

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2017

FISCAL ANALYSIS MEMORANDUM

[This confidential fiscal memorandum is a fiscal analysis of a draft bill, amendment, committee substitute, or conference committee report that has not been formally introduced or adopted on the chamber floor or in committee. This is not an official fiscal note. If upon introduction of the bill you determine that a formal fiscal note is needed, please make a fiscal note request to the Fiscal Research Division, and one will be provided under the rules of the House and the Senate.]

DATE: May 29, 2017

TO: House Finance Chairs

FROM: Rodney Bizzell, Jonathan Tart, Denise Canada, and Emma Turner
Fiscal Research Division

RE: PCS for H.B. 257: Appropriations Act

FISCAL IMPACT					
(\$ in millions)					
	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> No Estimate Available		
State Impact	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
General Fund Revenues:					
Tax Changes					
Personal Income Tax	(\$62.5)	(\$134.1)	(\$146.4)	(\$153.0)	(\$159.9)
Sales Tax					
Fulfillment Centers	(\$6.4)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)
R&D Refund	\$0.0	(\$7.5)	(\$15.0)	(\$15.0)	(\$15.0)
Franchise Tax	\$0.0	(\$38.9)	(\$40.7)	(\$42.5)	(\$44.4)
Mill Machinery Tax	(\$50.8)	(\$52.8)	(\$54.9)	(\$57.1)	(\$59.4)
Fee Changes	Please see Assumptions & Methodology section for additional information on fee changes.				
NET STATE IMPACT	(\$119.7)	(\$233.8)	(\$257.5)	(\$268.1)	(\$279.2)
Local Impact					
Revenues:					
Sales Tax					
Fulfillment Centers	(\$2.7)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)
R&D Refund	\$0.0	(\$3.2)	(\$6.3)	(\$6.3)	(\$6.3)
NET LOCAL IMPACT	(\$2.7)	(\$3.4)	(\$6.5)	(\$6.5)	(\$6.5)
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:					
North Carolina Department of Commerce			North Carolina Department of Revenue;		
EFFECTIVE DATE: See bill summary.					
TECHNICAL CONSIDERATIONS:					
None					

BILL SUMMARY

This fiscal memo addresses the Finance portion of S.B. 257, which makes the following changes:

Fee Changes

Medicaid Provider Credentialing

Section 11H.3 modifies G.S. 108C-2.1 to require each provider who applies to enroll in the Medicaid program to submit a fee totaling \$100 plus any federally-required amount. The Section also requires this fee to be charged when a provider is recredentialed, which occurs every 5 years.

Hospital Assessment

Section 11H.24 increases the hospital assessment to fund new physicians in the Upper Payment Limit (UPL) supplemental plan.

License Fees for Hunting, Fishing and Trapping

Section 13A.3 modifies the fees for licenses that are required to hunt, fish, and trap.

Industrial Commission

Section 15.19 allows the Industrial Commission to retain up to \$1.2 million of the fee charged to parties for filing compromise settlement agreements and to use the fee revenue to replace and maintain the Industrial Commission's case management systems and for related expenditures. This authorization expires on June 30, 2021.

Digital Forensics Fee

Section 18B.5 adds a \$600 criminal court cost when the State lab or local labs do digital forensics work leading to a conviction.

Eliminate Funds for Access to Civil Justice

Section 18B.10 eliminates the allocation of part of the General Court of Justice court cost to the NC State Bar for Access to Civil Justice.

Insurance Regulatory Fee

Section 22.1 maintains the rate of 6.5% for the Insurance Regulatory Fee for calendar year 2018.

Division of Motor Vehicles Hearing Fees

Section 34.32 amends Section 34.9 of S.L. 2014-100 to require the Division of Motor Vehicles to implement a hearing fee schedule by January 1, 2018 to recover a portion of the direct and indirect costs incurred by the Hearings Unit.

Prohibit Water & Wastewater Impact Fees

Section 38.11 prohibits local governments from levying impact fees on low-income housing developments under certain circumstances that relate to federal tax credits.

Tax Changes

Highway Use Tax

Section 2.2 redirects revenue collected from the 8% tax on the short-term lease or rental of a motor vehicle from the General Fund to the Highway Fund; the section is effective from July 1, 2017 until June 30, 2019.

Individual Income Tax

Section 38.2 increases the standard deduction from \$17,500 to \$18,500 (married, filing jointly) effective January 1, 2018.

Section 38.3 increases the cap on the deduction for mortgage interest and real property taxes from \$20,000 to \$22,000 effective January 1, 2019.

Sales Tax

Section 38.9.(A) provides a sales tax exemption for distribution equipment for fulfillment centers that meet specified job and investment thresholds.

Section 38.10 provides a sales tax refund for small businesses engaged in research and development.

Franchise Tax

Section 38.6(A) reduces the franchise tax rate from \$1.50 to \$1.40 per \$1,000 of franchise tax base.

Mill Machinery Tax

Section 38.8 repeals the mill machinery tax and provides a sales tax exemption for those items currently subject to the mill machinery tax. A new sales tax exemption is created for repair or replacement parts for ready-mix concrete mills affixed to a motor vehicle sold to a company that primarily sells ready-mix concrete. Currently, purchases by ready-mix concrete manufacturers of mill machinery, equipment, parts and accessories that are used directly in the manufacture of ready-mix concrete for sale are subject to the 1%/\$80 mill machinery tax. However, once the equipment becomes part of a truck, it is no longer considered mill machinery.

Property Tax

Section 38.12 changes the effective date for H.B. 2, Provide Certain Property Tax Relief, from July 1, 2017 to July 1, 2018. The bill provides an expanded property tax exclusion for disabled veterans and a homestead exclusion for surviving spouses of emergency services personnel killed in the line of duty. A hold-harmless provision is included for local governments for the additional property tax loss related to the disabled veterans exclusion. It is unlikely that the property tax exclusions and the hold harmless provision could be implemented for the 2017 tax year.

ASSUMPTIONS AND METHODOLOGY:

Fee Changes

Medicaid Provider Credentialing

No estimate is available.

Hospital Assessment

No estimate of the fiscal impact is available, and no funds have been budgeted for the fiscal biennium.

License Fees for Hunting, Fishing and Trapping

The PCS allows the Wildlife Resources Commission to increase fees by the amount of inflation since the last fee increase; no estimate is available of the fiscal impact.

Industrial Commission

Section 15.19 of the PCS allows the Industrial Commission to retain up to \$1.2 million of fee revenue for the purposes outlined in the section. However, the Industrial Commission is not required to withhold the full amount authorized. Thus, the cost ranges between \$0 and \$1.2 million.

Digital Forensics Fee

No revenue estimate is available, because the fee is contingent on lab work that leads to a conviction, and the number of potential convictions cannot be reliably estimated.

Eliminate Funds for Access to Civil Justice

Currently, a portion of the General Court of Justice court costs are allocated to the NC State Bar for services related to the Access to Civil Justice Act, established in G.S. Chapter 7, Article 37A. Eliminating this allocation increases General Fund receipts from court costs by \$1.7 million.

Insurance Regulatory Fee

Maintaining the fee at the current rate of 6.5% has no fiscal impact on State revenue.

Division of Motor Vehicles Hearing Fees

The Division of Motor Vehicles provided a proposed fee schedule, projections of hearing occurrences, and rough estimates of the time commitment required to participate in each type of hearing. The total anticipated revenue for a full year was determined using a model provided by the Office of Budget and Management and a hearing price elasticity of 0.10. DMV hearing fees are expected to generate \$4.3 M per year. Because the hearing fees are set to be implemented in January 2018, the impact for FY 2017-18 is half of the full-year impact, \$2.15 M.

Prohibit Water & Wastewater Impact Fees

No data is available on the number of low-income housing projects that would be subject to local water and sewer impact fees; therefore, no estimate is available.

Tax Changes

Individual Income Tax

Fiscal Research estimated the impact of the individual income tax changes using the FRD Tax Model and 2014 taxpayer data from the North Carolina Department of Revenue. Because the increase to the standard deduction is effective for taxable years beginning January 1, 2018, the FY 2017-18 estimate includes the withholding and estimated payments for the first half of 2018, which represents approximately 50% of the annual impact. Similarly, the FY 2018-19 estimate includes 50% of the annual impact of the increased cap on the deduction for mortgage interest and property taxes, which is effective January 1, 2019.

Sales Tax

Fulfillment Centers

Fiscal Research is aware of one potential project that would meet the required investment and employment thresholds of \$100 million and 400 jobs. The sales tax loss is based on estimated personal property investment for the project.

Small Business R&D

Section 38.10(a) of the PCS limits the maximum total of all refunds in aggregate to \$15 million per calendar year. With a July 1 effective date, the cost in the first year is estimated to be \$7.5 million and in future years is \$15 million. However, depending on usage of the tax benefit, the cost to the State could be as low as \$0, if no businesses were eligible for or applied for the tax benefit.

Franchise Tax

The estimate is based on the consensus franchise tax forecast. That amount is adjusted downward to account for the reduction in the tax rate.

Mill Machinery Tax

The estimate is based on the consensus forecast for the mill machinery tax. No data is available on expenditures for repair and replacement parts for ready-mix concrete mills affixed to motor vehicles; therefore, no estimate is available for this exemption.

Property Tax

H.B. 2 includes a hold harmless provision for the additional property tax loss related to increasing the disabled veterans homestead exclusion from \$45,000 to \$100,000. The hold harmless amount for FY 17-18 is estimated to be \$11 million. Therefore, if H.B. 2 passes, the delayed effective date would increase General Fund availability by \$11 million for FY 17-18.

SOURCES OF DATA: North Carolina Department of Revenue; Internal Revenue Service; Moody's Analytics; North Carolina Division of Motor Vehicles, Office of State Budget and Management

TECHNICAL CONSIDERATIONS: None