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Levy Limit for Counties and Municipalities
(Shared Revenue and Tax Relief -- Property Taxation)

[LFB 2009-11 Budget Summary: Page 580, #1]

CURRENT LAW

The 2007-09 biennial budget act (2007 Wisconsin Act 20) recreated the levy limit program that was originally created in the 2005-07 biennial budget act (2005 Wisconsin Act 25). The Act 25 limitation only applied to county and municipal property tax levies for 2005(06) and 2006(07), and the Act 20 limitation only applied to taxes levied in the 2007(08) and 2008(09) property tax years. In addition, Act 20 repealed the levy limit provisions, effective November 30, 2009. Therefore, county and municipal property tax levies, as of 2009(10), will not be subject to a levy limit unless the 2009-10 Legislature recreates the program.

GOVERNOR

Repeal the current law provision that repeals the levy limit on counties and municipalities on November 30, 2009, make technical and policy modifications to the limitation, and reauthorize the levy limit program to apply to taxes levied in 2009 and 2010. As modified, the levy limit for those two years would be structured as follows.

Imposition. Prohibit any political subdivision, defined as a city, village, town, or county, from increasing its base municipal or county tax levy (defined as the local government's maximum allowable levy for the immediately preceding year) by more than a percentage that exceeds the local government's valuation factor. Define the valuation factor as the percentage equal to the greater of 3% or the percentage change in the local government's equalized value due to new construction, less improvements removed, as determined for January 1 equalized values in the year of the levy. [The prior law levy limit had a 2% floor for the allowable increase and based the limit on the actual levy for the prior year, rather than the maximum allowable levy.]

Exclusions. Exclude from the limitation any amounts levied: (a) as tax increments by a city, village, or town; (b) for the payment of any general obligation debt service on debt authorized on or after July 1, 2005, and secured by the full faith and credit of the city, village, town, or county; (c) for a county children with disabilities education board by a county; (d) for school purposes by a first class city; (e) for town bridge and culvert construction and repair by a county; (f) for payment by a county to an adjacent county for library services; (g) for a countywide emergency medical system by a county; (h) for any revenue shortfall for debt service on a revenue bond issued by a political subdivision; (i) for any revenue shortfall for debt service on a revenue bond issued by a joint fire department if the joint fire department uses the bond proceeds to pay for a fire station, if the joint fire department assesses the political subdivision its share of the debt under an intergovernmental cooperation agreement, and if the political subdivision is responsible for the repayment of the debt, even though the debt was incurred by the joint fire department; (j) for the payment of debt service on appropriation bonds issued to fund a county or municipal employee retirement system liability by a county having a population of 500,000 or more or by a first class city; (k) for police protection services by a village in the year immediately after the village's incorporation, provided the village did not have a police force when it was a town; or (l) for fire charges assessed by a joint fire department that would cause the municipality to exceed its allowable levy, provided that the joint fire department's total charges increase relative to the prior year by a rate less than or equal to 2% plus the percentage change in the consumer price index and the governing body of each municipality served by the joint fire department adopts a resolution in favor of the municipality exceeding its limit. Define joint fire department, by way of cross-reference to current law provisions, as a joint fire department created by a village with a population of 5,000 or more with a city or town or with another village, by a city with another city, or by a municipality with another governmental unit or Indian tribe through an intergovernmental cooperation contract. [The exclusion under (j), as it applies to a first class city, was not included under the prior law levy limit. All of the other exclusions were included under prior law.]

Adjustments. Specify that the levy limit shall be adjusted, as determined by the Department of Revenue (DOR), as follows: (a) if a municipality or county transfers to another governmental unit responsibility for providing any service that it provided in the preceding year, the levy increase limit otherwise applicable to the municipality or county is decreased to reflect the cost that the municipality or county would have incurred to provide the service; (b) if a municipality or county increases the services that it provides by adding responsibility for providing a service transferred to it from another governmental unit, the levy increase limit otherwise applicable to the municipality or county is increased to reflect the cost of providing that service; (c) if a service has been provided in part of the county by the county and in part of the county by a separate governmental unit and the provision of the service is consolidated at the county level, the levy increase limit otherwise applicable to the county is increased to reflect the total cost of providing the service; (d) if a city or village annexes property from a town, the annexing municipality's levy increase limit is increased by an amount equal to the town levy on the annexed territory in the preceding year and the levy increase limit for the town from which the property was annexed is decreased by the same amount; (e) if the amount of a lease payment related to a lease revenue bond in the preceding year is less than the amount of the lease payment needed in the current year, as the result of the issuance of a lease revenue bond before July 1, 2005, the levy increase limit is increased by the difference between the two amounts; and (f) if the amount of debt service in the preceding year is less than the amount of debt service needed in the current year, as the result of the city, village, town, or county adopting a resolution before July 1, 2005, authorizing the issuance of debt, the levy increase limit is increased by the difference between the two amounts. Specify that debt service includes debt service on debt issued or reissued to fund or refund outstanding obligations, interest on outstanding obligations, or the payment of related issuance costs or redemption premiums. Finally, provide an adjustment to the levy limit of a political subdivision if the subdivision contained a tax increment district for the immediately preceding year and DOR does not certify a value increment for the district in the current year because of the district's termination. Set the adjustment equal to the political subdivision's allowable levy for the preceding year multiplied by a percentage equal to half of the tax increment district's value increment in the previous year divided by the political subdivision's equalized value in the previous year. [All of these adjustments were included under the prior law levy limit.]

Referendum. Create a procedure under which a city, village, town, or county may exceed its levy increase limit if the local government's governing body adopts a resolution to that effect and the electors of the municipality or county approve the resolution in a referendum. Require the resolution and referendum to specify the proposed amount of the levy increase above the limit and whether the amount of the proposed increase is for a single year only or is ongoing. Authorize the local government to hold a special referendum, with regard to a referendum relating to the levy in an odd-numbered year. Require the local government to hold a referendum at the same time as the next spring primary or election or September primary or general election, with regard to a referendum relating to the levy in an even-numbered year. Require the referendum to be held in accordance with current law provisions enumerated in chapters 5 to 12 of the state statutes.

Require the referendum question to be submitted to the electors as follows: "Under state law, the increase in the levy of the …. (name of county or municipality) for the tax to be imposed for the next fiscal year, …. (year), is limited to ….%, which results in a levy of $…. Shall the …. (name of the county or municipality) be allowed to exceed this limit and increase the levy for the next fiscal year, …. (year), by a total of ….%, which results in a levy of $….?". Specify that a town with a population below 2,000 may exceed its levy increase limit if the annual town meeting or a special town meeting adopts a resolution to that effect and if the town board has adopted a resolution supporting the increase and placing the question on the meeting's agenda. Require the clerk of the municipality or county to publish notices regarding the referendum or town meeting prior to the time it is held and to certify the results of the referendum or town resolution to DOR within 14 days of the referendum or meeting. [The referendum and town meeting provisions are the same as those under the prior law levy limit.]

Penalty. Require DOR to reduce the county and municipal aid payment of any municipality or county that imposes a tax levy in excess of the amount allowed under these provisions. Establish the reduction as the amount equal to the excess tax levy, but exclude levies that exceed the allowable levy by less than $500 from the penalty. Provide that the aid reduction be imposed in the year after the excess amount is levied, but specify that the amount of any penalty exceeding a local government's succeeding aid payment be applied to aid payments in subsequent years until the total penalty is subtracted. Provide that any withheld state aid amounts be lapsed to the general fund. Authorize DOR to waive penalties if it determines that a penalized excess is caused by a clerical error. Define clerical error as a penalized excess caused by DOR, through mistake or inadvertence, assessing to a county or a municipality in the current or previous year a greater or lesser valuation than should have been assessed, or by a county or municipal clerk, through mistake or inadvertence, in preparing or delivering the tax roll. [The penalty provisions are the same as those under the prior law levy limit.]

Sunset. Provide that the levy limit would not apply to levies imposed after December, 2010.

DISCUSSION POINTS

1. This office has presented papers to each of the last two Legislatures (2007-09 LFB Paper #725 and 2005-07 LFB Paper #685) on proposals to create a levy limit program for counties and municipalities. The pros and cons of creating a limitation are discussed in those papers. Rather than repeating those arguments, this paper focuses on the differences between the existing and proposed limitations and the impact that specific features of the proposal may have on tax levies and tax bills. If the Committee does not want to continue the levy limit program, Alternative 6 would delete the Governor's recommendation, and the current program would be repealed on November 30, 2009.

2. On April 8, 2009, this office issued estimates of statewide property tax levies based on provisions proposed by the Governor in AB 75. The memorandum estimated that statewide gross property tax levies would increase by 5.0% in 2009(10) and 5.2% in 2010(11), and statewide net property tax levies would increase by 5.4% in 2009(10) and 5.8% in 2010(11). In 2008(09), school district taxes represented the largest share of statewide property tax levies (44%) and are estimated to increase by 6.0% in 2009(10) and 6.4% in 2010(11). Municipal tax levies (24%) and county tax levies (19%) comprised the two next largest components. In 2009(10) and 2010(11), municipal tax levies are estimated to increase by 4.7% annually, and county tax levies are estimated to increase by 3.7% annually, both on a statewide basis. Relative to these rates of increase, statewide county and municipal property tax levies increased by a higher rate of growth in only one year [2007(08)] in the four previous years that levy limits have been imposed.

3. The April 8 memorandum also estimated that, over the next two years, the property tax bill on a median-valued home taxed at statewide average tax rates would increase from $2,856 in 2008(09) to $2,947 in 2009(10) and $3,081 in 2010(11). These increases equal $91, or 3.2%, in

2009(10), and $134, or 4.5%, in 2010(11). Except for the 3.8% estimated tax bill increase in 2007(08), which was higher than the estimated 2009(10) increase, the projected increases represent the highest rates of estimated tax bill increases in the last four years. The municipal component of these tax bills is estimated to increase from $793 in 2008(09) to $811 in 2009(10) and $839 in 2010(11), and the county component of the tax bills is estimated to increase from $640 in 2008(09) to $649 in 2009(10) and $665 in 2010(11). Table 1 summarizes the change in estimated tax bills for a median-valued home taxed at statewide average tax rates over the preceding four years when levy limits were in effect and over the next two years based on the provisions in AB 75.

TABLE 1

Estimated Property Tax Bills for a Median-Valued Home
Based on Statewide Average Tax Rates

	2004(05)	2005(06)	2006(07)	2007(08)	2008(09)	2009(10)	2010(11)
Home Value	$142,814	$153,525	$164,118	$170,305	$171,840	$166,685	$165,018
Type of Tax							
School	$1,351	$1,324	$1,364	$1,436	$1,475	$1,530	$1,609
Municipal	730	748	756	777	793	811	839
County	605	616	621	636	640	649	665
Technical College	221	229	234	240	246	250	257
Other	61	62	62	62	62	62	62
Gross Tax	$2,968	$2,979	$3,037	$3,151	$3,216	$3,302	$3,432
Tax Credits	-262	-249	-304	-315	-360	-355	-351
Net Tax Bill	$2,706	$2,730	$2,733	$2,836	$2,856	$2,947	$3,081
Change from Prior Year							
Amount		$24	$3	$103	$20	$91	$134
Percent		0.9%	0.1%	3.8%	0.7%	3.2%	4.5%

Base Levy for Fiscal Control

4. Under AB 75, the base for calculating future levy increases would be the local government's maximum allowable levy in the immediately preceding year. This treatment differs from the levy limit created under 2007 Act 20, which established the prior year actual levy as the base for calculating future levy increases. The Act 20 treatment has been subject to the criticism that local governments that do not levy the full amount allowable under the limit are penalized for their restraint. Meanwhile, local governments that levy to their allowable limit are allowed a higher base year levy in the succeeding year. The treatment under AB 75 would allow local governments to levy below the limit without permanently losing this levying capacity. The Act 20 treatment is presented as Alternative 2.a.

5. Both the AB 75 and 2007 Act 20 treatments can be argued to produce higher property tax levies, by either allowing larger increases compared to the prior year actual levy (AB

75) or by encouraging local governments to levy to the maximum allowed, so they do not lose this ability in future years (Act 20). A middle ground could be fashioned by permitting local governments to carry forward a portion of their unused, allowable increase to the next year. For example, the base levy could be set equal to the sum of the prior year's actual levy and 50% of the difference between the allowable and actual levies for the preceding year, provided the allowable levy was higher (Alternative 2.b.). This modification may be more necessary if a limit is proposed on a permanent basis.

6. If the levy limit is extended for a multi-year period, as opposed to the two years proposed in AB 75, and if local governments consistently levy below their allowable amounts, the AB 75 treatment would allow large levy increases in future years. For example, if a local government is allowed 3% annual increases, but imposes actual increases of only 2% per year, it would be able to increase its levy by 7.1% in the fifth year or by 12.5% in the tenth year. Increases of this magnitude could be prevented by limiting increases relative to the actual levy in the prior year to a maximum percentage. One option would be to limit the increase over the prior year's actual levy to twice the inflation rate. This treatment is presented as Alternative 2.c.

Automatic Adjustment Factor

7. AB 75 would allow every county and municipality to increase its levy by the greater of 3% or the change in the local government's tax base due to new construction for the preceding year. The initial levy limit authorized in 2005 Wisconsin Act 25 allowed a basic increase equal to the greater of 2% or the local government's new construction rate. The 2005 Legislature proposed a limitation based only on new construction. In aggregate, that approach would have kept tax bills on existing properties constant and caused newly constructed properties to bear the entire increase in tax levies. Through partial veto, the Governor modified this limitation by creating the 2% minimum guarantee. One could argue that the intent of the minimum percentage guarantee is to allow every local government some increase in its levy to fund inflationary expenditure increases.

8. In the 2007-09 biennial budget bill, the Legislature voted to continue a limit equal to the greater of the new construction rate or 2%, but a partial veto by the Governor increased the minimum to 3.86% for 2007(08) tax levies. This higher 2007(08) minimum guarantee coincided with the largest percentage increases in statewide municipal and county levies over the preceding four years, as reported above. Also during those years, the largest increases in statewide gross tax levies, statewide net tax levies, and estimated tax bills occurred in 2007(08). While part of these increases was due to a 7.4% increase in statewide school tax levies, higher county and municipal levy increases also contributed to the increases.

9. The policy objective of the adjustment factor is to allow inflationary increases to all local governments, but to allow somewhat larger increases to local governments experiencing more rapid development. The consumer price index (CPI) is the most widely recognized measure of inflation, and over the last eight years, the change in the CPI has averaged 2.8%, ranging from 1.6% in 2002 to 3.8% in 2008. The above-average increase in 2008 is somewhat unusual because the National Bureau of Economic Research has determined that the U.S. economy began a period of

contraction, or recession, in December, 2007. Typically, deflation is a larger concern during such periods, but significant increases in energy prices occurred through July, 2008, contributing to a higher inflation rate. Since then, inflation has subsided and IHS Global Insight Inc.'s April, 2009, forecast predicted inflation rates of -0.3% in 2009, 1.2% in 2010, and 1.7% in 2011.

10. Although the 3% minimum guarantee exceeds forecasted inflation rates, other rationales may exist for providing a higher minimum guarantee. For example, AB 75 would impose 1% reductions in many local assistance programs including county and municipal aid, general transportation aid, community aids, children and family aids, youth aids, recycling grants for municipal governments, and payments for municipal services. Additional reductions are proposed for some of these programs, but the Governor has indicated he intends to replace the additional reductions, in part, with federal stimulus funds. The proposed 1% reductions in these seven programs total $16.1 million annually, including $10.6 million for municipalities and $5.5 million for counties. To replace these reductions, increases in allowable levies (adjusted to exclude amounts not subject to the limit) of 0.5% for municipalities and 0.3% for counties would be required.

TABLE 2

Proposed 1% Reductions in Major Local Assistance Programs and the Their Comparison to Municipal and County Levies

State Aid Reduction	Base Year Aid	Proposed Reduction
- County and Municipal Aid	$702,483,300	-$6,980,300
- General Transportation Aid	312,685,400	-3,126,900
- Recycling Grants for Municipalities	31,000,000	-310,000
- Payments for Municipal Services	21,998,800	-220,000
Total for Municipalities	$1,068,167,500	-$10,637,200
- County and Municipal Aid	$157,219,800	-$1,566,800
- General Transportation Aid	99,387,700	-993,900
- Community Aids*	163,621,400	-1,636,200
- Children and Family Aids*	28,959,400	-289,600
- Youth Aids	98,341,000	-983,400
Total for Counties	$547,529,300	-$5,469,900
Total for Seven Programs	$1,615,696,800	-$16,107,100

Comparison to Tax Levies	2008(09) Adjusted Levies	Aid Reduction	Percent
- Municipalities	$2,256,370,679	-$10,637,200	0.5%
- Counties	1,830,276,723	-5,469,900	0.3

* GPR component only.

11. Another argument for a minimum guarantee above forecasted inflation relates to the composition of municipal and county expenditures. Labor costs comprise more than half of all local

government spending. Because the CPI is intended to reflect the cost of a "market basket" of goods purchased by typical households, labor costs are not included as an expenditure category in the CPI calculation. The U.S. Department of Labor maintains an employment cost index that reflects an employer's cost of employee wages, salaries, and benefits. Separate indices are maintained for different types of employers, including one for state and local governments. Since 2004, the annual increase in the fourth quarter index for total compensation for state and local governments has ranged from 3.0% to 4.1% (Table 3). Over that period, increases in employer costs of employee benefits have outpaced increases in wages and salaries.

TABLE 3

Annual Change in Compensation Costs for State and Local Governments, 2004 - 2008*

	Total Compensation	Wages & Salaries	Total Benefits
2004	3.6%	2.1%	6.7%
2005	4.1	3.1	6.3
2006	4.1	3.5	5.2
2007	4.1	3.5	5.5
2008	3.0	3.1	2.9

* Source: Bureau of Labor Statistics, U.S. Department of Labor (fourth quarter index).

12. The change in statewide equalized values due to net new construction averaged 2.7% from 2001 to 2006. This period includes the first two years that levy limits were imposed, when the statewide average tax base gain due to new construction equaled 2.8% in 2005 and 2.9% in 2006. The rate of increase declined to 2.4% in 2007 and 1.9% in 2008, reflecting the downturn in the housing market. Over the preceding four years, Table 4 indicates that the number of local governments with equalized value increases due to net new construction that exceed 2% has declined each year (although the number of cities with increases above 2% increased from 2005 to 2006).

TABLE 4

Percentage of Municipalities and Counties with Net New Construction Percentages Exceeding 2%

	2005	2006	2007	2008
- Towns	55.6%	53.9%	41.1%	24.5%
- Villages	49.6	49.3	40.5	30.0
- Cities	46.3	53.2	43.2	34.2
Municipalities	53.4	52.8	41.2	26.7
Counties	72.2	70.8	56.9	25.0

13. Relative to the minimum guarantee proposed in AB 75, only 10.0% of all municipalities (186 of 1,851) and 2.8% of all counties (2 of 72) had net new construction percentages above 3% in 2008. As the current recession has continued, economic reports indicate that builders are attempting to reduce their inventories. New construction occurring in 2008 and 2009 will contribute to equalized value changes in 2009 and 2010, respectively, and would be used to determine allowable levy increases under AB 75. The level of new construction for 2009 and 2010 equalized values is estimated to be less than in 2008, so most local governments would rely on the 3% minimum guarantee to calculate their allowable levies for 2009(10) and 2010(11).

14. Some local governments did not increase their levies to their allowable limits in 2008(09), and this practice would be expected to continue under AB 75, since the bill would permit local governments to use their allowable levies as the beginning point for calculating their levy limits. The guaranteed adjustment factor included in AB 75 would result in tax levy increases estimated at 2.7% for municipalities and 2.5% for counties in each of the two succeeding years. Since annual increases of 4.7% for municipalities and 3.7% for counties are estimated, the guaranteed adjustment factor would explain 57.6% of the total change in levies for municipalities and 68.2% of the total change in levies for counties. The remainder of the increase would be attributable to levy limit adjustments, and adjustments explain the difference between the municipal and county percentages (i.e., municipalities have claimed more adjustments than counties).

15. A comparison of levy limit worksheets and actual levies for 2008(09) reveals that the levy limit program seems to have limited levy increases to levels below that which would otherwise occur. Although based on preliminary and unaudited data that is subject to change, the 2008(09) levies for 75 municipalities (representing 40% of the total municipal levy) and all 72 counties were examined. Among those local governments, just over 60% of the municipalities and 78% of the counties were either over their limit, at their limit, or within 0.1% of their limit. This data suggests that the levy limit may have been a greater constraint for counties than for municipalities, as a group, in 2008(09).

16. Changes to the minimum guarantee would not result in proportional changes in statewide municipal or county levies. As the minimum guarantee is increased, the limit would become less restrictive and local governments would claim fewer adjustments and exclusions. At some point, levies would become equal to the amounts that would be levied if there was no control. Based on 2008(09) actual levies and the sampled data from municipalities and counties, Table 5 reports estimated percentage increases in statewide levies for municipalities and counties assuming the minimum guarantee was set at three different levels and assuming there was no levy limit. Also, the table reports the estimated tax bill change in municipal and county taxes relative to 2008(09) for a median-valued home taxed at statewide average tax rates. Alternative 3 would set the minimum guarantee at other percentages.

TABLE 5

Estimated Effects of Different Minimum Guarantees and No Levy Limit On Municipal and County Tax Levies and Tax Bills

	Tax Year 2008(09)	Estimated Change in 2009(10) and 2010(11) Taxes Under Minimum Guarantees of: 2.0%	3.0%	4.0%	No Limit
Statewide Tax Levies					
Municipal (in millions)	$2,299.0	4.4%	4.7%	5.0%	5.3%
Counties (in millions)	1,856.1	3.3	3.7	4.5	4.8
Est. Tax Bills, Combined Municipal and County Taxes	$1,433				
2009(10)		$1,456	$1,460	$1,468	$1,472
- Change from 2008(09)		23	27	35	39
2010(11)		1,495	1,504	1,519	1,528
- Change from 2009(10)		39	44	51	56

Exclusions and Adjustments

17. For 2008(09), the new construction factor and 2% minimum guarantee, combined, are estimated to explain 44% of the increase in municipal levies and 49% of the increase in county levies. The remainder of the increases is due to items excluded from the limit or due to adjustments to the limit.

18. Last session, the Legislature created three new exclusions for the levy limit program. These exclusions apply only to counties, and their combined effect was to increase county levies by 0.2% on a statewide basis from 2007(08) to 2008(09). The exclusions extend to $44.4 million, or 2.5% of total county levies, in 2007(08) and $48.0 million, or 2.6% of total county levies, in 2008(09).

19. The exclusion for library levies was claimed by 58 counties in both years and removed $40.1 million from the control of the levy limit in 2008(09). Between 2007(08) and 2008(09), statewide library levies increased by $1.6 million, or 4.1%. Bridge and culvert levies increased by 41.3% between 2007(08) and 2008(09). The 48 counties claiming this exclusion in 2008(09) included six counties that did not claim the exclusion in 2007(08). The exclusion removed $5.7 million in county levies from the control of the levy limit program in 2008(09). The countywide emergency medical system exclusion was claimed by four counties in 2007(08) and five counties in 2008(09). In the latter year, the excluded levies totaled $2.2 million. Levies excluded under this provision increased by 17.7% on a statewide basis, but increases ranged from no increase to 11.4% among the four counties with levies in both years. On one hand, the excluded amounts represent a small component of total county levies. Due to their minimal impact, it could be argued that these exclusions should be continued so long as their exclusion achieves a public policy objective. On the other hand, the efficacy of the levy limit could be undermined if the

number of exclusions continues to increase.

20. The exclusion with the largest impact on municipal and county levies is for debt service on debt authorized on or after July 1, 2005. Because debt service in the prior year is excluded from the base levy, this exclusion does not result in tax levy increases unless the debt service for the current year is higher than the debt service in the prior year. For 2008(09) levies, increases in debt service payments caused levy increases estimated at 1.9% for municipalities and 0.8% for counties on a statewide basis. This exclusion comprises over 40% of the total increase in municipal levies and approximately one-third of the total increase in county levies. When the levy limit program was originally enacted, this exclusion was created because legal counsel argued that investors would be unwilling to purchase municipal and county obligations if the ability to repay that debt was impeded in any way. Due to this concern, any desire to limit the effects of debt service on tax levies should be addressed through changes to the procedures for issuing new debt, rather than through changes to the levy limit program. When the Legislature adopted the county tax rate limit in 1993, it also adopted procedures which counties must follow to authorize more debt. These procedures may partially explain why counties utilize the debt service exclusion less than municipalities. Another reason may be that municipalities' service mix is more infrastructure-related, while counties' service mix is more related to human services.

21. For both municipalities and counties, the largest adjustment (as opposed to exclusions) to the limitation that they use is the adjustment for increases in debt service on debt issued before July 1, 2005. This adjustment comprised approximately 8% of the total increase in municipal levies and just over 2% of the total increase in county levies from 2007(08) to 2008(09). Between those years, it resulted in increases of 0.4% in total municipal levies and 0.1% in total county levies. Limiting or removing this adjustment could adversely affect the sale of municipal or county debt on the secondary market, thereby making investors reluctant to purchase newly issued debt.

22. Other adjustments, in total, caused municipal and county levies to increase by less than an estimated 1% on a statewide basis between 2007(08) and 2008(09). Among the sampled local governments, adjustments in 2008(09) were claimed for service transfers, service consolidations, and annexations. No doubt, municipalities that were not sampled claimed other adjustments. These adjustments may have been important for local governments claiming them and probably impacted taxpayers in those communities, but these adjustments do not appear to have significantly affected taxes on a statewide level. The adjustment with the second-largest statewide impact was the adjustment for expiring tax increment districts. In 2008(09), this adjustment caused increases estimated at 0.2% in total municipal levies and 0.1% in total county levies.

23. The preceding analysis may suggest that if the Committee wants either to reduce property tax bills or offer more flexibility to municipalities and counties, the best mechanism for addressing those concerns on a widespread basis would be to adjust the minimum guarantee. However, one exception to this observation may exist. If the Committee believes the levy limit should offer more flexibility to municipalities or counties, that concern could be addressed by creating an adjustment for state aid decreases. As discussed above, AB 75 would decrease general

aid payments to municipalities and counties under seven programs in 2010. A one-time adjustment could be created to allow governments to recapture some or all of the 2010 aid reductions by increasing their levies in 2009(10). By claiming an adjustment in 2009(10), the adjustment would be incorporated in the government's base and provide additional levying authority in future years. The adjustment could be extended to both municipalities and counties, or it could be limited to one or the other. It is presented as Alternative 4.

Permanent or Temporary Control

24. Each of the last three Legislatures has adopted a temporary levy limit program for counties and municipalities. The Governor vetoed the levy limit in the 2003-05 biennium, but approved levy limits in each of the past two biennial budgets. Each time, the enacted levy limit covered a two-year period. Similarly, AB 75 would sunset the proposed levy limit program in December, 2010, so the proposed levy limit would apply only to the 2009(10) and 2010(11) tax levies. Temporary programs may cause some local governments to use financing procedures in a year before a control is set to expire that the local government would not otherwise use. Such measures might help a local government get to the end of the control period. Further, local governments may defer some expenditures, hoping to make them once the control finally ends, although such a deferral may have negative consequences.

25. Making the levy limit program permanent would give counties and municipalities more certainty in managing their levies and other finances on a year-to-year basis. Alternative 5 would make the levy limit program permanent by removing the Governor's proposed sunset. Deleting the proposed levy limit program in its entirety (Alternative 6) would also provide certainty to local governments.

ALTERNATIVES

1. Approve the Governor's recommendation to extend levy limits to counties and municipalities in the 2009(10) and 2010(11) tax years, with a 3% minimum guaranteed allowable levy increase and the computation of the allowable increase using the prior year's allowable levy.

2. Modify the Governor's recommendation pertaining to the base levy for calculating the limit by:

a. changing the base levy to the prior year's actual levy, as under current law;

b. changing the base year levy to the sum of the prior year's actual levy and 50% of the difference between the allowable and actual levies for the preceding year, provided the allowable levy was higher; or

c. limiting the maximum increase in the local government's prior year actual levy, not including amounts excluded from the limit, to twice the rate of inflation.

3. Modify the Governor's recommendation by changing the minimum guaranteed allowable levy increase from 3.0% to one of the following amounts (different guarantees could apply to municipalities and counties):

a. 2.0% b. 2.5% c. 3.5% d. 4.0%

4. Create an additional, one-time adjustment for state aid reductions in 2010. Specify that if a state agency does not supply an estimate of the local government's 2010 aid payment by the date on which the local government determines its levy, the local government may calculate the adjustment as 1% of the amount received in 2009. Extend the adjustment to the following state aid programs (the adjustment could extend either to municipalities or counties, or both):

a. county and municipal aid;
b. general transportation aid;
c. recycling grants for municipalities;
d. payments for municipal services;
e. community aids;
f. children and family aids;
g. youth aids; or
h. all of the above.

Apply one of the following percentages to the aid loss to compute the allowable levy adjustment:

i. 100%
j. 75%
k. 50%
l. 25%

5. Delete the AB 75 provision that would sunset the levy limit program after levies are imposed for the 2010(11) property tax year, thereby making the control permanent.

6. Delete provision.

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