



## Legislative Fiscal Bureau

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January 30, 2008

TO: Members  
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Assembly Bill 77: Distribution of the School Levy and Lottery and Gaming Tax Credits

Assembly Bill 77 was introduced on February 20, 2007, and referred to the Assembly Committee on Ways and Means. On July 11, that Committee adopted Assembly Amendment 1 to the bill and recommended the bill for passage, as amended, both by votes of 13 to 0. The bill was referred to the Joint Committee on Finance on July 19.

### **BACKGROUND**

School levy credits are distributed to municipalities on the fourth Monday in July and lottery and gaming credits are distributed to municipalities on the fourth Monday in March. Municipal treasurers must settle for the school levy credits with the appropriate county treasurers no later than August 15. The county treasurers then must settle with each taxing jurisdiction by August 20. For lottery and gaming credits, municipal treasurers must settle with either each taxing jurisdiction or with the county treasurer by April 15. If the county treasurer receives these amounts, the treasurer must settle with each taxing jurisdiction by August 20.

### **SUMMARY OF BILL**

The bill would change the distribution of the school levy and lottery and gaming tax credits, effective with distributions of these credits occurring in 2008. Instead of distributing the credits to municipalities, the state would distribute them to the associated counties. Payments would continue to be made on the fourth Monday in July and the fourth Monday in March, respectively. The county treasurer would have to settle for the school levy credits by August 20 and for the lottery and gaming credits by April 15.

The bill would create an optional exception to this change for municipalities that would receive combined school levy and lottery and gaming credits of \$3,000,000 or more. With the approval of a majority of the members of the municipality's governing body, a municipality could notify the Department of Administration to distribute the credits directly to the municipality. In this case, the municipality would get the credit payments as under current law. School levy credits would be settled by the municipal treasurer with the appropriate county treasurer by August 20 (Assembly Amendment 1 would change this to August 15, which is the current law date). Lottery and gaming credits would be settled by the municipal treasurer with each taxing jurisdiction by April 15. As under current law, county treasurers would settle for all credits they receive from municipalities with each taxing jurisdiction by August 20.

## **SUMMARY OF ASSEMBLY AMENDMENT 1**

Assembly Amendment 1 would retain payment of the school levy and lottery and gaming credits to municipalities, rather than to counties, for those municipalities, other than the City of Milwaukee, that have adopted an ordinance establishing an installment payment option for property taxes that consists of three or more installments. However, the amendment specifies that the lottery and gaming credit shall be distributed to such municipalities on the fourth Monday in July, rather than the fourth Monday in March, which would be inconsistent with the schedule established for settling this payment with other taxing jurisdictions (not later than April 15).

The amendment would also change the bill so that the settlement of school levy credits by municipal treasurers with the appropriate county treasurers would occur by August 15, which is the current law date, instead of by August 20, for those municipalities with credit payments over \$3,000,000 that opt to retain a municipal distribution.

## **FISCAL EFFECT**

The fiscal effect of the bill involves a shift of potential interest earnings from municipalities to counties. Since there is a lag between the payment of credits to municipalities and the date on which municipalities must settle for these payments with counties, municipalities can currently earn interest on the payments during this time period. Under the bill, these potential earnings would be shifted to counties, although municipalities with combined credit payments exceeding \$3,000,000 could opt to retain the current payment schedule and, therefore, their current interest-earning opportunity. Under Assembly Amendment 1, municipalities with payment schedules consisting of three or more installments, except Milwaukee, would retain the current payment schedule and potential to earn interest.

In total, school levy credits of \$672.4 million will be distributed on July 28 of this year and lottery and gaming credits estimated at \$124.7 million will be distributed on March 24. The bill would produce a maximum shift of interest-earning potential of 18 days and 22 days, respectively, for the two credits (this time period would change from year to year, depending on the date of the fourth Mondays of July and March in each year). Based on an assumed interest rate of 4%, the

maximum potential interest shift this year would be \$1,326,000 for the school levy credit and \$300,000 for the lottery and gaming credit. The actual shift would be less than this since not all municipalities currently wait until the last possible date to settle with counties.

In addition, if municipalities with combined credit payments over \$3,000,000 opt to retain the current payment structure, the potential interest shift would be reduced. This year, it is estimated that 43 municipalities, representing 40% of the total credit distribution, could potentially opt out of the change. If all such municipalities use the opt-out provision, the potential interest shift would drop to \$795,000 for the school levy credit and to \$180,000 for the lottery and gaming credit.

Finally, Assembly Amendment 1 would retain the current payment structure for municipalities with three or more property tax installments, except Milwaukee. These municipalities represent 20% of the total credit distribution, so this amendment would drop the potential interest shift to \$1,060,000 for the school levy credit and to \$240,000 for the lottery and gaming credit. If this amendment is adopted and all eligible municipalities use the \$3,000,000 opt-out provision, the potential interest shift would drop to \$729,000 for the school levy credit and to \$165,000 for the lottery and gaming credit (the impact of adopting both provisions is not additive because some municipalities are in both groups).

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