



NORTH CAROLINA GENERAL ASSEMBLY

2023 Session

Legislative Fiscal Note

Short Title: 2023 Appropriations Act.
Bill Number: House Bill 259 (Fourth Edition)
Sponsor(s): Rep. Lambeth, Rep. Saine, and Rep. Arp

SUMMARY TABLE

FISCAL IMPACT OF REVENUE CHANGES IN SENATE PCS TO HB 259 (\$ 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 Revenue Impact					
General Fund Tax Revenue					
Personal Income Tax	(161.7)	(1,058.3)	(1,510.0)	(1,461.2)	(2,522.7)
Sales and Use Tax	(2.9)	(3.9)	(4.0)	(4.1)	(4.2)
Tobacco Products Tax	-	-	(0.4)	(1.8)	(3.3)
General Fund Non-Tax Revenue	(7.0)	(7.0)	3.1	3.2	3.2
Departmental Receipts	See Fiscal Analysis Section.				
General Fund Impact	(171.6)	(1,069.2)	(1,511.3)	(1,463.9)	(2,527.0)
Highway Fund Tax Revenue					
Sales and Use Tax	0.6	(10.1)	(18.3)	(19.3)	(20.3)
Transportation Commerce Tax		5.7	11.5	12.0	12.5
Highway Fund Fee Revenue	2.7	5.8	(8.4)	(7.3)	(6.0)
Departmental Receipts	See Fiscal Analysis Section.				
Highway Fund Impact	3.3	1.4	(15.2)	(14.6)	(13.8)
Highway Trust Fund Tax Revenue					
Sales and Use Tax	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
Highway Trust Fund Fee Revenue	(1.5)	(2.0)	(2.0)	(2.0)	(2.0)
Highway Trust Fund Impact	(1.6)	(2.1)	(2.2)	(2.2)	(2.2)
Special Fund Revenue	See Fiscal Analysis Section.				
Board Revenue	See Fiscal Analysis Section.				
NET STATE IMPACT	(\$169.9)	(\$1,065.4)	(\$1,526.0)	(\$1,480.0)	(\$2,536.9)
Local Revenue Impact					
Sales and Use Tax	(1.4)	(1.9)	(1.9)	(2.0)	(2.0)
Local Rental Vehicle Taxes	0.3	0.5	0.5	0.5	0.6
NET LOCAL IMPACT	(\$1.1)	(\$1.4)	(\$1.4)	(\$1.5)	(\$1.4)

Note: Totals may not sum due to rounding.

FISCAL IMPACT SUMMARY

This Fiscal Memo addresses only those bill sections that affect State or local revenue.

Taxes

Section 42.1 reduces the individual income tax rate as shown in the table below:

Tax Year	2024	2025	2026	2027	2028	2029	2030
Current Law	4.60%	4.50%	4.25%	3.99%	3.99%	3.99%	3.99%
Senate PCS to H.B. 259	4.50%	3.99%	3.99%	3.50%	3.25%	2.99%	2.49%

Section 42.12 expands a sales tax exemption to include parts and accessories used to repair certain aircraft.

Section 42.13 extends a sales tax exemption for sales of aviation gasoline and jet fuel for use in a commercial aircraft set to sunset on January 1, 2024 by 6 years.

Section 42.14 expands a sales tax exemption for fuel used by certain cargo vessels transporting freight on inland and intracoastal waterways.

Section 42.16 enacts a sales tax exemption for purchases of breast pumps and accessories.

Section 42.17 expands the current 8% short-term car rental tax (currently charged for vehicle rental transactions via traditional methods (e.g., Avis, Enterprise, etc.)) to include rental transactions conducted through a peer-to-peer facilitator (e.g., Turo, Getaround, etc.).¹

Section 42.18 changes the excise tax rate on smokeless tobacco from 12.8% of cost price to \$0.43 per ounce and expands the tax base to include alternative nicotine products.

Section 42.19 enacts a new excise tax on for-hire ground transport services (e.g., taxis, limousines, Uber, and Lyft) at a rate of 2% of gross receipts derived from exclusive-ride services and 1% of gross receipts derived from shared for-hire ground transport services.

Fees and Assessments

Section 9E.7A moves forward a one-time \$12.8 million hospital assessment by three months if the budget is enacted prior to July 1, 2023.

Section 9F establishes various exemptions and reforms related to certificate of need (CON) review.

Section 12.7 eliminates vehicle emissions inspection requirements for all counties except Mecklenburg County, and limits the vehicles required to have emissions inspections to those manufactured between 2003 and 2017.

¹ These transactions involve individuals allowing their personal vehicles to be rented by other individuals who reserve and pay for the vehicle rental via a peer-to-peer facilitator that connects the two individuals.

Section 12.11 creates a new expedited air permit process and allows DEQ to establish fees up to 200% of the regular fee to support the program.

Section 12.13 makes various changes to the express permitting statute, including increasing the fees for express permitting.

Section 12.14 increases multiple environmental fees and creates a new annual renewal fee for wind energy permits.

Section 16.25 modifies law license reciprocity processes for military-trained individuals or military spouses.

Section 20.1 codifies an existing fee charged to vendors for sales of material goods transacted through the Department of Administration's e-Procurement System.

Section 30.1 temporarily reduces the insurance regulatory charge.

Section 35.1 increases the annual registration fee for lobbyists and lobbyist principals.

Section 41.11C requires tolls for all ferry routes.

Section 41.14D increases the annual electric vehicle registration fee and establishes a new annual registration fee for plug-in hybrid vehicles.

Section 41.14E authorizes the Division of Motor Vehicles to charge an additional fee for electronic payment transactions.

Section 41.14F establishes a special permit for the transport and delivery of storage sheds 16 feet wide.

Other Items

Section 2.2 reduces General Fund revenue by increasing the amount of Master Settlement Agreement funds transferred to The Golden L.E.A.F.

Section 31.2 directs that proceeds from the insurance regulatory charge will be used to reimburse the General Fund for operations of the NC Industrial Commission.

Section 34.3 increases the amount DOR is authorized to retain for administering the 911 service charge.

Sections 34.5-34.7 increase the amount DOR is authorized to retain for costs associated with collecting various taxes.

Section 41.15 increases the portion of title and registration fees credited to the Highway Fund.

FISCAL ANALYSIS

Taxes

The following table summarizes the estimated five-year State revenue impact of the bill's tax changes. Certain sales tax provisions would also reduce local government revenue and have a modest impact on Highway Fund and Highway Trust Fund revenues due to the sales tax transfer provision enacted in the 2022 Appropriations Act.

Tax Changes in Senate PCS to HB 259 (\$ in millions)	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
PERSONAL INCOME TAX*					
<ul style="list-style-type: none"> Reduce tax rate: 2024: 4.50%, 2025: 3.99%, 2026: 3.99%, 2027: 3.50%, 2028: 3.25%, 2029: 2.99%, 2030: 2.49%. 	(161.7)	(1,058.3)	(1,510.0)	(1,461.2)	(2,522.7)
SALES AND USE TAX					
<ul style="list-style-type: none"> Expand sales tax exemption for parts and accessories used to repair aircraft lower take-off weights (HB 216-Expansion of Aviation Sales Tax Exemption). (Effective 7/1/2023) 	(0.4)	(0.5)	(0.6)	(0.6)	(0.6)
<ul style="list-style-type: none"> Extend sales tax exemption for aviation fuel for use in commercial aircraft. (Credited to Highway Fund) 	-	(11.0)	(19.3)	(20.3)	(21.4)
<ul style="list-style-type: none"> Expand sales tax exemption for certain freight vessels to those operating inland and on intracoastal waterways. (Effective 10/1/2023) 	(0.3)	(0.5)	(0.5)	(0.5)	(0.5)
<ul style="list-style-type: none"> Create a sales tax exemption for breast pumps and breast pump accessories. (Effective 10/1/2023) 	(2.3)	(3.1)	(3.2)	(3.2)	(3.2)
<ul style="list-style-type: none"> Expand the 8% short-term car rental tax to include peer-to-peer rentals. (Effective 10/1/2023) (Credited to Highway Fund) 	0.6	1.0	1.1	1.1	1.2
EXCISE TAX					
<ul style="list-style-type: none"> Change the excise tax rate on smokeless tobacco from 12.8% of cost price to \$0.43 per ounce and expand base to include alternative nicotine products. (Effective 7/1/2025) 	-	-	(0.4)	(1.9)	(3.5)
<ul style="list-style-type: none"> Enact a new excise tax on gross receipts derived from ground transport services at a rate of 2% for exclusive-ride services and 1% for shared-ride services (Credited to Highway Fund). (Effective 7/1/2025) 	-	5.7	11.5	12.0	12.5
Total Impact on General Fund Revenue	(164.6)	(1,062.2)	(1,514.4)	(1,467.1)	(2,530.2)
Total Impact on Transportation Funds Revenue	0.5	(4.5)	(7.0)	(7.5)	(8.0)
TOTAL IMPACT ON STATE REVENUE	(164.1)	(1,066.7)	(1,521.4)	(1,474.6)	(2,538.2)

Note: Totals may not sum due to rounding.

*The estimated fiscal impact of the personal income tax rate reductions beyond the five years shown in the table above are as follows: FY 2028-29: (\$3.7B); FY 2029-30: (\$5.6B); FY 2030-31: (\$7.1B).

Reduce Personal Income Tax Rate (Section 42.1). This provision reduces personal income tax revenue by reducing the rate each year from 2024 to 2030. Fiscal Research relied on the revenue projections and underlying assumptions from the May 2023 Consensus Revenue Forecast to estimate the impact of this provision in the upcoming biennium. The revenue impact in FY 2025-26 and after is projected based on historical growth rates, with adjustments to account for the estimated impacts of current law, including previously enacted rate reductions. The FY 2023-24 estimate reflects the expected reduction in revenue from withholdings and estimated payments due during the first half of calendar year 2024, which represents approximately 45% of the 2024 tax-year impact. The full impact of the tax year 2030 rate reduction is estimated to reduce revenue by \$7.1 billion.

Expand Aviation Sales Tax Exemption so that the Parts and Accessories Exemption Aligns with Labor Exemption for Same Types of Aircraft (Section 42.12). Fiscal Research computed the projected reduction in State and local sales tax revenue using proprietary sales data from an aircraft maintenance vendor. FRD then adjusted for the partial-year impact in FY 2023-24 and applied a growth rate to determine the fiscal impact in future years. FRD estimates this exemption will reduce State sales and use tax revenue by approximately \$400,000 and local revenue by approximately \$200,000 in FY 2023-24. The full impact would be \$500,000 to the State and \$240,000 to local governments beginning in FY 2024-25.

Extend Sunset for Aviation Gasoline and Jet Fuel for Use in Commercial Aircraft (Section 42.13). Fiscal Research estimated the number of gallons sold for use in commercial aircraft using Department of Revenue (DOR) data on the total number of gallons of aviation gasoline and jet fuel reported during FY 2021-22, the amount of sales tax collected on fuel used in non-commercial aircraft, and the amount of refunds issued for carriers in interstate commerce. Sales tax and refund data are then translated into estimated gallons using the average jet fuel price reported by the US Energy Information Administration (EIA).

Proprietary information was used to estimate the percentage of total gallons apportioned to the State. The resulting estimate of total gallons of commercial jet fuel after apportionment was further reduced to reflect the estimated elasticity of jet fuel sales to interstate operators. This estimate was projected using the growth rate used in the EIA Energy Outlook for jet fuel. Future jet fuel prices were estimated using Moody's Analytics forecast. FRD determined the fiscal impact by multiplying the resulting estimate of the tax base by the combined general rate of 7%.

This provision reduces revenue for transactions occurring on or after January 1, 2024, but aviation fuel sales tax revenue is credited to the Highway Fund after the end of the fiscal year, so the initial, partial-year impact of \$11 million is not reflected until FY 2024-25. The full-year impact is approximately \$20 million annually thereafter.

Expand Sales Tax Exemption for Fuel and Consumables Used by Boats Transporting Freight on Inland and Intracoastal Waterways (Section 42.14). Fiscal Research determined the estimated fiscal impact based on proprietary data provided by one or more affected taxpayers and information about the amount of fuel subject to the Federal Inland Waterways Excise Tax relative

to the share of freight transported via North Carolina waterways. Because the provision is effective October 1, 2023, FY 2023-24 reflects a partial-year estimated reduction of \$300,000 to the State General Fund and \$145,000 to local governments. FRD estimates this provision will reduce State sales and use tax revenue annually by approximately \$500,000 and local governments' revenues by approximately \$240,000 beginning in FY 2024-25.

Exempt Breast Pumps, Breast Pump Collection and Storage Supplies, and Repair and Replacement Parts (Section 42.16). Fiscal Research relied on data from a private marketing research firm on the market size of breast bumps and breast pump accessories in the United States. FRD used data on the State's market size to arrive at the portion of sales attributable to North Carolina. FRD then adjusted for the partial-year impact in FY 2023-24 and adjusted for growth in the costs of goods to determine the fiscal impact in future years. FRD estimates this exemption will reduce State sales and use tax revenue by approximately \$2.3 million and local revenue by approximately \$1.1 million in FY 2023-24. The full impact would be \$3.1 million to the State and \$1.5 million to local governments beginning in FY 2024-25.

Expand 8% Short-Term Car Rental Tax to Include Peer-to-Peer (P2P) Rentals² (Section 42.17). Fiscal Research's estimate is based on data provided by the Maryland General Assembly, which enacted a 6% P2P tax. FRD used Maryland's anticipated sales tax revenue and its sales tax rate to arrive at the state's amount of gross sales. Maryland's expected gross sales values were then adjusted to account for North Carolina's higher population of residents over age 18 (approximately 175% higher) and to reflect North Carolina's proposed tax rate of 8%. FRD then adjusted these values for anticipated growth in the transportation services industry. FRD estimates this exemption will increase Highway Fund revenue by approximately \$600,000 in FY 2023-24. In addition, peer-to-peer vehicle rentals are not currently subject to local vehicle rental taxes whereas short-term rentals by traditional car rental companies are subject to applicable local taxes ranging from 1.5% to 8%, as well as certain charges for rentals at airports.³ The bill would subject P2P vehicle rentals to such taxes. Using data on expected gross sales, FRD estimates this change would generate minimal revenue for the various local governments and authorities.

Change Method of Taxing Smokeless Tobacco from Cost-Based to Weight-Based and Expand Base to Include Alternative Nicotine Products (Section 42.18). This provision reduces tobacco excise tax revenue by changing the excise tax rate on smokeless tobacco from 12.8% of cost price to \$0.43 per ounce effective July 1, 2025. This provision also expands the tax base to include alternative nicotine products, which partially offsets the reduction in revenue. Overall, however, the provision is expected to reduce General Fund revenue starting in FY 2025-26. Because tobacco products are also subject to sales tax, a reduction in the excise tax has a small impact on expected sales tax revenue.

² Peer-to-peer vehicle sharing is an alternative business model to traditional car rental companies. Under this model, a business entity operates an online platform that facilitates the short-term use of motor vehicles between registered vehicle owners and users. Owners register and list their vehicles on the entity's website for use by others for a fee. It is similar in concept to Airbnb, which facilitates accommodation rentals between homeowners and travelers.

³ There are currently 42 counties, 71 municipalities, and two regional transportation authorities levying these taxes.

To determine the anticipated impact, Fiscal Research relied on confidential industry analysis about 2022 sales of moist smokeless tobacco products. This analysis uses national data from the Federal Trade Commission to estimate volumes and prices for other smokeless tobacco products, which represent approximately 10% of the overall market. FRD assumes that sales volumes will remain unchanged at 2022 levels. This assumption is based on a review of several sources that showed no clear trend in historical sales volume growth or agreement about growth projections. FRD forecasted prices using industry-provided projections of product mix, the consumer price index for tobacco products, and Moody's Analytics inflation forecast.

This analysis indicates that the combination of changing the tax rate and expanding the base would likely be essentially revenue-neutral if it were effective for FY 2023-24. However, due to inflation, this provision is estimated to reduce revenue by \$400,000 for the first year it is effective (FY 2025-26) and is projected to reduce revenue further in future years.

Enact Transportation Commerce Tax (Section 42.19). This provision enacts a new excise tax on for-hire ground transport services provided by transport services providers, including transportation network companies and taxi services. The tax rates are 2% of gross receipts derived from exclusive-ride services and 1% of gross receipts derived from shared for-hire ground transport services. This provision is effective for taxable years beginning on or after January 1, 2025.

Fiscal Research estimates this new excise tax will increase revenue to the Highway Fund by approximately \$5.7 million in FY 2024-25. Because it does not become effective until January 1, 2025, the estimated revenue impact in the second year of the biennium reflects a partial-year impact. This provision is expected to increase revenue by approximately \$12 million each year beginning in FY 2025-26.

Fiscal Research relied on annual reports filed with the Securities Exchange Commission (SEC) for the two transportation network companies (TNCs) licensed to operate in North Carolina and economic census data from the US Census Bureau, to determine the annual revenue impact of this provision. To estimate total gross receipts derived from for-hire ground transport services in North Carolina, FRD estimated the average fare for ground transport services provided by TNCs in the US using total fares paid to TNCs and total number of trips taken. Fiscal Research then estimated North Carolina's average fare and number of trips using confidential industry data provided by one or more TNCs operating in the State as well as estimated prices for such services in North Carolina. To determine gross receipts derived from taxi and limousine services, FRD relied on economic census data to estimate the total sales of such services provided in the State and adjusted for inflation and population growth using NC personal consumption expenditures for transportation services. Taxi and limousine services, along with TNC-provided ground transport services, were projected using Moody's forecasted personal consumption expenditures for transportation services.

Fees and Assessments

The following table summarizes the estimated fiscal impact of changes that impact fees and assessments over the biennium.

Fees and Assessment Changes in Senate PCS to HB 259 (\$ in millions)	FY 2023-24	FY 2024-25
• Allow for Earlier Funding for Startup Costs Related to NC Health Works	-	-
• Various Certificate of Need Provisions	0.7	0.7
• Reduce Vehicle Emissions Inspections Requirements	See Fiscal Analysis section	
• Expedited Air Quality Permit Processing (DEQ)	No Estimate Available	
• Express Permitting Revisions (DEQ)	1.4	1.4
• Environmental Fee Revisions (DEQ)	3.9	3.9
• Wind Energy Facility Fees (DEQ)	No Estimate Available	
• Attorney's License Fee Waiver for Certain Military and Spouses	No Estimate Available	
• DOA/E-Procurement Transaction Fees	-	-
• Insurance Regulatory Fee Reduction	(35.7)	(69.3)
• Increase Fees for Lobbyists and Lobbyist Principals	1.2	1.2
• Authorize Tolling on All Ferry Routes	-	2.4
• Increase Current Electric and Hybrid Vehicle Fees	0.5	2.0
• New Electric and Hybrid Vehicle Fees	0.7	1.8
• Transaction Fees on DMV Electronic Payments	-	30.7
• Special Permits for the Transport and Delivery of Storage Sheds	No Estimate Available	

Allow for Earlier Funding for Startup Costs Related to NC Health Works (Section 9E.7A). The provision would move the date of a one-time \$12.8M hospital assessment up from October 1, 2023, to July 1, 2023, if the budget is enacted prior to July 1, 2023. The potential date change affects the start-up assessment in S.L. 2023-7 and would give DHHS and counties earlier access to funds needed to implement Medicaid expansion. The assessment amount remains the same.

Various Certificate of Need Changes (Section 9F). The bill makes changes to the State's Certificate of Need (CON) requirements by removing the following: Certain office-based vascular access for hemodialysis; kidney disease treatment centers; linear accelerators; the relocation of an institutional health service or a health service facility within the same county; and the conversion of a single specialty ambulatory surgical program to a multispecialty surgical program. Effective two years after the first Healthcare Access and Stabilization Program (HASP) payment is made, ambulatory surgical center projects would be exempt from CON review if they are in a county with a population of 125,000 or less and no operating hospital. Effective three years after the first HASP payment is made, Magnetic Resonance Imaging (MRI) projects would be exempt from CON review if they are in a county with a population of 125,000 or less and no operating hospital.

Applicants for a CON must include an application filing fee with the CON application. The base fee is \$5,000 with an additional fee of \$0.003 for every dollar of the projected capital cost of the project greater than \$1,000,000. The maximum filing fee is \$50,000, and the fee is not refundable, even if the application is denied. Collected CON application fees are credited to the General Fund as nontax revenue. To the extent that expansions of health services that currently require a CON application will no longer require one, the changes in this section will impact nontax revenue. Based on historical data from the Department of Health and Human Services, Division of Health

Service Regulation's CON application logs, the net reduction in nontax revenue from all these changes is estimated to be less than \$700,000 per year. This estimate assumes that project costs increase by 5% per year due to inflation. Inflation would impact the fees of projects that have calculated fees between the \$5,000 minimum and the \$50,000 maximum.

Reduce Emissions Inspections Requirements (Section 12.7). This section eliminates the vehicle emissions inspection requirements for all counties except Mecklenburg County and limits the vehicles required to have emissions inspections to those manufactured between 2003 and 2017. This change will reduce fee collections from emissions inspections. The change is not effective until the US Environmental Protection Agency (EPA) approves the amendment to the NC State Implementation Plan, which details how the State will achieve air quality standards set by the EPA. It is likely that the amendment and approval process will take at least two years, so no fiscal impact is reflected in this analysis until FY 2025-26. Both the Highway Fund and the Department of Environmental Quality (DEQ) will see reduced revenue from emissions inspections fees.

Using data on the current number of emissions inspections, Fiscal Research estimated that approximately 340,000 vehicles in Mecklenburg County would require emissions inspections after the new requirements are approved. The reduction in inspections would reduce Highway Fund revenue by approximately \$15.1 million annually and DEQ receipts by approximately \$2.1 million annually.

Expedited Permitting for Air Permits (Section 12.11). This section creates a new expedited air permit process and allows the Department to establish fees of up to 200% of the regular fee to support the program. No estimate is available for how much revenue these fees will generate, as it is not known how many air permit applicants will choose to use the expedited process.

Express Permitting Revisions (Section 12.13). This section makes changes to the express permitting statute and increases the fees for express permitting. These fees were last changed in 2005. The fiscal impact of the fee changes has been calculated using historical data on each individual type of fee.

Various Environmental Fee Revisions (Section 12.14(a) through (n)). This section increases various fees in the Divisions of Water Resources; Energy, Mineral, and Land Resources; and Waste Management. These fees were last increased between 1993 and 2015. The fiscal impact of the fee changes has been calculated using historical data on each individual type of fee.

Wind Energy Facility Fees (Section 12.14(o) and (p)). This section changes the fee for a wind energy facility permit from \$3,500 to 1.25% of the actual cost of construction and adds an annual renewal fee of \$400 per permitted turbine. No estimate is available for how much revenue these fees will generate, as it is not known how many new wind energy facilities will be created in the upcoming biennium.

Fee Waiver for Certain Military-Trained Applicants or Military Spouses (Section 16.25). Fiscal Research estimates the fiscal impact to be likely minimal due to the small number of individuals to whom this fee waiver would apply. The individuals eligible for the \$2,000 application fee waiver are limited to military-trained individuals or military spouses with a law license in good standing

in a reciprocal state who do not meet the Board's requirements for recently practicing law as their principal means of livelihood and therefore undergo a 3-year supervisory period before receiving a standard North Carolina law license. Military trained individuals or military spouses who meet the Board's requirements for recently practicing law would continue to qualify for a license under the standard reciprocity process and pay the applicable application fee. There are no data to determine the number of individuals who meet these requirements and would seek a law license, but FRD anticipates the number would be limited.

Department of Administration (DOA) E-Procurement Transaction Fees (Section 20.1). A 1.75% fee is charged to vendors for sales of material goods transacted through DOA's eProcurement System. The fee has remained the same since it was established by DOA, and its proceeds are used to help maintain the System. There is no fiscal impact because the bill only codifies the existing fee and prohibits the Department from modifying it without legislative approval.

Temporary Reduction to Insurance Regulatory Fee (Section 30.1(a)). The bill temporarily reduces the insurance regulatory charge from 6.5% to 2.0% of gross premiums tax liability for calendar years 2024 and 2025. The temporary reduction will spend down a portion of the Insurance Regulatory Fund balance, which is currently more than DOI's annual operating costs, including a reasonable margin for reserve. The change is estimated to reduce revenue allocated to the Insurance Regulatory Fund by \$35.7 million in FY 2023-24 and \$69.3 million in FY 2024-25. These estimates are based on projected gross premiums tax liability from the May 2023 Consensus Revenue Forecast.

Increase Fees for Lobbyists and Lobbyist Principals (Section 35.1). The bill increases the annual registration fee paid by lobbyists and lobbyist principals from \$250 to \$500. This is expected to increase General Fund nontax revenue by an estimated \$1.2 million in each year of the 2025-27 fiscal biennium. This estimate is based on the projected growth in the number of registered lobbyists and lobbyist principals based on fee collection data from the past five fiscal years.

Authorize Tolling on All Ferry Routes (Section 41.11C). The estimated fiscal impact is based on FY 2021-22 data from the Ferry Division's monthly traffic report and an estimate from the 2020 Differential Tolling Study on average revenue per vehicle for the Southport-Fort Fisher route. To complete the analysis, total vehicles transported on each route in FY 2021-22 were multiplied by \$5.06, the average revenue per vehicle on Southport-Fort Fisher, and rounded to the nearest \$100,000. The fee change is effective in FY 2024-25.

Increase Current Electric and Hybrid Electric and Hybrid Vehicle Fees (Section 41.14D). This provision increases the current additional fee for electric vehicle registrations from \$140.25 to \$180 beginning January 1, 2024. Per G.S. 20-4.02, this fee is subject to a quadrennial inflation adjustment in July 2024. This adjustment is expected to increase the fee by 19.1% to \$214.38. This quadrennial percentage increase is based upon the Highway Fund Consensus Revenue Forecast. Based on current registrations, this analysis assumes that 38,374 vehicles will be subject to this fee in FY 2023-24. Because the fee increase is effective January 1, 2024, the first year reflects a half-year impact. In FY 2024-25, the number of registrations subject to this fee are projected to increase by 11.5%. In subsequent years, registrations are assumed to increase by 32% annually, based upon a Goldman Sachs estimate for projected growth of electric vehicles.

	FY 2023-24 (starting Jan 2024)	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Number of Electric Vehicle Registrations Subject to Increased Fee	19,187	42,796	56,490	74,567	98,429
Current Fee (\$)	\$140.25	\$167.04	\$167.04	\$167.04	\$167.04
Proposed Fee (\$)	\$180.00	\$214.38	\$214.38	\$214.38	\$214.38
Change in Fee (\$)	\$39.75	\$47.34	\$47.34	\$47.34	\$47.34
Fiscal Impact of Fee Increase (\$ in millions)	0.6	2.0	2.7	3.5	4.6

Note: FY 2024-25 fee amount reflects the July 2024 inflation adjustment per G.S. 20-4.02.

New Electric and Hybrid Vehicle Fees (Section 41.14D). Creates a new vehicle registration fee for plug-in hybrid vehicles, effective January 1, 2024. The fee is set at \$90. Per G.S. 20-4.02, this fee is subject to a quadrennial inflation adjustment in July 2024 and is forecasted to increase by 19.1% to \$107. Based on current registrations, this analysis assumes that 15,601 plug-in hybrids vehicles will be registered in FY 2023-24. Because the fee increase is effective January 1, 2024, the impact in FY 2023-24 reflects only a half-year impact. The number of plug-in hybrid registrations is projected to increase by approximately 11% annually based on recent growth trends.

	FY 2023-24 (starting Jan 2024)	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Number of Plug-In Vehicles Registrations	7,801	17,364	19,033	21,184	23,221
Fee Level (\$)	\$90	\$107	\$107	\$107	\$107
Estimated Collections (\$ in millions)	\$0.7	\$1.9	\$2.0	\$2.3	\$2.5

Note: FY 2024-25 fee amount reflects the July 2024 inflation adjustment per G.S. 20-4.02.

Authorize DMV to Implement Transaction Fees on Electronic Payments (Section 41.14E). The estimated fiscal impact is based on the Division of Motor Vehicles' (DMV) estimates of total merchant fees paid to third party vendors (e.g., Visa, Mastercard) for debit, credit, and Automated Clearing House transactions in FY 2024-25. The fee is to be set at the amount that will cover the costs DMV incurs, making payment of merchant fees 100% receipt supported.

Special Permits for the Transport and Delivery of Storage Sheds (Section 41.14F). The fee is identified in GS 20-119(b) and would be \$12 per single trip. There is no estimate available as to the amount of fees that would be collected by the Department of Transportation.

Other Items

Increase Master Settlement Agreement Funds for The Golden L.E.A.F. (Section 2.2(p)). This section reduces General Fund nontax revenue from the Master Settlement Agreement fund by \$7.5 million by increasing the amount appropriated to The Golden L.E.A.F. from \$17.5 million to \$25 million.

NC Industrial Commission (NCIC) Base Budget Adjustment (Section 31.2(a)). The bill directs NCIC and the Office of State Budget and Management to adjust NCIC's base budget for the 2025-27 fiscal biennium to use proceeds from the insurance regulatory charge to reimburse the General Fund for operations of the Commission as authorized by G.S. 58-6-25(d)(11). The change is estimated to increase General Fund nontax revenue by about \$10.0 million recurring starting in the 2025-27 fiscal biennium. This estimate is based on NCIC's net operating budget.

Cost of Collections for 911 Service Charge. (Section 34.3). In addition to increasing the maximum amount, the bill increases the amounts the Department of Revenue can retain for collecting and administering the 911 service charge to be based on legislative salary increases awarded to State-funded employees and any adjustment to any salary reserve funds that impacts employees funded by the respective charge. FRD is unable to provide an estimate of this change because any legislative changes to salaries in the future is unknown. However, if there were to be such an increase, the 911 Board may adjust the rates accordingly or the change would affect revenues for the 911 Board, the Next General 911 Reserve Fund, the PSAP Grant and Statewide Projects Account, as well as the primary PSAPs, CMRS providers or other accounts specified in law by some unknown amount.

Cost of Collections for Scrap Tire Disposal, White Goods Disposal, and Solid Waste Disposal Taxes (Sections 34.5 through 34.7). The bill increases the amounts the Department of Revenue can retain for collecting and administering these taxes to be based on legislative salary increases awarded to State-funded employees and any adjustment to any salary reserve funds that impacts employees funded by the respective tax. FRD is unable to provide an estimate of this change because any legislative changes to salaries in the future is unknown. However, if there were to be such an increase, FRD anticipates the change for all three tax types would reduce General Fund and county revenues by some unknown amount. The Solid Waste Disposal Tax would also reduce cities' revenues as well as the Inactive Hazardous Sites Cleanup Fund.

Increase Title Fees Credited to Highway Fund (Section 41.15). The bill increases the amount of title and registration fees credited to the Highway Fund effective October 2023, decreasing the amount credited to the Highway Trust Fund by the same amount. This estimated transfer, based on historical data, is \$1.5 million in FY 2023-24 and \$2.0 million in subsequent years.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

May 2023 General Fund Consensus Revenue Forecast; Federal Trade Commission; Goldman Sachs; Global Industry Analysts, Inc.; Maryland Department of Legislative Services; Moody's Analytics;

North Carolina Accounting System (NCAS); North Carolina Board of Law Examiners; North Carolina Departments of Environmental Quality, Revenue, and Transportation; US Army Corps of Engineers; US Bureau of Labor Statistics; US Bureau of Economic Analysis; US Census Bureau; US Energy Information Administration; confidential information on the aviation fuel and tobacco industries; confidential taxpayer-provided information from one or more aircraft maintenance vendor(s) and freight vessel transportation vendor(s); confidential information provided by one or more for-hire ground transport service providers; Securities and Exchange Commission (SEC).

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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