

# Alternatives to the Property Tax

*Presented to:*

## **LWM Chief Executives Workshop**

By Curt Snyder, City Administrator, City of Rice Lake

*August 23, 2012*

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**“...how we raise our money matters much more than our tax rankings....the hot debate in state houses around the country right now is modernizing tax systems for the 21st century, a discussion we simply are not having...”**

Don Kettl, former Professor of UW Madison &  
Chair of the ‘Kettl Commission’ appointed by  
Governor Thompson

“Unravel Myths Underlying State Politics, Policy,”  
*Wisconsin State Journal*, May 16, 2004

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# Outline: Alternatives to the Property Tax

## I. Possible motivations

- a. Shared revenue is dead or will be in near future
  - 1) Statewide data
  - 2) City of Rice Lake
- b. In some communities, skews burden to those least contributing to cost

## II. Why fees aren't taxes

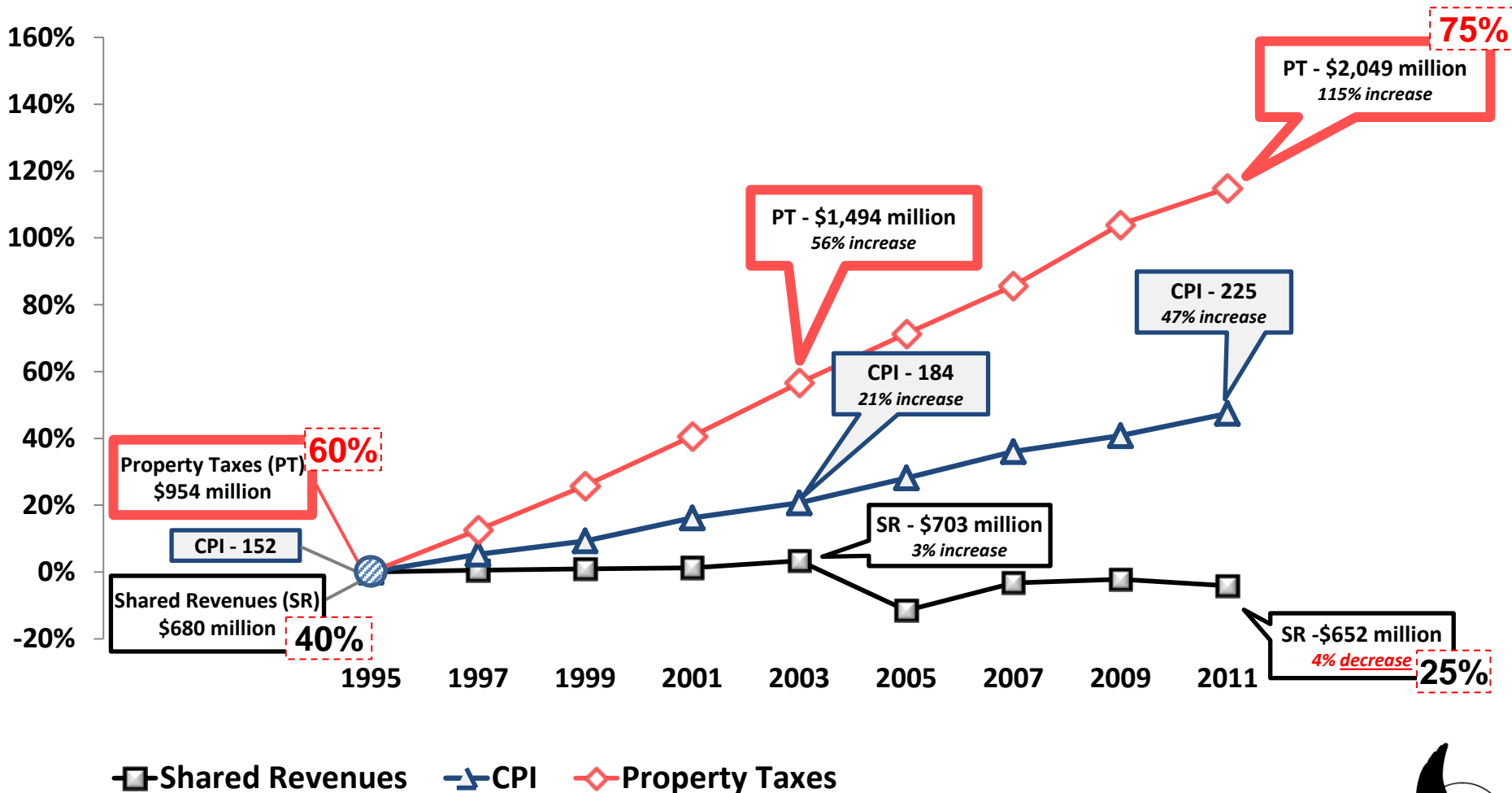
## III. Examples

- a. Hydrant rental
- b. Special assessments
- c. Solid waste/recycling utility
- d. *Stemwater utility*
- e. *Street lighting utility*
- f. *Environmental surcharge*
- g. *PILOT*

## IV. Common arguments against fees

- a. Taxes are deductible
- b. It's the same payer, just a different pocket
- c. Property taxes are more transparent

# Percent of Change in State & Local (Cities/Villages) Finance Statewide Totals 1995 - 2011

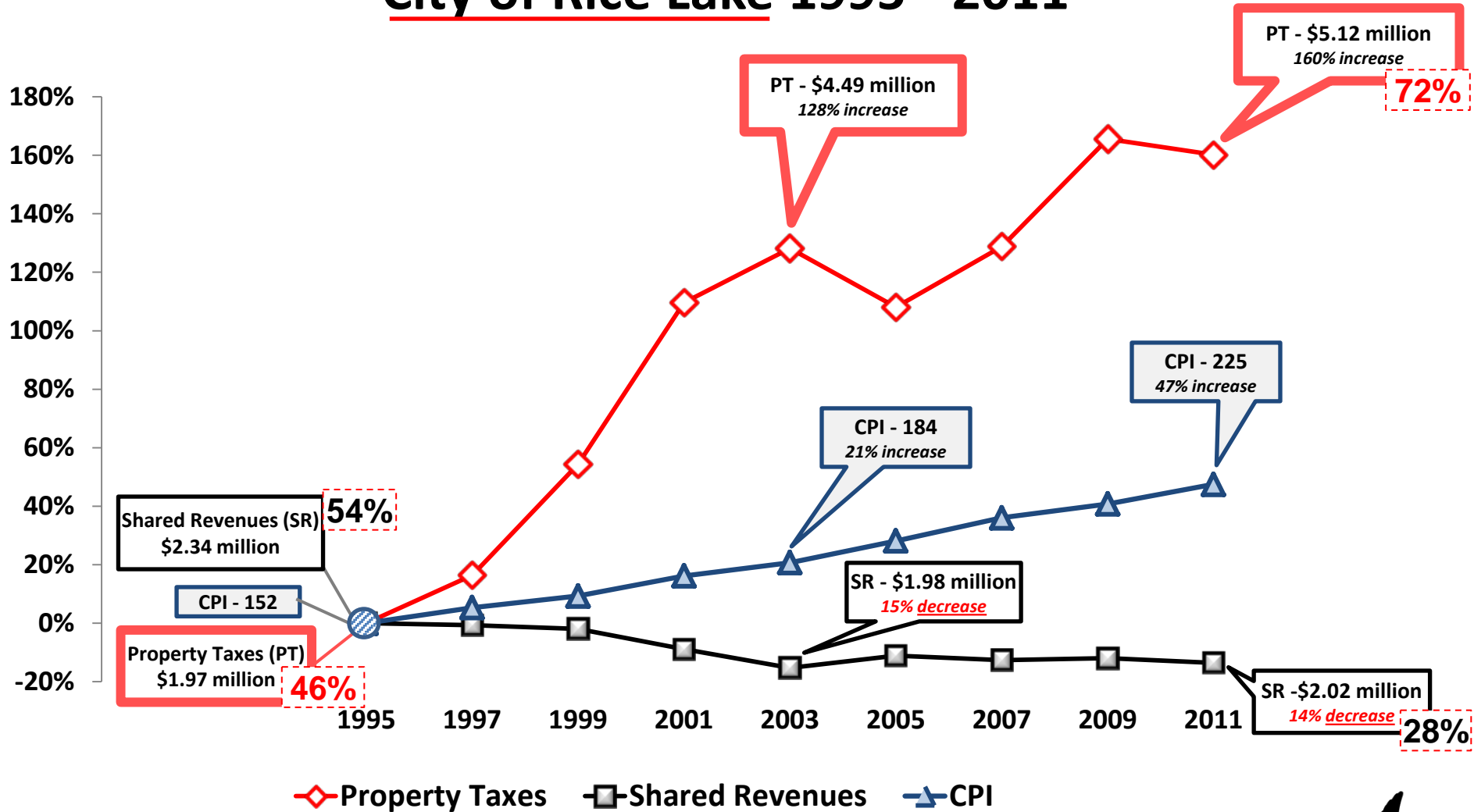


Note: From 1994-2005, State School Aid increased from \$2.5 billion to \$5.0 billion.

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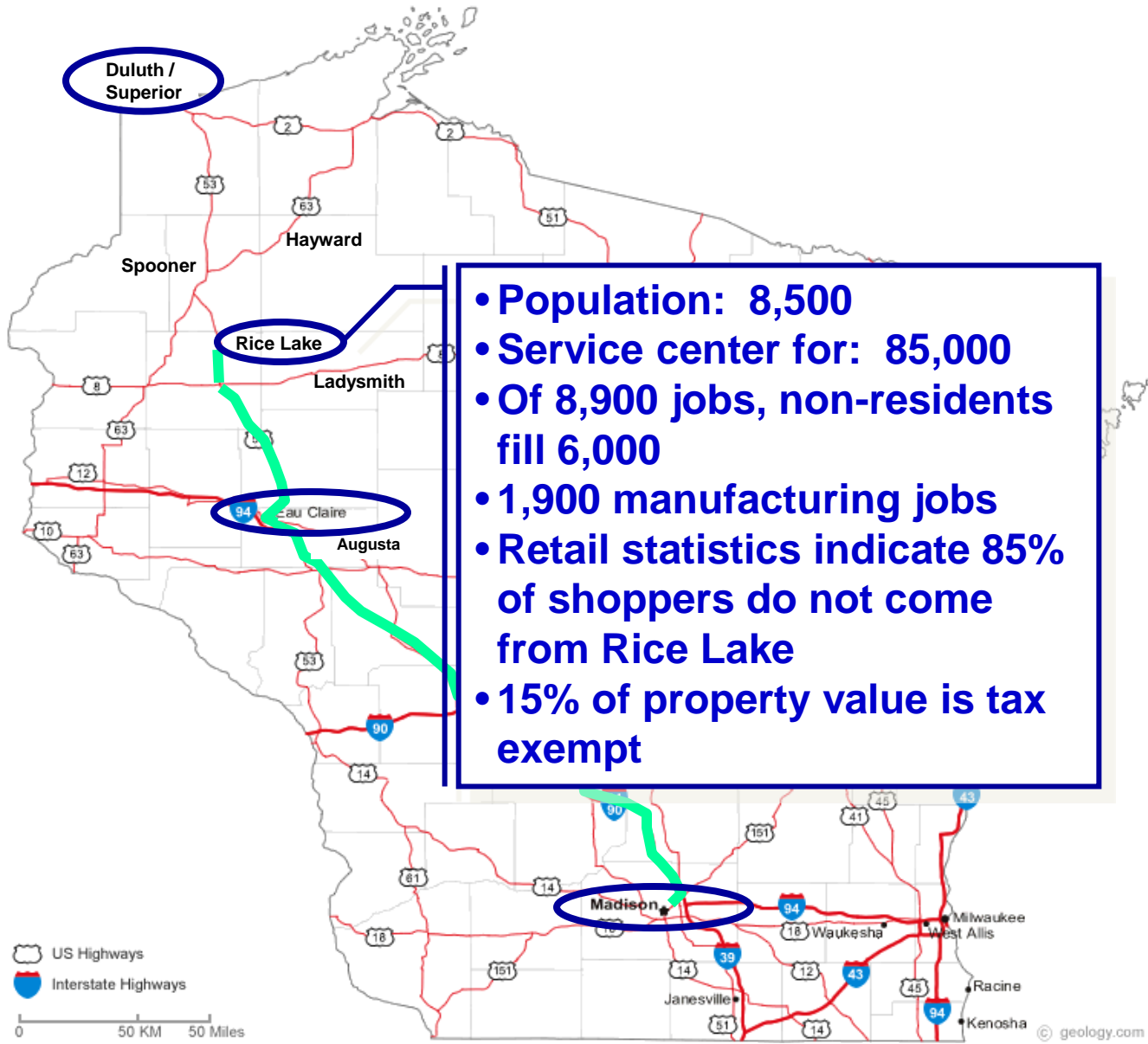


# Percent of Change in State & Local Finance City of Rice Lake 1995 - 2011



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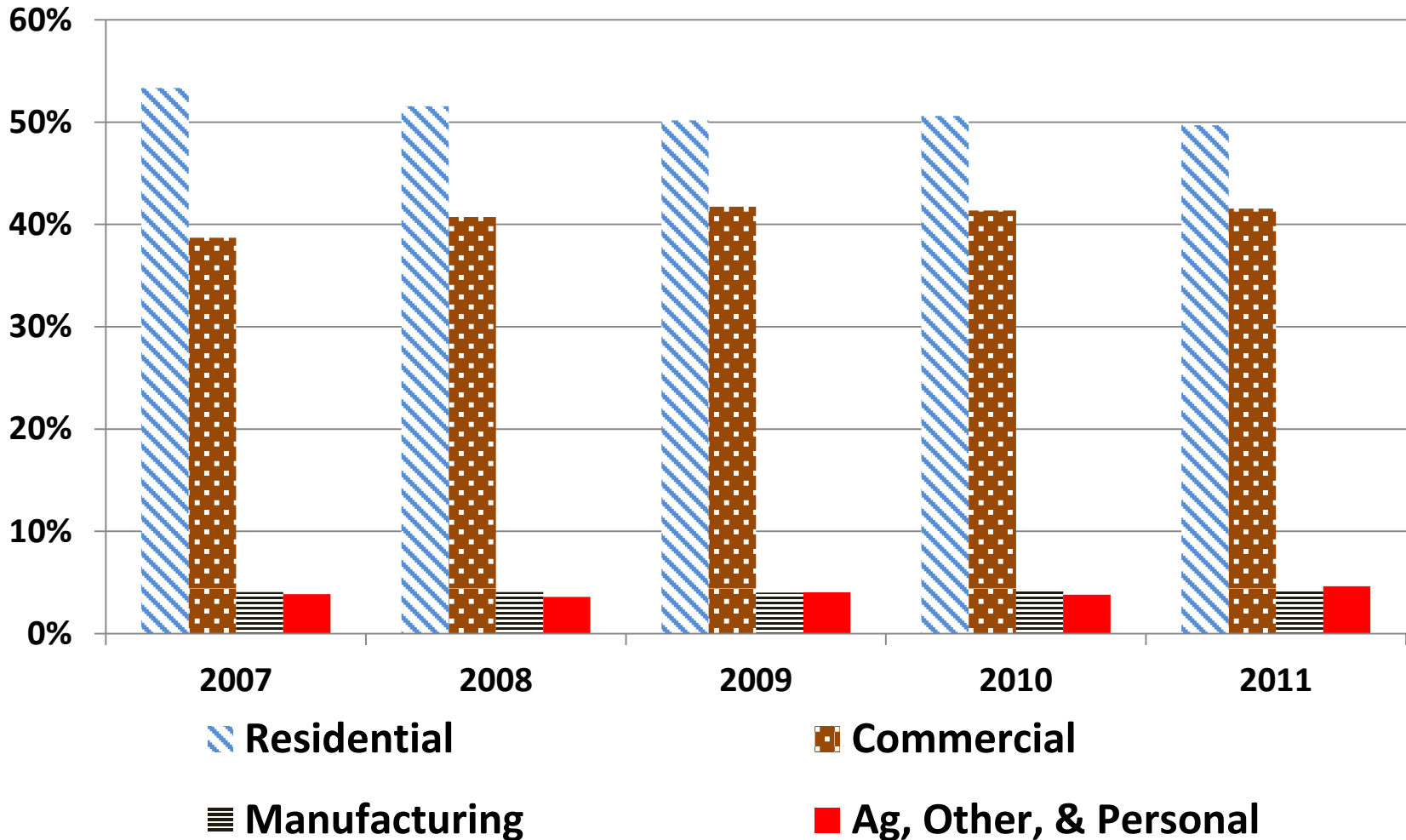




- **Population: 8,500**
- **Service center for: 85,000**
- **Of 8,900 jobs, non-residents fill 6,000**
- **1,900 manufacturing jobs**
- **Retail statistics indicate 85% of shoppers do not come from Rice Lake**
- **15% of property value is tax exempt**

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# Distribution of Property Tax Liability City of Rice Lake 2007-2011



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# Why fees aren't taxes

## Taxes

- Do not need to relate to benefit received or contribution to cost
- Are paid only by entities which are not tax exempt
- Are used to fund general functions of government
- Amount collected must not exceed the funding need

## Fees

- Must relate to benefit received or contribution to cost\*
- Are paid by all entities, including the government, itself
- Are used to fund specific purposes
- Amount collected must not exceed funding need and be used for the specified purpose

\*Wis. Stat. 66.0628 (2): "Any fee that is imposed by a political subdivision shall bear a reasonable relationship to the service for which the fee is imposed."

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# Stormwater Utility

- Purposes:
  - Remove stormwater operational & capital costs from general tax levy
  - Raise additional funds needed to comply with MS4 permit
- Cost/benefit methodology
  - Impermeable area
  - Polygons drawn around all impermeable areas shown on aerial photo
    - 26% of impermeable area was residential (compare to 50% of property tax paid by residential uses)
    - 74% of impermeable area was non-residential

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# Stormwater Utility Charges

Customer Category	Ave, Monthly Charge	Total Annual Revenue from Category [1]	
		Amount	%
<b>Non-residential</b>			
"Top 30" (excluding the City, itself) [1] [2]	\$736	\$256,000	37%
"Non-Top 30" Non-residential Account [1]	\$46	\$279,000	40%
	<b>Subtotal</b>	<b>\$535,000</b>	<b>78%</b>
<b>Residential</b>			
Small (0 - 2,500 sq. ft.)	\$1.65	\$11,000	2%
Typical (2,501 to 4,900 sq. ft.)	\$4.89	\$102,000	15%
Large (4,901 - 7,300 sq. ft.)	\$8.07	\$28,000	4%
Actual (over 7,300 sq. ft.)	\$14.84	\$14,000	2%
	<b>Subtotal</b>	<b>\$155,000</b>	<b>22% [3]</b>
	<b>Grand Total</b>	<b>\$690,000</b>	<b>100%</b>

**Notes:**

[1] Assumes no credits of up to 70%. Credits are budgeted to remove \$90,000 from the amount paid by the non-residential category. (Note: Credits would not be possible under the property tax method of financing stormwater costs.)

[2] The City, itself, is the "Top Customer" so this category only includes the next top 29 customers.

[3] If "property tax" were used to fund stormwater management activities, the residential category would pay 50% of the cost. Residential has about 26% of the impervious area; it is paying only 22% of the entire cost because the credits, which are budgeted to total \$90,000 - are only paid by the non-residential category.

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# Stormwater Utility Communities



## WI Stormwater User Charge System Information Representative Wisconsin Communities



Wisconsin stormwater user charge information is subject to change! Contact individual communities to confirm accuracy - please forward corrections and updates!

Use "down" arrows  to filter data.

Apr-2011

- As of April 2011, 79 communities
- 35 had populations of less than 10,000
- 54% had credit policies
- Average charge for one single family home - \$54/year
- <http://wisconsin.apwa.net/>

Name of Community or Stormwater District	Recent Population	Created/ Started in:	ERU Size (sf)	Ann \$/ERU or 1 fam home	Credit Policy?		Comments/ Web site addresses
					Y/ N	Max Amount	
Allouez (Village)	15,443	2006	3,663				www.villageofallouez.com
Appleton (City)	70,293	1995	2,368	\$125.00	Y	77%	www.appleton.org
Baraboo (City)	10,771	2005	2,379	\$46.87			www.cityofbaraboo.com
Barron (City)	3,250	2005	10,850	\$24.00	Y	75%	www.barronwi.us
Beaver Dam (City)	14,983	2008	2,637	\$48.61	Y	33%	www.cityofbeaverdam.com
Bellevue (Village)	14,386	2002	3,221	\$48.00	Y	100%	www.bellevue-wi.com
Beloit (City)	35,803	2006	3,347	\$36.00			beloit.govoffice3.com/
Brown Deer (Village)	11,895	2004	3,257	\$91.80	N		www.browndeerwi.org
Butler (Village)	1,885	1999	3,032	\$66.00			www.butlerwi.gov/
Chetek (City)	2,180	2005		\$27.00	Y		www.chetek.net
Chippewa Falls (City)	13,374	2005		\$36.00			www.ci.chippewa-falls.wi.us
Cudahy (City)	18,430	2001	2,700	\$60.00	Y	\$2/ ERU	www.ci.cudahy.wi.us
De Forest (Village)	7,400	2005	2,900	\$60.00			www.vi.deforest.wi.us/
Delafield (City)	7,820	2004	1,000	\$29.00			www.cityofdelafield.com/
De Pere (City)	20,560	2003		\$47.00			www.de-pere.org/
Eau Claire (City)	62,576	1997	3,000	\$68.00	Y	100%	www.ci.eau-claire.wi.us
Elm Grove (Village)	6,250	2004	6,235	\$65.50			www.elmgrovetwi.org
Fitchburg (City) - Urban	20,000	2002	3,700	\$70.40	Y	50%	www.city.fitchburg.wi.us
Fitchburg (City) - Rural	4,000	2002	3,700	\$24.20	Y	50%	www.city.fitchburg.wi.us
Fox Point (Village)	6,816	2009	2,988	\$126.72			http://www.vil.fox-point.wi.us/
Fort Atkinson (City)		2009	3,096	\$37.98			http://www.fortatkinsonwi.net/
Garner's Creek (watershed)		1998	3,623	\$96.00	Y	85%	http://www.garnerscreekutility.org/
Glendale (City)	13,400	1996	3,200	\$42.00	N		www.glendale-wi.org
Grand Chute (Town)	20,200	1997	3,283	\$48.00	Y	85%	www.grandchute.net
Grantsburg (Village)	1,397	2004		\$18.00	Y	75%	www.grantsburgwi.com
Green Bay (City)	102,350	2004	3,000	\$63.76	Y	67%	www.ci.green-bay.wi.us
Greendale (Village)	14,410	2004	3,941	\$78.00	Y	50%	www.greendale.org
Greenfield (City)	35,476	2009	3,630	\$49.80			http://www.ci.greenfield.wi.us/
Greenville (Town)	8,008	1999	4,510	\$60.00	Y	85%	www.townofgreenville.com
Hales Corners (Village)	7,665	2008	3,952	\$9.00			http://www.halescorners.org/
Harrison (Town of)	5,800	1998		\$96.00			www.townofharrison.org
Hobart (Village of)	5,834	2007	4,000	\$72.00	Y	50%	www.hobart-wi.org/
Holmen (Village of)	7,176	2007	3,550	\$44.00	Y	50%	www.homenwi.com
Howard (Village)	15,774	2005	3,301	\$44.00			www.villageofhoward.com
Janesville (City)	61,604	2003	3,200	\$36.44	Y	65%	www.ci.janesville.wi.us
Kenosha (City)	96,845	2007	2,477	\$60.00	Y		www.kenosha.org
Lake Delton (Village)	2,975	1993	1,685	\$18.00	Y	100%	www.lakedelton.org
Lancaster (City)	4,033	2008	2,400	\$24.00	Y		www.lancasterwisconsin.com
Lisbon (Town)	9,359	2007	6,642	\$40.00	Y	50%	www.townoflisbonwi.com

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# Stormwater Utility Communities (continued)



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Apr-2011

Name of Community or Stormwater District	Recent Population	Created/ Started in:	ERU Size (sf)	Ann \$/ERU or 1 fam home	Credit Policy?		Comments/ Web site addresses
					Y/ N	Max Amount	
Little Chute (Village)	10,830	1998	2,752	\$96.00	N		<a href="http://www.littlechutewi.org">www.littlechutewi.org</a>
Madison (City)	220,332	2001	Ind'l Msmt	\$55.00	Y	50%	<a href="http://www.cityofmadison.com">www.cityofmadison.com</a>
McFarland (Village)	6,416	2007	3,456	\$46.85			<a href="http://www.mcfarland.wi.us">www.mcfarland.wi.us</a>
Menominee (City of)	15,318	2008	3,000	\$32.00	Y	20%	<a href="http://www.menomonee-wi.gov/">www.menomonee-wi.gov/</a>
Milton (City of)	5,667	2009		\$55.13			<a href="http://www.ci.milton.wi.us/">http://www.ci.milton.wi.us/</a>
Milwaukee (City)	597,000	2006	1,610	\$82.20	Y	60%	<a href="http://www.mpw.net">www.mpw.net</a>
Monona (City)	8,000	2004	NA *	\$60.00	Y	65%	<a href="http://www.monona.wi.us">www.monona.wi.us</a>
Monroe (City)	10,600	2006	2,728	\$60.00			<a href="http://www.cityofmonroe.org">www.cityofmonroe.org</a>
Nee Nah (City)	24,600	2003	3,138	\$80.00			<a href="http://www.ci.neenah.wi.us">www.ci.neenah.wi.us</a>
New Berlin (City)	38,719	2001	4,000	\$60.00	N		<a href="http://www.newberlin.org">www.newberlin.org</a>
New Richmond (City)	7,726	2004	12,632	\$28.68	Y	75%	<a href="http://www.ci.new-richmond.wi.us">www.ci.new-richmond.wi.us</a>
N. Fond du Lac (Village)	4,557	2007	3,123	\$56.00	Y		<a href="http://www.nfdl.org">www.nfdl.org</a>
Oak Creek (City)	28,456	2003	3,300	\$27.50			<a href="http://www.oakcreekwi.org/">http://www.oakcreekwi.org/</a>
Onalaska (City)	16,690	2009	3,888	\$50.95	Y	40%	<a href="http://www.cityofonalaska.com">www.cityofonalaska.com</a>
Onalaska (Town)	5,600	2005	3,709	\$24.00			<a href="http://www.co.la-crosse.wi.us/townofonalaska">www.co.la-crosse.wi.us/townofonalaska</a>
Oshkosh (City)	65,000	2003	2,817	\$62.97	Y	40%	<a href="http://www.ci.oshkosh.wi.us">www.ci.oshkosh.wi.us</a>
Pewaukee (City)	11,783	3010	5,339	\$120.00			<a href="http://www.pleasantprairieonline.com/">http://www.pleasantprairieonline.com/</a>
Pleasant Prairie (Village)	18,000	2006		\$15.00			<a href="http://www.pleasantprairieonline.com/">www.pleasantprairieonline.com/</a>
Poynette (Village)	2,563	2006	3,550	\$50.00			<a href="http://www.poynette-wi.gov/">www.poynette-wi.gov/</a>
Racine (City)	81,855	2004	2,844	\$72.30	Y	40%	<a href="http://www.cityofracine.org">www.cityofracine.org</a>
Raymond (Town)	3,516	2008	\$0.0036/ sf impervious area		N		<a href="http://www.raymondtownof.com">www.raymondtownof.com</a>
Reedsburg (City of)	8,594	2008	3,024	\$46.00	Y	50%	<a href="http://www.reedsburgwi.gov">www.reedsburgwi.gov</a>
River Falls (City)	13,019	1998	NA *	\$37.68	Y	100%	<a href="http://www.rfcity.org">www.rfcity.org</a>
Salem (Town)	9,871	2009	6,352	\$60.00	Y	50%	<a href="http://www.townofsalem.net">www.townofsalem.net</a>
Sheboygan (City)	50,800	2001	2,215	\$36.00	Y		<a href="http://www.ci.sheboygan.wi.us">www.ci.sheboygan.wi.us</a>
Shorewood Hills (Village)	1,732	2007	2,941				<a href="http://www.shorewood-hills.org">www.shorewood-hills.org</a>
Slinger (Village)	3,901	2007	4,300	\$40.00	Y		<a href="http://www.slinger-wi-usa.org/">www.slinger-wi-usa.org/</a>
St. Francis (Village)	9,373	2001	2,500	\$48.00			<a href="http://www.ci.stfrancis.wi.gov/">www.ci.stfrancis.wi.gov/</a>
Sun Prairie (City)	24,464	2003	3,468	\$72.00	Y	65%	<a href="http://www.cityofsunprairie.com/">www.cityofsunprairie.com/</a>
Superior (City)	27,370	2007	1,907	\$70.80	Y	TBD	<a href="http://www.ci.superior.wi.us/">www.ci.superior.wi.us/</a>
Sussex (Village)	9,687	2005		\$60.00			<a href="http://www.village.sussex.wi.us/">www.village.sussex.wi.us/</a>
Vernon (Town)	7,455	2008	6,904	\$32.00	Y	50%	<a href="http://www.rownofvernon.org/">www.rownofvernon.org/</a>
Verona (City)	7,052	2009	2,842	\$53.06			<a href="http://www.ci.verona.wi.us/">http://www.ci.verona.wi.us/</a>
Washburn (City)	2,300	2005		\$48.00			<a href="http://www.cityofwashburn.org/">www.cityofwashburn.org/</a>
Watertown (City)	23,163	2005	2,900	\$76.00			<a href="http://www.cityofwatertown.org/">www.cityofwatertown.org/</a>
Waupun (City)	10,720	2005	3,204	\$36.00			<a href="http://www.cityofwaupun.org/">www.cityofwaupun.org/</a>
Wauwatosa (City)	45,602	1999	2,174	\$55.44	Y	100%	<a href="http://www.wauwatosa.net/">www.wauwatosa.net/</a>
West Allis (City)	61,250	1997	1,827	\$63.12	Y	56%	<a href="http://www.ci.west-allis.wi.us/">www.ci.west-allis.wi.us/</a>
West Milwaukee (Village)	4,142	2003	1,956	\$24.00	Y	75%	<a href="http://www.westmilwaukee.org/">www.westmilwaukee.org/</a>
Weston (Village)	12,736	2004	3,338	\$47.78	Y	68%	<a href="http://www.westonwisconsin.org/">www.westonwisconsin.org/</a>

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Send updates to [jmmazanec@gmail.com](mailto:jmmazanec@gmail.com); matrix developed with supporting information from stormwater professionals state-wide.

# Environmental surcharge

- Purpose: Prevent approximately \$6 million (in 1995 dollars) in remediation liabilities from being financed by the property tax
  - Financed “City’s” share of remediation
  - Remainder was obtained through cost recovery from responsible parties (RPs)
- Used in conjunction with issuance of mortgage revenue bonds
- Rates:
  - At peak, \$3.85 per month (residential) and \$1.72 per cubic yard of solid waste (non-residential)
  - When revenue bonds were defeased in 2008, charges reduced to \$1.90 per month and \$.76 per yard
- Revenues:
  - At peak, \$300,000 per year
  - Current, \$150,000 per year
  - Approximately 45% from residential and 55% from non-residential
- Surcharge community: City of Madison was used as a model.

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# Street Lighting

- Purpose: Remove street lighting monthly charges from electric utility and periodic costs of extensions from general tax levy
- Cost/benefit methodology:
  - 15% of cost attributed to residential and prorated by number of households
  - 85% of cost attributed to non-residential and prorated by number of “street feet” defined as total of street frontage (all sides) property lit in accordance with “street lighting” policy
  - Properties without real estate improvements are exempted from the charge
    - Policy calls for street lighting to be extended when properties are developed
    - Vacant properties are not benefitted from, nor do they contribute to the cost of, street lighting

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# Street Lighting

- Authorized as part of 2005 budget
- Not implemented until January 1, 2006
- Street lighting communities: other than Rice Lake, none in Wisconsin; Minnesota has many examples (which Rice Lake used as models)
- Rates:

Property Classification	2006-2007 Rates		2007 Actual Revenues	2007 % of Total Rev.	2008-2012 Rates		2012 Revenues	2012 % of Total Rev.	
	Nonresidential	\$0.0575	per foot per mo.	\$128,000	86%	\$0.080	per foot per mo.	\$174,000	86%
Residential per unit per year	\$0.6900	per res. unit per mo.	\$21,000	14%	\$0.800	per res. unit per mo.	\$28,000	14%	
			<b>\$149,000</b>	<b>100%</b>			<b>\$202,000</b>	<b>100%</b>	
<b>2007-2008 Percentage Increase</b>							<b>36%</b>		

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# Payment-in-lieu-of-tax (PILOT)

- Purpose: To reimburse the city/village for services, improvements, or facilities furnished to a tax exempt property.
- Common examples:
  - Housing authorities
    - Various authorizations including HUD regulations and Wis. Stat. 66.1201(22)
    - City of Rice Lake 2012 - \$90,000
  - Municipally-owned utilities
    - PSC regulated
    - City of Rice Lake 2012 - \$436,000 (\$257,000 electric; \$179,000 water)
- **Avante-garde: hospitals** (or other tax exempts such as fraternal organizations, labor union offices, churches, private utilities, etc.)
  - Obtain through development agreement
  - Triggered by a facilities need for infrastructure extension, subdivision approval, etc.

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Payment-in-lieu-of-tax (PILOT)

- Survey information used by City of Rice Lake in negotiating a PILOT with Lakeview Medical Center ---->
- June 2009 agreement: 50 cents per square foot of exempt space, adjusted annually by US CPI-U
- 2011 rate: \$.52/sq. ft.
- 2011 total: \$94,174

Various Models for Computing a PILOT for a Hospital									
Municipality & Time / Model	Operations PILOT		Capital PILOT		Total PILOT		Estimated Equivalent Property Tax Rate (in mills)	Notes	
	Amount	\$ / Sq. Ft.	Amount	\$ / Sq. Ft.	Amount	\$ / Sq. Ft.			
<b>Village of Grafton</b>									
Years 1 - 3	\$115,875	\$0.29	\$388,825	\$0.97	\$504,700	\$1.26	2.7		
Years 4 - 5	\$128,750	\$0.32	\$388,825	\$0.97	\$517,575	\$1.29	2.8		
Year 6 - 10	\$128,750	\$0.32	\$283,250	\$0.71	\$412,000	\$1.03	2.2		
Years 11+	\$128,750	\$0.32	\$0	\$0.00	\$128,750	\$0.32	0.7	[1]	
<b>Summit Township</b>									
Years 1 - 6	\$100,000	\$0.27	\$250,000	\$0.67	\$350,000	\$0.93	2.0		
Years 7 - 12	\$150,000	\$0.40	\$200,000	\$0.53	\$350,000	\$0.93	2.0		
Years 13 - 29	\$200,000	\$0.53	\$0	\$0.00	\$200,000	\$0.53	1.2		
Years 30+	\$250,000	\$0.67	\$0	\$0.00	\$250,000	\$0.67	1.4	[2]	
<b>City of West Allis</b>									
Year 1+	\$49,250	\$2.41	\$0	\$0.00	\$49,250	\$2.41	9.9	[3]	
<b>City of Rice Lake using:</b>									
<b>Grafton Model</b>									
Years 1- 10	\$50,695	\$0.29	\$170,111	\$0.97	\$220,806	\$1.26	7.4		
Years 11+	\$56,328	\$0.32	\$0	\$0.00	\$56,328	\$0.32	1.9		
<b>Summit Model</b>									
Years 1- 10	\$46,667	\$0.27	\$116,667	\$0.67	\$163,333	\$0.93	5.4		
Years 11+	\$93,333	\$0.53	\$0	\$0.00	\$93,333	\$0.53	3.1		
<b>West Allis Model</b>	\$252,000	\$1.44	\$0	\$0.00	\$252,000	\$1.44	8.4	[3]	
<b>Cost Model</b>	\$136,000	\$0.78	\$0	\$0.00	\$136,000	\$0.78	4.5	[4]	

**Notes**

[1] The "Grafton" model includes a provision for future amounts to be increased by the US CPI.

[2] The "Summit" model includes a provision for future amounts to be increased by the US CPI.

[3] The "West Allis" model takes the very simplistic view that the PILOT is equal to the city's tax rate times the value of the development.

[4] The "Cost" model was developed by the CA and presented to the Council on 14 Oct. 2008. It determined that the "municipal cost/taxable acre" in the City was \$3,300. This amount was multiplied by LMC's proposed 40 acre development.

[5] This table - in xls format - is available upon request. The PILOT agreements which were used in developing the calculations shown above are also available upon request, in pdf format.

# Common arguments against fees

## Argument

- Taxes are deductible
- It's the same payer, just a different pocket
- Property taxes are more transparent

## Rebuttal

- 2004 IRS data showed only 35% of all taxpayers itemize their deductions. Itemizers who made \$55,000 or less were only 15% of all filers.
- If this is true, then water, sewer, and electric bills should be put on the tax roll.
- If the accounting for fees is segregated, the purposes and the reasonableness of the charges are considerably clearer

# Questions, Discussion, Comments

- For additional information on this report, please contact:



City of Rice Lake  
30 East Eau Claire Street  
Rice Lake, WI 54868

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City Administrator

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