TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 1676 - HB 2240

March 1, 2024

SUMMARY OF BILL: Requires municipalities to: (1) compile a report detailing the municipality's occupancy tax revenues, the amount of revenue spent, and how the expenditures were designated and used for tourism and tourism development; and (2) submit such report annually to the Comptroller of the Treasury (COT), the Chair of the State and Local Government Committee of the Senate, and the Chair of the Local Government Committee of the House of Representatives.

Requires the COT to audit the expenditures of occupancy tax funds and provides that if a municipality has spent the revenues for a purpose other than the promotion of tourism and tourism development, then the municipality shall appropriate from general funds, an amount equal to the amount spent improperly to be used to support tourism and tourism development within the immediately following fiscal year.

Prohibits certain municipalities from using occupancy tax revenues on general government spending or on items that were previously funded by general appropriations. Prohibits all municipalities from levying or increasing the occupancy tax if the aggregate total tax would exceed eight percent.

FISCAL IMPACT:

Increase State Expenditures – $356,900/FY24-25 and Subsequent Years

Increase Local Expenditures – $133,000/FY24-25 and Subsequent Years/ Permissive

Other Fiscal Impact – The timing and extent of the decrease and forgone local revenue cannot be determined with reasonable certainty.

Assumptions:

- Pursuant to Tenn. Code Ann. § 67-4-1402, municipalities may levy, modify, or repeal a privilege tax upon the privilege of occupancy in a hotel; the tax levied may not exceed four percent, unless such tax was levied or authorized before July 1, 2021.
- According to the COT, 133 cities levy an occupancy tax.

- Certified public accountant (CPA) firms are hired to perform audits of local governmental entities via a three-party contract between the specific entity, the firm, and the COT.
- It is assumed that CPAs already under contract with municipalities to perform annual audits will conduct the audits of occupancy tax revenues and expenditures.
- It is estimated that the hourly rate of a contracted auditor is $200 and the existing CPA contract will be amended to include an additional five hours of work; the increase in local government expenditures is estimated to be $133,000 [($200 x 5 hours) x 133 cities] in FY24-25 and subsequent years.
- The COT will require four additional auditors to fulfill the proposed audit procedures, resulting in an increase in state expenditures in FY24-25 and subsequent years as follows:

Title	Salary	Benefits	# Positions	Total
Legislative Auditor	$70,000	$19,221	4	$356,884

- Prohibiting a municipality from using occupancy tax revenues on general government spending or on items previously funded by general appropriations is not expected to have a significant impact on overall local expenditures.
- If a municipality is found to have spent occupancy tax revenues improperly, that municipality would be required to appropriate general funds in the same amount to be used for tourism and tourism development.
- It is assumed that municipalities will comply with the proposed legislation and direct funds to tourism and tourism development purposes; any increase in local expenditures due to appropriations from the general fund is estimated to be not significant.
- Beginning July, 1, 2025, the proposed legislation prohibits all municipalities from levying or increasing occupancy taxes in an amount that results in an aggregate total tax within the jurisdiction in excess of eight percent.
- According to the Municipal Technical Advisory Service, 32 cities currently exceed the proposed eight percent cap. These cities would be required to reduce their occupancy taxes, resulting in an unknown decrease in local revenue.
- Additionally, reducing the occupancy tax rate could have subsequent fiscal impacts if such cities have issued debt or entered in contracts based on occupancy tax revenues. The extent of any fiscal impact cannot be determined.
- At least 14 cities currently levy the proposed maximum eight percent tax rate; such cities would not be able to increase their occupancy rate in future years and would be required to decrease their rate if the county increased its own occupancy tax rate. Any such decrease is assumed to be equivalent to the increase in county rates; therefore, the net impact on overall local revenue from such actions is estimated to be not significant. The timing and extent of any foregone revenue due to the prohibition on increasing tax rates above the maximum eight percent are unknown.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Krista Lee Carsner

Krista Lee Carsner, Executive Director

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