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To: Joint Committee on Finance
From: Curt Witynski, J.D., Assistant Director, League of Wis. Municipalities
Date: March 31, 2017
Re: **Municipal Recommendations on State Budget Bill**

As you begin to review and vote on the biennial state budget bill, AB 64/SB 30, the League of Wisconsin Municipalities submits the following budget recommendations on items of critical concern to cities and villages.

Items in the state budget bill we support and urge you to retain

Allowing state and local governments to publish legal notices online. The Governor's budget includes a provision allowing local governments to comply with any statutory publishing and mailing requirements by using electronic and web based methods for certain documents. Specifically, section 2263 of the budget bill creates sec. 990 of the statutes, which allows for an electronic option for all units of government for any printing, publishing, or mailing that is statutorily required. The following documents are excluded from this electronic option: any election documents, facsimile ballot, referenda, notice of public hearing before a governmental body, and notice of meetings of private and public bodies required by law; and summons, order, citation, notice of sale, or other notice that is intended to inform a person that the person may or shall do an act or exercise a right within a designated period or by a designated date. Also exempted is any notice that must be sent by certified or registered mail.

Environmental Improvement Program. The Governor recommends modernizing the Environmental Improvement Program by restructuring the loan program for disadvantaged and extremely disadvantaged communities to provide clean water fund loan rates at 33% and 0% of the market interest rate. The restructured program could serve up to an additional 56 communities. Under the current structure, those municipalities would be ineligible for a disadvantaged loan rate and be required to pay a loan rate of 70% of market rate.

The Governor also recommends reducing the municipal loan interest rate from 70% of the market interest rate to 55% for clean water fund projects funded through the Environmental Improvement Program for non-disadvantaged communities for clean water fund projects beginning in fiscal year 2017-18.

Items we oppose and urge you to remove or change

Levy Limit Negative Adjustment Requirement when Debt Service Payments are reduced on Debt Issued Prior to 2005. Section 985 of AB 64 repeals the last sentence of sec. 66.0602(2m)(a), which eliminates an exception to the requirement that communities reduce their allowable levy by any decrease in debt service for debt issued before July 1, 2005 (negative adjustment). This change will have a significant adverse impact on many municipal budgets. For example, the change would, on average over the next thirteen years, reduce the allowable tax levy for the City of Eau Claire by \$153,000. The total impact for Eau Claire is a loss of nearly \$2 million in tax revenue. For the Village of Sussex, the impact would be a \$700,000 reduction in their tax revenues. These communities were counting on the use of these revenues. The Governor is changing the rules in the middle of the game.

Since the 2011-2013 state budget the levy limit law has required that whenever a municipality's levy for the payment of debt service on any GO debt issued before July 1, 2005 is reduced from the previous year, the municipality must reduce its allowable levy by the same amount. In the 2013-2015 state budget, legislators created an option for communities to avoid the negative adjustment for reduced payments on debt issued prior to July 1, 2005. Under the exception, in any year that a municipality doesn't carry forward unused levy capacity the negative adjustment for reduced payments on debt issued prior to July 1 doesn't apply. Governor Walker's 2017-2019 budget proposal eliminates this incentive for municipalities to not carry forward unused levy capacity from the prior year. The League urges the committee to delete this change in current law proposed by the Governor.

Capping the Historic Rehabilitation Tax Credit. The Governor's budget limits annual awards under the historic rehabilitation tax credit to \$10 million. Under the Governor's budget, credits are to be awarded on a competitive basis with several criteria, including job creation potential, to determine which applicants receive the credit. The Governor's budget further requires that credits be repaid in proportion to any shortfall in job creation relative to the amounts claimed in the credit application if actual job creation is deficient within the first five years after receiving the credit. The League opposes the cap and job creation requirement condition and urges the Legislature to remove these items from the budget.

Program funding changes and other items we urge you to add

Increase funding for the Shared Revenue Program. For over 90 years the shared revenue program has been a key component of Wisconsin's state and local relationship. During the last 15 years, funding for the program has been cut on several occasions, including most recently in 2012. None of those cuts have been restored. As state revenues recover from the Great Recession, we urge the Legislature to recognize its partnership with cities and villages, the economic engines of the state, and increase funding for the shared revenue program by at least the same percentage that state general fund revenues have grown over the last biennium.

Address the long-term Shortfall in the Transportation Fund. Governor Walker’s budget proposal significantly increases funding for the general transportation aids program that goes to municipalities. The budget bill also includes a large increase in the portion of the Local Roads Improvement Program that goes to cities and villages. The League supports and urges you to retain these funding increases.

However, the Governor’s budget proposal fails to present a serious long term plan for addressing the growing shortfall in the transportation fund and instead proposes significant delays in completing or starting major state highway construction projects. The League strongly urges the Legislature to pass a state budget that includes long-term, sustainable transportation revenues capable of adequately funding state and local transportation needs, including transit, now and into the future.

Exempt public fire protection water utility fees from levy reduction requirement imposed by 2013 Act 20. Exempt public fire protection water utility fees from requirement in sec. 66.0602(2m)(b) that a community reduce its allowable levy by the amount of new or increased fire protection fees it collects. All municipalities with a public water utility must pay a public fire protection (PFP) fee to cover the utility’s cost of providing for the excess capacity necessary to ensure sufficient water pressure to fight fires. When a water utility seeks approval for a water rate increase, the Public Service Commission calculates the PFP fee and directs water utilities to increase their PFP fee. The PFP fee can be assessed through the tax levy (municipal charge) or charged directly on the water bill to the consumer (direct charge), or it can be recovered through a combination of both mechanisms. Of the 582 municipal water utilities, 49 percent use only the municipal charge, 33 percent use only the direct charge, 15 percent use a combination, and 3 percent have no PFP charge.

Depending on how the municipality bills the PFP fee, there can be an impact on the municipality’s levy limit. Due to 2013 Act 20, communities that currently use a combination of property taxes and direct charges must reduce their levy limit by any future increases to the direct charge ordered by the PSC. Communities that switch from the levy to a direct charge after 2013 must reduce their maximum allowable levy increase by the total amount of fees charged. However, any community that shifted 100 percent of the public fire protection fee cost from the tax levy to a direct charge prior to 2013, does not have to adjust the levy limit when the amount of the fee is increased in the future.

We urge the committee to amend the state budget to clarify this confusing mishmash for municipalities. 2013 Act 20 was never intended to apply to water charges necessary to ensure sufficient pressure in the water system to fight fires. The provision was designed to ensure that municipalities could not avoid levy limits by shifting the cost of fire departments from the levy to a fee structure. We recommend that Sec. 66.0602(2m)(b)1 be modified to make it clear that “fire protection” does not include water related fees.

Modify New Construction Adjustment Under Levy Limits. A municipality’s current maximum allowable levy is the percentage increase in equalized value from *net* new construction. Net new construction is new construction minus buildings demolished for redevelopment. A limit based on net new construction negatively impacts older urban

areas engaged in redevelopment projects. The maximum allowable levy should be the percentage change in the municipality's equalized value due to new construction, not *net* new construction. For property tax year 2017(18) and thereafter, define the valuation factor as the percentage equal to the greater of 0% or the percentage change in the local government's equalized value due to new construction, as determined for January 1 equalized valued in the year of the levy.

Adequately Fund the Payment for Municipal Services Program. Restore prior funding cuts to the Payment for Municipal Services program to more fairly reimburse municipalities for the cost of providing police, fire, and other services to state facilities. The program was cut by 10% (\$2 million) in 2012. Currently, the amount of funds appropriated covers only 37% of the cost of municipal services, leaving local taxpayers to cover the rest of the cost of serving state-owned facilities.

Thanks for considering our comments and recommendations.