



Legislative Fiscal Bureau

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Joint Committee on Finance

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Administration of Local Exposition Tax (DOR -- Tax Administration)

[LFB 2001-03 Budget Summary: Page 590, #9]

CURRENT LAW

The Department of Revenue (DOR) administers and collects the local exposition district tax. Within the local exposition district, the exposition district tax is imposed at the rate of 0.25% of the gross receipts from the sale of food and beverages and 3% of the gross receipts from car rentals. The Department also administers the room tax collections of the district. DOR retains 2.55% of total collections to cover the costs of administering the tax.

GOVERNOR

Provide that the amount of local exposition district taxes that DOR retains for administrative purposes that is unencumbered at the end of the fiscal year and that exceeds 10% of the amount expended during the fiscal year be distributed to the local exposition district.

DISCUSSION POINTS

1. Under the provisions of 1993 Wisconsin Act 263, cities, villages and counties were authorized to individually or jointly create a local exposition district that is separate and distinct from the municipality, county and state. A district has the power to build and operate an exposition center, own and lease property, enter into contracts, employ personnel, issue bonds and, under certain conditions, impose three different local taxes (room tax, food and beverage tax and car rental tax). A board of directors presides over the district and the composition of the board depends upon the type and number of sponsoring entities.

2. State statutes limit the amount, duration and use of the three local taxes. The revenues of each of the district-wide local taxes must be used only for the debt service on the

district's bond obligations. Once the district's bonds are retired, the collection of these taxes must cease. Collection of the taxes must also terminate if bonds are not issued within two years of imposition of the tax, but whatever has been collected can be used for any lawful purpose.

3. A maximum limit is imposed on the tax rate for each of the three taxes as follows: (a) a 0.25% (0.50% with a majority vote of the board) district-wide sales tax on certain food and beverage sales; (b) a 3% (4% with a majority vote of the board) district-wide sales tax on the rental of passenger cars without drivers; (c) a basic room tax of up to 3% of district-wide room charges; and (d) if the sponsoring municipality is a city of the first class, Act 263 allows the city to dedicate its existing room tax to the district.

4. The City of Milwaukee has created a local exposition district called the Wisconsin Center Tax District for the purpose of acquiring and managing its exposition center facilities. The District is comprised of cities and villages wholly or partially in Milwaukee County. The District began imposing taxes on January 1, 1995.

5. Table 1 shows the tax rate and amount of revenue collected for each of the taxes imposed by the Wisconsin Center District for calendar year 2000. The table shows that the District receives most of its revenue from the basic and additional room taxes. In 2000, a total of \$13,584,600 was collected by DOR from the District taxes. However, after funds are deducted to cover DOR administrative costs, total distributions to the District for 2000 were \$13,238,100.

TABLE 1

Wisconsin Center District Collections (2000)

	<u>Tax Rate</u>	<u>Revenues</u>
Basic Room Tax	2.00%	\$2,497,800
Additional Room Tax	7.00	6,343,800
Food and Beverage Tax	0.25	2,716,800
Car Rental Tax	3.00	<u>2,026,200</u>
Total		\$13,584,600

Source: Department of Revenue

6. As noted, DOR administers and collects the local exposition tax and retains 2.55% of total collections to fund administrative costs. Prior to November 1999, the Department retained 3% of collections. However, 1999 Wisconsin Act 9 (the 1999-01 biennial budget) reduced this amount from 3% to the current 2.55% to more closely align revenues with actual administrative costs. At that time, DOR indicated that the appropriation for administration of the local exposition tax would have a significant unencumbered balance.

7. Under the bill, the year-end unencumbered balance in the administrative appropriation in excess of 10% of fiscal year expenditures would be distributed back to the exposition district. Table 2 shows the estimated amount of local exposition taxes that would be distributed back to the District. The table indicates that the amounts returned would be \$348,100 in 2001-02 and \$49,700 in 2002-03. The estimated amount returned would be less than the administration's estimate by \$19,000 in 2001-02 and \$12,300 in 2002-03. This reflects DOR reestimates of revenues and expenditures.

TABLE 2

**Estimated Local Exposition Taxes
Administrative Appropriation Revenues, Expenditures and Amounts Returned to District**

	<u>2001-02</u>	<u>2002-03</u>
Opening Balance	\$343,900	\$31,800
Revenues	<u>353,600</u>	<u>375,300</u>
Total Revenues	\$697,500	\$407,100
Expenditures	<u>- 317,600</u>	<u>- 324,900</u>
Closing Balance	\$379,900	\$82,200
10% Reserve	\$31,800	\$32,500
Amount Returned	\$348,100	\$49,700

8. The bill would distribute revenues that are not necessary to cover the Department's administrative expenses during the biennium back to the exposition district. This reflects the view that the local exposition taxes are imposed by the District and should be used to fund the District's expenses. If over time, DOR annually collects substantially more revenue than is needed to fund administrative costs, the percentage retained could be reduced. However, the current proportion retained (2.55%) has not been effective long enough to clearly make such a determination.

9. The 10% reserve would provide ongoing funds that could be used to offset revenue shortfalls or to fund unanticipated expenses, such as equipment upgrades. A number of state agency program revenue appropriations retain and carry over a reserve balance, including the Department's business tax registration and liquor tax administration appropriations.

10. However, there is a view that the balance in the local exposition tax administration appropriation should be lapsed to the general fund as reimbursement for the general administrative services, such as taxpayer registration, data processing and compliance activities, that are provided because the local exposition tax is part of the state's tax processing systems. Because such activities are funded by GPR, it is justifiable to transfer some exposition

district tax revenues to the general fund. Under this view, the unencumbered balance in the administrative appropriation would be lapsed to the general fund as GPR-Earned. Similar provisions apply to the county sales tax, business tax registration and liquor tax administrative appropriations.

ALTERNATIVES

1. Approve the Governor’s recommendation to require that the amount of local exposition taxes that DOR retains for administrative purposes that is unencumbered at the end of the fiscal year and that exceeds 10% of the amount expended during the fiscal year be distributed to the local exposition district. Reestimate the amount to be distributed to the District to be \$348,100 in 2001-02 and \$49,700 in 2002-03. The revised estimate reduces GPR-Earned by \$19,000 in 2001-02 and \$12,300 in 2002-03.

Alternative 1	GPR
2001-03 REVENUE (Change to Bill)	- \$31,300

2. Modify the Governor’s recommendation to require that the amount of local exposition taxes that DOR retains for administrative purposes that is unencumbered at the end of the fiscal year and that exceeds 10% of the amount expended during the fiscal year be lapsed to the general fund as GPR-Earned.

Alternative 2	GPR
2001-03 REVENUE (Change to Bill)	\$397,800

3. Maintain current law.

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