

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 1665 (Second Edition)

SHORT TITLE: Interstate Air Couriers - Bill Lee

SPONSOR(S):

FISCAL IMPACT					
	Yes ()	No ()	No Estimate Available (x)		
	<u>FY 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>
REVENUES					
State General Fund					
(See "Assumptions and Methodology")					
PRINCIPAL DEPARTMENTS AFFECTED: The Bill Lee Act credits are administered by the Department of Commerce and the Department of Revenue. The enactment of the bill should not affect the budget requirements of either department.					
EFFECTIVE DATE: The air courier hub definition rewrite becomes effective October 1, 2002, and applies to sales made on or after that date. The bidding law exemption effective date change becomes effective when the bill becomes law. The remaining sections of the bill become effective for tax years beginning on or after January 1, 2002.					

ISSUE BACKGROUND: The Bill Lee Act is the package of state tax incentives that was first adopted in 1996 and has been modified in each subsequent year. The incentives are primarily in the form of tax credits for investment in machinery and equipment, job creation, worker training, and research/development. The credits apply to activities undertaken by specifically named industrial classifications. In 1998, the Act was amended to provide sales and property tax incentives to air courier hubs.

BILL SUMMARY: (1) Rewrites the definition of interstate air courier hub to conform to industry practice. (2) Extends the regular Bill Lee Act sunset of January 1, 2006, to January 1, 2010, for an interstate air courier that enters into a major real estate lease on or before January 1, 2006, with an airport authority. (3) The Lee Act contains wage standards for determining eligibility for the tax credits. The bill rewrites the standard by allowing part-time jobs for which the taxpayer provides health insurance to be counted as having wages at least equal to the standard times the applicable average weekly wage for the county in which the jobs will be located. (4) Currently, taxpayers who make an investment of \$150 million or more within a two-year period may be eligible for enhanced incentives. The bill provides for a seven-year investment period for an interstate air courier that has, or is constructing, a hub in North Carolina. (5) Extends the sunset on the Piedmont Trial Airport Authority's exemption from the bidding laws from January 1, 2008, to January 1, 2010.

ASSUMPTIONS AND METHODOLOGY: The rewrite of the definition of interstate air courier hub is necessary for Fed Ex to qualify for the sales and property tax incentives. The fiscal note for the 1998 legislation contained fiscal estimates of the impact of these incentives. A discussion with a representative of Fed Ex indicated that the magnitude of these items has not changed with the delay in the project. The 1998 estimates indicated that the lower sales tax rate on handling and storage equipment would amount to \$.4 million for the first two years that the project in ramping up and \$.1 million per year thereafter. The impact of the sales tax exemption for lubricants and repair parts comes into play after the facility is up and running. The estimate for this incentive is \$.2 million per year.

The uncertainty surrounding the timing of the project means that it is impossible to predict which year the impacts begin. Under current scheduling, the first year of the handling and storage equipment incentive could be 2005-06. The costs for the sales tax incentives will not occur until at least 2005-06. Thus, the delay in the construction of the Fed Ex facility simply means that the incentives will be used at a later date than anticipated in the 1998 bill.

In addition, the extension of the Bill Lee Act sunset from 2006 to 2010 for interstate air couriers will allow Fed Ex and other eligible taxpayers to take Lee Act tax credits during the 2006-2009 period that are not available under current law. Data from the state's 1998 offer of financial benefits to Fed Ex indicated that Bill Lee Act credits of \$2 million would be taken over a four-year period.

It is possible that the modification to the wage standard will enable some companies not currently eligible for the Lee Act credits to become eligible. Discussions with officials of the Department of Commerce did not yield any information on how many taxpayers might become eligible or the impact on tax credit usage.

SOURCES OF DATA: Discussions with representatives of Fed Ex (sales tax incentives) and Department of Commerce (wage standard issue).

TECHNICAL CONSIDERATIONS:

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DATE: September 4, 2002



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