

Shared Revenue and Tax Relief

Direct Aid Payments

(LFB Budget Summary Document: Page 403)

LFB Summary Items for Which an Issue Paper Has Been Prepared

<u>Item #</u>	<u>Title</u>
1	State Aid for Tax Exempt Computers, Cash Registers, and Fax Machines (Paper #590)
2	Public Utility Aid -- Sum Sufficient Reestimate (Paper #591)



Legislative Fiscal Bureau

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May 14, 2015

Joint Committee on Finance

Paper #590

State Aid for Tax Exempt Computers, Cash Registers, and Fax Machines (Shared Revenue and Tax Relief -- Direct Aid Payments)

[LFB 2015-17 Budget Summary: Page 403, #1]

CURRENT LAW

The state aid payment for computers was created in the 1998 budget adjustment bill (1997 Wisconsin Act 237) to compensate local governments for tax base lost due to the property tax exemption for computers, software, and related equipment. Aid payments are calculated using a formula that results in an aid amount equal to the amount of taxes that would be paid if the property was taxable. Under the procedure, computer owners report the value of exempt computers to assessors, and local governments calculate their tax rates as if the exempt value was taxable. Aid payments are calculated by multiplying the two amounts. A property tax exemption for fax machines, except those that are also copiers, and cash registers was created in the 2001-03 biennial budget bill (2001 Wisconsin Act 16), effective with property assessed as of January 1, 2003. State aid payments were extended for this exempt property, as well, and began in 2003-04. A provision in 2005 Wisconsin Act 25 produced one-time savings in the 2005-07 biennium by changing the payment date for this program from the first Monday in May of each year to the fourth Monday in July of each year, beginning in 2007. Due to this law change, local governments' budgets for the current year anticipate receipt of the 2015-16 aid payment.

GOVERNOR

Increase estimated payments by \$2,560,000 GPR in 2015-16 and \$4,875,000 GPR in 2016-17 to reflect projected changes in tax rates and the value of exempt computers, cash registers, and fax machines. With these adjustments, base level funding of \$86,700,000 would increase to \$89,260,000 in 2015-16 and \$91,575,000 in 2016-17.

MODIFICATION

Decrease estimated payments by \$2,960,000 GPR in 2015-16 and \$4,675,000 GPR in 2016-17.

Explanation: Total aid payments are estimated at \$86,300,000 GPR in 2015-16 and \$86,900,000 in 2016-17. These represent a decrease of 0.6% in 2015-16 (compared to the 2014-15 actual payment of \$86,802,200) and an increase of 0.7% in 2016-17 (over the 2015-16 reestimate). The 2015-16 aid payment will be made in July, 2015, and is based on 2014 exempt values and 2014(15) tax rates, which are both known at this time. For 2016-17, statewide exempt values are estimated to increase by 2.7%, from \$3,518 million to \$3,613 million, and tax rates are expected to decrease by 2.0%. This paper's reestimate for 2016-17 incorporates tax rate estimates that were included in the Legislative Fiscal Bureau's March 30, 2015, memorandum on property taxes under AB 21/SB 21. Those estimates reflect the Governor's proposals related to local government fiscal controls and local aid funding (including school aids) and forecast statewide tax levies increasing at a slightly slower pace than equalized values, producing an estimated decrease in the statewide average tax rate. The estimates under this modification may need to be revised based on the Committee's decisions regarding funding for state aid to local governments and related fiscal controls.

Change to Bill	
GPR	- \$7,635,000

Prepared by: Rick Olin



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May 14, 2015

Joint Committee on Finance

Paper #591

Public Utility Aid -- Sum Sufficient Reestimate (Shared Revenue and Tax Relief -- Direct Aid Payments)

[LFB 2015-17 Budget Summary: Page 403, #2]

CURRENT LAW

Utility aid compensates counties and municipalities for costs they incur in providing services to public utilities. These costs cannot be directly recouped through property taxation since utilities are exempt from local taxation and, instead, are taxed by the state. Aid is limited to three types of qualifying properties owned by certain public utility companies. These companies include investor-owned and municipally-owned light, heat, and power companies, qualified wholesale electric companies, transmission companies, electric cooperatives, and municipal electric associations. Qualifying utility property includes electric substations, general structures, such as office buildings, and power production plants. Aid on substations and general structures is computed by applying a rate of nine mills to the net book value of the qualifying property. Aid on power production plants equals \$2,000 multiplied by the plant's generating capacity, expressed in megawatts. If the production plant derives energy from a renewable energy resource or from garbage, an additional \$2,000 per megawatt is paid. If the production plant began operating after 2003, additional aid may be paid based on the plant's location or its use in cogeneration or as a baseload plant. Finally, payments are made if spent nuclear fuel from production plants is stored in the county or municipality. Aid payments are divided between the county and municipality where the qualifying property is located based on percentages specified in the statutes. In 2014 (2014-15), utility aid payments equaled \$34.4 million for counties and \$36.3 million for municipalities, or \$70.7 million in total.

GOVERNOR

Increase estimated payments by \$400,000 GPR in 2015-16 and \$1,900,000 GPR in 2016-17 from the sum sufficient public utility distribution account to reflect estimated payment amounts. With these adjustments, base level funding of \$70,600,000 would increase to

\$71,000,000 in 2015-16 and \$72,500,000 in 2016-17. These amounts represent increases of 0.6% in 2015-16 and 2.1% in 2016-17.

MODIFICATION

Increase estimated aid payments by \$900,000 GPR in 2015-16 and \$700,000 GPR in 2016-17.

Explanation: Total aid payments are estimated at \$71,900,000 GPR in 2015-16 and \$73,200,000 GPR in 2016-17. These amounts represent increases of 1.8% in 2015-16 over the base amount and 1.8% in 2016-17 over the 2015-16 reestimate. However, the actual amount for 2014-15 will exceed the base year estimate of \$70,600,000. The actual payment of \$70,753,600 is known because the final payments from the appropriation were made in November, 2014. Using the 2014-15 actual amount, year-to-year increases of 1.6% in 2015-16 and 1.8% in 2016-17 are expected under the reestimates. For the 2013-15 biennium, increases of 2.2% occurred in both 2013-14 and 2014-15. The rates of increase in 2015-17 are expected to diminish as some plants are retired or decommissioned, including the Kewaunee Power Station, and no new plants will be brought on-line. Nonetheless, the reestimates forecast payment increases in both years, due largely to increases in the value of property aided under the nine-mill formula. Those increases reflect enhancements to the state's electric transmission system that require additional substations and substation improvements.

Change to Bill	
GPR	\$1,600,000

Prepared by: Rick Olin

SHARED REVENUE AND TAX RELIEF

Direct Aid Payments

LFB Summary Items for Which No Issue Paper Has Been Prepared

<u>Item #</u>	<u>Title</u>
3	County and Municipal Aid Program -- Police and Fire Protection Revenue Reestimate
4	Interest Payments on Overassessments of Manufacturing Property -- Sum Sufficient Reestimate

