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## Tennessee's Stepchildren, the Municipalities

Alice L. Ebel

*Tennessee Municipal League*

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# TENNESSEE MUNICIPAL LEAGUE

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NASHVILLE, Tennessee / *Superior*

(W. H. Newell, Executive Secretary)

"TENNESSEE'S STEPCHILDREN, the Municipalities"

Prepared for the

Tennessee Municipal League

by

Alice L. Ebel

REPORT NO. 5 / *rd*

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## F O R E W O R D

### PURPOSE OF MANUAL

The purpose of this manual is to acquaint municipal, county, and state officials, and state legislators, with the cities' financial needs and the necessity of a better allocation of state-collected revenue. This manual, while not as complete as we would like it, should prove a handy reference manual for all municipal officials, and one in which they can readily find use in discussing municipal financial needs with state legislators, and county and state officials.

### REDUCING MUNICIPAL EXPENSES

Much has been written lately about the necessity of reducing expenditures in municipal and other local government during this national emergency period, and the necessity of more economy in local government. The ability to reduce operating expenses and the cost of local government depend entirely upon whether such government has been heretofore uneconomically managed or whether they have been economically managed. It further depends on whether the particular government subdivision is levying and collecting taxes in excess of what is necessary to carry on its function. It also depends upon whether or not we are going to have continuing the increase in cost for the purchase of all material and equipment necessary in the operation of such government. After all, a municipality is mainly a utility function. Unless the income of Tennessee municipalities should materially increase from state-collected revenue or other new sources, I am alarmed about the ability to keep municipal taxes at the present level if costs continue to rise.

### INCREASING COST OF STATE GOVERNMENT

In Tennessee the cost of our state government has continuously increased from 1934 to date, and the amount of money collected for various and sundry taxes by our state has continuously increased from 24 million dollars in 1934, to 43 million dollars in 1940. The municipalities as a general rule have the best administered and most economically managed subdivision of our government. There are some exceptions, of course, Since the early 1930's there has been too much of a tendency to create in the minds of the people the impression that the burden of taxes was in the municipalities. One of these reasons is the tendency of the state legislature to more and more restrict municipalities to the real property tax as the principal source of revenue, and for the counties and state to take the other and better sources. And to further add insult to injustice, the state legislature, with the single exception of the 1941 session, has declared a tax moratorium on real property. It is a matter of fact concerning the many services which the municipalities have to render to their taxpayers as compared to those of any other branch of government, that they are doing a better job with much less money than the other branches of government are. According to "Tax Yield; 1940," published by the Tax Institute, with the single exception of the year 1929, the states' share of all tax collections has steadily increased to the present time, while the local government's share has continually decreased.

### STATE LEGISLATIVE ENCROACHMENT ON MUNICIPAL REVENUES

Municipalities are facing the problem of diminishing returns in listing taxes against real property, and state encroachment upon the field of business properties, liquor licenses, beer license, moving picture shows, soft drink bottlers, and others. The State Legislature has not only appropriated for State use, sources of municipal revenue, but have also taken all new sources

of revenue for its own use.

### MUNICIPAL COOPERATION

Cities in 43 states finding themselves in almost the same predicament as the Cities of Tennessee and finding themselves helpless to act as individuals for the protection and interest of all municipal citizens have found it necessary to organize Municipal Leagues. These Leagues have as in the case of the Tennessee Municipal League, been organized only after all other methods had failed, and have been invaluable to their Cities. All of the Cities working together through their own organizations have accomplished wonders that would have been impossible for the Cities acting individually. The National Municipal League has recommended to the Governor that the Municipal League's Legislative Committee be provided seats on the floor of the Legislative halls and be allowed to speak on all bills affecting Tennessee's Municipalities. This and other matters of vital importance to Cities have been accomplished by some of the other Leagues. The Oregon League has just announced that a committee representing Oregon Cities has reached an agreement with the Highway Department of the State whereby the State will spend a quarter of a million dollars annually upon City streets. This is in spite of the fact that the Legislature has refused to recognize the City's problem at their last two sessions.

### GASOLINE TAX

The Tennessee Legislature has not yet recognized the just claim of Tennessee Cities for use of the State Collected Gasoline Tax in maintaining City streets, yet the 1941 session of the Legislature passed a private act for the City of Chattanooga which is Chapter 250 and from which I quote as follows: ".....that the City of Chattanooga be and is, in addition to all other powers it now possesses, hereby authorized by ordinance, to impose a tax upon all freight and passenger motor vehicles,..." "... as compensation for use of streets, highways, alleys and thoroughfares of the City...."

I have been informed by Mayor Ed Bass of Chattanooga that the ordinances referred to in the above chapter of the Private Acts have been adopted by the City and these vehicles are now being taxed by the City. So far as I know this is the only City in Tennessee empowered to levy taxes of this type. Mayor Bass has agreed that whenever a just portion of the State collected gasoline tax is used on Municipal streets, he will repeal the Chattanooga ordinance.

The Executive Committee of the Tennessee Municipal League wish to express their thanks to Miss Alice L. Ebel, graduate student of Vanderbilt University, who gave her time and efforts, without remuneration, and to Dr. John Caldwell, Professor of Political Science, Vanderbilt University. Without their cooperation and effort this report would have not been possible.

W. H. Newell, Executive Secretary

TENNESSEE MUNICIPAL LEAGUE



## THE CASE FOR TENNESSEE MUNICIPALITIES

The United States census report for 1940 places Tennessee among the predominantly rural states by computing that only 35.2 per cent of its population is urban. No resident of Tennessee can afford, however, to dismiss the incorporated city or town from his mind on the basis of this figure, for it fails to tell very much of the story of the municipality in Tennessee. To tell more of that story is the aim of this report.

In keeping with those of other states, the municipalities of Tennessee are still the "wards of the state," legal creatures of a higher authority which not only subjects them to arbitrary laws but sometimes "hijacks" them of profitable sources of revenue.<sup>1</sup> Since the guardian so often refuses to function or even acts contrary to the welfare of its ward, the problems of municipalities frequently become acute, that of finance being one of "vast proportions."<sup>2</sup>

These problems concern more than the third of the population of Tennessee classified as urban. Any resident of a municipality has a direct interest in its fate. The census calls "urban" only those who live in incorporated places of 2500 inhabitants or more. But 221 incorporated municipalities are reported in Tennessee in 1940, many of which have fewer than 2500 people. Hence, they are distinctly not urban in the census meaning of the term; yet they are municipalities and share in the problems of their larger brothers. Of the 221 so incorporated, 62 can be disregarded because they do not levy taxes or engage in any appreciable municipal activities. In the remaining 159 municipalities live 1,126,972 people,<sup>3</sup> approximately 40 per cent of the total population of 2,915,841. Thus at least two out of every five people in the state live in an incorporated municipality and have a vital interest in the well-being of their home-site.

Besides the number coming directly under the jurisdiction of municipal governments is another good sized group which lives close to a large city but outside its boundaries. What the municipality means to them is so obvious that it is easily overlooked. "Actually they receive a great many blessings. They have the right to earn their living in the city. The presence of the metropolis gives value to the surrounding acres. The city has health programs; police and fire protection; good streets properly lighted; large-scale, economical utility service; libraries and parks and recreation centers, all of which, and many other institutions, benefit the suburban areas to a greater or less degree."<sup>4</sup> And, it may be added, for the maintenance of which the suburbanite is not taxed.

Tennessee has a group of this kind whose vital interest is closely linked with that of the municipality. Within the four larger counties<sup>5</sup> alone lives one-third of the population of the state and in turn practically 40 per cent of that third lives outside the boundaries of the four great cities.<sup>6</sup> These people, combined with others living near and depending for a living on somewhat smaller cities, easily raise the number of people in the State of Tennessee who have an urgent interest in the fate of municipalities to more than half the population of the state.

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<sup>1</sup>Albert Lopawsky, "The Flight of Our Cities," State Government, v. 13, p. 226, Noyember, 1940.

<sup>2</sup>National Resources Committee, Our Cities, p. ix.

<sup>3</sup>Based on figures compiled from the Sixteenth Census of the U. S., 1940, by the Tennessee Municipal League, July 11, 1941.

<sup>4</sup>George B. Waters, "Developing a Metropolitan Area," American City, v. 53, p. 61, May, 1938.

<sup>5</sup>Davidson, Hamilton, Knox, and Shelby counties have a combined population of 974,463. See Sixteenth Census.

<sup>6</sup>Approximately 275,000 people live in the counties outside the boundaries of Nashville, Chattanooga, Knoxville, and Memphis.



Are the municipalities of Tennessee being treated in accord with their importance and value to the people of the state? An examination of Tables I and II<sup>1</sup> gives us the answer, and that answer is no. One would expect a minimum of 40 per cent of state administered funds which are shared locally to be disbursed to municipalities since 40 per cent of the people are inhabitants of incorporated places. It would be far from unreasonable to expect a fifty-fifty sharing of such funds when the fortune of more than 50 per cent of the people of the state is bound up with that of municipalities. Table I shows that only 13 per cent of the fund shared by the state with local units goes to the cities and towns, while the counties receive 87 per cent. 40 per cent of the people residing in municipalities receive 13 per cent of locally shared funds.

Since the schools called "city" schools in the Annual Report of the Department of Education do not include all schools located within the boundaries of the 159 municipalities of Tennessee,<sup>2</sup> it may be argued that Table I is weighted to make the situation for the municipalities look worse than it really is. A comparison of average daily attendance figures with the allocation of the education funds will throw some light on this apparent distortion. "Cities," as designated by the education department, had 150,831 in average daily attendance, elementary and high school, out of a total average daily attendance of 535,629 for all schools.<sup>3</sup> The "city" attendance represents 28.14 per cent of the total. "Cities" received 19.80 per cent of the state education funds for the year ending June, 1940.

"Cities" are further deprived of a just portion of the education funds because the funds are first apportioned to the counties and pass through the hands of the county trustees. In the process of passing the money on to the cities, the county trustees retain from those funds apportioned to city schools a total of \$81,350.69 in commissions.<sup>4</sup> If apportioned directly to the cities this \$81,350 would become a part of their expendable revenue for education.

Now let us look at the other side of the picture. What do municipalities contribute to these state taxes which are shared with local units? Records are not available in a form which makes it possible to check the source of all these funds. Therefore, Table II shows only the funds which can be checked with any degree of accuracy. The record here is another confirmation of the shabby treatment to municipalities. Again 40 per cent of the people are being imposed upon. They contribute 64 per cent of the funds in which they share only to the extent of 13 per cent.

It may be argued that the funds which can not be traced are contributions of people living outside the boundaries of municipalities and that therefore the taxes paid by municipal residents are of much less relative importance than is shown in Table II. An examination of why the funds cannot be traced is enlightening. No check can be made partly because no separate records for collections in municipalities and counties are kept for certain funds like the beer and tobacco taxes and partly because the appropriation may be made from the general fund, contributions to which come from a number of sources. In the former case, records of other collections like the gas tax prove that municipalities are bearing more than their share. In the latter case, a considerable portion of general fund

<sup>1</sup>Computed from the State of Tennessee, Annual Report of the Comptroller of the Treasury, July 1, 1939, to June 30, 1940.

<sup>2</sup>See Table Ia, footnote 2.

<sup>3</sup>The figures come from records in the office of the Department of Education and from the 1938-39 report of the department. Per capita apportionment is made on the average daily attendance figures of the year previous.

<sup>4</sup>State of Tennessee, Annual Report of the Department of Education, 1940, pp. 190,220.

TABLE I

Disbursement of State-Administered, Locally-Shared Funds of the State of Tennessee for the Fiscal Year Ending June 30, 1940<sup>1</sup>

Funds	Disbursed to Municipalities	Disbursed to Counties	% of Shared Funds Disbursed to Municipalities	% of Shared Funds Disbursed to Counties
Educational Funds <sup>2/</sup>	\$1,756,242.24	\$7,111,890.92	19.80	80.20
Gas Tax (Two cent)	-----	4,995,515.47	-----	100.00
Aviation Gas Tax <sup>3/</sup>	62,255.14	-----	100.00	-----
Income Tax (6%)	301,430.78	142,578.94	67.89	32.11
Beer Tax	126,689.68	126,689.68	50.00	50.00
Alcoholic Beverages	-----	756,991.97	-----	100.00
Motor Vehicle	-----	1,994,671.62	-----	100.00
Total	\$2,246,677.84	\$15,128,338.60	12.93	87.07

<sup>1</sup>This table omits all undistributed balances left in each fund. With the undistributed balances included (see Table IIIa) the amount allocated to municipalities as compared with that allocated to counties remains within a fraction of a per cent the same.

<sup>2</sup>Two funds are omitted from the table: (1) the county reimbursement bonds and interest fund because it merely repays the counties for money borrowed for the state, (2) the special forestry fund because of its relative unimportance in amount.

<sup>3</sup>Table Ia shows how the counties and municipalities share in the different educational funds. Since this money is appropriated from the highway fund, it is impossible to tell whether it comes out of the motor vehicle or gas taxes. Therefore, it is considered separately.



TABLE Ia

Disbursement of State-Administered, Locally-Shared Education Funds of the State of Tennessee  
for the Fiscal Year Ending June 30, 1940<sup>1/</sup>

Funds	Disbursed to Municipalities <sup>2/</sup>	Disbursed to Counties	% Disbursed to Municipalities	% Disbursed to Counties
Per Capita Apportionments (Elementary) <sup>3/</sup>	\$1,277,294.17	\$3,188,769.35		
Per Capita Apportionments (High School)	206,619.17	591,380.77		
Equalizing Fund (Elementary)	165,586.95	2,149,387.17		
Equalizing Fund (High School)	-----	144,999.45		
Special Equalizing Fund (High School)	-----	7,000.00		
"Guarantee Clause" Fund	-----	32,003.29		
Transportation	-----	315,000.00		
Supervision	-----	32,440.00		
Agriculture	5,121.05	338,406.47		
Trade and Industries	65,519.82	54,550.34		
Home Economics	27,248.89	123,471.49		
Distributive Occupations	7,661.38	1,063.60		
Libraries	1,190.81	43,359.66		
Supplement to County Superintendents' Salaries	-----	90,059.09		
Total	\$1,756,242.24 <sup>4/</sup>	\$7,111,890.92 <sup>4/</sup>	19.80	80.20

<sup>1</sup>Computed from Tennessee Department of Education, Annual Report for the Scholastic Year Ending June 30, 1940, pp. 180-185

<sup>2</sup>City high schools include: Nashville, Chattanooga, Knoxville, Jackson, Springfield, Memphis, Bristol. For the 66 city elementary schools see list on pp. 20-21, Annual Report, 1940.

<sup>3</sup>Estimated on the basis of the proportion of average daily attendance figures for 1938-39, county schools having 71.4 % of the total in all elementary schools. The \$4,480,550 due elementary schools for 1939-40 (448,055 average daily attendance X \$10 per capita) was reduced to \$4,466,063.52 by deducting per capita funds previously apportioned for which the schools did not qualify.

<sup>4</sup>The total of these two sums is \$34,218.63 less than the grand total of \$8,902,350.55 (Annual Report, 1940, (This note concluded on top of page 5))

(from page 4); p. 184). The difference is due to \$2800 paid directly to Jeanes teachers from the Southern Education Foundation Funds and to \$31,417.63 of federal and state vocational funds paid to various state and private schools, going to neither city nor county.

TABLE II

Collection of State-Administered, Locally-Shared Funds of the State of Tennessee for  
the Fiscal Year Ending June 30, 1940<sup>1/</sup>

Funds	Amount Collected from Municipalities	Amount Collected from Counties	% Collected from Municipalities	% Collected from Counties	Total of State-Adminis- tered, Locally-Shared Funds Which can be Checked
Educational Funds					
8% Property Tax	712,378.28	\$ 483,545.17	59.56	40.44	\$1,195,923.45
Gas Tax	12,251,073.04 <sup>2/</sup>	7,288,118.41	62.70	37.30	19,539,191.45
Income Tax (6%)	803,975.41 <sup>3/</sup>	380,210.51	67.89	32.11	1,184,185.92
Alcoholic Beverages	1,513,983.94 <sup>4/</sup>	-----	100.00	-----	1,513,983.94
Aviation Gas Tax	124,510.28 <sup>4/</sup>	-----	100.00	-----	124,510.28
Motor Vehicle Tax	2,931,269.98 <sup>2/</sup>	1,970,517.62	59.88	40.12	4,901,787.60
Total	\$18,337,190.93	\$10,122,391.71	64.43	35.57	\$28,459,582.64

<sup>1</sup>Only funds the source of which can be checked with some degree of accuracy are included.

<sup>2</sup>Computed from the answers to a questionnaire sent to T. C. McEwen, Engineer-Director of the Division of Research and Statistics, State Highway Department, recorded in the Report of the Gas Tax Committee of the Tennessee Municipal League.

<sup>3</sup>This money obviously does not come from residents of municipalities alone, but it is collected wholly within the boundaries of municipalities of 1,000 or more because of the requirements of the Act, Public Acts, 1939, ch. 49, sec. 3 and 8.

<sup>4</sup>Collected at airports controlled by municipalities. See Public Acts, 1937, ch. 305, sec. 15; 1939, ch. 195, sec. 3.



TABLE III

Allocation of State-Administered, Locally-Shared Revenues in Relation to Total Net Tax Receipts, Department of Finance and Taxation, for the Year Ending June 30, 1940.

Total Net Revenue Department of Finance & Taxation	Shared With Municipalities	Shared With Counties	Total Amount Locally Shared	Left for State Use
Amount \$41,847,109.03	\$2,490,767.41	\$17,528,771.90	\$20,019,539.31	\$21,019,539.31
Per Cent 100.00	5.95	41.38	47.83	52.17

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TABLE IIIa

Allocation of Funds Shared with Municipalities and Counties, Including Undistributed Balances for the Year Ending June 30, 1940

Funds	Allocated to Municipalities	Allocated to Counties	% Allocated to Municipalities	% Allocated to Counties
Educational Funds	\$1,756,242.24	\$8,868,132.92		
Two Cent Gas Tax	62,255.14	5,490,659.36		
Aviation Gas Tax	511,674.89	242,007.38		
Income Tax	160,595.14	160,595.14		
Beer Tax	-----	772,705.48		
Alcoholic Beverages	-----	1,994,671.62		
Motor Vehicle	-----	-----		
Total	\$2,490,767.41	\$17,528,771.90	12.44	87.56

No definite allocation of undistributed balances was made in the Annual Report of the Comptroller of the Treasury, 1940. Their allocation has been estimated in the same proportion as disbursements. (See Table I)

receipts comes from taxes like the excise, privilege, and gross receipts taxes. An examination of the revenue act<sup>1</sup> shows clearly the likelihood of the municipalities contributing to these taxes more than their proportion of the population would warrant.

Our comparisons can be carried a little farther very effectively. The Department of Finance and Taxation collects practically all of the state levied taxes including all of the state taxes which are locally shared. Table III divides the total net revenue of that department among the three levels of government to which the funds are allocated. It is interesting to note that while 48 per cent of the state-administered taxes is shared with both local governmental units, only six per cent is shared with municipalities against the 42 per cent shared with counties.

Now that it has been shown that Tennessee municipalities are sharing much less in, but contributing much more to, state-administered, locally-shared funds than the proportion of their population to that of the rest of the state, we must complete our story by considering the needs of municipalities as compared with counties.

A municipal government is organized in response to new needs arising when a number of people congregate in a fairly small area. "Problems which exist in rural areas, such as law enforcement, become more complex in cities; and some problems which do not require governmental action in rural areas, such as the disposal of sewage and wastes, and the providing of a water supply, require common action of the whole community.....".<sup>2</sup> The municipal organization comes into existence, then, primarily because services not needed in unorganized areas are desired.

But more than the services for which the municipality was organized, or at least the extension of the original services, soon comes to be demanded. The Urbanism Committee points out this fact in its report to the National Resources Committee: "Urban governments have been invested with the responsibility of providing for a range of services which affect virtually every aspect of the citizen's life. They provide water, dispose of sewage, prevent epidemics, guard the public health, protect life and property, control traffic, regulate and facilitate trade and industry, and furnish educational, recreational, and a host of cultural services. As urban centers have grown and civilization has become more complex, the services rendered by Government have expanded enormously. Since 1890 the number of cities has doubled and the size of the urban population has trebled, while urban budgets and pay rolls have trebled since 1915."

That a similar expansion and broadening of services has occurred in Tennessee in the last 25 years is indicated by Table IV. Though there was some decrease in per capita costs in 1935 due to the depression, still the trend of increase in costs is the more notable. This can be seen especially in the per capita costs for education which continued to rise even during the depression, except in the city of Memphis.

Tables IV and V help to illustrate another fact which is evident in the growth of municipalities, that per capita costs rise as population increases. Census figures emphasize this point to such a degree of certainty that Austin F. Macdonald puts it in the form of a general law:<sup>4</sup> "The per capita as well as the total cost of city government tends to increase with every increase in the population, other factors being equal." Table V shows that this "law" operates in respect to the four larger cities of Tennessee except for Memphis and Chattanooga in 1935, a year when "other factors" were not equal on account of the depression.

<sup>1</sup>See State of Tennessee, 1937 Revenue Bill As Amended.  
<sup>2</sup>Chas. M. Kneier, Illustrative Materials in Municipal Government and Administration, p. 3.  
<sup>3</sup>Our Cities, p. 48.  
<sup>4</sup>American City Government and Administration, p. 112.



TABLE IV

Per Capita Distribution of the Costs of City Government in Tennessee by  
General Departments, 1915, 1925, 1935 <sup>1/</sup>

City and year	General Government	Protection of Person & Property (Fire & Police)	Conservation of Health	Sanitation	Highways	Charities, Hospital and Corrections	Education	Recreation	Miscellaneous
Memphis									
1915	\$0.72	\$3.49	\$0.40	\$1.08	\$2.79	\$0.79	\$3.93	\$1.03	\$0.02
1925	1.31	6.57	1.04	2.51	3.01	2.39	9.32	1.78	0.19
1935	1.02	4.45	0.72	1.26	1.74	1.51	7.41	0.84	0.34
Nashville									
1915	\$1.07	\$3.06	\$0.33	\$1.02	\$2.41	\$0.70	\$4.07	\$0.66	----
1925	1.25	5.09	0.44	1.22	3.61	1.30	6.41	0.91	0.51
1935	1.54	6.30	0.73	1.46	1.79	2.27	7.49	0.86	0.72
Chattanooga									
1915	\$1.13	\$3.20	\$0.22	\$1.09	\$1.37	\$0.98	\$2.54	\$0.22	\$0.02
1925	1.28	5.72	0.60	0.87	1.88	2.73	7.58	0.36	0.33
1935	1.00	4.98	0.35	0.82	1.99	2.08	7.91	0.41	0.53
Knoxville									
1915	\$0.99	\$3.35	\$0.26	\$0.74	\$1.65	\$1.00	\$2.99	\$0.02	----
1925	1.77	5.17	0.68	1.47	3.59	2.16	8.32	0.20	0.30
1935	1.35	5.90	0.77	1.08	1.77	2.56	9.69	0.20	0.65

<sup>1/</sup>From Bureau of the Census, Financial Statistics of Cities for the years 1915, 1925, 1935. Only the four larger cities of Tennessee are included in the records.

TABLE V

Population Growth and Per Capita and Total Costs of City  
Government in Tennessee, 1915, 1925, 1935 <sup>1/</sup>

City	Population	Per Capita Costs <sup>2/</sup> (all Expenses & Interest)	Total Costs
Memphis			
1915	143,231	\$20.76	\$2,973,745
1925	174,533	37.88	6,610,479
1935	261,500	26.21	6,852,844
Nashville			
1915	114,899	\$17.66	2,029,365
1925	136,220	27.14	3,696,382
1935	156,200	30.55	4,772,639
Chattanooga			
1915	56,702	\$13.75	\$ 779,799
1925	66,413	27.48	1,824,778
1935	123,500	25.49	3,147,945
Knoxville			
1915	37,955	\$17.49	\$ 663,756
1925	94,639	33.67	3,186,941
1935	110,600	37.48	4,145,782

<sup>1/</sup>From Financial Statistics of Cities, 1915, 1925, 1935.

<sup>2/</sup>Per Capita Costs listed in Table IV do not include interest. That accounts for the difference in the total per capita costs in Tables IV and V.



This constantly growing demand for more and more municipal services, marked by a vast increase in governmental costs, would be well and good were the resources needed by the municipalities to pay for these services increased accordingly. Such is not the case, however. This is largely due to the fact that the cities must still look to the state governments for their taxing powers. States have been prone to take over profitable sources of municipal revenue, leaving cities to depend increasingly on the property tax, revenue from which is more likely to be curtailed by hard times than from most other sources.

State dependence on the property tax has declined markedly throughout the whole United States. In 1915, 50.9 per cent of state tax receipts came from the general property tax. By 1937 the receipts from this tax had declined to 9.8 per cent of total state revenues.<sup>1</sup> In 1927, 12.33 per cent of the total receipts of the State of Tennessee came from the property tax; in 1936 only 1.7 per cent.<sup>2</sup> Cities, on the other hand, have been unable to free themselves from reliance on this more un dependable source of revenue. In 1936, 59 per cent of the revenues of the 94 American cities over 100,000 came from the property tax.<sup>3</sup> Though there has been a somewhat general but very gradual decrease in the amount of municipal revenue collected from property taxes,<sup>4</sup> the four larger cities of Tennessee show a growing dependence upon the property tax in the last 25 years. Table VI shows this clearly. That little or no increase in the per cent of total revenues derived from the property tax occurred in 1935 seems to indicate the unreliability of the tax in depression years.

Another factor which may be involved in this situation is a change in the pattern of cities in the last decade. There has been a noticeable decentralization of urban life going on. Commerce and industry have tended to move away from the center and cause a sharp decline in real estate values.<sup>4</sup> William Anderson points this out in reviewing "The Municipal Scene in 1939"<sup>5</sup> when he says: "They (the cities) continue to suffer from excessively high debts, declines in taxable values, considerable congestion and at the same time much decay at the center. As the leaders in business and the professions continue to move out to suburban areas, there is an inward trek of the underprivileged who come seeking larger relief payments and more adequate schools." Thus, "revenues are restricted, but demands for new services (and consequently new expenditures) know few bounds, for local government is close to the people. To it they look for the innumerable 'bread-and-butter' governmental services."<sup>6</sup>

As has been suggested, states have made up for loss of revenue from the property tax in many cases by resorting to sources of revenue which have been administered successfully by municipalities. The Committee on Local Government and Revenues of the Municipal Finance Officers Association says:<sup>7</sup> "States a few years ago raised their gas taxes, motor vehicle license fees, business license fees, and other revenue rates. Some adopted business and occupational license fees for the first time. Others enacted high liquor taxes. These were taxes upon which municipalities depended heavily before states took them over."

<sup>1</sup>Henry F. Long, "State and Local Government Taxes in the Crisis," Annals of the American Academy of Political and Social Science, v. 214, pp. 126-127, March, 1941.

<sup>2</sup>Computed from State of Tennessee, Annual Budget Report, 1936 and Condensed Financial Statement of Receipts and Disbursements, 1927-1936.

<sup>3</sup>"Improving Municipal Administration," American City, v. 53, p. 103, October, 1938

<sup>4</sup>R. Burr Smith, "Replanning for Depopulation," National Municipal Review, v. 28, p. 687, October, 1939.

<sup>5</sup>Municipal Year Book, 1940, p. 5.

<sup>6</sup>A. M. Hillhouse, New Sources of Municipal Revenue, p. 2.

<sup>7</sup>The Support of Local Government Activities, p. 51.

TABLE VI  
Per Capita and Per Cent of Total Revenue Obtained from Property Taxes in the Four  
Larger Cities of the State of Tennessee, 1915, 1925, 1935.<sup>1</sup>

	1915		1925		1935	
	Per Capita	Per Cent	Per Capita	Per Cent	Per Capita	Per Cent
Memphis	\$13.03	57.9	\$27.66	63.8	\$22.09	62.0
Nashville	10.22	53.8	19.90	59.5	21.38	60.2
Chattanooga	8.74	61.0	20.88	67.9	19.26	67.3
Knoxville	9.80	43.0	19.40	59.9	25.83	59.9

<sup>1</sup>From Financial Statistics of Cities, 1915, 1925, 1935.



Comptroller McGoldrick of New York City calls this "hijacking the cities."<sup>1/</sup>

A striking example of the usurpation of municipal revenue by the state is found in the general revenue bill enacted by the State of Tennessee in 1937.<sup>2</sup> Section II of that act prohibits any county or municipality from imposing "any tax upon the privileges mentioned in this section." Then follows a list of seventeen types of business the privilege of operating or maintaining which is taxed, chiefly on the gross receipts base. The municipalities of the state had been making use of many of these taxes. The gross receipts tax of the state, under which receipts from all the prohibited taxes except those on gross premiums of insurance companies are listed, rose from \$58,731.05 in 1937 to \$1,118,834.56 in 1938<sup>3</sup> and \$1,304,526.65 in 1940.<sup>4</sup> Neither the privilege nor the gross receipts taxes are listed as sources of revenue in the Annual Budget Report for the year ending June 30, 1936.<sup>5</sup> In 1938, however, these two taxes combined amounted to \$2,369,678.41<sup>6</sup> and in 1940 to \$2,609,282.85.<sup>7</sup> Consequently, revenues of Tennessee municipalities are declining in the face of demands for greater services.

The general outline of our story of the municipality in Tennessee is finished. It stresses the financial problems of municipalities to the exclusion of others because "the financial problems faced by Tennessee municipalities are exceedingly grave,"<sup>8</sup> and demand attention. The story lays no claims to being complete. It is intended to be suggestive rather than comprehensive. Much of it awaits further study. Some general conclusions may be deduced from this account, however. They follow:

(1) Tennessee municipalities are not sharing in state funds in proportion to their population or to their contributions to state funds or to their importance to the residents of the state.

(2) Tennessee municipalities are discriminated against in favor of counties as shown by such things as the larger proportionate share of state money disbursed to counties and the county trustees' being given an opportunity to deduct commissions from state funds apportioned to municipalities.

(3) The revenue needs of Tennessee municipalities show a constant rise as demands for services increase.

(4) The revenues of Tennessee municipalities show a decrease due to the encroachment of the state on their sources of revenue and to the unreliability of the property tax upon which they are forced to depend increasingly.

(5) The financial problems of Tennessee municipalities are of concern to the whole state. "The credit of the state cannot be separated from that of its subdivisions any more than the financial stability of a central bank can be safeguarded against financial folly on the part of its branches. Each unit acts and reacts upon the other, for no government can operate within a vacuum."<sup>9</sup>

(6) The financial problems of Tennessee municipalities cannot be solved without the help of the state and an appreciation of their difficulties by state officials. Greene and Abbott say that "the solution of Tennessee's urban revenue problems depends upon an adequate revision of state fiscal policy."<sup>10</sup>

<sup>1</sup>Lepawsky, "The Plight of our Cities," State Government, v.13, p.226, Nov., 1940

<sup>2</sup>State of Tennessee, 1937 Revenue Bill As Amended, pp. 58-68.

<sup>3</sup>Tennessee Taxpayers Association, The Dollars of the State Taxpayers in Tennessee Research Report No. 42, p. 6.

<sup>4</sup>State of Tennessee, Statement of Comparative Collected Revenues, 1940 and 1941.

<sup>5</sup>See p. 6.

<sup>6</sup>Tennessee Taxpayers Association, op. cit.

<sup>7</sup>State of Tennessee, Statement of Comparative Collected Revenues.

<sup>8</sup>Lee S. Greene and Lyndon E. Abbott, "Tennessee Cities a Proving Ground for Nation," National Municipal Review, v. 29, p. 668, October, 1940.

<sup>9</sup>George W. Spicer, "Fiscal Aspects of State-Local Relations," Annals of the American Academy of Political and Social Science, v. 207, p. 151, January, 1940.

<sup>10</sup>Op. cit., p. 668.

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( for explanation of notes see next page)

TENNESSEE STATE TAX COLLECTIONS  
For fiscal years ending June 30,

TAX	1931	1934	1937	1938	1939	1940	% 1931	% 1940
Admission and amusement:								
Theater	\$.....	\$.....	\$ 104	\$ 157360	\$ 185,836	226,003	....	.52
Alcoholic beverage:								
Beer		215,538	556,418	587,876	536,684	584,674	.39	4.88
Malt	100,032	22,265	3,791	2,146	2,621	1,730		
Stamps & licenses	.....	.....	.....	.....	270,544	1,521,283		
Chain store	.....	.....	50,058	68,450	69,970	108,152	....	.25
Franchise:							4.43	7.00
Privilege	a/ 1,141,574	a 819,886	1,016,671	1,094,387	1,073,002	1,106,361		
Corp. franchise	.....	.....	639,467	1,767,471	1,684,864	1,710,562		
Corp. filing & charter	b/	b/	123,558	201,597	146,968	210,766		
Gasoline etc:								
Gasoline c/	10,687,647	13,453,165	18,118,709	18,656,436	18,804,742	19,539,191	45.63	48.45
gas inspection	1,067,151	949,349	1,290,981	1,308,653	1,314,010	1,409,678		
Income (net):							4.93	8.07
Corp. excise	522,632	211,555	680,569	2,134,241	1,793,000	1,819,112		
Stock & Bond income	748,961	483,690	859,139	1,724,244	1,409,584	1,669,919		
Inheritance & estate	828,803	487,121	990,479	869,032	1,438,313	848,818)	3.22	1.98
Gift	.....	.....	.....	.....	.....	4,720)		
Insurance Co. d/	1,565,158	1,185,994	1,288,955	1,362,824	1,562,306	2,005,934	6.07	4.64
Signboard permits	.....	.....	.....	.....	.....	3,084	....	.01
Motor vehicle:							18.37	11.34
Registration	4,731,812	3,149,838	3,724,575	3,954,550	4,347,882	4,902,526		
Carrier's mileage e/	.....	164,289	289,343	327,469	294,865	2,069		
Oleomargarine stamp	b/	59	14,603	17,669	10,142	10,673	...	.02
State property tax	a/ 2,164,524	a/ 887,316	1,214,803	1,240,221	1,229,810	1,285,905	8.40	2.97
Soft drink:							.17	.38
Bottler	.....	.....	.....	55,961	68,514	74,699		
Carbonic acid gas	43,586	37,936	67,478	75,881	79,849	89,902		
Stock transfer etc:							....	.16
Mortgage	a/	a/	30,159	29,750	31,824	37,718		
Real estate transfer	a/	a/	115,193	131,482	130,192	160,177		
Tobacco	2,103,884	2,111,238	2,849,679	2,747,536	2,528,075	2,893,107	8.17	6.69
Utility:							.22	2.34
Fee	56,464	66,122	115,645	131,307	121,483	116,328		
Gross receipts	.....	.....	84,757	1,075,954	995,885	895,672		
TOTAL	25,762,228	24,245,359	34,125,139	39,722,497	40,130,965	43,239,263	100%	100%



# LEAGUE

ASK YOUR LEAGUE OFFICE FIRST

A CLEARING HOUSE FOR MUNICIPAL INFORMATION, OPERATED NOT FOR PROFIT BUT FOR SERVICE

The Tennessee Municipal League is the only official association of cities, towns, and Municipal Power Boards in the state. Its sole purpose is to serve these organizations in any way possible.

Quoting from the constitution, "The object of this organization shall be the general improvement and facilitation of every branch of municipal administration.

"The furnishing of information and service to municipalities and other units of local government, the safeguarding of interests, rights, and privileges of municipalities, as they may be affected by state and federal legislation, and to undertake any and all other activities consistent with better public administration."

The League substitutes facts for guesses in municipal work;

Makes it impossible for any city or town official to excuse a waste of public funds on theories and experiments which have failed in other municipalities;

Makes available to all city and town officials the best thoughts and efforts of every American municipality, so that failures may be avoided and successes repeated.

## AMERICAN MUNICIPAL ASSOCIATION

The American Municipal Association, with headquarters at 1313 East 60th Street, Chicago Earl D. Mallery, Executive Director, is the service agency for 42 Municipal Leagues. The Leagues have a membership of more than 8,000 cities and towns. This organization is owned and controlled by its member Leagues throughout the country, and, in turn, the Leagues are controlled and owned by their individual municipal members. In the same building with this association, which is located on the University of Chicago campus, are 19 organizations interested in some phase, or level of government.

This organization maintains an office in Washington, D. C., at 521--526 Transportation Building, and Roy H. Owsley is the Washington representative. This office is maintained for the purpose of keeping the League Secretaries and municipal officials advised as to the action of the Federal Congress that affects municipalities. When you are in the city of Washington, or when you need some service in a hurry, contact Mr. Owsley direct. He is there to serve you and will consider it a pleasure to make appointments or contacts, or to get any information you need. Make this office your Washington headquarters.

## "SOUTHERN CITY"

"Southern City" is the official publication of this League and 6 other Southern Leagues. This publication is owned and operated by municipal officials and for municipal interests. Municipal officials are invited to contribute articles at any time. The deadline is the 20th of each month. This is your magazine to support municipal interests and it deserves your support.

— LEAGUE DUES INCLUDE ALL SERVICES —