Wisconsin and the Perfect Policy Storm

Why We Need to Find a Better Way of Raising Tax Revenue and Delivering Basic Public Services

A Project of the
Bay Area Community Council

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I. Executive Summary

The Bay Area Community Council, established in 1991, is a group of 24 citizens representing private, public and non-profit community sectors. Members strive to present their fellow citizens in Brown County with insight into issues that will affect the community in years to come.

This paper focuses on a developing public-policy storm regarding funding of government services that is already beginning to shred the area's social, economic and governmental fabric.

Here are the storm clouds BACC members see:

- Citizen unrest due to rising government costs and higher taxes without effective legislative remedy.
- Deepening and more divisive economic segregation in Brown County.
- Damaging competition among local government for tax-base growth that strains the natural environment.
- Cost-control proposals likely to hurt Wisconsin more tomorrow than they will help today.

No one can make the storm clouds go away. But we can do what sensible people have always done when storms approach – draw together and share resources to help one another.

Like many dilemmas, workable solutions lie at the heart of the problem, which makes identifying and reaching a consensus on them very difficult. In this case, all politics is indeed local, and effectiveness is local, but the solution appears to be *regional*.

This paper focuses on one part of this storm—the collection of taxes and their dispersal back to government entities in ways that foster ongoing community health. The challenges confronting the region include aging population, aging housing and infrastructure, increasingly costly (but more effective) health care solutions, the needs of new immigrants, and a tax-stressed economy that looks increasingly tenuous.

Much of what follows is heavy going because tax collecting and revenue sharing are complex. But after months of study, BACC members believe the most sensible way to protect one another, and the area's future, is to share some tax base on a regional basis. We believe that will allow a more cost-effective method of providing the basic services we all need today and our children will need tomorrow.

We have discovered that Wisconsin has a significant structural problem in how it generates revenue, allocates revenue and provides services. The community good is not being served, and this must be corrected.

Wisconsin has a proud tradition of developing innovative solutions to meet the needs of its citizens. Now, we must create a new system of governance based on better sharing of the tax-base, regionally rather than locally. By drawing together and sharing, we the people of Northeastern Wisconsin can keep our social, economic and political fabric intact despite the gathering storm.

II. Definitions & Research Methodology

Definitions

- The Bay Area Community Council (BACC) is a nonprofit corporation established in 1991. It is a council comprised of citizens providing Brown County with insight into future issues affecting the community. Current directors are: Jim Blumreich, James Coller, Judy Crain, Paul Demuth, Patricia Finder-Stone, Phil Hauck, Paul Jadin, George Krempin, Jim Liethen, David Littig, Toni Loch, Noel Halvorsen, Harry Maier, Charles Mize, Nan Nelson, Dan Nerad, Colleen Remley, Helen Schaal, Quasan Shaw, Margie Shurgot, Rose Smits, Ken Strmiska, Bob Woessner, and Vincent Zehren.

- Taxation is the mechanism governmental bodies use to generate revenue. Such revenue is generated primarily through income, sales, and property taxes and fees. Taxation is the mandatory transfer of private dollars to the public sector.

- Service delivery is the system that governments use to provide safety, education and capital infrastructure to the public. This system is complex and services are delivered through federal, state and local governments.

Research Methodology

Our research consisted of two parts: a) limited review of scholarly and popular literature on taxation, tax-base sharing, Taxpayers Bill of Rights (TABOR), K-12 public school funding and b) presentations by Myron Orfield – associate professor or law at the University of Minnesota (conference call), Edward Huck – executive director of the Wisconsin Alliance of Cities (presentation), Todd Berry -- Executive Director of the Wisconsin Taxpayers Alliance (presentation), and Rep. Frank Lasee (R-Bellevue) and businessman Paul Linzmeyer (debate).

III. Introduction

Over the past 12 months BACC directors have explored taxation, tax-base sharing, and the delivery of government services. Members chose this topic because of concerns about the state budget deficit, proposals such as the Taxpayers Bill of Rights (TABOR), and headlines that cite Wisconsin as a high-tax state. But we also were driven by our curiosity and our sense of obligation to understand how our system of taxation works and how governments use taxes to fund services.

While it is perhaps impossible for citizens to agree on an appropriate level of taxation, it was possible for us to agree that we all want government to be efficient in using our tax dollars. Focusing on efficiency allowed us to look at government structures and service delivery mechanisms. This is where answers to many questions of efficiency and cost savings will be found and where we can reach consensus as a community.

Other regions are dealing with similar issues. There is a wealth of theoretical literature about taxation, tax-base sharing and service delivery as well as studies documenting the impact of tax-base sharing and legislation such as TABOR. If we determine as a community and state that change is needed, we should learn from these examples and from the research of scholars. If we fail to do this, we jeopardize the forward thinking that makes Wisconsin a leader among states.

It is not our mission to arrive at a single solution but rather to inform and to highlight promising ideas. Specifically, our goal was to understand our taxation system and the fiscal environment, to explore models and practices from other regions, and to identify ideas for concerned community members to pursue.

We hope this paper will be a catalyst. Please read it with an open mind and then share your thoughts about it with friends and associates to keep conversation going on fair taxation and efficient delivery of services.

IV. Storm Clouds: Why We Need a Better Way of Taxing & Delivering Services

In 2002 the Metropolitan Area Research Corporation and the Wisconsin Alliance of Cities conducted a study of seven of the state's metropolitan areas. The focus was to document social and economic segregation, identify the effects of these patterns on local governments and regions, and establish a base for community members to discuss regional problems.

Brown County is the heart of one of the metropolitan areas studied. It includes Green Bay and 23 smaller cities, towns and villages. Over 20 years, population growth has exceeded the national growth rate (17% in the 1990s and 11% in the 1980s). By 2004, the population was an estimated 237,000 with most growth occurring in Green Bay's suburbs.

Economic growth kept pace. Twenty-one percent of jobs were in manufacturing, many paper-related. But the fast growing sectors are finance, insurance, and real estate.

As the area grew, it became more segregated by income and race. Poor and minority residents became concentrated in Green Bay. By 2000, almost 90% of pupils eligible for tax-subsidized lunches attended Green Bay schools. Its district is the most diverse in the county with 36% of attendees considered ethnic or racial minorities.

County communities varied greatly in their ability to raise revenue. Areas with the lowest tax capacities were Green Bay and the villages of Pulaski, Wrightstown, and Denmark. The close-in suburbs of Howard, Bellevue, and Humboldt also had below-average capacities. Tax capacities were highest in the next ring of suburbs where most high value development is occurring.

The pattern, as measured by land valuation, is common in metropolitan areas where local governments compete intensely with each other for economic resources and high-income residents.

We see that here. Municipalities fight for commercial, light industrial, and high-end residential development and cannot agree on major infrastructure issues such as water supply and public education.

Without cooperation, each community is left to cope alone. Older communities face increasing poverty and declining tax bases. That puts pressure on city resources to deal with social problems, discourages investments downtown, and isolates low income residents.

Fast-growing bedroom communities have different problems. Their fiscal resources are stretched to build schools, roads, parks, sewers, and provide services. Newcomers may have been attracted by low taxes, more space, new homes, lower land costs and less congestion. But over time the costs of growth can exceed their ability as taxpayers to foot the bill.

Orfield argues that the problems cannot be addressed by individual governments. "What are needed are comprehensive, coordinated *regional* strategies for addressing *regional* problems with *region-wide* solutions," he says.

Orfield notes that in an area such as Brown County, the taxation system fails to reflect the fact that citizens use the resources of many municipalities. People may work in Green Bay, shop in Ashwaubenon, use a park in DePere, and live in Allouez. But while they use what each provides, they often do not pay for the service through the current system of taxation. Instead, costs are primarily shouldered by residents in the municipality delivering the service. Addressing this situation will be difficult but provides the most promising way of sheltering Wisconsin from the developing storm.

V. Taxation

Wisconsin's tax-collection system has grown complex, making it difficult for citizens to see the link between taxes they pay and services they use.

Historically, citizens have been taxed by three levels of government. Washington relies on the income tax, Madison on income and consumption/sales taxes, and municipalities and schools on property taxes.

The amount of revenue raised and the visibility of the property tax makes it unpopular. But despite its bad reputation, it funds the health, safety, education and quality of life services local governments must deliver.

But a once-simple tax structure and the once-clear connection of taxation with local services began to blur with revenue sharing. Through revenue sharing, the state collects income and sales taxes and then shares a portion with local governments according to an equalizing distribution formula. While revenue sharing may be necessary to guarantee a standard level of services, Wisconsin has steadily cut the amount of revenue shared. Local governments lost revenue while still being required to maintain services. As a result, they are turning to sources such as sales taxes and fees.

While the property tax is a whipping boy, it is one of the most efficient taxes to administer and it is a stable and predictable source of revenue.

V-A. Brief History of Wisconsin Taxation

In Wisconsin's early years, a property tax provided most state revenue. Then in 1905, a tax was levied on utilities, followed by personal and corporate income taxes in 1911 and a 3% sales tax in 1962 -- increased to 4% in 1969 and 5% in 1982. It was also in 1982 that counties got the ability to levy a .05% sales tax.

Today, Wisconsin's system includes: property taxes, individual and corporate income taxes, general sales and use taxes, excise fees on tobacco, liquor-wine and beer, utility taxes, inheritance and gift taxes, levies on insurance premiums, real estate transfers, lawsuits and dog-track betting, and taxes on motor fuel, air carriers, railroads and forest lands. Property is taxed by five governments – municipality, county, state, K-12 school district, and vocational-technical school district.

As the tax system has become more complex, the state has taken the dominant role in collecting and distributing revenues. In 2001-03, the state budget allocation of $46.9 billion was split three ways. The state kept $17.5 billion, sent an identical amount to local governments and schools and spent $11.9 billion on social services.

Another complicating factor is the number of local governments – more than 2,300 of them – Wisconsin has 190 cities, 1,265 towns, 395 villages, 72 counties, 426 school districts, 16 technical college districts, and numerous special-purpose districts. Nationally, Wisconsin ranks high in the number of local governments in relation to population and size. This system is duplicative and an obstacle to controlling taxes and government growth, efficient delivery of services, and regional economic development.

V-B. How Wisconsin Compares with Other States

Comparing and evaluating state tax systems is fraught with problems. Many reports fail to include all revenue collection, such as user fees. Such reports put Wisconsin at a disadvantage because of its reliance on taxation. Also, to focus on taxes and fees without evaluating policy and management hides significant aspects of state performance.

To put state taxation and spending into a rational framework, we relied on a multiyear study published in ***Governing: The Magazine of States and Localities (February, 2003*)**, and a report by the ***Wisconsin Taxpayers Alliance (July, 2003)***.

The *Governing* study graded states in adequacy, fairness, and management. The maximum possible grade was 12. The mean score for states was 6.74 with Wisconsin receiving an 8.

Adequacy of revenue addresses the questions of, *"Does the state have adequate revenues currently – and for the foreseeable future – to provide reasonable support for the programs the legislature has historically seen fit to fund? Is the state experiencing budget shortfalls that can be attributed to a weakness in tax revenues? Can the weakness in revenues be attributed to factors totally out of the control of state leaders? Are there structural issues that make it particularly difficult to deal with obvious tax problems?"*

At the time Wisconsin's tax system was studied, the state was facing a $2.8 billion deficit in the coming biennium. Even after state spending cuts of 10% the state would be left with a $400 million shortfall.

While the *Governing* study indicates that Wisconsin's system of taxation and service delivery is better than most, others such as the Wisconsin Taxpayers Alliance (WTA) see things differently. According to a WTA report, state-local taxes are $2.4 billion above the U.S. average, making Wisconsin the fourth highest taxed state (July, 2003). The report notes that approximately 75% of Wisconsin's tax gap is a result of above-average expenditures. Spending on K-12 education accounts for almost 33% of this $2.4 billion gap, with another 28% resulting from local spending on roads.

The WTA report also questions Wisconsin's use of state mechanisms to collect taxes while leaving service delivery to local governments. The WTA suggests that "the more local governments rely on outside state and federal aid to fund their services, the more they spend per capita."

Making the tax picture fuzzier are complicated revenue sharing formulas that return state-collected dollars to local units. In an attempt to control spending the Legislature has: 1) limited general purpose revenue to the growth in personal income excluding education and debt, 2) dictated that total revenue for K-12 public education districts may not increase more than $237 per pupil per year adjusted for inflation, and 3) capped county and technical school district mill rates. Because shared revenue formulas generally reward spending by matching local spending, affluent taxing districts get richer while poorer ones get relatively poorer.

The tax-status pictured is further clouded because Wisconsin purposely has kept taxes on business low to create incentives for retention of economic development. In studying taxpayer-bill-of-right legislation, Andrew Reschovsky of the LaFollette Institute, found that in 2000, Wisconsin ranked 50th among all states "in business taxes as a share of total state and local taxes." Residents complain about high taxes "precisely because, relative to business, households in Wisconsin pay a larger share of total state and local taxes than households in almost all other states," Reschovsky said.

V-C. Public School Financing & Taxation

A Task Force on Educational Excellence was appointed by Gov. Jim Doyle in August 2003. The group of educators, parents, business people, community leaders, and elected local officials was charged with making recommendations relating to quality.

The Task Force agreed on 40 recommendations, recognizing that many would require additional funding. Financial pressures have already forced a retreat from the previous commitment of two-thirds support (which has increased pressure on the property tax).

Wisconsin's K-12 system does drive government costs. But the state's strength and future prosperity are tied to the quality of public education. State support of public schools must be of great concern. The efficient delivery of services matters. But the quality of those services, especially education, is vital.

In addressing taxation, the Task Force established goals: 1) reduce reliance on the property tax; 2) alleviate tension between property taxpayers and schools over costs; and 3) identify stable alternative revenue sources. Members were acutely aware of public attitudes about the property tax, and there also was readiness to consider fairness as related to taxation based on property ownership

The major funding recommendation was a combination of increasing the state sales tax by one penny on the dollar (from 5% to 6%) and an expansion of the sales tax base. These two changes would generate $1.44 billion to reduce the property tax burden. The Task Force recommended that additional relief be provided to lower income individuals who may bear a disproportionate burden from the regressive sales tax.

Also taken into account was the fact that Wisconsin has the lowest sales tax rate among adjoining states. Expansion of the sales tax base was an important part of the recommendation. The goal is a more "balanced tax system" that "promotes equity by distributing the tax burden more widely among taxpayers."

It is difficult to say how significant the recommendations will be. Educational quality appears to be taking a back seat to financial pressures. Despite challenges of implementation, many of the recommendations could have long-term relevance in laying out principles to meet future challenges.

The strengths and weaknesses of both the property tax and the Task Force alternative of an increased sales tax, should be weighed in light of school needs, the fairness of both taxes, public perception of those taxes, and equity across the state. Public education and its funding should be considered from a regional standpoint, as is desirable in assessing other local services.

Finally, the Task Force report makes note of state law that provides limited incentives for consolidation of school districts as well as barriers (political and otherwise) that work against consolidation. Brown County, for example, has 11 districts. The issues raised by this reality can be topics of great stress and controversy, not only in terms of levels of taxation and of local control, but also in terms of perceptions and feelings relating to urban and suburban populations and student needs. The report encourages consolidation across district lines for efficiency and increased student opportunities.

V-D. Wisconsin's Taxation & Service Delivery Challenge

Advocates of tax and service delivery reform have been able to garner support from citizens unhappy with Wisconsin's tax structure and spending growth. Legislators are perceived as unresponsive to complaints about high taxes and as being captives of interest groups that finance their elections.

The Wisconsin legislature ranks among the most professionalized of the 50 states. Over the past 20 years, more legislators have come to know only one career – politics. Today, 11 of 33 senators and 39 of 99 representatives call themselves "full time" legislators. The day of the citizen-legislator is over and we believe Wisconsin is poorer for its passing.

WTA President Todd Berry has often said that the Wisconsin system is so complex that it discourages citizen participation in government and that partisan, full-time legislators make tax decisions based on purely political motives.

"The No. 1 example is school financing," Berry said. "The reason we went to that had nothing to do with educational issues or issues of tax dollars. It had everything to do with the fact that in 1994 control of the Legislature was split and people were looking for an electoral advantage. It was a game of chess. Nobody thought about what the implications were for public involvement in local educational quality or other state services."

According to Berry, "[Wisconsin needs] rationalizing and cleaning up of the tax system and that means you've got to put the tax collecting and spending at the same level. You can't have five different levels of government relying on the same tax because people don't and can't hold anybody accountable. I would argue that the property tax is a wholly suitable source of revenue for municipalities. The state should probably be aiding municipal government less. They should probably be using property taxes more. For that to happen, you've got to lessen the dependence of other governments on the property tax. I'm trying to build a system where if you're unhappy about the sales tax, complain to the county and if you're unhappy about the property tax, complain to your municipality."

In light of Berry's views, a question to ask about efforts to control spending is whether they make taxation easier for citizens to understand and to hold specific layers of government accountable and whether they are driven by policy or political goals.

VI. Tax – Base Sharing

One promising reform of the state's outdated taxation system is tax-base sharing. It is not new. Edward Huck, of the Wisconsin Alliance of Cities, notes that while Wisconsin has shared revenue since 1911, in recent years the program has become less redistributive, funding has become more volatile and unpredictable, and the main program has been frozen since 1995. Another criticism of the current formula is that it is not based on need but rewards spending.

Huck recommends a merger of the current program with tax-base sharing:

> Under this program each municipality will have a tax base of the following: all residential, commercial and industrial property values within its borders less a percentage of the total new growth over the prior year. This percent of growth, as the growth of all property within the metropolitan area will become part of the pool. As always the tax base (less the percent for the pool) will be used by all taxing entities, including overlapping taxing districts. The pool will be comprised of value increments times the local tax rate of the municipality. The pool, which is governed by a board, would distribute the money on some kind of need basis. The value increments dedicated to the pool would not be counted in the school aid formula.

Huck believes that tax-base sharing can slow down tax increases, if not decrease in the tax burden. The greatest potential for savings would be in consolidation of municipal services, and better regional planning for development and the environment. Tax-base sharing could reward cooperation, increase shared delivery of services, and strengthen the economic clout and attractiveness of metropolitan regions.

Bolstering this argument is the lead recommendation of the Sheehy Commission (convened by then-Gov. Scott McCallum in January 2003 to study state-local relations and fiscal problems) to authorize regional tax-base growth sharing. The commission recognized that support for regional economies are critical to the state's economic future and community growth. It stated, "Wisconsin must grow economically to address its fiscal problems. Regional tax-base growth sharing laws should be enacted to support metropolitan and rural regional growth and cooperation. The state should strongly promote these agreements, especially in troubled economic times like these or in troubled regions and counties be they metro or rural."

Other major recommendations focused on improving the shared revenue program and also rewarding cooperation and penalizing lack of cooperation and inefficiencies. Sheehy recommended delivery of “public services through functional, not political, service lines.”

VI-A. Arguments for Tax-Base Sharing

The drive for increased property tax revenue can lead local governments to make questionable land use decisions. A community might reject affordable housing in favor of expensive homes or forego office buildings with high-paying jobs in favor of big-box retail stores with low-wage jobs, in anticipation of generating more tax revenue with a smaller burden on services.

The quest for revenue creates competition among neighboring jurisdictions. Local governments engage in bidding wars to offer developers the biggest tax breaks or least stringent environmental regulations. From a regional perspective, competing to provide subsidies to businesses that have decided to locate in the area is counter productive.

This competition has consequences for a metropolitan region. It fosters sprawl on the suburban fringes and increases social polarization between the central city and its suburbs. Some jurisdictions are winners, for the short term, but ultimately all are losers.

Regional tax-base sharing offers a solution. Under tax-base sharing, municipalities within a metropolitan area agree to share tax proceeds from new development. This eliminates competition; facilitates planning goals such as preserving open space or maintaining a vibrant downtown; encourages suburbs and central cities to cooperate on regional economic development goals; and leads to a more equitable distribution of tax burdens and public services.

VI-B. Minnesota Experience with Tax-Base Sharing

In Minnesota, a regional tax-base sharing program was implemented in the Twin Cities region in 1971. The Metropolitan Council is a government body with responsibility for public services and assisting development planning. Its authority extends over seven counties with 190 local governments and 2.5 million people.

Each community contributes 40% of the growth of its commercial and industrial property tax base to a regional pool. The funds are redistributed based on a formula that factors in a jurisdiction's population and fiscal capacity (per capita property valuation).

The program has three objectives: 1) support for a regional approach to development, 2) equalization in the distribution of fiscal resources, and 3) reduction in competition for development.

The Metro Council was created by Minnesota's government to help coordinate regional economic development. Its first responsibility was to coordinate development of a regional sewer system. Its planning role has expanded to include ground transportation, wastewater and water management, aviation, parks and open spaces. It also administers affordable housing programs.

The Metro Council consists of 16 members plus a chairman – all appointed by the governor. The Council is organized into three divisions: Community Development, Environmental Services, and Transportation.

One issue of contention is the Metro Council's top-down decision-making. Another is the growth and territorial expansion of the Twin Cities regional economy without growth in the metro taxing district. But, the fiscal capacity and success of the program has grown. When implemented in 1975, the area-wide tax base included 6.7% of the total metro commercial/industrial tax base, and 2.1% of the total metro tax base. By 2002, the area-wide tax base was 30.2% of the total metro commercial/industrial base and 10.1% of the total metro tax base.

A Minnesota House Research study found that based on taxes payable in 2000 the average homestead tax in St. Paul was 12.9% lower because of fiscal disparities. The homestead tax in Eden Prairie, one of the largest net contributors, was 4.8% higher. According to Orfield, while the program has not eliminated fiscal disparities, it has reduced tax-base disparities from 50:1 to roughly 12:1 and the regional economy has remained vibrant.

VI-C. Models of Tax-Base Sharing

Geoffrey K. Turnbull, a researcher on revenue sharing, states that tax-base Sharing is often justified to achieve a more equitable distribution of tax revenues across jurisdictions. He contends that equity justifies statewide rather than regional programs.

He advocates tax-base sharing on other grounds. It can help align local governments' policies when one government imposes costs on residents of a neighboring jurisdiction. It also is an effective tool for industrial recruitment because a coordinated effort is more attractive to investors than feuding. Lastly, tax-base sharing can provide fiscal rewards, as it does in Minnesota, to local jurisdictions.

Turnbull makes a distinction between two competing models. In the *pure sharing model*, local governments pool all or part of their revenues and reallocate them according to an agreed upon formula. In the *regional service model* governments contribute revenues to a common pool used to support services to residents of contributing jurisdictions. The pure sharing model is most effective for promoting cooperation when there are few governments. The regional service model is effective in providing support for narrowly defined services with a regional impact.

There are also different approaches to decision-making. In a *top-down approach*, such as the Twin Cities Metro Council, state government can exercise power while in a *bottom-up approach*, decision-making can be structured by local governments. While the top-down approach makes it easier for the state to over-ride parochial interests, the bottom-up approach can lead to gridlock or domination by larger jurisdictions. There are voting systems which weigh the populations of members so that larger communities cannot dominate and smaller communities cannot form coalitions to defeat the larger ones.

An additional dichotomy is centralized versus decentralized decision-making. If the sharing agreement is to be cooperative, then the local governments would retain the powers to fulfill the obligations to which they agreed. In this case, decision-making is fully decentralized and any regional body created takes on a coordinating role. The tax-base sharing agreement can also be designed to give a regional body decision-making power over the regional tax rate or spending.

Other considerations in establishing local tax base sharing arrangement include the size of the region. The agreement should be written so that the region can adapt to growth, can determine how long it will last and how tax base will be shared. Other decisions relate to the types of property taxed; real estate versus all property or sales or income taxes versus property taxes. The choice of the tax base will determine the incentive effects of the sharing agreement.

While tax-base sharing presents real opportunities for a metro area like Brown County, recent fights over water do not indicate a willingness of local governments to act together to gain efficiencies. It is these efficiencies that may hold the best hope for reducing tax burdens.

VII. Taxpayers Bill of Rights (TABOR) & Tax Freeze

Another proposal to change Wisconsin's revenue system is through the Taxpayers Bill of Rights (TABOR). Its primary goal is to restrict the growth of government through a constitutional amendment. TABOR takes budget-making authority away from elected officials and places significant spending increases in the hands of voters in a referendum.

By restricting government revenues to changes in the Consumer Price Index and population increase, by taking changes in personal income, sales, and property out of the equation, and by mandating tax refunds, TABOR can shrink the growth of government.

TABOR can not be enacted over night. The amendment process requires that a majority of both houses of the legislature vote for the amendment in two consecutive sessions, followed by approval of a majority of voters in a statewide referendum. The earliest that TABOR could be enacted is 2006.

VII-A. Understanding the Key Elements of TABOR

Spending Limit Formula

TABOR aims to create spending formulas that calculate how much state, local and educational entities can rise by taxation. The formulas:

State Spending Limits Formula for State Government
CPI + Percentage Change in Population
CPI=Milwaukee-Racine Consumer Price Index

State Spending Limits Formula for School Districts & Technical College Districts
CPI + Percentage Change in Enrollment Statewide + 1%

State Spending Limits Formula for Local Governments
CPI + Percent Change in Net New Construction within that Governmental Unit

Overriding Spending Formulas

The amendment would require advance electoral approval for creating a new tax, increasing a tax rate, or extending an expiring tax. No approval would be required to enact an emergency tax or a tax change that is revenue neutral or results in a net tax decrease. The legislature, by a 2/3rds vote in each house, could declare an "emergency" and impose a tax.

The amendment would also require advance elector approval for any government action authorizing bonding, including bonding to refund or refinance outstanding bonds.

Reserves and Rebates

TABOR requires each governmental unit, every fiscal year, to hold back funds to be placed in a stabilization fund. Money reserved may not be spent for emergency purposes without the approval of 2/3rds of both houses. It may not be spent for non-emergency purposes unless a majority of the governing body declares the expenditure a necessity to provide tax relief. If the budget stabilization fund is greater than 10% of fiscal year spending, unless the electors approved a taxing or spending change, the "excess" revenue is returned to taxpayers.

VII-B. TABOR - Beyond the Financial Implications

A Stimulus for Democracy?

Advocates claim that TABOR, by requiring direct voter participation to change funding, it will make the political system more democratic. Implicit in this claim is that the average voter "knows better, if not more" than elected representatives. When TABOR is enacted it relieves legislators of one of their primary duties – determining the level of taxes and spending.

Advocates also believe that TABOR makes government more accountable. They argue that as citizens become active in the budget process, there will be increased pressure on legislators to provide clear information on how money is being spent.

In contrast to the legislative process, the referendum process is divisive. In their efforts to prevail, both sides tend to polarize the voting public. In addition, referenda voters tend to be those whose interests are at stake.

A Stimulus for the Economy?

Advocates of TABOR believe it is good for the economy because it holds down taxes and thus makes the state more attractive for investment. In addition, it is argued that smaller government stimulates the economy by keeping more money in the hands of consumers and private business.

The Bell Policy Center study compared growth rates for employment and gross state product (GSP) for all 50 states since 1991 and analyzed data to see if TABOR changed the pattern of growth for Colorado. It found no evidence that TABOR contributed to growth in the 1990s. The clearest relationship to growth trends were regional factors like quality of life and diversification of economies.

In summarizing the tax and economic-development literature, Andrew Reschovsky concluded that "state and local taxation plays a very small role in the location decisions of business." This may be because those taxes account for a small portion of the costs of doing business.

VII-C. Colorado Experience

TABOR was enacted in Colorado in 1992 to reduce the size of government by limiting spending to changes in population growth and inflation. The key was to detach revenues from increases in income and property values, and to let revenues shrink during downturns.

Built into TABOR was a "ratcheting" effect that makes it impossible for state spending to recover from lean years when budget cuts may be necessary to offset lower revenues. After the economy bounces back, the cuts cannot be restored because increases are always tied to the previous years' spending. Also, money that is not spent in one fiscal year cannot be "saved" for use in the next year.

TABOR has had a significant effect in reducing the growth of spending. During the 1990s when Colorado was experiencing 30% population growth and had one of the strongest economies in the nation, TABOR was deemed a success because it controlled spending and taxpayers received reduction checks.

Since TABOR, the number of fiscal policy issues considered by voters has increased. But there has been a significant drop-off in turnout for spending referenda.

The Bell study concluded, "TABOR has resulted in a very small number of voters deciding fiscal policy issues that have a profound impact on the government's ability to shape its budget."

When the economy began to falter in the early 2000s, the rigidity of TABOR and some of its unintended consequences began to appear. The Bell study found that under TABOR, support for public education plunged. As a result, Colorado voters passed another amendment in 2000 to increase funding for K-12 public education. In 2000, Colorado's per pupil expenditures ranked 32nd in the nation.

In 2002 Colorado ranked 41st among all states in access to higher education for low-income students. Higher education's percentage of the state budget declined from 25.9% in 1982 to 12.5% by 2002. In addition, since the education amendment allows only K-12 spending to increase, funding for other programs will be cut.

Although Colorado was able to meet the minimum eligibility criteria and minimum services required by the federal government, Medicare and services to senior citizens have been cut by instituting tough eligibility standards. Colorado's Medicaid program serves only 5.1% of the state's non-elderly population, while the national average in 12.1%. In fiscal year 2002-2003 Medicare spending was cut by $133 million with further reductions in the 2003-2004 fiscal year.

It seems unlikely that Colorado can grow out of its problems, especially now that migration to the state has slowed and inflation is low. In the spring of 2004, Colorado Gov. Bill Owens, long a supporter of TABOR, recommended a suspension of TABOR "for two years to allow a greater flow of tax collections to the state as the economy recovers and to deal with the state's fiscal problems." In addition, recent polls show decreasing public support for TABOR.

VII – D. Property Tax Freeze

A measure similar to TABOR but without constitutional implications is the Property Tax Bill (AB 58, SB 28). It would freeze local property taxes for three years and limit municipal levy increases to the full amount of new construction. It would also allow technical colleges and school districts to increase their levies by 2.6% each year, the statewide average growth in new construction.

As we have noted, the local property tax is the largest source of state and local revenue. In FY2002, local property tax collections accounted for $6.47 billion, or approximately 37% of all state and local taxes. Individual income taxes accounted for 28% and sales taxes accounted for 22%.

A WTA study projected that property taxes were expected to increase more than 6% in 2005 while personal income was projected to increase by 5.5% The average increase in property taxes over the past seven years has been 5.8%.

The average taxpayer is seeing property tax hikes that far exceed increases in inflation. An additional source of financial stress is that homeowners bear about 70% of Wisconsin's property tax burden up from 50.6% in 1970. Even though the median home value has increased from $150,000 to $175,000 it is a non-liquid asset that cannot be readily used to pay the tax collector.

Major opposition to a property tax freeze comes from public schools, local governments, and those who foresee unintended consequences, such as deep cuts in services in communities that don't have economic growth. The current property tax problem is in large part a result of economic recession and the state foregoing its commitment to funding two-thirds of public school costs and its passing of un-funded mandates that cause local governments to provide additional services without additional revenue from the state.

Advocates of the property tax freeze include Republican Party leaders and Wisconsin Manufacturers & Commerce (WMC). President James S. Haney said, "With reasonable spending and taxing limits in our Constitution, we could get the tax relief we need and the services we expect. Our tax burden consistently outstrips our ability to pay in Wisconsin. We need a long-term solution to what has become the most vexing problem in our state – high taxes. We need to get taxes and spending under control so our economy can continue to grow."

Lastly, some characterize the property tax freeze as a surrogate for TABOR. While not as permanent, its primary goal is similar in that it gets the state to reduce funding so that all levels of government are forced to cut spending.

VIII. Summary and Final Thoughts

There are a myriad of approaches to taxation and service delivery that people of good faith can advocate to try to ensure that Wisconsin taxpayers get good government. However, our research leads us to believe that some approaches are better than others.

Tax-Base Sharing

To address the effective delivery of services, encourage collaboration among local governments, foster more efficient resource allocation decisions, and to more equitably distribute tax burdens within regions, BACC urges citizens to learn more about regional tax-base sharing. Under tax-base sharing, all municipalities within a metropolitan area agree to share a portion of their tax proceeds from new development. This eliminates competition among communities within the metropolitan region; facilitates other planning goals such as preserving open space or maintaining a vibrant downtown; encourages suburbs and central cities to cooperate on regional economic development goals; and leads to a more equitable distribution of tax burdens for public services.

Fostering tax-base sharing can be done without establishing regional government or amending the constitution. The legislature could create regions corresponding to metropolitan statistical areas and county boundaries.

Tax-base sharing can provide an equitable means of dealing with increasing social and economic inequalities between central cities and their suburbs. Tax-base sharing can break the mismatch between public service demand and property tax resources. Savings could be realized in the delivery of services such as police, fire protection, water and land use control, as well as enhancing economic development. Long term regional benefits of better planning include more pleasing community design, more efficient transportation systems, less pollution, and less economic segregation.

Obstacles to enacting tax-base sharing include overcoming historical competition among communities and the complexity of developing new management systems and sharing formulas that are workable. A desire by legislators for quick fixes and continuing disengagement by voters may also hamper efforts to establish tax-base sharing.

Tax Payer Bill of Rights (TABOR)

TABOR would place spending limits on state government through a constitutional amendment. This will deprive legislators of flexibility in raising certain taxes (although there are exceptions for emergencies) and has the result of slowly shrinking government. On one hand you must wonder whether the changing needs of the state will be adequately addressed.

Traditionally, legislators have had great difficulty telling constituents, "I won't fund your request." TABOR can help legislators overcome this difficulty. Under TABOR, they could say, "I can't fund your request." TABOR won't automatically foster improvements in government operations, nor will it guarantee increased effectiveness and efficiency. Still, it is likely that TABOR could stimulate some elimination of non-value-added costs and force local governments to seek additional improvements to efficiency.

It is possible to make strong, eloquent arguments on both sides. However, most BACC board members do not feel that TABOR's spending limits will lead to better government.

Other Strategies

The Governor's Tax Force on Educational Excellence recommended increasing the state sales tax by one cent and expanding the sales tax-base to generate $1.44 billion in revenue to produce property-tax relief. But expansion would include taxing business services currently not taxed. That won't satisfy those who believe that Wisconsin government is too expensive.

We also explored tax freeze proposals. Similar to TABOR, tax freezes reduce the flexibility of government and make it harder for citizens to hold legislators accountable. Lawmakers should be able to make tough decisions during budget deliberations without creating new laws to hide behind.

The state also could pass "pay as you go" spending rules, tying spending to actual revenue and match tax reductions with spending cuts. It could also adopt a rainy-day fund to stabilize the budget. And property tax reductions could be targeted to reduce the burden on those least able to pay.

Final Thoughts

Our months of research led us to conclude that regional tax-base sharing holds the most promise for Wisconsin to weather this oncoming storm. It has the potential to increase local government accountability, direct taxpayer dollars to most-needed public services, strengthen grass roots democracy and volunteerism, and foster and reward cooperation among local governments.

Ultimately, the challenges Wisconsin faces are functions of political geography. If we agree that certain services must be provided, it is usually necessary to take some revenue from one area of relative affluence and spend it in another that is less so. This is what state and federal governments have traditionally done through revenue sharing—why not local governments as well? The state has been attempting to do this with the shared revenue program but can't control its own spending. A regional approach to development through tax-base sharing will allow Wisconsin to return more control to the local level and will result in more effective government. By tying the interests of regional communities together, we eliminate wasteful competition and encourage the consolidation of programs and planning.

While it seems impossible to definitively answer the question, "Is Wisconsin a high tax state" we have discovered that the state has a significant structural problem when it comes to generating revenue and providing services. Until this structural problem is resolved, we should not anticipate any major changes in taxation and service delivery.

Members of BACC believe Wisconsin can do better than the status quo. Wisconsin has a proud tradition of developing innovative solutions to meet the needs of its citizens. Now is the time for citizens to create a new system of governance based on sharing some tax-base. By drawing together and sharing, the people of Wisconsin can keep their social, economic and political fabric intact despite the gathering storm.

Opportunities for Action

For readers of this paper who are now wondering what can be done with this information, and how to advance the idea of regional tax-base sharing, we invite you to:

- Ask a BACC board member to talk to your citizen group about the issue

- Write or talk to your state legislator about the issue
- Speak to your elected municipal government officials about passing a resolution in support of using some tax dollars to fund elements of a regional solution.

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