



NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

Legislative Fiscal Note

Short Title: Annual Report Standardization.
Bill Number: Senate Bill 362 (Second Edition)
Sponsor(s): Senators Wells and Perry

SUMMARY TABLE

FISCAL IMPACT OF BILL DRAFT, V.2

	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>
State Impact					
General Fund Revenue	\$ 494,658	\$ 494,658	\$ 2,123,449	\$ 2,157,228	\$ 2,191,008
Less Expenditures	\$ 861,997	\$ 692,947	\$ 645,606	\$ 112,511	\$ 121,137
General Fund Impact	\$ (367,339)	\$ (198,289)	\$ 1,477,843	\$ 2,044,717	\$ 2,069,871
NET STATE IMPACT	\$ (367,339)	\$ (198,289)	\$ 1,477,843	\$ 2,044,717	\$ 2,069,871

STATE POSITIONS	5.00	5.00	5.00	-1.00	-1.00
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FISCAL IMPACT SUMMARY

This bill has a budgetary impact to the General Fund and the Department of the Secretary of State. Because of the leveling of annual business filing fees for business corporations, limited liability companies (LLCs), limited liability partnerships (LLPs), and limited partnerships (LPs) at \$125, the bill will initially produce estimated additional General Fund revenues of approximately \$470,000 annually. Those revenues will increase to approximately \$2,100,000 annually beginning in FY 2021-22, once the fee requirement for LPs begins. The proposed changes to business reinstatement fees will generate an additional \$25,000 annually.

The estimated budgetary impact to the Secretary of State is variable. The bill generates new expenditure requirements of approximately \$862,000 in the first year after enactment, although those requirements decline to about \$112,500 by year four after initial implementation costs.

FISCAL ANALYSIS

I. OVERVIEW

The tables below detail the fiscal impact of this bill on the General Fund and the Secretary of State.

Table 1 – Estimated Net Impact to General Fund

General Fund Impact	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Revenues	\$ 494,658	\$ 494,658	\$ 2,123,449	\$ 2,157,228	\$ 2,191,008
Annual Report Fee (Corporations, LLCs, LLPs)	\$ 469,818	\$ 469,818	\$ 469,818	\$ 469,818	\$ 469,818
Annual Report Fee (Limited Partnerships)	\$ -	\$ -	\$ 1,628,791	\$ 1,662,570	\$ 1,696,350
Business Reinstatement Fee	\$ 24,840	\$ 24,840	\$ 24,840	\$ 24,840	\$ 24,840
Net Impact	\$ 494,658	\$ 494,658	\$ 2,123,449	\$ 2,157,228	\$ 2,191,008

Table 2 – Estimated Net Impact to the Department of the Secretary of State

Secretary of State Impact	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Revenues	\$ 24,135	\$ 24,135	\$ 24,135	\$ 24,135	\$ 24,135
Business Reinstatement Fee	\$ 24,135	\$ 24,135	\$ 24,135	\$ 24,135	\$ 24,135
Expenditures	\$ 861,997	\$ 692,947	\$ 645,606	\$ 112,511	\$ 121,137
Position Costs	\$ 369,765	\$ 332,652	\$ 322,633	\$ 100,511	\$ 109,137
Technology	\$ 30,000	\$ 12,000	\$ 12,000	\$ 12,000	\$ 12,000
Public Outreach	\$ 462,232	\$ 348,295	\$ 310,973	\$ -	\$ -
State Positions	5.00	5.00	5.00	-1.00	-1.00
Net Impact	\$ (837,862)	\$ (668,812)	\$ (621,471)	\$ (88,376)	\$ (97,002)

Table 1 shows that there will be an estimated addition of revenues to the General Fund totaling nearly \$495,000 annually until FY 2021-22, when revenues increase to about \$2,100,000 annually. Section II of this analysis provides more details on that estimate.

Table 2 shows that the net impact of this bill to the Secretary of State varies by year. This bill produces approximately \$24,135 annually in new receipts to the agency. New expenditure requirements for the Secretary of State exceed new receipts and include personnel costs related to 4.0 new permanent positions, 1.0 new temporary position, and a temporary reclassification of 5.0 positions that will eventually be eliminated. New requirements also include costs for technology and public outreach. Section III of this analysis provides more details on the new requirements.



II. GENERAL FUND

The table below shows the anticipated changes to annual business report fee collections based on the filings in FY 2017-18.

Table 3 – Annual Revenue Impacts from Changes to Existing Filing Fees, based on FY 2017-18

Fee Structure for Annual Reports	Business Corporations	LLCs	LLPs	TOTAL
Proposed Fee	\$ 26,515,500	\$ 36,901,625	\$ 144,125	\$ 63,561,250
Existing Fee	\$ 3,818,232	\$ 59,042,600	\$ 230,600	\$ 63,091,432
Difference (Proposed - Existing)	\$ 22,697,268	\$ (22,140,975)	\$ (86,475)	\$ 469,818

Fees from the annual report filings for business corporations, LLCs, LLPs are currently collected by the Secretary of State and transferred to the General Fund. This bill has no impact on that transfer taking place. However, this bill will impact the amount transferred annually. The changes to the annual report fees as presented in this bill will have a positive impact on the General Fund. Had these changes been in place during FY 2017-18, the impact to the General Fund would have been an additional \$469,818. Given the uncertainty of business activity in the coming years, this analysis uses the impact estimate from FY 2017-18 as a stand-in for estimated future impact due to filings from those business entities.

Table 4 – Revenue Impacts from New Filing Fee for Limited Partnerships

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Fee	\$ -	\$ -	\$ 125	\$ 125	\$ 125
Expected LP Filings	12,490	12,760	13,030	13,301	13,571
Expected Revenue	\$ -	\$ -	\$ 1,628,791	\$ 1,662,570	\$ 1,696,350

Source: Secretary of State Estimates

Fee changes for business corporations, LLCs, and LLPs comprise the majority of General Fund revenue impacts for FY 2019-20 and FY 2020-21. However, beginning in FY 2021-22, the majority of impact will come from limited partnership (LP) filings. There is currently no annual filing requirement or associated fee for LPs. The proposed bill's introduction of a fee for LPs beginning in FY 2021-22 will generate about \$1,630,000 annually.

In addition, the \$50 reinstatement fee will have a slight impact on General Fund revenues. If reinstatement levels remain consistent from the past five years, the increased fee will average about \$24,480 per year of reversions from the Secretary of State to the General Fund. (See Receipts portion of Section III for further detail on this reversion.)

III. SECRETARY OF STATE

Receipts: The proposed bill would increase one receipt to the Secretary of State. Of the new \$50 fee charged for business reinstatements, \$25 would be remitted from the Department of Revenue to the Secretary of State to cover the direct costs of reinstatement. Beyond those direct costs, this bill directs the agency to revert the remaining portion of remittances to the General Fund. The bill makes no change to the Secretary of State's existing responsibilities for reinstatements. Instead, the bill creates a new receipt to the agency and there is no offsetting expense.

Over the last five fiscal years, an average of 13,069 businesses were suspended annually. Of those businesses, an average of 1,959 per year were reinstated and paid the \$25 fee. The average cost to the agency for reinstatements is about \$12.32. This leaves \$12.68 remaining from the \$25 fee to be reverted to the General Fund. Table 5 shows the estimated revenue impacts of the changes to business reinstatement fees based on those five-year averages.

Table 5 - Revenue Impacts from Reinstatement Fee Change and Remittance to Secretary of State

Remittance Destination	Revenues
New Receipts to Secretary of State	\$ 24,135
New Revenues to General Fund	\$ 24,840
Total Estimated Annual Remittance to Secretary of State	\$ 48,975

Positions: The Secretary of State has 5.0 full time equivalents (FTE) dedicated to paper processing. The electronic filing requirement of this bill would eliminate the need for paper processing positions. However, due to the change in filing requirements, there will temporarily be a greater demand in the call center. These positions could be moved to the call center to meet anticipated increased demand. In total, these positions would require an additional \$20,867 in salaries and benefits to bring them to the minimum compensation of the call center positions. As filers become accustomed to the changes, it is likely that related call volume will decline.

Therefore, these positions could become time-limited and eliminated after three years. The existing cost for these 5 FTE for salaries and benefits is approximately \$174,661.

In addition, the Secretary of State reports the need for the following new positions for the implementation of this bill. The total cost in the first year of implementation for these new positions is \$374,883, which includes \$52,250 nonrecurring for furniture, supplies, and equipment. Each of the positions is budgeted at the minimum salary range as designated by the Office of State Human Resources' 2018 classification standards. See below for a description of these positions, as well as the total first-year salary and benefits information for each.

1. *Administrative Officer I* – Temporary position (three fiscal years) for education and outreach to help businesses and nonprofits adapt to electronic filing. Classified as GN08 with total salary and benefits cost of \$48,962.
2. *Business Systems Analyst II* – For programming the new nonprofit annual report interface, enhancing current programing to handle the increase in filings, and programming to supply the Department of Revenue with information about entities that may be due a sales tax refund. Classified as IT05 with total salary and benefits cost of \$77,204.
3. *Accounting Technician II* – For processing increased electronic payments. Classified as GN08 with total salary and benefits cost of \$48,962.

4. *User Support Specialist*– IT helpdesk for technical issues related to changes to e-filing. Classified as IT05 with total salary and benefits cost of \$77,204.
5. *Administrative Specialist* – Front counter position for walk-in support related to changes to e-filing. Classified as GN06 with total salary and benefits cost of \$44,317.

Technology: The technology costs for implementing this bill total \$30,000 in the first year and \$12,000 in future years. See below descriptions of those costs.

1. *Additional Server* - \$10,000 nonrecurring for a more robust server that can handle the creation of images and increased online demand.
2. *Electronic Commerce Kiosk* - \$10,000 nonrecurring to allow citizens without internet access to file annual reports in person. \$2,000 recurring for maintenance on kiosk.
3. *Email Delivery System* - \$10,000 recurring for a mass email delivery system that prevents government emails from being misidentified as spam.

Public Outreach: The Secretary of State would need to inform the impacted stakeholders of the changes resulting from this legislation. Below are the agency’s estimated costs for doing so.

Table 6 - Costs Associated with Public Outreach

Type	FY 2019-20	FY 2020-21	FY 2021-22
Business/LLC/LLP/LPs	\$462,232	\$279,616	\$179,616
Nonprofit	\$0	\$68,679	\$131,357
TOTAL	\$462,232	\$348,295	\$310,973

The outreach for business corporations, LLCs, LLPs, and LPs would include two post card mailings each year from FY 2019-20 through FY 2021-22. The cost for a postcard mailing is \$.31 per piece and 579,407 postcards would be mailed each year. In addition, outreach would include advertisements in the first two fiscal years at a cost of \$100,000 per year to inform stakeholders of the law changes. Finally, there is \$3,000 included in FY 2019-20 for brochure printing to detail the changes to existing law.

The outreach to nonprofits would take place in FY 2020-21 and FY 2021-22. In the first fiscal year, the agency would send one postcard mailing and two the following the year. The cost per piece of mail is \$0.49. 133,493 would be mailed in year one, with that number doubling in year two. Outreach to nonprofits will also require \$3,000 for brochure printing.

In addition, the Administrative Officer I who would be hired temporarily for outreach and public education would require funds for travel. Assuming one overnight trip per week at the State Budget Manual subsistence rate, that is \$7,500 per year.

IV. CONCLUSION

The estimated budgetary impact for the first two year after enacting this bill is net-negative. However, after initial implementation costs and the beginning of the filing fee for LPs, the estimated impact becomes net-positive. Large changes to the total number of businesses in the State or a new change to the annual report fee would alter the estimates in this analysis.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

DEPARTMENT OF THE SECRETARY OF STATE, OFFICE OF STATE HUMAN RESOURCES.

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

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