TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 1877

March 16, 2014

SUMMARY OF BILL: Prohibits county legislative bodies from increasing local option sales taxes or property taxes to offset revenue shortfalls or to meet expenditure requirements in excess of budgeted appropriation levels prior to using existing county surplus revenue. Prohibits counties from setting appropriations based on anticipated surplus revenue. Requires county revenue shortfalls to be offset by reductions in expenditures prior to using county surplus revenue. Requires any county surplus revenue to be applied toward the payoff of the highest interest bearing debts of the county and any idle county funds not expended for their purpose to be rolled into the originating account. Repeals Tenn. Code Ann. § 5-8-301 and § 5-8-302 relative to authorized investments for counties and county committees on investment. Repeals the Local Government Investment Pool (LGIP) and deletes reference to the ability of local governments, the Education Lottery Corporation, Energy Acquisition Corporations, utility districts, Convention Center Authorities, Community Services Agencies, and State Veterans Homes to invest idle funds in the LGIP throughout statute.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Exceeds $800,000

Other Fiscal Impact - Any fiscal impact to local government is indeterminable due to multiple unknown variables.

Assumptions:

- According to the Office of the Comptroller of the Treasury, the provisions of the bill will not result in any significant fiscal impact to the office.
- According to the Department of Treasury, the termination of the LGIP will result in a loss of state revenue through the loss of administrative fees charged to LGIP participants.
- Based on information provided by the Department of Treasury, the LGIP is a component of the State Pooled Investment Fund (SPIF). All participants of the SPIF are assessed an administrative fee of five basis points to offset the costs of administering the fund.
- A basis point is used to denote the change in a financial instrument and is commonly used for calculating changes in interest rates, equity indexes, and the yield of a fixed-income security and is equal to one hundredth of one percent of invested funds.

- Currently, local governments invest approximately $1,600,000,000 in the LGIP; as a result, the recurring decrease in state revenue from the loss of administrative fees is estimated to exceed $800,000.
- It is assumed local governments would reinvest such funds currently invested in the LGIP into other entities.
- Due to multiple unknown factors, such as the extent of funds that will be invested by local governments, the extent of any fluctuation in revenue currently received by local governments as opposed to the revenue received after investing in other entities, the extent of counties currently offsetting revenue shortfalls by increasing local option sales taxes or property taxes, and the number of counties currently making appropriations in anticipation of surplus revenue, a precise impact to local government revenue cannot be reasonably determined.

CERTIFICATION:

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

Lucian D. Geise, Executive Director

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