



Office of the Comptroller

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April 30, 2003

Mr. Patrick T. Curley
Legislative Liaison Director
Department of Administration
Intergovernmental Relations Division
Room 606, City Hall
200 E. Wells St.
Milwaukee, WI 53202

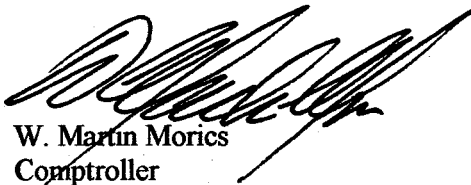
Attn: Audra Millen

Dear Mr. Curley:

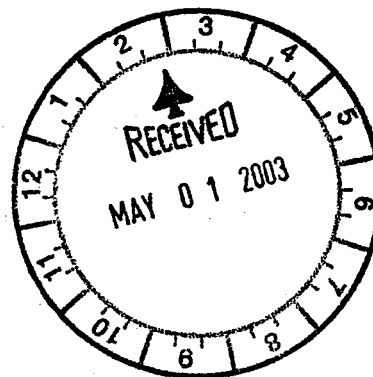
At the request of Audra Millen of your staff, enclosed is a summary of my position regarding the concept of a State imposed property tax levy freeze which is apparently being considered by some members of the State legislature.

I strongly oppose any such legislation. Should you need any further assistance in your Division's efforts to defeat such legislation, please contact me.

Sincerely,



W. Martin Morics
Comptroller



Potential Consequences of Levy or Rate Freeze

Loss of Local Accountability & Control

A proposed levy/rate freeze removes from locally elected officials a very basic responsibility – to determine the tradeoff between the level of local government services needed by its citizens and the level of property taxes those citizens are willing to accept. By mandating that local governments make no change in their property tax levy or rate, the State legislature would impose its will on each local government without any regard to the wide variety of different service needs and fiscal conditions present throughout Wisconsin. For example, certain local governments receiving little State aid and witnessing large and continuing tax base expansion would likely be unaffected by a tax rate freeze. In contrast, other less affluent governments, more dependent on State aid and without the benefit of major tax base expansion, would be required to make massive service cutbacks with no opportunity for citizen input. And while a levy freeze would limit all communities, its impact would vary greatly depending on State aid cuts, demographic changes, etc. Likewise, those cities, towns, etc. limiting property tax levy increases in the past are unfairly penalized due to their prior cost control initiatives.

Targeted reductions in State spending are clearly required. However, freezing the only major local government revenue source for Wisconsin's local governments would compound an already difficult situation at the very worst time. Such a State government action is both unfair and totally insensitive to the varied local needs.

Negative Impact on Bond Rating

A levy freeze definitely is a negative factor that the rating agencies (Moody's, Standard & Poors, Fitch) would consider in rating Wisconsin local government bond issues. Rating agencies focus on the long term ability of the municipal issuer to repay its debt obligations. An externally imposed limit on a major ongoing source of municipal revenue (the levy freeze) means a continuing new constraint on that repayment capability. A levy freeze constitutes a significant loss of fiscal control by the local government. With this loss of control, the risk of future default (non-payment of debt service) on local government debt increases.

Negative impact on existing Bond Holders

The levy freeze increases bond holder risk for both future municipal debt issues as well as existing debt now outstanding. In effect, all holders of affected municipal debt whose governments are now subject to a levy freeze would see their investments decline slightly in value due to the additional risk associated with future repayment. As Wisconsin local governments issue new debt while under the limit, they must compensate the potential bond investor for the additional assumed risk by paying more, eg, a higher interest rate on new local government bond/note issues. This further increases the fiscal pressures on the local government.

Other Adverse Impacts

Economic Development & Tax Incremental Districts

One unintended impact of a levy freeze would be to impede both existing and planned economic development efforts of local governments. Freezing local tax levies in effect reduces the income generated by Tax Incremental Districts (TIDs), the basic economic development tool now available to Wisconsin's local governments. The annual property taxes generated by a TID are used to retire debt issued for that District. With frozen property tax levies, the property tax revenue generated by the TID is decreased, in some instances making it impossible to pay off debt service costs prior to the mandated deadline for a TID's termination. This would leave the local government with no alternative than to raise the general property tax levy (or with the freeze, make further service cutbacks) to pay off the TID debt.

Additionally, because the TID revenue is being reduced, some future economic development partnerships with private businesses would now prove infeasible. In these instances, the very development local government seeks to strengthen its tax base would be terminated due to the levy freeze.

Decreased Effectiveness of the Expenditure Restraint Program (ERP)

A levy or rate freeze may result in communities that would otherwise not qualify for ERP to do so. This will lower the State ERP payments to all other communities who have consistently worked to keep their spending increases down, compounding the adverse impact of cuts to shared revenue. Those communities having exhibited responsible cost controls in the past are again penalized through this State action.

Mjd/4-30-03

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City of Milwaukee's Concerns with the 2003-05 Budget

I. Shared Revenue – The Amount.

The proposed shared revenue cuts are deep.

- Shared Revenue to Municipalities will decrease by \$95 million relative to 2003.
- Milwaukee's shared revenue cut will be \$10 million.

Such cuts will cut into core services.

- Milwaukee is implementing a **current year** hiring freeze and additional \$2.9 million budget adjustment, resulting in **significant and immediate** service reductions.
- Further cuts will be inevitable in 2004. Each \$1 million cut in shared revenue could result in the elimination of any of the following:
 - 20 Police Officers or 47 Police Squad Cars or
 - 3 Fire Engines or 1 Fire Engine Company or
 - 2 Health Centers or 2 Libraries

Milwaukee has a demonstrated track record of fiscal responsibility.

- Since 1988 the city has cut 743 positions, a 7.4% reduction.
- Relative to other large municipalities, Milwaukee has fewer employees per capita.
- The city's operating budget is lower in real terms than in 1988.
- Milwaukee's tax rate has decreased by 23% since 1988
- Our tax levy has also decreased significantly.

Our Position: Oppose further cuts to shared revenue. Our taxpayers should not have to sacrifice safety, sanitation, health, and quality of life or be faced with higher tax rates.

II. Shared Revenue – The Distribution of Cuts

The primary goal of shared revenue is to equalize per capita wealth among municipalities:

- The underlying per capita property wealth varies greatly among municipalities. Without tax base equalization, residents of some municipalities would have to pay two or three times more to fund a comparable level of services.
- Sheehy & Kettl Commissions have reinforced importance of this concept.

In contrast, the proposed per-capita cuts are disequalizing.

- Municipalities depend on the property tax base for revenue. Cutting 95 million statewide is equivalent to taking away 28 cents per thousand from each municipality's property tax base.
- However, the per capita cuts take away more than 28 cents per thousand from poor municipalities and less from property rich municipalities.
- This is similar to our federal government reducing every State's income tax base by an equal amount per person. It would clearly be a greater percentage hit for Wisconsin than states with a higher per capita income. It would be fairer to cut everyone by the same percentage of their base – resulting in a smaller reduction for Wisconsin.
- An alternative cut based on a straight percentage would exacerbate this disparity. (Col. 2) and would result in a \$29 million loss in shared revenue for Milwaukee.

<u>Municipality</u>	<u>Proposed Cut as % of Wealth/capita</u>	<u>Straight % Cut as % of Wealth/capita</u>
Bear Bluff:	0.95%	0.25%
Berry:	1.80%	0.47%
Aushwabenon:	1.90%	0.39%
Rockland (town):	2.40%	0.46%
Statewide average:	2.80%	2.80%
Green Bay	3.60%	5.00%
Menasha:	3.60%	6.00%
Ellsworth:	4.00%	5.60%
Algoma:	4.10%	8.90%
Eden:	4.20%	5.20%
Marinette:	4.50%	13.20%
Peshtigo:	4.60%	11.60%
Racine:	4.90%	11.80%
Milwaukee:	5.10%	14.50%
Juneau:	5.30%	12.00%
Beloit:	5.30%	18.50%
Rockland (village):	6.90%	9.00%
Towns:	2.30%	0.70%
Villages:	2.60%	1.90%
Cities:	3.30%	4.80%

Our Position: Oppose any change to the distribution of the shared revenue cuts that is more disequalizing than the proposed per capita. Support alternative distributions that preserve tax base equalization.

III. Shared Revenue – The “Sources” of Funding

Transportation Fund Shift makes sense.

- Even with the proposed transfer, the DOT budget will still be above what it would be, had it increased at the rate of inflation over the past decade
- Shared revenue is critical to local road maintenance – so it makes sense to use transportation-generated funds to cover those costs. GTA dollars do not fully cover costs and a greater percentage of tax dollars have been required to cover transportation costs since shared revenue has been frozen.

Patients’ Compensation Fund

- NOT similar to using the Tobacco settlement money for one-time purposes. That money would not otherwise go to non-smoking causes and does not jeopardize any other policy initiatives

Our Position: Support the full \$500 million shift from the transportation fund to GPR to fund schools and Shared revenue. Support the transfer from the Patient’s compensation fund.

IV. Impact of a Levy Freeze

Loss of Local Accountability & Control

- The proposed levy freeze removes from locally elected officials a very basic responsibility – to determine the tradeoff between the level of local government services needed by its citizens and the level of property taxes those citizens are willing to accept
- Likewise, those cities, towns, etc. limiting property tax levy increases in the past are unfairly penalized due to their prior cost control initiatives.

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- In effect, all holders of affected municipal debt whose governments are now subject to a levy freeze would see their investments decline slightly in value due to the additional risk associated with future repayment

Does not allow Municipalities to Capture Growth

- A levy freeze is similar to state limiting its total income tax receipts – an not capturing any growth in incomes.
- A levy freeze would result in an additional loss of approximately \$13 million for Milwaukee.
- ERP payments could also be reduced as more districts qualify, cutting into municipal revenues even further.

Limits Investment in Future Growth - TIDs

- Freezing local tax levies in effect reduces the income generated by Tax Increment Districts (TIDs), the basic economic development tool now available to Wisconsin's local governments.
- With frozen property tax levies, the property tax revenue generated by the TID is decreased, making it unlikely that debt service costs are paid off before the mandated time for TID closure.
- If TID revenue is being reduced, some future economic development partnerships with private businesses will now prove infeasible. The very development local government seeks to strengthen its tax base would be terminated due to the levy freeze.

Our Position: Oppose any levy freezes.