



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #449

### Aids in Lieu of Property Taxes Formula (DNR -- Departmentwide)

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#### CURRENT LAW

2011 Act 32 specifies that, for lands purchased after July 1, 2011, the aids in lieu formula is adjusted so that estimated value means either the lower of the equalized value of the property in the year prior to purchase by DNR or the purchase price (instead of the purchase price, as under prior law). In cases where the property had been previously tax exempt, the calculation of estimated value is first based on the lower of either: (a) the purchase price; or (b) the last recorded equalized value, or a payment of \$10 per acre, whichever amount is greater.

#### GOVERNOR

No provision.

#### DISCUSSION POINTS

1. In most cases, aids in lieu payments to municipalities based on purchase price under the formula prior to 2011 Act 32 substantially exceeded revenues previously generated by property taxes. Under prior law, when the DNR property being purchased was: (a) exempt from local property taxes (such as when owned by certain nonprofits or public utilities), (b) subject to preferential tax treatment (such as under the managed forest law or agricultural use value), or (c) had a purchase price that exceeded the local assessed value, transferring the property to DNR resulted in a net gain in revenues for the affected local governments.

2. To address these potential overpayments, the modified formula created by 2011 Act 32 intended to provide local governments with an amount more closely approximating the lost level of tax revenue. At the time, it was believed that land purchased by the Department that was enrolled in the forest crop law (FCL) or managed forest law (MFL) programs would be subject to the tax

exempt provision and the calculation of estimated value would therefore result in a payment not exceeding \$10 per acre. However, while land enrolled in FCL and MFL is subject to preferential tax treatment, it is not technically considered tax exempt. Further, FCL and MFL continue to be assigned assessed values. As a result, aids in lieu of taxes payments for FCL or MFL parcels purchased by the Department are typically calculated based on the full assessed value. This generates significantly greater amounts to the local government than typically received in payments under the FCL or MFL programs. For example, the Department of Revenue estimates that local governments received approximately \$2.10 per acre on average in MFL fees in 2011-12 (80% to towns and 20% to counties), versus approximately \$33 per acre for similar forest lands not in the program.

3. In order to conform to the original intent of Act 32, the formula for lands acquired after July 1, 2011, could be amended to specify that in cases where the property had been tax exempt in the year prior to the year during which DNR purchased the land, or enrolled in the FCL or MFL program at the time of purchase, estimated value means the lesser of either the purchase price or an amount that would result in a payment of \$10 per acre (Alternative 1). The current law definition of estimated value as the lower of either the equalized value of the property in the year prior to purchase by DNR or the purchase price would remain for all other land purchases after July 1, 2011. This would ensure that the aids in lieu of taxes payments for lands previously enrolled in the FCL or MFL programs would more closely resemble the payment amounts received by the local jurisdiction under the forest tax law programs. While the \$10 per acre payment is higher than the amount local governments would have received under the FCL or MFL programs, it was chosen to reflect the fact that FCL and MFL orders expire (MFL orders last 25 or 50 years) and may, or may not, be renewed. Parcels that are not renewed in MFL would return to the property tax rolls.

4. As aids in lieu of property taxes are paid on property the tax year after they are purchased, the effect of the corrected formula would be expected to be minor during the 2013-15 biennium (although fiscal year 2012-13 payments were made for property acquired through December 31, 2011, which included six months of fiscal year 2011-12 acquisitions). Based on Department records, were this modification to have been in place, the Department would have paid at least \$6,500 less in aids in lieu of taxes payments in fiscal year 2012-13. However, maintaining the current treatment would continue to increase future payments as additional forest tax law lands were acquired. For example, fiscal year 2013-14 payments will include payments for lands acquired through December 31, 2012. These included two acquisitions with purchase prices exceeding \$250,000. The purchases included a 540 acre parcel in Oneida County and a 60 acre parcel in Polk County. Both parcels were enrolled in the MFL program at the time of purchase. The following table shows estimated aids in lieu of taxes payments for these parcels under the current formula and under the modified formula (Alternative 1).

**Examples of MFL Parcels Purchased by DNR Including Estimated Aids in Lieu of Taxes Payments Under Current Law and Under the Modified Formula**

<u>Parcel Description</u>	<u>Acres</u>	<u>Purchase Price</u>	<u>Prior Year MFL Fees Paid to Local Unit of Government</u>	<u>Estimated Aids in Lieu of Taxes Payment Under Current Formula</u>	<u>Estimated Aids in Lieu of Taxes Payment Under \$10 Per Acre Modified Formula (Alternative 1)</u>	<u>Difference to Current Formula</u>	<u>Difference to Local Governments</u>
Oneida County Northern-Highland American Legion State Forest	540	\$797,000	\$1,434 (\$2.65 per acre)	\$8,200 (\$15.19 per acre)	\$5,400 (\$10 per acre)	-\$2,800 (\$5.19 per acre)	\$3,966 (\$7.35 per acre)
Polk County Governor Knowles State Forest	60	\$252,000	\$200 (\$3.33 per acre)	\$2,319 (\$38.65 per acre)	\$600 (\$10 per acre)	-\$1,719 (\$28.65 per acre)	\$400 (\$6.67 per acre)

**ALTERNATIVES**

1. Modify the formula for the calculation of aids in lieu of taxes payments made beginning in 2014 for lands purchased after July 1, 2011, by defining the estimated value of the property, in cases where the property had been tax exempt in the year prior to acquisition or enrolled in the forest cropland or managed forest law program, to be the lower of either: (a) the purchase price, or (b) or a payment of \$10 per acre. In all other cases for land purchased after July 1, 2011, estimated value would continue to mean the lower of the equalized value of the property in the year prior to purchase by the Department or the purchase price (as currently provided in statute). The amount determined under this formula would continue to be adjusted annually to reflect changes in the equalized valuation of all land, excluding improvements, in the taxation district.

2. Maintain the current law aids in lieu of taxes payment formula (forest tax law program lands would continue to receive payments at higher rates).

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