



Legislative Fiscal Bureau

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

May 3, 2007

Joint Committee on Finance

Paper #705

County Aid Fund (Shared Revenue and Property Tax Relief -- Direct Aid Payments)

Bill Agency

[LFB 2007-09 Budget Summary: Page 500, #3]

CURRENT LAW

Real estate transfer fee collections are deposited in the general fund with a variety of other revenue sources and used to fund general purpose revenue appropriations for state operations, local assistance, and aids to individuals and organizations. Local assistance appropriations include funding for state aid programs for counties. Four such programs are county and municipal aid, shared revenue (public utility aid), community youth and family aids, and circuit court support payments. In addition, counties administer a variety of programs on behalf of the state that provide aid to individuals and organizations. Several of these programs provide housing-related services, including grants and loans for housing costs, grants to local housing organizations, grants for the provision of shelter for homeless individuals and families, and mental health services for homeless individuals.

GOVERNOR

Create a county aid fund consisting of all state revenues from real estate transfer fee collections. Authorize the State of Wisconsin Investment Board to invest available amounts in the fund. Transfer \$4,000,000 annually from the county aid fund to the affordable housing trust fund for expenditure under currently authorized programs for housing grants and loans, for payments to designated agents authorized by the Department of Commerce to administer housing grants and loans, for transitional housing grants, and for mental health services for homeless individuals. Authorize the expenditure of revenues from the county aid fund under newly-created appropriations for the community youth and family aids program and for the circuit court support

payments program, both as established under current law. Authorize the expenditure of revenues from the county aid fund for payments to counties under the shared revenue and county and municipal aid programs, both as established under current law. The following fund condition statement reflects these transactions.

County Aid Fund Condition Statement

	<u>2007-08</u>	<u>2008-09</u>
Opening Balance	\$0	\$42,500
Revenues		
Real Estate Transfer Fee Collections	\$126,600,000	\$139,500,000
Expenditures		
Community Youth and Family Aids	\$7,400,000	\$10,300,000
Circuit Court Support Payments	9,103,000	10,012,500
County Aid Account	106,054,500	115,187,500
Transfer to Affordable Housing Trust Fund	<u>4,000,000</u>	<u>4,000,000</u>
Total Appropriations	\$126,557,500	\$139,500,000
Closing Balance	\$42,500	\$42,500

DISCUSSION POINTS

1. Prior to 1981-82, the general fund utilized three appropriation types -- general purpose revenue (GPR), program revenue (PR), and local tax revenue (LTR). From 1967-68 through 1980-81, varying percentages of specified state taxes were designated as LTR and used to fund state aid payments to local governments under the shared tax and later the shared revenue programs. Chapter 21, Laws of 1981, converted LTR to GPR beginning in 1981-82.

2. State law defines general purpose revenues as consisting of "general taxes, miscellaneous receipts and revenues collected by state agencies which are paid into a specific fund, lose their identity, and are available for appropriation by the legislature." Segregated fund revenues are defined as "revenues which, by law, are deposited into funds other than the general fund and are available for the purposes for which such funds are created." General purpose revenues are available for expenditure through GPR appropriations, and segregated revenues are available for expenditure through SEG appropriations.

3. Segregated funds are used when revenues are tied directly to certain functions. In some instances, the revenue source is comparable to a user fee that generates funding to provide a related service. For example, motor vehicle registration fees and gasoline tax revenues are deposited in the transportation fund and used to finance road construction and maintenance and other transportation-related functions. Similarly, hunting and fishing license fees and state park fees are deposited in the conservation fund and used to finance many of the state's resource management programs administered by the Department of Natural Resources. In other instances, a revenue

source may be legally tied to a certain function. For example, the Wisconsin Constitution requires proceeds from the lottery to be used for property tax relief for residents of the state. Consequently, lottery proceeds are deposited in the lottery fund and used to finance the lottery and gaming tax credit and the farmland tax relief credit. By creating segregated funds, future legislatures are discouraged or prohibited from using the segregated revenues for purposes other than those for which the funds are created.

4. In SB 40, the Governor proposes to increase the real estate transfer fee from \$3.00 to \$6.00 per \$1,000 of value transferred and deposit all of the proceeds from the fee in a new segregated fund called the county aid fund. The fund would be used to transfer \$4 million annually to the affordable housing trust fund and to finance aid payments to counties under four existing programs:

- the county and municipal aid program provides unrestricted aid to counties and municipalities;

- the shared revenue program provides aid to counties and municipalities when certain types of public utility property, which are exempt from local property taxation, are located within their boundaries;

- the community youth and family aids program provides each county with an annual allocation of state and federal funds from which a county may pay for juvenile delinquency-related services; and

- the circuit court support grant program provides state aid payments to counties to fund any county court costs except security, rent, utilities, maintenance, rehabilitation, or construction of court facilities.

5. The real estate transfer fee is imposed on conveyances of real estate between individuals. Because the fee is administered at the county level, there may be some basis for returning the fee's proceeds to counties. Otherwise, there is little direct connection between the fee and the functions financed by the four state aid programs, although the fee might be indirectly associated with the programs that would be financed under the affordable housing trust fund.

6. Between 1999-00 and 2006-07, total funding for the four state aid programs and the three housing programs has declined from \$296.9 million to \$288.7 million. As displayed in Table 1, the decline is due to the conversion of the shared revenue program to the county and municipal aid program in 2004-05. Although total funding changed in each year except 2005-06, funding remained unchanged during the entire period for the circuit court support grant and housing programs, and funding for the youth aids program has been unchanged since 2002-03.

TABLE 1

**Funding for Selected County Aid and Housing Programs,
1999-00 through 2006-07
(In Millions)**

	<u>Circuit Court Support Grants</u>	<u>Shared Revenue and County and Municipal Aid (County Share)</u>	<u>Community Youth and Family Aids</u>	<u>Combined Housing Programs</u>	<u>Total</u>	<u>Percent Change</u>
1999-00	\$18.7	\$189.1	\$84.2	\$4.9	\$296.9	
2000-01	18.7	189.7	86.2	4.9	299.5	0.9%
2001-02	18.7	189.7	87.2	4.9	300.5	0.3
2002-03	18.7	191.6	88.3	4.9	303.5	1.0
2003-04	18.7	193.5	88.3	4.9	305.4	0.6
2004-05	18.7	174.3	88.3	4.9	286.2	-6.3
2005-06	18.7	174.4	88.3	4.9	286.3	0.0
2006-07	18.7	176.8	88.3	4.9	288.7	0.8

7. Under the Governor's proposal, funding for each of the programs would increase in the 2007-09 biennium, as displayed by Table 2. By supplementing existing appropriations with new appropriations under the county aid fund, SB 40 would provide significant increases in three of the four programs, and combined funding for the programs would increase by 7.7% in 2007-08 and 2.3% in 2008-09. Over the biennium, SB 40 would provide almost \$52 million in additional aid to counties under the combined programs. Over 90% of the additional funding would be provided through the circuit court support grant (\$19.1 million) and youth aids (\$27.7 million) programs.

TABLE 2

**Proposed Funding from County Aid Fund and Other Sources
for County Aid and Housing Programs, (\$ in millions)**

	<u>Circuit Court Support Grants</u>	<u>Shared Revenue and County and Municipal Aid (County Share)</u>	<u>Community Youth and Family Aids</u>	<u>Combined Housing Programs</u>	<u>Total</u>
2007-08	\$27.8	\$176.6	\$100.7	\$5.9	\$311.0
Prior Yr. Change	48.6%	-0.1%	14.0%	20.4%	7.7%
2008-09	\$28.7	\$180.0	\$103.6	\$5.9	\$318.2
Prior Yr. Change	3.2%	1.9%	2.9%	0.0%	2.3%

8. In its "2007-08 Legislative Agenda," the Wisconsin Counties Association identifies funding for youth aids and circuit courts among its legislative priorities. The Association cites data from the Department of Corrections indicating that, between 1995 and 2004, combined state and county funding for juvenile justice services increased by 18.2%. However, the Association reports that county costs for these services increased more rapidly (34.5%) because increases in youth aids funding have not kept pace with increases charged to counties for juvenile correctional placements. Over the 1995 to 2005 period, the Association reports that counties' circuit court costs have increased by \$51 million, while circuit court support grant funding increased by \$11 million. Finally, the Association notes, "when state aids are insufficient to administer and carry out state programs, counties utilize the property tax to supplement."

9. Real estate transfer fee collections are estimated at \$126.6 million in 2007-08 and \$139.5 million in 2008-09, including revenue attributable to the proposed rate increase. However, SB 40 would not use the county aid fund to fund any of the programs in Table 2 in their entirety, providing only 42% of those programs' total funding in 2007-09. Except for \$2.4 million in federal funding for youth aids, base year funding for these programs is comprised exclusively of GPR.

10. By diverting general fund taxes to a segregated fund, SB 40's increase in GPR expenditures is reduced. In the Bureau's Summary of Governor's Budget Recommendations, Table 11 reports annual GPR appropriation increases of 1.3% in 2007-08 and 3.4% in 2008-09 and a biennial (2007-09) increase of 3.1% relative to the base year (2006-07) doubled. In addition to the county aid fund, SB 40 would create a health care quality fund, financed in part with SEG revenues from increases in the cigarette and tobacco products taxes. Both the real estate transfer fee and the cigarette and tobacco products taxes have traditionally been treated as general fund revenues. If proposed SEG expenditures funded from the real estate transfer fee and the cigarette and tobacco products taxes were instead treated as GPR expenditures, GPR appropriation increases of 4.4% in 2007-08 and 3.4% in 2008-09 would result, with a biennial increase of 6.1% relative to the base year doubled. Table 3 displays the calculation of these amounts.

TABLE 3

**Comparison of GPR Appropriations Under Three Scenarios
(\$ in Millions)**

	<u>2006-07</u>	<u>Doubled</u>	
Adjusted Base	\$13,331.0	\$26,662.1	
	<u>2007-08</u>	<u>2008-09</u>	<u>2007-09</u>
1. Senate Bill 40	\$13,509.9	\$13,973.0	\$27,482.9
Change	178.9	463.1	820.8
Percent	1.3%	3.4%	3.1%
2. SB 40	\$13,509.9	\$13,973.0	\$27,482.9
+ County Aid Fund Appns.	126.6	139.5	266.1
+ Health Care Quality Fund Appns.*	<u>275.7</u>	<u>270.5</u>	<u>546.2</u>
Adjusted Appropriations	\$13,912.2	\$14,383.0	\$28,295.2
Change	581.2	470.8	1,633.1
Percent	4.4%	3.4%	6.1%
3. SB 40	\$13,509.9	\$13,973.0	\$27,482.9
+ GPR School Aids Appns.	<u>-5,347.3</u>	<u>-5,453.2</u>	<u>-10,800.5</u>
Adjusted Appropriations	\$8,162.6	\$8,519.8	\$16,682.4
Change	-5,168.4	357.2	-9,979.7
Percent	-38.8%	4.4%	-37.4%

* Includes only appropriations funded with cigarette and tobacco products taxes.

11. If the objective is to reduce GPR appropriations, a school aid fund could be created to provide funding for general and categorical school aids. Based on SB 40's funding level for these aids, the fund could be financed by dedicating approximately 80% of the state's sales and use tax collections. By converting these GPR aid programs to a SEG funding source, total GPR appropriations would decrease by 38.8% in 2007-08 and increase by 4.4% in 2008-09 (calculated on a year-to-year basis), and biennial GPR appropriations would decrease by 37.4% (calculated over the base year doubled). Table 3 also displays these calculations.

12. Under the funding structure proposed in SB 40, amounts in the county aid fund would first be used to fund the SEG appropriations for youth aids, circuit court support grants, and the transfer to the affordable housing trust fund. Any remaining amounts would be used to fund county aid payments under the county and municipal aid and shared revenue programs. If there is insufficient SEG revenue to fully fund the statutory distribution to counties (which is the case), additional GPR funding would be provided under a newly-created, sum sufficient, supplemental appropriation for the county aid account. Under the bill, it is estimated that funding for these county aid payments would be split as follows: (a) SEG of \$106.1 million in 2007-08 and \$115.2 million in 2008-09; and (b) GPR of \$70.6 million in 2007-08 and \$64.8 million in 2008-09.

13. Over the last 10 years, increases in real estate transfer fee collections have averaged 9.9% on an annual basis, reflecting Wisconsin's strong real estate market during this period. Since 1995-96, real estate transfer fee collections have had the highest growth rate among the general fund tax sources with collections over \$1 million. By dedicating real estate transfer fee collections to county aid programs, counties would share in the state's economic growth. This may provide an incentive for counties to encourage activities that foster economic growth.

14. Real estate transfer fee collections are sensitive to fluctuations in economic conditions, as evidenced by a 2.4% decline in 2000-01, which roughly coincides with the 2001 recession. Since 2000-01, collections increased at an average rate of 12.7% per year, which included a 16.4% increase in 2004-05. However, real estate transfer fee collections rose only 4.3% in 2005-06, and collections for 2006-07 are estimated to be 14.3% less (\$69.0 million) than in 2005-06. This coincides with what the U.S. Federal Reserve Board has characterized as a "substantial correction of the housing sector." If the real estate transfer fee had been doubled in a prior year, dedicated to a SEG fund, and used to partially fund the four programs at their actual 2005-06 levels, \$161.1 million in SEG revenues would have been available to be combined with \$125.2 million in GPR funding. Although the combined expenditures for the programs increased by only 0.9% to \$288.7 million in 2006-07, a 20.4% increase in the programs' GPR funding would have been required because estimated real estate transfer fee collections would have provided only an estimated \$138.0 million in SEG funding.

15. The Legislative Fiscal Bureau's January 30, 2007, memorandum on general fund revenue and expenditure projections indicates that general fund revenues are estimated to increase by \$397.9 million in 2007-08 and by an additional \$457.6 million in 2008-09 under current law provisions. Therefore, \$1,253.4 million in additional revenues are available to fund commitments made in previous legislative sessions, existing services, expanded services, and new programs. In the budget, the Legislature allocates revenue increases among the various appropriations, thereby setting the state's spending priorities. By creating a new SEG fund with a designated revenue source, it would become more difficult to use additional revenue from the designated revenue source for purposes other than those uses designated within the fund. On one hand, this could impede the Legislature's ability to respond to the most pressing problems faced by the state. On the other hand, the designated services would be more likely to receive continued funding, even when other state revenue sources are constrained.

ALTERNATIVES TO BILL

[The alternatives in this paper use the "base" column to reflect changes to revenue and funding as they would be structured without the creation of a county aid fund.]

1. Approve the Governor's recommendation to create a county aid fund. Designate all state revenues from real estate transfer fee collections for deposit in the fund. Authorize the State of Wisconsin Investment Board to invest available amounts in the fund. Transfer \$4,000,000 annually from the county aid fund to the affordable housing trust fund for expenditure. Authorize the

expenditure of revenues from the county aid fund under newly-created appropriations for the community youth and family aids program and for the circuit court support payments program. Authorize the expenditure of revenues from the county aid fund for payments to counties under the shared revenue and county and municipal aid programs. [Note: If the Legislature does not adopt the Governor's recommendation to increase the real estate transfer fee (under General Fund Taxes -- Miscellaneous Taxes), the two sum sufficient appropriations making payments under the shared revenue and county and municipal aid programs would be adjusted accordingly.]

ALT 1	Change to Bill		Change to Base	
	Revenue	Funding	Revenue	Funding
GPR	\$0	\$0	- \$266,100,000	- \$266,057,500
SEG	<u>0</u>	<u>0</u>	<u>266,100,000</u>	<u>266,057,500</u>
TOTAL	\$0	\$0	\$0	\$0

2. Delete provision. Continue to recognize real estate transfer fee collections as a GPR revenue and convert \$126,600,000 in 2007-08 and \$139,500,000 in 2008-09 from SEG to GPR revenue. Reduce SEG expenditures and increase GPR expenditures by \$126,557,500 in 2007-08 and \$139,500,000 in 2008-09 to reestablish the expenditure levels proposed in the bill as GPR appropriations, as follows: (a) community youth and family aids program, \$7,400,000 in 2007-08 and \$10,300,000 in 2008-09; (b) circuit court support payments program, \$9,103,000 in 2007-08 and \$10,012,500 in 2008-09; (c) county and municipal aid account, \$86,645,400 in 2007-08 and \$95,169,600 in 2008-09; (d) shared revenue account, \$16,037,900 in 2007-08 and \$16,145,400 in 2008-09; (e) public utility distribution account, \$3,371,200 in 2007-08 and \$3,872,500 in 2008-09; and (f) Department of Commerce housing programs, \$4,000,000 annually. (Separate papers will address the funding level for each of these programs and the proposed increase in the real estate transfer fee.)

ALT 2	Change to Bill		Change to Base	
	Revenue	Funding	Revenue	Funding
GPR	\$266,100,000	\$266,057,500	\$0	\$0
SEG	<u>- 266,100,000</u>	<u>- 266,057,500</u>	<u>0</u>	<u>0</u>
TOTAL	\$0	\$0	\$0	\$0

Prepared by: Rick Olin