

SHARED REVENUE AND TAX RELIEF -- PROPERTY TAXATION

Fiscal Controls on Property Tax Increases

Motion:

Move to delete the Governor's recommendations to sunset payments under the expenditure restraint program, create municipal and county levy restraint programs, and establish a levy limit for counties and municipalities and, instead, create the following provisions:

**Municipal and County Levy Limit**

Prohibit any city, village, town, or county from increasing its municipal or county tax levy by more than a percentage determined through formula, beginning with taxes that are levied in 2005 and become payable in 2006.

*Allowable Percentage Increase.* Define the percentage by which each city, village, town, and county would be allowed to increase its levy as the percentage equal to the percentage change in the equalized value (including the incremental value in TIF districts) of the municipality or county due to new construction, less improvements removed, as determined for January 1 equalized values in the year of the levy, but not less than 0%.

*Exclusions and Adjustments.* Exclude from the limitation any amounts levied: (a) for school purposes by a first class city; (b) as tax increments by a city, village, or town; (c) for a county children with disabilities education board by a county; or (d) for the payment of any general obligation debt service on debt authorized by a referendum on or after July 1, 2005, and secured by the full faith and credit of the city, village, town, or county. 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; and (e) 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 secured by the full faith and credit of the municipality or county.

*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 2005 or 2007 levy. Authorize 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 2006 levy. 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, 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.

*Penalty.* Require the Department of Revenue 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. Provide that the aid reduction be imposed in the year after the excess amount is levied. Provide that any withheld state aid amounts be lapsed to the general fund.

*Sunset.* Sunset these provisions three years after the effective date of enactment.

### **Technical College Districts**

Prohibit any technical college district from increasing its tax levy by more than a percentage equal to 2.6% per year, beginning with taxes that are levied in 2005 and become payable in 2006.

*Exclusions and Adjustments.* Exclude from the limitation any amounts levied for the payment of any general obligation debt service on debt authorized by a referendum on or after July 1, 2005, and secured by the full faith and credit of the district. Specify that the levy limit

shall be adjusted, as determined by the Department of Revenue (DOR), as follows: (a) if a district 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 district is decreased to reflect the cost that the district would have incurred to provide the service; (b) if a district 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 district is increased to reflect the cost of providing that service; (c) 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 district 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 secured by the full faith and credit of the district.

*Referendum.* Create a procedure under which a technical college district may exceed its levy increase limit if the technical college district's board adopts a resolution to that effect and the electors of the district approve the resolution at 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 district to hold a special referendum, with regard to a referendum relating to the 2005 or 2007 levy. Authorize the district 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 2006 levy. 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 district) for the tax to be imposed for the next fiscal year, .... (year), is limited to ....%, resulting in a levy of \$.... Shall the .... (name of 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 \$....?". Require the clerk of the technical college district to publish notices regarding the referendum prior to the time it is held and to certify the results of the referendum to DOR within 14 days of the referendum.

*Penalty.* Require DOR to notify the technical college system board of any amounts levied in excess of the amount allowed under these provisions and require the technical college system board to reduce the aid payment of any technical college district 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. Provide that the aid reduction be imposed in the same fiscal year as the excess amount is levied. Provide that any withheld state aid amounts be lapsed to the general fund.

*Sunset.* Sunset these provisions three years after the effective date of enactment.

## **Administration**

Direct the Department of Revenue to administer the levy limit program for counties, municipalities, and technical college districts and authorize the Department to promulgate administrative rules relating to the reporting of allowable levies.

## **State Forestry Account**

Modify current law provisions establishing a 0.2 mill tax on the property of the state for purposes of acquiring, preserving, and developing the forests of the state by limiting the rate of taxation to no more than 0.2 mill. Require DOR to adjust the rate of taxation for the state forestry tax so that the amount of taxes levied in a year increases relative to the amount levied in the previous year by 2.6%. Extend this provision beginning with the amount levied in 2005, that becomes payable in 2006. Provide that the mill rate, as determined by DOR, for the property tax assessment as of January 1 of the second year following the date of enactment shall be the rate of the tax imposed for all subsequent years. Reduce estimated revenues from the mill tax by \$3,800,000 in 2005-06 and \$8,100,000 in 2006-07. Shift \$5,900,000 in 2005-06 and \$6,000,000 in 2006-07 from forestry SEG to GPR for the payment of stewardship program and related debt service.

## **Reestimates of Sum Sufficient Appropriations**

Make the following modifications to earlier reestimates approved by the Committee to reflect estimates of property taxes under the proposed levy limits: (a) decrease the estimated cost of the property tax/rent credit, and, therefore, increase estimated individual income tax revenues by \$1,800,000 GPR-REV in 2005-06 and \$3,900,000 GPR-REV in 2006-07; (b) decrease the estimated cost of the homestead tax credit by \$500,000 GPR in 2005-06 and \$900,000 GPR in 2006-07; (c) decrease the estimated cost of the farmland preservation credit by \$400,000 GPR in 2005-06 and \$400,000 GPR in 2006-07; and (d) decrease the estimated cost of the state aid payment for tax exempt computers, cash registers, and fax machines by \$700,000 GPR in 2005-06 (there would be no impact in 2006-07 since the Committee adopted the Governor's recommendation to delay the 2006-07 payment to 2007-08).

---

Note:

The motion would delete the Governor's recommendations related to fiscal controls for municipalities and counties and replace them with fiscal control provisions for municipalities, counties, technical college districts, and the state forestry tax that are identical to those contained in Enrolled AB 58, with four exceptions. First, 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 limit otherwise applicable to the county would be increased to reflect the total cost of providing the service. Second, in towns with populations below 2,000, the town board would be required to adopt a resolution supporting an increase and

putting the question of exceeding the town's levy limit on the agenda of the town's annual or special meeting, before the meeting can vote on the question. Third, counties, municipalities, and technical college districts that exceed their levy limit would have their state aid reduced by the amount of their excess levy, and the withheld aid amounts would be lapsed to the general fund. Fourth, \$11.9 million of \$39.5 million in debt service payments would be shifted from SEG to GPR. The bill would shift \$20 million in 2005-06 and \$19.5 million beginning in 2006-07 of debt service payments for the Warren Knowles - Gaylord Nelson Stewardship Program and related predecessor programs from GPR to the segregated forestry account of the conservation fund. This motion would shift \$11.9 million SEG back to GPR. The effect of the property tax provisions in this motion on the forestry mill tax would be expected to reduce forestry account revenues by \$11.9 million for the biennium (\$3.8 million in 2005-06 and \$8.1 million in 2006-07). Reversing a portion of the shift in debt service payments would maintain a positive June 30, 2007, balance in the forestry account. The following table shows the fiscal effect of the motion:

| <u>Provision</u>                   | <u>2005-06</u>    | <u>2006-07</u>    | <u>Source</u> |
|------------------------------------|-------------------|-------------------|---------------|
| Levy Limit                         | \$0               | \$0               |               |
| Sum Sufficient Appropriations      |                   |                   |               |
| Homestead tax credit               | -\$500,000        | -\$900,000        | GPR           |
| Farmland preservation credit       | -400,000          | -400,000          | GPR           |
| State aid for tax exempt computers | -700,000          | 0                 | GPR           |
| Stewardship debt service           | 5,900,000         | 6,000,000         | GPR           |
| Stewardship debt service           | -5,900,000        | -6,000,000        | SEG           |
| Revenues                           |                   |                   |               |
| Property tax/rent credit           | \$1,800,000       | \$3,900,000       | GPR-REV       |
| State forestry tax                 | <u>-3,800,000</u> | <u>-8,100,000</u> | SEG-REV       |
| Net Change                         |                   |                   |               |
|                                    | \$4,300,000       | \$4,700,000       | GPR           |
|                                    | -5,900,000        | -6,000,000        | SEG           |
|                                    | 1,800,000         | 3,900,000         | GPR-REV       |
|                                    | -3,800,000        | -8,100,000        | SEG-REV       |

[Change to Bill: \$9,000,000 GPR, -\$11,900,000 SEG, \$5,700,000 GPR-REV, and -\$11,900,000 SEG-REV]