1997-98 SESSION COMMITTEE HEARING RECORDS

Committee Name:

Joint Committee on Finance (JC-Fi)

Sample:

Record of Comm. Proceedings … RCP

- 05hrAC-EdR_RCP_pt01a
- 05hrAC-EdR_RCP_pt01b
- 05hrAC-EdR_RCP_pt02

- Appointments … Appt
- **

- Clearinghouse Rules … CRule
- **

- Committee Hearings … CH
- **

- Committee Reports … CR
- **

- Executive Sessions … ES
- **

- Hearing Records … HR
- **

- Miscellaneous … Misc
- 97hrJC-Fi_Misc_pt101b_LFB

- Record of Comm. Proceedings … RCP
- **

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Instant Ticket Vending Machines (Revenue -- Lottery Administration)

[LFB Summary: Page 535, #9]

CURRENT LAW

No provision.

GOVERNOR

Provide $333,300 SEG in 1997-98 and $889,400 SEG in 1998-99 to purchase 239 instant ticket vending machines (ITVMs) through a master lease arrangement with DOA. Of this amount, $124,800 in 1997-98 and $444,700 in 1998-99 would be placed in unallotted reserve which would be released by DOA after the lottery further documents the costs of the machines.

DISCUSSION POINTS

1. Instant ticket vending machines would allow lottery customers to purchase instant tickets without the assistance of a retail clerk. It is intended that the ITVMs would be located in full-service retail outlets (retailers selling a large variety and high volume of instant and on-line tickets). Specific criteria for selecting retailer outlets at which to place the machines are not yet developed.

2. A pilot testing of the machines, conducted in Milwaukee during the period from January to April, 1994, indicated that average sales increased by 16.2% compared to other

retailers during the period. According to lottery officials, feedback from both retailers and lottery players was very positive. Other lottery jurisdictions using ITVMs (26 of 38 jurisdictions nationally) generally report significant increases in ticket sales over time. However, based on available data, it is difficult to isolate the impact of ITVMs from other factors that may be affecting sales.

3. One potential concern regarding the machines may be their accessibility to minors, who cannot legally purchase lottery tickets. Lottery officials indicate that the machines would be placed in the proximity of main service counters, so the machines could be monitored. In addition, remote kill switches for all the machines would be provided, allowing clerks to disable the machines if minors attempt to use them. While monitoring may not be sufficient to entirely prevent sales to children during busy periods, this concern may be somewhat alleviated because minors may not legally redeem winning tickets.

4. Under the bill, $124,800 in 1997-98 and $444,700 in 1998-99 would be placed in unallotted reserve which would be released by DOA after the lottery further documents the costs of the machines. Preliminary estimates by lottery officials indicate that: (a) each machine would cost approximately $6,100 and be financed over a three-year period (for permanent property costs of $106,200 in 1997-98, $602,600 in 1998-99 and 1999-2000 and $301,300 in 2000-01); (b) one-time installation costs in 1997-98 ($350 per machine) would total $83,700; and (c) maintenance costs, at an annual rate of $1,200 per machine, would require $143,400 in 1997-98 and $286,800 in 1998-99.

5. The cost of purchasing and operating each ITVM would total about $3,700 per year over the three-year financing period. This would require an ITVM to sell approximately $13,000 in lottery tickets a year to recover the purchase and operating costs of the machine. Only after this sales threshold is reached, would proceeds again be generated for property tax relief.

6. For a retailer selling $150,000 in scratch tickets annually, an ITVM would need to generate a 9% increase in sales before a net increase in lottery proceeds (for the lottery credit) would occur. A 50% increase in sales for such a retailer would increase net proceeds for the credit by 41%. For a retailer selling $50,000 in scratch tickets annually, an ITVM would need to generate a 26% increase in sales before a net increase in lottery credit proceeds would occur. A 50% increase in sales would increase net credit proceeds by 24%. While a substantial number of retailers have scratch ticket sales in excess of the minimum needed to support an ITVM, the machines would generate maximum profits only if placed with high-volume retailers.

7. In 1995-96, the highest selling lottery retailer in Wisconsin, a grocery store, sold approximately $854,000 in scratch tickets. The highest selling convenience store had total sales of about $712,000. A total of 476 retailers had scratch sales exceeding $150,000. The budget recommendation for 239 ITVMs would provide 50% of these retailers with vending machines. Since not all retailers in this group would necessarily want an ITVM or be an appropriate site

to place a machine, it could be argued that 239 ITVMs would be an appropriate number for this category of high-volume retailers.

8. An alternative to the Governor's recommendation would be to allow the installation of ITVMs only in taverns, liquor stores, segregated liquor sales areas of grocery stores or certain airport locations, in order to reduce the accessibility of the machines to minors. Currently, approximately 416 taverns and 318 liquor stores are licensed lottery retailers. The number of grocery stores licensed as lottery retailers with segregated liquor sales areas is not known. Currently no lottery retailers are located in state airports.

9. However, 406 of 476 top-selling retailers (about 85%), are convenience and grocery stores. There are only 19 tavern and liquor store retailers in the high sales volume category. If the Committee wishes to limit ITVMs to high volume taverns and liquor stores, the initial number of ITVMs authorized for purchase could be reduced to ten (assuming 50% of the target retailers would receive a machine).

10. Alternatively, the ITVMs could be placed at tavern and liquor store retailers with lower sales volumes. This would result in lower average sales per machine as compared to placing them at high volume retailers and, as shown above, would require a larger proportionate increase in sales to produce net gains in proceeds than would be the case with high sales volume retailers. There were 165 tavern and liquor store retailers in 1995-96 with annual scratch ticket sales exceeding $50,000. Providing 50% of these retailers with an ITVM would require the purchase of 83 machines.

ALTERNATIVES TO BASE

1. Adopt the Governor's recommendation to provide $333,300 SEG in 1997-98 and $889,400 SEG in 1998-99 to purchase 239 instant ticket vending machines (ITVMs) through a master lease arrangement with DOA. Of this amount, place $124,800 in 1997-98 and $444,700 in 1998-99 in unallotted reserve to be released by DOA after the lottery further documents the costs of the machines.

Alternative 1	SEG
1997-99 FUNDING (Change to Base)	$1,222,700
[Change to Bill	*$0]*

FAIL

2. Provide $115,700 SEG in 1997-98 and $308,900 SEG in 1998-99 for the purchase of 83 instant ticket vending machines. Restrict the placement of the ITVMs to taverns, liquor stores or segregated liquor sales areas of grocery stores, as determined by the state lottery. Provide the funding in unallotted reserve to be released by DOA after the lottery further documents the costs of the machines.

Alternative 2	SEG
1997-99 FUNDING (Change to Base)	$424,600
[Change to Bill	*- $798,100]*

3. Provide $13,900 SEG in 1997-98 and $37,200 SEG in 1998-99 for the purchase of ten instant ticket vending machines. Restrict the placement of the ITVMs to taverns, liquor stores or segregated liquor sales areas of grocery stores, as determined by the state lottery. Provide the funding in unallotted reserve to be released by DOA after the lottery further documents the costs of the machines.

Alternative 3	SEG
1997-99 FUNDING (Change to Base)	$51,100
[Change to Bill	*- $1,171,600]*

4. Maintain current law.

Alternative 4	SEG
1997-99 FUNDING (Change to Base)	$0
[Change to Bill	*- $1,222,700]*

MO# Alt 2

Prepared by: Art Zimmerman

JENSEN	~~Y~~	N	A
OURADA	~~Y~~	N	A
HARSDORF	Y	~~N~~	A
ALBERS	Y	~~N~~	A
GARD	Y	~~N~~	A
KAUFERT	Y	~~N~~	A
LINTON	~~Y~~	N	A
COGGS	Y	~~N~~	A
BURKE	Y	~~N~~	A
DECKER	Y	~~N~~	A
GEORGE	~~Y~~	N	A
JAUCH	Y	~~N~~	A
WINEKE	Y	~~N~~	A
SHIBILSKI	Y	~~N~~	A
COWLES	Y	~~N~~	A
PANZER	Y	~~N~~	A

AYE 4 NO 12 ABS ____

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Lottery Vendor Fees (Revenue -- Lottery Administration)

[LFB Summary: Page 535, #10]

CURRENT LAW

Funding for on-line vendor fees is provided in a separate, sum sufficient appropriation with base level funding of $11,328,000, based on the terms of a vendor contract and estimated 1996-97 on-line sales of $206.1 million.

Instant ticket data processing is conducted by the state lottery and funded from the general operations appropriation of the lottery. Base funding is estimated at $440,100.

GOVERNOR

Provide $348,000 in 1997-98 and $543,800 in 1998-99 for vendor fees as follows: (a) delete $731,000 in 1997-98 and $533,100 in 1998-99 from the on-line vendor fees appropriation to reflect a new on-line lottery contract; and (b) provide $1,079,000 in 1997-98 and $1,076,900 in 1998-99 in the general operations appropriation to reflect a new contract for instant data processing. (In a separate item, the general program operations appropriation is decreased by $440,100 annually to delete base funding for the cost of instant ticket data processing that has previously been performed in-house.)

DISCUSSION POINTS

1. In May, 1997, the current on-line vendor contract will terminate and a new contract will take effect. GTech Corporation will remain the on-line vendor. Under the contract, on-line lottery terminals for retailers are provided and maintained, a central computer linking the terminals is operated and maintained and retailer accounting and security functions relating to on-line lottery sales are performed.

2. The new on-line contract is based on fixed costs of $10,001,400 in 1997-98 and $10,201,500 in 1997-98 and 0.2% of on-line sales and 0.1% of instant scratch ticket sales. (The instant ticket sales percentage relates to validation of these tickets through the on-line system.) Based on the 1997-99 sales estimates, total on-line vendor fees are estimated under the bill at $10,597,000 in 1997-98 and $10,794,900 in 1998-99. This represents a reduction in base funding of $731,000 in 1997-98 and $533,100 in 1998-99.

3. In addition, the state will also begin a new contract with GTech Corporation in May, 1997, relating to instant ticket data processing. This contract relates to instant ticket inventory management, the validation of winning tickets, including ticket validation equipment for retailers selling instant tickets only, and retailer accounting and security functions relating to instant ticket lottery sales. This function has been performed by state lottery staff since the inception of the lottery, using a computer system that is now obsolete.

4. The instant ticket data processing contract will have fixed costs of $915,000 annually plus 0.1% of instant scratch ticket sales. The required funding for this contract totals $1,182,600 in 1997-98 and $1,184,700 in 1998-99. These totals are $103,600 in 1997-98 and $107,800 in 1998-99 higher than the Governor's recommendation, which contains a calculation error. Adoption of the Governor's recommendation requires this technical correction.

5. Instant ticket data processing has previously been funded in supplies and services and permanent property under the lottery's general operations appropriation. As an in-house function, this was appropriate. In 1997-99, this function will be contracted out and could be funded from the same appropriation as the on-line vendor fees appropriation. This would consolidate the two major lottery data processing contracts in the same appropriation.

6. The Secretary of Revenue recently requested the Committee to consider making this modification. It would appear appropriate to combine these similar contracts under one appropriation. A single appropriation for these contracts would also allow expenditures to be more readily monitored than would be the case if one contract is kept as part of a large general operations appropriation.

7. Consolidation of the two contracts under one appropriation would require that the appropriation name be changed from "on-line vendor fees" to "vendor fees." The appropriation

language would also require amendment to authorize payments for both on-line and instant ticket services and supplies provided by a vendor.

ALTERNATIVES TO BASE

1. Adopt the Governor's recommendation, as technically corrected, to provide $451,600 in 1997-98 and $651,600 in 1998-99 for vendor fees as follows: (a) delete $731,000 in 1997-98 and $533,100 in 1998-99 from the on-line vendor fees appropriation to reflect a new on-line lottery contract; and (b) provide $1,182,600 in 1997-98 and $1,184,700 in 1998-99 in the general operations appropriation to reflect a new contract for instant data processing.

Alternative 1	SEG
1997-99 FUNDING (Change to Base)	1,103,200
[Change to Bill	*$211,400]*

2. Adopt alternative 1, with the following modifications: (a) change the name of the lottery's vendor appropriation from "on-line vendor fees" to "vendor fees" and amend the appropriation language to authorize payments for both on-line and instant ticket services and supplies provided by a vendor; and (b) provide the instant data processing funding to the vendor fees appropriation. The vendor fees appropriation would total $11,779,600 in 1997-98 and 11,979,600 in 1998-99.

Alternative 2	SEG
1997-99 FUNDING (Change to Base)	1,103,200
[Change to Bill	*$211,400]*

MO# Alt #2

Prepared by: Art Zimmerman

2 JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A
1 BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A

AYE 16 NO 0 ABS ____

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Modification of Lottery Expense Limitation (Revenue -- Lottery Administration)

[LFB Summary: Page 537, #16]

CURRENT LAW

Under current law, no more than 15.0% of gross lottery revenues (sales plus miscellaneous fees) for each year may be expended to pay the expenses for the operation and administration of the state lottery. The 15.0% limit, however, may be exceeded with the approval of the Joint Committee on Finance under s. 13.10 of the statutes. The calculation of expenses subject to the 15.0% limitation includes compensation paid to retailers, payments made to vendors for on-line supplies and services and the general program operations of the lottery. Capital expenditures may be amortized. The appropriations from the lottery fund to the Department of Justice for gaming law enforcement and to the Department of Revenue for lottery credit administration are not included in the calculation.

GOVERNOR

Beginning July 1, 1997, reduce the 15% expense limitation for the operation and administration of the state lottery to 9% and provide that retailer compensation costs would not be included in the calculation of the expense limitation.

DISCUSSION POINTS

1. For the five fiscal years, 1991-92 through 1995-96, the actual operation and administration cost ratio to total revenue ranged between 11.2% and 11.7%. Administrative costs in 1996-97 are projected at approximately 12.1%

2. Gross revenues in the 1997-99 biennium are projected, under the bill, at approximately $440.5 million annually. Under current law, the 15% operating expense limitation would allow about $66.1 million in expenditures each year. Under the bill, operating and administrative expenses are projected to total $61.0 million in 1997-98 (13.9% of gross revenue and about $5.1 million below the 15% limitation) and $63.5 million in 1998-99 (14.4% of gross revenue and about $2.5 million below the limit).

3. Under the bill, basic retailer compensation for instant lottery ticket sales would be increased, effective January 1, 1998, from 5.5% to 6.0%. Further, a 0.5% bonus compensation would be provided for both instant and on-line sales to retailers meeting certain sales goals. These modifications of retailer compensation rates would cost approximately $1.8 million in 1997-98 and $3.5 million in 1998-99 compared to retailer compensation under current law at 5.5%. In addition, the state lottery's new on-line vendor contract, expected to be in effect in May, 1997, will cost about $3.3 million more in 1997-98 and $3.7 million more in 1998-99 than vendor fees would have cost under the terms of the expiring contract. (The new contract includes a new accounting system and the replacement of 3,160 on-line terminals that will be compatible with the state's new digital network.)

4. It is such increasing operating costs, combined with declining sales, that could cause the operating costs of the lottery to approach the 15% limitation under current law.

5. The Department of Revenue budget request for the state lottery sought the elimination of the 15% expense limitation. The Department's request stated that contracting additional lottery functions results in increased fixed operating costs. In addition, DOR indicated that, because retailer compensation is included in the cost calculation, each increase in the compensation rate effectively decreases the remaining margin for other operating expenses.

6. Excluding retailer compensation from the calculation and lowering the operating cost limitation to 9% would result in estimated operating cost ratios of 7.7% in 1997-98 and 7.9% in 1998-99. This would result in expenditures being $5.7 million below the limitation in 1997-98 and $5.1 below in 1998-99 (compared to $5.1 million below in 1997-98 and $2.5 million below in 1998-99 under current law).

7. Removing retailer compensation from the calculation of operating and administrative expenses would allow further modifications of retailer compensation rates without affecting the cost ratio limitation for other operating costs. However, it could be argued that

retailer compensation should be included in the cost ratio calculation in order to maintain a true measure of lottery operating and administrative costs.

8. Certain lottery costs, for example, personnel costs and some contract costs, are fixed and will not vary as sales increase or decline. Other costs, for example, retailer compensation and ticket printing, will vary with changes in overall sales.

9. If lottery sales exceed projections, the administrative cost ratio would decline somewhat because fixed costs would account for a lower proportion of the cost to revenue ratio. Similarly, if sales decline from the current projections, the administrative cost ratio would increase. For example, if sales were to decline about 7% from the 1998-99 projection of $440.4 million, to approximately $409.0 million, the administrative cost ratio may slightly exceed the 15% limitation. An even greater decline in sales, to about $381.0 million, would need to occur in 1997-98 before the 15% limitation was reached, because the increase in basic retailer compensation would be in effect for only half of the year.

10. Under the Governor's recommendation, greater flexibility would be provided to the lottery in the event of further decreases in sales; sales could decline to approximately $375 million in 1997-98 and $383.0 million in 1998-99 before the 9% limitation would be exceeded.

11. An alternative to the Governor's recommendation would be to increase the administrative cost limitation from 15.0% to 15.5% in 1998-99. This would provide some additional flexibility to the lottery and retain retailer compensation as a factor in calculating operating and administrative expenses. Sales could decline to approximately $386.0 million in 1998-99 before an expense limitation of 15.5% would be exceeded.

12. However, maintaining the current law limitation is not likely to affect lottery operations. As noted above, the projected 1997-99 lottery operating and administrative costs under the bill would not cause the current law limit of 15% to be exceeded unless sales decrease from projections by about 13.5% in 1997-98 or 10.0% in 1998-99. Further, under current law, the 15% limitation is not an absolute limit and may be exceeded with the approval of the Joint Committee on Finance under s. 13.10.

ALTERNATIVES TO BASE

1. Adopt the Governor's recommendation to reduce the 15% expense limitation for the operation and administration of the state lottery to 9%, beginning July 1, 1997, and provide that retailer compensation costs would not be included in the calculation of the expense limitation.

2. Modify the Governor's recommendation by increasing the expense limitation from 15.0% to 15.5% in 1998-99 and continue to include retailer compensation in the calculation of operation and administrative costs.

3. Delete the Governor's recommendation.

Prepared by: Art Zimmerman

MO#________________

JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A
BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A

No vote (See Motion 900)

AYE ____ NO ____ ABS ____

Senator Panzer

REVENUE -- LOTTERY ADMINISTRATION

Lottery Expense Limitations

Motion:

Move to adopt the Governor's recommendation to reduce the 15% expense limitation for the operation and administration of the state lottery to 10%, beginning July 1, 1997, and provide that retailer compensation costs would not be included in the calculation of the expense limitation.

MO# 900

	JENSEN	~~Y~~	N	A
	OURADA	~~Y~~	N	A
	HARSDORF	~~Y~~	N	A
	ALBERS	~~Y~~	N	A
	GARD	~~Y~~	N	A
2	KAUFERT	~~Y~~	N	A
	LINTON	~~Y~~	N	A
	COGGS	Y	~~N~~	A
	BURKE	Y	~~N~~	A
	DECKER	Y	~~N~~	A
	GEORGE	Y	~~N~~	A
	JAUCH	Y	~~N~~	A
	WINEKE	Y	~~N~~	A
	SHIBILSKI	Y	~~N~~	A
	COWLES	~~Y~~	N	A
1	PANZER	~~Y~~	N	A

AYE 9 NO 7 ABS ____

Motion #900

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Multijurisdictional Lotteries (DOR -- Lottery Administration)

[LFB Summary: Page 539, #19]

CURRENT LAW

Under current law, the state lottery may participate in multistate lottery games (for example, Powerball), if the multistate game is in conformity with the requirements for lottery games in Wisconsin.

GOVERNOR

Provide that the state lottery may offer multijurisdictional lottery games, if those games are in conformity with the requirements for lottery games in Wisconsin. Provide that "multijurisdictional" would be defined as pertaining to another state of the United States of America, the District of Columbia, the Commonwealth of Puerto Rico or any territory or possession of the United States of America or the government of Canada or any Canadian province.

DISCUSSION POINTS

1. Wisconsin's only multistate lottery games are Powerball and Daily Millions, offered under Wisconsin's membership in the Multi-State Lottery Association (MUSL), which administers these games.

2. The Department of Revenue (DOR) budget request for the state lottery included a recommendation to change the "multistate" lottery authorization under current law to "multijurisdictional." In the request, lottery officials indicated that the more narrow term "multistate" may preclude Wisconsin's involvement in games that would also be offered by Washington D.C. or Puerto Rico and they indicated that Washington D.C. was considering the sale of Daily Millions, a multistate on-line game currently offered in Wisconsin. However, Washington D.C. has offered Powerball (and formerly Lotto America) through MUSL since 1988 and is also currently participating in Daily Millions.

3. Wisconsin lottery officials now indicate that MUSL has requested that participating states review the status of their statutory provisions in this regard. MUSL would prefer that the term "multijurisdictional" be standard among its participant lotteries in order to permit an eventual broadening of the population base of the games offered under MUSL. This would allow involvement, for example, with Canada or a province of Canada. Wisconsin lottery officials indicate that no specific expansion plans are currently being considered by MUSL.

4. Administration officials indicate that the definition of multijurisdictional lottery games under the bill, as pertaining to another state of the United States of America, the District of Columbia, the Commonwealth of Puerto Rico or any territory or possession of the United States of America or the government of Canada or any Canadian province, was intended to limit the term so that it would not include involvement with lotteries involving countries on other continents or lotteries that are worldwide in nature. It could be argued, however, that participation in lotteries with Canada or Canadian provinces would constitute an expansion of current levels of gambling.

5. On the other hand, it appears reasonable to change the statutory term "multistate lottery" to "multijurisdictional lottery," defined as pertaining to another state of the United States of America, the District of Columbia, the Commonwealth of Puerto Rico or any territory or possession of the United States of America, in order to remove any legal concern about Wisconsin's current participation in games with the District of Columbia or potential participation with other jurisdictions of the United States.

ALTERNATIVES TO BASE

1. Adopt the Governor's recommendation to provide that the state lottery may offer multijurisdictional lottery games, if those games are in conformity with the Wisconsin definition of a lottery. Provide that "multijurisdictional" would be defined as pertaining to another state of the United States of America, the District of Columbia, the Commonwealth of Puerto Rico or any territory or possession of the United States of America or the government of Canada or any Canadian province.

2. Modify the Governor's recommendation to provide that "multijurisdictional" would be defined as pertaining to another state of the United States of America, the District of Columbia, the Commonwealth of Puerto Rico or any territory or possession of the United States of America.

3. Delete the Governor's recommendation.

Prepared by: Art Zimmerman

MO# Alt #1

	JENSEN	~~Y~~	N	A
1	OURADA	~~Y~~	N	A
	HARSDORF	~~Y~~	N	A
	ALBERS	~~Y~~	N	A
	GARD	~~Y~~	N	A
2	KAUFERT	~~Y~~	N	A
	LINTON	Y	~~N~~	A
	COGGS	Y	~~N~~	A
	BURKE	Y	~~N~~	A
	DECKER	~~Y~~	N	A
	GEORGE	~~Y~~	N	A
	JAUCH	~~Y~~	N	A
	WINEKE	Y	~~N~~	A
	SHIBILSKI	~~Y~~	N	A
	COWLES	~~Y~~	N	A
	PANZER	Y	~~N~~	A

AYE 11 NO 5 ABS ____

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Lottery Advertising (Revenue -- Lottery Administration)

CURRENT LAW

The Wisconsin Constitution allows the creation of a state lottery, the proceeds of which must be used for property tax relief. The Constitution also prohibits the expenditure of any public funds or lottery proceeds for promotional advertising of the lottery and stipulates that "any advertising of the state lottery shall indicate the odds of a specific ticket to be selected as the winning ticket for each prize amount offered." This language appears to allow the state to engage in informational advertising to inform potential participants of the lottery's existence, but precludes the state from conducting advertising that is promotional in nature.

The state lottery's base level advertising budget is $4,608,000 SEG.

GOVERNOR

No provision.

DISCUSSION POINTS

1. The DOR budget request for the lottery did not include a request for additional funding for advertising and, as a result, no increase was recommended by the Governor in SB 77. The Secretary of Revenue, as part of a lottery resource plan submitted to the Committee on April 25, 1997, is now requesting $880,000 SEG in 1997-98 and $1,061,000 SEG in 1998-99 for advertising costs.

2. The following table provides the advertising budget authority, actual expenditures for advertising, percent of advertising budget expended, total lottery sales and the percent change in sales for 1988-89 through 1996-97.

Fiscal Year	Advertising Budget	Advertising Expenditures	Percent of Budget Expended	Total Sales	Change In Sales
1988-89	$3,905,000	$2,973,500	76.1%	$233,829,000	
1989-90	5,830,000	4,757,900	81.6	311,645,200	33.3%
1990-91	4,608,000	5,961,300	129.4	400,620,800	28.6
1991-92	4,608,000	3,692,000	80.1	445,842,100	11.3
1992-93	4,608,000	4,165,400	90.4	495,131,900	11.1
1993-94	4,608,000	4,417,300	95.9	495,521,300	0.1
1994-95	4,608,000	4,498,000	97.8	518,915,000	4.7
1995-96	4,608,000	4,491,500	97.5	482,125,000	-7.1
1996-97*	4,608,000	4,608,000	100.0	430,000,000	-10.8

* Estimated

3. Lottery sales increased each year from 1988-89 through 1994-95, then declined to $482.1 million in 1995-96. In 1996-97, sales are estimated at $430.0 million. SB 77 estimates lottery sales at $440.4 million annually in the 1997-99 biennium, about a 2.4% increase from estimated 1996-97 sales.

4. Lottery officials attribute the initial sales growth largely to the relative newness of Wisconsin's lottery. Officials argue that, as the lottery matures and the novelty of playing the games declines, new sales gains are more difficult to achieve. Advertising spending may be an important factor in maintaining lottery sales.

5. Base funding for advertising has remained unchanged since 1990-91. Lottery officials argue that this effectively results in a gradual decrease in advertising resources as the costs of advertising increase over time. According to the DOR lottery resource request, the rate of inflation since 1990-91 has increased by 15.3% (as measured by CPI) and advertising rates through this period have increased more than 20%. This inflationary pressure results in less overall advertising and a smaller proportion of games that are advertised, compared to the past.

6. If approved, the requested increase ($880,000 in 1997-98 and $1,061,000 in 1998-99), would provide a total lottery advertising budget of $5,488,000 in 1997-98 and $5,669,000 in 1998-99. The requested funding is based on: (a) a 15.3% increase in base level advertising funding to reflect an inflationary adjustment for the years 1990-91 to 1996-97; and (b) annual increases of 3.3% in 1997-98 and 1998-99.

funding to reflect an inflationary adjustment for the years 1990-91 to 1996-97; and (b) annual increases of 3.3% in 1997-98 and 1998-99.

7. In March, 1997, the Legislative Audit Bureau (LAB) reported on an evaluation of the state lottery. The LAB attributes the decline in sales over the last two years primarily to the combined effect of an accelerated attempt to privatize certain lottery functions while rapidly downsizing state lottery staff. The manner in which the changes took place caused: (a) lottery retailer services to deteriorate beginning in 1995-96; (a) an interruption in the introduction of new scratch ticket games in 1996-97; and (c) a significant increase in vacant lottery positions through the period (resulting in a vacancy rate of 63.5% in March, 1997).

8. The LAB indicates that if sales are to be restored to previous levels, the Legislature may want to give consideration to increasing the advertising budget. The LAB discusses the overall increase in the costs of adverting since 1991, the need to introduce and advertise a larger number of instant games than in the past and the need to advertise new on-line games in the future. These may be viewed as factors supporting some increase advertising spending.

9. The Wisconsin lottery advertising budget is lower than in most states. The Attachment to this paper summarizes lottery sales and advertising data by state for 1995-96. Of the 34 jurisdictions for which information was available, 29 states had higher per capita advertising budgets in 1995-96 than Wisconsin. Twenty-four states had higher budgets than Wisconsin as measured by advertising as a percent of total sales.

10. On the other hand, 11 of 29 states that had higher per capita advertising budgets in 1995-96, had lower per capita sales than Wisconsin. While it may certainly be argued that advertising has an effect on sales, this effect may be limited and subject to factors unique to each state. The LAB report makes clear the overall management of the lottery has been a significant factor in the lottery's performance in recent years. An increase in advertising resources may be viewed as an important tool in stabilizing and increasing sales; however, a more important factor may be improvements in other aspects of lottery operations.

11. The DOR request is based, in part, on a 15.3% increase in base funding as an inflationary increase for the last three biennia. However, the Legislature has denied previous requests to increase advertising from the $4,608,000 base amount. It could be argued that the request to provide a 15.3% inflationary adjustment is contrary to prior Legislative decisions relating to this issue. An alternative to this approach would be to provide a 3.3% annual inflationary increase, based on the current base budget. This would provide an increase of $152,100 in 1997-98 and $157,100 in 1998-99.

12. Some would argue, however, that no increase in advertising should be provided. Given the legal prohibitions on promotional advertising and the requirement to provide informational advertising only, the base budget could be viewed as adequate.

ALTERNATIVES TO BASE

1. Provide $880,000 SEG in 1997-98 and $1,061,000 SEG in 1998-99 for advertising costs.

Alternative 1		SEG
1997-99 FUNDING (Change to Base)		1,941,000
	[Change to Bill	*$1,941,000]*

2. Provide $152,100 SEG in 1997-98 and $157,100 SEG in 1998-99 for advertising costs.

Alternative 2		SEG
1997-99 FUNDING (Change to Base)		309,200
	[Change to Bill	*$309,200]*

3. Maintain current law.

Prepared by: Art Zimmerman

MO# Alt #1

2 JENSEN	Y	N	A
1 OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A
BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A

AYE 7 NO 9 ABS ____

MO# Alt #2

JENSEN	Y	N	A
1 OURADA	Y	N	A
2 HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A
BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A

AYE 7 NO 9 ABS ____

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Lottery Credit -- Distribution Formula (Revenue -- Lottery Administration)

[LFB Summary: Page 531, #2; Page 544, #4]

CURRENT LAW

The lottery credit authorized under current law was found unconstitutional in an October, 1996, circuit court ruling. Prior to the ruling, the credit was extended only to property used as the owner's primary residence. For each property, the credit was calculated by multiplying the property's school tax rate times a value base. The value base was determined each year by estimating the value that would generate total tax credits equal to the amount of lottery proceeds available for distribution.

GOVERNOR

Eliminate references and provisions related to the lottery credit on principal dwellings. Replace these provisions with a new lottery credit, which would be extended to all property taxpayers, beginning with credits paid in 1998. Specify that the credit amount for each municipality would be calculated by multiplying that municipality's percentage share of the average statewide gross property tax levy for all purposes during the preceding three years by the statewide lottery credit funding level. Continue the current procedure for estimating the lottery proceeds available for distribution each year (DOA submits an estimate to the Joint Committee on Finance by October 16, which the Committee can review and change prior to November 1). Require DOR to annually notify each municipality by December 1 of its lottery credit amount for that property tax year. Lottery credits would continue to be distributed to municipalities on the fourth Monday in March.

Require municipalities to extend the lottery credit to taxpayers in proportion to their property's assessed value within the municipality and to use the credit to reduce the amount of taxes otherwise payable. Prohibit the lottery credit for an individual property, when combined with the school levy tax credit, from exceeding the total amount of taxes levied on that property. Extend the credit to mobile homes subject to monthly mobile home fees by deducting the credits to be paid to the municipality from the municipality's gross tax levy in calculating the rate for the fee. With the exceptions that the lottery credit would be allocated to municipalities on the basis of total levies rather than school levies and that lottery credit payments would be made in March rather than July, the lottery credit would be distributed to municipalities and extended to taxpayers under procedures identical to those used for the school levy tax credit.

Specify that the preceding provisions would first apply to credits against taxes that are due during 1998.

DISCUSSION POINTS

1. Lottery proceeds available for distribution as tax credits are estimated at $243.1 million in 1997-98 and $116.0 million in 1998-99. The amount in the first year is larger because an opening balance of $128.7 million is estimated for 1997-98. This occurs since credits were not distributed in 1996-97 due to the 1996 circuit court ruling.

2. The expenditure of lottery proceeds is limited by at least two provisions in the state constitution. Article IV, Section 24(6), authorizes the state lottery and requires the net proceeds "to be used for property tax relief as provided by law." Article VIII, Section 1, requires property taxes to be administered and extended to taxpayers in a uniform manner.

3. The courts have ruled on both provisions relative to the distribution of lottery proceeds. While those decisions occurred at the circuit court level and are not regarded by other courts as precedents, the decisions provide useful guidance to the Legislature in determining how to distribute lottery proceeds.

4. In 1992, a Dane County Circuit Court decision addressed the question, "what constitutes property tax relief?" The Court reasoned that "the relief to be provided by these (lottery) funds was intended to be separate, different and extra" and ruled against using the lottery proceeds to supplement state funding for general school aids. Due to the size of the available lottery proceeds relative to the school aid distribution, the Court found that the lottery proceeds had "virtually no impact" on school aid funding, so there was no assurance that property tax relief would be achieved.

5. In 1996, a second Dane County Circuit Court decision rejected the state's argument that the "distribution of lottery proceeds was intended to be entirely exempt from the

uniformity clause." By so ruling, the Court has extended six well-established principles of uniformity to the expenditure of lottery proceeds:

a. For direct taxation of property, there can be but one constitutional class.

b. All property within that class must be taxed on a basis of equality so far as practicable and all property taxed must bear its burden equally on an ad valorem basis.

c. All property not included in that class must be absolutely exempt from property taxation.

d. Privilege taxes are not direct taxes on property and are not subject to the uniformity rule.

e. While there can be no classification of property for different rules or rates of property taxation, the Legislature can classify between property that is to be taxed and that which is to be wholly exempt, and the test of such classification is reasonableness.

f. There can be variations in the mechanics of property assessment or tax imposition so long as the resulting taxation shall be borne with as nearly as practicable equality on an ad valorem basis with other taxable property.

6. The distribution mechanism proposed in the bill probably satisfies these criteria. Similar tax credit distribution mechanisms would probably satisfy the criteria as well. For example, the school levy tax credit formula, which is based on average school tax levies, could be used to distribute the lottery proceeds. Another option would be a formula based on average general government, or nonschool, tax levies. That formula was used prior to 1992 but was repealed by 1991 Act 39, which created the current lottery credit.

7. Other distribution formulas, such as those used for the various state aid programs, are also possible. Whatever distribution formula is chosen, the payment of lottery proceeds should continue to have a unique identity. This will help meet the "separate, different and extra" criteria set forth in the 1992 circuit court decision.

8. Under each of those options, the credit would have a uniform effect within each municipality. That is, the credit would be extended to all property and would reduce each property's gross tax bill by the same percentage. However, the percentage reduction would vary between municipalities. In the past, the courts have held that the property tax must be uniform throughout the jurisdiction that levies it.

9. Another option may be to continue the distribution mechanism authorized under current law, but extend the credit to all properties. This option would continue the value base concept under which each property would receive a credit equal to the school taxes on the first

increment of value. It could be argued that this distribution method would not violate the uniformity requirement because all taxpayers would receive the credit. However, this option differs from the other alternatives in that the credit would not provide a uniform percentage reduction in tax bills within a municipality. As a result, the courts might characterize this mechanism as an unconstitutional partial exemption.

10. Based on 1996(97) property tax information, Table 1 displays the credit's effect by value of property under the average levies and value base options. On a statewide basis, each of the levies-based options has an identical effect because the effect of each is calculated by dividing the available proceeds by the state's total equalized value. The resulting "credit rate" is then multiplied by the property's value. The effect of the value base option can be estimated by dividing the total amount of lottery proceeds by the number of recipients, which is estimated at just over three million.

TABLE 1

Estimated Impact of Distributing 1997-98 Lottery Proceeds Under Two Types of Alternatives Based on Statewide Average Tax Rates for 1996(97)

Property Value	$50,000	$75,000	$100,000	$150,000	$300,000	$1,000,000
Estimated Tax Bills						
Gross Tax Bill	$1,238	$1,858	$2,477	$3,715	$7,430	$24,768
School Levy Tax Credit	-108	-162	-216	-324	-649	-2,163
1996(97) Net Tax Bill	$1,130	$1,696	$2,261	$3,391	$6,781	$22,605
Lottery Credit Alternatives						
Levies-Based Alternatives	$56	$84	$112	$168	$336	$1,120
Percent of Net Tax Bill	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Value Base Alternative	$80	$80	$80	$80	$80	$80
Percent of Net Tax Bill	7.0%	4.7%	3.5%	2.3%	1.2%	0.4%

11. On a statewide basis, the levies-based alternatives would provide a uniform percentage tax bill reduction for properties while the value base alternative would provide a greater percentage tax bill reduction for properties with lower values than properties with higher values. Under the levies-based alternatives, each of the above properties would experience a 5.0% reduction in its net tax bill because the estimated available lottery proceeds ($243.1 million) equal 5.0% of estimated 1996(97) net tax levies ($4,802.4 million). Under the value base alternative, each of the above properties would receive a uniform credit of $80. However, $80 represents 7.0% of the net tax bill for a property valued at $50,000 and 0.4% of the net tax bill for a property valued at $1 million.

12. This analysis indicates that properties with values below $71,000 would receive larger tax bill reductions under the value base alternative, and properties with values exceeding $71,000 would receive larger tax bill reductions under the levies-based alternatives.

13. Taxpayers owning large properties may receive more than one credit under the value base alternative. For example, manufacturers receive separate bills for their real property and personal property and, therefore, would receive two credits. Also, if a local road separates a manufacturer's production plant from its offices or warehouses, the properties would be recorded as separate parcels, each receiving a credit. Using statewide average tax rates for 1996(97), Table 2 compares the effect of the two types of alternatives on a hypothetical business with a taxable value of $50 million consisting of real property and personal property.

TABLE 2

Estimated Impact on a Hypothetical Business of Distributing 1997-98 Lottery Proceeds Under Two Types of Alternatives Based on Statewide Average Tax Rates for 1996(97)

Property Value	$50,000,000
Estimated Tax Bill	
Gross Tax Bill	$1,238,405
School Levy Tax Credit	-108,163
1996(97) Net Tax Bill	$1,130,242
Lottery Credit Alternatives	
Levies-Based Alternatives	$56,000
Percent of Net Tax Bill	5.0%
Value Base Alternative	
Credit on Real Property	$80
Credit on Personal Property	80
Total Value Base Credits	$160
Percent of Net Tax Bill	Under 0.1%

14. Farmers could also receive multiple value base credits. The average Wisconsin farm is comprised of more than 200 acres, but parcels of real property are typically limited to no more than 40 acres in size. Thus, the average farmer owns five or more parcels. Under the value base alternative, that farmer would receive at least five separate credits. Using statewide

average tax rates for 1996(97), Table 3 compares the effect of the alternatives on a hypothetical farm with a taxable value of $200,000 consisting of five parcels of real property.

TABLE 3

Estimated Impact on a Hypothetical Farm of Distributing 1997-98 Lottery Proceeds Under Two Types of Alternatives Based on Statewide Average Tax Rates for 1996(97)

Property Value	$200,000
Estimated Tax Bill	
Gross Tax Bill	$4,954
School Levy Tax Credit	-432
1996(97) Net Tax Bill	$4,522
Lottery Credit Alternatives	
Levies-Based Alternatives	$224
Percent of Net Tax Bill	5.0%
Value Base Alternative	
Five Parcels at $80 Each	$400
Percent of Net Tax Bill	8.8%

15. Although the levies-based alternatives have an identical statewide effect, they have different distributional effects within the state. Because school taxes are the dominant component of tax bills in towns, property owners in towns would receive larger credit allocations under that alternative than under the general government or total levies alternatives. Because general government levies are the dominant component of tax bills in cities, the formula based on general government levies would allocate larger credit amounts to properties in cities than the school levy or total levies alternatives. The effect of the formula based on total levies would lie between the other levies-based alternatives. Because over one-half of the parcels of property are located in towns, over one-half of the credits under the value base alternative would be allocated to property in towns.

16. Differences in the average value per parcel for the various classes of property would cause a different distributional pattern for the value base alternative than for the levies-based alternatives. In general, because business property tends to have a higher value per parcel,

this type of property would receive a larger share of the levies-based credits. Conversely, because agricultural, swamp and waste, and forest property tend to have a lower value per parcel, these types of property would receive a larger share of the value base credits.

17. All taxable property would receive a credit under the preceding alternatives. Current law targets the lottery credit to property used as the owner's primary residence and results in almost all of the lottery credits being distributed to the residential property class. Under the alternatives, just over three million property owners would receive the credit while approximately 1.2 million property owners received the previous credit on principal residences. Between 1991(92) and 1995(96), the credit averaged over $100 annually per recipient. Table 4 compares average credits for homeowners under the actual distribution with the amount that would have been received if the alternatives under consideration had been in effect between 1991(92) and 1995(96).

TABLE 4

Estimates of Statewide Average Lottery Credits for Homeowners, Actual Distribution Versus Four Alternatives, 1991(92) - 1995(96)

Year	Actual Distribution	Levies-Based Alternatives Under Three Home Values $50,000	$100,000	$150,000	Value Base Alternative
1991(92)	$144	$57	$115	$172	$57
1992(93)	168	64	128	191	67
1993(94)	106	37	75	112	43
1994(95)	112	37	74	111	45
1995(96)	126	39	78	116	52

18. Another proposed option would target the lottery proceeds by creating a refundable lottery property tax/rent credit (LPTRC) to distribute the lottery proceeds through the individual income tax system. The credit would be based on the amount of property taxes, or rent constituting property taxes, paid on a principal residence and the claimant's Wisconsin adjusted gross income (AGI). Once AGI exceeds $70,000, the credit would begin to phase out until it is eliminated when AGI equals $100,000. As a refundable credit, a refund check from the state would be issued if the amount of the credit exceeds gross tax liability. The credit would be paid from a sum-sufficient appropriation, payable from the lottery fund.

19. For 1997-98, the credit could be structured to distribute the $243.1 million in estimated available lottery proceeds. For 1998-99 and thereafter, the credit percentages and maximum credit amounts would be lower since the proceeds from only one year would be available ($116.0 million).

20. For tax year 1997, the credit would be calculated on property taxes, or rent constituting property taxes, paid on a principal residence in the state, up to a maximum of $4,000. For tax years 1998 and thereafter, the credit would be calculated on a maximum of $2,000 in property taxes, or rent constituting property taxes. Rent constituting property taxes would be defined as 25% of actual rent, if payment for heat is not included in rent, or 20% of actual rent, if payment for heat is included in rent. Individuals paying both rent and property taxes during the year would be limited to a total of $4,000 in tax year 1997 and $2,000 in tax year 1998 and thereafter.

21. The credit percentages would be determined by DOR in a manner similar to the procedure that is used to determine the lottery credit under current law. However, due to the lead time required to have the tax forms printed, the timing of this procedure would have to be modified. DOR would be required to submit an estimate of lottery proceeds and the applicable credit percentages to the Joint Committee on Finance no later than September 15 of each year. If the Committee does not hold a meeting to review the Department's estimates within 14 working days of receiving the Department's estimates, the percentages submitted by the Department would be deemed approved. If a meeting is scheduled, the Committee could modify the Department's estimates. The credit percentage for renters would be half of the credit percentage for homeowners.

22. For 1997, it is estimated that the credit available to homeowners would be calculated as 9.9% of property taxes and the credit for renters would be 4.95% of rent constituting property taxes. The maximum credit for homeowners would be $396 and the maximum credit for renters would be $198. It is estimated that the credit percentage for 1998 would be 5.6% of property taxes for homeowners for a maximum credit of $112. The estimated credit percentage for renters would be 2.8% of rent constituting property taxes for a maximum credit of $56.

23. The attachments at the end of this paper present distributional information from the 1995 Wisconsin tax sample regarding taxpayers who would receive a LPTRC under this option, for taxes paid in 1997 (Attachment 1) and 1998 (Attachment 2). The tax sample includes information from over 20,000 individual income tax returns, weighted to reflect all taxpayers in 1995. Changes over time in the number of taxpayers and the kinds and amounts of income, deductions and credit they claim cannot be shown. To the extent possible, changes in tax laws between 1995 and later years have been included. The information presented in the attachments and the estimated cost of the credit differ because the attachments are based on 1995 tax sample data and the fiscal effects are for 1997-98 and 1998-99.

24. By administering the credit through the income tax system, the credit could be characterized as an income tax provision, which would not be subject to the uniformity requirement, as are property tax provisions. Also, it has been suggested that, because the LPTRC would be means-tested, the credit could be considered a public relief measure and not subject to the uniformity clause. By characterizing the law authorizing the homestead tax credit as a relief

statute, the state Supreme Court previously ruled that the credit was constitutional. The Court distinguished between public relief statutes, which are not subject to uniformity, and property tax statutes, which are subject to uniformity. To be considered a relief statute, the provision must be based on the characteristics of the taxpayer rather than those of the property.

25. When the homestead credit was found constitutional in 1965, it was limited to elderly taxpayers with household income of $3,000 or less (this is comparable to $15,100 in 1997 dollars). In contrast, the proposed LPTRC would be available to taxpayers with AGI of up to $100,000.

26. While administering the LPTRC through the income tax system may offer a defense against the limitations imposed by the uniformity clause, a question could be raised on whether the lottery proceeds would be used to provide property tax relief, as required by the constitution's provision authorizing the lottery. That authorization implies that any distribution of lottery proceeds must be characterized as a property tax statute. A court might characterize a mechanism that relies on the income tax system as violating at least one of the two constitutional limitations.

27. An alternative that would ensure that lottery proceeds are targeted to primary residences would be to amend the state's constitution to specify that net lottery proceeds must be used for property tax relief for property used as a primary residence and that the use of the net lottery proceeds for this purpose is not subject to the constitution's uniformity clause. Under this alterative, the exception to the uniformity clause would only apply to the use of net lottery proceeds.

28. If the Legislature approves a joint resolution during the 1997-99 legislative session, the second consideration could not occur before the 1999-2001 legislative session. If the second vote occurs soon after the Legislature convenes, the question could be considered by the state's voters in the Spring, 1999, general election. Under this scenario, the earliest the lottery credit could be extended to property used as the owner's primary residence would be for tax bills issued in December, 1999. Until then, lottery proceeds could be allowed to accumulate in the lottery fund, or they could be distributed under one of the other alternatives.

ALTERNATIVES TO BASE

1. Approve the Governor's recommendation to delete the current lottery credit and establish a lottery credit distribution based on total levies.

2. Delete the current lottery credit and establish a lottery credit distribution based on:

a. school property tax levies; or
b. general government (nonschool) property tax levies.

3. Modify the current law distribution mechanism, which is based on the school tax rate multiplied by a value base, by extending lottery credits to all taxable properties. Require municipalities to annually notify DOR of the number of parcels of real property and personal property accounts within the municipality that would be eligible for the credit.

4. Create a refundable lottery property tax/rent credit to be paid through the individual income tax system. Specify that the credit would be paid on property taxes on a principal residence or rent constituting property taxes up to a maximum of $4,000 for tax year 1997 and $2,000 for tax year 1998 and thereafter. Provide that the credit rate for homeowners would be twice that for renters. Modify the current procedure under which DOR estimates a value base to expend available lottery proceeds to instead have DOR estimate the two credit rates. Provide that the credit would phase out for taxpayers with AGI between $70,000 and $100,000.

5. Maintain current law and introduce a joint resolution to amend the constitutional authorization of the state lottery to require the net proceeds to be used for property tax relief for property used as a primary residence and to provide that the use of net lottery proceeds for this purpose is not subject to the constitution's uniformity clause.

Prepared by: Rick Olin and Kelsie Doty

MO# AH #3

JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A
BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A

AYE 10 NO 6 ABS ____

MO# AH #4

JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A
BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A

AYE 8 NO 8 ABS ____

FAIL

ATTACHMENT 1

Distribution of Lottery Property Tax/Rent Credit for Tax Year 1997

Wisconsin Adjusted Gross Income	Count	% of Count	Amount of Credit	% of Amount	Average Credit
Under $5,000	179,600	10.3%	$13,783,000	6.0%	$77
5,000 to 10,000	151,000	8.7	12,947,000	5.6	86
10,000 to 15,000	178,700	10.3	17,446,000	7.5	98
15,000 to 20,000	164,000	9.4	16,269,000	7.0	99
20,000 to 25,000	146,300	8.4	15,347,000	6.6	105
25,000 to 30,000	128,800	7.4	14,984,000	6.5	116
30,000 to 40,000	225,600	12.9	30,524,000	13.2	135
40,000 to 50,000	198,800	11.4	34,312,000	14.8	173
50,000 to 75,000	282,600	16.2	63,757,000	27.5	226
75,000 to 100,000	86,900	5.0	12,183,000	5.3	140
100,000 and Over	0	0.0	0	0.0	0
TOTALS	1,742,300	100.0%	$231,552,000	100.0%	$133

SOURCE: 1995 Wisconsin Tax Sample

• Approximately 1.7 million individuals would be eligible for the lottery property tax/rent credit for taxes paid for 1997.

• 55.5% of the credit would be received by individuals with AGI between $30,000 and $75,000. These individuals account for 40.5% of all credit recipients.

• Based on 1995 sample data, the average credit would increase from $77 for individuals with income below $5,000 to $226 for individuals with income between $50,000 and $75,000. In total, the average credit would equal $133. Although not shown in the table, the average credit paid to homeowners would be $181 and the average credit for renters would be $42.

ATTACHMENT 2

Distribution of Lottery Property Tax/Rent Credit for Tax Year 1998

Wisconsin Adjusted Gross Income	Count	% of Count	Amount of Credit	% of Amount	Average Credit
Under $5,000	179,600	10.3%	$7,035,000	6.6%	$39
5,000 to 10,000	151,000	8.7	6,552,000	6.1	43
10,000 to 15,000	178,700	10.3	8,576,000	8.1	48
15,000 to 20,000	164,000	9.4	8,124,000	7.6	50
20,000 to 25,000	146,300	8.4	7,612,000	7.1	52
25,000 to 30,000	128,800	7.4	7,271,000	6.8	56
30,000 to 40,000	225,600	12.9	14,667,000	13.8	65
40,000 to 50,000	198,800	11.4	15,931,000	14.9	80
50,000 to 75,000	282,600	16.2	26,476,000	24.8	94
75,000 to 100,000	86,900	5.0	4,458,000	4.2	51
100,000 and Over	0	0.0	0	0.0	0
TOTALS	1,742,300	100.0%	$106,702,000	100.0%	$61

SOURCE: 1995 Wisconsin Tax Sample

• Approximately 1.7 million individuals would be eligible for the LPTRC for taxes paid for 1998.

• Of the total number of individuals that would receive the credit, 40.5% have AGI between $30,000 and $75,000. These individuals would receive 53.5% of the total credit.

• The average credit would range from $39 for individuals with income below $5,000 to $94 for individuals with income between $50,000 and $75,000. In total, the average credit would equal $61; the average credit paid to homeowners would be $81 and the average credit for renters would be $23.

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Lottery Credit -- Precertification (Revenue -- Lottery Administration)

[LFB Summary: Page 532, #4; Page 545, #5]

CURRENT LAW

From 1991(92) to 1995(96), the lottery credit was extended only to property used as the owner's primary residence. To receive the credit, owners of eligible property were required to file an application with their county treasurer, or the city treasurer if the city administered the certification procedure, attesting to their property's eligibility. Prior to 1996-97, counties and cities administering the credit annually received $0.50 per credit as reimbursement for their expenses incurred in administering the credit. Beginning on January 1, 1996, a new precertification procedure was implemented. Every five years, taxpayers are required to file a precertification application and local governments administering precertification requirements are to receive an administrative reimbursement. During the intervening years, taxpayers that were not previously eligible for the credit would be allowed to claim the credit by filing an application form or by indicating on a real estate transfer return that they are eligible for a credit.

GOVERNOR

Repeal provisions related to precertification of the lottery credit, effective with credits paid in 1998. Reduce the sum sufficient appropriation for reimbursement of lottery credit precertification expenses by $610,000 annually to reflect the proposed repeal.

DISCUSSION POINTS

1. The lottery credit authorized under current law was found unconstitutional in an October, 1996, circuit court ruling. Prior to the ruling, the credit was extended only to property used as the owner's primary residence. Other provisions in the bill propose to distribute future lottery credits to all taxable property under a new distribution mechanism. As a result, the existing precertification provisions would no longer be necessary.

2. By targeting the credit to property used as the owner's primary residence, the credit authorized under current law resulted in unequal tax burdens. The court ruled that this violates the constitution's requirement for uniform taxation.

3. If the Legislature wants to continue targeting the lottery credit to property used as the owner's primary residence, the constitution could be amended. If the Legislature approves a joint resolution during the 1997-99 legislative session, the second consideration could not occur before the 1999-2001 legislative session. If the second vote occurs soon after the Legislature convenes, the question could be considered by the state's voters in the Spring, 1999, general election. Under this scenario, the earliest the lottery credit could be extended to property used as the owner's primary residence would be for tax bills issued in December, 1999.

4. If the Legislature intends to propose an amendment to the constitution and continue targeting lottery credits, the precertification provisions contained in current law should be retained. Under current law, the state will not be required to reimburse counties for their precertification expenses until 2001-02. While retaining current law does not require a reimbursement payment during the coming biennium, local governments may be reluctant to continue their precertification responsibilities unless there is evidence that the constitution will be amended.

ALTERNATIVES TO BASE

1. Approve the Governor's recommendation.

2. Retain current law.

Prepared by: Rick Olin

MO# Alt 1

1 JENSEN	Y	N	A
2 ZOURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A
BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A

AYE 14 NO 2 ABS ____

Representative Ourada

REVENUE -- LOTTERY ADMINISTRATION

Increase Prize Payout Ratios for Scratch Lottery Tickets

Motion:

Move to increase average prize payout ratios for instant scratch ticket lottery games from 63% to 65%.

Note:

Scratch ticket sales, under the bill, are estimated to total $267.6 million in 1997-98 and $269.7 million in 1998-99. The increase in prize payouts would not likely be realized until the last three months of 1997-98, due to the time it would take to develop and introduce new games at a higher payout ratio. This provision would reduce the net proceeds of the lottery available for the lottery property tax credit by $1,337,800 in 1997-98 and $5,394,300 in 1998-99.

MO# 845

JENSEN	~~Y~~	N	A
1 OURADA	~~Y~~	N	A
HARSDORF	Y	~~N~~	A
2 ALBERS	~~Y~~	N	A
GARD	~~Y~~	N	A
KAUFERT	Y	~~N~~	A
LINTON	Y	~~N~~	A
COGGS	Y	~~N~~	A
BURKE	Y	~~N~~	A
DECKER	Y	~~N~~	A
GEORGE	~~Y~~	N	A
JAUCH	Y	~~N~~	A
WINEKE	Y	~~N~~	A
SHIBILSKI	Y	~~N~~	A
COWLES	Y	~~N~~	A
PANZER	Y	~~N~~	A

AYE 5 NO 11 ABS ____

Motion #845

REVENUE

Lottery Administration

LFB Summary Items for Which No Issue Papers Have Been Prepared

Item #	Title
11	On-Line Lottery Initiatives
12	Rent Savings
13	Modifications of Current Lottery Law (Part)

MO# Items 11, 12 & 13

JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A
BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A

AYE 16 NO 0 ABS ____

LFB Summary Items to be Addressed in Subsequent Pape

Item #	Title
1	Lottery Fund Condition
3	Lottery Credit -- Funding Level

LFB Summary Items for Introduction as Separate Legislation

Item #	Title
13	Modifications of Current Lottery Law (Part)
14	Appointment of Lottery Administrator
15	Conflict of Interest Modification for Management Consultants
18	Lottery Retailer Selection Criteria