WHAT'S DRIVING PROPERTY TAX INCREASES?

After a decade of modest increases, property taxes in Wisconsin have risen more rapidly the past two years. Factors contributing to the growth include voter-approved school referenda, increases in state revenue limits on schools, and greater levies by municipalities and counties to make debt payments. School referenda alone increased gross tax bills in 2020-21 by more than $1.1 billion over what they otherwise would have been.

Over the past decade, local governments and school districts have been under tight state caps on local property tax levies. Yet with state aid also limited and few other taxes available to local governments, elected officials at the community level have turned increasingly to a small number of exceptions in state law that allow them to raise property taxes. Those exceptions range from voter referenda for school districts to borrowing for municipalities and counties.

In fact, our analysis of state data finds that on December 2020 tax bills alone, property taxes statewide were more than $1.1 billion higher than they otherwise would have been because of successful voter referenda to allow school building projects and increased spending on operations. This year, school levies rose by up to $136.1 million over the previous year due to referenda provisions taking effect, according to data from the state Department of Public Instruction (DPI) and Legislative Fiscal Bureau (LFB).

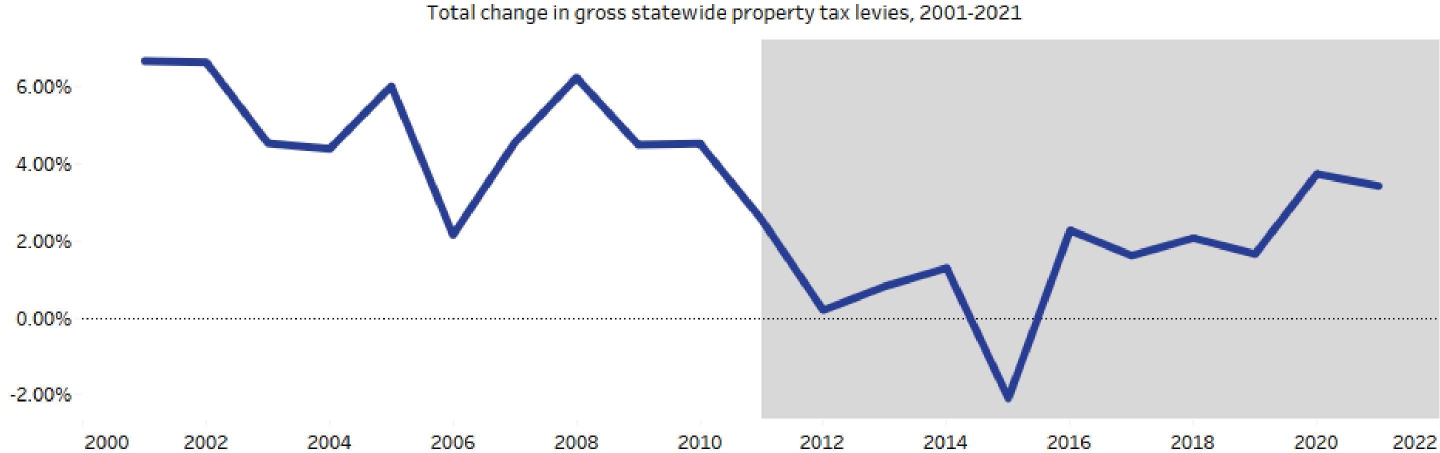
In this brief, we look at the ways in which school districts, municipalities, and counties have used the exceptions available to them under state tax and revenue limits to raise local property taxes in recent years. We then explore the implications of our findings for policymakers and the public.

STATEWIDE PROPERTY TAXES ON THE RISE

For 2020-21 property taxes that were billed in December 2020 and paid into 2021, state Department of Revenue (DOR) data show the gross statewide levy was $12.02 billion, an increase of 3.4% over the previous year. That followed a 3.7% rise the previous year, with both years outpacing inflation and marking the two largest increases since 2009-10 (see Figure 1). These figures do not include the impact of state

Figure 1: Statewide Property Taxes Begin to Climb

Total change in gross statewide property tax levies, 2001-2021



Source: Wisconsin Department of Revenue. Gray section represents period with limited increases to school revenue caps and increases in municipal and county operating levies limited to net new construction or 0%.

property tax credits that lower the actual net bills paid by property owners.

The increases of the past two years have been largely driven by school districts, which account for the largest share of state property taxes and have increased their levies more than most other types of local governments.

K-12 DISTRICTS DRIVE GROWTH IN LEVIES

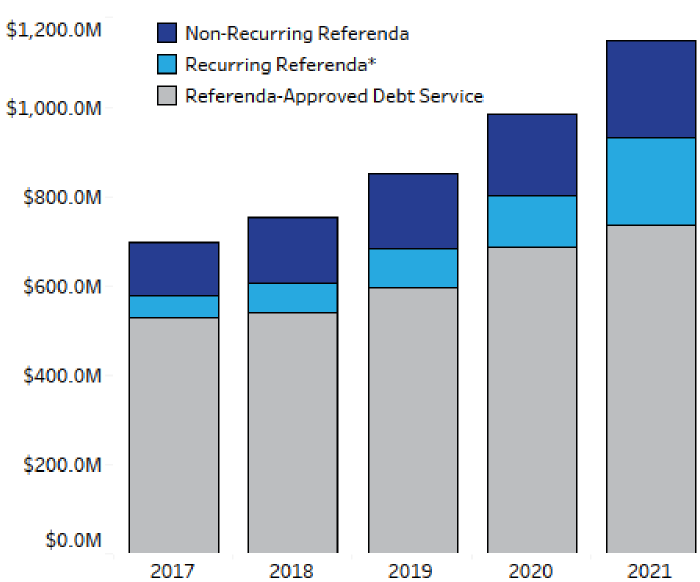
In 2020-21, gross K-12 property taxes totaled $5.38 billion, an increase of $170.3 million (3.3%) from the previous year. That increase was largely (but not entirely) due to voters choosing to exceed state revenue limits through referenda.

In Wisconsin, revenue limits cap how much K-12 school districts can collect per pupil through combined local property taxes and general state aid. The limits do not apply to federal support, state categorical aids targeted toward specific students or programs, or local revenue from sources other than the property tax. In particular, the limits do not apply to the substantial federal pandemic aid flowing to districts or to a form of flat per pupil aid that in some years the state used to provide additional revenue that districts can spend.

After four years of no increase in the state limits, Gov. Tony Evers and lawmakers increased them by $175 per pupil in 2019-20 and $179 in 2020-21. The 2020-21 increase allows districts statewide to collect about $147.3 million in additional revenue. However, state general school aids rose this year by $161.8 million. On its face, that means as a group districts statewide are not able to increase their property taxes under the revenue limits and would actually have to lower them somewhat to remain within their allowable increase in the combined amount.

Figure 2: A Rise in Referenda

Total property tax levy allowed by voter-approved referenda*



Sources: Wisconsin Department of Public Instruction; Legislative Fiscal Bureau
* All amounts for each year reflect the cumulative impact of prior referenda except that recurring referenda only include amounts that have taken effect since 2010-11.

Referenda and certain other exceptions change the picture, however. On 2020-21 bills, school referenda contributed to gross property taxes being up to $1.15 billion higher than they otherwise would have been, DPI and LFB data show. As Figure 2 illustrates, Wisconsin property owners in December were billed $735.7 million in taxes to cover payments on referenda-approved debt for building projects and renovations, $216.2 million for non-recurring or temporary increases in district operating budgets, and $195.8 million for permanent or recurring increases in district operating budgets.

These figures generally cover the total current-year impact of all referenda that are still in effect but in the case of permanent or recurring referenda – which go back decades – include only the amounts that have been approved since 2010-11. Looking at a different time period will produce a different total – for example, referenda provisions that have taken effect since 2016-17 added up to $449.7 million to December tax bills. We use the phrase “up to” since school boards can choose to levy less than the referendum allows, though they typically levy close to or all of the amount.

Looking only at amounts that were included for the first time on 2020-21 tax bills, referenda added up to $136.1 million in new property taxes, which accounts for the lion’s share of the overall $170.3 million increase in school levies in 2020-21. A large portion of the 2020-21 increases from referenda came from the Milwaukee Public Schools’ April 2020 recurring referendum, which allowed the district to increase taxes by about $57 million for 2020-21 over what they otherwise would have been. The district’s allowable increase grows to $87 million by 2023-24.

We discussed the continued high success rate of referenda in November 2020, April 2020, and April 2019. In all, voters in 295 out of 422 districts (69.9%) have approved a referendum since 2016, choosing additional funding for their local schools over a lower tax bill.

In 2020-21, the revenue limits and school property taxes were also $139.5 million higher than otherwise allowed under state law because of exceptions to cover revenues lost due to certain students attending voucher or school choice programs. That was a rise in those exceptions of $30.9 million over the previous year.

Another notable contributor to the limits and local taxes this year was the $128.5 million from "hold harmless" provisions in the state caps that shield districts with declining enrollment from revenue loss for a single year. These provisions produced a $59.6 million increase over the previous year because of the large loss of students due to COVID-19. These exceptions also played a role in determining the total school levies.

MUNICIPALITIES AND COUNTIES ALSO SEE INCREASES

In general, municipalities and counties in Wisconsin face tight property tax limits and can only raise taxes for operations by the percentage increase in property values due to net new construction within their boundaries. The average rate of net new construction across the state has not exceeded 1.7% since 2008 and went as low 0.7% in 2011 and 2012.

In 2020-21, cities, villages, and towns levied $3.11 billion, an increase of $89.5 million (3%) from the prior year. That is considerably higher than the prior year net new construction rate of 1.6%, which would have produced a statewide levy increase for municipalities of about $41 million.

The explanation for this discrepancy lies largely with an exception in local government levy limits for payments made to service municipal debt issued after the levy limits took effect in July 2005. In 2020-21, municipalities were able to levy $570 million for payments on such debt, an increase of $29.6 million (5.5%) from the previous year.

Over the past decade, the use of this exemption to make payments on debt issued after levy limits took effect has more than tripled from $172.2 million in 2010-11. Notably, however, overall municipal debt or debt payments did not rise at nearly this same rate since local governments as a group did not use this exemption to make all their debt payments. Some were able to accommodate at least a portion of their debt service within the revenue from the basic levy limits and other revenues.

Unlike in the case of school districts, citizens added relatively little to municipal taxes in 2020-21 through referenda and town meetings – only $5.7 million above the basic state limits.

The story is similar for counties. In 2020-21, county gross levies totaled $2.33 billion, an increase of $47 million (2.1%) from the previous year that also exceeded the percentage growth in net new construction.

As with municipalities, most county property tax increases outside of net new construction come from a rise in levies used for debt service. The exemption for payments from the levy on debt issued after July 2005 totaled $349.9 million in 2020-21, an increase of $5.4 million (1.6%). Over the decade, the use of this exemption for county payments on debt issued after the creation of levy limits has more than doubled from $161.4 million for 2010-11. As with municipalities, this does not mean that overall debt increased that much. Referenda raised county property taxes by just $2.2 million over the basic state limits.

Technical college districts in Wisconsin have similar state property tax limits. In 2020-21, technical colleges levied $486.5 million in gross property taxes, an increase of $15.3 million (3.3%) from the previous year. Our analysis did not include the smaller amounts of property taxes levied by tax increment and special districts.

POLICY CONSIDERATIONS

Over the past decade, state leaders have kept tight limits on local government and school district property taxes, leaving local leaders to turn to exceptions in the law such as voter referenda and debt to cover their rising costs. While increasing at a faster pace over the last two years, property taxes have remained mostly in check and the state has seen its property tax burden (measured as the ratio of property taxes to personal income) fall to its lowest level in at least the past half century. Yet the limits and the exceptions to them may be having unintended consequences.

For example, while school districts have substantial one-time federal aid to help them for the next few years, significant portions of those funds are tied to addressing pandemic impacts. With tight revenue limits still in place, districts that want to support ongoing increases in spending may still feel compelled to turn to the ballot box.

The recently approved 2021-23 budget raises general school aids by $408 million but provides no increase in revenue limits, meaning that districts statewide will have to decrease local property taxes to remain below the caps. Referenda can allow districts to spend more despite the limits, but they may also be increasing the gap between wealthier districts with supportive voters and less well-off districts with less receptive citizens.

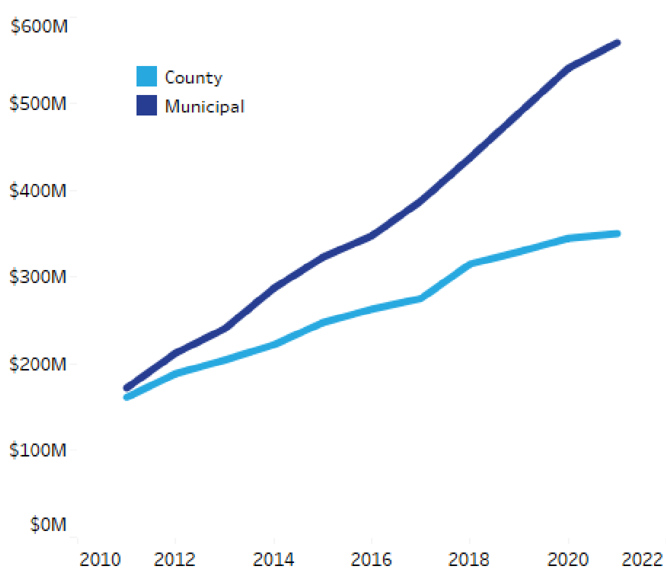
For municipalities, we recently noted in A Growing Divide that levy limits also may have exacerbated the gaps between wealthier and poorer communities, although in this case the gaps are caused by differences in rates of net new construction. The same might be true to some extent for counties.

These local governments also have the ability to turn to referenda to exceed levy limits, but they appear to face greater barriers in getting them approved. A 2020 study by the La Follette School of Public Affairs at UW-Madison found that over a 12-year span (2006 to 2018), just 31 municipal and seven county referenda passed for a combined approval rate of 35%.

Instead, municipalities and counties are turning increasingly to borrowing, an exception under the state limits. From 2010-11 to 2020-21, the combined use of this exception for payments on municipal and county debt issued after July 2005 rose from $333.6 million to $920 million, a 175.8% increase (see Figure 3).

Figure 3: Exception for Local Debt Levies On the Rise

Levy Limit Exemption For Payments on Debt Issued since July 2005



Sources: Wisconsin Department of Revenue

Once again, overall debt payments did not rise nearly as fast since many counties and municipalities continued to levy within the state limits for debt service without using the exception and can also use other revenues to pay debt. Still, this finding suggests state-imposed levy limits may be leading some local governments to use debt for spending they would have once paid for with cash. That may not be financially sustainable, particularly if currently low interest rates rise.

CONCLUSION

State limits on local tax levies have substantially reduced the property tax burden in Wisconsin, which was the primary objective of lawmakers who adopted municipal and county limits in 2005 and who have maintained strict revenue limits for school districts in recent years. The new state budget's freeze on school district revenue limits and continuation of the existing limits for municipalities and counties promises to maintain that same trajectory. As a result, if local officials feel they need to increase property taxes to maintain or expand services, they may need to seek voter approval or issue greater amounts of municipal and county debt.

Some may feel that placing the decision to raise property taxes in the hands of voters is the appropriate approach. Others may worry that the limits exacerbate inequities between wealthy and poor communities, particularly if no allowance is made for inflation.

Going forward, local and school officials may wish to look for ways to avoid the potential downsides of these trends. One approach might be for those districts and local governments who have received significant federal pandemic aid to use some of those funds to cash finance capital projects and purchases and avoid taking on as much debt.

State officials may wish to monitor not only the state's tax burden but also less obvious trends such as local debt levels and service gaps between communities with higher and lower property values. Doing so may help them to evaluate the consequences – both intended and unintended – of these key policies.