Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2003 Session

[X] Original [ ] Updated [ ] Corrected [ ] Supplemental

LRB Number **03-3000/1**	Introduction Number **AB-571**

Subject

School aids, funding for school costs, school levy rate limits, local government employees, income tax credit for renters, sales tax changes

Fiscal Effect

State:

- [ ] No State Fiscal Effect
- [ ] Indeterminate
  - [ ] Increase Existing Appropriations
  - [X] Decrease Existing Appropriations
  - [X] Create New Appropriations
  - [X] Increase Existing Revenues
  - [X] Decrease Existing Revenues
  - [X] Increase Costs - May be possible to absorb within agency's budget [ ] Yes [X] No
  - [ ] Decrease Costs

Local:

- [ ] No Local Government Costs
- [ ] Indeterminate
  1. [ ] Increase Costs — [ ] Permissive [ ] Mandatory
  2. [ ] Decrease Costs — [ ] Permissive [ ] Mandatory
  3. [X] Increase Revenue — [ ] Permissive [X] Mandatory
  4. [X] Decrease Revenue — [ ] Permissive [X] Mandatory
  5. Types of Local Government Units Affected
     - [X] Towns [X] Village [X] Cities
     - [ ] Counties [ ] Others
     - [X] School Districts [ ] WTCS Districts

Fund Sources Affected

[X] GPR [ ] FED [ ] PRO [ ] PRS [X] SEG [ ] SEGS

Affected Ch. 20 Appropriations

20.835 (1) (e), (2) (c), (2) (dm)

Agency/Prepared By	**Authorized Signature**	**Date**
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Fiscal Estimate Narratives

DOR 12/15/2003

LRB Number 03-3000/1	Introduction Number AB-571	Estimate Type Original
Subject		
School aids, funding for school costs, school levy rate limits, local government employees, income tax credit for renters, sales tax changes		

Assumptions Used in Arriving at Fiscal Estimate

SCHOOL AID

The Department of Revenue (DOR) is unable to estimate the changes in school aid this bill would engender.

PROPERTY TAXES

School Property Tax Levy:
Under current law, there are no direct limits on school districts' ability to levy property taxes. Under the bill, the maximum property tax rate a school district could levy would be 3 mills ($3 per $1,000 equalized value). The limit could be exceeded to make payments on existing debt issues and in cases where the Department of Public Instruction (DPI) approves a higher rate for emergencies. The bill would also ban the use of property tax levies to pay for employee salaries or benefits.

The following assumptions were made in order to estimate the bill's effect on property taxes:
(1) DPI grants no exceptions for emergencies.
(2) The amount of property tax financed expenditures (other than employee salaries and benefits) is sufficient to permit imposing the maximum allowable levy.
(3) The 3 mill rate limit applies to each K-12, K-8, and UHS district.
(4) School districts whose debt service tax rate is less than 3 mills impose the maximum allowed tax rate of 3 mills.
(5) School districts whose debt service tax rate is more than 3 mills impose a tax for debt service only.

The total property tax levy for school districts for the 2002/03 tax year was $3,192 million, $508 million of which was for debt service and $2,684 million for other purposes. The average total tax rate was 9.75 mills, of which 1.55 mills was for debt service and 8.20 mills for other purposes. If the bill had been in effect for 2002/03, the 106 districts whose debt service levies are more than 3 mills would have imposed only a debt service levy while the other 320 districts would have imposed a 3 mill tax levy. The total property tax levy for school districts would have been reduced by about $2,116 million, or 66%, to $1,076 million, $508 million of which would be for debt service and $568 million for other purposes. The average total tax rate would have declined by 6.46 mills, or 66%, to 3.29 mills, of which 1.55 mills would be for debt service and 1.74 mills for other purposes.

School Levies Tax Credit:
The state school levies credit provides property tax relief to all property taxpayers in the form of a credit on their property tax bills. The credit is allocated to municipalities based on their share of statewide school levies during the previous three years. The credit for 2002/03 was therefore based on school levies for the 1999/2000, 2000/01, and 2001/02 property tax years. The municipality's payment is allocated to taxpayers based on their share of their municipality's total assessed value. The state pays the credit to municipalities on the fourth Monday in July.

Funding for the credit is currently $469.3 million and is not affected by the bill. For 2002/03, the credit offset about 14.7% of school tax levies. If the bill had been in effect for 2002/03, the credit would have offset about 43.6% of the school tax levies. As the lower school district tax levies under the bill are included when calculating the credit, credit payments would shift from districts imposing the 3 mill levy to districts with a higher tax rate due to their debt service requirements.

Lottery and Gaming Tax Credit:
The lottery and gaming tax credit provides property tax relief to qualifying taxpayers in the form of a credit on their property tax bills. The credit is provided only to property owned and used as a "primary residence," or the

place where an individual lives most of the time. The credit equals the school property tax on a certain amount of the full value of the primary residence. For the 2002/03 property tax year, the credit equaled the school tax levy on the first $7,800 in full value of qualifying residences.

The total credit payment varies from year to year, depending on the amount of net lottery proceeds available. The bill does not affect this level of funding. However, the school tax reductions engendered by this bill would lead to a significant increase in the property value on which the credit is paid. Credit payments to individual taxpayers would decrease in school districts with larger than average reductions in their school tax rate while payments would increase for taxpayers in school districts (generally those with high debt service tax rates) with smaller than average reductions in their tax rates.

Tax Incremental Financing Tax Levy:
Tax incremental financing (TIF) is a financing method that allows a city or village to recover project costs associated with public improvements made in a tax incremental district (TID). For every TID, a base value is established. Municipalities with a TID district are allowed to retain the county, technical college, school district, special district, and municipal property taxes levied on any increase in value over the base value, which constitute the TIF tax increment. By reducing school levies, this bill would reduce TIF tax increments.

Under current law, the total TIF tax increments for the 2002/03 tax year was $192 million. Under the bill, based on statewide tax rate effects, this bill could have reduced total TIF tax increments by $57 million, or 30%, to $135 million.

By reducing TIF tax increments, additional time would be needed to pay off the TID expenses. This could lead to some existing districts being unable to repay TID costs before they must be dissolved (a total of 23 years from formation for most districts). By significantly reducing potential tax increments, the bill would likely cause a large reduction in the number and size of TIDs formed in future years.

Total Property Tax Levy:
The total property tax levy for all purposes (before tax credits) for the 2002/03 tax year was $7,364 million. The average total tax rate was 21.96 mills. If the bill had been in effect for 2002/03, total property taxes for all purposes (before tax credits) for 2002/03 would have been reduced by $2,174 million, or 30%, to $5,190 million. The average tax rate would have declined by 6.48 mills, or 30%, to 15.48 mills.

SALES AND USE TAX

Under current law, sales of tangible personal property and specified services are subject to a 5% state sales tax. A 5% state use tax is imposed on the storage, use or other consumption of products in Wisconsin that are subject to sales tax, but on which sales tax is not collected. All state sales and use taxes are deposited in the state's General Fund.

The bill increases the state sales and use tax rate from 5% to 7.5% beginning January 1, 2004. Using the January 2003 revenue estimates from the Legislative Fiscal Bureau as the baseline, increasing the state sales and use tax rate to 7.5% would increase state tax revenues by $950 million to $4,860 million in FY04 and by $1,990 million to $6,090 million in FY05.

In addition, the bill creates the segregated Public School Aid Fund, effective January 1, 2004, into which 41% of all state sales and use taxes will be deposited. Based on the estimated collections indicated above, deposits to the public school aid fund would be $1,191 million in FY04 and $2,497 million in FY05.

PROPOSED REFUNDABLE SALES AND USE TAX CREDIT

This bill creates a refundable individual income tax credit for the sales and use tax paid by an individual who rents his or her principal dwelling in the taxable year to which the claim relates. The credit would be $500 ($250 for each spouse for married couples that file separately) in taxable years 2004 and 2005, $250 ($125) in 2006 and $125 ($62.50) in 2007. The credit is not available for part-year residents or nonresidents of Wisconsin. If more than one renter of a principal dwelling is eligible to claim the credit, the renters must decide who may claim the credit. Taxpayers would not need to demonstrate that they had paid any Wisconsin sales and use tax to qualfy for the credit. Therefore, it is assumed that all filers that are renters would claim the maximum amount.

Assuming that each of the 598,400 single, single dependent, married joint, and head of household filers that are renters claim the maximum $500 credit and each of the 4,300 married separate filers that are renters claim the maximum $250 credit, credit expenditures under the bill would be about $300 million [(598,400 X $500) + (4,300 X $250)] annually in 2004 and 2005. Assuming the same number of filers claim the credit, the bill would increase state aid to individuals expenditures by about $150 million [(598,400 X $250)+ (4,300 X $125)] and $75 million [(598,400 X $125) + (4,300 X $62.50)] in 2006 and 2007, respectively. Prior to calculating the fiscal effect of this bill, adjustments were made to the number of filers that are renters to account for nonfamily households where more than one filer is paying rent. Under this bill, only one individual per household may claim the credit.

Because the credit is refundable, persons who do not currently file an income tax return because they have no tax liability may start filing in order to receive the credit. A comparison of the number of tax year 2001 renters to U.S. Census data on renter-occupied households indicates that an estimated 38,900 additional claims could be filed by persons who currently do not file a tax return. Assuming these persons claim the maximum credit, credit expenditures would be an additional $19 million (38,900 X $500) annually in 2004 and 2005, $10 million (38,900 X $250) in 2006, and $5 million (38,900 X $125) in 2007.

Thus, the proposed credit for sales and use taxes fo renters would increase state expenditures by an estimated $319 million in 2004 and 2005, $160 million in 2006, and $80 million in 2007.

INCOME TAX

Current individual income tax law allows a nonrefundable school property tax credit against income tax liability equal to 12% of property taxes or rent constituting property taxes up to $2,500; the maximum credit is $300. Based on a simulation on the 2001 Individual Income Tax Model adjusted for 2003 law, a 30% decline in property taxes would decrease the amount of the credit on property taxes, and increase state income taxes, by about $46 million. It is assumed that the property tax reduction would have no immediate impact on rent and thus no immediate impact on school property tax credit claims by renters.

Property taxes and sales and use taxes paid by businesses are deductible expenses. If this bill were enacted, businesses would have lower deductions because property taxes would be reduced, but higher deductions because sales taxes would be increased. The net impact on individual income taxes and corporate income and franchise taxes paid by businesses cannot be estimated; however, the change would be small relative to the substantial changes in sales and use, individual income and utility taxes estimated here.

CURRENT REFUNDABLE TAX CREDITS

Homestead Credit:
Under the Homestead Credit, certain low-income households receive a payment from the state to help offset part of their property taxes or rents. The 30% decline in property taxes engendered by this bill would make about 7,700 currently eligible property owners ineligible for the Homestead Tax Credit and reduce credit amounts for other claimants. The reduction in credit expenditures is estimated to be $10 million. It is assumed that the property tax reduction would have no immediate impact on rent and thus no immediate impact on Homestead credit claims by renters.

Farmland Preservation Credit:
The farmland preservation credit equals a percentage of property taxes for owners of farm property with 35 or more acres of farmland who meet certain zoning or land use and conservation requirements. The maximum credit is $4,200. The 30% reduction in property taxes under the bill would reduce farmland preservation credits by an estimated $6 million.

Farmland Tax Relief Credit:
The farmland tax relief credit equals a percentage of property taxes for owners of farmland. The Department of Revenue sets the percentage at a level that results in credit expenditures of $15 million annually, funded by segregated lottery revenues. The 30% reduction in property taxes under this bill would not change the total amount expended by this credit, but the credit percentage would need to be raised in order to expend the $15 million required.

UTILITY TAXES

Certain companies operating in Wisconsin are taxed under the state's utility tax statutes on an ad valorem basis. DOR annually determines the taxable value of these companies' property allocable to Wisconsin for taxation purposes. The tax on airlines, conservation and regulation companies, municipal electric association projects, pipelines, and railroads is calculated using the state average net property tax rate. For telephone companies, the tax is based on the taxable property in a given municipality times the prior year's net rate applicable in that municipality. Revenues from the airline and railroad tax are paid to the transportation fund. All other revenues are paid to the general fund.

Based on projected tax collections for FY04, the 30% reduction in property tax engendered by this bill would reduce state ad valorem utility taxes by a total of $38 million, with $33 million allocated to the general fund and $5 million to SEG-Transportation funds.

EXEMPT COMPUTER AID

The state aid for exempt computers is an annual payment to local governments that levy property taxes equal to the amount of property taxes that would be have been levied on exempt computers if they were taxable. Payments are made in May based on tax rates used to determine tax bills in the prior December. The payment in May 2003 is currently estimated to be about $73 million. Assuming that property tax levies for counties, technical colleges, special districts, and non-TIF municipal purposes are not affected, the 30% reduction in taxes engendered by this bill would reduce computer aid payments by about $22 million. Only payments to school districts and to municipalities (for the tax increment due to school taxes that would have been levied on computers in TIF districts) would be affected.

ADMINISTRATIVE COSTS

The Department would incur initial costs of $74,100 and additional costs of $104,800 to administer and audit the refundable sales and use tax credit in each year the credit is available, assuming the credit was provided only to the 602,700 current renters who file tax returns and the estimated 38,900 renters who currently do not file a tax return because they have no tax liability.

SUMMARY AND DETAILED WORKSHEET

The attachment summarizes the fiscal effect and provides detail for the fiscal estimate worksheet. Annualized costs in the worksheet and the attachment are for FY05, the first year in which the full fiscal effect of the bill would be realized. There also would be one-time costs in FY04 since the proposed changes will not be fully in place and in FY05 through FY08 to finance payment of the sales and use tax credit and its administration.

Long-Range Fiscal Implications

Attachment to Fiscal Estimate for AG 571: Detailed Worksheet for State Costs and Revenues

	Current Biennium			Additional One-Time Effects Beyond Current Biennium		
Expenditure or Revenue Category	One-Time FY04	One-Time FY05	Ongoing FY05	FY06	FY07	FY08
State Operations - Other Costs						
DOR costs - sales tax credit for renters		0.18		0.10	0.10	0.10
Transfer to public school aid fund	1,191		2,497			
Local Assistance						
Exempt computer aid*	(22)		(22)			
School aids	1,191		2,497			
Aids to Individuals or Organizations						
Sales tax credit for renters		319		319	160	80
Homestead credit*	(10)		(10)			
Farmland preservation credit*	(6)		(6)			
Total Change in State Expenditures	2,344	319.18	4,956	319.10	160.10	80.10
GPR Taxes						
Sales and use tax	950		1,990			
Individual income tax*	46		46			
Utility taxes*	(33)		(33)			
SEG/SEG-S						
Transfer to public school aid fund	1,191		2,497			
Utility taxes*	(5)		(5)			
Total Change in State Revenues	2,149	-	4,495			

* Assumes change in cost or revenue the same in both FY04 and FY05.

Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate Worksheet - 2003 Session

Detailed Estimate of Annual Fiscal Effect

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

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Subject

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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):

FY04: Expenditures of $2,344 million, revenues of $2,149 million. FY05: Expenditures of $319.18 million. FY 06: Expenditures of $319.1 milion. FY07: Expenditures of $160.1 million. FY08: Expenditures of $80.1 million.

II. Annualized Costs:	**Annualized Fiscal Impact on funds from:**	
	Increased Costs	Decreased Costs
A. State Costs by Category		
State Operations - Salaries and Fringes	$	
(FTE Position Changes)		
State Operations - Other Costs	2,497,000,000	
Local Assistance	2,497,000,000	-22,000,000
Aids to Individuals or Organizations		-16,000,000
TOTAL State Costs by Category	**$4,994,000,000**	**$-38,000,000**
B. State Costs by Source of Funds		
GPR	2,497,000,000	-38,000,000
FED		
PRO/PRS		
SEG/SEG-S	2,497,000,000	

III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)		
	Increased Rev	Decreased Rev
GPR Taxes	$2,003,000,000	$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S	2,492,000,000	
TOTAL State Revenues	**$4,495,000,000**	**$**

NET ANNUALIZED FISCAL IMPACT		
	State	Local
NET CHANGE IN COSTS	$4,956,000,000	$
NET CHANGE IN REVENUE	$4,495,000,000	$indeterminate

Agency/Prepared By	**Authorized Signature**	**Date**
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