NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: House Bill 1234

SHORT TITLE: Martin School Acquisition.

SPONSOR(S): Representative Rogers

FISCAL IMPACT: Expenditures: Increase (X)(County) Decrease ()
Revenues: Increase (X)(County) Decrease (X)(State)
Decrease (X)(Cities)
No Impact ()
No Estimate Available ()

FUND AFFECTED: General Fund (X) Highway Fund () Local Govt. (X)
Other Funds ()

BILL SUMMARY: This act allows Martin county to acquire property for use by its County Board of Education. It allows the county to construct, equip, expand, improve, or renovate schools for the County Board of Education.

EFFECTIVE DATE: Effective upon ratification.

PRINCIPAL DEPARTMENT(S)/PROGRAM(S) AFFECTED:

FISCAL IMPACT

	FY 1996-97	FY 1997-98	FY 1998-99	FY 1999-00	FY 2000-01

REVENUES:

GENERAL FUND — The state would lose sales tax revenue if the county applies for a refund of the 4% tax paid on school construction materials and furnishings.

LOCAL

County — The county would gain more revenue from a refund of the 2% sales tax it would pay on school construction materials and furnishings than it would receive from its share of the purchases made in the county.

Cities — The cities in Martin county would lose revenue from a sales tax refund to the county.

EXPENDITURES:

County — If used, COPs will increase county financing costs.

POSITIONS: None

ASSUMPTIONS AND METHODOLOGY:
I. Thirty eight counties have the authority to acquire real or personal property for public schools and to construct or repair public school buildings. These 38 counties may also take advantage of installment financing for public school construction or renovation. Generally, school administrative units do not have access to certificates of participation or other installment financing options. Certificates of participation (COPs) make interest and principal payments to debt holders just like General Obligation (GO) bonds, but do not require a vote of the people for their issuance.

COPs or installment financing cost more than traditional bonds. An official with the Office of State Treasurer stated that investors assume COPs involve more risk than GO bonds and thus value them one letter grade below a bond. This lower grade will cost the local government from one fourth to one half a percentage point more on the interest rate.

For example, Martin county has a five year projected school facility need for $20.3 million. (This is preliminary estimate for construction, land, and furnishings.) Martin county currently has a A- rating from Standard & Poor's. Based on a bond issued recently to a county with a similar rating, Martin county would probably receive a 6% interest rate on a 20 year GO bond if it were issued June 1996.

The gross interest charged on a $20.3 million bond would be $14.7 million. If the county used a COP, the interest rate would probably be .25% higher or 6.25%. The gross interest charged on a $20.3 million COP for would be $15.3 million. To sum up, a COP would cost the county $600,000 more in interest over 20 years than a GO bond.

How the county uses installment financing in their school construction will determine the increased cost to this local government.

II. Allowing a county to build and equip a school on behalf of a school administrative unit has an effect on state sales tax revenue and on the distribution of local sales tax revenue. The county can receive a refund of the sales and use taxes paid on a project; whereas, the local school administrative unit cannot because such units are not eligible for sales tax refunds. In the example above, Martin county might spend $20.3 million on school construction over the next five years. This bill allows the county to use COPs to build and equip the schools. The proposed facility needs include $18.75 million for construction, $1.5 million for furnishings and equipment, and $78,000 for land. Assuming half of the construction cost is for taxable materials and all the school furnishings and equipment are taxed, the county would be eligible for a refund as calculated below:

Est. Construction cost (COPs) =	$18.75	million
	x .5	
	$9.375	million
Furnishings, Equipment, etc. =	1.476	million
Amt. subject to tax refund	$10.851	million

Assuming the $10.85 million includes the 6% sales tax, divide this total by 1.06 to get an untaxed materials cost of $10.235 million. The $615,000 difference in these two numbers is the amount that would be refunded to Martin county by the state. The refund of the 4% state sales tax represents a loss to the General Fund of $410,000.

The refund of the $205,000 from the 2% local tax would be an amount greater than what the county would have received if it had waited for its share of the local tax to be distributed by the Department of Revenue. In FY 1995-96, Martin county has received 82.4% of the 2% local tax, with the remainder going to towns like Williamston, Robersonville, and Oak City. By using COP financing for school construction, the county could apply for a 100% refund of the tax paid on building materials and furnishings, thus reducing to zero the share going to the municipalities from school construction.

SOURCES OF DATA: Department of Revenue, Sales and Use Tax Division; Martin County Finance Officer; Office of State Treasurer

TECHNICAL CONSIDERATIONS:

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