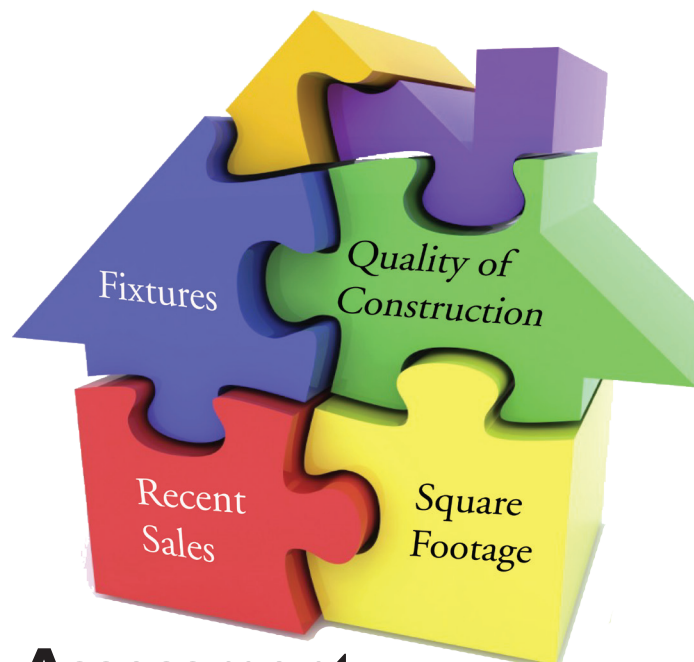




Property Assessment

Understanding Property Valuation and Shifting Tax Burdens

While assessments are fundamental to Wisconsin's property tax system, most property owners know little about them even though they can impact their property tax bill. Property revaluations do not necessarily mean tax increases, but can lead to a shifting of the tax. Property tax bills are also affected by changes in equalized values, or state estimates of the current fair market value of taxable property.

Each November, newspapers around the state report on municipal, county, and school property tax levies set by local officials. In December property owners are billed for their share of those levies.

Often, those bills spark questions, such as:

- Why did my school property taxes increase when the school levy was unchanged this year?
- My assessment increased 10% last year after the town revalued properties, yet my taxes declined. Why? or
- The assessed value of my property has not changed for the past three years, yet my property taxes keep increasing. How can that be?

To be sure, property tax levies play a large role in determining individual tax bills. That said, answers to the above questions have more to do with property valuation.

Taxpayers often underestimate the role of valuation in Wisconsin's property tax system. In Wisconsin, two measures of value—assessed and equalized—are used to apportion property taxes. Uneven changes in either can shift property taxes between property owners, resulting in higher bills even when levies are unchanged.

ASSESSMENT BASICS

Why Assess?

In order to impose a tax, government officials must know an item's value or, in some cases, the quantity

sold. The sales tax is applied to the price of the good or service purchased. The income tax is imposed on the dollar value of wages and investment earnings. Gas taxes and cigarette taxes are applied to each gallon or pack, respectively.

Similarly, the property tax is applied to the value of property. However, while prices and incomes are known with a high degree of certainty, property values are often not.

For a recently sold home, market value is typically the selling price.

Also in this issue:

CAFR Facts: GAAP Deficit Falls; State Debt Little Changed

However, two similar homes may sell at different prices because one owner needs to sell quickly and the other does not. Moreover, most properties are rarely sold, making their value uncertain.

Wisconsin's constitutional uniformity clause states "the rule of taxation shall be uniform." Uniformity applies not only to tax rates within a jurisdiction, but to property valuations as well. Thus, to determine value for property tax purposes, we turn to assessments, or a local assessor's best estimate of each property's value.

More Than Just Homes. When residents think assessments, they typically think homes. That is unsurprising as they receive property tax bills for their homes each December.

However, businesses, farm and forest land, and even some personal property are subject to the property tax and must also be valued. Questions of who assesses, how properties are assessed, and how assessments are used are answered next.

Who Assesses?

Most property is assessed by a local assessor. The one exception is manufacturing, which is assessed by the Wisconsin Department of Revenue (DOR).

Large municipalities often employ their own full-time assessor. Smaller communities typically hire, on a part-time basis, private contract assessors. Whether they are public- or private-sector employees, all assessors are certified by DOR and must follow the department's long, detailed property assessment manual.

How Are Properties Assessed?

While most residents are interested in the nuts and bolts of residential assessment, they should understand that assessments of other properties affect residential property tax bills. Not all properties are assessed in the same way as homes.

Residential. To estimate the value of a home, the assessor views individual properties, preferably inside and out. He or she measures square footage, takes note of fixtures such as showers, cabinets, sinks, etc., and rates construction quality. The assessor also considers recent sales in the area. These factors help determine an assessed value reflecting the current market.

Note that assessed values are as of January 1. If a home was damaged in February, that damage would not be reflected in the current year's assessment.

Commercial Property. Like residential, commercial property is valued at market. However, the current market value is often more difficult to determine for commercial property, especially for "big box" stores, as sales are rare and configurations can vary. The state assessment manual requires assessors consider three approaches to value:

- The cost approach looks at the net cost of replacing the building;
- The market approach considers recent sales of similar properties; and
- The income approach values the property based on the income the property produces.

Over the past few years, some commercial property owners have challenged assessments based on what is termed the "dark store theory," or the notion that the store's value is the same as a similar empty storefront. Most have won and have had assessments reduced, affecting the tax bills of others in the community (see shifting discussion on page 5).

Agricultural Property. Prior to 1998, farmland was valued based on its "highest and best use." For farms on the edge of urban areas, that often meant

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valuing farmland based on what a developer might pay to create a subdivision or build a shopping center even if the owner intended to keep it in agricultural use.

The 1995-97 state budget changed farmland assessment from “highest and best use” to “use-value.” Under use-value, an acre of farmland is valued based on the net income that could be generated growing corn.

A 2002 DOR study estimated that use value reduced farmland values by almost 90%, from \$20.7 billion under the old system to \$2.8 billion under use-value assessment.

Ag-Forest and Undeveloped Land. State law defines agricultural forest land as “producing or capable of producing commercial forest products” and meeting other specific conditions. For ag-forest and for undeveloped land, the assessor determines the market value. Once determined, the two property types are then assessed at 50% of that value for property tax purposes.

Challenging Assessments. Assessments can be challenged by property owners at the annual board of review (see gray box on page 7 for details).

How Are Assessments Used?

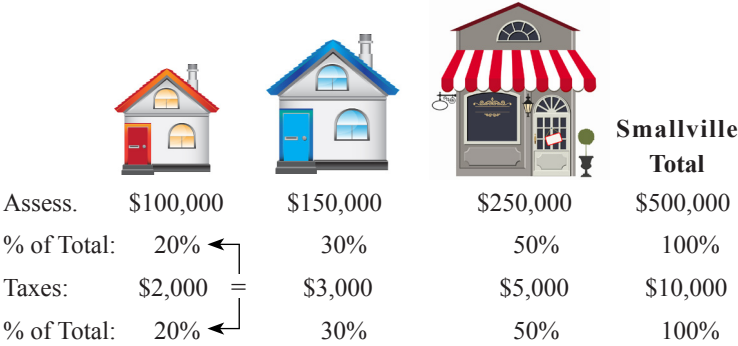
Quality assessments are fundamental to a fair property tax system as they are used to apportion property taxes among a community’s property owners. At its most basic, a property owner’s share of the total tax levy is the same as his or her share of total assessed values.

Smallville Example. A simple example helps understanding. Smallville is a community with a small store and two residents, each with their own home. Andrew’s home is assessed at \$100,000; Betty’s at \$150,000. The store is assessed at \$250,000. The total assessed value of Smallville is \$500,000 (see Figure 1).

Property taxes in the village, including municipal, school, and county levies, total \$10,000. The village divides that amount among property owners according to their share of total value. Since the assessed value of Andrew’s home is 20% of the total (\$100,000 ÷ \$500,000), he pays 20% of the tax, or \$2,000. Betty’s home accounts for 30% of total value (\$150,000 ÷ \$500,000), so she pays 30% of the tax, or \$3,000. The value of the store is half the village total, and the owner pays half the levy, or \$5,000.

The example highlights the importance of accurate assessment in apportioning the property tax among owners. If assessments are not current or

Figure 1: Assessments and Taxes in Smallville
Total Assessed Value \$500,000; Total Property Taxes \$10,000



accurate, some property owners will pay more than their “fair share” of the property tax, while others will pay less.

Property Tax Rates. Relying on assessments to distribute the property tax is a novel idea for many taxpayers. They are familiar with a local property tax rate applied to the value of their property. This rate, though, is simply an alternative method of determining property taxes.

Local governments do not directly set property tax rates; they approve property tax levies. Once the levy is set, the property tax rate is calculated: total levy divided by total value. In Smallville, the property tax rate is \$10,000 levy ÷ \$500,000 value = 0.020, or more commonly expressed as \$20 per \$1,000 of assessed value.

Applying the rate to the value of the three properties yields the same result as dividing total taxes among owners using assessment shares: \$2,000 for Andrew (0.02 x \$100,000); \$3,000 for Betty (0.02 x \$150,000), and \$5,000 for the store’s owner (0.02 x \$250,000).

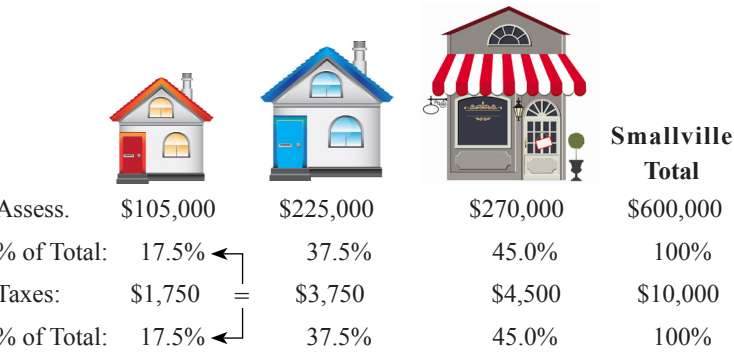
Rates Can Be Deceptive. The problem with focusing on tax rates is it masks the importance of assessment in determining individual property tax bills. Moreover, because rate arithmetic is not well understood, it can also be used to confuse taxpayers.

For example, suppose the village increased the levy 10% to \$11,000 while assessed property values rose 20% to \$600,000. Local officials could tout a rate drop to \$18.33 per \$1,000 of value (\$11,000 ÷ \$600,000), despite the increased levy and property tax bills.

Assessments vs. Revaluations

Many taxpayers confuse two property tax terms: assessment and revaluation. Assessment occurs annu-

Figure 2: Assessments, Taxes in Smallville After Revaluation
 Total Assessed Value \$600,000; Total Property Taxes \$10,000



ally. Each spring, local assessors compile an assessment roll, a list of a community’s taxable properties and their assessments or assessed values.

These amounts may be the same as in the prior year, or they may differ. In many communities, assessed values remain unchanged in most years. However, if a home was expanded or damaged in the prior year, the assessed value should be updated to reflect those changes.

Due to the uniformity clause, sale of a home does not necessarily trigger an assessment change. If assessment of one property is updated to current market value while others are assessed based on the market several years prior, properties are not assessed uniformly.

A community-wide revaluation remedies that situation. During a revaluation, the assessor again inspects individual properties, measures, and considers recent sales. New assessed values are generated reflecting current market conditions.

Municipalities must revalue at least once every five years. In addition, at least once every five years, assessments for each major class of property must be within 10% of market value. State law defines a major class as a property type—residential, commercial, agricultural, etc.—that accounts for more than 10% of total value in the community.

Why Revalue? A return to the Smallville, several years later, shows the importance of revaluation. While assessed values have remained unchanged (there has been no revaluation), inflation and other factors have affected property values in the village. In particular, Betty’s lake front property is in high demand; similar properties in the area have sold for more than \$200,000. Yet, the three taxpayers continue to pay taxes based on dated assessed values.

The village board votes to revalue and the three properties are reassessed: Andrew’s home at \$105,000; Betty’s at \$225,000; and the store at \$270,000. Total assessed values in Smallville are now \$600,000 and total property taxes are unchanged at \$10,000 (see Figure 2).

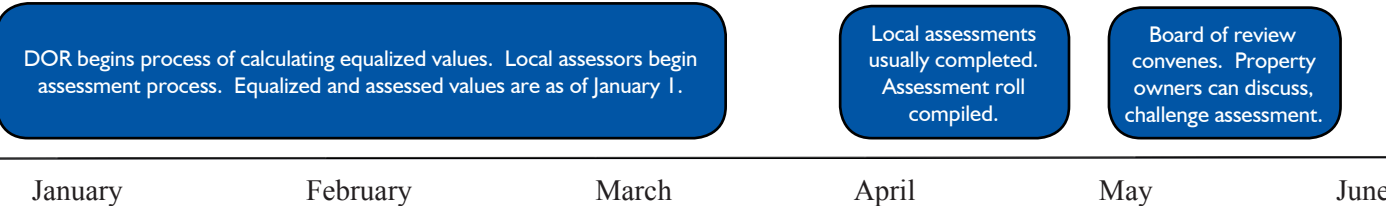
Even though Andrew’s home increased in value from \$100,000 to \$105,000, its share of total assessed value declined from 20% to 17.5% (\$105,000 ÷ \$600,000). Thus, Andrew’s property tax bill dropped from \$2,000 to \$1,750 (17.5% of the \$10,000 total levy). The value of the store also rose, but like Andrew’s home, it now accounts for a smaller share of total value: 45% versus 50% before revaluation. Taxes on the property fall from \$5,000 to \$4,500.

Because the market for properties similar to Betty’s was strong, its share of total value increased from 30% to 37.5%, resulting in a higher tax bill—\$3,750 vs. \$3,000 prior to revaluation.

Note that after revaluation, the tax rate declined from 0.02 to 0.0167 (\$10,000 ÷ \$600,000), or \$16.70 per \$1,000 of value. The decline was due solely to rising values; the levy remained unchanged at \$10,000.

This revaluation example highlights two important property tax issues. First, because assessments were out of date prior to the revaluation, Andrew and store’s owner were paying more than their “fair share” of the property tax, while Betty was paying less. All

Figure 3: Timeline for Estimation and Use



three are now paying property taxes based on the current market value of their properties.

Second, revaluation does not necessarily mean a property tax increase. The value of Andrew’s home and the store rose after revaluation. Yet, their property taxes declined because the value of Betty’s home increased more. Often, changes to an individual’s property taxes are the result of shifting property values.

Other Assessment Shifts. A similar result occurs when assessments are successfully appealed. For example, instead of revaluation, suppose the owner of the store appealed her assessment and had it reduced from \$250,000 to \$200,000. That property would now account for 44.4% of total values ($\$200,000 \div \$450,000$ total value); property taxes would fall from \$5,000 to \$4,440.

The decline in the store’s value shifts property taxes to other properties. Andrew’s share of value rises to 22.2%, Betty’s to 33.3%. As such, they are now apportioned larger shares of the levy. Andrew’s tax bill increases from \$2,000 to \$2,220; Betty’s from \$3,000 to \$3,330.

EQUALIZED VALUES

Assessed values are consistent estimates of value within a community, and thus can be used to distribute property taxes among all property owners within that community. But counties, technical college districts, and most K-12 school districts are comprised of multiple municipalities, some of which may have assessed values near market value due to recent revaluation and others with dated assessments. Thus, assessed values are inappropriate for apportioning these levies to underlying municipalities.

Instead, Wisconsin uses a second measure of value unfamiliar to many residents. Equalized values are state estimates of the current market value of all taxable property in the state.

Equalized vs. Assessed

There are two important differences between assessed and equalized values. First, while assessed values can be dated, equalized values are always current. Second, while assessed values are estimates for individual properties, equalized values are for groups of properties—entire municipalities, counties, and school districts.

When estimating equalized values, DOR considers property sales, assessments, property appraisals, and other information. While local assessments are generally published in the spring, equalized values are not reported until August. Like assessments, equalized values are as of January 1.

Use of Equalized Values

During October and November, municipalities, counties, K-12 schools, and technical colleges set their property tax levies. For a county or a technical college levy, that amount is paid by residents of many underlying municipalities. A school district’s levy is often paid by residents of two, three, or more municipalities.

In Wisconsin, these levies are not passed directly to local taxpayers. Rather, they are apportioned to the underlying municipalities using equalized values. The municipality then bills local property owners for not only the municipal levy, but the municipality’s share of the county, school, and technical college levies as well.

The apportionment is similar to the one just discussed using assessed values. Each municipality is billed for a share of the overlying taxing unit’s levy equal to its share of equalized property values. For example, if the total equalized property value in a city accounts for 10% of the value in the county, the city is apportioned 10% of the county levy.

The City of Antigo in Langlade County illustrates this process (see Table 1, page 6). In 2015-16,

Timeline of Assessed and Equalized Property Values

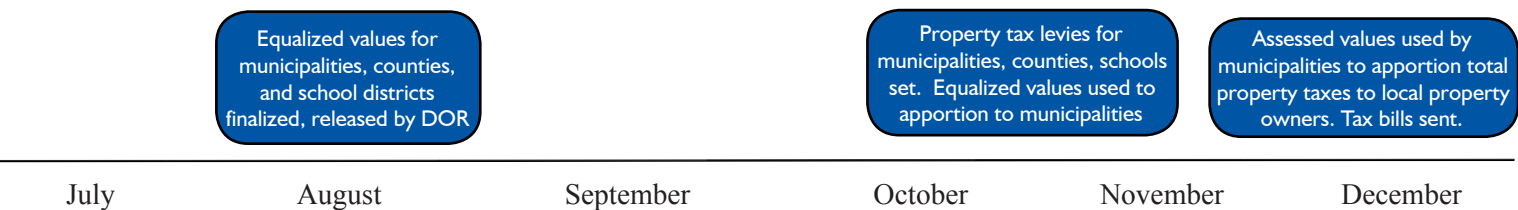


Table 1: Apportioning Tax Levies in Antigo
2015-16, \$ Millions

Taxing District	2015 Eq. Value	Antigo Share	Total Levy	Apportioned to Antigo
City of Antigo	\$358.0	100.0%	\$3.5	\$3.5
Langlade County	1,664.2	21.5	9.2	2.0
Antigo Schools	1,068.4	33.5	9.2	3.1
Northcentral Tech	15,251.0	2.3	19.2	0.4

its equalized value totalled \$358 million, which was 21.5% of the Langlade County total. Thus, the city was apportioned 21.5% of the county's \$9.2 million levy, or \$2.0 million. Similarly, Antigo was billed for 33.5% of the school district levy (\$3.1 million of \$9.2 million total) and 2.3% of Northcentral Technical College's levy (\$0.4 million of \$19.2 million total). The city also levied \$3.5 million for municipal purposes.

Combined, city residents were responsible for \$9.0 million in total property taxes. That amount was then apportioned to local taxpayers using assessed values.

Equalized Values and Tax Shifting

The discussion on pages four and five highlights the property tax shifting that can occur during a revaluation. A similar, and more common, shifting of property taxes occurs when equalized values in one community are rising faster than those in neighboring communities. Table 2 illustrates.

School District AB is comprised of Town A and City B, each of which is home to two residents. In year one, each home is assessed at \$100,000 and each municipality's equalized value equals its assessed value (1).

The school district levies \$4,000 (2), which is divided equally between the two municipalities

based on equalized values (both \$200,000). In both municipalities, the \$2,000 levied is split evenly between the two residents (3) based on assessed values of \$100,000 each.

In the second year, equalized values rise in the town due to an abundance of lake property in high demand. Total equalized value there rises to \$300,000 (4), while the city remains at \$200,000. Total school district equalized values are now \$500,000, of which Town A accounts for 60%.

The district's levy remains unchanged at \$4,000, but Town A is now apportioned 60% of that amount, or \$2,400 (5); City B is apportioned the remaining \$1,600 (40% of the \$4,000 levy). Each of these amounts are then distributed to residents based on assessments. Despite an unchanged school levy, town residents each pay \$1,200 in school taxes compared to \$1,000 in the prior year (6). School taxes for city residents decline to \$800.

ASSESSMENT QUALITY

The most critical, yet overlooked, component of Wisconsin's property tax system is assessment. Equitable distribution of property taxes requires accurate and current assessments.

The challenge for many communities is cost, as revaluations can be expensive. Municipal officials must balance a trade-off between the cost of revaluing and the benefits of up-to-date assessments.

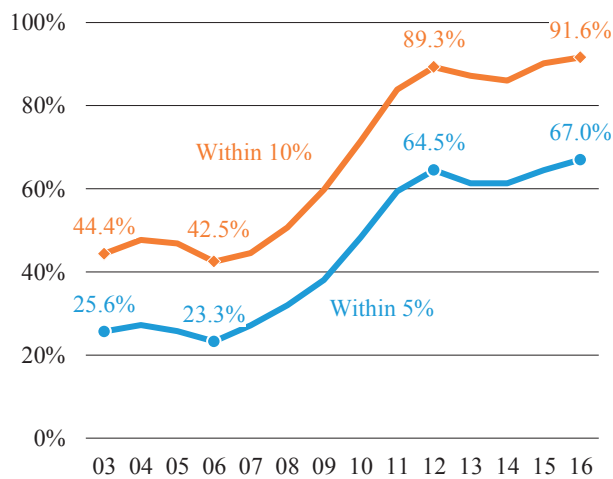
Assessment Ratios

The best way to measure assessment quality is to compare individual property sales with their assessed values. Without access to that information, assessment ratios—total assessed value as a percentage of

Table 2: Changing Equalized Values Shift Property Taxes
Hypothetical School District, Municipalities, \$ Thousands

	Year 1						Year 2					
	Equalized			Assessed			Equalized			Assessed		
	Value	Share	Levy	Value	Share	Tax	Value	Share	Levy	Value	Share	Tax
School Dist. AB	\$400		\$4.0 ²				\$500		\$4.0			
Town A	\$200	50%	\$2.0	\$200		\$2.0	\$300	60%	\$2.4	\$200		\$2.4
Home A1				\$100	50%	\$1.0 ³	⁴ \$100		⁵ \$1.2	\$100	50%	⁶ \$1.2
Home A2				\$100	50%	\$1.0				\$100	50%	\$1.2
City B	\$200	50%	\$2.0	\$200		\$2.0	\$200	40%	\$1.6	\$200		\$1.6
Home B1				\$100	50%	\$1.0				\$100	50%	\$0.8
Home B2				\$100	50%	\$1.0 ³				\$100	50%	⁶ \$0.8

Figure 4:
Assessment Ratios Improve Due to Recession?
 Assessed as % of Equalized Values for All Municipalities



total equalized value in a community—can be examined. As mentioned, state law requires a municipality's assessed values be within 10% of current market values once every five years. Assessment ratios less than 90% indicate the municipality is likely due for revaluation.

In 2016, total assessed value was within 10% of total equalized value in nearly 92% of municipalities; assessed values were within 5% of equalized in 67% (see Figure 4). Those were the highest percentages in many years. The gains since 2006, though, may not be solely due to revaluations.

In 2006, assessed values were within 10% of equalized values in only 42.5% of municipalities. In the years following, ratios improved dramatically so that by 2012, that percentage approached 90%. Clearly, some municipalities revalued during these years.

However, this period included an extended recession in real estate values. Equalized values statewide declined 8.4% during 2008-12. If equalized values fall and assessments remain unchanged, assessment ratios rise. In other words, much of the improvement may have been due to market decline rather than revaluation.

The challenge moving forward is to keep assessments near market value. While the onus for this is on municipal officials, property owners should hold their feet to the fire. After all, revaluations do not mean universal property tax hikes. They just assure that taxpayers are paying the appropriate share of the levy. □

Challenging Assessments

When a municipal revaluation is complete, property owners receive a notice of the new assessed value. If the property owner feels the assessment is too high, he or she can appeal, but it must be done in a timely manner. 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.

The board of review 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.

Municipalities hold an "open book," during which assessments may be reviewed and the assessor questioned. A property owner who is unhappy with his or her assessment should first talk with the local assessor. 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 not fairly assessed must file an objection during these two hours.

In making the decision to appeal, the taxpayer should be aware that (1) the assessor's value is presumed correct unless proved otherwise by factual evidence presented at the hearing, and (2) 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 the board of review have two additional appeal options. First, they may ask DOR to review the board's decision. Requests must be filed within 20 days of the board's decision.

Second, taxpayers can also challenge the board of review's decision or DOR's ruling with the 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 relating to the property assessment during the board of review meeting.