J

Secretary of State

(LFB Budget Summary Document: Page 540)

LFB Summary Item for Which an Issue Paper Has Been Prepared

Item #	Title
2	Records Preservation (Paper #850)

(Gov) Agency: Secretary of State - Records Preservation

Recommendations:

Paper No. 850: Alternative 2

Comments: The gov deleted the requested project position and reduced biennial funding for related project activities like document prep. The Sec of State's office says they need to do the document prep in order to make the records preservation project work effectively.

They've put together a pretty tight proposal and we should fund it appropriately ($44,000 PR). Paragraphs 5-8 in the FB memo help build support for alternative 2.

prepared by: Barry

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April 22, 1999 | Joint Committee on Finance | Paper #850

Records Preservation (Secretary of State)

[LFB 1999-01 Budget Summary: Page 540, #2]

CURRENT LAW

The Office of the Secretary of State is responsible for issuing notary public commissions, registering trademarks and tradenames, issuing authentications and apostilles, recording annexations and charter ordinances of municipalities, publishing state laws, filing oaths of office, and filing deeds for state lands and buildings.

The Office is funded by fees for services that are placed in a program revenue appropriation. Any year-end unencumbered amount in excess of 10% of the prior fiscal year's expenditures is lapsed to the general fund. The Office has 7.5 PR positions and base level funding of $537,900 PR.

GOVERNOR

Provide $57,900 PR in 1999-00 and $46,300 PR in 2000-01 to fund a document preservation project for certain historic documents filed with the Office of the Secretary of State.

DISCUSSION POINTS

1. The Office of the Secretary of State has approximately 725,000 original documents that have been filed over the past 150 years. Many of these documents are paper, with no duplicates.

2. The Office's 1999-00 budget request included $76,700 PR in 1999-00, $164,000 PR in 2000-01 and 1.0 project position beginning in 1999-00 to conduct a documents preservation project during the 1999-01 biennium. The project was designed to preserve paper documents before they deteriorated through handling and exposure to light and humidity

3. Project activities would involve microfilming paper documents and creating a master file of the microfilmed documents. After the documents are filmed they would be scanned onto a computer hard drive. The documents would then be formatted and indexed and transferred onto compact discs (CDs). A "jukebox" would be purchased to store the CDs and provide automated access to them. The project position would be used to prepare the documents for microfilming by removing staples and grommets, shearing bindings and flattening the documents. The position would also assist in the microfilming activities and in preparing indexes and file names for the CDs. The table below shows the biennial expenditure authority that was requested by the Office.

Biennial Document Preservation Project Costs

Project Position	$44,000
Filming/Scanning	150,200
Creation of CD Masters and Duplicates	22,600
Develop Search Engine	15,000
Purchase Computer Hardware and Software	5,000
Supplies and Services Costs	3,900
	$240,700

4. AB 133 modifies the Office's request by deleting the project position and related funding and reducing biennial funding for other project activities. Funding of $57,900 PR in 1999-00 and $46,300 PR in 2000-01 would be provided to conduct the documents preservation project. The base level funding provided in 2000-01 would allow the Office to continue the documents preservation project beyond the 1999-01 biennium. The amounts provided in the bill would be sufficient to fund all project activities, except those associated with the project position, over a four-year period. The Office would be expected to reallocate existing positions for document preparation and related activities.

5. The Office of the Secretary of State is required to administer and maintain certain documents and records and to make them available to the public. However, the Office is not required to convert each record into CD form. The office indicates that it would not have requested additional resources to undertake a documents preservation project without funding for document preparation activities.

6. The proposed document preservation project is based on a review of methods for preserving records and documents. According to the Office, the process selected is, in their view, the most cost effective. The project position would enable the Office to perform document preparation and related activities before the documents were sent to the CD production company for filming, scanning and CD development. Funding of $18,800 PR in 1999-00 and $25,200 PR in 2000-01 would be required for the project position.

7. The Office indicates that current workloads preclude it from reallocating existing

staff to perform document preparation and related activities. The number of notary publics commissioned has increased from 17,260 in fiscal year 1993-94 to 18,235 for fiscal year 1997-98. During that same period, the number of tradenames or trademarks registered has increased from 2,086 to 2,128, while the number of authentications or apostilles requested has increased from 6,000 to 18,235. The Office did receive an additional position in 1997-98 to address the increased workload; however, the number of documents the Office is required to process has continued to increase.

8. The Office of the Secretary of State has now requested an additional $37,500 PR each year to fund the cost of document preparation activities performed by the CD production company. However, if the Committee wishes to provide additional funding for these activities, it would cost less to provide an 18-month project position and related funding ($18,800 PR in 1999-00 and $25,200 PR in 2000-01) to the Office of the Secretary of State.

ALTERNATIVES

1. Approve the Governor's recommendation to provide $57,900 PR in 1999-00 and $46,300 PR in 2000-01 to fund a documents preservation project for certain documents filed with the Office of the Secretary of State.

2. Modify the Governor's recommendation to provide an additional $18,800 PR in 1999-00 and $25,200 PR in 2000-01 and an 18-month project position to perform documents preparation and related activities for the documents preservation project.

Alternative 2	GPR	PR	TOTAL
1999-01 REVENUE (Change to Bill)	- $45,900	$0	- $45,900
1999-01 FUNDING (Change to Bill)	$0	$44,000	$44,000
2000-01 POSITIONS (Change to Bill)	0.00	1.00	1.00

3. Modify the Governor's recommendation to provide an additional $37,500 PR in each year to fund the costs of the CD production company for document preparation and related activities.

Alternative 3	GPR	PR	TOTAL
1999-01 REVENUE (Change to Bill)	- $78,800	$0	- $78,800
1999-01 FUNDING (Change to Bill)	$0	$75,000	$75,000

4. Maintain current law.

Alternative 4	GPR	PR	TOTAL
1999-01 REVENUE (Change to Bill)	$110,000	$0	$110,000
1999-01 FUNDING (Change to Bill)	$0	- $104,200	- $104,200

Prepared by: Ron Shanovich

MO# Alt 2

2	BURKE	Y	N	A
	DECKER	Y	N	A
	JAUCH	Y	N	A
	MOORE	Y	N	A
	SHIBILSKI	Y	N	A
	PLACHE	Y	N	A
	COWLES	Y	N	A
	PANZER	Y	N	A
1	GARD	Y	N	A
	PORTER	Y	N	A
	KAUFERT	Y	N	A
	ALBERS	Y	N	A
	DUFF	Y	N	A
	WARD	Y	N	A
	HUBER	Y	N	A
	RILEY	Y	N	A

AYE 16 NO 0 ABS 0

(Gov) Agency: Secretary of State

Recommendations:

Paper No. "LFB Summary items for which no issue paper has been prepared":

Comments: These two items are fine as is. Since this is a gov/bill agency, no action is needed. They are automatically included in the committee's bill.

prepared by: Barry

SECRETARY OF STATE

LFB Summary Items for Which No Issue Paper Has Been Prepared

Item #	Title
1	Standard Budget Adjustments
3	Computer Equipment

Shared Revenue and Tax Relief

Direct Aid Payments

(LFB Budget Summary Document: Page 542)

LFB Summary Items for Which Issue Papers Have Been Prepared

Item #	Title
1	State Aid for Exempt Computers (Paper #855)
-	Property Tax Exemption for Computerized Equipment (Paper #856)
-	Direct Aid Payments -- Funding Level (Paper #857)

(Base) Agency: State Aid for Exempt Computers -- Shared Revenue

Recommendations:

Paper #855: Modification

Comments: A re-estimate of computer values has reduced the cost of compensation due to local governments to cover the cost of the computer tax exemption. A $21.2 million bonus!

This could go a long way toward funding a much-needed increase in direct aid payments (see paper 857).

Prepared by: Bob

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June 1, 1999 Joint Committee on Finance Paper #855

State Aid for Exempt Computers (Shared Revenue and Tax Relief -- Direct Aid Payments)

[LFB 1999-01 Budget Summary: Page 542, #1]

CURRENT LAW

The state aid payment for computers was created in the 1998 budget adjustment bill (1997 Act 237) to compensate local governments for tax base lost due to the property tax exemption for computers, software and related equipment. Because the first aid payment will occur in 1999-00, the program's adjusted base level funding is $0. However, based on the estimated amount of aid needed for 1999-00, the budget adjustment bill reserved $64 million in the computer escrow fund to be transferred to the general fund on July 1, 1999.

GOVERNOR

Provide $76,000,000 GPR in 1999-00 and $80,000,000 GPR in 2000-01 to reflect estimated sum sufficient appropriation amounts for computer aid payments.

MODIFICATION TO BASE

Reestimate the sum sufficient appropriation for computer aid payments at $63,800,000 GPR in 1999-00 and $71,000,000 GPR in 2000-01.

Explanation: State aid payments will equal the value of exempt computers in each municipality multiplied by the municipality's tax rate, excluding the 0.2 mil state forestry tax rate. The reestimate of computer aid reflects an analysis of preliminary reports for 1999 on exempt computer values filed by manufacturing taxpayers and local officials with DOR. To receive the exemption, taxpayers were required to file requests for the exemption with DOR, if a manufacturer, or with local assessors, if a business other than a manufacturer. The requests were to include information on the exempt property's original cost and its year of acquisition, which assessors used to estimate its value. Based on these reports, the value of exempt computers is estimated at $2.5 billion for 1999 and $2.9 billion for 2000. The tax rates used in the calculations are based on actual tax rates for 1998(99), adjusted to reflect estimated changes in tax levies and values over the next two years. The reestimated amounts reflect reductions of $12,200,000 GPR in 1999-00 and $9,000,000 GPR in 2000-01, compared to the bill.

Modification	GPR
1999-01 FUNDING (Change to Base)	$134,800,000
[Change to Bill	*- $21,200,000]*

Prepared by: Rick Olin

MO# modification

2 BURKE	Y	N	A
DECKER	Y	N	A
JAUCH	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
GARD	Y	N	A
1 PORTER	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUBER	Y	N	A
RILEY	Y	N	A

AYE 16 NO 0 ABS ____

(Base) Agency: Property Tax Exemption for Computerized Equipment

Recommendations:

Paper #856: Maintain current law (no action needed)

if this fails, try
A2, B2+3 and C1

Comments: If you don't like tax breaks for business, you do not want to expand this one, especially since the governor makes no provision to compensate local governments for the lost revenue -- unlike the original computer exemption.

But if we are to broaden this exemption:

- A2 classifies ATMs in with the originally exempted equipment, therefore requiring the state to compensate local governments for lost revenue
- B2+3 makes sure all companies are treated equally regardless of method of taxation, but doesn't try to make the new treatment retroactive (see point 16).
- C1 would force the state to make good on lost revenue from the newly exempted equipment, just as it did with the original computer exemption. (note: the $12.7 million cost is more than covered by the re-estimate in paper 855).

Prepared by: Bob

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June 1, 1999 Joint Committee on Finance Paper #856

Property Tax Exemption for Computerized Equipment (Shared Revenue and Tax Relief -- Direct Aid Payments)

[LFB 1999-01 Budget Summary: Page 49, #5, Page 436, #13, Page 550, #1 and Page 577, #5]

CURRENT LAW

State law provides that all property is subject to the property tax, unless specifically exempt. Property is divided into two broad categories, real estate and personal property. In general, the land, all permanent structures on the land and all permanent land improvements are considered real estate. Items that can be removed from real estate without otherwise affecting the real estate are considered personal property. State law requires assessors to segregate items of taxable personal property into one of four separate categories: (1) furniture, fixtures and equipment; (2) machinery, tools and patterns; (3) steam and other vessels (boats and watercraft); and (4) all other personal property.

A property tax exemption for computers, related equipment and software was enacted as part of 1997 Act 237 and became effective for the 1999(00) property tax year. Computerized equipment owned by businesses is included in the furniture, fixtures and equipment category and is subject to taxation, unless exempted under another statute. For example, computerized equipment used exclusively and directly in the manufacturing production process is exempt as manufacturing machinery and equipment (M&E). Computerized equipment owned by individuals, as opposed to businesses, is exempt under the statute exempting household furnishings kept for personal use.

The property tax exemption for computers that was authorized in 1997 Act 237 also extended to computers owned by telecommunications companies subject to the state ad valorem tax under Chapter 76 of the statutes. The state ad valorem tax also applies to air carrier, conservation and regulation, pipeline and railroad companies under Chapter 76 and to municipal electric companies under Chapter 66. However, the Act 237 exemption was not extended to computers owned by these companies.

GOVERNOR

Provide a property tax exemption for fax machines, copiers, cash registers and automatic teller machines (referred to in this paper as the "computerized equipment exemption"). Extend the exemption to property subject to locally-imposed property taxes under Chapter 70 of the statutes and to public utility property subject to state-imposed ad valorem taxes under Chapters 66 and 76 of the statutes. Specify that the creation of the exemption for computerized equipment takes effect on January 1 of the year following enactment of the bill.

Extend the property tax exemption for mainframe computers, minicomputers, personal computers, networked personal computers, servers, terminals, monitors, disk drives, electronic peripheral equipment, tape drives, printers, basic operational programs, systems software, prewritten software and custom software, which currently applies to property subject to locally-imposed property taxes and to telephone companies subject to state-imposed ad valorem taxes, to the property of air carrier, conservation and regulation, municipal electric, pipeline and railroad companies subject to state-imposed ad valorem taxes (referred to in this paper as the "computer exemption"). Specify that the extension of the computer exemption to these companies takes effect retroactively to January 1, 1999.

DISCUSSION POINTS

Property Tax

1. In 1996, the Governor's Blue Ribbon Commission on 21st Century Jobs was assembled to "study and propose private and public sector initiatives to strengthen Wisconsin's long term economic future." Included in the Commission's charge was a requirement that it review state tax and regulatory structures as such structures relate to high technology and manufacturing jobs. The personal property tax was one of several topics the Commission examined, and the Commission recommended the elimination of property taxes on computers, software, faxes, copiers and telecommunication equipment by 2002.

2. The report of the Governor's Blue Ribbon Commission on 21st Century Jobs notes that the property tax exemption for manufacturers' machinery and equipment has strengthened the manufacturing sector of the state's economy and that Wisconsin is one of the few states where growth in manufacturing jobs has occurred over the last two decades. Also, the Commission found that the largest growth in quality jobs will occur in information-based business services, a sector that is heavily dependent on computers and computerized equipment. The Commission likened an exemption for these businesses to the machinery and equipment exemption for manufacturers. The Commission reasoned that such an exemption would attract these businesses to Wisconsin and encourage them to remain and expand.

3. Based on information supplied by the International Association of Assessing Officers, personal property is subject to taxation in 40 states, although every state provides exemptions for some types of personal property. One of the most common exemptions is for

business inventories, which is extended in 32 states, including Wisconsin. Various other types of business property are partially exempt in 17 states, including Wisconsin. The ten states that exempt all types of personal property are:

- Delaware	- Hawaii
- Illinois	- Iowa
- Minnesota	- New Hampshire
- New York	- North Dakota
- Pennsylvania	- South Dakota

4. Since implementing the manufacturers' machinery and equipment exemption in 1974, the share of tax base comprised of business property has declined on a statewide basis. Business property equaled 36.6% of the tax base in 1970, but represents only 23.7% of the state's estimated 1999 property tax base. This decline is not entirely attributable to the M&E exemption. Other exemptions, such as for business inventories and pollution abatement equipment have caused part of the reduction, and some businesses in operation in 1970 no longer exist. Also, additional new construction and different appreciation rates have caused the share of tax base comprised by some classes of property to increase and others to decrease. Residential property comprised 47.8% of the tax base in 1970, but represents 68.8% of the state's estimated, 1999 tax base.

5. Proponents of personal property exemptions often argue that personal property should be exempt because it is time consuming to value and produces little revenue. Personal property is valued using a series of schedules developed by DOR that require businesses to list the original cost of their property, according to the year in which it was acquired, and multiply that cost by a depreciation rate. The form requires information that businesses must maintain to comply with other state and federal taxes. Assessed values for personal property are based almost entirely on this information, which is reported by taxpayers. While the tax on an individual item of personal property may be small, an estimated 4.5% of the total net taxes in 1998(99) were borne by personal property. While household personal property owned by individuals is exempt, this property differs from personal property owned by businesses because businesses use the property to generate income. Frequently, the value of personal property owned by businesses exceeds the value of their land and buildings.

6. DOA has requested that the proposed exemption be modified in two ways. First, the reference to cash registers would be modified to clarify that the exemption would not apply to networked cash registers. Networked cash registers are already included in the definition of computers, which became exempt as of January 1, 1999. Second, the enumeration of automatic teller machines (ATMs) would be deleted. DOR has instructed local assessors to include ATMs in the definition of exempt computers. When the computer exemption was enacted, it was not thought that the exemption would extend to ATMs. However, DOR has subsequently developed a definition of computers that includes certain equipment linked to computers, such as ATMs.

7. If the reference to ATMs is not removed from the proposed exemption and the exemption is enacted, DOR's treatment would be reversed, and ATMs would become exempt as

computerized equipment. This action would remove the value of ATMs from the state aid payment for exempt computer value. Based on an estimated $30 million in value attributable to ATMs, state computer aid payments would decrease by an estimated $750,000 annually. However, this would not affect aid payments until 2000-01, since DOR has classified ATMs as computers for 1999-00.

State Utility Tax

8. The uniformity clause of the State Constitution allows the state to exempt entire classes of property from the property tax so long as the classification is reasonable. Under current law, computers are exempt for general property taxpayers and telecommunications companies, but not for other ad valorem taxpayers. If challenged under the uniformity clause, the state would have to argue that there are public policy reasons for extending the Chapter 70 computer exemption to general property taxpayers and telecommunications companies, but not to other companies that are subject to the ad valorem tax in lieu of the property tax. Under the bill, the computer exemption would be extended to all ad valorem taxpayers.

9. For similar reasons, it could be argued that if an exemption from the property tax is provided for computerized equipment, such an exemption should be extended to ad valorem taxpayers as provided under the bill. The courts have held that state tax policy may distinguish between "utilities" and other businesses. However, one court previously ruled that the tax relief extended to businesses owning inventories should also be extended to "utilities" because they also owned inventories. This issue was decided in circuit court, so the decision is not regarded as a precedent to be followed by other courts. Nonetheless, it demonstrates that the courts might not recognize the distinction if computerized equipment were exempted for general property taxpayers, but not for utilities subject to ad valorem taxation.

Fiscal Effect

10. The value of taxable computerized equipment is unknown. However, DOR developed a methodology for estimating that value based on information gathered by sampling assessors. Based on this methodology, DOR estimated the value of computerized equipment at $490 million for 1998. If the value of computerized equipment increases at the same rate of growth as for personal property over the last several years, the value of computerized equipment will equal $534 million in 2000. That represents about 0.2% of the statewide total tax base and about 7% of the value of taxable personal property (exclusive of exempt computers).

11. Gross taxes on computerized equipment are estimated at $12.8 million for 2000(01). Without a compensating state aid payment, an exemption for computerized equipment would shift the taxes otherwise borne by owners of this property to owners of property that remains taxable. The statewide average tax rate would increase by approximately four cents per $1,000 of taxable value. The tax on a median-valued home ($108,286) taxed at the statewide average rate would increase by $5, from $2,262 to $2,267. The exemption would reduce state forestry tax collections, which are deposited in the conservation fund, by $106,800 in 2000-01 (this exceeds the estimate in the bill by $6,800).

12. In addition to creating a property tax exemption for computers, 1997 Act 237 created a state aid payment to hold taxpayers and local governments harmless from the effects of the loss of tax base. That policy could be adopted relative to the exemption for computerized equipment by including that value in the calculation of state aid. Reimbursing local governments for the lost tax base related to the computerized equipment exemption would increase expenditures under the sum sufficient appropriation for computer aid payments by an estimated $12.7 million in 2000-01. Owners of exempt computers are required to file reports related to their equipment's cost and the year it was acquired and are subject to penalties if they fail to report. Similar requirements would need to be imposed on owners of computerized equipment if an aid payment is to be made for this exemption.

13. The administration has estimated the fiscal effect of extending the property tax exemption for computers and computerized equipment to all ad valorem taxpayers to be a reduction in ad valorem tax collections of $75,000 GPR in 1999-00 and $150,000 GPR in 2000-01 from the following types of companies: conservation and regulation; municipal electric; pipeline; and telephone companies. In addition, the administration estimates that transportation fund ad valorem tax collections for air carrier and railroad companies would be reduced by $80,000 SEG in 1999-00 and $160,000 SEG in 2000-01 (although the bill reflected reductions of only $50,000 SEG in 1999-00 and $100,000 SEG in 2000-01, the revised transportation fund condition statement prepared by this office in Paper #915 reflects the larger reductions). The components of the administration's estimates of the fiscal effects of these provisions are shown below:

	1999-00	2000-01
Computer Exemption		
GPR	$25,000	$50,000
SEG	30,000	60,000
Total	$55,000	$110,000
Computerized Equipment Exemption		
GPR	$50,000	$100,000
SEG	50,000	100,000
Total	$100,000	$200,000
Total of Both Exemptions		
GPR	$75,000	$150,000
SEG	80,000	160,000
Total	$155,000	$310,000

14. Ad valorem taxpayers make semiannual payments on May 10 and November 10. The first payment is based on either 50% of a utility company's previous year's net utility tax liability or 40% of its estimated current liability. The utilities are notified of their tax liability for the current year on either August 10 (railroads and municipal electrics), October 1 (pipelines, airlines

and conservation and regulation companies) or November 1 (telecommunications companies). The remainder of the current year's assessment is paid in the second installment.

15. Under the bill, the extension of the current law computer exemption for general property taxpayers and telecommunications companies to all ad valorem taxpayers would take effect retroactively to January 1, 1999. The administration's estimates of the fiscal effect of this provision assume that one-half of the annualized fiscal effect would occur in 1999-00.

It should be noted that, as the bill would make the exemption retroactive to January 1, 1999, the full effect of the exemption for calendar 1999 would occur in 1999-00 (rather than one-half in May, 1999, and the other half in November, 1999, as would have occurred if the exemption were enacted prior to the May, 1999, payment date). In addition, because the first installment payment of calendar year 2000 taxes would be in May, 2000, one-half of the effect of the exemption for the second year would also occur during 1999-00. Based on the administration's estimates of the annualized effects of these provisions and on the installment payment schedule described above, the fiscal effect of extending the current computer exemption to all ad valorem taxpayers is estimated to be a reduction in ad valorem utility tax collections of $75,000 GPR and $90,000 SEG in 1999-00. These estimates differ from the administration's estimates by $50,000 GPR and $60,000 SEG in 1999-00. There is no difference in the estimates for the second year.

16. The statutes require ad valorem taxpayers to submit annual reports to DOR, which are used by the Department in determining the tax assessments. The annual report form required by DOR does not currently require that companies (other than telecommunications companies) indicate the value of their computers. As these reports have already been filed for 1999, DOR would have to devise a method to ascertain the amount of the exemption for each company and issue revised tax assessments. According to the Department, it would be difficult to obtain accurate information in time to revise the 1999 assessments before the due date of the second installment payment in November, 1999, which could mean that DOR would have to issue refunds once the value of the exempt computers was determined. In light of these difficulties, the Committee may wish to consider postponing the effective date of the extension of the property tax computer exemption to ad valorem taxpayers other than telecommunications companies until January 1, 2000.

If the effective date for extending the computer exemption were postponed to January 1, 2000, one-half of the annualized fiscal effect would occur at the time of the first installment payment in May, 2000. Therefore, the fiscal effect during 1999-00 would be one-half of the estimated annualized effect of the computer exemption. This effect would be the same as the administration's estimates under the bill. Postponing the effective date from January 1, 1999, to January 1, 2000, would, therefore, not require a change to the estimates in the bill.

ALTERNATIVES TO BASE

A. Property Tax Exemption (Chapter 70)

1. Approve the Governor's recommendation to provide a property tax exemption for fax machines, copiers, cash registers and automatic teller machines, effective with property assessed as of January 1 of the year following enactment of the bill. Reestimate reduced state forestry tax revenues to be deposited in the conservation fund at $106,800 in 2000-01. Decrease estimated computer aid payments by $750,000 GPR in 2000-01 to reflect the inclusion of ATMs under this exemption, which would not be aided, as opposed to including ATMs under the computer exemption, which is aided.

Alternative A1	GPR	SEG	TOTAL
1999-01 REVENUE (Change to Base)	$0	- $106,800	- $106,800
[Change to Bill	*$0*	*- $6,800*	*- $6,800]*
1999-01 FUNDING (Change to Base)	$0	$0	$0
[Change to Bill	*- $750,000*	*$0*	*- $750,000]*

2. Provide a property tax exemption for fax machines, copiers and cash registers, other than networked cash registers, effective with property assessed as of January 1 of the year following enactment of the bill. Reestimate reduced state forestry tax revenues to be deposited in the conservation fund at $106,800 in 2000-01. Under this alternative, ATMs would remain exempt under the computer exemption, so there would be no impact on computer aid payments.

Alternative A2	SEG
1999-01 REVENUE (Change to Base)	- $106,800
[Change to Bill	*- $6,800]*

3. Maintain current law.

Alternative A3	SEG
1999-01 REVENUE (Change to Base)	$0
[Change to Bill	*$100,000]*

B. Utility Tax Exemptions (Chapters 66 and 76)

1. Approve the Governor's recommendation to extend the computer exemption to all companies subject to state-imposed ad valorem taxes. Specify that the extension of the computer exemption to these companies takes effect retroactively to January 1, 1999. However, reestimate the reduction in utility tax revenues from these provisions as follows to reflect the installment payment schedule for these taxes: (a) $75,000 GPR in 1999-00 and $50,000 GPR in 2000-01; and (b) $90,000 SEG in 1999-00 and $60,000 SEG in 2000-01. The revised estimates of reductions in tax

collections are larger than the estimates in the bill by $50,000 GPR and $60,000 SEG in 1999-00.

Alternative B1	GPR	SEG	TOTAL
1999-01 REVENUE (Change to Base)	- $125,000	- 150,000	- $275,000
[Change to Bill	*- $50,000*	*- $60,000*	*- $110,000]*

2. Modify the Governor's recommendation to extend the computer exemption to all companies subject to state-imposed ad valorem taxes by specifying that the extension of this exemption to these companies would take effect with property assessed as of January 1, 2000. Compared to current law, estimated utility tax collections would be reduced as follows: (a) $25,000 GPR in 1999-00 and $50,000 GPR in 2000-01; and (b) $30,000 SEG in 1999-00 and $60,000 SEG in 2000-01. These amounts are the same as the estimates used in the bill.

Alternative B2	GPR	SEG	TOTAL
1999-01 REVENUE (Change to Base)	- $75,000	- $90,000	- $165,000
[Change to Bill	*$0*	*$0*	*$0]*

3. Approve the Governor's recommendation to provide an exemption for fax machines, copiers and cash registers (and automatic teller machines if Alternative A1 is adopted) to the property of air carrier, conservation and regulation, municipal electric, pipeline and railroad companies subject to state-imposed ad valorem taxes. Specify that the extension of this exemption to these companies takes effect with property assessed as of January 1, 2000. Reduce estimated utility tax collections as follows: (a) $50,000 GPR in 1999-00 and $100,000 GPR in 2000-01; and (b) $50,000 SEG in 1999-00 and $100,000 SEG in 2000-01.

Alternative B3	GPR	SEG	TOTAL
1999-01 REVENUE (Change to Base)	- $150,000	- $150,000	- $300,000
[Change to Bill	*$0*	*$0*	*$0]*

4. Maintain current law. [This would increase estimated ad valorem utility tax collections, compared to the bill, as follows: (a) $75,000 GPR in 1999-00 and $150,000 GPR in 2000-01; and (b) $80,000 SEG in 1999-00 and $160,000 SEG in 2000-01.]

Alternative B4	GPR	SEG	TOTAL
1999-01 REVENUE (Change to Base)	$0	$0	$0
[Change to Bill	*$225,000*	*$240,000*	*$465,000]*

C. State Aid Payments for Exempt Property

1. Include the value of exempt fax machines, copiers and cash registers (and automatic teller machines if Alternative A1 is adopted) in the value of exempt computers for which state aid is paid to compensate local governments for the lost tax base, effective with payments made in 2001. Extend current law provisions regarding reporting the exempt value, imposing a penalty and receiving the exemption, as they relate to computers, to the owners of fax machines, copiers and cash registers. Increase the sum sufficient appropriation for computer aid payments by $12,700,00 GPR in 2000-01 to reflect this change.

Alternative C1	GPR
1999-01 FUNDING (Change to Base)	$12,700,000
[Change to Bill	*$12,700,000]*

2. Maintain current law.

Prepared by: Rick Olin and Faith Russell

MO# B-2

BURKE	Y	N	A
DECKER	Y	N	A
JAUCH	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
GARD	Y	N	A
PORTER	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUBER	Y	N	A
RILEY	Y	N	A

AYE 15 NO 1 ABS ____

(Base) Agency: Direct Aid Payments -- Funding Level

Recommendations:

Paper #857: 2% across-the-board increase is Alternative 2d, 3d, 4d, 5d, 6d

Comments: The governor would continue to freeze shared revenue at 1995 levels.

If we are serious about property tax relief, we will provide at least an inflationary increase in local aids. Otherwise, the state is simply shifting costs onto local taxpayers.

A 2% increase takes about the same amount of money that was gained through the re-estimate of computer tax compensation in paper #855.

At a minimum, the committee gave tech schools a 1% increase.

Yes, the state already sends a lot of money to local governments, but Wisconsin asks more of its local governments than most states.

If we won't pay for our mandates, we need to relieve local governments of responsibility these mandates.

- 1% increase would cost about $10 million GPR
- 2% increase would cost about $20 million GPR
- 3% increase would cost about $30 million GPR

Prepared by: Bob

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June 1, 1999 | Joint Committee on Finance | Paper #857

Direct Aid Payments -- Funding Level
(Shared Revenue and Tax Relief -- Direct Aid Payments)

[LFB 1999-01 Budget Summary: Page 541]

CURRENT LAW

Shared revenue payments for 1995 and thereafter are set at $761,478,000 for municipalities and $168,981,800 for counties. Expenditure restraint payments for 1995 and thereafter are set at $48,000,000. Small municipalities shared revenue (SCIP) payments for 1996 and thereafter are set at $10,000,000. County mandate relief payments for 1995 and thereafter are set at $20,159,000. The base funding level for payments for municipal services (PMS) is $18,065,300. All of these programs are funded with GPR appropriations.

GOVERNOR

Maintain the current funding level for all of these direct aid payments.

DISCUSSION POINTS

1. The 1999 payments under the shared revenue, expenditure restraint, small municipalities shared revenue and county mandate relief programs will be made from the corresponding appropriations for 1999-00. Any increases provided for these programs would first apply to the 2000 distributions, which will be funded in 2000-01. Any increases for the 2001 distribution would be funded in 2001-02, the first year of the following biennium.

2. The 1999 payments under the PMS program will be made from the 1998-99 appropriation. Any increases in the distribution level for this program in 2000 or 2001 would be funded in 1999-00 or 2000-01, respectively.

3. Agencies with non-GPR appropriations are charged for the non-GPR portion of payments for municipal services provided to their facilities. These agency chargebacks are deposited in the general fund. Since the chargebacks typically equal about 45% of the PMS appropriation, any appropriation increases would be partially offset by chargeback increases.

4. The last increase for these direct aid payments, except for PMS, was provided in 1995. Under the bill, these payments would remain at the same level for another two years. The PMS appropriation was increased by 7.3% for 1998-99 by 1997 Act 27.

5. On April 20, the Committee approved a 1.0% annual increase in the funding level for general aid payments to technical college districts. A similar increase for these direct aid payments would require total funding of $180,700 GPR in 1999-00 and $10,449,400 GPR in 2000-01. Due to the payment schedules for increases in 2001 distributions, there would also be a need to provide an additional $10,187,000 beginning in the first year of the 2001-03 biennium.

ALTERNATIVES TO BASE

1. Approve the Governor's recommendation to maintain the current funding level for the shared revenue, expenditure restraint, small municipalities shared revenue, county mandate relief and payments for municipal services programs.

2. Provide annual shared revenue increases for 2000 and 2001 at one of the following percentages. Set the municipal and county distributions and increase the shared revenue appropriation as shown below.

		Municipal Distribution		County Distribution		GPR Change to Bill	
		2000	2001	2000	2001	1999-00	2000-01
a.	0.5%	$765,285,400	$769,111,800	$169,826,700	$170,675,800	$0	$4,652,300
b.	1.0	769,092,800	776,783,700	170,671,600	172,378,300	0	9,304,600
c.	1.5	772,900,200	784,493,700	171,516,500	174,089,200	0	13,956,900
d.	2.0	776,707,600	792,241,800	172,361,400	175,808,600	0	18,609,200
e.	2.5	780,515,000	800,027,900	173,206,300	177,536,500	0	23,261,500
f.	3.0	784,322,300	807,852,000	174,051,300	179,272,800	0	27,913,800

3. Provide annual expenditure restraint increases for 2000 and 2001 at one of the following percentages. Set the municipal distribution and increase the expenditure restraint appropriation as shown below.

		Municipal Distribution		GPR Change to Bill	
		2000	2001	1999-00	2000-01
a.	0.5%	$48,240,000	$48,481,200	$0	$240,000
b.	1.0	48,480,000	48,964,800	0	480,000
c.	1.5	48,720,000	49,450,800	0	720,000
d.	2.0	48,960,000	49,939,200	0	960,000
e.	2.5	49,200,000	50,430,000	0	1,200,000
f.	3.0	49,440,000	50,923,200	0	1,440,000

4. Provide annual small municipalities shared revenue (SCIP) increases for 2000 and 2001 at one of the following percentages. Set the municipal distribution and increase the small municipalities shared revenue appropriation as shown below.

		Municipal Distribution		GPR Change to Bill	
		2000	2001	1999-00	2000-01
a.	0.5%	$10,050,000	$10,100,300	$0	$50,000
b.	1.0	10,100,000	10,201,000	0	100,000
c.	1.5	10,150,000	10,302,300	0	150,000
d.	2.0	10,200,000	10,404,000	0	200,000
e.	2.5	10,250,000	10,506,300	0	250,000
f.	3.0	10,300,000	10,609,000	0	300,000

5. Provide annual county mandate relief increases for 2000 and 2001 at one of the following percentages. Set the county distribution and increase the county mandate relief appropriation as shown below.

		County Distribution		GPR Change to Bill	
		2000	2001	1999-00	2000-01
a.	0.5%	$20,259,800	$20,361,100	$0	$100,800
b.	1.0	20,360,600	20,564,200	0	201,600
c.	1.5	20,461,400	20,768,300	0	302,400
d.	2.0	20,562,200	20,973,400	0	403,200
e.	2.5	20,663,000	21,179,600	0	504,000
f.	3.0	20,763,800	21,386,700	0	604,800

6. Provide annual payments for municipal services increases for 1999-00 and 2000-01 at one of the following percentages. Increase the payments for municipal services appropriation and reestimate general fund revenue from agency chargebacks as shown below.

		Appropriation Level		GPR Change to Bill		Revenue Change to Bill	
		1999-00	2000-01	1999-00	2000-01	1999-00	2000-01
a.	0.5%	$18,155,600	$18,246,400	$90,300	$181,100	$41,400	$83,100
b.	1.0	18,246,000	18,428,500	180,700	363,200	82,900	166,700
c.	1.5	18,336,300	18,611,300	271,000	546,000	124,300	250,500
d.	2.0	18,426,600	18,795,100	361,300	729,800	165,800	334,900
e.	2.5	18,516,900	18,979,800	451,600	914,500	207,200	419,600
f.	3.0	18,607,300	19,165,500	542,000	1,100,200	248,700	504,800

Prepared by: Rick Olin

MO# 20,30,40,50,60

2 BURKE	Y	N	A
1 DECKER	Y	N	A
JAUCH	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
GARD	Y	N	A
PORTER	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUBER	Y	N	A
RILEY	Y	N	A

AYE 9 NO 8 ABS 0

(Base) Agency: Shared Revenue and Tax Relief
Direct Aid Payments

Penalty for Failing to Report Exempt Computer Value

Recommendations:

Paper #: no action needed

Comments:

Summary Item for Introduction as Separate Legislation

Burke Motion:

Prepared by: Bob

SHARED REVENUE AND TAX RELIEF

Direct Aid Payments

LFB Summary Item for Introduction as Separate Legislation

Item #	Title
2	Penalty for Failing to Report Exempt Computer Value

MO# item #2

2	BURKE	Y	N	A
	DECKER	Y	N	A
	JAUCH	Y	N	A
	MOORE	Y	N	A
	SHIBILSKI	Y	N	A
	PLACHE	Y	N	A
	COWLES	Y	N	A
	PANZER	Y	N	A
1	GARD	Y	N	A
	PORTER	Y	N	A
	KAUFERT	Y	N	A
	ALBERS	Y	N	A
	DUFF	Y	N	A
	WARD	Y	N	A
	HUBER	Y	N	A
	RILEY	Y	N	A

AYE 16 NO 0 ABS 0

Shared Revenue and Tax Relief

Local Revenue Options

(LFB Budget Summary Document: Page 555)

LFB Summary Items for Which Issue Papers Have Been Prepared

Item #	Title
-	Local Government Revenue Options (Paper #880)
1	County Sales Tax Administration (see Paper #830 -- Revenue -- Tax Administration)

(Base) Agency: Local Government Revenue Options

Recommendations:

Paper #880: Informational

Comments: Watch for various GOP schemes to shift taxes onto local shoulders. This paper points out a number of the problems with this approach.

Equity and equalization are chief among the current system's qualities.

Mandates from on high are also a good argument against localizing taxes. If the state wants to continue creating mandates, it should retain (and enhance) its willingness to pay for those mandates.

Burke Motion:

Prepared by: Bob

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June 1, 1999 Joint Committee on Finance Paper #880

Local Government Revenue Options (Shared Revenue and Tax Relief)

A number of legislators have expressed interest in expanding the revenue options available to local governments. This paper provides a framework for evaluating local taxes and discusses several of those taxes within the context of this framework.

CURRENT LAW

The property tax is the largest source of state and local tax revenue in Wisconsin and the major source of revenue for local governments in Wisconsin. Wisconsin local governments rely on the property tax more than local governments in most other states, and this heavy reliance has contributed to above-average property tax levels. Local governments may not impose other taxes unless authorized by state law. In general, municipalities are allowed to impose a tax on short-term lodging (the "room" tax) and a vehicle registration fee (the "wheel" tax). Counties can impose a 0.5% sales and use tax and a "wheel" tax.

FRAMEWORK FOR EVALUATING REVENUE OPTIONS

The purpose of this paper is both to identify revenue options that could be extended to local governments and to ensure that revenue options meet the objectives envisioned by the Legislature. The accomplishment of these goals may be assisted by evaluating each revenue option within a uniform framework. Public finance literature offers a number of criteria that could be used to establish this framework. The National Conference of State Legislatures provides a concise description of criteria in its <u>Tax Policy Handbook for State Legislators</u> (1997), from which the following material is taken.

<u>Reliability</u>. Reliability means that taxes are stable and sufficient. Stability is important because it is difficult to establish a consistent level of public services when the taxes funding those services fluctuate unpredictably from year to year. Sufficiency requires that revenue sources provide the revenue necessary to finance the desired level of spending and rate of growth in spending. The reliability of different types of tax sources varies greatly, depending on the

level of government imposing a tax. States can improve the reliability of state-local tax systems by authorizing a balanced mix of taxes.

Equity. Equity is measured in two ways. Horizontal equity means that taxpayers with similar economic circumstances have similar tax burdens. Vertical equity refers to the distribution of tax burdens among taxpayers with different economic circumstances. In a progressive tax system, the share of income paid in taxes increases as income rises. In a regressive tax system, the share of income paid in taxes is greatest for low-income taxpayers and falls as income rises.

Efficiency. Efficiency is a concern of both taxpayers and government. Taxpayers' time and effort to comply with a tax and governments' costs to administer the tax should be minimized. Complex taxes that are expensive to enforce reduce the yield of the tax system and result in wasted taxpayer resources. When both state and local governments use the same tax sources, efficiency can be enhanced if their administration is "piggy-backed" and they are imposed on the same tax base, wherever possible.

Economic Neutrality. By their very nature, taxes are not economically neutral. Tax policy can encourage or discourage consumption of goods and services, influence decisions to save and invest and affect fundamental business decisions, such as where to locate. The effect of taxes on the allocation of resources should be minimized. Taxes with broad bases and low rates, which are spread across a wide range of sources and economic activities, reduce the effect of taxation on economic decisions.

Accountability. This refers to tax burdens being explicit, not hidden. The extension of tax credits and exemptions reduces accountability, as does the use of taxes that are intended to be passed on from the initial taxpayer to a subsequent consumer.

PROPERTY TAX

The property tax is imposed on real estate and personal property and is calculated by multiplying each property's assessed value by a tax rate. Each property's assessed value is determined locally, based on the estimated price that could be obtained for the property if sold.

Separate tax rates are extended for each government levying taxes on the property. Tax rates equal the amount of taxes needed to be raised by the government divided by the total amount of taxable value within the government's boundaries. Typically, tax rates are expressed per $1,000 of taxable value, or as mills. Through state property tax credit programs, the state pays a portion of each property owner's tax bill, thereby reducing the tax rate otherwise imposed. In 1997-98, the statewide average net tax rate in Wisconsin was $22.17 per $1,000 of taxable value. Net tax rates ranged from a high of $39.46 per $1,000 of taxable value in the Village of West Milwaukee (Milwaukee County) to $0.00 in the Town of Two Creeks (Manitowoc

County), where the Town had surplus funds sufficient to offset the taxes that other jurisdictions levied in the Town.

In 1997-98, gross property tax levies totaled $5,635.9 million, of which the state forestry tax comprised just under 1%. The remaining 99%, or $5,589.3 million, was levied by school districts (46.0%), municipalities (24.0%), counties (19.4%), technical college districts (6.6%) and special purpose districts (3.2%). The property tax is the major tax source for Wisconsin local governments. Due to Wisconsin local governments' heavy reliance on the property tax, Wisconsin ranked 7th highest in property taxes as a percent of personal income and 9th highest in per capita property taxes among the 50 states in 1995.

The property tax is a very reliable tax source. Real estate comprises more than 95% of the tax base. Since this property is not generally moveable, taxpayers are not able to escape or avoid the tax. Also, the tax becomes a lien on the property until the tax is paid, and state law authorizes counties to take title to tax delinquent property and sell it to recover unpaid taxes. This virtually assures that the taxes on each property will be paid. Because local governments can adjust the tax rate they impose each year, the property tax is able to generate almost precisely what each government needs.

The property tax achieves a high degree of horizontal equity because of the constitutional requirement that all property be taxed in a uniform manner. Relative to vertical equity, the property tax is considered a regressive tax because the percent of income dedicated to housing falls as income rises. However, some have argued that the tax is less regressive than generally believed, depending on what assumptions are made regarding how taxes on business property might be shifted.

The property tax is administered almost entirely by local governments. Local governments are responsible for assessing property, preparing and distributing tax bills, and collecting and disbursing tax payments. Assessment costs vary between governments and may be higher on a per unit basis for jurisdictions that contain fewer taxable properties. These governments may control their assessment costs by revaluing properties less frequently. Tax compliance costs are negligible for most taxpayers, although each year, businesses are required to report cost information regarding their taxable personal property.

Considerable variation in property tax rates exists between geographic areas. State aid is distributed in a manner where aid has the effect of offsetting differences in tax base. As a result, tax rate differences are due primarily to differences in the level of local government expenditures. That is, tax rates are high where spending is high. Therefore, tax rate differences have some impact on the location decisions of businesses and other taxpayers.

A high degree of accountability is associated with the property tax because taxpayers receive a bill each year for the taxes due. Many taxpayers make a single lump sum payment. Accountability is enhanced by state law requirements for tax bills to display the tax on each property both for the current year and the preceding year and the percentage change between the years.

INCOME TAX

Wisconsin imposes a state income tax on individuals earning taxable income in Wisconsin. Generally, tax liability is calculated in five steps under current law:

1. Determine Wisconsin adjusted gross income (AGI);

2. Subtract the state's standard deduction amount from AGI to find Wisconsin taxable income;

3. Apply the state's tax rate and bracket schedule to taxable income to find the gross tax amount;

4. Subtract applicable state tax credits from the gross tax amount to arrive at the net tax; and

5. Determine if the state alternative minimum tax applies.

The tax rate structure is cumulative so that marginal tax rates apply only to income that falls within the appropriate bracket. For married taxpayers filing jointly in 1998, the first $10,000 of taxable income is taxed at 4.77%, the second $10,000 is taxed at 6.37% and taxable income in excess of $20,000 is taxed at 6.77%.

In fiscal year 1997-98, individual income tax collections totaled $5,047.5 million and comprised 53% of state general fund tax revenue. Among all states in 1995, Wisconsin ranked 5th highest in individual income taxes as a percent of personal income and 8th highest in per capita individual income taxes. Local governments may impose income-based taxes in 15 states. Local governments' use of the tax varies from states like New York, where only two cities levy an income tax, to ten states where the local income tax may be imposed statewide.

The income tax is a reliable and stable tax source for state governments because a large, diversified economic base prevents wide fluctuations in total collections. At the local level, less economic diversity exists, so collections would be more likely to fluctuate. The income tax is viewed by some as fairer than the property tax, since income may be a better measure of current ability to pay. The income tax is progressive by design, so the overall state-local tax system would become more progressive if the income tax was used to replace the property tax.

A local income tax could be administered efficiently so long as the number of rate options offered to local governments are limited and if the tax is designed so that it could be "piggy-backed" on the state income tax. Unless the income tax was used by most local governments and imposed at fairly uniform tax rates, a local income tax would probably affect taxpayers' location decisions. Also, a local income tax could affect interstate location decisions because Wisconsin already ranks high in its use of the income tax, relative to other states. A high degree of accountability exists relative to the income tax, because each year taxpayers report the total amount of taxes owed.

Local governments in 15 states are authorized to impose income taxes under one of five general structures. **Payroll taxes** are levied on employers, rather than individuals, at a flat rate on total compensation paid. Because the number of employes is far greater than the number of employers, there are fewer taxpayers subject to this tax, and local governments can administer it. However, some wages go untaxed because local governments do not have the authority to tax certain entities, such as the federal government. **Wage taxes** are levied at a flat rate on the compensation earned by individuals within the boundaries of the local government imposing the tax. **Income taxes** are imposed both on earned and unearned income at a flat rate. Generally, the local government where wages are earned has priority on taxing that income, and if the taxpayer resides elsewhere, the local government where the taxpayer resides extends a credit for the taxes on wages that have already been paid. The taxpayer's unearned income is subject to tax by the local government where the taxpayer resides. **Income tax surcharges** are imposed at a flat percentage rate of the taxpayer's state income tax liability. Generally, tax surcharges are imposed according to place of residence, and this tax structure has the fewest administrative and compliance concerns. Finally, under a **graduated income tax**, the local government imposing the tax is allowed to establish its own rate and bracket structure. This type of local tax structure is used only in New York City.

Withholding would increase tax compliance costs for businesses. However, these costs could be minimized if the tax was imposed by most local governments at relatively few rates and "piggy-backed" on the state tax. In Iowa, where a local income tax is used as a funding source for education, employers do not withhold local taxes from wages.

SALES AND USE TAX

Wisconsin imposes a 5% general sales tax on the gross receipts from the sale and rental of personal property and selected services. A use tax at the same rate is imposed on goods or services purchased out-of-state and used in Wisconsin, if the good or service would be taxable if purchased in Wisconsin. In computing use tax liability, a credit is provided for sales taxes paid in the state in which the good or service was purchased. Exemptions from the sales tax are provided for specific types of personal property, transactions and entities. Sellers of taxable property and services collect the tax for the state and are required to obtain a business tax registration certificate and a seller's permit for each of their locations from the Department of Revenue (DOR). Sellers may deduct a discount from taxes due as compensation for their administrative costs.

Current law authorizes counties to impose a sales and use tax at a rate of 0.5%. The county tax is "piggy-backed" on the state tax and administered by DOR. The Department remits collections to counties each month, after deducting 1.5% of collections to cover state administrative costs. In 1997, $160.7 million in collections was distributed to 49 counties.

In 1997-98, state sales and use tax collections totaled $3,047.4 million and comprised 32% of state general fund tax revenue. Among the 50 states in 1995, Wisconsin ranked 33rd highest in state and local sales taxes as a percent of personal income and 32nd highest in per capita sales taxes. State tax rates range from 3% (Colorado) to 7% (Mississippi and Rhode Island). The median rate of 5% is imposed by Wisconsin and 17 other states. Currently, five states do not have a state sales tax.

Wisconsin is one of 34 states in which there is some form of local sales tax. Local tax rates range from 7% in Alaska, where there is no state sales tax, to 0.1%. Generally, local rates are 2.0% or less.

While the sales tax has been a reliable revenue source for the state, collections do fluctuate with economic cycles and it would be less reliable for local governments. This contrast is due to the level of economic diversity that exists within the boundaries of local governments, as compared to the state. Areas containing large retail establishments would receive considerably more tax revenue than areas that are primarily rural or residential.

The sales tax is considered a regressive tax because it is a tax based on consumption, and a higher percentage of the income of poor households is dedicated to consumption than the income of wealthy households. However, using the sales tax to replace the property tax may not make overall taxes more regressive, since the property tax is also regarded as regressive. Extending state tax exemptions for food and prescription drugs to a local tax would be one way to reduce the regressivity of a local sales tax. Also, some studies have challenged the notion that the sales tax is inherently regressive and have maintained that the sales tax can be viewed as proportional, or even progressive, under certain assumptions.

The compliance and administrative costs of a local sales tax would not be unduly burdensome if the tax was "piggy-backed" on the state tax, the base for the tax was similar to that for the state tax, and the number of allowable local rates was limited. If the local tax was imposed at fairly uniform rates or at a single rate throughout the state, a local sales tax would probably not distort taxpayers' spending decisions. Even if tax rates varied between jurisdictions, the amount of tax collected on most sales would not be sufficient to offset the cost of travelling to a different jurisdiction to make a purchase. The purchase of high cost items may be an exception, but these items could be taxed on the basis of where they are delivered or where they are kept. Also, a local use tax could be authorized, which would give local governments the authority to tax items brought into their jurisdiction if they have not been taxed elsewhere. Because taxpayers are not generally aware of the total amount of sales tax they pay each year, a low level of accountability is associated with the sales tax.

Because state law currently authorizes counties to impose a 0.5% sales tax, there are few questions about how a local sales tax should be structured. Currently, the county tax is imposed on the same goods and services subject to the state sales tax, and its administration is "piggy-backed" on the state tax. The tax applies to items purchased within the county and to some items purchased elsewhere, but kept or delivered within the county. To avoid an excessive number of tax rates, local tax rates could be set at specific amounts, such as 0.25%, 0.5%, 1.0% or 1.5%, and be limited to a maximum rate.

MOTOR FUEL TAX

Wisconsin's motor fuel tax is an excise tax levied on a per gallon basis on motor vehicle fuel, which consists of gasoline and diesel fuel, and alternate fuels, such as compressed natural gas and liquid propane gas. Gasoline and diesel fuel is taxed at a rate of 25.8 cents per gallon, and the rate for alternate fuel is based on the ratio of the fuel content of the alternate fuel to the fuel content of gasoline, multiplied by the motor fuel rate. The state's tax rate is adjusted automatically each April 1, based on a formula that measures the change in the Consumer Price Index.

The tax on motor fuel is imposed when the fuel leaves terminal storage and is collected monthly by DOR from licensed suppliers. There are 43 licensed suppliers in the state. After the tax is initially imposed, the tax is passed on to the wholesaler and retailer until the tax is paid by the consumer. The tax on alternate fuel is imposed when the fuel is first pumped into a motor vehicle and is collected monthly from retailers or directly from users if the user has a bulk storage facility. There are 188 alternate fuel retailers and users that are required to pay the alternate fuel tax.

Interstate motor carriers pay taxes based on where they use fuel under provisions of the international fuel tax agreement. To pay motor fuel taxes, carriers send a quarterly return to the state in which they are based. The return reports all miles traveled, fuel purchased and fuel tax already paid "at the pump" to each state. Also, the return reports fuel taxes owed to each state and any refunds owed to the carrier. Each state's taxes are calculated based on the number of miles traveled in the state and the carrier's fuel efficiency. The carrier pays any net amount due when the return is filed. If the carrier owes taxes to other states, the base state makes those payments for the carrier. If other states owe the carrier refunds, the base state refunds any overpayments and then collects the refunds from the other states. Each state audits the carriers based in that state on behalf of all states.

Wisconsin's motor fuel tax collections totaled $740.2 million in 1997-98. These collections comprised 64.8% of the state's own-source taxes and fees deposited in the transportation fund in 1997-98. As of January, 1999, Wisconsin's combined rates on gasoline under the motor fuel tax and the petroleum inspection fee ranked third highest among the 50 states. This measure includes all taxes imposed on interstate motor carriers through the international fuel tax agreement. Local governments in 13 states levy a tax on motor vehicle fuel. Local rates range from one cent to 11 cents per gallon, but most rates fall between one and five cents per gallon.

The motor fuel tax is generally a stable revenue source because the amount of motor fuel consumed does not vary dramatically from year to year. However, collections may not keep pace with inflation and general economic growth unless the tax is indexed (like Wisconsin's state motor fuel tax). Otherwise, periodic tax rate increases would be required to fund increases in the cost of providing government services. Revenue potential would vary considerably between local governments. Those governments that contain major highways or serve major population bases would have greater revenue potential than local governments in remote, rural areas. Some local governments do not have any motor fuel retail outlets within their boundaries.

Motor fuel taxes are more regressive than the general sales tax because of physical limits on the number of miles that are driven by any one consumer in a given time period. Also, the motor fuel tax imposes a heavier burden on rural residents because they typically drive longer distances to reach destinations. Despite the regressivity of the motor fuel tax, it is generally accepted by taxpayers because they relate the cost of the tax with benefits they receive in the form of a better transportation system.

Compliance and administrative costs resulting from a local motor fuel tax may be high because it would be difficult to "piggy-back" the tax on the state tax. The state tax is imposed on suppliers and passed on until consumers pay the tax. A local motor fuel tax would have to be imposed at the retail level so that the point of sale is matched with the jurisdiction imposing the tax. The tax could be administered by the local government imposing the tax, or DOR could administer the tax in conjunction with the state sales tax. In this regard, the local tax would be treated like a selective sales tax.

So long as the local tax is imposed at a low or relatively uniform rate, a local motor fuel tax may not distort consumers' purchasing decisions. Volatility in gasoline prices and the cost of driving to another jurisdiction to avoid the tax may cause the tax to be economically neutral. This may not be true when retailers are located near a local jurisdiction's borders. Motor fuel taxes are paid in small amounts throughout the year. In general, taxpayers are not aware of the amount of tax they pay annually or with any purchase, since the tax is not itemized on sales receipts. As a result, a low level of accountability is associated with this tax.

Due to the administrative concerns noted above, a local motor fuel tax would be structured differently from the state's tax. The tax would be imposed at the retail level and would be administered either by the state, like a selective sales tax, or by the local government imposing the tax. If administered locally, the authority to tax could be extended only to those governments that have the ability to perform the necessary administrative tasks. To avoid an excessive number of tax rates, local tax rates could be set at even amounts, possibly in half-cent increments. As an alternative, the local tax could be imposed as a percent of the purchase price, like a sales tax, rather than as an excise tax. This would allow for revenue growth so long as fuel prices increase, but revenue reductions would also be possible if fuel prices decline.

The local tax structure would also have to address the treatment of interstate motor carriers. It is possible to include local taxes in IFTA calculations, but only if the state calculates and reports an average local tax rate. Settlements with motor carriers and other states would be based on this average rate, regardless of the actual local rate paid or due. The state would become liable for refunds of local taxes claimed by carriers based in other states. While the state could recover these refunds from local governments, this would complicate the administration of the tax. Since motor carriers do not report miles driven by county or municipality, but only by state, precise calculations of liability or refunds on a local government basis would not be possible. An alternative would be to extend the local motor fuel tax to purchases of gasoline, but not diesel fuel.

EXCISE TAXES

An excise tax is imposed on specific products, either as a percentage of price or on a per unit basis. In addition to the motor fuel tax, Wisconsin imposes several excise taxes. These taxes raised $299.1 million in 1997-98, or 3.1% of state general fund tax revenue.

The state cigarette tax is generally paid by manufacturers or distributors through the purchase of stamps from DOR. The tax stamp must be affixed to each pack of cigarettes prior to its first sale in the state. The tax rate is 29.5 mills per cigarette, which generally equals 59 cents per pack. Manufacturers and distributors receive a 1.6% discount on stamp purchases as compensation for their administrative costs. In 1997-98, the state cigarette tax generated $247.7 million in revenue, or 2.6% of state general fund tax revenue. A 1997 study by the National Conference of State Legislatures reports that ten states allow local governments to impose local option cigarette and tobacco taxes.

The state tobacco products tax is equal to 20% of the manufacturers' list price to distributors. Distributors remit the tax proceeds to DOR, which collects and enforces the tax. In 1997-98, the tax generated $9.4 million.

The state imposes a tax on the sale of liquor, wine and cider containing alcohol. Different rates are applied to liquor and wine products depending on their alcohol content. Apple cider containing between 0.5% and 7% alcohol has a separate tax rate. Also, DOR assesses a three-cent per gallon administrative fee on some of these beverages. The taxes are collected at the distributor level. In 1997-98, the state liquor, wine and cider excise taxes generated $32.7 million in revenue, or 0.3% of state general fund tax revenue. Local alcoholic beverage taxes are allowed in at least three states.

The state imposes a tax of $2 on each 31-gallon barrel of beer sold in the state. A 50% credit on the first 50,000 barrels produced is available to brewers who produce less than 300,000 barrels per year. The tax is paid by brewers, bottlers and wholesalers on a monthly basis. In 1997-98, the state beer tax generated $9.3 million, or 0.1% of state general fund tax revenue. Local beer taxes are permitted in six states.

Local excise taxes may not be a reliable revenue source. Because these taxes are generally imposed on a per unit basis, they would generate little or no year-to-year revenue growth, and revenue decreases would be possible if individuals reduce their consumption for health or other reasons. These taxes are considered regressive because low-income households generally spend a larger percentage of their income on these items than high-income households. States that permit local excise taxes generally administer the taxes with state taxes. Nonetheless, compliance and administrative costs would increase because the point of sale would have to be matched with the local jurisdictions imposing the tax. Economic neutrality is generally not a consideration with these taxes, because governments often impose the taxes to discourage consumption. Consumers oftentimes respond to the taxes by purchasing the commodity in an area where the tax is lower or not imposed. Because the tax is hidden in the price of the good, a low level of accountability is associated with the tax.

Local excise taxes could be administered at the state or local levels, although most local excise taxes are administered in conjunction with a state tax. Due to administrative and compliance concerns, a single rate could be authorized for local use and the local tax could be imposed over as wide a geographic base as possible.

TYPES OF LOCAL GOVERNMENTS

The following material provides a brief description of each type of local government that imposes property taxes.

Municipalities. Within the state, there are 1,850 municipalities, which include 189 cities, 395 villages and 1,266 towns. They are sometimes called "general purpose" governments because they provide a variety of services. Municipalities rely on a more diverse array of revenue sources than other local governments. However, the property tax represents the most significant tax available to municipalities and, on average, it represents about 25% of all municipal revenue. For the 1998(99) property tax year, municipal purpose property taxes totaled $1,434.3 million, or 24.0% of the total property taxes levied.

Counties. There are 72 counties within the state and they perform a variety of services that may be characterized as "general purpose" functions. However, over 40% of all county expenditures are dedicated to health and human service functions. Oftentimes, counties are thought of as an administrative arm of the state because they perform a variety of state-mandated functions. Another way in which counties are unique is that they are authorized to impose a 0.5% sales tax. Although the tax generated $160.7 million statewide in 1997, that represented only 3.6% of total county revenues. The property tax is the primary source of tax revenue for counties. In 1998(99), county purpose property taxes totaled $1,157.4 million, or 19.4% of the total property taxes levied.

Elementary and Secondary School Districts. The state is divided into 426 elementary and secondary school districts. Unlike municipalities and counties, these districts perform a single function--education. Prior to 1996-97, the property tax was the major revenue source for school districts and comprised almost half of all school revenues. However, increases in state aid resulting from the state commitment to provide two-thirds of partial school revenues on a statewide basis have caused intergovernmental aids to become the most significant revenue source for school districts. In 1997-98, intergovernmental revenues comprised 58.6% of school revenues, and property taxes represented only 37.3%. In 1998(99), school property taxes totaled $2,735.8 million, or 45.8% of the total property taxes levied.

Technical College Districts. There are 16 technical college districts in the state. They provide post-secondary education through courses leading to associate degrees and vocational diplomas, college parallel courses and continuing education courses. The property tax accounts for 48.4% of their revenues and is the districts' most significant revenue source. In 1998(99), technical college district taxes totaled $396.2 million, or 6.6% of the total property taxes levied.

Special Purpose Districts. In addition to the local governments described above, special purpose districts are authorized to levy property taxes. Typically, these districts have been created to provide a single service. Due to their small size, they are not well-suited to impose a tax, other than the property tax. In 1998(99), special purpose district tax levies totaled $200.9 million, or 3.4% of the total taxes levied. State forestry taxes of $49.8 million comprised the remaining 0.8% of total 1998(99) property tax levies.

ISSUES TO CONSIDER WHEN MATCHING TAX OPTIONS AND LOCAL GOVERNMENTS

The following material evaluates the preceding information on specific taxes in terms of the various types of Wisconsin local governments. This material may facilitate decisions regarding which revenue sources may be appropriate for each type of government, by presenting issues that should be considered as tax options are extended to local governments.

Revenue Reliability: Stability. The revenue from a tax is more likely to be stable if the government imposing the tax has a diversified economic base. The economic base generally becomes more diversified as the geographic area included in a local government's boundaries increases. Therefore, more diversity in the economic base would be expected among counties or technical college districts than among municipalities or school districts. Among the taxes where measures of tax base variation exist, two observations can be made. First, there appears to be less variation in per capita tax base as the geographic size of the unit of government increases, regardless of the type of tax being considered. Second, among local governments, there appears to be more variation in per capita tax base for the property tax than would exist for the income, sales or motor fuel taxes. In response to the disparity in property tax base, the state has created a number of general aid programs that utilize distribution formulas based on the policy of tax base equalization. This policy seeks to allow all local governments to provide minimum service levels regardless of the level of tax base.

Revenue Reliability: Sufficiency. One component of revenue reliability is that the tax provides sufficient revenue to finance the desired level of spending. Relative to this criterion, it may be important to define the policy objective for authorizing local option taxes. The policy could be to reduce or eliminate local governments' reliance on the property tax, thereby reducing the property tax burden. Another policy could be to replace various state aid programs so that state taxes could be reduced.

The following table reports estimated statewide property tax levies for 1999(00) and state aid amounts proposed in the biennial budget bill. Also, the table reports 1999-00 revenue estimates for state income, sales and motor fuel taxes under current law. The columns under the estimated state revenues relate the property tax and state aid amounts to the corresponding state tax amounts. The percentages under the tax columns indicate the percentages that each local revenue is of each state tax revenues.

		Local Revenues as a Percent of Estimated 1999-00 State Taxes		
Local Government	Estimated Revenue (million $)	Income Tax $5,340.0	Sales Tax $3,430.0	Motor Fuel Tax $802.9
School Districts				
Property Tax	$2,777.5	52.0%	81.0%	--
General Aid	3,756.3	70.3	109.5	--
Total School	$6,533.8	122.4%	190.5%	--
Municipalities				
Property Tax	$1,505.1	28.2%	43.9%	--
Shared Revenue	819.5	15.3	23.9	--
Total	$2,324.6	43.5%	67.8%	--
Counties				
Property Tax	$1,216.2	22.8%	35.5%	--
Shared Revenue	189.1	3.5	5.5	--
Total	$1,405.3	26.3%	41.0%	--
Technical Colleges				
Property Tax	$416.4	7.8%	12.1%	--
General Aid	113.5	2.1	3.3	--
Total	$529.9	9.9%	15.4%	--
Transportation Funding				
Municipalities				
Property Tax	$575.5	--	--	71.7%
Gen. Transportation Aid	254.8	--	--	31.7
Shared Revenue	313.4	--	--	39.0
Total	$1,143.6	--	--	142.4%
Counties				
Property Tax	$246.1	--	--	30.6%
Gen. Transportation Aid	81.1	--	--	10.1
Shared Revenue	38.3	--	--	4.8
Total	$365.5	--	--	45.5%

The following analysis assumes that the state's tax base is totally transferable to its underlying local governments. As a result, the table overstates the revenue potential of the various taxes, since no revenue loss due to tax avoidance or evasion, or as reimbursement for administrative costs is reflected. Also, the tax base for each state tax is almost certainly allocated differently than the current distribution of property taxes or state aids. As a result, more revenue would have to be raised than the amounts indicated on the table if each local government is to be guaranteed an amount equal to its existing revenue.

State **income tax** collections of $5,340.0 million are estimated for 1999-00. Due to the state's heavy reliance on and high interstate ranking relative to the income tax, the options for expanding the use of this tax may be limited. If the goal is to replace the property tax, local income tax surtax rates of 52.0% for school districts, 28.2% for municipalities, 22.8% for counties and 7.8% for technical college districts would be required. If there is a policy objective not to increase overall income tax rates, a local income tax could be used to supplant state aid and lower state taxes, rather than to replace the property tax. State aid could be replaced with an income tax surtax of 2.1% for technical colleges, 3.5% for counties, 15.3% for municipalities and 70.3% for school districts.

State **sales tax** collections for 1999-00 are estimated at $3,432.7 million. More flexibility may exist relative to this option, since Wisconsin has a lower interstate tax ranking than for the income tax or the motor fuel tax. The percentages reported on the table can be converted to tax rates by multiplying the percentages by the state's 5% tax rate. For example, the shared revenue program for municipalities and counties could be replaced with a combined local tax rate of 1.5%. That rate is calculated by multiplying the state tax rate of 5% by conversion factors from the table of 23.9% for municipalities (5% x 23.9% = 1.2%) and 5.5% for counties (5% x 5.5% = 0.3%). The estimated rate of 1.5% is the sum of these calculations (1.2% + 0.3% = 1.5%). Replacing state aid payments with local option sales taxes would require rates of 5.5% for school districts and 0.2% for technical college districts. If viewed as a replacement for the property tax, minimum sales tax rates of 4.0% for school districts, 2.2% for municipalities, 1.8% for counties and 0.6% for technical college districts would be required.

The goals of reducing reliance on the property tax and eliminating state aid payments may not be mutually exclusive. For example, property taxes and general aid for technical college districts could be eliminated entirely and replaced with a sales tax imposed at a rate of about 0.8%. In this example, sales tax collections would continue to be supplemented with fees and categorical aids, as under current law.

The **motor fuel tax** column relates the state tax only to municipalities and counties, since they provide transportation services. Municipal and county transportation-related expenditures are reported by funding source in the left-hand column at the bottom of the table. To replace the property tax with a motor fuel tax as a funding source for transportation expenditures, municipalities would have to impose a tax rate equal to 71.7% of the state rate and counties would have to impose a rate equal to 30.6% of the state rate. Based on the current state tax rate of 25.8 cents per gallon, tax rates of 18.5 cents for municipalities and 7.9 cents for counties would be required. If the goal is to eliminate general transportation aid, local tax rates of 8.2 cents per gallon for municipalities and 2.6 cents per gallon for counties would be required.

The preceding analysis does not address the disparity in tax bases that exists between local governments. Tax base disparity could be addressed by authorizing a local tax rate in excess of the amounts needed to replace state aid or property taxes, in aggregate, or by creating a state aid program designed to equalize the newly-authorized taxes. The latter approach may be less attractive if the goal in authorizing a new local tax is to eliminate a state aid program.

It is important to recognize that a local option tax would be imposed on a somewhat different group of taxpayers than the property tax. For example, the percentage of taxes borne by businesses would be higher under the property tax than under an individual income tax. Therefore, the corporate income tax could be increased and the resulting revenues used to fund an equalizing aid program if a local income tax is authorized. A similar approach could be employed relative to the motor fuel tax. Local taxing authority could be extended to sales of gasoline, but not diesel fuel. The state could impose a higher tax on diesel fuel and use the proceeds to fund an equalizing aid payment.

Equity. Wisconsin's reliance on the state income tax enhances the overall progressivity of the state-local tax system. If local tax options are used to replace state aids and thereby lower state income taxes, the state-local tax system probably would become less progressive. On the other hand, if local option taxes are used to supplant the property tax, Wisconsin's state-local tax system would probably not become more regressive, since the property tax is considered a regressive tax. The system would probably become more progressive if property tax revenues were replaced with income tax revenues, and possibly sales tax revenues. Because some local taxes are deductible under the federal income tax and some are not, authorizing additional local tax options could affect overall tax burdens in unanticipated ways.

Another principle related to tax equity is that there should be some relation between who pays a tax and who receives the service that the tax funds. Within this context, the property tax may be a reasonable municipal funding source, since municipalities provide services that are associated with property. Some county services are property-related, but over 40% of all county expenditures are in the health and human service area. Services provided by school and technical college districts have little relationship to property, and this has resulted in criticism of the property tax as a funding source for education. Since income and sales taxes are based more directly on activities of all people, these taxes may be more appropriate funding for services that are provided to people. In this regard, the income and sales taxes may be appropriate revenue sources for some county services and for education services. Similarly, the motor fuel tax is regarded as an appropriate revenue source for transportation services.

Efficiency and Economic Neutrality. The preceding material indicates that a newly-authorized local tax should be designed so that it can be administered efficiently and so that it does not distort economic choices. These objectives can be achieved by minimizing the number of tax rate alternatives authorized for local use. This implies that tax options should be extended to local governments that possess relatively uniform service levels, since those jurisdictions would be more likely to impose the tax at similar or identical rates throughout the state. Service levels vary most between municipalities, while counties, school districts and technical college districts provide more uniform levels of service.

Accountability. As stated earlier, accountability is enhanced when tax burdens are explicit and not hidden. This principle could be violated if the number of local tax options becomes too diversified. One effect of authorizing multiple tax sources may be that local governments will use whichever tax option is the easiest to increase when spending demands arise. That environment may produce an overall tax burden that is higher than the burden that occurs when the number of tax options is limited. The principle of accountability may be enhanced if any new taxes authorized for local use are accompanied by a clear indication of the intended statewide policy.

Prepared by: Rick Olin

Shared Revenue and Tax Relief

Property Tax Credits

(LFB Budget Summary Document: Page 542)

LFB Summary Items for Which Issue Papers Have Been Prepared

Item #	Title
2 & 3	Farmland Tax Relief and Preservation Credits -- Reestimate Cost (Paper #865)
4, 5 & 6	Farmland Preservation Program Changes (Paper #866)
5 (part)	Farmland Preservation -- Minimum Parcel Size (Paper #867)

(Base) Agency: Shared Revenue & Property Tax Relief
Farmland Tax Relief & Preservation
Credits - Reestimate Cost

Recommendations:

Paper No. 865: Approve Modification to Base

Comments: This reestimate reflects an analysis of projected changes in statewide property tax levels on ag land and a number of other things.

prepared by: Barry

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May 13, 1999 Joint Committee on Finance Paper #865

Farmland Tax Relief and Preservation Credits -- Reestimate Cost (Shared Revenue and Tax Relief -- Property Tax Credits)

[LFB 1999-01 Budget Summary: Page 543, #2 and #3]

CURRENT LAW

The adjusted base level funding is $11,800,000 SEG for the farmland preservation credit and $20,000,000 GPR for the farmland preservation credit.

GOVERNOR

Decrease funding by $1,200,000 SEG in 1999-00 and $1,800,000 SEG in 2000-01 for the sum sufficient appropriation for the farmland tax relief credit and increase funding by $100,000 GPR in 1999-00 and decrease funding by $500,000 GPR in 2000-01 for the sum sufficient appropriation for the farmland preservation credit to reflect anticipated costs under the current law credits. With these adjustments, estimated total funding would be $10,600,000 SEG in 1999-00 and $10,000,000 SEG in 2000-01 for the farmland tax relief credit and $20,100,000 GPR in 1999-00 and $19,500,000 GPR in 2000-01 for the farmland preservation credit.

MODIFICATION TO BASE

Reestimate the sum sufficient appropriations at $20,200,000 SEG in 1999-00 and $18,800,000 SEG in 2000-01 for the farmland tax relief credit and $19,000,000 GPR in 1999-00 and $18,100,000 GPR in 2000-01 for the farmland preservation credit.

Modification	GPR	SEG	TOTAL
1999-01 FUNDING (Change to Base)	- $2,900,000	$15,400,000	$12,500,000
[Change to Bill	*- $2,500,000*	*$18,400,000*	*$15,900,000]*

Explanation: The reestimate of the farmland tax relief credit reflects an analysis of projected changes in statewide property tax levels on agricultural land and the number of claimants. Further, the reestimate reflects the proposed increase in the credit to 20% of property taxes on agricultural land, up to a $2,000 maximum credit, under SSA 2 to SB 114 and the estimated impact of SSA 2 to SB 114 on the statewide level of property taxes on agricultural land. Compared to the bill, the reestimates reflect increases of $9,600,000 SEG in 1999-00 and $8,800,000 SEG in 2000-01.

The reestimate of the farmland preservation credit reflects an analysis of projected changes in statewide property tax levels on agricultural land and farm improvements, household income of credit claimants and the number of claimants. Further, the reestimate reflects the estimated impact of SSA 2 to SB 114 on the statewide level of property taxes on agricultural land and farm improvements. Compared to the bill, the reestimates reflect decreases of $1,100,000 GPR in 1999-00 and $1,400,000 GPR in 2000-01.

Prepared by: Al Runde

MO# modification

BURKE	Y	N	A
DECKER	Y	N	A
JAUCH	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
GARD	Y	N	A
PORTER	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUBER	Y	N	A
RILEY	Y	N	A

AYE _____ NO _____ ABS _____

(Base) Agency: Shared Revenue & Property Tax Relief
Farmland Preservation Program Changes

Recommendations:

Paper No. 866: Part A - Alternative 3(a)
Part B - Alternative 4 (no action needed)
Part C - Alternative 3

Comments: We reached an agreement with the Farm Bureau, but the Republicans wouldn't go for it.

For Part A - your choice here reflect a desire to maintain at least some land use, as well as soil and water conservation requirements, criteria in the farmland tax credit program. This shouldn't be a total giveaway to farmers and rural residents. They should have to do a little something to earn the state money. The per-acre credit under Alternative 3 allows some new flexibility without completely obliterating the land use components of the program. Further, sub (a) should be approved because it let's DATCP award higher credits in areas with suburban development pressures. (note: maybe alternative 3 should be voted on separately from sub (a) and sub (b))

For Part B - Every option under part B, except retaining current law, is a big giveaway to farmers. I think they are doing well enough in this budget without another give-away program. (note: alternative B(2) would end the phase-in, and immediately implement full use value assessment. I think the GOT and Farm Bureau are pushing hard for this).

For Part C - In his state of the state speech, the governor promised farmers a new $35 million dollar tax credit program. Well, it turns out that the program he proposed is really only worth about $27 million, and FB found some additional savings that Alternative 3 suggests we spend on conservation easements (or purchase of development rights) efforts. This is the only sure way to preserve farmland, and we should kick-start the effort.

prepared by: Barry