

Balancing Government- Diversified Portfolio

We hope through a series of articles we can help explain programs offered by Roane County, why we offer these programs and the costs and benefits of these programs to the citizens of Roane County. This article discusses how various functions of Roane County invest in our community and the theory of taxation supporting our services.

The two largest taxpayer funded functions of government are education and law enforcement with education exceeding law enforcement by 10 fold. Thus most tax increases are directly related to these two essential functions of government. There are inflationary pressures which increase the costs of these two operations every year. How does the government pay for these increased costs? The county has several options from which to choose:

1. Increase property tax revenue through raising the property tax rate.
2. Increase property tax revenue through tax base growth due to increased residential and commercial building.
3. Shift tax money from other county service(s).
4. Increase sales tax revenue through growing the economy through industrial development.
5. Increase sales tax revenue through increased tourism bringing in outside dollars.

As a hypothetical scenario, imagine that the county budget consisted of only the education and law enforcement functions. In the current year, the county revenue is sufficient to meet the expenditure needs of both functions. The next year, there is an increase in the retirement rate from 7% to 9%. This small 2% increase is multiplied by the employees' salaries and the cost to government is approximately $\$45,000,000 \times 2\% = \$900,000$. To fund just this increase in retirement rate would be a 3% increase in the property tax rate. We have not even calculated the increase in health insurance cost or raises for the remaining employees. As you can see, it does not take long for the budget to begin having problems.

In order to avoid these types of increases in the property tax rate, the government tries to grow the property and sales tax bases in order to make up for these expenditure increases. In order to increase the property tax base to account for the need for a 3% increase in property tax would require 163 \$1,000,000 or 818- \$200,000 new homes to be built in one year in Roane County. As you can see, residential building growth alone will not pay for even a portion of the retirement cost. Roane County saw approximately 2% increase in retirement rate in 2009.

With that being said, Roane County is working to encourage residential and industrial growth. The businesses and industries that are growing are often the \$1,000,000 plus investments. What is Roane County doing to have this needed residential and commercial growth but in a planned manner?

Investments in:

1. Sewer expansion especially in the Midtown area. Our sewer operation receives no tax funding. The sewer operation is managed by an independent board, the County Board of Public Utilities,

and sewer services are paid for by the customers. Approval for indebtedness for capital improvement must be by the County Commission.

2. Industrial recruitment, expansion and retention with contracts with the Alliance. More about this topic can be found in another article in this series.
3. Citizen-demanded services such as animal control, ambulance operations, fire services and even building inspections and nuisance control.
4. Good, well maintained roads.
5. Quality education system.
6. Safe roadways and neighborhoods.
7. Recreation opportunities.
8. Replacement assets. Please see other article in this series on this topic.

All these investments help maintain property value and residential development along with making Roane County a desirable place to live, work and play. These investments, along with others, also help keep Roane County's taxes reasonable and still provide the level of services that citizens desire.

The balancing act of government comes into play at this point. Just like your financial advisor will tell you to diversify your investment portfolio between stocks and bonds and your grandma will tell you never put all your eggs in one basket, government cannot rely upon just one revenue source to make up for increased costs. As government determines the areas of investment and the level of investment in each area, the needs and wants of all citizens in conjunction with the vision for the future of Roane County must all be taken into account. Even though most people agree that an investment in education is important to the whole county, an investment in law enforcement, roads, industrial growth and other services is also necessary for the continued growth of the county.

All citizens do not want growth, but the problem with that stance is that change is going to occur. If that change does not include growth in vital areas of our community and economy, we will quickly see our community begin to die. Sometimes this change is just a shift from one industry to another. Sometimes this change is a shift in the way we do government. Your county government is preparing to make a change and part of this process is balancing government investments in a way that benefits the entire county.