



TACIR INSIGHT

TENNESSEE ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

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SERVICES PROVIDED BY LOCAL GOVERNMENTS AND THE SOURCES OF REVENUE TO FUND THEM

Background and Findings

From fire protection to education to the maintenance of roads, streets, and highways, local governments in Tennessee provide a wide array of services. While providing public services is a primary function of local governments, not all local governments provide the same services, and counties and cities vary in the number of services they provide. Some, but not all, of the services counties and cities provide are required by the Tennessee Constitution and state law. Many of those not formally required are still considered necessary or essential by residents.

These required services contribute significantly to 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. 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 fund the services they provide, 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. 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. 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. Direct federal transfers account for a relatively small portion of revenue available to local governments—\$705.5 million in fiscal year 2016-17.

Recommendations

This, the third and final report of the Commission's comprehensive study of the revenue sources of counties and cities in Tennessee and the services counties and cities provide, makes no specific recommendations but instead is intended to provide policy makers with the information needed for further discussion and policy consideration. The first interim report, published in February 2019, addressed online sales tax collection and distribution, and included recommendations to expand sales tax collection requirements to more out-of-state sellers. The second interim report, published in January 2020, focused on K-12 education services and funding and included a recommendation that a comprehensive review of the components be made by the BEP Review Committee or other designated state and local officials and other stakeholders. In addition to the Commission's report on counties with more than one school system, these reports form a foundation for further work by a task force of stakeholders to develop specific legislative proposals for consideration by the Governor and the General Assembly.

See TACIR's full report at the following link for additional information: <https://www.tn.gov/tacir/tacir-publications/publications-by-date.html>.