

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 1326 (Third Edition)

SHORT TITLE: Dry-Cleaning Solvent Cleanup Amends.

SPONSOR(S):

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	(\$million)				
	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>
REVENUES					
General Fund				(\$9.1)	(\$9.1)
Dry-Cleaning Solvent Cleanup Fund					
-Sales Tax Transfer				\$9.1	\$9.1
-Solvent Tax Increase	.4	.5	.5	.5	.5
EXPENDITURES					
Dry-Cleaning Solvent Cleanup Fund	.1	.4	.4	.1	.1
POSITIONS:	Not yet determined				
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue (DOR); Department of Environment & Natural Resources (DENR); Department of Justice; and Environmental Management Commission.					
EFFECTIVE DATE: Section 1.1 (sales tax transfer) becomes effective April 1, 2003, and is repealed effective July 1, 2010. Section 1.2 (dry cleaning solvent tax increase) becomes effective October 1, 2000. Section 5.1 (40% admin.) is effective July 1, 2001. Section 5.2 (45% admin.) is effective July 1, 2002. Section 5.3 (20% admin.) is effective July 1,2003. The remaining sections become effective upon enactment of the bill. Sections 3 and 4 apply retroactively to April 1, 1998.					

BILL SUMMARY: This bill amends the Dry Cleaning Solvent Cleanup Act of 1997 and increases tax revenues and tax distributions to fund the solvent cleanup effort. The tax changes include an increase in the dry cleaning solvent tax in October 2000 and the transfer of 60% of the state sales tax receipts on dry cleaning and laundry services from the General Fund to the Dry Cleaning Solvent Cleanup Fund beginning in 2003. The share of the Dry Cleaning Solvent Cleanup Fund that can be used for administrative expenses for DENR and the Department of

Justice will be temporarily increased in 2001 and 2002. The amendments deal with the financial responsibility of dry cleaners for cleanup costs, the ability of the Department of Environment and Natural Resources (DENR) to contract for assessment and remediation, and technical and clarifying language changes.

BACKGROUND: A state sales tax of 4% and local sales tax of 2% is imposed on the gross receipts of businesses “operating a dry-cleaning, pressing, or hat blocking establishment, a laundry, or any similar business, engaged in the business of renting clean linen or towels or wearing apparel, or any similar business, or engaged in the business of soliciting cleaning, pressing, hat blocking, laundering or linen rental business for any of these businesses.” A 1% sales tax with a \$80 maximum is applied to sales of dry-cleaning and laundering machinery. Items used in the dry-cleaning and laundering process such as starch, soap, cleaning fluids, hangers, and bags are exempted from sales and use tax.

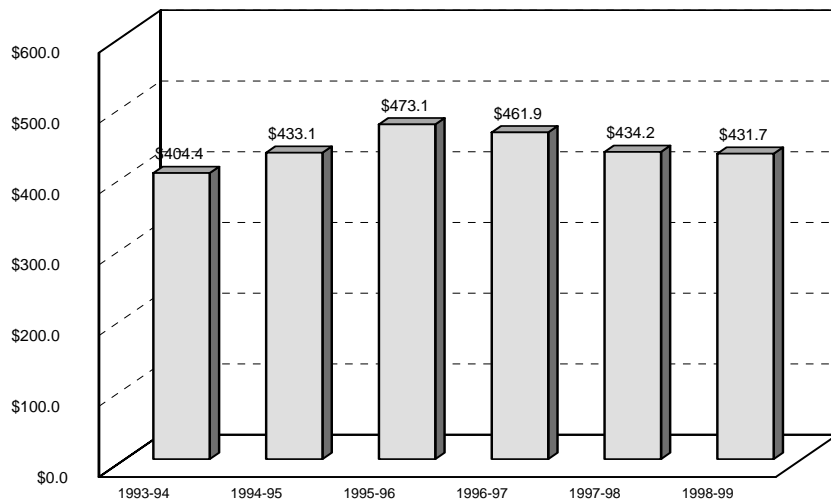
ASSUMPTIONS AND METHODOLOGY:

SALES TAX RECEIPTS

The gross retail sales for laundries and dry cleaners have declined in recent years from a high of \$473.1 million in 1995-96 to \$431.7 million in 1998-99. Gross retail sales in the current fiscal year (FY 1999-00) are on pace to finish at \$427.1 million. This fiscal note will assume a no growth scenario for the next five years and annual gross retail sales of \$430 million.

**GROSS RETAIL SALES FOR
LAUNDRIES AND DRY CLEANERS**

\$ Millions



Gross retail sales include both taxable and nontaxable sales reported on monthly and semi-monthly sales and use tax returns. To estimate the impact of HB 1326, nontaxable sales must be removed from the equation. Dividing sales tax collection by 4%, then dividing that result by gross retail sales provides the percentage of taxable sales. From 1993 to 1999, the percentage of taxable sales ranged from 81.6% in FY 1996-97 to 90.3% in 1998-99 (see chart below). This fiscal note will assume the midpoint of this range or 87.9%.

	Sales Tax Collected	Gross Retail Sales	Percent (%) Taxable
FY 1998-99	\$15,590,900	\$431,689,610	90.3%
FY 1997-98	\$15,225,715	\$434,290,844	87.6%
FY 1996-97	\$15,085,579	\$461,954,623	81.6%
FY 1995-96	\$16,091,521	\$473,132,389	85.0%
FY 1994-95	\$15,234,188	\$433,121,056	87.9%
FY 1993-94	\$14,426,870	\$404,433,777	89.2%
FY 1992-93	\$13,689,558	\$383,399,394	89.3%

If there is \$430 million in gross retail sales of laundry and dry-cleaning services each year, then 87.9% or \$377,970,000 in sales are taxable. A 4% state sales tax on \$378 million in dry-cleaning, laundry and linen rental services is equal to \$15.12 million.

TRANSFER OF SALES TAX

Section 1.1 of HB 1326 transfers 60% of the 4% state sales tax on dry cleaning and laundry services from the General Fund to the Dry-Cleaning Solvent Cleanup Fund as of April 1, 2003. This section does not affect the 2% local sales tax on these services. As outlined above, annual sales of dry-cleaning, laundry and linen rental services will be \$378 million in 2003 and the 4% sales tax will yield \$15.12 million in revenue. The Dry-Cleaning Solvent Cleanup Fund will receive 60% of this amount or \$9.07 million each year through 2010. The April 1 effective date ensures that four quarterly payments will be made in FY 2003-04.

SOLVENT TAX INCREASE - PERC

Section 1.2 increases the tax on chlorine based solvents from \$5.85 per gallon to \$10.00 per gallon. Before calculating the impact of this tax increase, the projected volume of solvent to be taxed must be determined. Two calendar years of consumption data show that the use of the chlorinated solvent perchloroethylene (perc) increased from 119,238 gallons in 1998 to 124,724 gallons in 1999 for an increase of 4.5%. However, when you compare the gallons purchased in the first ten months of FY 1999-00 to the gallons purchased in the first ten months of FY 1998-99, perc consumption is down 2.3%. However, there is insufficient state data to determine a trend.

When the Dry-Cleaning Solvent Cleanup Fund was established in 1997, representatives of the North Carolina dry cleaning industry estimated that perc use would decline 1% a year, but the Department of Environment and Natural Resources (DENR) estimated a 7% annual decline. According to the publisher of the *Chemical Market Reporter*, U.S. production of perchloroethylene (perc) fell 5% a year from 1987 to 1996. The European Chlorinated Solvent Association reported West European perc production fell 3.8% a year from 1995 to 1998. Due to the conversion of dry cleaning machines to alternative solvents and to the creation of newer generations of perc machines that use less solvent, it is reasonable to assume a decline of perc use over the next five years. This fiscal note will assume a 5% reduction in perc use each year based on perc sales in the US market.

The chart below shows the difference in revenue from the current \$5.85 per gallon of perc to \$10.00 per gallon. FY 2000-01 revenues must be reduced by one-fourth to account for the October 1, 2000 effective date.

	Actual	Estimated					
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Perc use (Gals)	125,085	121,445	115,373	109,604	104,124	98,918	93,972
Perc fee (Current law)	\$5.85	\$5.85	\$5.85	\$5.85	\$5.85	\$5.85	\$5.85
Current Revenue	\$731,747	\$710,453	\$674,931	\$641,184	\$609,125	\$578,669	\$549,735
Perc Fee (HB 1326)			\$10.00	\$10.00	\$10.00	\$10.00	\$10.00
HB 1326 Revenue			\$1,153,728	\$1,096,041	\$1,041,239	\$989,177	\$939,718
Revenue Change			\$478,797	\$454,857	\$432,114	\$410,509	\$389,983

SOLVENT TAX INCREASE - HYDROCARBON

Section 1.2 also increases the tax on hydrocarbon or petroleum based solvents from 80 cents a gallon to \$1.35 per gallon. Hydrocarbon solvent consumption dropped from 184,453 gallons in 1998 to 177,703 gallons in 1999 for a decline of 3.7%. If hydrocarbon solvent consumption in the first 10 months of FY 1999-00 is compared to the same period in FY 1998-99, a 14.4% decline in consumption is noted. As with perc, the state data is not sufficient to determine a trend. In 1997, the dry cleaning industry projected a 1% decline in use while DENR estimated that hydrocarbon solvent use would not change. A decline in hydrocarbon use is expected over the next five years due to the conversion of dry cleaning machines to less hazardous solvents. For example, one nonhazardous solvent that is silicon-based can be used in a hydrocarbon machine after a conversion costing less than \$5,000. This fiscal note will assume a 4% decline in hydrocarbon use based on the decline in 1999.

The chart below shows the difference in revenue from the current \$.80 per gallon of petroleum to \$1.35 per gallon. FY 2000-01 revenues must be reduced by one-fourth to account for the October 1, 2000, effective date.

	Actual	Estimated					
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Petroleum use (Gals)	182,227	154,187	148,020	142,099	136,415	130,958	125,720
Petroleum fee (Current law)	\$0.80	\$0.80	\$0.80	\$0.80	\$0.80	\$0.80	\$0.80
Petroleum Revenue (Current)	\$145,782	\$123,350	\$118,416	\$113,679	\$109,132	\$104,767	\$100,576
Petroleum Fee (HB 1326)			\$1.35	\$1.35	\$1.35	\$1.35	\$1.35
Petroleum Revenue (HB 1326)			\$199,826	\$191,833	\$184,160	\$176,794	\$169,722
Revenue Change			\$81,411	\$78,154	\$75,028	\$72,027	\$69,146

EXPENDITURES

Section 5.1 of the bill increases the amount that DENR and the Department of Justice can spend on administering the cleanup program from 20% of the Fund to 40% for FY 2001-02. Section 5.2 increases the administrative cap to 45% for FY 2002-03 and section 5.3 returns the cap to 20% in FY 2003-04. The temporary increase will bring funding in line with the expenses originally projected by the two Departments in 1997. When the Dry Cleaning Solvent Cleanup Fund was proposed in 1997, DENR requested \$403,401 to fund 10 positions to handle certifications, inspections, assessments, billing, etc. This estimate was based on the

department's experience with the Underground Storage Tank Program. The Department of Justice also wanted \$148,678 for one attorney and two paralegals. In the current fiscal year 1999-2000, DENR is budgeted \$118,088 for Dry Cleaning Solvent Cleanup Fund administrative expenses. The current budget funds two positions, a hydrogeologist and an environmental scientist, but does not include funding for the legal services provided by the Department of Justice. The increased revenue will allow DENR to reimburse the Department of Justice for attorney services, hire additional staff, and contract out for site assessments and other program needs.

The increased revenue from the solvent tax and the sales tax transfer will boost the administrative budget based on the current 20% cap in the present law. The 40% and 45% administrative cap will more than double the allowable expenditures in 2002 and 2003.

	Current law		
	20%	HB 1326	Difference
FY 2000-01	\$158,669	\$270,711	\$112,042
FY 2001-02	\$150,973	\$515,150	\$364,177
FY 2002-03	\$143,651	\$551,430	\$407,779
FY 2003-04	\$136,687	\$233,194	\$96,507
FY 2004-05	\$130,062	\$221,888	\$91,826

FISCAL RESEARCH DIVISION: 733-4910

PREPARED BY: Richard Bostic

APPROVED BY: James D. Johnson

DATE: May 25, 2000



Signed Copy Located in the NCGA Principal Clerk's Offices