Impact of Economic Crisis on Local Government

Tennessee Advisory Commission on Intergovernmental Relations

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Primary Revenue Sources for County Government

- Sales Tax
- Property Tax
- Petroleum Taxes

Sales Tax Revenues for both state and local governments are adversely impacted by any economic slow-down. Fluctuations are expected.

This particular crisis has had elements that specifically affect both property tax and gas tax revenues.
Differences Between State and Local Tax Base

- State Government – Sales Tax and Franchise and Excise Taxes
- Local Government – Sales Tax and Property Taxes
- Variations in State and Local Sales Tax Base
Volatility of Local Sales Tax Base

- The sales tax base may vary greatly from one county to another.
- Generally, the larger the retail activity in a county, the greater potential for volatility.
- If a county has a relatively stable sales tax base, it is probably limited.
- A single store opening or closing can impact a small county.
- Walmart effect – other retailers show loss, they show gain.
- Single article cap
Single Article Cap

- State rate of 7% on full purchase price.
- Local option sales tax (up to 2.75%) only applies to the first $1600 of the purchase price of a single article.
- Additional state rate of 2.75% applies on value from $1600 to $3200.
- $1600 purchase generates a maximum of $44 in local option sales tax.
- Likewise, a $16,000 purchase also generates a maximum of $44 in local option sales tax.
Performance of Local Option Sales Taxes

- Some communities were experiencing reductions in sales taxes revenue last fiscal year.
- Others were able to fend off losses due to rate increases or the opening of large new retail facilities.
- The creation of new retail facilities may result in migration of revenue rather than generation of additional revenue.
FY 2007 to FY 2008
Increase/Loss Percentage of Sales Tax Revenues

Statewide average: Increase of 1.8%
July - Sept 07 vs. July - Sept 08
Increase/Loss Percentage of Sales Tax Revenues

Statewide average: Increase of 0.6%

Percent Gain or Loss
- Red: Greater than 0.5 percent loss
- Orange: Up to 0.5 percent loss
- Yellow: 0.1 - 2.5 Gain
- Green: 2.6 - 7.5 Gain
- Dark Green: Greater than 7.5 gain
July - Dec 07 vs. July-Dec 08
Increase/Loss Percentage of Sales Tax Revenues

Statewide average: Loss of 1.4 %

Percent Gain or Loss
- Greater than 0.5 percent loss
- Up to 0.5 percent loss
- 0.1 - 2.5 Gain
- 2.6 - 7.5 Gain
- Greater than 7.5 gain
July - Dec 07 vs. July-Dec 08
Increase/Loss Percentage of Sales Tax Revenues
County Size in Proportion to FY 08 Revenue Dollars

Statewide average: Loss of 1.4%
Impact of Reduced Sales Tax Collections

- Reduced Sales Tax Collections Particularly Hit Education Funding
- Counties will use fund balance to make up for shortfalls
- Maintenance of Effort provisions require a local funding body to set up a reserve account and make up for revenue shortfalls
- Revenue in some cases is pledged to bonded indebtedness
- Results in property tax increases.
- Loss of big ticket sales will become more apparent in local business tax collections in the Spring.
Impact of Economic Crisis on Housing and Property Taxes

- Reduction in home values or slow-down in growth of residential property values.
- Impact will be felt over time as re-appraisals occur.
- Increase in foreclosures.
  - Affect property tax collections and home values through “collateral damage”
- Increase in appeals of assessment valuation.
- Increase in cost of collections.
- Loss of manufacturing facilities
- Reduction of business inventory and equipment and resulting business personal property taxes.
Petroleum Taxes

- July - December collections for 2008 show a 5.9% reduction from collections for the same period in 2007.
- Growth in gas tax revenues has been flat for years.
- Now showing actual decline as road miles driven declines

- Also impacted by changes in buying habits as consumers respond to gas prices.
- As popularity of smaller, more fuel efficient vehicles rises, consumer consumption is reduced.
- Per gallon tax structure results in revenue losses when gas prices spike.
Petroleum Costs
The Other Side of the Coin

- Bituminous Index (Cost of a Ton of Asphalt)
  - January 2000 - $150
  - January 2008 - $306.54
  - July 2008 - $604.62
  - Sept. 2008 - peaked at $742.31
- Costs of asphalt during much of the peak paving season in 2008 were double the costs paid in 2007.

- Other construction costs (steel, rock, fuel, etc.) are also highly inflated.
- Repairs and maintenance are postponed.
- Mineral Severance collections go down.
- County Highway departments are already planning layoffs.
Business Tax and Bank Excise

- These would be the local taxes comparable to state franchise and excise taxes.
- Loss in car sales will show up in lost local business tax collections. (June 1)
- Lumber and building materials. (Mar 1)
- Losses in the stock market should also depress Hall Income Tax collections.
- Bank excise taxes are also expected to be down.
Mandatory Spending

- K-12 Education funding has a maintenance of effort requirement.
- Local funding for highway departments must be maintained at a 5 year average or state revenues are lost.
- Personnel expenditures in the Sheriff’s department cannot be reduced without the Sheriff’s consent.
- Other elected and appointed officials may bring “salary suits” for staffing and personnel needs and compel expenditures.
- This leaves little room for cuts.
Profile of Median County Budget

Giles County

- Education: 62%
- Debt Service: 4%
- Other: 19%
- Sheriff/Jail: 5%
- Highway Dept.: 9%
Property Tax Rate Increases

- 2008-2009: 26 counties
- 2007-2008: 34 counties
- 2006-2007: 20 counties
- 2005-2006: 24 counties
- 2004-2005: 37 counties
- 2003-2004: 37 counties

Total: 178 increases
Conclusions

- Like the state, local governments are experiencing reductions in sales tax revenue.
- Losses in property tax collections will be experienced later in the year and over time through re-appraisals.
- Counties will also experience budgetary hits as Business taxes, Hall Income Taxes and Bank Excise Taxes are paid later in the fiscal year.
- Petroleum tax losses combined with inflationary costs in transportation and highway maintenance are the most urgent need.