

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 188 – SB 352

February 19, 2015

SUMMARY OF BILL: Replaces the civil penalty, which the Comptroller is currently authorized to levy up to \$50 per violation day, against any municipality determined to be in violation of the Municipal Finance Officer Certification and Education Act of 2007, with a new penalty up to 15 percent of the sales tax revenue allocated in a fiscal year by the state to a municipality, when the municipality is found in violation of Tenn. Code Ann. § 6-56-402, which is the requirement for such municipality to have employed at least one certified municipal finance officer (CMFO) or another official who is responsible for the municipality's financial operations.

Requires any amounts of sales tax revenue withheld to be deposited into a reserve account by the Department of Revenue and allocated to the municipality after the municipality comes into compliance with Tenn. Code Ann. § 6-56-402, as determined by the Comptroller.

ESTIMATED FISCAL IMPACT:

Other Fiscal Impact – To the extent the state temporarily withholds an allocation of sales tax revenue to a non-compliant local government entity; the respective local government entity could incur additional expenditures if operations had to be temporarily financed with debt. The extent of any possible impact cannot be quantified because of several unknown factors. To the extent any local government entity is compliant by having an employee who is a Certified Municipal Finance Officer, or to the extent any non-compliant entity has surplus funding available for temporarily financing operations; the fiscal impact of this bill is estimated to be not significant.

Assumptions:

- Pursuant to Tenn. Code Ann. § 6-56-402, any municipality with more than \$500,000 in revenue or more than \$500,000 in debt is required to employ a CMFO with oversight responsibility.
- According to the Comptroller of the Treasury, the \$50 per day fine under current law for non-compliance has never been assessed or collected.
- Once relevant municipalities come into compliance with existing law, any allocation of sales tax funding that is withheld pursuant to the provisions of this bill is subsequently returned to the municipality upon certification of compliance by the Comptroller.

- Any local government entity found in non-compliance makes the changes necessary to become compliant; therefore, no permanent loss of allocated funding to local government entities.
- Non-compliant municipalities will temporarily lose the use of sales tax funding for any time of non-compliance. This could result in a period of time the non-compliant municipality would operate with a shortfall of funding. To this extent, any such municipality may have to obtain funding from other sources which may include debt financing to finance operations, which would increase expenditures for the respective local government. Any such impact is dependent upon several unknown factors, such as the municipality that is non-compliant, the extent of sales tax revenue being temporarily withheld, the length of time the municipality is non-compliant, the extent of other funding sources available to the non-compliant municipality, and the terms of any financing instruments used to acquire temporary funding.

CERTIFICATION:

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



Jeffrey L. Spalding, Executive Director

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