



## **“Who in their right mind wouldn’t want to freeze or significantly limit future property tax increases?”**

### **What’s Wrong with Levy Limits & “Taxpayer Bill of Rights” TABOR**

Levy Limits or the property tax “freeze” as its been called, was legislation previously proposed which would have subjected all levies for any purpose (debt or otherwise) to a limited increase based upon either a “cost of living” factor or the increase in non inflationary portion of the tax base in the community (new construction). Communities would have been allowed to exceed these limits only through passage of a referendum. (As such, the idea was really not a “freeze” but rather a levy “cap”.) This legislation had previously been introduced and passed both houses of the legislature but was vetoed by Governor Doyle. An attempt was made to override the veto and it failed.

The TABOR legislation is the same concept except it calls for a state constitutional amendment to accomplish the same thing. Legislation involving constitutional amendments cannot be vetoed by the Governor. In order to become law it must first pass two sessions of the legislature and then pass a statewide referendum.

The problems created by previous and contemplated versions of these ideas are as follows:

- 1.) Debt Payments for General Obligation Debt currently are backed by an unconditional pledge of property taxes. This change would mean that instead of an unconditional pledge it would become a limited pledge, thereby increasing the cost of debt due to the fact it is less secure for investors.
- 2.) Debt Payments for Revenue Bonds also rely on annual appropriation pledges from the municipality to make up any shortfall in utility revenues. Levy limits, unless they exclude these types of appropriations would subject the appropriation to the same “cap” as all other expenses thereby making it necessary to choose between things like paying police and fire fighters or making debt payments.
- 3.) In all other states that have enacted similar legislation, local governments have continued to borrow funds but have done so using more costly techniques such as lease revenue debt, certificates of participation (COP’s), Zero coupon bonds and the like.
- 4.) Credit ratings on the whole for municipal debt in Wisconsin would likely be put under pressure for downgrades due to the limitation on levies, thereby increasing costs of interest.

- 5.) If communities are not able to increase their levies at least by the amount of the new growth in their tax base, it takes all of the incentive that a community has for financially participating in economic development. (If you can't benefit from additional tax base, why have it?)
- 6.) In order to attract new development, often communities must make decisions to expend dollars to provide for the improvements or incentives to attract the businesses they are seeking. With the limits as previously proposed, these expenditures (and necessary levies) would need to occur prior to the development actually being completed. Even if the law allows the community to increase levies by the amount of growth in new tax base, there is a potential timing "mismatch" created due to the need to spend dollars prior to the valuation being available for the increased levy calculation.
- 7.) The previous version of this bill failed to exclude the TIF levy from the limitation. This actually resulted in communities having to DECREASE their operating levies by the amount of the increase that was mathematically driven in the TIF levy !
- 8.) Limitations of levies without excluding debt payments and levies for economic development / TIF purposes will have a devastating effect on the ability of local government to foster economic development .
- 9.) Small communities with limited growth will be hit harder than larger communities and communities with higher growth. (The rich will get richer and the poor poorer.)
- 10.) Costs of service may increase faster than the tax base especially in smaller communities where adding 1 position to a police department may increase the budget & levy by 10%.
- 11.) A more recent version of the TABOR concept outlined in a memo from the Legislative Fiscal Bureau to Rep. John Gard dated 5/20/04 reflects the need to deal with some of the issues raised above particularly in the area of Debt and TIF however, it calls for the TABOR law to be passed but that subsequent legislation would be required to "fix" the problem of the impact it creates for Debt & TIF. As is always true, the devil is in the details, and the details should be determined prior to approval of any such legislation. In the meantime, until a TIF/Debt "fix" is done, the prospect of an unsettled situation will essentially freeze any new expenditures for economic development.

While it sounds great to limit taxes, the reality is that costs vary from community to community and circumstances may require increases greater than the increase in tax base from time to time in order to effectively respond to the short AND long term needs of the community. Local elected officials have the responsibility to make decisions on behalf of their constituents in these cases (the basic concept of representative government.). If they are not decisions that the community agrees with, there are elections every 2-3 years. In addition, unless real effort is made to substantively deal with the issues outlined above, the "solution" of tax levy "freezing" or "capping" could actually cost taxpayers more money in both the short and long run in the form of higher debt expense (interest rates and fees) and reduced growth in tax base due to local governments unwillingness to encourage growth.