

A PROPERTY TAX CAP PUTS COMMUNITIES AT RISK

SB2064 (WATSON) / HB1873 (ZACHARY)

BACKGROUND

Proposed legislation restricts local governments to caps on property taxes. Although that may sound like a good thing for property owners, it will have an immediate and lasting negative impact on local government and residents.

PROBLEM

A property tax cap would restrict the main and most reliable revenue source for cities and towns. From funding police and fire departments; to building and maintaining roads, facilities, and utilities; to operating libraries and caring for parks; there are many costs to serve citizens and ensure quality of life. Property taxes are the primary means by which to cover the costs of services and infrastructure, respond to emergencies, and maintain financial stability. Capping property taxes would sharply reduce budget flexibility and hinder a city's ability to adapt to economic changes or unexpected needs.

Some argue that local governments could simply rely more on other taxes, but most municipalities don't have that option. Many Tennessee communities lack the businesses needed to generate lodging, mixed drink, or business tax revenue, and several of these taxes are already capped. Sales tax increases also require a referendum. As a result, many cities have little or no room to raise other taxes to make up for lost property tax flexibility, leaving them unable to offset the harm caused by a cap.

A property tax cap would hit smaller towns and cities the hardest, undermining their efforts to grow local economies and expand opportunities for residents. Many rural communities rely almost entirely on property taxes because they lack the retail, restaurants, and industry that generate other local revenues. Capping this primary revenue source would stall progress, deter new investment, and make it even harder to attract residents or businesses—accelerating population loss and limiting future development.

A property tax cap would threaten municipalities' ability to repay debt, making it harder to fund essential projects and driving up long term costs for taxpayers. It would put cities at risk of violating loan agreements, trigger credit rating downgrades, and raise interest rates on future borrowing.

A property tax cap would expose municipalities to fines, lost revenue, and loss of eligibility for federal and state grants or low interest loans if they can't meet mandated requirements. Cities and towns must carry out responsibilities assigned by state and federal law, often without enough outside funding to cover the full cost. If a cap limits the local revenue needed to meet these obligations, municipalities face penalties or must cut services and delay projects—either outcome harming residents.

A property tax cap could leave municipalities unable to meet state maintenance of effort rules or fulfill contractual obligations, putting them at risk of losing unrelated state revenues or facing other penalties. Many local dollars are already committed to mandated services, school funding requirements, E911 support, debt payments, employee benefits, and service contracts. If a cap prevents a city from maintaining required funding levels or paying its obligations on time, it could trigger financial liabilities, legal consequences, and further revenue losses.

SOLUTION

Oppose this legislation so that municipalities will not be forced to raise other taxes, adopt new ones they've long avoided, or increase property tax rates more frequently—ultimately making residents and businesses pay more and risking financial stability statewide.