MTAS
Municipal Technical Advisory Service
In cooperation with the Tennessee Municipal League

#105 HOT topic

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STATE SHARED TAXES AND APPROPRIATIONS

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The Tennessee General Assembly adjourned on May 21, 2004, after passing a cross-section of legislative initiatives and approving the FY 2004-2005 appropriations bill. A better than expected economy coupled with favorable revenue projections for next year helped restore some departmental and program cuts which had been recommended in the original budget. There were discussions among some legislators to restore state shared revenues returned to local governments to the level prior to the cuts made in FY 2003-2004. While the final appropriations bill did not restore any of last year's cuts, there was language in the bill stating that it was the legislative intent that at least one-half of the cuts from last year be restored in FY 2005-2006 and the remaining portion in FY 2006-2007.

The following is a breakdown of what cities can expect to receive this year. For those cities that are in the process of adopting a budget or have already approved one, financial personnel should review this information to determine if adjustments to the budget document are necessary.

	Per Capita Amount
General Funds	
State Sales Tax	$58.90
State Beer Tax	.46
Special Petroleum Products Tax (City Streets and Transportation Revenue)	2.23
Gross Receipts Tax (TVA in lieu of taxes)	7.00
Total General Fund Revenue	$68.59
State Street Aid Funds	
Gasoline and Motor Fuel Taxes	$27.87
Total Per Capita (General and State Street Aid Funds)	**$96.46**

Other tax changes are

- **The Hall Income Tax.** The Omnibus Bill passed in the last legislature cut amounts going back to cities by 33 percent beginning in FY 2004. (Note: A few cities will not be cut the entire 33 percent due to legislation passed last year that limited the overall reduction in state shared taxes to 9 percent in the aggregate to each municipality.) Cities should expect to see this reduction in the Hall Income Tax with the July 2004 payment from the state. The statewide projected increase for FY 2005 is 5 percent, but individual city amounts fluctuate based on local investor earnings. Care should be taken in estimating the amount of Hall Income Tax to include in the FY 2005 budget due to the above considerations.
- **The Corporate Excise Tax.** The statewide projected increase is 2 percent. However there is no increase projected for municipalities due to the 9 percent reduction in allocations back to cities adopted in last year's legislature. This tax is based on bank profits and is distributed based on situs in lieu of intangible personal property taxes. Cities must levy a property tax in order to receive revenue from this tax.
- **The Mixed-Drink Tax.** The statewide projected increase is 3.9 percent. The distribution back to cities was cut 9 percent in last year's legislature.
- **The Public Safety Salary Supplements.** These will be funded at reduced rates from FY 2004. The supplements were cut by 5 percent in the appropriations bill. Upon completion of certain training requirements police officers and fire personnel are eligible for bonus salary supplements of $518.70 and $389 respectively. The supplements are found in SB 3415, section 7, the Appropriations Bill for FY 2005.

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The Municipal Technical Advisory Service (MTAS) is a statewide agency of The University of Tennessee Institute for Public Service. MTAS operates in cooperation with the Tennessee Municipal League to provide technical assistance services to officials of Tennessee's incorporated municipalities. Assistance is offered in areas such as accounting, administration, finance, public works, ordinance codification, and wastewater management.

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