TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 1122 - HB 1312

March 10, 2019

SUMMARY OF BILL: Extends the date, from June 30, 2015, to June 30, 2019, by which a municipality must have passed a resolution by its respective legislative body, on a one-time basis, of property or properties initially included in a certified border region retail tourism district (district). Establishes that any successful resolution shall result in such property or properties being treated as if such property or properties were never included in any such district for purposes of calculating base tax revenues in such district, beginning with the fiscal year ending June 30, 2019, and such affected municipality shall not be entitled to receive any future incremental increases in tax revenues relating to businesses located on such excluded property or properties. Stipulates that any such resolution shall not affect any prior distribution of tax revenues for any such affected district for any fiscal year ending on or before June 30, 2018.

Establishes, that should any municipality elected to exclude property or properties from a respective district, an adjacent property or adjacent properties are eligible to be included in the certified district in a total acreage amount less than or equal to the total acreage of those properties excluded. Such an election to add additional properties must be designated by resolution of the respective municipal legislative body. Any election to add such adjacent properties shall not impact any prior distribution relating to such district for any fiscal year ending on or before June 30, 2018.

ESTIMATED FISCAL IMPACT:

Other Fiscal Impact – Passage of this legislation will result in direct impacts to state and local tax revenue. The timing, extent, and direction of any state revenue impact are unknown. In addition, the timing and extent of any permissive increase in local revenue is unknown. Further, passage of this legislation will result in indirect secondary economic impacts. Due to multiple unknown factors, the fiscal impact of this legislation cannot be determined with reasonable certainty.

Assumptions:

- Pursuant to Tenn. Code Ann. § 7-40-106(a), if a municipality or industrial development corporation finances, constructs, leases, equips, renovates, assists, incents, or acquires an extraordinary retail or tourism facility or a project in a certified district, then 75 percent of state sales and use tax collected in the district in excess of base tax revenues shall be apportioned and distributed to the municipality in an amount equal to the incremental increase in state sales and use taxes derived from the sale of goods, products, and services within the district in excess of base tax revenues.

- Pursuant to Tenn. Code Ann. § 7-40-106(b), apportionment and distribution of such taxes shall continue for a period of 30 years, or until the date on which all the cost of the economic development project, including any principal and interest on indebtedness, including refunding indebtedness of the municipality or industrial development corporation related to the development of the project have been fully paid, whichever occurs first.
- The apportionment of such taxes shall only take place if the Commissioner of Department of Revenue (DOR), with approval by the Commissioner of the Department of Economic and Community Development, determine that such allocation of state sales tax is in the best interest of the state. Best interest of the state means a determination that the economic development project or extraordinary retail or tourism facility within the district is a result of the special allocation and distribution of state sales tax, and the district is a result of the project or extraordinary retail or tourism facility.
- This program certified three cities prior to the January 1, 2012 deadline (Kingsport, Bristol, and East Ridge).
- The proposed legislation will allow any such city to exclude a property from a district by June 30, 2019, and replace it with an adjacent property.
- Authorizing such replacement could have an impact on state and local tax revenue in the following two ways: (1) a decrease in state revenue and an equivalent permissive increase in local revenue for projects that are currently in the development phase for the added properties and additional permissive expenditures for which a reimbursement is not available under current law; and (2) an increase in state revenue, and a permissive increase in local revenue, from projects that will only commence on such properties as a result of this legislation and the DOR's determination that any such project is in the best interest of the state. Relative to the latter, given such projects would not take place under current law in the absence of the special tax allocation; future sales tax revenue generated from the development would represent an increase in both state and local sales tax revenue. The 75 percent portion of sales tax revenue that would be transferred to the local government represents forgone revenue to the state.
- Further, it is reasonably assumed that a certain portion of tax revenue apportionments received by a municipality or industrial development corporation will be used to purchase tangible goods, all subject to state and local sales tax.
- The fiscal impact of this legislation is dependent upon several unknown factors such as the degree of future developments within any added properties that would not take place under current law, the degree of current developments on such properties that are taking place in the absence of this legislation, the degree to which existing taxable retail activities would be impacted by this legislation, the taxable sales and services that will occur in the future, and the total bond indebtedness incurred to finance developments within added properties.
- Due to multiple unknown factors, the timing, the extent, and whether state tax revenue would increase or decrease, cannot be determined with reasonable certainty. Further, the extent of any increase in local revenue cannot be determined.

- There could be subsequent increases in state and local government revenue and expenditures due to secondary economic impacts prompted by the passage of this legislation. Increases in revenue may occur if the number of businesses increase, and the number of jobs increase, as a result of this legislation. Increases in expenditures may occur if the demand for governmental programs and infrastructure increase as a result of any increased business presence in Tennessee. Due to multiple unknown factors such as the extent and timing of any increased business presence, the fiscal impacts directly attributable to such secondary economic impacts are considered indirect and cannot be quantified with reasonable certainty.

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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