

PROPERTY VALUES AND TAXES IN SOUTHEAST WISCONSIN

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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 2012 property values, with specific consideration of multi-year trends. We then examine 2013 budgeted tax levies and tax rates of southeast Wisconsin counties, municipalities, and school districts to explore the relationship between valuations and taxes.

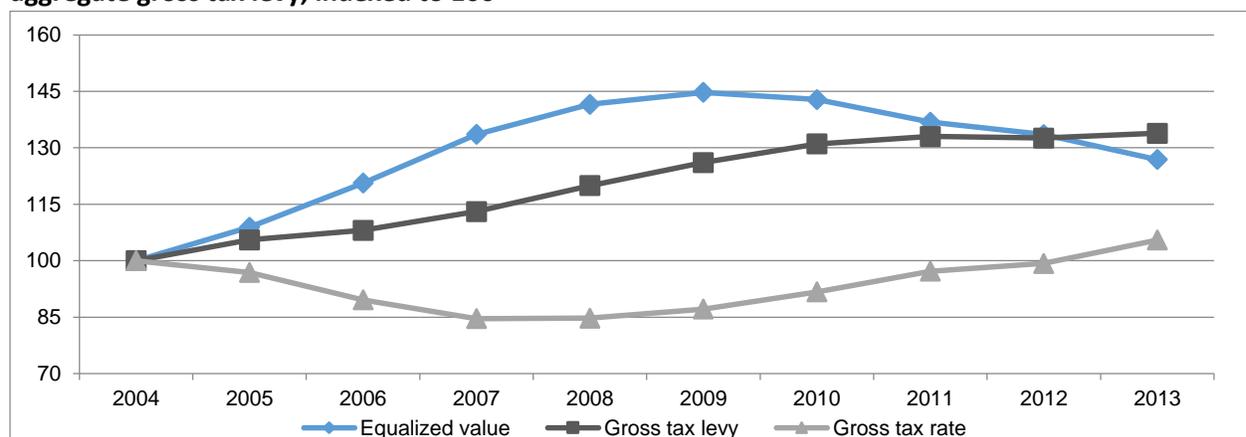
Last year's report found that after three years of steady decline in property values, the rate of decline had slowed. In addition, we found that growth in the property tax rate had diminished, leading us to ask whether the region's decline in property values and corresponding increase in rates had "hit bottom."

One year later, we determine that the answer is "no." In this year's report, we find the one-year decline in the region's aggregate property valuation to be the steepest ever. To accommodate this fourth consecutive year of declining values, tax rate growth increased considerably, though the resulting aggregate tax levy grew only slightly.

Property values in southeast Wisconsin dropped 5% over the past year. This overall decline was led by a 6% decline in residential property. Residential property is the driving force in southeast Wisconsin values—it accounts for almost three-quarters of all property. Over the past five years, residential property values have decreased 15% in the region, while the value of commercial property has decreased 6% and manufacturing property just 4%. The total aggregate equalized value in southeast Wisconsin has decreased 12% over the past five years.

Chart 1 shows the aggregate equalized property values, gross tax levy and gross tax rate for southeast Wisconsin indexed to 100 in 2004. The hypothetical aggregate gross tax rate for southeast Wisconsin has been steadily increasing since 2008. In addition, the gross tax levy steadily increased from 2004 to 2011, before declining slightly last year and growing slightly in 2013.

Chart 1: Ten-year southeast Wisconsin aggregate property valuation, aggregate gross tax rate and aggregate gross tax levy, indexed to 100



Major Findings

- Overall, total property values in southeast Wisconsin decreased 5% from last year—the fourth consecutive year with a decrease, and the largest decrease since at least 1992. Aggregate property values in every county in southeast Wisconsin decreased for the third year in a row.
- The decline in *residential* property values was once again the driving force behind the overall decrease in values. In 2012, the value of residential property in the region totaled \$121.9 billion, a decrease of 6% from 2011. The value of commercial property declined 2.4%.
- Eight municipalities in southeast Wisconsin had an increase in overall property values from 2011 to 2012. In 2011, 38 municipalities had an overall increase in total values. Over the past five years, only four municipalities in southeast Wisconsin have seen an increase in their total property values.
- In 2013, the rate of growth in the overall gross tax levy is 1%, a reversal of what had been a trend of slowing growth or decline in the prior two years.
- Property tax rates in southeast Wisconsin continue a growth trend in 2013. The aggregate hypothetical gross tax rate in the region increased \$1.38 per \$1,000 of property value, the sixth consecutive annual increase. The aggregate gross tax rate in southeast Wisconsin is now \$23.42 per \$1,000 of assessed value.
- School districts account for the largest percentage of the aggregate tax levy in southeast Wisconsin, at 45%. In 2013, the budgeted aggregate school district levy for southeast Wisconsin is less than 1% higher than the prior year. Over the past five years, the school district tax levy has increased 6.4%
- To calculate an average tax bill in southeast Wisconsin, we apply the average residential property value in the region to the gross tax rate. The resulting hypothetical average tax bill in 2013 is \$4,402, a slight increase over the 2012 average tax bill.



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, 2012. 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, such as during a recession. The other classifications include changes "due to new construction" and "other" changes. The "other" category includes 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, as previously undeveloped parcels are used more intensively, generating a higher land utility and a higher value.

This report also uses data from the Wisconsin Department of Revenue on 2012-13 municipal property tax levies and tax rates in the seven counties of southeast 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) expects to receive from property taxes. Levies were decided late in 2012 for 2013 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, we add the various tax rates 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 tax bill 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.



Finally, while it is important to note that the property tax is the most prominent revenue-raising tool available to local governments and school districts, it is not the only tool. Local governments also make use of a variety of fees on items ranging from garbage pick-up to snow removal, and most school districts employ student fees for various activities. This report does not address trends in local government and school district fee collections.



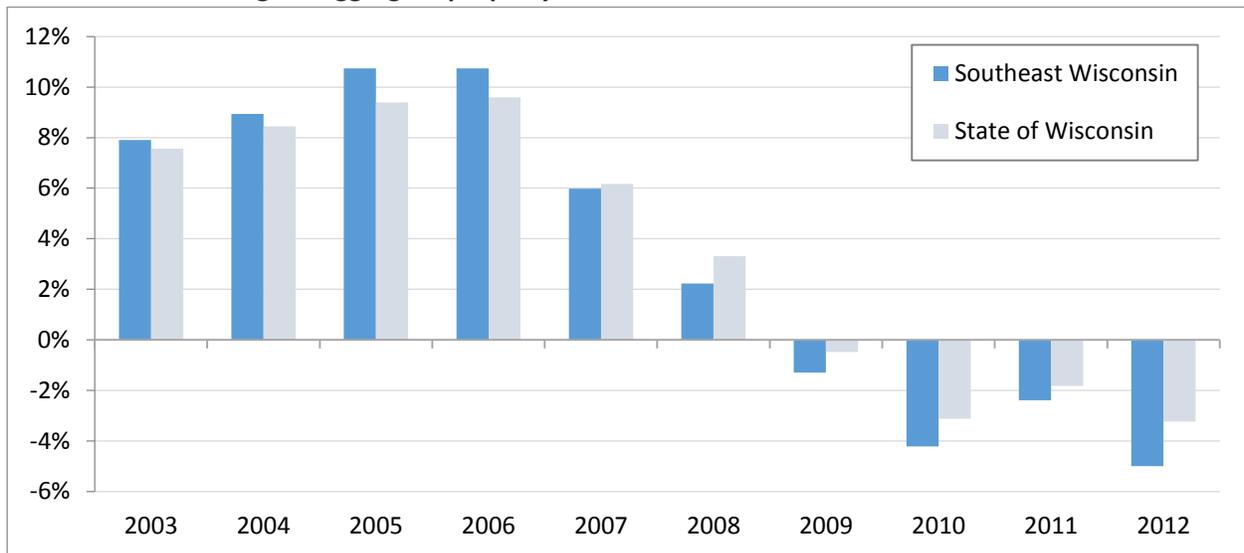
PROPERTY VALUES IN SOUTHEAST WISCONSIN

Declining property values

For the fourth consecutive year, property values in southeast Wisconsin declined in 2012. In fact, the overall decrease of 5% in southeast Wisconsin is the steepest decline since we began issuing this report. As **Chart 2** shows, since 2007, southeast Wisconsin has lagged behind the state as a whole in property value growth, although total property values in the state also have declined for the past four years.

Overall, property values in southeast Wisconsin totaled \$169.3 billion in 2012. In the past five years, those values have dropped 12%. Southeast Wisconsin property values are now the lowest since 2005, when they totaled \$161 billion. Statewide, property values decreased 3.2% from 2011 to 2012, and 8% over the past five years. When the southeast Wisconsin region is removed from the state totals, property values in the rest of the state declined 2.2% from 2011 to 2012.

Chart 2: Annual change in aggregate property values in southeast Wisconsin and State

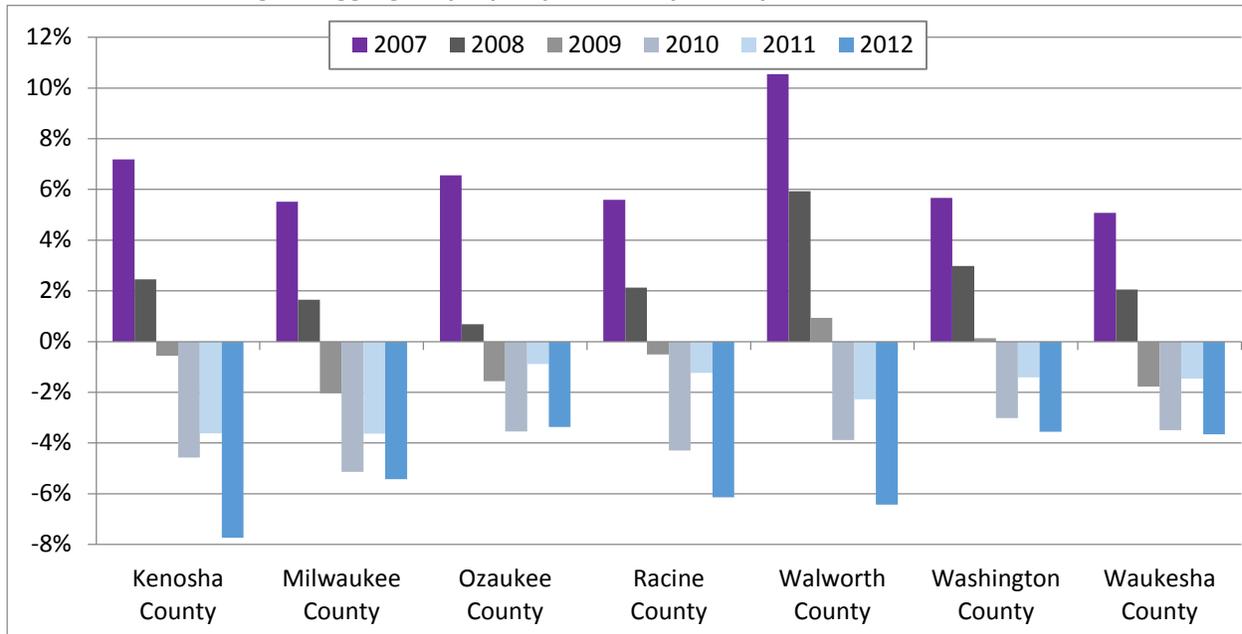


In each county in southeast Wisconsin, the 2012 decreases were greater than the 2011 decreases. In fact, **Chart 3** shows that for the third year in a row, all seven counties in southeast Wisconsin had a decrease in property values in 2012. Furthermore, every county in southeast Wisconsin – with the exception of Ozaukee County – experienced its largest overall decrease in property values in at least the past decade. Kenosha County saw its property values decline more than any other county in southeast Wisconsin, with a 7.7% decrease from 2011 to 2012, more than double the decrease of the prior year. Walworth County municipalities had the next largest decline from 2011 to 2012, decreasing 6.4%, nearly triple the decrease of the prior year. Ozaukee County municipalities had the smallest decrease from 2011 to 2012, at 3.4%, the second year that county had the smallest decrease in the region.

Over the past five years, Kenosha County municipalities have seen their property values decrease 16%, the most in the seven-county region. Milwaukee County municipalities had a decrease of 15% over the past five years, second largest in the region. Washington County municipalities had the smallest five-year decline in the region, with an 8% loss.



Chart 3: Annual change in aggregate property values, by county



Residential property values drive total values

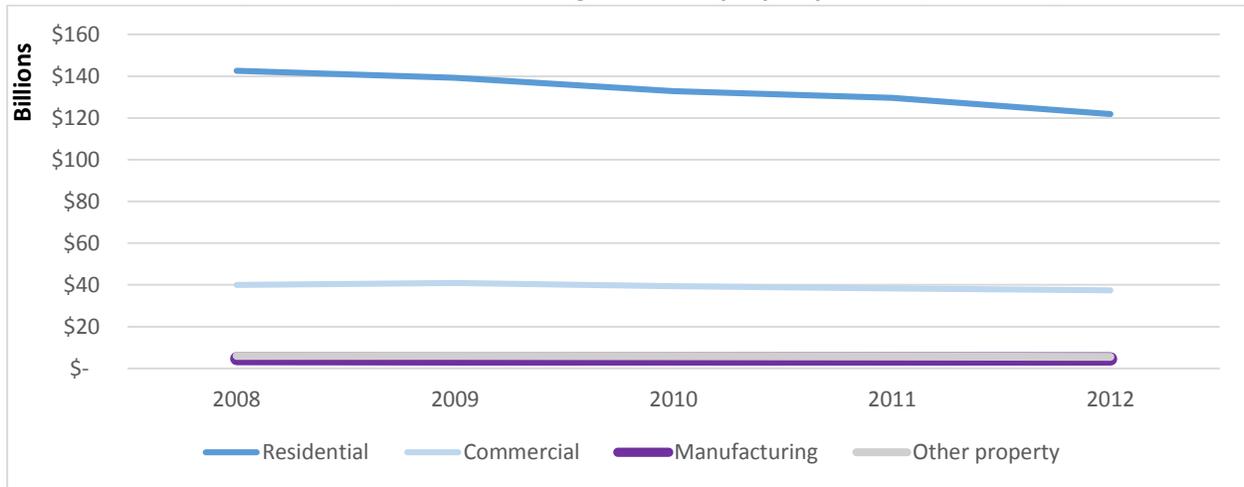
Residential property in southeast Wisconsin makes up the largest portion (72%) of the total property value in southeast Wisconsin. **Chart 4** shows that the decline in residential property over the past five years has been the main driver in the decline of total property values in southeast Wisconsin. Between 2008 and 2012, residential property values in southeast Wisconsin declined 14.5%, while commercial property values decreased 6.3% and manufacturing values decreased 4.4% over the same time period.

For the past year (2011 to 2012), residential property in southeast Wisconsin decreased 6%, the largest decline since at least 1992 and the fourth overall decrease in a row. Commercial property declined 2.4%, while manufacturing property stayed relatively the same, decreasing 0.2%. Again, residential property was the main driver in the overall decline in property values in the region from 2011 to 2012, which totaled 5%.

Statewide, the value of residential property decreased 4% from 2011 to 2012, a smaller decline than that seen in the southeast Wisconsin region. Residential property in the state as a whole also has decreased for four consecutive years.



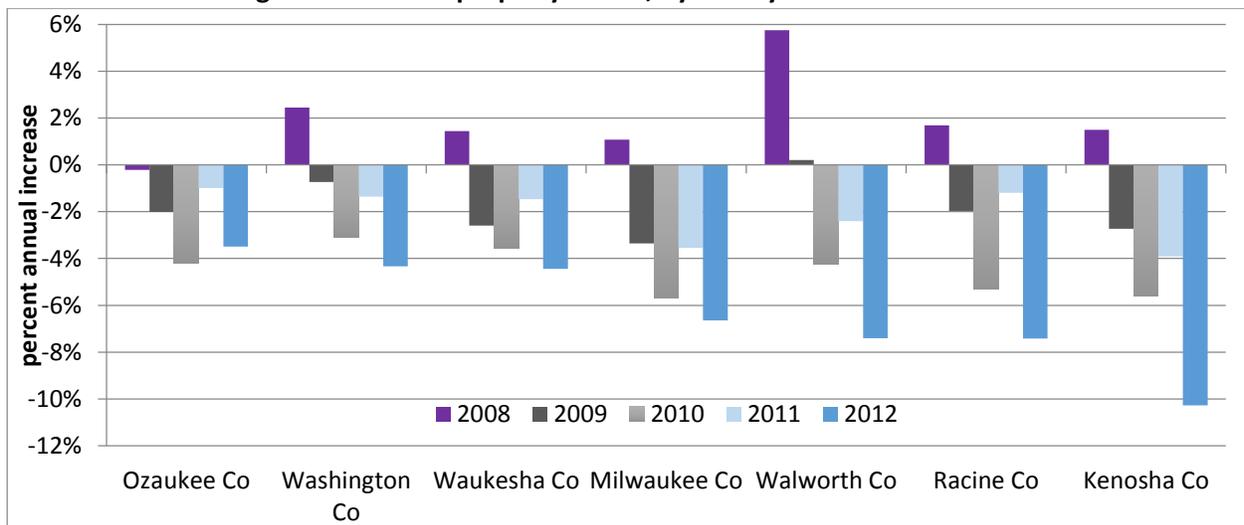
Chart 4: Residential, commercial, manufacturing and other property values (2008-2012)



In addition, for the third year in row, the aggregate residential property values in *each* of the seven counties in southeast Wisconsin declined. **Chart 5** shows that one county, Ozaukee, has seen residential property decline for five straight years. Meanwhile, five counties have now experienced residential property declines for four years consecutive years, and one county (Walworth) has had three straight years of residential decline. In six of the seven counties, the residential property decline in the last year was the largest since at least 1992. Ozaukee County – which was the only southeast Wisconsin county that experienced a smaller decline in 2012 (3.5%) than it did the previous year (4.2%) – experienced the lowest drop in residential property values in the region this year. Kenosha County municipalities had the largest residential decrease at 10.3%. Milwaukee County municipalities saw their residential property values decline 6.6% from 2011 to 2012.

Over the past five years, all but one of the counties in southeast Wisconsin has experienced at least a 10% decrease in residential property values. The one exception – Washington County – experienced a 9% decrease. Kenosha County has experienced the largest five-year decrease in residential property, with a 21% loss in value.

Chart 5: Annual change in residential property values, by county

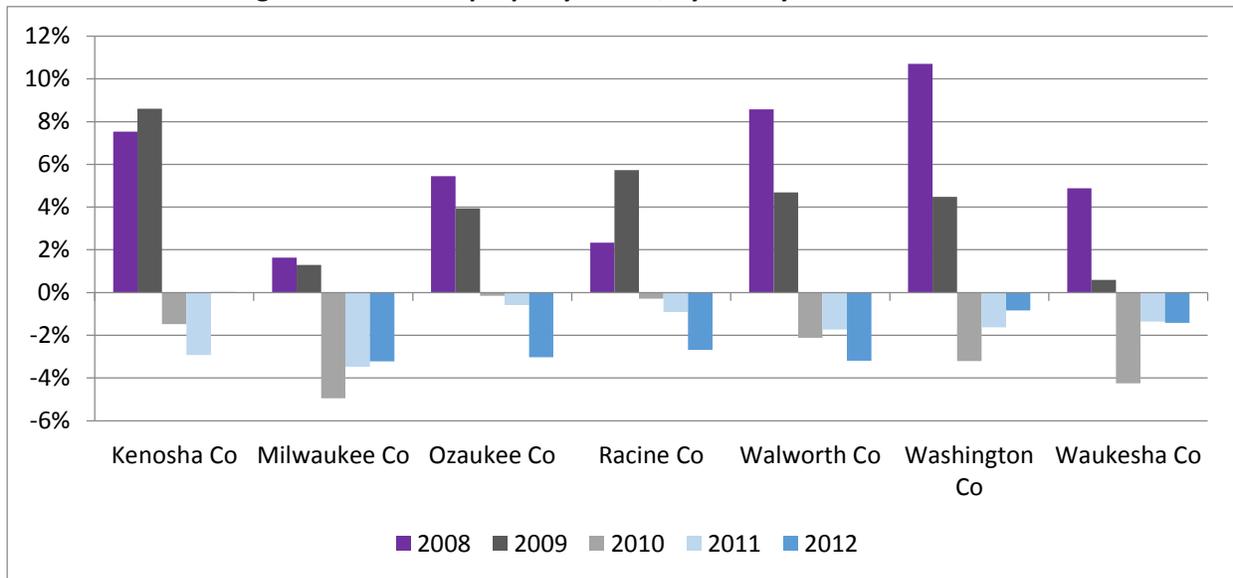


Commercial and manufacturing property declined slightly

Commercial property accounted for 22% of the total property value in the region in 2012, totaling \$37.4 billion, the lowest total since 2006. Commercial property values declined 2.4% from 2011 to 2012, slightly less than the decrease the prior year. In comparison, commercial property values statewide decreased 1.5%. For both the region and the state, commercial property values declined for the third consecutive year.

Chart 6 shows that, for the first time in three years, not all of the seven southeast Wisconsin counties had decreases in aggregate commercial property values, as Kenosha County saw its aggregate commercial property *increase* slightly, by .03%. Of the seven counties, Milwaukee and Walworth had the largest one-year declines in commercial property values, both decreasing 3.2%. For most of the counties, this year's decrease in commercial values exceeded last year's decrease.

Chart 6: Annual change in commercial property values, by county



Manufacturing property accounted for just 3% of the total property value in southeast Wisconsin in 2012. From 2011 to 2012, manufacturing property valuations decreased slightly (0.3%). Over the past five years, manufacturing property in southeast Wisconsin has dropped in value by 4.4%, as compared to just 0.6% statewide. Aggregate manufacturing property value in the state actually increased 1.1% from 2011 to 2012, the first one-year increase since 2008.

With regard to individual counties in the region, two – Racine and Waukesha – saw increases in the value of their manufacturing property from 2011 to 2012. Kenosha County had the largest decrease at 2.8%.

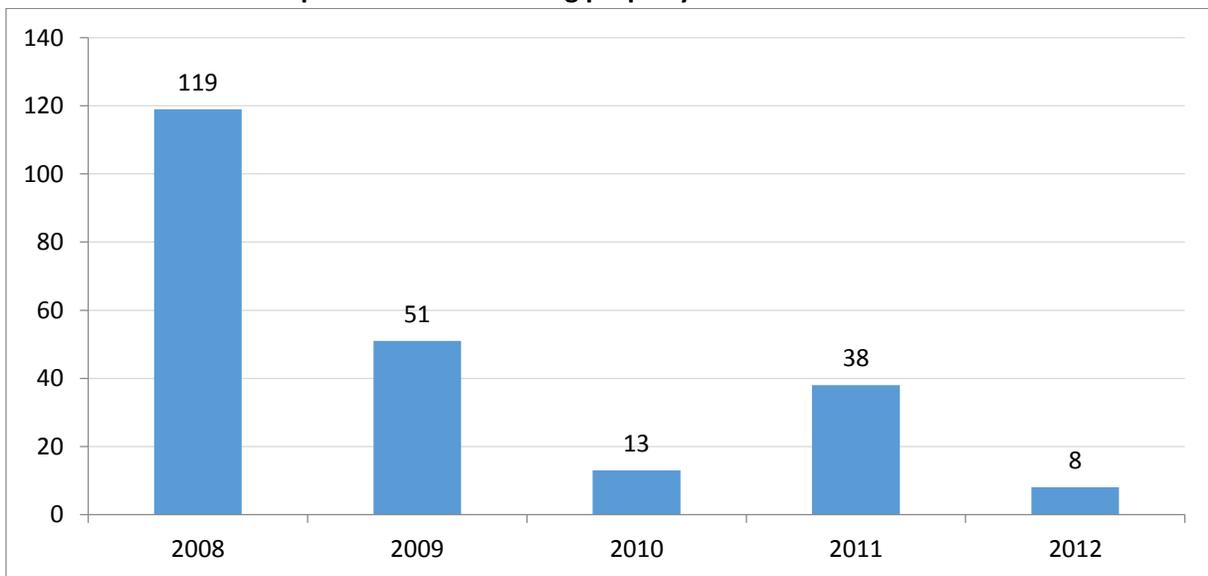


Few municipalities in region experienced property growth

Chart 7 shows the number of individual municipalities in the southeast Wisconsin region that experienced an overall increase in property valuation during each of the past seven years. In 2012, only eight municipalities saw an increase in overall property values, the lowest total of the 2006-2012 timeframe. The Town of Darien in Walworth County had the largest increase in the region, at 13.2%, which can be attributed to a large commercial property development. The other seven municipalities that saw an increase in total property values had one-year increases of less than 5%.

Since 2008, property values in the City of Milwaukee have declined 18.1%, the 12th largest decline of the 147 municipalities in the region. From 2011 to 2012, Milwaukee's overall property value decreased 5.5%.

Chart 7: Count of municipalities with increasing property values



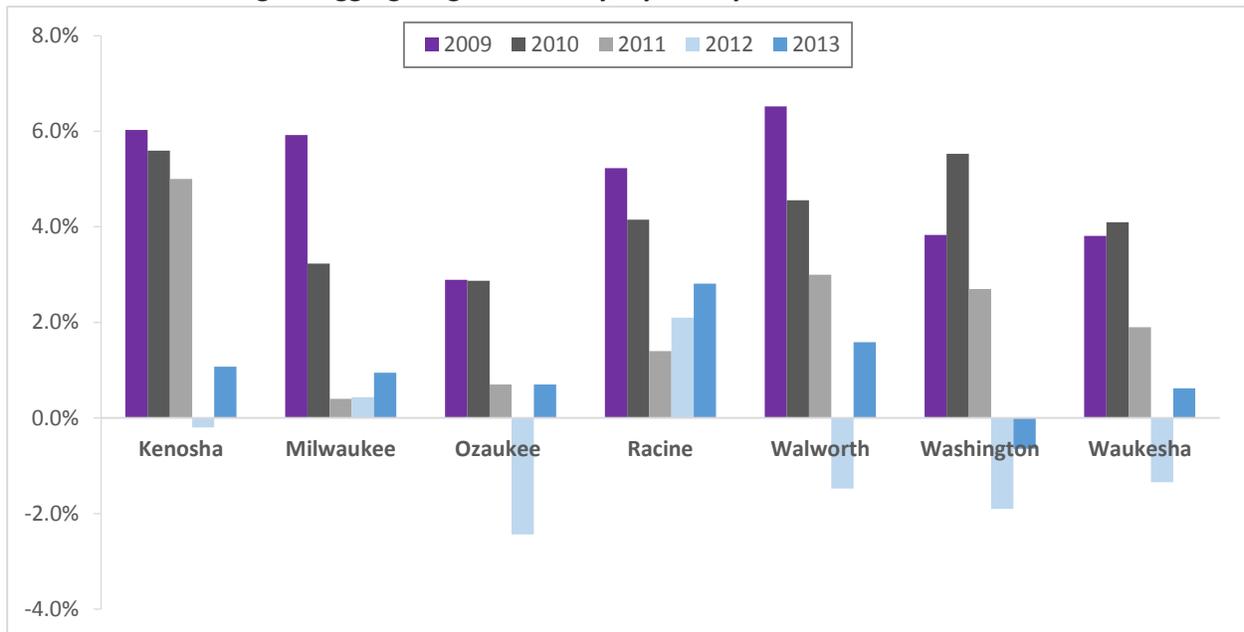
PROPERTY TAXES IN SOUTHEAST WISCONSIN

Property tax levies increase slightly

Our analysis of regional property tax levy trends examines tax levies and rates adopted in 2012 for the 2013 budget year. In our 2012 report, we found that the overall gross tax levy for the region had decreased 0.3%, the first levy decrease in at least the past 10 years. This year, we find that the overall gross tax levy for the region grew slightly, at 1%.

As **Chart 8** shows, in 2013, six of the seven counties in southeast Wisconsin experienced an increase in its aggregate gross tax levy (the seventh, Washington County, saw a 0.6% decrease). Last year, the aggregate gross tax levy decreased in five counties. Racine County's 2013 gross tax levy increase of 2.8% represents the largest year-over-year increase in southeast Wisconsin. Milwaukee County's levy grew 0.9% from 2012 to 2013.

Chart 8: Annual change in aggregate gross tax levy, by county



At the municipal level, a majority (101) of the 147 municipalities in the region had an overall tax levy increase between 2012 and 2013. Last year, 81 municipalities saw a *decrease* in the overall tax levy. Three municipalities had double digit increases in their gross tax levy this year, led by the Town of Darien in Walworth County at 19%. The Village of Bristol in Kenosha County had the largest decrease (6.8%) in the gross tax levy. The City of Milwaukee's levy increase was 0.9%.

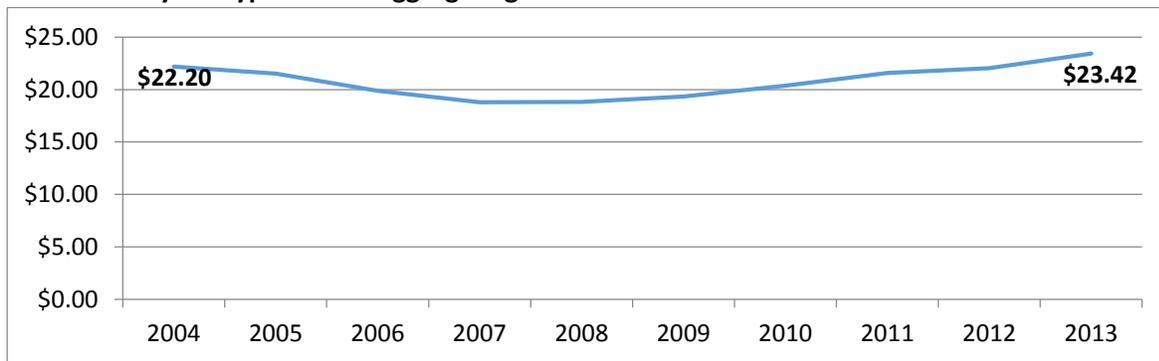


Property tax rates continue upward trend

While property tax levies reflect the total amount of property tax revenues raised in each jurisdiction, the property tax *rate* reflects the amount levied per \$1,000 of assessed value. If property values decline in a given year, then the rate applied to each property must increase in order to yield an equal or greater amount of property tax revenue from the previous year.

Consequently, it is not surprising that property tax rates in southeast Wisconsin continued their trend of increasing in 2013. The hypothetical aggregate gross tax rate in the region increased \$1.38 per \$1,000 of property value, the sixth consecutive annual increase. The aggregate gross tax rate in southeast Wisconsin is now \$23.42 per \$1,000 of assessed value, the highest it has been since 2002. As **Chart 9** shows, the aggregate gross tax rate in southeast Wisconsin has been steadily increasing since 2008.

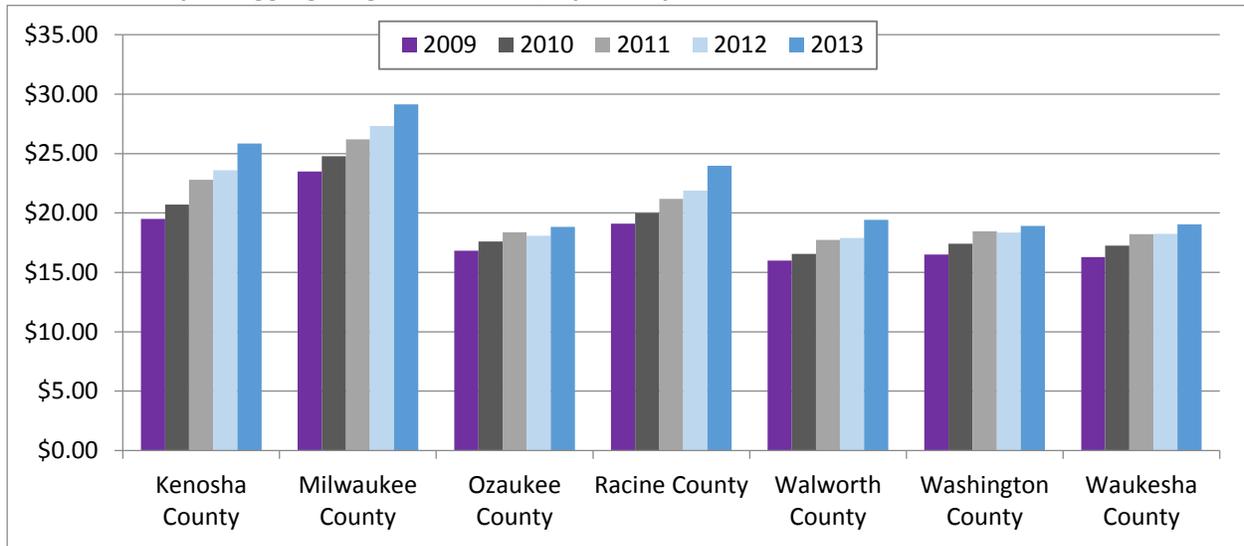
Chart 9: Ten-year hypothetical aggregate gross tax rate in southeast Wisconsin



As **Chart 10** shows, the aggregate gross tax rate also increased in every county in 2013. Kenosha County had the largest increase at \$2.25 per \$1,000 from 2012 to 2013. Milwaukee County continued to have the highest gross tax rate in southeast Wisconsin at \$29.15 per \$1,000 of assessed value in 2013. Milwaukee County's gross tax rate increased \$1.84 from 2012 to 2013, the third highest increase in the region. Ozaukee and Washington counties – two counties that saw a decrease in their gross tax rates in 2012 – had the smallest increases in 2013, with Washington County increasing \$0.56 and Ozaukee County going up \$0.76 per \$1,000 in assessed value.



Chart 10: Five-year aggregate gross tax rates, by county



School district tax levy grows slightly

As shown in **Chart 11**, school districts account for the largest percentage of the aggregate tax levy in southeast Wisconsin at 45%, which means that school district levies tend to drive overall changes to regional levies. In 2012, the aggregate school district tax levy in southeast Wisconsin decreased 1.2%, contributing to the overall decline in the aggregate tax levy. In 2013, the aggregate school district tax levy increased slightly (0.4%), contributing to the 1% overall increase in the aggregate levy. **Chart 12** illustrates how, over the past five years, the school district levy has increased 6.4%. In 2013, 86 municipalities saw their school district tax levy increase.

Chart 11: 2013 southeast Wisconsin aggregate tax levy breakdown

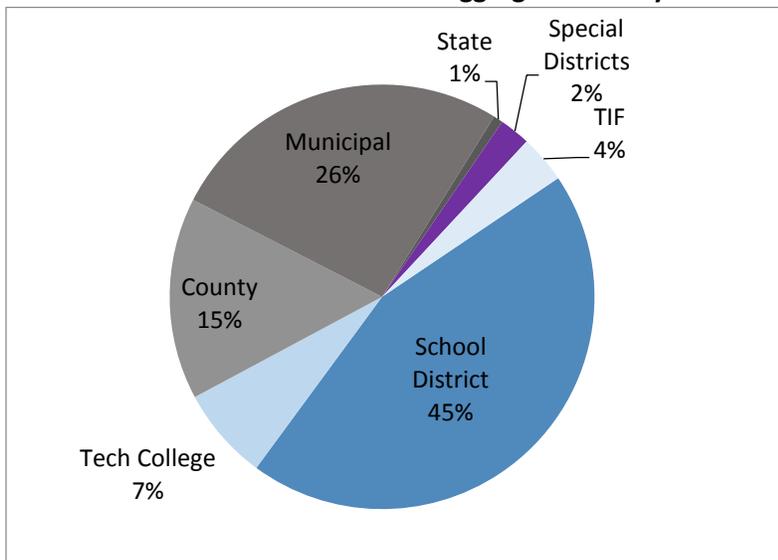
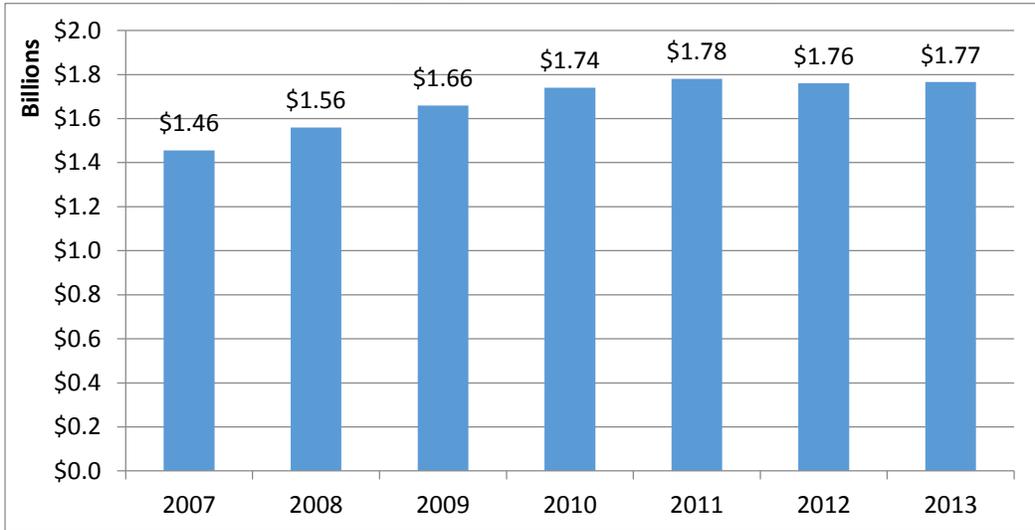


Chart 12: Southeast Wisconsin aggregate school district tax levy



EFFECTS ON TAXPAYERS

Property tax bills increase slightly

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 if the increased tax rate outweighs the loss in property value.

Again this year, we calculated an average hypothetical tax bill using the average residential equalized value in 2012 in each county, and applying the 2013 aggregate gross tax rate for each county to that amount.¹ The average residential property value in southeast Wisconsin was \$187,969 in 2012, a decrease of 5.6% from 2011. For the third consecutive year, Waukesha County had the highest average property value in the region, at \$263,913, while Milwaukee County had the lowest average residential property value, at \$144,101. Kenosha County experienced the largest decline in its average residential property from 2011 to 2012, at 10%.

Table 1 shows that the hypothetical gross tax bill for the region was \$4,402 in 2013, slightly higher than the tax bill in 2012. From 2012 to 2013, four of the seven counties in the region saw a decline in its gross tax bill. Waukesha County had the highest gross tax bill in the region for the third consecutive year at \$5,028 in 2013, making it the only county with a tax bill above \$5,000. We have calculated a gross tax bill for each county for the past nine years and in each year, Racine County has had the lowest gross tax bill. In 2013, the gross tax bill in Racine County was \$3,650, an increase of 1.4% from 2012.

Table 1: Average property values, aggregate gross tax rates, and hypothetical gross tax bills

	2011 Averages			2012 Averages			2013 Averages		
	Value*	Rate	Bill	Value*	Rate	Bill	Value*	Rate	Bill
Kenosha Co	\$178,702	\$22.79	\$4,073	\$172,257	\$23.60	\$4,065	\$154,516	\$25.85	\$3,995
Milwaukee Co	\$164,693	\$26.20	\$4,315	\$154,341	\$27.31	\$4,215	\$144,101	\$29.15	\$4,200
Ozaukee Co	\$275,277	\$18.36	\$5,054	\$272,285	\$18.07	\$4,921	\$262,792	\$18.83	\$4,949
Racine Co	\$166,272	\$21.18	\$3,521	\$164,432	\$21.89	\$3,600	\$152,225	\$23.98	\$3,650
Walworth Co	\$242,315	\$17.73	\$4,297	\$236,472	\$17.88	\$4,228	\$217,682	\$19.41	\$4,225
Washington Co	\$219,856	\$18.44	\$4,053	\$216,335	\$18.34	\$3,968	\$220,429	\$18.90	\$4,165
Waukesha Co	\$279,736	\$18.22	\$5,096	\$275,794	\$18.24	\$5,031	\$263,912	\$19.05	\$5,028
SE WI	\$206,139	\$21.58	\$4,448	\$199,152	\$22.04	\$4,389	\$187,969	\$23.42	\$4,402

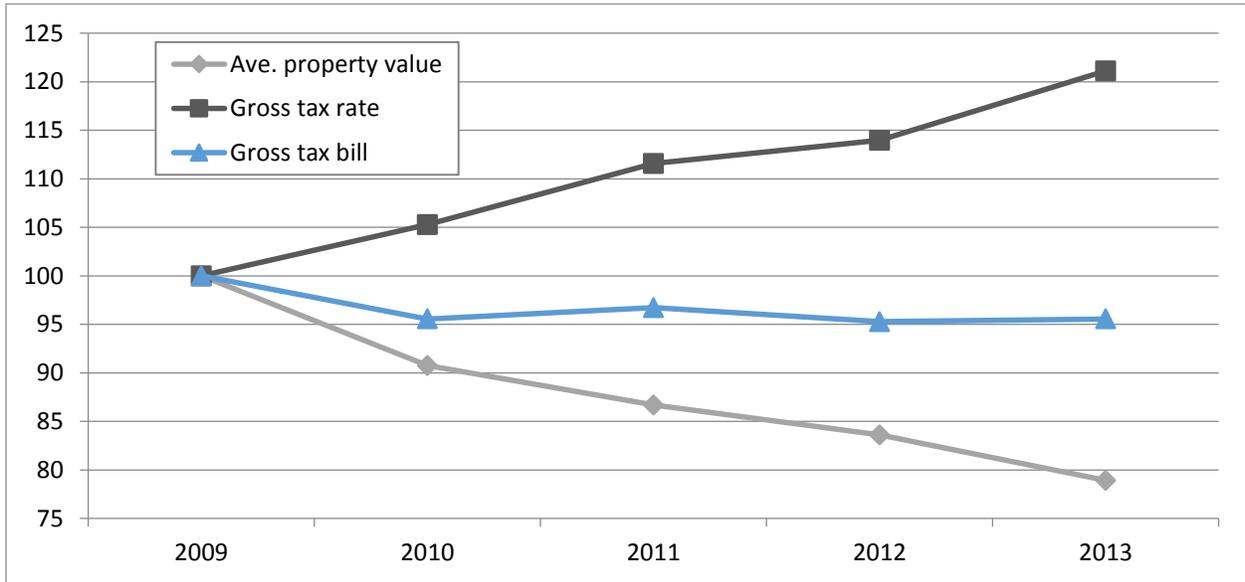
* Represents average residential equalized value from the previous year.

Chart 13 shows the five-year trend in the average tax bill, hypothetical gross tax rate, and average residential property value for southeast Wisconsin indexed to 100 in 2009. The chart shows how the average residential values and the gross tax rate can affect the gross tax bill. The five-year steady increase in the gross rate along with the decline in value for the average property has kept the gross tax bill in southeast Wisconsin relatively flat over the past five years.

¹ In our discussion of residential property values earlier in this report, we analyzed *aggregate* residential property values in each county; here we use *average* residential values.



Chart 13: Southeast Wisconsin hypothetical average tax bill, gross tax rate, and property value, indexed to 100



CONCLUSION

This year's analysis of property values and taxes provides another year of insight into the effects of both the national recession and the 2011-13 State Budget on local governments and property taxpayers in southeast Wisconsin. We find – somewhat surprisingly – that despite signs of economic recovery, the decline in property values in southeast Wisconsin did not diminish in 2012. That factor creates added pressure on local government and school board officials, who must contemplate sizable increases in property tax rates to generate even the same amount of property tax revenue in a year in which property values decline.

Meanwhile, strict new local government property tax levy limits imposed by the 2011-13 State Budget continue to be a factor in limiting overall property tax levy growth. The small increase from 2012 to 2013 in the region's overall gross levy and in the hypothetical tax bill may reflect a slight relaxation of the limits placed on local school districts, which were required to reduce their total revenues by 5.5% in the first year of the biennium, but were allowed to keep their total state and local revenues flat in the second year. The limits for municipalities and counties are tied to annual growth in new construction, which our analysis indicates was quite minimal for many municipalities, thus keeping overall levies in check.

While good news for taxpayers, the combination of declining property values and strict levy limits undoubtedly will continue to pose a challenge for state and local governments and school districts, particularly if their ability to wring additional savings from fringe benefit budgets, and/or to generate additional revenue from user charges and fees, are exhausted. The revenue-generating capacity of individual local governments and school districts will be influenced both by the status of property values and by any changes in municipal, county and school district levy limits adopted in the 2013-15 State Budget. Under the current framework, even if property values should begin to rebound, the absence of a corresponding increase in levy limits may continue to restrict local government and school district officials in their efforts to maintain existing service levels while accommodating growth in fixed costs.

