

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 2615 - SB 2483

March 6, 2022

SUMMARY OF BILL: Allocates a portion of state sales and use tax revenue to a county that is economically distressed or a municipality within a county that is economically distressed for the purposes of funding certain capital outlay or other economic development and infrastructure projects. Establishes requirements for such allocations, which include appropriating and distributing the tax revenue derived from one percent of the tax rate on all sales in an eligible county or municipality. Requires one percent of the amount of sales and use tax revenue appropriated and distributed to be paid into the General Fund, to defray administrative costs.

Requires applicable local governmental bodies to adopt an appropriate resolution or ordinance to receive the apportionment of sales and use tax revenue. Requires that tax revenue appropriated and distributed to be used by eligible counties and municipalities exclusively for funding certain capital outlays or projects that will directly or indirectly create new economic growth.

ESTIMATED FISCAL IMPACT:

**Decrease State Revenue – \$20,000,000/FY22-23
\$40,000,000/FY23-24 and Subsequent Years**

**Increase Local Revenue – \$19,800,000/FY22-23
\$39,600,000/FY23-24 and Subsequent Years**

Other Fiscal Impact – The Department of Revenue will incur expenditures estimated to be \$68,900 in FY22-23 and \$63,700 in FY23-24 and subsequent years. These expenditures will be covered by the allocation of one percent of revenue dispersed or \$200,000 in FY22-23 and \$400,000 in FY23-24 and subsequent years.

Assumptions:

- The proposed legislation requires an amount of state sales and use tax revenue derived from one percent of the state sales and use tax rate imposed pursuant to Tenn. Code Ann. § 67-6-202 on all sales in a special district to be allocated to an eligible county or municipality in a special district that has adopted a resolution or ordinance accepting the apportionment and that meets all other established requirements for the purpose of funding economic development and infrastructure projects.

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- This special allocation will not apply to revenue derived from the increases in the sales tax rate from 5.5 percent to 7.0 percent. It is further assumed that the allocation will not apply to sales tax collections derived from cable TV, interstate telecommunication sales, prepaid wireless, additional single article sales tax, transportation equity, and E911 fees.
- According to analysis by the Department of Economic and Community Development, 84 of 95 counties would be eligible for receiving funds under this program.
- The proposed legislation states that all capital outlay projects must receive a determination by the Commissioners of the Departments of Finance and Administration and Economic and Community Development that these projects would be in the best interest of the state.
- Best interest of the state, as defined in the proposed legislation means a determination by the Commissioners of the Departments of Finance and Administration and Economic and Community Development that these projects are “a result of the of the tax revenue allocation provided in this section and that the economic benefits to this state resulting from the eligible project, outweigh the anticipated amount of the tax revenue allocation.”
- In other sections of code with “best interest of the state” language, the allocation of revenue is being made for entities with known tax liabilities, unlike the proposed legislation which is strictly for municipally owned capital outlay projects such as: roads, courthouses, administrative buildings, sewers, public safety facilities, railroads, seeking state grants, or expenses associated with engineering or legal drafting for these projects, and promotion of a tourism event.
- Because the projects listed in the proposed legislation do not have a direct tax liability being offset, the best interest of the state determination in the proposed legislation would be considered a secondary economic impact, and any economic benefits from these municipally owned projects are considered to be secondary economic impacts.
- It is therefore assumed that the reallocation of taxes would be a decrease in state revenue.
- Based on historical state sales tax collections generated within such counties, the Fiscal Review Committee’s staff estimates of sales tax collections, and accounting for the one percent allocation to the General Fund to offset the costs of administering this part, the proposed legislation would result in reallocation of approximately \$40,000,000 in state revenue to the local government, if all eligible localities elected to participate.
- Since the proposed legislation provides significant benefits to local governments, it is reasonably assumed that all such entities will elect to participate. However, the first-year impact, a decrease in state revenue and corresponding increase in local revenue (FY22-23) is estimated to be 50 percent of the full year impact, or \$20,000,000.
- In FY23-24 the decrease in state revenue and the corresponding increase in local revenue is estimated to be \$40,000,000.
- Due to the complexity and the number of eligible areas, the Department of Revenue (DOR) will require an additional Accountant position to accomplish the requirements of the proposed legislation. The recurring increase in state expenditures associated with such position are estimated to be \$63,720 (\$45,360 salary + \$14,460 benefits + \$3,900 other). The one-time increase in state expenditures associated with the position is estimated to be \$5,150.
- The total increase in state expenditures for DOR is estimated to be \$68,870 (\$63,720 + \$5,150) in FY22-23 and \$63,720 in FY23-24 and subsequent years.

- Such expenditures will be funded by the one percent allocation of the amount of the sales and use tax to be distributed pursuant to this act; therefore, \$200,000 ($\$20,000,000 \times 0.01$) will be allocated in FY22-23 and \$400,000 ($\$40,000,000 \times 0.01$) will be allocated in FY23-24 and subsequent years to DOR.
- The total increase in local revenue is estimated to be \$19,800,000 ($\$20,000,000 - \$200,000$) in FY22-23 and \$39,600,000 ($\$40,000,000 - \$400,000$) in FY23-24 and subsequent years.

CERTIFICATION:

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



Krista Lee Carsner, Executive Director

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