

LOCALLY ASSESSED PROPERTY VALUES FAIL TO KEEP UP WITH THE MARKET

A post-pandemic boom in residential property values means that in 2022 many properties were assessed at far below market value. As many municipalities seek to catch up with the rising market, property owners may be in for a surprise and there may be inequities between different neighborhoods and classes of property. Overall, this situation suggests a need to monitor and possibly rethink how property assessment is handled in Wisconsin.

With residential property values rocketing upward in recent years, the gap between local property tax assessments and market values in Wisconsin is now the largest seen in recent memory. That means that when reassessments do occur, many property owners will experience huge increases in the assessed value of their property.

In most cases, this massive correction will not result in the huge increase in property taxes that many alarmed homeowners expect. Nevertheless, state data show that more than 800 municipalities in the state have assessed values for the collective properties within their borders that are lower than 80% of their market value – the largest gap since at least 2011 and likely much longer. That deserves the attention of both the public and policymakers because it raises concerns about the

fairness of our overall tax system. While every property in a community being equally under-assessed would not necessarily lead to an unfair distribution of property taxes, stark divergence from market values may mean that certain neighborhoods or classes of property are more likely now to be paying more or less than their fair share.

In one bright spot, there is at least some evidence that some communities are trying to catch their assessed property values up to market values. Further data show that 9.5% of Wisconsin municipalities completed a full or exterior revaluation of all property within their boundaries in 2022, the highest mark in at least the last decade.

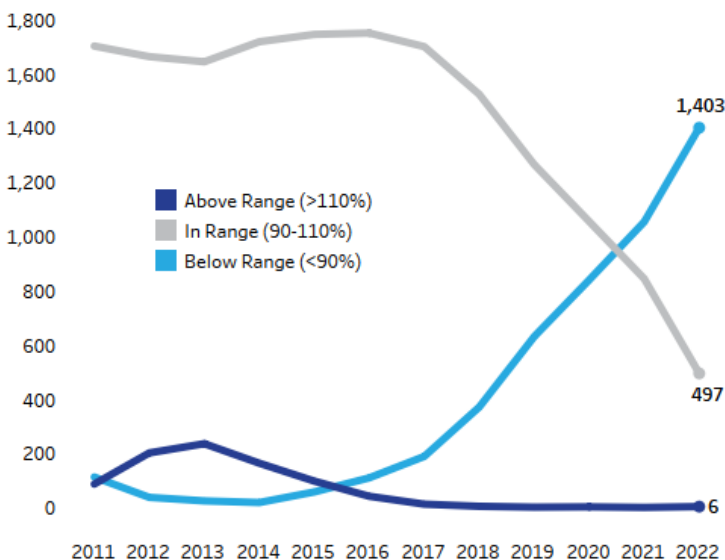
In this brief, we examine how assessed and market values for Wisconsin property have drifted apart, how assessments work, and how the state is unique when it comes to which level of government is responsible for property assessment. The data in this report come from the Wisconsin Department of Revenue (DOR) and stretch from 2011 through 2022.

ASSESSED VALUES FALL BEHIND MARKET

DOR tracks the assessment ratio – the assessed value of property divided by its market value – for each municipality in the state. This ratio essentially shows how close each community is to assessing property accurately. The closer the ratio is to 100%, the smaller the gap is between assessed value and market value.

These ratios can be affected when property values change rapidly because of a recession, economic expansion, or other dramatic event like the pandemic. In 2022 and again in 2023, total equalized property values (or estimated market values) in Wisconsin rose

Fig 1: Few Communities Assess Property Near Market Values
Number of Wisconsin municipalities assessing property below, at, or above 90-110% of market value, 2011-2022



Source: Wisconsin Department of Revenue



by more than 13% - the two largest increases on a percentage basis in the last four decades.

In 2022, 811 (42.5%) of the state's 1,906 municipalities with available data had assessment ratios below 80%, and another 592 (31.1%) had ratios between 80% and 90% (see Figure 1 on the previous page). Every county in the state had at least one municipality with a ratio below 80%, and in all but two counties (Racine and Taylor), a majority of municipalities were below 90%.

State law requires that property is assessed within 10% (in other words, between 90% and 110%) of market value at least once every five years; when a municipality misses this mark, the state intervenes and issues a notice of non-compliance, and triggers a state-supervised assessment if the municipality is out of the target range for a sixth straight year. In 2018, just three municipalities did not hit that range within the five-year time window, with all three assessing property below 90% of market value in each year from 2014 to 2018. By 2020, that number rose to 16, and in 2022, 28 municipalities had been out of range for five straight years. Data for 2023 is incomplete, but there already appear to be at least 50 municipalities that will not meet the state standard.

Chronic under-assessment was not always the norm. As recently as 2018, more than four in five Wisconsin municipalities assessed property at rates between 90% and 110% of market value, and from 2011 to 2018, fewer than one out of every 100 municipalities had ratios below 80%. As Wisconsin recovered from the Great Recession and housing values began to rise from their plunge during the previous years, 91.8% of the state's municipalities were within 90% to 110% of their market value in 2016, a high mark after a stretch where a handful of communities were also above 110%. However, as the recovery has continued and the pandemic significantly raised the market value of housing, the number of municipalities in the state-mandated range has now fallen in six straight years.

HOW PROPERTY ASSESSMENT WORKS IN WISCONSIN

Accurate assessments of the value of homes and business properties in the state are an essential tool to ensure they are not paying too much or too little in taxes. The local assessment of individual properties is

used to calculate what share of the overall levy in a municipality is paid by an individual property owner.

Though counties technically have statutory authority to conduct property assessments in Wisconsin (via approval of at least 60% of the county board), municipalities traditionally have assumed this responsibility. Bigger cities – including all 10 of the largest in the state – tend to employ an in-house municipal assessor or team of assessors, while most other municipalities contract with a private assessor or assessment firm. Many of those firms handle assessments for more than one municipality and often for neighboring jurisdictions.

Wisconsin is fairly unique in conducting assessments at the municipal level. The only exception is manufacturing property, which is assessed across the entire state by DOR. According to data from the [Lincoln Institute of Land Policy](#), as of 2020, most states assessed property at the county level; in the Midwest, many states also allow bigger municipalities to conduct their own assessments (see Figure 2 on the following page).

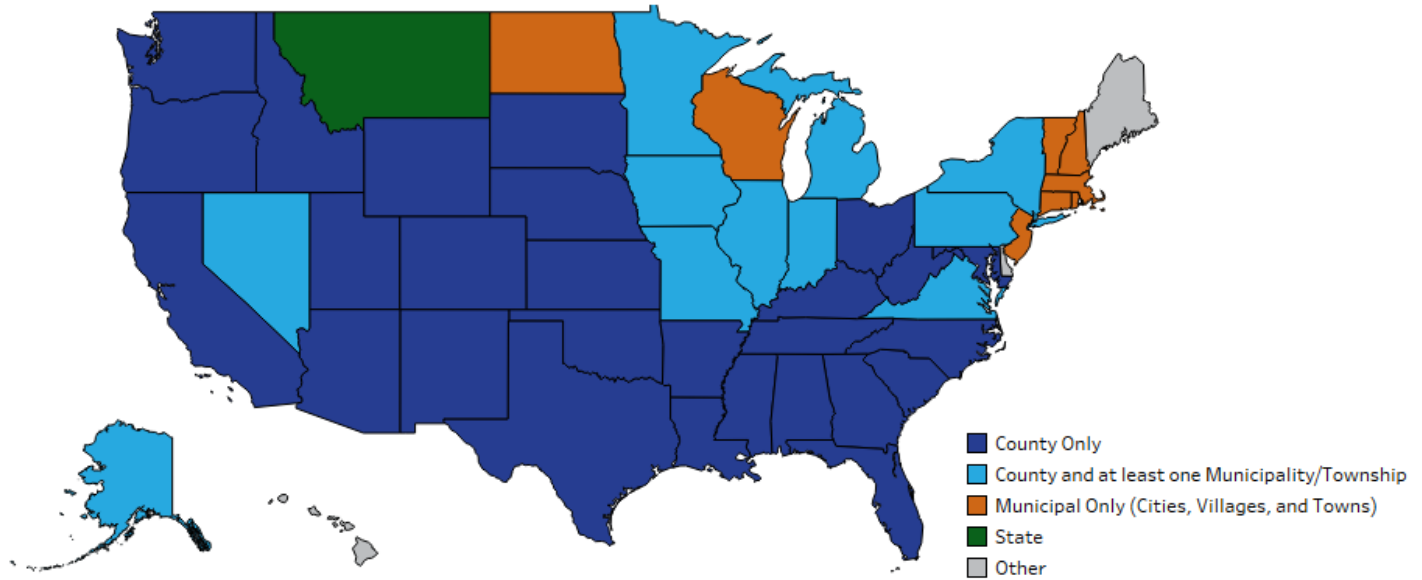
This approach means that Wisconsin municipalities – many of them quite small – must bear the costs associated with assessment services. For example, officials from the city of Rhinelander (population: 7,800) say a full revaluation would cost nearly \$159,000; the expense also makes it more difficult for the city to comply with a state program aimed at limiting local spending. As a result, financial considerations can impact not only the decision on whether to employ in-house staff or contract for assessment services, but also decisions on how frequently to conduct and pay for revaluations and how to carry them out.

There are four ways to arrive at a community's assessed value. A "maintenance" assessment looks only at major changes to assessed values from the year prior, including new construction, changes in zoning or property classification (such as commercial versus residential), and demolitions. This is the easiest and most common assessment type, but it may yield the biggest divergences from market values when property values are increasing quickly. An "interim market update" is similar, but requires an assessor to analyze neighborhoods, property types, and market trends to determine whether a community can keep a similar assessed value to the prior year or revalue closer to the market.



Figure 2: Wisconsin Only State in Area to Assess Property Entirely at Municipal Level

Government entities generally responsible for property value assessments* by state, as of 2020



Source: Lincoln Institute of Land Policy. *Does not include certain specific assessment powers delegated to state, such as over assessment of manufacturing property in Wisconsin.

On the other side of the spectrum, a “full revaluation” requires an assessor to inspect the interior and exterior of every property in a municipality, and an “exterior revaluation” is similar but does not require photos, sketches, or an interior inspection. Both of these kinds of property assessments are intended to bring a community’s overall assessment closer to full market value.

DOR data show that from 2011 to 2022, 377 municipalities (20% of the total) only conducted maintenance assessments and an additional 772 (41%) that only conducted an interim market update or exterior revaluation. That’s despite a DOR recommendation that municipalities conduct a full revaluation at least once every 10 years. Just 39%, or 735, municipalities conducted a revaluation over the 11-year span.

HARMONIZING PROPERTY VALUES ACROSS COMMUNITIES

One more step is needed to ensure fair property taxes: a system for uniformly valuing properties across different communities. Without this additional safeguard, the residents of two different municipalities that lie within the same county or school district could end up paying too much in county or K-12 property taxes because their property is overvalued compared to parcels in the neighboring community.

To prevent this, the state of Wisconsin equalizes values across municipalities in an effort to make them uniform in all jurisdictions. DOR’s equalization process draws on sales analyses, property appraisals, local reports, and other factors to calculate the full market value of the property in each community.

In theory, if a city assessed its property at 90% of market value according to its assessment ratio and a neighboring suburb assessed its property at 80% of market value, the equalization process would bring both up to 100%. However, equalized values are only calculated for all property in a municipality, not for individual parcels. So they do not replace the need for accurate assessments of each parcel.

HIGHER ASSESSMENTS DO NOT LEAD TO LARGER TAX LEVIES

Municipal officials say property owners often raise concerns that their local governments are increasing their property tax assessments in order to hike the overall levy on taxpayers. That is not really the case in general and particularly in Wisconsin, where the state limits increases in municipal operating levies to the rate of net new construction in each community.

In fact, local property taxes are set by governments independently from the property assessment process. A local unit of government – a municipality, school



district, or county – will set an overall property tax levy amount and then divvy up that amount proportionately by parcel within its boundaries. Counties and school districts also set their levies within their own state limits and then use equalized property values to ensure that their overall levies are fairly split among the communities within their borders.

In other words, the amount of revenue that a local government receives from property taxes is determined by the levy, not property assessments. A rising assessment for a given parcel only leads to greater property taxes for its owner if the increase in the assessment is greater than the average change for all properties in the community.

IS MUNICIPAL PROPERTY ASSESSMENT A PROBLEM?

In theory, out-of-date local assessments may not lead to an unfair system. Because DOR equalizes property values for tax purposes, so long as all properties in a municipality are similarly under- or over-valued, property owners would be paying their fair share of the full levy. However, the further each community is from assessing its property at full market value, the more problems can arise.

Within a municipality, if two neighborhoods were assessed differently, then this could lead to residents in

one neighborhood paying an outsized share of the property tax and the other underpaying. Especially in areas that are growing quickly – such as the Madison suburbs – a newly-built or growing neighborhood that would have property reassessed frequently could pay an outsized share in this current market, while existing neighborhoods that have not undergone a recent revaluation could underpay.

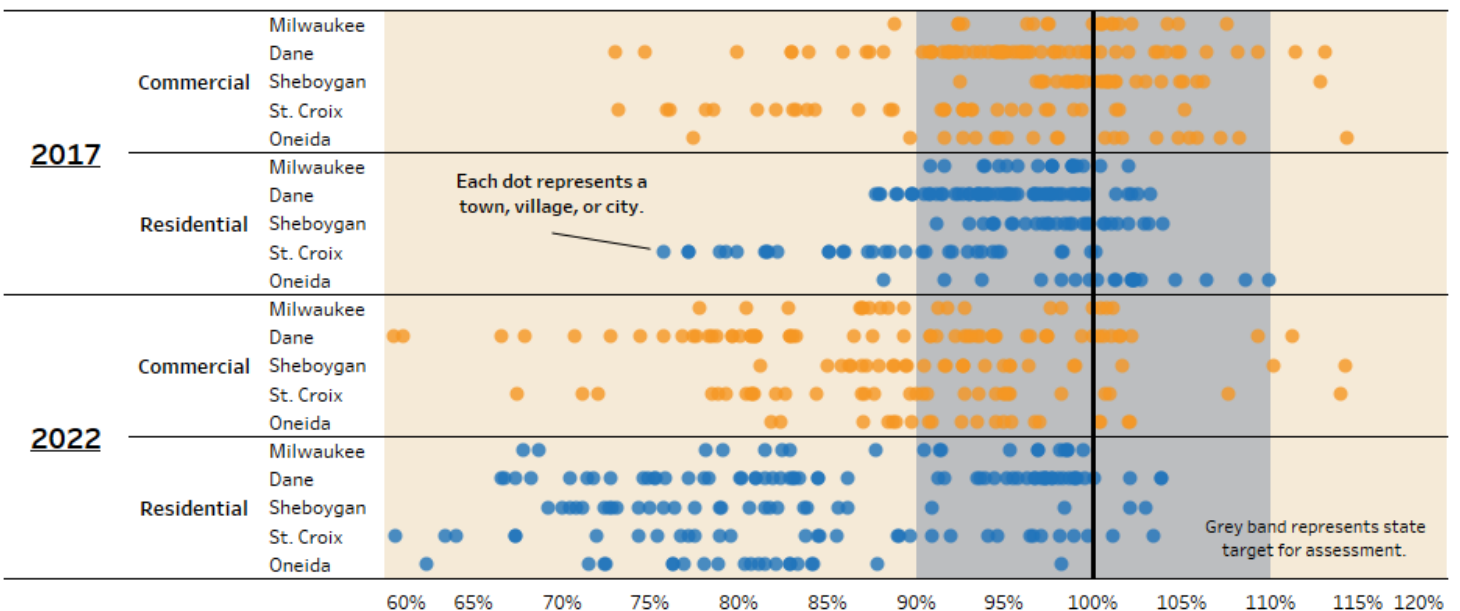
Another issue that can arise is a difference in assessment ratios across classes of property. Municipalities are responsible for assessing all classes of property such as commercial and residential, and assessors employ different metrics to value each. If assessments are closer to market value for one class of property than another, then homeowners could end up paying less than business owners, or vice versa.

To examine the extent to which commercial and residential property assessment ratios are diverging, we looked at 2017 and 2022 ratios in all 160 cities, villages, and towns in five counties: two large (Dane and Milwaukee), two mid-sized (Sheboygan and St. Croix), and one small (Oneida).

As Figure 3 on the previous page shows, the median assessment ratio in 2017 for commercial property across all 160 communities was 96.9%, whereas for residential property it was 95.8%. In just 26 – or 16.3% – of those municipalities were the two classes of

Figure 3: Commercial Property Now Assessed Closer to Market Value Than Residential Property

Assessment ratios for commercial and residential properties in selected counties, 2017 vs. 2022



Source: Wisconsin Department of Revenue



property assessed at ratios at least 10 percentage points apart. In other words, residential and commercial property owners were generally being treated equally.

The data from 2022 paint a different picture. The median assessment ratio for commercial property in the same communities dropped to 90.6% - still within the state's target range, but noticeably lower than five years earlier.

The median assessment ratio for residential properties, however, dropped to 82.9%. The number of municipalities with commercial and residential assessment ratios separated by at least 10 percentage points nearly tripled to 71, or 44.4% of the 160 communities. Commercial property was assessed at least 10 percentage points higher than residential in 59 of those communities, meaning that commercial property owners appeared to be overpaying property taxes relative to homeowners.

POLICY IMPLICATIONS

Property taxes for individual parcels are determined not by the value of that individual property, but by its value as a share of all property within a given community. Because of that, if and when property owners in Wisconsin see their assessed values increasing significantly now or in the near future, there is not necessarily cause for alarm. As it turns out, other parcels may be increasing in value by as much or even more. With more and more communities seeing assessed values fall far behind fair market rates, these kinds of revaluations and increases in assessed values are likely needed in many parts of the state.

That said, issues can emerge when property values either spike (as they have recently) or fall precipitously (as they are apt to do in a recession). When more local assessments are inaccurate or out of date, there is a greater risk that different neighborhoods and classes of property could be paying too much or too little in taxes. The state also has a harder job equalizing values across communities.

Given the [long list of other local priorities](#), assigning local officials the additional task of conducting or procuring an assessment may mean that revaluations are not happening as regularly as they should, at least in times of rapid market changes. State and local policymakers should monitor these challenges and perhaps even consider ways to arrive at more accurate

and up-to-date assessments, particularly if assessments fail to catch up with market values in the next year or two.

This could mean looking at giving a greater role in assessments to counties, which particularly in rural areas might have the budgets and economies of scale to conduct more regular revaluations. However, the cost savings would likely be modest and some county officials might also question whether they have the necessary funding and expertise. Lawmakers and the DOR may also wish to consider either higher standards for local assessment or greater efforts to ensure compliance with existing standards.

In short, policymakers should continue to monitor assessment ratios, given that the real estate market has been the hottest in recent memory. If in the coming years municipalities remain unable to accurately assess property values, officials could give greater thought to changing the overall structure under which assessments are conducted in the state to ensure each property owner in Wisconsin receives an accurate assessment of the value of their parcel and an equitable tax bill.

