

2019 Village of Somers Tax Bill Audit

Purpose of the Audit

A material mistake was made relative to the 2019 Village budget. The Administration reported that new construction would increase by 8%, resulting in a 0% Village levy increase for the average taxpayer. In fact, the Village levy increased by almost 10% within the Village. The Board of Trustees requested that the Administration conduct a review of this mistake, and report back regarding the findings of the review. The Administration undertook this review. I discussed the results with the Administration. I was told that no mistake had been made, but that the reason for the increase in the tax bills was due to the impact of the TID districts. This concerned me, and I directed the Administration to forward all work papers to Kathryn Andrea (Village Auditor), who would assist me in the audit of the mistake. My purpose for doing this audit was to learn what the mistake was, how it happened, and most importantly, to develop procedures and recommendations, that if approved by the Board of Trustees and executed by the Administration, will prevent the mistake from reoccurring.

The Mistake

A mistake was made during the 2019 Village of Somers budget process. The Village Board of Trustees was advised, by the Administration, that net new construction, TID out, assessed value was 8%. Relying upon this advice, the Board approved an 8% levy increase, with the understanding that the levy increase would be offset by new construction, resulting in roughly a 0% impact for the average taxpayer (see the minutes of this meeting in Exhibit 8 agenda item 5).

The actual new construction per assessed value was .105% (discussed later in this report), resulting in a 9.9% levy increase for Village property owners. Proposals had been reviewed that would have allowed for a levy increase of up to 5%. However, it is unlikely that the Board would have approved a levy increase that would have resulted in a 9.9% increase for the average taxpayer. The Village Board was attempting to address two budget issues: funding a new position in the Fire Department; and fully funding the Sheriff contract at the 2018 budget level, with 2 shifts as was approved in the 2018 budget. A proposal had been submitted that would have accomplished this with roughly a 5% levy increase (Exhibit 8 page 4). This report was discussed in open session, and there was general support to approve it. However, given the new construction information provided by the Administration, the Board decided to approve the 8% levy increase.

Finding

A major incident occurred. The Village did not employ best practices in its response to this incident.

Recommendation

It is recommended that the Administration receive major incident training. Following this training, procedures that employ best practices should be established and implemented by the Village in the event of a major incident.

Average Home Analysis Village of Somers – TID out

Exhibit 1 is a report similar to one provide to the Village in the past. This report documents the impact of the levy on the average home, and compares the increase from the year prior. In this document, I have used my home so I could balance to my actual tax bill (exhibit 1 page 2). My home is almost equal

to the value of an average Village of Somers home. You can see that I had an increase of 9.854% based on a Village levy of \$3,850,258.

Exhibit 1, page 3 provides a summary of the Village of Somers 2019 levy. In the Summary of 2019 Levies section, you can see that the total Village and Town levy to fund operations and debt service was \$4,307,424. I reconciled this figure to the 2019 budget document. This is circled in red.

In the Summary of apportionment section, you can see, circled in red, the Village's share of the total levy, \$3,849,783. This amount, and only this amount, adjusted for rounding, was used in the first report to calculate my tax bill. It did not include any other levies, such as TID increments. This verifies that only the levy adopted in the Village budget to fund operations and debt were used in my tax bill. The Village levy to generate the TID increment of \$508,553 was not included in the levy charged to my home (Total TID increment including all other taxing jurisdictions this year is \$2,035,115.82). The reason for the 9.854% increase on the average home in the Village of Somers was the levy increase to fund Village operations and debt service.

In the Comparison of 2018 to 2019 Levy section, you can see the Village levy increased 9.98%. My tax bill increased 9.854%. The difference is due to new construction and valuation adjustments of .105% per a report I provided the Board earlier, adjusted for immaterial rounding.

Findings

1. If a report similar to Exhibit 1 page 1 had been prepared, the mistake could not have been made.
2. The levy used to calculate the Village levy on my bill (\$1,241.95) was identical to the levy in the budget to fund operations and debt of \$3,849,783 (adjusted for a rounding variance of \$475). This makes it mathematically impossible for any of the levy from the TID increments to have been included in the levy on TID out properties.

Recommendation

The Administration should prepare a report similar to Exhibit 1 page 1. The Village Assessor has advised that the data necessary to prepare this report should be available by July 1. This report should be reviewed with the Board of Trustees on the first day of budget meetings.

Equalized Value

Equalized value is the estimated value of all taxable real and personal property in each taxation district, by class of property, as of January 1, and certified by DOR on August 15 of each year. Equalized value is available on August 1st of each year, with the final value set on August 15th. Exhibit 2 is a DOR explanation of equalized value. Equalized value is critically important to the Village. It is used to apportion the County, School, and Gateway tax levy to the Village. It is used to determine our levy capacity using equalized value new construction (see exhibit 3 for DOR and League of Wisconsin Municipalities explanations of the Village levy limit). The ratio of assessed value to equalized value is used to determine whether it is necessary to do a revaluation of Village assessed value. New construction is the primary metric used to calculate the levy limit. Generally, our Village is permitted to increase its levy over the amount levied in the prior year by the percentage increase in new construction per the bureau of equalization. New construction and the impact it had on the mistake is discussed in another section of this audit.

Equalized value reports are provided by DOR that both include and exclude the value within our TID districts. Exhibit 4 page 1 is a report provided from DOR of equalized value excluding TID value for all of Kenosha County entitled "Report Used for Apportionment of County Levy". It is used to apportion levies from overlapping jurisdictions. Page 1 shows that the 2018 (for 2019 budget) Village equalized value, excluding TID values is \$737,164,200. The value in 2017 (for 2018 budget) is shown on page 2 and was \$700,470,300. Equalized value excluding TID values increased \$36,693,900 or 5.24% in 2018.

Page 3 of exhibit 4 is a DOR report entitled "2018 Statement of Changes in Equalized Values by Class and Item". Per this report, Village equalized value in 2018 (for 2019 budget) was \$834,543,000. Equalized value in 2017 is also shown in this report, and was \$770,605,900. TID in Village equalized value increased \$63,937,100 in 2018, or 8.3%.

Page 4 of exhibit 4 is a report I prepared and delivered to the Board of Trustees prior to budget deliberations. It showed that there would be a material shift of overlapping levies away from the Town and Village of Somers to other jurisdictions within the County. Our Board has since learned that despite the large increase in the Village levy, the total tax bill had a very small increase. For example, my total tax bill (an exhibit in this report) increased only .7%.

Regarding levy limits, several years ago, I requested the Administration develop a report showing our capacity under the limits. I had discussed this with Ehlers (Jim Mann) who was willing to work with the Village to prepare this report. As part of this process, I learned that the Village may have an opportunity to adjust the levy limit in our favor by submitting corrections to DOR. Doing this would increase our levy capacity, which is helpful in many ways, including helping to increase our bond rating. I am not aware whether these corrections were made, and I have not seen a report of our levy capacity.

Findings

1. The Administration mistakenly used the 8.3% TID in equalized value (Exhibit 4 page 3) and the 8.1% increase in Equalized Value New Construction (Exhibit 7 page 3) to advise the Board of Trustees that new construction within the Village would absorb the tax increase of 8%.
2. The shift in tax apportionments from overlapping jurisdictions offset the Village increase resulting in almost no increase in total property taxes for the average homeowner.

Recommendations

1. When advising the Board regarding the impact new construction will have on the average homeowner, use assessed value, excluding TID value. This recommendation is discussed further in other sections of the report.
2. It is recommended that the Administration prepare a report similar to Exhibit 4 page 4 that identifies the impact apportionments from overlapping jurisdictions will have on the total tax bill. The Administration should learn the levy increase from the school district and advise the Board of that increase. Relative to the County, the Administration may generally estimate an increase of roughly 2.5%.
3. Prepare a report for the Board of Trustees demonstrating the Village levy capacity. If there is an opportunity to submit corrections to DOR that would increase our levy capacity, submit the corrections to DOR.

Assessed Value

Wisconsin has a dual system of property valuation, which includes equalized value, and assessed value. Assessed value is the property valuation determined by the municipal (city, village, town or county) assessor as of January 1 in any given year. It is important that property of equal value be assessed at equal amounts but it is not necessary that the amounts reflect the true sale value of the property. State law requires that total assessments within a municipality be within 10 percent of equalized valuation no less frequently than every five years.

Reports summarizing equalized value are shown in Exhibit 5. A report similar to page 1 of Exhibit 5 was previously distributed to the Board in open session, and demonstrates the root cause of the mistake. In page 1 of Exhibit 5, you can see that total assessed value in 2017 was \$709,669,800, and that total assessed value in 2018 was \$731,606,800. Total assessed value increased \$21,937,000, or 3.091%. Of this increase, \$21,190,900, or 2.986% of the total was from growth within our TID districts. \$746,100 was from growth outside our TID districts, or .105% of total growth. A report similar to Exhibit 5 page 1 would be helpful during budget deliberations, as it would document growth in assessed value TID out new construction growth.

Exhibit 5 page 2 is a summary and comparison of the adopted levy, the apportioned levy (also see exhibit 6), other levies including the TID increment, the UD 1 levy, and the UD 1 levy apportioned to TID districts. Page 2 shows that the levy apportionment approved in the budget was not the apportionment actually distributed on the tax bill. It also shows that the total tax levy increased by 8%, but the share apportioned to the Village was proportionately higher than the Town due to the formula in the Village/Town IGA. You can see that the Village had an increase of 9.06%, while the Town had a decrease of .16%.

Exhibit 5 page 3 shows the State-mandated TID increment calculation. Village TID increments for 2017 were \$353,445, and for 2018 \$508,553.

Findings

1. 2018 (for 2019 budget) TID out assessed value new construction plus interim assessment adjustments were not 8%, they were .105%
2. The TID levies are not adopted as part of the budget resolution.
3. While the total levy increased 8%, Village residents experienced an increase of 9.9%. Town residents experienced a reduction. This is due to the way the Village/Town IGA functions relative to the levy apportionment.
4. The IGA should be reviewed as to the apportionment formula.
5. It would be helpful to receive a report similar to Exhibit 5 page 1 during budget deliberations.

Recommendations

1. A report similar to Exhibit 5, page 1 should be prepared as soon as possible, following conclusion of the open book process. I have contacted the Village Assessor, and have been informed that such a report can be done on or after July 1. In the event that manufacturing values are not available, reasonable estimates may be used, as manufacturing is only .2% (one-fifth of one percent) of total assessed value.
2. All levies, including TID levies must be approved as part of the Village budget resolution.

3. The apportionment section of the IGA should be reviewed. When assessed value was chosen in lieu of equalized value, it was understood that assessments would be revalued in one cycle. The Village has decided to do it in a two-step process, with the Town going first, and the Village to follow. The Town will be at 100% valuation for the 2021 budget, while the Village could be below 80%. This will cause an undue burden to the Town. The parties could agree to use equalized value on an interim basis, to use prior valuation ratios, or some other equitable solution.

Net New Construction, DOR adjustment and Impact on Mistake

Net New construction reports new construction in the Village, minus any demolition, removal, or destruction of buildings. It is a key number, as it is used to calculate our levy capacity under the levy limit (as discussed in another section of this report). As this number impacts our levy limit, the DOR will commonly use it for corrections, which could impact our levy limit positively or negatively. Net new construction is prepared by the DOR Bureau of Equalization. Our Assessor also can provide us with a new construction number, and we should request this each year (see recommendation 1 in the Assessed Value section). The number provided by the Assessor is very important, as it serves as the basis of assessed value impact upon the average homeowner. However, it cannot be used to determine levy capacity under our levy limit. See Exhibit 7 page 2 for a DOR discussion of new construction.

Refer to exhibit 7 relative to Village new construction. Page 1 was previously distributed to the Board in open session. This shows that new construction certified by DOR was \$35,973,700, plus an error correction of \$27,132,600. Total new construction certified by DOR in 2018 was \$63,106,300, or 8.189% of total equalized value. Pages 3, 4, and 5 are DOR reports entitled "Net New Construction" for years 2016, 2017, and 2018. Page 5 shows net new construction in 2016 of \$27,132,600, the same amount as the error correction. DOR properly reflected the amount of new construction in 2016, but could not provide a percentage the Village could use to determine our levy limit capacity due to the functions of mathematics, as our value was zero in the year prior to incorporation, 2015. This was corrected by DOR in 2018 as reflected in pages 1 and 3 of exhibit 7.

It is coincidental that total Village equalized TID in value and equalized net new construction both came in at 8% in 2018. Equalized value was not impacted by this correction. Apportionments of levies from overlapping jurisdictions were done correctly. Only our levy limit capacity was impacted, positively.

Findings

1. An error was made by the State relative to the 2016 Village net new construction amount of \$27,132,600, understating our levy capacity. This error was corrected in 2018.
2. The error impacted only the calculation of the Village levy capacity. It had no other impacts upon the Village.
3. The 8% net new construction amount coinciding with the unrelated TID in growth of roughly the same amount, proved to be confusing to the Administration and was one factor that led to the mistake.
4. A significant contributing factor to the mistake is that the tax process and dual valuation system in Wisconsin is very complex. The complexity was exacerbated by the coincidental and unrelated 8% increases in total Equalized Value – TID in, Equalized Value New Construction, complicated further by the DOR \$27mm adjustment.

Recommendation

Prepare the Average Home analysis and the Change in Assessment by class report recommended in other sections of this report

Budget Book

Since incorporation, the Village budget process has become more complex. Many more documents were prepared as part of the 2019 budget than what were prepared prior to incorporation. It will be necessary to add additional documentation and analysis to the budget process going forward, including analyses recommended in this report.

Recommendation

A formal bound budget book should be prepared for Village budget deliberation, incorporating all reports and analysis needed to approve the budget.

Tax Bill Review

At the request of the Village, the County Auditor, Kathy Andrea did a review to determine whether the tax bills were prepared properly.

The following documents were used to review the tax levy amount put on the tax bill for the Village:

- 2018 rates-Town Village apportioned.xlsx (Exhibit 6)
- 2019 line item budget in excel adopted budget
- 2019 published budget
- Assessed Value 2018 of an average home in Somers (from the Village Assessor)
- Amended Levy Limit worksheet submitted for 2018 to the State
- TID worksheet submitted for 2018 to the State

The following reports were downloaded from the State DOR website:

- 2018 Net New Construction
- 2018 Statement of Changes in TID Value
- 2018 Statement of Changes in Equalized Value – Town/Village

In addition to reviewing these documents, Kathy had conversations with and received information from the Village assessor, and the regional Supervisor of Equalization in Milwaukee and the State department who deals with Equalized Value who provided information.

The Village Clerk/Treasure provided the Village/Town apportionment workpaper and this was reviewed and found to be accurate. This was done prior to the request for this audit as part of the routine tax bill vetting process.

The Tax Incremental Worksheet completed by the Clerk/Treasurer was reviewed and compared to the Village/Town apportionment work paper and found to be accurate.

After the Village requested a review to determine the accuracy of the mill rate and the tax bill, all of the documents listed above were obtained and were used to validate the amounts related to the Village line items on the tax bill. The total levy apportioned to the Village and the UD#1 levy including the TIF levy were again matched to the tax bill total. The amounts did match and no errors were found based on the documents.

Findings

1. The tax bills were properly prepared. There were no errors on the tax bills
2. The levies for the TID districts are not approved in the Village budget resolution.

Recommendation

The TID increment levy and the UD 1 levy charged to the TID district should be calculated and approved as part budget adoption.

Management Response

It is recommended that management respond to this draft report. This response should include the following: error corrections; willingness and ability to implement recommendations; a report done fairly and equitably regarding internal circumstances that culminated in the mistake. Once the response is received, any errors to this draft will be corrected, the response will be incorporated as part of this report, and the report will be finalized.

Comments and Acknowledgements

Kathy Andrea was instrumental in assisting me in the preparation of this report. As I worked on this report, I provided many updates of its progress at Village Trustees work sessions. I provided four preliminary reports. At each juncture, it was clear that this report was done with the support and endorsement of the Board. At many times, it was necessary to request information from the Administration, both in the form of written documents and analysis, and in discussion. I am very appreciative of the support I did receive in the preparation of this report from Ms. Andrea, from the Board, and from the Administration.

I have not prepared a management summary nor have I polished the pro forma appearance of the report or reconciled immaterial variances as would be my customary practice in order to advance its issuance at the request of the Board and the public. Due to its complexity, I will offer to review the report one-on-one if requested by any Trustee or the Administration.

Prepared by David M. Geertsens, Village of Somers Trustee, May 2, 2019