NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 12 <1st Edition>

SHORT TITLE: Condemnation Reimbursement

SPONSOR(S): Rep. Justus

FISCAL IMPACT

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

	(Thousands)				
	FY 2001-02	**FY 2002-03**	**FY 2003-04**	**FY 2004-05**	**FY 2005-06**
REVENUES					
General Fund	**($15-72)**	**($31-145)**	**($48-221)**	**($64-298)**	**($82-378)**
Local Governments	*** See Assumptions and Methodology ***				

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: All state agencies.

EFFECTIVE DATE: Effects any condemnation where title passes to the State on or after July 1, 2001.

BILL SUMMARY: Under current law when the state acquires property – through purchase or condemnation – the property is removed from the property tax rolls and becomes exempt from local property taxes. The bill requires that if the property is acquired by eminent domain the state will reimburse local governments and taxing units for the equivalent of that year's property taxes on the property. After the first year the state will reimburse the local units for the first year's taxes lost, adjusted by the consumer price index. This payment will continue as long as the property is exempt from property taxes. The bill does not apply to condemnations for transportation purposes.

ASSUMPTIONS AND METHODOLOGY: Any agency of State government, as defined in G.S. 146-64(5), has a right to acquire property by eminent domain for the purposes specified in 146-22.1, through a condemnation process conducted by the Department of Administration (State Property Office). The process includes authorization by the Council of State for the Dept. of Administration to condemn property.

The NC State Property Office reports that between January 1, 1990 and December 31, 2000 twenty-six properties have been acquired through eminent domain. Nineteen of these properties have been acquired for the Department of Environment and Natural Resources or their divisions. The balance was obtained for the university system, the Department of

Corrections, and Cultural Affairs. The total purchase price attached to these properties is $15.98 million, or $1.598 million per year. Because 70% of the total amount was expended on one property ($11.16 million in Transylvania County) this annual amount could overstate the actual state average.

The appropriations staff of Fiscal Research is not aware of any planned condemnations. They note that using the power of eminent domain is usually a last resort for most state agencies, but that is no guarantee the power will not be used. As such, it is impossible to estimate how often the state will condemn property.

If the current $0.965 weighted average property tax rate is applied to the $1.598 million annual figure the first year general fund loss would be $15,420. That amount will compound annually as the payment continues in perpetuity. In addition, each year after the first year the base amount will increase by the CPI. The ten-year CPI average for all goods is 2.81%. This provides the lower end range estimate.

The most expensive condemnation is used to generate the upper end estimate. As mentioned previously, the state expended $11.16 million to purchase one property in Transylvania County. The 2000-01 county property tax rate for Transylvania is $0.6410 per $100 in value. (This note assumes that none of the property is within municipal limits). Therefore the FY 2000-01 tax liability for this property is $71,536. That amount will be compounded and increased by 2.81% annually.

Technically, all the state loss would be a local government gain, as it is assumed that the state would purchase the property and remove it from the local tax rolls without the bill. From a practical standpoint the local governments could see a small gain or loss from what they would collect from a private taxpayer. The amount of the gain or loss depends on how the 2.81% growth rate compared to the future tax value of the property.

TECHNICAL CONSIDERATIONS: It is not clear from the bill what portion of state government actually bears the financial responsibility for the legislation. It is not clear to Fiscal Research if the burden rests with the state general fund or the agency. This could be particularly important when dealing with the university system or other uniquely funded agencies.

FISCAL RESEARCH DIVISION 733-4910
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