

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: SB 348 (Third Edition)

SHORT TITLE: Increase Cumberland Occupancy Tax

SPONSOR(S):

| FISCAL IMPACT | | | | | |
|---|-------------------|-------------------|---------------------------|-------------------|-------------------|
| | Yes () | No () | No Estimate Available (X) | | |
| | <u>FY 2001-02</u> | <u>FY 2002-03</u> | <u>FY 2003-04</u> | <u>FY 2004-05</u> | <u>FY 2005-06</u> |
| REVENUES | | | | | |
| General Fund | | | | | |
| Cumberland Co. | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: | | | | | |
| | | | | | |
| EFFECTIVE DATE: | | | | | |

BILL SUMMARY: The bill authorizes Cumberland County to increase its occupancy tax from the current rate of 3% to 6%. This change will occur over a period of years. In addition, it requires the County to establish a Tourism Development Authority (TDA). All of the new revenue, gleaned from the new tax, must be remitted to the TDA. The TDA must in turn use 50% of the net proceeds to promote travel and tourism in the county and for tourism related expenditures in the county. The remaining 50% must be directed to the Arts Council of Fayetteville/Cumberland County for events that will draw tourists and business travelers to the area. The bill does not change the use of the current 3% levy. However, it does require that 50% of this amount be administered by the new TDA, starting July 1, 2002. The county will still administer the balance of the first 3%.

ASSUMPTIONS AND METHODOLOGY: The bill increases the amount of room tax Cumberland County can levy on the following schedule:

| | |
|-----------------------|--------------------------|
| After January 1, 2002 | additional 1% (4% total) |
| After January 1, 2003 | additional 2% (5% total) |
| After January 1, 2004 | additional 3% (6% total) |

While these increases can be levied later than the above dates, or not levied at all, they cannot occur any earlier than the times noted.

Cumberland County currently levies a 3% room tax. Historic collection data supplied to the Department of Revenue indicates the following past revenue stream:

| | 1994-95 | 1995-96 | 1996-97 | 1997-98 | 1998-99 | 1999-00 |
|----------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| 3% Revenue | 1,044,007 | 1,110,201 | 1,211,423 | 1,210,478 | 1,223,943 | 1,282,039 |
| Revenue from each 1% | 348,002 | 370,067 | 403,808 | 403,493 | 407,981 | 427,346 |

Using these historic numbers to indicate a trend suggests the following revenue stream from each 1%:

| 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 |
|---------|---------|---------|---------|---------|
| 459,040 | 473,615 | 488,191 | 502,767 | 517,342 |

However, because of recent events and the general economic slowdown, the North Carolina Hotel Motel Association indicates that revenues are down significantly. Adjusting these figures down 5% to include the impact of a slowdown, and the effective dates, indicates the following potential stream of new revenue:

| New Revenue | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 |
|--------------|---------|---------|---------|-----------|-----------|
| 1st 1% | 218,044 | 449,935 | 463,782 | 477,628 | 491,475 |
| 2nd 1% | 0 | 0 | 231,891 | 477,628 | 491,475 |
| 3rd 1% | 0 | 0 | 0 | 238,814 | 491,475 |
| TOTAL | 218,044 | 449,935 | 695,672 | 1,194,071 | 1,474,426 |

While all of this new revenue is directed to the TDA, 50% of the amount will be forwarded to the Arts Council of Fayetteville/Cumberland County.

Because the language is permissive the commission is not required to levy this tax or levy it at the full amount authorized. Therefore, no exact fiscal estimate is possible on the bill.

FISCAL RESEARCH DIVISION 733-4910

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