

THE TAX REVOLT OF 2003

WHY THE VOTERS ARE MAD AS HELL

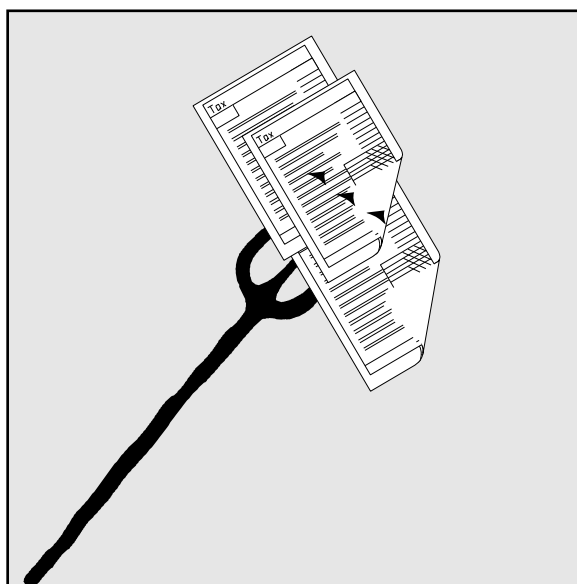
CHARLES J. SYKES

For Wisconsin's political establishment, the property tax revolt began July 22, when Republican Mark Honadel defeated Democrat Al Foeckler in a special election to the state assembly.

No Republican had been elected from the district for more than 70 years, and the Democrat had dominated the airwaves for weeks as WEAC and other special interest groups flooded the zone to hold the seat.

In the end, though neither history nor soft money mattered. The race had become a referendum on the property tax freeze and Honadel swept to victory with a stunning 61 to 39 percent margin. Republicans also came within a whisker of winning a second seat in what should have been a safe district in Stevens Point.

To say that the election came as a shock to the body politic hardly captures the reaction. Ignored by the media, underestimated by state politicians, the disillusionment behind the tax revolt had shifted the political landscape. For weeks, calls to legislators had been running overwhelmingly in favor of the property tax freeze for weeks, but until July 22, it was possi-



ble to dismiss the issue as a mid-summer gimmick.

Governor Doyle had staked his political standing on his promise not to raise taxes and had gambled that he could finesse the issue of property taxes that would rise as a result of his budget. Doyle had already signaled that he intended to veto the freeze and local officials and editorial boards had joined a

chorus of opposition. Virtually the same cast of characters had successfully mobilized against former Governor McCallum's plans to cut aid to local governments a year ago and there seemed to be no reason to believe that they could not repeat their success this year.

Despite chronic simmering discontent over property taxes, most politicians in Madison assumed that whatever unhappiness might arise over property tax hikes would be directed not at them, but at local officials.

Overnight, all that changed. Except that it was not overnight.

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In retrospect, Mark Honadel's election — remarkable in itself — was also a political echo of a revolution that had already been underway for a year, marked by cascading political scandals in state, city, and county governments.

The district that elected Honadel had been at the epicenter of the taxpayer revolt that helped toppled former County Executive Tom Ament a year earlier. Voters in the same district had also voted overwhelmingly to recall their county supervisors, who had voted for the controversial pension giveaway that toppled Ament and highlighted growing anger over the level of local property taxes.

Fourteen months before the Honadel-Foeckler race, a 34-year-old conservative Republican state representative named Scott Walker had been elected Milwaukee county executive on a platform that included a county property tax freeze.

Even so, a year later politicians in both parties seemed to be taken by surprise by the level of taxpayer discontent. By mid-year, however, they faced a full-fledged taxpayer revolt complete with rallies, demonstrations, and threats of recall, all the result of the perfect storm of tax politics: a weakened economy, a rising tax burden, eroding confidence in politicians, and an electorate that was both fed up and paying attention.

The Shell Game

For decades Wisconsin's tax structure — and its politics — resembled nothing so much as an elaborate shell game. One unit of government (the state) collected most of the taxes, while other units of government (local) spent them. As a result, cuts in local property taxes often masked increases in state spending; while in turn, cuts in state spending often were simply transferred to increased property taxes.

Despite the rhetoric about local control, the reality is that in Wisconsin, no local governments pay their own way. Indeed, it's impossible to talk about the overall state taxburden without taking into account the unbreakable nexus between state and local spending.

Fully two-thirds of state general revenue funds are sent back to local schools and governments, cash that leveraged huge increases in local spending. Between 2000 and 2001, Wisconsin spent \$7.586 billion on state operations, while local governments spent \$17.688 billion. While spending on state operations actually went down by 14.8% local government spending increased 7.26%.

"The more local governments rely on outside state and federal aid to fund their services, the more they spend per capita," a recent study by the Wisconsin Policy Research Institute found. "The gap between state taxing and local spending allows public officials to place at least part of the blame on the other."

From time to time, state politicians would claim they were providing relief to local property tax payers — most recently in the mid-1990s — but generally the relief proved ephemeral. Instead of using state money to lower property taxes, too many local officials used it to increase spending. And why not? Wisconsin's tax and spend system was based on "free" money.

One of the most dramatic examples of the phenomenon was the state's experiment with picking up two-thirds of the costs of K-12 education. Before 1992, property taxes for schools had been rising at a teeth-clenching 8.7 percent a year. By imposing levy limits and the so-called Qualified Economic Offer that limited teacher contracts, the legislature hoped to dramatically cut property taxes.

In the short run, taxpayers did enjoy some relief, but at a fearsome cost to the state. From 1997 to 2002, the state spent \$24.78 billion on local school aids — \$5.2 billion more than the state would have paid out if aids had grown at the rate before the legislature made the two-thirds commitment.

But the state's commitment to pick up two-thirds of the costs also proved a nearly irresistible lure for local spenders as well.

In 1993, before the state's two-thirds commitment was passed, there were only 55 school building referenda statewide; successful referenda averaged only \$5.9 million apiece.

From 1996 through 1998, with the prospect of “free” state money picking up the lion’s share of the costs, the number of school building referenda jumped to an average of more than 165 a year and the average size of the successful bond issues jumped to \$10 million by 1999. From 1991 through 2001, voters approved building referendums for schools totaling \$4.78 billion, and one time revenue cap exemptions of \$130.4 million.

“It is not surprising that school referendum activity surged after the state’s promise of increased funding,” explain Todd Berry of the Wisconsin Taxpayers Alliance. “The legislature reduced the local cost of building, shifting it, in part, to the state. The promise of increased state school funding acted as an incentive, encouraging local districts to build.”

The result was a massive surge in local debt. In 1991, school districts statewide carried \$982.5 million in long term debt, but by 2001 their debt had grown to \$4.74 billion, an increase of 383 percent in a single decade.

The Crunch

Meanwhile, the state was going broke.

After years of ignoring a growing “structural” deficit, the governor and lawmakers were confronted with a massive \$3.2 billion budget deficit that reflected the sagging state economy. Even as taxes had remained stubbornly high, the ability of the taxpayers to pay the state and local tab had become increasingly strained. In 2001, per capita income was 3.9% below the national average and lagged behind every neighboring state except Iowa. Family income nearly equaled the national average, but only because state workers work longer hours, hold down multiple jobs and on average have more family members working.

The decline in income affected sales and income tax revenues, but the property tax, which is unaffected by either income or ability pay continued to chug along.

In 2002, the combined tab for state and local taxes came to \$18.78 billion. But while state sales and income tax collections actually declined because of the economy and previously enacted tax cuts, local property taxes actually rose by 7% to \$6.9 billion.

In last year’s elections both Republicans and Democrats promised they would deal with the deficit without raising taxes. Doyle, who became the first Democrat elected in 16 years, was especially adamant. Even after he was elected, he insisted this March that “whether it’s income taxes or sales taxes or property taxes, the people of Wisconsin cannot afford a tax increase — and they shouldn’t have to.”

His reference to the “property tax” may have been a slip, because the Legislative Fiscal Bureau predicted that his budget would result in local property tax increases of nearly 9 percent to make

up for his proposed cuts, including his backing off the two-thirds school funding commitment. While his allies in the teacher’s union were apparently willing to concede a temporary retreat in state aid, they drew the line firmly at any measure that would limit the ability of local districts to fill the gap by raising property taxes.

Faced with the “freeze” (which actually provided a modicum of flexibility to both municipalities and schools), Doyle insisted that (a) voters should “trust” local officials to make the decisions about local taxes, (b) the freeze would result in “devastating” cuts, and (c) that increases in property taxes did not violate his “no-tax” pledge.

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The Myth of Local (Self) Control

Probably, Doyle's strongest argument related to local control. But because the tax freeze provided for local referenda, the real question was whether voters trusted elected officials or the public. The governor opted for the politicians.

Especially in southeastern Wisconsin, this was highly problematic. Milwaukee's pension scandal — in which county politicians voted themselves massive seven figure payouts — coupled with indictments at City Hall had hardly created a climate conducive to "trust," especially since they focused attention on the extraordinary amount of waste, self-serving, and insider-dealing in local governments. The mayor's sex scandal, the ongoing deterioration of the Milwaukee Public Schools, and infighting over the Milwaukee Police Department underlined the deterioration of the area's most expensive local services.

The recall movements that toppled Tom Ament and stripped eight county supervisors of their jobs were, of course, in reaction to the specific scandals, but they were also a remarkable expression of frustration over the burden of taxation.

Because Wisconsinites had been docile for so long, much of the political establishment was slow to recognize the breaking point when it came. The media, which had slept through the county pension grab, had also missed the growing anger over property taxes.

It was only after Doyle had vetoed the freeze that the *Milwaukee Journal Sentinel* reported that from 1997 and 2002, property taxes in local governments in the eleven county region rose more than twice as fast as inflation. The officials that Doyle insisted that we trust had voted to raise property taxes faster than the rate of inflation in 80% of the communities in the region.

During that same time — when the inflation rate was 12.5 percent — municipal property taxes in Wisconsin rose 33 percent, county taxes jumped by 37 percent, school property taxes rose more than 23 percent.

Despite those increases, — and despite the fact the Wisconsin's personal income has dropped below the national average — Doyle found himself arguing that they needed to rise by another \$945 million in the next three years.

That, in a nutshell, is what set off the property tax revolt in South Milwaukee and Oak Creek and sent it spreading across the state.

After years of paying ever bigger tax bills, voters reacted skeptically to officials who turned to the hoary threat that if they were asked to live within their means they would have to shut down fire houses and close schools.

In opposing the freeze, Doyle repeatedly warned that it would result in cuts of more than \$400 million for local schools. But the "cuts" he warned of were actually *tax increases* above and beyond current levels that would have been barred by the freeze.

In their anatomy of our tax hell, the Wisconsin Taxpayers Alliance found that in 2002 Wisconsinites paid \$2.4 billion more in state and local taxes than the national average.

The single biggest factor was the cost of schools, which exploded in the 1990s. Indeed, if the state's schools had held their spending to no more than 10 percent above the national average, taxpayers would have saved \$2.2 billion. But now Doyle was arguing that the schools would be beggared without big new tax hikes. It was a tough sell.

For Doyle, however, the trickiest part of the debate was over the question of whether such tax increases broke his promise not to raise taxes.

Historically, state politicians of both parties had sought to shift responsibility for property taxes to local officials. Indeed, the political culture of the state can be defined in large part by the faster-than-the-eye shuffle of tax dollars and responsibility between the state and local levels. Doyle certainly did not invent it.

But if the *political* reality had always been that governors and legislators were held blameless for local decisions, the *fiscal* reality

has always been that Wisconsin's tax hell is indivisible — a virtually seamless, highly integrated, tax and spend organism that seemed to defy every effort to control its growth.

As radical as it was, the “freeze” was not without precedent because the state has imposed levy limits on local governments for years. The “freeze” was simply stricter and more far-reaching, limiting tax levies for three years at a time when state aid was actually declining. Undoubtedly, it would have forced difficult choices on local officials. But it also recognized a naked political/fiscal reality: there is no tax relief without spending cuts; and there will be no spending cuts without the pressure of the freeze.

What Doyle and his allies were slow to understand was that the very simplicity (they insisted on calling it simplistic) of the “freeze” was its strongest appeal.

For fed-up taxpayers, the freeze said “Enough.” Doyle was forced to argue for “More.” The battle lines could hardly have been clearer.

For many taxpayers a tax was a tax, and the property tax was the most hated of all. Unlike the state income or sales tax, which are paid through withholding or buried in the price of purchases, the property tax has an immediacy that magnifies its impact. Reassessments periodically cause unforeseen spikes and because property taxes are paid in a lump sum at the end of the year, most state taxpayers know exactly what they pay and feel increases in a tangible, direct way. (Imagine how different the politics of taxation would be if income taxes were paid in a similar way.)

Moreover, property taxes were regressive and unforgiving. If a homeowner was laid-off, the property tax was unchanged. If a home-

owner was downsized or disabled, the property tax was unaffected. If a homeowner retired, the full bill was still due. While upper income taxpayers might use the property tax as a write-off against their federal income taxes, for middle and lower income taxpayers the property tax could often be a looming threat to their ability to keep their homes.

As Jeff Mayers notes in an accompanying argument, the issue of property tax relief had long been a Democratic issue, because the tax fell most heavily on groups that should have been the party's natural constituencies — the elderly, and middle and low income homeowners. But instead of addressing the issue as part of his overall no-tax-increase message, however, Doyle tried to wash his hands of the issue. It backfired badly.

The largest rally in support of the tax freeze was held the weekend before the senate's override vote in the heart of what was once the solidly blue-collar, solidly Democratic south side of Milwaukee. Hundreds of freeze supporters packed Serb Hall, the legendary mecca of Democratic politicians for generations

— but no Democratic politicians showed up.

In the end, Doyle succeeded in having his veto upheld, but the victory may have been a Pyrrhic one. For the next three years, every property tax increase will be blamed on his veto.

Because he refused to compromise, he forced a number of Democrats in vulnerable seats to vote against the freeze, without having a plausible alternative. At the last minute, some Democrats called for increases in state property tax credits, but this was simply more of the sort of increased spending that had failed in the past and that the state could no longer support.

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Doyle had not only lost the tax issue, he had found himself in a political box of his own making. Even as public attention has been focused on local property taxes, Doyle is committed to advancing the agenda of the state teachers' union. As much as school spending has skyrocketed, it would have risen even faster had it not been for spending caps, such as the Qualified Economic Offer, which limits the growth of teacher contracts.

But behind those caps, pressure for ever higher spending continues to build like a rising tide against an increasingly fragile dam.

WEAC is committed to eliminating the QEO, and Doyle has pledged his support.

Imposing a freeze would have made it impossible to get rid of those caps and would have generated pressure to bring the Rolls Royce health plans into line. Since WEAC itself runs (and profits) from those health plans, this was a bottom line issue for the union.

Something has to give.

WEAC's agenda cannot be enacted without either massive new state aid or increases in local school taxes.

But Doyle's political problems may be of a more immediate nature. As early as January, Milwaukee Senator Jeff Plale may face a recall attempt.

Fittingly, Plale represents the area that is at the heart of the tax revolt, just as it was for last year's voter revolt against county government. The first major rally in the Ament recall was held at Texx's Victory Hall in Cudahy; the first county supervisor to fall was South Milwaukee's Linda Ryan; and it was Plale's old assembly district that fell to Republicans for the first time in more than 70 years in an

election that turned into a referendum on the property tax freeze.

In other words, Jeff Plale represents a lot of folks who are mad as hell. Days after Mark Honadel won his old Assembly seat, a shaken Plale said that the message from his constituents was impossible to misinterpret and said he was leaning toward overriding Doyle's veto. A few days later, a second Milwaukee Democrat, Senator Tim Carpenter, also had a conversion experience when he attended a pro-freeze rally in South Milwaukee. Carpenter did, in fact, vote against the governor, but Plale reversed himself the day before the vote on the override, which failed 21 to 12.

Because the override failed by a single vote, Plale's last minute flip-flop will be remembered as the one vote that killed the freeze. For weeks, senators had played what amounted to an elaborate game of musical chairs to avoid being that vote, but as it worked out, Plale placed himself in the hot seat.

A year and a half ago, the political establishment assured itself that the Ament recall would sputter out. When it instead drove Ament from office, the establishment assumed that it had run its course. Instead, the movement spread to the county board, with one supervisor after another voted out of office.

For months now, local politicians have been telling themselves that business has returned to usual again. And they're hoping that this summer's tax revolt will somehow blow itself out. They're hoping voters will forget.

They won't. And that's bad news for Jim Doyle.