

# Analyze This!

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AFSCME Wisconsin Council 40  
8033 Excelsior Drive, Suite B  
Madison, WI 53717-2900  
Phone: 608.836.4040  
Fax: 608.836.4444

## THE PROPERTY TAX MYTH: WHAT ARE THE REAL SAVINGS?

As discussed in last month's newsletter, public sector bargaining units (and private sector units for that matter) are and will continue to face difficult contract negotiations due to the economic stress many Wisconsin municipalities are facing. Employers are beginning bargains with discussions about budget holes and revenue shortfalls. Unions are countering with questions about taxing and maximizing new revenue sources.

By focusing on increasing revenue, public sector unions have come under attack. Newspaper headlines claim that public sector unions bleed taxpayers and politicians refer to the union as a pariah or a parasite. In scapegoating public sector unions as the reason for the rising cost of providing government services, city and county administrators and elected board members are promising spending cuts and tax reductions. But how much are they really saving the average homeowner by not raising property taxes to the maximum allowed? Moreover, what are residents having to give up for that savings on their property tax bill? The answers to these questions are the focus of this month's *Analyze This!*

### THE PROPERTY TAX

The single most important revenue source for most local governments is the property tax. It can average anywhere from 30 to 65 percent of revenue for a jurisdiction. Further, the property tax is the most stable and reliable revenue source for municipalities. It is for these reasons that it is given so much attention.

Right now there are statutory restrictions which limit the increase in the amount of property tax revenue a municipality can raise. The amount of revenue generated is restricted to a 3 percent increase or the amount of net new construction. This limited amount can be adjusted upward to account for debt service, transfers of services, and referendums.

We are seeing more and more local governments not raising property tax revenue to their maximum capacity, reasoning that they want to put money back into homeowners' pockets. At the same time, bargaining units are being asked to take furlough days and wage freezes to help make up for budget holes and revenue shortfalls. How much more would the average tax payer have to contribute to prevent furloughs, layoffs, cuts in services and significant cuts in pay for public employees? The answer in most cases is not much. Below are two recent examples to help illustrate the point.

### THE VILLAGE

Recently a Village Board in southeastern Wisconsin was presented with a balanced budget by the Village Administrator. The budget provided for a property tax increase to the maximum allowable. In turn, the budget maintained the current level of Village services, allowed for a pay increase for all Village employees, and provided for the purchase of new equipment. This budget was soundly rejected by the Board and the Village Administrator was ordered to revise the budget so that there was no increase in the property tax levy. In order to meet the instructions of the Board, a wage freeze was asked of the union. When the budget was finally approved, a minimal tax increase was included to allow for spending on supplies and equipment. Because of a collective bargaining agreement already in



**THE VILLAGE (Continued)**

place, union employees did receive a modest wage increase. However, to makeup for this wage increase, the Village implemented a significant number of furlough days. So many days that the wage increase plus an additional sum of money was subtracted from the earning of employees in 2010. Furthermore, a number of employees were also laid off.

The difference in property tax revenue between what the Village budgeted and what was allowable was significant. As the table clearly shows, the Village reduced its revenue capacity by over \$300,000. In turn, the Village saved homeowners \$0.14 per \$1000 of assessed value.

	Property Tax Revenue	Tax Rate (per \$1000 of assessed value)	Change in Levy Revenue 2009-10
Budgeted	\$10,473,293	4.573	\$338,617
Allowable	\$10,900,288	4.716	\$665,612
Difference	<b>(\$326,995)</b>	<b>0.143</b>	<b>(\$326,995)</b>

What was the total savings for a homeowner? About \$40! In exchange for this savings, employees lost anywhere from \$1,500 to \$2,500 in wages because of the furlough days. Others lost their jobs because of budget cuts. Clearly the sacrifice of the employees was unbalanced given a \$40 increase in the property tax bill would have maintained public services and secured a fair wage increase.

Home Value	Increase in 2010 Village Taxes	Increase in 2010 Village Taxes	Difference
\$150,000	\$13.38	\$34.79	\$21.41
\$250,000	\$22.29	\$57.99	\$35.70
\$300,000	\$26.75	\$69.59	\$42.84
\$400,000	\$35.67	\$92.78	\$57.11

**THE COUNTY**

An extremely conservative Administrator of a county in northeastern Wisconsin has been committed to reducing property taxes for county residents. Year after year the County chose not to increase property tax revenue to the allowable limit. Consequently, over a three year period, the County lost over \$2.1 million dollars in potential revenue.

By 2009 the County was facing significant budget shortfalls, mostly attributed to higher than expected expenditures in the Human Services Department. In response to the budget shortfall, the Administrator laid off 25 employees in the Highway Department and 22 employees in the Human Services Department. What would have been the impact on the taxpayer if the County had taxed to the maximum in 2007, 2008 and 2009? For the average homeowner, about \$0.11 per day.

	County Tax Bill	Potential Tax Bill with Max Property Tax Increase	Difference	Difference Per Month	Difference Per Day
2007	\$856.61	\$863.61	\$7.00	\$0.58	\$0.02
2008	\$833.46	\$853.34	\$19.88	\$1.66	\$0.05
2009	\$812.97	\$912.62	\$99.65	\$8.30	\$0.27
Total	\$2503.04	\$2629.57	\$126.53	\$3.51	\$0.11

The significant cuts in the number of workers raised public safety concerns, from the ability of the County to effectively keep roads safe during severe snow storms to having a sufficient number of workers answering emergency phone calls. Because of the number of cuts in the Human Services Department, caseloads of workers became larger and wait lists for services have likely become longer.

Eleven cents per day is a small price to pay to ensure that quality services continue to be provided. These public services meet the needs of all community residents. They make the County a desirable place to both live and for business to start and grow. Next time an Administrator or Board Member promises property tax savings do the math. What will the real savings be and at what cost- in terms of cuts in services, delays in projects and reduced staffing levels. Is it worth it?