



# TACIR INSIGHT

TENNESSEE ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

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## EFFECTS OF SHARING OF RESOURCES AMONG SCHOOL SYSTEMS IN COUNTIES WITH MORE THAN ONE SCHOOL SYSTEM

### Background

K-12 public education in Tennessee is provided by county school systems, city school systems, and special school districts. Thirty of the state's 95 counties have more than one school system, and state law requires these multisystem counties to share local revenue with all school systems in the same county. For cities and special school districts, in contrast, there are no sharing requirements. Some county officials in Tennessee expressed concern that these sharing requirements favor city school systems and special school districts at the expense of county school systems.

In response to this concern, Senate Joint Resolution 593 directed TACIR to study the effects of the sharing of resources among school systems in multisystem counties. The Commission's report finds that

- the state's sharing requirements for local revenue contribute to funding disparities among school systems in most multisystem counties that appear to favor city school systems and special school districts over county school systems, and that
- there are alternatives that would minimize intra-county disparities while ensuring that taxpayers derive similar benefit from the taxes they pay regardless of whether they live in or receive services from the taxing jurisdiction.

Senate Joint Resolution 593 further noted that "the creation of new school districts has in the past created conflict regarding the ownership of existing school buildings and facilities." There is no process in state law for determining the disposition of school property following the creation of a new city school system. In response, the report also considers options for the transfer of school property to new city school systems, and it finds that the state can provide greater predictability and fairness for school systems and taxpayers in this process, which may reduce the likelihood of litigation.

### Recommendations

Based on its findings, the report makes two sets of recommendations for improving the state's sharing requirements for local revenue:

- Stakeholders acknowledge that counties' ability to use countywide revenue in lieu of bonds to fund education capital expenditures without sharing may be unfair to taxpayers living in city school systems or special school districts, but it's one of only a few ways counties can address spending equity under current law. **Because countywide property taxes and countywide local option sales taxes apply to property and sales within cities and special school districts,**

**the General Assembly could require that counties share this revenue when it is used for education capital expenditures just as counties already have to share it when it is used for education operations and maintenance. But if the state does so, it should consider adopting other alternatives that would improve spending equity in counties with multiple school systems while adhering to principles of taxpayer equity.**

- One alternative that could improve both student and taxpayer equity is to remove the requirement that counties share their portion of the unearmarked half of local option sales tax when it is budgeted for education operations and maintenance.
- Another alternative that would decrease disparities for students as well as taxpayers would be to transition from calculating fiscal capacity at the county level to calculating it at the system level.
- Regardless of any changes that the state makes, it is important to provide local governments a degree of certainty about how local revenue for education is required to be shared. **Because changes in the law governing the distribution of the mixed drink tax is temporary and because this method appears to adhere to principles of spending equity and taxpayer equity, the General Assembly should remove the expiration on the current method in state law for distributing mixed-drink tax proceeds.**

The report also makes two recommendations for improving the process for transferring school property from counties to new city school systems:

- Because of the uncertainty surrounding this issue in current law, **the General Assembly should provide a method in state law for transferring school property (real and personal) to new city school systems. An ad hoc committee could be created to determine what property should be transferred and what the city should pay for it. Whoever determines what the city should pay should consider past and future contributions of the city and the county to procure and maintain the property in question. Relevant unit costs in the BEP could be used to calculate the value of real and personal property subject to transfer. For instance, textbook unit costs are based on the actual cost of text books that will be purchased for the upcoming school year.**
- To ensure that city residents voting in a referendum on whether to form a new city school system know what it will cost to acquire all of the property it will need to operate a school system, **the General Assembly should require that the purchase price of the property be determined before the city referendum on the creation of a city school system.**