Better Together Policy Recommendations
Analysis of Local Government Savings

Executive Summary

Better Together's policy recommendation will result in significant savings in local government spending in the St. Louis region, beginning with savings of up to $55 million annually in 2023 and increasing to savings of up to $1 billion annually by 2032.

The enclosed analysis demonstrates savings to local governments over the ten-year period post-reorganization (2023 through 2032). The components of this savings include reductions in expenditures and surplus revenues over expenditures. During that period, the Metro City would reduce expenditures by up to $3.2 billion versus the current trend of expenditures over the same time period. In addition, over the same period, the Metro City would generate surplus revenues of $1.7 billion. This would result in a total savings to local governments over the ten-year period of up to $4.9 billion.

The following is a summary of the methodology used in analyzing savings to local governments pursuant to Better Together's policy recommendation.

Key Takeaways

- The Metro City, St. Louis Municipal Corporation, and Municipal Districts will have excess revenues over expenditures following reorganization, even with the phase-out of the earnings tax, payroll expense tax, and reduction in property taxes.

- During the first-year post-reorganization (2023) savings are estimated at up to $55 million based on the conservative assumptions set forth in the accompanying fiscal analysis.

- Because services within the former City of St. Louis will be provided by the Metro City, the St. Louis Municipal Corporation will have the revenue capacity to accelerate the satisfaction of outstanding obligations and debt, including through a refinancing or accelerated debt payments, which would result in additional savings in interest and carrying costs.

- The approximately $351 million in expenditures estimated for Municipal Districts is projected to decrease over time as outstanding obligations are satisfied. As with the St. Louis Municipal Corporation, this is expected to result in additional savings to local governments through the reduction in interest and carrying costs. It will also make additional sales and use tax revenue available to the Metro City to support the provision of general district services.

- The Metro City is estimated to have sales tax revenues in excess of $1 billion by 2025.

- As outstanding obligations are satisfied and continued efficiencies and economies of scale are realized, including through attrition of employees, the consolidation of services, and the implementation of state-of-the-art technology, revenues to the Metro City are expected to exceed expenditures by up to $342 million by 2032.

Savings

Based on modest 1% annual expenditure reduction above inflation, the Metro City will realize an initial reduction in expenditures and surplus of $55 million in 2023. The Metro City will achieve these savings despite additional expenditures necessary to ensure compliance with state law regarding appropriation to a 3% emergency fund and to fund the initial year operating costs of the St. Louis Fire Protection District. The St. Louis Fire Protection District is projected to increase expenditures by $21 million over the status quo. Revenues are available to cover these additional expenditures, while still leaving the Metro City with revenues in excess of expenditures and savings of up to $55 million.

Savings for local governments will reach as much as $250 million annually in 2026, and up to $1 billion annually by 2032. Even with Municipal Districts continuing to spend approximately $350 million annually and fire protection districts continuing to spend $300 million annually, Better Together's policy recommendation would capture much of the estimated overspend in government services compared to peer regions identified in Better Together's prior research—between $750 million and $1 billion annually.[1]

The enclosed analysis demonstrates savings to local governments over the ten-year period post-reorganization (2023 through 2032). The components of this savings to local governments include both reductions in expenditures and surplus revenues over expenditures. During that period, the Metro City would reduce expenditure by up to $3.2 billion, versus the current trend of expenditures over the same time period. In addition, over the same period, the Metro City would generate surplus revenues of $1.7 billion. This would result in a total savings to local governments over the ten-year period of up to $4.9 billion.

Better Together's regional spending comparison report showed that residents of the St. Louis region spend $1,912.84 per capita to deliver services.[2] To provide context, Better Together compared this cost to the budgets of metropolitan peers Louisville (KY) and Indianapolis (IN). Both Louisville and Indianapolis were at one time fragmented but have since consolidated their city and county governments. This research revealed that the per capita cost to fund municipal services in Indianapolis-Marion County was $1,208.11 and $1,094.76 in Louisville-Jefferson County.

By 2032, the Metro City will expend $2,170,858,488 annually on the provision of services in the region, a per capita cost of $1,657.16. This represents a per capita annual savings of $255.68. In 2032, a family of four would save $1,022.72 compared to status quo spending.

Solvency: Revenues Over Expenditures

In the status quo, expenditures are increasing by at least 2% annually due to inflation. The St. Louis Metro City will achieve modest cost savings of 3% annually through the consolidation of services, attrition, and implementation of technology - outpacing inflation to generate a net reduction in local government expenditures of at least 1% annually. This modest annual savings

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[1] *See* Report and Recommendations of the City-County Governance Task Force.
[2] *See id.*

leads to increased revenues in excess of expenditures, which can be used to accelerate the servicing and retirement of debt and similar financing obligations.

Status Quo Revenues

As detailed in the enclosed materials, local governments in the City and County collected approximately $2.4 billion in revenues in 2017. Due to the current fragmented government structure, this revenue is divided among the following local governments:

- City of St. Louis: $790 million
- St. Louis County: $700 million
- Municipalities: $730 million
- Fire Protection Districts: $200 million

Better Together's 2017 regional spending comparison showed $2.5 billion in combined spending among the 90 local governments providing municipal services to the St. Louis region, as well as the 23 fire protection districts.[3]

Transition Revenues

Under Better Together's policy recommendation, during each year of the Transition Period (January 1, 2021 through December 31, 2022), revenues from current taxes, licenses, and fees of the City of St. Louis, St. Louis County, and the 88 municipalities would be distributed by the Metro City to the Municipal Districts as required for satisfaction of outstanding obligations and for providing services. Estimated distributions are based on the 2017 Comprehensive Annual Financial Reports (CAFRs) for the Municipalities and the 2017 actual expenditures of the City and County and rely on the following assumptions:

- 2% increase in property tax per standard adjustment/new construction;
- $100 million in additional sales tax revenue to reflect a full year of revenues generated by Prop P in the City and County and an annual 1% growth in sales tax;
- A 20% reduction in Court Fines & Fees due to consolidation of municipal courts;
- The initial one-tenth of one-percent phase-out of the earnings tax and the initial one-twentieth of one-percent phase-out of the payroll expense tax beginning in 2022.

Post-Reorganization Revenues

Post-reorganization (January 1, 2023 and thereafter), revenues from taxes, licenses, and fees of the former City of St. Louis, St. Louis County, and 88 municipalities would be distributed to the Municipal Districts and the St. Louis Municipal Corporation as required for the satisfaction of outstanding obligations and as necessary for services provided by Municipal Districts. In addition, all revenues from property taxes levied solely within the territory of a Municipal District will be distributed to the Municipal District. Municipal districts will also be authorized to levy property taxes or special assessments, levy and collect utility gross receipts taxes, make charges for services, and receive investment income.

[3] *See* Report and Recommendation of the City-County Governance Task Force.

St. Louis Metro City Revenues - Assumptions

- 2% annual increase in property tax per standard adjustment/new construction;
- 1% annual growth in sales tax revenues;
- One-tenth of one percent annual phase-out of earnings tax and one-twentieth of one-percent annual phase out of payroll expense tax;
- One-time 50% reduction of revenue generated by county property tax levied in the former County (approximately $24 million reduction in property taxes);
- Beginning in 2024, replacing the county purposes property tax levy in former City with the lowered general revenue levy within former County (approximately $10 million reduction in property taxes);
- Continued reduction in Court Fines & Fees, with amounts generated in excess of costs distributed to school districts.

Distributions to Municipal Districts - Assumptions

- 2% annual increase in property tax per standard adjustment/new construction;
- Declining sales tax distributions over time as outstanding obligations are satisfied and only sales tax revenues necessary for providing municipal district services are distributed as general district services are assumed by the Metro City.
    - Sales tax revenues necessary for Municipal Districts to provide municipal district services are estimated at approximately $63 million annually.

Distributions to St. Louis Municipal Corporation – Assumptions

- 2% annual increase in property tax per standard adjustment/new construction;
- Declining sales tax revenues distributed to the Municipal Corporation as obligations are satisfied over time;
- One-tenth of one percent annual phase-out of earnings tax and one-twentieth of one-percent annual phase-out of payroll expense tax.

Metro City Expenditures

To demonstrate expenditures and savings, Better Together developed a pro forma budget for the Metro City. Assumptions represent a conservative allocation of greater than or equal to the anticipated cost. Subsequent year budgets assume annual savings of 3%, offset by inflation at a rate of 2%. The specific areas of the Metro City budget targeted for savings would be determined by elected officials of the Metro City during the annual budget process.

Municipal District Expenditures

Municipal Districts will continue to provide municipal services such as parks and recreation, fire protection (for Municipal Districts operating a fire department), trash removal, maintenance of facilities related to municipal district services, and general administration. Municipal Districts may also continue to provide a general district services until such service is provided by the Metro City within the Municipal District. Expenditures reflect the newly-limited authority of Municipal Districts.

- Over time, it is anticipated that Municipal Districts operating a municipal fire department may discontinue doing so and instead contract with neighboring departments or become part of neighboring fire protection districts.

- Expenditures for general administration are likely to decrease over time given the newly-limited authority of Municipal Districts. For example, as reported in Better Together's General Administration Study, Municipal Governance and Management (January 2016), approximately $6 million was expended in 2015 on salaries for city managers, administrators, and clerks throughout the 88 municipalities.[4]

Expenditure Comparison

Based on a comparison of status quo expenditures and expenditures during the first-year post-reorganization, an estimated savings as much as $55 million would be realized during 2023.

- The expenditure comparison also reflects an $21 million increase in fire protection district expenditures to reflect the creation of the St. Louis Fire Protection District. This estimate is 33% more than the City of St. Louis Fire Department's expenditure, which is necessary to account for the district's operation as an independent political subdivision, requiring administrative services such as human resources, legal, accounting, facilities management, etc. The district's operations will be funded out of a dedicated property tax levy and fee revenues, but until such time as voters approve a property tax levy for the district, the Metro City will distribute revenues collected from within the former City to support the district.

- The expenditure comparison also reflects a distribution of $47.3 million to the Metro City's emergency fund as required by state law.

Municipal Corporation Debt Service

- There will be a greater capacity to accelerate the satisfaction of outstanding obligations, particularly within the former City, due to the provision of general district services on a regional basis. This greater capacity is expected to reduce debt-related expenditures over time.
- The $952 million in total outstanding debt is based on the City's FY19 Annual Operating Plan.

[4] *See* Report and Recommendations of City-County Governance Task Force.