



April 26, 2025

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# Special Consideration on School Debt, T.C.A. § 49-3-1005

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Dear Reader:

The following document was created from the CTAS website ([ctas.tennessee.edu](http://ctas.tennessee.edu)). This website is maintained by CTAS staff and seeks to represent the most current information regarding issues relative to Tennessee county government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with county government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other CTAS website material.

Sincerely,

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# Special Consideration on School Debt, T.C.A. § 49-3-1005

Reference Number: CTAS-1779

In a county having a city or special school district, both the county school board and commission should be aware of the requirements of the sharing of bond or loan proceeds where the indebtedness will be repaid from a county wide tax. State law and court cases have addressed the situations where the bonds or loan proceeds will be divided with the city or special school district based on the respective prorating of students if the entire county is charged with repaying the debt. A county can chose only to tax the properties outside of a city or special school district, and thus are not required to share in the bond or loan proceeds. This taxation is generally referred to as a Rural School Tax. T.C.A. § 49-3-1005 addresses the bond and loan proceeds and taxation issue.

In determining whether to issue county-wide debt or rural school debt, the county generally will determine the pro-rated value of property outside the city system and compare the property value to prorating of students between the two systems. For example, if the value of property outside of the city or special school district is 75 percent of the total county value and the county school system has 80 percent of students; the county may choose to issue county-wide debt. This county-wide debt would then reflect the county system receiving 80 percent of the funds and the city receiving 20 percent, but with the city property paying for 25 percent of the debt repayment cost.

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