

THE WISCONSIN TAXPAYER

Vol. 82, Number 9 | September 2014



Navigating the Property Tax

Understanding Property Valuation and Taxation in Wisconsin

The property tax is Wisconsin's largest, oldest, and most confusing tax. At least five governments use the tax, and two different methods of valuing property are used to distribute taxes among property owners. One source of confusion arises when tax rates and levies move in opposite directions, a common occurrence over the past 20 years. In addition, property owners are often unaware of how changing property values, both within a municipality and among municipalities, can cause individual property tax bills to rise, even when levies are "frozen."

No tax produces more confusion, more questions, and more misleading information than the property tax. That is to be expected: Multiple governments levy the tax and two different methods are used to value property.

December is property tax time in Wisconsin and questions abound, including:

- Why did the school property tax rate decline, yet my school taxes rose?
- Why did my property taxes increase more than my friend's from across town?
- My property tax bill lists two values for my property. Which one is correct?

Understanding a few key concepts can help citizens navigate the often murky waters of Wisconsin's property tax and get a better handle on annual changes in their bill.

WHO TAXES?

The property tax is not easy for taxpayers, the press, or public officials to understand. This is not surprising. At least five units of government rely on property tax revenues. Moreover, it is not always the same local government that assesses, prepares tax bills, and receives payments.

Property Tax Users

To chart a course through the confusion that is the property tax, a good place to start is to determine

which governments rely on it. The four main users are K-12 schools, municipalities, counties, and technical colleges. Other users include the state and various special districts.

K-12 schools are the largest user of Wisconsin's property tax, levying \$4.7 billion, or 44.3% of last year's \$10.61 billion gross levy (see Figure 1 on page 2). Municipalities are next in line: Towns, villages, and cities levied 27.5% of the 2014 total, which includes levies for tax incremental finance (TIF) districts. The state's 72 counties levied 19.0% of the total. The last of the major users are the 16

Also in this issue:

Wisconsin Birth Rates Continue to Fall • School Aids Rise, Vary



A service of the Wisconsin Taxpayers Alliance

technical college districts, which levied 7.5% of the total. Combined, these four local governments accounted for more than 98% of all Wisconsin property taxes in 2014.

The remainder is levied either by the state (0.7%) to pay for forestry programs, or by other small taxing districts (e.g., lake or sanitary districts).

Property Tax Limits

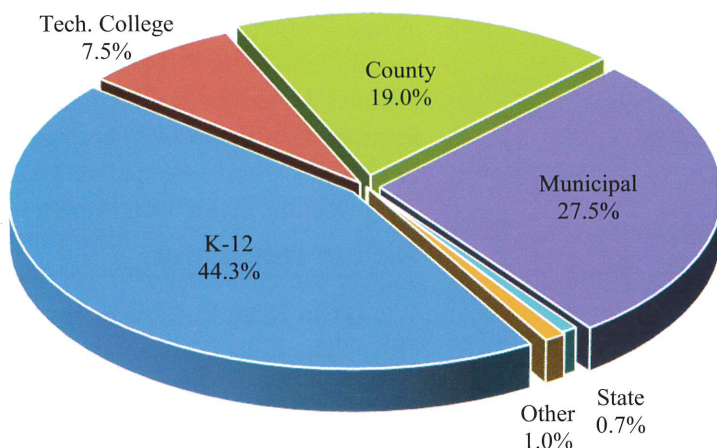
All major users of the property tax are now limited in how much they can increase their levies each year.

K-12 Schools. Since 1993-94, K-12 schools have faced state-imposed revenue limits. Technically, the state limits the combination of school property taxes and general state school aid, so the caps are really an indirect limit on property taxes. If state aids remain unchanged or decline while the revenue limit rises, school officials are allowed to raise property taxes up to their cap. Districts can also exceed their revenue limits with voter approval.

School revenue limits were tightened in recent years. Historically, the limits grew with enrollment and inflation. However, in 2010 and 2011, allowable increases were less than inflation, and in 2012, they were cut 5.5%. Since then, modest increases have been allowed. Total school levies declined 1.0% in 2012, then rose 0.2% and 0.8%, respectively, in subsequent years.

Municipalities and Counties. Since 2006, the state has also limited municipal and county levy increases. Until 2011, allowable increases ranged from 2% to 3.86%, plus an allowance for new construction added to the tax rolls. Since 2012, no levy increase, except for new construction, has been without voter approval.

Figure 1: Who Levies Property Taxes?
Share of Statewide Total Levy by Taxing District, 2014
(Total = \$10.61 Billion)



Exceptions to the limits are allowed for general obligation debt service and levies for tax incremental finance districts. Over the past three years, municipal levies statewide have increased between 1.5% and 2.0%; county levies, between 0.7% and 1.2%

Technical Colleges. Starting with tax year 2015 (December 2014 bills), Wisconsin's technical college revenues are limited in a way similar to those for schools. Limited revenues are the combination of property taxes and state aids and can increase at the rate of new construction. Technical college levies have risen 2.0% or less in each of the past four years.

Setting Levies

Many local governments begin developing their budgets in the spring or summer and finalize them in the fall. Subject to the limits described, local officials set property tax levies when budgets are finalized in October or November. Levies for technical colleges, K-12 schools, and counties are then divided among underlying municipalities. Municipal totals are then apportioned to property owners. The graphic on page 7 illustrates how local property tax levies make it to the property tax bill.

THE WISCONSIN TAXPAYER

September 2014 Vol. 82 Number 9

Publication Number USPS 688-800

Periodical postage paid at Madison, Wisconsin

Subscription Price:

\$17.97 per year

Published each month, except July, by the Wisconsin Taxpayers Alliance,
401 North Lawn Avenue, Madison, Wisconsin 53704-5033

Postmaster:

Send address changes to *The Wisconsin Taxpayer*,
401 North Lawn Avenue, Madison, Wisconsin 53704-5033
Phone: 608.241.9789 Fax: 608.241.5807

Email: wistax@wistax.org Website: www.wistax.org

Officers and Board of Directors:

C.D. Fortner, Chair, Milwaukee; T.L. Spero, Vice-Chair, Milwaukee;
Jere D. McGaffey, Secretary-Treasurer, Milwaukee

J.L. Adams, Beloit; Carol Knox, Jefferson; R.A. Meeusen, Milwaukee;
H.C. Newell, Mosinee; K.D. Nunley, Milwaukee; J.D. Quick,
Manitowoc; J.R. Riordan, Madison; D.R. Schuh, Stevens Point; M.D.
Simmer, Green Bay.

Staff:

Todd A. Berry, President; Dale Knapp, Research Director; Gina Staskal,
Business Manager; Stephanie Rubin, Research Analyst; Megan Sawle,
Executive Assistant; Sharon Schmeling, Communications Director.

Reproduction:

Media is encouraged to quote contents, with credit to WISTAX.
Electronic reproduction or forwarding is prohibited unless prior
permission is granted. Send requests to wistax@wistax.org.

PROPERTY TAX RATES

One of the most common sources of confusion among property owners at tax time is what they read, hear, and eventually see about levies and tax rates.

When their budgets are finalized, local governments determine the amount of property taxes, subject to state limits, they need from citizens (i.e., the levy). At that time, they also know the total value of taxable property in their taxing jurisdiction (municipality, school district, county, etc.). The tax rate results from dividing the levy by total taxable property value.

$$\text{Tax Rate} = \frac{\text{Tax Levy}}{\text{Total Property Value}}$$

Unlike sales or income tax rates, which are fixed in state law, property tax rates float each year as levies and values change.

For example, suppose a school district sets its property tax levy at \$500,000 in October. If the district's total property value is \$50 million, then the school tax rate is \$500,000 divided by \$50 million, or 0.01. Usually, the rate is expressed as taxes required for each \$1,000 of value. In this case, the rate would be \$10 for every \$1,000 of value.

Changing Tax Rates

As mentioned, property tax rates depend on both levies and values. Because the two can move in the same or in opposite directions, there is much opportunity for taxpayers to be misled by comments about levies and rates made by officials and the press. Table 1 illustrates some possibilities.

In the earlier example, a school district with \$50 million of property value levied \$500,000 at a tax rate of 0.01, or \$10 per \$1,000 of value. Now suppose that in each of the next three years, the levy increases 5% (columns 1 and 2). However, the school tax rate declines, then remains unchanged, and then increases. Each outcome depends on changes in property values.

❶ In the first year, district property values jump 10% from \$50 million to \$55 million. Values (+10%) increase more than the levy (+5%), so the tax rate drops to \$9.55 per \$1,000. Local officials and the press sometimes highlight the falling rate, leading citizens to believe mistakenly that property taxes are declining. In fact, property taxes are rising in this example.

Table 1: Levy and Rate Changes Can Vary
How Value and Levy Changes Affect Property Tax Rates

Property Tax Levy		Property Value		Tax Rate	
Chg.	Amount	Chg.	Amount	↑↓	Per \$1,000
	\$500,000		\$50,000,000		\$10.00
❶ +5% →	525,000	+10% →	55,000,000	↓	9.55
❷ +5% →	551,250	+5% →	57,750,000	↔	9.55
❸ +5% →	578,813	+2% →	58,905,000	↑	9.83

Rapidly-rising values were common in Wisconsin during much of the 1990s and early 2000s. Annual increases of 6%-to-9% were common. Property tax levies were also increasing—but at a slower rate. As a result, tax rates fell.

❷ In the second year of the example, values rise 5%. With value change matching the levy change, the tax rate remains unchanged. Again, note that the unchanged rate masks a 5% increase in the levy.

❸ Finally, in the third year, values grow less than levies, and the tax rate rises. This is what has happened in recent years in parts of Wisconsin. Property tax levies increased little or even fell. Yet, declining property values resulted in higher rates.

Equalized or Assessed Rates

When property owners read about tax rates, they may also be unaware that there are two types—equalized-value rates and assessed-value rates. The rate calculation is the same as shown above. However, one uses current market (or equalized) property values and the other uses assessed values, and the two should not be used interchangeably. These two value types are clarified in the forthcoming discussion.

PROPERTY VALUES

Recall that setting a tax rate depends on two factors: The levy—the amount of property taxes a local government wants—and the value of the land and buildings being taxed. Wisconsin uses two methods to value property, and they are often confused.

Assessed Values

Most homeowners are familiar with their assessed value—the value of their property set by a local assessor. Assessors establish values after reviewing the sale prices of similar properties nearby and sometimes by inspecting the property.

By law, a property is to be assessed at full value; that is, the price at which it would sell on the open

market. Assessed values may be current, or they may be several years old. State law requires that the total assessment of various property types (e.g., residential or commercial) each be within 10% of fair-market value at least once every four years.

Some municipalities have an assessor's office that updates values annually, usually with the help of computerized systems. Other municipalities, particularly smaller ones, contract with a private assessor or firm to do a revaluation once every few years. A revaluation brings assessments in line with market values. Revaluations are often completed by April or May in time for the board of review (see gray box, page 6).

Why Important? Assessments are the cornerstone of the property tax system. Property taxes owed are determined by multiplying an owner's assessment by the local tax rate.

But beyond tax rate calculation, assessed values are fundamental to understanding how the entire property tax system works. Here is why: An individual owner's share of total municipal assessed value is the same as his or her share of taxes due. If a home represents 1% of total municipal assessed value, then the owner pays 1% of the property taxes in the municipality. In other words, assessed values determine how a community's total property tax will be divided among individual property owners.

Another example reinforces the point: Consider a village with a \$100,000 levy and assessed value totaling \$20 million. The levy is distributed to each taxpayer based on his or her share of total assessed value. Thus, the owner of a home assessed at \$200,000 is billed for 1% (\$200,000 divided by \$20 million) of the \$100,000 levy, or \$1,000. Note that the owner's assessment directly affects his or her property tax bill.

Assessment Changes. When a property is revalued, its assessed value may increase, decrease, or stay the same. Property improvements, such as a new room or garage, are likely to increase value. A contaminated water supply or failing septic system might have the opposite effect. Change in value also reflects the strength or weakness of the local real estate market.

One of the most confusing aspects of the property tax is how to interpret the tax impact of an assessment change. Almost without exception, owners are convinced that an assessment increase means a tax increase when the opposite might also be true.

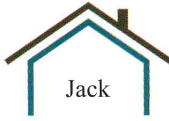
An oversimplified illustration follows. Suppose "Smalltown" has only two properties, one owned by Jack and one by Jill. Each home is valued at \$200,000, so town value totals \$400,000. Note that each property represents half the town's value. If the town levy is \$10,000, then Jack and Jill are each responsible for half of that, or \$5,000. Both Jack's and Jill's share of the tax levy are the same as their share of the town's value (see Figure 2).

Figure 2: Assessments and Taxes in "Smalltown"
Lesson: Share of Assessment Equals Share of Property Taxes

 Jack		+	 Jill		=	 Town	
			<u>Assessment</u>				
\$	\$200,000		\$200,000			\$400,000	
%	50%		50%			100%	
			<u>Property Tax</u>				
\$	\$5,000		\$5,000			\$10,000	
%	50%		50%			100%	

Now, suppose the town levy remains unchanged at \$10,000 but properties are revalued. Both homes double in value to \$400,000, and the town's total assessed value is now \$800,000 (see Figure 3). Even though each assessment has doubled, tax bills remain unchanged: Jack and Jill each continue to account for half the town's value and each pays half the levy, or \$5,000.

Figure 3: Smalltown Revaluation I: Taxes Unchanged
Lesson: If All Values Increase Same, No Property Tax Increase

 Jack		+	 Jill		=	 Town	
			<u>Assessment</u>				
\$	\$400,000		\$400,000			\$800,000	
%	50%		50%			100%	
			<u>Property Tax</u>				
\$	\$5,000		\$5,000			\$10,000	
%	50%		50%			100%	

Smalltown's experience suggests another property tax rule of thumb. If all properties increase in value by the same percentage and the total levy is unchanged, the tax on each property will remain unchanged. Likewise, if all values decline by the same percentage and the levy is constant, tax bills remain the same. It is when values grow at different rates that tax shifting occurs (see page 5).

Assessment Appeals. If a property owner believes her assessment is incorrect, she may appeal it. However, that appeal must be timely—in the spring, and not in December when property tax bills arrive. How to appeal an assessment is outlined on page 6.

Equalized Values

A problem arises with assessed values when a school, a technical college district, or a county includes several municipalities. One municipality may not have updated its property values and is assessing at 90% of market value, while another might keep its assessments current and be at 100% of market value. This difference means that identical homes could be valued differently in the two communities, one at \$90,000 and the other at \$100,000.

This potential discrepancy in assessments between municipalities is why Wisconsin uses a second form of valuation—equalized values—which are often confused with assessed values.

Equalized value differs from assessed value in three important ways. First, it does not measure the value of individual properties; it measures the value of groups of properties, often an entire municipality. Second, equalized values are estimated by the Wisconsin Department of Revenue, not by local assessors. Third, equalized values are estimates of current fair-market value, while assessed values can be several years out of date. Equalized values are estimated as of January 1 and reported on August 15 of each year.

How Are They Used? Equalized values are used by schools, counties, and technical colleges in a manner similar to the way municipalities use assessed values. Property tax levies are apportioned to underlying municipalities based on their shares of total equalized values.

For example, a school district with \$50 million of equalized value is comprised of a city with 60% (\$30 million) of the value and a town with 40% (\$20 million). Of the \$500,000 school levy, 60% (\$300,000) is assigned to the city for collection from individual taxpayers, while 40% (\$200,000) is assigned to the town.

Equalized values avoid local differences in assessment timing and provide a uniform estimate of market value throughout the state. Thus, they enable a “fair” distribution of property tax levies in counties and educational districts.

TAX SHIFTING . . .

The prior discussion of property values explains how tax levies are distributed, first from counties and schools to underlying municipalities, and then from municipalities to local property owners. Values also play a hidden role in the state property tax system.

Taxpayers understand that rising municipal, school, or county levies usually translate into higher property tax bills. However, what many do not understand is how different rates of value growth among municipalities, or within a municipality, can also affect their bill. This leads to the painful topic of tax shifting, probably the least understood aspect of the property tax.

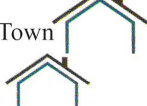
. . . From Changing Assessed Values

Return to the two-home town example. If the property tax levy is unchanged, even when both assessments doubled from \$200,000 to \$400,000, tax bills did not change. Before and after revaluation, each home accounted for half of town value and paid half the \$10,000 levy.

But what if Jack’s home increased in value by 50% to \$300,000, while Jill’s more than doubled to \$500,000? Even with no change in the levy, tax bills will change.

The reason goes back to the “share of value equals share of tax” rule of thumb. While each house formerly accounted for 50% of town value, Jack’s now accounts for 37.5% ($\$300,000 \div \$800,000$) while Jill’s accounts for 62.5% ($\$500,000 \div \$800,000$). Jack is billed for 37.5% of the \$10,000 levy, or \$3,750; Jill 62.5% or \$6,250. Even with no change in the town levy, Jack receives a property tax cut, while Jill sees an increase (see Figure 4).

Figure 4: Smalltown Revaluation II: Taxes Shift
Changing Valuations Can Shift Property Tax Burdens

		+		=	
	Jack		Jill		Town
	<u>Assessment</u>				
\$	\$300,000		\$500,000		\$800,000
%	37.5%		62.5%		100%
	<u>Property Tax</u>				
\$	\$3,750		\$6,250		\$10,000
%	37.5%		62.5%		100%

. . . From Changing Equalized Values

When assessed values change at different rates, individual tax burdens shift, as shown above. This

same dynamic can occur when equalized values change. Once again, equalized values are used to distribute school, county, and technical college levies to underlying municipalities. If one town's equalized value increases faster than others', its share of district value—and total tax levy—will also rise.

The prior school example is instructive. The district had \$50 million of equalized value, \$30 million in a city and \$20 million in the neighboring town. Of the total \$500,000 levy, 60% (\$300,000) was apportioned to the city and 40% (\$200,000) to the town.

Suppose strong demand for lake property helps increase the town's equalized value by 50% to \$30 million, while city values remain the same. The school district's total equalized value is now \$60 million, with each municipality claiming half.

The school levy remains unchanged at \$500,000, but the town and city are now each responsible for half (\$250,000). The city's portion of the school levy declines \$50,000 from \$300,000 in the prior year, while the town's portion rises by the same amount. As those levies are then distributed to local taxpayers, city residents experience a school tax cut, while town residents see an increase—despite no school levy change.

This is why taxpayers often question "tax freeze" claims. Even if all property tax levies are frozen, differential value change causes a shift in the allocation of those levies. In the end, some taxpayers experience property tax increases, despite promises of a freeze.

The Perfect Storm?

Put property-value changes within a municipality (revaluation) together with equalized value changes across municipalities, and the result is a "double whammy" for taxpayers. More of the school, county, and technical college levies move to communities with faster-rising equalized values. And within those communities, fast-appreciating properties represent a growing share of assessed values, and their owners pay a larger share of the tax.

A final layer of complexity is then added to the tax bill. The school levy might be rising 2%, the county levy 3%, and the municipal levy 1%. When these varying levy changes are added to the tax shifting described above, property owners face a "perfect storm." With all of the subtle complexities of the property tax, it is no wonder it is the state's most disliked tax. □

Assessment Appeals

Upon completion of a revaluation or reassessment, property owners receive a notice of the new assessed value. If the owner believes the assessment is too high, he or she can appeal. However, owners who refuse an assessor's written request by certified mail to view the property cannot contest their assessment. Moreover, a taxpayer who waits until the property tax bill arrives in December has no recourse.

A local board of review hears and decides property assessment appeals. The board must schedule its first meeting in the 30 days after the second Monday in May, but it may schedule a later date if assessments are not completed. Written or verbal notice of intent to file an objection must be provided to the board of review's clerk at least 48 hours prior to the board's first meeting.

An owner who is unhappy with his or her assessment should first talk with the local assessor. Municipalities hold an "open book" where assessments may be reviewed and the assessor questioned. The assessment roll must be open for a minimum of two hours prior to the board of review's first meeting. An individual who believes a property is unfairly assessed must file an objection during these two hours.

In deciding to appeal, a taxpayer should be aware that the assessor's value is presumed correct unless proved otherwise by factual evidence presented at the hearing. Also, small percentage differences in value are not sufficient to warrant a change.

The property owner is expected to establish what he or she feels is the fair market value of the property during the appeal. If the owner's property was recently purchased, the purchase price is the best evidence of fair market value. The next best indicator of current market value is sale of comparable properties in the area. These properties are affected by similar factors, such as proximity to schools, parks, shopping, or employment.

Taxpayers considering an appeal should call their municipal clerk to verify dates for the open book period and the board of review meeting. Those pursuing an appeal must follow appeals process guidelines.

Individuals dissatisfied with the decision of a board of review have two additional appeal options. First, they may ask the Wisconsin Department of Revenue to review the board's decision. Requests must be filed within 20 days of the board's decision.

Second, taxpayers may also challenge the board of review's decision or DOR's ruling in circuit court. The court does not hear new evidence; rather, it looks at the prior record and either upholds or invalidates the assessment. That is why it is important to present all evidence related to a property's assessment during the board of review meeting. □

Understanding the Property Tax Process

How Local Property Tax Levies Make it to Your Property Tax Bill

(1) January 1: Equalization Process Begins.

The Wisconsin Department of Revenue (DOR) begins estimating equalized (fair market) values for all taxing jurisdictions in the state.

(2) Spring: Local Assessments. Municipal assessment updates are usually completed by spring. Assessed values are used to distribute to local property owners all property taxes apportioned to the municipality, including those for schools, counties, and technical colleges. To illustrate, consider John and Jane Doe, whose home is assessed at \$200,000. They live in Badgerville, where assessments of all taxable property total \$200 million. Given their share of total value (\$200,000 ÷ \$200,000,000=0.1%), the Does will be billed for 0.1% of all property taxes Badgerville collects.



Does' assessment: \$200,000

÷



Total Badgerville assessment: \$200,000,000

= 0.1%

Does pay 0.1% of all Badgerville property taxes.

(3) August 15: Equalized Values Set. DOR reports equalized values for local taxing jurisdictions. These values are used to apportion tax levies from schools, counties, and technical colleges to underlying municipalities. For example, Badgerville has \$210 million in total equalized values (equalized values do not necessarily equal assessed values). The county in which it is located has \$2 billion of equalized property value. Since Badgerville's values are 10.5% of the county total, it is responsible for 10.5% of the county levy.



Badgerville eq. values: \$210 million

÷



County eq. values: \$2 billion

= 10.5%

Badgerville is apportioned 10.5% of county levy

(4) October/November: Property Tax Levies Set. The budget process for most local governments begins in the spring or summer, and concludes in October or November. That is when property tax levies are set.

(5) November/December: Tax Levies Apportioned. After all local governments have set their levies, those tax totals are apportioned to underlying municipalities. Here, the county levy is \$8 million. Since Badgerville's equalized values accounts for 10.5% of total county values, it is responsible for 10.5% of the county levy, or \$840,000.



County levy: \$8 million

×



Badgerville share of eq. values: 10.5%

= \$840,000

County levy apportioned to Badgerville

(6) December: Property Tax Bills Prepared and Mailed. After total levies have been apportioned to municipalities, local officials use assessed values to calculate individual property tax bills. Total property taxes billed to Badgerville residents is \$4 million. The assessed value of the Doe's property is 0.1% of the total, thus they are billed for 0.1% of the total, or \$4,000.



Total levies assigned to Badgerville: \$4,000,000

×



Does' assessment share: 0.1%

= \$4,000

Does' property tax