

An Evaluation

Assessment of Manufacturing Property

Department of Revenue

2003-2004 Joint Legislative Audit Committee Members

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December 8, 2004

Senator Carol A. Roessler and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Roessler and Representative Jeskewitz:

As requested by the Joint Legislative Audit Committee, we have completed an evaluation of the assessment of manufacturing property by the Department of Revenue (DOR). In 2003, approximately 11,000 manufacturers paid \$292.7 million in property taxes, accounting for 4.1 percent of all property tax revenue received by local governments.

DOR assesses the value of manufacturing property by inspecting properties and reviewing forms submitted by manufacturers. As of January 2004, 41.5 full-time equivalent employees in five district offices completed these and other related tasks at an annual cost of approximately \$2.8 million. We reviewed the methods DOR uses to establish the value of manufacturing property and found that while these methods are generally consistent with statutory directives, differences in practices exist across the districts. We include a recommendation that DOR report to the Audit Committee on its analysis of these differences.

Although s. 70.995(7)(b), Wis. Stats., requires field audits to be conducted at least once every five years, DOR is not meeting the requirement. We estimate DOR would need nearly seven years to complete field audits for all manufacturing properties, based on current procedures and staffing levels. Reasons for this include an inefficient assessment process, an increase in appeals, and a decrease in staff. We include a recommendation that DOR improve its tracking of field audits, prioritize its field audit workload, and automate functions where possible in order to increase efficiency.

We appreciate the courtesy and cooperation extended to us by DOR staff. The agency's response follows the appendices.

Respectfully submitted,

A handwritten signature in cursive script that reads "Janice Mueller".

Janice Mueller
State Auditor

JM/DB/ss

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:

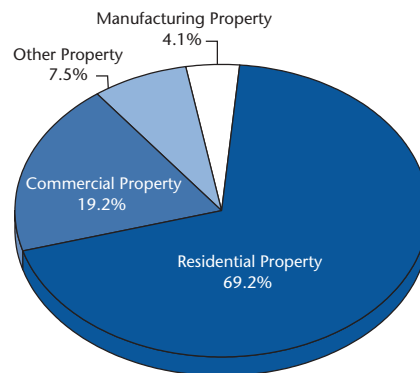
- DOR's methods to assess the value of manufacturing property;
- DOR's performance relating to the statutory requirement that it complete field audits of manufacturing properties at least once every five years;
- the rates at which manufacturers and municipalities appeal DOR assessments; and
- how a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

Manufacturing Property Taxes

Taxes levied on all classes of property totaled \$7.1 billion in 2003. As shown in Figure 1, 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.

Figure 1

Property Taxes Generated, by Class 2003



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*).

Introduction ■

***There are about 11,000
manufacturers in
Wisconsin.***

In Wisconsin, manufacturing property is subject to the local property tax, but equipment and machinery associated with the manufacturing process are exempt. DOR annually assesses the value of manufacturing property subject to the property tax as a service to local governments, because many do not have the staff expertise to conduct the complex assessments of unique manufacturing properties. In 2003, approximately 11,000 manufacturers in Wisconsin paid \$292.7 million in local property taxes, accounting for 4.1 percent of all local property tax revenue.

To address questions about DOR's current assessment practices, we reviewed DOR's methods for assessing manufacturing property and analyzed whether it was meeting statutory assessment requirements, including the completion of field audits of each manufacturing property at least once every five years. As part of our review, we interviewed DOR central office staff and assessors from the five district offices, examined assessment files, and spoke with representatives of some of the state's largest manufacturers.

Property Taxes and Values

The equalized—or market—value of taxable real estate and personal property in Wisconsin increased 67.8 percent since 1997 to reach \$391.2 billion in 2004. As shown in Table 1, the value of manufacturing real estate increased by 43.3 percent. However, manufacturing personal property, such as office furniture and computers, decreased by 22.4 percent, primarily because of the

exemption of computers, software, and other information technology equipment from the property tax beginning in 1999.

The only class of real property to decrease in value was agricultural property, primarily as the result of a change in 2000 from assessing agricultural property based on its market value to assessing the value of this property based on its current agricultural use, known as use value assessment. The large increase in the value of undeveloped property is also due to the implementation of use value assessment and increased demand for recreational land.

Table 1
Equalized Values, by Property Class
(In Millions)

Property Class	1997	2004	Change
Real Estate			
Undeveloped ¹	\$ 255.5	\$ 1,246.8	388.0%
Productive Forest	3,415.3	10,270.2	200.7
Residential	157,312.4	279,166.5	77.5
Commercial	39,839.5	68,323.0	71.5
Other ²	6,276.9	9,077.2	44.6
Manufacturing	7,952.1	11,396.9	43.3
Agricultural	8,519.1	1,949.7	-77.1
Agricultural Forest ³	0.0	78.1	N/A
Subtotal	223,570.8	381,508.4	70.6
Personal Property⁴			
Non-manufacturing	6,729.2	7,526.4	11.8
Manufacturing	2,774.2	2,153.0	-22.4
Subtotal	9,503.4	9,679.4	1.9
Total	\$233,074.2	\$391,187.8	67.8

¹ Taxed at 50 percent of full value. Prior to 2003 Act 33, this category was named "swamp and waste" and was taxed at full value.

² Includes "agricultural buildings and improvements and the land necessary for their location and convenience," which are not subject to use value assessment like other agricultural property. Created by 1995 Act 27.

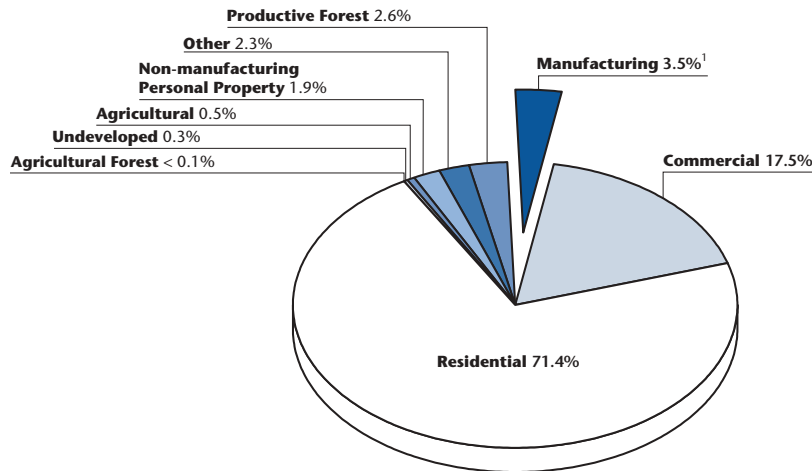
³ Includes land capable of producing commercial forest products contiguous to a parcel that is classified as agricultural land, if both parcels are owned by the same person. Land in this class is taxed at 50 percent of full value. Created by 2003 Act 33.

⁴ Includes such things as office furniture, fixtures, and tools. Manufacturing machinery and equipment, and some computer equipment, are exempt from property taxes.

Manufacturing property accounted for 3.5 percent of equalized value in 2004.

As shown in Figure 2, manufacturing real estate and personal property accounted for 3.5 percent of the total value of taxable property in Wisconsin in 2004, and residential property represented 71.4 percent. In 1997, manufacturing property accounted for 4.6 percent of statewide equalized value, and residential property accounted for 67.5 percent. The declining proportion of manufacturing property values has been attributed to residential growth through new construction, a decline in the number of manufacturers in the state, and statutory changes to exempt personal property such as computers.

Figure 2
 Percentage of Statewide Equalized Value, by Property Class
 2004



¹Includes manufacturing personal property.

Taxes levied on manufacturing property in 2003 generated \$292.7 million.

As shown in Table 2, taxes levied on all classes of property totaled \$7.1 billion in 2003, the most recent year for which data are available. Residential property accounted for about \$4.9 billion, or 69.2 percent, of all taxes generated. Manufacturing property accounted for 4.1 percent of statewide property taxes, or \$292.7 million.

Table 2

Property Taxes Generated, by Class
2003
(In Millions)

Property Class	Tax Levy	Percentage
Manufacturing Property:		
Real Estate	\$ 243.7	3.4%
Personal Property	49.0	0.7
Subtotal	292.7	4.1
Residential	4,917.0	69.2
Commercial	1,364.5	19.2
Agricultural/Other ¹	204.9	2.9
Undeveloped/Agricultural Forest	164.0	2.3
Other personal property	159.7	2.3
Total	\$7,102.8	100.0%

¹ The "other" category includes "agricultural buildings and improvements and the land necessary for their location and convenience."

Manufacturing and Telephone Company Assessment

DOR has five primary responsibilities related to manufacturing assessment:

- DOR determines which properties should be classified as manufacturing properties, as defined in s. 70.995(1) and (2), Wis. Stats.
- Section 70.995(7)(b), Wis. Stats., requires DOR to conduct on-site inspections, known as field audits, of each manufacturing property at least once every five years.
- Because not every property is inspected every year, DOR updates property values between inspections using information submitted by manufacturers that reflects changes, such as new construction, to all owned and leased real estate and personal property.

- DOR inspects manufacturing properties that have recently sold in order to collect data on comparable properties that can be used in determining property values.
- DOR processes appeals of its valuation decisions from manufacturers and municipalities.

In other midwestern states, including Illinois, Indiana, Iowa, Michigan, and Minnesota, local governments are responsible for assessing manufacturing property. The State of Ohio assesses the value of only those companies with manufacturing property in more than one jurisdiction; otherwise, local assessors are responsible. Making comparisons among states is difficult because states frequently define manufacturing property differently, including the amount and type of manufacturing property that is exempt from taxation. For example, Iowa and Minnesota exempt all personal property from taxation, not just machinery, equipment, and computer equipment as Wisconsin does. Michigan offers programs in which real estate and personal property are exempt from taxation for a defined period in specific geographic regions. Ohio exempts businesses that are selected by local governments and typically located in economically depressed areas.

Machinery and equipment used in the manufacturing process are exempt from taxation.

In Wisconsin, the Legislature has enacted various property tax exemptions as a way to encourage manufacturing and other business growth. Beginning in 1974, the Legislature exempted from taxation machinery and equipment used exclusively and directly in manufacturing. The Legislature enacted subsequent tax exemptions in 1999 and 2003 for computers, computer software, cash registers, some facsimile machines, and other information technology equipment. Personal property not consisting of machinery and equipment used for manufacturing purposes, such as office furniture, fixtures, forklifts, and office equipment, remains taxable. Appendix 1 details significant legislation affecting property taxation since 1974.

As shown in Table 3, 59.5 percent of the statewide value of manufacturing property in 2004 was located in ten counties. With more than \$1.7 billion in value, or 12.7 percent of the state total, Milwaukee County had the most manufacturing property value. It was followed by Waukesha County with 10.8 percent, and Dane County with 6.1 percent.

Table 3
Value of Manufacturing Property, by County¹
 2004
 (In Millions)

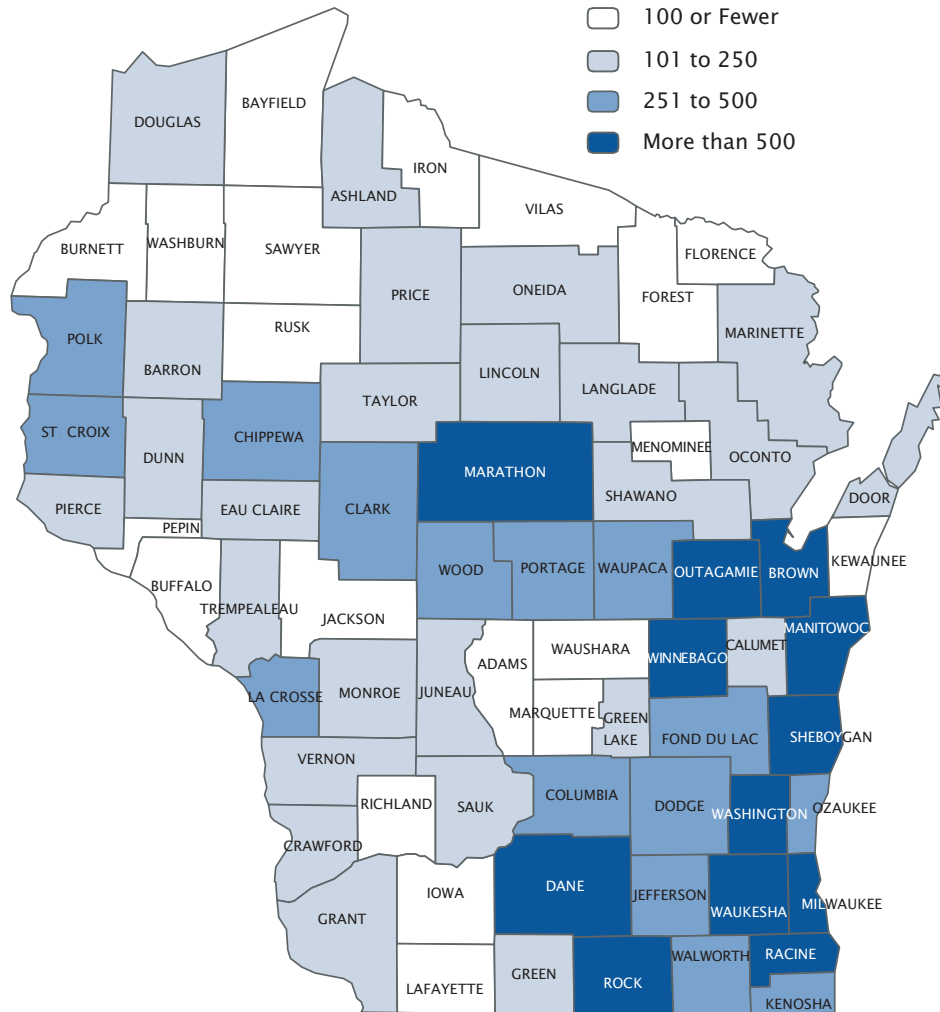
County	Value of Manufacturing Property	Percentage of Statewide Manufacturing Value
Milwaukee	\$ 1,720.4	12.7%
Waukesha	1,470.3	10.8
Dane	828.0	6.1
Brown	804.7	5.9
Winnebago	779.5	5.8
Outagamie	621.4	4.6
Kenosha	502.1	3.7
Racine	495.2	3.7
Sheboygan	434.1	3.2
Marathon	403.8	3.0
Subtotal	8,059.5	59.5
Other Counties	5,490.4	40.5
Total	\$13,549.9	100.0%

¹ Value as of September 15, 2004, which is used to compare values across property classes.

Figure 3 shows the statewide distribution of manufacturing property accounts. DOR tracks manufacturing property by the number of accounts because each individual real estate parcel, and personal property located in different municipalities, is reported as a separate account for DOR to process and inspect. Consequently, the number of accounts is greater than the number of manufacturers, because many manufacturers own more than one real estate parcel or have personal property located in more than one municipality. The majority of manufacturing property accounts are concentrated in the counties located in the southeastern portion of the state and the Fox Valley.

Figure 3

**Statewide Distribution of Manufacturing Property Accounts
2004**



However, manufacturing property was not a large percentage of any county's total equalized property value in 2004. It ranged from 0.0 percent in Menominee County and 0.1 percent in Bayfield County to 7.9 percent in Winnebago County and 8.1 percent in Wood County. Appendix 2 provides information on the value of manufacturing property in each county.

As shown in Table 4, DOR was responsible for assessing 22,820 manufacturing property accounts in 2004, including 12,172 real estate parcels and 10,648 personal property accounts. In addition, DOR was responsible for assessing 12,982 telephone company

accounts, including 6,083 “outside plant” accounts that represent telephone company equipment and other property located outside of real estate parcels owned by the company. Telephone company property was valued at \$4.1 billion in 2004.

Table 4
Number of Manufacturing and Telephone Company Accounts
 2004

Type of Account	Manufacturing	Telephone
Real Estate	12,172	1,608
Personal Property	10,648	5,291
Outside Plant ¹	N/A	6,083
Total	22,820	12,982

¹ Includes equipment and other property located outside of real estate parcels owned by a telephone company.



Staffing and Expenditures ■

Staffing and funding for DOR's Bureau of Manufacturing and Telco Assessment, which is responsible for assessing manufacturing property, were subject to considerable debate during 2003-05 budget deliberations. The Governor proposed returning most assessment functions to local governments, based on a decision that they were not part of DOR's primary mission, and eliminating the staff that perform those functions. The Legislature restored most of the proposed reductions, maintained all assessment functions within DOR, and directed that the cost of the restored functions and staff be shared equally between the State and local governments that have manufacturing property.

As shown in Figure 4, the Bureau operates five district offices, located in Eau Claire, Fond du Lac, Madison, Milwaukee, and Green Bay, as well as a central office also located in Madison. A sixth district office, with responsibility for Racine, Kenosha, and Waukesha counties, was closed in FY 2001-02 as a cost-saving measure, and its accounts were assigned to other districts.

Staffing for manufacturing and telephone company property assessment decreased by 17.9 percent since FY 2001-02.

In FY 1996-97, the Bureau had 45.8 FTE positions, which at that time entirely supported manufacturing assessment activities. In FY 1997-98, the Bureau's responsibilities were expanded to include assessing the taxable property of telephone companies. By FY 1999-2000, 4.7 FTE positions had been added to the Bureau for this purpose, for a total of 50.5 FTE positions. Since FY 2001-02, 9.0 FTE positions have been eliminated as cost-reduction measures, leaving the Bureau with 41.5 FTE positions in FY 2003-04, and representing a 17.9 percent decrease in positions since FY 2001-02.

Figure 4

Bureau of Manufacturing and Telco Assessment District Offices
January 2004

The 41.5 FTE positions consist of 25.0 property assessment specialists, who are required to have formal training and receive certification as a property assessor by the State; 9.5 property assessment technicians, who provide administrative and technical support; 6.0 supervisors; and 1.0 bureau director.

In addition to the decrease in authorized positions, increased vacancies have recently affected the Bureau. While 3.2 percent of property assessment specialist positions were vacant in January 1999, 12.0 percent were vacant in January 2004. DOR staff indicate recent vacancies have resulted from retirements and staff departures in

response to the Governor's 2003-05 budget bill, which proposed eliminating the Bureau. DOR has recently filled a number of these positions.

The Bureau's expenditures increased by 8.3 percent in the period shown in Table 5, from \$2.6 million in FY 1996-97 to \$2.8 million in FY 2003-04. Salaries and fringe benefit expenditures accounted for 95.7 percent of expenditures in FY 2003-04. Although the Bureau is responsible for assessing both manufacturing and telephone company property, expenditures for these activities are not recorded separately.

Table 5

Bureau of Manufacturing and Telco Assessment Expenditures, by Type¹

	FY 1996-97	FY 2003-04	Change	Percentage Change
Salaries	\$1,800,800	\$1,870,600	\$ 69,800	3.9%
Fringe Benefits	625,500	816,000	190,500	30.5
Supplies and Services	166,000	121,200	-44,800	-27.0
Total	\$2,592,300	\$2,807,800	\$215,000	8.3

¹ Responsibility for assessing telephone company was given to the Bureau in FY 1997-98, including 4.7 positions for that purpose.

Beginning in FY 2003-04, municipalities paid \$1.1 million to DOR for the cost of assessing manufacturing property.

From FY 1996-97 through FY 2002-03, the Bureau was funded entirely with GPR. However, as a result of provisions in 2003 Wisconsin Act 33, the 2003-05 Biennial Budget Act, manufacturing assessment activities are currently funded in part with program revenue from fees charged to municipalities. The Governor had proposed transferring most responsibility for assessing manufacturing property from DOR to local governments and eliminating \$2,277,000 in each year of the FY 2003-05 biennium, as well as 31.0 positions in the Bureau. However, the Joint Committee on Finance instead authorized DOR to annually impose a special charge on each municipality containing manufacturing property, sufficient to pay for 50 percent of DOR's budgeted costs associated with the assessment of manufacturing property. Joint Finance eliminated 4.0 FTE positions and decided that the cost of 27.0 of the remaining 41.5 FTE positions in the Bureau, or \$2,152,600, represented the cost of manufacturing assessment to be evenly divided between DOR and municipalities. This equaled \$1,076,300 and 13.5 FTE positions each in GPR and program revenue. These provisions were approved by the Legislature and enacted in 2003 Wisconsin Act 33.

Information provided by DOR indicates that as of January 2003, 1,355 municipalities contained taxable manufacturing property with values ranging from \$100 to \$950 million. The fees charged to these municipalities ranged from \$0.01 to \$75,798. Nearly half of these municipalities were charged less than \$50, whereas about 20 percent were charged more than \$500 and, as shown in Table 6, 23 municipalities were charged fees greater than \$10,000 in FY 2003-04.

Table 6
Municipalities with Fees Greater than \$10,000
FY 2003-2004

	Value of Manufacturing Property ¹	Municipal Fee for Assessment of Manufacturing Property
City of Milwaukee	\$ 950,007,200	\$ 75,798
City of Green Bay	387,461,900	30,914
City of Madison	335,496,200	26,768
Village of Menomonee Falls	326,607,300	26,059
Village of Pleasant Prairie	261,849,800	20,892
City of Waukesha	253,528,600	20,228
City of Oshkosh	219,444,200	17,509
Town of Menasha	209,841,900	16,743
City of Neenah	208,049,300	16,600
City of Appleton	202,962,700	16,194
City of New Berlin	201,063,800	16,042
City of Wauwatosa	190,068,300	15,165
City of Janesville	186,960,800	14,917
City of Kenosha	184,260,800	14,702
City of Racine	183,653,000	14,653
City of Sheboygan	173,431,100	13,838
City of Wisconsin Rapids	150,768,300	12,029
City of Oak Creek	149,914,200	11,961
City of Manitowoc	149,683,900	11,943
City of Eau Claire	148,125,000	11,818
Village of Germantown	144,419,000	11,523
Village of Ashwaubenon	135,464,900	10,808
City of La Crosse	131,680,000	10,506
All Other Municipalities	8,004,917,600	638,690
Total	\$13,489,659,800	\$1,076,300

¹ Value as of July 1, 2003, which DOR used as the basis for apportioning fees after the passage of 2003 Wisconsin Act 33.

In November 2003, DOR billed municipalities for the first time under the new procedures and requested payment of manufacturing assessment fees by March 31, 2004. In part to allow an easier method of payment for municipalities with small fees, 2003 Wisconsin Act 170 was enacted in April 2004. It requires DOR to deduct the amount of the fee from the July shared revenue payment of any municipality that does not pay its fee by March 31 of each year. In FY 2003-04, 1,210 municipalities paid more than \$1 million by the March 31 deadline, and 145 municipalities had \$68,335 deducted from their shared revenue payments. The average deduction from shared revenue for these municipalities was \$471. Deductions ranged from \$0.03 for the Town of Madge and the Town of Washburn to \$8,652 for the City of Mequon. In FY 2003-04, 20.6 percent of municipalities with payments of less than \$5.00 had these payments deducted from shared revenue. This number is expected to increase in FY 2004-05.

In its 2005-07 biennial budget request, DOR has proposed charging municipalities \$2.6 million in fees, sufficient to fully fund the cost of manufacturing assessment. The additional fees would include costs associated with additional functions currently not included in the costs divided between DOR and municipalities. This would increase by 137.5 percent the fees municipalities pay.

■ ■ ■ ■

Valuation Methods ■

Accurate assessment of manufacturing property is important for ensuring that manufacturers are taxed equitably compared both to other classes of property and to manufacturers located in other taxing jurisdictions. Over-assessment results in manufacturers paying a disproportionate share of property taxes, while under-assessment shifts property taxes to other taxpayers, including residential homeowners. Although some differences across districts exist, we found that DOR generally follows statutorily accepted practices for determining the value of manufacturing property.

Approaches to Valuing Property

Property assessments are estimates that cannot be verified with absolute certainty unless the property is sold in an arm's-length transaction. The standard for valuing real estate in Wisconsin, including both land and improvements, is the price that could normally be obtained through private sale, commonly referred to as market value. Section 70.32(1), Wis. Stats., and the Wisconsin Property Assessment Manual, which is prepared by DOR, require that real estate be valued "from actual view or from the best information that the assessor can practicably obtain, at the full value which could ordinarily be obtained at private sale."

Statutes require assessors to consider recent sales of similar properties when valuing manufacturing property.

In determining the value of real estate, s. 70.32(1), Wis. Stats., requires the assessor to consider recent arm's-length sales of the subject property; recent arm's-length sales of reasonably comparable property; and other factors that, according to professionally accepted appraisal practices, affect the value of the property to be assessed. This approach to determining real estate value, known as the sales approach, requires that DOR maintain a database of manufacturing properties that have recently sold in order to derive estimated market values for the properties it assesses. In order to make these comparisons among properties that have recently sold and the property to be assessed, DOR collects information by inspecting properties upon their sale to note condition, usage, dimensions, location, and other factors that affect a property's value.

DOR assessors may not have sufficient information to make a valid determination of market value based solely on comparable sales because sales of manufacturing properties are less frequent than residential property sales. In these instances, DOR assessors rely on other accepted methods to determine the value of manufacturing property. For example, under the cost approach, the assessor estimates the cost to replace the property, adjusted for depreciation factors such as age, usage, and quality of the construction of the improvements. The cost approach is most appropriate for newer properties that have not depreciated significantly, and for unique specialty properties for which comparable properties do not exist.

A third approach for valuing real estate, known as the income approach, estimates value based on the income that can be generated from the property. The income approach is more frequently used for commercial and leased property, but it is occasionally used to value manufacturing property when neither the sales nor the cost approach can be applied.

Department of Revenue Methods for Valuing Property

DOR staff conduct field audits of manufacturing property during which assessors note the characteristics and usage of the property, such as building dimensions, construction type, and location. Once this information is collected, the assessor uses a computer program to compare the subject property to comparable properties that have recently sold and estimate the property's market value. The assessor also uses the information collected during the field audit to estimate the property's replacement cost or income-based value as part of this analysis.

In a 1980 review of this program (report 80-01), we found that DOR's district staff were inconsistently valuing manufacturing property and over-relying on the cost approach. We also found that DOR did not properly document the methods used to arrive at property values. The report included recommendations for DOR to improve its assessment practices.

To evaluate the methods currently used by DOR to value manufacturing property, we reviewed records for 1,681 properties for which DOR used its computer program to determine value. This process requires DOR staff to document which valuation approaches they used. Because DOR typically performs this more detailed computer analysis only when a field audit is conducted or when an assessment is appealed, analyses completed in any given year represent only a sample of all manufacturing parcels statewide. As noted, property that does not undergo this computer analysis is valued based on changes, such as new construction, reported on forms submitted by manufacturers.

In practice, DOR uses a combination of methods to value manufacturing property.

Because of the limited number of comparable sales, DOR uses a combination of approaches to determine value. A computer program analyzes the information collected during a field audit and recommends a weighting for each potential valuation approach, based on the comparability of available sales. 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. For example, an assessor who believes that the available sales are more representative of the subject property than the computer analysis indicates may increase the weight given to the sales approach. In other cases, the assessor may decide the available sales are less comparable to the subject property than the computer analysis indicates and assign a lower weighting to the sales approach and a higher weighting to the cost approach.

In 2003, the sales approach was weighted most heavily statewide, at 82.4 percent. However, as shown in Table 7, the Western and Southern districts weighted the cost approach more heavily than other districts did.

Table 7

Weighting of Approaches Used to Value Real Estate¹
2003

District	Sales	Cost	Income	Other ²	Total
Northeastern	92.6%	6.5%	0.3%	0.6%	100.0%
Lake Winnebago	91.0	4.6	0.0	4.4	100.0
Metro	89.3	4.8	2.1	3.8	100.0
Southern	70.0	27.0	2.0	1.0	100.0
Western	69.0	27.2	0.4	3.4	100.0
Statewide	82.4	14.0	1.0	2.6	100.0

¹ Includes properties in DOR's sample of 1,681 properties for its 2003 analysis. Data provided by DOR.

² The "other" indicator is used to adjust values based on factors that are not comparable to other properties, which typically relate to specialized equipment—such as a walk-in freezer—classified as real property.

The relative reliance on the sales approach varied across districts.

To determine whether similar variations across districts were evident in prior years, we reviewed records for properties analyzed by DOR in 2000. Statewide, the average percentage of value determined by each approach remained relatively unchanged from 2000 to 2003, with the Western and Southern districts weighting the cost approach more heavily.

One reason the relative weightings differ across districts is that manufacturing property is more widely dispersed in rural districts, making it more difficult to find comparable sales. Assessors then may appropriately use the cost approach. DOR indicates that the rural nature of the Western and Southern districts explains their relatively greater reliance on the cost approach. However, it remains unclear how the rural counties in the Southern district are substantially different than the rural counties in the Northeastern district, which weights the sales approach more heavily.

Furthermore, some differences across districts may be related to individual district practices or relative experience of staff. For example, DOR staff in the Southern district indicate they typically accept the weightings recommended by the computer program because that has been the policy in that district for years. Conversely, staff in the Lake Winnebago district indicate they typically disregard the computer-recommended weightings and weight 100 percent of the property value on the sales approach.

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

Recommendation

We recommend the Department of Revenue report to the Joint Legislative Audit Committee by March 31, 2005, on its analysis of differences in valuation methods and its efforts to monitor and ensure consistency across districts.

Maintaining a Database of Comparable Sales

DOR maintains a database of recently sold manufacturing properties.

As noted, Wisconsin Statutes require that DOR derive market values of manufacturing property based on the sale price of the subject property, or by comparing the subject to sales of comparable properties whenever possible. As a result, DOR staff indicate they identify and inspect between 200 and 300 recently sold manufacturing and commercial properties each year to collect information about the sales. The database used to hold and analyze this information contains as many as 1,600 records of property sales. Sales are removed from the system when the information is deemed to be outdated, typically after four to five years.

According to DOR staff, the manufacturing sales database was designed more than 20 years ago, and without the capability to make sales data available electronically. They note that competing priorities within DOR have limited the amount of in-house programmer time available for upgrading the system, and purchasing programming services is difficult for an outdated system.

Because accurate assessments require up-to-date information on the sale of manufacturing properties, DOR is concerned that the quality of assessments will decrease and the number of manufacturers who appeal their assessments will increase if this information is not collected and maintained. Furthermore, the predominant standard used by the courts and the state agency that hears appeals on a wide variety of taxation issues, the Tax Appeals Commission, is whether assessed value accurately reflects market value, and the Tax Appeals Commission relies heavily on comparable sales when evaluating manufacturing property values determined by DOR.

Each year, DOR prints a limited number of copies of information about properties that have recently sold and makes this information available for inspection at the district offices or for sale at \$0.05 a page. DOR also sells paper copies of the annual updates to the

manufacturing sales data at \$50 a copy to more than 100 local governments and private appraisal firms. The detailed information found in the manufacturing sales database is valuable to private appraisal firms because it can substitute for sending representatives to inspect properties. However, statutes allow DOR to recover only the cost of printing when making manufacturing sales data available to interested parties.

DOR should consider ways to improve database maintenance and access.

DOR is considering ways to maintain the integrity of its database of comparable sales and to increase its usefulness to both DOR and others. One possibility would be to upgrade the database so that information in it could be made available electronically and sold to private appraisal firms. Revenue generated from these sales could be used to offset the costs of maintaining and improving the database. This would be similar to the way in which DOR sells information obtained from real estate transfer returns, which must be filed for every real estate transaction recorded in the state. Currently DOR generates \$35,000 annually in revenue from sales of an electronic subscription to the real estate transfer return database, which includes an average of more than 240,000 returns each year. Subscriptions cost \$5,000 annually, and sales are allowed by s. 77.265(9), Wis. Stats. All revenues are deposited as general receipts into the State's General Fund.

Recommendation

We recommend the Department of Revenue analyze the feasibility of selling information from its database of comparable sales, including the amount of revenue that could be generated from such sales and potential uses for that revenue.

■ ■ ■ ■

Field Audits and the Assessment Process ■

Statutes require a field audit of each manufacturing property once every five years.

DOR assessors conduct field audits of manufacturing real estate parcels and personal property to verify that the information reported by manufacturers is accurate. Section 70.995(7)(b), Wis. Stats., requires that these field audits be conducted at least once every five years. DOR is not meeting the five-year requirement, but it is not possible to determine the full extent of the backlog because DOR does not maintain data showing which properties have been audited within the last five years in each district, and we were unable to calculate this independently. A number of factors have hindered DOR's ability to meet the five-year audit cycle, including reduced staffing, responsibility for assessing the value of telephone company property, outdated information management systems, and an increasing appeals workload. DOR could streamline the assessment and field audit processes by prioritizing program functions, automating certain processes, and improving the use of technology.

Five-Year Field Audit Cycle

Field audits allow DOR to verify that taxable property has been properly reported.

Field audits allow DOR to verify that all taxable property has been properly reported and to ensure that all personal property is correctly classified as exempt or taxable. Field audits also allow DOR to ensure that an accurate determination of market value is made. Inspecting property is the best way to ensure assessment records reflect land improvements, renovations, or other changes in buildings. In 2003, discoveries made during field audits resulted in

increased value of \$89.6 million statewide, or 21.3 percent of the increase in value that year. In comparison, new construction added \$300.4 million in value in 2003.

A field audit does not always result in an increased assessment. As shown in Table 8, field audits resulted in an increased assessment for 52.8 percent of the 1,681 properties audited in 2003, and a decreased assessment for 39.9 percent. By comparison, in 2000 DOR increased the assessment for 78.0 percent of the 1,462 properties audited, while it decreased the assessment for 18.1 percent. It should be noted that because DOR inspects only a sample of manufacturing property each year, differences may result from the types of properties inspected rather than other reasons, such as changes in the economy that affect sales price and market value.

Table 8
Effect of Field Audit on Manufacturing Property Value

	2000	2003
Increased Assessment	78.0%	52.8%
Decreased Assessment	18.1	39.9
No Change	3.9	7.3
Total	100.0%	100.0%

DOR is unable to report the number of properties that have not been inspected in the last five years.

DOR officials believe that they met the statutory requirement to complete field audits of manufacturing properties every five years until recently, but a backlog of properties to be inspected currently exists. However, DOR does not maintain comprehensive data for tracking field audits that would allow a precise determination of the size of the backlog. For example, although staff in the Metro and Southern districts typically record the date of the last field audit in DOR’s manufacturing assessment database, which includes a specific field for recording these data, staff in the Northeastern, Western, and Lake Winnebago districts do not.

One of the reasons for the lack of data is that the central office has generally given discretion to the district supervisor to plan field audits, allowing each district to maintain information on its workload and audit cycle in a different format. According to the district supervisors, most of the districts plan for field audits on a

county-by-county basis. As a result, supervisors have considered it unnecessary to track individual properties, based on their knowledge of which counties were to be audited in a given year.

Regardless of the size of the backlog, improved tracking of field audits is important not only to verify compliance with statutory requirements, but also for making informed planning decisions. Currently, the central office does not provide direction over which properties need to be audited in a given year. Inconsistencies among the districts raise questions of equity and could possibly lead to increased appeals in districts that fall further behind in completing their audits.

Recommendation

We recommend the Department of Revenue develop its database and reporting mechanisms to allow it to centrally monitor and assess performance in meeting the five-year field audit requirement.

Because DOR does not maintain data for tracking field audits, we estimated the time it would take for it to complete field audits of all properties. To complete a field audit of every account once every five years, staff would be expected to complete field audits on 20 percent of the approximately 12,000 improved manufacturing and telephone company real estate accounts per year. At current authorized staffing levels, each of 25.0 FTE property assessment specialists would have to complete 96 field audits per year in order to meet that standard. DOR staff indicate that, using current methods, an experienced property assessment specialist could be expected to complete approximately 80 field audits of improved real estate parcels per year. Based on available data, we believe this to be a reasonable estimate. For example, data kept by the Northeastern district office show the average number of field audits completed by each staff member ranged from 65 in 2001 to 87 in 2003.

At current staffing levels, it would take DOR nearly seven years to inspect all properties.

As shown in Table 9, if the Bureau of Manufacturing and Telco Assessment is fully staffed and completes an average of 80 field audits of improved real estate accounts each year, it would take six years to complete field audits of all manufacturing and telephone company accounts. If existing rates of staff vacancies continue, it would take 6.9 years to complete all field audits. It should be noted that real estate without improvements is also subject to the five-year field audit requirement, but DOR indicates these audits are not time-consuming and are worked into the schedule when possible.

Table 9

Years Needed to Complete Field Audits
As of January 2004

District	Based on Authorized FTE Positions	Based on Filled FTE Positions
Western	6.3	6.3
Lake Winnebago	6.7	6.7
Southern	5.5	8.2
Metro	5.5	6.8
Northeastern	8.1	8.1
Statewide	6.0	6.9

Until DOR is able to meet the five-year cycle for field audits, it will have to prioritize field audits in such a way as to ensure the most accurate manufacturing property values statewide. One possibility would be to ensure that properties representing a significant portion of the total value of manufacturing property are regularly inspected. Likewise, DOR may wish to continue its practice of assigning lower priority to accounts consisting solely of personal property without associated real estate, especially in cases where these assessments can be accurately made using only the information reported annually by manufacturers.

Recommendation

We recommend the Department of Revenue prioritize field audits to ensure the most accurate manufacturing property values statewide.

Factors Affecting Field Audit Frequency

The factors that have led to DOR’s inability to meet the five-year audit requirement include reductions in staff and increases in workload that have resulted from telephone company assessments and computer exemptions. DOR could improve its use of technology and upgrade its information systems to meet increased workload demands.

Assessment of Telephone Company Property

The number of accounts requiring inspection increased by 54.7 percent from 1997 through 2004.

Before 1998, the Bureau was responsible for 23,137 manufacturing accounts. With the expansion of its responsibilities to include assessing taxable property of telephone companies in 1998, approximately 9,900 real estate and personal property accounts were added to the Bureau’s workload. As was shown in Table 4, the number of telephone company accounts increased to 12,982 in 2004. Overall, the number of manufacturing and telephone company accounts increased 54.7 percent, to 35,802, since 1997. As noted, although additional staff were provided in 1998 to address the addition of the telephone company workload, the closing of the Southeastern district office in 2002 and subsequent position reductions in the 2003-05 Biennial Budget Act resulted in an overall decrease in authorized positions.

As shown in Table 10, the value of telephone company property increased 2.2 percent to \$4.1 billion in 2004. Like tax revenue from other public utilities, revenue generated from the taxation of telephone property is deposited as general receipts in the State’s General Fund. In 2004, DOR collected \$83.9 million in property taxes from more than 250 telephone companies.

Table 10

Telephone Company Property Values (In Millions)

Property Type	2001	2004	Change
Real Estate	\$ 385.3	\$ 428.3	11.2%
Personal Property	2,051.8	2,211.9	7.8
Outside Plant ¹	1,540.4	1,423.1	-7.6
Total	\$3,977.5	\$4,063.3	2.2

¹ Includes equipment and other property located outside of real estate parcels owned by a telephone company.

DOR has not met the requirement to audit telephone company property every five years.

Like the cycle for assessing manufacturing property, telephone company property is required to be field audited every five years. DOR officials stated that they have not met the requirement to audit telephone company property every five years and have not developed a plan for meeting this requirement. Central office staff,

who retain responsibility for assessing the value of outside plant accounts, stated that approximately 30 percent of the more than 6,000 accounts have been audited. Although DOR received additional staff to complete telephone company assessments, it has not tracked the staff effort it devotes to completing them. DOR's recent implementation of a staff timekeeping system should allow it to better understand the level of effort devoted to this function.

DOR officials noted several reasons for their difficulty in completing telephone company audits on a five-year cycle. First, it is difficult to determine the market value of specialized equipment used by these companies. Second, telephone companies rapidly adopt new technologies and systems that often require significant technical expertise and training to assess, which DOR staff may not have. Third, many of the larger telephone companies maintain headquarters outside Wisconsin, and DOR does not have the resources to send assessors to review accounting and inventory records maintained in these offices. Finally, the effort required to process reporting forms contributes to the workload associated with telephone company assessments.

Like manufacturers, telephone companies are required to submit property reporting forms, which are used by DOR to update assessments between field audits. Because s. 76.81, Wis. Stats., requires telephone company property to be taxed by the State at a rate equal to the tax rate imposed on other classes of property in the municipality where the property is located, companies submit a separate form for each real estate parcel in each municipality in which they own taxable personal property or outside plant property. Telephone industry representatives report that some of the larger companies submit more than 7,000 pages of forms describing personal, real, and outside plant property in the different local taxing districts, which DOR staff must process in order to make adjustments to the annual assessments.

Telephone company assessment may warrant further legislative attention.

Telephone company assessment practices were beyond the scope of this audit. However, the efficient processing of telephone company assessments and the fairness of tax rates and revenues may warrant further legislative consideration. For example, in addition to assessment and processing issues, telephone companies are the only utilities to be taxed based on the tax rate of the local taxing jurisdiction in which individual property and parcels are located, rather than a statewide average.

Computer and Cash Register Exemptions

Recently enacted exemptions are another factor limiting DOR's ability to complete manufacturing audits within the five-year cycle. In an effort to provide incentives for business development, 1997 Wisconsin Act 237 exempted computer equipment from property taxes beginning with the 1999 assessment. Similarly, 2001 Wisconsin Act 16 created an exemption for cash registers and facsimile machines starting in 2003. Unlike the manufacturing machinery and equipment exemption enacted in 1974, these exemptions require DOR to continue to derive market values for the exempt equipment, because s. 79.095(4), Wis. Stats., requires the State to reimburse local taxing districts for the revenue that would have been generated by these properties as though they were not exempt. Consequently, in addition to continuing to review the computer exemption values submitted by manufacturers and verifying that computer equipment is exempt during field audits, DOR must calculate the reimbursement owed to municipalities and handle appeals of both state and local assessor exemption determinations. DOR staff do not track their time in a manner that allows us to determine the amount of time spent on these tasks that might otherwise be spent on assessing manufacturing property.

Exempt computer equipment was valued at \$3.1 billion in 2004.

As shown in Table 11, exempt computer equipment was valued at \$3.1 billion in 2004, an increase of 20.7 percent from 1999. Some of this increase is due to the exemption for cash registers and facsimile machines in 2001 Wisconsin Act 16, which took effect January 1, 2003. DOR reimburses municipalities from the shared revenue appropriation under s. 20.835(1)(e), Wis. Stats, which includes \$67.7 million in FY 2004-05.

Table 11

Value of Exempt Computer Equipment (In Millions)

Property Class	1999	2004	Change
Manufacturing ¹	\$ 965.0	\$ 1,056.6	9.5%
Non-manufacturing ²	1,584.7	2,020.5	27.5
Total	\$2,549.7	\$3,077.1	20.7

¹ Does not include computer equipment used directly in a manufacturing process, which is exempt under the manufacturing machinery and equipment exemption.

² Because DOR does not assess the value of non-manufacturing property, local assessors report the value of exempt computer equipment to DOR, which DOR uses to calculate reimbursements.

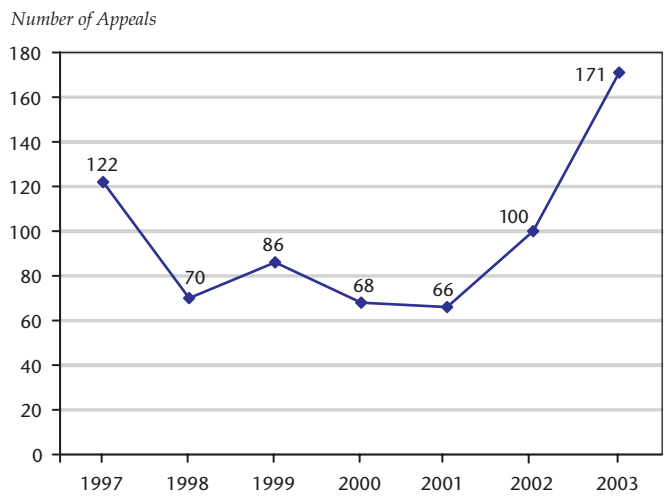
Appeals

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

Section 70.995(8), Wis. Stats., allows manufacturers and municipalities to file an objection with the state Board of Assessors, which is a review board composed of the district and central office supervisors of DOR’s Bureau of Manufacturing and Telco Assessment, within 60 days of receiving notice of the value of their manufacturing property. Appeals are relatively rare: out of the more than 23,000 assessments completed in 2003, only 171, or less than 1.0 percent, were appealed. However, as shown in Figure 5, the number of manufacturing real estate and personal property appeals by both manufacturers and municipalities increased from 122 in 1997 to 171 in 2003, or by 40.2 percent. 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. In addition, DOR supervisors serving on the Board of Assessors must spend time reviewing and deciding appeals. As the number of appeals increases, an increasing level of staff resources must be reassigned from other manufacturing assessment functions, such as completing annual assessments, conducting field audits, and inspecting properties that are sold.

Figure 5

Manufacturing Property Assessment Appeals Filed with the Board of Assessors



In addition to the 683 appeals of manufacturing property assessments filed from 1997 through 2003, the Board of Assessors received 274 other appeals, including 208 related to penalties imposed for late filing of manufacturing property reporting forms, 52 regarding the classification status as manufacturing versus non-manufacturing, and 14 regarding computer exemptions.

Preliminary data indicate the number of appeals filed with the board of assessors decreased to 127 in 2004. However, it is difficult to gauge whether the recent increase in appeals represents the beginning of a long-term trend that will continue to affect DOR workload or whether it is based on factors outside of DOR's control. For example, the economic slowdown that began in 2001 may have increased the number of manufacturers appealing assessments in order to reduce their taxes and costs, particularly because the \$45 filing fee is minimal and has not increased since 1985. Economic factors were cited in our 1985 evaluation of the program as a reason for a similar increase in appeals in the early 1980s. In addition, DOR staff note that appraisal firms increasingly offer to appeal assessments for manufacturers on a contingency basis. For example, DOR staff indicate that 38 appeals, or 29.9 percent of the appeals in 2004, were filed by one appraisal firm working on a contingency basis. This encourages appeals because the manufacturer pays no fee if the appeal is lost, and only a percentage of the tax savings if the appeal is successful. Consequently, some manufacturers may believe that an appeal that has no up-front cost, even with only a slight chance of success, is in the company's best interest.

Another reason for an increase in appeals is that, based on an internal legal opinion, DOR implemented a new policy in 2003 requiring that annual manufacturing personal property reporting forms remain confidential, despite an existing administrative rule allowing local assessors to review this information. In prior years, the Metro district office worked with the City of Milwaukee to provide access to all personal property accounts that had significant decreases in their value. In response to the denial of access, the City of Milwaukee filed 22 appeals in 2003 questioning DOR's assessment of personal property values, in order to obtain access to the personal property records of several companies whose assessments decreased sharply. The City of Milwaukee did not provide evidence questioning the property values, and the Board of Assessors sustained all of the values in these cases. The city did not further appeal these cases to the Tax Appeals Commission. Thus, these 22 appeals may have been avoided had DOR made the information available to the local assessor.

In February 2004, the Wisconsin Attorney General issued an opinion contradicting DOR’s policy, stating that while s. 70.35(3), Wis. Stats., could be interpreted to require confidentiality, the existing administrative rule was not inconsistent with the statute and DOR should allow local assessors access to manufacturing personal property reporting forms. DOR officials have indicated they now follow the Attorney General’s opinion.

As shown in Table 12, the Board of Assessors sustained original assessments in 46.3 percent of appeals and reduced values in 34.1 percent of cases from 1997 through 2003; manufacturers withdrew an additional 15.4 percent of appeals. The percentage of assessments sustained has increased somewhat since our 1985 review, which found that from 1982 through 1983, 34 percent of assessments were sustained.

Table 12
Disposition of Real and Personal Property Appeals by the Board of Assessors
1997 through 2003

Disposition	Number of Appeals	Percentage of Appeals
Sustain Assessment	316	46.3%
Reduce Assessment	233	34.1
Withdrawn	105	15.4
Deny Jurisdiction ¹	27	3.9
Increase Assessment	2	0.3
Total	683	100.0%

¹ Manufacturer was denied appeal because it did not submit the required property reporting forms.

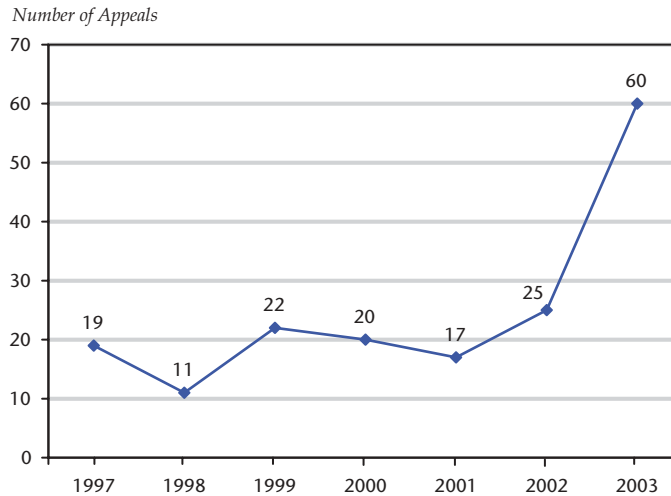
Appeals to the Tax Appeals Commission increased by 215.8 percent from 1997 through 2003.

As noted, when manufacturers or municipalities are not satisfied with the decision of the Board of Assessors, s. 73.01(5)(a), Wis. Stats., allows them to appeal to the Tax Appeals Commission, which consists of three full-time commissioners appointed by the Governor. From 1997 through 2003, 174 manufacturing appeals were filed with the Commission, including appeals related to assessments, penalties for late filing, and computer exemptions. As shown in Figure 6, the number of appeals to the Commission increased from 19 cases in 1997 to 60 cases in 2003, or by 215.8 percent. Like increases in appeals to the Board of Assessors,

increases in the number of appeals to the Tax Appeals Commission increase workload for DOR staff who are called on to review and provide information during proceedings.

Figure 6

Number of Manufacturing Appeals to the Tax Appeals Commission¹



¹ Represents the year in which the appeal was filed at the Tax Appeals Commission, not the year of the appeal to the Board of Assessors.

As shown in Table 13, 67.0 percent of the appeals filed with the Commission from 1997 through 2003 were settled without a hearing. The Commission dismissed 27.8 percent of the appeals either because the appellant did not file the appeal in a timely manner or for other reasons. Only 5.2 percent of appeals were decided through a formal hearing process. Based on information provided by DOR, we estimate the Tax Appeals Commission reduced the assessed value for approximately one-third of the appeals that were settled or for which a decision was made, while sustaining the original assessment for the remaining two-thirds.

If an appellant remains unsatisfied with the determination reached by the Tax Appeals Commission, the decision can be further appealed to the Dane County Circuit Court, as provided in 70.995(9), Wis. Stats. According to DOR staff, appeals of manufacturing assessments to the Circuit Court are rare. However, as provided in s. 76.08(1), Wis. Stats., telephone companies appeal their assessments directly to the Dane County Circuit Court, and 32 telephone companies appealed their assessments in 2003.

Table 13

**Disposition of Appeals by the Tax Appeals Commission
1997 through 2003¹**

Disposition of Appeal	Number of Appeals	Percentage of Appeals
Settled Without Hearing	65	67.0%
Dismissed	27	27.8
Decision Issued After Hearing	5	5.2
Total	97	100.0%

¹ Based on year in which appeal was filed. Does not include 77 appeals pending with the Tax Appeals Commission as of December 31, 2003.

**Efficiency of the Manufacturing
Assessment Process**

We believe our earlier recommendations for improving field audit tracking and prioritizing workload will improve efficiency. However, there are additional steps DOR could take to increase efficiency, including implementing electronic filing of reporting forms and making improvements to information management systems.

**Annual Assessment and Manufacturing Property
Reporting Forms**

Unless an extension is requested, owners and lessors of manufacturing property are statutorily required to submit manufacturing property reporting forms by March 1 of each year. Manufacturers submit one form for each real estate parcel, and a separate form describing all of the company’s personal property located within a municipality. As noted, property owners use these forms to report any changes to their property, such as remodeling, demolition, or new construction since the last assessment date.

From 1997 through 2003, 9.7 percent of forms were filed late by manufacturers.

One factor that hinders DOR’s ability to complete annual assessments is the late filing of required forms by manufacturers. In response to our 1980 evaluation—in which we found that more than half of the forms we sampled were not filed on time—the Legislature imposed a penalty on manufacturers who fail to file the forms in a timely manner. Since then, the timeliness with which manufacturers submit these forms has increased markedly.

From 1997 through 2003, an average of only 9.7 percent of the forms were subject to a penalty as a result of late filing. The average penalty was \$395,500 each year, or approximately \$175 for each form that was late. These fees are deposited as general receipts in the State's General Fund.

Currently, the largest hindrance to DOR's ability to process the reporting forms efficiently is the way in which they are submitted and processed. Because the forms are submitted on paper, DOR staff must prepare mailing labels and mail forms to manufacturers, who must then manually complete the forms and return them to DOR. DOR assessors evaluate the information on each form manually, correct the forms for omitted or improperly reported property, and in some cases contact the manufacturer for additional information. After reviewing the information and making any needed corrections, DOR staff manually enter the information into a database that tracks the manufacturing property rolls. Because this database does not allow DOR to print the information from prior years' forms to the subsequent year's forms, this process is repeated annually for each manufacturing parcel and account in the state.

Electronic filing of reporting forms would improve compliance and efficiency.

One way to reduce staff effort would be to require electronic filing of manufacturing and telephone company property reporting forms. DOR has been reviewing how best to implement electronic filing and the automation of other functions, which it believes would significantly reduce the time required to process the forms and would further improve compliance with the reporting deadlines. Other benefits of electronic filing include reduced filing errors; simplification of determining whether penalties should be assessed for late filing; reduced physical file storage needs; enhanced customer service; and a redirection of DOR resources toward discovering, valuing, and inspecting manufacturing and telephone company property.

DOR estimates that 30 percent of manufacturers and 80 percent of telephone companies would file forms electronically in the first year this service is available. DOR would need systems to accommodate both paper and electronic forms, at least for some period of time. Based on DOR's current estimates, the earliest electronic filing for telephone companies could be implemented would be the 2005 tax year, with electronic filing for manufacturing companies in 2006 at the earliest. DOR officials have recently stated that DOR's goal is to require all tax forms to be filed electronically by FY 2006-07. Although a final budget for these efforts has not been established, DOR estimates that the cost of implementing electronic filing for telephone companies could be approximately \$200,000. DOR estimates of time savings for staff due to implementation of electronic filing for both manufacturers and telephone companies

equal approximately 0.8 FTE position annually, or enough staff time to complete about 73 additional field audits per year. DOR indicates these efforts will be funded from existing resources, and no additional funding or positions will be requested from the Legislature.

Information Management Systems and Technology

Information systems at DOR are more than 20 years old.

Another factor contributing to DOR's inability to inspect manufacturing property on the five-year cycle is the inadequacy of existing information management systems. Most of DOR's manufacturing assessment data systems are more than 20 years old. Because of competing information technology priorities within DOR, and a lack of information technology staff available to work on these systems, many critical upgrades have not been completed over the last ten years. For example, DOR uses a commercially available software package widely used in the real estate and appraisal industry to make assessments using the cost approach. However, this software package is not integrated with DOR's manufacturing assessment system. Therefore, assessors must perform additional work to re-enter cost-based values into the computer when completing a sales analysis of manufacturing property.

Likewise, field audits have been conducted in essentially the same manner for more than 25 years, including physically measuring properties, drawing sketches by hand, and using paper to record data that later needs to be entered into a computer. New tools and technologies, such as handheld computers, digital cameras, and mapping software, could help assessors complete field audits and inspect recently sold manufacturing properties more efficiently. DOR officials indicate they intend to begin procurement of some of these tools, such as electronic laser measuring devices, in FY 2004-05. However, DOR has not requested additional funding or positions from the Legislature in its FY 2005-07 biennial budget request for this purpose.

DOR has gathered preliminary information on available options to replace its outdated systems and indicates its plan to replace these systems will be completed by March 2005. It plans to issue a request for proposals in 2005 for the purchase and modification of software to integrate its data systems with new electronic filing capabilities.

■ ■ ■ ■

Future Considerations ■

In October 2004, DOR received approval from the Department of Administration to reorganize its Division of State and Local Finance by merging the Bureau of Manufacturing and Telco Assessment, the Bureau of Equalization, and some responsibilities of the Bureau of Utility and Special Taxes into a new Bureau of Property Tax. By merging bureaus, cross-training staff, and implementing new technology, DOR hopes to gain efficiencies that will allow it to meet the five-year field audit cycle while addressing its other workforce needs, including anticipated staff retirements. DOR estimates that more than one-third of staff in the Bureau of Manufacturing and Telco Assessment will be eligible for retirement within three years.

Manufacturers are concerned about the effects of a reorganization within DOR.

Representatives of manufacturers indicated to us that DOR assessments are generally fair and staff are professional, knowledgeable, and easy to work with. However, they expressed some concern that the reorganization could reduce work quality by diluting the level of staff knowledge of how to assess manufacturing property and by changing the focus of the new Bureau of Property Tax from manufacturing assessment to other tasks, such as equalization. Likewise, legislators and others expressed concern that the reorganization could negatively affect the integrity of the manufacturing assessment process. For example, when the reorganization was first suggested, there was consideration of cross-training all staff in the new Bureau of Property Tax to perform both manufacturing assessment and equalization functions. DOR also considered combining oversight responsibility for both functions by eliminating one supervisor position in each district.

Recommendations approved by the Secretary and included in a report issued in March 2004 by a team of DOR staff planning for the reorganization attempted to address these concerns. The current organizational structure, under which the Bureau of Manufacturing and Telco Assessment and the Bureau of Equalization each will have separate staffs and supervisors in each district, will be retained. Instead of training all staff in both functions, newly hired staff will be trained in both manufacturing and telephone company assessment methods and equalization techniques; experienced staff will be allowed to choose whether to cross-train.

DOR may not meet the statutory time line for field audits for several years.

Although DOR officials believe the division reorganization will allow it to meet the statutory requirement of completing a field audit of each manufacturing property once every five years, it may take several years before DOR is able to meet the statutory timeliness requirements for field audits. Although DOR has identified a number of process changes and best practices, we believe these alone are not likely to sufficiently streamline operations so that the statutory requirement for timeliness can be met.

As DOR looks to become more efficient as part of its reorganization, it could consider whether other areas within the agency could be utilized to assist in processing manufacturing property reporting forms and reducing the amount of time that assessors and technicians spend reviewing and entering information. For example, DOR's Division of Processing and Customer Service processes more than 7 million individual and business tax returns annually and employs approximately 160 permanent employees and 350 limited-term employees during the tax season. DOR's current reorganization plan calls for reviewing the possibility of using these staff to assist in processing manufacturing assessment forms.

The reorganization of the Division of State and Local Finance may also affect the amount DOR seeks in reimbursement from municipalities. As noted, these reimbursements are expected to cover 50 percent of DOR's budgeted costs associated with the assessment of manufacturing property. In the future, however, costs "associated with the assessment of manufacturing property" may become less clear as DOR staff cross-train and work in multiple functional areas. For example, 2003 Wisconsin Act 33 excluded DOR costs associated with considering appeals and maintaining its database of comparable sales in determining the costs to be divided between DOR and municipalities.

The Legislature will need to determine which costs are to be charged to the municipalities.

Consequently, as the Legislature considers the level of funding to be provided by municipalities for manufacturing property assessment in DOR’s FY 2005-07 budget request, it will have to consider which costs from the new bureau to include in the amount that is to be shared between DOR and the municipalities. As shown in Table 14, the proposed Bureau of Property Tax in the Division of State and Local Finance had a budget of \$7.5 million in FY 2003-04, of which municipal funding accounted for 14.3 percent.

Table 14
Budget for Proposed DOR Bureau of Property Tax¹
 FY 2003-04

	Amount	Percentage of Total
Bureau of Equalization	\$4,582,900	60.9%
Bureau of Manufacturing and Telco Assessment:		
GPR	1,694,500	22.5
Program Revenue—Municipal Fees	1,076,300	14.3
Subtotal	2,770,800	36.8
Bureau of Utility and Special Taxes ²	174,524	2.3
Total	\$7,528,224	100.0%

¹ Bureaus included are those for which responsibilities would be included in the proposed Bureau of Property Tax. Bureau names and structures may be different after reorganization.

² Includes only a portion of the Bureau of Utility and Special Taxes; other bureaus within the Division of State and Local Finance will have responsibility for the remainder of these functions.

As noted, DOR’s 2005-07 biennial budget request would impose additional fees on municipalities sufficient to fully fund the cost of manufacturing assessment. In addition to the \$1.1 million in fees paid to DOR in FY 2003-04, DOR proposes to charge municipalities an additional \$1.5 million annually, including costs associated with functions that currently are not included in the costs divided between DOR and municipalities.

The degree to which the municipal fee will increase or decrease, to either reflect the effects of the reorganization or DOR’s biennial budget request, will be a matter for legislative deliberation.



Appendix 1

Significant Legislation Affecting Property Taxation

Subject	Act	Effective Date	Effect
Machinery and Equipment (M&E) Exemption	Chapter 90, Laws of 1973	January 1, 1974	Exempted all machinery and equipment used directly in the manufacturing process from the property tax.
Use-Value Assessment of Agricultural Property	1995 Wisconsin Act 27	January 1, 2000	Based value of agricultural property on its current use, rather than market value.
Computer Equipment Exemption ¹	1997 Wisconsin Act 237	January 1, 1999	Exempted computers, software, and other peripherals from the property tax.
Cash Registers and Facsimile Machines Exemption ¹	2001 Wisconsin Act 16	January 1, 2003	Exempted cash registers and facsimile machines (except those that are also copiers) from the property tax.

¹ The State is required to reimburse local taxing districts for the revenue that would have been generated as though computer equipment, cash registers, and facsimile machines were not exempt, as determined through forms submitted by property owners and verified during field audits by DOR staff and local assessors.

Appendix 2

Equalized Values, by County
2004

County	Manufacturing Real Estate Value	Manufacturing Personal Property Value	Total Manufacturing Property Value	Total Equalized Value	Manufacturing Percentage of County	Percentage of State Manufacturing Value
Milwaukee	\$ 1,393,937,700	\$ 326,484,700	\$1,720,422,400	\$ 51,153,360,200	3.4%	12.7%
Waukesha	1,305,452,400	164,808,200	1,470,260,600	40,939,573,700	3.6	10.8
Dane	698,851,700	129,125,500	827,977,200	38,538,686,600	2.2	6.1
Brown	668,724,300	135,960,800	804,685,100	15,529,893,600	5.2	5.9
Winnebago	641,953,800	137,559,700	779,513,500	9,888,507,900	7.9	5.8
Outagamie	493,335,600	128,076,800	621,412,400	10,597,631,000	5.9	4.6
Kenosha	442,671,300	59,479,500	502,150,800	11,148,839,800	4.5	3.7
Racine	413,211,300	81,970,000	495,181,300	12,081,482,000	4.1	3.7
Sheboygan	370,499,800	63,652,900	434,152,700	7,105,486,900	6.1	3.2
Marathon	340,798,400	62,982,300	403,780,700	7,640,172,300	5.3	3.0
Washington	361,665,800	32,808,000	394,473,800	10,647,371,500	3.7	2.9
Rock	296,021,300	61,003,500	357,024,800	8,161,089,100	4.4	2.6
Ozaukee	289,564,700	48,659,900	338,224,600	9,190,937,700	3.7	2.5
Wood	248,567,400	72,529,300	321,096,700	3,954,701,300	8.1	2.4
Dodge	205,422,500	53,999,000	259,421,500	4,805,447,100	5.4	1.9
Jefferson	220,075,200	32,826,100	252,901,300	5,088,641,100	5.0	1.9
Walworth	212,165,300	24,732,700	236,898,000	10,242,367,900	2.3	1.7
Fond du Lac	194,598,100	38,562,400	233,160,500	5,605,517,700	4.2	1.7
Manitowoc	207,178,800	24,890,400	232,069,200	4,447,460,000	5.2	1.7
Portage	159,501,600	34,617,200	194,118,800	4,000,215,600	4.9	1.4
La Crosse	138,667,200	33,555,600	172,222,800	6,113,172,700	2.8	1.3
Eau Claire	135,842,800	20,628,700	156,471,500	5,534,287,700	2.8	1.2

County	Manufacturing Real Estate Value	Manufacturing Personal Property Value	Total Manufacturing Property Value	Total Equalized Value	Manufacturing Percentage of County	Percentage of State Manufacturing Value
St. Croix	\$ 138,886,800	\$ 15,152,500	\$ 154,039,300	\$ 6,623,719,900	2.3	1.1
Chippewa	129,270,300	16,474,000	145,744,300	3,475,583,600	4.2	1.1
Sauk	120,598,500	21,639,000	142,237,500	5,087,705,400	2.8	1.1
Columbia	113,983,200	15,167,700	129,150,900	3,946,781,100	3.3	1.0
Waupaca	101,475,300	22,467,000	123,942,300	3,153,966,700	3.9	0.9
Marinette	96,176,500	26,710,100	122,886,600	2,961,399,600	4.2	0.9
Calumet	78,547,100	19,460,900	98,008,000	2,638,829,600	3.7	0.7
Monroe	67,096,600	19,445,500	86,542,100	1,893,339,500	4.6	0.6
Polk	75,581,400	9,017,100	84,598,500	3,837,557,200	2.2	0.6
Lincoln	64,315,800	19,710,800	84,026,600	1,949,135,300	4.3	0.6
Dunn	71,732,800	7,608,700	79,341,500	2,345,989,000	3.4	0.6
Barron	59,284,900	14,576,000	73,860,900	3,103,226,500	2.4	0.5
Green	55,173,800	12,450,000	67,623,800	2,036,574,000	3.3	0.5
Clark	52,035,000	6,907,300	58,942,300	1,427,157,700	4.1	0.4
Trempealeau	44,230,300	10,159,800	54,390,100	1,279,899,400	4.3	0.4
Grant	45,824,600	6,735,700	52,560,300	1,985,537,200	2.7	0.4
Oconto	44,641,600	7,576,000	52,217,600	2,895,927,000	1.8	0.4
Shawano	44,473,600	5,336,500	49,810,100	2,423,871,800	2.1	0.4
Price	40,888,100	8,633,400	49,521,500	1,215,254,600	4.1	0.4
Juneau	40,820,500	5,525,600	46,346,100	1,454,112,300	3.2	0.3
Oneida	31,874,600	14,149,200	46,023,800	5,370,075,500	0.9	0.3
Douglas	26,961,400	16,624,400	43,585,800	2,621,853,700	1.7	0.3
Taylor	31,380,500	9,622,200	41,002,700	1,067,712,100	3.8	0.3
Door	35,258,300	3,257,300	38,515,600	5,888,738,300	0.7	0.3
Crawford	28,067,200	4,569,800	32,637,000	810,651,600	4.0	0.2
Richland	23,494,400	7,950,700	31,445,100	849,705,600	3.7	0.2
Langlade	23,752,800	4,562,700	28,315,500	1,398,679,600	2.0	0.2

County	Manufacturing Real Estate Value	Manufacturing Personal Property Value	Total Manufacturing Property Value	Total Equalized Value	Manufacturing Percentage of County	Percentage of State Manufacturing Value
Green Lake	\$ 23,664,900	\$ 4,398,700	\$ 28,063,600	\$ 1,818,625,500	1.5	0.2
Pierce	22,931,600	4,151,500	27,083,100	2,576,472,100	1.1	0.2
Kewaunee	21,909,000	2,732,700	24,641,700	1,205,301,300	2.0	0.2
Jackson	17,042,500	5,212,100	22,254,600	1,019,882,400	2.2	0.2
Ashland	18,972,000	2,887,700	21,859,700	1,021,472,700	2.1	0.2
Rusk	17,457,600	3,363,300	20,820,900	936,864,600	2.2	0.2
Marquette	13,222,800	5,027,600	18,250,400	1,266,981,600	1.4	0.1
Waushara	16,359,700	1,304,200	17,663,900	2,048,602,600	0.9	0.1
Vernon	13,719,800	3,043,600	16,763,400	1,215,999,800	1.4	0.1
Sawyer	13,782,900	2,812,000	16,594,900	2,841,750,100	0.6	0.1
Washburn	14,217,500	1,939,600	16,157,100	1,943,715,100	0.8	0.1
Lafayette	13,187,900	1,746,100	14,934,000	700,285,600	2.1	0.1
Adams	12,079,300	2,111,900	14,191,200	1,764,839,000	0.8	0.1
Vilas	11,217,800	1,478,600	12,696,400	5,490,858,900	0.2	0.1
Burnett	10,225,200	1,822,100	12,047,300	2,258,697,600	0.5	0.1
Iowa	8,421,300	1,555,500	9,976,800	1,485,892,000	0.7	0.1
Buffalo	5,597,100	4,261,300	9,858,400	741,848,400	1.3	0.1
Forest	4,935,700	756,400	5,692,100	902,850,600	0.6	<0.1
Iron	4,239,500	524,200	4,763,700	698,991,400	0.7	<0.1
Florence	4,262,100	440,800	4,702,900	439,959,000	1.1	<0.1
Pepin	2,775,700	771,100	3,546,800	434,359,300	0.8	<0.1
Bayfield	2,130,200	288,400	2,418,600	1,986,146,900	0.1	<0.1
Menominee	0	0	0	229,591,000	0.0	0.0
Total	\$11,396,885,000	\$2,153,032,500	\$13,549,917,500	\$391,187,814,700	3.5	100.0



State of Wisconsin ● DEPARTMENT OF REVENUE

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Jim Doyle
Governor

Michael L. Morgan
Secretary of Revenue

December 2, 2004

Ms. Janice Mueller
State Auditor
Legislative Audit Bureau
22 East Mifflin Street, Suite 500
Madison, WI 53703

Dear Ms. Mueller:

Thank you for the opportunity to review and respond to your evaluation of the assessment of manufacturing property by the Department of Revenue (DOR). We appreciate the time and effort spent by your staff in developing this report.

The Department of Revenue's Mission as stated in our 2004-2005 Business Plan is, "To administer state and local taxes in a fair, equitable and efficient manner while advocating sound tax and fiscal policies and providing property tax relief." We will use this evaluation to further strengthen and ensure that our mission is carried out in the assessment of manufacturing property.

Our specific responses to the recommendations made in the Legislative Audit Bureau's (LAB) Evaluation of the Assessment of Manufacturing Property are as follows.

LAB Recommendation:

- Report to the Joint Legislative Audit Committee on its analysis of differences in valuation methods and its efforts to monitor and ensure consistency across districts.

DOR Response:

Variations in valuation methodology are necessary to ensure fairness and equity in the assessment process. The Manufacturing/Utility Section's valuation methods differ slightly across districts due to sales volume, location, uniqueness of property and other factors that must be considered when determining the appropriate methodology in valuing property. These methodologies are consistent with the Wisconsin Property Assessment Manual and are in compliance with the International Association of Assessing Officers (IAAO) property appraisal and assessment practices. As noted in the report, variations in valuation methodology exist because of the following reasons:

- There are three approaches to determine a property's value, sales approach, cost approach and income approach. State statutes and case law have determined that the sales approach is the best measure of market value. However, DOR assessors may not have sufficient information to make a valid determination of market value based solely on reasonable comparable sales due to limited sales of manufacturing properties. In these instances, DOR assessors must rely on other accepted methods to determine the value of manufacturing property.

- The cost approach is most appropriate for newer properties that have not depreciated significantly, and for unique properties for which reasonably comparable sales do not exist.
- The income approach is more frequently used for commercial properties, but it is occasionally used to value manufacturing property when neither the sales approach nor the cost approach can be applied.
- Because of the limited number of comparable sales in some areas of the state, DOR uses a combination of approaches to determine value.

The genesis of this recommendation is Table 7 – **Weighting of Approaches Used to Value Real Estate**. This table indicates that the Southern and Western districts relied primarily on sales but weighted the cost approach more often than the other three districts.

The Western District and the western counties in the Southern District need to rely on weighted methods or the cost approach given the sporadic nature of sales. Also, the Southern District includes Waukesha County where there is a great deal of new construction and modern building styles where the Cost Method is the most appropriate method to determine value. These are unique circumstances that require valuation methods other than sales.

Additionally, we would like to note that an analysis performed by the Legislative Audit Bureau determined that the sales approach was weighted more than fifty percent in 83.8% of our valuations. The Districts varied from 79.2% to 91.4%. Though not presented in this report we feel that this is important measure.

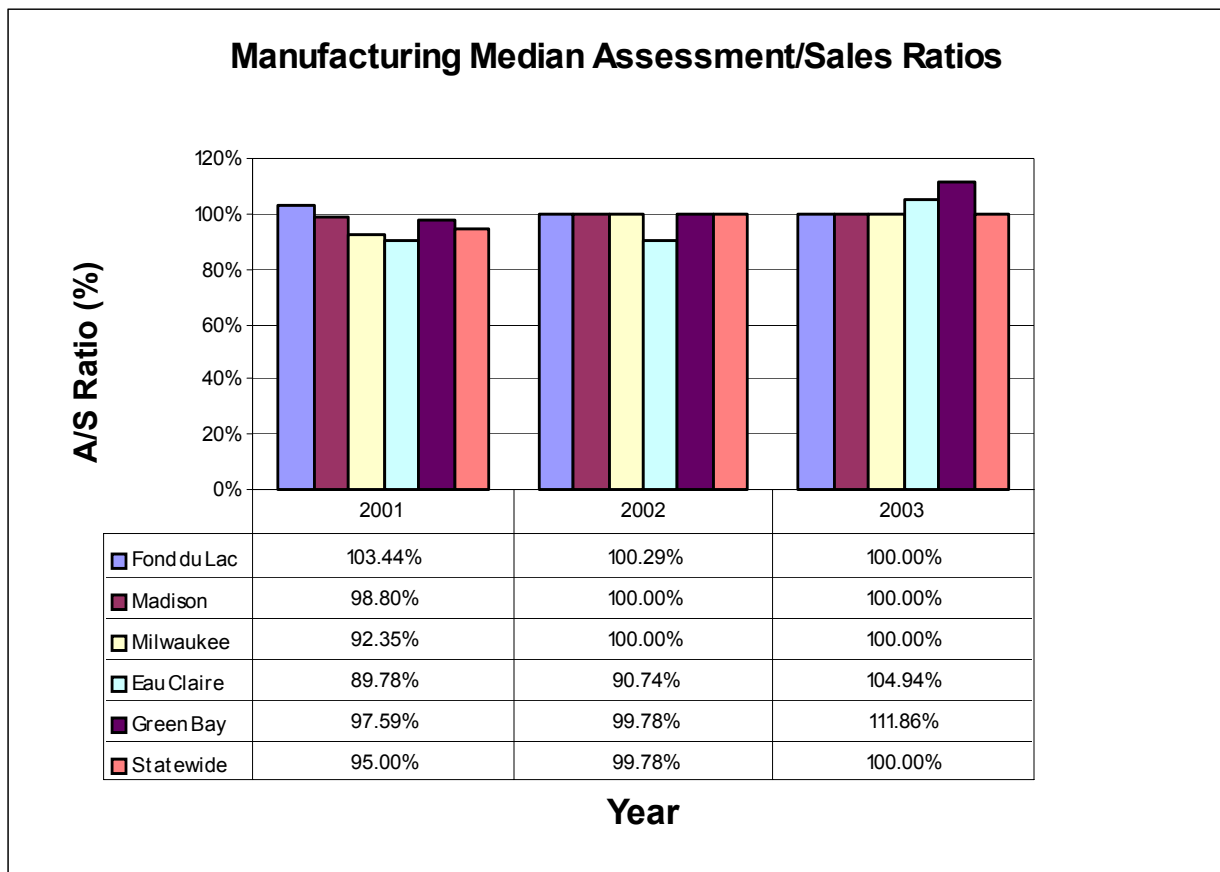
In addition to the procedures listed in the report, the Manufacturing/Utility Section performs the following procedures to ensure consistency throughout the state:

- **Sales Analysis:** All managers review, discuss, and analyze the circumstances of each sale to ensure that the sale is valid and can subsequently represent the basis of valuing other similar properties.
- **Visual Review of Sales:** Managers and district staff view a sample of properties that have sold prior to the annual assessment to review its attributes for consistency when applying the sale data to value similar properties.
- **Assessment/Sales Ratio Analysis:** The Section Chief and Central Staff annually perform a detailed analysis to determine the overall statewide manufacturing assessment ratio and ratios of each district. These ratios are one factor used to determine if economic adjustments to properties are necessary for ensuring market value assessments.
- **Economic Adjustments:** Each district office must develop economic adjustments annually for properties that are not field audited that year. To ensure consistency in terms of what factors are being considered as well as what numeric adjustments are being recommended, all recommendations are exchanged between managers and reviewed by the Section Chief.
- **Visual Review of SAR Procedures:** An additional measure that is employed to ensure consistency requires the managers and district staff perform an on site inspection of selected field audited properties. While performing the inspection, the completed Sales and Reconciliation Report and the final value estimate are reviewed and discussed.

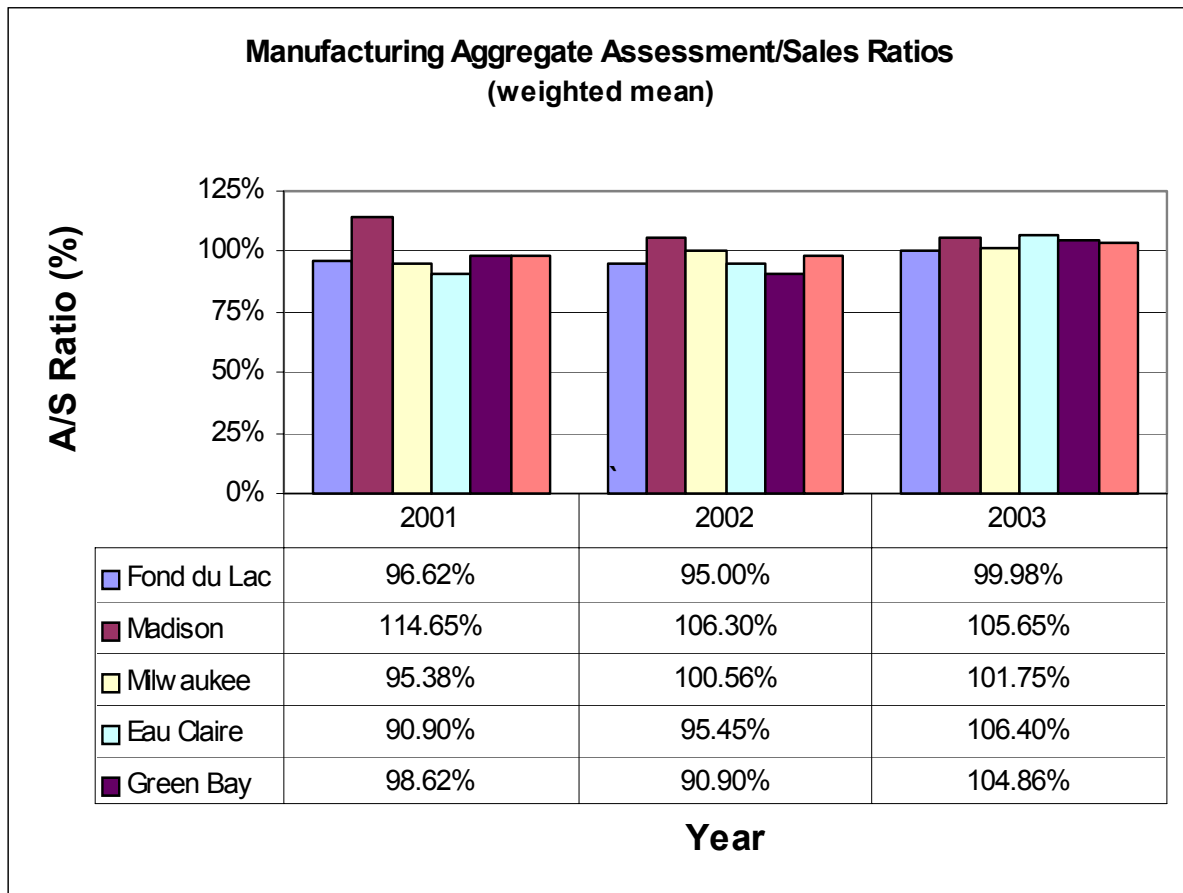
- **Annual Assessment:** During the annual assessment process, assessment changes that exceed 12.5% are reviewed and approved by the respective District Manager. The Section Chief reviews all dollar changes 20% or more and greater than \$200,000.
- **State Board of Assessors (BOA):** District Managers analyze the cases within their district and develop recommendations, which are sent to the BOA members prior to the board's meeting. Each case is discussed at length during the meetings. BOA members can accept the recommendation or request the case be rewritten or modified to ensure consistent decisions are made regarding policy, procedures and law.
- **Municipal Participation:** Manufacturing full value assessment rolls are distributed to each municipality annually as required by state statute. Though municipalities have the opportunity to appeal manufacturing assessments very rarely are appeals filed.

As noted in the audit report, the most accurate measure of value is an arms length sale of the property. When sales are not available or appropriate, weighted methods or different methods of valuation are appropriate. The Manufacturing/Utility Section calculates two ratios to measure the quality of their values. We are providing charts that represent our Sales Ratio Analysis (assessed value divided by sales price) by District Office and for the entire Manufacturing/ Utility Section over the past 3 years. The IAAO recommends reporting the Median when measuring for appraisal uniformity.

We are also submitting the Mean of the Sales Ratio Analysis. The Mean also provides a measure of the appraisal level.



As you can see, manufacturing assessments are consistently at or near full market (sales) value.



Though some differences exist in valuation methods used, the fact that Sales Ratios Analysis reflect that property is valued at market indicates that the differences were appropriate and in accordance with the Wisconsin Property Assessment Manual and the IAAO standards.

The State and Local Finance Division understands the importance of uniformly assessing manufacturing properties at full market value. We will continue to ensure consistency in the values and our methodology within our district offices. This is and always will be an ongoing process to ensure the quality of our manufacturing assessments.

LAB Recommendation:

- We recommend the Department of Revenue analyze the feasibility of selling information from its database of comparable sales, including the amount of revenue that could be generated from such sales and potential uses for that revenue.

DOR Response:

We are in the process of updating our computer systems and have received responses to a Request for Information for an Integrated Property Assessment System. A module in this system is a database that contains the comparable sales and the various attributes that relate to the property sold. This will present an opportunity for the Department of Revenue to share this data more efficiently. We are analyzing the potential revenue that could be generated but are also considering the value of data added in exchange for access to the data. Local assessors, fee appraisers and DOR equalization staff could contribute data, primarily fielded data from the sale of commercial properties, that could prove to be very valuable in further supporting the sales approach to value.

LAB Recommendation:

- We recommend the Department of Revenue develop its database and reporting mechanisms to allow it to centrally monitor and assess performance in meeting the five-year field audit requirement.

DOR Response:

The Department of Revenue's Business Plan has identified the five-year field audit cycle as a priority and therefore has created a performance measure relating to our strategic goal of ensuring fair and equitable tax compliance, collection and property valuation.

In response to this, a feature in the Integrated Property Assessment provides for an electronic means of monitoring our progress towards meeting the five-year field audit requirement. We are currently monitoring our progress through employee performance reviews.

LAB Recommendation:

- We recommend the Department of Revenue prioritize field audits to ensure the most accurate manufacturing property values.

DOR Response:

We agree that until we are back on a five-year cycle, field audits should be prioritized. We will pursue a more efficient method of prioritizing audits until the Integrated Property Assessment System is implemented. After implementation, we will be able to query the data with criteria established to determine the manufacturers that most likely require changes and therefore should be a priority field audit.

Other:

Integrated Property Assessment System

There are many references throughout the report to outdated systems. The following is a brief overview of what we intend to accomplish by implementing an Integrated Property Assessment System.

Highlights of the system, as they relate to the Manufacturing/Utility Section, are as follows:

- An electronic process for filing M-Forms and T-Forms
- An assessment program that provides analysis similar to the SAR System for analyzing sales data and ultimately generating the assessment
- Property records that would contain a field for assigning and tracking field audits
- Sketching software
- GIS software
- Digital Photo package
- Statistical package for analyzing ratios and developing models

The system is web based and would provide a means of importing and exporting data. This system addresses many efficiencies for the Manufacturing/ Utility Section discussed in the report.

Telephone Company Property Reporting

For the 2005-filing season we are modifying the reporting process to enable telephone companies to report their personal property on one electronic form (Excel based). This process will substantially reduce the number of telephone company filings, which are currently required for each taxation district where the company has property. The form will be processed electronically, which will create significant efficiencies and allow for a greater devotion to the manufacturing field audit process.

Appeal Data

The LAB report discusses appeals for the period 1997-2004 but only charts appeals through 2003. The report does however discuss the primary reason for increases in appeals for 2003, which primarily relates to appeals from the City of Milwaukee and appeals from an appraisal firm. It is important to note that when the City of Milwaukee appeals from 2003 and the appraisal firm appeals from 2003 and 2004 are removed, the appeal trends are much more stable.

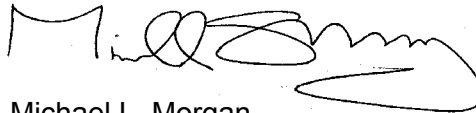
Reorganization

We believe that the reorganization will enable us to perform the manufacturing assessment process more efficiently. We do not believe that there will be issues accounting for time and expenses that relate specifically to manufacturing assessment activities.

Statements made regarding new staff being cross trained in equalization and manufacturing call for staff to spend one year in the opposite area during one of the first five years of employment. The intent of this proposal is to have employees exposed to equalization and manufacturing duties within the Division. The subsequent result will be well-rounded employees who work together, grow professionally and make educated decisions when choosing career paths.

In summary, the Manufacturing/Utility Section of the Property Tax Bureau of the State and Local Finance Division of the Department of Revenue is committed to ensuring fair and equitable valuation of manufacturing property. The Department is confident the 5-year cycle will be achieved by incorporating these audit recommendations, which will result in greater efficiencies and a greater allocation to the manufacturing field audit process.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael L. Morgan". The signature is fluid and cursive, with a large, sweeping flourish at the end.

Michael L. Morgan
Secretary of Revenue

MLM:JLG