



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #556

### **Video Service Provider Fee Payment (Shared Revenue and Tax Relief -- Direct Aid Payments)**

[LFB 2021-23 Budget Summary: Page 537, #6]

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#### **CURRENT LAW**

The video service provider fee reduction aid payment is meant to hold municipalities harmless for revenues lost due to state-imposed reductions in fees municipalities assessed on certain video service providers. In order to receive a payment municipalities are required to submit information on the provider's reported gross receipts on which the fees are based to the Department of Revenue (DOR). DOR is required to certify the amount of the payment due to each taxing jurisdiction the Department of Administration (DOA), and DOA is to make the payment on or before the 4th Monday in July.

The payment is funded by a GPR, sum certain appropriation, which has base level funding of \$5,000,000. In 2021-22 and each year thereafter, the cost of the payment is estimated to increase to \$10,008,200.

#### **DISCUSSION POINTS**

1. 2019 Wisconsin Act 9 (the 2019-21 biennial budget) required municipalities to reduce fees assessed on certain video service providers, beginning in 2020. Municipalities were required to reduce their fee rate by 0.5%, effective January 1, 2020, and by 1%, effective January 1, 2021. A state aid program was created to hold municipalities harmless for the associated reduction in revenue. As passed by the Legislature, the aid payment were to be made for 10 years, with final payments being distributed in 2029. The Governor vetoed the 10-year limiting on the payments. As a result, the payment will be distributed to municipalities on an ongoing basis.

2. For aid payments distributed in 2020, each municipality's payment was to equal 0.5% of

the reported gross receipts on which the fee revenues were received in 2018. Beginning with aid payments distributed in 2021, and each year thereafter, each municipality's payment would be based on 1.0% of the reported gross receipts on which the fee revenues were received in 2019. Municipalities are required to report these amounts to DOR. After the information needed to calculate the 2021 payment is provided, each municipality is to receive a payment each in year equal to the amount it will receive in 2021.

3. During deliberations on the 2019-21 biennial budget, the Joint Finance Committee initially created the payment as a sum sufficient appropriation. Subsequently, in an action of the Assembly, the appropriation was converted to a sum certain appropriation. This action was adopted by the full Legislature and enacted under Act 9. As a result, the ongoing appropriation is limited to \$5,000,000 in expenditures.

4. At the time aid program was created, the cost of the payment was estimated to be \$5,000,000 in 2020-21, associated with the required 0.5% fee rate reduction. It was expected that this cost would increase to \$10,000,000 in 2021-22 and thereafter, following the increase in the fee rate reduction to 1% effective January 1, 2021. However, the sum certain appropriation is not sufficient to make these payments for 2021-22.

5. In 2019, 519 municipalities submitted the required information to DOR. Based on that information, DOR distributed \$5,000,000 in video service provider fee aid payments in July, 2020. In 2020, 533 municipalities reported the required information to DOR. Based on information reported for 2019, DOR notified municipalities on October 1, 2020 of their July, 2021, payment amounts. While DOR has provided estimates of the total payments for 2021-22 of \$10,000,000 based on those filings, the actual amount of total payments are expected to be certified by DOR is \$10,008,200 for 2021-22. However, the base level funding for the existing sum certain appropriation is only \$5,000,000 for 2021-22, which is not sufficient to make the July, 2021, payments. Further, DOA has no authority to prorate the amount of payments certified by DOR.

6. The Governor recommends that the video service provider fee aid payment appropriation be converted to a sum sufficient appropriation. This would allow DOA to make payments in whatever amount DOR certifies that it would take to provide municipalities a payment equal to 1% reported gross receipts for 2019. Though it is unlikely that the payments would exceed the 2021 payments in future years, converting the appropriation to a sum sufficient appropriation would ensure that the aid payment would be fully funded in such a scenario. The estimated increase in base level funding would equal \$5,008,200 each year, for a total appropriation of \$10,016,400. [Alternative 1].

7. Conversely, because municipalities have already reported the required information needed for DOR to calculate the 2021 payment amounts, the total payment amount is known. In addition, that same amount is to be paid in future years. Therefore, there is likely no need to convert the appropriation to a sum sufficient appropriation. Rather, the Committee could increase the \$5,000,000 in base level funding in the existing sum certain appropriation by \$5,008,200 each year to provide the \$10,008,200, which would fully fund the payment amounts for 2021, and each year thereafter. This would require an increase in base level funding equal to \$5,008,200 each year, or by \$10,016,400 for the biennium. [Alternative 2].

8. The Committee could choose not to provide the additional funding on an ongoing basis and instead allow municipalities to increase their video service provider fees by the additional 0.5% that these fees were reduced in 2021, beginning in 2022 and thereafter. The allowable increase in the fee could first take effect on January 1, 2022. This would lessen the loss in local revenue by changing the currently required 1.0% fee reduction back to a 0.5% fee reduction. As a result, less funding would be required to hold municipalities harmless for the revenue reduction in 2022-23 and thereafter [Alternative 3]. As municipalities have already reduced their video service provider fees associated with the 2021 payments (2021-22), this alternative would still require an increase in base level funding of \$5,008,200 GPR in 2021-22. However, if the required fee reduction is set at 0.5% instead of 1.0%, this amount could subsequently be reduced in 2022-23 and thereafter, to a total appropriation level of \$5,004,100 GPR.

9. If the Committee would choose to not provide any additional funding for the video service provider fee, there would not be sufficient funding for the appropriation to make the video service provider payments as required under current law. Further, municipalities would not be fully compensated for the loss in their video service provider fees revenues associated with the required increase to the fee rate reduction from 0.5% to 1.0%. In this event, the Committee, at a minimum, could provide DOA with the authority to prorate the payment amounts base on available funding [Alternative 3]. Otherwise, it would remain unclear as to what authority DOA would have to make different payment amounts than the amounts certified by DOR.

## ALTERNATIVES

1. Convert the sum certain GPR appropriation for the video service provider fee aid payment to a sum sufficient GPR appropriation. Provide \$5,008,200 annually to make the estimated payments of \$10,008,200 annually.

ALT 1	Change to Base
GPR	\$10,016,400

2. Provide \$5,008,200 annually to the existing sum certain GPR appropriation to make video service provider fee aid payments of \$10,008,200 annually.

ALT 2	Change to Base
GPR	\$10,016,400

3. Specify that the required fee reduction be established at 0.5% rather than 1.0%, beginning January 1, 2022. Provide \$5,008,200 in 2021-22 to the existing sum certain GPR appropriation to make video service provider fee payments totaling \$10,008,200 in 2021-22. Thereafter, specify that the ongoing appropriation would be \$5,004,100.

<b>ALT 3</b>	<b>Change to Base</b>
GPR	\$5,012,300

4. Take no action on the funding level. Provide DOA the authority to prorate the annual video service provider fee payments in the event the appropriation funding level is not sufficient to fund the annual aid amounts certified by DOR. Municipalities would not be fully reimbursed for lost revenues associated with the required fee rate reduction. [This authority is needed to provide DOA the ability to make payments in an amount different that those amounts certified by DOR].

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