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Wisconsin's Cities and Villages Benefit from Recovery, But Growth is Uneven
Report Also Finds Potential Increase in "Dark Store" Appeals

MADISON—While Wisconsin's cities and villages continue to benefit from the long economic recovery, the results have been unequal with smaller communities often seeing less progress, according to a report released today by the League of Wisconsin Municipalities.

The report, "The 2018 State of Wisconsin's Cities and Villages," shows new development in cities and villages rose to \$5.6 billion in 2016, the largest increase since before the Great Recession. Development added an average of 1.8% to property values, also the fastest increase since the economic downturn a decade ago.

Still, the report notes development statewide has not returned to pre-recession levels and has been scattered. Although some communities have experienced robust growth, others, particularly small communities, have seen little to none. Half of the state's roughly 600 cities and villages had new construction rates of less than 0.8% in 2016, according to the report.

Such development is important because state law generally allows municipalities to raise property taxes only for new construction. Property taxes account for more than half of cities' and villages' operating revenues statewide.

The second-biggest share of municipalities' budgets comes from state aid, which was flat in 2016 and actually fell for communities with fewer than 2,000 residents, according to the report. The net result of these two trends was that while property taxes collections rose in 2016 at their highest rate in six years, overall revenues for municipalities failed to keep pace with inflation. In the smallest cities and villages, overall revenues actually declined from 2015.

"The report confirms what we're being told by elected leaders across Wisconsin: economic recovery is not reaching all of our communities," said League President Jerry Deschane. "More than half of our cities and villages are still losing economic ground."

The report is the third in a series prepared for the League by the nonpartisan, independent Wisconsin Policy Forum (WPG) on economic conditions, municipal finance, and other trends in local government.

Other key findings include:

- Total revenues – including property taxes, state and federal aid, and other local taxes and fees -- grew 1.7% in 2016 over the previous year, the smallest increase for municipalities since 2013. Property taxes rose 3.1%, the fastest since 2010, but state aid remained roughly constant, federal aid fell, and fees for local services also rose more slowly than in 2015. Overall, revenues for cities and villages did not keep pace with inflation and did not rise when adjusted for population growth.
- Cities and villages increased spending 2.6% in 2016, down from 6% in 2015. Spending trends tend to be volatile, reflecting one-time increases in capital costs for buildings, equipment, and infrastructure. Spending in 2016 rose most for debt payments and streets. Municipalities increased public safety spending by 1.9%, with police costs rising and fire and EMS declining slightly.
- Street quality continued a modest downward trend, with 67.7% rated “good” or better in 2017, compared to 72% in 2011. The share of roads rated “fair” or worse rose from 31.2% in 2016 to 32.3% last year. Declines in road quality were generally greatest in small communities.

In addition to compiling financial, economic, and transportation data for the report, WPF researchers also surveyed municipal officials earlier this year. For the first time, the survey asked officials about “dark store” appeals of property tax assessments that may lower the value of occupied retail properties.

Officials reported 79 such assessment appeals in 2017, an increase from 63 in 2016 and 66 in 2015. While these appeals may be relatively small in number, a successful appeal could lower a business’s assessment by \$1 million or more, substantially lowering their tax bill and potentially shifting taxes to other properties.

“The ‘dark store’ loopholes started with the state Supreme Court’s unfortunate *Walgreens* decision in 2008 and have been slowly building momentum. This tax shift will continue to grow until the Legislature closes these loopholes...or until homeowners and small businesses become virtually the only Wisconsin property taxpayers,” Deschane said.

The survey also found:

- More officials reported their communities’ finances had improved (more than 23%) than worsened (16.5%) over the previous year, and 60.2% said it remained about the same.
- Most leaders said they were delivering better or more frequent services, especially for public safety. For the third year in a row, officials said fire department response times had improved.
- Officials in more than a quarter (27.3%) of communities reported adding staff in 2017, compared to 11.9% who said they had fewer.

The complete report can be found at: <http://www.lwm-info.org/1278/8217/Annual-State-of-WI-Cities-Villages-Report>