

**NORTH CAROLINA GENERAL ASSEMBLY**

**LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** House Bill 142 (Second Edition)

**SHORT TITLE:** Dare Local Option Tax Menu

**SPONSOR(S):**

<b>FISCAL IMPACT</b>					
	Yes (X)	No ( )	No Estimate Available ( )		
	\$ Millions				
	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>
<b>REVENUES</b>					
General Fund	* No General Fund Impact *				
Dare County					
Sales Tax	2.23	5.61	5.86	6.16	6.46
Privilege Tax	4.66	4.66	4.66	4.66	4.66
Meals Tax	0.68	1.70	1.78	1.87	1.96
Rental (Bed) Tax	1.41	3.55	3.73	3.91	4.11
<b>TOTAL</b>	<b>8.98</b>	<b>15.52</b>	<b>16.03</b>	<b>16.60</b>	<b>17.19</b>
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> North Carolina Department of Revenue and Dare County.					
<b>EFFECTIVE DATE:</b> When it becomes law.					

**BILL SUMMARY:** This legislation authorizes Dare County to make several local tax changes. First, it allows the county to levy an additional ½ cent local sales tax. A public hearing is required. Second, the bill also authorizes Dare County to levy a privilege tax of up to \$300 per rental unit on each business engaged in the furnishing of any room, lodging, or accommodation within the county. This provision does not apply to nonprofit charitable, educational, or religious organizations that furnish accommodations in furtherance of their nonprofit purpose. Third, the legislation authorizes Dare County to increase its existing meals or prepared food tax from 1% to 2%. Fourth, the legislation authorizes Dare County to impose a flat \$2 fee per bedroom per night in hotels and rental cottages. This is in addition to the other occupancy and sales taxes imposed. All new revenues generated by the legislation shall be used for beach nourishment and associated projects.

**ASSUMPTIONS AND METHODOLOGY:** Because this bill affects only Dare County, there is no General Fund impact.

**Sales Tax:** Dare County finance records indicate that in 2002-03 the county raised \$10.98 million from the Article 39 (first one cent) sales tax. This is the only entirely point of origin distributed sales tax. Using one-half of this amount, suggests potential revenue of \$5.49 million from a half-cent tax. However, because the Article 39 tax applies to food, the 2002-03 estimate is reduced to \$5.01 million to reflect the removal of food from the base. Growing this amount forward by historical state sales tax growth rates and anticipated rates, suggests the following potential revenue stream:

\$ Millions				
2004-05	2005-06	2006-07	2007-08	2008-09
5.36	5.61	5.86	6.16	6.46

The number in the fiscal impact box assumes a January 1, 2005 effective date.

**Privilege Tax:** The Outer Banks - Dare County Convention and Visitors Bureau estimates that there are approximately 15,547 overnight units in Dare County. This includes bedrooms in rental cottages as well as hotel rooms. Applying the \$300 privilege license tax to this estimate suggests potential annual revenues of \$4.66 million. While there will likely be some growth in the number of units available over time, Fiscal Research has no way to estimate the growth rate. As such, a flat line estimate is used.

**Meals Tax:** Currently Dare County levies a 1% meals tax. This tax applies to prepared food and beverages and is in addition to the sales tax. The legislation increases the local meals tax to 2%. Historic financial records from Dare County indicate that in 2002-03, the county raised \$1.52 million, net of collection cost, from this tax. Applying historic and anticipated sales tax growth rates to this base suggests the following potential revenue stream:

\$ Millions				
2004-05	2005-06	2006-07	2007-08	2008-09
1.63	1.70	1.78	1.87	1.96

**Rental (Bed) Tax:** As mentioned previously, there are approximately 15,547 rental units, hotel and otherwise, in Dare County. Of those units, approximately 12,000 are cottages, with the balance in hotels, inns, and bed and breakfasts. Discussions with local realtors suggest that the rental properties tend to fall into two categories. A basic unit, with bedrooms, baths, and a kitchen, will likely rent for 8–12 weeks a year. A deluxe unit with fireplaces and other high-end amenities would typically rent for 25–28 weeks a year. Hotel occupancy would likely hover near 40%. Applying these proportions suggests a total potential revenue stream of \$3.38 million. This amount is grown forward by 5% a year. The first year estimate assumes a January 1 effective date. It should be noted that this is a minimum estimate, as most cottages would include more than a single bedroom or sleeping unit.

**SOURCES OF DATA:** Dare County, the Outer Banks–Dare County Convention and Visitors Bureau, local realtors, and the North Carolina Department of Revenue.

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