

JOINT ECONOMIC DEVELOPMENT/BUDGET & FINANCE COMMITTEE

July 31, 2001

4:00 P.M.

A Joint meeting of the Economic Development Committee and Budget and Finance Committee was called to order by Councilman Page, Chairman of the Economic Development Committee, with Councilpersons Robinson, Benson, Franklin, Pierce, Littlefield, and Hakeem present. City Attorney Randall Nelson and Shirley Crownover, Assistant Clerk to the Council, were also present.

Others present included Adm. Boney and Mike Compton. Chip O'Dell joined the meeting later.

LEGISLATIVE UPDATE

Chairman Page called on Mr. Tom Varlan.

Mr. Varlan expressed that he was glad to be present. As way of introduction, he stated that he had worked for the City of Knoxville in their Law Division and at the urging of Adm. Boney and Mayor Kinsey had decided to work in the capacity of Urban Coordinator for TML in the interest of the "Big Four Cities". He noted that he was in Nashville when the Legislature was in session and that he focused on the interests that affect cities on a statewide basis.

Mr. Varlan stated that his presentation today would focus on tax and budget issues; that since the Governor has vetoed the Budget, there could be a veto override. Mr. Varlan stated that he had put his e-mail address on the handout (which is made a part of the minute material) so that Councilmen could correspond with him in this manner if they so desired. He noted that there had been a two-year focus in Nashville on the Budget; that basically after six months, the Senate and House went two ways—the Senate was for a sales tax increase, which would have issues, and the House focused on an Income Tax. He explained that the Senate passed in July a Budget with a sales tax increase, but the House did not approve this.

Mr. Varlan explained that the State needed a Budget passed by June 30th. They approved a "barebones" Budget containing no new taxes and no increases in existing tax rates. This budget fulfills the legislature's constitutional mandate to adopt a balanced budget and uses all the tobacco settlement revenues. He went on to talk about "triggers" in the Budget, which was basically a mechanism to force the Legislature back in session in July to do something else.

Mr. Varlan continued, on July 12th another Budget was passed with no new revenue, funding mandatory items with a 2.5% Cost-of-Living-Adjustment guaranteed by the State. He explained that the main difference in the June and July Budgets was the use of all of the tobacco funds.

Mr. Varlan went on to explain how local governments would be implicated—"The Statement of Intent", if enacted, would implement a state-shared tax freeze effective June 30, 2002. He stated that it was important to keep in mind that this would not automatically happen next year—that this is just a "Statement of Intent"; that it would take a Statute being passed to change the distribution method. He stated, however, the intent was to freeze State-Shared taxes, and future growth would be directed to the state's general fund.

Mr. Varlan went on to explain that additionally, the budget proposal would move \$42 million in grant programs from a recurring to a non-recurring basis. To continue these grants in fiscal year 2002-2003, the General Assembly would have to find a funding source. This would affect local programs significantly as it would hit police and firefighter pay supplements, K-12 school safety grants, and almost all TIIP's grants.

Mr. Varlan went on to go over a chart that he had prepared entitled "**Additional Property Tax Rate Required to Offset Loss of All State Shared Taxes and Loss of Growth in All State Shared Taxes**". His figures included all of the cities in Hamilton County with a focus on Chattanooga. FY 1999-2000 Revenue from **ALL** State-Shared Taxes is **\$19,465,498**. The percentage change in tax rate would have to be **32%**. The **Hypothetical** "Growth Amount" of 4% would be **\$778,620**.

Chairman Page asked Mr. Varlan to go into a little more detail concerning State-Shared Taxes. Mr. Varlan directed attention to Page 2 of 2 entitled "**State Shared Tax Distributions for State FY 2000 by Tax**". This page breaks the \$19,465,498 down into categories of **Hall Income--\$2,976,395; Gasoline & Motor Fuel--\$4,388,690; Beer--\$78,601; TVA In-Lieu-of-Taxes--\$1,058,500; Sales & Use--\$9,343,058; Mixed Drink--\$1,099,208; Special Petroleum--\$367,013; and Corp/Bank Excise--\$154,033**. It was explained that the Hall Income is an investment type tax and that the Gasoline & Motor Fuel goes into the State Street Aid Fund. The Sales and Use Tax is the "big" one, and it was explained that this is redistributed back to the cities based on population. Adm. Boney added that all of these are General Fund Revenues.

Councilwoman Robinson questioned if the Sales & Use is 6%. Mr. Varlan explained that a certain percentage is distributed back to the City per capita; of the 6% State-wide, 4+% is distributed back to the City.

Mr. Varlan explained that in previous years most of the focus has been on capturing the Hall Income Tax. He stated that the intent now would be to freeze all of the figures. Mr. Varlan stated that these were the State-Shared Taxes, directing attention back to Page 1 of 2 and the **Hypothetical** "Growth Amount" of 4%. He noted that the "Statement of Intent" would capture future growth, and it would be directed to the State's general fund. He stated that overtime this would be a significant revenue loss to the City of Chattanooga and other cities.

The third document that Mr. Varlan addressed was "**Police and Firefighter Pay Supplements**". He noted that the Legislature would appropriate these next year and that in Chattanooga we had 370 Certified Firefighters receiving pay supplement in the amount of **\$162,320** and 405 Certified Police Officers receiving pay supplements in the amount of **\$243,000**. Adm. Boney explained that this pay is in recognition of training.

Mr. Varlan stated that he just wanted to give the committee an overview of what has happened and the potential impact on Chattanooga; that the Governor had vetoed the Budget passed in July; to override the veto would require a majority vote in both houses. He added that the "talk" was that there were probably enough votes in the House to override the veto; that in the Senate the Budget passed by 20 votes, and they needed 17 votes to override. He stated that the "talk" was that the veto override was less certain in the Senate.

Mr. Varlan explained that if the Budget override fails in the House and the Senate, it reverts back to the Budget passed June 30th, which still has "triggers" in it; that based on news reports, if there is no override of the veto, the Legislature will likely remove the "triggers" and go back with the June 30th budget or look at some sort of tax reform. Mr. Varlan went on to say that some of the legislators would not be there next week; that he had no specific count; that there are 33 Senators and if there are only 28 or 30 present, it may make it hard to override; that without a full House it would be harder to pass a tax reform unless a compromise could be worked out. Mr. Varlan stated that this remains to be seen.

Chairman Page asked when the dismissal of State-Shared taxes would affect us. Mr. Varlan replied that it would be July of 2003 before there would be any material effect.

Mr. Varlan proceeded to go over the last page of the handout, which was **"Other Legislation of Interest adopted by the 2001 General Assembly"**. This includes **State Lottery, Development of Brownfields, Definition of Health Care Practitioner, and Minimum Limits for Liability Increased**. Mr. Varlan related that in October of last year Memphis Paramedics and EMT's worked for the Fire Dept. and were defined as Health Care Practitioners; that with this definition governments can be held liable up to the Tort limit; that this subjected them to unlimited personal liability; that the end result was the Legislature passed the first bill to put them back where they were and not be defined as Health Care Practitioners, which gives them the personal protection back. The next bill raised the minimum limits; that effective July 1, 2002, tort liability limits will increase to \$250,000 for individuals, \$600,000 per occurrence, and \$85,000 for property damages; that effective July 1, 2007, tort liability limits will increase to \$300,000 for individuals, \$700,000 per occurrence, and \$100,000 for property damages; that regardless what happens, the limits will go up again in 2007. He stated that this probably resolved this for the time being.

Chairman Page asked if the definition of Health Care Practitioner included our First Responder in the Fire Dept. Mr. Varlan stated that they were concerned that the First Responder might be next if something was not done.

Attorney Nelson stated that in looking back, historically we “bump” the limit once about every two years; that in this case we could lose \$300,000 every other year that heretofore we were not exposed to. He mentioned an incident where two years ago a Police car crossed over to the wrong side and hit a vehicle head on and a man and woman were horribly injured. He noted that the City does not have limits but is subject to State limits.

Councilman Benson pointed out that this reads “Minimum limits increase” where it should read “Maximum limits increase”. Mr. Varlan stated that that was correct—that the maximum now is \$130,000. Attorney Nelson reiterated that both of these individuals were horribly injured and under the new limits in 2007, they would get \$600,000.

Chairman Page thanked Mr. Varlan for coming today and updating the Committee.

The meeting adjourned at 4:35 P.M.