



UNC
SCHOOL OF GOVERNMENT

A GUIDE TO COUNTY AND MUNICIPAL REVENUES IN NORTH CAROLINA

By Kara A. Millonzi, Associate Professor of
Public Law and Government

School of Government

The University of North Carolina
at Chapel Hill

August 2018

A Guide to County and Municipal Revenues in North Carolina

I am in the process of revising this publication, which was last updated in August 2018. The new publication will not be available prior to the Revenues session in Introduction to Local Government Finance held on August 30, 2022.

I have inserted slipsheets at various points in this publication to note recent statutory updates and provide other helpful information. Where you see three red asterisks (***) in this document, a slipsheet with more information follows. This is not a comprehensive update of this Guide, but is intended to assist in providing updated information.

Please feel free to call or e-mail me if you have any questions about these changes.

Connor Crews
ccrews@sog.unc.edu
(919) 962-1575

TABLE OF CONTENTS

| | |
|---|-----------|
| Introduction | 3 |
| I. Local Revenue Sources..... | 4 |
| A. Available to Both Municipalities and Counties..... | 4 |
| <i>PROPERTY TAX (AD VALOREM TAX).....</i> | <i>4</i> |
| <i>SERVICE DISTRICTS</i> | <i>6</i> |
| <i>BUSINESS REGISTRATION FEES</i> | <i>7</i> |
| <i>BEER AND WINE LICENSE TAXES</i> | <i>7</i> |
| <i>RENTAL CAR GROSS RECEIPTS TAXES.....</i> | <i>7</i> |
| <i>ANIMAL TAXES</i> | <i>8</i> |
| <i>GENERAL USER FEES.....</i> | <i>8</i> |
| <i>PUBLIC ENTERPRISE FEES.....</i> | <i>9</i> |
| <i>REGULATORY FEES</i> | <i>11</i> |
| <i>STATUTORY FEES.....</i> | <i>11</i> |
| <i>FRANCHISE FEES.....</i> | <i>12</i> |
| <i>SPECIAL ASSESSMENTS.....</i> | <i>13</i> |
| <i>CRITICAL INFRASTRUCTURE ASSESSMENTS</i> | <i>14</i> |
| <i>SHORT-TERM HEAVY EQUIPMENT RENTALS TAX</i> | <i>16</i> |
| <i>OCCUPANCY TAXES (LOCAL ACT REQUIRED).....</i> | <i>17</i> |
| <i>PREPARED FOOD TAXES (LOCAL ACT REQUIRED)</i> | <i>18</i> |
| <i>LOCAL REAL ESTATE TRANSFER TAX (LOCAL ACT REQUIRED).....</i> | <i>18</i> |
| <i>IMPACT FEES (LOCAL ACT REQUIRED).....</i> | <i>18</i> |
| B. Available to Municipalities Only..... | 19 |
| <i>MOTOR VEHICLE LICENSE TAXES.....</i> | <i>19</i> |
| C. Available to Counties Only..... | 20 |
| <i>LOCAL SALES AND USE TAXES</i> | <i>20</i> |
| <i>TRANSPORTATION SALES AND USE TAX</i> | <i>22</i> |
| <i>COUNTY VEHICLE REGISTRATION TAX</i> | <i>23</i> |
| II. State / County Shared Revenue Sources | 24 |
| A. Available to Both Municipalities and Counties..... | 24 |
| <i>BEER & WINE TAXES.....</i> | <i>24</i> |
| <i>VIDEO PROGRAMMING SERVICES TAXES.....</i> | <i>25</i> |
| <i>SOLID WASTE TIPPING TAX</i> | <i>26</i> |
| <i>911 CHARGE.....</i> | <i>27</i> |
| B. Available to Municipalities Only | 29 |
| <i>LOCAL SALES AND USE TAXES</i> | <i>29</i> |
| <i>TRANSPORTATION SALES AND USE TAX</i> | <i>30</i> |

| | |
|--|----|
| <i>ELECTRIC TAX</i> | 31 |
| <i>TELECOMMUNICATIONS TAX</i> | 32 |
| <i>PIPED NATURAL GAS TAX</i> | 33 |
| <i>MOTOR FUELS TAX (POWELL BILL FUNDS)</i> | 33 |
| C. Available to Counties Only | 35 |
| <i>STATE REAL ESTATE TRANSFER TAX</i> | 35 |
| <i>DISPOSAL TAXES</i> | 35 |
| III. Other Revenue Sources | 37 |
| A. Available to Municipalities and Counties | 37 |
| <i>ABC STORE REVENUE</i> | 37 |
| <i>INVESTMENT INCOME</i> | 37 |
| <i>PAYMENT IN LIEU OF TAXES (PILOT)</i> | 37 |
| <i>RENTAL INCOME</i> | 38 |

INTRODUCTION

One major responsibility for a county or municipality is to obtain sufficient revenue to cover the costs for the services it wishes to provide. Some local governments chose to provide the bare minimum in services and rely on the property tax and various federal, state (or county) shared revenues to fund the services. Many local governments, however, are providing an ever-increasing number of services to their citizens. For these units, it is important to understand the full range of revenue-raising mechanisms available to fund the programs and activities.

This publication summarizes the legal framework governing the principal revenue sources available to local governments in North Carolina. For each revenue source, it first classifies the revenue-raising mechanism as a (a) local revenue source, (b) federal-, state- or county-shared revenue source, or (c) miscellaneous revenue source. A local revenue source is revenue from a tax or fee that a unit's governing board assesses. Counties and municipalities are not required to levy any local tax or assess any fee, but county and municipal officials have an array of local option revenue sources. Federal-, state- or county-shared revenue derives from taxes or fees levied or assessed by another governmental unit, the proceeds of which are shared with the county or municipality. Counties or municipalities often have to meet special eligibility requirements to receive shared revenue. Miscellaneous revenue sources are those that do not precisely fit into either of the first two categories. The publication also identifies the type of local government (county or municipality) authorized to levy the tax or assess the fee, outlines the mechanics of raising the revenue, specifying any special eligibility requirements, and describes any restrictions on the use of the proceeds. Finally, it lists the applicable constitutional, statutory,¹ and case law citations.

The publication serves as a quick reference guide to the basic legal authority for general county and municipal revenue sources.² As such, it does not detail all of the procedural requirements for each revenue-raising mechanism. Local government officials should review the applicable constitutional, statutory and case law citations and consult with local legal counsel before levying or assessing a particular tax or fee.

¹ All references to the North Carolina General Statutes are in the form of G.S., followed by the chapter and article or section number.

² Note that the General Assembly may enact local acts in individual counties and municipalities that either modify general law provisions relating to revenue sources or authorize additional revenue-raising mechanisms. With a few exceptions, this publication does not address these modifications or additional revenue sources.

I. LOCAL REVENUE SOURCES

a. AVAILABLE TO BOTH MUNICIPALITIES AND COUNTIES

PROPERTY TAX (*AD VALOREM* TAX)

1. BASIC LEGAL REQUIREMENTS:

- A county's or municipality's governing board is authorized to adopt a property tax, also known as the *ad valorem* tax, that is levied against the real and personal property within its jurisdiction.
 - The property tax rate must be uniform throughout the county's or municipality's jurisdiction (with the exception of service districts). (*N.C. Const. Art. V, Sect. 2(5)*).
 - The General Assembly may exempt or classify property for tax purposes, but such exemptions and classifications must apply on a statewide basis. (*The constitutional authority for exemption and classification is Article V, sections 2(2) and 2(3). The statutes implementing that authority are found at G.S. 105-275 through 105-278.9*).
 - A county or municipality may not exempt, classify, or otherwise give a tax preference to property within its jurisdiction.
 - Once adopted, the property tax rate may not be altered during the fiscal year, except under limited circumstances. (*G.S. 159-15*).
- A county or municipality is not required to levy a property tax, but it is required to adopt a balanced budget each fiscal year, whereby the sum of estimated net revenues and appropriated fund balance is equal to appropriations in each fund.
 - To the extent that a unit's estimated revenue from sources other than the property tax plus appropriated fund balance do not equal appropriations, a unit must levy a property tax at a sufficient rate to balance the budget. (*G.S. 159-13(c)*).
- Calculating the Property Tax Rate:
 - Determine the amount of property tax revenue that must be collected to balance the budget, considering estimated expenditures and the amount of money that other revenue sources are likely to yield (e.g. \$250,000);
 - Determine the property tax collection percentage of the previous fiscal year (e.g. 96%);
 - Divide the estimated total required property tax revenue by the property tax collection percentage for the previous fiscal year (e.g. $\$250,000 / 0.96 = \$260,416.67$)

- Divide the resulting figure by the total taxable valuation for the jurisdiction (*e.g.* taxable valuation = \$1,000,000; $\$260,416.67 / \$1,000,000 = 0.2604$);
- Multiply the resulting figure by 100 to get the tax rate (*e.g.* $0.2604 * 100 = 26$ cents per \$100 valuation).

2. RESTRICTIONS ON USE OF PROCEEDS:

- There is an indirect restriction on the use of property tax proceeds. The General Assembly has divided local government activities into three groups for purposes of expending property tax revenue. The statutes place each function of county or municipal government into one of the three groups, and a unit's legal capacity to levy property taxes and expend the proceeds differs as to each group. (*G.S. 153A-149 (counties); G.S. 160A-209 (municipalities)*).
 - For Group I Activities, a unit may levy property taxes without voter approval and without restriction on the property tax rate. There are very few activities included in Group I.
 - For municipalities, the most important activity is debt service on general obligation debt.
 - For counties, Group I activities include the most important state-mandated activities, such as courts, elections, jails, social services, and public schools, as well as debt service on general obligation debt.
 - For Group II Activities, a unit may levy property taxes without voter approval but subject to an overall rate limitation on taxes for activities within the group of \$1.50 per \$100 valuation.
 - A unit may modify this limit in two ways—it may conduct a referendum to raise the limitation amount above \$1.50, or it may conduct a special referendum to approve a tax for any activity within Group II. If a tax is approved by the voters for a specific activity it does not count against the \$1.50 limitation.
 - Group II Activities include most county or municipal activities that are not otherwise listed in Group I.
 - For Group III Activities, a unit may not levy property taxes to fund these activities unless it receives voter approval.
 - Group III activities include any activities that are not otherwise listed in Groups I or II.

SERVICE DISTRICTS

1. BASIC LEGAL REQUIREMENTS:

- A municipality's or county's governing board is authorized to impose an additional property tax (*ad valorem* tax) in a defined area within its jurisdiction to provide certain services if:
 - the governing board makes statutorily required findings; and
 - if the area needs the services "to a demonstrably greater extent" than the rest of the municipality or county or if the services are not provided at all in the rest of the municipality or county. (*N.C. Const., Art. V, Sect. 2(4); G.S. 153A-302 (counties); G.S. 160A-537 (municipalities)*).
- The tax rate imposed, when combined with the unit's general tax rate may not exceed the \$1.50 per \$100 valuation limitation, unless specifically approved by a majority of voters in the district.
- The following chart details the purposes for which service districts may be created:

| Purposes for which Service Districts may be Created: | |
|---|--|
| Counties*** | Municipalities³ |
| • Beach erosion and flood and hurricane protection works | • Beach erosion control and flood and hurricane protection works |
| • Fire protection | • Downtown revitalization projects |
| • Recreation | • Urban area revitalization projects |
| • Sewage collection and disposal systems of all types | • Transit-oriented development projects |
| • Solid waste collection and disposal systems | • Sewage collection and disposal systems of all types |
| • Water supply and distribution systems | • Drainage projects |
| • Ambulance and rescue | • Off-street parking facilities |
| • Watershed improvement projects | • Watershed improvement projects |
| • Cemeteries | |

- No voter approval is required before levying an additional property tax within a service district, but the governing board must hold a public hearing and satisfy certain notice requirements.

³ There are additional services for which districts may be established in certain municipalities. See G.S. 160A-536.

Service Districts

Counties may also create a service district to fund law enforcement where (1) the population is greater than 900,000 as of the most recent federal decennial census, (2) less than ten percent of the county lives in an unincorporated area of the county, and (3) the county has one or more interlocal agreements with a municipality in the county to provide law enforcement services in the unincorporated area of the county. *See* [G.S. § 153A-301\(a\)\(10\)](#).

- Once a service district is established, services must be provided, maintained, or contracts let within a reasonable time, not to exceed one year. There are special contracting requirements that apply to municipal service districts for downtown and urban area revitalization.

2. RESTRICTIONS ON USE OF PROCEEDS:

- The proceeds of the additional property tax levied in a service district must be used to support the particular service within the district that the tax was levied to fund.

BUSINESS REGISTRATION FEES

1. BASIC LEGAL REQUIREMENTS:

- A county and municipality may “regulate and license occupations, businesses, trades, professions, and forms of amusement or entertainment and prohibit those that may be inimical to the public health, welfare, safety, order, or convenience.” (G.S. 153A-134 (counties); G.S. 160A-194 (municipalities))
 - A local unit may charge a reasonable regulatory fee to obtain the license. The aggregate proceeds generated from the fee may not exceed the aggregate costs of the licensing program.

2. RESTRICTIONS ON USE OF PROCEEDS:

- The proceeds may be used for any public purpose.

BEER AND WINE LICENSE TAXES***

1. BASIC LEGAL REQUIREMENTS:

- Any person who holds a retail ABC permit for an establishment located within a municipality must obtain a license from the city and pay a corresponding tax.***
- The current tax amounts are set by statute in G.S. 105-113.77 (municipalities) and G.S. 105-113.78 (counties).

RESTRICTIONS ON USE OF PROCEEDS:

- The proceeds may be used for any public purpose.

RENTAL CAR GROSS RECEIPTS TAXES

1. BASIC LEGAL REQUIREMENTS:

- Municipalities and counties may levy a gross receipts tax on the short-term lease or rental of vehicles at retail to the general public. (G.S. 160A-215.1 (municipalities); G.S. 153A-156 (counties)).***
 - The tax rate cannot exceed 1.5%.

Beer and Wine License Taxes

Header

In March 2019, the General Assembly replaced references to “beer” in the State’s revenue statutes with “malt beverage.” See [S.L. 2019-6, Sections 4.4-4.8](#). Therefore, the “beer and wine license taxes” are now “malt beverage and wine license taxes.”

Basic Legal Requirements

Effective as of October 1, 2021, the Town of Cary may decline to require a person who receives a retail ABC permit to obtain a corresponding local malt beverage and wine license. See [G.S. § 105-113.71\(c\)](#); [S.L. 2021-150, Section 4.3](#). The Town of Cary is the only municipality with this option.

Rental Car Gross Receipts Taxes

Basic Legal Requirements

A “short-term lease or rental” is a lease or rental of a motor vehicle that (i) is provided under a written agreement for a period of less than 365 continuous days, and (ii) is not a “vehicle subscription” (i.e., it does not grant a person the right to use and exchange an agreed-upon number of motor vehicles at any given time during the full term of the subscription upon payment of a subscription fee).¹

A “short-term lease or rental” would not encompass a ride-sharing service like Uber or Lyft.

¹ See [G.S. § 153A-156\(e\)\(1\)](#) and [G.S. § 160A-215.1\(e\)\(1\)](#) (noting that for purposes of the county and municipal taxation statutes, “short-term lease or rental” has the meaning in [G.S. § 105-187.1](#)); see also G.S. § 105-187.1(a)(7) (defining “short-term lease or rental”); G.S. § 105-187.1(a)(3) (defining “long-term lease or rental”); G.S. § 105-187.1(a)(9) (defining “vehicle subscription”).

2. RESTRICTIONS ON USE OF PROCEEDS:

- The proceeds may be used for any public purpose.

ANIMAL TAXES

1. BASIC LEGAL REQUIREMENTS:

- An animal tax is a tax on the privilege of keeping an animal within the jurisdiction.
 - Municipalities may impose an annual license tax on the owner of any domestic animals, including dogs and cats. (*G.S. 160A-212*).
 - Counties may impose an annual license tax on the owner of any dogs or other pets. (*G.S. 153A-153*).
 - The tax rates may vary based on the sex of the animal or whether or not the animal has been spayed or neutered.

2. RESTRICTIONS ON USE OF PROCEEDS:

- The proceeds may be used for any public purpose.

GENERAL USER FEES

1. BASIC LEGAL REQUIREMENTS:

- User fees are charges assessed for the voluntary receipt of certain government services or the use of certain government facilities.
- Typically, there are no restrictions on the amounts that may be assessed as user fees.
- Common local government services funded (at least in part) through user fees include
 - Recreation and Cultural Activities
 - There is no specific authority to charge user fees for recreational or cultural activities, but there likely is implicit authority to charge the fees pursuant to the statutory authority to provide the services. (*G.S. 160A-353*).
 - Note, however, that a local government cannot charge for the use of a public library. (*G.S. 153A-264*)
 - Ambulances (*G.S. 153A-250(b) & (c)*).
 - Art Galleries and Museums
 - There is no specific authority to charge user fees but there may be implicit authority to charge the fees pursuant to the statutory authority to provide the services. (*G.S. 160A-488*)

- Auditoriums, Coliseums and Convention Centers
 - There is no specific authority to charge user fees but there may be implicit authority to charge the fees pursuant to the statutory authority to provide the services. (*G.S. 160A-489*).
- Airports (*G.S. 63-53(5)*).
 - Note that there also is authority to charge user fees for airports under the public enterprise statutes.
- Cemeteries (municipalities only) (*G.S. 160A-348*).
- Certain Public Health Services (*G.S. 130A-39(g)*).
- Certain Mental Health Services (*G.S. 122C-146*).
- On- and Off-Street Municipal Parking (*G.S. 160A-301*).

2. RESTRICTIONS ON USE OF PROCEEDS:

- Public health and mental health fees are earmarked for public health or mental health purposes, respectively.
- Proceeds from municipal on-street parking fees (from parking meters) must be used “to defray the cost of enforcing and administering traffic and parking ordinances and regulations.”
- Generally, the proceeds from other user fees may be used for any public purpose.

PUBLIC ENTERPRISE FEES

1. BASIC LEGAL REQUIREMENTS:

- A public enterprise is an activity of a commercial nature that could be provided by the private sector.

- The following chart details the services counties and municipalities are authorized to provide as public enterprises:

| Authorized Public Enterprise Services: | |
|--|--|
| Counties | Municipalities |
| • Water supply and distribution | • Electric power generation, transmission, distribution |
| • Wastewater collection, treatment and disposal (including septic systems) | • Water supply and distribution |
| • Solid waste collection and disposal systems and facilities | • Wastewater collection, treatment and disposal (including septic systems) |
| • Airports | • Gas production, storage, transmission and distribution |
| • Off-street parking facilities | • Public transportation systems |
| • Public transportation systems | • Solid waste collection and disposal systems and facilities |
| • Stormwater management systems | • Cable television systems |
| | • Off-street parking facilities |
| | • Airports |
| | • Stormwater management systems |

- Subject to a few restrictions, a local government has broad discretion in setting rates, rents, charges, fees, and penalties (collectively, fees) for public enterprise services as long as the fees are not arbitrary or discriminatory. *G.S. 160A, Art. 16 (municipalities); G.S. 153A, Art. 15 (counties)*.
 - Public enterprise fees may vary based on different classes of services provided by the unit.
 - Local governments may not vary rates unless there is a valid, utility based reason for doing so. For example, units may not provide lower rates for senior citizen customers or low income customers because varying the rates in this manner is not supported by a valid, utility based rationale.
 - Different rates may be assessed for public enterprise services furnished outside the unit’s territorial boundaries.
 - There are fewer restrictions on rates set for services provided outside the unit’s territorial boundaries.
 - A local government has limited authority to assess upfront charges for water and sewer services (ie. System development fees, tap/hook-up fees, etc.)
- There are special statutory restrictions on fees assessed for stormwater management systems and solid waste collection and disposal systems.
 - Generally, these fees may not exceed the costs of providing the services.

2. RESTRICTIONS ON USE OF PROCEEDS:

- All public enterprise fee revenue must be used to cover public enterprise expenses first, including capital and operating costs and debt service obligations. (*G.S. 159-13*)
 - Generally, after all public enterprise expenses are covered (including debt service payments and capital reserves), the remaining revenue may be transferred to the General Fund to use for any public purpose.
 - The fees for stormwater and certain solid waste services may not exceed the costs of providing those services. Thus, revenue generated from these services may not be transferred to the General Fund.

REGULATORY FEES

1. BASIC LEGAL REQUIREMENTS:

- Regulatory fees are assessed to cover the costs of certain regulatory activities performed by counties or municipalities.
 - There is no explicit authority for municipalities to assess certain types of regulatory fees, but the authority has been implied by the power of the local unit to engage in the regulatory activity. (*Homebuilders Ass'n of Charlotte v. City of Charlotte*, 336 N.C. 37, 442 S.E.2d 45 (1994)).
 - Regulatory fees must be reasonable and may not exceed the costs of funding the regulatory activity.
 - Counties have explicit authority to charge fees for the performance of services or duties required by law, including regulatory duties (*G.S. 153A-102*).
- A county and municipality is specifically authorized to charge reasonable fees for the issuance of permits, inspections, and other services of the inspection department. (*G.S. 153A-354 (counties); G.S. 160A-414 (municipalities)*).***

2. RESTRICTIONS ON USE OF PROCEEDS:

- Generally, the proceeds may be used for any public purpose.
- The proceeds from fees assessed by a local government's inspection's department must be used only "for support of the administration and activities of the inspection department."

STATUTORY FEES

1. BASIC LEGAL REQUIREMENTS:

- There are certain fees set by the General Assembly, including:
 - Judicial system fees (*See, e.g., G.S. 7A, Art. 28*).

Regulatory Fees

Basic Legal Requirements

G.S. § 153A-354 and G.S. § 160A-414 were repealed when the General Assembly enacted G.S. Chapter 160D in 2019. See [S.L. 2019-111, Section 2.2 and Section 2.3](#). The corresponding provision in G.S. Chapter 160D is located in [G.S. § 160D-402\(d\)](#).

Restrictions on Use of Proceeds

[G.S. § 160D-402\(d\)](#) permits local governments (both cities and counties) to “fix reasonable fees for support, administration, and implementation of programs authorized by [Chapter 160D], and all such fees must be used for no other purposes.”

...

- Register of deeds fees (*G.S. 161-10*) (county only).
- Closing out sale license fees (*G.S. Ch. 66, Art. 17*).

2. RESTRICTIONS ON USE OF PROCEEDS:

- There may be certain statutory restrictions on the use of the proceeds.

FRANCHISE FEES

1. BASIC LEGAL REQUIREMENTS:

- Franchises are special privileges granted by local governments to engage in certain types of businesses.

Municipalities

- Municipalities have authority to grant franchises and charge franchise fees and/or taxes without limitation for the following purposes:

- Airports (*G.S. 160A-319; G.S. 160A-211****).
- Ambulance companies (*G.S. 153A-250; G.S. 160A-211****).
- Off-street parking facilities (*G.S. 160A-319; G.S. 160A-211****).
- Solid waste collection/disposal companies (*G.S. 160A-319; G.S. 160A-211****).

- *Note that a local government may not displace a private company that is providing collection services for municipal solid waste or recovered materials, except as provided in G.S. 160A-327.*

- Municipalities have authority to grant franchises and charge franchise fees and/or taxes with certain limitations for the following purposes:

- Taxicab companies (*G.S. 160A-304; G.S. 20-97; Victory Cab Co. v. City of Charlotte, 234 N.C. 572, 68 S.E.2d 433 (1951)*).***
- Water systems (*G.S. 160A-319; G.S. 105-116*).
- Sewer systems (*G.S. 160A-319; G.S. 105-116*).

- Municipalities have authority to grant franchises but NOT to charge fees or taxes for the following purposes:

- Electric companies (*G.S. 160A-319; G.S. 105-116*).
- Telecommunications (*G.S. 160A-319; G.S. 160A-211****).
- Natural gas taxed under Ch. 105, Art. 5E (*160A-319; G.S. 160A-211****).
- Video programming (*G.S. 160A-319; G.S. 160A-211****).

Franchise Fees

Basic Legal Requirements

References to G.S. § 160A-211 should be read as [G.S. § 160A-311](#).

Taxicab companies ([G.S. § 160A-304](#); G.S. 20-97; Victory Cab Co. v. City of Charlotte, 234 N.C. 572, 68 S.E.2d 433 (1951)). Municipalities have no authority to regulate or license a “TNC service” regulated under [Article 10A of Chapter 20 of the General Statutes](#). A “TNC service” is a statutorily defined term that would encompass online ride sharing services (e.g., Uber or Lyft). See G.S. § 20-280.1(5) (defining “TNC service”).

- Airport limousine services (*G.S. 63-2, 63-49, 63-50, 63-53, 62-260; Harrelson v. City of Fayetteville, 271 N.C. 87, 155 S.E.2d 749 (1967); Raleigh-Durham Airport Auth. v. Stewart, 278 N.C. 227, 179 S.E.2d 424 (1971); G.S. 20-97*).
- Bus companies (*G.S. 160A-319; G.S. 20-97*).

Counties

- Counties have authority to grant franchises and charge licensing fees for the following purposes:
 - Solid waste collection/disposal (*G.S. 153A-136*)
- Counties have authority to grant franchises but NOT to charge fees or taxes for the following purposes:
 - Airport limousine services (*G.S. 63-53; G.S. 63-57*)
 - Ambulance services (*G.S. 153A-250*)

2. RESTRICTIONS ON USE OF PROCEEDS:

- Generally, the proceeds may be used for any public purpose.

SPECIAL ASSESSMENTS

1. BASIC LEGAL REQUIREMENTS:

- Special assessments are levied against property to pay for certain public improvements that benefit that property. *G.S. 160A, Art. 10 (municipalities); G.S. 153A, Art. 9 (counties)*
- The following chart details the purposes for which special assessments may be levied:

| Special Assessments may be levied to finance the following public improvements: | |
|---|---|
| Counties⁴ | Municipalities |
| <ul style="list-style-type: none"> • Water systems | <ul style="list-style-type: none"> • Streets |
| <ul style="list-style-type: none"> • Sewage collection and disposal systems (including septic systems) | <ul style="list-style-type: none"> • Sidewalks |
| <ul style="list-style-type: none"> • Beach erosion control and flood and hurricane protection works; watershed improvement, drainage, and water resources development projects | <ul style="list-style-type: none"> • Water systems |
| <ul style="list-style-type: none"> • Local costs of improvements made by the Department of Transportation to subdivision and residential streets outside municipalities | <ul style="list-style-type: none"> • Sewage collection and disposal systems (including septic systems) |

⁴ Counties also may levy special assessments to finance annual maintenance and operating costs for beach erosion control or flood or hurricane protection projects.

| | |
|-------------------------------------|--|
| • Street lights and street lighting | • Storm sewer and drainage systems |
| | • Beach erosion control and flood and hurricane protection works |

- The amount of the assessment must be based on one or more of the methods specified by statute, such as front footage or area of the land served. (*G.S. 153A-185; G.S. 160A-218*).
- A governing board generally may levy a special assessment without receiving a petition or holding a referendum, but it must follow a detailed statutory process
 - Voter petitions are required for streets and sidewalks (municipalities) and subdivision streets and street lights (counties).
- The special assessment must be levied *after* the project is complete. The local government must front the costs of the project.
- The governing body may authorize the special assessment to be paid in up to 10 annual installments.

2. RESTRICTIONS ON USE OF PROCEEDS:

- Proceeds may be used for any public purpose.

CRITICAL INFRASTRUCTURE ASSESSMENTS***

1. BASIC LEGAL REQUIREMENTS

- A unit may levy critical infrastructure assessments against property that will be developed in order to fund public infrastructure projects that benefit the development. (*G.S. 160A, Art. 10A (municipalities); G.S. 153A, Art. 9A (counties)*)
- A local government may make critical infrastructure assessments against benefitted properties to finance the capital cost of projects for which project development financing debt instruments may be issued under G.S. 159-103 or for the purpose of financing the installation of distributed generation renewable energy sources or energy efficiency improvements that are permanently fixed to residential, commercial, industrial, or other real property.
- The following chart details the purposes for which critical infrastructure assessments may be imposed:

| |
|--|
| • Capital costs of providing airport facilities |
| • Capital costs of providing auditoriums, coliseums, arenas, stadiums, civic centers, convention centers, and facilities for exhibitions, athletic and cultural events, shows, and public gatherings |
| • Capital costs of providing hospital facilities, facilities for the provision of public health services, and facilities for care of the mentally retarded |
| • Capital costs of art galleries, museums, art centers, and historic properties |
| • Capital costs of on- and off-street parking and parking facilities, including meters |

| |
|---|
| buildings, garages, driveways, and approaches open to public use |
| <ul style="list-style-type: none"> • Capital costs of providing certain parks and recreation facilities, including land, athletic fields, parks, playgrounds, recreation centers, shelters, permanent and temporary stands, and lighting⁵ |
| <ul style="list-style-type: none"> • Capital costs of redevelopment through acquisition and improvement of land for assisting local redevelopment commissions |
| <ul style="list-style-type: none"> • Capital costs of sanitary sewer systems (including septic systems) |
| <ul style="list-style-type: none"> • Capital costs of storm sewers and flood control facilities |
| <ul style="list-style-type: none"> • Capital costs of water systems, including facilities for supply, storage, treatment, and distribution of water |
| <ul style="list-style-type: none"> • Capital costs of public transportation facilities, including equipment, buses, railways, ferries, and garages |
| <ul style="list-style-type: none"> • Capital costs of industrial parks, including land and shell buildings, in order to provide employment opportunities for citizens of a county or city |
| <ul style="list-style-type: none"> • Capital costs of property to preserve a railroad corridor |
| <ul style="list-style-type: none"> • Capital costs of providing community colleges facilities |
| <ul style="list-style-type: none"> • Capital costs of providing school facilities |
| <ul style="list-style-type: none"> • Capital costs of improvements to subdivision and residential streets, in accordance with G.S. 153A-205 |
| <ul style="list-style-type: none"> • To finance housing projects for persons of low or moderate income |
| <ul style="list-style-type: none"> • Capital costs of electric systems |
| <ul style="list-style-type: none"> • Capital costs of gas systems |
| <ul style="list-style-type: none"> • Capital costs of streets and sidewalks (including traffic controls and lighting) |
| <ul style="list-style-type: none"> • Capital costs of improving existing systems or facilities for transmission or distribution of telephone services |
| <ul style="list-style-type: none"> • Capital costs of projects that are authorized to be provided in a municipal service district ---providing or maintaining beach erosion control and flood and hurricane protection, downtown revitalization projects, urban area revitalization projects, drainage projects, sewage collection and disposal systems, off-street parking facilities, and watershed improvement projects⁶ |
| <ul style="list-style-type: none"> • Capital costs of beach erosion control of flood and hurricane protection works projects |
| <ul style="list-style-type: none"> • Capital costs of watershed improvement projects, drainage projects, and water resources development projects |
| <ul style="list-style-type: none"> • Capital costs of providing street lights and street lighting in residential subdivisions |
| <ul style="list-style-type: none"> • Installation of distributed generation renewable energy sources or energy efficiency improvements that are permanently fixed to residential, commercial, industrial, or other real property⁷ |

⁵ G.S. 159-103(a), as amended by S.L. 2007-395 (SB 1196), specifically exempts certain types of parks and recreation facilities—stadiums, arenas, golf courses, swimming pools, wading pools, and marinas.

⁶ Note that an actual service district does not need to be created.

⁷ Note that G.S. 153A-455 (counties) and G.S. 160A-459.1 (municipalities) authorize local governments to establish programs to finance the purchase and

- The amount of the assessments does not have to be based on any specific method, however, the governing board must select a basis that accurately assesses each lot or parcel of land according to the benefits conferred upon it by the project. The board may provide for adjustments of assessments based on a change in use of the property, but the total amount of all assessments must be sufficient to pay the costs of the project after any adjustments are made.
- The governing body may not levy critical infrastructure assessments without first receiving a petition signed by at least a majority of the owners of real property to be assessed and who represent at least 66 percent of the assessed value of all real property to be assessed.
- The critical infrastructure assessments may be imposed before the costs of the project are incurred by the unit, based on the governing board's cost estimates.
- The governing board may authorize critical infrastructure assessments to be paid in up to 25 annual installments.
- This authority expires on July 1, 2020.***

2. RESTRICTIONS ON USE OF PROCEEDS:

- The proceeds may be used for any public purpose.
 - Note, however, that the assessments may not exceed the total estimated cost of the project(s).

SHORT-TERM HEAVY EQUIPMENT RENTALS TAX

1. BASIC LEGAL REQUIREMENTS:

- Counties and municipalities may adopt resolutions imposing a quarterly tax on the gross receipts from the short-term lease or rental of heavy equipment by a person whose principal business is the short-term lease or rental of heavy equipment at retail.

installation of distributed generation renewable energy sources or energy efficiency improvements that are permanently affixed to residential, commercial, or other real property. These statutes authorize a local government to purchase and install the renewable energy sources or energy efficiency improvements, or contract for their purchase or installation, on private property. *Renewable energy source* is defined as "a solar electric, solar thermal, wind, hydropower, geothermal, or ocean current or wave energy resource; a biomass resource, including agricultural waste, animal waste, wood waste, spent pulping liquors, combustible residues, combustible liquids, combustible gases, energy crops, or landfill methane; waste heat derived from a renewable energy resource and used to produce electricity or useful, measurable thermal energy at a retail electric customer's facility; or hydrogen derived from a renewable energy resource." It does not include peat, a fossil fuel, or nuclear energy resource. *Energy efficiency improvements* are not statutorily defined.

Critical Infrastructure Assessments

The authority for municipalities to impose critical infrastructure assessments has been extended to July 1, 2026 for projects that have not been approved under a final assessment resolution. *See* G.S. § 160A-239.1(b); [S.L. 2020-58, Section 7.2](#).

The authority for counties to impose critical infrastructure has been extended to July 1, 2025 for projects that have not been approved under a final assessment resolution. *See* [G.S. § 153A-210.1\(b\)](#); [S.L. 2019-215, Section 3](#). For projects authorized under G.S. § 153A-210.2(a1) (relating to certain dam repair projects), the authority expired on July 1, 2022. *See* G.S. § 153A-210.1(b).

- Heavy equipment is defined as earthmoving, construction, or industrial equipment that is mobile, weighs at least 1,500 pounds, and is either:
 - A self-propelled vehicle that is not designed to be driven on a highway, or
 - Industrial lift equipment, industrial hauling equipment, industrial electrical generation equipment, or a similar piece of industrial equipment.

(The definition includes attachments for heavy equipment, regardless of the weight of the attachments.)

- Counties may impose a tax of 1.2 percent. (*G.S. 153A-156.1*).
 - Gross receipts are subject to a tax imposed by a county if the place of business from which the heavy equipment is delivered is located in the county.
- Municipalities may impose a tax of 0.8 percent. (*G.S. 160A-215.2*).
 - Gross receipts are subject to a tax imposed by a municipality if the place of business from which the heavy equipment is delivered is located in the municipality.

2. RESTRICTIONS ON USE OF PROCEEDS:

- The proceeds may be used for any public purpose.

OCCUPANCY TAXES (LOCAL ACT REQUIRED)

1. BASIC LEGAL REQUIREMENTS:

- Occupancy taxes are taxes levied on the occupancy of hotel and motel rooms and comparable transient facilities.
- Local governments do not have general authority to levy occupancy taxes. Many counties and municipalities across the state have received special authority from the General Assembly to levy the tax in their jurisdiction pursuant to local legislation. (*G.S. 153A-155 & G.S. 160A-215 (uniform provisions for room occupancy taxes)*).
- *The occupancy taxes typically range from 3 to 6 percent and are assessed in addition to state and local sales and use taxes.*

2. RESTRICTIONS ON USE OF PROCEEDS:

- The proceeds often are earmarked for tourism expenses or to fund a Tourism Development Authority.
- The proceeds cannot be used for development or construction of a hotel or another transient lodging facility within the unit.

PREPARED FOOD TAXES (LOCAL ACT REQUIRED)***

1. BASIC LEGAL REQUIREMENTS:

- Local governments do not have general authority to levy taxes on prepared food and drinks. A few units across the state have received special authority from the General Assembly to levy taxes on prepared food and drink in their jurisdiction pursuant to local legislation. (*G.S. 160A-214.1 & G.S. 153A-154.1 (uniform penalties for local meals taxes)*).
- *The taxes typically are limited to 1 percent of the retail sales price of prepared food and beverages.*

2. RESTRICTIONS ON USE OF PROCEEDS:

- The proceeds may be restricted pursuant to the local act that authorizes the tax.

LOCAL REAL ESTATE TRANSFER TAX (LOCAL ACT REQUIRED)***

1. BASIC LEGAL REQUIREMENTS:

- The General Assembly has authorized a few coastal counties to assess a 1 percent local real estate transfer act pursuant to local legislation.

2. RESTRICTIONS ON USE OF PROCEEDS:

- The proceeds of the local real estate transfer tax typically are restricted for expenditure on one or more capital purposes pursuant to the local legislation that authorizes the tax.

IMPACT FEES (LOCAL ACT REQUIRED)

1. BASIC LEGAL REQUIREMENTS:

- Impact fees are fees imposed on new development to fund capital expenditures necessitated by the new growth within the county or municipality.
- Counties and municipalities do not have general authority to assess impact fees. (*See, e.g. Durham Land Owners Ass'n v. County of Durham*, 177 N.C.App. 629, 630 S.E.2d 200 (2006)).
 - A few counties have received special authority from the General Assembly to levy impact fees pursuant to local legislation.

2. RESTRICTIONS ON USE OF PROCEEDS:

- The proceeds typically are restricted for expenditure on one or more capital purposes pursuant to the local legislation that authorizes the tax.

Prepared Food Taxes (Local Act Required)

As of August 30, 2022, the following counties have authority to levy taxes on prepared food and drinks: Cumberland, Dare, Mecklenburg, Orange, and Wake. As of August 30, 2022, the Town of Hillsborough and the City of Monroe have authority to levy taxes on prepared food and drink.

Local Real Estate Transfer Tax (Local Act Required)

The following counties are authorized to levy a real estate transfer tax: Camde, Chowan, Currituck, Dare, Pasquotank, Perquimans, and Washington.

B. AVAILABLE TO MUNICIPALITIES ONLY

MOTOR VEHICLE LICENSE TAXES

3. BASIC LEGAL REQUIREMENTS:

- A municipality may levy a general motor vehicle tax of up to \$30.00 per year on any vehicle resident in the municipality (\$30 total includes any local act authority). (*G.S. 20-97*).

4. RESTRICTIONS ON USE OF PROCEEDS:

- The net proceeds from the tax may be used as follows:
 - Up to \$5.00 per vehicle of the tax proceeds may be used for any lawful purpose.
 - If the municipality operates a public transportation system, as defined in G.S. 105-550, up to \$5.00 per vehicle of the tax proceeds may be used for financing, constructing, operating, and maintaining local public transportation systems.
 - The remaining proceeds must be used for maintaining, repairing, constructing, reconstructing, widening, or improving public streets in the municipality that are not part of the State highway system.

C. AVAILABLE TO COUNTIES ONLY

LOCAL SALES AND USE TAXES

1. BASIC LEGAL REQUIREMENTS:

- A county may levy local sales and use taxes in accordance with G.S. 105, Subchapter VIII. (*G.S. 153A-151*).
- All counties are authorized to levy up to 2.25% in local sales and use taxes
 - All counties currently levy 2% in local sales and use taxes.
 - A county must hold a voter referendum to levy additional 0.25% local sales and use tax pursuant to G.S. 105, Art. 46.
- The local sales and use taxes are a combination of four different taxes, which apply to the base transactions set forth in G.S. 105-467.
 - 2 percent of the local sales and use taxes also apply to the sales of certain foods that are exempt from the state's sales and use tax.
 - *As of March 1, 2016, the tax base is expanded to include repair, maintenance, and installation of tangible personal property.*
- The proceeds of the local sales taxes are collected by vendors and remitted to the State's Department of Revenue (DOR). The proceeds of the local use tax are collected directly by the DOR.
- As of July 1, 2016, the Department of Revenue will deduct a proportional amount from the monthly distributions Art. 39, Art. 40, and Art. 41 tax proceeds, totaling \$84,800,000 in FY 2016-17. It will distribute this amount among counties according to a distribution schedule in G.S. 105-524(c). (G.S. 105-524)
 - In successive fiscal years, the Department of Revenue will deduct an amount from these taxes such that the total is the amount from the previous year, adjusted by the same percentage of this amount as the percentage change in the total collection of local sales and use taxes for the preceding fiscal year.
- A county must divide the proceeds it receives pursuant to G.S. 105-524 and distribute among it and its municipalities in the same manner as the Art. 39, Art. 40, and Art. 42 taxes are distributed.

2. RESTRICTIONS ON USE OF PROCEEDS:

- Except for the Article 46 quarter-cent tax, a county must divide the local sales and use tax proceeds among the local government units within its territory, either on a per capita (based on relative populations) or *ad valorem* (based on relative property tax levies) basis.

- If a county chooses to divide the local sales and use tax proceeds according to the per capita method, the county's total population is added to the population of all eligible municipalities in the county. This adjusted population figure is divided into the local sales tax revenue available to the county to determine the county's per capita amount. The resultant figure is then multiplied by the population of the county and each eligible municipality to determine each unit's share of the county's allocation.
- If a county chooses to divide the local sales and use tax proceeds according to the *ad valorem* method, the tax levy of the county and the tax levy of each eligible municipality are added to determine the total levy. Each taxing unit's levy as a proportion of the total levy represents the proportion of the local sales tax revenue that each unit receives. *Ad valorem* tax figures used in the formula are those of the fiscal year immediately preceding the fiscal year in which the distributions are made.
- A county is not required, or authorized, to share the proceeds of the Article 46 quarter-cent tax with the local government units within its territory.
- Counties must hold municipalities (that are incorporated as of October 1, 2008) harmless for the loss of the quarter-cent Article 44 tax (a tax that was repealed as of October 1, 2009).
 - The hold harmless amount is equivalent to the funds a municipality receives from the Article 40 tax.
 - The hold harmless amount is increased or decreased by the amount determined from subtracting 25% of the funds municipalities receive from the Article 39 tax from 50% of the funds municipalities receive from the Article 40 tax.
 - The hold harmless funds are distributed directly to an eligible municipality by the Department of Revenue from the county's Article 39 local sales and use tax funds.
- Municipalities may use the proceeds of the Article 39, 40, and 42 taxes for any public purpose.
- Counties may use the proceeds of the Article 39, 44, and 46 taxes for any public purpose.
- A county must use 30% of its Article 40 tax proceeds for public school capital outlay purposes or to retire indebtedness incurred by the county for public school construction.
- A county must use 60% of the Article 42 tax proceeds must be used for public school capital outlay purposes or to retire indebtedness incurred by the county for public school construction. A county must hold its public schools harmless for any loss in earmarked funds due to the switch in allocation method of the Article 42 tax proceeds from per capita to point of origin (which occurred as of October 1, 2009).
 - The amount of Article 42 tax proceeds that is earmarked is equal to 60 percent of:

- The amount of revenue the county receives from the Article 42 tax, plus
 - If the amount allocated to the county under the Article 40 is greater than the amount allocated to the county under Article 42, the difference between the two amounts.
- A county must use the proceeds allocated to it by G.S. 105-524 for economic development, public education, and community college purposes.
 - A municipality may use the proceeds allocated to it by G.S. 105-524 for any lawful purpose.

TRANSPORTATION SALES AND USE TAX

1. BASIC LEGAL REQUIREMENTS:

- Counties and certain transportation authorities are authorized to levy a sales and use tax to fund public transportation systems.
 - The tax may only be adopted if approved by a majority of the voters in a referendum on the tax.
 - The tax may only be adopted if the county board of commissioners and the relevant local transportation authority (Triangle Transit Authority or Piedmont Authority for Regional Transportation) adopt a financial plan for use of the proceeds.
- Mecklenburg County, a regional transportation authority encompassing Wake, Durham, and/or Orange counties, and a regional transportation authority encompassing Forsyth and/or Guilford counties are authorized to adopt a half cent sales and use tax.
- All other counties may adopt a quarter-cent tax for public transportation.
 - The tax may only be adopted if the county, or at least one unit of local government in the county, operates a public transportation system.
 - The tax may only be adopted if approved by a majority of the voters in a referendum on the tax.

2. RESTRICTIONS ON USE OF PROCEEDS:

- The proceeds of the taxes are allocated on a per capita basis among the county and other units of local government in the county that operate public transportation systems. (The proceeds may not be distributed to a county or a municipality that does not operate a public transportation system.)
- Counties must allocate the net proceeds distributed to it in accordance with the financial plan adopted by the governing board—for financing, constructing, operating, and maintaining local public transportation systems.

- Other units of local government must use the net proceeds only for the financing, constructing, operating, and maintaining local public transportation systems.
- Proceeds must supplement, not supplant or replace, existing funds or other resources for public transportation systems.

COUNTY VEHICLE REGISTRATION TAX

1. BASIC LEGAL REQUIREMENTS:

- 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. (*G.S. 105-570*)

2. RESTRICTIONS ON USE OF PROCEEDS:

- The proceeds of the tax are distributed on a per capita basis among the county, if the county operates a public transportation system, and any municipalities located in the county, if the municipalities operate public transportation systems.
- The proceeds must be used to operate a public transportation system, including financing, constructing, operating, and maintaining that public transportation system.

II. STATE / COUNTY SHARED REVENUE SOURCES

a. AVAILABLE TO BOTH MUNICIPALITIES AND COUNTIES

BEER & WINE TAXES***

1. BASIC LEGAL REQUIREMENTS:

- The state shares 20.47% of the net amount of its excise tax on beer, 49.44% of the net amount of its excise tax on unfortified wine, and 18% of the net amount of its excise tax on fortified wine with eligible municipalities and counties. (*G.S. 105-113.80 – 105-113.82*).
- The proceeds are distributed to eligible municipalities and counties on the basis of population.
 - In order to share in the distribution of the beer and wine tax proceeds, a county or municipality must allow the sale of alcoholic beverages throughout the unit.
 - In a county in which ABC stores have been established by petition, the revenue is distributed as though the entire county had approved the retail sale of a beverage whose retail sale is authorized in part of the county.
 - There are special eligibility requirements for municipalities incorporated after January 1, 2000.⁸

2. RESTRICTIONS ON USE OF PROCEEDS:

- The proceeds may be used for any public purpose.

⁸ In order to receive a distribution of beer and wine tax proceeds, a municipality incorporated on or after January 1, 2000, must satisfy the following requirements: (1) a majority of the unit's mileage must be open to the public; (2) the unit has conducted the most recent election required by its charter or general law; (3) the unit has levied an ad valorem tax for the current fiscal year of at least \$0.05 per \$100 valuation and it has collected at least 50 percent of its previous year's tax levy; (4) the unit has adopted a budget ordinance in substantial compliance with the Local Government Budget and Fiscal Control Act; (5) the unit appropriates funds for at least four of the following services—police, fire, solid waste collection or disposal, street maintenance, water distribution, street construction or right-of-way acquisition, street lighting, and zoning. (*G.S. 136-41.2; G.S. 105-113.81 ****).

Beer and Wine Taxes

Header

In March 2019, the General Assembly replaced references to “beer” in the State’s revenue statutes with “malt beverage.” See [S.L. 2019-6, Sections 4.4-4.8](#). Therefore, the “beer and wine license taxes” are now “malt beverage and wine license taxes.”

Basic Legal Requirements

The reference to G.S § 105-113.81 should be replaced with [G.S. § 105-113.82](#).

VIDEO PROGRAMMING SERVICES TAXES

1. BASIC LEGAL REQUIREMENTS:

- Effective October 1, 2009, municipalities and counties receive shares of three state sales tax revenues:
 - 7.7% of the net proceeds of tax collections on telecommunications services
 - 23.6% of the net proceeds of tax collections on video programming services
 - 37.1% of the net proceeds of tax collections on direct-to-home satellite services (*G.S. 105-164.44F, 105-164.44I*)
- The quarterly distribution to each eligible county and municipality is one-fourth of the unit's PEG channel support "share."
 - A unit's "share" is determined by adding \$4 million to the amount of any funds returned to the Secretary of Revenue in the previous fiscal year and then dividing that figure by the number of certified PEG channels
 - A unit may certify up to 3 PEG channels.
- The remaining funds are distributed according to each local government's proportionate share.
 - A municipality's or county's proportionate share for 2006-2007 was calculated by dividing the local government's base amount by the aggregate base amounts of all the municipalities and counties.
 - For municipalities or counties that did not impose a cable franchise tax before July 1, 2006, the base amount was \$2.00 times the most recent annual population estimate.
 - For municipalities or counties that did impose a cable franchise tax before July 1, 2006, the base amount was the total amount of cable franchise tax and subscriber fee revenue the county or municipality certified to the Secretary of State that it imposed during the first 6 months of the 2006-2007 fiscal year.
 - In subsequent fiscal years, the proportionate shares are adjusted for per capita growth.
- A municipality or county that used part of its franchise tax revenue in fiscal year 2005-2006 for the operation and support of PEG channels, or a publicly owned and operated television station, must continue the same level of support.
- There are additional restrictions on municipalities incorporated after January 1, 2000.^{9***}

⁹ In order to receive a distribution of beer and wine tax proceeds,^{***} a municipality incorporated on or after January 1, 2000, must satisfy the following

Video Programming Services Taes

The reference to “beer and wine tax proceeds” should read “video programming services tax proceeds.”

Basic Legal Requirements

The reference to G.S § 105-113.81 should be replaced with [G.S. § 105-164.44I](#).

2. RESTRICTIONS ON USE OF PROCEEDS:

- A municipality or county must equally allocate the supplemental PEG channel support funds for the operation and support of each of its qualifying PEG channels.
 - The local unit must distribute the funds to the PEG channel operator of the qualifying PEG channel within 30 days of the receipt of funds, or as specified in an interlocal agreement.
- A municipality or county that imposed subscriber fees during the first six months of the 2006-2007 fiscal year must use a portion of the funds distributed to it (in addition to any supplemental PEG channel support funds) for the operation and support of PEG channels:
 - In fiscal year 2006-2007, the amount of earmarked funds was equal to two times the amount of subscriber fee revenue the county or municipality certifies it imposed during this period.
 - In subsequent years, the amount of earmarked funds is the same proportionate amount of the funds that were used for this purpose in fiscal year 2006-2007.
- All remaining proceeds may be used for any public purpose.

SOLID WASTE TIPPING TAX

1. BASIC LEGAL REQUIREMENTS

- The state imposes a \$2-per-ton statewide excise tax on the following:
 - The disposal of municipal solid waste and construction and demolition debris in any landfill permitted under the state’s solid waste management program;
 - The transfer of municipal solid waste and construction and demolition debris to a transfer station permitted under the state’s solid waste management program for disposal outside the state.

(Municipal solid waste is defined as any solid waste resulting from the operation of residential, commercial, industrial, governmental, or institutional establishments that

requirements: (1) a majority of the unit’s mileage must be open to the public; (2) the unit has conducted the most recent election required by its charter or general law; (3) the unit has levied an ad valorem tax for the current fiscal year of at least \$0.05 per \$100 valuation and it has collected at least 50 percent of its previous year’s tax levy; (4) the unit has adopted a budget ordinance in substantial compliance with the Local Government Budget and Fiscal Control Act; (5) the unit appropriates funds for at least four of the following services—police, fire, solid waste collection or disposal, street maintenance, water distribution, street construction or right-of-way acquisition, street lighting, and zoning. (*G.S. 136-41.2; G.S. 105-113.81****).

would normally be collected, processed, and disposed of through a public or private solid waste management service.)

- After allowing for specified administrative expenses and compensation to certain qualifying applicants who submitted permit applications before August 1, 2006, 37.5 percent of the excise tax proceeds are distributed to qualifying municipalities and counties on a per capita basis (*G.S. 105-187.63*).
 - One-half of the proceeds are distributed to municipalities and one-half are distributed to counties.
 - The population of a county does not include the population of its incorporated areas.
 - In order to receive a distribution of the excise tax proceeds, a municipality or county must provide, and be responsible for the payment of, solid waste management programs and services.

2. RESTRICTIONS ON USE OF PROCEEDS:

- The proceeds are specifically earmarked for expenditure on solid waste management programs and services only.

911 CHARGE***

1. BASIC LEGAL REQUIREMENTS:

- The state 911 Board levies a \$.70 monthly service charge on each active voice communications service connection.
 - An active voice communications service connection is each telephone number assigned to a residential or commercial subscriber by a voice communications service provider, without regard to the technology deployed, which is capable of accessing the 911 system.
- The 911 Board is authorized to develop a funding formula for distribution of a portion of the 911 charge proceeds to eligible primary PSAPs (*G.S. 62A-44; G.S. 62A-46*)***.
 - To be eligible for a distribution a local government must
 - serve as a primary PSAP, defined as the first point of reception of a 911 call by a PSAP;
 - provide enhanced 911 services;
 - comply with the 911 Board's rules, policies, procedures, and operating standards; and
 - have received distributions from the 911 Board in the 2008-09 fiscal year.

- The 911 Board must consider a number of statutory factors in determining the funding formula.
- The 911 Board must notify primary PSAPs of their estimated distributions by December 31 of each year and must determine actual distributions by June 1 each year.
- Effective July 1, 2011, a primary PSAP may carry forward distributions for eligible expenditures for capital outlay, capital improvements, or equipment replacement.
 - If the amount carried forward by a primary PSAP exceeds 20% of the average yearly amount distributed to the PSAP in the prior two years, the Board may, but does not have to, lower the PSAPs distribution. Otherwise, the Board may not reduce a distribution below the amount determined by the funding formula.
- *Additionally, PSAPs in certain rural and other high-cost areas may be eligible for grant funds, as determined by the 911 Board (G.S. 62A-46; G.S. 62A-47)***.*

2. RESTRICTIONS ON USE OF PROCEEDS:

- The proceeds received by each PSAP are specifically earmarked to pay for:***
 - Emergency telephone equipment
 - Addressing
 - Telecommunicator furniture
 - Dispatch equipment located exclusively in a building where a PSAP or back-up PSAP is located (but not the costs of base station transmitters, towers, microwave links, and antennae used to dispatch emergency call information from the PSAP or back-up PSAP)
 - Nonrecurring costs of establishing a 911 system
 - Certain training expenditures for 911 personnel on the maintenance and operation of the 911 system
 - Charges associated with the service supplier's 911 service and other service supplier recurring charges.

911 Charge

Header

These provisions have been recodified in [Chapter 143B, Article 15, Part 10](#).

Basic Legal Requirements

A “PSAP” is a Public Safety Answering Point. *See* G.S. § 143B-1400(25) (“The public safety agency that receives an incoming 911 call and dispatches appropriate public safety agencies to respond to the call.”).

The criteria for the funding formula can be found in G.S. § 143B-1406.

The earmarks for PSAP spending have been updated and can be found in G.S. § 143B-1406(d).

B. AVAILABLE TO MUNICIPALITIES ONLY

LOCAL SALES AND USE TAXES

1. BASIC LEGAL REQUIREMENTS:

- Counties must share the proceeds of the Articles 39, 40, and 42 local sales and use taxes with eligible municipalities. *See* Section III. C. 1. for a description of the local sales and use taxes levied by counties.
 - *Municipalities are not authorized to levy the local sales and use taxes—they receive a portion of the proceeds of the local sales and use taxes levied by counties.*
- Except for the Article 46 quarter-cent tax, a county must divide the local sales and use tax proceeds among the local government units within its territory, either on a per capita (based on relative populations) or *ad valorem* (based on relative property tax levies) basis.
 - If a county chooses to divide the local sales and use tax proceeds according to the per capita method, the county's total population is added to the population of all eligible municipalities in the county. This adjusted population figure is divided into the local sales tax revenue available to the county to determine the county's per capita amount. The resultant figure is then multiplied by the population of the county and each eligible municipality to determine each unit's share of the county's allocation.
 - If a county chooses to divide the local sales and use tax proceeds according to the *ad valorem* method, the tax levy of the county and the tax levy of each eligible municipality are added to determine the total levy. Each taxing unit's levy as a proportion of the total levy represents the proportion of the local sales tax revenue that each unit receives. *Ad valorem* tax figures used in the formula are those of the fiscal year immediately preceding the fiscal year in which the distributions are made.
- A county is not required, or authorized, to share the proceeds of the Article 46 quarter-cent tax with the local government units within its territory.
- Counties must hold municipalities (that are incorporated as of October 1, 2008) harmless for the loss of the quarter-cent Article 44 tax (a tax that was repealed as of October 1, 2009).
 - The hold harmless amount is equivalent to the funds a municipality receives from the Article 40 tax

- The hold harmless amount is increased or decreased by the amount determined from subtracting 25% of the funds municipalities receive from the Article 39 tax from 50% of the funds municipalities receive from the Article 40 tax.¹⁰
- The hold harmless funds are distributed directly to an eligible municipality by the Department of Revenue from the county's Article 39 local sales and use tax funds.
- As of July 1, 2016, the Department of Revenue will deduct a proportional amount from the monthly distributions Art. 39, Art. 40, and Art. 41 tax proceeds, totaling \$84,800,000 in FY 2016-17. It will distribute this amount among counties according to a distribution schedule in G.S. 105-524(c). (G.S. 105-524)
 - In successive fiscal years, the Department of Revenue will deduct an amount from these taxes such that the total is the amount from the previous year, adjusted by the same percentage of this amount as the percentage change in the total collection of local sales and use taxes for the preceding fiscal year.
 - A county must divide the proceeds it receives pursuant to G.S. 105-524 and distribute among it and its municipalities in the same manner as the Art. 39, Art. 40, and Art. 42 taxes are distributed.

2. RESTRICTIONS ON USE OF PROCEEDS

- The proceeds may be used for any public purpose.

TRANSPORTATION SALES AND USE TAX

1. BASIC LEGAL REQUIREMENTS:

- Counties and certain transportation authorities are authorized to levy a sales and use tax to fund public transportation systems.
- Mecklenburg County, a regional transportation authority encompassing Wake, Durham, and/or Orange counties, and a regional transportation authority encompassing Forsyth and/or Guilford counties are authorized to adopt a half cent sales and use tax.
 - The tax may only be adopted if approved by a majority of the voters in a referendum on the tax.
 - The tax may only be adopted if the county board of commissioners and the relevant local transportation authority (Triangle Transit Authority or

¹⁰ For fiscal year 2009-10, the hold harmless amount is reduced by the amount distributed to the municipality on a point of origin basis from the repealed quarter-cent Article 44 tax in October, November, and December 2009.

Piedmont Authority for Regional Transportation) adopt a financial plan for use of the proceeds.

- The proceeds of the tax are allocated on a per capita basis among the county and the other units of local government in the county that operate public transportation systems. (The proceeds may not be distributed to a county or municipality that does not operate a public transportation system.)
- All other counties may adopt a quarter-cent tax for public transportation.
 - The tax may only be adopted if the county, or at least one unit of local government in the county, operates a public transportation system.
 - The tax may only be adopted if approved by a majority of the voters in a referendum on the tax.
 - The proceeds of the tax are allocated on a per capita basis among the county and other units of local government in the county that operate public transportation systems. (The proceeds may not be distributed to a county or a municipality that does not operate a public transportation system.)

2. RESTRICTIONS ON USE OF PROCEEDS:

- Units of local government must use the net proceeds only for the financing, constructing, operating, and maintaining local public transportation systems.
- Proceeds must supplement, not supplant or replace, existing funds or other resources for public transportation systems.

ELECTRIC TAX

1. BASIC LEGAL REQUIREMENTS:

- As of July 1, 2014, electric utilities are subject to a 7 percent state sales tax rate.
- The state distributes 44 percent of the net proceeds of the sales tax, less the cost to the NC Department of Revenue to administer the distribution
 - Beginning in December 2014, on a quarterly basis, each municipality is allocated an amount equal to the franchise tax on electricity that it received for the same quarter in FY 2013-14.
 - The remaining funds, if any, will be distributed among the municipalities that levy a property tax, in proportion to their property tax levy as a share of the total amount of property tax levied by all cities.

2. RESTRICTIONS ON USE OF PROCEEDS:

- The proceeds may be used for any public purpose.

TELECOMMUNICATIONS TAX

1. BASIC LEGAL REQUIREMENTS:

- The state levies a sales tax on the gross receipts of telecommunications services—the rate is the total of the state’s sales tax rate plus rates of local sales taxes authorized in all 100 counties (currently—7.25 percent).
- As of October 1, 2009, the state distributes to municipalities each quarter, 16.36*** percent of the proceeds minus \$2.6 million. (*G.S. 105-164.4C; G.S. 105-164.4(a) (4c); G.S. 105-164.44F*).
 - A municipality incorporated before January 1, 2001, receives the same percentage share of the new tax that the municipality received from the repealed telephone franchise tax during the last comparable quarter that the earlier tax was still in force.
 - A municipality incorporated on or after January 1, 2001, receives a per capita share of the amount to be distributed to all municipalities incorporated after this date. It is the proportion of the total to be distributed that is the same as the proportion of the population of municipalities incorporated on or after January 1, 2001, as compared to the population of all municipalities. This amount is subtracted first before the distribution is made to municipalities incorporated before January 1, 2001.
- There are additional restrictions on municipalities incorporated after January 1, 2000.^{11***}

2. RESTRICTIONS ON USE OF PROCEEDS:

- The proceeds may be used for any public purpose.

¹¹ In order to receive a distribution of the telecommunications tax proceeds, a municipality incorporated on or after January 1, 2000, must satisfy the following requirements: (1) a majority of the unit’s mileage must be open to the public; (2) the unit has conducted the most recent election required by its charter or general law; (3) the unit has levied an ad valorem tax for the current fiscal year of at least \$0.05 per \$100 valuation and it has collected at least 50 percent of its previous year’s tax levy; (4) the unit has adopted a budget ordinance in substantial compliance with the Local Government Budget and Fiscal Control Act; (5) the unit appropriates funds for at least four of the following services—police, fire, solid waste collection or disposal, street maintenance, water distribution, street construction or right-of-way acquisition, street lighting, and zoning. (*G.S. 136-41.2; G.S. 105-116.1****).

Telecommunications Tax

16.36 percent should be replaced with 18.70 percent. *See* [G.S. § 105-164.44F\(a\)\(1\)](#).

The reference to G.S. § 105-116.1 should be updated to read [G.S. § 105-164.44F\(e\)](#).

PIPED NATURAL GAS TAX

1. BASIC LEGAL REQUIREMENTS:

- As of July 1, 2014, the sale of piped natural gas is subject to a state sales tax rate of 7 percent.
- Beginning December 2014, municipalities receive 20 percent of the net proceeds of the sales tax collected on piped natural gas, less the cost to the NC Department of Revenue of administering the distribution.
 - Each quarter a municipality is allocated an amount equal to the franchise tax on piped natural gas that it received for the same quarter in FY 2013-14.
 - The remainder, if any, is distributed among municipalities that levy a property tax, in proportion to their property tax levy as a share of the total amount of property tax levied by all municipalities.

2. RESTRICTIONS ON USE OF PROCEEDS:

- The proceeds may be used for any public purpose.⁵

MOTOR FUELS TAX (POWELL BILL FUNDS)

1. BASIC LEGAL REQUIREMENTS:

- The state gas tax from July 1, 2016 – December 31, 2016 is 34 cents per gallon. From January 1, 2017 – December 31, 2017, the gas tax will be 34 cents per gallon multiplied by a percentage. (*See S.L. 2015-2.*)
- If the state makes an appropriation to the Department of Transportation for State aid to municipalities, the money will be distributed among municipalities as follows:
 - Three-quarters of the proceeds are distributed among municipalities on a per capita basis.
 - One-quarter of the proceeds are distributed according to the number of miles of non-state streets in each municipality. (*G.S. 105-449.80(a); G.S. 136-41.1.*)
- Municipalities incorporated on or after January 1, 1945, must not be disqualified from receiving funds under G.S. 136-41.2.
- Municipalities incorporated before January 1, 1945, must not be disqualified from receiving funds under G.S. 136-41.2A.
- No municipality may receive Powell Bill funds unless the municipality maintains public streets that are within its jurisdiction and that do not form part of the state highway system.

2. RESTRICTIONS ON USE OF PROCEEDS:

- The proceeds must be used primarily for resurfacing of streets within corporate limits of the municipality, but may also be used for the purposes of maintaining, repairing, constructing, reconstructing, or widening of any appurtenances within the corporate limits of the municipality or for meeting the municipality's proportionate share of assessment levied for such purposes, or for the planning, construction and maintenance of bikeways, greenways, or sidewalks.
 - The Department of Transportation must report to the legislature each year on the uses by each municipality of the Powell Bill proceeds.
- The proceeds only may be expended on streets that are open to the public.
- Note that a municipality may not accumulate an amount greater than the sum of the past 10 distributions (5 years' worth).
 - A small municipality may apply to the Department of Transportation to be allowed to accumulate up to the sum of the past 20 distributions.

C. AVAILABLE TO COUNTIES ONLY

STATE REAL ESTATE TRANSFER TAX

1. BASIC LEGAL REQUIREMENTS:

- The state imposes an excise stamp on the conveyance of any interest in real estate by a nongovernmental unit (including timber interests).***
- The tax rate is \$1.00 per \$500 consideration or value of interest conveyed.
- The register of deeds remits the proceeds to the county finance officer, who, in turn, remits one-half of the proceeds to the State Department of Revenue (minus up to a 2% administrative fee). (*G.S. 105-228.28 – 105-228.37*).

2. RESTRICTIONS ON USE OF PROCEEDS:

- Counties may use their portion of the proceeds for any public purpose.

DISPOSAL TAXES

1. BASIC LEGAL RESTRICTIONS:

TIRE TAX

- The state imposes a tax on the sales price of each new tire sold at retail by the retailer and on retailers and wholesale merchants on each new tire for placement on a vehicle offered for sale, lease or rental by the retailers or wholesale merchants.
- The state distributes 70% of the net tax proceeds among the counties on a per capita basis. (*G.S. 105-187.15 – 105-187.19*).

WHITE GOODS TAX

- The state imposes a tax on each new white good (refrigerator, range, water heater, freezer, unit air conditioner, washing machine, dishwasher, clothes dryer, etc.) that is sold by a retailer and on a new white good that is purchased outside the state for storage, use, or consumption in the state.
- The state distributes 72% of the net proceeds among the counties on a per capita basis (unless otherwise directed by the DENR). (*G.S. 105-187.20 – 105-187.24*).

2. RESTRICTIONS ON USE OF PROCEEDS:

- A county must use the tire tax proceeds for disposal of scrap tires, or the abatement of a nuisance tire collection site. (*G.S. 130A-209.54, 130A-209.60*).
 - A county must transfer the funds to other local government unit if that unit provides for the disposal of solid waste for the county.

State Real Estate Transfer Tax

Conveyances of certain interests in real estate are exempt. *See* [G.S. § 105-228.29](#).

- A county must use the white goods tax proceeds for management of discarded white goods. (*G.S. 130A-309.82*).

III. OTHER REVENUE SOURCES

a. AVAILABLE TO MUNICIPALITIES AND COUNTIES

ABC STORE PROCEEDS

1. BASIC LEGAL REQUIREMENTS:

- About 80% of the *net profits* of ABC stores are distributed to authorized local government units.
- The proceeds are distributed to the municipalities and counties where the ABC stores are located. (*G.S. 18B-805*).

2. RESTRICTIONS ON USE OF PROCEEDS:

- There are no general limits on use of the proceeds, but local acts often earmark some or all of the profits or provide for shared distribution with other local governments.

INVESTMENT INCOME

1. BASIC LEGAL REQUIREMENTS:

- Counties and municipalities are authorized to invest idle cash in specified investment vehicles. (*G.S. 159-30*).

2. RESTRICTIONS ON USE OF PROCEEDS:

- Interest earned on investments must be credited proportionately to the funds from which the moneys that were invested came.

PAYMENT IN LIEU OF TAXES (PILOT)

1. BASIC LEGAL REQUIREMENTS:

- Property owned by the federal government or state and local governments is exempt from property taxation. The federal and state governments make some payments in lieu of taxes (PILOTS) to the government that could have taxed the property had it been privately owned.
- Some examples of PILOTS include:
 - National Forest Revenues – *16 U.S.C. 500, G.S. 113-38*
 - Entitlement Land Revenues – *Chapter 69 of Title 13 of U.S.C.*
 - Wildlife Refuge Revenues – *16 U.S.C. 715a*
 - Tennessee Valley Authority – *G.S. 105-458*

- Fire Protection Funds – *G.S. 58-189, G.S. 58-191.4*
- Housing Authority Payments – *42 U.S.C. 1437d(d)*

2. RESTRICTIONS ON USE OF PROCEEDS:

- There may be restrictions placed on the receipt of individual PILOTS.

RENTAL INCOME

1. BASIC LEGAL REQUIREMENTS

- Counties and municipalities have broad authority to rent real and personal property owned by the unit to private entities and citizens for a fee. (*G.S. 160A-272.*)
 - Property may be rented or leased only pursuant to a resolution of the council authorizing the execution of the lease or rental agreement adopted at a regular council meeting upon 10 days' public notice. Notice shall be given by publication describing the property to be leased or rented, stating the annual rental or lease payments, and announcing the council's intent to authorize the lease or rental at its next regular meeting.
 - No public notice need be given for resolutions authorizing leases or rentals for terms of one year or less, and the council may delegate to the city manager or some other city administrative officer authority to lease or rent city property for terms of one year or less.
 - Leases for terms of more than 10 years shall be treated as a sale of property and may be executed by following any of the procedures authorized for sale of real property.

2. RESTRICTIONS ON USE OF PROCEEDS:

- Generally rental income may be used for any public purpose for which the unit is statutorily authorized to engage.

© 2017

School of Government

The University of North Carolina at Chapel Hill

Use of this publication for commercial purposes or without acknowledgment of its source is prohibited. Reproducing, distributing, or otherwise making available to a non-purchaser the entire publication, or a substantial portion of it, without express permission, is prohibited.