



## Legislative Fiscal Bureau

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TO: Members  
Wisconsin Legislature

FROM: Bob Lang, Director

SUBJECT: Assembly Bill 100: Fiscal Control on Local Property Taxes

Assembly Bill 100 (the Governor's 2005-07 biennial budget bill) would impose levy limits on counties and municipalities, modify school district revenue limits, and provide increased funding for K-12 school aids. Assembly Bill 100 was introduced by the Joint Committee on Finance, at the request of the Governor, on February 9. This paper summarizes the provisions in the bill that relate to fiscal controls and increased school aids, and provides information on their fiscal effect.

### **SUMMARY OF BILL PROVISIONS**

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

The bill would limit the rate of increase in the property tax levy of each county and municipality to the sum of an inflation factor and a growth factor. For both counties and municipalities, the inflation factor would be the average annual percentage change in the consumer price index for all urban consumers for the twelve months ending on June 30 of the current year. The growth factor would be a percentage equal to 60% of the percentage change in tax base due to new construction, less improvements removed, as determined for January 1 equalized values in the year preceding the levy (a technical modification to the bill would clarify which year's value change is to be used), but not less than zero. For counties, the growth factor would be based on net new construction occurring in the county. For municipalities, the growth factor would be based on net new construction occurring in the region to which the bill directs the Department of Revenue (DOR) to assign the municipality. DOR would make this assignment based on the county in which the municipality is located. If the municipality is located in multiple counties, the municipality's assignment would be based on the county in which the largest share of the municipality's taxable value is located. The bill would establish nine regions as follows:

| <u>Region</u> | <u>Counties Included</u>                                                                                     |
|---------------|--------------------------------------------------------------------------------------------------------------|
| Region 1      | Brown, Door, Florence, Kewaunee, Manitowoc, Marinette, Oconto, and Sheboygan                                 |
| Region 2      | Calumet, Fond du Lac, Green Lake, Marquette, Menominee, Outagamie, Shawano, Waupaca, Waushara, and Winnebago |
| Region 3      | Buffalo, Crawford, Jackson, La Crosse, Monroe, Pepin, Pierce, Trempealeau, and Vernon                        |
| Region 4      | Adams, Forest, Juneau, Langlade, Lincoln, Marathon, Oneida, Portage, Vilas, and Wood                         |
| Region 5      | Ashland, Bayfield, Burnett, Douglas, Iron, Price, Rusk, Sawyer, Taylor, and Washburn                         |
| Region 6      | Columbia, Dane, Dodge, Jefferson, Rock, and Sauk                                                             |
| Region 7      | Kenosha, Milwaukee, Ozaukee, Racine, Walworth, Washington, and Waukesha                                      |
| Region 8      | Grant, Green, Iowa, Lafayette, and Richland                                                                  |
| Region 9      | Barron, Chippewa, Clark, Dunn, Eau Claire, Polk, and St. Croix                                               |

The levy limit would not apply to any tax increments from a tax incremental financing district.

The levy limit would not apply to property taxes levied after December, 2006. Therefore, the control would apply to taxes levied in 2005 (payable in 2006) and 2006 (payable in 2007). The tax rate limit imposed on counties under current law would remain in effect throughout and after this two-year period.

DOR would administer the levy limit for counties and municipalities. The Department could promulgate rules relating to counties and municipalities reporting their debt service levies and nondebt service levies to the Department.

The bill 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 as follows: (a) the levy limit for a city or village annexing property would be increased by an amount equal to the city's or village's mill rate applied to the current assessed value of the

annexed territory; and (b) the levy limit for the town previously containing the annexed property would be decreased by an amount equal to the town's mill rate applied to the assessed value of the annexed territory in the last year that territory was subject to taxation by the town.

*Debt Service.* The levy limit would not apply to the amounts levied by a county or municipality for any general obligation debt service that 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, and related issuance costs and 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." AB 100 clarifies 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.

*County and Municipal Aid Reductions.* The allowable levy for a county or municipality would be increased by an amount equal to any reduction in the county's or municipality's county and municipal aid payment from the level received in the previous year.

*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 the proposed amount of the levy increase above the limit. The local government would be authorized to either call a special referendum or to hold a referendum at the same time as the next spring primary or election or September primary or November general election, provided that such an election is to be held no sooner than 42 days after the resolution is adopted.

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.

*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.

### **County and Municipal Levy Restraint Aid**

The bill would provide state aid to counties and municipalities that limit their levy increases by additional amounts beyond the level required by the proposed levy limits. Initial aid payments would not occur until 2007, but those payments would be based on tax levy increases that occur in 2005(06) and, therefore, could have an impact on county and municipal property tax levies beginning this year. Similarly, aid payments in 2008 and beyond would be based on tax levies from two years prior.

*Counties.* For counties, two distributions would be created. Funding would be set at \$25 million annually for the county levy restraint program and at \$10 million annually for the county levy restraint bonus program. Counties would qualify for payments under both programs if they limit their levy increases under a mechanism similar to, but more restrictive than, the proposed levy limit. The mechanism would differ from the proposed levy limit in two ways. First, county growth factors would be limited to no more than 2%. Second, the inflation and growth limit factors would be reduced to 85% of their original amounts.

Each eligible county's payment under the county levy restraint payment program would be calculated by: (a) dividing the county's tax levy by the sum of the levies for all eligible counties; and (b) multiplying the resulting percentage by \$25 million. Each eligible county's payment under the county levy restraint bonus payment program would be calculated by: (a) subtracting the county's tax levy from its maximum allowable levy; (b) dividing that amount by the sum of all such amounts for all eligible counties; and (c) multiplying the resulting percentage by \$10 million.

*Municipalities.* For municipalities, two distributions would be created. Funding for the municipal levy restraint program would be set at \$58,145,700 annually, the same funding level as that for the expenditure restraint program, which the bill would sunset after the 2006 distribution. Funding for the municipal levy restraint bonus program would be set at \$10 million annually. Municipalities would qualify for payments under both programs if they have a municipal tax rate exceeding five mills and they limit their levy increases under a mechanism similar to, but more restrictive than, the proposed levy limit. The mechanism would differ from the proposed levy limit in two ways. First, regional growth factors would be limited to no more than 2%. Second, the inflation and growth limit factors would be reduced to 85% of their original amounts.

Each eligible municipality's payment under the municipal levy restraint payment program would be calculated by: (a) subtracting five mills from the municipality's tax rate; (b) multiplying that amount by the municipality's taxable value; (c) dividing that amount by the sum of all such amounts for all eligible municipalities; and (d) multiplying the resulting percentage by \$58,145,700. Each eligible municipality's payment under the municipal levy restraint bonus payment program would be calculated by: (a) subtracting the municipality's tax levy from its maximum allowable levy; (b) dividing that amount by the sum of all such amounts for all eligible municipalities; and (c) multiplying the resulting percentage by \$10 million.

### **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.

*AB 100, as Proposed by the Governor.* The Governor's budget proposal has several provisions that would affect the estimated net school property tax levy in the 2005-07 biennium. These provisions include: (a) increases in funding over the base for general school aids of \$285 million in 2005-06 and \$415 million in 2006-07; (b) an increase in the school levy credit of \$150 million that would affect the net school levy in 2006-07, although the credit itself would not be paid until July, 2007; (c) increases in the low revenue ceiling under revenue limits from the current \$7,800 to be \$8,100 in 2005-06 and \$8,400 in 2006-07 and thereafter, which would allow districts with base revenue per pupil below these amounts to increase their levy; and (d) authorizing the pupil counts used for revenue limits to be calculated using either a three-year or a five-year rolling average beginning in 2006-07, depending on which calculation results in a higher revenue limit for each school district.

## **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, gross levies are estimated to increase by 5.9% in 2005(06) and 6.0% in 2006(07), and increases of 6.6% in 2005(06) and 6.4% in 2006(07) are estimated in tax levies net of state tax credits. These estimates were calculated based on trends 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. Under provisions in AB 100, as proposed by the Governor, gross property tax levies would increase on a statewide basis by an estimated 1.5% in 2005(06) and 3.7% in 2006(07). Increases in net levies of 1.7% in 2005(06) and 2.1% in 2006(07) are estimated. 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. It is assumed that this trend will continue. Based on projections by Global Insight Incorporated, the change in the consumer price index, as of June 30, is estimated at 1.70% in 2005 and 1.86% in 2006. Based on these assumptions, the Governor's levy limit proposal would permit statewide increases in county and municipal levies estimated at 3.3% for 2005(06) and 3.4% for 2006(07). Also, the levy restraint aid proposed in AB 100 would encourage some counties and municipalities to further limit their levy increases. Based on past experience under the expenditure restraint program and an analysis of the levy reductions that would have been needed to meet the levy limit and levy restraint aid requirements, if they had been in effect for 2004(05), statewide tax levy increases of 2.9% in 2004(05) and 3.0% in 2005(06) for counties and 2.9% in 2005(06) and 3.1% in 2006(07) for municipalities are estimated after accounting for the proposed incentive programs. These estimates assume no additional tax levies resulting from debt service or referenda, which would be excluded from the proposed controls.

Under provisions in AB 100, school district property taxes are estimated to decrease by 1.0% in 2005(06) and increase by 3.9% in 2006(07). These estimates reflect provisions that would: (a) increase funding over the base for general school aids by \$285 million in 2005-06 and \$415 million in 2006-07; (b) increase the low revenue ceiling under revenue limits from the current \$7,800 to \$8,100 in 2005-06 and \$8,400 in 2006-07 and thereafter, which would allow districts with base revenue per pupil below these amounts to increase their levies; and (c) authorize the pupil counts used for revenue limits to be calculated using either a three-year or a five-year rolling average beginning in 2006-07, depending on which calculation results in a higher revenue limit for each school district. In addition, AB 100 proposes an increase in the school levy credit of \$150 million that would affect the net school levy in 2006-07, although the credit itself would not be paid until July, 2007. Applying the additional tax credit funding against the estimated school tax levies would cause estimated net school taxes to decrease by 0.3% in 2006(07).

AB 100 would not impose additional fiscal controls on technical college districts, and no controls are proposed on special purpose districts' tax levies or on the state forestry tax. However, limiting the increases in county, municipal, and school taxes would indirectly lower the increases in taxes for tax increment districts. Fewer tax increments would increase the length of time necessary to repay development costs and retire districts.

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 change on a median-valued home under each set of assumptions is less than the estimated rate of change in statewide tax levies. Under current law assumptions, net tax levies are estimated to increase by 6.6% and 6.4% over the next two years, while tax bill increases of 4.7% and 4.3% are estimated for the same period. Under the AB 100 assumptions, statewide net levies are estimated to increase by 1.7% for 2005(06) and 2.1% for 2006(07). In comparison, the estimated tax bill on a median valued home is estimated to decrease by 0.1% in 2005(06) and remain virtually unchanged for 2006(07). Tax bills are estimated at \$2,833 (+\$127) for 2005(06) and \$2,956 (+\$123) under current law and \$2,703 (-\$3) and \$2,704 (+\$1) for 2006(07) under AB 100.

The figures in Table 1 are estimates for the state as a whole. The tax impacts in individual municipalities would vary considerably from these figures, and some taxpayers would experience tax bill increases. Based on provisions in AB 100, county and municipal levies would vary based on the amount of new construction occurring in each county and region. For example, new construction in 2003 (used to determine January 1, 2004, equalized values) was less than 2% in 26 counties and greater than 3% in 10 counties, although the statewide average was 2.6%. For the nine proposed regions, new construction ranged from 1.7% in Region 5 to 3.7% in Region 9. School district levies would vary by district depending on the actual amount of general school aids and tax credits received and whether each district would levy to the maximum allowed under revenue limits.

**TABLE 1**

**Property Tax Estimates Under Current Law and AB 100 Fiscal Control Proposal**

|                                 | Preliminary                 | Current Law Estimates |                 | AB 100 Estimates |                 |
|---------------------------------|-----------------------------|-----------------------|-----------------|------------------|-----------------|
|                                 | Estimate<br><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       | \$2,007.1        | \$2,068.7       |
| Counties                        | 1,615.3                     | 1,700.9               | 1,791.0         | 1,661.6          | 1,711.3         |
| School Districts                | 3,610.7                     | 3,843.0               | 4,094.0         | 3,575.0          | 3,715.0         |
| Technical College Districts     | 590.8                       | 620.4                 | 651.4           | 620.4            | 651.4           |
| Other Non-TID Jurisdictions     | 165.0                       | 174.5                 | 184.6           | 174.5            | 184.6           |
| Tax Increment Districts         | 220.5                       | 242.2                 | 265.7           | 231.9            | 249.0           |
| Gross Property Tax Levies       | \$8,152.1                   | \$8,636.0             | \$9,152.7       | \$8,270.5        | \$8,580.0       |
| Change to Prior Year            |                             | 483.9                 | 516.7           | 118.4            | 309.5           |
| Change to Current Law           |                             |                       |                 | -365.5           | -572.7          |
| Net Property Tax Levies         | \$7,552.3                   | \$8,049.8             | \$8,566.5       | \$7,684.3        | \$7,843.8       |
| Change to Prior Year            |                             | 497.5                 | 516.7           | 132.0            | 159.5           |
| Change to Current Law           |                             |                       |                 | -365.5           | -722.7          |
| <b>Percent Change</b>           |                             |                       |                 |                  |                 |
| Municipalities                  |                             | 5.4%                  | 5.4%            | 2.9%             | 3.1%            |
| Counties                        |                             | 5.3                   | 5.3             | 2.9              | 3.0             |
| School Districts*               |                             | 6.4                   | 6.5             | -1.0             | 3.9             |
| Technical College Districts     |                             | 5.0                   | 5.0             | 5.0              | 5.0             |
| Other Non-TID Jurisdictions     |                             | 5.8                   | 5.8             | 5.8              | 5.8             |
| Tax Increment Districts         |                             | 9.8                   | 9.7             | 5.2              | 7.4             |
| Gross Property Tax Levies       |                             | 5.9%                  | 6.0%            | 1.5%             | 3.7%            |
| Net Property Taxes              |                             | 6.6                   | 6.4             | 1.7              | 2.1             |
| <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         | \$2,703          | \$2,704         |
| Change Over Prior Year          |                             | 127                   | 123             | -3               | 1               |
| Change Over Current Law         |                             |                       |                 | -130             | -252            |
| Percent Change to Prior Year    |                             | 4.7%                  | 4.3%            | -0.1%            | 0.0%            |

\*Reflecting the \$150 million increase in school levy tax credit funding in the 2006(07) school levy would result in a rate of change in net school taxes of -0.3%.

**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 controls on local governments' discretionary spending financed from these sources, based on the unrestricted state aid levels proposed in AB 100.

**TABLE 2**

**Estimated Effect of Proposed AB 100 Fiscal Controls on  
Local Government Discretionary Spending  
(\$ in Millions)**

|                         | <u>2004(05)</u> | <u>2005(06)</u> | <u>2006(07)</u> |
|-------------------------|-----------------|-----------------|-----------------|
| School Districts        |                 |                 |                 |
| Property Tax Levy       | \$3,610.7       | \$3,575.0       | \$3,715.0       |
| Unrestricted State Aid* | <u>4,248.3</u>  | <u>4,525.1</u>  | <u>4,650.0</u>  |
| Total                   | \$7,859.0       | \$8,100.1       | \$8,365.0       |
| Percent Change          |                 | 3.1%            | 3.3%            |
| Municipalities          |                 |                 |                 |
| Property Tax Levy       | \$1,949.8       | \$2,007.1       | \$2,068.7       |
| Unrestricted State Aid  | <u>777.6</u>    | <u>777.6</u>    | <u>787.6</u>    |
| Total                   | \$2,727.4       | \$2,784.7       | \$2,856.3       |
| Percent Change          |                 | 2.1%            | 2.6%            |
| Counties                |                 |                 |                 |
| Property Tax Levy       | \$1,615.3       | \$1,661.6       | \$1,711.3       |
| Unrestricted State Aid  | <u>174.7</u>    | <u>174.7</u>    | <u>209.7</u>    |
| Total                   | \$1,790.0       | \$1,836.3       | \$1,921.0       |
| Percent Change          |                 | 2.6%            | 4.6%            |

\*State general aid net of choice and charter reductions.

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

The estimated property tax reductions under AB 100 would decrease the estimated cost of other state property tax relief programs as follows: (a) -\$3.2 million in 2005-06 and -\$4.7 million in 2007-08 for computer aid payments (the bill would move the payment date from May until July beginning with the payment made in calendar year 2007); (b) -\$2.2 million in 2005-06 and -\$4.0 million in 2006-07 for the homestead tax credit; and (c) -\$0.7 million in 2005-06 and -\$1.2 million in 2006-07 for the farmland preservation credit. In addition, state income tax collections would increase by an estimated \$5.8 million in 2005-06 and \$11.8 million in 2006-07 due to reduced property tax/rent credits.

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