

An Evaluation:
**Assessment of
Manufacturing Property**

Department of Revenue

December 2004

Report Highlights ■

Taxes levied on manufacturing property represent 4.1 percent of the statewide total.

The extent to which districts use the statutorily preferred valuation method varies.

DOR is not meeting statutory requirements for field audits.

DOR could improve its efficiency by increasing its use of technology.

A reorganization may affect the amount DOR seeks in reimbursement from municipalities.

In 2003, approximately 11,000 manufacturers in Wisconsin paid \$292.7 million in property taxes. In response to concerns about the ability of local assessors to accurately and equitably assess the value of complex manufacturing property, the Department of Revenue (DOR) assumed this responsibility in 1974.

To reduce general purpose revenue (GPR) expenditures, the Governor's 2003-05 biennial budget proposed transferring most of this function back to local assessors. While the proposal was not adopted by the Legislature, it prompted questions about current assessment practices. In response to these concerns, and at the request of the Joint Legislative Audit Committee, we evaluated:

- DOR's methods to assess the value of manufacturing property;
- DOR's performance relating to the statutory requirement that it complete field audits of manufacturing properties at least once every five years;
- the rates at which manufacturers and municipalities appeal DOR assessments; and
- how a reorganization within DOR could affect the quality of manufacturing property assessment.

Key Facts and Findings

Manufacturers paid \$292.7 million in property taxes in 2003.

Among DOR districts, the weight given to the statutorily preferred valuation method ranged from 69.0 percent to 92.6 percent.

DOR is nearly two years behind in completing field audits of manufacturing and telephone company property.

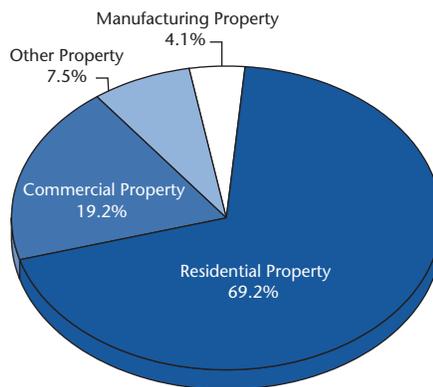
Staffing for property assessment has decreased by 17.9 percent since FY 2001-02.

The number of appeals increased 40.2 percent from 1997 through 2003.

Municipalities pay \$1.1 million annually to DOR to support one-half the cost of assessing manufacturing property.

Manufacturing Property Taxes

Taxes levied on all classes of property totaled \$7.1 billion in 2003. Taxes levied on manufacturing property represented 4.1 percent of all property tax revenue received by local governments that year.



Residential property generated the most tax revenue, followed by commercial property. Other classes of property include agricultural property, undeveloped property, and non-manufacturing personal property such as office equipment and furniture.

Valuation Methods

Three methods are commonly used to establish the value of real estate:

- The sales approach requires assessors to consider recent arm's-length sales of the subject property or reasonably comparable property.

- The cost approach requires assessors to estimate the cost to replace the property, adjusted for depreciation factors such as age, usage, and the quality of the construction of the improvements.
- The income approach requires assessors to estimate value based on the income that can be generated from the property.

Section 70.32(1), Wis. Stats., requires DOR to use the sales approach to the extent possible before considering other methods to estimate a property's value. However, because of the limited number of comparable sales of manufacturing property, DOR uses a combination of approaches. A computer program analyzes the information collected during a field audit and recommends a weighting for each potential valuation approach. In combination, these weightings must total 100 percent.

The assessor reviews the computer program's recommended weightings, which may be followed or modified based on the assessor's experience and judgment. In 2003, the sales approach was weighted most heavily statewide, at 82.4 percent. However, among DOR's five district offices, the weight given to the sales approach ranged from 69.0 percent to 92.6 percent.

While assessor judgment is needed to determine the proper approach to valuing individual properties, statewide consistency in valuation

approaches is also important. Therefore, we include a recommendation for DOR to analyze variations in district assessment procedures.

To support its use of the sales approach, DOR inspects properties that have recently sold and maintains a database of information on their characteristics. This information is also valuable to private appraisal firms. However, the existing database is difficult to use and maintain.

Ease of use could be improved by upgrading the database, which would make information available electronically and allow it to be sold. Revenue generated from these sales could be used to offset the costs of maintaining and improving the database. We include a recommendation for DOR to analyze the feasibility of selling information from this database, as it currently sells other property-related data.

Field Audit Cycle

DOR assesses the value of manufacturing property by updating past assessments and by conducting field audits, or on-site property inspections. Updates are based on information that is reported annually by manufacturers.

Section 70.995(7)(b), Wis. Stats., requires field audits to be conducted at least once every five years. DOR acknowledges that it is not meeting this requirement. DOR also

has not met a similar requirement to conduct field audits of all telephone company property at least once every five years.

DOR's inability to meet these field audit requirements appears to be caused, at least in part, by staffing constraints. Along with responsibility for assessing telephone company property, DOR received 4.7 full-time equivalent (FTE) positions in 1998. However, from fiscal year (FY) 2001-02 to FY 2003-04 the number of staff dedicated to property assessment decreased 17.9 percent, from 50.5 to 41.5, as a result of cost-saving measures and budget reductions.

We estimate that with current procedures and staffing levels, DOR would need nearly seven years to complete field audits for all properties for which it has assessment responsibilities.

An increase in the number of appeals has also diverted resources from field audits. The 171 appeals filed in 2003 represent an increase of 40.2 percent over the 122 appeals filed in 1997. Because the manufacturing assessment process is data-intensive, DOR staff can spend a significant amount of time reviewing information when an appeal is filed, including possibly conducting a new field audit to verify the original assessment.

Despite the increase in appeals, they are still rare; less than 1.0 percent of all assessments were appealed in 2003.

Improving Efficiency

Manual processing of annual reporting forms is the largest hindrance to DOR's efficient assessment of manufacturing property. By implementing electronic filing of manufacturing and telephone company property reporting forms, DOR could:

- reduce filing errors;
- redirect its resources toward discovering, valuing, and inspecting manufacturing property; and
- improve timeliness, as nearly 10 percent of forms submitted from 1997 through 2003 were late.

DOR plans to implement electronic filing and indicates these efforts will be funded from existing resources, with no additional funding or positions requested from the Legislature. DOR estimates that with the implementation of electronic filing, its time savings would equal approximately 0.8 FTE position annually, or enough staff time to complete about 73 additional field audits per year.

Many of the information systems DOR uses to store and analyze information are more than 20 years old and require duplicate entries to ensure all necessary information is included. Other currently available technology, such as improved digital cameras and mapping software, could help DOR complete field audits in a more timely manner.

DOR officials agree that upgrading to newer software and technologies would improve manufacturing assessment efficiency and are reviewing possible funding mechanisms and time lines for implementation.

For Future Consideration

In October 2004, DOR received approval from the Department of Administration to reorganize the Division of State and Local Finance, which is responsible for assessing manufacturing property. By merging bureaus and cross-training staff, DOR hopes to gain efficiencies that will allow it to meet the five-year field audit cycle, improve coordination among staff, and mitigate the potential effect of the large number of its staff eligible for retirement over the next few years. However, the efficiency resulting from the reorganization is unlikely to provide sufficient additional resources to meet the statutory requirement for timeliness.

The reorganization may also affect the amount DOR seeks in reimbursement from municipalities. 2003 Wisconsin Act 33 authorized DOR to charge municipalities 50 percent of its budgeted costs associated with the assessment of manufacturing

property. However, what constitutes these costs may become less clear as DOR staff cross-train to work on tasks other than manufacturing property assessment. As the Legislature considers DOR's FY 2005-07 budget request, it will have to consider which costs to include in the amount that is to be shared between DOR and the municipalities.

Recommendations

Our recommendations address the need for DOR to:

- ☑ report to the Joint Legislative Audit Committee on its analysis of differences in valuation methods across districts ([p. 27](#));
- ☑ analyze the feasibility of selling data on manufacturing property sales, including the amount of revenue that could be generated and potential uses for that revenue ([p. 28](#));
- ☑ improve the tracking of field audits in its central database ([p. 31](#)); and
- ☑ prioritize its field audit workload to ensure the most accurate manufacturing property values statewide ([p. 32](#)).

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Additional Information

[Report 04-14](#), which includes a response from the Department of Revenue, call (608) 266-2818 or visit our Web site:



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