



## Legislative Fiscal Bureau

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TO: Members  
Wisconsin Legislature

FROM: Bob Lang, Director

SUBJECT: Joint Committee on Finance Version of SB 28 and AB 58: Fiscal Control on Local Property Taxes

Senate Bill 28 and Assembly Bill 58 would impose levy limits on counties, municipalities, and technical college districts and modify school district revenue limits. Senate Bill 28 was introduced on January 25 and Assembly Bill 58 was introduced on January 27. Both bills were referred to the Joint Committee on Finance. Senate Substitute Amendment 1 to SB 28 and Assembly Substitute Amendment 1 to AB 58, which are identical, were introduced on January 27. On February 1, the Joint Committee on Finance held a public hearing on the substitute amendments, and the Committee adopted two amendments to the substitutes at an executive session on the same day. One amendment imposed a restriction on growth in state forestry tax levies and the second made modifications to the school district revenue limits. The Committee adopted and recommended for passage both substitute amendments, as amended, on a vote of 12 to 4. This paper summarizes the provisions in the substitute amendments, as amended by the Joint Committee on Finance, and provides information on their fiscal effect.

### **SUMMARY OF SUBSTITUTE AMENDMENTS, AS AMENDED**

#### **County and Municipal Levy Limit**

The substitute amendments would limit the rate of increase in the property tax levy of each county and municipality to the jurisdiction's percentage change in tax base due to new construction, less improvements removed, as determined for January 1 equalized values in the year of the levy, but not less than zero. The limit would not apply to any tax increments from a tax incremental financing district.

The levy limit would be sunset three years after the substitute amendments' effective date. Therefore, if enacted during the current year, the control would apply to taxes levied in 2005

(payable in 2006), 2006 (payable in 2007), and 2007 (payable in 2008). The tax rate limit imposed on counties under current law would remain in effect throughout and after this three-year period.

The Department of Revenue (DOR) would administer the levy limit for counties and municipalities.

The substitute amendments would authorize several adjustments to the allowable levy:

*Transfers of Service.* A local government that transfers a service to another governmental unit would have its levy limit decreased to reflect the cost that the local government would have incurred to provide the service, as determined by DOR. A local government that assumes responsibility for providing a service previously performed by another governmental unit would have its levy limit increased to reflect the cost of that service, as determined by DOR.

*Annexations.* The allowable levy for municipalities involved in annexations would be adjusted to reflect the levy on that property in the prior year. The levy limit for a city or village annexing property would be increased by an amount equal to the town taxes levied on the property in the previous year. The levy limit for the town previously containing the annexed property would be reduced by an identical amount.

*Debt Service.* Adjustments for amounts levied for debt service would be permitted under either of two provisions. First, if the amount needed for debt service in the current year exceeds the amount of debt service in the previous year, the levy limit for the county or municipality would be increased by the amount of the difference, as determined by DOR, if the additional amount is required to service debt authorized through a resolution adopted by the county or municipality before July 1, 2005. Second, for debt authorized on or after July 1, 2005, amounts needed for debt service would not be subject to the limitation if the debt is authorized by referendum and is secured by the full faith and credit of the county or municipality. For purposes of the levy limit, debt service would be defined to include debt service on debt issued or reissued to fund or refund outstanding obligations of the county or municipality, interest on outstanding obligations, or the payment of related issuance costs or redemption premiums.

*County Children With Disabilities Education Boards.* The limitation would not apply to amounts levied by a county for a county children with disabilities education board. State law authorizes counties to establish special education programs to provide services to children with disabilities. Although school districts generally provide these services, four counties have fiscally independent special education programs. They include Brown, Calumet, Racine, and Walworth counties, although Racine County is discontinuing its program in 2005.

*First Class City Levies for Schools.* The limitation would not apply to amounts levied by a first class city for school purposes. Chapter 120 of the state statutes establishes the governance structure for most school districts, but any district located in a city of the first class is organized under Chapter 119 of the statutes. Currently, Milwaukee Public Schools (MPS) is the only school district operating under Chapter 119. In such districts, state law directs the school board to submit

its budget to the common council, and the common council is required to levy a tax "equal to the amount of money required by the board." The substitute amendments clarify that the levy for school purposes is not part of the city's levy for purposes of the levy limit. As a school district, MPS is subject to revenue limits.

*Referendum to Exceed Limit.* A county or municipality would be permitted to exceed its levy limit by an amount approved both by its governing body in a resolution and by its electors in a referendum. The resolution and referendum would have to specify whether the proposed increase in the levy is for the next fiscal year only or if it would apply on an ongoing basis. In 2005 or 2007, the local government would be authorized to call a special referendum. In 2006, such a referendum would have to be held at the same time as the spring primary or election or September primary or November general election.

The referendum question would have 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 \$....?" The clerk of the county or municipality would have to submit the results of the referendum to DOR within 14 days of the referendum. If the increase is approved for only one year, the amount of the increase would be subtracted from the base used to calculate the levy limit for the next year.

*Town Meeting Vote to Exceed Limit.* Towns with populations under 2,000 would be allowed to exceed the levy limit if the increase is approved at the annual town meeting or a special town meeting. The town clerk would have to certify the results of the town meeting vote to DOR within 14 days after a vote approving an increase in the town's levy limit.

### **Technical College District Levy Limit**

The substitute amendments would limit the rate of increase in the property tax levy of each technical college district to 2.6% per year. The levy limit would be sunset three years after the substitute amendments' effective date. Therefore, if enacted during the current year, the control would apply to taxes levied in 2005 (payable in 2006), 2006 (payable in 2007), and 2007 (payable in 2008). The tax rate limit imposed on technical college districts under current law (1.5 mills for the operating levy) would remain in effect throughout and after this three-year period. The Department of Revenue (DOR) would administer the levy limit for technical college districts.

The substitute amendments would authorize several adjustments to the allowable levy:

*Transfers of Service.* A district that transfers a service to another governmental unit would have its levy limit decreased to reflect the cost that the district would have incurred to provide the service, as determined by DOR. A district that assumes responsibility for providing a service previously performed by another governmental unit would have its levy limit increased to reflect the cost of that service, as determined by DOR.

*Debt Service.* Adjustments for amounts levied for debt service would be permitted under either of two provisions. First, if the amount needed for debt service in the current year exceeds the amount of debt service in the previous year, the levy limit for the district would be increased by the amount of the difference, as determined by DOR, if the additional amount is required to service debt authorized through a resolution adopted by the district's board before July 1, 2005. Second, for debt authorized on or after July 1, 2005, amounts needed for debt service would not be subject to the limitation if the debt is authorized by referendum and is secured by the full faith and credit of the district. For purposes of the levy limit, debt service would be defined to include debt service on debt issued or reissued to fund or refund outstanding obligations of the district, interest on outstanding obligations, or the payment of related issuance costs or redemption premiums.

*Referendum to Exceed Limit.* A district would be permitted to exceed its levy limit by an amount approved both by the district board in a resolution and by its electors in a referendum. The resolution and referendum would have to specify whether the proposed increase in the levy is for the next fiscal year only or if it would apply on an ongoing basis. In 2005 or 2007, the district board would be authorized to call a special referendum. In 2006, such a referendum would have to be held at the same time as the spring primary or election or September primary or November general election.

The referendum question would have to be submitted to the electors as follows: "Under state law, the percentage increase in the levy of the .... (name of district) for the next fiscal year, .... (year), is limited to ....%, resulting in a levy of \$.... Shall the .... (name of the district) be allowed to exceed this limit such that the percentage increase for the next fiscal year, .... (year), will be ....%, resulting in a levy of \$....?". The district board would have to submit the results of the referendum to DOR within 14 days of the referendum. If the increase is approved for only one year, the amount of the increase would be subtracted from the base used to calculate the levy limit for the next year.

### **School District Revenue Limits**

*Current Law.* Under revenue limits, the annual increase in a school district's per pupil revenue derived from general school aids, computer aid, and property taxes is restricted. Actual general aids, computer aid, and property tax revenues received in the prior year are used to establish the base year amount in order to compute the allowable revenue increase for the current school year. A per pupil revenue limit increase is added to the base revenue per pupil for the current school year. There are several adjustments that are made to the standard revenue limit calculation, such as the declining enrollment adjustment, transfer of service, and the low-revenue ceiling. The difference between a district's revenue limit and the October 15 general school aid estimate provided by the Department of Public Instruction, less the district's computer aid eligibility, determines the maximum amount of revenue the district is allowed to raise through the property tax levy for these controlled revenues. School property taxes for referenda-approved debt and the community service levy are not subject to revenue limits. In addition, school districts may obtain either recurring or nonrecurring increases to their revenue limits through referendum approval.

In 2004-05, the per pupil adjustment is \$241.01. Based on current projections of inflation, it is estimated that the per pupil adjustment would be \$248 in 2005-06 and \$252 in 2006-07.

*SSA 1/ASA 1 as amended by Joint Finance.* As amended, the substitute amendments would create an annual process to establish the per pupil adjustment under revenue limits, beginning in 2005-06, at an amount that, together with the amount appropriated for general school aids, would result in an increase in the statewide school property tax levy of an estimated 2.6%. Under the amendments, within 14 working days after enactment of the biennial budget in each odd-numbered year, and by August 1 in each even-numbered year, the Departments of Public Instruction and Administration and the Legislative Fiscal Bureau would jointly certify to the Joint Committee on Finance a per pupil adjustment, rounded to the nearest dollar, for the school year in which the certification occurs that would result in an increase in the statewide school property tax levy of an estimated 2.6%. Annually, by the third Friday in September, Joint Finance would be required to determine the per pupil adjustment for that school year.

### **State Forestry Tax**

The state imposes a property tax at a rate of 0.2 mill (\$0.20 per \$1,000 of value) on all taxable property for purposes of acquiring, preserving, and developing the forests of the state. Although the rate of the tax is established in the statutes at 0.2 mill, authorization for the tax is also contained in Article VIII, Section 10, of the Wisconsin Constitution, which specifies that the rate cannot exceed 0.2 mill. The Joint Committee on Finance amended the substitute amendments to suspend the tax rate provision under current law and, instead, provide that the tax rate would be set at a level, as determined by DOR, that would produce an annual revenue increase of 2.6% for the three years succeeding the bill's enactment. The rate in effect in the third year would remain in effect in all succeeding years.

### **FISCAL EFFECT**

#### **Estimated Effect on Property Taxes**

Based on preliminary reports, gross property tax levies are estimated to total \$8,152.1 million on a statewide basis for 2004(05). Assuming no change in state aid appropriations or other law changes affecting local governments, levies are estimated to increase by 5.9% in 2005(06) and 6.0% in 2006(07). These estimates were calculated based on trends displayed in actual property tax levies between the 1996(97) and 2004(05) tax years. For school districts, the levies are estimated based on trends in enrollment and in various adjustments under revenue limits. Gross property tax levies would increase on a statewide basis by an estimated 2.7% in both 2005(06) and 2006(07) under the provisions in the substitute amendments, as adopted by the Joint Committee on Finance. Table 1 reports these amounts by type of taxing jurisdiction.

Between 1996 and 2004, new construction, on average, added 2.6% to the statewide tax base each year. Based on the assumption that this trend will continue, municipal and county property tax

levy increases of 2.6% over the next two years are estimated under the substitute amendments. If the distribution of new construction in the state varies from the distribution of property tax levies, statewide levy increases for municipalities and counties could vary from the projected 2.6% level. The substitute amendments would allow for increases of 2.6% each year for technical college districts. These estimates are based on the assumptions that state aid for municipalities and counties will remain unchanged over the next two years and that, under the provisions of the substitute amendments, additional debt will not be authorized that would result in levies excluded from the control and no referenda will be adopted authorizing additional tax levy increases.

The modifications to school revenue limit provisions also would result in statewide levy increases estimated at 2.6% in both 2005(06) and 2006(07) for school districts.

As a result of action by the Joint Committee on Finance, state forestry taxes also would increase by 2.6%. Otherwise, state forestry taxes would increase by 7.5%, the same rate of change as estimated for statewide property values. Relative to current law, forestry tax collections would be lower by \$3.8 million in 2005(06) and \$8.1 million in 2006(07).

Statewide property tax levies would increase at rates higher than the rates estimated for municipalities, counties, technical college districts, school districts, and the state forestry tax because of the higher estimated levies for special purpose districts, including tax increment districts, which would not be limited. Under current law provisions, gross property taxes are estimated at \$8,636.0 million in 2005(06) and \$9,152.7 million in 2006(07). Under the substitute amendments, statewide gross property taxes of \$8,374.1 million in 2005(06) and \$8,602.1 million in 2006(07) are estimated. The levies over the next two years under the substitute amendments would be somewhat higher if referenda are adopted or if additional amounts are needed to fund debt approved prior to July 1, 2005.

Also, Table 1 includes estimates of the impact of the various tax amounts on the median-valued home taxed at the statewide average tax rate. Home value estimates are based on the 2000 median home value for Wisconsin reported in the 2000 decennial census, adjusted to reflect the annual change in residential property values due to economic factors (appreciation) as reported by the Department of Revenue. Due to new construction, there will be more tax base in 2005 and 2006 than in 2004, so the estimated tax increase on a median-valued home under each set of assumptions is less than the estimated rate of increase in statewide tax levies. Although statewide tax levies are estimated to increase at a rate that is only 0.1% higher than the rate of increase in tax base due to new construction, the substitute amendments would produce taxes on a median-valued home that are estimated to increase by 1.3% in 2005(06) and 0.9% in 2006(07). This occurs due to the interaction of the rates of change assumed for home values (5.4%), statewide equalized values (7.5%), and property tax levies (2.7%). For properties with lower rates of change in their values, the resulting tax bill increase would be lower, and tax bill reductions would occur for some properties.

The figures in Table 1 provide estimates for the state as a whole. The tax impacts in individual municipalities would vary considerably from these figures. Municipal and county levies

would vary based on the amount of new construction occurring in each municipality and county. For example, new construction in 2003 (used to determine January 1, 2004, equalized values) was less than 1% in 331 municipalities and greater than 4% in 268 municipalities, although the statewide average was 2.6%. For counties, new construction was less than 2% in 26 counties and greater than 3% in 10 counties. School district levies would vary by district depending on the actual amount of general school aids received and whether each district would levy to the maximum allowed under revenue limits.

**TABLE 1**

**Property Tax Estimates Under Current Law and Fiscal Control Proposal**

	Preliminary	Current Law Estimates		Joint Finance Estimates	
	Estimate <u>2004(05)</u>	<u>2005(06)</u>	<u>2006(07)</u>	<u>2005(06)</u>	<u>2006(07)</u>
<b>Tax Levies (In Millions)</b>					
Municipalities	\$1,949.8	\$2,055.0	\$2,166.0	\$2,000.4	\$2,052.5
Counties	1,615.3	1,700.9	1,791.0	1,657.3	1,700.4
School Districts	3,610.7	3,843.0	4,094.0	3,704.6	3,800.9
Technical College Districts	590.8	620.4	651.4	606.2	621.9
Other Non-TID Jurisdictions	165.0	174.5	184.6	170.7	176.5
Tax Increment Districts	<u>220.5</u>	<u>242.2</u>	<u>265.7</u>	<u>234.9</u>	<u>249.9</u>
Gross Property Tax Levies	\$8,152.1	\$8,636.0	\$9,152.7	\$8,374.1	\$8,602.1
Change to Prior Year		483.9	516.7	222.0	228.0
Change to Current Law				-261.9	-550.6
<b>Percent Change</b>					
Municipalities		5.4%	5.4%	2.6%	2.6%
Counties		5.3	5.3	2.6	2.6
School Districts		6.4	6.5	2.6	2.6
Technical College Districts		5.0	5.0	2.6	2.6
Other Non-TID Jurisdictions		5.8	5.8	3.5	3.4
Tax Increment Districts		<u>9.8</u>	<u>9.7</u>	<u>6.5</u>	<u>6.4</u>
Gross Property Tax Levies		5.9%	6.0%	2.7%	2.7%
<b>Tax Bill Estimate</b>					
Median-Valued Home	\$142,814	\$150,526	\$158,654	\$150,526	\$158,654
Tax Bill Estimate	\$2,706	\$2,833	\$2,956	\$2,740	\$2,764
Change to Prior Year		127	123	34	24
Change to Current Law				-93	-192
Percent Change to Prior Year		4.7%	4.3%	1.3%	0.9%

Finally, the substitute amendments would affect tax increment districts. Because property tax levels would be lower than under current law, fewer tax increments would be generated, thereby increasing the length of time necessary to repay development costs and retire districts. However, it should be noted that the proposed fiscal controls are temporary and would affect individual districts differently depending on how they are structured.

## Estimated Effect on Local Government Expenditures

The property tax is the largest tax source for Wisconsin local governments, and the combination of property taxes and unrestricted state aids funds the majority of local governments' discretionary spending. Many of the other revenues raised by local governments are dedicated to fund specific services, similar to the state's program and segregated revenues. Table 2 reports the effects of the proposed fiscal control on local governments' discretionary spending financed from these sources, assuming no increases in unrestricted state aids.

**TABLE 2**

### Estimated Effect of Proposed Fiscal Control on Local Government Discretionary Spending Assuming No State Aid Increases (\$ in Millions)

	<u>2004(05)</u>	<u>2005(06)</u>	<u>2006(07)</u>
School Districts			
Property Tax Levy	\$3,610.7	\$3,704.6	\$3,800.9
Unrestricted State Aid	<u>4,248.3</u>	<u>4,248.3</u>	<u>4,248.3</u>
Total	\$7,859.0	\$7,952.9	\$8,049.2
Percent Change		1.2%	1.2%
Municipalities			
Property Tax Levy	\$1,949.8	\$2,000.4	\$2,052.5
Unrestricted State Aid	<u>777.6</u>	<u>777.6</u>	<u>777.6</u>
Total	\$2,727.4	\$2,778.0	\$2,830.1
Percent Change		1.9%	1.9%
Counties			
Property Tax Levy	\$1,615.3	\$1,657.3	\$1,700.4
Unrestricted State Aid	<u>174.7</u>	<u>174.7</u>	<u>174.7</u>
Total	\$1,790.0	\$1,832.0	\$1,875.1
Percent Change		2.3%	2.4%
Technical College Districts			
Property Tax Levy	\$590.8	\$606.2	\$621.9
Unrestricted State Aid	<u>118.4</u>	<u>118.4</u>	<u>118.4</u>
Total	\$709.2	\$724.6	\$740.3
Percent Change		2.2%	2.2%

## Estimated Effects on the Per Pupil Adjustment of Possible Aid Increases

Under the substitute amendments as amended by Joint Finance, the per pupil adjustment under revenue limits would be set at an amount that, together with the amount appropriated for general school aids, would result in an estimated statewide school property tax levy of 2.6%. Thus, the more general aid appropriated by the state, the higher the amount at which the per pupil adjustment would be set. Table 3 shows the per pupil adjustments that would result in the 2005-07 biennium if the indicated increases in general aid were appropriated. For example, as shown in the table, if an additional \$50 million in general aid were appropriated in 2005-06, and a



further increase of \$50 million were appropriated in 2006-07, a per pupil adjustment of \$145 in 2005-06 and \$130 in 2006-07 would result in an estimated school levy increase of 2.6% compared to the prior year in each year.

Also shown in Table 3 is the estimated reduction in statewide school district revenue limit authority that would result from the per pupil adjustment at each of the funding levels. For example, if annual increases of \$50 million were appropriated in each year of the biennium compared to the prior year, resulting in per pupil adjustments of \$145 in 2005-06 and \$130 in 2006-07, the estimated reduction in statewide revenue limit authority compared to current law would be \$88 million in 2005-06 and \$194 million in 2006-07. It should be noted that the figures presented in Table 3 are static estimates of the effect of the proposed changes as if the changes had applied to 2004-05 enrollment. If a district has increasing enrollment, the proposed reduction would affect more pupils, and the effect would be greater than that indicated in the table. Conversely, if a district has declining enrollment, the effect would be lesser.

**TABLE 3**

**Per Pupil Adjustments Under Various Levels of Additional Aids**

Additional General Aid in 2005-06 and 2006-07 Compared to Base	Estimated Per Pupil Adjustment for 2.6% Levy Increase		Estimated Change in Revenue Limit Authority (\$ in Millions)	
	2005-06	2006-07	2005-06	2006-07
	\$0/\$0	\$87	\$72	-\$137
\$25 million/\$50 million	115	100	-114	-245
\$50 million/\$100 million	145	130	-88	-194
\$75 million/\$150 million	172	160	-65	-145
\$100 million/\$200 million	200	185	-41	-99
\$125 million/\$250 million	230	215	-15	-47
\$150 million/\$300 million	260	245	10	4

**Estimated Effect on State Property Tax Relief Programs**

The estimated property tax reductions under the substitute amendments would decrease the estimated cost of other state property tax relief programs as follows: (a) -\$2.3 million in 2005-06 and -\$4.5 million in 2006-07 for computer aid payments; (b) -\$1.5 million in 2005-06 and -\$3.0 million in 2006-07 for the homestead tax credit; and (c) -\$0.5 million in 2005-06 and -\$0.9 million in 2006-07 for the farmland preservation credit. In addition, state income tax collections would increase by an estimated \$4.1 million in 2005-06 and \$8.9 million in 2006-07 due to reduced property tax/rent credits.

BL/RO/sas