

# Article 46 Sales Tax

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LOCAL OPTION SALES TAX FOR COUNTIES

# What is it?

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- Enacted by state statute in 2007
  - NC GS 105-535
- ¼ cent local option sales tax
  - ¼ cent for every dollar of taxable goods, 25 cents on every \$100 of goods
- Requires approval by the voters via a referendum item
- Only sales tax article NOT shared with Municipalities
- Sales tax does NOT apply to unprepared food or gasoline
- Estimated annual revenue of approximately \$1.6 million (based on 2017 distributable proceeds from NC Dept. of Revenue)

# What are the advantages?

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- The revenue brought in to the County would continue to grow as the economy grows, but the rate would remain the same forever (always an additional ¼%)
- The Article 46 sales tax is a dependable revenue source for the County
  - While revenues could fluctuate some due to economic factors, once levied it will always be available – it is not a “one time” revenue.
  - The most recent projections from the NCACC estimate that the Article 46 sales tax would bring in revenue equal to approximately 1.5 cents on the property tax rate.
- Sales tax is paid for all eligible transactions in the County, meaning that visitors to Chatham County will also pay.
  - Visitor spending has increased by an average of 3.5% for the most recently available 5 year timeframe (2013-2017 – 2018 data not yet available)

# Referendum Requirements

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- Counties must contact local and state boards of elections in order to have referendum placed on agenda
- Could not be placed on the ballot until 2020 due to statutory regulations
  - May be held only on the same date as a county or statewide general election, the primary election in even-numbered years, or in any other election during which all precincts in a county are open
- If referendum fails, the County CAN hold a subsequent referendum on the same issue
  - Could be on the ballot in both March 2020 AND November 2020 (if necessary)
- Specific language on how the referendum item must be placed on the ballot
  - Statutorily required – sample of ballot question is below

[ ] FOR [ ] AGAINST

Local sales and use tax at the rate of one-quarter% (0.25%) in addition to all other State and local sales and use taxes.'

# Rules & Requirements

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- There are no restrictions or earmarks on the revenue, can be used for any allowable use by counties
- County Commissioners can NOT stipulate how funds will be used on the ballot
- County Commissioners MAY adopt a resolution that stipulates how the County intends to use the funds
- County CAN spend funds to educate voters about the referendum (but not advocate for/against)
- Individual commissioners CAN advocate for/against passage, but no expenses incurred are reimbursable by County
- Board of Commissioners NOT required to implement even if approved by voters

# Implementation

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- Implementation assumes successful passage of a referendum item
- If the Board of Commissioners wishes to levy the tax, it must provide 10 days public notice of its intent to adopt a resolution to levy the tax.
  - After it adopts the resolution, it must send a certified copy of the resolution along with a certified copy of the election results of the referendum to the Department of Revenue.
  - NCACC provides a model resolution that can be used for successful referenda
- Sales tax may become effective on the first day of any calendar quarter following successful referendum, so long as the County gives the Secretary of Revenue 90 days advance notice
  - Example: if a referendum is held in November during the general election and passes, the earliest a county could begin collecting the revenue would be April 1<sup>st</sup> of the following year, provided it adopts a resolution levying the tax and forwards it to the Department of Revenue prior to December 31<sup>st</sup>.

# Who does it?

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- 42 Counties have passed Article 46 sales tax referenda (including those passed in May and November 2018)
- 5 of 8 surrounding counties are currently levying Article 46 sales tax
  - Durham, Harnett, Lee, Orange, Randolph
  - Wake County has not brought item to voters
  - Alamance (2012 and 2018) has had 2 unsuccessful referenda
  - Moore County referendum passed in November 2018
    - Previously had unsuccessful referendum in 2016
    - Began collection April 1, 2019 – earliest allowable date
- 20 Counties had referendum on ballot in November 2018, 4 were successful
  - Graham, Moore, Stanly, Swain
- The Board's of all of Chatham's neighboring counties passed a resolution stating the intended use of the Article 46 sales tax funds

# Neighboring County's Resolutions

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- Alamance\*
  - Education and Debt - including training
- Durham
  - Education - including DPS, DTCC, kindergarten, and DPS debt service
- Harnett
  - School Construction
- Lee
  - Education debt or other capital needs of the schools
- Moore
  - School construction projects
- Orange
  - Half for public schools capital and half for economic development initiatives
- Randolph
  - Community College capital

\*Alamance County's Commissioners approved a resolution of intended use, but the Article 46 sales tax referendum failed in November 2018.



# Neighboring County Sales Tax Rates

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- Alamance
  - 6.75%
- Durham
  - 7.5% - Base plus 0.5% Article 43 and 0.25% Article 46
- Harnett
  - 7% - Base plus 0.25% Article 46
- Lee
  - 7% - Base plus 0.25% Article 46
- Moore
  - 7% - Base plus 0.25% Article 46
- Orange
  - 7.5% - Base plus 0.5% Article 43 and 0.25% Article 46
- Randolph
  - 7% - Base plus 0.25% Article 46
- Wake
  - 7.25% – Base plus 0.5% Article 43

\*All counties have a minimum/base of 6.75% sales tax rate. 4.75% in state sales tax and 2% in local sales taxes, 1% for Article 39 and ½% each for Articles 40 and 42

# Next Steps

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- Board instructed staff to begin the process of preparing for a referendum on the March 2020 ballot.
- Determine if the Board wants to adopt a resolution stating intended use
  - If so, determine as a Board what resolution of intended use will be

# But wait, there's more!

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LEGISLATIVE MOVEMENT SINCE PREVIOUS PRESENTATION

# Legislative Update

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- 2 different bills currently at various stages of the legislative process
  - One each in the Senate and House
- Both versions allow for a stated use on the referendum
  - Different proposed stated uses in the House/Senate versions
- Nothing has been officially passed
  - Currently NO changes to information as presented previously
  - In the event of any legislative changes, we will bring information back to you

# Senate Bill

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- Senate Bill 552
  - Allows for stated use on referendum item
  - Limited to specific Uses as defined in bill
  - If a Use is included on referendum item, the County MUST use the proceeds as indicated on the ballot
  - Bill includes definitions for each of the allowable Uses
- Allowable Uses:
    - Any Public Purpose
    - Beach Nourishment
    - Economic Development
    - Public School Capital Outlay Purposes
    - Promote Travel and Tourism

# House Bill

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- House Bill 667
  - Allows for stated use on referendum item
  - Limited to specific Uses as defined in bill
  - If a Use is included on referendum item, the County MUST use the proceeds as indicated on the ballot
  - Bill includes definitions for each of the allowable Uses
  - Allows for ballot item to be for additional  $\frac{1}{4}$  OR  $\frac{1}{2}$  cent
- Allowable Uses:
    - Any Public Purpose
    - Only Public Education Purposes