



Legislative Fiscal Bureau

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TO: Members
Wisconsin Legislature

FROM: Bob Lang, Director

SUBJECT: Property Tax Estimates Under the Governor's Budget Bill

This memorandum provides an estimate of the effects of Assembly Bill 43 and Senate Bill 70 (the Governor's 2023-25 biennial budget bill) on property taxes. This memorandum also updates the property tax estimates for the 2022(23) tax year based on reports filed with the Department of Revenue (DOR) by local governments.

For school districts, the Governor's budget bill (AB 43/SB 70) would make several changes that would affect statewide school levies, including: (a) providing a revenue limit per pupil adjustment of \$350 in 2023-24 and \$650 in 2024-25; and (b) increasing the low revenue adjustment under revenue limits from \$10,000 per pupil in 2022-23 to \$10,450 per pupil in 2023-24 and \$11,200 per pupil in 2024-25. These adjustments would provide an estimated increase in statewide revenue limit authority of \$232 million in 2023-24 and \$769 million in 2024-25, which would be offset by a net funding increase of \$213 million in 2023-24 and \$793 million in 2024-25 for general school aids.

Technical college districts have been subject to a revenue limit since the 2014 tax levy. Under the limit, each district cannot increase revenue in any year by a percentage greater than its valuation factor, defined as the greater of 0% or the percentage change in the district's equalized value due to net new construction in the district in the prior year. For purposes of the limit, revenue is defined as the sum of the district's tax levy, its personal property aid payment, and its property tax relief aid, which is the district's share of the \$449 million state property tax relief aid payment to technical college districts. The bill would change the technical college districts revenue limit so that a district would not be allowed to exceed its revenue in the previous school year by the greater of 2% or the percentage change in its equalized value due to net new construction. This provision would increase technical college levies by an estimated \$2.4 million in 2023(24) and \$4.9 million in 2024(25).

AB 43/SB 70 would make a number of changes related to county and municipal finances. In addition to changes to the county and municipal levy limit program, the bill would provide an increase of \$576.2 million in general, unrestricted aid to counties and municipalities. The bill would

also exempt remaining items of personal property from property taxation, and replace the tax levy on that property with an aid payment to all taxing jurisdictions. These changes, and their estimated effects on municipal and county levies, are summarized briefly below.

Levy Limit Changes. AB 43/SB 70 would make several modifications to the county and municipal levy limit program. Under the current law limit, initial levy increases for each municipality and county are based on the greater of 0%, or the percentage change in each jurisdiction's tax base due to net new construction that occurred in the jurisdiction during the prior year. AB 43/SB 70 would make these primary changes to the levy limit program:

a) Change the definition of "valuation factor" so that the minimum allowable percentage change to county and municipal levies would be 2% rather than 0%. Current law prohibits counties and municipalities from increasing their levies by a percentage that exceeds their valuation factor. The "valuation factor" is currently defined as a percentage change equal to the greater of either the percentage change in a county or municipality's January 1 equalized value due to net new construction, or 0%.

b) Repeal the negative levy limit adjustment for covered services. Current law requires counties and municipalities to reduce their allowable levies by an amount equal to the estimated fee revenues received in lieu of property taxes for providing a covered service that was funded with the property tax levy in 2013. A "covered service" is defined to mean garbage collection, fire protection, snow plowing, street sweeping, or storm water management, although some specific exceptions exist. Under this provision, counties and municipalities that receive new or additional fee revenues for covered services, which were funded from their levy in 2013, would no longer be required to reduce their allowable levies by the estimated annual fee revenues.

c) Repeal the negative levy limit adjustment for services transferred to another local government. Current law requires counties and municipalities that transfer responsibility for providing a service to another unit of local government to reduce their allowable levy by an amount equal to the cost that the county or municipality would have incurred if it had continued to provide the transferred service.

Allowing a minimum allowable levy increase of 2% would increase municipal levies by an estimated \$23.1 million in 2023(24) and \$23.9 million in 2024(25). This provision would also increase estimated county levies by \$13.6 million in 2023(24) and \$13.9 million in 2024(25). Repealing the negative adjustment for fees for covered services would increase municipal levies by an estimated \$0.4 million in each year, but would have no effect on county levies. Finally, repealing the negative adjustment for services transferred to another unit of local government would increase municipal levies by an estimated \$0.3 million in each year, but would have a negligible effect on county levies. These estimates are based on average annual adjustments made since 2018.

AB 43/SB 70 would also create two limited exclusions to the levy limit for costs related to new or enhanced transit services across adjacent county or municipal borders, as well as for amounts levied to pay for a county or municipality's share of a regional planning commission. Additionally, AB 43/SB 70 would also modify the requirement for a supermajority to approve the use of carryover

levy authority to allow for a simple majority to approve. Finally, the bill would modify the current exclusion for amounts levied to pay for charges assessed by a joint fire department or joint emergency medical services district to allow counties or municipalities to levy for charges assessed by a broader range of joint fire protection services or joint emergency medical services. These modifications are not expected to have a measurable impact on county and municipal levies.

Increased State Aid to Counties and Municipalities. AB 43/SB 70 would provide \$576.2 million in unrestricted aid to counties and municipalities through a new municipal and county aid program. The municipal and county aid program would primarily be provided through a public safety payment, a per capita aid payment, and an aidable revenues aid payment. The funding distributed to counties and municipalities under the new municipal and county aid program would represent a significant increase in unrestricted funding to counties and municipalities. While the significant increase in state aid could dampen levy increases in the biennium, it is expected that counties and municipalities will continue to use most of their allowable levy. Nonetheless, under the proposed \$576.2 million in additional aid, it is estimated that levies would be \$22.2 million lower than allowable levies in 2024(25) for municipalities and \$7.8 million lower in 2024(25) for counties. As a result, total municipal and county levies would be an estimated 0.5% lower than what those levies otherwise would have been in that year without the additional aid.

AB 43/SB 70 would make several other changes to funding for school district categorical aid, general transportation aid for counties and municipalities, transit aid, and state general aid for technical college districts. These funding changes are not estimated to have a measurable effect on the tax levies of school districts, counties, municipalities, or technical college districts.

Personal Property Tax Exemption. As mentioned above, AB 43/SB 70 would provide an exemption from general property taxation for items of personal property, effective with property taxes levied in 2024(25). Accordingly, total statewide equalized values would decline in that year to reflect the exemption of this property from taxation. Municipalities may apply to the Department of Revenue to recertify a tax incremental financing district base to remove the value of the personal property following the exemption. The bill would also provide an aid payment to local taxing jurisdictions to hold them harmless for the loss in taxable value, in order to prevent property taxes from shifting to other properties that remain taxable in 2024(25). This aid payment would be based on amounts levied on the property in 2023(24). The payment would be substantially similar to the current law exempt property aid payment, in that local governments would include the aid payment in their base year levies for the purposes of calculating the allowable growth in their levies under the levy limit program. Under the bill, the amount of the newly-created aid payment would be adjusted each year by the rate of inflation in the prior year, beginning in 2025(26).

As the exemption would reduce both statewide levies and equalized values at a similar rate in 2024(25), overall gross tax rates in that year would not be affected by this exemption. However, net tax rates would decrease somewhat, as the school levy tax credits that had been distributed to items of personal property would be redistributed to remaining taxable properties.

Statewide Median-Valued Home Tax Bill Estimates. Based on reports filed with DOR, gross property tax levies are estimated to total \$12,505.9 million on a statewide basis for 2022(23). This

represents a 2.4% increase relative to the 2021(22) statewide total of \$12,207.8 million. After applying state property tax credits, net property tax levies in 2022(23) are estimated to be \$11,099.7 million, an increase of 2.9% compared to the 2021(22) total of \$10,784.5 million. Under AB 43/SB 70, gross property levies would increase on a statewide basis by an estimated 3.2% in 2023(24) and by an estimated 1.9% in 2024(25), while net property tax levies would increase on a statewide basis by an estimated 3.8% in 2023(24) and by an estimated 2.2% in 2024(25). The following table reports these amounts by type of taxing jurisdiction.

Under current law, for 2023(24) and 2024(25), gross levies are estimated to increase by 1.8% and 3.3% for school districts, by 3.2% in each year for technical college districts, by 3.4% in each year for municipalities, and by 2.3% in each year for counties. Under AB 43/SB 70, statewide 2023(24) and 2024(25) levies would increase by an estimated 2.3% and 1.2% for school districts, by 3.7% and 2.4% for technical college districts, by 3.5% and 1.9% for municipalities, and by 2.8% and 0.8% for counties. The change in estimated levies under the bill compared to current law are primarily due to the proposed increase to the minimum allowable levy for municipalities, counties, and technical colleges, which would be offset in part by the estimated impacts of the Governor's proposed aid increases to counties, municipalities, and school districts mentioned earlier.

The table also shows estimates of the impact of various tax amounts on the median-valued home taxed at the statewide average tax rate. Home value estimates are based on the values reported by the American Communities Survey (ACS), which is an annual survey carried out by the US Census Bureau. The median home value is projected to increase by 9.1% in 2023 and decrease by 2.9% in 2024. Comparatively, under current law, total statewide equalized values are projected to increase by 11.9% in 2023 and decrease by 3.1% in 2024. Under AB 43/SB 70, total statewide equalized values are also projected to increase by 11.9% in 2023, but would decrease by an estimated 4.3% in 2024, as a result of exempting items of personal property from taxation.

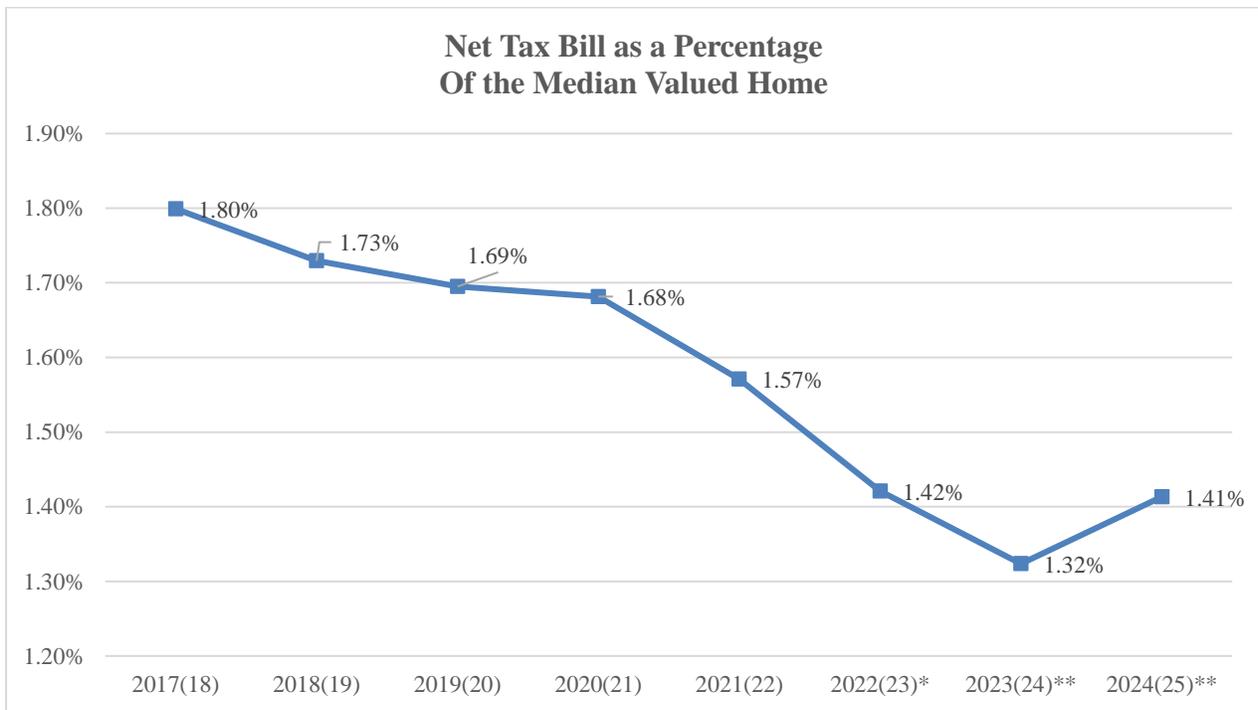
Total equalized values are expected to increase faster than the median home value in 2023(24). As a result, the estimated property tax on a median-valued home will increase by less than the rate of change in overall levies in 2023(24). While both total equalized values and the median home value are expected to decrease in 2024(25), the median home value is expected to decrease at a lower rate than the rate for total equalized values. As a result, property tax bills will increase at a greater rate than the rate for overall levies in 2024(25). Under the bill, statewide net levies are estimated to increase by 3.8% in 2023(24) and by 2.2% in 2024(25). In comparison, the estimated net tax bill on a median-valued home is estimated to increase by 1.3% in 2023(24) and by 4.0% in 2024(25). Net tax bills are estimated at \$3,321 for 2023(24) and \$3,454 for 2024(25) under AB 43/SB 70, compared to \$3,307 for 2023(24) and \$3,458 for 2024(25) under current law.

Property Tax Estimates Under AB 43/SB 70

	Final <u>2021(22)</u>	Preliminary Estimates <u>2022(23)</u>	Estimates Based on Provisions <u>in the Governor's Budget</u>	
			<u>2023(24)</u>	<u>2024(25)</u>
Tax Levies (In Millions)				
Municipalities	\$3,209.3	\$3,360.3	\$3,477.1	\$3,542.7
Counties	2,382.1	2,458.3	2,527.9	2,547.3
School Districts	5,398.4	5,477.1	5,605.0	5,675.0
Technical College Districts	470.0	476.2	494.0	505.8
Tax Increment Districts	624.1	605.4	672.9	756.6
Special Purpose Districts	123.9	128.7	131.3	131.9
Gross Property Tax Levies	\$12,207.8	\$12,505.9	\$12,908.1	\$13,159.3
Change to Prior Year		298.1	402.2	251.2
Net Property Tax Levies	10,784.5	11,099.7	11,522.6	11,775.5
Change to Prior Year		315.1	422.9	252.9
Percent Change				
Municipalities		4.7%	3.5%	1.9%
Counties		3.2	2.8	0.8
School Districts		1.5	2.3	1.2
Technical College Districts		1.3	3.7	2.4
Tax Increment Districts		-3.0	11.1	12.4
Special Purpose Districts		3.9	2.0	0.5
Gross Property Tax Levies		2.4%	3.2%	1.9%
Net Property Tax Levies		2.9	3.8	2.2
Tax Bill Estimate -- Current Law				
Median-Valued Home	\$212,600	\$230,700	\$251,600	\$244,400
Tax Bill Estimate	3,340	3,278	3,307	3,458
Change Over Prior Year				
-Amount		-\$62	\$29	\$151
-Percent		-1.9%	0.9%	4.6%
Tax Bill Estimate -- AB 43/SB 70				
Median-Valued Home	\$212,600	\$230,700	\$251,600	\$244,400
Tax Bill Estimate	3,340	3,278	3,321	3,454
Change Over Prior Year				
-Amount		-\$62	\$43	\$133
-Percent		-1.9%	1.3%	4.0%
Change Over Current Law				
-Amount			\$14	-\$4
-Percent			0.4%	-0.1%

The figures in the table are estimates for the state as a whole. The tax impacts on individual municipalities would vary considerably from these figures.

The figure below reports the net tax bill as a percentage of the median home value since 2017(18). While the total net tax bill on a median-valued home is expected to increase in each year, the net tax bill as a percentage of the value of the home will decrease in 2023(24) and increase in 2024(25). This would occur because in 2023(24), the percentage growth in statewide equalized values (11.9%) would outpace the growth in statewide net property tax levies under the bill (3.8%), while in 2024(25) the statewide equalized values are estimated to decline by 4.3% under the bill as statewide net levies would continue to increase by 2.2%. In 2022(23), the net tax bill was estimated to be 1.42% of the home value. As shown below, the net tax bill is estimated to be 1.32% of the home value in 2023(24) under current law and the bill, and 1.42% of the home value in 2024(25) under current law compared to 1.41% under the bill.



*Preliminary values.

** Projected values, under the bill.

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