

Operating Budget Constraints Reference Sheet

Budget Constraints

There are 2 main constraints placed on municipal budgets from the state to limit growth in budgets. One constraint limits the growth on the revenue side of the budget, and the other constraint limits the expenditure side of the budget.

Levy Limit

The first constraint limits the revenue side of the budget, the levy limit. There are 2 different types of levies within the overall tax levy.

The Debt Levy: funds the principal and interest payments on the municipality's long term debt. There are no growth limits on the debt levy, a municipality can increase their debt levy up to the total amount of the general obligation principal and interest payments due in the budget year.

The Operating Levy: funds the day-to-day costs of the municipality. The state has imposed growth limits on the operating levy that is mainly tied to the municipality's Net New Construction¹. The levy can increase from the previous year by the Net New Construction Rate. The other common adjustments that can be made to the levy limit are related to TIF's. When a TID closes there is a one-time adjustment to increase the allowable levy.

	Net New Const. %	Net New Const. \$ Amt
2026	0.681%	\$ 251,575.00
2025	0.936%	\$ 342,571.00
2024	0.684%	\$ 248,640.00
2023	0.997%	\$ 358,840.00
2022	1.189%	\$ 412,153.00
2021	1.649%	\$ 564,272.00
2020	1.303%	\$ 452,624.00

The key exception to the levy limit is the referendum option. Levies can be increased above the allowable limits if the amount is approved by referendum. The governing body must adopt a resolution specifying the proposed amount of increase in the levy beyond the amount that is allowed and stating whether the proposed increase is for the next levy only or if it will apply on an ongoing basis. The resolution must also specify the purpose of the levy increase. The resolution must then be submitted to the electors for a vote.

¹ Net New Construction is the value of all newly constructed or improved buildings and land within a municipality during the previous year, minus any value of any demolished or destroyed building and land.

Expenditure Restraint Incentive Program

The second major constraint limits the growth of budgets on the expenditure side of the budget, the expenditure restraint incentive program. This program is intended to incentivize municipalities to limit their growth in expenses by paying out state funds if the municipality qualifies. The program ties the allowable increase in expenses to two market figures, Consumer Price Index (inflation) and Net New Construction. In simplified terms, the limit is calculated by starting with a municipal's adopted total operating budget expenses. The budget amount is multiplied by the total percentage of Consumer Price Index Rate added to 60% of the net new construction % (capped at 2% total for the net new construction figure)

CPI (Inflation Rate)	2.7%
60% Net New Construction (capped at 2%)	+ (60%*0.681)
Total Adjustment Rate	3.10%
Adjustment Rate	3.10%
20XX Adopted Operating Expense Budget	* <u>\$63,598,069.00</u>

Allowable Expenditure Increase **\$1,971,540.14**

A municipality can opt out of the Expenditure Restraint Incentive Program. The disincentive is that the municipality misses out on the State ERIP payment the following year (i.e. 2026 budget exceeded growth limit, there would be no 2027 payment received). The following budget year the municipality can opt back in to the program.

ERIP History:

	CPI (Inflation)	60% of Net New Construction	ERP Growth Factor	Expense Budget increase allowed	ERIP Payment Received
2026	2.60%	0.41%	3.0%	1,907,942.07	1,684,075
2025	3.20%	0.56%	3.8%	2,416,747.45	1,164,284
2024	5.40%		5.4%	3,317,371.42	1,164,284
2023	7.70%	0.60%	8.3%	4,997,541.53	-
2022	3.00%	0.71%	3.7%	2,094,146.83	1,173,297
2021	1.40%	0.99%	2.4%	1,388,016.96	1,175,694
2020	1.90%	0.78%	2.7%	1,520,671.02	1,288,235

Maintenance of Effort

A new budget constraint the state of Wisconsin placed on municipalities with the passing of Act 12 is the Maintenance of Effort in relation to law enforcement, fire protection and emergency medical services. This act placed requirements on public safety spending and tied this to the increase in supplemental state shared revenue passed in Act 12.

For law enforcement services, the City must annually certify that it maintained law enforcement services at a level at least equivalent to the previous year by one of the metrics below:

- Moneys raised by tax levy and expended for employment costs of law enforcement officers.
- The percentage of the total moneys raised by tax levy that is expended for employment costs of law enforcement officers.
- The number of full-time equivalent law enforcement officers employed by or assigned to the municipality, not including officers whose positions are funded by state or federal grants.

For fire protection and emergency medical services, the City must annually certify that it maintained fire protection and emergency medical services at a level at least equivalent to the previous year by two of the metrics below:

- Expenditures, not including capital expenditures, for fire protection and EMS.
- The number of full-time equivalent fire fighters and EMS personnel employed by or assigned to the county or municipality.
- The level of training and maintenance of licensure for fire fighters and EMS personnel providing fire protection and EMS within the county or municipality.
- Response times for fire protection and EMS throughout the county or municipality, adjusted for call location.

Failure to comply with the State's Maintenance of Effort results in a penalty of a 15% reduction in the City's shared revenue payment. For example, the 2026 estimate of shared revenue payment is \$13,998,140, a 15% reduction penalty would result in a \$2,099,721 penalty.