



Legislative Fiscal Bureau

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

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Joint Committee on Finance

Paper #677

State Aid for Tax Exempt Computers, Cash Registers, and Fax Machines -- Payment Delay (Shared Revenue and Tax Relief -- Direct Aid Payments)

[LFB 2005-07 Budget Summary: Page 448, #8]

CURRENT LAW

The state aid payment for computers was created in the 1998 budget adjustment bill (1997 Wisconsin Act 237) to compensate local governments for tax base lost due to the property tax exemption for computers, software, and related equipment. Aid payments are calculated using a formula that results in an aid amount equal to the amount of taxes that would be paid if the property were taxable. Under the procedure, computer owners report the value of exempt computers to assessors, and local governments calculate their tax rates as if the exempt value was taxable. Aid payments are calculated by multiplying the two amounts. A property tax exemption for fax machines, except those that are also copiers, and cash registers was created in the 2001-03 biennial budget bill (2001 Wisconsin Act 16), effective with property assessed as of January 1, 2003. State aid payments were extended for this exempt property, as well, and began in 2003-04. Payments are made on the first Monday in May of each year.

GOVERNOR

Delay the date for making state aid payments for exempt computers, cash registers, and fax machines from the first Monday in May of each year to the fourth Monday in July of each year, beginning in 2007. Decrease funding by \$64,900,000 in 2006-07 to reflect the payment delay. Require school districts to treat the July payments as if they had been received in the previous school year. The \$64.9 million reduction reflects estimated changes in local tax rates and exempt computer values and the estimated impact of the AB 100 provisions that would limit property tax increases and provide additional local government aid.

Because the Committee is scheduled to act on this issue before it acts on the Governor's proposals related to local government fiscal controls and school aid funding, the fiscal effect of the proposed funding delay is reestimated as a decrease in funding of \$70,900,000. The reestimated amount reflects the sum sufficient reestimates included in Paper #676. The fiscal effect of the alternatives presented in this paper may be revised at a later date, depending on the Committee's actions on the fiscal control and school aid funding issues.

DISCUSSION POINTS

1. Prior to the introduction of AB 100, the Department of Administration (DOA) estimated a potential deficit of \$1,632 million for the 2005-07 biennium, based on agency requests. Delaying the payment of 2007 computer aid by slightly less than three months would shift the expense for the 2007 payments from 2006-07 to 2007-08. Since the latter year is in the 2007-09 biennium, a one-time expenditure reduction would occur in the 2005-07 biennium. Delaying the payment was one mechanism that the Governor employed to achieve a balanced 2005-07 budget proposal.

2. The following table provides additional detail on estimated 2007 aid payments, indicating the amount of the payment delay by type of local government:

	<u>Estimated Funding Delay</u>
School Districts	\$26,800,000
Municipalities	18,700,000
Counties	11,100,000
Technical College Districts	4,300,000
Special Purpose Districts	1,000,000
Tax Increment Districts	<u>9,000,000</u>
Total	\$70,900,000

3. When the property tax exemption for computers, related equipment, and prewritten software was enacted in 1998, the Legislature also adopted the policy of holding local governments and their taxpayers harmless from the effects of the exemption. This was achieved by creating a state reimbursement program where aid payments are identical to the amounts that would be paid if the exempt property was taxable, notwithstanding any shifts in tax base sensitive state aids. Also, the program has used a payment date that is as close as administratively possible to the date that taxes would be paid. State law requires the property taxes on personal property to be paid in full on or before January 31.

4. If the Committee believes that the payment delay would undermine the "hold-harmless" commitment made to local officials in 1998, but also recognizes the difficulty in submitting a balanced budget for 2005-07, the payment could be delayed on a one-time basis, from May to July of 2007 (Alternative 2). This action would imply that the Committee anticipates

sufficient revenue growth in the 2007-09 biennium to fund three computer aid payments. Like the Governor's proposal, this alternative would result in a one-time expenditure reduction estimated at \$70,900,000.

5. In Wisconsin's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2004, DOA indicates a general fund balance of -\$1,931 million for 2003-04 under generally accepted accounting principles (GAAP). This occurs because GAAP requires revenues to be recognized when they become measurable and available and expenditures to be recognized when they are incurred (except for debt service and similar items). On a budgetary basis, expenditures are recognized when they are paid.

6. By making the 2004 computer aid payments in May, the 2003-04 GAAP deficit was improved by \$21 million according to DOA. This occurred because the 2004 aid payment extinguished a liability that accrued over the entire calendar year. Municipalities, counties, special purpose districts, and tax increment districts operate on a calendar year basis, and 2004 payments to these local governments totaled \$42 million. Under GAAP guidelines, half of the state's payments to these local governments were not "due" until the second half of 2004. Since half of that calendar year occurred in the 2004-05 state fiscal year, a portion of the liability was categorized as "prepaid" in the 2003-04 CAFR. Delaying the 2007 computer aid payment from 2006-07 to 2007-08 would increase the GAAP-based deficit for 2006-07 by an estimated \$70.9 million. This occurs because the state would no longer get credit for the "prepaid" aid and would also be charged for having not paid the other half of the aid due to these local governments or any of the aid due school and technical college districts by the end of the state's fiscal year.

7. County and municipal aid and shared revenue (utility aid) are paid 15% in July and 85% in November. Expenditure restraint aid is paid entirely in July. By moving the computer aid payment date to the fourth Monday in July, computer aid payments would be made on the same date as these other July payments. However, the state general fund has had a negative cash balance in July during the last several years, and the fund's lowest 2003-04 cash balance (-\$763 million) occurred in July, 2003. In contrast, the lowest cash balance experienced in May, 2004, was +\$313 million. Delaying the computer aid payment would increase July's negative cash balance and result in increased temporary borrowing by the general fund from other state funds or the issuance of additional operating notes. Although the payment delay would result in one-time savings for the general fund, it would also result in additional interest expenses for the fund. The one-time savings would significantly exceed the interest expenses, however.

8. The payment delay would also adversely affect local governments' cash flow. State aid and property taxes are the two largest revenue sources for most types of Wisconsin local governments. County and municipal aid, shared revenue, and expenditure restraint aid comprise the largest state aid payments for municipalities, providing almost 20% of the general revenues in their governmental funds. However, these aids are paid entirely in the second half of the municipalities' fiscal year, and 79% of the funds are paid in November, slightly more than a month before the end of their fiscal year.

9. Over half of school districts' total costs are funded with state aid, and general aids comprise almost 90% of the state's payments. However, the largest single general aids payment occurs in June, the last month of school districts' fiscal year, when over one-third of the annual distribution is paid. Since 1997-98, \$75 million of the general school aids distribution has been deferred until the fourth Monday in July, after the close of the school year. Delaying the computer aid payment until July would also result in this payment occurring after the close of the school districts' fiscal year. To avoid a one-time revenue reduction, the bill would require school districts to record their computer aid payment as if it had been received in the previous school year.

10. Relative to school districts, technical college districts are less dependent on state aid (11% of statewide 2003-04 revenues), and they receive most of their state aid between July and February. Thus, their current cash flow position is in a better condition than that of school districts. Like school districts, technical college districts operate on a July to June fiscal year basis. As a result, delaying the computer aid payment until July would cause the 2007 payment to be made after the close of their 2006-07 fiscal year. Through accrual accounting, technical college districts could record the payment in the earlier fiscal year, but the bill does not contain a directive to do so.

11. If there is a reluctance to delay the aid payment until after the close of the school districts' fiscal year, the May payment date could be retained for school districts, and the payment date for other types of local governments could be moved from May to July (Alternative 3). This would reduce the impact of the payment delay on the GAAP deficit to a \$24.2 million increase, reflecting the loss of all of the "prepaid" aid and the creation of a liability related to the aid payable to technical college districts.

12. If there is a desire to also continue the aid payment for technical college districts before the close of their fiscal year, the May payment date could be retained for school and technical college districts, and the payment date for other types of local governments could be moved from May to July (Alternative 4). This would reduce the impact of the payment delay on the GAAP deficit to a \$19.9 million increase, reflecting the loss of all of the "prepaid" aid.

ALTERNATIVES

The following alternatives are based on the reestimate of the 2007 computer aid payment contained in the Legislative Fiscal Bureau issue paper entitled, "State Aid for Tax Exempt Computers, Cash Registers, and Fax Machines -- Sum Sufficient Reestimate" (Paper #676). The fiscal effects for the following alternatives do not include the effect of the Governor's fiscal control and state aid proposals. The fiscal effect for the approved alternative will be revised when the Committee acts on the fiscal control and state aid issues.

1. Approve the Governor's recommendation to delay the date for making state aid payments for exempt computers, cash registers, and fax machines from the first Monday in May of each year to the fourth Monday in July of each year, beginning in 2007. Decrease funding by

\$70,900,000 GPR in 2006-07 to reflect the payment delay. Require school districts to treat the July payments as if they had been received in the previous school year.

2. Specify that the change in payment dates under Alternatives 1, 3, or 4 is one-time in nature and that all payments in 2008 and thereafter are to be made on the first Monday in May.

3. Modify the Governor's recommendation by retaining the current law payment date for payments to school districts. Increase funding by \$26,800,000 GPR in 2006-07 to reflect this change.

<u>Alternative 3</u>	<u>GPR</u>
2005-07 FUNDING (Change to Bill)	\$26,800,000

4. Modify the Governor's recommendation by retaining the current law payment date for payments to school districts and technical college districts. Increase funding by \$31,100,000 GPR in 2006-07 to reflect this change.

<u>Alternative 4</u>	<u>GPR</u>
2005-07 FUNDING (Change to Bill)	\$31,100,000

5. Maintain current law.

<u>Alternative 5</u>	<u>GPR</u>
2005-07 FUNDING (Change to Bill)	\$70,900,000

Prepared by: Rick Olin