

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: SB 92 (Senate Conference Committee Report)

SHORT TITLE: Various Local Occupancy Tax

SPONSOR(S):

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available (X)		
	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>
REVENUES					
General Fund	<u>* No General Fund Impact *</u>				
Gastonia	\$223,092	\$390,093	\$397,895	\$413,811	\$430,363
Kings Mt.	\$10,208	\$17,850	\$18,207	\$18,935	\$19,693
Lincolnton	\$29,167	\$51,000	\$52,020	\$54,101	\$56,265
Monroe	\$174,000	\$306,000	\$312,120	\$324,605	\$337,589
North Topsail	* See Assumptions and Methodology *				
Pender County	* See Assumptions and Methodology *				
Dare County	\$1,109,116	\$1,950,514	\$1,989,524	\$2,069,105	\$2,151,870
Rowan County	* See Assumptions and Methodology *				
Wilkesboro	\$44,950	\$79,050	\$80,631	\$83,856	\$87,210
Selma	\$110,200	\$193,800	\$197,676	\$205,583	\$213,806
Smithfield	\$111,850	\$196,702	\$200,636	\$208,661	\$217,008
Averasboro	* See Assumptions and Methodology *				
Richmond	\$88,351	\$155,376	\$158,484	\$164,823	\$171,416
Carrboro	* See Assumptions and Methodology *				
Beech Mountain	* See Assumptions and Methodology *				
Avery County	* See Assumptions and Methodology *				
Cabarrus County	\$71,831	\$126,323	\$128,849	\$134,003	\$139,363
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Communities of Gastonia, Kings Mountain, Lincolnton, Monroe, North Topsail, Pender County, Dare County, Rowan County, Wilkesboro, Selma, Smithfield, Averasboro Township (Harnett County), Richmond, Carrboro, Beech Mountain, Avery County, and Cabarrus County.					
EFFECTIVE DATE: When it becomes law.					

BILL SUMMARY: The bill authorizes the creation or modification of occupancy taxes to seventeen (17) North Carolina communities. The impacted communities are Gastonia, Kings

Mountain, Lincolnton, Monroe, North Topsail, Pender County, Dare County, Rowan County, Wilkesboro, Selma, Smithfield, Averasboro Township (Harnett County), Richmond County, Carrboro, Beech Mountain, Avery, and Cabarrus. All these taxes are to be levied on the gross receipts derived from the rental of any room, lodging, or accommodation furnished by a hotel, motel, inn, tourist camp, or similar place within the city (an occupancy tax). Establishments that are exempt from the state sales tax, and accommodations furnished by nonprofit charitable, educational or religious organizations to further their nonprofit purpose, are exempt from the occupancy tax. Allowable uses for the new revenue vary by community but include tourism and tourism related expenditures, and beach renourishment.

ASSUMPTIONS AND METHODOLOGY: Because the bill impacts only local taxes there is no General Fund impact. The bill will impact the revenues of 17 North Carolina communities. Throughout this analysis the 4% annual growth rate in hotel/motel sales from the US Census Bureau is used to inflate any 1998-99 data. Because of the recent economic slowdown, a 2% growth figure is used for two years, with 4% growth anticipated in the following years. Actual growth will vary by location, year, and construction plans.

Gastonia: Currently Gaston County has an occupancy tax of 3%. In 1998-99, the most recent year for which data is available, Gaston County collected \$365,582 in occupancy taxes. According to the Census Bureau, in 1997 Gaston County saw accommodation sales revenue of \$9,782,000. \$9,071,000 of that amount, or 93%, transpired in the city limits of Gastonia. Using the 93% as a proxy for the proportion of Gaston County sales that occur in Gastonia suggests that \$339,991 of the 1998-99 receipts came from Gastonia rooms. Adjusting this number by the 4% annual growth rate in hotel/motel sales (U.S. Census Bureau) creates a 2001-02 revenue estimate of \$382,444. Two-thirds of the funds must be used for tourism related expenditures, with the balance to promote travel and tourism.

Kings Mountain: Both Cleveland and Gaston Counties levy a 3% occupancy tax, but the town of Kings Mountain levies no tax. The bill authorizes the town to levy a 3% occupancy tax in addition to the existing county taxes. According to the town manager, King's Mountain expects to raise between \$15,000 and \$20,000 in occupancy taxes in 2001-02. The midpoint, \$17,500, is used as the expected first year revenue. The proceeds must be used to promote travel and tourism or tourism related expenditures.

Lincolnton: Lincoln County currently levies a 3% room occupancy tax. That tax raised \$51,041 in 1998-99 for the County. The vast major of that revenue was raised in the city of Lincolnton. The bill authorizes Lincolnton to levy a 3% tax. Based on the location of the county occupancy tax receipts the city manager believes Lincoln will see approximately \$50,000 in occupancy taxes in 2001-02. The new revenue must be used for promote travel and tourism and to cover tourism related expenditures.

Monroe: Currently neither Union County nor the city collects an occupancy tax. The bill authorizes the city to levy a 5% occupancy tax. There are eight motels within the city limits. The city manager expects to raise \$300,000 from the occupancy tax. During the first 10 years two-thirds (2/3) of the revenue must be used for tourism related expenditures, with the balance dedicated to promote travel and tourism. After ten years those proportions are reversed.

North Topsail Beach: Onslow County levies a 3% occupancy tax. The bill clears North Topsail Beach to levy a 3% room tax within the town limits. No information on the revenue implications of this tax is available at this time. The net proceeds are to be used for beach renourishment.

Pender County: Currently Pender County levies a 3% room occupancy tax. This bill does not change that tax rate. However, the bill does change how those revenues can be used. Under current law the funds can be used for “any lawful purpose”. The bill requires that Pender County remit to Surf City and Topsail Beach the net proceeds from accommodations in each city. Those cities may use the funds for beach renourishment. The remaining revenue can be used to promote travel and tourism and for tourism related expenditures. All county money must flow to the Pender County TDA.

Dare County: Dare County levies a 4% countywide room tax. Three-percent (3%) is used for tourist-related purposes while the balance is distributed to the Dare County Tourism Board for administration, tourism promotion, and services and programs needed because of tourism. In 1998-99 that tax raised \$6,846,292, or \$1,711,573 per penny. The bill authorizes Dare County to raise the rate to 5% and use the additional proceeds for beach renourishment. Inflating the 1998-99 numbers to the 2001-02 fiscal year creates an additional revenue stream of \$1,912,269. The bill also modifies the use of the existing 3% tax to conform to the uniform provisions. The bill does not modify the existing 1% tax.

Rowan County: Currently Rowan levies a 3% room occupancy tax. In 1999-00 that tax generated \$272,060. The bill does not alter the tax rate. However, the bill does conform the tax administration and collection to the uniform provisions, and provides for the establishment of a TDA.

Wilkesboro: The City of Wilkesboro does not have a room occupancy tax. The bill authorizes the city to levy a 3% room tax. The city manager indicates that there are five motels within the corporate limits of the city. Based on that information, and data from the Department of Revenue, local officials estimate that an occupancy tax of 3% would create approximately \$77,500 in new revenue in 2001-02. Using the growth rates noted above suggests the following revenue stream:

2001-02	2002-03	2003-04	2004-05	2005-06
77,500	79,050	80,631	83,856	87,210

The bill indicates that the proceeds must be used to promote travel and tourism and for tourism related expenditures.

Selma: Currently Johnston County levies a 3% room occupancy tax. Selma currently levies no municipal room tax. The bill authorizes Selma to levy a 3% tax, which sunsets in five (5) years. Based on the portion of Johnston County occupancy tax revenues drawn from Selma, local officials estimate potential 2001-02 revenue (assuming a full year of collections) of \$190,000.

Smithfield: Currently only a county room tax is levied in Smithfield. The bill authorizes the City of Smithfield to levy a room tax of 3%, with the proceeds of the tax remitted to the Johnston

County TDA. The tax will sunset in five years. Representatives of the North Carolina Hotel and Motel Association report that there are 513 rooms in Smithfield. The Association estimates that these rooms will generate between \$177,207 and \$208,482 in tax revenue. The mid-point of \$192,845 is used for FY 2001-02.

Averasboro: Currently Averasboro is authorized to levy a 3% room tax. However, records at the Department of Revenue do not indicate any collections between 1994-95 and 1999-00. The bill authorizes an additional 3% tax. The bill conforms both the existing and new legislation to meet the uniform provision requirements. Because they do not currently levy a tax, no data is available through the Department of Revenue. No data is available through federal sources. Therefore, no fiscal estimate is possible.

Richmond: Currently Richmond levies a 3% occupancy tax. The bill authorizes an additional 3% occupancy tax. The bill also adds uniform definitions and provisions for a TDA. Using 1999-00 collection data and the growth rates noted above, the tax could generate the following revenue stream.

2001-02	2002-03	2003-04	2004-05	2005-06
152,330	155,376	158,484	164,823	171,416

The collection and administration provisions conform to the uniform provisions.

Carrboro: Currently the City of Carrboro does not levy a room tax. The bill would authorize the town to levy a 3% tax. All administration and collection is in alignment with the uniform provisions. Because they do not currently levy a tax, no data is available through the Department of Revenue. No data is available through federal sources. Therefore, no fiscal estimate is possible.

Beech Mountain: Beech Mountain currently levies a 3% occupancy tax. The bill maintains the 3% rate and conforms the existing occupancy tax to the uniform provisions recognized by the House Finance Committee. As such, no change in revenue is expected, although the use of the tax may be altered.

Avery County: The bill repeals Avery County’s authority to levy a room occupancy tax. It also authorizes all the municipalities in Avery County who do not currently have an occupancy tax to levy such a tax. All municipal occupancy tax rates in the county are set at up to 3%. It also sets regulations for the distribution and use of the taxes. In 1998-99 Avery County collected \$149,134 in occupancy taxes, using a 3% rate. Since that time the county has repealed the occupancy tax at the local level. However, they are still authorized by the General Assembly to levy the tax at a rate of up to 3%. Therefore, the bill costs the county the ability to access up to approximately \$150,000 per year should they choose to levy the tax. Current data suggests that approximately \$47,000 of the \$149,000 collected in 1998-99 was drawn from Banner Elk. Therefore, it would be reasonable to assume that if all the municipalities in the county levied a tax of 3% the combined revenue in municipalities outside of Banner Elk would be slightly less than \$102,000 (Countywide minus Banner Elk minus rooms in unincorporated areas). This estimate includes Beech Mountain, which already has occupancy tax authority, but did not report any occupancy tax revenue in FY 1998-99 or FY 1999-00.

Cabarrus County: Currently Cabarrus County levies a room tax of 5%. The bill increases the maximum rate to 6% and conforms administrative provisions of the previous law to the standards used by the House Finance Committee. Using the 1999-00 county collections and the growth rates noted above creates the following expected revenue stream from the additional 1% tax.

2001-02	2002-03	2003-04	2004-05	2005-06
123,846	126,323	128,849	134,003	139,363

Note: All FY 2001-02 estimates assume a December 1, 2001 effective date.

Note: Occupancy tax receipts are volatile. While these revenues increase over time local governments can see significant year-to-year variation due to economic and other factors.

FISCAL RESEARCH DIVISION 733-4910

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