



NEWS RELEASE

Mike Browning

PUBLIC INFORMATION DIRECTOR

Twitter: @cityofmborotn

Facebook: www.facebook.com/cityofmurfreesborotn

PHONE: 615-849-2629

EMAIL: mbrowning@murfreesborotn.gov

Website: www.murfreesborotn.gov

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Council considering property tax increase for first time in two decades

MURFREESBORO, Tenn. — Confronting the infrastructure and services needs of a fast-growing City, for the first time in two decades the Murfreesboro City Council is considering an increase in property taxes. The reality of a need for increased revenues through a property tax adjustment became the major topic of discussion by members of the Council during a Special Budget Meeting April 18th at City Hall. Council vote on the FY 2020 budget will come in June of this year after City staff presents the proposed budget to Council by May 15 as required by Charter.

While growth provides jobs and expanding lifestyle amenities, it also requires additional government resources to enhance infrastructure such as roadways, utilities and schools that have recently required use the City's unrestricted Fund Balance to balance expenses and revenues. City Financial Policy requires that the Fund Balance remain at 15-30 percent of the City's operating revenues, and to be held at the upper end of that range during period of rapid population growth.

Determined to reduce reliance on the City's Fund Balance, the Council and City staff have diligently sought to make reductions in the FY 2019 budget, including a 10 percent across-the-board reduction by most departments.

To assist with the effort not to use Fund Balance there were also slight increases in parks and building permit fees that were implemented as part of the budget process. A minimal \$5.00 per month per container Solid Waste fee was levied beginning Jan. 1, 2019. That fee doesn't cover the current cost (estimated at approximately \$14.00 per month) to cover operations of solid waste collection within city limits, nor does it address the cost of solid waste disposal that will result from the closing of Middle Point Landfill.

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The FY2019 proposed budget was the 20th consecutive year without a property tax increase. During that period, the property tax rate was adjusted downward five times. The current tax rate is 50% of what it was in 1999. When inflation is considered, the tax rate is actually 75 percent lower than it was in 1999 in real dollars. More recently, the FY2019 Budget reflected more than a 21% reduction in property tax rate. The rate was decreased from \$1.2066 to \$0.9494 of the assessed value of property (which is 25 percent of actual value for residential and 40 percent for commercial property).

On the other hand, population growth over the past twenty years has been accompanied by infrastructure demands for such things as new schools (the new Salem Elementary opening in Fall 2019, cost \$34 million) and road improvements (\$9.250 million in in FY 2019 and \$7.56 million in FY 2020). These capital improvements are extremely costly, requiring construction services and materials that are in high demand. Over the last 10 years, according to the Building Cost Index, non-residential construction costs have risen approximately 40 percent nationally. With the current high demand in Middle Tennessee, construction costs are currently higher than the national average.

Additionally, because the City is at its core a service provider, it has more than 1,000 employees that take care of the community's needs. In an environment of exceeding low unemployment, talented workers have many alternatives and hiring is a highly competitive activity. This fact has forced the City's costs of salaries and benefits in recent years to increase at a rate much faster than inflation. Since 2014, state and local employee total compensation have increased 15% and benefits have increased more than 20 percent, according to the Bureau of Labor Statistics.

Moreover, to continue to provide services at the level citizens have come to expect, for FY2020 staff has identified approximately \$4 million in FY2020 supplemental funding requests. These requests were carefully prioritized into a proposed funding for next year of approximately \$2 million. Priority needs include hiring an additional 12 police officers, returning part-time Parks employees staffing to FY2018 levels, economic development services, and other expenditures critical to providing excellent customer services and addressing the needs of a growing community.

“At this point, no amount of budget reduction, other than eliminating entire departments or critical programs that greatly benefit the community, would accomplish the goal of eliminating use of the General Fund fund balance to supplant annual revenues in the budget,” said Mayor Shane McFarland. “Even eliminating entire aspects of City services would not accomplish a balanced budget unless the service involved a major aspect of the City's current services, such as schools.”

“Managing rapid population growth and providing the infrastructure and service that growth entails challenges the balance of revenues and expenses. It is imperative to pay close attention to both parts of the equation. Neither part can be ignored over the long term.” said City Manager Craig Tindall. “Municipalities must carefully structure their budgets—both revenue and expenditures—in order to maintain a health financial condition. Currently, the City is financially solid, but we must recognize where growth is driving our finances and respond accordingly.”

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Last year Council directed staff to create a three-year program to reduce reliance on the Fund Balance. To stay in compliance with the City's prudent financial policies, this timeline is shortened. The FY 2019-2020 budgeting process began with the goal of reducing dependence upon use of the General Fund balance of approximately \$7 million. Use of reserve funds was still necessary despite increases in most revenue sources other than the property tax and diligent budget review and reductions. This result is a byproduct of the City tax structure and its expanding capital projects and public services in a fast-growing City.

Despite the difficulty of reducing dependence on the Fund Balance and relying on these funds over a lengthy period without a property tax increase, the City financial condition remains strong. Moody's Investors Service and Standard and Poor's properly refer to the City's solid financial position marked by strong reserve and liquidity levels. While the City's debt burden is above-average, due to its expanding tax base, debt levels are expected to remain manageable over the medium term. Moody's upgraded the City to Aa1 in 2016, the second highest rating possible, citing the City's well-managed financial position and ample reserves supported by strong budgetary controls as factors in their decision to upgrade the City's bond rating.

The City Council operates by a set of adopted conservative financial policies that guides budgetary and debt decisions. The City Manager's Office and Finance Department manage the City's finances within these guidelines. Keeping within those guidelines in the current high service demand, low tax rate environment has been the challenge.

The City has won eight consecutive Distinguished Budget Presentation Awards from the Government Finance Officers Association (GFOA). This is a companion to the award the City has earned for 18 years for its Comprehensive Annual Financial Report (CAFR) also known as the annual audit.

Budget Review Sessions on the FY2020 budget will be held in June. The Council's Public Hearing and First Reading of the budget ordinance will be sometime in mid-June and Second reading will be considered before July 1, 2019, with the beginning of the FY2020 fiscal year.

For City News online, visit www.Murfreesborotn.gov.

Logo attached:

1. *City Council hears budget projections from City Manager Craig Tindall.jpg.*
2. *City of Murfreesboro Logo.jpg*

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