

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: Senate Bill 1161(3rd Edition) Riparian Buffers Tax-Exempt

SHORT TITLE: Riparian Buffers Tax-Exempt

SPONSOR(S):

FISCAL IMPACT				
Yes (x)	No ()	No Estimate Available ()		
(\$ Millions)				
<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>
REVENUES				
EXPENDITURES				
Clean Water Management Trust Fund				
	4.1 - 7.4*	4.1 - 7.4*	4.1 - 7.4*	4.1 - 7.4*
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: County and City Governments, Department of Revenue, Clean Water Management Trust Fund, and the Environmental Management Commission.				
EFFECTIVE DATE: Taxes imposed on or after July 1, 2000.				

BILL SUMMARY: The Environmental Management Commission (EMC) requires that a fifty foot restricted use buffer border certain North Carolina rivers and streams. The buffer land can only be used for established, undisturbed forest vegetation. Under the bill, this land would be exempt from property tax. The counties and cities would be reimbursed for the loss of property tax revenue from the Clean Water Management Trust Fund (CWMTF). The Secretary of Revenue is directed to reimburse the counties from the Fund, and may draw an administrative fee for this service from the Clean Water Management Trust Fund.

ASSUMPTIONS AND METHODOLOGY: As a part of a larger water quality effort, the Environmental Management Commission has mandated riparian buffers on the Neuse River. These buffers extend fifty feet on each side of the river. The river and its tributaries run 9,000 miles. As a result, approximately 109,100 acres (9,000 miles X 12.125 acres per mile of stream buffer) along the Neuse River has been declared restricted riparian buffers.

The Environmental Management Commission will consider extending the riparian buffer program to the Tar-Pamlico River basin this fall. The Tar-Pamlico and its associated streams cover 7,200 miles. Assuming the same buffer requirements apply (fifty feet on each side of the stream), including the Tar-Pamlico will convert 87,300 acres to restricted use riparian buffers.

In future years the Environmental Management Commission may extend the buffer requirements to other waters and streams.

The North Carolina Association of Assessing Officials estimates that most buffer property is assessed at approximately \$25.00 to \$50.00 per acre. These values reflect the limited uses for the property once it is considered a buffer. Using the mid-point of \$37.50 as a proxy for assessed value, the loss associated with the Neuse River is \$4.1 million. The cost associated with the Tar-Pamlico region is \$3.3 million. Because it is unclear when and if the Environmental Management Commission will approve new rules for the Tar-Pamlico River basin, this fiscal note includes an expenditure range. The upper end assumes the buffer requirements apply to both the Neuse and Tar-Pamlico River Basins. The lower end assumes only the Neuse River Basin is impacted.

In future years the river buffer requirements may be applied to other river basins. The river basins most likely to be subject to buffer requirements in the future are the Catawba and Cape Fear. The Department of Environment and Natural Resources estimates that approximately 12,607 stream miles are associated with the Catawba basin while 11,030 stream miles are associated with the Cape Fear. Current river basin rules for the Neuse require a 50-foot buffer. However, it is not clear if the same buffer widths would apply if buffers were required on the Catawba and Cape Fear. Nor is it clear when and if such buffers would be required. Given these constraints, no reliable fiscal estimate is available on the potential cost associated with these two river basins.

Funds to reimburse the counties for the revenue loss are drawn from the Clean Water Management Trust Fund [CWMTF], in this bill's provisions. The Fund was created by the General Assembly in 1996 to provide a source of funding to preserve, protect and improve the state's surface waters and to establish riparian buffers and greenways for environmental, educational and recreational benefits. Trust Fund money can be used to acquire land for riparian buffers and conservation easements, restore previously degraded lands, repair failing waste systems, repair and eliminate failing septic tank systems, eliminate illegal drainage connections, improve stormwater controls, coordinate with other related public programs, facilitate planning, and fund the operating expenses of the board.

The CWMTF is funded with a portion of the year-end General Fund credit balance (i.e. unallocated revenues from the previous fiscal year, over-realized revenue collections and unexpended appropriations or reversions) and any investment earnings. G.S. 143-15.3B requires 6.5% of the unreserved credit balance remaining at the end of each fiscal year to be credited to the trust fund. The statute also requires that at least \$30 million be credited to the fund each year. Therefore, if 6.5% of the year-end credit balance equates to less than \$30 million, the earmarking for the trust fund is directed by statute to be \$30 million. Unexpended and

unencumbered funds remaining in the trust fund at the end of the fiscal year are not subject to reversion.

The actual amount credited to the CWMTF each year since its inception are as follows: FY 1996-97 \$37.9 million, FY 1997-98 \$49.4 million and FY 1998-99 \$47.4 million.

NOTE: The range above does not consider the administrative costs associated with the refund. The Secretary of Revenue can use the CWMTF to finance the Department's expenses associated with the program. No administrative cost estimate is available at this time.

NOTE: This methodology assumes counties reduce the assessed value of property once it is declared a riparian buffer. The lower value reflects the dramatic change in the "highest and best use" of the property. (It is generally assumed, for property tax purposes, that the land takes advantage of its highest and best possible use). It is possible that a county may not reduce the assessed value to reflect the new use of the property.

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