



REVALUATION & PROPERTY TAXES

DO HIGHER PROPERTY VALUES MEAN HIGHER TAXES?

Dale Knapp, Director

fa FORWARD
ANALYTICS
forward-analytics.net
April 2024

Executive Summary

Revaluation and Property Taxes

Spring is the season when we begin to anticipate the warm sunny days of summer. It is also the season in which many property owners receive a revaluation notice for their home and worry about what the increased assessed value might mean for their December property tax bill.

This report differs from other Forward Analytics reports in that it does not address a critical issue facing the state. Rather, it serves as a primer on how changing property values can affect the property tax bill. In particular, it tries to ease the angst that many property owners feel when they get a large assessment increase. In reality, that increase does not necessarily mean a property tax increase.

Revaluations are necessary to ensure that property taxes are apportioned fairly and that they comply with the Wisconsin Constitution's "uniformity clause." That means that assessed values should be reasonably consistent with market values. If a revaluation has not occurred for several years, those properties that have increased in market value the most will be taxed less tax than they "should" be taxed. Those that have seen only a small increase in market value will be paying more tax than they "should be" paying. A revaluation brings every property back in line with the market so property taxes are apportioned "fairly."

Often, a revaluation results in a new assessed value that is well above the prior value. That increase, in and of itself, does not foretell a tax increase. What matters is the increase relative to other properties in the community. An above-average increase, in percentage terms, will likely mean a higher property tax, though the increase will be much less than the value increase. Homeowners with relatively small increases in assessed value may see their property tax decline.

The basic relationship between property taxes and property values is this: the share of total property values equals the share of total property taxes. Thus, a property that is 1% of total assessed values in a municipality will be billed 1% of the property tax in that municipality. Following revaluation, if that property's share of assessed values remains at 1%, the owner will continue to pay 1% of total property taxes. If a property's share rises, the owner will pay a higher percentage of the total tax and will see a tax increase. If a property's share falls, the owner will pay a smaller share of the tax, which could mean a slightly lower tax bill.

Wisconsin's property tax system is fairly complex, which can make it difficult to identify the reasons for a tax bill change. The primary reason for change is almost always increases or decreases in property tax levies from the local municipality, school district, county, or technical college. Changes in assessed property values within a municipality due to revaluation and even changes in equalized property values among neighboring communities can also lead to a higher or lower tax bill.

Revaluation & Property Taxes

Do Higher Property Values Mean Higher Taxes?

Dale Knapp, Director

April marks the arrival of spring, a time to begin looking optimistically toward the warm sunny days of summer. It is also the time of year many homeowners receive a notice of a new assessed value of their home. Sometimes, this notice shows a large increase in the value of their home and creates a sense of unease of what that might mean for the property tax bill that will arrive in December. Generally, the reason for the angst is a misunderstanding of Wisconsin's complex property tax system and how assessed values fit into that system.

This report differs from previous Forward Analytics studies in that it does not address a pressing problem in Wisconsin. Rather, it is an educational piece to help property owners understand the reasons behind their changing property tax bill. While several factors are addressed, the primary focus is the effect on the property tax bill from increased assessed values that result from a municipal revaluation or reassessment.

This topic is particularly relevant now as the state housing market remains strong. Figures from the Wisconsin Realtors® show the price of the median home sold in Wisconsin increased at least 7% each year from 2019 through 2023. In two of those years gains topped 10%.

While taxable property includes more than just housing, residential properties account for more than 70% of it. The rapid increases in home prices are an indication that revaluations are likely occurring more often than in the past and will continue to occur. Understanding how a revaluation might affect individual property taxes may help prevent the anxiety that comes with a new assessment notice.

ASSESSMENTS IN WISCONSIN

To understand how a revaluation might impact property taxes, one must have a basic understanding of assessments and assessed values and how they are used in the property tax system.

Assessments and Assessed Values

For property tax purposes, an assessment is the value a local assessor places on a property.¹ It is more commonly called an assessed value. Most property owners are familiar on some level with assessed values as they are shown on December property tax bills.

Assessments are important because they play a critical role in distributing property taxes; they are used to distribute property tax levies to property owners. While many taxpayers focus on the tax rate, the basic relationship between assessed values and property taxes is this:

A property's share of total property taxes in a municipality is the same as that property's share of total assessed property values.

Thus, if the assessed value of a taxable property is 1% of total assessed values, the owner of that property pays 1% of the total property tax.

Wisconsin law requires municipalities to conduct annual assessments. That means that every taxable property in the state is assigned an assessed value each year by the local assessor. There are two types of assessments that can be conducted: a maintenance assessment or a revaluation (or reassessment).

¹ There are two exceptions. Manufacturing property is assessed by the state and agricultural land is assessed based on its "use value." The focus here is on residential property, so these exceptions will not be discussed.

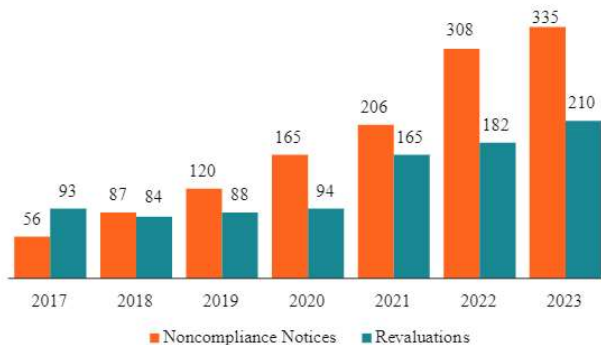
The key to understanding the property tax bill is this: Your share of total assessed property value equals your share of the property tax.

With a maintenance assessment, the assessor uses prior year assessed values and makes changes only to account for new construction (e.g., a remodel or addition) or a classification change. For a typical homeowner, this means their assessed value remains unchanged from the prior year. It may also mean that the assessed value differs from the market value, especially when real estate prices are rising rapidly.

With a revaluation, the assessor inspects each property both externally and internally (if allowed) to determine its value.² Revaluations are labor intensive and can be rather costly to the municipality. Because of that, most Wisconsin municipalities do not conduct an annual revaluation, opting instead for less costly maintenance assessment in most years.

² Under certain circumstances, municipalities conduct an exterior revaluation where the interior of the home is not inspected. Assessors generally value properties at fair market value, but they can value them slightly above or below market as long as all properties are valued in the same manner.

Figure 1: Noncompliance Notices and Revaluations
Number of Municipalities, 2017-2023



Uniformity Clause and Revaluation

Wisconsin's constitution recognizes that taxes need to be imposed "fairly." Article VIII, Section 1 of the state constitution, often referred to as the uniformity clause, begins with "The rule of taxation shall be uniform..." The clause was included to prevent state or local officials from giving preferential treatment to some property owners.

For property taxes, the same assessed tax rate is applied to every property within a taxing jurisdiction. Typically, the taxing jurisdiction is the municipality, though some municipalities are in multiple counties or school districts. In those cases, there are multiple taxing districts within the municipality, each with its own tax rate. Because the tax rate is applied to each property's assessed value, the uniformity clause also means that assessed values within the taxing jurisdiction need to be "fair."

Cognizant of the uniformity clause and the costliness of revaluation, state law does not require annual revaluations, but does require assessments of each major type of property (residential, commercial, etc.) to be within 10% of market values at least once every five years. Municipalities report their assessments to the Wisconsin Department of Revenue (DOR), who then checks them for compliance. If a municipality's assessed values are not within the 10% requirement it receives a notice of noncompliance. This notice often triggers a revaluation. Due in large part to the strong housing market, the number of non-compliance notices from DOR and the number of revaluations has risen consistently since 2017 (see Figure 1).

A simple three house example (base scenario) illustrates why revaluations are needed when assessed values are out of sync with market values. The village of Badgerville has three residents: Ashley, Ben, and Carol, who each own a house. Ashley's house is assessed at \$200,000, Ben's at \$300,000, and Carol's at \$500,000. There is no other taxable property in the village, so the total assessed value in Badgerville is \$1 million with the three residents owning 20%, 30%, and 50% of the total, respectively.

The total property tax levy in the city is \$10,000. Recall that the share of total assessed values is the same as the share of total property tax. Since Ashley's property is 20% of assessed values, she pays 20% of the levy or \$2,000. Ben pays \$3,000

Table 1: Changing Assessed Values and the Property Tax
Hypothetical Examples with Unchanged Levy and Rising Levy

| | Base: Total Levy \$10,000 | | | Revaluation: Total Levy \$10,000 | | | Revaluation: Total Levy \$11,000 | | |
|--------|---------------------------|-------|----------|----------------------------------|-------|-----------|----------------------------------|-------|-----------|
| | Assessed Values | | | Assessed Values | | | | | |
| | Amount | Share | Tax | Amount | Share | Tax | Amount | Share | Tax |
| Ashley | \$200,000 | 20.0% | \$2,000 | \$250,000 | 17.9% | \$1,786 ↓ | \$250,000 | 17.9% | \$1,964 ↓ |
| Ben | \$300,000 | 30.0% | \$3,000 | \$400,000 | 28.6% | \$2,857 ↓ | \$400,000 | 28.6% | \$3,143 ↑ |
| Carol | \$500,000 | 50.0% | \$5,000 | \$750,000 | 53.6% | \$5,357 ↑ | \$750,000 | 53.6% | \$5,893 ↑ |
| Total | \$1,000,000 | | \$10,000 | \$1,400,000 | | \$10,000 | \$1,400,000 | | \$11,000 |

(30%) and Carol pays \$5,000 (50%). The left side of Table 1 on page 7 displays this situation.

While this “share” method is critical to understanding revaluations, property owners are more familiar with property tax rates. In this case, the assessed tax rate (tax per \$1,000 of assessed value) is \$10. Applying that rate to each property yields the same tax liability.

Now, suppose those assessed values had remained unchanged for several years while the housing market boomed. During that time, the market for “higher end” homes increased significantly more than the market for less expensive homes. Thus, the market value of Ashley’s home was \$250,000 or \$50,000 more than its assessed value. Ben’s house had a market value of \$400,000 (up \$100,000) while Carol’s was valued at \$750,000, a 50% increase.

The market value of Ashley’s house was 17.9% of total market values. Ben owned 28.6% of the total market value and Carol owned 53.6%. If property taxes were distributed based on shares of market values rather than assessed values, Ashley’s tax would have been \$1,786, Ben’s would have been \$2,857, and Carol’s \$5,357.

Since assessed values were significantly out of sync with market values, Ashley and Ben paid more than they “should have” and Carol paid less. A revaluation that resets assessed values to market values solves this “inequity” and satisfies the uniformity clause.

REVALUATION AND PROPERTY TAXES

With a basic understanding of the role that assessed values play in determining property taxes, it is time to explore how a revaluation might affect individual property taxes. Three scenarios are examined, beginning with a simple one that highlights a basic tenet that a revaluation does not necessarily mean a property tax increase. The

other two build on this scenario to highlight other important lessons.

Uniform Changes in Values

The first, and most unlikely, possibility in a revaluation is that all properties increase by the same percentage and the tax levy remains unchanged. While unlikely, this exercise highlights the fact that increases in assessed values do not necessarily mean higher property taxes.

For this, the base case discussed on page 6 is the starting point with assessed values at \$200,000, \$300,000, and \$500,000. Badgerville officials see that market and assessed values are out of sync and conduct a revaluation. When finished, the new assessment for each property is 40% higher than the prior assessed values. Assessed values for Ashley, Ben, and Carol are now \$280,000, \$420,000, and \$700,000, respectively. Badgerville’s total assessed values are 40% higher at \$1.4 million. When residents receive their new assessments, they express concern about a potentially large increase in their property tax bill.

However, with each property rising 40%, the three residents’ shares of total property values remain unchanged at 20%, 30%, and 50%, respectively. For example, Ashley’s share is \$280,000/\$1.4 million or 20%. With shares of assessed value unchanged and no change in the levy, Ashley’s property tax bill remains at \$2,000, Ben’s is unchanged at \$3,000, and Carol pays \$5,000, the same as last year. Despite the assessed value of each of their properties rising 40%, their property taxes remain unchanged.

How does the property tax rate play into this scenario? With an unchanged property tax levy, the new tax rate per \$100,000 of assessed value is \$7.143, down from \$10. The property tax rate falls to completely reflect the new, higher assessed values. Multiplying higher home values by

Following revaluation, taxpayers with the highest percent increases in assessed values will see a tax increase. Those with smaller value increases could see a decline.

the lower tax rate generates property taxes that are unchanged from before the revaluation.

This overly simplistic scenario highlights two important points about revaluation. First, a revaluation does not necessarily mean tax increase. Second, because of the relatively strict state limits on local property tax levies, the assessed property tax rate adjusts downward to reflect the higher values.

Variable Changes in Values

Uniform changes in assessed values following a revaluation would be unusual as the market value of some properties will have increased more than others due to size, location, or other factors. The Badgerville hypothetical on page 6 is a good example. Among the three properties, the market value of Carol's property rose the fastest up 50% to \$750,000. Ben's home rose 33.3% to \$400,000 and Ashley's appreciated 25% to \$250,000.

Assuming a revaluation occurred, these amounts would be the new assessed values. With Ashley's home now at 17.9% of total assessed values (\$250,000/\$1.4 million), her property tax falls from \$2,000 to \$1,786 (see middle section of Table 1 on page 7). Ben's share of assessed values declines from 30% to 28.6%, lowering his property tax to \$2,917. With Carol's home rising rapidly, she now owns 53.6% of all assessed property in Badgerville and her tax climbs 7.1% from \$5,000 to \$5,357. While Carol experiences an increase due to the revaluation, it is far below the 50% increase in her assessed value. Again, applying the new property tax rate of \$7.14 to the new assessed values yields the same property taxes as using shares of value.

The lesson here is that when assessed values rise more on some properties than on others, some owners will experience property tax increases while others will see a decline due to the revaluation. However, the increases will be much less than the rise in assessed value.

The key to understanding what is likely to happen to a tax bill following a revaluation is to compare your assessed value increase, in percentage terms, with the rise in total assessed values. If the property tax levy is unchanged, those with below average increases will experience a tax decline while those with above average increases will see their property tax rise.

Revaluation With Rising Property Taxes

The above examples highlight the property tax implications resulting solely from revaluation. They assume that property tax levies are unchanged. However, levies generally rise each year. When a revaluation is combined with a levy increase, part of the change in property tax that the owner sees is due to revaluation and part is due to the tax increase. This makes it difficult for the taxpayer to see that the revaluation may not be the source of the increase.

We again begin with the "base" assessed property values for the three residents (\$200,000, \$300,000, and \$500,000) and a \$10,000 levy. In year 2, Badgerville is revalued based on the previous "variable changes" scenario. At the same time, the total property tax levy increases 10% to \$11,000. Each taxpayer now experiences a change in their share of assessed values, but that new share is applied to a larger property tax levy.

As in the previous scenario, Ashley's share of values falls to 17.9%. However, her tax is now 17.9% of \$11,000 resulting in a tax bill of \$1,964 (see right side of Table 1 on page 7) rather than \$1,786. While she still sees a reduction, it is a small one. Carol's bill rises to \$5,893 due to her increased share of property values and a larger total levy.

Ben's situation flips. Rather than a tax cut he sees a tax increase to \$3,143. While Ben may attribute his increase to the revaluation, the previous scenario showed that without a levy increase his taxes would have declined. In other words, his increase was solely due to higher levies.

What happens to the tax rate? Because of the levy increase it falls less than in the prior scenar-

io. The new tax rate is \$7.86 rather than the \$7.14 from the last scenario. Wisconsin has fairly strict limits on levy increases for all local governments. These limits mean that when assessed values rise significantly following a revaluation, the assessed tax rate will fall.

Because there are many moving parts in the property tax bill, it is often difficult to understand what happens following a revaluation. That said, the most important takeaways from the above discussion is that:

1. A revaluation that increases a property owners assessed values does not necessarily mean a property tax increase;
2. Even with levy increases, the assessed tax rate will likely fall due to higher assessed values;
3. For those with above average assessment increases, the property tax increase that may result will be much less than the assessment increase.

OTHER SOURCES OF CHANGE

Property tax changes due to revaluation depend on changes in assessed values within the municipality. However, changes in the bill can also occur due to changes in property values in areas outside the municipality. This can result in what some taxpayers might call “unusual” or “unexplainable” changes in their tax bill. We turn to that phenomenon next.

The scenarios in the prior sections assumed Badgerville was distributing a tax levy of either \$10,000 or \$11,000. These amounts are the sum of the tax it levies plus the amount of the school district, county, and technical college district levies that are apportioned to the village.

These units of governments must apportion their levies “fairly” to each underlying municipality so that they can bill property owners. This apportionment uses the same “share of value equals share of tax” formula used to distribute property taxes to the owners of taxable property. There is one important difference though. This apportionment uses a different measure of value.

Assessed values cannot be used because assessments may be at or near market values in communities that have recently conducted a revaluation but significantly below market value in those that have not revalued for several years. Apportionment based on these values would benefit taxpayers in communities with low assessed

Equalized values are used to distribute school, county, and technical college levies to municipalities. Uneven changes in these values can lead to unexpected changes in property tax.

values relative to the market at the expense of taxpayers in communities with assessed values at or near market values. Thus, *equalized values* are used to distribute these levies to municipal governments.

Equalized Values

There are several key differences between equalized and assessed values. First, equalized values measure total property values in a area or taxing district; they do not measure the value of individual properties. Thus, they measure the total property values in each school district, county, technical college, municipality, and in some cases portions of some of these taxing jurisdictions.

Second, these values are estimated each year by the Wisconsin Department of Revenue (DOR) rather than being set by local assessors. Third, they are always current. They measure the estimated market value, as of January 1, of all taxable property in a taxing district. This measure of value is current and consistent throughout the state. Distributing the school, county, and technical college levies using this measure ensures a “fair” apportionment of the those levies among multiple municipalities.

Apportioning Levies to Municipalities

To understand how school, county, and technical colleges levies are apportioned, we build on the Badgerville example, but focus solely on the school levy. The county and technical college levies are apportioned in the same way.

Assume the sole municipalities in the B&G School District (BGSD) are the village of Badgerville and the city of Gophertown. Total equalized property values are \$1.0 million in Badgerville and \$2.0 million in Gophertown.

Table 2: Shifting Equalized Values
Hypothetical Impacts on Property Taxes

| | B-G | | |
|-------------------|-----------------|---------------|---------------|
| | School District | Badgerville | Gopherville |
| | Year 1 | | |
| Equalized Value | \$4,200,000 | \$1,400,000 | \$2,800,000 |
| Share of Total | | 33.3% | 66.7% |
| School Levy | \$12,000 | \$4,000 | \$8,000 |
| Assessed Value | | \$1,400,000 | \$2,800,000 |
| Ashley Share | | 20% | |
| Ashley School Tax | | \$800 | |
| Emily Share | | | 10% |
| Emily School Tax | | | \$800 |
| | Year 2 | | |
| Equalized Value | \$5,000,000 | ↑ \$2,000,000 | ↑ \$3,000,000 |
| Share of Total | | ↑ 40.0% | ↓ 60.0% |
| School Levy | \$12,000 | ↑ \$4,800 | ↓ \$7,200 |
| Assessed Value | | \$1,400,000 | \$2,800,000 |
| Ashley Share | | 20% | |
| Ashley School Tax | | ↑ \$960 | |
| Emily Share | | | 10% |
| Emily School Tax | | | ↓ \$720 |

Thus, Badgerville accounts for one-third of total equalized value in the school district, while Gophertown accounts for two thirds.

BGSD levies \$12,000 in property taxes to fund its budget. Since Badgerville has a third of the equalized value of the school district, it is apportioned one third of the school levy, or \$4,000. That \$4,000 would be part of the \$10,000 total property tax that was distributed in prior scenarios. The city of Gophertown is apportioned two thirds of the school levy (\$8,000).

As we saw earlier, Ashley owns 20% of assessed values in the village of Badgerville. She pays 20% of the total tax, or \$2,000. Of that, \$800 is for the school district.

Her friend Emma owns a home in Gopherville that accounts for 10% of assessed values there. Her total tax bill is \$1,800, which includes \$800 for the school district.

The following year, the state puts a tax levy freeze on all local governments. The two were happy to hear that their tax bills were not going to change. However, when Ashley received her bill, she noticed it was higher; her school tax had increased 20%. After talking with Emma, she found out that Emma’s school tax had declined 10%. They were perplexed. What happened?

Badgerville was a preferred destination for people moving to the area. Housing prices were soaring. The state estimated that the fair market value (equalized value) of Badgerville increased 40% over the year to \$1.4 million. At the same time, equalized values in Gophertown rose just 10% to \$2.1 million. Badgerville now comprised 40% of equalized values in the school district while Gophertown had 60%.

The school levy did not increase due to the tax freeze, but now Badgerville is apportioned 40% of the \$12,000 levy, or \$4,800. With assessed values unchanged, Ashley was billed 20% of that amount, or \$960, a 20% increase from the \$800 she paid last year. Gophertown is apportioned 60% of the school levy (\$7,200) and Emma is billed 10% of that. She sees her school tax drop 10% from \$800 to \$720.

This hypothetical one-year increase in equalized values is extreme but highlights the effects that shifts in equalized values can have on a tax bill.

FINAL THOUGHTS

Wisconsin’s property tax system is complex with many moving parts. This report has shed some light on two of the most misunderstood parts of the system: How property taxes are affected by revaluation and how they are affected by shifts in property values in surrounding communities.

Important takeaways include:

- Periodic revaluations are necessary to ensure that property taxes are apportioned “fairly.”
- A revaluation, even one that raises assessed values significantly, does not necessarily mean increased property taxes.
- While property owners with above average increases in value will likely see increased property taxes, the increase will be much less than the percent change in value.
- When property tax levies rise following a revaluation, it is more difficult to discern the effects of revaluation from the impact of rising levies.
- Property taxes are also impacted by property value changes in surrounding communities. Rapidly rising equalized values in a community means its taxpayers are apportioned a greater share of the school, county, and technical college tax levies.



