

## LOW GROWTH/HIGH PRESSURE

### AN EXAMINATION OF POSSIBLE CAUSES FOR FISCAL PRESSURE IN SIX LOW GROWTH TENNESSEE COUNTIES

*by Cliff Lippard*

In the first report of this series, *Growing Pains: Fiscal Challenges for Local Governments*, TACIR staff noted that several counties exhibiting signs of fiscal pressure are not growing very rapidly. This reinforces the concern that while growth can contribute to fiscal pressure, other factors, such as high poverty, low tax bases, or high service expectations, can also cause fiscal pressure. TACIR staff analyzed these counties using four measures indicating fiscal pressure and four measures indicating growth.

**Fiscal pressure** results when a local government cannot finance needed or demanded services. It is often, but not always, a side effect of rapid growth. TACIR staff chose to measure local tax rates and per capita debt in order to indicate areas under fiscal pressure. It is expected that counties under fiscal pressure will have high rates for the property tax, the local option sales tax, and the wheel tax, three of the more important local revenue sources. All rates studied were for 2005. Local governments under fiscal pressure are also more likely to be carrying heavier than average per capita debt in order to finance infrastructure requirements. Per capita debt information was for 2002. TACIR staff defined high fiscal pressure as ranking in the top third of all Tennessee counties for at least three of these measures.

TACIR staff also developed a comprehensive measure to identify high growth counties for purposes of understanding the effect of growth on public services. This **growth typology** emphasizes the fact that growth can be seen as a combination of multiple factors. The typology includes



## FISCAL FLEXIBILITY

TACIR



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four measures of growth for the period 2000-2004: population, average daily membership (ADM) of public schools, daily vehicle miles of travel, and wage data. The typology measures overall growth with a combined “super rank” that is then used to group the counties into growth tiers. Tier I counties, the ones with the most growth, rank in the top third of all Tennessee counties for three or more of the growth measures. Tier II counties rank in the top third for two growth measures, while Tier III counties rank in the top third for only one measure and Tier IV counties fail to rank in the top third for any of the four growth measures. There are thirty-three Tier I, sixteen Tier II, twenty-five Tier III, and twenty-one Tier IV counties.

### **FISCAL PRESSURE**

Not surprisingly, TACIR staff found in *Growth and Pressure* that several high growth counties demonstrated indicators of fiscal pressure. Six Tier I growth counties were determined to be high fiscal pressure counties. Rutherford County ranked in the top third of all counties

for each of the four measures of fiscal pressure, while five other Tier I growth counties ranked in the top third for three measures. In addition to the six high pressure counties, nine other Tier I growth counties ranked in the top third for two fiscal pressure measures. These observations support the argument that rapid growth contributes to fiscal pressure.

However, TACIR staff also identified several slower growth counties with multiple indicators of fiscal pressure. As shown in Table 1, six low growth counties were determined to be high fiscal pressure counties. Two Tier III growth counties, Crockett and Houston, ranked in the top third of all counties for each of the four fiscal pressure indicators. Four counties, three Tier III and one Tier IV (Lawrence County) ranked in the top third for three of the fiscal pressure indicators. In addition to the high pressure counties shown in Table 1, fifteen counties, five Tier III and ten Tier IV, ranked in the top third of all counties for two of the fiscal pressure indicators.

**Table 1. Tier III and Tier IV Growth Counties Ranking in the Top Third of Tennessee Counties for at Least Three of Four Fiscal Pressure Indicators**  
(No indicates county did not rank in top third for the indicator)

Counties	Equalized Property Tax Rank	Local Option Sales Tax (Maximum Rate: Yes or No)	Per Capita Debt Rank	Wheel Tax Rank	# of Top Third Rankings	Growth Tier
Crockett	26	yes	16	1	4	III
Houston	12	yes	15	14	4	III
Dyer	no	yes	21	4	3	III
Marshall	4	no	2	9	3	III
Wayne	no	yes	23	15	3	III
Lawrence	18	yes	25	no	3	IV

Note: TACIR staff defined high pressure counties as those ranking in the top third of all Tennessee counties for at least three of the four fiscal pressure indicators. All counties ranking in the top third for the local option sales tax are at the maximum rate of 2.75%.

Source: TACIR analysis using data from the US Census Bureau, US Bureau of Labor Statistics, Tennessee Department of Education, Tennessee Office of the Comptroller, Tennessee Department of Transportation, and UT-CTAS.

Though there is variation amongst the low growth counties in Table I as to which taxes they rank highest for, it is obvious that most of these counties rely heavily on the local option sales tax. All but one of the counties, Marshall County, levy this tax at its 2.75% maximum rate. Marshall County's local option sales tax rate is 2.25%. All but Lawrence County rank in the top third in the state for wheel tax rates. Crockett County has the highest rate in the state (\$70). All but Dyer and Wayne Counties rank in the top third statewide for equalized property tax rates, while all six rank in the top third for per capita debt. Marshall County has the second highest per capita debt in the state.

### **CAUSES?**

So if rapid growth is not causing fiscal pressure in these six high-pressure/low-growth counties, what is? Possible explanations include relative poverty, a small tax base, and high service demand. TACIR staff examined relative poverty using median household income (MHI) for 2003 as reported by the US Census Bureau. If MHI is low, the government will find it difficult to raise revenue to pay for services. There will be little capacity for taxpayers to support increasing taxes, and likely even less will to do so.

A small tax base will also make it difficult for a local government to meet service demands. A government with a small tax base may choose to apply high rates in an attempt to meet basic service demands. However, higher than average rates will provide little revenue if the bases those rates are applied to is very

small. Additionally, the high rates could impose an additional hardship on taxpayers in areas of relatively high poverty. TACIR staff evaluated two local taxpayer bases:

1. per capita local option sales tax base<sup>1</sup>
2. per capita equalized property tax base<sup>2</sup>

Finally, a county may only appear to be under fiscal pressure because its citizens have chosen to pay higher taxes or incur higher than average debt in order to pay for a higher level of service. In this case, the government does not experience true fiscal pressure until it is no longer able to meet service expectations using existing resources. At that point, it must choose between cutting service levels and finding new revenue sources. It is important to note that it is very difficult to compare service levels across governments. There is great variety in the way that services are delivered. For example, some county governments provide fire service directly, while others rely on volunteer fire departments. Table 2 displays the amount for each of these measures for each of the high-pressure/low-growth counties and compares them to each other and to the averages for the four growth tiers as a percent of the average of all 95 counties.

### **RELATIVE POVERTY**

Table 2 shows that four of the six counties had an MHI lower than the 95-county average of \$34,076 in 2003. Dyer and Marshall Counties both had higher than average MHI.

<sup>1</sup> TACIR calculation using Tennessee Department of Revenue and US Census Bureau data for 2005.

<sup>2</sup> TACIR calculation using Tennessee Office of the Comptroller data for 2004 and US Census Bureau data for 2005. The total property assessment for the county is equalized using the latest appraisal to sales ratio. This allows for a more accurate comparison of the base between counties by adjusting actual rates for estimated changes in the value of property since it was last appraised. The equalized base is then divided by the population to arrive at the per capita amount.

**Table 2. Six High Pressure/Low Growth Counties Compared to Growth Tier Averages and 95-County Average for Median Household Income, Per Capita Local Option Sales Tax Base and Per Capita Equalized Property Tax Base**

	2003			Per Capita				
	Median Household Income	% of 95 County Avg	Avg Per Employee Wage	% of 95 County Avg	Per Capita Property Tax Base	% of 95 County Avg	Local Sales Tax Base	% of 95 County Avg
<b>Counties</b>								
Crockett	\$31,258	92%	\$27,381	96%	\$12,250	86%	\$2,553	39%
Houston	\$31,722	93%	\$21,358	75%	\$11,687	82%	\$3,303	51%
Dyer	\$34,274	101%	\$28,897	101%	\$13,996	98%	\$8,562	132%
Marshall	\$38,544	113%	\$29,106	102%	\$15,642	109%	\$6,187	95%
Wayne	\$27,266	80%	\$23,819	83%	\$10,691	75%	\$3,252	50%
Lawrence	\$31,687	93%	\$26,671	93%	\$11,725	82%	\$6,585	101%
<b>All 95 Counties</b>	\$34,076	100%	\$28,640	100%	\$14,325	100%	\$6,495	100%
<b>Tiers</b>								
Tier I	\$40,052	118%	\$31,736	111%	\$17,242	120%	\$9,181	141%
Tier II	\$31,897	94%	\$27,977	98%	\$13,084	91%	\$5,222	80%
Tier III	\$31,297	92%	\$26,831	94%	\$12,677	88%	\$4,977	77%
Tier IV	\$29,652	87%	\$26,434	92%	\$12,648	88%	\$5,050	78%

Sources: Median Household Income data from US Census Bureau; sales tax data from TN Department of Revenue; property tax data from Tennessee Office of the Comptroller.

Only Crockett (\$31,258, 92% of the 95-county average) and Wayne counties (\$27,266, 80% of the 95-county average) had median household incomes lower than the average for their growth tier. So although most of the six counties have lower than average income, only Wayne County is considerably lower than average. This suggests that poverty most likely contributes considerably to fiscal pressure in Wayne County. It possibly contributes to a lesser extent in Crockett, Houston, and Lawrence Counties. Poverty does not appear to be a factor affecting fiscal pressure in Dyer or Marshall County.

## SMALL TAX BASE

Table 2 shows that all but one of the six counties, Marshall County, has a per capita property tax base equaling less than the 95-county average. Dyer County's base is just

slightly lower than the 95-county average. Crockett, Houston, and Wayne counties, at 86%, 82%, and 75%, respectively, all have bases smaller than both the 95-county and Tier III averages. Tier IV Lawrence County's per capita property tax base equals only 82% of the 95-county average. It is also lower than the average for other Tier IV counties. It is likely that the significantly smaller than average property tax bases in four of the six high pressure/low growth counties contributes to their fiscal pressure.

As shown in Table 2, Crockett, Houston, and Wayne Counties all have considerably smaller than average local option sales tax bases per capita. They are 39%, 51%, and 50% of the 95-county average, respectively. They are also smaller than the Tier III average, which equals 77% of the 95-county average. The considerably smaller than average local option

sales tax base for these three counties could be a significant contributor to local government fiscal pressure. Marshall County has a per capita local option sales tax base equaling 95% of the 95-county average; this is significantly higher than the tier average. Both Dyer and Lawrence Counties have larger than average local option sales tax bases.

## HIGH SERVICE DEMAND

Neither Marshall nor Dyer counties' fiscal pressure appears to be the result of relative poverty or a small tax base. Assuming that they are indeed genuinely facing fiscal pressure, it is possible that said pressure is the result of some factor not studied within the confines of this brief. It is also possible that their fiscal pressure is self-induced, the result of higher than average service expectations. The latter is at least partially supported by the fact that both of these counties spend higher than average amounts per pupil on education. Spending on education is a reasonable measure of overall service demand for Tennessee counties because primary and secondary education are the single largest direct general expenditures by local governments in the state. During fiscal year 2002, total non-capital local direct general spending on public education accounted for 41.7% of total local expenditures.<sup>3</sup>

Marshall County's three-year average local revenue spending was \$2,079 per pupil for 2002-2004.<sup>4</sup> Dyer County's was an even higher \$2,341.<sup>5</sup> Both of these averages are much higher than the unweighted average of \$1,864 for the state's 136 local education agencies, including county, city, and special school districts. It is important to understand the difference between the unweighted statewide average of \$1,864 and the weighted average of \$2,586. The weighted amount is the three-year average amount actually spent per each of the state's students. It is higher than the unweighted average because of the higher per student amount spent in the state's largest school systems, as well as in some very wealthy systems. So in effect, Dyer and Marshall Counties pay less per student than is received by the weighted average student in Tennessee, but they spend far more than most school systems. The other four counties studied in this brief all spent less than both the weighted and unweighted state average in local revenue spending.

In addition to spending more than average per student, both Dyer and Marshall Counties spent more per student than would be expected based upon their fiscal capacities. Fiscal capacity is a measure of the potential ability of local governments to fund education from their own taxable sources, relative to their cost of providing services.<sup>6</sup> The per pupil

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<sup>3</sup> Based on data from US Census Bureau. 2002 Census of Governments.

<sup>4</sup> Three-year average calculated by TACIR using Tennessee Department of Education data. TACIR calculates three-year averages for per pupil local revenue in order to use this data as the dependent variable in its fiscal capacity calculations. Using a three-year average helps to smooth local to year variations in the data. This three-year average was for the Marshall County local education agency (LEA) and was calculated for use in TACIR's prototype system-level fiscal capacity model. For more information on this data and the fiscal capacity model, see [www.state.tn.us/tacir](http://www.state.tn.us/tacir).

<sup>5</sup> Dyer County has two school districts, the Dyer County LEA and the Dyersburg LEA. The Dyersburg LEA had a slightly lower three-year average per pupil revenue amount of \$2,281 for 2002-2004.

<sup>6</sup> TACIR calculates county-area fiscal capacity amounts and a county-area index each year. The Department of Education uses the index to equalize state education funding. The per pupil fiscal capacity amounts used in this report are from a prototype fiscal capacity model developed by TACIR at the request of a task force established by the Governor. This prototype model measures fiscal capacity at the school system rather than the county-area level. The prototype amounts were used in this report in order to distinguish between the fiscal capacities at the county government level and those of any city or special school districts located within the county. For a full explanation of the county level and prototype fiscal capacity models, see the fiscal capacity link at <http://state.tn.us/tacir>.

fiscal capacity for Dyer County for fiscal year 2006 was \$1,795, \$546 less than the \$2,341 per pupil revenue amount. Looking at revenue spent as a ratio to capacity, Dyer County had a ratio of 1.3. Marshall County had a per pupil capacity of \$1,747, \$332 less than its \$2,079 per pupil revenue amount, for a ratio of 1.2. A ratio greater than one indicates that a system raises more revenue than would be expected based upon the actual amounts raised by each of the state's school systems compared to their tax bases and other measures of the ability to fund education.

Three of the other four low growth/high pressure counties all have ratios at or close to 1.0. The ratios are 1.0 for Crockett and Houston Counties and .97 for Wayne County. The ratio for Lawrence County is .84.

This willingness of Marshall and Dyer Counties to pay more than average and their revenue/capacity ratios suggest a higher demand for education services in these counties. This level of demand, which may or may not extend to other services, could explain why these two counties demonstrate signs of fiscal pressure.

## CONCLUSION

Six counties in Tennessee have indications of fiscal pressure despite the fact that they are among the state's slower growing counties. Wayne County appears to be experiencing fiscal pressure as a result of a combination of relative poverty and small local tax bases. While poverty does not appear to be as much of a factor in Crockett and Houston counties, they do have smaller than average per capita property tax bases and considerably smaller than average per capita local option sales tax bases. Lawrence County has a smaller than

average property tax base and slightly lower than average income. Two counties, Dyer and Marshall, appear to be experiencing fiscal pressure as a result of higher service demands by their residents.

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- Monitor the operation of federal-state-local relations,
- Analyze allocation of state and local fiscal resources,
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- Analyze the pattern of local governmental structure and its viability,
- Analyze laws relating to the assessment and taxation of property,
- Publish reports, findings and recommendations, and draft legislation needed to address a particular public policy issue, and
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