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April 8, 2020

The Honorable Thom Tillis
North Carolina United States Senator

Sent via email

Dear Senator Tillis,

I am writing on behalf of 540 cities and towns in North Carolina to ask that the Senate pass additional legislation to help our cities and towns recover from the economic crisis that is being caused by the COVID-19 virus.

The CARES Act is very generous, but it is primarily limited to COVID-19 direct expenses, such as reimbursement for costs incurred for personal protective equipment. Funds have not been appropriated to replace what is lost from the economic hit to municipal revenues such as those from sales tax, occupancy tax, and utility payments. Instead, the funds are restricted to identifiable costs to reimburse for the very direct costs of the virus. These reimbursements are very much needed and greatly appreciated, but the scope of the need goes much further.

These facts tell the story of why additional legislation is needed: Sales tax contributes a significant part of a city's revenue; the median city in North Carolina receives about 28 percent of its revenue from sales tax; that revenue is used to help pay the largest categorical expenses in a city's general budget -- public safety.

Water and wastewater utilities, critical to public health, are also substantial expenses and operations. Cities supply the water and treat the wastewater for nearly 90 percent of the citizens in the state. With the inability of people to pay for their water because of the economic downturn, cities are not going to be able to pay for the operating and maintenance costs of their water systems. Even before the virus hit, rural North Carolina was facing utility infrastructure needs of nearly \$20 billion. This hit is going to exacerbate an already bad situation, with a number of towns potentially never recovering. This is not the time for an additional public health crisis to damage more communities.

Here are the earliest estimates we have of the losses to city governments:

Sales taxes

From March-June 2019, cities and counties received more than \$1.2 billion in sales tax revenues. We think a decline in sales of 20 percent for that same period in 2020 is possible. If sales declined by 20 percent that would be a **\$250 million loss in sales taxes** for both cities and counties.

Further, if sales tax remittance is going to be deferred until July 15 without penalty or interest, that is **\$1.2 billion in sales tax revenue** that is eligible for deferment.

Occupancy taxes

Cities alone receive roughly \$50 million in occupancy taxes per year. If hotel reservations decline by 50 percent for the year – which could be a high or low estimate given the duration of current travel restrictions – that would be another **\$25 million loss** for cities alone.

Tax & Tag

In N.C., vehicle owners pay the local property tax on their vehicle at the same time they renew their vehicle registration. An emerging concern is people's ability and willingness to complete this renewal given unavailability/unwillingness of vehicle inspections, closure of local license plate offices, delays in check processing, etc. There is already talk of deferring inspections because of the social distancing requirements. Cities and counties rely on the state vehicle renewal process to collect more than \$900 million in vehicle property tax annually.

Utility revenues

Cities received nearly \$3 billion in utility revenues for municipalities in 2018. To the extent this revenue is deferred due to nonpayment without the threat of disconnection, this is going to significantly challenge the viability of many of these struggling utilities. They will be unable to support the people of the town, or the businesses that remain.

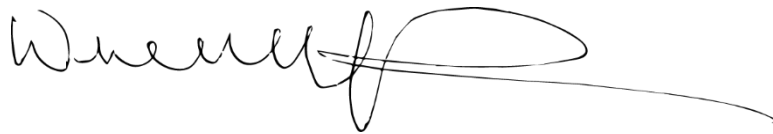
Of the approximately 540 cities and towns in NC, 200 have less than 1,000 people. These small rural areas were already suffering because of the loss of mills, manufacturing plants and population. They were facing an almost unsurmountable problem to maintain their water systems already. Without help for water infrastructure and economic losses, rural North Carolina may never recover.

Our largest cities are just beginning to see the losses. Their losses are going to be exponential. They have been economic engines for the state.

North Carolina cities and towns, large and small, will do all they can to support our citizens and businesses. But it is not going to be possible alone. Please help the state of North Carolina by supporting a fourth bill that will address these costs.

Please let us know if we can provide additional information or answer any questions. We are grateful for your service and your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read 'William Pitt', followed by a long, sweeping horizontal line that extends to the right.

William Pitt
President
N.C. League of Municipalities