



# TACIR

**The Tennessee Advisory Commission  
on Intergovernmental Relations**



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**MINUTES OF THE  
TENNESSEE ADVISORY COMMISSION  
ON INTERGOVERNMENTAL RELATIONS  
January 27, 2009**

**MEETING CALLED TO ORDER**

The Tennessee Advisory Commission on Intergovernmental Relations met in Room 30 of the Legislative Plaza at 9:06 a.m., Vice Chairman Tom Rowland presiding.

**Present 18**

Mayor Rogers Anderson  
Mayor Tommy Bragg  
Mr. Charlie Cardwell  
Ms. Paula Davis  
Mayor Brent Greer  
Senator Douglas Henry  
Mr. John Johnson  
Alderman Bob Kirk  
Representative Jason Mumpower  
Ms. Leslie Newman  
Senator Mark Norris  
Representative Gary Odom  
Mayor Tom Rowland  
Mr. Tommy Schumpert  
Senator Jim Tracy  
Representative Curry Todd  
Mayor Larry Waters  
Comptroller Justin Wilson

**Absent 7**

Representative Craig Fitzhugh  
County Executive Jeff Huffman  
Senator James Kyle  
Mayor Kenny McBride  
Mayor Keith McDonald  
Senator Randy McNally  
Representative Jimmy Naifeh

## **1. Call to Order**

Vice Chairman ROWLAND called the meeting to order at 9:06 a.m.

## **2. Membership Status Update**

### **a. Introduction of New Members**

Vice Chairman ROWLAND recognized and welcomed the new members in attendance: Senator Douglas HENRY, Representative Curry TODD, and Comptroller Justin WILSON.

### **b. Election of Officers**

Vice Chairman ROWLAND opened the floor for nominations for Chairman. Senator TRACY nominated Senator Mark NORRIS for Chairman. Representative MUMPOWER seconded the motion. Senator HENRY moved that nominations cease. There were no objections to the motion. Senator NORRIS was elected by unanimous voice-vote, with his office taking effect immediately.

Chairman NORRIS opened the floor for nominations for Vice Chairman. Alderman KIRK nominated Mayor Tom ROWLAND for Vice Chairman. Senator TRACY seconded the motion. Mayor BRAGG moved that nominations cease. Mayor ROWLAND was reelected by unanimous voice-vote.

## **3. Presentation by Dr. Stanley CHERVIN, Senior Research Associate, TACIR, on Recession and Impact on State and Local Revenue**

Dr. CHERVIN made a presentation on the causes of the economic downturn and the resulting decline in tax revenues. He said that the failure to regulate financial institutions and instruments in the late 1990's was the beginning and the growth in poor mortgages after 2000 fueled the rapid rise in home prices. Those prices hit their peak in 2006 and 2007 and the bottom then fell out of the market in those cities where real estate markets were very overheated.

Dr. CHERVIN noted that the reason this spread beyond those cities with the most real estate inflation is that these mortgages were sold to entities such as Fannie Mae and Freddie Mac, who then repackaged them and sold them as investments to mutual funds and investment banks. These investors entered into credit default swaps using these assets, which essentially means that they insured the assets. But the insurance rates were too low because the risk of the assets was underrated. No one was paying attention to the poor quality of the underlying mortgages. Once people started defaulting on mortgages, all of these assets lost tremendous value. When investors asked the insurers to pay up,

investment funds and firms that issued the credit default swaps could not pay for them all.

Dr. CHERVIN stated that Tennessee did not have too much of a housing bubble and has only seen slow, small declines in housing values. Nonetheless, new home starts are down and sales tax revenues associated with construction have slowed. The stock market also took a big hit. Many people actually left the stock market and thus had capital gains in 2008 and will pay tax on those. With lower home values and less investment value, consumers feel poorer. Consumer expectations about the economy over the next several months are also down. This reduces demand for goods and services and further hurts the economy.

Dr. CHERVIN stated that Tennessee had double-digit unemployment in the early 1980's, but the current rate is still under 8%. It is not yet as bad as it may get. The credit crunch that has accompanied the banks' troubles has also crippled the auto market, which affects both sales tax revenues and jobs in Tennessee. Continued declines in revenues from all state taxes are expected. The state can use some of its Rainy Day funds, but there is some resistance to using too much as we may not have experienced the worst of the problems yet. It is unclear what aid may be in the federal spending package currently under debate in Congress.

Dr. CHERVIN stated that the state is unlikely to help local governments, who will also see significant revenue reductions. Local governments will probably also have to deal with complaints about property assessments as housing values have dropped in the last few years but not necessarily since the last assessment. Dr. CHERVIN pointed out that counties would most be hurt in road funds, but that cities would be hurt much more across the spectrum of their revenue sources.

Chairman NORRIS asked for clarification on a graphic saying that 60% of total assessments were in particular counties. Dr. CHERVIN answered that it was in the 18 counties that are reappraising this year. Dr. GREEN asked if Assistant Comptroller Tom FLEMING would like to comment, and he replied that the most important thing to keep in mind was that reappraisals compare values to 4 years ago or 6 years ago and that values will likely be up in that comparison even if they are down for recent years. Chairman NORRIS asked for a list of the 18 counties that reappraise this year. Mr. FLEMING said it was available on the website and that he would supply the list to TACIR. Representative TODD asked when we last saw this kind of decline in housing prices, and Mr. FLEMING said that it was in the mid-1980's when we had the Savings & Loan crisis. He added that the current problem is worse than the one in the mid-1980's was and that we might actually see declines in values of homes over the 4- or 6-year appraisal periods before the current correction ends. That has not happened in Tennessee before.

#### **4. Presentation by Dr. Reuben KYLE, Consultant, TACIR, on the Proposed Federal Stimulus Plan**

Dr. KYLE stated that bills have been introduced in the U.S. House and Senate dealing with the economic stimulus package. He stated that the House bill would hopefully reach the floor later in the week, with the ultimate goal of having the bill on the president's desk by February 16, 2009. Dr. KYLE stated that the actual provisions of the House and Senate bills were very fluid. He noted that the handouts he gave Commissioners were based on information from the National Conference of State Legislatures (NCSL).

Dr. KYLE stated that the bill calls for a combination of tax cuts and expenditures over two years, totaling \$850 billion. This is about 3% of annual U.S. GDP. Of the \$850 billion, \$550 billion would be in the form of new expenditures and \$275 billion would be in the form of tax cuts. He again stated that this was the current status of the bill and these amounts could change. Dr. KYLE then reviewed the areas covered in the bill. One area is an extension of unemployment compensation benefits. He noted that there were two extensions in 2008. The bill does not call for state matches. He noted that health care is another area the bill addresses, in terms of Medicaid and COBRA. Dr. KYLE stated that Medicaid provisions would call for a \$90 billion increase in federal reimbursements to states through FY 2009 and FY 2010. COBRA benefits are designated for people who have involuntarily lost their jobs. The bill would extend COBRA benefits.

Another area covered by the bill is infrastructure, currently totaling \$85 billion. Many categories of infrastructure are included in the bill. The bill calls for the funds to be distributed to states, cities, and transit authorities within seven days of enactment. Projects must be "shovel ready." Chairman NORRIS asked about state match requirements for these funds. Dr. KYLE said that thus far, nothing has been mentioned to that effect. Senator TRACY asked for clarification on "shovel ready." Senator TRACY stated that Tennessee has many shovel ready projects, based on information from Commissioner NICELY. Dr. KYLE reviewed some criteria for shovel ready status. Dr. KYLE also stated that the bill deems that the money must be spent by states within 90 days. Senator TRACY asked about the distribution of funds for K-12 new construction. Dr. KYLE said that he has not seen clarification about that. He referred Commissioners to a table showing total estimated fund distribution by state. Senator TRACY also noted that several million infrastructure dollars have been rescinded by the federal government over the last few years.

Dr. KYLE said that \$20 billion in additional food stamp funding is also included in the stimulus package. Another portion of the bill addresses tax relief, which he stated will be highly controversial. There are provisions for business tax relief, in the form of increased depreciation expensing and claiming tax losses on previous years' earnings. The limit on this would increase from two to five years.

There is also a provision for individual and family tax relief, including the expansion of earned income tax credits and an increase in child tax credits.

Education is another major category of the bill. There are several provisions under discussion for both K-12 and higher education. Additionally, there is proposed assistance for state and local law enforcement agencies. Dr. KYLE noted that health and human services is a category, as is general assistance to states, which would comprise about \$79 billion. Almost 50% of this amount would be designated for education.

Dr. KYLE stated that many question what the actual impact of the stimulus will be. He stated that he has seen three estimates. Macroeconomic Advisers, a private firm, has estimated a smaller stimulus package, stating that the package would boost GDP by 3.2% over 2 years, decrease unemployment by 1.7 percentage points, and raise employment by about 3.3 million jobs. A more detailed analysis was completed by the new chair of the President's Council of Economic Advisers and the Chief Economist for the Vice President. This study found that without the package, the unemployment rate would peak at about 9% in mid to late 2010. With the stimulus package, it would peak at slightly less than 8% sometime in the third quarter of 2009. In this analysis, the plan would boost GDP by 3.7% and increase employment by 3.6 million jobs in 2010. A third analysis was completed by Moody's Economy.com's lead economist, Mark Zandi. Dr. KYLE stated that the numbers from this study do not differ much from the numbers from the other two studies, excluding the unemployment forecast. Moody's found that without a stimulus, unemployment would peak at about 11% by the end of 2010. Additionally, we would not get back to a 5% unemployment rate until 2015. With the stimulus package, peak unemployment rate would be about 9% in 2010 and would return to about 5% by about 2013. The package would add about 3.3 million jobs by the end of 2010. For Tennessee, Zandi forecasted a gain of about 64,000 jobs by the end of 2010. It would also reduce the unemployment rate by 2 percentage points by the end of 2010.

Dr. KYLE reemphasized that the bill is not yet final. Chairman NORRIS stated that another issue is the extent to which some would like to see the funds bypass states and go directly to locals. Dr. GREEN clarified that the plan would have no real effect on the Tennessee economy until 2010. Dr. KYLE stated that the question is how Tennessee would fare with any stimulus package versus no package versus some other alternative. He also stated that there would be some positive impact almost immediately, at least by the third quarter of 2009. Dr. GREEN stated that revenue sharing would also be an option. He said he has not heard any discussion by Congress about this. Dr. KYLE said he had not heard anything about a revival of federal revenue sharing. He said the stimulus package would prevent further state budget cuts by preserving jobs.

**5. Presentation by Ms. Lynnisse ROEHRICH-PATRICK, Associate Executive Director, TACIR, on Infrastructure Needs in Tennessee**

Dr. GREEN stated that the Commission has worked diligently to improve the quality of the infrastructure needs data collected. He noted that no data is perfect but that the data collected is a good representation of the infrastructure needs in Tennessee.

Ms. ROEHRICH-PATRICK stated that she would not be presenting the entire report at this time, instead focusing on only those needs designated in planning and design.

She stated that the data in the first table is an overview of the needs by project type in the planning and design stage. She also noted that this data, as of July 2008, is preliminary and still being updated by the development district staff. The total is a little over \$10 billion. Transportation needs account for 60% and water and wastewater needs make up the next largest amount.

Ms. ROEHRICH-PATRICK stated that the next three tables show how much of the needs are for public health or safety and economic development. It is a subset of the first table. She noted that \$6 billion of the \$10 billion in table one is needed for public health or safety. These items are not a wish list. Senator HENRY asked how much money would be needed to bring a satisfactory level in recreation and culture. Ms. ROEHRICH-PATRICK said that this is what is reported by the local officials as what is needed. This may include, under the recreation and culture category, needs at state parks for roads and clean water upgrades. She stated that table four shows how much of the needs are for economic development, and it is just \$1.4 billion. Ms. ROEHRICH-PATRICK said that tables five and six show the needs by reason and county.

Ms. ROEHRICH-PATRICK said that Dr. KYLE gave examples of money that Tennessee is likely to receive. The only two pieces of information we can find on that are on the table from the Federal Funds Information Service and a piece from the Congressional Research Service report. According to that Congressional Research Service report Tennessee would get \$18.5 million for education technology grants and \$340 million for education modernization, renovation and repair. She noted that without reading the bill it does not sound like money for new school construction. She also noted that the previous tables do not include construction at existing schools.

She stated that monies for highways and bridges have been mentioned but there was no mention of monies for airports, transit or rails. Also mentioned was \$88 million for clean water and \$21 million for drinking water. It did not include money for water in rural areas and water resource projects. There are not cost estimates for Tennessee at this time. Ms. ROEHRICH-PATRICK said that these are the highlights of what we know and what we think we are likely to get.

Chairman NORRIS asked about the transportation needs in table one and how they compare to previous inventories. Ms. ROEHRICH-PATRICK said that this is comparable to previous inventories and that in fact transportation has been the largest category of needs every year. Chairman NORRIS asked about the open positions brought to the Commission's attention at the last meeting and how it hampers this process. Dr. GREEN said that yes the inventory reporting is behind schedule due to staffing deficiencies. Chairman NORRIS noted that without this inventory and the analysis it would be hard for them to evaluate some of the lists of shovel ready projects.

**6. Presentation by Mr. David CONNOR, Executive Director, Tennessee County Commissioners Association, on Impact of Economic Crisis on Local Government**

Mr. CONNOR made a presentation on revenue sources for county government and the effects of the recession on local governments. Loss of revenue impacts education funding and usually increases property tax rates. Mr. CONNOR explained that counties have mandatory spending requirements for education and the highway and sheriff departments, which typically results in property tax increases to fund these areas when revenue declines.

Senator HENRY remarked that Tennessee has to maintain a reserve by statute. If a rainy day fund is good business for the state, would it be a good instrument for cities and counties? He mentioned that the Metro Nashville charter calls for certain reserves, but he said he is not sure if other local governments do the same. Senator HENRY said we have seen the worth of having state reserves the past two years and asked if TACIR would like to ask staff to explore other local governments to see if they have reserve funds established.

Chairman NORRIS said it would be very instructive to see what local governments do have that requirement compared to those that do not. Mr. CONNOR replied that outside of his awareness of some statutory requirements for counties to maintain a 3% education fund balance, he could not think of any statutory requirements for counties to maintain a reserve. He said it was probably a practice of local fiscal policy. Vice Chairman ROWLAND explained that while maintaining a reserve may not be required by statute, it does go toward their credit rating, which is very important. Senator HENRY asked if the Tennessee Municipal League (TML) could advise the Commission if city governments have reserves established in their charters. Dr. GREEN said TACIR staff will report back as soon as possible.

Mayor ANDERSON asked Mr. CONNOR about the 3% education fund balance and if that policy was mandated or optional. Mr. CONNOR answered that not every system is required to maintain a 3% fund balance, but if a county is to dip below a 3% fund balance it can only be for certain, specified reasons.

Mr. CONNOR proceeded to discuss the shortfalls in petroleum tax collections, upon which many county highway departments are dependent. Growth in gas tax revenues has been flat for years while highway costs have skyrocketed.

Mayor GREER asked if there is any possibility that some of the federal stimulus money will come through directly to local governments to help offset the decline in petroleum tax collections? Mr. CONNOR answered that it has been discussed but no one is sure of the final outcome. He said it depends on how it comes out from the federal government. Mr. Rodney CARMICAL, with the Tennessee County Highway Officials Association, was recognized. He stated that he contacted Senator ALEXANDER and Representatives DUNCAN and DAVIS and at the time, they did not anticipate money coming down to county highway departments or any flow-through money at all.

Chairman NORRIS asked if the Tennessee Department of Transportation (TDOT) consulted with or asked for input from the Tennessee County Highway Officials Association (TCHOA) when it put together the stimulus wish list of projects. Mr. CARMICAL responded that TDOT did not talk to him directly but there are 40 federal bridge projects that he has worked on which are on the list at an 80-20 match (hard match/cash match). If those forty projects stay on the list, they will be completely funded by the stimulus money. There is \$1.69 billion worth of projects, and that includes only those forty local government bridges. He said there are still 150 other projects TCHOA would like to see completed, but he said that those forty being covered helps.

Senator HENRY asked if the mandatory sheriff deputy law is a state or federal requirement. Mr. CONNOR said that state law provides that personnel line items in the sheriff's office may not be reduced by the county without approval of the sheriff. Senator HENRY then asked how long it had been law. Mr. CONNOR replied that he was not sure, but that it has not been changed in the last ten years. Senator HENRY said it seems odd that the governing body can not override the sheriff, to which Chairman NORRIS quipped, not to the sheriff.

#### **7. Presentation by Mr. Chad JENKINS, Deputy Director, Tennessee Municipal League, on Challenges to Local Government**

Mr. JENKINS stated that cities, counties and the state are dealing with the same issues, same resources and same constituents. Cities have experienced similar problems with revenue collections, the same as the state and counties. Cities have a statutory cap and a de facto cap, which applies to property and local option sales tax. Several cities have tried to increase the cap, but have been told they cannot. Mortgage and utility delinquencies are up significantly so escrow is not being made. This is important for city governments because they allocate funds based on what is projected to come in, and when they do not, it creates a problem. Cities are dealing with this as best they can. A number of cities have



made adjustments in their budgets in the first five months to reflect decreased revenues.

Representative TODD offered as a point of information that the adequate facility tax and impact fee has been left on the table until 2010 by the legislature. He said there will be many cities and counties wanting to readdress that issue again this year.

Mayor BRAGG said the budgets cities and counties deal with are based on what the state does and asked if there would there be any interest in the legislature acting soon on a budget document based on what is already known. He asked for direction from TML and the county associations. Mr. JENKINS responded that cities would appreciate direction from the legislature earlier to help cities with budget preparation.

Discussion ensued between Senator HENRY and Chairman NORRIS about the legislature and timely budgets. Mayor WATERS said in terms of options for cities from a practical standpoint, a property tax increase is politically difficult to sell to the public in light of layoffs and the economy. There was more discussion on the nature of mandates for local governments by Alderman KIRK and Chairman NORRIS. Mr. JENKINS promised to get back to Senator HENRY on city fund balances.

#### **8. Presentation by Dr. Harry GREEN, Executive Director, TACIR, on Fiscal Proposals: Let's Reverse "Fend for Yourself" Federalism**

Dr. GREEN referred to a map of the solvency of the unemployment trust funds across the country. There are a lot of states that are already in trouble. He mentioned that supplementing unemployment compensation funds should be added to the stimulus package in addition to some kind of unrestricted revenue sharing for the short term. He proposed that as an organization and state, we should communicate this to our Congressmen and encourage that it be added to the stimulus package.

While the Commission considered Dr. GREEN's request, Chairman NORRIS referred to the handout on public interest groups. Representative TODD requested that the American Legislative Exchange Council (ALEC) be added to TACIR's list of resources to utilize. Chairman NORRIS agreed and added that ALEC will have their spring meeting in May in West Tennessee. He stated that ALEC and these other organizations, much like TACIR, are invaluable resources of data and information and services at our disposal.

Based on Dr. GREEN'S remarks on the unemployment compensation fund, Representative TODD asked if it would be appropriate for the body as a whole to pass a resolution asking Congress to look at this within the stimulus package. Representative TODD made the motion and Vice Chairman ROWLAND

seconded the motion. Senator HENRY stated that he could not vote in favor of running up the federal debt. Representative TODD clarified that his motion was not to run up the federal debt. Mr. JOHNSON asked if this motion related to H.R. 1, and if so, is TACIR supporting what's proposed of \$250 million or requesting increased funding. Dr. GREEN stated that if there is support for H.R. 1, then it needs to get to Washington. Mr. JOHNSON stated that he does not believe a resolution will have much effect since the stimulus package is already so far down the pipe. Representative TODD stated that we want to see the money set aside for unemployment compensation be released to the states, not to raise it anymore or ask for additional monies. Chairman NORRIS clarified by stating that the language will be drafted, and the Advisory Commission's resolution would go to the Tennessee General Assembly as a practical matter, since other resolutions, one by Senator KYLE, are pending on the stimulus package. Senator HENRY stated that by special order on the Senate floor, a proposal to enact this bailout bill was sent to the Senate Finance Committee to be taken up when legislators return in two weeks. Chairman NORRIS stated that this will be the procedure that we follow, or we can have a special meeting where we get back together and discuss this further. The motion was adopted.

#### **9. Approval of the Minutes**

Chairman NORRIS called for approval of the September 2008 minutes. Mayor BRAGG made a motion to adopt the minutes. The motion was seconded by Senator TRACY. The minutes were approved.

#### **10. Future Meeting Dates**

Chairman NORRIS announced that the next Commission meeting is scheduled for Tuesday and Wednesday, June 30–July 1, 2009.

Senator HENRY stated that he would like an appropriate resolution drafted for former Chairman Randy RINKS.

Chairman NORRIS adjourned the meeting at 11:29 a.m.