



## Legislative Fiscal Bureau

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November 18, 2020

TO: Members  
Wisconsin Legislature

FROM: Bob Lang, Director

SUBJECT: Change in Basis For Estimation of the Statewide Median Home Value

This memorandum provides information on a change in the methodology used by this office in estimating the statewide median value home in Wisconsin and on the estimated tax bill on that home.

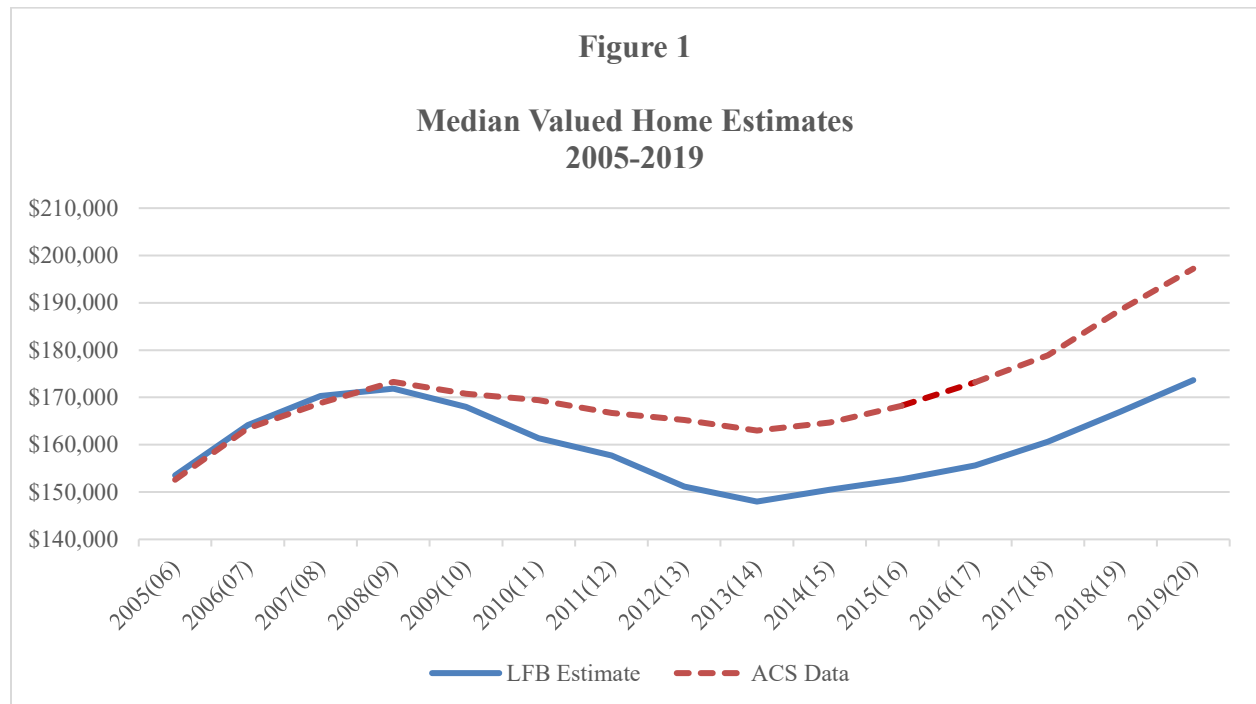
### **Change in Base Year for Median Value Home Estimate**

At the beginning of the biennial budget process, this office provides an estimate of the statewide median value of a home in Wisconsin, as well as the property tax bill associated with that home value for the current property tax year and the two subsequent years. These estimated home values have then been used throughout the remainder of budget deliberations. Property tax levies are adjusted for the two subsequent property tax years to reflect the policy decisions impacting levies for those years that are made during the budget process. This office's median home value had been primarily estimated by adjusting the prior year home value estimate by the average annual change in residential values, as certified by the Department of Revenue. In past practice, the base year on which this estimate was produced was the Wisconsin median home value reported in the 2000, decennial U.S. Census. Beginning with the 2021-23 budget, the base year for this estimate will be the most recent estimate of the statewide median value home derived by the U.S. Census Bureau.

At the time of the 2000 decennial census, the U.S. Census Bureau did not provide statewide median value home estimates beyond the decennial census estimates. Since 2005, the U.S. Census Bureau has been conducting an annual American Community Survey (ACS), in which the Census Bureau derives an annual statewide median value home. Going forward, this office will begin to use the ACS annual estimate produced by the US Census Bureau as the base year for any statewide estimate. This change in methodology will produce a more up-to-date estimate of the median home value in Wisconsin. The ACS statewide median value home estimates are released in May of each year for the previous calendar year. For example, the most recent estimate available is for calendar year 2019, while the median home value estimate for 2020 will be released in May, 2021. Therefore,

after the Governor's budget introduction, using the 2019 ACS Wisconsin median value home as our base value, this office will provide estimates of the median home value for the 2020(21), 2021(22) and 2022(23) property tax years. This analysis also looks at the relationship between value changes in the residential class of property compared to other property classes, due to the potential for property taxes to shift among classes of property based on the relative value growth in each class. In order to derive the estimated tax bill on a median value home, estimates of property tax levies under the Governor's budget recommendations will also be provided. Once the biennial budget is enacted, using these same statewide median home value estimates, the tax bill estimate on the statewide median value home will be updated to reflect any legislative actions that impacted property tax levies.

The primary reason for making this change in methodology is that the statewide median home value estimate produced by this office has diverged from the home values reported by the U.S. Census Bureau over the past ten years. Figure 1 below shows that while the two estimates were initially very similar, they began to diverge in 2008(09), and have continued to diverge since that time. The Census figures are based on the results of a survey that is administered annually, which is likely more reflective of the new and existing housing stock in the state. Moreover, because the base year for this office's ongoing estimate had been the median home value derived in the 2000 decennial census, there is a concern that the divergence between our estimate and the annual values reported by the Census Bureau is likely to persist, and could increase, over time.



Among the most significant reasons for the divergence between the two measures shown in the graph is that the estimates produced by this office have likely undervalued newly-constructed homes. New construction tends to be higher in value than the existing home stock. While the pace

of new home construction declined somewhat during the Great Recession and its aftermath, it has consistently increased following the recovery. Moreover, according to the ACS, since 2012, the change in the value of newly-constructed homes has outpaced the change in the statewide median value for all homes. Fully accounting for the value of newly-constructed homes results in higher statewide median home values.

### Property Taxes on Median Value Home Using ACS Base Year Methodology

Given the decision to use updates to the annual median value home estimate to reflect the current year ACS estimate, prior year statewide median home value estimates and tax bills have also been recast to reflect this change in methodology. Table 1 shows the statewide median home value in Wisconsin, as reported by the US Census Bureau, for years 2010-2019, along with the gross and net property tax bills associated with that home value. In addition, the rate of taxation (expressed as a mill rate, or taxes per \$1,000 in value) is shown for both gross and net taxes.

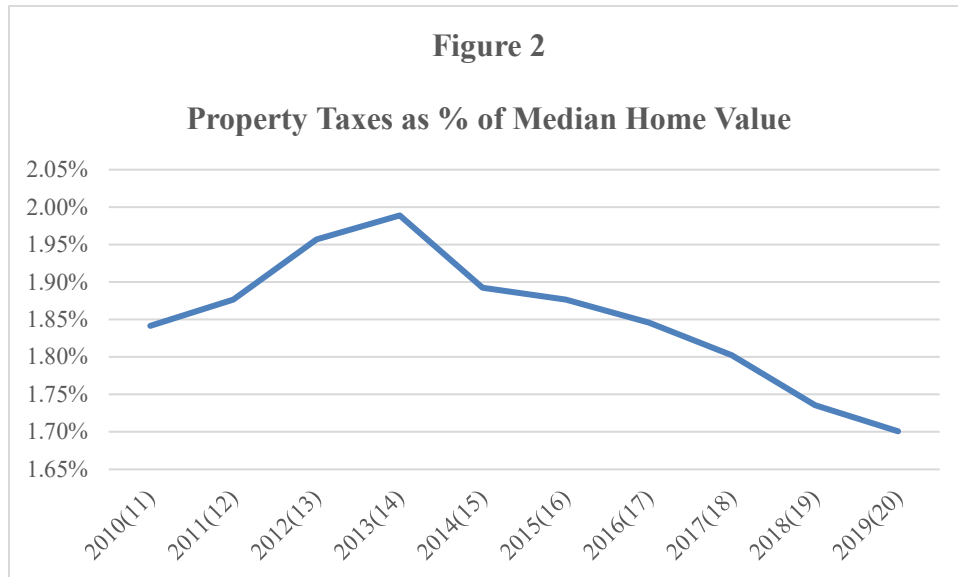
**Table 1**

#### Estimate of Property Tax Bill on Statewide Median Valued Home

	2010(11)	2011(12)	2012(13)	2013(14)	2014(15)	2015(16)	2016(17)	2017(18)	2018(19)	2019(20)
Median Home Value	\$169,400	\$166,700	\$165,200	\$163,000	\$164,700	\$168,300	\$173,200	\$178,900	\$188,500	\$197,200
Change Over Prior Year		-2,700	-1,500	-2,200	1,700	3,600	4,900	5,700	9,600	8,700
		-1.59%	-0.90%	-1.33%	1.04%	2.19%	2.91%	3.29%	5.37%	4.62%
Gross Tax Bill	\$3,527	\$3,540	\$3,656	\$3,682	\$3,554	\$3,625	\$3,681	\$3,726	\$3,820	\$3,923
Change Over Prior Year		13	116	26	-128	71	56	45	94	103
		0.37%	3.28%	0.71%	-3.48%	2.00%	1.54%	1.22%	2.52%	2.70%
Gross Tax Per \$1,000 in Value	\$20.82	\$21.24	\$22.13	\$22.59	\$21.58	\$21.54	\$21.25	\$20.83	\$20.27	\$19.89
Change Over Prior Year		1.99%	4.21%	2.07%	-4.47%	-0.18%	-1.33%	-2.00%	-2.70%	-1.83%
Net Tax Bill	\$3,120	\$3,128	\$3,233	\$3,242	\$3,117	\$3,158	\$3,197	\$3,224	\$3,272	\$3,354
Change Over Prior Year		8	105	9	-125	41	39	27	48	82
		0.26%	3.36%	0.28%	-3.86%	1.32%	1.23%	0.84%	1.49%	2.51%
Net Tax Per \$1,000 in Value	\$18.42	\$18.76	\$19.57	\$19.89	\$18.93	\$18.76	\$18.46	\$18.02	\$17.36	\$17.01
Change Over Prior Year		1.88%	4.30%	1.63%	-4.85%	-0.85%	-1.63%	-2.37%	-3.68%	-2.02%

Table 1 shows that the median home value dropped from 2010(11) through 2013(14), likely due to the continued effects of the Great Recession and the decline in the housing market. Subsequently, housing prices began to recover in 2014, and have steadily increased since that time. This is consistent with trends in the broader economy and housing market. While both gross and net tax bills have increased during this same period, the growth in net tax bills has been much slower than the growth in gross tax bills. This difference can be attributed to increased funding for state property tax credits (the school levy tax credit, the first dollar credit, and the lottery and gaming credit).

Table 1 also shows that net tax rates increased until 2013, at which point they began to decrease when the growth in the median value home outpaced the growth in the estimated net property tax bill. This is shown in Figure 2 below, which indicates the net amount of property tax, as a percentage of the total median valued home, over the same period as indicated in Table 1. As shown in the figure below, the net amount of property tax paid is a smaller percentage of the home value in every year since 2014. The drop in net tax rates can likely be attributed to a combination of state funding for property tax credits, the 2014(15) funding for the technical college system, which offset the property tax levy, and statutory fiscal controls on local governments. This same phenomenon was occurring under this office's prior methodology.



The rise in housing values between 2010 and 2019 can be attributed primarily to strong economic growth during this time period, particularly as the economy recovered from the housing crisis associated with the Great Recession. Wisconsin also experienced growth in new housing construction, in response to increased demand for housing. As new construction tends to be more highly valued than existing home stock, this further accelerated the increase in median home values in Wisconsin.

To date, Wisconsin's housing market appears to have remained largely unaffected by the COVID-19 pandemic. Low interest rates and the increasing prevalence of remote working have sustained strong demand for housing, and the Wisconsin Realtors Association has reported record home sales from July through October, relative to the same month in the previous year. However, net new residential construction has slowed during the pandemic, which has limited the supply of available homes. While this has kept sales prices relatively high in the short term, slower rates of new construction could negatively affect the housing market in the future. Moreover, because the total economic impact of the COVID-19 pandemic is not fully known, how the pandemic will affect the future of the state's housing market compared to the rates of rise in home values observed between 2014 and 2019 is not yet known.