



## Fiscal Estimate Narratives

DOR 7/9/2007

LRB Number 07-1757/2	Introduction Number SB-220	Estimate Type Original
<b>Description</b> Determining the value of billboards for personal property tax purposes		

### Assumptions Used in Arriving at Fiscal Estimate

Under current law, personal property (including an advertising sign) is assessed at its "true cash value." Estimates of true cash value can be derived by using three approaches to value: the sales comparison, income, and cost approaches.

- o The sales comparison approach relies on comparing similar properties to the subject property and adjusting them for differences.
- o The income approach relies on estimating the net rent that the subject property could generate, then capitalizing the rent by an appropriate rate. A capitalization rate is the annual cash flow from an asset divided by the asset's capital cost; it is used to measure the rate at which an investment will pay for itself in net cash flows.
- o The cost approach relies on determining either the reproduction or replacement cost of the improvements, subtracting depreciation, and adding the value of the land.

The Wisconsin Property Assessment Manual (WPAM) instructs appraisers to consider all available data and the three approaches to value, and then to identify the most appropriate approach considering the specific property. According to the WPAM, appraisers typically use the sales comparison approach in markets where adequate sales exist. They typically use the income approach for income-producing properties when an active rental market exists. They use the cost approach in cases of new or special purpose structures or where limited sales or rental data activity exists.

Effective for property tax assessments as of January 1, 2007, the bill would require the value of an outdoor off-premises advertising sign to be determined with the cost method of valuation. Specifically, the assessed value of off-premises advertising signs would be determined by subtracting depreciation from the cost of reproducing the sign. The value could not include the value of permits issued, leasehold interests or other intangibles. The bill defines an off-premises sign as a sign that does not advertise the business or activity that occurs on the site where the sign is located.

The Department does not have information to reasonably estimate the fiscal effect of requiring a cost method of depreciation for off-premises advertising signs. To the degree that the bill would reduce the taxable value of off-premises advertising signs, however, property taxes would be shifted to remaining taxable value. State forestry taxes would also decrease as a result of any taxable value reductions under the bill. For each \$1,000 reduction in equalized value under the bill, state forestry tax collections would decrease by approximately \$0.17 in 2008 and beyond.

The bill would require revisions to the Wisconsin Property Assessment Manual. The Department's costs under the bill can be absorbed by existing budget authority.

### Long-Range Fiscal Implications