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(Revised)

Challenging Trends Facing Housing in La Crosse



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Introduction:

The intent of this report is to factually illustrate the City of La Crosse’s residential tax base. Through comparisons with similar sized Wisconsin communities, as well as the urban La Crosse County municipalities, this report will illustrate the low assessed value of tax base within the City’s residential housing stock. This report will also review the breakdown of the total housing units in the City of La Crosse, and why this current mix is erosive to the tax base. The ultimate purpose of the report is to illustrate the challenging trends facing the City of La Crosse’s housing stock and its relationship to the overall tax base, while suggesting that housing redevelopment is economic development for municipalities such as La Crosse.

The City of La Crosse’s Tax Base:

Economic Development is the umbrella activity that consists of a multi-faceted approach to improving the quality of life within a community. Whether this is done via industrial revenue bonds, TIF, CDBG, public infrastructure projects, or some combination, economic development programs typically focus on the commercial and industrial sectors of the property tax revenue stream. These two sectors are usually considered net gains for a community in that, although they cost money upfront, they generally provide more tax base than they require in services (local government expenses). In addition, development in these sectors is anticipated to facilitate additional development that will ultimately help define the local community.

Housing is not traditionally considered economic development, and is separated from the economic development component in State of Wisconsin Comprehensive Planning Law. However, residential housing most often represents the largest tax revenue source of a municipality because it represents the largest percentage of the municipality’s total assessed value. Most cities have four main tax base components: Residential (triplex’s and smaller, multi-family and commercial facilities such as retail stores, service businesses, etc), Industrial/ Manufacturing (i.e. light and heavy manufacturing) and personal property (for commercial and industrial businesses this often includes the machinery within a building). Other tax base components such as agricultural and forestry make up less than 1% of the total assessed value within most Wisconsin cities.

When considering the four tax base components as a percentage of the total tax assessment value, we get an idea of how much tax base we have in each tax base sector of a City.

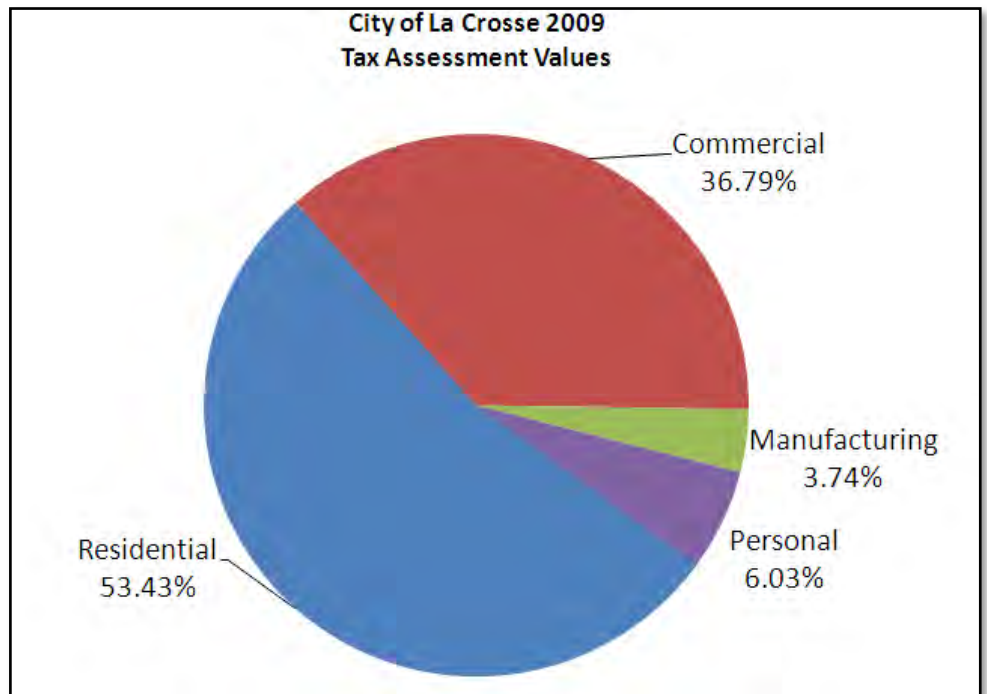


Figure 1
(Assessed values from DOR Statement of Assessments)

For the City of La Crosse, this equates to the following breakdown (**Figure 1**).

As a result, 53% of the City of La Crosse’s assessed value is in its housing stock, 37% of the City of La Crosse’s assessed value is in its commercial tax base, with 4% in manufacturing and 6% as taxable personal property.

Gaining Perspective

To better understand the impacts and effects of this breakdown, assessed values will be compared between the City of La Crosse and two differing groups of municipalities:

- The City of La Crosse as compared to other State of Wisconsin municipalities with populations of approximately 50,000
- The City of La Crosse as compared with other La Crosse County municipalities

These comparisons help put the issues facing La Crosse into perspective, as they illustrate how the City compares with other municipalities. Through the similar sized municipal group – these comparisons will illustrate issues facing La Crosse, when compared with similar sized Wisconsin communities. By comparing the City of La Crosse with local municipalities we are able to examine the economic segregation that currently exists in our County, as well get insight into reasons why La Crosse developed as it has over the past 40 years.

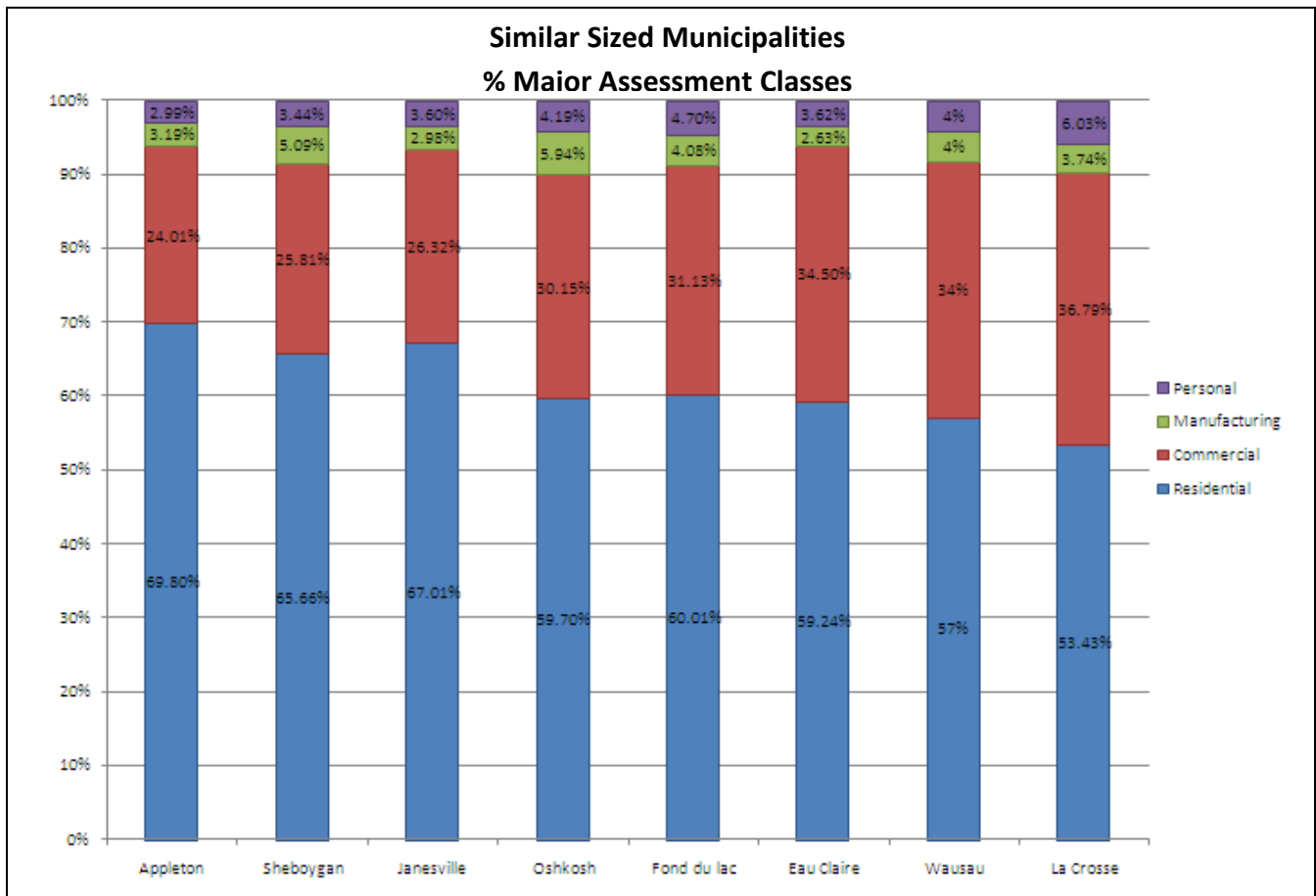


Figure 2
(Department of Revenue: 2009 Statement of Equalized Values)

Figure 2, illustrates how La Crosse’s residential tax base compares as a percentage of total tax base to similar sized Wisconsin municipalities group. Of the comparable municipalities, La Crosse has a lower percentage of residential tax base than any other similar sized municipality.

Unfortunately, the City of La Crosse is seeing troubling trends. According to the Wisconsin Taxpayers Alliance, The City of La Crosse has the 7th highest municipal mill rate of all Wisconsin Cities and Villages¹. This high tax rate often acts as a segregator, pushing high valued property into lower taxed municipalities, ultimately leading to concentrations of poverty in areas of older housing stock.

This high mill rate has often been the blame of critics as to the urban sprawl problems. “Why would someone build a \$500,000 house in La Crosse, when they could get one elsewhere and pay significantly less property tax?” As an example – in 2008, a City of La Crosse residence valued at \$100,000 paid approximately \$1,250.00 in City of La Crosse municipal tax. A Town of Medary resident owning a \$1,600,000.00 house pays approximately the same municipal tax amount to the Township of Medary. This example illustrates how large the taxation gap is, however it does not explain what causes this gap.

Although overall combined mill rates have an effect on home buyers in the La Crosse area, it is not likely the sole driver of demand. A 2009 survey by the National Association of Realtors® showed that perceptions of respondents (realtors and home builders) ranked affordability/value, safety from crime, and quality of schools as the most influential factors sought by today’s homeowner.²

Realistically, this illustrates the national trend towards urban sprawl, as areas experiencing new growth will have new schools to accommodate this growth, and likely low perceptions of crime as these areas move away from centralized cities. The City of La Crosse is ranked one of the safest Cities in the US, yet locally homebuyers likely perceive differences between crime in La Crosse, and other La Crosse County residential areas. Dilapidated housing may feed these perceptions of crime.

Local Conditions Historically

Looking historically at just the local residential tax base/capita over time (**Figure 3**), we see interesting trends emerge. The City of La Crosse’s residential value per capita (**Heavy Black Line**) seems to stagnate in comparison with other local municipalities, with a significant mass of municipalities surpassing the City’s residential value/capita rate between 1960 and 1970. During this period, the townships of Medary and Campbell, as well as the City of Onalaska and the Village of Holmen all exceeded the City of La Crosse in residential value per capita. The town of Shelby surpassed the City during the period 1950 – 1960, and the towns of Onalaska and Holland surpassed the City in the 1980’s. Since then, the City continues to rank lowest in the urbanized area of La Crosse County.

An Interesting note – the Interstate 90 Bridge over the Mississippi River was finished in 1968, and Interstate 90 was opened from Tomah (I-94) to La Crosse during 1969. This included access points to Interstate 90 from French Island (Exit 2), City of La Crosse/Onalaska (Exit 3A & 3B), Onalaska (Exit 4), West Salem (Exit 12) and Bangor (Exit 15). This increase in accessibility to the above listed municipalities helped facilitate their growth. Further expansions of Hwy 53 in the late 1980’s further expanded access into northern La Crosse County – an area prime for development due to relatively flat lying terraces historically used as agricultural land.

¹ <http://www.wistax.org/facts/Property%20Taxes2009.html>

² On Common Ground, Summer 2010 – National Realtors Association®

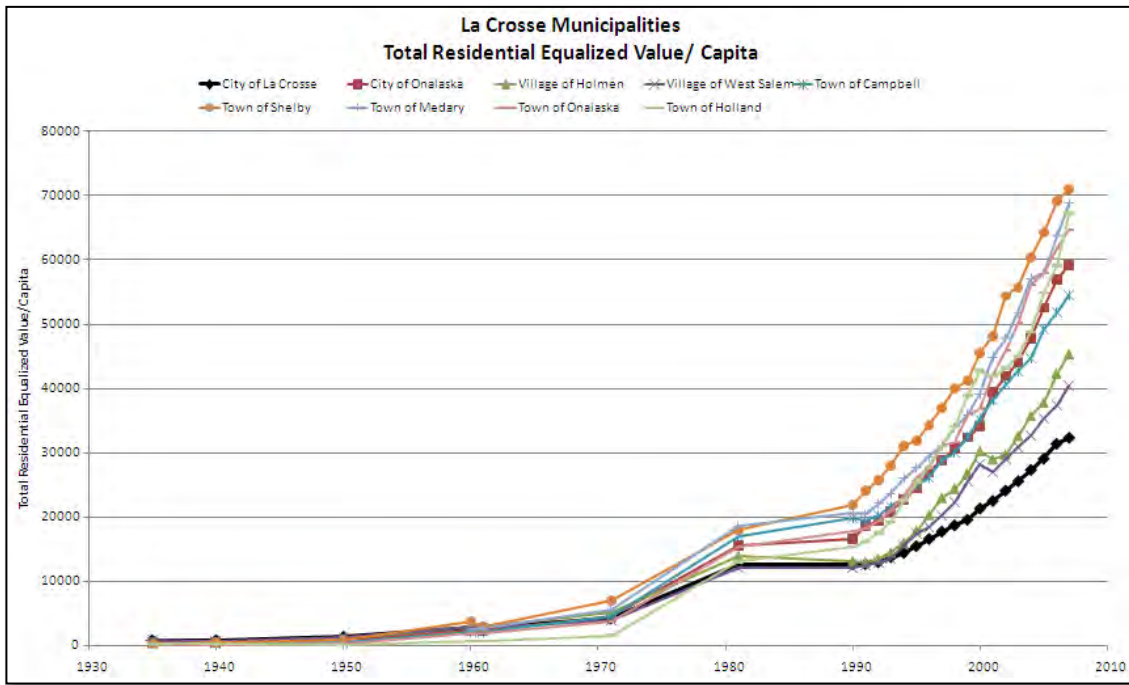


Figure 3
(GREAT Database: © 2007 UW-Extension Board of Regents)

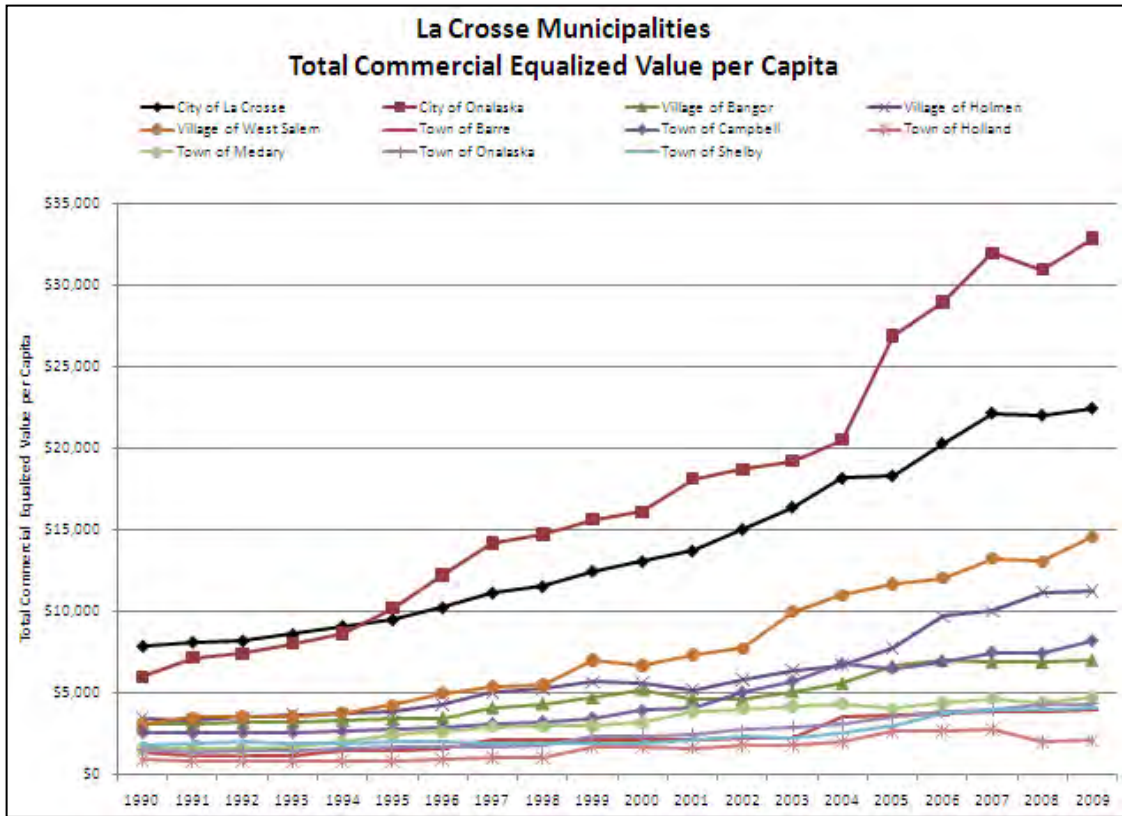


Figure 4
(GREAT Database: © 2007 UW-Extension Board of Regents)

The Downward Spiral

The City of La Crosse is essentially experiencing the classic example of urban sprawl. As more urban flight occurs, commercial development follows the population centers. As illustrated in **Figure 4**, the Onalaska commercial property value per capita exceeded La Crosse during the mid-1990's. This was likely due to the development expanded by the Valley View Mall project completed in 1980, as well as previously discussed transportation access points. The decade between 1980 and 1990 illustrates Onalaska's commercial value per capita growing quicker than La Crosse's commercial value per capita, as new developments sprouted up along Hwy 16 and HWY 53/157. Unfortunately, although relocating commercial sectors tend to follow the population, manufacturing sectors looking to relocate will not necessarily relocate in neighboring municipalities, but into other states or countries.

Figure 5 illustrates the City of La Crosse's Total Assessed Value per capita (**Heavy Black Line**) appears to stagnate, as both residential development and commercial development migrates to the ring suburbs.

This low value per capita creates a situation of low revenues for the expenses generated by a large municipal body, thereby ultimately raising the municipal mill rate at a level sufficient to provide core municipal services such as police, fire, library, roads and transportation, debt service, etc. These services make up approximately 75% of the City's total annual expenditures.

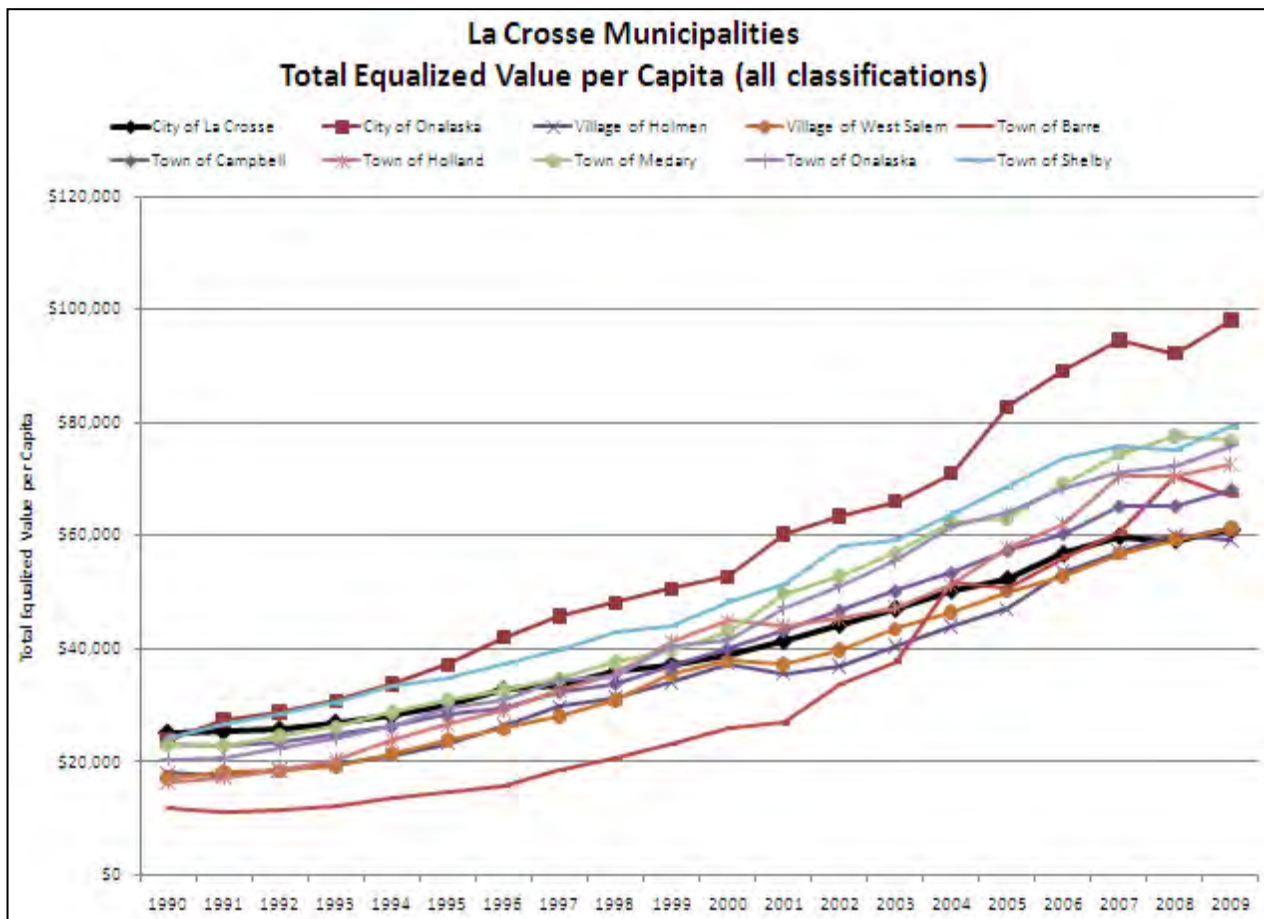


Figure 5

(GREAT Database: © 2007 UW-Extension Board of Regents)

La Crosse has Low Housing Values:

As part of this housing study, residential tax parcel information was collected and sorted, in order to look at the volume of homes in various price ranges. **Figure 6** illustrates a significant challenge to keeping property taxes low in the City of La Crosse. The City of La Crosse has by far the largest volume (and percentage) of residential properties in the category: <\$100,000 of improvement value. Also noted, the City of Onalaska has 1,095 residential homes with an improvement value greater than \$200,000,

representing 23% of their total number of homes. The City of La Crosse has 455 homes in this value range, representing 4% of the total number of homes.

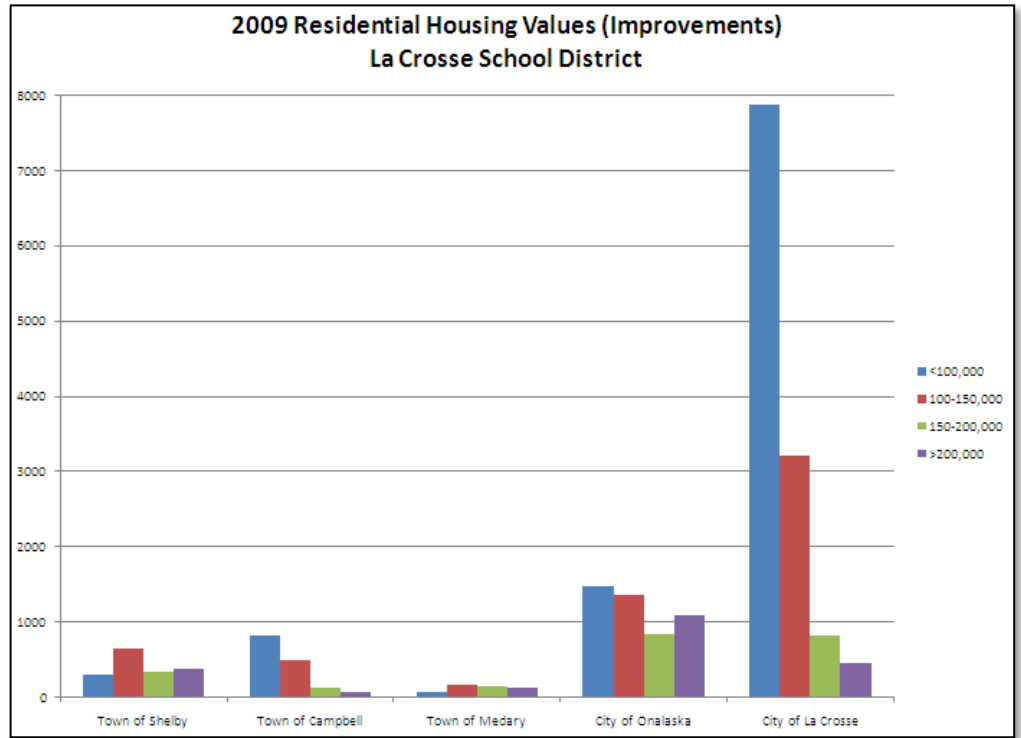


Figure 6
(La Crosse County - Local GIS data)

Table 1 summarizes the above graph:

	Total Improvement Value			
	<100,000	100-150,000	150-200,000	>200,000
Town of Shelby	18%	39%	20%	23%
Town of Campbell	54%	33%	8%	5%
Town of Medary	13%	32%	29%	26%
City of Onalaska	31%	29%	18%	23%
City of La Crosse	64%	26%	7%	4%

Table 1

This helps illustrate why the City’s mill rate is so high. Spreading the municipal services of a community the size of La Crosse is challenging, but when the majority of the City’s housing structures are low value – you have very little value to distribute the burden of the city services.

In La Crosse, the higher valued homes in various neighborhoods have been replaced with multi-family or duplex properties. Large portions of the City have become non-owner-occupied, and show various signs of dilapidation. As these properties age and depreciate a greater tax burden is placed on the entire municipality in the form of higher mill rates, which ultimately create a downward spiral on the municipal tax base.

Unfortunately, the City's low valued homes have a base value, which is created by the City's rental market. Rental demand in the City of La Crosse is high due to the two universities (UW-La Crosse and Viterbo) as well as Western Technical College. Thus rental investment opportunities create a price floor, for which the majority of properties never drop enough to make neighborhood redevelopment an option for private investors.

Figure 7 compares the city of La Crosse comparable Wisconsin municipalities on a residential equalized value per capita. As illustrated, the City of La Crosse has low housing values when compared to similar sized Wisconsin municipalities.

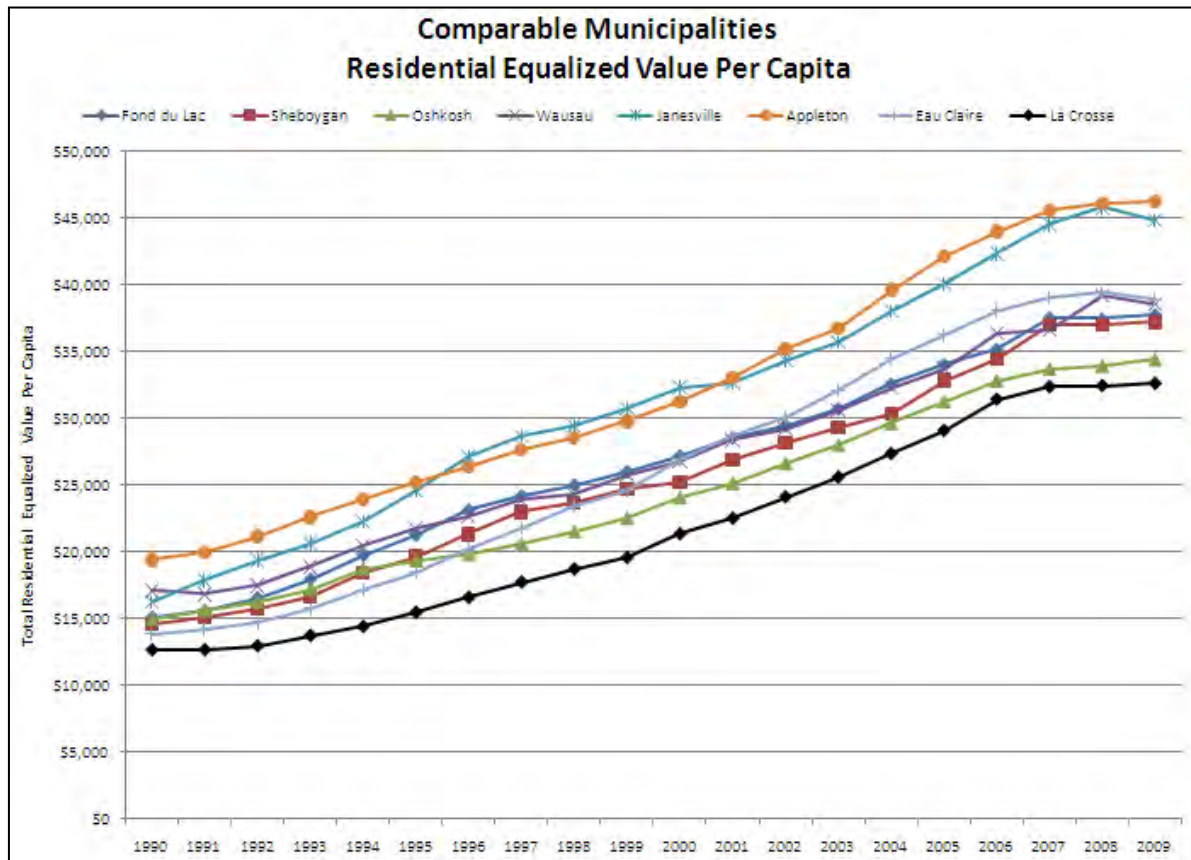


Figure 7
(GREAT Database: © 2007 UW-Extension Board of Regents)

Concentrations of Poverty

The La Crosse County Challenging Trends report (August, 2009) addresses the additional social and municipal costs associated with concentrations of poverty. To summarize, these include:

- Increased crime rates
- Increased code enforcement issues
- Neighborhood deterioration
- Increased schooling costs associated with challenged urban students

For more data regarding these points, please see the La Crosse County Economic Development Work group's Challenging Trend report:

<http://www.co.la-crosse.wi.us/economicdevelopment/docs/Challenging%20Trends%20-%20Regional%20Solutions.pdf>

Please see attached **Appendices 1 & 2** illustrating housing values on the south and north sides of La Crosse. These maps illustrate the concentrations of very low valued housing units in various sections of the City. Parcels are color-coded based on values of improvements; a key is listed at the base of each map defining the value-range for each color.

How does this affect the County Tax Payer?

As the La Crosse Area (La Crosse County) becomes suburbanized, the majority of the County's middle & upper income valued housing is no longer centralized in the City of La Crosse. As this occurs, local town residents see increasing populations and often increasing taxes due to increased demand for public roads and school infrastructures in the formerly rural townships.

Although the La Crosse County tax payer may not recognize it in their low property tax mill rate (3.74 per \$1,000 value), sprawl development is more expensive to serve, placing increased maintenance and improvements demands to vital county infrastructure such as roads and highways. The 2007 La Crosse County Road Study indicates a \$24 Million estimate of unfunded road improvements needed to alleviate traffic congestion and safety concerns. As outlying municipalities see continued growth – they increase their portion of equalized value in comparison with the overall County equalized value, thereby increasing the portion due from their municipality to the County for County services.

Business owners of La Crosse based commercial and manufacturing facilities pay a greater share of the tax burden than necessary. As the concentrations of poverty increase within the City, and higher priced housing continues to develop outside the City's limits, other City of La Crosse tax base sectors are passed this burden via an increasing municipal mill rate. Commercial (service) type businesses may follow the population (relocating within the County), however manufacturing sectors looking to relocate may broaden their sights from local to statewide, regional, or even internationally.

How do tax-exempt properties affect taxes?

The number of tax-exempt parcels in the City of La Crosse has often been cited as the leading issue affecting high property taxes. However, there are considerations that should be understood before making this argument. That is – what service demands do these properties create? For example, a parking lot owned by a tax-exempt facility is often served by roads (curb and gutter), sidewalks, storm sewer, police, and fire. However, natural areas such as wetlands (City of La Crosse Marsh) and bluff lands (of which make up approximately 32% of City of La Crosse's tax-exempt property) , have little needs for roads, police services, fire protection services, libraries, etc. These properties therefore are not a large part of the fiscal burden taxable properties carry for non-taxable parcels. A local GIS review indicated 14,390 total acres in the City of La Crosse. Of that acreage 6,625 acres (46%) is tax exempt land, with 2,130 acres are wetlands and bluffslands.

How can we change this direction?

The City needs to seriously consider ways to change the concentrations of poverty that are developing. Without significant efforts to redevelop or improve its housing stock, the City will continue to battle high taxes. The City should attempt to better understand the issue between demand for services and revenues generated from various property types. It must be understood – it is a problem of proportion, which cannot be cut by limiting expenses. We are unable to cut the City's mill rate lower than our neighboring municipalities. This concept is explained in depth in the La Crosse County UW-Extension presentation titled: "Reducing the Property Tax Incentive for Sprawl through Cost Containment and Reduction", and can be found at the following web address:

http://www.uwex.edu/ces/cty/lacrosse/cnred/documents/CostreductionPowerPoint_000.pdf

We need to understand some of the core issues causing the development patterns we see in La Crosse County, if the City is going to address its housing dilemma.

New development versus redevelopment:

Although any new housing development above the median housing value will ultimately assist in lessening the housing value dilemma in the City, we must understand the difference between additional new development, and the replacement of existing housing stock. Although new homes ultimately add additional tax base, they also potentially introduce an increased population set. In other words, if the City simply annexes more land and gains that tax base – the City has additional clients to serve.

However, if the City redevelops within its own boundaries, replacing some of the very low valued, dilapidated housing with new “redeveloped” housing, the expenses to revenues ratio should be less than new additional housing stock, because the City population would not increase, only its value.

The largest segments of housing stock that could be addressed could be any of the following groups:

- All properties located within the floodplain (approximately 13% of City of La Crosse’s housing stock is in the flood plain, requiring flood insurance, an additional cost associated with property ownership.)
- Many properties with the Hamilton and Roosevelt school boundaries (free & reduced lunch programs indicate 77.5% and 67% participation respectively)
- All properties with improvement values <\$100,000, with greatest focus on lowest assessment values (see Figure 8)
- Develop internal City of La Crosse acreage such as Park Plaza, Mobil Oil Site, etc. With the proximity to the Mississippi & Black River frontage, these locations offer attractive amenities that may appeal to new home buyers.
- Consolidation of rental units to locally designated geographic districts with denser student housing (high-rise), with the former housing units developed as single-family residential. The City of Madison has significant examples of attractive, high-rise style large volume student housing.

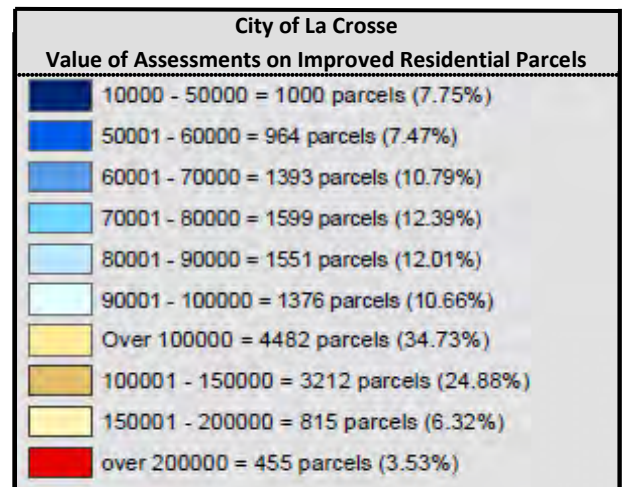


Figure 8
(La Crosse County - Local GIS data)

Residential Housing Projections:

This exercise is designed to illustrate the impact a higher valued residential tax base would have on dropping the City’s Mill Rate. Based on the 2008 City of La Crosse Statement of Assessment, the total municipal assessed value was **\$2,933,296,400.00**, with City of La Crosse housing representing approximately 53.5% of the total tax base. If the City’s housing assessment value increased by 10%, while all other sectors stayed the same, the City Mill Rate would drop from \$12.36/\$1000 value to \$11.73/\$1000 value. A twenty five percent increase would reduce the City’s mill rate to \$10.90/\$1,000 value; a 50% increase would reduce the mill rate to \$9.75/\$1,000 value, etc.

Based on these estimates, we see that the city’s residential tax base can positively affect the City mill rate, if values increased. There are approximately 12,900 residential structures in the City of La Crosse.

% Increase in Housing Value	0%	10%	25%	50%	75%
Total Full Value Res:	\$ 1,569,773,000.00	\$ 1,726,750,300.00	\$ 1,962,216,250.00	\$ 2,354,659,500.00	\$ 2,747,102,750.00
Total Full Value Comm.	\$ 1,068,006,600.00	\$ 1,068,006,600.00	\$ 1,068,006,600.00	\$ 1,068,006,600.00	\$ 1,068,006,600.00
Total Full Value Manf.	\$ 110,863,600.00	\$ 110,863,600.00	\$ 110,863,600.00	\$ 110,863,600.00	\$ 110,863,600.00
Total Personal Property	\$ 184,653,200.00	\$ 184,653,200.00	\$ 184,653,200.00	\$ 184,653,200.00	\$ 184,653,200.00
Total Municipal Assessed Value	\$ 2,933,296,400.00	\$ 3,090,273,700.00	\$ 3,325,739,650.00	\$ 3,718,182,900.00	\$ 4,110,626,150.00
Projected Mill Rate:	0.012360126	0.011732519	0.010901844	0.009751187	0.008820237

Table 2

Summary

The City of La Crosse has developed like many urban centers in the Midwest. However, comparisons with state of Wisconsin’s similar sized municipalities illustrates the City has comparatively low valued housing. Unless strong, decisive actions are enacted, the City’s tax base will always require a high mill rate to fund its intrinsic core expenses. Unfortunately, the property tax system, State of Wisconsin Transportation system, and pristine county lots will always create a demand away from the City of La Crosse. Within the region, revenue sharing agreements and inclusive zoning are tools capable of assisting the City of La Crosse to begin to share some of the Region’s higher valued residential development. However, each carries significant political difficulties. The La Crosse Promise initiative seems to show the most potential for adding place-based value for the local home buyer in La Crosse, however this is but one solution. Unless redevelopment of housing becomes viewed as a major economic development tool for the City, La Crosse’s aging housing structures will continue to negatively affect the City’s mill rate.

Appendix 1 – La Crosse North Side Parcels

Appendix 2 – La Crosse South Side Parcels