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Property Values Drop 1.8% Statewide

- *State sees decline for third straight year.*
- *Preliminary district-by-district numbers range from -0.53% to -3.20%.*
- *Lower values affect revenue, mill rates.*
- *District responses will also be affected by new levy controls.*
- *Pressure on local funding remains as state funding falls.*

The Wisconsin Department of Revenue (DOR) reports that total state equalized property values dropped by 1.8% from 2010 to 2011, the third straight year of decline. Here are preliminary/informal calculations by college district:

College	Equalized Property Value 2010 (\$)	Estimated Value 2011 (\$)	Districtwide Change
Blackhawk	12,004,455,318	11,736,976,768	-2.23%
Chippewa Valley	20,962,454,579	20,789,175,461	-0.83%
Fox Valley	34,743,195,162	34,480,584,670	-0.76%
Gateway	43,959,558,929	42,921,144,138	-2.36%
Lakeshore	14,740,716,895	14,583,511,396	-1.07%
Madison	72,854,834,126	71,919,051,082	-1.28%
Mid-State	12,521,696,046	12,339,252,943	-1.46%
Milwaukee	77,302,963,287	74,860,139,292	-3.16%
Moraine Park	25,560,469,384	25,130,775,291	-1.68%
Nicolet	18,455,077,627	17,864,138,259	-3.20%
Northcentral	16,020,394,871	15,874,403,100	-0.91%
Northeast WI	37,382,965,342	36,895,777,163	-1.30%
Southwest WI	7,751,548,013	7,710,626,515	-0.53%
Waukesha Co	51,473,759,261	50,723,915,214	-1.46%
Western	17,243,188,277	17,105,403,342	-0.80%
WI Indianhead	<u>32,926,915,173</u>	<u>31,934,476,108</u>	-3.01%
Total	<u>495,904,192,290</u>	<u>486,869,350,742</u>	-1.82%

The DOR will release more formal numbers in the fall, likely October 1st.

The 1.8% statewide decline is smaller than the prior year's 3.1% drop, which was the steepest in 50 years. Besides declines over the past three years, property values fell

statewide only one other time since the 1950's. That occurred in 1985-1986 when values dropped 2% statewide.

Between 1997 and 2007, statewide property values increased an average of almost 8% per year. The largest increases over the past 50 years occurred during the high-inflation period of the 1970's. From 1973 through 1980, total state property values increased by more than 10% annually.

Different Property Types Fared Differently - The 1.8% decline in total property values breaks out differently by property type. The different mix of property types in a given district may also explain some of the differences in total valuation declines among districts.

<u>Type</u>	<u>% of all Property (by value)</u>	<u>% Change</u>
Residential	71.4	-1.6
Commercial	18.4	-2.3
Manufacturing	2.6	0.0
Forest	1.7	-5.4
Agricultural Forest	0.6	-2.6
Agricultural	0.5	-3.4
Undeveloped	0.4	-1.2
Other	2.3	-1.1
Personal Property (non-real estate)	2.3	-4.9
Total	100%	-1.8%

(Totals may vary due to rounding.)

New Construction Down - In addition to changes in the value of existing property, total values are affected by the net amount of new property added to the existing base. Residential construction remained very weak last year. According to the Wisconsin Taxpayers Alliance, the value of new home construction averaged 2.5% of total residential value per year from 1989 through 2007. Last year, it accounted for just 0.6% of residential value.

County Value Data - As expected, there was a wider range of increases and decreases by county. Sixteen of the state's 72 counties saw total property values increase last year, an improvement over the prior year. The largest increase was Pepin County at 3.06%. Monroe County was second at a 1.75% increase. Other counties with an increase are: Florence (+1.46%), Rusk (+1.36%), Shawano (+0.84%), Trempealeau (+0.70%), Eau Claire (+0.61%), Taylor (+0.54%), Jackson (+0.45%), Winnebago (+0.44%), Forest (+0.39%), Kewaunee (+0.32%), Menominee (+0.20%), Barron (+0.16%), Grant (+0.13%), and Lincoln (+0.03%).

One county, Lafayette, saw no change. Total values declined in Wisconsin's remaining 55 counties. The declines ranged from just 0.04% in Chippewa County to the largest declines by county as follows:

Polk	-6.97%
Juneau	-6.42%
Oneida	-5.04%
Adams	-4.96%
St. Croix	-4.15%
Bayfield	-4.08%
Pierce	-3.91%
Green Lake	-3.74%
Milwaukee	-3.63%
Kenosha	-3.62%

The Impact of Values on College Levies - Lower values affect technical college levies because the current tax (mill) rate generates fewer dollars applied to a smaller total district value. Likewise, a higher tax (mill) rate is necessary to generate the same revenue on a smaller value base.

Technical college districts may levy up to 1.5 mills for operations. The operations levy is distinct from the debt levy, which is regulated by referendum and other requirements, but is not otherwise subject to a rate cap or levy "freeze." One "mill" in tax rate terms equals a tax of \$1 per \$1,000 in property value.

New Levy Controls and the Impact on Revenue - Under the 2011-13 budget bill (Act 32) effective July 1st, technical college districts have new limits on their operating levy flexibility. In addition to the longstanding 1.5 mill limit, a college may not increase its levy for the next year by an amount that exceeds the *greater of* its current levy amount (in \$), or, the amount generated by keeping its current mill rate constant.

The second part of this limit - allowing a district to maintain a constant mill rate - means a district can increase its levy revenues if values increase. Higher values multiplied by the same rate equals additional revenue.

The picture is different, however, when district values fall. When values fall, some districts below the 1.5 mill rate cap will be able to choose to increase the mill rate to sustain levy revenue at the same amount as the prior year. In other words, lower values multiplied by a higher mill rate can be used to maintain "flat" revenue. Raising the rate beyond that (to exceed the current year's dollar amount) is prohibited under the new budget controls.

Districts already at or near the 1.5 mill rate limit face a darker revenue prospect. A district at the 1.5 limit will see revenue decrease along with property values. In this case, lower values multiplied by the same (maximum) rate equals lower revenue.

Finally, a district that is close to, but not at, the 1.5 limit may or may not be able to sustain its existing revenue stream. The district may choose to increase its rate up to 1.5 and may make up some or all of the impact of falling revenue. If increasing the mill rate to 1.5 is not sufficient to make up for the decrease in property values, revenue will be reduced compared with the current year.

At a larger statewide level, declining values tend to result in more districts approaching the 1.5 limit. After years of booming values, just two districts were at or near the cap in 2008. Currently, five districts are at or near. The “capacity” remaining between a district’s current rate and 1.5 can erode quickly if property values continue to fall and the district continues to levy the same amount for operations.

Lost Value Equals Lost Revenue - One way to look at the magnitude of the statewide valuation decline is to translate it into its impact on college revenue if all districts keep their mill rates unchanged. As a rough or general estimate, the total drop in property values statewide is just over \$9 billion. The total statewide mill rate under the limit is 1.29287. By assessing this rate on \$9 billion less in value, the drop in revenue statewide is approximately \$11.6 million.

This impact is a very rough measure because levies are not, of course, imposed on a statewide basis. They are imposed district-by-district with unique mill rates and unique changes in valuation. Current year mill rates subject to the 1.5 limit are provided below.

2011 Operating Mill Rates (Subject to the 1.5 Limit)

Blackhawk	1.381
Chippewa Valley	1.439
Fox Valley	1.497
Gateway	1.220
Lakeshore	1.256
Madison	1.327
Mid-State	1.333
Milwaukee	1.500
Moraine Park	1.219
Nicolet	0.982
Northcentral	1.500
Northeast Wisconsin	1.191
Southwest Wisconsin	1.500
Waukesha County	1.060
Western	1.500
Wisconsin Indianhead	0.963

The statewide mill rate of 1.29 this year represents an increase over the historic low rates of 2007-08 (1.16) and 2006-07 (1.17). Over many recent years, mill rates fell as property values grew more rapidly than local tax increases and college budgets. As recently as 2000-01, the statewide average mill rate subject to the limit was 1.34.

Local Revenue is Largest Technical College Funding Source - The impact of changing property values is magnified by the large share of revenue property taxes represent. Today and historically, local taxes comprise the colleges' largest revenue source. Statewide, local levies comprised some 56% of operational funding in 2009-10, followed by student tuition and college fees (22.6%), state funding (13.5%), federal funding (4.2%) and institutional funds (3.7%), such as those from auxiliary operations.

The share of funding provided through local tax levies has grown as the state funding share has steadily declined. This magnifies the impact of valuation changes on the colleges' ability to meet growing service and enrollment demands.

The world of technical college finance for 2011-12 and beyond will be affected by other key factors in addition to those discussed in this report: property values, districts pushing toward or reaching the 1.5 mill rate limit, and new statutory levy controls. Most importantly, state aid was cut by \$35.8 million annually in the 2011-13 budget bill. This represents a 30% cut to state general aid and a 25% reduction in total state support to technical colleges. For perspective, if all other operating funds (levies, tuition, federal, and institutional) were to be held equal, a cut of \$35.8 million in general aid would reduce the state's already eroded share of college operating costs from 13.5% today to just 10.5% in the coming year.

For more information from DOR, see: <http://www.revenue.wi.gov/> and look for "Equalized Values Released by DOR" under "News." For additional information on district levies and finance, see the Wisconsin Technical College System "Factbook" at: <http://www.wtcsystem.edu/reports/data/factbook/index.htm>.

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