



# Inflation Adds to Existing Budget Pressures

Curt Witynski, Deputy Director, League of Wisconsin Municipalities

As municipalities move into the 2023 budget preparation season, concerns are growing over the impact inflation is having on an already challenging local government fiscal environment. While the cost of providing municipal services is rising with the rate of inflation, revenue growth from property taxes and state aid remains stagnant. This is especially true for low-growth and no-growth communities.

The state strictly limits property tax levy increases to the expansion in a community's total property value caused by new construction. For nearly all communities, the rate of new construction in 2022 will not match the rate of inflation, which was 8.6% in May. Indeed, new construction growth has been modest over the last decade, hovering around 1% for most communities and non-existent for many small municipalities.<sup>1</sup> In 2021, the net new construction number for the entire state was 1.6%, the highest in years.

Meanwhile, for more than a decade there have been no increases in state aid programs like shared revenue, expenditure restraint, payment for municipal services, and recycling grants. More importantly, no increase in funding for any of those programs is planned for 2023. The only increase to a local government aid program included in the current state budget is a 2% bump in general transportation aids.

I recently reached out to the budget writing staff for the communities of Washburn, Waukesha, Oshkosh, and Weston and asked what impact inflation will have on each of their community's finances.



## Washburn

The City of Washburn has a population of 1,844 and sits on Lake Superior between Bayfield and Ashland. The city's economy is tourism driven.

According to city administrator Scott Kluver, the combination of rising inflation and strict levy limits is deeply concerning. As the chart on page 6 shows, Washburn has not experienced much new construction in recent years and is not likely to anytime soon. Since 2016, the city's net new construction

percentage has been below 1% every year but one, allowing the city to increase its levy on average during that time by only \$4,800.

Kluver explained that even "prior to the recent inflationary increases, the city was struggling to keep up with competitive wages for staff." In April, Washburn residents passed a referendum allowing the city to exceed levy limits by \$200,000. According to Kluver, however, "the vast majority of that was to hire two new full-time EMT staff because the city does not have enough 'paid-on-call' (volunteers) to provide adequate coverage for the ambulance service." A portion of the levy increase was designed to improve the city's comparatively low wages for its police officers. However, as Kluver explained, "the planning for the referendum and the dollar amounts were set prior to inflation taking off and even with the referendum, it will be difficult to keep our police department competitive going forward." In addition, the referendum did not address the need to make the wages of other city employees competitive with nearby communities.

Adding to Washburn's challenges, is that the city will likely not qualify for an Expenditure Restraint Program (ERP) payment in 2024 because of the extra spending it will engage in following the levy limit increase the voters approved. The city typically receives \$35,000 under the expenditure restraint program. While the voters approved a \$200,000 levy increase, the city will experience a \$35,000 drop in revenues in 2024 because of that increase.

Kluver emphasized that the city's ability to maintain police, EMS, streets, parks, and other services at current levels will be impossible without seeking more property taxes from residents, which is not sustainable. "A mechanism to share the cost of services more equitably, e.g., having other revenue sources beside the property tax, is vital to keeping Washburn a functioning community in the future."



## Waukesha

Waukesha is the county seat of Waukesha County and has a population of 71,000.

And while Waukesha is much larger in population and has

many more employees than Washburn, Kevin Lahner, city administrator, expressed similar concerns about the impact of inflation on the city’s finances.

“As the chart on page 6 demonstrates, we’ve been averaging net new construction of at best around 1% over the past decade,” said Lahner. “Through careful management practices we have a stable financial situation at the present time. However, the impacts of inflation for an extended period will quickly have large impacts on our ability to provide the same level of services we currently provide. We are already struggling with retaining and recruiting staff members. We will be forced to either develop new revenue streams or cut services to our residents.”

Lahner explained that the city is not currently contemplating a referendum to exceed levy limits but is instead pursuing other revenue options, including increasing existing fees and charges. Lahner added, “The tools in the toolbox to raise additional revenue are limited and quite frankly add administrative burdens where the simple solution is right in front of us – return control of the tax levy to locally elected municipal leaders.”



**Oshkosh**

Oshkosh is the county seat of Winnebago County and is located on the western shore of Lake Winnebago. It has a population of 67,408, with an annual budget that is much larger than Washburn’s, but similar in size to Waukesha’s. Oshkosh’s total General Fund Expenditures plus the levy for special revenue funds in 2022 totaled \$71,253,400.

As the chart on page 6 shows, the city’s net new construction percentages since 2016 have been higher than Washburn’s, but not by much, averaging only 1.29% over that six-year period. Much less than the current rate of inflation.

“I am concerned that inflation is causing the cost of supplies like gasoline to increase at a higher rate than we anticipated,” said Russ Van Gompel, Oshkosh finance director. “This is putting a huge strain on the city’s budget, and I’m not sure how much longer we can continue to provide all of the services our residents have come to expect.” He added, “We continue to evaluate programs and services to see which can be funded with user charges instead of the levy.” The city is not currently considering a levy limit referendum.

Van Gompel also said that the city is relying on debt issuance to finance capital projects. “While I would much rather finance capital projects with the levy, the state (through levy limits) has eliminated the option of financing capital projects with levy dollars,” Van Gompel noted. “I’ve been around long enough to remember that under an earlier version of levy limits in the 1980s, communities relied on debt so much that the state was forced to repeal levy limits.”



**Weston**

The Village of Weston has a population of 15,723 and sits in Marathon County near the City of Wausau. Jessica Troutman, Weston finance director, also shares concerns about the impact of inflation on the village’s finances. Weston’s 2021 net new construction number was 0.82%, its lowest in the last six years. As the chart on page 6 indicates, the other years were better, but only slightly.

Troutman said, “The village is very concerned that the projected increases in fuel and other operating expenses will far exceed the potential increase in [village] revenues. The village is worried that in trying to maintain services at current levels there will not be enough funds to keep our wages and benefits competitive to retain current employees.”

The village is looking into a levy limit referendum for more spending on public safety. Regardless, Troutman said, “Future budgets for the Village of Weston will be challenging. We will need to continue to work with our state representatives in the hopes that the state will soon see that current laws do not allow municipalities to maintain service levels in years of low growth.”

**Conclusion**

Inflation is exacerbating the challenging fiscal environment within which Wisconsin municipalities operate. Other than conducting a levy limit referendum, municipalities have few options to raise revenues sufficient to match the increase in the cost of providing services caused by inflation. Even if communities were able to increase their property tax levy by the rate of inflation, residential taxpayers and businesses have little or no capacity to pay more. As Scott Kluver suggests, the long-term, sustainable solution lies not in authorizing more property taxes, but by creating alternative tax revenue options for local governments.

► *Net New Constructions Charts*

1. <https://wispolicyforum.org/research/wisconsin-property-values-rise-new-construction-lags/>;  
<https://wispolicyforum.org/research/changing-patterns-of-new-construction-what-do-they-mean-for-municipal-budgets/>

## Washburn's Net New Construction Numbers

YEAR	NET NEW CONSTRUCTION PERCENTAGE	ALLOWABLE LEVY INCREASE
2021	1.06%	\$8,597
2020	0.62%	\$5,027
2019	0.56%	\$4,485
2018	0.58%	\$4,597
2017	0.21%	\$1,672
2016	0.56%	\$4,427

## Waukesha's Net New Construction Numbers

YEAR	NET NEW CONSTRUCTION PERCENTAGE	ALLOWABLE LEVY INCREASE
2021	1.18%	\$706,687
2020	1.02%	\$1,126,395
2019	0.87%	\$625,245
2018	1.40%	\$1,667,082
2017	1.24%	\$331,230
2016	1.01%	\$864,763

## Oshkosh's Net New Construction Numbers

YEAR	NET NEW CONSTRUCTION PERCENTAGE	ALLOWABLE LEVY INCREASE
2021	1.48%	\$866,095
2020	1.81%	\$1,043,081
2019	1.20%	\$675,444
2018	1.26%	\$695,953
2017	0.75%	\$398,931
2016	1.22%	\$637,723

## Weston's Net New Construction Numbers

YEAR	NET NEW CONSTRUCTION PERCENTAGE	ALLOWABLE LEVY INCREASE
2021	0.82%	\$42,958
2020	1.47%	\$75,997
2019	1.25%	\$63,789
2018	0.90%	\$45,632
2017	1.85%	\$91,595
2016	0.99%	\$48,020

## About the Author:

Curt Witynski is the League's Deputy Executive Director. After managing the League's lobbying program for 22 years, he has handed that responsibility over to Toni Herkert. Curt joined the League staff as assistant legal counsel in 1987. Before becoming Deputy Executive Director, Curt served as the League's Legal Counsel for eight years. Contact Curt at [witynski@lwm-info.org](mailto:witynski@lwm-info.org)

## CONSTRUCTION INSPECTION

Utilities, Roads & Bridges | GPS for Monitoring & Documenting Data | Electronic Reports | Unmanned Aerial System Flights



[ryan.cournoyer@graef-usa.com](mailto:ryan.cournoyer@graef-usa.com)

[www.graef-usa.com](http://www.graef-usa.com)

Green Bay | Madison | Milwaukee  
Chicago | Miami | Minneapolis | Orlando

## REIMAGINE THE FUTURE!

Join us for several finance and budgeting focused workshops including:

- ✓ Optimizing Funding in an Age of Inflation
- ✓ Best Practices and Strategies for Maximizing Your Budget: A Panel of Finance Directors

The League's 124th Annual Conference • October 19-21, 2022 • La Crosse Center, La Crosse

**Register now through the League's Annual Conference App by WHOVA!**

Additional details and registration information under the Conference tab <https://lwm-info.org/731/Annual-Conference>

