

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: Senate Bill 848 (Third Edition)

SHORT TITLE: Advanced Vehicle Research Center Incentive

SPONSOR(S):

FISCAL IMPACT				
	Yes (X)	No ()	No Estimate Available ()	
			(\$million)	
	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u> <u>FY 2008-09</u>
REVENUES				
General Fund		(5.0)*	(5.0)*	
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue				
EFFECTIVE DATE: This act is effective for taxable years beginning on or after January 1, 2004, and applies to contributions made on or after July 1, 2004. The tax credit sunsets for taxable years beginning on or after January 1, 2006.				
* Statutory maximum				

BILL SUMMARY: The bill creates a tax credit (income or franchise) for contributions of cash or property for the construction and operation of an advanced vehicle research center. If the research center is in a tier one county, the maximum credit per taxpayer is 75% of the first \$500,000 donated, 40% of the next \$500,000 donated, and 25% of all remaining donations. If the research center is not located in a tier one county, then the credit is capped at 25%. The state will award no more than \$5 million in credits each tax year.

ASSUMPTIONS AND METHODOLOGY:

The new tax credit for advanced vehicle research center is limited to tax years 2004 and 2005 by its placement in Article 3B of Chapter 105 of the General Statutes that sunsets on January 1, 2006. Since the application for a tax credit is submitted to the Department of Revenue by April 15 in the year following the calendar year in which the contribution was made, the fiscal impact for tax year 2004 will be in FY 2005-06 and the impact for tax year 2005 will be in FY 2006-07. With a

\$5 million cap on this tax credit each year, the maximum state General Fund revenue loss due to this tax credit is \$10 million over two years.

Ten million dollars is twice what a consultant projected for tax eligible donations. The consulting firm TGI Inc. estimated \$5 million from tax credit eligible donations in the project's stage 2 from 2005 until 2010. On the other hand, in the project's stage 4 from 2006 to 2013, there is \$75.65 million in private funding that is not eligible for the tax credit because of the limitation in proposed G.S.105-129.16D (d) that states "No credit is allowed to the extent the taxpayer receives anything of value in exchange for the contribution".

Will the proposed center receive donations in 2004 and 2005 without the \$4 million state appropriation it requested for FY 2004-05? While no decisions are final, the conference committee on the state budget bill has suggested only a \$200,000 appropriation for the center. Page 5 of the feasibility study identifies that a significant challenge for success is "the need for federal, state, and local assistance in the start-up of the enterprise". The project timetable for the new center includes a \$4 million state grant to fund the purchase of 620 acres of land and to begin construction on a 2.5 mile test track. State funds were also to be used to hire six personnel. The consultant questioned whether the lack of state support might harm the center's pursuit of \$18.35 million in federal funding of facilities in the initial phases of the project.

Utilities and other donors that have an interest in furthering economic development in Northeast North Carolina may take a wait and see attitude until the state and federal government invest in the project. The proposed tax credits may sunset before project viability can be ascertained.

SOURCES OF DATA: "A Report on the Feasibility and Viability of a Center for Research, Engineering and Development of Alternative Fuel Vehicles in Northeast North Carolina" by TGI Inc. for the North Carolina Northeast Development Partnership for Economic Development; TGI Inc. consultant Richard Dell

TECHNICAL CONSIDERATIONS: None

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