



Legislative Fiscal Bureau

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COPY

April 21, 1999

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Senate Bill 114: Creation of the Gaming Fund and Gaming Credit

Senate Bill 114 would replace the lottery fund with a new fund, called the gaming fund. Revenues from the state lottery, pari-mutuel on-track betting and bingo would be deposited in the fund and used for appropriations related to the administration of gaming activities and property tax relief. Also, the bill would rename and change the distribution mechanism for the lottery tax credit.

SB 114 was introduced on April 13, 1999, and referred to the Committee on Economic Development, Housing and Government Operations. The Committee held a public hearing on the bill on April 14, 1999, and recommended Senate Substitute Amendment 1 to SB 114 for passage by a vote of 4 to 0. On April 16, 1999, the bill was referred to the Joint Committee on Finance.

BACKGROUND

On April 6, 1999, state voters approved an amendment to the Wisconsin Constitution related to the distribution of gaming proceeds. The amendment was placed on the ballot after two successive Legislatures approved identical joint resolutions, 1997 Assembly Joint Resolution 80 and 1999 Assembly Joint Resolution 2.

The amendment changes three provisions in Section 24 of Article IV of the Constitution. That section enumerates the forms of gambling that are permissible in the state, and identifies certain activities as not constituting gambling. The three provisions relate to the state lottery, pari-mutuel on-track betting and bingo. Specifically, the amendment permits revenues from those activities to be used for operations, regulation and enforcement activities related to gambling, but limits the use of the remaining revenues for property tax relief for state residents. State revenues

are defined to include investment earnings on lottery, pari-mutuel on-track betting and bingo revenues. The distribution of monies for property tax relief for state residents is subject to two conditions. First, the distribution cannot be based on the recipient's age or income. Second, the distribution does not have to conform to the rules of uniform taxation required under Section 1 of Article VIII of the Wisconsin Constitution.

SUMMARY OF SENATE SUBSTITUTE AMENDMENT 1 TO SENATE BILL 114

SSA 1 to SB 114 would modify several provisions in current law to comply with the conditions imposed under the constitutional amendment.

Creation of a Segregated Gaming Fund and Modification of Gaming-Related Appropriations. Under current law: (a) lottery revenues are deposited in a segregated lottery fund; (b) bingo regulatory revenues are deposited in a program revenue appropriation in the Department of Administration (DOA); (c) pari-mutuel regulatory revenues are deposited in program revenue appropriations in DOA and the Department of Justice (DOJ); and (d) two gaming taxes, the bingo gross receipts tax and the pari-mutuel tax, are deposited in the general fund. Under the substitute amendment, a segregated gaming fund would be created to replace the lottery fund. The gaming fund would receive all state revenue from the lottery, charitable bingo and pari-mutuel wagering, including tax revenue from bingo gross receipts and pari-mutuel wagering. Under current law, the Legislature may not enact any bill that would cause the lottery fund balance on June 30 of any fiscal year to be less than 2% of the estimated gross lottery revenues for that fiscal year. This reserve provision would be retained for the gaming fund.

Under the substitute amendment, all state regulatory funding relating to bingo and pari-mutuel gaming activities would be converted to SEG funding. Program revenue appropriations under DOA and DOJ, relating to pari-mutuel racing regulation and law enforcement, respectively, would be repealed. A PR appropriation for charitable gaming would be amended to remove bingo references. The appropriation, as amended, would apply only to raffles and crane games. [A technical correction of this amendment of the charitable gaming PR appropriation is required.] The substitute amendment would create two SEG, general program operations appropriations in DOA, funded from the gaming fund, one for pari-mutuel racing and one for bingo. The substitute amendment would also amend SEG appropriations in DOJ and DOR (the lottery) to specify that funding would be provided from the gaming fund.

The substitute amendment would eliminate the provision of gaming-related funds to other agencies for purposes unrelated to operations, regulation or enforcement of gaming. First, pari-mutuel racing funds provided to the Department of Agriculture, Trade and Consumer Protection (DATCP) for aids to county and district fairs (up to \$650,000 annually, depending on availability) and aid to the Wisconsin livestock breeders association (up to \$50,000) would be eliminated. The DATCP appropriation for aids to county and district fairs would be converted from a sum sufficient to a sum certain, annual appropriation. Second, lottery funds (\$36,000) and pari-mutuel racing funds (\$14,000) provided to the Department of Health and Family Services (DHFS) for compulsive gambling awareness campaigns would be eliminated and

replaced with Indian gaming funding. Third, an appropriation under DOA for county fair association grants (\$50,000 annually) relating to wagering on horse races at fairs would be eliminated. [The licensing of horse race wagering at fairs is authorized, but has not occurred in Wisconsin.]

The SEG appropriations created under the substitute amendment would be funded for the remainder of the 1998-99 fiscal year (May and June), as follows: (a) the appropriation relating to pari-mutuel racing would be provided \$662,800; and (b) the appropriation relating to charitable bingo would be provided \$32,300. In addition, the current law SEG appropriation under DOJ would be increased by \$36,700 in 1998-99. In addition to funding, positions would also be converted from PR to SEG, as follows: (a) 27.85 DOA positions relating to pari-mutuel racing; (b) 3.0 DOA charitable gaming positions relating to bingo; and (c) 1.0 DOJ position relating to pari-mutuel racing.

Under the substitute amendment, the unencumbered balances in the DOA PR appropriation for pari-mutuel racing regulation and the DOJ PR appropriation for pari-mutuel racing law enforcement would be transferred to the gaming fund on the effective date of the legislation. In addition, \$404,400 would be transferred on the effective date from the DOA PR appropriation for charitable gaming to the gaming fund. This amount represents the estimated share of the unencumbered balance in the charitable gaming appropriation, on May 1, 1999, attributable to bingo.

In summary, the substitute amendment would create a segregated gaming fund that would replace the segregated lottery fund and would receive all state revenue relating to the lottery, charitable bingo, and pari-mutuel racing. Current law funding and positions relating to bingo and pari-mutuel racing would be converted to SEG funding and positions. Unencumbered balances relating to bingo and pari-mutuel racing would be transferred to the gaming fund. Finally, provisions under current law that transfer amounts to other agencies (DHFS for compulsive gambling and DATCP for agricultural aids) would be eliminated. The intent of the substitute amendment is to convert gaming operational budgets to SEG funding without affecting the funding levels or position authority of the agencies involved.

Tax Credit for Properties Used as a Principal Dwelling. Currently, each piece of taxable property receives a lottery credit equal to the school tax rate for that property multiplied by a value base. If a property has a market value below the value base, the lottery credit is limited to the school taxes on the lower value. The value base changes each year and is set by the Department of Revenue at a level intended to distribute all available lottery proceeds.

Effective for tax bills issued in December, 1999, SSA 1 to SB 114 would replace the lottery tax credit with a gaming credit. The credit would be calculated identically to the lottery credit, but would be extended only to property used as the owner's principal dwelling. Owners would be required to claim the credit by filing an application on which they attest that they owned the property and used it as their principal dwelling as of January 1 of the year in which taxes are levied. The credit would apply both to dwellings subject to general property taxes and dwellings subject to monthly mobile home fees.

Between 1991(92) and 1995(96), the lottery credit was distributed exclusively to property used as the owner's principal dwelling. That treatment was ruled to be a violation of the state constitution's tax uniformity clause in an October, 1996, circuit court decision, and lottery credits were not extended on 1996(97) property tax bills. In 1997, state law was modified to require lottery credits to be extended to all taxable properties. SSA 1 to SB 114 generally restores the statutory language that existed at the time of the court decision.

Certification of Properties Eligible for the Credit. Under current law, a tax credit is extended to each personal property account and parcel of real estate that is taxable. Since the proposed credit would be extended only to properties used as the owner's principal dwelling, a procedure to identify those properties is required. Rather than identify eligible properties when taxes are paid, SSA 1 would require eligible properties to be identified before tax bills are issued.

Beginning in 1999, owners of eligible properties would be required to file an application on which they attest that they owned the property and used it as their principal dwelling as of January 1 of the year in which taxes are levied. The application would be valid for five years and would be filed with the treasurer of the county where the property is located or with the treasurer of the City of Milwaukee if the property is located there. During the intervening four years, SSA 1 would allow owners to apply for the credit when they buy property by indicating on the real estate transfer return that they intend to use the property as their principal dwelling. The substitute amendment does not provide any other mechanism for owners to claim the credit during the intervening years. Such a mechanism may be desirable when owners change the use of their property, such as from a seasonal cottage to a principal dwelling.

The bill does not provide a mechanism for eligible properties to receive the credit if the credit is not extended on tax bills. Under the law that existed prior to 1997 Act 27, a DOR administrative rule allowed owners of eligible properties to claim the credit when they paid their taxes if the credit was not reflected on their tax bills. In such cases, the rule required owners to submit an application by January 31 following the tax bill's issuance with the treasurer collecting the taxes. A corresponding provision was not included in the statutes at that time. If the Legislature wants this treatment to continue, it may be advisable to amend SSA 1 to include a provision authorizing late claims.

When a person becomes ineligible for the credit, SSA 1 would require the person to notify the treasurer of the county or city where the property is located that the person is no longer eligible.

Certification Reimbursement. SSA 1 would create a sum sufficient appropriation within the gaming fund to reimburse counties and the City of Milwaukee for administering the certification requirement. The substitute amendment would establish a reimbursement rate of 50 cents per credit and authorize payments every five years on the first Friday of September, beginning in 1999. Payments would be based on the number of applications on file with each county and the City of Milwaukee as of the previous August 1. SSA 1 would require each county and the City to report

that number to DOR by August 16. Treasurers may have difficulty meeting this timetable in 1999, depending on the bill's effective date. This could be addressed by delaying the timetable on a one-time basis.

When an error is made in a certification reimbursement payment to a local government, SSA 1 instructs DOR to correct the error in the subsequent year's distribution. Because certification reimbursement payments would be made every five years, rather than annually, a technical amendment could be made to specify that the correction be made in the succeeding distribution, as opposed to the subsequent year's distribution.

Funds Available for Distribution. SSA 1 would continue the current procedure for determining the amount available for distribution as tax credits. Under that procedure, DOA provides the Joint Committee on Finance with an estimate of total funds available for distribution as tax credits in the current year by October 16. The Committee may revise the DOA estimate if it does so at a meeting that takes place prior to November 1. If the Committee chooses to accept the DOA estimate, no Committee action is required. DOR is notified of the approved amount, which is the basis for calculating the value base. DOR is required to set the value base at a level that distributes the total amount approved by the Committee. SSA 1 would make minor modifications to this procedure by changing the definition of funds available for distribution to include pari-mutuel, on-track betting and bingo revenues and to exclude appropriations related to administration of pari-mutuel racing and bingo and the local certification reimbursement payment.

Also, SSA 1 would require one-fifth of the estimated amount needed for reimbursement payments to local governments to be excluded from the funds available for distribution. The apparent intent of this provision is to reserve a portion of the amount needed for reimbursement payments to local governments each year so that in the fifth year credits received by taxpayers will not be noticeably reduced. However, as drafted, the provision may not accomplish this objective. The amount omitted from each year's credit allocation would contribute to the closing balance in the gaming fund and would be available for distribution as gaming credits in the succeeding year. Under this interpretation, the gaming fund would never accumulate more than 20% of the amount needed for the reimbursement payment.

Farmland Tax Relief Credit. Under current law, tax credits funded with lottery proceeds are distributed to farmers under the farmland tax relief credit. SSA 1 would not modify the current credit, other than changing its funding source from lottery proceeds to gaming proceeds. The credit is administered through the state income tax system and equals 10% of up to \$10,000 in net property taxes levied on agricultural land. Claimants must be domiciled in Wisconsin for the full year and own at least 35 acres of state farmland that produced gross farm profits of at least \$6,000 in the preceding year or at least \$18,000 in the three preceding years. Although the newly-adopted constitutional amendment prohibits gaming proceeds from being distributed based on the recipient's income, the sole purpose of the gross farm profits requirement is to distinguish farm property from nonfarm property and does not otherwise impact the determination of the credit amount. Given this use, it is unknown whether a court would find that this requirement violates the provision in the

constitutional amendment. The biennial budget bill reflects estimated farmland tax relief credit distributions of \$10.6 million in 1999-00 and \$10.0 million in 2000-01.

FISCAL EFFECT

Under SSA 1, gambling revenues available for property tax relief are estimated at \$120 million to \$125 million annually. These amounts are net of funds expended on operations, regulation and enforcement activities related to gambling. The distribution under the farmland tax relief credit is estimated at \$10.6 million in 1999-00. The remaining \$109 to \$114 million would fund an average credit for homeowners of \$88 to \$92, annually. That range compares to an average credit estimated at \$37 under current law. The administrative reimbursement to counties and the City of Milwaukee is estimated at \$625,000 in 1999-00. Based on that amount, funding available for the gaming credit would be reduced by about \$125,000 in each succeeding year. The withheld amount would be used to fund reimbursement payments to counties and the City of Milwaukee in every fifth year after 1999.

Finally, depositing revenue associated with the bingo gross receipts tax and the pari-mutuel tax in the gaming fund (as required under the constitutional amendment) would reduce general fund revenue by \$2.5 million in 1999-00 and \$2.4 million in 2000-01.

MISCELLANEOUS ISSUES

DOR Administrative Costs. SSA 1 retains the appropriation that funds DOR's administrative costs related to the tax credit. Currently, the appropriation contains funding for one project position, which expires on September 30, 1999. The appropriation funded two auditors and one computer programmer when the lottery credit was extended exclusively to homeowners. DOR has indicated that it would need 3.0 positions and \$220,300 in 1999-00 and \$210,900 in 2000-01 to administer the gaming credit.

Definition of Property Eligible for the Credit. SSA 1 would extend the credit to principal dwellings on taxable real property. The reference to real property could be interpreted in a way that prevents principal dwellings that are classified as personal property from receiving the credit. Buildings are classified as personal property when the building is located on real estate that is owned by someone other than the owner of the building.

Special Charge for Credits Extended to Ineligible Properties. SSA 1 directs DOR to recover credits extended to properties that are ineligible for the credit by imposing a special charge on the county where the property is located. The county would then be required to direct the underlying municipality to impose a special charge on the property that received the credit. This procedure could be simplified by bypassing the county and authorizing DOR to instruct the municipality to impose the special charge.

Tax Bills. Some local governments have already ordered and received the forms on which tax bills will be printed in December, 1999. State law requires tax bills to display tax credit amounts. If SB 114 is enacted, the existing tax forms will identify the gaming credit as the lottery credit, and local governments may feel obligated to order new forms. SSA 1 could be modified to accommodate the existing tax forms by changing the name of the gaming credit to the lottery and gaming credit or by including a nonstatutory provision that would allow local governments to use existing tax forms.

State Constitution. Article II, Section 2 of the Wisconsin Constitution states "in no case shall nonresident proprietors be taxed higher than residents." This provision was included as a condition for Wisconsin to become a state, and similar provisions are included in the constitutions of other states. Those states have been permitted to extend preferential tax treatment so long as the property receiving the treatment is not distinguished only by ownership. In light of this, the tax credit proposed in SSA 1 could be modified to clarify that the credit is extended to property rather than individuals. Although the substitute amendment extends preferential tax treatment to homestead property of Wisconsin residents, nonhomestead property owned by Wisconsin residents would be treated the same as nonhomestead property owned by nonresidents. The courts have allowed similar treatment in other states.

Accounting for Enterprise Activities. The substitute amendment would combine revenues and expenditures for pari-mutuel racing, bingo and lottery activities under a single, segregated fund called the gaming fund. DOR has noted that this treatment would complicate the accounting for these activities. The state's pari-mutuel racing and bingo activities are regulatory functions. The state lottery is operated like a business, or enterprise, where revenues are used to fund related expenditures. Governmental accounting standards require the state to report revenues and expenditures related to enterprise activities separately from other functions. Although the substitute amendment would combine pari-mutuel racing, bingo and lottery activities within a single fund, bingo and pari-mutuel racing revenues and expenditures would have to be accounted for separately from lottery revenues and expenditures under the accounting standards. Rather than replace the lottery fund with a gaming fund, the substitute amendment could be amended to use PR appropriations to fund pari-mutuel racing and bingo activities. The amendment could specify that any interest on bingo and pari-mutuel racing revenues would accrue to those appropriations and any balance in the appropriations at the end of each fiscal year would be transferred to the lottery fund. This would retain the use of interest and net proceeds from these activities for property tax relief, as required by the constitutional amendment.

Prepared by: Rick Olin and Art Zimmerman





Tommy G. Thompson
Governor

Cate Zeuske
Secretary of Revenue

For Immediate Release – April 21, 1999
Contact: David Blaska 608/261-2271

Retailer incentives key to lottery property tax relief

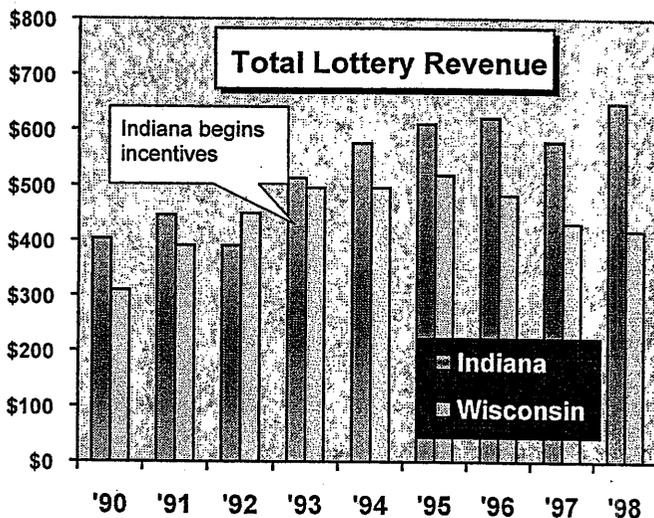
A small change proposed for the Wisconsin Lottery could translate into greater tax relief for Wisconsin’s property tax payers, Revenue Secretary Cate Zeuske said today.

Throughout the nation, retail incentive programs have resulted in more lottery revenue available for tax relief. “A lottery is only as effective as the retailers who sell the tickets,” Zeuske said, urging adoption of a similar program on behalf of Wisconsin’s taxpayers.

In the April statewide referendum, 86 percent of those voting said they wanted more tax relief from the lottery by limiting proceeds to Wisconsin residents. The Legislature is currently considering how to translate that vote into statute.

“No matter what formula is chosen, one equation will always hold true,” Zeuske said. “More lottery revenue equals more money available for property tax relief.”

Nationally, 35 of the 38 state lotteries offer some form of performance incentive to retailers. Indiana in 1993 began the type of retailer incentive program contemplated in



That's no incentive!

Question: When a Wisconsin retailer sold the largest winning Powerball ticket ever, how much of the \$195 million jackpot did he get?

Answer: 5½¢.

If the ticket had been sold in Illinois, the retailer would have received \$1.95 million. In Michigan or Indiana, \$100,000.

Wisconsin. Before instituting the program, Indiana's lottery revenue trailed Wisconsin's. In just the first year, sales jumped 22 percent. More impressively, that increased revenue has been sustained ever since, growing by over 50 percent in the last six years to \$648 million in 1998. Meanwhile, without a retail incentive program, Wisconsin's sales have declined by \$100 million from 1995's high of \$518 million.

Even conservatively estimated, a retailer incentive program would increase lottery sales by 4 percent and lottery tax relief by \$1.6 million for the 2000-2001 fiscal year.

Currently, retailers are paid 5.5 percent for each on-line ticket sale and 6.25 percent for each instant ticket. Wisconsin's proposed retailer incentives would amount to one percent of gross lottery sales. Retailers would be rewarded in two ways:

1. For increasing sales from the previous year. Each retailer would earn one "share" of the total amount of incentive money available for every \$500 of increased sales, and
2. For selling winning tickets worth \$600 or more by receiving bonuses worth one percent of the prize money, limited to no more than \$100,000 a year, per retailer.

The 35 lottery states with retailer incentive programs include the neighboring states of Michigan, Minnesota, Iowa, and Illinois.

– end –



Michael (Mickey)
Lehman

State Representative
58th Assembly District

Committee Chair: Ways and Means

Memorandum

To: All Legislators

From: Rep. Michael "Mickey" Lehman

Date: April 21st, 1999

Re: Senate Bill 114 – Property Tax Lottery Credit

Today, April 21st, 1999, Senate Bill 114, relating to: the property tax lottery credit and making appropriations, is before the Joint Committee on Finance. This memo seeks to explain briefly how SB 114 will affect farmers with multiple, taxable parcels of land.

The purpose of the property tax lottery credit, as it always has been, is to provide to Wisconsin residents a reduction of property taxes. However, as you are all well aware, the original language was flawed and was challenged in the courts. In 1996 the Wisconsin Supreme Court ruled the property tax lottery credit unconstitutional. As a result of this decision, the property tax lottery credit was distributed to all taxable parcels of property.

Following the 1996 court decision, the Wisconsin Legislature sought to correct the flawed language that was the property tax lottery credit and return the credit to its originally intended recipients: Wisconsin residents. The first step in this process was to exempt the property tax lottery credit from the Uniformity Clause of the Wisconsin State Constitution. This of course required amending the constitution. The spring of 1999 saw the completion of this phase of the process when on April 6th, state voters gave final approval to amending the constitution as it relates to the distribution of gaming proceeds. Now, the Legislature is in the process of developing enabling legislation, and, as one would expect, concerns have arisen.

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58th District Includes - CITIES: Cedarburg, Hartford and West Bend (Wards 23-29, 34-38, 40, 41, 43-47); VILLAGES: Jackson, Neosho and Slinger;
TOWNS: Addison, Cedarburg (Wards 1,2,3,6, and 7), Hartford, Jackson, Polk (Wards 1, 2, 3, 4, 5 and 8), Rubicon, Trenton and West Bend

Of these concerns, the one that has perhaps received the most press recently pertains to the effect SB 114 will have on Wisconsin farmers whose farms contain more than one parcel of taxable property. ***While it is true that farmers will lose property tax lottery credit on any parcel used in their farming business, they will continue to receive the property tax lottery credit for the parcel upon which their primary residence is located.*** In addition, the *Farmland Property Tax Credit* is not altered by SB 114. SB 114 will result in a net loss of lottery credit money for farmers with multiple parcels, the property tax lottery credit was never intended to be distributed to businesses. The agricultural business community is being treated no differently than the rest of the business community.

As the Wisconsin Legislature continues its work to bring the property tax lottery credit back in line with its original intent, the end result will be as follows: ***If an entity did not receive the lottery tax credit prior to the 1996 court decision, that entity will not receive the lottery tax credit as a result of Senate Bill 114.***

If you have any questions, do not hesitate to give my office a call.



WISCONSIN FARM BUREAU FEDERATION

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TO: ALL LEGISLATORS

FR: ROGER CLIFF (rcliff@wfbf.com, 828-5703)
EXECUTIVE DIRECTOR
GOVERNMENTAL RELATIONS

RE: SB 114 - JOINT FINANCE COMMITTEE ACTION

DA: APRIL 23, 1999

JFC ACTION - On a 10-6 vote the Joint Finance Committee amended SB 114 to double the current Farmland Tax Relief Credit (FTRC). This increases the current 10% credit on the first \$10,000 of property taxes on a farmer's land to 20%. It also increases the maximum credit from \$1000 to \$2000. The FTRC is funded from lottery profits.

SB 114 eliminates the per parcel credit system of distributing the lottery profits. This amendment provides roughly the same amount of property tax relief to farmers that they would have received from the lottery this year without any changes in the distribution system. Fiscal Bureau estimated that farmers would have seen a \$9 million property tax increase next December without this amendment.

RESIDENTIAL IMPACT - According to Fiscal Bureau estimates, the average residential lottery credit would have fallen to just \$37 on next December's tax bills without any change in the distribution system. Under SB 114, **as amended**, the residential credit will increase to an average of \$81 this year. The amendment, increasing the FTRC to hold farmers harmless, only reduced the residential credit by \$8.50 - but that small change makes a big difference to our farm families.

FARM BUREAU POSITION - **Farm Bureau supports SB 114 with the amendment increasing the FTRC to hold farmers harmless from the proposed property tax increase.**

The ag community appreciates recent efforts by legislators to provide greater property tax relief to farmers through use value assessment, two thirds funding of schools and the lottery credits. However, please keep in mind that even with these efforts, **Wisconsin's farm property taxes are still the highest in the nation.** In fact, according to the Legislative Fiscal Bureau, our farm taxes are nearly three times the national average.

**Comparison of Farm Real Estate Property Taxes to Farm Values
1994 and 1997 Tax Years**

1994 Property Taxes (per \$100 of value)		1997 Property Taxes (per \$100 of value)	
All 48 Contiguous States	\$0.75	All 48 Contiguous States	\$0.71
Wisconsin	2.35	Wisconsin	2.05
New York	1.72	New York	1.88
Nebraska	1.44	Nebraska	1.30
Michigan	1.32	New Hampshire	1.22
New Hampshire	1.20	Maine	1.21
South Dakota	1.16	Oregon	1.21
Iowa	1.13	Vermont	1.20
Vermont	1.09	South Dakota	1.14
Maine	1.07	Michigan	1.12
Minnesota	1.05	Minnesota	1.03
North Dakota	0.97	North Dakota	0.92
Illinois	0.91	Iowa	0.92
Pennsylvania	0.91	Pennsylvania	0.87
Kansas	0.86	Kansas	0.84
Indiana	0.84	Florida	0.75
Oregon	0.84	Illinois	0.73
Idaho	0.74	Washington	0.73
Rhode Island	0.71	Idaho	0.72
Washington	0.71	California	0.70
Massachusetts	0.71	New Jersey	0.70
New Jersey	0.70	Indiana	0.69
Florida	0.70	Rhode Island	0.68
Ohio	0.67	Massachusetts	0.68
Connecticut	0.67	Connecticut	0.66
California	0.64	Montana	0.57
Montana	0.55	Ohio	0.54
Georgia	0.53	Georgia	0.52
Colorado	0.53	Texas	0.51
Texas	0.51	North Carolina	0.51
North Carolina	0.48	Oklahoma	0.51
Nevada	0.47	Colorado	0.50
Oklahoma	0.47	Arkansas	0.45
Maryland	0.45	Nevada	0.44
Tennessee	0.45	Tennessee	0.43
Arkansas	0.44	Mississippi	0.41
Missouri	0.43	Maryland	0.41
Mississippi	0.41	Virginia	0.40
Delaware	0.39	Kentucky	0.39
Kentucky	0.38	Missouri	0.37
Virginia	0.37	Delaware	0.34
Wyoming	0.35	Wyoming	0.34
Utah	0.34	South Carolina	0.32
South Carolina	0.31	Utah	0.28
Louisiana	0.30	West Virginia	0.28
Arizona	0.28	Louisiana	0.27
West Virginia	0.23	Arizona	0.26
New Mexico	0.18	New Mexico	0.16
Alabama	0.17	Alabama	0.15



Legislative Fiscal Bureau

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April 26, 1999

TO: Members
Wisconsin Legislature

FROM: Bob Lang, Director

SUBJECT: SSA 2 to Senate Bill 114 (Joint Committee on Finance): Use of Gaming Proceeds

Senate Bill 114 would change provisions in state law regarding the use of gaming revenues and would implement the requirements imposed by the recently adopted constitutional amendment. SB 114 was introduced on April 13, 1999, and referred to the Committee on Economic Development, Housing and Government Operations. The Committee held a public hearing on the bill on April 14, 1999, and recommended Senate Substitute Amendment 1 to SB 114 for passage by a vote of 4 to 0. On April 16, 1999, the bill was referred to the Joint Committee on Finance. On April 21, 1999, the Committee recommended SSA 2 to SB 114 for passage by a vote of 16 to 0. This memorandum describes the Joint Committee on Finance's substitute amendment.

BACKGROUND

On April 6, 1999, state voters approved an amendment to the Wisconsin Constitution related to the distribution of gaming proceeds. The amendment was placed on the ballot after two successive Legislatures approved identical joint resolutions, 1997 Assembly Joint Resolution 80 and 1999 Assembly Joint Resolution 2.

The amendment changes three provisions in Section 24 of Article IV of the Constitution. That section enumerates the forms of gambling that are permissible in the state, and identifies certain activities as not constituting gambling. The three provisions relate to the state lottery, pari-mutuel on-track betting and bingo. Specifically, the amendment permits revenues from those activities to be used for operations, regulation and enforcement activities related to gambling, but limits the use of the remaining revenues for property tax relief for state residents. State revenues are defined to include investment earnings on lottery, pari-mutuel on-track betting and bingo

revenues. The distribution of monies for property tax relief for state residents is subject to two conditions. First, the distribution cannot be based on the recipient's age or income. Second, the distribution does not have to conform to the rules of uniform taxation required under Section 1 of Article VIII of the Wisconsin Constitution.

SUMMARY OF SENATE SUBSTITUTE AMENDMENT 2 TO SENATE BILL 114

SSA 2 to SB 114 would modify several provisions in current law to comply with the conditions imposed under the constitutional amendment.

Modification of Lottery and Gaming-Related Appropriations. Under current law: (a) lottery revenues are deposited in a segregated lottery fund; (b) bingo regulatory revenues are deposited in a program revenue appropriation in the Department of Administration (DOA) relating to bingo, raffles and crane games; (c) pari-mutuel regulatory revenues are deposited in program revenue appropriations in DOA and the Department of Justice (DOJ); and (d) two gaming taxes, the bingo gross receipts tax and the pari-mutuel tax, are deposited in the general fund. Under the substitute amendment, a separate program revenue appropriation for general program operations relating to bingo would be created to receive bingo regulatory revenue as well as the bingo gross receipts tax. The current law program revenue appropriation in DOA for charitable gaming would be amended to remove bingo references; the appropriation, then, would apply only to raffles and crane games. The appropriation relating to bingo would be provided \$32,300 in 1998-99 and the appropriation for raffles and crane games would be reduced by an identical amount in 1998-99.

Under the substitute amendment, appropriations in DOA and DOJ relating to pari-mutuel regulation and law enforcement respectively would be amended to receive all pari-mutuel regulatory revenue and pari-mutuel tax revenue. A GPR appropriation would be created under DOA to receive all interest earnings relating to racing and bingo monies. The lottery fund would continue to receive all state revenue from the lottery. In addition, the unencumbered balances in the DOA program revenue appropriations for pari-mutuel racing and bingo and the DOJ program revenue appropriation for pari-mutuel racing law enforcement would transfer to the lottery fund at the end of each fiscal year. The interest earnings from pari-mutuel racing and bingo revenue would also transfer to the lottery fund.

The substitute amendment would eliminate the provision of gaming-related funds to other agencies for purposes unrelated to operations, regulation or enforcement of gaming. First, pari-mutuel racing funds provided to the Department of Agriculture, Trade and Consumer Protection (DATCP) for aids to county and district fairs (up to \$650,000 annually, depending on availability) and aid to the Wisconsin livestock breeders association (up to \$50,000) would be eliminated. The DATCP GPR appropriation for aids to county and district fairs would be converted from a sum sufficient to a sum certain annual appropriation. Second, lottery funds (\$36,000) and pari-mutuel racing funds (\$14,000) provided to the Department of Health and Family Services (DHFS) for compulsive gambling awareness campaigns would be eliminated and replaced with Indian gaming funding. Third, an appropriation under DOA for county fair association grants (\$50,000 annually) relating to wagering on horse races at fairs would be

eliminated. (The licensing of horse race wagering at fairs is authorized, but has not occurred in Wisconsin.) These provisions are necessary to meet the constitutional requirement that all pari-mutuel and bingo-related funds not expended for regulation or enforcement purposes are to be used for property tax relief.

Tax Credit for Properties Used as a Principal Dwelling. Currently, each piece of taxable property receives a lottery credit equal to the school tax rate for that property multiplied by a value base. If a property has a market value below the value base, the lottery credit is limited to the school taxes on the lower value. The value base changes each year and is set by the Department of Revenue at a level intended to distribute all available lottery proceeds.

Effective for tax bills issued in December, 1999, SSA 2 to SB 114 would change the name of the lottery credit to the lottery and gaming credit. The credit would be calculated identically to the current tax credit, but would be extended only to property used as the owner's principal dwelling. Owners would be required to claim the credit by filing an application on which they attest that they owned the property and used it as their principal dwelling as of January 1 of the year in which taxes are levied. The credit would apply both to dwellings subject to general property taxes and dwellings subject to monthly mobile home fees.

Between 1991(92) and 1995(96), the lottery credit was distributed exclusively to property used as the owner's principal dwelling. That treatment was ruled to be a violation of the state constitution's tax uniformity clause in an October, 1996, circuit court decision, and lottery credits were not extended on 1996(97) property tax bills. In 1997, state law was modified to require lottery credits to be extended to all taxable properties. SSA 2 to SB 114 generally restores the statutory language that existed at the time of the court decision.

Certification of Properties Eligible for the Credit. Under current law, a tax credit is extended to each personal property account and parcel of real estate that is taxable. Since the proposed credit would be extended only to properties used as the owner's principal dwelling, a procedure to identify those properties is required. Rather than identify eligible properties when taxes are paid, SSA 2 would require eligible properties to be identified before tax bills are issued.

Beginning in 1999, owners of eligible properties would be required to file an application on which they attest that they owned the property and used it as their principal dwelling as of January 1 of the year in which taxes are levied. The application would be valid for five years and would be filed with the treasurer of the county where the property is located or with the treasurer of the City of Milwaukee if the property is located there. During the intervening four years, SSA 2 would allow owners to apply for the credit by filing an application or by indicating on the real estate transfer return when they buy property that they intend to use the property as their principal dwelling.

SSA 2 would allow counties and the City of Milwaukee to develop an alternate procedure for identifying properties eligible for the credit. Before they could utilize the alternate procedure, the

county or city would be required to demonstrate that the proposed procedure would extend credits only to properties used as the owner's principal dwelling, and DOR would have to approve the procedure. Any alternate procedure approved by DOR would be required to include a provision that would allow a taxpayer to claim the credit when the tax bill is paid if the credit was not extended on the tax bill of a property otherwise eligible.

The substitute amendment would allow eligible properties to receive the credit if the credit is not extended on tax bills. Under the law that existed prior to 1997 Act 27, a DOR administrative rule allowed owners of eligible properties to claim the credit when they paid their taxes if the credit was not reflected on their tax bills. In such cases, the rule required owners to submit an application by January 31 following the tax bill's issuance with the treasurer collecting the taxes. A corresponding provision was not included in the statutes at that time. SSA 2 includes a provision that corresponds to the DOR rule.

When a person becomes ineligible for the credit, SSA 2 would require the person to notify the treasurer of the county or city where the property is located that the person is no longer eligible.

Certification Reimbursement. SSA 2 would create a sum sufficient appropriation within the lottery fund to reimburse counties and the City of Milwaukee for administering the certification requirement. The substitute amendment would establish a reimbursement rate of 70 cents per credit and authorize payments every five years on the first Friday of September. Payments would be based on the number of applications on file with each county and the City of Milwaukee as of the previous August 1. SSA 2 would require each county and the City to report that number to DOR by August 16. Local governments using an alternate certification procedure would be required to submit their administrative costs to DOR for review. Their reimbursement payment would equal the lesser of 70 cents per parcel or their actual costs of identifying eligible properties, as reported to DOR.

Because treasurers may have difficulty meeting the preceding timetable this year, a nonstatutory provision in SSA 2 would delay the 1999 notification dates to October 15 for taxpayers and November 1 for counties and the City of Milwaukee. The reimbursement payment date would be delayed to November 19.

Funds Available for Distribution. SSA 2 would continue the current procedure for determining the amount available for distribution as tax credits. Under that procedure, DOA provides the Joint Committee on Finance with an estimate of total funds available for distribution as tax credits in the current year by October 16. The Committee may revise the DOA estimate if it does so at a meeting that takes place prior to November 1. If the Committee chooses to accept the DOA estimate, no Committee action is required. DOR is notified of the approved amount, which is the basis for calculating the value base. DOR is required to set the value base at a level that distributes the total amount approved by the Committee. SSA 2 would make minor modifications to this procedure by changing the definition of funds available for distribution to include pari-

mutuel, on-track betting and bingo revenues and to exclude the local certification reimbursement payment.

Farmland Tax Relief Credit. Under current law, tax credits funded with lottery proceeds are distributed to farmers under the farmland tax relief credit. The credit is administered through the state income tax system and equals 10% of up to \$10,000 in net property taxes levied on agricultural land. The credit is limited to \$1,000 per claimant. The biennial budget bill reflects estimated farmland tax relief credit distributions of \$10.6 million in 1999-00 and \$10.0 million in 2000-01.

SSA 2 would increase the credit rate from 10% to 20%, and the limit on credit amounts would be raised to \$2,000. This would increase the estimated distribution of farmland tax relief credits by \$10.6 million in 1999-00 and \$10.0 million in 2000-01, or to \$21.2 million and \$20.0 million, respectively. This increase would first apply to credits claimed on property taxes that were levied in 1999, payable in 2000.

Farmland tax relief claimants must be domiciled in Wisconsin for the full year and own at least 35 acres of state farmland that produced gross farm profits of at least \$6,000 in the preceding year or at least \$18,000 in the three preceding years. Although the newly-adopted constitutional amendment prohibits gaming proceeds from being distributed based on the recipient's income, the sole purpose of the gross farm profits requirement is to distinguish farm property from nonfarm property and does not otherwise impact the determination of the credit amount. Given this use, it is unknown whether a court would find that this requirement violates the provision in the constitutional amendment.

FISCAL EFFECT

Under SSA 2, gambling revenues available for property tax relief are estimated at \$122 million annually. These amounts are net of funds expended on operations, regulation and enforcement activities related to gambling. The distribution under the farmland tax relief credit is estimated to increase by about \$10 million and would total about \$20 million, annually. The remaining \$102 million would fund an average credit for homeowners of about \$82, annually. That compares to an average credit estimated at \$37 under current law. The administrative reimbursement to counties and the City of Milwaukee is estimated at \$875,000 in 1999-00.

SSA 2 would retain the appropriation that funds DOR's administrative costs related to the tax credit. Currently, the appropriation contains funding for one project position, which expires on September 30, 1999. The appropriation funded two auditors and one computer programmer when the lottery credit was extended exclusively to homeowners. DOR has indicated that it would need 3.0 positions and \$220,300 in 1999-00 and \$210,900 in 2000-01 to administer the lottery and gaming credit. SSA 2 would allow DOR to request additional funding and positions for the 1999-01 biennium from the Joint Committee on Finance under s. 13.101 of the statutes.

Finally, depositing the net proceeds from the bingo gross receipts tax and the pari-mutuel tax in the lottery fund (as required under the constitutional amendment) would reduce general fund revenue by \$2.5 million in 1999-00 and \$2.4 million in 2000-01.

Prepared by: Rick Olin and Art Zimmerman



Legislative Fiscal Bureau

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

SB 114 ?

May 3, 1999

TO: Representative Michael Lehman
Room 103 West, State Capitol

FROM: Rick Olin, Fiscal Analyst

SUBJECT: Distribution of Lottery and Gaming Proceeds to Farmers and Non-Farmers

At your request, this memorandum provides information on several questions you asked regarding the distribution of lottery and gaming proceeds to farmers.

The following table reports the amounts of property tax relief distributed as lottery tax credits and farmland tax relief credits since 1991(92).

Property Tax Credit Payments Funded with Lottery Proceeds (in millions)

<u>Year</u>	<u>Total</u>	<u>Lottery Tax Credits</u>		<u>Farmland Relief Credit</u>	<u>Total Credits for Farmers</u>
		<u>Non-Farmers*</u>	<u>Farmers*</u>		
1991(92)	\$173.4	\$161.8	\$11.6	\$14.7	\$26.3
1992(93)	203.7	190.3	13.4	15.4	28.8
1993(94)	128.7	120.1	8.6	15.9	24.5
1994(95)	136.6	127.6	9.0	15.5	24.5
1995(96)	156.2	146.1	10.1	15.1	25.2
1996(97)	---	---	---	12.8	12.8
1997(98)	205.8	176.8	29.0	11.1	40.1
1998(99)*	142.7	122.6	20.1	11.8	31.9

* Estimated.

The first three columns provide information on lottery tax credit payments. The first column reports the total lottery tax credit distribution for all taxpayers. The second column reports estimated lottery tax credit payments to non-farmers and the third column reports estimated lottery tax credit payments to farmers. Between 1991(92) and 1995(96), lottery tax credits were paid only for property used as the owner's principal dwelling. For these years, the distribution to farmers was estimated by multiplying the statewide average tax credit amount for each year by 80,000. The

Wisconsin Agricultural Statistics Service reports that the number of farms in Wisconsin ranged from 79,000 to 80,000 between 1991 and 1995. For 1997(98) and 1998(99), lottery credits were paid for every parcel of taxable property and for every personal property account. The credit payments to farmers for these years were estimated by matching lottery credit payment amounts with information on the number of taxable parcels and personal property accounts. For 1997(98) and 1998(99), the analysis assumes that farms include property in the agricultural land and other property classifications. This methodology may underreport credits received by farmers, since some farmland could be classified as forest land or swamp and waste land. In 1996(97), lottery tax credits were not distributed because a circuit court ruled that the credit was unconstitutional.

The fourth column reports amounts distributed as farmland tax relief credits since 1991(92). The amounts reported between 1991(92) and 1997(98) are actual payments, and estimated payments are reported for 1998(99). The final column reports the total estimated credits distributed to farmers through the lottery tax credit and farmland tax relief credit.

Finally, you asked how much farmers would receive in future years under the current distribution system and under SB 114, as amended by the Joint Committee on Finance. Under each scenario, a total distribution of \$122.5 million is assumed to be available for property tax relief on an ongoing basis. Under the biennial budget bill, farmland tax relief credit payments are estimated at \$10.6 million for 1999(00) and \$10.0 million for 2000(01). The remaining \$111.9 million in 1999(00) and \$112.5 million in 2000(01) would be available for tax credits distributed on a per parcel basis. If the available proceeds continue to be distributed under the existing allocation method, tax credit payments to farmers would total an estimated \$16.0 million in 1999(00) and \$16.1 million in 2000(01). Therefore, farmers would receive estimated tax credits of \$26.6 million in 1999(00) and \$26.1 million in 2000(01).

Under SB 114, as amended by the Joint Committee on Finance, the farmland tax relief credit would be changed to a 20% credit and the lottery tax credit would be renamed the lottery and gaming tax credit and be distributed only to property used as the owner's principal dwelling. Based on an estimated 1.25 million eligible properties, average homeowner credits of \$81 in 1999(00) and \$82 in 2000(01) are estimated. Total payments to farmers are estimated at \$27.7 million in 1999(00) and \$26.6 million in 2000(01). These amounts include farmland tax relief credits of \$21.2 million in 1999(00) and \$20.0 million in 2000(01) and homeowner credits of \$6.5 million in 1999(00) and \$6.6 million in 2000(01).

Tax credit payments to non-farmers are estimated at \$94.8 million in 1999(00) and \$95.9 million in 2000(01) under the Joint Committee on Finance amendment. The lottery and gaming tax credit would reduce the tax bill for the owner of a median-valued home by about 3.7%, assuming a 1999(00) tax bill prior to the credit of \$2,213.

If you have any questions on this information, please let me know.

RO/dls



Michael (Mickey)
Lehman

State Representative
58th Assembly District

SB 114

Committee Chair: Ways and Means

Memorandum

To: Members, Assembly Ways and Means Committee

From: Rep. Mickey Lehman

Date: May 4th, 1999

Re: Materials for Ways & Means Exec

Attached please find two substitute amendments to Assembly Bill 300. Substitute Amendment LRB s0054/2 will be introduced in the Ways & Means Committee on Wednesday, May 5th. LRB s0054/2 incorporates the changes made to SB 114 by JFC.

Substitute Amendment LRB s0049/1 will be introduced in the Ways & Means Committee by Representative Bob Ziegelbauer on Wednesday, May 5th. Rep. Ziegelbauer's Amendment also incorporates the changes made by JFC but also includes renters in the lottery credit distribution.

Also for AB 300, please find a copy of a Legislative Council memo for LRB s0054/2. In addition, please find FEs for AB 300.

For Assembly Bill 178, please find a copy of an amendment to be introduced on Wednesday by Rep. John LaFave.

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58th District Includes - CITIES: Cedarburg, Hartford and West Bend (Wards 23-29, 34-38, 40, 41, 43-47); VILLAGES: Jackson, Neosho and Slinger;
TOWNS: Addison, Cedarburg (Wards 1,2,3,6, and 7), Hartford, Jackson, Polk (Wards 1, 2, 3, 4, 5 and 8), Rubicon, Trenton and West Bend



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SB 114 ?

Tommy G. Thompson
Governor

Cate Zeuske
Secretary of Revenue

MEMORANDUM

May 4, 1999

TO: Members
Assembly Ways and Means Committee

FROM: Thomas Ourada
Executive Assistant

SUBJECT: Farm Tax Relief

At the Ways and Means Committee hearing of Wednesday, April 28, Representative Wayne Wood and other members asked several questions about farm taxes and farm tax relief from the lottery fund. This memorandum attempts to answer those questions. An attachment to the memorandum provides the statistical detail underlying the department's analysis.

1. What percentage of the state's tax base was represented by farms in 1991 and what is the percentage today?

Farm land and improvements accounted for 8.51% of the state's equalized value in 1991. In 1999, largely as a result of the use value law, the farm share of total equalized value is about 5.48%.

2. What is the percentage decline in farm taxes attributable to lottery monies (a) at the start of the lottery credit program in 1991 and (b) under the proposed legislation which would create a credit for primary residences and increase the Farmland Tax Relief (FTR) credit from 10% to 20% of up to \$10,000 in farmland property tax?

At the start of the lottery credit program in 1991, farmers received two separate credits funded from the lottery: a credit for the primary residence averaging \$142 and a 10% FTR credit averaging \$240. Assuming 61,300 farms—the number of FTR claimants in 1991—we estimate farm owners received \$23.4 million in lottery fund relief in 1991-92, equal to 6.61% of net farm taxes in that year.

Under the proposal, farm owners would receive the same two credits. The primary residence credit would average \$87 and the 20% FTR credit would average \$363. Based on an estimated 58,400 FTR claimants for 1999, farm owners would receive \$26.3 million in lottery fund relief in 1999-2000, equal to 8.82% of net farm taxes.

3. What would be the percentage reduction in farm taxes in 1999-2000 based on the distribution of lottery proceeds under current law and what would be the reduction under the proposal?

Under current law, farm owners in 1999-2000 would receive, on average, lottery credits for 5 parcels totaling \$205 and a 10% FTR credit estimated at \$182--an average lottery-funded benefit of \$387. Based on an estimated 58,400 FTR claimants, farm owners would receive \$22.6 million in lottery-funded property tax relief, equal to 7.58% of net farm taxes.

As noted in the response to question no. 2, under the proposal, lottery-funded relief to farm owners would equal 8.82% of net farm taxes.

The statistical information was prepared by Rebecca Boldt of the department's Research and Analysis Division. If you any have questions, you can contact me at 266-6466 or Rebecca at 266-6785.

TO:RB:skr
t:\secmemo\rb\members.603.doc

Attachment

cc: Cate Zeuske
Eng Braun
Ron Rosner
Rebecca Boldt



WISCONSIN FARM BUREAU FEDERATION

full AB 300
1212 Deming Way
P.O. Box 5550
Madison, WI 53705-0550
(608) 836-5575

TO: ALL LEGISLATORS

FR: ROGER CLIFF (rcliff@wfbf.com, 828-5703)
EXECUTIVE DIRECTOR
GOVERNMENTAL RELATIONS

RE: SB 114/AB 300 - LOTTERY CREDITS UPDATE

DA: MAY 7, 1999

JFC ACTION - On a 10-6 vote the Joint Finance Committee amended SB 114 to double the current Farmland Tax Relief Credit (FTRC). This increases the current 10% credit on the first \$10,000 of property taxes on a farmer's land to 20%. It also increases the maximum credit from \$1000 to \$2000. The FTRC is a refundable income tax credit that is funded from lottery profits.

WAYS AND MEANS ACTION - The Assembly Ways and Means Committee has recommended for passage, on an 11-5 vote, assembly substitute amendment 2 to AB 300. The substitute amendment is identical to the sub approved by JFC - including the increase in the FTRC to hold farmers harmless.

FARM IMPACT - SB 114/AB 300 eliminates the per parcel credit system of distributing the lottery profits. As a result, Fiscal Bureau estimates that farmers would have seen at least a \$9 million property tax increase next December. Doubling the FTRC provides roughly the same total amount of property tax relief to farmers that they would have received this year under the per parcel distribution system.

RESIDENTIAL IMPACT - According to Fiscal Bureau estimates, the average residential lottery credit would have fallen to just \$37 on next December's tax bills without any change in the distribution system. Under SB 114/AB 300, as amended, the residential credit will increase to an average of \$82 this year. Increasing the FTRC to hold farmers harmless only reduced the residential credit by \$8.50 - but that small change makes a big difference to our farm families.

FARM BUREAU POSITION - Farm Bureau supports the substitute versions of SB 114/AB 300 which increase the Farmland Tax Relief Credit.

The ag community appreciates recent efforts by legislators to provide greater property tax relief to farmers through use value assessment, two thirds funding of schools and the lottery credits. However, please keep in mind that even with these efforts, Wisconsin's farm property taxes are still the highest in the nation (see chart). In fact, according to the Legislative Fiscal Bureau, our farm taxes are nearly three times the national average. The LFB paper also indicates that, even if use value assessments were fully implemented, Wisconsin's farm property taxes would still be the third highest in the nation.

**Comparison of Farm Real Estate Property Taxes to Farm Values
1994 and 1997 Tax Years**

1994 Property Taxes (per \$100 of value)		1997 Property Taxes (per \$100 of value)	
All 48 Contiguous States	\$0.75	All 48 Contiguous States	\$0.71
Wisconsin	2.35	Wisconsin	2.05
New York	1.72	New York	1.88
Nebraska	1.44	Nebraska	1.30
Michigan	1.32	New Hampshire	1.22
New Hampshire	1.20	Maine	1.21
South Dakota	1.16	Oregon	1.21
Iowa	1.13	Vermont	1.20
Vermont	1.09	South Dakota	1.14
Maine	1.07	Michigan	1.12
Minnesota	1.05	Minnesota	1.03
North Dakota	0.97	North Dakota	0.92
Illinois	0.91	Iowa	0.92
Pennsylvania	0.91	Pennsylvania	0.87
Kansas	0.86	Kansas	0.84
Indiana	0.84	Florida	0.75
Oregon	0.84	Illinois	0.73
Idaho	0.74	Washington	0.73
Rhode Island	0.71	Idaho	0.72
Washington	0.71	California	0.70
Massachusetts	0.71	New Jersey	0.70
New Jersey	0.70	Indiana	0.69
Florida	0.70	Rhode Island	0.68
Ohio	0.67	Massachusetts	0.68
Connecticut	0.67	Connecticut	0.66
California	0.64	Montana	0.57
Montana	0.55	Ohio	0.54
Georgia	0.53	Georgia	0.52
Colorado	0.53	Texas	0.51
Texas	0.51	North Carolina	0.51
North Carolina	0.48	Oklahoma	0.51
Nevada	0.47	Colorado	0.50
Oklahoma	0.47	Arkansas	0.45
Maryland	0.45	Nevada	0.44
Tennessee	0.45	Tennessee	0.43
Arkansas	0.44	Mississippi	0.41
Missouri	0.43	Maryland	0.41
Mississippi	0.41	Virginia	0.40
Delaware	0.39	Kentucky	0.39
Kentucky	0.38	Missouri	0.37
Virginia	0.37	Delaware	0.34
Wyoming	0.35	Wyoming	0.34
Utah	0.34	South Carolina	0.32
South Carolina	0.31	Utah	0.28
Louisiana	0.30	West Virginia	0.28
Arizona	0.28	Louisiana	0.27
West Virginia	0.23	Arizona	0.26
New Mexico	0.18	New Mexico	0.16
Alabama	0.17	Alabama	0.15

**Source: Legislative Fiscal Bureau memo to Representative DuWayne Johnsrud
dated February 26, 1999**



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Tommy G. Thompson
Governor

Cate Zeuske
Secretary of Revenue

MEMORANDUM

May 3, 1999

TO: Members
Assembly Ways and Means Committee

FROM: Thomas Ourada *T.O.*
Executive Assistant

SUBJECT: Farm Tax Relief

At the Ways and Means Committee hearing of Wednesday, April 28, Representative Wayne Wood and other members asked several questions about farm taxes and farm tax relief from the lottery fund. This memorandum attempts to answer those questions. An attachment to the memorandum provides the statistical detail underlying the department's analysis.

1. What percentage of the state's tax base was represented by farms in 1991 and what is the percentage today?

Farm land and improvements accounted for 8.51% of the state's equalized value in 1991. In 1999, largely as a result of the use value law, the farm share of total equalized value is about 5.48%.

2. What is the percentage decline in farm taxes attributable to lottery monies (a) at the start of the lottery credit program in 1991 and (b) under the proposed legislation which would create a credit for primary residences and increase the Farmland Tax Relief (FTR) credit from 10% to 20% of up to \$10,000 in farmland property tax?

At the start of the lottery credit program in 1991, farmers received two separate credits funded from the lottery: a credit for the primary residence averaging \$142 and a 10% FTR credit averaging \$240. Assuming 61,300 farms--the number of FTR claimants in 1991--we estimate farm owners received \$23.4 million in lottery fund relief in 1991-92, equal to 6.61% of net farm taxes in that year.

Under the proposal, farm owners would receive the same two credits. The primary residence credit would average \$87 and the 20% FTR credit would average \$363. Based on an estimated 58,400 FTR claimants for 1999, farm owners would receive \$26.3 million in lottery fund relief in 1999-2000, equal to 8.82% of net farm taxes.

3. What would be the percentage reduction in farm taxes in 1999-2000 based on the distribution of lottery proceeds under current law and what would be the reduction under the proposal?

Under current law, farm owners in 1999-2000 would receive, on average, lottery credits for 5 parcels totaling \$205 and a 10% FTR credit estimated at \$182--an average lottery-funded benefit of \$387. Based on an estimated 58,400 FTR claimants, farm owners would receive \$22.6 million in lottery-funded property tax relief, equal to 7.58% of net farm taxes.

As noted in the response to question no. 2, under the proposal, lottery-funded relief to farm owners would equal 8.82% of net farm taxes.

The statistical information was prepared by Rebecca Boldt of the department's Research and Analysis Division. If you any have questions, you can contact me at 266-6466 or Rebecca at 266-6785.

TO:RB:skr
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Attachment

cc: Cate Zeuske
Eng Braun
Ron Rosner
Rebecca Boldt

LOTTERY AND FARM PROPERTY

1. % of total property tax base accounted by farm owners		
	<u>1991/92</u>	<u>1999/00 (est.)</u>
Farm Equalized Value (Land + Improvements)	\$12,850,156,300	\$14,537,102,224
Total Equalized Value	\$150,927,756,160	\$265,169,024,000
% of Farm Value to Total Value	8.51%	5.48%
2. % reduction in farm taxes afforded by lottery monies (1991 vs. proposed 1999)		
	<u>1991/92</u>	<u>Proposed 1999/00 (est.)</u>
FTR Claimants	61,300	58,400
Ave Lottery Credit to Farm Owners	\$142	\$87
Ave. FTR	<u>\$240</u>	<u>\$363</u>
Ave. Lottery + FTR to Farm Owners	\$382	\$450
Total Lottery Credit & FTR to Farm Owners	\$23,416,600	\$26,280,000
Net Farm Taxes	\$354,252,055	\$298,031,494
Lottery Credit & FTR to Farm Owners as % of Net Farm Taxes	6.61%	8.82%
3. % reduction in farm taxes afforded by lottery monies in 1999-2000 (current law vs. proposal)		
	<u>1999/00 Current Law</u>	<u>1999/00 Proposed</u>
FTR Program	10% of up to \$10,000 of property taxes on farmland	20% of up to \$10,000 of property taxes on farmland
Lottery Credit Program	All Parcels 5 lottery credits/farm	Principal Dwelling Only 1 lottery credit/farm
FTR Claimants	58,400	58,400
Ave. Lottery Credit per Farm Owner	\$205	\$87
Ave. FTR per Farm Owner	<u>\$182</u>	<u>\$363</u>
	\$387	\$450
Total Lottery Credit & FTR to Farm Owners	\$22,600,800	\$26,280,000
Net Farm Taxes (est.)	\$298,031,494	\$298,031,494
Lottery Credit & FTR to Farm Owners as % of Net Farm Taxes	7.58%	8.82%

Department of Revenue
Division of Research and Analysis
April 30, 1999
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BILL SUMMARY

SB114/AB300: Property Tax Lottery Credit

Date: May 19th, 1999

BACKGROUND

Under current law, as result of a 1996 court decision that resulted from a legal challenge initiated by Wisconsin landowners who are not residents of this state, the property tax lottery credit is distributed to all taxable parcels of property regardless of the class of property. During the 1997-99 legislative session, Rep. Michael Lehman (R-58) and Senator Russ Decker (D-29) initiated the process to modify state law regarding the property tax lottery credit in an effort to return the credit to those for which it was initially intended: Wisconsin owner-occupied, primary residences. This required amending the State Constitution. Amendments to the Wisconsin Constitution must be adopted by two successive Legislatures and ratified by the voters before becoming effective. A proposed change is introduced in the form of a joint resolution. In 1997, the Legislature approved 1997 Assembly Joint Resolution 80. On January 7, 1999, Assembly Joint Resolution 2 (containing the same language as 1997 AJR 80) was introduced. AJR 2 had passed both houses of the legislature by January 28th, 1999. The voters of the State of Wisconsin then ratified the proposed constitutional change on April 6th, 1999. Enabling legislation was then required to modify state law to reflect the change to the constitution. SB 114/AB 300 is that enabling legislation.

SUMMARY OF SB 114/AB 300 (AS AMENDED)

Senate Bill 114/Assembly Bill 300, as amended would make several changes to state law as it relates to the use of gaming proceeds. The following information can be found in more detail in a memo provided to the Wisconsin Legislature from the Legislative Fiscal Bureau on April 26th, 1999.

Gaming Related Appropriations-

Gaming related appropriations would become more specific. DOA and DOJ would receive appropriations for the administration, regulation and enforcement of gaming related operations and revenues. Also, the legislation would eliminate the provision of gaming-related funds to other agencies for purposes unrelated to operations, regulation or enforcement of gaming.

Tax Credit for Properties Used as Principal Dwelling-

The lottery credit, under this legislation, would become the "gaming credit" and be distributed *only* to property used as the *owner's* principal dwelling.

Certification of Properties Eligible for the Credit-

Owners of eligible properties would be required to file an application on which they attest that they owned the property and used it as their principal dwelling as of January 1 of the year in which taxes are levied. This application would be valid for 5 years.

The legislation also allows for municipalities to devise their own procedure for determining properties eligible for the credit so long as that procedure is approved by the DOR.

The legislation would allow eligible properties to receive the credit if the credit is not initially extended on tax bills.

Certification Reimbursement-

The legislation would create a sum sufficient appropriation within the lottery fund to reimburse counties and the City of Milwaukee for administering the certification requirement. The reimbursement would be 70 cents per credit. Local governments using an alternate certification procedure would be required to submit their administrative costs to DOR. Their reimbursement payment would equal their actual cost or 70 cents per credit, whichever is less.

Funds Available for Distribution-

Funds available for distribution as the gaming credit would include pari-mutuel, on-track betting and bingo revenues and exclude the local certification reimbursement payment.

Farmland Tax Relief Credit-

The legislation would increase the credit rate from 10% to 20%, and the limit on credit amounts would be raised to \$2,000. This would increase the estimated distribution of farmland tax relief credits by \$10.6 million in 1999-00 and \$10.0 million in 2000-01.

AMENDMENTS

Senate Substitute Amendment 2 to Senate Bill 114 [adopted 14-0 in Joint Finance].

Assembly Substitute Amendment 1 to Assembly Bill 300 [adopted 9-7 in Ways & Means on party line vote].

FISCAL EFFECT

A fiscal estimate prepared by the DOR, indicates that there would be no net increase or decrease in revenues, rather the legislation changes where those revenues are deposited and how excess revenues are handled.

According to the Legislative Fiscal Bureau, under this legislation, revenues available for the gaming credit are estimated at \$122 million annually. This amount is net of funds expended on operations, regulation and enforcement activities related to gaming. Subtract the estimated \$20 for the farmland tax relief credit and \$102 would remain for the homeowner credit. Under current law, that would equate to an average gaming credit of approximately \$37. However, under this legislation, the average credit would be about \$82.

PROS

1. The legislation returns the lottery, or gaming credit to that for which it was originally intended: Owner-occupied residential property.
2. Wisconsin homeowners would see a marked increase in the lottery credit on their primary residence. Under this legislation, the average credit would be approximately \$82 as opposed to \$37.

3. The increase in the farmland tax relief credit will help ease the tax burden place on Wisconsin Farmers.

CONS

1. Not all taxable parcels of property would be eligible for the gaming credit.
2. By increasing the farmland tax relief credit, gaming proceeds would be taken from residential property tax relief and utilized in a method for which they were not originally intended.

SUPPORTERS

Rep. Michael Lehman, author; Sen. Russ Decker, lead co-sponsor; Peggy Ross, Rock County Treasurer; City of Milwaukee; Wisconsin Alliance of Cities; Rep. Wayne Wood; Juneau County Treasurer; Wisconsin Farm Bureau.

OPPOSITION

Wisconsin Property Taxpayers, Inc.

HISTORY

Senate Bill 114 was introduced on 4-13-1999, and referred to the Senate Committee on Economic Development, Housing and Governmental Operations. On 4-14-1999, the Committee voted 4-0 to recommend SB 114 for passage. On 4-16-1999, SB 114 was referred to the Joint Committee on Finance. On 4-21-1999, the Committee recommended SSA 2 to SB 114 for passage by a vote of 16-0. On 5-18-1999, the Senate passed SB 114 on a (**insert Senate vote here**) vote. Senate action on SB 100 was messaged to the Assembly, and SB 114 was referred to the Assembly floor for consideration.

Assembly Bill 300 was introduced on 4-22-1999, and referred to the Assembly Committee on Ways & Means. A public hearing was held on 4-28-1999. On 5-5-1999, the Committee voted 11-5 [Representatives La Fave, Meyerhofer, Morris-Tatum, Turner and Ziegelbauer voting no] to recommend passage of AB 300 as amended.

CONTACT: Andrew Nowlan, Office of Rep. Michael Lehman



BILL SUMMARY

AB300/SB 114: Property Tax Lottery Credit

Date: May 19th, 1999

BACKGROUND

Under current law, as a result of a 1996 court decision ensuing from a legal challenge initiated by Wisconsin landowners who are not residents of this state, the property tax lottery credit is distributed to all taxable parcels of property regardless of the class of property. During the 1997-99 legislative session, Representative Michael Lehman and Senator Russ Decker initiated the process to modify state law regarding the property tax lottery credit in an effort to return the credit to those for which it was initially intended: Wisconsin owner-occupied, primary residences. This required amending the State Constitution. Amendments to the Wisconsin Constitution must be adopted by two successive Legislatures and ratified by the voters before becoming effective. A proposed change is introduced in the form of a joint resolution. In 1997, the Legislature approved 1997 Assembly Joint Resolution 80. On January 7, 1999, Assembly Joint Resolution 2 (containing the same language as 1997 AJR 80) was introduced. AJR 2 had passed both houses of the legislature by January 28th, 1999. The voters of the State of Wisconsin then ratified the proposed constitutional change on April 6th, 1999. Enabling legislation was then required to modify state law to reflect the change to the constitution. AB 300/SB 114 is that enabling legislation.

SUMMARY OF AB 300/SB 114 (AS AMENDED BY COMMITTEE)

Assembly Bill 300/Senate Bill 114, as amended, would make several changes to state law as it relates to the use of gaming proceeds. The following information can be found in more detail in a memo provided to the Wisconsin Legislature from the Legislative Fiscal Bureau dated April 26th, 1999.

Gaming Related Appropriations-

Gaming related appropriations would become more specific. The Department of Administration and the Department of Justice would receive appropriations for the administration, regulation and enforcement of gaming related operations and revenues. Also, the legislation would eliminate the provision of gaming-related funds to other agencies for purposes unrelated to operations, regulation or enforcement of gaming.

Tax Credit for Properties Used as Principal Dwelling-

The lottery credit, under this legislation, would become the "gaming credit" and be distributed *only* to property used as the *owner's* principal dwelling.

Certification of Properties Eligible for the Credit-

Owners of eligible properties would be required to file an application on which they attest that they owned the property and used it as their principal dwelling as of January 1 of the year in which taxes are levied. This application would be valid for 5 years.

The legislation also allows for municipalities to devise an alternate procedure for determining properties eligible for the credit so long as that procedure is approved by the Department of Revenue.

The legislation would allow eligible properties to receive the credit if the credit is not initially extended on tax bills.

Certification Reimbursement-

The legislation would create a sum sufficient appropriation within the lottery fund to reimburse counties and the City of Milwaukee for administering the certification requirement. The reimbursement would be 70 cents per credit. Local governments using an alternate certification procedure would be required to submit their administrative costs to DOR. Their reimbursement payment would equal their actual cost or 70 cents per credit, whichever is less.

Funds Available for Distribution-

Funds available for distribution as the gaming credit would include pari-mutuel, on-track betting and bingo revenues and exclude monies for the local certification reimbursement payment.

Farmland Tax Relief Credit-

The legislation would increase the credit rate from 10% to 20%, and the limit on credit amounts would be raised from \$1,000 to \$2,000. This would increase the estimated distribution of farmland tax relief credits by \$10.6 million in 1999-00 and \$10.0 million in 2000-01.

AMENDMENTS

Assembly Substitute Amendment 1 to Assembly Bill 300 is described above. [adopted 9-7 in Ways & Means on party line vote].

Senate Substitute Amendment 2 to Senate Bill 114 is described above. [adopted 14-0 in Joint Finance].

NOTE: ASA 1 to AB 300 and SSA 2 to SB 114 are identical.

FISCAL EFFECT

A fiscal estimate prepared by the DOR, indicates that there would be no net increase or decrease in revenues, rather the legislation changes where those revenues are deposited and how excess revenues are handled.

According to the Legislative Fiscal Bureau, under this legislation, revenues available for the gaming credit are estimated at \$122 million annually. This amount is net of funds expended on operations, regulation and enforcement activities related to gaming. Subtract the estimated \$20 million for the farmland tax relief credit and \$102 million would remain for the homeowner credit. Under current law, that would equate to an average gaming credit of approximately \$37. However, under this legislation, the average credit would be about \$82.

PROS

1. The legislation returns the lottery, or gaming credit to that for which it was originally intended: Owner-occupied residential property.
2. Wisconsin homeowners would see a marked increase in the lottery credit on their primary residence. Under this legislation, the average credit would be approximately \$82 as opposed to \$37.

3. The increase in the farmland tax relief credit will help ease the property tax burden place on Wisconsin Farmers.

CONS

1. Not all taxable parcels of property would be eligible for the gaming credit.
2. By increasing the farmland tax relief credit, gaming proceeds would be taken from the intended residential property tax relief and utilized for agricultural property tax relief.

SUPPORTERS

Rep. Michael Lehman, author; Sen. Russ Decker, lead co-sponsor; Rep. Wayne Wood; Peggy Ross, Rock County Treasurer; Laurie Kuiper, City of Milwaukee; Ed Huck, Wisconsin Alliance of Cities; Ann Marie Vinopal, Juneau County Treasurer; Roger Cliff, Wisconsin Farm Bureau.

OPPOSITION

Mike Birkley, Wisconsin Property Taxpayers, Inc.

HISTORY

Assembly Bill 300 was introduced on 4-22-1999, and referred to the Assembly Committee on Ways & Means. A public hearing was held on 4-28-1999. On 5-5-1999, the Committee voted 11-5 [Representatives La Fave, Meyerhofer, Morris-Tatum, Turner and Ziegelbauer voting no] to recommend passage of AB 300 as amended.

Senate Bill 114 was introduced on 4-13-1999, and referred to the Senate Committee on Economic Development, Housing and Governmental Operations. On 4-14-1999, the Committee voted 4-0 to recommend SB 114 for passage. On 4-16-1999, SB 114 was referred to the Joint Committee on Finance. On 4-21-1999, the Committee recommended SSA 2 to SB 114 for passage by a vote of 16-0.

NOTE: If SB 114 passes in the Senate on Tuesday, May 18, 1999, it is likely the Assembly will address SB 114, rather than AB 300, on Wednesday, May 19, 1999.

CONTACT: Andrew Nowlan, Office of Rep. Michael Lehman