



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #711

Eliminate Computer Aid Payment Delay (Shared Revenue and Tax Relief – Direct Aid Payments)

[LFB 2023-25 Budget Summary: Page 581, #9]

CURRENT LAW

State aid payments for exempt computer property have been provided to local taxing jurisdictions since computer property was exempt from property taxation in 1999-00. While the amount of the payment, as well as payments to taxing jurisdictions, have varied since that time, payments to taxing jurisdictions have been frozen at \$98.0 million since 2019-20. Payments are distributed to local taxing jurisdictions on the fourth Monday in July.

DISCUSSION POINTS

1. The current law distribution of computer aid payments on the fourth Monday in July was enacted in the 2005-07 budget act, beginning with aid distributions in 2007-08. Prior to that change, computer aid had been distributed to local taxing jurisdictions on the first Monday in May.
2. The current law timing of computer aid distributions worsens the state's general fund balance under generally accepted accounting principles (GAAP). The Annual Comprehensive Fiscal Report (ACFR) reported a \$4.6 billion GAAP surplus in 2021-22. This surplus is largely attributable to the general fund having an undesignated fund balance of \$4.3 billion at the end of 2021-22 under the statutory basis of accounting. While the state has not had a GAAP deficit since 2019-20, the state could again have a GAAP deficit in the future if this balance is drawn down.
3. Assembly Bill 43/Senate Bill 70 would provide an additional \$98.0 million for computer aid payments in 2023-24, and move the date for the payment of computer aid to the first Monday in May. As a result, both the 2023 and 2024 computer aid payment would be made in 2023-24, which would reduce the total projected general fund balance at the close of 2023-24. Payments in subsequent

years would be distributed in May. Distributing computer aid payments in May rather than July would improve the state's GAAP liability by approximately \$67.4 million in 2023-24, and would improve the state's standing under GAAP standards for any given ending balance in future years.

4. In addition to representing a GAAP liability, the current law payment schedule for the computer aid program results in uneven expenditures throughout the fiscal year. Aside from the initial year, when two payments would be made, shifting the ongoing timing of the payments to May would result in future payments occurring later in the state fiscal year, and result in more even levels of expenditures throughout the year, as the state makes other large aid distributions in July and November. More stable expenditures reduces the likelihood that the general fund would not have sufficient funds in any given month to provide scheduled disbursements and have to rely on short-term borrowing to make up the difference.

5. Altering the timing of the distribution of the payment could also improve the cash flows of the local taxing jurisdictions receiving the aid. While the amounts received by each local taxing jurisdiction would not be affected, local taxing jurisdictions would receive aid earlier in their fiscal year, which could improve interest earnings on their fund balances. [Alternative 1]

6. The state distributes funds to counties and municipalities through a number of aid payments. In addition, the state provides funding for property tax credits that reduce the amount owed by property taxpayers. The distributions indicated in the table below are made in either July or November under current law. The date for these distributions could also be moved into the previous fiscal year, by providing both the 2023 and 2024 distribution in state fiscal year 2023-24. The table also indicates the amount of additional funding that would be required to provide an additional payment in 2023-24, as well as the amount that the current law GAAP liability each program represents, which would be reduced if the payment date were moved.

**Select Local Government Aid Distributions
(\$ in Millions)**

	<u>2024 Payment</u>	<u>GAAP Liability</u>
County and Municipal Aid*	\$742.1	\$371.1
Utility Aid*	94.3	47.2
Expenditure Restraint Program	58.2	29.1
Video Service Provider Fee Aid	10.0	5.0
School Levy Tax Credit	940.0	695.9
First Dollar Tax Credit	150.0	109.0

*Under current law, 15% of these payments is distributed in July, and the remaining 85% is distributed in November and County and Municipal aid amount is shown after statutory offsets. Current law county and municipal aid payments are partially funded through police and fire protection fund SEG. If an additional payment were provided, it would be entirely funded with GPR.

7. It should be noted that with the exception of the school levy credit and first dollar credit,

the funding source of the remaining programs listed in the table, as well as the computer aid program, could be altered by provisions in Assembly Bill 245/Senate Bill 301, as well as other potential legislation that would transfer 20% of state sales and use taxes to a newly-created segregated fund to provide payments to local taxing jurisdictions, beginning in 2024-25. If the Committee chooses to change the timing of these distributions, any potential legislation would need to take into account these timing changes and when sales tax revenues would first be transferred into a new segregated fund, in order to ensure that the fund has sufficient revenues to provide those payments.

8. Using one-time funds in 2023-24 to buy back the delays in some or all of the distributions shown in the table would result in even greater improvement in the state's GAAP liability. This would reduce the likelihood that a significant deficit would again exist if the state's opening fund balance were depleted. [Alternatives 2a thru 2h]

9. The budget year for counties and municipalities corresponds to the calendar year. Despite being paid outside the state fiscal year, computer aid and the other aid distributions shown in the table are paid during the calendar year for which the funds are budgeted. These local governments establish their annual budgets in late fall each year based on the calendar year amounts, regardless of whether the state pays them early in that calendar year or closer to the end of their budget year. [Alternative 3]

ALTERNATIVES

1. Provide \$98,047,100 GPR in 2023-24 to provide the 2024 computer aid payments to local taxing jurisdictions in 2023-24, rather than 2024-25. Specify that beginning on January 1, 2024, the date for the distribution of computer aid payments be the first Monday in May. Eliminate the requirement that school districts treat computer aid payments received in July as if they had been received in the previous school year.

ALT 1	Change to Base
GPR	\$98,047,100

2. In addition to, or in lieu of, Alternative 1, do one or more of the following:

County and Municipal Aid

a. Provide \$111,316,400 GPR in 2023-24 to provide 15% of the current law 2024 county and municipal aid payments to counties and municipalities in 2023-24, rather than 2024-25. Under current law, this amount is distributed on the fourth Monday in July. Specify that beginning on January 1, 2024, the date for the distribution of these payments be the first Monday in May.

ALT 2a	Change to Base
GPR	\$111,316,400

b. Provide \$630,792,600 GPR in 2023-24 to provide 85% of the current law 2024 county and municipal aid payment to counties and municipalities in 2023-24, rather than 2024-25. Under current law, this amount is distributed on the fourth Monday in November. Specify that beginning on January 1, 2024, the date for the distribution of these payments be the first Monday in May.

ALT 2b	Change to Base
GPR	\$630,792,600

Utility Aid

c. Provide \$14,147,600 GPR in 2023-24 to provide 15% of the current law 2024 utility aid payment to counties and municipalities in 2023-24, rather than 2024-25. Under current law, this amount is distributed on the fourth Monday in July. Specify that beginning on January 1, 2024, the date for the distribution of these payments be the first Monday in May.

ALT 2c	Change to Base
GPR	\$14,147,600

d. Provide \$80,170,000 GPR in 2023-24 to provide 85% of the current law 2024 utility aid payment to counties and municipalities in 2023-24, rather than 2024-25. Under current law, this amount is distributed on the fourth Monday in November. Specify that beginning on January 1, 2024, the date for the distribution of these payments be the first Monday in May.

ALT 2d	Change to Base
GPR	\$80,170,000

Expenditure Restraint Program

e. Provide \$58,145,700 GPR in 2023-24 to provide the 2024 expenditure restraint program payments to municipalities in 2023-24, rather than 2024-25. Under current law, this amount is distributed on the fourth Monday in July. Specify that beginning on January 1, 2024, the date for the distribution of these payments be the first Monday in May.

ALT 2e	Change to Base
GPR	\$58,145,700

Video Service Provider Fee Aid

f. Provide \$10,008,200 GPR in 2023-24 to provide the 2024 video service provider fee aid

payments to municipalities in 2023-24, rather than 2024-25. Under current law, this amount is distributed on the fourth Monday in July. Specify that beginning on January 1, 2024, the date for the distribution of these payments be the first Monday in May.

ALT 2f	Change to Base
GPR	\$10,008,200

School Levy and First Dollar Credits

g. Provide \$940,000,000 GPR in 2023-24 to provide the 2024 school levy credit to municipalities in 2023-24, rather than 2024-25. Under current law, this amount is distributed on the fourth Monday in July. Specify that beginning on January 1, 2024, the date for the distribution of these credits be the first Monday in May.

ALT 2g	Change to Base
GPR	\$940,000,000

h. Provide \$148,228,000 GPR in 2023-24 to provide the 2024 first dollar credit to municipalities in 2023-24, rather than 2024-25. Under current law, this amount is distributed on the fourth Monday in July. Specify that beginning on January 1, 2024, the date for the distribution of these credits be the first Monday in May.

ALT 2h	Change to Base
GPR	\$148,228,000

3. Take no action.

Prepared by: Noga Ardon

