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Representative Jeff Fitzgerald, Chair
Wisconsin Legislative Council Special Committee
Tax Exemptions for Residential Property (Columbus Park)
910 Sunset
Horicon, WI 53032

Dear Representative Fitzgerald:

Sometime in the future, our Committee is going to prepare a report. In my discussions with various legislators, I have found that, although they are interested in the subject of tax exempt housing, their appreciation of the economics of residents, taxpayers, municipalities, school districts and the State of Wisconsin are insufficiently understood in regard to this subject. Although the economic effects of tax exempt housing are substantial, at this time, they only represent a tiny proportion of what the future effects will be if our committee fails to provide the legislature with the kind of information that it needs in order to formulate policy that will not only work for the moment, but in the future. From my point of view, the initial question we need to resolve is:

"Should Wisconsin citizens, whether rich or poor, except for those housed in religious facilities such as parsonages, or special use housing such as homeless shelters, assisted living or nursing homes be required to pay property tax."

I say, emphatically, yes! This is not an attack upon the elderly or the poor, or a broad-based position against programs to help those populations that need help. It is a recognition of the political and social realities that accompany the granting of tax free living.

This is not about whether hospitals should pay taxes, but about whether between us, Wisconsin citizens, there should be classes of people who escape taxation on their homes and those that do pay taxes and also pick up the tabs for those who don't. This is about support of our local governments and institutions and especially, our schools. It is also about seeking the establishment of a policy that no one deserves a pass on the

taxation of their homes just because they take care of themselves, their neighbors or are generous to charities. If it were otherwise, all of us who are generous to charities and take care of ourselves and our neighbors, should get a pass too leaving precious little on which to run our governments and school systems."

Not only can we not tell the legislature what the extent of tax free housing is or in any way correlate that to benefits to communities who have expressed through their associations and mayors that they want relief from what is in effect an unfunded mandate. Let me give you an example. Yesterday, I received copies of notices to residents of Oakwood Apartments located in Fond du Lac, a Section 8 property owned by Howard Management notifying the residents that the property was being sold to the Wisconsin Housing Preservation Trust. Howard Management will continue to manage the property. Fundamental to understanding what is going on is to understand the increase in value caused by the ability to operate without paying real estate taxes.

If Howard was paying the usual 20% of gross income as real estate taxes and expenses including taxes have the usual 50% of gross income, the new owner would see the net income available for debt service and profit rise from 50% of the gross income to 70%, producing an increase in value of around 40%. With that value on the table, it is likely that the new owner would share part of the benefit with the remaining benefit going to an increased purchase price for the property going to the seller and the possibility of a very lucrative long range management contract remaining with the seller. On a \$1 million property, the value would probably increase somewhere around \$400,000.00, leaving plenty of money to be split up between the original owner and the non-profit, all at the expense of the remaining taxpayers who are picking up the bill. Not only can the non-profit offer pay above market price for the property, but can enter into a lucrative long term management contract with the seller which will provide the seller with further income. Assumedly, part of the benefit goes to low income residents, but we have no idea how much at this time.

WHEDA Secretary, Antonio Reilly, addressed us at our first meeting and predicted that over 35,000 low income units would need to go off of the tax rolls over the next seven years. This could amount to over \$100 million in lost taxes to Wisconsin communities. Do any of these communities have a clue about where they are in this situation? Some will be devastated while others will escape. We are talking about a redistribution of costs that dwarfs the Brewer and Packer stadiums put together. Shouldn't we have our Mayors in to discuss the long term ramifications of how this redistribution of tax burden will be accomplished and what help they can get from the State?

Just as in low income housing, the powerful affect of tax exemption on luxury senior housing is also something that needs to be explained in a clear way to the legislature. Today, a relatively small number of these housing units exist, but in the future, the economic power of tax exemption plus the burgeoning number of baby boom

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elderly will profoundly reduce the revenues counted on by Wisconsin communities and school districts. Will our report demonstrate that effect?

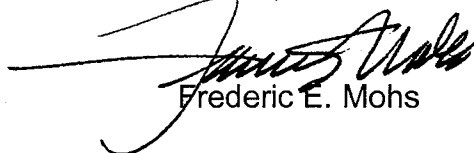
Finally, this Committee should set forth an easily understandable picture of who it is that deserves to live in tax exempt housing. Certainly, to say that people who already live in housing that claim tax exemption should continue to keep that privilege while turning away others who have all of the same relevant characteristics. So what are those characteristics? Putting aside whether or not the characteristics and the benefits to the community are equivalent to the taxes lost, we should at least look purely at exactly who it is that is entitled to live tax free. For instance, is the dentist still in practice who lives at Attic Angels Prairie Point in a \$400,000.00 house really OK? Is that dentist part of a grand scheme that produces benefits to the community so that we would recommend that other dentists only make things better by living in tax exempt housing? The legislators and the public should have a clear idea of who and how and why we are recommending what we recommend. We have to remember that one reason this matter became such an unholy hairball is that local governments were not able to stand up to high powered legal teams representing tax exempt developers. We have a chance to really clarify this important subject. For instance, we have lawsuits now by individuals trying to expand the 10 acre limit. Can we draft language that makes it very clear what the rules are on the 10 acre limit so that there is no room for expensive lawsuits. We know that some localities just cannot afford to defend their issues and therefore, cave in creating the mess we now have.

If this Committee abandons it work before it answers all of the foregoing questions and permits legislation to go forward, it runs not only a predictable risk, but an assured future that will involve dramatic unfairness and a painful eventual unwinding of tax exempt benefits for organizations that justifiably relied on legislative requirements enacted without a full appreciation of their potential affects.

Our report should be workmanlike and thorough, and a document that the public, local officials and our own legislature can understand. It should not just contain what to most people are arcane bill drafts referring to statutory citations, but a clear statement of principals and effects. We have the time, let's get this right.

Sincerely,

MOHS, MACDONALD, WIDDER & PARADISE



Frederic E. Mohs

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Cc: Special Committee Members