

**Rutherford County Alternative Revenue Study Task Force
Minutes of 4/20/04 Meeting**

In attendance:

Rebecca Climer, Chair, Joyce Ealy, David Gilliam, Denny Hastings, Bill Jones, Lisa Nolen, Jeff Phillips, Steve Sandlin, Steve Schroeder, Doug Shafer

Mayor Bob Spivey, Mike Sparks, Candy Roberts, Steve Benefield, Chamber President, Terri Sterling, Facilitator/Support

The meeting began at 5:10 p.m. with an overview of the agenda. Lisa Nolen reported that the adequate facilities tax that had been enabled for Rutherford County by the state, but never used, expired six months after enactment.

Steve Schroeder said he was not ready to report on questions from last week.

Doug Shafer reported that a possible effect of an increased gasoline tax could result in higher zone pricing and that would cut down the amount of gas purchased by large users in the County (possibly). He said he is not sure of the impact on gasoline consumption in Rutherford County.

He reported that the County could implement the gasoline tax of one cent and it would have to be used for transportation, defined as “something that carries persons for hire,” and “not for profit.” School buses would not fit those criteria, so the increased money could not be used to offset school costs.

Mayor Bob Spivey commented that Rutherford County is paying the Regional Transportation Authority a \$25,000 per year fee, and perhaps an increase in the gasoline tax could be used to offset those costs.

A discussion about the work of the Task Force also occurred. It was determined that the work of the Task Force will be used for the 2005 year by the County because it is virtually too late for the Task Force recommendations to be implemented for the 2004 fiscal year.

Rebecca Climer reported that Mayor Nancy Allen said that the timing of the Task Force report could be extended to June 11, the date of the County Budget Hearings. The unanimous consensus of the Task Force members present is that they would rather take the time to do the analysis correctly and make good recommendations to the County, rather than rushing and finishing to meet an earlier arbitrary deadline.

“Other” Tax Ideas Presentation

Lisa Nolen, Denny Hastings, Joyce Ealy and David Gilliam worked on “other” possible methods of taxation, and began their presentation with Denny Hastings distributing a handout on a

General Services Tax (GST). The group of four offered 10 ideas for alternative (to the property tax) ideas for taxation.

1. General Services Tax
2. Expanded Development Tax
3. Rock Quarry
4. Non-Resident Student General Services Fee
5. Privilege Tax on Real Estate Closings and Mortgage Insurance Providers
6. Solid Waste Transporting Permits and Inspection Fees
7. Privilege Tax on Real Estate Closing Costs
8. Fireworks Tax
9. Insurance Agencies Tax
10. Mortgage Companies Tax

Following is the information distributed to the Task Force on each tax idea on April 20:

1. General Services Tax

Any tax should be levied fairly and should aim to collect revenue from the individuals who benefit from the services provided. With only minor exceptions, everyone benefiting from a service should help to pay for it.

Rutherford County has a unique position among counties in Tennessee because it is located at the geographic center of the state. Benefits of this location include having an interstate highway pass through in close proximity to each major city in the county, being the location for the state's largest (in terms of students) university, being a major hub for transportation and logistics for produced goods, having access to a large potential workforce within easy commuting distance, and being an ideal location for a regional medical center.

These benefits also generate problems that are equally evident. Traffic congestion is perhaps the most obvious problem. This produces the need for plenty of traffic control measures and adequate safety and emergency services. A wreck on the interstate in any direction can create major local traffic problems as motorists vacate the interstate and flood local streets and highways trying to get around the problem. A majority of our college students commute from outlying areas. They also contribute to the daily cost of maintaining streets and traffic safety. Factor in the number of daily non-resident workers traveling to or through the county and the temporary daily population increase is astronomical. We could ask the question "Does the huge traffic problem encourage shoppers to avoid the county and thus drive down local sales tax revenues?"

We also have a seasonal resident population increase with the large number of students who live here. On-campus residents put no income into the local rental market, and their contribution to local sales tax revenues is minimal because that have low disposable income. Students generally live as economically as possible and most try to divide rental cost by having the most roommates

they can tolerate. In one apartment you might have as many as four residents, each with their own car. The impact on local services is multiplied over that of a single family resident, but development taxes are levied at a single-family residence level.

The county's location has also led to the creation of a large number of low skills, relatively low paying jobs. These jobs attract a lot of non-resident workers and do little to advance the average per capita income in the county. Over a period of years this has led to development of a predominantly blue-collar economy, which is less apt to attract companies with higher paying jobs. The real challenge in our county today is to enact policies with a goal of increasing per capita financial worth. The proven way to do this is through encouraging the development of equity through home ownership. In the meantime we must find a way to fund local government that captures revenue from every individual that benefits from government services.

Any attempt to assess a tax on commuters or seasonal residents is difficult because it cannot be done without potentially affecting resident taxpayers, especially property owners. The local sales, gasoline and hotel/motel taxes do generate some revenue from these sectors but a more meaningful effort must be made to recover from non-property owning residents. The question becomes where and how to capture the revenue. The best way is to tie collections to a commodity every resident will need.

Every resident in the county must have access to local utilities. It can logically be assumed that anyone utilizing power or water will benefit from all basic county services. Here, then, may be the best place to implement a tax to help pay for the cost of General Services.

Proposal: Enact a General Services Tax designed to be placed on all county residents as a means of capturing reasonable revenue to defray the operating costs of government. This tax would have to be paid prior to or concurrent with application for local power or water connections.

In Rutherford County in 2003, there were 25,440 electric meter sets exclusive of NES customers in the north part of the county. With a General Services Tax of \$250 per application in place, Rutherford County could have generated \$6,360,000 in gross revenue prior to adjustments and expenses of collection.

Provisions

1. The tax would be for a fixed amount to be paid equally by all applicants for utility service.
2. The tax would be paid no more than twice annually (depending on individual mobility) with certain hardship exceptions to be determined.
3. Individuals living in Federal Housing Projects; or those over the age of sixty-five or; those who met criteria for hardship relief would not pay the tax.
4. An individual property owner changing principle residences more than twice

- annually would pay the tax no more than twice in that year.
5. All revenue from the general service taxes would be earmarked for operating expenses of schools, law enforcement, fire protection, emergency services, roads and public parks.
 6. Reinstatement of services terminated for non-payment of monthly bills would not require a general services tax payment except in cases where the general services tax had not been previously paid.

Administration

1. The county would establish a means of issuing a general services tax certificate for a specific individual or business at a specific address. Permits could be sold at county facilities or at participating utilities subject to a cost recovery agreement between the county and the utility.
2. All applications for utility service would be accompanied by a copy of the general services tax certificate.
3. No utility would provide connection without evidence that the general service tax had been paid.
4. Utilities would not have any expenses as a result of this program not covered by cost recovery.
5. Enforcement of the tax would be handled by the county, not by the utility.

Advantages

1. Over \$1,000,000 in annual revenue for operating expenses as a new source of revenue Property tax increases would be less likely and ultimately lower as the result of revenue from other sources.
2. Seasonal residents would pay a larger share of the cost of government services.
3. Utilities would likely see a lower incidence of non-payment of monthly bills.
4. Apartment owners would likely see less frequent incidences of renters moving out without paying rent.
5. County revenue from the source could not be eroded by annexation of municipal governments.
6. The county will have the flexibility to establish hardship contingencies in cases where individuals are required to relocate and establish new service through not fault of their own.

Disadvantages

1. It is a tax.
2. Property owners will be paying an additional tax, but this is offset by a partial property tax credit and the satisfaction that the tax burden has been spread out.
3. Additional revenue will somewhat be offset by the cost of implementation of the tax.

2. Development and Adequate Facilities Tax

Rutherford County's most recent effort at a new tax is the development tax on new home construction. This tax currently amounts to \$1,500 on each single-family residence. It was enacted in 1996 at \$750 per unit and was doubled in 2000 to the current level. The MTSU study points out that "the development tax is a higher proportion of the builder's cost for small homes than for large homes...thus the development tax will have the larger impact on the selling price for smaller homes than for larger homes."

The current development tax structure, along with other utility and permitting fees, can account for up to 5% of the cost of a 1700-square-foot home. The study goes on to state the development taxes "increase existing property values, a spillover benefit for current property owners that is not taken into account in the fee. A new fee or tax on housing construction will increase prices for buyers and these higher prices will spill over from new housing to existing house, resulting in higher market values for existing homes and capital gains for existing homeowners." Considering that, is there any wonder that most existing property owners advocate higher taxes on new construction? Unfortunately for individuals trying to buy their first home, the appreciation in existing home prices is at their expense. There should be a way to work out this inequity.

Last year in Rutherford County, there were 5,019 single-family homes sold, of which 1,462 were new. The 1,462 new homes generated \$2,193,000 in development tax revenue and the 3,557 existing homes generated no development tax. Can we assume that only those who paid the tax provided an increased demand for local services? A development tax assessment on the existing home sales equal to that on the new homes would have generated \$5,335,500.

Proposal #1---Expand the existing development tax to include a onetime assessment not to exceed \$1,500 per unit on all single-family residential units. Funds would be earmarked according to existing uses. This would eliminate the bias against purchasers of new homes and assure that everyone owning property would eventually pay their fair share of the cost of services. The tax revenue would reach a point where it declined on an annual basis as the number of untaxed existing units dwindled, but this would be more than offset by the initial influx of funds in the first twenty years of collection. This new revenue would help the county "catch up" on the increased costs associated with rapid growth. Every property owner benefits from the growth due to increased property values. (According to county figures, the assessed value of property in the county has doubled in the last ten years).

The tax would be paid at the time the deed was delivered for recording. A database would reflect those properties on which the tax had been previously paid. Any units on which the tax was paid when it was at \$750 would be subject to the difference of \$750. The recorded deed would reflect that the tax had been paid. Residential rental property would be assessed at the time of transfer or at the time a building permit was issued for renovation.

Advantages:

1. This tax would give local government the chance to “catch up” as a result of the prior years of rapid growth that hit the system before revenues were in place to keep pace. The impact on government would be immediate.
2. It would not affect existing home sales any more than the development tax affected new home sales. In other words, its legality and appropriateness have already been established. If this tax is unconstitutional, then so is the existing development tax.
3. Like the existing tax on new homes, it would become part of the cost of the residence.
4. Existing homeowners not planning a move would not be affected.
5. It would affect all residential property owners the same as opposed to the current situation, which penalizes new homebuyers and automatically increases the value of existing residences, as noted in the MTSU study.
6. It would be easier to enact and administer than impact fees.
7. All residents would benefit from better public facilities and services.
8. This tax cannot be eroded by annexation of property into municipal jurisdictions.

Disadvantages

1. It is a tax.
2. As in the case of the existing development tax, individuals buying small homes have a higher proportion of tax reflected in the cost of their homes.
3. As with the existing development tax, it does not allow for any revenue from commercial expansion.

Proposal 2 – Implement the adequate facilities tax enabled by the General Assembly and enacted by the County Commission in 1996, and extend it only on new commercial development. Provide for exemptions to any enterprise creating a set number of jobs within a present income category designed to increase county per capita income. Collection would be the same as the existing development tax system.

Advantages

1. Provides the opportunity for commercial development to pay its fair share of the

- cost of growth. It now pays no growth or development taxes.
- 2. Relieves some of the future property tax burden from residential property.
- 3. Enabling authority is already in place, and collections could start relatively quickly.
- 4. Flexibility could be applied to help local recruiters attract higher paying jobs.
- 5. This tax cannot be eroded by annexation of property into municipal jurisdictions.

Disadvantages

- 1. It is a tax.
- 2. It might discourage some commercial development if the tax is too high.
- 3. It will increase the workload of the county building codes department to some degree but would not require new bureaucracy to implement.

Proposal 3 – Extend the existing development tax base by applying it to all commercial property.

3. The Rutherford County Rock Quarry

Year	Tons Removed	Expenditure	Per Ton Cost
2000	89,980	\$419,552	\$4.66
2001	89,382	\$486,854	\$5.44
2002	124,912	\$495,069	\$3.96
2003	53,144	\$510,671	\$9.60
Average			\$5.92
2004	Budget	\$652,857	?

This year Coffee County is buying stone at an average of \$4.46. That price will go to \$4.82. Bedford County is paying an average of \$4.98 this year.

The county quarry could be sold or leased out on a long-term basis to a private contractor with the county having a favored nation’s agreement for the stone it needed and generate revenue in addition. The county no longer needs as much stone as it once did because there are no more gravel roads. This quarry is a costly asset that could potentially generate a lot of revenue. Severance taxes would increase, the county would have stone at a lower cost than present, and expenditure in excess of half a million annually would go away.

4. Non-Resident Student General Services Fee

MTSU now has the largest student population of any university in the state. It is estimated that 14,000 of these students are commuting to classes from outside Rutherford County. These non-resident students receive the benefits of our roads, emergency medical services, and public safety programs. The only revenue the government derives from the students is through a relatively

small amount of sales tax.

It is proposed that the county enact a non-resident general services fee in the amount of \$10 per student per semester to be collected at the time of registration. This fee would be assessed on all students who did not reside in Rutherford County except individuals registering for distance learning programs. State enabling authority will be required.

Conservative estimates suggest that this could generate as much as \$300,000 per year.

Each additional \$5.00 in fees would increase the revenue annually by \$60,000.

5. Privilege Tax on Real Estate Closings and Mortgage Insurance Providers

The tremendous growth in Rutherford County has generated a windfall business in property transactions and mortgages. Coupled with the unprecedented low interest rates, the local building boom has generated a lot of revenue for the companies who provide title insurance and closing services. Last year there were \$2.4 billion dollars in mortgages recorded in a total of 23,660 deeds of trust. The only revenue generated for the county government by all this activity was a small percentage of the mortgage tax collected for the state that is paid by the buyer. No revenue is generated when companies outside of the county handle the closing. Those benefiting from these transactions could afford to pay a tax that would in part support the county offices responsible for recording and keeping all these transaction records.

This proposal would provide for a privilege tax on escrow agents and closing companies. The tax would be based on .00075% of the total amount of each transaction and would be collected by the Register's Office when the transaction is recorded. Based on the \$2.4 billion in mortgages recorded last year, the revenue would amount to at least \$1.8 million. This figure does not include cash transactions and revenue could easily exceed \$2 million. This tax would not increase the need for additional staff. This tax would require enabling authority from the state.

Example: Closing of \$175,000 x .00075 = \$131.25

6. Solid Waste Transporting Permits and Inspection Fees

In view of the fact that Rutherford County is the host county for a regional landfill, its highways are traversed twenty-four hours a day by vehicles transporting solid waste into the county to the landfill. The vehicles hauling this solid waste are owned by government entities, private companies, and private individuals, who benefit or profit from access to the landfill. These vehicles are not regulated under any uniform standard code except Commercial Vehicle Regulations, which have no specific rules regarding containment of solid waste.

Rutherford County government has a responsibility to protect its citizens and their property from the environmental and associated health risks that would result from leakage or spillage of solid waste products onto our roads.

In order to regulate this, the county should establish safety standards for all commercial vehicles hauling solid wastes and require them to be thoroughly inspected at least once annually. The county should also provide for point of entry inspections of all vehicles entering the landfill to make sure that all required containment measures are being followed, even by private individuals. Penalties and fines should be assessed for all violations.

The regulation of solid waste transporters should be paid for with annual permitting fees, point of entry inspection fees, and revenue from fines. The annual permit fee would be collected at the time of the vehicle safety inspection. This fee should be no less than \$50 per axle plus a fee per cubic yard of waste estimated to be hauled during that year. The amount hauled would be recorded at the point of entry inspection and the permit fee increased if more than estimated the previous year was hauled. This procedure would also enable the county to verify the tonnage figures submitted by BFI.

A point of entry inspection fee would be charged each time the vehicle entered the landfill. This fee should be no less than \$1.00 per yard of material hauled. At this level the revenue from the fees should approach \$1.5 million. The estimated annual expense for inspectors and administrative cost is estimated at \$150,000. A portion of the revenue above actual cost should be earmarked for property tax relief to those property owners living in close proximity to the landfill. Local government transporters could be exempted.

7. Privilege Fee on Sales of Fireworks

A large number of seasonal tent operations seek conditional use permits from the County Board of Zoning Appeals twice yearly (June 24 – July 4 and Dec. 20 – Jan 01) for the purpose of selling fireworks to the general public including citizens of Rutherford County. In addition to these temporary tent locations there are several permanent facilities located within the city limits of Smyrna, La Vergne and Murfreesboro. These permanent locations are unique, due to the fact that it is against the law to sell or use fireworks here except during the above two (2) specified periods. The remainder of the year they are considered wholesalers and are allowed to sell their products to persons outside of our county. In order to generate large volumes of business their operators advertise heavily on the interstate as well as the Internet to attract customers. (\$2 Million in fireworks sold annually in Rutherford County)

Due to the fact that most buyers of fireworks in Rutherford County are non-residents that use the Internet or see road signs and stop off here for the sole purpose of purchasing fireworks throughout the year, it appears that this proposal could raise \$100,000 to \$300,000 per year with minimal impact on local residents.

Additionally, in Texas it seems more fireworks shoppers have supported the fee (tax) because it funds a good cause, i.e., helping to fund state-run workers compensation funds for law enforcement officers and firefighters.

This proposal would provide for a privilege fee (tax) of 5 % - 15% on the sale of fireworks in Rutherford Co., estimate to be approximately \$2 million annually.

This fee (tax) will be collected by the county court clerk and should require no additional employees. Permanent fireworks operators would be required to submit fees collected monthly. For temporary fireworks operators, fees and reports for sales during the period June 24 through July 4 would be due August 20 and fireworks sold during the period December 20 through January 1 would be due February 20.

This would be a fee (tax) in addition to the state and local taxes.

8. License Fee or Privilege Tax on Insurance Agencies

Insurance Agencies in Rutherford County are writing record amounts of property insurance as a result of the dramatic growth here. Insurance agencies pay no business or privilege taxes to Rutherford County. The only government fees they pay are for their state license.

It is recommended that the county seek enabling authority from the state to enact a local option privilege tax and/or licensing fee to be levied on insurance agencies, including those, which are non-resident companies. The license fee should be equal to the amount paid for a state license. The privilege tax is suggested for application based on a small percentage of gross sales on an annual basis.

Example: \$3,000,000 gross sales x .00005 = \$150 annual taxes

This tax could be paid on a monthly basis or annually based on prior year's sales.

9. Privilege Tax on Mortgage Companies

The tremendous growth in Rutherford County has generated a windfall business in mortgages. Coupled with the unprecedented low interest rates, the local building boom has generated a lot of revenue for the companies who are involved in mortgage banking. Last year there were \$2.4 billion dollars in mortgages recorded in a total of 23,660 deeds of trust. The only revenue generated for the county government by all this activity was a small percentage of the mortgage tax collected for the state, which is paid by the buyer. We are also seeing an explosion of activity by internet mortgage companies that pay no taxes of any kind to the county. Those benefiting from these transactions could afford to pay a tax that would in part support the county offices responsible for recording and keeping all these transaction records.

This proposal would provide for a privilege tax on mortgage brokers/lenders. The tax would be

based on .00075% of the total amount of each transaction and would be collected by the Register's Office when the transaction is recorded. Based on the \$2.4 billion in mortgages recorded last year, the revenue would amount to at least \$1.8 million. This tax would not increase the need for additional staff. It would require enabling authority from the state legislature.

Example: Mortgage of \$110,000 x .00075 = \$82.50

10. Tax on Professionals (included in handouts but not presented 4/20/04)

The following information needs were discussed, and we plan to answer these at the next meeting on April 27:

- ? **County Schools imbedded vs. actual costs (Harry Gill)**
- ? **Adequate Facilities Tax for Commercial (Jim Baker)**
- ? **Use of impact fees by other counties (Steve Schroeder)**
- ? **Interest Rates and Impact Fees (Steve Schroeder)**
- ? **Movable equipment paid for by impact fees (Steve Schroeder)**
- ? **Would a General Services Tax require a private act? (Terri Sterling)**
- ? **Is the rock quarry under the Road Board or General Services Fund? (Terri Sterling)**
- ? **Would a Fireworks Tax be a regulatory fee or a tax requiring the state to enact? (Terri Sterling)**