



ASSESSOR'S OFFICE

Steve Miner
Assessment Commissioner

Peter Bronek
Chief Assessor

**City of Milwaukee Testimony on AB 771/SB 726
January 29, 2020
Senate Committee on Agriculture, Revenue, & Financial Institutions**

The City of Milwaukee is opposed AB 771/SB 726 because it broadens the law to allow a church (or religious organization) to remain exempt when it leases its property to a tax exempt educational institution regardless of how the church uses the leasehold income. Current law only allows that income to be used specifically for the maintenance of the building or for debt retirement.

The legislative archive suggests this was likely done to ensure that tax exempt organizations would not become real estate investors--owning exempt property and then using rental income to acquire more property and thus, competing in the private marketplace with for-profit business or individuals who are required to pay taxes.

We are generally opposed to any expansion of property tax exemptions because it further erodes the tax base. As stated in the Wisconsin Property Assessment manual, "the more exceptions allowed, the more inequitable becomes the apportionment of the tax burden. The continuous removal of real property from taxation thus imposes a particular hardship upon local government and the citizen taxpayer." Obviously, when one entity does not pay taxes, the tax burden is shifted to all other property taxpayers and any expansion places an additional burden on homeowners who are already bearing more than their fair share.

The City recently undertook a review of all tax exempt properties to ensure that current operations complied with the law. Through that process it was discovered that many properties were generating income and deemed taxable. Under the bill, the City of Milwaukee would lose an additional \$6,743,400 in its tax base which would result in \$175,105 lost property tax revenue, year after year. Also, the annual \$175,105 would represent a minimum amount lost as the City is aware that additional churches have leased or intend to lease their vacant buildings to schools.

There is a larger issue at play here that must be addressed. As reported by DOR in 2019, the total estimated value of exempt property in Wisconsin was approximately **\$31,129,349,000** in 2018. Of this amount, the "religious" category was **\$10,795,668,000** or approximately 34.68% of all exempt value. The report goes on to say that if exempt **private** property had been placed on the tax roll in 2017-2018, the statewide average net property tax rate would have declined by 8.77%. For cities, the average reduction in tax rate would have been approximately 12.47%.

There is a disproportionate amount of property tax exemptions in Milwaukee relative to the rest of the State—it is estimated that as much as 1/3 of City land is tax exempt. Tax rates would not be as high if fewer property tax exemptions were allowed. According to the Institute for Wisconsin's Future, "there is no one silver bullet that repairs the entire system, but one aspect of the tax system that contributes to these problems is the substantial number of properties that are taxed below their value or not taxed at all." "...it is crucial that Wisconsin reform the way that exemptions are adopted. The list of tax exemptions grows every year."

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In the last five years, the Assessor's Office has had to grant new property tax exemptions to approximately 275 parcels. For 2019 alone, the additional value lost due to these newly granted exemptions amounted to \$60,567,377. This equates to approximately \$1,578,870 **in additional** lost property tax revenue for the 2019 tax year. Of course, for each year those properties remain exempt, the loss in revenue continues.

The solution here is really quite simple. It is not to expand the property tax exemption. Rather, the solution is for the religious institution to follow current law and modify their leases to only charge the school for the cost of maintaining the building or for debt retirement or to file a claim of unlawful taxation against the City. Many other schools operated by religious organizations were assessed and taxed for not being compliant with current law and those religious organizations drafted revised leases, applying leasehold income to maintenance of their leased spaces. Those property owners have had the status of their properties returned to exempt after taking the necessary steps to qualify.

The City of Milwaukee respectfully requests that you oppose AB 771/SB 726 because there are already too many property tax exemptions and further expansion is an erosion of the tax base and leads to a shift in the property tax burden to other taxpayers in the City of Milwaukee many of whom already have difficulty paying their bills.

Thank you for your consideration.

For questions or additional information, please contact:
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HOWARD MARKLEIN

STATE SENATOR • 17TH SENATE DISTRICT

January 29, 2020

Senate Committee on Agriculture, Revenue & Financial Institutions Testimony on Senate Bill 726

Good Morning!

Thank you committee members for hearing Senate Bill 726 (SB 726) that makes minor changes to the statutes regarding a tax exempt entity leasing property to another tax exempt entity.

Simply stated, if a church owns the property, it is tax exempt. If a school owned the property it would be tax exempt. The property should not become taxable when one tax exempt entity leases it to another tax exempt entity.

Property owned and used exclusively by educational institutions and churches or benevolent associations as described in state statute 70.11(4) are generally exempt from the property tax. Under state statute 70.11 property that is exempt from taxation does not become taxable when it is leased to other exempt organizations under the following conditions:

- All of the leasehold income must be used for maintenance of the leased property, construction debt retirement of the leased property, or both.
- The lessee would be exempt from taxation if it owned the property, and the lessee does not discriminate based on race.

The leasehold income restrictions have recently resulted in the taxation of school facilities that in the past have been exempt from taxation. There are limited exceptions in the statute that preserve the tax exempt status of the property, regardless of how the lessor uses the leasehold income.

SB 726 would maintain the tax exempt status for property that is owned by a church or religious organization and leased to an educational association or institution, regardless of how the lessor uses the leasehold income.

Thank you again for hearing SB 726, and your timely action on this proposal.



ROBERT WITTKÉ

STATE REPRESENTATIVE • 62nd ASSEMBLY DISTRICT

Testimony of State Representative Robert Wittke
Senate Bill 726
Senate Committee on Agriculture, Revenue and Financial Institutions
January 29, 2020

Chair Marklein and Committee Members:

Thank you for holding a public hearing today on Senate Bill 726. This bill would allow the leasing of all or part of a property owned by a church or religious association or institution to an educational association or institution currently exempt from property taxes.

Recently it was brought to my attention that changes made to Wis. Stat. Section 70.11 as to how a lessor may use leasehold income has resulted in the taxation of school facilities that have historically been exempt from taxation. As a result these increased costs have been passed on to students and their families.

The intent of the law was clear in 1955, when the Legislature revised Wis. Stat. 70.11 (4) to require that property be both owned, and used, by an exempt organization in order to qualify for property tax exemption. The passage of Senate Bill 726 would support the original intent of the law.

Again, thank you for holding this hearing today. I will be happy to answer any questions committee members may have.