General Fund – Discretionary Revenues

GENERAL PROPERTY TAXES

FY 2008-09 was a revaluation year. The FY2009-10 budget includes a tax rate of 54 cents per $100 of assessed valuation, which is the same rate as FY 2008-09. The property tax rate is established annually during the budget process. The City’s property tax is levied based on 100% of the assessed value of property from the previous January 1 as determined by the Durham County Tax Administrator, whose office bills and collects property tax. Please refer to Section IV - Budget Summaries for tax base information.

OTHER LOCAL TAXES
Sales Tax - Sales tax is levied on the sale, lease or rental of all taxable goods and services within Durham County. Purchasers of these goods and services pay the tax. Sales tax is collected by businesses at the time of the sale and then paid periodically to the North Carolina Department of Revenue, Sales and Use Tax Division. The Department of Revenue then remits that portion due to the County and all municipalities in the County based on a per capita formula.

The sales tax rate in Durham is 6.75 cents per dollar on all retail sales except food purchases to be consumed at home, which are taxed at 2.0 cents per dollar. Most services and prescription drugs are exempt from sales taxes. The State retains 4.25 cents for retail (0 cents in the case of food sales) and returns 2.5 cents to local governments. The sales tax is an important revenue source for the City, representing 20.5% of General Fund discretionary revenues for FY 2009-10.

Through FY 2002-03, the City of Durham only accounted for sales tax revenue actually received in the fiscal year, thus not accounting for one-quarter of sales tax receipts earned in a year. Beginning in FY 2003-04, the City accrued sales tax revenue earned during the fiscal year.

According to fiscal analysts at the General Assembly, sales tax revenues are projected to decrease by 5.5% to 6.0% for FY 2009-10. In the past the projections were applied to Article 40 and Article 42 taxes and a portion of Article 44. The elimination of the per capita portion of Article 44 and its replacement by the new municipal hold harmless payment makes the projection only applicable to Article 40 and Article 42 taxes. The City of Durham and Durham County have a new interlocal agreement as of July 1, 2009. Durham is projecting a 5.0% reduction based on current economic conditions and the interlocal agreement with Durham County. Sales tax continues to be distributed by the state on a per capita basis between the County of Durham and the City of Durham. Based on the new interlocal agreement with Durham County, the distribution ratio changed to 42% for the City and 58% for the County. This new agreement will remain in effect for five years from FY 2008-09 through FY 2012-13.

Hotel/Motel Tax - A tax of 6% is levied on hotel/motel rentals in Durham County as authorized by the General Assembly in the 2001 session. Of the first 5%, the City receives 25.5%, Durham County receives 34.5%, and the Durham Convention and Visitors Bureau receives 40%. The last 1% is held by Durham County to pay for arts and cultural projects. Funding is set aside in the last 1% for Durham Performing Arts Center. The FY 2009-10 budget projection represents a 17.2% decrease compared to the FY 2008-09 budget. This decrease is based on current economic conditions and projected decline in hotel usage from the Durham Convention and Visitors Bureau.

LICENSES AND PERMITS

Business Licenses - Businesses are assessed a fee for the privilege of doing business in the City. The FY 2009-10 budget projects a 5.2% decrease compared to the FY 2008-09 budget.

INTERGOVERNMENTAL REVENUE

Intergovernmental revenue consists of revenue received by the City from federal, state, and county government in the form of grants, shared revenues or reimbursements. Charges to other governments for services rendered, such as for interlocal agreements, are not included in this category.
State Shared Revenues

- **Utility Franchise Tax** – In 1989, the General Assembly replaced the utility franchise tax on piped natural gas with an excise tax on piped natural gas. In 2001, the General Assembly replaced the utility franchise tax on local telephone service with a new special sales tax on telecommunications. In 2006, the General Assembly replaced most of the local cable franchise taxes with a replacement revenue source from three special sales taxes (Sales Tax on Video Programming, Sales Tax on Direct-to-Home Satellite Service and Sales Tax on Telecommunications). Overall, the City is projecting a 9.3% increase in total Utility Franchise taxes for FY2009-10 compared to the FY2008-09.
  - The **Electricity** franchise tax is based on actual receipts from electric service within the municipal boundary. For FY2009-10 growth is expected to be between 0.5% and 1.0% due to reduced industrial demand.
  - **Telecommunications** sales tax revenues have increased significantly this year due to the higher tax rate on telecommunications effective April 2008. Annual statewide growth is expected to be between 10.0% and 11.0%.
  - The **Piped Natural Gas** excise tax (formerly a franchise tax) is expected to remain at the current year’s level or decline by 1%.
  - The **Local Government Video Programming** is a relatively new revenue source, there is little history on which to base estimates. Revenues for FY2009-10 are expected to increase by 5.5% to 6.5%.

- **Gasoline Tax (Powell Bill)** - The revenue generated from Powell Bill collections is used to support the maintenance of non-state system streets. The City’s share is based on population (75%) and local street mileage (25%) relative to those of other municipalities. For FY 2009-10, the City projects a 26.0% decrease compared to FY2008-09. The current recession has caused a dramatic slowdown in vehicle purchases and decreased demand for gasoline, resulting in a lower expected allocation to the City for FY2009-10. The State Highway Trust Fund is used to supplement the State Highway Fund in the funding of the Powell Bill distribution. This projection assumes that the proportion of City street miles and population before annexation to street miles and populations of other municipalities remains constant.

- **Beer and Wine Tax** - The tax on malt beverages and unfortified wines is paid by the final purchaser and administered by the State. Taxes are distributed to entitled municipalities according to population. The FY 2009-10 budget assumes this revenue will increase 6.6% over the FY 2008-09 budget.

- **Alcoholic Beverage Control Tax** - The City receives 10% of the profit from ABC operations in the County. The FY 2009-10 budget projects this revenue will increase 23.2% as compared to FY 2008-09.
**State Reimbursements** - Effective July 1, 2002, the State repealed several reimbursements to local governments, including the Inventory Tax Credit, the Homestead Tax Exemption, the Intangibles Tax and the Food Stamp Sales Tax Reimbursement. Together, these reimbursements represent a loss of $3,826,248 to the City of Durham, and continues to impact the budget.

**INVESTMENT**

Investment Income - Revenues into the General Fund do not occur evenly over the fiscal year. Most property tax, for example, is collected during December and January of each year. The Finance Director is authorized to invest these funds in short-term investments. The resulting interest accrued on the invested funds is considered interest revenue for the City.

By resolution of the City Council, all investment income derived from the General Fund is transferred to the Capital Projects Fund, minus amounts allocated to the Budget and Management Services and Finance Departments representing activities in these departments associated with capital project and investment income activities. Due to the Governor's actions on state-shared revenues for FY 2001-02 and FY 2002-03 and the continued downturn in the economy, investment income remained in the General Fund for FY 2003-04. For FY 2006-07 the transfer was limited to an allocation of $1,000,000. For FY 2008-09 there was no general fund transfer into the capital projects fund from investment income. For FY2009-10 there is no general fund transfer budgeted.

The FY 2009-10 budget projects a 6.0% reduction in investment income due to current economic conditions.

**OTHER REVENUE**

This category is used to record those revenues that are miscellaneous in nature.

Sale of Land - Periodically the City sells surplus land. The FY 2009-10 projects 89.9% decrease in land sales revenue due to the economy and anticipated property sales.

Sale of Surplus Equipment - Periodically the City auctions equipment. The FY 2009-10 budget projects a 55.0% decrease in sales volume.

**APPROPRIATION FROM FUND BALANCE**

Revenues from prior years are often necessary to balance the budget. To the extent revenues exceed expenditures at year end (June 30, 2009) excess funds will be returned to Fund Balance. The final year-end figure will be based on actual revenues and expenditures as determined through the City’s FY 2008-09 financial audit. For FY 2009-10, there is no transfer from fund balance budgeted to balance the budget. If funds from FY 2008-09 are returned as projected to Fund Balance, they will produce a General Fund Balance of 12.2%.