

A RESOLUTION DIRECTING STAFF ON
ALTERNATIVE REVENUE OPTIONS
Resolution No. 93/2004-05

WHEREAS, in the 2004-2005 Work Plan, one of the Board of Aldermen Strategic Priorities is to “Diversify Revenue Stream to Maintain Ethnic and Economic Diversity”; and

WHEREAS, An annual goal is to “Seek new or alternative revenue sources”; and

WHEREAS, the Carrboro Board of Aldermen have received an agenda item for discussing these new, potential alternative revenue options; and

WHEREAS, Dr. Lee Mandell with the North Carolina League of Municipalities presented at this meeting his ideas and opinions regarding the various revenue options, their criteria for success in the North Carolina General Assembly, as well as his overall observations of activity in the legislature; and

WHEREAS, the Aldermen were provided a matrix of revenue options that describes each potential revenue source;

NOW THEREFORE, THE BOARD OF ALDERMEN OF THE TOWN OF
CARRBORO:

Section 1: Direct staff to:

Alternative Tax Revenues	Description	Typical Use/Purpose	Comments	Estimated Revenue
Special Sales Taxes	<i>sales taxes tend to be regressive because poorer people spend a higher percentage of their income than others on most goods and services.</i>			
Hotel/Motel Occupancy Taxes	Tax (1-6%) on gross receipts derived from the rental of any room, lodging by hotel or motel; it is essentially a sales tax.	-requires special legislation; public purpose not restricted by law - used by other jurisdictions to promote tourism	- Town has authority to levy this tax through HB1707, 2001-2002 session - no hotels/motels in Town at this time - a tax on visitors to the Town; not a tax on residents - is likely less regressive than other sales taxes -will require administrative procedures to track and record	\$0
Prepared Food and Beverage Tax	An extra tax on the price of meals and prepared food purchased in restaurants and other establishments that sell food.	--requires special legislation; public purpose not restricted by law -used by other jurisdictions to promote tourism; convention center activities Possible Use: Economic Development	-not as regressive as some sales taxes, though it does fall on people who eat at fast food restaurants as well as those who eat at fancy restaurants -can, as in Hillsborough, tax more nonresidents who eat at fast food restaurants off of the Interstate -will require administrative procedures to track and record -additional bookkeeping for businesses - since 1995, only five jurisdictions have received authority	\$
Admissions Tax	Tax for entertainment events. A tax would be levied on gross receipts of amusements within the Town; this would be in addition to any state or local sales tax.	-requires special legislation; public purpose not restricted by law	-no large coliseum -could have County collect and Carboro could receive a share of the receipts (ie, Dean Dome, etc.) - only Greensboro (1989) has received authority to levy this tax	N/A
One-half cents sales Tax	Additional sales tax on purchased items	-requires special legislation; public purpose not restricted by law	-Mecklenburg County uses this for transportation purposes (operating and capital)	\$590,000
Land Transfer Tax	An excise tax on instruments conveying certain interests in real property within the Town's corporate limit (in addition to state excise stamp tax). For example, charge \$1.00 per \$100 (1%) of value or consideration at the time of conveyance.	-requires special legislation; public purpose not restricted by law - could be used for open space and parks in collaboration with Chapel Hill, Orange County	-Authority only given to counties to date; has been used in high growth counties -Dare County used this revenue to pay for construction of jail -In Carboro, parcels sold 7/1/03-6/30/04 had total use value of \$135,568,883. If use \$1 per \$100, the Town can earn \$1,355,568. -more progressive than a flat rate -Administrative overhead will be involved to have County	\$1,355,568

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<p>Flat Taxes</p>	<p><i>-no relationship to actual use of or benefits received from the services financed with the tax, or to the value of the item taxes (unlike sales or property taxes), or to taxpayers' ability to pay (the rich pay the same amount as the poor); a regressive tax</i></p>	<p>collect the revenue on behalf of the Town</p>	<p></p>	<p></p>
<p>"Availability Fees" for Solid Waste Activities/ Flat Household Charge</p>	<p>Authorized by General Assembly in 1991 to assess a fee to households to cover the cost of landfill operations, replacing property tax as source of financing for landfill operations. This tax is an "availability charge", the inference being that residents are charged not for use of the landfill but for its availability.</p>	<p>-landfill fees</p>	<p>-considered most regressive of the new revenue sources. Purchases of items subject to sales tax do increase with incomes so that those with higher incomes at least pay more taxes in dollar amount (though less as a percentage of income) than do those with lower incomes. Whereas, flat household tax imposes same dollar tax on everyone.</p> <p>-use availability fee to fund solid waste operations to extent possible; free local revenue stream to fund capital improvement projects</p>	<p></p>
<p>Motor Vehicle License Tax</p>	<p>Flat license tax on motor vehicles</p>	<p>-legal limit is \$15 -Carboro's current fee Current Use: Operating Budget Possible Use: General CIP</p>	<p>-Mecklenburg County charges \$30 per vehicle; Mecklenburg uses it for transportation purposes -Increasing fee beyond legal limit requires special legislation; public purpose not restricted by law</p>	<p>\$125,000</p>
<p>Recreation Fees in Lieu of Facilities</p>	<p>Payments from developers or property owners for the purpose of providing open space areas or recreational facilities</p>	<p>Current Use: To provide open space areas or recreational facilities that are expected to benefit or serve the residents of the development generating the funds.</p>	<p>The Town's ordinance allows developers of certain types of projects to either provide open space and recreational facilities according to standards set forth in the ordinance or pay a fee in accordance with the Town-established fee schedule.</p>	<p></p>
<p>Impact Fees</p>	<p>A one-time, per unit charge to pay for capital costs associated with growth, ie, public school construction, fire protection, law enforcement. Can charge the tax on sale of new homes.</p>	<p>Currently, the Town is authorized to use this fee to pay for improvements to public streets; bridges, sidewalks, and on and off street surface water drainage ditches, pipes, culverts, and other drainage facilities. -will need special legislation to expand use of the fee</p>	<p>-must abide by legal principle of rational nexus—revenue can only be used to finance capital project which directly benefits the new development -examples: payment in lieu for open space; police/fire infrastructure/eqpmt needed to achieve a specific response time or patrol levels -increases cost of housing -requires administrative planning and justification of benefit/cost</p>	<p>N/A</p>

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Impact Tax	A one-time per square foot charge assessed on new development, commercial and residential; funds capital costs associated with growth	-requires special legislation; public purpose not restricted by law -Used for Capital infrastructure – schools	-do not have to show where revenue can only be used to finance capital project which directly benefits the new development -increases cost of housing -Town does not have to justify benefit/cost of project -Town does require specific cost analyses/formulae	
Property Taxes	<i>Within current literature, property taxes are considered to fund community-wide benefits of public service. Property tax currently serves as the only true local tax, where higher tax rates are indicative of a community that is willing to pay for a higher level of public services. A local income tax tied to state income tax liabilities is another revenue possibility that would serve as a true local tax.</i> <i>North Carolina ranks 39th among the 50 states in per capita property tax revenues.</i>	Fund economic development initiatives within the downtown area	-may be administrative fee for Orange County to collect funds on behalf of the Town	
Downtown Business District				A Special tax district assessing additional tax rate on property valuation within the downtown area
Miscellaneous Taxes				
Sell Vacant Land	Town owns property that could be sold	General	-Greene Tract, Public Works Facility; vacant lots, ie, Pathway Drive	N/A
Local Option Individual Income Tax	Town could levy a surcharge (ex, 5%) on the amount of state individual income tax owed by each resident.	requires special legislation; public purpose not restricted by law	A true local tax that makes local officials and taxpayers accountable; if local taxpayers want better services for their communities, they must be willing to pay them	
Local Option Payroll Tax	Town could levy a 1/2% tax on the gross value of the payroll of any business located within the Town.	requires special legislation; public purpose not restricted by law	Payroll tax is regressive because it falls only on wages, whereas richer people receive more of their income from non-wage sources -Town has few employers	
Privilege License Tax - Update to include new fees	A tax for doing business or carrying on various trades, professions, or occupations except as prohibited by law	General public purpose	-Currently used to subsidize general fund operations; collect \$10,500 Can dedicate to capital financing for economic/capital infrastructure needs -may charge flat fee for type of business or may use gross receipts methodology. If use gross receipts methodology, it is expected that Town will generate more revenues. (Per 1996 analysis, Town could generate higher amount of revenue)	\$16,500 if update fee schedule; If use gross receipts, \$32,000

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Fund Balance	Town could appropriate funds above 25% undesignated fund balance	-any purpose		
Grants	PARTF (state): limited to a maximum of \$250,000 It is a 50/50 matching program once one grant is received, not likely to receive another for period of years LWCF (federal grant) Info not available on limits or schedule for disbursement, or grant application requirements as yet; 50/50 match required; Competitive as above, only \$30 million for entire US.	Recreation Grants -Play equipment costs are too small to waste a chance at receiving a bigger payoff at 50/50 on the other projects. -Other information should be forthcoming from federal government soon.	Example: Adams Tract	
County Bond Funds/Other Contributions	Bond referendum passed by community for numerous purposes, including parks and recreation funds or grant funds	Tap into county resources for parks and recreation purposes	-application process	N/A
User charges	A fee where the cost of a governmental service is charged to the people benefiting directly from the services	The Town updates its fee schedule annually for a variety of services	-reduce tax subsidy for services where applicable, thus increasing funds available for capital plan	N/A
Payment-in-Lieu Fees - Parking	Establish parking requirements for commercial developments. If sufficient space is available to provide parking, the developer could choose to pay the Town what it would cost to provide the parking.	-develop parking lots and decks		N/A
Revenue Bond	Revenue bonds are limited-liability obligations. Security for revenue bonds is provided by pledge of a specific revenue stream - usually from project being funded	-Parking lots/decks	-does not need voter approval -consider fee charged to user in meeting debt service requirements	N/A

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Tax Base Diversification	Improving the diversity of the tax base will improve revenue outlook and the ability of the Town to support CIP-related costs. In Carboro, the task is to improve the commercial tax base.	-support general and capital needs	<table border="1"> <thead> <tr> <th></th> <th>Single Fam.</th> <th>Multi Fam</th> <th>Comm.</th> <th>Vacant</th> </tr> </thead> <tbody> <tr> <td>Carboro</td> <td>55%</td> <td>32%</td> <td>10%</td> <td>3%</td> </tr> <tr> <td>Chapel Hill</td> <td>68%</td> <td>14%</td> <td>13%</td> <td>5%</td> </tr> </tbody> </table>		Single Fam.	Multi Fam	Comm.	Vacant	Carboro	55%	32%	10%	3%	Chapel Hill	68%	14%	13%	5%	
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Evaluation of Taxes: Two major principles:

Benefits principle: Costs of government services are distributed according to the benefits received from those services and those who benefit more should pay more. However, nature of many public services is such that the benefits accrue to the public (common good). For services that benefit the entire community, we must impose taxes

Ability to pay principle: A principle of fairness; calls for overall tax burden to be proportional to ability to pay. Regressive tax: when a tax imposes a higher relative burden on poorer people than on richer people. The tax burdens relative to ability to pay are highest for those with the least ability to pay.