

FISCAL NOTE

HB 959 - SB 1535

March 2, 2007

SUMMARY OF BILL: Replaces personal income with the average of the sum of inflation and population change for each of the prior three fiscal years, as basis for determining the estimated rate of growth of the state's economy.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures – Not Significant

Assumptions:

- The estimated rate of growth for the state's economy is calculated from the established econometric model at least once a year. Such estimate is considered, in conjunction with other economic forecasts presented to the State Funding Board, for the purpose of deriving consensus state tax revenue estimates.
- The State Funding Board is not limited to consensus revenue estimates reflecting a rate of growth as estimated by the econometric model.
- T.C.A. 9-4-5203 requires additional legislation for years in which appropriations are estimated to grow faster than the state's economy as measured by the econometric model. Such legislation is typical during the legislative process and is often referred to as the indexing bill.
- Legislation required pursuant to T.C.A. 9-4-5203 would pass as required in future years when appropriations are estimated to grow faster than the state's economy as measured by the econometric model.
- Changing the variables within the econometric model will not change the process by which consensus state tax revenue estimates are adopted. As a result, the increase to state expenditures is estimated to be not significant.
- "Inflation" means the percentage change in the implicit price deflator for the United States for each fiscal year as published by the federal Bureau of Labor Statistics.
- "Population change" means the percentage change in state population for each fiscal year as reported by the Department of Economic and Community Development.

- According to Finance and Administration, if the consensus state tax revenue estimates were limited to the rate of growth as determined by the econometric model as proposed and personal income grew by 5.46% as it did in 2007, state appropriations would decrease by approximately \$76,500,000 in FY08-09.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is written in a cursive style with a large initial "J" and a distinct "W".

James W. White, Executive Director