

## County and Municipal Revenues Knowledge Check

### I. What recommendations would you make to your elected officials about the following proposed actions?

- (1) The county levies a 3 percent occupancy tax, pursuant to local legislation, on all motels and hotels located within the county. A national hotel chain recently opened a brand new hotel and conference facility in one of the towns located in the county. It is the first hotel located in that town and is expected to generate a significant amount of revenue from hosting national conferences. The town's governing board would like to tap into some of that revenue by enacting its own 3 percent occupancy tax. Can the town do so because it is located in a county that has received authorization to levy the occupancy tax?

No. Each local government must obtain specific authority to levy an occupancy tax from the General Assembly, pursuant to a local act.

- (2) Several town officials would like to provide a property tax break to certain low income residents located within the town. They propose the following new policy regarding property valuations in the town: Any residential property owner that earns an annual income of less than \$15,000 shall have his or her property valued at 70 percent of its actual market value for purposes of assessing the town's property tax rate against the property. Can the town adopt the proposed policy?

No. A local government may not exempt, classify, or otherwise give a tax preference to property within its jurisdiction. Only the General Assembly may authorize exemptions and classifications of property for tax purposes, and such exemptions and classifications must apply on a statewide basis.

- (3) Several newly elected county commissioners propose to impose two taxes on motor vehicles. First, they would like to enact a 1.5 percent gross receipts tax on the lease or rental of vehicles within the county. Second, they would like to enact a \$10.00 per vehicle tax on all vehicles that are registered in the county. Can the county assess these taxes? (Note that neither the county, nor any municipality within the county, operates a public transportation system.)

The county may assess up to a 1.5 percent gross receipts tax on the lease or rental of vehicles within the county. It may not assess a \$10.00 per vehicle tax on all vehicles registered in the county. A city has authority to levy up to a \$5.00 per vehicle tax. (A city also may levy up to \$5.00 additional tax if it operates a public transportation system.) A

county does not have authority to levy a vehicle tax for general purposes. If a county, or at least one municipality located within a county, operates a public transportation system, the county may impose a registration tax of up to \$7.00 per year on any vehicle located within the county.

- (4) A densely populated village has built up a reserve of Motor Fuels Tax (Powell Bill) revenue over the past three years because it has not had many street repair projects. The village manager suggests to the village board that it use some of its excess Powell Bill revenue to pay for a new garbage truck that will be used to collect garbage along the city streets (thus, keeping the streets clean) instead of raising the property tax rate to cover this expenditure. Can the village use the Powell Bill revenue for this purpose?

A city only may use its Motor Fuels Tax (Powell Bill) revenue for the purposes set forth in the statute. Specifically, it may only use the funds for maintaining, repairing and constructing streets or thoroughfares, including bridges, drainage, curbs and gutters, sidewalks and other necessary appurtenances to streets, including sidewalks. It may not use the revenue to purchase a garbage truck, even though the garbage truck will be used to keep the city streets clean. (Note that additional guidance on both permissible and impermissible Powell Bill expenditures is available at [http://www.ncdot.org/financial/fiscal/ExtAuditBranch/Powell\\_Bill/PowellBillExpenditureGuidance.pdf](http://www.ncdot.org/financial/fiscal/ExtAuditBranch/Powell_Bill/PowellBillExpenditureGuidance.pdf).)

- (5) The city provides building inspections and charges a nominal fee for building and occupancy permits; the revenue generated does not cover all the costs of the *regulatory* building inspections program. One city official suggests that the city raise the permit fees to cover all the costs associated with its inspections program, including salaries, benefits, supplies, equipment and miscellaneous expenses. A second city official proposes that instead of just covering the costs of the building inspections program, the fees should be raised high enough to generate additional revenue for the general fund. Can the city raise the fees to cover the costs of the regulatory program? Can the city raise the fees so as to generate a “profit” over and above amount needed to cover the costs of the regulatory program?

Regulatory fees are assessed to cover the costs of certain regulatory activities performed by a local government. Regulatory fees must be reasonable and likely may not exceed the cost of providing the regulatory activity. Therefore, the city may raise the fees to cover the costs of the building inspections program, but it may not increase the fees so as to generate a “profit.”

- (6) The city owns and operates a water distribution system. It sets rates to roughly cover the costs of operating the system. The governing board wants to increase the rates charged to non-resident customers (customers who reside outside the city's borders) to 300 percent of the rates charged to resident customers for this *public enterprise* service. Is such a rate change lawful?

Yes. A city is specifically authorized to charge a higher fee to non-resident customers than to resident customers. There are no restrictions on the amount of the fee charged to non-resident customers.

- (7) Several county residents of a subdivision located in an affluent part of the county would like the county to build an elementary school building adjacent to the subdivision. The residents are willing to pay at least a portion of the cost of building the school directly. May the county set up a service district to impose an additional property tax on these residents to fund the school?

No. School construction is not one of the authorized purposes for a county service district.

- (8) The town is located in a *dry county* (a county that does not allow the sale of alcoholic beverages within its borders), but the town does allow the sale of beer, fortified wine and unfortified wine within the town. A councilmember has proposed encouraging all grocery and convenience stores located within the town to sell beer and wine in order to increase the proceeds from the state excise tax that are shared with the town. Is the town eligible to receive beer and wine tax revenue? If so, will the town's share of the revenue increase if more beer and wine is actually sold in the town?

The town is eligible to receive beer and wine tax revenue even though it is located in a dry county, as long as the town's residents have voted to authorize the sale of the alcoholic beverages within the town. The town's share of the revenue will not increase if more beer and wine is actually sold in the town, because the proceeds are distributed on a per capita basis.

- (9) The village assesses an annual animal licensing tax on all dogs and cats that are kept as pets in the village. The tax is \$20 per spayed/neutered animal and \$30 per animal that is not spayed/neutered. The income generated by the tax typically is around \$4500 per year. Staff members suggest that the village council use this money to fund a village festival this year in order to improve community moral during these tough economic times. The

mayor objects, claiming that the monies generated by the animal tax must be used to support the village's animal control program. Is the mayor correct?

**No. Animal tax proceeds may be used for any public purpose in which the village is authorized to engage.**

- (10) The city manager proposes a creative way to increase revenue to the general fund. She would like to allocate all the interest earned on public enterprise moneys, invested or held on deposit, to cover general fund expenses. Has she come up with a good proposal?

**No. G.S. 159-30 requires that the interest earned on deposits and investments be credited to the fund whose cash is deposited or invested.**

- (11) The county currently levies 2 cents in local sales and use taxes. The county allocates the tax proceeds among it and its three incorporated municipalities on a per capita basis. The county commissioners are considering levying an additional quarter cent sales and use tax. What process must the board use to levy the tax? If the board levies the tax, must it share the proceeds with municipalities on a per capita basis?

**See G.S. Ch. 105, Art. 46 for process. The tax must first be approved in a voter referendum. A county is not required or authorized to share proceeds with municipalities.**

- (12) Looking for ways to increase revenue, several county commissioners proposed charging a \$1200 fee every time the county's fire department responds to a motor vehicle crash. The fee will be assessed on the insurance companies of the motorists involved in the crash. Revenue will be used to offset the costs of maintaining the fire department.

**No. There is no statutory authority under general law for a local government to charge a fee for fire response services.**

- (13) The village is looking for a way to fund sidewalk installations in the downtown area. The board decides that the best way to fund the project is to impose a special assessment on the properties that will abut the sidewalk project. The assessments will be based on linear feet that abut the sidewalk. Can the board impose the assessments over the objection of the affected property owners?

**Yes. But in order to impose special assessments for sidewalks, the board must first receive a petition signed by a majority of the owners of property to be assessed representing at least 50% of the value of the property to be assessed.**