FORWARD ANALYTICS SPOTLIGHT

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Unintended Consequences

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On July 8th, Governor Tony Evers signed into law Wisconsin's 2025-27 state budget (2025 Wisconsin Act 15). Among the various policy changes in the legislation, one will directly impact county budgets next year and in some cases, in perpetuity.

Currently, the sale of electricity and natural gas for residential use is exempt from the sales tax from November through April. The budget extends this exemption to the entire year by exempting sales for the months of May through October.

This policy is a win for consumers – the Legislative Fiscal Bureau (LFB) estimates $178 million in savings to rate-payers over the biennium. This is also a reduction in state sales tax collections of the same amount. The state sales tax change has some downstream effects as well, particularly for county governments.

STATE SALES TAX REVENUE

In May of this year, LFB updated its January revenue estimate based on then-current law. These estimates projected a 4.1% increase in state sales tax revenue in fiscal year 2025-26 and a 2.9% increase in the following year. The sales tax exemption for residential utilities reduces these estimates. Under Act 15, LFB projects a 3.4% increase in fiscal year 2025-26 followed by 2.1% growth in 2026-27.

The state sales tax is general purpose revenue (GPR), which goes into the state's general fund for a wide range of public services, including public school aid, corrections, and the administration of health and human services. A decline in GPR can create challenges, but the state is in a better position to handle such declines compared to local governments.

For county governments, this policy change will negatively affect revenues in two ways. First, because the sale of electricity and natural gas to residential consumers will now be exempt from the state sales tax, it will also be exempt from county sales taxes. And since this is a permanent exemption, it sets a new, lower baseline for county sales tax revenue.

Second, changes in total state sales tax collections impact shared revenue payments to counties, as these payments are based on the year-over-year change in such collections.

REDUCED COUNTY SALES TAXES

The exemption is estimated to reduce state sales tax collections by 0.7% ($55.2 million) in the current fiscal year, and 1.5% ($123.5 million) in the 2026-27 fiscal year compared to what would have been collected without this exemption. Applying this percentage to county sales tax collections generates a rough estimate of the impact the exemption will have on local sales tax revenue. The last year for which county sales tax data is available is 2024-25. Had this exemption been in place for the full year, county sales tax revenue would have been $10.9 million less than what was collected.

Estimating the financial impact for individual counties is challenging because no quality data exist at the state level. Utility sales tax collections include many services, such as water and sewer, that are not subject to the sales tax exemption, therefore, isolating the relevant data is not feasible.

Two counties do not impose a sales tax and therefore will not see a change in their tax collections due to the exemption. Milwaukee County imposes a 0.9% sales tax and will likely see the biggest impact. A reduction of 1.5% in sales tax revenue for Milwaukee County in 2024-25 would have resulted in a $2.8 less revenue collected..

Rural, less populous counties that do not have large retailers from which to generate sales taxes will likely see a lower dollar amount impact, but a higher relative impact on their budgets. Counties that rely heavily on tourism and receive more in utility tax revenue from non-residential utilities will also likely

see less of an effect. Price County, for example, would have collected $21,340 less in 2024-25 had this exemption been in place.

SHARED REVENUE

Before delving into the impact on shared revenue payments, a brief summary and history of the shared revenue reform package is instructive.

Historically, the state has provided funds to local units of government to help pay for local services as well as those mandated, but not directly paid for, by the state. These funds, referred to as "shared revenue," help pay for services such as public safety, fire and EMS, courts, and transportation, among others. Shared revenue payments for each county and municipality were based on a decades old formula.

2023 Wisconsin Act 12 significantly restructured the program. It held funds from the original formula intact, but also created a new formula to distribute additional money.

In addition to the supplemental funding, perhaps the most important aspect of the legislation was the link established between the state economy and growth in shared revenue payments. For years, shared revenue payments were stagnant, or even declined. Because of Act 12, County and Municipal Aids (CMAs), which are the largest portion of shared revenue, are now linked to the state sales tax. The annual change in shared revenue payments to counties and municipalities grows (or shrinks) at the same rate as state sales tax revenues.

CMA Growth in Action

CMA payments are sent out in July and October each year. The payments for 2025 are based on the sales tax growth between the 2023-24 and 2024-25 state fiscal years. Exact figures for determining the growth were published in the last state budget (2023 Act 19). That budget estimated sales tax collections would grow 2.3% in fiscal year 2024-25. Therefore, CMA payments made in July and October of 2025, both from the original formula and the supplementary funds, will increase by the same 2.3%. Detailed county information can be found on the Forward Analytics interactive dashboard at *forward-analytics.net*.

CMA Growth Revised Downward

Estimates are necessary for budgeting purposes, but they can change for various reasons, particularly if policy decisions in the state budget impact what goods and services are subject to the sales tax.

Based on the revised 3.4% growth in state sales tax revenue, CMA payments will also grow by 3.4% (instead of the estimated 4.1% based on then current law). In other words, instead of the estimated $203 million in total CMA payments to counties in 2026, county governments will receive a total of $201.6 million.

There are two important notes about these figures. First, LFB revenue estimates published in May 2025 were just that - estimates. These figures were not written into any statute or legislation. Second, $201.6 million is a $6.6 million increase over the CMA payments made to counties in 2025. The final payments scheduled to be made to counties are based on figures published in the 2025-27 state budget. Individual county payments can be found in Table 1 on the following page and on the Forward Analytics website.

A similar recalculation was made for CMA payments in 2027. Instead of the estimated 2.9% increase in shared revenue payments that year, counties can expect a 2.1% increase.

Since changes in shared revenue payments are not based on the total sales tax collections, but are instead based on the growth in collections, the downward revision in the budget compared to the estimates published in May will not be ongoing. After the sales tax exemption is fully phased in, the exemption should have no impact on future shared revenue payments.

WHAT'S NEXT?

A reduction in sales tax revenue, while an immediate benefit for consumers, presents a difficult and ongoing challenge for county governments both in terms of shared revenue payments and county sales tax revenues.

Under the newly passed state budget, county governments will still receive an additional $6.6 million compared to 2025, but without the extended sales tax exemption, counties would have received nearly $8 million. In the next fiscal year, county sales tax revenues will be 1.5% lower than they would have been without the exemptions. While the decline in shared revenue payments is temporary because of the way the payments are calculated, the drop in county sales tax revenue is permanent - the reduction creates a new, lower baseline for tax collections.

Shared revenue and both state and county sales tax revenue are intertwined. Any change in tax policy related to the sales tax rate, or which goods and services are subject to the tax, must be carefully considered by state and local leaders as these changes will have a downstream impact on county revenues.

Table 1: Shared Revenue Revised Downwards

Calendar Year 2026 CMA Payments Compared to May Estimates

County	**Estimated** 2026 Payments based on May LFB Estimates	**Actual** Payments	Difference
Adams	$400,011	$397,321	-$2,690
Ashland	1,528,619	1,518,340	-10,279
Barron	2,005,645	1,992,159	-13,487
Bayfield	345,216	342,895	-2,321
Brown	4,998,440	4,964,829	-33,611
Buffalo	728,708	723,808	-4,900
Burnett	282,296	280,398	-1,898
Calumet	1,420,894	1,411,339	-9,555
Chippewa	2,112,069	2,097,866	-14,202
Clark	2,966,889	2,946,939	-19,950
Columbia	955,858	949,430	-6,427
Crawford	1,581,119	1,570,488	-10,632
Dane	6,242,620	6,200,643	-41,977
Dodge	3,818,763	3,793,084	-25,679
Door	512,646	509,199	-3,447
Douglas	3,282,609	3,260,535	-22,073
Dunn	3,429,056	3,405,998	-23,058
Eau Claire	3,439,849	3,416,719	-23,131
Florence	296,681	294,686	-1,995
Fond Du Lac	2,642,014	2,624,249	-17,766
Forest	387,902	385,293	-2,608
Grant	3,016,724	2,996,439	-20,285
Green	798,539	793,170	-5,370
Green Lake	452,620	449,577	-3,044
Iowa	471,402	468,232	-3,170
Iron	312,115	310,016	-2,099
Jackson	1,649,213	1,638,123	-11,090
Jefferson	2,282,213	2,266,866	-15,346
Juneau	1,668,579	1,657,359	-11,220
Kenosha	2,867,327	2,848,047	-19,281
Kewaunee	1,234,424	1,226,123	-8,301
La Crosse	5,089,102	5,054,881	-34,221
Lafayette	3,017,254	2,996,965	-20,289
Langlade	1,309,278	1,300,474	-8,804
Lincoln	1,692,635	1,681,253	-11,382
Manitowoc	3,955,642	3,929,043	-26,599
Marathon	$5,556,439	$5,519,076	-$37,363
Marinette	1,795,476	1,783,402	-12,073
Marquette	371,551	369,053	-2,498
Menominee	1,001,743	995,007	-6,736
Milwaukee	58,141,346	57,750,385	-390,960
Monroe	3,258,985	3,237,071	-21,914
Oconto	1,021,437	1,014,569	-6,868
Oneida	526,222	522,683	-3,538
Outagamie	3,156,423	3,135,199	-21,225
Ozaukee	986,360	979,727	-6,633
Pepin	1,055,884	1,048,784	-7,100
Pierce	1,667,234	1,656,023	-11,211
Polk	1,050,933	1,043,866	-7,067
Portage	2,766,361	2,747,759	-18,602
Price	968,865	962,350	-6,515
Racine	4,111,144	4,083,499	-27,645
Richland	2,085,701	2,071,676	-14,025
Rock	5,356,791	5,320,770	-36,021
Rusk	1,813,865	1,801,668	-12,197
Sauk	1,401,508	1,392,084	-9,424
Sawyer	335,190	332,936	-2,254
Shawano	1,882,374	1,869,717	-12,658
Sheboygan	3,112,935	3,092,002	-20,932
St Croix	1,198,658	1,190,598	-8,060
Taylor	1,847,436	1,835,013	-12,423
Trempealeau	2,686,637	2,668,572	-18,066
Vernon	1,332,827	1,323,864	-8,962
Vilas	386,064	383,468	-2,596
Walworth	1,415,046	1,405,531	-9,515
Washburn	449,029	446,010	-3,019
Washington	1,628,228	1,617,279	-10,949
Waukesha	4,374,354	4,344,939	-29,414
Waupaca	2,194,796	2,180,038	-14,758
Waushara	451,659	448,622	-3,037
Winnebago	4,217,272	4,188,914	-28,358
Wood	4,210,272	4,181,961	-28,311
Total	$203,012,015	$201,646,901	-$1,365,114