

 **EHLERS**
LEADERS IN PUBLIC FINANCE



City and Village Levy Limits

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Objectives of Presentation

- General review of levy limits
 - New provisions
 - Debt service adjustments
 - 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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Levy Limits - What's New?



- New negative adjustment for “covered services” when transitioned from levy to user fee
- Allowable carryover increased from 0.5% to 1.5% with changes to super majority vote requirement
- Ability to avoid negative adjustment for “old” G.O. debt by foregoing carryover now an annual proposition

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Negative Adjustment for Covered Services



- 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
 - Fire protection
 - Snow plowing
 - Street sweeping
 - Storm water management

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Negative Adjustment for Covered Services (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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Negative Adjustment for Covered Services (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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Negative Adjustment for Covered Services (cont.)

Example 1 (Full Conversion to User Fee):

	2013 Budget	2014 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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Negative Adjustment for Covered Services (cont.)

Example 2 (Fee Increase to Reduce Levy Requirement):

	2013 Budget	2014 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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Negative Adjustment for Covered Services (cont.)

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

	2013 Budget	2014 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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Carry Over



- If the municipality's prior year actual levy was less than its allowable levy, it may “carry over” that difference, or up to 1.5% of the prior year’s actual levy amount, whichever is less (previously limited to 0.5%)
- Special voting requirements to take carry over:
 - For a carry over not exceeding 0.5% of the prior years levy, usage requires a majority vote
 - For a carry over greater than 0.5% (up to the maximum of 1.5%), usage requires a $\frac{3}{4}$ vote of the Common Council or Village Board (or a $\frac{2}{3}$ vote if the body has fewer than five members)
- Ability to avoid debt service negative adjustment by foregoing carry over (more on this later)

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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:
 - Prior to July 1, 2005
 - On or after July 1, 2005
 - Pre-July 1, 2005 G.O. debt that is refunded with debt authorized on or after July 1, 2005 falls into the latter category
- “Authorized” refers to the act of adopting an initial or authorizing resolution (not actual issuance)

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Debt Service Adjustments (cont.)

- Some of the debt service adjustments are based on the debt payment, while others are based on the debt levy. Important to note this distinction:
 - “*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 **before July 1, 2005**
 - May add to the levy limit any increase in the total debt *payment* over the prior year’s payment
 - Can add the increase even if tax levy is not used to support the payment
 - Always to your advantage to claim this addition
 - Must subtract from the levy limit any decrease in the debt *levy* from the prior year’s levy
 - 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.)

Increase in payment amount from prior year's pre-July 1, 2005 G.O. Debt levy can be added to levy limit

Amount of payment increases

Issue Dated	G.O. Corporate Purpose Bonds 1-Aug-00		General Obligation Promissory Notes 1-Mar-04		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 (8/1)	Interest	Prin (3/1)	Interest							
2013	220,000	84,660	160,000	8,840	473,500		(91,398)	(84,420)	297,682		2013
2014	225,000	77,400	160,000	2,960	465,360	(8,140)	(90,720)	(81,480)	293,160	(4,522)	2014
2015	250,000	69,750			319,750	(145,610)	(95,925)		223,825	(69,335)	2015
2016	275,000	61,000			336,000	16,250	(134,400)		201,600	(22,225)	2016
2017	300,000	51,100			351,100	15,100	(140,440)		210,660	9,060	2017
2018	325,000	40,000			365,000	13,900	(146,000)		219,000	8,340	2018
2019	350,000	27,650			377,650	12,650	(151,060)		226,590	7,590	2019
2020	350,000	14,000			364,000	(13,650)	(145,600)		218,400	(8,190)	2020
2021						(364,000)				(218,400)	2021
TOTAL	2,295,000	425,560	320,000	11,800	3,052,360	(473,500)	(995,543)	(165,900)	1,890,917	(297,682)	

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Debt Service Adjustments (cont.)

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

Amount of negative adjustments

Issue Dated	G.O. Corporate Purpose Bonds 1-Aug-00		General Obligation Promissory Notes 1-Mar-04		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 (8/1)	Interest	Prin (3/1)	Interest							
2013	220,000	84,660	160,000	8,840	473,500		(91,398)	(84,420)	297,682		2013
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2017	300,000	51,100			351,100	15,100	(140,440)		210,660	9,060	2017
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TOTAL	2,295,000	425,560	320,000	11,800	3,052,360	(473,500)	(995,543)	(165,900)	1,890,917	(297,682)	

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Debt Service Adjustments (cont.)



Important Consideration

- Taking a carryover in 2013, or in any year thereafter, subjects you to “negative adjustment” **in that year**
- Foregoing a carry over in 2013, or in any year thereafter, makes negative adjustment inapplicable to you **in that year**
- What if I don’t have an available carry over?
 - Not having a carry over 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 2012 or earlier)
 - The amount of the negative adjustment will be less than the available carry over amount (net gain in levy capacity)

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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
 - Amount claimed will be subtracted out the following year
 - **Claim only what you need and will actually levy**

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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-06			General Obligation Promissory Notes 1-Mar-09			Total Payment	Less Utility Revenues	Less Impact Fees	Total Levy	YEAR
	Prin (9/1)	Interest	Total	Prin (3/1)	Interest	Total					
2014	300,000	106,350	406,350	200,000	32,300	232,300	638,650	(203,175)	(25,000)	410,475	2014
2015	310,000	96,150	406,150	210,000	27,480	237,480	643,630	(203,075)	(25,000)	415,555	2015
2016	320,000	85,300	405,300	220,000	22,210	242,210	647,510	(202,650)	(25,000)	419,860	2016
2017	330,000	73,780	403,780	230,000	16,470	246,470	650,250	(201,890)	(25,000)	423,360	2017
2018	340,000	61,570	401,570	240,000	10,240	250,240	651,810	(200,785)	(25,000)	426,025	2018
2019	350,000	48,650	398,650	250,000	3,500	253,500	652,150	(199,325)	(25,000)	427,825	2019
2020	375,000	35,000	410,000				410,000	(205,000)		205,000	2020
2021	400,000	20,000	420,000				420,000	(210,000)		210,000	2021
TOTAL	2,725,000	526,800	3,251,800	1,350,000	112,200	1,462,200	4,714,000	(1,625,900)	(150,000)	2,938,100	

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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	
	2012/13	2013/14	2012/13	2013/14
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.)

- 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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Debt Service Adjustments (cont.)

- Shortfall adjustment for utility revenue bonds
 - If pledged revenues (e.g. sewer revenues, water revenues, TIF increments) are inadequate to meet debt service payments, the shortfall in revenues is exempted from levy limits and can be claimed on this line
 - To claim this adjustment, the revenue bond must be issued under Wisconsin Statutes Section 66.0621
 - 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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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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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 2005 G.O. debt levies for operations or capital
 - Using abated post-July 2005 G.O. debt service to increase allowable levy
 - Short term financing

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Pre-2005 G.O. 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-Aug-00		General Obligation Promissory Notes 1-Mar-04		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 (8/1)	Interest	Prin (3/1)	Interest							
2013	220,000	84,660	160,000	8,840	473,500		(91,398)	(84,420)	297,682		2013
2014	225,000	77,400	160,000	2,960	465,360	(8,140)	(90,720)	(81,480)	293,160	(4,522)	2014
2015	250,000	69,750			319,750	(145,610)	(95,925)		223,825	(69,335)	2015
2016	275,000	61,000			336,000	16,250	(134,400)		201,600	(22,225)	2016
2017	300,000	51,100			351,100	15,100	(140,440)		210,660	9,060	2017
2018	325,000	40,000			365,000	13,900	(146,000)		219,000	8,340	2018
2019	350,000	27,650			377,650	12,650	(151,060)		226,590	7,590	2019
2020	350,000	14,000			364,000	(13,650)	(145,600)		218,400	(8,190)	2020
2021						(364,000)				(218,400)	2021
TOTAL	2,295,000	425,560	320,000	11,800	3,052,360	(473,500)	(995,543)	(165,900)	1,890,917	(297,682)	

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

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Pre-2005 G.O. Debt Decreases

- Important considerations
 - If any year you elect to take an available carryover, then negative adjustment applies and this strategy is not applicable
 - 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 G.O. 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
2013	632,610	(202,960)	(25,000)	404,650	227,960	2013
2014	638,650	(203,175)	(25,000)	410,475	228,175	2014
2015	643,630	(203,075)	(25,000)	415,555	228,075	2015
2016	647,510	(202,650)	(25,000)	419,860	227,650	2016
2017	650,250	(201,890)	(25,000)	423,360	226,890	2017
2018	651,810	(200,785)	(25,000)	426,025	225,785	2018
2019	652,150	(199,325)	(25,000)	427,825	224,325	2019
2020	410,000	(205,000)		205,000	205,000	2020
2021	420,000	(210,000)		210,000	210,000	2021
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 G.O. Debt

- 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

		Equipment Budget/Levy	Work Around			
			Equipment Budget	1 Yr Note	Interest Cost	
					(90 Days)	
2012	PD Squad #1	25,000	25,000	2.00%	125	25,125
	PD Squad #2	25,000	25,000	2.00%	125	25,125
	PD Squad #3	25,000	25,000	2.00%	125	25,125
	Plow Truck	100,000	100,000	2.00%	500	100,500
	Staff Vehicle	20,000	20,000	2.00%	100	20,100
		195,000	195,000		975	195,975

Additional cost to taxpayers as compared to true cash financing is \$975 in this example (90 days of interest expense)

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