



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: <http://legis.wisconsin.gov/lfb>

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Joint Committee on Finance

Paper #673

Manufacturing Property Assessment Specialists and Local Government Services Position (Revenue -- Tax Administration)

[LFB 2023-25 Budget Summary: Page 545, #10 and #11]

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; and (d) providing financial management and technical assistance to municipal and county governments. The Division also administers the state shared revenue program, property tax relief programs, payments for municipal services, the lottery credit program, and the tax incremental financing (TIF) program. Finally, the Division oversees local property assessments and certifies assessment personnel. DOR allocates base level funding of \$13,608,100 (\$11,223,500 GPR, \$1,780,900 PR, and \$603,700 SEG) and position authority of 111.50 FTE positions (92.75 GPR, 14.50 PR, and 4.25 SEG) to SLF.

SLF is comprised of the Office of Technical and Assessment Services and three Bureaus; Equalization, Local Government Services, and Manufacturing & Utility.

Office of Technical and Assessment Services. The Office of Technical and Assessment Services provides support to the other three bureaus in SLF to achieve statutory processes performed by each bureau. The Office provides various technical services, such as processing tax incremental district (TID) creations, boundary modifications, project plan changes, and terminations, and collecting and posting TID annual reports. DOR allocates base level funding and position authority of \$3,976,900 GPR and \$209,700 PR and 16.0 GPR and 2.0 PR positions to the Office.

Equalization Bureau. The Equalization Bureau annually determines the full market value of all taxable real estate and personal property for all taxation districts and TIF districts in the state. The Bureau also measures assessment compliance with state laws, reviews chargebacks and omitted requests submitted to DOR, and administers assessment appeals. DOR allocates base level funding and position authority of \$3,625,400 GPR and \$273,500 PR and 39.5 GPR positions to the Equalization Bureau.

Local Government Services Bureau (LGS). LGS calculates and distributes shared revenue and state aids to local governments and administers various property tax credit programs. These aids and credits include: (a) county and municipal aid; (b) utility aid; (c) expenditure restraint program aid; (d) exempt computer aid; (e) personal property aid; (f) video service provider aid; (g) lottery and gaming credits; (h) the first dollar credit; and (i) the school levy tax credit. The Bureau also determines and certifies equalized values for each municipality, count, school district, technical college, and special district and administers the real estate transfer fee and county and municipal levy limit programs. DOR allocates base level funding and position authority of \$1,102,100 GPR, \$32,800 PR, and \$325,300 SEG and 9.75 GPR and 2.25 SEG positions to LGS.

Manufacturing and Utility Bureau. The Manufacturing and Utility Bureau 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. The Bureau 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. Finally, the Bureau reviews manufacturing assessment appeals submitted to the Board of Assessors. DOR allocates base level funding and position authority of \$2,519,100 GPR, \$1,264,900 PR, and \$278,400 SEG and 27.5 GPR, 12.5 PR, and 2.0 SEG positions to the Manufacturing and Utility Bureau.

DISCUSSION POINTS

1. Under AB 43/SB 70, the Governor recommends providing an additional 5.0 FTE to SLF to assist with administering the Division's statutory duties under current law. Specifically, AB 43/SB 70 would provide \$140,100 GPR and \$140,100 PR in 2023-24 and \$171,100 GPR and \$171,100 PR in 2024-25 and 2.0 GPR and 2.0 PR positions annually to DOR's Manufacturing and Utility Bureau to ensure more timely and accurate manufacturing property assessments under current law [Alternative 1]. In addition, the Governor recommends providing \$67,400 GPR in 2023-24 and \$81,800 GPR in 2024-25 and 1.0 GPR position annually to DOR's Local Government Services Bureau to help LGS meet its statutory deadlines for programs it administers [Alternative 2]. The Committee could adopt Alternatives 1 and 2 together to enhance staffing at both bureaus.

2. The Administration states that recent increases in workloads and decreases in available resources prevent DOR from meeting its statutory five-year review period for state-assessed manufacturing properties. DOR indicates that the Manufacturing and Utility Bureau had 59 positions in 2000-01. In contrast, current base level position authority for the Bureau is 42 positions (a decrease of 29%). During that same period, the number of personal property accounts managed by DOR

similarly decreased from 10,926 to 8,584 (-21%) and real property parcels decreased from 12,474 to 10,251 (-18%). However, annual Board of Assessors (BOA) appeals increased 138%, from 97 in 2000-01 to 231 in 2021-22.

3. The Manufacturing and Utility Bureau's 42 positions currently consist of: (a) 32 property assessment specialists; (b) one Bureau director, who also serves as the BOA chairperson; (c) four supervisors, who are also BOA members and are allocated to each of the four district offices (located in Madison, Milwaukee, Green Bay, and Eau Claire); (d) three revenue auditors, who administer state utility taxes; and (e) two property assessment technicians, who support the property assessment specialists with administrative work.

4. According to DOR, the average property assessment specialist completes 50-60 field audits per year. Therefore, it is estimated that these 32 individuals are able to complete between 1,600 and 1,920 field audits per year. DOR indicates that one field audit is needed to review both the real estate and personal property of a company. However, 1,392 of the personal property accounts managed by DOR do not have a corresponding real property parcel, resulting in a total of 11,643 field audits required for the accounts managed by DOR. Given that DOR is statutorily required to review every state-assessed manufacturing property every five years, that equates to roughly 2,330 reviews per year. The number of reviews actually conducted by property assessment specialists is lower than the amount necessary to achieve the current law statutory deadlines by 400 to 750 field audits per year.

5. Additionally, property assessment specialists are also responsible for reviewing BOA appeals and preparing reports based on their findings. DOR indicates that the time commitment for DOR staff varies by type of appeal, with penalty appeals requiring around four hours, classification appeals requiring around eight hours, real estate valuation appeals requiring 20 to 40 or more hours, and personal property valuation appeals requiring around 20 hours each. In 2022, DOR received one penalty appeal, 10 classification appeals, 117 real estate valuation appeals, and 103 personal property valuation appeals. It is possible that the review of an appeal will result in a new field audit (in addition to the statutorily-required audits) to verify the original assessment.

6. Although the number of personal property accounts and real estate parcels managed by Manufacturing and Utility Bureau staff has decreased since 2000-01, DOR indicates that office closures (in Fond du Lac and Southeast Wisconsin) have increased the average time and cost required to visit each property for field review. DOR has also seen an increase in BOA appeals, which has increased the amount of time property assessment specialists must spend reviewing appeals rather than conducting field audits.

7. Further, appellants can object to BOA determinations and forward the appeal to another entity. DOR indicates that there are currently 618 cases pending at the Tax Appeals Commission, 29 at the Appeals Court, two in Circuit Court, and one at the Wisconsin Supreme Court. According to DOR, responding to these cases requires a significant time commitment from SLF staff.

8. DOR indicates that meeting or exceeding the five-year field review schedule would result in more timely, accurate assessments and fewer omitted property assessments. The four property assessment specialists included in AB 43/SB 70 are estimated to increase the Manufacturing

and Utility Bureau's field audit count by 200 to 240 audits per year. While the additional four positions would result in more timely assessments, DOR states that this increase would not be enough to fully address the current shortfall in annual field audits conducted to meet the statutory deadlines.

9. The 2023-25 Legislature has introduced legislation that would eliminate the personal property tax (AB 2/SB 2). However, SLF does not anticipate that this would reduce its need to review personal property tax accounts due to the calculation of the manufacturing and agriculture income tax credit (MAC). Under current law, the MAC is provided to offset state income tax liability of income derived by manufacturers based on the share of a manufacturer's real and/or personal property located in Wisconsin (relative to all property). In order to administer the MAC, it is anticipated that SLF would continue to conduct field audits of manufacturing personal property to ensure Wisconsin manufacturers that own or lease personal property in the state remain eligible for the credit.

10. DOR shared its 2023 process outline for LGS, which included its deadlines for more than 200 processes that the Bureau is responsible for completing during the year. According to DOR, the current workload assigned to LGS is beyond its capacity and the Bureau is in need of additional auditors to meet its statutory deadlines related to the administration of shared revenue, property tax credits, county and municipal levy limits, equalized values, and other programs. The Administration indicates that providing a new revenue auditor position would improve customer service to local governments and assist in the administration of shared revenue, property tax credits, and other LGS-assigned programs.

11. LGS currently is provided 10 revenue auditors, which is one fewer than was authorized for DOR in 2000-01. Further, during the last three biennia, several new programs, responsibilities, and procedural changes were implemented within LGS, including: (a) creation of personal property aid; (b) creation of, and subsequent changes to, video service provider aid; (c) creation of fallen officer insurance premium adjustments to shared revenue; (d) various new levy limit annual adjustments; and (e) modifications and adjustments to the expenditure restraint program. The Legislature is considering significant modifications to the state shared revenue and local government aid programs under 2023 AB 245. To the extent AB 245 would increase workload for LGS, the additional auditor position could help offset this effect.

12. Finally, the Committee could determine that the current level of staffing for SLF is sufficient and take no action [Alternative 3].

ALTERNATIVES

1. Provide \$140,100 GPR and \$140,100 PR in 2023-24 and \$171,100 GPR and \$171,100 PR in 2024-25 and 2.0 GPR and 2.0 PR positions annually to DOR's Manufacturing and Utility Bureau. [This alternative can be adopted in conjunction with Alternative 2.]

ALT 1	Change to Base	
	Funding	Positions
GPR	\$311,200	2.00
PR	<u>311,200</u>	<u>2.00</u>
Total	\$622,400	4.00

2. Provide \$67,400 in 2023-24 and \$81,800 in 2024-25 and 1.0 position annually to DOR's Local Government Services Bureau. [This alternative can be adopted in conjunction with Alternative 1.]

ALT 2	Change to Base	
	Funding	Positions
GPR	\$149,200	1.00

3. Take no action.

Prepared by: Sydney Emmerich