

BUDGET AND FINANCE COMMITTEE MEETING

August 21, 2001

4:00 P.M.

The Budget and Finance Committee was called to order by Councilman Taylor, Chairman, with Councilmen Lively, Page, Hakeem, Littlefield, Pierce, Robinson, Benson, and Franklin present. Also present were Attorney Randall Nelson; Randy Burns, Management Analyst; and Shirley Crownover, Assistant Clerk to the Council.

Others present were Fredia Kitchen, Daisy Madison, Adm. Boney, Nelda Slade, Randy Ray, Simone White, Chip O'Dell, Beverly Isaac, Theora Guest, Donna Kelley, Paul Miller, Mayor Corker, Mike Compton, Adm. Mitchell, and Adm. McDonald.

Chairman Taylor opened the meeting, stating that we would hear about the Budget today. He presented an outline of how the meeting would be conducted. He stated that Mayor Corker would make a presentation and also Adm. Boney and then there would be questions from the Council and closing remarks. He noted that there would be a Public Forum at 6:00 p.m. on Tuesday, August 28th, and anyone wishing to have input would be allowed to speak at that time. He stated that the Operating Budget was the single most important policy-making document that the Council acted on; that it was the financial plan and vision for the citizens of this great city. He called on Mayor Corker.

Mayor Corker expressed his appreciation for the opportunity to present the Budget. He stated that his entire presentation was inside the Budget Book and that there would also be a slide presentation coming down. He expressed appreciation for the input the Council had given, stating that everyone had worked together to shape something that meets the community's needs. He thanked the Budget Staff, including Jim Boney and Daisy Madison, and also Fredia Kitchen, Simone White, Randy Ray, Beverly Isaac, and Chris Haley, who is on vacation. He also thanked Theora Guest and Nelda Slade who were support staff. He stated that Daisy Madison would flip through the slides.

Mayor Corker stated as of way of background, we had historically had a low tax burden; that compared to other cities in Tennessee, Chattanooga's property tax rate is relatively low; that only Nashville, a city which has metro government, has a lower property tax rate, and we compare favorably with Knoxville and Memphis. He went on to note that we have had two tax decreases in the last five years. One was in 1997 because of the transfer of City Schools to the County and one in 1998 due to a reappraisal and was further reduced from \$2.51 to \$2.31.

Mayor Corker pointed out that property tax collections have shown a steady increase, and property taxes provide 52% of our revenue.

Mayor Corker next went over the City's initial position stating that the Finance Department reviewed the initial submission of all departmental budgets for possible reductions.

He stated that there is no funding for new agencies and most existing agencies are being funded at prior year's level. The budget has been slimmed down to only necessary things and there is minimal operating increases for CARTA, Library, and Regional Planning Agency. After this review and policy implementation our deficit was at \$17.3 million.

He next went over some of the internal factors that caused the deficit, which included rising medical costs; loss of principal landfill customers—the BFI facility is going to Alabama; increased pension/salary costs; general growth in cost of operations; increased debt service for existing debt, which he stated he would go into in greater detail; financing for future capital projects; R&R and Contingency.

Mayor Corker next went into the Rising Debt Service. Capital spending was up over the past several years, a large portion of which was financed through debt. Through the half-cent sales tax, extraordinary funds were available to pay for economic development and capital projects while minimizing additional debt (\$8 and one-half million available to pay for capital needs). Since this Administration and Council has taken office, there has been a tremendous rise in debt service. There was a tremendous amount of money spent on capital project and only a small portion came out of Economic Development funds as indicated by the graph on Page 11 of the Budget Report. These capital expenditures do not include the recent \$130 million bond issue for the Southside Redevelopment Projects. With a \$17.3 million deficit, there was clearly a call for action.

He next went into what we have done in regards to the deficit—the medical coverage for employees was addressed with intense negotiations with BCBST and give-and-take on all sides, impacting employees. There will be a continued look at the Landfill situation. Some of the insurance benefits were changed. Employee contributions were raised to \$725,000, which means that employees are paying more appropriately for their amount of health care. This resulted in a savings to the City of \$3.3 million dollars and reduced the Budget deficit to \$14 million dollars.

Mayor Corker went on to explain that we analyzed our fee structure as compared to other cities; these fees have nothing to do with citizen access but include various industry issues such as building permits and construction fees and will put these fees at levels that they should have been raised to years ago. He stated that we should be able to provide better service and will amount to a net increase in revenue of \$1.1 million dollars. He reiterated that this would be paid for by the people using these services. This initiative reduced the budget deficit to \$12.9 million dollars.

He next explained that the City provides significant funding for education with one-half cents sale tax, one-half going for education and the other one-half for economic development. He explained that the past Council had pledged that this should go to Education, and we give that money to the County, and we also fund Resource Officers. He explained that we would pay for the Resource Officers this year, but beginning fiscal

year 2003, we will redirect \$574,370 of the city only sales tax to fund school resource officers. The County has been made aware of this but because of the dire circumstances the Department of Education is facing and our wanting to ensure that no teachers are cut from this year's budget, we decided to do this as a one-time payment of \$574,370. This initiative reduces the budget deficit to \$12.4 million.

Mayor Corker next addressed Staff Reduction, stating that everyone was concerned about this; that they had looked at City government and figured out how they could efficiently eliminate 200 positions. He noted that a lot of employees have nothing to do with the fact that we are in this situation, and we want taxpayers to pay only the amount of tax needed for the services they want. A freeze on hiring was issued and Personnel was asked for a freeze in continuing to hire firefighters and police to only those that were needed and the places where they really were not needed left vacancies. He stated that they wanted to insure that all employees would still be working here. There was an immediate elimination of 114 nonessential vacant positions, which left 59 more positions; 12 of these 59 will be retiring, leaving 47 in positions to be transferred into other positions at the same amount of money they are making now over a 15-month period; after the 15 months, the positions will be eliminated, and the City will try to insure that all of these employees will have a position. Mayor Corker stated that they would work at trying to make this happen. In the first year these reductions will save \$2.03 million dollars; the saving in FY 2003 will be \$3.3 million; and in RY 2004 will be \$4.5 million. Mayor Corker stated that they looked at all kinds of ways to make this happen, and this is absolutely the best of all worlds; there will be no severance payment; that this way saves the taxpayer the most money, too. This initiative reduced the budget deficit to \$10.3 million dollars.

He next went over Revenue Adjustments, noting that the reappraisal process had happened and on the property tax this adjustment is based on the reconciliation of net additions to the property tax rolls identified during the reappraisal process; that the adjusted property tax based on more definitive assessments independent of reappraisal is \$1.3 million dollars, and we received an additional revised Hall State Income Tax based on actual collections of \$.7 million. We picked up \$2 million dollars that was totally unexpected, and the impact reduced the budget deficit to \$8.3 million dollars.

Mayor Corker stated that they had originally hoped to increase salaries for all employees by 4%; however after looking at what the County had done and the cost-of-living over the last year and talking to citizens about a property tax increase, they felt that 3.5% was more appropriate. He stated that it had become clear that a number of employees who work full time for the City were below poverty level wages, and they were going to increase all of these peoples' salaries to livable wages. He gave examples of pay increases and noted that this reduced the budget deficit to \$8.1 million dollars. He added that each employee will have \$500.00 added to their salaries and a 2% increase for all employees; that lower paid employees will have a 5% increase and higher paid employees will have a 2.7% increase.

Except for salary and healthcare increases, departmental budgets are less this year than last year.

He went on to explain that we had projected out four years' worth of needs and growth and also projected out revenues. Because of the tight budget in the State, it will cause our State-Shared taxes to freeze—our revenues do not take this into account as we hope the State will come to their senses and change the budget, and we will be allowed to grow based on this.

Mayor Corker next covered why we are asking for an increase of \$.48 on property taxes. He explained that in the first year or two there will be excess revenue over costs. He stated that they put together the budget on this basis. He explained that the big need is economic development, particularly because of the City and County acquiring over 940 acres of VAAP property. He also mentioned a number of brownfields. He stated that the only way for these sites to be utilized is for them to be developed; that in the first year or two with the additional money, we will make these sites available. In addition to economic development initiatives, the City has ongoing capital needs and debt service.

The total City of Chattanooga proposed Budget is \$144,594,307.

Mayor Corker went on to say that we needed to continue to plan for maintenance of strong reserve levels to assure a favorable bond ratings and to provide for capital expenditures. He added that we will look at Fleet Management and will be working with MTAS on this. We will also be looking at solid waste and continue to review alternatives relating to the landfill operation. He stated that we wanted to get the best service for the least amount of money. He ended his remarks by thanking his Administrators and thanking the Council for listening to him today. He stated that he believed this Budget reflects the needs of the community.

Adm. Boney spoke next. He thanked the Council and stated that he wished to go over a few assumptions; that we need to look beyond this year and to plan for four years.

The first issue that Adm. Boney addressed was the State Income Tax, or Hall Income Tax. It is levied on interest earnings, and a small segment pays this tax. It is very difficult to predict. He stated that we were fortunate to have received over \$3 million dollars. He reiterated that this revenue source is difficult to predict, and there has been a lot of State debate about it. He noted that there were some risks in predicting this income tax.

The next issue was the State Sales Tax, which is per capita. Adm. Boney stated that we had 1.7% growth this year, but after 2003, this particular element will be frozen. He explained that we took the middle ground, hoping that the Legislature will make more rational decisions, and we chose to forecast this growth. He added that if State law stands, this will be too optimistic.

The second largest revenue income is in local option sales tax. In this area there has been significant growth—5.7%. Adm. Boney advised, however, that we are not exempt from the nation's economy, but the interest rate was lowered today, and there is some hope for the future. 3% is predicted for the future.

Adm. Boney next addressed property tax collections, stating that 2.6% going forward is a prudent estimate for a four-year period. He stated that the above were the major revenue categories.

Councilman Hakeem asked in regards to the assumptions made concerning the State, could they have an astronomical impact on where we are and where we plan to go. Adm. Boney responded that they certainly would have an impact. He mentioned a Legal Provision that protects the sales tax.

Councilman Page asked about fees for services from the year 1991 versus 2000, noting that they dropped down to \$4 million in 1995 and \$2 million in 2000. He asked if this had anything to do with the schools going out of business. Adm. Boney did not know what figures Councilman Page was referring to and stated that "he would have to owe him this one" because he did not know the context of the numbers. He added that fee increases are a court-related activity.

Councilman Franklin stated that the Mayor made mention in relation to fee increases, construction fees. He asked if this was dealing with residential and subdivision fees and how this played in. Adm. Boney stated that there was a summary in the detailed presentation; that the fees would be increased for building permits; that this was not intended to touch individuals seeking city services.

Adm. Boney stated that he would like to highlight that the four-year plan is subject to change; that we negotiated with BC-BS and felt a 10% medical growth was appropriate; that customarily there is a salary growth and adjustments to the Pay Plan; that they forecast the general operating growth at 2.5%. There will also be new debt to cover future capital expenditures. Adm. Boney stated that these were the major things he wished to touch on and stated that he would be happy to answer questions.

Councilman Pierce stated that he would like to reflect on personnel and job eliminations; that he would like to know the real rationale behind this. He stated that he had asked for names and had gotten jobs but no names. He reiterated that he would like to know the real rationale behind cutting positions.

Mayor Corker responded that he had had meetings with the Administrators who run these departments, and they had positions that were not necessary; that we wanted to push the base down this year as it was important to keep the property tax increase down. He stated that no person would lose their job. He explained that there were not any names—that this was done by positions but that he would be more than glad to furnish Councilman Pierce with the names that matched the positions. He explained that there could be five clerical workers and maybe one position would be eliminated when we need only four. He stated that every employee possible would be kept at 100%--that there might be some special jobs that could not be handled in this way.

Councilman Pierce clarified that he would be moving positions and not laying off without a loss in salary. He questioned if this could legally be done in this manner. He questioned if a person who was in a supervisory position might be moved to a custodial position and then paid a higher rate over the others that were employed in this capacity.

Mayor Corker responded that people would be transferred into similar kinds of pay; that it would be ludicrous to transfer a supervisor to a custodial position. He stated that it would be done in a very sensible and rational way to keep employees who had nothing to do with the situation the City is in.

Councilman Benson stated that he did not want to make a complex problem into a simple answer and asked if 300 employees had been added in the last five years. Mayor Corker responded even more. Councilman Benson asked about the increase in our bonded indebtedness and the reduction in our reserves to \$27 million and asked if we were down to the minimum amount without hurting our bond rating; that we had reduced taxes \$.55 and now were back to the point of raising taxes. He questioned what we had learned.

Mayor Corker responded that we learned that one does not get a lot of credit when you reduce taxes. He went on to say that money that is not needed is returned to the City; that on April 16th he and the Council took an oath, and it was their duty to continue to have a strong City, to treat employees with dignity, and to provide the citizens of this City with good services; that everyone had to work together and to take the needs of the community into consideration.

Councilman Page stated that he would first like to say that the Budget preparation gives a lot of detail and a lot of work has gone into it—that it is a super document. He then asked Mayor Corker about the tax base in Nashville and if the lower rate was due to Metro government, and if it was cheaper to operate a Metro government. Also, he questioned the money given to Hamilton County schools, asking if it did not seem that \$8 and one-half million dollars would help balance our budget, stating that everyone supports education.

Mayor Corker responded that Councilman Page had worn him out on these two questions; that his concern reflected the concern of everyone on the \$8 and one-half million dollars and the equity. He first went back to Councilman Page's first question concerning metro government in Nashville and its efficiency. He stated that he was shocked to see the difference in the tax base; that he had heard about a high tax rate in Nashville; that a big portion of this is due to the economy in Nashville; that there is a difference in jobs and there is a strong tax base. There is a lot of growth; that we need to cause our area to grow and prosper and bring in good paying jobs and provide good services, and we can lessen our tax rate.

Mayor Corker then addressed Councilman Page's question regarding the \$8 and one-half million dollars. He stated that he had been through a campaign and as he saw it, the City went out and drummed up support for a one-half cents sales tax and made the commitment to the citizens that half of this money would go to education and that all other municipalities would do the same thing, but we are the only municipality doing this. He stated that he realized that the citizens of Chattanooga were not the only ones paying the one-half cents sales tax; that we collected a vast amount inside the City, and this is not a burden on city taxpayers. He stated that if we took the \$8 and one-half million and used it for operating purposes, that a tax would be enacted county-wide to make up the gap. He reiterated that what we are saying is that we will fund Resource Officers for one year and then it will come out of the \$8 and one-half million dollars instead of depending on our operating budget; that this takes care of a county-wide tax. He added that maybe it was time to look at something county-wide and all contract on an equal level. He stated that we supported our schools and this was a step in that direction, and we need to try to understand that we are getting full equity. He stated that he understood the Council's concern and hoped that we could move in the direction we wanted to go.

Councilman Lively stated that giving the schools the one-half cents tax had something to do with sticking to our word; that the tax would never have passed if it were not sold that it was going for the schools; that we gave our word even though the new people on the Council were not bound by that. He went on to say that he knew the Budget had been difficult for the Mayor, and no one is totally satisfied with it. He stated that he planned to support it on first reading and reminded the Mayor that there was one issue that he had talked to him privately about, and he would like for it to remain private. He stated that he felt good about being able to reduce taxes two times during his tenure, but we need to keep this City sound, and he planned to support this Budget.

Mayor Corker stated that we needed to focus on where we are and where we want to go; that he is here for a four-year term.

Councilman Page stated that he had a final comment; that he did respect the “old” Councilpersons’ commitment to education, and he personally felt we needed to support education as much as we can, but he felt there might be a better way of doing this county-wide.

Chairman Taylor reminded Councilman Lively that the Ordinance is not up for first reading tonight.

Mayor Corker assured Councilman Page that we were actually headed in the direction of change this year; that he had met with Jesse Register, who was very concerned about being able to give increases to teachers without money from the State; that we did not want to put a hardship on him right before school was to begin; that he had met with Claude Ramsey and given him twelve months’ notice but wanted to fund it in this way this year so they could go about business in an orderly fashion and give them time to think about this, and we will continue solid support over this year. He stated he felt this sent the appropriate signal.

Chairman Taylor asked if the reduction in employees will have any effect on the services we are providing citizens.

Mayor Corker responded that every Administrator that was in place when he was elected is working here today; that one department had been eliminated but that that Administrator would still be helping us and Bill McDonald had filled the vacancy left in Public Works. He went on to say that we are not doing anything that would adversely affect our citizens; that we don’t want to cut too far. He stated a lot of good had been done in creating the freeze, and he did not believe that we have cut beyond providing services. He stated that he felt the Police Department would be able to run even better and that services will improve over the next year.

Chairman Taylor stated that we needed to look at the excess of funding in the first few years and to be aggressive on this. Mayor Corker assured Chairman Taylor that he wanted the City to stay strong and wanted us to set aside appropriate reserves.

Chairman Taylor thanked the Mayor and the Finance Department as a whole, reiterating that this was the most important document that we look at; that it is a road map for us to follow. He thanked Mayor Corker for taking the opportunity to go through this Budget with the Council, stating that there would be another Budget Committee meeting at 4:00 p.m. next Tuesday and a Public Hearing at 6:00 p.m. on August 28th.

The meeting adjourned at 5:30 p.m.

