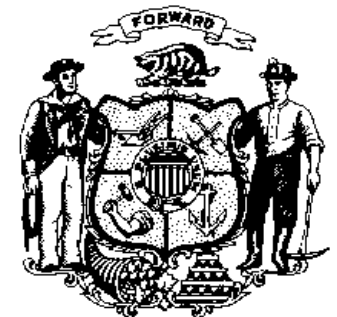


WISCONSIN TOWNS ASSOCIATION FRAC SAND CONFERENCE

January 12, 2012

PRESENTERS:

Kelly Coulson – Eau Claire Manufacturing Manager
Al Romportl – Wausau Equalization Supervisor

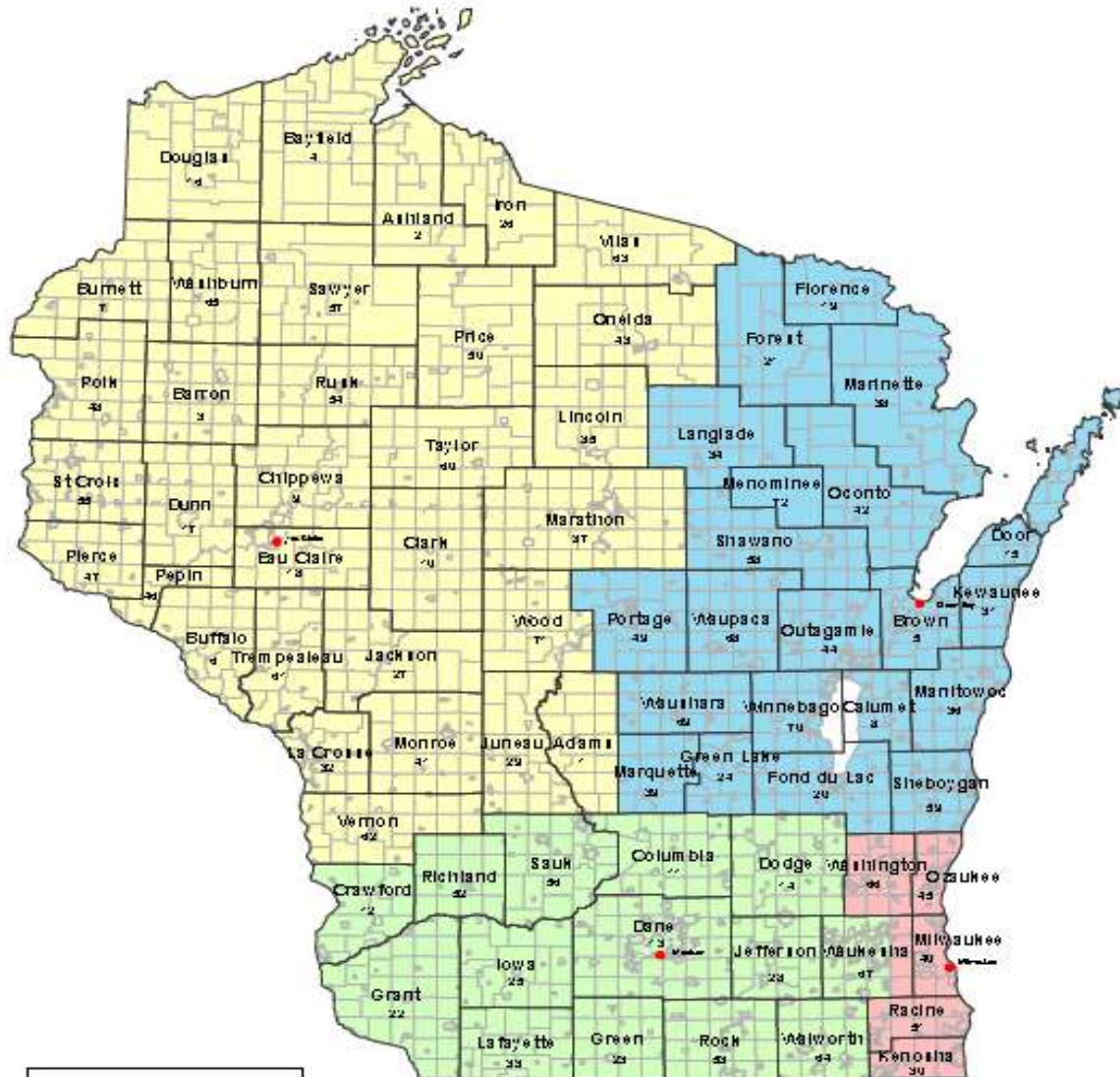




Topics

- Frac Sand Assessment Handout
- Real Estate Assessment
- Personal Property Assessment
- Questions & Answers

Manufacturing & Utility Districts



Legend

- County Boundary
- Green Bay Manufacturing and Utility
- Eau Claire Manufacturing and Utility
- Madison Manufacturing and Utility
- Milwaukee Manufacturing and Utility





Classification

Why does DOR assess manufacturers?

- Enacted in 1973 by Legislature (70.995)
 - Uniform treatment & assessment
- Encourage industrial development
 - Machinery & equipment used in the manufacturing process is exempt (70.11(27))
 - Materials & finished products are exempt (70.11(17))



Classification, continued

How does DOR learn about new manufacturers?

- Municipal Assessor, Real Property Lister, Media, Property Owner, etc.
- Manufacturer must contact DOR by March 1st of year seeking classification
- Manufacturing Assessor sends questionnaire & letter to potential manufacturer with a deadline date
 - Questionnaire (PA-780) is available on DOR website:
<http://www.revenue.wi.gov/forms/manuf/index.html>



Note to Municipal Officials

Are you aware of potential manufacturing activity, including frac sand operations?

Contact the Manufacturing & Utility District Office in your area, or contact your local assessor to ensure the Assessor & DOR coordinate on follow-up activity.



Manufacturing Determination Process

- Property owners seeking manufacturing classification, request classification with DOR in writing by March 1 of the assessment year.
- DOR will determine if property qualifies as an operating mine and sand plants as manufacturing under 70.995
- Generally, DOR will notify the local assessor of property assessed as manufacturing by April 1.

Badger Mining – Taylor WI





What does DOR assess?

Real Estate

- Land, buildings, structures & other real property used in manufacturing, assembling, processing, fabricating, making or milling tangible personal property for profit
- Also includes structures “in support of manufacturing”

Personal Property

- Machinery & equipment, furniture & fixtures, computers & supplies owned by manufacturer

What manufacturing equipment is exempt?

- Machinery & equipment used exclusively & directly in manufacturing process.



Personal Property M & E Generally Taxable

TAXABLE STORAGE & MATERIAL HANDLING

All shipping and receiving equipment.

All raw material storage equipment (racks, tanks, etc.), including refrigeration.

All finished product storage equipment, including refrigeration.

Equipment used for storing work-in-process more than three days.

Forklifts that are used in the warehouse.

Hopper-feed tanks that are freestanding from an exempt machine.

TAXABLE MAINTENANCE EQUIPMENT

Equipment to maintain and repair production machines.

Equipment to maintain and repair buildings and yard.

Equipment for plant housekeeping, safety or communication.

Clean-in-place equipment (CIP) – Not imbedded in production machinery.



Personal Property M & E Generally Taxable

TAXABLE RESEARCH AND DEVELOPMENT

Equipment for developing new products or improving existing products.
Pilot plants where the sample product is not sold to customers.
Equipment for designing specifications for products at testing labs.
Creative work by authors, artists, ad agencies, photographers, etc.

OTHER TAXABLE EQUIPMENT

All boilers, generators, and transformers.
Equipment used to check the specifications of raw material received.



Personal Property M & E Generally Exempt

EXEMPT STORAGE AND MATERIAL HANDLING

Equipment used for storing work in process less than three days.

Hopper-feed tanks directly affixed to an exempt machine.

Forklifts/conveyors used 95% for moving material to, along or from the production line.

High density sequencing systems that move, store and retrieve printed materials within the production process.

OTHER EXEMPT EQUIPMENT

Quality control equipment used for testing the product manufactured (not raw material).

Power wiring.

Motors, compressors and computers that exclusively power or operate exempt machines.

Process piping.

Packaging equipment, including in-house printing of labels, instructions, and manuals.

Hand tools used with exempt machines, but not for repair or maintenance.

Spare production line machines and parts.

Computers used in manufacturing process. (See Schedule C.)

● ● ● | Personal Property



Storage Tanks - Taxable



Process Conveying & Equipment - Exempt



Drying & Screening Equipment - Exempt





Personal Property Cost versus Assessment

- A new manufacturer purchases \$10,000,000 worth of machinery and equipment on September 15th 2011. Depending on the type of manufacturing process, the taxable portion is generally 8% - 20% of the total cost. Most equipment depreciates using a 10 year life depreciation index. 2012 rough estimate of tax
- \$10,000,000 (Investment) x 10% (Portion Taxable) = \$1,000,000 (Initial Taxable Value)
- \$1,000,000 x .925 (Index Factor for 1st Year of Depreciation) = \$925,000 taxable value
- \$925,000 x .025 (estimated tax rate) = \$23,125 in taxes



Notes from DOR

Important for Municipal Assessor:

- Do not shift a parcel's classification to MFG unless you are in receipt of the official DOR letter instructing you to do so.
- Double assessments & omitted property may result otherwise.
- Mixed use parcels are classified by substantial or predominant use.

Important for Clerk & Board of Review (BOR):

- Review roll carefully to ensure proper classification is in listed on the municipal assessment roll.



Equalized Value

- Determined annually by DOR on August 15
- Statistical estimate of total taxable value for each municipality
- Used to apportion taxes to county, school district, other overlying jurisdictions
- Does not extend to individual properties
 - Individual parcel/property tax equity is dependent on an equitable municipal assessment roll
- Provides comparable value to administer property tax system for levy purposes
 - Fairness & equity **between** municipalities
 - Municipal boundary ≠ school, county, tech college boundaries



Equalized Value - Components

- Economic adjustment
 - DOR annual review of real estate sales
 - Assessment / Sales ratio analysis
 - Statistical projection (residential, commercial, other)
 - Fielded Sales Analysis: Large Parcel Sales
 - Unit value projection (undeveloped, ag. forest, forest, other land)
 - DOR sends out questionnaires, visit to parcels with buildings
 - Determines market values of land & buildings.
- Municipal Assessor Submits Report
 - New construction, Demolitions, Annexations & Exemptions
 - Report will include non mfg. Frac Sand activity affecting local tax base
- Sec. 70.57, Wis. Stats., corrections
- <http://www.revenue.wi.gov/equ/report2.html>



Municipal & DOR Assessor Functions

- Determine if frac sand mining is legally permissible:
 - Does the parcel's current zoning allow mining?
 - If no, what is the likelihood of a change in zoning?
 - Does the owner have the necessary permits to mine frac sand?
 - If yes, does the permit cover all or part of the parcel?
- Determine where frac sand deposits are within a parcel.
- Discover arm's-length sales of subject parcels & comparable parcels.
 - For property sales, determine if a zoning change and/or mining permit were contingencies to the contract sale price.
- Determine if large tract purchases have multiple legal descriptions - would allow DOR to classify & assess only those parcels engaged in frac sand mining.
- Be sure the Municipal Assessor & DOR Assessor agree who will assess what.



Local Assessment of Similar Land

- DOR assesses parcels with operating mines where mining is the substantial use.
- Similar land located near a state-assessed mine is assessed locally according to use.
- Municipal Assessor must discover, list & value nearby land based upon its highest & best use.
- Using the highest & best use analysis, the assessor will determine the likelihood of mining the sand.
- Without necessary permits, the highest & best use would most likely be the present use & therefore current sales with the same current use would be the best indicator of value.



Highest & Best Use

- Definition: USE which, over a period of time, produces the greatest net return to the property owner.
- Number of factors that influence highest & best use:
 - Must be **legal**: must not violate any government regulations.
 - Must be **complementary**: balance with uses of surrounding property
 - **Should not be a highly speculative** use.
- Highest & best use of a property can change over time.
- Current use of a particular property does not necessarily represent the highest & best use or the full market value of the property
- See Chapter 7-Wisconsin Property Assessment Manual:
<http://www.revenue.wi.gov/pubs/slf/2012wpam.zip>



Possible Valuation Changes

- Residential
 - Could decrease in value, due to adverse mining effects
 - Could increase in value, if housing is needed for workers
- Commercial
 - Value change dependent upon the type of building affected by the mine.
 - Offices/buildings used for an excavator could increase in value.
 - Buildings used for retail sales may decrease in value.
- Agricultural
 - No change due to mining: valued according to the use-value formula.
- Undeveloped (Swamp and Waste)
 - Land generally used for recreational purposes, or has no productive use.
 - Reclaimed mine may have minimal value, highest & best use may be limited.
- Agricultural Forest
 - If used primarily for forestry, probably minimal impact on value.
- Forest
 - Effect would probably be similar to Agricultural Forest.
- Other (Farm Buildings)
 - Depends on the operation.



Assessment Example 1

- February 1, 2011: Company XYZ purchases 3 parcels of agricultural land totaling 100 acres from Farmer ABC.
- Company XYZ paid \$1,000,000 for all 3 parcels (40, 40 & 20 acres).
- Frac sand deposits extend throughout entire 100 acres.
- Company obtained zoning change for all 100 acres.
- Company obtained sand mining permit for same 100.
- Company commences mining frac sand on 1 - 40 acre parcel in May 2011.
- The other 2 parcels (total 60 acres) are leased back to Farmer ABC who continues use in agriculture.



Assessment Example 1, cont.

- July 2011: Company requests manufacturing classification
 - DOR determines that 40 acre mining site will be assessed as manufacturing for January 1, 2012 assessment
 - It was a mining operation as of that date.
- 2012: DOR will assess 40 acres where mining is occurring as going-concern mining operation at market value.
 - Best evidence of market value: sale of a subject property, sales of similar comparable properties or other evidence of market value
 - If sales of similar lands containing frac sand in the market area support the subject property's unit value sale price of \$10,000 per acre, the 2012 assessment by DOR will reflect a similar market value for an approximate total assessment of \$400,000.



Assessment Example 1, cont.

- Future years: assessed value of existing frac sand mines may increase or decrease depending upon
 - Market factors affecting the supply and demand for frac sand and lands containing frac sand
 - Ease or difficulty in obtaining permits and zoning changes required to extract frac sand
 - Relative depletion of frac sand reserves on an individual parcel.
- Municipal Assessor would apply the appropriate agricultural use-value for each subclass of land on the 60 acres remaining in agricultural use.



Assessment Example 2

- February 1, 2011: Company XYZ purchased 3 parcels totaling 100 acres.
 - Company XYZ paid \$1,000,000 for all 3 parcels (40, 40 & 20 acres).
 - 30 acres are tillable ground; 30 acres are fallow; 38 acres are forest; and 2 acres are homesite and buildings, Frac sand deposits extend through 50 acres, 25 of which are tillable and 25 of which are fallow.
- Company obtained zoning change for all 50 acres.
- Company obtained sand mining permit for same 50.
- Company starts mining frac sand on 20 acres of tillable land in May 2011.
- Remaining 80 acres continue in current state: some agricultural, some fallow, some forest & seller continues to live in the home.



Assessment Example 2

- July 2011: property owner (XYZ) requests manufacturing classification & DOR determines that the 20 acre mining site will be assessed as manufacturing for January 1, 2012 assessment because it was a mining operation as of that date.
- In 2012, DOR will assess the 20 acres of land where mining is occurring as going-concern mining operation at market value.
- Best evidence of market value is the sale of a subject property, sales of similar comparable properties or other evidence of market value.
- Sale must be broken down into its component parts to establish assessed values for each type of land, and the buildings.



Assessment Example 2, cont.

- Municipal Assessor reviews sales of property without frac sand, to determine contributory value of the 50 acres of frac sand.
 - Assume Assessor discovers tillable land is selling for \$1,500 an acre; fallow land \$1,000 an acre; forest \$2,000 an acre & similar home-sites with buildings for \$100,000.
- Sale is broken down:
 - 2 acre home-site & buildings = \$100,000
 - *(Noted the home-site & buildings will require significant study before determining market value)*
 - 38 acres forest @ \$2,000 / acre = \$76,000
 - 5 acres fallow (Non frac sand) @ \$1,000 / acre = \$5,000
 - 5 acres tillable (Non frac sand) @ \$1,500 / acre = \$7,500
 - Sub-total = \$188,500
 - Subtracted from selling price of \$1,000,000 leaves \$811,500 frac sand land value
 - \$811,500 divided by 50 acres frac sand = \$16,230 per acre of frac sand



Assessment Example 2, cont.

- Municipal Assessor & DOR must apply statutory assessment standards to each class of property included with sale.
 - Assume 100% level of assessment.
- Proper Assessment:
 - 20 acres frac sand assessed as MFG by DOR
 - @ \$16,230 an acre
 - 10 acres tillable assessed by Municipal Assessor
 - @ \$200 an acre (use-value)
 - 5 acres have frac sand; 5 do not; all 10 assessed at use-value
 - 30 acres fallow assessed by Municipal Assessor
 - @ \$6,845 an acre (50% of market value)
 - 25 acres had frac sand; market value of \$16,230 an acre
 - 5 acres do not have frac sand, market value of \$1,000 an acre
 - 38 acres forest assessed by Municipal Assessor
 - @ \$2,000 an acre (market value)
 - 2 acres home-site & buildings assessed by Municipal Assessor
 - @ \$100,000 (market value)



Frac Sand Issues at Board of Review

Follow similar thinking as any other appeal:

- Municipal Assessor is presumptively correct; it is up to the objector to show evidence of reduced value.
- Sale: recent sale of contested property is best evidence of market value.
 - If the sale includes preferentially treated lands (agricultural, agricultural forest, undeveloped) be sure it has received its proper reduction.
- Comparable sales: comparable sales indicating a loss in value is the next best evidence.



Issues at Board of Review, cont.

- Appraisal: may be the best evidence of a value reduction
 - Question appellant about justifying any reduction due to the mine.
 -
- Cost approach: what is the cost to cure the problem?
 - May include moving any structure on the property.
- Asking price: if the property is currently for sale and has been exposed to the market for a reasonable period of time, the asking price would set the upper limit of value.
- Common sense: while BOR cannot interject its own thoughts, probing questions may lead to the correct valuation



Equalized Value Impact

- If Municipal Assessor makes reductions or increases in value that would not be captured in the sales analysis, he or she should report such changes to DOR on the Municipal Assessment Report.
 - Report to DOR by Second Monday in June for consideration in current year's Equalized Value.
 - Amended Reports can be filed; consideration will be made in the following year.
 - DOR will provide instructions to Municipal Assessors on proper reporting fields.



Equalization Contact Information

- Eau Claire District: eqleau@revenue.wi.gov; (715) 836-2866
 - Counties: Barron, Bayfield, Buffalo, Burnett, Chippewa, Douglas, Dunn, Eau Claire, Jackson, La Crosse, Monroe, Pepin, Pierce, Polk, Rusk, St. Croix, Sawyer, Trempealeau & Washburn.
- Green Bay District: eqlgrb@revenue.wi.gov; (920) 448-5195
 - Counties: Brown, Calumet, Door, Florence, Forest, Kewaunee, Manitowoc, Marinette, Menominee, Oconto, Outagamie, Shawano, Waupaca, Waushara & Winnebago.
- Madison District: eqlmsn@revenue.wi.gov; (608) 266-8184
 - Counties: Columbia, Crawford, Dane, Dodge, Grant, Green, Green Lake, Iowa, Jefferson, Lafayette, Marquette, Richland, Rock, Sauk & Vernon.
- Milwaukee District: eqlmke@revenue.wi.gov; (414) 227-4455
 - Counties: Fond du Lac, Kenosha, Milwaukee, Ozaukee, Racine, Sheboygan, Walworth, Washington & Waukesha.
- Wausau District: eqlwau@revenue.wi.gov; (715) 842-5885
 - Counties: Adams, Ashland, Clark, Iron, Juneau, Langlade, Lincoln, Marathon, Oneida, Portage, Price, Taylor, Vilas & Wood.



Manufacturing Contact Information

- Eau Claire District: mfgtel79@revenue.wi.gov; (715) 836-4925
 - Counties: Adams, Ashland, Barron, Bayfield, Buffalo, Burnett, Chippewa, Clark, Douglas, Dunn, Eau Claire, Iron, Jackson, Juneau, La Crosse, Lincoln, Marathon, Monroe, Oneida, Pepin, Pierce, Polk, Price, Rusk, St Croix, Sawyer, Taylor, Trempealeau, Vernon, Vilas, Washburn, Wood
- Green Bay District: mfgtel81@revenue.wi.gov; (920) 448-5191
 - Counties: Brown, Calumet, Door, Florence, Fond du Lac, Forest, Green Lake, Kewaunee, Langlade, Manitowoc, Marinette, Marquette, Oconto, Outagamie, Portage, Shawano, Sheboygan, Waupaca, Waushara, Winnebago, Menominee
- Madison District: mfgtel76@revenue.wi.gov; (608) 267-8992
 - Counties: Columbia, Crawford, Dane, Dodge, Grant, Green, Iowa, Jefferson, Lafayette, Richland, Rock, Sauk, Walworth, Waukesha
- Milwaukee District: mfgtel77@revenue.wi.gov; (414) 227-4456
 - Counties: Kenosha, Milwaukee, Ozaukee, Racine, Washington, Waukesha



Enjoy the
Day