
 **EHLERS**
LEADERS IN PUBLIC FINANCE


What You Need to Know About Levy Limits


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Overview of Presentation

- General review of levy limits
 - Carryforward
 - Debt service adjustments
 - Intergovernmental agreement cost shifts
 - Joint fire departments
 - Transfer of services
 - Covered services negative adjustment
 - Other available adjustments
- Discuss levy limit management strategies

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Constraints on City and Village Levies

- Levy Limits
 - First applied to 2005 levies for 2006 budget
 - Various changes have been made to the law with each successive state budget
 - Current limit:
 - The prior year's actual levy may be increased by a percentage equal to net new construction in the preceding year (or zero, if none)
 - Additional adjustment in the year following closure of a Tax Incremental Finance District
 - Subject to numerous adjustments that may reduce or increase allowable levy

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Carryforward

- The ability to claim past unused levy capacity subject to restrictions
 - One year carryforward (Adjustment A)
 - Five year carryforward (Adjustment R)
 - New provision added as part of the 2015-2017 State Budget
 - First available on the 2015 worksheet for 2016 budget
 - Cannot claim both Adjustment A and R in the same year
 - **Most municipalities will not have a carryforward as a result of claiming an adjustment for G.O. debt service authorized after July 1, 2005**

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Carryforward (cont.)

	One-Year Carryforward		Five-Year Carryforward
Allowable Amount	Capped at 1.5% of prior year's actual levy		Capped at 5.0% of prior year's actual levy less adjustments
Occurs When	Prior year's actual levy was less than allowable levy		Percentage increase in actual levy less adjustments in prior years was less than net new construction
Approval	Up to 0.5% Majority	0.51% - 1.5% Majority	2/3 Majority
Negative Debt Adjustment	Adjustment B for decreases in pre-July 2005 G.O. debt levy applies		Does not apply
G.O. Debt Test	Does not apply		G.O. debt outstanding in current year must be less than in prior year to claim

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Debt Service Adjustments

- For purposes of levy limits, general obligation (G.O.) debt is segregated into two categories based on the date of authorization:
 - On or after July 1, 2005
 - Prior to July 1, 2005
 - Most debt in this category has either matured or has been refunded
 - Pre-July 1, 2005 G.O. debt that is refunded with debt authorized on or after July 1, 2005 falls into the latter category

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Debt Service Adjustments (cont.)

- Important Definitions
 - “Authorized” refers to the act of adopting an initial or authorizing resolution (not actual issuance)
 - “Debt” or “Debt Service” refers to the gross principal and interest payment due
 - “Debt Service Levy” refers to that part of the debt payment actually paid from the tax levy (net of abatement sources such as TIF increments, utility revenues, special assessments, etc.)

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Debt Service Adjustments (cont.)

- Adjustments applying to G.O. debt authorized **after July 1, 2005**
 - May claim an adjustment equal to the total principal and interest payment on the debt (Adjustment E)
 - Amount claimed will be subtracted out the following year
 - **Claim only what you need and will actually levy – overstating this adjustment results in an inadvertent penalty in the following year**

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Debt Service Adjustments (cont.)

Debt service for G.O. Debt authorized on/after July 1, 2005

Maximum allowable amount for this line

Amount actually needed for debt payment

Issue Dated	General Obligation Corporate Purpose Bonds 1-Sep-08			General Obligation Promissory Notes 1-Mar-12			Total Payment	Less Utility Revenues	Less Impact Fees	Total Levy	YEAR
	Prin (9/1)	Interest	Total	Prin (3/1)	Interest	Total					
2016	290,000	115,920	405,920	190,000	36,690	226,690	632,610	(202,960)	(25,000)	404,650	2016
2017	300,000	106,350	406,350	200,000	32,300	232,300	638,650	(203,175)	(25,000)	410,475	2017
2018	310,000	96,150	406,150	210,000	27,480	237,480	643,630	(203,075)	(25,000)	415,555	2018
2019	320,000	85,300	405,300	220,000	22,210	242,210	647,510	(202,650)	(25,000)	419,860	2019
2020	330,000	73,780	403,780	230,000	16,470	246,470	650,250	(201,890)	(25,000)	423,360	2020
2021	340,000	61,570	401,570	240,000	10,240	250,240	651,810	(200,785)	(25,000)	426,025	2021
2022	350,000	48,650	398,650	250,000	3,500	253,500	652,150	(199,325)	(25,000)	427,825	2022
2023	375,000	35,000	410,000				410,000	(205,000)		205,000	2023
2024	400,000	20,000	420,000				420,000	(210,000)		210,000	2024
TOTAL	3,015,000	642,720	3,657,720	1,540,000	148,890	1,688,890	5,346,610	(1,828,860)	(175,000)	3,342,750	

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Debt Service Adjustments (cont.)

Penalty results from claiming a larger than needed adjustment (i.e. allowable levy exceeds actual levy)

Incorrect

Correct

	2015/16	2016/17	2015/16	2016/17
Base Levy	1,000,000	1,050,000	1,000,000	1,050,000
Post-2005 Debt Adj.	100,000	-100,000	50,000	-50,000
Allowable Levy	1,100,000	950,000	1,050,000	1,000,000
Actual Levy	1,050,000		1,050,000	

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Debt Service Adjustments (cont.)

- If I am paying some of my post July 1, 2005 G.O. debt with other than levy dollars, can I claim the total payment amount and use that levy capacity for other purposes?
 - Yes, but be cautious (more on this later)

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Debt Service Adjustments (cont.)

- Adjustments applying to G.O. debt authorized **before July 1, 2005**
 - Must subtract from the levy limit any decrease in the debt *levy* from the prior year's levy (Adjustment B)
 - May add to the levy limit any increase in the total debt *payment* over the prior year's payment (Adjustment C)
 - Can add the increase even if tax levy is not used to support the payment
 - Always to your advantage to claim this addition
 - It is possible to have both a negative adjustment, and an increase in payment in the same year

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Debt Service Adjustments (cont.)

Decrease in levy amount from prior year's pre-July 1, 2005 G.O. Debt levy

Amount of negative adjustments

Issue Dated	G.O. Corporate Purpose Bonds 1-Jun-05			General Obligation Refunding Bonds 1-Jun-05			Total Payment	Change In Pymt Over Prior Year	Less Tax Increments	Less Spec Assmts	Total Levy	Change In Levy Over Prior Year	YEAR
Year	Prin (6/1)	Rate	Interest	Prin (6/1)	Rate	Interest							
2016	220,000	3.300%	111,370	160,000	3.650%	37,728	529,098		(99,411)	(98,864)	330,823		2016
2017	225,000	3.400%	103,915	165,000	3.700%	31,755	525,670	(3,428)	(98,675)	(98,378)	328,618	(2,205)	2017
2018	250,000	3.500%	95,715	175,000	3.750%	25,421	546,136	20,466	(103,715)	(100,211)	342,211	13,593	2018
2019	275,000	3.600%	86,390	180,000	3.850%	18,675	560,065	13,929	(144,556)	(99,338)	316,172	(26,040)	2019
2020	300,000	3.700%	75,890	190,000	3.900%	11,505	577,395	17,330	(150,356)	(100,753)	326,287	10,115	2020
2021	325,000	3.800%	64,165	195,000	4.000%	3,900	588,065	10,670	(155,666)	(99,450)	332,949	6,663	2021
2022	335,000	3.900%	51,458				386,458	(201,608)	(154,583)		231,875	(101,075)	2022
2023	350,000	4.000%	37,925				387,925	1,468	(155,170)		232,755	881	2023
2024	365,000	4.100%	23,443				388,443	518	(155,377)		233,066	311	2024
2025	380,000	4.200%	7,980				387,980	(463)	(155,192)		232,788	(278)	2025
TOTAL	3,025,000		658,250	1,065,000		128,984	4,877,234	(141,118)	(1,372,700)	(596,992)	2,907,542	(98,035)	

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Debt Service Adjustments (cont.)

Increase in payment amount from prior year's pre-July 1, 2005 G.O. Debt payment

Amount of payment increases

Issue Dated	G.O. Corporate Purpose Bonds 1-Jun-05			General Obligation Refunding Bonds 1-Jun-05			Total Payment	Change In Pymt Over Prior Year	Less Tax Increments	Less Spec Assmts	Total Levy	Change In Levy Over Prior Year	YEAR
Year	Prin (6/1)	Rate	Interest	Prin (6/1)	Rate	Interest							
2016	220,000	3.300%	111,370	160,000	3.650%	37,728	529,098		(99,411)	(98,864)	330,823		2016
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2018	250,000	3.500%	95,715	175,000	3.750%	25,421	546,136	20,466	(103,715)	(100,211)	342,211	13,593	2018
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TOTAL	3,025,000		658,250	1,065,000		128,984	4,877,234	(141,118)	(1,372,700)	(596,992)	2,907,542	(98,035)	

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Debt Service Adjustments (cont.)



Important Consideration

- Claiming an adjustment for unused levy from the previous year (Adjustment A) subjects you to negative adjustment (Adjustment B) **in that year**
- Foregoing a carry over makes negative adjustment inapplicable to you **in that year**
- What if I don't have an unused levy adjustment available?
 - Not having an adjustment available is the equivalent of having one and foregoing taking it
 - **Not subject to negative adjustment**

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Debt Service Adjustments (cont.)

- So why would I take a carryover if it subjects me to negative adjustment?
 - You have no outstanding G.O. debt authorized prior to July 1, 2005 (last payments occurred in 2015 or earlier)
 - The amount of the negative adjustment will be less than the available carry over amount (net gain in levy capacity)
- Adjustment R Alternative
 - If taking Adjustment A will result in a negative adjustment, you can claim it instead as Adjustment R
 - G.O. debt outstanding in the current year must, however, be less than the amount outstanding in the prior year

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Debt Service Adjustments (cont.)

- Shortfall adjustment for revenue bonds
 - If pledged revenues are inadequate to meet debt service payments, the shortfall in revenues can be levied for and claimed on this line as an exemption from the limit
 - To claim this adjustment, the revenue bond must be issued under Wisconsin Statutes:
 - Section 66.0621 – Utility Revenue Bonds
 - Includes payments due to joint fire department if proceeds of the bond were used to pay for a fire station and the municipality is obligated to pay for its share of the debt under an agreement entered into under Section 66.0301.
 - Section 66.0713(4) – Special Assessment B Bonds
 - Whatever amount is claimed on this line will be deducted from your actual levy on the following year's worksheet (an off sheet adjustment done by DOR)

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Debt Service Adjustments (cont.)

- Lease Revenue Bonds
 - Applies only to Lease Revenue Bonds issued before July 1, 2005
 - Any increase in lease payment from the preceding year can be added to the levy limit
 - Can add the increase even if tax levy is not used to support the payment
 - Always to your advantage to claim this addition

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Intergovernmental Agreement Cost Shifts

- Used to increase or decrease your levy limit for cost shifts related to provision of consolidated services with another governmental entity
 - There must be an intergovernmental cooperation agreement in place (Wisconsin Statutes 66.0301)
 - The cost shift must be a result of an agreement to change apportionment of costs to reflect a more equitable distribution

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Intergovernmental Agreement Cost Shifts (cont.)

- Example: Community A and B fund a joint library. The basis for the cost share changes from valuation to population, resulting in an increase in Community A's share of the joint library cost

Community A

- Increases its share of cost to pay for service
- Amount of levy increase claimed as Adjustment H

Community B

- Decreases its share of cost to pay for service
- Amount of levy decrease claimed as Adjustment H
- Amount of decrease must be the same as the amount of the Community A increase

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Joint Fire Departments

- Adjustment for increases in charges assessed by a joint fire department* which exceed the limit
- Can only be claimed if the following two conditions are met:
 - The increase over the prior year cannot exceed the change in the CPI**, plus 2%
 - Each governing body served by the joint department must adopt a resolution in favor of exceeding the limit

* Organized under Wisconsin Statutes Sections 61.65(2)(a)3., 62.13(2m), or 66.0301(2)

** Change in the U.S. CPI for urban customers, U.S. city average, as determined by the U.S. Department of Labor for the preceding 12 months ending on September 30 in the year of the levy

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Transfer of Services

- Transfer of services **to** other governmental units
 - If a service was transferred to another political subdivision in the preceding year, **subtract the levy amount** that would have been incurred to provide this service
 - *Example* – a county assumes responsibility for providing health department services in a city that previously provided this service – the city must decrease its levy limit by the amount it levied last year to provide that service

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Transfer of Services (cont.)

- Transfer of services **from** other governmental units
 - If political subdivision increases its services to provide a service transferred from another government that provided the service in the preceding year, **add the levy** increase needed to provide this service
 - *Example* – a city decides to start its own library, and was previously served by a county wide library system. The city may increase its levy by the amount needed to provide the new service

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Covered Services Negative Adjustment

- A negative adjustment applies if a “covered service” was funded in whole or part by the tax levy for the 2013 budget year
- Covered services:
 - Garbage collection
 - Snow plowing
 - Storm water management
 - Fire protection
 - Street sweeping

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Covered Services Negative Adjustment (cont.)

- Negative Adjustment
 - The levy limit is reduced by the amount of estimated fee revenue resulting from implementation of a user fee, or an increase in an existing user fee
 - Applies to fees or increases implemented on or after July 2, 2013
 - Does not apply to increased revenues resulting from increased usage of covered services – fee must actually be increased

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Covered Services Negative Adjustment (cont.)

- Negative Adjustment
 - Also applies to PILOT payments
 - Referendum exception
 - Even if levy support is eliminated (full conversion to user fee), a negative levy adjustment will continue to apply every time fees are increased

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Covered Services Negative Adjustment (cont.)

Example 1 (Full Conversion to User Fee):

	2016 Budget	2017 Budget	Fee Increase
Revenues			Neg. Adjustment
Tax Levy	\$ 100,000	\$ 0	
User Charges	<u>\$ 0</u>	<u>\$ 105,000</u>	- \$ 105,000
Total	\$ 100,000	\$ 105,000	
Expenditures			
Garbage Collection	<u>\$ 100,000</u>	<u>\$ 105,000</u>	
Total	\$ 100,000	\$ 105,000	

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Covered Services Negative Adjustment (cont.)

Example 2 (Fee Increase to Reduce Levy Requirement):

	2016 Budget	2017 Budget	Fee Increase
Revenues			Neg. Adjustment
Tax Levy	\$ 50,000	\$ 25,000	
User Charges	<u>\$ 50,000</u>	<u>\$ 80,000</u>	- \$ 30,000
Total	\$ 100,000	\$ 105,000	
Expenditures			
Garbage Collection	<u>\$ 100,000</u>	<u>\$ 105,000</u>	
Total	\$ 100,000	\$ 105,000	

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Covered Services Negative Adjustment (cont.)

Example 3 (Fee Increase to Cover Cost Increase Only):

	2016 Budget	2017 Budget	Fee Increase
Revenues			Neg. Adjustment
Tax Levy	\$ 50,000	\$ 50,000	
User Charges	<u>\$ 50,000</u>	<u>\$ 55,000</u>	-\$ 5,000
Total	\$ 100,000	\$ 105,000	
Expenditures			
Garbage Collection	<u>\$ 100,000</u>	<u>\$ 105,000</u>	
Total	\$ 100,000	\$ 105,000	

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Other Available Adjustments

- Refunded or rescinded taxes
- Referendum approved amounts (one-time or ongoing)
- Unreimbursed emergency expenditures
- Annexation
- General fund shortfall resulting from loss of water sale revenue due to a discontinued manufacturing operation

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Levy Limit Management

- Some debt service adjustment related strategies to consider:
 - Converting decreases in pre July 1, 2005 G.O. debt levies for operations or capital
 - Using abated post July 1, 2005 G.O. debt service to increase allowable levy
 - Short term financing

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Pre-2005 Debt Decreases

As the levy requirement for pre-2005 G.O. debt decreases, you have the option to maintain your levy at the higher level and use those levy dollars for other purposes

Issue Dated	G.O. Corporate Purpose Bonds 1-Jun-05			General Obligation Refunding Bonds 1-Jun-05			Total Payment	Change In Pymt Over Prior Year	Less Tax Increments	Less Spec Assmts	Total Levy	Change in Levy Over Prior Year	YEAR
Year	Prin (6/1)	Rate	Interest	Prin (6/1)	Rate	Interest							
2016	220,000	3.300%	111,370	160,000	3.650%	37,728	529,098		(99,411)	(98,864)	330,823		2016
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2018	250,000	3.500%	95,715	175,000	3.750%	25,421	546,136	20,466	(103,715)	(100,211)	342,211	13,593	2018
2019	275,000	3.600%	86,390	180,000	3.850%	18,675	560,065	13,929	(144,556)	(99,338)	316,172	(26,040)	2019
2020	300,000	3.700%	75,890	190,000	3.900%	11,505	577,395	17,330	(150,356)	(100,753)	326,287	10,115	2020
2021	325,000	3.800%	64,165	195,000	4.000%	3,900	588,065	10,670	(155,666)	(99,450)	332,949	6,663	2021
2022	335,000	3.900%	51,458				386,458	(201,608)	(154,583)		231,875	(101,075)	2022
2023	350,000	4.000%	37,925				387,925	1,468	(155,170)		232,755	881	2023
2024	365,000	4.100%	23,443				388,443	518	(155,377)		233,066	311	2024
2025	380,000	4.200%	7,980				387,980	(463)	(155,192)		232,788	(278)	2025
TOTAL	3,025,000		658,250	1,065,000		128,984	4,877,234	(141,118)	(1,372,700)	(596,992)	2,907,542	(98,035)	

Amounts that could be maintained within levy and used for other purposes

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Pre-2005 Debt Decreases (cont.)

- Important considerations
 - If any year you elect to take an available carryover via Adjustment A, then negative adjustment applies and this strategy is not applicable unless carryover can be claimed as Adjustment R as an alternative
 - While you can tie future spending plans to coincide with debt service drops, there is no guarantee that the levy limit law won't change again and eliminate this ability

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Abated Post-2005 Debt

Worksheet allows you to claim up to the total amount of your post-2005 G.O. debt payment on the Adjustment E. line

Amount actually needed for debt payment

Year	Total Payment	Less Utility Revenues	Less Impact Fees	Total Levy	Abated Debt Levy	YEAR
2016	632,610	(202,960)	(25,000)	404,650	227,960	2016
2017	638,650	(203,175)	(25,000)	410,475	228,175	2017
2018	643,630	(203,075)	(25,000)	415,555	228,075	2018
2019	647,510	(202,650)	(25,000)	419,860	227,650	2019
2020	650,250	(201,890)	(25,000)	423,360	226,890	2020
2021	651,810	(200,785)	(25,000)	426,025	225,785	2021
2022	652,150	(199,325)	(25,000)	427,825	224,325	2022
2023	410,000	(205,000)		205,000	205,000	2023
2024	420,000	(210,000)		210,000	210,000	2024
TOTAL	5,346,610	(1,828,860)	(175,000)	3,342,750	2,003,860	

Additional levy capacity not needed for debt payments

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Abated Post-2005 Debt (cont.)

- Advisability of claiming a Line E adjustment greater than actually needed for debt payments
 - If additional levy will be used for capital projects or non-recurring expenditures, probably a good strategy
 - A concern if additional levy will be used for recurring operating expenses
 - Works only if outstanding debt payments remain stable or grow
 - Potential for a budget hole if debt payments decrease

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Short Term Financing

- Allows funding of capital projects on a near cash basis by converting the capital levy to short-term debt
 - Debt issued must be G.O.
 - Typical paid off within 90 days
 - Must be issued prior to setting subsequent year's levy, e.g.
 - Loan approved November 1
 - Loan P&I amount claimed as a Line E. adjustment
 - Levy approved November 15
 - Loan repaid February 1

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Short Term Financing

Example:

Capital Equipment Budget		Short Term Financing			
		Principal	Rate	Interest (90 Days)	Total Payment
PD Squad #1	50,000	50,000	2.500%	313	50,313
PD Squad #2	50,000	50,000	2.500%	313	50,313
PD Squad #3	50,000	50,000	2.500%	313	50,313
Plow Truck	200,000	200,000	2.500%	1,250	201,250
Staff Vehicle	35,000	35,000	2.500%	219	35,219
TOTAL	385,000	385,000		2,406	387,406

Additional cost to taxpayers as compared to true cash financing is \$2,406 in this example (90 days of interest expense)

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