

Fiscal Estimate - 2013 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 13-1715/4	Introduction Number AB-0598	
Description Changing the method for charging interest that may be charged on special assessments and changing the interest rate paid on claims for certain unlawfully assessed property taxes and creating an exception for local levy limits		
Fiscal Effect		
State: <input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate <input type="checkbox"/> Increase Existing Appropriations <input type="checkbox"/> Increase Existing Revenues <input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input type="checkbox"/> Decrease Existing Appropriations <input type="checkbox"/> Decrease Existing Revenues <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Create New Appropriations <input type="checkbox"/> Decrease Costs		
Local: <input type="checkbox"/> No Local Government Costs <input checked="" type="checkbox"/> Indeterminate 1. <input type="checkbox"/> Increase Costs 3. <input type="checkbox"/> Increase Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 2. <input type="checkbox"/> Decrease Costs 4. <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 5. Types of Local Government Units Affected <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities <input type="checkbox"/> Counties <input type="checkbox"/> Others <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts		
Fund Sources Affected Affected Ch. 20 Appropriations <input type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS		
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Fiscal Estimate Narratives

DOR 1/29/2014

LRB Number	13-1715/4	Introduction Number	AB-0598	Estimate Type	Original
Description Changing the method for charging interest that may be charged on special assessments and changing the interest rate paid on claims for certain unlawfully assessed property taxes and creating an exception for local levy limits					

Assumptions Used in Arriving at Fiscal Estimate

SPECIAL ASSESSMENTS

Under current law, a local governmental unit may allow a special assessment imposed to pay for public improvements to be paid in installments. The local governmental unit may impose interest on the unpaid balance, but current law does not stipulate a maximum rate of interest that may be charged.

Under the bill, installment payments for a special assessment are structured by the local governmental unit's governing body. The interest rate is set by the governing body and may include an administrative fee of up to two percent, but the bill prohibits the interest rate from being changed during the course of the installment payments.

The proposal will provide more flexibility to local governmental units in structuring installment payments, and the additional two-percent administrative fee may create additional revenue for the local governmental units. In 2012, the state-wide total of special assessments was approximately \$42.64 million, and interest from unpaid special assessments was approximately \$4.85 million for the same year. The City of Madison, for example, charged 2.50 percent on the unpaid special assessment balance in 2012. If all municipalities that allowed installment payments are assumed to have imposed interest at 2.50 percent on the unpaid balances, the total unpaid balance was estimated to be approximately \$193.95 million ($\$4.85 \text{ million} / 2.50 \text{ percent}$), and the total administrative fee would have been approximately \$3.88 million ($\$193.95 \text{ million} \times 2 \text{ percent}$) in 2012.

INTEREST PAID ON CLAIMS OF UNLAWFUL PROPERTY TAXES

Under current law, if a taxpayer is aggrieved by an unlawful property tax assessed against his or her property, the taxpayer may file a claim against the taxation district to recover the unlawful tax. If the claim prevails, the recovery on the claim may include interest at 0.8 percent per month from the date the claim was filed. On an annualized basis, the 0.8 percent per month is about 10.03 percent.

Under the bill, the interest rate that would be applied on a claim for an unlawful property tax is changed to the average annual discount rate determined by the last auction of 6-month U. S. treasury bills held before the claim was filed. (This is the same rate applied under current law on claims on excessive assessment.) On January 23, 2014, the most recent auction for 6-month treasury bills produced a discount rate of 0.055 percent, which produces an annual interest rate of 0.11 percent.

The bill therefore would reduce the annual interest rate paid on claims on unlawful property taxes from 10.03 percent to 0.11 percent, for a reduction of about 99 percent. Municipalities and counties file an annual financial report form with the Department of Revenue (DOR) that includes a line for expenditures for "illegal taxes, tax refunds and uncollectible taxes, special assessments". Details on the amounts for interest, unlawful property taxes, and excessive assessments are not separately reported. The total amount reported for 2012 was about \$4.6 million. For purposes of this fiscal note, it assumed that about 5% of this amount, or \$230,000, is for interest on unlawful property taxes. Thus, the bill is expected to reduce interest costs on claims on unlawful taxes by about \$228,000 ($\$230,000 \times 0.99$) per year at current rates.

LEVY LIMIT EXCEPTION

Under current law, the property tax levy of a municipality or county is subject to a limit. Current law permits certain exceptions and adjustments to the limit. Under one of these exceptions, the limit does not apply to the amount levied by a municipality or county to make up any revenue shortfall for the debt service on a revenue bond issued by that municipality or county.

Under the bill, an exception to the levy limit is created for any levy needed to make up a revenue shortfall for the debt service on a special assessment "B bond".

A "B bond" is issued for the purpose of anticipating the collection of special assessments to be paid in installments. Special assessment installments are billed to property owners on their property tax bills and collected as part of the property tax settlement process. In theory, "B bonds" are repayable solely from the amounts collected in the property tax settlement process. However, if the amount collected is insufficient to fully make a "B bond" installment, the governing board may appropriate funds out of the annual tax levy to make up the shortfall in available funds. The amount of "B bonds" outstanding, and annual payments on "B bonds" are not reported by municipalities and counties on any of the forms they are required to file with the DOR.

Special assessments are normally payable with the first installment of property taxes. For the 2012/13 property tax year, about \$42.64 million in special assessments were billed to taxpayers as previously mentioned. Data from the treasurer's settlement sheet indicate that about 16 percent of special assessments, or about \$6.88 million ($\$42.64 \text{ million} \times 16 \text{ percent}$) are not paid by the end of January. Assuming that about 33 percent of this amount remains unpaid after the last property tax installment is due, about \$2.3 million ($\$6.88 \text{ million} \times 33 \text{ percent}$) remains for collection in the delinquent tax collection process.

The total levy limit for municipalities for the 2013/14 property tax year was about \$2.265 billion. Assuming the entire \$2.3 million was for "B bonds", the revenue limit for municipalities in 2013/14 would have increased by about 0.10 percent ($\$2.29 \text{ million} / \2.265 billion).

The actual amount of the increase in the levy limit is likely to be lower since not all of the unpaid special assessments were imposed to make payments on "B bonds".

Administrative costs related to the bill can be absorbed within current budgetary resources.

Long-Range Fiscal Implications