TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL MEMORANDUM

HB 2111 - SB 2826

June 8, 2020

SUMMARY OF ORIGINAL BILL: Increases, from 10 to 15 percent, the amount of qualified voters' signatures required on a petition to call for a referendum regarding implementation of a privilege tax within a Tourism Development Zone.

FISCAL IMPACT OF ORIGINAL BILL:

NOT SIGNIFICANT

SUMMARY OF AMENDMENTS (015726, 018310): Amendment 015726 deletes all language after the enacting clause. Expands the definition of qualified public use facility (QPUF) and establishes that such facilities receive apportionment of municipal privilege taxes assessed within a Tourism Development Zone (TDZ).

Amendment 018310 adds language to the bill as amended by Amendment 015726 to decrease, from one mile from the outer perimeter of a QPUF to one-half of a mile from the outer perimeter of a QPUF, the allowable radius of a TDZ; and decreases, from three square miles to one and one-half square miles, the allowable total size of a TDZ when the geographical configuration is extended pursuant to approval of the Department of Finance and Administration (F&A).

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:

Other Fiscal Impact – Due to multiple unknown factors, a precise recurring increase in state revenue and recurring decrease in local revenue cannot reasonably be determined.

Assumptions for the bill as amended:

- Pursuant to Tenn. Code Ann. § 67-4-3002 through § 67-4-3005:
    - A QPUF is any building, complex, center, or facility meeting certain square footage and investment parameters, acquired by a local government entity;
    - A privilege tax not to exceed 5 percent is levied on business activity conducted within a QPUF;
    - Revenue collected from the privilege tax is deposited into a fund utilized for paying the cost of the QPUF. Remaining revenue is deposited into the local government's general fund;

- The QPUF receives tax proceeds from such privilege tax as well as a portion of state and local sales taxes collected within the TDZ, pursuant to Tenn. Code Ann. § 7-88-106; and
    - The QPUF receives such taxes until the earlier of (1) the cumulative amount received equals the cost of the QPUF plus interest on indebtedness; (2) the date the QPUF ceases to be a QPUF; or (3) 30 years from the date the QPUF commences operations.
- Pursuant to Tenn. Code Ann. § 7-88-105 through § 7-88-117:
    - A TDZ shall not extend farther than one mile from the outer perimeter of a QPUF; provided however that in certain circumstances, as determined by F&A, such zone may extend further than one mile from the outer perimeter but the size of the TDZ shall not exceed three square miles;
    - State and local sales and use taxes shall be apportioned and distributed to the municipality in an amount equal to the incremental increase in state and local sales and use tax revenue derived from the sale of goods, products, and services within the TDZ in excess of base tax revenues, excluding any increase in the state rate for sales and use tax; and
    - Any metropolitan government which has created a TDZ which completely includes one or more Central Business Improvement Districts (CBIDs), may impose an additional fee not to exceed 0.25 percent on the sales price of services and tangible personal property sold within the CBID;
- The proposed language:
    - Decreases the allowable size of a TDZ from the outer perimeter of a QPUF;
    - Expands the definition of QPUF to include: (1) a full-service hotel with at least 250 rooms, retail, commercial, and parking space located within the TDZ; and (2) a mixed-use development which includes a full-service hotel with at least 150 rooms, retail, office, apartment, and other commercial or residential uses within the TDZ;
    - Such new QPUFs would only be eligible to receive revenue from the local privilege tax on business activity conducted within the QPUF;
    - The QPUFs would receive funds for the same length of time as previously authorized QPUFs; and
    - Remaining revenue from collections on the privilege tax is deposited into the local government's general fund.
- Expanding the definition of QPUF will result in an increase in local revenue collected from the levy of privilege taxes within new QPUFs and an equal, corresponding increase in expenditures for payment of debt service associated with such QPUFs. The permissive net impact to local government is considered not significant.
- Decreasing the allowable size of a TDZ will result in:
    - A decrease in revenue distributed to the local government from the collection of state sales and use tax collections beyond the base tax revenue collected within the TDZ; and
    - An equal, corresponding increase in state revenue as a result of such state sales tax no longer being distributed to the local government.

- If the TDZ also contains a CBID and constriction of the allowable size of such TDZ disqualifies such CBID from assessment of an additional maximum 0.25 percent fee within the CBID, it will result in a recurring decrease in local government revenue.
- Due to multiple unknown factors such as the amount of state revenue currently collected and distributed to applicable local governments, if any applicable TDZ contains a CBID, and the extent of revenue currently allocated to applicable local governments as a result of any fee assessed within the CBID, a precise recurring increase in state revenue and decrease in local revenue cannot reasonably be determined.

CERTIFICATION:

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

Krista Lee Carsner

Krista Lee Carsner, Executive Director

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