P

AGENCY: Revenue – Tax Administration

Paper #: 800

ISSUE: Administration of Local Exposition Tax

ALTERNATIVES: 1

SUMMARY:

This is the thing for the Wisconsin Center that was supposed to happen in the last budget. Alternative 1 provides that any unencumbered local exposition district taxes collected by DOR (in excess of 10%) be returned to the Wisconsin Center. Obviously, you should support this.

Alternative 2 would allow these unencumbered taxes to lapse to the general fund. Of course, Shanovich felt the need to put this option in the paper, and I expect a bunch of Republicans will go for it. This is bad, and you shouldn't support it. Hopefully, Rep. Foti has lobbied his side well enough to garner some support for it in his caucus.

BY: Julie

Legislative Fiscal Bureau
One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

May 10, 2001 Joint Committee on Finance Paper #800

Administration of Local Exposition Tax (DOR -- Tax Administration)

[LFB 2001-03 Budget Summary: Page 590, #9]

CURRENT LAW

The Department of Revenue (DOR) administers and collects the local exposition district tax. Within the local exposition district, the exposition district tax is imposed at the rate of 0.25% of the gross receipts from the sale of food and beverages and 3% of the gross receipts from car rentals. The Department also administers the room tax collections of the district. DOR retains 2.55% of total collections to cover the costs of administering the tax.

GOVERNOR

Provide that the amount of local exposition district taxes that DOR retains for administrative purposes that is unencumbered at the end of the fiscal year and that exceeds 10% of the amount expended during the fiscal year be distributed to the local exposition district.

DISCUSSION POINTS

1. Under the provisions of 1993 Wisconsin Act 263, cities, villages and counties were authorized to individually or jointly create a local exposition district that is separate and distinct from the municipality, county and state. A district has the power to build and operate an exposition center, own and lease property, enter into contracts, employ personnel, issue bonds and, under certain conditions, impose three different local taxes (room tax, food and beverage tax and car rental tax). A board of directors presides over the district and the composition of the board depends upon the type and number of sponsoring entities.

2. State statutes limit the amount, duration and use of the three local taxes. The revenues of each of the district-wide local taxes must be used only for the debt service on the

district's bond obligations. Once the district's bonds are retired, the collection of these taxes must cease. Collection of the taxes must also terminate if bonds are not issued within two years of imposition of the tax, but whatever has been collected can be used for any lawful purpose.

3. A maximum limit is imposed on the tax rate for each of the three taxes as follows: (a) a 0.25% (0.50% with a majority vote of the board) district-wide sales tax on certain food and beverage sales; (b) a 3% (4% with a majority vote of the board) district-wide sales tax on the rental of passenger cars without drivers; (c) a basic room tax of up to 3% of district-wide room charges; and (d) if the sponsoring municipality is a city of the first class, Act 263 allows the city to dedicate its existing room tax to the district.

4. The City of Milwaukee has created a local exposition district called the Wisconsin Center Tax District for the purpose of acquiring and managing its exposition center facilities. The District is comprised of cities and villages wholly or partially in Milwaukee County. The District began imposing taxes on January 1, 1995.

5. Table 1 shows the tax rate and amount of revenue collected for each of the taxes imposed by the Wisconsin Center District for calendar year 2000. The table shows that the District receives most of its revenue from the basic and additional room taxes. In 2000, a total of $13,584,600 was collected by DOR from the District taxes. However, after funds are deducted to cover DOR administrative costs, total distributions to the District for 2000 were $13,238,100.

TABLE 1

Wisconsin Center District Collections (2000)

	Tax Rate	Revenues
Basic Room Tax	2.00%	$2,497,800
Additional Room Tax	7.00	6,343,800
Food and Beverage Tax	0.25	2,716,800
Car Rental Tax	3.00	2,026,200
Total		$13,584,600

Source: Department of Revenue

6. As noted, DOR administers and collects the local exposition tax and retains 2.55% of total collections to fund administrative costs. Prior to November 1999, the Department retained 3% of collections. However, 1999 Wisconsin Act 9 (the 1999-01 biennial budget) reduced this amount from 3% to the current 2.55% to more closely align revenues with actual administrative costs. At that time, DOR indicated that the appropriation for administration of the local exposition tax would have a significant unencumbered balance.

7. Under the bill, the year-end unencumbered balance in the administrative appropriation in excess of 10% of fiscal year expenditures would be distributed back to the exposition district. Table 2 shows the estimated amount of local exposition taxes that would be distributed back to the District. The table indicates that the amounts returned would be $348,100 in 2001-02 and $49,700 in 2002-03. The estimated amount returned would be less than the administration's estimate by $19,000 in 2001-02 and $12,300 in 2002-03. This reflects DOR reestimates of revenues and expenditures.

TABLE 2

Estimated Local Exposition Taxes
Administrative Appropriation Revenues, Expenditures and Amounts Returned to District

	2001-02	2002-03
Opening Balance	$343,900	$31,800
Revenues	353,600	375,300
Total Revenues	$697,500	$407,100
Expenditures	- 317,600	- 324,900
Closing Balance	$379,900	$82,200
10% Reserve	$31,800	$32,500
Amount Returned	$348,100	$49,700

8. The bill would distribute revenues that are not necessary to cover the Department's administrative expenses during the biennium back to the exposition district. This reflects the view that the local exposition taxes are imposed by the District and should be used to fund the District's expenses. If over time, DOR annually collects substantially more revenue than is needed to fund administrative costs, the percentage retained could be reduced. However, the current proportion retained (2.55%) has not been effective long enough to clearly make such a determination.

9. The 10% reserve would provide ongoing funds that could be used to offset revenue shortfalls or to fund unanticipated expenses, such as equipment upgrades. A number of state agency program revenue appropriations retain and carry over a reserve balance, including the Department's business tax registration and liquor tax administration appropriations.

10. However, there is a view that the balance in the local exposition tax administration appropriation should be lapsed to the general fund as reimbursement for the general administrative services, such as taxpayer registration, data processing and compliance activities, that are provided because the local exposition tax is part of the state's tax processing systems. Because such activities are funded by GPR, it is justifiable to transfer some exposition

district tax revenues to the general find. Under this view, the unencumbered balance in the administrative appropriation would be lapsed to the general fund as GPR-Earned. Similar provisions apply to the county sales tax, business tax registration and liquor tax administrative appropriations.

ALTERNATIVES

1. Approve the Governor's recommendation to require that the amount of local exposition taxes that DOR retains for administrative purposes that is unencumbered at the end of the fiscal year and that exceeds 10% of the amount expended during the fiscal year be distributed to the local exposition district. Reestimate the amount to be distributed to the District to be $348,100 in 2001-02 and $49,700 in 2002-03. The revised estimate reduces GPR-Earned by $19,000 in 2001-02 and $12,300 in 2002-03.

Alternative 1	GPR
2001-03 REVENUE (Change to Bill)	- $31,300

2. Modify the Governor's recommendation to require that the amount of local exposition taxes that DOR retains for administrative purposes that is unencumbered at the end of the fiscal year and that exceeds 10% of the amount expended during the fiscal year be lapsed to the general fund as GPR-Earned.

Alternative 2	GPR
2001-03 REVENUE (Change to Bill)	$397,800

3. Maintain current law.

Prepared by: Ron Shanovich

MO#________________

BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
WELCH	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

AYE ____ NO ____ ABS ____

Legislative Fiscal Bureau
One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

May 10, 2001 Joint Committee on Finance Paper #801

Business Tax Registration Administration and Debt Collection Funding (DOR -- Tax Administration)

CURRENT LAW

Businesses are required to obtain a business tax registration certificate from the Department of Revenue (DOR) for certain licenses, permits and certificates related to sales and use, withholding, fuel and excise taxes. Applicants pay a fee based on the type of permit, license or certificate required; however, a single fee is paid for all such documents acquired. Fees are placed in a program revenue appropriation used to fund administration of the business tax registration system. The appropriation has base level funding of $1,508,100 PR and 23.4 PR positions.

DOR is authorized to offset state tax refunds against the debts of other state agencies and counties and municipalities. Base level funding of $303,600 PR is provided to fund administrative costs.

GOVERNOR

No provision.

DISCUSSION POINTS

1. The business tax registration system was established by 1995 Wisconsin Act 27 (the 1995-97 biennial budget). Under Act 27, DOR was required to implement a centralized business tax registration system through which a taxpayer could apply for all required permits, licenses and certificates using one application and paying one registration fee. A two-year renewal cycle was established. The Department was directed to develop a registration fee schedule that reflected traditional differentials in fees and costs for businesses, with a minimum registration fee of $20 and a minimum renewal fee of $10. DOR was also directed to submit the proposed fee schedule and an

estimate of the point at which the fees would exceed the costs of administering the fee system to the Joint Committee on Finance at its first meeting under s. 13.10 in 1995-96.

A separate program revenue appropriation was created to fund administration of the business tax registration system with registration and renewal fees as the source of revenue for the appropriation. Annually, the unencumbered year-end balance in the appropriation in excess of 10% of fiscal year expenditures lapses to the general fund. Act 27 also converted the funding source for 16.8 GPR positions to PR and provided DOR with 3.0 PR project positions to administer the business tax registration system. The positions were funded from the program revenue appropriation.

2. The Department submitted two alternative fee schedules for approval at the Committee's October, 1995, meeting under s 13.10. The Committee approved the registration and renewal fee schedule that is currently in effect and the new fees were scheduled to begin on January 1, 1996. Consequently, registration renewal fees were due starting in 1998. The registration and renewal fee schedule was projected to generate fee revenues that would first exceed appropriation expenditures in 1997-98. The appropriation balance was expected to be positive beginning in 1998-99. Table 1 shows the current business tax registration fee schedule.

TABLE 1

Business Tax Registration and Supplemental Fee Schedule

	Initial Registration	Biennial Renewal
Business Tax Registration Certificate	$20	$10
Expedited Services Fee	10	0
Supplemental Fees		
Wisconsin Liquor Wholesaler	1,000	1,000
Wisconsin Liquor Manufacturer	1,000	1,000
Wisconsin Liquor Rectifier	1,000	1,000
Out-of-State Liquor Shipper	500	500
Public Warehouse Liquor	200	200
Wisconsin Winery	200	200
Sports Club (Liquor)	600	600
Sports Club (Beer)	200	200
Airport Public Facility	600	600
Vessel (Liquor)	600	600
Vessel (Beer)	200	200

3. As introduced by the Governor, the 1999-01 biennial budget bill provided $123,900 PR in 1999-00 and $181,100 PR in 2000-1 and 3.0 PR positions annually to convert project positions that supported the business tax registration system to permanent positions. Because of projected long-term deficits in the business tax registration administrative appropriation, the Joint

Committee on Finance deleted the funding and positions. In its budget deliberations, the Legislature provided 3.0 permanent positions but no additional funding. However, the Governor deleted a nonstatutory provision authorizing the positions as part of a veto to provide a one-time increase in funding for the school levy tax credit in 2001-02.

4. In December, 1999, DOR was provided the three positions with no additional funding through the s. 16.515 process. The Department indicated that it would reallocate funding that would otherwise be used for contract programming. The positions would be used to complete the business tax registration system, incorporate law changes and improvements into the system, and to include the business tax registration system as a basic component in DOR's integrated tax system.

5. In approving the Department's s. 16.515 request, DOA indicated that the Governor and Legislature had previously concurred in DOR's need for the requested positions. Since the approval of the request did not affect the funding level for the appropriation, the ending cash balance in the appropriation would be unaffected. However, DOA expressed concern that the business tax registration appropriation was projected to have a deficit for ten years. Consequently, DOR was directed to include a proposal for addressing the deficit in its 2001-03 budget request.

6. Under the provisions of the bill, total annual expenditure authority for the business tax registration administration appropriation would be $1,496,000 PR and 23.4 PR positions. The funding sources for the appropriation are registration and renewal fees. Table 2 shows the revenue, expenditures (including compensation reserves and other adjustments) and appropriation balances under the bill. The table shows that the projected appropriation balance will be a deficit of almost $600,000 at the end of 2002-03. Moreover, the Department estimates that the appropriation will have a substantial year-end deficit through 2010. The bill does not include provisions that specifically address this problem.

TABLE 2

Business Tax Registration Administrative Appropriation

	2001-02	2002-03
Beginning Balance	- $869,800	- $546,600
Revenues	1,864,400	1,534,000
Expenditures	- 1,541,200	- 1,584,900
Closing Balance	- $564,600	- $597,500

7. The March 24, 2001, state agency position status report indicates that 0.65 revenue agent position funded by the business tax registration appropriation was vacant for 11 months. Given the length of time the position remained unfilled, it could be argued that it appears that DOR can administer the business tax registration system without the position being filled. Moreover, the

ongoing deficit in the administrative appropriation indicates that the program is spending more than it has revenue to fund. As a result, the 0.65 position authority and $28,800 PR in annual expenditure authority could be deleted to partially address the ongoing appropriation deficit.

8. The Department indicates that they are in the process of filling the 0.65 position and deletion of the position could hinder registration compliance activities.

9. As noted, the business tax registration system will be a basic component of the Department's integrated tax system (ITS). The integrated tax system involves the use of technology to develop and implement a comprehensive modernization, upgrade and reorganization of DOR's tax administration personnel, activities, processes and systems into functional components. The business tax registration system will be incorporated into ITS and adopted to function as the registration component. The registration component will permit single, centralized registration by all taxpayers regardless of tax type and maintenance of account information about each customer across all tax types in one central source. It is anticipated that the ITS will improve taxpayer services, the efficiency of tax collection activities, and financial controls.

10. Under current law, DOR is authorized to offset against state tax refunds amounts owed for state taxes, debts to state agencies, delinquent child and spousal support and maintenance payments, and municipal and county fines fees and forfeitures. DOR is also allowed to enter into an agreement with the federal Internal Revenue Service (IRS) to offset state tax refunds against federal tax obligations if the IRS offsets federal tax refunds against state tax obligations. The administrative costs of collecting debts owed to state agencies and to municipalities and counties are funded through the program revenue debt collection appropriation. The source of revenue for the appropriation is an administrative charge imposed on state agencies and local units of government. The Department is generally authorized to charge for administrative services, but must annually review the administrative charge and adjust it to reflect costs incurred. Currently, DOR retains 1.5% of the amount of the debt offset for administrative costs.

11. Under the bill, total funding for the debt service appropriation would be $317,200 annually. Table 3 shows revenues, expenditures (including compensation reserves and other adjustments) and appropriation balances for the debt service appropriation. The table shows that the unobligated balance in the appropriation would be $570,000 in 2002-03.

TABLE 3

Debt Collection Appropriation

	2001-02	2002-03
Beginning Balance	$292,800	$424,600
Revenues	458,500	481,400
Expenditures	- 326,700	- 336,000
Closing Balance	$424,600	$570,000

12. Since implementation of ITS is expected to improve the efficiency of the Department's compliance activities, DOR's debt offset programs should benefit from the system. Transferring funds from the debt collection program to the business tax registration program could be viewed as an appropriate use of the funds, given the long-term improvements in the Department's ability to identify and track debtors that is expected. As Table 3 indicates, a total of $570,000 could be transferred during the biennium from the debt collection appropriation balance to the business tax registration administrative appropriation. One alternative would be to transfer $400,000 in 2001-02 and $170,000 in 2002-03. If this action were combined with the deletion of 0.65 PR position and $28,800 PR in annual funding (discussed above), the business tax registration appropriation would have a positive closing balance at the end of 2002-03. However, these actions would not permanently eliminate the long-term deficit in the appropriation. Under s. 16.513(3), the Department would be required to develop a plan for dealing with the long-term deficit in the appropriation and submit it to the Secretary of Administration. DOR could submit this plan with its 2003-05 budget request. Table 4 shows the revenues, expenditures and appropriation balances for the business tax registration appropriation if these alternatives were adopted.

TABLE 4

Alternative Revenues, Expenses and Appropriation Balances

	2001-02	2002-03
Beginning Balance	- $869,800	- $117,800
Revenues	1,864,400	1,534,000
Transfer from Debt Collection	400,000	170,000
Expenditures	- 1,512,400	- 1,556,100
Closing Balance	- $117,800	$30,100

13. Under a provision included in 1997-99 Wisconsin Act 27, $250,000 was lapsed in 1997-98 from the balance of the debt collections appropriation to the general fund. This was viewed as reimbursement of state taxes collected and payment for general GPR administrative services provided by the Department. As a result, an alternative would be to require that the unencumbered year-end balance in the debt collection appropriation lapse to the general fund. This would increase GPR-earned by $424,600 in 2001-02 and $145,400 in 2002-03. This can be viewed as an alternative to the transfer to business tax registration because DOR is required to develop a plan for dealing with the deficit in the business tax registration administration appropriation. As noted, DOR has not submitted such a plan to DOA.

ALTERNATIVES

1. Delete 0.65 PR position and $28,800 PR annually from the business tax registration administrative appropriation [20.566(1)(gb)].

Alternative 1	PR
2001-03 FUNDING (Change to Bill)	- $57,600
2002-03 POSITIONS (Change to Bill)	- 0.65

2. Transfer funding of $400,000 PR in 2001-02 and $170,000 PR in 2002-03 from the debt collection administrative appropriation [20.566(1)(h)] to the business tax registration administrative appropriation [20.566(1)(gb)]

3. Require that the year-end unobligated balance in the debt collection administrative appropriation [20.566(1)(h)] to lapse the general fund.

Alternative 3	GPR
2001-03 REVENUE (Change to Bill)	$570,000

4. Maintain current law.

Prepared by: Ron Shanovich

MO# Alt 1+3

BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
WELCH	Y	N	A
2 GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

AYE ____ NO ____ ABS ____

#1
Alt 3 per staff
Gard / Burke

Legislative Fiscal Bureau
One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

May 10, 2001 | Joint Committee on Finance | Paper #802

Status of Integrated Tax System Implementation (DOR -- Tax Administration)

This paper provides a brief description of the activities undertaken by the Department of Revenue (DOR) to implement the integrated tax system (ITS) and the current status of system implementation. The integrated tax system involves the use of technology to develop and implement a comprehensive modernization, upgrade and reorganization of DOR's tax administrative personnel, activities, processes and systems into functional components.

ITS BACKGROUND

The 1997-99 biennial budget (1997 Wisconsin Act 27) provided the Department of Revenue $1,257,100 GPR in 1997-98 and $203,500 GPR in 1998-99 to contract with a private vendor to develop an integrated tax system. The funding was placed in the Joint Committee on Finance's supplemental appropriation and DOR was required to submit a plan for developing the system before the funding could be released. The Department submitted the plan at the Committee's June, 1998, meeting under s.13.10 and the Committee approved release of $45,000 GPR in 1997-98 and $1,415,600 GPR in 1998-99. In addition, the 1997-99 budget adjustment bill (1997 Wisconsin Act 237) provided $2,000,000 GPR in 1998-99 to implement the ITS. DOR also allocated $269,500 PR in business tax registration funding for contract programming for ITS activities. Total funding provided in 1998-99 was $3,420,500 GPR and $269,500 PR.

The 1999-01 biennial budget (1999 Wisconsin Act 9) provided $2,315,500 GPR and $915,000 PR in 1999-00 and $2,280,500 GPR and $950,000 PR in 2000-01 in additional funding for implementing the ITS. As a result, total funding provided for ITS was $5,736,000 GPR and $1,184,500 PR in 1999-00 and $5,701,000 GPR and $1,219,500 PR in 2000-01. However, because specific plans and contracts had not been developed at the time the budget was being debated, the funding for 2000-01 was placed in the Joint Committee on Finance's supplemental appropriation. The funding could be released, under s. 13.10, after the Committee approved a report submitted by

DOR that detailed past and future expenditures for the ITS. The Department submitted the report at the Committee's July, 2000, meeting under s. 13.10 and the Committee approved release of the funding.

DOR contracted with IBM in December, 1997, to develop the ITS master plan and to assist the Department in designing and developing the ITS. As part of the initial development process, the system was divided into the following functional components:

Data Capture. Capturing all submissions received by the Department in a standard electronic form that can be used in tax processing and customer service activities.

Registration (Taxpayer Identification). Single, centralized registration by all taxpayers regardless of tax type. Maintenance of account information about each customer for all tax types in one central source.

Taxpayer Accounting. A centralized process that creates and maintains a single comprehensive account for each taxpayer and generates bills and assessments through a correspondence subsystem. In addition, an automated system that provides disbursements and statistics to department personnel and customers for all documents, collections and refunds.

Revenue Accounting. A centralized process which accounts for revenue, reconciles deposits and computes and generates distributions.

Delinquent Tax. Upgrading and incorporating the delinquent tax collection system into an integrated billing and collection system.

Returns and Payment Processing. Integration and simplification of the work activities for processing tax returns, forms, payments and refunds.

Case Management. Administrative support and information needed to manage a tax case through the tax process (linking correspondence, status, exceptions processing, outcomes of actions, information about tax cases).

Audit/Decision Support. Information and processing support for the audit process. Includes data warehousing, high-powered query and analytical tools.

Customer Service. Technology support for the services provided by the Department. Use of technology to improve responses to customer inquiries, redesign and distribute tax forms and to communicate with taxpayers.

In addition, several initiatives and pilot projects that were not specific components of the core system but, when successfully completed would be incorporated into ITS, were identified. These projects included upgrading and expanding scanning and imaging, a sales tax internet filing project, a data warehouse pilot project and tax forms redesign to improve compliance and enhance scanning activities.

ITS was scheduled to be implemented in six phases that coincided with state fiscal years 1998-99 through 2003-04. Each phase included a number of components, parts of components, special projects and related activities that would be completed within the fiscal year. Each component of the ITS would include all of DOR's tax systems, but each tax would be separately incorporated into ITS. Project costs were projected to be incurred through 2002-03, while master lease payments would be required through 2009-10.

IMPLEMENTATION

As noted, DOR contracted with IBM for Phase 1 activities, including completion of a master plan, reviewing the Department's tax administration organizational structure and technology, developing a model of the components that would be included in ITS, writing business rules for the system processes, and preparing a work plan for Phase 2. In addition, three pilot projects have been largely completed. The sales tax internet pilot allows sales and use taxpayers to use the internet to file their returns. The Department has also expanded use of scanning technology for data capture and storage of individual income tax returns and implemented a data warehouse pilot project. The expanded use of scanning technology has reduced processing time. The data warehouse allows stored data to be manipulated to demonstrate relationships and patterns in taxpayer information that can be used to improve audit selection. Phase 1 of ITS development and implementation has been completed.

The ITS project is a phased development with flexible management and contracting that allows DOR to contract for each phase separately. In late 1999, the Department determined that there were a number of improved technology options available to ITS that did not exist when the project began. After assessing the project's progress in the context of available technology, DOR decided to contract with American Management Systems (AMS) to implement Phase 2.

This marked a change in the development of ITS. Under the contract with IBM, the system was being developed from the ground up and each component of the system had to be built. Under the contract with AMS, DOR will be provided a new version of Advantage Revenue, a developed tax processing system that includes subsystems similar to the functional components. DOR will not be purchasing individual components of the system but, rather, implementing an established system that includes data capture, tax return processing, accounting, and other components and adapting those components to the Department's tax administration system. As a result, ITS will be implemented in phases that are designed to incorporate specific tax types into the system.

However, the computer code for Advantage Revenue must first be rewritten into a new more effective language. Once the rewrite is complete, DOR will test the program to determine its stability before customizing the system to the Department's tax administration system. Once system testing is completed, implementation of Phase 2 will begin. Delivery of the rewritten system is scheduled for December, 2001, which is about six months behind schedule.

Attachment 1 shows the schedule for the six implementation phases of ITS. This will involve the actual design, development and construction of the first release of the system, which will primarily address the sales and use tax. Release 1 is scheduled for implementation in November, 2002, when the system would be operational for sales and use taxes. Because many of the functional components of the system will be common to all taxes collected by the Department, DOR believes that about 60% of the system software will be constructed during Phase 2.

Additional functional components will be developed and additional taxes will be introduced to the system during Phases 3 through 6, which are scheduled to be implemented from 2002 through 2008. Phase 3, which is scheduled from 2002 through 2005, will focus on the individual income tax and estate tax. It is anticipated that the income tax system will be operational by January, 2004, for use in processing tax year 2003 returns. Phase 4 will be implemented in 2006 and will focus on withholding taxes, corporate income taxes and other business taxes. Excise taxes will be added to the system in Phase 5 (2007) and the remaining tax systems (property, utility and miscellaneous taxes) will be incorporated in Phase 6 (2008). System upgrades will begin in 2007 and 2008.

ITS BUDGET

The Department is financing the system with a combination of master lease and cash payments. Master leasing of goods and services will be the primary means of financing the remaining phases of the project. Phase 1 of the system cost an estimated $8.8 million for contract services ($8.5 million) and DOR expenses (about $360,000). Contract costs for Phase 2 are anticipated to be $20.7 million and contract costs for Phase 3 are estimated at $22.3 million. Much lower contract costs are expected for Phases 4 and 5 ($1.9 million). The Department expects to implement Phase 6 without an outside vendor. Total contract costs for remaining system development activities are estimated at $45.0 million. Additional vendor costs will be incurred beginning in 2006-07 for base system software upgrades.

Although work on developing the system is scheduled to be completed by 2008, it is expected that the Department will continue to incur master lease costs through the 2010-11 fiscal year, and possibly into 2012-13 for the Phase 5 expenses. In addition, there will be ongoing costs in future years to maintain and operate the system. The ongoing costs will depend upon the ultimate configuration and uses of the system, and are unknown at this time. The Department has developed a projected payment schedule through 2009-10 that would allow it to cover the costs of the system with the $6,768,000 annual funding amount. This schedule is reproduced in Attachment 2. As shown in the attachment, the current funding level is estimated to be sufficient to fund annual implementation costs. Total costs for the system, including master lease financing costs are estimated at $78.1 million from 1997-98 through 2009-10. However, the Department is currently negotiating with AMS for implementation of Phase 2. The final contract could change the specific payment schedule for ITS implementation, but the Department expects the annual funding level to be sufficient to cover annual costs.

INCREASED REVENUE FROM ITS ACTIVITIES

The Department believes that the integrated tax system will help generate additional tax revenues for the state. The 1999-01 biennial budget assumed that an additional $4.8 million in sales and use and corporate income tax revenue would be generated in 2000-01 by audits related to the implementation of the system. In addition, the 2001-03 budget bill assumes that additional tax revenues of $10.9 million in 2001-02 and $21.4 million in 2002-03 will be generated from further implementation of the ITS. These estimates were developed by IBM based on an analysis of specific cases where the tax gap caused by taxpayer underreporting could be reduced through the ITS. The additional revenue in 2000-01 will be generated primarily by using external data in conjunction with DOR records to identify sales and use tax audit candidates and businesses that are not filing or underreporting sales and use and income and franchise taxes. The additional revenue in 2001-03 would be generated by: (a) more efficient audit selection enabled by the data warehouse; (b) matching external information to Department records to identify use tax audit candidates and out-of-state business nonfilers with nexus; and (c) integrating business customer records among sales and use tax, income tax, withholding and local exposition district tax records enabled by taxpayer identification and the ITS improvements. The Department is confident of its original estimates, which anticipate further increases in future years ($37.2 million annually by 2004-05). Through April 12, 2001, the Data Warehouse project had generated $4,253,000 in assessments and collected $662,400 from taxpayers. While it is possible that appeals will delay collections of a portion of the assessments, the Department expects to collect the $4.8 million from total 2000-01 assessments. The Department is required to prepare a report to the Joint Committee on Finance by January 1, 2002, that identifies the additional revenues generated by the system.

Prepared by: Ron Shanovich
Attachments

no options

ATTACHMENT 1

DOR Integrated Tax System Components and Schedule

Projects Complete	**PHASE 1** *Master Plan, Process Analysis, Requirement Definition* *1998-00*	*Projects Complete*	**PHASE 2** *System Design and Development* *2001-03*	*Projects Complete*	**PHASE 3** *System Design and Development* *2002-05*
	Components		**Components**		**Components**
	Data Capture		Data Capture		Accounting
	Registration		Registration		Case Management
	Returns Processing		Returns Processing		Audit
	Accounting		Accounting		
			Case Management		
	Projects		**Projects**		**Projects**
X	Sales Internet Filing	X	Data Warehouse Deployment		Correspondence Pilot
X	Scanning Upgrade		Forms Redesign		ITS Release 2
X	Work Plan for Phase 2		ITS Release 1		Work Plan for Phase 4
X	Business Process Model		Work Plan for Phase 3		
X	Requirements Definition		Customer Service Pilot		
	Data Warehouse Pilot Design				
			Specific Tax System Focus		**Specific Tax System Focus**
			Sales and Use		Individual Income
					Estate

Projects Complete	**PHASE 4** *System Design and Development* *2006*	*Projects Complete*	**PHASE 5** *System Design and Development* *2007*	*Projects Complete*	**PHASE 6** *System Design and Development* *2008*
	Components		**Components**		**Components**
	Customer Service		Delinquent Tax		
	Audit				
	Projects		**Projects**		**Projects**
	ITS Release 3		ITS Release 4		ITS Release 5
	Specific Tax System Focus		**Specific Tax System Focus**		**Specific Tax System Focus**
	Corporation		Motor Fuel		Utility
	Partnerships		Cigarette		Property
	Manufacturing		Liquor		Other Remaining Tax Types
	Withholding		Beer		

ATTACHMENT 2

Integrated Tax System Cost Projections
1997-98 Through 2009-10

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Total
ITS Development														
Phase 1	$45,000	$2,531,400	$6,239,300	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$8,815,700
Phase 2	0	0	1,500,000	4,156,900	3,608,000	1,528,000	1,516,600	1,514,200	1,514,200	1,514,200	1,514,200	810,600	57,700	19,234,600
Phase 3	0	0	0	0	1,250,000	2,136,000	2,709,300	3,158,700	3,161,800	3,161,800	3,161,800	3,161,800	1,287,200	23,188,400
Phase 4	0	0	0	0	0	0	0	655,200	0	0	0	0	0	655,200
Phase 5	0	0	0	0	0	0	0	0	1,252,000	0	0	0	0	1,252,000
InfoTech	0	0	0	600,000	1,200,000	1,800,000	1,150,000	0	0	0	0	0	0	4,750,000
Equipment/Software	0	0	0	1,277,400	132,100	724,400	1,300,100	1,336,700	736,800	200,600	0	0	0	5,708,100
Data Warehouse	0	0	0	10,500	18,200	18,200	18,200	18,200	18,200	18,200	0	0	0	119,700
Project Management	0	0	0	455,500	368,500	368,500	78,500	42,500	42,500	42,500	42,500	42,500	42,500	1,526,000
Change Management	0	0	0	207,000	129,000	129,000	42,500	42,500	42,500	42,500	42,500	42,500	42,500	762,500
Technical Training	0	0	0	25,000	25,000	25,000	25,000	0	0	0	0	0	0	100,000
Communications	0	0	0	35,000	35,000	35,000	35,000	0	0	0	0	0	0	140,000
Subtotal	$45,000	$2,531,400	$7,739,300	$6,767,300	$6,765,800	$6,764,100	$6,875,200	$6,768,000	$6,768,000	$4,979,800	$4,761,000	$4,057,400	$1,429,900	$66,252,200
ITS Upgrades										1,788,200	2,007,000	2,710,600	5,338,100	11,843,900
Total Costs	$45,000	$2,531,400	$7,739,300	$6,767,300	$6,765,800	$6,764,100	$6,875,200	$6,768,000	$6,768,000	$6,768,000	$6,768,000	$6,768,000	$6,768,000	$78,096,100
ITS Revenues	$45,000	$2,531,400	$7,739,300	$6,768,000	$6,768,000	$6,768,000	$6,768,000	$6,768,000	$6,768,000	$6,768,000	$6,768,000	$6,768,000	$6,768,000	$77,995,700
Revenues Minus Costs	$0	$0	$0	$ 700	$ 2,200	$ 3,900	-$107,200	$0	$0	$0	$0	$0	$0	-$100,400

REVENUE

Tax Administration

LFB Summary Items for Which No Issue Paper Has Been Prepared

Item #	Title
1	Standard Budget Adjustments
3	Computer System Support Costs
4	LTE Salaries
5	Badgernet Data Transmission Line Rate Increases
6	Delinquent Tax Collection Conversion Adjustment
7	Internal Services Appropriation Modifications
8	Internal Services Client Funding Adjustment
10	Transfers Between Appropriations
11	Services Appropriation Lapse Requirement
12	Expert Professional Services Appropriation Modification
13	Reciprocal State Tax Refund Offset Agreements
14	Secretary of Revenue Appointed to Depository Selection Board

LFB Summary Item to be Addressed in a Subsequent

Item #	Title
2	Base Budget Reduction

LFB Summary Items to be Introduced as Separate Le

Item #	Title
15	Study on Promoting Economic Growth
16	Biennial Land Information Integration Plan

MO#____________________

BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
WELCH	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

AYE ____ NO ____ ABS ____

Legislative Fiscal Bureau
One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

May 10, 2001 Joint Committee on Finance Paper #620

Repeal of Capitol Offices Relocation Appropriation (Miscellaneous Appropriations)

[LFB 2001-03 Budget Summary: Page 458, # 4 (part)]

CURRENT LAW

The costs of leased space for the Assembly and Senate Chief Clerks and their staffs, the staffs of the Assembly and Senate Caucuses, the Legislative Documents room, the Senate Sergeant's staff, four legislative service agencies (Legislative Council, Legislative Reference Bureau, Legislative Fiscal Bureau and Legislative Technology Services Bureau), the State Law Library, the offices of the Supreme Court Justices and the office of the Lieutenant Governor are all currently being paid from the capitol offices relocation appropriation.

GOVERNOR

Shift funding for space for all of the above entities that will remain in leased locations (the Supreme Court Justices and the Lieutenant Governor are expected to return to the Capitol by the end of this calendar year) from the capitol offices relocation appropriation to the individual appropriations supporting the general program operations of the respective agencies. Provide funding for remaining 2001-03 rent obligations for vacated space of $1,607,600 GPR in 2001-02 and $1,103,300 GPR in 2002-03. Include language to repeal the appropriation effective July 1, 2003.

DISCUSSION POINTS

1. The capitol offices relocation appropriation was originally established in the 1989-91 budget when the initial relocation of those legislative service agencies then located in the Capitol and the Assembly and Senate Chief Clerks staffs to leased space around the capitol square took place. This was done to allow commencement of the anticipated ten-year phased remodeling of the

State Capitol. In addition, during the course of the remodeling, legislators and their staffs, constitutional officers, Supreme Court Justices and the Law Library were, at different points, all temporarily or permanently relocated to accomplish the remodeling of individual wings.

2. Under the Governor's budget instructions, those entities not returning to the Capitol were directed to include in their respective budget requests the estimated full funding necessary to pay out of their respective appropriations in 2001-03 the on-going costs of their leased office space. Some of the moves occurring in this fiscal year or in the next biennium will result in the vacating of certain leased space before the end of the lease terms. As a result, there will be remaining lease obligations that still must be paid until the end of lease terms unless other tenants can be found or the leases are otherwise terminated before their current expiration dates. Funds for lease payments for this space being vacated in the next biennium is included in the capitol offices relocation appropriation for 2001-03.

3. Under the Governor's budget recommendations, the capitol offices relocation appropriation would be repealed effective July 1, 2003. However, there are some of these rent obligations for vacated space that will remain beyond the end of the next biennium as shown in the table below.

Remaining Lease Payment Obligations from Capitol Offices Relocation Appropriation

Space Location	Lease End Date	2001-02	2002-03	2003-04	2004-05
Hamilton Building					
Reference Bureau	10/31/04	$710,396	$731,353	$753,294	$205,605
Senate	10/31/04	202,452	208,429	214,861	58,603
Tenney Building					
Retirement Comm.	3/31/03	11,617	8,903	0	0
Firstar Building					
Senate Caucuses	12/31/02	151,490	76,865	0	0
Lt. Governor	05/31/02	41,937	0	0	0
One East Main Building					
Documents	10/31/02	176,174	58,725	0	0
Law Library	*	158,803	0	0	0
Insurance Building					
Senate Chief Clerk	10/31/02	57,017	19,006	0	0
Supreme Court	10/31/01	97,729	0	0	0
TOTALS		$1,607,615	$1,103,281	$968,155	$264,208

*Rent obligation will shift to Reference Bureau once the Law Library moves out.

4. Under the Governor's budget recommendations, there is no specification for how, with the proposed repeal of the capitol offices relocation appropriation, these remaining obligations would be funded in 2003-05. Rather than leave the issue of such funding until the 2003-05 biennial budget, the Committee could delete the repeal of the capitol offices relocation appropriation from the budget. This would allow those remaining 2003-05 rent obligations to continue to be paid from this appropriation if no other arrangements are made.

ALTERNATIVES

1. Approve the Governor's recommendation.

2. Delete the proposed repeal of the capitol offices relocation appropriation.

Prepared by: Terry Rhodes

MO# Alt 2

1 BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
WELCH	Y	N	A
2 GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

AYE 14 NO 0 ABS ____

Gard / Burke

Alt 2 – Decker

possible motion

Legislative Fiscal Bureau
One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

May 10, 2001 | Joint Committee on Finance | Paper #621

Buildout Costs for Senate, Retirement Committees and Law Library (Miscellaneous Appropriations)

[LFB 2001-03 Budget Summary: Page 458, #4 (part)]

Alt 2 per staff JG/BB

CURRENT LAW

The costs of leased space for the Assembly and Senate Chief Clerks and their staffs, the staffs of the Assembly and Senate Caucuses, the Legislative Documents room, the Senate Sergeant's staff, four legislative service agencies (Legislative Council, Legislative Reference Bureau, Legislative Fiscal Bureau and Legislative Technology Services Bureau), the State Law Library, the offices of the Supreme Court Justices and the office of the Lieutenant Governor are all currently being paid from the capitol offices relocation appropriation.

GOVERNOR

In connection with the upcoming relocations of the Senate Chief Clerk and staff, the staffs of the Senate Caucuses, the Legislative Documents room, the Senate Sergeant's staff, the Retirement Committees' office and the Law Library to the new Justice Center, provide a total of $6,543,000 GPR in 2001-02 in the capitol offices relocation appropriation for one-time costs associated with the cash financing of build-out (internal construction of office space) costs for these entities in the new building.

DISCUSSION POINTS

1. Under the Governor's recommendation, the following amount of funds were allocated in the capitol offices relocation appropriation in 2001-02 for build-out costs:

MO# Alt 2

BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
WELCH	Y	N	A
2 GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

AYE ____ NO ____ ABS ____

for Build-Out Costs Under Capitol Offices Relocation Appropriation

tity	2001-02 Amount
nate	$1,271,100 *
tirement Committees	61,000 *
gislative Reference Bureau	2,652,000
w Library	2,558,900
)TAL	$6,543,000

ts funding of $667,900 for these two entities was already estimated for 2000-01.

vo actions have subsequently occurred which affect this recommended funding ›tate Building Commission acted in October of last year to allocate in the current 01) a total of $2,585,000 GPR from the capitol offices relocation appropriation to ınd account. This was done to allow the payment of these build-out costs by the dministration (DOA) which is administering the project payouts. Second, at the request of DOA, the Co-chairs of JCLO authorized expenditure of a total of $2,000,000 GPR in 2000-01 from this appropriation to be allocated to a separate building trust fund account. This will similarly allow the direct payment by DOA of build-out costs for Senate and Retirement Committees' offices in the new Justice Center.

3. The Committee could reduce funding for this appropriation in 2001-02 by a total of $3,891,000 GPR (the $2,558,900 GPR reserved for the Law Library build-out costs; the $1,271,100 GPR reserved for Senate staff build-out costs; and the $61,000 GPR reserved for the Retirement Committees' office build-out costs. The only funds remaining in this appropriation for build-out costs then would be $2,652,000 GPR for costs associated with the Legislative Reference Bureau's occupancy of the space being vacated by the Law Library in the One East Main building.

ALTERNATIVES

1. Approve the Governor's recommendation.

2. Reduce funding in the capitol offices relocation appropriation by $3,891,000 GPR in 2001-02 to remove monies for one-time build-out costs that have already been obligated in this fiscal year from this appropriation.

Alternative 2	GPR
2001-03 FUNDING (Change to Bill)	- $3,891,000

Prepared by: Terry Rhodes

Legislative Fiscal Bureau
One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

May 10, 2001 | Joint Committee on Finance | Paper #622

Space Rental Costs for Law Library (Miscellaneous Appropriations and Supreme Court)

[LFB 2001-03 Budget Summary: Page 458, #4 (part); Page 626, #1 (part)]

CURRENT LAW

The costs associated with the rental of space for the Law Library in the One East Main building is paid for from the capitol offices relocation appropriation that is in the Miscellaneous Appropriations section of the appropriations schedule.

GOVERNOR

Include $158,800 GPR in 2001-02 in the capitol offices relocation account for payment of three months of rent for the Law Library in the One East Main location. Provide $1,038,100 GPR in 2001-02 and $1,069,200 GPR in 2002-03 in the appropriation for the Law Library under the Supreme Court budget for payment of rent for the Law Library in the new Justice Center.

DISCUSSION POINTS

1. There are two separate issues related to the payment of space rental costs for the Law Library in 2001-03. The first issue relates to the payment of rent obligations for the Law Library in its current location at the One East Main building, for which funding is provided from the capitol offices relocation appropriation and the timing of the move of the Law Library to the new Justice Center. The second issue relates to the payment of rent obligations for the Law Library at its new location in the Justice Center, for which funding is to be provided from the separate appropriation under the Supreme Court for the Law Library. Each of these issues is discussed separately below.

Funding for Law Library Space at One East Main

2. The Legislative Reference Bureau (LRB) will be moving into the space currently occupied by the Law Library at One East Main following the Law Library's move to the Justice Center and space remodeling. This move was to have occurred in September, 2001, but will not happen until December, 2001.

3. To correspond with this now expected later move date for the Law Library, an additional three months of funding for the Law Library from the capitol offices relocation appropriation is required. The $158,000 GPR currently budgeted in the appropriation for 2001-02 would cover three months of rent payments. An additional $158,800 GPR is needed to cover payments from the capitol offices relocation appropriation for the Law Library's rent obligations until its projected December, 2001, move date.

4. The Committee could increase the 2001-02 level of funding in the capitol offices relocation account for the Law Library by $158,800 GPR.

Funding for Law Library Space at New Justice Center

5. The funding of $1,038,100 GPR in 2001-02 and $1,069,200 GPR in 2002-03 included under the Governor's recommendation in the appropriation for the operation of the State Law Library was based on assigned square footage and projected rental rates for the Law Library in the new Justice Center, assuming its operation as a privately-owned building. Based on the building program recommendation that the building become a state-owned facility, the amount of funding required can be reduced based on an assumed base rental rate for Class A space of $18.10 per square foot. As with other state agencies, funding for proposed rent increases in next biennium would be available from the separate appropriation under program supplements for this purpose. The amount of funding required is estimated at $784,600 GPR annually.

6. Based on the above calculation modifications, the Committee could reduce the amounts provided for full funding of lease space costs under the Governor's recommendation for the Law Library by $253,500 GPR in 2001-02 and by $284,600 GPR in 2002-03. [It should be noted that, a separate paper under the Legislature will identify a corresponding decrease of approximately $150,000 in rent associated with the delay in the LRB's move to One East Main.]

ALTERNATIVES

A. Funding for Law Library Space at One East Main

1. Approve the Governor's recommendation.

2. Increase the funding level in the capitol offices relocation appropriation by $158,800

GPR in 2001-02 to provide for payments for a total of six months funding for the Law Library in its current location at One East Main.

Alternative A2	GPR
2001-03 FUNDING (Change to Bill)	$158,800

B. Funding for Law Library Space at New Justice Center

1. Approve the Governor's recommendation.

2. Reduce the funding level for Law Library rent at the new Justice Center by $253,500 GPR in 2001-02 and by $284,600 GPR in 2002-03 to provide a base level of rent costs for the Law Library in a state-owned Justice Center.

Alternative B2	GPR
2001-03 FUNDING (Change to Bill)	- $538,100

Prepared by: Terry Rhodes

MO# A-2, B-2

1 BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
WELCH	Y	N	A
2 GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

AYE 15 NO 0 ABS ____

MISCELLANEOUS APPROPRIATIONS

LFB Summary Items for Which No Issue Paper Has Been Prepared

Item #	Title
2	Operating Note Interest -- Cost Estimate
3	Debt Service Estimate -- Marquette Dental School
4 (part)	Capitol Offices Relocation Appropriation
5	Election Campaign Fund Reestimate
7	Other Appropriation Changes

LFB Summary Items to be Addressed in a Subsequent Paper

Item #	Title
1	Supplemental Title Fee Matching Appropriation Elimination
6	Transfers to the Conservation Fund

MO#________________________

BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
WELCH	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

AYE _____ NO _____ ABS _____

Legislative Fiscal Bureau
One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

May 10, 2001 | Joint Committee on Finance | Paper #870

Public Library Financial Assistance for Communications Hardware (TEACH)

[LFB 2001-03 Budget Summary: Page 628, #3 and Page 632, #13]

CURRENT LAW

Under the TEACH infrastructure financial assistance program, school districts and public libraries may apply for loans and grants to fund the upgrading of electrical wiring in buildings in existence on October 14, 1997, and installation and upgrading of computer network wiring. Schools and libraries are required to pay the debt service on the loans, which represent 50% of the financial assistance, and the state pays the debt service for the grants, which are the other half of the financial assistance. Under current law, $10 million of general obligation bonding is authorized for libraries for infrastructure loans.

GOVERNOR

Authorize the TEACH Board to grant infrastructure financial assistance to public library boards for the purchase of communications hardware, 50% of which would be in the form of a loan and 50% of which would be in the form of a grant. Specify that any financial assistance could only be used to purchase communications servers, routers, hubs or switches that enable a computer network in a library building to be directly connected to the Internet, and could not be used to purchase personal computers. Require the Board to establish, on a per building basis, the maximum amount of financial assistance available under this provision. Require that loan terms under this provision could not exceed four years. Authorize $5 million of general obligation bonding for this purpose.

Reduce the current general obligation bonding authorized for public library wiring loans from $10 million to $5 million.

Require public library boards receiving infrastructure assistance for communications hardware to apply for a federal E-rate discount for any hardware purchased with the assistance.

DISCUSSION POINTS

1. The Board set up two application processes for wiring loans. Schools and libraries that began projects prior to August 14, 1998, could apply under the fast start process. TEACH approved four fast start loans for public libraries for a total of $447,600. Libraries that have started more recent projects may apply for a loan under the standard start process. So far, eight libraries have applied for wiring loans under the standard start program, for a total of approximately $105,000.

2. According to TEACH staff, program demand by libraries for the wiring loan program has been limited thus far because the program in large part does not address the specific needs of libraries. While schools often require large capital investments for data wiring and related electrical support in numerous classrooms throughout buildings, wiring projects in libraries tend to be smaller, centralized and much less expensive.

3. Libraries reported to TEACH significant need, however, for financial assistance to acquire the necessary equipment to make use of network wiring once it is in place. Libraries are in need of communications hardware, such as servers, routers, hubs and switches, all of which are necessary for Internet connection but currently ineligible for funding under the infrastructure financial assistance program. The acquisition of this equipment requires a large, one-time capital outlay and few resources exist to finance it. This hardware is eligible for E-rate discounts, and under the proposal libraries would be required to apply for a discount on any hardware purchased with this assistance. However, this type of communications hardware falls into the "internal connections" classification, which has lowest priority under the E-rate program and thus, is rarely funded. School districts have financed such equipment with TEACH educational technology block grants; however, libraries are ineligible for such grants. According to TEACH and the Department of Public Instruction, no other significant funding source is available to public libraries for this purpose.

4. According to TEACH, the average cost for a router is $2,000, with a range of $1,850 to $2,600 per router. Hubs and switches cost approximately the same, although only one of these is needed with a router at any given site. The average cost for a server is $8,000. Therefore, the total average cost for the hardware for direct Internet connection per library would be approximately $12,000. It is estimated that a maximum of 237 public libraries, public library branches, and public library systems could request financial assistance for direct Internet connection. Therefore, total bonding is estimated to be $2,844,000. The annual debt service over four years assuming an interest rate of 4.5% would be an estimated $790,000. TEACH's share of the debt service would be an estimated $395,000 annually, beginning in 2002-03.

5. Given the low utilization of the wiring loan program thus far, the Committee could reduce the total amount of general obligation bonding authorized for it, in lieu of or in addition to

altering the program to fund hardware for libraries. Additionally, it appears from TEACH's estimates that the full $5 million of bonding that would be authorized under the bill for communications hardware would exceed projected demand. The Committee could reduce the amount of bonding authorized in the bill for this purpose to $3 million and still allow eligible libraries to participate in the program.

ALTERNATIVES TO BASE

1. Approve the Governor's recommendation to modify the financial assistance program for public libraries. Reduce general obligation bonding authorized for wiring loans from $10 million to $5 million. Authorize $5 million of general obligation bonding for communications hardware for public libraries. Provide $395,000 GPR in 2002-03 for estimated debt service cost of bonding issued for communications hardware for public libraries.

Alternative 1	GPR
2001-03 FUNDING (Change to Base)	$395,000
[Change to Bill	*$0]*

2. Modify the Governor's recommendation to reduce general obligation bonding authorized for wiring loans for public libraries from $10 million to $3 million. Authorize $3 million of general obligation bonding for communications hardware for public libraries.

Alternative 2	GPR	BR
2001-03 FUNDING (Change to Base)	$395,000	- $4,000,000
[Change to Bill	*$0*	*- $4,000,000]*

3. Delete the Governor's recommendation. Instead, reduce general obligation bonding authorized for wiring loans for public libraries from $10 million to $3 million. Reduce estimated debt service funding associated with the deletion of the proposed bonding for communications hardware for public libraries by $395,000 GPR in 2002-03, as a change to the bill.

Alternative 3	GPR	BR
2001-03 FUNDING (Change to Base)	$0	- $7,000,000
[Change to Bill	*- $395,000*	*- $7,000,000]*

4. Maintain current law. Reestimate debt service by -$395,000 in 2002-03 as a change to the bill.

Alternative 4	GPR
2001-03 FUNDING (Change to Base)	$0
[Change to Bill	*- $395,000]*

Prepared by: Layla Merrifield

MO# Alt 3

BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
WELCH	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

AYE 14 NO 2 ABS ____

Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

May 10, 2001 | Joint Committee on Finance | Paper #871

E-rate Funding (TEACH)

[LFB 2001-03 Budget Summary: Pages 629 and 630, #5 and 6]

CURRENT LAW

The TEACH Board collects federal E-rate funds on behalf of the state's eligible entities that receive TEACH funding. In 2000-01, TEACH collected approximately $2.8 million in E-rate funds. Heretofore the Board has used E-rate monies at its discretion to fund a variety of projects, including partial funding for three gateways for distance learning networks, prepayment of its master lease costs, a literacy initiative, and several smaller projects.

The segregated universal service fund (USF) currently provides funding for the TEACH telecommunications access program. The USF receives its funding through assessments on annual gross operating revenues from intrastate telecommunications providers. Appropriations for TEACH from this revenue source would total $13.7 million annually under the Governor's proposal. Total appropriations from this source of revenue, including the Department of Public Instruction and the UW, would be $16.5 million in 2001-02 and $16.4 million in 2002-03 under the bill.

GOVERNOR

Provide $500,000 FED annually from federal E-rate monies for pupil technology support pilot programs. Require the TEACH Board to award grants to school districts to train pupils to provide educational technology support services to the school districts in which they are enrolled. Specify that the TEACH Board could award no more than $500,000 in grants in each fiscal year. Require TEACH to award grants in consultation with the Board of Regents of the University of Wisconsin System (UW) and the Wisconsin Technical College System Board (WTCS).

Provide $500,000 FED from federal E-rate monies and $250,000 SEG from the USF in 2001-02 for an alternative technology study. Require the TEACH Board to conduct a study of emerging technology products, services, and applications for distance learning in primary and secondary schools. Specify that the TEACH Board would have to conduct approximately six pilot projects. Authorize the use of monies from the USF for this purpose. Require the TEACH Board to report the findings of its study to the Governor and Legislature by January 31, 2003.

DISCUSSION POINTS

Pupil Technology Pilot Projects

1. The pupil technology support initiative was included in TEACH's 2001-03 agency budget request. The Board requested creation of a pilot demonstration project in collaboration with UW and WTCS in which K-12 pupils would be trained to provide educational technology support services to their school districts. TEACH pointed out that school districts have made significant investments in computer networks and hardware using federal, state, and local funding, and that out of 367 school districts that completed an educational technology survey in spring 1999, 45% reported technical support to keep equipment operational among their top technical assistance needs. School districts find it difficult to recruit and retain instructional technology personnel due to competition with the private sector for such staff.

2. Under 1999 Act 9 (the 1999-01 state budget), the UW received $1.7 million GPR and $0.9 million PR for student information technology (IT) worker salaries and fringe benefits, in addition to $0.9 million GPR and $0.5 million PR to provide training for 680 student IT workers, over the biennium. Students receive training to meet campus needs to support the installation and maintenance of desktop computers, classroom technology and campus computer networks, and provide technical and help-desk support for faculty, students and staff.

3. UW-Milwaukee currently runs an extensive student technical support program on its campus, in which students are trained in a wide variety of technological systems and equipment, including network operations, distance learning, television engineering, and applications development. In addition, for 2000-01 Milwaukee Public Schools (MPS) received a training and technical assistance implementation grant from the TEACH Board to implement a pupil technical support program. Under the program, UW-M participants mentor MPS middle and high school pupils interested in learning about IT. The pupils receive training from the University and provide support at their schools.

4. The TEACH pilot would be modeled on these programs, although it would be focused on training K-12 pupils in classroom, computer lab, network operations, and help desk support. The pilot program would be created in consultation with the UW and WTCS. TEACH anticipates conducting five to six demonstration pupil technology support projects across the state, which would train pupils in grades nine through twelve who wish to participate. The pupils would be trained after school and on weekends, and would be given the opportunity to gain certification in certain systems and software, as well as gain credits in related courses through WTCS or UW

institutions.

5. The TEACH pilot would attempt to model an approach that has worked at the college-level and apply it to K-12 schools. Because the MPS program is just beginning, it is unknown at this point whether this type of pupil technology support initiative would be successful at the K-12 level. UW students participate in a work-study capacity and thus are given responsibilities as employees. Presumably, college students are closer to entering the workforce and more motivated to perform well and gain work experience than might be the case with unpaid high school students.

6. Some might question whether a new initiative, such as this proposal, be funded in the 2001-03 budget given the limited resources available to the Legislature.

Alternative Technology Study

7. TEACH requested funds in its 2001-03 agency budget request to study the use of emerging technology products, services, and applications for distance learning for the K-12 environment. TEACH anticipated conducting approximately six pilots at an estimated total cost of $500,000 with 50% funding coming from E-rate and the remaining 50% from the USF. TEACH's rationale for the request was to establish pilots that would provide reliable information regarding the future direction and applications of educational technology in order to make better informed, more cost effective policy and purchasing decisions. The results of the pilots could then be documented and used for statewide strategic educational technology planning.

8. The Governor's proposal provides a total of $750,000, with $500,000 FED and $250,000 SEG for the alternative technology study. To avoid this additional use of USF monies, which are passed through to telephone subscribers' local exchange service rates, the Committee could reduce the allocation to $500,000 FED to make it consistent with the agency request.

Alternative Uses of E-rate Monies

9. The Board collects funding from the federal universal service fund under the federal E-rate program on behalf of eligible entities that receive TEACH services. The E-rate program provides eligible schools and libraries with federally funded discounts on telecommunications services, Internet access and internal connection (computer wiring, hubs and routers). Discounts, which range from 20 to 90 percent, are based in part on the number of students eligible for the federal free and reduced price school lunch program and the classification of the school or library as rural or urban. There are two options for collection of E-rate benefits. The most common form is the discount, described above, on subscriber bills from the service provider for telephone service, Internet access, or other telecommunications services. The less common form is the cash reimbursement the TEACH Board receives. TEACH receives this money because it has an ongoing services contract with Ameritech. TEACH cannot receive the normal discount because the bill is prepaid, so TEACH receives the E-rate discount in the form of a payment. The Board collected approximately $2.8 million in 2000-01 and expects to collect about $3.2 million in E-rate monies in 2001-02. In addition, it is possible that $3.2 million could be collected in 2002-03, although this is

speculative, since it will depend on federal decisions relating to the E-rate program.

10. Under the Federal Communications Commission (FCC), the Universal Service Administrative Company (USAC) administers the federal universal fund, and the Schools and Libraries Division (SLD) of the USAC administers the E-rate program. Since the E-rate discount TEACH is receiving is a reimbursement for funds already invested as the Board's share of E-rate funded services, the use of that cash is beyond the scope of SLD's responsibility. However, in order to secure this reimbursement, TEACH has certified to SLD that the Board has secured access to the resources necessary to effectively use the services that E-rate is subsidizing. This certification addresses the "total cost of ownership" of the systems and services necessary to use E-rate funds effectively. SLD requires that applicants for E-rate discounts have secured access to resources such as computers, professional training, software, and the cost of the non-discounted portion of services. In many instances, SLD undertakes a special review of applications to assure that adequate resources have been budgeted, and that behind the certification lies the documentation to demonstrate that the certification is sound. This is an issue SLD also examines in their post-commitment audit of beneficiaries. Therefore, if TEACH can ensure that the total costs of ownership necessary to utilize E-rate effectively will be met, then the use of E-rate funds is at the Board's discretion.

11. Under an agreement reached by the Board with the Joint Committee on Finance (Committee) in January 2001, for all future use of E-rate funds, the Board must submit information relating to the proposed utilization of the monies to the Committee under a 14-day passive review process. If an objection is raised, the Committee will schedule a meeting under s. 13.10 of the statutes to consider the request. If no objection is raised, the Board's proposed use of the monies will be approved. E-rate monies received above the amounts recommended by the Governor for the pupil support and alternative technology studies could be allocated by TEACH, subject to the Committee's approval, per the agreement of January 2001.

12. The Committee could use E-rate funds to offset spending under the GPR technology block grant program, which under the Governor's budget would remain at its base level of funding, \$35 million in each year of the biennium. Restrictions on E-rate funds set by SLD would allow these monies to be used for the block grant program, which helps secure the equipment necessary to utilize E-rate services. A program revenue appropriation could be created for all E-rate monies received after May 1, 2001, which would be used dollar-for-dollar to offset the GPR block grant program and allow a corresponding lapse to the general fund. By setting up this type of applied receipts appropriation, the full \$35 million of GPR funding would remain available for expenditure in 2001-02 and in 2002-03, if for some reason E-rate monies were not received by the state. However, it appears that at least \$3.2 million of E-rate monies will be received in 2001-02, and it is possible that \$3.2 million will be received in 2002-03. In addition, TEACH has an unencumbered balance of E-rates funds for 2000-01 of approximately \$1 million. The Committee could deposit these funds in the applied receipts appropriation for 2001-02, which would result in an estimated reduction in GPR block grant expenditures (lapse) of \$4.2 million in 2001-02 and \$3.2 million in 2002-03. This approach could be used in conjunction with the proposed uses of E-rate monies under the Governor's budget recommendation, but with lesser GPR lapse amounts.

ALTERNATIVES TO BASE

A. Pupil Technology Pilot Projects

1. Approve the Governor's recommendation to provide $500,000 FED annually for pupil technology support pilot programs.

Alternative A1	FED
2001-03 FUNDING (Change to Base)	$1,000,000
[Change to Bill	*$0]*

2. Maintain current law.

Alternative A2	FED
2001-03 FUNDING (Change to Base)	$0
[Change to Bill	*- $1,000,000]*

B. Alternative Technology Study

1. Approve the Governor's recommendation to provide $500,000 FED and $250,000 SEG in 2001-02 for an alternative technology study.

Alternative B1	FED	SEG	TOTAL
2001-03 FUNDING (Change to Base)	$500,000	$250,000	$750,000
[Change to Bill	*$0*	*$0*	*$0]*

2. Modify the Governor's recommendation to only provide $500,000 FED in 2001-02 for an alternative technology study provision.

Alternative B2	FED	SEG	TOTAL
2001-03 FUNDING (Change to Base)	$500,000	$0	$500,000
[Change to Bill	*$0*	*- $250,000*	*- $250,000]*

3. Maintain current law.

Alternative B3	FED	SEG	TOTAL
2001-03 FUNDING (Change to Base)	$0	$0	$0
[Change to Bill	*- $500,000*	*- $250,000*	*- $750,000]*

C. Alternative Use of E-Rate Monies

1. *All E-Rate Monies Allocated to Block Grants.* Provide $4,200,000 PR in 2001-02 and $3,200,000 in 2002-03 in a new continuing PR appropriation under TEACH designated for the receipt of E-rate monies received by the TEACH Board after May 1, 2001. Specify that the current available balance of E-rate monies would be transferred to this appropriation. Treat these monies as applied receipts for the TEACH GPR block grant program, so that an estimated GPR lapse of $4,200,000 in 2001-02 and $3,200,000 in 2002-03 would occur.

Alternative C1	PR	GPR-Lapse
2001-03 FUNDING (Change to Base)	$7,400,000	$7,400,000
[Change to Bill	*$7,400,000*	*$7,400,000*

2. *All E-Rate Monies after Funding A1 and B1 or B2 Allocated to Block Grants.* Provide $2,700,000 PR in 2001-02 and $3,200,000 PR in 2002-03 in a new continuing PR appropriation under TEACH designated for the receipt of E-rate monies in excess of $500,000 received by the TEACH Board after May 1, 2001. Treat these monies as applied receipts for the TEACH GPR block grant program, so that an estimated GPR lapse of $2,700,000 in 2001-02 and $3,200,000 in 2002-03 would occur. Specify that the first $500,000 of E-rate monies received after May 1, 2001, as well as the available balance of E-rate monies, would be deposited to a federal appropriation under the TEACH Board.

Alternative C2	PR	GPR-Lapse
2001-03 FUNDING (Change to Base)	$5,900,000	$5,900,000
[Change to Bill	*$5,900,000*	*$5,900,000*

3. Maintain current law.

MO# C-1

BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
WELCH	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

AYE 16 NO 0 ABS ____

rrifie

A-1
B-1
C-3

C-1 and Ward motion
Decker checking on it.