

Fiscal Estimate - 2005 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number **05-4792/1**
 Introduction Number **AB-1161**

Description
 The payment of interest on property tax refunds for manufacturing property and making an appropriation

Fiscal Effect

State:

- No State Fiscal Effect
- Indeterminate
 - Increase Existing Appropriations
 - Decrease Existing Appropriations
 - Create New Appropriations
- Increase Existing Revenues
- Decrease Existing Revenues
- Increase Costs - May be possible to absorb within agency's budget
 - Yes No
- Decrease Costs

Local:

- No Local Government Costs
 - Indeterminate
 - 1. Increase Costs 3. Increase Revenue
 - Permissive Mandatory Permissive Mandatory
 - 2. Decrease Costs 4. Decrease Revenue
 - Permissive Mandatory Permissive Mandatory
- 5. Types of Local Government Units Affected**
- Towns Village Cities
 - Counties Others
 - School Districts WTCS Districts

Fund Sources Affected **Affected Ch. 20 Appropriations**

GPR FED PRO PRS SEG SEGS 20.835 (2) (bm)

Agency/Prepared By	Authorized Signature	Date
DOR/ Blair Kruger (608) 266-1310	Paul Ziegler (608) 266-5773	4/10/2006

Fiscal Estimate Narratives

DOR 4/11/2006

LRB Number	05-4792/1	Introduction Number	AB-1161	Estimate Type	Original
Description The payment of interest on property tax refunds for manufacturing property and making an appropriation					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, owners of manufacturing property may contest the valuation of their property to the state Board of Assessors; appeals of Board of Assessors' decisions are made to the Tax Appeals Commission; and appeals of the Tax Appeals Commission's decisions are made to the circuit court for Dane County.

Under current law, if a reviewing authority has not completed its work with respect to a particular objection prior to the time the property tax is extended, the tax levy is based on the contested assessed value of the property. If the reviewing authority subsequently reduces the valuation of property, the taxpayer may file a claim for a refund. Interest on the refund is paid at the rate of 0.8% per month. The municipality may charge back to the other taxing jurisdictions their share of the refund but may not charge back the interest paid.

Under the bill, the interest on manufacturing refunds is paid at the average annual interest rate determined by the last auction of 6-month U.S. Treasury bills before the objection per day from the time the tax was due until the date the claim is paid.

Also under the bill, the Department of Administration (DOA) would refund to municipalities an amount equal to 20% of the interest paid on refunds on manufacturing property due to reduced valuations as well as interest accrued up to the date of the Tax Appeals Commission's determination. In addition, the bill provides that overlying taxing jurisdictions would reimburse the municipality for their share of the refund and interest thereon, excluding the 20% share of interest to be paid by DOA.

According to the U.S. Treasury, the average annual 6-month Treasury rates ranged from 1.1% in 2003 to 3.5% in 2005. The 5-year average yield on 6-month Treasury bills was 2.27% for the 5 years from 2001 through 2005. Thus, based on Treasury bill rates in recent years, the interest rate change under the bill would reduce the interest paid on refunds to about one-quarter (2.27%/9.6%) of its current level.

The attachment shows, for manufacturing property assessments that were contested between 2001 and 2005, the total original assessment, the appellant's valuation, the Board of Assessors (BOA) determination of value, and amount the BOA reduced the value. Typically, the BOA can make its determination before the property taxes are paid and avoid incurring interest costs for refunds. Although the BOA reduced assessments by up to \$288 million over the past five years, taxes were paid on only a portion of the reduction. The attachment shows the assessment reductions on which taxes were paid and the amount of taxes, based on the average statewide net tax rate for the respective years.

When interest is due on BOA reductions, it typically accrues for one year. The attachment also shows the amount of interest for one year based on the current law interest rate of 9.6% (0.8% x 12 mo.), one year's interest based on the six-month U.S. Treasury bill rate of 2.27%, and the difference. The table also shows the division of the interest cost between the local governments (80%) and the state (20%) that would be required under the bill.

The attachment also provides data relating to assessment appeals filed with the Tax Appeals Commission. Since a decision in these cases typically takes 4 years, only data for 2001 and 2002 are shown (there are pending cases from both of the years so the data are not final amounts). The attachment shows the values of property determined by the TAC and the reductions in values. In addition, the attachment shows the amount of interest for 4 years based on the current law rate of 9.6% and a U.S. Treasury bill rate of 2.27%. Under current law, municipalities would pay interest totalling about \$88,000 for appeals of 2001 assessments and \$166,000 for appeals of 2002 assessments.

SUMMARY

Municipalities paid about \$100,000 in interest on contested 2001 assessments and \$188,000 in interest on contested 2002 assessments.

Under the bill, interest would be calculated at a lower rate and the state would pay 20% of those interest costs. Thus, under the bill, the state would have paid about \$5,000 and \$8,000, respectively, for contested 2001 and 2002 assessments of manufacturing property. Local governments would have paid \$20,000 and \$31,000 in interest for contested 2001 and 2002 assessments of manufacturing property. Thus, under the bill, local governments' interest costs would have decreased by about \$80,000 ($\$100,000 - 20,000$) and \$157,000 ($\$188,000 - 31,000$), respectively, for appeals of 2001 and 2002 assessments of manufacturing property.

School districts, counties, technical colleges, and special districts pay no interest under current law. Under the bill, these jurisdictions would pay their share of the interest on refunds while municipalities' interest costs would decrease. Based on the 2004/05 statewide gross property tax levies, school districts would pay 44% of remaining local interest costs under the bill, municipalities would pay 24%, counties would pay 20%, technical colleges would pay 7%, special districts would pay 5%.

Administrative costs of the bill would be absorbed.

Long-Range Fiscal Implications

ATTACHMENT (2005 AB 1161):

ESTIMATED INTEREST ON REFUNDS OF MANUFACTURING PROPERTY TAXES

BOARD OF ASSESSORS

	ORIGINAL ASSESSMENT	APPELLANT'S SUGGESTED VALUATION	BOA VALUATION	CHANGE (ORIG - BOA)
2001	\$261,814,464	\$162,682,999	\$161,647,200	\$100,167,264
2002	\$301,736,621	\$190,716,293	\$255,548,226	\$46,188,395
2003	\$586,451,100	\$349,010,725	\$500,948,200	\$85,502,900
2004	\$477,854,700	\$261,970,301	\$340,696,882	\$137,157,818
2005	\$514,786,800	\$353,024,996	\$226,639,900	\$288,146,900

	TAXED REDUCTIONS IN VALUATION	EST. TAXES ON VALUATION REDUCTIONS	CURRENT LAW INTEREST (9.6%)	INTEREST UNDER SB 639 *
2001	\$6,586,746	\$138,519	\$13,298	\$4,783
2002	\$10,927,295	\$224,556	\$21,557	\$3,854
2003	\$11,321,000	\$226,533	\$21,747	\$2,436
2004	\$1,115,900	\$21,905	\$2,103	\$353
2005	\$2,666,900	\$48,964	\$4,701	\$1,715

DIVISION OF INTEREST UNDER SB 639

	INTEREST UNDER SB 639 *	STATE SHARE (20%)	LOCAL SHARE (80%)
2001	\$4,783	\$957	\$3,827
2002	\$3,854	\$771	\$3,084
2003	\$2,436	\$487	\$1,948
2004	\$353	\$71	\$283
2005	\$1,715	\$343	\$1,372

* Based on the average 6-month U.S. Treasury bill rate for each year.

TAX APPEALS COMMISSION

	TAC VALUATION	TAC VALUATION REDUCTION	EST. TAX ON VALUATION REDUCTION	CURRENT LAW INTEREST (9.6%)
2001	\$38,782,800	\$9,461,400	\$198,973	\$88,129
2002	\$98,367,400	\$18,247,300	\$374,982	\$166,087

DIVISION OF INTEREST UNDER SB 639

	INTEREST UNDER SB 639 (2.27%)	STATE SHARE (20%)	LOCAL SHARE (80%)
2001	\$18,693	\$3,739	\$14,954
2002	\$35,229	\$7,046	\$28,183