

OUR CITY OF MADISON



Frequently Asked Questions: Assessed Value, New Construction, and Taxation

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Assessed Value



What does the Assessor's Office do? And, why do we do it?

Municipalities are the primary units of property tax administration in Wisconsin. The law requires that the assessor assess all property not exempt by law, which has any marketable value. Specifically, the assessor provides two major services:

- Administer the official duties of the office such as preparing assessment rolls, grant exemptions, file reports required by the state, and monitoring assessment performance
- To discover, list, classify, and value property – the law requires that the assessor assess all property not exempt by law, which has any marketable value
- Property tax is the largest tax. It funds just about everything at the local level, including schools. Wisconsin, at its formation, was very concerned about fairness and equity in the assessment and taxation process. Clear standards were established with the goal that all were going to contribute based on a fair process.

Valuation

Valuation: Fair Market Value

The goal of the assessor is to estimate the fair market value of the bundle of rights for a particular property, considering only those rights and privileges that the owner, or beneficial owner, can transfer to a willing buyer in an arm's-length transaction. The assessment of any property should reflect the arm's-length sale price of the subject, or its probable selling price if no sale has occurred.

The definition of market value is 'the most probable price paid by a willing buyer to a willing seller in an arm's-length transaction'.



Valuation: Mass Appraisal (Trending)

Applying a Trend to Assessment Areas: Mass Appraisal

Annually, a market analysis based upon valid sales is conducted for each separate assessment area (neighborhoods with like housing stock) within the city to determine if an adjustment is needed for the next annual assessment to reflect current market value. If it is found that an adjustment is needed, that adjustment is typically applied to the assessment area as a percentage change. These percentage changes applied as annual adjustments to an assessment area are known as “trending”.

Who evaluates the Assessor?

- The Wisconsin Department of Revenue (DOR) is the oversight agency for all Assessors. They regulate operations, promulgate required forms and reporting, and provide mandated guidelines for assessment via the Wisconsin Property Assessment Manual.
- DOR evaluates Assessors via an annual review of valid sales in each municipality. If the assessments are more than 10% off from sale prices overall in a class (high or low), a report identifies that the municipality is out of compliance. DOR has authority to issue a warning, order training, and then undergo their own assessments on behalf of the jurisdiction if continued and ongoing non-compliance occurs.



New Construction



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I see cranes and construction all over the City, with so much growth in new construction...the City budget must be increasing rapidly. Why would we need to increase it more?

Unfortunately, the ability to increase the levy or budget is not a dollar for dollar adjustment based on new construction or growth.

Since 2011, the state legislature has limited Madison's levy increases to what it calls "net new construction." Net new construction is the amount of new construction that occurred within the municipality in the prior year less the value of any demolition. This net amount is divided by the prior year's total equalized value (which is derived by the Department of Revenue) to determine the allowable percentage to apply in increase to the levy. This percentage, along with any increase that may result from closing tax incremental financing (TIF) districts, determines the levy limit before adjustment.



I see cranes and construction all over the City, with so much growth in new construction...the City budget must be increasing rapidly. Why would we need to increase it more? (Continued)

Year	Equalized Value	Net New Construction	% Increase to Levy	Inflation Rate
2023	\$39,024,059,200	\$864,933,400	2.22%	3.4%
2022	\$32,940,368,400	\$780,438,600	2.37%	6.5%
2021	\$33,036,794,000	\$508,251,200	1.54%	7%
2020	\$30,910,698,000	\$614,695,800	1.99%	1.4%
2019	\$28,727,407,800	\$641,177,800	2.23%	1.6%

Taxation



Assessments rose across the City for the past few years. That must mean that more money is available for the City budget, right?

While this does seem like a reasonable conclusion, it is not accurate. There are two separate systems involved: assessment and taxation. Assessments represent the market value of the property. Property value is used to calculate taxes. However, it is not the data used to determine how *much* a municipality or other jurisdiction can tax overall.

The levy (municipal budgetary authority) is generally only increased via net new construction and/or a referendum. *Increased assessments do not increase budgetary authority.* Assessments do determine the tax rate and what proportion of the levy a property pays.



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Assessments rose across the City for the past few years. That must mean that more money is available for the City budget, right? (continued)

It is important to note that when taxpayers receive their property tax bill in the mail, the City's portion of the tax bill is only around 35%. The rest of the bill goes to other taxing jurisdictions including the Madison Public Schools, Dane County, and the Madison Area Technical College.



Assessments rose across the City for the past few years. That must mean that more money is available for the City budget, right? (continued)



The total amount to be collected through property taxes, which is called the "tax levy" is determined by the state via the net new construction formula. The levy is then raised by multiplying the value of all the property in the City by a percentage, called the tax rate. The rate is the same for all property owners. When this tax rate is applied to the value of all the taxable property in the City, it will total the exact amount of money the state levy limits will allow the City to spend on services.



The tax rate is calculated by simply dividing the amount of taxes allowed by the total assessed value of all taxable property in the City.

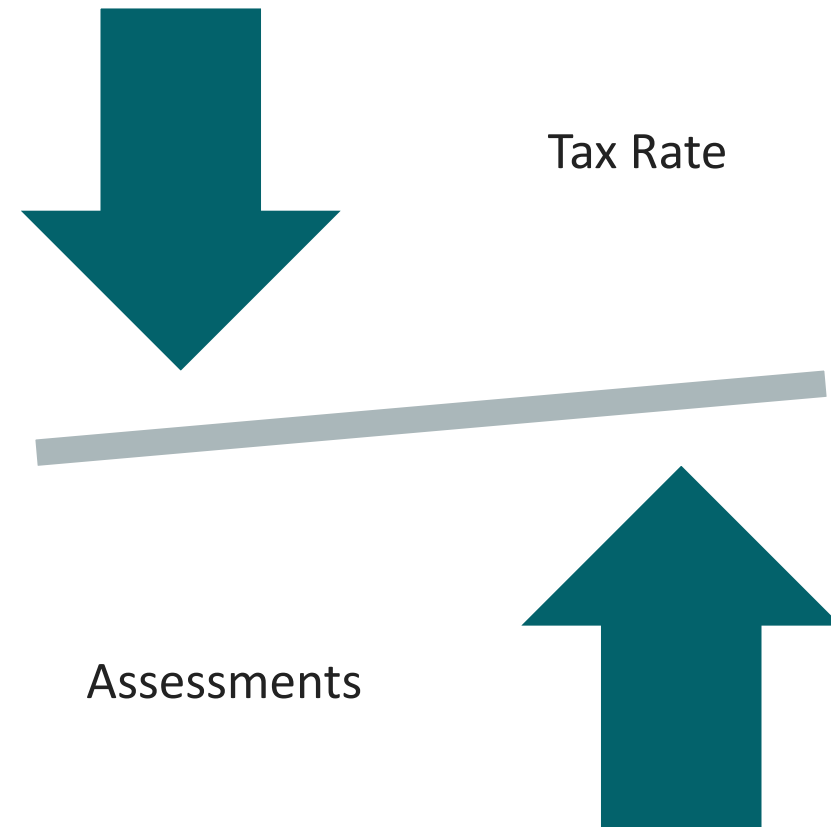
$$\text{Tax Rate} = \text{Levy} \div \text{Total Assessed Value}$$



Once the rate is set, the assessed value of your property is used to determine the portion of the levy your property contributes. The tax rate when multiplied by the assessed value of the property, equals what is owed in taxes -- the tax bill. The tax rate is often expressed in terms of dollars per thousand, or as a "mill rate."

Assessments rose across the City for the past few years. That must mean that more money is available for the City budget, right? (continued)

Generally, if the assessed value of a property increases, the taxes for that property do not increase at the same dollar amount. Assessments are supposed to be revenue neutral, so an increase in assessment does not necessarily correspond to an increase in taxes. The growth in tax collections for local taxing jurisdictions is expected to be much lower than the increase in property values. Typically, higher values result in a lower tax rate, while state aid and tax credits will also influence property taxes.



Assessments rose across the City for the past few years. That must mean that more money is available for the City budget, right? (continued)

As an example of how value and taxes differ, the value of the average home increased by 6.4% in 2021 over 2020 (from \$315,200 to \$335,200), while taxes on the average home (before state tax credits are applied) increased by 1.9% (from \$7,641 to \$7,817). After applying state tax credits, the change was just 0.12% (the lottery credit increased by 57% between 2020 and 2021).

Equity

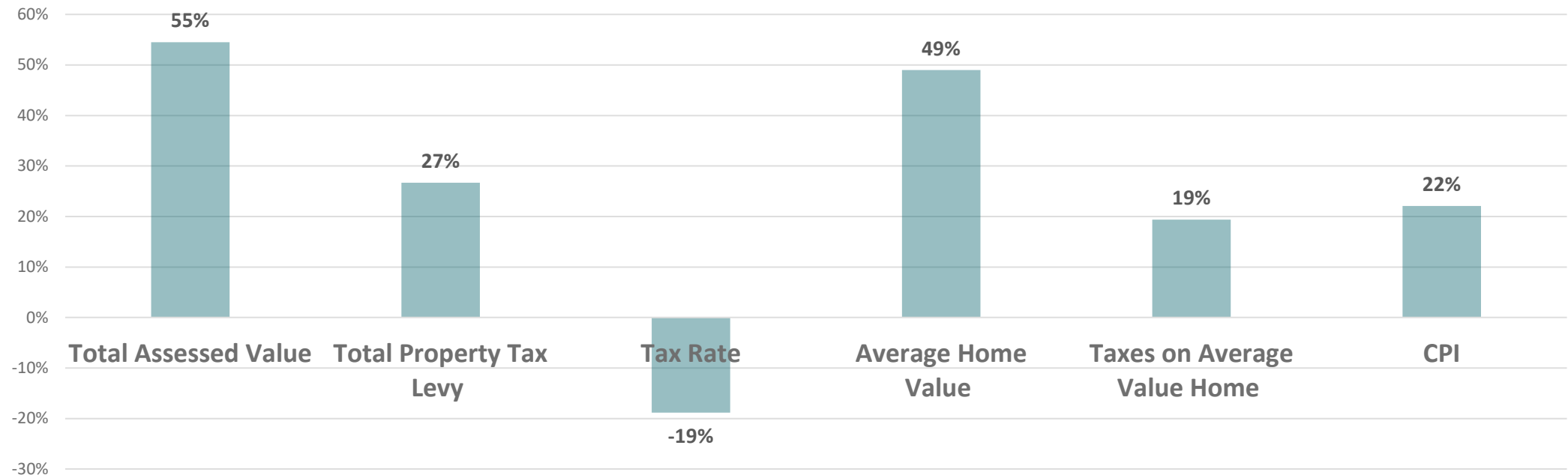
Assessments and Shifting the Tax Burden

- The overall amount the City can budget is set by state law (net new construction calculation)
- The budget is filled with property tax revenue
- Property taxes are applied to seven different classes of property (residential, commercial, agricultural, undeveloped, agricultural forest, forest, and other)
- As the budget authority is set by state law, the significance of assessing each class of property appropriately is to avoid an inequitable shift of the tax burden. The significance of individual assessments going up or down relates to shifting the tax burden rather than impacting the overall amount of budgetary authority.
- It is my duty to ensure that the burden is equitably borne by all classes of property.



Comparing Assessments and Taxes

Percentage Change from 2019 to 2024



Notes:

Total property tax levy includes TIF levies

Tax rate is net of school levy tax credit and reflects the Madison Metro School District

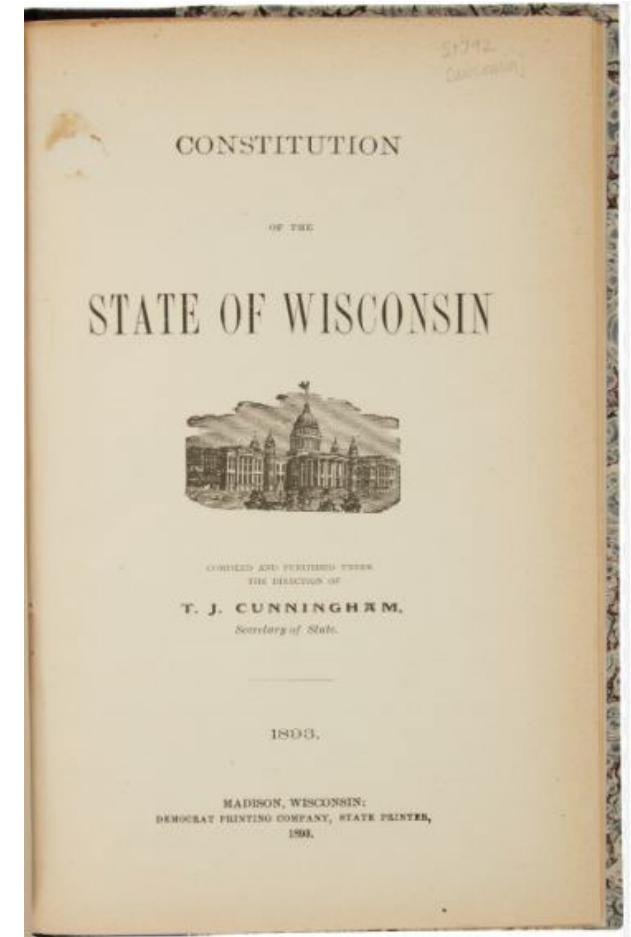
Taxes on average value home include state school levy, first dollar and lottery credits

CPI is for December 2018 to December 2023

Uniformity Clause: No Preferential Tax Treatment

- Uniformity Clause

Article VIII, section I, of the Wisconsin Constitution requires, in part, the uniform taxation of property. The section is commonly called the "uniformity clause" and was adopted as part of the original state constitution crafted by the 1848 constitutional convention, but arose from language debated during the first attempt at creating a constitution in 1846. The language ultimately adopted read as follows: "The rule of taxation shall be uniform, and taxes shall be levied upon such property as the legislature shall prescribe."



Uniformity Clause (continued)

Wisconsin's Uniformity Clause presents a substantial obstacle to implementing progressive tax policy. The Wisconsin legislature may create reasonable classifications for property owners in order to promote economic development or provide tax relief, but those classifications may violate the uniformity clause. When it comes to skirmishes involving economic development on one side and tax uniformity on the other, uniformity has prevailed in Wisconsin courts. That consistency provides insight into why the legislature has adopted so many property tax exemptions (over 75). It has few other viable options for lowering taxes or responding to economic or other issue/stimulus.

The last amendment to the uniformity clause was in 1974 (agricultural use value). Legislators have proposed amending the uniformity clause to provide the legislature more flexibility in the formation of tax policy. However, these proposals have not been successful with the last in 1999.

Summary

Key Takeaways

- State law governs the process of assessing property
- We assess at full fair market value each year
- Valid sale prices are the basis for setting value
- DOR reviews our assessment performance annually
- There is a process for appealing value
- Assessments control what portion of the levy is paid by a property NOT how much the levy can increase. State law controls the levy calculation with the net new construction calculation (only 2% increase in 2023 v. inflation at 6%).
- Key duty for the Assessor is to ensure that the tax burden is spread equitably among classes of property, primarily residential and commercial
- 35% of the tax bill is for the City
- Uniformity Clause prevents progressive tax policy

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Stay Connected!

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