



## PRESIDENT MESSAGE BY MICHAEL THEO

# HERE'S the Hard PART

The new governor, administration and legislature have all raised their right hands and sworn their respective oaths of office. It was a celebratory time, as it should be. There were many speeches about finding common ground on issues large and small in this new era of divided government between the Democratic-controlled administration and the Republican-controlled legislature, as it should be.

As the new legislative session begins, each party has a legitimate claim to representing what the voters want even though they ran on very different ways to solve our common problems. During the campaign, many promises were made by candidates of both parties to voters of both parties. That's all well and good, but here's the hard part: Now that they're in office, they will begin making good on those campaign promises, many of which could have them traveling down the same tracks, but in opposite directions.

REALTORS® must not only pay close attention to these debates; we must be fully engaged! On the key issues that will likely dominate this legislative session, and upon which the political parties are likely to disagree, are many issues that are key to Wisconsin's economy, to REALTORS® and to property buyers, sellers and owners. One such mega issue can be found at the intersection of school funding and property taxes, both of which are essential issues to the real estate industry.

The tension between ample funding for schools and lower property taxes is not new — for Wisconsin or Wisconsin REALTORS®. And while no one likes paying higher property taxes or rents, voter desire for more primary education funding has grown, evidenced by the increasing passage of school referenda for building new schools, enhancing maintenance and even ongoing operations.

According to a new study by the Wisconsin Policy Forum (WPF), voters set a new record in November for passing referenda to exceed state-imposed school revenue caps, and in so doing, set a new record for voters increasing their own property taxes. In November, voters approved 77 of 82 referenda measures — that's 94 percent — totaling \$1.37 billion across 57 school districts. According to the WPF analysis, there are two main reasons for the high number of favorable referenda votes. First, we enjoy a good economy. History shows that spending referenda pass more often when the economy is humming than when the economy is slower. Second, very high voter turnout resulted in a broader spectrum of voters. More than 2.6 million Wisconsinites voted in November, which was a whopping 59 percent of eligible voters. This turnout was higher than any previous midterm election.

This level of voter support for increasing school spending, coupled with the campaign promises of a Democratic governor who is a former

teacher and longtime state Superintendent of Public Instruction who promised significant increases in school funding, will put more pressure on the Republican-controlled legislature to increase state funding for K-12 education and/or relax revenue limits and provide more property tax revenues for schools.

If such a debate is engaged, the WRA will be put in a tough spot. Great schools are a top concern for real estate buyers and businesses. But at the same time, we have championed lower property taxes to keep housing affordable for home buyers, owners and businesses. When Gov. Walker proposed legislation last session that did both, we strongly supported his plan to the legislature, sponsoring advertising that showed a pig flying over the capitol, symbolizing how unusual, but not impossible, it was to provide more money for schools without raising property taxes.

But Wisconsin still lacks a long-term solution to provide local units of government, including schools, with adequate funding from sources other than the property tax. Until that is done, the school funding/high property tax conundrum will remain.

The process of finding a permanent solution starts with understanding Wisconsin's over-reliance on the property tax as a local government revenue source. At its meeting in January, the WRA board of directors listened to a briefing from the WPF on this subject. The WPF research showed, among other things, the following:

- Many years ago, Wisconsin made a conscious decision to use state revenues to provide funding to local governments, including schools, while simultaneously limiting local revenue options to just property taxes. Wisconsin has ranked among the highest property tax states ever since.
- Even today, no other Midwest state depends more heavily on the property tax than Wisconsin, and only a few other states nationally do.
- When property owners demanded lower taxes in the 1990s, the state adopted some of the tightest property tax limits in the country.
- With flat or falling resources from the state and capped property taxes, local governments turned to other revenue sources like fees and wheel taxes. Local referenda to increase property taxes for schools and other local government services have also been passed with increased frequency.
- Despite the property tax caps, Wisconsin is still the 7th highest state in the nation for reliance on the property tax. By contrast, we rank 43rd in sales taxes.

Where does that leave us? If we want good schools and good municipal services like roads, police and fire protection, garbage collection, desirable parks and snow removal, we need a new tax paradigm for local units of government and a new system that provides new tax sources and revenues in exchange for lower property taxes. And if we are going to ask lawmakers to consider allowing for new local revenue sources in exchange for lower property taxes, it's incumbent upon us to articulate an alternative plan.

Stay tuned as the WRA works with other interested parties to devise workable, sustainable and acceptable alternatives and present those ideas to a new governor, administration and legislature. But prepare yourself: Any alternative tax strategy will be as controversial as it is necessary. That's the hard part.

Michael Theo  
President and CEO