

**NORTH CAROLINA GENERAL ASSEMBLY**

**LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** SB 277 (SCS)

**SHORT TITLE:** Exempt University Trust Property

**SPONSOR(S):** Senator Rand

<b>FISCAL IMPACT</b>					
	Yes (X)	No ( )	No Estimate Available ( )		
	(\$)				
	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>
<b>REVENUES</b>					
<b>General Fund</b>	<b>* No General Fund Impact *</b>				
<b>Local Governments</b>					
Watagua Co./Boone	(600,000)	(200,000)	(200,000)	(200,000)	(200,000)
Lenoir Co./LaGrange	(618)	(206)	(206)	(206)	(206)
New Hanover/ Wilmington	<b>* See Assumptions and Methodology *</b>				
Iredell Co./Statesville	(12,435)	(4,145)	(4,145)	(4,145)	(4,145)
Hertford Co./ Murfreesboro	<b>* See Assumptions and Methodology *</b>				
Camden County	(2,427)	(809)	(809)	(809)	(809)
<b>Other Local Governments</b>	<b>* See Assumptions and Methodology *</b>				
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> Department of Revenue, Property Tax Division, the University System, the Community College System, and local governments.					
<b>EFFECTIVE DATE:</b> Effective for taxable years beginning July 1, 2001.					

**BILL SUMMARY:** The bill expands the ownership requirements for a property tax exemption for an educational institution to include ownership by a nonprofit entity that holds the property for the benefit of a constituent or affiliated institution of the University of North Carolina or a community college. It also makes this change retroactive to July 1, 2001.

**ASSUMPTIONS AND METHODOLOGY:** The fiscal impact of the bill is determined by the location and corporate structure of properties related to the University System and the Community College System. In terms of the University System, there are 16 constituent institutions of the University of North Carolina. There are also five (5) affiliated institutions – the University Hospitals, the Arboretum (Asheville), the School of Science and Math (Durham) the NC School for the Arts, and the WUNC public television station. Should any of these organizations choose to form

a nonprofit entity to hold property in trust, that property would now become exempt. As such, the legislation puts these properties held in trust in the same category, for local tax purposes, as the constituent institutions themselves. To date, only six (6) of the constituent institutions have formed these organizations and acquired property. The institutions, the amount of acreage held, and the value of that property are as follows:

Institution	Acreage of Non-State Land	Exempt	Assoc. Tax Value
Appalachian State University	37.3	No	24,314,800
Fayetteville State University	5.2	Yes	1,617,500
NC School of the Arts	4.3	Yes	6,110,000
NC A&T State University	2.0	Yes	4,610,400
UNC - Pembroke	13.0	Yes	8,315,000
Winston-Salem State University	3.3	Yes	374,500

University General Administration also reports the North Carolina Central University is also in the process of developing this type of non-profit structure. A similar structure may also be in development for the School for the Arts in Winston-Salem.

According to data compiled by UNC General Administration, all but one of the properties listed above are exempt from taxation, either through a decision of the assessor or county commission. In the case of Winston-Salem State University and North Carolina A&T University, the property is being exempted because it is held by the university's own foundation. The property held for Appalachian State University is in dispute, as it is owned by a nonprofit other than the university foundation. The county and the city of Boone have deemed the property taxable. The university appealed to the North Carolina Property Tax Commission, which ruled in favor of the local governments. The Appalachian case is now on appeal to the court system. If the local governments prevail in the Appalachian case, the bill will have the effect of removing the property from the local tax rolls. Using the current property tax rates, local officials estimate annual losses of approximately \$200,000 for Watagua County and the Town of Boone, although the university system uses a lower estimate.

In future years, the losses could grow substantially if the university system shifts more of its projects to this new structure. As a result, the \$200,000 loss noted above is a minimum annual estimate. However, because the bill makes the change retroactive the impacted local governments would have to refund two years of taxes already paid by the universities and affiliated institutions, thus tripling the cost in the first year.

The second impact relates to the community colleges. On May 12, 2003, the community college system office surveyed all 58 community colleges to determine the potential impact of exempting property used for community colleges, that is not already exempt, that may become exempt under the bill. Of the 44 responding institutions, four colleges and the community college foundation office indicated that they utilize property that may become exempt under the legislation. The institutions and associated available information are shown below:

Institution	Current Property Owner	Tax Value	Revenue Loss
Lenoir Community College	LeGrange Redevelopment Foundation	16,500	206
Cape Fear Community College	Individuals	unknown	unknown
	Storage World	unknown	unknown
Mitchell Community College	Davis Hospital Foundation	471,000	4,145
Roanoke Chowan Comm. College	CADA	unknown	unknown
	Family Life Center	unknown	unknown
NC Comm. College Foundation	NC Comm. College Foundation	117,216	809

The corresponding revenue losses for those with a tax value listed are included in the fiscal impact box. Again, because of the July 1, 2001 effective date the impact local governments would be required to return two years worth of previously collected taxes in 2003-04 and start the exemption, effectively tripling the loss for 2003-04.

All of these estimates are minimum estimates as the out year impact could be broader if the Community College System alters their behavior because of this bill.

**SOURCES OF DATA:** UNC – General Administration, NC Community College System Office and individual colleges, and County Assessors.

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**DATE:** May 15, 2003



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