Legislative Fiscal Bureau
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February 4, 2004

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Assembly Bill 431: Proposed Changes to the County Tax Levy for Public Libraries

Assembly Bill 431 was referred to the Assembly Committee on Ways and Means, which recommended the bill as amended by Assembly Amendment 1 for passage on a 12 to 0 vote on September 30, 2003. The bill was referred to the Joint Committee on Finance on September 30, 2003.

BACKGROUND

Currently, most library services are provided by municipal libraries, which receive funding from municipal governments. Where there are no municipal libraries, county governments provide library services or contract for such services. Library systems, which can operate on a single- or multi-county basis, receive state aids for coordination and supplementation of services beyond what could be provided by local and county funds. Currently, all public libraries participate in library systems.

In order for counties and municipalities to participate in library systems, they must meet certain statutory requirements. Each county within a system is required to maintain its financial support for library services at a level not lower than the average of the previous three years.

Under current law, each county except Milwaukee County is required to make payments to each public library in the county, if the county does not maintain a consolidated public library for the county and contains residents of municipalities that do not maintain a municipal or joint library. Payments must equal at least 70% of the amount of the cost of providing library materials to those county residents, according to a specified method of calculating that cost.

Under current law, a county board may levy a tax for the purpose of providing library services to county residents. Any city, town, village or school district in a county levying a tax for public library service can be exempted from the county tax levy. The exemption must be granted if the city, town, village, or school district levies a tax and appropriates and expends for libraries at a rate at least equal to that levied by the county.

SUMMARY OF BILL

Assembly Bill 431 would exclude county capital expenditures for public libraries from the county tax levy before comparing it to the municipal tax levy for public libraries, in determining whether the municipality's tax effort qualifies it for an exemption from the county levy.

Assembly Bill 431 would also create a second method of calculating the amount that the municipality would have to levy for public libraries in order qualify for an exemption from the county levy. The bill would specify that a municipality would qualify for an exemption from the county levy for public libraries if its levy is at least equal to the lesser of: (a) the current law exemption as modified by the bill, which is the amount generated by applying the county mill rate (after subtracting any county levy for capital expenditures) to property in the municipality; and (b) the amount generated by multiplying the per capita county levy (after subtracting any county levy for capital expenditures) times the population of the municipality.

The bill would first apply to property tax assessments as of January 1, 2004.

ASSEMBLY AMENDMENT 1

AA 1 to AB 431 would specify that the second method of calculating the required municipal levy in order to qualify for an exemption from the county levy for libraries that would be created under the bill would only apply if the county board approves.

FISCAL EFFECT

There would be no state fiscal effect under the bill.

The proposed exclusion for county capital expenditures from the county tax levy for comparison with the municipal tax levy for public libraries relates to an accounting difference that has been identified in the past. Under current law, the county library tax includes taxes for capital outlays. However, capital outlays may be funded by municipalities through bonding and repaid through a debt retirement fund. Because this type of fund is separate from the library fund, for some municipalities capital outlays may be excluded from the comparison.

At the local level, according to the Department of Public Instruction (DPI), the current law exemption statute is meant to ensure that municipal tax dollars are expended by that municipality's local library. For those county residents who do not reside within a city, town, or village providing a library, the county levies a tax to cover the costs of providing these nonresidents with library services at municipal libraries. The exemption requires that municipalities tax at a rate at least equal to that of the county. Nonresidents are thus assured that they are required to support library services at a rate that is no higher than the library community residents themselves pay. Conversely, library community residents avoid paying both for their own local library and for library service to nonresidents without a local library.

According to DPI, most municipalities qualify for an exemption from the county tax levy under the current law provision. In 2001, DPI reports that 304 of 370 municipal and joint libraries were exempted from the county library tax. Most of the remaining 66 libraries qualified for exemption but for a variety of reasons did not request it. In 2002 the average tax rate per $1,000 of assessed valuation for communities with libraries was $0.66. For counties with nonresident populations, the rate was $0.27.

Under current law, the county library tax rate functions as a uniform minimum tax rate for library service in the county. DPI has asserted that this arrangement ensures that there is no financial incentive for a municipality to establish a lower-cost, substandard library in order to avoid the county library tax. Any municipal exemption removes a portion of the property tax base supporting county-provided library services and shifts more costs to remaining county library taxpayers. AB 431 would recognize an additional measure of tax effort, thus increasing opportunities for exemptions. DPI has raised the concern that if a municipal library is substandard, local residents might choose to use other libraries, even though, due to the exemption, they would no longer support those libraries financially.

For some municipalities, the per capita exemption would allow them to levy at a rate well below the county rate. The local library would receive less funding, and local property taxes would be lower, compared to current law. A community with an above-average property tax base compared to its county could levy a lower rate and still raise a per capita amount equal to that of the county's per capita amount, though the county's tax rate would be higher. However, it is not possible to provide a precise fiscal effect, because it would depend on the decisions of individual municipalities to apply for exemptions, and for the per capita exemption, the decisions of county boards whether to approve the exemptions.

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