



SHEBOYGAN COUNTY

Thomas G. Wegner
Chairman of the Board

Adam N. Payne
County Administrator

Date: July 8, 2016

To: Sheboygan County Board of Supervisors

From: Chairman Tom Wegner

Re: Sheboygan County's Transportation Proposal

A safe and reliable transportation system is essential for a community to prosper and our quality of life. Due to limited resources, the State, Sheboygan County and all local units of government are struggling to adequately maintain our transportation system. If we want to attract and retain good employers, enhance tourism, and be fiscally responsible, we must address this challenge.

The life span of an asphalt road overlay is approximately 15 years. In order to maintain 450 miles of County roads to adequate standards, 30 miles of road should be paved each year. However, over the past five years, Sheboygan County has not had sufficient resources to do so, and on average, has paved approximately 18 miles per year. The County is also responsible for maintaining 73 bridges, with the oldest being constructed in 1916.

In addition to the 450 miles of County roads and 73 bridges being maintained directly by the County, our Transportation Department is contracted by the State and local townships to perform maintenance on 170 miles of State Trunk and Interstate Highways, 465 miles of township roads, and also performs assessments and general maintenance on 79 bridges.

Each mile paved differs in the amount of work that needs to be done depending on its condition, traffic volume, and time elapsed since it was last rebuilt. Current cost estimates for maintaining County roads is broken out as follows:

- Adding a 2 ½ inch overlay to one mile of road = \$120,000
- Pulverizing and adding a 4 inch paving to one mile of road = \$250,000
- One mile of reconstructed road = \$1,200,000

Unfortunately, over the past ten years, the cost to do one mile of overlay has more than doubled. Investing in a comprehensive plan of road maintenance would enable the County to adequately maintain its roads rather than continuing to fall behind, which leads to higher costs. The Transportation and Finance Departments estimate that this comprehensive plan will cost approximately \$11 million per year to keep up with our transportation system needs. This cost does not include city, village and town road needs and the fact that our municipalities are also falling behind on road maintenance. We all can see roads in disrepair, and we all are hearing increasingly more concern about our transportation system from our friends, neighbors,

community leaders and elected officials. In fact, since the Transportation Committee unanimously introduced the proposal to the County Board in early June, the *Heads of Local Government*, and the *Sheboygan County Economic Development Corporation Board of Directors* have voiced their support for the County's transportation proposal as well.

I support the attached proposal that presents a solution to the problem. Enacting a 0.5% county sales tax to support the transportation infrastructure needs of Sheboygan County will accomplish the following objectives:

- Adequately maintain a safe and reliable county transportation system and be fiscally responsible
- Share sales tax revenue with municipalities to help support their transportation needs
- Provide direct property tax relief by reducing borrowing
- Provide operational flexibility to help maintain essential services and workforce

Our County Transportation Proposal includes the following:

- The 0.5% county sales tax will provide a reliable funding source to accomplish at minimum 30 miles of County road work annually
- \$1.5 million is shared with municipalities based on their respective equalized value. Each municipality must spend the funding on additional road maintenance and their allocation will grow on a percentage basis going forward as the annual sales tax revenue increases.
- \$1 million earmarked for direct property tax levy relief attained through reducing debt service
- Operational flexibility is gained through utilizing sales tax revenue rather than property tax levy to support highway capital and equipment needs
- By significantly reducing borrowing to maintain roads and bridges going forward, the County will avoid borrowing \$47 million from 2017–2030. This represents avoidance of interest expense of \$12.9 million, totaling \$59.9 million. As our debt service is reduced over time, this will provide direct property tax relief.

In order to maintain the County's transportation system and be fiscally responsible, we must have an adequate and dedicated revenue source. By implementing a 0.5% sales tax, we will address a growing problem, and be far better positioned to maintain our transportation system going forward. We will also be able to assist municipalities with their transportation needs, reduce borrowing, reduce debt service, provide property tax relief and gain operational flexibility.

I want to thank and acknowledge former Chairperson Roger Te Stroete, County Administrator Adam Payne, Finance Director Wendy Charnon, Transportation Director Greg Schnell and the County Transportation Committee for their key leadership and support in preparing the attached proposal for the County Board's consideration.

Maintaining Sheboygan County's Transportation System

The Solution



Prepared By:

Finance Director, Wendy Charnon

County Administrator, Adam Payne

Transportation Director, Greg Schnell

Past County Board Chairperson, Roger Te Stroete

County Board Chairperson, Thomas Wegner

July 8, 2016

The Problem

The average life span of an asphalt road overlay is 15 years. In order to maintain 450 miles of County roads to adequate standards, 30 miles of road should be paved each year. However, over the past five years, Sheboygan County has not had sufficient resources to do so, and on average, has paved approximately 18 miles per year. The County is also responsible for maintaining 73 bridges. The average bridge is 45 years old, with the oldest being constructed in 1916.

In addition to the 450 miles of County roads and 73 bridges being maintained directly by the County, the Highway Division of the County Transportation Department (hereinafter referred to as Highway) is contracted by the State and local townships to perform maintenance on 170 miles of State Trunk and Interstate Highways, 465 miles of township roads, and also performs assessments and general maintenance on 79 bridges. Due to limited resources, the State and all local units of government are struggling to adequately maintain their roads and bridges.

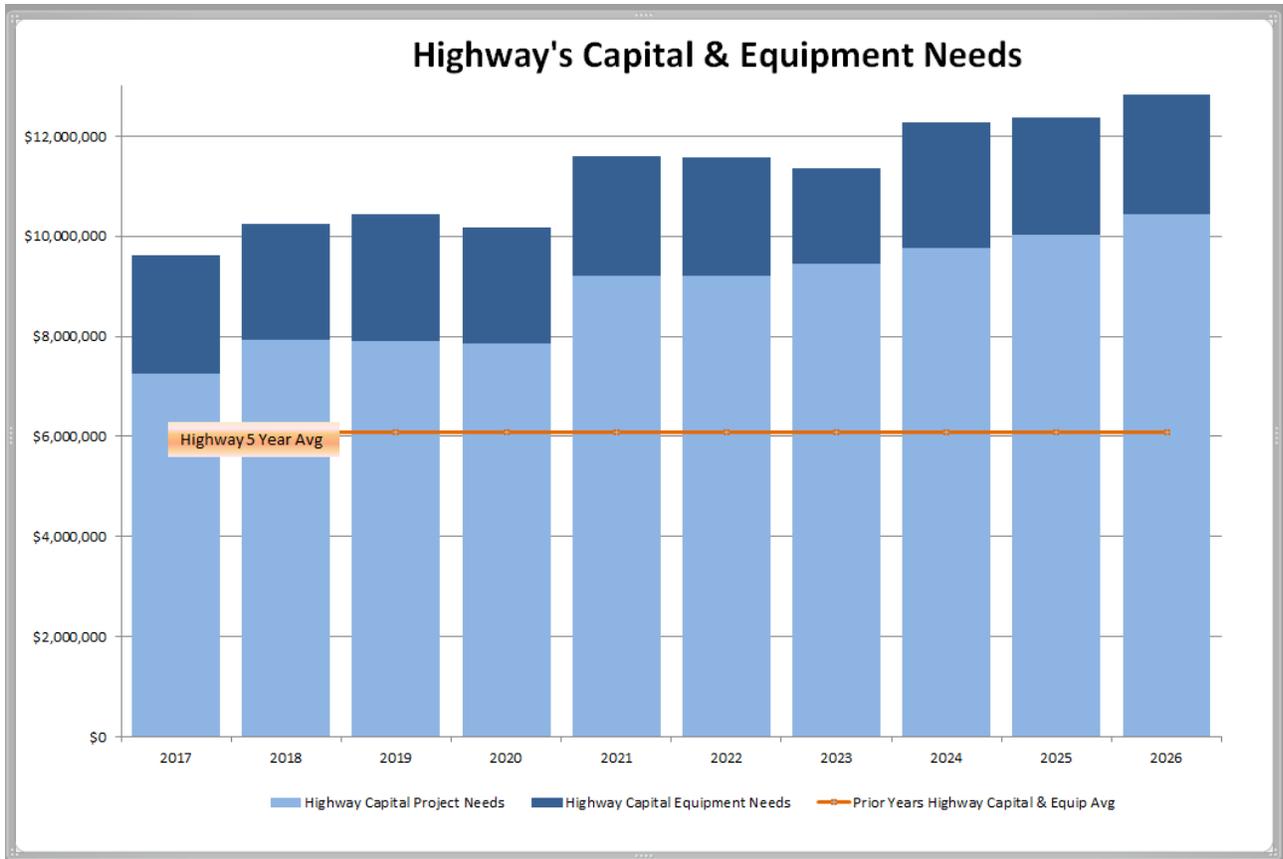
Each mile paved differs in the amount of work that needs to be done depending on its condition, traffic volume, and time elapsed since it was last rebuilt. A paving project can be as simple as laying new asphalt, require drainage and ditch work, or in some instances, require a complete rebuild of the road and road base. Because the County had the foresight to establish and maintain its own paving operation, it is able to complete work efficiently and keep costs at the lowest possible level.

Current cost estimates for maintaining County roads is broken out as follows:

- Adding a 2 ½ inch overlay to one mile of road = \$120,000
- Pulverizing and adding a 4 inch paving to one mile of road = \$250,000
- One mile of reconstructed road = \$1,200,000

Unfortunately, what the County cannot control is the cost of oil. Although we have experienced recent reductions in oil prices, the oil market remains quite volatile. Costs illustrated above are derived from a five year average. Over the past ten years, the cost to do one mile of overlay has more than doubled.

Investing in a comprehensive plan of road maintenance would enable the County to adequately maintain its roads rather than continuing to fall behind, which ultimately leads to higher costs for larger road projects that require more work to bring the roads back up to standards. The Highway and Finance Departments estimate that this comprehensive plan will cost approximately \$9 million per year over the next ten years (2017-2026). Further, to keep up with this plan, investments of approximately \$2 million per year will need to be made in Highway capital equipment. Therefore, the total cost of needed capital projects and equipment is nearly \$11 million per year for 2017-2026 as shown in the following graph.



The Solution

Enact a 0.5% county sales tax to support the transportation infrastructure needs of Sheboygan County.

Authority

The 0.5% county sales tax is authorized by 77.70 of WI statute. The authority was originally granted in 1969 but required counties to distribute all revenue to municipalities; no counties adopted the sales tax under that requirement. In 1985, the law was changed so that counties could keep the sales tax revenue; the next year, two counties adopted a sales tax.

Since then, 62 of 72 Counties have implemented a 0.5% sales tax. The authority to implement the sales tax limits use of the revenue “only for the purpose of directly reducing the property tax levy.” A 1998 Attorney General opinion interprets that clause as allowing a county to “reduce the overall countywide property tax levy or to defray the cost of any item which can be funded by a countywide property tax.” The opinion further states that sales tax revenues could be used to “offset any individual budgetary item which can be funded by the countywide property tax.”

In brief, the State provided the county sales tax option decades ago to help alleviate the pressure on property taxpayers.

Estimate of Revenue Potential

A September 2015 Wisconsin Taxpayers Alliance Report estimates that the 0.5% sales tax would have generated between \$8.43 million and \$10.14 million in 2014, or approximately \$9.5 million.

Estimating expected sales tax revenue is uncertain, for it is sensitive to economic cycles. Additionally, events like PGA tournaments will add one-time revenue in the year of the event.

Status Quo Baseline for Comparison

Implementation of a sales tax will allow the County to better maintain our transportation system and help prevent a future backlog of work and higher costs. To appropriately assess the impact of a sales tax, it is important to compare the following:

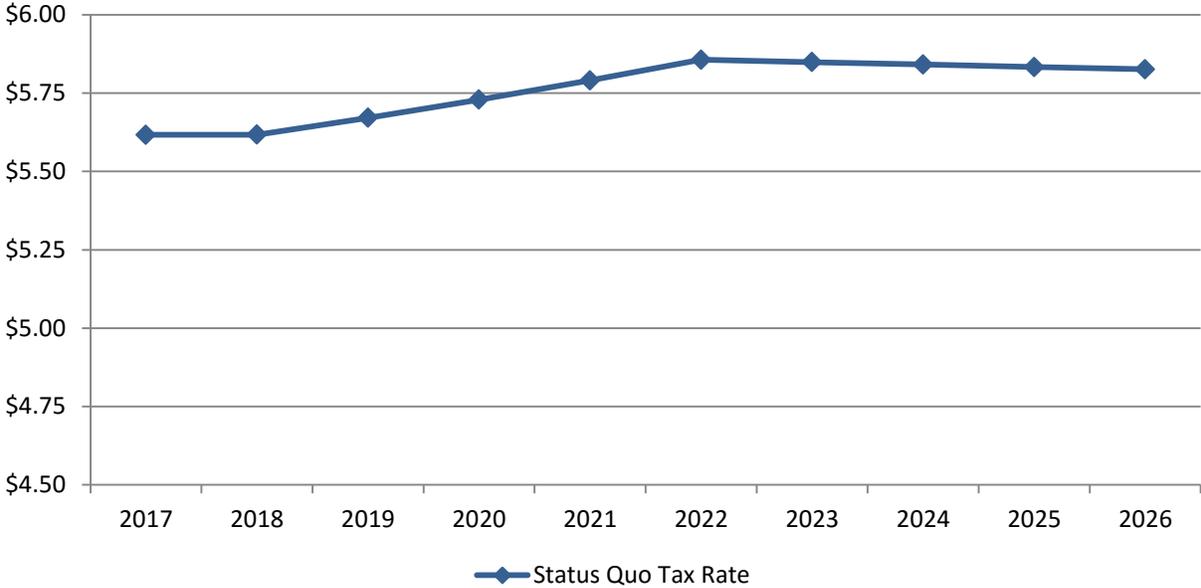
- The status quo – continuing to provide the same levels of service with existing revenue sources – and its property tax rates and levy per capita to
- A forecasted solution that includes sales tax revenue funding highway needs – including a portion of funding being shared with municipalities for their own transportation needs.

To establish the baseline, a number of assumptions are made to forecast continuing the status quo through 2026:

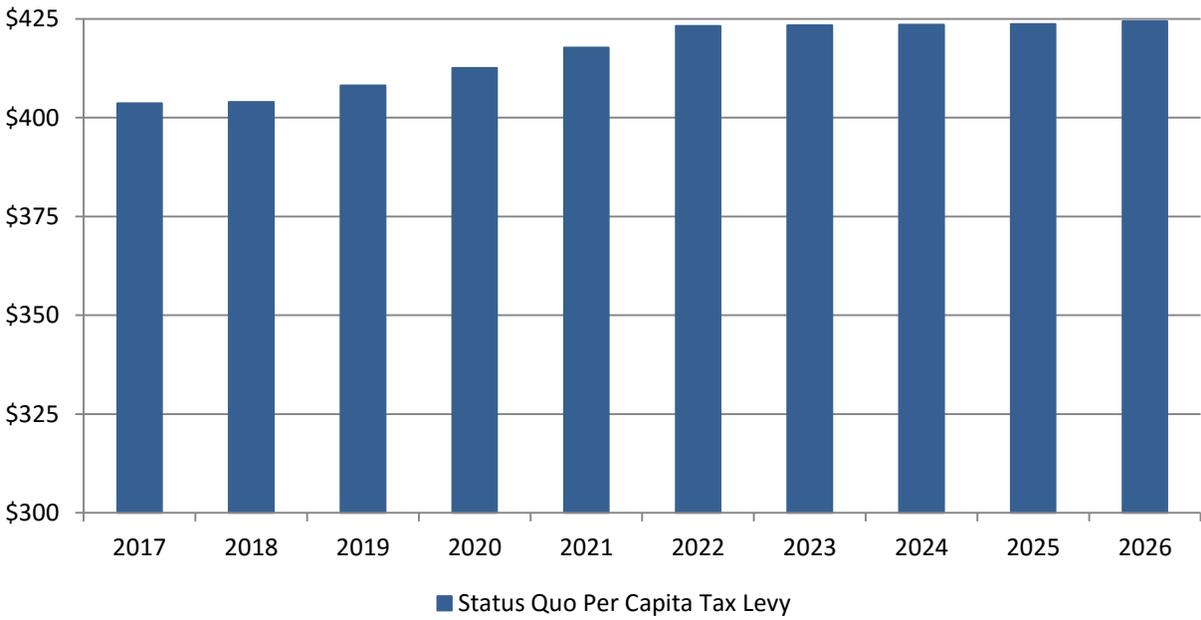
- Annual new construction is estimated to be 0.75% per year while annual growth in equalized value is estimated to be 0%.
- Population estimates are based on Department of Administration (DOA) forecasts for 2015, 2020, 2025, and 2030.
- Debt service is forecast based on borrowing the annual \$5.5 million allowable authority, taken as \$11 million every other year starting in 2018. In addition to the annual authority of \$5.5 million, debt service for a \$10 million borrowing in 2017 and a \$10 million borrowing in 2018 is represented to finance the new Transportation Complex.
- Tax rates are of County operations and do not include library aid.

Based on these assumptions, without implementing a sales tax, the tax levy picture in Sheboygan County through 2026 would look as follows:

Status Quo: Forecasted Property Tax Rate without Sales Tax



Status Quo: Forecasted Per Capita Levy without Sales Tax

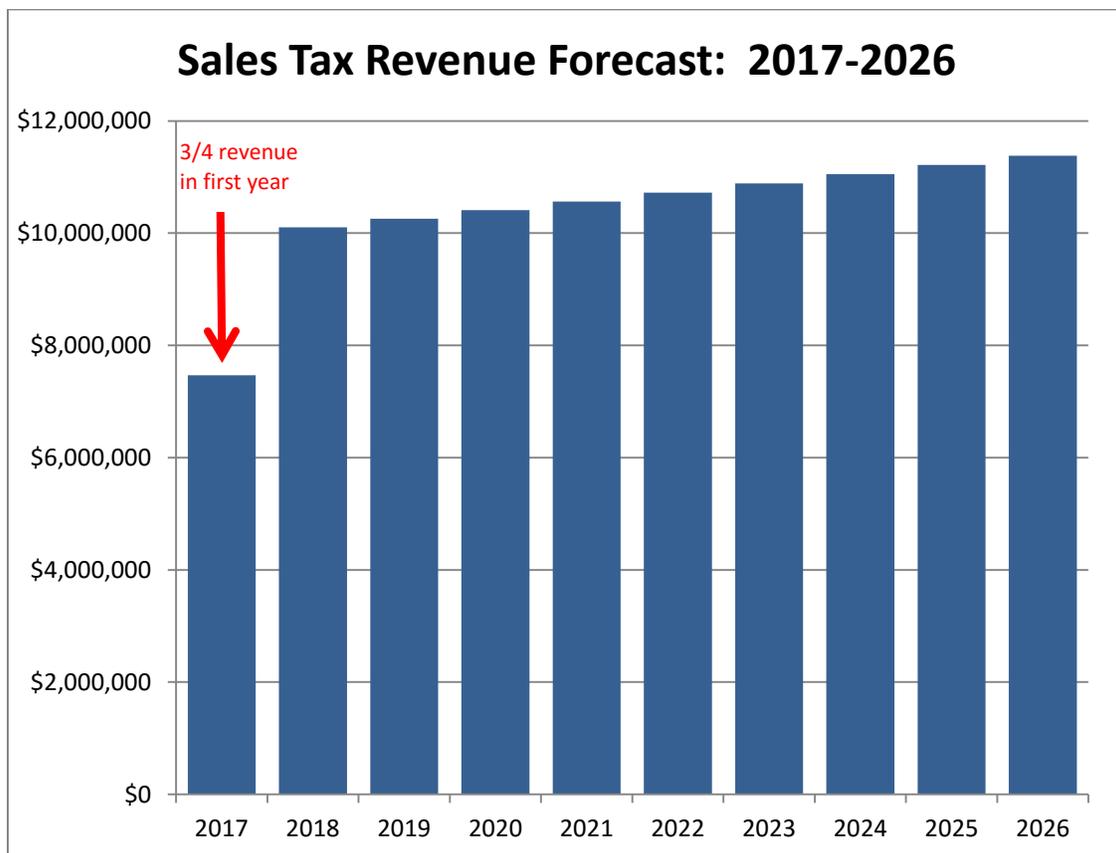


Forecasting Sales Tax Revenue

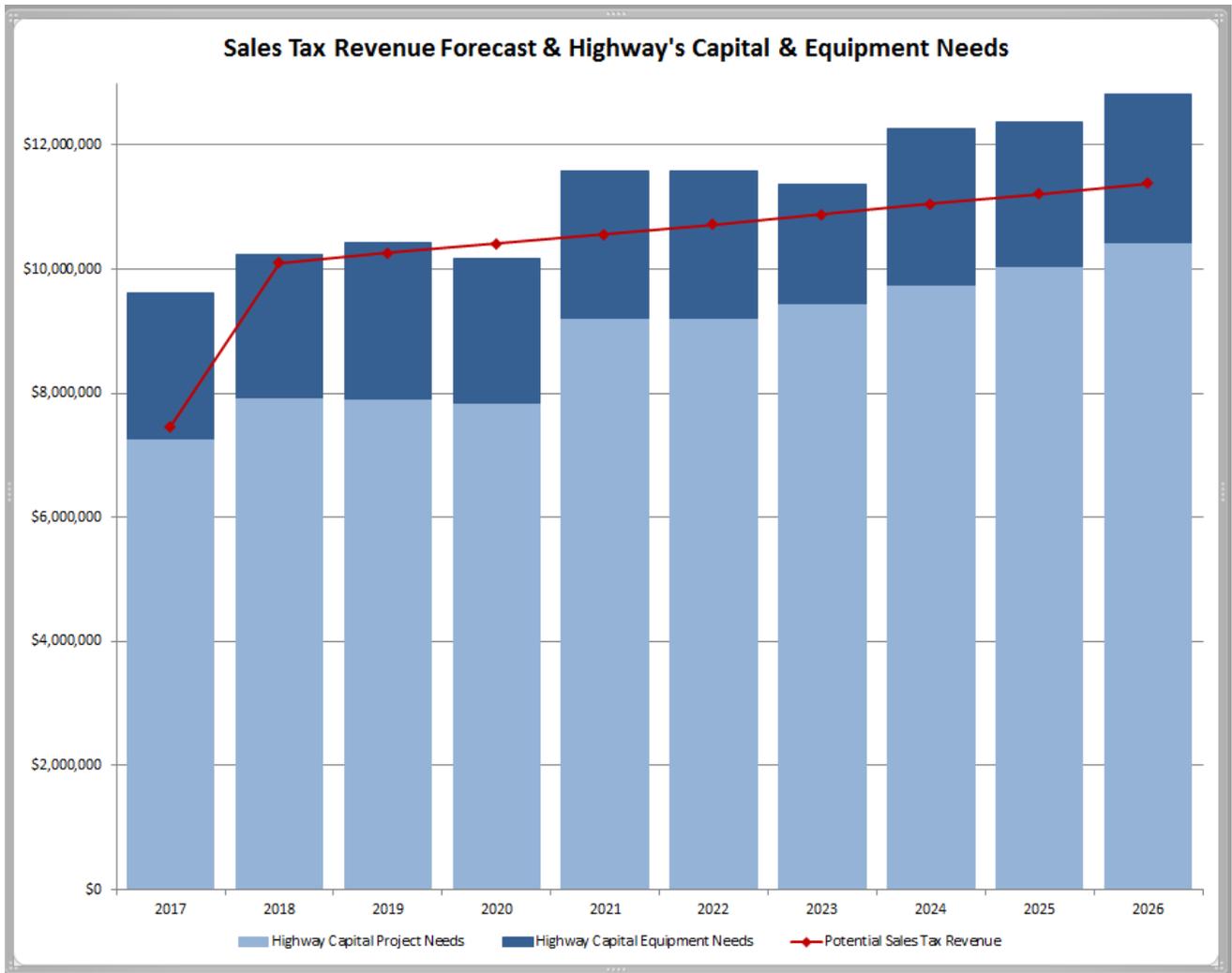
The first step in determining the impact that a sales tax could have is to forecast how much revenue a 0.5% sales tax would generate in Sheboygan County. To do this, two assumptions are made:

- Based on a Wisconsin Taxpayers Alliance memo (September 8, 2015), it is estimated that sales tax in Sheboygan County would have totaled \$9.5 million in 2014.
- To be conservative, these comparisons assume that sales tax revenue would grow at a 1.5% rate per year.

Were sales tax implemented beginning January 1, 2017, that revenue would be as shown in the chart below. With a January 1 implementation date, the state would not begin transferring revenue to the County until April 1, reducing cash flow in the first year to three-fourths of the normal annual amount. Note that the tax rate and per capita levy would vary depending on how sales tax is utilized.



When you compare the forecast of sales tax revenue with Highway's capital project and capital equipment needs, one can see that most Highway capital project and equipment needs can be met.



This graph projects a 3% inflationary increase in highway’s capital and equipment each year. It does not include City, Village and Town road needs and the fact that our municipalities are also falling behind on road maintenance.

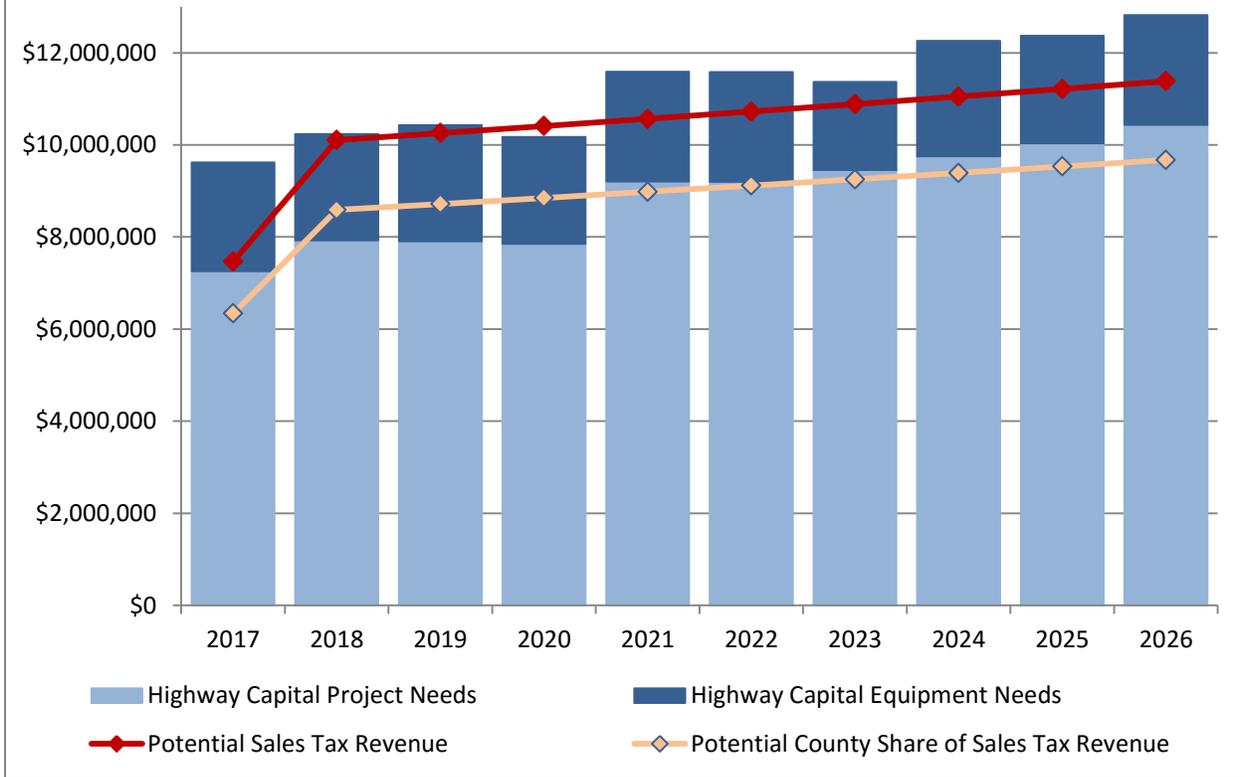
The Solution

Enact a 0.5% county sales tax to support the transportation infrastructure needs of Sheboygan County and accomplish the following objectives:

1. Adequately maintain a safe and reliable county transportation system and be fiscally responsible
2. Share sales tax revenue with municipalities to help support their transportation needs
3. Provide direct property tax relief by reducing borrowing
4. Provide operational flexibility to help maintain essential services and workforce

When the sharing of revenues with the Municipalities is included in the above graph, the potential County Sales Tax Revenue compared to the County’s Highway needs will still present challenges.

Sales Tax Revenue Forecast & Highway's Capital & Equipment Needs

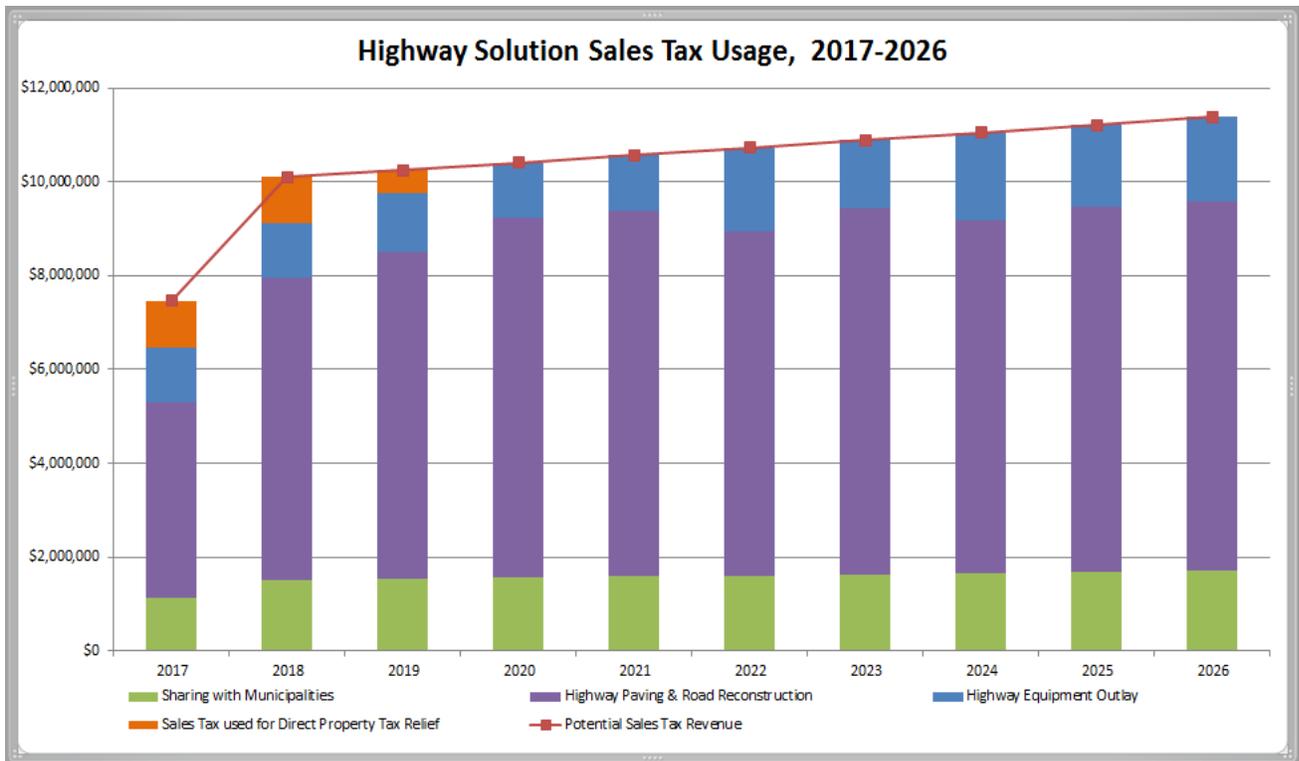


The allocation of this solution is illustrated below and will include the following:

- Revenue Allocation
 - A reliable funding source is established to accomplish a minimum of 30 miles of road work annually
 - Shared with municipalities – \$1.5 million annually is shared based on equalized value. Each municipality must spend the funding on additional road maintenance and their allocation will grow going forward as the annual sales revenue increases
 - \$1 million earmarked for direct property tax levy relief – direct property tax relief is attained through reducing debt service
 - Operational flexibility – \$1.8 million is gained through utilizing sales tax revenue rather than property tax levy to support highway capital and equipment needs
 - By significantly reducing borrowing to maintain roads and bridges going forward, the County will avoid borrowing \$47 million from 2017-2030. This represents avoidance of interest expense of \$12.9 million, or in total, an avoidance of debt service of \$59.9 million.¹

¹ Future Bond issues amortized over 10 years at 4.25%

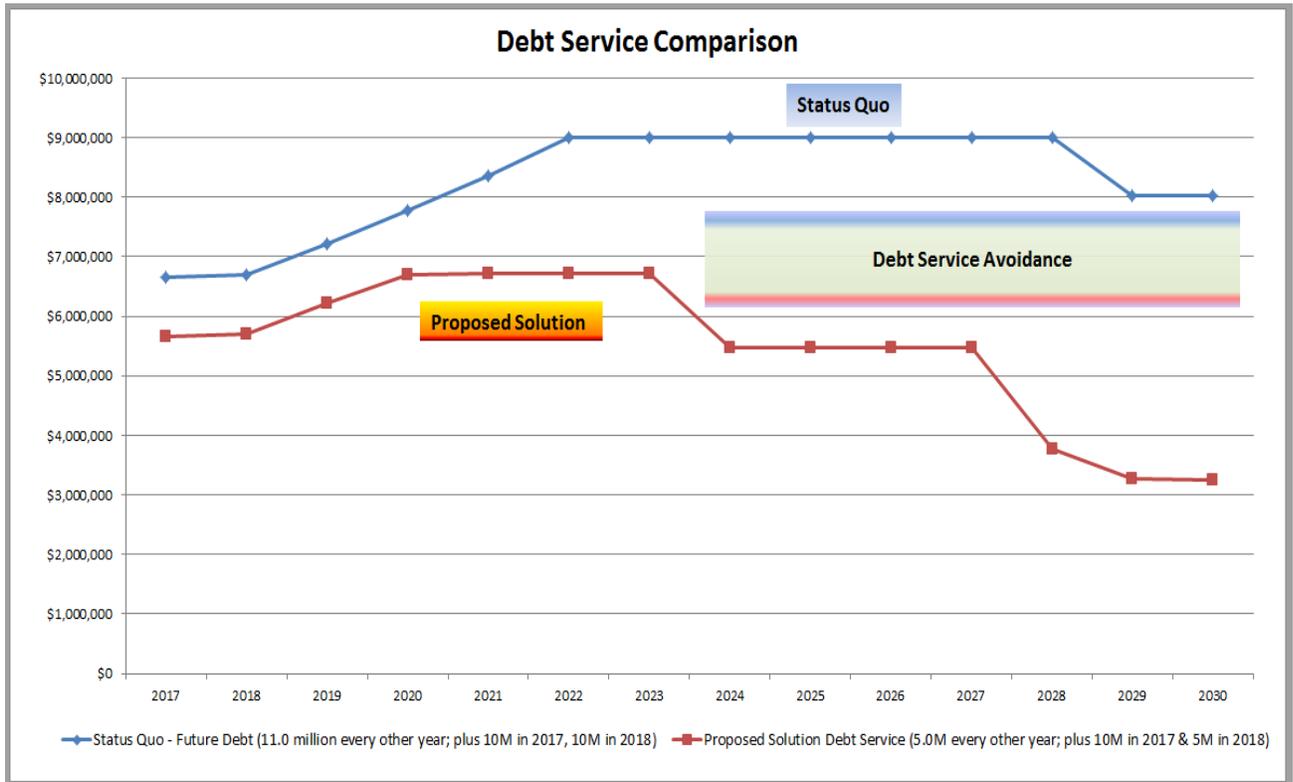
- Bonding
 - The County’s self-imposed annual bonding authority is \$5.5 million. With the Highway’s capital needs being met with sales tax revenues, the County will be able to decrease the annual levels of debt and debt service. For these comparisons going forward, it is estimated that the County would be approving \$2.5 million annually for other Capital Projects.
 - In addition to the annual bonding estimate of \$2.5 million, debt service includes a \$10 million borrowing in 2017 and a \$5 million borrowing in 2018 (utilizing \$5 million in fund balance) to finance the new Transportation Complex.



Funding Highway capital project needs will produce better roads, reduce the County’s reliance on borrowing, and decrease debt service. Approximately \$3 million of Highway capital projects that are normally funded annually through borrowing would now be funded with sales tax. This reduction in debt would also mean a reduction in the tax levy, as debt service would begin to decline as existing debt is paid off. By significantly reducing borrowing to maintain roads and bridges going forward, the County will avoid borrowing \$47 million from 2017-2030. This represents avoidance of interest expense of \$12.9 million, or in total, an avoidance of debt service of \$59.9 million.

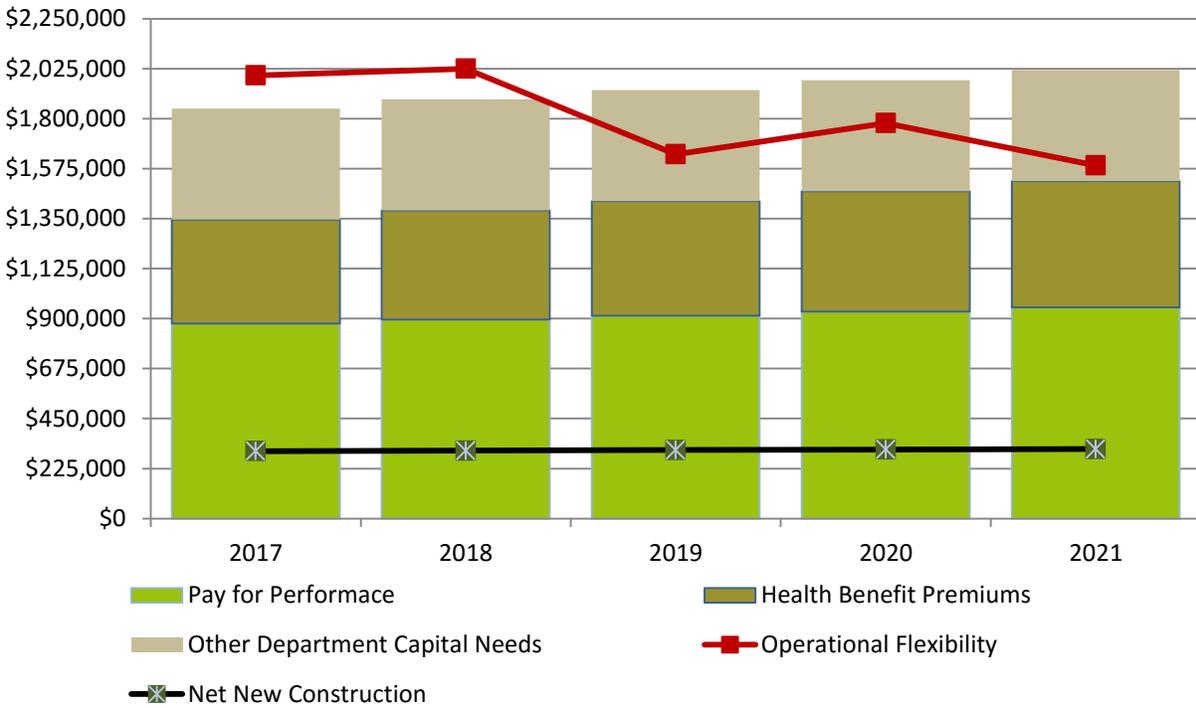
With the County’s obligations to the new Transportation Complex, the implementation of the sales tax to support Highway needs will result in keeping the debt service levels lower. Significant decreases in the debt structure would begin to occur in year 2024, and again in 2028, leveling off to an average debt service of \$3.25 million annually, compared to \$6.7 million

today. In summary, property taxpayers will not shoulder the burden of being responsible for millions in tax levy increases going forward, and also experience directly property tax relief.



Additional impacts are realized through funding Highway’s equipment outlay providing for efficiently managed road maintenance; vehicle maintenance expenses will decrease; and property tax levy funding that had previously been used for Highway overlay and equipment can be reallocated to help address essential needs in the Transportation and other departments, such as maintaining our workforce and replacing squad cars. This additional operational flexibility is demonstrated below using the most significant factors faced by the Counties on-going operations:

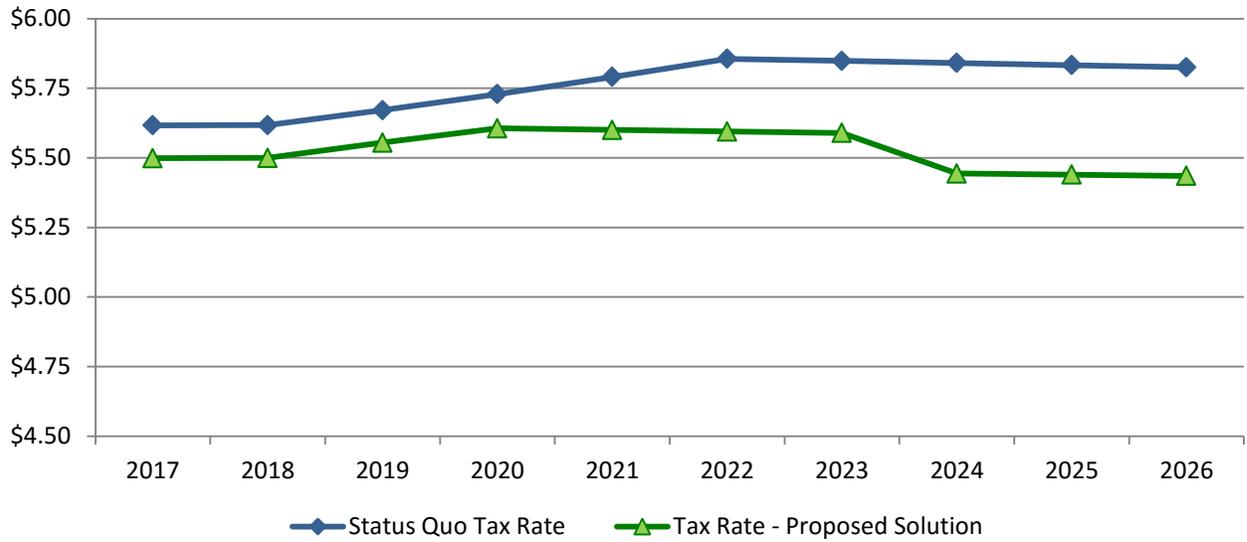
Flexibility Gained by use of Sales Tax Revenue supporting Highway Capital & Equipment Needs



By increasing flexibility through utilization of sales tax to support the Sheboygan County transportation system, the County will also be better positioned to maintain staff and essential services.

The overall levy impact of this solution can be seen in the two graphs below, which compare the property tax rate and per capita levy with and without sales tax being allocated for Highway needs.

Comparing the Status Quo Tax Rate to the Proposed Solution



Comparing the Status Quo Per Capita Levy to the Proposed Solution



Although sales tax would diversify revenue and provide much-needed resources for our transportation system, it should not be seen as a cure-all. There will still be funding challenges

for the County going forward, and the need to establish priorities, streamline, and gain efficiencies will not change.

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Unfunded Highway Capital Project Needs	\$3.1 million	\$1.5 million	\$0.9 million	\$.2 million	\$1.4 million	\$1.9 million	\$1.6 million	\$2.2 million	\$2.3 million	\$2.5 million
Unfunded Highway Equipment Needs	\$1.2 million	\$1.2 million	\$1.3 million	\$1.2 million	\$1.2 million	\$0.6 million	\$0.5 million	\$0.6 million	\$0.6 million	\$0.6 million

However, this proposal does position the County to significantly address our transportation needs, and helps our local units of government as well. If the sales tax revenue grows at a rate higher than projected, this will obviously help close the gap further.

Revenue Sharing with Municipalities

A cooperative agreement would be established to assure the funds are utilized for transportation needs. The sales tax revenue will be shared based on the municipality’s respective equalized value (excluding Tax Incremental Districts) and be adjusted on a percentage basis going forward as the annual sales tax revenue increases county-wide. At present, the distributions of \$1.5 million would be as follows:

Town of	Distribution
GREENBUSH	\$24,045
HERMAN	\$21,992
HOLLAND	\$56,371
LIMA	\$38,562
LYNDON	\$29,496
MITCHELL	\$20,452
MOSEL	\$22,536
PLYMOUTH	\$57,659
RHINE	\$58,856
RUSSELL	\$6,308
SCOTT	\$25,999
SHEBOYGAN	\$124,603
SHEBOYGAN FALLS	\$35,283
SHERMAN	\$23,884
WILSON	\$67,377

Village of	
ADELL	\$6,072
CASCADE	\$6,683
CEDAR GROVE	\$23,601
ELKHART LAKE	\$49,690
GLENBEULAH	\$5,153
HOWARDS GROVE	\$39,690
KOHLER	\$74,937
OOSTBURG	\$30,243
RANDOM LAKE	\$24,343
WALDO	\$5,347
City of	
PLYMOUTH	\$108,144
SHEBOYGAN	\$411,184
SHEBOYGAN FALLS	\$101,491
Total	\$1,500,000

Administration

From the [Department of Revenue Publication 209](#) "Sales and Use Tax Information for Wisconsin Counties and Municipalities", the sales and use tax is defined as:

1. **Sales tax** is imposed upon the sales price of sellers (such as governmental units, department stores, restaurants, etc.) who sell, license, lease, or rent taxable products or services at retail in Wisconsin. The seller is responsible for collection and payment of the sales tax.
2. **Use tax** is imposed upon the storage, use, or other consumption in Wisconsin of taxable products and services that were not subject to the Wisconsin sales tax when originally purchased from a seller. Use tax is also imposed upon a purchaser when taxable products or services are purchased without tax for resale or other exempt purposes or from an out-of-state company and are stored, consumed, or used by the purchaser in a taxable manner.

The Wisconsin Department of Revenue administers the county tax. The County does not collect or administer the tax collection. Retailers who make sales subject to the 0.5% county tax must collect 5.5% sales tax on their retail sales (5% state sales tax and 0.5% county sales tax). Both the state tax and county tax are reported by retailers to Department of Revenue (DOR). After DOR receives the county sales taxes from retailers, they make monthly distributions to the counties.

In brief, for those who already collect 5% state sales tax, the only change in their administration is they would now collect 5.5%.

Sales Tax Revenue from Tourism

More recent tourism reports from the state shows that the Sheboygan County tourism spending has been:

Year	Total Tourism Business Sales	Sales Tax Revenue from Total Tourism Business Sales
2013	\$329.0 million	\$1.6 million
2014	\$340.9 million	\$1.7 million
2015	\$358.6 million	\$1.8 million

How much sales tax can be attributed to tourism depends on how you define tourism, but it should be approximately \$1.7 million, or 18% of the sales tax revenue. Additionally, events like PGA tournaments will add one-time revenue in the year of the event. As Sheboygan County continues to attract more visitors, they can help us as they do in other counties support the transportation system they use and rely upon.

Sales Tax Exemptions

What sales and uses are exempt from sales tax in Wisconsin? According to the [DOR Publication 209](#), “sales of food and food ingredients are exempt from Wisconsin sales and use taxes, with the exception of candy, soft drinks, dietary supplements, and prepared food.” Note that packaged cheese is not considered prepared food. Alcoholic beverages are also subject to tax.

Additional food and food ingredient sales that are exempt include:

- Sales by institutions of higher education
- Sales by hospitals, sanatoriums, nursing homes and other institutions
- Mobile meals on wheels
- Sales to certain governmental units and American Indian Tribes
- Sales by elementary and secondary schools
- Vending machine concessions

Other items exempt from sales tax include, but are not limited to:

- Medications
- Durable medical equipment
- Mobility enhancing equipment
- Prosthetics
- Printed publications
- Diaper services
- United States & Wisconsin flags
- Machines & processing equipment used directly and exclusively in manufacturing
- Items that become an ingredient or component part of the good being manufactured
- Fuel and electricity used directly in the step-by-step manufacturing process
- Other items when a certificate of exemption is received by the seller from the purchaser

Because of the clause exempting items used in manufacturing mentioned above, companies in Sheboygan County including cheese packagers, packaged brats and other manufacturers would not be paying sales tax on any commodities that they purchase that are used directly and exclusively in the manufacturing process or those that are ingredients or components of the final product, if they are not currently paying the State sales tax.

0.5% Sales Tax Impact Examples

- Renting a video for \$2.00 would cost \$2.01
- A fish fry for \$10.00 would cost \$10.05
- A case of beer for \$17.90 would cost \$17.99
- A new outfit for \$100.00 would cost \$100.50
- A flat screen TV for \$800.00 would cost \$804.00
- A new car for \$25,000 would cost \$25,125

Summary

In order to adequately maintain the County's transportation system and be fiscally responsible, we must have an adequate revenue source. By implementing a 0.5% sales tax, we will address a growing problem, and be far better positioned to maintain our transportation system going forward. We will also be able to help assist municipalities with their transportation needs, reduce borrowing, reduce debt service, provide property tax relief and gain operational flexibility.

A safe and reliable transportation system is essential for a community to prosper and our quality of life. The state of transportation in Wisconsin is not as strong as it needs to be, and a U.S. Department of Transportation Report ranks Wisconsin's transportation system 47th out of 50 States. If we want to attract and retain good employers, enhance tourism, and be fiscally responsible, we must address this challenge.

Now is the time.