

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2011

Legislative Fiscal Note

BILL NUMBER: House Bill 571 (Third Edition)

SHORT TITLE: Prepaid Wireless/Point of Sale Collection.

SPONSOR(S): Representatives Sager, Justice, Bryant, and Brawley

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>FY 2013-14</u>	<u>FY 2014-15</u>	<u>FY 2015-16</u>
REVENUES			\$7,881,985	\$8,259,203	\$8,661,242
EXPENDITURES					
Retailer's Discount			(2,266,071)	(412,960)	(433,062)
NC DOR Admin Allowance			(700,000)	(500,000)	(500,000)
NET COLLECTIONS			\$4,915,941	\$7,346,243	\$7,728,179
<i>Add'l DOR Admin Expenditures</i>			<i>(177,345)</i>	<i>(185,832)</i>	<i>(173,225)</i>
POSITIONS (cumulative):			6	6	6
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: North Carolina Department of Revenue: Financial Services					
EFFECTIVE DATE: July 1, 2013					

BILL SUMMARY: The proposed committee substitute for House Bill 571, Prepaid Wireless/Point of Sale Collection, amends G.S. 62A-43(b) to provide that the monthly service charge for E911 services under G.S. 62A-43(b) is applied to prepaid wireless transactions. The E911 service charge is currently 60¢ on each retail transaction occurring in North Carolina.

Effective July 1, 2013, the bill allows sellers that collect prepaid wireless E911 service charges to retain all of the services charges collected in the first three calendar months after the effective date of the act, July 1, 2013 through October 1, 2013. After October 1, 2013, prepaid wireless retailers may retain up to five percent of all fees collected. The Department of Revenue, for administrative purposes, retains three percent of all collections October 1, 2013 through October 1, 2014. The bill ascribes a two percent administrative allowance to the Department of Revenue from October 1, 2014 onward.

ASSUMPTIONS AND METHODOLOGY:

REVENUE: Fiscal Research estimates that HB 571 will generate \$8.3 million to \$9.1 million in total revenue per fiscal year. After deducting the administrative allowances that HB 571 provides to retailers and the Department of Revenue, the bill is expected to generate roughly \$7.6 million in E911 fees when fully implemented. The revenue estimate is based on data from the Federal Communications Commission, the International Association for the Wireless Telecommunications Industry (CTIA), U.S. Census 2007 Economic Census, and the New Millennium Research Council. The paragraphs below provide more detail on methodology.

The CTIA, December 2010 *End of the Year Industry Report* estimated a total of 302.9 million active cell phone lines in the U.S. Fiscal Research adjusted the U.S. cellular phone estimates based on North Carolina's share of the U.S. cellular industry as provided by the 2007 Economic Census. North Carolina salaries, according to Census data, account for 2.48% of the U.S. cellular industry payroll. Utilizing this data, Fiscal Research developed an estimate of 7.5 million cellular phones in North Carolina.

According to New Millennium Research Council (NMRC) data, prepaid wireless customers account for 25% of the cellular phone industry (7.5 million North Carolina cellular phones *0.25= 1.89 million). NMRC divides prepaid wireless subscribers into two groups, 1) those with "pay as you go" services which account for 48% of all prepaid wireless users, and 2) those with unlimited services which account for 52% of all prepaid wireless users. The purchasing habits of the two groups differ significantly.

The Minnesota Department of Revenue, in estimating the fiscal impact of applying an E911 service charge to prepaid wireless services, assumed that the average prepaid customer has 11.6 transactions per year. Fiscal Research applied the 11.6 per year transaction estimate to 48% of all prepaid wireless customers, the pay as you go group. The second prepaid group, the group with unlimited services, was assumed to have one prepaid wireless purchase per fiscal year. The fiscal estimate assumes that a total of 11.4 million prepaid wireless transactions occur annually. Given the current E911 fee of \$0.60 per transaction, HB 571 if applied in FY 2010-11 would generate \$6.85 million in total revenue (\$0.60*11.4 million transactions).

Prepaid wireless services represent a growing portion of the wireless communications industry. Because the industry is dependent, not only on changes in the economy, but also demographic changes, adjusting the estimates by inflation alone would be inaccurate. Legislative researchers in New Mexico and Minnesota cite prepaid wireless annual industry growth rates between 6.3% and 19%. Fiscal Research utilized a conservative growth factor based on North Carolina's 18-30 year old population growth and inflation. These two factors combined equaled on average 4.72% in annual growth. In sum, the \$6.85 million figure is adjusted upward by 4.72% annually to reflect the figures represented in the fiscal impact summary.

EXPENDITURES: The Department of Revenue estimates that it will take six additional personnel, an upgrade to the Tax Information Management System (TIMS), additional software licenses, and related supplies in order to implement, administer, and enforce the service charge on prepaid retail wireless accounts. Two auditors will be required to audit the various entities

collecting the fee across the state and an additional auditor will be required to provide requested reviews of assessments and technical and administrative direction. One revenue tax technician and an information processing technician will be required to field any questions from those subject to the fee. One additional revenue collection officer will be required for forced collections. Under the PCS, the Department is allowed to retain up to \$700,000 of collections for administration for FY 2014 and \$500,000 of collections thereafter. This administrative allowance is taken into account in the table below. Figures were inflated based on inflation guidelines in the 2011 Legislative Fiscal Note Manual.

Table 1: North Carolina Department of Revenue Administrative Expenditures, HB 571

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Salary and Benefits			\$454,194	\$493,618	\$526,394
Supplies Recurring			\$11,110	\$11,442	\$11,724
Postage, Mailing and Coupon Books			\$31,962	\$32,918	\$33,731
Supplies Non-Recurring			\$11,558		
TIMS			\$178,300		
TaxMaster: Create Audit Report Package			\$21,226		
Information Technology			\$3,184		
Subtotal			\$711,534	\$537,978	\$571,850
Less DOR Administrative Allowance			(\$700,000)	(\$500,000)	(\$500,000)
Total Cost			\$11,534	\$37,978	\$71,850

SOURCES OF DATA:

Federal Communications Commission, “Annual Report and Analysis of Competitive Market Conditions with Respect to Mobile Wireless, Including Commercial Mobile Services,” available at: <http://transition.fcc.gov/14report.pdf>.

International Association for the Wireless Telecommunications Industry, “Background on CTIA’s Semi-Annual Wireless Industry Survey,” available at: http://files.ctia.org/pdf/CTIA_Survey_Year_End_2010_Graphics.pdf.

New Millennium Research Council, “Net10 Prepaid Wireless Consumer Trends National Poll,” Published November 2010, available at: http://www.newmillenniumresearch.org/archive/110410_NMRC_Net10_prepaid_trends_survey_report.pdf.

[U.S. Census Bureau. 2007 Economic Census. Sector 51: EC0751A1: Information: Geographic Area Series: Summary Statistics for the United States, NAICS 5172102.](#)

[North Carolina Department of Revenue](#)

Population projections and inflation data based on Moody’s Economy.com projections.

TECHNICAL CONSIDERATIONS: None

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DATE: June 13, 2011



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