PROPERTY ASSESSMENTS IN A DECLINING MARKET

1. Everything I read and hear in the news media tells me housing values have dropped over the past year so why hasn't my assessment dropped?

In Wisconsin, we've been fortunate that our property values are weathering the market relativity well compared to many other areas of the country. While the news media portrays values as dropping, it speaks to an overall trend in some areas and doesn't take into account a specific neighborhood or specific properties. In actuality, some communities, and some neighborhoods, have seen values increase: many neighborhoods are experiencing fewer sales yet values remain relatively stable: and a few neighborhoods have experienced foreclosures and short sales that have driven market values lower. It's the latter neighborhoods that capture news media attention.

If your municipality happens to be conduction a revaluation this year, then your assessment will reflect the most probable market value. A revaluation sets all properties at market value as of January 1 and establishes the relationships of one property to another. Those relationships remain until the next revaluation. If your community is not conducting a revaluation this year, then your assessment will likely not be adjusted if the only change occurring is the same market adjustment that the rest of the community is experiencing. Just as your assessment didn't go up each year when property values where rapidly increasing, your assessment will not be adjusted downward just because values are declining. The reason for this is twofold. If all values are going up or all values are going down, it doesn't change the relationship of one property to another and therefore doesn't change the tax burden relationships.

Secondly, in order to contain costs, most municipalities do not perform a revaluation every year. It is the revaluation process that adjusts everybody's value to reflect those properties which have sold.

2. Wouldn't my property taxes go down if the assessor lowered home values in our community?

Not necessarily. To illustrate how the levy affects your assessment we'll look at Badgertown: a community of two. Each resident owns a house valued at $100,000. Badgertown's tax levy is $2,000; the amount needed to cover its expenses. Since each resident owns 50% of the total property, they each pay 50% of the levy giving them each a tax bill of $1,000.

If property values in Badgertown go up 10%, then each property is assessed at $110,000. The amount they pay in taxes, however, remains the same. Each resident still owns 50% of the total property in Badgertown and must pay 50% of the $2,000 tax levy or $1,000. And what if values start dropping? Residents' property might drop to $80,000 each but because they each still own 50% of the property, and Badgertown still needs to collect $2,000, they will continue to see a $1,000 property tax bill.

3. **The family across the street was foreclosed on by the bank who sold their home for a lot less than the assessed value. Isn't that proof my assessment should be lowered?**

Usually not. Foreclosed properties are being marketed under duress and frequently sell at discount prices. While there have been more foreclosure-related sales during 2008 and 2009 than any time during the past 20 years, foreclosure sales have always been part of the market. In this downturn, Wisconsin has fared better than most states as real estate values adjust to the economic climate. Just as foreclosure-related sales are frequently not an indicator of market value when values are rising, they are not necessarily an indicator of value in a declining market and are not normally considered by the assessor when determining the market value of property in a community. In fact, Wisconsin law, appraisal standards, and Wisconsin courts, require very specific criteria for a sale to be considered as a reliable indicator of market value. Two of the most important of these criteria are whether the sale occurred under duress (such as a forced sale) and whether the property had adequate market exposure. For example, a property that sells two weeks after its listed may have sold quickly because it was underpriced. This may be an indication of a duress situation, requiring closer review by the assessor, to verify whether it is was an arm's length transaction. In most cases, looking at non-foreclosure sales is the most reliable way to gauge what is actually happening with neighborhood values.

There are times when the majority of homes that are selling in your neighborhood tend to be around the same price as foreclosure-related sales. In this case, they may represent a reasonable picture of market value.

4. **Why am I paying taxes on an assessment that's higher than my property is worth?**

Property owners know their assessment is used to calculate their December tax bill. What many taxpayers find confusing is that the assessment is only one part of the equation for computing the property tax. The other variable used to compute property taxes is the tax levy.

The levy represents the budgets established by the municipality, schools, etc. to cover their expenses. Those expenses are apportioned among property owners according to the percentage of ownership they have in the total property of the municipality. Thus, the actual tax bill is dependent on *both* the amount of all the taxing jurisdiction levies *and* the proportion of your assessment to the total value of property in the community. If you own 1% of the property value in your community, then you will pay 1% of the tax levy. It is the proportion of your assessment to the total value of the community that affects your tax bill, not the assessment number itself.

Said another way, your municipality must collect a certain amount; no more, no less. It divides that amount among all owners in proportion to the amount of property they own. Whether the property in the municipality is assessed at 90% of market value or 110% of its market value has no effect on your particular tax bill so long as your neighbors are also being assessed at that same 90% or 110%. This is the concept of uniformity and the basis for Wisconsin tax law.

An increase or decrease in the assessment of an individual property does not predict whether the tax bill for that property will go up, down, or remain the same.

Additional information is available at the following websites: Wisconsin Department of Revenue's Guide for Property Owners. www.revenue.wi.gov/html/govpub.html#property