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The Tennessee General Assembly adjourned on Saturday, May 28, 2005, after coming through on a promise to restore a portion of state shared revenues allocated to local governments that were reduced during the 2003 general assembly. After Governor Bredesen made the proposal in his January 2005 state of the state address, the general assembly followed through by passing S.B. 2312/H.B. 2327, which changes the “off-the-top” amount retained by the state’s general fund prior to distribution of selected taxes to local governments. The effect of the legislation restores 50 percent of the cuts made in FY 2003-2004 to municipalities’ share of the state sales tax, state beer tax, Hall income tax, corporate excise tax, and mixed drink tax. Other state shared allocations, such as the special petroleum products tax, gross receipts tax (TVA in lieu), and the gasoline and motor fuel taxes, were not affected by the cuts in FY 2003-2004.

With the passage of S.B. 2312/H.B. 2327, municipalities can expect to receive the per capita taxes listed below in FY 2005-2006. The effective date of the changes in the distribution formulas is August 1, 2005. Therefore the allocation of state sales tax back to municipalities will include two months based on the old formula and 10 months based on the new formula. Cities should factor this into any budget projections for FY 2005-2006. The per capita amounts listed below take into account the effects of the above distributions.

<table>
<thead>
<tr>
<th>State Shared Tax</th>
<th>Per Capita Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General Fund</strong></td>
<td></td>
</tr>
<tr>
<td>State Sales Tax</td>
<td>$63.19</td>
</tr>
<tr>
<td>State Beer Tax</td>
<td>0.52</td>
</tr>
<tr>
<td>Special Petroleum Products</td>
<td>2.24</td>
</tr>
<tr>
<td>(City Streets and Transportation)</td>
<td></td>
</tr>
<tr>
<td>Gross Receipts Tax (TVA in lieu)</td>
<td>7.00</td>
</tr>
<tr>
<td>Total General Fund Revenue</td>
<td>$72.95</td>
</tr>
<tr>
<td><strong>State Street Aid Funds</strong></td>
<td></td>
</tr>
<tr>
<td>Gasoline and Motor Fuel Tax</td>
<td>$28.41</td>
</tr>
<tr>
<td><strong>Total Per Capita</strong></td>
<td>$101.36</td>
</tr>
</tbody>
</table>

Following are other changes to taxes and miscellaneous items.

**Hall Income Tax:** S.B. 2312/H.B. 2327 changes the “off-the-top” amount retained by the state from 33.33 percent to 16.66 percent, which restores 50 percent of the amount cut in FY 2003-2004. The change is effective August 1, 2005; therefore, the allocation made by the state to local governments in July 2005 will not reflect the increased amount. Local governments will have to wait until July 2006 to see the effects of the change. The estimated growth in the Hall Income Tax statewide is 5.01 percent, while local situs amounts will vary. Because of the effective date of the bill and fluctuations of statewide collections of this tax, extreme care should be used in estimating...
the amount of Hall Income Tax to include in the FY 2005-2006 budget.

**Corporate Excise Tax:** The statewide projected increase is 2.33 percent. H.B. 2327 restores 50 percent of the 9 percent reduction established in FY 2003-2004. This tax is based on bank profits and is distributed based on situs in lieu of intangible personal property taxes. Cities must have levied a property tax in the previous year in order to receive allocations from this revenue source.

**Mixed-Drink Tax:** The statewide projected increase is 4.95 percent. H.B. 2327 restores 50 percent of the 9 percent reduction made in FY 2003-2004.

**Public Safety Salary Supplements:** These supplements will be funded at the same level as in FY 2004-2005. Upon completion of certain training requirement, police officers and fire personnel are eligible for bonus salary supplements of $518.70 and $389 respectively. Municipalities should remember that these supplements are subject to all applicable federal withholding and FICA taxes. The supplements are found in Section 7 of the appropriations bill (S.B. 2315/H.B. 2331) for FY 2005-2006.

**State Shared Revenue Reduction Mitigation Account:** The state appropriations bill contains a miscellaneous appropriation of $1.5 million for the purpose of refunding to those local governments that, in the aggregate, are cut more than 9 percent in state shared revenues. This amount is the same as in the previous year's appropriations bill.

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