

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 2120 - SB 2634

February 25, 2018

**SUMMARY OF BILL:** Enacts the Food Desert Relief Enterprise Program (the Program) to encourage the financing and development of food desert relief enterprises that sell fresh food in low-income, underserved areas of the state. The Program is a pilot program and shall be administered by the Department of Economic and Community Development (ECD). The Program will terminate January 1, 2034, unless extended by the General Assembly.

Establishes the Fresh Food Financing Fund (the 3F Fund). Beginning July 1, 2018, 0.0625 percent of the rate of food retail sales tax imposed by Tenn. Code Ann. § 67-6-228(a) on retail sales of sugar-sweetened beverages shall be deposited in the 3F Fund for the sole use of ECD to fund grants and loans awarded under the Program. The 3F Fund shall consist of gifts, grants, and other donations received by ECD and funds appropriated by the General Assembly. Funds in the 3F fund may be used by ECD for program administration, marketing expenses, and program evaluation; however, such expenses may not exceed two percent of the total amount appropriated for the program in any fiscal year. Money in the 3F Fund does not revert to the General Fund at fiscal year's end, but shall be carried forward into the subsequent fiscal year. Money in the 3F Fund shall be invested by the State Treasurer with any earnings on such investments being invested as well.

Authorizes ECD to make grants and loans from the 3F fund solely for the development of food desert relief enterprises that private industry alone would not otherwise be able to serve, at interest rates lower than would otherwise be obtainable. ECD may only make grants or loans from the 3F Fund to governmental entities, which shall use such proceeds to award grants or loans to food desert relief enterprises. Defines "food desert relief enterprise" as a supermarket or grocery retailer that operates on a self-service basis, having at least fifty percent (50%) of revenue derived from the sale of groceries, produce, meat, baked goods, or dairy products, or a farmers market, in an underserved area. Restricts any one such grant from exceeding \$250,000. Restricts any one loan made by a government entity, to finance a single food desert relief enterprise, from exceeding an aggregate principal amount of \$500,000. Authorizes ECD to invest in, purchase or make commitments to invest in or purchase, and take assignments of loans made by a governmental entity, for the construction, rehabilitation, or purchase of food desert relief enterprises.

Requires ECD to report on the pilot program, no later than February 1 of each year during the existence of the Program, to the Senate Commerce and Labor Committee and the Business and Utilities Committee of the House of Representatives. Such report must include information concerning the amount of each grant or loan authorized, the name of the food desert relief enterprise receiving the benefit of the grant or loan, and the total outstanding grants and loans.

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**ESTIMATED FISCAL IMPACT:**

**Increase State Revenue -**

**\$733,200/Each Year FY18-19 through FY32-33/3F Fund**  
**\$366,600/FY33-34/3F Fund**

**Decrease State Revenue –**

**\$733,200/Each Year FY18-19 through FY32-33/General Fund**  
**\$366,600/FY33-34/General Fund**

**Increase State Expenditures –**

**\$90,400/FY18-19/General Fund**  
**\$83,200/Each Year FY19-20 through FY32-33/General Fund**  
**\$41,600/FY33-34/General Fund**  
**\$733,200/Each Year FY18-19 through FY32-33/3F Fund**  
**\$366,600/FY33-34/3F Fund**

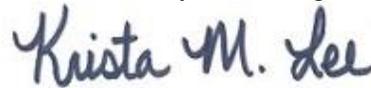
Assumptions:

- An effective date of July 1, 2018. This Program will terminate on January 1, 2034, or FY33-34, unless extended by the General Assembly.
- Pursuant to Tenn. Code Ann. § 67-4-402(b)(1), the privilege tax on sales of bottled soft drinks is equal to 1.9 percent of gross receipts.
- According to the Department of Revenue (DOR), bottlers gross receipts collections in FY16-17 were approximately \$14,858,810.
- The estimated amount of gross receipts by bottlers is \$782,042,632 (\$14,858,810 / 1.9%). This amount represents wholesale sales of bottled soft drinks in this state.
- Approximately 75 percent of such wholesale sales are estimated to come from the sale of sugar-sweetened beverages.
- The amount of gross receipts attributed to wholesale sales of sugar-sweetened beverages is estimated to be \$586,531,974 (\$782,042,632 x 75%).
- Based on available research, retail markup for sales of sugar-sweetened beverages is estimated to be approximately 100 percent.
- The retail sales of such beverages are estimated to be \$1,173,063,948 (\$586,531,974 x 2). This number is assumed to remain constant into perpetuity.
- This legislation takes revenue generated from the 0.0625 percent of the sales and use tax rate and deposits such amount into the 3F Fund.
- An estimated \$733,165 (\$1,173,063,947 x 0.0625%) of funds currently allocated to the General Fund will now be deposited each year into the 3F Fund in FY18-19 through FY32-33. Due to the termination date of January 1, 2034, only \$366,582 will be transferred in FY33-34 (\$733,165 x 50%). It is assumed that local government revenue will not be impacted.
- Based on information available from the U.S. Department of Agriculture, there are currently 66 tracts of land in Tennessee that are classified as food deserts.

- Given the total amount expected to be allocated to the 3F Fund each year (\$733,165) and the number of food deserts, and subsequently, the number of potential locations for a food desert relief enterprise, it is reasonably estimated that all funds in the 3F will be expended each year, by way of loans, grants, and expenses incurred by the ECD.
- The ECD will make grants and loans from funds allocated to and residing in the 3F Fund.
- According to the ECD, it will require one additional program director position to operate the Program.
- A recurring increase in state expenditures of \$97,801 (salary \$72,684 + benefits \$14,407 + FICA \$5,560 + travel \$5,000 + supplies \$150), and a one-time increase in state expenditures of \$7,200 (equipment \$1,600 + training \$5,000 + computer-related costs \$600).
- An increase in state expenditures in FY18-19 of \$105,001 (\$97,801 + \$7,200).
- A recurring increase in state expenditures in FY19-20 through FY32-33 of \$97,801.
- An increase in state expenditures in FY33-34 of \$48,900 (\$97,801 x 50%).
- Pursuant to Section 3(d) of the legislation, money in the 3F Fund may be used by ECD for the administration, marketing expenses, and program evaluation of the Program; however, the expenses shall not exceed two percent of the total amount appropriated for the program in any fiscal year.
- Given such language, only \$14,633 ( $\$733,165 \times 2\%$ ) may be used by the ECD for such expenses in FY18-19 through FY32-33, and only \$7,332 ( $\$366,582 \times 2\%$ ) in FY33-34; therefore, it is estimated that expenditures incurred for the additional position will necessitate an additional appropriation to ECD via the General Appropriations Act or the use of existing resources, which would reduce reversions at fiscal-year end.
- For the purposes of this fiscal analysis, it is assumed that an appropriation from the General Fund will be made to ECD to fund the difference of \$90,368 in FY18-19 ( $\$105,001 - \$14,633$ ), the difference of \$83,168 in each year FY19-20 through FY32-33 ( $\$97,801 - \$14,633$ ), and the difference of \$41,568 in FY33-34 [ $\$48,900 - \$7,332$ ].

## **CERTIFICATION:**

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



Krista M. Lee, Executive Director

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