

HIGH GROWTH, LOW PRESSURE COUNTIES

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In the first two reports of the series *Growing Pains: Fiscal Challenges for Local Governments*, TACIR staff identified two groups of counties: counties that experienced high growth and high fiscal pressure and those experiencing low growth and high fiscal pressure. Previous explanations for these trends involved the size of the tax base, service expectations, and poverty levels. A third group of counties has been identified, those experiencing high growth and low fiscal pressure. In other words, these counties have experienced rapid growth but do not appear to have encountered excessive difficulty in paying for new service demands related to that growth. These counties can be used to determine the types of policies or conditions that contribute to such an enviable circumstance, possibly suggesting best practices for other counties. By using the previously identified factors, as well as considering the influence of the recent recession, the growth patterns of such counties can be analyzed in order to understand their economic drivers.

Fiscal pressure occurs when demand for services outpaces the local government's ability to finance them. Such pressure manifests itself in high discretionary tax rates levied by the government. Examples of discretionary taxes include the wheel tax, equalized property tax, and local-option sales tax. Per-capita debt is also considered to be an indicator of fiscal pressure, as local governments struggling to meet service demands often accumulate high levels of debt. The wheel¹ and property-tax data² in this report correspond to 2008, while the local-option sales tax information is for 2009.³ The per-capita debt measures are from the 2002 Census of Governments and represent 2001 data. In previous TACIR reports, a county was characterized as experiencing high fiscal pressure if measures for three or more of the above variables ranked in the top third for all counties. Likewise, in this report, low fiscal pressure will be defined as having a top third rank for one or fewer of these indicators.

In order to quantify growth in Tennessee counties, and to reflect the multi-faceted nature of growth, TACIR staff developed a growth typology in its first report. Growth factors include population, average daily membership (ADM) of public schools, daily vehicle miles of travel (DVMT), and wage data, each from 2007-2008.⁴ A Tier I county, or "high-growth" county, ranks in the top third of Tennessee counties for three or more of these characteristics, Tier II for two, Tier III for one and Tier IV for zero. The 2007-2008 data indicates 25 Tier I counties, 31 Tier II counties, 25 Tier III counties

MARCH 2010
VOLUME VI



FISCAL FLEXIBILITY

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and 14 Tier IV counties, reflecting a decrease in the number of Tier I and Tier IV counties and an increase in the number of Tier II counties from the 2006 and 2007 reports.

FISCAL PRESSURE

Using these criteria, twelve “high-growth, low-pressure” counties were identified, as listed in Figure 1. Of these counties, four did not rank in the top third for any of the fiscal-pressure indicators and eight ranked in the top third for only one of the four indicators. There were no distinctive patterns in the fiscal indicators observed as two counties ranked in the top third for wheel tax, three for local-option sales tax, and only one for equalized property-tax rate. As for per-capita debt, debt information is not available for eight of the 95 counties. Moore County is the only one of the 12 counties for which debt information was not available; however, even with a high ranking in per-capita debt, it would only have one fiscal-pressure indicator, still qualifying as “low pressure.” Only two of the other counties, Hancock and Williamson, ranked high for per-capita debt.

The twelve high-growth, low-pressure counties seem to separate into two distinct groups according to their previous classifications based on the 2006 report information. The first group consists of Wilson, Sumner, DeKalb, Sevier, Washington, and Jefferson, all counties that were categorized as both high growth and low pressure using the data from the 2006 report. Williamson was only classified as “high growth” in 2006, but since it follows the trends of the first group, it will be included with the previous “high-growth

low-pressure” counties. The second group includes Hancock, Gibson, Meigs, Moore, and McMinn, counties that were classified as “low-pressure” but not “high-growth” in 2006, indicating that they have experienced higher growth relative to other counties since the last report. Thus, the first group will be hereafter referred to as the “high-growth group” and the second group will be referred to as the “low-pressure group,” despite the fact that many of the “high-growth group” counties also experienced low pressure. These distinctions are significant because the two groups seem to correlate differently with the explanatory factors: relative wealth, tax base, service burden, and economic stress.

EXPLANATORY FACTORS

Median household income (MHI)⁵ serves to measure the relative wealth of a county, serving as a proxy for standard of living and fiscal capacity of a community.

Both the per-capita property and sales-tax bases were measured for similar reasons. If the tax bases are large, relatively low rates can be levied to raise ample funds. Another aspect of government finance involves the level of service demanded by citizens. Service burden was measured by computing the local

Figure 1. Twelve High Growth/Low Pressure Counties Did County Rank in Top Third for Select Fiscal Pressure Indicators?

Counties	Local Option Sales Tax	Per Capita Debt	Wheel Tax	Property Tax	# of Top Third Rankings
McMinn	no	no	no	no	0
Meigs	no	no	no	no	0
Moore	no	-	no	no	0
Washington	no	no	no	no	0
Gibson	no	no	yes	no	1
Hancock	no	yes	no	no	1
DeKalb	yes	no	no	no	1
Jefferson	yes	no	no	no	1
Sevier	yes	no	no	no	1
Sumner	no	no	yes	no	1
Williamson	no	yes	no	no	1
Wilson	no	no	no	yes	1

government’s contribution per student for education⁶ and the funding levels for local police departments.⁷ Finally, the growth patterns of Tennessee counties cannot be studied in isolation from the economic crisis and the recession that began in December 2007. Its mitigating effects are measured through the Associated Press’s “Stress Score,” an index that compiles the poverty, foreclosure, and unemployment rate.

RELATIVE WEALTH

MHI rankings closely correspond with the two subgroups within the high-growth/low-pressure category. Seven of the twelve counties rank above the statewide MHI, all but one (Moore) belonging to the 2006 “high-growth” group. DeKalb County is the only county from the “high-growth” group ranking below the statewide MHI. Additionally, all the previous “low-pressure” counties, except for Moore, rank below the statewide MHI, with Hancock having the lowest MHI. McMinn, DeKalb, and Meigs rank just below the statewide MHI of \$37,147 with MHIs of \$36,934, \$36,905, and \$36,876, respectively. This suggests that the first seven counties have incomes large enough to support economic growth without straining themselves financially. The latter five must either compensate through large tax bases and other revenue sources, or they must have a low service burden to balance the low supply of funds.

SERVICE BURDEN

Since fiscal pressure arises when the county’s ability to raise revenues is outpaced by demand for services, another explanation of fiscal pressure involves the level of service provided by the county. One way to measure the service level of a county is to compute the revenue per student allocated for education. Education constitutes one of the largest local expenditures, making up around 40% of local budgets.⁸ Additionally, since the state provides a portion of education funds to each county, county contributions indicate a much more varied, discretionary expenditure that serves as a proxy for service burden. In comparing local contributions per student, Hancock was found to have the lowest contribution in Tennessee, \$1,070, compared to the statewide weighted median of \$1,948. Three other counties fell below the median: Meigs, DeKalb, and Jefferson. To control for the variance in county wealth and the proportionate service burden, the local education contribution was calculated as a percent of median household income. Using this method, Meigs, DeKalb, Hancock, Jefferson, Moore, Sumner, and Wilson fell below the median percentage.

Another common proxy for service demand is police protection expenditures. Local governments finance roughly 90% of police services, and police costs are the third highest local direct expenditure.⁹ While cost per capita provides a useful measure for larger counties, smaller counties ranked the lowest in nominal expenditures and higher in per-capita expenditures, indicating the existence of high fixed costs. A dual ranking system was created in which counties below the median nominal expenditure were added to those below the median per-capita expenditure. Under this system, eight of the twelve counties ranked below the median expenditure. Moore County did not report their costs, and Jefferson, Sevier, and Wilson had police costs above the median. Combining these factors, Meigs, Hancock, Sumner, and DeKalb ranked below the median of both factors indicating that they might provide a lower level of service than other counties. This information is especially enlightening in regards to Hancock, which was the only one of the four counties that does not have a strong property base. Gibson and McMinn ranked below the state median on police funding but not on school funding.

LARGE TAX BASE

Statewide, the property tax makes up more than 60% of the local government’s tax revenues,¹⁰ therefore, a strong property tax base can ease fiscal pressure on a county. An examination of the property tax base per capita reveals that all of the current high-growth/low-pressure counties, excluding Hancock and Gibson, rank higher than the state median. This is especially interesting for McMinn, DeKalb, and Meigs counties; although they scored below the statewide MHI, they seem to compensate through a large property tax base. Paired with the fact that none of these counties, except Wilson, levies a significantly high property tax, this finding supports the idea that a large tax base does not need high rates to adequately fund the county.

ECONOMIC STRESS

In reviewing county fiscal performance over 2007-2008, the effect of the economic crisis cannot be

Figure 2. Property Tax Base Composition

COUNTIES	INDUSTRIAL AND COMMERCIAL	RESIDENTIAL	FARM	PERSONAL PROPERTY	PUBLIC UTILITIES
Low Pressure					
HANCOCK	9.49%	35.53%	43.55%	1.34%	10.08%
MEIGS	7.56%	61.03%	21.85%	3.53%	6.03%
MOORE	32.81%	37.00%	19.45%	7.38%	3.37%
GIBSON	20.73%	50.31%	15.76%	8.00%	5.20%
MCMINN	23.19%	39.03%	11.19%	23.11%	3.49%
High Growth					
SEVIER	30.54%	60.96%	4.16%	3.63%	0.71%
WILSON	23.52%	61.35%	7.14%	4.39%	3.60%
SUMNER	21.80%	65.12%	5.06%	5.27%	2.75%
WASHINGTON	28.87%	58.62%	4.02%	5.67%	2.82%
JEFFERSON	17.13%	61.18%	9.93%	6.48%	5.28%
DEKALB	14.59%	56.37%	15.84%	9.13%	4.07%
WILLIAMSON	23.63%	66.31%	4.24%	3.11%	2.70%
State Median	18.13%	52.81%	16.44%	6.09%	4.73%

Source data: 2008 Tax Aggregate Report, Comptroller of the Treasury.

Percentages above state median percentage in bold.

Although most of the “high-growth, low-pressure” counties (except Hancock and Gibson) have large property tax bases per capita, there are different trends regarding the makeup of their tax bases. Residential property promotes different growth patterns than commercial growth, and both are distinct from public utility growth.

Figure 2 exhibits the property tax base makeup for each of the twelve counties. As shown, all the “high-growth” counties had higher residential percentages than the state median, compared to only one of the five “low-pressure” counties. In contrast, three of the five “low-pressure” counties derive a higher than state average percentage of their tax base from farm property, compared to none of the “high-growth” counties. Commercial property percentages seem to encompass both categories. The specific effects of these trends are yet unknown but should be further explored.

ignored. Counties were affected disproportionately, as indicated by the AP Stress Score.¹¹ The Stress Score is a monthly calculated compilation of unemployment, foreclosure, and poverty rates. A Stress Score above 10 indicates that a county is officially “fiscally distressed.” The differences between the October 2007 and the September 2008 scores were estimated in order to determine which counties’ economies were most drastically affected by the first year of the recession. The median point difference during this period was 2.36. Nine out of the twelve high-growth/low-pressure counties’ stress indices moved less than 2.36 points indicating that they were less affected than the average Tennessee county. The three counties that scored above the median were McMinn, Hancock, and Gibson. By September 2008, McMinn, Gibson, and Meigs were officially financially distressed, while Hancock scored just below the cutoff of 10 at 9.73.

ANALYSIS

The seven “high-growth” counties all have large property tax bases and comparatively small stress score changes. This indicates that their governments do not need to levy high tax rates to raise substantial revenues and that they were relatively insulated from the economic crisis. Additionally, all of them except DeKalb have high median household income and a low percentage of manufacturing labor, a sector that was hit hard by the recession.¹² Finally, most of the counties defined as high-growth/low-pressure in the 2006 report (excluding Sevier and Wilson), also had at least one indicator of low service burden.

As the only county in the “high-growth” group that was not previously categorized as “low pressure” in 2006, Williamson accounts for its newfound status predominantly through the expansion of its property tax base. The

2005 property tax rate (\$2.57), reflected in the previous report, was significantly higher than the following year's rate of \$2.31. Williamson's taxable value has grown by at least 10% each year from 2003-2008,¹³ with all its major municipalities maintaining higher than state average property-value growth from 2004-2005 and 2005-2006.¹⁴ A possible reason for this is that, in addition to residential growth, Williamson experienced many large-scale commercial relocations from 2005-2006, such as Nissan and Healthways, which provided jobs and community development.¹⁵ This expanded base is reflected in the lower property-tax rate trend that is continued in this report's 2008 data. For these reasons, Williamson was able to alleviate some of its fiscal pressure.

The five "low-growth" counties also had some discernable trends. All the counties had at least one measure of low service burden, and all of the four counties that reported police costs had costs lower than the state median. Additionally, patterns in the workforce sector involvement were noted; all of the counties have a manufacturing participation rate that is higher than the state median.¹⁶ According to the Bureau of Labor Statistics,¹⁷ the manufacturing sector experienced a consistent, steep decline over this period, making this fact counterintuitive to these counties' comparative growth. McMinn, Meigs, and

Moore, however, pair this with large property tax bases per capita to explain their growth patterns.

Without large property tax bases, Gibson and Hancock stand out as outliers. As previously mentioned all the new high-growth/low-pressure counties were formerly low in fiscal pressure but were not "high growth." Using the TACIR growth typology, Gibson moved from a Tier III growth county, and Hancock from a Tier IV county, to become Tier I counties. Gibson exhibited growth in average daily membership, DVMT, and population, which may be explained by the opening of the Humboldt Higher Education Center, a branch of Jackson State Community College, in November 2007. A 2005 study of the California Coast Community College District indicates that the community surrounding a community college gains as much as 15.2% on its investment through increased economic activity.¹⁸ Additional studies involving state universities confirm this trend.¹⁹ Since tuition and state appropriations make up almost 70% of the school's 2007 revenues, it can be assumed that the community receives these benefits without bearing much of the cost.²⁰ Growth associated with colleges thus seems to alleviate, rather than increase, fiscal pressure.

Hancock's ascension into Tier I seems to be a product of Hancock's size and the relative hardship of other

Figure 3. Capacity, Burden, Fiscal Stress Measures, & Employment for High Growth/Low Pressure Counties, Separated by 2006 Classification

	Above Median HI	Above Median Property Tax Base/capita	Lower than Median Police Cost	Lower than Median ADA costs	Lower than median Stress Index difference	Less than Median Mfr. Sector
Low Pressure Group						
McMinn		X	X			
Meigs		X	X	X	X	
Gibson			X			
Hancock			X	X		
Moore	X	X	-	X	X	
High Growth Group						
Washington	X	X	X		X	X
DeKalb		X	X	X	X	
Jefferson	X	X		X	X	X
Sevier	X	X			X	X
Sumner	X	X	X	X	X	X
Williamson	X	X	X		X	X
Wilson	X	X		X	X	X

counties. Hancock's nominal growth in wages and ADM were insignificant; however, since growth is measured by either nominal or percentage growth and Hancock is such a small county, the minute, nominal change yielded a relatively large percentage change. Additionally, the significance of Hancock's growth is also due to the extreme decline of other counties. Hancock actually experienced a negative change in DVMT from 2007-2008; however, the change was less negative than the other counties, only ten of which saw a positive change. Hancock's relative resilience can be explained by the makeup of its labor force; compared to the statewide median of 14.2%, 25.2% of its labor force is employed by the healthcare and social services sector, one of two sectors that managed to grow by the end of 2008.²¹ Hancock also only had 1.6% employment in the financial sector, compared to the statewide median of 3.26%.²² This is significant because if Hancock's involvement with the financial sector was limited, it could "grow" relative to counties entrenched in this industry. Finally, in light of Hancock's high stress score, it must also be understood that low fiscal pressure does not necessarily indicate economic health. While high fiscal pressure might stunt economic development, low fiscal pressure might not be sufficient to improve an already suffering economy. Thus, it is not surprising that Hancock could experience low fiscal burden as well as high economic stress.

CONCLUSION

Of the twelve counties identified as high growth/low pressure, seven were previously identified as "high growth" and boast large property tax bases, insulation from economic distress, and high MHI (except DeKalb). Williamson, previously not classified as "low pressure," alleviated pressure by the expansion of its property tax base. Of the newly identified five counties, McMinn, Meigs, and Moore have large property tax bases and some indicator of low service burden. Gibson County had only one measure of low service burden but was identified as having rapid growth associated with the construction of a community college. Hancock also proved to be a special case, as its growth was mostly dependent on the poor performance of other counties and its relatively small size.

ENDNOTES

- ¹ County Technical Assistance Service, "Tennessee County Tax Statistics," January 2008.
- ² Equalized property tax was calculated by multiplying 2008 appraisal ratios from State Board of Equalization with the 2008 property tax rates found on the Comptroller of the Treasury website.
- ³ Tennessee Department of Revenue
- ⁴ Population data from US Census Bureau, ADM data from the Tennessee Department of Education Statistical Reports, DVMT from the Tennessee Department of Transportation, and wage data from Tennessee Department of Labor and Workforce Development.
- ⁵ MHI data from The U.S. Census Bureau, Small Area Income and Poverty Estimates, property tax base data from the Tennessee Office of the Comptroller, Division of Property Assessment, and sales tax data from the Tennessee Department of Revenue.
- ⁶ Calculated as a three-year average for each county, with data from Tennessee Department of Education Annual Statistical Reports.
- ⁷ Data from the 2002 Census of Governments.
- ⁸ Based on Local Government Finances by Type of Government and State: 2006 – 07, Census Bureau http://www2.census.gov/govs/estimate/0743tnsl_1.txt.
- ⁹ Based on Local Government Finances by Type of Government and State: 2006 – 07, Census Bureau http://www2.census.gov/govs/estimate/0743tnsl_1.txt.
- ¹⁰ Based on Local Government Finances by Type of Government and State: 2006 – 07, Census Bureau http://www2.census.gov/govs/estimate/0743tnsl_1.txt.
- ¹¹ http://hosted.ap.org/specials/interactives/_national/stress_index_premium/.
- ¹² Nationally, the manufacturing sector lost over 1 million jobs from Q1 2007 to Q4 2008. Data from Bureau of Labor Statistics, Business Employment Dynamics.
- ¹³ Moody's upgrades Williamson county (TN) to Aaa from Aa1, affecting \$461.79 million in parity debt. Retrieved from <http://www.williamsoncounty-tn.gov/DocumentView.aspx?DID=671>.
- ¹⁴ Data from 2005 and 2006 Tax Aggregate Reports from the Office of the Comptroller of the Treasury.
- ¹⁵ Data from "Williamson County Business Activity" log from <http://www.williamsoncounty-tn.gov/DocumentView.aspx?DID=1041>.
- ¹⁶ Hancock was one of eleven Tennessee counties that had only standardized categorical parameters designed by the U.S. Census Bureau to estimate its involvement in the manufacturing sector.
- ¹⁷ The BLS 2008 Q4 report noted that, nationally, manufacturing had declined for the past ten quarters.
- ¹⁸ Another study by the North Orange County Community College District found a rate of return of 14.4%.
- ¹⁹ A 1998 Washington State University study estimated a \$730 million direct economic impact in the state based on only \$226 million of state appropriations. See <http://wsunews.wsu.edu/pages/publications.asp?Action=Detail&PublicationID=7436>.
- ²⁰ Jackson State Community College Audit, 2007-2008. <http://www.comptroller1.state.tn.us/repository/SA/cu09042.pdf>.
- ²¹ Data from Bureau of Labor Statistics, Business Employment Dynamics.
- ²² Q4 2008 was the 7th consecutive quarter of decline for the financial industry. Data from Bureau of Labor Statistics, Business Employment Dynamics.