Legislative Fiscal Bureau

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First Dollar Tax Credit
(DPI -- General School Aids and Revenue Limits and Shared Revenue and Tax Relief -- Property Tax Credits)

Bill Agency

[LFB 2007-09 Budget Summary: Page 464, #8 and Page 507, #2]

CURRENT LAW

Tax Credit Programs

Wisconsin currently has two tax credit programs where credits are paid to municipalities and shown on property tax bills -- the school levy tax credit and the lottery and gaming tax credit. School levy tax credits are distributed to municipalities based on each municipality's share of statewide levies for school purposes during the three preceding years. These amounts are apportioned within municipalities based on each taxable property's assessed value as a percent of the corresponding municipality's total assessed value. School levy tax credits are distributed to municipalities on the fourth Monday in July. The statutory funding level was increased from $319,305,000 to $469,305,000 effective with the 1996(97) property tax year and funding remained at that level through 2006(07). That $150 million funding increase coincided with the state's commitment (since repealed) to assume responsibility for funding two-thirds of partial school revenues on a statewide basis. In 2005 Wisconsin Act 25, the funding level was increased by $123,745,000 to $593,050,000 annually, beginning with the 2006(07) property tax year.

The lottery and gaming tax credit is extended only to properties used as the owner's primary residence. The credit equals the school taxes on the value of the credit base. Each year, the Department of Administration (DOA) provides the Joint Committee on Finance with an estimate of total funds available for distribution as lottery and gaming credits in the current year.

The Committee may revise or approve the estimate, and the Department of Revenue (DOR) is notified of the approved amount, which is the basis for calculating the credit base. State law requires DOR to set the credit base at a level that distributes the total amount approved by the Committee. For 2006(07), $145,276,800 was certified as available for distribution. On March 26, DOR distributed $144,654,765 to municipalities for lottery and gaming tax credits that were extended on property tax bills issued in December, 2006.

Equalization Aid for School Districts

The equalization aid formula is designed to equalize the tax base of school districts. The purpose of this policy is to minimize the differences among school districts' abilities to raise revenue for educational programs. The provision of state aid through the formula allows a district to support a given level of per pupil expenditures with a similar local property tax rate as other school districts with the same level of per pupil expenditures, regardless of property tax wealth. The formula is calculated using school district data (membership, shared costs, and equalized valuations) from the prior school year.

For most school districts, equalization aid is the only type of general school aid received. School districts that have a per pupil equalized value above the primary guaranteed valuation do not receive equalization aid. These districts do, however, receive special adjustment aid. This is a hold harmless payment under which a district receives at least 85% of its prior year general aid payment.

Equalization aid is distributed to school districts according to the following statutory payment schedule: 15% on the third Monday in September; 25% on the first Monday in December; 25% on the fourth Monday in March; and 35% on the third Monday in June. The state pays $75 million of the June equalization aid on a delayed basis, with school districts receiving these monies on the fourth Monday in July of the following school year.

GOVERNOR

Create a property tax credit called the "first dollar credit" with a funding level of $100,000,000 annually beginning in 2009. Modify the existing school levy tax credit appropriation to fund payments for that credit and for the first dollar credit. Extend the credit to each taxable parcel of real estate on which improvements are located. Calculate the credit for each eligible property by multiplying the property's school tax rate by a value determined by DOR. [DOA indicates that the intent was to base each credit on the value determined by DOR or the property's value, whichever is less. However, this second condition was inadvertently omitted from this portion of the bill.] Direct DOR to determine that amount as the estimated fair market value, rounded to the nearest $100, necessary to distribute the total amount available for distribution. Direct DOR to make that determination and to notify each municipal clerk of the estimated fair market value used to calculate each taxpayer's credit by December 1 of each year. Require the notice to include the total amount of first dollar credits to be distributed to the municipality in the succeeding July. Direct municipalities and counties to furnish data related to the credit that DOR requests. Specify that the credit be used to reduce property taxes otherwise payable and prohibit municipalities from considering the receipt of the credit when setting the municipality's tax rate. Require each property tax bill to display the amount of the first dollar credit and the credit's effect on the amount of net property taxes payable for the previous year, for the current year, and the percentage change between those years.

Require DOA to distribute tax credit payments to municipalities on the fourth Monday in July and set the amount of each municipality's distribution as an amount determined by multiplying the school tax rate by the estimated fair market value, not exceeding the value determined by DOR, of every parcel of eligible property in the municipality. Require municipal treasurers to settle for the credits received with the overlying county treasurer by August 15. Extend the current law provision imposing a 5% penalty for all amounts not settled on a timely basis. Require county treasurers to settle for the credits received with all affected taxing jurisdictions by August 20. Provide a correction procedure for instances of overpayments and underpayments whereby the subsequent year's payments are increased or decreased to all affected municipalities.

Extend the preceding provisions beginning with property taxes levied in 2009, payable in 2010. [DOA indicates that this should be changed to property taxes levied in 2008 (payable in 2009) to reflect the administration's intent.] Because the credit's initial distribution would occur in July, 2009, the fiscal effect of these provisions would first occur in 2009-10, outside the 2007-09 biennium.

DISCUSSION POINTS

Establish the First Dollar Tax Credit

1. A major provision in SB 40 is the level of state support for K-12 education. The state adhered to a statutory two-thirds funding policy for the 1996-97 through 2002-03 school years. Between 2003-04 and 2005-06, the level of support on a statewide basis fell below 66%, but has increased to an estimated 66.1% in 2006-07. Over the next two years, SB 40 would provide an additional $235 million in general school aid and $100 million in first dollar tax credits, and state support of partial school revenues is estimated at 65.0% in 2007-08 and 64.9% in 2008-09, on a statewide basis.

2. Relative to the 2008-09 school year, first dollar tax credits would be paid in July, 2009. As a result, the $100 million funding increase would occur in the state's 2009-10 fiscal year and would represent an advance commitment. When combined with increases in other tax relief appropriations proposed in SB 40, advanced commitments in the "shared revenue and tax relief" portion of the budget total $130 million. This implies that the "first" $130 million in revenue growth in the 2009-11 biennium would be used to fund these increases. As an example, the Legislative Fiscal Bureau's January 30, 2007, memorandum on general fund revenue and expenditure

projections indicates that general fund revenues are estimated to increase by $397.9 million in the first year of the 2007-09 biennium under current law provisions. Assuming similar revenue growth in the first year of the 2009-11 biennium, the $130 million increase would use 33% of the additional revenues. The $100 million increase for the first dollar tax credit would use just over 25% of the additional revenues.

3. School levy tax credits are considered a property tax payment made by the state on behalf of taxpayers. After their payment by the state to municipalities, they are allocated through the property tax settlement process. Under the settlement process, property tax payments to municipalities are allocated to the various taxing jurisdictions in proportion to the amount of taxes that they levied within each municipality. For accounting purposes, the credits are recognized as a payment due to each of the various taxing jurisdictions, even though the credits are characterized as school property tax relief for state policy purposes.

4. While state expenditures are recognized when they are paid for budgetary purposes, they are recognized when they are incurred under generally accepted accounting principles (GAAP). For the fiscal year ended June 30, 2006, the school levy tax credit program created a $353.4 million liability to the state's general fund under GAAP. This treatment reflects that 50.6% of the credit payments are eventually received by school and technical college districts, and they have fiscal years that end before the payment is made. Therefore, the credits due these districts are reflected as a liability ($469.3 million x 50.6% = $237.5 million). The remaining $231.8 million in credits are due to districts that operate on a calendar year basis. Under GAAP, half of the payments that they eventually receive is due in the January to June period, and half is due in the July to December period. Therefore, half of the credit payments due these districts is reflected as a GAAP liability ($231.8 million x 50% = $115.9 million). Based on the same methodology, the $123.7 million increase in tax credit funding for 2006(07) property taxes will increase the GAAP liability by an estimated $93.2 million, to $446.6 million, for 2006-07.

5. Based on generally accepted accounting principles, Wisconsin's Comprehensive Annual Financial Report (CAFR) for 2005-06 indicates a general fund balance of -$2,150 million. This deficit reflects the differences between GAAP and budgetary accounting procedures. Since it would have the same payment mechanism as the school levy credit, establishing the first dollar tax credit distribution would exacerbate the state's GAAP deficit in 2008-09 by an estimated $75.3 million.

6. The GAAP-based CAFR is used to assess the state's fiscal condition. The CAFR is one of the information sources used by credit agencies to rate the state's credit worthiness. Between 2002 and 2004, the major rating agencies downgraded Wisconsin's general obligation bond issues, although the rating has been stable at AA- since then. In announcing the latest rating changes, these agencies have cited concerns about the state's finances, including the ongoing accounting deficit under GAAP. Typically, lower credit ratings result in higher borrowing costs.

7. The general fund receives revenues and incurs expenditures in uneven patterns throughout the year. Over time, this has led to repeated cash flow problems. The payment schedule for the state's local assistance programs contributes to the imbalance. In 2005-06, July had a worst-

day cash balance of $522.6 million, and disbursements of $2,049.9 million exceeded receipts of $1,826.5 million. In July, payments are made under the general school aid, shared revenue, and school levy tax credit programs, and local assistance payments comprised 43% of all disbursements in July. The state's worst-day cash balance in 2005-06 occurred in December when the cash balance fell to -$864.5 million.

Distribution of the Additional $100 Million

8. Although the additional $100 million in tax credits would be paid from the same appropriation as the school levy tax credit, the appropriation would be renamed the "school levy tax credit and first dollar credit" appropriation, and the additional funding would utilize a different distributional mechanism. The first dollar credit's distributional mechanism would be similar to that used for the lottery and gaming tax credit because each eligible property would receive a credit equal to the school taxes on the property's first increment of taxable value, referred to as the credit base. Each year, DOR would certify the credit base to local governments, where it would be used in the calculation of property tax bills. DOR would reestablish the credit base each year at a level intended to expend all of the credit's appropriated funding.

9. Under the proposed distribution mechanism, all eligible properties in the same school district would receive identical tax credit amounts. Like the lottery and gaming tax credit, this distribution mechanism introduces an element of progressivity into the property tax system. Assuming a credit base of $6,000 and a school tax rate of $8 per $1,000 of taxable value, each eligible property would receive a first dollar credit of $48. For a property with a taxable value of $100,000 and a school tax bill of $800, the credit would provide a larger percentage reduction in school taxes (6%) than for a property with a taxable value of $200,000 and a school tax bill of $1,600 (3%).

10. Each year in Wisconsin, property tax bills are issued for 3.7 million parcels of real estate and over 200,000 personal property accounts. Lottery and gaming tax credits are extended to only 1.4 million properties because a property must be used as its owner's primary residence to receive the credit. The first dollar credit would be extended only to parcels of real estate where an improvement is located. There are approximately 2.1 million parcels of real estate that meet this requirement.

11. Over 85% of the parcels of residential, commercial, and manufacturing real estate in the state contain an improvement, although some parcels in these property classifications are vacant land. By definition, property classified as agricultural, undeveloped (previously called swamp and waste), agricultural forest, and productive forest land do not contain improvements. Table 1 reports the number of parcels of real estate by property classification and the number of personal property accounts, as reported to DOR by local assessors for 2005. The statewide total for real estate overstates the total number of real estate parcels because some properties are included in more than one classification due to multiple uses. Nonetheless, the data indicates that there are 1.6 million parcels of vacant land and over 200,000 owners of personal property. This data indicates that the first dollar credit would not be extended on almost half (46.8%) of the tax bills in the state.

TABLE 1

Estimated Number of Statewide Property Tax Bills by Type of Property Based on 2005 Reports Filed with DOR by Local Assessors

Classification	Property With Improvements	Property Without Improvements	Total
Residential	1,844,975	295,657	2,140,632
Commercial	132,755	32,663	165,418
Manufacturing	10,228	1,808	12,036
Agricultural	0	532,584	532,584
Undeveloped	0	370,284	370,284
Agricultural Forest	0	164,061	164,061
Productive Forest	0	213,221	213,221
Other	101,041	431	101,472
Personal Property	0	227,414	227,414
Total	2,088,999	1,838,123	3,927,122

12. Because the first dollar credit would not be extended to all property, a question could be raised regarding its compliance with the constitutional requirement of uniform taxation. The Wisconsin Constitution provides, "The rule of taxation shall be uniform" (Article VIII, Section 1). Known as the uniformity clause, this provision has been the subject of numerous court cases, and in 1967, the Wisconsin Supreme Court enumerated six standards that summarize prior case law and that have been applied in successive cases:

a. For direct taxation of property, there can be but one constitutional class;

b. All property within that class must be taxed on a basis of equality so far as practicable and all property taxed must bear its burden equally on an *ad valorem* basis;

c. All property not included in that class must be absolutely exempt from property taxation;

d. Privilege taxes are not direct taxes on property and are not subject to the uniformity rule;

e. While there can be no classification of property for different rules or rates of property taxation, the Legislature can classify as between property that is to be taxed and that which is to be wholly exempt and the test of such classification is reasonableness; and

f. There can be variations in the mechanics of property assessment or tax imposition so long as the resulting taxation shall be borne with as nearly as practicable equality on an *ad valorem* basis with other taxable property.

13. The third standard has been interpreted as prohibiting partial tax exemptions. Although technically a tax credit, the first dollar credit could be characterized as an exemption because the courts typically look beyond the mechanics of imposing the tax and also consider whether the tax burden is equal among all properties or taxpayers. Similar proposals and state laws have been evaluated within this context on at least four occasions:

- In 1963, a Senate bill would have provided an exemption for the first $3,750 in value for real property occupied by the owner as a homestead, but the Attorney General found that this treatment would constitute a partial exemption and would "violate the rule of uniformity" (52 OAG 143).

- In 1967, the Wisconsin Supreme Court characterized the state's urban redevelopment law as a partial tax freeze or exemption and declared the law unconstitutional. The law allowed urban redevelopment corporations to develop blighted areas and pay taxes based on the value of the property at the time the corporation acquired it. Increases in value would not become subject to taxation for up to 30 years (*Gottlieb v. City of Milwaukee*).

- In 1977, the Improvements Tax Relief Law was enacted that provided income tax credits to owners of certain residential properties to offset increases in property taxes resulting from improvements made to houses and garages. Although the credit was administered through the state income tax, the Wisconsin Supreme Court ruled that the credit was a property tax statute, resulted in unequal tax burdens for owners of houses with identical values, and was an unconstitutional partial exemption under the uniformity clause (*La Follette v. Torphy*).

- Finally, between 1991 and 1995, the state provided homeowners a lottery tax credit that was almost identical to the lottery and gaming credit extended today, but in October, 1996, the credit was found to be a partial exemption because "property used as a primary dwelling is subject only to a portion of the property tax imposed on comparable other property." Because this was a circuit court decision (*Wisconsin Out-of-State Landowners v. Department of Revenue*), it may not be cited as a precedent. However, it indicates how other courts may react to similar proposals. Also, the decision precipitated a 1999 amendment to the Wisconsin Constitution that exempted the use of lottery and gaming proceeds from the requirements imposed under the uniformity clause.

14. In public testimony before the Committee, administration officials indicated that they believe the proposed credit would be constitutional because it would provide a uniform reduction (in dollars) in tax liability within individual taxing jurisdictions for each credit recipient.

15. In other communications, administration officials have cited additional reasons supporting the credit's constitutionality. First, the credit would be available to all properties that are improved. Second, improved properties would represent a distinct class of property, and it is reasonable to distinguish between properties on that basis. Third, the credit would employ the same

(uniform) value base for all properties. Fourth, the same tax rate would be used to calculate each property's credit within each taxing jurisdiction. Fifth, the amount of taxes paid to each taxing jurisdiction is unaffected by the credit, although the taxes for eligible properties would be paid from two sources. Finally, administration officials maintain that the first dollar credit would provide identical tax relief to identical properties in the same taxing jurisdiction. This differs from the lottery credit where tax relief is extended to one property, but is denied to a property that is identical, except for its ownership and use.

16. These issues have previously been considered by the courts and should be evaluated relative to the six standards established in *Gottlieb v. City of Milwaukee*. In that case, the Supreme Court rejected the argument that there only needs to be uniform treatment within each property class so long as there has been a "proper classification based on substantial distinctions." Instead, the Court ruled that there is only one true class of taxable property and "each dollar's worth of one sort of property is liable for exactly the same tax as a dollar's worth of any other sort of property." Thus, it may not be sufficient to argue that the credit is the same for all improved property and is based on a uniform value base and uniform tax rates so long as the credit is not extended to other types of taxable property. Also in *Gottlieb v. City of Milwaukee*, the Court ruled that all other property must be exempt, and the rule of reasonableness applies only to the distinction between what is taxable and what is exempt.

17. In a later case, the Supreme Court ruled that the mechanics by which relief is extended are immaterial so long as the provision authorizing the relief is found to be a tax statute. In *La Follette v. Torphy*, in 1978, it was argued that the improvement tax credit was not a tax statute, and therefore not subject to the uniformity clause because credits were to be paid to property owners after the owners paid their property taxes. The Court ruled that the credit was a tax statute and subject to uniformity, reasoning that it "is the effect of the statute, not the form which determines whether it is a tax statute subject to the uniformity clause. Although the instant statute provides for the payment of the tax credit from the general revenues, it is in substance a tax statute because it has the effect of changing the individual tax burden by granting a partial exemption." This suggests that the courts may look beyond the mechanics of tax administration and examine actual tax burdens, even though the proposed credit would not change each property's total tax liability.

18. Finally, it should be noted that the courts generally try to uphold acts of the Legislature. A rule of judicial construction is that "all legislative acts are presumed constitutional, and every presumption must be indulged to sustain the law if at all possible" (*Gottlieb v. City of Milwaukee*).

19. There are a number of alternate distribution mechanisms to the one proposed by the Governor. One option would be to use the existing school levy tax credit formula based on the taxes levied for school purposes in each municipality averaged over the three preceding years. Another option would be to distribute the additional funding using the general equalization aids formula for school districts. Under this option, the Department of Public Instruction (DPI) would prepare the current law October 15 general school aids distribution using the actual amount appropriated and a separate distribution as if an additional $100 million had been appropriated. DPI would certify the

difference in the two amounts for each school district to DOR. To facilitate the administration of the credit, DPI would make this certification to DOR by November 1. DOR would then allocate the difference to municipalities containing tax base in the school district in the same manner that school taxes are apportioned for tax billing and collection purposes. The tax credits allocated to each municipality would be spread among the municipality's taxpayers in proportion to their properties' assessed values.

20. The equalization aid formula is based on the policy of tax base equalization, which seeks to minimize the differences among school districts' abilities to raise revenue for educational programs. The provision of state aid through the formula allows a district to support a given level of per pupil expenditures with a similar local property tax rate as other school districts with the same level of per pupil expenditures, regardless of each district's amount of property tax base. The formula is intended to ensure that differences in tax rate primarily reflect differences in school district spending levels. The existing school levy tax credit formula can be characterized as "neutral" relative to the general equalization aids formula since the levy reduction resulting from the tax credit, excluding the effects of using a three-year levy average, is proportionate for all districts and produces a similar reduction in tax rates.

21. Table 2 displays distributional characteristics of the three alternatives. In the table, the state's municipalities are ranked according to their per capita tax base and divided into five equal groups (quintiles). The table reports the estimated distribution of $100 million in tax credits under the three options by quintile. The two quintiles with the lowest amounts of per capita tax base would receive a larger percentage of the estimated distribution under the first dollar alternative (39.2%), than under the school aid (32.6%) or average school levies (28.4%) alternatives. The two quintiles with the highest levels of per capita tax base would receive a smaller percentage of the estimated distribution under the first dollar credit (45.1%), than under the school aid (52.1%) or average school levies (58.0%) alternatives.

TABLE 2

Estimated Municipal Distribution of $100 Million in Tax Credits
Under Three Alternatives by Level of Per Capita Tax Base

Tax Base Per Capita	SB 40: First Dollar	Average School Levies	Equalization Aid for Schools
Under $51,384	17.5%	11.8%	14.0%
$51,384 to $64,964	21.7	16.6	18.6
$64,971 to $79,650	15.7	13.6	15.3
$79,678 to $111,907	23.6	27.5	29.6
Over $111,907	21.5	30.5	22.5
All Municipalities	100.0%	100.0%	100.0%

22. The effectiveness of each alternative can also be evaluated by examining how the tax credits are targeted to individual taxpayers. The state's median home value is estimated at $164,118 for 2006 and would have had a 2006(07) school tax bill of $1,364 if taxed at the statewide average school tax rate of $8.31 per $1,000 of taxable value. Assuming a credit base of $5,800, that property would have received a 2006(07) first dollar credit estimated at $48, which would have reduced school taxes by 3.5%. Because the first dollar credit would be extended to fewer properties (only real estate where improvements are located), the credit would be larger than the credits estimated under the other two alternatives for the same property. When calculated on a statewide basis, both of the other alternatives would have reduced the school taxes, as estimated above, by $35, or 2.6%.

23. A similar exercise can be employed within each municipality to better understand the three alternatives' effects on taxpayers whose property values and school tax bills differ from the statewide median or average. For the following analysis, the 2006(07) school taxes on the median-valued home in each municipality were estimated and compared to the estimated credits that those properties would have received under the first dollar credit. Table 3 reports the distribution for 1,886 municipalities under each alternative, based on the estimated percentage reduction in school taxes on each municipality's estimated home value. There are 1,908 municipal taxation districts, but only 1,851 municipalities because 56 municipalities are located in more than one county. This analysis includes only 1,886 municipal taxation districts because the secondary piece of 22 municipalities contain no taxable value or there is no data on housing values.

TABLE 3

Distribution of Municipalities Under Three Tax Credit Formulas by Estimated Reductions in School Tax Bills for the Median-Valued Home

	SB 40: First Dollar		Average School Levies		Equalization Aid for Schools	
	Number	Percent	Number	Percent	Number	Percent
Under 1%	4	0.2%	5	0.3%	191	10.1%
1% to 2%	51	2.7	32	1.7	50	2.7
2% to 2.5%	107	5.7	480	25.5	198	10.5
2.5% to 3%	176	9.3	1,251	66.3	631	33.5
3% to 4%	430	22.8	118	6.3	816	43.3
Over 4%	1,118	59.3	0	0.0	0	0.0
Total	1,886	100.0%	1,886	100.0%	1,886	100.0%

24. Table 3 illustrates the greater impact that extending the first dollar credit to fewer properties would have on homeowners' tax bills. Relative to the school taxes on median-valued homes, tax bill reductions would be higher under the first dollar credit in 1,350 municipalities (71.6%) compared to the average school levies formula. Relative to a credit based on the equalization aid formula for schools, the first dollar credit would be higher in 1,130 municipalities

(59.9%). Among the 1,886 municipalities, the median reduction under the first dollar credit is estimated at 4.4%. Considerable variation among municipalities in the estimated levels of reduction would result, and reductions, as a percent of school tax bills, would range from 0.3% to 22.0%. Also, a comparable number of municipalities would experience school tax bill reductions of less than 3% (338 municipalities, or 17.9%) and more than 6% (368 municipalities, or 19.5%).

25. Smaller school tax reductions would occur under the average school levies and equalization aid formulas. Among the 1,886 municipalities, median tax bill reductions of 2.6% under the average school levies formula and 2.9% under the equalization aid formula are estimated. Estimated reductions would range from less than 0.1% to 3.5% under the average school levies formula and from 0.0% to 4.0% under the equalization aid formula. Under the latter distribution, 42 municipalities would not receive a tax credit allocation. These distribution alternatives would result in less variation among municipalities in terms of their estimated impact on taxpayers. Under the average school levies formula, estimated tax bill reductions of between 2.0% and 3.0% would occur in 91.7% (1,731) of all municipalities. Estimated tax bill reductions of between 2.5% and 4.0% would occur in 76.8% (1,447) of the municipalities under the equalization aid formula.

26. Rather than distribute the additional $100 million as property tax credits, the Committee could choose to instead appropriate it as general school aids. By distributing this funding through the equalization formula, it would further enhance the ability of the formula to equalize the property tax base of school districts.

27. If the Committee chooses to provide the additional $100 million as general school aids, the funding could either be provided on a current year basis or on a delayed basis. If the funding would be provided on a current year basis, it would be provided through the current statutory payment schedule on the specified dates in September, December, March, and June. This alternative would not worsen the GAAP deficit, but it would represent an additional $100 million in budgetary expenditures for 2007-09 that are not reflected in SB 40.

28. If the funding were provided as school aids on a delayed basis, the school aids payment in July would increase from $75 million to $175 million. Because the payment would be made to school districts after their fiscal year has ended, the GAAP deficit would increase by $100 million. On a budgetary basis, however, this option would represent no change to SB 40.

ALTERNATIVES TO BILL

A. Increase Tax Credit Funding

1. Approve the Governor's recommendation to increase the tax credit distribution for the 2008(09) property tax year and for each year thereafter by $100,000,000 GPR, from $593,050,000 to $693,050,000. Although this provision would not increase appropriations in the 2007-09 biennium, an increase of $100,000,000 annually over the base funding level would need to be provided in the 2009-11 biennium for this purpose. A technical modification to the Governor's proposal would be made to clarify that the additional funding would apply to the 2008(09) tax levy.

2. Delete provision.

B. Distribution of the Additional $100 Million

1. Approve the Governor's recommendation to rename the school levy tax credit appropriation and create a new tax credit called the first dollar credit. Extend the credit to each taxable parcel of real estate on which improvements are located, and calculate the credit for each eligible property by multiplying the property's school tax rate by a value determined by the Department of Revenue. A technical modification to the Governor's proposal would be made to specify that tax credits for individual properties would be based on the value determined by DOR (the credit base) or the property's value, whichever is less.

2. Modify the Governor's recommendation to distribute the additional $100 million under current law provisions, on the same basis as the $593,050,000 school levy tax credit appropriation.

3. Modify the Governor's recommendation to distribute the additional $100 million based on the distribution formula for the equalization aids program for school districts. Determine the tax credit distribution for each municipality by: (a) calculating the equalization aids payment to each school district based on the amount of appropriated equalization aid; (b) calculating the equalization aids payment to each school district based on the amount of appropriated equalization aid increased by $100 million; and (c) apportioning the difference for each school district to the municipalities where that school district is located based on the percentage of the school district's equalized value that is contained in each municipality. Extend current law provisions regarding payments and administration of the school levy tax credit to the newly-created tax credit.

4. Delete the Governor's recommendation and, instead, increase general school aids funding by $100 million. In addition:

a. Specify that the funding be provided on a current year basis, so that the funding would be provided in 2008-09.

ALT B4a	Change to Bill Funding	Change to Base Funding
GPR	$100,000,000	$100,000,000

b. Specify that this funding would be paid on a delayed basis on the fourth Monday in July of the following school year, resulting in a total delayed payment of $175 million. The additional aid would first be paid in July, 2009.

5. Delete provision.

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