Short Title: Reimburse Late Audit Costs with Sales Tax Rev.
Bill Number: Senate Bill 299 (First Edition)
Sponsor(s): Sen. Lisa S. Barnes and Sen. Todd Johnson

SUMMARY TABLE

FISCAL IMPACT OF S.B. 299, V.1 ($ in millions)

<table>
<thead>
<tr>
<th>Local Impact</th>
<th>FY 2023-24</th>
<th>FY 2024-25</th>
<th>FY 2025-26</th>
<th>FY 2026-27</th>
<th>FY 2027-28</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Revenue</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Less Local Expenditures</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>NET LOCAL IMPACT</td>
<td>No Estimate Available-See Fiscal Analysis Section</td>
<td></td>
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</tbody>
</table>

FISCAL IMPACT SUMMARY
SB 299 would have a fiscal impact on the revenues of local governments that fail to submit their required annual audit within one year of its fiscal year end, provided other criteria and corrective actions are not met. The bill requires 150% of the cost of an annual audit to be withheld from those local governments’ sales and use tax distributions.

FISCAL ANALYSIS
The Fiscal Research Division (FRD) cannot confidently estimate the fiscal impact of the bill on local governments’ sales and use tax revenues. This is primarily because the number of local governments that will begin complying with State law and submitting their annual audit to avoid the bill’s penalty for noncompliance is unknown. Absent an estimate, this note provides background information on the effects of the bill had it been law in previous fiscal years. FRD estimated the fiscal impact of the overdue audits and corresponding withholding amounts for previous fiscal years using historical audit submission data and information on the estimated costs of audits from the Local Government Commission (LGC); these calculations account for differences in population sizes and audit costs of local governments. FRD then increased these audit cost estimates by 150% per the bill’s direction.

1 FRD’s analysis accounts for the LGC’s modification of the audit report due date in Fiscal Year 2019-20 because of the COVID-19 pandemic. This analysis also accounts for waivers and select situations in which the LGC did not require audits from certain local governments.
There are a total of 632 local governments in the State. State law requires each local government to submit an annual audit to the LGC. Although an estimate is not available, FRD estimates 25 and 35 local governments would have been subject to a withholding penalty had the bill been law and applied to Fiscal Year 2019-20 and 2020-21 audits, respectively. FRD estimates that had the bill been law and applied to audits in Fiscal Year 2019-20 and Fiscal Year 2020-21, approximately $850,000 and $1.1 million in sales and use tax distributions would have been withheld from local governments, respectively. However, these local governments would have received such distributions after two years regardless of whether they had still not submitted an audit for the fiscal year for which the withholding was triggered.

**TECHNICAL CONSIDERATIONS**

N/A.

**DATA SOURCES**

Local Government Commission, N.C. Department of Revenue, N.C. Office of State Budget and Management.

**LEGISLATIVE FISCAL NOTE – PURPOSE AND LIMITATIONS**

This document is an official fiscal analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts.

**CONTACT INFORMATION**

Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

**ESTIMATE PREPARED BY**

Brent Lucas

**ESTIMATE APPROVED BY**

Brian Matteson, Director of Fiscal Research
Fiscal Research Division
April 24, 2023

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2 These figures assume no corrective actions would have been taken during these periods.
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