NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 1751 (First Edition)

SHORT TITLE: NC Tourism Development Act

SPONSOR(S): Representatives Earle, McMahan, McComas, and Barefoot

FISCAL IMPACT

Yes (X) **No ( )** **No Estimate Available ( )**

	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
REVENUES					
Sales Tax	**0**		*** See Assumptions and Methodology ***		
EXPENDITURES					
Dept. of Commerce	**$7,0000 -$10,000**	**-**	*** See Assumptions and Methodology ***		
Dept. of Revenue		*** See Assumptions and Methodology ***			
POSITIONS:					
Department of Commerce		***See Assumptions and Methodology***			
Department of Revenue					

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: NC Department of Commerce, NC Department of Revenue, and local governments.

EFFECTIVE DATE: January 1, 2003

BILL SUMMARY: The bill creates the Travel and Tourism Capital Incentive Grant program in the Department of Commerce. The program offers grants to local governments who own "qualifying projects" that meet the following criteria: 1) the project is financed and owned (in whole or in part) by the unit of local government in which it is located, 2) the project will attract 35% or more of its visitors from at least 100 miles away, 3) the project has a business plan that indicates that project will be profitable within three years, 4) the applicant provides tax impact projections, 5) the project will have a significant and positive impact on the community, 6) the project will produce sufficient revenues and public demand to be open at least 100 days per year, 7) the project will generate at least ten new jobs in the local area, and 8) the projects will meet a minimum cost criteria based on the North Carolina enterprise tier in which it is located. The grant amount is determined by multiplying the total amount of sales taxes collected on sales by or within the qualified program and the net privilege taxes paid by the qualifying project by an enterprise tier based percentage, with maximum percentages outlined in the bill (35% tier 1 and 2, 30% tier 3 and 4, and 25% for tier 5). These same percentages apply to the maximum amounts of the total project cost that can be funded through this grant program. The Department of Commerce is charged with determining if all project criteria are met and the percentages used to calculate the grant amount. Grant funds can only be used for capital costs, including debt service. To receive a grant disbursement, the project owner must provide the Department of Revenue with periodic, verified accounting of the tax collections. Annual disbursements based on this information must be made by the Department of Revenue by October 1 of each year and should reflect tax collections from that project for the previous fiscal year. The Department is only required to distribute funds based on data provided by the owner. If appropriate data is not provided to justify a complete payment, a partial payment can be made to reflect the information provided. Applicants must fund a feasibility study coordinated and directed by the Department of Commerce and pay a $2,500 application fee. The funds to pay for the grants and the associated departmental costs are drawn from State sales and use tax revenues.

ASSUMPTIONS AND METHODOLOGY:

Impact on Revenue
The bill effectively earmarks a proportion of state tax revenue drawn from a particular qualifying project and returns that funding to the institution to fund capital costs and debt service. The proportion returned varies by location and other factors as determined by the Department of Commerce. Because there is no good data on the number, type, and location of qualifying projects or potentially qualifying projects, no fiscal estimate on this portion of the bill is possible. Because all economic activity, in total, is considered in determining the state's baseline revenue projections, all grants awarded under this program would be shown as a loss of state revenue. Depending on the number of projects that qualify for the program, the loss could be substantial, as there is no cap on the program, or it could be more limited if few facilities are created or participate. However, none of that loss would appear in FY 2002-03, as the first payment would not be made for any project until October 2003.

Impact on Expenditures

Department of Commerce: The bill charges the Department of Commerce with carrying out the following activities in order to administer the grant program:

1. Adopt rules for the administration of the program.

2. Coordinate and direct feasibility studies funded by the applicants. This coordination function includes selection by the Department of qualified, independent consultants and prescription of the scope of each study.

3. Analyze applications to ensure they contain all necessary information regarding the nature and cost of the proposed tourism project, the estimated revenues to be generated by the project, the estimated economic benefit to the community, and the purposes for which the applicant will use grant funds.

Adoption of Rules
According to the Department of Commerce, the process of adopting rules for administration of the program will require approximately 11 weeks of full-time staff time. In the Department's opinion, the most efficient way to complete this task would be to hire an outside contractor at a cost of approximately <u>$7,000-$10,000</u>. This one-time start-up cost would be incurred only in FY 2002-2003.

Coordinating Feasibility Studies/ Processing Applications
<u>The ability of the Department's Finance Center to administer the program in a given year depends heavily on the number of applications projected to be processed that year</u>. The Department estimates that each application will require approximately four weeks of full-time staff time to process. <u>A precise estimate of number of applications is not obtainable however</u>. Based on experience in another state with a similar program, the Department estimates that approximately 15-20 applications will be submitted annually. Given the minimal participation requirements and low eligible project cost thresholds in the bill, the North Carolina League of Municipalities estimates that a significant number of its 525 member municipalities might submit applications. With a range of possibilities this large, it is impractical to assume an estimated number of applications that will be processed annually. If the Department's predictions are accurate, one new full-time Industrial Finance Specialist position can, with the support of existing administrative staff, administer the program. If the number of applications surpasses the Department's estimate, however, the Finance Center staff would not be able to process the applications in a timely manner even with the addition of one new Finance Specialist. Clearly, if the number of applications submitted significantly exceeds the Department's estimate, the program will require multiple new Finance Specialist positions and possibly new clerical support positions, to administer the program effectively. <u>As a result of this considerable uncertainty, this analysis assumes that an accurate estimate of the number of positions required by the bill is not available.</u>

Expenditures Net of Application Fees Collected
Regardless of the number of applications and/or new positions required to process them, a portion of the Department's cost of administering the program will be recovered through the $2,500 application fee that each applicant must submit. The Department estimates that one Finance Specialist (pay grade 72) whose salary and benefits total $40,164 can administer approximately 15-20 applications annually. The application fee receipts for those 15-20 applications will be $37,500-50,000, respectively. <u>Assuming that the Department is allowed to hire a new Finance Specialist per 15-20 applications estimated to be received annually, the Department's costs will therefore be minimal if any.</u> As the workload increases, however, the ability of the existing support staff to cover clerical functions for the program will be reduced. Beyond some threshold, perhaps 30 applications per year, the Finance Center will require additional administrative support staff. A portion of the cost of these additional positions will also be recovered through application fees. As described above, since a precise estimate of the number of applications likely to be received is not available, this analysis does not attempt to estimate the number of positions that will be required.

Department of Revenue: According to the Department of Revenue, the anticipated responsibilities from the enactment of the bill will not justify any positions being assigned to handle the work and, therefore, no employee costs will be incurred. There will only be very minimal costs for printing and mailings of forms and possibly some other minor administrative costs. The Department's assumption is that there will be a relatively small number of projects that will qualify, at least initially. Therefore, on the basis of this assumption, taxes eligible for grants will not be generated until a project is completed and business performed in the project. The first fiscal year for which grants could be issued would most likely be FY 2003-2004. This should provide the department with ample time to get procedures in place.

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