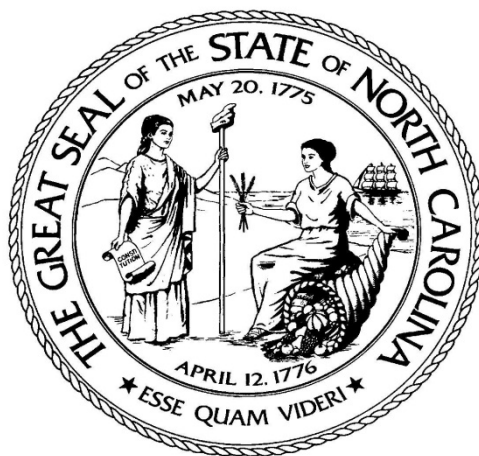


NORTH CAROLINA GENERAL ASSEMBLY



HOUSE SELECT COMMITTEE ON PROPERTY TAX REDUCTION AND REFORM

REPORT TO THE 2026 SESSION of the 2025 GENERAL ASSEMBLY OF NORTH CAROLINA

MAY 1, 2026

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TRANSMITTAL LETTER

May 1, 2026

TO THE MEMBERS OF THE 2026 REGULAR SESSION
OF THE 2025 GENERAL ASSEMBLY

The **HOUSE SELECT COMMITTEE ON PROPERTY TAX REDUCTION AND REFORM**, respectfully submits the following report to the 2026 Regular Session of the 2025 General Assembly.

Rep. Julia C. Howard (Co-Chair)

Rep. Erin Paré (Co-Chair)

Rep. Mitchell S. Setzer (Co-Chair)

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COMMITTEE MEMBERSHIP

2025-2026

Speaker of the House of Representatives Appointments

Rep. Julia C. Howard (Co-Chair)
Rep. Erin Paré (Co-Chair)
Rep. Mitchell S. Setzer (Co-Chair)

Rep. Brian Echevarria (Vice Chair)
Rep. Neal Jackson (Vice Chair)
Rep. Eric Ager
Rep. Jonathan L. Almond
Rep. Brian Biggs
Rep. John M. Blust
Rep. Jerry "Alan" Branson
Rep. Grant L. Campbell, MD
Rep. Becky Carney
Rep. Maria Cervania
Rep. Tricia Ann Cotham
Rep. Carla D. Cunningham
Rep. Aisha O. Dew

Rep. Frances Jackson, PhD
Rep. Abe Jones
Rep. Keith Kidwell
Rep. Nasif Majeed
Rep. Larry W. Potts
Rep. Dennis Riddell
Rep. James Roberson
Rep. Mike Schietzelt
Rep. Brian Turner
Rep. Harry Warren
Rep. Sam Watford
Rep. Diane Wheatley
Rep. Jeff Zenger

Staff

COMMITTEE CLERK:

Holden Williams

LEGISLATIVE ANALYSIS DIVISION:

Nick Giddings
Trina Griffin
Zoey Howe

BILL DRAFTING DIVISION:

Brett Berne

FISCAL RESEARCH DIVISION:

Brent Lucas
Jonathan Tart
Alannah Knight

COMMITTEE PROCEEDINGS

The House Select Committee on Property Tax Reduction and Reform met five times following its inception on December 5, 2025. Informational materials and resources for each committee meeting are posted online at the [Committee's website](#). Detailed minutes and information from each Committee meeting are available in the Legislative Library. The final meeting of the Committee prior to the convening of the 2026 General Assembly took place on April 15, 2026, at which the Committee discussed and approved its final report to be submitted to the members of the House of Representatives.

DECEMBER 17, 2025, MEETING

At its first meeting on December 17, 2025, the Committee heard multiple educational presentations from staff. Alannah Knight, Fiscal Research Division, presented data showing trends in home prices, income, and demographics in North Carolina. This information served as a primer for the Committee on trends in the State contributing to the discussion on property taxes. Ms. Knight noted multiple factors that are impacting rising housing prices in North Carolina, including population growth, mortgage rates, and supply chain issues during the Covid-19 pandemic. Ms. Knight further compared home prices in North Carolina to the national average, which showed that home prices in the State grew faster than the national average every year between 2017 and 2024. Ms. Knight concluded by demonstrating changing demographics in North Carolina; these showed that the age demographic of 65- to 84-year-old residents saw the largest percentage of population growth over a ten-year period. Ms. Knight explained that this growth was due to an aging population and an influx of retirees to the State. For more information, Ms. Knight's presentation is included in Appendix F.

Next, Nick Giddings, Legislative Analysis Division, provided an educational overview of the current property tax system in North Carolina. Mr. Giddings walked the Committee through the entire property tax process, from appraisals to collections. Mr. Giddings began

by discussing the governing law surrounding property taxation in North Carolina, specifically Article V, Section 2 of the North Carolina Constitution and the Machinery Act of Chapter 105 of the General Statutes. Next, Mr. Giddings discussed the types of taxable property, how property is appraised and assessed for taxation, and the property tax appeals process. Additionally, Mr. Giddings discussed the process that local governments undertake when setting the property tax rate and satisfying the statutory requirement that local governments have a balanced budget each year. He concluded with the law surrounding the refund and release of property taxes. For more information, Mr. Giddings' presentation is included in Appendix F.

Trina Griffin, Legislative Analysis Division, then presented about current residential relief programs available to homeowners in the State. Specifically, Ms. Griffin walked through the eligibility requirements for the Elderly and Disabled Homestead Exclusion, the Circuit Breaker Exclusion, and the Disabled Veterans Exclusion. For each exclusion, she presented corresponding data on the fiscal impact of the exclusion, including the counties most impacted and the value excluded from the tax base through these exclusions. Ms. Griffin also provided the Committee with information on how North Carolina's exclusions compare to other Southeastern states. Finally, Ms. Griffin provided the Committee with a summary of all legislation proposed in the 2025 session related to the residential relief programs. For more information, this presentation is included in Appendix F.

Finally, Brett Berne, Legislative Drafting Division, and Nick Giddings, Legislative Analysis Division, explained alternative property tax relief programs for the Committee's continued consideration. First, Mr. Berne presented three options to control growth in tax bills: assessment limits, rate limits, and levy limits. For each of these options, Mr. Berne provided different ways to approach each option, such as percentage growth caps, assessment freezes, or assessment phase-ins, all within assessment limits. Additionally, he provided considerations for the Committee in looking at each option and examples of jurisdictions that have implemented the different options. Then, Mr. Giddings offered alternative mechanisms to implement property tax limitations, including revenue or

expenditure limits, truth in taxation laws, or a modified circuit breaker program. Mr. Giddings outlined how revenue or expenditure limits would limit a local government's annual revenue, expenditures, or both, to reduce the amount needed to be raised per year.

He then explained how truth in taxation policies operate in practice. In doing so, he provided examples of such policies, such as requiring local governments to disclose directly to taxpayers any tax revenue increases due to rising property values or increases in the tax rate, with the goal of promoting greater transparency to taxpayers. He further highlighted how some other states, such as Delaware, Florida, and Kansas, have enacted truth in taxation laws.

Lastly, Mr. Giddings explained that while a circuit breaker program is currently available in North Carolina, it is underutilized. He provided examples of changes that may help the program be more beneficial to taxpayers, citing research conducted by groups that have studied circuit breaker programs nationwide. These changes included removing age or disability requirements, increasing or adjusting the income threshold, gradually reducing or phasing out benefits, and adjusting or eliminating liens resulting from the deferred tax liability. For more information, this presentation is included in Appendix F.

JANUARY 14, 2026, MEETING

At its second meeting on January 14, 2026, the Committee heard from Chris McLaughlin, Professor of Public Law and Government, UNC School of Government. Mr. McLaughlin provided the Committee with an overview of the Constitutional uniformity requirement. Mr. McLaughlin walked through the original language of the requirement from the 1868 State Constitution and the current language from the 1971 State Constitution. Additionally, Mr. McLaughlin's presentation covered the State court decisions that guide application of the uniformity requirement and ended with hypothetical scenarios for the Committee to consider. For more information, this presentation is included in Appendix G.

Next, the Committee heard presentations on the roles and responsibilities of local governments. Ike McRee, Legislative Analysis Division, explained the roles of counties, municipalities, and special purpose local governments. Additionally, Mr. McRee provided members with an overview of the services that municipalities and counties are required to provide by State law and additional services they may optionally provide to residents. Mr. McRee ended by explaining different uses of local government revenue, including whether certain funds had restricted or unrestricted uses. Mr. McRee presented the Committee with data showing that property taxes are the largest source of annual county and municipality revenue and are largely unrestricted in terms of use. Next, Kevin Leonard, Executive Director, North Carolina Association of County Commissioners, provided the Committee with a brief overview of property taxes at the county level. Like Mr. McRee, Mr. Leonard explained the various services that counties provide to their residents, like public education, public safety, and infrastructure. Additionally, Mr. Leonard confirmed that, on average, the primary source of county general fund revenue comes from property taxes. Mr. Leonard concluded by explaining the checks and balances that hold counties accountable for their property taxes, such as public debate, regular audits, and elections. Then, Chris Nida, Director of Technical Assistance for Cities, North Carolina League of Municipalities, provided an overview of how municipalities benefit from property taxes. Mr. Nida began with an overview of municipal services, like building inspections, emergency services, and infrastructure. Mr. Nida also explained the difference between general funds, which are funded primarily by property taxes and sales taxes, and enterprise funds, which are self-supporting services that operate by charging service-based fees, like water or sewer. Mr. Nida concluded by informing the Committee that the cost of providing services is rising and funds raised do not stretch as far as they did previously. Presentations by Mr. McRee, Mr. Leonard, and Mr. Nida are included in Appendix G.

Next, Brent Lucas, Fiscal Research Division, provided the Committee with a brief overview of the fiscal impact of property tax exemptions generally and the specific impact of government and nonprofit-affiliated exemptions. Mr. Lucas informed the Committee

that approximately 12% of all real property values in the State are exempt from property taxes, totaling around \$222 billion in annual value excluded from the local tax base. Turning to the government and nonprofit-affiliated exemptions, Mr. Lucas explained that five exemptions account for about 81% of total property values excluded from the tax base. The five highest value exemptions are governmental property, educational property, religious property, nonprofit hospital property, and low- and moderate-income housing property. Mr. Lucas walked the Committee through each of these five exemptions, with an overview of the amount in excluded value per county and examples of exempt properties. Mr. Lucas concluded by providing a line graph that showed a sizable increase in properties claiming the low- and moderate-income housing exemption since 2023.

Finally, the Committee heard a series of presentations on the nonprofit affordable housing exemption. First, Scott Baker, Executive Director, North Carolina Housing Finance Agency (NCHFA), provided an overview of affordable housing in North Carolina and how affordable housing projects are financed, including an explanation of the federal Low Income Housing Tax Credit (LIHTC) program, which provides a tax-incentive to construct or rehabilitate affordable rental housing to eligible development entities under the State's Qualified Allocation Plan (QAP). Mr. Baker concluded by informing the Committee how NCHFA ensures LIHTC developments stay affordable, including the requirement that a recorded deed restriction be in place requiring that the property meet affordability guidelines and a 30-year monitoring period during which NCHFA ensures the property is compliant.

Next, Trina Griffin, Legislative Analysis Division, presented on the current state of the law regarding the affordable housing exemption and the 2013 North Carolina Court of Appeals case of *In re Blue Ridge Housing of Bakersville*, which has resulted in an expanded application of this exemption in recent years. Ms. Griffin explained the two components of this exemption—ownership and use. The ownership component requires that an organization not be organized or operated for profit, but State law does not define what constitutes ownership or what percentage a nonprofit organization must own of the

property. The use component requires that the property actually and exclusively be used by the owner for charitable purposes.

Ms. Griffin then walked the Committee through the *Blue Ridge Housing* case. In that case, the Court applied a multi-factor balancing test to find that the nonprofit, which only owned 0.1% of the property, satisfied the ownership component of the exemption and was therefore entitled to the property tax exemption. Ms. Griffin told the Committee that observers generally view this as the correct result under the specific facts of the case. However, a broad interpretation of the case, a lack of statutory guidance, and administrability issues has contributed to self-dealing, unanticipated local revenue loss, and a lack of long-term affordable housing. Ms. Griffin concluded by presenting policy issues related to the statute for the Committee to consider.

David Baker, Director of Tax and Revenue Outreach, North Carolina Association of County Commissioners, presented the county perspective on the *Blue Ridge Housing* case and policy suggestions for the Committee's consideration. Mr. Baker provided data on the number of properties utilizing this exemption in a selection of counties from 2021 through 2025 to show the dramatic increase in exempt properties over a four-year span. Mr. Baker suggested the Committee consider changes to the current law, such as defining ownership, defining low and moderate income, and requiring an annual application for the exemption.

Ben Justus, Executive Staff, Self-Help Credit Union, concluded this series of presentations by detailing the growing concern over the increased utilization of the affordable housing exemption from the Credit Union's perspective. Mr. Justus provided a brief recap of the current law and *Blue Ridge Housing* case before sharing observations of problematic trends since the case, including difficulty for tax assessors, a dramatic increase in applications for the affordable housing exemption, and the distribution of marketing materials from law firms and brokers encouraging developers to pursue this exemption as a tax abatement strategy. Mr. Justus also offered a potential solution for the Committee's consideration—asking to clarify the statute so that only 100% nonprofit owned or operated properties and properties operated with (i) federal, state, local government financial support

and ongoing compliance monitoring; (ii) long-term affordability restrictions; and (iii) a nonprofit general partner with control and a long-term ownership option would be eligible for the exemption. Presentations by Mr. Lucas, Mr. Scott Baker, Ms. Griffin, Mr. David Baker, and Mr. Justus are included in Appendix G.

FEBRUARY 18, 2026, MEETING

At its third meeting on February 18, 2026, the Committee heard from Whitney Afonso, Professor of Public Administration and Government, University of North Carolina at Chapel Hill School of Government, regarding the cost shifts associated with recent federal funding changes and the corresponding impact to local governments. Ms. Afonso highlighted recent changes to funding for the Supplemental Nutrition Assistance Program (SNAP), the Federal Emergency Management Agency (FEMA), and Medicaid. For each program, Ms. Afonso provided a brief snapshot of how these changes may impact State and local government budgets. Ms. Afonso then predicted that local governments may respond to these changes either by reducing expenditures or raising revenues. Specifically, Ms. Afonso stated that some counties could consider adopting another local sales tax. For more information, Ms. Afonso's presentation is included in Appendix H.

Next, the Committee heard from Abir Mandal, Senior Policy Analyst, Tax Foundation, on avenues for property tax reform in North Carolina. Mr. Mandal first provided data on property taxes in North Carolina. He also highlighted the top ten counties in North Carolina for property tax revenue growth for fiscal years 2018-2023, which were Johnston, Cherokee, Watauga, Cabarrus, Transylvania, Chatham, Camden, Onslow, Lincoln and McDowell. Mr. Mandal briefly offered a few avenues to reform property taxes in North Carolina, including assessment limits, targeted relief programs, and truth in taxation laws, before shifting his focus to levy limits. Mr. Mandal proposed levy limits as the best solution for property tax reform for reasons like directly constraining the total tax burden, addressing the root cause of revenue growth, and maintaining uniform, market-based assessments. He provided examples from the states of Washington and New York,

suggesting that North Carolina could adopt a model similar to either of these. Mr. Mandal concluded his presentation by recommending that the Committee prioritize well-constructed levy limits in 2026. For more information, Mr. Mandal's presentation is included in Appendix H.

Finally, the Committee heard from Zoey Howe, Legislative Analysis Division, and Brent Lucas, Fiscal Research Division, on the tax benefits afforded nonprofit hospitals. Ms. Howe began by briefly highlighting the federal and state income tax exemptions and then moved to the refund of State and local sales and use taxes. Regarding the income tax exemptions, Ms. Howe provided the Committee with an overview of the IRS reporting guidelines hospitals must meet to receive the income tax exemption, most notably the community benefit standard, which is used to determine whether a hospital is organized and operated for the charitable purpose of promoting health. Ms. Howe then shifted to the sales and use tax refund, which allows hospitals and other eligible nonprofits to receive a semiannual refund of sales and use tax on certain purchases. The aggregate annual refund amount an entity may receive is capped at \$31.7 million for State sales and use taxes, and \$13.3 million for local sales and use taxes. Mr. Lucas then provided the Committee with data regarding the use of the sales tax refund by nonprofit hospitals, including the nearly \$100 million local governments and the nearly \$200 million the State are estimated to forego annually due to sales tax refunds to nonprofit hospitals.

Shifting to the nonprofit hospital property tax exemption, Mr. Lucas provided the Committee with data on the use of the total nonprofit hospital property tax exemption, which shows a \$4 billion increase in excluded property values from 2021 to 2025. Mr. Lucas also informed the Committee that the estimated local revenue loss based on this exemption for FY 24-25 totaled around \$130 million and highlighted a few geographic areas in the state that experience a greater portion of this loss. Ms. Howe then walked the Committee through the current law regarding the exemption. Ms. Howe explained the two components of this exemption—ownership and use—and the requirement of a "charitable hospital purpose" as part of the use requirement. She then provided the Committee with

examples of approaches adopted by other states, such as excluding certain parcels of hospital property from being eligible for the exemption or tying a hospital's exemption to the amount of charitable care it provides the community. Finally, Ms. Howe provided policy considerations for the Committee's discussion, such as whether: hospitals should be required to provide a minimum level of charitable care, the exemption should exclude specific parcels, and there should be a more robust reporting requirement. For more information, Ms. Howe's and Mr. Lucas' presentation is included in Appendix H.

MARCH 18, 2026, MEETING

At its fourth meeting on March 18, 2026, staff presented the Committee with four legislative proposals to consider for inclusion in its final report to the House of Representatives. Presented by Dan Ettefagh, Legislative Drafting Division, Legislative Proposal 1 includes a constitutional amendment that would require the General Assembly to enact general laws limiting the amount by which the levy of taxes on property may increase and that may include exceptions. If passed by the General Assembly during the 2026 Session, this amendment would be submitted to voters statewide in the November 2026 election. The Committee held a robust discussion on the proposal, asking questions about how to best educate voters on the effect of this amendment, about the General Assembly's role if the amendment were to pass, and the experiences of other states that have taken a similar approach. Additionally, the Committee discussed the importance of providing predictability and reducing the strain of increasing property taxes for taxpayers in the State. The Committee expressed support for advancing the proposal but acknowledged it is a first step and that the specific details of a levy limit must be developed through future legislation if the amendment were to pass. Legislative Proposal 1 and a bill analysis are included in Appendix B.

Legislative Proposal 2 offers a new approach to the nonprofit hospital property tax exemption and was presented to the Committee by Zoey Howe, Legislative Analysis Division. This proposal would reduce the exemption from 100% to 50% of the appraised

value of a nonprofit hospital's real and personal property, so long as it is actually and exclusively used for charitable hospital purposes. Legislative Proposal 2 and a bill analysis are included in Appendix C. The Committee expressed concerns about the potential impact on certain hospitals and decided not to move forward with Legislative Proposal 2 at this time but may revisit the issue should the Committee be extended.

Next, the Committee heard Legislative Proposal 3, also from Ms. Howe. This proposal would reduce the aggregate semi-annual State and local sales and use tax refund caps available to certain nonprofit entities. The proposal would reduce the annual State sales and use tax refund cap from \$31.7 million to \$10 million and would reduce the local sales and use tax refund cap from \$13.3 million to \$4.25 million. This reduction would apply to all entities that are currently eligible for the semiannual sales and use tax refund. Additionally, Legislative Proposal 3 would change the way the refund cap is applied with regards to nonprofit hospitals, public hospitals, and hospital authorities. Under this proposal, each nonprofit entity and all of its affiliates would be treated as a single entity for purposes of the sales and use tax refund with the intent to limit the application of the cap to each entity at the highest level. Through a series of questions related to the types of entities that would be impacted by the cap reduction, the Committee was informed that although the cap reduction would apply to other nonprofit entities (such as private colleges and universities and volunteer fire departments), refund data show that majority of nonprofits do not reach the cap and therefore would likely not be impacted. Legislative Proposal 3 and a bill analysis are included in Appendix D. Based on concerns about the potential impact on nonprofit entities other than hospitals and continued questions about the application of the revised cap to large hospital systems, the Committee decided not to move forward with Legislative Proposal 3 at this time but may revisit the issue should the Committee be extended.

The final Legislative Proposal the Committee heard would make changes to the low- and moderate-income housing property tax exemption, and was presented to the Committee by Trina Griffin, Legislative Analysis Division. Legislative Proposal 4 would update and preserve the low- and moderate-income housing property tax exemption for 100% nonprofit owners or joint ventures where a government agency has contributed

financial support and to the extent there are mechanisms to enforce long-term affordability requirements. Additionally, the proposal would prohibit joint ventures from obtaining the modified property tax exemption if they do not finance affordable housing with government support. The Committee members' line of questioning suggested that members desire to provide adequate protections against future abuses or potential loopholes as well as oversight measures to ensure that eligible owners maintain affordability of affordable housing. Legislative Proposal 4 and a bill analysis are included in Appendix E.

Finally, the Committee heard an educational presentation on impact fees by Nick Giddings, Legislative Analysis Division. Mr. Giddings explained that impact fees are an upfront charge assessed on new or sometimes existing developments to fund current and future expenditures necessitated by the development. He explained recent case law surrounding impact fees and the legal framework for System Development Fees. Mr. Giddings then walked the Committee through who is authorized to assess System Development Fees, the process of calculating System Development Fees, and how System Development Fees are assessed. The Committee inquired whether and to what extent impact fees are passed on to buyers when purchasing homes from developers. For more information, Mr. Giddings' presentation is included in Appendix I.

At the close of the meeting, Chairman Setzer announced that any member of the Committee or the general public wishing to provide comment or feedback on any of the legislative proposals should do so via email to Chairwoman Howard by no later than April 1, 2026, for consideration by the chairs.

APRIL 15, 2026, MEETING

COMMITTEE RECOMMENDATIONS

The Committee on House Select Committee on Property Tax Reduction and Reform makes the following recommendations to the 2026 Regular Session of the 2025 General Assembly. Each proposal is followed by a Bill Analysis and can be found in Appendices B and E, respectively.

1. An Act to Amend the Constitution of the State to Require the Legislature to Enact a Property Tax Levy Limit.
2. An Act to Update and Modify the Nonprofit Low- or Moderate-Income Housing Property Tax Exemption

APPENDICES

Draft

APPENDIX A

COMMITTEE AUTHORIZATION

Draft



Office of the Speaker
North Carolina House of Representatives

DESTIN HALL
SPEAKER OF THE HOUSE

HOUSE SELECT COMMITTEE ON PROPERTY TAX REDUCTION AND REFORM TO THE
NORTH CAROLINA HOUSE OF REPRESENTATIVES

Section 1. The House Select Committee on Property Tax Reduction and Reform (hereinafter "Committee") is established by the Speaker of the House of Representatives pursuant to Rule 26(a) of the Rules of the House of Representatives of the 2025 General Assembly.

Section 2. The Committee consists of twenty-nine members appointed by the Speaker of the House of Representatives. The membership of the Committee shall include legislators as specified below. Members serve at the pleasure of the Speaker of the House of Representatives. The Speaker of the House of Representatives may dissolve the Committee at any time. Vacancies are filled by the Speaker of the House of Representatives. A Chair, Vice Chair, or other member of the Committee continues to serve until a successor is appointed.

Co-Chair Julia Howard	Representative Aisha Dew
Co-Chair Mitchell Setzer	Representative Frances Jackson
Co-Chair Erin Pare	Representative Abe Jones
Vice-Chair Brian Echeverria	Representative Keith Kidwell
Vice-Chair Neal Jackson	Representative Nasif Majeed
Representative Eric Ager	Representative Larry Potts
Representative Jonathan Almond	Representative Dennis Riddell
Representative Brian Biggs	Representative James Roberson
Representative John Blust	Representative Mike Schietzelt
Representative Alan Branson	Representative Brian Turner
Representative Grant Campbell, MD	Representative Harry Warren
Representative Becky Carney	Representative Sam Watford
Representative Maria Cervania	Representative Diane Wheatley
Representative Tricia Cotham	Representative Jeff Zenger
Representative Carla Cunningham	

Section 3. The House Select Committee on Property Tax Reduction and Reform shall study options to reduce the property tax burden on taxpayers in North Carolina. The Committee shall consider reforms

that provide property tax relief to taxpayers while balancing potential impacts on local government revenues. In conducting the study, the Committee may:

1. Review existing property tax relief programs currently available to North Carolina homeowners to determine whether those programs should be modified or expanded.
2. Consider mechanisms to expand property tax relief to homeowners more broadly, including adjusting the frequency of revaluations, implementing methods to minimize the impact of future revaluations on homeowners, or providing homeowners with alternative payment plans.
3. Examine the uniformity requirement in Article V, Section 2 of the North Carolina Constitution and evaluate whether to amend the North Carolina Constitution to allow counties to implement property tax reductions and reforms.
4. Analyze potential impacts and options to address local government revenue reductions, including reimbursement mechanisms and additional revenue-generating authority.
5. Consider factors associated with increasing property tax assessments on taxpayers, including reviewing local government debt and spending levels.
6. Consult organizations and entities with expertise in local government operations, financing, and real property valuation.

The Committee shall report its findings, together with any proposed legislation, prior to the convening of the 2026 Regular Session of the 2025 General Assembly.

Section 4. The Committee shall meet upon the call of the Chair. A quorum of the Committee shall be a majority of its members. No action may be taken except by majority vote at a meeting at which a quorum is present.

Section 5. The Committee, while in the discharge of its official duties, may exercise all powers provided for under G.S. 120-19 and Article 5A of Chapter 120 of the General Statutes. The Committee may contract for professional, clerical, or consultant services, as provided by G.S. 120 -32.02.

Section 6. Members of the Committee shall receive per diem, subsistence, and travel allowance as provided in G.S. 120-3.1

Section 7. The expenses of the Committee including per diem, subsistence, travel allowances for Committee members, and contracts for professional or consultant services shall be paid upon the written approval of the Speaker of the House of Representatives pursuant to G.S. 120-32.02(c) and G.S. 120-35 from funds available to the House of Representatives for its operations.

Section 8. The Legislative Services Officer shall assign professional and clerical staff to assist the Committee in its work. The Director of Legislative Assistants of the House of Representatives shall assign clerical support staff to the Committee.

Section 9. The Committee may submit reports on the results of its evaluations and investigations, including any proposed legislation, to the members of the House of Representatives at any time. The Committee may submit a final report on the results of its work, including any proposed legislation, to the members of the House of Representatives by May 1, 2026. Reports shall be submitted by filing a copy of any report with the Office of the Speaker of the House of Representatives, the House Principal Clerk, and the Legislative library. The Committee terminates upon the convening of the 2026 General Assembly, upon the filing of its final report, or by dissolution by the Speaker of the House of Representatives, whichever occurs first.

Effective this 16th day of December 2025.

A handwritten signature in black ink that reads "Destin Hall". The signature is written in a cursive style with a large, looped initial "D".

Destin Hall
Speaker

APPENDIX B

**LEGISLATIVE PROPOSAL #1: CONSTITUTIONAL
AMENDMENT PROPERTY TAX LEVY LIMIT**

Draft

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2025

H

D

BILL DRAFT 2025-MCfy-226 [v.3]

(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)
03/09/2026 10:42:19 AM

Short Title: Const. Amend. Property Tax Levy Limit.

(Public)

Sponsors:

Referred to:

1 A BILL TO BE ENTITLED
2 AN ACT TO AMEND THE CONSTITUTION OF THE STATE TO REQUIRE THE
3 LEGISLATURE TO ENACT A PROPERTY TAX LEVY LIMIT.
4 The General Assembly of North Carolina enacts:
5 SECTION 1. Subsection (5) of Section 2 of Article V of the North Carolina
6 Constitution reads as rewritten:
7 "(5) ~~Purposes of property tax.~~ Property tax purposes, limitation. The General Assembly
8 shall not authorize any county, city or town, special district, or other unit of local government to
9 levy taxes on property, except for purposes authorized by general law uniformly applicable
10 throughout the State, unless the tax is approved by a majority of the qualified voters of the unit
11 who vote thereon. The General Assembly shall enact general laws limiting the amount by which
12 the levy of taxes on property may increase, which may include exceptions."
13 SECTION 2. The amendment set out in Section 1 of this act shall be submitted to
14 the qualified voters of the State at the statewide general election to be held on November 3, 2026,
15 which election shall be conducted in accordance with the laws governing elections at that time.
16 The question to be used in the voting systems and ballots shall be:
17 "[] FOR [] AGAINST
18 Constitutional amendment requiring limits on property tax increases by local
19 governments."
20 SECTION 3. The State Board of Elections shall certify the results of the referendum
21 conducted under Section 2 of this act. If a majority of votes cast on the question are in favor of
22 the amendment set out in Section 1 of this act, the Secretary of State shall enroll the amendment
23 among the permanent records of that office. If a majority of votes cast on the question are against
24 the amendment set out in Section 1 of this act, the amendment shall have no effect.
25 SECTION 4. If the certification from the State Board of Elections under Section 3
26 of this act reflects that a majority of votes cast on the question are in favor of the amendment set
27 out in Section 1 of this act, the amendment set out in Section 1 of this act is effective upon
28 certification.
29 SECTION 5. Except as otherwise provided, this act is effective when it becomes
30 law.





Bill Draft 2025-MCfy-226: Const. Amend. Property Tax Levy Limit.

2025-2026 General Assembly

Committee:	House Select Committee on Property Tax Reduction and Reform	Date:	March 18, 2026
Introduced by:		Prepared by:	Dan Etefagh
Analysis of:	2025-MCfy-226		Committee Co-Counsel

OVERVIEW: Bill Draft 2025-MCfy-226 would submit to the voters of North Carolina the question of whether to amend the State Constitution to require the General Assembly to enact legislation limiting the property tax levy increase by counties and cities.

CURRENT LAW: The State Constitution may be amended by either a constitutional convention or by legislative action. An amendment proposed by legislative action must be approved by a vote of three-fifths of each house and submitted to the voters of the State. If a majority of the voters of the State approve, the amendment becomes effective either the January following the public vote or the date provided in the enactment.

The North Carolina Constitution (i) vests in the General Assembly the authority to grant units of local government the ability to levy property taxes and (ii) requires the authorization of those levies to be for purposes authorized by general law uniformly applicable throughout the State. The North Carolina General Statutes currently limits the authorization of property taxes generally to a maximum rate of \$1.50 per \$100 of value.

BILL ANALYSIS: The bill draft would submit to the voters of North Carolina, the question of whether to amend the State Constitution to require the General Assembly to enact limits on the amount by which the authorized property tax levy could be increased and allow for exceptions applicable to the limitations enacted.

The ballot question would be considered at the statewide general election to be held on November 3, 2026, and the ballot question would read:

"Constitutional amendment requiring limits on property tax increases by local governments."

EFFECTIVE DATE: This act is effective when it becomes law. If approved by a majority of the voters in the November 3, 2026, election, the amendment to the North Carolina Constitution will become effective upon certification of the referendum results.

Kara McCraw
Director



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Legislative Analysis
Division
919-733-2578

This bill analysis was prepared by the nonpartisan legislative staff for the use of legislators in their deliberations and does not constitute an official statement of legislative intent.

APPENDIX C

**LEGISLATIVE PROPOSAL #2: NONPROFIT
HOSPITAL PROPERTY TAX MODIFICATIONS**

Draft

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2025

H

D

BILL DRAFT 2025-DFxfz-5 [v.4]

(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)
03/13/2026 12:04:37 PM

Short Title: Nonprofit Hospital Property Tax Mods.

(Public)

Sponsors:

Referred to:

1 A BILL TO BE ENTITLED
2 AN ACT TO REDUCE THE AMOUNT OF A NONPROFIT HOSPITAL'S PROPERTY TAX
3 EXEMPTION.
4 The General Assembly of North Carolina enacts:
5 SECTION 1. G.S. 105-278.8 reads as rewritten:
6 "**§ 105-278.8. Real and personal property used for charitable hospital purposes.**
7 (a) Exemption Generally. – Real and personal property that is held for or owned by a
8 hospital organized and operated as a nonstock, nonprofit, nonprofit charitable institution (without
9 without profit to members or their successors) shall be exempted from taxation if successors and
10 that is actually and exclusively used for charitable hospital purposes, purposes is exempt from
11 taxation in the amount of fifty percent (50%) of the appraised value of the property.
12 (b) Partial Exemption. – Notwithstanding the ~~exclusive use~~ exclusive use requirements
13 of subsection ~~(a), above,~~ (a) of this section, if part of a property that otherwise meets that
14 subsection's requirements is used for a purpose that would require exemption under that
15 subsection if the entire property were so used, ~~the valuation~~ fifty percent (50%) of the appraised
16 value of the part so used shall be exempted is exempt from taxation.
17 (c) Charitable Hospital Purpose. – Within the meaning of this section, a charitable
18 hospital purpose is a hospital purpose that has humane and philanthropic objectives; it is a
19 hospital activity that benefits humanity or a significant rather than limited segment of the
20 community without expectation of pecuniary profit or reward. However, the fact that a qualifying
21 hospital charges patients who are able to pay for services rendered does not defeat the exemption
22 granted by this section."
23 SECTION 2. This act is effective for taxes imposed for taxable years beginning on
24 or after July 1, 2026.





Bill Draft 2025-DFfz-5: Nonprofit Hospital Property Tax Mods.

2025-2026 General Assembly

Committee:	House Select Committee on Property Tax Reduction and Reform	Date:	March 18, 2026
Introduced by:		Prepared by:	Trina Griffin and Zoey Howe
Analysis of:	2025-DFxfz-5		Committee Co-Counsel

OVERVIEW: *Bill Draft 2025-DFxfz-5 would reduce the property tax exemption for nonprofit hospitals to 50% of the appraised value of real and personal property that is owned by a nonprofit hospital and used for charitable hospital purposes, effective for taxes imposed for taxable years beginning on or after July 1, 2026.*

CURRENT LAW: Under current law, real and personal property held for or owned by a nonprofit hospital is 100% exempt from taxation if it is actually and exclusively used for charitable hospital purposes. A charitable hospital purpose is defined as follows:

"...a hospital purpose that has humane and philanthropic objectives; it is a hospital activity that benefits humanity or a significant rather than limited segment of the community without expectation of pecuniary profit or reward. However, the fact that a qualifying hospital charges patients who are able to pay for services rendered does not defeat the exemption granted by this section."

Despite the exclusive use requirement, a nonprofit hospital that uses only a portion of its property for a charitable hospital purpose may receive the exemption for that portion of the property.

BILL ANALYSIS: This bill draft would limit a nonprofit hospital's property tax exemption to 50% of the appraised value of all real and personal property owned by the nonprofit hospital if the property is actually and exclusively used for a charitable hospital purpose. The bill maintains the permissive partial exemption language, which would allow that portion of a nonprofit hospital that meets the actual and exclusive use requirements to be eligible for the 50% exemption.

EFFECTIVE DATE: This act would become effective for taxes imposed for taxable years beginning on or after July 1, 2026.

BACKGROUND: At its February 18, 2026 meeting, the House Select Committee on Property Tax Reduction and Reform heard a presentation on the current law as it relates to the property tax exemption and sales tax refund available to nonprofit hospitals. The presentation is linked [here](#).

Kara McCraw
Director



Legislative Analysis
Division
919-733-2578

This bill analysis was prepared by the nonpartisan legislative staff for the use of legislators in their deliberations and does not constitute an official statement of legislative intent.

APPENDIX D

**LEGISLATIVE PROPOSAL #3: HOSPITAL SALES
TAX REFUND MODIFICATIONS**

Draft

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2025

H

D

BILL DRAFT 2025-DFxfz-4A [v.2]

(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)
03/17/2026 09:26:02 AM

Short Title: Hospital Sales Tax Refund Mods.

(Public)

Sponsors:

Referred to:

1 A BILL TO BE ENTITLED
2 AN ACT TO REDUCE THE AGGREGATE ANNUAL STATE AND LOCAL SALES TAX
3 REFUND AMOUNTS APPLICABLE TO NONPROFIT ENTITIES AND TO LIMIT THE
4 APPLICATION OF THE AGGREGATE ANNUAL STATE AND LOCAL SALES TAX
5 REFUND AMOUNTS FOR A NONPROFIT HOSPITAL, PUBLIC HOSPITAL, OR
6 HOSPITAL AUTHORITY TO THE ENTITY AS A WHOLE.
7 The General Assembly of North Carolina enacts:
8 SECTION 1.(a) G.S. 105-164.14 reads as rewritten:
9 "§ 105-164.14. Certain refunds authorized.
10 ...
11 (b) Nonprofit Entities and Hospital Drugs. – A nonprofit entity is allowed a semiannual
12 refund of sales and use taxes paid by it under this Article on direct purchases of items for use in
13 carrying on the work of the nonprofit entity. Sales and use tax liability indirectly incurred by a
14 nonprofit entity through reimbursement to an authorized person of the entity for the purchase of
15 tangible personal property and services for use in carrying on the work of the nonprofit entity is
16 considered a direct purchase by the entity. Sales and use tax liability indirectly incurred by a
17 nonprofit entity on building materials, supplies, fixtures, and equipment that become a part of or
18 annexed to any building or structure that is owned or leased by the nonprofit entity and is being
19 erected, altered, or repaired for use by the nonprofit entity for carrying on its nonprofit activities
20 is considered a sales or use tax liability incurred on direct purchases by the nonprofit entity. The
21 refund allowed under this subsection does not apply to purchases of electricity,
22 telecommunications service, ancillary service, piped natural gas, video programming, or a
23 prepaid meal plan. A request for a refund must be in writing and must include any information
24 and documentation required by the Secretary. A request for a refund for the first six months of a
25 calendar year is due the following October 15; a request for a refund for the second six months
26 of a calendar year is due the following April 15. The aggregate annual refund amount allowed an
27 entity under this subsection for the State's fiscal year may not exceed ten million dollars
28 (\$10,000,000). ~~thirty one million seven hundred thousand dollars (\$31,700,000).~~
29 The refunds allowed under this subsection do not apply to an entity that is owned and
30 controlled by the United States or to an entity that is owned or controlled by the State and is not
31 listed in this subsection. A hospital that is not listed in this subsection is allowed a semiannual
32 refund of sales and use taxes paid by it on over-the-counter drugs purchased for use in carrying
33 out its work. The following nonprofit entities are allowed a refund under this subsection:



1 (1) Hospitals not operated for profit, including hospitals and medical
2 accommodations operated by an authority or other public hospital described
3 in Article 2 of Chapter 131E of the General Statutes. For purposes of the
4 aggregate annual refund amount allowed under this subdivision and under
5 G.S. 105-467, the following conditions apply:

6 a. A nonprofit hospital system and all of its affiliates that are eligible for
7 a refund under this subsection are treated as one entity.

8 b. A hospital authority or a public hospital and all of its related facilities
9 or component units, as applicable, that are eligible for a refund under
10 this subsection are treated as one entity. For purposes of this
11 sub-subdivision, the term "related facilities" means all facilities
12 owned, maintained, or operated by a public hospital or a public
13 hospital authority, and the term "component unit" is as defined in
14 G.S. 116-350.

15 ...

16"

17 SECTION 1.(b) G.S. 105-467 reads as rewritten:

18 "§ 105-467. Scope of sales tax.

19 ...

20 (b) Exemptions and Refunds. – The State exemptions and exclusions contained in Article
21 5 of Subchapter I of this Chapter, except for the exemption for food in G.S. 105-164.13B, apply
22 to the local sales and use tax authorized to be levied and imposed under this Article. The State
23 refund provisions contained in G.S. 105-164.14 and G.S. 105-164.14A apply to the local sales
24 and use tax authorized to be levied and imposed under this Article. A refund of an excessive or
25 erroneous State sales tax collection allowed under G.S. 105-164.11 and a refund of State sales
26 tax paid on a rescinded sale or cancelled service contract under G.S. 105-164.11A apply to the
27 local sales and use tax authorized to be levied and imposed under this Article. The aggregate
28 annual local refund amount allowed an entity under G.S. 105-164.14(b) for the State's fiscal year
29 may not exceed four million two hundred thousand dollars (\$4,200,000).~~thirteen million three~~
30 ~~hundred thousand dollars (\$13,300,000).~~

31 Except as provided in this subsection, a taxing county may not allow an exemption, exclusion,
32 or refund that is not allowed under the State sales and use tax. A local school administrative unit
33 and a joint agency created by interlocal agreement among local school administrative units
34 pursuant to G.S. 160A-462 to jointly purchase food service-related materials, supplies, and
35 equipment on their behalf is allowed an annual refund of sales and use taxes paid by it under this
36 Article on direct purchases of items. Sales and use tax liability indirectly incurred by the entity
37 as part of a real property contract for real property that is owned or leased by the entity and is a
38 capital improvement for use by the entity is considered a sales or use tax liability incurred on
39 direct purchases by the entity for the purpose of this subsection. The refund allowed under this
40 subsection does not apply to purchases of electricity, telecommunications service, ancillary
41 service, piped natural gas, video programming, or a prepaid meal plan. A request for a refund is
42 due in the same time and manner as provided in G.S. 105-164.14(c). Refunds applied for more
43 than three years after the due date are barred.

44"

45 SECTION 2. This act is effective July 1, 2026, and applies to requests for a refund
46 submitted on or after that date.



Bill Draft 2025-DFxfz-4A: Hospital Sales Tax Refund Mods.

2025-2026 General Assembly

Committee:	House Select Committee on Property Tax Reduction and Reform	Date:	March 18, 2026
Introduced by:		Prepared by:	Trina Griffin and Zoey Howe
Analysis of:	2025-DFxfz-4A		Committee Co-Counsel

OVERVIEW: Bill Draft 2025-DFxfz-4A would do the following:

- Reduce the aggregate annual sales tax refund amounts for all eligible nonprofits as follows:
 - For State sales tax, from \$31,700,000 to \$10,000,000.
 - For local sales tax, from \$13,300,000 to \$4,200,000.
- Recognize the highest level of a nonprofit hospital, a public hospital or a hospital authority and its affiliates, related facilities, or component units, as applicable, as one entity for purposes of applying the cap on State and local sales tax refunds.

These changes would become effective July 1, 2026, and apply to requests for a refund submitted on or after that date.

CURRENT LAW & BILL ANALYSIS:

Reduce the Sales Tax Refund Caps for Nonprofit Entities

CURRENT LAW: Certain nonprofit organizations may apply semiannually for refunds of both State and local sales tax paid on direct and indirect purchases of items for carrying on the work of the entity, including indirect purchases of building materials, fixtures, and equipment that become part of any building owned or leased by the entity. Entities eligible for these refunds include nonprofit hospitals, hospital authorities, and public hospitals; volunteer fire departments and EMS squads; certain other 501(c)(3)s; qualified retirement facilities; and university affiliated nonprofit organizations that procure, design, construct, or provide facilities to, or for use by, a constituent institution of The University of North Carolina.

The amount an eligible entity may receive as a sales tax refund is subject to statutory caps. Currently, the aggregate annual State sales and use tax refund an entity may receive is \$31,700,000, and the aggregate annual local sales and use tax refund an entity may receive is \$13,300,000.

BILL ANALYSIS: Section 1(a) would reduce the aggregate annual cap on **State** sales and use tax refunds available to the types of nonprofits that are currently eligible from \$31,700,000 to \$10,000,000. Section 1(b) would reduce the aggregate annual cap on **local** sales and use tax refunds for those same nonprofits from \$13,300,000 to \$4,250,000.

The reduction in the State and local sales tax refund caps would apply to all of the following entities:

- Nonprofit hospitals, hospital authorities, and public hospitals described under Article 2 of Chapter 131E of the General Statutes

Kara McCraw
Director



Legislative Analysis
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- Volunteer fire departments and EMS squads
- Certain other 501(c)(3)s, including churches, private colleges, PTAs, arts organizations, charities that help with shelter/food, etc.
- Qualified retirement facilities
- University affiliated nonprofit organizations that procure, design, construct, or provide facilities to, or for use by, a constituent institution of The University of North Carolina.

Limit Application of the Cap for Hospitals

CURRENT LAW: Among the entities eligible for a State and local sales tax refund are nonprofit hospitals, hospital authorities,¹ and public hospitals.² The statute provides that the annual aggregate refund amount is allowed "to an entity," but does not define entity, other than by listing the types of eligible entities. In other words, and as it relates to nonprofit corporations, it does not specify whether the cap is available to the parent corporation and to each of its subsidiaries or affiliates, or whether the cap applies at the parent level, meaning that refunds for purchases by a parent's subsidiaries or affiliates should be aggregated collectively for purposes of calculating the cap. Similarly, as it relates to governmental hospitals, it does not specify whether the cap applies the entity as a whole or whether each related facility is eligible for a separate capped amount.

BILL ANALYSIS: Section 1(a) would require a nonprofit hospital and its affiliates to be treated as one entity for purposes of applying each of the State and local sales and use tax refund caps. Each parent organization of a nonprofit hospital system, including all of its affiliate corporations, would be eligible collectively, but not individually, for up to the aggregate annual refund amounts. The term "affiliate" is defined as follows:

"A corporation is an affiliate of another corporation when both are directly or indirectly controlled by the same parent corporation or by the same or associated financial interests by stock ownership, interlocking directors, or by any other means whatsoever, whether the control is direct or through one or more subsidiary, affiliated, or controlled corporations."

Section 1(a) would also require a public hospital or a hospital authority and all of its related facilities or component units, as applicable, to be treated as one entity for purposes of applying each of the State and local sales and use tax refund caps. Like nonprofit hospitals, the highest level of the entity's organization, including all of its related facilities, would be eligible for up to the aggregate annual refund amount but each related facility or component unit would not be eligible for a separate capped amount.

The bill would define the term "related facilities" as "all facilities owned, maintained, or operated by the public hospital or public hospital authority." The term "component unit" is defined as follows:

"Any of the following:

- a. The University of North Carolina Hospitals at Chapel Hill.
- b. The clinical patient care programs established or maintained by the School of Medicine of the University of North Carolina at Chapel Hill, including the UNC Faculty Physicians practice.

¹ A hospital authority is defined in G.S. 131E-16(14) as a public body and a body corporate and politic organized by a municipality to plan, establish, construct, maintain, or operate a hospital facility.

² A public hospital is defined in G.S. 159-39(a) as a hospital that is owned and operated by a municipality or hospital authority; owned by a municipality and operated by a nonprofit organization a majority of whose board of directors is made up of individuals appointed by the municipality or hospital authority; or a hospital on whose behalf a municipality has issued and has outstanding general obligation or revenue bonds or to which a municipality currently makes appropriations.

Draft

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- c. Any entity that merges with the University of North Carolina Health Care System pursuant to G.S. 116-350.60 and is designated by the Board of Directors as a component unit of the System."

This change would apply only to nonprofit hospitals, public hospitals, and hospital authorities and would not impact the other nonprofit entities eligible for sales and use tax refunds.

EFFECTIVE DATE: This act would become effective July 1, 2026, and apply to requests for a refund submitted on or after that date.

BACKGROUND: At its February 18, 2026, meeting, the House Select Committee on Property Tax Reduction and Reform heard a presentation on the current law as it relates to the property tax exemption and sales tax refund available to nonprofit hospitals. The presentation is linked [here](#).

APPENDIX E

**LEGISLATIVE PROPOSAL #4: AFFORDABLE
HOUSING EXEMPTION MODIFICATIONS**

Draft

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2025

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D

BILL DRAFT 2025-SVxfz-16E [v.17]

(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)
03/15/2026 02:46:10 PM

Short Title: Affordable Housing Exemption Mods.

(Public)

Sponsors:

Referred to:

1 A BILL TO BE ENTITLED
2 AN ACT TO UPDATE AND MODIFY THE NONPROFIT LOW- OR MODERATE-INCOME
3 HOUSING PROPERTY TAX EXEMPTION.
4 The General Assembly of North Carolina enacts:
5 SECTION 1. G.S. 105-278.6 reads as rewritten:
6 "**§ 105-278.6. Real and personal property used for charitable ~~purposes.~~purposes by certain**
7 **entities.**
8 (a) Real and personal property owned ~~by~~by an entity listed in this subsection is exempt
9 from taxation if: (i) as to real property, it is actually and exclusively occupied and used, and as
10 to personal property, it is entirely and completely used, by the owner for a charitable purpose;
11 and (ii) the owner is not organized or operated for profit. The entities are:
12 (1) A Young Men's Christian Association or similar ~~organization;~~organization.
13 (2) A home for the aged, sick, or ~~infirm;~~infirm.
14 (3) An orphanage or similar ~~home;~~home.
15 (4) A Society for the Prevention of Cruelty to ~~Animals;~~Animals.
16 (5) A reformatory or correctional ~~institution;~~institution.
17 (6) A monastery, convent, or ~~numery;~~nunnery.
18 (7) A nonprofit, life-saving, first aid, or rescue squad ~~organization;~~organization.
19 (8) A nonprofit organization providing housing for individuals or families with
20 low or moderate ~~incomes~~incomes, other than rental housing, which is subject
21 to G.S. 105-278.7A.
22 ~~shall be exempted from taxation if: (i) As to real property, it is actually and exclusively occupied~~
23 ~~and used, and as to personal property, it is entirely and completely used, by the owner for~~
24 ~~charitable purposes; and (ii) the owner is not organized or operated for profit.~~
25 (b) A charitable purpose within the meaning of this section is one that has humane and
26 philanthropic objectives; it is an activity that benefits humanity or a significant rather than limited
27 segment of the community without expectation of pecuniary profit or reward. The humane
28 treatment of animals is also a charitable purpose.
29 (c) The fact that a building or facility is incidentally available to and patronized by the
30 general public, so long as there is no material amount of business or patronage with the general
31 public, ~~shall does~~ not defeat the exemption granted by this section.
32 (d) Notwithstanding the ~~exclusive use~~exclusive use requirements of this section, if part
33 of a property that otherwise meets the section's requirements is used for a purpose that would



1 require exemption under subsection (a), above, if the entire property were so used, the valuation
2 of the part so used ~~shall be exempted~~ is exempt from taxation.

3 (e) Real property held by an organization described in subdivision (a)(8) for a charitable
4 purpose under this section as a future site for ~~housing~~ housing, other than affordable rental
5 housing as defined in G.S. 105-278.7A, for individuals or families with low or moderate incomes
6 may be classified under this section for no more than ~~10~~ five years. The taxes that would otherwise
7 be due on real property exempt under this subsection ~~shall be~~ are a lien on the property as
8 provided in G.S. 105-355(a). The taxes ~~shall be~~ are carried forward in the records of the taxing
9 unit as deferred taxes. The deferred taxes are due and payable in accordance with
10 G.S. 105-277.1F when the property loses its eligibility for deferral as a result of a disqualifying
11 event. A disqualifying event occurs when the property ~~was~~ is not used for low- or
12 moderate-income housing within ~~10~~ five years from the first day of the fiscal year the property
13 was classified under this subsection. In addition to the provisions in G.S. 105-277.1F, all liens
14 arising under this subdivision are extinguished when the property is used for low- or
15 moderate-income housing within the time period allowed under this subsection."

16 **SECTION 2.** Article 12 of Chapter 105 of the General Statutes is amended by adding
17 the following new section to read:

18 **"§ 105-278.7A. Real and personal property owned, in whole or in part, by a charitable**
19 **nonprofit and used for affordable rental housing.**

20 (a) Exemption Generally. – Real and personal property owned by an eligible owner and
21 used for a charitable purpose in the operation of affordable rental housing is exempt from taxation
22 to the extent provided in this section if the requirements of this section are met.

23 (b) Definitions. – The following definitions apply in this section:

24 (1) Affiliate. – Defined in G.S. 105-130.2.

25 (2) Affordable rental housing. – A rental housing development consisting of land
26 and improvements in which more than fifty percent (50%) of the units are
27 qualifying units.

28 (3) Charitable purpose. – A charitable purpose within the meaning of this section
29 is one that has humane and philanthropic objectives; it is an activity that
30 benefits humanity or a significant rather than limited segment of the
31 community without expectation of pecuniary profit or reward.

32 (4) Eligible joint venture. – A limited partnership, limited liability company, or a
33 limited liability partnership in which a general partner or limited liability
34 company managing member is an eligible nonprofit corporation.

35 (5) Eligible nonprofit corporation. – A nonprofit described in 501(c)(3) of the
36 Code that (i) is exempt from federal income taxation under section 501(a) of
37 the Code, (ii) is incorporated under a certificate of existence or admitted under
38 a certificate of authority under the North Carolina Nonprofit Corporation Act
39 as provided in Chapter 55A of the General Statutes, and (iii) has day-to-day
40 control of the operations of and decisions for the affordable rental housing and
41 has not delegated any decision-making authority other than to a property
42 manager serving under the direction of the eligible owner. The term includes
43 a single-purpose entity wholly-owned by an eligible nonprofit corporation.

44 (6) Eligible owner. – An eligible joint venture or an eligible nonprofit corporation.

45 (7) Income limit. – Eighty percent (80%) of area median income, adjusted for
46 family size, as set and most recently published by the U.S. Department of
47 Housing and Urban Development.

48 (8) Qualifying unit. – An affordable rental housing unit for which both of the
49 following conditions are met:

50 a. The rent charged for an occupied unit or the published rent for a vacant
51 unit is at or below the rent limit.

- 1 b. It is occupied by, or set aside for, a tenant whose income is at or below
- 2 the income limit.
- 3 (9) Rent limit. – Rent, plus a utility allowance calculated in accordance with the
- 4 requirements of the North Carolina Housing Finance Agency, that does not
- 5 exceed thirty percent (30%) of the income limit.
- 6 (c) Requirements For Government-Supported Affordable Rental Housing. – Real and
- 7 personal property that provides government-supported affordable rental housing is exempt from
- 8 property taxation in any year in which all of the conditions listed in this subsection are met. For
- 9 purposes of this section, the term "government-supported" means that the property is financed as
- 10 described in sub-subdivision a. or b. of subdivision (2) of this subsection. The conditions are:
- 11 (1) The property is owned and operated by an eligible nonprofit corporation or an
- 12 eligible joint venture.
- 13 (2) Either of the following applies:
- 14 a. The eligible owner is an eligible joint venture that receives
- 15 low-income housing credits pursuant to section 42 of the Code and
- 16 that is in compliance with any applicable regulatory requirements as
- 17 determined by the North Carolina Housing Finance Agency. Ownership is determined as of the date the certificate of occupancy is
- 18 issued.
- 19 b. The eligible owner finances the acquisition, rehabilitation,
- 20 development, or operation of the property, or any combination thereof,
- 21 with tax-exempt mortgage revenue bonds, qualified 501(c)(3) bonds,
- 22 federal direct loans or grants, State loans or grants, or loans or grants
- 23 provided by a local jurisdiction in which the property is located. Such
- 24 government support must require the execution of a deed restriction or
- 25 enforceable, verifiable agreement with a public agency requiring that
- 26 the property be operated as affordable rental housing in accordance
- 27 with this section for a period of at least 15 years from the date the
- 28 financing or financial assistance was initially provided. Government
- 29 support does not include payments made to the owner under the federal
- 30 Housing Choice Voucher Program or other local, State, or federal
- 31 voucher program.
- 32 b. The eligible owner finances the acquisition, rehabilitation,
- 33 development, or operation of the property, or any combination thereof,
- 34 with tax-exempt mortgage revenue bonds, qualified 501(c)(3) bonds,
- 35 federal direct loans or grants, State loans or grants, or loans or grants
- 36 provided by a local jurisdiction in which the property is located. Such
- 37 government support must require the execution of a deed restriction or
- 38 enforceable, verifiable agreement with a public agency requiring that
- 39 the property be operated as affordable rental housing in accordance
- 40 with this section for a period of at least 15 years from the date the
- 41 financing or financial assistance was initially provided. Government
- 42 support does not include payments made to the owner under the federal
- 43 Housing Choice Voucher Program or other local, State, or federal
- 44 voucher program.
- 45 b. The eligible owner finances the acquisition, rehabilitation,
- 46 development, or operation of the property, or any combination thereof,
- 47 with tax-exempt mortgage revenue bonds, qualified 501(c)(3) bonds,
- 48 federal direct loans or grants, State loans or grants, or loans or grants
- 49 provided by a local jurisdiction in which the property is located. Such
- 50 government support must require the execution of a deed restriction or
- 51 enforceable, verifiable agreement with a public agency requiring that

1 restriction must require that the owner provide the reporting required under
2 subsection (g) of this section annually to all grantees for the term of the deed
3 restriction. The deed restriction must state that any grantee, or its assigns, has
4 the right to enforce the terms of the restriction.

5 (e) Exemption Amount. – The exemption amount is the percentage of the appraised value
6 that is equal to the percentage of qualifying units unless the eligible owner meets the requirements
7 of the safe harbor in Section 3 of Internal Revenue Service Rev. Proc. 96-32, in which case the
8 exemption amount is one hundred percent (100%) of the appraised value of the property. A
9 transition period of one taxable year applies to improved and occupied rental housing property
10 purchased by an eligible owner for which the eligible owner cannot provide the total household
11 income for each qualifying unit at the time of application but that otherwise meets the
12 requirements of this section. During the transition period, a "qualifying unit" is an affordable
13 rental housing unit for which the rent charged is at or below the rent limit for purposes of
14 determining the exemption amount.

15 (f) Application. – To be eligible for an exemption under this section, an eligible owner
16 must submit an application in accordance with G.S. 105-282.1. The application form shall require
17 the applicant to provide the following information:

18 (1) Whether the applicant is applying for the exemption under subsection (c) or
19 subsection (d) of this section, along with documentation supporting that the
20 applicant is an eligible owner for the subsection under which it is applying;
21 evidence of government support pursuant to sub-subdivision a. or b. of
22 subdivision (2) of subsection (c) of this section, if applicable; and a copy of
23 the applicable deed restriction or regulatory agreement.

24 (2) Whether the property is subject to a transition period as described in
25 subsection (e) of this section.

26 (3) Either of the following, as of last day of the month immediately preceding
27 January 1 of the year of application:

28 a. If the applicant is applying for an exemption amount based on the
29 percentage of qualifying units, the percentage of qualifying units by
30 providing the following items:

31 1. The rent amount received by the owner for each qualifying unit
32 as evidenced by an anonymized rent roll. The applicant must
33 provide evidence of the published rent if a unit is vacant.

34 2. The total household income for each occupied qualifying unit,
35 except during the transition period, evidenced in an
36 anonymized manner.

37 b. If the applicant is applying for an exemption amount based on meeting
38 the requirements of the safe harbor in Section 3 of Internal Revenue
39 Service Rev. Proc. 96-32, evidence demonstrating the affordable
40 rental housing meets those requirements.

41 (4) Certification that the applicant is in compliance with any applicable deed
42 restriction or regulatory agreement and the requirements of this section.

43 (g) Compliance. – An eligible owner that has been granted an exemption under this
44 section must, on an annual basis by January 31 following the initial exemption, certify that it
45 remains in compliance with this section and provide to the taxing unit the items listed in
46 subdivision (3) of subsection (f) of this section, as of the previous December 31, including any
47 supporting documentation required by the taxing unit. Failure to meet these requirements within
48 the time limits subjects the property to discovery under G.S. 105-312. For purposes of satisfying
49 this requirement, the household income provided for each qualifying unit must be verified every
50 two years following initial verification of the tenant's income.

1 (h) Future Site. – Real property held by an eligible owner as a future site for affordable
 2 rental housing may be classified under this section for no more than five years. The taxes that
 3 would otherwise be due on real property exempt under this subsection are a lien on the property
 4 as provided in G.S. 105-355(a). The taxes shall be carried forward in the records of the taxing
 5 unit as deferred taxes. The deferred taxes are due and payable in accordance with
 6 G.S. 105-277.1F when the property loses its eligibility for deferral as a result of a disqualifying
 7 event. A disqualifying event occurs when the property is not used for affordable rental housing
 8 that is in compliance with this section within five years from the first day of the fiscal year the
 9 property was classified under this subsection. In addition to the provisions in G.S. 105-277.1F,
 10 all liens arising under this subdivision are extinguished when the property is used for affordable
 11 rental housing within the time period allowed under this subsection. For purposes of this
 12 subsection, the term "future site" means unimproved real property or improved real property that
 13 is not occupied as of the date of the application for exemption under this section.

14 (i) Ineligible Property. – Property that has been designated a special class of property
 15 under G.S. 105-277.16 and assessed accordingly is not eligible for exemption under this section.

16 **SECTION 3.** G.S. 105-277.1F(a) reads as rewritten:

17 "(a) Scope. – This section applies to the following deferred tax programs:

- 18 (1) G.S. 105-275(12), real property owned by a nonprofit corporation held as a
 19 protected natural area.
- 20 (1a) G.S. 105-275(29a), historic district property held as future site of historic
 21 structure.
- 22 (2) G.S. 105-277.1B, the property tax homestead circuit breaker.
- 23 (2a) **(See note for repeal)** G.S. 105-277.1D, the inventory property tax deferral.
- 24 (3) G.S. 105-277.4(c), present-use value property.
- 25 (4) G.S. 105-277.14, working waterfront property.
- 26 (4a) G.S. 105-277.15, wildlife conservation land.
- 27 (4b) G.S. 105-277.15A, site infrastructure land.
- 28 (5) G.S. 105-278(b), historic property.
- 29 (6) G.S. 105-278.6(e), nonprofit property held as future site of low- or
 30 moderate-income ~~housing~~ housing, other than affordable rental housing as
 31 defined under G.S. 105-278.7A.
- 32 (7) G.S. 105-278.7A(h), nonprofit property held as future site of affordable rental
 33 housing."

34 **SECTION 4.** This act is effective for taxes imposed for taxable years beginning on
 35 or after July 1, 2026, and, with respect to property held as a future site under G.S. 105-278.6(e)
 36 or G.S. 105-278.7A(h), as enacted by this act, applies to real property classified under those
 37 provisions on or after that date. Notwithstanding G.S. 105-282.1(a)(2)a., an owner of low- or
 38 moderate-income rental housing property that is exempt under G.S. 105-278.6(a)(8) as of the
 39 effective date of this act must, by December 31, 2026, reapply for the exemption, providing the
 40 assessor of the taxing unit with any necessary documentation for compliance consistent with this
 41 act. Reapplication under this section is considered an application under subsection (f) of this act.
 42 Failure to meet this requirement within the time limit subjects the property to discovery under
 43 G.S. 105-312.



Bill Draft 2025-SVxfz-16E: Affordable Housing Exemption Mods.

2025-2026 General Assembly

Committee:	House Select Committee on Property Tax Reduction and Reform	Date:	March 18, 2026
Introduced by:		Prepared by:	Trina Griffin Committee Counsel
Analysis of:	2025-SVxfz-16E		

OVERVIEW: *Bill Draft 2025-SVxfz-16E would do all of the following:*

- *Update and preserve the low- and moderate-income housing property tax exemption for 100% nonprofit owners or joint ventures where a government agency has contributed financial support and to the extent there are mechanisms to enforce long-term affordability requirements.*
- *Prohibit joint ventures that do not finance affordable housing with government support from obtaining the property tax exemption.*
- *Reduce from 10 years to 5 years, the period of tax deferral for future sites of affordable housing.*

These changes would become effective for taxes imposed for taxable years beginning on or after July 1, 2026. Affordable rental properties that are currently exempt under existing law would be required to reapply and establish that they meet the requirements of this act.

CURRENT LAW & BACKGROUND:

Exemption for Charitable Purposes Generally. – Real and personal property owned by nonprofit entities and operated for a charitable purpose is exempt from property tax. "Charitable purpose" is defined as:

"one that has humane and philanthropic objectives; it is an activity that benefits humanity or a significant rather than limited segment of the community without expectation of pecuniary profit or reward..."

A property owner must file an application for the benefit to receive it, but once an application is approved, the owner need not file an application in subsequent years. The statute does not expressly require the submission of any particular information, but to qualify for the exemption, proof of ownership and use of the property as low- or moderate-income housing should be demonstrated.¹

Low- and Moderate-Income Housing. – G.S. 105-278.6 lists specific nonprofit entities, and categories of entities, that are eligible for this "charitable purpose" exemption, including "a nonprofit organization providing housing for individuals or families with low or moderate incomes." The statute does not define ownership or "low or moderate incomes," nor are there any ongoing compliance requirements related to

¹ As a practical matter, applicants typically provide a description of the ownership structure, the IRS nonprofit certificate, restrictive covenants, if any, and any agreement between the owners; a rent roll may also be included, which would show that rents charged are below 30% of 80% AMI, but does not necessarily show that the renters' incomes are below 80% AMI.

Kara McCraw
Director



Legislative Analysis
Division
919-733-2578

This bill analysis was prepared by the nonpartisan legislative staff for the use of legislators in their deliberations and does not constitute an official statement of legislative intent.

Draft

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rent limits, income limits, or long-term affordability. This exemption was enacted in 1975 and has not been substantially modified since that time.

Affordable Housing. – While the exemption statute does not define "low or moderate incomes," the U.S. Department of Housing and Urban Development (HUD) defines "housing affordability" as a household paying no more than 30% of their income for housing. Most federal and public resources use 80% of Area Median Income (AMI) and below as the targeted income threshold. The term "affordable housing" has become synonymous with the term "low- and moderate-income housing."

Safe Harbor under IRS Rev. Proc. 96-32. – This IRS has established guidance for a 501(c)(3) that provides low-income housing to qualify for tax exemption. If an entity meets the "safe harbor" requirements of Rev. Proc. 96-32, it will be considered charitable. The safe harbor permits a limited number of units to be occupied by residents with incomes above the low-income limits to assist in the social and economic integration of the poorer residents and, thereby, further an organization's charitable purposes.² At the same time, to avoid giving undue assistance to those who can otherwise afford safe, decent, sanitary housing, the safe harbor requires occupancy by significant levels of both very low-income and low-income families.³ These income limits are computed and published annually by HUD. Specifically, Section 3 of the safe harbor⁴ requires the following:

Percentage of Units	Occupied by Residents with Incomes of
At least 75%	≤80% AMI
Up to 25%	>80% AMI
Of the 75%, either:	
20%	≤50% AMI
40%	≤60% AMI

Federal Low-Income Housing Tax Credits. – Section 42 of the Internal Revenue Code provides a low-income housing tax credit (LIHTC) as an incentive to construct or rehabilitate affordable rental housing to eligible development entities. LIHTC accounts for 98% of all affordable rental housing development in the United States. It was originally enacted by 1986 federal tax reform legislation, strengthened in the 2017 Tax Cuts and Jobs Act, and further expanded and strengthened in 2025 under the One Big Beautiful Bill Act (OBBBA).

Affordable housing developments financed by LIHTC are privately owned and privately managed. Development sponsors can be for-profit or non-profit entities who typically sell the credits to an investor to generate equity, thus reducing the debt payments on the property. The investor becomes the majority owner for 15 years, as prescribed by the IRS, to claim the federal tax credit over a 10-year period. In exchange, the owners agree to keep rents affordable for households making at or below 80% AMI for the next 30 years.

Under the LIHTC program, there are several guardrails in place to ensure that the property is used for long-term affordable housing, including a recorded deed restriction that specifically states the terms of

² [Section 2.03 of IRS Rev. Proc. 96-32.](#)

³ *Id.*

⁴ [Section 3.01 of IRS Rev. Proc. 96-32.](#)

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affordability for the property, monitoring by the North Carolina Housing Finance Agency for 30 years, and oversight by the IRS that includes tax credit recapture for noncompliance.

Blue Ridge Housing. – *In re Blue Ridge Housing of Bakersville* is a 2013 North Carolina Court of Appeals case, in which the central issue was what constitutes a sufficient degree of ownership for purposes of the low-income housing property tax exemption. Over the last five years, tax administrators have observed a significant increase in the use of this exemption as a direct result of this case. Specifically, this exemption has seen a 75% increase in values excluded in the last two years, and from 2021 to 2025, the number of exemptions increased an average of 93%. In a [January 2026 presentation](#) to the House Select Committee on Property Tax Reduction and Reform, the NC Association of County Commissioners and the Self-Help Credit Union described their observations that the increase is from for-profit private equity investors initiating the creation of joint ventures with passive nonprofits to buy older properties, where rents are naturally well below the statutory requirements, to obtain the exemption while increasing rents, in effect using public funds for private gain. Specifically, they pointed to recent broker and law firm materials marketing the property tax abatement to encourage pursuit of this structure.

The case involved an affordable rental housing development financed with LIHTC. The owner of the property was a two-member LLC: the general partner and managing member was a nonprofit and owned 0.1% of the LLC. The passive investor-member was a partnership comprised of banks, insurance funds, and other private investors, and it owned 99.9% of the LLC. This ownership arrangement is standard among LIHTC projects with the investor interest representing its share of tax credit equity while the nonprofit manages the day-to-day operations of the housing development. To the extent the nonprofit had only a 0.1% ownership interest in the property, the tax assessor challenged the exemption arguing that the nonprofit did not have a sufficient ownership interest to allow the exemption. The Court found that the nonprofit's 0.1% ownership interest justified a property tax exemption based on a number of factors demonstrating that the nonprofit was the true owner, including the fact that it initiated the project, it managed the day-to-day operations, it was ultimately going to own the property outright once the passive investors exhausted their tax credits, and the ownership structure was standard for LIHTC projects. Observers tend to agree the outcome in the case was a reasonable and desirable result given the fact pattern. However, a broad interpretation of the case or a fact pattern that does not involve the guardrails associated with government financing, combined with a lack of statutory guidance and administrability issues, could explain the significant increase in the use of the exemption without assurances of providing long-term affordable housing in exchange for the tax benefit.

BILL ANALYSIS: Bill Draft 2025-SVxfz-16E would substantially restructure the property tax exemption for nonprofits that provide low- and moderate-income housing income by defining terms, limiting permissible ownership structures, requiring initial and ongoing verification of rent and income limits, and ensuring compliance with long-term affordability requirements through government oversight or a recorded deed restriction, depending on the method of financing.

With respect to the **existing statute**, G.S. 105-278.6, Section 1 of the bill draft would:

- Make stylistic and readability changes by moving the actual and exclusive use and ownership requirements to the lead-in language since those requirements apply to all of the entities listed in the statute.
- Carve out rental housing from the broader provision and relocate the applicable provisions to a new stand-alone statutory section, G.S. 105-278.7A. As revised, (a)(8) would remain applicable to nonprofit organizations that "provide housing to low- and moderate-income individuals" other than rental housing, such as Habitat for Humanity.

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- Reduce from 10 years to 5 years, the period of deferred taxes for real property held as a future site for low- and moderate-income housing. Ordinarily, property must be in actual use to qualify for the exemption. In 1993, the General Assembly created an exception to this requirement by allowing property held as a future site for affordable housing to qualify for the exemption, with the taxes otherwise due becoming a lien on the property for a period of up to 5 years. If the property is used for affordable housing within that period, the lien is extinguished; if it is not, the taxes become due. In 2011, this period was extended to 10 years.
- Section 3 of the bill draft is a conforming change.

With respect to the **new statute**, Section 2 of the bill draft would:

- **Generally.** – Establish a new framework for a nonprofit that provides "affordable rental housing" to qualify for the property tax exemption. The new statute uses the term "affordable" in place of "low- and moderate-income." HUD defines "housing affordability" as a household paying no more than 30% of their income for housing for households earning at or below 80% of the Area Median Income (AMI).
- **Affordability Requirements.** – Define "affordable rental housing" to refer to a rental housing development in which more than 50% of the units are at or below rent and income limits. Those terms are further defined as follows:
 - Income limit – 80% of AMI.
 - Rent limit – Rent, plus utility allowance calculated in accordance with requirements of the NC Housing Finance Agency, that does not exceed 30% of 80% of AMI.

As it relates to this affordability requirement, applicants for the exemption would have to verify the percentage of "qualifying units" by submitting documentation as to the rent amounts received and the total household income for each qualifying unit, which, in turn, would determine the applicable exemption percentage. Alternatively, an applicant may qualify for a 100% exemption if the property meets the IRS safe harbor requirements.

- **Eligible Owners.** – Limit who can be an "eligible owner" based on whether the property is financed with government funds. Under the bill, a joint venture that does not finance the affordable housing with government funds is not eligible for the exemption. The possible eligible owners are as follows:
 - Eligible nonprofit corporation – A 501(c)(3) that has day-to-day control of the operations of and decisions for the affordable rental housing and does not delegate decision-making authority other than to a property manager serving under the direction of the eligible owner. It may include a single-purpose entity wholly owned by an eligible nonprofit corporation.
 - Eligible joint venture – A limited partnership, limited liability company, or a limited liability partnership in which a general partner or a managing member is an eligible nonprofit corporation. This ownership structure, in conjunction with federal low-income housing tax credits (LIHTC) financing, is the same fact pattern as in the *Blue Ridge Housing* case.
- **Government Support.** – Tie the requirements for exemption eligibility to whether the property is financed with government funds, referred to as "government support." The reason for this is that government funding mechanisms have long-term affordability requirements as part of their financing terms and corresponding oversight, which provide assurances that the property will be used for its intended purpose. The term "government support" refers to any of the following:

- Federal low-income housing tax credits.
- Tax-exempt mortgage revenue bonds, qualified 501(c)(3) bonds, federal direct loans or grants, State loans or grants, or loans or grants provided by a local jurisdiction in which the property is located. To be eligible for the exemption using this type of financing, the terms of the financing must require the execution of a deed restriction or other enforceable regulatory agreement with a public agency requiring that the property be operated as affordable housing for at least 15 years from the date the financing is provided.
- **Requirements.** – The requirements for the exemption would depend on whether the affordable housing is financed with government support.
 - **Government-Supported.** – If the property is financed with government support, then the owner may be either an "eligible nonprofit corporation" or an "eligible joint venture," and the owner must be in compliance with any applicable deed restriction or regulatory requirements imposed by the financing terms.
 - **Non-Government-Supported.** – If the property is not financed with government support, then it must be 100% owned and operated by an eligible nonprofit corporation that has owned and operated affordable rental housing for at least 5 years and that has recorded a deed restriction requiring the property be operated in accordance with the requirements of this new statute for a period of at least 15 years from the date of application, and is, in fact, in compliance with said restriction. The eligible nonprofit may not lease the affordable housing to another entity and may not receive any funding or financial assistance, other than grants, from a for-profit affiliate.
- **Exemption Amount.** – The exemption amount would be one of two options:
 - A percentage equal to the percentage of qualifying units, which are units for which the rent is at or below 30% (including a utility allowance) of 80% AMI, adjusted for family size. For example, if 60% of the units are qualifying units, then the exemption amount would be 60% of the appraised value of the property.
 - 100% of the appraised value if the affordable rental housing meets the safe harbor requirements of Section 3 of IRS Rev. Proc. 96-32, which is as follows:

Percentage of Units	Occupied by Residents with Incomes of
At least 75%	≤80% AMI
Up to 25%	>80% AMI
Of the 75%, either:	
20%	≤50% AMI
40%	≤60% AMI

- **Transition Period.** – Provides a one-year transition period that would give an eligible owner who purchases an occupied property additional time to verify tenant incomes. During the transition period, the eligible owner would be able to receive an exemption representing the percentage of units that meet the rent limit only. If the verification requirement is not met within one taxable

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year, the taxing unit would be able to use the discovery process to assess the property. The reason for providing a transition period is to address instances when a nonprofit purchases an existing occupied property for which tenant incomes have not previously had to be verified or maintained because there is no government support in place requiring such information. It can take additional time to obtain tenant incomes when the information wasn't previously required to be provided, and allowing the transition period would alleviate the need to evict tenants in order to qualify for the exemption. These housing properties are often referred to as "Naturally Occurring Affordable Housing" (NOAH).

- **Application Requirements.** – An applicant must submit the following information on an application for the exemption:
 - Whether the applicant is applying for government-supported or non-government-supported property and evidence of said support.
 - Documentation supporting that it is an eligible owner.
 - A copy of the applicable deed restriction or regulatory agreement and a statement certifying that the applicant is in compliance with said document as well as the requirements of the statute.
 - Whether the property is subject to a transition period.
 - If the applicant is applying for an exemption amount based on the percentage of qualifying units, the percentage of qualifying units as shown by both of the following, which are to be submitted in an anonymized manner:
 - The rent amount received for each qualifying unit (or evidence of the published rent for a vacant unit).
 - The total household income for each occupied qualifying unit, except during the transition period.
 - If the applicant is applying for an exemption amount based on meeting the Rev. Proc. 96-32 safe harbor requirements, evidence demonstrating those requirements are met.
- **Compliance.** – The new statute would require ongoing compliance. On an annual basis, by January 31 following the initial exemption, the owner must provide to the taxing unit tenant rent and income verification, or evidence of meeting the safe harbor requirements, as of the previous December 31. Household income for each tenant in a qualified unit must be verified at least every two years following initial verification of the tenant's income.
- **Future Site.** – This provision is identical to the current law with respect to deferred taxes on property that will be a "future site" of affordable housing. Once construction is complete and the property becomes occupied as affordable housing, the lien resulting from the deferral would be extinguished. However, the bill would reduce the deferral period from 10 years to 5 years.
- **Ineligible Property.** – Subsection (i) would prevent an existing LIHTC property that was fully for-profit owned at the outset and is currently appraised, assessed, and taxed from transferring a portion of its ownership to a non-profit and qualifying for the exemption under the new statute. The rationale for this limitation is that allowing existing properties that were originally developed by a for-profit and are currently taxable to become exempt would not create new affordable housing and would further erode the local government tax base in the same way that NOAH

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properties owned by for-profits are changing their ownership structure after Blue Ridge Housing to become exempt.

EFFECTIVE DATE: This act would be effective for taxes imposed for taxable years beginning on or after July 1, 2026. With respect to property held as a future site under G.S. 105-278.6(e) or G.S. 105-278.7A(h), as enacted by this act, the 5-year period for deferred taxes would apply to real property classified under those provisions on or after July 1, 2026. Notwithstanding G.S. 105-282.1(a)(2)a., a nonprofit owner of rental housing that is exempt under G.S. 105-278.6(a)(8) as of the effective date of this act must, by December 31, 2026, reapply for the exemption, providing the assessor of the taxing unit with any necessary documentation for compliance consistent with this act. Reapplication under this section is considered an application under subsection (f) of this act.

APPENDIX F

DECEMBER 17, 2025, MEETING MATERIALS

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NORTH CAROLINA GENERAL ASSEMBLY HOUSE SELECT COMMITTEE ON PROPERTY TAX REDUCTION AND REFORM 2025-2026 SESSION

Co-Chairs

Rep. Julia Howard
Rep. Mitchell S. Setzer
Rep. Erin Paré

Vice Chairs

Rep. Brian Echevarria
Rep. Neal Jackson

Members

Rep. Eric Ager
Rep. Jonathan Almond
Rep. Brian Biggs
Rep. John M. Blust
Rep. Jerry "Alan" Branson
Rep. Grant L. Campbell, MD
Rep. Becky Carney
Rep. Maria Cervania
Rep. Tricia Cotham
Rep. Carla Cunningham
Rep. Aisha Dew
Rep. Frances Jackson
Rep. Abe Jones
Rep. Keith Kidwell
Rep. Nasif Majeed
Rep. Larry Potts
Rep. Dennis Riddell
Rep. James Roberson
Rep. Mike Schietzelt
Rep. Brian Turner
Rep. Harry Warren
Rep. Sam Watford
Rep. Diane Wheatley
Rep. Jeff Zenger

AGENDA

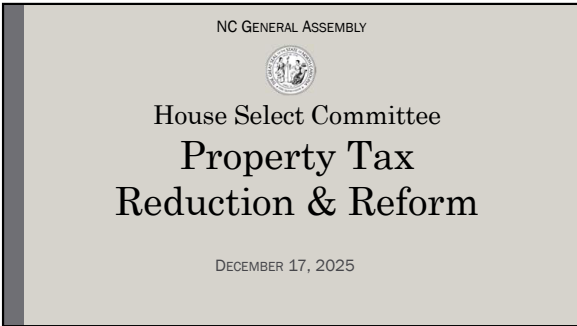
December 17, 2025

10:00 AM

Room 643 Legislative Office Building
Rep. Mitchell S. Setzer, Presiding

- I. Welcome and Introductions**
Rep. Mitchell S. Setzer, Committee Co-Chair
- II. Committee Charge**
Zoey Howe, Legislative Analysis Division
- III. Trends in Home Prices, Income, and Demographics**
Alannah Knight, Fiscal Research Division
- IV. Property Tax Basics: From Appraisal to Collections**
Nick Giddings, Legislative Analysis Division
- V. Current NC Residential Relief Programs**
Trina Griffin, Legislative Analysis Division
Brent Lucas, Fiscal Research Division
- VI. An Overview of Alternative Property Tax Relief Options:
Assessment & Expenditure Limits**
Brett Berne, Legislative Drafting Division
Nick Giddings, Legislative Analysis Division
- VII. Committee Discussion**
- VIII. Closing Remarks and Adjournment**

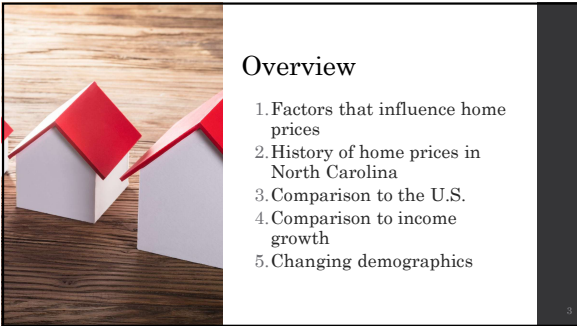
NEXT MEETING DATE: January 14, 2026



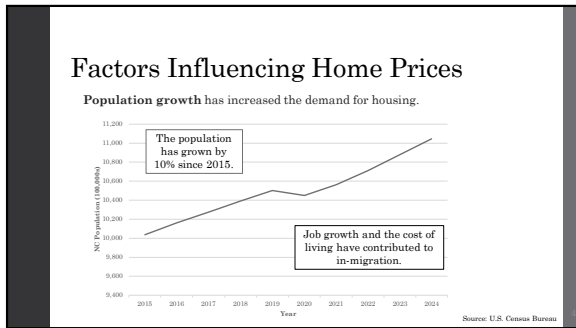
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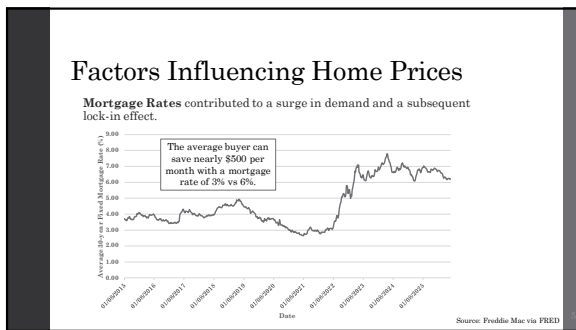
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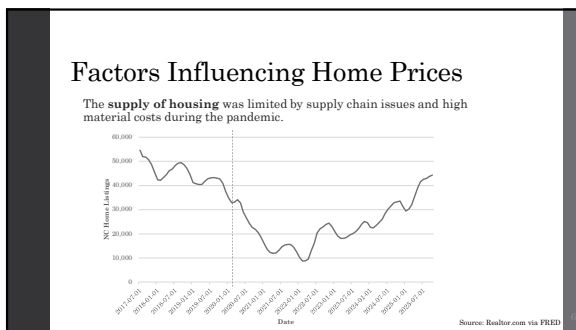
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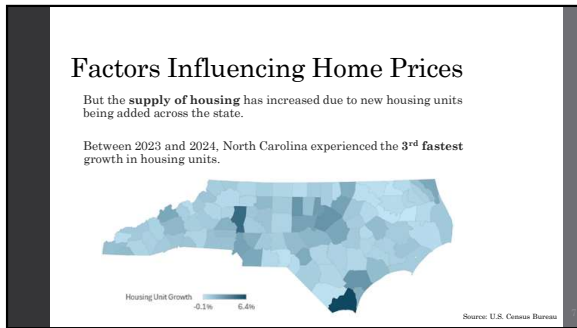
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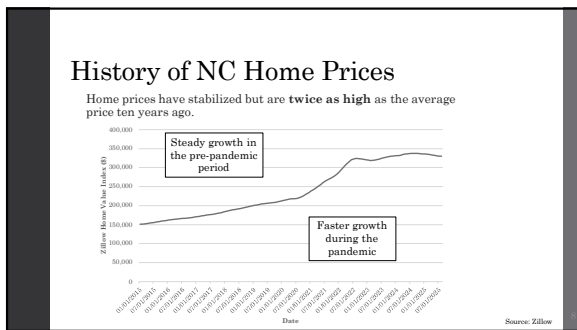
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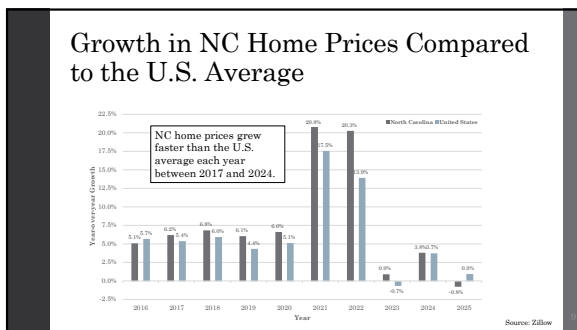
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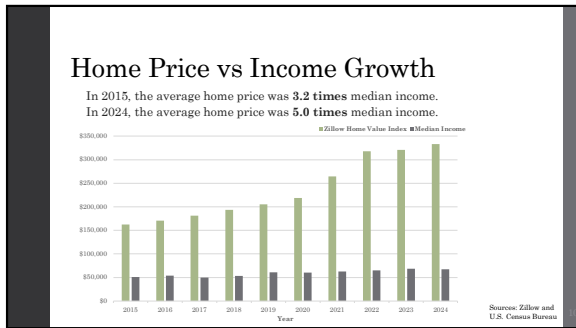
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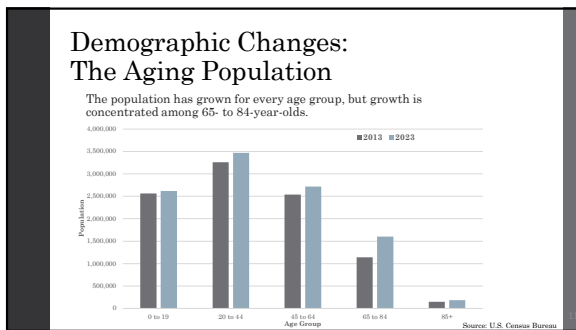
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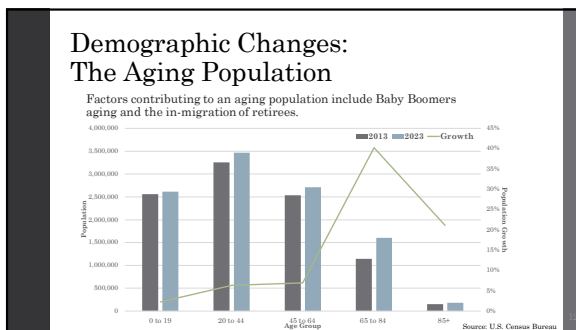
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Summary

- Various factors have influenced home prices in North Carolina over the past decade including:
 - Population growth
 - Mortgage rates
 - Housing supply
- Home prices are growing faster than incomes
 - The average home price in NC has increased from \$150,000 to \$330,000 over a 10-year period
 - Median income has remained relatively flat
- The population is aging
 - By 2030, all baby boomers will be 65+
 - Retirees are migrating

13


Property Tax Basics: From Appraisal to Collections

Nick Giddings, Legislative Analysis Division

14

Governing Law

- **Article V, Section 2 of the NC Constitution**
 - Lays the foundation for property taxation in NC
- **Machinery Act - Subchapter II of Chapter 105 (G.S. 105-271 - G.S. 105-395.1)**
 - G.S. 105-272 - Provides "the machinery for the listing, appraisal, and assessment of property and the levy and collection of taxes on property by counties and municipalities."



15

Property Taxation Basics

- The most stable local revenue source
- Only the General Assembly may classify property for taxation, which includes creating exceptions/exclusions from the property tax
 - Local governments cannot do this
- Property must be taxed by "uniform rule"
- Legislation must be accomplished via general law and apply statewide (i.e. no local acts)

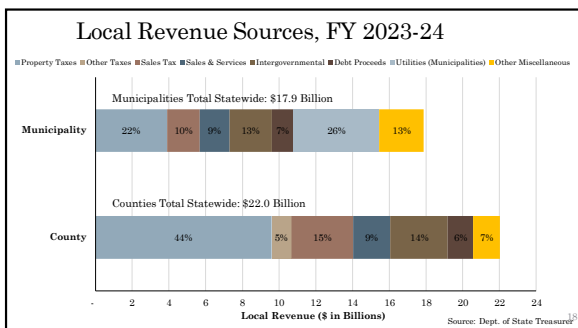
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Property Taxation Basics

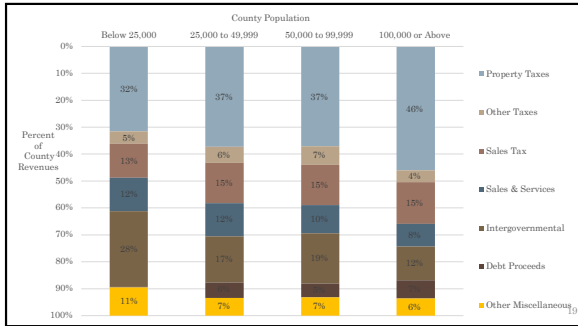
- Property tax rate is expressed as an amount of tax per \$100 of taxable value
- For example, if a property is appraised at \$200,000 and the tax rate is \$0.50, the tax owed on that property will be \$1,000.
 - First, take the taxable value and divide by 100 ($\$200,000/100 = \$2,000$) as the tax rate is "per \$100 in value"
 - Next, multiply the result by the tax rate ($\$2,000 \times 0.50 = \$1,000$)



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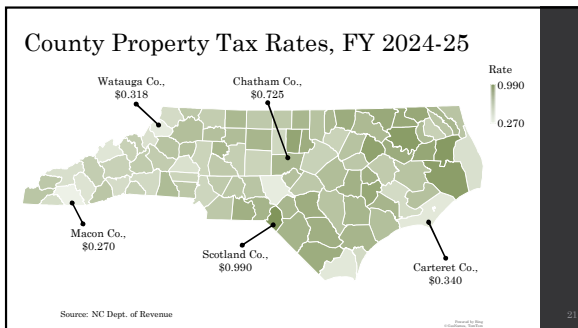
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Property Subject to Taxation

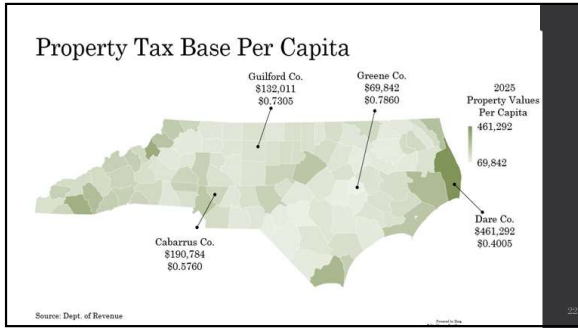
- G.S. 105-274 – All real and personal property within the jurisdiction of the State is subject to taxation, unless it is:
 - Excluded from the tax base by a statute of statewide application
 - Exempted from taxation by the NC Constitution or statute of statewide application

Property Taxation Basics
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Real Property

Definition:

- Land
- Buildings, structures, improvements, or permanent fixtures on land
- All rights and privileges belonging or in any way appertaining to the property (think: mineral rights, for example)
- Certain manufactured homes

Real property is listed each year by the county

Types of Property

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Personal Property

- Any property that is not real property
 - Intangible personal property
 - Tangible personal property
- With limited exceptions, personal property is only taxable if it is tangible
- Appraised annually.
- Must be listed by the taxpayer during annual listing period (January 1 – January 31) unless extension applies
 - General extension
 - Individual extension

Types of Property

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Public Service Companies

- Examples:
 - Electricity Providers
 - Gas Companies
 - Railroads
 - Telephone Service Providers
 - Airlines
 - Mobile Telecommunications Companies
- Assessed at State level by NCDOR
 - NCDOR assigns tax value to the property and allocates value to local governments for taxation




Types of Property

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Registered Motor Vehicles

- Cars, trucks, vans, motorcycles, and trailers with valid registrations and license plates
- Registered motor vehicles appraised annually
- Combined billing of annual vehicle registration fees and property taxes by NCDMV
 - NCDMV bills and collects property tax payments, then remits to local government
- Registration is staggered throughout the year for most motor vehicles
 - Different due dates and delinquency dates apply for different taxpayers
- To renew registration, owner must pay registration fee and property tax




Types of Property

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Determination of Property Ownership, Value, Taxability

- Personal property
 - Determined as of January 1 each year
- Real property
 - How Much
 - Determined as of January 1 of the reappraisal year
 - Ownership and Situs
 - Determined as of January 1 each year



Property Tax Basics

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Situs

- Situs = Taxable location
- Generally real property is easy, but movable personal property is more difficult
- Personal Property:
 - *General rule* (G.S. 105-304) – Situs is the residence of the owner (principal place of business if business is owner)
 - *However*, if the property is more or less permanently located in a jurisdiction, that jurisdiction has situs

Property Tax Basics

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Appraisal

- Defined as the *true value* of property and the process by which true value is ascertained
- Uniform appraisal standard (G.S. 105-283) – All property, real and personal, shall as far as practicable be appraised or valued at its *true value in money*

Appraisal vs. Assessment

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Assessment

- Defined as the tax value of property and the process by which the assessment is determined (more on this later)
- Uniform assessment standard (G.S. 105-284) – Generally, all property, real and personal, shall be assessed for taxation at its *true value*
 - Exceptions:
 - Present-use value
 - Public service companies
 - Property in a development financing district

Appraisal vs. Assessment

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True Value

- True value in money means *market value*
 - Definition (G.S. 105-283): "the price estimated in terms of money at which the property would change hands between a willing and financially able buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of all the uses to which the property is adapted and for which it is capable of being used."
- "The purpose of the statutory requirement that all property be appraised at its true value in money is to assure, as far as practicable, a distribution of the burden of taxation in proportion to the true values of the respective taxpayers' property holdings, whether they be rural or urban."
 - *In re King*, 281 N.C. 533, 189 S.E.2d 158 (1972)

Appraisal vs. Assessment

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True Value

- State law requires the appraiser to consider various factors when appraising real property in an effort to determine the property's highest and best use, including:

Land	Buildings/Improvements
<ul style="list-style-type: none"> • Location • Zoning • Soil quality • Water privileges • Conservation agreements • Valuable deposits (i.e. minerals) • Adaptability (i.e. other uses) • Income (past and future) • Any other factors affecting value 	<ul style="list-style-type: none"> • Location • Construction type • Age • Replacement cost • Actual cost • Adaptability (i.e. other uses) • Income (past and future) • Any other factors affecting value

Appraisal vs. Assessment

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Sales Comparison Approach

- Compares property being appraised with similar properties that have recently sold
 - Real property
 - Commonly used for single-family residences and land
 - Personal property
 - Useful for vehicles, watercraft, aircraft, and farm equipment
- Sale prices are adjusted to account for relatively minor differences between comparable properties and sale price is estimated for type and use of property in question
- As this approach is derived from actual market transactions, it is usually considered a good indicator of actual market value

Approaches to Value

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Income Approach

- Value based on principle that something is worth what it will earn
- Net income for property is estimated, and a capitalization rate is applied to generate a predicted present value for the future income the property can be expected to produce
 - Commonly used for income-producing real and personal property, such as leased commercial property or equipment
- Capitalization rate determined by analyzing sales of other, similar income-producing properties or assets

Approaches to Value

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Cost Approach

- Cost of replacing property is estimated, and that figure is reduced by depreciation factor, usually to account for age of property
 - Useful economic life is important in determining depreciation
- Most useful for the following:

<p>Personal Property</p> <ul style="list-style-type: none"> · Business machinery and equipment <ul style="list-style-type: none"> · Usually not enough comparable sales to value under the sales comparison approach 	<p>Real Property</p> <ul style="list-style-type: none"> · Newly constructed or unique property <ul style="list-style-type: none"> · Sales and income have often not been established by the market, so cannot effectively use any other approach
--	--

Approaches to Value

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Revaluations

- Real property is required to be reappraised at least every 8 years; however, can be done more frequently:
 - Optional advancement – Local unit may choose to reappraise property more frequently
 - Most common reappraisal schedule is every 4 years – 51 counties (as of 2025 tax year)
 - Shortest – Wake County, currently 3 years, moving to 2-year cycle in 2027
 - Mandatory advancement – Reappraisals required, within 3 years, for counties with populations greater than 75,000 if sales assessment ratio is below 85% or above 115%
 - Sales assessment ratio – Calculated by NCDOR and measures the ratio between a property's tax appraisal and its actual sale price

Revaluations

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Mass Appraisal

- Ideally, real property would be reappraised each year
- However, annual reappraisal of tens of thousands of properties in each county is difficult and expensive
- Solution – *Mass appraisal*
 - Uses county-wide data to develop pricing models used for valuing individual parcels, with highest and best use being the valuation goal
 - Some properties will be individually appraised, but the rest will be assigned tax values based on an analysis of market prices and physical characteristics at the neighborhood level
 - Still uses the three traditional approaches to determining value

Revaluations

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Schedule of Values

- Assessor prepares uniform schedules of values, standards, and rules to be used in appraising real property at true value (schedules are also made for present-use value property)
 - Generally known simply as the *Schedule of Values*
- These schedules serve as the county's mass appraisal model and are implemented by means of a computer assisted mass appraisal system (CAMA)

Revaluations

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Schedule of Values

- Schedules incorporate:
 - Building cost figures derived from national data that have been adjusted to reflect local costs
 - Sales data from arms-length transactions grouped by appraisal neighborhood
 - Expense formulas applicable to commercial property derived from local and national sources
- Schedules generally provide for adjustments to base value due to certain features (such as fireplaces, finished basements, etc.)
- The Schedule of Values is used as the basis for valuing all real property during *all years* of the reappraisal cycle

Revaluations

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Changes to Real Property Tax Values in Non-Revaluation Years

- In between reappraisals, real property tax values may only be changed under certain circumstances, such as:
 - To correct a clerical or mathematical error
 - To correct a misapplication of the schedule of values
 - To recognize an increase or decrease in the property value due to a physical change in the land, improvement to the land, or legally permitted use of the land (i.e. change in zoning)
- However – changes in general economic conditions or the local real estate market *should not* be reflected in tax values until the next reappraisal

Revaluations

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Changes to Real Property Tax Values in Non-Revaluation Years

- Examples:
 - 2,000 sq/ft addition added to property – value should be adjusted/increased
 - House burns down – value should be adjusted/decreased
 - Housing market declines or increases – value should NOT be adjusted until next revaluation
- Note – All value changes take effect on January 1 of the year in which it is made and is not retroactive
 - The value is determined using the Schedule of Values in place for the most recent revaluation

Revaluations

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Appeals Process

- So, the value of your property has changed...what now?
- Tax assessor will send written notice of a change in the appraisal of real property to the taxpayer's last known address
- This applies to appraisal changes applicable to real property in revaluation and non-revaluation years

Appeals Process

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Appeal Process

1. Informal appeal to assessor
2. County Board of Equalization and Review
3. State Property Tax Commission
4. NC Court of Appeals
5. NC Supreme Court (maybe)

Appeals Process

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Informal Appeal

- Not required under the Machinery Act, but most assessors provide an informal appeal process to taxpayers
- A taxpayer may request an informal appeal to the assessor due to an appraisal, assessment, or denial of a property tax exemption/exclusion
- If the assessor agrees with the taxpayer, the assessor may correct the error prior to the convening of the local board of equalization and review
- If the appeal cannot be settled informally, the taxpayer may appeal to the local board of equalization and review

Appeals Process

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Board of Equalization and Review

- The board of county commissioners serves as the county board of equalization and review unless it appoints, by resolution, a special board to handle the appeals
 - Most counties appoint a special board
- **Board Timing:**
 - **Start** – Board must hold first meeting of year no earlier than the first Monday in April and no later than the first Monday in May
 - **Adjournment** – Board must adjourn by the following dates:
 - Non-revaluation years – July 1
 - Revaluation years – December 1

Appeals Process

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Board of Equalization and Review

- Why does timing matter?
 - A taxpayer must appeal to the Board prior to the Board's adjournment for the year.

- Note – While appeals must be filed before the Board adjourns, the Board continues to resolve those appeals after adjournment

Appeals Process

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Property Tax Commission

- If the taxpayer disagrees with the decision of the Board of Equalization and Review, he or she may appeal to the Property Tax Commission.
 - Note – Only the taxpayer may appeal to the PTC. The Board's decision is binding on the county

- The PTC meets monthly in Raleigh

- The PTC is a trial court and is, therefore, much more formal than a proceeding before the Board of Equalization and Review

Appeals Process

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State Court Appeals

- North Carolina Court of Appeals
 - The party that loses before the PTC may appeal to the NC Court of Appeals
 - County may appeal unfavorable PTC decision
 - This is often the final stop for property tax appeals

- North Carolina Supreme Court
 - The losing party at NC Court of Appeals has the right to continue its appeal to the NC Supreme Court if at least one judge at the Court of Appeals voted in its favor
 - Discretionary review – Supreme Court may also take up the case despite unanimous decision from Court of Appeals in limited circumstances (this rarely happens)

Appeals Process

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Property taxes are levied on a fiscal year that begins on July 1 and ends the following June 30

Notable dates:

Date	Notable Occurrence
January 1	<ul style="list-style-type: none"> Date in which value, ownership, status, and taxability of real and personal property are determined for the upcoming tax year Start of the regular listing period Taxes become a lien on real property for upcoming tax year
January 31	<ul style="list-style-type: none"> Last day of regular listing period
July 1	<ul style="list-style-type: none"> New fiscal year begins Deadline to adopt budget ordinance <ul style="list-style-type: none"> New property tax rate set in budget ordinance
September 1	<ul style="list-style-type: none"> Property taxes for current fiscal year become due
January 6	<ul style="list-style-type: none"> Unpaid property taxes become delinquent; begin accruing interest at 2%
February 1	<ul style="list-style-type: none"> New interest rate of 3/4% begins on unpaid taxes

Property Tax Calendar

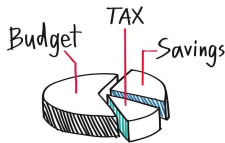
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Budget Ordinance

- Until a budget ordinance is adopted, there may be no property taxes levied for the fiscal year
- Remember, the budget ordinance sets the property tax rate

Budget Calendar:

- By April 30**
 - Departmental requests must be submitted to Budget Officer
- By June 1**
 - Proposed budget must be presented to governing board
- After submittal of budget, but prior to adoption**
 - Notice/public hearing
- By July 1**
 - Governing board must adopt budget



Budget: Setting Tax Rate

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Balanced Budget Requirement

- Local government budget ordinance *must be balanced*
 - G.S. 159-8: "A budget ordinance is balanced when the sum of estimated net revenues and appropriated fund balances is equal to appropriations"
 - To this end, the law requires an exact balance – it does not allow for a deficit or a surplus
- To properly balance the budget ordinance, the local government must know three variables:
 - Net revenues**
 - Revenues unit expects to actually receive during the fiscal year (includes potential property tax collections)
 - Appropriated Fund Balance**
 - The amount of cash reserves needed to fill the gap between estimated revenues and appropriations
 - Appropriations for Expenditures**
 - Legal authorization to make an expenditure

Budget: Setting Tax Rate

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Setting the Property Tax Rate

- The property tax rate should be based on the amount of revenue the local government needs to balance its budget after all other revenue sources are accounted for, given the expected tax base for the coming year
- In order to set the property tax rate, the local governing board must know the following variables:
 1. The amount of *revenue the property tax needs to generate* to balance the budget (revenue generated from the property tax is also known as the **property tax levy**)
 2. The estimated *property tax base*
 3. The *collection percentage* for the current fiscal year
 - For budget purposes, the law **prohibits** the local government from assuming a higher collection rate for the coming year than it experienced in the current fiscal year

Budget: Setting Tax Rate
02

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Setting Tax Rate Example

- Assume the following:
 - County needs \$25,000,000 in property tax revenue to balance its budget
 - Estimated property tax base is \$5 billion
 - Property tax collection rate for current fiscal year is 97%
- **First**, local unit must calculate its adjusted revenue target (how much it needs to bill to generate \$25,000,000 tax levy)
 - $\$25,000,000 / .97 = \$25,775,000$ (roughly)
- **Next**, the local government must determine the adjusted tax base (since the tax rate is "per \$100 in value")
 - $\$5,000,000,000 / \$100 = \$50,000,000$
- **Lastly**, divide the adjusted revenue target by the adjusted tax base
 - $\$25,775,000 / \$50,000,000 = \$0.516$
- Therefore, the county must levy a property tax of \$0.516 or 51.6 cents per \$100 of value to meet its budgetary needs

Budget: Setting Tax Rate
03

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Revenue-Neutral Tax Rate

- G.S. 159-11(e) requires that in each year in which a general reappraisal of real property has been conducted, the budget officer of the local government must include a statement of the revenue-neutral property tax rate in the proposed budget submitted to the governing board
- The revenue-neutral tax rate is a calculation that shows what the property tax rate would be for the upcoming tax year (using the new reappraisal's tax base) to produce the same revenue as the current tax year (which used the previous reappraisal's tax base), with an adjustment for a statutorily mandated "growth factor"

Budget: Setting Tax Rate
04

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Revenue-Neutral Tax Rate

- Revenue-neutral tax rate is included in the proposed budget for comparison purposes only
- The governing board is not required to adopt the revenue-neutral property tax rate when the finalized budget is approved
- Governing board is free to adopt a different property tax rate that satisfies the needs of the local government
- Note – Even if the governing board adopts a revenue-neutral tax rate, it *does not* mean a taxpayer's property tax liability for the upcoming tax year will be the same as the current year

Budget: Setting Tax Rate

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Rate Limitations

- When setting the property tax rate, the local government is generally limited to setting the rate at no more than \$1.50/\$100 of value; however, there are certain exceptions
- Local governments may levy property taxes without restriction for the following purposes:

Counties	Municipalities
<ul style="list-style-type: none"> • Courts • Debt service • Deficits • Elections 	<ul style="list-style-type: none"> • Jails • Joint undertakings • Schools • Social services • Debt service • Deficits • Civil disorders

- Local governments may also exceed the \$1.50/\$100 cap with voter approval
- No local government is currently at or near the limit

Budget: Setting Tax Rate

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Changing the Rate

- Once the tax rate is set in the budget, the governing board is generally prohibited from changing it
- A governing board may *only* alter the property tax if any of the following occur:
 - The unit is ordered by a court
 - The unit is ordered by the LGC
 - The unit receives revenues that are *substantially* more or less than the amount anticipated when the ordinance was adopted
 - A change under this exception must occur by December 31




Illustration not being provided. The image is a photograph of a man's face, likely a politician or official, with a serious expression.

Budget: Setting Tax Rate

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Property Tax Collection

- Tax rate is set – what now?
- Local government calculates tax liability and sends a property tax bill, usually in July or August
 - Note – Machinery Act does not require local governments to send tax bills to taxpayers; however, all do
 - G.S. 105-248 – Machinery Act charges all taxpayers with notice of the fact that taxes are owed on their property
- Property taxes are due on September 1; however, taxes are not delinquent until January 6, so no penalty for paying taxes by January 5

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Enforced Collections

Remedy	Property Targeted
Attachment and Garnishment	Wages, bank accounts, rents, or any other money owed to the taxpayer
Levy and Sale of Personal Property	Any tangible personal property owned by the taxpayer
Foreclosure	Real property subject to a lien for delinquent property taxes
Set-Off Debt Collection	State income tax refunds, lottery winnings, or any other money owed to the taxpayer by the State


- Once taxes are delinquent, the tax collector may initiate enforced collections
- If a local government initiates foreclosure proceedings, no further enforced collection remedies may be used to collect the property tax debt
- Machinery Act creates a 10-year statute of limitations on enforced collections
 - Enforced collections must *begin* within 10-years from the date of the tax's original due date

Budget: Setting Tax Rate

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Refunds and Releases



Relief	For What?	When?
Refund	Taxes Paid	Later of: <ul style="list-style-type: none"> • 5 years from original due date • 6 months from payment
Release	Unpaid Taxes	No time limit

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Refunds and Releases

- Refunds and releases are *only* permitted in the following circumstances:
 - If the tax was *illegal* or *levied for an illegal purpose*
 - If the tax was imposed due to *clerical error*
- The governing board of the local unit is tasked with approving refunds and releases
 - Governing board may delegate refund requests of less than \$100
- Governing board members voting for an unlawful refund or release may be held *personally liable* for the refunded or released tax
- Taxes unlawfully refunded or released are considered unpaid and collectible, and the existence and priority of any tax lien is not affected

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Residential Relief Programs

Trina Griffin, Legislative Analysis Division
Brent Lucas, Fiscal Research Division

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Elderly or Disabled Circuit Breaker Disabled Veterans

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Elderly or Disabled Homestead Exclusion

- Aged 65 and over or totally and permanently disabled
- Income ceiling (2025: \$37,900)
- Greater of \$25,000 or 50% of appraised value

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Elderly or Disabled Exclusion

Qualifying Owner

- Is a NC resident
- Is at least 65 years old OR totally and permanently disabled
 - For married owners, only one spouse needs to meet age or disability requirement. For unmarried co-owners, each owner must qualify to receive benefit.
- Occupies property as "permanent residence" – Legal residence, not to exceed 1 acre; may be single family, a unit in a multi-family residential complex, or a manufactured home
- Income does not exceed eligibility limit

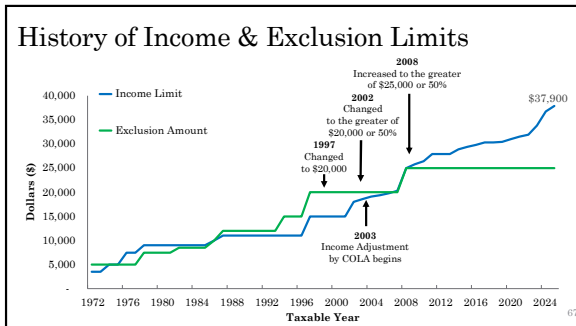
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Elderly or Disabled Exclusion

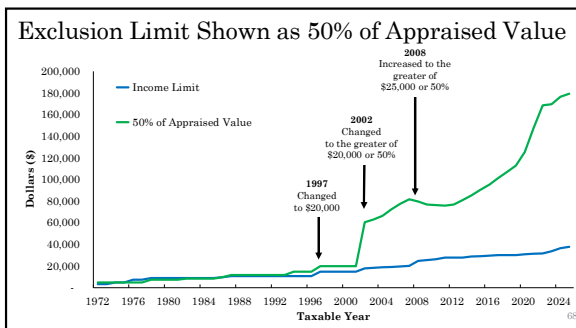
Income Limitation

- What's the limit?** The amount for the preceding year, adjusted by the COLA percentage. The base was last adjusted in 2008. The adjusted limit for taxable year 2025 = \$37,900.
 - DOR sets income limit by July 1 of each year for the taxable year beginning the following July 1; because of timing, COLA from 2 years prior is used for upcoming taxable year.
- What's included?** All moneys received from every source other than gifts or inheritances received from a spouse, lineal ancestor, or lineal descendant; effective 2008, federal AGI is no longer the starting point.
- Whose income is included?** For married applicants, the income of both spouses is included, regardless of whether the property is in both names. Unmarried co-owners' incomes are not combined.

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Elderly or Disabled Exclusion

Fiscal Impact

- Nearly \$9B in valuations excluded; ~\$75M local loss/year
- Top 5 counties' valuations excluded from taxation

County	Value Excluded (\$M)
Mecklenburg	\$870
Wake	\$700
Buncombe	\$360
Guilford	\$335
Gaston	\$335

Local Reimbursement History

1982 - 15% reimbursement
 1986 - 35% reimbursement
 1987-91 - 50% reimbursement
 1991-1997 - reimbursements frozen at 1991 amounts (\$7.9M)
 1998-99 - 50% reimbursement after 1996 increase for 2 years
 2000 - Resumption of pre-1998 reimbursement amounts
 2001-2002 - Reimbursements repealed due to budgetary shortfall

No local reimbursements since that time.

Data Source: NC Dept. of Revenue

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Elderly or Disabled Exclusion

Surrounding States

State	Income Limit	Exclusion Amount
Tennessee	\$37,530 (2025)	\$2,700 (2025)
South Carolina	None	\$50,000
Florida (multiple programs)	\$37,694 (2025)	-Standard + \$50,000 (local) -100% w/ 25 yrs in home -Save Our Homes assessment limitation
Georgia (multiple programs)	-\$10,000* (65+) -\$30,000 (62+)	\$4,000 "floating" - capped at inflation
Virginia	Determined at local level	Determined at local level
NC	\$37,900 (2025)	\$25,000 or 50% of appraised value

*Income from retirement sources, pensions, and disability income is excluded up to the maximum amount allowed to be paid to an individual and his spouse under the federal Social Security Act. The social security maximum benefit for 2025 is \$96,432.

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Disabled Veteran Exclusion

"Qualifying
veteran"

\$45,000
excluded

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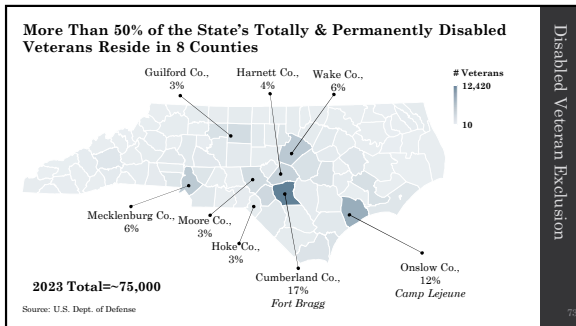
Disabled Veteran Exclusion

Qualifying Veteran or Surviving Spouse

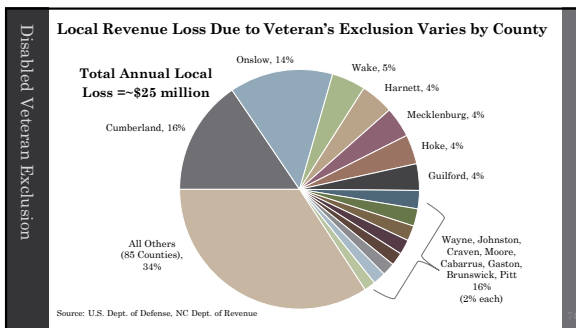
An eligible applicant is either:

- A **"disabled veteran" who:**
 - Served any branch of the Armed Forces;
 - Separated from service honorably or under honorable conditions;
 - **AND** meets one of the following
 - Received federal adaptive housing benefits;
 - Certified by the VA as having a service-connected, total and permanent disability as of January 1 preceding the taxable year for which exclusion is claimed;
 - Is deceased and death was the result of a service-connected condition.
- An **unremarried surviving spouse of a disabled veteran**

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Surrounding States

State	Income Limit	Exclusion Amount
Georgia	None.	\$121,812 (2025)*
Tennessee	None.	\$175,000
Florida	None.	100%
South Carolina	None.	100%
Virginia	None.	100%
North Carolina	None	\$45,000


*Greater of \$32,500 or the maximum allowable under 38 U.S.C. 2102.

Disabled Veteran Exclusion

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Circuit Breaker

- Aged 65 and over or totally and permanently disabled + 5-yr ownership
- Income ceiling = 150% of Elderly & Disabled Income Limit (2025: \$56,850)
- Deferral of taxes above 4% or 5% of income



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Circuit Breaker Program

Qualifying Owner

- Is a NC resident
- Is at least 65 years old OR totally and permanently disabled
- Has owned property as permanent residence for at least **5 consecutive years**
 - For married owners, only one spouse need meet the occupancy, ownership, age, or disability requirements. For unmarried co-owners, all owners must qualify and participate.*
- Meets income limitation

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Circuit Breaker Program

Income Limitation

- Owner's income may not exceed 150% of the "Income Eligibility Limit" (IEL)
- IEL = the preceding year's limit adjusted by the COLA (same as for Elderly or Disabled Homestead Exclusion)
- For 2025 = \$56,850

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Circuit Breaker Program

Tax Limitation & Deferred Taxes

- Owner is only required to pay 4-5% of income in property taxes; balance is deferred and creates a lien on the property.

Income	Taxes Limited to % of Income	Maximum Tax Due (balance deferred)
0-\$37,900	4%	\$1,516
\$37,901-\$56,850	5%	\$2,842

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Circuit Breaker Program

Disqualifying Event

- Upon occurrence of disqualifying event, the deferred taxes for the preceding 3 years become due with interest.
- Disqualifying Events
 - Transfer of residence (unless transferred to qualifying co-owner)
 - Death of owner (unless share passes to qualifying co-owner)
 - No longer used as permanent residence
- "Gap" year – If an owner is not eligible for a tax year, deferred taxes are carried forward and are not due until disqualifying event occurs. If owner re-qualifies after a gap year(s), those years are disregarded for determining preceding 3 years

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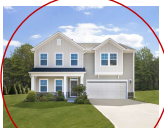

Circuit Breaker Program



Joe & Jane, age 70
Combined annual income: \$55,000

Home Tax Value
\$350,000

2025 Tax Bill
\$1,797 (county)
\$3,040 (city)
\$4,837

Circuit Breaker Benefit

Tax Due = 5% of \$55,000 = \$2,750
 Tax Deferred = Tax Bill (\$4,837) – Max Tax (\$2,750) = \$2,087
 Lien on Property = \$2,087
 Disqualifying Event = Deferred taxes for preceding **3 years** becomes due with interest

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Summary

Program	Type of Program	Key Qualifications	Counties with Participants	Total Valuations (\$)	Est. Local Levies Lost Each Year (\$)
Elderly or Disabled	Exclusion	Age or Disability, Income	100	\$8.8B	\$75M
Disabled Veterans	Exclusion	Disabled Veteran or Surviving Spouse	100	\$2.7B	\$25M
Circuit Breaker	Deferral	Age or Disability, Income	26	\$70M	\$625k

Source: NC Dept. of Revenue 82

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2025 Proposed Legislation Round-Up

Elderly or Disabled Exclusion

- Increase or eliminate income limit – [H950, S135, S230](#)
- Reduce “marriage penalty” – [H59, S349](#)

Disabled Veteran Exclusion

- Increase exclusion amount – [H118, H299, H341, H683, H728, S109, S128, S143, S228, S660](#)
- Prequalification provision – [H94, H728, S109, S660](#)

Circuit Breaker

- See reduce “marriage penalty” above – [H59, S349](#)
- Increase income limit – [H786; S708](#)
- Allow one co-owner to participate in the circuit breaker exclusion even if other co-owners do not. – [S349](#)
- Eliminate deferred taxes from the circuit breaker exclusion. – [S349](#)

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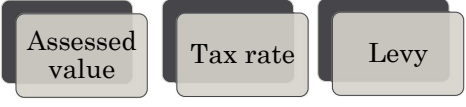
83

Alternative Homestead Property Tax Relief Programs

Brett Berne, Legislative Drafting Division
Nick Giddings, Legislative Analysis Division

84

Focus on controlling the growth of the three factors that determine a property tax bill:



Assessed value Tax rate Levy

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How to control growth in the tax bill:

- Assessment Limits
- Rate Limits
- Levy Limits
- (Combination thereof)

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Each limit affects a different term of the property tax equation:

Assessment Limits Affect: Rate Limits Affect: Levy Limits Affect:



[Property Tax Base] x [Property Tax Rate] = Tax Revenue

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Brief overview of the three limits:

- **Assessment Limits**
 · Restrict growth in the assessed value of taxable property (i.e., **limit growth in the tax base**)
- **Rate Limits**
 · Restrict the maximum tax rates a local government can charge (i.e., **limit the ability to increase the tax rate**)
- **Levy Limits**
 · Restrict the total property tax revenues that local governments are allowed to collect (i.e., **limit collectible revenue**)

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Focusing on Assessment Limits

Assessment Limits Affect: Rate Limits Affect: Levy Limits Affect:

[Property Tax Base] x [Property Tax Rate] = Tax Revenue

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Three Types of "Assessment Limit":

1. Percentage Growth Cap (most common)
2. Assessment Freeze
3. Assessment Phase-In

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Assessment Freeze

- Caps assessed value at a pre-determined fixed level
- Example: State law providing that the assessed value of a property freezes in the year in which the homeowner reaches age 65 and remains fixed at that level until the occurrence of some specific condition (e.g., sale of the property or death of the owner)




Assessment Limits

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Assessment Phase-In




- Occurs when a revaluation results in a large increase in the assessed value of a property, and the increase is gradually introduced over several years rather than being applied all at once
- Example: after a recent revaluation, a property's assessed value increases by \$60,000:
 - Under an assessment phase-in, instead of applying the full \$60,000 increase immediately, only \$15,000 is added to the assessed value each year for the next four years
- Used in Connecticut, Louisiana, and Maryland (Lincoln Institute of Land Policy, 2025)

Assessment Limits

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Percentage Growth Cap (most common)



- A cap on the maximum percentage that a property's assessed value is permitted to increase from one tax year to the next, *regardless of the change in the property's market value*
- Example: State law providing that the assessed value of a primary residence cannot increase by more than 3% per year, or the average rate of inflation, whichever is less
- Notable percentage growth caps: California (Proposition 13) and Florida (Save Our Homes Amendment)

Assessment Limits

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Generally

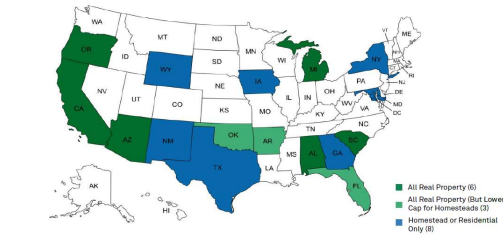
- **Important note:** Even with an assessment limit in place, a property owner's tax bill can still increase if the local government increases the tax rate (which is why assessment limits are sometimes paired with tax rate caps)
- Assessment limits typically provide that a property's assessed value will "reset" to **market value** upon the occurrence of a specific event, such as a change in ownership, major renovations, or a change in the property's use or classification
- As of 2024, 16 states and the District of Columbia have imposed broad assessment limits (Lincoln Institute of Land Policy, 2025)

Assessment Limits

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States with assessment limits



Assessment Limits

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Examples: California's Proposition 13 (Percentage Growth Cap)

- Passed by California voters in June 1978, Proposition 13 is an amendment to the California Constitution that:
 - **Imposes an assessment limit:**
 - The assessed value of a property cannot increase by more than 2% annually over its base value, unless the property undergoes a change in ownership or new construction takes place
 - **Sets a "base value" year for assessed value:**
 - Proposition 13 "rolled back" property assessments for the 1978-79 fiscal year to previous 1975-76 values, establishing 1975-76 assessment levels as the first "base value" year for property in California
 - When a change in ownership or new construction occurs, real property is re-assessed at its current market value as of the date of transfer or construction completion, establishing a new "base value" year for that property
 - **Imposes a rate limit:**
 - Restricts the property tax rate to a maximum of 1% of the property's assessed value (the rate limit)

Assessment Limits

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Examples: Florida's Save Our Homes Amendment ("SOH") (Percentage Growth Cap)

- Passed by Florida voters in November 1992, SOH is an amendment to the Florida Constitution that:
 - Imposes an assessment limit:**
 - The assessed value of a property cannot increase by more than 3% annually over its base value, unless the property undergoes a change in ownership or new construction takes place
 - Sets a "base value" year for assessed value:**
 - SOH Amendment passed in November 1992 → amendment became effective in January 1993 → in January 1994 all properties were assessed at "just" (market) value (the initial "base value year") → beginning in 1995 the SOH cap limited the assessed valuation increases on Florida homesteaded properties
 - When a change in ownership or new construction occurs, real property is re-assessed at its current market value as of the date of transfer or construction completion, establishing a new "base value" year for that property

Assessment Limits

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Considerations

- Prevent rapid increases in assessed values because they sever the connection between a property's market value and the property's assessed value
- Can shield long-term, low- or fixed-income residents from being priced out of their homes by high tax bills (assuming the tax rate is similarly restricted)
- Can provide stability to long-time residents who may have significant unrealized equity but limited cash flow (assuming the tax rate is similarly restricted)
- Effectively shifts the tax burden onto new homebuyers and renters, potentially making homeownership more burdensome for younger generations and first-time buyers
- Creates situations in which owners of similar properties can have vastly different tax bills simply as the result of the date the property was purchased
- May discourage long-time property owners from selling or moving, a situation known as the "lock-in effect"

Assessment Limits

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Focusing on Rate Limits

Assessment Limits Affect: Rate Limits Affect: Levy Limits Affect:

↓ ↓ ↓

[Property Tax Base] x [Property Tax Rate] = Tax Revenue

Rate Limits

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Rate Limits

Basics

The **levy** drives the **rate**: the property tax rate is calculated by dividing the local government's total budgeted tax revenue needed from property owners (i.e., the tax "levy") by the total taxable value of all property in the jurisdiction (i.e., the tax "base")

$$Tax Rate = \frac{Tax Levy}{Tax Base}$$

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Rate Limits

Basics

- A rate limit restricts local government's authority to raise the tax rate above the established cap
- Two types of rate limits:
 - **Specific rate limits**: cap the tax rate for individual **types** of local governments (e.g., municipalities, counties, or school districts)
 - **Overall rate limits**: cap the **total combined tax rate** of all overlying local governments (e.g., California's 1% cap)

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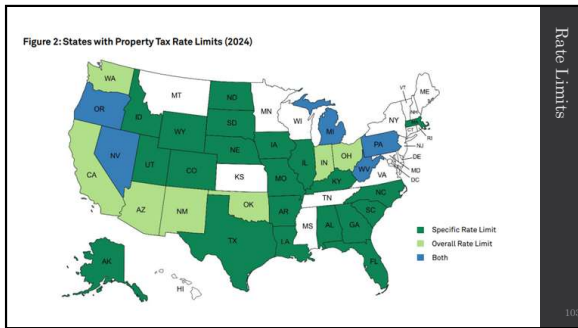
Rate Limits

Basics

- Most rate limits include exclusions for particular purposes, allowing a local government to levy a tax rate above the state-imposed limit, provided that the resulting revenue is strictly dedicated to certain pre-approved purposes
 - E.g., by excluding debt service from the rate cap, localities can (i) secure essential financing for large capital projects and (ii) reduce borrowing costs
- Most rate limits can be overridden by local voters through a referendum, which helps maintain a measure of local control
- As of 2024, 33 states had property tax rate limits, including 26 with specific rate limits, 12 with overall rate limits, and five states with both (Lincoln Institute of Land Policy, 2025)

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Rate Limits

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Examples: North Carolina

- Property tax rates are generally capped at \$1.50 (per \$100 of assessed value)
 - See G.S. 153A-149 (Counties) and G.S. 160A-209 (Municipalities)
- There are many exceptions to the cap (e.g., no statutory limit on the rate for property taxes used to fund schools, jails, court facilities, debt service, etc.)
- The \$1.50 property tax rate cap in North Carolina applies individually to the rate set by each separate taxing jurisdiction (e.g., county or the municipality), not the individual taxpayer, meaning a single taxpayer's total effective rate may exceed \$1.50 when combined taxes from multiple jurisdictions are added together

Rate Limits

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Examples: California

- The "1% Rate"
 - Proposition 13 set the base property tax rate at 1% of the assessed value of property
 - Property tax revenue remains within the county in which it was collected and is used exclusively by local governments (California Legislative Analyst's Office, 2012)
 - California state law controls the allocation of property tax revenue from the 1% rate to more than 4,000 local governments (California Legislative Analyst's Office, 2012)

Rate Limits

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Focusing on Levy Limits

Assessment Limits Affect:

Rate Limits Affect:

Levy Limits Affect:

[Property Tax Base] x [Property Tax Rate] = Tax Revenue

Levy Limits

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Basics

- A levy limit is a restriction that caps the total dollar amount of property tax revenue **a local government can collect**; the levy limit does not apply to the tax rate or an individual homeowner's tax bill
- The term "levy" in this context simply refers to the dollar amount a governing body determines it needs to raise through property taxes to fund its budget; accordingly, the levy limit prevents this total dollar amount from growing too quickly
- Most levy limits use a formula to control growth, typically capping the increase over the previous year's total levy to a small, fixed percentage or the rate of inflation

Levy Limits

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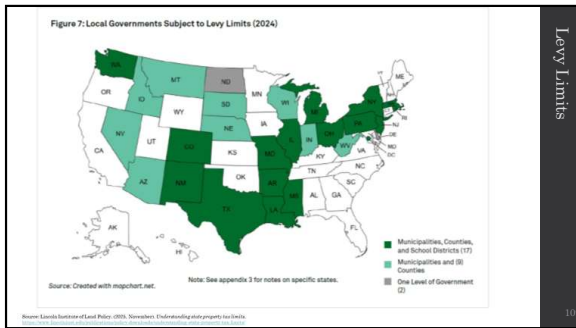
Basics

- Levy limit calculations typically exclude taxes raised for specific purposes (e.g., debt service, new construction, pension costs, etc.)
- Most states allow local governments to exceed the levy limit through formal override mechanisms (e.g., voter referendum or governing body vote)
- As of 2024, 28 states impose levy limits (Lincoln Institute of Land Policy, 2025)

Levy Limits

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Levy Limits

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Examples

- **Massachusetts' Levy Limit: Proposition 2 ½**
 - Imposes a dual cap on local property tax revenue:
 1. Levy Limit: the total tax levy (collections) can only increase by 2.5% annually (plus revenue from new growth); this limits the year-to-year revenue increase
 2. Levy Ceiling: the total tax levy can never exceed 2.5% of the community's "total fair cash value of property"
- **New York Levy Limit: Chapter 97 of the Laws of 2011**
 - Property tax levies generally cannot increase by more than 2%, or the rate of inflation, whichever is lower, from one year to the next
- **New Jersey Levy Limit: Chapter 62 of the Laws of 2007**
 - Property tax levies generally cannot increase by more than 2%, or the rate of inflation, whichever is lower, from one year to the next

Levy Limits

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Considerations

- Can stabilize tax burdens by protecting taxpayers from sudden or excessive increases during housing market volatility
- As property values rise, levy limits force a proportional reduction in the tax rate, ensuring fairer tax distribution across the tax base
- Levy limits force local governments to prioritize spending and find efficiencies
- Levy limits can cause a "ratchet-down effect," where temporary drops in property values permanently reduce the tax base and limit future growth, even following economic recovery
- By capping revenue growth, levy limits risk long-term local revenue shortfalls, potentially leading to service cuts or underfunding

Levy Limits

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Summary:

- **Assessment Limits**
 · Restrict growth in the assessed value of taxable property (i.e., **limit the tax base**)
- **Rate Limits**
 · Restrict the tax rates leviable by a taxing jurisdiction (i.e., **limit the ability to increase the tax rate**)
- **Levy Limits**
 · Restrict the overall property tax revenues that local governments are allowed to collect (i.e., **limit collectible revenue**)

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Alternative Mechanisms to Property Tax Limitations:

- Revenue/Expenditure Limits
- Truth in Taxation
- Circuit Breaker Programs

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Revenue and Expenditure Limits

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Revenue and Expenditure Limits

- Restrict annual growth in a local unit's total revenues, expenditures, or both
 - Expenditure limits are often called appropriations limits, budget limits, or spending limits
- Different from rate limits, assessment limits, and levy limits
 - Rate limits, assessment limits, and levy limits apply exclusively to taxes levied on property
 - Revenue and expenditure limits cap revenue and spending *from all sources*

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Revenue and Expenditure Limits

- Tend to be less common than limits on property tax rates, assessments, or levies
- States have traditionally applied these limits to counties, municipalities, and school districts
 - Some apply these restrictions to all three
 - Some only apply these restrictions to counties and municipalities
 - Some only apply these restrictions to school districts

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Revenue and Expenditure Limits

- Generally, the limitations take one of three different approaches:
 1. Limiting maximum growth in expenditures by some measure of inflation and growth in one of the following:
 - Population
 - School enrollment
 - Property values
 2. Limiting growth by a fixed percentage (generally a maximum of 2.5%)
 3. For school districts, predominantly – Limiting growth based on school funding formulas that account for things like student population, education cost, and other school-related measures

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Revenue and Expenditure Limits 118

- Traditionally, limitations on revenue and expenditures provide for certain categories of spending to be excluded from the limitation, such as:
 - Funds raised to pay for debt service
 - Intergovernmental revenue
 - Funding for capital projects
 - Funding for court judgments
- Further, limitations on revenue and expenditures typically provide for a means to override the limitation via referendum

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Revenue and Expenditure Limits 118

- Those that exceed limits, and did not properly override the limitation, generally must take some sort of corrective action, such as:
 - Refunding excess revenue to taxpayers
 - Cutting spending in the future
 - Earmarking excess revenue for tax relief
- Some laws also allow local governments to carry forward unused revenue or spending authority for a future year

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Truth in Taxation

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- Also known as "Full Disclosure"
- "Research suggest that Truth in Taxation measures can restrain growth in property taxes because the transparency and accountability of taxing entities discourage spending increases that could occur without this type of disclosure." (Lincoln Institute of Land Policy, 2025)
- Designed to prevent silent tax increases by fully disclosing tax revenue increases due to rising property values as well as those due to increases in the tax rate
 - A "silent" tax increase occurs when rising values produce higher tax bills without any change to the official tax rate

Truth in Taxation
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- Differs from tax limits because Truth in Taxation measures do not prevent local government revenues from increasing
- Instead, requires local governments to publicly announce proposed tax revenue increases prior to adoption, even if it is not accompanied by a corresponding property tax rate increase
- Disclosure usually involves notice to taxpayers about a proposed tax increase and public hearings

Truth in Taxation
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Truth in Taxation disclosure procedures are typically triggered upon the occurrence of one of the following:

Trigger	Number of States
Silent tax increase or tax rate increase	8
Any increase in the tax levy is proposed	2
Any time a property tax levy is proposed	9
Any time a jurisdiction-wide reassessment occurs	1
Proposed tax increase exceeds a certain predetermined threshold	3

Source: Lincoln Institute of Land Policy (2024, July). [State Requirements Under Truth in Taxation Laws for Property Taxes](https://www.lincolninstitute.org/publications/what-are-silent-tax-increases-and-how-truth-in-taxation-limits-silent-taxes/)

Truth in Taxation
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Types of Truth in Taxation

- **Rollback Rate** – The tax rate that would raise the same amount of revenue as the prior year
 - 13 states require calculation of a rollback rate
 - 7 states do not require rollback rate, but instead employ other methods to disclose proposed property tax changes after comparing current and prior year's taxes
- **Mailing or publishing notice regarding proposed property tax levy and any public hearing related to the proposed property tax levy**
 - 15 states mandate publication in newspapers
 - 6 states require a mailed notice with parcel-specific property tax information
 - 3 states allow the taxing entity to choose whether to provide notice via newspaper or mail
 - 15 states require a separate Truth in Taxation notice (focused solely on tax levy)

Source: Lincoln Institute of Land Policy. (2024, July). *State Requirements Under Truth in Taxation Laws for Property Taxes*. <https://www.lincolninstitute.org/publications/workshop-materials/state-requirements-under-truth-in-taxation-levy-notice-2024/>

Truth in Taxation

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- **Hearings on proposed property tax levy**
 - 9 states require separate hearings on the proposed tax levy
 - 4 states allow Truth in Taxation hearing to be combined with budget hearings
 - 6 states provide local governments discretion to hold a separate hearing or as part of budget
- **Vote by governing body to exceed rollback rate**
 - 14 states require such a vote
- **Additional restrictions on local governments' authority to impose tax increases beyond a certain amount**
 - 4 states provide such a restriction, with the limit ranging from more than 3.5% to 15% above the prior year levy

Source: Lincoln Institute of Land Policy. (2024, July). *State Requirements Under Truth in Taxation Laws for Property Taxes*. <https://www.lincolninstitute.org/publications/workshop-materials/state-requirements-under-truth-in-taxation-levy-notice-2024/>

Truth in Taxation

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Number of Requirements	State	Notice and Public Hearings	Rollback Rate	Mailed Notice with Parcel-specific Information	Vote by Governing Body Required to Exceed the Rollback Rate
4	Florida	X	X	X	X
	Kansas	X	X	X	X
	Nebraska	X	X	X	X
	Utah	X	X	X	X
3	Delaware	X	X	X	X
	Georgia	X	X	X	X
	Iowa	X	X	X	X
	Kentucky	X	X	X	X
	Michigan	X	X	X	X
	Tennessee	X	X	X	X
	Texas	X	X	X	X
2	Virginia	X	X	X	X
	West Virginia	X	X	X	X
	Arizona	X			X
	Minnesota	X		X	
	North Dakota	X		X	
1	Illinois	X			
	Missouri	X			
	Nevada	X			
	Rhode Island	X			
Total		20	13	6	14

Source: Lincoln Institute of Land Policy. (2023, November). *Understanding State Property Tax Limits*. <https://www.lincolninstitute.org/publications/workshop-materials/understanding-state-property-tax-limits-2023/>

Truth in Taxation

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Rollback Rate

- The rollback rate is the tax rate that would raise the same amount of revenue as the prior year, generally *excluding* property tax revenue attributable to new growth
- If the proposed tax rate is higher than the rollback rate, then the proposed tax rate is considered an increase in tax
 - This is true, even if the tax rate does not change
- Similar to North Carolina's revenue-neutral tax rate that is required to be published in a local government's proposed budget after each reappraisal

Truth in Taxation
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Other Methods of Disclosure

- Some states do not require the publication of a rollback rate, but have adopted other methods to inform taxpayers of proposed tax changes from one year to the next
- Arizona – Taxing entities compare the amount of tax on a \$100,000 home with and without the proposed tax increase
- Illinois – Taxing entities are required to disclose percentage change in total property tax levy
- Missouri – Notice must include increase in tax revenue, both in dollar value and percentage, as a result of reassessment if the proposed tax rate is adopted
- Minnesota and North Dakota send notice of proposed tax changes to owners of each parcel

Source: Lincoln Institute of Land Policy. (2014, July). State Requirements Under Truth in Taxation Laws for Property Taxes. <https://www.lincolninstitute.org/publications/wp-content/uploads/downloads/2014/07/truth-in-taxation-levy-reports-2014.pdf>

Truth in Taxation
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Types of Notice

- Taxing entities are generally required to provide notices about proposed property tax levies, as well as any public hearings related to the levy, in one or both of the following methods:

Newspaper	Mailing to Taxpayer
Typical information included: <ul style="list-style-type: none"> • Total assessed values (current and prior year) • Proposed tax levy • Proposed tax rate • Rollback rate or other method of disclosure • Date/time of public hearing 	Typically includes parcel-specific information, including impact on individual tax bills

Truth in Taxation
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Public Hearings

- Nearly all states require public hearings on the proposed property tax levy to allow taxpayers to provide input on any proposed tax increase, which take one of the following forms:
 - Some states require a separate hearing strictly to discuss the proposed property tax levy
 - Some states allow Truth in Taxation hearings to be combined with budget hearings
 - Some states allow the option to choose one of the above


Truth in Taxation

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Vote by Governing Body

- Some states require a specific vote of the governing body to exceed the rollback rate



Truth in Taxation

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Restrictions on Tax Increases Above Certain Amount

- Required even if they otherwise meet the state's Truth in Taxation requirements
 - **Arizona** – Requires a unanimous roll call vote of the governing body if the proposed levy exceeds the prior year's levy by 15%
 - **Texas** – Combines Truth in Taxation with a levy limit
 - Truth in Taxation notice compares the proposed tax rate, rollback rate, and what is known as the voter-approval tax rate
 - Voter-approval tax rate is calculated each year specifically for each taxing entity and is considered the maximum rate a unit may adopt without voter approval

Truth in Taxation

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Delaware

- Reassesses property at least every 5 years
- After a reassessment, counties and municipalities must compute the rolled-back rate
- If the adopted tax rate exceeds the rolled-back rate, the ordinance must indicate, as a percentage, the increase in property taxes
- Within 15 days of the governing body's meeting to consider an ordinance establishing a property tax rate, the county or municipality must advertise the proposed percentage increase in the tax rate in a newspaper of general circulation in the county.

Truth in Taxation

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Kansas

- Governing body must publish intent to exceed revenue-neutral rate in newspaper and government website
- Notice sent to taxpayers of intent to exceed revenue-neutral rate, which must include the following regarding the taxpayer's property:
 - Appraised value for current and previous year
 - Previous year's tax liability
 - Current year's tax liability:
 - With revenue-neutral rate
 - With proposed increase
 - Difference in tax liability owed under revenue neutral rate and proposed increase reflected in dollars and a percentage
- Governing body must adopt rate in excess of revenue neutral rate prior to adoption of budget
- If governing body fails to follow law, it must refund taxes collected in excess of revenue-neutral rate

Truth in Taxation

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Florida

- "Truth in Millage"
- The rolled-back rate is calculated to provide the same revenue as the previous year, excluding any increase from new construction, additions, deletions, or annexation.
- The rolled-back rate and proposed tax rate must be included in the notice of proposed property taxes and be advertised in a newspaper of general circulation within the county and mailed to each taxpayer prior to any public hearings.

Truth in Taxation

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Recommended Feature	Reason for Recommendation
Provide adequate tax relief and reliable funding	Without such adequate relief and funding, circuit breakers cannot provide meaningful tax assistance to those in need.
Cover owners and renters of all ages	Benefits are primarily losses indirect, and excessive tax burdens are not limited to the elderly.
Use a broad definition of income, including Social Security benefits	Avoids providing efficient tax relief to households with lower property tax burdens.
Use a multiple-threshold formula; Apply benefits incrementally	Targets property tax relief to those with greatest need; prevents notch effects.
For generous threshold circuit breakers, include a requirement to supplement	Without a requirement, taxpayers whose property tax bills exceed the threshold limit are excluded from any property tax relief; can produce notched benefits.
Set a limit on the maximum property value considered in the circuit breaker formula	Limits the tax relief used to those with very expensive homes.
Consider placing no other limits on income, benefits, or tax worth	Other limits are not necessary with a properly designed circuit breaker; also may impose unintended changes in distribution of relief.
Provide funding by the state	Local funding is problematic, due to the wide range in local fiscal capacity and mobility of taxpayers.
Use state-administered property tax credits for homeowners and state-based income checks for renters	Provides timely and highly visible property tax relief.
Set up a simple, streamlined application system	Will maximize participation and reduce administration and compliance costs.
Establish and fund an outreach program	Participation rates will likely be low without outreach efforts.

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Circuit Breaker

- ### Options
- Groups who have studied circuit breaker programs nationally suggest the following to better reach taxpayers in need:
 - Removing age/disability requirements
 - Need is not solely limited to elderly or disabled
 - Increasing/adjusting income threshold
 - Gradually reducing/phasing-out benefits to avoid notch effect
 - Adjusting/removing deferred tax liability and liens

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Circuit Breaker

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Circuit Breaker



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Office of the Speaker
North Carolina House of Representatives

DESTIN HALL
SPEAKER OF THE HOUSE

HOUSE SELECT COMMITTEE ON PROPERTY TAX REDUCTION AND REFORM TO THE
NORTH CAROLINA HOUSE OF REPRESENTATIVES

Section 1. The House Select Committee on Property Tax Reduction and Reform (hereinafter "Committee") is established by the Speaker of the House of Representatives pursuant to Rule 26(a) of the Rules of the House of Representatives of the 2025 General Assembly.

Section 2. The Committee consists of twenty-nine members appointed by the Speaker of the House of Representatives. The membership of the Committee shall include legislators as specified below. Members serve at the pleasure of the Speaker of the House of Representatives. The Speaker of the House of Representatives may dissolve the Committee at any time. Vacancies are filled by the Speaker of the House of Representatives. A Chair, Vice Chair, or other member of the Committee continues to serve until a successor is appointed.

Co-Chair Julia Howard	Representative Aisha Dew
Co-Chair Mitchell Setzer	Representative Frances Jackson
Co-Chair Erin Pare	Representative Abe Jones
Vice-Chair Brian Echeverria	Representative Keith Kidwell
Vice-Chair Neal Jackson	Representative Nasif Majeed
Representative Eric Ager	Representative Larry Potts
Representative Jonathan Almond	Representative Dennis Riddell
Representative Brian Biggs	Representative James Roberson
Representative John Blust	Representative Mike Schietzelt
Representative Alan Branson	Representative Brian Turner
Representative Grant Campbell, MD	Representative Harry Warren
Representative Becky Carney	Representative Sam Watford
Representative Maria Cervania	Representative Diane Wheatley
Representative Tricia Cotham	Representative Jeff Zenger
Representative Carla Cunningham	

Section 3. The House Select Committee on Property Tax Reduction and Reform shall study options to reduce the property tax burden on taxpayers in North Carolina. The Committee shall consider reforms

that provide property tax relief to taxpayers while balancing potential impacts on local government revenues. In conducting the study, the Committee may:

1. Review existing property tax relief programs currently available to North Carolina homeowners to determine whether those programs should be modified or expanded.
2. Consider mechanisms to expand property tax relief to homeowners more broadly, including adjusting the frequency of revaluations, implementing methods to minimize the impact of future revaluations on homeowners, or providing homeowners with alternative payment plans.
3. Examine the uniformity requirement in Article V, Section 2 of the North Carolina Constitution and evaluate whether to amend the North Carolina Constitution to allow counties to implement property tax reductions and reforms.
4. Analyze potential impacts and options to address local government revenue reductions, including reimbursement mechanisms and additional revenue-generating authority.
5. Consider factors associated with increasing property tax assessments on taxpayers, including reviewing local government debt and spending levels.
6. Consult organizations and entities with expertise in local government operations, financing, and real property valuation.

The Committee shall report its findings, together with any proposed legislation, prior to the convening of the 2026 Regular Session of the 2025 General Assembly.

Section 4. The Committee shall meet upon the call of the Chair. A quorum of the Committee shall be a majority of its members. No action may be taken except by majority vote at a meeting at which a quorum is present.

Section 5. The Committee, while in the discharge of its official duties, may exercise all powers provided for under G.S. 120-19 and Article 5A of Chapter 120 of the General Statutes. The Committee may contract for professional, clerical, or consultant services, as provided by G.S. 120 -32.02.

Section 6. Members of the Committee shall receive per diem, subsistence, and travel allowance as provided in G.S. 120-3.1

Section 7. The expenses of the Committee including per diem, subsistence, travel allowances for Committee members, and contracts for professional or consultant services shall be paid upon the written approval of the Speaker of the House of Representatives pursuant to G.S. 120-32.02(c) and G.S. 120-35 from funds available to the House of Representatives for its operations.

Section 8. The Legislative Services Officer shall assign professional and clerical staff to assist the Committee in its work. The Director of Legislative Assistants of the House of Representatives shall assign clerical support staff to the Committee.

Section 9. The Committee may submit reports on the results of its evaluations and investigations, including any proposed legislation, to the members of the House of Representatives at any time. The Committee may submit a final report on the results of its work, including any proposed legislation, to the members of the House of Representatives by May 1, 2026. Reports shall be submitted by filing a copy of any report with the Office of the Speaker of the House of Representatives, the House Principal Clerk, and the Legislative library. The Committee terminates upon the convening of the 2026 General Assembly, upon the filing of its final report, or by dissolution by the Speaker of the House of Representatives, whichever occurs first.

Effective this 16th day of December 2025.

A handwritten signature in black ink that reads "Destin Hall". The signature is written in a cursive style with a large, looped initial "D".

Destin Hall
Speaker

APPENDIX G

JANUARY 14, 2026, MEETING MATERIALS

Draft



NORTH CAROLINA GENERAL ASSEMBLY HOUSE SELECT COMMITTEE ON PROPERTY TAX REDUCTION AND REFORM 2025-2026 SESSION

Co-Chairs

Rep. Julia Howard
Rep. Mitchell S. Setzer
Rep. Erin Paré

Vice Chairs

Rep. Brian Echevarria
Rep. Neal Jackson

Members

Rep. Eric Ager
Rep. Jonathan Almond
Rep. Brian Biggs
Rep. John M. Blust
Rep. Jerry "Alan" Branson
Rep. Grant L. Campbell, MD
Rep. Becky Carney
Rep. Maria Cervania
Rep. Tricia Cotham
Rep. Carla Cunningham
Rep. Aisha Dew
Rep. Frances Jackson
Rep. Abe Jones
Rep. Keith Kidwell
Rep. Nasif Majeed
Rep. Larry Potts
Rep. Dennis Riddell
Rep. James Roberson
Rep. Mike Schietzelt
Rep. Brian Turner
Rep. Harry Warren
Rep. Sam Watford
Rep. Diane Wheatley
Rep. Jeff Zenger

AGENDA

January 14, 2026, at 10:00 AM
Room 643 Legislative Office Building
Rep. Mitchell S. Setzer, Presiding

I. Welcome

Rep. Mitchell S. Setzer, Committee Co-Chair

II. Responses to Questions from December 17 Meeting

Finance Team Staff

III. The Constitutional Uniformity Requirement

Chris McLaughlin, Professor of Public Law and Government, UNC School of Government

IV. Roles & Responsibilities of Local Governments

Ike McRee, Legislative Analysis Division

Kevin Leonard, Executive Director, NC Association of County Commissioners

Chris Nida, Director of Technical Assistance for Cities, NC League of Municipalities

V. Governmental and Nonprofit-Affiliated Property Tax Exemptions

- **Part I - Overview**

Brent Lucas, Fiscal Research Division

- **Part II - Affordable Housing Exemption**

Scott Farmer, Executive Director, NC Housing Finance Agency

Trina Griffin, Legislative Analysis Division

David Baker, Director of Tax and Revenue Outreach, NC Association of County Commissioners

Ben Justus, Executive Staff, Self-Help Credit Union

VI. Committee Discussion

VII. Closing Remarks and Adjournment

NEXT MEETING DATE: February 18, 2026, at 10:00 am



HOUSE SELECT COMMITTEE PROPERTY TAX REDUCTION AND REFORM

Responses to Questions from December 17, 2025, Meeting

Q1. Provide information on Virginia's local government property tax programs such as deferrals, exclusions, or tax freezes. | Requested by Rep. Paré

VIRGINIA'S ELDERLY AND DISABLED PROPERTY TAX EXEMPTION	
<p><small><u>Va. Code Ann. § 58.1-3210</u> grants localities the authority to establish their own property tax exemptions for elderly and disabled homeowners. Virginia has 95 counties, 35 independent cities, and over 200+ cities, towns, and villages. This information is non-exhaustive, and is based on the Virginia Department of Taxation's annual report, provided by the Virginia Association of Counties.</small></p>	
<p><u>EXCLUSION AMOUNTS:</u></p> <p>Sliding Scale Based on Income: Cities: 11 Counties: 24</p> <p>Sliding Scale Based on Income and Net Worth: Cities: 1 Counties: 5</p> <p>Sliding Scale Based on Income and Tax Due: Cities: 0 Counties: 1</p> <p>Sliding Scale Based on Tax Due: Cities: 0 Counties: 1</p> <p>No Exemption, Tax Freeze: Cities: 1 Counties: 1</p> <p>Exemption or Tax Freeze: Cities: 1 Counties: 0</p> <p>Fixed Amount: Cities: 1 Counties: 3</p> <p>Formula Cities: 1 Counties: 2</p> <p>Up to a Certain Amount Cities: 1 Counties: 13</p> <p>Total Exemption: Cities: 0 Counties: 4</p> <p style="text-align: center;">Offer a Total Exemption in Some Capacity: Cities: 6 Counties: 21</p>	<p><u>NET WORTH LIMITS:</u></p> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;"> <p>Cities with Net Worth Limits: 20</p> </div> <div style="text-align: center;"> </div> <div style="text-align: center;"> <p>Counties with Net Worth Limits: 65</p> </div> </div> <p>Net worth limits vary widely. <u>Cities</u> range from \$25,000 to \$500,000. <u>Counties</u> range from \$50,000 to \$500,000. The most common limit is \$100,000, held by 5 cities and 11 counties.</p> <p>Most localities exclude the value of the dwelling from net worth calculations, and some exclude an amount of acreage from net worth calculations. <u>Cities</u> range from excluding 0 to 10 acres. <u>Counties</u> range from excluding 0 to 25 acres. The most common exclusion is 1 acre, held by 12 cities and 25 counties.</p> <p style="text-align: center;"><u>INCOME ELIGIBILITY LIMITS:</u></p> <p>Income eligibility limits vary widely. <u>Cities</u> range from \$15,000 to \$112,500. The most common limit is \$40,000, held by 3 cities. <u>Counties</u> range from \$24,000 to \$123,903. The most common limit is \$50,000, held by 12 counties.</p> <p><small>*Many localities exclude a fixed amount of a non-qualifying resident's income and some exclude a portion of disability income for a permanently disabled homeowner.</small></p>

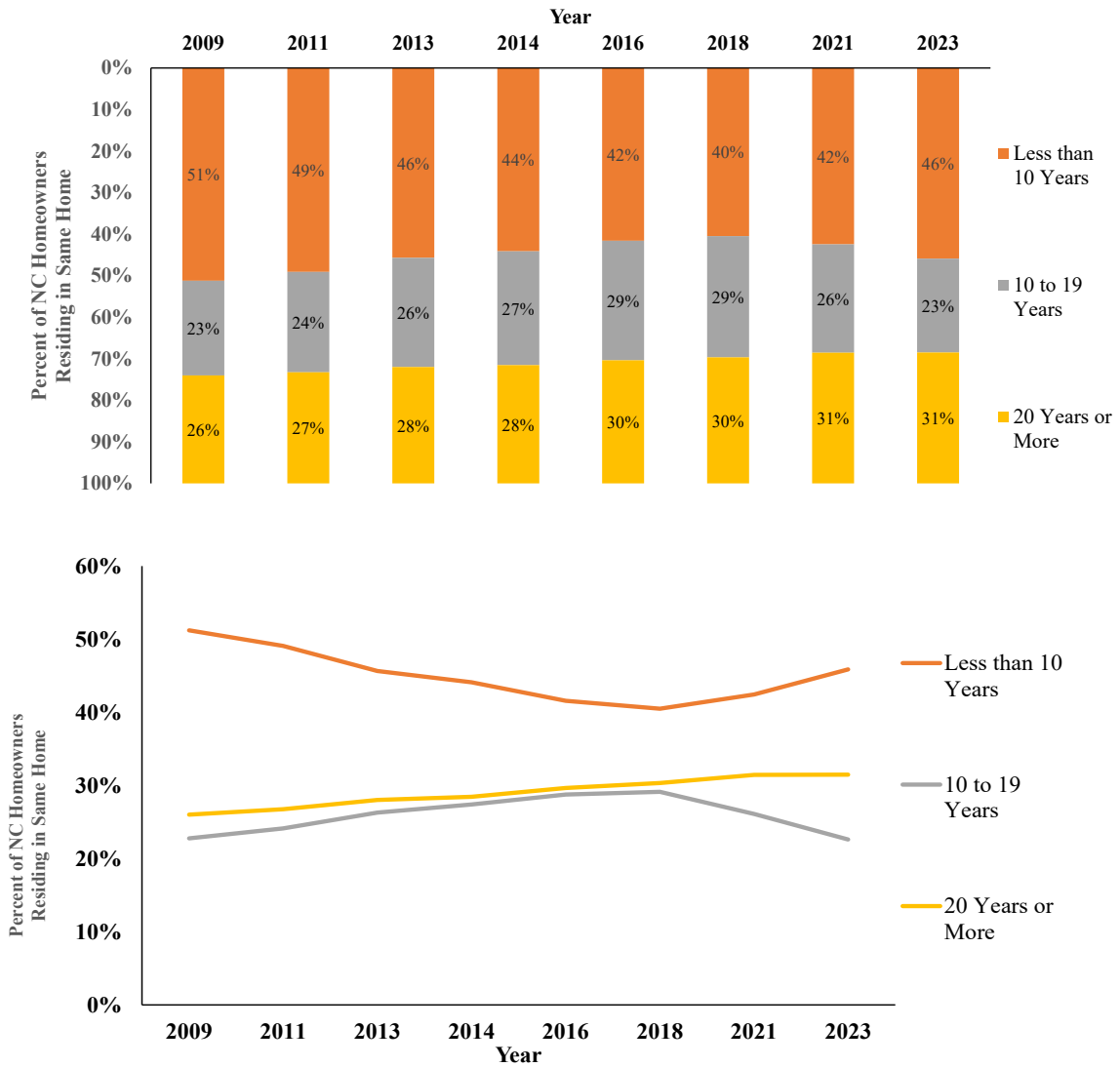
Staff Contact: Zoey Howe, Legislative Analysis Division

Q2. How long people have been in their homes? | Requested by Rep. Almond

The graph(s) below shows the length of time North Carolina homeowners have historically remained in the same residence.

This/These show that the percentage of homeowners staying in their homes:

- For 20 years or more has steadily increased from 26% in 2009 to 31% in 2023;
- From 10 to 19 years increased from 2009 to 2018 but recently declined back to 2009 levels—this decline was at a faster rate than the previous increase; and Discuss Shrinking middle?
- For less than 10 years decreased from 2009 to 2018 but has increased again since then—but have not yet reached 2009 levels.



Staff Contact: Brent Lucas, Fiscal Research Division

Q3. Provide information into how Nebraska's property tax works with a levy limit, and how to implement the levy without impacting local budgets. | Requested by Rep. Echevarria

Nebraska's Legislative Bill 34 (LB34) was enacted in August of 2024 and addresses property taxes on two fronts: controlling local government revenue growth and providing direct tax relief to homeowners. The bill's primary mechanism for controlling growth is the Property Tax Growth Limitation Act, which imposes a strict cap on the annual property tax revenue that cities, counties, and villages can collect. Effective July 1, 2025, a political subdivision's annual property tax request (i.e., "levy") is restricted to an "allowable growth percentage," defined as the greater of 0% or the current rate of inflation. This measure prevents local governments from experiencing automatic revenue increases solely because property valuations have risen, requiring a public vote if they wish to exceed this limit for general funding. The cap does, however, provide exceptions for revenue generated from new construction, property improvements, or annexations, as well as essential services like public safety and emergencies. Local entities also have the option to carry forward a limited amount of unused tax authority to future years or seek a voter override for additional funds.

In addition to these levy limits, LB34 works with the existing Nebraska homestead exemption to provide direct relief to homeowners. The homestead exemption, which, subject to limited exceptions, must be applied for annually by qualified individuals (e.g., those over 65, veterans, or those with specific disabilities), is the first layer of relief, reducing a home's taxable value pursuant to (mainly income-related) state guidelines. After this initial exemption is calculated, the new credit from the School District Property Tax Relief Act (the other major component of LB34) is applied to any remaining school district tax liability. LB34 effectively "front-loads" this relief, converting a previous income tax credit (for previously paid "school district" property taxes) into an automatic reduction of tax liability, appearing directly on homeowners' property tax statements. The School District Property Tax Relief Act was funded by an initial \$750 million state allocation with increased state allocations set for later years.

Staff Contact: Brett Berne, Legislative Drafting Division

Q4. Analyze the economic impacts on middle class & fixed income households in higher appreciation areas due to assessment limits and levy limits. | Requested by Rep. Echevarria

A. Assessment Limit

Assessment limits cap increases in a property’s assessed value, regardless of changes in market value. Typically, a property's assessed value is reset to market value at time of sale. As a result, new homeowners face higher tax bills than long-term homeowners, regardless of income. This dynamic creates a situation in which homeowners with similar property values face different tax bills based on when the home was purchased rather than the value of the home or income of the homeowner.

The benefit of an assessment limit depends on how much a property would have increased in value without the limit in place. So, **the overall impact on middle class and fixed-income households depends on both the length of time in the home and how much the property has appreciated in value over that period.**

Some jurisdictions modify their approach to assessment limits to reduce differences in tax payments. For example, in New York City, assessments do not fully reset upon sale, which can reduce differences in tax payments between longtime and new homeowners. However, this can still result in uneven tax burdens across neighborhoods with different growth patterns (fast-growing neighborhoods benefit more relative to slow-growing neighborhoods).

Another modification example is in Florida where the assessment limit is portable. This helps reduce the “lock-in” effect, which is when homeowners stay in their home to benefit from the assessment cap even though a different home may be better-suited for their household. While this addresses one issue with assessment limits, long-term homeowners still receive more benefits relative to new homeowners, regardless of income.

B. Levy Limit

Levy limits restrict the total amount of revenue that can be raised through the property tax. Under a levy limit, assessed values and tax rates are not directly constrained, but the overall revenue collected is capped.

When the total assessed value of taxable property increases, jurisdictions may need to lower tax rates to remain within the levy limit. For homeowners, the impact of the rate change depends on how their property assessment changes relative to the overall tax base. Thus, **the impact on middle-income or fixed-income households is ambiguous.**

A homeowner may receive a **higher tax bill** in these instances:

- Rate stays the same, assessed value of their home increased
- Rate is lower, assessed value of their home increased by more than the rate reduction
- Rate is higher, assessed value of their home stayed the same
- Rate is higher, assessed value of their home increased

And they may receive a **lower tax bill** in these instances:

- Rate stays the same, assessed value of their home decreased
- Rate is lower, assessed value of their home stayed the same
- Rate is lower, assessed value of their home decreased
- Rate is lower, assessed value of their home decreased by more than the rate increase

Staff Contact: Alannah Knight, Fiscal Research Division

Q5. Can we estimate what renters "pay" in property tax? | Requested by Rep. Blust

It is difficult to precisely quantify the share of the property tax paid by renters, but economic research shows that some portion of property taxes are passed through to renters in the form of higher rents. Estimates range from 14 percent to over 60 percent of property taxes being passed on to renters. On average, states that provide property tax relief to renters assume that property taxes account for about 18 percent of rents, but a recent study found that the property tax accounts for just 9 percent of rents.

Staff Contact: Alannah Knight, Fiscal Research Division

**Q6. Reach out to DOR about possible delayed/three years late property tax reevaluation.
| Requested by Rep. Cunningham**

We reached out to the Department of Revenue, and they were unaware of any counties within the last few decades that failed to conduct a revaluation within the timeline required under law. However, there was an instance where the General Assembly passed legislation allowing a county to retroactively change tax appraisals only if that county satisfied certain eligibility requirements (see [S.L. 2013-362](#)). This was a General Assembly initiated process to remedy what it viewed as defective reappraisals that occurred during 2008-2012, when the economic downturn most severely affected home prices. The only county that satisfied the eligibility requirements set by the GA in S.L. 2013-362 was Mecklenburg County.

However, outside of that isolated incident initiated by the General Assembly, we are not aware of any instance where a local government conducted a reappraisal and then applied those values retroactively to its tax base. Further we are unaware of any local units failing to conduct a reappraisal within the time required under law, at least within the last 20 years or so.

Staff Contact: Nick Giddings, Legislative Analysis Division

**The Constitutional
Uniformity
Requirement**

Chris McLaughlin
Professor of Public Law and Government
UNC School of Government

**Original NC Uniformity Provisions
1868 Constitution**

Art. V, Sect. 3
Laws shall be passed, taxing by a uniform rule, all moneys, credits, investments in bonds, stocks, joint-stock companies, or otherwise; and, also, all real and personal property, according to its true value in money.

Art. VII, Sect. 9
All taxes levied by any county, city, town or township shall be uniform and ad valorem upon all property in the same, except property exempted by this Constitution.

**Current Uniformity Provision
1971 Constitution**

Art. V, Sect. 2(2)
Only the General Assembly shall have the power to classify property for taxation, which power shall be exercised only on a ~~State-wide basis and shall not be delegated.~~ No class of property shall be taxed except by uniform rule, and every classification shall be made by general law uniformly applicable in every county, city and town, and other unit of local government.

NC Constitution's Uniformity Provision

1. Property Tax Rates:
 - One property tax rate per jurisdiction*

2. Property Tax Exemptions ("Classifications"):
 - Created by the General Assembly
 - Apply uniformly across the state

4

Tax Rate Uniformity

- *Anderson v. City of Asheville* (NC Supreme Ct., 1947)
 - City may not levy 3 different property tax rates in 3 different zones of the city

- 1971 Constitution
 - Eliminated the express reference to uniformity of taxation within a local government

- But . . . "One tax rate per jurisdiction" principle remains applicable

- Multiple local tax rates would violate the prohibition on local classification of property

- *Art. V, Section 2(4): Special service tax districts (1973)

5

Exemption Uniformity

- Only the General Assembly may exempt ("classify") property so that it is taxed differently than other classes of property

- Exemptions must apply "on a state-wide basis" and "be made by general law uniformly applicable in every county, city and town"

- Local governments have no authority to classify property

6

Exemption Uniformity

- What is the scope of this requirement?
 - GS 105-286: Mandatory Advancement of Reappraisal
 - Only for counties > 75,000 population
 - Session Law 2013-362:
 - "An Act To Correct General Reappraisals Resulting In Property Values That Do Not Comply With The Requirements Of North Carolina Law"
 - Very little relevant case law

7

Exemption Uniformity

In re: Appeal of Martin (NC Supreme Court, 1974)

"This constitutional provision does not prohibit reasonable flexibility and variety appropriate to reasonable schemes of State taxation. . . . While the General Assembly may not establish a classification that is arbitrary or capricious, a classification is constitutional if founded upon a reasonable distinction or difference and bears a substantial relation to the object of the legislation.

8

Exemption Uniformity

In re: Appeal of Barbor (NC Court of Appeals, 1993)

Residential taxpayer challenged exemption for "homes for the aged, sick or infirm"

Classification was not arbitrary: "narrowly tailored to promote communities for the elderly without giving a tax windfall to all residential property owners"

"Rational basis review" for classifications that do not involve fundamental right or suspect class

9

Hypothetical Exclusions

- 50% exclusion for real property used as a legal residence by a taxpayer earning \$50,000 or less
- 50% exclusion for real property used as a legal residence by a taxpayer earning \$50,000 or less in Durham, Guilford, Mecklenburg, and Wake Counties.
- 50% exclusion for real property used as a legal residence by a taxpayer earning 80% or less of Area Median Income (HUD definition of "low income")

10

Roles and Responsibilities of Local Governments

- Ike McRee, Legislative Analysis Division
- Kevin Leonard, Executive Director, NC Association of County Commissioners
- Chris Nida, Director of Technical Assistance for Cities, NC League of Municipalities

State Legislature
The General Assembly establishes local governments and assigns all responsibilities, powers, and authorities.

Counties 100
The primary function of county government is to administer state programs. But county government also serves as the local government for unincorporated territory.

Municipalities 552
The purpose of municipal government is to provide additional services and regulatory activities in incorporated areas (beyond state and/or county-wide programs).

Special Purpose LGs
Special purpose local governments serve one or a few purposes and often operate on a regional basis.

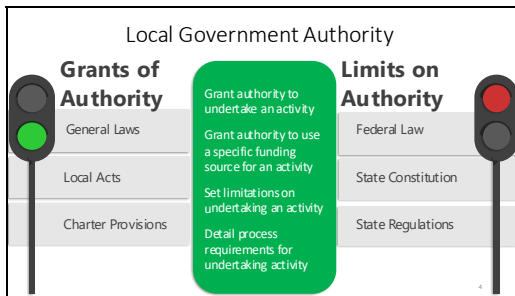
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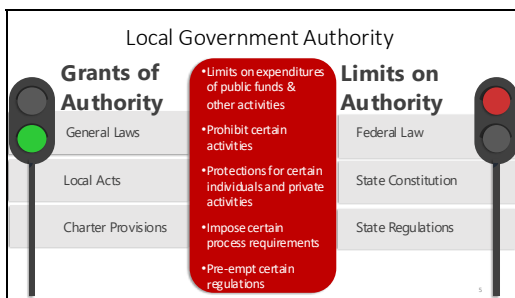
State Legislature
The General Assembly establishes local governments and assigns all responsibilities, powers, and authorities.

Special Purpose LGs
Special purpose local governments serve one or a few purposes and often operate on a regional basis.

- Water and sewer authorities
- Soil and water conservation districts
- Housing authorities
- Sanitary districts
- Redevelopment commissions
- Councils of governments
- Area mental health authorities
- Regional libraries
- Planning and economic development commissions
- Transportation authorities
- Recreation districts
- Local school administrative units

3





What must municipalities do?

- Building code enforcement
- Municipalities incorporated after January 1, 1945 but before January 1, 2000 must provide at least two of the following services to receive State funds for streets:
 - Water distribution
 - Sewage collection or disposal
 - Garbage and refuse collection or disposal
 - Fire protection
 - Police protection
 - Street maintenance, construction or right-of-way acquisition
 - Street lighting

6

What must municipalities do?

- Municipalities incorporated on or after January 1, 2000 must provide at least four of the following services to receive State funds for streets:
 - Police protection
 - Fire protection
 - Solid waste collection or disposal
 - Water distribution
 - Street maintenance
 - Street construction or right-of-way acquisition
 - Street lighting
 - Zoning

7

What must counties do?

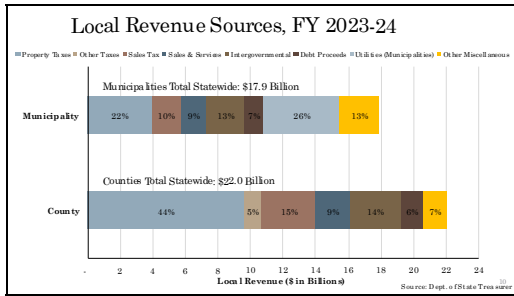
- Law enforcement
- Jail
- Medical Examiner
- Court facilities
- Building code enforcement
- Public school support
- Social services
- Public health
- Mental health
- Deed registration
- Election administration
- Tax assessment

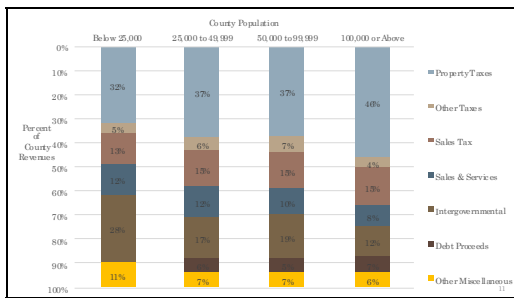
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What both municipalities and counties may do

- Ambulance
- Water
- Sewer
- Solid waste collection
- Solid waste disposal
- Fire protection
- Law enforcement
- Land use regulation
- Libraries
- Hospitals
- Parks and recreation
- Tax collection
- Animal control

9





Use of Local Government Revenue

Property Tax

- Property tax proceeds can be used to support virtually any public purpose

Tax Levy Authority

- Local government property tax levy without voter approval and without restriction on the tax rate for a few activities
 - Municipalities – most important activity is debt service on general obligation debt.
 - Counties – includes the most important state mandated activities such as courts, elections, jails, social services, public schools, and debt service on general obligation debt.
- Local government property tax levy without voter approval but subject to grandfathered rate limitation of \$1.50 per \$100 dollars of assessed valuation.
 - Most county and municipal functions fall within this group. A referendum may be enacted to modify the tax rate for all or some of the functions in this group.
- Referendum to levy a property tax on any function it may otherwise lawfully perform that is not already taxed under the authority detailed above.

12

Use of Local Government Revenue

Local Sales and Use Taxes

Article	Rate	Distribution	Restrictions	Shared with cities
Article 29	1% (1 cent)	Point of Origin		Yes
Article 40	0.3%	Per Capita	Counties: 50% for public school capital outlay or debt service payments	Yes
Article 42	0.5%	Point of Origin	Counties: 50% for school capital outlay/debt services	Yes
Article 46 sales approval	.25%	Point of Origin		No
Article 42 Public Transportation Tax voter approval	0.25% *Only a few jurisdictions levy additional tax pursuant to local act	Per Capita	Must fund public transportation systems	Yes, if they operate a public transportation system

13

Use of Local Government Revenue

Local Sales and Use Tax

- Except for Article 46 quarter-cent tax, a county must divide the local sales and use tax proceeds among the local government units within its territory, either on a per capita (based on relative populations) or ad valorem (based on relative property tax levies) basis.
- Municipalities may use the proceeds of the Article 39, 40, and 42 taxes for any public purpose.

14

Use of Local Government Revenue

Other Local Revenue Resources With Unrestricted Use for Any Lawful Purpose

<p>Municipalities and Counties</p> <ul style="list-style-type: none"> Rental Car Gross Receipts Tax Animal Tax Short-Term Heavy Equipment Tax Malt Beverage and Wine Retail License Tax 	<p>Municipalities</p> <ul style="list-style-type: none"> Electricity Tax Telecommunications Tax Piped Natural Gas Tax (State taxes with local distribution) <p>Counties</p> <ul style="list-style-type: none"> State Real Estate Transfer Tax
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15

Use of Local Government Revenue

Other Local Revenue Sources With Restricted Use

<u>Municipalities and Counties</u>	<u>Municipalities</u>
• General User Fees	• Motor Vehicle License Taxes
• Public Enterprise Fees	• Powell Bill Funds
• Regulatory Fees	
• Statutory Fees	<u>Counties</u>
• Video Programming Services Taxes	• County Vehicle Registration Tax
• Solid Waste Tipping Tax	• Disposal Taxes
• 911 Charge	
• Occupancy Taxes (Local Act)	

16




Property Taxes and the Role of Counties

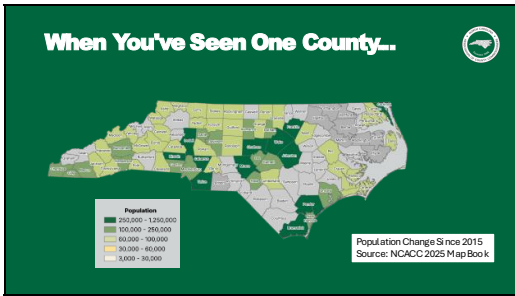
Kevin Leonard, NCACC Executive Director

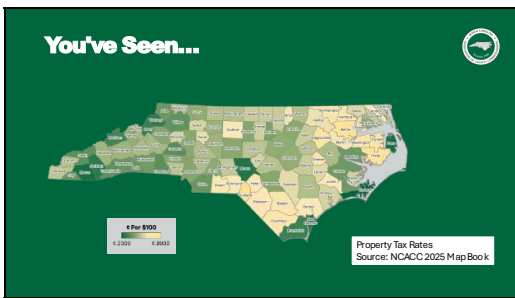
January 14, 2026 ncacc.org

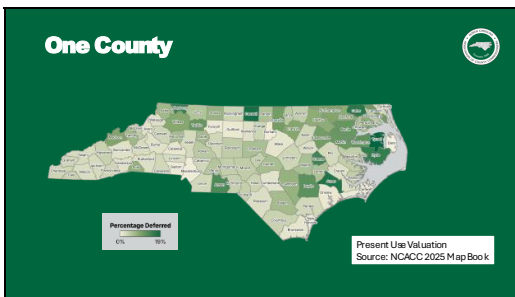
Agenda



- What do counties look like?
- What do counties do?
- Where do counties get their revenue?
- How do counties disburse their revenue?
- What happens when county revenue declines?
- Why should residents care?

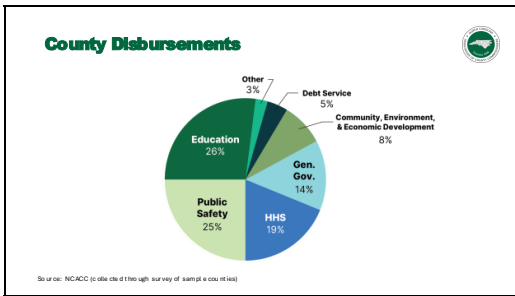






County government is often invisible when it's working well...

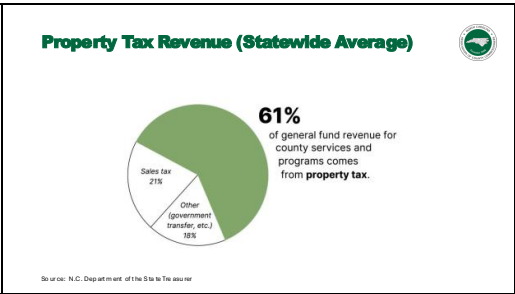
-Kevin Leonard

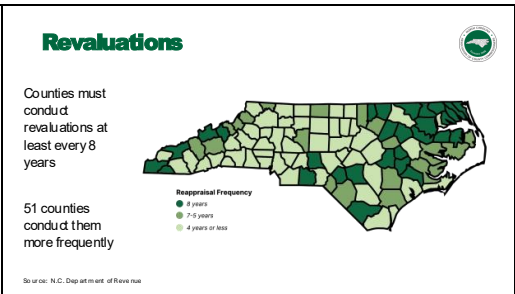


What Counties Do...

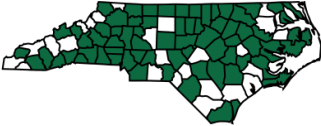
- Public Education
- Public Safety
- Public Health
- Social Services
- Infrastructure
- Fundamentals of Civic Life

Where County Revenue Comes From





Revaluations



71 Counties completed revaluation in last 3 years

All of them lowered their tax rate

Source: N.C. Department of Revenue

What about revenue decline?


When property tax revenue drops, counties face difficult choices

- Cuts to sheriff's patrols or emergency response times
- Reduced public health capacity
- Longer wait times for social services
- Deferred building repairs and capital needs


Service cuts affect everyone – residents, businesses & economic growth

Checks and Balances

- Regular audits
- Oversight by the Local Government Commission.
- Monthly public meetings—sometimes twice a month.
- Open budget debates with public input.
- Elections

In Closing 

- Property taxes aren't just revenue – they are the foundation of essential services
- Reform isn't a bad idea, but it must be done carefully
- Partnership with counties is essential




Thank You / Questions?

Kevin Leonard
Kevin.leonard@ncacc.org

For more information about the North Carolina Association of County Commissioners (NCACC), visit ncacc.org.


NORTH CAROLINA LEAGUE OF MUNICIPALITIES

House Select Committee on Property Tax Reduction and Reform
January 14, 2026

 **NCLM**
NORTH CAROLINA LEAGUE OF MUNICIPALITIES

OUTLINE

- NCLM Overview
- Municipal Services
- General Fund vs. Enterprise Funds
- Trends



NCLM

NC LEAGUE OF MUNICIPALITIES

What is the League?

- An association of 540 of North Carolina's cities and towns
- The one-stop municipal shop for cities and towns, led by cities and towns
- The unified voice of the state's municipalities



NCLM

MUNICIPAL SERVICES

What Municipalities Do

- Police & fire
- Roads & bridges, street lighting
- Parks, Housing, Land Use, Events
- Building Inspections
 - Only service mandated by law
- Water & Sewer, Solid Waste, Stormwater
 - Segregated enterprise funds (=not funded by property tax)



NCLM

MUNICIPAL SERVICES: ECONOMIC DEVELOPMENT

Cities are partners with NCGA in economic development

- Infrastructure: water & sewer, roads to sites
- Public safety: provide a safe place for businesses
- NC cities and towns contribute to North Carolina being the best state in the country for business



NCLM

GENERAL FUND VS. ENTERPRISE FUNDS

General Fund

- Funded primarily by property tax, sales tax
- Additional funds allocated to specific projects and purposes
 - Powell Bill (roads & bridges)
 - State-administered local taxes (beer & wine, etc.)
 - Intergovernmental transfers
- Loan proceeds
- Cost-based fees such as application fees, parks program fees, which are expected to recover costs (some required by statute, such as for building inspection fees)



NCLM

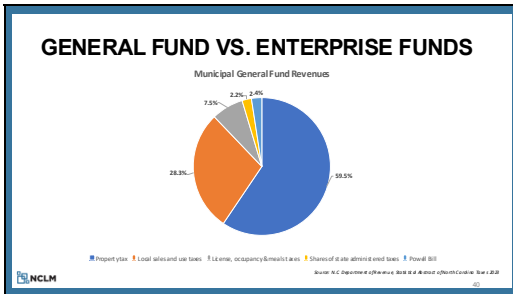
GENERAL FUND VS. ENTERPRISE FUNDS

Enterprise Funds

- Separate set of books from General Fund
- Operations that charge fees based on cost-of-service
- Generally expected to be self-supporting services
- Examples
 - Water
 - Sewer
 - Stormwater
 - Solid waste
 - Airports



NCLM

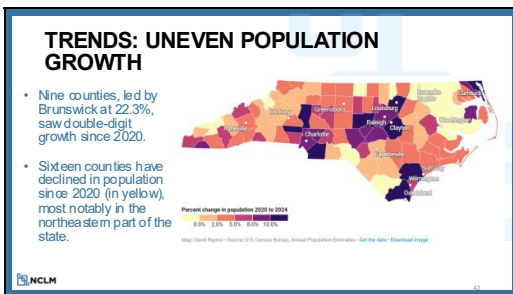


GENERAL FUND VS. ENTERPRISE FUNDS

General Fund Expenditures

- Public safety typically largest area of expense (~50%+)
- With streets/public works, can be 60% of general fund or more
- Other expenditures typically consist of additional services (parks, zoning, etc.) as well as key support functions (finance, human resources, budget, etc.)


Source: NCLM



TRENDS: INFLATION

Costs to Provide Services Increased Substantially This Decade

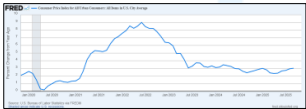
- Inflation raised prices
 - Police vehicles & equipment
 - Fire trucks
 - Road-building materials
 - Water treatment supplies
- Salaries and benefits



NCLM 43

HOW FAR DO PROPERTY TAX DOLLARS GO?

- Costs of providing services is rising, regardless of municipal size or location
- A "penny" on the tax rate doesn't tell the whole story
 - Key metric meaning \$0.01/\$100 of property value
 - Ex. A penny in Raleigh raised ~\$1.6 million last fiscal year
 - Ex. in Mocksville raised ~\$137,000
 - Ex. in Catawba raised ~\$17,500



NCLM 44

SUMMARY

- Property tax rate is the only revenue source that municipalities directly control and have the discretion to set.
- Over 60% of municipal general funds are devoted to police, fire, and roads.
- Small towns are under tremendous pressure to keep pace with rising costs and changing demands from members of the community.
- Enterprise funds like utilities are not property tax funded and generally must charge a cost-based rate for services.



NCLM 45

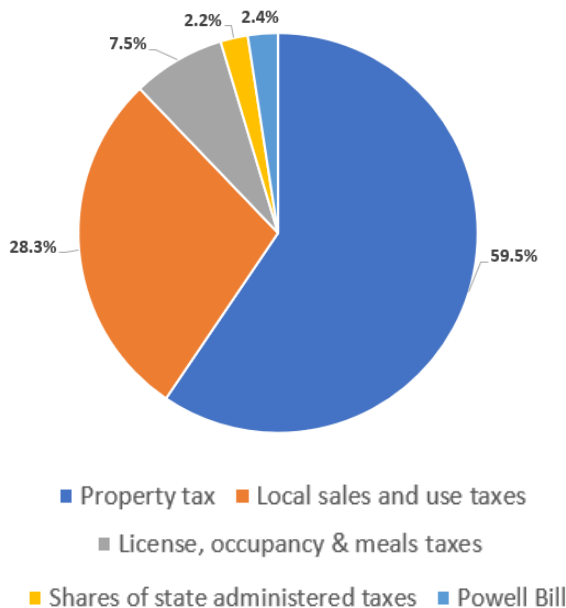
Contact
Chris Nida, Director of Technical Assistance for Cities
Email: cnida@nclm.org
Phone: (919) 715-3945

 40

Municipal Services

Municipalities provide a variety of services to residents, most importantly police and fire protection and the building and maintaining of streets and bridges. Parks, street lighting, land-use planning, housing assistance and special events are also funded with property taxes. Water, sewer and solid waste disposal are also crucial services, but are funded through separate enterprise funds and not paid for with property tax dollars.

Municipal General Fund Revenues

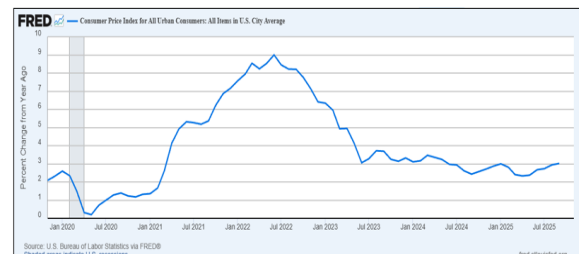


Municipal General Fund Expenses

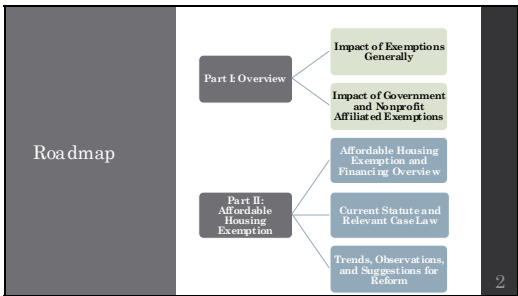
- **Public safety is typically the most substantial general fund expense, at about 50 percent of budget totals.**
- **With the addition of streets and public works, those percentages typically rise to more than 60 percent.**
- **General fund dollars also fund economic development projects and the infrastructure that cities build out to make them possible.**

With costs rising, how far do property taxes go?

- A penny per \$100 valuation in Raleigh raised ~\$11.6 million last fiscal year.
- In Mocksville, one penny raised about \$137,000.
- In Catawba, it raised roughly \$17,500.

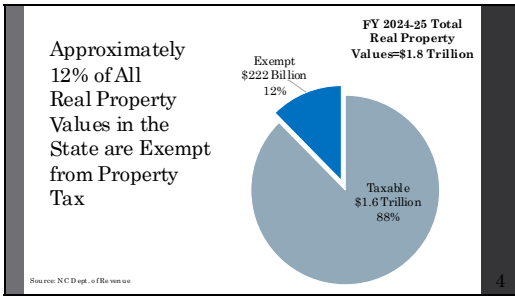


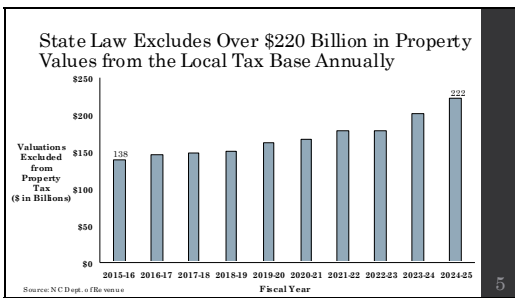
Governmental & Nonprofit Affiliated Property Tax Exemptions



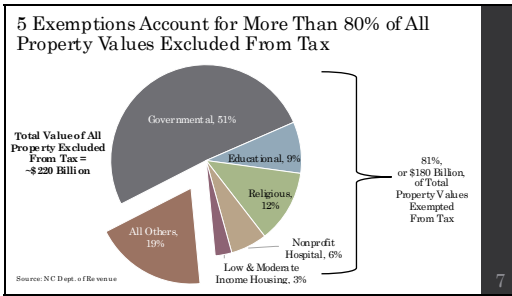
Part I: Overview

Brent Lucas
Fiscal Research Division





- Current State Law Provides Several Exemptions or Exclusions from Local Property Tax
- Governmental (Federal, State, Local)
 - Educational (Non-governmental)
 - Religious
 - Charitable-Nonprofit Hospital Property
 - Brownfields properties
 - Charitable-Homes for the Aged, Sick, and Infirm
 - Charitable-Nonprofit Low- and Moderate-Income Housing
 - Nonprofit historic preservation
 - Scientific, Literary and Cultural
 - Builder's Inventory
 - Burial Property
 - Continuing Care Retirement Centers
 - Pollution Abatement and Recycling
 - American Legion, Lodges, etc.
 - Medical Care Commission Bonds
 - Legacy Airports
 - Solar Energy Electrical System
 - Others not listed
 - Homestead-Elderly and Disabled
 - Homestead-Disabled Veterans
- Discussed at previous meeting*
*Does not include deferral programs (Agricultural Present-Use Value (PUV), etc.)
- 6

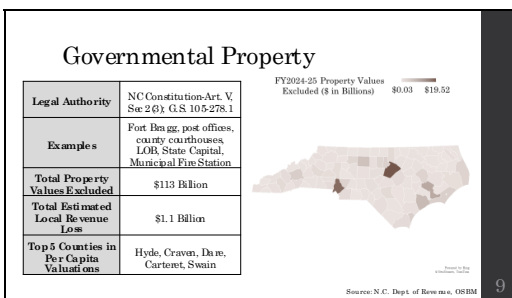


These 5 Exemptions Account for Over \$1.7 Billion in Foregone Local Revenue

- All exclusions: \$2.1 Billion in foregone local revenue each year

Property Tax Exclusion or Exemption	Estimated Local Revenue Loss (\$)	Number of Counties with Exempt Property
Governmental	\$1.1B	100
Religious	\$255M	100
Educational (not governmental)	\$180M	89
Nonprofit Hospital Property	\$130M	75
Charitable-Nonprofit Low & Moderate Income Housing	\$60M	82
Total of these 5 Exclusions or Exemptions	\$1.7B	-

Source: NC Dept. of Revenue



Religious Property

Legal Authority	G.S. 105-278.3
Examples	Church buildings, Fellowship Halls
Total Property Values Excluded	\$28 Billion
Total Estimated Local Revenue Loss	\$255 Million
Top 5 Counties in Per Capita Valuations	Macon, Chowan, Transylvania, Mitchell, Sampson

FY2024-25 Property Values Excluded (\$ in Billions) \$0.01 \$3.98

Source: N.C. Dept. of Revenue, ORBM

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Educational Property (nongovernmental)

Legal Authority	G.S. 105-278.4
Examples	Private college/university buildings and land (e.g., Campbell, Catawba, Shaw, Wake Forest, Duke, nonprofit private schools)
Total Property Values Excluded	\$19 Billion
Total Estimated Local Revenue Loss	\$180 Million
Top 5 Counties in Per Capita Valuations	Orange, Watauga, Wake, Transylvania, Avery

FY2024-25 Property Values Excluded (\$ in Billions) \$- \$7.02

Source: N.C. Dept. of Revenue, ORBM

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Nonprofit Hospitals

Legal Authority	G.S. 105-278.8
Examples	Atrium Health Carolina's Medical, Atrium Health Wake Forest Baptist, FirstHealth Moore Regional, Carment General Hospital
Total Property Values Excluded	\$14 Billion
Total Estimated Local Revenue Loss	\$130 Million
Top 5 Counties in Per Capita Valuations	Pitt, Moore, Forsyth, Hoke, Gaston

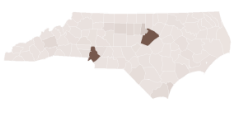
FY2024-25 Property Values Excluded (\$ in Billions) \$- \$2.96

Source: N.C. Dept. of Revenue, ORBM

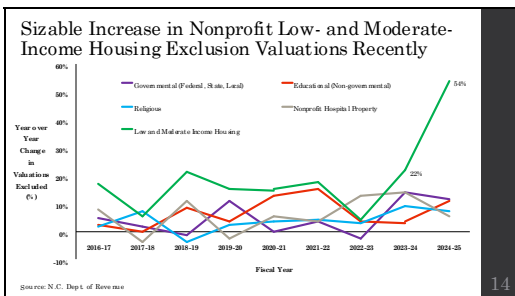
12

Nonprofit Low- and Moderate-Income Housing

Legal Authority	G.S. 105-278.6(8)	FY2024-25 Property Values Excluded (\$ in Billions) \$- \$1.80
Examples	N.C. low-income housing/apartment development	
Total Property Values Excluded	\$6.3 Billion	
Total Estimated Local Revenue Loss	\$60 Million	
Top 5 Counties in Per Capita Valuations	Wake, Mecklenburg, Durham, New Hanover, Guilford	



Source: N.C. Dept. of Revenue, ORBM



Part II: Nonprofit Affordable Housing Exemption

Affordable Housing & Financing Overview

Scott Farmer
Executive Director
Housing Finance Agency

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Housing Affordability in North Carolina

North Carolina Housing Finance Agency
House Select Committee on Property Tax Reduction and Reform
January 14, 2026




Our Mission

To provide safe, affordable housing opportunities to enhance the quality of life of North Carolinians.



HousingBuildNC.com



What is Affordable Housing?

Affordable housing can refer to anything from a partnership for seniors on a fixed income to a five-bedroom single-family house.

- HUD defines "housing affordability" as a household paying no more than 30% of their income for housing.
- Households spending more than 30% of their income are considered housing "cost burdened".
- Most federal and public resources target 80% Area Median Income (AMI) and below.
- Generally, **Affordable Housing** is housing affordable to households earning 80% of the Area Median Income or less.







Photo: Ripa Garner



HousingBuildNC.com




Federal Low Income Housing Tax Credit (LIHTC)





Springfield Park, Asheville

- Federal tax credit that provides a tax-incentive to construct or rehabilitate affordable rental housing by eligible development entities under the state's Qualified Allocation Plan (QAP)
- Section 42 of the Internal Revenue Code
- LIHTC accounts for 98% of all affordable rental housing development in the United States
- Created by 1986 federal Tax Reform legislation, strengthened in the 2017 Tax Cuts and Jobs Act, expanded and strengthened again in the 2025 Omnibus (OBBA)
- Operate in dependency by each state and US territory's allocating agency (HFA)




HousingBuildNC.com






Ferris, Concord

- Developments are privately owned and privately managed
- Sponsors compete for a LIHTC award based on the rules prescribed in the state's Qualified Allocation Plan (QAP)
- Development sponsors can be for-profit or non-profit entities (federal law requires a minimum 10% non-profit participation of total allocation)



HousingBuildNC.com



How Does LIHTC Create Affordability?

- Proposals from development sponsors receiving LIHTC sell the credits to an investor to generate equity, thus reducing the debt payments on the property
- The investor becomes the majority owner for 15 years (as prescribed by the IRS) to claim the federal tax credit over a 10 year period
- In exchange, the owners agree to keep rents affordable for households making 80% Area Median Income or below for the next 30 years



Valley River, Meplaty




Ensuring Affordability

- NCHFA records a deed restriction called a Land Use Restriction Agreement (LURA) that specifically states the terms of affordability for the property
- The LURA provides a legal instrument for any interested party to enforce the terms of affordability
- The IRS may recapture the tax benefit if the property is out of compliance within the first 15 years
- NCHFA monitors the property for compliance for 30 years, as well as the investor and any other funders



Riverstone Crossing, Winston




Current Law & *Blue Ridge Housing Case*

Trina Griffin
Legislative Analysis
Division

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Charitable Purpose Exemption G.S. 105-278.6

Real and personal property owned by:

- (1) A Young Men's Christian Association or similar organization;
- (2) A home for the aged, sick, or infirm;
- (3) An orphanage or similar home;
- (4) A Society for the Prevention of Cruelty to Animals;
- (5) A reformatory or correctional institution;
- (6) A monastery, convent, or nunnery;
- (7) A nonprofit, life-saving, first aid, or rescue squad organization;
- (8) **A nonprofit organization providing housing for individuals or families with low or moderate incomes**

shall be exempted from taxation if: (i) As to real property, it is actually and exclusively occupied and used, and as to personal property, it is entirely and completely used, by the owner for charitable purposes; and (ii) the owner is not organized or operated for profit.

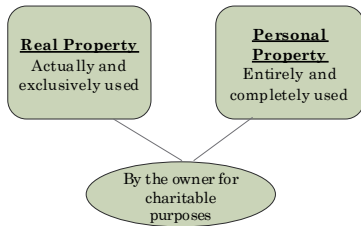
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Two Requirements



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Use Requirement



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Use "Exceptions"

Actually Used

BUT

Future Use
A nonprofit may hold property for up to 10 years as a future site for low-income housing, with taxes being deferred and lien on property.

Exclusively Used

BUT

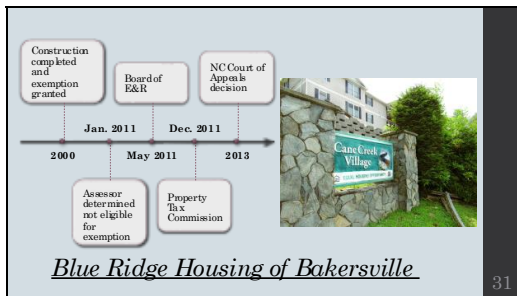
Partial Exemption Permitted
The portion of the property that qualifies shall be exempted even if the entire property does not.

Charitable Purpose

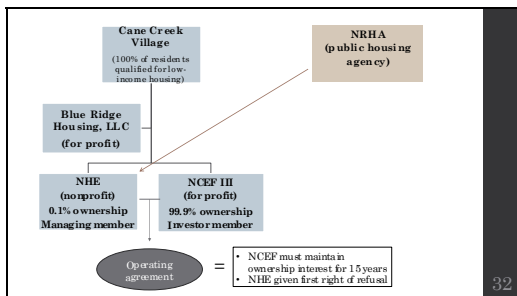
One that has humane and philanthropic objectives; an activity that benefits humanity or a significant segment of the community without expectation of pecuniary profit or reward.

Ownership Requirement

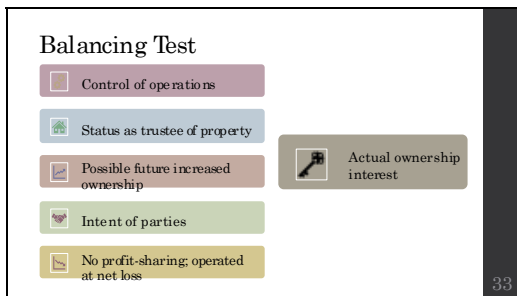
- Statute does not define.
- States only that owner "is not organized or operated for profit."
- What percentage of ownership is sufficient?
- Must it be 100% or are there situations where less than 100% is appropriate?



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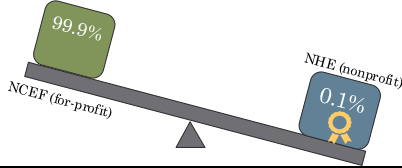
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Outcome

The Court applied this test and concluded that the nonprofit, NHE, owned the property for tax purposes, despite the fact that it only owned 0.1% of the corporation that held legal title to the property.



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The Takeaway...See Footnote

"Since the instant case clarifies the definition of "ownership" for tax exemption purposes, County Boards shall now apply G.S. 105-278.6(a)(8) accordingly when determining exemptions for Cane Creek Village or other similarly situated properties."



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Right Result, But Problematic



- Observers tend to agree that this was a reasonable and desirable result given the fact pattern:
 - The nonprofit initiated development of the project and only partner ed with the for-profit for financing.
 - The nonprofit did in fact manage operations and had a long-term ownership interest consistent with its affordable housing mission.
 - The 1%/99.9% ownership structure is standard under the LIHTC framework.
 - LIHTC framework ensures long-term governmental oversight by IRS and state housing agencies.
- However, a broad interpretation of the case, a lack of statutory guidance, and administrability issues could result in self-dealing, unanticipated local revenue loss, and lack of long-term affordable housing.

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Issues

- No definition of ownership.
- No definition of "low or moderate income."
- No length of ownership or deed restriction requirements.
- No regular verification (G.S. 105-278.6 exemption is a "single application").
- No minimum for partial exemption (i.e., minimum number of units required to meet affordability standard).
- Not tied to participation in federal LIHTC program or other governmental oversight.
- Administratively difficult for tax administrators to apply judicial test.
- Potential for lack of uniformity/standardization among counties.


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Trends, Observations, & Suggestions for Reform

David Baker, Director of Tax and Revenue Outreach, NCACC

Ben Justus, Executive Staff, Self-Help Credit Union

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Nonprofit Low- and Moderate-Income Housing Exemption County Perspective

David B. Baker, Director of Tax and Finance Outreach

January 14, 2026 ncacc.org

2025 Foregone County Revenue



- Foregone revenue in all 100 counties totals over \$53 million
 - Does not include special district or municipal taxes
- Over 96% of properties are located in a municipality
- Total foregone revenue for all local governments is between \$80-100 million

Sample of Foregone County Revenue




County	2025 Foregone Revenue
Alamance	\$966,690
Brunswick	\$435,556
Davidson	\$230,311
Forsyth	\$254,190
Guilford	\$2,205,917
Jackson	\$35,318
Madison	\$63,807
Moore	\$83,470
Rockingham	\$61,650
Union	\$150,654
Wake	\$13,489,935
Wayne	\$1,022,846
Total	\$18,680,344

Sample of Properties Exempted




County	2021	2025
Alamance	0	7
Brunswick	20	27
Davidson	50	60
Forsyth	1	4
Guilford	166	186
Jackson	10	15
Madison	19	22
Moore	16	26
Rockingham	22	25
Union	4	17
Wake	69	137
Wayne	0	3

Increase in number of exemptions between 2021 and 2025

Blue Ridge Housing Exemptions 


Sample of Properties Exempted Under Blue Ridge Housing Case

County	Number of Properties	Exempted Value	2025 Forgone County Revenue
Alamance	7	\$112,729,488	\$56,884
Moore	4	\$13,892,390	\$35,881
Stark	3	\$7,448,939	\$37,990
Wayne	3	\$16,431,660	\$102,846

Blue Ridge Housing Exemptions 


Wake County Properties Exempted Under Blue Ridge Housing Case

Year	Exempted Value	Forgone County Revenue
2021	\$289,993,674	\$1,739,962
2025	\$2,204,668,044	\$11,400,338


Blue Ridge Housing Exemptions 

12 Properties Pending Appeal in Forsyth County


Potential Exempted Value	Potential Forgone County Revenue
\$195,585,800	\$1,047,310

Policy Considerations 

- Define ownership
- Define low- and moderate-income
- Review exemption amount, currently 100% (Homestead exclusion is 50%)
- Require annual application process that requires reporting number of low-income units
- Determine relationship between the benefit provided to people and amount of property tax relief


Thank You! / Questions?
David B. Baker
david.baker@ncacc.org

For more information about the North Carolina Association of County Commissioners (NCACC), visit ncacc.org.



North Carolina Property Tax Exemption for Affordable Housing
House Select Committee on Property Tax Reduction and Reform
January 14, 2026

David B. Baker | Governor's Office for the Arts

WHO WE ARE

- The Self-Help organization is an umbrella of nonprofits that includes two credit unions, a community development investment fund and a research and policy group
- Together the entities manage over \$5B in assets and operate in 10 states
- Our core mission is to create and protect economic opportunity for all
- When it comes to affordable housing we are a lender, developer, and preserver of a affordable rental housing across the country

Over 100,000 members @ community for all

NORTH CAROLINA BASED

- Founded in 1989, Self-Help is headquartered in Durham and has credit union branches, staff, investments, and offices throughout the state
- We focus on serving rural and working class families, providing them access to capital to become homeowners, start a business, or buy a car
- Particular to affordable rental housing, we have launched or are in the process of forming Affordable Housing Loan Funds in Western North Carolina, Winston-Salem, Greensboro, High Point, Durham, Wake County and Chapel Hill

Map of Self-Help Credit Union Branches in North Carolina

\$225	Self-Help Federal Credit Union
\$441M	North Carolina
\$3,900,000,000	Loanable Assets Made in NC
62,270	Self-Help Credit Union Members in North Carolina
24	Self-Help Credit Union Branches in NC

STATE OF AFFORDABLE RENTAL HOUSING IN NC

24% RENTER HOUSEHOLDS SEVERELY COST-BURDENED

46% RENTER HOUSEHOLDS COST-BURDENED


196k DEFICIT OF AFFORDABLE RENTAL HOUSING UNITS

Share of Renters Living in Unaffordable Housing By County

Mirroring the national affordable housing crisis, North Carolina also faces a significant deficit of affordable housing units as rent growth has outpaced income growth over the past couple of decades.


Largest nominal deficits of affordable rental units are in urban areas, but affordability issues plague the entire state.

Source: North Carolina Housing Finance Agency, "North Carolina's Rental Market: A Snapshot from the Center for Housing Studies, Carolina Research Center."
 Note: The number of households in affordable housing is based on HUD's Fair Market Rent (FMR) of 2021. Units with rents below 30% of the FMR are considered affordable.
 The 2021 average of self-help properties, measured against the state deficit of affordable rental units, is 100,000 units.


NCGS § 105-278.6(A)(8) & BLUE RIDGE 

- For 50 years, North Carolina has supported charitable development and ownership of affordable housing by exempting from property tax low- and moderate-income housing owned by nonprofits
- In 2013, in *Re Blue Ridge Housing of Bakersville LLC*, the N.C. Court of Appeals recognized that many affordable projects involve partnerships between nonprofits and investors and looked beyond actual ownership to other factors indicative of ownership in allowing tax exemption for a project where a passive for-profit investor contributed capital in exchange for federal Low Income Housing Tax Credits ("LIHTC").
- Subsequently the *Blue Ridge* decision has been cited to justify exemption for projects where for-profit developers' participation expands beyond tax credit investment and allows more for-profit control of operations and private benefit.
- N.C. law currently does not clearly define situations where for-profit involvement is appropriate and where it only serves to benefit private equity to the detriment of counties and taxpayers.

On 1/13/26, 8:52:00 AM Eastern Standard Time

PROBLEMS WE ARE SEEING 


- Proliferation of for-profit/nonprofit joint ventures ("JVs") in "rent-a-nonprofit" structures that are seemingly abusing the spirit of the statute
- Marketing of property tax abatement by lawyers/brokers that is encouraging pursuit of this structure, particularly for Naturally Occurring Affordable Housing ("NOAH")
- Dramatic increase in property tax exemption applications
- Difficulties for county tax administrators
- County revenue implications that could lead to higher property taxes for others
- In short, the possibility of public funds being used for private interests that provide no public benefit



White Paper Example

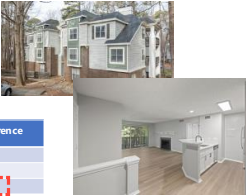
Broiler Marketing Materials

On 1/13/26, 8:52:00 AM Eastern Standard Time

CASE STUDY OF POTENTIAL ABUSE 

- Example property is Hampton Ridge Apartments in North Raleigh – approximately 7 miles from here
- 178 units built in 1987 with 50% one bedrooms and 50% two bedrooms
- Current rents are at ~52% AMI; well below the 80% AMI rent-level

	Current Rent	80% AMI Rent	Difference
1 Bedrooms	\$1,167	\$1,880	\$713
2 Bedrooms	\$1,457	\$2,250	\$793
Overall	\$1,310	\$2,078	\$768



Source: City of Raleigh, 2023 Rental Market Study. Note: The 80% AMI rent level is based on the current market rate of rent in Raleigh, NC. It is not a legal requirement for landlords to charge this amount. This table is for informational purposes only and does not constitute an offer of any financial product or service. On 1/13/26, 8:52:00 AM Eastern Standard Time

APPENDIX H

FEBRUARY 18, 2026, MEETING MATERIALS

Draft



NORTH CAROLINA GENERAL ASSEMBLY HOUSE SELECT COMMITTEE ON PROPERTY TAX REDUCTION AND REFORM 2025-2026 SESSION

Co-Chairs

Rep. Julia Howard
Rep. Mitchell S. Setzer
Rep. Erin Paré

Vice Chairs

Rep. Brian Echevarria
Rep. Neal Jackson

Members

Rep. Eric Ager
Rep. Jonathan Almond
Rep. Brian Biggs
Rep. John M. Blust
Rep. Jerry "Alan" Branson
Rep. Grant L. Campbell, MD
Rep. Becky Carney
Rep. Maria Cervania
Rep. Tricia Cotham
Rep. Carla Cunningham
Rep. Aisha Dew
Rep. Frances Jackson
Rep. Abe Jones
Rep. Keith Kidwell
Rep. Nasif Majeed
Rep. Larry Potts
Rep. Dennis Riddell
Rep. James Roberson
Rep. Mike Schietzelt
Rep. Brian Turner
Rep. Harry Warren
Rep. Sam Watford
Rep. Diane Wheatley
Rep. Jeff Zenger

AGENDA

February 18, 2026, at 10:00 AM
Room 643 Legislative Office Building
Rep. Mitchell S. Setzer, Presiding

- I. Welcome**
Rep. Mitchell S. Setzer, Committee Co-Chair

- II. An Overview of Recent Federal Funding and Cost Shift Changes and Their Impact on Local Governments**
Whitney Afonso, Professor of Public Administration and Government, UNC School of Government

- III. The Case and Avenues for Property Tax Reform in North Carolina**
*Abir Mandal, Senior Policy Analyst
Tax Foundation*

- IV. Nonprofit Property Tax Exemptions Continued: Hospitals**
*Zoey Howe, Legislative Analysis Division
Brent Lucas, Fiscal Research Division*

- V. Committee Discussion**

- VI. Closing Remarks and Adjournment**

NEXT MEETING DATE: March 18, 2026, at 10:00 am



HOUSE SELECT COMMITTEE PROPERTY TAX REDUCTION AND REFORM

Responses to Questions from January 14, 2026 Meeting

Q1. What is the cost of property tax abatements for economic development programs? | Requested by Rep. Blust

Section 2 of Article V of the State Constitution provides that only the General Assembly may classify property for taxation, which includes exempting property from the tax base. Therefore, local governments are prohibited from creating property tax abatements for economic development. Instead, local governments often provide cash incentives for economic development calculated on the basis of some metric which closely resembles the taxes actually paid by a business. These incentives are generally payable to the business only when certain public purpose goals are met, such as job creation and meeting specific wage standards. FRD is unable to determine the costs associated with local economic development incentives because there is no comprehensive, state-wide source that contains information about these programs.

Staff Contact: Alannah Knight, Fiscal Research Division


Q2. Do other state constitutions contain uniformity clauses? | Requested by Rep. Cervania

A vast majority of state constitutions, roughly 47-48, have some form of uniformity provision. While the uniformity provisions contained in those state constitutions can be broadly grouped into various categories, the phrasing and application of these provisions vary considerably among the states because the scope of each state's uniformity clause is subject to judicial interpretation.

Staff Contact: Nick Giddings, Legislative Analysis Division

An Overview of Recent Federal Funding and Cost Shift Changes and Their Impact on Local Governments

Whitney Afonso
School of Government



THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

1

Quick introduction

Professor at the School of Government at UNC-CH

Work with state and local budget and finance professionals

Research on state and local taxes
Income, property, and sales

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This morning

- Examples of changes at the federal level that are likely to effect state and local governments
- Deeper dive into most impactful
- Some reflections about county governments and their resiliency

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Examples of cost shifting

- SNAP (H.R.1)
 - Administrative costs
- Medicaid (H.R.1, reconciliation bills)
 - Reduction in matching funds
 - Administrative costs
- FEMA (H.R.4669 and budget cuts)
 - Increasing thresholds for assistance
 - Administrative costs
- Digital Accessibility (DOJ ADA Title II)
 - Administrative costs
- EPA Environmental Regulations
 - Upgrades/infrastructure
 - Administrative costs

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Examples of cost shifting


- Individuals with Disabilities Education Act (IDEA) Funding Shortfall
 - Reduction in federal funds
- Other Education cuts
 - Elimination of 12 programs
 - Other reductions
- Cybersecurity Incident Reporting and Grant Cuts
 - Upgrades/infrastructure
 - Administrative costs
- HHS Tobacco Product Standards
 - Administrative costs
- Many others

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Regulatory Environment

- Administrative costs are key and often less visible initially
- Estimated burden from regulatory changes from 2023-2026 is >\$2 trillion
- State and local governments are responsible for ~20-30% of those costs




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Deeper Dive: SNAP, FEMA, & Medicaid

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Supplemental Nutrition Assistance Program (SNAP)

- Almost 1.45 million North Carolinians receive SNAP
- 1 in 6 children in NC receive SNAP
- About 80% of SNAP households have a working adult in the household

8

Changes coming to SNAP

- Federal share of funding for administrative costs dropping from 50% to 25% in FY27
- ~\$850 million increase in annual obligations for counties nationally
- For North Carolina:
 - NCDHHS estimates \$67 million for counties
 - NCACC estimates \$67 to \$70 million for counties
 - State share ~\$15 million
- These costs include eligibility determinations, compliance with (new) work requirements, enrollment, and other costs
 - Almost 175,000 adults will be impacted




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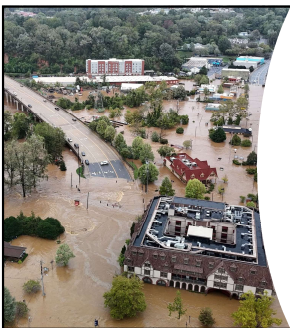
SNAP error costs

- Currently federal government pays 100% benefit costs
- Overpayment burden (error) already required to be repaid to federal government
- Change in coverage of benefit costs (October 2027)
 - 5% if error rates between 6 to 8%
 - 10% if error rates between 8 to 10%
 - 15% if error rates over 10%
 - Based on error rates from prior 3 years
- NC's SNAP error rate in 2024 was **10.21%**
 - Slightly below national average (10.93%)
- Estimated cost to NC for benefit costs: **\$420 million per year**



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FEMA H.R. 4669

- Mixed bag for impact on local government
- Goals:
 - Faster public assistance funding
 - Universal application with goal to reduce paperwork
 - Streamlined procurement
 - Greater support for small/rural jurisdictions
- Decreased support:
 - Goal to make state and locals less dependent on federal funds
 - Possible increased compliance burdens
 - Possible increased use of private contractors

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FEMA

- The cancellation of FEMA's Building Resilient Infrastructure and Communities (BRIC) program could leave counties more vulnerable to disasters, removing a key source of federal disaster mitigation funding.
 - BRIC provided \$750 million to \$1 billion annually for projects like stormwater systems, wildfire prevention and flood protection.
 - In December, a federal judge said the termination of the program was unlawful and it was reinstated.

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FEMA

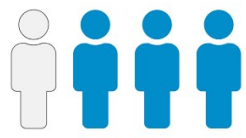
- Secretary (DHS) review changed from \$25 million to \$100,000
 - Has led to bottlenecks in response for current programs
 - Average of 164 declared disasters a year (major disasters: 1 every 3 or 4 days)
- More requests are being denied
- It is unclear at this moment what changes will occur with FEMA and how they will impact state and local governments



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Medicaid



- Over 3.1 million North Carolinians are enrolled
- Projected loss in coverage because of new work requirement
- Potential loss in coverage if expansion ends
 - Over 670,000 people

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Medicaid

- Many changes
 - Estimated by NCDHHS to be a loss of almost \$50 billion over 10 years
- Removal of 5% of Federal Medical Assistance Percentage (FMAP) incentive
 - Increase the cost of expansion
- State Directed Payments (SDP)
 - Capped at Medicare rates
 - 2028: Cut by 10 percentage points annually
 - Elimination of \$6 billion Healthcare Access and Stabilization Program (HASP)
- Federal limits on provider taxes (used to fund Medicaid)
 - \$22.5 billion over 10 years

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Medicaid

- Cost shift: subnational administrative cost increasing from 50% to 75%
 - Estimated increase of \$96 million for NC
- Error rates
- Changing work requirements & more frequent eligibility verification
 - Greater costs to ensure compliance
 - New work requirements
 - Check qualifications every 6 months
 - Reduction in health insurance coverage
 - Strain on local healthcare providers
 - Biggest impact on rural counties which are projected to lose ~\$155 million in Medicaid spending
 - May also leads to reductions in the healthcare industry and that would impact the economy more broadly

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How might local governments respond?

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Possible responses

- Reduce expenditures:
 - Efficiency cuts
 - Reduce or eliminate some services or transfers
 - Re-prioritization and reducing less high priority needs
- Most common reductions in local government
 - Staff
 - Capital

Function	Approximate Expenditure (\$)
Education	\$1,000,000
Debt Service	\$200,000
Human Services	\$400,000
General Government	\$300,000
Public Safety	\$600,000
Other	\$400,000

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Possible responses

- Increase revenues
 - Major drivers are:
 - Property tax
 - Sales tax
 - Occupancy tax (for some)
 - Fees

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Possible responses

- Adopt another local sales tax
 - Just under half of counties can levy Article 46

Articles of Sales Tax Levied by County

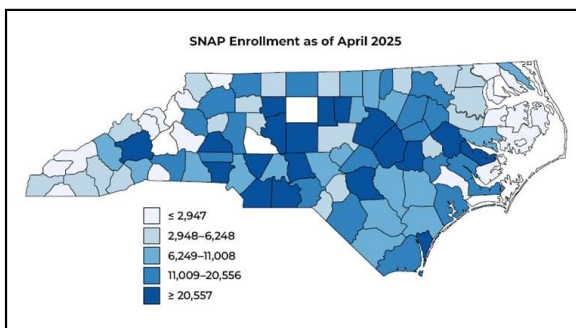
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*Does not include Mecklenburg's new LST

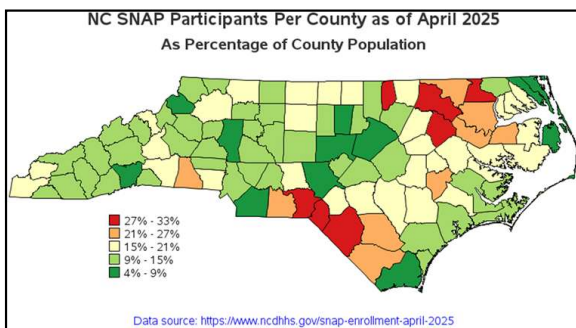
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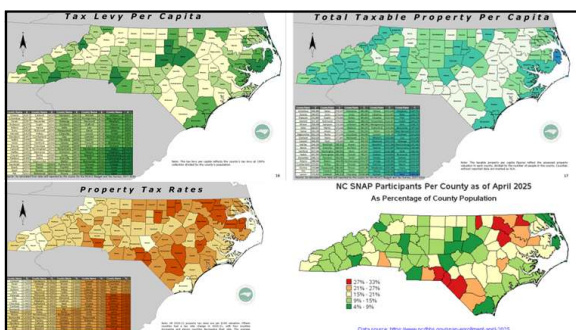
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Final thoughts on local coping with cost shifting

- There are a lot of ways to think about financial health and resiliency
- In general, I prefer thinking about per capita numbers
 - They are imperfect too
 - Impact of non-residents
 - Rural areas: typically, it costs more to serve each resident
 - Growing areas often require large capital investments

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Please reach out

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Legislation

One Big Beautiful Bill Act: P.L. 119-21

P.L. 119-21's impacts include:

- (1) §§ 10101-10108 **SNAP Benefits**: Impacts in North Carolina include changes to work requirements and removal of many categories of non-citizen eligibility. Additionally, a decrease in the federal portion of administrative SNAP costs coverage from 50% to 25%. Currently, counties pay the 50% of costs in NC. NCDHHS estimates this will lead to state administrative costs increasing by \$16 million and county administrative costs increasing by \$67 million. State agencies will also be required to pay a percentage of SNAP benefit allotments if their SNAP Payment Error Rate is above 6% (previously, the federal government funded 100% of the direct cost and only overpayments had to be repaid). The cost share varies based on the error rate. The largest share is 15% for error rates over 10%. In 2024, NC's average error rate was 10.21% and NCDHHS estimates that NC's cost share could be around \$420 million per year. For more on impacts to SNAP benefits in NC, see Kristi Nickodem's blog posts from [October 31, 2025](#) and [November 12, 2025](#), as well as the NCDHHS PowerPoint provided via email.
- (2) §§ 71101-71121 **Medicaid**: There are many different sections in this new law that will impact state and local governments' provision of Medicaid, such as changes in eligibility requirements, additional reporting requirements for the state, and changes to funding and the provider tax limits.
 - a. §§ 71103, 71104, 71107, 71111, & 71119 detail new information states must obtain from enrollees, new state reporting obligations, and require states to redetermine eligibility every six months (NC currently makes this redetermination annually per NCDHHS).
 - b. §§ 71109, 71110, 71119, 71201 detail new eligibility requirements that include removing eligibility for certain categories of noncitizens and new community engagement requirements and reduce the federal matching rate for emergency services provided to certain unlawful residents.
 - c. §§ 71106 and 71116 discuss shifts in calculations of state federal matching funds based on erroneous excess payments and revisions to regulations that will limit state-directed payments (SDPs) for certain services. NCDHHS predicts that the \$6 billion Healthcare Access and Stabilization Program (HASP) will be eliminated, which is the largest SDP in NC.
 - d. Changes related to Medicaid expansion in §§ 71114, 71115, & 71120: new limit on the provider tax for states that have expanded Medicaid to the current rate or a specified rate, whichever is lower, and decrease in the maximum rate gradually to 3.5% from fiscal year 2028 to 2032 (previously, 6% cap). According to NCDHHS, this includes the \$50 billion Rural Healthcare Provider Fund and estimates \$22.5 billion will be taken out of NC economy over 10 years.

Overall, NCDHHS estimates a total loss of funding equal to \$49.9 billion over 10 years with more than 70% of Medicaid cuts coming from NC's hospital expenditures. Without a statutory change, the new administrative costs for work requirements will likely trigger the NC law that ends Medicaid expansion, resulting in coverage loss for 671,476 people. For more estimated impacts, see the NCDHHS PowerPoint, and for a more national lens on what to watch for in 2026, see this [Kaiser Family Foundation article](#).

- (3) Other sections of P.L. 119-21 with impacts for state and local government, though not major like the changes to SNAP and Medicaid, include: (1) § 71401 (providing \$ 10 billion per FY for 2026-2030 for a program supporting provision of healthcare in rural areas; state application decisions were to be made by December 31, 2025); (2) §§ 4008 & 6009 (rescinding funds for financial assistance to states

for specific environmental efforts); (3) § 70309 (expanding exclusion from gross income for interest on bonds issued by state or local governments to include interest on bonds with at least 95% of net proceeds used to finance a spaceport); (4) § 70422 (increasing low-income housing tax credit eligibility and federal allocation to states by 12%); (5) § 73001 (prohibiting federal unemployment programs' payments to those with wages of \$1 million or more; requiring state agencies administering program to verify income and provide recovery of any overpayments); (6) §§ 90005—06, 100051—57 (providing funding to states and localities related to border security and law enforcement costs to protect the President's residence). The Counter-Unmanned Aircraft System Grant Program established as part of § 90005 and being distributed by FEMA has [FY 2026 awards announced](#), NC is not included, but the [Notice of Funding Opportunity from November 2025](#) states that the outstanding \$250 million will be distributed to all 56 states and territories in FY 2027. For more on the program, see [Yucel Ors, Grant Program to Empower Cities, Towns and Villages, NATIONAL LEAGUE OF CITIES \(December 9, 2026\)](#).

- (4) Finally, while higher education impacts stemming from P.L. 119-21 were not discussed above, some of the education regulations surrounding higher education that are developing because of the One Big Beautiful Bill Act will impact states. For a summary of the potential impacts, see [Austin Reid et al., 'Big Beautiful' Education Regulations Now in the Works, NATIONAL CONFERENCE OF STATE LEGISLATURES \(January 29, 2026\)](#).

Legislation On the Horizon

No pending legislation would have as large of an impact as P.L. 119-21. However, there are some bills that are worth noting.

- (1) [H.R. 22](#) – Would require voters to provide documentation proving citizenship when registering to vote for federal elections. Requires states to establish a process for citizens who cannot provide proof to submit other documentation and sign an attestation. This is an unfunded mandate with no funding to states to assist with implementation costs. See [Rachel Orey et al., Five Things to Know About the SAVE Act, BIPARTISAN POLICY CENTER \(February 2, 2026\)](#).
- (2) There seems to be an overarching focus on energy and electric utilities with current bills that individually might not have too much but taken together could be noteworthy. These include: (1) [H.R. 3628](#) (requiring state utility commissions to consider establishing measures of availability of electricity over specified time periods). CBO estimates a small incremental increase in administrative costs. See [CBO Cost Estimate - H.R. 3628](#); (2) [H.R. 3632](#) (modifying Federal Energy Regulatory Commission (FERC) process to determine if a public utility must remain open where retirement would make the bulk power system unreliable). CBO cannot determine the aggregate cost of all mandates in bill. See [CBO Cost Estimate - H.R. 3632](#); (3) [H.R. 3668](#); [H.R. 1949](#); [H.R. 1047](#); [H.R. 3062](#); [H.R. 3616](#) (if FERC increases fees to offset the cost of implementing these bills there would be an increase to mandate costs on public and private entities, such as electric utilities). See the following CBO Cost Estimates: [for H.R. 3668](#); [for H.R. 1949](#); [for H.R. 1047](#); [for H.R. 3062](#); [for H.R. 3616](#).
- (3) [H.R. 3492 Protect Children's Innocence Act](#) – Prohibits medical professionals and institutions (including publicly owned) from providing gender-affirming procedures and drug treatments to minors resulting an estimated revenue loss of \$16 million per year over 2026-2030 for intergovernmental costs. See [CBO Cost Estimate - H.R. 3492](#).

Executive Orders

Monitored by NCSL

The National Conference of State Legislatures (NCSL) has developed a list of [Key 2025 Trump Administration Executive Orders and Policies](#). This list includes states-related executive orders, policies and memoranda issued by the Trump administration in 2025 and should be consulted to review executive orders. The date the table was last updated is listed as November 3, 2025, on the website, but there are EOs from as late as November 14, 2025. The table can be organized by type of action (i.e. EOs) and each administrative action has a short summary and link to the full text if you click on the arrow to the left of each row entry. The summaries detail the main actions taken and highlight important actions after the initial order. There is also a column in the table that tracks the latest action related to the order.

Other E.O.s

For EOs after November 14, 2025, that would not have been included in the NCSL table, review of each EO on the White House website was completed. The following EOs are noteworthy:

- (1) EOs Related to AI:
 - a. [EO 14363 – Launching the Genesis Mission](#). One of multiple EOs implementing America’s AI Action Plan, launching the mission as a coordinated national effort to establish AI-accelerated innovation and discovery by building an integrated AI platform. Direct impact to states or local governments is unclear, but it does include university scientists as part of the scientific efforts the mission is meant to combine.
 - b. [EO 14365 – Ensuring a National Policy Framework for Artificial Intelligence](#). Calls for the Administration to act with Congress to ensure there is a minimally burdensome national standard for AI regulations and criticizes state-by-state regulation, calling for the national framework to forbid state laws that conflict with national policy. Calls for specified individuals to assist through various measures like establishing task force to challenge certain state AI laws and to add restrictions on federal funding for some states and new conditions for discretionary grants to states, for example.
 - i. In response to the EO, the Attorney General’s office has [announced the AI Litigation Task Force](#). See also [Bradley Bennett & Cailyn Reilly Knapp, Inside the DOJ’s New AI Litigation Task Force, JD Supra \(January 28, 2026\)](#).
- For more on AI-related 2025 EOs, as well as other state and federal AI-related actions, see Kristi’s [October 13, 2025 blog](#).
- (2) [EO 14379 – Addressing Addiction Through the Great American Recovery Initiative](#). Calling for a new national response to addiction that will create stronger coordination across many sectors to have the treatment parallel that of other chronic diseases. Requires Initiative members to, among other things, consult with states, local jurisdictions, and many others on best strategies to ensure more Americans receive treatment and celebrate individuals going through the recovery process.
- (3) EOs Related to Tariffs: [EO 14380 – Addressing Threats to the United States by the Government of Cuba](#); [Addressing Threats to the United States by the Government of Iran](#) (not yet published in Federal Register, signed February 6, 2025) (allowing tariffs at ad valorem rate of duty on goods imported into the U.S. that are products of any other country that directly or indirectly sells or otherwise provides any oil to Cuba, EO 14380, or indirectly purchases, imports, or otherwise acquires any goods or services from Iran, February 6 EO).

Summary of federal funding and cost shifting
Whitney Afonso February 2026

Note, EO numbers were found using the [Federal Register Executive Orders Index](#) as needed. The White House website versions linked above do not contain the executive order numbers.

Research support for this handout was provided by Meagan Watson, Legal Research Associate, UNC School of Government.

Nonprofit Property Tax Exemptions Continued: Hospitals

Zoey Howe, Legislative Analysis Division
Brent Lucas, Fiscal Research Division

1

These 5 Exemptions Account for Over \$1.7 Billion in Foregone Local Revenue


* All exclusions= \$2.1 Billion in foregone local revenue each year

Property Tax Exclusion or Exemption	Estimated Local Revenue Loss (\$)	Number of Counties with Exempt Property
Governmental	\$1.1B	100
Religious	\$255M	100
Educational (not governmental)	\$180M	89
Nonprofit Hospital Property	\$130M	75
Charitable-Nonprofit Low & Moderate Income Housing	\$60M	82
Total of these 5 Exclusions or Exemptions	\$1.7B	-

Source: NC Dept. of Revenue

2

Types of Hospitals




- **For-profit:** Pay property taxes like any other corporation.
Ex: HCA Healthcare
- **Nonprofit:** Can apply for property tax exemptions on property they use for their charitable purpose.
Ex: Novant Health, Duke Health, Cone Health
- **Hospital Authorities:** Government entities originally created to serve the poor. As units of government, any real and personal property they own is exempt from taxation, and they do not need to apply for exemptions.
Ex: Atrium Health (The Charlotte-Mecklenburg Hospital Authority)

Definitions and Examples from: "Atrium, Novant, other hospital systems get millions in property tax breaks" by Charlotte Ledger, April 3, 2023

3

Tax Benefits

- Federal & state income tax exemption
- Sales tax refund
- Property tax exemption



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Income Tax Exemption

IRS Requirements

General 501(c)(3) requirements
+
501(c)(1) requirements
+
Community benefit standard
= federal income tax exemption

Community Benefit Standard Factors

- Open emergency room
- Community board
- Open medical staff policy
- Care for all/ability to pay
- Surplus funds/patient care & facilities improvements
- Financial assistance

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Sales Tax Refund

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State & Local Sales Tax Refund

✔

Nonprofits **may apply** for a refund for taxes paid on:


- Direct and indirect purchases of items for carrying on the work of the entity.
- Includes indirect purchases of building materials, fixtures, and equipment that become part of any building owned or leased by the entity.



✘


Refunds **not allowed** on purchases of:

- Electricity
- Telecommunications
- Ancillary service
- Piped natural gas
- Video programming
- Prepaid meal plans



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State & Local Sales Tax Refund



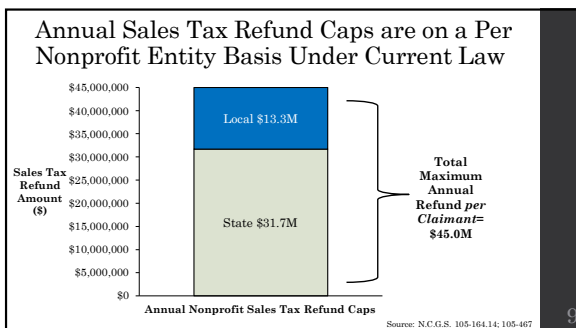
Maximum State Refund
Per Year/Per Entity

\$31,700,000

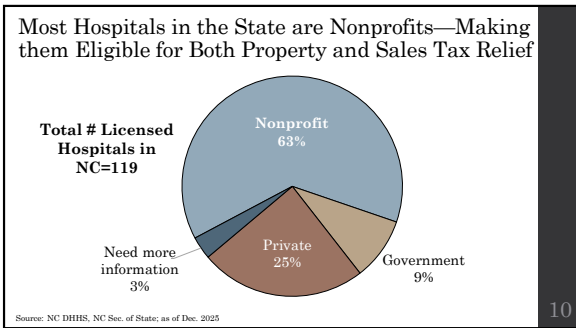
Maximum Local Refund
Per Year/Per Entity

\$13,300,000

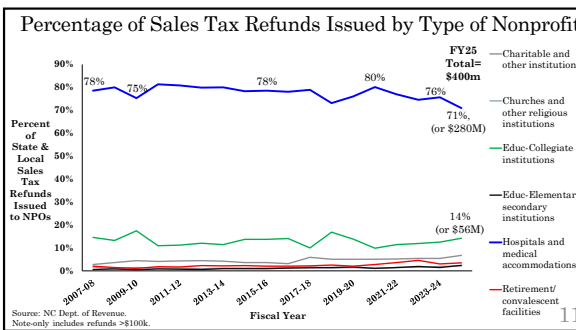
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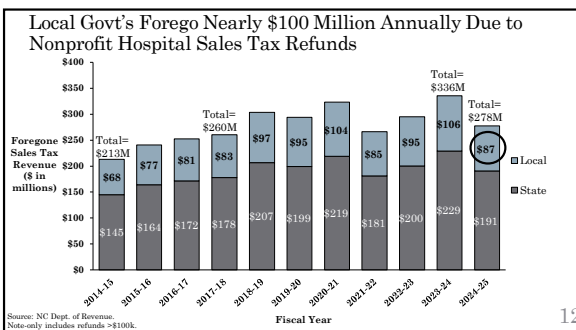
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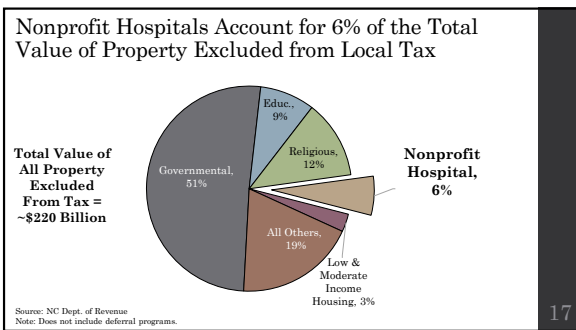


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Property Tax Exemption

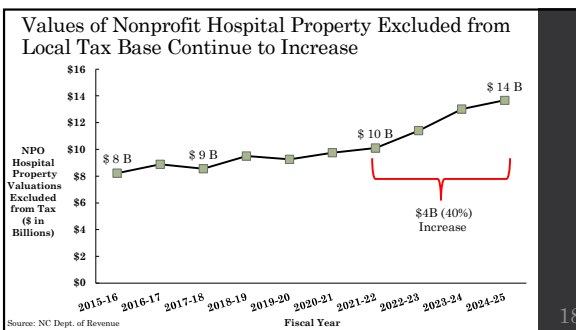
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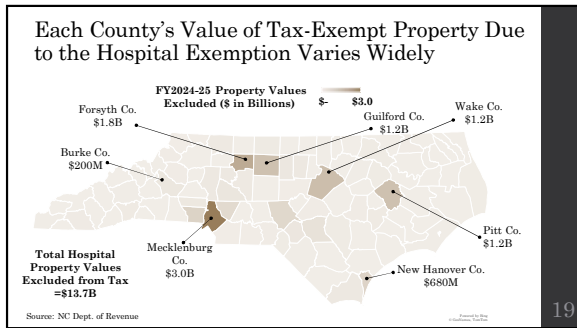
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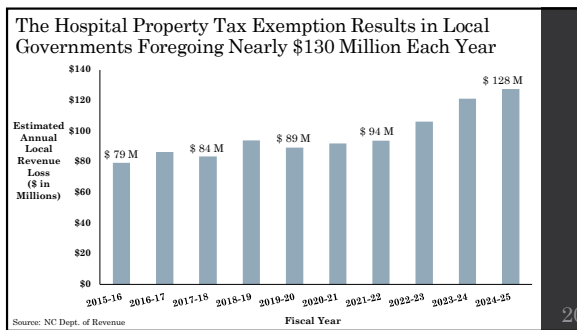


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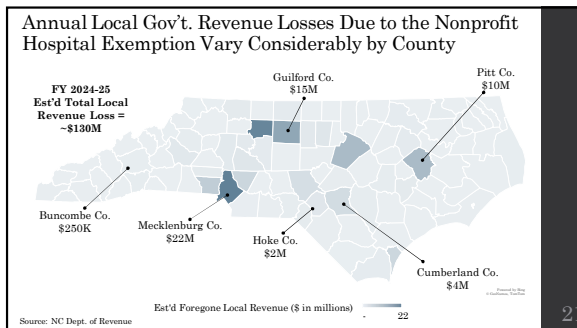
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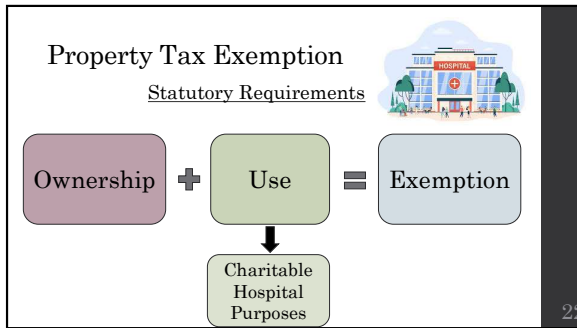
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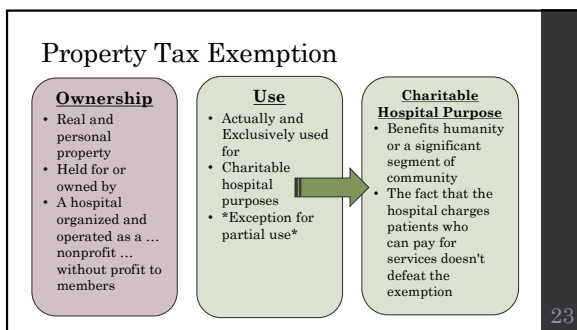
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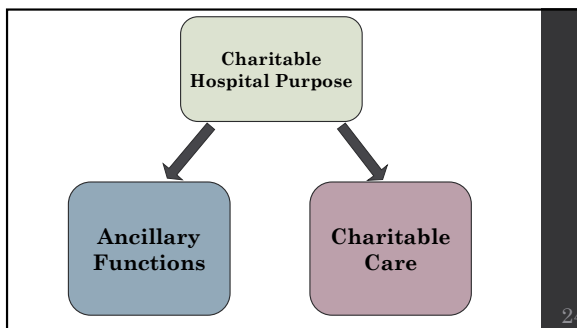
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Caselow


Outpatient Surgical Center
In re Found. Health Sys. Corp., 90 N.C. App 571 (1989)

- Issue: Is an outpatient surgical center a "hospital" and did it meet "charitable" standard, despite charging patients for care provided?
- Yes. Hospital: "[a]n institution for the . . . care of sick, wounded, infirm, or aged persons..."



Hospital Day Care Center
In re Moore II, Cont. Mem. Hosp., 113 N.C. App 562 (1994)

- Issue: Does onsite childcare for hospital employees only qualify for exemption?
- Yes. It's "reasonably necessary to accomplish efficient administration of the hospital."



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What about . . .

- Parking facilities
- Administrative buildings
- Wellness centers
- Educational & training facilities
- Research facilities
- Warehouses
- Physician/nurse housing

?

Auxiliary
Facilities

26

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What about . . .

- Offsite medical office buildings
- Property leased to private physicians or operated by separate for-profit affiliates, such as imaging centers or labs operated under profit-sharing arrangements
- On-site pharmacies owned by a third party
- Retail gift shops and cafes

?


Auxiliary
Facilities

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Other States

- Exclude separate **medical office buildings** from the exemption, even if owned by the hospital. (Ex: Wisconsin)
- Exclude **retail or commercial leased space** on hospital grounds (Ex: Wisconsin, Michigan)
- Exclude buildings **held for investment** or unrelated to patient care or training, such as **administrative buildings** (Ex: Georgia)
- Exclude areas used as employee or administrative **recreational spaces** (Ex: Minnesota).




Auxiliary Functions

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Charitable Hospital Purpose

- A **“hospital purpose”** that has humane and philanthropic objectives
 - What is a “hospital purpose”?
- A **“hospital activity”** that benefits humanity or a significant segment of the community without expectation of pecuniary profit or reward
 - Should only the portion of property engaging in this type of hospital activity receive exemption, i.e., not retail shops or for-profit doctor’s offices/labs/pharmacies? How distinguishable from for-profit hospitals that also provide charitable care?
- The fact that a qualifying hospital charges patients who are able to pay does not defeat exemption.
 - Who qualifies as a “patient able to pay”?



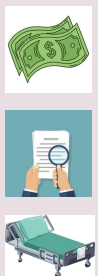
Charitable Care

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Other States

- Limit exemption amount** to amount spent on community benefit. (Ex: Utah & Illinois)
- Require a minimum community benefit **spending floor**. (Ex: Oregon)
- Require an **increase** of total dollars spent on community benefits by at least 1% **every year**. (Ex: Connecticut)
- Require **documentation** describing community building activity and amount spent. (Ex: Maryland & New York)
- Require nonprofit hospitals to pay a community service **contribution to local governments**. (Ex: New Jersey)



Charitable Care

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Zoom In: Texas

Hospitals must meet **at least one** of the following requirements:

- 4% of the hospital's net patient revenue
- 100% of the hospital's tax-exempt benefits
- Combine d amount equal to at least 5% of the hospital's net patient revenue, if charity care is at least 4% of net patient revenue
- Operate in a county w/ a population under 58,000 and which has been designated as a health care professionals shortage area
- Be designated as a Disproportionate Share Hospital under the state Medicaid program.
- Provide medical care to patients regardless of the ability to pay

Charitable Care

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Policy Considerations

Step 1

- Low-income housing exemption
- Increased availability of long-term, affordable rental housing

Step 2

- Statute lacks definitions, has not been substantially updated in over 20 years, and provides no accountability measures.
- Caselaw has muddled the waters and created potential for "abuse."

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Policy Considerations

Step 1

- Nonprofit hospitals
- A certain level of free, no-cost care? Other community benefits? Additional ancillary functions? Monitor the use of the exemption?

Step 2

- Statute has not been modified since 1973 enactment.
- No minimum level of "charitable care" required.
- No verification or accountability measures.

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Policy Considerations

- #1 Should the exemption be limited to the portion of hospital property that provides inpatient care?
- #2 Should there be a minimum standard of "charitable care" or other "community benefit" provided?
- #3 Should the amount of the exemption be tied to the amount of charitable care provided?
- #4 Should nonprofit hospitals be required to provide documentation of their charitable care and/or community benefit?

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Policy Considerations

#5 Should state/local governments monitor the use of the exemption through data collection?

Information that could be collected:

Property Tax <ul style="list-style-type: none">• Name of the hospital or organization receiving benefits• List and value of each parcel• Other hospital parcels receiving similar treatment under a different exemption	Sales Tax <ul style="list-style-type: none">• Name of hospitals and/or umbrella organizations receiving funds• Local governments foregoing sales tax revenues• Amount of the statutory cap issued (state and local tax)
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Questions?

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TAX FOUNDATION

The Case and Avenues for Property Tax Reform in North Carolina

Abir Mandal
Sr. Policy Analyst

1

Background

- North Carolina has enacted substantial tax reform over the past decade, but property taxes remain an issue
- Valuations have increased in recent years, as NC has become a destination for businesses and individuals
- Localities have used increased assessments to support increased revenues
- Many states are considering property tax reform, and some are considering elimination

TAX FOUNDATION

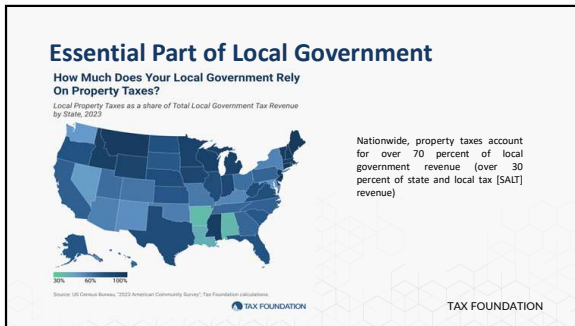
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Why Property Taxes Matter – And Why Economists Like Them

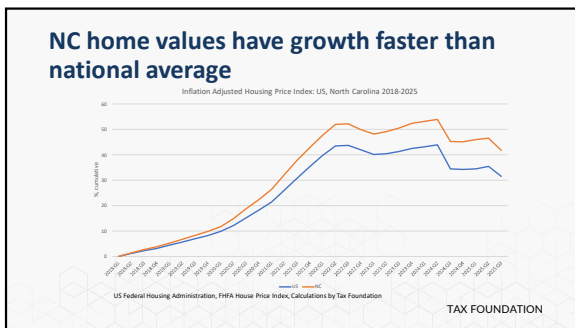
- A well-structured property tax is less distortionary than other taxes
- Local services directly increase property values – your home value is a better proxy for benefits received than income or spending
- Transparent and more amenable to democratic opposition if they get too high

TAX FOUNDATION

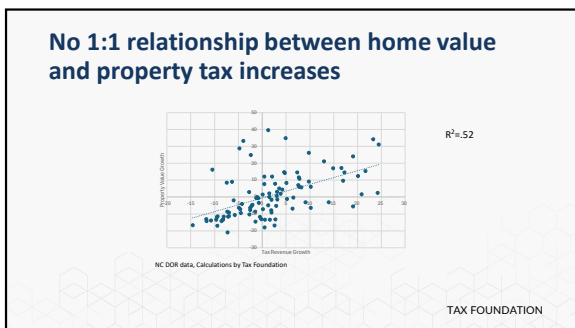
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What Data Show about NC property taxes

- For FY 2018-FY 2023, real property values rose, on average, 12.26 percent, and property tax revenues increased by 5.27 percent
- Implication: local governments offset more than half of the valuation increase with lower rates
- High property tax bills seen in some jurisdictions appear to be a local government choice rather than an inevitability

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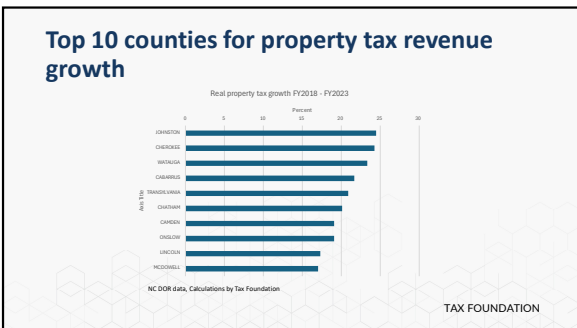
7

What Data Show about NC property taxes

- In 64 of NC's 100 counties, growth in property tax revenues exceeded growth in real estate values
- But, of the five counties with the highest property value growth, only three showed an increase in inflation-adjusted tax revenues over the period
- Fastest growing county—Mecklenburg—showed an inflation-adjusted decrease in total property taxes

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8



9

Why is Reform Needed?

- There is wide divergence in property tax growth between counties
- Goal should be to provide relief to the most impacted residents, while not hampering more efficient local governments
- Reform should comport with the principles of sound tax policy: simplicity, transparency, neutrality, and stability

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Various Avenues for Property Tax Reform

- **Assessment limits:** Cap annual increases in *assessed value* (e.g., 3-5%)
- **Targeted relief programs:** Homestead exemptions, circuit breakers (taxes capped as % of income), deferrals for seniors/disabled
- **Rate caps or reductions:** Limit allowable tax *rates*
- **Truth-in-taxation:** Require public notices/hearings for increases
- **Levy limits:** Cap total revenue growth from existing properties (adjustments can be made for inflation and/or optional growth factor)

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Assessment Limits – Pros and Cons

- Pros: MAY directly limit individual bill increases for current owners
- Cons:
 - Creates a lock-in effect: discourages home sales, major home improvements, or new construction
 - Creates inequities and market distortions
 - Governments may raise rates to offset

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Targeted Relief Programs – Pros and Cons

- Examples in NC: Homestead exclusions (e.g., \$25,000+ or 50% of value for elderly/disabled), circuit breakers (taxes limited to % of income)
- Pros: Provides direct help to vulnerable groups (low-income, seniors)
- Cons:
 - Piecemeal and doesn't address overall tax/spending growth
 - Limited scope—doesn't protect all homeowners
 - Can create a burden shift to non-qualifying taxpayers

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Truth in Taxation Laws

- Mechanism to provide homeowners more information about what their property tax bill means (and what any ballot measure might entail)
- Taxpayers should see what their bill could have been if a levy limit were in place or strengthened
- Often combined with Public Comment
- Utah was the first to adopt a Truth in Taxation law and later added levy limits; Utah also has a strong culture of participation
- By itself, does not have any teeth. NE data show that tax revenues grew faster after introduction

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Sample Truth in Taxation Notice

**Truth in Taxation Hearing
Notice of Tax Increase**

In compliance with section 42-17107, Arizona Revised Statutes, Maricopa County is providing its present management of Maricopa County's intention to raise its primary property taxes over last year's level. Maricopa County is proposing an increase in primary property taxes of \$12,205.18 or 1.81%.

For example, the proposed tax increase will cause Maricopa County's primary property taxes on a \$100,000 home to be \$15,911. Without the proposed tax increase, the total taxes that would be owed on a \$100,000 home would have been \$13,356.

The proposed increase is exclusive of increased primary property taxes received from new construction. The increase is also exclusive of any changes that may occur from property tax breaks for voter approved bonded indebtedness or budget and tax overrides.

All interested citizens are invited to attend the public hearing on the tax increase that is scheduled for next June 22, 2025 at 7:00 a.m. at the Board of Supervisors Conference Room, 301 W. Jefferson, 10th floor, Phoenix, AZ.

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What Are Levy Limits?

- Cap annual growth in total property tax revenue from *existing* properties
- Typically adjusted for inflation and/or population
- If property values rise faster → tax rates automatically decrease to stay under the cap
- New construction/development excluded, to account for population growth –adds revenue (encourages growth)
- Overrides possible
- Focuses on controlling total government revenue, not individual assessments

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Why Levy Limits Are the Best Approach

- Directly constrains total tax burden
- Maintains uniform, market-based assessments (no distortions or inequities)
- Avoids problems of assessment limits (no penalties for sales/improvements/new buyers)
- Provides broad, neutral protection against unlegislated increases resulting from valuation surges
- Superior to targeted relief (addresses root cause of revenue growth)
- Still allows revenue flexibility to local governments if they can convince constituents of the need for increased revenue
- May consider pairing a strong levy limit with a narrowly-tailored circuit breaker

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Examples from Other States

- Washington: Levy cap limits revenue growth despite skyrocketing values → protects taxpayers while allowing new growth
- New York: 2% annual levy cap (or inflation, whichever lower) → slowed tax increases
- Benefits seen: Slower per-capita tax growth, better alignment with economic realities
- NC could adopt a similar model

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Implementation in NC

- Statutory cap on levy growth set to inflation
- Apply to existing properties; exclude new construction
- Include truth-in-taxation for transparency (public notices/hearings)
- Allow overrides via voter approval or for emergencies
- Aligns with ongoing House committee work (balancing taxpayer relief and local services)
- Avoids unrealistic and inefficient ideas like full repeal (property taxes are stable/efficient)

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Sample Revenue Formula

- $Maximum\ Levy_{t+1} = Prior\ Year\ Levy_t \times (1 + Inflation\ Rate_t)$
- Where:
- **Prior Year Levy_t** = The total property tax levy collected (or the maximum allowable levy) in the previous year (Year t)
- **Inflation Rate_t** = The measured inflation rate for the relevant period (e.g., the percentage change in the Consumer Price Index (CPI))
- $Levy\ rate = \frac{Maximum\ Levy_{t+1}}{Assessments - New\ Construction} \times 100\%$

Apply rate to old and new property that did not exist last year

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Example calculation using formula

- Prior Year Levy = \$1,000,000
- Inflation= 2 percent
- Allowable levy = $(1.02) * \$1,000,000 = \$1,020,000$
- Current year assessments= \$20,000,000
- New construction= \$5,000,000
- Max levy rate = $1,020,000 / (20,000,000 - 5,000,000) = 6.8\%$
- Apply this rate to entire assessment: $6.8\% * \$20,000,000 = \$1,360,000$ to get maximum revenue collectable. Excess takes care of population growth

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Conclusion and Recommendation

- North Carolina faces rising property tax burdens outpacing income in some counties
- Various reforms exist, but levy limits stand out as the most comprehensive and least distortive
- Add-in Truth in Taxation for maximum transparency, inform taxpayers, and to avoid surprises
- Recommendation: Prioritize well constructed levy limits in 2026 for sustainable, broad-based relief

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Thank You

Abir Mandal
amandal@taxfoundation.org

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APPENDIX I

MARCH 18, 2026, MEETING MATERIALS

Draft



**NORTH CAROLINA GENERAL ASSEMBLY
HOUSE SELECT COMMITTEE ON PROPERTY TAX
REDUCTION AND REFORM
2025-2026 SESSION**

Co-Chairs

Rep. Julia Howard
Rep. Mitchell S. Setzer
Rep. Erin Paré

Vice Chairs

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Rep. Neal Jackson

Members

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Rep. Dennis Riddell
Rep. James Roberson
Rep. Mike Schietzelt
Rep. Brian Turner
Rep. Harry Warren
Rep. Sam Watford
Rep. Diane Wheatley
Rep. Jeff Zenger

AGENDA

**March 18, 2026, at 10:00 AM
Room 643 Legislative Office Building
Rep. Mitchell S. Setzer, Presiding**

- I. Welcome**
Rep. Mitchell S. Setzer, Committee Co-Chair
- II. Legislative Proposal #1: Constitutional Amendment Property Tax Levy Limit**
Dan Ettefagh, Legislative Drafting Division
- III. Legislative Proposal #2: Nonprofit Hospital Property Tax Modifications**
Zoey Howe, Legislative Analysis Division
- IV. Legislative Proposal #3: Hospital Sales Tax Refund Modifications**
Zoey Howe, Legislative Analysis Division
- V. Legislative Proposal #4: Low- and Moderate-Income Housing Property Tax Exemption Modifications**
Trina Griffin, Legislative Analysis Division
- VI. An Overview of Impact Fees**
Nick Giddings, Legislative Analysis Division
- VII. Committee Discussion**
- VIII. Closing Remarks and Adjournment**

NEXT MEETING DATE: April 15, 2026, at 10:00 am

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2025

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D

BILL DRAFT 2025-SVxfz-16E [v.17]

(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)
03/15/2026 02:46:10 PM

Short Title: Affordable Housing Exemption Mods.

(Public)

Sponsors:

Referred to:

1 A BILL TO BE ENTITLED
2 AN ACT TO UPDATE AND MODIFY THE NONPROFIT LOW- OR MODERATE-INCOME
3 HOUSING PROPERTY TAX EXEMPTION.
4 The General Assembly of North Carolina enacts:
5 SECTION 1. G.S. 105-278.6 reads as rewritten:
6 "**§ 105-278.6. Real and personal property used for charitable ~~purposes.~~purposes by certain**
7 **entities.**
8 (a) Real and personal property owned ~~by~~by an entity listed in this subsection is exempt
9 from taxation if: (i) as to real property, it is actually and exclusively occupied and used, and as
10 to personal property, it is entirely and completely used, by the owner for a charitable purpose;
11 and (ii) the owner is not organized or operated for profit. The entities are:
12 (1) A Young Men's Christian Association or similar ~~organization;~~organization.
13 (2) A home for the aged, sick, or ~~infirm;~~infirm.
14 (3) An orphanage or similar ~~home;~~home.
15 (4) A Society for the Prevention of Cruelty to ~~Animals;~~Animals.
16 (5) A reformatory or correctional ~~institution;~~institution.
17 (6) A monastery, convent, or ~~numery;~~nunnery.
18 (7) A nonprofit, life-saving, first aid, or rescue squad ~~organization;~~organization.
19 (8) A nonprofit organization providing housing for individuals or families with
20 low or moderate ~~incomes~~incomes, other than rental housing, which is subject
21 to G.S. 105-278.7A.
22 ~~shall be exempted from taxation if: (i) As to real property, it is actually and exclusively occupied~~
23 ~~and used, and as to personal property, it is entirely and completely used, by the owner for~~
24 ~~charitable purposes; and (ii) the owner is not organized or operated for profit.~~
25 (b) A charitable purpose within the meaning of this section is one that has humane and
26 philanthropic objectives; it is an activity that benefits humanity or a significant rather than limited
27 segment of the community without expectation of pecuniary profit or reward. The humane
28 treatment of animals is also a charitable purpose.
29 (c) The fact that a building or facility is incidentally available to and patronized by the
30 general public, so long as there is no material amount of business or patronage with the general
31 public, ~~shall does~~ not defeat the exemption granted by this section.
32 (d) Notwithstanding the ~~exclusive use~~exclusive use requirements of this section, if part
33 of a property that otherwise meets the section's requirements is used for a purpose that would



1 require exemption under subsection (a), above, if the entire property were so used, the valuation
2 of the part so used ~~shall be exempted~~ is exempt from taxation.

3 (e) Real property held by an organization described in subdivision (a)(8) for a charitable
4 purpose under this section as a future site for ~~housing~~ housing, other than affordable rental
5 housing as defined in G.S. 105-278.7A, for individuals or families with low or moderate incomes
6 may be classified under this section for no more than ~~10~~ five years. The taxes that would otherwise
7 be due on real property exempt under this subsection ~~shall be~~ are a lien on the property as
8 provided in G.S. 105-355(a). The taxes ~~shall be~~ are carried forward in the records of the taxing
9 unit as deferred taxes. The deferred taxes are due and payable in accordance with
10 G.S. 105-277.1F when the property loses its eligibility for deferral as a result of a disqualifying
11 event. A disqualifying event occurs when the property ~~was~~ is not used for low- or
12 moderate-income housing within ~~10~~ five years from the first day of the fiscal year the property
13 was classified under this subsection. In addition to the provisions in G.S. 105-277.1F, all liens
14 arising under this subdivision are extinguished when the property is used for low- or
15 moderate-income housing within the time period allowed under this subsection."

16 **SECTION 2.** Article 12 of Chapter 105 of the General Statutes is amended by adding
17 the following new section to read:

18 **"§ 105-278.7A. Real and personal property owned, in whole or in part, by a charitable**
19 **nonprofit and used for affordable rental housing.**

20 (a) Exemption Generally. – Real and personal property owned by an eligible owner and
21 used for a charitable purpose in the operation of affordable rental housing is exempt from taxation
22 to the extent provided in this section if the requirements of this section are met.

23 (b) Definitions. – The following definitions apply in this section:

24 (1) Affiliate. – Defined in G.S. 105-130.2.

25 (2) Affordable rental housing. – A rental housing development consisting of land
26 and improvements in which more than fifty percent (50%) of the units are
27 qualifying units.

28 (3) Charitable purpose. – A charitable purpose within the meaning of this section
29 is one that has humane and philanthropic objectives; it is an activity that
30 benefits humanity or a significant rather than limited segment of the
31 community without expectation of pecuniary profit or reward.

32 (4) Eligible joint venture. – A limited partnership, limited liability company, or a
33 limited liability partnership in which a general partner or limited liability
34 company managing member is an eligible nonprofit corporation.

35 (5) Eligible nonprofit corporation. – A nonprofit described in 501(c)(3) of the
36 Code that (i) is exempt from federal income taxation under section 501(a) of
37 the Code, (ii) is incorporated under a certificate of existence or admitted under
38 a certificate of authority under the North Carolina Nonprofit Corporation Act
39 as provided in Chapter 55A of the General Statutes, and (iii) has day-to-day
40 control of the operations of and decisions for the affordable rental housing and
41 has not delegated any decision-making authority other than to a property
42 manager serving under the direction of the eligible owner. The term includes
43 a single-purpose entity wholly-owned by an eligible nonprofit corporation.

44 (6) Eligible owner. – An eligible joint venture or an eligible nonprofit corporation.

45 (7) Income limit. – Eighty percent (80%) of area median income, adjusted for
46 family size, as set and most recently published by the U.S. Department of
47 Housing and Urban Development.

48 (8) Qualifying unit. – An affordable rental housing unit for which both of the
49 following conditions are met:

50 a. The rent charged for an occupied unit or the published rent for a vacant
51 unit is at or below the rent limit.

- 1 b. It is occupied by, or set aside for, a tenant whose income is at or below
2 the income limit.
- 3 (9) Rent limit. – Rent, plus a utility allowance calculated in accordance with the
4 requirements of the North Carolina Housing Finance Agency, that does not
5 exceed thirty percent (30%) of the income limit.
- 6 (c) Requirements For Government-Supported Affordable Rental Housing. – Real and
7 personal property that provides government-supported affordable rental housing is exempt from
8 property taxation in any year in which all of the conditions listed in this subsection are met. For
9 purposes of this section, the term "government-supported" means that the property is financed as
10 described in sub-subdivision a. or b. of subdivision (2) of this subsection. The conditions are:
- 11 (1) The property is owned and operated by an eligible nonprofit corporation or an
12 eligible joint venture.
- 13 (2) Either of the following applies:
- 14 a. The eligible owner is an eligible joint venture that receives
15 low-income housing credits pursuant to section 42 of the Code and
16 that is in compliance with any applicable regulatory requirements as
17 determined by the North Carolina Housing Finance Agency. Ownership is determined as of the date the certificate of occupancy is
18 issued.
- 19 b. The eligible owner finances the acquisition, rehabilitation,
20 development, or operation of the property, or any combination thereof,
21 with tax-exempt mortgage revenue bonds, qualified 501(c)(3) bonds,
22 federal direct loans or grants, State loans or grants, or loans or grants
23 provided by a local jurisdiction in which the property is located. Such
24 government support must require the execution of a deed restriction or
25 enforceable, verifiable agreement with a public agency requiring that
26 the property be operated as affordable rental housing in accordance
27 with this section for a period of at least 15 years from the date the
28 financing or financial assistance was initially provided. Government
29 support does not include payments made to the owner under the federal
30 Housing Choice Voucher Program or other local, State, or federal
31 voucher program.
- 32
- 33 (d) Requirements for Non-Government-Supported Affordable Rental Housing. – Real
34 and personal property that provides non-government-supported affordable rental housing is
35 exempt from property taxation in any year in which all of the conditions listed in this subsection
36 are met. For purposes of this subsection, the term "non-government-supported" means that the
37 property is not financed as described in sub-subdivision a. or b. of subdivision (2) of subsection
38 (c) of this section. The conditions are:
- 39 (1) The property is one hundred percent (100%) owned and operated by an
40 eligible nonprofit corporation that has owned and operated affordable rental
41 housing for at least five years.
- 42 (2) The eligible nonprofit corporation, including any of its subsidiaries or
43 nonprofit affiliates, does not receive any funding or financial assistance, other
44 than grants, from a for-profit affiliate.
- 45 (3) The eligible nonprofit corporation does not lease the affordable rental housing
46 land or improvements to another entity. This subdivision does not apply to the
47 leasing of affordable rental housing units to tenants.
- 48 (4) The eligible nonprofit corporation has executed a deed restriction in favor of
49 the county and any municipality in which the property is located requiring that
50 the property be operated as affordable rental housing in accordance with this
51 section for a period of at least 15 years from the date of application. The

1 restriction must require that the owner provide the reporting required under
2 subsection (g) of this section annually to all grantees for the term of the deed
3 restriction. The deed restriction must state that any grantee, or its assigns, has
4 the right to enforce the terms of the restriction.

5 (e) Exemption Amount. – The exemption amount is the percentage of the appraised value
6 that is equal to the percentage of qualifying units unless the eligible owner meets the requirements
7 of the safe harbor in Section 3 of Internal Revenue Service Rev. Proc. 96-32, in which case the
8 exemption amount is one hundred percent (100%) of the appraised value of the property. A
9 transition period of one taxable year applies to improved and occupied rental housing property
10 purchased by an eligible owner for which the eligible owner cannot provide the total household
11 income for each qualifying unit at the time of application but that otherwise meets the
12 requirements of this section. During the transition period, a "qualifying unit" is an affordable
13 rental housing unit for which the rent charged is at or below the rent limit for purposes of
14 determining the exemption amount.

15 (f) Application. – To be eligible for an exemption under this section, an eligible owner
16 must submit an application in accordance with G.S. 105-282.1. The application form shall require
17 the applicant to provide the following information:

18 (1) Whether the applicant is applying for the exemption under subsection (c) or
19 subsection (d) of this section, along with documentation supporting that the
20 applicant is an eligible owner for the subsection under which it is applying;
21 evidence of government support pursuant to sub-subdivision a. or b. of
22 subdivision (2) of subsection (c) of this section, if applicable; and a copy of
23 the applicable deed restriction or regulatory agreement.

24 (2) Whether the property is subject to a transition period as described in
25 subsection (e) of this section.

26 (3) Either of the following, as of last day of the month immediately preceding
27 January 1 of the year of application:

28 a. If the applicant is applying for an exemption amount based on the
29 percentage of qualifying units, the percentage of qualifying units by
30 providing the following items:

31 1. The rent amount received by the owner for each qualifying unit
32 as evidenced by an anonymized rent roll. The applicant must
33 provide evidence of the published rent if a unit is vacant.

34 2. The total household income for each occupied qualifying unit,
35 except during the transition period, evidenced in an
36 anonymized manner.

37 b. If the applicant is applying for an exemption amount based on meeting
38 the requirements of the safe harbor in Section 3 of Internal Revenue
39 Service Rev. Proc. 96-32, evidence demonstrating the affordable
40 rental housing meets those requirements.

41 (4) Certification that the applicant is in compliance with any applicable deed
42 restriction or regulatory agreement and the requirements of this section.

43 (g) Compliance. – An eligible owner that has been granted an exemption under this
44 section must, on an annual basis by January 31 following the initial exemption, certify that it
45 remains in compliance with this section and provide to the taxing unit the items listed in
46 subdivision (3) of subsection (f) of this section, as of the previous December 31, including any
47 supporting documentation required by the taxing unit. Failure to meet these requirements within
48 the time limits subjects the property to discovery under G.S. 105-312. For purposes of satisfying
49 this requirement, the household income provided for each qualifying unit must be verified every
50 two years following initial verification of the tenant's income.

1 (h) Future Site. – Real property held by an eligible owner as a future site for affordable
 2 rental housing may be classified under this section for no more than five years. The taxes that
 3 would otherwise be due on real property exempt under this subsection are a lien on the property
 4 as provided in G.S. 105-355(a). The taxes shall be carried forward in the records of the taxing
 5 unit as deferred taxes. The deferred taxes are due and payable in accordance with
 6 G.S. 105-277.1F when the property loses its eligibility for deferral as a result of a disqualifying
 7 event. A disqualifying event occurs when the property is not used for affordable rental housing
 8 that is in compliance with this section within five years from the first day of the fiscal year the
 9 property was classified under this subsection. In addition to the provisions in G.S. 105-277.1F,
 10 all liens arising under this subdivision are extinguished when the property is used for affordable
 11 rental housing within the time period allowed under this subsection. For purposes of this
 12 subsection, the term "future site" means unimproved real property or improved real property that
 13 is not occupied as of the date of the application for exemption under this section.

14 (i) Ineligible Property. – Property that has been designated a special class of property
 15 under G.S. 105-277.16 and assessed accordingly is not eligible for exemption under this section.

16 **SECTION 3.** G.S. 105-277.1F(a) reads as rewritten:

17 "(a) Scope. – This section applies to the following deferred tax programs:

- 18 (1) G.S. 105-275(12), real property owned by a nonprofit corporation held as a
 19 protected natural area.
- 20 (1a) G.S. 105-275(29a), historic district property held as future site of historic
 21 structure.
- 22 (2) G.S. 105-277.1B, the property tax homestead circuit breaker.
- 23 (2a) **(See note for repeal)** G.S. 105-277.1D, the inventory property tax deferral.
- 24 (3) G.S. 105-277.4(c), present-use value property.
- 25 (4) G.S. 105-277.14, working waterfront property.
- 26 (4a) G.S. 105-277.15, wildlife conservation land.
- 27 (4b) G.S. 105-277.15A, site infrastructure land.
- 28 (5) G.S. 105-278(b), historic property.
- 29 (6) G.S. 105-278.6(e), nonprofit property held as future site of low- or
 30 moderate-income ~~housing~~ housing, other than affordable rental housing as
 31 defined under G.S. 105-278.7A.
- 32 (7) G.S. 105-278.7A(h), nonprofit property held as future site of affordable rental
 33 housing."

34 **SECTION 4.** This act is effective for taxes imposed for taxable years beginning on
 35 or after July 1, 2026, and, with respect to property held as a future site under G.S. 105-278.6(e)
 36 or G.S. 105-278.7A(h), as enacted by this act, applies to real property classified under those
 37 provisions on or after that date. Notwithstanding G.S. 105-282.1(a)(2)a., an owner of low- or
 38 moderate-income rental housing property that is exempt under G.S. 105-278.6(a)(8) as of the
 39 effective date of this act must, by December 31, 2026, reapply for the exemption, providing the
 40 assessor of the taxing unit with any necessary documentation for compliance consistent with this
 41 act. Reapplication under this section is considered an application under subsection (f) of this act.
 42 Failure to meet this requirement within the time limit subjects the property to discovery under
 43 G.S. 105-312.



Bill Draft 2025-SVxfz-16E: Affordable Housing Exemption Mods.

2025-2026 General Assembly

Committee:	House Select Committee on Property Tax Reduction and Reform	Date:	March 18, 2026
Introduced by:		Prepared by:	Trina Griffin Committee Counsel
Analysis of:	2025-SVxfz-16E		

OVERVIEW: Bill Draft 2025-SVxfz-16E would do all of the following:

- Update and preserve the low- and moderate-income housing property tax exemption for 100% nonprofit owners or joint ventures where a government agency has contributed financial support and to the extent there are mechanisms to enforce long-term affordability requirements.
- Prohibit joint ventures that do not finance affordable housing with government support from obtaining the property tax exemption.
- Reduce from 10 years to 5 years, the period of tax deferral for future sites of affordable housing.

These changes would become effective for taxes imposed for taxable years beginning on or after July 1, 2026. Affordable rental properties that are currently exempt under existing law would be required to reapply and establish that they meet the requirements of this act.

CURRENT LAW & BACKGROUND:

Exemption for Charitable Purposes Generally. – Real and personal property owned by nonprofit entities and operated for a charitable purpose is exempt from property tax. "Charitable purpose" is defined as:

"one that has humane and philanthropic objectives; it is an activity that benefits humanity or a significant rather than limited segment of the community without expectation of pecuniary profit or reward..."

A property owner must file an application for the benefit to receive it, but once an application is approved, the owner need not file an application in subsequent years. The statute does not expressly require the submission of any particular information, but to qualify for the exemption, proof of ownership and use of the property as low- or moderate-income housing should be demonstrated.¹

Low- and Moderate-Income Housing. – G.S. 105-278.6 lists specific nonprofit entities, and categories of entities, that are eligible for this "charitable purpose" exemption, including "a nonprofit organization providing housing for individuals or families with low or moderate incomes." The statute does not define ownership or "low or moderate incomes," nor are there any ongoing compliance requirements related to

¹ As a practical matter, applicants typically provide a description of the ownership structure, the IRS nonprofit certificate, restrictive covenants, if any, and any agreement between the owners; a rent roll may also be included, which would show that rents charged are below 30% of 80% AMI, but does not necessarily show that the renters' incomes are below 80% AMI.

Kara McCraw
Director



Legislative Analysis
Division
919-733-2578

This bill analysis was prepared by the nonpartisan legislative staff for the use of legislators in their deliberations and does not constitute an official statement of legislative intent.

Draft

Page 2

rent limits, income limits, or long-term affordability. This exemption was enacted in 1975 and has not been substantially modified since that time.

Affordable Housing. – While the exemption statute does not define "low or moderate incomes," the U.S. Department of Housing and Urban Development (HUD) defines "housing affordability" as a household paying no more than 30% of their income for housing. Most federal and public resources use 80% of Area Median Income (AMI) and below as the targeted income threshold. The term "affordable housing" has become synonymous with the term "low- and moderate-income housing."

Safe Harbor under IRS Rev. Proc. 96-32. – This IRS has established guidance for a 501(c)(3) that provides low-income housing to qualify for tax exemption. If an entity meets the "safe harbor" requirements of Rev. Proc. 96-32, it will be considered charitable. The safe harbor permits a limited number of units to be occupied by residents with incomes above the low-income limits to assist in the social and economic integration of the poorer residents and, thereby, further an organization's charitable purposes.² At the same time, to avoid giving undue assistance to those who can otherwise afford safe, decent, sanitary housing, the safe harbor requires occupancy by significant levels of both very low-income and low-income families.³ These income limits are computed and published annually by HUD. Specifically, Section 3 of the safe harbor⁴ requires the following:

Percentage of Units	Occupied by Residents with Incomes of
At least 75%	≤80% AMI
Up to 25%	>80% AMI
Of the 75%, either:	
20%	≤50% AMI
40%	≤60% AMI

Federal Low-Income Housing Tax Credits. – Section 42 of the Internal Revenue Code provides a low-income housing tax credit (LIHTC) as an incentive to construct or rehabilitate affordable rental housing to eligible development entities. LIHTC accounts for 98% of all affordable rental housing development in the United States. It was originally enacted by 1986 federal tax reform legislation, strengthened in the 2017 Tax Cuts and Jobs Act, and further expanded and strengthened in 2025 under the One Big Beautiful Bill Act (OBBBA).

Affordable housing developments financed by LIHTC are privately owned and privately managed. Development sponsors can be for-profit or non-profit entities who typically sell the credits to an investor to generate equity, thus reducing the debt payments on the property. The investor becomes the majority owner for 15 years, as prescribed by the IRS, to claim the federal tax credit over a 10-year period. In exchange, the owners agree to keep rents affordable for households making at or below 80% AMI for the next 30 years.

Under the LIHTC program, there are several guardrails in place to ensure that the property is used for long-term affordable housing, including a recorded deed restriction that specifically states the terms of

² [Section 2.03 of IRS Rev. Proc. 96-32.](#)

³ *Id.*

⁴ [Section 3.01 of IRS Rev. Proc. 96-32.](#)

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affordability for the property, monitoring by the North Carolina Housing Finance Agency for 30 years, and oversight by the IRS that includes tax credit recapture for noncompliance.

Blue Ridge Housing. – *In re Blue Ridge Housing of Bakersville* is a 2013 North Carolina Court of Appeals case, in which the central issue was what constitutes a sufficient degree of ownership for purposes of the low-income housing property tax exemption. Over the last five years, tax administrators have observed a significant increase in the use of this exemption as a direct result of this case. Specifically, this exemption has seen a 75% increase in values excluded in the last two years, and from 2021 to 2025, the number of exemptions increased an average of 93%. In a [January 2026 presentation](#) to the House Select Committee on Property Tax Reduction and Reform, the NC Association of County Commissioners and the Self-Help Credit Union described their observations that the increase is from for-profit private equity investors initiating the creation of joint ventures with passive nonprofits to buy older properties, where rents are naturally well below the statutory requirements, to obtain the exemption while increasing rents, in effect using public funds for private gain. Specifically, they pointed to recent broker and law firm materials marketing the property tax abatement to encourage pursuit of this structure.

The case involved an affordable rental housing development financed with LIHTC. The owner of the property was a two-member LLC: the general partner and managing member was a nonprofit and owned 0.1% of the LLC. The passive investor-member was a partnership comprised of banks, insurance funds, and other private investors, and it owned 99.9% of the LLC. This ownership arrangement is standard among LIHTC projects with the investor interest representing its share of tax credit equity while the nonprofit manages the day-to-day operations of the housing development. To the extent the nonprofit had only a 0.1% ownership interest in the property, the tax assessor challenged the exemption arguing that the nonprofit did not have a sufficient ownership interest to allow the exemption. The Court found that the nonprofit's 0.1% ownership interest justified a property tax exemption based on a number of factors demonstrating that the nonprofit was the true owner, including the fact that it initiated the project, it managed the day-to-day operations, it was ultimately going to own the property outright once the passive investors exhausted their tax credits, and the ownership structure was standard for LIHTC projects. Observers tend to agree the outcome in the case was a reasonable and desirable result given the fact pattern. However, a broad interpretation of the case or a fact pattern that does not involve the guardrails associated with government financing, combined with a lack of statutory guidance and administrability issues, could explain the significant increase in the use of the exemption without assurances of providing long-term affordable housing in exchange for the tax benefit.

BILL ANALYSIS: Bill Draft 2025-SVxfz-16E would substantially restructure the property tax exemption for nonprofits that provide low- and moderate-income housing income by defining terms, limiting permissible ownership structures, requiring initial and ongoing verification of rent and income limits, and ensuring compliance with long-term affordability requirements through government oversight or a recorded deed restriction, depending on the method of financing.

With respect to the **existing statute**, G.S. 105-278.6, Section 1 of the bill draft would:

- Make stylistic and readability changes by moving the actual and exclusive use and ownership requirements to the lead-in language since those requirements apply to all of the entities listed in the statute.
- Carve out rental housing from the broader provision and relocate the applicable provisions to a new stand-alone statutory section, G.S. 105-278.7A. As revised, (a)(8) would remain applicable to nonprofit organizations that "provide housing to low- and moderate-income individuals" other than rental housing, such as Habitat for Humanity.

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- Reduce from 10 years to 5 years, the period of deferred taxes for real property held as a future site for low- and moderate-income housing. Ordinarily, property must be in actual use to qualify for the exemption. In 1993, the General Assembly created an exception to this requirement by allowing property held as a future site for affordable housing to qualify for the exemption, with the taxes otherwise due becoming a lien on the property for a period of up to 5 years. If the property is used for affordable housing within that period, the lien is extinguished; if it is not, the taxes become due. In 2011, this period was extended to 10 years.
- Section 3 of the bill draft is a conforming change.

With respect to the **new statute**, Section 2 of the bill draft would:

- **Generally.** – Establish a new framework for a nonprofit that provides "affordable rental housing" to qualify for the property tax exemption. The new statute uses the term "affordable" in place of "low- and moderate-income." HUD defines "housing affordability" as a household paying no more than 30% of their income for housing for households earning at or below 80% of the Area Median Income (AMI).
- **Affordability Requirements.** – Define "affordable rental housing" to refer to a rental housing development in which more than 50% of the units are at or below rent and income limits. Those terms are further defined as follows:
 - Income limit – 80% of AMI.
 - Rent limit – Rent, plus utility allowance calculated in accordance with requirements of the NC Housing Finance Agency, that does not exceed 30% of 80% of AMI.

As it relates to this affordability requirement, applicants for the exemption would have to verify the percentage of "qualifying units" by submitting documentation as to the rent amounts received and the total household income for each qualifying unit, which, in turn, would determine the applicable exemption percentage. Alternatively, an applicant may qualify for a 100% exemption if the property meets the IRS safe harbor requirements.

- **Eligible Owners.** – Limit who can be an "eligible owner" based on whether the property is financed with government funds. Under the bill, a joint venture that does not finance the affordable housing with government funds is not eligible for the exemption. The possible eligible owners are as follows:
 - Eligible nonprofit corporation – A 501(c)(3) that has day-to-day control of the operations of and decisions for the affordable rental housing and does not delegate decision-making authority other than to a property manager serving under the direction of the eligible owner. It may include a single-purpose entity wholly owned by an eligible nonprofit corporation.
 - Eligible joint venture – A limited partnership, limited liability company, or a limited liability partnership in which a general partner or a managing member is an eligible nonprofit corporation. This ownership structure, in conjunction with federal low-income housing tax credits (LIHTC) financing, is the same fact pattern as in the *Blue Ridge Housing* case.
- **Government Support.** – Tie the requirements for exemption eligibility to whether the property is financed with government funds, referred to as "government support." The reason for this is that government funding mechanisms have long-term affordability requirements as part of their financing terms and corresponding oversight, which provide assurances that the property will be used for its intended purpose. The term "government support" refers to any of the following:

- Federal low-income housing tax credits.
- Tax-exempt mortgage revenue bonds, qualified 501(c)(3) bonds, federal direct loans or grants, State loans or grants, or loans or grants provided by a local jurisdiction in which the property is located. To be eligible for the exemption using this type of financing, the terms of the financing must require the execution of a deed restriction or other enforceable regulatory agreement with a public agency requiring that the property be operated as affordable housing for at least 15 years from the date the financing is provided.
- **Requirements.** – The requirements for the exemption would depend on whether the affordable housing is financed with government support.
 - **Government-Supported.** – If the property is financed with government support, then the owner may be either an "eligible nonprofit corporation" or an "eligible joint venture," and the owner must be in compliance with any applicable deed restriction or regulatory requirements imposed by the financing terms.
 - **Non-Government-Supported.** – If the property is not financed with government support, then it must be 100% owned and operated by an eligible nonprofit corporation that has owned and operated affordable rental housing for at least 5 years and that has recorded a deed restriction requiring the property be operated in accordance with the requirements of this new statute for a period of at least 15 years from the date of application, and is, in fact, in compliance with said restriction. The eligible nonprofit may not lease the affordable housing to another entity and may not receive any funding or financial assistance, other than grants, from a for-profit affiliate.
- **Exemption Amount.** – The exemption amount would be one of two options:
 - A percentage equal to the percentage of qualifying units, which are units for which the rent is at or below 30% (including a utility allowance) of 80% AMI, adjusted for family size. For example, if 60% of the units are qualifying units, then the exemption amount would be 60% of the appraised value of the property.
 - 100% of the appraised value if the affordable rental housing meets the safe harbor requirements of Section 3 of IRS Rev. Proc. 96-32, which is as follows:

Percentage of Units	Occupied by Residents with Incomes of
At least 75%	≤80% AMI
Up to 25%	>80% AMI
Of the 75%, either:	
20%	≤50% AMI
40%	≤60% AMI

- **Transition Period.** – Provides a one-year transition period that would give an eligible owner who purchases an occupied property additional time to verify tenant incomes. During the transition period, the eligible owner would be able to receive an exemption representing the percentage of units that meet the rent limit only. If the verification requirement is not met within one taxable

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year, the taxing unit would be able to use the discovery process to assess the property. The reason for providing a transition period is to address instances when a nonprofit purchases an existing occupied property for which tenant incomes have not previously had to be verified or maintained because there is no government support in place requiring such information. It can take additional time to obtain tenant incomes when the information wasn't previously required to be provided, and allowing the transition period would alleviate the need to evict tenants in order to qualify for the exemption. These housing properties are often referred to as "Naturally Occurring Affordable Housing" (NOAH).

- **Application Requirements.** – An applicant must submit the following information on an application for the exemption:
 - Whether the applicant is applying for government-supported or non-government-supported property and evidence of said support.
 - Documentation supporting that it is an eligible owner.
 - A copy of the applicable deed restriction or regulatory agreement and a statement certifying that the applicant is in compliance with said document as well as the requirements of the statute.
 - Whether the property is subject to a transition period.
 - If the applicant is applying for an exemption amount based on the percentage of qualifying units, the percentage of qualifying units as shown by both of the following, which are to be submitted in an anonymized manner:
 - The rent amount received for each qualifying unit (or evidence of the published rent for a vacant unit).
 - The total household income for each occupied qualifying unit, except during the transition period.
 - If the applicant is applying for an exemption amount based on meeting the Rev. Proc. 96-32 safe harbor requirements, evidence demonstrating those requirements are met.
- **Compliance.** – The new statute would require ongoing compliance. On an annual basis, by January 31 following the initial exemption, the owner must provide to the taxing unit tenant rent and income verification, or evidence of meeting the safe harbor requirements, as of the previous December 31. Household income for each tenant in a qualified unit must be verified at least every two years following initial verification of the tenant's income.
- **Future Site.** – This provision is identical to the current law with respect to deferred taxes on property that will be a "future site" of affordable housing. Once construction is complete and the property becomes occupied as affordable housing, the lien resulting from the deferral would be extinguished. However, the bill would reduce the deferral period from 10 years to 5 years.
- **Ineligible Property.** – Subsection (i) would prevent an existing LIHTC property that was fully for-profit owned at the outset and is currently appraised, assessed, and taxed from transferring a portion of its ownership to a non-profit and qualifying for the exemption under the new statute. The rationale for this limitation is that allowing existing properties that were originally developed by a for-profit and are currently taxable to become exempt would not create new affordable housing and would further erode the local government tax base in the same way that NOAH

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properties owned by for-profits are changing their ownership structure after Blue Ridge Housing to become exempt.

EFFECTIVE DATE: This act would be effective for taxes imposed for taxable years beginning on or after July 1, 2026. With respect to property held as a future site under G.S. 105-278.6(e) or G.S. 105-278.7A(h), as enacted by this act, the 5-year period for deferred taxes would apply to real property classified under those provisions on or after July 1, 2026. Notwithstanding G.S. 105-282.1(a)(2)a., a nonprofit owner of rental housing that is exempt under G.S. 105-278.6(a)(8) as of the effective date of this act must, by December 31, 2026, reapply for the exemption, providing the assessor of the taxing unit with any necessary documentation for compliance consistent with this act. Reapplication under this section is considered an application under subsection (f) of this act.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2025

H

D

BILL DRAFT 2025-MCfy-226 [v.3]

(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)
03/09/2026 10:42:19 AM

Short Title: Const. Amend. Property Tax Levy Limit.

(Public)

Sponsors:

Referred to:

1 A BILL TO BE ENTITLED
2 AN ACT TO AMEND THE CONSTITUTION OF THE STATE TO REQUIRE THE
3 LEGISLATURE TO ENACT A PROPERTY TAX LEVY LIMIT.
4 The General Assembly of North Carolina enacts:
5 SECTION 1. Subsection (5) of Section 2 of Article V of the North Carolina
6 Constitution reads as rewritten:
7 "(5) ~~Purposes of property tax.~~ Property tax purposes, limitation. The General Assembly
8 shall not authorize any county, city or town, special district, or other unit of local government to
9 levy taxes on property, except for purposes authorized by general law uniformly applicable
10 throughout the State, unless the tax is approved by a majority of the qualified voters of the unit
11 who vote thereon. The General Assembly shall enact general laws limiting the amount by which
12 the levy of taxes on property may increase, which may include exceptions."
13 SECTION 2. The amendment set out in Section 1 of this act shall be submitted to
14 the qualified voters of the State at the statewide general election to be held on November 3, 2026,
15 which election shall be conducted in accordance with the laws governing elections at that time.
16 The question to be used in the voting systems and ballots shall be:
17 "[] FOR [] AGAINST
18 Constitutional amendment requiring limits on property tax increases by local
19 governments."
20 SECTION 3. The State Board of Elections shall certify the results of the referendum
21 conducted under Section 2 of this act. If a majority of votes cast on the question are in favor of
22 the amendment set out in Section 1 of this act, the Secretary of State shall enroll the amendment
23 among the permanent records of that office. If a majority of votes cast on the question are against
24 the amendment set out in Section 1 of this act, the amendment shall have no effect.
25 SECTION 4. If the certification from the State Board of Elections under Section 3
26 of this act reflects that a majority of votes cast on the question are in favor of the amendment set
27 out in Section 1 of this act, the amendment set out in Section 1 of this act is effective upon
28 certification.
29 SECTION 5. Except as otherwise provided, this act is effective when it becomes
30 law.





Bill Draft 2025-MCfy-226: Const. Amend. Property Tax Levy Limit.

2025-2026 General Assembly

Committee:	House Select Committee on Property Tax Reduction and Reform	Date:	March 18, 2026
Introduced by:		Prepared by:	Dan Ettefagh
Analysis of:	2025-MCfy-226		Committee Co-Counsel

OVERVIEW: Bill Draft 2025-MCfy-226 would submit to the voters of North Carolina the question of whether to amend the State Constitution to require the General Assembly to enact legislation limiting the property tax levy increase by counties and cities.

CURRENT LAW: The State Constitution may be amended by either a constitutional convention or by legislative action. An amendment proposed by legislative action must be approved by a vote of three-fifths of each house and submitted to the voters of the State. If a majority of the voters of the State approve, the amendment becomes effective either the January following the public vote or the date provided in the enactment.

The North Carolina Constitution (i) vests in the General Assembly the authority to grant units of local government the ability to levy property taxes and (ii) requires the authorization of those levies to be for purposes authorized by general law uniformly applicable throughout the State. The North Carolina General Statutes currently limits the authorization of property taxes generally to a maximum rate of \$1.50 per \$100 of value.

BILL ANALYSIS: The bill draft would submit to the voters of North Carolina, the question of whether to amend the State Constitution to require the General Assembly to enact limits on the amount by which the authorized property tax levy could be increased and allow for exceptions applicable to the limitations enacted.

The ballot question would be considered at the statewide general election to be held on November 3, 2026, and the ballot question would read:

"Constitutional amendment requiring limits on property tax increases by local governments."

EFFECTIVE DATE: This act is effective when it becomes law. If approved by a majority of the voters in the November 3, 2026, election, the amendment to the North Carolina Constitution will become effective upon certification of the referendum results.

Kara McCraw
Director



Legislative Analysis
Division
919-733-2578

This bill analysis was prepared by the nonpartisan legislative staff for the use of legislators in their deliberations and does not constitute an official statement of legislative intent.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2025

H

D

BILL DRAFT 2025-DFxfz-4A [v.2]

(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)
03/17/2026 09:26:02 AM

Short Title: Hospital Sales Tax Refund Mods.

(Public)

Sponsors:

Referred to:

1 A BILL TO BE ENTITLED
2 AN ACT TO REDUCE THE AGGREGATE ANNUAL STATE AND LOCAL SALES TAX
3 REFUND AMOUNTS APPLICABLE TO NONPROFIT ENTITIES AND TO LIMIT THE
4 APPLICATION OF THE AGGREGATE ANNUAL STATE AND LOCAL SALES TAX
5 REFUND AMOUNTS FOR A NONPROFIT HOSPITAL, PUBLIC HOSPITAL, OR
6 HOSPITAL AUTHORITY TO THE ENTITY AS A WHOLE.
7 The General Assembly of North Carolina enacts:
8 SECTION 1.(a) G.S. 105-164.14 reads as rewritten:
9 "§ 105-164.14. Certain refunds authorized.
10 ...
11 (b) Nonprofit Entities and Hospital Drugs. – A nonprofit entity is allowed a semiannual
12 refund of sales and use taxes paid by it under this Article on direct purchases of items for use in
13 carrying on the work of the nonprofit entity. Sales and use tax liability indirectly incurred by a
14 nonprofit entity through reimbursement to an authorized person of the entity for the purchase of
15 tangible personal property and services for use in carrying on the work of the nonprofit entity is
16 considered a direct purchase by the entity. Sales and use tax liability indirectly incurred by a
17 nonprofit entity on building materials, supplies, fixtures, and equipment that become a part of or
18 annexed to any building or structure that is owned or leased by the nonprofit entity and is being
19 erected, altered, or repaired for use by the nonprofit entity for carrying on its nonprofit activities
20 is considered a sales or use tax liability incurred on direct purchases by the nonprofit entity. The
21 refund allowed under this subsection does not apply to purchases of electricity,
22 telecommunications service, ancillary service, piped natural gas, video programming, or a
23 prepaid meal plan. A request for a refund must be in writing and must include any information
24 and documentation required by the Secretary. A request for a refund for the first six months of a
25 calendar year is due the following October 15; a request for a refund for the second six months
26 of a calendar year is due the following April 15. The aggregate annual refund amount allowed an
27 entity under this subsection for the State's fiscal year may not exceed ten million dollars
28 (\$10,000,000). ~~thirty one million seven hundred thousand dollars (\$31,700,000).~~
29 The refunds allowed under this subsection do not apply to an entity that is owned and
30 controlled by the United States or to an entity that is owned or controlled by the State and is not
31 listed in this subsection. A hospital that is not listed in this subsection is allowed a semiannual
32 refund of sales and use taxes paid by it on over-the-counter drugs purchased for use in carrying
33 out its work. The following nonprofit entities are allowed a refund under this subsection:



- 1 (1) Hospitals not operated for profit, including hospitals and medical
- 2 accommodations operated by an authority or other public hospital described
- 3 in Article 2 of Chapter 131E of the General Statutes. For purposes of the
- 4 aggregate annual refund amount allowed under this subdivision and under
- 5 G.S. 105-467, the following conditions apply:
- 6 a. A nonprofit hospital system and all of its affiliates that are eligible for
- 7 a refund under this subsection are treated as one entity.
- 8 b. A hospital authority or a public hospital and all of its related facilities
- 9 or component units, as applicable, that are eligible for a refund under
- 10 this subsection are treated as one entity. For purposes of this
- 11 sub-subdivision, the term "related facilities" means all facilities
- 12 owned, maintained, or operated by a public hospital or a public
- 13 hospital authority, and the term "component unit" is as defined in
- 14 G.S. 116-350.

15 ...
16"

17 SECTION 1.(b) G.S. 105-467 reads as rewritten:
18 "§ 105-467. Scope of sales tax.

19 ...
20 (b) Exemptions and Refunds. – The State exemptions and exclusions contained in Article
21 5 of Subchapter I of this Chapter, except for the exemption for food in G.S. 105-164.13B, apply
22 to the local sales and use tax authorized to be levied and imposed under this Article. The State
23 refund provisions contained in G.S. 105-164.14 and G.S. 105-164.14A apply to the local sales
24 and use tax authorized to be levied and imposed under this Article. A refund of an excessive or
25 erroneous State sales tax collection allowed under G.S. 105-164.11 and a refund of State sales
26 tax paid on a rescinded sale or cancelled service contract under G.S. 105-164.11A apply to the
27 local sales and use tax authorized to be levied and imposed under this Article. The aggregate
28 annual local refund amount allowed an entity under G.S. 105-164.14(b) for the State's fiscal year
29 may not exceed four million two hundred thousand dollars (\$4,200,000).~~thirteen million three~~
30 ~~hundred thousand dollars (\$13,300,000).~~

31 Except as provided in this subsection, a taxing county may not allow an exemption, exclusion,
32 or refund that is not allowed under the State sales and use tax. A local school administrative unit
33 and a joint agency created by interlocal agreement among local school administrative units
34 pursuant to G.S. 160A-462 to jointly purchase food service-related materials, supplies, and
35 equipment on their behalf is allowed an annual refund of sales and use taxes paid by it under this
36 Article on direct purchases of items. Sales and use tax liability indirectly incurred by the entity
37 as part of a real property contract for real property that is owned or leased by the entity and is a
38 capital improvement for use by the entity is considered a sales or use tax liability incurred on
39 direct purchases by the entity for the purpose of this subsection. The refund allowed under this
40 subsection does not apply to purchases of electricity, telecommunications service, ancillary
41 service, piped natural gas, video programming, or a prepaid meal plan. A request for a refund is
42 due in the same time and manner as provided in G.S. 105-164.14(c). Refunds applied for more
43 than three years after the due date are barred.

44"

45 SECTION 2. This act is effective July 1, 2026, and applies to requests for a refund
46 submitted on or after that date.



Bill Draft 2025-DFxfz-4A: Hospital Sales Tax Refund Mods.

2025-2026 General Assembly

Committee:	House Select Committee on Property Tax Reduction and Reform	Date:	March 18, 2026
Introduced by:		Prepared by:	Trina Griffin and Zoey Howe
Analysis of:	2025-DFxfz-4A		Committee Co-Counsel

OVERVIEW: Bill Draft 2025-DFxfz-4A would do the following:

- Reduce the aggregate annual sales tax refund amounts for all eligible nonprofits as follows:
 - For State sales tax, from \$31,700,000 to \$10,000,000.
 - For local sales tax, from \$13,300,000 to \$4,200,000.
- Recognize the highest level of a nonprofit hospital, a public hospital or a hospital authority and its affiliates, related facilities, or component units, as applicable, as one entity for purposes of applying the cap on State and local sales tax refunds.

These changes would become effective July 1, 2026, and apply to requests for a refund submitted on or after that date.

CURRENT LAW & BILL ANALYSIS:

Reduce the Sales Tax Refund Caps for Nonprofit Entities

CURRENT LAW: Certain nonprofit organizations may apply semiannually for refunds of both State and local sales tax paid on direct and indirect purchases of items for carrying on the work of the entity, including indirect purchases of building materials, fixtures, and equipment that become part of any building owned or leased by the entity. Entities eligible for these refunds include nonprofit hospitals, hospital authorities, and public hospitals; volunteer fire departments and EMS squads; certain other 501(c)(3)s; qualified retirement facilities; and university affiliated nonprofit organizations that procure, design, construct, or provide facilities to, or for use by, a constituent institution of The University of North Carolina.

The amount an eligible entity may receive as a sales tax refund is subject to statutory caps. Currently, the aggregate annual State sales and use tax refund an entity may receive is \$31,700,000, and the aggregate annual local sales and use tax refund an entity may receive is \$13,300,000.

BILL ANALYSIS: Section 1(a) would reduce the aggregate annual cap on **State** sales and use tax refunds available to the types of nonprofits that are currently eligible from \$31,700,000 to \$10,000,000. Section 1(b) would reduce the aggregate annual cap on **local** sales and use tax refunds for those same nonprofits from \$13,300,000 to \$4,250,000.

The reduction in the State and local sales tax refund caps would apply to all of the following entities:

- Nonprofit hospitals, hospital authorities, and public hospitals described under Article 2 of Chapter 131E of the General Statutes

Kara McCraw
Director



Legislative Analysis
Division
919-733-2578

This bill analysis was prepared by the nonpartisan legislative staff for the use of legislators in their deliberations and does not constitute an official statement of legislative intent.

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- Volunteer fire departments and EMS squads
- Certain other 501(c)(3)s, including churches, private colleges, PTAs, arts organizations, charities that help with shelter/food, etc.
- Qualified retirement facilities
- University affiliated nonprofit organizations that procure, design, construct, or provide facilities to, or for use by, a constituent institution of The University of North Carolina.

Limit Application of the Cap for Hospitals

CURRENT LAW: Among the entities eligible for a State and local sales tax refund are nonprofit hospitals, hospital authorities,¹ and public hospitals.² The statute provides that the annual aggregate refund amount is allowed "to an entity," but does not define entity, other than by listing the types of eligible entities. In other words, and as it relates to nonprofit corporations, it does not specify whether the cap is available to the parent corporation and to each of its subsidiaries or affiliates, or whether the cap applies at the parent level, meaning that refunds for purchases by a parent's subsidiaries or affiliates should be aggregated collectively for purposes of calculating the cap. Similarly, as it relates to governmental hospitals, it does not specify whether the cap applies the entity as a whole or whether each related facility is eligible for a separate capped amount.

BILL ANALYSIS: Section 1(a) would require a nonprofit hospital and its affiliates to be treated as one entity for purposes of applying each of the State and local sales and use tax refund caps. Each parent organization of a nonprofit hospital system, including all of its affiliate corporations, would be eligible collectively, but not individually, for up to the aggregate annual refund amounts. The term "affiliate" is defined as follows:

"A corporation is an affiliate of another corporation when both are directly or indirectly controlled by the same parent corporation or by the same or associated financial interests by stock ownership, interlocking directors, or by any other means whatsoever, whether the control is direct or through one or more subsidiary, affiliated, or controlled corporations."

Section 1(a) would also require a public hospital or a hospital authority and all of its related facilities or component units, as applicable, to be treated as one entity for purposes of applying each of the State and local sales and use tax refund caps. Like nonprofit hospitals, the highest level of the entity's organization, including all of its related facilities, would be eligible for up to the aggregate annual refund amount but each related facility or component unit would not be eligible for a separate capped amount.

The bill would define the term "related facilities" as "all facilities owned, maintained, or operated by the public hospital or public hospital authority." The term "component unit" is defined as follows:

"Any of the following:

- a. The University of North Carolina Hospitals at Chapel Hill.
- b. The clinical patient care programs established or maintained by the School of Medicine of the University of North Carolina at Chapel Hill, including the UNC Faculty Physicians practice.

¹ A hospital authority is defined in G.S. 131E-16(14) as a public body and a body corporate and politic organized by a municipality to plan, establish, construct, maintain, or operate a hospital facility.

² A public hospital is defined in G.S. 159-39(a) as a hospital that is owned and operated by a municipality or hospital authority; owned by a municipality and operated by a nonprofit organization a majority of whose board of directors is made up of individuals appointed by the municipality or hospital authority; or a hospital on whose behalf a municipality has issued and has outstanding general obligation or revenue bonds or to which a municipality currently makes appropriations.

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- c. Any entity that merges with the University of North Carolina Health Care System pursuant to G.S. 116-350.60 and is designated by the Board of Directors as a component unit of the System."

This change would apply only to nonprofit hospitals, public hospitals, and hospital authorities and would not impact the other nonprofit entities eligible for sales and use tax refunds.

EFFECTIVE DATE: This act would become effective July 1, 2026, and apply to requests for a refund submitted on or after that date.

BACKGROUND: At its February 18, 2026, meeting, the House Select Committee on Property Tax Reduction and Reform heard a presentation on the current law as it relates to the property tax exemption and sales tax refund available to nonprofit hospitals. The presentation is linked [here](#).

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2025

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BILL DRAFT 2025-DFxfz-5 [v.4]

(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)
03/13/2026 12:04:37 PM

Short Title: Nonprofit Hospital Property Tax Mods.

(Public)

Sponsors:

Referred to:

1 A BILL TO BE ENTITLED
2 AN ACT TO REDUCE THE AMOUNT OF A NONPROFIT HOSPITAL'S PROPERTY TAX
3 EXEMPTION.
4 The General Assembly of North Carolina enacts:
5 SECTION 1. G.S. 105-278.8 reads as rewritten:
6 "**§ 105-278.8. Real and personal property used for charitable hospital purposes.**
7 (a) Exemption Generally. – Real and personal property that is held for or owned by a
8 hospital organized and operated as a nonstock, nonprofit, nonprofit charitable institution (without
9 without profit to members or their successors) shall be exempted from taxation if successors and
10 that is actually and exclusively used for charitable hospital purposes, purposes is exempt from
11 taxation in the amount of fifty percent (50%) of the appraised value of the property.
12 (b) Partial Exemption. – Notwithstanding the ~~exclusive use~~ exclusive use requirements
13 of subsection ~~(a), above,~~ (a) of this section, if part of a property that otherwise meets that
14 subsection's requirements is used for a purpose that would require exemption under that
15 subsection if the entire property were so used, ~~the valuation~~ fifty percent (50%) of the appraised
16 value of the part so used shall be exempted is exempt from taxation.
17 (c) Charitable Hospital Purpose. – Within the meaning of this section, a charitable
18 hospital purpose is a hospital purpose that has humane and philanthropic objectives; it is a
19 hospital activity that benefits humanity or a significant rather than limited segment of the
20 community without expectation of pecuniary profit or reward. However, the fact that a qualifying
21 hospital charges patients who are able to pay for services rendered does not defeat the exemption
22 granted by this section."
23 SECTION 2. This act is effective for taxes imposed for taxable years beginning on
24 or after July 1, 2026.





Bill Draft 2025-DFfz-5: Nonprofit Hospital Property Tax Mods.

2025-2026 General Assembly

Committee:	House Select Committee on Property Tax Reduction and Reform	Date:	March 18, 2026
Introduced by:		Prepared by:	Trina Griffin and Zoey Howe
Analysis of:	2025-DFxfz-5		Committee Co-Counsel

OVERVIEW: *Bill Draft 2025-DFxfz-5 would reduce the property tax exemption for nonprofit hospitals to 50% of the appraised value of real and personal property that is owned by a nonprofit hospital and used for charitable hospital purposes, effective for taxes imposed for taxable years beginning on or after July 1, 2026.*

CURRENT LAW: Under current law, real and personal property held for or owned by a nonprofit hospital is 100% exempt from taxation if it is actually and exclusively used for charitable hospital purposes. A charitable hospital purpose is defined as follows:

"...a hospital purpose that has humane and philanthropic objectives; it is a hospital activity that benefits humanity or a significant rather than limited segment of the community without expectation of pecuniary profit or reward. However, the fact that a qualifying hospital charges patients who are able to pay for services rendered does not defeat the exemption granted by this section."

Despite the exclusive use requirement, a nonprofit hospital that uses only a portion of its property for a charitable hospital purpose may receive the exemption for that portion of the property.

BILL ANALYSIS: This bill draft would limit a nonprofit hospital's property tax exemption to 50% of the appraised value of all real and personal property owned by the nonprofit hospital if the property is actually and exclusively used for a charitable hospital purpose. The bill maintains the permissive partial exemption language, which would allow that portion of a nonprofit hospital that meets the actual and exclusive use requirements to be eligible for the 50% exemption.

EFFECTIVE DATE: This act would become effective for taxes imposed for taxable years beginning on or after July 1, 2026.

BACKGROUND: At its February 18, 2026 meeting, the House Select Committee on Property Tax Reduction and Reform heard a presentation on the current law as it relates to the property tax exemption and sales tax refund available to nonprofit hospitals. The presentation is linked [here](#).

Kara McCraw
Director



Legislative Analysis
Division
919-733-2578

This bill analysis was prepared by the nonpartisan legislative staff for the use of legislators in their deliberations and does not constitute an official statement of legislative intent.

An Overview of Impact Fees

Nick Giddings, Legislative Analysis Division

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What are Impact Fees?

- An impact fee is an upfront charge assessed on new or sometimes existing development to fund current and future public infrastructure expenditures that are or may be necessitated by the development.
- One-time charge which is typically imposed in advance of the completion of a development project.
 - Often a condition of receiving a building permit or certificate of occupancy.

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- An impact fee can refer to any number of services but oftentimes is used in the context of water and sewer facilities.
- May be called a variety of names, such as:
 - Capacity fee
 - Facility fee
 - Capital reserve fee
- However, the name of the fee is immaterial, it is how the fee operates in practice that matters.

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Exactions

- *Anderson Creek Partners, L.P. v. County of Harnett* (2022)
 - An exaction is a condition of development permission that requires a public facility or improvement to be provided at the developer's expense.
- Impact fees are considered monetary exactions
- Local government must determine two things when seeking to impose an exaction:
 1. Is the exaction constitutional?
 2. Is there statutory authority for the exaction?
- U.S. Constitution places limitations on the authority of governments to require exactions.

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- Courts use a two-part test, known as the *Nollan/Dolan* test, when determining whether an exaction is constitutional:
 1. Permit conditions must have an *essential nexus* to the government's land-use interest.
 2. Permit conditions must have *rough proportionality* to the development's impact on the land-use interest.
- U.S. Supreme Court has extended the *Nollan/Dolan* test to monetary exactions (*Koontz v. St. Johns River Water Management District*).

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Categories of Exactions

- Most exactions fall into one of four categories:
 1. Dedication of land for street rights-of-way, parks, or utility easements and the like.
 2. Construction or installation of improvements on land so dedicated.
 3. Payment of fees in lieu of compliance with dedication or improvement provisions.
 4. Payments of *"impact" or "facility" fees* by developers that reflect their respective prorated shares of the cost of providing new roads, utility systems, parks, and similar facilities serving the entire area.

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Authorized Exactions

- Statutory authority exists for local governments to impose exactions for certain purposes.
- For example, exactions may be imposed related to the *subdivision of land* for a variety of purposes, including:

Purpose	Authority
Transportation	Unit may require dedication of right-of-way or easements for street purposes or remit funds in lieu of street construction.
Utilities	Unit may require dedication of rights-of-way or easements for utilities.
Recreation	Unit may require dedication or reservation of recreation areas or payment of funds to acquire or develop recreation areas serving development or immediate area.
Schools	Unit may require a developer reserve land for a school site.

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What About Impact Fees?

- No specific statutory authority to charge impact fees under general law, at least to fund general government infrastructure or services.
 - *Lanvale Properties, LLC v. County of Cabarrus* (2012) – School impact fees are not authorized by general statute.
- However, a handful of units have been given local act authority to assess impact fees for certain purposes.
- Recent caselaw and legislation have shifted where impact fees related to water and sewer facilities currently stand in the State.

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Point South Properties, LLC v. Cape Fear Public Utility Authority (2015)

- Payment of impact fee required to receive building permit.
- Developers paid the fee to secure development permits from county.
- Once constructed, properties built by developers received water/sewer services from private entity.
- Area where properties were located was identified as a potential future service area by the county.

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- Question: Are impact fees authorized when a water and sewer district does not have a defined plan to service the developed property?
- **G.S. 162A-88**
 - District "may establish and revise a schedule of rates, fees, and other charges for the use of or for the services furnished or *to be furnished* by any sanitary sewer system, water system or sanitary sewer and water system of the district."
- North Carolina Court of Appeals held that the district did not have authority to charge an impact fee under such facts.
- The court found that defendants failed to prove they "ever decided or planned" for water and sewer service "to be furnished" to the properties.

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Quality Built Homes, et. al. v. Town of Carthage (2016)

- Carthage had two impact fee ordinances – one for water and one for sewer; however, both fees operated as follows:
 - Imposed on all new development, with some exceptions.
 - Fee amount based on projected water meter size needed to serve new development.
 - Fee due upon payment of tap fee or issuance of development permit.
 - Fee revenue used to cover cost of *expanding* the water/sewer system.
- Question – Do municipalities have the authority to require impact fees for future services?

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- The court focused on the statutory authority to charge fee in question and compared it to the authorizing fee statute for a county water and sewer district:
 - **Municipality Statute** (G.S. 160A-314) – "A city may establish and revise from time to time schedules of rents, rates, fees, charges, and penalties for the *use of or the services furnished by* any public enterprise."
 - **District Statute** (G.S. 162A-88) – District "may establish and revise a schedule of rates, fees, and other charges for the *use of or for the services furnished or to be furnished* by any sanitary sewer system, water system or sanitary sewer and water system of the district."
- Court found the absence of the phrase "to be furnished" in municipal statute to be significant.

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- Holding – Carthage lacked the authority to assess the impact fees at issue in the case.
- Municipality may charge impact fees for the *contemporaneous use* of its water and sewer systems, not for *future services*.
- As Carthage's impact fee was used to fund costs *associated with future maintenance and expansions of the systems*, the fee lacked statutory authority and was unlawful.



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Session Law 2017-138

- In response to *Carthage*, the General Assembly passed S.L. 2017-138
- Added language to G.S. 153A-277 (counties) and G.S. 160A-314 (municipalities) allowing fees/charges for services *to be furnished*
- Created a framework for *System Development Fees*



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True Homes, LLC v. City of Greensboro (2025)

- Court ruled that System Development Fees are the sole legal authority for imposing upfront charges related to utility capacity.
- Local governments currently lack legal authority to charge capacity or other similar upfront fees on properties not classified as "new development" under the System Development Fee law.
 - No authority to impose impact fee on existing development.



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System Development Fees

- Article 8 of Chapter 162A of the General Statutes
- Meant to ensure that the cost of growth is shared by those creating the demand – new homes and businesses – rather than existing ratepayers.
- Revenue from SDFs can be used to pay off debt for infrastructure expansion or to fund future improvements that *benefit the new users*.
 - Not a general revenue source – SDFs are restricted in use

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What are SDF's

- Charges assessed on *new development* to fund construction or rehabilitation of water and wastewater facilities necessitated to *serve the new development that paid the fees*.
- May cover costs necessary to *serve the new development*, such as:
 - Constructing new infrastructure
 - Expanding capacity in existing systems
 - Repairing, maintaining, upgrading, or replacing facilities
 - Increasing preexisting level of service for existing development
 - Purchasing/reserving capacity in facilities of other local units

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Who Can Assess SDF's

- Three categories of local governments are authorized to assess SDF's:
 1. Local government entities that own or operate a water or wastewater system.
 2. Local government entities that purchase reserve capacity in another local government's system.
 3. Water and sewer authorities who enter into wholesale agreements with other local government utilities.

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Calculating SDF's

- Local government must complete thorough SDF analysis, which, among other requirements, must:
 - Be conducted by a licensed professional engineer or qualified financial expert
 - Use generally accepted accounting, engineering, and planning methodologies to calculate SDF
 - Employ one of the following recognized methods tailored to the specific utility system:
 - Buy-in method
 - Marginal (incremental) cost method
 - Combined cost method
 - Project infrastructure needs for the next 5 to 20 years
 - Seek public input

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Calculating SDF's

- Final adopted SDF fees cannot exceed the maximum amount justified by the analysis
- SDF schedule must be adopted through a public hearing in either the annual budget ordinance or separate water and wastewater rate ordinance
- Analysis must be updated at least once every 5 years; however, may have to be redone more frequently

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Methods of Calculating SDF

Method	How Does It Work	Use of Fees
Buy-in Method	• Charges new users based on value of existing, unused system capacity	• Recoup the cost of existing facilities with available capacity • Fund capital rehabilitation projects
Marginal/Incremental Cost Method	• Focuses on cost to expand system capacity to accommodate growth	• Capital improvements directly tied to serving the new development <i>that triggered the fee</i>
Hybrid/Combined Method	• Combines elements of both methods, above	• Combines elements of both methods, above

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Assessment of SDFs

- SDFs are assessed on “new development”
- New development falls into one of three categories:
 1. Subdividing land (most common)
 2. Changing/enlarging structures in way that increases number of service units
 3. Changing/expanding how land is used in way that increases service demand
- If property triggers more than one category over time, assessed SDF is limited to net increase resulting from the change

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Other Lawful Water/Sewer Fees

Fee	Use		
Connection/Tap Fees	A fee assessed to cover the actual cost of physically connecting a new service unit to the water or sewer system.		
User Fees	Charges for the actual use of the water and sewer services.		
Contractual Payments	Local government extends water and sewer lines, or other water/sewer infrastructure projects, through a contractual arrangement with developer or property owner.		
Availability Fees	Charges on properties with access to the utility system but not actually connected.		
Assessments/ Taxing Districts	<table border="0" style="width: 100%;"> <tr> <td style="width: 50%;"> Municipality <ul style="list-style-type: none"> • Special or critical infrastructure assessments • Service district – sewer </td> <td style="width: 50%;"> County <ul style="list-style-type: none"> • Special or critical infrastructure assessments • Service district – water and/or sewer </td> </tr> </table>	Municipality <ul style="list-style-type: none"> • Special or critical infrastructure assessments • Service district – sewer 	County <ul style="list-style-type: none"> • Special or critical infrastructure assessments • Service district – water and/or sewer
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Local Acts

- Limited number of local acts still on the books
- Local acts still provide authority to impose impact fees for purposes other than water and sewer
- Impact fees pertaining to water and sewer must abide by SDF rules

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Questions?



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APPENDIX J

APRIL 15, 2026, MEETING MATERIALS

Draft