased to reflect the cost that the county or municipality would have incurred to provide the service; (b) if a county or municipality increases the services that it provides by adding responsibility for providing a service transferred to it from another governmental unit in any year,

the levy increase limit otherwise applicable to the county or municipality in the current year is increased to reflect the cost of that service; or (c) the levy increase limit otherwise applicable to the political subdivision in the current year is increased to reflect 50% of the difference between the prior year's allowable and adopted levies. Require DOR, not later than November 1 of each year, to notify every county and municipality of the allowable percentage increase that applies to the county or municipality. Create a procedure under which a county or municipality may exceed its operating levy limit if its governing body adopts a resolution to that effect and the electors of the county or municipality approve the resolution in a referendum. Specify that the limit imposed under these provisions does not apply to any increase in a county's or municipality's operating levy that results from complying with a court order. Repeal the county operating tax rate limit authorized under current law. Specify that these provisions first apply to property taxes levied in 2003 (payable in 2004).

2. Modify Alternative 1 to authorize levy increases in excess of the limit to apply to one or more of the following:

a. increases approved by at least three-fourths of the members-elect of the governing body;

b. increases approved by at least three-fourths of the electors in attendance at the annual town meeting, if the levy is set by the meeting; and/or

c. for the 2003 levy, increases equal to a percentage of the difference between the local government's estimated state aid for 2003 under the shared revenue, county mandate relief, and small municipalities shared revenue programs and the amount of county and municipal aid and shared revenue (utility aid) that the local government is expected to receive in 2004. Set the percentage at: (1) 25%; (2) 50%; or (3) 75%.

3. Prohibit any county, city, village, or town from increasing its operating levy above the amount levied in 2002 (payable in 2003). Define "operating levy" as the total county or municipal levy minus any portion of the total levy attributable to the levy for debt service on loans provided by the Board of Commissioners of Public Lands or bonds or promissory notes issued by the county or municipality, less any revenues that abate the debt service levy. Specify that the prohibition imposed under this provision does not apply to any increase in a county's or municipality's operating levy that results from complying with a court order. Specify that this provision applies to property taxes levied in 2003 (payable in 2004) and property taxes levied in 2004 (payable in 2005).

In addition, authorize one or more of the following modifications to the prohibition: (a) authorize counties to increase their levies by an amount based on the percentage increase in population in the county from the preceding year to the current year, but not less than 0%; (b) authorize municipalities to increase their levies based on the percentage equal to 60% of the percentage change in the municipality's equalized value due to new construction, less improvements removed, between the year of the levy and the year prior to the year of the levy, but not less than 0% nor more than 2%; (c) require any county or municipality to decrease its levy to reflect the cost of a transferred service if the county or municipality transfers a service to another governmental unit; (d) authorize any county or municipality to increase its levy to reflect the cost of a transferred service if the county or municipality assumes responsibility for providing a service previously performed by another governmental unit; and/or (e) authorize counties and municipalities to increase their levies by amounts approved both by the governing body in a resolution and by the electors of the county or municipality in a referendum.

4. In addition to Alternative 3, adopt Alternative 1 as modified to first apply to property taxes levied in 2005 (payable in 2006).

5. Maintain current law.

Prepared by: Rick Olin