NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 1316 (HCS)

SHORT TITLE: NC Travel and Tourism Investment Act

SPONSOR(S): Representatives Earle, Miner, and McComas

FISCAL IMPACT

Yes (X) No ( ) No Estimate Available ( )

	(Millions)				
	FY 2003-04	**FY 2004-05**	**FY 2005-06**	**FY 2006-07**	**FY 2007-08**
REVENUES					
General Fund					
Sales Tax*	**0**	**(20)**	**(40)**	**(60)**	**(60)**
EXPENDITURES					
Travel and Tourism Grant Committee	*** See Assumptions and Methodology ***				
Dept. of Revenue	*** See Assumptions and Methodology ***				
POSITIONS:					
Department of Revenue	*** See Assumptions and Methodology ***				

* The grant application period for the bill sunsets July 1, 2006, although payments for grants authorized before that date will continue to be made up to ten years after the initial award.

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Travel and Tourism Grant Committee, NC Department of Revenue, and local governments.

EFFECTIVE DATE: January 1, 2004

BILL SUMMARY: The bill creates the Travel and Tourism Capital Incentive Grant program to be administered by the Travel and Tourism Grant Committee. The program offers grants to counties and municipalities who own "qualifying projects" that meet the following criteria: 1) the project is financed and owned (in whole or at least in 50% partnership in tiers 4 and 5, 25% ownership in the remaining tiers) by the unit of local government in which it is located, 2) the project will target 35% or more of its visitors from at least 50 miles away or out of state (15% in tiers 1 – 3), 3) the project has a business plan that indicates that project will be profitable, 4) the applicant provides tax impact projections, 5) the project will have a positive impact on the community, 6) the project will be open at least 100 days per year, 7) the project will generate at least ten new jobs in the local area, and that the project met the wage standards set out for the Bill Lee and JDIG economic development incentive programs, 8) the projects will

meet a minimum cost criteria based on the North Carolina enterprise tier in which it is located, 9) the governing body of the local government passes a resolution stating the need for, positive economic impact of, and the enhanced travel and tourism opportunities created by the project, and 10) the applicant demonstrates that the project will not duplicate services and will draw new visitors to the area. Grant funds can be used to fund new projects or the renovation and expansion of existing facilities. The grant amount is determined by multiplying the total amount of sales taxes collected by or within the qualified program and the net privilege taxes paid by the qualifying project by an enterprise tier based percentage, with maximum percentages outlined in the bill. These same percentages apply to the maximum amounts of the total project cost that can be funded through this grant program. The Travel and Tourism Grant Committee is charged with determining if all project criteria are met and the percentages used to calculate the grant amount. Grant funds can only be used for capital costs, including debt service. To receive a grant disbursement, the project owner must provide the Department of Revenue with periodic, verified accounting of the tax collections. Annual disbursements based on this information must be made by the Department of Revenue by October 1 of each year and should reflect tax collections from that project for the previous fiscal year. The Department is only required to distribute funds based on data provided by the owner. If appropriate data is not provided to justify a complete payment, a partial payment can be made to reflect the information provided. Applicants must fund a feasibility study coordinated and directed by the Travel and Tourism Grant Committee and pay a $5,000 application fee. The funds to pay for the grants and the associated departmental costs are drawn from State sales and use tax revenues. The grant application period for the bill sunsets July 1, 2006, although payments for grants authorized before that date will continue to be made up to ten years after the initial award. Only fifteen (15) grants can be awarded per year. Annual awards are limited to $20 million.

ASSUMPTIONS AND METHODOLOGY:

Impact on Revenue

The bill effectively earmarks a proportion of state tax revenue drawn from a particular qualifying project and returns that funding to the institution to fund capital costs and debt service. The proportion returned varies by location and other factors. The bill would allow funding for fifteen projects a year, with a maximum of forty-five grants awarded before the July 1, 2006, sunset. At present, Fiscal Research is aware of several potential projects that have already reached the planning stages, primarily arenas, convention centers and athletic facilities, that could easily qualify for these grants, although local government officials indicate that many local units would likely be interested applying for these grants. Fiscal Research is also not aware of any other state that uses a similar funding mechanism, so no data is available from other states to suggest a fiscal cost. (Kentucky has a state sales tax incentive program for tourism development, which has funded seven (7) projects to date. However, because of substantial differences in the Kentucky plan and this bill, that state's experience cannot be used as a proxy for estimating purposes). Because there is no good data on the type, size and location of qualifying projects or potentially qualifying projects, the fiscal note assumes the committee awards the maximum annual amount of $20 million. Because the bill allows three grant cycles before the sunset, the maximum annual impact is reached in 2060-07 of $60 million ($20 million from each year of awards). Because all economic activity, in total, is considered in determining the state's baseline revenue projections, all grants awarded under this program would be shown as a loss of state revenue. However, none of that loss would appear in FY 2003-04, as the first payment would not be made for any project until October 2005.

Impact on Expenditures

Travel and Tourism Grant Committee: The bill charges the Travel and Tourism Grant Committee (the Committee) with carrying out the following activities in order to administer the grant program:

1. Adopt rules for the administration of the program.
2. Coordinate and direct feasibility studies funded by the applicants. This coordination function includes selection by the Department of qualified, independent consultants and prescription of the scope of each study.
3. Analyze applications to ensure they contain all necessary information regarding the nature and cost of the proposed tourism project, the estimated revenues to be generated by the project, the estimated economic benefit to the community, and the purposes for which the applicant will use grant funds.

Each of these activities will involve a cost to the Committee. The bill allows the Committee, itself, to determine how the fee revenue and associated responsibilities will be distributed. Since the bill does not specify the financial structure of the Committee, how the Committee will operate, or how the Committee will utilize the $5,000 fee per application, it is not possible to estimate the fiscal impact on the Committee.

Department of Revenue: According to the Department of Revenue, the anticipated responsibilities from the enactment of the bill will not justify any positions being assigned to handle the work and, therefore, no employee costs will be incurred. There will only be very minimal costs for printing and mailings of forms and possibly some other minor administrative costs. The Department's assumption is that there will be a relatively small number of projects that will qualify, at least initially. Therefore, on the basis of this assumption, taxes eligible for grants will not be generated until a project is completed and business performed in the project. The first fiscal year for which grants could be issued would most likely be FY 2004-05. This should provide the department with ample time to get procedures in place.

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