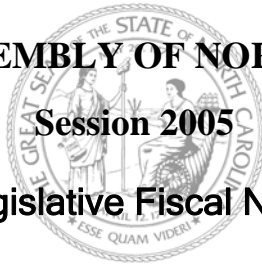


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2005

Legislative Fiscal Note

BILL NUMBER: Senate Bill 1030 (First Edition)

SHORT TITLE: Electronics Recycling and Job Creation.

SPONSOR(S): Senators Cowell; Berger of Franklin, Bingham, Clodfelter, Graham, Kinnaird, and Malone.

| FISCAL IMPACT | | | | | |
|---|--------------------------|--------------------------|----------------------------------|--------------------------|--------------------------|
| | Yes (X) | No () | No Estimate Available () | | |
| | <u>FY 2006-07</u> | <u>FY 2007-08</u> | <u>FY 2008-09</u> | <u>FY 2009-10</u> | <u>FY 2010-11</u> |
| REVENUES: | | | (in millions) | | |
| Electronics Recycling Account | \$4.8 | \$10.4 | \$11.3 | \$12.1 | \$13.1 |
| Total Revenues | \$4.9 | \$10.6 | \$11.5 | \$12.3 | \$13.3 |
| EXPENDITURES: | | | | | |
| Department of Revenue | \$0.2 | \$0.2 | \$0.2 | \$0.2 | \$0.2 |
| Electronics Recycling Account | \$4.8 | \$10.4 | \$11.3 | \$12.1 | \$13.1 |
| Total Expenditures | \$4.9 | \$10.6 | \$11.5 | \$12.3 | \$13.3 |
| <i>* The Department of Revenue's portion of the General Fund is deducted prior to deposit to the Electronic Recycling Account; DENR expenditures are funded with a disbursement from the Electronics Recycling Account equal to 4% of the balance. Fiscal Research estimates that this amount will be adequate for funding all positions required by DENR. A breakout of position funding is provided in this fiscal note under the section "Department of Environment and Natural Resources" on pages 3 and 4.</i> | | | | | |
| POSITIONS (cumulative): | | | | | |
| Revenue | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| DENR | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue, Department of Environment and Natural Resources, local governments | | | | | |
| EFFECTIVE DATE: January 1, 2006 | | | | | |

BILL SUMMARY: Senate Bill 1030 establishes an electronic device privilege and excise tax of 1% of the sales price of each new electronic device purchased or used in the state. The proceeds from this tax are to be deposited in the Electronics Recycling Account, which is created under the Department of Revenue. Effective July 1, 2006, ninety percent (90%) of funds in the account are to be distributed quarterly to counties that include recycling of electronic devices in their solid waste plan, and to municipalities if the county fails to take action by January 1, 2008. Local governments are required to use account distributions for electronic device recycling activities and prohibited from charging for device recycling.

The Department of Environment and Natural Resources (DENR) is required to issue a report by January 15 of each year on the management of electronic devices, and to establish a certification program for electronic device recyclers by January 1, 2009.

ASSUMPTIONS AND METHODOLOGY: Senate Bill 1030 generates revenues to fund county and municipal electronics recycling programs that would divert electronics from disposal to markets that process and reuse whole units, parts, and materials from the collected electronics. According to the Department of Environment and Natural Resources, only about a dozen urban and rural local governments operate permanent electronics collection programs, which diverted a total of 1,098 tons of electronic waste in FY 2005, or 2% of the electronic waste generated statewide.

The Department of Environment and Natural Resources (DENR) estimates this bill will result in \$10 million to support electronics recycling programs in 2006-07. This projection is based on national electronics sales estimates from industry trade associations and research conducted by the States of Minnesota and Washington extrapolated for North Carolina.

Distribution

Pursuant to Senate Bill 1030, the Department of Revenue can retain a portion not to exceed \$225,000 to offset their cost of collection, and retailers may retain 2% of their collections. Ninety percent (90%) of the remaining funds will be distributed to all North Carolina counties on a per capita basis. Six percent (6%) will be distributed to DENR for the purpose of supplemental grants to support electronics recycling programs, with the remaining 4% going to DENR to fund administration of the distributions from the Electronics Recycling Account, administration of the supplemental grants, the certification of electronic devices recycling companies, evaluation of reports submitted by cities and counties, and the writing of an annual report on the management of discarded electronic devices (see 130A-309.94).

The chart below shows the estimated distribution of revenues generated by Senate Bill 1030.

| | |
|---|------------|
| Total 2006-07 revenues from Senate Bill 1030 | 10,000,000 |
| Pre-distribution reductions | |
| Department of Revenue administrative costs | (225,000) |
| 2% of collections to retailers | (200,000) |
| Subtotal (amount subject to distribution) | 9,575,000 |
| Distribution | |
| 90% to counties | 8,617,500 |
| 6% for supplemental grants (admin. by DENR) | 574,500 |
| 4% to DENR for administrative costs | 383,000 |
| Total funds distributed | 9,575,000 |

Revenue Projection

Internet direct retailers hold approximately 13% of the U.S. market share for TVs and PCs. Under the Streamlined Sales Tax Agreement (SSTA), participating Internet vendors who do not have nexus in North Carolina are only liable for remitting the general combined state and local sales tax per the SSTA. The same vendors would not be liable for remitting the additional 1% tax created in this bill under SSTA. In that instance, the purchaser would be liable for the 1% use tax. DENR does not anticipate that a lack of voluntary compliance will significantly reduce estimated revenues because more TVs are sold in stores than online and a number of major computer retailers with significant online sales have nexus in North Carolina. The bill also disallows electronics vendors who do not comply with the tax from selling to the state of North Carolina.

Consumer electronics sales have exhibited robust growth in recent years. The revenue projection assumes 8% annual growth in consumer electronic sales based on industry reports generated by the retail and consumer expenditure research firm NPD Group.

Department of Revenue

Under the new Article per G.S. 105-187.64, the Department would distribute the taxes collected less the allowance for administrative expenses. The basis for the Department's cost is its experience with collection and distribution of taxes related to the White Goods Disposal Tax and Scrap Tire Disposal Acts. The estimated costs for administration of the Electronics Recycling Tax in FY 2006-07 is \$291,371 with administrative costs coinciding with the effective date of the Act on January 1, 2007. Expenditures support salaries, benefits and operating expenses of five (5) positions (salaries reflect a 12-month period): 1 Revenue Administrative Officer I - \$39,623; 1 Information Processing Tech - \$35,134; and 3 Information Processing Tech - \$33,049 each. To reiterate, in FY 2006-07 recurring costs are estimated for a six-month period, beginning January 1, 2007 – salaries of \$86,954, benefits of \$22,217, and operating costs of \$2,700 for a total \$111,817, and non-recurring expense of \$179,500. In FY 2007-08 and subsequent fiscal years estimated administrative costs is \$225,000 or slightly less based upon adjusted operating expenses.

Department of Environment and Natural Resources

The Department of Environment and Natural Resources, Division of Waste Management would be responsible for administering the Electronics Recycling Account and the supplemental grant

program. The Department would also provide local government assistance and training for local electronic devices recycling programs.

DENR estimates that it would need three (3.0) positions:

- 1.0 Environmental Specialist II, pay grade 70, minimum salary \$38,025, benefits \$9,356
- 1.0 Waste Management Specialist, pay grade 71, minimum salary \$36,891, benefits \$9,192
- 1.0 Environmental Engineer I, pay grade 74, minimum salary \$42,426, benefits \$9,993

The estimated cost for these positions is \$145,886 for salary and fringe and an additional \$35,000 for operating; the total cost would be \$180,886. These costs would be funded from the 4% DENR would receive from the Electronics Recycling Account. Fiscal Research estimates that this funding will be adequate to support the positions requested by DENR.

SOURCES OF DATA: Department of Environment and Natural Resources, NPD Group

TECHNICAL CONSIDERATIONS: The tax increase created by this bill is retroactive. Fiscal Research recommends a later effective date be used.

FISCAL RESEARCH DIVISION: (919) 733-4910

PREPARED BY: Brenna Erford, Michele Nelson, and Kristin Walker

APPROVED BY: Lynn Muchmore, Director
Fiscal Research Division

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