NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: Senate Bill 933 (First Edition)

SHORT TITLE: Wetlands Reimbursement/Local Tax Base.

SPONSOR(S): Senator Hargett

FISCAL IMPACT

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

	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
REVENUES					
Local Governments	**No Exact Estimate Available – See Assumptions**				
EXPENDITURES					
General Fund	**No General Fund Impact**				
Dept. of Transportation	**102,816**	**102,816**	**102,816**	**102,816**	**102,816**
Wetlands Trust Fund	**34,272**	**34,272**	**34,272**	**34,272**	**34,272**

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Environment and Natural Resources, Local Governments, and other State agencies.

EFFECTIVE DATE: When it becomes law.

BILL SUMMARY: When the State or a local government acquires property, that property becomes exempt from tax and is removed from the tax base. The bill requires that a state agency that purchases land for wetlands mitigation pay the county where the land is located an amount approximately equal to twenty years of ad valorem taxes on the property. This does not apply if the migration property and the improvements are made in the same county. If the State makes payment to the home county, and later uses the land for mitigation in the same county, the county must return at least a portion of the payment to the State. At the local level, the bill also requires that municipalities and counties that purchase land for mitigation, outside of the geographic limits of the home county, make a similar payment to the county were the land is purchased. The amount of the payment from the purchasing government to the county government where the property lies is defined as the total value of the land excluded by the purchase times the current rate of tax, times twenty (value x rate x 20). All provision of this bill apply only to land purchased in tier one and tier two counties.

ASSUMPTIONS AND METHODOLOGY: This bill is not expected to impact cost estimates associated with construction projects for community colleges, state universities, or prisons, based on current construction plans. The bill does not affect projects funded by the Clean Water Management Trust Fund, which is statutorily banned from funding compensatory mitigation projects. Fiscal Research believes the primary state impact will be in the areas of highway construction and the wetlands restoration. **As a result, no direct general fund impact is expected.**

The bill is likely to affect both the Ecosystem Enhancement Program and local governments.

Ecosystem Enhancement Program: Historically the primary state agency purchasers of mitigation land have been the North Carolina Department of Transportation, making purchases to mitigate road activity, and the Wetlands Restoration Program. In 2003, the compensatory mitigation efforts of these two agencies were joined through a Memorandum of Agreement between the parties, and renamed the Ecosystem Enhancement Program (EEP).

The Ecosystem Enhancement Program is estimated to have costs of $137,088 annually associated with this bill. This estimate assumes that 224 acres are purchased annually at an average cost of $4,000 acre. Applying the average property tax rate for tier 1 and tier 2 counties from 2002-03 of $0.765/100 equals a property tax payment of $30.60 per acre. That amount multiplied by 20 (the payment of 20 years of taxes) creates the total payment of $612.00 per acre. The total of 224 acres multiplied by the total payment per acre results in the lump sum of **$137,088 annually**. (Or 224 acres * $4,000 per acre * $0.765/100 tax rate * 20 = $137,088). Approximately 75% of this money is expected to come from the Department of Transportation, with the balance drawn from the Wetlands Trust Fund. This division is reflected in the fiscal impact box.

Local Governments

All payments from NCDOT and the Wetlands Restoration Trust are revenues for local governments. The property taxes that must be paid to the county where the land is located is estimated as the assessed value of the acquired land excluded from the county's tax base multiplied by the tax rate set by the county Board of Commissioners in its most recent adopted budget ordinance multiplied by 20. For example, if property valued at $100,000 were acquired in a county with a $.76 per $100 value property tax rate, the acquirer must pay the county a sum of $15,200 ($100,000 / $100 * .76 * 20).

Local governments will see a gain of $685,440 ($137,088 * 5 years)) over five years. However, some of that gain may be offset by local government payment into the Wetland Restoration Program to cover their mitigation needs.

Local government revenues and tax payments may also be impacted by changes in property tax rates. Due to the instability of property tax rates in the state, in general, and especially in tier 1 and tier 2 counties, there is no accurate way to predict how tax rates may change in future years. Some rates may increase depending on the economy and smaller tax base growth, while others may stabilize or decrease because of this legislation.

The reimbursement amount paid by the county to state agencies if the property acquired is later used to mitigate wetlands permitted to be lost in the county is the estimated amount of property taxes paid minus ten percent (10%) times the number of years the agency held the land before the wetlands were lost. For example, if the property above was used 10 years later to mitigate wetlands that were permitted to be lost in the county, the county must reimburse the state a sum of $6,840 ($760 - ($760*.10) * 10).

SOURCES OF DATA: Ecosystem Enhancement Program and the North Carolina Department of Revenue.

TECHNICAL CONSIDERATIONS: The tier designations are created as a part of the Bill Lee Act. This act is scheduled to sunset in 2005. As a result, unless otherwise instructed, no tier designations will be developed by the Department of Commerce after 2005.

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Signed Copy Located in the NCGA Principal Clerk's Offices