



NORTH CAROLINA GENERAL ASSEMBLY

2023 Session

Legislative Fiscal Note

REVISED

Short Title: Forgivable Loans/HBCU Supplemental Funding.
Bill Number: House Bill 512 (First Edition)
Sponsor(s): Rep. Warren

SUMMARY TABLE

This Note has been revised to correct the FY 2027-28 privilege tax impact from \$12.2M to \$9.9M.

The table below displays the high-level fiscal impact of H.B. 512. Additional tables in the Fiscal Analysis section detail revenues and expenditures of specific funds listed below.

FISCAL IMPACT OF H.B. 512, V.1 (\$ in millions)

	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>	<u>FY 2026-27</u>	<u>FY 2027-28</u>
State Impact					
General Fund Revenue					
Individual Income Tax	-	-	-	-	-
Privilege Tax	-	2.9	5.2	7.6	9.9
Less Expenditures	-	-	-	-	-
General Fund Impact	-	2.9	5.2	7.6	9.9
Special Funds					
Special Fund: NC Video Lottery Fund					
Revenue	-	87.6	175.2	262.8	350.4
Less Expenditures	-	87.6	175.2	262.8	350.4
Special Fund Impact	-	-	-	-	-
Special Fund: NC Lottery Commission					
Revenue	-	21.9	43.8	65.7	87.6
Less Expenditures	-	21.9	43.8	65.7	87.6
Special Fund Impact	-	-	-	-	-
Special Fund Impact	-	-	-	-	-
NET STATE IMPACT	-	2.9	5.2	7.6	9.9

Note: The bill directs the NC Lottery Commission to use sufficient funds from the NC State Lottery Fund (not to exceed \$14 million) to cover initial operating expenses, and the Commission is required to repay the Lottery Fund within 24 months of the bill's effective date. The table above does not reflect this loan because the amount of initial operating expenses and how those expenses would be accounted for in determining the net revenues of the Lottery Fund are unknown.

FISCAL IMPACT SUMMARY

Section 1 of the bill has a fiscal impact on State government revenue and expenditures. This section directs the Lottery Commission (hereafter the “Commission”) to regulate video lottery games played at Video Lottery Terminals (VLTs) in authorized locations. The fiscal impact of this section results from this new gaming option being established, incurring ongoing expenses, and producing ongoing revenues. Section 1 also establishes the formula for disbursing revenue collected from VLTs.

In addition, Section 1 requires VLT manufacturers, operators, and retail locations to pay annual license application and renewal fees not to exceed \$250, and to pay for the cost to conduct a criminal and financial record check for their applications.

Section 6 imposes an annual privilege tax on VLT Manufacturers, Operators, and retail locations, with the latter including a per machine tax. These revenues are deposited in the General Fund.

Section 11 establishes scholarship forgivable loans for community college students if they meet certain academic criteria. The bill allows for a deduction of the forgiven loan from the taxpayer’s adjusted gross income in computing individual income tax due.

FISCAL ANALYSIS

HB 512 generates revenues and directs spending in several areas. The following sections of this fiscal analysis discuss each major area: generating and allocating Net Terminal Income, allocating funds from the newly created Video Lottery Fund and the Lottery Commission, and generating revenue for the General Fund.

Generation and Allocation of Net Terminal Income

The Fiscal Research Division (FRD) assumes a one-year lag period before video lottery terminals (VLTs) would begin operating. This lag allows the Lottery Commission time to establish contracts with vendors, advertise the new method of gambling, and establish a regulatory and enforcement structure. Thus, no revenues are estimated to be generated in FY 2023-24.

“Net Terminal Income,” or NTI, is the gross revenue collected from VLTs, less prizes actually paid per machine. FRD used the following assumptions to estimate NTI:

- **Number of VLTs:** Fiscal Research assumes that the number of VLTs will increase annually by 5,000 machines during the 5-year estimate. This assumption is based primarily on other states’ data. FRD’s review of other states’ data suggests a steady growth trajectory for the number of VLTs over the period of this analysis.
- **Revenue Per VLT:** For the first several years of VLT legalization, FRD assumes that daily NTI would remain constant at the lower end (\$150) of the range experienced by other States that implemented VLTs. There are three reasons for this assumption: first, \$150 is the initial daily NTI cited by the Spectrum Gaming Group in their analysis conducted at the General Assembly’s direction in 2021; second, FRD does not know the extent to which North Carolinians will choose to use VLTs; third, data from other states show a wide range

between minimum (approximately \$60) and maximum (approximately \$400) Daily NTI; FRD reviewed Daily NTI values in other states and the \$150 value is consistent with those states' Daily NTI. Thus, FRD assumes the Daily NTI per VLT will remain constant at \$150 until 2028.

- **Days of Operation:** FRD assumes that VLTs would be available 365 days per year, which is a standard assumption within the VLT industry when estimating NTI. Further, FRD assumes VLTs would be available 365 days because the bill does not restrict the days in which the machines can be in operation.

FRD applied the following formula to arrive at Estimated Annual Net Terminal Income each year:

Estimated Annual Net Terminal Income = Number of VLTs X Daily NTI Per VLT X Days of Operation
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Table 1 shows the estimated total annual NTI revenue.

Table 1: Estimated Annual NTI from VLTs per HB 512

Variable	2023-24	2024-25	2025-26	2026-27	2027-28
Number of VLT Machines	None- Planning Year	5,000	10,000	15,000	20,000
Daily NTI Per VLT Machine		\$150	\$150	\$150	\$150
Days of Operation		365	365	365	365
Total Net Terminal Income (\$ in millions)	-	\$273.8	\$547.5	\$821.3	\$1,095.0

Note: Totals may differ than those shown due to rounding.

Table 2 shows the estimated allocation of NTI revenue per the bill's direction.

Table 2-Estimated Annual NTI Revenues by Recipient per HB 512 (\$ in millions)

Recipient Type	Recipient in HB 512	NTI Distribution Percentage	NTI Distribution Amount by Fiscal Year				
			2023-24	2024-25	2025-26	2026-27	2027-28
State of NC	Video Lottery Fund	32%	None- Planning Year	87.6	175.2	262.8	350.4
	NC Lottery Commission	8%		21.9	43.8	65.7	87.6
	Recipient Type Subtotal:	40%		109.5	219.0	328.5	438.0
Private Entities	VLT Operators	35%		95.8	191.6	287.4	383.3
	VLT Retail Locations/ Merchants	25%		68.4	136.9	205.3	273.8
	Recipient Type Subtotal	60%		164.3	328.5	492.8	657.0
Total		100%	-	273.8	547.5	821.3	1,095.0

Note: Totals may differ than those shown due to rounding.

The next two sections discuss estimated allocations from the Video Lottery Fund and the Lottery Commission.

Video Lottery Fund Revenues

The bill requires that annual Video Lottery Fund revenues be distributed as follows:

- \$12.0 million to six UNC institutions (each receiving \$2 million annually) to increase graduation rates, student success, and institutional sustainability;
- \$10.0 million to independent Historically Black Colleges and Universities (HBCUs) (each receiving up to \$2.0 million annually) to increase graduation rates and student success;
- \$1.0 million to the Department of Public Safety (DPS) for grants to county sheriff departments to combat illegal gaming; and
- The remaining amount for scholarship forgivable loans for community college students and the State Education Assistance Authority's (SEAA) administrative costs.¹ The bill would establish the Community College Scholarship Loan Trust Fund, which would cover tuition and fees for students to receive an associate's degree, diploma, or certificate at a Community College. These funds would be available for Community College students in both curriculum and continuing education courses.²

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¹ SEAA may use up to 5% for expenses it incurs for administering the Community College Scholarship Loan Program.

² The maximum cost of this program would be approximately \$220 million, if the program covered all of the tuition and fees for curriculum and continuing education resident students at North Carolina community colleges in FY 2021-22. The bill allows the State Education Assistance Authority (SEAA) to create a lottery for scholarship recipients should insufficient funds be available to fully fund all eligible students. As such, in any year when receipts for the program are lower than need, the cost of the program would be capped at the amount of the receipts. In this situation, SEAA could also prorate the amount of funds per recipient so that more recipients would get some funds, but it is unclear from the language of the bill if SEAA would be permitted to do so. In FY 2021-22, community colleges received approximately \$280 million in tuition and fees from resident students, about \$60 million of which was covered by other financial aid from the federal government or the State of North Carolina.



Table 3 details the estimated NTI the Video Lottery Fund would allocate directed by the bill.

Table 3-Estimated Annual NTI Expenditures Relating to Video Lottery Fund Proceeds per HB 512

Recipient Category	Purpose of Funding	Recipient	Estimated NTI Expenditures per Fiscal Year in HB 512 (\$ in millions)				
			2023-24	2024-25	2025-26	2026-27	2027-28
Education	Directed appropriations to increase student graduation rates, student success, and institutional sustainability	Elizabeth City State	None- Planning Year	2.0	2.0	2.0	2.0
		Fayetteville State		2.0	2.0	2.0	2.0
		NC Agricultural and Technical		2.0	2.0	2.0	2.0
		NC Central		2.0	2.0	2.0	2.0
		UNC-Pembroke		2.0	2.0	2.0	2.0
		Winston-Salem State		2.0	2.0	2.0	2.0
Education	Grants to improve graduation rates and student success	Independent HBCUs in the State	10.0	10.0	10.0	10.0	
Law Enforcement	Grants to combat illegal gaming	Sheriffs via DPS	1.0	1.0	1.0	1.0	
Administration	SEAA's costs for administering the loan program	SEAA	Up to 3.2	Up to 7.6	Up to 12.0	Up to 16.4	
Education	Forgivable loans for community college students	SEAA	61.4	144.6	227.8	311.0	
Total			-	87.6	175.2	262.8	350.4

Notes:

- Totals may differ than those shown due to rounding.
- Amounts shown for the scholarship forgivable loans and for SEAA's administration are maximum values as it is contingent on the General Assembly's actual appropriation of the remaining balance. SEAA's administrative costs may not exceed 5% of the total allocated for the loan program.
- This table does not reflect loans that would be required to be paid back to the Community College Scholarship Loan Trust Fund due to changes in eligibility because any loan payback would be beyond the five-year period shown in the table.
- Beginning in Fiscal Year 2026-27, Fund amounts for loans are expected to exceed the estimated eligible student need based on community college enrollment data; however, the bill does not direct these over-allocations to be allocated elsewhere. Therefore, they remain in the Fund for the purposes of this fiscal note and the table above.

Principal on Loans Not Forgiven. Some percentage of students receiving funds under HB 512 would have to repay the forgivable loan if they did not finish their degree or credential program within six years of enrollment or withdrew from the program without an intent to reenroll.

Approximately 56% of community college students in North Carolina currently complete their curriculum program within four years of enrollment, which is how long the Community College system tracks this metric. Assuming that this rate is similar for continuing education courses and that the rate does not increase dramatically when the completion period is extended to six years, the Loan Trust Fund would likely see repayments of close to \$90 million starting in year six of the program. However, it is not anticipated that substantial loan repayments would occur within the time frame of this fiscal memo, and thus they are excluded.

Lottery Commission's Revenues

The bill requires that Lottery Commission revenues (8% of total annual net machine revenues) be distributed annually as follows:

- \$1.0 million to the Department of Health and Human Services’ gambling addiction education and treatment program;
- \$3.0 million to the Department of Public Safety’s Alcohol Law Enforcement Division for costs incurred with enforcing the new VLT laws; and
- The remainder of the Commission’s funds are to be used to cover the Commission’s expenses, including operating a central monitoring system. Any funds remaining after the Commission’s expenses are to be directed back to the Video Lottery Fund.³

Table 4 shows the estimated NTI allocation amounts to the Lottery Commission.

Table 4-Estimated Annual NTI Expenditures of Lottery Commission Revenues per H954

Recipient Identified in HB 512 Relating to Lottery Commission	Estimated NTI Expenditures per Fiscal Year in HB 512 (\$ in millions)				
	2023-24	2024-25	2025-26	2026-27	2027-28
DHHS Gambling Addiction Education and Treatment Program	None- Planning Year	1.0	1.0	1.0	1.0
DPS Alcohol Law Enforcement Division (ALE)		3.0	3.0	3.0	3.0
NC Lottery Commission (for administrative expenses)		Up to 17.9	Up to 39.8	Up to 61.7	Up to 83.6
Total	-	21.9	43.8	65.7	87.6

Note: Totals may differ than those shown due to rounding. Amounts shown for the NC Lottery Commission’s administration are maximum values and unused portions are to be directed back to the Fund.

In addition, the Commission can charge manufacturers, operators, and retail locations an annual renewal fee of up to \$250 each and the cost of criminal and financial record checks. Because the number of individuals associated with VLTs in these categories is unknown, FRD cannot calculate these revenues; however, FRD believes this aspect would be net neutral from a revenue perspective for the Commission since it would cover associated costs with the renewal fees.

General Fund Revenues

The following two sections discuss HB 512’s privilege tax and individual income tax components.

Privilege Tax on Manufacturers, Operators, and Merchants. The bill requires each VLT to be permitted and establishes licenses and imposes an annual privilege tax for VLT Manufacturers (\$50,000), VLT Operators (\$25,000 plus \$150 per VLT terminal licensed to the operator), and VLT Merchants (\$1,000 plus \$150 per VLT in the retail location). For the purposes of this analysis, FRD assumes the minimum number of manufacturers (n=5) and operators (n=12) the bill directs the Lottery Commission to strive to have in place and relies on the estimated number of VLTs in operation each year discussed earlier. Further, FRD assumes the minimal number of retail merchants/locations each year given the estimated number of VLTs in operation and limits per location the bill establishes to arrive at the privilege tax revenue from the \$1,000 per location tax.

³ Because the Lottery Commission’s expenditures on the central monitoring system and its own activities for administering VLTs are unknown, and ALE enforcement costs beyond its \$3.0 million allocation is unknown, this note assumes the Lottery Commission retains these revenues and does not transfer them to the Fund.

Table 5 shows the estimated annual amounts of General Fund privilege tax revenue from the bill.

Table 5-Estimated Annual VLT-Related Privilege Tax General Fund Revenues per HB 512

Source of Privilege Tax Revenue	Estimated Privilege Tax Generated per Fiscal Year in HB 512 (\$ in millions)				
	2023-24	2024-25	2025-26	2026-27	2027-28
VLT Manufacturers	None- Planning Year	0.3	0.3	0.3	0.3
VLT Operators		1.1	1.8	2.6	3.3
VLT Merchants (per machine)		0.8	1.5	2.3	3.0
VLT Merchants (per location)		At least 0.8	At least 1.7	At least 2.5	At least 3.3
Total	-	2.9	5.2	7.6	9.9

Note: Totals may differ than those shown due to rounding.

Individual Income Tax on Forgiven Loans. The scholarship forgivable loans would a) be forgiven after six years or sooner with successful completion of a diploma, certification, or degree, or b) go into repayment after that time. Forgiven loans are currently subject to federal and State income tax, but the bill exempts loans that are forgiven from State income tax. While FRD estimates this forgiveness would reduce General Fund revenues by approximately \$5 million annually, these foregone revenues are outside the five-year period for this note and are appropriately not included in the fiscal impact table.

Key Assumptions

In addition to the assumptions specified elsewhere, the estimates provided herein rely on the following assumptions for the purpose of this analysis.

- FRD assumes that the State’s existing video gaming and sweepstakes markets are eliminated with the introduction of a regulated VLT program.
- FRD assumes that VLTs have no negative effect, and at times a positive effect, on sales of existing traditional lottery products (e.g., scratch offs, draw games, etc.). FRD makes no assumption regarding the level at which the market would become saturated with VLTs and increasing the number of VLT machines in operation may result in a decline in daily and annual NTI. Without the bill containing specific performance and upgrade requirements for VLT operators and manufacturers, FRD assumes these revenues would continuously incentivize quality support to VLT locations and other actions to maximize revenues for the Video Lottery Fund.
- Fiscal Research assumes that daily NTI would remain constant at the lower end of daily NTI (\$150) in the first several years of VLT legalization in the State.
- FRD assumes that the portions allocated to the various entities administering portions of the bill (DPS, SEAA, Lottery Commission, etc.) would be fully supported given current or new resources within the bill.

TECHNICAL CONSIDERATIONS

None.

DATA SOURCES

N.C. Education Lottery Commission; State Education Assistance Authority; North Carolina Community College System; U.S. Census Bureau; myFutureNC; Carolina Demography at UNC Chapel Hill; proprietary information from a VLT manufacturer; Spectrum Gaming Group; data from VLT programs and lotteries in the following states: Delaware, Illinois, Louisiana, Maryland, New York, Ohio, Oregon, Rhode Island, South Dakota, and West Virginia.

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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