

Minutes of the December 29, 2020 meeting of the
Tax Rate Committee,
An Ad Hoc committee of the Door County Tourism Zone Commission
Meeting conducted via Zoom.

Members present: Meredith Coulson, Rachel Willems, Fred Anderson, Pamela Young, Greg Anderson, Andrew Torcivia and Bryan Nelson.

Also present: Cathy Ward and Terry Kovarik (press).

Chair, Bryan Nelson, called the meeting to order at 4:04. He explained that, about 1 hour before the start of this meeting, Nancy Bertz, who had accepted a seat on this committee, emailed to say that she would be unable to fulfill that commitment. She conveyed her regrets to the committee that she had to back out.

Nelson moved and Torcivia seconded to approve the agenda. Motion passed.

Fred Anderson moved and Willems seconded to approve the minutes of the December 2nd meeting. Motion passed.

Fred Anderson moved and Coulson seconded to approve seating Young, Torcivia and Greg Anderson as members. During discussion Fred Anderson brought up Nancy Bertz's resignation and the desire for a representative from the TZC's largest municipality, Sturgeon Bay. It was decided that Fred would contact Matt Grey, a manager at Bridgeport Waterfront Resort, who had previously been discussed as a possible committee member. Motion passed.

Fred Anderson moved and Torcivia seconded that Nelson serve as Chair of this Committee. Motion passed with Nelson abstaining.

Nelson then proceeded to outline the brief (since September '20) history of the proposal to raise the room tax from its current 5.5 % to 8.0 %. A rather free-flowing discussion ensued for the purpose of bringing the three new members "up to speed" on the issue.

There was a discussion about the ad hoc Funding Committee which, like this committee, also operates under the authority of the TZC. The Funding Committee's purpose is to figure out a long term funding plan for the administration of the TZC and how that funding would interact with the distribution of any additional room tax income due to this potential rate hike. Fred Anderson gave a detailed explanation of the funding and workload challenges of the current TZC administrative structure. Coulson and Willem offered that they sit on DDC's ad hoc committee that examines this potential tax rate hike. They explained some of the details of that committee's recent meeting with Dave Eliot and his latest proposals for the distribution of any extra monies, which includes funding for broader community initiatives such as affordable housing and annual grants to Door County non-profits.

Greg Anderson stated that he would like to see a written proposal regarding how additional room tax dollars would be used. Nelson responded that Eliot's proposed uses for those dollars have been changing as this discussion has moved forward and we need to keep in mind that this committee's mission has been defined rather narrowly to allow the Door County lodging community to weigh in as to the wisdom of a tax increase. Mr. Anderson continued that he would still like to see a spending plan

since it is we frontline lodging workers who have to justify the size of the room tax to our customers and guests.

Willem asked whether the ultimate goal of this committee is to simply pass on the FERC report with a statement of agreement or disagreement, or whether we will deliver a more detailed position paper regarding our findings. Nelson offered that the final deliverable from this committee is up to us. We may heartily endorse a tax hike up to 6.5%, for instance, or up to the full 8% and then give our reasoning for doing so.

Coulson and Willem spoke of a recent presentation by Dave Eliot about this issue to a DDC committee on which they sit. They reported that his plan for distribution of additional tax monies seems to be evolving, which is understandable as he gets more input from various stake holders. Coulson expounded on how she would be willing to forego a rate hike for her lodging property for a couple years, because of the tax rate hike, if the additional tax revenues are used for the right purposes to improve the tourism experience, along with the other purposes that Eliot has proposed. She reminded the committee that Eliot's efforts have already built up a head of steam and this tax rate hike is probably going to happen with or without input from the lodging community. This committee has an opportunity to provide that input.

Young asked how many municipalities have voted on the proposal to date. Fred Anderson answered that he believes the Village of Egg Harbor and Town of Baileys Harbor have voted to move forward. He heard from Eliot that his presentation to Washington Island did not go well but the Town Chair said that the door was not closed. Willem mentioned that Eliot has presented to Ephraim and is on the agenda for January. Nelson summarized the rules of the Intergovernmental Agreement that governs the Tourism Zone to explain that any of the elements, such as the rate of the room tax, can be changed by a 2/3 vote of the 19 municipalities. This means that if 13 municipalities agree to the change it becomes part of the agreement. Thus we, the lodging community, have very limited power other than to ask that we be heard by the municipalities.

At about 5:00 p.m. Dr. Russ Kashian and his colleague, Choton Basu, joined the meeting. Kashian mentioned a paper that he and Basu had recently published in the December 10, 2020 issue of Tax Notes in which they examined the relationship of room tax rates to lodging revenue in the State of Wisconsin over 4 years beginning in 2016. The simplified conclusion is that there is no negative effect on revenue and, in fact, the higher room tax rates were associated with increased lodging revenue. Kashian offered that the latter effect is probably due to the highest room tax rates existing in communities where tourism is a primary economic driver. He stated that he personally does not see a risk, and actually predicts a benefit, to raising the room tax rate in Door County.

Kashian asked Fred Anderson what his average nightly rate is. When Anderson answered that it is in excess of \$200 Kashian quickly calculated that a 2.5% tax rate increase results in an additional \$5.00 nightly charge to a guest. He speculated that \$5.00 is going to chase a guest away. He used the example of a lodging business in Petosi, WI, where a guest might decide to enjoy Petosi's beer museum but then spend the night in Fennimore. In Door County it's a little more difficult to spend the night elsewhere because of it being a peninsula. He concluded that the price elasticity of demand for lodging is inelastic because of 2 main factors: The substitutes are few and it's a destination.

Kashian went on to say that he and Basu are presently involved in a similar process in Delevan, WI. Based on their experience there, he thinks that the bigger discussion is about how to distribute, or

spend, the extra revenue. And it seems to follow that the greater the revenue increase the louder the discussion.

Kashian asked Fred Anderson how many of his guests question the size of the tax added to the bill. Anderson answered that only one or two in the 13 year history of Door County's room tax have spoken up. Torcivia said that it happens with some frequency among his STR renters and Coulson agreed that some guests, typically older ones, often remark about the size of the tax component of the bill. Torcivia mentioned that it seems as though his renters of higher priced properties, for instance a \$7,000.00 rental bill, are more likely to remark about the size of the tax bill. Torcivia did go on to say that the younger renters that his business overwhelmingly saw this past year didn't seem to question the taxes.

Choton entered the conversation by stating that he studies personas in the markets that FERC examines. He's fascinated by our talk about how different demographics behave differently. He elaborated on Kashian's remarks about how FERC can do the work to answer a lot of our detailed questions. It's just going to become very expensive to add these facets to the study. He also asked what we are looking to FERC for. If we are looking to FERC for certainty that is something they can't deliver.

After it was explained to Kashian that the number of traditional lodging rooms has actually decreased significantly in Door County over the past 30 years he said, "Let me get this straight, you have a contracting supply in an expanding demand market...and you're worried about the price? Nelson responded that the supply of STRs is where the growth has taken place.

Nelson asked the committee if it had enough information from Kashian and Basu to make a decision as to whether or not to commission the study. Coulson wanted to confirm that this study would not involve new research, what Kashian refers to as primary research (which is very expensive), but rather would be a distillation of existing research. Kashian confirmed this by saying that they'll be reading everything they can find on this subject and then drawing conclusions. He also said that the study would respond to our desire for information about differing impacts to different pricing tiers. Fred Anderson affirmed that it would be helpful if the study could address any unequal impact to the STR component of our market. Anderson mentioned that the traditional lodging component of the total number of permits is under 50% whereas 13 years ago, when the room tax was implemented, it was closer to 70%. There has been that much growth in the STR sector.

Willem stated her concern that the study talk about how additional tax revenue should be spent thoughtfully to improve the tourist experience. Kashian assured her that it would, remarking that if this were just a money grab it would be a bad idea.

After bidding goodbye to Kashian and Basu Nelson asked for a motion and a second to approve commissioning the study as proposed by FERC. Willem asked if we're concerned at all, after Kashian repeatedly said that now is the time to tax more and reap the benefits of additional business, that in five years, following the economic rebound, these guests will be traveling to farther flung places and forget about Door County. Nelson responded that his first boss in Door County during the severe 1981/2 recession told him that Door County is recession-proof and that seems to have held true over all the economic ups and downs of the past several decades. Coulson pointed out that Door County did weather the 2008/9 Great Recession in pretty good form and that, once the economy was back on its feet, people kept coming back in good numbers. She does wonder, however, if this will hold true when its a pandemic that is forcing people to change their traveling patterns. Torcivia and Willem said that it is most likely that we'll see continued good growth.

Fred Anderson moved and Torcivia seconded to approve commissioning the study from FERC. As discussion, Greg Anderson pointed out that we've been already told what the answer is: If we raise taxes we'll reap some benefits. So Greg would like to see us looking toward other research or other considerations in informing our ultimate decision. Coulson added that she's hoping that the study will indeed address any inequity in the effect on different tiers within the lodging industry. Nelson said that he would include that request when he emails Kashian with whatever the committee's decision is. Motion passed unanimously.

The meeting was adjourned at 5:45 p.m.

Respectfully submitted,

Bryan Nelson