

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

HB 634 - SB 1460

March 11, 2019

SUMMARY OF ORIGINAL BILL: Exempts from state and local sales and use tax any water furnished by a utility district that is used exclusively in a farming operation.

FISCAL IMPACT OF ORIGINAL BILL:

Decrease State Revenue – Net Impact – \$589,900

Decrease Local Revenue – Net Impact – \$240,700

The Governor's proposed budget document for FY19-20 (page A-37) reflects a recurring decrease in revenue to the General Fund of \$567,200 for this purpose.

SUMMARY OF AMENDMENT (005235): Deletes and replaces language of the original bill without making any substantive changes to the legislation.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Unchanged from the original fiscal note.

Assumptions for the bill as amended:

- Exempting from state and local sales and use tax any water furnished by a utility district that is used exclusively in a farming operation will result in a reduction in state and local sales tax revenue.
- According to the Department of Revenue, and based on data from the National Agricultural Statistics Service at the U.S. Department of Agriculture, total utility expenses of Tennessee farms in 2017 was \$84,870,057.
- There has been, on average, 4 percent annual growth for utility expenses since 2013.
- Total utility expenses of \$88,264,859 for FY18-19 (\$84,870,057 x 104%).
- Total utility expenses of \$91,795,453 for FY19-20 (\$88,264,859 x 104%).
- An estimated 10 percent of utility expenses account for water consumption used exclusively in a farming operation.

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- Taxable water consumption in FY19-20 is estimated to be \$9,179,545 ($\$91,795,453 \times 10\%$). This number is assumed to remain constant into perpetuity.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- A recurring decrease in state revenue of \$619,326 [$(\$9,179,545 \times 7\%) - (\$9,179,545 \times 7\% \times 3.617\%)$].
- A recurring decrease in local revenue of \$252,731 [$(\$9,179,545 \times 2.5\%) + (\$9,179,545 \times 7\% \times 3.617\%)$].
- Fifty percent of tax savings, or \$436,029 [$(\$619,326 + \$252,731) \times 50\%$], will be spent in the economy on other sales-taxable goods and services.
- The recurring increase in state sales tax collections is estimated to be \$29,418 [$(\$436,029 \times 7\%) - (\$436,029 \times 7\% \times 3.617\%)$].
- The recurring increase in local sales tax collections is estimated to be \$12,005 [$(\$436,029 \times 2.5\%) + (\$436,029 \times 7\% \times 3.617\%)$].
- The net recurring decrease in state revenue as a result of this legislation is estimated to be \$589,908 ($\$619,326 - \$29,418$).
- The net recurring decrease in local revenue as a result of this legislation is estimated to be \$240,726 ($\$252,731 - \$12,005$).

CERTIFICATION:

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



Krista Lee Carsner, Executive Director

/jdb