

**SMALL CITIES COALITION OF HAMILTON COUNTY**

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November 22, 2015

The Honorable Bo Watson  
Tennessee State Senator  
301 6th Avenue North  
Suite 13 Legislative Plaza  
Nashville, TN 37243

The Honorable Jim Coppinger  
Hamilton County Mayor  
625 Georgia Avenue, Suite 208  
Chattanooga, TN 37402

Dear Senator Watson and Mayor Coppinger:

Thank you both for your public service to the people of Hamilton County.

As a collective group, the Mayors of the smaller municipalities in Hamilton County are aware of the two concepts being discussed regarding disrupting the distribution formula of state shared sales tax in Tennessee. While we understand that these are only concepts you are exploring, we cannot help but anticipate legislative action in the upcoming continuation session of the General Assembly.

For the obvious reasons, we will oppose any legislation. If either of the two concepts is implemented, it will result in either a property tax increase or a reduction in vital services for the residents in our cities. Neither of the two concepts is acceptable.

We understand that you believe the current use of the state shared sales tax is not fair to counties in Tennessee. On the surface, that is a logical position. However, an analysis of the numbers provided by the Tennessee Municipal League (TML) clearly shows that, when put into its proper context, neither concept is equal or fair to cities in Tennessee. These numbers have been independently confirmed by the County Technical Advisory Service.

In its simplest terms, the concept of Senator Watson would result in a 43 percent reduction in the cities' portions of the state shared sales tax, including a reduction of total money coming to Hamilton County of \$3.4 million. The concept of Mayor Coppinger would keep the same amount of funds coming to Hamilton County but result in a 30 percent decrease in the cities' portions of the funds. As you know, the difference between the two concepts is that under Senator Watson's plan, state shared sales tax revenue is divided per capita at a state level. Under Mayor Coppinger's concept, the state shared sales tax revenue is calculated according to the current formula and then divided a second time at the county level. Here is what it looks like to smaller cities in Hamilton County.

Municipality	Current SSST	Reduction/Watson 43%	Reduction/Coppinger \$30%
Collegedale	\$639,885	(\$269,670)	(\$205,802)
East Ridge	\$1,570,148	(\$687,997)	(\$470,588)
Lakesite	\$136,673	(\$ 59,456)	(\$36,249)
Lookout Mtn.	\$137,122	(\$40,348)	(\$41,102)
Red Bank	\$872,060	(\$379,368)	(\$261,498)
Ridgeside	\$29,190	(\$9,698)	(\$8,849)
Signal Mtn.	\$625,958	(\$272,307)	(\$187,629)
Soddy-Daisy	\$951,624	(\$416,980)	(\$285,247)
Walden	\$142,062	(\$62,801)	(\$42,583)

Unlike the tax bases of the major metropolitan cities like Chattanooga, our cities do not have the capacity to absorb these cuts without raising property taxes or cutting services vital to our taxpayers. These tax increases, that will be associated with the sponsors of either concept, are required just to keep the cities at the same funding level as we are today. Here is the property tax increase per \$100 of assessed value that shows the impact of both concepts being discussed.

Municipality	Prop. Tax Increase Watson	Prop. Tax Increase Coppinger
Collegedale	10 cents	7 cents
East Ridge	20 cents	14 cents
Lakesite	13 cents	9 cents
Lookout Mtn.	5 cents	4 cents
Red Bank	20 cents	14 cents
Ridgeside	14 cents	9 cents
Signal Mtn.	10 cents	7 cents
Soddy-Daisy	17 cents	12 cents
Walden	8 cents	6 cents

We believe it is important to note at this point that taxpayers who live in municipalities inside Hamilton County pay the property tax rate set by the County. These taxpayers are doing an equal part with those who live in the unincorporated areas to fund County-mandated services like schools, jails, and health departments. At the same time, these same taxpayers pay an additional property tax to the municipalities in which they live. This money is used to pay for infrastructure, for economic development, and for additional services they receive from their city. To restate this fact, our taxpayers are doing their fair share to fund County government while unincorporated County taxpayers, with a few rare exceptions, contribute nothing to help the cities inside Hamilton County build places where businesses want to locate.

This is why that is important; the cities inside Hamilton County are the economic engines of Hamilton County. This is not in dispute. For the last fiscal year, a total of \$392,588,230 was collected in sales tax revenue from the County paid to the state. Of that number, \$381,279,065 was generated in and collected from municipalities in Hamilton County with the City of Chattanooga, obviously, being the primary source.

As it stands today, Hamilton County contributes just shy of 3 percent of the sales tax revenue collected in the county overall. Yet, under Senator Watson's proposal, Hamilton County would receive \$4,264,872 in

state shared sales tax revenue, a roughly 38 percent return on its contribution. At the same time, cities would be receiving less than a 5 percent return on their contributions. In Mayor Coppinger's concept, Hamilton County would receive a 47 percent return on its contributions while cities would, again, receive less than a 5 percent return on their contributions. In any logical argument, does this seem equal and fair?

Consider the statewide numbers. In the last fiscal year, a total of \$6.2 billion was generated from state sales tax. Of that, 76.7 percent, or \$4.7 billion, came from municipalities. If you add the City of Nashville, which is part of Davidson Metro government, that percentage jumps to 92 percent. At the same time, counties in Tennessee collected \$442 million in state sales tax, or 8 percent. In other words, roughly 92 percent of the sales tax collected in Tennessee came from cities while only 8 percent came from counties. On a per capita basis, each person in municipalities generated roughly \$1,500 while the same person in an unincorporated area contributed \$172. Under Senator Watson's concept, counties in Tennessee would receive a 24.5 percent return on the money collected while municipalities would receive 2.8 percent. Again, does this seem fair and equal to you?

The facts seem clear. Adjusting the state shared sales tax is punitive to cities in Tennessee. While there are your concepts for adjusting this formula, there is no effort to adjust other shared tax programs formulas, such as the portion of the state tax on gas and diesel that is returned to counties and cities. We doubt either of you would be interested in applying your same concepts to the gas/diesel tax revenue flowing to the counties. In looking at the funding formulas, it is our view that all revenue streams should be considered and not one specific revenue stream.

The real issue is that cities and counties should be working together to get more revenue from the state flowing back to us. In 1947 when the state shared sales tax stream was created, 80 percent of revenue stayed at the state level and 20 percent came back to counties and cities. Today, 91 percent of revenue stays with the state while only 9 percent is returned to counties and cities. We would suggest that if the state sees a need to provide more funding to counties, then it would be logical to find a revenue stream that does not lead to a reduction to the cities. It seems obvious to us that we should be working together to alter that ratio so that we can all benefit more from the money generated in our cities and counties. We would welcome the opportunity to do so.

Finally, we would request a meeting with both of you prior to December 15 so that we can discuss this further. We recognize this is a busy time of year for all of us, but we believe this meeting is important and we look forward to sitting around a table and discussing this critical issue. We will have Davis Lundy, our communications consultant on all issues, get in touch with you after the Thanksgiving holiday to find a time that works best for both of you.

Again, thank you for your public service.

On behalf of,

Brent Lambert, Mayor of East Ridge  
Rick Nunley, Mayor of Soddy-Daisy  
Katie Lamb, Mayor of Collegedale  
John Roberts, Mayor of Red Bank  
Carol Mutter, Mayor of Lookout Mountain