



Tim Kabat

Mayor

City of La Crosse

TO: La Crosse Common Council Members

CC: La Crosse Department Heads & Managers

FROM: Mayor Tim Kabat *Tim Kabat*

DATE: May 21, 2019

RE: Room tax ordinance #19-0447 and La Crosse Center remodel debt structure resolution #19-0613

At the April 2nd Judiciary & Administration committee meeting, questions were raised regarding the proposed room tax rate increase – leading to a referral of proposed ordinance #19-0447. Earlier this month, proposed resolution #19-0613 was also referred to provide time to address questions and come back with recommendations. These questions include the potential impacts to the area's tourism and visitor spending, how current and proposed room tax funds are distributed, and impacts to the property tax levy and financing plan for the La Crosse Center renovation and expansion project, among others.

The current room tax within the City of La Crosse is eight percent (8%). The tax is divided between three entities, with 35% of funds distributed to the La Crosse County Convention and Visitors Bureau (LCCVB), 35% to the La Crosse Center (LCC) and 30% to the City. In dollars, 2018 La Crosse room tax revenues were \$2,678,831. Based on the current formula, the LCCVB received \$937,591, the LCC received \$937,591 and the City received \$803,649.

To clarify one aspect of funding, our 2018 operating budget allocated \$535,500 in room tax funds for the LCC's operations. The remaining funds – approximately \$402,091 (\$937,591 less \$535,500) – were placed into the room tax reserve account in anticipation for debt service as part of the renovation and expansion project. The LCC's budget portion – \$535,500 – is used for sales and marketing staffing and services, advertising and support toward tourism promotion and development per the Wisconsin state statutes. The City's portion of \$803,649 is utilized for staffing and services for various programs, events, festivals and parades in support of tourism promotion and development.

To put the current actual funding distribution another way – of the 8% room tax, 35% goes to the LCCVB's operations, 17.01% goes to reserves/debt service, 19.99% goes to the LCC operations and 30% goes to City operations.

As you know, the proposed legislation raised the room tax to 11% to generate approximately \$1,300,000 annually toward debt service for the renovation and expansion. The goal with any increase is to raise sufficient funds so as to lessen the amount of debt service required from the property tax levy. To that end, we also have requests for contributions from both La Crosse County and the City of Onalaska.

After considerable input and discussion with various groups, businesses and citizens, I now recommend a nine point five percent (9.5%) room tax and a revised funding distribution formula of 42.2% to debt service, 27% to the LCCVB

operations, 13.3% to the LCC operations and 17.5% to the City's operations. The projected dollars toward each is as follows:

Projected room tax based on 2018 actuals:	Difference between 2018 actuals and proposed plan:
• 9.5% tax rate generates \$3,181,112 each year	• \$502,281 more room tax each year vs. 8%
• 42.2% of tax generates \$1,342,429 for debt service	• \$940,338 more in debt service each year
• 27% provides \$858,900 for LCCVB operations	• An initial decrease of \$78,691 annually
• 13.3% generates \$423,088 for LCC operations	• An initial decrease of \$112,412 annually
• 17.5% generates \$556,695 for the City's operations	• An initial decrease of \$246,955 each year

My understanding is the La Crosse County Convention and Visitors Bureau does not oppose the 9.5% room tax rate, nor the revised distribution formula.

If the La Crosse Center renovation and expansion project generates new business and hotel stays as projected, I fully expect these initial decreases to annual operations will be overcome within a few years based on the overall increase to room tax revenues beyond what we see today.

I ask for your support to increase the City's room tax rate to 9.5% effective on October 1st of this year. This date will allow for Oktoberfest to proceed as planned, as visitors reserved hotel rooms months in advance and we want to avoid any last minute surprises for our guests. Additionally, I ask for your support of Resolution #19-0613 with the financing plan as outlined. The recommended rate increase and distribution changes will provide more than \$1.3 million in room tax funds to address debt service.

If we change the room tax and distribution formula and secure the requested contributions from the La Crosse County board and City of Onalaska, the annual impact to La Crosse tax payers will be minimized. Keeping all else the same, we project a slight increase to our property tax rate to \$12.32 based on this recommended plan.

There are additional ways we can manage this borrowing, as well as our budget to reduce the impacts to our tax levy and lessen the property tax rate further. These options include bond anticipation notes financing during construction, phased-in borrowing, and non-level debt service, among others. Staff will explore and analyze each of these options and more to insure a thorough financial program for this project.

Please let me know if you have any questions or need additional information. Thank you.