



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #596

### **General School Aids Appropriation for Streamlined Sales and Use Tax Project Revenue (DPI -- General School Aids and Revenue Limits)**

[LFB 2005-07 Budget Summary: Page 398, #3]

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#### **CURRENT LAW**

General school aids are unrestricted aids provided to school districts primarily through the equalization aid formula. Two appropriations are made for general school aids, one from the general fund (\$4,257.5 million in 2004-05) and one from the transportation fund (\$60.0 million in 2004-05).

In any fiscal year in which actual general fund tax revenues exceed the level of general fund revenues estimated in the fund condition statement included in the biennial budget act, an amount equal to 50% of the excess tax revenues are transferred from the general fund to the budget stabilization fund. This transfer provision, however, is subject to two limitations. First, if the balance in the budget stabilization fund prior to any such transfer exceeds 5% of general fund expenditures for that fiscal year, no transfer is to be made. Second, if such a transfer would cause the balance in the general fund to be reduced below the required statutory balance for the fund, then the otherwise required transfer amount must be reduced as needed to maintain the required statutory reserve in the general fund. In addition, the net proceeds from the sale or lease of surplus state land, buildings, property, and supplies are also deposited in the budget stabilization fund, as well as any donations to the fund by members of the general public.

#### **GOVERNOR**

Create a general fund appropriation for supplemental general school aids to be funded from any additional revenues collected under the Streamlined Sales and Use Tax (SSUT)

Agreement, to be distributed, if available, under the current equalization aid formula. Require the Department of Revenue (DOR), no sooner than July 1, 2006, and no later than September 1, 2006, to estimate the amount of sales and use tax revenue that will be collected in the 2005-07 biennium in excess of the amount from the streamlined sales and use tax project that DOR estimated would be collected prior to the 2005-07 biennium, based, in part, on the assumption of compliance by sellers with the SSUT Agreement. Specify that the amount appropriated would be a sum sufficient equal to the amount determined by DOR. Require the Secretary of the Department of Administration (DOA) to reduce any amount of excess revenue that would otherwise be transferred to the budget stabilization fund under current law by an amount necessary to fund the new supplemental general aids appropriation. Modify all statutory references to the current general school aids appropriations to also include the new supplemental general aids appropriation. Prohibit DPI from encumbering or expending any money from this appropriation after June 30, 2007.

(In a March 9, 2005, letter to the Co-Chairs of Joint Finance, the DOA Secretary indicated that two technical modifications would need to be made to the language in AB 100 to achieve the intent of the Governor's provision. First, statutory language would be needed to clarify that only additional revenue generated by the streamlined sales tax, and not all additional sales tax revenue, would be used for supplemental general school aids. Second, the definition of the secondary guarantee would need to be modified to include the supplemental general school aids appropriation in its calculation.)

## **DISCUSSION POINTS**

1. Under the Governor's budget, \$4,732.5 million would be appropriated for general school aids in 2006-07. Using the same categories of funding that were used to measure state support of K-12 education under the prior law two-thirds funding commitment (general school aids and categorical aids, the school levy tax credit, and the state residential schools), a total of \$5,969.6 million would be appropriated in 2006-07 for state support. This funding would provide an estimated 66.7% of K-12 partial school revenues in 2006-07.

2. Under the bill, state sales and use tax statutes would be modified to conform to the terms of the SSUT Agreement. The SSUT Agreement is part of a multi-state initiative intended to simplify and modernize the collection and administration of sales and use taxes nationwide, to encourage more remote sellers to voluntarily agree to collect taxes on sales for which they are not currently required to do so. The provisions would take effect and first apply October 1, 2005. The Agreement itself will be dealt with in a separate issue paper under general fund taxes.

3. The administration estimates a net revenue gain from adopting these provisions of \$12.2 million in 2005-06 and \$14.2 million in 2006-07. Under the Governor's budget, if DOR determines that additional sales and use tax revenue is raised due to implementation of the SSUT Agreement, the amount determined by DOR would be appropriated in a new supplemental general school aids appropriation in 2006-07. This funding would be added to the general school aids

appropriations from the general fund and the transportation fund and distributed through the equalization aid formula.

4. It is unclear how DOR would estimate the amount of excess revenues from the SSUT Agreement under the provisions of the bill. There are several elements to the fiscal impact of adopting the SSUT provisions: (a) modifications to the sales tax base, which are estimated to decrease tax revenues by \$3.1 million in 2005-06 and \$2.6 million in 2006-07; (b) anticipated increased revenues from out-of-state retailers that voluntarily agree to collect the sales tax if the SSUT provisions are adopted, which are estimated to be \$15.3 million in 2005-06 and \$16.8 million in 2006-07; (c) reduced revenues from paying a higher rate of retailer's compensation to certain sellers, the amount of which is unknown; and (d) potential revenues associated with an amnesty provision, which are also unknown. The language included in the budget bill does not specify how DOR would estimate the impact of these factors. According to the administration, the provision in the bill is intended to provide flexibility to allow DOR to consider all relevant factors in estimating state revenues from the SSUT Agreement.

5. The Governor's provision would provide an automatic mechanism to provide additional general school aids funding if additional revenue from the SSUT Agreement becomes available in the biennium. In this way, additional state support would automatically be provided to elementary and secondary education. Because the funding would be provided as general school aids, it would be under revenue limits. Thus, any increase in funding provided under this provision would reduce the statewide school property tax levy.

6. Under the Governor's budget, the statewide net property tax levy for schools, after consideration of the school levy tax credit, would decrease from \$3,575.0 million in 2005-06 to \$3,565.0 million in 2006-07, a reduction of -0.3%. Given the relatively large increases in funding for general school aids and the school levy tax credit in AB 100, under which the estimated net school levy would decline from 2005-06 to 2006-07, it could be argued that enough state funding is being directed to this purpose, and that any additional revenue from the SSUT Agreement would not need to be provided as general school aids.

7. Further, while the use of one-time money to fund general school aids would further reduce the school property tax levy in 2006-07, it would make it more difficult to maintain that level of levy in 2007-08 and beyond, when that funding is no longer available.

8. The Committee could also choose to provide any additional revenue from the streamlined sales tax project for other K-12 purposes. The special education categorical aid appropriation, for example, has been providing a declining percent of support for eligible costs in recent years. Rather than adopt the Governor's recommendation, the Committee could instead create a general fund appropriation for supplemental special education aids to be funded from any additional revenue from the SSUT Agreement. Under AB 100, \$332.8 million would be appropriated for special education aid in 2006-07, which would reimburse an estimated 27.7% of eligible costs.

9. Providing any additional revenue as categorical aid, rather than general aid, would not have a direct impact on the school property tax levy. Because categorical aid is outside of revenue limits, it represents additional financial resources to school districts to support their costs.

10. Under AB 100, state support of K-12 education is estimated to be 66.7% in 2006-07. In recent history, the state has not set a goal to provide more than two-thirds funding of K-12 partial school revenues. Providing additional revenue for K-12 education in 2006-07 above that already included in AB 100, through either general or categorical aid, would exceed the 66.7% level of support.

11. The Committee could maintain the current law transfer provisions relating to any excess revenue derived from the SSUT Agreement. The mechanism to transfer a portion of excess revenue to the budget stabilization fund was intended to provide a more meaningful source of revenue for the fund than previously existed and to address the lack of any significant state rainy day fund. Some would argue that carving out an exception for one particular source of revenue would be counter to the original intent of the transfer provision.

12. The earmarking of excess sales tax collections from the SSUT Agreement for school aids would represent a significant departure from the state's budget practices. With a small number of exceptions, general fund tax sources have not been designated for specific purposes. Therefore, the Governor's proposal could be viewed as reducing the amount of flexibility available to the Legislature in appropriating excess revenues.

13. Under the Governor's provisions, a situation could occur in which excess revenues were realized from the SSUT Agreement but the overall amount of tax revenue collected by the state was lower than estimated (because other sales tax collections were lower than anticipated or because collections of other taxes were below the estimates). If this occurred, the amount of funding appropriated for school aids would automatically be increased even though overall tax revenues were lower than estimated and, potentially, even if the general fund was in deficit.

## **ALTERNATIVES**

1. Approve the Governor's recommendation, with technical modifications, to create a general fund appropriation for supplemental general school aids to be funded from any additional revenues collected under the Streamlined Sales and Use Tax Agreement.

2. Modify the Governor's recommendation to allocate any additional revenues collected under the Streamlined Sales and Use Tax Agreement for supplemental special education aids.

3. Delete the provision.

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