

Barman, Mike

From: Sweeney, Matthew - DOR [Matthew1.Sweeney@revenue.wi.gov]

Sent: Friday, November 04, 2011 3:08 PM

To: DOA Fiscal Estimates; Barman, Mike

Cc: Hetzel, Shayna - DOA; Wagner, Michael W - DOR

Subject: Need to re-write FE for AB0262/SB0182

DOR is requesting that we be authorized to re-write the fiscal estimate for AB0262 and SB0182. We have new information that should be included.

Thanks.

Matt Sweeney

Legislative Relations Specialist

Division of Research and Policy

Wisconsin Department of Revenue

608-267-1262

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Barman, Mike

From: Gasper, Greg
Sent: Friday, November 04, 2011 2:27 PM
To: Barman, Mike
Subject: FE - AB 262

Mike –

We would like to make a formal request to send the Fiscal Estimate for AB 262 back to the Department of Revenue.

Please let me know if you have any questions or if you need anything additional from me.

Greg Gasper
Office of Rep. Dan Knodl

*Room 218 North, State Capitol
Madison, WI 53708
Direct: (608) 266-5110
Toll-Free: (888) 529-0024*

Please note that all communications are subject to open records law under Chapter 19, Wis. Stats.



Mike
Wagner

Barman, Mike

From: FES User Mike Barman [DOAFiscalEstimates@wisconsin.gov]
Sent: Friday, November 04, 2011 2:54 PM
To: DOAFiscalEstimates@wisconsin.gov; DOAFiscalEstimates@wisconsin.gov;
doafiscalestimates@wisconsin.gov; doafiscalestimates@wisconsin.gov;
doafiscalestimates@wisconsin.gov
Cc: Barman, Mike
Subject: FISCAL ESTIMATE - RETURNED TO FEC - LRB # 11-1684/1 Estimate Type Original,
INTRO # AB-0262

The assignment for Agency DOR for LRB# 11-1684/1 Estimate Type Original is being returned to you. The assignment can once again be found under 'Returned Estimates' on the FEC Fiscal Estimates menu. It can be inactivated or returned to the Agency for corrections.

Return to DOR for rewrite (requested by DOR ... OKed by sponsor''s office)

Submitted from the web 11/4/2011 2:54:06 PM

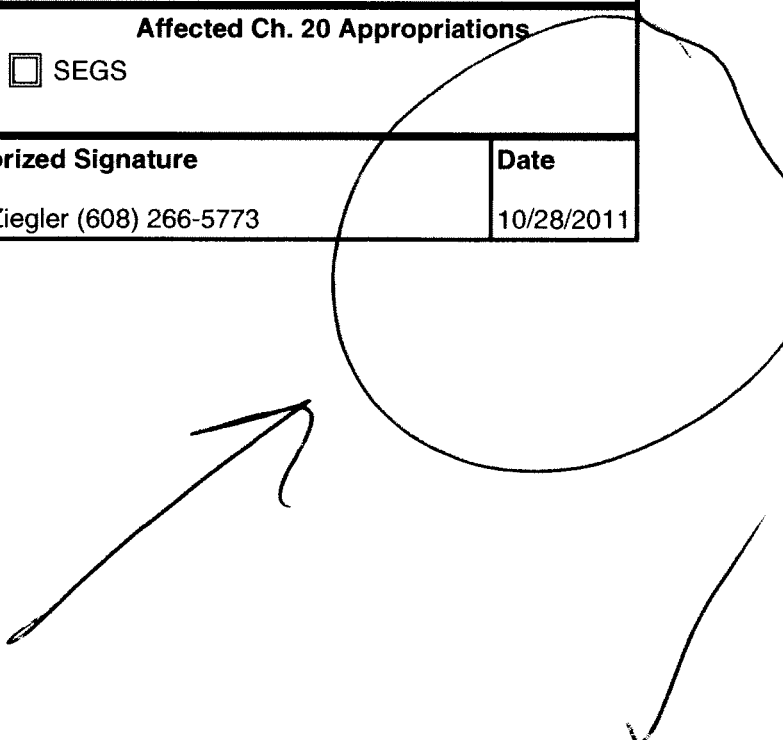
Fiscal Estimates URL = <http://fes.doa.state.wi.us>

LRB

Fiscal Estimate - 2011 Session

Original Updated Corrected Supplemental

LRB Number 11-1684/1		Introduction Number AB-0262	
Description Excluding permits and licenses from the definition of real property for property tax purposes			
Fiscal Effect			
State:			
<input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate			
<input type="checkbox"/> Increase Existing Appropriations <input type="checkbox"/> Decrease Existing Appropriations <input type="checkbox"/> Create New Appropriations		<input type="checkbox"/> Increase Existing Revenues <input checked="" type="checkbox"/> Decrease Existing Revenues	
		<input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Decrease Costs	
Local:			
<input type="checkbox"/> No Local Government Costs <input checked="" type="checkbox"/> Indeterminate			
1. <input type="checkbox"/> Increase Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 2. <input type="checkbox"/> Decrease Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory		3. <input type="checkbox"/> Increase Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 4. <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	
5. Types of Local Government Units Affected <input checked="" type="checkbox"/> Towns <input checked="" type="checkbox"/> Village <input checked="" type="checkbox"/> Cities <input checked="" type="checkbox"/> Counties <input checked="" type="checkbox"/> Others <u>metro sewer, sanitary, lake</u> <input checked="" type="checkbox"/> School Districts <input checked="" type="checkbox"/> WTCS Districts			
Fund Sources Affected		Affected Ch. 20 Appropriations	
<input type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS			
Agency/Prepared By		Authorized Signature	Date
DOR/ Daniel Huegel (608) 266-5705		Paul Ziegler (608) 266-5773	10/28/2011



Fiscal Estimate Narratives
DOR 10/28/2011

LRB Number 11-1684/1	Introduction Number AB-0262	Estimate Type Original
Description Excluding permits and licenses from the definition of real property for property tax purposes		

Assumptions Used in Arriving at Fiscal Estimate

Under current law, taxable real property is valued at its highest and best use, which is generally deemed to be the price at which a property could sell for between a willing buyer and seller, neither of which is obligated to conduct the transaction. The state constitution permits limited exceptions to this for forest land and agricultural land.

A license or permit that applies to a parcel of real property or a personal property account that can be (or must be) transferred when the property is sold may have an effect on the taxable value of such property. This may occur when the license or permit affects the price a buyer will bid for the property and the price at which a seller will sell the property. A license or permit that affects buyers' and sellers' behavior essentially makes the license or permit inextricably intertwined with the property.

Chapter 9 (pages 9 to 14) of the Wisconsin Property Assessment Manual provides assessors with the following guidance: "The assessor should also consider the value of those non-realty items that become inextricably intertwined with the property. These items, though not real estate proper, enhance the value of the real estate at the time of the sale in such a significant way that they alter the behavior of buyers and sellers in the transaction. For example, a sale in which a license to use the particular parcel in a particular manner (such as a landfill) adds considerable value to the property, the license becomes inextricably entwined with the value of the parcel itself though a license is not typically considered 'real property' in traditional terms. When the existence of 'non-realty' items passes with the property and significantly influences the behavior of the typical buyer and seller, the assessor should include it in the value estimate."

Under the bill, permits and licenses would be excluded from the definition of real property, real estate, and land subject to assessment for property tax purposes. Thus, if a license or permit has become "inextricably intertwined" with a property, for taxation purposes the value will need to be calculated as if the permit or license did not exist. In effect, the bill may permit a partial exemption of a property for that part of its value created by the license or permit.

Since the bill provides no definition of license or permit to narrow the scope of the bill's impact, and since licenses and permits affect nearly every parcel of real estate and those personal property accounts involving improvements on leased land, the fiscal effect of the bill could be significant. The bill is especially anticipated to have an effect on the value of income producing property where the license or permit largely determines how the parcel may be used.

The following is a list of just a few of the licenses and permits that affect specific parcels or locations and whose value may need to be removed from the tax rolls under the bill:

- Conditional land use permits -- gravel pits, rock quarries
- Zoning permits -- mobile home courts, campgrounds, RV parks
- Water discharge permits -- paper manufacturers
- Federal Energy Regulatory Commission licenses -- small hydro-electric plants
- All pollution permits -- foundries, asphalt plants

The determination of how much value a license or permit imparts to a given property could be quite difficult. The preferred method of assessing property is to use the comparable sales method under which a property being assessed is compared to a recently sold property which has been used for the same or a similar purpose -- and presumably possessing similar licenses and permits. The bill could render use of the comparable sales approach untenable. Property assessment of such property would then have to proceed under either the capitalized income method or the replacement cost less depreciation method.

Court decisions on cases deciding whether a license or permit has become "inextricably intertwined" with a property, and, if so, how the value created by the license or permit can be determined, have not developed to the point where clear direction on these issues can be given. As a result, it is not possible for the

Department of Revenue (DOR) to provide a precise estimate of the amount of property value attributable to licenses and permits that would be removed from the tax rolls as a result of the bill.

For purposes of this fiscal note, it is initially estimated that the bill has the potential to reduce taxable values of commercial and manufacturing real estate by 10% compared to current levels. The actual reduction could be lower or higher than this amount, depending on how local assessors implement the law and how courts could rule on the assessment appeals that are likely to be raised as a result of the bill.

Based on the statewide total equalized value in 2010 for commercial and manufacturing property of \$104.0 billion (\$91.1 billion commercial and \$12.5 billion manufacturing), the bill has could remove about \$10.4 billion of property (\$9.1 billion commercial and \$1.3 billion manufacturing) from the property tax rolls. This represents about 2.1% of the total equalized of taxable property in the state for 2010. Based on a total statewide net property tax levy of about \$9.6 billion, the bill would shift about \$200 million in property taxes from the exempted property owners to other property owners.

The state forestation property tax is currently imposed at a rate of about \$0.1697 per \$1,000 of equalized value. The bill is therefore expected to reduce collections of this tax by about \$1.7 million per year.

The DOR could incur significant one-time costs under the bill since a reassessment of all DOR-assessed manufacturing property would likely be needed. Local governments, which are responsible for the assessment of commercial property, could also incur significant one-time costs since the reassessment of all commercial property would likely be needed. An estimate of these costs is not available at this time.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2011 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

LRB Number 11-1684/1		Introduction Number AB-0262	
Description Excluding permits and licenses from the definition of real property for property tax purposes			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect): One-time costs for the state related to reassessment of manufacturing property and for local governments related to reassessment of commercial property.			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations - Salaries and Fringes		\$	\$
(FTE Position Changes)			
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
TOTAL State Costs by Category		\$	\$
B. State Costs by Source of Funds			
GPR			
FED			
PRO/PRS			
SEG/SEG-S			
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)			
		Increased Rev	Decreased Rev
GPR Taxes		\$	\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S (Forestry)			-1,700,000
TOTAL State Revenues		\$	\$-1,700,000
NET ANNUALIZED FISCAL IMPACT			
		<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$-1,700,000	\$see text of fiscal note
Agency/Prepared By		Authorized Signature	
DOR/ Daniel Huegel (608) 266-5705		Paul Ziegler (608) 266-5773	
		Date	
		10/28/2011	

07/24/2012

**AS OF TODAY'S DATE ... DEPT. OF REVENUE (DOR)
HAS NOT YET SUBMITTED A RE-WRITTEN FISCAL
ESTIMATE FOR 2011 ASSEMBLY BILL 262 (LRB-1684/1).**

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