



## Fiscal Estimate Narratives

DOR 12/5/01

LRB Number 01-3539/1	Introduction Number AB-647	Estimate Type Original
Subject Appeals of property taxes imposed on manufacturing property		

### Assumptions Used in Arriving at Fiscal Estimate

Under current law, manufacturing property owners may contest the valuation of their property to the state board of assessors; appeal of decisions by the board of assessors are made to the tax appeals commission. Tax appeal commission decisions may be appealed to the circuit court for Dane County.

Under current law, if a reviewing authority has not completed its work with respect to a particular objection prior to the time the property tax is extended, the tax levy is based on the contested assessed value of the property. If the reviewing authority subsequently reduces the valuation of property, the taxpayer may file a claim for a refund. Interest on the refund is paid at the rate of 0.8% per month. The municipality may charge back to the other taxing jurisdictions their share of the refund but cannot charge back the interest paid.

Under the bill, a municipality may pay the refund for manufacturing claims in five annual instalments if the following conditions are met:

- 1) The municipality's property tax levy for general obligations for the year for which the taxes are to be refunded is less than \$100 million;
- 2) The refund is at least 0.25% of the municipality's levy for its general operations; and
- 3) The refund is more than \$10,000.

Each instalment, except the final one, must be equal to 20% of the sum of the refund and interest. Under the bill, the annual rate of interest is 10% or the rate determined by the last auction of six-month U.S. treasury bills, whichever is less.

Under the bill, the department of administration shall refund municipalities for interest costs paid for refunds on manufacturing property due to reduced valuation by a reviewing authority.

The bill would allow municipalities, except for the cities of Madison and Milwaukee, to spread the cost of sizable manufacturing property tax refunds over five years.

The interest paid on manufacturing refunds would be tied to six-month U.S. treasury bills. According to the November 29, 2001 Wall Street Journal, the annual yield on a six-month U.S. treasury bill is 1.91%. Assuming a 2% annual rate of interest for a \$100,000 refund with interest accruing for one year, a refund paid in equal instalments over five years, the bill would result in the attached payment schedule.

Thus, the total interest paid under the bill would be \$6,080 over five years compared to \$9,600 ( $\$100,000 \times 0.8\% \times 12$  months) paid in one year under current law. Interest costs would rise as the discount rate for six-month treasury bills increases. For example, a discount rate of 5% on six-month U.S. treasury bills would result in total interest costs of approximately \$15,500 compared to \$9,600 under current law.

Municipalities would be reimbursed for interest on manufacturing property tax refunds resulting from a reduced valuation by a review authority. However, the state would not reimburse interest paid on refunds resulting from claims of unlawful tax or excessive assessment or for interest accrued after the date of the determination by the tax appeals commission. Thus, if a municipality chooses to refund manufacturing property taxes in instalments over five years, the state would reimburse the municipality for the first year's interest payment only.

Data are not available to estimate total interest costs statewide; however, the total state costs are not expected to be significant.

### Long-Range Fiscal Implications

**AB 647: Payment Schedule for \$100,000 Refund  
12 Months Interest, 5-Instalments**

<u>Instalment</u>	<u>Outstanding Refund</u>	<u>Annual Interest Payment</u>	<u>Instalment Amount</u>
1	\$ 100,000	\$ 2,000	\$ 21,216
2	80,784	1,616	21,216
3	61,184	1,224	21,216
4	41,192	824	21,216
5	20,800	416	21,216
<b>TOTAL:</b>		\$ 6,080	\$ 106,080

## Fiscal Estimate Worksheet - 2001 Session

Detailed Estimate of Annual Fiscal Effect

Original     
  Updated     
  Corrected     
  Supplemental

LRB Number <b>01-3539/1</b>	Introduction Number <b>AB-647</b>
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**Subject**  
 Appeals of property taxes imposed on manufacturing property

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

<b>II. Annualized Costs:</b>	<b>Annualized Fiscal Impact on funds from:</b>	
	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		
<b>TOTAL State Costs by Category</b>	<b>\$</b>	<b>\$</b>

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, etc.)**

	Increased Rev	Decreased Rev
GPR Taxes	\$	\$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
<b>TOTAL State Revenues</b>	<b>\$</b>	<b>\$</b>

NET ANNUALIZED FISCAL IMPACT		
	State	Local
NET CHANGE IN COSTS	\$See text of fiscal note.	\$See text of fiscal note.
NET CHANGE IN REVENUE	\$	\$

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