# NORTH CAROLINA GENERAL ASSEMBLY

## LEGISLATIVE FISCAL NOTE

**BILL NUMBER**: HB 1006 (SCS)

**SHORT TITLE**: Manufactured Housing

**SPONSOR(S)**: Representatives Hunter and Barnhart

**FISCAL IMPACT**

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

| | FY 2003-04 | FY 2004-05 ($) | FY 2005-06 | FY 2006-07 | FY 2007-08 |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| **General Fund** | 579,425 | 1,279,488 | 1,279,488 | 1,279,488 | 1,279,488 |
| **NC Dept of Justice** | *** See Assumptions and Methodology *** | | | | |
| **NC Division of Motor Vehicles** | 17,075 | 17,075 | 17,075 | 17,075 | 17,075 |
| **Local Governments** | | | | | |
| **Sales Tax** | 59,125 | 119,712 | 119,712 | 119,712 | 119,712 |
| **Property Tax** | *** See Assumptions and Methodology *** | | | | |
| **EXPENDITURES** | | | | | |
| **NC Dept of Justice** | *** See Assumptions and Methodology *** | | | | |
| **NC Dept of Revenue** | *** See Assumptions and Methodology *** | | | | |

**PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED**: NC Division of Motor Vehicles, NC Department of Justice

**EFFECTIVE DATE**: Sections 6, 7 and 8 become effective October 1, 2003. Sections 9 through 13 become effective January 1, 2004 and apply to sales of modular homes on and after that date. The remainder is effective when law.

**BILL SUMMARY**: The bill makes several changes to the laws surrounding manufactured housing. Sections 1 and 3 change a manufactured homeowner's options for title surrender if a 20-year or greater lease is involved and file an appropriate declaration with the Register of Deeds. Section 2 authorizes the Division of Motor Vehicles to charge $5.00 for canceling a title to a manufactured home. Section 4 clarifies that manufactured homes with a lease of at least 20 years are real property for tax purposes. Section 5 addresses the notice requirements for conversion of a manufactured home community. Section 6 requires the display of pricing information on manufactured homes if that manufacturer has published a suggested retail price, as well as information on warranties and filing complaints. Section 7 allows for the cancellation of the purchase agreement if any of the material terms of the agreement are changed by the dealer, requires that deposits be returned within three business days if such an agreement is cancelled, and directs the Manufactured Housing Board to adopt rules on this process. Section 8 requires that criminal history background checks be conducted on new applicants for licensure as manufactured homes manufacturers, dealers, salespersons, or set-up contractors. Sections 9 through 13, in total, increase the sales tax on modular homes to 2.5%, earmark 20% of the proceeds of the sales tax for local governments, and eliminate the $300 cap on the sales tax levied on these homes.

**ASSUMPTIONS AND METHODOLOGY**: With regard to fiscal impact, the proposed bill changes the G.S. 47-20.6(a) by authorizing the NC Division of Motor Vehicles (DMV) to charge a five-dollar cancellation fee when the certificate title of a manufactured home is surrendered after the home had been qualified as real property. According to the DMV data, between 1996 and 2002 the average number of surrendered titles to manufactured home as the result of their qualification as real property constituted 3,415. If for the next five years this number will remain the same, DMV will be able to generate $17,075 in revenue from title cancellations for manufactured homes.

The bill will also have a local property tax impact. Section 4 of the bill amends the statute to include as real property manufactured homes where the owner of the manufactured home has a lease of at least 20 years for the land on which the home is affixed. Currently, some manufactured homes are classified as real property while others are classified as personal property. The bill could move some homes that are currently listed as personal property into the real property category. Neither the Department of Revenue nor Fiscal Research can estimate the impact this will have on local units, although whatever revenue change occurs should be small and positive.

Section 8 requires that the Department of Justice provide state and national fingerprint checks for all persons applying for licensure as a manufactured home manufacturer, dealer, salesperson, or set-up contractor. These checks are conducted by the State Bureau of Investigation (SBI) within the Department. Fiscal Research cannot project the number of applicants who would require background checks each year as a result of this bill. Information from Atlas Manufactured Housing Directory[1] indicates that there are more than 300 manufactured home dealers in North Carolina, some of which have multiple locations. If, for example, each dealer hired one newly licensed salesperson or set-up contractor, the SBI would conduct more than 300 new background checks annually. In addition, each new licensed dealer or manufacturer would require a background check.

Since the applicant or licensee pays the SBI for the criminal record check, there is no fiscal impact on the North Carolina Manufactured Housing Board. The SBI charges $38 for each state and national fingerprint check, of which $22 is remitted to the Federal Bureau of Investigation. The remaining $16 is used to support the functions of the identification unit, which conducts the criminal history background checks. Each employee can process approximately 9,600 background checks per year, and the SBI is able to accommodate some increase in background checks within its existing staffing level. If the increase in workload due to new record checks is greater than the unit's capacity, the SBI would need authorization for additional positions supported by the receipts collected from the applicants/ licensees.

---

[1] Atlas Manufactured Housing Directory Web site, http://www.manufactured-housing.org/index.html, accessed June 24, 2003.

Sections 9 –13 create the most significant fiscal impact for both the state and local governments. These sections increase the tax on modular homes. According to industry representatives, there are two types of modular homes, “on-frame” and “off-frame”. “On-frame” modular homes are built on a steel chassis and are typically delivered to the home site by means of wheels and axles attached to the steel frame. These homes are taxed at the rate of 2%, with a maximum tax of $300 per section. “Off-frame” modular homes are typically delivered to the site on a flat bed truck or other carrier. These homes are taxed at the general sales tax rate of 7%, with the tax applying to the materials used to create the home. The bill removes this tax distinction and instead taxes the sales price of both types of modular homes at a 2% rate, with no cap.

Based on actual returns and industry data, Tax Research estimates the following sales tax revenue change under the bill:

| General Fund | | | |
|---|---|---|---|
| Structure | Current Tax | Under Bill | Change |
| On-Frame | 1,806,000 | 4,515,000 | 2,709,000 |
| Off-Frame | 2,089,800 | 1,935,000 | (154,800) |
| TOTAL | 3,895,800 | 6,450,000 | 2,554,200 |

| Local Governments | | | |
|---|---|---|---|
| Structure | Current Tax | Under Bill | Change |
| On-Frame | | | |
| Off-Frame | 1,161,000 | - | (1,161,000) |
| TOTAL | 1,161,000 | - | (1,161,000) |

However, in order to offset this local government loss, the bill requires the distribution of 20% of the state proceeds to local units. Thus, the final revenue impact to both the state and local units is as follows:

| | |
|---|---|
| State Revenue | 6,450,000 |
| Less Local Share | 1,290,000 |
| Net to State | 5,160,000 |
| Change to State | 1,264,200 |
| Change to Locals | 129,000 |

It should be noted that these numbers assume that 70% of current modular homes are sold “on-frame.” This 70% estimate is provided by industry representatives. However, if the actual percentage varies even a few points below this level, the proposal will result in a net loss to local governments. If the actual “on-frame” percentage is below approximately 50%, the state will see a net loss. In addition, if growth in the “on-frame” home market occurs at a faster rate than the “off-frame” market, the state would also see a revenue loss.

The first year number is adjusted to reflect the delayed effective date.

EXPENDITURES: The final potential fiscal impact relates to expenditures. The bill will increase the workload at the Department of Revenue, as it will create another local distribution. However, the change is not currently expected to require additional staff. The bill will also increase the workload at the Department of Justice, State Bureau of Investigation. As mentioned above, the revenues will cover expenditures for the SBI, and it is possible that additional receipt-supported positions will be required.

**SOURCES OF DATA**: North Carolina Division of Motor Vehicles, Tax Research, State Bureau of Investigation, Atlas Manufactured Housing Directory.

**FISCAL RESEARCH DIVISION: (919) 733-4910**

**PREPARED BY**: Linda Struyk Millsaps, Alexei Pavlichev and Chloe Gossage.

**APPROVED BY**: James D. Johnson, Director, Fiscal Research Division

**DATE**: June 25, 2003

**Official**
**Fiscal Research Division**
**Publication**

**Signed Copy Located in the NCGA Principal Clerk's Offices**