

## Sales Tax Questions

### **Commissioner Rodriguez-McDowell**

- 1) Please provide a list of types of items that are subject to this tax – or not subject if that is more succinct. For example, is it applied to all food? Medicine? Diapers? Meals and liquor in restaurants, fast food? Labor on car repairs? Hotel stays? Hospital stay? Doctor's bills?

The local sales tax base that the quarter-cent would apply to includes most goods and services purchased. This includes groceries, food in restaurants, diapers, household supplies, books, and other items. The sales tax would not apply to medical services or devices, but it would apply to medicine. Charges on labor of automotive repairs and hotel stays are also subject to the local sales tax.

- 2) Has the county considered funding the Arts and Science Council in a more robust way in the past? Has it ever been requested by the ASC before they asked for the sales tax revenue? Were other county funding options considered?

The Arts and Science Council completed the "Cultural Life Task Force" Report in 2014. One of the recommendations was to identify a dedicated revenue source for arts and culture. The County Commission voted to put the quarter cent sales tax on the ballot which was defeated. Since that time, ASC has requested additional funding from the County. That is how the Culture Blocks program was born. We worked with ASC to create a program that would begin the process of bringing arts and cultural events and activities into neighborhoods. These events generally take place at County facilities including recreation centers and libraries.

- 3) Has there been an Office of Cultural Affairs discussed in the past? And does any exist in other NC counties?

Since I have been with Mecklenburg County (12 years), there has not been a discussion about creating a Department of Cultural Affairs. We have always taken the position that the ASC would serve in that role on behalf of the entire community. In 1974, a Cultural Action Plan Committee composed of approximately 100 civic leaders recommended the agency be reorganized to meet the growing needs of the arts community. With the support of the city and county, a consultant developed a Cultural Action Plan, and a new agency, the current Arts & Science Council-Charlotte-Mecklenburg, Inc. (ASC), was created in June 1975.

Regarding other jurisdictions across the State, Raleigh has an arts office within its Park, Recreation, and Cultural Resources Department. The arts office has six full-time positions and three part-time positions. They oversee the arts centers, manage grant funding to nonprofits associated with arts and culture, manage the city's art gallery, which has year-round exhibitions in City Hall, and the public arts program. Also, the City of Durham has an arts and culture division within its General Services Department. However, based on the "quick research" none of the two divisions appear to be of the magnitude of the ASC. of the two divisions appear to be of the magnitude of the ASC. None of the other major benchmark jurisdictions - including the

counties of Wake, Cumberland, and Buncombe and the cities of Fayetteville, Asheville, and Charlotte - have an actual office within their organization.

The attached document shows local government funding for the arts by local government across the State for FY2018.

- 4) As far as the breakdown of distribution to the towns, I would like to understand how the portions were decided. Are the allocations based on proportion of population? Property values? Numbers of arts organizations and existing parks?

The proposed allocation to the towns is based on assessed valuation. After reviewing other possibilities like population, it was determined that assessed valuation provided the most equitable approach, provides sufficient dollars for the towns to make meaningful investments and is based on data that is easily accessible and controlled by the County.

- 5) Have there been talks with the City regarding the hospitality industry tax being used to fund the arts? This seems like a natural source for at least partial funding.

That conversation has taken place. Those funds are fully allocated for other purposes.

- 6) I am interested to learn the impact to residents at different income levels... is there information available that shows how people at differing income levels would feel the impact of such a tax? For example; if a household making \$40,000 a year and living paycheck to paycheck spends all their income, there must be studies that show a breakdown of how much sales tax they would pay in a month or year on their purchases. So how it impacts people at various income levels would be of interest to me.

The overall impact of the sales tax increase by income level would vary by household, and their specific spending patterns. While county-specific data does not exist, state-wide families making \$40,000 per year spend less than 5% of their income on sales and excise taxes. Overall, a quarter-cent increase in the sales tax would not move the needle drastically. For example, if a household earning \$40,000 spent \$16,000 of their income on non-taxable goods and services (rent, medical services), and the remainder on things subject to sales tax, the tax burden would increase \$5.00 a month, or \$60 a year.

- 7) Can you provide information on corporate profits for our large businesses in the Charlotte area and how much of it is donated to the community?

We do not have access to this information.

- 8) Part of my hesitation is with the role of the Foundation for the Carolinas, the Charlotte Executive Leadership Council, Center City Partners, and even the Charlotte Regional Alliance. My perception is that passing this sales tax on to the people of the county takes the burden off of them to help fund the needs of the community. They seem to be behind the scenes putting this plan forward. Is this an accurate perception? My question goes to the motivation for the sales

tax, not necessarily a value judgement - as perhaps it is correct for the arts to be largely funded by local government. I am trying to understand how we got here at this time.

The business and philanthropic communities have always been and will continue to be huge supporters for the arts. In 2014 the business and philanthropic sectors raised over \$40 million and created the Thrive Fund to help sustain arts organizations that were hit hard during the recession. Although an incredible effort this is not a sustainable funding model. The quarter cents sales tax is designed to do four things, create a sustainable funding strategy to stabilize the sector, replace the funding that has been lost due to the significant decline in workplace giving, expand arts funding throughout the community, and ensure that we create a vision of “culture for all” with a focus on equity.

These conversations have been on-going since 2014. We are here now because the continued decline in workplace giving has created a crisis that needs to be addressed.

- 9) Was there a time in the FY2020 budgeting process when this was considered as part of what should be included in property taxes but then opted out in favor of keeping the property tax increase as low as possible?

No. The ASC makes an annual budget request to the County but did not request funding for this purpose. They requested funding to expand culture blocks which was included in my budget and approved by the County Commission.

#### **Commissioner Powell**

- 10) Once distribution amounts are debated and decided upon, can the Board express the priorities as percentages instead of dollar amounts, as sales will fluctuate?

Yes. It is anticipated that the Board will adopt a resolution which will reflect the allocations by percentage.

- 11) What is the guarantee that the quarter cent sales tax money will be spent the way it is intended?

While this Board of County Commissioners cannot bind future Boards, the resolution is a statement of intent to maintain the funding as adopted. In addition, we plan to put these dollars in a special fund, so they will be reported on separately from the general fund. This will provide transparency around how much was collected and how it was spent.

- 12) Can the Board include a SUNSET clause on the quarter cent sales tax?

No. There is no provision in the statute for the sales tax to sunset.

- 13) Do you have current estimates of population per county District?

See attached

- 14) It would be helpful to have a list of the total amount of all dollars budgeted and allocated to ASC for the past 5 fiscal years and the total \$ included for FY2020.

See attached

**Commissioner Jerrell**

- 15) Can the proposed allocation be changed after the initiative passes? If so, by what mechanism?

Since the referendum question is silent on the purpose of how the funds can be used, the allocation can be changed by a vote of the BOCC. However, the voters will be voting on the tax based on the approved allocations and there would be considerable backlash if the allocation was changed. This is similar to a bond referendum. The projects included in a bond are not placed on the ballot, but the voters expect that we will complete the projects that were presented.

- 16) What happens if there is a shortfall or surplus in the projected generated revenue from the sales tax? Would the proposed allocations be divided based on the percentages outlined?

The allocations will be in the form of percentages. Therefore, as the tax increases or decreases the percentage allocated to each purpose would remain the same, even if the amounts changed.

- 17) Does the Board have the flexibility to make changes around allocation amounts after the referendum is passed by voters?

See response above

- 18) If there is a surplus can we allocate the excess funds to other critical areas or are we bound only to the areas identified?

Since the funds will be allocated by percentage, technically there will not be any surplus

- 19) Can CMS change the amount allocated for the “supplement” to use for other purposes?

Technically they could but don’t expect that the Board of Education would cut teacher pay and allocate the funds to another purpose.

- 20) Since CMS is woefully short on psychologists, counselors and therapists, I would like for us to consider utilizing part of the \$8 million as a permanent source to fund those positions on an on-going basis.

OK

21) How do you believe this proposal will impact future budgets?

These funds will provide relief in future budgets in that funding for arts and culture would not be funded through the general property tax. In addition, the funding for parks and greenways will go a long way toward completing the many projects that will be identified in the upcoming Parks Master Plan. Including funding for teacher supplement would reduce the need to increase this item in future operating budgets.

22) With respect to governance model option # 4, do we believe IRS approval would be an issue or are you merely mentioning that this is the process?

Merely mentioning it as part of the process. I don't anticipate any issues obtaining IRS approval.

23) With respect to governance model option # 5, does Starla have an idea of our chances of success with General Assembly approval?

We would have little chance of obtaining approval from the General Assembly. Even if it were a viable option, we would be concerned that the General Assembly would place conditions on the Authority that would be unacceptable to the County.

24) In my opinion, there appears to be 3 options that will provide a high level of transparency and the most control over funding by the Board. While all options have challenges, which one does staff believe would "most" meet the requirements listed above, including the ability of the Board to deploy resources to critical areas as we see fit?

A new 501(c)(3) that would oversee grant making for arts and culture provides the highest level of transparency and accountability over how those funds are deployed in the community. There are some functions that the ASC currently does that could be retained by them including promotion and professional development.

The funding for teacher supplement would be given directly to CMS, funding to the towns would be given directly to each municipality, and funding for parks and greenways would be retained by the County for that specific purpose.

#### **Commissioner Cotham**

25) Can you discuss a sunset on this tax increase and a process of evaluating it? I don't know the statute if it should pass and if it had a sunset in maybe 5 -7 years. Would it have to go on ballot again or could a future board vote to continue it?

There is no provision in the statute for the sales tax to sunset. Evaluation and monitoring of how the funds are spent and the impact on the community will be incorporated into the governance model.