# Report of the Fiscal Analysis Team on the Better Together Consolidation Plan
## Financial Projection: A First Step

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**Executive Summary**

Proponents of Better Together's proposed constitutional amendment claim the new Metro City will reduce expenditures by up to $3.2 billion from 2023 to 2032, and create a revenue surplus of $1.7 billion during the period. By adding the two estimated numbers, they claim a ten-year savings of $4.9 billion dollars. By 2032, according to the Better Together projections, there will be yearly budget surpluses in the hundreds of millions of dollars. This is a fantasy. The analysis below projects annual budget deficits in the tens of millions that would require significant cuts in key services, like public safety and public works. That is reality.

This report examines separately the revenue and expenditure claims of the amendment's proponents. The two streams are then compared on a yearly basis. We make no attempt to add annual savings or deficits to produce a ten-year number, because this defies local government budget practice.

Why? If surpluses begin to accumulate, they will not be put in a bank account or buried in the back yard. Service and capital needs will lead to citizen demand for additional expenditures, or taxes will be reduced to return the surplus to voters. If expenditures increase faster than revenues, either new taxes will be proposed or expenditures will be reduced. Neither short-term surpluses nor deficits continue indefinitely. Adding projected yearly surpluses or deficits for a ten-year total is an uninformed fabrication.

Multiple studies of past city-county consolidations have consistently found little or no cost savings after consolidation. Better Together boosters have offered Indianapolis and Louisville as examples of consolidations which produce public services at a lower per capita rate than St. Louis. These differentiations are fraught with problems, because each local environment is different rendering comparison across jurisdictions prone to erroneous conclusions. The best yardstick is the before-and-after comparisons within jurisdictions.

This revenue analysis below examines property and sales tax, since these were the focus of the Better Together fiscal projections. They projected annual property tax increases of 2% per year. Historic assessment trends and the biennial reassessment casts doubt on this revenue assumption. In this report property tax increase is projected based on a 1% increment in reassessment years and .5% in alternative years. This produces $20 to $30 million dollars a year less revenue over the decade.

The Better Together sales tax projection is critical to the revenue base of the proposed Metro City. This report does not dispute the possibility of an annual 1% increase in sales tax predicted by Better Together. However, because the Metro City will rely on sales tax for over 50% of its revenue, there is a danger of serious shortfalls over the decade if that standard is not met. On-line sales, shopping center decline, and economic downturns may cause serious sales tax revenue shortfalls over the decade. This report's more prudent scenario of an annual .5% increase leads to about $20 to $25 million less dollars a year in revenues for Metro City.

Under the plan existing municipal sales taxes would be captured by the Metro City. It is unclear legally whether some of those taxes could be spent for general fund purposes rather than the special function for which they were authorized, further endangering the budget projections.

Finally, the Better Together proposal eliminates the City of St. Louis earnings and payroll taxes and reduces the "county purposes" property tax in both the City and County. By 2032, this translates into a revenue loss of over $250 million annually.

There is a much sharper difference between this analysis and the claims of Better Together proponents with respect to expenditures. They project a decline of 1% per year over the decade with the status quo as the 2023 baseline. However, it appears that this baseline is in fact the level of expenditures for the 2017/18 period, not 2022, meaning the five years of no increases would precede the ten years of annual 1% reductions.

This report projection begins with 2018 and increases spending for all entities (City, County, municipalities) on services through 2022, which produces an almost $200 million-dollar baseline difference. To achieve this realistic projected 2023 baseline starting point would require draconian cuts in the first year of operation of the Metro City.

Better Together claims the annual 1% expenditure reduction claims will be accomplished through employee attrition, service consolidation, and new technology. However, no details are provided. Employee attrition may not occur in expendable positions. Most urban government costs are to provide labor intensive services. Reduction in personnel leads directly to service decline. Unless judges, police officers, or street workers are replaced by robots, it is hard to understand how technology will lead to the level of cost savings projected.

The Better Together expenditure projection also assumes once existing debt is retired, no new debt will be incurred and thus it does not budget any funds for debt service payments. We cannot find any major city in the country with no debt to finance long-term capital projects. It is financial folly to assume that the current buildings and other infrastructure will last forever.

Assumptions matter. If the citizens of the City of St. Louis and St. Louis County want the lower levels of government spending projected by Better Together, they will need to accept massive reductions in services, such as public safety and public works.

Introduction

The Better Together Consolidation Plan Fiscal Note was submitted to the Auditor and Secretary of State of the State of Missouri as part of the process for certifying the constitutional amendment ballot language. In the Fiscal Note and other documents, a number of claims were made relative to the revenue flows, expenditure patterns, and projected savings resulting from the consolidation. A Fiscal Analysis Team (Team) consisting of

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analyzed the fiscal claims, and our conclusions are contained in this report.

The Team consulted several current city managers/finance directors in the process of this academic assessment of the likely financial impact of consolidation on public services and taxes. This report is an initial summary of this analysis. The Team expects to examine in greater detail other elements of the consolidation proposal in the near future.

Since any attempt to examine the path of public spending more than a decade into the future is fraught with uncertainty, we fully expect readers will find issues with our work and conclusions. This is why the subtitle reads, "A First Step". We wish to hear from those who read this first report, and take issue with our methodology or conclusions. We presume there will be a need for future adjustments. Our aspiration is to contribute to the community dialog on this proposal in the coming months and expect that discussion will lead to some modification of our initial conclusions.

This report begins with a review of the substantial academic literature on city-county consolidation. This is followed by an assessment of the pitfalls of attempting to compare revenues and expenditures of cities/counties in different parts of the country. The next section examines the claims of savings asserted by consolidation advocates by analyzing the revenue and expenditure assumptions inherent in the fiscal projections. In the conclusion the Team evaluates the projected consolidation savings and presents the results of its own projections based on a somewhat different set of assumptions.

Academic Studies of City-County Consolidations

Studies of city-county consolidations consistently show that there have been little or no cost savings realized.

After examining nine city-county consolidations in

(Nashville/Davidson County, Tennessee; Virginia Beach/Princess Anne County, Virginia; Jacksonville/Duval County, Florida; Carson City/Ormsby County, Nevada;

> Lexington/Fayette County, Kentucky; Butte/Silver Bow County, Idaho; Lynchburg/Moore County, Virginia; Athens/Clarke County, Georgia; Kansas City/Wyandotte County, Kansas),

the study directors conclude "*there is no support for the hypothesis that consolidations predictably lead to increased efficiency in local government*"

Suzanne M. Leland and Kurt Thurmaier, *City-County Consolidations: Promises Made, Promises Kept?*, Georgetown University Press, 2010, pages 282-283.

H.V. Savitch and Ronald Vogel, the leading scholars on the Louisville/Jefferson County (Kentucky) merger, examined the pre-merger (1999/2000 – 2002/2003) and post-merger (2003-2004 to 2008-2009) experience. They found that

> "*in general any reductions in budgets, personnel, and costs have been small (about 1%)"* and that "*the basic pattern has been for expenditures to modestly recede for a short period only to climb back to previous levels"*

(H.V. Savitch, Ronald Vogel, and Lin Ye, "Louisville Transformed but Hardly Changed: A Survey of a City Before and After Merger," in Don Phares, editor, *Governing Metropolitan Regions in the 21st Century*, M.E. Sharpe, 2009, page 174).

Philadelphia completed a full city-county merger in 1952 According to an Allegheny Institute for Public Policy report that also examined Indianapolis and Louisville, the study notes:

> "W*henever talks centers on city-county mergers, the city that is least likely to come up is Philadelphia. However, it is one of the few complete models in the country. It is more complete than Metro Louisville and Indianapolis in that there are no remaining cities or towns and one consolidated government is providing all functions and services. The reason it is not mentioned is that it has been under a state appointed fiscal oversight board and is beset by high taxes and low economic performance. It does suggest caution against the belief that a large, merged government is necessarily more cost effective.*

(Frank Gamraz and Jake Haulk, *Merging Governments: Lessons from Louisville, Indianapolis, and Philadelphia,* Allegheny Institute for Public Policy, 2005, page 15).

Although the City of Indianapolis merged with Marion County in 1970, the Indianapolis Police Department and the Marion County Sheriff's Department were not consolidated into the single Indianapolis Metropolitan Police Department until 2007. Proponents estimated the annual savings would be $8.8 million. A 2013-2014 study of the police consolidation commissioned by the Indianapolis City-County Council (Unigov) concluded that:

*A considerable and diverse set of factors mitigated the ability to achieve the estimated cost savings Administrative staffing changes and turnover, unavoidable contract obligations, legacy personnel costs, legislative and judicial decisions, and changing public safety responsibilities of the Indianapolis Metropolitan Police Department and the Marion County Sheriff's Department prevented the realization of anticipated immediate cost savings.*

(*Consolidated City of Indianapolis and Marion County: Law Enforcement Consolidation Review*, KSM Consulting, 2014.)

A 2011 summary of consolidation studies in the United States finds that:

*Previous studies have examined the impact of city-county consolidation using a variety of research methods from cases studies to econometric techniques, and they have found that consolidation has little impact on local government spending or economic development outcomes. The results of the models presented in this book concur with the previous research. We found that there are no pre- or post-consolidation differences in the employment, payroll, or expenditures of consolidated local governments.*

(Dagney Faulk and Michael Hicks, Local *Government Consolidation in the United States*, Cambria Press, 2011).

Challenges of Local Government Fiscal Comparisions

There are a number of challenges in examining the fiscal operation of consolidated city-county governments and projecting the outcome for a consolidation in St. Louis. While there are 40 consolidated city-county governments in the U.S., the National League of Cities has separated them into three categories:[1]

- governments legally designated as city-counties and operating primarily as cities
- areas designated as metropolitan governments and operating primarily as cities
- areas having certain types of county offices, but as part of another government (city, township, special district, state)

One of the impacts of these varying government forms is the specific services that are the responsibility of any one of these 40 governments is not exactly the same as any of the others. While there are some services that are consistently provided, such as police and public works, there are other services that are not provided in some cases or are delivered by a special district or some other arrangement. One approach to determining these differences is to examine the organization charts in Comprehensive Annual Financial Reports (CAFR).

CAFR's is a set of U.S. government financial statements comprising the financial reports of a county or municipal governmental entity that complies with the accounting requirements

[1] https://www.nlc.org/list-of-consolidated-city-county-governments

promulgated by the Governmental Accounting Standards Board (GASB). The organization charts for the 40 consolidated city-county governments shows a wide range of services and service structures that make comparison across governments very difficult.

For example, comparing the governments in the City of St. Louis and St. Louis County to Louisville-Jefferson County should account for the St. Louis Port Authority functioning as one of the 12 Development Boards of the municipal government of the City of St. Louis whereas The Louisville and Jefferson County Riverport Authority is a legally separate entity that was established in order to develop and maintain an industrial riverport complex on a self-supporting basis utilizing a rate structure designed to produce revenues sufficient to fund debt service requirements, operating expenses and adequate working capital.[2]

Similarly, the Parking Commission of the City of St. Louis is a part of the City government whereas in Louisville-Jefferson County the Parking Authority of River City, Inc. is a separate non-profit corporation.

Comparing St. Louis to Indianapolis is similarly complex. Despite the moniker Unigov, the structure of local government in Marion County Indiana is perplexingly complex. While Unigov consolidated the City of Indianapolis and Marion County as the primary governmental unit, there are a number of component units that perform discrete functions and are outside the direct governance of the consolidated City of Indianapolis and Marion County. Examples of components of Unigov include: Capital Improvement Board of Managers, Health and Hospital Corporation of Marion County, Indiana, Indianapolis-Marion County Building Authority. These component units each have their own source of tax and other revenues separate from the Consolidated City of Indianapolis/Marion County.

While there are potential lessons to be learned by a metropolitan area through contrasting the cost, quality, and impact of its governmental structure, there are many factors which must be accounted for to have confidence in the veracity of the analysis.

Revenue Estimation

The claims of fiscal savings as a result of the monumental consolidation of local government proposed by Better Together are derived from a set of revenue and expenditure projections in the post consolidation world. This section examines the revenue assumptions and projections contained in the fiscal note submitted to the Missouri Auditor by Better Together.

The major revenue assumptions can be summarized as:[3]

> Property tax collections will increase 2% per year in all jurisdictions combined beginning in 2018

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[2] https://www.naseo.org/Data/Sites/1/documents/committees/financing/resources/qecb/statements/Louisvillle.pdf

[3] This revenue section does not include Fire District revenue since that will be the subject of a subsequent report.

Sales tax collections will increase 1% per year in all jurisdictions combined beginning in 2018 after accounting for the increase in aggregate sales tax as result of Prop P approval in both City and County.

The earnings tax/payroll tax in the City of St. Louis will be phased out beginning in 2021.

There will be a reduction in property tax rate in St Louis County and elimination of the "county services" property tax in the City.

The Fiscal Analysis Team (Team) built a spreadsheet model to analyze the impact of these revenue assumptions on the resources available to provide services in 2021 and subsequent years until 2032. The analysis details both the Better Together projections as well as the working assumptions of the Team. The Team employed slightly different assumptions to some of the key elements.

Property Tax

A flat 2% per year increment in property tax seems inappropriate on two grounds. First, the history of assessed valuation over both a ten year and five-year period of time in both the City and County does not support the premise that values will rise 2% a year over the next fifteen years. The combined City/County assessment in 2009 was $29.5 billion dollars, which decreased to $29.0 billion in 2017[4]. Between the 2015 reassessment and 2017 reassessments, the increase was 7.9% over the two-year period. Of course, actual revenue from the property tax is a function of assessed valuation and the tax rate.

Second, property reassessment occurs every other year. A pattern of yearly increase by the same metric is particularly questionable. Thus, the compounding effect of yearly increases absent voter approved rate increases overstates the cumulative impact. The Team employed a metric of 1% increase for assessment years, and .5% increase for non-assessment years.[5]

Sales Tax

Estimates of future revenues from sales tax is especially important for this analysis. Currently, sales tax accounts for 38% of all revenue for the City/County/Municipalities combined. However, in the projected metro city budget sales tax would account for more than 50% of the revenue of the Metro City. Thus, a small inaccuracy in revenue projection over a decade can either sharply reduce or increase the estimation, and this could be cumulative.

For purposes of projection one can utilize either sales tax collected or total taxable sales as a metric. The Better Together projection employs a 1% increase per year on sales tax collected, as the basis for the fifteen-year projection.

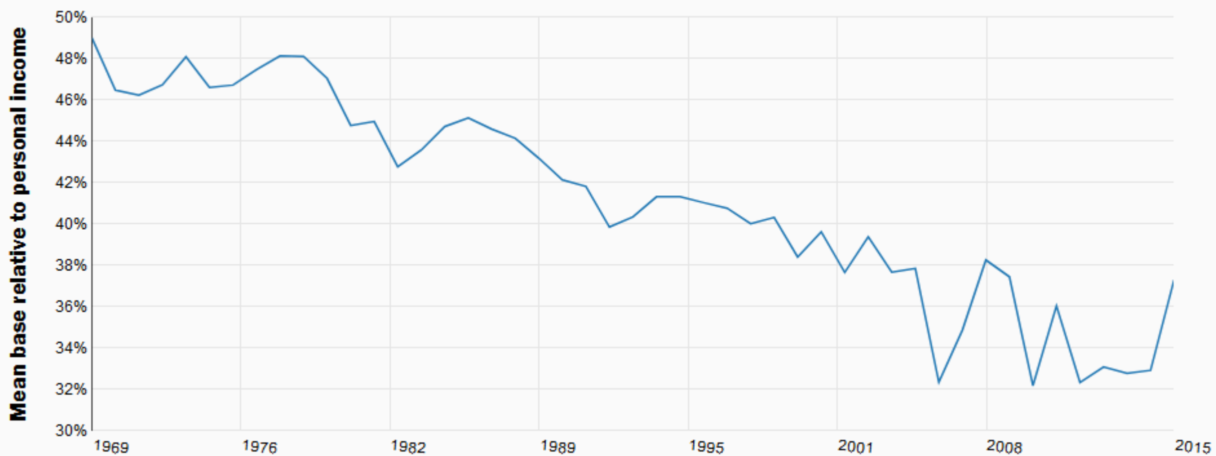
[4] CAFR St Louis City and County

[5] As this report was being prepared newspaper accounts indicated that reassessments in 2019 were indicating a significant increase in both City and County. To reflect these preliminary estimates the Team employed a 2% increment for 2019 only.

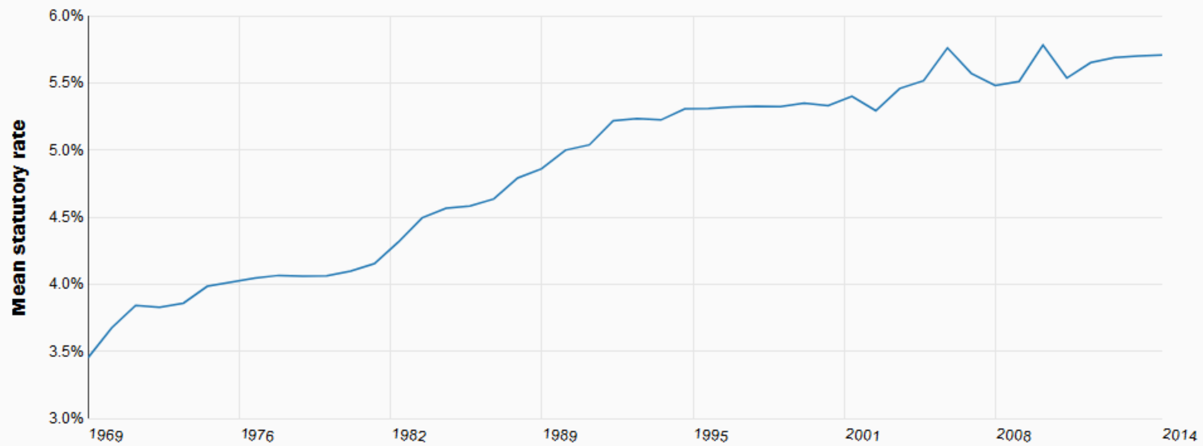
The aggregate sales tax collection metric can be skewed by changes in the rate or number of entities collecting sales tax. There are a variety of local option sales taxes available and used by the individual entities. In the future, increments to the rates and number of sales taxes utilized would require a positive vote of the entire metro city rather than an existing municipality, which may be more challenging.

Several factors might negatively impact the fifteen-year projection of growth at a compounded 1% per year. Online sales have clearly reduced the growth of "brick and mortar" retail location sales. There is little reason to conclude this pattern will change in the next decade, and ample evidence to infer that the trend will continue. One of the inevitable consequences of this trend is the decline in the number of malls and "big box" retail stores, which generate a major share of the total sales tax.

The Brookings Institution documented the historical trends in the sales tax base and the sales tax rate in the 2018 report *The History and Future of the Retail Sales Tax*.[6] Sales tax collections historically have been maintained only by increasing the tax rate because the tax base has been shrinking. There is every reason to expect a similar future for Metro City, since its largest source of revenue will be sales tax, starting at 42 percent in 2023 and increasing to over 50% percent in 2032.




[6] https://www.brookings.edu/blog/up-front/2018/07/16/the-history-and-future-of-the-retail-sales-tax/




A decade ago a significant recession caused sales tax revenues to drop precipitously. Almost a decade later total taxable sales are just returning to the pre-recession level. Hopefully, there will not be another recession of this magnitude in the next fifteen years, but is it realistic to presume no economic downturn?

Because of the importance of sales tax to the overall revenue projections for the Metro City, the team has undertaken three projections of sales tax. The base assumption is the optimistic one (1% per year) used by Better Together. The alternative assumption is a more conservative (.5% per year) projection that seeks to reflect changes because of either online sales or a recession or both over the fifteen-year period. Because the sales tax revenue will be the most critical segment of revenue for the Metro City, the Team has a base projection of 1% increase per year (following the Better Together metric), but have also explored the impact of a .5% increase and a .75% increase.

**Table 1**
**Taxable Sales- St. Louis City and County 2014-2017**

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| County | $16,910,882,473 | $17,075,262,610 | $16,844,027,084 | $16,300,797,027 |
| City | $4,714,503,278 | $4,663,675,173 | $4,683,668,511 | $4,577,453,173 |
| Combined | $21,625,385,751 | $21,738,937,783 | $21,527,695,595 | $20,878,250,200 |
| % Increase | -0.5% | 1.0% | 3.0% | |
| % Incr 2014-17 | 3.6% | | | |

Source: Missouri Department of Revenue

Historic statistics on actual sales tax revenues is an alternative approach to projecting future income.

**Table 2**
**Sales Tax Revenue Increases- St Louis City/County**

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| County | 2.5% | 0.9% | 2.8% |
| City | 9.3% | 0.4% | 0.6% |

There is a volatility for annual sales tax generation that reflects variations in spending patterns. This is why the Team used alternative scenarios to assess the impact of declining taxable sales.

Finally, it should be noted that total county and municipal sales taxes currently collected are authorized by a variety of statutes some of which specify a dedicated use for the tax. The plan appears to assume in the future the Metro City will receive all sales taxes and use them as general revenue. This is a potential point of legal challenge. Since the Metro City budget will rely heavily on sales tax revenue, the earmarked nature of some of the sales taxes may render yearly budgeting more difficult and less flexible.

Other Revenue

The Better Together fiscal note offers no increment on the other revenue sources, except to gradually eliminate the earnings/payroll tax in the City, and project an initial reduction in the court fines/fees. These items are kept at the same level for the entire fifteen-year period. This is probably unrealistic. License fees and utility tax together represent 16% of the total revenue in the base year. However, since the Better Together projection did not add an inflation factor to these items, the Team also decided to not adjust them. This allows for a focus on Sales and Property tax in the comparative analysis.

Revenue conclusions

The Team's Revenue projections employed the same approach as Better Together for all revenue items except Property Tax and Sales Tax. This is a presumption of no increase beyond the 2017 status quo. We also assumed the phase out of the City earnings/payroll tax over ten years, and the one-time reduction in court fines.

We adjusted property tax revenue to account for greater increases in assessment years. The Hancock Amendment constrains excessive increases caused by reassessment. Our approach was to increment revenue by 1% in assessment years and .5% in other years. We also reduced revenues in 2024 to account for the reduction of the City tax for county services and the reduction in the County rate stipulated in the Better Together fiscal note. With these adjustments the Team's projection finds $123 million dollars less than the Better Together projection for property tax in 2032 with a shortfall of about $100 million dollars a year throughout the period.

The sales tax pattern is slightly different. It appears that the Team's estimate of Prop P addition to the sales tax yield after 2017[7] is slightly higher than the Better Together estimate. This produces a slightly higher sales tax yield for the Team across the projection period when both use the 1% yearly increment.

The Team is comfortable with the 1% metric based on recent historic trends, but recognizes there is a volatility to sales tax that renders long-term projection troublesome. Therefore, we did alternative projections of .5% and .75% per year. In these scenarios $20 to $25 million dollars less is collected per year over the projection period.

When all revenues are included, the Team projects $40 million dollars less revenue per year than the Better Together projection for 2032 with similar differentials each year. If the Team alternative scenario #1 (annual .5% sales tax increase) becomes more accurate, the revenue differential may approach $150,000,000.

The Team has not undertaken a "status quo" projection, but notes that both projections assume elimination of the earnings/payroll tax over ten years and reductions in property tax in both City and County. In 2017 the earnings/payroll tax was nearly $200 million dollars. The Team estimated the property tax reductions to be in the neighborhood of $70 million dollars.

Assuming other revenue sources remain the same in a status quo projection, this will remove almost $300 million dollars a year now utilized to provide public services.

Expenditure Estimation

This section examines the pre and post consolidation expenditure projections of Better Together as published in the fiscal note submitted.

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[7] Better Together used 2017 as the base year. At this point most of the Prop P money was yet to be collected. The Team adjusted 2019 sales tax revenues to fully reflect Prop P collections, and this enhanced number became part of the base in 2022.

The Better Together major expenditure assumptions can be summarized as:

Pro forma 2023 Metro City Budget nearly identical to 2017 Status Quo Expenditures projected forward to 2032 with 1% annual decrease. (expressed as 3% reduction offset by 2% inflation)

Specific cost reduction areas are unspecified.

Municipal district expenditures will decrease over time to reflect limited responsibility

The Fiscal Analysis Team (Team) built a spreadsheet model to analyze the impact of these expenditure assumptions on the provision of services in 2023 and subsequent years until 2032. This analysis examines both the Better Together expenditure projections as well as the working assumptions of the Team. The Team employed somewhat different assumptions related to key elements.

Treatment of Baseline Expenditures in Pro Forma Budget

The baseline initial expenditures for the 2023 and beyond pro forma budget appears to use the 2017 status quo expenditures as a starting point.[8] The Table 3 below illustrates expenditures by category remain fundamentally the same despite the five-year gap between 2017 and 2023.[9] The Team sought to present a more realistic view of an appropriate baseline expenditures for year one of the Metro City. In the Team model, the Status Quo 2017 expenditures were grouped according to function and entity.[10]

**County Functions** were those listed as exclusive of STL County and/or City with no municipal expenditures. Board of Elections and Assessor are examples of this function currently provided by both City and County, but not by municipalities.

**Judicial Functions** were those involving Courts, Prosecutors, and Jails in the City and County.

**Municipal Functions**, such as police and parks, were those performed by City, County, and municipalities with listed expenditures for each.

[8] Reference 3 of the Fiscal Note (p 3 of Better Together Fiscal Note Spreadsheet) in referring to Revenue cites the FY 18 for City, FY17 County, 16-17 CAFRs for municipalities. Status quo expenditures (p4 of Better Together Fiscal Note Spreadsheet) do not list a source, but it appears to be the same 2016-18 data sets used for revenue baseline.
[9] The fire district expenditures have been included in the total because the fiscal note spreadsheet (p9) includes fire protection (districts and municipal) as first year expenditures, although the Metro City will not directly provide fire service. We anticipate a closer analysis of fire service finances in a subsequent report.
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This division does not consistently divide all expenditures into appropriate categories[11], but does provide a sense of expenditures related to functional activities. The share of expenditures in each functional category are:

County Functions 22%
Judicial Functions 6%
Municipal Functions 72%

The expenditures by function were subject to different annual increments for each entity (City, County, Municipalities) for the years 2018 through 2022.[12] [13] The Status Quo expenditures did not appear to account for the new spending attributed to the public safety sales tax for each entity. Most of the expenditures associated with the tax were salary increases that become part of the base budget and not easily reduced compared to capital expenditures.[14]

In the Team budget projection, annual public safety sales tax revenue was added to the previous police expenditures in addition to the annual increment to reflect this addition to the base budget.[15]

**Table 3**
**Status Quo vs First Year Expenditures**
**In Better Together Fiscal Note**

| | StatusQuo 2017 | Team2018 | Team2019 | Team2020 | Team2021 | Team2022 | BT 1st Yr 2023 Tot | Diff 2023/2022 | Diff 2023/2017 |
|---|---|---|---|---|---|---|---|---|---|
| COUNTY FUNCTIONS | $539,371,973 | $546,381,512 | $553,663,414 | $561,069,624 | $568,602,416 | $576,264,106 | $541,976,203 | ($34,287,903) | $2,604,230 |
| JUDICIAL FUNCTIONS | $144,369,963 | $146,415,422 | $148,493,371 | $150,604,376 | $152,749,012 | $154,927,866 | $144,369,963 | ($10,557,903) | $0 |
| MUNICIPAL FUNCTIONS | $1,733,912,710 | $1,756,322,545 | $1,856,350,819 | $1,880,729,309 | $1,905,487,004 | $1,930,630,053 | $1,787,762,486 | ($142,867,567) | $53,849,776 |
| ALL FUNCTIONS | $2,417,654,646 | $2,449,119,479 | $2,558,507,604 | $2,592,403,309 | $2,626,838,432 | $2,661,822,025 | $2,474,108,652 | ($187,713,373) | $56,454,006 |

The table illustrates the difference between the Team projection of status quo expenditures in 2022 and the Better Together first year projection of expenditures. The Better Together 2023 expenditures are almost identical to the Status Quo 2017 baseline. The differences are a reduction in costs for municipal courts, addition of the emergency fund, additional fire protection money for the new St. Louis Fire District, and reduction in the "Other" category for the City of St. Louis. Most the additional expenditures are accounted for by additional debt service and new fire protection dollars.

[11] For example the catchall category of "Administration" includes areas of spending that may be attributed to other functions.
[12] City 1% per year, County 2% per year, Municipalities, 1.5% per year.
[13] Not all categories were subject to an increment. Those categories where the service provided was unclear were kept at the 2017 level. The county item for "Convention and Recreation" is an example
[14] A body camera purchase, for example, is a one-time expense. A base salary increase is a continuing expense.
[15] Since not all public safety sales tax revenue was dedicated to salary, the tax was multiplied by .75 in the 2019 base year, and this new amount became part of the baseline expenses going forward.

The more significant difference is in the comparison between the Team projection of spending for all functions in 2022 and the 2023 Better Together projection spending for all functions in 2023. This analysis found a significant shortfall in every function category with a total difference of $187.7 million-dollar difference between projected 2022 spending and the first year Metro City expenditures. This represents an approximately 7% reduction from 2022 to 2023.

For example, police expenditures are the largest single item representing 20% of all expenditures. The police shortfall represents about $116 million dollars. If police expenditures in 2023 were maintained at the level of 2022 spending to avoid a reduction in officers for this critical service, all other functions might need to be reduced by 20% to meet the target total expenditure.

In a scenario in which the Better Together 2023 proforma expenditures are used with a decrease of 1% a year across the board produces a much smaller yearly expenditure total than a scenario in which the Team projection of the status quo in 2022 is used for future estimations.

The Team finds the proposition that a yearly reduction in expenditures equal to 1% per year to be unrealistic. Police, public works, parks, and fire protection represent well over 50% of all expenditures, and these are labor intensive services. Annual budget reductions over a decade in these popular services seems unlikely.

Recent press reports indicate Louisville faces a significant budget shortage with police cuts among areas subject to reduction. Consolidation does not guarantee a world free of budget problems.[16]

The Team did not attempt to project an increase in debt service beyond the plan to reduce debt, especially with use of the earnings tax during the phase out period. The Better Together plan does not appear to provide for any future debt service over the first decade. Comparable cities across the country routinely use new debt for essential capital improvements. Road and bridge improvements, building retrofitting, and other capital projects will not be undertaken without the additional debt.

Projected Savings

A hallmark of the Better Together fiscal plan is projected savings of $55,000,000 annually with a cumulative savings of up to $1 billion annually. Our analysis leads to an opposite conclusion. We estimate that expenditures will quickly exceed revenues leading to either deficits or substantial reductions in service. Table 4 below is our comparative summary of revenue and expenditure projections from 2023 to 2032.

[16] https://www.courier-journal.com/story/news/politics/metro-government/2019/04/05/louisville-budget-belle-louisville-city-pools-other-summer-impacts/3369447002/

**Table 4 Summary Comparison of Team and Better Together Financial Projections**

| Summary | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 |
|---|---|---|---|---|---|---|---|---|---|---|
| BT Revenue Projection | $2,321,663,940 | $2,316,018,827 | $2,295,754,852 | $2,290,336,792 | $2,308,320,990 | $2,285,468,439 | $2,276,206,868 | $2,271,883,046 | $2,267,791,480 | $2,285,110,465 |
| Team Revenue Projection | $2,337,799,484 | $2,328,112,119 | $2,297,543,509 | $2,287,804,717 | $2,302,760,104 | $2,263,050,260 | $2,255,195,797 | $2,246,038,239 | $2,230,746,916 | $2,242,921,447 |
| | | | | | | | | | | |
| Difference( BT-Team) | ($16,135,544) | ($12,093,292) | ($1,788,657) | $2,532,075 | $5,560,886 | $22,418,179 | $21,011,071 | $25,844,807 | $37,044,564 | $42,189,018 |
| | | | | | | | | | | |
| BT Expenditure Projection | $2,175,686,739 | $2,119,049,199 | $2,153,102,342 | $2,092,835,310 | $2,079,985,394 | $2,067,368,664 | $2,054,888,718 | $1,919,070,939 | $1,906,955,912 | $1,895,068,110 |
| Team Expenditure Projection | $2,363,400,111 | $2,450,254,637 | $2,365,543,332 | $2,316,540,994 | $2,315,076,317 | $2,313,766,324 | $2,312,715,960 | $2,311,819,474 | $2,311,182,906 | $2,310,699,487 |
| | | | | | | | | | | |
| Difference (Team -BT)) | $187,713,373 | $331,205,437 | $212,440,990 | $223,705,684 | $235,090,923 | $246,397,660 | $257,827,242 | $392,748,536 | $404,226,994 | $415,631,377 |
| | | | | | | | | | | |
| BT Surplus Revenue/Expenditudres | $145,977,201 | $196,969,628 | $142,652,510 | $197,501,482 | $228,335,596 | $218,099,775 | $221,318,150 | $352,812,107 | $360,835,568 | $390,042,355 |
| Team Surplus Revenue/Expenditures | ($25,600,627) | ($122,142,518) | ($67,999,823) | ($28,736,277) | ($12,316,213) | ($50,716,063) | ($57,520,163) | ($65,781,235) | ($80,435,990) | ($67,778,040) |
| | | | | | | | | | | |
| Difference BT - Team | **$171,577,828** | **$319,112,146** | **$210,652,333** | **$226,237,759** | **$240,651,809** | **$268,815,839** | **$278,838,313** | **$418,593,342** | **$441,271,558** | **$457,820,395** |

In the early years the Team revenue estimates are higher than the Better Together projections. The subsequent reversal comes from less optimistic property tax estimates. If, however, the Team sales tax scenario #1 (using a .5% rather than a 1% yearly increment) is more accurate, the gap would be considerably higher.

However, the most significant difference is on the expenditure side. As noted above, the Team concluded the Better Together 2023 expenditure starting point is artificially low. If the 2017 starting point is projected forward with a modest inflationary increment and full accounting for expenditures relating to the voter approved public safety sales tax, then the 2023 baseline expenditures will be considerably higher.

The differences in expenditure projection in the early years are in the range of $200 to $250 million dollars a year. These, of course, would be unsustainable. Balanced budgets would quickly require large expenditure reductions in essential services. The Better Together analysis assumes an annual and cumulative expenditure reduction of 1% a year across the board for a decade. The Team basic analysis also assumes a 1% per year reduction after inflation adjustment, but finds higher levels of expenditure because of the larger baseline.

<u>Conclusion</u>

This report represents a first attempt to systematically analyze the financial projections of the Better Together merger plan. The Team did not find evidence to support the claim of tens of millions of dollars of annual savings with no loss of essential public services.

The Team revenue projections are somewhat higher than those of Better Together in the near term, but less in the later years. The baseline expenditure budget in the Better Together plan appears to start at an unrealistically low point, even before anticipated budget reductions attributed to economies of scale and employee attrition.

The Team's analysis concludes with the projection of an operating deficit of between $50 and $80 million dollars a year during the first decade, even with the projected 1% per year reduction. We do not believe such a shortfall would be sustainable over that period of time. Either new tax increases would be necessary, or major service cuts beyond 1% per year will be required.

Police, Public Works, and Parks represent 45% of all expenditures. The Judicial functions, including jails, account for another 6%, and the dedicated tax support for mass transit an additional 8%. It is difficult to reduce expenditures in these service areas, but the Metro City will not be able to balance its budget without cutbacks in these services.

The Team welcomes comments and critiques of its methodology and conclusions.

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Your comments will be reviewed by the entire team.