Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2011 Session

[X] Original [ ] Updated [ ] Corrected [ ] Supplemental

LRB Number 11-2896/1	Introduction Number AB-0273

Description
the loan program for property taxes imposed as a result of an error in equalized value and making an appropriation.

Fiscal Effect

State:
[X] 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. [X] Increase Costs — [X] Permissive [ ] Mandatory
2. [ ] Decrease Costs — [ ] Permissive [ ] Mandatory
3. [ ] Increase Revenue — [ ] Permissive [ ] Mandatory
4. [ ] Decrease Revenue — [ ] Permissive [ ] Mandatory
5. Types of Local Government Units Affected
[ ] Towns [X] Village [ ] Cities
[X] Counties [ ] Others
[ ] School Districts [ ] WTCS Districts

Fund Sources Affected
[X] GPR [ ] FED [ ] PRO [ ] PRS [ ] SEG [ ] SEGS

Affected Ch. 20 Appropriations
s.20.566 (2) (b) and GPR-earned

Agency/Prepared By	Authorized Signature	Date
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Fiscal Estimate Narratives

DOR 9/21/2011

LRB Number **11-2896/1**	Introduction Number **AB-0273**	Estimate Type **Original**
Description the loan program for property taxes imposed as a result of an error in equalized value and making an appropriation.		

Assumptions Used in Arriving at Fiscal Estimate

Background and Current Law

The equalized value for the Village of Twin Lakes for 2011, as established by the Department of Revenue (DOR) on August 15, 2011, was overstated by $70,841,100. Under current law, DOR will correct for this error by reducing the equalized value for 2012, as certified on August 15, 2012, by $141,682,200. One-half of the total reduction ($70,841,100) represents the amount necessary to correct the base value of the municipality for 2012. The other half ($70,841,100) represents a one-time compensation for the 2011 overstatement in Equalized Value and is not carried forward to 2013. In short, the municipality was apportioned property taxes that were based upon $70,841,100 more in Equalized Value for 2011, which is compensated for by the reduction in 2012. The correction is carried out under section 70.57.

For property tax purposes, equalized values are used (1) to calculate the state forestation tax charged to a municipality, and (2) to allocate property tax levies among municipalities in multiple municipal entities – such as counties, special districts, school districts, and technical college districts. When a municipality's equalized value is overstated, the property taxes allocated to it are overstated – in effect; property taxes are shifted into the municipality. When a municipality's equalized value is understated, the property taxes allocated to it are understated – in effect; property taxes are shifted away from the municipality.

The purpose of the correction under section 70.57 is for the property tax error in one year to be balanced by an adjustment in the other direction in the following year – so that total levy allocations over the two year period will be essentially correct.

Also under current law, if a taxation district certifies to the department that, due to an error made by the department in establishing the taxation district's equalized value, that the district's value is overstated by more than 10% of the district's valuation in the year prior to the error, DOR shall make a zero-interest payment to the taxation district and the taxation district shall subsequently use the payment to make loans to persons whose tax bills are higher than they should be as a result of the error. The loans are repaid to the state through special charges in the following year. This procedure is only relevant if tax bills will, or have already been, distributed to property owners based on the overstated value.

Proposal

Under the bill, DOR shall provide a zero-interest payment to a taxation district that certifies to the department that, due to an error by the department, the taxation district's valuation is overstated by more than 7.5% (rather than 10%) of the district's valuation in the year prior to the error. In addition, if property tax bills have not yet been distributed to property owners, the taxation district may use the payment to reduce the property taxes that would otherwise be imposed as a result of the error. The payment is repaid to the state by collecting the amount back from property owners in the following year. The appropriation from which the payments are made is modified from an annual to a sum sufficient appropriation. The bill first applies to 2011 valuations. Payments from and repayments to the state under the bill shall not be included in determining a municipality's or county's levy or allowable levy under levy limits and shall not impact eligibility for or the calculation of payments under the expenditure restraint program.

Fiscal Effect

The Village of Twin Lakes is the only municipality expected to be eligible under the bill for a payment to reduce property taxes that would otherwise be imposed due to an error by DOR in 2011 valuations. The error in the village's 2011 valuation is equal to 8.2% of the village's 2010 valuation – thereby allowing the village to utilize the provisions of the bill.

Under the bill, the state would make an interest free loan to the village equal to the amount by which the 2011/12 property taxes allocated to the village are overstated due to the overstatement in equalized value. Based on projected equalized values and tax levies (actual data will not be available until closer to December 1, 2011), the amount of the loan is estimated to be approximately $900,000.

The state would therefore loan the Village of Twin Lakes the amount by which taxes will be overstated. When tax bills are being prepared in December 2011, the village would reduce the amount of taxes allocated to it by the various entities by the amount of the loan and, consequently, tax bills will not be overstated due to the error. This action will lead to an intentional "under-run" (underpayment) on the village's statement of taxes for the 2011/12 property tax year by an amount equal to the amount of the loan. The amount of taxes that the overlying entities receive would not be affected.

When tax bills are being prepared in December 2012, the village would increase the amount of taxes allocated to it by an amount equal to the loan. This would lead to an intentional "over-run" (overpayment) on the village's statement of taxes for the 2012/12 property tax year by an amount equal to the amount of the loan. The amount of taxes that the overlying entities receive would not be affected.

The bill is expected to have no net state fiscal effect over the 2011-13 biennium. While GPR expenditures will increase by the amount of the payment to the village in FY12, an equal GPR revenue will be received by the state in FY13 when the amount is repaid.

The timing of the payment and its repayment will even out year-to-year changes in property taxes for individual property owners. The loan to the village in FY12 will avoid the higher tax bills that would otherwise occur on the December 2011 tax bills due to the error. The repayment of the loan in FY13 will occur through the December 2012 tax bills at the same time that taxes apportioned to the village will be lowered due to the equalized value correction process under s.70.57.

Local administrative costs may increase (at the municipal and/or county level) as local governments ensure that the proper adjustments to tax bills are made and the proper property tax settlement occurs. These costs are expected to be minimal.

All taxing jurisdictions receive the amounts they levy in each year. The municipal levy is not impacted.

Long-Range Fiscal Implications

Wisconsin Department of Administration
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Fiscal Estimate Worksheet - 2011 Session

Detailed Estimate of Annual Fiscal Effect

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

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Description
the loan program for property taxes imposed as a result of an error in equalized value and making an appropriation.

I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):

While the bill is expected to have no net fiscal effect over the 2011-13 biennium, GPR expenditures will increase by the amount of the payment to the Village of Twin Lakes in FY12. This amount is estimated at approximately $900,000. In FY13, an offsetting increase in GPR revenues will occur when the prior year payment to the village is repaid to the state.

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, ets.)

	Increased Rev	Decreased Rev
GPR Taxes	$	$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	**$**	**$**

NET ANNUALIZED FISCAL IMPACT

	State	Local
NET CHANGE IN COSTS	$	$
NET CHANGE IN REVENUE	$	$

Agency/Prepared By	**Authorized Signature**	**Date**
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