



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #803

Administration of County Sales Tax, Special District Taxes and Local Professional Football Stadium District Taxes (DOR -- Tax Administration)

CURRENT LAW

Wisconsin counties can impose a 0.5% sales tax on the same goods and services that are subject to the state sales tax. The county sales tax is "piggybacked" onto the state sales tax in that the county tax is administered, enforced and collected by the Department of Revenue (DOR). DOR retains 1.75% of county sales taxes it collects in a program revenue appropriation to cover administrative costs. The year-end unencumbered balance in the appropriation is lapsed to the general fund. Currently, 54 counties impose the tax.

A 0.1% sales and use tax is imposed on the same goods and services that are subject to the state sales tax in Milwaukee, Ozaukee, Racine, Washington and Waukesha counties to fund a local professional baseball district (District). The District was created to fund the construction and operation of a new baseball stadium for the Milwaukee Brewers (Miller Park). DOR administers the sales and use taxes on behalf of the District and retains 1.5% of collections to fund administrative costs.

A 0.5% sales and use tax is imposed on the same goods and services that are subject to the state sales tax in Brown County to provide funding for the Green Bay--Brown County Professional Football Stadium District. The District was created to fund the construction and maintenance of a renovated football stadium for the Green Bay Packers (Lambeau Field). DOR administers the sales and use tax for the District and retains 1.5% of collections for administrative costs.

GOVERNOR

No provision.

DISCUSSION POINTS

County Sales Tax

1. DOR is provided \$3,053,600 PR in base level funding and 33.25 PR positions to administer the county sales tax. The county tax is administered as part of the state sales tax administration system. Costs and positions are assigned to the county sales tax administration appropriation based on the workload attributed to administering the county tax.

2. Prior to 1992, DOR retained 3% of county sales taxes to fund the costs of administering the tax. Because the revenue retained by the state exceeded the state's administrative costs, the amount of collections retained was reduced from 3% to 1.5% in 1991 Wisconsin Act 37. The 1991-93 budget adjustment bill (1991 Wisconsin Act 269) transferred \$1.4 million that had accumulated in the administrative appropriation to the general fund. Under the provisions of the 1995-97 biennial budget (1995 Wisconsin Act 27), an additional \$1.2 million was transferred to the general fund on June 30, 1997. The bill would have decreased the amount of sales tax retained by DOR from 1.5% to 1.3%, but the provision was vetoed. The 1997-99 biennial budget included a provision that requires the unencumbered fiscal year-end balance in the county sales tax administrative appropriation to be lapsed to the general fund. The bill also contained a provision that would have reduced the amount of sales taxes retained by the Department from 1.5% to 1.3%. However, the provision was vetoed.

3. The 1999-01 biennial budget (1999 Wisconsin Act 9) increased from 1.5% to the current 1.75%, the amount of county sales tax revenue retained by DOR to fund administrative costs. Expenditure authority was also substantially increased (by \$750,000 PR in 1999-00 and \$800,000 PR in 2000-01) to fund costs associated with incorporating administration of the county sales tax into the Department's integrated tax system (ITS). At that time, it was estimated that revenues generated from the 1.5% state share of collections would be sufficient to fund the increased expenditures and other county sales tax administrative expenses. However, it was argued that the increase in the share of revenues retained by the state to 1.75% of collections provides reimbursement for general administrative services, such as data processing, that are provided because the county sales tax is collected as part of the state's general sales tax processing system. Because these general administrative services are funded with GPR, it is justifiable to transfer some county sales tax revenues to the general fund.

4. Table 1 shows the estimated revenues, expenditures (including compensation reserves and other adjustments) and lapses for the county sales tax administration appropriation under the provisions of the bill. The table shows that the amounts lapsed to the general fund would be \$782,800 in 2001-02 and \$948,400 in 2002-03. Since the administration estimated a lapse of \$827,700 in 2001-02 and \$1,072,800 in 2002-03, these amounts represent a decrease of \$169,300 in the biennium compared to the administration's estimates.

TABLE 1

**Estimated County Sales Tax Administration Appropriation Revenues,
Expenditures and Lapses Under Provisions of the Bill**

	<u>2001-02</u>	<u>2002-03</u>
Revenues	\$3,997,600	\$4,233,100
Expenditures	<u>- 3,214,800</u>	<u>- 3,284,700</u>
Lapse	\$782,800	\$948,400

5. Since 1992, the state's share of county sales tax collections has generated revenues in excess of the amounts needed to fund expenditures. Table 1 shows that the current 1.75% state share would result in substantial lapses to the general fund in both 2001-02 and 2002-03. Essentially, this is a transfer of sales taxes from the counties to the state general fund.

6. Since the counties impose the sales tax, it has been argued that the counties should retain revenues that are not necessary to fund the state's administrative expenses. These monies should be used to fund county services. As an alternative, the share of county sales tax revenues retained for DOR administrative expenses could be reduced from 1.75% to 1.5%. This would correspond to the percentage of revenues retained by the state to administer the baseball park and football stadium district sales taxes. Assuming the change took effect August 1, 2001, counties would receive an additional \$520,300 in 2001-02 and \$603,900 in 2002-03. However, there would be a corresponding decrease in GPR-earned for the state.

7. Table 2 shows the estimated revenues, expenditures and lapses for the county sales tax administrative appropriation with the state retaining 1.5% of collections for administrative costs. The table shows that estimated revenues would be sufficient to cover administrative costs and there would continue to be lapses to the general fund for general administrative overhead. If the amount of lapses continued to increase, the percentage of collections retained for administrative costs could be further reduced in the 2003-05 biennial budget.

TABLE 2

**Estimated County Sales Tax Administration Appropriation Revenues,
Expenditures and Lapses With a 1.5% State Share of Collections**

	<u>2001-02</u>	<u>2002-03</u>
Revenues	\$3,477,300	\$3,629,200
Expenditures	<u>- 3,214,800</u>	<u>- 3,284,700</u>
Lapse	\$262,500	\$344,500

8. The Legislative Audit Bureau recently released an audit that reviewed administration of the county sales tax by DOR. The audit indicated that the 90- to 180- day time limit for distributing county sales and use tax revenues authorized in the statutes is longer than limits established by other states. The audit recommended that the Legislature shorten the time limit to require DOR to distribute the tax to county governments within 75 days of the retailer deadline. In addition, in reviewing the Department's staff time reporting system, the Audit Bureau found that administrative fees supported more full-time equivalent positions than were reportedly used to administer the county sales and use tax. The audit also found that the amount of integrated tax system costs funded by the county sales and use tax administrative fee appears to have been based on the unencumbered funds available in the county sales tax appropriation for administration of the tax, rather than on an analysis of system costs and benefits. In response to the audit, the Committee may wish to adopt the recommendation to reduce the distribution time limit to 75 days. The Committee could also delete 1.0 PR revenue agent and 1.0 PR senior programmer analyst and expenditure authority of \$115,100 PR in 2001-02 and \$116,300 PR in 2002-03 to reflect audit findings that less than the current level of staffing is necessary to administer the county sales tax. The annual lapse from the county sales tax administration appropriation would increase by the amount of reduced expenditure authority.

Special District Taxes (Baseball Stadium District)

9. Base level funding of \$380,300 PR and 5.5 PR positions are provided to administer special district taxes (local professional baseball park district tax). The tax is administered as part of the state general sales tax administrative system and the expenses for baseball park district activities and positions are charged to the special district taxes administration appropriation.

10. The 0.1% District sales tax was first imposed in January, 1996. District sales tax revenues are used to: (a) pay debt service (principal and interest) on District bonds used to finance construction of the Brewers baseball stadium; (b) pay for lease certificates of participation used to lease and fund certain stadium equipment; and (c) contribute towards the maintenance and repair of the stadium. If the District's tax revenues exceed current operating expenses, the excess amount will be placed in a fund for future maintenance and capital improvement costs or to retire the bonds early. Once sufficient funds are available to meet the obligations of the District, the 0.1% sales tax will end. In a review of the District's costs released by the Legislative Audit Bureau in June, 1999, it was estimated that it would be necessary to collect the tax through at least 2014.

11. Since it was first imposed, DOR has been authorized to retain 1.5% of total collections to fund the costs of administering the local baseball park district tax. Table 3 shows estimated revenues and expenditures (including compensation reserves and other adjustments) and the year-end balance of the administrative appropriation for the biennium. The table shows that the appropriation is projected to have a deficit in each fiscal year of the biennium. Moreover, DOR has developed estimates that indicate that, because annual expenditures will exceed annual revenues, the deficit in the appropriation will continue to increase until 2005, when it would first begin to decrease.

TABLE 3

**Estimated Special District Taxes Administration Appropriation Revenues,
Expenditures and Appropriation Balances**

	<u>2001-02</u>	<u>2002-03</u>
Opening Balance	- \$132,800	- \$199,400
Revenues	350,400	375,400
Expenditures	<u>- 417,000</u>	<u>- 428,600</u>
Closing Balance	- \$199,400	- \$252,600

12. One alternative to address the deficit would be to provide a one-time transfer of \$260,000 in 2001-02 from the county sales tax administration appropriation to the local baseball park administrative appropriation. This would eliminate the deficit in the appropriation during the biennium and allow DOR to develop and implement a plan for addressing the deficit in future years. It could be argued that this would be an appropriate use of the funds because both the county sales tax and local baseball park administrative systems are included as part of the state's general sales tax administrative system and benefit from general administrative services provided by the system. Because of the lapse of excess revenues from the county sales tax administration appropriation to the general fund, the transfer is essentially a GPR supplement to the District tax administration appropriation, which would reduce GPR-earned by \$260,000 in 2001-02.

13. Because ongoing expenditures exceed ongoing revenues, as a second alternative, a senior programmer analyst position and expenditure authority of \$68,100 in 2001-02 and \$68,800 in 2002-03 could be deleted from the special district taxes appropriation. The programmer position is responsible for computer system support. A project leader specialist also provides computer support and the program would also have 3.5 other positions for administration. Also, computer support could be provided by other programmers assigned to the sales tax administration system. At the current staff level, the ratio of administrative positions to revenues collected is higher for special district tax administration than for the state and county sales tax administrative staffs. This action would cause ongoing revenues to exceed expenditures and the appropriation deficit would begin to decline during the biennium. DOR could request that the position and expenditure authority be restored under s. 16.515 when the deficit was eliminated. However, this would require the Department to reallocate the incumbent to another position. Sales tax administration staff would be required to perform the deleted position's activities along with existing responsibilities. It should also be noted that, under base budget reductions, the bill would require DOR to reduce overall GPR expenditures by \$4,216,300 annually. As a result, the Department staff would have to absorb the effects of this GPR funding reduction in addition to the reduction in special district tax administrative staff.

Professional Football Stadium District Taxes

14. A local professional football stadium district for the construction and maintenance of a renovated football stadium for the Green Bay Packers was created by 1999 Act 167. The Green Bay-Brown County Professional Football Stadium District is contiguous with Brown County and governed by a seven-member board. The District is provided authority, if approved by the electors of the District at referendum, to impose a 0.5% sales and use tax for purposes related to football stadium facilities. On September 12, 2000, the voters of Brown County approved the District resolution imposing the sales and use tax. The tax was effective November 1, 2000.

15. The District is limited in the types and amount of stadium-related costs that can be funded from District sales and use tax revenues. Revenues can first be used to pay the annual debt service on outstanding District revenue obligations (bonds). The next allowable use for the revenues is to pay the annual principal and interest cost on any county loan from the Board of Commissioners of Public Lands for the acquisition, renovation or construction of football stadium facilities. Any excess revenues must be used, in order, for the following purposes: (a) to fund certain specified direct administrative costs; (b) to pay certain specified operating and maintenance expenses; and (c) to fund early retirement of certain bonds and fund a maintenance and operating cost fund.

16. Act 167 authorized DOR to retain 1.5% of District sales and use tax collections for administering the professional football stadium district tax and created an appropriation for the administrative finding. However, no positions or expenditure authority were provided in the Act.

17. In October, 2000, the Joint Committee on Finance, acting under s. 16.515 of the statutes, provided DOR with permanent positions and funding to administer the football stadium district tax. Specifically, the Committee provided DOR with expenditure authority of \$388,600 PR in 2000-01, \$207,500 PR in 2001-02 and \$137,600 PR in 2002-03 and 1.50 PR permanent positions and 1.0 project position ending June 30, 2002 to implement and administer the tax. However, the bill does not include this funding and position authority. A technical modification is necessary to provide the Department with the funding and positions approved under s.16.515.

18. Table 4 shows estimated revenues, expenditures (including compensation reserves and other adjustments) and the appropriation balances in the professional football stadium district tax administration appropriation. The table shows that the appropriation is projected to have a deficit in each year of the biennium. However, this is because start-up costs will be incurred before a full year of tax revenues are collected. On an annual basis, revenues exceed expenditures and the deficit should be eliminated during the 2003-05 biennium.

TABLE 4

**Estimated Professional Football Stadium Administration Revenues,
Expenditures and Appropriation Balances**

	<u>2001-02</u>	<u>2002-03</u>
Opening Balance	- \$242,500	- \$196,200
Revenues	259,300	274,600
Expenditures	- <u>213,000</u>	- <u>145,400</u>
Closing Balance	- \$196,200	- \$67,000

Consolidated Appropriation

19. As noted, county sales taxes, special district taxes and professional football stadium district taxes are administered as parts of the state sales tax administration system. DOR covers the administrative costs of administering each tax by retaining a portion of tax collections. It has been argued that, as parts of the same system, each of these tax collection programs share certain general administrative services, such as taxpayer assistance, general data processing and compliance activities. From this view, an alternative that would improve administrative efficiency would be to consolidate the local tax collection funding and positions into a single appropriation. The Department could retain 1.5% of total collections to fund administrative costs and the unencumbered balance in the appropriation in excess of 10% of fiscal year expenditures could be lapsed to the general fund. However, there would be no lapses to the general fund during the 2001-03 biennium. The appropriation would begin lapsing amounts to the general fund in the 2003-05 biennium. Compared to the bill, the consolidation would decrease GPR-earned by an estimated \$827,700 in 2001-02 and \$1,072,800 in 2002-03. Alternatively, the year-end unencumbered balance in the appropriation could be returned to counties and the professional football and baseball stadium districts based on each entity's proportionate share of total taxes collected. This would eliminate the transfer of GPR-earned to the general fund. Table 5 shows estimated revenues, expenditures and lapses for a single administrative appropriation.

TABLE 5

**Estimated Revenues, Expenditures and Lapses for a
Combined Administrative Appropriation**

	<u>2001-02</u>	<u>2002-03</u>
Opening Balance	- \$369,600	- \$133,100
Program Revenues	4,081,300	4,273,500
Expenditures	<u>- 3,844,800</u>	<u>- 3,858,700</u>
Closing Balance	- \$133,100	\$281,700
10% Reserve	\$0	\$281,700
Lapse	\$0	\$0

20. From another view it could be argued that it would not be appropriate to have a single appropriation for administering each of the three local tax administration programs because each program covers a different jurisdiction, different purposes for imposing the taxes and different taxing authorities. Moreover, at least initially, county sales tax administrative funding would fund costs for administering the professional baseball and football stadium district taxes.

21. A total of 41.25 positions would be funded through the consolidated tax administration appropriation. Of the total, seven positions would provide computer system support and six would be involved in taxpayer registration. As an alternative, one programmer analyst under special district taxes and one revenue agent position could be deleted to recognize administrative efficiencies that would occur by combining staffing and funding for the local tax administration programs. Specifically, 2.0 positions and expenditure authority of \$127,200 in 2001-02 and \$128,500 in 2002-03 could be deleted. As a result, there would be a lapse to the general fund of \$164,400 in 2002-03. If DOR determined that the remaining positions and funding were insufficient to meet administrative responsibilities, DOR could request that the positions and expenditure authority be restored under s. 16.515. Table 6 shows estimated revenues expenditures and lapses from a consolidated appropriation with the proposed reduced funding and position authority.

TABLE 6

**Estimated Revenues, Expenditure sand Lapses
for a Combined Administrative Appropriation**

	<u>2001-02</u>	<u>2002-03</u>
Opening Balance	-\$369,600	-\$5,900
Program Revenues	4,081,300	4,273,500
Expenditures	<u>-3,717,600</u>	<u>-3,730,200</u>
Closing Balance	-\$5,900	\$537,400
10% Reserve	\$0	\$373,000
Lapse	\$0	\$164,400

22. DOR would note that consolidating the appropriations would not reduce the Department’s administrative responsibilities regarding the local sales taxes. From this view, the current level of administrative support provided is based on the Department’s experience in administering a large number of tax administration programs and that level of support is necessary to meet administrative responsibilities. In addition, DOR would have to reallocate incumbents in the deleted positions to existing vacant positions and sales tax administrative staff would have to absorb the administrative responsibilities of the deleted positions. Moreover, as noted, the bill would require DOR to reduce overall GPR expenditures by \$4,216,300 each year and Department staff would have to absorb the effects of this reduction as well.

ALTERNATIVES TO BILL

A. County Sales Tax

1. Reduce from 1.75% to 1.5%, the percentage of tax revenues DOR retains to administer the county sales tax. Reestimate the lapse from the county sales tax appropriation to the general fund to be \$262,500 in 2001-02 and \$344,500 in 2002-03.

<u>Alternative A1</u>	<u>GPR</u>
2001-03 REVENUE (Change to Bill)	- \$1,284,500

2. Maintain current law. Reestimate the lapse from the county sales tax administration appropriation to be \$782,800 in 2001-02 and \$948,800 in 2002-03.

<u>Alternative A2</u>	<u>GPR</u>
2001-03 REVENUE (Change to Bill)	- \$169,300

3. Require the Department of Revenue to distribute county sales tax collections to the counties within 75 days of the retailer deadline.

4. Delete 1.0 revenue agent and 1.0 senior programmer analyst position and \$115,100 PR in 2001-02 and \$116,300 PR in 2002-03 from the county sales tax administration appropriations.

Alternative A4	GPR	PR	TOTAL
2001-03 REVENUE (Change to Bill)	\$231,400	\$0	\$231,400
2001-03 FUNDING (Change to Bill)	\$0	- \$231,400	- \$231,400
2002-03 POSITIONS (Change to Bill)	0.00	- 2.00	- 2.00

B. Administration of Special District Taxes

1. Transfer \$260,000 in 2001-02 from the unencumbered balance in the county sales tax administration appropriation [20.566(1)(g)] to the special district taxes administration appropriation [20.566(1)(gd)].

Alternative B1	GPR
2001-03 REVENUE (Change to Bill)	- \$260,000

2. Delete 1.0 programmer analyst and expenditure authority of \$68,100 in 2001-02 and \$68,800 in 2002-03 from the special district tax administration appropriation [20.566(1)(gd)].

3. Maintain current law.

Alternative B3	PR
2001-03 FUNDING (Change to Bill)	- \$136,900
2002-03 POSITIONS (Change to Bill)	- 1.00

C. Administration of Professional Football Stadium District Taxes

1. Provide \$207,500 PR in 2001-02 and \$137,600 PR in 2002-03 and 1.50 PR permanent positions and 1.0 PR project position ending June 30, 2002, to the professional football district administrative appropriation [20.566(1)(ge)] to implement and administer the tax. (The funding and the positions were approved in October, 2000, under s. 16.515 of the statutes but are not included in the bill.)

Alternative C1	PR
2001-03 REVENUE (Change to Bill)	\$345,100
2002-03 POSITIONS (Change to Bill)	2.50

2. Maintain current law.

D. Consolidated Appropriation

1. Consolidate the funding and positions supported by the county sales tax administration [20.566(1)(g)], administration of special district taxes [20.566(1)(gd)] and administration of a professional football stadium district [20.566(1)(ge)] appropriations into a single appropriation. Provide that the year-end unencumbered balance in the appropriation in excess of 10% of expenditures lapse to the general fund.

Alternative D1	GPR
2001-03 REVENUE (Change to Bill)	- \$1,900,500

2. Consolidate the funding and positions supported by the county sales tax administration [20.566(1)(g)], administration of special district taxes [20.566(1)(gd)], and administration of a professional football stadium district [20.566(1)(ge)] appropriations into a single appropriation. Provide that the year-end unencumbered balance in the consolidated appropriation in excess of 10% of expenditures be returned to the taxing jurisdictions based on their proportionate contribution to total revenues.

Alternative D2	GPR
2001-03 REVENUE (Change to Bill)	- \$1,900,500

3. Consolidate the funding and positions supported by the county sales tax administration [20.566(1)(g)], administration of special district taxes [20.566(1)(gd)], and administration of a professional football stadium district [20.566(1)(ge)] appropriations into a single appropriation. In addition, delete 1.0 PR programmer analyst and 1.0 PR tax revenue agent and expenditure authority of \$127,200 PR in 2001-02 and \$128,500 PR in 2002-03 from the consolidated appropriation. Provide that the year-end unencumbered balance in the appropriation in excess of 10% of expenditures lapse to the general fund. Estimate the lapse to the general fund from the consolidated appropriation to be \$164,400 in 2002-03.

Alternative D3	<u>GPR</u>	<u>PR</u>	<u>TOTAL</u>
2001-03 REVENUE (Change to Bill)	- \$1,736,100	\$0	- \$1,736,100
2001-03 FUNDING (Change to Bill)	\$0	- \$255,700	- \$255,700
2002-03 POSITIONS (Change to Base)	0.00	- 2.00	- 2.00

4. Consolidate the funding and positions supported by the county sales tax administration [20.566(1)(g)], administration of special district taxes [20.566(1)(gd)] and administration of a professional football stadium district [20.566(1)(ge)] appropriations into a single appropriation. In addition, delete 1.0 PR programmer analyst and 1.0 PR tax revenue agent and expenditure authority of \$127,200 PR in 2001-02 and \$128,500 PR in 2002-03 from the consolidated appropriation. Provide that the year-end unencumbered balance in the appropriation in excess of 10% of expenditures be returned to the taxing jurisdictions based on their proportionate contribution to total revenues.

Alternative D4	<u>GPR</u>	<u>PR</u>
2001-03 REVENUE (Change to Bill)	- \$1,900,500	\$0
2001-03 FUNDING (Change to Bill)	\$0	- \$255,700
2002-03 POSITIONS (Change to Bill)	0.00	- 2.00

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