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Analyzing Nashville's "Taxing" Budget

How Metro can balance its budget and still avoid a property tax increase

by Justin Owen and Ryan Turbeville

Introduction

Metro Nashville-Davidson County Mayor Karl Dean is proposing a 13 percent property tax increase in his recommended 2012-2013 budget. The proposed budget includes \$125 million in new spending and only \$3 million in specific reductions, a net spending increase of 7.85 percent. To account for a significant portion of this increase, the mayor wishes to bring in \$100 million in additional revenue by raising property taxes.

Without this increase, Dean claims that there would be severe cuts to education and police personnel, and as much as 20 percent reductions in certain city departments.¹ By holding the line on new spending, cutting unnecessary waste, and implementing fundamental changes to the way government operates, the city could avoid a tax increase while preserving Metro Nashville's long-term fiscal stability.

Unnecessary Increases

Some of the increases in the budget are unavoidable due to growth in the number

of Metro students and pension costs. To overcome this, city leaders will need to look for cuts in other areas and forego new spending where at all possible. Much of the proposed tax increase is directed at additional spending rather than maintaining existing funding levels, particularly in the areas of libraries, parks, and public works.

Retaining existing levels of funding for public works, Metro parks, and libraries alone would eliminate the need for \$1.79 million in additional funding.²

Subsidies

There are extensive subsidies to private entities throughout the recommended budget. Rather than force a tax increase on Nashville residents to subsidize these entities, city leaders should strike them from the budget proposal.

Some examples of subsidies that could be eliminated include:

- \$3.3 million increase in mass transit funding³
- \$2.4 million for arts projects⁴

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- \$591,000 for Municipal Auditorium⁵
- \$406,000 bailout to the Farmers' Market⁶
- \$300,000 subsidy to the Nashville Area Chamber of Commerce's "Partnership 2020" project⁷
- \$250,000 to the Nashville Entrepreneur Center⁸
- \$250,000 for Sounds' stadium upgrades⁹
- \$200,000 subsidy to the state fair¹⁰
- \$100,000 for public television¹¹
- \$100,000 Conexion Americas subsidy¹²
- \$80,000 for council members to travel to conferences (up from \$900 in the previous year)¹³

By eliminating handouts to these entities, ending unnecessary subsidies to arts programs, and withholding the expansive increase in travel funding, the city could save a total of \$7.21 million.

The largest recipient of a subsidy in the budget is Metro General Hospital. The city spends \$43.2 million a year to subsidize the hospital even though it operates at roughly half capacity.¹⁴ Metro should get out of the hospital business by selling or leasing the property to a private entity more suited to manage the hospital.

The city should also stop wasting money on "build it and they will come" mass transit ideas and to buy more land for parks. This could save another \$35.6 million. This year, the Metro Transit Authority will receive \$29 million and an additional \$1.5 million subsidy will go towards commuter rail.¹⁵ The Regional Transportation Authority will also receive \$155,700.¹⁶ Another \$5 million will be

spent on "open space acquisition," which will no doubt be used for future mass transit projects.¹⁷ These projects will continue to increase in cost, and the city will likely be faced with another tax increase in the future to float them. Metro should instead look into responsible methods to deal with transportation needs and consider public-private partnerships to reduce the rising transportation costs borne by taxpayers.

Education

Education currently makes up 42 percent of the city budget, and the mayor wants a \$46.4 million spending increase in this area alone.¹⁸ While Nashville definitely needs to improve its education system, more money is not the solution. Increases in per pupil spending have not led to higher educational achievement before, and they will not this time around. Providing more school choice, increased parental involvement, and reducing bureaucratic size and influence are the only ways to improve education while lowering costs.

Coupled with the above opportunities for spending cuts, necessary reforms in education—rather than mere spending increases—could allow city leaders to literally eliminate the need for the property tax hike altogether.

Privatization

Many other cities are saving millions of taxpayer dollars by implementing free market solutions for city services. Chicago Mayor Rahm Emanuel, for example, has

introduced managed competition, which allows private sector entities to compete with the government for public services. Private companies actually bid against government agencies and whichever entity—public or private—can provide the service most efficiently obtains the contract. Chicago saved \$2.2 million in just six months with this approach for recycling services alone.¹⁹

Emanuel has also opened up library services, janitorial services, health services, departmental call centers, and seasonal workers to this process, potentially saving millions more for Chicago taxpayers.

One criticism of privatization is that private companies will only provide cost savings by firing government workers. To overcome this objection, the city could simply require separate bids. One bid could reflect a proposal that retains all existing government workers and the other would reflect the company supplying its own workers. This method would still frequently lead to cost savings even if the existing government employees are utilized.

Among the various city departments in Nashville, there are numerous areas that could benefit from this type of privatization. They include:

- Accounting, financial, and legal services
- Administrative human resource functions (e.g., payroll services, recruitment/hiring, training, benefits administration, records management, etc.)
- Core IT infrastructure, and

- network, web and data processing
- Risk management (claims processing, loss prevention, etc.)
- Planning, building, and permitting services
- Printing and graphic design services
- Road maintenance
- Building/facilities financing, operations, and maintenance
- Park operations and maintenance
- Library services
- Mental health services and facilities
- Animal shelter operations and management
- School construction (including financing), maintenance, and non-instructional services
- Revenue-generating assets
- Major public infrastructure assets (roads, water/wastewater systems, airports, etc.)

Pension Reform

According to Metro Finance Director Rich Riebeling, benefits for Metro employees rose by \$27.4 million over the previous three years and will go up an additional \$11.9 million for the next fiscal year.²⁰ This is a problem that will only get worse.

Now is the perfect time for Metro leaders to consider pension reforms that will make the city fiscally stable for the long-term. It is likely that the city could save seven figures with necessary reforms in this area, such as moving from a defined benefit to a defined contribution pension system.

Conclusion

It is possible for Nashville to balance its budget without a tax increase. Now is not the time to increase funding for public works, library, and park projects (\$1.79 million in unnecessary spending growth). City officials must realize that more education spending is not the answer to fixing our schools (saving \$46.4 million), and that taxpayers cannot continue to bear the cost of mass transit subsidies (saving \$35.6 million). Nashville should get out of the hospital business (\$43.2 million saved) and stop subsidizing pet projects and private entities (preserving another \$7.21 million). These actions alone will negate the need for a property tax increase in any amount, allowing the mayor's recommended budget to be reduced by \$134.2 million.

Category	Amount Saved
Additional public works, libraries, and parks funding	\$1.79 million
Subsidies	\$7.21 million
Metro General Hospital	\$43.2 million
Mass transit	\$35.6 million
Additional education funding	\$46.4 million
TOTAL	\$134.2 million

Further, if the city reforms its pension system and implements a form of managed competition, it will set itself on the path to a balanced budget with no property tax hike now or in the near future. Adopting these measures would allow for a fiscally-responsible budget, while still providing for Mayor Dean's proposed pay raise for all city employees and maintaining existing spending levels

for all essential city services, particularly in the areas of education and safety.

Under this approach, not a single police officer would be pulled off the streets, the city's education system would be fully funded, and not one dollar would be eliminated from essential city services. At the same time, taxpayers would avoid a massive \$100 million property tax hike at a time when they can least afford it.

¹ Metropolitan Government of Nashville and Davidson County. Fiscal Year 2013 Budget Presentation.

² Ibid.

³ Metropolitan Government of Nashville and Davidson County. Fiscal Year 2012 – 2013 Recommended Operating Budget. J – 77.

⁴ Ibid. I – 19.

⁵ Ibid. J – 73.

⁶ Ibid. J – 73.

⁷ Ibid. J – 78.

⁸ Ibid. J – 80.

⁹ Ibid. J – 78.

¹⁰ Ibid. J – 80.

¹¹ Ibid. K – 173.

¹² Ibid. J – 73.

¹³ Ibid. D – 5.

¹⁴ Ibid. J – 78.

¹⁵ Ibid. J – 77.

¹⁶ Ibid. J – 77.

¹⁷ Ibid. A – 34.

¹⁸ Metropolitan Government of Nashville and Davidson County. Fiscal Year 2013 Budget Presentation.

¹⁹ Press Release: "Mayor Rahm Emanuel Announces Citywide Recycling in 2012." City of Chicago. April 5, 2012.

<http://www.cityofchicago.org/city/en/depts/streets/provdrs/streets_san/news/2012/apr/mayor_rahm_emanuelannouncescitywiderecyclingin2013.html>.

²⁰ Metropolitan Government of Nashville and Davidson County. Fiscal Year 2013 Budget Presentation.

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