

# **PROPERTY VALUES AND TAXES IN SOUTHEAST WISCONSIN**

August 2011

**Jeff Schmidt, Researcher**

**Rob Henken, President  
Anneliese Dickman, Research Director**



**Sponsored by:**



**TABLE OF CONTENTS**

INTRODUCTION..... 2  
    Major findings..... 3  
DATA AND METHODOLOGY ..... 4  
PROPERTY VALUES..... 5  
    Total equalized values..... 5  
    Causes of property value changes ..... 6  
    Residential values ..... 7  
    Commercial and manufacturing values ..... 8  
PROPERTY TAXES..... 10  
    Property tax levies ..... 10  
    Property tax rates ..... 11  
EFFECTS ON TAXPAYERS ..... 13  
    Property tax bills ..... 13  
CONCLUSION ..... 15

## INTRODUCTION

This report is an annual Public Policy Forum publication that analyzes property values and property taxes within the seven-county southeast Wisconsin region. The report's primary objective is to measure trends in property values – one of the region's most critical indicators of economic health – and examine how those trends impact the capacity of local governments and school districts to raise the revenues required to deliver essential public services.

This year's report first analyzes 2010 property values, with specific consideration of multi-year trends. We then examine 2011 budgeted tax levies and tax rates of southeast Wisconsin counties and municipalities to explore the relationship between valuations and taxes.

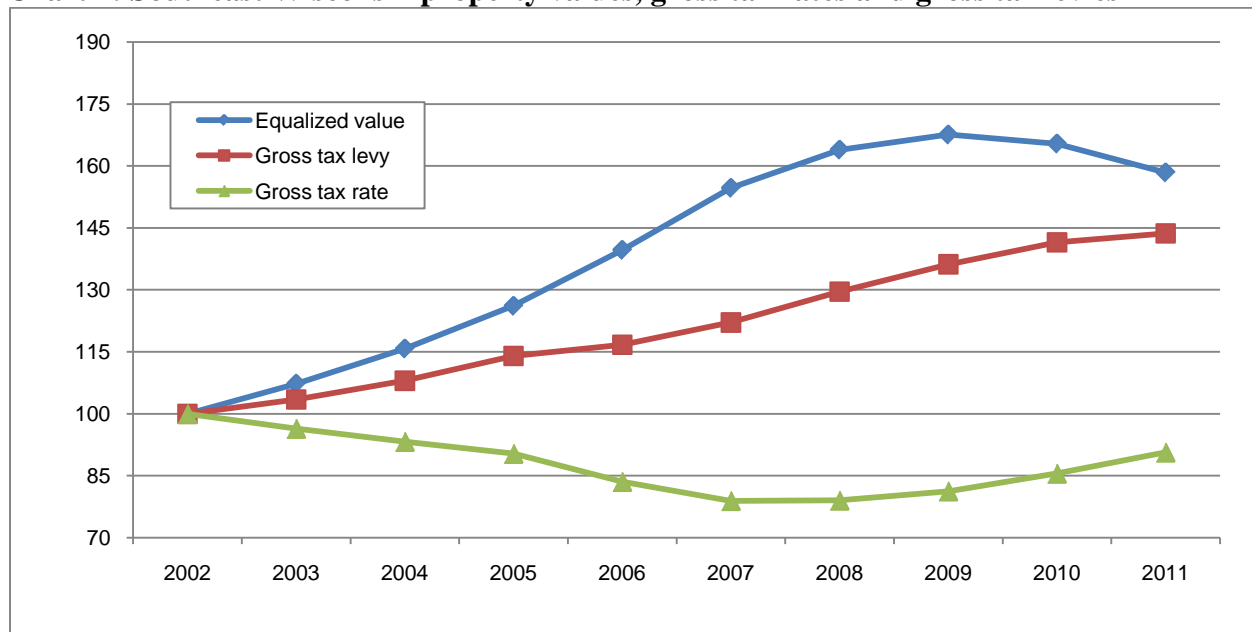
We find that this relationship has changed dramatically in the aftermath of the economic downturn. Five years ago, for example, property values in southeast Wisconsin increased nearly 11%, allowing the region's local governments and school districts to collectively increase tax levies by 5%, while at the same time *decreasing* the aggregate tax rate by \$1.10 per \$1,000 of assessed value. Today, we find that a 4% decline in property values precipitated an *increase* of \$1.22 in the aggregate gross tax rate, and that even this substantial rate increase only was able to generate a 1.5% increase in the amount of property tax levied.

The 1.5% increase in the region's gross tax levy is the lowest year-to-year increase since at least 2000. The 2010 increase was 3.9%, while the 10-year average is 4.3%. This may be good news for taxpayers, but it also may raise questions regarding the capacity of the property tax to support desired levels of local government services.

A municipality's tax levy is determined by both the total property value in the municipality and the tax rate that is applied to that value. Property values are established annually and the values from the previous year are used to determine the subsequent year's tax levies and rates.

**Chart 1** illustrates these relationships. From 2002 to 2008, the steady increase of property values in southeast Wisconsin surpassed inflation and allowed local officials to sharply decrease the tax rate while still increasing the overall tax levy to meet their expenditure needs. When property values began to decline in 2009, the upward trend in property tax levies slowed, but growth still was maintained via increases in tax rates. If property values fail to rebound at a rate commensurate with the expenditure needs of local governments and school districts, then tax rates would need to continue to increase annually in order to provide for levy growth, though such growth is now severely limited by new restrictions adopted in the 2011-13 state budget.

**Chart 1: Southeast Wisconsin property values, gross tax rates and gross tax levies**



The following are key findings from our 2011 analysis of property values and taxes in southeast Wisconsin:

- Aggregate property values in every county in southeast Wisconsin decreased from 2009 to 2010, the first universal decline since we began collecting data in 1992. Overall, total property values in southeast Wisconsin decreased 4.2% from 2009 to 2010, the second consecutive year with such a decrease.
- A decline in residential property values was the driving force behind the overall decrease in values. In 2010, the value of residential property in the region totaled \$132.8 billion, a decrease of 4.6% from 2009. The value of commercial property declined 3.8%.
- Property tax rates in southeast Wisconsin continued their growth trend in 2011. For the fourth consecutive year, the aggregate gross tax rate increased, rising \$1.22 per \$1,000 of property value to \$21.58. Every municipality in southeast Wisconsin saw its gross tax rate increase from 2010 to 2011.
- While property values in southeast Wisconsin decreased last year, the increase in the property tax rates allowed property tax levies to see continued growth. The aggregate gross tax levy for southeast Wisconsin totaled \$3.9 billion for 2011, an increase of 1.5%. As noted above, however, the 1.5% increase is the lowest annual increase since at least 2000. The aggregate school district tax levy increased 2.3%, making it the main driver of the increase in the region's gross tax levy.
- Based on the average residential property value in 2010 and the gross tax rate in 2011, the average hypothetical 2011 property tax bill in southeast Wisconsin increased 1.5% to \$4,456 in 2011.

## DATA AND METHODOLOGY

Municipal tax rates are based on the total value of all taxable property in each municipality, also known as the tax base. Because local assessors are responsible for determining the property values for their jurisdictions, total assessed value across municipalities and counties is not a uniform measure. To bring all values to a uniform level comparable across jurisdictions, the state equalizes assessed values by using tools such as market sales analysis, random appraisals, and local assessors' reports. Equalized values, calculated yearly, are meant to reflect fair market value (the most probable selling price).

Our analysis utilizes equalized values determined by the Wisconsin Department of Revenue (DOR) as of January 1, 2010. Total property value has two categories: real estate and personal property. Real estate makes up the overwhelming majority of the tax base and has eight classifications: residential, commercial, manufacturing, agricultural, undeveloped, agricultural forest, forest, and other. The three classifications analyzed by the Forum are residential, commercial, and manufacturing.

Changes in property value are classified in three ways. "Economic change" refers to remodeling of existing properties or changes as a result of market conditions. The other classifications include changes due to new construction and "other" changes, which include technical corrections that were made to the value of the property, demolition or destruction of property, and changes in the exempt status or classification of property. New construction drives total value growth because as parcels are used more intensively, they generate a higher land utility and thus a higher value.

This report also uses data from the Wisconsin Department of Revenue on 2010-11 municipal property tax levies and tax rates in the seven counties of Southeastern Wisconsin. The data are not fully audited and thus are considered preliminary.

The tax levy is the amount of money that each taxing jurisdiction (county, municipality, school district, technical college district, tax increment finance district, special district and the state) budgets to receive from property taxes. Levies were decided late in 2010 for 2011 budgets. To calculate the tax rate as a mill rate, each government divides the levy by the total property value (tax base) in its jurisdiction and multiplies the result by 1,000. This calculation allows property tax payments to be distributed evenly among taxpayers according to individual property values.

Because each property taxpayer lives within several taxing jurisdictions, the various tax rates are added together to arrive at the gross tax rate. It is important to note that in this report, **when the gross tax rate or levy for a particular county is referenced, it does not refer to the rate or levy attributable to county government in that county, but to the aggregate total of all taxing jurisdictions in the county (including the county government)**. Also, the net tax rate that determines each taxpayer's payment differs from the gross rate in that the net rate results from subtracting the state tax credit from the gross tax rate. Taxpayers can determine their individual payment by dividing their property value by 1,000 and multiplying the resulting number by the *net* tax rate. The report presents a hypothetical regional and county aggregated gross tax rate calculated by summing each municipality's gross tax rate into a rate for southeast Wisconsin, or for a county, as a whole.

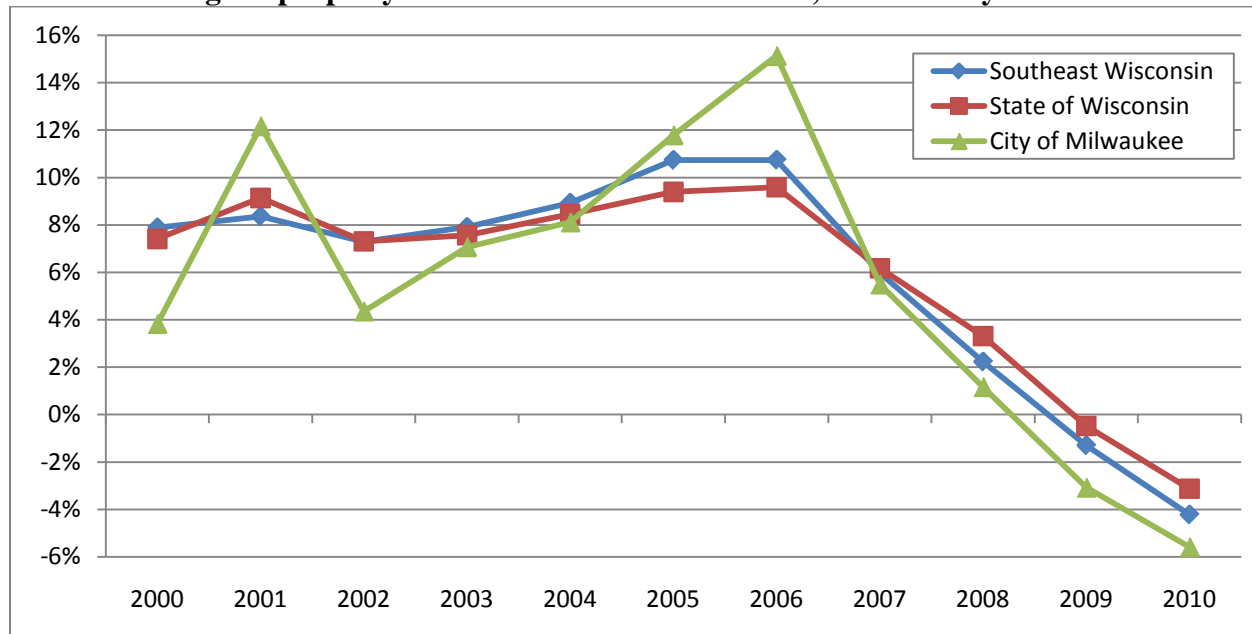
## PROPERTY VALUES

### Total equalized values

Property values in southeast Wisconsin continued their downward trend in 2010 (the latest year for which data is available), with every county in the region experiencing a decrease in overall property values. This is the first time every county in southeast Wisconsin experienced an overall decrease since we started collecting data in 1992. The aggregate property value total in southeast Wisconsin was \$182.6 billion in 2010, a decrease of 4.2% from 2009. As **Chart 2** shows, after several successive years of rapid growth, the growth rates of property values in southeast Wisconsin began to slow in 2007. Now, three years later, property values in southeast Wisconsin have declined for the second year in a row.

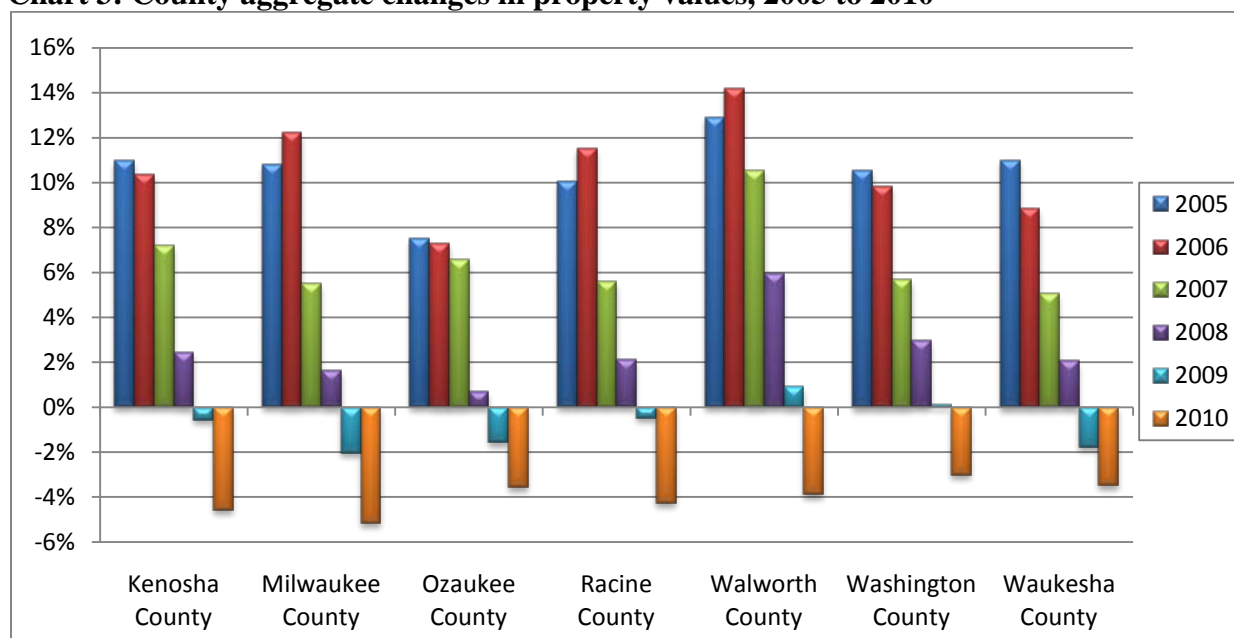
The southeast Wisconsin region is not alone in the loss in property values. Property values in the state as a whole have been on nearly the same trajectory as the region since 2007. Wisconsin property values equaled \$495.9 billion in 2010, a decrease of 3.1% from 2009. If the southeast Wisconsin region is removed from the state total, the value of remaining property in the state decreased 2.5% from 2009 to 2010.

**Chart 2: Change in property values in southeast Wisconsin, State & City of Milwaukee**



**Chart 3** shows how growth in values throughout the region has halted and declined in recent years. In fact, every county in southeast Wisconsin had a decrease of at least 3% in property values from 2009 to 2010. Milwaukee County property values had the largest decline, decreasing 5.1% from 2009 to 2010. Kenosha County values had the next largest decline at 4.6%, while Racine County property values declined 4.3%, thus revealing that the counties in southeast Wisconsin with the three largest urban populations saw the largest decreases in property values. Washington County had the smallest decrease in values, with a 3% decline.

**Chart 3: County aggregate changes in property values, 2005 to 2010**



Only 13 of the 147 municipalities in southeast Wisconsin saw increases in their overall equalized values from 2009 to 2010, and none of the increases exceeded 10%. This is far different from previous years. Between 2008 and 2009, 51 municipalities experienced an increase in property values, while 119 experienced an increase the year before that. Of the 13 municipalities that saw growth in property values from 2009 to 2010, four were in Walworth County, three in Waukesha County, and three in Washington County. No municipalities in Milwaukee County experienced growth in property values. Also, of the growing municipalities, five were villages and eight were towns. All of the region’s cities saw a decline in property values, with the City of Cudahy ranking last in terms of one-year growth, with a decline of 8%.

### Causes of property value changes

The major factor behind the decline in property values in southeast Wisconsin, according to the data, is the economic change in real estate values and the slowed growth of new construction in the region. As **Table 1** shows, economic change accounts for a 5% decline in values.

**Table 1: Changes in aggregate real estate values, 2009 to 2010**

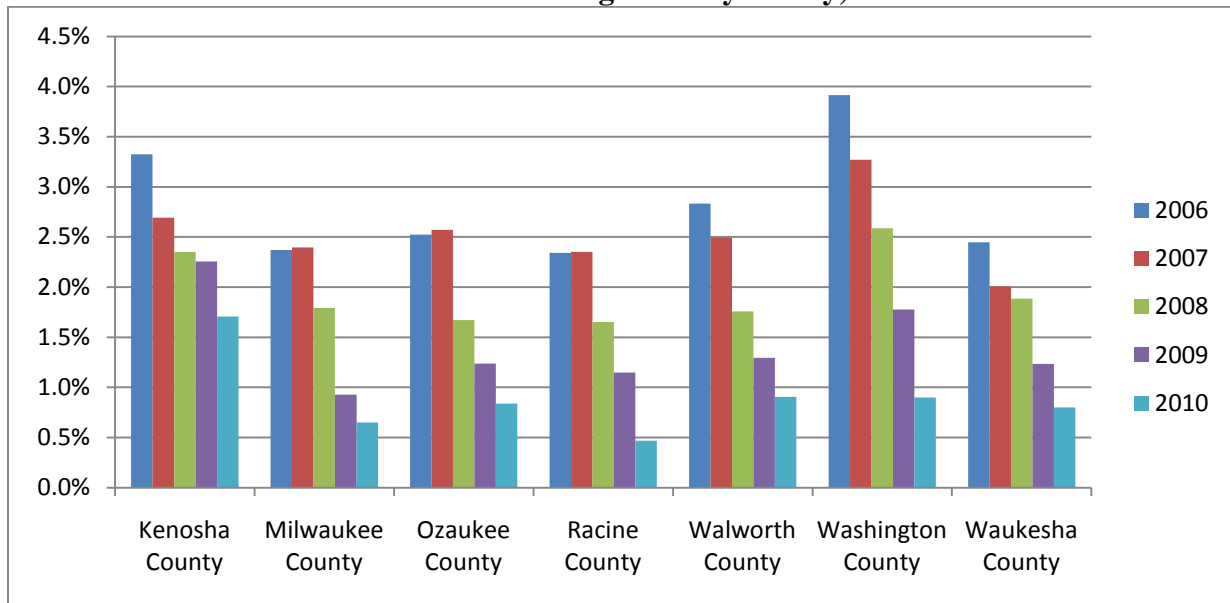
	2010 real estate value	Economic change	New construction	Other change	2009 real estate value
Kenosha County	\$13,937,511,000	(\$885,124,100)	\$237,637,200	(\$56,119,800)	\$14,641,117,700
Milwaukee County	\$61,423,407,300	(\$3,611,491,400)	\$398,632,100	(\$213,156,700)	\$64,849,423,300
Ozaukee County	\$10,642,346,700	(\$459,394,700)	\$89,167,800	(\$40,538,800)	\$11,053,112,400
Racine County	\$14,901,737,400	(\$713,582,400)	\$69,673,000	(\$39,075,600)	\$15,584,722,400
Walworth County	\$14,848,589,300	(\$738,054,200)	\$134,579,100	\$1,621,600	\$15,450,442,800
Washington County	\$13,440,230,800	(\$512,119,500)	\$120,946,200	(\$26,570,000)	\$13,857,974,100
Waukesha County	\$49,185,794,500	(\$2,182,165,900)	\$394,097,100	(\$37,613,800)	\$51,011,477,100
<b>SE Wisconsin</b>	<b>\$178,379,617,000</b>	<b>(\$9,101,932,200)</b>	<b>\$1,444,732,500</b>	<b>(\$411,453,100)</b>	<b>\$186,448,269,800</b>
<b>State of Wisconsin</b>	<b>\$483,966,688,200</b>	<b>(\$19,377,213,300)</b>	<b>\$4,575,602,300</b>	<b>(\$1,087,907,700)</b>	<b>\$499,856,206,900</b>

In addition, new construction did not do a lot to help real estate in Wisconsin. Kenosha County was the only county in the region with an increase of more than 1% in new construction, at 1.6%. Racine County had the lowest growth in new construction at 0.4%. Overall, new construction in the region grew 0.8% from 2009 to 2010.

The growth in new construction will be very important to local governments in coming years, as annual property tax growth for municipalities and counties will be limited to the greater of the rate of new construction or 0% per new levy caps adopted as part of the 2011-13 state budget.

**Chart 4** – which shows percentage increases in new construction in each of the seven southeast Wisconsin counties – provides a sense of the limited property tax levy increases that will be allowed under the new cap without a strong rebound in this area.

**Chart 4: Total real estate new construction growth by county, 2006-2010**



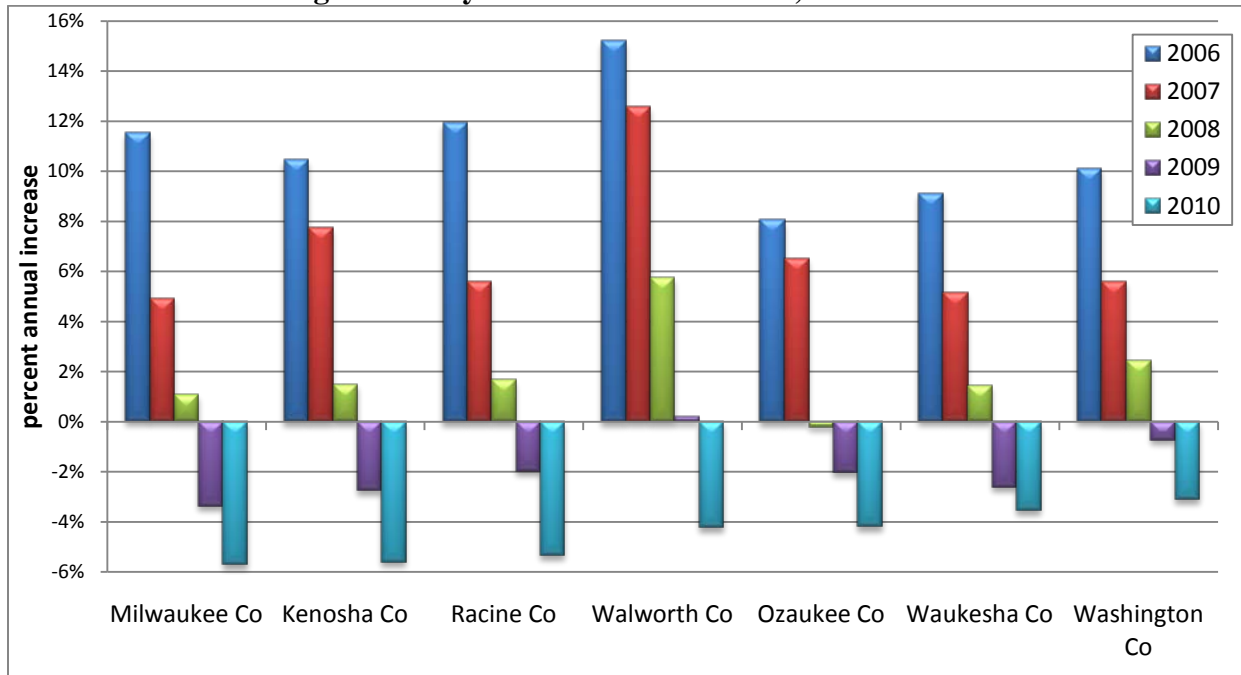
## Residential values

Residential property values mirrored the total property value decreases in southeast Wisconsin in 2010, which is not surprising given that residential property accounts for 73% of the region's total property. Residential property values in southeast Wisconsin decreased 4.6% from 2009 to 2010, the largest decrease in residential values since we started collecting data in 1992. In 2009, residential property values in the region decreased 2.3% (this was the only other year with a decrease). In the state as whole, residential property values decreased 3.5% from 2009 to 2010. Without the southeast Wisconsin region included in the state total, the rest of the state's residential property decreased 2.9%.

As **Chart 5** shows, residential property values continued their decline in every county. Six of the seven counties saw residential values decline for the second year in a row, and every county in the region experienced a steeper decline from 2009-2010 than the previous year. Milwaukee County's residential values decreased the most in the region for the second year in a row. Walworth County, the only county in the region to see an increase in residential property values from 2008 to 2009, had a decrease of 4.2% from 2009-2010, fourth lowest in the region.



**Chart 5: Rates of change in county residential value totals, 2006-2010**



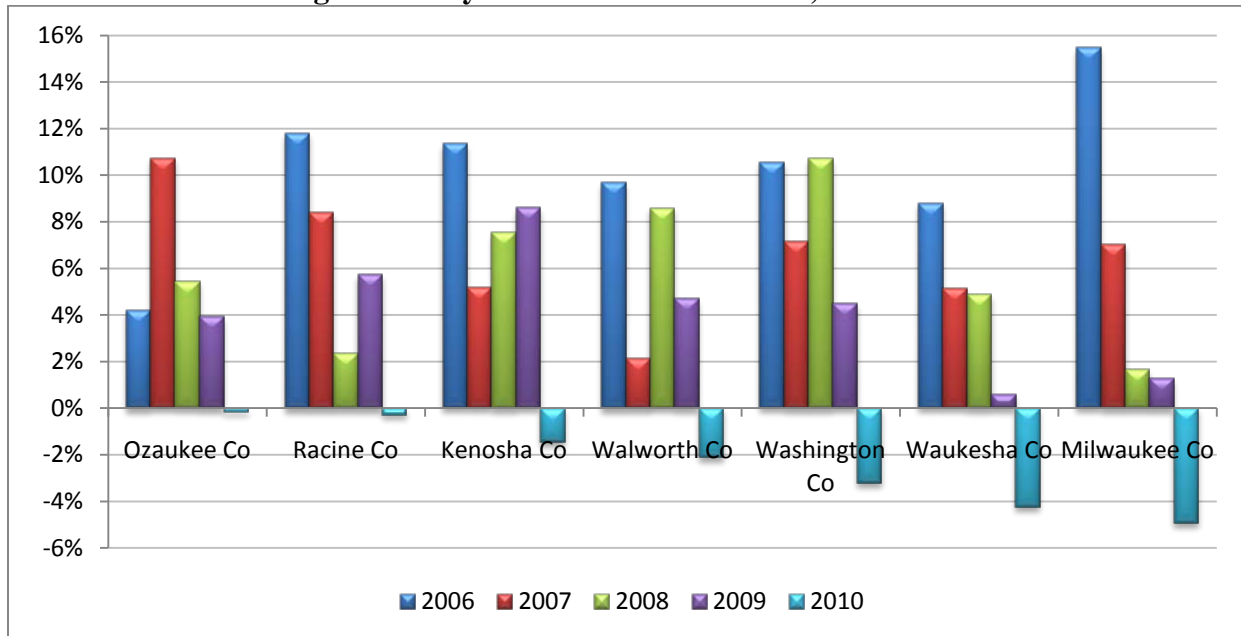
With regard to the region’s municipalities, 130 experienced a decrease in the residential tax base from 2009 to 2010, a trend that has been accelerating in recent years. In fact, 106 municipalities experienced decreased residential values from 2008 to 2009, as compared to 33 from 2007 to 2008, and only one from 2006 to 2007.

### Commercial and manufacturing values

Commercial property in southeast Wisconsin totaled \$39.3 billion in 2010, equaling 21.5% of the total property value. For the first time since we started collecting data in 1992, the commercial property in southeast Wisconsin had a one-year decline, decreasing 3.8% from 2009 to 2010. Commercial property in the state as a whole also declined for the first time, falling 2.4% from 2009 to 2010, a slightly lower decline than the region.

As **Chart 6** shows, every county in southeast Wisconsin had a decrease in commercial values from 2009 to 2010. This is the first time *any* county in southeast Wisconsin has had a decrease in commercial values.

**Chart 6: Rates of change in county commercial value totals, 2006-2010**



At the municipal level, only 32 municipalities in southeast Wisconsin experienced an increase in commercial property values from 2009 to 2010, as compared to 95 the previous year. The City of Milwaukee, which has the largest commercial tax base in the region, saw its commercial value decrease 4.2% from 2009 to 2010, ranking in the bottom quarter of all municipalities in the region.

Manufacturing property accounts for just 3% of all property in southeast Wisconsin. Aggregate manufacturing property values in the region remained nearly the same from 2009 to 2010, decreasing just 0.4%. This was the second annual decrease in a row, though it was lower than the 2.1% decrease in the value of manufacturing property from 2008 to 2009. Manufacturing property value in the state as a whole also stayed nearly constant, decreasing 0.3%.

In 2010, 119 of the region's municipalities had a manufacturing tax base. Of those, 85 had a decrease in their total manufacturing property value, fewer than the 92 the previous year. Sixteen municipalities saw no change in their manufacturing tax base, while 18 municipalities had an increase in their manufacturing values from 2009 to 2010. The City of Milwaukee's manufacturing tax base decreased 3.1% from 2009 to 2010, ranking it near the middle of all municipalities in the region.

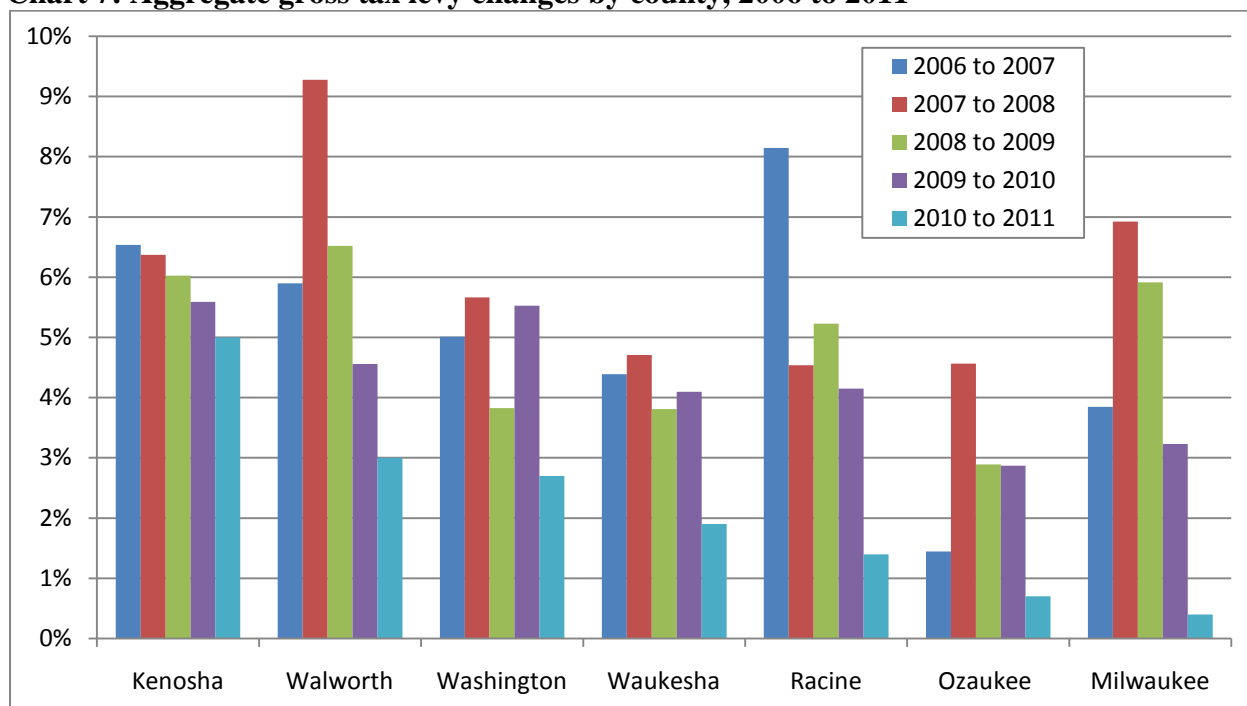
## PROPERTY TAXES

### Property tax levies

For our analysis of regional property tax levy trends, we use tax levies and rates adopted in 2010 for the 2011 budget year. Our analysis shows that despite the decline in property values, property tax levies grew in every southeast Wisconsin county from 2010 to 2011. The increases were considerably smaller than in the previous year, however, as the overall aggregate gross tax levy for southeast Wisconsin grew 1.5% from 2010 to 2011, as compared to growth of 3.9% from 2009 to 2010. The southeast Wisconsin aggregate gross tax levy equaled \$3.9 billion in 2011, 38% of the statewide total.

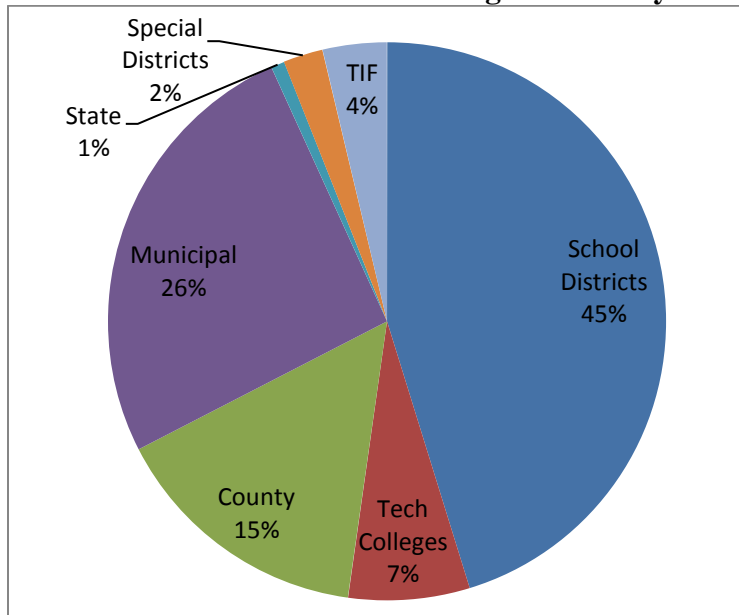
As **Chart 7** shows, Milwaukee County had the lowest aggregate gross tax levy growth among southeast Wisconsin counties, at 0.4%. Ozaukee and Racine counties were the next lowest, at 0.7% and 1.4% respectively. These three counties were the only counties in southeast with growth rates below the regional aggregate growth rate. Kenosha County had the highest aggregate gross tax levy increase at 5%, followed by Walworth and Washington counties.

**Chart 7: Aggregate gross tax levy changes by county, 2006 to 2011**



School districts continue to be the driver of the gross tax levy increases in the region. As **Chart 8** shows, school districts accounted for 45% of the overall aggregate gross tax levy in southeast Wisconsin in 2011. The southeast Wisconsin school district aggregate tax levy grew 2.3% from 2010 to 2011, which is significantly lower than the 4.9% growth the previous year. Kenosha County had the largest growth in school district tax levy, at 6.6%. The school district tax levy in Milwaukee County hardly grew at all from 2010 to 2011, rising 0.7%.

**Chart 8: 2011 southeast Wisconsin gross tax levy breakdown**



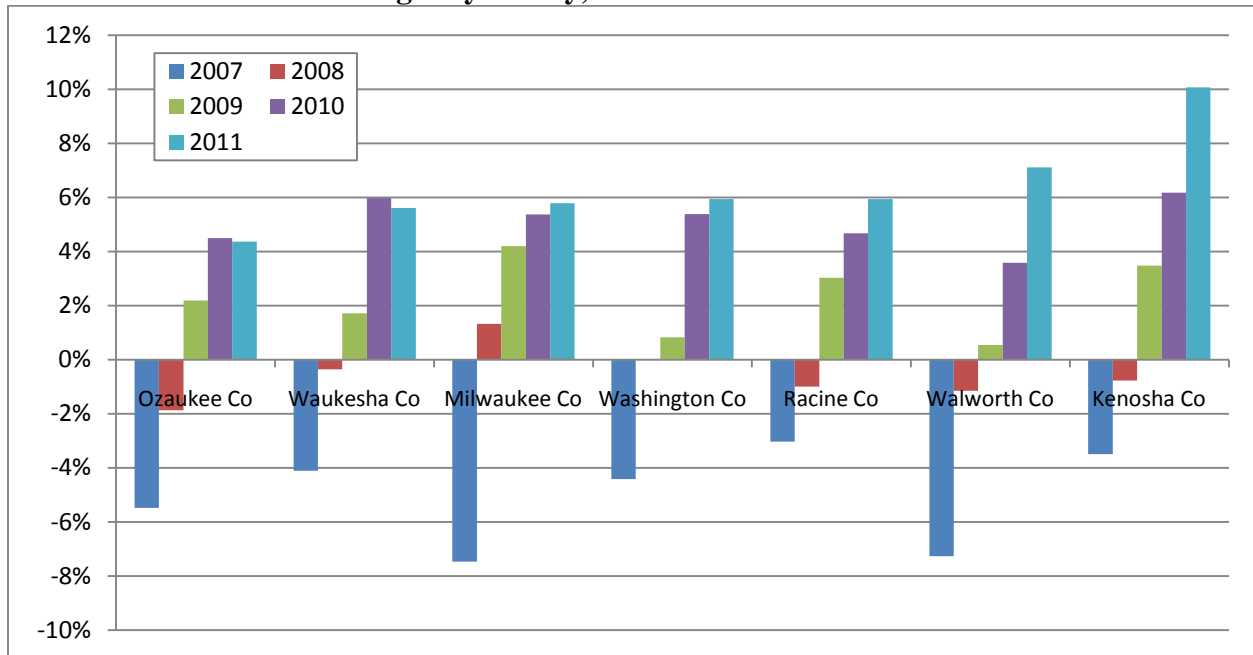
In terms of individual municipalities, 19 of the 147 municipalities in the region saw their gross tax levy decrease from 2010 to 2011, as compared to nine last year and 10 the year before that. The City of Milwaukee is one of the municipalities that had a decrease this year, at 0.7%. Only five municipalities in southeast Wisconsin experienced a double-digit increase in their gross tax levy.

### Property tax rates

With declining property values in the region and state, the only way that local government officials can continue to grow their tax levies is to raise the tax rates. It is not surprising, therefore, that every municipality in southeast Wisconsin had an increase in the gross tax rate from 2010 to 2011. The aggregate gross tax rate in southeast Wisconsin was \$21.58 per \$1,000 of assessed value, \$1.22 higher than in 2010. The aggregate gross tax rate for all municipalities in the state is \$20.90 this year.

As **Chart 9** shows, 2011 is the third consecutive year in which every county in the region experienced an increase in its aggregate gross tax rate. In fact, growth trends in the gross tax rates have completely reversed in recent years; where gross tax rates once decreased annually (in part because of increasing property values), they now are rising. Kenosha County saw the largest increase in the gross tax rate for the second year in a row, at 10.1%, while Milwaukee County had the highest gross tax rate in southeast Wisconsin at \$26.20. Milwaukee County is the only county in the region with four straight years of increases in the aggregate gross tax rate.

**Chart 9: Gross tax rate changes by county, 2007 to 2011**



At the municipal level, every city, village and town in the region saw an increase in its gross tax rate in 2011. Last year, all but five of the region’s municipalities experienced an increase. Most municipalities had an increase in their school district tax rate as well, with only two experiencing a decrease.

## EFFECTS ON TAXPAYERS

### Property tax bills

The annual change in one's property tax bill reflects not only a change in the property tax rate, but also any change in the assessed value of one's home. A decrease in the assessed value of one's home, however, may not translate into a lower tax bill. That is because taxes are determined by applying the tax rate to the assessed value of the home, which means an increased tax rate may outweigh the loss in assessed value and produce a larger tax bill from one year to the next.

This year, we calculated an average tax bill using the average residential equalized value in 2010 in each county (as opposed to a standard home value applied across the seven-county region) and applying the 2011 gross tax rate for each county. We also did this for prior years for comparison purposes. We sought to perform this analysis for each municipality, but data constraints only allowed us to perform the analysis using county aggregates.

In terms of county averages, Ozaukee County once again had the highest average residential property value in 2010 at \$278,527, though that figure reflects a decrease of 4.4% from 2009. Ozaukee County is the only county in the region with three straight years of decline in its average residential value. Walworth County had the third highest average property value in southeast Wisconsin but had the largest decline in average value this year, falling 8.4%. The average residential property value in Milwaukee County in 2010 was \$164,382, the lowest in the region and 5.8% less than in 2009. Milwaukee County's average residential value was the only county average below \$170,000.

Although property values are declining, our calculations indicate that the average taxpayer did not see relief in property taxes in 2011. As **Table 2** shows, the average hypothetical gross tax bill in southeast Wisconsin increased slightly over the past year, from \$4,401 in 2010 to \$4,456 in 2011, though it is important to note that the 2011 average still is considerably lower than that of 2009. Four of the seven counties in the region had an average gross tax bill that was higher in 2011 than in 2010.

**Table 2: Average property values, aggregate gross tax rates, and hypothetical gross tax bills**

	2009 Averages			2010 Averages			2011 Averages		
	Value*	Rate	Bill	Value*	Rate	Bill	Value*	Rate	Bill
Kenosha Co	\$221,459	\$19.50	\$4,318	\$189,243	\$20.71	\$3,918	\$174,427	\$22.79	\$3,975
Milwaukee Co	\$184,874	\$23.50	\$4,345	\$174,578	\$24.77	\$4,324	\$164,382	\$26.20	\$4,307
Ozaukee Co	\$321,730	\$16.83	\$5,416	\$291,345	\$17.59	\$5,125	\$278,527	\$18.36	\$5,114
Racine Co	\$196,964	\$19.10	\$3,761	\$175,539	\$19.99	\$3,509	\$170,244	\$21.18	\$3,605
Walworth Co	\$314,008	\$15.98	\$5,018	\$253,525	\$16.55	\$4,197	\$232,266	\$17.73	\$4,119
Washington Co	\$254,728	\$16.51	\$4,206	\$226,077	\$17.40	\$3,934	\$227,338	\$18.44	\$4,191
Waukesha Co	\$318,463	\$16.28	\$5,184	\$290,093	\$17.25	\$5,004	\$282,161	\$18.22	\$5,141
<b>SE WI</b>	<b>\$238,205</b>	<b>\$19.34</b>	<b>\$4,607</b>	<b>\$216,180</b>	<b>\$20.36</b>	<b>\$4,401</b>	<b>\$206,490</b>	<b>\$21.58</b>	<b>\$4,456</b>

\*Represents residential values from the previous year.

**Chart 10** further illustrates how the average residential values and the gross tax rate can affect the gross tax bill. **Chart 10** uses indexing to 2007 levels to show the average residential property value, aggregate gross tax rate and hypothetical gross tax bill in southeast Wisconsin on the same scale. It shows that the large drop in the average residential property value in the region during the past two years has been offset by sharply increased property tax rates. The average hypothetical tax bill is lower than it was two years ago, but it did grow slightly in the past year, despite the continued decline in property values. The aggregate gross tax rate in the region, meanwhile, has increased for four straight years, reflecting the slowdown in growth in property values that had occurred even prior to the economic downturn.

**Chart 10: SE Wisconsin average tax bill, tax rate, and property value, indexed to 100**



## CONCLUSION

This report is designed to highlight the relationship between property values and property tax rates. Understanding this relationship is especially important for citizens as they hear more in the coming weeks about their local governments' 2012 budget challenges. Holding the line on property tax rates, while also providing the necessary resources to maintain desired levels of government services, becomes increasingly difficult as property values decline. Increasing rates may not have an appreciable impact on a homeowner's property tax bill while assessed values are declining, but for those whose homes are holding their value, or those who are not re-assessed on an annual basis, an increase in the property tax rate could prove costly.

From the perspective of local government leaders, the decline in property values poses multiple challenges, particularly when combined with new limits on property tax increases contained in the latest state budget. With reduced values, policymakers have little choice but to contemplate raising rates in order to maintain existing service levels, even with the limited growth in the overall levy afforded under the new state caps. This is certain to generate confusion among citizens whose homes have not lost value, as they may receive higher property tax bills despite proclamations from state elected officials that property tax increases have been strictly limited.

The decline in property values hits local governments in Wisconsin especially hard because of their extreme reliance on the property tax as their main source of local revenue. The Forum has found in previous research reports that other states tend to afford their municipal governments with a wider variety of local revenue options, including local sales or income taxes.

In 2011, the region saw only a 1.5% increase in its gross aggregate property tax levy – well below the 10-year average of 4.3% and the lowest annual increase since at least 2000. While the relatively low increase in 2011 likely was linked to declining property values and a reluctance to increase taxes in a struggling economy, such annual increases are likely to become the norm – even after the economy rebounds – in light of strict new property tax limits adopted by state government.

Whether the breadth and quality of local government services will suffer with lower property tax capacity remains to be seen. This is an issue that bears watching, however, and one that may produce a need for renewed debate and discussion of revenue diversification for local governments and school districts in Wisconsin, strategies to share or consolidate local government and school district services, or possible acceptance of lower service levels.