



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #600

School Levy Tax Credit Funding Source Lottery and Gaming Credit Funding Level (Shared Revenue and Tax Relief -- Property Tax Credits)

[LFB 2013-15 Budget Summary: Page 435, #1 and #2 (part)]

CURRENT LAW

School Levy Tax Credit. The school levy tax credit is distributed based on each municipality's share of statewide levies for school purposes during the three preceding years. These amounts are apportioned within municipalities based on each property's assessed value as a percent of the corresponding municipality's total assessed value. Total funding for the school levy tax credit is \$747,400,000, including \$732,550,000 GPR and \$14,850,000 SEG from the lottery fund. School levy tax credits used to reduce tax bills in December of one year are paid on the fourth Monday of July of the following year, which is in the next state fiscal year.

Lottery and Gaming Credit. The lottery and gaming credit equals the school taxes paid on the value of the credit base, which is set by the Department of Revenue (DOR) each year, based on the estimated amount of lottery and gaming proceeds available for distribution in that year. For the 2012 property tax year (payable in 2013), the credit base equals the first \$9,200 in value of property used as the owner's primary residence. Other types of property do not receive the credit. Approximately \$141.5 million was distributed through the credit for 2012(13) property taxes. Lottery and gaming credits used to reduce tax bills in December of one year are paid on the fourth Monday in March of the following year, which is in the same state fiscal year.

GOVERNOR

School Levy Tax Credit. Provide \$14,850,000 GPR annually for the school levy tax credit to replace \$14,850,000 in annual SEG funding from the lottery fund for the credit. The SEG funding would be used to increase the lottery and gaming credit. Amend the GPR appropriation

to delete the reference to the SEG lottery fund appropriation. Delete the SEG lottery fund appropriation for the credit and the provision requiring DOR to promulgate rules to ensure that credits paid from this appropriation go only to state residents. Specify that these changes would first apply to school levy tax credits paid in 2013.

Lottery and Gaming Credit. Provide \$14,850,000 SEG annually in lottery fund revenues for the lottery and gaming tax credit associated with the proposed deletion of the lottery funding for the school levy credit.

DISCUSSION POINTS

1. Under the Governor's recommendation, the school levy tax credit would continue to be funded at \$747,400,000, but would be entirely funded with GPR. The Governor's recommendation would delete the \$14,850,000 SEG from the lottery fund and replace it with GPR funding. However, a technical correction would have to be made in order to adjust the annual distribution amount specified in statute to reflect the increase in GPR funding.

2. Prior to 2010-11, the school levy credit was paid entirely from a GPR appropriation. However, under 2009 Act 28, \$14,850,000 annually in school levy credit funding is currently provided from net lottery and gaming revenues, while the remaining \$732,550,000 is funded with general purpose revenues. Act 28 deleted the farmland tax relief credit and the \$14,850,000 in SEG appropriated from the lottery fund for the credit, phased out the existing farmland preservation credit, and created a new, per-acre farmland preservation tax credit. The new, per-acre credit combined the existing funding amounts for the farmland tax relief credit and farmland preservation credit. However, the new, per-acre farmland preservation credit was funded entirely with GPR and the \$14,850,000 in SEG funding that had been used for the farmland tax relief credit was used to instead fund a portion of the school levy tax credit. A corresponding reduction in GPR funding for the school levy tax credit was made and total funding for the school levy tax credit remained at \$747,400,000: \$732,550,000 GPR and \$14,850,000 SEG.

3. Since the school levy credit payment in July, 2013, reimburses local governments for tax credits extended in December, 2012, it is important that the bill would continue to provide a total of \$747,400,000 for that payment. Within the 2013-14 fiscal year, the \$14,850,000 in additional GPR would go to make part of the July, 2013, payment. The \$14,850,000 SEG that would have been used for that purpose under current law would instead go towards the lottery and gaming credit that will be extended on December, 2013, tax bills and will become part of the March, 2014, lottery and gaming credit payment to local governments.

4. The state's Constitution limits the use of net lottery funds to property tax relief for state residents. Since school levy credits are paid to all local property taxpayers, including nonresidents, Act 28 required DOR to promulgate administrative rules to make certain that payments from the lottery fund appropriation are used exclusively for school levy tax credits granted to Wisconsin residents. The DOR rule specifies that the amount paid from the SEG appropriation for school levy tax credits in a given year cannot exceed the school levy paid by resident taxpayers to the municipality in that year. Because the bill would delete the lottery fund

appropriation for the school levy tax credit, the DOR rule would no longer be necessary and the statutory requirement for those rules would be deleted.

5. For the 2012(13) levy, a home with a full market value of \$150,000 subject to the average statewide levy rate for school purposes (10.19 mills) would have had school taxes of \$1,529 reduced by a school levy credit estimated at \$238 (a 15.6% reduction). Higher-valued homes would have received a proportionately higher credit. For example, a \$250,000 home taxed at the same rate would have had a school tax bill of \$2,548 and would have received a credit estimated at \$397. The actual percentage reduction in school taxes varied by municipality.

6. In 2012(13), lottery and gaming tax credits of \$94 would have been extended to primary residences with values over \$9,200 that are located in a school district with the statewide average school tax rate. For a primary residence with a value of \$150,000, the credit would have reduced school taxes of \$1,529 by 6.1%. A reduction of 3.7% would have occurred for a \$250,000 primary residence with a school tax bill of \$2,548. Credits would have been proportionately higher or lower in school districts with tax rates higher or lower than 10.19 mills.

7. The estimated amounts available for the lottery and gaming credit would be \$149,849,700 in 2013(14) and \$142,900,100 in 2014(15), if the Committee includes the Governor's recommendation to make \$14,850,000 in additional revenues available for the credit (Alternative 1).

8. The number of primary residence parcels receiving the lottery and gaming credit is fairly stable from year to year. Therefore, making additional funds available for the lottery and gaming credit does not impact the number of parcels receiving the credit. Rather, depending on the school tax levies, the additional funding for the credit would likely result in an increase in the credit base certified by DOR.

9. The Governor's recommendation to delete the lottery funding for the school levy tax credit would result in net lottery fund revenues being \$14,850,000 higher in each year of the biennium compared to current law. As a result, \$14,850,000 more would be available each year for distribution through the lottery and gaming tax credit. Administration officials believe that providing the additional funding through the lottery and gaming tax credit was the most effective way to get the most property tax relief to Wisconsin homeowners. This occurs because the credit is only provided on primary residences. Based on estimates for the 2013(14) levy, \$14,850,000 distributed through the school levy tax credit formula would lower taxes on a median-valued (\$152,400) home taxed at the statewide average school tax rate by about \$5. The same amount distributed through the lottery and gaming credit would decrease these estimated taxes by about \$10 (this is the estimated tax decrease under the bill compared to current law). However, property that is not a primary residence would receive no benefit from an increase in the lottery and gaming credit.

10. The Committee could decide to adopt the Governor's recommendation to use all SEG funding for the lottery and gaming credit, but not replace the SEG with GPR for the school levy credit, thereby lowering total funding for the school levy credit from \$747,400,000 to \$732,550,000, beginning with December, 2013, tax bills. However, since the appropriation for 2013-14 will be used to pay credits that have already been extended on tax bills, the school levy

credit reduction could not occur until the 2014-15 fiscal year. Under this approach (Alternative 2), the SEG funding would be shifted from the school levy credit to the lottery and gaming credit appropriation in both fiscal years and \$14,850,000 GPR would be provided in 2013-14 to fully fund the July, 2013 school levy credit payment. No above-base GPR would be provided in 2014-15, which would reduce GPR funding in that year for the school levy credit by \$14,850,000 compared to the bill.

11. The alternative outlined in the preceding point would decrease total credits on a median-valued home by about \$5 annually, compared to the bill, for both 2013(14) and 2014(15). However, compared to current law, this would provide an increase that is also about \$5 annually.

12. Some have expressed concern about the estimated increase in property taxes on a median-valued home under the provisions of the bill. As indicated in an April 11th memorandum from this office, these taxes are estimated to increase by \$25 from 2012(13) to 2013(14) and by an additional \$18 from 2013(14) to 2014(15). Although there are other decisions that could affect property tax levels, an increase in school levy credit funding has been used in the past to accomplish such goals. Based on estimated levies, an increase from \$747,400,000 to \$825,300,000 for the 2013(14) levy and a second increase, from \$825,300,000 to \$883,800,000 for the 2014(15) levy, would result in the levy on a median-valued home remaining constant throughout this period (Alternative 3). Since the school levy credit for December of one year is not paid until July of the following year, which is in the next state fiscal year, only the increase for the 2013(14) credit (\$77,900,000 GPR) would be paid in the 2013-15 biennium. The increase for the 2014(15) credit (\$58,500,000 GPR) would be an advanced commitment for the 2015-17 biennium.

ALTERNATIVES

1. Approve the Governor's recommendation to provide \$14,850,000 GPR annually for the school levy tax credit to replace \$14,850,000 in annual SEG funding from the lottery fund for the credit. Provide \$14,850,000 SEG annually in lottery fund revenues for the lottery and gaming tax credit.

Amend the GPR appropriation for the school levy credit to delete the reference to the SEG lottery fund appropriation. Delete the SEG lottery fund appropriation for the credit and the provision that requires DOR to promulgate rules to ensure that credits paid from this appropriation go only to state residents. Specify that these changes would first apply to school levy tax credits paid in 2013.

Include a technical correction to the bill to adjust the annual distribution amount specified in statute to \$747,400,000 in order to reflect the increase in GPR funding.

2. Modify the Governor's recommendation by deleting the proposed \$14,850,000 GPR increase in funding for the school levy credit in 2014-15. Compared to current law, this would increase funding for the lottery and gaming credit by \$14,850,000 SEG annually. Total school levy tax credit funding would be unchanged in 2013-14, but would decrease by \$14,850,000 in 2014-15. Specify that the school levy tax credit total distribution be set at \$732,550,000, beginning with tax

credits extended on December, 2013, tax bills.

ALT 2	Change to Bill Funding
GPR	- \$14,850,000

3. Approve the Governor's recommendation. In addition, provide a \$77,900,000 GPR increase in the school levy tax credit funding in 2014-15. Specify that the school levy tax credit total distribution be set at \$825,300,000 for tax credits extended on December, 2013, tax bills and at \$883,800,000 for tax bills extended on December, 2014, tax bills and thereafter [these increases to the school levy tax credit distribution would result in an estimated \$0 increase in property taxes on a median-valued home taxed at the statewide average rate for 2013(14) and 2014(15)]. Since the \$58,500,000 increase from 2013(14) to 2014(15) would not affect payments until July, 2015, which is in the 2015-16 fiscal year, this would be an advanced commitment for the next biennium.

ALT 3	Change to Bill Funding
GPR	\$77,900,000

4. Delete provision. Funding available for the school levy tax credit would total \$747,400,000 (\$732,550,000 GPR and \$14,850,000 SEG). No additional net lottery fund proceeds would be available for lottery and gaming credits.

ALT 4	Change to Bill Funding
GPR	- \$29,700,000

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