

Frequently Asked Questions: New Construction, Assessed Value, and Taxation

1. With so much construction happening in Madison, our levy must be increasing at a rapid rate. There are cranes everywhere. Why would we need to increase it more?

Since 2011, the state legislature has limited Madison's levy increases to what it calls "net new construction." Net new construction is the amount of new construction that occurred within the municipality in the prior year less the value of any demolition. This net amount is divided by the prior year's total equalized value¹ (which is derived by the Department of Revenue) to determine the allowable percentage to apply in increase to the levy. This percentage, along with any increase that may result from closing tax incremental financing (TIF) districts, determines the levy limit before adjustment.

The following lists the equalized value, net new construction, and percentage increase for the prior five years. Of note, the largest percentage increase for the levy was in 2022 at 2.37%. As you can see from the chart below, this increase does not keep pace with the growth of Madison in terms of costs and service delivery. For reference, the consumer price index inflation rates are provided.

Year	Equalized Value	Net New Construction	% Increase to Levy	Inflation Rate
2023	\$39,024,059,200	\$864,933,400	2.22%	3.4%
2022	\$32,940,368,400	\$780,438,600	2.37%	6.5%
2021	\$33,036,794,000	\$508,251,200	1.54%	7%
2020	\$30,910,698,000	\$614,695,800	1.99%	1.4%
2019	\$28,727,407,800	\$641,177,800	2.23%	1.6%

2. Doesn't an increase in my assessment mean that more money is available for the City budget?

First, it is important to note that when taxpayers receive their property tax bill in the mail, the City's portion of the tax bill is only around 35%. The rest of the bill goes to other taxing jurisdictions including the Madison Public Schools, Dane County, and the Madison Area Technical College.

The levy (municipal budgetary authority) is generally only increased via net new construction and/or a referendum. Increased assessments do not increase budgetary authority. Assessments do determine the tax rate and what proportion of the levy a property pays.

Each year the governing bodies of the various taxing entities, including the City, look at how much property tax the state will allow them to collect (which, as explained above, is much less than the

¹ The state of Wisconsin equalizes values across municipalities in an effort to make them uniform in all jurisdictions. Department of Revenue's equalization process draws on sales analyses, property appraisals, local reports, and other factors to calculate the full market value of the property in each community. Please see interactive information from DOR here: <https://www.revenue.wi.gov/Pages/SLF/EqualizedValue.aspx>.

growth in service expenses), and propose budgets for the next year. To determine the amount they can spend on services, they total all expected sources of revenue such as state aids and shared taxes, license fees, and tuition. The total amount to be collected through property taxes, which is called the "tax levy" is determined by the state via the net new construction formula outlined above. The levy is then raised by multiplying the value of all the property in the City by a percentage, called the tax rate. The rate is the same for all property owners. When this tax rate is applied to the value of all the taxable property in the City, it will total the exact amount of money the state levy limits will allow the City to spend on services.

The tax rate is calculated by simply dividing the amount of taxes allowed by the total assessed value of all taxable property in the City.

$$\text{Tax Rate} = \text{Levy} \div \text{Total Assessed Value}$$

Once the rate is set, the assessed value of your property is used to determine the portion of the levy your property contributes. The tax rate when multiplied by the assessed value of the property, equals what is owed in taxes -- the tax bill. The tax rate is often expressed in terms of dollars per thousand, or as a "mill rate."

Generally, if the assessed value of a property increases, the taxes for that property do not increase at the same dollar amount. Assessments are supposed to be revenue neutral, so an increase in assessment does not necessarily correspond to an increase in taxes. The growth in tax collections for local taxing jurisdictions is expected to be much lower than the increase in property values. Overall, higher values will result in a lower tax rate, while state aid and tax credits will also influence property taxes.

Because of this, the City tax rate – or mill rate – has actually decreased over the past few years. So if a taxpayer's property tax has increased, it is likely because that property's value has increased relative to those of other local property owners.

As an example of how value and taxes differ, the value of the average home increased by 6.4% in 2021 over 2020 (from \$315,200 to \$335,200), while taxes on the average home (before state tax credits are applied) increased by 1.9% (from \$7,641 to \$7,817). After applying state tax credits, the change was just 0.12% (the lottery credit increased by 57% between 2020 and 2021).

3. What will an increased levy do to my taxes?

An increased levy means that the City has more budget to apply to municipal needs. State law only allows for a dollar amount increase to the levy. If this occurs, that increased dollar amount will be applied to property taxes. In other words, the increased budget will be filled by property taxes. There are approximately 80,000 taxable parcels in the City. This means that each parcel would see an increase in taxes proportional to the value of the property. For example, on average...commercial property owners will pay more in taxes because their property value is higher, while residential owners will pay less as their property values are lower.