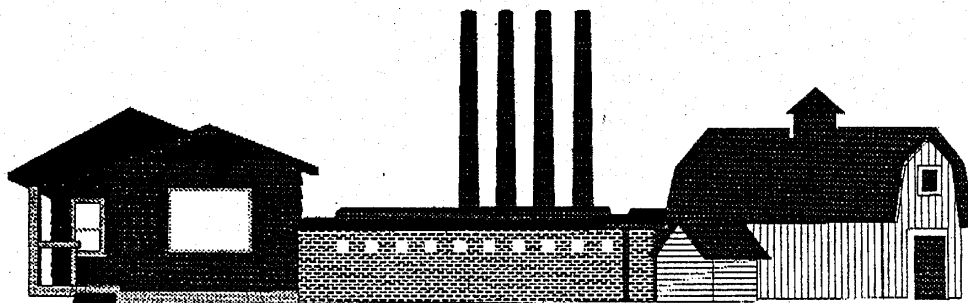


**STATE OF WISCONSIN**  
**DEPARTMENT OF REVENUE**

**DOR**



*Study of Assessment Practices*

**December, 1994**



State of Wisconsin • DEPARTMENT OF REVENUE

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Tommy G. Thompson  
Governor

Mark D. Bugher  
Secretary of Revenue

December 30, 1994

The Honorable Tommy G. Thompson  
Governor, State of Wisconsin  
State Capitol  
Madison, WI 53702

Dear Governor Thompson:

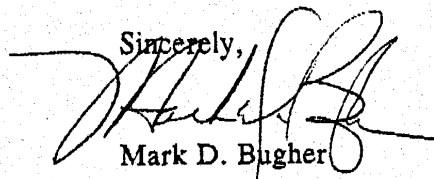
I am pleased to submit this report summarizing the Department of Revenue's review of assessment practices.

Based on input obtained through a dozen public hearings, letters, and a survey, we found that Wisconsin's property assessment system is widely perceived as unfair and in need of substantial change. In response, we have proposed a series of interlocking reforms that will result in greater assessment uniformity and improved public understanding of how the system operates.

Our recommendations include consolidating local assessment responsibilities into a smaller number of assessment districts. These could include large cities, counties and multi-jurisdictional compacts. We also propose steps to minimize the duplication of effort and confusion spawned by Wisconsin's two-tier assessment structure.

While these and other recommendations will meet with some resistance, the goal of tax equity is of such central importance that we believe they should be vigorously pursued.

Sincerely,



Mark D. Bugher  
Secretary

## ***Part One: Background***

### **A. Introduction**

In a May 9, 1994 letter to Secretary of Revenue Mark D. Bugher, Governor Tommy G. Thompson directed the Department of Revenue (DOR) to undertake a study of property assessment practices in Wisconsin. He asked that the report cover property valuation methodology, assessment administration and assessment policy; that it make specific recommendations; and that it be submitted by December 31, 1994.

Secretary Bugher responded by forming an Assessment Practices Steering Committee (composed of senior agency officials) to guide the project and an Assessment Practices Study Team (composed of DOR staff and a local assessment official representing the Wisconsin Association of Assessing Officers) to collect information and analyze reform options.

Under the direction of the steering committee, the study team distributed surveys in May and June and conducted a series of twelve public hearings in locations around the state in June. Information collected through these efforts forms the basis of the department's findings, which are summarized in this report.

### **B. Wisconsin's Two-Tier Assessment System**

Wisconsin has a two-tier property assessment system in which individual properties are valued by local assessors and the "equalized value" of each municipality, county and school district is determined by DOR. State-established equalized values are based on the "full market value" of all taxable property in each jurisdiction and are used to distribute state aids and for other purposes.

Historically, local assessments have not been maintained at full market value. For example, a home that sold for \$50,000 might be assessed at \$50,000 for many years, even though the market or resale value of the home has increased over time. If hundreds or thousands of individual properties are similarly undervalued, the aggregate value shown on the assessment roll will be below the equalized value set by DOR.

The following example illustrates the distinction between equalized and local assessed values.

***Illustration of Wisconsin's Two-Tier Property Assessment System***

City A Equalized Value - \$150,000		City B Equalized Value - \$150,000	
Property 1	\$40,000	Property 1	\$45,000
Property 2	40,000	Property 2	50,000
Property 3	40,000	Property 3	55,000
TOTAL	\$120,000	TOTAL	\$150,000
RATIO	80%	RATIO	100%

This highly simplified illustration shows two identical municipalities (“City A” and “City B”) with three properties in each. Based on sales data and other factors, DOR has determined that the *equalized value* of each city is \$150,000. This is the first (state) tier of the assessment system.

Meanwhile, the assessor in City A has not updated property values for several years, resulting in a *total assessed value* of \$120,000 and an assessment ratio of 80% (i.e., \$120,000 is 80% of \$150,000). The assessor in the otherwise identical City B has adjusted values to reflect current market trends, resulting in a total assessed value of \$150,000 and an assessment ratio of 100%. This is the second (local) assessment tier.

The role of equalized values in Wisconsin’s local finance system can be illustrated by assuming that City A and B are the only two cities in Badger County. If Badger County levies a \$2,000 property tax, the tax must be apportioned to each city for collection. If local assessed values were used for this purpose, the total county-wide value would be (\$120,000 + \$150,000) \$270,000. Because City A has about 45% of this total value, it would be allocated 45% of the county levy, or \$900. Because City B has about 55% of the total value, its apportionment would be 55% of the total, or \$1,100.

In this example, taxpayers in City B would be placed at a disadvantage because their assessor has attempted to keep up with current market trends while the assessor in City A has allowed values to fall below the market. In other words, their county tax bill would be higher because their assessor is attempting to do a good job.

A system that penalizes a city that is trying to keep pace with market values by shifting a disproportionate share of the county tax bill onto its property owners is clearly unacceptable. In addition to being unfair, the practical result would be to give local officials an incentive to assess property at a fraction of true market value.

This problem is exacerbated by the fact that nearly \$1 billion of state shared revenues and other major state aid payments are distributed to municipalities based, in part, on taxable property values (jurisdictions with relatively low per capita values generally qualify for higher than average aid payments). These aid formulas would offer a further incentive for local assessors to keep assessments artificially low.

Wisconsin's solution to this potential tax equity problem is its two-tier assessment system. While local assessed values are used to distribute the tax burden *within* a given municipality, equalized values determined by the state are used to distribute property taxes and aids *among* municipalities. Any proposed reform of the state's assessment system must consider this equity issue.

### **C. Historical Context of Study**

Over the past twenty-five years, several state commissions and task forces have recommended improvements to Wisconsin's property assessment system and major law changes have been enacted.

The 1969 Task Force on Local Government Financing and Organization recommended that Wisconsin move toward a single-tier property assessment system by: requiring local governments to assess at full market value; creating county assessment districts; and providing more training to assessors.

The 1972 Governor's Task Force on Education Financing and Property Tax Reform renewed the call for progress toward a single-tier system, endorsed greater state supervision of local assessment practices and proposed that assessment of manufacturing and commercial property be shifted to the state.

The 1976 report of the Commission on State-Local Relations recommended full value assessment, expanded assessor training and county assessment.

Finally, the 1979 report of the Tax Reform Commission again urged full value assessment. The panel proposed that municipalities be required to achieve full market value at least once every four years and that DOR be required to order a reassessment if this is not done.

Several of these reforms have been enacted into law:

- DOR now assesses manufacturing (but not commercial) properties statewide;
- Assessor certification standards were created and additional training has been provided;
- County assessment was authorized (in spite of fiscal incentives that encourage adoption of a county-based system, only Kenosha County has chosen to do so);
- Beginning in 1986, municipalities must bring their assessment ratios within 10% of equalized values at least once every four years; and
- A "full disclosure" law requires local officials to show the assessment ratio on property tax bills.

It is noteworthy that, in spite of these and other law changes, Wisconsin continues to operate a two-tier assessment system.

### D. Profile of Wisconsin's Current Assessment System

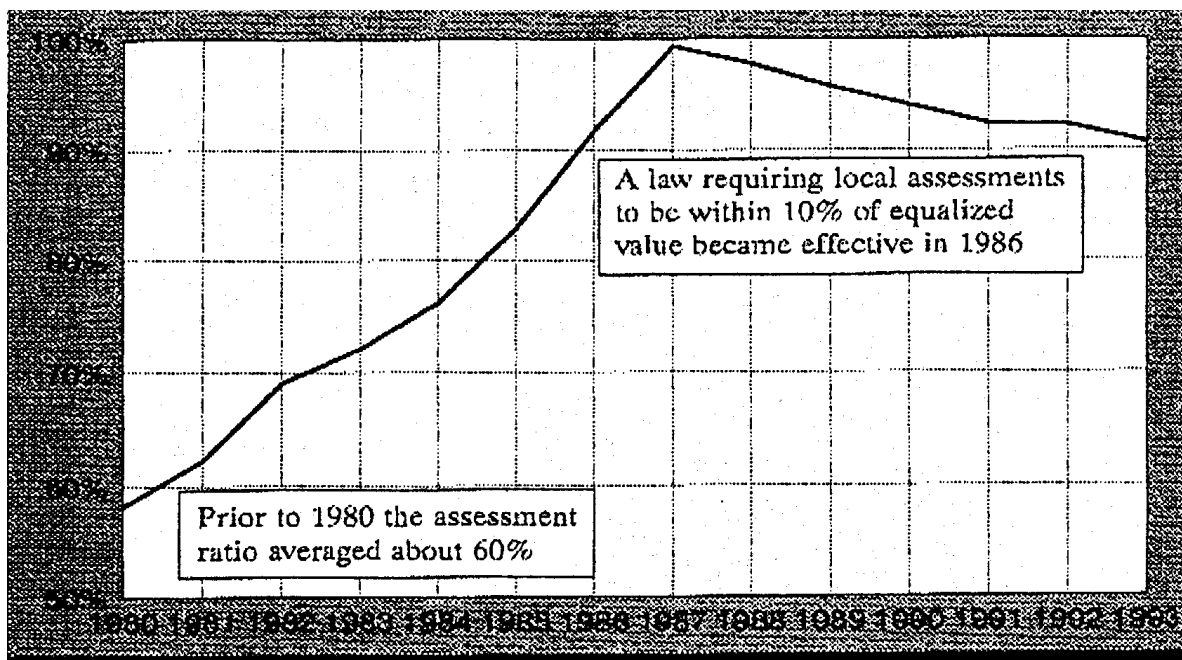
Wisconsin operates a highly decentralized assessment system. There are 565 assessors valuing property in 1,825 towns, villages and cities. The average 1994 salary is \$5,700; the average education of local assessors is 13 years; and the average years of experience is 17. Thirty years ago, there were nearly 1,850 assessors in Wisconsin. Today most assessors serve two or more municipalities and a few serve dozens of jurisdictions. Overall, Wisconsin has 3.2 municipalities per assessor.

Average per-parcel costs are \$3 in towns; \$6 in villages; \$13 in cities and \$22 in Kenosha County.

These expenditure levels can be viewed as either a strong point of the current assessment system in Wisconsin or as one of its major shortcomings. On one hand, expenditures of \$3 to \$13 per parcel appears to be a bargain. But ask yourself this question: If you were considering the purchase of a home and an appraiser offered to estimate its value for \$10, would you be comfortable making an offer to purchase based on that appraisal?

The 1986 law change requiring local governments to be within 10% of equalized values at least once every four years has had a profound impact on assessment ratios, as shown in the following chart:

### Statewide Assessment Ratio



Before 1980, the level of assessment averaged about 60% statewide. In 1987, the ratio reached 99.4% before falling off to 90.6% by 1993. In 1992, 352 municipalities were out of compliance with the law, followed by 105 in 1993 and 119 in 1994. A survey of these municipalities cited budget constraints as the top reason for noncompliance. Municipalities that fail to meet the 10% standard can face a mandatory reassessment overseen by DOR, with all costs charged back to the town, village or city.

Other problems have been noted with Wisconsin's current assessment system. For example, the primary appeal vehicle available to (non-manufacturing) property owners is to quasi-judicial local boards of review (i.e., panels that hear testimony and make determinations based on that testimony). These boards are composed predominantly of local elected officials serving in an ex officio capacity. Very few of them obtain formal training in either board procedures or assessment theory. In addition, DOR often receives local assessment data late, thereby complicating the determination of equalized values.

### **E. Public Input**

Three basic methods were used to collect information and opinions from the public: surveys; public hearings; and letters.

Surveys: The study team designed a three-page survey that was distributed to four groups: organizations (e.g., farm, taxpayer and business groups); individuals; heads of government; and assessors (the assessor survey included a fourth page). The surveys listed a series of statements about property valuation, assessment administration and property assessment policy. Most statements required two responses. The first asked if the respondent agreed or disagreed with the statement. The second asked whether the respondent thought the subject of the statement was being done now. Respondents were also allowed to indicate the issues of greatest concern to them.

For example, respondents were asked to react to the following statement: "Property should be assessed at full market value (100%)." In this case, 91.1% of property owners agreed with the statement, 6.7% disagreed and 2.2% had no opinion. Only 39.6% of property owners said they believe this is being done now, 52.5% believe it is not being done and 7.8% offered no opinion. This statement was also ranked as the most important issue by property owners surveyed. A complete tabulation of survey results is available.

The return rate for the surveys was exceptionally good, with 60% of assessors, 88% of individuals and 46% of heads of government responding. In the case of organizations, more surveys were returned than were distributed because some organizations returned separate responses from more than one officer or member. Overall, 1,495 surveys were tabulated by DOR, including 51 from organizations, 863 from heads of government, 241 from individuals and 340 from assessors.

The following shows responses from all four groups combined. The number following the statement shows the percent who agreed with the statement; where a second number is shown, it refers to the percent of respondents who felt the subject of the statement was being done now. The statements are ranked in order of greatest interest.

## Summary of Survey Results

### *Property Valuation*

1. Property should be assessed at full market value (86%/45%).
2. Assessors should assess similar properties at similar values (95%/59%).
3. Assessors should apply professionally acceptable appraisal practices (96%/57%).
4. Assessors should use recent sales to value unsold properties (73%/52%).
5. Assessors should intentionally over/under assess a particular class (5%/25%).
6. Assessment records should be accurate and current (100%/55%).

### *Assessment Administration*

1. The relationship between property taxes, the level of assessment and equity is commonly understood (7% agree).
2. Assessors should be properly trained so they can meet statutory guidelines (99%).
3. Appeal boards should be properly trained and qualified (92%/16%).
4. The concept of equity between and within classes is understood (17%).
5. Assessors should receive adequate funding (91%/33%).

### *Assessment Policy*

1. The assessment of property should be moved from the local level (17%).
2. Market value should continue to be the standard for property assessment (81%).
3. Current assessment practices are unfair because they are not based on ability to pay (17%).
4. More frequent reassessments are needed to maintain fairness (56%).
5. Exemptions are being fairly and evenly applied throughout the state (16%).

### *Assessor Specific Issues*

1. DOR should provide training for assessors to become any stay certified (85%).
2. The 4-year intra-class equity law should not be shortened to a 3 or 2-year cycle (75%).
3. Volume 2 of the *Wisconsin Property Assessment Manual* should provide adequate cost data (53%).
4. The equalization process is acceptable (59%).
5. DOR should spend more time training boards of review (73%).
6. Training for board of review members should be mandatory (62%).



Public Hearings: Public hearings were conducted in: Eau Claire, Superior, Rhinelander, Madison, Stevens Point, La Crosse, Fond du Lac, Green Bay, Waukesha, Kenosha, Milwaukee and Lancaster. A total of 365 attended the hearings (including 30 from the media, 30 assessors, 15 legislators and 15 local government officials). While a typical hearing drew about 30 people, attendance ranged from as few as five to as many as 80. Study team members found that participants tended to be from municipalities that had experienced recent reassessments. Their testimony was often very critical of the valuations placed on their properties and of the assessment appeal process.

Public statements offered by property owners at the hearings included:

- Assessors are vindictive, incompetent, unfair or inconsistent.
- Boards of review are vindictive, biased, prone to favoritism and overly dependent on advice from assessors.
- Boards of review give inadequate hearing notices.
- Property owners should be allowed to appeal another owner's assessment.
- DOR should provide more assessor and board of review training.
- DOR should move aggressively against bad assessors and intervene more in local assessment problems.
- Mobile homes and waterfront property are over assessed.
- The elderly are being taxed out of their homes.
- Agricultural property pays a disproportionate share of total taxes.
- Everyone complained that taxes are too high

Comments made at the hearing demonstrated that most property owners have only a limited understanding of how Wisconsin's system of classifying property (into residential, commercial, agricultural and other classes) works, the relationship between assessment and tax levies or how state valuation guidelines (i.e., "highest and best use") affect assessed values.

Letters: The study team received several dozen letters during the course of the study. Primary concerns expressed in the letters include:

- 15 letters complained about tax increases due to municipal spending.
- 12 letters reported that individual assessments are unfair.
- 11 letters concluded assessments in general are unfair.
- 11 letters said taxes on the elderly are unfair.
- 8 letters raised general political concerns.
- 6 letters said taxes are unfair for farmers.
- 5 letters cited unfair assessment of waterfront property.
- 4 letters complained that boards of review are unfair.
- 4 letters concluded that there are too many exemptions.

## F. Property Assessment Reform Criteria

In 1963 a federal panel that studies public finance issues (the Advisory Commission on Intergovernmental Relations) proposed a durable framework to analyze options to improve property assessment and tax equity. These criteria were used to develop the recommendations proposed in this report.

<p><b>Legitimacy:</b> Assessment practices should conform to clearly defined legal standards.</p> <p><b>Technical Proficiency:</b> Assessors should have the tools and skills needed to make accurate market value estimates for all properties.</p> <p><b>Openness:</b> Taxpayers should have access to enough information about their individual assessments and the operation of the assessment system to determine if they are being treated fairly.</p> <p><b>Compassion:</b> Relief should be directed to individuals who bear an extraordinary tax burden.</p>
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## *Part Two: Recommendations*

### A. Major Issues

Based on the directive from the Governor and public input, seven key questions have been identified:

1. **Assessment Level:** Should Wisconsin continue to rely on towns, villages and cities as the primary level of government responsible for non-manufacturing property assessments?
2. **Appeals Process:** Should the assessment appeals process be changed?
3. **DOR's Role:** What role should DOR play in monitoring local assessment practices, resolving local assessment disputes, providing technical support to assessors and educating the public about assessments?
4. **Two-Tier System:** Should Wisconsin's two-tier assessment system be modified or replaced by a single tier model?
5. **Exemptions:** Should Wisconsin adopt a more standardized or centralized system for reviewing and granting/denying property exemptions?
6. **Farmland Assessment:** Should Wisconsin change the way farmland is assessed?
7. **Public Education:** What steps can state and local officials take to improve public understanding of property assessments and related issues?

The department's recommendations are organized on the basis of these seven questions.

## 1. Assessment Level

One of the most central issues – perhaps the central issue – of the assessment reform discussion is determining the appropriate level of government at which individual parcels should be valued. Most of the other issues addressed below are linked to the outcome of this question. For example, efforts to minimize the problems associated with a two-tier assessment system are unlikely to be feasible if the primary assessment duties continue to be assigned to 1,800-plus municipalities.

In reviewing the public hearing record and survey results, two relevant observations can be made: First, most property owners and others believe there are significant problems with our current assessment system that must be fixed. Second, most oppose shifting primary assessment responsibilities from the municipal government level to a higher (county or state) level.

Public testimony and letters offered anecdotal evidence of deep dissatisfaction with current assessment practices and the survey tends to support the conclusion that Wisconsin's assessment system is perceived as unfair. Specifically, while 86% of survey respondents believe properties should be assessed at full market value, only 45% believe this is happening now. While 92% agreed that board of review members should be properly trained to fulfill their statutory duties, only 16% believed this is currently being done.

About three-quarters of the assessors and heads of government believe assessors apply professionally acceptable appraisal practices; however less than half of the individuals polled share this belief. Much the same pattern applies to assessment records and assessor training.

In spite of the evidence that individual property owners, in particular, are dissatisfied with the current assessment system, support for shifting assessment to the county or state level is thin. Only 7.5% of assessors and 7.7% of municipal leaders support the idea. Even among property owners, only 33% endorse such a move. Moreover, public testimony in Kenosha County – the only county in Wisconsin operating under a county assessor system – revealed dissatisfaction with assessments there, as in other parts of the state.

Several specific objections have been raised to the county assessor system. One obvious conclusion is that many private companies and individuals who offer assessment services would be put out of business. A second concern is costs. The median per parcel cost for Kenosha County's assessment program is \$22; far above the statewide average for cities of \$13 (let alone the \$6 median in villages and \$3 in towns). While these expenses are consistent with costs in larger cities (which range from \$10 to \$30 per parcel), it is likely that statewide costs would be higher if all assessments were moved to the county level.

Another area of concern with county assessment is the consequent erosion of local control, which is a fundamental concern for many municipal officials in Wisconsin. Many property owners want to keep basic governmental functions like property assessment as close to home as possible, both in the interest of accessibility and in terms of keeping a check on what government is doing. These reservations would undoubtedly be greater if a proposal were made to shift all assessment functions to the state.

In short, moving basic assessment responsibilities from the municipal level to the county or state level is not a politically popular option. Yet the technical case for an assessment system with a dramatically smaller number of responsible units is compelling. Currently, any effort to reform either assessment practices or the appeals process will be complicated by the fact that the reforms would have to be implemented by over 1,800 separate governmental bodies. Reducing the number of assessment districts would simplify the goal of achieving greater uniformity in assessment practices, thereby promoting **technical proficiency**. For example, larger assessment staffs would allow specialization (i.e., special skills or knowledge about different classes of property).

Reducing the number of assessment districts would allow more effective oversight by DOR. In spite of the support for local control, DOR officials also heard strong pleas for more aggressive state supervision of assessment offices.

Moving to a county-level system, in particular, would also permit more effective coordination with other county officers, including general property listers and others involved in land record management. Whether in the form of county assessment or some other configuration, the strongest argument in favor of an assessment system with significantly fewer responsible units is that it increases the potential to improve **legitimacy** by consistently applying more rigorous assessment standards. In other words, major structural change is a prerequisite for most other reform goals discussed below.

In the final analysis, Wisconsin will have to make a choice between a relatively low-cost, higher decentralized assessment system or a higher cost, and more centralized model. We can't have it both ways.

**Recommendation #1: Responsibility for the assessment of non-manufacturing property should be shifted from the municipal level to the county or multi-jurisdictional level. The goal should be to have the smallest feasible number of assessment districts in the state.**

While a county-based system is the most technically appealing alternative, other combinations should be considered. These include county assessment with optional participation by cities that meet either size or assessment performance criteria; and assessment districts that would serve adjacent municipalities.

## 2. Appeal Process

The taxpayers' right to appeal property assessments is fundamental both to **openness** and the perception of **legitimacy**. Currently, the first (and, in most cases, last) appeal step is to the local board of review. Boards of review function as quasi-judicial bodies that hear sworn, oral testimony from property owners and assessors. Board members must determine, on the basis of that testimony, whether to sustain or adjust the assessor's valuation.

While property owners can appeal board of review determinations to DOR to circuit court, these steps involve additional expenses and effort. Thus, for most property owners, a productive, candid and fair meeting with the local board of review is critical to their understanding of their assessment and their perception of assessment fairness.

Over 8,000 municipal officials and public members currently serve on boards of review. Few of them either sought the job or understand the responsibilities it entails. Evidence of the problems this situation cause go beyond the complaints heard as part of this study (see pages 6 and 7); the courts have sent many cases back to boards of review due to procedural errors.

Adding to the problem is the evolving nature of assessment practices and case law. For example, boards of review may be the first appellate body to hear arguments involving complex commercial valuation issues. These and other factors argue in favor of far fewer, but better trained boards of review.

**Recommendation #2: Replace municipal boards of review with boards operated at either the county or multi-jurisdictional level and provide training and other technical support to members. Allow large cities with public member boards who meet minimum standards the option of retaining municipal boards of review.**

One way this could be accomplished is through county-level (or assessment district-level) boards of review modeled after the system in place in Kenosha County (which includes provisions designed to assure representation from all parts of the county). This would be a natural consequence of adopting county or district assessment structure – but it is worth pursuing even if a comprehensive reform of the assessment system proves unachievable.

Another strategy is to shift original jurisdiction over relatively large or complex assessment appeals to a statewide panel. This would reduce the complexity and workload for local boards of review, but does not address the underlying competence of board members to determine routine appeals appropriately.

A direct response to this underlying issue would be to provide more training and technical support to board members (up to possible certification requirements). One potential problem with this approach is that many board of review members may not have the time or motivation to achieve a higher level of proficiency.

Larger Wisconsin cities utilize a board of assessment, a separate body from the board of review, to resolve relatively simple or non-controversial assessment problems, thereby reducing the board of review's workload. In addition to any changes directly affecting boards of review, county or multi-jurisdictional boards of assessment should be considered.

### 3. DOR's Role

Comments made during public hearings and in letters to the study team highlighted public and local assessor interest in expanding DOR's role. Specifically, comments supported:

- More aggressive state efforts to address perceived problems with local assessment practices to ensure the **legitimacy** of assessment practices;
- Expansion and more frequent updating of assessment manuals to improve the **technical proficiency** of assessment personnel;
- Increased DOR involvement in assessor and board of review member education activities to promote both **legitimacy** and **technical proficiency**.

Local officials and assessors called for more detailed state guidelines for assessment practices, which would improve the **technical proficiency** of assessment and board of review personnel.

Many letters and public hearing comments focused on the perceived shortcomings of assessors and boards of review. While it was not possible to establish the validity of specific complaints, the general conclusion that the public lacks adequate confidence in the assessment/appeal system is unavoidable. This is reinforced by survey results showing that less than 40% of the property owners surveyed believe assessors are currently applying professionally acceptable appraisal standards and more than half believe assessment records are out of date or inaccurate.

Assessors themselves perceive problems in such areas as access to training, availability of current cost data and the performance of boards of review. Nearly 98% of assessors who responded to the DOR survey agreed that state guidelines for assessors should be adequately defined, yet only 58% feel this is being done now. Eighty-five percent endorsed DOR assessor training and 73% said DOR should spend more time training members of boards of review. More than half feel that the *Wisconsin Property Assessment Manual*, published by DOR, fails to provide adequate cost data for assessments.

**Recommendation #3: DOR should:**

(a) **As resources permit, act under ss. 73.03 and 73.06 Wisc. Stats, to “audit” local assessment practices when property owners file complaints of serious assessment issues. These audits would be advisory only.**

(b) **Constantly update the *Wisconsin Property Assessment Manual* to reflect current cost data, as well as changes affecting professionally acceptable property valuation and assessment administration practices.**

(c) **DOR should sponsor expanded training for assessors and board of review members, including development and distribution of a comprehensive guide for boards of review.**

While assessment audits may result in strained relations in a few instances, the intent of these recommendations is to build a stronger partnership between local assessors and state personnel. In effect, DOR would treat assessors and board of review members as “customers” who work with the department to improve the perceived **legitimacy** and the **technical competency** of the property assessment system.

#### **4. Two-Tier System**

The record clearly establishes the fact that Wisconsin assessors do not assess property at a uniform percentage of market value. This requires the operation of a second assessment tier in order to produce "equalized" values that can be used to fairly distribute property tax levies and major state aids.

Informed discussions about this issue are difficult to achieve because most observers agree that the concepts underlying the two-tier assessment system are not well understood. This raises substantial issues regarding the **openness** of Wisconsin’s assessment system. Specifically, if taxpayers do not understand the basic workings of the property assessment system, how can they determine if they are being treated fairly?

The fact that local assessors are unable to maintain assessments at full market value on an ongoing basis also raises questions about the **technical proficiency** of Wisconsin’s current assessment system. Even assuming that virtually all assessors are professionally competent, the minimal per parcel expenditures made by most municipalities suggests that assessment personnel are unlikely to have access to the tools they need to maintain assessments at full market value.

Three alternative strategies are available to address this situation: (1) a universal single-value system in which DOR and local officials would collaborate in the development of assessment rolls; (2) a voluntary single-value system in which DOR would have some oversight powers; and (3) a single-tier system for large assessment districts (e.g., cites, counties or joint assessment districts) and continuation of the two-tier system elsewhere in the state.

Under the first alternative, DOR would develop economic adjustment factors by class for each municipality by April 1 of each year. These factors would then be used by local assessors to develop individual assessments and, ultimately, the assessment roll. If the locally-determined amounts are within 5% of the values established by DOR, the local assessed values would be adopted as the jurisdiction's equalized value as well. If this tolerance is exceeded, state-determined values would be used and the assessment district would be ordered to come into compliance the following year. If this does not occur, a state-ordered and supervised reassessment would be required in the subsequent year.

This approach would retain state-level oversight to ensure uniformity, but would result in many assessment jurisdictions with identical assessed and equalized values. This, in turn, simplifies taxpayer understanding of their assessment and its relationship to values placed on similar properties. It would require changes in reporting deadlines and will increase costs at both the assessment district and state levels.

The second alternative would permit assessment districts to submit their assessment methods to DOR for review. If approved and if values were within 5% of the value determined by DOR, based on a review of sales data, the department would accept the assessed value as the equalized value. The department would also provide support to assist in the development and maintenance of values. As with the first alternative, many jurisdictions would have a single assessed/equalized value.

The third strategy is to work with larger assessment districts to implement an approach similar to that outlined under alternative two. By restricting the plan to larger units, two goals would be advanced. First, a single-tier assessment system could be created for a substantial percentage of state property owners. Second, creation of multi-jurisdictional assessment districts would be encouraged.

**Recommendation #4: Replace the two-tier assessment system with a single-tier approach to the greatest extent possible.**

While the first alternative is the preferred approach, any of the three strategies would improve **openness** to the extent that Wisconsin property owners are given more comprehensible information about what their assessment really means.

## **5. Exemptions**

The survey revealed widespread uncertainty regarding the fairness of current tax exemption procedures. Only 22% of assessors and 17% of property owners said they felt property tax exemptions are being fairly and uniformly applied. Assessors report that it is sometimes difficult to determine if a given property qualifies under one of the statute's 24 types of general property exemptions, raising issues of **technical proficiency**. Taxpayer's perceptions of **legitimacy** is clearly influenced by the apparent fairness of exemptions.



One way to improve both the assessors' capacity to make determinations and public perceptions of fair treatment is to retain the exemption determination responsibility at the assessment district level but to create a standard, statewide exemption application process and criteria. DOR would monitor the exemption process to promote assessor understanding of the procedures, thereby improving consistency.

A second alternative is to require property owners seeking exempt status to apply to DOR to obtain an exemption. DOR would then use consistent standards to determine which property owners qualify. The department would inform both property owners and local assessors of these determinations.

**Recommendation #5: DOR should develop consistent property tax exemption criteria and a standardized process for local determination of eligibility. DOR would review locally determined exemptions for compliance with these guidelines.**

This approach improves fairness and provides assessors with new tools. If local determination still does not yield consistent treatment these decisions could be moved to the state level.

## **6. Farmland Assessment**

One of the most persistent concerns raised about the state's assessment system is the impact it has on the economic viability of farming. On the urban fringe, in particular, previous analysis has shown that property taxes often consume 50% to 100% of the rental value of farmland, thereby encouraging the conversion of farmland to some other use and raising the issue of **compassion** (i.e., granting relief to individuals who bear an extraordinary tax burden).

A 1974 amendment to the Wisconsin Constitution authorizes the non-uniform assessment of agricultural land. To date, legislation creating a farmland preservation tax credit has been enacted, but farmland continues to be assessed in the same manner as all other property. The concept of "use value" assessment addresses this concern by linking farmland assessments to the farm income it is capable of generating, rather than to the value of the land if sold and converted to non-agricultural use.

**Recommendation #6: Adopt use value assessment of farmland.**

The preferred method is set forth in DOR's October, 1993 report. It is a non-voluntary system that defines agricultural uses, imposes a minimum 35 acre size, calls for a farmland advisory committee to help promulgate standards and the use of the "income approach" to value qualifying farmland. Other approaches include development of a ratio to lower market value assessments of qualifying farmland to a use-value level or creating "agricultural districts" within which values are based on farmer-to-farmer land sales.

## 7. Public Education

The public hearings and surveys clearly documented the fact that property owners have little or no understanding of Wisconsin's property assessment and tax levying system. This is not a criticism of either the public or the local officials who administer the system. Rather, it is a signal for more concerted efforts to both simplify and better explain the system.

Earlier recommendations (especially those dealing with the level of assessment and movement toward a single-tier assessment) proposed strategies to simplify the system. Several other steps could be taken to reduce complexity. For example, the assessment of personal property currently consumes an estimated 20% of a typical assessor's time, although it generates only 5% of net taxes. Personal property could be removed from local assessment rolls and made subject to uniform fees. This would allow assessors to spend more time discussing assessment issues with property owners.

Efforts could also be directed at changing features of the assessment system in ways that help clarify the status of certain properties, without affecting their actual valuation. For example, a recreational land classification could be created to help property owners better understand how recreational properties are assessed.

Yet the greatest priority is to provide property owners with clear, pertinent information about assessment practices, appeal rights and the overall operation of Wisconsin's property tax system. This should include an improved guidebook for property owners, annual public informational materials distributed by assessment districts and through the media, and better education for public officials so they can respond more effectively to questions and complaints.

**Recommendation #7: DOR and local assessors should collaborate on an ongoing basis to better educate public officials and property owners about the operation of the assessment system in particular and the property tax in general.**

## *Part Three: Conclusion*

Wisconsin's current property assessment system can be characterized as follows:

- It is a two-tier system, resulting in duplication of effort and widespread confusion;
- Wisconsin has a highly decentralized assessment system with over 1,800 assessment districts served by 565 assessors;
- Property owners are skeptical about the fairness of assessments and exemptions;
- The appeals process is uneven and perceived as unfair;
- Farmers believe that the current method of assessing farmland places an inequitable tax burden on many farmers; and
- The assessment system itself, and its role in the larger property tax/state aid framework, is poorly understood.

The proposed recommendations would result in an assessment system that could be characterized as follows:

- A modified two-tier system that blends local assessed and state equalized values, while retaining local control;
- A more centralized system with fewer assessment districts, resulting in more uniform practices and more efficient training/oversight by DOR;
- Fewer and better trained boards of review;
- Use value assessment of qualifying farmland; and
- A simplified system, together with state and local public information efforts, resulting in improved public understanding of how property is valued and how those values can be appealed.

While it would be possible to implement some, but not all, of these recommendations, they are designed to work together to promote the goals of legitimacy, technical proficiency, openness and compassion.

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