

**NORTH CAROLINA GENERAL ASSEMBLY  
LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** HOUSE BILL 271 Comm Sub (2<sup>nd</sup> ed.)  
**SHORT TITLE:** SCHOOL DISTRICT SALES TAX REFUNDS  
**SPONSOR(S):** Committee Substitute

<b>FISCAL IMPACT</b>					
	Yes (X)	No ( )	No Estimate Available ( )		
	<u>FY 1997-98</u>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>
<b>REVENUES (\$MILL.)</b>					
<b>STATE</b>	-\$11.4	-\$26.4	-\$30.2	-\$33.6	-\$34.2
<b>LOCAL</b>	-5.7	-13.2	-15.1	-16.8	-17.1
<b>EXPENDITURES</b>					
<b>POSITIONS:</b>					
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> The tax refunds will be administered by the Department of Revenue.					
<b>EFFECTIVE DATE:</b> Taxes paid on or after January 1, 1997.					

**BILL SUMMARY:** Cities, counties and specifically named local authorities and state institutions are allowed an annual refund of state sales taxes paid. The bill adds local school administrative units to the list of eligible agencies.

**ASSUMPTIONS AND METHODOLOGY:** Historical data on capital outlays by local schools was provided by the Department of Public Instruction. Refunds are normally paid annually in February based on taxes paid the prior fiscal year. Thus, the first-year loss would be 50% of the annualized amount. The analysis assumes 5.1% annual growth in current expense purchases and anticipates that the \$450 million of expenditures from the March 1 issuance of state bonds each year are expended over a 30-month period beginning 6 months after the issuance of bonds (to allow for land acquisition and site work). For school building capital outlay it is assumed that 50% of the cost is for taxable materials and supplies. School capital outlay excluding the proceeds from the \$1.8 billion bond issue are projected to grow 6.4% per year.

The analysis is reduced by the material and supplies portion (50% assumed) of school capital financed from installment purchase arrangements and certificates of participation. The reason is that counties already receive a sales tax refund on these purchases because the county is contracting for the construction or renovation. These dollar amount of the activity financed by these sources of financing are forecast to increase at an annual rate of 20%. However, the \$1.8 billion of state school bonds will cause the refunds to grow over the next few years.

**TECHNICAL CONSIDERATIONS:**

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

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**APPROVED BY:** Tom Covington **TomC**

**DATE:** March 10, 1997



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