Legislative Fiscal Bureau
One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

February 28, 2007

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Senate Bill 14 and Assembly Bill 20: Loan Program for Municipalities with Valuation Errors

Senate Bill 14 and Assembly Bill 20 would create a loan program for municipalities and for taxpayers in those municipalities where there is an error in the municipality's equalized value. On January 24, 2007, SB 14 was introduced and referred to the Senate Committee on Ethics Reform and Government Operations. On January 31, 2007, a public hearing on the bill was held, and the Committee recommended the bill for passage by a vote of 5 to 0.

AB 20 was introduced on January 17, 2007, and referred to the Assembly Committee on Ways and Means. On the same date, a public hearing on the bill was held and Assembly Substitute Amendment 1 (ASA 1) was offered. The Committee adopted Assembly Amendment 1 to ASA 1 and recommended the substitute amendment, as amended, for passage by a vote of 12 to 0. ASA 1 to AB 20, as amended, is identical to SB 14.

BACKGROUND

Under current law, the Department of Revenue (DOR) annually certifies equalized values for municipalities and counties on August 15 and for all other taxing jurisdictions later in the year. Generally, equalized values reflect the full market value of all taxable property in each jurisdiction and are used to apportion taxes and distribute state aids. They differ from assessed values, which are determined by a municipal assessor, may be above or below market value, and are used to spread property taxes among individual taxpayers.

When a municipality's equalized value contains an error, the error causes too much or too little property tax to be inadvertently apportioned to that municipality and too much or too little tax to be billed to that municipality's taxpayers. Errors in equalized values are corrected in the following year by subtracting or adding the amount of the prior year error to the current year equalized value. This causes too much or too little tax to be intentionally apportioned to the municipality where the error occurred and too much or too little tax to be intentionally billed to taxpayers in that municipality. When an error incorrectly increases the value in one year, the subsequent year's adjustment decreases the value, and errors that decrease values are followed by adjustments that increase values. In this way, adjustments offset prior year errors. Errors in equalized values affect not only the municipality where the error occurred, but all other municipalities contained in the same overlying jurisdiction.

SUMMARY OF SB 14 AND ASA 1 TO AB 20, AS AMENDED

SB 14 and ASA 1 to AB 14, as amended, would create an annual, GPR appropriation and authorize DOR to make loans from the appropriation to municipalities. Funding would be set at $600,000 in 2006-07. To qualify for a loan, a municipality would be required to certify that the Department's most recent equalized value for the municipality was overstated due to a clerical, arithmetic, transpositional, or similar error, and the amount of the error represents 10% or more of the municipality's equalized value in the year prior to the error. Also, DOR would be required to confirm the error. Municipalities receiving loans would be required to use proceeds from the loan to make loans to taxpayers experiencing higher tax bills as a result of the error.

Any person owning taxable property in a municipality where an error occurs would be eligible to apply for and receive a loan from the municipality. In the year following the error, loan applications would be required prior to June 15. A maximum loan amount would be calculated based on a formula for each eligible taxpayer, but taxpayers could request loan amounts below the maximum. Maximum loan amounts would be calculated by multiplying the taxpayer's assessed value by a loan rate calculated by DOR based on the following four-step formula:

1. For the year in which the error occurred, county, school district, technical college district, state forestry, and metropolitan sewerage district taxes would be apportioned to the municipality using the municipality's equalized value, as certified under s. 70.57 of the state statutes (this would include the valuation error);

2. For the same year, county, school district, technical college district, state forestry, and metropolitan sewerage district taxes would be apportioned to the municipality using the municipality's equalized value, adjusted to exclude the valuation error;

3. The amount calculated in Step 2 would be subtracted from the amount calculated in Step 1;

4. The value difference (Step 3) would be divided by the municipality's assessed value for the year in which the error occurred to produce a loan rate.

DOR would be required to make monthly payments to eligible municipalities based on applications the municipality receives from eligible property owners, except that no payments would be made after June 30 in the year following the error. Loans to municipalities would be interest-free. All amounts loaned to a municipality would become a state special charge in the succeeding tax year and be recoverable through the tax settlement process. As a result, all loan amounts would be recovered by the state by March 15 of the year following the year the loan was made. Loans made by the municipality to taxpayers would be entered on the succeeding year's tax bill as a special charge and collected with the payment of taxes. The loans would not bear interest unless unpaid as of January 31 in the year following the loan. State law provides that unpaid special charges become a lien against property and bear interest at 1% per month.

Because the bills authorize the expenditure of up to $600,000 and could be enacted before the state budget bill's passage, the bills require an emergency clause, based on the provisions under s. 16.47(2) of the state statutes.

FISCAL EFFECT

Under the bills, the Town of Oregon would qualify for a 2006-07 loan due to an error made in its 2006 equalized value. The DOR fiscal estimate indicates that no other municipalities would qualify for a loan in 2006-07. The error caused the Town of Oregon's equalized value to be overstated by $47 million, which represents 14% of its 2005 equalized value. Although the proposal appropriates $600,000 for the program, Town of Oregon property owners would be eligible for loans totaling an estimated $577,273 based on the calculation procedures enumerated in the bills. The loan rate available to individual Town of Oregon property owners is estimated at 1.60 mills, or $1.60 per $1,000 of assessed value. Although the bills appropriate $600,000, over time they would be "revenue neutral" because the unused portion of the appropriation would lapse to the general fund and the loan proceeds would be repaid. However, the repayment would not occur until 2007-08, so the bills represent a net cost increase in 2006-07 estimated at up to $577,273. The maximum loan for a Town of Oregon property with an assessed value of $250,000 is estimated at $399.

Prepared by: Rick Olin