



## AGENDA ACTION FORM

**Consideration of a Resolution to Support Restoring the Historic Revenue Sharing Relationship between the State of Tennessee and its Local Governments and to Return the Local Share of the Single Article Cap to Local Governments**

To: Board of Mayor and Aldermen

From: Chris McCartt, City Manager *CM*

Action Form No.: AF-71-2023

Work Session: March 20, 2023

First Reading: N/A

Final Adoption: March 21, 2023

Staff Work By: McCartt/Rowlett

Presentation By: McCartt

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**Recommendation:** Approve the resolution.

**Executive Summary:**

Tennessee's municipal communities are the economic engine of the state. Today 92% of the state's total sales tax collections are generated within municipal boundaries. When economic growth occurs it is financed largely through city taxes for police, fire, streets, water and sewer, schools, parks, libraries, and other amenities that attract and retain businesses and make Tennessee's communities desirable places for people to raise a family, start a business, and visit.

In 1947, the state began sharing 4.6% of each year's total state sales tax collections with cities for the purposes of recognizing the collective contribution of cities as the state's economic engine. It acknowledged that city residents incur a local tax burden that is directly attributable to financing, developing, and maintaining an economic environment that continues to generate a healthy portion of the sales tax revenue accruing to the state.

When confronting serious fiscal challenges in 2002, the state increased the state sales tax rate from 6% to 7%; and increased the single article cap from \$1,600 to \$3,200 so that the amount of the purchase price of any single item that is subject to a combined state and local option sales tax of 9.75%. Since 2002, the state has retained 100% of the revenue the state has collected due to the increase from 6% to 7% as well as the 2.75% portion of the sales tax levy on single item purchases between \$1,600 and \$3,200.

Realigning the allocation so that the 2002 one percent increase in state sales tax is shared with cities the way the first 6% is shared, and the 2.75 % collected on the increase of the single article sales tax is shared, like it is on the first \$1,600, will provide relief to local taxpayers shouldering the burden of meeting the demand that is associated with generating the sales tax revenues accruing to the state through economic development.

The attached resolution for the Tennessee General Assembly shows that the board supports the restoration of the historic revenue sharing relationship of recurring state shared sales taxes in order for cities to once again receive of each year's total state sales tax collections 4.6% of all state general fund sales tax collections, and also supports

the state allowing local governments to receive the 2.75% of the traditionally local share of sales tax revenues realized because of the increase in the amount of the single article cap in 2002

**Attachments:**

1 Resolution

	<u>Y</u>	<u>N</u>	<u>O</u>
Cooper	—	—	—
Duncan	—	—	—
George	—	—	—
Montgomery	—	—	—
Olterman	—	—	—
Phillips	—	—	—
Shull	—	—	—