TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 2976 - HB 3094

March 5, 2010

SUMMARY OF BILL: Establishes the "Tennessee Food Desert Relief Act." Authorizes the Tennessee Local Development Authority (TLDA) to issue revenue bonds to develop property for food desert relief enterprises that are unable to secure financing from the private sector. Authorizes the TLDA to make loans up to $500,000 under the Food Desert Relief Development Loan Program. Authorizes TLDA to require any reasonable security and that loan recipients comply with state or local zoning regulations. Authorizes TLDA to issue negotiable bonds and notes to assist lenders in financing food desert relief enterprises not to exceed $30,000,000 at any one time. Creates a Class E felony to falsify information to obtain financing through this program.

ESTIMATED FISCAL IMPACT:

Increase State Revenue - $589,200/Over-Time
$3,184,500 – 1st Year Loan Repayments

<u>$48,019,800 Over the life of the loans</u>
$29,460,000 Principal
$18,559,800 Interest

Increase State Expenditures – $589,200/Over-Time
$14,300/Recurring/Incarceration*
$3,300,000 – 1st Year Debt Service on Bonds

<u>$48,900,000 Over life of the bonds</u>
$30,000,000 Principal
$18,900,000 Interest

Assumptions:

- According to the Comptroller of the Treasury, $30 million in revenue bonds will be issued by the TLDA to make loans to any person or entity operating a food desert relief enterprise. A 1.80 percent cost to issue the bonds (or $540,000) will be included in the $30 million total.
- Upon the sale of $30 million in revenue bonds, TLDA will pay $540,000 in issuance costs resulting in $29,460,000 available to lend for food desert relief projects. No one

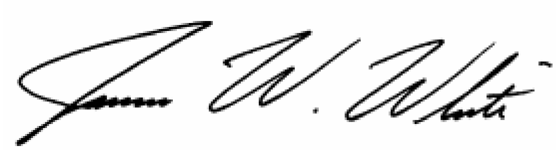
loan will exceed $500,000. According to S&P, the standard default rate for banks is 1.73 percent. Loan repayment to TLDA will be discounted by this rate.

- A two percent administrative fee will be assessed on each loan resulting in an increase to state revenue of $589,200 ($29,460,000 x 2%). It is unclear if fees will be assessed and become due at the issuance of each loan or if they will be paid over time.
- The assessment of fees will cover the costs associated with administration of the loan fund. Therefore, the increase to state expenditures is estimated to be $589,200 over the life of the issued bonds.
- Bonds will be amortized over a 20-year term at a six percent coupon rate resulting in first-year debt service to the state of $3,300,000.
- TLDA will make loans to food desert relief enterprises for the same term and interest rate paid on the issued bonds, discounted by the standard default rate of 1.73 percent.
- Total first-year loan repayments to the state from food desert relief enterprises are estimated to be $3,184,500.
- DOC estimates one additional Class E felony conviction every other year as a result of this bill.
- According to the Department of Correction (DOC), the average operating cost per offender per day for calendar year 2010 is $59.86.
- According to the U.S. Census Bureau, population growth in Tennessee has been 1.12 percent per year for the past 10 years, yielding a projected compound population growth of 11.78 percent over the next 10 years. No significant incarceration cost increase will occur due to population growth in this period.
- The maximum cost in the tenth year, as required by Tenn. Code Ann. § 9-4-210, is based on one offender every other year. According to DOC, the average post-conviction time served for a Class E felony is 1.31 years (478.48 days). The annualized cost per conviction is $14,320.91 (0.50 annual number of convictions x 478.48 days x $59.86).

*Tennessee Code Annotated, Section 9-4-210, requires that: *For any law enacted after July 1, 1986, which results in a net increase in periods of imprisonment in state facilities, there shall be appropriated from recurring revenues the estimated operating cost of such law. The amount appropriated from recurring revenues shall be based upon the highest cost of the next 10 years.*

CERTIFICATION:

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



James W. White, Executive Director

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