

## RESOLUTION 2022-04

### **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**

WHEREAS, Tennessee's municipal communities are the economic engine of the state and today 92% of the state's total sales tax collections are generated within municipal boundaries; and,

WHEREAS, such economic growth is intentional and when it 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; and,

WHEREAS, 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; thereby acknowledging 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; and,

WHEREAS, when confronting serious fiscal challenges in 2002, the state of Tennessee increased the state sales tax rate from 6% to 7%; and,

WHEREAS, the state chose not to share a portion of the sales tax revenues generated by the increase from 6% to 7% with Tennessee municipalities; and,

WHEREAS, as a result of this change the state broke a 55-year relationship of sharing 4.6% of all sales tax revenue designated for the state's general fund with municipalities; and,

WHEREAS, at the same time in 2002, the state also doubled from \$1,600 to \$3,200 the amount of the purchase price any single item that is subject to a combined state and local option sales tax of 9.75%; and

WHEREAS, in addition to the single article cap increase from \$1,600 to \$3,200, the state also captured and continues to capture 100% of the state's 7% levy as well as the 2.75% portion of the sales tax levy that is customarily reserved for local government on the added sale of items with a purchase price above \$1,600; and

WHEREAS, in the 20 years since these provisions took effect, these two changes have combined to result in the state realizing nearly \$2 billion in additional sales tax collections -- \$2 billion that would have benefitted local taxpayers had the historic revenue sharing relationship and single article cap not been altered in 2002; and,

WHEREAS, in the 20 years since these provisions took effect, Tennessee's state leaders have managed the budget with great care and a strong fiscally conservative approach to create a dynamic and growing economy with eight consecutive years of surplus revenues; and,

WHEREAS, in the 20 years since these provisions took effect, the State of Tennessee's sustained economic and fiscal performance have erased the conditions which led to these austerity measures in 2002; and,

WHEREAS, there is expected to be a surplus of recurring revenues produced by the economic engines of our state and managed by its leaders; and,

WHEREAS, as a result of the accolades bestowed upon the state for its economic success, its fiscally conservative policies and strong leadership, the state has garnered an enviable reputation as the state in which to live, work and play; and,

WHEREAS, a consequence of this reputation has led to continued and substantial economic growth and an increase and realignment of the state's population, thereby increasing the fiscal pressures on municipal governments to meet demands to expand and maintain infrastructure, to deliver essential services, to provide the amenities that allow for continued quality of life for Tennessee's citizens, and to promote an economic environment that allows Tennessee's businesses and communities to prosper; and,

WHEREAS, these fiscal pressures create the need for recurring dollars to keep pace with this demand and to counteract the effects of inflation; and,

WHEREAS, correcting the provisions which took effect in 2002 will help to offset these fiscal pressures and to provide relief to local taxpayers shouldering the burden of meeting this demand which is associated with generating the sales tax revenues accruing to the state;

NOW THEREFORE BE IT RESOLVED that the Board of Commissioners of the City of Belle Meade, on behalf of its residents, formally supports the restoration of the historic revenue sharing relationship of recurring state shared sales taxes in order for cities to receive once again 4.6% of all state general fund sales tax revenue. The Board of Commissioners also formally supports the state allowing local governments to receive the local share of sales tax revenues realized by increasing the single article cap in 2002 to collect on items with a purchase price between \$1,600 and \$3,200.

Date of Adoption:

February 16, 2022

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Mayor James V. Hunt

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City Recorder Rusty Terry

## State Shared Sales Tax and Single Article Cap Campaign

In 2002, in response to a budget crisis, the State of Tennessee enacted two measures to avoid fiscal calamity. First, the state altered a 55-year revenue sharing relationship to the detriment of municipal governments when it raised the state sales tax rate from 6% to 7% and didn't share any of the subsequent revenue gains with municipalities as it had with all other General Fund revenue. Second, the state increased the single article cap on local option sales tax from \$1,600 to \$3,200 and captured the local share from cities and counties of the sales tax revenue collected between \$1,600-\$3,200 on any single item. The combined impact of these two measures has diverted nearly \$2 billion in revenue to the state and away from local governments.

**The Time Is Now.** Through strong, fiscally conservative management of our state's budget Tennessee's leaders have created seven consecutive years of surplus revenues. Now the state is expected to see an increase in *recurring* revenues *well in excess* of what is required to restore the historic revenue-sharing relationship disrupted in 2002 and allow local governments to receive the local share of sales tax collected between \$1,600-\$3,200 on any single item.

**We want you to contact your legislators about these two key priorities.** Ask them to cosponsor this legislation (*bill numbers linked below*). Use the revenue gain estimates found in the sheets below to explain to your legislators what this recurring revenue means for your community and their constituents. Push back against the suggestion that recent federal spending on infrastructure and COVID relief compare to the growth of recurring sales tax revenues staying local for years to come.

**TML State Shared Sales Tax Bill -- [HB2012\(Carr\)/SB2076\(Briggs\)](#)**

**TML Single Article Cap Bill -- [HB 2562\(Hicks. G\)/SB246g\(Powers\)](#)**



## **State Shared Sales Tax and Single Article Cap** *In a Nutshell*

- In 2002, the State changed historical relationship in order to address a significant state budget shortfall and avoid impending fiscal crisis.
- Changes solely benefitted state budget at expense of local taxpayers
- 20 years
- Nearly \$2 billion in additional sales tax collections realized by state -- \$2 billion that would have benefitted local taxpayers had the historical relationship not been altered in 2002.
- Justification for these austerity measures has long-passed
- State demonstrated sustained economic and fiscal performance
- Recurring revenues allow for permanent restoration
- State has never been better positioned to restore historical relationship
- Now is the time