

Research Brief

VOLUME 96, NUMBER 6

JULY 2008

Property tax rates on the rise: a trend or anomaly?

This year's increase in the gross tax rate marked the first such increase seen in southeastern Wisconsin since at least 2001. The increase was small (\$0.03), but may portend coming changes in property tax trends.

In examining the data from 2001 forward, we can see a clear trend in both property tax rates and levy amounts. As the basic cost of running government has increased, so has the gross levy amount. This increasing levy has been cushioned by increasing property values, which have allowed municipal governments to decrease the tax rate applied to property owners each year.

This year that trend was interrupted. While the levy amount continued its upward trend (increasing 6.1% this year), the gross tax rates did not continue their descent. Whether this year's \$0.03 increase in gross tax rates is the beginning of a new trend or an anomaly is the key question. The answer may depend on whether the overall growth in property values continues, flattens or reverses course.

A quick look at the aggregate data seems to indicate an anomaly, as the rates in most counties did not increase. Five of the seven counties in southeastern Wisconsin had a decrease in their gross tax rate, and another saw no change. Only Milwaukee County experienced an increase in gross tax rate. Because Milwaukee contains a much higher proportion of homeowners than other counties, and because of the size of Milwaukee County's increase (\$0.30), Milwaukee's change brought up the average rate for the entire region.

However, local data support the case for a new trend. Of the 65 municipalities in the region with increasing tax rates, 60 had an increase in their school district rate. The increasing reliance of school districts on local property taxes, along with the challenges faced by local governments in light of national economic circumstances, may continue to push levy needs higher. As property value growth slows, governments may be forced to increase tax rates in order to accommodate costs.

To download a table ranking municipalities by net tax rate go to:
www.publicpolicyforum.org/tables/2008TaxRates.xls

Major findings

- The gross tax rate for southeastern Wisconsin is \$18.81 in 2008, an increase of \$0.03 over 2007. The net tax rate for the region is \$17.45 in 2008, down \$0.07 from 2007.
- Southeastern Wisconsin’s total tax levy increased 6.1% from 2007, equaling \$3.6 billion for 2008. The 2007 to 2008 increase was the largest in the last five years. The school district tax levy in southeastern Wisconsin increased 7.1% from 2007 to 2008.
- Sixty-five municipalities had an increase in their gross tax rate from 2007 to 2008. Last year five municipalities had an increase. Ninety-four municipalities had an increase in their school district tax rate from 2007 to 2008.
- Milwaukee County’s gross tax rate increased \$0.30 to \$22.56 in 2008, the only county in the region to experience an increase.
- The village of West Milwaukee (Milwaukee County) had the highest net tax rate in the region at \$25.50 per \$1,000 of assessed value. The town of Paris (Kenosha County) had the lowest net tax rate at \$9.44. Of the ten highest municipal net tax rates in the region, eight of them are in Milwaukee County.

Data and methodology

This report uses data (from the Wisconsin Department of Revenue) on 2007-08 tax levies and tax rates of municipalities in the seven counties of southeastern Wisconsin.

sin. The data are not fully audited and thus are considered preliminary.

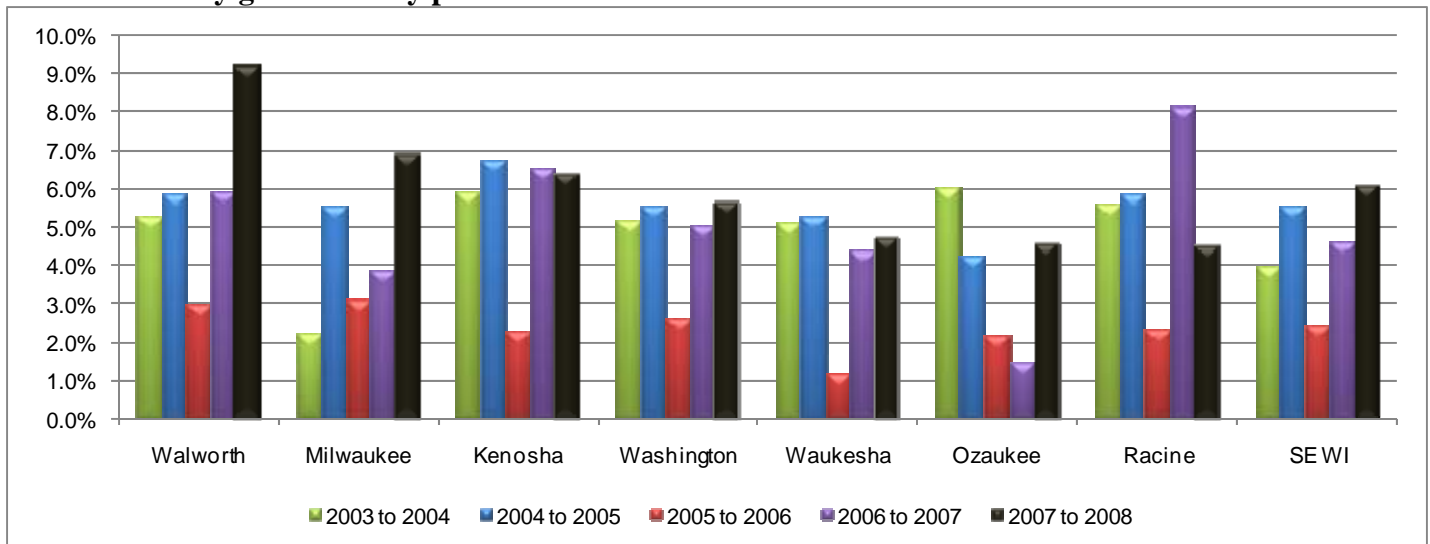
The tax levy is the amount of money that each taxing jurisdiction (county, municipality, school district, technical college district, tax increment finance district, special district and the state) budgets to receive from property taxes. These levies were decided in 2007 for the 2008 budgets. To figure the tax 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 tax rates are added together to arrive at the gross tax rate. However, the net tax rate that determines each taxpayer’s payment is the result of 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. We calculate a hypothetical regional and county total tax rate by aggregating each municipality’s tax rate into a rate for southeastern Wisconsin or county as a whole.

Property tax levy

Southeastern Wisconsin levied a total of \$3.6 billion in property taxes this year, an increase of 6.1% over last year. This year’s increase is substantially higher than the 4.6% increase last year, and is the largest levy increase in the last five years. This year’s increase puts the levy’s five-year total increase at 20%. This increase includes a mu-

Chart 1: County gross tax levy percent increases



municipal levy increase of 5.2% and a county levy increase of 3.4%. The state of Wisconsin saw a yearly levy total increase similar to that of southeastern Wisconsin, with its levy total increasing 6.2%.

On the county level, five of the seven counties experienced levy increases larger than last year (**Chart 1**). These increases were largely driven by school district levies. For example, Walworth County's school district levy increase of 12.9% drove the county's overall levy increase of 9.3%, the largest increase of any of the seven counties. Walworth County also had the largest five-year increase of the seven counties, at 26.1%. Kenosha County had the second highest five-year increase, at 23.7%.

Racine County logged the smallest increase in its levy, at just 4.5%. Ozaukee County and Waukesha County were close behind with 4.6% and 4.7% increases, respectively. As for the other counties, Washington County saw a 5.7% increase, Kenosha County 6.4% and Milwaukee County 6.9%.

Overall, the data show a potential trend toward higher levies. Two years ago there were 32 municipalities in southeastern Wisconsin with decreasing tax levies; one year ago there were 16. This year, just two municipalities had a decrease in their gross tax levy. Of the 20 municipalities seeing double-digit increases in their gross tax levy from 2007-2008, the largest increase was the Town of Geneva in Walworth County (20.6%). In addition, of the 20 municipalities with the greatest increases, 16 were towns and villages. This can probably be attributed to the smaller tax base available in these areas, which makes

their levies more sensitive to changes in the local economic makeup.

Chart 2 shows the property values, rates and levies in southeastern Wisconsin over the last eight years. The chart shows that as equalized values have begun to increase less dramatically, the gross tax rate has halted its decline.

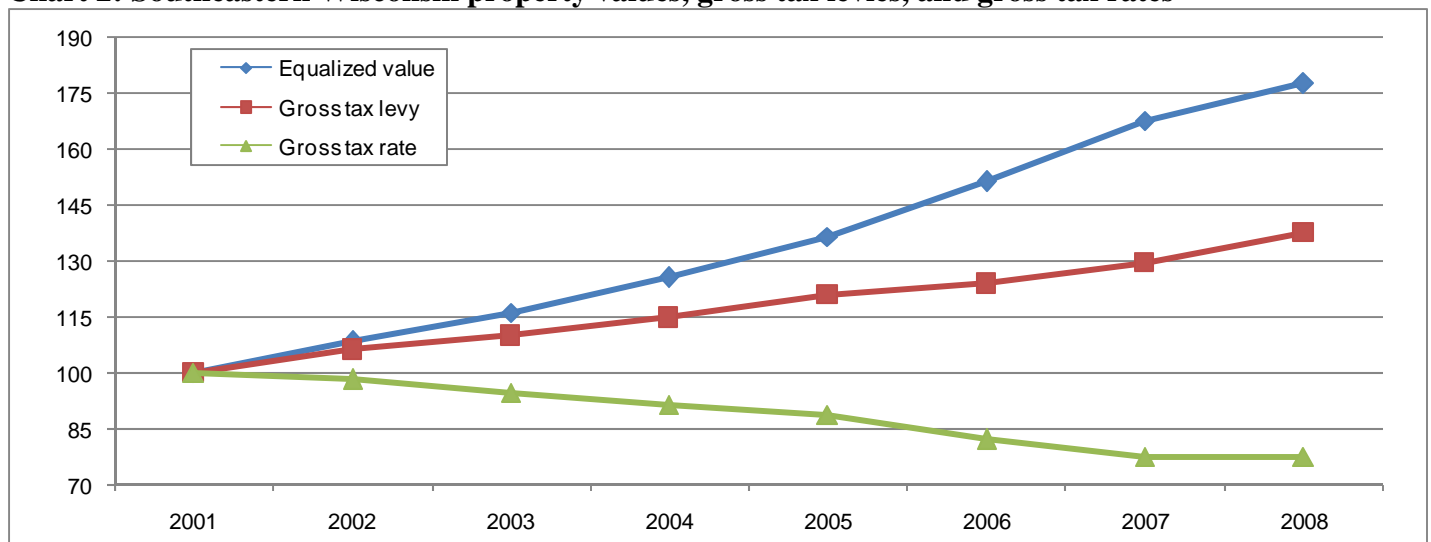
Our March 2008 *Research Brief* on property values (<http://www.publicpolicyforum.org/pdfs/2008%20Property%20Values.pdf>) found that property value growth had slowed from previous years. Property values in southeastern Wisconsin grew 6% from 2006 to 2007, compared to growth of 10.7% from 2005 to 2006.

Property tax rates

Property tax rates in Wisconsin have been on the decline for a number of years. This has largely been the result of booming home values, which have allowed municipalities to apply a lower tax rate to higher home values while still collecting the same total levy. This year, for the first time since at least 2001, southeastern Wisconsin's gross tax rate increased. While small (\$0.03), this indicator, combined with the prospect of stagnant or decreasing home values, may signal a new trend of higher tax rates.

The gross tax rate for southeastern Wisconsin was \$18.81 in 2008, an increase of \$0.03 over the 2007 rate of \$18.78. The state-wide gross tax rate also increased, from \$18.56 in 2007 to \$18.58 in 2008.

Chart 2: Southeastern Wisconsin property values, gross tax levies, and gross tax rates



This regional increase is attributable to a significant increase in the tax rate in Milwaukee County. In southeastern Wisconsin, 5 of the 7 counties had a decrease in their gross tax rates. Milwaukee and Washington counties were the only counties that did not experience a drop in gross tax rates, with gross rates in Washington County remaining the same (\$16.38) and Milwaukee County's gross tax rates increasing by \$0.30 to \$22.56. The remaining counties experienced a decrease in their gross tax rates, with Ozaukee County experiencing the largest drop at -\$0.31.

In Milwaukee County, 10 of the 19 municipalities had an increase in the gross tax rate. The City of Milwaukee, the largest municipality in the region, experienced an increase of \$0.42 in its gross tax rate. Five municipalities in Milwaukee County had a larger increase than the city of Milwaukee. The City of Cudahy had the largest increase in the county (\$0.78).

Sixty-five municipalities in southeastern Wisconsin had an increase in their gross tax rate in 2007-08, compared with five municipalities the previous year. Of the 65 municipalities with an increased gross tax rate, 60 had an increase in their school district rate. As shown in **Chart 3**, the school district rate is the largest component of the gross tax rate and is therefore the key driver in the gross tax rate. Additionally, no other component of the gross tax rate was found to have increased in a majority of these 65 municipalities. Twelve of the 19 municipalities in Milwaukee County experienced an increase in their school district tax rate. The city of Oak Creek's school district

tax rate increased \$0.81, the highest in the county. The Milwaukee Public Schools' tax rate increased \$0.19.

The 2008 net tax rate for southeastern Wisconsin was \$17.45, down \$0.07 from 2007. The statewide net rate decreased the same amount, to \$17.23 for 2008. While the average net rate was down, 45 municipalities saw an increase in their net rate this year, compared with just 4 municipalities that had an increased net rate last year.

Conclusion

School districts are the main driver of southeastern Wisconsin's local tax rates and levies, accounting for 44% of the gross tax rate in 2008. The aggregate school district tax levy in southeastern Wisconsin increased 7.1% from 2007 to 2008. At the same time, the school district tax rate increased \$0.08 per \$1,000 of assessed value. With school district levies pushing the increase, the gross tax levy for southeastern Wisconsin increased 6.1% and the gross tax rate went up \$0.03.

On the other side of the equation are property values. The growth in southeastern Wisconsin property values slowed this year, as we reported in our March 2008 *Research Brief*. Since tax rates are determined by the levy and property values, local governments can continue current spending trends only by raising the tax rates should property value growth fail to increase commensurate with spending levels.

Chart 3: SE WI gross tax rate by component

