

SHARED REVENUE AND TAX RELIEF - PROPERTY TAXATION
DEPARTMENT OF AGRICULTURE, TRADE, AND CONSUMER PROTECTION
DEPARTMENT OF TOURISM

Assessment of Property Classified as Swamp or Waste or Productive Forest Land
[LFB Paper #686]

Grants for Ethanol Producers
[LFB Paper #135]

Motion:

Move to change the name of the "swamp or waste" classification of real property to "undeveloped land" for purposes of property taxation. Create a new classification of property called "agricultural forest," defined to include land that is producing or is capable of producing commercial forest products and is included on a parcel where part of the parcel is classified as agricultural or is contiguous to a parcel where part of the parcel is classified as agricultural, if the contiguous parcel is owned by the same person. Define contiguous to include a parcel that is separated only by a road from a parcel containing agricultural land, so long as both parcels are owned by the same person. Provide for the assessment of property classified as undeveloped land and agricultural forest land at 50 of the full value for which the property could be sold. Extend similar treatment to the Department of Revenue's determination of equalized values. Change cross-references in other sections of the statutes pertaining to requirements regarding the assessment level of major classes of property, penalties on agricultural land converted to other uses, and decennial adjustments to the per acre tax under the forest crop land program to reflect undeveloped land, rather than swamp or waste, and to include property classified as agricultural forest. Modify the current law requirement relating to assessing each major class of property at no less than 90 of its full value by specifying that undeveloped land, agricultural forests, productive forest land, and other property be considered separate classes of property, rather than as a single class of property, as provided under current law. Modify current law provisions related to trespassing on land by changing the term "undeveloped land" to "open land." Extend these provisions to property assessed as of January 1, 2004.

Sunset claims and penalties under the farmland preservation program, effective with claims related to taxes after the 2002 tax year. Allow landowners who have entered into farmland preservation agreements with the state to continue to receive credits as long as their agreements are in effect. Specify that DATCP could not enter into any new farmland preservation agreements after the effective date of the bill. Reduce costs related to the program by an estimated \$11,100,000 GPR in 2003-04 and \$11,600,000 GPR in 2004-05.

Specify that any modifications to the use value formula be approved through the administrative rule process before they take effect.

Provide \$1,000,000 GPR annually to DATCP for grants to ethanol producers.

Delete \$500,000 GPR annually from DATCP's soil and water resource management program.

Provide Tourism an additional \$500,000 GPR annually for tourism marketing.

Note:

The motion includes Alternatives #3 and #5 from Paper #686, although Alternative #5 has been modified to reflect earlier actions of the Committee affecting the amount of the farmland preservation credit.

For purposes of property taxation, real estate is grouped under seven property classifications. Current law includes property that is a bog, marsh, lowland brush, uncultivated land zoned as shoreland and mapped as wetland, or other nonproductive land in the "swamp or waste" classification. This motion would change the name of this classification to "undeveloped land." In addition, certain property classified as productive forest land would be classified under a new category called "agricultural forest." To qualify for this classification, the property would have to be on a parcel that contains agricultural land or be contiguous to a parcel containing agricultural land, provided both parcels are owned by the same person. Property that is classified as undeveloped land or as agricultural forest would be assessed at 50 of its fair market value, as opposed to 100 of its fair market value under current law. Similar treatment would be extended to DOR'S determination of equalized values. /-^

The two new classifications would necessitate changes to cross-references in other sections of the statutes pertaining to requirements regarding the assessment level of major classes of property, penalties on agricultural land converted to other uses, and decennial adjustments to the per acre tax under the forest crop land program. In addition to the cross reference change, the motion would modify current law provisions pertaining to the assessment level of major classes of property in a more substantive way. Currently, municipalities must achieve a ratio of assessed value to equalized value of 90, or higher, for each locally assessed major class of property, except agricultural land, at least once every four years. Municipalities not meeting the requirement must do so in the succeeding year or participate in a Department of Revenue training program. Major class of property is defined as any class that includes 5 or more of the municipality's equalized value. For purposes of this requirement, property under the swamp or waste, productive forest land, and other classifications are considered a single class. The motion would modify this provision so that each of these types of property, as well as the two new ^-^

classifications, would be considered a separate class of property. This modification and the change in the procedure for valuing undeveloped land and productive forest land would cause fewer classes of property to meet the 5 threshold, thereby making it easier for municipalities to comply with the requirement.

Finally, the motion would modify current law provisions related to trespassing on land by changing the term "undeveloped land" to "open land." This change would avoid confusion that could result from having the statutes utilize identical terms with different meanings.

Although the motion would first apply to property assessed as of January 1, 2004, changes in values and taxes for the 2004(05) property tax year are speculative at this point in time, so the following analysis relies on data from the 2002(03) property tax year. The Department of Revenue set the statewide equalized value of taxable property for 2002 at \$335,326.5 million, of which \$1,546.9 million was classified as swamp or waste and \$8,742.8 million was classified as productive forest land. Under the motion, land classified as undeveloped land and agricultural forest would be assessed at 50 of fair market value, reducing equalized values by an estimated \$1,918.4 million. This represents a 0.5 reduction in statewide taxable values.

A statewide property tax is the primary source of funding for the state's forestry account in the conservation fund. Forestry account revenues are used to fund several state forestry programs and related administrative activities. The tax is frequently referred to as the "forestry mill tax."

The Wisconsin Constitution limits the rate of taxation to no more than 0.2 mills, or 20 cents per \$1,000 of property value, and the state statutes have authorized a tax at that rate since 1937. In 2002-03, the tax is estimated to generate \$67.1 million in revenues. The loss of \$1,918.4 million in value would reduce state forestry taxes by an estimated \$384,000, effective in 2004-05.

Lower property values would also cause the taxes on property classified as undeveloped land and agricultural forest to decline. Currently, taxes on that property are estimated at \$65.2 million. Under the motion, estimated taxes on the affected property would decrease by \$30.1 million to \$35.1 million. This represents a 46.2 reduction.

Reductions in taxable value do not result in an overall reduction in property tax levies, except for state forestry taxes. Instead, value reductions cause property taxes to be shifted from property with decreasing property values to other property. Reductions in property values cause property tax rates to increase. This explains why the reduction in taxes on the affected property (-46.2) is not equal to the reduction in that property's taxable value (-50.0). Under the motion, the statewide average property tax rate would increase by an estimated \$0.13 per \$1,000 of value, from \$21.95 to \$22.08. This would cause the taxes on a median-valued home in the state, which is taxed at the statewide average tax rate, to increase by an estimated \$15 (0.6). The motion would have different effects relative to individual property owners depending on the amount of undeveloped land and agricultural forest lands in the same taxing jurisdictions, as well as other factors relating to the property's level of taxation. In municipalities where property classified as swamp or waste and agricultural forest land is concentrated, residential tax bill increases, particularly in the first year after values decline, would be likely to exceed 0.6.

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The motion would also have a number of secondary effects relative to property taxation. These include the distribution of tax base-sensitive state aids, the level of allowable debt, and the repayment of tax increment district costs. The redistribution of tax base sensitive aids would mitigate some of the estimated tax shifts in municipalities where property classified as swamp or waste and agricultural forest land is concentrated. However, some of these mitigating effects would not occur until the proposal's second year because the general school aid formula uses prior year data, rather than data from the current year. Some of the other secondary impacts would be minor.

Under the motion and Committee action to date, a total of \$3,900,000 annually would be available for ethanol producer grants (\$2,900,000 in tribal gaming PR and \$1,000,000 GPR). This represents a 32 increase to the \$2,945,000 in base level funding available in 2002-03. The ethanol producer grant program provides ethanol producers who produce more than 10 million gallons of ethanol in a year with a 200 per gallon grant for every gallon of ethanol produced (for a maximum of 15 million gallons, or a \$3 million annual grant). If funds are insufficient to provide grants for all eligible producers, DATCP pro-rates available funds according to total ethanol produced. This program sunsets on June 30, 2006.

DATCP's soil and water management program GPR appropriation would be reduced by \$500,000 annually. This would represent a 5 reduction and leave DATCP with \$5,081,900 GPR and \$3,725,100 SEG in funding for local staffing grants and for grants to landowners for the installation of nonpoint source water pollution abatement best management practices (for a total of \$8,807,000 annually).

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Tourism would be provided \$9,655,900 annually (\$5,686,400 GPR and \$3,969,500 tribal gaming PR) for tourism marketing. This would reflect a 10 base reduction in tourism marketing funding, but an increase of 2 to actual funds available in 2002-03.

[Change to Bill: -\$384,000 SEG-REV and -\$20,700,000 GPR]