50 CENT RATE CORRECTION
FREQUENTLY ASKED QUESTIONS

By: Bob Mendes
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Why is a rate correction needed?

The proposed Mayor's budget creates a dangerous underfunding over the next three years until the next property value reassessment at the end of FY21.

Using Metro Finance's numbers, here is the documented new need through FY21 above what is shown in the Mayor's proposed budget:

Fully fund GSD/USD portion of pay plan (FY19)	14,897,784
Fully fund schools (FY19)	39,704,900
Avoid one-time asset sales contingency (FY19)	38,000,000
Don't use 5% funds balance (FY19)	9,400,000
Replenish minimum 5% funds (FY19)	21,621,662
Pay plan (FY20)	24,418,200
Known debt service increase (FY20)	42,600,000
Inflation (1.8%) – General Funds (FY20)	20,117,388
Inflation (1.8%) – Schools (FY20)	16,779,924
Known debt service increase (FY21)	14,500,000
Inflation (1.8%) – General Funds (FY21)	20,482,720
Inflation (1.8%) – Schools (FY21)	17,084,647
TOTAL ADDITIONAL NEED THROUGH FY21	**279,607,224**

For this same period, Metro Finance projects this new revenue in addition to what is the Mayor's proposed budget:

Expected revenue growth (FY20)	65,399,796
Expected revenue growth (FY21)	64,198,981
TOTAL ADDITIONAL REVENUE THROUGH FY21	**129,598,777**

Again, this is using Metro Finance's projections of known expenses and known revenue through FY21. We can see that there is approximately $280 million in new expected expenses above what is shown in the Mayor's budget over the next three years. During the same three year period, there is expected new revenue of approximately $130 million. **Therefore, through FY21, there is a shortfall of $150 million.**

Every penny of property tax equates to approximately $3 million of revenue for Metro. **<u>This means that paying for a $150 million shortfall over three years until the next property value reassessment requires a 50 cent correction to the property tax rate.</u>**

How often has Metro corrected the property tax rate?

Metro is out-of-step with its historic process for matching the property tax rate to spending needs.

Most of the time when Metro has done a periodic property value reassessment (which is required to be revenue neutral), Metro has simultaneously raised the property tax rate. For example, in 1997 (Bredesen was Mayor), the property value reassessment process (which has to be revenue neutral) dropped the property tax rate by $0.92. But Metro simultaneously raised the rate for FY98 by $0.54. When these two actions were netted against each other, the total property tax rate dropped by $0.38, from $4.50 to $4.12. Having the reassessment work in tandem with a change in rates has been the historic norm in Nashville.

In the 20 years from 1985 to 2005, Metro corrected its tax rate 6 times. On average, that was once every 3.33 years.

Since 2005, the tax rate has been changed only a single time. Metro is grossly out-of-step with its historic common sense approach to regularly correct the property tax rate to match spending.

50 cents sounds like a lot – how does it compare to previous rate corrections?

A 50 cent rate correction would be Metro's lowest ever rate change between property value reassessments. Since 1980, the highest correction between property value reassessments was $1.64 and the lowest was $0.53.

Not only would 50 cents be a historically low correction, Metro would still have a very low property tax rate compared to other Tennessee cities. Chattanooga and Knoxville both have a city/county property tax rate over $5, and Memphis is over $7. Nashville would be $3.655 after the 50 cent correction.

I can't support a big government tax and spend approach?

The proposed 50 cent rate correction would not pay for any growth in the size of the Metro government at all – no new teachers, no new police officers, no new fire fighters, no new anything.

The revenue from the 50 cents would be used to fund promised pay raises for Metro employees, funding our schools' requested budget, known debt that Metro has to start paying in FY20 and FY21, replenishing Metro's 5% fund savings, and covering basic minimal inflation. The 50 cents is for Metro to continue providing today's level of services with no growth in the size of Metro's government.

Has the property tax rate ever been as low as it is now?

Just once. For one year. It didn't go well.

In 1984, the property tax rate was lowered to $3.17. That was the lowest ever until last year when Metro lowered it to $3.155. Long-time Metro employees recall that the $3.17 rate caused an immediate budget crunch. Metro's records show that the rate was immediately raised after one year by 75 cents to $3.92.

I don't believe it's a revenue problem – Metro gave away the house with corporate incentives. Shouldn't Metro stop those and that'll solve the problem?

If Metro were allowed to immediately cancel all tax increment financing and collect the property tax dollars now being used for TIF loans to operate the government, it would only generate $23.3 million dollars.

The Metro Council definitely should reassess how economic incentives are judged and awarded. Most citizens believe that downtown has enough momentum to be self-sustaining and they would like to see more tax dollars spent in communities outside of downtown. Unfortunately, any reassessment and realignment like this couldn’t happen overnight or in a single year.

In summary, Metro could not undo previously awarded incentives even if it wanted to and, more importantly, the size of the money involved would not be sufficient to cover the expected growth in expenses through FY21.

Doesn't Metro need a referendum to raise property taxes?

No. Under the Charter, Metro would need a referendum to raise the total property tax rate above $4.69. The proposal is for a new rate of $3.655, substantially less than that cap.

Can't Metro just cut expenses to solve the problem?

The Council Budget & Finance Committee met on June 7 about this and will meet again on June 11.

The most aggressive expense hawks in the Council propose cuts of about $18 million. Based on how the meeting on June 7 went, I am expecting the Council to agree on operating budget cuts of approximately $3 to 5 million (at the most). Remember that each penny of property tax equates to about $3 million in revenue for Metro. So if the Council cuts $3 million from the budget, that would only save about 1 cent on property taxes.

The path that makes the most sense is to: (1) correct the property tax rate by 50 cents as proposed; (2) seek out as many immediate operating budget cuts as possible; and (3) bank any savings from operating budget cuts for the future. In particular, it will be difficult to go through FY21 with no increase in the number of

Metro's life-safety employees. Any savings should be banked to accommodate this growth.

Can't Metro make do with a smaller rate correction?

If Metro chooses to continue moving away from its fiscally prudent historic practices, it will have additional choices to make.

Anything less than a 50 cent rate correction will require choosing to do one or probably more of these: reneging on a legally passed pay plan for Metro employees, underfunding Metro schools, balancing the budget based on one-time asset sales, ignoring the reality of inflation, or doing without a reasonable 5% savings in the bank.

But the Mayor is opposed to this. His June 8 letter to the Council says that we should "tighten our belts." Shouldn't we follow his lead?

To be blunt, the proposed budget is built on quicksand. The budget proposes to renege on a lawfully passed pay plan, shortchange the schools by about 5% ($39 million) of their requested budget, and further raid Metro's 5% savings money. Even then, the proposed budget only balances by selling $38 million of one-time assets. Is Metro supposed to sell $38 million of hard assets every year forever from here on out?

As discussed above, even the full termination of all economic incentives would not fill the known revenue need through FY21. And cutting expenses would quickly erode important, necessary government services.

The Metro government is currently violating basic common sense that we all know. If something is too good to be true, then it is. Why would Metro have the lowest big city tax rate in Tennessee? How can a growing city that is bursting at the seams have its lowest tax rate in history? Isn't it more reasonable to think that the tax rate is set in the wrong place? Instead of "belt-tightening," isn't a status quo budget just pushing the belt tightening unfairly onto Metro's employees and school children?

How can I trust what the new revenue would be spent on?

About 80% of the demonstrated need through FY21 is an immediate need in FY19. For this, the Council is in complete control. The proposed budget substitute that is paired with the 50 cent rate correction requires that the additional revenue for FY19 be spent on Metro employee raises, schools, avoiding one-time asset sales, and not using 5% funds savings.

The rest – about 20% -- of the demonstrated need is in FY20 and FY21. We will have to expect the Council and Metro Finance to be disciplined in making sure the revenue is spent appropriately in FY20 and FY21. Historically, this is how Metro operated.

Shouldn't Metro make corporations pay their fair share?

Commercial properties pay approximately 62% of the property taxes in Davidson County. Any rate correction will be paid primarily by businesses.

Why assume inflation of 1.8%?

In reality, we should likely assume a higher rate of inflation. In April 2018, the national inflation rate was 2.5%. Also, interest rates have been climbing and are expected to continue to climb. To keep Metro's budget growth at only 1.8% instead of the national inflation rate will require Metro to continue getting ever more efficient. If Metro's budget were to grow at the same rate as inflation, the property tax rate correction would need to be higher than 50 cents.

Are there other materials I can look at to support the data provided here?

Here are the sources for the data provided here:

- For the history of property tax rates in Nashville, see pages A-24 and 25 of the FY19 Budget Book. I have also provided a summary of this information as Exhibit 1 to these FAQs.
- Exhibit 2 is a three year property tax need illustration prepared at my request by Metro Finance showing the anticipated budget needs and new revenue through FY21.
- Exhibit 3 shows how the FY19 budget would use the revenue from a 50 cent rate correction. This was prepared at my request by Metro Finance.
- The information about the total tax increment dollars spent on development loans is from MDHA's annual TIF report. The latest report is for 2017 and was posted by MDHA in April 2018.
- The property tax rates for other cities in Tennessee were taken from this Metro 2017 infographic and confirmed by checking the web sites for those cities.

EXHIBIT 1

History of Rate Adjustments, 1980 to present

	Fiscal Year	Combined Rate	
	1981	6.83	
	1982	6.83	
	1983	6.83	
	1984	6.83	
		(3.66)	***Reassessment***
			NO RATE CHANGE - NEEDED IMMEDIATE CORRECTION NEXT YEAR
	1985	3.17	
		0.75	***Rate change***
	1986	3.92	
3 years	1987	3.92	
	1988	3.92	
		0.89	***Rate change***
	1989	4.81	
	1990	4.81	
	1991	4.81	
5 years	1992	4.81	
	1993	4.81	
		(1.05)	***Reassessment***
		0.74	***Rate change***
	1994	4.5	
	1995	4.5	
4 years	1996	4.5	
	1997	4.5	
		(0.92)	***Reassessment***
		0.54	***Rate change***
1 year	1998	4.12	
		0.12	***Rate change***
	1999	4.24	
	2000	4.24	
3 years	2001	4.24	
		(0.54)	***Reassessment***
		0.88	***Rate change***
	2002	4.58	
	2003	4.58	
4 years	2004	4.58	
	2005	4.58	
		(0.56)	***Reassessment***
		0.67	***Rate change***
	2006	4.69	
	2007	4.69	
	2008	4.69	
	2009	4.69	
		(0.56)	***Reassessment***
7 years			***NO RATE CHANGE -- GREAT RECESSION; NEEDED RATE CORRECTION BEFORE NEXT REASSESSMENT***
	2010	4.13	
	2011	4.13	
	2012	4.13	
		0.53	***Rate change***
	2013	4.66	
		(0.144)	***Reassessment***
			NO RATE CHANGE -- RELIED ON 2012 ADJUSTMENT
	2014	4.516	
	2015	4.516	
6 years through 2018	2016	4.516	
	2017	4.516	
		(1.361)	Reassessment
			NO RATE CHANGE
	2018	3.155	
	2019		

High adjustment between reassessments was $1.64

Low adjustment between reassessments was $0.53

Exhibit 2

Three Year Property Tax Scenario for FY 2019 Budget 5-21-18

	GSD General	USD General	Schools	Debt		Total	Pennies
Fully fund pay plan	14,212,117	685,667				14,897,784	4.97
Fully fund Schools			39,704,900			39,704,900	13.23
Property sales	10,000,000		13,000,000	15,000,000		38,000,000	12.67
No fund balance use	8,350,000	500,000		550,000		9,400,000	3.13
FB to 5% - see below	2,490,227	721,972	16,054,870	2,354,593		21,621,662	7.21
Need for FY 2019	**35,052,344**	**1,907,639**	**68,759,770**	**17,904,593**		**123,624,346**	**41.21**
General Fund*	17,871,004	2,246,384				20,117,388	
Pay plan	22,283,200	2,135,000				24,418,200	
Schools*			16,779,924			16,779,924	
Debt Service increase				42,600,000		42,600,000	
Less: expected revenue growth	(18,741,504)	(4,133,827)	(34,204,336)	(8,320,129)		(65,399,796)	
Needed for FY 20	**21,412,700**	**247,557**	**(17,424,412)**	**34,279,871**		**38,515,716**	**12.84**
General Fund*	18,195,541	2,287,178				20,482,720	
Schools*			17,084,647			17,084,647	
Debt Service increase				14,500,000		14,500,000	
Less: expected revenue growth	(22,384,575)	(3,561,307)	(30,351,208)	(7,901,891)		(64,198,981)	
Needed for FY 21	**(4,189,034)**	**(1,274,129)**	**(13,266,561)**	**6,598,109**		**(12,131,614)**	**(4.04)**
Grand Total Needed	52,276,010	881,068	38,068,796	58,782,573		150,008,447	50.00
Pennies by fund	***17.43***	***0.29***	***12.69***	***19.59***	**	***50.00***	
GSD+USD	***17.72***						

** **GSD Debt = 15.1**
Schools Debt = 4.5

Fund Balance Calculation					
FY 19 Budget filed May 1	969,874,000	123,013,900	884,299,700	292,776,700	2,269,964,300
Above added to FY 19	14,212,117	685,667	39,704,900		54,602,684
Revised FY 19 Budget	984,086,117	123,699,567	924,004,600	292,776,700	2,324,566,984
FB at 5%	49,204,306	6,184,978	46,200,230	14,638,835	116,228,349
Estimated FY 18 FB	46,714,079	5,463,006	30,145,360	12,284,242	94,606,687
Net	2,490,227	721,972	16,054,870	2,354,593	21,621,662
FY 20 1.816 % growth	17,871,004	2,246,384	16,779,924		
FY 21 1.816% growth	18,195,541	2,287,178	17,084,647		
*Growth Rate	1.816%				

Exhibit 3

Summary of Changes to Ordinance Filed May 1, 2018
From CM Mendes $.50 Property Tax Increase Proposal

	GSD General	GSD Debt	Schools Debt	Schools	USD General	USD Debt	Total
Changes to Revenue							
Increase in Property Taxes*	53,100,000	45,413,500	13,386,500	38,100,000	-	-	150,000,000
Remove property sales	(10,000,000)	(15,000,000)		(13,000,000)			(38,000,000)
Sales tax revenue reallocation			(12,836,500)	12,836,500			-
Sales tax revenue reallocation	(1,768,400)			1,768,400			-
Gas & fuel reallocation	(1,185,700)				1,185,700		-
Remove fund balance use	(8,350,000)		(550,000)		(500,000)		(9,400,000)
Total Changes to Revenue	**31,795,900**	**30,413,500**	**-**	**39,704,900**	**685,700**	**-**	**102,600,000**
Original Ordinance Filed 5-1	969,874,000	169,296,200	103,823,200	884,299,700	123,013,900	19,657,300	2,269,964,300
CM Mendes Ordinance - revenues	1,001,669,900	199,709,700	103,823,200	924,004,600	123,699,600	19,657,300	2,372,564,300
Changes to Expenditures							
Fully fund pay plan	14,212,200				685,700		14,897,900
Change in 4% transfer (tax increase)	2,053,300						2,053,300
Fully fund Schools				39,704,900			39,704,900
Total Changes to Expenditures	**16,265,500**	**-**	**-**	**39,704,900**	**685,700**	**-**	**56,656,100**
Reserved for Subsequent Years	15,530,400	30,413,500					45,943,900
Original Ordinance Filed 5-1	969,874,000	169,296,200	103,823,200	884,299,700	123,013,900	19,657,300	2,269,964,300
CM Mendes Ordinance - expenditures	1,001,669,900	199,709,700	103,823,200	924,004,600	123,699,600	19,657,300	2,372,564,300
	-	-	-	-	-	-	-

* all in current real property - to be spread to personalty and public utility before final substitute

Correction to Duplicated Interfund Transfers transfers (Schools to Schools Debt)	1,599,600
Original Ordinance Filed 5-1	38,264,100
Revised interfund Transfers	39,863,700