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# THOMAS WEATHERSTON

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STATE REPRESENTATIVE • 62<sup>ND</sup> ASSEMBLY DISTRICT

**Testimony on AB 522 before the Committee on State and Local Finance  
January 8, 2014**

Chairman Stroebel and members, thank you for holding this hearing on AB 522, the Fair Distribution of Payment for Services bill.

Increasingly, municipalities have been striking deals with non-profit entities for what is called a “payment for services” agreement. These agreements give the municipalities revenue to replace property taxes, but the counties and schools receive nothing. Municipalities are in the driver’s seat in these negotiations, because the assessor, a municipal employee or contractor, determines if a property qualifies as tax-exempt. There is a concern that some properties that may not normally qualify for tax-exempt status are granted it if they have negotiated a deal. Appealing an assessor’s decision would require a great deal of time and money, which means that many non-profits find it cheaper to make a deal than to fight a court battle.

Properties are increasingly being taken off the property taxes rolls across the state. A recent newspaper article stated that nearly 23 percent of the City of Green Bay is exempt from taxes. It is likely that the number of “payment for service” agreements will only increase in the years to come as local governments look for additional sources of revenue. This results in a shifting of the tax burden that will only become more pronounced as time goes on.

For example, the City of Racine recently struck a deal with the owner of two apartment complexes in the city that applied for tax-exempt status. To avoid a court battle, the owner entered into a “payment for services” agreement that was worth roughly \$140,000 annually, nearly what the city would have received in property tax payments. Conversely, in 2011 the Racine Unified School District received nearly \$40,000 from one of these apartment buildings, while next year the school district will receive nothing.

This bill requires all payments received from a “payment for services” agreement be divided among each taxing jurisdiction in the same proportion as property taxes. The provisions of the bill would only apply to agreements entered into after it becomes law, and would not retroactively affect any existing agreements. Further, the bill does not affect charges assessed to a non-profit by a utility.

Thank you again for listening and I look forward to answering your questions.



OFFICE OF THE COUNTY EXECUTIVE

# *Milwaukee County*

CHRIS ABELE • COUNTY EXECUTIVE

***Testimony of Eric Peterson, on behalf of Milwaukee County Executive, Chris Abele***  
**Supporting AB 522 – Fair Sharing of Payments In Lieu of Taxes**  
Assembly Committee on State and Local Finance  
Wednesday, January 8<sup>th</sup>, 2014

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Honorable Chairman Stroebel and members –

On behalf of Milwaukee County Executive Chris Abele, I am pleased to offer support for Assembly Bill 522 relating to: requiring a city, village, town, or county to share with overlying taxation jurisdictions certain payments for potential services received from a tax-exempt entity. This bill deals with a fundamental question of fairness regarding properties that are not taxed but whose owners are paying a payment in lieu of taxes (PILOT) to a local municipality but not the other taxing jurisdictions of that property.

Each tax-exempt property receives the benefits of services provided by the taxing jurisdictions (city, county, school district, tech college district) it is located in. Milwaukee County provides many vital services for such properties, including the transit system, public safety, highways, veterans' services, and parks and recreation. This bill recognizes that as we remove property from the tax rolls, PILOTs should be shared fairly across the jurisdictions experiencing that loss of tax base.

In Milwaukee County, the extent of non-taxable land puts severe pressures on our services. Exempt land not included in the tax base pushes the cost for government services to the land that is taxed. Over 37,000 acres or 29% of the land in Milwaukee County is exempt from property taxes. This includes land owned by the government (local, state, and federal) and non-government organizations (non-profits, churches, etc). Certainly much of this land will and should remain exempt however, a large portion is subject to PILOTs. The county taxpayer bears the burden of funding services to those lands while not receiving the benefit of the PILOT.

Milwaukee County does not hold a record of all municipalities' PILOTs, nor all are municipalities required to share that information with their fellow taxing jurisdictions. Hence, I cannot tell you today the total revenue from PILOTs received by the 19 municipalities of the county. We do know some numbers from reviews of city budgets. For example, in 2013, the City of Wauwatosa budgeted for revenues of \$438,584 from PILOTs and the City of Milwaukee budgeted revenues of \$16,547,493 from PILOTs.

AB 522 provides fairness to the local governments and taxing bodies that are providing services to the citizens of that area. Just as property taxes are spread across local governments, this bill calls for a fair and proportional sharing of the PILOT. In that interest of that fairness, I urge your support for this bill and its passage by this committee and the Legislature.



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To: Assembly Committee on State and Local Finance  
From: Curt Witynski, Assistant Director, League of Wisconsin Municipalities  
Date: January 8, 2014  
Re: **AB 522, Requiring Municipalities to Share PILOTs with other Taxing Jurisdictions**

The League of Wisconsin Municipalities strongly opposes AB 522, requiring municipalities to share with other taxing jurisdictions any payments in lieu of taxes (PILOTs) they receive from certain tax exempt entities.

### **Background Information**

Property tax exemptions are created by state law. Some municipalities try to address the tax shift to residential homeowners that occurs when a tax exempt entity locates in the community by negotiating with the owner for a PILOT. Some tax exempt entities voluntarily make PILOTs to municipalities to cover the costs the municipality incurs in providing police, fire, plowing and other urban services to the property. PILOTs are not common or widespread.

The amount of the PILOT paid to a municipality is typically calculated based on the municipality's tax rate applied to the estimated fair market value of the property. While a municipality could try to negotiate for a higher PILOT that reflects the other taxing jurisdictions' tax rates, a tax exempt entity is unlikely to agree to essentially forgo its tax exemption.

### **The League opposes AB 522 for the following reasons:**

1. There is no need for this bill. Counties and school districts, like municipalities, are free under current law to enter into PILOT agreements with tax exempt entities. Likewise, local governments are currently able to reach agreement with one another over sharing PILOT revenue. The fact is, unlike municipalities, most counties and school districts have not been interested in or at least have not initiated PILOT negotiations with tax exempt entities. If the other taxing jurisdictions want to receive a PILOT, they should negotiate directly with the tax exempt entity. The Legislature could assist local governments in this regard by either requiring tax exempt entities to negotiate PILOTs with local taxing jurisdictions or eliminating the tax exemption entirely.
2. This bill will undermine municipal use of tax incremental financing, the only effective economic development tool available to communities. Municipalities commonly require tax exempt entities that locate in a TID to make a PILOT to the TID. Requiring the community to share the PILOT payment with other taxing jurisdictions, even though property tax payments within the TID are not shared, means less revenue available to pay off TID related debt. Municipalities may be forced to cover the shortfall with property tax revenue.

AB 522 is an unnecessary incursion into local affairs. We urge you to vote against recommending passage of the bill. Thanks for considering our comments.

*STRONG COMMUNITIES MAKE WISCONSIN WORK*



## City of Park Falls

Office of the Mayor

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January 8, 2014

Hearing on AB 522

Requiring Municipalities to Share Certain PILOTs with other Taxing Jurisdictions

Members of the Committee on State and Local Finance

Representative Stroebel

Representative Born

Representative Kestell

Representative Weatherston

Representative Nass

Representative Tauchen

Representative Zepnick

Representative Hintz

Representative Berceau

Good morning,

I have chosen to travel to Madison to meet with you this morning because as Mayor of the City of Park Falls, I have very strong feelings about proposed legislation AB 522 which would require municipalities to share certain PILOTs with other taxing jurisdictions.

The City of Park Falls has its share of tax exempt properties -- churches, schools, a hospital, 4 non-profit elderly housing facilities, the American Legion Hall, the Park Falls Area Recreation Arena, phone companies, railroads, and managed care facilities, just to name a few.

All these property tax exemptions were created by State law.

Very few of these property owners make PILOT payments to the City of Park Falls.

As you know, when the State exempted these properties from paying taxes, the State allowed me, as mayor, to negotiate with the tax exempt property owners for a payment in lieu of taxes or PILOT to cover the costs the City incurs to provide police and fire protection, snow plowing, street maintenance and other services to these properties. This helps the City address the tax

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shift to residential property owners -- a tax shift created by the State when it allowed these property tax exemptions.

Now you are proposing legislation that will require the city to share PILOTs with other taxing jurisdictions. Why?

What direct services does the county provide to these properties? Occasionally they may dispatch a 911 call.

What direct services does the school provide to these properties?

What direct services does the vocational school provide?

What direct services does the State provide?

I can think of none that directly benefit these properties in the way that services provided by the City do.

The City of Park Falls currently has PILOT agreements with three properties which house elderly, disabled or low income residents. The dollar amount of these PILOT agreements was negotiated by multiplying the fair market value of the properties by the city's tax levy only, not the total levy. We have not negotiated and are not receiving a PILOT for any portion of taxes that would otherwise have been paid to the state, county, school district or vocational school.

If the legislature expects the city to share newly negotiated PILOTs with all other taxing jurisdictions, then I, as the mayor, would need to negotiate a PILOT that equals the full taxes on these properties. We all know that will not happen! Why would any property owner, after having received tax exempt status, offer to pay a PILOT that is the same as their full taxes?

Levy limits and rising costs make balancing a municipal budget increasingly difficult. The City of Park Falls is still reeling from a very difficult budget year. We cut our 2014 departmental budgets by 6% which was a painful task. Even with those cuts, our local levy climbed by 93 cents per thousand. The local levy in the small City of Park Falls, Wisconsin, population 2,457, is now at \$12.01 per thousand. Requiring the city to share PILOTs with other taxing jurisdictions will increase our local levy even more.

I am here to implore you, our State legislators, to stop making financial matters more difficult for municipalities in the State of Wisconsin.

Property tax exemptions are created by State law. If the issue is that other taxing jurisdictions need revenue from these tax exempt properties, then you as legislators ought to consider revising your tax exemption legislation.

Reduce the number of tax exemptions that the Legislature has created over the years. Make these properties taxable once again. After all, that is what this proposed legislation is making a

not-so-thinly veiled attempt to do. Take a stand. If there are too many tax exempt properties throughout the state, do something to change that.

Do not shift this problem to local mayors, who under this proposed PILOT legislation would be required to negotiate in lieu of tax payments not only for services provided by the city, but also for the benefit of the county, state, school districts, and vocational schools.

How is this any different from being fully taxable? It's not, other than the fact that now you are asking me, the mayor of Park Falls, to ask tax exempt entities located in my city to pay their full share of taxes which I must then distribute to all other taxing jurisdictions. This makes no sense.

I urge you to oppose AB 522. It is not the answer. If other taxing jurisdictions want or need a PILOT for services they provide, then propose legislation that allows other taxing jurisdictions to negotiate their own PILOTS based on services they provide directly to these properties.

Negotiating PILOTS for other taxing jurisdictions is not the mayor's job.

A handwritten signature in black ink, appearing to read "Thomas E. Ratzlaff". The signature is stylized and cursive, with a large loop at the end.

Thomas E. Ratzlaff  
Mayor  
City of Park Falls



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## MEMORANDUM

TO: Honorable Members of the Assembly Committee on State and Local Finance

FROM: Kyle Christianson, Director of Government Affairs *K.C.*

DATE: January 8, 2014

SUBJECT: Support for Assembly Bill 522

The Wisconsin Counties Association (WCA) supports Assembly Bill 522, requiring payment for service deals with nonprofit entities to be divided with the overlying taxing jurisdictions. This bill addresses a fairness issue by alleviating the impact tax-exempt properties have on local governments and local taxpayers.

With more and more properties applying for tax-exempt status, municipalities have been negotiating deals with the owners of these properties to provide 'payment for services' agreements. While the municipality receives compensation in lieu of taxes, other taxing jurisdictions such as the county receive nothing. Municipalities have leverage in this type of negotiation because it is the local assessor who helps make the determination of whether a property qualifies as tax-exempt.

This bill requires all payments received from a payment for services agreement between a political subdivision and a non-profit entity that owns a tax-exempt property to be divided among each taxing jurisdiction in the same proportion as property taxes. In other words, if the county is entitled to ten percent of the taxes paid for a taxable property, then it would also receive ten percent of the payment for services agreement.

A sharing of the payment for services agreement is necessary because in addition to municipal services, county services are also utilized by tax-exempt entities. These services include aging and disability resource centers, county sheriff's departments, circuit courts, various health and human services programs and more. Assembly Bill 522 assures at least a portion of the cost to provide local services to a tax-exempt property are reimbursed.

WCA respectfully requests that the Committee support Assembly Bill 522.



## Office of the Mayor

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January 8, 2014

To: Assembly Committee on State and Local Finance  
From: Nick Zavos, Madison Mayor's Office  
Re: AB 522, Division of PILOT payments

The City of Madison opposes Assembly 522.

In Wisconsin, municipalities provide basic essential services such as police and fire protection, and the state decides which properties are tax-exempt. Regardless of which properties the legislature exempts, municipalities continue to provide every property with police and fire protection, snow plowing, garbage collection and other essential services. PILOT payments are voluntary payments designed to make a small contribution to the void left by tax exempt property.

Schools, counties and other taxing jurisdictions have much different financing structures, and different missions. Cities do not have sales taxes or the state school aid program. While these governments are free to negotiate their own PILOT agreements, this legislation would mandate that municipalities split up these payments with schools and counties, regardless of the intent of the payment.

The type of organizations that receive tax exemptions do not typically draw on county or school services. Regardless of the benefits to the community that a non-profit provides, it still must rely on essential municipal services such as police and fire protection. These payments are specifically designed to help with a portion of only essential services such as police and fire.

The City of Madison has a large amount of tax exempt land. Out of a total estimated property value of \$30 billion, about \$9 billion in property value is tax exempt. Only a small number of tax exempt properties have chosen to make a PILOT payment. The city receives only 14 PILOT payments, totaling less than a quarter million dollars. These payments represent only a small portion of the taxes these properties would have paid if they were taxable, and are specifically designed to help with essential public services.

Every local government is feeling budget pressures and trying to do more with less. AB 522 does not add a new tool, or provide increased flexibility. It will likely discourage these types of arrangements in the future, which increases the overall property tax burden.