SALES TAX ACCOUNTABILITY REPORT, 2006 – 2010

Background
The County Board enacted the half-cent sales tax allowed by state law in August 1998, effective January 1999. This authorization established Section 4.28 County Code, “County Sales and Use Tax”. In February 2006 the County Board continued and amended the county sales tax purpose and established minimum allocations for major purposes. Reduction of property tax levy is to be accomplished by using sales tax revenues as an alternative funding source for:

- the approved Capital Improvement Program;
- debt retirement from capital projects; and
- a direct offset to the county property tax levy in the annual operating budget.

The Code requires that at least 40% of the sales taxes be allocated each year for the direct offset, and no more than 60% for the capital plan. The February 2006 Ordinance also includes a requirement that the County Board Chairperson initiate an ordinance for Board action no later than July, 2011, to either continue or repeal this tax. This report, covering the period from 2006 through 2010, is one step in preparing for this County Board review and action.

Revenue Results
State payments of sales taxes to counties are received two months after the time when businesses make the sale. For example January sales activities most often result in payments that are processed by the State Department of Revenue in March, and reported and paid to the respective counties then. The twelve months that comprise a budget year for the County include the sales tax payments that are made to us from March of one year to February of the next. This is what has been collected during the past five years.

YEAR	SALES TAX $	% yr to yr
2006	8,731,319	4.7%
2007	8,891,445	1.8%
2008	9,322,292	4.8%
2009	8,312,379	-10.8%
2010	8,609,017	3.6%

The County has budgeted sales taxes conservatively, to avoid unplanned transfers from the General Fund to cover annual shortfalls in collections. The only year when actual collections fell short was 2009, as the recession caused a drop in collections to 2005 levels. The Finance Committee identified the problem in 2008 and authorized the carryover of excess 2008 sales tax collections to be applied toward the 2009 target. Revised budget levels were established for 2010 capital budgeting to reflect realistic collections.

Capital Projects Funded by Sales Taxes

Current county policy is to fund all capital projects to the extent possible by county sales taxes. Capital projects at Samaritan Health Center and The Fields have been funded by borrowing to be repaid through operating revenues in that enterprise fund. Because of the size of the Radio System project, both sales taxes and borrowing were used. To bring Cabela's to Richfield, the County secured a Wisconsin State Trust Fund loan. Its principal and interest will be paid from sales taxes collected at that store, with any annual remainder by Cabela's if sales taxes are not sufficient. The County also borrowed for the City of West Bend's portion of the UWWC Collins Hall renovations; they are repaying the actual cost of principal and interest. This is a summary of all implemented projects receiving sales tax funding in the past five years.

CAPITAL PROJECTS
Courthouse Addition & Remodeling
Sheriff/ County Radio System Replacement
Sheriff's Department Addition & Remodeling
UWWC Third Floor & Music Renovation
Fair Park Ziegler Center
Courthouse Campus and PAC Master Plans
East Parking Lot Improvements
Sheriff's Outdoor Shooting Range Improvements
Annual Funding for County Highway Road Projects
Annual Funding for Park Development, Facility and Fair Park Projects

Using predicable levels of sales tax revenues for capital projects has benefited the County in many ways, as seen in these examples. While many counties grapple with the high cost of replacing courthouse facilities to meet today's security and technology standards, Washington County developed a plan for addition and remodeling and paid for the project in full from sales taxes. Proactive capital planning allowed the Radio System project to be anticipated years in advance and, despite lengthy implementation, to meet new Federal requirements on time, ahead of larger projects still in process in Dane, Outagamie, and Brown Counties. The sales tax funding source has also been a good tool for intergovernmental cooperation on this project, relieving municipalities of the costs for their replacement radios. Proactive capital planning has also aided the reconstruction of county highways. With sales tax funding and a Federal stimulus grant, the County was able to accomplish major improvements to both CTH Q and CTH Y in the Germantown area.

Outstanding Debt Levels

YEAR	Total Debt $	GF Debt
2002	34,835,000	na
2006	27,865,000	17,860,012
2007	28,015,000	19,219,433
2008	33,750,000	16,264,729
2009	31,985,000	12,261,607
2010	28,045,000	9,908,317

General Fund (GF) debt does not include borrowing that is still being repaid for the Samaritan Health Center and Fields, WC Golf Course, Cabela's and City of West Bend (UWWC).
What the County has accomplished in refraining from borrowing and reducing GF debt is seen more clearly in the context of State and county trends in the past 25 years. According to a May 2010 report by Wisconsin Taxpayers Alliance, between 1986 and 2008 Wisconsin counties increased debt at the average rate of 5.7% per year. For the years 1990-2009, the State debt rose at an average rate of 7.8% per year. The county sales tax has allowed us a different path.

Borrowing Avoided
Working with our financial advisor Robert W. Baird & Co., an analysis was done of the costs that could have been expected if additional GF borrowing was done to support our 2006-2010 program instead of funding with sales taxes. During that period more than $30 million of bonds would have been issued in five annual offerings. Based on typical rates experienced in each year for a highly rated local government, the County would have obligated interest costs of nearly $6 million in addition to principal. These are costs that will not be on the property tax between now and 2018.

Debt Service Levy
From a high point in 2004, the cost of debt service paid by property tax levy has been reduced by a million dollars in the 2010 Budget, as follows.

YEAR	Total Debt $	% yr to yr
2004	3,223,726	na
2006	3,009,445	0.0%
2007	2,975,414	-1.1%
2008	2,909,316	-2.2%
2009	2,318,429	-20.3%
2010	2,234,118	-3.6%

Offset to Levy
By County Code, starting in 2006 the direction was to phase-in the use of more sales taxes for the purpose of a direct offset to the property tax levy, reaching and sustaining an allocation of at least 40%. This was accomplished in 2009 and thereafter.

YEAR	Offset to Levy $	% of budgeted Sales Taxes
2006	1,500,000	19%
2007	2,000,000	25%
2008	2,550,000	30%
2009	4,375,000	50%
2010	4,950,000	60%

With the assistance of this sales tax offset, there was no levy increase in the county total operating budget for either 2009 or 2011.

Property Tax Rates by Year

YEAR	Tax Rate Set	% yr to yr	Rate w/o Offset
1998	3.9472	na	na
2006	3.0643	-6.2%	3.1960
2007	2.8876	-5.8%	3.0481
2008	2.8113	-2.6%	3.0053
2009	2.7102	-3.6%	3.0343
2010	2.7765	2.4%	3.1436

Without the county sales tax, a house valued at $200,000 would have paid county taxes $73 higher, 13% higher than taxes actually collected through the 2010 Budget. The projected higher rates do not include additional costs for annual debt service that would have been added to the annual budget if more borrowing had been done to fund the capital plan.

Financial Condition

The county sales tax has helped to strengthen the county's financial condition in a number of ways. Reliance on both the property tax levy and on borrowed funds has been reduced. The allocation method between capital funding and direct property tax offset in the operating budget has allowed for flexibility to respond to an economic downturn, delaying capital projects for a year or two rather than rapidly cutting county services. An independent view of the county financial condition was received through our Moody's rating, upgraded twice since 2005, to a Aaa level. Including the 2011 Budget, the County has seen average yearly tax levy increases of 1.8% since 2005, below the annual average CPI for the same period of +2.5%. The county property tax rate declined 6.6% from 2006 to 2010 budgets, while the statewide average for counties increased 1.2%. This was accomplished without dramatic cuts in county services and without imposing unplanned furloughs on county employees in 2009 or 2010.

Next Steps

The evidence is strong that continuation of the half-cent sales tax is in the best interest of Washington County. There are other aspects of the question that deserve attention looking forward, which will be addressed in a "Sales Tax Prospects Report, 2011 Forward", which is anticipated for the April 27 Finance Committee meeting. Specific issues include:

- Cabela's development agreement and reliance on sales tax revenues to repay principal and interest;
- Proposed State Budget with levy limits that would prohibit the replacement of sales tax offset dollars with property tax levy;
- Use of sales taxes for economic development projects, starting in 2011; and
- Revisiting allocations between capital and operational offset purposes.

Based on the two reports, a County Board Ordinance update on the sales tax will be prepared for consideration of Committees, and for County Board action as early as May 10.

Doug Johnson
March 22, 2011