TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL MEMORANDUM

HB 524 - SB 1434

April 8, 2019

SUMMARY OF ORIGINAL BILL: Deletes antiquated statute which directs the Office of Small Business Advocate to report by February 15, 2013, to the Commerce and Labor Committee of the Senate and the Business and Utilities Committee of the House of Representatives the status of the Office's web page project.

FISCAL IMPACT OF ORIGINAL BILL:

NOT SIGNIFICANT

SUMMARY OF AMENDMENT (006942): Deletes all language after the enacting clause. Enacts the *Regional Retail Development District Act* (Act). Authorizes a municipal legislative body to adopt an ordinance establishing boundaries of a regional retail tourism development district (district). Limits one district per municipality. Such municipality must file a copy of such ordinance with the Commissioner of the Department of Revenue (DOR) along with a request for certification of the district. Requires, as a precondition to approval of the request, that the Commissioner of the DOR and the Commissioner of the Department of Economic and Community Development (ECD) determine whether the special allocation of state sales and use tax is in the best interests of the state. If approved, any municipality or industrial development corporation which finances, constructs, leases, equips, renovates, assists, incents, or acquires an extraordinary retail or tourism facility or project in a certified district may be apportioned seventy-five percent (75%) of state sales and use tax collected in the district in excess of base tax revenues. Stipulates that no portion of the state sales tax revenue derived from the increase in the rate of sales and use tax from five and one-half percent (5.5%) to six percent (6.0%), as reserved for the General Fund, nor revenue from the increase from six percent (6.0%) to seven percent (7.0%), as reserved for education, shall be distributed to the municipality as a result of this Act. Such apportionment and distribution must continue for a period of thirty (30) years, or until the date on which the entire cost of the economic development project, including any principal and interest on indebtedness, including refunding indebtedness of the municipality or industrial development corporation.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Increase State Revenue – Exceeds $862,500/FY20-21 and Subsequent Years

Forgone State Revenue – Exceeds $1,237,500/FY20-21 and Subsequent Years

Increase Local Revenue – Exceeds $1,987,500/FY20-21 and Subsequent Years

Other Fiscal Impact – Secondary economic impacts may occur as a result of this legislation due to increased business activity in Tennessee. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

Assumptions for the bill as amended:

- An effective date of July 1, 2019.
- This Act has an identical state sales and use tax apportionment formula to that of the *Border Region Retail Tourism Development District Act*.
- It is therefore assumed that the fiscal impact of this Act will be similar to the fiscal impacts experienced by the passing of the *Border Region Retail Tourism Development District Act*.
- Certification of a district and subsequent special allocation of state sales tax revenue will only occur if the Commissioners of DOR and ECD determine that such certification and allocation are in the best interest of the state, which means that the economic development project or extraordinary retail or tourism facility within the district is a direct result of the special allocation and distribution of state sales tax, and that the district is a result of the project or extraordinary retail or tourism facility.
- It is assumed that this Act will result in the certification of one regional retail development district.
- This Act will result in an increase in state revenue, forgone state revenue, and an increase in local sales tax revenue.
- 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 proposed legislation defines an extraordinary retail or tourism facility as a single store, series of stores, or other public tourism facility or facilities located within a regional retail tourism development district that includes retail or other public tourism facilities that are reasonably anticipated to draw at least 1,000,000 visitors per year upon completion. Such facility must reasonably be expected to require a capital investment of at least $20,000,000 and to remit at least $2,000,000 in state sales and use tax annually when completed.
- The degree of future developments within the district, the taxable sales and services that will occur in the future, and the total bond indebtedness incurred to finance development within the approved district are unknown.

- However, based on the requirement that an extraordinary retail or tourism facility remits at least $2,000,000 in state sales and use tax annually once completed, which would be based on minimum taxable sales of $28,571,429 ($2,000,000 / 7.0%), the taxable sales in such future certified district are reasonably estimated to exceed $30,000,000.
- An increase in state tax revenue exceeding $862,500 [($30,000,000 x 1.5%) + ($30,000,000 x 5.5% x 25%)].
- Forgone state sales tax revenue exceeding $1,237,500 ($30,000,000 x 5.5% x 75%).
- An increase in local tax revenue exceeding $1,987,500 [($30,000,000 x 2.5%) + ($30,000,000 x 5.5% x 75%)].
- It is assumed that that certification of such district will not incur until midway through FY19-20 and taxable sales will not be realized until July 1, 2020; therefore, the first fiscal year impacted by this legislation is assumed to be FY20-21.
- 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 direct 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.

IMPACT TO COMMERCE WITH PROPOSED AMENDMENT:

Other Fiscal Impact – Due to multiple unknown factors, an estimate on jobs and commerce in this state cannot be reasonably quantified, but both are assumed to be positive.

Assumption for the bill as amended:

- Due to multiple unknown factors, an estimate of the impact on jobs and commerce in this state cannot be reasonably quantified, but both are assumed to be positive.

CERTIFICATION:

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

Krista Lee Carsner

Krista Lee Carsner, Executive Director

/jdb