TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL MEMORANDUM

HB 2883 - SB 2898

April 11, 2022

SUMMARY OF BILL AS AMENDED (017000): Requires that proceeds from the sale and conveyance of surplus real property or improvements used for operation of state prisons, if not managed as state office buildings and support facilities revolving fund property, be deposited in a reserve for correction facilities, within the General Fund, to be used for capital outlay for replacement facilities of the Department of Correction (DOC) and outer capital outlay of the Department.

Establishes that for FY22-23, the state employer 401(k) match equals 200 percent of the amount contributed by each state employee to the plan per month, up to a maximum of $100 per month. In subsequent fiscal years, such employer match reverts to the previous calculation.

Exempts from the sales tax on retail sales of food and food ingredients any such relevant transactions occurring between 12:01 a.m. on Monday, August 1, 2022, and Wednesday, August 31, 2022.

FISCAL IMPACT OF BILL AS AMENDED:

Decrease State Revenue – Net Impact - $53,659,500/FY22-23

Increase State Expenditures - $75,931,700/FY22-23

Increase Local Revenue - $1,326,500/FY22-23

The Governor's proposed budget for FY22-23, on page xxiv, recognizes a non-recurring appropriation of $48,300,000 to double the state match to employee 401(k) accounts. In addition, the administration's budget amendment recognizes a non-recurring decrease in state revenue of $80,000,000 for the sales tax holiday.

Assumptions for the bill as amended:

- Currently, proceeds from the sale and conveyance of surplus real property or improvements used for operations of state prisons, if not managed as state office buildings and support facilities revolving fund property, is deposited in the Sentencing Act of 1985 reserve. The proposed legislation will redirect such funding to a reserve for correction facilities within the General Fund. Any impact on DOC operations is estimated to be not significant.

Assumptions relative to the 401(k) match:

- Pursuant to Tenn. Code Ann. § 8-25-303 (a)(1), the state employer 401(k) match currently equals 100 percent of the amount contributed by each employee to the plan per month, up to a maximum of $50 per month, or alternatively, upon to a higher maximum that may prescribed in the annual General Appropriations Act.
- This legislation will result in a significant one-time increase in one-time expenditures in FY22-23 for the higher employer match contribution provided in this legislation.
- According to the Department of Treasury, the state match in FY20-21 totaled $35,670,817. The proposed legislation will double that match, resulting in a one-time increase in state expenditures in FY22-23 of $35,670,817.
- In addition, it is assumed that some employees that are currently contributing under the current maximum $50 match will be incentivized to increase their contribution due to the enhanced match.
- Based on information previously provided to the FRC staff, the number of employees currently contributing less than $50 per month is estimated to be 9,010. The average contribution of such employees is currently unknown but is assumed to be $35. It is assumed that 25 percent of such employees, or 2,253 (9,010 x 25%), will increase their contributions to $50 due to the proposed enhanced state match. The additional increase in state expenditures, not accounted in the $35,670,817 figure above, is estimated to be $30 per employee per month. The one-time increase in state expenditures in FY22-23 is estimated to be $811,080 (2,253 x $30 x 12).
- It is assumed that the proposed legislation will not incentivize any non-participating employees to commence participation in the program.
- The total one-time increase in state expenditures in FY22-23 is estimated to be $36,481,897 ($35,670,817 + $811,080).
- The Governor's proposed budget for FY22-23, on page xxiv, recognizes a non-recurring appropriation of $48,300,000 to double the state match to employee 401(k) accounts.

Assumptions relative to the sales tax holiday and total impact:

- September 2020 collections (August sales activity) for the state food sales tax equaled $46,269,517.
- Assuming a 10.96 percent growth rate in collections in FY21-22 and a 5 percent growth rate in collections in FY22-23 (FRC staff estimates), September 2022 collections are estimated to be $53,907,689 ($46,269,517 x 1.1096 x 1.05).
- To account for potential shifts in sales from July and from September to August, it is assumed there will be a 10 percent increase from the number given. Therefore, estimated September 2022 collections are $59,298,458 ($53,907,689 x 1.10).
- The state tax rate on food is 4.0 percent; the effective rate of apportionment to locals is 4.0276 percent.
- The decrease in state revenue for the tax holiday is estimated to be $56,910,153 [$59,298,458 x (100% – 4.0276%)].
- Pursuant to Tenn. Code Ann. § 67-6-710(h), local governments will be held harmless from the loss of revenue resulting from the sales tax holiday.

- An increase in state expenditures, as a result of holding locals harmless, is estimated to be $39,449,841 [($59,298,458 / 4%) x 2.5%) + ($59,298,458 x 4.0276%)]
- Fifty percent of tax savings will be spent in the economy on other sales-taxable goods and services.
- The amount spent from tax savings on other sales-taxable goods and services from the July 2022 tax holiday is estimated to be $48,179,997 [($56,910,153 + $39,449,841) x 50%].
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The increase in state revenue for the tax holiday is estimated to be $3,250,613 [($48,179,997 x 7.0%) – ($48,179,997 x 7.0% x 3.617%)].
- The total increase in local revenue for the tax holiday is estimated to be $1,326,487 [($48,179,997 x 2.5%) + ($48,179,997 x 7.0% x 3.617%)].
- The total net decrease in state revenue is estimated to be $53,659,540 ($56,910,153 - $3,250,613).
- A total increase in state expenditures in FY22-23 of $75,931,738 ($36,481,897 + $39,449,841).

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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