

Pandemic-Related Revenue Losses for N.C. Cities

MUNICIPAL REVENUE SOURCE	PROJECTED LOSS THROUGH 12/31/20
Sales Tax	-\$112 million
Occupancy Tax	-\$40 million
Municipal Utilities (water, wastewater, electricity)	-\$90 million
Property Tax	-\$57 million
TOTAL PROJECTED LOST REVENUE	-\$300 million

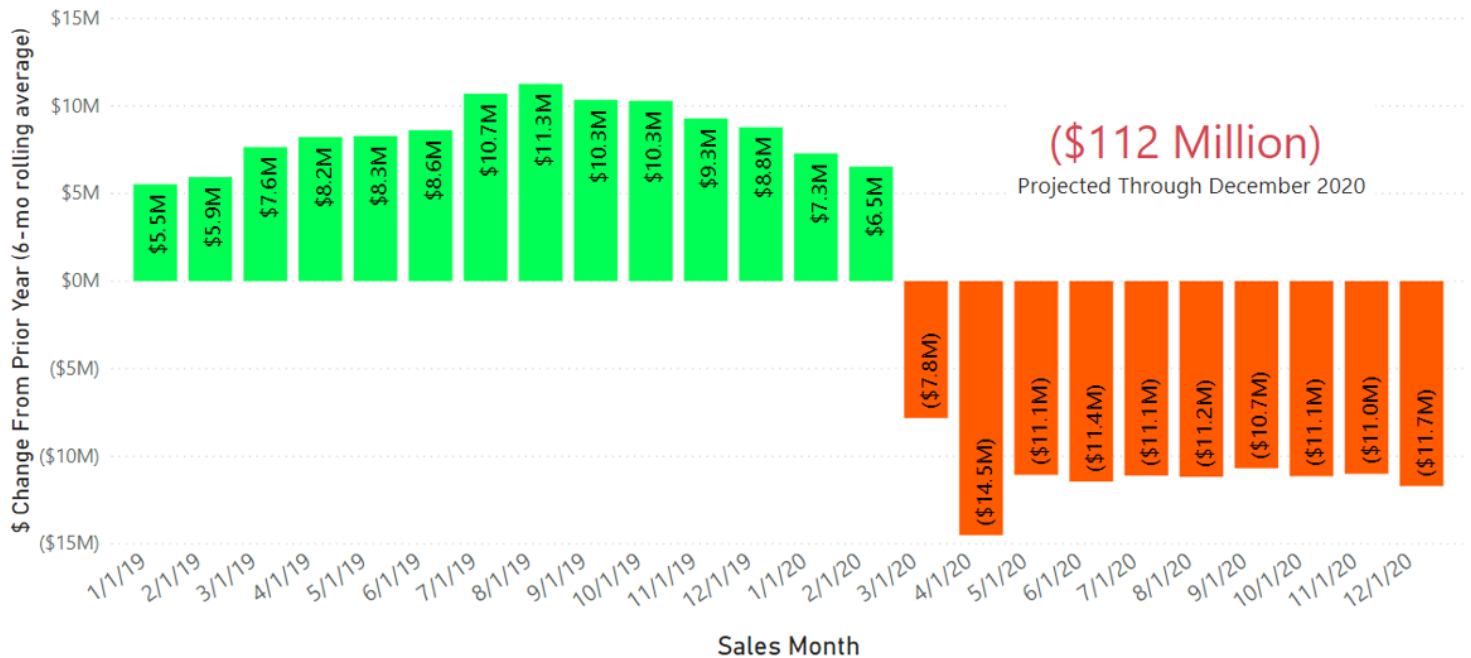
Municipal governments in North Carolina are in urgent need of direct, federal assistance to protect local economies and jobs from the effects of the covid-19 pandemic. Without assistance to fill massive and unforeseen revenue losses, economic recovery will be even slower, many local government jobs and services will be lost, utility systems will be at risk, and capital projects benefiting the business community will be stalled.

The projections in the above table have been developed through a variety of sources, including data from the State of North Carolina, self-reported data from municipalities, national economic forecasts, and industry group information. Conservative estimates have been used throughout. These estimates only cover the remainder of the calendar year. Following the recession of 2008, it took nearly six years for sales tax revenues to return to pre-recession levels. **If N.C. returns to stricter stay-at-home orders, or the economic effects of the pandemic worsen or linger into 2021, municipalities will need more money to offset accompanying revenue losses.**

SALES TAX

Local sales taxes are typically the second-largest general fund revenue source for municipalities and have been significantly impacted by the pandemic. Sales tax data in N.C. lags 3 months behind sales, but for sales in the month of April local government revenue was more than 13% lower than the same month the year before. The N.C. Department of Revenue has indicated that sales have improved somewhat in May, but final data is not yet available. We assume an average 10% decline in year-over-year sales tax revenues for the remainder of calendar year 2020, which is consistent with recent national forecasts of total annual change in retail sales.

NC Municipal Sales Tax Loss Projection



These losses are not felt equally across North Carolina. Areas that rely on tourism and the hospitality industry for their sales tax revenue are more severely impacted than other areas of the state. For instance, sales tax revenues for Buncombe County since March are almost 18% below 2019 levels. Cities like Asheville, Black Mountain, and Weaverville are all roughly 15% below previous year levels.

OCCUPANCY TAX

N.C. cities and counties have the option of levying a local room occupancy tax, though not all do. A recent report from the American Hotel & Lodging Association projected that occupancy tax revenues in N.C. would decline by more than \$241 million in 2020. The estimate in the table above represents cities' proportion of those losses based on recent data regarding county and city occupancy tax revenues.

UTILITIES

Since March, municipal utilities have been under a Governor's Executive Order not to disconnect utility service for nonpayment. During that time nonpayment rates have risen, in some cases dramatically. Though these payments are to be deferred while the Executive Order is in place, there are fears that businesses that close or consumers who are experiencing financial hardship

may never be able to repay deferred revenue. At the same time, large commercial water consumers that closed or reduced consumption as a result of economic conditions impacted many utilities' bottom lines. Many of these utilities in areas of declining population and economic activity were facing financial challenges prior to the pandemic because mills and manufacturing have left the area. Analysis of data submitted for just April and May showed nearly \$45 million in late payments and late fees that could not be collected. Assuming similar trends for June and July, we estimate \$90 million in lost collections through the duration of the Executive Order.

PROPERTY TAX

There is no penalty for paying property taxes any time in the same calendar year in which they are levied, so a large percentage of property taxes levied in FY20-21 budgets will be paid in late 2020. As a result, there is no way yet to estimate the true impact of the current economic circumstances on property tax payments. However, concerns have been raised regarding vehicle property tax payments that have been deferred by state legislation. Estimates are that \$200 million in vehicle property tax is eligible to be deferred over a period of six months. Much of that amount will not be paid. Concerns are also raised regarding homeowners' ability to make property tax payments if their mortgage payments were deferred for any part of 2020. This estimate represents just a 2% decline in municipal property tax collection rates.

DISTRIBUTION OF ANY FUTURE FEDERAL FUNDS

State-by-state discretion in how to distribute funds to cities is most likely to allow for all cities around the country to access needed funds, **provided that any legislation establishing such a system mandates an amount that must be distributed directly to city governments.**

Cities should not be left to fight with the state or county governments for revenue appropriated by the federal government. Distributions to cities must be mandated in the federal legislation and not made at the discretion of the state or county governments.

In N.C., certain local revenues are collected by the state and distributed to counties and cities by the state Department of Revenue. This provides an existing administrative structure that could distribute federal funds to local governments with relative ease if the distribution is mandated at the federal level and not left to the discretion of the county. However, similar structures may not exist in other states around the country, and other formulae may be more appropriate for other local revenue structures. Allowing each state to determine the formula for distributing to cities themselves is likely preferable to a one-size-fits-all situation. In order to ensure that cities receive the revenue they need, though, legislation should clearly indicate that revenue intended for cities must be distributed to cities and not redirected to other needs and other levels of government.