52.5 CENT RATE CORRECTION
FREQUENTLY ASKED QUESTIONS

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Why is a rate correction needed?

The proposed Mayor's budget underfunds the city government over the next two 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*:

New school funding above Mayor's plan (FY20)	26,800,000
Don't rely on parking or DES sale (FY20)	41,500,000
Reserve for anticipated new bond debt (FY20)	20,000,000
Replenish Fund Balance (FY20)	27,000,000
Pay plan -- COLA (FY21)	25,000,000
Increase for school funding (FY21)	30,000,000
Known debt service increase (FY21)	14,500,000
Anticipated new bond debt (FY21)	10,000,000
Expected benefits increases (FY21)	10,000,000
Inflation (1.9%) (FY21)	38,000,000
Announced increase in Barnes Fund (FY21)	5,000,000
TOTAL ADDITIONAL NEED THROUGH FY21	**247,800,000**

For this same period, there will be new revenue in FY21 in addition to what is the Mayor's proposed budget:

Expected revenue growth (FY21)	85,000,000
TOTAL ADDITIONAL REVENUE THROUGH FY21	**85,000,000**

We can see that there is approximately $247.8 million in new expected expenses above what is shown in the Mayor's budget over the next two years. During the same two-year period, there is expected new revenue of approximately $85 million. **Therefore, through FY21, there is a shortfall of $162.8 million.**

Every penny of property tax equates to approximately $3.1 million of revenue for Metro. **This means that paying for a $162.8 million shortfall over two years until the next property value reassessment requires a 52.5 cent correction to the property tax rate.**

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 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.

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

A 52.5 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 52.5 cents be a historically low correction, Metro would still have a very low property tax rate compared to other Tennessee cities. The city/county rate in Chattanooga is $5.04. In Knoxville, it is $4.56. Memphis is over $7. Nashville would be $3.68 after the 52.5 cent correction.

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

The revenue from the 52.5 cents would be used to fund promised pay raises for Metro employees, funding our schools, known and anticipated debt, replenishing Metro's 5% fund savings, and covering basic minimal inflation. The 52.5 cents is for Metro to continue providing today's level of services.

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 two years ago 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 gives away too much 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 generate less than $30 million dollars.

Since last year, we have accomplished a freeze on new tax increment financing loans and are on the verge of passing significant TIF reform legislation. The Metro Council should continue to assess how economic incentives are judged and awarded. Unfortunately, any further reforms like this couldn’t happen overnight or in a single year.

Also, with all other types of corporate incentives, if Nashville immediately undid every existing incentive, it would not be enough to properly fund the Metro government for our growing city. More information about that here.

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?

During last year's budget cycle, the most aggressive proposed cuts were about $18 million. Metro is on track to accomplish more than $11.5 million of its own cuts in the current FY19. This is on top of at least $5 million of cuts that were squeezed into the end of FY18. On top of that, both the Mayor's budget and the Mendes/Davis Substitute call for $19.2 million of additional cuts in FY20.

In total from the end of FY18 through FY20, over $35 million in expenses will have been cut from the Metro operating budget.

When you factor in the $16 million of real estate sales in FY19, it is staggering to think that Metro has cut cost and sold assets of more than $50 million in about two years and still can't make its budget work without needing another $41.5 million from selling DES and outsourcing parking enforcement.

At this point, the city has aggressively cut costs and has sold substantial assets and there is still a hole in the operating budget.

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

Anything less than a 52.5 cent rate correction will require choosing to not give employee raises, underfunding Metro schools, balancing the budget based on one-time asset sales, ignoring the reality of inflation, or doing without a reasonable 5% savings fund.

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.

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 FY20 Budget Book.
- Two-year property tax need illustration prepared based on discussions with and information provided by Metro Finance showing the anticipated budget needs and new revenue through FY21.
- The information about the total tax increment dollars spent on development loans is from MDHA's annual TIF report. The latest report is for 2018 and was posted by MDHA in April 2019.