

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

SB 2975 - HB 3341

February 23, 2010

SUMMARY OF BILL: Defines a method of determining the interest rate on Build America Bonds (BAB) issued by the Nashville Convention Center Authority to maintain rates below the formula rate.

ESTIMATED FISCAL IMPACT:

Decrease Local Expenditures – \$4,441,500 per year/FY10-11 - FY40-41/Permissive

Increase Federal Expenditures - \$14,311,500 per year/FY10-11 - FY40-41

Assumptions:

- This bill only applies to the Nashville Convention Center Authority.
- The American Recovery and Reinvestment Act of 2009 requires the United States Treasury Department to make payments to governments issuing BAB on each interest payment date equal to 35 percent of the interest paid.
- According to the Office of the Comptroller, the formula rate is 7.25 percent (prime plus four percent).
- The Nashville Convention Center Authority will issue 30-year bonds. The municipal interest rate is estimated to average 5.5 percent.
- The total annual interest expense is \$72,500 per \$1,000,000 in BABs issued ($\$1,000,000 \times 7.25\%$). The federal subsidy per \$1,000,000 in bonds issued will be \$25,375 ($\$72,500 \times 35\%$) and the portion owed by the Convention Center Authority will be \$47,125 ($\$72,500 - \$25,375$).
- The Nashville Convention Center Authority will issue \$564 million, or 90 percent of all Convention Center Authority Bonds as BABs, resulting in a total annual interest expense of \$40,890,000 ($\$72,500 \times 564$). The 35 percent federal subsidy will result in an annual increase to federal expenditures of \$14,311,500 beginning FY10-11 and ending FY40-41 ($\$40,890,000 \times 35\%$).
- At the current municipal rate of 5.5 percent, the annual debt service per \$1,000,000 is \$55,000 resulting in \$31,020,000 ($\$55,000 \times 564$) in total annual debt service for \$564 million in bonds.

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- There is a difference of \$7,875 per million in annual debt service dollars in bonds issued between the federal subsidy rate and the municipal rate (\$55,000 - \$47,125) resulting in an annual decrease to local government expenditures of \$4,441,500 ($\$7,875 \times 564$).

CERTIFICATION:

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

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

James W. White, Executive Director

/agl