

City of Rhineland
Premier Resort Area Tax Proposal
Approved November 17, 2014
By the
Rhineland City Council



Executive Summary

Statewide incorporated municipalities (cities and villages) are crucial to Wisconsin's economic success, with 87 percent of all manufacturing property and 89 percent of all commercial property located in cities and villages. Locally the City of Rhinelander is the regional manufacturing and commercial hub; and its well-being is crucial to the region for jobs and economic prosperity. The City of Rhinelander has a daytime population nearly twice the size of its population and a trade area population nearly ten times its population. Under the current revenue structure, the City does not have adequate tax revenue to maintain its valued services and roadways without increasing taxes or finding additional funding.

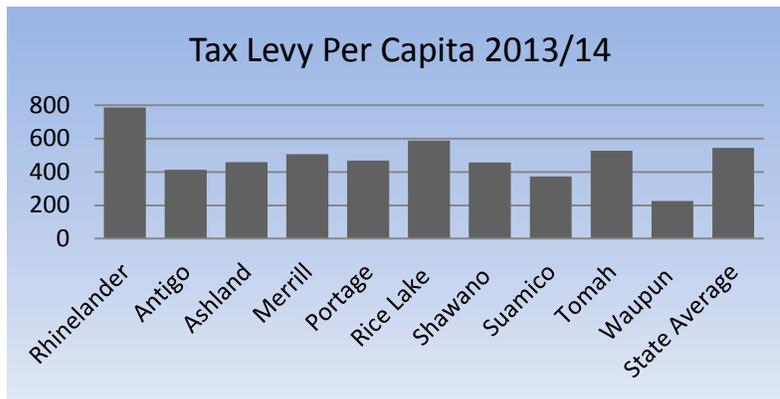
As the City of Rhinelander's tax base has declined, the City took action to reduce its staff by 11 City positions in the last 15 years; and, has taken other programmatic cuts and measures to improve the situation. The Rhinelander City Council is now considering implementing a "Premier Resort Area Tax" as a revenue source to pay for transportation infrastructure and reduce the City's dependence on property tax revenue. A "Premier Resort Area Tax" is a 0.5% (1/2 cent on the dollar) sales tax on tourist related items sold, leased, or rented through tourist related retailers in the City of Rhinelander.

A City of Rhinelander Premier Resort Area Tax could bring in \$400,000 annually to help the City address its financial needs of over two million dollars in needed road improvements. This new revenue resource would include payment from regional residents who do business in Rhinelander and those seasonal travelers and vacationers who utilize the same infrastructure year by year. The sales tax is intended to have all those using the City amenities contribute and improve City infrastructure.

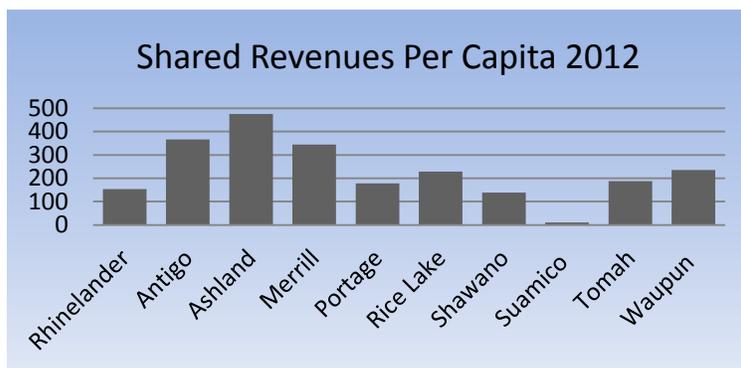
It has been said that community development must come before economic development. The additional funding from a local sales tax will give the City resources to address community development to attract economic development thus improving the economic prosperity for the region. Supporting the Premier Resort tax will support the economic success of the region. The Rhinelander City Council could place a referendum to seek voter approval on the April 7, 2015 election if notice is given to the Oneida County Clerk by January 27, 2015. The City also needs to seek legislation to allow the City of Rhinelander to implement the tax. A half-cent local sales tax will allow the City of Rhinelander to address its street infrastructure needs, reduce its dependence on property taxes, and the City of Rhinelander's prosperity will benefit the region.

Review of City Demographics and Finances

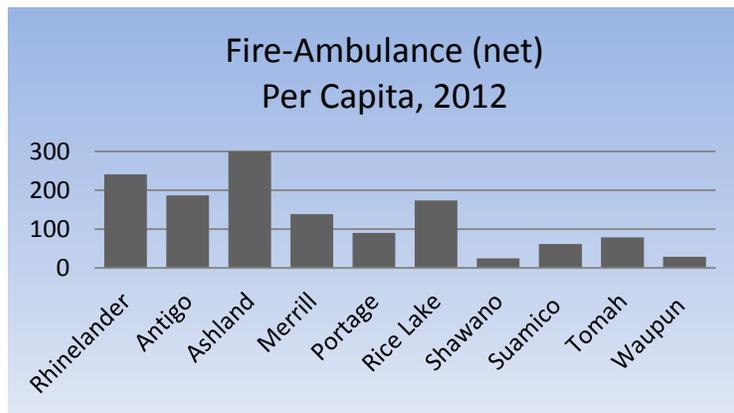
The City of Rhinelander, Wisconsin is located in the heart of Wisconsin's Northwoods. The City is home to approximately 8,000 residents. As the county seat of Oneida County, and with a strong commercial and industrial base; Rhinelander is the business and service center for Oneida County and small parts of adjoining counties having a primary trade area of 754 square miles with a population of 24,240. Rhinelander's secondary trade area is 3,609 square miles with a population of 75,430 extending to Vilas County to the north and parts of adjoining counties including the upper peninsula of Michiganⁱ. The City accounts for 32% of all trade area sales with only 10% of the trade area populationⁱⁱ.



Can the City of Rhinelander adequately support being the regional hub? As the region's business and tourist hub, Rhinelander has a daytime population of 14,393; this is twice the 2010 City's census population of 7,894ⁱⁱⁱ. Property tax is the City's primary source of revenue accounting for 68% of all General Fund (GF) revenue. The property tax levy per capita for the City of Rhinelander is high at \$787 compared to the state average of \$545 and nearby communities of Antigo at \$412 and Merrill at \$507^{iv}.



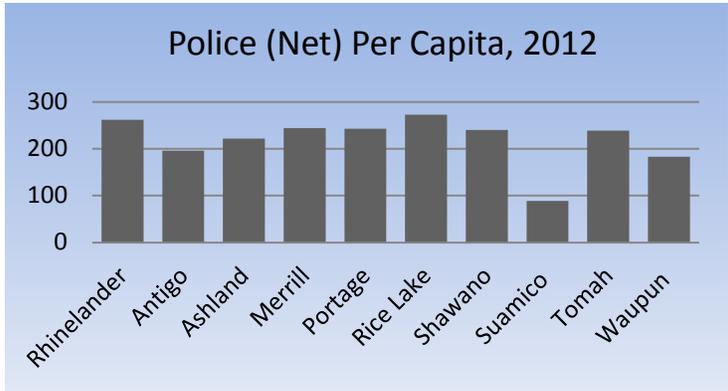
For shared revenue from the State, a smaller but yet an important source of revenue for the City (11% of GF revenue), Rhinelander is at the low end at \$153 per capita compared to Antigo at \$366 and Merrill at \$345^v. The State's complicated distribution formula is loosely based upon population, property values, and status quo. Recent reductions appear to be based more on population making Rhinelander a heavy loser in the recent reduction from the State.



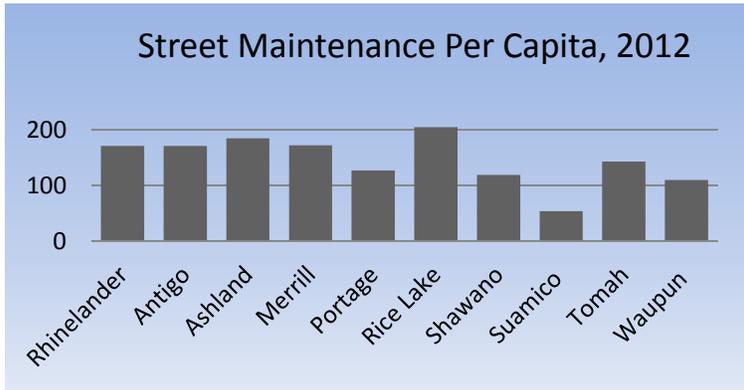
Now consider how Rhinelander compares on spending. Starting with Fire-Ambulance, Rhinelander is above the State average spending of \$137 per capita at \$241 per capita^{vi}. However, the State average statistics indicate both communities with Part-time Volunteer Fire Departments and full-time Career Fire Departments. Compared to the nearby full-time career department of Antigo at \$187 and Merrill at \$139, Rhinelander is still higher.

One of the causes for Rhinelander's Fire Department being rated higher for per capita spending is the economy of scale. Another factor is that Rhinelander's Fire Department also does City planning and building inspection functions that are included in its spending but not in the other comparative fire departments. Rhinelander has a full-time fire department staffed at the minimum level for adequate fire crew response required for the area. Although the City population would suggest more spending, consideration of a regional population being served would indicate much lower per capita rates. Having to staff for a large daytime population is a justification for the City's full-time firefighter staffing. Antigo and Merrill offset their costs with additional revenue from being regional ambulance centers to the surrounding towns and Rhinelander does not.

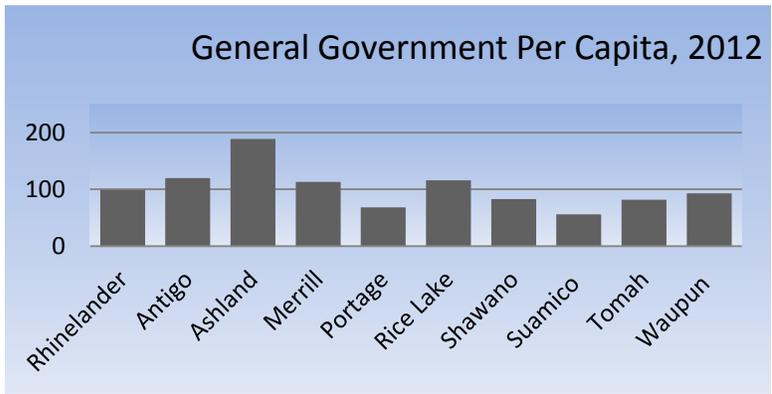
Rhineland has considered the option of going to a part-time volunteer fire department to cut costs. Such a move would likely raise the City's ISO rating thus raising fire insurance in the City, decrease response time, and be challenging to staff. Given changes in lifestyle, volunteer fire departments nationally are finding it challenging to maintain volunteers. The quick response of a full-time fire department is vital to the commercial and industrial businesses in Rhinelander. Also on the plus side, the City's fire department is a great benefit to neighboring communities who have all volunteer departments.



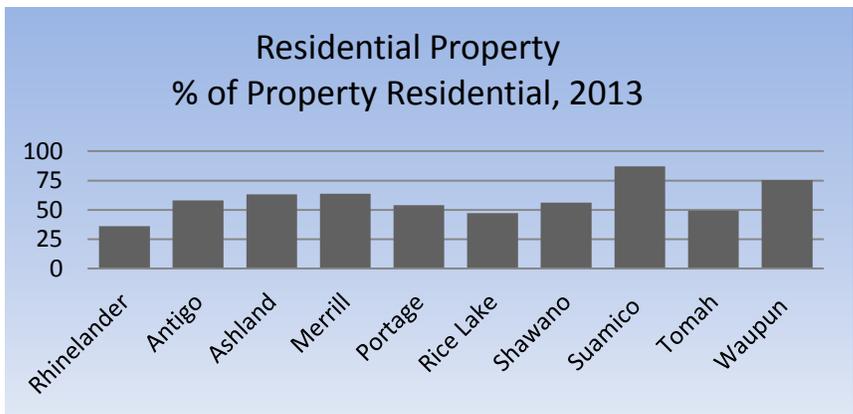
The Rhinelander Police Department per capita spending is \$262 compared to the State average of \$227 with Antigo at \$196 and Merrill at \$244^{vii}. Rhinelander is still high even with 4 fewer sworn officers than 15 years ago. Again, the staffing requirement is heavily weighted on daytime population that generates calls for service. For comparison the Village of Kronenwetter is a bedroom community with a population of 6,887 and a daytime population of 4,200 with 5 police officers. Rhinelander is a regional center with a population of 7,894 and a daytime population of 14,393 requiring 17 officers^{viii}.



Rhineland street maintenance per capita spending is \$171 compared to the State average of \$107 with Antigo at \$171 and Merrill at \$172^{ix}. Rhinelander is comparable with the two surrounding communities; however, is faced with a relative challenge of more roadways to maintain. Rhinelander has cut 4 positions in this department in the last 15 years. Although Water and Sewer Utility enterprise funds act to compliment the ongoing efforts needed for road maintenance; the City simply does not have the revenue to keep up with major road resurfacing. The City’s major thoroughfares are in need of repair including Lincoln Street, Stevens Street, Timber Drive, and Boyce Drive. Simply put, the City roads are deteriorating faster than the City has means with available revenue to repair them.



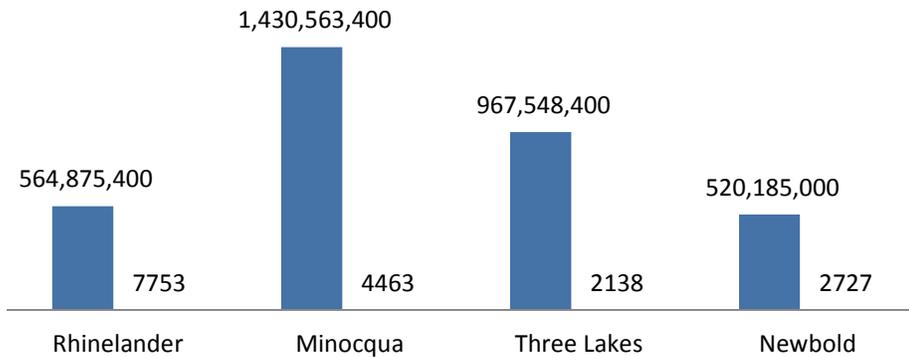
The last area of spending to be examined is general government. The City is lean with a per capita spending of \$99 compared to Antigo with \$120 and Merrill with \$113^x. In the last 15 years the City has cut at least one position in this area and transferred some of the general government functions (planning and inspection) to the fire department to contain costs. Also, the City has over the last 15 years eliminated community activities and cut two positions in Parks and the Cemetery. With these actions, the City has improved financially, but has also declined with the level of valued services that are provided.



Looking at demographics again, the City has a low to moderate income percentage of 51.8% of the population compared to the Oneida County percentage of 40.3% that includes the City of Rhineland^{xi}. Adjusted gross income per return is \$35,240 for Rhineland, \$32,670 for Antigo and \$34,830 for Merrill. Rhineland is low for percentage of property that is residential at 36.0% with a State average of 70%; Antigo is at 58.1% and Merrill at 63.8%.

As mentioned above, the City of Rhineland is the regional commercial and industrial hub. In looking at industrial property tax revenue, the Rhineland paper mill 40 years ago generated around 50% of the City's property tax revenue. Presently the mill generates 4% of the City's property tax revenue. The percentage is expected to drop in 2015 to 2.6% of the City's total property tax revenue. In fact, the mill has a pending appeal that could lower its percentage of property tax revenue to 1% of the City's total. In looking at commercial property values, the City has had to drop the value of Walgreens from \$4.4 million to \$2.3 million in the last five years. These drops in values correspond to reduction of City revenue. These examples are to demonstrate the eroding tax revenue to the City from industrial and commercial property.

2012 Assessed Value and Population



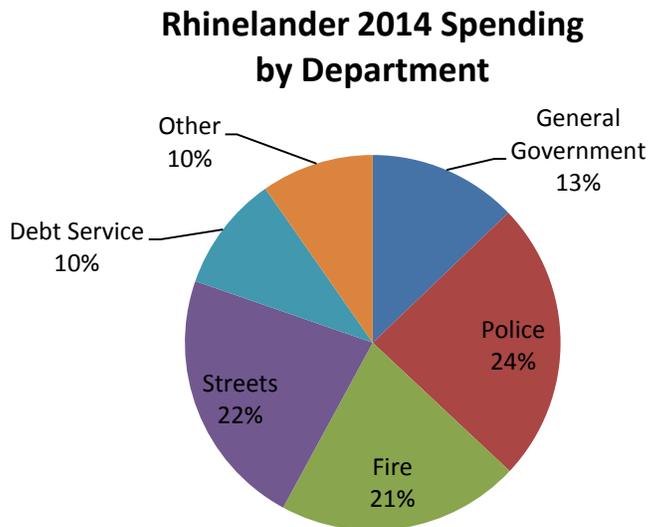
Comparing property values in Oneida County between municipalities, the smaller Town of Minocqua is at \$1,430,563,400. This is nearly three times Rhineland at \$564,875,400 for property assessed value used to calculate property tax revenue^{xii}. The Town of Three Lakes is almost double Rhineland and the Town of Newbold is nearly equal with Rhineland for property value. These three nearby towns with mainly residential property have strong property values. The City of Rhineland is 21.5% of the total county population and only 8.4 percent of the total assessed value. As the State has continued to provide property tax relief to industrial businesses, municipalities have had to become more reliant on residential property taxes. Rhineland, with a low percentage of residential property value, has suffered on the tax rate side.

What can be derived from the facts presented resulting in Rhineland's high property tax levy per capita?

- 1) City spending for services now is required to maintain a safe level of fire protection, police protection and utility services citizens have come to expect for the area.
- 2) The City's high percentage of low to moderate income contributes to the high rate.
- 3) The City's low percentage of residential property value is a factor.
- 4) Rhineland, even as the commercial and industrial regional hub, does not generate a large source of revenue from these businesses.

The conclusion is that the City needs to lower its dependence on property taxes as a source of revenue.

Tax Relief Strategies



In an effort to lessen the tax burden for its taxpayers the City of Rhinelanders is pursuing the following options:

- 1) Containment and reduction in spending
- 2) Implementation of a stormwater utility
- 3) Increasing various service fees and adding new service fees
- 4) Equitable Allocation of Administrative Costs to other funds receiving services
- 5) Exploring New Sources of Revenue

One: The City of Rhinelanders continues to contain spending increases to a moderate level. Given this containment the City has been successful in the last two years at keeping the operating component of the property tax rate at the same level. Although the City has taken steps to reduce 11 staff positions over the last 15 years, at some point in an effort to contain costs and keep from raising taxes; the City may have to look at cutting additional positions. Police, Streets, and Fire account for 67% of the City's total spending. General government along with Police, Streets, and Fire are already lean as discussed above. The remaining category is other at 10% of spending consisting of Parks, Cemetery, Animal Shelter, Health Officer, Library, Urban Forestry, Recycling, and Airport. The City has also already made cuts in spending and services in this category particularly in Parks. Any additional cuts in spending for the City will likely impact the viability of the community and region.

Two: The City in 2013 implemented a stormwater utility as a reliable source of separate enterprise revenue for storm water spending to improve storm drainage in the City. This is an equitable fee and with stormwater spending no longer in the GF, stormwater spending no longer competes with Streets, Police, and Fire spending. By having a separate, dependable funding source, the City has been able to focus on the utility needs effectively and reduce the expense to the general fund.

Three: The City is increasing fees. The City's building and zoning fees have increased to keep par with increased costs of services. By increasing service fees, the costs are paid by those who actually use the services and not distributing the cost to everyone. The City is exploring a new charge for the fire department responding to accidents that is done by other jurisdictions including the Town of Pelican. Consideration of the car accident fee is controversial and has been postponed.

Four: The City has reviewed and increased its allocation rates for administrative services for the Water Utility, Sewer Utility, Stormwater Utility, Library, and Airport. The continued allocations of Utility fees in this fashion will ultimately increase the charge for utility services, and have those again be directed to City residents. The City by agreement has to provide Administrative Services valued at \$38,000 to the Rhinelander District Library at no cost. The City is pursuing renegotiating the agreement with the four towns that, along with the City, make up the Library District; to allow for the charging of the \$38,000 annual fee for administration.

Five: The last tool to consider is new revenue sources. A decade ago, the City of Rhinelander a partnered with the City of Rice Lake to lobby the State legislature for sales tax revenue. The effort was unsuccessful. As mentioned above, the City is a major source of trade area sales with the sales tax being substantial governmental revenue. Unfortunately the City currently receives no sales tax revenue to help pay for City services while Oneida County receives \$3,722,972 per year with an estimated 50% or more being generated in Rhinelander^{xiii}. The nearby City of Eagle River implemented a Premier Resort Area Tax in 2006 that generates \$153,584 annually to lessen the City's dependence on Property Tax Revenue in recognition of the need for tourism related revenue to provide vital City services^{xiv}.

Consideration of Premier Resort Area Tax

The City of Rhinelander should consider implementing a Premier Resort Area Tax as a revenue source to lessen the City's dependence on property taxes. The premier resort area tax would be an additional 0.5% sales tax for goods and services sold by tourism related retailers in the City of Rhinelander. The premier resort area tax is available to a municipality with at least 40% of its equalized assessed property value used by tourism-related retailers. The Village of Lake Delton and City of Wisconsin Dells qualify under this provision and collect this additional sales tax. Five municipalities have a waiver per State statute that allows implementation of the tax without meeting the 40% requirement. These municipalities are the City of Bayfield, City of Eagle River, Village of Ephraim, Village of Sister Bay, and Village of Stockholm. The City of Rhinelander does not meet the 40% requirement and would also have to seek a legislative waiver.

The estimated revenue from the premier resort area tax for the City is \$400,000 annually. Per State law, proceeds of the tax could only be used for infrastructure expenses within the City. Resurfacing of the streets in the City would qualify as infrastructure expenses. This is a good match with revenue source and related spending. Much of the road use activity is a result of the City's high daytime population and tourism. All of the payers of the additional sales tax on tourism related sales tax revenue generated would benefit from repair of these highly visible and highly used streets. The

general rule is that people are acceptable to increased taxes if they are going to receive additional services. The City could use the Premier Resort Area Tax to visibly improve its major streets. The City currently has over Two million dollars in major road repairs that are needed.

Proposed Implementation of Premier Resort Area Tax

There are a number of steps to take to implement the Premier Resort Area Tax. The City of Rhinelander should first put a referendum to its voters to gain approval for the new Premier Resort Area Tax. The City of Eagle River put a referendum to its voters to implement the Premier Resort Area Tax with around two-thirds in favor. The voter approval is not specifically required by State law but will help to strengthen the validity of the tax in the community and garner support from the State legislature for required waiver to the 40% requirement noted above. The proposed advisory referendum could be held in the spring 2015 general election on April 7, 2015. This would require the Rhinelander City Council passing a resolution calling for the referendum and notifying the County Clerk by January 27, 2015. Proposed referendum would read, “Should the City of Rhinelander levy a 0.5% (1/2 cent on the dollar) sales tax on tourist related items sold, leased, or rented through tourist related retailers to pay for transportation infrastructure? YES or NO”

The second step is passage of State legislation to allow the City of Rhinelander to enact an ordinance declaring it to be a premier resort area even if less than 40% of the equalized assessed value of the taxable property within the City of Rhinelander is used by tourism-retailers. With already having voter approval the chance of getting the special required statute allowance is more likely. The additional revenue for transportation funding is vitally needed and a benefit to the region using the roads. This is a strong justification for regional support and support from the State legislature.

The third step is passage of a City of Rhinelander resolution by the Rhinelander Common Council with two-thirds approval declaring the City of Rhinelander a “premier resort area” and enactment of an ordinance permitting collection of the 0.5% sales tax on the gross receipts from sales, lease, or rental in the City of Rhinelander for goods that are already subject to Wisconsin Sales Tax; and which are sold, leased, or rented only in tourist related establishments as defined Wisconsin Statute.

The fourth step is implementation of the local sales tax to generate an estimated \$400,000 annually for City infrastructure projects. This would require educating affected establishments of the sales tax rate change and working with the Department of Revenue (DOR). The DOR already has a Premier Resort Area Tax Publication for persons selling tangible personal property and taxable services in Premier Resort Areas.

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The last step is prioritizing the transportation infrastructure projects and proceeding with the road repairs and improvements. The Rhinelander Public Works Department has already identified the following projects with estimated costs relating to expense for road repairs alone:

- 1) Lincoln Street (Oneida to Evergreen), \$425,000
- 2) Lincoln Street (Evergreen to Eisenhower Parkway), \$540,000
- 3) Stevens Street (Frederick to Dwight), \$460,000
- 4) Boyce Drive (Prospect St. to Hwy. 17 Bypass), \$275,000
- 5) Kemp Street (Wabash to Oneida), \$230,000
- 6) Oneida Ave (Lincoln Street to Oneida Ave Bridge), \$190,000

Although each of these road sections will likely have underground utility expenses too, the additional expenses involved will be recouped through the respective utility funds separately.

The implementation of a half-cent local sales tax will allow the City of Rhinelander to address its street infrastructure needs, reduce its dependence on property taxes, and benefit the City and region. A vibrant City of Rhinelander is vital to the economic prosperity of the region. Supporting the half-cent sales tax referendum is supporting the Rhinelander community.

ⁱ Rhinelander Downtown Streetscape Project, City Council and DRI Presentation, September 24, 2014, by Vierbicher Associates. <http://www.rhinelanderstreetscape.com/forms/city-council-and-dri-presentation-sept-24th-2014.pdf>.

ⁱⁱ Ibid.

ⁱⁱⁱ U.S. Census Bureau, 2006-2010 American Community Survey 5 year, Journey to Work and Migration Statistics Branch, Population Division.

^{iv} 2014 Taxpayers Alliance Municipal Facts Customized Report for 2012/2013.

^v Ibid.

^{vi} Ibid.

^{vii} Ibid.

^{viii} US Census

^{ix} 2014 Taxpayers Alliance Municipal Facts Customized Report for 2012/2013.

^x Ibid.

^{xi} Wisconsin Report for Grant Funding.

^{xii} Wisconsin Department of Revenue Report by County.

^{xiii} Wisconsin Department of Revenue, Division of Enterprise Services, 2013 County Sales Tax Distribution.

^{xiv} Wisconsin Department of Revenue, Division of Enterprise Services, 2012 Premier Resort Tax Distribution.