MEMORANDUM

TO: Honorable Members of the Assembly Committee on Ways and Means

FROM: Curt Witynski, League of Wisconsin Municipalities Assistant Director
Kyle Christianson, Wisconsin Counties Association Director of Government Affairs

DATE: June 1, 2017

SUBJECT: Assembly Bill 277 – Personal Property Tax Repeal

The League of Wisconsin Municipalities (LWM) and the Wisconsin Counties Association (WCA) have vigorously opposed prior efforts to repeal Wisconsin's personal property tax. The opposition to prior efforts was due to lack of a plan to reimburse local governments for lost revenue. Assembly bill 277 (AB 277) is different and we want to acknowledge the improvements this legislation makes over legislation introduced in prior years. Both LWM and WCA applaud the authors for including in AB 277 a state-funded plan for holding local governments harmless and avoiding a property tax shift to homeowners and other taxpayers.

While our associations are not opposed to AB 277, we are testifying for information purposes only to share membership concerns that have been raised regarding this legislation. These concerns include the following:

1. AB 277 provides for no growth in the state aid payment over time. The total amount of the state aid payment to local governments for the personal property tax repeal is fixed at an amount equal to the amount of revenue loss incurred by the taxing jurisdiction in 2018. The Wisconsin Department of Revenue (DOR) estimates the potential local revenue loss and corresponding state aid payments to local taxing jurisdictions to total $261,035,800. The bill also sets the exempt computer aid payment to the amount determined in 2017. Under the bill, future exempt computer aid payments would remain at the 2017 estimated amount of $91,012,200.

The state aid payments should grow at least at the rate of inflation. A static payment over time will not hold local governments harmless for the long term. Over time, tax rates will rise and other property taxpayers—mainly residential homeowners—will be required to make up the difference. We recommend that the bill be amended to provide for at least inflationary growth in both the personal property tax reimbursement payments and computer aid payments. Just last week the Legislature's Joint Committee on Finance adopted a similar proposal to the state budget which will index future computer aid payments to inflation (consumer price index). We recommend that approach be applied to this bill.

2. Negative impact on TIF Districts. The bill will reduce the increment value of most tax increment districts (TID). For uniformity with new TID districts, DOR will need to re-determine each TID's base value. Also, existing TIDs with significant amounts of personal property were created with the understanding that the value of such property would grow over the life of the TID and the increment would be used to help pay off the debt the TID incurred as part of the project plan.

Also, there are TID projects that were authorized and are under construction (started in 2016 but will not be fully complete until 2017 or 2018) that had significant potential personal property components that will now no longer be able to collect the tax nor receive any reimbursement for the tax as they would not be fully assessed until 1/1/18 or 1/1/19. It seems unfair to change the rules in the middle of the game and not allow local communities to utilize the rules that were in place at the time the commitment was made.

The bill should be amended to allow communities to extend the life of TIDs negatively impacted by repeal of the personal property tax.

3. **Fully exempting all personal property from the property tax is likely to lead to a significant increase in disputes between property owners and municipal assessors and boards of review over what is classified as real versus personal property.** These disputes, which increase the cost of tax administration and may lead to litigation, will occur mostly in cities and villages due to the high concentration of personal property.

4. **Will the state remain committed to making the reimbursement payments?** Given the state's chronically tight fiscal condition, we are concerned that an annual personal property tax hold-harmless payment from the state to local governments might be discontinued after a few years. Short of ending the payments, the state may feel compelled in the future to maintain the payments by reducing shared revenue or other municipal or county aid programs.

LWM and WCA appreciate that AB 277 calls for the state to reimburse local governments for the lost revenue caused by the repeal of the personal property tax. We have concerns, however, about the payment amount being static over time and the willingness of the state to continue making the payments.

Thanks for considering our comments and please contact us with any questions.