

**Boundary Subcommittee Report:
An Evaluation of the Whitewater/Rice Lake Management
District Boundary and Property Tax Rate Structure**

June 2005

Introduction

The purpose of this report is to provide a review of information upon which the Whitewater/Rice Lake Management District can base an appropriate response to a detachment request. The detachment request prompted the formation of a “boundary subcommittee,” that is composed of Greg Marvin, Don Meyer, Tom Ponyicsanyi, Mark Skidmore and Andrew Wojdula. This subcommittee was charged with providing the district board with a reevaluation of the district’s current boundary and tax structure. The board also authorized funds to hire student interns from the University of Wisconsin-Whitewater (Benjamin Pahl and Justin Tyson) to assist in data collection and evaluation. The following report summarizes the information collected and presents the board with a recommendation.

The basis for the detachment request is a recent court case (Arthur T. Donaldson vs. Rock-Koshkonong Lake District), which ruled in favor of an owner of agricultural land in the Rock-Koshkonong Lake District. Based on this ruling, two residents from the Pine Knoll Subdivision formally requested detachment from the Whitewater/Rice Lake Management District, contending that the benefits of lake management failed to extend to their property. Neither of the properties owned by the residents have a lake view or access. These residents also noted the arbitrary nature of the current district’s boundary, correctly indicating that other residential properties such as those in the Scattered Oaks Subdivision had lake access but were not currently in the district. While the argument that properties in the Pine Knoll Subdivision does not benefit from lake management activities can be contested (using property valuation data for example), the question regarding the arbitrary nature of the current boundary is a key issue that deserves careful consideration.

Before discussing what might be done to resolve these concerns, we first provide a brief review and evaluation of the current circumstances as they stand in the lake management district. As illustrated in the attached map, the current district boundary is highlighted in red. As noted above, due to the constraints in the original formation of the district, this boundary was arbitrarily set and as a result properties, a number of which have lake access, are currently not paying taxes to the district but are arguably receiving benefits of lake management activities. For fiscal year 2005, the district budget is about \$158,000, which is raised solely from the taxes paid by the members of the lake management district.

As shown in Table 1, the total assessed valuation of all properties within the district is about \$180 million. Dividing the district budget (\$158,000) by the total assessed valuation yields an approximate mill rate of \$87.50 per \$100,000 of assessed valuation. That is, members of the lake management district pay about \$109.38 per \$100,000 of assessed valuation annually. At present, the rate structure is flat so that the same rate is charged to both riparian owners and non-riparian owners. The rough outline of the current district is shown in red on the map included in the appendix.

What do Other Lakes in Wisconsin Do?

One of the key objectives of the subcommittee was to obtain information regarding policies used by other lake management districts in the region. Such information might help generate feasible options for the Whitewater/Rice Lake Management District. In order to gather this information, Dr. Jeffrey Thornton of Southeastern Wisconsin Regional Planning Commission (SEWRPC) was contacted. Dr. Thornton, an expert on lake management policies in Wisconsin, summarized several alternative frameworks used in setting boundaries and generating revenues.

One of the options is a two-tiered rate structure. With a two-tiered rate structure, the riparian owners pay a certain mill rate per \$100,000 of assessed value, while the remaining members of the district would pay a *smaller proportion* of the mill rate that is applied to the riparian owners. This results in a decrease in the tax rate of non-riparian owners. The logic of this approach is this: According to the “benefits principle” set forth in the study of public sector economics, taxes paid should be proportional to benefits received. In the context of lake management, one could argue that riparian owners benefit the most from lake management activities and should therefore pay a relatively higher property tax rate than do non-riparian owners. The two-tiered rate structure may therefore represent a more equitable approach to financing the district’s budget. Little Muskego Lake is one such district in the area that uses a tiered rate structure. In fact, the Little Muskego Lake Management District uses a three-tier system, but it operates much like the two-tier system described above.

The second option described by Dr. Thornton is the “special charge” approach. With this policy, the district budget is divided into two parts, one part being the portion of the budget that directly serves riparian owners and the other portion being the part of the budget that is used to maintain and improve lake quality as a whole. The responsibility for financing the first part of the budget would fall only on riparian owners. Examples of this may be services for shoreline repair or shoreline aquatic plant management. The portion of the budget that maintains and improves the overall lake quality would be financed by all of the residents in the Whitewater/Rice Lake Management District, and this portion would be financed using a flat mill rate that is levied upon all members of the lake management district. The Okauchee Lake Management District currently uses a variant of this approach.

Dr. Thornton also indicated that lake management district boundaries vary greatly from lake to lake. For example, the Delavan Lake Sanitary District (charged with lake management activity) has a very broad boundary that includes all properties within an eight square mile area surrounding the lake. On the other end of the spectrum, the Lake Beulah Management District boundary includes primarily riparian properties. Lastly, in the formation process of a lake management district, University of Wisconsin-Extension guidelines suggest that boundaries be identifiable, and so many districts are formed by public street systems around the lakes.

Possible Boundary Scenarios

A chief concern is then the arbitrary nature of current Whitewater/Rice Lake Management District boundary. While a change in the tax structure of the lake management district arguably could make the tax assessment more equitable, any changes would still be based on boundary lines that cannot be defended using principles of public sector management. Thus, it seems prudent to consider modifying the current boundary, and there are two ways to do this. One approach is to shrink the

district to include only riparian owners. This option would require either a significant reduction in the budget to maintain the current mill rate, or it would significantly increase the tax burden of the riparian owners. As presented in Table 1 below, the total assessed valuation of riparian properties is about \$107.5 million. Holding the budget constant, the required mill rate would be would increase from \$87.50 to approximately \$147 per \$100,000 of assessed valuation. This is an increase of about \$59.40 per \$100,000 over what the riparian owners are currently paying.

Table 1- Boundary Scenarios

	Budget = \$158,000	
	Assessed Value	Mill Rate Per \$100,000
Riparian Only Boundary	\$107,451,590	\$147.00
Current Boundary (Red)	\$180,369,106	\$ 87.60
Expanded Boundary (Blue)	\$215,000,000	\$ 73.50

The second way to modify the district boundary lines is to expand the lake management district. As a starting point, the subcommittee agreed that the boundary lines be set as shown in blue on the map¹ in the appendix (excluding agricultural land). Expanding the boundaries of lake management district in the spirit of the guidelines provided by the University of Wisconsin-Extension would add about \$25 million in assessed valuation to the lake management district. As referenced in Table 1, this would translate into a decrease in the mill rate per \$100,000 from \$87.50 to about \$73.50.

Recommendation of the Boundary Subcommittee and Conclusion

Based on this information, the subcommittee recommends that the Whitewater/Rice Lake Management District Board consider expanding the existing boundary. The proposed boundary not only includes residents that currently benefit from close proximity to lake amenities but do not pay any taxes to the district, it also significantly reduces the arbitrary nature of the current boundary.

The subcommittee also recommends that the board consider adopting a two-tier rate structure. From a benefits principle, the two tier rate structure is arguably more equitable than a flat mill rate. One politically feasible approach is to set the two-tier rate structure such that non-riparian owners pay about 68 percent of the mill rate levied upon the riparian owners. As shown in Table 2, this approach insures that the riparian owner mill rate is equal to the current mill rate. The remaining burden is then spread to non-riparian owners, including the newly annexed properties. The mill rates presented in Table 2 are calculated based on a budget of \$158,000, a riparian total assessed valuation of about \$170.5 million, and a non-riparian total assessed valuation of approximately \$170.5. In this scenario riparian owners pay a tax bill of \$87.60 per \$100,000 of assessed valuation

¹ The lake management board and subcommittee thank Edward Schmidt and Jeff Thornton of SEWRPC for providing the map.

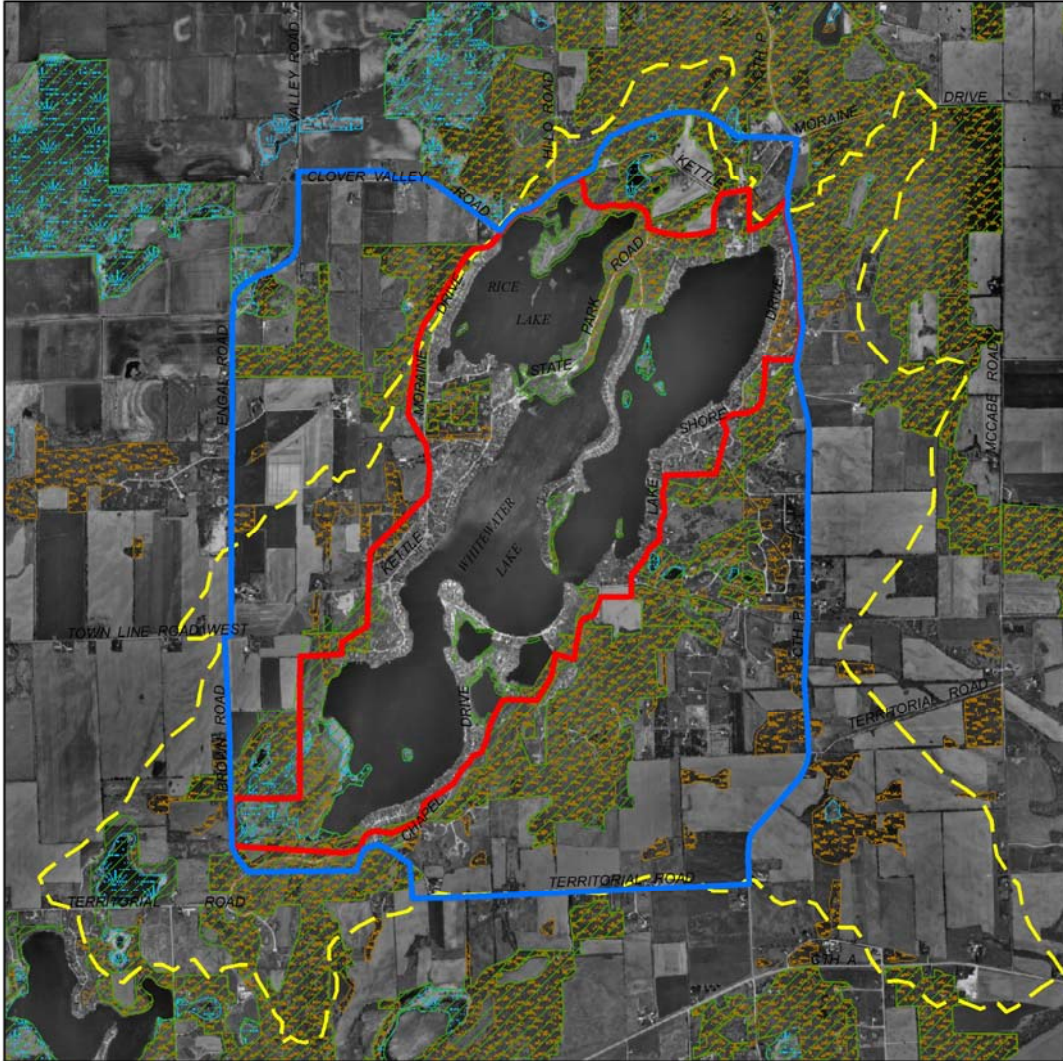
(equivalent to their current mill rate), and non-riparian owners would pay a tax bill of \$59.50 per \$100,000 of assessed value.

Table 2- Expanded Boundary with Two-Tier rate

	Assessed Valuation	Mill Rate Per \$100,000
Riparian	\$107,451,590	\$87.50
Non-Riparian	\$107,548,410	\$59.50

The subcommittee believes that these recommendations are based on sound principles of public sector management. Annexing properties as outlined in blue on the appendix map is also consistent with the benefits principle: Property owners in the proposed areas of annexation have received benefits from lake management activity, but have never paid taxes to fund such activities. Expanding the district to include these properties simply requires these owners to pay in accordance with benefits received. It also reduces the arbitrary nature of the current boundary and broadens the tax base.

EXISTING AND PROPOSED LAKE DISTRICT BOUNDARIES FOR WHITEWATER AND RICE LAKES



- EXISTING LAKE DISTRICT BOUNDARY
- PROPOSED LAKE DISTRICT BOUNDARY
- - - DIRECT DRAINAGE AREA TRIBUTARY TO WHITEWATER AND RICE LAKES
- PRIMARY ENVIRONMENTAL CORRIDOR
- WETLAND
- WOODLAND

Source: SEWRPC.

