WISCONSIN LEGISLATIVE COUNCIL

TAX EXEMPTIONS FOR RESIDENTIAL PROPERTY (COLUMBUS PARK)

Room 412 East (Joint Finance Room), State Capitol
Madison, Wisconsin

November 8, 2004
10:00 a.m. – 2:25 p.m.

[The following is a summary of the November 8, 2004 meeting of the Special Committee on Tax Exemptions for Residential Property (Columbus Park). The file copy of this summary has appended to it a copy of each document prepared for or submitted to the committee during the meeting. A digital recording of the meeting is available on our Web site at **http://www.legis.state.wi.us/lc/2004studies.htm**.]

Call to Order and Roll Call

Chair Fitzgerald called the meeting to order. The roll was called and it was determined that a quorum was present.

COMMITTEE MEMBERS PRESENT:	Rep. Jeff Fitzgerald, Chair; Sens. Cathy Stepp and Julie Lassa; Reps. Terese Berceau, Mark Gottlieb, Ann Nischke, and Leah Vukmir; and Public Members Gregg Hagopian, Paul Hoffman, Frederic Mohs, Tim Radelet, Mary Reavey, Fritz Ruf, John Sauer, and Earl Thayer.
COMMITTEE MEMBER ABSENT	Public Member Robert Jones.
COUNCIL STAFF PRESENT:	Laura Rose, Deputy Director; and Mary Matthias, Senior Staff Attorney.
APPEARANCES:	Dennis Collier, Department of Revenue; and Don Bezruki, Legislative Audit Bureau.

Approval of the Minutes of the September 28, 2004 Meeting of the Special Committee

Mr. Ruf moved, seconded by Mr. Mohs, to approve the minutes of the committee's September 28, 2004 meeting. The motion carried on a voice vote.

One East Main Street, Suite 401 • P.O. Box 2536 • Madison, WI 53701-2536
(608) 266-1304 • Fax: (608) 266-3830 • Email: leg.council@legis.state.wi.us
http://www.legis.state.wi.us/lc

Presentations by Invited Speakers

Dennis Collier, Department of Revenue, presented information on several fiscal items.

First, Mr. Collier said that the amount of property tax shift to taxable property that occurs because of the property tax exemption for benevolent retirement homes is estimated to be $16.2 million, annually. Next, raising the income ceiling for the homestead tax credit to the amount it would have been had the ceiling been indexed for inflation after 2001 would increase the amount of credit by an estimated $12 million in fiscal year 2006 and $13.5 million in fiscal year 2007. Raising the income ceiling to $27,430 in 2006 and $27,800 in 2007 ***and*** increasing the maximum eligible property tax amounts to $1,620 in 2006 and $1,650 in 2007 would increase spending by $13.6 million in fiscal year 2006 and $15.5 million in 2007.

Mr. Collier then provided a description of the Internal Revenue Service's rationale for providing a federal income tax exemption for nonprofit retirement homes, and the qualifications which must be satisfied in order to receive that exemption.

The following comments were made in response to Mr. Collier's testimony:

- Mr. Thayer commented that it was important to know the total value of ***all*** tax-exempt properties in Wisconsin, in order to put this information into perspective.

- Mr. Mohs stated tax-exempt entities that are asked to self-report the value of their property, very likely under report the value.

- Mr. Hagopian commented that based on Mr. Collier's testimony, it would be a cost benefit to the state to remove the property tax exemption for benevolent retirement homes, and to replace it with an increase in the homestead tax credit. Mr. Collier responded that any cost savings would depend on how much the homestead tax credit was increased.

- Mr. Sauer stated that he is not sure of the number of residents whose care is subsidized at each continuing care retirement community (CCRC) regulated under ch. 647, Stats. Chapter 647 requires reporting of the number of residents who are subsidized and also requires that a CCRC retain cash reserves. He mentioned that there has been concern on the part of the Office of the Commissioner of Insurance regarding the sufficiency of cash reserves of CCRCs.

- Ms. Reavey and Mr. Radelet both commented that from a practical standpoint, an owner's 501c(3) status is not a consideration when determining whether to assess a particular property.

Don Bezruki, Legislative Audit Bureau (LAB), described the function and structure of the LAB. He commented that the LAB has sufficient staff and resources to perform only about one of every 10 audits it is requested to perform. He said that it would be possible for the LAB to perform an audit for the committee, and that it would take about a year. The audit would be designed to ascertain the value of residential properties in the state that are exempt from property taxation in order to determine the amount of revenue that would be derived if the property was subject to the property tax. He stated that current data on property values of exempt property is very suspect because it is provided by the property owners themselves and is not independently verified. In addition, the LAB would have to rely on the cooperation of local assessors in order to perform such an audit because the LAB does not have the expertise or sufficient resources to contract out for the appraisal of all the tax-exempt residential property in the state. He said he is unsure of how willing assessors would be to voluntarily assist the LAB in such an audit.

Mr. Hagopian commented that it would be good to have data on the value of tax-exempt properties due to the suspect nature of the current data. He said it would be worthwhile to hire appraisers to perform this function.

Mr. Mohs commented that if the committee does not get this information, it is "flying blind." He said that he was confident that large municipalities would cooperate with this type of audit. He said that it is not possible to measure the claimed benefits to society of the tax exemption if one does not know how much revenue the state is giving up providing the tax exemption.

Rick Olin of the Legislative Fiscal Bureau joined Mr. Bezruki and explained his October 26, 2004 memorandum to the committee. He noted three general reasons for the increase in the percentage of total property taxes paid by residential property owners:

- Statewide law changes, which created more exemptions from the property tax such as the manufacturing and equipment exemption. Some of these exemptions were created to encourage certain types of economic activity.

- Property has been added or removed from the tax rolls. For example, statewide population growth has resulted in a boom in new residential construction. Therefore, residential properties have taken on an increasing share of the total tax burden.

- Economic conditions. Mr. Olin pointed out three major economic downturns over the last 25 years which have resulted in reduction in the manufacturing commercial and agricultural tax base.

Description of Materials Distributed

Mary Matthias and Laura Rose briefly described the suggestions outlined in Memo No. 1, *Recommendations Made to the Special Committee*, dated November 2, 2004.

The committee discussed the Memo and there was general agreement among the members that the committee needs more information regarding the amount and value of currently exempt residential property, in order to make policy decisions. The committee also discussed ways of measuring the amount of benefit provided by tax-exempt entities to the community in exchange for property tax exemptions. There was also a general consensus that either the term "benevolent" be defined or the statute should be amended to specify the activities in which an entity must be engaged to be eligible for a property tax exemption. Ms. Matthias outlined several additional issues that staff would collect information on for the next meeting:

- How to obtain better information on the value of currently exempt residential property.
- Alternatives that would require benevolent associations to report certain types of information as a condition of receiving the exemption.
- Options for addressing the “rent-use” issue.
- Payments in lieu of taxes (“PILOTS” payments): how to draft PILOTS, alternatives to PILOTS, and the constitutional permissibility of PILOTS.
- The history of the “10-acre” limitation in s. 70.11 (4), Stats.

There was also an extensive discussion of the property tax exemption for residential housing as it applies to low-income housing. Mr. Hoffman stated that the committee could probably agree on the principle that luxury homes for persons aged 55 and older should not be exempt from property taxation.

Finally, the committee discussed its timeline. The reporting date for the committee is December 15, 2004. Chair Fitzgerald said that the committee would be unable to meet that reporting date. Mr. Radelet commented that currently there are properties whose exemptions are being challenged, as a result of the *Columbus Park* case.

Other Business

There was no other business brought before the committee.

Plans for Future Meetings

The next meeting of the Special Committee will be held at the call of the chair. Subsequently, Chair Fitzgerald scheduled the next meeting of the committee for ***Monday, December 20, 2004, at 10:00 a.m., in Room 412 East (the Joint Finance Room), State Capitol, Madison***.

Adjournment

The meeting was adjourned at 2:15 p.m.

LR:ksm