

STATE OF WISCONSIN
REPORT OF THE JOINT SURVEY COMMITTEE ON TAX EXEMPTIONS
2015 SENATE BILL 209

[Introduced by the Joint Committee on Finance.]

2015 Senate Bill 209 relates to the construction of a sports and entertainment arena and related facilities in downtown Milwaukee. In general, the bill would expand the authority of the Wisconsin Center District, a “local exposition district” created pursuant to subch. II of ch. 229, Stats., to allow the district to provide bond proceeds in the principal amount of \$203 million to assist in the construction of the arena and related facilities.

To fund the debt service on bonds issued for the project, the Wisconsin Center District would rely on a combination of two annual state grants, including one grant related to collection, by the Department of Revenue, of debts owed to Milwaukee County; and the extension of existing district taxes. The arena project also anticipates that the City of Milwaukee will finance the construction of a parking structure and expand tax incremental financing district development near the arena facilities.

The bill contains several provisions that affect existing statutes or create new statutes relating to the exemption of property or persons from state or local taxes. This report addresses those provisions.

General Nature of Tax Exemption Provisions in 2015 Senate Bill 209

Property Tax Exemption for a Local Exposition District

Under current law, s. 70.11 (37), Stats., provides a general property tax exemption for the property of a local exposition district created under subch. II of ch. 229, Stats. Under the bill, this exemption would be amended to clarify that the exemption includes sports and entertainment arena facilities. The amended exemption would be subject to the limitation that any portion of the arena facilities used, leased, or subleased for use as a restaurant or for use requiring alcohol beverage licensure under ch. 125, Stats., would not be exempt if that portion of the arena facilities is regularly open to the general public at times when the sports and entertainment arena is closed to the public.

Income Tax Exemption for Bonds and Notes of a Sponsoring Municipality of a Local Exposition District

Under current law, the state income and franchise tax code excludes from taxation the interest from bonds and notes issued by numerous public entities, including obligations issued by a local exposition district. The bill would create a new exclusion from the state income and franchise tax for interest on bonds and notes issued to assist a local exposition district by the municipality that has created the district. Under the arena proposal contemplated by the bill, this exclusion would apply to bonds and notes issued by the City of Milwaukee to assist the Wisconsin Center District.

Sales Tax Exemption for Development and Construction of Arena Facilities

The bill would create an exemption from state, county, and professional baseball park district sales and use taxes for the sale of and storage, use, or other consumption of tangible personal property and taxable services used to develop and construct sports and entertainment arena facilities. Under the bill, the sales tax exemption would cease upon certification by the Secretary of Administration that construction of a sports and entertainment arena is completed. The bill specifies that the Secretary shall make such certification as soon as he or she determines that the arena is completed, but not later than the first game played in the arena by the professional basketball team that uses the arena as its home arena.

Legality Involved

There are no questions of legality involving the provisions of the bill described in this report.

Fiscal Effect

In general, exemption of currently taxable property from the property tax has the effect of removing the assessed value of the exempt property from calculation of the property tax base of each local taxing jurisdiction and therefore results in a shift of tax burden to other property taxpayers through a marginal increase in the taxing jurisdiction's mill rate, assuming no change to the jurisdiction's tax levy. When newly constructed property is exempt from the property tax, the potential inclusion of such property in a taxing jurisdiction's property tax base is foregone. If such property were instead included in the property tax base, other property taxpayers would realize a marginal decrease in the taxing jurisdiction's mill rate, assuming no change to the jurisdiction's tax levy. Similarly, exemption of newly constructed property would result in foregone revenue with regard to the state forestation tax (a state property tax segregated for use in state forestry programs).

The fiscal effect of the exclusion of interest from the income and franchise tax is indeterminate, but anticipated to be minimal, due to the likelihood that the bonds and notes contemplated by the exclusion would be sold to entities that are already exempt from, or otherwise not subject to, the state income or franchise tax.

Additionally, the Legislative Fiscal Bureau indicates that the exemptions contained in the bill may be characterized as revenue neutral, under the assumption that construction of the arena facilities would not occur in the absence of the bill. Further, the general analysis of the bill assumes the presence of the tax exemptions in the bill, particularly the sales tax exemption for construction and development of arena facilities, in determining the overall cost of the arena financing plan. Presumably, upward revisions to such costs would be required in the absence of the tax exemptions. For a general summary of the fiscal effect of the bill, see *Summary of Assembly Bill __ (LRB-2678/1)/Senate Bill __ (LRB-2703/1): Milwaukee Sports Arena*, Legislative Fiscal Bureau (July 2, 2015).

Public Policy Involved

The Joint Survey Committee on Tax Exemptions finds that there is appropriate public policy on the tax exemptions in Senate Bill 209.