



NORTH CAROLINA GENERAL ASSEMBLY

2025 Session

Legislative Fiscal Note

Short Title: Annexation of PUV Land/School Capacity.
Bill Number: House Bill 348 (Third Edition)
Sponsor(s): Rep. McNeely, Rep. Huneycutt, and Rep. Jeffers

SUMMARY TABLE

FISCAL IMPACT OF H.B. 348, V.3

	<u>FY 2025-26</u>	<u>FY 2026-27</u>	<u>FY 2027-28</u>	<u>FY 2028-29</u>	<u>FY 2029-30</u>
State Impact					
General Fund Revenue	-	-	-	-	-
<u>Less Expenditures</u>	-	-	-	-	-
General Fund Impact					

NET STATE IMPACT

No Estimate Available - Refer to Fiscal Analysis section

Local Impact

Local Revenue	-	-	-	-	-
<u>Less Local Expenditures</u>	-	-	-	-	-

NET LOCAL IMPACT

No Estimate Available - Refer to Fiscal Analysis section

FISCAL IMPACT SUMMARY

HB 348 would require a city's planning department to consult with the county planning department when the city is seeking to annex a certain portion of residential county property when the annexation would increase the number of students attending public schools in the county above 100% of the county's current capacity. The annexation could not proceed unless the county commissioners approved the annexation or the city agrees to pay the county an amount necessary to restore compliance with school capacity. Due to the uncertainty of many variables, the bill is estimated to have some unknown fiscal impact on local governments.

FISCAL ANALYSIS

The bill requires a city's planning department to consult with the county planning department when the city is seeking to annex a portion of residential county property when the annexation



would increase the number of students attending public schools in the county above 100% of the county's current capacity for property that is:

- a. Agricultural land, forestland, or horticultural land,
- b. Not contiguous to the city's corporate limits, and
- c. Is not within the city's extraterritorial planning jurisdiction.

If these conditions are met, the annexation could not proceed unless the county commissioners approve the annexation or the city agrees to pay the county an amount necessary to restore compliance with school capacity.

Property Tax. To the extent any land meets these criteria, and the county commissioners approve the annexation or the city pays the amount necessary, land may be pulled out of the present-use-value program (PUV). If it is under PUV, the owner would be paying tax on the present-use rather than the true market value. The difference between the tax due on the property's present-use value and its market value is the amount that becomes deferred tax, and a portion of which is due upon a disqualifying event. If the PUV property is indeed annexed and developed, it could generate county and city revenue in both deferred taxes and in future property taxes from residential property. It also could reduce city revenues to the extent the city pays the amount necessary for the school capacity component. FRD cannot estimate with a reasonable level of certainty many of the variables necessary to compute a fiscal estimate (e.g., the number of cities that would pursue this option, the respective properties that would be subject to it, etc.). Therefore, the bill is estimated to have some unknown fiscal impact on local governments.

Public School Capacity. The bill requires that the city and county planning departments consider whether the proposed annexation would increase the number of students attending public school in the county to more than 100% of the county's current capacity.

A county's current public school capacity is not a term defined by law. Generally, the public school students in each county would include students enrolled in local education agencies (LEA) and independent public schools (IPSS) which include charter schools, laboratory schools, and regional schools.

It is not specified in the bill whether the planning departments should consider only capacity in LEAs or also in IPSSs. FRD cannot estimate what the current county capacity levels are, since each county would likely utilize a different method to determine county capacity. Additionally, one relevant planning factor for the local LEAs and ISPs is whether the proposed annexation would create overcapacity issues in one specific school or set of schools, which may factor in to the city and county planning departments' consultation processes.

State Impact. If either LEAs or IPSSs were to gain additional students as a result of the proposed annexation, those additional students would generate increased State funding for the respective public school units. It is likely that most annexations would redistribute students within the existing system rather than directly increasing the total number of students statewide. For this reason, the State's public school enrollment budgeting process does not account for anticipated city or county annexations. However, it is possible that increases in residential property across the



State could increase overall public school enrollment, which could have a minimal, but unquantifiable impact on State funding for public schools.

Local Impact. Typically, the local portion of funds that are received by an LEA or ISP are not based on per pupil formulas in the same way that State funds are generated. For this reason, Fiscal Research does not anticipate that the addition of new students into an LEA or ISP would cause an increase in local expenditures, unless the county or city provided additional funding on a per pupil basis. However, it is possible that due to local decision-making, the bill could have an unknown fiscal impact on local LEAs and ISPs.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

NC Department of Public Instruction, School Facilities Planning Survey

NC Department of Revenue

LEGISLATIVE FISCAL NOTE – PURPOSE AND LIMITATIONS

This document is an official fiscal analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts.

CONTACT INFORMATION

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