



NORTH CAROLINA GENERAL ASSEMBLY

2025 Session

Legislative Fiscal Note

Short Title: Guilford County Sales Tax Distribution Mods.
Bill Number: House Bill 305 (Fourth Edition)
Sponsor(s): Rep. Blust

SUMMARY TABLE

FISCAL IMPACT OF H.B. 305 [V.4]

	<u>FY 2025-26</u>	<u>FY 2026-27</u>	<u>FY 2027-28</u>	<u>FY 2028-29</u>	<u>FY 2029-30</u>
Local Impact					
Local Revenue	-	-	-	-	-
Less Local Expenditures	-	-	-	-	-

NET LOCAL IMPACT

Various Local Government Impacts-See Fiscal Analysis Section

TECHNICAL CONSIDERATIONS: See Technical Considerations Section

FISCAL IMPACT SUMMARY

Section 1 would modify Guilford County's sales tax distribution method to allow the town of Stokesdale to receive a share of these distributions. Overall, this section would be revenue neutral. However, Stokesdale's revenues would increase from \$0 to about \$400,000 annually; the revenues of Guilford County and other municipalities in the county would correspondingly decrease by about \$400,000 in the aggregate each year, with about 90% of the reductions being to the County and City of Greensboro.

Section 2 has a potential fiscal impact because it would specify how revenues from Guilford County's Article 46 referendum, if successful, would be distributed. If a referendum were approved, this analysis concludes that an additional annual \$28.7 million in sales tax revenue would be distributed to Guilford County and its municipalities to be expended for specified purposes.

FISCAL ANALYSIS

Section 1-Sales tax revenues to Guilford municipalities that do not levy a property tax.

Under current state law, counties using the ad valorem method of distributing sales tax revenues share sales tax distributions from the first two cents of sales tax—Articles 39 (first 1 cent), 40 (1st ½ cent), and 42 (2nd ½ cent)—with municipalities as well as fire districts and special districts that levy a property tax.



This section would modify Guilford County's method of sharing sales tax revenues by requiring sales tax revenues to be shared with a municipality in the county that does not levy ad valorem property taxes. The only municipality meeting this section's criteria is the town of Stokesdale. The amount of sales tax Stokesdale would receive under the bill is based on what it would receive if the county used the per capita method of distribution, multiplied by 25%. By allocating a portion of the sales tax revenues to Stokesdale, Guilford County and other municipalities will see a decrease in their distributions; however, the bill holds harmless fire districts and special districts that levy an ad valorem tax in the county.

Stokesdale Allocation. FRD used data from the Department of Revenue on sales tax distributions to Guilford County and its municipalities, which totaled \$251.3 million in FY 2023-24. FRD computed the amount Stokesdale would have received if the county used the per capita distribution method by multiplying its percentage of the county's total population (0.62%) by the total sales tax distribution amount in FY 2023-24. Since this section would provide Stokesdale with 25% of what it would receive under the per capita method, FRD then multiplied this number by that percentage. This resulted in approximately \$400,000 that Stokesdale would receive annually in sales tax distributions; Stokesdale currently does not receive any sales tax distributions under existing law.

Reductions to Guilford County and other units in the county. FRD computed the corresponding reductions to Guilford County, its fire districts, and its other municipalities first by subtracting the amount directed to Stokesdale from the total amount of sales tax revenues the county and those municipalities currently receive. Second, FRD multiplied the county's and each remaining municipalities' percentage of total valuations to determine the new ad valorem sales tax distributions they would receive. FRD then compared each entity's adjusted ad valorem sales tax revenue distribution amount to the amount received in FY 2023-24 to determine each entity's reduction.

Hold harmless for fire and special districts. Counties and municipalities that collect ad valorem taxes on behalf of a taxing district (such as a fire district) essentially act as a pass-through entity for fire departments or districts and special districts; they must remit to the taxing districts their proportionate share of net proceeds.

- **Fire Districts.** Since the ad valorem tax for 25 fire departments or districts ("fire districts," hereafter) applies throughout Guilford County, the County's sales tax distribution includes both the county portion and the portion for the fire districts.¹
- **Special Districts.** Greensboro's distribution amount includes both the city and three service districts since the city collects for these districts. FRD determined the amount of sales tax revenues special districts would have lost by including Stokesdale as a recipient, absent the bill's hold harmless provision.

The amount the fire districts receive under current law is their percentage of total county and district levies. In FY 2023-24, fire district levies accounted for 5.1% of these total levies. Applying this percentage to Guilford County's reduction results in fire districts receiving about \$12,000 per

¹ Currently, there are a total of 44 fire departments or districts for which a tax could be levied in Guilford County, but only 25 are levying such tax.



year to be held harmless. For Greensboro, special district levies were 1% of total city and special district levies, which results in a hold harmless of about \$600 per year.

Final reductions to Guilford County and municipalities. FRD estimates this section of the bill will reduce local government sales tax revenues all together by a total of about \$400,000 during a full fiscal year. After adjusting for the county and Greensboro as discussed above, specific reductions for each local government entity are shown in Table 1.

Table 1-Estimated Local Government Sales Tax Reductions in Section 1 of HB 305

Local Government Entity	Estimated Sales Tax Revenue Reduction (\$)
Guilford County	(226,000)
Archdale	(100)
Burlington	(600)
Gibsonville	(1,000)
Greensboro	(113,000)
High Point	(34,000)
Jamestown	(1,6000)
Kernersville	(1,000)
Oak Ridge	(500)
Pleasant Garden	(200)
Sedalia	(100)
Summerfield	(300)
Whitsett	(100)

Values do not sum due to \$400,000 due to rounding.

Section 2-Guilford County Article 46

Under current law, counties seeking to levy the Article 46 optional ¼ cent sales tax must have a resolution to that effect approved by the county board of commissioners and a successful referendum. Currently, 48 counties levy this tax. Revenues from this article of tax in those currently levying it can be used for any public purpose and are not required to be shared with municipalities.

Potential Revenue. Guilford County does not currently levy the optional quarter-cent tax.² Using past Article 39 collections at its rate of 1%, FRD applied Article 46's ¼ cent rate to determine the estimated revenues under the new tax. FRD estimates Guilford County would have generated about \$28.7 million in FY 2023-24 if it levied the optional quarter-cent tax then.

Potential Distributions. Guilford County currently uses the ad valorem method of distributing Article 30, 40, and 42 (the first 2-cents) sales taxes revenues, which means the county's and each municipalities' distribution is based on each's respective percent of total property tax revenues. In FY 2023-24, the first 2-cents generated about \$251 million in sales tax revenues, of which Guilford County received about \$153 million and the eligible municipalities about \$98 million.

² The county levies Article 39 (1 cent), 40 (1/2 cent), and 42 (1/2 cent).

The amendment would modify how sales tax revenues under Article 46, if approved, would be distributed to Guilford County and its municipalities. Table 2 summarizes each step of the proposed process, which is followed by FRD's methods to arrive at the corresponding estimates.

Table 2-Summary of Proposed Distribution of Guilford County Article 46 Sales Tax Revenues

Step	Short Title of Step	Summary of Step
Start	Total Art. 46 Revenues	Department of Revenue determines total revenues.
Step 1	Initial Set Aside	Sets aside a portion to be used in Step 3
Step 2	Qualifying Municipalities' Portions	Of what is remaining after the set-aside in previous step, distributes funds to qualifying municipalities whose sales tax revenues under the first 2 cents are less than what those distributions would be when multiplied by 25%.
Step 3	County Portion	Distributes funds set aside from Step 1 plus any remaining from Step 2 as follows: <ul style="list-style-type: none"> • Distributes the greater of 20% or \$5 million to the Guilford County Fire and Rescue Council. • Distributes the greater of 10% or \$2.5 million to Guilford Technical Community College for capital expenditures. • Distributes the remaining funds for salary supplements for classroom teachers employed by the local board of education.

- Start-The Department of Revenue determines the total amount of Article 46, or optional $\frac{1}{4}$ cent, sales tax distributions due to the county after costs of collections, refunds, etc.
 - FRD arrived at its estimate of potential revenues under the optional quarter-cent sales tax by multiplying non-food Article 39 sales tax revenues by a quarter, or 25%. Using FY 2023-24 data, FRD estimates the tax would have generated about \$28.7 million.
- Step 1- An initial amount is set aside consisting of the county's distribution to be directed in another step. The amount set aside is the sum of the greater of 20% of the net proceeds or \$5 million, and the greater of 10% of the net proceeds, or \$2.5 million.
 - This step sets aside \$8.6 million. FRD calculated 20% and 10% of the \$28.7 million, and both were above the respective caps, since they were \$5.7 million and \$2.9 million, respectively. Therefore, a total of \$8.6 million was set aside and not subject to Step 3 below. The bill requires step 2 funds not to be subject or based on the set aside in Step 1. Therefore, the amount for Step 2 is about \$20.1 million, which is \$28.7 million – (*minus*) \$8.6 million.
- Step 2-The amounts for qualifying municipalities are calculated and distributed from the \$20.1 million calculated in the previous step. For this step, the definitions in Table 3 are used:

Table 3: Definitional Formulas for Determining Qualifying Municipalities' Distributions

Term	Definition/Formula for Calculating
Ad valorem distribution	Municipality's distribution of Articles 39, 40, and 42 proceeds as if under the ad valorem method
Per capita distribution	Municipality's distribution of Articles 39, 40, and 42 proceeds as if under the per capita distribution method
Adjusted distribution	Municipality's distribution as if under per capita distribution method <i>times (x)</i> 25%
Allocated share	Adjusted distribution <i>minus (-)</i> Ad valorem distribution, but only if this difference is a positive number
Qualifying municipality	Guilford County municipality with an Adjusted distribution <i>greater than (>)</i> its ad valorem distribution

To determine the amounts a qualifying municipality would receive, FRD used FY 2023-24 data for the first 2 cents (Articles 39, 40, and 42) of sales tax revenues distributed to Guilford County governments.

- For ad valorem distribution amounts, the data obtained contained this information since that is the method the county uses, and it reflects what the municipalities received in FY 2023-24.
- For per capita distribution amounts, FRD multiplied the total amount of sales tax distributed under the first 2-cents (about \$250 million) by each municipality's percent of population from the Department of Revenue (DOR) as of April 2025. This analysis uses data provided by the State Demographer for determining per capita distributions (DOR also uses this same data). This approach estimates what would have been distributed to each municipality had Guilford County used the per capita method.
- For the adjusted distribution, FRD multiplied the above by 25% for each municipality.
- For the allocated share, FRD determined whether each municipality's adjusted distribution amount was greater than its ad valorem distribution and a positive number.
- FRD identified five municipalities met those criteria and, as such, are qualifying municipalities.

The towns of Oak Ridge, Pleasant Garden, Stokesdale, Summerfield, and Whitsett would receive Article 46 sales tax proceeds using the above criteria for a qualifying municipality. at the amounts since their calculations result in a positive number. These five municipalities are shaded in Table 4.



Table 4: Difference in Guilford County Municipality's Ad Valorem and Adjusted Distributions Based on FY 2023-24 Data

Municipality	Difference in Ad Valorem Method and Adjusted Distribution (\$ in thousands)
Archdale	(13)
Burlington	(260)
Gibsonville	(444)
Greensboro	(50,327)
High Point	(15,896)
Jamestown	(652)
Kernersville	(599)
Oak Ridge	169
Pleasant Garden	186
Sedalia	(14)
Stokesdale	392
Summerfield	533
Whitsett	2

Therefore, total Article 46 sales tax revenues for the qualifying municipalities, except for the amount set aside in Step 2, are calculated to be about \$1.3 million. The towns of Oak Ridge, Pleasant Garden, Stokesdale, and Whitsett are required to use these proceeds for any public purpose. The town of Summerfield would be required to distribute the first \$3 million of its cumulative proceeds (from the first distribution until distributions across fiscal years total \$3 million or greater) to the Summerfield Fire District to be used for capital enhancements for water resources related to fire protection. The town would retain any proceeds above \$3 million and would be allowed to use them for any public purpose.

The remaining balance after this step is \$18.8 million (\$20.1 million – \$1.3 million).

- Step 3-This step specifies how Guilford County would be required to spend its proceeds of the Article 46 tax. Here, the set aside from Step 1 (\$8.6 million) is added to the amount remaining after Step 3 (\$18.8 million). This totals \$27.4 million for the county. The bill requires the County to spend its distributions to supplement, and not supplant, existing funds and to maintain funding for current items at a minimum level of a 10-year average, as follows:
 - The greater of 20% or \$5 million, to the Guilford County Fire and Rescue Council for equipment purchases or capital expenditures. Using the \$27.4 million figure, FRD estimates about \$5.5 million would be required to be spent for these purposes each year.
 - The greater of 10% or \$2.5 million, to Guilford Technical Community College for capital expenditures. Using the \$27.4 million figure, FRD estimates about \$2.7 million would be required to be spent on this purpose each year.
 - The remaining balance to the local board of education for teacher salary supplements. The bill defines a classroom teacher as “an employee of a local board of education employed as a teacher who spends at least 70% of his or her work time in classroom instruction.” Using the \$27.4 million figure, FRD estimates Guilford County would be required to spend about \$19.2 million of Article 46 sales tax revenues on this purpose each year.



Table 5 shows the final estimated distributions of Article 46 revenues should the bill become law and a successful referendum and county commissioner resolution adoption.

Table 5: Summary of Annual Recipients of Article 46 Revenues Under HB 305 Based on FY 2023-24 Data

Recipient Type/Group	Total Estimated Article 46 Revenues (\$)	Estimated Article 46 Revenues (\$)	Recipient	Required Use of Funds Under HB 305
Qualifying Municipalities	\$1.3 million	169,000	Oak Ridge	Any public purpose
		186,000	Pleasant Garden	Any public purpose
		392,000	Stokesdale	Any public purpose
		533,000	Summerfield Fire District and Town of Summerfield	<ul style="list-style-type: none"> • First \$3 million: Capital enhancements for water resources related to fire protection. • Anything above \$3 million: any public purpose
		2,000	Whitsett	Any public purpose
Guilford County	\$27.4 million	5,500,000	Guilford County Fire and Rescue Council	Equipment purchases or capital expenditures
		2,700,000	Guilford Technical Community College	Capital
		19,200,000	Local board of education	Teacher Salary Supplements
Total	\$28.7 million	\$28.7 million		

Note: Total amounts shown may not sum to values shown due to rounding.

TECHNICAL CONSIDERATIONS

Section 1 of the bill requires a qualifying municipality to adopt a resolution indicating its intent to receive proceeds the bill would provide. It also states that if a resolution is adopted in 2025, it must be adopted by October 1, 2025. The bill further specifies that the resolution is effective for distributions beginning on and after the fiscal year in which the resolution was adopted. Therefore, if a qualifying municipality adopts a resolution by October 1, 2025, the earliest the municipality could begin receiving distributions would be July 1, 2027.

The fiscal analysis for Section 2 of the bill that is presented herein assumes the requisite referendum will occur and pass, which would authorize Guilford County's optional quarter-cent sales tax.

DATA SOURCES

N.C. Department of Revenue, Moody's Analytics.

LEGISLATIVE FISCAL NOTE – PURPOSE AND LIMITATIONS

This document is an official fiscal analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected

direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts.

CONTACT INFORMATION

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