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## Summary: Services Provided by Local Governments and the Sources of Revenue to Fund Them

From fire protection to education to the maintenance of highways and roads, local governments in Tennessee provide a wide array of services. While some of these services are required by the state, all of them help to meet the needs and expectations of Tennessee's communities. The challenge for local officials—regardless of whether the services are required—is how to pay for them.

The revenue available to local governments includes not only own-source revenue—local taxes and fees—but also revenue received from the federal government and, importantly, the state. Given the importance of state revenue in helping to fund local services—especially those required by the state—some local officials contend that the share of revenue distributed from the state to local governments and the state laws determining that distribution warrant review by the General Assembly.

During its discussion of House Bill 971 by Representative Charles Sargent (Senate Bill 1075 by Senator Bo Watson) in the 110th General Assembly, a bill that as introduced would have revised the distribution of local government revenue generated by the 2.25% local sales tax imposed on sales made in this state by dealers with no location in Tennessee, the House Finance, Ways and Means Committee asked the Tennessee Advisory Commission on Intergovernmental Relations (TACIR) to study the duties of counties and cities mandated by law and the funds that go from the state to counties and cities to comply with the law. The local government members of the Commission agreed on three principles to guide the Commission's study:

- The report should provide a comprehensive review of trends in local government revenue and services.
- Because of the complexity of the overall revenue system and the potential for unintended consequences, the report should not propose shifting existing sources of revenue among counties and cities.
- The report should explore whether the state should or could do more to financially support local governments.

The Commission, as suggested by its local members, directed staff to produce two interim reports as part of the research for the overall study. The two interim reports made specific recommendations concerning state and local revenue. In its first interim report, which focused on online sales tax collection and distribution, the Commission recommended that the General Assembly enable the Department of Revenue to enforce Rule 129,

which would require out-of-state sellers with no physical presence in the state with sales of more than \$500,000 in Tennessee to collect and remit sales tax. The General Assembly subsequently enabled enforcement, effective October 1, 2019. The sales threshold was subsequently lowered from \$500,000 to \$100,000, effective October 1, 2020, and marketplace facilitators like Amazon, eBay, and Etsy were required to collect sales tax on behalf of their sellers. The General Assembly also eliminated the uniform 2.25% rate option for local option sales tax in 2019. Instead, out-of-state sellers are required to collect and report local sales tax based on the local jurisdiction where the sale is shipped or delivered (i.e. destination-based sourcing) as recommended by the Commission. The Commission also recommended against limiting the single-article cap to motor vehicles, aircraft, watercraft, modular homes, manufactured homes, and mobile homes; however, this and other streamlined provisions are set to become effective July 1, 2021, without further action by the General Assembly. The General Assembly has postponed the effective date of the streamlined sales tax provisions every two years since it was originally set to become effective in 2009 (see appendix A).

In the second interim report, focused on K-12 education services and funding, the Commission said that given the ever evolving needs of communities in Tennessee and the likelihood that the Basic Education Program (BEP) funding formula could better account for these needs, a comprehensive review of the components should be made by the BEP Review Committee or other designated state and local officials and other stakeholders to ensure that the BEP funding formula supports a commonly accepted basic level of education for Tennessee students. The recommendation seems especially relevant as school systems rethink how they deliver education services during the COVID-19 pandemic (e.g., increased demand for technological resources to facilitate distance learning).

Rather than focus on specific services or taxes, this report, the Commission's last in the series, provides a broad overview of the services local governments in Tennessee provide—including both services that are required by law and those that are authorized by law but not required—and the revenue available to fund them. The report makes no specific recommendations but instead is intended to provide policy makers with the information needed for further discussion and policy consideration.

### ***Providing public services is a primary function of local governments.***

Counties and cities are required to perform certain duties and provide certain services to meet state and, in some cases, federal law. Counties, as extensions of the state under the Tennessee Constitution, carry out the policies of the state and are required to provide a range of services,

some of the most visible of which include K-12 education, roads, streets, and highways, law enforcement, and solid waste management. Other requirements for counties in state law regarding air pollution control and storm water management stem from the federal Clean Air Act and the regulations of the US Environmental Protection Agency.

State law also establishes the duties and services required of all cities, and for each type of city charter, specifies any additional duties and services required of cities organized under that charter type. Further requirements apply to new cities and cities that choose to annex unincorporated territory; these cities must create a plan of services for the newly incorporated areas. Cities are usually created to provide new or enhanced services for residents in high population density areas when enough demand exists for such public services. It is the physical and service infrastructure of cities that make much of economic development possible, benefitting not only those living in the city, but all county residents.

Moreover, to meet the needs and expectations of their communities, counties and cities are authorized under state law to provide many services in addition to those that are required by state or federal law. As a general rule, the services local governments in Tennessee can provide are limited by the powers granted to them by the state—a concept known as Dillon’s Rule.

Most local governments that reported expenditures on services in fiscal year 2011-12 also reported expenditures on them in fiscal year 2016-17. The percentage of counties and cities that reported expenditures varies across services and by type of government. For example, most cities provide water service, and some counties provide urban-type water service in rural areas. In other cases, local governments provide services to enhance required services. For example, most cities provide police protection in addition to the county sheriff. Although a county or city may not be required to provide a service, once the service is provided, state and federal requirements for that service apply, including those that impose increases in local expenditures.

***Local governments spent \$34.6 billion statewide to fund local services in 2016-17, of which \$12.0 billion was to provide services required by state or federal law.***

According to Census of Government’s expenditure data, local governments in Tennessee spent \$34.6 billion statewide to fund local services in fiscal year 2016-17—\$12.0 billion on required services and \$18.4 billion on authorized services, including \$9.2 billion for utilities, which state law requires to “be and always remain self-supporting.” The remaining \$4.2 billion was for other expenditures, including employee retirement and

interest on general debt. See Table 1. To analyze local government revenues and expenditures, TACIR staff used Census of Governments data because it is the only source of comprehensive local government financial data that uses uniform categories for all counties and cities in Tennessee. Fiscal year 2016-17 revenue and expenditure data was used because it is the latest survey of all local governments. For information about the Census of Governments data collection process, see appendix B.

**Table 1. Local Expenditures on Services  
Fiscal Year 2016-17**

Local Government Services	Local Government Expenditures	Percent of Total
<b>Required Services</b>		
General Services	\$ 11,984,038,000	34.6%
<b>Authorized Services</b>		
General Services*	9,166,632,000	26.5%
Utility Services**	9,237,443,000	26.7%
<b>Authorized Services Sub-total</b>	<b>\$ 18,404,075,000</b>	<b>53.2%</b>
<b>Other Expenditures</b>		
Other Expenditures***	4,211,982,000	12.2%
<b>TOTAL</b>	<b>\$ 34,600,095,000</b>	<b>100.0%</b>

Source: US Census of Governments (2017 public use data).

\*General services include air transportation (airports), corrections, fire protection, health, hospitals, housing and community development, judicial and legal, K-12 education, natural resources, libraries, parking facilities, police protection, protective inspection and regulation, public welfare, sea and inland port facilities, sewerage, and solid waste management.

\*\*Utility services include electric power, water supply, natural gas supply, and transit—services that are typically self-supporting.

\*\*\*Other expenditures include other and unallocable, employee retirement, interest on general debt, other governmental administration, financial administration, general public buildings, and miscellaneous commercial activities.

Expenditures on services by local governments can increase over time, particularly when new requirements are assigned to them by changes in state law. According to the Tennessee County Services Association, “almost every year, there are changes to state laws that require new investments by local government or that make the provision of services by local government more expensive.” These kinds of mandatory expenditures, whether for required services or for compliance with requirements associated with authorized services, accumulate. The Tennessee Municipal League analyzed the fiscal notes of legislation enacted over 13 years and determined that “when adjusting for inflation and considering the recurring nature of many of the requirements imposed in the statutes enacted, the cumulative net fiscal impact of these statutes on local government is estimated to be approximately \$900 million.”

For example, the Fiscal Review Committee estimated increases in total local government expenditures of

- \$128,800 per year from requiring schools to test drinking water for lead,
- \$498,600 per year from allowing judges to require a qualified defendant to serve up to 30 days in a local jail or workhouse, and
- \$515,900 per year from requiring background checks for employees of school systems.

Because these expenditures are mandated, local officials must identify the revenue that is available to pay for them.

***Local governments received \$34.3 billion in total revenue from all sources—local, state, and federal—of which \$26.2 billion was from local own-source revenue.***

According to Census of Governments data, of the \$34.3 billion that was available to local governments in Tennessee in fiscal year 2016-17, \$26.2 billion was local own-source revenue—local taxes and fees. Of the remaining amount, \$7.4 billion was from the state and \$705.5 million was from the federal government.

Most own-source revenue must be spent on the service that generated it. Local fees—which include charges billed to users of services such as electricity, natural gas, sewerage, water, hospital care, parks and recreation, and transit, among others—accounted for 57% of the own-source revenue local governments received in fiscal year 2016-17. Many of the services for which these fees are charged are funded almost entirely by the revenue generated from them and use of fee revenue is often limited to providing the service that generated it. Another 30% of own-source revenue came from local taxes, and the remaining 12% was from employee retirement, interest earnings, special assessments, sale of property, and other revenue.

All counties and most cities levy some local taxes. Of these, property taxes are the largest source of revenue for counties and the three metropolitan governments in Tennessee,<sup>1</sup> though local option sales taxes are the largest source of revenue for cities. The types of local taxes that can be levied are determined by state law, and state law sets maximum rates for most of these taxes. The two exceptions are property taxes and motor vehicle (wheel) taxes, for which there are no maximum rates. Additionally, the size of local tax bases and the appetite for more taxes at the local level act as limits on own-source revenue.

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<sup>1</sup> The three metropolitan governments in Tennessee are Hartsville-Trousdale, Lynchburg-Moore, and Nashville-Davidson.

Local governments rely in part on the state and federal government. The amount provided by state intergovernmental transfers was \$7.4 billion in fiscal year 2016-17 and included:

- K-12 education funding (e.g. the Basic Education Program);
- State-shared tax revenue;
- Grants (including grants wholly or in part from federal grants to the state, i.e., pass-throughs), subsidies, and program funding; and
- Reimbursements for services (e.g. contracted prisoner boarding).

Most of the revenue the state distributes to local governments is restricted for specific services—approximately \$5.5 billion (74%) was restricted for K-12 education in fiscal year 2016-17. The \$7.4 billion also includes some of the revenue that comes from state-shared taxes—so-named because a portion of the revenue generated from them is required to be shared with local governments under state law. According to data from the Department of Revenue, counties and cities received \$1.4 billion in state-shared tax revenue in fiscal year 2016-17.<sup>2</sup>

About one-quarter of the \$1.4 billion in state-shared tax revenue is distributed to counties and cities based on the location—situs—where the taxable activity occurred. The other three-quarters is distributed to counties based on population, acreage, equal shares, and other factors, and to cities based on population. Revenue that is restricted for use on specific local services—primarily K-12 education and highways—is approximately one-third of the overall revenue distributed to local governments from these taxes. The remaining revenue is unrestricted and can be used to support a variety of services at each local government’s discretion. The share of revenue that the state is required to distribute to local governments varies by tax, as does the method for allocating it to individual local governments, which leads to differences in the share of each tax received by counties as compared with cities.

Direct federal transfers account for a relatively small portion of the intergovernmental revenue available to local governments—\$705.5 million in transfers in fiscal year 2016-17. Most of this federal revenue must be used to fund housing and community development, air transportation, or K-12 education.

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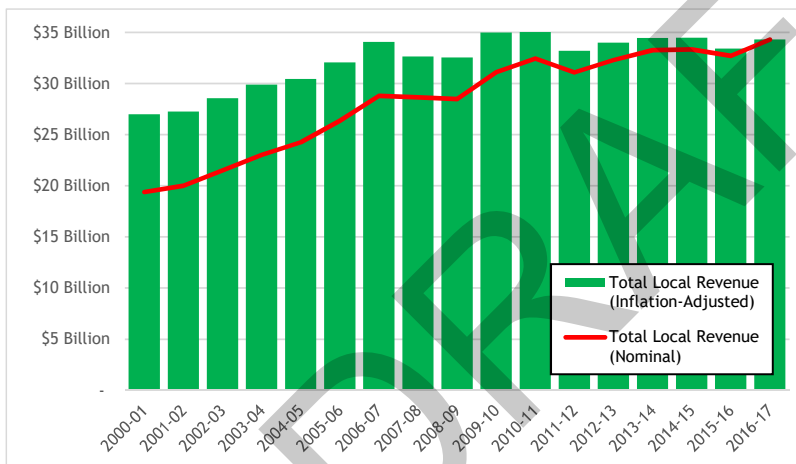
<sup>2</sup> State-shared tax revenue data is not available from the Census of Governments.



**Total revenue available for funding local services has remained level in recent years, when adjusted for inflation, and the state’s percentage of this revenue has stayed consistent.**

Although total revenue—local own-source, federal, and state revenue—available to fund local services, when adjusted for inflation, increased steadily in the early 2000s, it has been relatively stable since fiscal year 2006-07. Even during the Great Recession (from 2007 to 2009) and after, fluctuations in the amount of revenue have been small, with increases in some years generally offsetting decreases in others. While inflation-adjusted revenue has been stable, on a nominal basis the overall revenue available to fund local services has continued to increase, from \$19.4 billion to \$34.3 billion from fiscal year 2000-01 to fiscal year 2016-17. See figure 1.

**Figure 1. Total Local Revenue, Inflation-adjusted and Nominal Fiscal Years 2000-01 to 2016-17**



Source: Urban Institute State and Local Finance Initiative (based on data from the US Census of Governments, US Bureau of Economic Analysis, and US Bureau of Labor Statistics).

Note: Total local revenue includes local taxes, fees, and intergovernmental transfers from the federal government and the state.

State investments in K-12 education in particular contributed to the overall increase in revenue available to local governments. For example, passage of the BEP Enhancement Act of 2016 increased state funding to locals for K-12 education by \$223.1 million and increased the amount local governments with school systems must contribute to education—local match requirements—by \$110.9 million. Because most local governments were already funding their respective school systems above what the BEP funding formula requires, local mandatory expenditures increased by just \$1.7 million in fiscal year 2017-18 and subsequent years. In addition to the state’s share of the K-12 BEP funding, the state also provided funding for fast-growing school systems and for salary equity (\$18 million and \$14.5 million respectively in fiscal year 2017-18). Although, state funding to

locals for K-12 education increased from \$5.3 billion to \$5.5 billion from fiscal year 2011-12 to fiscal year 2016-17, this increase was not enough to keep up with inflation.<sup>3</sup>

Of the revenue available for funding local services, local own-source revenue is the largest source, accounting for 76% of the total in fiscal year 2016-17, a slight decrease from 77% in fiscal year 2000-01. When adjusted for inflation, local own-source revenue increased from \$21.1 billion to \$27.7 billion from fiscal year 2000-01 to fiscal year 2010-11. Although, in nominal dollars, local own-source revenue continued to increase in subsequent years, from \$24.8 billion to \$26.2 billion from fiscal year 2010-11 to fiscal year 2016-17, this increase was not enough to keep up with inflation. When adjusted for inflation, local own-source revenue decreased from \$27.7 billion to \$27.2 billion. Lack of growth in local tax revenue, along with a decrease in natural gas utility revenue, contributed the most to the decrease.

The percentage of revenue provided by the state remained relatively stable from fiscal year 2000-01 to fiscal year 2016-17—this is true both on an inflation-adjusted and nominal basis. Similar to the way total local revenue increased<sup>4</sup> steadily in the early 2000s and was relatively stable afterward, the share of revenue provided by the state increased from \$5.7 billion to \$7.3 billion from fiscal year 2000-01 to fiscal year 2009-10 and then leveled off to \$7.4 billion in fiscal year 2016-17. As a result, state revenue was 22% of revenue available to local governments in fiscal year 2016-17, a slight increase from fiscal year 2000-01. It's also stable when excluding fees for self-supporting services—electric, gas, hospital, sewer services, and water services. For instance, excluding enterprise revenues means state revenue transferred to local governments accounted for 35% percent of the total revenue available in fiscal year 2001-02 and in fiscal year 2016-17. When compared to total state revenue, the percentage of revenue that the state distributes has also been relatively consistent whether as a percentage of overall state revenue (21% in fiscal year 2016-17)—which includes revenue the state receives from the federal and local governments, taxes, charges, interest earnings, sale of property, unemployment compensation, employee retirement, and other revenue—or as a percentage of revenue from taxes levied by the state (53% in fiscal year 2016-17).

Although direct federal transfers account for a relatively small portion of revenue available to local governments, changes in this revenue source have been substantial. Adjusting for inflation, direct federal transfers to local

<sup>3</sup> When adjusted for inflation, state funding to locals for K-12 education decreased from \$5.6 billion to \$5.5 billion.

<sup>4</sup> The Census of Governments refers to state transfers to local governments as “intergovernmental revenue from state government,” which includes revenue wholly or in part from federal grants to the state (i.e., pass-throughs).

governments increased from \$610.9 million to \$989.4 million from fiscal year 2000-01 to its peak in fiscal year 2009-10, subsequently decreasing by \$283.9 million to \$705.5 million in fiscal year 2016-17. Based on data from fiscal year 2011-12 and fiscal year 2016-17, decreases for housing and community development, transit, and electric utilities contributed the most to the decrease.

The economic effects of the response to the COVID-19 pandemic will pose significant challenges for local governments and the state in the months and, possibly, years ahead. In response to the pandemic and with many of these issues in mind, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act on March 27, 2020. Of the over \$2 trillion in stimulus delivered by the Act, \$150 billion went to the Coronavirus Relief Fund for States, Local and Tribal Governments (CRF) with Tennessee set to receive \$2.65 billion–\$2.36 billion for the state and \$0.29 billion for local governments certified to have a population over 500,000. The Act also included \$30.75 billion for the Education Stabilization Fund (ESF), which included \$13.2 billion for the Elementary and Secondary School Education Relief (ESSER) Fund and \$3 billion for the Governors Emergency Education Relief (GEER) Fund. Tennessee’s share of these funds was \$259.9 million and \$63.6 million, respectively. The \$63.6 million the state of Tennessee received in GEER funding has already helped to support two grant initiatives for K-12 education announced by Governor Bill Lee and the Financial Stimulus Accountability Group on July 7, 2020.

What has been true, and what will remain true regardless of the pandemic’s effects, is that the local services Tennesseans rely on would not be possible without the joint funding efforts of local governments, the state, and the federal government. Whether and what changes may become necessary going forward in the state’s role in particular, striking a balance that ensures the needs and expectations of the state’s residents continue to be met will be paramount.

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## Analysis: Services Provided by Local Governments and the Sources of Revenue to Fund Them

From fire protection to education to the maintenance of roads, streets, and highways, local governments in Tennessee provide a wide array of services. Counties and cities are required to provide some services by the Tennessee Constitution and some by state law. Many other services, though not required, are provided to meet community needs and expectations. Even for those services that aren't required, local governments may find they are subject to state and federal mandates governing how those services are to be provided. The challenge for local officials providing these services—regardless of whether the services are required—is how to pay for them. To analyze local government revenues and expenditures, TACIR staff used Census of Governments data because it is the only source of comprehensive local government financial data that uses uniform categories for all counties and cities in Tennessee.<sup>5</sup> Fiscal year 2016-17 revenue and expenditure data was used because it is the latest survey of all local governments. For information about the Census of Governments data collection process, see appendix B. Local governments in Tennessee reported to the US Census Bureau that they spent \$34.6 billion—\$12.0 billion on required services in fiscal year 2016-17, \$18.4 billion on authorized services, including \$9.2 billion for utilities, which state law requires to “be and always remain self-supporting,”<sup>6</sup> and another \$4.2 billion in other expenditures.

The revenue available to local governments to fund the services they provide includes not only revenue from own-source revenue—local taxes and fees—but also revenue received from the federal government or the state. While revenue from local sources makes up most of the revenue available to local governments on a statewide basis, the revenue received from the federal government and the state are also significant. Given the revenue needed to provide services—especially those required by the state—some local officials contend that the share of revenue distributed from the state to local governments and the state laws determining that distribution warrant review by the General Assembly. Local governments in Tennessee reported to the US Census Bureau that they received \$7.4 billion from the state of Tennessee in fiscal year 2016-17, and at least \$4.5 billion of that was for required services.

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<sup>5</sup> A uniform chart of accounts is not currently required for cities in Tennessee. Ninety of the 95 counties follow a uniform chart of accounts. Davidson, Hamilton, Knox, McMinn, and Shelby are exempt from the requirement.

<sup>6</sup> Tennessee Code Annotated, Sections 7-34-114, 7-36-114, 7-56-208, 7-82-403, 9-21-308, 9-21-1015, and 12-10-115.

During its discussion of House Bill 971 by Representative Charles Sargent (Senate Bill 1075 by Senator Bo Watson) in the 110th General Assembly, the House Finance, Ways and Means Committee asked the Tennessee Advisory Commission on Intergovernmental Relations (TACIR) to study the revenue sources of counties and cities in Tennessee and the services counties and cities provide. The Committee referred to TACIR the following questions:

- What are the duties of counties mandated by law?
- What are the duties of cities mandated by law?
- What funds go from the state to counties to comply with the law?
- What funds go from the state to cities to comply with the law?

In response, the Commission directed staff to conduct a comprehensive study of local government revenue and services. The local government members of the Commission agreed on three principles to guide the Commission's study:

- The report should provide a comprehensive review of trends in local government revenue and services.
- Because of the complexity of the overall revenue system and the potential for unintended consequences, the report should not propose shifting existing sources of revenue among counties and cities.
- The report should explore whether the state should or could do more to financially support local governments.

The Commission, as suggested by its local members, directed staff to produce two interim reports as part of the research for the overall study. The two interim reports made specific recommendations concerning state and local revenue:

- In its first interim report, which focused on online sales tax collection and distribution, the Commission recommended that the General Assembly enable the Department of Revenue to enforce Rule 129, which would require out-of-state sellers with no physical presence in the state with sales of more than \$500,000 in Tennessee to collect and remit sales tax. The General Assembly subsequently enabled enforcement, effective October 1, 2019. The sales threshold was subsequently lowered from \$500,000 to \$100,000, effective October 1, 2020, and marketplace facilitators like Amazon, eBay, and Etsy were required to collect sales tax on behalf of their sellers. The General Assembly also eliminated the uniform 2.25% rate option for local option sales tax in 2019. Instead, out-of-state sellers are required to collect and report local sales tax based on the local jurisdiction where the sale is shipped or delivered (i.e. destination-based sourcing) as recommended by the Commission.

The Commission also recommended against limiting the single-article cap to motor vehicles, aircraft, watercraft, modular homes, manufactured homes, and mobile homes; however, this and other streamlined provisions are set to become effective July 1, 2021, without further action by the General Assembly. The General Assembly has postponed the effective date of the streamlined sales tax provisions every two years since it was originally set to become effective in 2009 (see appendix A).

- In the second interim report, focused on K-12 education services and funding, the Commission said that given the ever evolving needs of communities in Tennessee and the likelihood that the Basic Education Program (BEP) funding formula could better account for these needs, a comprehensive review of the components should be made by the BEP Review Committee or other designated state and local officials and other stakeholders to ensure that the BEP funding formula supports a commonly accepted basic level of education for Tennessee students. The recommendation seems especially relevant as school systems rethink how they deliver education services during the COVID-19 pandemic (e.g., increased demand for technological resources to facilitate distance learning).

Rather than focus on specific services or taxes, this, the Commission's final report in the series, provides a broad overview of the services local governments in Tennessee provide—including both required services and those that are authorized but not required—and the revenue available to fund them. The share of total revenue available to local governments provided by the state has been relatively consistent over the last two decades (fiscal years 2000-01 to 2016-17) and includes revenue generated by state-shared taxes—so-named because a portion of the revenue from them is required to be shared with local governments under state law. Much of the revenue distributed by the state to local governments is subject to restrictions that earmark it for specific uses, primarily K-12 education. The taxes and fees that local governments themselves levy are in some cases also subject to restrictions on use; and for many, the rates that can be charged are capped in state law. The need for revenue, however, is driven not by the funding sources available to local governments but by the costs of the services they provide—required services, in particular, contribute significantly to local expenditures. While the state requirements placed on counties and cities vary, local governments across Tennessee provide a number of additional vital services for their communities.



### ***Local governments provide a broad array of required and authorized services.***

Providing public services is a primary function of local governments; however, not all local governments provide the same services, and counties and cities vary in the number of services they provide. Counties and cities are the primary units of local government in Tennessee, and each provides a broad array of services to citizens. Counties, as extensions of the state under the Tennessee Constitution, carry out the policies of the state by providing many of the public services that Tennesseans receive, including many required of local governments by the state. Cities are usually created to provide new or enhanced services for residents in high population density areas when enough demand exists for such public services. Enhanced services include professional firefighting and policing; zoning, planning, codes, and design standards that protect property values; parks; libraries; recreational facilities; city school systems; and curbside service or collections centers for recycling, brush removal, and other solid waste disposal. By providing services, cities may in some cases be relieving the county of the burden. The reverse is also possible; when a city stops providing a service it may fall to the county. It is the physical and service infrastructure of cities that make much of economic development possible, benefitting not only those living in the city, but all county residents. Although local governments have flexibility to determine whether they will provide some services based on the needs and expectations of their residents, as well as the availability of funding, they are required by the state to provide other services.

### **Duties and Services Required by Law of Counties and Cities in Tennessee**

Counties and cities are required to perform certain duties and provide certain services to comply with state and, in some cases, federal law. For example, all counties must elect and employ constitutional officers who are required by state law to provide a variety of services to citizens including assessing property, collecting and administering property taxes as well as a wide variety of taxes and fees for the state, maintaining all property records, processing motor vehicle registration and titling, and marriage and business licensing. Counties are required to maintain county roads and highways, support a court system, bury or cremate unclaimed bodies and conduct post-mortem examinations and investigations, make a local contribution to public schools, hold elections, manage emergencies and solid waste, operate a health department, manage jails, enforce laws, survey land, maintain public records, plan for growth, and preserve local and state history. And some requirements for counties in state law regarding air pollution control and storm water management stem from



the federal Clean Air Act and the regulations of the US Environmental Protection Agency.

State law also establishes the duties and services required of all cities, and for each type of city charter, specifies any additional duties and services required of cities organized under that charter type. All cities are responsible for declaring a civil emergency when one exists,<sup>7</sup> providing notice regarding municipal elections,<sup>8</sup> and maintaining their roads.<sup>9</sup> Most cities (212 of 345) have private act charters and are not required by the state to provide any additional services. The rest (133 of 345) have general law or home rule charters and must have a court. Of the cities with general law charters, those with modified manager council charters must also have police, and those with a city manager-commission charters must provide both police and fire services. See tables 2, 3, and 4.

**Table 2. Duties and Services of Counties Required by State Law**

Service	Source of Mandate
<b>All Counties</b>	
Constitutional offices (legislative body, county executive, sheriff, trustee, register of deeds, county clerk, assessor of property)	Constitution Article VII, Section 1
County roads and highways	TCA 54-7-102; 54-7-109; 54-4-406
Court system	Constitution Article VI, Section 13; TCA 5-7-104; 8-24-102; 8-20-101, 37-1-101 <i>et seq.</i> ; 16-15-101 <i>et seq.</i>
Burial or cremation of unclaimed bodies	TCA 38-5-118
Education	TCA 49-2-101; 49-3-356
Elections	TCA 2-12-101
Emergency management (civil defense)	TCA 58-2-110
Health department	TCA 68-2-603
Jails	TCA 5-7-104; 41-4-140; 41-4-115
Land surveys	TCA 8-12-101; 8-12-105
Law enforcement	TCA 8-8-213; 8-8-201
Maintenance of public records	TCA 10-7-401
Planning (comprehensive growth plan)	TCA 6-58-104
Post-mortem examinations and investigations*	TCA 38-7-104; 38-7-109
Preservation of local and state history	TCA 5-18-101
Solid waste management	TCA 68-211-851; 68-211-863; 68-211-866
<b>Certain Counties Designated Under Federal Law</b>	
Air pollution control	US Clean Air Act; TCA 68-201-101 <i>et seq.</i> ; Tenn. Rules and Regs. 1200-03-34-.01
Storm water management	US EPA; TCA 68-221-1101 <i>et seq.</i>

Sources: Tennessee Code Annotated, Tennessee Constitution, and US Code.

\*Including the burial of indigent people.

<sup>7</sup> Tennessee Code Annotated, Section 38-9-102.

<sup>8</sup> Tennessee Code Annotated, Section 6-53-101.

<sup>9</sup> Tennessee Code Annotated, Section 7-31-101.

**Table 3. Duties and Services of Cities Required by State Law**

Service	Source of Mandate
<b>All Cities</b>	
Declare civil emergency	TCA 38-9-102
Elections	TCA 6-53-101
Road maintenance	TCA 7-31-101
<b>Cities with a Mayor-Aldermanic Charter</b>	
City court	TCA 6-4-301
<b>Cities with a City Manager-Commission Charter</b>	
City court	TCA 6-21-501
Fire	TCA 6-21-701 and 702
Police	TCA 6-21-601 and 602
<b>City with a Modified Manager-Council Charter</b>	
City court	TCA 6-33-103
Police	TCA 6-33-103
<b>Cities with a Home Rule Charter</b>	
City court	TCA 16-17-101
<b>Cities with Private Act Charts</b>	
No additional services are required	
<b>Newly incorporated cities and cities that annexed territories since 1998</b>	
Plan of services (includes, but not limited to, police protection, fire protection, water service, electrical service, sanitary sewer service, solid waste collection, road and street construction and repair, recreational facilities and programs, street lighting, and zoning services)	TCA 6-1-201; 6-18-103; 6-30-104; 6-51-102

Sources: Tennessee Code Annotated and Tennessee Constitution.

**Table 4. Number of Cities in Tennessee by Type of Charter**

Type of Charter	Number of Cities
Private Act	212
General Law Mayor-Alderman	67
General Law Manager-Commission	47
Home Rule	14
Metropolitan	3
General Law Modified Manager-Council	2

Source: University of Tennessee Municipal Technical Assistance Service.

Additional requirements on cities are triggered when they choose to annex unincorporated territory.<sup>10</sup> State law requires annexing cities to create a plan of services for the newly annexed territory that includes “a reasonable

<sup>10</sup> Tennessee Code Annotated, Section 6-51-102.

implementation schedule for the delivery of comparable services in the territory to be annexed with respect to the services delivered to all citizens of the municipality.” The services that must be described in the plans include “police protection, fire protection, water service, electrical service, sanitary sewer service, solid waste collection, road and street construction and repair, recreational facilities and programs, street lighting, and zoning services.”<sup>11</sup> Newly incorporated cities must also create a plan of services similar to those required for annexation.<sup>12</sup>

In addition to these required duties and services, state law authorizes counties and cities to provide numerous other services.

### **Services of Counties and Cities Authorized, but not Required, by Law**

To meet the needs and expectations of their communities, counties and cities are authorized by state law to provide many services in addition to those that are required by state or federal law. For example, Tennessee Code Annotated, Section 5-9-101 lists 26 items for which a “county legislative body may appropriate moneys.” As a general rule, the services local governments in Tennessee can provide are limited by the powers granted to them by the state—a concept known as Dillon’s Rule.<sup>13</sup> Cities are authorized to provide some of the same services that counties are, including airports, care of children, emergency medical and ambulance services, fire protection, healthcare facilities, housing, libraries, parks and recreation, planning and zoning, public works, tourism development, and veterans’ services. Cities that can ensure enrollment of at least 1,500 students may start a school system.<sup>14</sup> Metropolitan governments have all the powers of the county and city from which they were formed. Local governments that operate electric utilities are authorized to provide broadband under state law (see table 5). Municipal electric systems are not solely creations of city government and can also be created by counties. Of the 60 municipal electric systems in Tennessee, 56 are affiliated with cities and four with counties. Although many local governments provide numerous services, including authorized but not required services, the needs and expectations of communities vary, and not all counties and cities provide the same services.

<sup>11</sup> Ibid.

<sup>12</sup> Tennessee Code Annotated, Sections 6-1-201; 6-18-103; 6-30-104.

<sup>13</sup> *Southern Constructors, Inc. v. Loudon County Board of Education*, 58 S.W.3d 706 (Tenn. 2001).

Subject to certain exceptions, the powers of local governments in Tennessee are limited to those that are expressly granted by the state, necessarily implied by the grant of express powers, and essential to the purpose of the local government entity.

<sup>14</sup> Rules and Regulations of the State of Tennessee, Section 0520-01-08-.01.

**Table 5. Authorized Duties and Services of Counties and Cities**

Service	Source of Authority
<b>Counties</b>	
Airports	TCA 42-5-101 <i>et seq.</i>
Animal control	TCA 5-1-120
Board of health	TCA 68-2-601
Care of children	TCA 37-2-204
Codes enforcement	TCA 5-20-101 <i>et seq.</i>
Constable services (may abolish by resolution)	TCA 8-10-101
Coroner services	TCA 8-9-101
Emergency communications	TCA 7-86-105
Emergency medical and ambulance services	TCA 7-61-102
Fire protection	TCA 5-17-101; 5-17-102
Healthcare facilities	TCA 9-21-105; 68-11-204
Housing	TCA 13-20-501
Legal services	TCA 5-6-112
Libraries	TCA 10-3-101
Misc. services (e.g. economic and community development)	TCA 5-9-101
Parks, recreation, and conservation	TCA 11-21-104; 11-24-104
Planning and Zoning	TCA 13-3-101, 13-7-101
Public works projects	TCA 9-21-107
Tourism development	TCA 5-9-201; 7-69-101 <i>et seq.</i>
Urban-type public facilities (storm and waste water treatment, solid waste, water supply, fire protection, emergency medical services)	TCA 5-16-101
Veterans' services	TCA 58-3-109
Workhouses	TCA 41-2-101; 41-2-109
<b>All Cities</b>	
Airports	TCA 42-5-101 <i>et seq.</i>
Administrative hearings	TCA 6-54-1001
Care of children	TCA 37-2-204
Education	TCA 49-2-401
Electricity	TCA 7-52-103
Emergency Management	TCA 58-2-110(2)
Emergency medical, ambulance, and communication services	TCA 7-61-102
Energy service	TCA 6-54-110; 7-36-103
Fire protection	TCA 6-1-203; 6-19-101; 6-21-701 <i>et seq.</i>
Flood control and disaster relief	TCA 7-32-101
Healthcare facilities	TCA 9-21-105; 68-11-204
Health department	TCA 68-2-605
Housing	TCA 13-20-401 <i>et seq.</i>
Libraries	TCA 10-3-101
Law enforcement	TCA 6-54-301
Parks and recreation	TCA 11-24-103
Planning and Zoning	TCA 13-4-101, 13-7-203
Port Authority	TCA 7-87-104

**Table 5. Authorized Duties and Services of Counties and Cities (continued)**

Service	Source of Authority
<b>All Cities (continued)</b>	
Public place and facilities improvements	TCA 7-32-101
Public works projects	TCA 9-21-107
Safety councils	TCA 7-51-501
Sidewalk construction	TCA 7-31-105
Storm water management	TCA 68-221-1103 <i>et seq.</i> ; 69-3-148
Tourism development	TCA 7-69-101 <i>et seq.</i>
Veterans' services	TCA 58-3-109
Water and sewer system	TCA 7-35-401
<b>Cities Operating an Electric Plant</b>	
Cable TV and Internet	TCA 7-52-601
Telecommunications	TCA 7-52-401
<b>Metropolitan Governments</b>	
Affordable Housing (metros with a population greater than 500,000 i.e. Metro Nashville)	TCA 5-9-113
All powers of the city and county	TCA 7-2-108

Source: Tennessee Code Annotated.

### Local Governments Vary in the Services They Provide

The list of services provided by local governments in Tennessee is long and shows variation in the services provided. To explore the costs of services provided by counties and cities, TACIR staff analyzed expenditure data of local governments. A uniform chart of accounts is not currently required for cities in Tennessee. Although, ninety of the 95 counties do follow a uniform chart of accounts, Davidson, Hamilton, Knox, McMinn, and Shelby are exempt from the requirement. Because the Census of Governments is the only source of comprehensive local government financial data that uses uniform categories for all counties and cities in Tennessee, TACIR staff used this data for comparisons of expenditures among local governments. For table 6 below, counties and cities are considered to provide a service if they make expenditures on current operations of that service. For more about the Census of Governments, see appendix B.

Table 6 shows the variation in services provided by counties and cities in Tennessee for fiscal years 2011-12 and 2016-17. Most local governments that reported expenditures on a service in fiscal year 2011-12 also reported expenditures on the service in fiscal year 2016-17. The percentage of counties and cities that reported expenditures varied across services and by type of government. For example, most cities provide water service, and some counties provide urban-type water service in rural areas. While nearly every county reported having a sheriff (“police protection” in table 6) and providing K-12 education, unsurprising because both are required

under state law, far fewer reported providing sewerage or operating electric utilities. The percentages for cities are often different than those for counties. Of the 345 cities in the state, around three-quarters reported providing police protection, and more than half reported providing sewerage, though only one in 10 reported providing K-12 education. In other cases, however, such as parks and fire protection, the percentages of counties and cities reporting they provide certain services are similar.

**Table 6. Percentage of Counties and Cities that Provide Certain Services\*  
Fiscal Years 2011-12 and 2016-17**

Service	Counties		Cities	
	2011-12	2016-17	2011-12	2016-17
Air Transportation	28.3%	30.4%	8.7%	9.0%
Central Staff	98.9%	97.8%	91.6%	85.8%
Correction	96.7%	94.6%	1.2%	1.2%
Electric Utilities	3.3%	4.3%	15.7%	16.0%
Elementary and Secondary Education	97.8%	98.9%	10.7%	9.9%
Financial Administration	98.9%	98.9%	77.4%	69.8%
Fire Protection	75.0%	79.3%	85.5%	77.6%
Gas Utilities	n/a	n/a	18.0%	17.7%
General	98.9%	94.6%	68.1%	54.9%
General Public Building	98.9%	95.7%	48.1%	41.9%
Health	98.9%	97.8%	27.5%	18.3%
Hospitals	15.2%	13.0%	0.9%	0.6%
Housing and Community Development	n/a	n/a	16.5%	12.5%
Judicial	98.9%	97.8%	59.1%	52.9%
Libraries	85.9%	88.0%	36.8%	33.7%
Misc. Commercial Activity	0.0%	2.2%	12.5%	10.5%
Natural Resources	98.9%	91.3%	2.9%	4.9%
Parking	n/a	n/a	4.6%	3.5%
Parks and Recreation	63.0%	71.7%	83.2%	76.7%
Police Protection	98.9%	100.0%	78.0%	75.6%
Protective Inspection	32.6%	30.4%	31.0%	23.5%
Regular Highways	98.9%	92.4%	98.3%	85.2%
Sewerage	6.5%	13.0%	60.6%	57.0%
Solid Waste Management	97.8%	97.8%	69.9%	64.0%
Transit Utilities	n/a	n/a	4.9%	4.1%
Water Utilities	4.3%	5.4%	60.6%	54.7%
Welfare	67.0%	62.0%	15.4%	9.0%

Source: US Census of Governments Public Use Data (2012 and 2017).

\*Counties and cities are considered to provide a service if they make expenditures on current operations of that service.

## **Local governments spent \$34.6 billion statewide to fund local services in 2016-17, of which \$12.0 billion was to provide services required by state or federal law.**

Local governments in Tennessee spent \$34.6 billion statewide to fund local services in fiscal year 2016-17 (an increase of \$1.0 billion from fiscal year 2011-12 after adjusting for inflation).<sup>15</sup> Of this amount, \$12.0 billion was expenditures by local governments on services they are required by law to provide and \$18.4 billion was for services authorized by law. Authorized services include utilities, and utility expenditures totaled \$9.2 billion, and typically, fees charged to customers covers expenditures.<sup>16</sup> The remaining \$4.2 billion was for other expenditures, like employee retirement and interest on general debt.

To distinguish between expenditures on required and authorized services, TACIR staff used Census of Governments public use data in combination with the required services in state law listed in tables 2 and 3. K-12 education services are required, for instance, for counties but not cities, so expenditures on K-12 education by a county would be for a required service while expenditures on the same service by a city would be for an authorized service. Fire service provides another example of a service that is required for some local governments but is an authorized service for others. Cities with a city manager-commission general law charter are required to provide fire service, and their expenditures on fire service are included under “required.” However, other cities and all counties are not required to provide fire service, and their expenditures on fire service are included under “authorized.” Because a service can be required of some local governments but not others, some services will appear in both the required and authorized categories in table 7.

### **Required Services**

Local governments spent \$12.0 billion in fiscal year 2016-17 on services that they are required by law to provide. There are eight such services:

- K-12 education
- Police protection
- Roads, streets, and highways
- Fire protection
- Judicial and legal
- Correction

<sup>15</sup> US Census 2019. To adjust for inflation, fiscal year 2011-12 dollar amounts are increased to make them comparable to fiscal year 2016-17 dollars.

<sup>16</sup> Tennessee Code Annotated, Sections 7-34-114, 7-36-114, 7-56-208, 7-82-403, 9-21-308, 9-21-1015, and 12-10-115.

- Health
- Solid Waste Management

Although expenditures for these required services increased \$1.6 billion from fiscal year 2011-12 to fiscal year 2016-17, even after adjusting for inflation, \$1.2 billion was a shift in expenditures from authorized to required, not an increase in total local expenditures. Local expenditures can shift from “required” to “authorized” and vice versa. One such shift occurred when Shelby County Schools absorbed Memphis City School System in fiscal year 2013-14. City school system expenditures (e.g. Memphis City School System; \$1.2 billion in fiscal year 2011-12) are authorized, whereas county school system expenditures (e.g. Shelby County Schools) are required. Hence the \$1.2 billion decrease in authorized K-12 education expenditures and \$1.2 billion increase in required K-12 education expenditures from fiscal year 2011-12 to fiscal year 2016-17 in table 7.

### **Authorized General Services**

Local governments spent \$9.2 billion in fiscal year 2016-17 on services that were authorized by state law. Eleven additional authorized general services are as follows:

- Hospitals
- Sewerage
- Parks and recreation
- Housing and community development
- Air transportation (airports)
- Public welfare
- Libraries
- Protective inspection and regulation
- Natural resources
- Parking facilities
- Sea and inland port facilities

Authorized services are not required by state law, but instead are often driven by community expectations or the need to provide enhanced services. Local governments that operate hospitals, for instance, do so to provide a vital service that is needed within their communities, though not required by the state.<sup>17</sup> Hospitals alone accounted for 10% of the reported total expenditures by local governments in fiscal year 2016-17.

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<sup>17</sup> Tennessee Code Annotated, Section 68-11-501.



## Utilities

Local governments spent \$9.2 billion in fiscal year 2016-17 on utilities, and are a significant part of overall expenditures on services by local governments. Electric power alone accounts for one-fifth of local expenditures statewide. Additional utilities that contribute to local expenditures include water and natural gas utilities, which respectively accounted for 3.8% and 2.9% of total local government expenditures. But utilities are separated out from other authorized services because they are funded primarily by ratepayer revenue rather than general government revenue from taxes and fees.

## Other Expenditures

Local governments spent \$4.2 billion in fiscal year 2016-17 on other expenditures that are unallocable to required and authorized services. Expenditures in this category include general debt employee retirement, other governmental administration, financial administration, general public buildings, and miscellaneous commercial activities. See Table 7 for a summary of these expenditures.

Expenditures on services by local governments can increase over time, particularly when new requirements are assigned to them by changes in state law. According to the Tennessee County Services Association, “almost every year, there are changes to state laws that require new investments by local government or that make the provision of services by local government more expensive.” These kinds of mandatory expenditures, whether for required services or for compliance with requirements associated with authorized services, accumulate over time. The Tennessee Municipal League analyzed the fiscal notes of legislation enacted over 13 years and determined that “when adjusting for inflation and considering the recurring nature of many of the requirements imposed in the statutes enacted, the cumulative net fiscal impact of these statutes on local government is estimated to be approximately \$900 million.”<sup>18</sup>

For example, the Fiscal Review Committee estimated increases in total local government expenditures of:

- \$515,900 per year starting in fiscal year 2018-19 for background checks for employees of school systems,<sup>19</sup>
- \$14,000 in fiscal year 2018-19 for defibrillators in public high schools,<sup>20</sup>

<sup>18</sup> Tennessee Municipal League 2020.

<sup>19</sup> Fiscal Note for Senate Bill 2014, House Bill 1997 (Public Chapter 1006, 110th General Assembly).

<sup>20</sup> Fiscal Note for Senate Bill 410, House Bill 521 (Public Chapter 1028, 110<sup>th</sup> General Assembly).

**Table 7. Local Expenditures on Services, Adjusted for Inflation  
Fiscal Years 2011-12 and 2016-17**

Local Government Services	Fiscal Year 2011-12		Fiscal Year 2016-17		Increase (decrease)
	Local Government Expenditures	Percent of Total	Local Government Expenditures	Percent of Total	
<b>General Services - Required*</b>					
K-12 education	\$ 7,418,892,000	22.1%	\$ 8,649,062,000	25.0%	\$ 1,230,170,000†
Police protection	761,188,000	2.3%	879,137,000	2.5%	117,949,000
Highways	826,697,000	2.5%	930,722,000	2.7%	104,025,000
Fire protection	20,303,000	0.1%	20,427,000	0.1%	124,000
Judicial and legal	354,022,000	1.1%	498,621,000	1.4%	144,599,000
Correction	445,432,000	1.3%	461,045,000	1.3%	15,613,000
Health	408,167,000	1.2%	408,442,000	1.2%	275,000
Solid waste management	131,719,000	0.4%	136,582,000	0.4%	4,863,000
<b>Sub-total</b>	<b>\$ 10,366,420,000</b>	<b>30.9%</b>	<b>\$ 11,984,038,000</b>	<b>34.6%</b>	<b>\$ 1,617,618,000</b>
<b>General Services - Authorized</b>					
Hospitals	\$ 2,861,985,000	8.5%	\$ 3,442,486,000	9.9%	\$ 580,501,000
Police protection	788,309,000	2.3%	855,120,000	2.5%	66,811,000
Sewerage	794,590,000	2.4%	814,163,000	2.4%	19,573,000
K-12 education	2,222,883,000	6.6%	1,020,194,000	2.9%	(1,202,689,000)
Fire protection	710,340,000	2.1%	749,914,000	2.2%	39,574,000
Parks and recreation	415,671,000	1.2%	566,365,000	1.6%	150,694,000
Housing and community development	772,001,000	2.3%	570,523,000	1.6%	(201,478,000)
Air transportation (airports)	370,778,000	1.1%	433,760,000	1.3%	62,982,000
Public welfare	166,812,000	0.5%	168,487,000	0.5%	1,675,000
Solid waste management	244,155,000	0.7%	273,453,000	0.8%	29,298,000
Libraries	110,122,000	0.3%	134,278,000	0.4%	24,156,000
Protective inspection and regulation	55,156,000	0.2%	53,478,000	0.2%	(1,678,000)
Natural resources	32,249,000	0.1%	43,540,000	0.1%	11,291,000
Judicial and legal	14,153,000	0.04%	14,307,000	0.041%	154,000
Health	13,400,000	0.04%	12,022,000	0.035%	(1,378,000)
Parking facilities	4,845,000	0.01%	12,880,000	0.04%	8,035,000
Sea and inland port facilities	11,939,000	0.04%	1,252,000	0.004%	(10,687,000)
Correction	376,000	0.001%	410,000	0.001%	34,000
Highways	86,000	0.0003%	-	0.000%	(86,000)
<b>Sub-total</b>	<b>\$ 9,589,850,000</b>	<b>28.6%</b>	<b>\$ 9,166,632,000</b>	<b>26.5%</b>	<b>\$ (423,218,000)</b>
<b>Utility Services</b>					
Electric power	\$ 6,979,190,000	20.8%	\$ 6,677,661,000	19.3%	\$ (301,529,000)
Water supply	1,268,123,000	3.8%	1,309,293,000	3.8%	41,170,000
Natural Gas supply	1,265,751,000	3.8%	1,001,958,000	2.9%	(263,793,000)
Transit	271,695,000	0.8%	248,531,000	0.7%	(23,164,000)
<b>Sub-total</b>	<b>\$ 9,784,759,000</b>	<b>29.1%</b>	<b>\$ 9,237,443,000</b>	<b>26.7%</b>	<b>\$ (547,316,000)</b>
<b>Other Expenditures</b>					
Other and unallocable	\$ 1,391,571,000	4.1%	\$ 1,152,445,000	3.3%	\$ (239,126,000)
Employee retirement	619,764,000	1.8%	771,612,000‡	2.2%	151,848,000
Interest on general debt	917,939,000	2.7%	1,263,394,000	3.7%	345,455,000
Other governmental administration	397,426,000	1.2%	464,203,000	1.3%	66,777,000
Financial administration	330,641,000	1.0%	378,374,000	1.1%	47,733,000
General public buildings	130,845,000	0.4%	139,393,000	0.4%	8,548,000
Miscellaneous commercial activities	50,926,000	0.2%	42,561,000	0.1%	(8,365,000)
<b>Sub-total</b>	<b>\$ 3,839,112,000</b>	<b>11.4%</b>	<b>\$ 4,211,982,000</b>	<b>12.2%</b>	<b>\$ 372,870,000</b>
<b>TOTAL</b>	<b>\$ 33,580,141,000</b>	<b>100.0%</b>	<b>\$ 34,600,095,000</b>	<b>100.0%</b>	<b>\$ 1,019,954,000</b>

Sources: US Census of Governments (2012 and 2017 public use data) and Tennessee Code Annotated.

\*Local governments vary in what services they are required to provide. For more information of which local governments are required to provide each service, see tables 2 and 3.

†Shelby County Schools absorbed Memphis City School System in fiscal year 2013-14. City school system expenditures (e.g. Memphis City School System, \$1.2 billion in fiscal year 2011-12) are authorized, and county school system expenditures (e.g. Shelby County Schools) are required. Hence the \$1.2 billion decrease in authorized K-12 education expenditures and \$1.2 billion increase in required K-12 education expenditures from 2011-12 to 2016-17.

‡For fiscal year 2016-17, employee retirement expenditures are not included in the public use data. According to the Census of Government's Table 1. State and Local Government Finances by Level of Government and by State, employee retirement expenditures totaled \$771,612 in fiscal year 2016-17.

- \$128,800 in fiscal year 2018-19 for testing drinking water for lead at schools,<sup>21</sup>
- \$35,100 in fiscal year 2018-19 to provide mental health sessions for firefighters to treat post-traumatic stress disorder (PTSD),<sup>22</sup> and
- \$498,600 per year starting in fiscal year 2016-17 to allow judges to require a qualified defendant to serve up to 30 days in a local jail or workhouse.<sup>23</sup>

While some requirements are statutory, others are implicit. Local governments must also provide those same firefighters with clothing that will not catch on fire and a vehicle that will allow them to get to a fire with their equipment so they can extinguish it.

Because local governments spend the most on services required by law, and additional mandates on these services can create ongoing expenditures for local governments, more detailed information follows on each of the eight general services that are required for many local governments in Tennessee. Each section outlines the total expenditures made for these services, which are broken down by whether the local government that made the expenditure was required to provide the service, either by state law or the state constitution, or the expenditures were made by local governments that are authorized, but not required, to provide the service. Examples, drawn from the latest available data, are provided to show state and federal funding available to pay for the service.

### *K-12 Education*

To educate its citizens, the state is required to support “a system of free public schools.”<sup>24</sup> To accomplish this, state law requires each county to operate a K-12 school system, either individually or in partnership with another county, unless all students in the county are served by municipal school systems or special school districts, as is presently the case in Gibson County only.<sup>25</sup> K-12 expenditures totaled \$9.7 billion in fiscal year 2016-17—\$8.6 billion in expenditures by local governments required to provide the service and \$1.0 billion in expenditures by those authorized to provide the service.<sup>26</sup> For detailed information about state requirements to provide K-12 public education and the funding available to do so, see TACIR’s 2020 report *K-12 Public Education Funding and Services*.

<sup>21</sup> Fiscal Note for Senate Bill 619, House Bill 631 (Public Chapter 977, 110th General Assembly).

<sup>22</sup> Fiscal Note for Senate Bill 1797, and House Bill 1510 (Public Chapter 997, 110th General Assembly).

<sup>23</sup> Fiscal Note for Senate Bill 637, House Bill 203 (Public Chapter 1026, 109th General Assembly).

<sup>24</sup> Tennessee Constitution, Article XI, Section 12.

<sup>25</sup> Counties are also required to share local revenue with city school systems and special school districts in the same counties. There are 33 city school systems (9% of the 345 cities in the state) and 14 special school districts in the state.

<sup>26</sup> Dollar amounts may not add because of rounding.

In response to the COVID-19 pandemic, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act on March 27, 2020. As part of the Act, K-12 education in Tennessee will receive increased federal funding in fiscal year 2020-21 to address the disruptive effects of COVID-19. Of the over \$2 trillion in stimulus delivered by the Act, \$150 billion went to the Coronavirus Relief Fund for States, Local and Tribal Governments (CRF) with Tennessee set to receive \$2.65 billion–\$2.36 billion for the state and \$0.29 billion for local governments certified to have a population over 500,000. The Act also included \$30.75 billion for the Education Stabilization Fund (ESF), which included \$13.2 billion for the Elementary and Secondary School Education Relief (ESSER) Fund and \$3 billion for the Governors Emergency Education Relief (GEER) Fund.<sup>27</sup> Tennessee’s share of these funds was \$259.9 million and \$63.6 million, respectively, totaling \$323.5 million.<sup>28</sup> The CARES Act requires school systems that receive money from ESSER or GEER funds to also “provide equitable services in the same manner as provided under Section 1117 of the Elementary and Secondary Education Act (ESEA) of 1965 to students and teachers in non-public schools.”<sup>29</sup>

Under current guidelines, at least 90% of ESSER funding allotted to Tennessee is for school systems. Although the ESSER fund is earmarked for COVID-19 relief, school systems have considerable flexibility in its use.<sup>30</sup> The remaining 10% of ESSER funds (\$26 million) is for the Tennessee Department of Education,<sup>31</sup> which has chosen to prioritize “initiatives and programs that will sustainably support districts with distance learning and continuous, high quality instruction” and has announced its plans for nearly the entire amount, which will include:

- \$20 million for technology, online resources, and innovation;
- \$2.5 million for teacher support and development;
- \$1.5 million for mental health and community resources; and
- \$1 million for a district accelerator to help close gaps between districts across various priority areas, including technology.<sup>32</sup>

According to the US Department of Education, the (GEER) fund was intended to provide support for school systems and institutions of higher education (IHEs) that have been most significantly impacted by COVID-19

<sup>27</sup> US Department of Treasury 2020 and US Department of Education Office of Elementary and Secondary Education 2020a, 2020b, and 2020c. The Congressional Budget Office has provided a preliminary revised estimate, as of April 27, 2020, that puts the cost of the CARES Act at closer to \$1.7 trillion since part of the over \$2 trillion in stimulus takes the form of loan guarantees (Congressional Budget Office 2020).

<sup>28</sup> US Department of Education and Secondary Education 2020d and 2020e.

<sup>29</sup> CARES Act (<https://www.congress.gov/116/bills/hr748/BILLS-116hr748enr.pdf>)

<sup>30</sup> US Department of Education and Secondary Education 2020f.

<sup>31</sup> National Conference of State Legislatures 2020.

<sup>32</sup> Tennessee Department of Education 2020a.

or education-related entities that the Governor deems essential for carrying out emergency educational services.<sup>33</sup> Governors have the discretion to allocate each dollar of their funding based on their evaluation of the greatest educational needs in their state related to COVID-19.<sup>34</sup> Tennessee Governor Bill Lee announced the GEER funding will be for two grant initiatives for K-12 education. The first grant makes \$50 million available to school systems through “technology grants that can be used on wi-fi devices, laptops, or any other devices needed to support reopening.” The other \$11 million funds “noncompetitive grants to support cohorts of districts with continuous learning plan implementation throughout the year in amounts ranging from \$25,000 - \$150,000 each.”<sup>35</sup>

### *Police Protection*

State, county, and most city governments employ law enforcement officers to keep neighborhoods safe and respond to violations of the law. The Tennessee Constitution requires the election of a sheriff in each county,<sup>36</sup> and state law sets out the duties of county sheriffs.<sup>37</sup> Police are required for cities with a city-manager charter or a modified city manager-council charter, and 76% of cities made expenditures on law enforcement in fiscal year 2016-17.<sup>38</sup> For 2016-17 counties and cities spent \$1.7 billion on police protection—\$879.1 million in expenditures by local governments required to provide the service and \$855.1 million in expenditures by those authorized to provide the service. In addition to local funding, state revenue from grants dispersed to local governments<sup>39</sup> through the Tennessee Department of Finance and Administration’s Office of Criminal Justice Programs exceeded \$500,000 in fiscal year 2018-19.<sup>40</sup> Each year the state earmarks funds for local governments to provide salary supplements to police officers who have completed an in-service training course with the Tennessee Police Officer Standards and Training Commission, \$8.7 million in fiscal year 2017-18.<sup>41</sup> The state also dedicated funding from the Driving Under the Influence (DUI) Monitoring Fund in fiscal year 2017-18 for grants to local law enforcement agencies “for obtaining and maintaining equipment and personnel for alcohol-related offenses.”<sup>42</sup>

In addition to state grants, \$21 million in federally funded grants were distributed through the Tennessee Highway Safety Office in fiscal year

<sup>33</sup> US Department of Education and Secondary Education 2020g.

<sup>34</sup> National Governors Association 2020.

<sup>35</sup> Tennessee Office of the Governor 2020.

<sup>36</sup> Tennessee Constitution, Article VII, Section 1.

<sup>37</sup> Tennessee Code Annotated, Section 8-8-201. Sheriffs are elected officials whereas police are a city department.

<sup>38</sup> Tennessee Code Annotated, Sections 6-21-601 and 6-33-103.

<sup>39</sup> Knoxville, Memphis, and Nashville-Davidson.

<sup>40</sup> Tennessee General Assembly Office of Legislative Budget Analysis 2020.

<sup>41</sup> Tennessee Public Chapter 1061, Acts of 2018 and Tennessee Code Annotated, Section 38-8-111.

<sup>42</sup> Tennessee Public Chapter 1061, Acts of 2018.

2018-19 to enhance enforcement of traffic safety laws.<sup>43</sup> The United States Department of Justice awarded nearly \$610,000 in the same fiscal year to 113 jurisdictions in Tennessee for the purchase of bulletproof vests.<sup>44</sup>

### *Roads, Streets, and Highways*

People driving themselves or transporting goods across the state rely on well-maintained roads, streets, and highways, which are essential for the state's economic well-being. State law divides responsibility for roads, streets, and highways between state, county, and city governments. In 2018, Tennessee had 96,116 miles of roads, streets, and highways, with counties owning 57,543 (60.0%)<sup>45</sup> of them, and cities owning 23,014 (23.9%).<sup>46</sup> Local government expenditures for roads, streets, and highways were \$930.7 million in fiscal year 2016-17,<sup>47</sup> all by local governments required to provide the service.

### *Counties*

State law<sup>48</sup> requires each county to have a highway department that is headed by a chief administrative officer (a highway superintendent) and is responsible for the "location, relocation, construction, reconstruction, repair, and maintenance of the county road system," including bridges.<sup>49</sup> To maintain their roads, counties rely on federal, state, and local revenue. According to the County Technical Assistance Service (CTAS),

all counties rely heavily on county-aid highway funds and to a lesser degree on state-aid highway funds to support the activities of the county highway department. These basic state sources are supplemented from time to time by special state sponsored activities such as bridge funds which are in turn sometimes supported in whole or part by federal funds. Many counties also appropriate local tax revenue for the use of the county highway department.<sup>50</sup>

According to the Tennessee Department of Transportation, the \$62.3 million for fiscal year 2017-18 (\$77.6 million in fiscal year 2016-17)<sup>51</sup> for the state-aid program "provides funds to county governments for the improvement

<sup>43</sup> Tennessee General Assembly Office of Legislative Budget Analysis 2020.

<sup>44</sup> US Department of Justice Office of Justice Programs 2020.

<sup>45</sup> US Department of Transportation 2019.

<sup>46</sup> Ibid.

<sup>47</sup> United States Census Bureau 2020a.

<sup>48</sup> Public Chapter 738, Acts of 1974; Tennessee Code Annotated, Section 54-7-101 et seq.

<sup>49</sup> Tennessee Code Annotated, Section 54-7-109.

<sup>50</sup> University of Tennessee County Technical Assistance Service 2020a.

<sup>51</sup> Tennessee Department of Finance and Administration 2019. The \$62.3 million for fiscal year 2017-18 includes a significant additional investment into the state aid program. The amount for fiscal year 2015-16 was \$44.9 million.



or rehabilitation of roads on the State Aid system.”<sup>52</sup> In addition, \$245.8 million in gasoline and motor fuel tax revenue was distributed to counties in fiscal year 2017-18.<sup>53</sup>

### **Cities**

Cities in Tennessee are responsible for city road networks, typically managed through a street department, and state law requires cities to keep roads that pass “through the [city], or to any public place within the [city]” in “good repair.”<sup>54</sup> Although cities own fewer miles of roads than counties, the roads are used more intensely and require more use-related maintenance.<sup>55</sup> Cities rely on federal, state, and local revenue for roads. Gasoline and motor fuel tax revenue distributed to cities totaled \$128.0 million in fiscal year 2017-18.<sup>56</sup>

### **Fire Protection**

Counties and most cities are not required to provide fire services. Only cities with city-manager-commission charters are required to provide fire service, and their city managers “shall appoint a chief of the fire department”<sup>57</sup> and “it is the duty of the chief of the fire department and the members thereof to take all proper steps for fire prevention and suppression.”<sup>58</sup>

Though most local governments are not required to provide fire services, about three quarters of both counties and cities had expenditures on fire service in fiscal year 2016-17, totaling \$770.3 million—\$20.4 million in expenditures by local governments required to provide the service and \$749.9 million in expenditures by those authorized to provide the service. The expenditures are often in the form of contributions from the local government to nonprofit fire departments.<sup>59</sup>

Both the state and federal governments aid local governments in funding their fire service expenditures. As with law enforcement officers, the General Assembly provides salary supplements for firefighters that complete 40 hours of in-service training.<sup>60</sup> In 2019, the General Assembly enacted the Volunteer Firefighter Equipment and Training Grant, which “earmarks \$500,000 for the purchase of firefighting equipment by Tennessee’s volunteer fire departments or to help volunteer departments meet local

<sup>52</sup> Tennessee Department of Transportation 2019.

<sup>53</sup> Tennessee Department of Revenue 2019.

<sup>54</sup> Tennessee Code Annotated, Section 7-31-101.

<sup>55</sup> Green et al. 2005.

<sup>56</sup> Tennessee Department of Revenue 2019.

<sup>57</sup> Tennessee Code Annotated, Section 6-21-701.

<sup>58</sup> Tennessee Code Annotated, Section 6-21-702.

<sup>59</sup> Tennessee Advisory Commission on Intergovernmental Relations 2013.

<sup>60</sup> Tennessee Code Annotated, Section 4-24-201 et seq.

match requirements for federal grants for purchasing equipment.”<sup>61</sup> The Tennessee Department of Agriculture allocated \$275,779 to 106 fire departments across Tennessee through the Volunteer Fire Assistance Program in fiscal year 2018-19.<sup>62</sup> The department also administers federal grants, which totaled \$2.7 million in fiscal year 2018-19, to local fire departments for fire safety education and improving firefighting services.<sup>63</sup> The Tennessee Department of Safety disbursed \$21,557 in grants for fire services in fiscal year 2018-19.<sup>64</sup> See TACIR’s 2013 report *Fire Service in Tennessee*.

### *Judicial and Legal*

Tennessee’s court system is composed of a hierarchy of state-level appellate and trial courts as well as courts of limited jurisdiction—general sessions courts, juvenile courts, and municipal courts—operated by local governments. General sessions courts, juvenile courts, and municipal courts are “often called ‘local courts’ because they are funded exclusively by city and county governments.”<sup>65</sup> Local government expenditures for judicial and legal services were \$512.9 million in fiscal year 2016-17<sup>66</sup>—\$498.6 million in expenditures by local governments required to provide the service and \$14.3 million in expenditures by those authorized to provide the service.

### *Counties*

Each county is required to have a courthouse<sup>67</sup> and a state-established court of general sessions,<sup>68</sup> which has limited jurisdiction to hear civil and criminal cases, “in and for each county in the state.”<sup>69</sup> There are 98 juvenile courts in Tennessee—17 of which were created by private act and the other 81 are general sessions courts with juvenile jurisdiction. All but two juvenile courts in Tennessee—Bristol and Johnson City—are county-based, and there is at least one juvenile court located in each of the state’s 95 counties.<sup>70</sup>

### *Cities*

Cities with a mayor-aldermanic, city manager-commission, modified city manager-council, or home rule charter are required by state law to have

<sup>61</sup> Tennessee Department of Commerce and Insurance 2020.

<sup>62</sup> Tennessee General Assembly Office of Legislative Budget Analysis 2020. See also Tennessee Department of Agriculture 2020.

<sup>63</sup> Tennessee General Assembly Office of Legislative Budget Analysis 2020.

<sup>64</sup> Ibid.

<sup>65</sup> Lyons 2017 at 164.

<sup>66</sup> United States Census Bureau 2020a.

<sup>67</sup> Tennessee Code Annotated, Section 5-7-104.

<sup>68</sup> Tennessee Code Annotated, Section 16-15-102.

<sup>69</sup> Tennessee Code Annotated, Section 16-15-101.

<sup>70</sup> Tennessee State Courts 2020.



a court.<sup>71</sup> There are approximately 300 municipal courts throughout the state, which have jurisdiction over cases involving violations of municipal ordinances.<sup>72</sup> To raise revenue for courts, cities may set fines and monetary penalties up to the maximum amounts set in the state constitution and in state law. The Tennessee Constitution generally limits court fines to \$50 in cases that cannot be heard before a jury.<sup>73</sup> Cities may establish monetary penalties up to \$500 for violations of their municipal ordinances,<sup>74</sup> but a penalty exceeding \$50 is unlikely to survive a constitutional challenge if it is found to have a punitive rather than remedial purpose or effect.<sup>75</sup> A state litigation tax of \$13.75 applies to each case in municipal courts, and a municipality may levy an equivalent local litigation tax.<sup>76</sup>

### Correction

Incarcerating individuals who have committed crimes is a central function of state and local governments, both for protecting public safety and for rehabilitating those offenders who are candidates for reentry into society. The correctional system in Tennessee is split between local jails—mostly county facilities, though some cities have their own jails—and state prisons. State law states that “it is the duty of the county legislative body to erect . . . a jail.”<sup>77</sup> Jails must meet the minimum standards set by the Tennessee Corrections Institute,<sup>78</sup> and medical care must be provided to prisoners.<sup>79</sup> Jails that house state prisoners must also meet federal requirements such as those imposed by the Prison Rape Elimination Act (PREA) of 2003. The US Department of Justice published a Regulatory Impact Assessment in 2012, which estimated that the average annual cost for a jail to comply with PREA would be approximately \$50,000.<sup>80</sup>

State prisons are reserved for state prisoners—those convicted of felonies—but have long lacked the space needed to house all of them.<sup>81</sup> Rather than expand prison capacity, Tennessee has relied on its county jails to house state prisoners, reimbursing local governments for the expense. In fiscal year 2016-17, payments to local governments by the Department of Corrections totaled \$156.2 million,<sup>82</sup> more than one-third of the \$461.5 million in local government expenditures on corrections—\$461.0 million

<sup>71</sup> Tennessee Code Annotated, Sections 6-4-301, 6-21-501, 6-33-103, and 16-17-101.

<sup>72</sup> Lyons 2017 at 167.

<sup>73</sup> Tennessee Constitution, Article VI, Section 14.

<sup>74</sup> Tennessee Code Annotated, Sections 6-54-306 (home rule), 6-54-308(a) (other municipalities), 7-3-507 (metropolitan governments), and 16-18-304.

<sup>75</sup> *City of Chattanooga v. Davis*, 54 S.W.3d 248, 251 (Tenn. 2001).

<sup>76</sup> Tennessee Code Annotated, Section 16-18-305.

<sup>77</sup> Tennessee Code Annotated, Section 5-7-104.

<sup>78</sup> Tennessee Code Annotated, Section 41-4-140.

<sup>79</sup> Tennessee Code Annotated, Section 41-4-115.

<sup>80</sup> United States Department of Justice, Regulatory Impact Assessment for PREA Final Rule (May 17, 2012), available at [http://www.ojp.usdoj.gov/programs/pdfs/prea\\_ria.pdf](http://www.ojp.usdoj.gov/programs/pdfs/prea_ria.pdf).

<sup>81</sup> Tennessee Department of Corrections Annual Reports (2003-2018).

<sup>82</sup> Tennessee Department of Corrections 2018 (Annual Report).

in expenditures by local governments required to provide the service and \$410,000 in expenditures by local governments authorized to provide the service.<sup>83</sup>

Funding jails is primarily a responsibility of local governments, but some state grants are available. In accordance with Public Chapter 1051, Acts of 2018, the Department of Correction issued four grants, \$250,000 each, to local county sheriff and probation departments to fund reentry programs that reduce recidivism and probation revocations.<sup>84</sup> The Commission on Children and Youth reported disbursing \$60,168 in jail removal reimbursements for counties in fiscal year 2018-19.<sup>85</sup> For more on jails, see TACIR's 2017 report *Housing Tennessee's Convicted Felons: Improving Outcomes while Balancing State and County Needs*.

### Health

As emphasized during the COVID-19 pandemic, the role of state and local governments in ensuring the health of citizens is especially important. Counties are required to have a health department "headed by the county health director, who is appointed by the commissioner of health and is compensated, at least in part, by the state."<sup>86</sup> Tennessee has "89 primarily rural county health departments [that] operate under the direct supervision of the Tennessee Department of Health, headquartered in Nashville, while the six larger, urban counties—Madison, Shelby, Knox, Davidson, Hamilton and Sullivan—have health departments that operate under local governance but work closely with the Tennessee Department of Health."<sup>87</sup> These local and regional health departments provide services relating to child health, immunizations, primary care, family planning, and environmental health, among others.<sup>88</sup> Many local health departments also serve as assessment (testing) sites for COVID-19.<sup>89</sup>

Local government expenditures on health totaled \$420.5 million in fiscal year 2016-17—\$408.4 million in expenditures by local governments required to provide the service and \$12.0 million in expenditures by those authorized to provide the service.<sup>90</sup> State law requires county legislative bodies "to provide necessary office facilities, and to appropriate money

<sup>83</sup> US Census of Governments (2017 public use data).

<sup>84</sup> Tennessee Legislative Budget Office 2020 (Grants Data). The grant recipients were Dyer, Franklin, and Knox counties and the Southcentral Tennessee Workforce Alliance.

<sup>85</sup> Tennessee Legislative Budget Office 2020 (Grants Data).

<sup>86</sup> Tennessee Code Annotated, Section 68-2-603 and <https://eli.ctas.tennessee.edu/reference/county-health-department>.

<sup>87</sup> Tennessee Department of Health. <https://www.tn.gov/health/health-program-areas/localdepartments.html>.

<sup>88</sup> Tennessee Department of Health. <https://www.tn.gov/health/health-program-areas/localdepartments.html>.

<sup>89</sup> Tennessee Department of Health. <https://www.tn.gov/health/cedep/ncov/remote-assessment-sites.html>

<sup>90</sup> Dollar amounts may not add because of rounding.

necessary for the maintenance of the county health department.”<sup>91</sup> To support local and regional health departments, the state appropriated \$76.4 million in fiscal year 2017-18 for grants-in-aid, which “are provided to local health units to ensure that every citizen in the state has access to health care and to assist county health departments in providing adequate staff.”<sup>92</sup> A county may also receive funds from cities within the county “for their proportionate part in the establishment and maintenance of the county health departments.”<sup>93</sup>

### *Solid Waste Management*

State and local governments protect public health and promote a clean environment by properly managing solid waste. The Tennessee Department of Environment and Conservation (TDEC) defines solid waste as “any useless, unused, unwanted, or discarded materials.”<sup>94</sup> Local government expenditures on solid waste totaled \$410.0 million—\$136.6 million in expenditures by local governments required to provide the service and \$273.5 million in expenditures by those authorized to provide the service.<sup>95</sup> Although nearly two-thirds of cities made expenditures on solid waste management in fiscal year 2016-17, it’s a required service for counties. State law requires each county to “assure that one or more municipal solid waste collection and disposal systems are available to meet the needs of the residents of the county.”<sup>96</sup> To comply with this mandate, counties need to maintain a certain “number of convenience centers,” one or more sites for “the collection of recyclable materials,” and “at least one site to receive and store waste tires, used automotive oils and fluids, and lead acid batteries.”<sup>97</sup>

State grants are available to local governments for solid waste management. Counties may apply for grants through the state’s Material Management Program<sup>98</sup> to improve solid waste management in their districts. In fiscal year 2019-20, TDEC allocated \$1 million for Convenience Center Grants, a resource intended to help counties who need to establish or upgrade convenience centers in order to comply with state law. These grants require a 10%-50% match from county applicants. Other relevant grants available through this program include Waste Reduction Grants (allocated \$3 million in fiscal year 2018-19) and the Recycling Equipment Grant and Recycling Rebate (allocated \$1 million collectively for fiscal year 2019-20).<sup>99</sup>

<sup>91</sup> Tennessee Code Annotated, Section 68-2-604(a).

<sup>92</sup> The Budget of the State of Tennessee 2019.

<sup>93</sup> Tennessee Code Annotated, Section 68-2-605.

<sup>94</sup> <https://www.tn.gov/environment/program-areas/sw-solid-waste.html> (May 11, 2020).

<sup>95</sup> Dollar amounts may not add because of rounding.

<sup>96</sup> Tennessee Code Annotated, Section 68-211-851.

<sup>97</sup> Tennessee Code Annotated, Sections 68-211-851, 68-211-863, and 68-211-866.

<sup>98</sup> Tennessee Department of Finance and Administration 2019. (The Budget FY 2020).

<sup>99</sup> <https://www.tn.gov/environment/about-tdec/grants/grants-materials-management-grants/grants-convenience-center-grant.html> (accessed on April 6, 2020).

State funding for the Material Management Program and these grants comes from a \$0.90 per ton surcharge on each ton of municipal solid waste received at all Class 1 solid waste disposal facilities or incinerators, which raised \$6.5 million in fiscal year 2017-18.<sup>100</sup>

### **The State of Tennessee Constitutional Requirement to Share in the Cost of Local Services**

Article II, Section 24, of the Tennessee Constitution requires the state to share in the cost of funding mandatory increases in local government expenditures imposed by state law. The state addresses this requirement by including in its annual appropriations bills a statement that reads, “from the growth in state-shared taxes apportioned to counties and cities and from the increase in local revenue generated from passage of any general law during the [legislative session] not otherwise appropriated pursuant to this act, a sum sufficient hereby is appropriated to fund the state share of the cost of any law of general application which requires, without local discretion, that incorporated municipalities or county governments increase expenditures as a direct consequence of passage of any general law.”\* State-shared tax revenue increased in most years, but in 2009 it decreased, and the state appropriated \$100,000, half for cities and half for counties, to share in the cost of its mandates on local governments

\*Public Chapter 405, Acts of 2019.

Given the expenditures on the services provided to comply with state and federal law and those provided to meet the needs and expectations of their communities, the challenge for local officials is how to pay for them. Some services are primarily funded by payments from users; for example, \$6.6 billion in charges for electric power offset \$6.7 billion in expenditures in fiscal year 2016-17, and hospital charges of \$3.0 billion offset \$3.4 billion in expenditures, while the same is true for other services, including natural gas, sewerage, and water services.<sup>101</sup> But many services are primarily funded by taxes. The revenue needed to fund all the many duties local governments perform and the services they provide comes from local, state, and federal sources.

### **Sources and Trends of Revenue for Local Governments**

The total revenue available to local governments includes local own-source revenue and revenue from the federal and state government. Local taxes and fees provide most of the revenue that local governments receive.

<sup>100</sup> Email from Cavene McHayle, Financial Officer, Tennessee Department of Environment and Conservation, on April 6, 2020.

<sup>101</sup> United States Census Bureau 2020a.

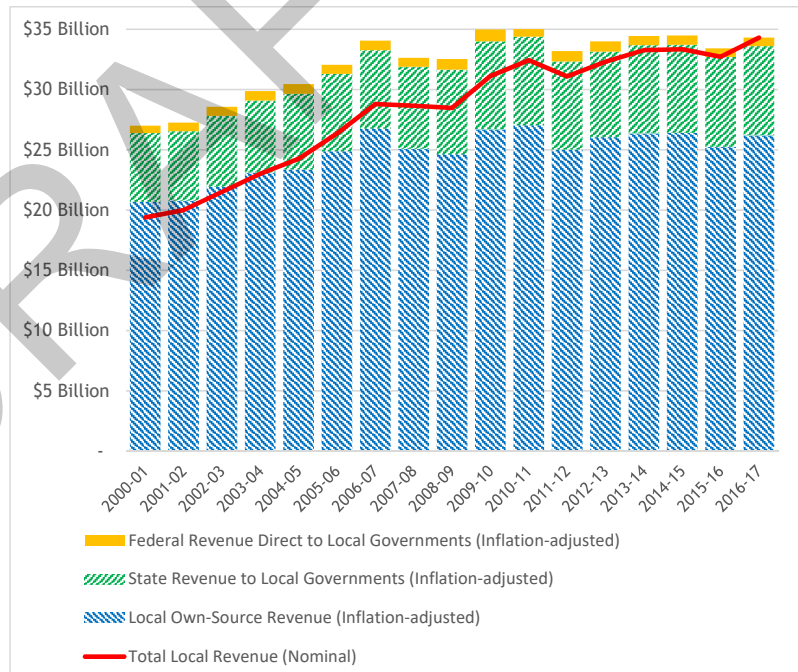
Although adopted locally, the types of taxes and fees that can be levied by local governments and, in some cases, the maximum rates that can be charged are determined by state law. Direct federal intergovernmental transfers, in contrast, account for a relatively small portion of the revenue available to local governments, and most of this federal revenue is restricted and must be used to fund housing and community development, air transportation, and K-12 education. The remaining revenue comes from state intergovernmental transfers, which are much larger by comparison. Of the \$34.3 billion in total revenue available to local governments in fiscal year 2016-17,

- \$26.2 billion was own-source revenue (including local taxes and fees),<sup>102</sup>
- \$7.4 billion was state transfers to local governments, and
- \$705.5 million was direct federal transfers to local governments.

**Total revenue available for funding local services, when adjusted for inflation, has leveled in recent years.**

Statewide, the total local government revenue from all sources has leveled in the last 10 years, after adjusting for inflation. Although total revenue increased steadily in the early 2000s, it has been relatively stable since fiscal year 2006-07. Even during and after the Great Recession,<sup>103</sup> fluctuations in total revenue has been small, with increases in some years generally offsetting decreases in others. While inflation-adjusted revenue has leveled, on a nominal basis total revenue for local governments has continued to increase, from \$19.4 billion to \$34.3 billion from fiscal year 2000-01 to fiscal year 2016-17. See figure 2.

**Figure 2. Total Local Revenue, Inflation-adjusted and Nominal Fiscal Years 2000-01 to 2016-17**



Source: Urban Institute State and Local Finance Initiative (based on data from the US Census Annual Survey of State and Local Government Finances, US Bureau of Economic Analysis, and US Bureau of Labor Statistics).

\*Dollar amounts are adjusted for inflation.

<sup>102</sup> The Census of Governments defines local “own-source” revenue for local governments as including local charges (fees), donations from private sources, interest earnings, fines, forfeits, rents, royalties, special assessments, sales of property, and taxes. Because the report relies on Census of Governments data, we used this definition for this report.

<sup>103</sup> The “Great Recession” refers to the recession that occurred in the United States from 2007 to 2009.

### Local Own-source Revenue—Local Taxes and Fees

Local own-source revenue, adjusted for inflation, increased from \$21.1 billion to \$27.7 billion from fiscal year 2000-01 to fiscal year 2010-11. Although, in nominal dollars, local own-source revenue continued to increase in subsequent years, from \$24.8 billion to \$26.2 billion from fiscal year 2010-11 to fiscal year 2016-17, this increase was not enough to keep up with inflation. When adjusted for inflation, local own-source revenue decreased from \$27.7 billion to \$27.2 billion. Lack of growth in local tax revenue, along with a decrease in natural gas utility revenue, contributed the most to the decrease.

Local own-source revenue is the largest source of revenue for local governments. Of the revenue available for funding local services, local own-source revenue is the largest source, accounting for 76% of the total in fiscal year 2016-17, a slight decrease from 77% in fiscal year 2000-01. Local fees—which include charges billed to users of services such as electricity, natural gas, sewerage, water, hospital care, parks and recreation, and transit, among others—accounted for 57% of the own-source revenue local governments received in fiscal year 2016-17. Many of the services for which these fees are charged are funded almost entirely by the revenue generated from them and use of fee revenue is often limited to providing the service that generated it. Another 30% of own-source revenue came from local taxes.<sup>104</sup> Some local tax revenue is earmarked. For example, half of local option sales and mixed drink tax revenue is earmarked for K-12 education. The remaining 12% of the local own-source revenue was from employee retirement, interest earnings, special assessments, sale of property, and other revenue.<sup>105</sup>

All counties and most cities levy at least some local taxes. The types of local taxes they can levy are determined by state law. Moreover, the state sets maximum rates for most of these taxes—and in some cases, for example hotel-motel taxes, the maximum rates vary by local government. The two exceptions are property taxes and motor vehicle (wheel) taxes, for which there are no maximum rates. In addition to the restrictions set by the state, the size of local tax bases and the appetite for more taxes at the local level act as limits for local governments. See table 8.

<sup>104</sup> Approximately 5% of own-source revenue comes from interest and dividends, according to the Census of Governments.

<sup>105</sup> Dollar amounts may not add because of rounding.

**Table 8. Maximum Authorized Rates and the Number of Jurisdictions Authorized for Local Taxes in Tennessee**

Tax	Level of Government	How Authorized	Maximum Authorized Rate*	Number of Jurisdictions Authorized	
Property Tax	County	TCA 67-5-102(a)(2); 67-5-510	No Maximum	All	
	City	TCA 67-5-103(a) and (b)	No Maximum	All	
Local Option Sales Tax	County	67-6-702(a)(1)	2.75%	All	
	City		2.75%	All	
Hotel-Motel	County	Private Act	8%	1	
			7.50%	2	
			7%	7	
			5%	49	
			4%	7	
			3%	7	
			2.50%	2	
			2%	2	
	Metro <sup>†</sup>	TCA 7-4-102, 7-4-110, 7-4-202	6% + \$2.50	1	
			TCA 7-4-102(a)	3%	2
			TCA 7-4-102(a) and (c)	3%	1
	City	Private Act	10%	1	
			8%	1	
			7%	4	
			6%	1	
			5%	20	
			3%	4	
			1%	1	
			TCA 67-4-1402 and 67-4-1425	7% <sup>‡</sup>	1
			5%	4	
TCA 67-4-1402			5%	9	
TCA 67-4-1425			No Maximum	1	
			5%	20	
	3%	1			
	2.75%	1			
	2.50%	3			
Private Act and TCA 67-4-1425	4%	2			
2.50%	3				
Litigation	City	TCA 16-18-305(a)	\$13.75	All	
		TCA 16-18-305(b)	\$1.00		
	County	TCA 16-15-5008	\$2.00		
		TCA 39-13-708	Up to \$3,000		
		TCA 40-24-107(a)(1)(A)	\$26.50		
		TCA 40-24-107(a)(1)(B)	\$500.00		
		TCA 40-24-107(a)(2)	\$26.50/\$50.00		
		TCA 67-4-602(a)	\$29.50		
		TCA 67-4-602(b)	\$23.75 + \$1.00		
		TCA 67-4-602(c)	\$17.75		
		TCA 67-4-602(d)	\$13.75		
		TCA 67-4-602(g)	\$1.00		
		TCA 67-4-602(h)	\$3.00		
		TCA 67-4-602(k)	\$2.00		
		Knox County	TCA 67-4-602(f)		\$3.00
Marriage License	County	TCA 67-4-505	\$5.00	All	
Mineral Severance	County	TCA 67-7-203	\$0.15 per ton	All	



**Table 8. Maximum Authorized Rates and the Number of Jurisdictions Authorized for Local Taxes in Tennessee (continued)**

Tax	Level of Government	How Authorized	Maximum Authorized Rate*	Number of Jurisdictions Authorized
Motor Vehicle “Wheel” Tax	County	TCA 5-8-102	No Maximum	All
Cable TV Franchise Fees	Counties and Cities	TCA 7-59-304 and 47 USC 542(b)	5% of gross revenue from the operation of the cable system to provide cable services	All
<b>IMPROVE Act Surcharges</b>				
Local Option Sales and Use Tax Surcharge	County	TCA 67-4-3202(b) and (g)(2)(A)	Up to an additional 2.75% is authorized for transit purposes	Counties with populations greater than 112,000, currently 12
	City	TCA 67-4-3202(b) and (g)(2)(A)	Up to an additional 2.75% is authorized for transit purposes	Cities with populations greater than 165,000, currently 4
Tourist Accommodation (Metro-Nashville), Hotel-Motel, TDZs, and Sales Taxes and Surcharges	County	TCA 67-4-3202(b) and (g)(2)(A)	20% (combined taxes and surcharges)	Counties with populations greater than 112,000, currently 12
	City	TCA 67-4-3202(b) and (g)(2)(A)	20% (combined taxes and surcharges)	Cities with populations greater than 165,000, currently 4
Business, Rental Car, and Residential Development Tax Surcharges	County	TCA 67-4-3202(b) and (g)(2)(A)	20% of current tax rate	Counties with populations greater than 112,000, currently 12
	City	TCA 67-4-3202(b) and (g)(2)(A)	20% of current tax rate	Cities with populations greater than 165,000, currently 4
Motor Vehicle “Wheel” Tax Surcharges	County	TCA 5-8-102; 67-4-3202(g)(2)(D)	\$200 (combined wheel tax and surcharge)	Counties with populations greater than 112,000, currently 12
	City	TCA 5-8-102; 67-4-3202(g)(2)(D)	\$200 (combined wheel tax and surcharge)	Cities with populations greater than 165,000, currently 4

Source: Tennessee Code Annotated and Private Acts.

\*Maximum authorized rates have not necessarily been adopted.

†The metropolitan governments in Tennessee are Nashville-Davidson, Hartsville-Trousdale, and Lynchburg-Moore.

‡Johnson City was authorized to make a one-time increase in its hotel tax of 2% (Tennessee Code Annotated, Section 67-4-1425(n)) in addition to its authorized rate of 5% because it is a home rule city (Tennessee Code Annotated, Section 67-4-1402).

Note: For more information on hotel-motel taxes, see TACIR’s 2016 report *Structuring Lodging Taxes to Preserve the Economy and Encourage Tourism*.



Table 9 shows the amount of revenue that counties and cities receive from the various local taxes they are authorized to levy under state law. TACIR staff presented data on local tax revenue for fiscal year 2016-17 at a working group of the Commission’s local-government members in June 2018 (see table 9 in appendix C). The data in table 9 have been updated with the most recent available data, which are for fiscal year 2017-18.<sup>106</sup> For counties, the largest source of local tax revenue is the property tax, which accounted for \$3.7 billion (83%) of the revenue counties received from local taxes in fiscal year 2017-18. Property taxes are also the largest source of local revenue for the three consolidated metropolitan governments. By contrast, for cities, the local option sales tax is the largest source of local tax revenue, which accounted for \$2.0 billion (50%) of city revenue from local taxes in the same year. Because they are the largest sources of local tax revenue, more information is provided below on property taxes and local option sales taxes.

**Table 9. Local Tax Revenue, Fiscal Year 2017-18**

Tax	Counties	Percent of Tax	Metros*	Percent of Tax	Cities	Percent of Tax	Total	Percent of Tax
Property Tax	\$3,656,970,030	83.4%	\$ 958,560,059	57.8%	\$1,549,292,040	39.8%	\$6,164,822,129	62.0%
Local Option Sales Tax <sup>†</sup>	233,529,497	5.3%	421,389,685	25.4%	1,960,839,071	50.3%	2,615,758,254	26.3%
Hotel/Motel Tax	68,669,637	1.6%	95,145,284	5.7%	60,480,361	1.6%	224,295,282	2.3%
Wheel Tax	146,478,458	3.3%	33,478,962	2.0%	907,484	0.0%	180,864,904	1.8%
PILOTs (Excludes TVA)	62,402,636	1.4%	50,699,599	3.1%	43,638,655	1.1%	156,740,890	1.6%
Other <sup>‡</sup>	157,875,683	3.6%	96,736,985	5.8%	262,704,683	6.7%	517,317,351	5.2%
Litigation Taxes	34,759,585	0.8%	2,180,054	0.1%	217,645	0.01%	37,157,284	0.37%
Adequate Facilities/Development Tax	24,141,005	0.6%	-	0.0%	2,167,414	0.1%	26,308,419	0.3%
Restaurant Tax	-	-	-	0.0%	8,599,572	0.2%	8,599,572	0.1%
Local Amusement Tax	34,085	0.0%	-	0.0%	6,760,919	0.2%	6,795,004	0.1%
<b>Total</b>	<b>\$4,384,860,616</b>	<b>100.0%</b>	<b>\$1,658,190,628</b>	<b>100.0%</b>	<b>\$3,895,607,844</b>	<b>100.0%</b>	<b>\$9,938,659,089</b>	<b>100.0%</b>

Source: Tennessee Comptroller of the Treasury Annual Financial Reports.

\*Metropolitan governments in Tennessee are Hartsville-Trousdale, Lynchburg-Moore, and Nashville-Davidson.

<sup>†</sup>50% of local option sales tax revenue is earmarked for school systems.

<sup>‡</sup>No additional detail for “other” revenue is available in the annual financial reports.

### Property Tax

Property tax revenue totaled \$6.2 billion in fiscal year 2017-18. It was the largest source of local tax revenue for counties (\$3.7 billion) and metropolitan governments (\$958.6 million) and the second largest for cities (\$1.5 billion). All 95 counties have a county-wide property tax; some also have property taxes that are not county-wide for special school districts, rural debt service, and fire districts.<sup>107</sup> Of the 345 cities in Tennessee, 79 (22.9%) do not levy a property tax,<sup>108</sup> relying instead on state-shared taxes and other

<sup>106</sup> Because fiscal year 2017-18 was the latest available, it was used for table 9. For 2016-17 data, see table 9 in appendix C.

<sup>107</sup> Tennessee Code Annotated, Section 5-17-105.

<sup>108</sup> Tennessee Comptroller of the Treasury 2018.

revenue. Newly incorporated cities, by contrast, “shall impose a property tax that raises an amount of revenue not less than the amount of the annual revenues derived by the municipality from state-shared taxes.”<sup>109</sup> No new cities have incorporated in Tennessee since this requirement was enacted in 1998.<sup>110</sup> There is no maximum property tax rate; any existing limits on property tax rates were repealed in 1973.<sup>111</sup> Senate Bill 2751 by Bell, House Bill 2638 by Holt (2020), would have limited annual increases in property tax rates unless approved by local referendum, but the bill did not pass.

### *Local Option Sales Tax*

Local option sales tax revenue totaled \$2.6 billion in fiscal year 2017-18. It was the second largest source of revenue for counties (\$233.5 million) and metropolitan governments (\$421.4 million) and the largest source of revenue for cities (\$2.0 billion).<sup>112</sup> The General Assembly last adjusted the maximum local option sales tax rate in 1984 when it was set at 2.75%. Although both counties and the cities in them may levy local option sales taxes, as described by County Technical Assistance Service (CTAS), “if the county has levied the tax at the maximum rate, no city in the county may levy an additional local sales tax. If a county has a sales tax of less than the maximum, a city may levy an additional tax up to the difference between the county rate and the maximum,”<sup>113</sup> (see appendix D).

The distribution of revenue from local option sales taxes depends on whether the tax is levied by a county or a city. Revenue from local option sales tax levied by counties is distributed as follows:

- 50 percent specifically for education, to be distributed in the same manner as the county property tax for school purposes.<sup>114</sup>
- 50 percent distributed on the basis of where the sale occurred. Taxes collected inside a municipality are distributed to that municipality, and taxes collected in unincorporated areas are distributed to the county. Counties and cities may contract with each other for distribution of the half.<sup>115</sup>

Revenue generated from any additional local option sales tax levied by a city is distributed only to that city. Cities can create special jurisdictions that effectively earmark local option sales tax revenue. Local option sales tax revenue from admissions as well as food and drink sales at sports facilities can be earmarked by cities for sports authorities to pay for construction

<sup>109</sup> Tennessee Code Annotated, Section 6-58-112(b).

<sup>110</sup> Public Chapter 1101, Acts of 1998 and *Tennessee Blue Book*.

<sup>111</sup> Public Chapter 328, Acts of 1973.

<sup>112</sup> Tennessee Comptroller of the Treasury 2020.

<sup>113</sup> County Technical Assistance Service 2020. See also Tennessee Code Annotated, Section 67-6-701 et seq.

<sup>114</sup> *Ibid.*

<sup>115</sup> *Ibid.*

of those facilities.<sup>116</sup> Cities can also establish tourism development zones where local option sales tax revenue in excess of an annually adjusted base tax revenue can be used to finance a convention center or other tourism-related development.<sup>117</sup>

All 95 counties in Tennessee have adopted a local option sales tax, and 33 cities have adopted an additional rate. Each county's local option sales tax rate, and the combined county-city rate for each city, can be found on the Department of Revenue's website.<sup>118</sup> The local tax is applied only to the first \$1,600 of the sales price of any single article of tangible personal property in most local jurisdictions.<sup>119</sup> In 2002, the General Assembly enacted the state single article tax on the value of sales between \$1,600 and \$3,200 at a rate of 2.75%.<sup>120</sup> Senate Bill 2488 by Dickerson, House Bill 2640 by Carr, would have eliminated the state single article tax and instead apply the local rate to the value of sales up to \$3,200. According to the fiscal note, this would have decreased state revenue by \$47.8 million in fiscal year 2020-21 and \$63.7 million in subsequent years while increasing local revenue by \$43.4 million in fiscal year 2020-21 and \$57.9 million in subsequent years.<sup>121</sup> The bill did not pass.

State law includes the possibility of a referendum in which residents of the unincorporated part of a county, but not city residents, can vote and affect the general fund revenue of the city.<sup>122</sup> When a city has a rate in addition to the county rate, counties may raise the countywide local option rate to match the combined city-county rate via a referendum of residents from the unincorporated county.<sup>123</sup> When this happens, the revenue formerly generated by the city's additional rate is subject to the distribution requirements that apply to the counties.<sup>124</sup>

Counties and cities may change their rates provided that they don't exceed the maximum under state law. But when a city increases its rate, before the rate goes into effect, the county is given the opportunity to increase its countywide rate to match, under state law. According to CTAS, "if a city passes an ordinance to increase its sales tax rate above the county rate, the city ordinance is suspended for 40 days during which time the county legislative body may pass a resolution to increase the county tax. If such a

<sup>116</sup> Tennessee Code Annotated, Section 67-6-712(c).

<sup>117</sup> Tennessee Code Annotated, Section 7-88-101 et seq. The state building commission approves the boundaries of the tourism development zone (TDZ).

<sup>118</sup> Tennessee Department of Revenue 2020b.

<sup>119</sup> Hancock County's single article cap is \$375, Grundy County's is \$333, and except for Morristown, which adopted the maximum \$1,600 cap, Hamblen County's is \$300.

<sup>120</sup> Public Chapter 856, Acts of 2002.

<sup>121</sup> Fiscal Note of Senate Bill 2488 and House Bill 2640 (111th General Assembly).

<sup>122</sup> Tennessee Code Annotated, Section 67-6-706(b).

<sup>123</sup> Tennessee Code Annotated, Sections 67-6-703 and 67-6-712.

<sup>124</sup> Burgess 2019. Cities cannot increase the combined local option sales tax rate above the maximum 2.75%.

resolution is passed, the ordinance remains suspended until a countywide referendum is held. If the referendum is successful, the city ordinance is dead. However, if the referendum is not successful, the city may proceed with a city referendum on the matter.”

### State Transfers to Local Governments

In fiscal year 2016-17, the state distributed a total of \$7.4 billion in revenue to local governments according to Census of Governments data. Because the Census of Governments is the only source of comprehensive local government financial data that uses uniform categories for all counties and cities in Tennessee, staff used this data for comparisons of revenue among local governments. See appendix E for the level of detail that is available from the uniform chart of accounts used by 90 counties for fiscal year 2017-18.<sup>125</sup> Of the \$7.4 billion, \$5.5 billion (74%) was restricted for use on K-12 education (see Table 10). For detailed information about state requirements to provide K-12 public education and the funding available to do so, see TACIR’s 2020 report *K-12 Public Education Funding and Services*. The Census of Governments categorizes the revenue by its use, not its source, but data from the Tennessee Department of Revenue make it clear that most of the remaining revenue was generated by state-shared taxes—so-named because a portion of the revenue generated from them is required to be shared with local governments by state law—which totaled \$1.4 billion in fiscal year 2016-17.<sup>126</sup> Grants and reimbursements for services make up the remaining amount (approximately \$500 million to \$600 million). To summarize, revenue the state transfers to local governments includes:

- K-12 education funding (e.g. the Basic Education Program);
- State-shared tax revenue;
- Grants (including grants wholly or in part from federal grants to the state, i.e., pass-throughs), subsidies, and program funding; and
- Reimbursements for services (e.g. contracted prisoner boarding).

Another way to categorize state transfers to local government is by whether the recipient was a county, city, or special school district. Of the \$7.4 billion distributed to local governments in fiscal year 2016-17, \$5.5 billion was for counties, \$1.7 billion was for cities (including metropolitan governments), and \$188.1 million was for special districts (including special school districts). More detailed breakdowns of the data in table 10 by program, grants versus appropriations, or one-time versus recurring are not possible

<sup>125</sup> A uniform chart of accounts is not currently required for cities in Tennessee. Ninety of the 95 counties follow a uniform chart of accounts. Davidson, Hamilton, Knox, McMinn, and Shelby are exempt from the requirement.

<sup>126</sup> Tennessee Department of Revenue 2018a.

using the Census of Governments data as it does not provide that level of specificity.

**Table 10. State Intergovernmental Revenue\* Distributed to Local Governments Fiscal Year 2016-17**

Category	Counties		Cities <sup>†</sup>		Special Districts <sup>‡</sup>		Total	
	Revenue	Percent	Revenue	Percent	Revenue	Percent	Revenue	Percent
Education	\$ 4,462,407,000	81.0%	\$ 851,775,000	50.0%	\$ 146,235,000	77.8%	\$ 5,460,417,000	73.7%
Other General Support	103,208,000	1.9%	421,498,000	24.7%	0	0.0%	524,706,000	7.1%
Public Welfare	401,412,000	7.3%	30,566,000	1.8%	0	0.0%	431,978,000	5.8%
Other	206,291,000	3.7%	169,953,000	10.0%	26,115,000	13.9%	402,359,000	5.4%
Highways	238,290,000	4.3%	129,715,000	7.6%	0	0.0%	368,005,000	5.0%
Health and Hospitals	91,932,000	1.7%	16,402,000	1.0%	0	0.0%	108,334,000	1.5%
Water Utilities	626,000	0.0%	27,422,000	1.6%	8,034,000	4.3%	36,082,000	0.5%
Transit Utilities	0	0.0%	34,426,000	2.0%	1,185,000	0.6%	35,611,000	0.5%
Housing and Community Development	6,412,000	0.1%	8,599,000	0.5%	5,505,000	2.9%	20,516,000	0.3%
Sewerage	85,000	0.0%	11,119,000	0.7%	679,000	0.4%	11,883,000	0.2%
Gas Utilities	0	0.0%	2,406,000	0.1%	308,000	0.2%	2,714,000	0.0%
Electric Utilities	948,000	0.0%	704,000	0.0%	0	0.0%	1,652,000	0.0%
<b>TOTAL</b>	<b>\$ 5,511,611,000</b>	<b>100.0%</b>	<b>\$ 1,704,585,000</b>	<b>100.0%</b>	<b>\$ 188,061,000</b>	<b>100.0%</b>	<b>\$ 7,404,257,000</b>	<b>100.0%</b>

Source: 2012 and 2017 Census of Governments Public Use Data.

\*Dollar amounts are adjusted for inflation.

<sup>†</sup>Includes metropolitan governments.

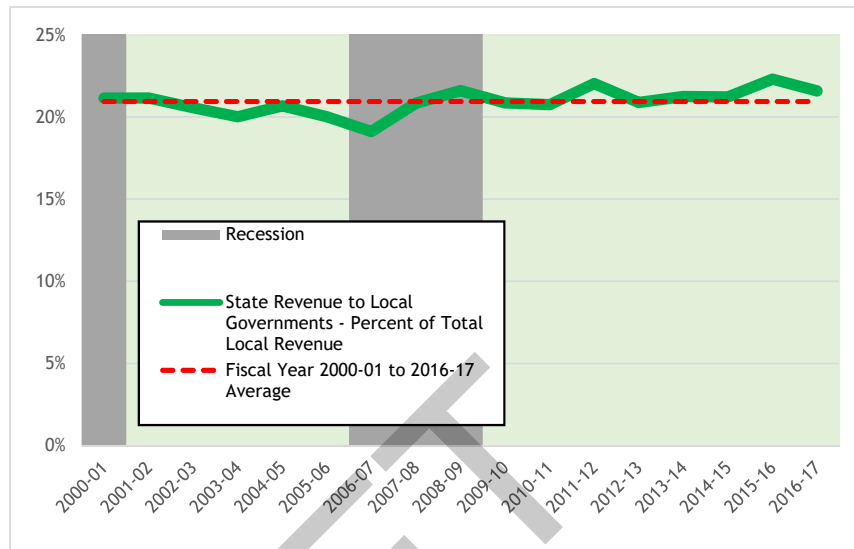
<sup>‡</sup>Includes special school districts.

Note: State-shared tax revenue is included, though the Census of Governments categorizes the revenue by what it is for, not its source. Unrestricted state-shared tax revenue is included in “Other General Support” and some “Other” revenue. Restricted state-shared tax revenue is included in “Education” and “Highways.” “Public Welfare” includes some Medicaid (TennCare) revenue.

Of the revenue available to fund local services, the percentage provided by state intergovernmental transfers has remained stable for the last two decades (fiscal years 2000-01 to 2016-17)—this is true both on an inflation-adjusted and nominal basis. Similar to the way total local revenue increased<sup>127</sup> steadily in the early 2000s and was relatively stable afterward, the share of revenue provided by the state increased from \$5.7 billion to \$7.3 billion from fiscal year 2000-01 to fiscal year 2009-10 and then leveled off to \$7.4 billion in fiscal year 2016-17. State revenue was 22% of total revenue available from all sources in fiscal year 2016-17, a slight increase from 21% in fiscal year 2000-01, having fluctuated between a low of 19% in fiscal year 2006-07 and a high of 22% in both fiscal year 2011-12 and fiscal year 2015-16. See figure 3. State revenue available to local governments was also stable as a percentage of local government expenditures, increasing from 22% to 23% from fiscal year 2000-01 to 2016-17.

<sup>127</sup> The Census of Governments refers to state transfers to local governments as “intergovernmental revenue from state government,” which includes revenue wholly or in part from federal grants to the state (i.e., pass-throughs).

**Figure 3. State Revenue Distributed to Local Governments, Percent of Total Local Revenue Fiscal Years 2000-01 to 2016-17**



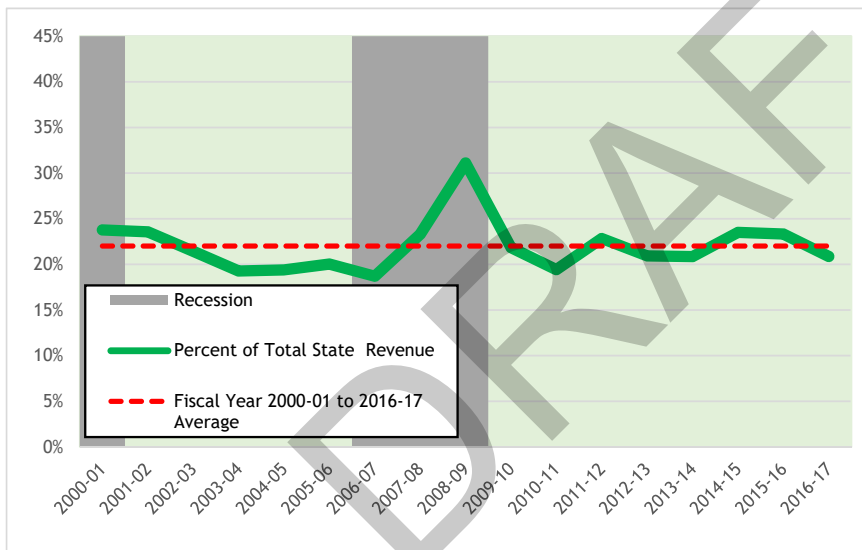
Source: Urban Institute State and Local Finance Initiative (based on data from the US Census of Governments, US Bureau of Economic Analysis, and US Bureau of Labor Statistics).

The calculations for these trends include the revenues local governments receive from enterprise services, such as electric, gas, hospital, sewer services, and water services. For the most part, these are self-sustaining services, but local governments do subsidize them in some instances, which helps to explain potential discrepancies between the revenues and expenditures for these services at the level of local government. Nashville-Davidson, for example, has provided subsidies to Nashville General Hospital, a safety net for patients that lack the ability to pay for services. Of the \$34.3 billion in local government revenue in total, for fiscal year 2016-17, local governments collected \$12.9 billion in fees for electric, gas, hospital, sewerage, and water services, which nearly offset \$13.2 billion in expenditures for those services. If, alternatively, these revenues are excluded from local revenues, the overall percentages do change, but with limited effect on the measured change over time. For instance, excluding enterprise revenues means state revenue transferred to local governments accounted for 35% percent of the total revenue available in fiscal year 2001-02 and in fiscal year 2016-17.

Moreover, the percentages of both overall state revenue—which includes revenue the state receives from the federal government—and state tax revenue that the state has distributed to local governments have been consistent, though both were affected by the Great Recession. The percentage of overall state revenue that the state has distributed to local governments has generally hovered around 22% during the last two decades (fiscal years 2000-01 to 2016-17), except for the 2007-2009 recession

when the percentage peaked at 31%. Although state revenue (adjusted for inflation) decreased during the recession, from \$34.8 billion to \$22.6 billion from fiscal year 2006-07 to fiscal year 2008-09, the state was able to avoid any decreases in state distributions to local governments, in part because of federal stimulus funding. The share of overall state revenue distributed to local governments returned closer to 22% as state revenue recovered (see figure 4). Similar to overall state revenue, state tax revenue decreased each year during the 2007-2009 recession, from \$13.5 billion to \$11.8 billion from fiscal years 2006-07 to 2009-10, while the amount of state revenue distributed to local governments actually increased. As a result, state revenue distributed to local governments as a percentage of state tax revenue also increased during the 2007-2009 recession to a high of 62% before decreasing to 53% in fiscal year 2016-17 (see figure 5).

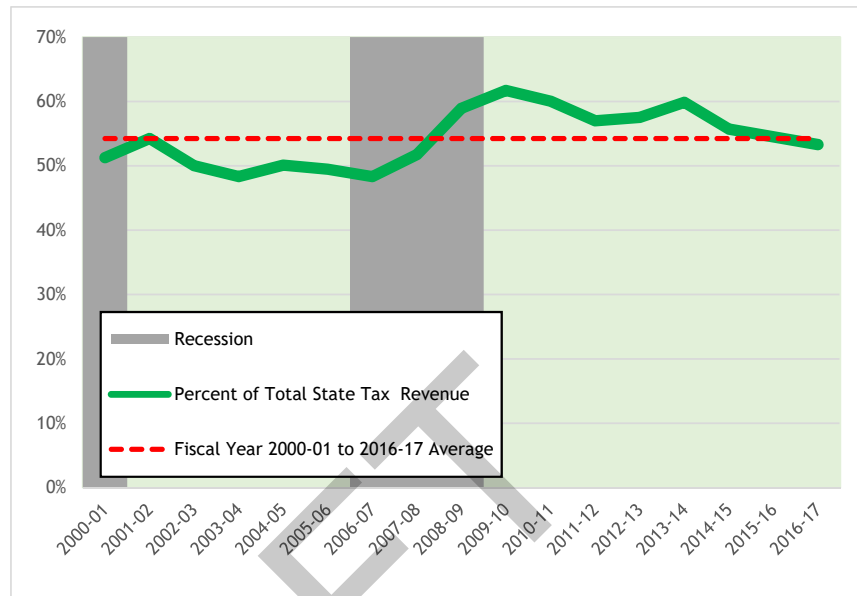
**Figure 4. State Revenue Distributed to Local Governments, Percent of Total State Revenue Fiscal Years 2000-01 to 2016-17**



Source: Urban Institute State and Local Finance Initiative (based on data from the US Census Annual Survey of State and Local Government Finances, US Bureau of Economic Analysis, and US Bureau of Labor Statistics).



**Figure 5. State Revenue Distributed to Local Governments, Percent of Total State Tax Revenue Fiscal Years 2000-01 to 2016-17**



Source: Urban Institute State and Local Finance Initiative (based on data from the US Census Annual Survey of State and Local Government Finances, US Bureau of Economic Analysis, and US Bureau of Labor Statistics).

Although inflation-adjusted revenue has leveled in recent years, on a nominal basis the overall revenue available to fund local services has continued to increase. Intergovernmental transfers from the state are part of this increase and have included investments in K-12 education, in particular. Recently, passage of the BEP Enhancement Act of 2016 generated more than \$223.1 million in state revenue for K-12 education.<sup>128</sup> The state has also provided K-12 funding outside of the BEP formula (\$242.8 million in fiscal year 2017-18 and \$2.4 billion over ten years), including \$51 million in non-recurring revenue to cover part of the cost of acquiring needed infrastructure to meet new online testing requirements in fiscal year 2013-14<sup>129</sup> and revenue used to fund services such as early childhood education, career and technical education, and special projects and programs to enhance educational opportunities.<sup>130</sup> The state continues to provide additional money for fast-growing school systems and for salary equity (\$18 million and \$14.5 million respectively in fiscal year 2017-18).<sup>131</sup> Although state funding to locals for K-12 education increased from \$5.3 billion to \$5.5 billion from

<sup>128</sup> Fiscal Memorandum of Amendments 011771, 014668, and 015013 of Senate Bill 2565, House Bill 2574 (109th General Assembly).

<sup>129</sup> Tennessee Department of Finance and Administration 2013 and email from Maryanne Durski, Executive Director, Office of Local Finance, Tennessee Department of Education, on December 3, 2019.

<sup>130</sup> Tennessee Department of Education 2018.

<sup>131</sup> Tennessee Department of Finance and Administration 2017 and Tennessee Comptroller of the Treasury Office of Research and Education Accountability 2019.

fiscal year 2011-12 to fiscal year 2016-17, this increase was not enough to keep up with inflation.<sup>132</sup> These increases in transfers from the state have coincided with growth in own-source revenue. Furthermore, increases in state revenue for some services carry local matching requirements that necessitate additional revenue from local sources. The \$223.1 million increase in state funding to locals for K-12 education through passage of the BEP Enhancement Act of 2016 also increased the amount local governments with school systems have to contribute to education—local match requirements—by \$110.9 million. Because most local governments were already funding their respective school systems above what the BEP funding formula requires, local mandatory expenditures increased by just \$1.7 million in fiscal year 2017-18 and subsequent years.<sup>133</sup>

### State-shared Taxes

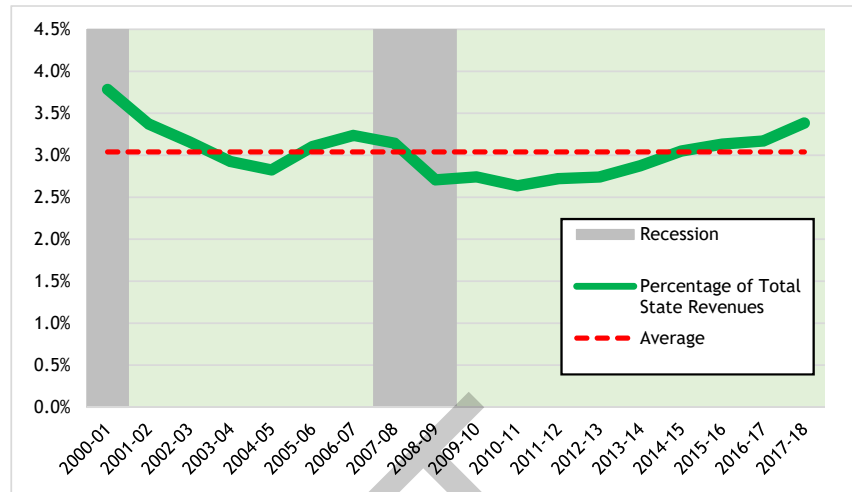
For each state-shared tax, a portion of the revenue the state receives is required to be shared with local governments by state law. As previously noted, data from the Department of Revenue indicated that local governments received \$1.4 billion in state-shared tax revenue,<sup>134</sup> 18% of the \$7.4 billion in state revenue received by local governments in fiscal year 2016-17 according to the Census of Governments. TACIR staff presented data on state-shared tax revenue for fiscal year 2016-17 at a working group of the Commission's local-government members in June 2018 (see appendix C), these data have been updated in this report with the most recent available data, which are for fiscal year 2017-18. In fiscal year 2017-18, state intergovernmental transfers to local governments from state-shared tax revenue totaled \$1.5 billion. From the early to mid-2000s, state-shared tax revenue decreased as a percentage of state tax revenue to a low of 6.8% in fiscal year 2012-13. But the percentage has increased in recent years, and it was 7.5% in fiscal year 2017-18. State-shared tax revenue also increased as a percentage of total state revenue—including federal intergovernmental transfers (See figures 6 and 7). The share of revenue that the state is required to distribute to local governments varies by tax, as does the method for allocating it to individual local governments, which leads to differences in the share of each tax received by counties as compared with cities.

<sup>132</sup> When adjusted for inflation, state funding to locals for K-12 education decreased from \$5.6 billion to \$5.5 billion.

<sup>133</sup> Fiscal Memorandum of Amendments 011771, 014668, and 015013 of Senate Bill 2565, House Bill 2574.

<sup>134</sup> State-shared tax revenue data is not available from the Census of Governments.

**Figure 6. State-shared Taxes,\* Percent of Total State Revenue  
Fiscal Years 2000-01 to 2017-18**

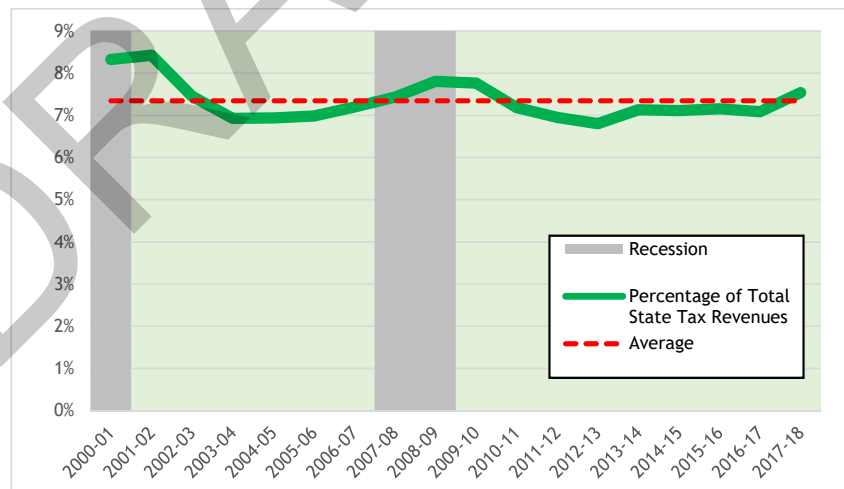


Source: Tennessee Department of Finance and Administration 2001-2019 (The Budget).

\*Because of data limitations, business and wholesale beer tax revenue are not included in state-shared tax revenue.

Note: Total state revenue includes tax, intergovernmental, charges, utility, social insurance trust, and miscellaneous revenue.

**Figure 7. State-shared Taxes,\* Percent of Total State Tax Revenue  
Fiscal Years 2000-01 to 2017-18**



Source: Tennessee Department of Finance and Administration 2001-2019 (The Budget).

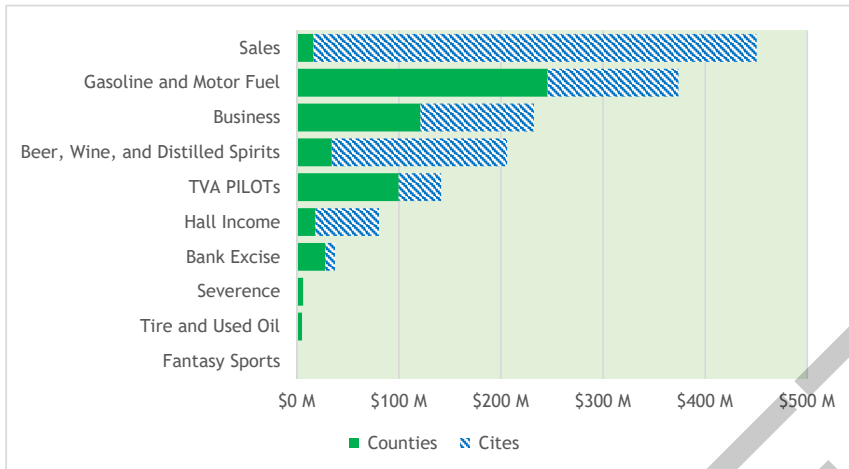
\*Because of data limitations, business and wholesale beer tax revenue are not included in state-shared tax revenue

Overall, counties receive less in state-shared taxes than cities, though this varies by tax. Of the \$1.5 billion<sup>135</sup> in state-shared tax revenue local governments received in fiscal year 2017-18, \$575.8 million (37.5%) was distributed to counties, and \$958.1 million (62.5%) was distributed to

<sup>135</sup> Including \$132.2 million in wholesale beer tax revenue.

cities.<sup>136</sup> Figure 8 and appendix F shows the revenue distributed to each from state-shared taxes in fiscal year 2017-18.

**Figure 8. State-shared Taxes, Amount Distributed to Counties and Cities Fiscal Year 2017-18**



Source: Tennessee Department of Revenue (2018 Annual Report).

Distribution formulas are set in state law for each of the state-shared taxes, and some are different for counties than for cities. For instance, the beer excise tax revenue is distributed to counties in equal shares but to cities by population. Of the \$575.8 million in state-shared tax revenue that counties received in fiscal year 2017-18, 35% was distributed based on location (situs), 21% by equal shares, 21% by acreage, 20% by population, and 3% by other methods. Of the \$958.1 million for cities, 63% was distributed based on population and 37% by location (situs). None of the distributions to cities are based on acreage or equal shares. See appendix G.

Regardless of how they are distributed, revenue from some state-shared taxes is restricted for use on specific services, while the rest is unrestricted. Revenue that is restricted for use on specific services—primarily K-12 education and highways—is \$414.5 million (27%) of the \$1.5 billion in state-shared tax revenue distributed to local governments from these taxes. The remaining revenue is unrestricted and can be used to support a variety of services at each local government’s discretion. Counties received \$258.2 million in restricted revenue from state-shared taxes, and cities received \$156.3 million. Of the \$1.1 billion in unrestricted state-shared tax revenue, counties received \$317.7 million, and cities received \$801.7 million. As a result, a greater percentage of counties’ state-shared tax revenue is restricted (44.8%) than is the case for cities (16.3%). See table 11.

<sup>136</sup> Tennessee Department of Revenue 2019.

**Table 11. Restrictions on Use of State-shared Tax Revenue, Fiscal Year 2017-18**

Tax	Recipient	Tax Restricted?	Percent Restricted	Amount Restricted	Unrestricted	Total	Tennessee Code Annotated
Alcoholic Beverage	Counties	No	0%	\$ -	\$ 11,564,928	\$ 11,564,928	57-3-306
	Cities	Not Applicable	Not Applicable	-	-	-	
Bank Excise	Counties	No	0%	-	28,174,606	28,174,606	67-4-2017
	Cities	No	0%	-	9,244,598	9,244,598	
Beer	Counties	No	0%	-	1,694,428	1,694,428	57-5-205
	Cities	No	0%	-	1,694,428	1,694,428	
Beer Wholesale	Counties	No	0%	-	18,917,926	18,917,926	57-6-103
	Cities	No	0%	-	113,286,405	113,286,405	
Business	Counties	No	0%	-	121,224,649	121,224,649	67-4-724
	Cities	No	0%	-	111,168,264	111,168,264	
Coal Severance	Counties	Yes - Education	100%	162,101	-	162,101	67-7-110(b)
		Yes - Highway/Stream Cleaning		162,101	-	162,101	
	Cities	Not Applicable	Not Applicable	-	-	-	
Fantasy Sports	Counties	No	0%	-	64,160	64,160	67-4-905
	Cities	Not Applicable	Not Applicable	-	-	-	
Gasoline	Counties	Yes - Roads, Bridges, and Mass Transit	100%	203,167,971	-	203,167,971	54-4-101 and 54-4-103
	Cities			101,712,982	-	101,712,982	54-4-204
Gasoline Inspection (Special Petroleum)	Counties	Yes - Roads and Streets	100%	4,699,000	-	4,699,000	67-3-906(b)(2)
	Cities			7,318,000	-	7,318,000	
Hall Income	Counties	No	0%	-	18,254,926	18,254,926	67-2-119
	Cities	No	0%	-	62,339,476	62,339,476	
Mineral Severance	Counties	Yes - Roads	100%	5,704,973	-	5,704,973	67-7-207(b)
	Cities	Not Applicable	Not Applicable	-	-	-	
Mixed Drink	Counties	Yes - Education	50%	1,137,528	1,137,528	2,275,056	57-4-306
	Cities			28,303,847	28,303,847	56,607,694	
Motor Fuel Diesel	Counties	Yes - Roads, Bridges, and Mass Transit	100%	37,975,966	-	37,975,966	54-4-101 and 54-4-103
	Cities			19,013,346	-	19,013,346	54-4-204
Oil and Gas Severance	Counties	No	0%	-	233,731	233,731	60-1-301
	Cities	Not Applicable	Not Applicable	-	-	-	
Sales	Counties	No	0%	-	16,447,750	16,447,750	67-6-103 and 67-6-221
	Cities	No	0%	-	434,118,242	434,118,242	
TVA PILOTs	Counties	No	0%	-	99,936,128	99,936,128	67-9-101 and 67-9-102
	Cities	No	0%	-	41,552,235	41,552,235	
Tire Tax	Counties	Yes - Waste Tires	100%	5,180,009	-	5,180,009	67-4-1610
	Cities	Not Applicable	Not Applicable	-	-	-	
Counties				\$ 258,189,648	\$ 317,650,760	\$ 575,840,408	
Cities				\$ 156,348,175	\$ 801,707,495	\$ 958,055,670	
<b>Total</b>				<b>\$ 414,537,823</b>	<b>\$ 1,119,358,255</b>	<b>\$ 1,533,896,078</b>	

Sources: Tennessee Code Annotated and Tennessee Department of Revenue (2018 Annual Report).

Note: The \$414,150,081 in restricted state-shared tax revenue is included in the \$1.5 billion in state-shared tax revenues distributed to counties and cities from Tables 1 and 2.

Detailed information on individual state-shared taxes follows. For individual state-shared taxes, information is provided below on

- the overall revenue generated by the tax in fiscal year 2017-18,
- the share of that revenue retained by the state,
- the share distributed to counties and cities,
- whether revenue distributed to local governments is restricted and what services it is restricted for, and
- the formulas used for determining each local governments' share.

### *State-shared Sales Tax*

Tennessee imposes a tax of 7% on sales and use of certain goods and services. Of \$8.9 billion in sales tax revenue in fiscal year 2017-18, \$8.5 billion (94.9%) was distributed to the state, \$16.4 million (0.2%) to counties, and \$434.1 million to cities (4.9%). Currently, before total state-shared tax revenue distributed to cities is calculated, numerous distributions are made from state sales tax revenue, including tourism development zones, sports authorities, and other local distributions, some of which are for counties. Moreover, revenue from increases in the state sales tax rate in fiscal year 1992-93 from 5.5% to 6% and in fiscal year 2002-03 to 7% is not shared with cities.<sup>137</sup> This means that cities receive a smaller percentage of state sales tax revenue than they would otherwise receive.

For state budgetary reasons, the share of the state sales tax that cities receive was temporarily reduced in fiscal year 2002-03 but was restored beginning in fiscal year 2004-05. The state increased the percentage to its current rate of 4.603% of 5.5% (0.253%) beginning in fiscal year 2011-12 to offset the decrease in revenue to cities that would have otherwise occurred as a result of the overall sales tax decrease from the reduction in the rate of the state sales tax on food.<sup>138</sup> However, the state food tax rate has subsequently decreased further<sup>139</sup> without any additional offsetting increase in cities' share of state sales tax revenue, which totaled \$5.8 million per year in foregone revenue for cities.<sup>140</sup> Senate Bill 1158 by Jackson, House bill 1007 by Carr (General Assembly), would have increase the percentage of the sales tax that is shared with cities, but the bill did not pass. According to the fiscal note, the bill, if passed, would decrease state revenue by \$37.2 million and increase local revenue by \$36.8 million.<sup>141</sup> See figure 9.

<sup>137</sup> Tennessee Code Annotated, Section 67-6-103.

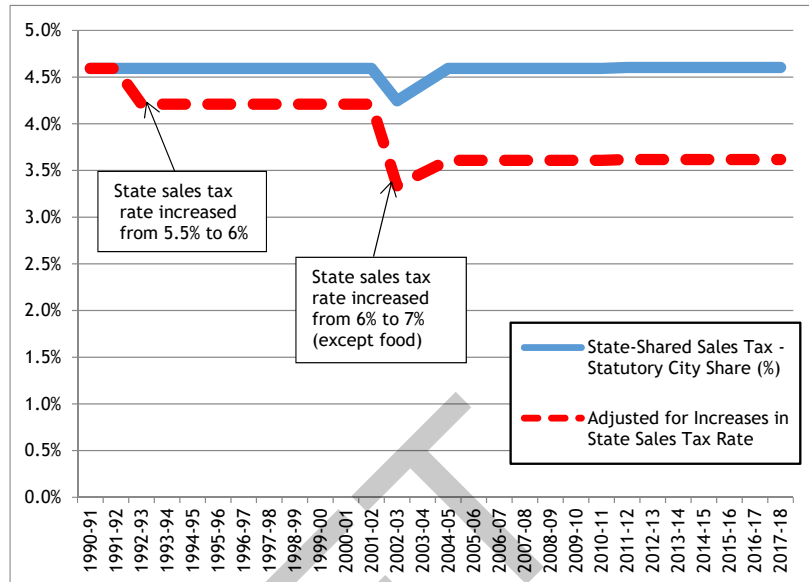
<sup>138</sup> Public Chapter 1058, Acts of 2012.

<sup>139</sup> The sales tax on food decreased from 5.25% to 5% on July 1, 2013 (Public Chapter 193, Acts of 2013) and from 5% to 4% on July 1, 2017 (Public Chapter 181, Acts of 2017, Section 30—the IMPROVE Act).

<sup>140</sup> Fiscal Memorandum for Senate Bill 1221 and House Bill 534 (2017), Summary of Amendments 007192, 007806, and 007815.

<sup>141</sup> Fiscal Note for Senate Bill 1158 and House Bill 1007 (2020). It would also increase revenue for the Municipal Technical Advisory Service by \$359,300.

**Figure 9. Cities' Percentage Share of State Sales Tax Revenue  
Fiscal Years 1990-91 to 2017-18**



Source: Tennessee Code Annotated, Section 67-6-603 (Archived Versions).

Note: Cities' share of state-shared sales tax in fiscal year 1990-91 was 4.5925% of the state sales tax rate, which was 5.5%. None of the additional revenues from the increases in 1992-93 (from 5.5% to 6%) and in 2002-03 (from 6% to 7%) were shared with cities.

### Gasoline and Motor Fuel Taxes

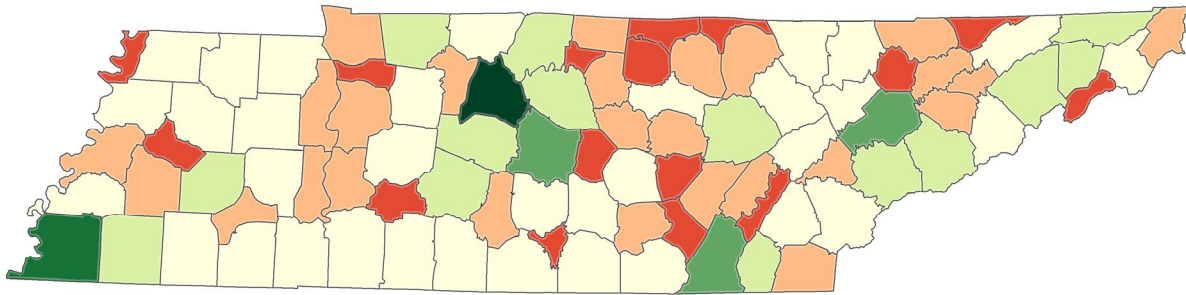
Tennessee imposes a tax on sales of gasoline and motor fuels, including diesel, propane, butane, and compressed natural gas. Of \$1.1 billion in gasoline and motor fuel tax revenue in fiscal year 2017-18, \$711.9 million (65.6%) was distributed to the state, \$245.8 million (22.6%) to counties, and \$128.0 million to cities (11.8%). The revenue is distributed to counties according to a formula that is set in state law: 50% in equal shares (1/95 to each county), 25% by population, and 25% by acreage.<sup>142</sup> In contrast, gasoline and motor fuel revenue is distributed to cities based on population.<sup>143</sup> Although more populous counties received more in total, less populated counties received more per capita in fiscal year 2017-18 (see maps 1 and 2).

<sup>142</sup> Tennessee Code Annotated, Section 67-3-901(l)(1). Additionally, except for \$120,000 for the University of Tennessee Center for Government Training, state law apportions gasoline inspection tax revenue (\$4.7 million in 2017-18) to counties by population (Tennessee Code Annotated, Section 67-3-906(b)(4)).

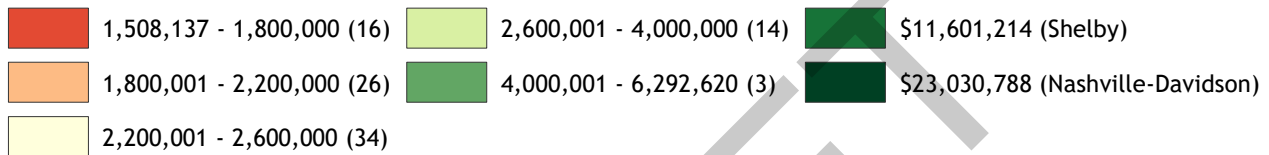
<sup>143</sup> Tennessee Code Annotated Sections 67-3-901(l)(2), 67-3-905 (a)(3), and 54-4-203(a). A population of 10,945 is used for Pigeon Forge and Gatlinburg in the calculation (Tennessee Code Annotated, Section 54-4-203).



**Map 1. Total Gasoline and Motor Fuel Tax Revenue by County  
Fiscal Year 2017-18**

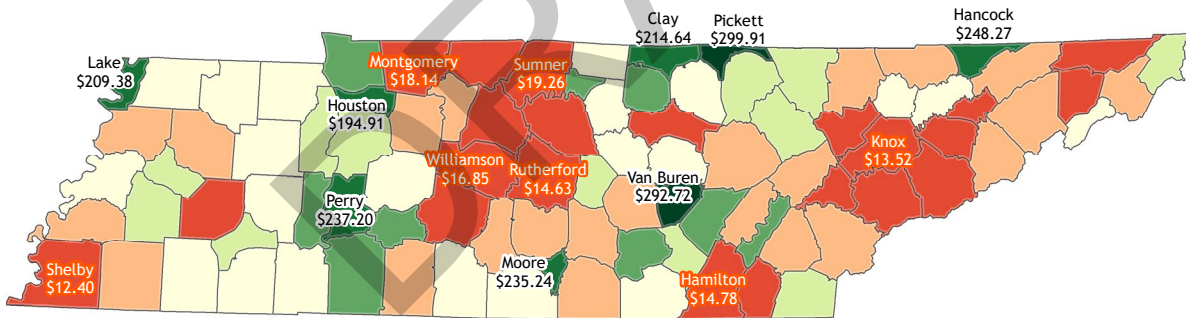


**Fuel Tax Revenue by County, FY 2018**

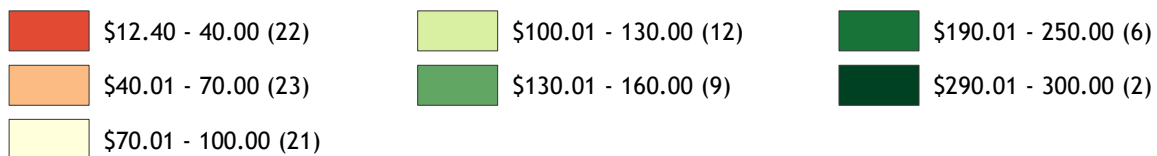


Source: Tennessee Comptroller of the Treasury, Fiscal Year 2017-18 (Confirmations data).

**Map 2. Per Capita Gasoline and Motor Fuel Tax Revenue by County  
Fiscal Year 2017-18**



**Fuel Tax Revenue by County, FY 2018 (per capita)**



Source: Tennessee Comptroller of the Treasury, Fiscal Year 2017-18 (Confirmations data).

The IMPROVE Act of 2017 phased-in increases in gasoline and motor fuel tax rates, from 20 and 17 cents per gallon, respectively, in fiscal year 2016-17, to 26 and 27 cents in fiscal year 2019-20.<sup>144</sup> Over the phase-in, state-shared gasoline and motor fuel tax revenue is projected to increase by \$101.3 million per year, with about two-thirds of the increase for counties (\$67.4 million) and one-third for cities (\$33.9 million). The increases from fiscal year 2016-17 to fiscal year 2017-18 for counties and cities were \$39.6 million and \$20.0 million, respectively. Gasoline and motor fuel tax revenue for counties is projected to be \$268.9 million per year in fiscal year 2019-20, and for cities, \$134.6 million per year (see table 12).

**Table 12. Gasoline and Motor Fuel Tax Rate and Revenue for Counties and Cities in Tennessee Fiscal Years 2016-17 to 2019-20**

Fiscal Year	Gasoline		Motor Fuel		Total
	Tax (cents per gallon)	Revenue Projection	Tax (cents per gallon)	Revenue Projection	
<b>Counties</b>					
2016-17*	20	\$ 170,531,972	17	\$ 30,987,850	\$ 201,519,822
2017-18*	24	\$ 203,167,971	21	\$ 37,975,966	\$ 241,143,937
2018-19	25	\$ 211,633,303	24	\$ 43,401,104	\$ 255,034,407
2019-20	26	\$ 220,098,635	27	\$ 48,826,242	\$ 268,924,877
<b>Cities</b>					
2016-17*	20	\$ 85,265,986	17	\$ 15,500,176	\$ 100,766,162
2017-18*	24	\$ 101,712,982	21	\$ 19,013,346	\$ 120,726,328
2018-19	25	\$ 105,951,023	24	\$ 21,729,538	\$ 127,680,561
2019-20	26	\$ 110,189,064	27	\$ 24,445,731	\$ 134,634,794

Source: Tennessee Department of Revenue and TACIR staff projections based on changes in tax rates.

\*Values for 2016-17 and 2017-18 are actuals.

### Business Tax

Tennessee imposes a tax on businesses’ gross receipts,<sup>145</sup> and the tax rate is determined by which of 10 classes or subclasses of business activity best describes the “dominant business activity” of each of the businesses’ physical locations.<sup>146</sup> The Department of Revenue collected \$420.0 million in business tax revenue in fiscal year 2017-18, of which \$185.2 million (44.0%) was retained by the state, \$116.4 million (29.3%) was distributed to all 95 counties by location (situs), and \$106.2 million (26.7%) was distributed to the 214 of the 345 cities in Tennessee that levy a business tax,

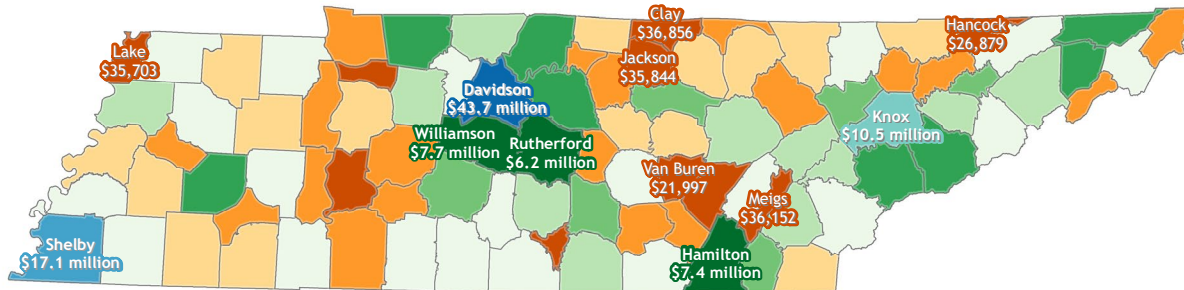
<sup>144</sup> Public Chapter 181, Acts of 2017.

<sup>145</sup> Tennessee Code Annotated, Section 67-4-708. “Gross income of the business” means all interest income, earned discounts, earned lease rentals, commission fees exclusive of insurance commissions, past due charges, contract earnings or charges, collection charges, loan service fees, late fee income, and all other income, without any deduction except as hereinafter provided.

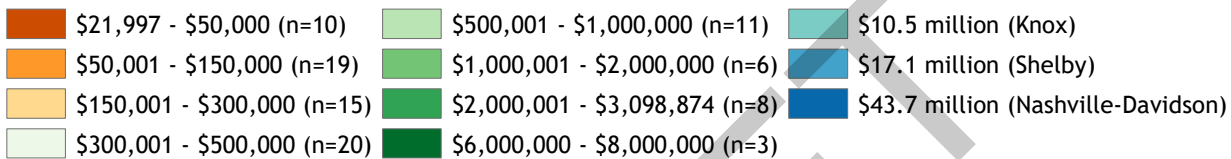
<sup>146</sup> Tennessee Code Annotated, Section 67-4-709.

also by location.<sup>147</sup> Another 129 cities do not levy the business tax and two cities levy it but do not have any business tax base (see map 3 and 4).<sup>148</sup>

**Map 3. Business Tax Revenue by County, Fiscal Year 2017-18**

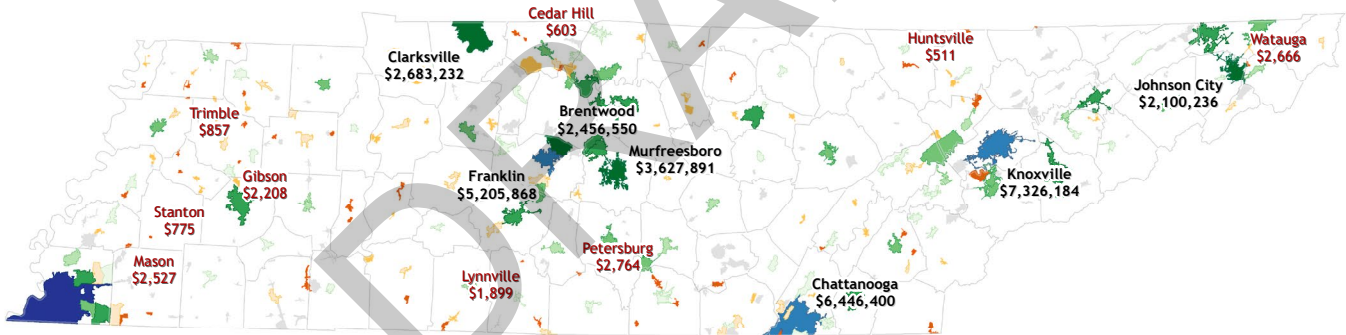


**Business Tax Revenue by County, FY 2018**

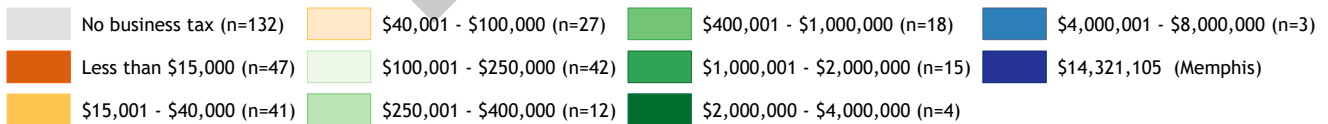


Source: Tennessee Comptroller of the Treasurer, Fiscal Year 2017-18 (Confirmations data).

**Map 4. Business Tax Revenue by City, Fiscal Year 2017-18**



**Business Tax Revenue by City, FY 2018**



Source: Tennessee Comptroller of the Treasurer, Fiscal Year 2017-18 (Confirmations data).

Tennessee’s business tax was originally a local tax that the state authorized to replace local revenue that the state eliminated. The business tax was enacted in 1971<sup>149</sup> as an alternative source of local tax revenue when the state

<sup>147</sup> Tennessee Department of Revenue 2019.

<sup>148</sup> Email correspondence with Christin Lotz, Director of Research, Tennessee Department of Revenue, November 29, 2018. Although the cities of Bell Buckle and Medon levy the business tax, they collected no revenue in fiscal year 2017-18.

<sup>149</sup> Public Chapter 387, Acts of 1971.

removed the assessed value of business inventories from local property tax bases and eliminated numerous local privilege taxes.<sup>150</sup> Within each class or subclass, tax rates are higher for retailers than for wholesalers.<sup>151</sup> The business tax became a source of revenue for the state in 2002 when the state increased local business tax rates, with the revenue attributable to the increased rate going to the state.<sup>152</sup> Authority for collecting and administering the tax shifted from local governments to the state in 2009, although the distribution of revenue was maintained.<sup>153</sup> The Uniformity and Small Business Relief Act of 2013 enabled the state to collect business tax revenue from businesses “without a physical location, outlet, or other place of business in the state,”<sup>154</sup> which in fiscal year 2017-18 totaled \$15.4 million,<sup>155</sup> all of which goes to the state.<sup>156</sup>

To alleviate constitutional concerns related to taxing out-of-state businesses,<sup>157</sup> county tax rates and any new city tax rates were made uniform,<sup>158</sup> and the county tax became a state tax with revenue shared with counties, effectively levying the tax in the three counties that had not done so already.<sup>159</sup> Without making the county tax into a state tax, there could have been a situation where a business located in a county without a business tax would not owe the tax, but a business with no location in any county in Tennessee might owe the tax if it establishes nexus.<sup>160</sup> That would violate well established Commerce clause doctrine that states may not discriminate against interstate commerce.<sup>161</sup> (Cities do not pose a constitutional issue because their business taxes do not apply to businesses with no location in the city.) Claiborne, Clay, and Morgan were the only counties not levying the tax before 2013, but they began receiving revenue thereafter. Thus, every county now receives business tax revenue, which varies widely by county.

Unlike the business tax for counties, the tax remains optional for cities, which may levy or repeal the tax by ordinance.<sup>162</sup> The city tax is in addition to the state tax, and because city taxes levied after January 1, 2014, must have the same rates as the state tax, new city levies would effectively

<sup>150</sup> Tennessee Code Annotated, Section 67-4-701(b) and Kaeding 2016. Most states, including Tennessee, do not apply property taxes to business inventories.

<sup>151</sup> Tennessee Code Annotated, Section 67-4-709.

<sup>152</sup> Public Chapter 856, Acts of 2002, Section 9.

<sup>153</sup> Public Chapter 530, Acts of 2009.

<sup>154</sup> Tennessee Code Annotated, Section 67-4-717(a)(1).

<sup>155</sup> Tennessee Department of Revenue 2018b.

<sup>156</sup> Tennessee Code Annotated, Section 67-4-717(b)(1).

<sup>157</sup> December 14, 2018, interview with the Department of Revenue. See also Chumley 2018.

<sup>158</sup> Hardin, Lauderdale, and McNairy counties’ business tax rates increased to match the uniform rates.

<sup>159</sup> Public Chapter 313, Acts of 2013.

<sup>160</sup> Chumley 2018 and December 14, 2018, interview with the Department of Revenue.

<sup>161</sup> Chumley 2018.

<sup>162</sup> Tennessee Code Annotated, Section 67-4-705.

double the business taxes of businesses subject to it.<sup>163</sup> Cities that adopted their business tax before January 1, 2014, may keep their existing rates but may not reduce them, although they may repeal their business tax by ordinance.<sup>164</sup> Several cities have retained their old rates. Gainesboro, Halls, Henning, Jamestown, Red Boiling Springs, Savannah, Somerville, and Tracy City have rates equal to half of the state rate for classes 1 to 4 (there are no exceptions to the state rate for class 5).<sup>165</sup> Pulaski's retail rates are half the state's, but its wholesale rates are the same as the state rates. Adamsville and Parsons have unique rates that are less than state rates.<sup>166</sup>

### *Taxes on Beer, Wine, and Distilled Spirits*

Tennessee levies several taxes on alcoholic beverages, including beer, wine, and distilled spirits. Revenue from the taxes totaled \$336.5 million in fiscal year 2017-18, of which the state retained \$130.5 million (38.8%), counties received \$34.5 million (10.2%) and cities received \$171.6 million (51.0%).

#### ***Wholesale Beer Tax***

The Beer Tax Reform Act of 2013<sup>167</sup> converted the 17% wholesale beer tax enacted in 1953 to one based on volume—\$35.60 per barrel, a rate set to keep it close to revenue neutral for 2013. Because inflation would no longer be a factor, the change to taxing based on volume had the effect of slowing growth in wholesale beer tax revenue. Beer taxes in 48 states,<sup>168</sup> as well as wine and distilled spirits taxes in Tennessee, were already taxed based on volume. The revenue is distributed based on location (situs). In fiscal year 2017-18, counties received \$18.9 million and cities received \$113.3 million.

#### ***Beer Excise Tax***

Enacted in 1933, the year prohibition ended, the beer excise tax rate is \$4.29 per barrel. The same percentage of the revenue goes to counties and cities—9.6%—which in fiscal year 2017-18 totaled \$1.7 million. This revenue is distributed to counties based on equal shares and to cities based on population.

#### ***Mixed Drink Tax***

For counties and cities that approved, by referendum, sales of alcoholic beverages for consumption on the premises sale of liquor-by-the drink (mixed drinks), Public Chapter 211, Acts of 1967, imposed a tax rate of

<sup>163</sup> Tennessee Code Annotated, Sections 67-4-705 and 717(c).

<sup>164</sup> Tennessee Rules and Regulations 1320-04-05-.27(3).

<sup>165</sup> Email correspondence with Christin Lotz, Director of Research, Tennessee Department of Revenue, January 3, 2019.

<sup>166</sup> *Ibid.*

<sup>167</sup> Public Chapter 189, Acts of 2013.

<sup>168</sup> Kentucky Department of Revenue 2020. Kentucky has a wholesale beer tax rate of 10% to 11% of gross receipts.



15% on those sales, the revenue from which is partially restricted in its use. Half of mixed drink tax revenue is distributed to the state's general fund and is earmarked for education purposes, and half is distributed to the county or city where the sale was made. Fifty percent (50%) of the amount distributed to counties and cities is earmarked for school systems in the county, with the other 50% going to the applicable county or city for unrestricted use.

The current distribution was first enacted in 2014, amending previous language, which some found ambiguous. The statute was amended to clarify the circumstances under which cities with a city school system are required to share their mixed drink tax revenue that is marked for education. Previously, five counties filed lawsuits to require cities to distribute some of their mixed drink tax revenue to county school systems. Before it was amended in 2014, state law required half of the revenue distributed to local governments to be distributed "in the same manner as the county property tax for schools is expended and distributed," that is, to each school system in the county based on weighted full-time equivalent average daily attendance (WFTEADA). However, the Supreme Court of Tennessee ruled in favor of the cities in 2019,<sup>169</sup> and in 2020, the General Assembly removed the expiration date from the distribution formula that was enacted in 2014.<sup>170</sup>

### **Alcoholic Beverage Tax**

The alcoholic beverage tax was enacted in 1939 when the sales of alcoholic beverage in counties and cities was authorized if approved by local referendum.<sup>171</sup> It is \$1.21 per gallon of wine and high alcohol beer with alcohol content of more than 7%, \$4.40 per gallon of distilled spirits with alcohol content of more than 7%, and \$1.10 per gallon of alcoholic beverages with alcohol content of 7% or less.<sup>172</sup> Counties where a distillery is located receive four cents per liter of the tax imposed on the sale of distilled spirits, and CTAS receives \$16,000 per month. From the remaining revenue, 82.5% (\$56.7 million in fiscal year 2017-18) goes to the state general fund, and 17.5% (\$11.6 million in fiscal year 2017-18) is distributed to counties. Counties with populations greater than 250,000 are required to redistribute 30% of the revenue they receive from the tax to cities in those counties with populations greater than 150,000 (Shelby and Memphis, Davidson and Nashville, Knox and Knoxville, and Hamilton and Chattanooga).<sup>173</sup> The city that is closest to becoming eligible for 30% of its county's alcoholic beverage revenue is Murfreesboro. Rutherford County has a population

<sup>169</sup> Coffee Cty. Bd. of Educ. v. City of Tullahoma, 2018 Tenn. App. LEXIS 29 (Tenn. Ct. App., Jan. 23, 2018).

<sup>170</sup> Public Chapter 696, Acts of 2020.

<sup>171</sup> Public Chapter 49, Acts of 1939.

<sup>172</sup> Tennessee Code Annotated, Section 57-3-302.

<sup>173</sup> Tennessee Code Annotated, Section 57-3-306.

greater than 250,000, but Murfreesboro's population falls short of 150,000 at 146,900 (2019).<sup>174</sup>

### *TVA PILOTS*

Privately-owned electric utilities pay property taxes to local governments, but as a federally-owned corporation, the Tennessee Valley Authority (TVA) does not. Instead, TVA makes payments-in-lieu-of-tax (PILOTs) to the state of Tennessee, some of which the state shares with counties and cities. Of the PILOT revenue Tennessee received from TVA for fiscal year 2017-18, \$196.8 million was retained by the state, \$106.4 million was distributed to counties (including \$3.4 million in direct payments from TVA), and \$43.3 million was distributed to cities.

TVA makes payments to each of the eight states in which it owns power property. TVA's total payments are based on 5% of prior-year gross proceeds from power sales, and funds are divided among the eight states based both on revenues from power sold by TVA in each state and on the value of TVA power property located in each state. Tennessee received approximately two-thirds of the total distributed by TVA in fiscal year 2017-18.

From Tennessee's allocation, TVA distributes \$3.4 million directly to the counties in which it owns power property, but the overwhelming majority of Tennessee's allocation is distributed according to a formula set in state law. This formula distributes a portion of Tennessee's share to counties and cities with additional payments set aside for those in counties with TVA construction. The rest is reserved for the state, including revenue earmarked for TACIR, CTAS, and the Tennessee Central Economic Authority.<sup>175</sup> Tennessee's local governments received 43% of the amount TVA allocated to Tennessee for distribution through the state's formula in fiscal year 2017-18—30% for counties and 13% for cities. The revenue is distributed to counties based on population, county acreage, and TVA acreage. For cities, the distribution is based only on population. See TACIR's 2020 report on *Tennessee Valley Authority's Payments in Lieu of Taxes: Annual Report to the General Assembly*.

### *Hall Income Tax*

The Hall income tax, which is a tax on dividend and interest income, began to be phased out following enactment of the IMPROVE Act of 2017, and is set to be completely phased out on July 1, 2021 (see table 13). In fiscal year 2017-18, \$165.3 million (67.2%) was distributed to the state, \$18.3 million

<sup>174</sup> United States Census Bureau. 2020c.

<sup>175</sup> The Tennessee Central Economic Authority serves Macon, Smith, Sumner, Trousdale, and Wilson counties.



(7.4%) to counties, and \$62.3 million (25.4%) to cities.<sup>176</sup> Tax revenue from income earned in the unincorporated part of a county goes to the county, and in a city, to the city.<sup>177</sup> The revenue is not earmarked.

**Table 13. Hall Income Tax Revenue for Counties and Cities in Tennessee Fiscal Years 2016-17 to 2021-22**

Fiscal Year	Tax Rate	Revenue
<b>Counties</b>		
2016-17	5%	\$16,048,759
2017-18	4%	\$18,254,926
2018-19	3%	\$13,691,194
2019-20	2%	\$9,127,463
2020-21	1%	\$4,563,731
2021-22	0%	\$0
<b>Cities</b>		
2016-17	5%	\$69,341,762
2017-18	4%	\$62,339,476
2018-19	3%	\$46,754,607
2019-20	2%	\$31,169,738
2020-21	1%	\$15,584,869
2021-22	0%	\$0

Sources: Tennessee Department of Revenue, 2017 and 2018 Annual Reports and Tennessee Comptroller of the Treasury (“The IMPROVE Act”).

### Bank Excise Tax

Rather than taxing banks’ intangible property, Tennessee levies a bank excise tax, and revenue from the tax “is distributed based on [the location of the bank] in lieu of intangible personal property taxes on banks and banking associations.”<sup>178</sup> There’s also a minimum tax amount based on the bank’s capital stock. According to the Municipal Technical Advisory Service (MTAS),

Generally, the excise tax on banks is 3 percent of net earnings (excluding interest from state bonds) minus 7 percent of ad valorem taxes, with a complicated formula for determining a minimum tax based on a bank’s capital stock. Local tax rates determine the payment allocation between the county and the city, so a city must levy a property tax to receive any funds. Another formula is prescribed for allocating

<sup>176</sup> Tennessee Department of Revenue 2019.

<sup>177</sup> Tennessee Code Annotated, Section 67-2-119(b)-(c).

<sup>178</sup> Tennessee Department of Finance and Administration 2019.

such revenue if a bank has branches in more than one city and/or county.<sup>179</sup>

In fiscal year 2017-18, \$28.2 million in bank excise tax revenue was distributed to counties, and \$9.2 million was distributed to cities.<sup>180</sup>

### *Severance Taxes*

Tennessee levies a coal severance tax and a crude oil and natural gas severance tax, and counties may levy a mineral severance tax. These taxes total less than 0.1% of state and local tax revenues. Although not a major source of revenue overall, severance tax revenues can be significant for counties with significant extractions from mines, quarries, or wellheads. Cities do not receive any severance tax revenue.

### *Mineral Severance Tax*

Although the mineral severance tax is levied by counties, making it similar to local taxes, the Tennessee Comptroller of the Treasury categorizes the tax as a states-shared tax. County legislative bodies are authorized to levy a severance tax “on all sand, gravel, sandstone, chert and limestone severed from the ground within its jurisdiction.”<sup>181</sup> Of the 65 counties that levy the tax, 58 received some mineral severance tax revenue in fiscal year 2017-18.<sup>182</sup> State law sets the maximum tax rate at \$0.15 per ton;<sup>183</sup> 63 counties levy the maximum rate, one sets the rate at \$0.14 per ton (Grainger), three at \$0.10 per ton (Benton, Cannon, and Perry), one at \$0.05 per ton (Humphreys), and 27 counties do not levy a mineral severance tax.<sup>184</sup> Revenue from the tax totaled \$5.9 million in fiscal year 2017-18, \$182,838 was distributed to the state to offset the cost of administering the tax, and \$5.7 million was distributed to counties based on location (situs). The revenue is earmarked for county road funds for “construction, maintenance and repair of the county system.”<sup>185</sup> County legislative bodies may repeal their mineral severance tax by a 2/3 vote of their members.<sup>186</sup>

<sup>179</sup> University of Tennessee Municipal Technical Advisory Services 2019.

<sup>180</sup> Tennessee Department of Revenue 2019.

<sup>181</sup> Tennessee Code Annotated, Section 67-7-201(a). Although the mineral severance tax is levied by counties and distributed to counties based on location (situs), making it similar to local taxes, the Tennessee Comptroller of the Treasury categorizes the tax as a state-shared tax, and that is why it is included here.

<sup>182</sup> Tennessee Comptroller of the Treasury 2009-2019.

<sup>183</sup> Tennessee Code Annotated, Section 67-7-203.

<sup>184</sup> Tennessee Department of Revenue 2020a.

<sup>185</sup> Tennessee Code Annotated, Section 67-7-207(b).

<sup>186</sup> Tennessee Code Annotated, Section 67-7-201(c).

### **Coal Severance Tax**

Tennessee levies a severance tax “on all coal products severed from the ground,”<sup>187</sup> and distributed the revenue to the county where the coal was mined.<sup>188</sup> Of the \$331,187 in coal severance tax revenue in fiscal year 2017-18, \$6,986 was retained by the state to offset the cost of administering the tax, and \$324,201 was distributed to counties, nearly all of which was for Claiborne county.<sup>189</sup> Public Chapter 138, Acts of 2009, phased-in increases to the coal severance tax rate from \$0.20 per ton until June 30, 2009, to \$1.00 on or after July 1, 2013.<sup>190</sup> Half of the revenue is earmarked for “the educational system or systems of the county” and the other half is earmarked for “highway and stream cleaning systems of the county.”<sup>191</sup>

### **Crude Oil and Natural Gas Severance Tax**

Tennessee levies a severance tax on “all gas and oil removed from the ground” at a rate of 3% of the sales price.<sup>192</sup> One-third of the revenue is distributed to the county that is the site of the wellhead that extracted the crude oil or natural gas, and two-thirds is kept by the state.<sup>193</sup> In fiscal year 2017-18, \$233,731 was distributed to counties, and \$467,417 was kept by the state. Of the amount distributed to counties in fiscal year 2017-18, 12 counties received some revenue.<sup>194</sup>

### **Tire Taxes**

Counties receive state-shared tax revenue for waste tire management and disposal. The state collects a \$1.35 pre-disposal fee on the sale of new tires. TDEC receives \$0.25 per new tire and tire dealers keep \$0.10 per new tire for administrative costs, but the rest, \$1.00 per new tire sold by retailers within a county’s jurisdiction and a proportionate share of out-of-state sales, goes to the counties. From this tax, counties received \$5.2 million in fiscal year 2017-18, and the state received \$1.4 million.<sup>195</sup> The state also collects a fee for tires on new vehicle sales—\$5 per vehicle for typical vehicles with four wheels or fewer—to fund programs related to tire recycling.<sup>196</sup> In fiscal year 2017-18 this fund received \$1.2 million.<sup>197</sup> See TACIR’s 2020 report

<sup>187</sup> Tennessee Code Annotated, Section 67-7-103.

<sup>188</sup> Tennessee Code Annotated, Section 67-7-110.

<sup>189</sup> Tennessee Comptroller of the Treasury 2009-2019. Of the remaining \$2,712 in coal severance tax revenue, \$2,008 was for Campbell county, \$401 was for Anderson county, and \$304 was for Knox county.

<sup>190</sup> Tennessee Code Annotated, Section 67-7-104.

<sup>191</sup> Tennessee Code Annotated, Section 67-7-110(b).

<sup>192</sup> Tennessee Code Annotated, Section 60-1-301.

<sup>193</sup> Ibid.

<sup>194</sup> Tennessee Comptroller of the Treasurer 2009-2019. The counties are Anderson, Campbell, Claiborne, Clay, Fentress, Hancock, Morgan, Overton, Pickett, Roane, Scott, and Sullivan.

<sup>195</sup> Tennessee Department of Revenue 2019.

<sup>196</sup> Tennessee Code Annotated, Section 68-211-301 et seq.

<sup>197</sup> Ibid.

*Closing Gaps in Tennessee's Waste Tire Program and Giving Local Governments More Flexibility to Prevent Illegal Tire Dumping.*

### *Fantasy Sports Tax*

The Fantasy Sports Tax was enacted in 2016 when Tennessee began regulating fantasy sport providers that have customers in Tennessee<sup>198</sup> Of the revenue generated by the tax, 68% is earmarked for the state's general fund, 20% is distributed to counties based on their populations, while 10% goes to the Secretary of State's Office and 2% goes to the Department of Revenue to cover the costs to those agencies of administering the tax. In fiscal year 2017-18, \$256,641 from the tax was retained by the state, and \$64,160 was distributed to counties. The tax is levied at 6% on fantasy sports revenue, adjusted for each fantasy sports contest, an amount equal to the total entry fees collected from all participants entering the fantasy sports contest less winnings paid to participants in the contest, multiplied by the resident percentage, which is for each fantasy sports contest, the percentage, rounded to the nearest tenth of a percent (0.1%), of the total entry fees collected from Tennessee consumers divided by the total entry fees collected from all players, regardless of the players' location, of the fantasy sports contest.<sup>199</sup>

### **Direct Federal Transfers to Local Governments**

Although direct federal transfers account for a relatively small portion of revenue available to local governments, changes in this revenue source have been substantial. Adjusting for inflation, direct federal transfers to local governments increased from \$610.9 million to \$989.4 million from fiscal year 2000-01 to its peak in fiscal year 2009-10, subsequently decreasing by \$283.9 million to \$705.5 million in fiscal year 2016-17. Based on data from fiscal year 2011-12 and fiscal year 2016-17, decreases for housing and community development, transit, and electric utilities contributed the most to the decrease.

<sup>198</sup> Public Chapter 978, Acts of 2016.

<sup>199</sup> Tennessee Code Annotated, Section 67-4-902.

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## Appendix A: Update of First Interim Report on Internet Sales Tax

The US Supreme Court's decision in *South Dakota v. Wayfair*<sup>1</sup> opened the door for states to require out-of-state sellers with no physical presence in the state to collect and remit sales tax. In its 2019 report *Leveling the Playing Field: Internet Sales Tax in Tennessee*, the Commission recommended that the General Assembly enable the Department of Revenue to enforce Rule 129, requiring out-of-state sellers with sales of more than \$500,000 in Tennessee to collect and remit sales tax (known as "economic nexus"). The General Assembly had prohibited enforcement while awaiting the outcome of *Wayfair*,<sup>2</sup> but following the ruling, enforcement was enabled.<sup>3</sup> In particular, "the department of revenue is no longer prohibited from collecting internet sales or use taxes pursuant to [Rule 129] . . . as court rulings pertaining to such rule have been reviewed by the General Assembly."<sup>4</sup> The Department of Revenue subsequently required out-of-state sellers subject to Rule 129 to register and begin collecting sales and use taxes by October 1, 2019, increasing sales tax collections for the state and local governments in Tennessee.<sup>5</sup>

For sales during the three months from September through November 2019, the Department of Revenue identified \$30.0 million in state sales tax revenue, and \$10.0 million in local option sales tax revenue, from companies that had registered since June 2018 as a result of *Wayfair*.<sup>6</sup> Prior to the enforcement of Rule 129, the state estimated that "legislative action to expand online sales tax collections is projected to increase FY 2020 state tax revenues by \$44.7 million and city/county local option sales tax revenues by another \$17.7 million. . . . In future years, the state is expected to collect \$59.6 million in state revenue and \$23.6 million in local revenue."<sup>7</sup> These forecasts pre-date the COVID-19 pandemic, which will adversely affect tax bases along with economic activity in general.

Statewide local option sales tax collections decreased amid the COVID-19 pandemic but have recovered somewhat in recent months. According to data from the Tennessee Department of Revenue, local option sales tax collections reached a low point in May 2020, when collections were 8% less than they were in May 2019 (comparisons with the same month one year ago are made to account for seasonality). Since then, collections have increased, in part because of federal stimulus, and August 2020 collections were 8% greater than in August 2019.

### Thresholds for Economic Nexus

The 111<sup>th</sup> General Assembly passed Public Chapter 759, Acts of 2020, which lowers the threshold that triggers the requirement for out-of-state sellers to begin collecting sales tax from \$500,000 to \$100,000 in sales beginning October 1, 2020. According to the fiscal note, lowering the threshold will increase state and local revenue by \$16.8 million and \$6.9 million, respectively, in fiscal year 2021-22 and subsequent fiscal years. Following the US Supreme Court's approval of South Dakota's threshold of \$100,000 in sales or 200 transactions in *Wayfair*, 21 states have adopted an identical threshold while other states, like Tennessee, do not include a threshold based on the number of transactions. Thresholds less than \$100,000 or 200 transactions have not been tested in court, and setting a lower threshold would likely draw a constitutional challenge.

<sup>1</sup> 138 S. Ct. 2080 (2018).

<sup>2</sup> Public Chapter 452, Acts of 2017. <https://publications.tnsosfiles.com/acts/110/pub/pc0452.pdf>.

<sup>3</sup> Public Chapter 429, Acts of 2019. <https://publications.tnsosfiles.com/acts/111/pub/pc0429.pdf>.

<sup>4</sup> Ibid.

<sup>5</sup> Boyd Center for Business and Economic Research 2020 (An Economic Report to the Governor of Tennessee).

<sup>6</sup> E-mail from Justin Moorhead, Chief of Staff of the Tennessee Department of Revenue, on February 12, 2020.

<sup>7</sup> <https://www.tn.gov/content/dam/tn/finance/accounts/cafr/June%202030,%202019%20CAFR.pdf>.

## Uniform Rate Option

Before October 1, 2019, out-of-state sellers with no location in the state had the option to collect local option sales tax at a uniform 2.25% rate,<sup>8</sup> regardless of the locally enacted rate. The other option was to report sales by jurisdiction (applying the applicable rate of the unincorporated part of a county or a city). But the General Assembly eliminated the uniform 2.25% rate option in 2019, and out-of-state sellers are required to collect and report local sales tax based on the local jurisdiction where the sale is shipped or delivered.<sup>9</sup> The uniform rate was enacted in 1988 as part of an effort to create a test case and give the US Supreme Court an opportunity to overturn its physical presence rule, which it did in 2018 in *Wayfair*. When the court ruled in favor of South Dakota, which does not have a uniform rate option for out-of-state sellers, it became clear that Tennessee could require out-of-state sellers to collect and remit sales tax without the uniform rate option while meeting constitutional requirements. See table A-1 for state and local out-of-state (including internet) sales tax revenue.

**Table A-1. State and Local Out-of-State (Including Internet) Sales Tax Revenue  
Fiscal Years 2003-04 to 2018-19**

Fiscal Year	Out-of-State Sales Tax Revenue		
	State	Local	Total
2003-04	\$796,294,479	\$202,403,008	\$998,697,487
2004-05	\$868,552,373	\$215,163,847	\$1,083,716,220
2005-06	\$968,663,251	\$241,494,338	\$1,210,157,588
2006-07	\$1,015,193,956	\$244,728,931	\$1,259,922,887
2007-08	\$1,085,245,925	\$250,263,751	\$1,335,509,675
2008-09	\$1,046,097,302	\$265,370,331	\$1,311,467,633
2009-10	\$973,478,020	\$264,076,351	\$1,237,554,371
2010-11	\$1,021,880,396	\$288,654,019	\$1,310,534,415
2011-12	\$1,077,584,628	\$300,556,187	\$1,378,140,815
2012-13	\$1,114,343,937	\$307,955,735	\$1,422,299,672
2013-14	\$1,148,267,364	\$317,519,626	\$1,465,786,990
2014-15	\$1,231,923,319	\$348,229,322	\$1,580,152,641
2015-16	\$1,342,132,915	\$380,107,523	\$1,722,240,438
2016-17	\$1,392,041,063	\$401,570,730	\$1,793,611,794
2017-18	\$1,601,328,639	\$368,229,908	\$1,969,558,548
2018-19	\$1,776,051,329	\$296,141,888	\$2,072,193,217

Source: Tennessee Department of Revenue.

## Marketplace Facilitators

A significant portion of out-of-state sellers that make sales in Tennessee but do not collect sales and use tax make sales through a marketplace facilitator like Amazon, eBay, or Etsy. Recognizing that many of these sellers have limited sales that would not establish economic nexus, states instead require marketplace

<sup>8</sup> Tennessee Code Annotated, Section 67-6-702(f).

<sup>9</sup> Public Chapter 491, Acts of 2019 and Tennessee Department of Revenue Notice #19-05.

facilitators to collect sales and use tax for them.<sup>10</sup> According to the Multistate Tax Commission, by February 2020, 37 states had enacted marketplace facilitator nexus.<sup>11</sup> In 2020, the 111<sup>th</sup> General Assembly enacted Public Chapter 646, requiring marketplace facilitators that make or facilitate \$500,000 in sales in Tennessee to remit sales tax. According to the fiscal note, the new law is estimated to increase state and local revenue by \$113.1 million and \$37.7 million, respectively, in fiscal year 2021-22 and subsequent years. However, the General Assembly subsequently lowered the threshold for marketplace facilitators to \$100,000 through the passage of Public Chapter 759, Acts of 2020, which is expected to further increase state and local revenue by \$14.4 million and \$4.8 million, respectively, in fiscal year 2021-22 and subsequent years.

## ***Streamlined Sales and Use Tax Agreement***

The Streamlined Sales and Use Tax Agreement (SSUTA) is a multistate effort that has the effect of reducing the burden of sales and use tax collection on retailers. Twenty-three states are full members of SSUTA, and Tennessee is the only associate member. According to the Streamlined Sales Tax Governing Board, an associate member state is a state that has achieved substantial compliance with the terms of the Agreement, but not necessarily with each provision as required by the SSUTA.<sup>12</sup> In its *Wayfair* decision, the Supreme Court spoke favorably of South Dakota's full membership in SSUTA, but it did not require full membership in SSUTA as a prerequisite for taxing out-of-state sellers without a physical presence in a state. Subsequently, 20 states, including Tennessee, that are not full members of SSUTA have enacted economic nexus.<sup>13</sup>

Previously, Tennessee adopted some SSUTA simplification provisions to become an associate member of SSUTA, along with some others with implementation delayed until July 1, 2021, that were necessary for full membership. But in its 2019 report *Leveling the Playing Field: Internet Sales Tax in Tennessee*, the Commission recommended that the General Assembly not allow two provisions of state law that were intended to move Tennessee toward full membership to go into effect: changing Tennessee from origin-based to destination-based sourcing for intrastate sales and limiting the single-article cap to motor vehicles, aircraft, watercraft, modular homes, manufactured homes, and mobile homes. Neither change has been enacted by the General Assembly. But these and other streamlined provisions are set to become effective July 1, 2021, without further action by the General Assembly. The General Assembly has postponed the effective date every two years since it was originally set to become effective in 2009.<sup>14</sup>

<sup>10</sup> Multistate Tax Commission 2019. (Wayfair Implementation & Marketplace Facilitator Work Group) See also <https://blog.taxjar.com/marketplace-facilitator-explained/> (Accessed May 28, 2020).

<sup>11</sup> <http://www.mtc.gov/getdoc/d3f9e214-6006-4f76-bca2-7287be89dd06/Wayfair-Implementation-Informational-Project.aspx> (Accessed February 12, 2020).

<sup>12</sup> <https://www.streamlinedsalestax.org/Shared-Pages/State-Detail> (Accessed February 12, 2020).

<sup>13</sup> <https://blog.taxjar.com/economic-nexus-laws/> (Accessed February 12, 2020).

<sup>14</sup> Public Chapter 530, Acts of 2009, Section 35; Public Chapter 72, Acts of 2011, Section 1; Public Chapter 480, Acts of 2013, Section 1; Public Chapter 273, Section 3, Acts of 2015; and Public Chapter 193, Acts of 2017, Section 1; and Public Chapter 157, Acts of 2019, Section 1.



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## Appendix B: Census of Governments Surveys of State and Local Finances

The Census of Governments provides the only known comprehensive source of state and local finance data collected on a nationwide scale. The Census Bureau uses this data to report on the finances of the 50 state governments and all active local governments (counties, cities, townships, special districts, and school districts). In the 2017 census report, the Census of Governments surveyed 90,479 local government units.<sup>1</sup> With their expansive research and reporting, the Census of Governments “identifies the scope and nature of the nation’s state and local government sector; provides authoritative benchmark figures of public finance and public employment; classifies local government organizations, powers, and activities; and measures federal, state, and local fiscal relationships.”<sup>2</sup> The list of entities that utilize the research provided by the Census of Governments includes the United States Congress, federal agencies like the Bureau of Economic Analysis (BEA), the Federal Reserve Board, state and local governments, and other educational and research organizations.<sup>3</sup>

The Census of Governments is empowered through United States Code, Title 13, Sections 161 and 182 to collect the information.<sup>4</sup> For years ending in a “2” or a “7”, the Census of Governments surveys the “entire universe” of its target population—every state and local government is canvased, either directly or indirectly, for surveys during those years. In the years not ending in “2” and “7”, the Census of Governments relies on a sample from the target population for its reports.<sup>5</sup> For the analysis of expenditures and revenues of local governments, TACIR staff has relied on the data collected in years ending with “2” and “7” the full survey years.

Responses to the survey by state and local governments are voluntary, and the Census of Governments employs a variety of data collection methods. The U.S. Census Bureau has “central collection arrangements” with 27 states. These states receive individualized mailings from the Census of Governments. For the remaining states, including Tennessee, the Census of Governments must canvas directly with the various state and local governments to collect the needed data. For the 2017 survey, the Census of Governments followed this schedule in their inquiries to governments for information:

November 2017 – Initial mail-out

December 2017 – Due Date Reminder

January 2018 – Follow up mail-out #1

February 2018 – Follow up mail-out #2

March – August 2018 – Telephone follow-up

<sup>1</sup> [https://www2.census.gov/programs-surveys/gov-finances/technical-documentation/methodology/2017/2017\\_methodology.pdf?#](https://www2.census.gov/programs-surveys/gov-finances/technical-documentation/methodology/2017/2017_methodology.pdf?#)

<sup>2</sup> <https://www.census.gov/programs-surveys/cog/about.html> (accessed 8/14/2020)

<sup>3</sup> [https://www2.census.gov/programs-surveys/gov-finances/technical-documentation/methodology/2017/2017\\_methodology.pdf?#](https://www2.census.gov/programs-surveys/gov-finances/technical-documentation/methodology/2017/2017_methodology.pdf?#)

<sup>4</sup> 13 United States Code, Sections 161 and 182.

<sup>5</sup> For the surveys produced on years ending in “2” and “7”, there is no sampling error since all governmental units are surveyed. Surveys produced during the intervening years do include a sample error since data is only collected from a sample of the larger target population.

For the 2017 Census Survey, all 50 state governments responded.<sup>6</sup> For local Governments in Tennessee, the response rate was 69.9%, and the Total Quantity Response Rates (TQRR) on questions relating to expenditure and revenue was 84.2% and 82.3%, respectively.<sup>7</sup> According to the Census of Governments, “the Total Quantity Response Rate (TQRR) is the percentage of the tabulated total obtained from directly reported and equivalent quality data.”<sup>8</sup>

To best ensure the accuracy of this data, the Census of Governments edits the data received from state and local governments, consisting primarily of four processes: 1) consistency edits, 2) historical ratio edits, 3) current year ratio edits, and 4) balance checks. These mechanisms analyze the received responses for any internal inconsistencies. For example, if a local government reports interest on debt, then there must be the correlating debt in the data. The Census of Governments also uses past responses to help check for accuracy. Property tax revenue for one location, for instance, can be compared to earlier reported amounts. Any variation outside of acceptable parameters is red-flagged by the Census of Governments and identified as in need of further review.

For inconsistencies that cannot be resolved or for “non-responding entities,” the Census of Governments relies on other resources, when possible. In these cases, the Census of Governments attempts “to obtain data from Comprehensive Annual Financial Reports (CAFRs)” or “supplied/compiled data . . . from secondary sources, such as debt information from Mergents.”<sup>9</sup> When gaps in the data still exist, the Census of Governments employs a process called “imputation,” which utilizes recently reported data from the missing unit itself or current information from a separate unit deemed similar by the Census of Governments.

The Census of Governments follows a similar process of imputation for any non-responding special districts.

For this report, TACIR has utilized both the published Census of Governments tables and more detailed data at the individual government level, what the Census of Governments refers to as the “Public Use Files.” Although “every effort is made in all phases of collection, processing, and tabulation to minimize errors,” the Census of Governments urges caution when applying data from the “Public Use Files” to individual respondents, either in one-time estimates or in comparisons across time.<sup>10</sup> This is because, as the Census Bureau makes clear, its priority is in the broader estimates that their reports generate: “The individual unit data are edited by analysts solely with the purpose of creating the most accurate estimate at the state and type of government level, and should not be viewed as an accurate time series for any individual unit.”<sup>11</sup>

In this report, TACIR staff followed the Census of Governments recommendations for the use of the Public Use Files. For the four tables in the report that use data from the Public Use Files, tables 1, 6, 7, and 8, data were aggregated to the state level as the Census of Governments recommends.

<sup>6</sup> [https://www2.census.gov/programs-surveys/gov-finances/technical-documentation/methodology/2017/2017\\_methodology.pdf?#](https://www2.census.gov/programs-surveys/gov-finances/technical-documentation/methodology/2017/2017_methodology.pdf?#)

<sup>7</sup> [https://www2.census.gov/programs-surveys/gov-finances/technical-documentation/methodology/2017/2017\\_local\\_response\\_rates.pdf?#](https://www2.census.gov/programs-surveys/gov-finances/technical-documentation/methodology/2017/2017_local_response_rates.pdf?#)

<sup>8</sup> [https://www2.census.gov/programs-surveys/apes/technical-documentation/methodology/2012\\_methodology.pdf](https://www2.census.gov/programs-surveys/apes/technical-documentation/methodology/2012_methodology.pdf)

<sup>9</sup> <https://www.census.gov/programs-surveys/gov-finances/technical-documentation/methodology/how-the-data-are-collected.html>. See also <https://www.mergentonline.com/>

<sup>10</sup> [https://www2.census.gov/programs-surveys/gov-finances/technical-documentation/methodology/2017/2017\\_methodology.pdf?#](https://www2.census.gov/programs-surveys/gov-finances/technical-documentation/methodology/2017/2017_methodology.pdf?#)

<sup>11</sup> <https://www2.census.gov/programs-surveys/gov-finances/technical-documentation/methodology/2016/2016-sl-individual-unit-file-disclaimer.pdf>

## **Appendix C: Meeting Materials for Local Government Members of TACIR: June and August 2018**

The Commission's local government members met on June 14 and August 10, 2018, to discuss revenue and services of local governments in Tennessee as part of the Commission's study pursuant to a request by the House Finance Ways and Means Committee. The following tables were prepared for the meetings to aid the discussions. The first meeting included a review of current and trend data on the various revenue sources available to local government as well as information on required and authorized local services, while the second focused primarily on out-of-state sales tax collection and distribution.

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Table 1. Apportionment of State-Shared Taxes to the State, Cities, and Counties, Fiscal Year 2016-17.

Tax	State	Percent	Counties	Percent	Cities	Percent	Total
Sales and Use <sup>1</sup>	\$ 8,137,180,400	96.5%	\$ -	0.0%	\$ 299,376,428	3.549%	\$ 8,436,556,828
Tourism Development Zones	-	0.0%	-	0.0%	57,796,093	100.0%	57,796,093
Other Local Distributions	-	0.0%	4,485,258	9.3%	43,850,565	90.7%	48,335,823
Telecommunications	-	0.0%	752,064	71.2%	304,933	28.8%	1,056,996
Franchise and Excise	2,557,609,023	98.5%	29,637,638	1.1%	10,181,351	0.4%	2,597,428,012
Gasoline <sup>2</sup>	414,298,347	61.8%	170,531,972	25.4%	85,265,986	12.7%	670,096,305
TVA PILOTS <sup>3</sup>	202,370,241	59.0%	99,201,346	28.9%	41,237,328	12.0%	342,808,915
Business Tax	174,802,370	44.0%	116,408,684	29.3%	106,237,386	26.7%	397,448,440
Hall Income <sup>4</sup>	164,586,446	65.8%	16,048,759	6.4%	69,341,762	27.7%	249,976,967
Motor Fuel <sup>5</sup>	130,992,549	73.8%	30,987,850	17.5%	15,500,176	8.7%	177,480,575
Mixed Drink <sup>6</sup>	52,110,802	50.0%	1,861,246	1.8%	50,250,124	48.2%	104,222,172
Gasoline Inspection (Special Petroleum)	56,264,315	82.4%	4,699,000	6.9%	7,318,000	10.7%	68,281,315
Alcoholic Beverage	55,400,606	83.0%	11,316,118	17.0%	-	0.0%	66,716,724
Beer Wholesale <sup>7</sup>	2,416,845	3.5%	9,480,333	13.7%	57,155,536	82.8%	69,052,714
Tire and Used Oil Tax	15,871,421	76.7%	4,820,806	23.3%	-	0.0%	20,692,227
Beer Excise	14,469,448	80.8%	1,724,036	9.6%	1,724,036	9.6%	17,917,520
Mineral Severance	173,218	3.2%	5,317,231	96.8%	-	0.0%	5,490,448
Oil & Natural Gas Severance	437,157	66.7%	218,579	33.3%	-	0.0%	655,736
Coal Severance	6,986	1.2%	597,720	98.8%	-	0.0%	604,706
Fantasy Sports <sup>8</sup>	192,985	80.0%	48,246	20.0%	-	0.0%	241,231
<b>Total</b>	<b>\$ 11,979,183,159</b>	<b>89.8%</b>	<b>\$ 508,136,885</b>	<b>3.8%</b>	<b>\$ 845,539,704</b>	<b>6.3%</b>	<b>\$ 13,332,859,747</b>

Sources: Tennessee Department of Revenue (Fiscal Year 2017 Annual Report), Tennessee Malt Beverage Association, and Budget of the State of Tennessee, Fiscal Year 2018-19.

<sup>1</sup>The state's Sales and Use Tax revenue includes the \$4,923,312,200 that was distributed to the State's Education Fund.

<sup>2</sup>The IMPROVE Act of 2017 is phasing in gasoline tax rate increases, from 20 cents in fiscal year 2016-17 per gallon to 26 cents in fiscal year 2019-20. Given current gasoline sales, this rate increases counties' revenue by \$51.2 million and cities revenue by \$25.6 million by the end of fiscal year 2019-20. See Table 1a for Gasoline and Motor Fuel Tax revenue projections.

<sup>3</sup>TVA PILOTS include fiscal year 1977-78 base payments of \$51,030,011 to the state, \$3,816,477 to counties, and \$358,098 to cities.

<sup>4</sup>The Hall income tax is being phased out through December 31, 2020. The tax will be fully repealed beginning January 1, 2021. See Table 1c.

<sup>5</sup>The Motor Fuel tax includes diesel, liquefied gas, compressed natural gas, and liquefied petroleum.

<sup>6</sup>All \$52,110,802 of the state's Mixed Drink Tax revenue for fiscal year 2016-17 was distributed to the state's Education Fund. Beginning July 1, 2019, half of cities' sales tax revenue shall be distributed "in the same manner as the county property tax for schools." (Tennessee Code Annotated, Section 57-4-306(c)). Counties and cities without a municipal school system shall pay half of their mixed drink sales tax revenue to the county's school fund.

<sup>7</sup>The wholesale beer tax is not collected or distributed by the Department of Revenue; however the department received \$2,416,845 in fiscal year 2016-17 to help counties and cities administer the tax. Although this tax is collected and remitted by the beer wholesalers, it is a state tax, with the Department of Revenue responsible for its administration.

<sup>8</sup>The fantasy sports tax, passed in 2016 (Public Chapter 978, Acts 2016), was first collected in fiscal year 2016-17. See Tennessee Code Annotated, Section 67-4-901 et seq.

**Table 1a. Gasoline and Motor Fuel Taxes, Revenue Projections for Counties and Cities in Tennessee, Fiscal Years 2017-18 to 2019-20, Compared with 2016-17 Actual Revenues.**

Fiscal Year	Gasoline		Motor Fuel	
	Tax (cents per gallon)	Revenue Projection	Tax <sup>1</sup> (cents per gallon)	Revenue Projection
<b>Counties</b>				
2016-17 <sup>2</sup>	20	\$ 170,531,972	17	\$ 30,987,850
2017-18	24	\$ 204,638,366	21	\$ 38,270,736
2018-19	25	\$ 213,164,965	24	\$ 43,704,246
2019-20	26	\$ 221,691,564	27	\$ 49,252,376
<b>Cities</b>				
2016-17 <sup>2</sup>	20	\$ 85,265,986	17	\$ 15,500,176
2017-18	24	\$ 102,319,183	21	\$ 19,138,904
2018-19	25	\$ 106,582,483	24	\$ 21,839,294
2019-20	26	\$ 110,845,782	27	\$ 24,654,305

Sources: Tennessee Department of Revenue (Fiscal Year 2017 Annual Report) and 2017 Tennessee Comptroller of the Treasury, "The IMPROVE Act."

[http://www.comptroller.tn.gov/Repository/RE/OREA%20IMPROVE%20Act\\_July%202017.pdf](http://www.comptroller.tn.gov/Repository/RE/OREA%20IMPROVE%20Act_July%202017.pdf)

Note: Revenue projections are TACIR staff calculations based on current gasoline and motor fuel sales.

<sup>1</sup>Tax shown is for diesel, which was 95.2% of motor fuel tax revenue in fiscal year 2016-17.

Other fuels comprising the motor fuel tax are scheduled to increase as follows: Liquefied gas is scheduled to increase from 14 cents in fiscal year 2016-17, to 17 cents in fiscal year 2017-18, 19 cents in fiscal year 2018-19, and 22 cents in fiscal year 2019-20. Compressed natural gas is scheduled to increase from 13 cents in fiscal year 2016-17 to 16 cents in fiscal year 2017-18, 18 cents in fiscal year 2018-19, and 21 cents in fiscal year 2019-20.

<sup>2</sup>Actual revenues for fiscal year 2016-17.

**Table 1b. Tennessee Gasoline and Diesel Tax Rate History.**

Gasoline		Diesel	
Tax (cents per gallon)	Effective Date	Tax (cents per gallon)	Effective Date
2	1923	7	1941
3	1925	8	1963
5	1929	12	6/1/1981
7	1931	14	6/1/1986
9	6/1/1981	15	6/1/1987
12	7/1/1985	16	4/1/1989
16	6/1/1986	17	4/1/1990
19	4/1/1989	21	7/1/2017
20	7/1/1989	24	7/1/2018
24	7/1/2017	27	7/1/2019
25	7/1/2018		
26	7/1/2019		

Sources: Tennessee Department of Revenue and Tennessee Comptroller of the Treasury.  
[http://www.comptroller.tn.gov/Repository/RE/OREA%20IMPROVE%20Act\\_July%202017.pdf](http://www.comptroller.tn.gov/Repository/RE/OREA%20IMPROVE%20Act_July%202017.pdf)

**Table 1c. Hall Income Tax Revenue for Counties and Cities in Tennessee, Fiscal Years 2017-18 to 2021-22, Compared with 2016-17 Actual Revenues.**

Fiscal Year	Tax Rate	Revenue Projection
<b>Counties</b>		
2016-17	5%	\$ 16,048,759
2017-18	4%	\$ 12,839,007
2018-19	3%	\$ 9,629,255
2019-20	2%	\$ 6,419,504
2020-21	1%	\$ 3,209,752
2021-22	0%	\$ -
<b>Cities</b>		
2016-17	5%	\$ 69,341,762
2017-18	4%	\$ 55,473,410
2018-19	3%	\$ 41,605,057
2019-20	2%	\$ 27,736,705
2020-21	1%	\$ 13,868,352
2021-22	0%	\$ -

Sources: Tennessee Department of Revenue (Fiscal Year 2017 Annual Report) and 2017 Tennessee Comptroller of the Treasury, "The IMPROVE Act."

[http://www.comptroller.tn.gov/Repository/RE/OREA%20IMPROVE%20Act\\_July%202017.pdf](http://www.comptroller.tn.gov/Repository/RE/OREA%20IMPROVE%20Act_July%202017.pdf)

Note: Revenue projections are TACIR staff calculations based on current interest and dividend income tax base.



**Table 1d. Distributions of State-Shared Taxes to Local Governments in Tennessee, Fiscal Years 2002-03 and 2016-17.**

State-Shared Revenues By Source	Total Amount Distributed, Fiscal Year 2002-03	Percent	Total Amount Distributed, Fiscal Year 2016-17	Percent
Alcoholic Beverage	\$ 5,450,000	0.72%	\$ 11,316,118	0.84%
Beer Excise	3,333,000	0.44%	3,448,072	0.26%
Business Tax	-	0.00%	222,646,070	16.51%
Franchise and Excise	17,263,000	2.29%	39,818,989	2.95%
Fantasy Sports	-	0.00%	48,246	0.00%
Gasoline & Motor Fuel	268,782,000	35.64%	302,285,984	22.41%
Hall Income	50,516,000	6.70%	85,390,521	6.33%
Mixed Drink	18,293,000	2.43%	52,111,370	3.86%
Sales and Use	202,176,000	26.81%	406,565,340	30.14%
Severance Taxes	745,000	0.10%	6,133,530	0.45%
Gasoline Inspection (Special Petroleum)	11,897,000	1.58%	12,017,000	0.89%
TVA PILOTS <sup>1</sup>	74,130,000	9.83%	140,438,674	10.41%
<b>Subtotal</b>	<b>\$ 652,585,000</b>	<b>86.54%</b>	<b>\$ 1,282,219,914</b>	<b>95.06%</b>
Beer Wholesale	101,500,000	13.46%	66,635,869	4.94%
<b>Total</b>	<b>\$ 754,085,000</b>	<b>100.00%</b>	<b>\$ 1,348,855,783</b>	<b>100.00%</b>

Sources: Tennessee Department of Revenue (Fiscal Year 2016-17 Annual Report) and Tennessee Malt Beverage Association.

Note: This table does not include the Tire and Used Oil Tax because collections for fiscal year 2002-03 are unknown.

<sup>1</sup>Includes fiscal year 1977-78 base payments to cities and counties in Tennessee.

**Table 1e. Apportionment of State-Shared Taxes to the State, Cities, and Counties, Fiscal Year 2016-17, with Fiscal Year 2021-22 Revenue Projections of Gasoline, Motor Fuel, and Hall Income Taxes.**

Tax	State	Percent	Counties	Percent	Cities	Percent	Total
Sales and Use	\$ 8,137,180,400	96.5%	\$ -	0.0%	\$ 299,376,428	3.549%	\$ 8,436,556,828
Tourism Development Zones <sup>1</sup>	-	0.0%	-	0.0%	57,796,093	100.0%	57,796,093
Other Local Distributions	-	0.0%	4,485,258	9.3%	43,850,565	90.7%	48,335,823
Telecommunications	-	0.0%	752,064	71.2%	304,933	28.8%	1,056,996
Franchise and Excise	2,557,609,023	98.5%	29,637,638	1.1%	10,181,351	0.4%	2,597,428,012
Gasoline <sup>2</sup>	538,587,851	61.8%	221,691,564	25.4%	110,845,782	12.7%	871,125,197
TVA PILOTS	202,370,241	59.0%	99,201,346	28.9%	41,237,328	12.0%	342,808,915
Business Tax	174,802,370	44.0%	116,408,684	29.3%	106,237,386	26.7%	397,448,440
Hall Income <sup>3</sup>	-	-	-	-	-	-	-
Motor Fuel <sup>2</sup>	170,721,802	69.8%	49,252,376	20.1%	24,654,305	10.1%	244,628,483
Mixed Drink	52,110,802	50.0%	1,861,246	1.8%	50,250,124	48.2%	104,222,172
Gasoline Inspection (Special Petroleum)	56,264,315	82.4%	4,699,000	6.9%	7,318,000	10.7%	68,281,315
Alcoholic Beverage	55,400,606	83.0%	11,316,118	17.0%	-	0.0%	66,716,724
Beer Wholesale <sup>4</sup>	2,416,845	3.5%	9,480,333	13.7%	57,155,536	82.8%	69,052,714
Tire and Used Oil Tax	15,871,421	76.7%	4,820,806	23.3%	-	0.0%	20,692,227
Beer Excise	14,469,448	80.8%	1,724,036	9.6%	1,724,036	9.6%	17,917,520
Mineral Severance	173,218	3.2%	5,317,231	96.8%	-	0.0%	5,490,448
Oil & Natural Gas Severance	437,157	66.7%	218,579	33.3%	-	0.0%	655,736
Coal Severance	6,986	1.2%	597,720	98.8%	-	0.0%	604,706
Fantasy Sports	192,985	80.0%	48,246	20.0%	-	0.0%	241,231
<b>Total</b>	<b>\$ 11,978,615,470</b>	<b>89.7%</b>	<b>\$ 561,512,244</b>	<b>4.2%</b>	<b>\$ 810,931,867</b>	<b>6.1%</b>	<b>\$ 13,351,059,580</b>

Sources: Tennessee Department of Revenue (Fiscal Year 2017 Annual Report), Tennessee Malt Beverage Association, and Budget of the State of Tennessee, Fiscal Year 2018-19.  
 Note: Revenue projections of the gasoline and motor fuel taxes are TACIR staff calculations based on current sales. Highlighted rows show projected revenue for fiscal year 2021-22. The other rows show actual revenue for fiscal year 2016-17 (as in Table 1).

<sup>1</sup>Tourism Development Zones are used to finance tourism-related facilities in Bristol, Chattanooga, East Ridge, Kingsport, Knoxville, Nashville, Pigeon Forge, and Sevierville.  
<sup>2</sup>See Table 1a for the revenue projections of the gasoline and motor fuel taxes.

<sup>3</sup>See Table 1b for revenue projections of the Hall income tax.

Table 1f. Apportionment of State-Shared Taxes to the State, Cities, and Counties, Fiscal Year 2021-22 Revenue Projections.

Tax	Annual Rate of Growth	State	Percent	Counties	Percent	Cities	Percent	Total
Sales and Use	2.3%	\$ 9,125,718,852	96.5%	\$ -	0.0%	\$ 335,745,919	3.55%	\$ 9,461,464,772
Tourism Development Zones	2.3%	-	0.0%	-	0.0%	64,817,402	100.00%	64,817,402
Other Local Distributions	2.3%	-	0.0%	5,030,146	9.3%	49,177,714	90.72%	54,207,859
Telecommunications	2.3%	-	0.0%	843,428	71.2%	341,977	28.85%	1,185,404
Franchise and Excise	4.0%	3,111,106,975	98.4%	36,787,585	1.2%	12,637,556	0.40%	3,160,532,116
Gasoline	0.9%	564,467,618	61.8%	232,344,099	25.4%	116,172,049	12.72%	912,983,766
TVA PILOTS	2.5%	221,867,211	58.5%	110,937,308	29.3%	46,267,026	12.21%	379,071,544
Business Tax	2.6%	198,350,547	44.0%	132,090,464	29.3%	120,548,959	26.73%	450,989,970
Hall Income								-
Motor Fuel	-0.4%	167,400,532	77.6%	48,294,206	22.4%		0.00%	215,694,738
Mixed Drink	7.0%	73,073,100	50.0%	2,609,958	1.8%	70,463,938	48.21%	146,146,996
Gasoline Inspection (Special Petroleum)	0.5%	57,627,151	82.4%	4,812,819	6.9%	7,495,257	10.72%	69,935,227
Alcoholic Beverage	4.8%	70,106,990	83.0%	14,320,041	17.0%	-	0.00%	84,427,031
Beer Wholesale	-2.7%	2,106,222	3.5%	8,261,879	13.7%	49,809,658	82.77%	60,177,758
Tire and Used Oil Tax	2.4%	17,869,675	76.7%	5,427,758	23.3%	-	0.00%	23,297,433
Beer Excise	-0.3%	14,243,806	80.8%	1,697,151	9.6%	1,697,151	9.62%	17,638,107
Mineral Severance	2.4%	195,027	3.2%	5,986,684	96.8%	-	0.00%	6,181,711
Oil & Natural Gas Severance	-4.5%	346,881	66.7%	173,441	33.3%	-	0.00%	520,321
Coal Severance	0.7%	7,240	1.2%	619,491	98.8%	-	0.00%	626,732
Fantasy Sports	2.4%	217,282	80.0%	54,320	20.0%	-	0.00%	271,603
<b>Total</b>	<b>2.5%</b>	<b>\$ 13,624,705,108</b>	<b>90.2%</b>	<b>\$ 610,290,779</b>	<b>4.0%</b>	<b>\$ 875,174,606</b>	<b>5.8%</b>	<b>\$ 15,110,170,492</b>

Sources: Tennessee Department of Revenue (Fiscal Year 2017 Annual Report), Tennessee Malt Beverage Association, and Budget of the State of Tennessee, Fiscal Year 2018-19.

Note: Revenue projections are staff calculations based on 10-year annual growth rates and scheduled changes in tax rates.

Table 2. Basis of Apportionment of State Shared Taxes, Fiscal Year 2016-17.

Recipient	Amount	Population	Situs	Acreage	Equal Share	Other	Tennessee Code Annotated (TCA)
Alcoholic Beverage	\$ 11,316,118	75%		25%			TCA 57-3-306(b)(1) and 57-3-306(c)
Bank Excise	29,637,638		100%				TCA 67-4-2017 (a)(1)(A)
Cities	10,181,351		100%				
Beer Excise	1,724,036				100%		TCA 57-5-205(1)
Cities	1,724,036	100%					
Beer Wholesale	9,480,333		100%				57-6-103(c)
Cities	57,155,536		100%				
Coal Severance	997,720		100%				TCA 67-7-110
Crude Oil & Natural Gas Severance	218,579		100%				TCA 60-1-301(b)
Cities	48,246		100%				TCA 67-4-905(2)
Fantasy Sports	170,531,972	25%		25%			67-3-901(i)(1)
Gasoline	85,265,986	100%					67-3-901(i)(2)
Cities	4,699,000	100%					TCA 67-3-906(b)(3)
Counties	7,318,000	100%					
Business Tax	116,408,684		100%				TCA 67-4-724(a)(1)-(2)
Cities	106,237,386		100%				TCA 67-4-724(b)(1)-(2)
Hall Income Tax	16,048,759		100%				TCA 67-2-119(b)-(c)
Cities	69,341,762		100%				
Mineral Severance	5,317,231		100%				TCA 67-7-201(a); TCA 67-7-207
Counties	1,861,246		100%				TCA 57-4-306(a)(2)-(i)
Mixed Drink <sup>1</sup>	50,250,124		100%				
Counties	30,987,850	25%		25%			TCA 67-3-905(a)(2)(A)-(C)
Cities	15,500,176	100%			50%		TCA 67-3-905 (a)(3); TCA 54-4-203(a)
Sales and Use	-	\$1,000,000	3,485,258			\$ 752,064 <sup>2</sup>	TCA 67-6-103(a)(3)(F) and 67-6-221
Cities	299,376,428	100%, except Telecommunications				\$ 304,933 <sup>3</sup>	TCA 67-6-103(a)(3)(A); 67-6-221
TVA PILOTS	99,201,346	3/7		3/7 County Acres; 1/7 TVA Acres		\$ 3,816,477 <sup>3</sup>	TCA 67-9-101(a)(2)-(3), 67-9-102(a)(1)(A) and (B), and 67-9-102(a)(1)(C)
Cities	41,237,328	100%				\$ 358,098 <sup>3</sup>	TCA 67-9-102(a)(1)(D)
Counties Total	\$ 498,078,758	\$ 105,493,520	\$ 183,055,448	\$ 107,714,625	\$ 102,483,947	\$ 4,568,540	
Counties Percent	40.1%	19.0%	38.4%	100.0%	100.0%	87.3%	
Cities Total	\$ 743,588,113	\$ 449,758,923	\$ 293,166,159	\$ -	\$ -	\$ 663,031	
Cities Percent	59.9%	81.0%	61.6%	0.0%	0.0%	12.7%	
Total	\$ 1,241,666,871	\$ 555,252,443	\$ 476,221,607	\$ 107,714,625	\$ 102,483,947	\$ 5,231,571	
Basis of Apportionment Percent	100%	44.7%	38.4%	8.7%	8.3%	0.4%	

Sources: Tennessee Department of Revenue, Tennessee Code Annotated, and Budget of the State of Tennessee, Fiscal Year 2018-19, A-72 to A-101.

<sup>1</sup>Counties with a population of more than 250,000 (based on the last federal census) are required to pay 30 percent of their mixed drink tax revenue to cities in the county with a population of more than 150,000. Tennessee Code Annotated, Section 57-3-306.

<sup>2</sup>The telecommunication sales tax, for tax year 2017, and for each local government levying a property tax, is apportioned based on its percentage share of the difference in property tax and in lieu of tax revenue. Tennessee Code Annotated, Section 67-6-221(c).

<sup>3</sup>The base year payments to cities and counties are equal to their fiscal year 1977-78 distributions.

**Table 3. Restrictions on Use of State-Shared Tax Revenue, Fiscal Year 2016-17.**

Tax	Recipient	Restriction	Percent Restricted	Amount Restricted	Tennessee Code Annotated (TCA)
Coal Severance	Counties	Education	100%	\$ 298,860	TCA 67-7-110(b)
		Highway/Stream Cleaning		298,860	
Gasoline	Counties	Roads, Bridges, and Mass Transit	100%	170,192,972	TCA 54-4-101 and 54-4-103
	Cities			85,265,986	TCA 54-4-203
Gasoline Inspection	Counties	Roads and Streets	100%	4,578,996	TCA 67-3-906(b)(3)
	Cities			7,437,996	
Mineral Severance	Counties	Roads	100%	5,317,231	TCA 67-7-207
Mixed Drink	Local Education Agencies	Education	50%	930,623	TCA 57-4-306
				25,125,062	
Motor Fuel Diesel	Counties	Roads, Bridges, and Mass Transit	100%	30,987,850	TCA 67-3-905
	Cities			15,500,176	
Tire Tax	Counties	Waste Tires	100%	4,820,806	TCA 67-4-1610
	Counties			\$ 216,495,575	
	Cities			\$ 108,204,158	
	Local Education Agencies			\$ 26,055,685	
<b>Total</b>				<b>\$ 350,755,418</b>	

Source: Tennessee Code Annotated.

Note: The \$276,044,373 in restricted state-shared revenue is included in the \$1.3 billion in state-shared revenues distributed to counties and cities from Tables 1 and 2.

**Table 4. Local Taxes: Maximum Authorized Rate and Number of Local Governments Authorized in Tennessee.**

Tax	Level of Government	How Authorized	Maximum Authorized Rate	Number of Local Governments Authorized	
Property Tax	County	TCA 67-5-102(a)(2); 67-5-510	No Maximum	All	
	City	TCA 67-5-103(a) and (b)	No Maximum	All	
Local Option Sales Tax	County	TCA 67-6-702(a)(1)	2.75%	All	
	City		2.75%	All	
Hotel-Motel	County	Private Act	7.5%	2	
			7%	7	
			5%	50	
			4%	7	
			3%	7	
			2.5%	2	
			2%	2	
	Metro	TCA 7-4-102, 7-4-110, 7-4-202	6% + \$2.50	1	
			TCA 7-4-102(a)	3%	2
	City	Private Act	TCA 7-4-102(c)	10%	1
			7%	4	
			6%	1	
			5%	19	
			3%	4	
			2%	1	
			1%	1	
			TCA 67-4-1402 and 67-4-1425	7%	1
			5%	4	
			TCA 67-4-1402	5%	9
			TCA 67-4-1425	No Maximum	1
5%			18		
4%			2		
Private Act and TCA 67-4-1425	2.50%	3			
2%	1				
Litigation	City	TCA 16-18-305(a)	\$13.75	All	
		TCA 16-18-305(b)	\$1.00		
	County	TCA 16-15-5008	\$2.00		
		TCA 39-13-709(b)	Up to \$3,000		
		TCA 40-24-107(a)(1)(A)	\$26.50		
		TCA 40-24-107(a)(1)(B)	\$500.00		
		TCA 40-24-107(a)(2)	\$26.50/\$50.00		
		TCA 64-4-602(a)	\$29.50		
		TCA 64-4-602(b)	\$23.75 + \$1.00		
		TCA 64-4-602(c)	\$17.75		
		TCA 64-4-602(d)	\$13.75		
		TCA 67-4-602(g)	\$1.00		
		TCA 67-4-602(h)	\$3.00		
		TCA 67-4-602(k)	\$2.00		
		Knox County	TCA 67-4-602(f)		\$3.00

**Table 4. Local Taxes: Maximum Authorized Rate and Number of Local Governments Authorized in Tennessee.**

Tax	Level of Government	How Authorized	Maximum Authorized Rate	Number of Local Governments Authorized
Marriage License	County	TCA 67-4-502; TCA 67-4-505	\$5.00	All
Motor Vehicle (Wheel) Tax	County	TCA 5-8-102	No Maximum	All
Cable TV Franchise Fees	Counties and Cities	TCA 7-59-304 and 47 USC 542(b)	5% of gross revenue from subscriptions, advertisements, and home shopping network commissions.	All
<b>IMPROVE Act Surcharges</b>				
Local Option Sales and Use Tax Surcharge	County	TCA 67-4-3202(g)(2)(A)	An additional 2.75% is authorized for transit purposes.	Counties with populations greater than 112,000, currently 12
	City	TCA 67-4-3202(g)(2)(A)	An additional 2.75% is authorized for transit purposes.	Cities with populations greater than 165,000, currently 4
Tourist Accomodation (Metro-Nashville), Hotel-Motel, TDZs, and Sales Taxes and Surcharges	County	TCA 67-4-3202(g)(2)(B)	20% (combined taxes and surcharges)	Counties with populations greater than 112,000, currently 12
	City	TCA 67-4-3202(g)(2)(B)	20% (combined taxes and surcharges)	Cities with populations greater than 165,000, currently 4



**Table 4. Local Taxes: Maximum Authorized Rate and Number of Local Governments Authorized in Tennessee.**

Tax	Level of Government	How Authorized	Maximum Authorized Rate	Number of Local Governments Authorized
Business, Rental Car, and Residential Development Tax Surcharges	County	TCA 67-4-3202(g)(2)(C)	20% of current tax rate	Counties with populations greater than 112,000, currently 12
	City	TCA 67-4-3202(g)(2)(C)	20% of current tax rate	Cities with populations greater than 165,000, currently 4
Motor Vehicle “Wheel” Tax Surcharges	County	TCA 5-8-102; 67-4-3202(g)(2)(D)	\$200 (combined wheel tax and surcharge)	Counties with populations greater than 112,000, currently 12
	City	TCA 5-8-102; 67-4-3202(g)(2)(D)	\$200 (combined wheel tax and surcharge)	Cities with populations greater than 165,000, currently 4

Source: Tennessee Code Annotated and Private Acts.

Note: Local governments may have adopted the maximum authorized rate.

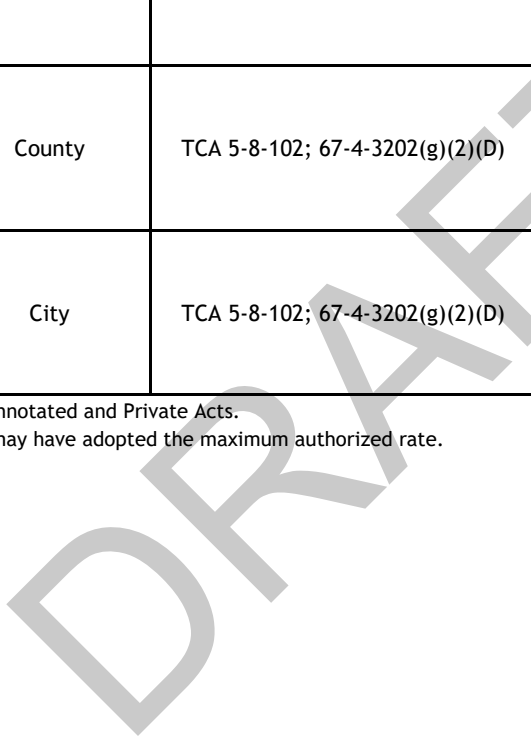


Table 5. Required and Authorized Services of Cities and Counties in Tennessee.

City/County	Required Services		Authorized Services	
	Service	Source of Mandate	Service	Source of Authority
City	Elections	TCA 6-53-101	Administrative hearings	TCA 6-54-1001
	Plan of services for cities with at least 1,500 people that incorporated since 1998 and annexed territories (includes, but not limited to, police protection, fire protection, water service, electrical service, sanitary sewer service, solid waste collection, road and street construction and repair, recreational facilities and programs, street lighting, and zoning services)	TCA 6-1-201; 6-18-103; 6-30-104; 6-51-102	Airports	TCA 42-5-101 et seq.
	Road maintenance	TCA 7-31-101	Care of children	TCA 37-2-204
			Courts	TCA 6-4-301; 6-21-501; 6-33-102; 16-17-101
			Education	TCA 49-2-401
			Emergency medical and ambulance services	TCA 7-61-102
			Energy service	TCA 7-36-103
			Fire protection	TCA 6-1-203; 6-19-101; 6-21-701 et seq.

Table 5. Required and Authorized Services of Cities and Counties in Tennessee.

City/County	Required Services		Authorized Services	
	Service	Source of Mandate	Service	Source of Authority
			Flood control and disaster relief	TCA 7-32-101
			Healthcare facilities	TCA 68-11-204; 9-21-105
			Health department	TCA 68-2-605
			Housing	TCA 13-20-401 <i>et seq.</i>
			Libraries	TCA 10-3-101
			Law enforcement	TCA 6-54-301
			Parks and recreation	TCA 11-24-103
			Planning and Zoning	TCA 13-4-101, 13-7-203
			Port Authority	TCA 7-87-101
			Public place and facilities improvements	TCA 7-32-101
			Public works projects	TCA 9-21-105
			Safety councils	TCA 7-51-501
			Sidewalk construction	TCA 7-31-105
			Storm water facilities	TCA 69-221-1103
			Tourism development	TCA 7-69-101 <i>et seq.</i>
			Veterans' services	TCA 58-3-109
			Water and sewer system	TCA 7-35-401
			Affordable Housing (Metro Nashville)	TCA 5-9-113
	Air pollution control (certain counties)	US Clean Air Act; TCA 68-201-101		
	Constitutional offices (legislative body, county executive, sheriff, trustee, register of deeds, county clerk, assessor of property)	Constitution Article VII, Section 1	Airports	TCA 42-5-101 <i>et seq.</i>

Table 5. Required and Authorized Services of Cities and Counties in Tennessee.

City/County	Required Services		Authorized Services	
	Service	Source of Mandate	Service	Source of Authority
County	County roads and highways	TCA 54-7-102; 54-7-109	Animal control	TCA 5-1-120
	Court system	Constitution Article VI, Section 13; TCA 5-7-104; 8-24-102; 8-20-101, 37-1-101 <i>et seq.</i> ; 16-15-101 <i>et seq.</i>	Board of health	TCA 68-2-601
	Burial or cremation of unclaimed bodies	TCA 38-5-118	Codes enforcement	TCA 5-20-101 <i>et seq.</i>
	Education	TCA 49-2-101; 49-3-351; 49-3-356; 49-3-366	Constable services	TCA 8-10-108
	Elections	TCA 2-12-101	Coroner services	TCA 8-9-101
	Emergency management (civil defense)	TCA 58-2-117; 58-2-121	Drug interdiction programs	TCA 38-11-203
	Health department	TCA 68-2-603	Emergency communications	TCA 7-86-105
	Jails	TCA 5-7-104; 41-4-140; 41-4-115	Emergency medical and ambulance services	TCA 7-61-102
	Land surveys	TCA 8-12-101	Fire protection	TCA 5-17-101; 5-17-102
	Law enforcement	TCA 8-8-213; 8-24-102; 8-20-101	Healthcare facilities	TCA 68-11-204; 9-21-105
	Maintenance of public records	TCA 10-7-401	Housing	TCA 13-20-501
	Planning (comprehensive growth plan)	TCA 6-58-101 <i>et seq.</i>	Legal services	TCA 5-6-112
	Post-mortem examinations and investigations*	TCA 38-7-104	Libraries	TCA 10-3-101

Table 5. Required and Authorized Services of Cities and Counties in Tennessee.

City/County	Required Services		Authorized Services	
	Service	Source of Mandate	Service	Source of Authority
	Preservation of local and state history	TCA 5-18-101	Misc. services	TCA 5-9-101
	Storm water management (certain counties)	US EPA; TCA 68-221-1101	Parks, recreation, and conservation	TCA 11-24-104; 11-21-104
	Solid waste management	TCA 68-211-851; 68-211-863; 68-211-866	Planning and Zoning	TCA 13-3-101, 13-7-101
			Public works projects	TCA 9-21-105
			Tourism development	TCA 7-69-101 et seq.; 5-9-201
			Urban-type public facilities (storm and waste water treatment, solid waste, water supply, fire protection, emergency medical services)	TCA 5-16-101
			Veterans' services Workhouses	TCA 58-3-109 TCA 41-2-101; 41-2-109

Source: Tennessee Constitution and Tennessee Code Annotated.

\*Including the burial of indigent people.

**Table 6. State of Tennessee Expenditures, Grants to Local Entities, and Other Distributions to County Areas by County Area, Fiscal Year 2016-17.**

County Area	State Expenditures, Grants, and Other Distributions to Local Entities	Per Capita Distribution	Per Capita Rank
Anderson	\$ 160,470,764	\$ 2,104.34	58
Bedford	98,084,269	\$ 2,038.45	68
Benton	34,394,954	\$ 2,151.57	51
Bledsoe	110,961,680	\$ 7,539.69	2
Blount	217,481,809	\$ 1,673.85	89
Bradley	188,832,372	\$ 1,788.86	84
Campbell	93,692,087	\$ 2,363.10	32
Cannon	28,793,054	\$ 2,025.40	70
Carroll	71,726,832	\$ 2,574.55	20
Carter	154,510,329	\$ 2,735.28	15
Cheatham	69,946,090	\$ 1,734.34	87
Chester	39,675,483	\$ 2,317.63	37
Claiborne	71,289,653	\$ 2,255.36	44
Clay	18,561,842	\$ 2,409.69	27
Cocke	75,029,872	\$ 2,110.19	57
Coffee	109,660,667	\$ 1,992.60	73
Crockett	39,856,838	\$ 2,753.88	13
Cumberland	106,982,705	\$ 1,810.87	80
Davidson	1,211,519,692	\$ 1,752.67	86
Decatur	28,186,652	\$ 2,398.66	30
DeKalb	41,989,948	\$ 2,115.15	56
Dickson	108,233,019	\$ 2,047.81	67
Dyer	94,579,782	\$ 2,524.62	22
Fayette	71,816,177	\$ 1,793.79	83
Fentress	47,488,327	\$ 2,618.46	19
Franklin	82,128,619	\$ 1,971.78	75
Gibson	125,240,968	\$ 2,550.16	21
Giles	58,100,966	\$ 1,976.16	74
Grainger	48,140,324	\$ 2,080.03	60
Greene	160,712,155	\$ 2,335.66	33

**Table 6. State of Tennessee Expenditures, Grants to Local Entities, and Other Distributions to County Areas by County Area, Fiscal Year 2016-17.**

County Area	State Expenditures, Grants, and Other Distributions to Local Entities	Per Capita Distribution	Per Capita Rank
Grundy	35,964,746	\$ 2,691.77	17
Hamblen	143,589,342	\$ 2,233.91	46
Hamilton	588,956,979	\$ 1,628.69	91
Hancock	20,012,197	\$ 3,032.15	11
Hardeman	142,216,248	\$ 5,588.72	4
Hardin	62,669,384	\$ 2,424.72	25
Hawkins	131,785,991	\$ 2,334.19	35
Haywood	47,731,773	\$ 2,716.20	16
Henderson	66,339,012	\$ 2,390.51	31
Henry	74,478,641	\$ 2,295.18	41
Hickman	82,922,172	\$ 3,335.03	10
Houston	19,720,602	\$ 2,401.14	29
Humphreys	39,452,605	\$ 2,134.42	52
Jackson	26,203,808	\$ 2,244.05	45
Jefferson	107,847,376	\$ 2,004.45	71
Johnson	79,643,515	\$ 4,501.92	8
Knox	963,122,232	\$ 2,085.31	59
Lake	74,246,804	\$ 9,941.99	1
Lauderdale	119,277,508	\$ 4,719.38	6
Lawrence	92,024,237	\$ 2,120.57	55
Lewis	28,944,547	\$ 2,405.03	28
Lincoln	69,394,506	\$ 2,056.07	66
Loudon	82,660,195	\$ 1,584.99	92
McMinn	99,774,854	\$ 1,886.92	76
McNairy	60,349,398	\$ 2,320.77	36
Macon	52,115,472	\$ 2,164.35	50
Madison	216,996,972	\$ 2,222.35	47
Marion	53,330,523	\$ 1,876.18	78
Marshall	68,191,813	\$ 2,070.75	62
Maury	166,181,365	\$ 1,803.12	81



**Table 6. State of Tennessee Expenditures, Grants to Local Entities, and Other Distributions to County Areas by County Area, Fiscal Year 2016-17.**

County Area	State Expenditures, Grants, and Other Distributions to Local Entities	Per Capita Distribution	Per Capita Rank
Meigs	24,935,363	\$ 2,066.24	63
Monroe	84,719,030	\$ 1,832.16	79
Montgomery	360,104,136	\$ 1,798.88	82
Moore	15,862,774	\$ 2,484.77	24
Morgan	109,320,019	\$ 5,052.69	5
Obion	70,084,031	\$ 2,306.53	40
Overton	51,408,382	\$ 2,335.47	34
Perry	20,071,027	\$ 2,516.74	23
Pickett	11,491,780	\$ 2,265.28	42
Polk	34,729,876	\$ 2,072.56	61
Putnam	203,430,143	\$ 2,619.02	18
Rhea	69,568,601	\$ 2,128.07	53
Roane	105,974,171	\$ 1,998.16	72
Robertson	131,774,223	\$ 1,877.74	77
Rutherford	562,955,790	\$ 1,775.01	85
Scott	60,194,181	\$ 2,737.47	14
Sequatchie	29,938,521	\$ 2,031.66	69
Sevier	141,493,286	\$ 1,449.16	94
Shelby	2,169,293,148	\$ 2,315.24	38
Smith	40,502,563	\$ 2,062.67	65
Stewart	30,150,891	\$ 2,257.65	43
Sullivan	267,658,489	\$ 1,703.12	88
Sumner	305,265,257	\$ 1,663.16	90
Tipton	126,692,619	\$ 2,064.54	64
Trousdale	69,576,336	\$ 6,900.36	3
Unicoi	37,719,987	\$ 2,123.99	54
Union	47,038,352	\$ 2,419.42	26
Van Buren	23,905,926	\$ 4,163.34	9
Warren	94,047,192	\$ 2,313.53	39
Washington	279,832,838	\$ 2,189.51	48

**Table 6. State of Tennessee Expenditures, Grants to Local Entities, and Other Distributions to County Areas by County Area, Fiscal Year 2016-17.**

County Area	State Expenditures, Grants, and Other Distributions to Local Entities	Per Capita Distribution	Per Capita Rank
Wayne	75,876,297	\$ 4,575.55	7
Weakley	99,504,226	\$ 2,984.80	12
White	58,038,009	\$ 2,169.40	49
Williamson	265,137,581	\$ 1,171.84	95
Wilson	201,667,403	\$ 1,478.04	93
<b>Total</b>	<b>\$ 13,864,195,194</b>	<b>\$ 2,064.36</b>	

Source: Tennessee Office of Legislative Budget Analysis.

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**Table 7. State of Tennessee Expenditures, Grants to Local Entities, and Other Distributions to County Areas by Agency, Fiscal Year 2016-17.**

Agency	State Expenditures, Grants to Local Entities, and Other Distributions to County Areas
Education	\$ 4,560,455,495
TennCare and Strategic Health	3,718,632,538
Tennessee Consolidated Retirement System	2,260,523,924
Higher Education	1,264,702,433
Correction	847,624,200
Transportation	207,513,298
Children's Services	188,824,500
Labor and Workforce Development	188,824,151
Commerce and Insurance	112,765,066
Environment and Conservation	102,835,325
District Attorneys General	82,891,331
Economic and Community Development	72,829,595
Public Defenders	47,918,196
Court System	36,515,502
Mental Health and Substance Abuse Services	36,203,243
Health	25,228,062
Intellectual and Developmental Disabilities	19,933,718
Agriculture	18,181,609
Human Services	16,817,460
Military	15,122,780
Tennessee Housing Development Agency	11,558,936
Commission on Aging and Disability	8,836,950
Tourist Development	5,460,378
Tennessee Arts Commission	4,672,188
General Services	3,665,515
Finance and Administration	2,023,900
Veteran Services	1,190,248
Commission on Children and Youth	936,000
Wildlife Resources Agency	917,557
Secretary of State	591,096
<b>Total</b>	<b>\$ 13,864,195,194</b>

Source: Tennessee Office of Legislative Budget Analysis.

**Table 8. State of Tennessee Grants to County Areas by Grant Category, Fiscal Year 2016-17.<sup>1</sup>**

Grant Category	Amount
Child and Family Management Grants	\$ 149,234,000
Environmental Grants <sup>2</sup>	14,071,913
Bridge Grant Program	9,540,000
Marketing Grants	5,460,378
FEMA Grants	5,366,800
Other Grants	4,672,188
Historical Commission Grants	2,075,800
Development District Grants	2,010,000
Grants (operations and research)	515,128
Library Grants	393,865
Archives Grants	95,500
Help America Vote Grants	31,546
<b>Total</b>	<b>\$ 193,467,118</b>

Source: Tennessee Office of Legislative Budget Analysis.  
 The \$193,467,118 in grants is included in the \$13.9 billion in "State Expenditures, Grants to Local Entities, and Other Distributions" in Tables 6 and 7.  
<sup>2</sup>Recreation Trails, Clean Diesel, Stream Repair, Recycling, Used Oil, Waste Tire, and Energy

Table 9. Local Tax Revenue in Tennessee, Fiscal Year 2016-17.

Tax	Counties	Percent	Metros*	Percent	Cities	Percent	Total
Property Tax	\$ 3,452,521,383	63.1%	\$ 984,760,218	18.0%	\$ 1,036,961,442	18.9%	\$ 5,474,243,043
Local Option Sales Tax	194,331,617	7.5%	76,922,925	3.0%	2,322,729,992	89.5%	2,593,984,533
Hotel/Motel Tax	71,894,866	36.6%	85,992,284	43.7%	38,736,936	19.7%	196,624,086
Wheel Tax	141,085,918	80.3%	32,685,405	18.6%	1,900,617	1.1%	175,671,940
PILOTs (Except TVA)	59,336,337	48.7%	6,834	0.0%	62,550,337	51.3%	121,893,508
Other	26,220,146	79.1%	1,102,718	3.3%	5,832,105	17.6%	33,154,969
Litigation Taxes	32,737,512	98.9%	206,903	0.6%	171,588	0.5%	33,116,003
Adequate Facilities/ Development Tax	21,092,686	99.6%	85,000	0.4%	-	0.0%	21,177,686
Restaurant Tax	-	0.0%	-	0.0%	8,197,960	100.0%	8,197,960
Local Amusement Tax	35,048	0.6%	-	0.0%	6,278,606	99.4%	6,313,654
<b>Total</b>	<b>\$ 3,999,255,513</b>	<b>46.0%</b>	<b>\$ 1,181,762,287</b>	<b>13.7%</b>	<b>\$ 3,483,359,583</b>	<b>40.2%</b>	<b>\$ 8,664,377,383</b>

Source: Tennessee Comptroller of the Treasury (Local Government Audits) and Tennessee Department of Revenue.

\*Metropolitan governments in Tennessee are Hartsville-Trousdale, Lynchburg-Moore, and Nashville-Davidson.

**Table 10. Growth and Volatility of Tennessee State-Shared Taxes, Fiscal Years 2006-07 to 2016-17, Ranked High to Low by Annual Growth Rate.**

Tax	Annual Rate of Growth	Volatility	Rank
Mixed Drink	7.0%	5.7%	1
Alcoholic Beverage	4.8%	2.0%	2
Franchise and Excise	4.0%	8.1%	3
TVA Payments	3.4%	4.7%	4
Sales and Use	2.3%	5.0%	5
Gasoline Tax	0.9%	2.1%	6
Special Petroleum	0.5%	2.7%	7
Hall Income	0.0%	18.6%	8
Beer Tax	-0.3%	2.8%	9
Motor Vehicle Fuel	-0.4%	6.3%	10
Total for 10 taxes	2.5%	5.2%	
Baseline: Tenn. Personal Income	3.5%	1.5%	

Sources: Tennessee Department of Revenue and Bureau of Economic Analysis.

Note: Growth rates and volatilities are TACIR staff calculations and are not adjusted for changes in tax rates or tax bases. The volatility (measured as trend deviation) reported is the standard deviation of calculated residuals.

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**Table 11. Dependence on State-Shared Taxes Median Ratio (Percentages) of State-Shared Taxes to Expenditures, Fiscal Year 2011-12.**

City Size	With Property Tax		Without Property Tax	
	State-Shared Taxes to Expenditures Ratio	Number of Cities	State-Shared Taxes to Expenditures Ratio	Number of Cities
Over 10,000	7.7%	55	50.8%	1
5,000 - 9,999	5.0%	42	none	-
2,500 - 4,999	8.0%	45	15.0%	10
1,000 - 2,499	13.5%	63	22.8%	19
Under 1,000	12.6%	66	26.1%	44
<b>Total</b>	<b>7.6%</b>	<b>271</b>	<b>30.1%</b>	<b>74</b>

Source: 2012 Census of Governments, Public Use Data.

**Table 12. Tennessee: Distribution of Local Government General Revenue for Selected Years.**

Revenue Source	1974-75	1985-86	1995-96	1999-00	2011-12
Federal Aid	10.0%	6.8%	2.6%	2.7%	2.6%
State Aid	31.0%	26.6%	29.9%	30.5%	21.8%
Own source revenue*	59.0%	66.6%	67.5%	66.8%	75.6%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Sources: 2012 Census of Governments, Table LGF001.

\*Own source revenue is local taxes, fees, and other sources of local revenue and not from the federal or state governments.

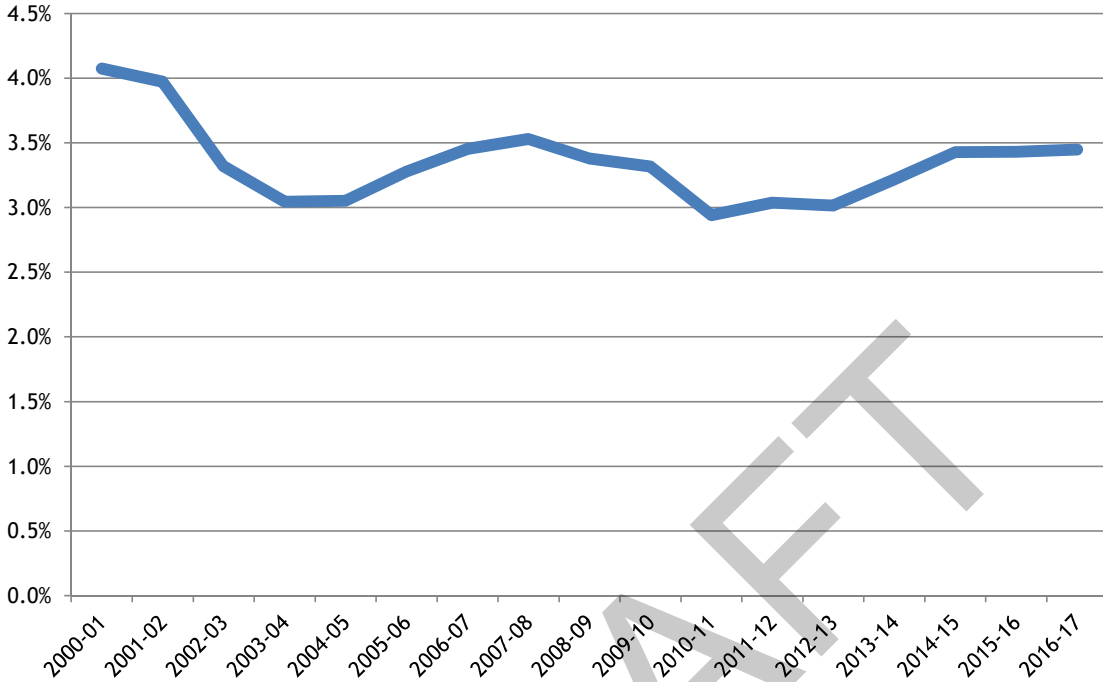


Table 13. Trend in State of Tennessee Revenue Sharing with Local Governments, Fiscal Years 2000-01 to 2016-17.

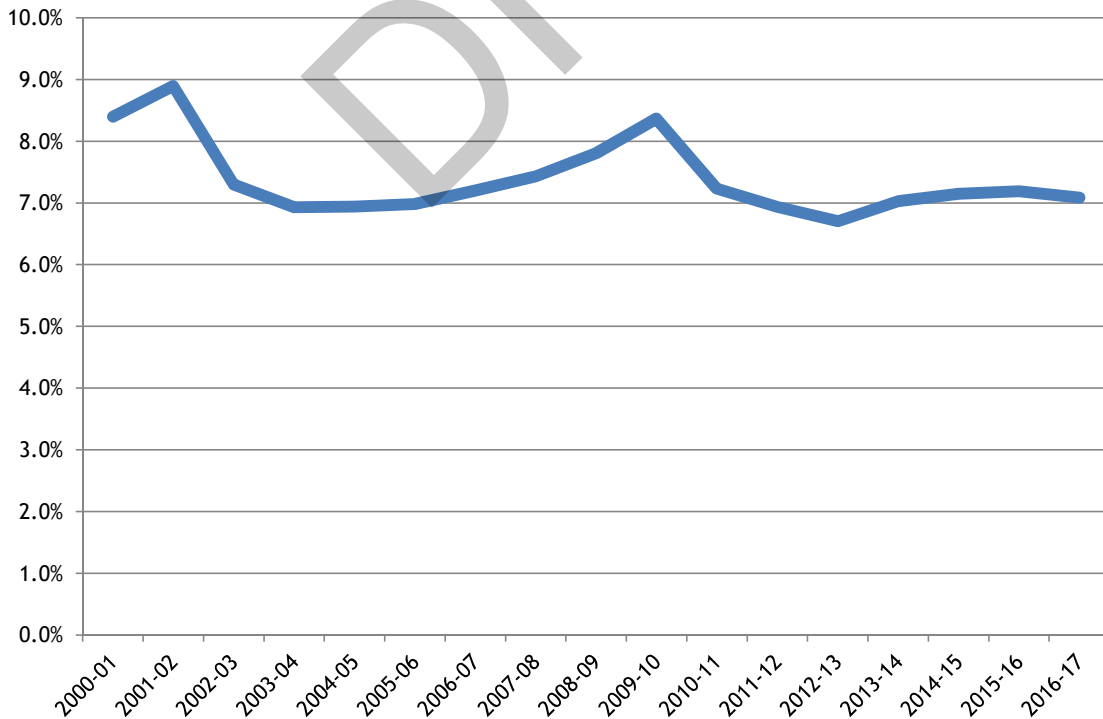
Fiscal Year	Intergovernmental Revenue Sharing	State of Tennessee - Total Tax Revenues	Percentage of State Total Tax Revenues	State of Tennessee - Total Revenues	Percentage of State Total Revenues
2000-01	\$ 681,151,000	\$ 8,112,402,000	8.4%	\$ 16,717,143,000	4.1%
2001-02	\$ 686,515,000	\$ 7,717,681,000	8.9%	\$ 17,281,511,000	4.0%
2002-03	\$ 641,271,000	\$ 8,785,008,000	7.3%	\$ 19,332,187,000	3.3%
2003-04	\$ 647,654,000	\$ 9,346,383,000	6.9%	\$ 21,262,066,000	3.0%
2004-05	\$ 683,925,000	\$ 9,857,064,000	6.9%	\$ 22,407,434,000	3.1%
2005-06	\$ 738,349,000	\$ 10,573,235,000	7.0%	\$ 22,527,011,000	3.3%
2006-07	\$ 815,832,000	\$ 11,334,640,000	7.2%	\$ 23,623,309,000	3.5%
2007-08	\$ 842,096,000	\$ 11,333,507,000	7.4%	\$ 23,850,685,000	3.5%
2008-09	\$ 810,063,000	\$ 10,376,455,000	7.8%	\$ 23,978,950,000	3.4%
2009-10	\$ 874,094,000	\$ 10,445,363,000	8.4%	\$ 26,344,100,000	3.3%
2010-11	\$ 825,777,000	\$ 11,422,284,000	7.2%	\$ 28,072,953,000	2.9%
2011-12	\$ 851,535,000	\$ 12,280,198,000	6.9%	\$ 28,036,351,000	3.0%
2012-13	\$ 844,628,000	\$ 12,605,171,000	6.7%	\$ 28,015,624,000	3.0%
2013-14	\$ 897,312,000	\$ 12,762,694,000	7.0%	\$ 27,906,517,000	3.2%
2014-15	\$ 980,258,000	\$ 13,717,684,000	7.1%	\$ 28,587,544,000	3.4%
2015-16	\$ 1,045,095,000	\$ 14,536,940,000	7.2%	\$ 30,452,312,000	3.4%
2016-17	\$ 1,073,737,000	\$ 15,151,281,000	7.1%	\$ 31,145,158,000	3.4%

Sources: State of Tennessee Comprehensive Annual Financial Reports.

**Figure 1. State of Tennessee's Percentage of Total Revenue Shared with Local Governments, Fiscal Years 2000-01 to 2016-17.**



**Figure 2. State of Tennessee's Percentage of Tax Revenue Shared with Local Governments, Fiscal Years 2000-01 to 2016-17.**



**Table 14. Allocation of Tennessee State-shared Tax Collections, Selected Years.**

	1970	1998	2003	2017
Allocated to Counties	\$ 41,286,000	\$ 250,632,000	\$ 268,906,000	\$ 498,657,000
Share of Total Funds Allocated	6.27%	3.71%	3.59%	3.58%
Allocated to Municipalities	\$ 41,730,000	\$ 346,451,000	\$ 383,679,000	\$ 788,384,000
Share of Total Funds Allocated	6.34%	5.13%	5.13%	5.66%
Total Allocated to Local Governments	\$ 83,016,000	\$ 597,083,000	\$ 652,585,000	\$ 1,287,041,000
Sum of Shares of County and City Funds	12.61%	8.84%	8.72%	9.24%
Total Allocated to State and Local Governments	\$ 658,214,000	\$ 6,751,543,000	\$ 7,482,302,000	\$ 13,925,451,000

Sources: Tennessee Department of Revenue.  
 Note: Data excludes wholesale beer tax distributions because they are not available for all dates.

**Table 15. Sources of City General Revenue (Amounts), Fiscal Year 2011-12.**

State or Region	Federal Aid	State Aid	Other Local Aid	Own Source*			Total
				Taxes	Charges and Misc.		
United States	\$ 23,727,734,000	\$ 77,706,071,000	\$ 9,952,676,000	\$ 197,542,590,000	\$ 117,765,222,000	\$	\$ 426,694,293,000
Southeast	\$ 3,702,905,000	\$ 10,485,520,000	\$ 3,990,610,000	\$ 30,530,845,000	\$ 22,086,235,000	\$	\$ 70,796,115,000
Alabama	\$ 88,037,000	\$ 328,944,000	\$ 54,333,000	\$ 2,820,960,000	\$ 967,839,000	\$	\$ 4,260,113,000
Arkansas	\$ 84,015,000	\$ 211,107,000	\$ 263,685,000	\$ 832,333,000	\$ 888,457,000	\$	\$ 2,279,597,000
Florida	\$ 749,380,000	\$ 1,283,303,000	\$ 516,482,000	\$ 7,191,848,000	\$ 6,136,748,000	\$	\$ 15,877,761,000
Georgia	\$ 263,143,000	\$ 211,201,000	\$ 1,180,738,000	\$ 2,147,976,000	\$ 2,543,305,000	\$	\$ 6,346,363,000
Kentucky	\$ 273,384,000	\$ 184,119,000	\$ 120,624,000	\$ 1,612,122,000	\$ 1,282,990,000	\$	\$ 3,473,239,000
Louisiana	\$ 631,961,000	\$ 677,124,000	\$ 59,455,000	\$ 2,363,636,000	\$ 1,623,489,000	\$	\$ 5,355,665,000
Mississippi	\$ 142,090,000	\$ 609,495,000	\$ 26,127,000	\$ 551,665,000	\$ 1,278,453,000	\$	\$ 2,607,830,000
North Carolina	\$ 320,191,000	\$ 772,265,000	\$ 170,673,000	\$ 3,496,460,000	\$ 2,194,295,000	\$	\$ 6,953,884,000
South Carolina	\$ 65,266,000	\$ 157,810,000	\$ 109,417,000	\$ 1,190,671,000	\$ 677,289,000	\$	\$ 2,200,453,000
<b>Tennessee</b>	<b>\$ 279,640,000</b>	<b>\$ 2,291,233,000</b>	<b>\$ 1,283,181,000</b>	<b>\$ 2,954,109,000</b>	<b>\$ 2,279,311,000</b>	<b>\$</b>	<b>\$ 9,087,474,000</b>
Virginia	\$ 759,786,000	\$ 3,733,856,000	\$ 201,000,000	\$ 4,992,995,000	\$ 1,669,555,000	\$	\$ 11,357,192,000
West Virginia	\$ 46,012,000	\$ 25,063,000	\$ 4,895,000	\$ 376,070,000	\$ 544,504,000	\$	\$ 996,544,000

Source: 2012 Census of Governments, Table LGF002.  
 \*Own source revenue includes local taxes and fees but excludes intergovernmental aid.

**Table 16. State Intergovernmental Expenditures as a Percentage of State General Revenue, Fiscal Years 1999-00 and 2011-12.**

State or Region	Amount (Fiscal Year 1999-00)	Percent of State General Revenue (Fiscal Year 1999-00)	Amount (Fiscal Year 2011-12)	Percent of State General Revenue (Fiscal Year 2011-12)
United States	\$ 327,069,800,000	33.2%	\$ 477,253,059,000	29.3%
South Region	\$ 64,100,100,000	29.9%	\$ 96,005,726,000	26.8%
Alabama	\$ 3,908,400,000	27.7%	\$ 6,563,313,000	29.5%
Arkansas	\$ 2,725,200,000	29.9%	\$ 5,047,324,000	29.5%
Florida	\$ 14,073,400,000	33.8%	\$ 17,340,127,000	24.3%
Georgia	\$ 7,179,700,000	30.7%	\$ 10,223,211,000	28.1%
Kentucky	\$ 3,280,100,000	22.4%	\$ 5,029,106,000	22.3%
Louisiana	\$ 3,721,600,000	25.0%	\$ 6,387,767,000	25.2%
Mississippi	\$ 3,248,000,000	33.7%	\$ 5,138,081,000	30.2%
North Carolina	\$ 9,301,100,000	33.5%	\$ 13,514,695,000	29.6%
South Carolina	\$ 3,806,100,000	28.6%	\$ 5,312,018,000	25.0%
<b>Tennessee</b>	<b>\$ 4,364,400,000</b>	<b>27.4%</b>	<b>\$ 7,179,774,000</b>	<b>26.3%</b>
Virginia	\$ 7,132,400,000	31.4%	\$ 11,652,278,000	29.5%
West Virginia	\$ 1,359,700,000	19.3%	\$ 2,618,032,000	21.3%

Source: 2012 Census of Governments.

**Table 17. Sources of City General Revenue (Percentages), Fiscal Year 2011-12.**

State or Region	Federal Aid	State Aid	Other Local Aid	Own Source*		Total
				Taxes	Charges and Misc.	
United States	5.6%	18.2%	2.3%	46.3%	27.6%	100.0%
Southeast	5.2%	14.8%	5.6%	43.1%	31.2%	100.0%
Alabama	2.1%	7.7%	1.3%	66.2%	22.7%	100.0%
Arkansas	3.7%	9.3%	11.6%	36.5%	39.0%	100.0%
Florida	4.7%	8.1%	3.3%	45.3%	38.6%	100.0%
Georgia	4.1%	3.3%	18.6%	33.8%	40.1%	100.0%
Kentucky	7.9%	5.3%	3.5%	46.4%	36.9%	100.0%
Louisiana	11.8%	12.6%	1.1%	44.1%	30.3%	100.0%
Mississippi	5.4%	23.4%	1.0%	21.2%	49.0%	100.0%
North Carolina	4.6%	11.1%	2.5%	50.3%	31.6%	100.0%
South Carolina	3.0%	7.2%	5.0%	54.1%	30.8%	100.0%
<b>Tennessee</b>	<b>3.1%</b>	<b>25.2%</b>	<b>14.1%</b>	<b>32.5%</b>	<b>25.1%</b>	<b>100.0%</b>
Virginia	6.7%	32.9%	1.8%	44.0%	14.7%	100.0%
West Virginia	4.6%	2.5%	0.5%	37.7%	54.6%	100.0%

Source: 2012 Census of Governments, Table LGF002.

\*Own source revenue includes local taxes and fees but excludes intergovernmental aid.

**Table 17a. Sources of County General Revenue (Percentages), Fiscal Year 2011-12.**

State or Region	Federal Aid	State Aid	Other Local Aid	Own Source*		Total
				Taxes	Charges and Misc.	
United States	3.8%	29.9%	2.3%	38.9%	25.0%	100.0%
Southeast	4.3%	25.3%	1.4%	42.4%	26.7%	100.0%
Alabama	2.6%	18.1%	1.2%	52.3%	25.8%	100.0%
Arkansas	4.2%	13.7%	0.4%	57.0%	24.6%	100.0%
Florida	7.4%	11.2%	1.2%	43.8%	36.4%	100.0%
Georgia	2.9%	4.6%	1.3%	68.9%	22.4%	100.0%
Kentucky	4.7%	21.0%	2.8%	22.5%	49.1%	100.0%
Louisiana	2.7%	22.2%	0.7%	35.9%	38.5%	100.0%
Mississippi	0.5%	15.7%	0.5%	27.7%	55.6%	100.0%
North Carolina	5.8%	43.7%	2.1%	30.8%	17.5%	100.0%
South Carolina	2.8%	9.0%	1.2%	46.4%	40.6%	100.0%
<b>Tennessee</b>	<b>0.7%</b>	<b>32.8%</b>	<b>0.8%</b>	<b>37.7%</b>	<b>28.1%</b>	<b>100.0%</b>
Virginia	2.7%	33.0%	1.3%	51.7%	11.2%	100.0%
West Virginia	5.9%	10.2%	0.7%	48.3%	34.9%	100.0%

Source: 2012 Census of Governments, Table LGF002.

\*Own source revenue includes local taxes and fees but excludes intergovernmental aid.

**Table 18. Per Capita City Revenue by State, Fiscal Year 2011-12.**

State	General Revenue	Revenue From State	Own Taxes	Own Charges & Misc.
Alabama	\$ 884.95	\$ 68.33	\$ 586.00	\$ 201.05
Arkansas	\$ 772.95	\$ 71.58	\$ 282.22	\$ 301.25
Georgia	\$ 640.32	\$ 21.31	\$ 216.72	\$ 256.61
Kentucky	\$ 792.31	\$ 42.00	\$ 367.76	\$ 292.67
Mississippi	\$ 874.24	\$ 204.33	\$ 184.94	\$ 428.58
North Carolina	\$ 712.83	\$ 79.16	\$ 358.42	\$ 224.93
<b>Tennessee</b>	<b>\$ 1,408.77</b>	<b>\$ 355.20</b>	<b>\$ 457.96</b>	<b>\$ 353.35</b>
Virginia	\$ 1,386.94	\$ 455.98	\$ 609.75	\$ 203.89
<b>Total</b>	<b>\$ 9 37.90</b>	<b>\$ 168.75</b>	<b>\$ 392.60</b>	<b>\$ 265.08</b>

Source: 2012 Census of Governments, Table LGF002.

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**Table 18a. Per Capita County Revenue by State, Fiscal Year 2011-12.**

State	General Revenue	Revenue From State	Own Taxes	Own Charges & Misc.
Alabama	\$ 473.50	\$ 85.77	\$ 247.55	\$ 122.28
Arkansas	\$ 465.83	\$ 63.97	\$ 265.71	\$ 114.47
Georgia	\$ 890.35	\$ 40.96	\$ 613.02	\$ 199.37
Kentucky	\$ 614.77	\$ 128.87	\$ 138.18	\$ 301.72
Mississippi	\$ 1,205.99	\$ 189.25	\$ 334.08	\$ 671.04
North Carolina	\$ 2,734.23	\$ 1,195.47	\$ 842.75	\$ 479.68
Tennessee	\$ 2,053.07	\$ 674.08	\$ 773.10	\$ 576.20
Virginia	\$ 2,388.97	\$ 788.97	\$ 1,234.79	\$ 268.41
<b>Total</b>	<b>\$ 1,582.86</b>	<b>\$ 497.78</b>	<b>\$ 666.99</b>	<b>\$ 340.26</b>

Source: 2012 Census of Governments, Table LGF002.

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**Table 19. General Expenditures of Counties and Cities in Tennessee,  
Fiscal Year 2011-12.**

Category	General Expenditures		
	Counties	Cities	Total
Education	\$ 6,085,126,000	\$ 2,722,826,000	\$ 8,807,952,000
Hospitals	2,276,174,000	404,532,000	2,680,706,000
Police	481,525,000	969,826,000	1,451,351,000
General Expenditure	367,832,000	944,977,000	1,312,809,000
Governmental Administration	637,316,000	512,478,000	1,149,794,000
Interest on General Debt	416,109,000	375,028,000	791,137,000
Highways	372,950,000	401,384,000	774,334,000
Fire	71,064,000	611,761,000	682,825,000
Sewers	2,334,000	666,711,000	669,045,000
Correction	352,848,000	64,722,000	417,570,000
Health	295,395,000	99,470,000	394,865,000
Parks and Recreation	43,822,000	344,850,000	388,672,000
Solid Waste	102,406,000	242,238,000	344,644,000
Housing and Community	15,484,000	189,812,000	205,296,000
Public Welfare	105,062,000	51,184,000	156,246,000
Libraries	39,547,000	63,266,000	102,813,000
Airports	8,447,000	28,870,000	37,317,000
Natural Resources	17,547,000	4,298,000	21,845,000
Parking	-	4,538,000	4,538,000
Ports	1,041,000	1,349,000	2,390,000
<b>Total</b>	<b>\$ 11,692,029,000</b>	<b>\$ 8,704,120,000</b>	<b>\$ 20,396,149,000</b>

Source: 2012 Census of Governments, Table LGF002.

**Table 20. State Aid to Local Governments and School Districts in Tennessee, Fiscal Year 2014-15.**

Category	State
Elementary and Secondary Education	\$ 5,213,164,000
Welfare, Categorical Assistance Programs	857,027,000
General Support	352,917,000
General	223,410,000
Regular Highways	168,513,000
Corrections, Other	159,582,000
Health	88,682,000
Correctional Institutions	70,057,000
Air Transportation	19,086,000
Housing and Community Development	15,490,000
Welfare	12,593,000
Protective Inspection and Regulations	11,707,000
Police Protection	9,203,000
Natural Resources	6,635,000
Judicial and Legal	5,174,000
Hospitals	5,139,000
Financial Administration	5,069,000
Parks and Recreation	4,727,000
Libraries	1,173,000
Solid Waste Management	1,146,000
Education (Local Governments)	708,000
Transit Utilities	414,000
Central Staff Services	74,000
<b>Total</b>	<b>\$ 7,231,690,000</b>

Source: 2015 Census of Governments.

**Table 21. Estimated Expenditures for Street Construction and Maintenance by Population, Fiscal Years 2017-18 and 2018-19.**

City Population	State Street Aid Amount	
	State Street Aid Amount (Fiscal Year 2017-18 Estimate)	State Street Aid Amount (Fiscal Year 2018-19 Estimate)
1,000	\$ 33,200	\$ 34,300
2,500	\$ 83,000	\$ 85,750
5,000	\$ 166,000	\$ 171,500
10,000	\$ 332,000	\$ 343,000
20,000	\$ 664,000	\$ 686,000
40,000	\$ 1,328,000	\$ 1,372,000

Source: TACIR staff calculations based on Municipal Technical Advisory Service (MTAS) per capita dollar amounts of \$33.20 for fiscal year 2017-18 and \$34.30 for fiscal year 2018-19.

<http://www.mtas.tennessee.edu/reference/state-shared-taxes-and-appropriations-coming-fiscal-year>

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**Table 22. Number and Population of Cities in States in the Southeast.**

State	Population	Number of Cities	Number per 10,000 Persons	Percent with Populations <2,500
Alabama	4,874,747	461	0.946	67.0%
Arkansas	3,004,279	502	1.671	78.9%
Georgia	10,429,379	535	0.513	60.9%
Kentucky	4,454,189	418	0.938	71.1%
Mississippi	2,984,100	298	0.999	69.5%
North Carolina	10,273,419	553	0.538	59.9%
<b>Tennessee</b>	<b>6,715,984</b>	<b>345</b>	<b>0.514</b>	<b>58.6%</b>
Virginia	8,470,020	229	0.270	62.4%

Source: US Census and 2012 Census of Governments, Tables ORG002 and ORG007.

**Table 23. Distribution of Tennessee Cities by Population Size.**

Population Size	Number	Percent of All Municipalities	Population	Percent of Municipal Population
Over 100,000	6	2%	1,927,305	49%
50,000-99,999	6	2%	369,464	9%
25,000-49,999	16	5%	560,220	14%
10,000-24,999	28	8%	390,234	10%
5,000-9,999	42	12%	298,256	8%
2,500-4,999	55	16%	196,479	5%
1,000-2,499	82	24%	138,118	4%
Under 1,000	110	32%	56,494	1%
<b>Total</b>	<b>345</b>	<b>100%</b>	<b>3,936,570</b>	<b>100%</b>

Source: 2016 US Census, Table DP05.

**Table 24. Distribution of Cities in Tennessee by Type of Incorporation.**

Form of Charter	Number	Percent
Home Rule	14	4%
Manager-Commission	47	14%
Mayor-Aldermanic	67	19%
Modified Manager-Council	2	1%
Metropolitan Government	3	1%
Private Act	212	61%
<b>Total</b>	<b>345</b>	<b>100%</b>

Source: Municipal Technical Advisory Service website, accessed July 12, 2018.

[https://www.mtas.tennessee.edu/charters?field\\_charter\\_type\\_tid\\_1=All](https://www.mtas.tennessee.edu/charters?field_charter_type_tid_1=All)

Table 25. Tennessee Municipal Incorporation Standards.

Form of Charter	Population Minimum and Other Requirements	Distance from Other City	Plan of Services <sup>1</sup>	County Approval <sup>2</sup>	Limited to Planned Growth Area <sup>3</sup>	Property Tax required <sup>4</sup>	Other	Source (Tennessee Code Annotated, Constitution)
Home Rule	Can only be adopted by existing municipalities						General or special election	Tennessee Constitution, Article XI, Section 9
Mayor-Aldermanic	1,500	Five miles from municipalities with at least 100,000 residents; Three miles from other municipalities (distance requirements exclude counties with a metropolitan form of government with a population of at least 100,000; statute also contains bracket exceptions for certain territories)	Yes	Yes	Yes	Yes	Referendum	TCA 6-1-201, 6-1-202, 6-1-203, 6-58-112
City Manager - Commission	1,500	Five miles from municipalities with at least 100,000 residents; Three miles from other municipalities (distance requirements exclude counties with a metropolitan form of government with a population of at least 100,000; statute also contains bracket exceptions for certain territories)	Yes	Yes	Yes	Yes	Referendum	TCA 6-18-103, 6-18-104, 6-22-103, 6-58-112
Modified City Manager - Council	5,000; Can only be adopted by unincorporated territories	Five miles from municipalities with at least 100,000 residents; Three miles from other municipalities (distance requirements exclude counties with a metropolitan form of government with a population of at least 100,000; statute also contains bracket exceptions for certain territories)	Yes	Yes	Yes	Yes	Referendum	TCA 6-30-101, 6-30-103, 6-30-104, 6-30-106, 6-58-112
Metropolitan Government						Yes	See footnote. <sup>5</sup>	TCA 7-2-101, 7-2-108

<sup>1</sup>A plan of services is required by statutes relating to each type of municipality and by Tennessee Code Annotated, Section 6-58-112(c)(2).

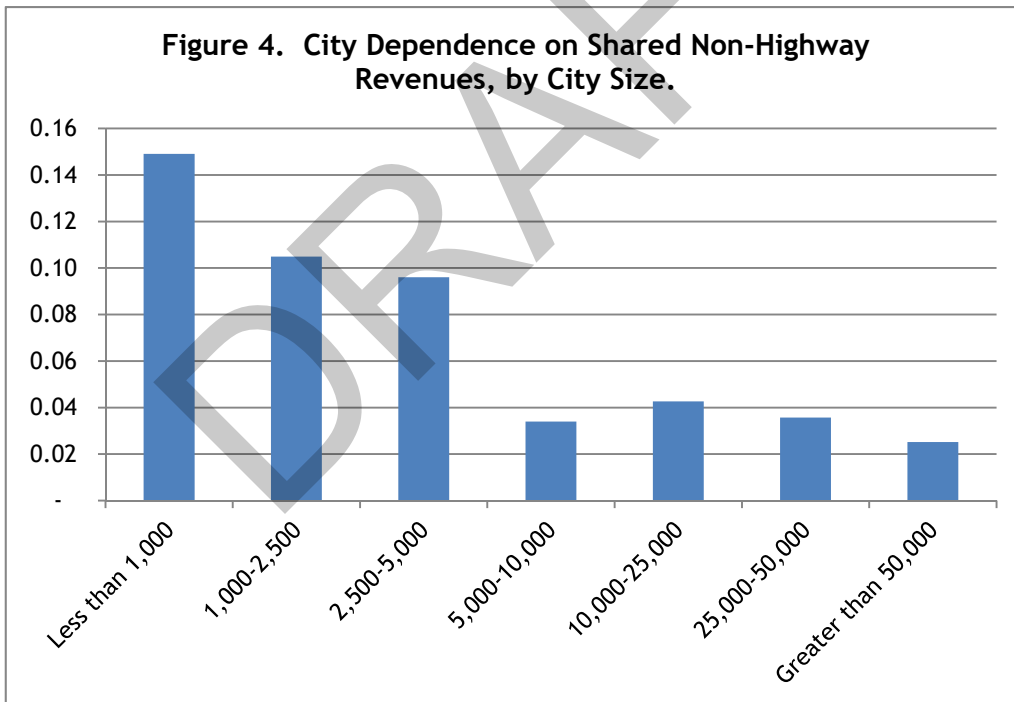
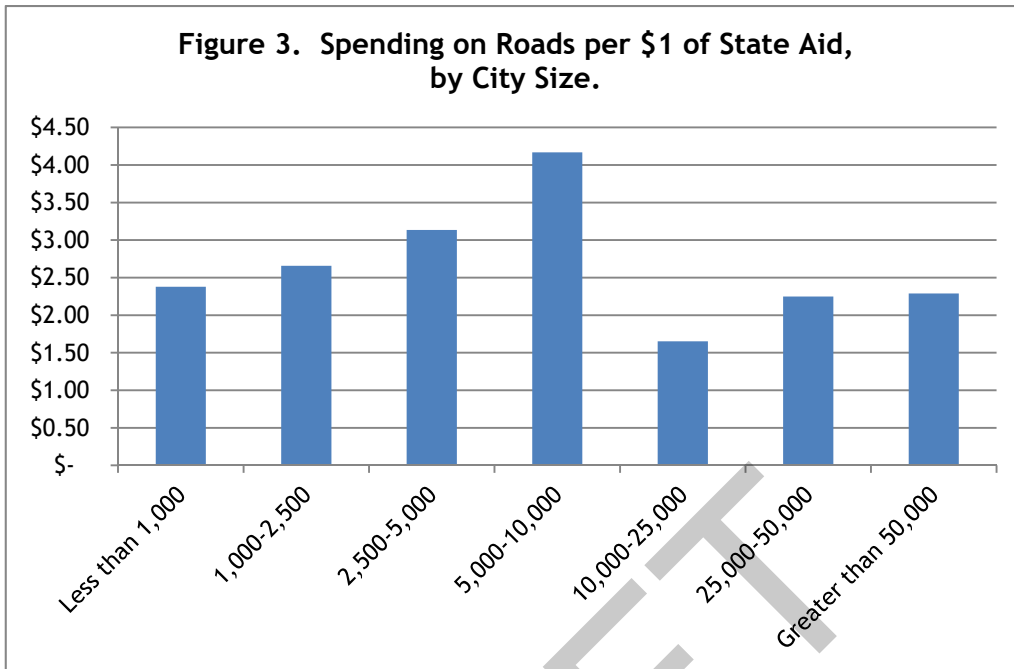
<sup>2</sup>If the residents of a planned growth area petition to have an election of incorporation, the county legislative body shall approve the corporate limits and the urban growth boundary of the proposed municipality. See Tennessee Code Annotated, Section 6-58-112.

<sup>3</sup>After January 1, 1999, a new municipality may only be created in territory approved as a planned growth area. See Tennessee Code Annotated, Section 6-58-112.

<sup>4</sup>A municipality incorporated after 5/19/98 shall impose a property tax. See Tennessee Code Annotated, Section 6-58-112.

<sup>5</sup>The first step to consolidation is the creation of a metropolitan government charter commission.

Note: Private Act Charters were prohibited by a 1953 amendment to Tennessee's constitution.



Source: US Census (population) and 2012 Census of Governments.

Table 26. Per Capita City Expenditures, Fiscal Year 2011-12.

State	Highways	Police	Fire	Parks and Recreation	Water	Sewer	Solid Waste	Total
Alabama	\$ 72.76	\$ 139.45	\$ 85.79	\$ 64.87	\$ 120.11	\$ 61.37	\$ 32.91	\$ 577.27
Arkansas	\$ 73.72	\$ 118.92	\$ 75.66	\$ 44.10	\$ 96.87	\$ 86.69	\$ 42.64	\$ 538.60
Georgia	\$ 51.11	\$ 101.30	\$ 51.47	\$ 33.84	\$ 117.84	\$ 65.93	\$ 34.07	\$ 455.56
Kentucky	\$ 50.12	\$ 83.27	\$ 66.79	\$ 32.37	\$ 144.78	\$ 55.28	\$ 29.74	\$ 462.35
Mississippi	\$ 82.29	\$ 110.19	\$ 67.55	\$ 40.55	\$ 98.50	\$ 66.33	\$ 30.31	\$ 495.73
North Carolina	\$ 62.83	\$ 137.27	\$ 70.66	\$ 60.36	\$ 106.82	\$ 111.14	\$ 43.37	\$ 592.45
Tennessee	\$ 62.22	\$ 150.35	\$ 94.84	\$ 53.46	\$ 114.72	\$ 103.36	\$ 37.55	\$ 616.49
Virginia	\$ 68.68	\$ 98.05	\$ 58.40	\$ 52.18	\$ 71.69	\$ 69.97	\$ 27.99	\$ 446.97
<b>Total</b>	<b>\$ 63.03</b>	<b>\$ 117.96</b>	<b>\$ 69.18</b>	<b>\$ 48.58</b>	<b>\$ 107.81</b>	<b>\$ 80.28</b>	<b>\$ 35.14</b>	<b>\$ 521.98</b>

Source: US Census and 2012 Census of Governments, Table LGF002.



**Table 27. Number of Services Provided by Cities in Tennessee.**

Number of Services Provided	Number of Cities Providing Services (Fiscal Year 2011-12)	Percentage	Number of Cities Providing Services (Fiscal year 2014-15)*	Percentage
0	0	0.0%	0	0.0%
1	8	2.3%	8	2.3%
2	22	6.4%	24	7.0%
3	23	6.7%	22	6.4%
4	50	14.5%	51	14.8%
5	50	14.5%	57	16.5%
6	66	19.1%	75	21.7%
7	126	36.5%	108	31.3%
<b>Total</b>	<b>345</b>	<b>100.0%</b>	<b>345</b>	<b>100.0%</b>

Source: 2012 and 2015 Census of Governments, Public Use Data.

\*Data for the 54 cities that responded to the 2015 Census of Governments was updated for fiscal year 2014-15.

**Table 28. Average Number of Services of Cities in Tennessee by Population, Fiscal Year 2011-12.**

Population	Number of Cities	Average number of Services
Over 50,000	12	6.5
25,000 - 49,000	16	6.7
10,000 - 24,999	28	6.1
5,000 - 9,999	42	6.5
2,500 - 4,999	55	5.9
1,000 - 2,499	82	5.5
Under 1,000	110	4.1
<b>Total</b>	<b>345</b>	<b>5.4</b>

Source: US Census and 2012 Census of Governments, Public Use Data.

**Table 29. Number of Services of Cities in Tennessee With and Without a School System, Fiscal Year 2011-12.**

Population	With School System	Without School System
Over 50,000	7.0	6.3
25,000 - 49,000	7.0	6.5
10,000 - 24,999	6.4	6.0
5,000 - 9,999	6.7	6.4
2,500 - 4,999	6.5	5.8
1,000 - 2,499	*	5.5
Under 1,000	*	4.1
Total	6.7	5.2

Source: US Census and 2012 Census of Governments, Public Use Data.

\*No cities with populations less than 2,500 have a municipal school system.

**Table 30. Summary of City Police Services in Tennessee, 2016.**

Level of Service	Number of Cities (2000)	Percent of All Cities in Tennessee	Number of Cities (2018)	Percent of All Cities in Tennessee
City departments with coverage 24 hours per day, 7 days per week	196	56%	182	53%
City departments, but not enough officers to provide coverage 24 hours per day, 7 days per week	66	19%	69	20%
Cities without police departments	86	25%	94	27%
<b>Total</b>	<b>348</b>	<b>100%</b>	<b>345</b>	<b>100%</b>

Source: Data received in emails from Rex Barton, police consultant, Municipal Technical Advisory Service, July 17 and 18, 2018.

Note: 2016 data reported by city police departments to the Tennessee Bureau of Investigation. Rex Barton, police consultant, Municipal Technical Advisory Service, assumes a minimum of five full-time officers is required to provide 24/7 coverage.

**Table 31. Summary of City Water Services in Tennessee.**

Number of Cities (2003)	Percent	Number of Cities (2018)	Percent	Water Service
205	59%	205	59%	City departments that own the treatment plant and distribution system
19	5%	40	12%	City departments that own the distribution system but not the treatment plant
124	36%	100	29%	City is served by another entity that owns the treatment plant and distribution system
0	0%	0	0%	Cities with no service whose residents rely on wells
<b>348</b>	<b>100%</b>	<b>345</b>	<b>100%</b>	

Source: Tennessee Department of Environment and Conservation.

Note: The status of the water service in 2003 of the three cities that unincorporated since 2003 is unknown.

**Table 32. Summary of City Services Provided in Tennessee.**

Number of Services Provided	Number of Cities Providing Services in 1997	Number of Cities Providing Services in 2012	Difference
1	17	8	(9)
2	23	22	(1)
3	37	23	(14)
4	28	50	22
5	44	50	6
6	73	66	(7)
7	122	126	4
<b>Total</b>	<b>344</b>	<b>345</b>	<b>1</b>

Source: 1997 and 2012 Census of Governments, US Census Bureau.

**Table 33. Summary of City and County Parks and Recreation Services.**

	Cities	Percent	Counties	Percent
Number that have a parks and recreation department	117	33.9%	22	23.2%
Number that have a joint department with another city and/or county	7	2.0%	3	3.2%
Number that provide some level of service, but do not have a department	8	2.3%	7	7.4%
Number that do not provide any services or for which no information is available	213	61.7%	63	66.3%
<b>Total</b>	<b>345</b>	<b>100.0%</b>	<b>95</b>	<b>100.0%</b>

Source: Tennessee Recreation and Parks Association (Agency List and Parks Facilities List).

Note: Metro Nashville Parks and Recreation is included in this table as a joint department.

**Table 34. Summary of City Sewer Services in Tennessee.**

	Number of Cities	Percent
Municipal utilities that own their collection and treatment systems and operate under a National Pollutant Discharge Elimination System permit	244	70.7%
Municipal utilities that own their collection systems and operate under a State Operating Permit as a satellite collection system	43	12.5%
No sewer service, city residents rely on septic tanks	58	16.8%
<b>Total</b>	<b>345</b>	<b>100.0%</b>

Source: Tennessee Department of Environment and Conservation.

**Table 35. Tennessee's Top Five Counties in Tourism-related Sales,\* 2016.**

County	Annual Expenditures	Percent of State
Davidson	\$ 5,996,510,000	32.1%
Shelby	3,335,380,000	17.9%
Sevier	2,217,080,000	11.9%
Hamilton	1,060,350,000	5.7%
Knox	1,056,160,000	5.7%
All Other Counties	5,019,000,000	26.9%
<b>Total Statewide</b>	<b>\$ 18,684,480,000</b>	<b>100.0%</b>

Source: 2016 Economic Impact of Travel on Tennessee Counties, Tennessee Department of Tourist Development.

[https://industry.tnvacation.com/sites/industry/files/component/pod/EI\\_2017\\_Share.pdf](https://industry.tnvacation.com/sites/industry/files/component/pod/EI_2017_Share.pdf)

\*Tourism-related sales include food service, auto transportation, lodging, entertainment and recreation, general retail trade, and public transportation.

**Table 36. State and Local Out-of-State<sup>1</sup> (Including Internet) Sales Tax Revenue in Tennessee, Fiscal Years 2003-04 to 2017-18.**

	Out-of-State Sales Tax Revenue		
	State	Local	Total
2003-04	\$ 796,294,479	\$ 202,403,008	\$ 998,697,487
2004-05	\$ 868,552,373	\$ 215,163,847	\$ 1,083,716,220
2005-06	\$ 968,663,251	\$ 241,494,338	\$ 1,210,157,588
2006-07	\$ 1,015,193,956	\$ 244,728,931	\$ 1,259,922,887
2007-08	\$ 1,085,245,925	\$ 250,263,751	\$ 1,335,509,675
2008-09	\$ 1,046,097,302	\$ 265,370,331	\$ 1,311,467,633
2009-10	\$ 973,478,020	\$ 264,076,351	\$ 1,237,554,371
2010-11	\$ 1,021,880,396	\$ 288,654,019	\$ 1,310,534,415
2011-12	\$ 1,077,584,628	\$ 300,556,187	\$ 1,378,140,815
2012-13	\$ 1,114,343,937	\$ 307,955,735	\$ 1,422,299,672
2013-14	\$ 1,148,267,364	\$ 317,519,626	\$ 1,465,786,990
2014-15	\$ 1,231,923,319	\$ 348,229,322	\$ 1,580,152,641
2015-16	\$ 1,342,132,915	\$ 380,107,523	\$ 1,722,240,438
2016-17	\$ 1,392,041,063	\$ 401,570,730	\$ 1,793,611,794
2017-18	\$ 1,601,328,639	\$ 368,229,908	\$ 1,969,558,548

Source: Tennessee Department of Revenue.

<sup>1</sup>Out-of-state sales tax revenues are collected from dealers with no location in this state who choose to pay at the 2.25% uniform local option sales tax rate. See Tennessee Code Annotated, Section 67-6-702(f).

**Table 37. Changes in Tennessee State Law Resulting in Mandatory Increases in Local Expenditures, 2013 to 2018 Legislative Sessions.**

Legislative Session	Mandatory Local Expenditures			State Funding <sup>1</sup>		
	Recurring	One-Time	Total	Recurring	One-Time	Total
2013	\$ 493,900	\$ -	\$ 493,900	\$ -	\$ -	\$ -
2014	\$ 5,000	\$ -	\$ 5,000	\$ -	\$ -	\$ -
2015	\$ 60,900	\$ -	\$ 60,900	\$ -	\$ -	\$ -
2016 <sup>2</sup>	\$ 4,053,500	\$ 2,344,400	\$ 6,397,900	\$ 223,065,000	\$ -	\$ 223,065,000
2017	\$ 69,100	\$ -	\$ 69,100	\$ -	\$ -	\$ -
2018	\$ 987,200	\$ 510,300	\$ 1,497,500	\$ -	\$ -	\$ -
<b>Total</b>	<b>\$ 5,669,600</b>	<b>\$ 2,854,700</b>	<b>\$ 8,524,300</b>	<b>\$ 223,065,000</b>	<b>\$ -</b>	<b>\$ -</b>

Source: Fiscal Review, Regular Session Cumulative Fiscal Notes, 2013-2018.

Note: Public chapters with increases in mandatory local expenditures of \$1 million or less are funded by the annual increases in state-shared tax revenue. Increases of more than \$1 million shall be specifically appropriated. See Public Chapter 460, Acts of 2017, Section 42.

<sup>1</sup>From the fiscal notes of public chapters with mandatory local expenditures.

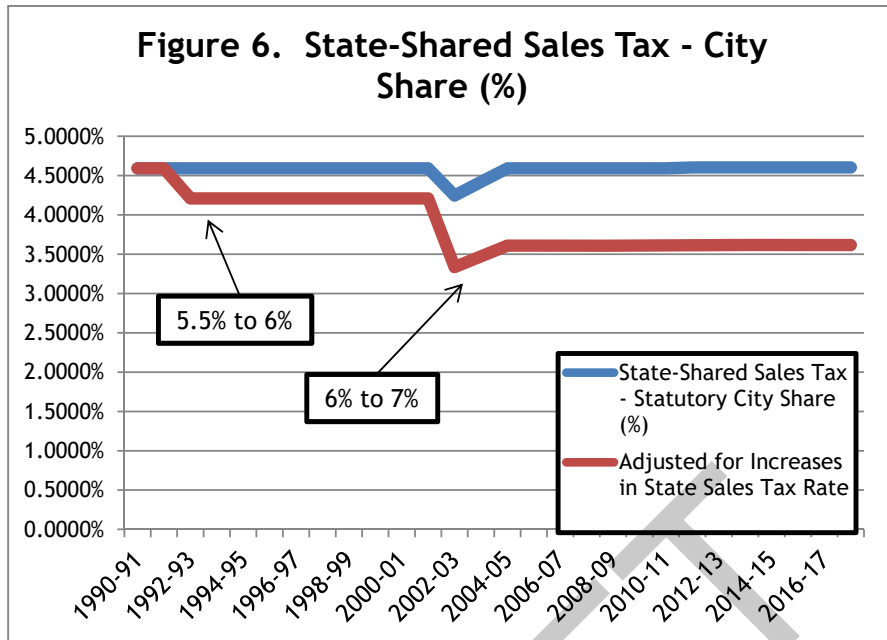
<sup>2</sup>Public Chapter 1020, Acts of 2016, (HB 2574) made multiple changes to the Basic Education Program funding formula that were projected to increase mandatory local expenditures by \$1,664,800 in fiscal year 2016-17 and by at least \$1,664,800 in subsequent fiscal years. See Figure 5 for Changes in the Basic Education Program affecting state funding.

## **Figure 5. Public Chapter 1020, Acts of 2016, Increases in Mandatory Local Expenditures and State Funding of the Basic Education Program.**

- Based on information from the DOE's recalculation of the BEP funding formula, though the changes outlined in the bill as amended would raise the BEP local match requirement by \$110,899,000; however, because local governments are currently funding their respective LEAs above the required BEP local match, the effective recurring increase in the local expenditures is estimated to be \$1,664,839 in FY16-17.
- Raising the BEP salary unit cost from \$42,065 to \$44,430 will increase recurring state BEP expenditures an estimated \$104,600,000.
- Growth in average daily membership and other inflationary increases in unit costs within the formula's components are estimated to increase recurring state BEP expenditures by \$48,800,000.
- Adding a twelfth month of insurance premiums to the BEP formula will result in a recurring increase in state BEP expenditures of approximately \$29,480,000.
- Lowering the BEP funding ratio for ELL students to teachers and translators from 1:30 and 1:300 respectively will result in more such teachers and translators being funded by the BEP funding formula. The bill as amended authorizes a phase-in period for this change; as such the Governor's FY16-17 budget funds this need at 50 percent in FY16-17, resulting in a recurring increase in state BEP expenditures estimated to be \$13,901,000.
- Doubling funding for the BEP technology component will result in a recurring increase in state BEP expenditures estimated to be \$15,000,000.
- Condensing the special education options from 10 to 4 will result in a recurring increase in state BEP expenditures estimated to be \$4,801,000.
- Other changes in the BEP formula for formula adjustments, including an increase in baseline funding and stability funding for some LEAs and related mandatory increases for other formula components as the result of all of the changes outlined in the legislation will result in a recurring increase in state expenditures of \$6,483,000.

Source: Fiscal Memorandum of Amendments 011771, 014668, and 015013 of Senate Bill 2565, House Bill 2574.





Source: Tennessee Code Annotated, Section 67-6-603 (Archived Versions).

Note: Cities' share of state-shared sales tax in fiscal year 1990-91 was 4.5925% of the state sales tax rate, which was 5.5%. None of the additional revenues from the increases in 1992-93 (from 5.5% to 6%) and 2002-03 (from 6% to 7%) were shared with cities.

**Table 38. State and Local-Option Sales Tax Revenue in Tennessee, Fiscal Years 2003-04 to 2017-18.**

Fiscal Year	Sales Tax Revenue				
	State	Percent	Local-Option	Percent	Total
2003-04	\$ 5,786,191,566	78.3%	\$ 1,601,629,924	21.7%	\$ 7,387,821,490
2004-05	\$ 6,050,048,445	78.3%	\$ 1,674,065,036	21.7%	\$ 7,724,113,481
2005-06	\$ 6,482,438,039	78.3%	\$ 1,797,678,640	21.7%	\$ 8,280,116,680
2006-07	\$ 6,793,006,568	78.2%	\$ 1,888,354,695	21.8%	\$ 8,681,361,263
2007-08	\$ 6,864,893,595	78.1%	\$ 1,922,375,526	21.9%	\$ 8,787,269,121
2008-09	\$ 6,396,569,709	77.4%	\$ 1,862,799,683	22.6%	\$ 8,259,369,391
2009-10	\$ 6,156,776,293	77.1%	\$ 1,828,009,196	22.9%	\$ 7,984,785,489
2010-11	\$ 6,446,937,988	77.2%	\$ 1,903,140,046	22.8%	\$ 8,350,078,034
2011-12	\$ 6,880,356,598	77.3%	\$ 2,019,383,490	22.7%	\$ 8,899,740,088
2012-13	\$ 7,005,012,029	77.2%	\$ 2,070,304,935	22.8%	\$ 9,075,316,964
2013-14	\$ 7,254,033,641	77.2%	\$ 2,145,599,612	22.8%	\$ 9,399,633,253
2014-15	\$ 7,678,148,394	77.1%	\$ 2,278,290,276	22.9%	\$ 9,956,438,670
2015-16	\$ 8,228,183,372	77.2%	\$ 2,434,118,077	22.8%	\$ 10,662,301,449
2016-17	\$ 8,543,745,740	77.2%	\$ 2,523,570,648	22.8%	\$ 11,067,316,388
2017-18	\$ 8,887,634,971	77.1%	\$ 2,644,048,246	22.9%	\$ 11,531,683,217

Source: Tennessee Department of Revenue, Collections Summaries, fiscal years 2003-04 to 2017-18.

**Table 39. Summary of City Fire Service in Tennessee.**

	Number of Cities	Percent
All Career	37	10.7%
Mostly Career	37	10.7%
Half Career and Half Volunteer or Paid-on-call <sup>1</sup>	1	0.3%
Mostly Volunteer or Paid-on-call	77	22.3%
All Volunteer or Paid-on-call	190	55.1%
No Data	3	0.9%
<b>Total</b>	<b>345</b>	<b>100.0%</b>

Source: Tennessee State Fire Marshall's Office.

<sup>1</sup>Paid-on-call firefighters receive a nominal fee on a per-event basis.

**Table 40. Estimated Cost of Infrastructure Improvements Needed for State Mandates for Cities and Counties in Tennessee, 2007 to 2016.**

Year	Cities	Percent Fully Funded	Counties	Percent Fully Funded
2007	\$38,900,000	56.7%	\$110,525,000	81.7%
2008	\$41,900,000	18.3%	\$39,425,000	14.0%
2009	\$32,800,000	20.0%	\$38,938,000	14.2%
2010	\$28,743,000	7.1%	\$38,938,000	50.1%
2011	\$28,141,600	7.3%	\$24,681,800	21.2%
2012	\$25,841,600	0.2%	\$24,681,800	22.2%
2013	\$35,148,600	50.6%	\$23,681,800	18.9%
2014	\$22,300,000	3.6%	\$25,200,000	15.9%
2015	\$23,550,000	27.8%	\$25,200,000	15.9%
2016	\$37,452,900	97.3%	\$24,000,000	16.7%

Source: TACIR Public Infrastructure Needs Inventory.

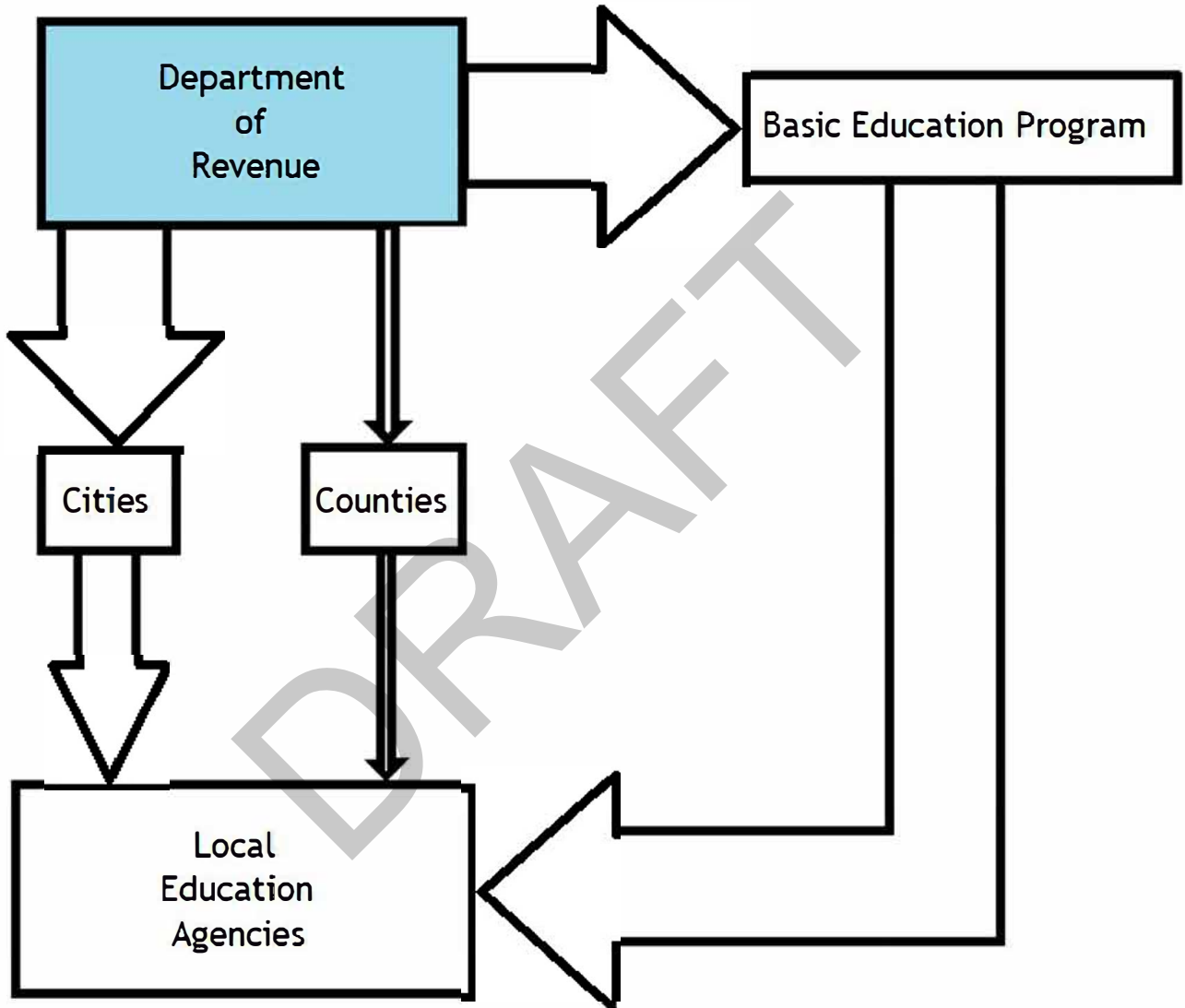
**Table 41. County and City Sharing of Tax Revenue Required by State Law, Fiscal Year 2016-17.**

Tax	Amount	Percent Transferred	Amount of Transfer	Tennessee Code Annotated (TCA)
<b>Counties to Cities</b>				
Local-Option Sales	\$ 2,497,684,461	46.3%	\$ 1,155,283,642	TCA 67-6-712
<b>Counties to Local Education Agencies</b>				
Local-Option Sales	\$ 2,497,684,461	50.0%	\$ 1,248,842,230	TCA 67-6-712
Mixed Drink	\$ 1,861,246	50.0%	\$ 930,623	TCA 57-4-306
Coal Severance	\$ 597,720	50.0%	\$ 298,860	TCA 67-7-110(b)
<b>Sub Total</b>	<b>\$ 2,500,143,427</b>	<b>50.0%</b>	<b>\$ 1,250,071,713</b>	
<b>Cities to Local Education Agencies</b>				
Mixed Drink	\$ 50,250,124	50.0%	\$ 25,125,062	TCA 57-4-306
Local-Option Sales	\$ 25,886,187	50.0%	\$ 12,943,094	TCA 67-6-712
<b>Subtotal</b>	<b>\$ 76,136,311</b>	<b>50.0%</b>	<b>\$ 38,068,156</b>	

Source: Tennessee Department of Revenue. Tennessee Code Annotated.

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Figure 7. Allocation of the Mixed Drink Tax Revenue.



## Appendix D: Local Option Sales Tax



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April 25, 2018

### Local Option Sales Tax

Tennessee Code Annotated  
Tennessee Attorney General Opinions

Reference Number: CTAS-1618

**Reference Number:** CTAS-1618

*Authority.* T.C.A., Title 67, Chapter 6, Part 7.

*Description.* Any county, by resolution of its legislative body, or any city or town by ordinance of its governing body, may levy a sales tax on the same privileges subject to the state sales tax, with certain exceptions. T.C.A. § 67-6-702. Telecommunications services and certain energy related services are exempt from the local tax or limited in the rate chargeable. T.C.A. §§ 67-6-702 and 704. No local sales tax or increase in the local sales tax is effective until it is approved in a referendum in the county or city levying it. T.C.A. § 67-6-705.

If the county has levied the tax at the maximum rate, no city in the county may levy an additional local sales tax. If a county has a sales tax of less than the maximum, a city may levy an additional tax up to the difference between the county rate and the maximum. If a city passes an ordinance to increase its sales tax rate above the county rate, the city ordinance is suspended for 40 days during which time the county legislative body may pass a resolution to increase the county tax. If such a resolution is passed, the ordinance remains suspended until a countywide referendum is held. If the referendum is successful, the city ordinance is dead. However, if the referendum is not successful, the city may proceed with a city referendum on the matter. T.C.A. § 67-6-703. If the city referendum passes, the city receives all revenues generated by the increase above the county level; the first half is not earmarked for education. However, if the county, at a later date, raises its sales tax rate up to the level of the city rate, then the distribution formula outlined below would apply to the entire local option portion of the sales tax.

A resolution or ordinance levying the sales tax may be initiated by a petition of 10 percent of the registered voters of the taxing jurisdiction. T.C.A. § 67-6-707. The tax, once levied, is perpetual unless the resolution or ordinance establishes a specific termination date or unless the tax is repealed by a manner in which it could be adopted. T.C.A. §§ 67-6-708, 67-6-709. The same exemptions generally apply to the local option sales tax as apply to the state sales tax. The local sales tax cannot exceed 2.75 percent, and applies only up to the first \$1,600 on the sale or use of any single Article of personal property. The old law provided for a \$5 or \$7.50 single item limit on the sale or use of any single Article of personal property. These limits remain effective unless and until the county legislative body removes these old limits by a resolution, whereupon the local option tax will apply to the first \$1,600 on the sale or use of any single Article of personal property. T.C.A. § 67-6-702.

*Distribution.* Revenue from local option sales tax levied by counties is distributed as follows:

1. 50 percent specifically for education, to be distributed in the same manner as the county property tax for school purposes.

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## Appendix E: Uniform Chart of Account Categories, State Revenue Available to Counties

To illustrate the level of detail of the uniform chart of accounts, data for state revenue available to the 90 counties<sup>1</sup> that use the uniform chart of accounts fall into the following categories:

- Aging Programs
- Airport Maintenance Program
- Alcoholic Beverage Tax
- Alternative School Program
- Basic Education Program
- Basic Education Program - IEA
- Beer Tax
- Board of Jurors
- Bridge Program
- Career Ladder - Extended Contract
- Career Ladder Program
- Child Restraint Program
- Child Support Collections
- Contracted Prisoner Boarding
- Coordinated School Health
- Driver Education
- Drug Control Grants
- Early Childhood Education
- Emergency Hospital - Prisoners
- Energy Efficient School Initiative
- Family Resource Centers
- Flood Control
- Gasoline and Motor Fuel Tax
- Hall Income Tax
- Health Department Programs
- Internet Connectivity
- Juvenile Services Program
- Law Enforcement Training Programs
- Litter Program
- Mixed Drink Tax
- On-behalf Contributions for OPEB
- Other General Government Grants
- Other Health and Welfare Grants
- Other Public Safety Grants
- Other Public Works Grants
- Other State Education Funds
- Other State Grants
- Other State Revenues
- Other Vocational
- Petroleum Special Tax
- Prisoner Transportation
- Public Health Nurses
- Reappraisal Program Reimbursement
- Registrar's Salary Supplement
- Resort District Sales Tax
- Safe and Drug-Free Schools and Communities
- Safe Schools
- School Food Service
- Solid Waste Grants
- State Aid Program
- State Reappraisal Grant
- State Revenue Sharing - T.V.A.
- State Revenue Sharing - Telecommunications
- State Shared Sales Tax - Cities
- T.B.I. - Equipment Reimbursement
- Tennessee Industrial Infrastructure Program
- Vehicle Certificate of Title Fees
- Vocational Equipment

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<sup>1</sup> The five counties that do not follow the uniform chart of accounts are Shelby, Davidson, Knox, Hamilton, and McMinn.

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## Appendix F: Apportionment of State-Shared Taxes to the State, Cities, and Counties, Fiscal Year 2017-18

Tax	State	Percent	Counties	Percent	Cities	Percent	Total
Sales and Use <sup>1</sup>	\$ 8,466,830,958	96.5%	\$ -	0.0%	\$ 308,365,762	3.5%	\$ 8,775,196,720
Tourism Development Zones	-	0.0%	-	0.0%	70,354,853	100.0%	70,354,853
Other Local Distributions	-	0.0%	4,500,001	8.1%	51,174,746	91.9%	55,674,747
Telecommunications	-	0.0%	11,947,749	73.9%	4,222,881	26.1%	16,170,630
Franchise and Excise, including Bank Excise	2,526,792,939	98.5%	28,174,606	1.1%	9,244,598	0.4%	2,564,212,143
Gasoline <sup>2</sup>	494,925,503	61.9%	203,167,971	25.4%	101,712,982	12.7%	799,806,456
TVA PILOTs <sup>3</sup>	201,559,451	58.8%	99,936,128	29.1%	41,552,235	12.1%	343,047,814
Business	187,562,150	44.7%	121,224,649	28.9%	111,168,264	26.5%	419,955,063
Hall Income <sup>4</sup>	165,275,452	67.2%	18,254,926	7.4%	62,339,476	25.4%	245,869,854
Motor Fuel <sup>5</sup>	160,677,997	73.8%	37,975,966	17.4%	19,013,346	8.7%	217,667,309
Beer Wholesale <sup>7</sup>	727,193	0.5%	18,917,926	14.2%	113,286,405	85.2%	132,931,525
Mixed Drink <sup>6</sup>	58,853,768	50.0%	2,275,056	1.9%	56,607,694	48.1%	117,736,518
Gasoline Inspection (Special Petroleum)	56,264,315	82.4%	4,699,000	6.9%	7,318,000	10.7%	68,281,315
Alcoholic Beverage	56,660,609	83.0%	11,564,928	17.0%	-	0.0%	68,225,537
Tire and Used Oil	15,849,522	75.4%	5,180,009	24.6%	-	0.0%	21,029,531
Beer Excise	14,224,153	80.8%	1,694,428	9.6%	1,694,428	9.6%	17,613,009
Mineral Severance	182,838	3.1%	5,704,973	96.9%	-	0.0%	5,887,811
Oil & Natural Gas Severance	467,417	66.7%	233,731	33.3%	-	0.0%	701,148
Coal Severance	6,986	2.1%	324,201	97.9%	-	0.0%	331,187
Fantasy Sports <sup>8</sup>	256,641	80.0%	64,160	20.0%	-	0.0%	320,801
<b>Total</b>	<b>\$ 12,407,117,892</b>	<b>89.0%</b>	<b>\$ 575,840,408</b>	<b>4.1%</b>	<b>\$ 958,055,670</b>	<b>6.9%</b>	<b>\$ 13,941,013,970</b>

Sources: Tennessee Department of Revenue (Fiscal Year 2018 Annual Report), Tennessee Malt Beverage Association, and Budget of the State of Tennessee, Fiscal Year 2018-19.

<sup>1</sup>The state's sales and use revenue includes the \$5,072,767,900 that was distributed to the State's Education Fund.

<sup>2</sup>The IMPROVE Act of 2017 is phasing in gasoline rate increases, from 24 cents in fiscal year 2017-18 per gallon to 26 cents in fiscal year 2019-20. Given current gasoline sales, this rate increases counties' revenue by \$220.1 million and cities revenue by \$110.2 million by the end of fiscal year 2019-20. See Table 1a for Gasoline and Motor

<sup>3</sup>TVA PILOTs include fiscal year 1977-78 base payments of \$51,030,011 to the state, \$3,816,477 to counties, and \$358,098 to cities.

<sup>4</sup>The Hall income is being phased out through December 31, 2020. Fiscal year 2020-21 is the final year before it is fully repealed. See Table 1c.

<sup>5</sup>The Motor Fuel includes diesel, liquefied gas, compressed natural gas, and liquefied petroleum.

<sup>6</sup>All \$58,853,768 of the state's Mixed Drink revenue for fiscal year 2017-18 was distributed to the state's Education Fund.

<sup>7</sup>The wholesale beer is not collected or distributed by the Department of Revenue; however the department received \$727,193 in fiscal year 2017-18 for administering the tax. Although this is collected and remitted by the beer wholesalers, it is a state tax.

<sup>8</sup>The fantasy sports, passed in 2016 (Public Chapter 978, Acts 2016), was first collected in fiscal year 2016-17. See Tennessee Code Annotated, Section 67-4-901 et seq.

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## Appendix G: Basis of Apportionment of State Shared Taxes, Fiscal Year 2017-2018

Recipient	Amount	Population	Situs (Location)	Acreage	Equal Share	Other	Tennessee Code Annotated (TCA)
Alcoholic Beverage	\$11,564,928	75%		25%			TCA 57-3-306(b)(1) and 57-3-306(c)
Bank Excise	28,174,606		100%				TCA 67-4-2017 (a)(1)(A)
Beer Excise	9,244,598	100%			100%		TCA 57-5-205(1)
Beer Wholesale	1,694,428	100%					TCA 57-6-103(c)
Coal Severance	18,917,926	100%					TCA 67-7-110
Crude Oil & Natural Gas Severance	113,286,405	100%					TCA 60-1-301(b)
Fantasy Sports	324,201	100%					TCA 67-4-905(2)
Gasoline	203,167,971	25%		25%	50%		TCA 67-3-901(l)(1) and 54-4-103(a)(1)
Gasoline Inspection	101,712,982	100%					TCA 67-3-901(l)(2) and 54-4-203
Business Tax	4,699,000	100%					TCA 67-3-906(b)(3)
Hall Income Tax	7,318,000	100%					TCA 67-4-724(a)(1)-(2)
Mineral Severance	121,224,649	100%					TCA 67-4-724(b)(1)-(2)
Mixed Drink	111,168,264	100%					TCA 67-2-119(b)-(c)
Motor Fuel (Diesel)	18,254,926	100%					TCA 67-7-201(a); TCA 67-7-207
Sales and Use	62,339,476	100%					TCA 57-4-306(a)(2)-(i)
Tires and Used Oil	5,704,973	100%					TCA 67-3-905(a)(2)(A)-(C)
TVA PILOTS	2,275,056	25%		25%	50%		TCA 67-3-905(a)(3); TCA 54-4-203(a)
	56,607,694	100%					TCA 67-6-103(a)(3)(F) and 67-6-221
	37,975,966	100%					TCA 67-6-103(a)(3)(A); 67-6-221
	19,013,346	100%					TCA 67-4-1610
	16,447,750	100%, except Telecom	\$3,500,001			\$11,947,749	TCA 67-9-101(a)(2)-(3), 67-9-102(a)(1)(A) and (B), and 67-9-102(a)(1)(C)
	434,118,242	3/7		3/7 County Acres; 1/7 TVA Acres		\$4,222,881	
	5,180,009	100%					
	99,936,128	100%					
	41,552,235	100%					
<b>Counties Total</b>	<b>\$575,840,408</b>	<b>\$115,916,977</b>	<b>\$203,790,078</b>	<b>\$118,102,731</b>	<b>\$122,266,397</b>	<b>\$3,816,477</b>	
<b>Counties Percent</b>	<b>37.50%</b>	<b>16.20%</b>	<b>36.60%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>77.50%</b>	
<b>Cities Total</b>	<b>\$958,055,670</b>	<b>\$600,828,254</b>	<b>\$352,646,437</b>	<b>\$-</b>	<b>\$-</b>	<b>\$4,580,979</b>	
<b>Cities Percent</b>	<b>62.50%</b>	<b>83.80%</b>	<b>63.40%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>22.50%</b>	
<b>Total</b>	<b>\$1,533,896,078</b>	<b>\$716,745,230</b>	<b>\$556,436,515</b>	<b>\$118,102,731</b>	<b>\$122,266,397</b>	<b>\$20,345,204</b>	
<b>Basis of Apportionment Percent</b>	<b>100%</b>	<b>46.70%</b>	<b>36.30%</b>	<b>7.70%</b>	<b>8.00%</b>	<b>1.30%</b>	

Source: Tennessee Department of Revenue and Tennessee Code Annotated.  
 \*Of the \$121.5 million in situs (location) based apportionments of stated-shared sales tax revenue for cities, \$70.4 was for tourism development zones, and \$51.2 million was for other local distributions.