TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL MEMORANDUM

HB1827 - SB1420

May 18, 2011

SUMMARY OF AMENDMENTS (00588577, 00706763): Deletes the original bill. Creates the "Border Region Retail Tourism Development District Act" authorizing local governments to receive a 75 percent allocation of state sales and use taxes to fund the costs of any economic development projects in the district. Defines "extraordinary retail or tourism facility" as a store, series of stores, or other public tourism facility located within a district that is reasonably anticipated to draw at least one million visitors and is expected to require a capital investment of at least $20 million while remitting at least $2 million in state sales and use tax. Requires the legislative body of a municipality receiving an apportionment of state sales and use taxes to adopt an ordinance designating the boundaries of the district and to file a certified copy of the ordinance and a project master plan with the Department of Revenue. Limits each municipality to one such district. Requires the Commissioner of Revenue and the Commissioner of Economic and Community Development (ECD) to make a determination that such special allocation of state sales tax revenue is in the best interest of the state. Prohibits financial assistance to an existing retailer located within a fifteen-mile radius of the district. Amendment 00706763 makes a technical correction to amendment 00588577.

FISCAL IMPACT OF ORIGINAL BILL:

Decrease State Revenue – $5,548,200
Increase State Expenditures – Not Significant

Increase Local Revenue – $5,548,200
Increase Local Expenditures – Not Significant

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:

Forgone State Revenue – $4,000,900
Increase State Revenue – $2,788,700
Increase State Expenditures – Not Significant

Increase Local Revenue – $4,000,900
Increase Local Expenditures – Not Significant

Assumptions applied to amendments:

- Defines “border regional retail tourism development district” as one or more parcels of real property located in a municipality, some part of whose corporate limits border a neighboring state, and which is no more than one-half mile from an existing federally designated interstate exit, no more than 12 miles from a state border as measured by straight line, no larger than 950 total acres and is designated as a border regional retail tourism development district by a municipal ordinance and certified by the Commissioner of Revenue.
- Defines “cost” to mean all cost of an economic development project in a district incurred by the municipality or industrial development corporation.
- Municipalities in Bradley, Campbell, Cocke, Giles, Hamilton, Hawkins, Marion, Montgomery, Robertson, Shelby, Sullivan and Sumner Counties will be authorized to create a Region Retail Tourism Development District.
- The fiscal impact of this bill is dependent upon several unknown factors such as the degree of future development 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.
- According to the Department of Revenue (DOR), total sales tax collections from eligible counties in FY09-10 was approximately $1,697,400,000. Of each tax dollar collected, 78.57 percent (or 5.5% of the 7% tax) will be subject to state general fund and 21.43 percent (or 1.5% of the 7% tax) is earmarked for state education purposes.
- Estimate assumes one municipality in each eligible county will establish a Border Regional Retail Tourism Development District.
- According to DOR, districts would contribute 10 percent of sales taxes.
- According to DOR, the average sales tax growth rate is four percent.
- Seventy-five percent of incremental state sales and use tax collected in established districts in excess of base tax revenues will be allocated to local governments. Twenty-five percent of incremental revenue will return to the state.
- Base tax revenues in established districts are estimated to be $169,740,000 ($1,697,400,000 x 10%).
- Sales tax collections in year FY11-12 are estimated to be $176,529,600 ($1,697,400,000 x 10% x 1.04%).
- Incremental revenue is estimated to be $6,789,600 ($176,529,600 - $169,740,000).
- There will be an increase to state revenue of approximately $1,455,011 ($6,789,600 x 21.43%) dedicated for state education purposes.
- The remaining incremental revenue from which the local portion may be determined is $5,334,589 ($6,789,600 - $1,455,011).
- Given that this bill makes a special allocation of future state sales tax revenue (revenue which is not currently being collected), and because the Commissioners of Revenue and ECD are required to make a determination that the special allocation of state sales tax revenue is in the best interests of the state, the revenue impact to the state is considered to be forgone revenue.

- There will be an increase to state revenue from incremental tax revenue of approximately $1,333,647 ($5,334,589 x 25%) resulting in total forgone state revenue estimated to exceed $4,000,942 ($5,334,589 - $1,333,647).
- The total increase to state revenue is estimated to exceed $2,788,658 ($1,455,011 + $1,333,647).
- Local revenue will increase by an unknown amount estimated to exceed $4,000,942 per year as a result of the special allocation of state sales tax revenue.
- There will not be a significant increase to state or local expenditures to prepare or review applications.
- Amendment 00706763 makes a technical correction and will not affect the fiscal impact of the bill as amended.

CERTIFICATION:

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

James W. White, Executive Director

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