

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: Senate Bill 1268

SHORT TITLE: New Hanover School Acquisition.

SPONSOR(S): Senator Ballantine

FISCAL IMPACT: Expenditures: Increase (X)(County) Decrease ()
Revenues: Increase (X)(County) Decrease (X)(State)
Decrease (X)(Cities)
No Impact ()
No Estimate Available ()

FUND AFFECTED: General Fund (X) Highway Fund () Local Govt. (X)
Other Funds ()

BILL SUMMARY: This act allows New Hanover county to acquire property for use by its County Board of Education. It allows the county to construct, equip, expand, improve, or renovate schools for the County Board of Education.

EFFECTIVE DATE: Effective upon ratification.

PRINCIPAL DEPARTMENT(S)/PROGRAM(S) AFFECTED:

FISCAL IMPACT

	<u>FY</u>	<u>FY</u>	<u>FY</u>	<u>FY</u>	<u>FY</u>
	1996-97	1997-98	1998-99	1999-00	2000-01
REVENUES:					
GENERAL FUND	The state would lose sales tax revenue if the county applies for a refund of the 4% tax paid on school construction materials and furnishings.				
LOCAL					
County	The county would gain more revenue from a refund of the 2% sales tax it would pay on school construction materials and furnishings than it would receive from its share of the purchases made in the county.				
Cities	The cities in New Hanover county would lose revenue from a sales tax refund to the county.				
EXPENDITURES:					
County	If used, COPs will increase county financing costs.				
POSITIONS:	None				

ASSUMPTIONS AND METHODOLOGY:

I. Thirty eight counties have the authority to acquire real or personal property for public schools and to construct or repair public school buildings. These 38 counties may also take advantage of installment financing for public school construction or renovation. Generally, school administrative units do not have access to certificates of participation or other installment financing options. Certificates of participation (COPs) make interest and principal payments to debt holders just like General Obligation (GO) bonds, but do not require a vote of the people for their issuance.

COPs or installment financing cost more than traditional bonds. An official with the Office of State Treasurer stated that investors assume COPs involve more risk than GO bonds and thus value them one letter grade below a bond. This lower grade will cost the local government from one fourth to one half a percentage point more on the interest rate. For example, New Hanover county has an immediate need for a new middle school and a new high school that is projected to cost \$53.6 million. (This is preliminary estimate for construction, land, and furnishings.) With its A+ rating from Standard & Poor's, New Hanover county would probably receive a 5.43% interest rate on a 20 year GO bond if it were issued May 1996. The gross interest charged on a \$53.6 million bond would be \$29.1 million. If New Hanover used a COP, the interest rate would probably be .25% higher or 5.68%. The gross interest charged on a \$53.6 million COP for would be \$30.46 million. To sum up, a COP would cost the county \$1.3 million more in interest over 20 years than a GO bond.

New Hanover county has projected its school facility needs at \$246 million over the next five years. How the county uses installment financing in their school construction will determine the increased cost to this local government.

II. Allowing a county to build and equip a school on behalf of a school administrative unit has an effect on state sales tax revenue and on the distribution of local sales tax revenue. The county can receive a refund of the sales and use taxes paid on a project; whereas, the local school administrative unit cannot because such units are not eligible for sales tax refunds. In the example above, New Hanover county might spend \$53.6 million on a new middle school and high school in the near future. This bill allows the county to use COPs to build and equip the schools. The proposed high school/middle school project includes \$37.7 million for construction, \$9.05 million for furnishings and equipment, \$4.5 million for land and \$2.36 million for design fees. Assuming half of the construction cost is for taxable materials and all the school furnishings and equipment are taxed, the county would be eligible for a refund as calculated below:

Est. Construction cost (COPs) =	\$37.69 million
	<u>x .5</u>
	\$18.84 million
Furnishings, Equipment, etc. =	<u>9.05 million</u>

Amt. subject to tax refund \$27.89 million

Assuming the \$27.89 million includes the 6% sales tax, divide this total by 1.06 to get an untaxed materials cost of \$26.31 million. The \$1.58 million difference in these two numbers is the amount that would be refunded to New Hanover county by the state. The refund of the 4% state sales tax represents a loss to the General Fund of \$1.04 million.

The refund of the \$540,000 from the 2% local tax would be an amount greater than what the county would have received if it had waited for its share of the local tax to be distributed by the Department of Revenue. For example, half of the local tax (1%) is distributed on an ad valorem basis among the county, Wilmington and the beach towns. New Hanover gets about 71% of the tax revenue, Wilmington gets 21% and the beach towns get 8%. By using COP financing for school construction, the county could apply for a 100% refund of the tax paid on building materials and furnishings, thus reducing to zero the share going to the municipalities from school construction. For the other 1% tax, a refund of tax paid would again benefit the county because it would receive more than if it waited for its per capita distribution of the tax proceeds.

SOURCES OF DATA: Department of Revenue, Sales and Use Tax Division; New Hanover County Finance Officer; Office of State Treasurer

TECHNICAL CONSIDERATIONS:

FISCAL RESEARCH DIVISION

733-4910

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DATE: May 30, 1996

Official
Fiscal Research Division
Publication



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