

**NORTH CAROLINA GENERAL ASSEMBLY  
LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** SB 77 (PCS S77-PCS9751-LC)

**BILL TITLE:** Sales Tax Refund for Schools

| <b>FISCAL IMPACT</b>   |                   |                   |                           |                   |                   |
|--|-------------------|-------------------|---------------------------|-------------------|-------------------|
|  | Yes (X)           | No ( )            | No Estimate Available ( ) |                   |                   |
|  | (\$Million)       |                   |                           |                   |                   |
|  | <u>FY 1998-99</u> | <u>FY 1999-00</u> | <u>FY 2000-01</u>         | <u>FY 2001-02</u> | <u>FY 2002-03</u> |
| <b>REVENUES:</b>   |                   |                   |                           |                   |                   |
| State General Fund   |                   | -\$14.8           | -\$15.0                   | -\$14.4           | -\$12.6           |
| Local Government   |                   | - 7.4             | - 7.5                     | - 7.2             | - 6.3             |
| <b>PRINCIPAL DEPARTMENT(S) &amp;<br/>PROGRAM(S) AFFECTED:</b> The refunds are administered by the Department of Revenue. |                   |                   |                           |                   |                   |
| <b>EFFECTIVE DATE:</b> July 1, 1998.   |                   |                   |                           |                   |                   |

**AMENDMENT SUMMARY:** Cities, counties, and other specifically named local government authorities are allowed an annual refund for state and local sales taxes paid. The amendment would add local school administrative units to the list.

**ASSUMPTIONS AND METHODOLOGY:** The estimate for the current expense portion was based on a review of data shown in the *Statistical Profile: 1997* publication of the Department of Public Instruction. The data shown included current expense by spending category for the 1995-96 fiscal year. That data was grown by 6.5% per year to project the amount for future years. The analysis excluded the "materials and supplies" numbers for the "Child Nutrition" and "Transportation of Pupils" categories because public schools purchase food for use in a cafeteria tax-free under a resale certificate and the fact that the sales tax does not apply to motor fuel purchases.

For capital outlay the 1995-96 numbers were grown by 6.5% and amounts were added for the \$1.8 billion school bond authorization. The analysis assumed that the remaining \$900 million of authorized bonds would be issued in equal annual increments in March of each year. In addition, it was assumed that 30% of the bond proceeds would be spent in the first fiscal year after the bonds were sold, 40% the next year, and 30% the following year. Finally, the tangible personal property portion of capital outlay was assumed to be 50% of the total cost.

For capital outlay the rapid increase in the authority of counties to use installment purchase financing and certificates of participation had to be taken into account. In addition an August, 1997 opinion of the Attorney General's Office clarified the conditions under which counties and school boards may establish interlocal agreements that would allow the county to receive a refund for certain purchases of school boards. There is no hard data on the number of counties that are currently using interlocal agreements or the number of school capital projects that will be financed with installment purchases/COP's during the next few years and thus will receive refunds under current law. Discussions with the N.C. Association of County Commissioners indicates a surge of activity in the interlocal agreement arena during the 10 months since the AG's opinion. For the purpose of this analysis it was assumed that during the 1998-99 fiscal year 60% of the purchases would be covered by interlocal agreements or installment purchase financing/COP's. This share is assumed to increase by 5 percentage points per year for the next 4 years.

For verification purposes this estimate was compared to an estimate provided by the Department of Public Instruction for the 1994-95 fiscal year with FRD growth added to bring numbers to 1998-99.

**TECHNICAL CONSIDERATIONS:** The refund is granted in the fiscal year after the year of purchase. Thus, refunds for taxes paid on purchases during the 1998-99 fiscal year would be received during the 1999-00 fiscal year.

**FISCAL RESEARCH DIVISION (733-4910)**

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