

# ROOM TAX REVENUES REBOUND

As COVID-19 shut down travel worldwide in 2020, revenues from local taxes on overnight lodging in Wisconsin fell by nearly half. By 2021, statewide room tax collections had largely rebounded along with leisure travel but it has taken until 2022 for revenues to recover in cities like Madison and Milwaukee that are more dependent on business travel. On the other hand, revenue from online home rentals has increased following the passage of a 2019 state law that required internet marketplaces to collect room taxes from customers.

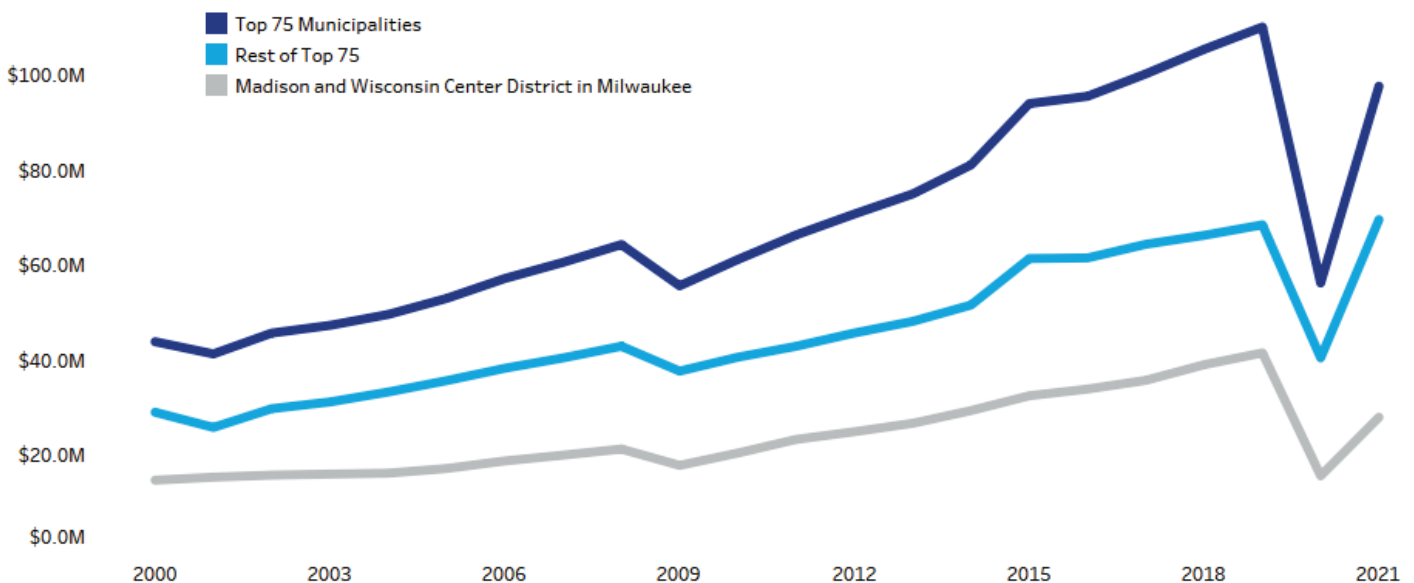
No major state or local tax in Wisconsin was hit harder by the pandemic than those imposed by many municipalities in the state on overnight lodging. Data from the state Department of Revenue (DOR) show that local room tax collections in Wisconsin dropped to \$65.1 million in 2020 from \$121.5 million in 2019, a decrease of \$56.4 million, or 46.4% (see Figure 1).

The impact was immediate, not just for local governments in the state but also for private efforts to promote tourism. In Wisconsin, local governments generally have the option to tax the value of overnight lodging in their jurisdiction by up to 8.0%. As of 2019, 293 cities, villages, and towns in the state imposed a room tax, with a median rate of 5.5%.

State law generally requires 70% of the revenues to be spent on tourism promotion, with local governments allowed to use the remaining 30% for other purposes. Room tax revenues help fund tourism promotion districts such as the [Door County Tourism Zone Commission](#) and [Wisconsin Dells Visitor and Convention Bureau](#), as well as the [Wisconsin Center District, a special approach used](#) in Milwaukee.

Since 1999, these taxes had largely been a [growing source of revenues](#) for many local governments, as tourism spending in the state increased, and more jurisdictions either imposed these taxes or raised rates to promote local tourism and boost their own collections. This trend was expected to continue in 2020, in part because [2019 Wisconsin Act 10 required](#)

**Figure 1: Room Tax Revenues Recovered Outside of Madison and Milwaukee**  
Annual room tax revenues by year 2001-2021 in millions (nominal \$)



Sources: Wisconsin Department of Revenue and local government fiscal documents



online lodging marketplaces like Airbnb to begin collecting room taxes from customers on their sites in January of 2020.

COVID-19 changed the outlook for hotels and room taxes almost overnight, leading local governments to slash funding for tourism promotion and substitute either federal pandemic recovery funds or, in some cases, general tax revenues to maintain at least some promotional efforts. Tax collections in Madison, for example, plummeted by 69% in 2020, one of the biggest percentage drops in the state.

To fill the \$13 million hole in its budget, the city took a number of steps, including reducing funding for the Monona Terrace Community and Convention Center, Overture Center for the Arts, and Greater Madison Convention and Visitors Bureau. The city also suspended the 30% transfer of room tax revenue to its general fund to support other city services and in 2021 transferred \$2.4 million in surplus revenue from a tax increment district to its room tax fund.

There was a similar drop in revenues for the Wisconsin Center District (WCD), a government body created by the state to manage the Wisconsin Center and other venues (the WCD also owns the Fiserv Forum). Room taxes going to the WCD in 2020 declined by \$12.8 million, or 56.4%.

The district is funded through a combination of room taxes and taxes on rental cars and on food and beverages sold at restaurants and bars. The district also generates substantial revenues through room rentals and concessions at district-managed venues. While all the revenue sources experienced a decline, the drop in room taxes was the largest. To address this shortfall, the district implemented furloughs and layoffs of district employees, reduced capital spending, and realized savings through lower venue usage.

For the city of Madison and the convention center district in Milwaukee, these cost-saving measures had to continue into 2021. Madison has used federal pandemic relief funds to cover some of the lost revenue, but also had to reduce spending on Monona Terrace, the Overture Center, and other activities promoting tourism. Similarly, the WCD carried over cost-saving strategies from 2020 to 2021, though venue usage rebounded in 2021, softening the impact of reduced room tax revenues.

Federal funds from the American Rescue Plan Act – a key lifeline for many communities facing revenue losses – must be obligated by 2024 and will not be available to address shortfalls in the coming years. That makes it even more critical that collections rebounded substantially across much of the state last year.

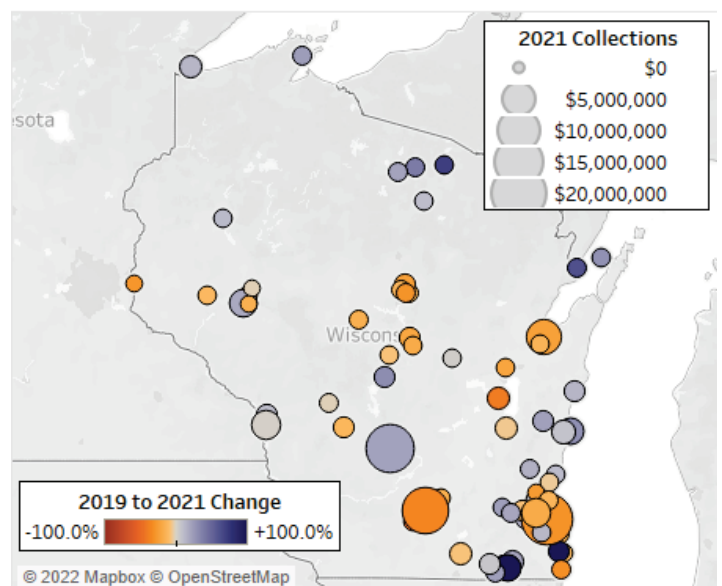
## POST-PANDEMIC REBOUND

Statewide figures for room tax collections in 2021 are not yet available, so we examined the top 75 municipalities in terms of room tax revenues by reviewing separate reports to the state and local financial documents. Room tax collections in 2021 saw a strong 73.4% increase over 2020 for these 75 local entities. Yet combined, these revenues were still 11.3% less than these entities collected in 2019.

One other obvious trend is a slower rebound for Madison and the WCD compared to the other municipalities. In Madison and Milwaukee, 2021 collections lagged those in 2019 by 33.0%, while collections in the remaining 73 communities increased by 1.8% from 2019 to 2021. While the recovery in these 73 municipalities is good news, it's important to recognize that room tax collections increase with inflation. That means even in these smaller communities, revenues are still below 2019 after adjusting for the recent rapid rise in consumer prices.

**Figure 2: Uneven Recovery in Room Tax Revenues**

Total and percentage change in room tax collections from 2019 to 2021 for the 25 communities with the largest 2019 collections



Sources: Wisconsin Department of Revenue and local government fiscal documents



One apparent reason for the slower recovery in bigger cities is that recreational travel returned faster in 2021 than business travel. We pointed out the trend [in a recent brief on air travel](#), noting flights to vacation destinations have rebounded more quickly than flights to business hubs and Madison and Milwaukee's airports lag the others in the state in recovering.

Figure 2 shows a similar pattern in room tax collections, where revenue increases in tourist centers like Lake Delton (a 22.2% increase in 2021 over 2019), Minocqua (a 21.8% increase), and Fontana (a 23.3% increase) are far outpacing those in business destinations like Madison (a 36.1% decrease from 2019 to 2021), Milwaukee (a 30.3% decrease), and Brown County (a 24.2% decrease). Other potential factors such as longer pandemic-related closures in some larger communities, as well as tight labor markets that may have resulted in understaffed accommodations and partial closures of some hotels, may have contributed to these differences as well.

Despite the greater challenges in Madison and Milwaukee, 2022 collections appear to be nearing 2019 levels. In Madison, revenues are expected to outpace earlier projections by \$2.75 million in 2022 and reach an estimated \$19 million in 2023, enough to match 2019 at least before accounting for inflation. Milwaukee's collections for 2022 are projected to reach \$22.0 million, which is only \$600,000 less than 2019, again without adjusting for inflation.

The partial rebound fills some pandemic budget holes, but with many business meetings now handled virtually, corporate travel may never fully return to its pre-pandemic trajectory. However, increased collections by online marketplaces may partly alleviate these impacts.

### **COLLECTIONS FROM ONLINE MARKETPLACES SOAR**

As online rentals of private homes expanded, local officials and some business leaders raised concerns that these rentals were not subject to the same tax, regulation, and licensing requirements as traditional hotels. While online rentals of private homes were always subject to the room tax, collecting these taxes was often administratively difficult for both local governments and homeowners, particularly in smaller municipalities with limited enforcement capacity.

In response, the state Legislature enacted [2019 Wisconsin Act 10](#), which requires that online home rental services collect room tax on rentals through their sites and remit these payments to local governments. This law brought these rentals into tax parity with hotels and other traditional lodging providers. Early indications in 2020 were that revenues from this legislation were substantial, but assessing the impact fully has been difficult in the face of pandemic shutdowns.

Some larger entities, such as the city of Madison and the Wisconsin Center District, already captured revenue from some private rentals, but even in these cases the legislation bolstered that process and likely led to additional revenues. For example, reports to an August meeting of the Madison Room Tax Commission indicate that 2022 collections from Expedia.com are up \$626,855, or 97%, compared to 2021.

Online collections are especially valuable to smaller municipalities that were capturing only a fraction of room tax revenue from internet transactions and seemed to boost collections in these communities. Revenues in the town of Geneva, for example, rose by \$266,002, or 66.1%, in 2021 over 2019 despite no change to the tax rate. One at least partial explanation for this growth is the influx of revenue paid by the users of these growing online marketplaces.

### **CONCLUSION**

With COVID-19 health concerns receiving less attention, recreational travel and room tax revenues have rebounded. Business travel has returned to a lesser extent, resulting in lower tax revenues in large cities such as Madison and Milwaukee. While projections suggest that business travel will continue to rebound in 2022 and 2023, the rise in video conferencing could slow or prevent its return to its pre-pandemic trajectory.

In the face of these impacts, local officials and business leaders will need to fill any ongoing revenue holes and consider whether adjustments to expenditures or expansion plans may be required. At the same time, room tax collections by online vendors will help mitigate some of the revenue lost to reduced business travel. As more travelers seek out this type of accommodation, and more homes are made available for rent, the importance of online collections will likely grow.

