

**City of Murray
Comprehensive Revenue Study
2009-2010**



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City Council

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Introduction

As indicated during the FY 2010 budget process, members of the City staff have been assembling information for a comprehensive revenue study to address future financial concerns. The intent for this study is to provide the Council, Mayor, and staff the ability to evaluate the City's current funding streams as well as research new opportunities.

Purpose

The purpose of this study is to provide an understanding of current and potential funding mechanisms permitted for city government within the class two categories. This document is intended to provide guidance and direction on how to address the City's rising operational costs as well as plan for future expansion of capital projects.

The information in this study is not presented in any particular order. The staff has prepared the information without bias or personal opinions. However, the staff's mission is to continue current progress so that the future goals and objectives for the City can be achieved. Additionally, we believe as staff and Council move forward together with new funding options, additional services and projects can be provided for the betterment of the community.

Please consider this information when the City staff and Council start the FY 2011 budget process next March. As both Council members and City officials, we have a fiduciary responsibility to not only plan for next year, but for future years to come.

Essentially, the Council has three financial options as we move forward to the FY 2011 budget planning.

1. Pull funds from reserves to fund increased operational costs (This will cause reserves to fall under the 20% threshold for emergencies)
2. Eliminate or cut existing city service(s) and capital projects
3. Increase current fees/taxes and/or adopt new fees/taxes

Over the course of the long range planning project and revenue study, we will have a variety of Council and staff workshops. During these workshops, we plan to openly discuss in detail the provided information in this document. Additionally, we would like to engage the Council members to determine the best path for the City's future.

Please review the revenue information as listed below and let Matt Mattingly know if you have additional questions or comments about this document or any other item concerning this study.

City Revenue Information

Information provided in the "Potential revenue" category is from data generated by different resources and should only be used as an estimate.

Current Revenue Opportunities

Tax/Fee: Real & Tangible Property Taxes
FY 2010 budget: \$2,835,000

Opportunity: The State regulates cities to a 4% limit on the amount of property tax imposed. However, KRS 132 specifies a city can exceed the 4% growth on the real property with a public notice and hearing. The exceeded 4% can be petitioned by the people for a recall vote if so desired. Additionally the Kentucky Constitution regulates a maximum tax rate for the population size of Murray. A population range of 10,000-14,990 can tax \$1.00 per \$100 of assessed value. The current FY 2010 tax rate was set at .3702 for real and .3820 for tangible properties.

Financial gap: The City has an approximate \$0.63 gap between the current tax rate and the maximum rate (\$1.00). Increasing property tax revenue is variable depending on the amount the City would impose.

Potential revenue: \$0.10 increments would equal approximately \$780,000 additional revenue per year.

City Statics on Real and Tangible taxes:

- Average Kentucky city real estate rate: .2168
- Average Kentucky city tangible property rate: .2840
- According to the 2000 census, median real estate property taxes paid for housing units in Murray was \$679, while Kentucky was \$610.

Tax/Fee: Insurance Premium Tax
FY 2010 budget: \$1,675,000

Opportunity: This tax is based on taxing fire, casualty, vehicle, water craft, health, life, and other risk insurance premiums for residents that live within the city limits. There are two opportunities to consider that could increase funding for this particular tax.

First: the City of Murray does not impose two of the seven insurance categories. Both health and life insurance premium tax is not collect within the city.

Second: increase the current tax rate of 9.5%.

Financial gap: The first opportunity of imposing a health and life insurance premium tax is difficult to estimate. Currently, data is not available to calculate an exact amount of health and life insurance sold in the City. However, data from the state premium tax schedule (exhibit A) provides information based on cities with similar populations and tax rates. The second opportunity of increasing the rate has no maximum tax rate regulation, however, cities range from 3% - 15%.

Potential revenue:

- Impose health and life insurance: \$150,000 - \$200,000 additional revenue per year
- Impose a higher percentage: 1% increments equates to \$175,000 additional revenue per year (not including health or life)

City Statics on Insurance Premium Tax:

- Average Kentucky city insurance premium tax rate is 7%
- Out of 419 Kentucky cities, 352 impose an insurance premium tax
 - 211 cities in Kentucky impose the health insurance premium tax
 - 283 cities in Kentucky impose the life insurance premium tax

Tax/Fee: Occupational Business Licenses
FY 2010 budget: \$130,000

Opportunity: State law categorizes three ways to calculate a business (occupational) license fee.

- a. Flat rate fee
- b. Fee rate on the volume of business using gross receipts or net profits
- c. Fee upon separate business classes based on volume of business

The method the City is using is very cumbersome (Exhibit B). Currently, there are 224 business/occupation categories with fees that range from \$5.75 for an electrician to a maximum of \$506 for a manufacturing plant or business with more than 500 employees.

Financial gap: The opportunity to increase business license revenue for the City presents a large range of possibilities in the potential revenue section. however, cities range from 3% - 15%.

A majority of cities use a combination of two of the three categories. For example, cities impose a flat rate fee and percentage based on gross receipts or net profits. A second example would be the current method, in which the City imposes a flat rate fee based upon a business class. Listed are the three state authorized calculations cities can use when imposing a business license fee.

Potential revenue:

Flat rate fee: Fee structures of cities vary with a standard range of \$50 to \$200. This structure is part one of the licenses, as cities also tax the net profits or receipts as the second part of the fee as described in the next category.

If the City was to maintain the current approach with a flat rate as the primary method, then the potential revenue varies. Below are some examples cities could use to increase revenue, but cities are able to have flexibility as long as they are consistent with the business classes.

FY 2010 the City permitted approximately 1,730 businesses licenses.

- City could impose an equal \$200 per business = \$216,000 additional revenue per year (Current average fee is \$218)
- \$100 increment equates to \$108,000

Fee rate based upon volume of business: This option would be used by applying a percentage rate to a company’s gross receipts or net profits. This is the most popular method Kentucky cities use for the business licenses as a revenue source which ranges from .25% to a 2 ½% (Exhibit C). Business profit information is difficult to determine for the City of Murray. Without profit data, we can estimate by comparing Kentucky cities of similar population. Below are a few city budgets for the FY 2010 Occupational Business Licenses:

<u>City</u>	<u>Profit Tax</u>	<u>2010 Budget</u>	<u>Population (2008 est.)</u>
Bardstown, KY	.50%	\$743,121	11,242
Georgetown, KY	1.0%	\$2,282,235	21,589
Newport, KY	.35%	\$1,360,710	15,766

Fee upon separate business classes based on volume of business: Currently, this is the method the City uses with a flat rate approach (exhibit B). Additionally, a city has the option to use a flat rate and/or percentage based upon gross receipts or net profits. This particular fee option allows a city to class businesses and apply a percentage rate on the gross receipts or net profits. Kentucky law allows cities to create different classes of businesses and impose different rates on the different classes; however, they must be

reasonable. For example, the City of Paducah has 30 business categories with five different rates from \$.00045 to \$.00450. (Paducah budgeted \$4 million for FY 2010).

The City of Murray could reduce the current 224 categories and change fees to reflect the new classes. Another option for the City is to increase the current fee structure as designed.

- Double the current rate fee = \$130,000 additional revenue per year

City Statics on Occupational Business Licenses:

- Out of 419 Kentucky cities, 103 impose a Business License based on a percentage rate.
 - Kentucky average city percentage rate equals 1.31% using gross receipts or net profits.
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Tax/Fee: Vehicle License (City Sticker)

2010 budget: \$678,600

Opportunity: In 2009, the city sold approximately 13,500 City stickers to City residents and non-residents that work within the City limits. According to the Calloway County Clerk's office there is presently (*information not available at this time*) number of vehicles registered within the City. Additionally, based on estimates from by the Murray-Calloway Economic Development Corporation (EDC), businesses within Murray's city limits employ approximately 14,000 to 15,000 people. Breaking the data from EDC down to where the workers reside equates to an estimated 40% are city residents and 60% are non-city residents.

Another opportunity is the city ordinance states that MSU students working on or off campus are required to purchase a sticker. This consists of a large gap of students that are able to vote during elections and use city services (streets, police, & fire).

Financial gap: The City has met with the County Clerk regarding a city sticker collection during yearly vehicle registration. The Clerks office has verbally agreed to help the City collect city sticker fees during yearly vehicle registration. This would allow the City to receive 100% of the residents living and working in Murray. However the police department would still be responsible for enforcing the non Murray resident workforce by inspecting parking lots of large employers.

The City has not met with MSU officials regarding a sticker collection when students purchase a parking pass.

Potential revenue:

- City residents living and working: *information not available at this time*
- Non-city resident commuters to work: \$450,000
- University Students: 7,000 students reside in Murray or commute to campus (conservative 75% not purchasing a sticker) = \$262,500 per year.

Tax/Fee: 911 Emergency Telephone Service Fee
FY 2010 budget: \$70,000

Opportunity: The 911 Emergency Telephone Service Fee is added to all City resident land line phone services. This particular funding source is appropriated to the City police 911 center. Over the last three years, this funding source has decline due to the fact citizens have had their land lines disconnected and have began to use cell lines as the primary line.

Kentucky cities range the 911 fee from \$1 to \$4 per line. The City of Murray’s current fee is \$1 per line.

Potential revenue: Telephone land line only:

- \$0.50 increment equates to \$35,000 additional revenue per year

<i>New Revenue Opportunities:</i>

Tax/Fee: Occupational Wage Fee

Opportunity: The Occupational Wage Fee is referred to many as a “payroll tax”. This fee, along with the City sticker, is the only source of revenue that the City can collect from non residents employed in Murray. As stated early in this document by the Murray-Calloway EDC, and estimated 8,400 to 9,000 non Murray residents commute daily to work in the City. Additionally, the City work force who lives and works in the City is an estimated 5,600 to 6,000. In retrospect, the work force that lives and works in Murray pays 47% of the current city services (streets, planning, police and fire protection). However, the work force that resides in the county or outside of the county pays only 6% of the current City services.

Potential revenue:

Percentage:	1/4 %	1/2 %	3/4 %
City resident labor	\$270,000	\$540,000	\$809,000
Non city resident labor	\$405,000	\$810,000	\$1,200,200
Total:	\$675,000	\$1,350,000	\$2,009,200

Note: Calculated with 2007 per capita income (\$17,973) for Murray

Tax/Fee: Special Ad Valorem Tax (Real & Tangible Property)

Opportunity: The City can provide funding for a special project, program or service by enacting a special ad valorem tax. The following requirements and procedures apply to this tax authorization:

1. By ordinance, the Council would identify the special project, program or service and describe the tax levy on property.
 2. The proposed tax rate identified for the special project, program or service must be approved by the votes of the city.
- \$0.10 increments would equal approximately \$780,000 additional revenue per year.
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Tax/Fee: Rental Housing Business License

Opportunity: Currently, the City does not have a business category for rental housing. Cities use this license fee to help maintain the quality of life by conducting a yearly inspection of all residential rental property. A majority of cities utilizing this license have set up fee as a rate for each rental dwelling. This license fee provides a potential opportunity to fund a code enforcement office for the City of Murray.

Potential revenue: Fees range from \$20 - \$100 per dwelling rental unit.

- \$20 fee = \$40,000 per year
- \$10 increment equates to \$20,000 per year