

Effect of Revenue Changes Enacted 2012-2017 on Chattanooga

The estimates shown are based on the Fiscal Review Committee's actual fiscal notes for the bills passed into law, and allocated proportionally based on the 2016 certified populations or 2014-2016 average Hall Income Tax proportions. These estimates do not assume any growth in the tax base; therefore, any reduction prior to 2017 may currently be higher or lower depending on the actual growth.

Changes Prior to IMPROVE Act

Reductions in Sales Tax on Food Rate

Sales Tax on Food rate was reduced two times between 2012 and 2016. The 2012 reduction resulted in a reduction in state shared sales revenues to Chattanooga of \$(27,294). In 2013, the rate reduction on food reduced state shared sales revenues to Chattanooga of \$(37,375).

Increase in Hall Income Tax Exemptions

Hall exemptions were increased three times between 2012 and 2016. The 2012 increase from 16k/27k to 26k/37k reduced Chattanooga Hall revenues by \$(25,166). The 2013 increase to 33k/59k reduced Chattanooga revenues by an additional \$(32,681). The final increase in exemption to 37k/68k in 2015 further reduced Chattanooga revenues by \$(21,264).

Reduction in Hall Income Tax Rate

The 2016 reduction in the Hall Tax rate from 6% to 5% reduced Hall revenues to Chattanooga by \$(627,137).

IMPROVE Act Changes

Gasoline & Diesel Fuel Tax Revenues

Improve Act will increase gasoline & diesel shared revenues to Chattanooga by estimated \$975,147 in the first year. When fully phased in, Improve Act will have increased gas/diesel to Chattanooga by projected total of \$1,636,037.

Reduction in Sales Tax on Food Rate

Enacted reduction in the state sales tax rate on food will result in an estimated reduction of \$(266,625) in state shared taxes to Chattanooga.

Phased Elimination of Hall Income Tax

Enacted Hall phase-out will reduce Hall revenues to Chattanooga by an estimated \$(747,966) in first year, \$(2,243,899) in first three years of phase-out and a total projected reduction of \$(3,739,826) when Hall is eliminated.

IMPROVE Act, as Modified by Chairman Doss' Proposal

- Proposed 95-5 reallocation of the gas/diesel tax will reallocate the current fuel tax collections so that 95% of the collections assigned to cities will be distributed on a per capita basis, while 5% will be allocated so that each city receives an equal amount. This change will result in a \$(299,387) difference to Chattanooga.
- Proposed increase in the “sharing percentage” of State Shared Sales Tax to cities from 3.6 to 4% will provide an estimated increase of \$1,727,042 in state shared sales tax revenue to Chattanooga.
- The interaction of Chairman Doss' Proposal and the enacted Improve Act will result in an estimated net impact of \$(1,713,678) in funds flowing to Chattanooga as compared to an estimated net impact of \$(2,370,415), if the Doss Proposal is not enacted.

Impact of Revenue Changes Enacted 2012-2017 and Impact as Modified by Doss Proposal on Chattanooga

PRIOR CHANGES (2012-2016)

General Fund (Discretionary)

2012 Food Tax.....	\$(27,294)
2013 Food Tax.....	(37,375)
2012 Hall Income Exemption (26k/37k)	(25,166)
2013 Hall Income Exemption (33k/59k)	(32,681)
2015 Hall Income Exemption (37k/68k)	(21,264)
<u>2016 Hall Income Rate Cut (6% to 5%)</u>	<u>(627,137)</u>

Total Prior Changes (2012-2016)..... \$(770,918)

IMPROVE ACT CHANGES

State Street Aid Fund (Roads)

Gasoline Tax Increase in Year 3	\$1,202,752
<u>Diesel Tax Increase in Year 3.....</u>	<u>433,285</u>
Subtotal.....	\$1,636,037

General Fund (Discretionary)

Sales Tax on Food Rate Reduction	\$(266,625)
<u>Hall Income Tax Full Elimination.....</u>	<u>(3,739,826)</u>
Subtotal.....	(4,006,452)

Total IMPROVE Act Changes..... \$(2,370,415)

Total All Changes 2012-IMPROVE **\$(3,141,333)**

DOSS MODIFICATIONS TO IMPROVE ACT

State Street Aid Fund (Roads)

95-5 Sharing Gasoline Tax Impact.....	\$958,532
<u>95-5 Sharing Diesel Tax Impact.....</u>	<u>378,118</u>
Subtotal.....	\$1,336,650

General Fund (Discretionary)

Sales Tax on Food Rate Reduction Doss Change	\$0
Increase State Sharing of State Shared Sales Tax	1,727,042
<u>Hall Income Tax Full Elimination Doss Change</u>	<u>0</u>
Subtotal.....	\$1,727,042

Total All Changes 2012-IMPROVE and Doss..... **\$(1,713,678)**

Comparison of Net Changes of 2012-2016, IMPROVE, and Doss Proposal

Chattanooga	IMPROVE Act	Doss Proposal	Difference
Street Aid Fund			
Gasoline tax increase	1,202,752	958,532	(244,220)
Diesel tax increase	433,285	378,118	(55,166)
General Fund			
2012 to 2016 tax changes.....	(770,918)	(770,918)	0
2017 Sales Tax on Food	(266,625)	(266,625)	0
Hall Income phase-out.....	(3,739,826)	(3,739,826)	0
Increase state shared sales %	0	1,727,042	1,727,042
Total Impact	(3,141,333)	(1,713,678)	1,427,655