



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #686

Integrated Property Assessment System/Electronic Property Assessment Manual (DOR -- Tax Administration)

Bill Agency

[LFB 2007-09 Budget Summary: Page 488, #2]

CURRENT LAW

The Division of State and Local Finance (SLF) in the Department of Revenue (DOR) is responsible for: (a) establishing the state's equalized values; (b) assessing all manufacturing and telecommunication company property for property tax purposes; (c) assessing and collecting taxes on utilities, railroads, airlines, mining operations and other special properties; (d) and providing financial management and technical assistance to municipal and county governments. The Division also administers the state shared revenue program, property tax relief payments for municipal services, the lottery credit program, and the tax incremental financing program. Finally, the Division administers property assessments, including publishing and distributing the Wisconsin Property Assessment Manual, and certifies assessment personnel. SLF has base level funding and position authority of \$7,923,500 GPR, 107.15 GPR positions, \$1,970,700 PR, 16.50 PR positions, \$488,000 SEG, and 6.10 SEG positions.

GOVERNOR

Provide \$2,700,000 GPR and 1.0 GPR position to fund and administer development and implementation of an Integrated Property Assessment System (IPAS). An annual GPR appropriation would be created for funding integrated property assessment system technology expenses.

The bill would also eliminate the current requirement that the Department publish and distribute the Wisconsin property assessment manual to assessors, and that the costs of

publication and distribution be paid by local assessors and others that request a copies of the manual. The current appropriation used to fund the costs of publishing the manual and annual expenditure authority of \$90,300 PR and 1.0 PR position would be deleted, effective July 1, 2008. Instead, DOR would be required to publish the manual in electronic form and on the Internet. Expenses of publishing the property assessment manual in electronic form would be funded from the new IPAS, GPR administration appropriation.

DISCUSSION POINTS

1. SLF includes the Bureau of Assessment Practices and the Bureau of Property Tax.

Bureau of Assessment Practices. The Bureau of Assessment Practices is responsible for establishing uniform assessment standards, certifying local assessors, training assessment personnel, and producing the Wisconsin property assessment manual. The Bureau has base level funding and position authority of \$303,800 GPR, 4.0 GPR positions, \$97,100 PR, and 1.0 PR position.

Bureau of Property Tax. The Bureau of Property Tax is comprised of three sections-- Equalization, Local Government Services, and Manufacturing and Utility Assessment.

Equalization. The Equalization Section establishes equalized property values for towns, villages, cities, and school districts in the state. Equalized values are used to distribute state aids and to allocate county and school district property taxes among jurisdictions. The Section also administers individual property assessment appeals, supervises municipal revaluations, and administers the real estate transfer fee and the tax increment financing program. The Section has base level funding and position authority of \$4,090,400 GPR, 60.4 GPR positions, \$118,900 PR, 2.0 PR positions, \$79,200 SEG, and 1.0 SEG position.

Manufacturing and Utility Assessment. The Manufacturing and Utility Assessment Section assesses all taxable manufacturing and telecommunication company property in the state, and administers the property tax exemptions for manufacturing machinery and equipment and industrial waste facilities. Municipalities are charged a fee to partially offset the cost of manufacturing property assessments. The Section also values and assesses the property of railroad, airline, telephone, and pipeline companies that are subject to state assessment, and administers the gross revenue license fees on light, heat, and power utilities, electric cooperatives, and carline companies. The Section is provided base level funding and position authority of \$2,204,100 GPR, 30.0 GPR positions, \$1,099,000 PR, 13.5 PR positions, \$169,500 SEG, and 2.35 SEG positions.

Local Government Services. The Local Government Services Section administers; (a) the municipal and county aid program; (b) the expenditure restraint aids program; (c) computer aid or state aid for tax exempt property; (d) the school levy tax credit program; (e) the lottery and gaming tax credit program; and (f) the levy limit program. The Bureau also determines and certifies school district and vocational school district equalized values that are used to apportion general property tax levies and general school district and vocational district aids. The Section has base level funding and position authority of \$442,200 GPR, 6.25 GPR positions, \$207,200 SEG, and 2.75 SEG

positions.

2. The base product for the IPAS project is commercial off-the-shelf software as the platform for the system that is modified to perform SLF functions. The IPAS will include functions for: (a) multiple jurisdiction property valuation; (b) assessment administration, including producing notices, letters, and reports; (c) data storage and retrieval from databases, such as parcels and sales, including manufacturing and commercial fielded sales; (d) statistical analysis; (e) query capabilities; (f) data import and export; (g) workflow management, such as appeals tracking, field review, and audits; (h) digital photos and sketches; and (i) Geographic Information Systems (GIS). The first function implemented into the system would be manufacturing property assessment with the Section's fielded sales, commercial sales, and parcel attributes entered into the system. Other system functions would include a database of statewide property sales information that provides access to local assessors, municipal and county officials, and the public; GIS options; equalization functions; and local government services processes.

3. DOR indicates that the system is necessary to upgrade current data processing systems. SLF currently has more than 30 computer systems that are not fully integrated and are more than 20 years old. In addition, increased efficiencies from the IPAS system would offset staff reductions. The Department notes that 58 positions have been eliminated over the last 10 years, and anticipates that over 50% of current staff will retire within the next three years. Administrative efficiencies and savings generated by IPAS would allow staff to meet current workload requirements. Staff has not been able to meet statutory requirements for conducting field audits of manufacturing property using a five-year cycle, and equalization field reviews are performed on a six to 10-year cycle. The system would improve the accuracy and equity of property assessments. IPAS would also improve customer service and provide local officials and the public access to information. The system includes the e-filing of manufacturing assessment forms.

4. IPAS is being implemented between 2005-06 and 2010-11, at an estimated total cost of \$12.9 million. DOR expects to complete its contract with Tyler Technologies to develop and implement Phase 1 of IPAS, which includes upgrading the manufacturing property assessment IT system used by SLF, by late July, 2007. Equalization functions are scheduled to be implemented in Phase 2, while Local Government Services functions are scheduled for Phase 3. DOR will incur related implementation costs for staff support, equipment, and software, particularly in the later stages of development. The Division is also implementing electronic filing for required forms and returns. The related activities are being performed by staff and are not part of the contract. However, the electronic filing system will be integrated into IPAS. Forms and returns that can currently be filed electronically include real estate transfer returns, the board of review training affidavit, the tax increment worksheet, the tax increment final accounting report, the tax increment certification, the computer exemption report, and manufacturing personal and real property forms. Manufacturing leased property forms will be included for 2008 filings. Table 1 shows the phases of implementation and projected cost of IPAS, between fiscal years 2005-06 and 2010-11. The table shows the costs that would be incurred for each phase of development. The use of master leases to pay for system components would extend the payment period until fiscal year 2015-16.

TABLE 1

Integrated Property Assessment System (IPAS) Master Plan

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>Total IPAS</u>
Phase 1							
Manufacturing Assessment	\$144,200	\$630,900	\$150,500	\$79,800	\$91,400	\$0	\$1,096,800
Modifications	0	90,000	30,000	0	0	0	120,000
Phase 2							
Equalization	0	0	618,300	3,303,800	443,600	646,800	5,012,500
Phase 3							
Local Government Services	0	0	0	1,875,000	1,500,000	0	3,375,000
Department Costs	<u>0</u>	<u>82,800</u>	<u>537,700</u>	<u>947,500</u>	<u>859,500</u>	<u>820,400</u>	<u>3,247,900</u>
Total Annual IPAS Costs	\$144,200	\$803,700	\$1,336,500	\$6,206,100	\$2,894,500	\$1,467,200	\$12,852,200

5. The 1997-99 biennial budget provided DOR with funding to develop an integrated tax system (ITS). The system was intended to replace over 30 separate data processing systems with an integrated system that could administer all tax types including individual income, corporate income and franchise, sales and use, excise, and county and local government special taxes, such as the county sales tax. The Department contracted with IBM for phase 1 of ITS, which included development of a business data warehouse that has been used to identify new audit cases. After completing Phase 1, DOR determined that there were improved technology options available that did not exist when the project began. In 2000, DOR offered development of the sales and use tax system to interested companies that had qualified in the original bid on ITS. American Management Systems (AMS) won the bid, and provided the Department with a version of ADVANTAGE Revenue as the platform for implementing the sales and use tax into ITS. Through development and implementation of ITS, the Department has developed or upgraded a number of tax processing systems including, centralized business tax registration, sales tax Internet filing, upgrading tax return scanning, developing the business data warehouse and a SAS data warehouse for businesses and individuals, processing electronic funds transfer and credit card tax payments, corporate income and franchise tax processing, and sales tax Telefile.

The ADVANTAGE-based sales tax system was able to perform a number of functions including processing returns, payments, bills and refunds, and accounting and audit functions. However, beginning from the time the system was implemented in late 2002, software defects continually created problems in administering the sales and use tax through the AMS system. As a result, in January 2007, DOR abandoned use of the AMS Advantage software for sales and use tax administration. Instead DOR has amended a contract with FAST Enterprises to implement the sales and use tax and individual income tax through the GenTax platform. Through fiscal year 2006-07, an estimated \$46.1 million will be spent on development and implementation of DOR's tax processing systems.

6. The current contract with Tyler Technologies, deliverable on July 21, 2007, includes a manufacturing property appraisal system with two options for appraising property: (a) a model for evaluations of property types for which many sales occur; and (b) a detailed sales grid for specialized property for which very few sales occur. The system will have a sketching program for producing sketches of land and buildings. IPAS contains a relational database that will include data on every manufacturing property parcel in the state and sales data from every real estate sale in the state. Data sheets for each property will include sketches, photographs, and Marshall and Swift cost sheets. The database will be used to produce assessment notices, assessment rolls, notification rolls, letters, and to track appeals. Local units of government will be able to access data for import and export. DOR will be able to add economic adjustments to valuations throughout the state, conduct ratio studies on manufacturing properties that are sold, monitor staff production, and perform queries.

7. The Department has limited experience in administering the manufacturing assessment component of the new IPAS system. DOR's experience of delays in implementation and changes in vendors and platform software with the development of ITS shows that it could take a number of years to determine whether each phase of the IPAS system can function properly. The Committee may wish to delete the additional funding to allow DOR time to determine the reliability of the components of the first phase of the IPAS system. If the first components of the system perform as projected, DOR could request funding for development of the system through future budget processes.

8. However, Department staff indicate that continued operation of the current systems could lead to data processing disruptions that could interfere with SLF's ability to administer its manufacturing assessment, equalization, and local government services responsibilities. The current systems often require manual modifications to incorporate law changes. Data must be manually entered into different systems multiple times. Staff reductions and retirements have left the Division with a limited number of individuals who are capable of operating the modified data processing systems, many of whom will retire over the next few years. Sophisticated statistical analysis cannot be performed by the current property assessment systems. Many counties and municipalities with newer generation computer systems cannot access data on the Department's systems.

9. SLF currently produces the Wisconsin Property Assessment Manual to assist assessors to implement best practices in their work. The Manual is only provided in hard copy and sold on a subscription basis and revenues are placed in the Wisconsin Property Assessment Manual program revenue appropriation. As noted, the appropriation has base level funding of \$90,300 PR and 1.0 PR position. The manual costs \$200 for Volume 1, \$120 for Volume 1 Revisions, and \$517.20 for Volume 2. Only assessors who sign the local assessment roll are required to purchase the Wisconsin Property Assessment Manual. In 2006, there were 244 subscribers for the manual.

10. The Department indicates that the cost of the Wisconsin Property Assessment Manual prevents many individuals who could benefit from information in the manual, such as local Board of Review members, manufacturers, and other property owners, from obtaining useful information. In addition, there is currently not sufficient revenue generated by subscriptions to offset

DOR's publishing costs. The table below shows the projected revenues, expenditures, and year-end appropriation balances, for 2007-08 and 2008-09, for the Wisconsin Property Assessment Manual appropriation. The table shows that the appropriation is expected to have a deficit of \$220,390 at the beginning of the 2007-09 biennium and that the 2008-09 year-end balance in the appropriation would be -\$297,390.

TABLE 2

Wisconsin Property Assessment Manual Appropriation Balance

	<u>2007-08</u>	<u>2008-09</u>
Opening Balance	-\$220,390	-\$257,390
Revenues	50,000	50,000
Receivable	<u>3,500</u>	<u>600</u>
Total Revenues	-\$166,890	-\$206,790
Expenditures	\$90,500	\$90,600
Closing Balance	-\$257,390	-\$297,390

11. The bill would eliminate the program revenue funding and position, the requirement that the Wisconsin Property Assessment Manual be published in hard copy, and the requirement that it be purchased by local assessors. Instead, annual funding of \$90,300 GPR and 1.0 GPR position would be provided for producing the Wisconsin Property Assessment Manual on the Internet with free access to local and municipal officials and the public. The Department believes that this would allow all those who could benefit to have access to the manual. Local assessors would continue to use the manual to achieve best practices. If the program revenue appropriation was eliminated, the deficit in the Wisconsin property assessment manual would be offset by the GPR funding provided for IPAS and the manual.

12. Under current law, DOR is required to submit a report to the Joint Committee on Finance with revenue and expenditure information about the deficit in the property assessment manual appropriation. In addition, DOR must submit a plan for addressing the deficit to the Department of Administration.

ALTERNATIVES TO BILL

1. Adopt the Governor's recommendation to provide \$2,700,000 GPR and 1.0 GPR position to fund and administer development and implementation of an Integrated Property Assessment System and create an annual GPR appropriation for funding integrated property assessment system technology expenses. In addition, eliminate the current requirement that the Department publish and distribute the Wisconsin property assessment manual to assessors, and that the costs of publication and distribution be paid by local assessors and others that request a copies of

the manual. Delete the current appropriation used to fund the costs of publishing the manual and annual expenditure authority of \$90,300 PR and 1.0 PR position, effective July 1, 2008. Instead, require DOR to publish the manual in electronic form and on the Internet, and provide support from the IPAS appropriation.

ALT 1	Change to Bill		Change to Base	
	Funding	Positions	Funding	Positions
GPR	\$0	0.00	\$5,400,000	1.00
PR	<u>0</u>	<u>0.00</u>	<u>- 180,600</u>	<u>- 1.00</u>
Total	\$0	0.00	\$5,219,400	0.00

2. Delete provision.

ALT 2	Change to Bill		Change to Base	
	Funding	Positions	Funding	Positions
GPR	-\$5,400,000	- 1.00	\$0	0.00
PR	<u>180,600</u>	<u>1.00</u>	<u>0</u>	<u>0.00</u>
Total	-\$5,219,400	0.00	\$0	0.00

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