

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: House Bill 124

SHORT TITLE: Annexation Referenda

SPONSOR(S): Representatives Decker, Allred, Capps, Rayfield, Sexton, Starnes, and Wood

FISCAL IMPACT

Yes () No () **No estimate available (x)**

FY 1997-98 **FY 1998-99** **FY 1999-00** **FY 2000-01** **FY 2001-02**

REVENUES

Municipalities: No estimate available.

EXPENDITURES

Municipalities: No estimate available.

POSITIONS:

**PRINCIPAL DEPARTMENT(S) &
PROGRAM(S) AFFECTED:**

EFFECTIVE DATE: When bill becomes law.

BILL SUMMARY: *TO RESTORE THE PRE-1959 ANNEXATION LAW BY REQUIRING A REFERENDUM ON ANNEXATION ON PETITION OF THE RESIDENTS BEING ANNEXED, AND TO ALLOW THE CITY TO PROVIDE FOR A REFERENDUM ON ANNEXATION.* Repeals Parts 2 and 3 of Art. 4A of GS Ch. 160A (annexation authority of cities). Adds new GS 160A-28.1 through 160A-28.5 requiring municipalities seeking to extend corporate limits by annexation to give notice, hold public hearings, and conduct referenda pursuant to the procedures in the bill. Requires the municipality (1) to hold a referendum in the area to be annexed upon the filing of a petition signed by 15% of the qualified voters in that area; (2) to hold a separate referendum in the municipality on the question of annexation upon the filing of a petition by 15% of the qualified voters in the municipality; and (3) to pay costs of referenda, to be conducted by county board of elections.

ASSUMPTIONS AND METHODOLOGY:

Revenues

The bill may make annexations more difficult; municipalities would be unable to annex areas where voting residents failed to approve the annexations. Because annexations enable municipalities to increase their revenue bases, limitations on their ability to annex would also limit their ability to increase these revenue bases. However, because we cannot estimate how many areas would not be annexed as a result of this legislation, and because we cannot estimate the potential revenue from taxing these areas, we cannot estimate the impact of this legislation on local revenues.

The ability to annex may also affect revenues in another way. The League of Municipalities believes that the economic health of municipalities is partially linked to the ability of municipalities to follow the migration of people and businesses from cities to suburban areas. They believe that cities unable to expand boundaries and recapture revenue as the population migrates, are unable to adequately maintain city services. According to this theory, as services deteriorate, the migration accelerates, and the tax base erodes further. We cannot project: a) whether this bill would have any such affect, b) how extensive such an effect might be, and c) the time horizon over which such changes might take place.

Costs

The bill would require municipalities to pay for referenda on annexation questions. However, the State Board of Elections cannot estimate how many annexation questions would be decided by referenda, and cannot estimate how much these referenda would typically cost. Costs could vary, depending on the size and population of areas that would participate in the referenda, and whether these referenda would be held during normal election periods or whether special referenda would be held (a referendum would cost much less if held on a regularly scheduled election day).

The bill may have a long term effect on the financing costs of municipalities. However, the effect that limiting annexation authority would have on financing costs would very indirect, and cannot be predicted with any certainty. If limitations on the annexation power of counties led to a deterioration in the quality of services provided by municipalities and erosion in the tax bases of municipalities, bond rating companies may lower the ratings for bonds issued by these municipalities. However, bond ratings are influenced by many factors, and rarely does a single factor cause a change in the bond rating. Because we cannot project how much debt municipalities are likely to issue in the future, and because we cannot determine whether this legislation would actually impact the bond ratings of municipalities, we cannot estimate the fiscal impact this bill would have on the financing costs of municipalities.

SOURCES OF INFORMATION: Local Government Commission, North Carolina League of Municipalities, State Board of Elections, Standard and Poor's Incorporated, Moody's Investor Services.

FISCAL RESEARCH DIVISION 733-4910

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