



Legislative Fiscal Bureau

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April 10, 2003

TO: Senator Alberta Darling
Representative Dean Kaufert

FROM: Bob Lang, Director

SUBJECT: Property Tax Bill Estimates

At your request, this memorandum provides a comparison of the estimated property taxes on a median-valued home under current law and under provisions included in SB 44, the 2003-05 biennial budget bill. A comparison of the estimated property taxes on a statewide basis under current law and under provisions included in SB 44 is also provided. You also asked for a calculation of the possible increase in property taxes if the assumption is used that any reduction in state aid would result in a dollar-for-dollar increase in local property taxes.

Estimated Change in Property Taxes Under SB 44

Estimates were made for tax bills issued in December, 2002, 2003, and 2004, which are payable in 2003, 2004, and 2005. The amounts were calculated by multiplying estimated, statewide median home values by statewide average tax rates. For the 2002(03) tax bill, tax rates were calculated from actual tax levies reported to the Department of Revenue (DOR) by local governments and actual equalized values for 2002. The tax levy amounts are preliminary totals, since they are subject to minor changes based on DOR audits. The resulting tax bill for a home valued at \$126,473 is estimated at \$2,517. For 2003(04) and 2004(05), the tax amounts are based on trends projected from prior year data, adjusted to reflect provisions included in 2001 Wisconsin Act 109 and SB 44. Under current law assumptions, the estimated net tax bill for a median-valued home is estimated to increase by \$94 (3.73%) to \$2,611 in 2003(04) and by \$101 (3.87%) to \$2,712 in 2004(05). Under SB 44, net taxes are estimated to increase by \$158 (6.28%) to \$2,675 in 2003(04) and by \$148 (5.53%) to \$2,823 in 2004(05). These estimates are reported in Table 2. A number of data sources and assumptions were required to make these estimates.

Home value estimates are based on the 2000 median home value for Wisconsin reported in the 2000 decennial census. The 2002 home value was estimated from the 2000 home value by applying adjustments based on the annual change in residential property values due to economic factors. The Department of Revenue reports that change each year as a component in its

determination of equalized values. The rate of economic change is comparable to an appreciation rate for home values. The values for 2003 and 2004 were estimated based on historic trends.

Average tax rates were calculated by dividing statewide property tax levies by statewide equalized property values. Actual property tax levies and equalized values for 1996 through 2002 were used in these calculations to provide trend data. Statewide equalized values are estimated to increase by 7.00% each year, based on prior year data. For 2003(04) and 2004(05), statewide property tax levies were estimated based on historic rates of change in tax levies. In addition, municipal and county levies for 2003(04) were increased by \$10 million, each, to reflect the \$40 million state aid reduction for 2004 authorized in 2001 Wisconsin Act 109 [this would carry forward to 2004(05)]. This analysis assumes that half of the aid reduction results in increased tax levies and the remainder results in decreased local expenditures, either as lower service levels or increased efficiencies, or the use of other local revenue sources. Higher municipal and county levies would cause a slight increase in the tax levies for tax increment districts, also. These "current law" assumptions would result in estimated, statewide, gross property tax levies increasing from \$7,362.4 million in 2002(03) to \$7,747.5 million (5.23%) in 2003(04) and to \$8,158.1 million (5.30%) in 2004(05). Estimated, net property tax levies would increase from \$6,786.8 million in 2002(03) to \$7,176.5 million (5.74%) in 2003(04) and to \$7,588.0 million (5.73%) in 2004(05).

The estimated property tax levies under the "current law" assumptions were adjusted to reflect changes in state aid policy proposed by the Governor in SB 44. Based on an assumption that is identical to that stated above, municipal tax levies were increased by \$35 million in 2003(04) to reflect the proposed \$70 million reduction in state aid [this would carry forward to 2004(05)]. Year-to-year school tax levy increases of 7.38% in 2003(04) and 7.57% in 2004(05), as opposed to 3.25% and 3.96% under current law, were estimated to reflect the following provisions included in SB 44:

- deleting the statutory provisions related to the state's two-thirds funding goal;
- maintaining the current law GPR appropriation for general school aids at its 2002-03 base level in each year of the 2003-05 biennium;
- providing an additional \$40 million SEG in 2003-04 and \$60 million SEG in 2004-05 from the transportation fund for the payment of equalization aid; and
- increasing the low revenue ceiling under revenue limits from \$6,900 under current law to \$7,400 in 2003-04 and \$7,800 in 2004-05.

The net result of these changes to school finance is that state support of K-12 public education is estimated at 64.75% in 2003-04 and 63.00% in 2004-05 under SB 44. To fund two-thirds of partial school revenues, an additional \$155 million in 2003-04 and \$307 million in 2004-05 would be needed in general school aids above the amounts provided in SB 44. Based on those estimates of reduced state support, it is assumed that 85% of the shortfall in general school aids

results in increased school tax levies and 15% results in decreased local expenditures. The assumption that a higher proportion of the aid shortfall would be recovered on the property tax levy by school districts as opposed to municipalities and counties is based on: (a) the past aggregate levy decisions of school districts, which have been subject to revenue limits since 1993-94; and (b) the potential loss of school districts' future resource base if they do not levy to the maximum allowed under revenue limits, as they are able to carry only 75% of any underlevy forward to the next year.

The effect of these provisions would be to increase the estimated, statewide, gross property tax levies to \$7,918.8 million (7.56%) in 2003(04) and to \$8,464.1 million (6.89%) in 2004(05) under the Governor's proposal. Net property tax levies would increase to an estimated \$7,347.8 million (8.27%) in 2003(04) and to \$7,894.0 million (7.43%) in 2004(05).

Table 1 reports the statewide levels of gross property taxes and of property taxes net of state property tax credits. The amounts for 2002(03) should be regarded as preliminary, although they are based on actual tax levies reported to DOR, and the amounts for 2003(04) and 2004(05) are estimates based on the preceding assumptions.

TABLE 1

Statewide Property Tax Levels (In Millions)

	Preliminary <u>2002(03)</u>	<u>Current Law</u>		<u>SB 44</u>	
		<u>2003(04)</u>	<u>2004(05)</u>	<u>2003(04)</u>	<u>2004(05)</u>
Gross Property Taxes	\$7,362.4	\$7,747.5	\$8,158.1	\$7,918.8	\$8,464.1
School Levy Tax Credit	-469.3	-469.3	-469.3	-469.3	-469.3
Lottery and Gaming Credit	<u>-106.3</u>	<u>-101.7</u>	<u>-100.8</u>	<u>-101.7</u>	<u>-100.8</u>
Net Property Taxes	\$6,786.8	\$7,176.5	\$7,588.0	\$7,347.8	\$7,894.0
Change from Prior Year					
Gross Property Taxes					
Amount		\$385.1	\$410.6	\$556.4	\$545.3
Percent		5.23%	5.30%	7.56%	6.89%
Net Property Taxes					
Amount		\$389.7	\$411.5	\$561.0	\$546.2
Percent		5.74%	5.73%	8.27%	7.43%
Change from Current Law					
Gross Property Taxes					
Amount				\$171.3	\$306.0
Percent				2.21%	3.75%
Net Property Taxes					
Amount				\$171.3	\$306.0
Percent				2.39%	4.03%

Table 2 reports the estimated taxes on a median-valued home for 2002(03) based on actual property tax information and for 2003(04) and 2004(05) under current law and under SB 44, based on the tax amounts reported in Table 1.

TABLE 2

**Estimated Property Tax Bills for a Median-Valued Home
Based on Statewide Average Tax Rates**

	<u>2002(03)</u>	<u>Current Law</u>		<u>SB 44</u>	
		<u>2003(04)</u>	<u>2004(05)</u>	<u>2003(04)</u>	<u>2004(05)</u>
Home Value	\$126,473	\$132,796	\$139,436	\$132,796	\$139,436
Gross Taxes	\$2,770	\$2,860	\$2,956	\$2,924	\$3,067
School Levy Credit	-177	-174	-170	-174	-170
Lottery & Gaming Credit	<u>-76</u>	<u>-75</u>	<u>-74</u>	<u>-75</u>	<u>-74</u>
Net Property Tax Bill	\$2,517	\$2,611	\$2,712	\$2,675	\$2,823
Change from Prior Year		\$94	\$101	\$158	\$148
Percent Change		3.73%	3.87%	6.28%	5.53%
Change from Current Law				\$64	\$111
Percent Change				2.45%	4.09%

Property Taxes Using Assumption of Dollar-for-Dollar Replacement of State Aid

You asked that the preceding analysis be modified by assuming that state aid reductions would result in a dollar-for-dollar increase in property tax levies.

Table 3 reports estimated statewide property tax levels under this assumption. To reflect the assumption you requested, current law estimates of municipal and county levies for 2003(04) were increased by \$20 million, relative to the amounts in Table 1, to reflect the entire \$40 million state aid reduction for 2004 authorized in 2001 Wisconsin Act 109 [this would carry forward to 2004(05)]. Also, higher municipal and county levies would cause a slight increase in the tax levies for tax increment districts. These adjustments would result in current law, estimated, statewide, gross property tax levies of \$7,362.4 million in 2002(03), \$7,768.0 million (+5.51%) in 2003(04), and \$8,179.9 million (+5.30%) in 2004(05). Estimated, net property tax levies of \$6,786.8 million in 2002(03), \$7,197.0 million (+6.04%) in 2003(04), and \$7,609.8 million (+5.74%) in 2004(05) would result.

For Table 3, the estimated gross property tax levies under SB 44 for 2003(04) and 2004(05), as reported in Table 1, were adjusted to reflect the entire amount of the state aid reductions, as you requested. In addition to the \$20 million adjustment to municipal and county taxes to reflect the Act 109 aid reduction, additional municipal taxes of \$35 million were estimated in 2003(04), which carries forward to 2004(05), and additional school taxes of \$23.2 million in 2003(04) and \$46.1 million in 2004(05) were estimated. Additional adjustments were made to the levies of tax increment districts and to reflect the effects the overall trend assumptions have on first-year changes. The combined effect of the SB 44 provisions and the aid replacement assumption you requested results in estimated, statewide, gross property tax levies under the Governor's proposal of \$7,999.1 million (+8.65%) in 2003(04) and \$8,571.4 million (+7.15%) in 2004(05). Net property tax levies would equal an estimated \$7,428.1 million (+9.45%) in 2003(04) and \$8,001.3 million (+7.72%) in 2004(05).

TABLE 3

**Statewide Property Tax Levels Assuming a Dollar-for-Dollar Offset
of State Aid Reductions with Property Tax Increases
(In Millions)**

	Preliminary	Current Law		SB 44	
	<u>2002(03)</u>	<u>2003(04)</u>	<u>2004(05)</u>	<u>2003(04)</u>	<u>2004(05)</u>
Gross Property Taxes	\$7,362.4	\$7,768.0	\$8,179.9	\$7,999.1	\$8,571.4
School Levy Tax Credit	-469.3	-469.3	-469.3	-469.3	-469.3
Lottery and Gaming Credit	<u>-106.3</u>	<u>-101.7</u>	<u>-100.8</u>	<u>-101.7</u>	<u>-100.8</u>
Net Property Taxes	\$6,786.8	\$7,197.0	\$7,609.8	\$7,428.1	\$8,001.3
Change from Prior Year					
Gross Property Taxes					
Amount		\$405.6	\$411.9	\$636.7	\$572.3
Percent		5.51%	5.30%	8.65%	7.15%
Net Property Taxes					
Amount		\$410.2	\$412.8	\$641.3	\$573.2
Percent		6.04%	5.74%	9.45%	7.72%
Change from Current Law					
Gross Property Taxes					
Amount				\$231.1	\$391.5
Percent				2.97%	4.79%
Net Property Taxes					
Amount				\$231.1	\$391.5
Percent				3.21%	5.14%

Table 4 reports the estimated taxes on a median-valued home using the tax levy estimates reported in Table 3. The current law estimates result in net tax bills of \$2,619 in 2003(04) and \$2,720 in 2004(05), and the SB 44 estimates result in net taxes of \$2,704 in 2003(04) and \$2,861 in 2004(05). Under the state aid replacement assumption you requested, tax bills under SB 44 would be higher by \$85 in 2003(04) and \$141 in 2004(05) than under current law.

TABLE 4

**Estimated Property Tax Bills for a Median-Valued Home
Based on Statewide Average Tax Rates and Assuming a Dollar-for-Dollar Offset
of State Aid Reductions with Property Tax Increases**

	<u>2002(03)</u>	<u>Current Law</u>		<u>SB 44</u>	
		<u>2003(04)</u>	<u>2004(05)</u>	<u>2003(04)</u>	<u>2004(05)</u>
Home Value	\$126,473	\$132,796	\$139,436	\$132,796	\$139,436
Gross Taxes	\$2,770	\$2,868	\$2,964	\$2,953	\$3,105
School Levy Credit	-177	-174	-170	-174	-170
Lottery & Gaming Credit	<u>-76</u>	<u>-75</u>	<u>-74</u>	<u>-75</u>	<u>-74</u>
Net Property Tax Bill	\$2,517	\$2,619	\$2,720	\$2,704	\$2,861
Change from Prior Year		\$102	\$101	\$187	\$157
Percent Change		4.05%	3.86%	7.43%	5.81%
Change from Current Law				\$85	\$141
Percent Change				3.25%	5.18%

If you have any questions on this information, please let me know.

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