by Douglas H. Frazer

A Concise Guide to the Village Budget

On December 31 of every year, Fox Point property owner McFly arrives at Village Hall to pay his property tax bill. He always has the same two thoughts. First, where does all this money go? Second, a tax is now a fee and I can't deduct it on my tax return.

McFly is right. The tax bill is hard to figure out. Part of the issue, McFly knows, is that the village portion of the total property tax bill is only about 25 (Stormonth-Bayside School District) or 30 percent (Mapledale-Indian Hills School District) of the total. The balance represents taxes from other taxing authorities – the village simply serves as the collection agent. These other taxing authorities include the State of Wisconsin, County of Milwaukee, Milwaukee Metropolitan Sewerage District (MMSD), Milwaukee Area Technical College (MATC), and the elementary and high school districts.

The Village of Fox Point budget stands at about 6.8 million dollars per annum. By state law, the village is required to pass a balanced budget. Generally, the budget is divided between operating (current) expenses and capital (long term) expenses. An example of an operating expense is employee wages. An example of a capital expense is the purchase of equipment or street repair. The village funds operating expenses largely through the current year levy (taxes). The village funds capital expenses largely through borrowing. A portion of the levy funds the year-to-year service (principal and interest payments) on that debt.

Since 2005, the state has reserved the right to impose limits on the growth of municipal levies. Limits are measured by the proceeding year's "base" levy. Limits have ranged from zero to 3.86 percent. Exempted from the levy limit calculation is debt service. The calculation also does not take into account off-the-levy charges – including fees.

In addition to levy limits, the state offers an incentive program for expenditure restraint. The incentive is in the form of a state grant. The village qualifies (and it always has) if its year-to-year increase in budgeted expenditures does not exceed the consumer price index plus the tax base growth due to new construction. Over the years, this grant has ranged from a high of about $130,000 to a low of about $50,000.

After a series of public meetings that conclude by early December of each year, the village board passes the annual budget. The village then determines the village portion of each taxpaying property owner's tax bill. The village treasurer first arrives at a tax rate. The tax rate reflects the amount of levy-related funds required to fund the budget divided by the valuation of all properties that are subject to the property tax. The items funded by the levy include about 85 percent of the general fund, the recycling fund, the capital projects fund (the levy-funded portion of this fund is less than 5 percent), and debt service.

As is apparent, the tax rate will change from year to year.

The village treasurer then multiples the tax rate by the assessed value of each property subject to taxation. (The assessed value is the village assessor's determination of market value.) The result is the levy the village assesses the owner of each taxable real estate parcel.

In addition, the state requires that each property tax bill report the equalized value of the property. The equalized value is the state's alternative computation of market value for purposes of setting the levy for taxing jurisdictions, like counties, whose boundaries include territory outside a single municipality. The Wisconsin constitution requires taxing uniformity; an equalized value formula is required to achieve taxing uniformity because (1) each municipality has its own assessor and (2) municipalities perform revaluations in different years.

The village has several other funding mechanisms for its operations. The village has created a storm water utility, a sewer utility, and a water utility. The village sets rates for these utilities and charges property owners fees based on those rates. This arrangement provides a dedicated – and for the storm water and sewer utilities an immediately adjustable -- source of revenue for large-scale essential service expenditures. The advantage is that a direct correlation exists between property owner use and the service provided. In addition, property owners exempt from the tax levy are not exempt from these fees. The disadvantage is that the fees are not tax deductible. (It should be noted in this regard that the ever-expanding number of taxpayers subject to the alternative minimum tax (AMT) may be subject to limitations on the ability to deduct property tax payments.) A second disadvantage is that by taking these items off of the tax levy, the arrangement allows the funding of other budgetary items that arguably could be cut.

Finally, the village receives income from federal grants, state aid, and the village inspection and pool fees. This income is irregular.

As can be seen, the village budgeting and taxing process is the product of considerable thought and effort – informed by the close attention the board pays to the voice of each village resident who seeks to be heard.

Douglas H. Frazer is a trustee on the Fox Point Village board. The views expressed are his own and not necessarily those of the village, the village board, other village board members, or Neighborhood Communications, LLC.