WISCONSIN POLICY FORUM

THE COVID-19 FISCAL FALL-OUT FOR COUNTIES

As the only local governments in Wisconsin that receive significant sales tax revenues, counties will see a significant blow from the current crisis, particularly in regions that rely on tourists and other visitors. Other key revenue streams also will take a hit, including collections from charges for services, and a likely rise in delinquent property tax payments also may create fiscal challenges.

As the impact from the coronavirus roils the economy here and around the world, Wisconsin's counties lie in its path. More than any other type of local government in the state, counties will see their tax revenues reduced and their spending demands increased by this unprecedented crisis.

In a recent report, we examined the hit that city and village revenues would take from the fallout from recent events. This follow-up report reviews revenues for counties around Wisconsin and how they will be impacted.

Like municipalities, counties in Wisconsin rely more heavily than those nationally on property taxes – an advantage right now given their relative stability in economic downturns. Counties also depend even more than cities and villages in Wisconsin and U.S. counties do on state aid, much of which is locked in place for the time being in the state budget. These factors give most of Wisconsin's local governments greater protection from the kinds of untenably steep drops in revenue that could be seen by their counterparts in other parts of the nation, where reliance on sales and other taxes (besides those on property) is more extensive.

County governments still will see significant challenges, however. Sixty-eight of the state's 72 counties now collect a 0.5% sales tax, which will see diminished revenues throughout the state, and potentially stunning drops in some regions with significant visitors. Unlike some states, Wisconsin exempts groceries from state and county sales taxes, making revenues here potentially more vulnerable.

In addition, user fees charged for services like parks and recreation are likely to decline precipitously until American life is restored to some semblance of normalcy. Other challenges could include an increase in delinquent or unpaid property taxes both for the amounts owed to counties themselves as well as those owed to other jurisdictions that counties are responsible for collecting.

Like other local governments, counties may not be able or willing to furlough or cut staff or make other kinds of spending cuts that would harm their communities at a particularly vulnerable moment. On top of that, counties' role delivering health and human services means they could bear a particularly heavy burden related to sick patients and newly unemployed workers. For those reasons, a loss of revenue could have serious consequences for those served by counties.

In this report, we review county revenues in Wisconsin and how they might be most affected by the COVID-19 crisis. Our analysis examines general revenues, which likely include the majority of those that could be most impacted by the current crisis. As reported to the state Department of Revenue by counties, general revenues include property taxes, state and federal aids, charges for services, license and permit fees, fines, and more. They do not include the proceeds from bonds and other debt. The revenues included here flow into counties' general funds as well as other core governmental funds such as those for libraries, debt service, and capital projects.

This analysis does not include what are known as proprietary funds, which generally include those county operations that are run more like businesses (e.g. airports or nursing homes). Though in many cases the revenues in these funds will be at least relatively stable, some could take substantial hits as well.

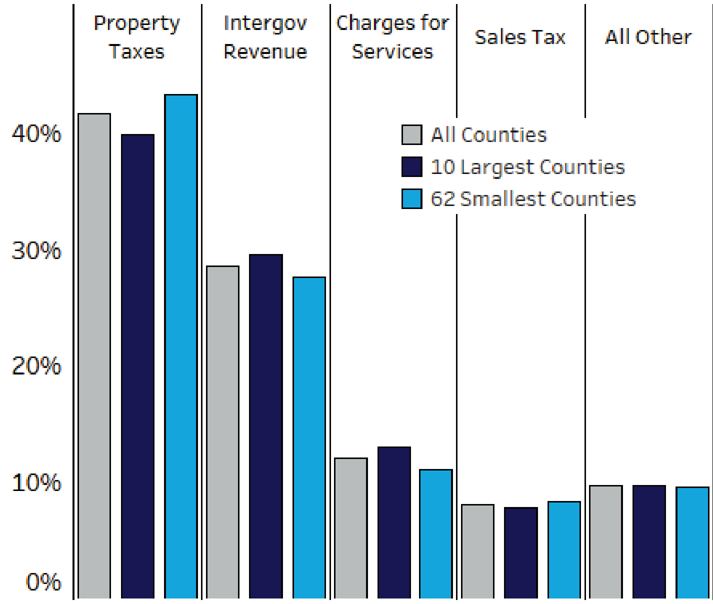
Why Revenues?

This initial assessment of potential coronavirus-related impacts on county governments focuses on the revenue side of the financial ledger, as opposed to the added expenditures that may be required to respond to the crisis. There are basic similarities among Wisconsin's counties with regard to the vulnerability of the revenue sources on which they depend. By examining their general revenue composition and how major sources might be impacted, we can paint a broad picture of the nature and scope of the revenue-based challenges that are likely to emerge for all county governments.

Examining possible expenditure impacts is more complicated because of the different services provided by different counties. Functions like public health, dispatch, transit, libraries, and parks and recreation may be provided in varying degrees at either the municipal or county level. Another critical question is the general fund balance and overall fiscal condition of each local government, which speaks to its capacity to absorb likely revenue hits without having to lay off staff or reduce services. Assessing these issues would require individual examinations of counties, which was beyond our scope for this report.

Figure 1: Counties Highly Reliant on Few Revenue Streams

% of General Revenue from each source



Source: Wisconsin Department of Revenue

THE BIG PICTURE

County governments in Wisconsin – like their municipal counterparts – depend heavily on two main sources of revenue: property taxes ($2.2 billion in 2018) and aids from the state and federal governments ($1.5 billion). As shown in Figure 1, those two sources account for 70% of general revenues for counties, with the 10 largest counties (by population) slightly more reliant on intergovernmental revenues and less reliant on property taxes than smaller counties. Of the intergovernmental revenue total, about $1.4 billion (90.1%) comes from the state and $142 million (9.4%) comes from the federal government.

As we discussed in detail in our recent report on the fiscal consequences facing cities and villages, such heavy reliance on just two forms of revenue typically is problematic, particularly since these two revenue sources are strictly constrained by state statute and often do not grow at the pace of inflation. Yet for now at least, such reliance may be advantageous. Property taxes tend not to decline as quickly or sharply at the onset of an economic recession as other forms of local government tax revenue, such as sales and income taxes (although property values also may take longer to rebound when the economy improves). Meanwhile, amounts for most forms of state and federal aid already have been established in current budgets and any negative impacts typically would not be felt until the following budget year.

Yet, unlike nearly all cities and villages, counties do have some reliance on sales taxes, which generated $427.3 million, or 8.1% of their revenue total in 2018. Under Wisconsin state law, counties may impose a sales tax of up to 0.5% (on top of the 5% sales tax collected by state government). To date, 68 of the state's 72 counties have opted to impose the 0.5% tax. While not nearly as large a revenue source as property taxes and intergovernmental revenues, sales tax collections in those 68 counties have suffered an immediate loss given the substantial decline in consumer purchasing resulting from stay-at-home orders, layoffs, and other negative economic factors linked to the current crisis. The impact may be greatest for counties that generate significant amounts of sales tax revenues from non-resident visitors and commuters.

The third largest revenue source for Wisconsin counties – ahead of sales taxes, which are fourth highest – is public charges for services. This source consists of a wide variety of mostly user-based fees and reimbursement for services like health care for the elderly or those with disabilities, parks and recreation, and various services provided by courts and registers of deeds. Service charge revenue accounted for $639.6 million (12.1%) of counties' total revenue in 2018.

The "All Other" category shown in the figure consists of a wide variety of smaller revenue sources. Among the most significant are intergovernmental charges that counties collect mostly from cities, villages, and towns for various services ($204.9 million); donations and contributions from private sources to support cultural facilities and other county functions ($42.5 million); and fines related to county ordinance violations ($25.7 million).

Using 2017 U.S. Census Bureau data compiled by Willamette University, we find that Wisconsin counties may be modestly better able to withstand the impacts of the COVID-19 crisis than counties in other states. Counties in Wisconsin are more reliant on property taxes than counties nationally (33.0% vs. 28.6% of total revenues) and less reliant on sales taxes (5.7% vs. 6.9%), which means they may experience slightly less volatility in terms of initial revenue declines.

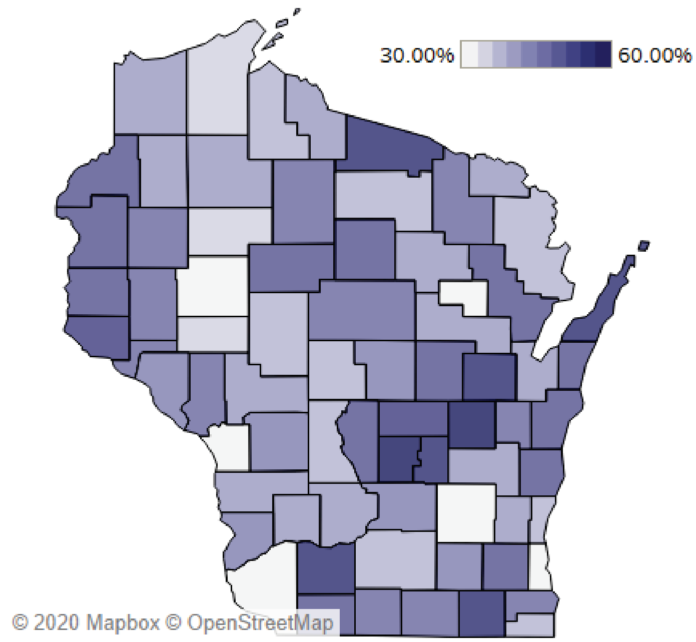
In the pages that follow, we dive deeper into the major forms of tax, fee, and other locally-generated revenue that Wisconsin counties draw on to finance their general operations. Our purpose is to provide a broad assessment of the vulnerability of those sources in today's economic crisis.

PROPERTY TAXES

As noted above, property tax collections are the largest source of income for Wisconsin's counties, generating $2.2 billion in 2018. Clearly, if property tax collections decline as a consequence of the COVID-19 economic crisis, then that would produce substantial fiscal and service-level impacts for counties.

While all counties depend heavily on property taxes, however, the degree of reliance varies widely. As shown in Figure 2, property taxes comprise about 30%-60% of general revenues across the 72 counties. Chippewa County had the lowest reliance in 2018 at 30.0%, followed by Dodge County at 30.2%, Menominee County at 30.8%, and Milwaukee County at 31.1%. Marquette County had the highest at 59.1%, followed by Winnebago County at 57.7% and Door, Green Lake, and Vilas counties (all at 56.7%).

Figure 2: Property Tax Important for Counties
Property Tax as % of General Revenue, 2018



Source: Wisconsin Department of Revenue

As we discussed in detail in our recent report on cities and villages, heavy reliance on property taxes and lesser or no reliance on more volatile revenue sources like sales and income taxes could be advantageous for now to Wisconsin's local governments as they look to navigate the crisis. One benefit is that while property values can be expected to fall (perhaps sharply) as a result of the economic upheaval, the loss in value will need to be quantified via updated property assessments and will take some time to determine.

Moreover, property taxes for the current year were levied in December 2019 and the amounts due will not be impacted at all by any loss in value. Also, any decline in property values experienced by counties in 2020 will not even affect 2021 levies, as those will be based on values determined as of January 1 of this year.

Another key advantage for counties, though not necessarily for taxpayers, is that if and when decreases in property values are determined by assessors and the state and included in property tax levy calculations, county officials will have the leeway to offset any decline in values by raising property tax rates. That is because state-imposed property tax limits are linked not to the rate, but to the levy amount. Consequently, barring a change in state law, local policymakers would be able to raise rates in future years to ensure they receive at least the same amount of property taxes despite a decline in values.

The levy limits still have consequences, however. Per current state law, they would generally prevent county leaders from increasing tax rates by an amount that would yield an increase in the levy used for operations that exceeds the percentage increase in net new construction. Given that new construction rates are likely to diminish, that could preclude counties from having the flexibility to raise levies in the future to keep pace with new expenditure demands or losses in other revenue sources.

Also, while raising rates is legally permissible, other factors may discourage local officials from doing so in a manner that will maintain or increase the level of taxes previously levied. For example, policymakers may deem it unfair to ask property owners to pay the same or higher property taxes as they see the value of their property decline, or they may feel it is inappropriate to increase levies in light of the economic hardship experienced by many citizens.

Finally, while property taxes provide greater stability than sales and income taxes, which decline immediately at the onset of recession, counties could face greater difficulties in collecting from property owners.

Indeed, an immediate concern is the almost certain substantial increase in delinquent property tax payments from property owners who are now unemployed or facing other economic distress. While 2020 property tax bills were issued in December 2019 and some property owners immediately paid those bills in full, most local governments give citizens the opportunity to pay their bills in installments during the first several months of the following year. Consequently, when the crisis hit, many counties had received only a portion of their taxes owed for 2020, and the economic disruption caused by COVID-19 could produce a sharp rise in unpaid property tax installments.

This has the potential of creating immediate cash flow challenges for some counties, though the longer-term severity will be determined by their success in ultimately

Severe Fiscal Impacts for Milwaukee County

The Forum has written extensively about the serious financial challenges facing Milwaukee County in our annual budget briefs and our series of reports on the county's infrastructure challenges. Unfortunately, the COVID-19 crisis will exacerbate the already daunting set of fiscal hurdles facing the state's largest county.

An immediate issue is a sharp decline in sales tax revenues. The county's 2020 budget anticipates $82.5 million in sales tax collections, a total that is certain to plunge in light of stay-at-home restrictions and other factors that have severely dampened several types of consumer purchases.

According to budget officials, the county saw a 12% decline in sales tax collections from 2008 to 2009 from the Great Recession; if replicated in 2020, that would equate to a nearly $10 million loss in budgeted sales tax revenue this year. They are now bracing for a higher reduction to expected collections – perhaps as much as $17 million (20.6%) – in light of the complete closure of restaurants, bars, and retail establishments during the current crisis.

Delinquent property tax payments are another pressing concern. While property tax collection is a municipal function in Milwaukee County, delinquent accounts are turned over to the county by all municipalities except the city of Milwaukee. The county pays the municipality in full for unpaid amounts and then seeks to collect both amounts due and interest and penalties. A substantial increase in uncollectable bills would hit the county's bottom line, potentially to the tune of millions of dollars of lost revenue.

On the bright side, the county relies heavily on reimbursement from Medicaid and other sources related to its high volume of health and human services, which may not be negatively impacted as long as the federal and state governments maintain existing funding commitments. However, smaller but still significant sources of service charge revenue – such as from parks and the county zoo – will see significant declines.

Bus fares also are plunging dramatically, but the federal CARES Act may offset a large portion of that loss and provide other reimbursement for crisis-related expenditures. The county-owned General Mitchell International Airport also is suffering a huge drop in volume and revenue. It is hoped that the losses will largely be shouldered by the airlines that operate there, although that question still must play out.

The county has commendably built a substantial Debt Service Reserve that could approach $50 million with a likely deposit of 2019 surplus monies; that will cushion some of the immediate blow. Nevertheless, both in 2020 and beyond, particularly as the risk of escalating pension payments also comes into play, the impacts of the current economic crisis are likely to hit hard in Milwaukee County.

collecting from delinquent taxpayers. While property taxes are collected and distributed to counties and other taxing jurisdictions by municipal governments, most municipalities eventually turn delinquent accounts for all taxing entities over to counties for collection and receive payment from counties for the value of the amounts owed. Counties are allowed to keep interest and penalties to offset collection costs and risks.

PUBLIC SERVICE CHARGES

Public service charges take a variety of forms for Wisconsin's counties and generated nearly $640 million in 2018, or 12% of counties' total general revenues. As shown in Figure 3, however, the significance of this revenue source is skewed by Milwaukee County, which generated $254 million in service charge revenue in 2018, accounting for more than 25% of its total revenue and 37% of the statewide public service charge total for counties. For the state's next nine largest counties, service charges accounted for less than 10% of general revenue, and for some less than 5%.

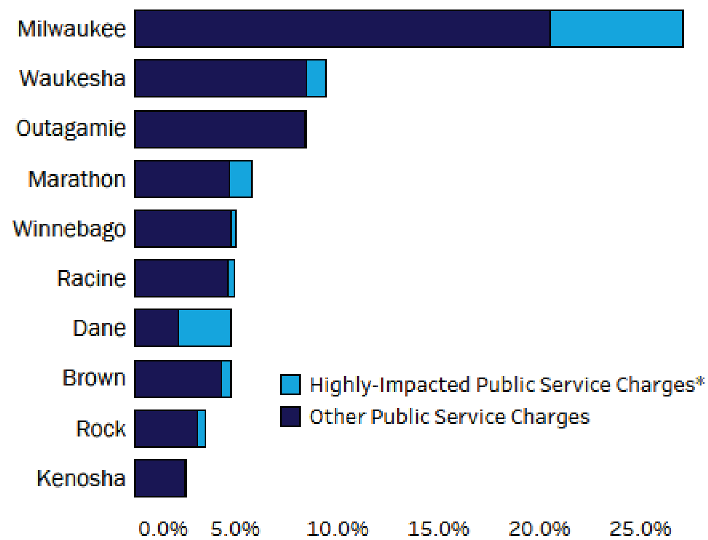
Milwaukee County's disproportionate reliance on public service charges is partially attributed to the comparatively extensive role it plays in providing health and human services. Milwaukee County administers services for thousands of individuals with disabilities, mental illness, and substance abuse challenges each year as well as hundreds of delinquent youth. Medicaid and other federal reimbursement payments, as well as other revenues received in relation to health and human service programs, accounted for $104.9 million of the county's public service charge total in 2018.

In addition, as Figure 3 shows, a comparatively high percentage of Milwaukee County's service charge revenue is derived from services that will be negatively impacted by the COVID-19 crisis in terms of usage. Those include its parks and museums, the Milwaukee County Zoo, the Mitchell Park Domes, golf courses, and other cultural and recreational activities (most charges associated with the county-owned General Mitchell International Airport are not included because it functions as a separate proprietary fund).

Unlike the health and human service charges – which are based on client volume and may even increase as the crisis plays out – these cultural and recreational charges will plummet for several months in light of stay-at-home and social distancing restrictions.

Figure 3: Milwaukee Heavily Reliant on Public Service Charges

Public Service Charges as % of Gen Rev, 10 Largest Counties



* Includes parking lots, ramps, and meters; airports; docks and harbors; libraries; parks and museums; zoos; fairs, exhibits and celebrations; auditorium, convention and civic centers; community centers; and other culture

Source: Wisconsin Department of Revenue

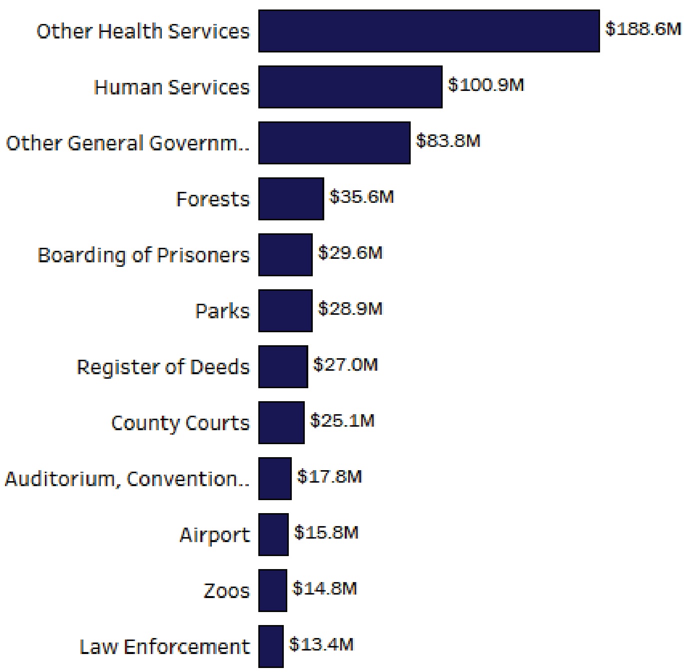
Consequently, unless the county lays off or furloughs staff who work in these areas, there will be a significant financial hit. (Some of these activities utilize seasonal employees who may not be hired at typical levels, so some savings could be realized in those cases.)

Across Wisconsin's 72 counties, service charge impacts will vary. Counties that offer extensive cultural and recreational activities may see impacts similar to Milwaukee County's, while many are likely to see diminished register of deeds fees due to vastly decreased real estate activity and lower collections of court-related fees as justice system volume diminishes.

Figure 4 on page 6 shows substantial portions of public service charges across all counties (and not just Milwaukee County) are attributed to health and human services, which may see increased demand from the crisis. To some extent that may shield counties from declines in service charge revenues, but that may also depend on whether the federal and state governments continue to reimburse for certain Medicaid-related services at current rates; and whether they will offer special funding to counties to offset emergency spending. Other variables are the degree to which counties may need to secure new staff, equipment, and

Figure 4: Health & Human Services Lead County Charge Revenue

Largest Public Charges for Services, All Counties



Source: Wisconsin Department of Revenue

technology to meet increased demand, and whether health-related services that rely on direct payment from clients will suffer due to the greater numbers of individuals who will be unable to pay those fees.

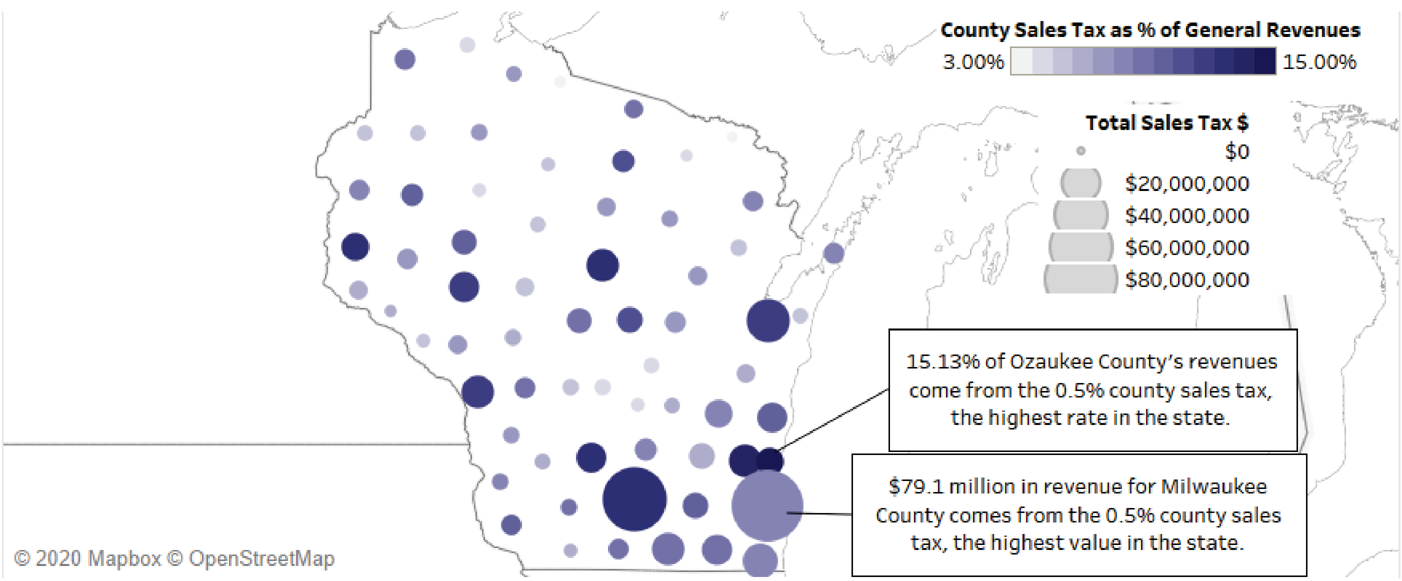
SALES TAXES

While the $427 million in sales taxes collected by Wisconsin counties in 2018 accounted for only 8.1% of their general revenues, these collections stand to sharply diminish at least for the remainder of 2020, producing significant consequences for many. As shown in Figure 5, for the 66 counties that collected sales taxes in 2018 (two additional counties, Menominee and Outagamie, have since been added to the list), their reliance ranged from 2.8% of total revenues (Florence County) to 15.1% (Ozaukee County). In terms of dollar amounts, Milwaukee County collected a high of $79.1 million from its 0.5% sales tax in 2018, with the average amount collected by the 66 counties totaling $6.5 million. However, the median amount was much lower at $2.7 million as a few large counties like Milwaukee, Dane, and Brown pull the average upward.

It is difficult to prognosticate the effects of the crisis on county sales tax collections in both the near and longer term. Impacts will be determined in part by the tenure of Gov. Tony Evers' "Safer at Home" restrictions and other limitations on "non-essential" employment and public gatherings that may remain for several weeks or months after the governor's order is lifted. Equally important will be the pace at which high levels of

Figure 5: County Sales Tax Crucial Statewide

County Sales Tax by $ (size) and % of General Revenues (color)



Note: Manitowoc, Menominee, Outagamie, Racine, Waukesha, and Winnebago Counties did not opt into the 0.5% sales tax as of 2018. As of April 1, 2020, both Menominee and Outagamie counties have begun to collect this tax.
Source: Wisconsin Department of Revenue

unemployment recede and other aspects of American society return to some semblance of "normal."

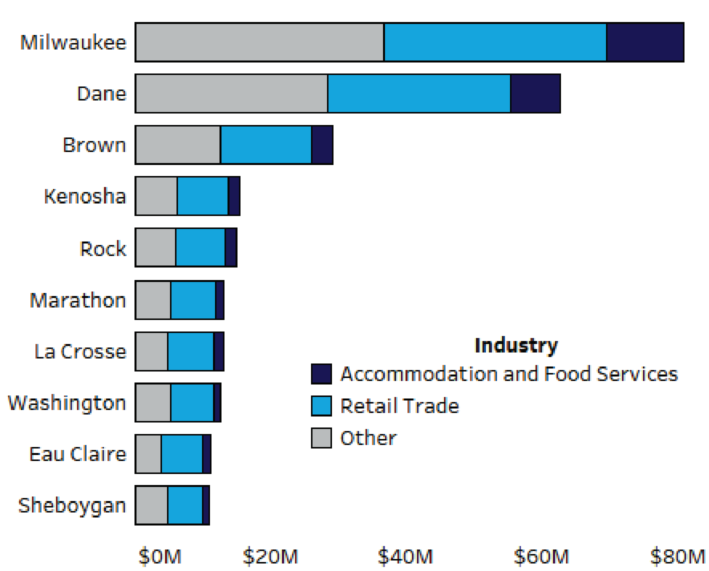
A recent report released by Forward Analytics – a research arm of the Wisconsin Counties Association – projected that 2020 sales tax collections by counties could fall 8%-12% short of previous estimates for the year under two separate sets of relatively optimistic assumptions regarding the length and severity of the current economic disruption. The report estimates such a decline could produce a $37 million to $56 million shortfall in anticipated collections for the 66 counties with enough sales tax history to provide projections.

Initial projections by Wisconsin's two largest counties indicate the damage could be even worse. Dane County's controller has estimated a potential $25 million sales tax shortfall in 2020 while, as noted previously, Milwaukee County is bracing for a possible $17 million reduction in budgeted sales tax revenues.

It should be noted that two major areas of retail sales that may not be seeing declines – groceries and pharmaceuticals – are exempted from the sales tax in Wisconsin. Conversely, other sectors that *are* significant contributors to sales tax collections, like restaurants, lodging, and retail, will be hardest hit. As shown in Figure 6, those sectors (shown in blue and dark blue) accounted for more than half of sales tax collections in each of the state's 10 largest counties in 2019.

Fig. 6: Majority of Sales Tax Comes From Impacted Industries

Makeup of Sales Tax by Industry, 10 Largest Sales Tax Revenue Counties; 2019 data



Source: Wisconsin Department of Revenue

THE BOTTOM LINE

Most of Wisconsin's 72 county governments are grappling with the prospect of sizable revenue declines for the rest of this year, which will be difficult to handle given the demand for additional spending in areas like public health and emergency management. For the four counties that do not levy sales taxes, the impact should not be as great. Conversely, for those that rely on sales tax collections not only from residents, but also from high volumes of daily commuters, tourists, and other visitors, the impact could be severe.

The ability of individual counties to accommodate revenue losses will depend on a variety of factors, including their general fiscal health and level of reserves heading into the crisis; and the specific types of services for which they are responsible. For example, those that provide extensive recreational and cultural offerings that are partially financed by fees will see a sharp plunge in revenue, potentially causing them to consider staff layoffs or furloughs.

There are also glimmers of hope. Because impacts on counties' foremost source of revenue – the property tax – will not be as immediate, a timely economic rebound could spare them from longer-term budgetary impacts beyond an immediate rise in unpaid installments.

Counties also may benefit from the federal CARES Act, which is estimated to include nearly $2.3 billion for Wisconsin, including $360.6 million for its three largest local governments, according to the Legislative Fiscal Bureau. The specific use of these funds has not yet been determined and appears to be restricted to spending on the health emergency; even if most are retained for state purposes, however, that may help to defray unanticipated spending and ward off or lessen any potential cuts to state aids for now at least.

Overall, county governments in Wisconsin are fortunate that those revenue sources most vulnerable to severe disruption – such as sales taxes, recreational fees, and register of deeds fees – comprise relatively small portions of their overall revenues. Nevertheless, as the economic impacts of the crisis persist, the need for some county services likely will grow. That would pose a difficult dilemma even in a time of steady revenues, thus making even modest crisis-induced revenue declines a formidable challenge for counties as they navigate the uncertain times ahead.