

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: SB 725 (2nd Edition)

SHORT TITLE: Local Option Project Development

SPONSOR(S): Senator Clodfelter

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>
REVENUES					
General Fund		* No General Fund Impact *			
Local Governments		* See Assumptions and Methodology *			
EXPENDITURES					
Local Govern. Comm.		0* See Assumptions and Methodology *			
NC Board of Election	0	(100,000)	0	0	0
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:	NC Local Government Commission, NC Board of Election, and North Carolina Local Governments.				
EFFECTIVE DATE:	When it becomes law.				

BILL SUMMARY: The bill would permit the voters of the State to vote on a constitutional amendment to allow the General Assembly to authorize counties and cities to borrow money to finance the public portion of economic development projects within a defined area. The vote will be held in November 2004. If the constitutional amendment is approved and action is authorized by the General Assembly, no local vote would be required to authorize specific projects.

ASSUMPTIONS AND METHODOLOGY: This legislation allows a vote of the people to authorize a constitutional amendment allowing units of local government to borrow money to finance economic development projects, with certain limitations. This approach, traditionally known as “Tax Increment Financing” or TIF, uses the expected growth (or increment) in property tax revenues from a designated geographic area to finance bonds used to pay for developments calculated to spur growth in that district. This financing mechanism cannot be used currently in North Carolina without constitutional amendment, as the constitution requires a vote of the people on all bond issuances secured by property tax revenue. The bill notes that the land area of the TIF district cannot exceed 5% of the land area of the local jurisdiction – county

or city – issuing the TIF. The legislation also requires creation of a “development financing plan” for the district, outlining the projects to be financed, how the bond proceeds will be used, the benefit to the community, a commitment to adhere to a wage standard (with some exceptions), and an environmental review. The Local Government Commission must approve the districts and plans. They must also find that the bond issue is necessary to secure significant new development and that the development would not likely occur without the bond. Bond proceeds may be used to financing parking facilities, sewer systems, solid waste disposal systems, storm sewers, flood control, water systems, street improvements, public transportation facilities, land development, and redevelopment.

Bonds are secured by a special fund of property taxes paid on the increased valuation in the district. Additional security can be provided by a pledge to sell public property in the development district. Local units can also pledge other revenues as long as it does not constitute a pledge of that jurisdiction’s taxing power.

REVENUES: Because the bill only affects the financing options available to local governments, there is no General Fund revenue impact. The bill does affect local governments, but only so far as to give them an additional financing tool, should the voters approve the amendment.

EXPENDITURES: The bill has the potential to affect two state agencies, the NC Board of Election and the Local Government Commission.

Board of Election: Section 24 of the bill would require that the constitutional amendment set forth in section 1 of the bill be submitted to the qualified voters of the State at the statewide general election in November 2004. Because the November 2004 election is a statewide elections that will occur during a regular election cycle, the counties will bear the cost of conducting the elections, except that the State Board of Elections will reimburse the counties for the cost of the required notices, advertisements, and publications concerning the statewide referendum. The State Board's reimbursement to the counties for the legal notices for referendum elections is approximately \$100,000 (100 counties x \$1,000 average county cost).

Local Government Commission: If the constitutional amendment is approved, there is a potential cost to the Local Government Commission, as they are required to review all TIF applications. This bill requires a local government to obtain the approval of the Local Government Commission before it can issue project development financing bonds to finance the public portion of economic development projects. Before approving the bond issuance, the Commission must find, among other things, that the proposed project development financing bond issue is necessary to secure significant new project development for a development financing district and that the private development forecast in the development financing plan would not be likely to occur without the public projects to be financed by the bonds. At this time, neither the Commission nor the Fiscal Research Division can estimate the number of applications for bond issuances that will result from the additional authority granted to local governments to finance development by issuing tax increment financing bonds. Therefore, we cannot estimate the time and effort requirements of the Commission for completing the statutorily required review of the applications. The Commission believes that the review process will require the experience and expertise of a senior level position, which would be a Local Government Financial Analyst at a grade 77. However, the Commission believes that the time

and effort requirements can be met with existing resources and that no additional personnel would be needed.

SOURCES OF DATA: Local Government Commission.

FISCAL RESEARCH DIVISION: (919) 733-4910

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DATE: June 18, 2003



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