

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: H.B. 1490 (4th Edition)

SHORT TITLE: Secure Local Revenues

SPONSOR(S):

FISCAL IMPACT					
	Yes ()	No ()	No Estimate Available (X)		
	<u>FY 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>
REVENUES					
General Fund					<u>* See Assumptions and Methodology *</u>
Local Governments					<u>* See Assumptions and Methodology *</u>
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Office of State Budget and Management, Office of the Governor, Secretary of Revenue, and Local Governments.					
EFFECTIVE DATE: When it becomes law.					

BILL SUMMARY: The bill attempts to limit the Governor’s ability to withhold the local portion of revenues shared with cities and counties by declaring these funds local revenue. Specifically Section 1 addresses beer and wine taxes, while Section 2 discusses the franchise tax on electricity. Section 3 considers the tax on piped natural gas. Section 4 addresses the tax on telecommunications. Section 5 considers the Highway Fund and Highway Trust Funds allocated as Powell Bill funds. Section 6 addresses utility taxes and electricities. Section 7 recognizes the need for local governments to be able to rely on the funds mentioned in Sections 1 – 6, and adds intent language to clarify that the funds committed or appropriated by the legislature for local governments shall not be reduced unless the governor has exhausted all other sources of revenue for the state. It also explicitly recognizes that the state is prohibited from taking local revenues. Finally, Section 8 of the bill bars local units from attempting to collect the utility franchise and privilege taxes if those utilities have paid the taxes to the Secretary of Revenue.

BACKGROUND: In the spring of 2001, as a result of substantial budget shortfall, the governor escrowed \$95.0 million of reimbursement payments to local governments. This payment is made as a reimbursement for revenues lost by the state’s repeal of the property tax on various inventories. The funds were placed in an escrow account in case they were needed to balance the state budget on June 30, 2001. These funds were later released to the local units. In 2002, again

facing a difficult fiscal situation, Governor Easley escrowed the spring inventory tax reimbursement to local governments. This \$95.0 million was again placed in a special account to hold in case it was needed to balance the state budget in 2002. At the same time the governor announced he was holding an additional \$114.0 million in reimbursements and shared revenues to secure his ability to balance the state budget. The \$114 million included the following estimated amounts:

<i>Fund Type</i>	<i>Amount Withheld</i>
Franchise Utility Tax	
March Distribution	35.6
June Distribution	25.0
Piped Natural Gas	
March Distribution	6.9
June Distribution	11.8
Beer and Wine Tax	26.8
Homestead Exemption	<u>7.9</u>
TOTAL	114.0

ASSUMPTIONS AND METHODOLOGY: This legislation has no direct impact on the budgets passed by the General Assembly, as these shared revenues have not been used in the legislative process for state expenditures. However, the legislation could limit the options available to the Governor. Because of the lack of clarity about what actions will be required of the Governor in future years, and the impact this particular legislation will have on the individual's decisions, no fiscal estimate is possible on the impact of the legislation.

SOURCES OF DATA: Office of State Budget and Management.

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