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## Alternate funds hunt began here

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A trend of shifting the burden of paying for services from the federal and state levels down to local government may have sparked another trend - cities and counties looking for alternative revenue sources to help pay the costs.

And if it is a trend, Rutherford County may well be considered its birthplace.

The moment of conception could be considered a public hearing in June, 2003, when the County Commission received feedback on the idea of raising the property 29 cents to \$2.80 per \$100 of valuation.

"As I recall there wasn't a lot of support for it," said Steve Schroeder, who was among those who agreed that the increased revenue was probably needed, but who didn't want it to come from property taxes but from revenue sources considered "growth taxes."

"One of the things I've heard from several different sources, is they feel the county just wants to spend, spend, spend," Schroeder said. "But the county does not have control over the things that drive the cost. The costs are all driven by the growth, and the County Commission cannot control that."

Rapid population growth is the reason Rutherford County will have to spend a projected \$500 million over the next decade, just to pay for schools. Growth is also driving the need for a new workhouse and juvenile detention center, a new court facility and other major capital projects that will cost millions to build.

When Rutherford submitted a request to the Tennessee General Assembly for authority to collect an adequate facilities tax, a square-footage based tax on new construction, several counties around the state approved resolutions of support. Seven other cities or counties requested similar legislation for themselves.

Before the legislative session was over, the legislature had received some 14 pieces of "growth tax" legislation.

The legislature responded by sending those bills to a panel of state and local government officials to look at over the summer and propose a solution that would allow the local governments more flexibility in raising revenue without having to turn to the Legislature, which is increasingly reluctant to pass local revenue bills.

That panel, the Tennessee Advisory Commission on Intergovernmental Relations (TACIR) has already been looking at the fiscal needs of local governments, said its executive director, Harry Green.

"We came to a conclusion that we are moving toward a very significant crisis," in which local governments are increasingly finding it necessary to raise property or wheel taxes, or seek some other revenue alternative source, Green said.

"If Rutherford continues to grow like it does, it will have this crisis first." Other communities experiencing rapid growth have been looking at what's happening in Rutherford and want to be prepared, he said.

"I think that's what we're seeing from the 14 communities around the state that would rather have what they think is a fairer tax, where the current local resident doesn't have to absorb the cost of growth."

At the 2003 public hearing, many from the public called for implementing impact fees, fees on new construction levied to pay for new infrastructure costs driven by that construction, such as roads, schools, firehouses, etc.

Impact fees are favored by local residents such as David Limbaugh, who believes increasing property taxes places too much of a burden on fixed-income homeowners.

"The bottom line is, if you pass a legitimate impact fee, it costs an average homeowner about \$30 to \$50 a month over the life of a mortgage. That's about the cost of cable TV. You can pay that to keep some retired person or invalid from losing their home through increased property taxes."

However, growth taxes may also be considered unfair, counters home builder Denny Hastings. Home builders like Hastings, who spoke against the adequate facilities tax after the commission voted in favor of it, said growth taxes unfairly target first-time home buyers, as well as his industry.

"People like myself weren't taxed to death when we tried to buy our first home," he said. "Why should the people who are trying to obtain their first home be taxed any more than people were in the past? It's unfair to do that."

The County Commission responded to the calls for alternative revenue sources by organizing an alternative revenue task force of government and business leaders and other citizens, which met in early 2004, to see what else the county could do to pay for increased costs than raising the property or wheel taxes.

Under current state law, not much, the task force found. It looked at several different potential options, such as privilege taxes on mortgage loan providers, insurance providers, mortgage closers and fireworks vendors, all of which would require a change in state law, require additional bureaucracy and be difficult politically to enact.

While the task force was deliberating, the commission was requesting from the General Assembly

permission to increase the current \$1,500-per new housing unit development tax.

That effort failed in the face of opposition from housing industry groups, which were joined by the NAACP that argued that the development tax, as a flat fee, was unfair to lower-income home buyers. That argument led the task force to recommend the adequate facilities tax, which burdens home buyers at a cost proportionate to what they get.

The task force also recommended the county look at a real estate excise tax, a tax on the sale of real estate based on a percentage of the selling price, and assessed on the seller. That tax has never been done in Tennessee, but a version of it used in the state of Washington seemed to do a good job of helping local governments keep up with growth related costs, the task force found.

County Mayor Nancy Allen said the trend of increased costs for local governments is sometimes referred to as "fiscal federalism."

When the federal government decreases its financial aid to the states, the states in turn have less to give local governments to pay for required services and infrastructure.

"That trickle-down adverse effect on state governments is in turned pushed down to local governments," she said.

"The irony is that local governments have the least amount of discretionary revenue of anyone, and the least ability to raise revenues. Which is why many counties across Tennessee have looked at growth taxes."

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