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Senator Peggy A. Rosenzweig and
Representative Mary A. Lazich, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Rosenzweig and Representative Lazich:

As part of our ongoing audit of the Department of Transportation, we have reviewed the administration and funding of the State's railroad crossing safety program. Both the Department of Transportation and the Office of the Commissioner of Railroads share responsibility for the safety of 4,792 public railroad crossings in Wisconsin, which include safety equipment such as railroad warning signs, side-of-the-road or overhead flashing lights, and barrier gates.

From 1974 through 1994, the number of vehicle/train accidents declined from 401 to 165, or 0.1 percent of all vehicle accidents in 1994, and the fatality rate in Wisconsin is lower than the national rate and the rates of other midwestern states. However, Wisconsin's accident and injury rates per 1,000 crossings are higher than the national average and those of most neighboring states. Further, economic costs and the chances of serious injury or death are substantially higher in accidents that involve vehicles and trains than in those that involve vehicles alone.

While the Department has, in recent years, allocated federal funds to railroad crossing safety projects in addition to the federal and state funds appropriated for this purpose, this practice may end because of anticipated demands on federal funds for other transportation purposes. For each year of the 1995-97 biennium, expenditures for new crossing safety equipment are estimated at $2.4 million, continuing the decline in program expenditures from the program's peak year, fiscal year (FY) 1992-93, when $3.6 million was spent. Equipment maintenance funds will remain at FY 1993-94 levels.

At the same time, a growing waiting list of projects identified by the Office of the Commissioner of Railroads includes 34 safety projects with estimated costs of $2.9 million. Another 60 projects await review, which is likely to result in approval of approximately 15 projects with an estimated cost totaling $1.1 million. In addition, the Department has initiated an effort to review safety at all crossings over the next three years.

Alternative sources of funding to provide safety equipment at more crossings may include federal discretionary funds, federal highway safety funds, state funds currently used to reimburse railroad companies for maintenance of safety equipment, local funds when the additional safety equipment results from local road improvement projects, or other funds from the Transportation Fund.

Attached is a more complete discussion of our findings with regard to railroad crossing safety equipment. We appreciate the courtesy and cooperation extended to us by staff of the Department of Transportation and the Office of the Commissioner of Railroads.

Respectfully submitted,

Dale Cattanach
State Auditor

DC/JF/ce

cc: Senator Timothy Weeden
Senator Margaret Farrow
Senator Joseph Wineke
Representative Carol Kelso
Representative Ben Brancel
Representative Kimberly Plache
Representative Gregory Huber

RAILROAD CROSSING SAFETY EQUIPMENT

Concerns over the safety of railroad crossings in Wisconsin have increased since an Illinois accident involving a school bus and train on October 25, 1995, resulted in the death of seven students. In addition, a July 1995 federal report identified Wisconsin as having the seventh-highest number of railroad crossing accidents nation-wide. Therefore, at the request of several legislators, and as part of our ongoing review of Department of Transportation programs, we reviewed the safety of railroad crossings and the level of funding for installing and maintaining safety equipment such as flashing lights and barrier gates.

Wisconsin's Railroad Crossings

As shown in Table 1, there were 8,680 railroad crossings in Wisconsin as of January 1996. However, the State's railroad crossing safety equipment program does not include 44.8 percent of these crossings. Not included in the program are 2,998 crossings located on private property that are not open to public use, 738 public crossings that are grade separated (that is, at which a bridge allows vehicles to pass either over or under the train tracks), and 152 crossings for pedestrian use only. Therefore, the State currently is responsible for the safety equipment at a total of 4,792 public crossings.

As shown in Table 2, the majority of crossings for which the State has safety responsibility are located in cities and rural townships. Only 374, or 7.8 percent, of these crossings are on the state highway system, although 32 percent of the vehicle traffic at railroad crossings each day passes through these crossings.

Based on an assessment of risk, one or more of several types of warning and safety equipment is used to protect railroad crossings.

- Signs beside the road warning of a railroad crossing ahead are the protection at approximately 2,825 (59.0 percent) of the crossings;

- flashing lights installed either on the side of the road or overhead are the warning device at approximately 1,481 (30.9 percent) of the crossings; and

- additional restrictive equipment, such as barrier gates and preemptive traffic light controllers, are the protection at 486 (10.1 percent) of the crossings that present more significant safety concerns.

The cost of safety equipment ranges from minimal expense for signs to $70,000 for installing a set of 12-inch warning lights, and to more than $140,000 for flashing lights, multiple barrier gates, and a preemptive light controller. Such controllers are designed to override the normal traffic light pattern at an intersection to ensure that vehicles have cleared nearby tracks before a train crosses the intersection.

Table 1

Wisconsin Railroad Crossings
January 1996

	Number of Crossings	Percentage of Total Crossings
Public Crossings:		
At Grade*	4,792	55.2%
Grade Separated**	738	8.5
Total Public Crossings	5,530	63.7%
Private Crossings		
At Grade*	2,910	33.5%
Grade Separated**	88	1.0
Total Private Crossings	2,998	34.5%
Pedestrian Crossings:		
At Grade*	113	1.3%
Grade Separated**	39	0.5
Total Pedestrian Crossings	152	1.8%
All Crossings:		
At Grade*	7,815	90.0%
Grade Separated**	865	10.0
Total All Crossings	8,680	100.0%

* Road crosses train track.
** Road goes over or under the train track.

Table 2

Location of Railroad Crossings in Wisconsin
January 1996

	Rural	Average Daily Auto Traffic	Urban	Average Daily Auto Traffic	Total
State Highways	201	4,462	173	14,081	374
County Highways	542	1,299	113	6,985	655
City Streets	218	746	1,465	3,119	1,683
Town Roads	1,505	122	108	1,582	1,613
Village Streets	320	407	138	2,595	458
Other	9	113	0	0	9
Total/Average	2,795	744	1,997	4,168	4,792

Safety of Wisconsin's Railroad Crossings

As shown in Table 3, from 1974 through 1994, the number of vehicle/train accidents declined by 58.9 percent, from 401 to 165, while the number of vehicle miles traveled annually has increased 79.6 percent. The number of train miles traveled reached a low point of 8 million in 1985, but since 1985, there has been a 62.5 percent increase in train miles, which reached 13.0 million in 1994.

Vehicle traffic is expected to continue to increase as a result of improved roads and an increased reliance on individual vehicles for transportation. Train traffic and the speed of trains are also expected to continue to increase. For example, the Soo Line previously operated two to six trains daily on the track segments it subsequently sold to Wisconsin Central Limited. Wisconsin Central Limited is now operating 35 trains daily on some of these tracks, at speeds of up to 50 miles per hour.

Table 3

Train and Motor Vehicle Miles Traveled, Accidents, Deaths, and Injuries

Year	Train and Switch Miles (millions)	Motor Vehicle Miles (billions)	Accidents	Deaths	Injuries
1974	16.8	28.0	401	40	235
1975	14.1	28.6	323	16	139
1976	14.5	30.2	374	18	203
1977	13.5	31.6	403	30	194
1978	13.6	33.9	389	29	210
1979	11.5	33.0	383	15	213
1980	12.8	33.2	276	16	154
1981	11.6	33.6	249	20	131
1982	9.2	32.8	204	12	130
1983	8.7	34.1	194	10	111
1984	9.2	35.5	186	14	93
1985	8.0	36.7	187	8	90
1986	8.1	38.4	147	17	68
1987*	8.4	40.2	154	9	73
1988	9.0	42.3	188	8	110
1989	9.1	43.1	171	7	92
1990	10.9	44.3	161	4	89
1991	11.3	45.5	163	12	101
1992	11.5	47.5	129	7	76
1993	11.8	48.8	151	7	113
1994	13.0	50.3	165	14	92

* Prior to 1987, vehicle/train accidents were classified in a different manner and did not include pedestrians killed by trains or collisions of motor vehicles that involved trains only incidentally.

However, in 1994, accidents involving a vehicle and a train at a railroad crossing accounted for only 0.1 percent of total vehicle accidents in Wisconsin. As shown in Table 4, traffic accidents are far more likely to involve a collision with another vehicle, a deer, or a fixed object such as a utility pole than collision with a train.

Table 4

1994 Traffic Accidents

Collision Category	Number of Accidents	Percentage of Total Traffic Accidents
With Another Vehicle	88,266	59.5%
With a Deer	24,573	16.6
With a Fixed Object	23,791	16.0
Other*	11,530	7.8
With a Train	165	0.1
Total	148,325	100.0%

* Includes collisions with pedestrians and bicycles, as well as non-collision accidents such as jackknife and immersion accidents.

The most severe measure of safety is generally considered to be fatality rates. Wisconsin's 1994 fatality rate of 2.9 deaths per 1,000 railroad crossings is less than the national fatality rate of 3.5, as shown in Table 5. Wisconsin's fatality rate also is below that of other midwestern states, including Ohio, which had the highest, and Minnesota, which had the next-lowest.

Table 5

1994 Fatality, Accident and Injury Rates
(per 1,000 railroad crossings)

	Fatalities	Accidents	Injuries
Illinois	4.8	30.0	17.6
Indiana	4.0	40.9	18.4
Iowa	3.6	29.7	10.6
Michigan	4.1	27.3	13.6
Minnesota	3.5	26.4	12.3
Ohio	5.5	34.1	12.2
Wisconsin	2.9	35.9	14.7
United States	3.5	27.1	11.0

However, some concern over the safety of railroad crossings is warranted. For example, Wisconsin's accident and injury rates per 1,000 crossings exceed national averages and are higher than the rates of most midwestern states. As shown in Table 5, only Indiana exceeds Wisconsin's accident rate of 35.9; Indiana and Illinois exceed Wisconsin's injury rate of 14.7.

Further, the chance of serious injury or death increases substantially in accidents involving a vehicle and a train. Nationally, vehicle and train accidents at railroad crossings are at least 11 times more likely to result in a fatality than are other types of accidents involving vehicles. In Wisconsin, railroad crossing accidents accounted for 1.8 percent of all 1994 motor vehicle fatalities, even though they made up only 0.1 percent of accidents. Because the proportion of fatalities is high, vehicle and train accidents typically carry higher economic costs than other accidents. Applying National Safety Council techniques, it is estimated that from 1990 through 1994, railroad crossing accidents in Wisconsin cost $11.4 million annually, or approximately $74,200 per accident, compared to $18,000 per other motor vehicle accidents.

Nationally, concern about the risk of accidents at railroad crossings has prompted the Federal Highway Administration to adopt new federal regulations that, beginning in Fall 1996, will require trains to sound their horns at every public railroad crossing. In Wisconsin, such a requirement already exists unless banned by a local government. The federal requirement will override local bans and is expected to affect over 30 Wisconsin communities and a total of 1,203 crossings. In the future, exceptions to the new rule may be allowed for crossings with specialized barrier gates or other similar types of protection, none of which is currently in place at any of the 1,203 crossings.

Department officials, however, point out that improving safety equipment, lowering train speeds, and requiring trains to sound their horns can be expected to reduce accidents only if drivers heed the warnings and make no effort to defeat crossing barriers. Drivers who ignore the warnings, either purposefully or through inattention, are a contributing cause of many crossing accidents.

Responsibility for Wisconsin's Railroad Crossings

The Department of Transportation and the Office of the Commissioner of Railroads, which is attached to the Public Service Commission and has as its primary duty ensuring the safety of railroad crossings, are the two state agencies involved in safety issues related to public railroad crossings. Although each agency performs several railroad safety–related functions, staff in the Department have general responsibility for identifying safety needs at railroad crossings on the state highway system, and staff in the Office have been most concerned with railroad crossings on county and local roads.

Department of Transportation

The Department of Transportation has responsibility for two areas of railroad assistance: 1) railroad service assistance, and 2) railroad crossing improvement, protection, and repair assistance. The railroad service assistance programs primarily fund the acquisition and maintenance of state-owned railroad property, including 650 track miles; loans to railroad companies to upgrade nonstate-owned railroad property and prevent track abandonment; and the rail passenger service between Milwaukee and Chicago. Appropriations for the rail service assistance programs are $7.3 million annually for the 1995-97 biennium.

The railroad crossing improvement, protection, and repair assistance programs provide funding for signal equipment installation and maintenance; track upgrades at railroad crossings; and road surface repair at railroad crossings. Planned expenditures for these programs are $6.5 million annually for the 1995-97 biennium. However, the track upgrade and road surface programs, for which $2.0 million in federal and state funds are available annually, are primarily improvement and repair programs, not safety programs. Therefore, to address recent concerns about the safety of railroad crossings, we examined only those programs that directly affect motor vehicle safety at railroad crossings. These programs include the installation and maintenance of signal equipment, for which $4.5 million are appropriated annually for the 1995-97 biennium.

The Department is responsible for maintaining records for all railroad crossings, which include information about train speed and the number of vehicles and trains using each crossing. According to staff, the Department's records of road conditions and traffic volume are current, but records on train activity, including the number and speed of trains, need to be updated.

In addition, the Department is to identify crossings with safety equipment needs. To assess need, district staff review traffic and accident records and visit railroad crossings on the state highway system. The Department gives primary consideration to three items when evaluating the need for additional safety equipment at a railroad crossing:

- the number of vehicles traveling over a railroad crossing;
- the number and speed of trains crossing a road; and
- the number of accidents.

Using these criteria, central office staff select approximately ten projects each year for improvement.

The Department also includes upgrading safety equipment in new state highway or existing highway improvement projects when adding one or more lanes increases the chance of an accident, but these projects are included in the cost of the highway project and are not in competition for limited crossing safety funds. In fiscal year (FY) 1994-95, these expenditures included approximately $186,000 within two new highway construction projects and approximately $330,000 as part of several existing highway reconstruction projects.

Although railroad companies are responsible for installing safety equipment, department district staff review equipment installations to ensure safety equipment has been installed properly. In addition, the Department, in cooperation with the Office of the Commissioner of Railroads and railroad companies, administers a program that provides railroad crossing safety information to school students.

The Office of the Commissioner of Railroads

Like the Department, the Office is responsible for maintaining railroad crossing records. Department officials believe records maintained by the Office are more up-to-date, particularly those that indicate current train traffic volume and speed at each crossing. An effort by both agencies to consolidate this function could save resources and produce more complete information.

In addition, the Office each year investigates over 100 railroad crossing safety complaints or requests from local governments, railroad companies, the Department of Transportation, private citizens, and other sources. As it investigates each safety concern, the Office typically gathers information from the Department, railroad companies, federal agencies, and others. When assessing the need for safety improvements, the Office uses the same general criteria of traffic volume, train speed, and accident rates used by the Department. Through this process, the Office each year identifies 20 to 25 crossings needing safety equipment improvements.

Finally, the Office is responsible for approving and ordering almost all work done on railroad crossings, including ordering improvements for many of the projects initiated by the Department of Transportation. The Department does not have the authority to order such improvements, although several railroad companies have agreed to do the work without an official order.

Funding for Wisconsin's Railroad Crossing Safety Program

Whether an improvement project is identified by the Department or the Commissioner's Office, funds are provided through the Department. Railroad companies are required to install and maintain safety equipment at railroad crossings. The companies claims for reimbursement are submitted to the Office of the Commissioner for review and then forwarded to the Department for reimbursement of the full cost of new equipment and up to 50 percent of the cost of equipment maintenance. Several steps have been taken in recent years to increase state funding available for these purposes. However, as shown in Table 6, the current level of public funding is less than it has been in recent years, and a waiting list of crossing improvement projects is growing.

Table 6

Total Expenditures for Railroad Crossing Safety Equipment Installation and Maintenance

Fiscal Year	Federal	State	Local	Total Public Expenditures	Railroad Expenditures**	Total Expenditures
1987-88	$1,229,300	$2,517,100	$(18,000)	$3,728,400	$2,014,500	$5,742,900
1988-89	1,966,800	2,173,500	2,000	4,142,300	2,085,500	6,227,800
1989-90	1,678,200	2,320,900	8,500	4,007,600	2,274,100	6,281,700
1990-91	1,776,000	2,736,200	14,400	4,526,600	2,332,100	6,858,700
1991-92	2,510,800	2,204,300	20,000	4,735,100	3,274,900	8,010,000
1992-93	3,161,700	2,730,100	37,000	5,928,800	2,974,200	8,903,000
1993-94	3,077,800	2,601,300	36,100	5,715,200	2,874,200	8,589,400
1994-95	2,250,500	2,645,500	3,600	4,899,600.	3,048,500	7,948,100
1995-96*	1,964,500	2,700,000	13,000	4,677,500	3,117,400	7,794,900
1996-97*	1,964,500	2,700,000	13,000	4,677,500	3,187,200	7,864,700

* Department estimates.
** Assumed costs based on actual costs reported once every four years.

As shown in Table 7, FY 1995-96 funding for safety equipment installation includes:

- $1,964,500 in funds designated by the Federal Highway Administration for railroad safety, which can only be used for safety equipment;
- $450,000 in state funds designated for the purchase of safety equipment by s. 20.395(2)(gr), Wis. Stats.; and
- an average of $13,000 in local funds over the past eight years, which has provided a 10 percent match for projects selected by the Department to improve safety equipment on local roads.

At approximately 86.4 percent, federal revenue has been the primary funding source for the costs of installing safety equipment from FY 1987-88 through FY 1994-95.

Table 7

Expenditures for Railroad Crossing Safety Equipment Installation

Fiscal Year	Federal Crossing Safety	Federal Discretionary	Federal Total	State	Local	Total Equipment
1987-88	$1,229,300	0	$1,229,300	$502,600	($18,000)	$1,713,900
1988-89	1,966,800	0	1,966,800	88,000	2,000	2,056,800
1989-90	1,678,200	0	1,678,200	258,800	8,500	1,945,500
1990-91	1,776,000	0	1,776,000	404,100	14,400	2,194,500
1991-92	2,510,800	0	2,510,800	369,500	20,000	2,900,300
1992-93	2,903,200	258,500	3,161,700	421,100	37,000	3,619,800
1993-94	1,849,300	1,228,500	3,077,800	351,300	36,100	3,465,200
1994-95	1,849,300	401,200	2,250,500	395,500	3,600	2,649,600
1995-96*	1,964,500	0	1,964,500	450,000	13,000	2,427,500
1996-97*	1,964,500	0	1,964,500	450,000	13,000	2,427,500

* Department estimates.

The Department has allocated more resources to its railroad crossing safety program than the amounts appropriated by the Legislature. From FY 1992-93 through FY 1994-95, the Department spent $1.9 million in additional federal funds it reallocated from other highway and railroad programs. However, according to department staff, extra federal funds are not available to supplement the crossing safety equipment program in the 1995-97 biennium. Furthermore, constraints on federal funding may cause the Department to limit allocation of additional federal funds to the crossing safety program in future years.

As Table 8 shows, $2,250,000 in state funds is available in FY 1995-96 for reimbursing railroad companies for up to 50 percent of the cost of maintaining safety equipment. No federal funds may be used for this purpose. This appropriation was reduced in FY 1993-94, when a separate appropriation for equipment installation was created and the Department was prohibited by statute from using maintenance funds for equipment purchases. Legislative action to create the separate appropriation was taken in response to railroad companies' concern that increased spending for equipment would leave insufficient state funds available to cover up to 50 percent of maintenance costs. In 1994, railroad companies were reimbursed 42.5 percent of their estimated maintenance costs.

Table 8

Expenditures for Railroad Crossing Safety Equipment Maintenance

Fiscal Year	State	Railroad**	Total Maintenance
1987-88	$2,014,500	$2,014,500	$4,029,000
1988-89	2,085,500	2,085,500	4,171,000
1989-90	2,062,100	2,274,100	4,336,200
1990-91	2,332,100	2,332,100	4,664,200
1991-92	1,834,800	3,274,900	5,109,700
1992-93	2,309,000	2,974,200	5,283,200
1993-94	2,250,000	2,874,200	5,124,200
1994-95	2,250,000	3,048,500	5,298,500
1995-96*	2,250,000	3,117,400	5,367,400
1996-97*	2,250,000	3,187,200	5,437,200

* Department estimates.

** Assumed costs based on actual costs reported once every four years.

Demand for Crossing Safety Equipment

While funds made available for crossing safety equipment have declined in recent years, the Department and the Commissioner's Office continue to identify increasing numbers of crossings needing equipment improvements. As listed in Appendix I, the Office of the Commissioner of Railroads currently has a waiting list of 34 projects with an estimated cost of $2.9 million. Some of these projects may include more than one crossing, such as a project in the City of Kaukauna that would add equipment at five crossings. Furthermore, 57 percent of the safety projects ordered in 1993, 83 percent of those ordered in 1994, and 93 percent of those ordered in 1995 had not been completed as of December 31, 1995. While many of these projects may not be urgent, some—including two crossings that both the Federal Railroad Administration and the Department have identified as needing upgraded safety equipment—need to be completed in a timely manner. The Department has agreed to include at least five of these projects among the crossing safety projects it will fund in 1996. However, another 60 projects await review by the Office. If past approval trends hold true, approximately 15 of these projects, with an estimated cost totaling $1.1 million, are likely to be added to the waiting list.

Given the increases in vehicle and train traffic and speeds, crossings that may have been safe for lower traffic volumes and speeds could need additional safety equipment. In addition, because the new federal law requiring trains to sound their horns at crossings may make exceptions for crossings that have gates, many local governments may request barrier gates and related equipment at some of the 1,203 Wisconsin crossings affected by the new regulation.

At the same time demand for safety equipment improvements is increasing, safety equipment costs have also been rising. In addition to inflationary increases, advances in technology have more than doubled the cost of some equipment. For example, the cost of the latest technology in preemptive traffic light controllers is nearly $20,000; ten years ago, a less-sophisticated version was available for $9,000.

Department Plans to Assess Safety Needs

The Department's district staff have routinely taken the initiative to identify some crossings in need of safety equipment improvements, but no systematic effort has been made to evaluate all crossings. However, the Department now plans to conduct such a review in three stages.

First, since the Illinois school bus accident, the Department, with the assistance of the Office of the Commissioner of Railroads and others, has reevaluated all 65 Wisconsin crossings with similar preemptive traffic light devices designed to clear the intersection when they are triggered by an oncoming train. No significant problems were found, although light controls at several intersections were adjusted by one to two seconds to increase time available for traffic to clear the intersections. The Department anticipates that further changes may be required after the federal government issues updated guidelines expected later this year.

Second, because the Illinois accident resulted partly from insufficient distance between the track and the intersection, which did not allow enough space for a 38-foot school bus, staff in the Department and the Office of the Commissioner of Railroads have begun to review all crossings located within 200 feet of an intersection. As a result of this review, which is expected to be completed in February 1996, staff expect to post additional warning signs and to inform bus companies and others of the potential danger for long vehicles at some intersections, although the possibility of slowing train speeds and relocating tracks or a roadway has not been ruled out for any cases in which a crossing poses great risk.

Third, the Department is working with the Office of the Commissioner of Railroads, the Federal Highway Administration, the Federal Railroad Administration, and railroad companies operating in Wisconsin, to evaluate all public railroad crossings by the end of FY 1997-98. To begin this effort, the Department has identified the Wisconsin Central Limited's line from Waukesha to Green Bay as a pilot project. As crossings along this line are reviewed, the Department will also reevaluate its present method for assessing equipment needs and setting priorities among crossings needing improvements.

Funding for Additional Crossing Safety Equipment Improvements

The results of the Department's comprehensive review of public railroad crossings may be reflected in continued growth in the number of projects identified on waiting lists and increased funding requests in the 1997-99 and 1999-2001 biennial budgets. However, some have questioned what priority the Department is likely to give to railroad crossing safety in light of competing highway safety and construction concerns.

Since there may be interest in accelerating the completion of crossing safety projects already on the waiting list, and the review may identify additional projects needing funding, we reviewed potential sources of additional funds for crossing safety equipment. First, although the Department has not allocated additional federal funds from other highway and railroad programs to the crossing safety program in the 1995-97 biennium, funds might be made available in future bienniums. As noted, this practice made approximately $1.9 million available over the last three fiscal years.

Second, some federal highway safety funding, which totals approximately $3.2 million annually for the 1995-97 biennium, could be designated for the railroad crossing safety equipment program. Currently, the Department uses these funds for highway safety projects, which staff believe are a higher priority than railroad crossing safety equipment projects because of the low percentage of accidents that occur at railroad crossings each year. Highway safety projects include minor engineering improvements, such as removing obstructions to increase visibility at stop signs; installing traffic signals at intersections; and removing obstructions and fixed objects along the roadside. Highway safety projects that have already been approved will use all available federal funds through FY 1996-97, but because these federal funds are designated for both railroad and highway safety, some portion could be used to purchase safety equipment for railroad crossings beginning in FY 1997-98.

Third, some of the $2.25 million appropriated annually to partially reimburse railroad company costs for crossing equipment maintenance could be diverted to pay for improved equipment. In 1994, railroad companies received 42.5 percent of their reported maintenance costs, which means that such a change would further reduce reimbursements below 50 percent. On the other hand, most states do not provide any reimbursement to railroad companies for maintaining railroad crossing safety equipment.

Fourth, local governments could be required to supply a 10 percent match for federal funds whenever safety equipment improvements are made on nonstate highways. Currently, the Department of Transportation requires a local match on some projects, although statutes cite only federal and state funding sources for projects ordered by the Office of the Commissioner of Railroads. Staff of the Office of the Commissioner believe this causes some local officials to seek project approval through the Office of the Commissioner to avoid the Department's local match requirement. Alternatively, local governments could be required to pay a larger share or the full cost of projects on local roads when safety equipment improvements are ordered at the request of local government officials or as the result of local road improvement projects. While such requirements could encourage local officials to consider their requests for safety equipment improvements carefully, they could also, in some cases, delay or permanently postpone projects for which local funding is not available.

Finally, if the growing backlog of crossing safety projects is deemed a priority over some other highway projects, some additional funds could be provided from the Transportation Fund.

Currently, the Office of the Commissioner of Railroads is authorized to assess up to 1.75 percent of railroad companies' earnings in Wisconsin to pay for the Office's administrative costs. Based on railroad companies' reported earnings of $30.9 million in 1994, the potential assessment for administrative costs was $540,711, while actual costs were $316,576, leaving an excess of potential assessments over costs of $224,135. Although it may appear reasonable to require railroad companies to provide a portion of the funding for safety equipment improvement, since crossing improvements reduce the railroad companies' potential accident liability, federal law prohibits the State from requiring railroad companies to provide funds for signal equipment installation.

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APPENDIX I

Office of Commissioner of Railroads
Ordered Projects Waiting for Funding

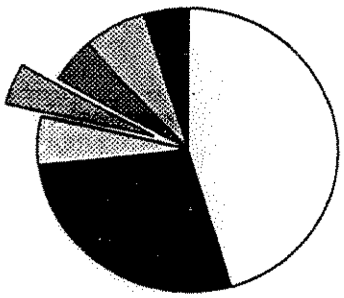
	Project Location	Road(s)	Estimated Cost
Install road-side flashing lights to replace railroad crossing signs:			
1.	Town of Metomen	Brandon Road	$ 65,000
2.	Town of La Grange	24th Avenue Road	60,000
3.	City of Manitowoc	Meadow Lane	65,000
4.	Village of Valders	Adams Street	60,000
5.	City of Menasha	Garfield Avenue	85,000
6.	Town of Buchanan	Marcella Street	80,000
7.	City of Beloit	Willowbrook Road	65,000
8.	Town of Rudolph	Reddin Road	65,000
9.	Village of Whiting	Church Street	65,000
10.	Village of Howard	Woodale Avenue	65,000
11.	Village of Spring Green	Wood Street	60,000
12.	City of Ladysmith	Fritz Avenue	80,000
13.	Town of Hiles	CTH "S"	40,000
Install roadside flashing lights to replace swinging arm signals:			
14.	Town of Thorp	Hart Avenue	60,000
15.	Town of Baraboo	North Shore Road	65,000
16.	City of Kaukauna	Gertrude Street Green Street Tobacnoir Street Delanglade Street/STH 55 Division Street	250,000
Install 12-inch flashing lights to replace 8-inch flashing lights:			
17.	Town of Windsor	Windsor Road	10,000
18.	Town of Glenwood	CTH "D"	50,000
19.	Village of Wrightstown	CTH "DD"	50,000
20.	Village of Amherst Junction	Second Street/CTH Q	65,000
21.	Town of Addison	Main Street/STH 33	70,000
22.	Town of Milladore	CTH "F"	65,000
23.	Town of Carson	STH 34	75,000

	Project Location	Road(s)	Estimated Cost
Install roadside flashing lights at new highway crossings:			
24.	City of Waupun	Woodland Drive	$60,000
25.	City of Shawano	Airport Drive	65,000
Install new circuitry to replace old circuitry:			
26.	City of Burlington	Milwaukee Street/STH 36	
		Washington Street	
		Chestnut Street	
		STH 11	200,000
Install over-the-road lights to replace roadside flashing lights or railroad crossing signs:			
27.	City of Manitowoc	Calumet Road/US 151	70,000
28	Village of Pleasant Prairie	95th Street	
	Town of Pleasant Prairie	95th Street	315,000
29.	City of Stevens Point	Clark Street	85,000
30.	City of Waukesha	Grandview Boulevard	60,000
31.	Village of Boscobel	Elm Street/US 61	
		Oak Street	
		Wisconsin Avenue	100,000
Install flashing lights and gates to replace roadside flashing lights:			
32.	Village of Slinger	Kettle Moraine Dr./STH 144	20,000
33.	City of Marshfield	Galvin Avenue	
		CTH "H"	250,000
34.	Town of Dale	US 10	62,000
		Total Estimated Cost:	$2,902,000

Source: Office of Commissioner of Railroads

OTHER TRANSPORTATION MODES

Assistance to Other Modes
4.6%



In addition to the State's primary modes of transportation, the Department operates a number of programs to support transportation by rail, air, ship, bicycle, and foot as part of a balanced, multimodal transportation system. A review of the Department's programs suggests that the need for increased funding and the potential for savings are comparatively small. As shown in Table 31, state expenditures for these modes increased from $10.7 million in FY 1987-88 to $28.1 million in FY 1996-97. That is an increase of 91.1 percent in constant dollars. The Department's proposed budget for the 1997-99 biennium proposes little change in funding for these programs. The key question in several of these programs appears to be to what extent the businesses and industries that benefit from them should be responsible for providing the revenues that support them.

P.95

Table 31

State and Federal Assistance for Other Modes and Programs
(in millions)

Type of Assistance	Expenditures FY 1987-88	Estimated FY 1996-97 Expenditures
State Aid		
Aeronautics Assistance	$ 5.2	$12.4
Freight Rail Assistance	1.7	8.5
Passenger Rail Service*	-	0.6
Railroad Crossing Assistance	2.6	2.7
Harbor Assistance	1.2	3.9
Total State Aid	10.7	28.1
Federal Aid		
Aeronautics Assistance	14.4	20.0
Freight Rail Assistance	0.3	0.1
Railroad Crossing Assistance	1.2	1.8
Total Federal Aid	15.9	21.9
Total Aid for Other Modes	26.6	50.0
Local Matching Funds**	2.9	7.5
Total Expenditures for Other Modes	29.5	57.5
Other Programs***	1.1	15.8
Grand Total	$30.6	$73.3

* Excludes federal funds that are being reallocated from a highway appropriation to support Amtrak service between Milwaukee and Chicago.

** Local matching funds and total expenditures include only those local expenditures that are counted as a local match in the Department's budget.

*** Other programs include highway safety funding, multimodal transportation studies, the Surface Transportation Discretionary Program, congestion mitigation and air quality improvement funds, demand management and ride-sharing grants, county forest road aids, and department administration for other modes.

Railroad Programs

The Department operates two programs to support freight rail service in Wisconsin and one program to maintain passenger train service between Milwaukee and Chicago. Total state expenditures for these programs were $5.4 million in FY 1994-95, while railroad crossing safety improvements and maintenance efforts received an additional $2.8 million. Renewed financial prosperity in the railroad industry and concerns about inequitable subsidization raise questions about the need for additional funding to support freight rail; however, the passenger rail program may require significant funding increases if passenger service between Milwaukee and Chicago is to continue.

Railroads will pay $11.8 million in ad valorem taxes in FY 1996-97.

Railroads receive state support; they also contribute to the Transportation Fund in the form of an ad valorem tax, which is based on an assessment of each company's value that can be attributed to operations within Wisconsin. Most of the proceeds of the ad valorem tax are deposited into the Transportation Fund. Collections have fluctuated in recent years because of changes in the valuation of railroad property and in property tax rates, and because of an out-of-court agreement by the State to collect only partial amounts in response to legal challenges under the federal Railroad Revitalization and Regulatory Reform Act, which prohibits discrimination against railroads in state and local tax codes. Railroads had challenged the State's practice of assessing taxes on the full Wisconsin portion of railroad companies, including equipment, even though most other personal property had been exempted from taxation. However, in 1994, the U.S. Supreme Court held that the applicable law does not limit states' discretion to exempt non-railroad property while not exempting railroad property. That decision prompted the State to reinstitute full collections of the tax and led to higher revenues. The Department estimates collections of approximately $11.8 million in FY 1996-97, of which $10.7 million will be credited to the Transportation Fund. The remaining receipts, which are based on terminal property, are returned to three local governments in the northwestern part of the state.

Freight Rail Programs

Of 716 track miles rehabilitated, 655 miles are still in use.

The Department administers two programs to support rail preservation and improvements. The Freight Rail Preservation Program was created in 1977 to preserve rail lines. Although federal funds provided some support in the mid-1980s, the program now relies on state funds. It awards grants and supplemental loans, primarily to local units of government, to acquire and rehabilitate rail lines that have become unprofitable because of track deterioration. As a result, other, usually smaller, railroads are encouraged to provide continued service. As of April 1996, this program had purchased 866 miles of track and rehabilitated 716 miles. Rail service continues to be available on 655 miles of track, while the remaining property has been set aside for future use or sold for other uses. Although railroads may purchase the newly rehabilitated rail lines after five years of operations, none has opted to take ownership.

Through June 1996, the program had spent $77.1 million, including $10.2 million from federal sources and $8.3 million of proceeds from the sale of general obligation bonds. The State has relied primarily on bonding revenue since the Freight Rail Infrastructure Improvement Program began to compete for limited funds in FY 1993-94. As of July 26, 1996, outstanding debt totaled $10.9 million, including $4.2 million in interest and $6.7 million in principal, for which payments will extend through 2016.

Future funding needs for rail preservation are not clear. Department staff indicate that railroads have regained some financial stability since federal deregulation and the industry restructuring in the 1980s. Consequently, the number of grant applications has dwindled in recent years, and rail acquisition has fallen from a peak of 417 miles in 1980 to 5 miles in 1995. Program staff report that local governments will have completed rehabilitation of all of the track segments by June 30, 1997, except the one between Madison and Freeport, Illinois, which has shown no signs of potential business. Unless the financial condition of the railroad industry worsens significantly, future acquisition needs are not likely to return to the levels of the 1980s.

However, the Department will consider further improvements to previously completed rehabilitation projects. Railroads are expected to maintain any publicly owned tracks they use, but approximately 100 miles of track acquired by the program in the early 1980s were rehabilitated to lower standards than more recent projects. Installation of used parts, such as rails and rail ties, has resulted in a shorter life span for the infrastructure and has increased the cost of maintenance. Department staff estimate that improvements to these tracks would cost approximately $10 million, distributed over two biennia.

In contrast to the preservation program, the Department's Freight Rail Infrastructure Improvement Program provides loans to private companies to improve the use and efficiency of rail service. Although eligibility criteria are broad, small and medium-sized railroads have been the primary beneficiaries of eight loans, totaling $6.6 million, that have been awarded by the program from its creation in FY 1993-94 through FY 1995-96. Projects have included rehabilitation of existing lines and construction of sidings, connections between lines, and storage facilities.

To date, the program has relied on continuing appropriations of $5.6 million annually from the Transportation Fund, an amount that has been sufficient to support all eligible projects. Staff in the Department believe that although applications will increase, the program's available balance could grow as debtors repay prior loans. However, while program staff estimate that $5.8 million will be available in FY 1996-97 and $7.5 million would be available in FY 1998-99 if past funding levels were maintained, the Department's 1997-99 biennial budget request reduces state funding by

$2.5 million over the biennium. Even though there have been no defaults, the loan fund will not be able to sustain itself completely without additional appropriations to match inflation, because the Department charges no interest for most loans in order to provide incentives for railroads to perform improvements that might otherwise be deferred.

One regional railroad has received 80 percent of loan funds.

Program proponents point out that the loan fund reduces the need for state acquisition of rail lines under the Freight Rail Preservation Program by supporting ongoing improvements, and provides a mechanism by which the State returns taxes paid by railroads to support the industry. However, railroads and their customers may not benefit equitably from loans issued by this program. A single regional railroad that has acquired 46 percent of the privately owned track in Wisconsin, much of which was in need of rehabilitation, has received more than 80 percent of the loan funds, most of which are repaid without interest.

Critics of the program charge that it results in unnecessary subsidies that interfere with competition among businesses. They believe the program not only benefits some railroads unfairly but also reduces transportation costs for businesses on rail lines that receive loans, to the detriment of their competitors who are not in a position to negotiate lower rates. For example, some grain elevators may be served by railroads that can lower their rates because of interest-free loans from the Department, while competing businesses do not share the benefit of reduced transportation costs.

When determining future funding for the State's freight rail programs, the Legislature will need to balance the demand for further improvements to already-acquired track segments and the demand for interest-free loans for improvements with other transportation needs, including rehabilitation of state highways, support for passenger rail, and improvements to railroad crossings.

Passenger Rail

Wisconsin's agreement with Amtrak and Illinois has been extended through June 30, 1997.

Since 1989, Wisconsin and Illinois have contracted with Amtrak to provide passenger rail service between Milwaukee and Chicago. According to present arrangements, Wisconsin, Illinois, and Amtrak share the operating costs for the route, which provides six round trips daily and five round trips on Sundays. Department staff estimate Wisconsin's share of FY 1995-96 operations was $3.2 million, while Illinois contributed approximately $1 million. The agreement governing this funding structure expired on September 30, 1996, and negotiations to continue operations through June 30, 1997, were completed in November 1996. Wisconsin's share under this agreement will be $2,192,000, and Illinois is expected to contribute $500,000, although that amount is subject to approval by the Illinois Legislature.

The cost of maintaining this service is likely to increase significantly because of changing priorities nationally and within Illinois. Congress has reduced

Amtrak funding and mandated that the railroad operate without subsidies by 2002. Amtrak's financial condition caused it to threaten to end service between Milwaukee and Chicago in April 1995, because this route performed poorly when its costs and revenues were compared to those of other routes. Although Wisconsin and Illinois kept the line running by providing significant financial support, Amtrak has indicated that its contractors for local routes, such as the one between Milwaukee and Chicago, will need to fund their respective routes entirely by 1999. In addition, Illinois has indicated that it will redirect funding for passenger rail toward other routes within its boundaries.

Consequently, Wisconsin may need to fund the route entirely by 1999 if passenger service between Milwaukee and Chicago is to continue. Department staff estimate that continuation of six round trips per day would cost $14 million annually, unless Amtrak can reduce its costs significantly, Congress adopts proposals that would shift some capital assistance available for mass transit to Amtrak, or Illinois continues to support the service. Currently, 325,000 passengers use this service annually.

Reinstatement of two additional trains daily restored some ridership.

Amtrak has already implemented fare increases and service reductions to reduce costs. Fare increases of 50 percent in March 1995 raised the price of a round trip to $38, compared to a $24 fare for non-stop bus service, which increases the travel time by 15 minutes to one hour each way. However, monthly tickets are available for $530, or an average of $26.50 per round trip, assuming 20 round trips per month. Based on comments from riders, staff in the Department believe that further increases would reduce ridership, which could also reduce total fare revenues. Similarly, service reductions would eliminate passenger flexibility, an important factor in a commuter service. Hence, reductions in the number of trains could lead to further losses in ridership. In fact, staff in the Department report a decrease in ridership of 39 percent immediately after the fare increases in March 1995 were coupled with a reduction in service from seven to four round trips daily. Four months later, two daily trips were restored, and ridership began to increase at a moderate pace. However, the recovery of ridership levels cannot be quantified because of large monthly variations.

In addition, program staff believe that ridership has been affected by publicity concerning the expectations in 1995 that service between Milwaukee and Chicago would be eliminated. They indicate that potential passengers regularly inquire whether the trains are still running. Amtrak has begun limited advertisement of the commuter service, but Wisconsin statutes prohibit the Department from engaging in advertising without matching local support. Department staff believe ridership would improve if statutes were changed to allow the use of state funds to market the commuter service even if local funds are not available.

Alternatively, the Department could seek efficiency improvements to continue present levels of service at a reduced cost. Department staff report that none of Amtrak's routes covers costs, but a number of subsidiaries set up by

Amtrak to compete for commuter service contracts without government support have been more successful. A consortium of nine states plans to study whether a similar arrangement in the Midwest could provide passenger rail service at lower costs. Department staff anticipate completion of the study in mid-1997. However, one of these states, Illinois, is exploring the possibility of contracting with private operators for passenger rail services.

Despite expected cost increases, proponents of passenger rail believe that the State needs to maintain, or even increase, existing services. They cite a number of public benefits of trains, including:

- mobility for individuals who cannot drive;
- availability of an alternative mode of transportation for people who choose not to drive; and
- reduction in pollution and congestion on highways.

In addition, passengers who choose passenger rail appear to prefer that mode over driving for a number of reasons, including reliability in nearly all weather, less stressful commutes, the lower cost and relative ease of parking in Milwaukee, and the ability to use travel time more productively.

While some state support for passenger rail appears to be warranted, it is not clear how much funding is appropriate. Until at least 1999, Wisconsin's share of operating costs of the Milwaukee-Chicago service may depend on negotiations with Amtrak. Thereafter, the State may need to choose between funding the present service or ending passenger rail entirely if Amtrak and Illinois withdraw their support, as expected. In addition, proposals such as those to expand passenger rail to Green Bay and Madison or provide high-speed rail between Chicago and Minneapolis through Milwaukee may also result in future requests for state funds.

Railroad Crossing Safety

As noted in a Legislative Audit Bureau letter report dated January 29, 1996, a decline in expenditures for railroad crossing safety equipment created a backlog of signal installation projects. Total expenditures for railroad crossing safety, including estimated spending by railroads of approximately $3.0 million to maintain equipment, have decreased from a peak of $8.9 million in FY 1992-93 to an estimated $7.9 million in FY 1996-97, primarily because the Department reduced its allocation of federal highway funds that had been used for railroad crossing projects. Although many projects were funded during 1996, ten new projects were added to this waiting list, at an estimated cost of $700,000. Therefore, a backlog of at least 20 projects still exists. To address this waiting list, the Legislature may need to consider whether to reduce support to existing freight rail programs or other transportation programs in order to improve safety on Wisconsin highways and roads.

Aeronautics Program

The Department's Aeronautics Program supports air transportation in Wisconsin by providing financial aid and assistance with contract administration to 103 eligible airports statewide. Local sponsors, typically local governments that operate airports, may apply for state aid by developing airport improvement or enhancement plans for review and approval by program staff and the Governor. This program's plans for federal fiscal year 1995-96 included improvements such as runway extensions, terminal renovations, and the installation of navigational aids. Costs were $32.5 million, including $20.6 million in federal aid, $7.7 million in state funds, and $4.2 million in local contributions. Commercial service airports in the state accounted for $21.5 million, or 66.2 percent, of these funds, while reliever and general aviation airports received the remainder. In addition, more than one-half of the program's 35 staff provide technical assistance to local governments, including review and project administration for proposed airport improvements, as well as contract administration for funded projects. Technical assistance and administration of the grant program cost approximately $2 million annually. Other program responsibilities include promoting sound development of aeronautics and aviation facilities throughout the state, providing education and training, formulating and promoting reasonable regulations in the interest of safety, and coordinating state aviation activities with those of other states and the federal government.

Aviation taxes and fees provide $11.0 million to support airport improvements.

Although state expenditures for the Aeronautics Program have grown from $5.2 million in FY 1987-88 to $10.7 million in FY 1994-95, Transportation Fund revenues from air travel have roughly mirrored spending growth. Airline property taxes, aviation fuel taxes, and aircraft registration fees contributed approximately $11.0 million to the Transportation Fund in FY 1994-95. Although no formal relationship exists between these revenues and spending for aeronautics, staff in the Department believe that significant differentials between revenues and state aid for airports could prompt litigation by airlines, challenging the State's assessment formula for the airline property tax, which accounted for approximately $9.5 million in FY 1994-95.

Department staff report that present funding levels have led to deferments of eligible projects. After receiving requests for aid from local sponsors, the Department reviews proposed projects for eligibility and considers their relationship to the state system plan, which is required by state statute to determine the most effective development and operation of airports and other aeronautical facilities. Because resources have not been sufficient to fund all qualified projects, improvements with an estimated cost of $216 million have been deferred. Commercial service airports account for approximately 70 percent of these deferments, while reliever and general aviation airports

Statement to : The members of the Joint Finance Committee and Wisconsin State Legislators

On Behalf of Former Governors: Anthony S. Earl, Patrick J. Lucey, and Lee Sherman Dreyfus

We are writing this bi-partisan letter to urge you to vote for the elimination of the personal property tax on computers. As former Governors, we believe this is the most significant step you can take during this Spring Session to keep Wisconsin businesses competitive.

Our Midwestern neighbors in Minnesota, Illinois, North Dakota, and South Dakota have eliminated this tax and Iowa is in the process of phasing out their computer tax. We cannot allow Wisconsin's present day policy of taxing this equipment to continue disadvantaging our business climate. The type of jobs, the nature of the global economy of today, and competition between states has changed so much. Comparing that with the economy of the era when we were the Governors seems like a distant time. Computers were not an issue during the M & E exemption debate of 1973. Computers were not even central to the recommendation of the 1984 Strategic Development Commission. Now just 14 years later computers are the central tool of job growth; the production tool of the information age.

The current Wisconsin tax structure eliminates personal property taxes on all the job tools except for the most important one, our computer-production tools. By changing this computer tax you will posture Wisconsin to attract new high technology companies to locate here in Wisconsin, with that comes new high - income jobs. These computer related jobs do not need to be near highways, raw materials, or population centers, they can be located anywhere. Therefore the tax implications on businesses is a factor when companies decide where to locate computer- related jobs. Additionally, we also ask as you phase in this tax reform that the implication of municipal loss of tax base be addressed.

We need businesses to choose Wisconsin and our work force. We need this tax change. Each of us would have proposed this change if we were the Governor today. We urge you to vote in a bi-partisan way to keep Wisconsin on the cutting edge of growing our economy and creating jobs for the future. By eliminating the computer tax you will help frame a successful long term job picture for Wisconsin.

Thank you for taking the time to read this letter and we hope you will vote to eliminate the personal property tax on computers.

Sincerely,

Patrick J Lucey

Patrick J. Lucey

Anthony S. Earl

Anthony S. Earl

Corporate Office

Fiserv

February 18, 1998

Dear Governor Thompson,
Members of the Joint Finance Committee:

The City of Brookfield and Fiserv, whose home offices are in Brookfield, encourage support of a computer equipment tax credit against the Wisconsin corporate income tax. We recognize the concerns of high tech industries for relief from the computer portion of the personal property tax and also the risk to the municipalities of cost shifting in eliminating these devices from the personal property tax roles.

The interests of both parties can be met in the legislature acting on this proposal and the cost to the state will not alter substantially. Thank you for your consideration.

Nancy H. Wedelstaedt
Nancy H. Wedelstaedt
Vice President - Tax Administration

Kathryn C. Bloomberg
Kathryn C. Bloomberg
Mayor

Fiserv, Corporate Headquarters, 255 Fiserv Drive, Brookfield, Wisconsin 53045 Ph: 414-879-5000
Mailing Address: P.O. Box 979, Brookfield, Wisconsin 53008-0979 Internet: www.fiserv.com

CITY OF Greenfield

Pledged to Progress

Office of the Mayor
Timothy T. Seider

March 5, 1998

The Joint Finance Committee

Thank you for the opportunity to address you today.

My name is Tim Seider. I am the Mayor of the City of Greenfield and I am a small businessman.

The City of Greenfield is the 20th largest city in the State of Wisconsin. Our population is in excess of 35,000.

Three short years ago, I was elected as Mayor. At that time the City of Greenfield was facing serious financial challenges. We had the highest debt per capita than any other major city in the state. The City had no long range plans for capital equipment and capital improvements. Our financial reserves were depleted and a year prior the taxpayers had experienced the largest tax increase in the City's history. Our bond rating was Baa1.

Over the past three years, our city has made enormous strides forward. We put together our plans for the future. We looked at every operation of the City and identified those areas where we can be more efficient. We have streamlined city government. We have increased our financial reserves. We have cut our debt in half and our bond rating was upgraded to A1.

But, our financial challenges continue and the proposed legislation in front of you compounds that challenge. Many of our communities remember the last time such a concept was proposed - the M & E property tax exemption. The M & E property tax exemption had a very uneven impact across the state. It was devastating for some communities such as West Milwaukee. Over time the reimbursement that was promised was phased out. Our shared revenue payments continue to drop. In the last eight years the City of Greenfield lost over $800,000. In 1998 the City lost $90,000 in shared revenue. While we qualify every year for the ERP, we continue to experience a steady decline in payments. In 1998 we will lose $30,000.

This impacts my community, and there is only one source available to make up for this lost revenue - the property taxpayer. The impact is not only the loss of revenue, but also the adverse effect on the services we provide. It is a shift of tax burden.

The discussion regarding a property tax exemption for computers parallels the past.

As a mayor and a small businessman, I support economic development and economic incentives. We are trying hard at the local level to create new jobs and redevelop areas to make them more economically viable. The issue in front of us is not economic development. But rather, how that economic development is funded.

Under the proposal in front of you, there are no guarantees that some of the property tax burden won't shift to the homeowner or businesses. There are also no assurances that the reimbursements proposed would continue in the future.

As a businessman, I look forward to a potential tax break. However, I am not willing to support a program that could potentially shift the burden to individuals and businesses that are not computer intensive.

I fully support an business tax credit on computer equipment for businesses. With such a credit, state government, rather than someone else, would be paying for the tax benefit it provides for businesses. We have to avoid a potential shift in the tax burden.
Thank you for your consideration.

Timothy T. Seider

Timothy Seider

SOUTHEASTERN MUNICIPAL EXECUTIVES

CHIEF ELECTED OFFICIALS
MILWAUKEE-OZAUKEE-WASHINGTON-WAUKESHA COUNTIES

February 24, 1998

Governor Tommy G. Thompson
State Capital
PO Box 7863
Madison, Wisconsin 53702

Dear Governor Thompson:

On Saturday, February 22nd, the newly formed group of Mayors and Village Presidents from Milwaukee, Waukesha, Washington and Ozaukee Counties met to discuss issues of common concern. Since we have recently agreed to form a permanent group, we have selected the name of Southeastern Municipal Executives.

We reached consensus on several issues. The issue of computer tax exemption was one of the highest priority items. By a unanimous vote, concurring with the ICC of Milwaukee County, we oppose the removal of computers from the personal property tax. However, if you and the Legislature truly believe it is necessary, then let it be funded by the State as an income tax credit.

We at the local level are concerned about the inevitable tax shift. We saw it with the M&E tax exemption and we will see it again. As you are aware, many of the communities in Southeastern Wisconsin use TIF's to promote economic development which is one of your high priorities.

We have serious concerns about the use of the surplus to make us whole as this does not guarantee funding for the future. Also, the plan is not indexed for growth. We have spoken to several large firms such as Kohl's, Strong Capital Management, and Fiserv. They agree with our proposal of a State income tax credit. On Monday, February 23rd, Mayors Bloomberg, Voith, Bell, Seider, Walsh and Village President Greco, met with many of the members of the MMAC Board of Directors to discuss this issue. After the meeting, several of the members stated they now understood the reasons the municipal officials of Southeastern Wisconsin have concerns.

Some have said that the State will have much difficulty in instituting a refundable income tax credit. For this reason, we have offered to establish a task force of CPA's from our communities to meet with the Department of Revenue to seek a solution.

Again, we are on the same "playing field" as you in promoting economic development. However, we need to insure that our property taxes are not jeopardized in any respect. Many of us are zero aid districts and must produce our own property tax relief. Controlling spending and building the tax base, not reducing it, is the only solution.

Sincerely,

Don Voith, Mayor City of Glendale	John Norquist, Mayor City of Milwaukee	Joe Greco, President Village of Menomonee Falls
Michael Miller, Mayor City of West Bend	Jim Ryan, President Village of Hales Corners	Rod Schroeder, President Village of Grafton

cc: All Legislators

COMMENTS REGARDING PROPERTY TAX EXEMPTION
FOR COMPUTER EQUIPMENT
AB768 and SB436
to
JOINT FINANCE COMMITTEE
City of Glendale Mayor Donald J. Voith
March 5, 1998

Committee members:

Thank you for allowing me to address the Joint Finance Committee today regarding this very important matter.

Elimination of personal property from taxation does not encourage or discourage business from locating in or leaving Wisconsin. As an example, since inception of the Manufacturing Equipment exemption, Wisconsin has lost much of its heavy industry. Some argue, in fact, that much of the departure of heavy industry was financed by these tax abatement dollars.

Firms locate or relocate for employee skill, wage and quality of life reasons, which industries seek out, not taxes. Wisconsin has one of the healthiest business climates in the nation because of its highly skilled workers and quality of life. Since the departure of much Wisconsin heavy industry, thousands of new jobs have been created, many of them high tech computer based.

If taxing of computers is harmful to business expansion, why has the number of computer related industries increased at a greater rate in Wisconsin than in our bordering states, that do not tax computers?

The Wisconsin Department of Revenue has grossly underestimated the financial effect on municipalities if computers are exempt from personal property tax. Assuming current levy rates, the City of Glendale, a community of five point seven square miles and a population of 14,231 would lose $1.5 million in property taxes if computers were exempt from personal property assessment in 1998, approximately 50% of which would be shifted to non-residential real estate located in the city.

Glendale and other Wisconsin municipalities have worked very hard to replace heavy industries that have "Gone South", using Tax Incremental Financing (TIF) as a tool to do so. Elimination of personal property tax on computers would in many cases eliminate TIF financing -- Wisconsin's singularly most effective economic development tool -- as a viable development tool for local governments, and possibly more serious, place some existing TIF's in financial jeopardy.

If computers are eliminated from personal property tax assessments, where would the final line be drawn? What about the value of building features specifically constructed or installed to accommodate or support computers? Would computer driven systems for building temperature and environmental control be exempt in the future? What about computer controlled telephone switching equipment, which is currently proposed to remain taxable? The proposed legislation invites bleed-over into all sorts of high tech equipment and facilities which are built, driven or controlled by computers. It opens Pandora's Box for tax attorneys to claim exemptions that are not anticipated or envisioned today.

To eliminate computers from personal property tax assessment is a property tax shift that can not be absorbed by local units of government and its taxpayers. It is a concept that must be dismissed with the least amount of ceremony.

It is proposed to make municipalities whole if computers are eliminated from personal property assessment. These "make the municipalities whole" schemes are not wise, foolproof, or acceptable for the following reasons.

1) As indicated earlier, approximately $1.5 million of tax revenue would be lost in Glendale in 1998 if computers were exempt form personal property assessment. The proposed $64 million set aside is insufficient to make all the state municipalities whole in the first year, and any shared amount resulting from a funding shortfall would further reduce a municipality's tax credit.

2) The computer assessment basis for a municipality would be fixed at the 1997 assessed value. Current assessments would not be indexed for inflation and the value of computers installed after 1997 would not be recognized when making municipalities whole in future years. This assessment method automatically reduces future revenue sources to local taxing units.

3) When Machinery and Equipment (M&E) exemptions were enacted in 1975, municipalities were initially compensated for their local tax revenue losses. With the M&E program completely phased out and not being eligible for Revenue Sharing, Glendale receives no tax return form Madison. If legislation to eliminate computers from personal property tax assessment is enacted under the guise of the State making local taxing units whole, I am legitimately concerned that reimbursement payments would be eliminated in future years when the legislatures look to cut state funded expenses, again to the detriment of municipalities.

Computers are the major incremental value that make a majority of today's TIF's economically viable. The TIF tool which municipalities currently employ to encourage development in Wisconsin would become practically useless if computers are eliminated from total assessed value. Loss of this local government business development tool would place additional financial burden on the State to attract and retain industry.

Three of Glendale's TIF's can be used to illustrate the effects of removing computers from personal property tax assessments. Based on current tax rates and projected assessment rolls, they would be affected as follows:

TIF #4, Estabrook Business Park

A future annual revenue increase of $80,000 would not be realized within this TIF if computers are eliminated from personal property assessment. This additional growth is anticipated in the next year or two as the area redevelops. Without this increment, the TIF would have to be extended, thus preventing all local government taxing units (school districts, MATC, Milwaukee County and MMSD) from receiving the anticipated increase in tax revenue during the extension period.

TIF #6, Silver Spring Redevelopment Project

This TIF would experience an estimated $210,000 annual revenue loss if computers are eliminated from personal property assessment. This is a new (1997) district with serious "Brownfield" problems. With the current 23 year maximum financing limit, this TIF will fall short of revenue without computers, and the balance will have to be paid from general city revenues. That is, unless the "Brownfields" program currently envisioned to be financed by the TIF were eliminated, or alternately financed by the Wisconsin Department of Natural Resources. Without proper TIF financing this older area of Glendale would continue to deteriorate, and Glendale would also be looking to the State for blight elimination funding.

TIF #7, Technology District

A projected $570,000 annual loss of revenue from this TIF area would seriously curtail our ability to attract new business and industry to this old heavy manufacturing area on our southern border, adjacent to the City of Milwaukee. It would further deter our efforts to cleanup "Brownfields" within the TIF area. Lack of sufficient TIF funding would pare down essential development and reduce the number of new jobs being created in the area, where a high percentage of currently unemployed workers needing living wage employment reside.

Based on 1997 assessment and tax rate figures, in the first year after the removal of computers from personal property assessment, Glendale and its various taxing units would loose almost $2.36 million in revenue, $1.5 million in general revenue and $860,000 in TIF revenue.

The financial impact a computer tax exemption would have on the City of Glendale when projected state-wide, would be far in excess of the estimated $65 million allocation from the current by-annum surplus. The $65 million is obviously insufficient to cover all the local tax revenue losses.

Before computers are removed from personal property assessment one must consider:

* The week of February 20, 1998 Governor Thompson recommended paying only $36 million of a $100 million school aids deferral. He further proposed $64 million to fund education tax credits. The current surplus is not large enough to also make municipalities

whole, even at $64 million level, much less the actual level. The numbers speak for themselves. Where is the initial year and subsequent years "rebate" money coming from?

* Is the State prepared to make local taxing units 100% whole now and forever?

* Can state government afford to replace local economic development expenditures and "Brownfield" initiatives currently financed by TIF's?

Exemption of computers and personal property taxes results is a tax shift to the local property tax roll.

If Wisconsin State government, in its wisdom, deems it necessary to provide tax relief to a particular interest group and eliminates computers form personal property assessment, then the cost of such relief should come in the form of direct payments or rebates by the State to those receiving the break. This should be accomplished within the tax code. State government then would be responsible for its own actions and resultant costs, and not be shifting a burden to local government and its taxpayers.

A computer or personal property tax rebate or deduction from State corporate taxes could be applied and administered similar to the Homestead tax rebate currently in the Wisconsin tax code. If a business owes State corporate taxes the rebate would be deducted from the amount owed, and if the business tax is less than the personal property tax exemption amount, the State would issue a check for the difference to the business. A State tax rebate would have the affect of eliminating personal property tax on computers or any other personal property the state wishes to exempt, while protecting local government revenue streams, and TIF commitments and benefits. This arrangement would preclude a tax shift to local government and place the responsibility for refunding any local tax with Wisconsin Legislature who would be giving the tax break.

Thank you for your attention, thoughtful consideration of the facts, and the suggestion made for elimination of personal property taxes on computers.

I would be pleased to answer any questions you may have.

Glendale
RICH PAST. BRIGHT FUTURE.

CITY OF GLENDALE
ADMINISTRATIVE OFFICES

5909 North Milwaukee River Parkway
Glendale, Wisconsin 53209-3815
(414) 228-712

March 3, 1998

Joint Finance Committee
Wisconsin State Legislature
State Capitol
Madison Wisconsin

RE: Computer Personal Property Tax Exemption
Assembly Bill 768 and Senate Bill 436

Dear Joint Finance Committee Members:

A schedule conflict makes it impossible for me to attend the Thursday, March 5, 1998 hearing on exemption of computers from personal property tax. Attached for your review is the prepared testimony I had intended to present.

Briefly this tax shift proposal would be extremely harmful to municipal governments by increasing property taxes and rendering Tax Incremental Financing useless as a local economical development tool.

If computers must be "tax free", as proposed by this pending legislation, it should be accomplished within the tax code, in the form of payments or rebates by the state, similar to the current Homestead Tax. State government would then be accountable for its own actions, and the necessity of a substantial increase in property taxes avoided.

Details of how this proposed legislation would adversely affect the City of Glendale are contained in the attachment.

Your decision to dismiss these bills would be most appropriate and appreciated.

Thank you for your thoughtful consideration.

Sincerely,

CITY OF GLENDALE

Donald J. Voith
Donald J. Voith
Mayor

mw

Enclosure

TESTIMONY BEFORE JOINT FINANCE

STATE OF WISCONSIN

MARCH 5, 1998

Presented by:

The Honorable Maricolette Walsh
City of Wauwatosa

The Honorable Maricolette Walsh
March 5, 1998 Testimony before Joint Finance

Good morning, Mr. Chairman, Members of the Committee,

I am here today on a matter of gravest importance to my city and to every municipality in the State of Wisconsin, that is the proposal to exempt computers from the personal property tax.

In talking with many members of the business community, I have learned that there is widespread misunderstanding about how local government is funded. We have no income tax. We have no sales tax. The only revenue we have, aside from small amount from permits and fees, is the property tax.

Demands for our services have not diminished, in fact, our residents and our businesses want more police patrol, not less. They want well-maintained streets and better street lighting. They want snow plowed quicker and garbage removed without any delays; they want fast emergency medical response, and they don't want their taxes to go up.

Wauwatosa is not a growing community. Our tax base is relatively fixed. Any exemptions from that base cannot be recovered in any way other than increased real property taxes. Exempting business computers will be a direct shift to residential property taxpayers but business will pay higher taxes as well.

Wauwatosa currently has one TIF district. 47.9% of the increment in our TIF is paid by the tax on computers. If computers are exempted, we cannot make the payments on the TIF bonds. This in turn will jeopardize our triple A bond rating and could dramatically increase our borrowing costs in the future. And again, the only way to recoup our losses will be increases in the property tax.

The governor's budget repair bill escrows $64 million dollars to pay off municipalities but state estimates already acknowledge that the true cost in the

first year is closer to $100 million. There is no index for future growth or inflation in this proposal and cities know from a 20-year history of painful experiences that state money evaporates at the whim of future legislatures and the property tax payer is left holding the bag.

I understand the governor's desire to give a tax break to business and that is why I support an income tax credit similar to the Homestead Tax Credit processed through the Department of Revenue. This accomplishes the governor's goal in a much more equitable manner and does not unfairly punish the residential property taxpayer.

When the M & E exemption was granted we were told it was necessary to save our manufacturing jobs and we all watched as one factory after another closed up and moved or moved product lines to other states or off shore locations. The exemption is still in place but manufacturing continues to leave, the most recent example being the former Amity leather plant in West Bend, which just discontinued all production and laid off 125 people.

Conversely, computer companies and others who are large computer users are locating here and new business start-ups heavily reliant on computer technology are an important factor in our local economy. The tax has not been a deterrent. Please weigh all these factors carefully and remember the families and senior citizens in our cities before you decide this critical issue. An income tax credit makes sense for business and for all property tax payers in the State of Wisconsin. Thank you.

PrimeCare

10701 W. Research Dr.
Milwaukee, WI 53226

(414) 443-4000
1-800-879-0071

March 4, 1998

Governor Tommy Thompson
State Capitol
Madison, WI 53702

Dear Governor Thompson:

We write today regarding the proposal to exempt computers from the personal property tax. We support the concept of reducing the tax on businesses for computers. However, we realize the hardship this will place on municipalities and are concerned about inevitable increases in the property tax on residential and business property as well.

We strongly support an income tax credit for computers based on the Homestead Tax Credit as being far more equitable while accomplishing the same goal.

Exempting computers from personal property will be destructive to current TIF districts. In Wauwatosa's TIF, 47.9% of the increment is supported by the tax on computers. Clearly, it would be impossible to make the payments on the bonds should computers be exempted. This shortfall will in turn place the city's bond rating in jeopardy and could well cost additional dollars to our taxpayers in increased borrowing cost. Wauwatosa has a triple A bond rating, and we don't want to lose it.

The $64 million that the state has escrowed is not sufficient to make municipalities whole even in the first year. Also, it is not indexed for growth or inflation, and could disappear when a state surplus ceases to exist.

The business climate in Wisconsin is very strong, and it is in our interests to maintain the vigorous performance of our economy. An income tax credit for computers would do just that and not cause havoc for local governments.

Thank you for considering our position.

Sincerely,

Maricolette Walsh
Mayor
City of Wauwatosa

Larry Rambo
C.E.O.
PrimeCare

CITY OF WEST ALLIS

WISCONSIN

WEST ALLIS WISCONSIN
Center of Opportunity

Wisconsin Winner Award for Municipal Excellence

MAYOR'S OFFICE

JEANNETTE BELL
Mayor

TESTIMONY
JOINT FINANCE COMMITTEE
March 5, 1998

I strongly oppose the proposal in the Budget Repair Bill that exempts computers from the personal property tax. West Allis remembers the last time such a concept was enacted into state law namely the M&E property tax exemption. My community felt the burden of that tax exemption largely because of the manufacturing emphasis in West Allis. The issue of fairness is again illustrated by this new tax exemption because computers are not evenly distributed between communities and other jurisdictions and therefore the burden for this new tax break will not be evenly distributed. The reimbursement for the M&E exemption was phased out over time and now even shared revenue payments have shown no increases or increases significantly below the rate of inflation. Loss in revenue at the local level makes it harder to provide the level of services our citizens expect.

This discussion regarding a property tax exemption for computers parallels the past and ongoing debate regarding the M&E exemption. It is clear that the previous property tax exemption caused a shift in the property taxes to the residential taxpayer. The impact of any new property exemptions, particularly such a significant exemption as proposed, will again result in another shift of tax burden to homeowners. Lessons learned by the communities are not forgotten and are easily translated to this new exemption for computers.

I do not wish to engage in a debate over the use of a tax exemption as an economic tool; however, if the State feels the exemption will encourage business development, then it should be accomplished with State funds and entirely within the State tax code. It is very easy to talk about giving a tax break using a tax that is collected by another level of government. We know from the M&E experience that any reimbursement will not match the loss in revenue and certainly will disappear over time. Keeping it within the State's tax structure is fair to communities and potentially can provide additional savings to businesses by not having lost the federal deduction for property taxes on personal property.

Please do not support this idea, which will again whittle away our tax base. Do not simply support a method of reimbursement for our loss in revenue and consider that any problem created for our communities has gone away. History has taught what will happen over time. Pay for this tax break without harming municipalities and by giving businesses a tax credit in the State tax code. We would not be objecting if, and only if, the tax break did not impact our ability to raise funds through the current method of personal property tax.

Thank your for your time and consideration.

Sincerely,

Jeannette Bell

Jeannette Bell
Mayor

City Hall, 7525 West Greenfield Avenue 53214 ■Phone (414) 302-8290 ■Fax (414) 302-8321 ■TDD (414) 302-8432

RESOLUTION NO. 25664

By Advisory Committee

RESOLUTION RELATIVE TO THE PROPOSED EXEMPTION OF COMPUTERS FROM PERSONAL PROPERTY TAXES

WHEREAS, Governor Thompson in his Budget Review Bill (SB436/AB768) has proposed the exemption of all computers from personal property taxes; and

WHEREAS, the computer personal property tax exemptions will shift the property tax burden to residential and other non-computer using commercial property taxpayers; and

WHEREAS, the definition of computer equipment in the bill is vague and needs to be specifically defined; and

WHEREAS, there is no accurate state-wide estimate for the offset cost of the exemption to be paid to taxing authorities, nor is there any provision for growth; and

WHEREAS, the property tax base is the only reliable, local resource for infrastructure payments for economic development, which in the past has been eroded by legislation and court decisions; and

WHEREAS, if the State wants to provide such a tax break for business, it should be done with State resources (not local resources) through a refundable business tax credit, which would (1) provide a dollar-for-dollar offset of property taxes without a tax shift between classes, (2) preserve the property tax base, and (3) allow for continued TIF redevelopment efforts that are dependent on tax bases; and

WHEREAS, the City of West Allis would annually experience almost a $1,000,000 property tax shift City wide and over $50,000 in TIF districts alone; and

Approved as to form this 26 day
of [illegible], 199[illegible]

Michael J. Sachen, City Attorney

WHEREAS, the City's Legislative Committee has reviewed this proposal in detail and found it not to be in the best interest of the City.

NOW, THEREFORE, BE IT RESOLVED by the Common Council of the City of West Allis that the City does hereby express its strong opposition to this proposal in the form of a tax exemption.

BE IT FURTHER RESOLVED that the City strongly encourages the substitution of a refundable business tax credit as an acceptable alternative to accomplish the same goal.

BE IT FURTHER RESOLVED that the City Clerk/Treasurer is authorized and directed to provide copies of this resolution to Governor Thompson, area legislators, the West Allis Chamber of Commerce, the Wisconsin Association of Manufacture & Commerce, the League of Wisconsin Municipalities, and the Wisconsin Alliance of Cities.

ADOPTED: March 3, 1998

Jerry a. White
City Clerk/Treasurer

APPROVED: March 4, 1998

Jeannette Bell
Mayor

PMZ:jfw:ADMR122

WISCONSIN ALLIANCE OF CITIES
14 W. MIFFLIN • P.O. BOX 336 • MADISON, WI 53703-0336 • (608) 257-5881 • FAX 257-5882

Date: March 5, 1998
To: Kathy Reynolds, City of Beloit
From: Rich Eggleston, Alliance of Cities
Subject: Comparative data on computer taxes.

Here are some comparisons between Wisconsin and surrounding states relative to the proposed personal property tax exemption on computer software and hardware, from a 1995 Department of Revenue report. (A new edition of the report is in production.)

Minnesota and Illinois exempt all personal property from taxation. In Iowa the property tax only applies to real property. However, computers of manufacturers are considered real property.

Michigan has a statewide property tax abatement program that allows a 50% property tax abatement for up to 12 years for businesses — which effectively creates a 50% revolving exemption for computers used in manufacturing.[1]

In comparing the tax climates of Midwestern states, the overall property tax burden and overall tax climate also need to be considered:

Taxes on Seven Hypothetical Manufacturers[1]

	Property Taxes	Total Taxes
Illinois	$ 260,122	$ 716,164
Iowa	$ 562,080	$ 689,804
Michigan	$ 597,535	$ 1,349,042
Minnesota	$ 604,229	$ 1,034,098
Wisconsin	**$ 424,751**	**$ 742,518**

In a 1997 survey of business services firms by the Milwaukee-based Public Policy Forum, concerns over the area's labor force surpassed all other concerns by executives of this highly mobile class of business.

Forty-nine percent of respondents said property taxes were extremely or very important, while 50% said property taxes were only somewhat or not important in making decisions over the location of facilities.[2]

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[1] Corporate Tax Climate: A Comparison of Nineteen States, DOR Division of Research & Analysis, October 31, 1995.
[2] Governor's Blue Ribbon Commission on 21st Century Jobs, July 1997, attachment C.

WEST BEND

OFFICE OF THE MAYOR

March 5, 1998

Co-Chairs and Members of Finance Committee:

I am writing in regard to SB 436/AB 768-The Budget Repair Bill. I am sorry that I cannot be present today to express my opposition to the computer tax exemption, which is a part of this bill.

It is my belief that if the State of Wisconsin wants to give companies another tax break (known to my single-family homeowners as "corporate welfare"), it should do it by providing a tax credit, or if the company doesn't owe any State taxes, a check could be issued in the amount of the credit.

My reasoning for this is threefold:

1. The local taxing entities, cities, villages, counties, school districts and towns tax base will never remain whole under this plan and with that the tax burden will be shifted to our local homeowners.

2. The State could always drop the payment to all of the local entities, which was promised for local tax relief if the State's budget was in trouble, also shifting the tax to local homeowners.

3. If the exemption was a credit under the State's control, the State will be required to raise the funds for a tax credit through its budgeting process and again not at the expense of the local homeowners.

If the State of Wisconsin truly feels that a computer tax credit is the right thing to do, remove it from the budget process, which hides it from the general taxpayer, and pass it as legislation on its own merits, so that the many Mom's and Pop's that will become aware of this tax shift can let their feelings be known to you in the proper manner.

Please stop using the budget process to pass legislation that benefits so few at the expense of so many! A decision of this magnitude should be discussed at public hearings around the State to determine what type of tax relief main street businesses or homeowners would prefer; tax credit or tax exemptions.

Sincerely,

Michael R. Miller

Michael R. Miller
Mayor of West Bend
President, League of Wisconsin Municipalities

as400/kathyf/league.mm2

Location Address: 1115 South Main Street / West Bend, Wisconsin / 53095
Mailing Address: P.O. Box 1975 / West Bend, Wisconsin / 53095-9975

202 State Street, Suite 300
Madison, Wisconsin 53703-2215

608/267-2380
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Fax: 608/267-0645
E Mail: League@lwm-info.org

LEAGUE OF WISCONSIN MUNICIPALITIES

To: Members of the Joint Finance Committee

From: Dan Thompson, Executive Director Dan

Date: March 5, 1998

Re: The Budget Adjustment Bill—Senate Bill 436 and Assembly Bill 768

The League of Wisconsin Municipalities is concerned about two proposals in the budget adjustment bill. The first proposal relates to the property tax exemption for computer equipment and the second relates to a change in the requirements for performance bonds.

Computer Equipment Tax Exemption. The property tax base is a public resource that is eroding away. Numerous exemptions have been added to the statutes and entities have been winning exempt status through the court system. The erosion of the tax base increases the burden to the remaining residential and commercial property taxpayers.

The Governor's proposal further exacerbates this situation by exempting computer equipment from the personal property tax. His proposal mitigates the shift by proposing to reimburse municipalities for the revenue loss. This is estimated to be $64 million in the year 2000. There are several problems with the proposal:

- It isn't clear that $64 million will cover the loss.
- This segment of the tax base has been growing steadily, but the proposal does not provide for growth in future years.
- Because computer equipment will no longer be assessed, the public will lose information necessary to evaluate the success or failure of this incentive to attract new businesses to Wisconsin.

The League of Wisconsin Municipalities opposes this method of providing economic development incentives to businesses. If the Legislature believes that Wisconsin is unattractive to high-tech companies, then there are other ways to provide incentives. For example, the Legislature could implement a reduction in the state income tax for businesses that meet certain criteria. And the Legislature could modify the income tax benefit in future years to respond to changing conditions in the state's economy. Once the Legislature grants a property tax exemption for computers, the Legislature gives up its opportunity to fine-tune that incentive in future years. A property tax exemption is the wrong tool for providing an economic development incentive. For that reason, we urge the Committee to delete the computer tax exemption from the budget adjustment bill.

Performance Bonds. The League of Wisconsin Municipalities supports the language in Act 27, signed by the Governor five months ago, relating to performance bonds. Under Act 27, local governments are not required to obtain performance bonds for public projects. Local governments, however, are required to develop criteria for waiving bonds for projects over $10,000.

The budget adjustment bills provide that local governments would not be required to obtain performance bonds for projects under $10,000, and the proposal would require performance bonds for projects over $100,000. These provisions would not be a hardship for most cities and villages.

The proposal requires local units of government to use different procedures for projects between $10,000 and $50,000, and for projects between $50,000 and $100,000. Included in the list of procedures is a requirement that the prime contract must allow municipalities to pay subcontractors directly. This puts municipal governing bodies in the middle between contractors and subcontractors over whether the subcontractors have earned their payments. We urge the Committee to delete this provision.

1997 – 1998

Wisconsin County Executives and Administrators Association

WCEA

PRESIDENT
Jean M. Jacobson
Racine County Executive

VICE-PRESIDENT
John Krizek
St. Croix County
Administrative Coordinator

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Winnebago County

TO: Assembly Speaker Scott Jensen
Rep. Walter Kunicki
Rep. Steven Foti
Rep. John Gard
Senator Charles Chvala
Senator Michael Ellis
Senator Brian Burke

FROM: Racine County Executive Jean Jacobson, President
Members, Wisconsin County Executives & Administrators Association

DATE: February 11, 1998

As you consider Governor Thompson's Budget Review Bill, we have two major issues we would like to raise concerning the proposed legislation:

Exempting computer equipment from the personal property tax:
The governor has proposed setting aside $64 million of this biennium's expected state surplus to reimburse local units of government for their losses related to exempting computer equipment from the personal property tax. To exempt computer equipment from taxation is not a decision which should be made lightly---computer equipment now represents about 1.2% of the total property tax base in Wisconsin and the percentage is growing rapidly. Is state government willing to make a commitment to index its reimbursement beyond the initial $64 million to reflect future growth? Is there some other tax mechanism which could be used to assist businesses which rely on computers without further eroding the local tax base?

Unless local governments can be truly "held harmless" for their losses, this provision should not be enacted.

730 WISCONSIN AVENUE RACINE, WI 53403
Telephone: (414) 636-3118 Fax: (414) 636-3549

Property Tax Relief for County Taxpayers:

During last year's state budget, almost all available new state GPR revenues were spent on increased school aids and added correctional costs. All the state's major GPR-funded aid programs for counties---Community Aids, Youth Aids, Court Funding, Shared Revenue---were either cut or frozen for two years. This has put additional pressure on county property taxpayers. Because of higher costs for mandated services and stagnant state aids, total county property tax levies increased 7.2% in 1997. We are as troubled by this rate of increase as you are.

The expected state surplus allows an opportunity to restore some balance in state aid programs and to assist county taxpayers.

We urge you to use a small portion of the state surplus to provide $15 million in additional court funding for counties in 1998. The state currently allocates about $25 million per year to help counties fund the state-county court system but no new aid was provided for 1997 or 1998. An infusion of $15 million would allow counties to reduce their property tax levies for courts substantially as we prepare our 1999 budget this fall. New state aid would not be used for new courts spending. It would lead to a direct reduction in counties' 1999 levy. Real property tax relief would result.

It does little good to reduce school taxes only to shift the property tax burden to other local governments. Now is the time to restore some balance. Thanks you for your consideration of these two issues.

cc: Members, Wisconsin State Legislature