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The Covid-19 Fiscal Fall-Out for Cities and Villages

Impact Likely Greatest in Tourism Communities Though Others Will See Challenges

Key municipal revenue streams will take a hit as the economic fallout unfolds from the COVID-19 crisis, with greater impact for cities and villages that rely more heavily on fees and taxes tied to tourism and visitors, according to a new report from the Wisconsin Policy Forum.

Our latest issue of “The Wisconsin Taxpayer” finds the revenue sources for the state’s municipalities provide some advantages compared to their counterparts in other states. Chief among these is the extent to which they rely on streams of revenue, such as property taxes and state aid, that are less subject to immediate or large swings.

Yet municipalities will not be able to sidestep the sweeping challenges that will confront other governments and businesses amid an economic crisis.

“Wisconsin’s municipal and county governments clearly will not be spared from the financial havoc the COVID-19 crisis is wreaking on the nation’s economy,” the report says.

Seven municipal governments designated by the state as “premier resort areas” – the cities of Rhinelander, Eagle River, Bayfield, and Wisconsin Dells; and the villages of Lake Delton, Sister Bay and Stockholm – are permitted to collect a limited sales tax. These revenues are nearly certain to see a sharp decline as the tourism economy nationally has cratered. The same is true for “room” taxes for hotel and other short term-lodging stays, which all municipalities (except Milwaukee) may collect – though a large portion of the proceeds of this tax are required to go to tourism promotion.

Collections of certain user fees, from bus ridership to zoo admissions to building inspections – as well as fine collections from parking and other violations – also are likely to decline precipitously. Other challenges could include an increase in delinquent or unpaid property taxes and fees and a failure of revenues in tax increment districts to grow at levels needed to service debt.

The impact to tourism-reliant communities could be especially harmful because, as this and [another recent Forum report show](#), they are likely to sustain a double blow to both their public and private sectors.

“These communities also stand to suffer significant losses in private-sector jobs and employment,” the report says.

Other communities are likely to see less of an impact because of the unusual extent to which Wisconsin, relative to other states, funds local governments with property tax revenues. Although property values can plunge during economic downturns, there is a lag between the onset of the downturn and the time it takes to conduct new property assessments that quantify the loss in value. Furthermore, property taxes for 2020 already have been levied, while levy amounts for 2021 will be based on property valuations as of the beginning of this year, before the COVID-19 crisis hit. Even more importantly, municipal leaders can choose to offset any decline in property values in future budgets by raising property tax rates, because state-imposed limits on property tax levies are linked to the total levy amount, not the rate.

Despite those advantages associated with property tax reliance in a downturn (as compared to more volatile sources of tax revenue like sales and income taxes), many cities and villages still are in the process of collecting property tax payments due for 2020 and now may have increased difficulty doing so.

“While 2020 property tax bills were issued in December 2019 and some property owners paid those bills in full by the end of the year for tax purposes, most local governments give citizens the opportunity to pay their bills in installments during the first several months of the following year,” says the report. “Consequently, when the crisis hit, many governments had received only a portion of the taxes owed for 2020, and they may have difficulty collecting some unpaid amounts.”

The other major revenue source for Wisconsin municipalities is state aid, though there is wide variation among cities and villages in the amount of state assistance they receive. State aid payments are written in state law as part of the current state budget that runs through June 30, 2021, though lawmakers and the governor could choose to revise them if the economic downturn is sufficiently severe.

[Go here to read “The Wisconsin Taxpayer: The Covid-19 Fiscal Fall-Out for Cities and Villages.”](#)