



TENNESSEE COUNTY SERVICES ASSOCIATION

Capitol Update - Week of March 21st

Governor's Budget Amendment Expected on March 25th

It has been announced that the administration amendment to the budget (known as the AA) will be presented to the finance committees next Tuesday, March 25th. That generally signals that the adjournment of the session is about three weeks away. This amendment will include appropriations to address legislation that has passed or appears to be passing and will include updates to state revenues based on collections received in January and February. After the House and Senate dissect this proposal, there is generally a legislative amendment (LA) that will change the budget based on the legislature's priorities. In many years, the state budget will end up fairly close to the draft budget presented after the State of the State address early in the legislative session. However, there have been years when the General Assembly altered hundreds of millions of dollars in the Governor's proposed budget.

Real Estate Transfer Tax

One item not included in the Governor's budget, which county associations are hoping will be considered by the legislature, is the proposal to return a portion of the real estate transfer tax to counties.

[SB1080/HB649](#) proposes to shift 50% of the revenue from the tax from the state budget to counties. While collections fluctuate from year to year, this would be a reduction of around \$125 to \$150 million in recurring state revenue that is not currently accounted for in the Governor's budget. To make it easier for the state to absorb this impact, there have been discussions around phasing in the change, adding provisions to the legislation to ensure that the change is not implemented if the state fails to hit revenue projections or funding a portion of the shift on a non-recurring basis.

In the next few weeks, the fate of this outcome will be decided as the General Assembly determines its budget priorities. If you have not already, now is a crucial time to discuss this proposal with your legislators and [ask them to signal their support](#) by co-signing the bill.

Committees Begin Closing, Sealing the Fate of Some Proposals

This week, the **House Cities and Counties Subcommittee** worked through a long calendar of bills and closed for the year, subject to the call of the chair. This subcommittee is the starting point for many bills that could have a significant impact on counties. This week alone, there were a number of significant developments:

- [HB808](#), which would have suspended automatic officials' raises in economically distressed counties was taken off notice (meaning the bill **will not proceed** this year).



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- [HB1083](#) that authorized county trustees to waive collections of property taxes when the amount owed is below a certain threshold was also taken off notice.
- [HB405](#) that provides that hotel/motel occupancy tax would be collected on the first 30 days of an extended stay was recommended and sent to the full State and Local Committee. Under current law, no occupancy tax is collected if a hotel stay is longer than 30 days. County associations support this proposal. The bill also passed the full Senate this week.
- [HB92](#) that would have authorized recall elections for county officials was taken off notice.
- [HB83](#) on the costs of providing ambulance services was amended to direct TACIR to study the issue of funding EMS and then recommended to the full committee.
- [HB733](#) that allows taxpayers to skip local appeals processes and go straight to the state board of equalization was recommended to the full committee. The bill also changes some of the requirements around interest on taxes owed or refunded. It raises serious concerns and county associations continue to oppose the bill.

One of the last bills to be decided by the subcommittee Wednesday night was [HB319](#) which also raised serious concerns for county associations. The bill would have classified all dwelling places as residential property for taxation, even when the property is used for commercial purposes. This proposal had a fiscal note estimating the impact to local governments to exceed **\$70 million in lost revenue**. A late-filed amendment to the bill would have offset this loss by mandating that cities and counties adjust their tax rate to make up for the lost revenue. In other words, the legislation would give a tax break to owners of income-producing properties (like real estate investment trusts), then require local governments to raise property taxes on everyone else to make up the difference.

With a number of county trustees and assessors of property in the room, the bill sponsor attacked the credibility of local government lobbyists, the accuracy of the fiscal analysis on the bill and disparaged the Comptroller's Division of Property Assessment that provided much of the data used to do the analysis. After testimony, questions, and debate, there was one motion to defer the proposal to 2026, which was then withdrawn. A second motion to send the bill to summer study was approved by the subcommittee, ending the bill's prospects for the year.

In addition to Cities and Counties, a number of other subcommittees have closed this week. Those closed subcommittees include:

- **Population Health Subcommittee,**
- **Public Service Subcommittee,**
- **TennCare Subcommittee, and**
- **Transportation Subcommittee**

Several other subcommittees have no bills on notice next week. Most of the other subs are all on their "final" calendar and will spend the next week or two working through the last of their bills. The full **House State and Local** Committee will continue to meet for at least a couple of weeks as its other subcommittees close. In the Senate, the **Commerce, Transportation, and Energy and Agriculture**



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Committees are all on their last meetings. The critical **Senate State and Local** Committee has set a **deadline of March 25th** to have bills on notice for consideration, meaning we will soon know the remaining bills the committee will consider this year.

Education Issues

This week, an amendment was added to a caption bill and passed out of Senate Education to expand the original Education Savings Account proposal to additional counties. The current program only applies in Davidson, Shelby and Hamilton counties. This bill, [SB11/HB409](#), adds **Montgomery, Knox and Rutherford** County to the program. While the governor's Education Freedom Scholarship act that passed in the special session this year applies statewide and grants scholarships to students attending private schools, the ESA program entitles an eligible student leaving a public school to attend a private school to the **state and local funding** for that pupil. The bill passed out of the Senate Committee on a 6-2 vote. It is scheduled to be heard in the K-12 subcommittee in the House next week.

This week, [HB348](#) was recommended by the K-12 subcommittee with an amendment and sent to the full House Education Committee. As amended, the bill provides that if a county fails to meet the maintenance of effort for the school system, it cannot increase funding for other offices with a maintenance of effort requirement (mayor, highway, sheriff and election commission) until it restores the shortfall in the education maintenance of effort. The bill has been placed on the Senate Education Committee calendar for next week.

The School District Capital Improvements Capital Trust act ([HB224/SB593](#)) is scheduled for hearings in both the House and Senate Education Committees next week. The bill would allow a school system to create a trust for capital improvements and transfer reserve funds to the trust, locking down the use of the funds to capital improvements outlined in the school system's capital improvement plan. The legislation was approved by the K-12 subcommittee in February, but has been sitting in committee since. Counties have raised objections to allowing the school board to transfer these reserve funds with them being appropriated by the county commission.

Transportation Issues

[HB127/SB1307](#) is a proposal from the Lee administration to expand the authority to raise certain taxes for transportation projects. When the IMPROVE Act was passed in 2017 during the Haslam administration, it included provisions that let urban and suburban counties hold referenda to raise revenues for mass transit.

To date, only Nashville/Davidson County has passed such a referendum, with voters approving it in 2024. In this legislation coming from TDOT, the restrictions on which jurisdictions could use this authority are removed so that any city or county could use the provisions. The bill also changes the use of the revenue from mass transit projects to transportation projects generally. The law authorized raising local option sales tax, hotel/motel taxes, business taxes, wheel taxes, and rental car taxes; however, existing caps on



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tax rates still remained in place. While it may not be usable everywhere, county associations support the bill as it “puts another tool in the toolbox” that could be helpful to some counties. **The bill was approved by the House Transportation Committee this week and sent to the Finance Subcommittee.** It is one of the few remaining bills scheduled for consideration in the Senate Transportation Committee next week.

[SB954/HB975](#) allows the county highway department to set speed limits on county roads if the department has a licensed engineer on staff. The bill passed the Senate and is on the House consent calendar for Monday night.

[HB736/SB703](#) would direct TACIR to study transportation funding. The bill passed the Senate and is on the House Finance Subcommittee calendar for next week.

[HB1021/SB735](#) would have required just compensation to be paid to the owner of an outdoor advertising device (billboard) when it is required to be moved due to highway construction. The bill was deferred to 2026 this week. Although previous versions of this bill had significant fiscal notes, the analysis this year said the cost could not be determined. While it would likely impact TDOT more than county highway departments, the proposal applied to both.

Public Comment at Commission Meetings

[HB22/SB178](#), which amends the law regarding public comment periods in meetings of local governing bodies, hit a snag in the Senate State and Local Government Committee after being approved in a 60-30 vote on the House floor last week. When presented to the Senate Committee, the bill received 3 AYE votes, with the remaining members of the committee passing. In the Senate, a bill requires positive votes from a majority of the full committee to pass. The bill requires local governing bodies to allow speakers to talk about any subject germane to the county or city, rather than limiting presenters to items on the agenda for the meeting. The commission would still be allowed to limit the total amount of time for the comment period. Local government associations argued that the management of local meetings should be left to local elected officials.

Revenue Proposals

[HB 695](#) by Rep. Baum, which raises the cap on mineral severance tax by \$0.15 over a ten-year period, passed on the House floor Monday night. The companion bill, SB889 by Senator Reeves, was approved unanimously by the Senate State and Local Committee and referred to Finance where it awaits a hearing. The current cap is \$0.15, so the bill effectively **doubles the maximum tax rate**. It would take a vote of the county commission to increase their current mineral severance tax to the new cap limits. This bill is a negotiated proposal supported by TCHOA, road builders, and members of the aggregate industry.

[HB1329/SB1315](#) is a bill brought by Governor Lee’s administration to reduce the fee charged by the Department of Revenue for collecting and remitting various taxes to local governments. This concept has



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been supported for several years by TCSA, specifically regarding the administrative fee on the local option sales tax. The cost of this reduction is included in the Governor's proposed budget. Since it is funded, the House Finance Committee approved the bill, and it is scheduled on the consent calendar for Monday night. The bill was approved by the Senate State and Local Government Committee last week and heads to the Senate Finance Committee.

[SJR48](#), which ratifies a recommended rate increase in 911 fees from \$1.50 to \$1.86, after being approved by the Senate State and Local Government Committee, is sitting in the Senate Finance Committee awaiting a hearing. This increase would bring Tennessee's rate in line with some other surrounding states, and it helps provide sustainable funding for emergency communications operations. Local governments generally supplement the cost of operations for these call centers with local tax revenue, so it is essential for 911 fees to keep pace with costs to keep pressure off local budgets. The resolution has encountered some opposition in committees where Senators have questioned the need for the increase. Joint resolutions like this one must proceed through one chamber prior to moving into the other house. SJR48 needs to pass out of the Senate Finance Committee and on the Senate floor before proceeding to the House.

Miscellaneous Items

[HB375/SB988](#) passed both chambers this week. This proposal, being promoted by the Homebuilders Association, requires local governments to provide justification for the cost of development fees in excess of \$250. Generally, permit fees must be related to the cost of the program the fees fund and cannot be used to generate excess revenue. This legislation requires local governments to document the basis of their fees, make that documentation available as a public record and have it be subject to audit by the Comptroller. Local government groups worked with the homebuilders to limit the requirements to fees related to development, to clarify that the cost justification is based on overall operations and does not have to be proven for each individual issuance of a permit and to postpone the effective date of the act to July 1, 2026, to give jurisdictions time to comply.

[SB532/HB437](#) allows counties that have adopted the Sheriff's Civil Service Act to repeal it by a 2/3 vote of the county legislative body. The bill has passed the Senate and is awaiting a hearing in the House Finance Subcommittee.