

# GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2015

## Legislative Fiscal Note

**BILL NUMBER:** Senate Bill 846 (First Edition)

**SHORT TITLE:** Change the LOST Adjustment Factor.

**SPONSOR(S):** Senators Brown and Smith

<b>FISCAL IMPACT</b>					
(\$ in millions)					
<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> No Estimate Available					
	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
<b>State Impact</b>					
General Fund Revenues:	\$17.6	\$17.6	\$17.6	\$17.6	\$17.6
General Fund Expenditures:					
State Positions:					
<b>NET STATE IMPACT</b>	<b>\$17.6</b>	<b>\$17.6</b>	<b>\$17.6</b>	<b>\$17.6</b>	<b>\$17.6</b>
<b>Local Impact</b>					
Revenues:	(\$17.6)	(\$17.6)	(\$17.6)	(\$17.6)	(\$17.6)
Expenditures:					
<b>NET LOCAL IMPACT</b>	<b>(\$17.6)</b>	<b>(\$17.6)</b>	<b>(\$17.6)</b>	<b>(\$17.6)</b>	<b>(\$17.6)</b>
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> Counties and municipalities.					
<b>EFFECTIVE DATE:</b> Various; fiscal impact effective July 1, 2016.					
<b>TECHNICAL CONSIDERATIONS:</b> None					

**BACKGROUND:**

G.S. 105-486 requires the Secretary of Revenue (Secretary) to allocate the net proceeds of the additional 1/2% sales and use tax, imposed under Article 40 of G.S. Chapter 105, on a per capita basis to counties. Once the Secretary has determined the initial allocations, G.S. 105-486(b) requires the Secretary to adjust each county’s allocation by multiplying it by county-specific adjustment factor listed in that statute, which range from 0.81 to 1.49. Similarly, the adjustment factors in G.S. 105-486.(b) also apply to a portion of local sales and use tax revenue distributed under Article 42 of G.S. 105.

G.S. 105-524.(e) requires the Secretary annually to withhold \$17.6 million from State sales and use tax collections and to allocate this amount to the counties using the distribution formulas for Sale and Use taxes collected under G.S. 105, Articles 39, 40, and 42.

**BILL SUMMARY:**

Effective July 1, 2017, Section 1 replaces the existing G.S. 105-486 adjustment factors with factors based on each county's development tier designation under G.S. 143B-437.08. The adjustment factor for tier one counties would be 1.10; for tier two, 1.00; and for tier three, 0.90.

Effective July 1, 2016, Section 2 repeals G.S. 105-524.(e), eliminating the requirement that the Secretary annually redirect \$17.6 million of State Sales and Use tax revenues to local governments.

**ASSUMPTIONS AND METHODOLOGY:**

Section 1: Revising the adjustment factors that are used to redistribute Article 40 and a portion of Article 42 Sales and Use tax revenue among localities will decrease revenue for some counties and municipalities and will increase revenue for other counties and municipalities. In aggregate, there is no net fiscal impact.

Section 2: Repealing the current tax expenditure in G.S. 105-524.(e) will increase State Sales and Use tax revenue by \$17.6 m and will decrease local government Sales and Use tax revenue by a corresponding amount Statewide.

**SOURCES OF DATA:** None

**TECHNICAL CONSIDERATIONS:** None

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**DATE:** May 12, 2016



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