

2013 City of Memphis Operating Budget
Initial Proposal of Jim Strickland, City Councilman
(May 7, 2012)

I. Snap Shot of Memphis

For years, Memphis has been saddled with the state’s highest combined tax rate (city and county), which is substantially higher than the surrounding counties. Compared to the other large cities in Tennessee, Memphians currently pay 42% more than those citizens in Chattanooga and 75% more than taxpayers in Nashville.

The Shelby County tax rate is \$4.02, and the Memphis rate is \$3.19.

A. Tax Rates in Tennessee

County	City	Total	Total Tax for \$150,000 house
SHELBY	MEMPHIS	\$7.21	\$2,703.75
SHELBY	GERMANTOWN	\$5.55	\$2,081.25
KNOX	KNOXVILLE	\$4.82	\$1,807.50
HAMILTON	CHATTANOOGA	\$5.07	\$1,901.25
DAVIDSON	NASHVILLE	\$4.13	\$1,548.75
TIPTON	COVINGTON	\$3.43	\$1,286.25
FAYETTE	SOMERVILLE	\$2.15	\$ 806.25

B. Wharton’s Tax Increase Proposal

Mayor Wharton has proposed a 14.7% property tax increase on the city rate (6.5% overall) and a \$22 million increase in the City’s operating budget. The proposal would result in the following:

SHELBY	MEMPHIS	\$7.68	\$2,800.00
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This would raise our property tax to almost double Nashville’s rate.

C. “Voting With Their Taillights”

People and businesses are “voting with their taillights” as a result of crime, struggling schools, and high property taxes.

Despite three annexations forcing over 33,000 people to live in Memphis in the last decade, our population has steadily decreased. We lose approximately ½% of our population each year.

In addition to individuals, high property taxes drive businesses out of Memphis. “While a 47-cent tax increase would mean a few hundred dollars for most homeowners, it

would have a larger impact for owners of office towers, warehouses and shopping centers across the city.” According to Roland McElrath, “commercial and industrial properties comprise 55 percent of the total assessed value of taxable property located in Memphis.” (Memphis Business Journal, April 27, 2012).

Mark Halperin, executive vice president with Boyle Investment Co., said that a 47-cent tax increase would cost Boyle “hundreds of thousands of dollars” and could result in Memphis losing business opportunities to pier cities in the South. He noted, “To a comparative building in Nashville, we may have a \$250,000 difference in real estate taxes.” James Rasberry, principal broker with Rasberry CRE, stated the Memphis’ relatively high property tax was “driving investment out of the city.” (Memphis Business Journal, April 27, 2012.)

D. City’s Budget Without MCS Funding

Memphis City Government has consistently increased in size and cost despite governing a city that is shrinking.

2007	\$527 Million
2008	\$577 Million
2009	\$616 Million
2010	\$601 Million
2011	\$613 Million
2012	\$606 Million
2013 (Proposed)	\$628 Million

II. Priorities in Budgeting

In order to reduce the budget, the Council needs to adhere to some priorities or guidelines. I propose the following in order of priority:

A. Public Safety

The safety of Memphians is the top priority of City Government. It is the number one reason for the existence of government. There should be no budget cuts that affect public safety, but efficiencies within the police and fire budgets should be achieved.

B. Court Ruling on School Funding

The Shelby County Chancery Court entered an Order finding that the City of Memphis owed a duty to fund Memphis City Schools. With the merger of MCS and Shelby County Schools set for July 2013, the coming school year (2012-2013) will be the last one the City must fund.

Based on current enrollment, the City will owe MCS \$68 million, of which \$66.5 million must be funded with property taxes.

C. Services Directly Affecting the Public

Although not as important as safety, the City provides many services which contribute to the public welfare, quality of life, and economic prosperity of our community. Those City departments directly servicing the public should be preserved as much as reasonably possible, beginning with the core municipal services.

D. Responsibilities Owed to Non-Management City Employees

Memphis has wonderful employees devoted to the service of our taxpayers and the betterment of our City. They deserve to be treated well and compensated fairly. If a choice has to be made, due to economic circumstances, between increased benefits and a reduction in workforce, it is fairer to a larger group of employees to maintain employment levels. It is also better for taxpayers because there will be little or no loss in services.

E. Internal City Management

While necessary for the efficient management of government, any necessary cuts should begin with upper management because it affects the public less and these departments can absorb more of the losses.

III. 2013 Budget

A. Mayor Wharton's Proposal

In his proposal, the Mayor has separated the budgets of the City and MCS and proposed the following city tax rate:

	Budget	Tax Rate
City	\$628 million	\$3.01
MCS	\$71 million	<u>\$0.67</u>
	Wharton Tax Rate	\$3.68

B. Strickland's Initial Reductions

Although the Council has just begun reviewing the budget, my first proposal would decrease taxes as follows:

	Budget	Tax Rate
City	\$617 million	\$2.9136
MCS	\$68 million	<u>\$ -0-</u>
	Strickland Tax Rate	\$2.9136

IV. Initial Cuts to Wharton's Proposed Budget

A. Across the Board Reductions in Materials and Supplies

1. Percentages:

2% - Police & Fire

3% - Code Enforcement

5% - Departments Directly Providing Services to the Public

10% - All other Departments

2. Reductions:

Human Resources – (10%) - \$353,933

Police (2%) - \$521,792

General Services:

Administration (10%) - \$15,105

Property Management (5%) - \$172,124

Real Estate (5%) - \$3,576

City Hall Operation (10%) - \$123,061

Vehicle Maintenance (1%) - \$29,394

Printing (7%) - \$103,965

Motor Vehicle Inspection Bureau (5) - \$16,192
Park Operations (3) - \$46,200

Finance (10%)- \$99,247

City Engineering:

Administration (10) - \$52,320
Signs & Markings (5) - \$32,703
Signal Maintenance (5) - \$32,361

Fire (2%) - \$345,963

Public Works:

Administration (10%) - \$69,058
Street Lighting (5%) - \$612,000
Neighborhood Improvements (3%) - \$72,299

City Court Judges (5%) - \$2,541

City Court Clerk (5%) - \$92,016

HUD (5%) - \$9,621

Information Services (10%) - \$144,356

Executive:

Mayor (10%) - \$16,905
CAO (10%) - \$9,985
Youth Services (5%) - \$23,065
Auditing (10%) - \$31,145
Call Center (5%) - \$3,381
Contract Compliance (10%) - \$5,151
Intergovernmental Affairs (10%) - \$11,026

Parks and Neighborhoods:

Administration (10%) - \$21,545
Planning & Development (5%) - \$770
Park Facilities (5%) - \$67,048
Recreation - \$126,363
Golf (5%) - \$92,964
Animal Shelter (5%) - \$31,032

MATA (5%) - \$980,770

Total Materials and Supplies: **\$4,370,977**

B. Specific Line Item Reductions

1.	Parks and Neighborhoods	
	• Elimination of administrative positions or programs which do not provide core municipal services (such as Public Relations and Music Commission)	\$864,213
	• Seminars	\$ 21,684
	• Travel	5,300
2.	Police	
	• Crossing Guards (Shelby County provides Deputy Sheriffs to work as crossing guards to public schools in the unincorporated part of the County. The County should supply such guards to all public schools in the County. This equal treatment for Memphians will save them the city expense).	\$1,200,000
3.	Public Works	
	• Seminars	\$ 17,170
	• Travel	\$ 13,679
4.	Executive	
	• 2 Positions	\$170,000
	• Travel	\$ 5,446
	• Seminars	\$ 11,125
	• Dues	\$ 38,363
5.	City Council	
	• Chairman Cuts	\$ 79,257
	• Food	\$ 3,900
	• Travel	\$ 4,000
6.	City Court Clerk	
	• Travel	\$ 7,500
	• Seminars	\$ 10,000
	• TQM	\$ 7,000
7.	City Court Judges	
	• Travel	\$ 10,000
	• Seminar	\$ 4,710

	• Misc. Professional Services	\$ 5,000
	• Dues	\$ 8,000
8.	Family Rewards Initiative (eliminate)	\$400,000
9.	Human Resources	
	• Travel	\$ 6,000
	• Rewards	\$ 7,700
	• Catering	\$ 2,000
10.	Information Services	
	• Travel	\$ 5,000
	• Seminars	\$ <u>90,000</u>
	Total	\$2,997,047

C. Vacancies:

This information has not been provided yet by the Administration. In 2010, the figure was \$3,374,629.

Estimated Total	\$3,000,000
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<u>Total Initial Cuts</u>	\$10,368,024
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D. Initial Recommendations on City Budget

1. Reduce budget by \$10,368,024. This will reduce the City's portion of the tax rate of \$3.01 to \$2.9136.

2. This proposal is a work in progress, and these reductions will increase as we proceed through budget review process.

V. City's Reserves or Rainy Day Fund

Currently, the City does not have an official policy regarding the amount of money to be maintained in the Reserve Fund, which is commonly known as the Rainy Day Fund. The Administration has maintained that the City should keep in Reserves an amount equal to or greater than 10% of the City's Operating Budget.

In researching State and Local governments from across the country, it appears that there is no uniform policy. In 2008, the average reserve for States was 5.1%. Three states (Arkansas, Kansas, and Montana) did not have a Reserve Fund, California and

Wisconsin had balances of zero, Michigan had less than 1%, Nebraska had 17%, and Alaska was nearly 150%. Twenty-eight states had fund balances of 5% or less, while only eight states exceeded 10%. (The Tax Policy Briefing Book, Tax Policy Center, www.taxpolicycenter.org).

With respect to municipalities, Nashville “has a long-standing policy of keeping its rainy day funds at a level in excess of 5 percent of the total budget.” (Nashville City Paper, April 29, 2011). Philadelphia, Pennsylvania maintains a reserve not to exceed 5%. Norman, Oklahoma maintains a fund balance of at least 3% with a maximum of 6%.

The City of Memphis should adopt a policy of maintaining a Reserve Fund of between 4% and 7%.

VI. Memphis City Schools

The City of Memphis must fund MCS for only one more year. The “maintenance of effort” will be, at most, \$68 million. Of this amount, \$1.5 million are paid with a portion of traffic tickets, with the remainder to be paid by property taxes.

Mayor Wharton has proposed a property tax increase to pay the obligation to the schools.

Instead of raising taxes to pay this one-time expense, the City should pay the \$68 million to MCS with (1) \$1.5 from traffic ticket revenue, (2) \$8 million from the sale of the Defense Depot property, (3) \$20 million from the 2008 account outlined by the Mayor as a possible use for this obligation, and (4) \$38.5 from the City’s \$81 million Reserve Fund. This expenditure from the Reserve Fund would leave over 5% of the Operating Budget in the Reserves.

VII. Conclusion

	<u>Combined Tax Rate</u>	<u>City Tax Rate</u>
Wharton Tax Hike	\$7.68	\$3.68
Current Tax Rate	\$7.21	\$3.19
Strickland Initial Tax Cut	\$6.93	\$2.91*

*21% lower than the Wharton rate and 10% lower than current rate.