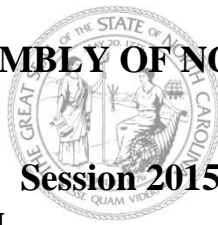


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2015

FISCAL ANALYSIS MEMORANDUM

[This confidential fiscal memorandum is a fiscal analysis of a draft bill, amendment, committee substitute, or conference committee report that has not been formally introduced or adopted on the chamber floor or in committee. This is not an official fiscal note. If upon introduction of the bill you determine that a formal fiscal note is needed, please make a fiscal note request to the Fiscal Research Division, and one will be provided under the rules of the House and the Senate.]

DATE: March 28, 2015
TO: House and Senate Legislators
FROM: Jonathan Tart, Anna Cameron, and Bryce Ball
 Fiscal Research Division
RE: Senate Bill 20 (Proposed Conference Committee Substitute)

FISCAL IMPACT					
(\$ in millions)					
State Impact	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-29
General Fund Revenues:	(\$1.0)				
General Fund Expenditures:					
Highway Fund Revenues:	(\$10.1)	\$197.7	\$119.9	\$136.9	\$144.8
Highway Trust Fund Revenues:	(\$3.4)	\$65.9	\$40.0	\$45.6	\$48.3
Highway Fund Expenditures:	(\$10.1)	(\$2.3)	(\$2.3)	(\$2.3)	(\$2.3)
Highway Trust Fund Expenditures:	(\$3.4)				
State Positions:	-40.0	-40.0	-40.0	-40.0	-40.0
NET STATE IMPACT	(\$1.0)	\$265.9	\$162.2	\$184.8	\$195.4
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Dept. of Transportation, Dept. of Revenue					
EFFECTIVE DATE: Various					
TECHNICAL CONSIDERATIONS: None					

BILL SUMMARY:

Part I would update from December 31, 2013, to January 1, 2015, the reference to the Internal Revenue Code, including conformity to the deduction for teachers' classroom expenses of up to \$250.

- The Bill would decouple from the following provisions:
 - Enhanced Section 179 expensing limits
 - Mortgage insurance premium as interest deduction
 - Income exclusion for discharge of residence indebtedness
 - Qualified tuition and expenses deduction
 - Income exclusion for IRA distributions to charity by a person who has reached age 70.

Part II sets the motor fuel tax rate at 36.0 cents per gallon from April 1, 2015 to December 31, 2015. The rate reduces to 35.0 cents per gallon from January 1, 2016 through June 30, 2016 and reduces to 34.0 cents per gallon from July 1, 2016 to December 31, 2016. Beginning January 1, 2017, a new motor fuel tax formula will be used to calculate the tax rate. The formula includes two components: a base tax rate, which is the rate in effect prior to the adjustment; and a variable rate calculated as a percentage adjustment from:

- The percentage change in population, multiplied by 75%, and
- The annual percentage change in the Consumer Price Index for All Urban Consumers, multiplied by 25%.

ASSUMPTIONS AND METHODOLOGY:

Part I. Internal Revenue Code Update

The fiscal impact to the General Fund from updating the reference to the Internal Revenue Code results from conformity to the following provision:

Provision	FY 14-15 Fiscal Impact
Deduction of up to \$250 for teacher’s classroom supply expenses	\$ -1M

The estimate is based on the US Joint Committee on Taxation (JCT) estimates on changes to federal taxes. The methodology used begins with these JCT estimates, which are calculated by federal fiscal year. Since the federal fiscal year ends 9/30 and the state’s fiscal year ends 6/30, Fiscal Research adjusts these numbers to an approximate state fiscal year tax impact. Then, the next step is to prorate the national numbers to the state impact. This adjustment involved two steps: accounting for the relative size of the state based on federal tax collections and then adjusting for the difference in federal marginal tax rates and the state tax rate. Once North Carolina’s share of the JCT estimates were determined, state tax liability changes were estimated and allocated to the appropriate fiscal year.

Part II. Motor Fuel Tax Changes

This bill sets the motor fuel tax rate at 36.0 cents per gallon from April 1, 2015 to December 31, 2015. The rate reduces to 35.0 cents per gallon from January 1, 2016 through June 30, 2016 and reduces to 34.0 cents per gallon from July 1, 2016 to December 31, 2016. Beginning January 1,

2017, a new motor fuel tax formula will be used to calculate the tax rate. The formula includes two components: a base tax rate, which is the rate in effect prior to the adjustment; and a variable rate calculated as a percentage adjustment from:

- The percentage change in population, multiplied by 75%, and
- The annual percentage change in the Consumer Price Index for All Urban Consumers, multiplied by 25%.

The rate is currently set at 37.5 cents per gallon until June 30, 2015. Adjusting the motor fuel tax rate reduces revenues to the Highway Fund and Highway Trust Fund by \$13.4 million in the current fiscal year.

Distribution of Motor Fuel Tax:

Seventy-five percent (75%) of motor fuel tax revenue is deposited in the Highway Fund and the remaining twenty-five percent (25%) is deposited in the Highway Trust Fund. Three formulaic allocations of revenues from the Highway Fund are impacted by this bill. Powell Bill aid to municipalities is derived from ten and four tenths percent (10.4%) of motor fuel tax revenues and both the Wildlife Resources Fund and the Shallow Draft Navigational Channel and Lake Dredging Fund receive one sixth of one percent (0.167%) of Highway Fund motor fuel tax revenues.

FY 2014-15 budgetary impacts:

The specified reductions shown in Table 1 are taken in the Highway Fund. The line-item cuts are included in Appendix 1. Funds excluded from the 1.4% cut, identified in Sec. 2.4(e), are found in Appendix 2. Cuts to the Highway Trust Fund are made to the Strategic Transportation Investments fund by the statutory formula, as shown in Table 2.

Table 1: FY 2014-15 Highway Fund Adjustments			
1	Sec. 2.4(e)	1.4% Across-the-board (with exceptions)	(\$5,908,121)
2	Sec. 2.4(f)	0.5% Reductions to Primary and Secondary Maintenance and to Pavement Preservation	(\$2,379,994)
3	Sec. 2.4(g)(1)	Powell Bill	(\$1,045,200)
4	Sec. 2.4(g)(2)	Wildlife Resources	(\$16,750)
5	Sec. 2.4(g)(3)	Shallow Draft Navigational Channel and Lake Dredging Fund	(\$16,750)
6	Sec. 2.4(h)	Elimination of 40 vacant positions (plus use of lapsed salaries)	(\$683,185)
TOTAL HIGHWAY FUND ADJUSTMENTS			(\$10,050,000)

Table 2: FY 2014-15 Highway Trust Fund Adjustments			
1	Sec. 2.4(a)	Statewide Strategic Mobility tier (40%)	(\$1,340,000)
2	Sec. 2.4(a)	Regional Impact tier (30%)	(\$1,005,000)
3	Sec. 2.4(a)	Division Needs tier (30%)	(\$1,005,000)
TOTAL HIGHWAY TRUST FUND ADJUSTMENTS			(\$3,350,000)

Changes to statutory earmarks in FY 2015-16 through FY 2018-19:

The consensus 2015-17 forecast and NCDOT 10-year forecast project increased remittances to the Powell Bill, the Wildlife Resources Fund, and the Shallow Draft Navigational Channel and Lake Dredging Fund, as shown below in Table 3. Powell Bill funds are distributed in October and January based on actual revenue collections from the prior fiscal year. The motor fuel tax revenues collected in FY 2015-16 will determine the amount of funds municipalities receive in October 2016 and January 2017.

Table 3: Statutory Adjustments - FY 2015-16 to FY 2018-19				
	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
Powell Bill	\$ 20,564,622	\$ 12,465,128	\$ 14,233,206	\$ 15,061,457
Wildlife Resources	\$ 329,561	\$ 199,762	\$ 228,096	\$ 241,370
Dredging	\$ 329,561	\$ 199,762	\$ 228,096	\$ 241,370

Forecasted future motor fuel tax rate:

Table 4 compares the average motor fuel tax rate between the February forecast and the SB 20 Proposed Conference Committee Substitute. The forecast anticipates the motor fuel tax rate will reset to 34.8 cents per gallon on January 1, 2017.

TABLE 4: COMPARISON: AVERAGE MOTOR FUEL TAX RATES (cents per gallon)					
	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
February Forecast	37.0	30.4	31.3	33.8	34.2
SB20	36.8	35.6	34.4	35.6	36.4

Highway Fund expenditures in FY 2015-16 through FY 2018-19:

Eliminating 40 vacant positions will create annualized savings to the Highway Fund of \$2,289,840 annually.

APPENDIX 1: FY 2014-15 LINE-ITEM REDUCTIONS

Fund Code	Unit	Certified 2014-15	Adjustments	% Adj
0001	Board of Transportation	\$66,834	(\$936)	-1.4%
0002	Communications	\$1,443,446	(\$20,208)	-1.4%
0006	Legal - Attorney General Staff	\$1,486,713	(\$20,814)	-1.4%
0007	Administration - Secretary	\$2,724,174	(\$38,138)	-1.4%
0035	Bicycle Program	\$726,895	(\$10,177)	-1.4%
0036	Public Transportation	\$300,311	(\$4,204)	-1.4%
0037	Rail Division	\$602,015	(\$8,428)	-1.4%
0041	Aeronautics	\$2,061,389	(\$28,859)	-1.4%
0042	Governor's Highway Safety Program	\$284,624	(\$3,985)	-1.4%
0049	Driver Licensing	\$50,213,868	(\$702,994)	-1.4%
0054	Motor Vehicle Exhaust Emissions	\$12,141,607	(\$169,982)	-1.4%
0055	Chief Engineer	\$741,159	(\$10,376)	-1.4%
0056	Deputy Chief Engineer of Operations	\$809,297	(\$11,330)	-1.4%
0179	PDE Engineer Trainee Program	\$9,264	(\$130)	-1.4%
0869	Reserve - Global TransPark	\$750,000	(\$10,500)	-1.4%
1096	Strategic Planning - Office of Transportation - Administration	\$196,373	(\$2,749)	-1.4%
1104	Governance Office - Admin	\$85,892	(\$1,202)	-1.4%
1130	Office of Equal Opportunity and Workforce Services	\$456,246	(\$6,387)	-1.4%
7011	Inspector General	\$1,817,078	(\$25,439)	-1.4%
7015	Human Resources	\$4,414,223	(\$61,799)	-1.4%
7020	Financial	\$5,469,981	(\$76,580)	-1.4%
7025	Information Technology	\$62,164,225	(\$870,299)	-1.4%
7030	Facilities Management and Support Services	\$19,701,587	(\$275,822)	-1.4%
7050	DMV - Commissioner's Office	\$8,633,380	(\$120,867)	-1.4%
7055	Vehicle Registration	\$35,871,643	(\$502,203)	-1.4%
7060	License and Theft Bureau	\$13,332,505	(\$186,655)	-1.4%
7080	Division 1	\$1,518,170	(\$21,254)	-1.4%
7085	Division 2	\$1,843,297	(\$25,806)	-1.4%
7090	Division 3	\$1,778,990	(\$24,906)	-1.4%
7095	Division 4	\$1,649,302	(\$23,090)	-1.4%
7100	Division 5	\$2,015,647	(\$28,219)	-1.4%
7105	Division 6	\$1,793,311	(\$25,106)	-1.4%
7110	Division 7	\$1,917,178	(\$26,840)	-1.4%
7115	Division 8	\$1,599,988	(\$22,400)	-1.4%
7120	Division 9	\$1,708,328	(\$23,917)	-1.4%
7125	Division 10	\$2,175,888	(\$30,462)	-1.4%
7130	Division 11	\$1,599,781	(\$22,397)	-1.4%
7135	Division 12	\$1,610,299	(\$22,544)	-1.4%
7140	Division 13	\$1,504,541	(\$21,064)	-1.4%
7145	Division 14	\$1,875,931	(\$26,263)	-1.4%
7153	Technical Services - Administration	\$683,025	(\$9,562)	-1.4%
7175	Field Operations Support	\$3,038,590	(\$42,540)	-1.4%
7176	State Asset Management	\$38,003	(\$532)	-1.4%
7185	Safety	\$2,545,262	(\$35,634)	-1.4%
7812	Construction - Secondary	\$12,000,000	(\$168,000)	-1.4%
7814	Construction - Public Service Roads	\$1,723,707	(\$24,132)	-1.4%
7817	Spot Safety	\$12,100,000	(\$169,400)	-1.4%
7821	Maintenance - Primary	\$144,212,584	(\$721,063)	-0.5%
7822	Maintenance - Secondary	\$266,741,215	(\$1,333,706)	-0.5%
7829	Railroad Program	\$23,047,805	(\$322,669)	-1.4%
7830	Airports Program	\$19,200,000	(\$268,800)	-1.4%
7831	Public Transportation - Highway Fund	\$84,843,069	(\$1,187,803)	-1.4%
7832	OSHA Program	\$358,030	(\$5,012)	-1.4%
7837	Division of Small Urban Construction	\$5,000,000	(\$70,000)	-1.4%
7838	Economic Development	\$4,036,171	(\$56,506)	-1.4%
7841	Pavement Preservation	\$65,045,024	(\$325,225)	-0.5%
Grand Total		\$1,505,673,533	(\$8,288,115)	

Appendix 2: Fund Codes Exempt from 1.4% Reductions

84210-0852	DOR – International Registration Plan
84210-0862	Agriculture – Gasoline Inspection Fee
84210-0864	DOR – Gasoline Tax Collections
84210-0865	DHHS – Chemical Testing
84210-0867	DPI – Driver Training Program
84210-0868	Transfer to General Fund
84210-0871	Employer’s Contribution – Retirement
84210-0873	Legislative – Salary Increases
84210-0877	Stormwater Management
84210-0878	State Fire Protection Grant Fund
84210-0881	Consolidated Call Center
84210-0882	Reserve – Visitor Center
84210-0885	State Employee Reserve
84210-0889	OSBM – Civil Penalty
84210-0892	Garvee Bond Redemption
84210-0893	OSC – Best Shared Services
84210-0933	Reserve – Minority Contractor Dev.
84210-0934	Reserve – General Maintenance
84210-0935	Reserve for SEIBP
84210-0937	Reserve – Administration Reduction
84210-1165	Transfer to General Fund – SHP
84210-1260	State Ethics Commission
84210-7040	Ferry Administration
84210-7615	Ferry
84210-7818	Construction - Contingency
84210-7821	Maintenance – Primary
84210-7822	Maintenance – Secondary
84210-7824	Contract Resurfacing
84210-7825	Ferry Operations
84210-7826	Capital Improvements
84210-7827	FHWA Construction
84210-7828	Governor’s Highway Safety Program
84210-7834	Motor Carrier Safety
84210-7836	State Aid – Highway Fund for WBS
84210-7839	Bridge Program
84210-7841	Pavement Preservation

SOURCES OF DATA: Consensus Revenue Forecast for FY 2015-16 and 2016-17 and Fiscal Research forecast for FY 2017-18 and FY 2018-19.

TECHNICAL CONSIDERATIONS: None