

Local Government Revenue Sources in North Carolina

Kara A. Millonzi

*The focus of this guide is to present
the array of general revenue
options legally available to local
government officials in North
Carolina to fund their desired
mix of services and activities.*



About the Series

Local Government Board Builders offers local elected leaders practical advice on how to effectively lead and govern. Each of the booklets in this series provides a topic overview, specific tips on effective practice, and worksheets and reflection questions to help local elected leaders improve their work. The series focuses on common activities for local governing boards, such as selecting and appointing committees and advisory boards, planning for the future, making better decisions, improving board accountability, and effectively engaging stakeholders in public decisions.

Vaughn Mamlin Upshaw, lecturer in public administration and government at the UNC School of Government, is the series editor.

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Introduction

One major responsibility for a local governing board is to identify, and generate or obtain, sufficient revenue to cover the costs of the services it wishes to provide for its citizens. Counties legally are required to provide for and fund (at least a portion of) certain state-mandated activities, including public schools, social services programs, mental health programs, courts, jail facilities, registers of deeds, and building code enforcement. But counties also are authorized to provide many other services, ranging from zoning and land use planning to water and sewer utilities, recreation and cultural activities, economic development activities, and beyond. Municipalities legally are required to provide only a single service: building code enforcement. Like counties, though, municipalities are authorized to provide a wide array of services. In fact, with a few notable exceptions, counties and municipalities legally are authorized to provide, and fund, most of the same services. The actual mix of services that any single government chooses to offer, however, varies significantly across the state and depends on a number of factors.

Some municipalities, for example, incorporate only to avoid annexation by another municipality. These units typically provide only a bare minimum level of services. Many municipalities, however, provide an ever-increasing number of services for the benefit of their citizens. In fact, municipalities typically provide high levels of some services that are needed in more congested or urban areas, such as fire protection, law enforcement, solid waste collection, water and sewer services, and street maintenance. Other municipalities provide a mix of services that reflect their unique geographical, cultural, and socioeconomic nature. And most municipalities take an active role in regulating and directing land use and development.

With respect to counties, some limit their role to essentially functioning as an arm of the state, providing only state-mandated services. These services, particularly education, health, and welfare services, generally are needed by citizens in both urban and rural areas. Many counties, though, provide at least some additional services, and several provide many of the same services in unincorporated areas as municipalities provide in incorporated areas.

No matter where a unit of government falls on the service-providing spectrum, it is important for local elected officials to understand the full range of available revenue-raising mechanisms. This guidebook provides a survey of the general revenue sources available to local governments in North Carolina. Which funding mechanism(s) a local government chooses has very different legal implications as to who can be charged and what procedures must be followed. If a local government unit chooses to fund its services through a property tax, for example, then tax-exempt entities, such as religious organizations, state agencies, educational institutions, and federal facilities, typically are not obligated to pay. Furthermore, there may be restrictions on the tax rate and, under certain circumstances, a voter approval requirement. On the other hand, if a user fee approach is used, the rate structure must be reasonable and bear some relationship to the service being provided to each individual user.

How to Use This Guidebook

The guidebook is intended as a general overview of basic information about each of the major revenue sources. Specifically, for each revenue source the guidebook identifies the type of local government (county, municipality, or both) authorized to employ the revenue-raising mechanism, specifies any special eligibility or procedural requirements, and describes generally for what purposes the revenue may be expended. The proceeds of many revenue sources may be used for any authorized public purpose. That means that a unit may use the revenue to fund any services, projects, and activities that benefit the unit's citizens generally and in which the

Public Purpose Limitation

Article V, Section 2(1), of the North Carolina Constitution states that "[t]he power of taxation shall be exercised . . . for public purposes only." Although the quoted language speaks of the "power of taxation," the North Carolina courts have interpreted the reach of this constitutional provision much more broadly. The basic limitation governs the use of all revenues of a local government, no matter what their source.

The public purpose limitation requires that all local government revenues be spent for the benefit of a unit's citizens generally and not for the sole benefit of any single individual or entity.

That does not mean that an individual citizen or entity cannot directly benefit from the expenditure of public funds, but any individual benefit must be secondary to the benefit that inures to the unit's citizens generally. For example, the North Carolina Supreme Court has upheld against a public purpose challenge the use of local government revenues to make cash grants and provide other incentives to corporate and industrial entities for the purpose of economic

(continued on page 3)

development. According to the court, although the individual corporations receiving economic development incentives directly benefit, that benefit is secondary to the broader benefit to the unit (in the form of increased tax base, increased job opportunities, and increased growth) from economic development.

Note that simply because a proposed expenditure of local government revenues satisfies the public purpose requirement does not mean that a local unit may expend the funds for that purpose. A local government must also have statutory authority to expend public funds on a particular service, project, or activity. Thus the general requirement is that, absent specific earmarks on particular revenue sources, funds may be spent for any authorized public purpose.

ing strategy must meet its needs in terms of revenue generation and be consistent with the community's perceptions and resources. Thus there are a number of nonlegal considerations that local officials must factor into determining the appropriate revenue mix for their jurisdictions. Such considerations include, but are not limited to, how much money a revenue source is likely to raise and its ease of administration; the degree of control over the amount and timing of a revenue source that may be exercised by the governing board; the stability of the revenue source, as well as its potential for growth over time; the equity or fairness (who pays) of the revenue source; whether it is progressive or regressive; and its political feasibility.

unit has statutory authority to engage. Some revenue sources, however, are statutorily restricted for expenditure only for certain, limited purposes.

This guidebook does not detail all of the legal requirements or mechanics of employing each revenue source. Governing board officials should consult local counsel, staff members, or other experts for more specific information about each revenue source, including statutory requirements, limitations, and procedures. Additional UNC School of Government resources also are available and are listed in Appendix 1.

Nonlegal Considerations

As a threshold matter, a local government must possess the legal authority to employ a particular revenue-raising mechanism. That authority generally derives from the North Carolina General Assembly, in the form of general laws (applicable to all local governments or, at least, all local governments of a particular type) or local laws (applicable to only one or a few jurisdictions).

Once a local governing board determines that it has legal authority to employ a particular combination of revenue sources, the inquiry does not end; it is only the beginning. A governing board's financ-

These factors vary across the available revenue categories. For example, a particular funding source may generate a significant amount of revenue and be relatively easy to administer, but it may not be perceived as fair or equitable and thus may not be politically feasible. Another revenue source may distribute the cost burden equitably, and may even provide an incentive for individuals to conserve limited government resources, but it may not be stable or sustainable over time.

Understanding the policy or strategic implications of a particular revenue source is equally as important as knowing its legal requirements and restrictions. Local government officials need to be familiar with both the legal and practical differentiations among the various funding mechanisms and select the appropriate mix of funding sources.



WORKSHEET: *Questions for Discussion*

What services or programs does your local government provide that are required by law?
What optional services or programs does your local government provide?

What are your board’s revenue generation goals? For example, which of the “nonlegal” considerations (revenue maximization, equity, stability, growth, control, and so forth) is most important to you? Which is least important?
