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Contact:
Rob Henken, President
(414) 708-4392 or rhenken@wispolicyforum.org

The Covid-19 Fiscal Fall-Out for Counties

Diminished sales tax revenues and new spending demands will pose big challenges

Wisconsin counties are likely to see tax revenues decline and service demands increase during the unprecedented COVID-19 crisis, with particular challenges in regions that rely on commuters, visitors and tourists, according to a new report from the Wisconsin Policy Forum.

Counties are likely to face the greatest fiscal challenges among Wisconsin's local governments. They are the only ones that receive significant sales tax revenues and, due to services they provide, are the most likely to see increased demand for services during the economic downturn brought about by the pandemic.

"As the impact from the coronavirus roils the economy here and around the world, Wisconsin's counties lie in its path," the report warns.

Wisconsin counties possess some advantages, particularly relative to their counterparts in other states. For example, their overall reliance on property taxes – which the Forum has found to be problematic in normal times – gives Wisconsin counties greater protection from the immediate steep drops in revenue that an economic downturn could bring to counties in other states that rely more heavily on sales and other taxes.

But county governments can still expect significant revenue challenges ahead. Sixty-eight of the state's 72 counties collect a 0.5% sales tax, which will see diminished revenues, and potentially stunning drops in some regions with significant visitors.

Other revenue challenges may include declines in collections from charges for services, and a likely rise in delinquent property tax payments. Meanwhile, as key providers of health and human services, counties are likely to see spending demands increase due to the health and economic ramifications of the crisis.

As we discuss in this and in our recent companion to this report, "The COVID Fiscal Fall-out for Cities and Villages" municipal and county reliance on property taxes could be advantageous for now. Property taxes comprise about 30%-60% of general revenues across Wisconsin's 72 counties, with state aid the other top contributor. While property values are likely to fall, perhaps sharply, the loss in value must be quantified via updated property assessments and will take some time to determine -- with the impact being felt no sooner than for 2022 levies.

Another key advantage for counties, though not necessarily for taxpayers, is that if and when decreases in property values are reflected in assessments, county officials may offset any decline in overall values by raising property tax rates. However, while raising rates is legally permissible, county officials may deem it unfair to ask property owners to pay the same or higher property taxes as their property value declines. Or they may feel it is inappropriate to increase levies in light of the economic hardship experienced by many citizens.

Counties also could face near-term difficulties in collecting from property owners, and a sharp rise in unpaid property tax installments has the potential of creating immediate cash flow challenges for some counties.

Meanwhile, sales taxes generated 8.1% of the revenue total for Wisconsin counties in 2018. With the sharp decline or outright disappearance of sales in some sectors such as food and drink service, hospitality, and brick-and-mortar retail, these revenues are certain to decline markedly. And unlike some states, Wisconsin exempts groceries from sales taxes, making revenues here potentially more vulnerable. Initial projections by Wisconsin's two largest counties, Milwaukee and Dane, indicate potential 2020 shortfalls in sales tax collections of $17 million and $25 million, respectively.

The report concludes that counties are fortunate that revenue streams most vulnerable to severe disruption comprise relatively small portions of their overall revenues. But other factors, such as the likelihood of increasing needs for some county services, will create fiscal stress.

"That would pose a difficult dilemma even in a time of steady revenues," the report concludes, "thus making even modest crisis-induced revenue declines a formidable challenge for counties as they navigate the uncertain times ahead."

Go here to read "The Covid-19 Fiscal Fall-Out for Counties."

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