

LEGISLATIVE RESEARCH COMMISSION  
COMMITTEE ON MUNICIPAL SERVICE  
DISTRICTS  
NORTH CAROLINA GENERAL ASSEMBLY



REPORT TO THE  
2016 SESSION  
of the  
2015 GENERAL ASSEMBLY  
OF NORTH CAROLINA

APRIL, 2016

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## TRANSMITTAL LETTER

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April, 2016

TO THE MEMBERS OF THE 2016 REGULAR SESSION  
OF THE 2015 GENERAL ASSEMBLY

The Legislative Research Commission herewith submits to you for your consideration its report and recommendations to the 2016 Regular Session of the 2015 General Assembly. The report was prepared by the Legislative Research Commission's Committee on Municipal Service Districts, pursuant to G.S. 120-30.17(1).

Respectfully submitted,



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Senator Thomas Apodaca



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Representative David Lewis

Co-Chairs  
Legislative Research Commission

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## LEGISLATIVE RESEARCH COMMISSION MEMBERSHIP

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2015 – 2016

Senator Thomas Apodaca  
Co-Chair

Representative David Lewis  
Co-Chair

Senator Phil Berger, Ex Officio  
Senator Tamara Barringer  
Senator Paul Lowe  
Senator Wesley Meredith  
Senator Mike Woodard

Representative Timothy Moore, Ex Officio  
Representative Becky Carney  
Representative Ted Davis  
Representative Mike Hager  
Representative Jason Saine

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## PREFACE

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The Legislative Research Commission, established by Article 6B of Chapter 120 of the General Statutes, is the general purpose study group in the Legislative Branch of State Government. The Commission is co-chaired by the President Pro Tempore of the Senate and the Speaker of the House of Representatives, or their designees, and has five additional members appointed from each house of the General Assembly. Among the Commission's duties is that of making or causing to be made, upon the direction of the General Assembly, "such studies of and investigation into governmental agencies and institutions and matters of public policy as will aid the General Assembly in performing its duties in the most efficient and effective manner" (G.S. 120-30.17(1)).

The Legislative Research Commission authorized the study of Municipal Service Districts, under authority of G.S. 120-30.17(1). The Committee was chaired by Senator Trudy Wade and Representative Ted Davis, Jr., Co-Chairs of the Committee. The full membership of the Committee is listed under Committee Membership. A committee notebook containing the committee minutes and all information presented to the committee will be filed in the Legislative Library by the end of the 2015-2016 biennium.



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## COMMITTEE PROCEEDINGS

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The Legislative Research Commission's Committee on Municipal Service Districts met two times after the 2015 Regular Session. The Committee's Charge can be found [here](#). The following is a brief summary of the Committee's proceedings. Detailed minutes, attachments, and information from each Committee meeting are available in the Legislative Library.

### March 31, 2016

The Legislative Research Commission's Committee on Municipal Service Districts met on Thursday, March 31, 2016, at 12:00 noon in Room 544 of the Legislative Office Building. Following remarks from the Co-chairs, Committee Counsel Erika Churchill reviewed the charge of the committee. Kara Millonzi, Associate Professor of Public Law and Government at the UNC School of Government, presented an overview of municipal service districts in North Carolina. Committee Counsel Kelly Tornow provided the Committee with an inventory of municipal service districts in the State. Greg Gaskins, Deputy Treasurer for State and Local Government Finance at the NC Department of Revenue, discussed issues surrounding the finance of municipal service districts. The Committee then heard from the following presenters on municipal service districts from the perspective of municipalities:

- Tom McCormick, City Attorney, City of Raleigh
- John Connet, City Manager, and Lew Holloway, Downtown Economic Development Director, City of Hendersonville
- Ken Jones, Mayor, Town of Pine Knoll Shores

After presentations were made, there was a public comment period followed by Committee discussion.

### April 6, 2016

The Legislative Research Commission's Committee on Municipal Service Districts met on Wednesday, April 6, 2016, at 2:30 p.m. in Room 544 of the Legislative Office Building. Following remarks from the Co-chairs, Greg Gaskins, Deputy Treasurer for State and Local Government Finance at the NC Department of Revenue discussed issues associated with bonded debt for municipal service districts. Committee Counsel Erika Churchill explained potential legislative action to the Committee, and the Committee then discussed the proposed legislation. The Committee was adjourned after approval of the final report.

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## FINDINGS AND RECOMMENDATIONS

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**Finding 1:** Under current law, a city council may establish a municipal service district, or annex territory into an existing municipal service district, by adopting a resolution by majority vote at a meeting of the city council. Other similar actions, such as adopting a budget ordinance or annexing territory, must be done by ordinance.

**Recommendation 1:** The General Assembly should require a city council to establish and extend municipal service district boundaries by ordinance, which should be adopted at two regular meetings of the city council.

**Finding 2:** Under current law, if a city contracts with a private agency to provide services, facilities, functions, or promotional and developmental activities to a service district, the private agency is not statutorily mandated to disclose information about subcontractors.

**Recommendation 2:** The General Assembly should require that if a city contracts with a private agency to provide services to a municipal service district, the private agency shall include in its accounting the name, location, purpose, and amount paid to any subcontractors.

**Finding 3:** Currently, there is no statutory mechanism for citizens to initiate the creation of a municipal service district.

**Recommendation 3:** The General Assembly should establish a process by which property owners may petition the city council for creation of a municipal service district.

**Finding 4:** Current law does not formally establish a statutory process by which a property owner may request to be excluded or removed from the boundaries of a municipal service district. The statutes do, however, permit the city to reduce the size of a municipal service district or abolish a municipal service district.

**Recommendation 4:** The General Assembly should establish a process by which property owners may request to be excluded from the geographic boundaries of a municipal service district at the time the district is created, or at any time after the district is established.

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## COMMITTEE MEMBERSHIP

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2015-2016

Senate Members:

Senator Trudy Wade, Co-Chair

Senator Tom Apodaca, Ex Officio  
Senator Fletcher Hartsell  
Senator Floyd McKissick  
Senator William Rabon  
Senator Andy Wells

House of Representatives Members:

Representative Ted Davis, Jr., Co-Chair

Representative David Lewis, Ex Officio  
Representative John Blust  
Representative Jon Hardister  
Representative George Robinson  
Representative Evelyn Terry

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## COMMITTEE CHARGE

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### Section 15.16B(c) of Session Law 2015-241

#### MUNICIPAL SERVICE DISTRICTS/CONTRACTS WITH PRIVATE AGENCY/TAXES/STUDY

**SECTION 15.16B.(c)** The Legislative Research Commission shall study the feasibility of authorizing property owners within a municipal service district to petition for removal from that municipal service district. The Legislative Research Commission may consider any issues relevant to this study. The Legislative Research Commission shall report its findings and recommendations, including any proposed legislation, to the 2016 Regular Session of the 2015 General Assembly.

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## STATUTORY AUTHORITY

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### NORTH CAROLINA GENERAL STATUTES ARTICLE 6B.

#### **Legislative Research Commission.**

##### **§ 120-30.17. Powers and duties.**

The Legislative Research Commission has the following powers and duties:

- (1) Pursuant to the direction of the General Assembly or either house thereof, or of the chairmen, to make or cause to be made such studies of and investigations into governmental agencies and institutions and matters of public policy as will aid the General Assembly in performing its duties in the most efficient and effective manner.
- (2) To report to the General Assembly the results of the studies made. The reports may be accompanied by the recommendations of the Commission and bills suggested to effectuate the recommendations.
- (3), (4) Repealed by Session Laws 1969, c. 1184, s. 8.
- (5), (6) Repealed by Session Laws 1981, c. 688, s. 2.
- (7) To obtain information and data from all State officers, agents, agencies and departments, while in discharge of its duty, pursuant to the provisions of G.S. 120-19 as if it were a committee of the General Assembly.
- (8) To call witnesses and compel testimony relevant to any matter properly before the Commission or any of its committees. The provisions of G.S. 120-19.1 through G.S. 120-19.4 shall apply to the proceedings of the Commission and its committees as if each were a joint committee of the General Assembly. In addition to the other signatures required for the issuance of a subpoena under this subsection, the subpoena shall also be signed by the members of the Commission or of its committee who vote for the issuance of the subpoena.
- (9) For studies authorized to be made by the Legislative Research Commission, to request another State agency, board, commission or committee to conduct the study if the Legislative Research Commission determines that the other body is a more appropriate vehicle with which to conduct the study. If the other body agrees, and no legislation specifically provides otherwise, that body shall conduct the study as if the original authorization had assigned the study to that body and shall report to the General Assembly at the same time other studies to be conducted by the Legislative Research Commission are to be reported. The other agency shall conduct the transferred study within the funds already assigned to it.

LEGISLATIVE PROPOSALS

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2015

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D

SENATE BILL DRS45419-LMz-152A\* (04/04)

Short Title: Municipal Service Districts/Statutory Changes. (Public)

Sponsors: Senators Wade, McKissick, and Hartsell (Primary Sponsors).

Referred to:

1 A BILL TO BE ENTITLED
2 AN ACT PROVIDING THAT (I) A MUNICIPAL SERVICE DISTRICT MAY BE DEFINED
3 BY THE CITY COUNCIL UPON RECEIPT OF A PETITION FROM REAL PROPERTY
4 OWNERS; (II) A CITY MAY EXCLUDE PROPERTY FROM A MUNICIPAL SERVICE
5 DISTRICT PRIOR TO OR AFTER THE CREATION OF THE DISTRICT IF THE
6 PROPERTY DOES NOT BENEFIT FROM THE SERVICES, FACILITIES, OR
7 FUNCTIONS OF THE DISTRICT; (III) A MUNICIPAL SERVICE DISTRICT MAY BE
8 DEFINED, EXTENDED, CONSOLIDATED, AND ABOLISHED ONLY BY
9 ORDINANCE; AND (IV) A CONTRACT FOR SERVICES IN A MUNICIPAL SERVICE
10 DISTRICT WITH A PRIVATE AGENCY SHALL INCLUDE A REQUIREMENT THAT
11 THE AGENCY REPORT THE IDENTITY OF ANY SUBCONTRACTORS, AS
12 RECOMMENDED BY THE LRC COMMITTEE ON MUNICIPAL SERVICE
13 DISTRICTS.

14 The General Assembly of North Carolina enacts:

15 SECTION 1. G.S. 160A-536 reads as rewritten:

16 "§ 160A-536. Purposes for which districts may be established.

17 ...

18 (d) Contracts. - A city may provide services, facilities, functions, or promotional and
19 developmental activities in a service district with its own forces, through a contract with
20 another governmental agency, through a contract with a private agency, or by any combination
21 thereof. Any contracts entered into pursuant to this subsection shall comply with all of the
22 following criteria:

23 (1) The contract shall specify the purposes for which city moneys are to be used
24 for that service district.

25 (2) The contract shall require an appropriate accounting for those moneys at the
26 end of each fiscal year or other appropriate period. The appropriate
27 accounting shall include the name, location, purpose, and amount paid to any
28 person or persons with whom the private agency contracted to perform or
29 complete any purpose for which the city moneys were used for that service
30 district.

31 ...."

32 SECTION 2. G.S. 160A-537 reads as rewritten:

33 "§ 160A-537. Definition of service districts.

Appendix D

1 (a) Standards. – The city council of any city may by ~~resolution-ordinance~~ define a  
2 service district upon finding that a proposed district is in need of one or more of the services,  
3 facilities, or functions listed in G.S. 160A-536 to a demonstrably greater extent than the  
4 remainder of the city.

5 (a1) Petition to Define District. – The city council may also by ordinance define a  
6 service district if a petition submitted by a majority of the owners of real property in a defined  
7 area of the city establishes that the area is in need of one or more of the services, facilities, or  
8 functions listed in G.S. 160A-536 to a demonstrably greater extent than the remainder of the  
9 city. The petition shall contain the names, addresses, and signatures of the real property owners  
10 within the proposed district, describe the proposed district boundaries, and state in detail the  
11 services, facilities, or functions listed in G.S. 160A-536 which would serve as the basis for  
12 establishing the proposed district. The city council may establish a policy to hear all petitions  
13 submitted under this subsection at regular intervals, but no less than once per year.

14 (b) Report. – Before the public hearing required by subsection (c), the city council shall  
15 cause to be prepared a report containing:

- 16 (1) A map of the proposed district, showing its proposed boundaries;
- 17 (2) A statement showing that the proposed district meets the standards set out in  
18 subsection (a); and
- 19 (3) A plan for providing in the district one or more of the services listed in  
20 G.S. 160A-536.

21 The report shall be available for public inspection in the office of the city clerk for at least  
22 four weeks before the date of the public hearing.

23 (c) Hearing and Notice. – The city council shall hold a public hearing before adopting  
24 any ~~resolution-ordinance~~ defining a new service district under this section. Notice of the  
25 hearing shall state the date, hour, and place of the hearing and its subject, and shall include a  
26 map of the proposed district and a statement that the report required by subsection (b) is  
27 available for public inspection in the office of the city clerk. The notice shall be published at  
28 least once not less than one week before the date of the hearing. In addition, it shall be mailed  
29 at least four weeks before the date of the hearing by any class of U.S. mail which is fully  
30 prepaid to the owners as shown by the county tax records as of the preceding January 1 (and at  
31 the address shown thereon) of all property located within the proposed district. The person  
32 designated by the council to mail the notice shall certify to the council that the mailing has been  
33 completed and his certificate is conclusive in the absence of fraud.

34 (c1) Exclusion From District. – An owner of a tract or parcel of land located within the  
35 proposed district may, at the public hearing or no later than five days after the date of the public  
36 hearing required by subsection (c) of this section, submit a written request to the city council  
37 for the exclusion of the tract or parcel from the proposed district. The owner shall specify the  
38 tract or parcel, state with particularity the reasons why the tract or parcel is not in need of the  
39 services, facilities, or functions of the proposed district to a demonstrably greater extent than  
40 the remainder of the city, and provide any other additional information the owner deems  
41 relevant. If the city council finds that the tract or parcel is not in need of the services, facilities,  
42 or functions of the proposed district to a demonstrably greater extent than the remainder of the  
43 city, the city council may exclude the tract or parcel from the proposed district.

44 (d) Effective Date. – Except as otherwise provided in this subsection, the ~~resolution~~  
45 ~~ordinance~~ defining a service district shall take effect at the beginning of a fiscal year  
46 commencing after its passage, as determined by the city council. If the governing body in the  
47 ~~resolution-ordinance~~ states that general obligation bonds or special obligation bonds are  
48 anticipated to be authorized for the project, it may make the ~~resolution-ordinance~~ effective  
49 immediately upon its adoption or as otherwise provided in the ~~resolution-ordinance~~. However,  
50 no ad valorem tax may be levied for a partial fiscal year.

Appendix D

1 (e) ~~In the case of a resolution defining a service district, which is adopted during the~~  
2 ~~period beginning July 1, 1981, and ending July 31, 1981, and which district is for any purpose~~  
3 ~~defined in G.S. 160A-536(1), the city council may make the resolution effective for the fiscal~~  
4 ~~year beginning July 1, 1981. In any such case, the report under subsection (b) of this section~~  
5 ~~need only have been available for public inspection for at least two weeks before the date of the~~  
6 ~~public hearing, and the notice required by subsection (e) of this section need only have been~~  
7 ~~mailed at least two weeks before the date of the hearing.~~

8 (f) Passage of Ordinance. – No ordinance defining a service district as provided for in  
9 this section shall be finally adopted until it has been passed at two meetings of the city council  
10 by majority vote of the voting members present, and no service district shall be defined except  
11 by ordinance."

12 SECTION 3. G.S. 160A-538 reads as rewritten:

13 "§ 160A-538. Extension of service districts.

14 (a) Standards. – The city council may by ~~resolution-ordinance~~ annex territory to any  
15 service district upon finding that:

16 (1) The area to be annexed is contiguous to the district, with at least one eighth  
17 of the area's aggregate external boundary coincident with the existing  
18 boundary of the district;

19 (2) That the area to be annexed requires the services of the district.

20 (b) Annexation by Petition. – The city council may also by ~~resolution-ordinance~~ extend  
21 by annexation the boundaries of any service district when one hundred percent (100%) of the  
22 real property owners of the area to be annexed have petitioned the council for annexation to the  
23 service district.

24 (c) Report. – Before the public hearing required by subsection (d), the council shall  
25 cause to be prepared a report containing:

26 (1) A map of the service district and the adjacent territory, showing the present  
27 and proposed boundaries of the district;

28 (2) A statement showing that the area to be annexed meets the standards and  
29 requirements of subsections (a) or (b); and

30 (3) A plan for extending services to the area to be annexed.

31 The report shall be available for public inspection in the office of the city clerk for at least  
32 two weeks before the date of the public hearing.

33 (d) Hearing and Notice. – The council shall hold a public hearing before adopting any  
34 ~~resolution-ordinance~~ extending the boundaries of a service district. Notice of the hearing shall  
35 state the date, hour and place of the hearing and its subject, and shall include a statement that  
36 the report required by subsection (c) is available for inspection in the office of the city clerk.  
37 The notice shall be published at least once not less than one week before the date of the  
38 hearing. In addition, the notice shall be mailed at least four weeks before the date of the hearing  
39 to the owners as shown by the county tax records as of the preceding January 1 of all property  
40 located within the area to be annexed. The notice may be mailed by any class of U.S. mail  
41 which is fully prepaid. The person designated by the council to mail the notice shall certify to  
42 the council that the mailing has been completed, and his certificate shall be conclusive in the  
43 absence of fraud.

44 (e) Effective Date. – The ~~resolution-ordinance~~ extending the boundaries of the district  
45 shall take effect at the beginning of a fiscal year commencing after its passage, as determined  
46 by the council.

47 (e1) Passage of Ordinance. – No ordinance annexing territory to a service district as  
48 provided for in this section shall be finally adopted until it has been passed at two meetings of  
49 the city council by majority vote of the voting members present, and no territory shall be  
50 annexed to a service district except by ordinance.



Appendix D

1 (f) Historic District Boundaries Extension. – A service district which at the time of its  
2 creation had the same boundaries as an historic district created under Part 3A of Article 19 of  
3 this Chapter may only have its boundaries extended to include territory which has been added  
4 to the historic district."

5 **SECTION 4.** G.S. 160A-538.1 reads as rewritten:

6 "**§ 160A-538.1. Reduction of service districts.**

7 (a) Reduction by City Council. – Upon finding that there is no longer a need to include  
8 within a particular service district any certain tract or parcel of land, the city council may by  
9 ~~resolution~~ ordinance redefine a service district by removing therefrom any tract or parcel of  
10 land which it has determined need no longer be included in said district. The city council shall  
11 hold a public hearing before adopting ~~a resolution~~ an ordinance removing any tract or parcel of  
12 land from a district. Notice of the hearing shall state the date, hour and place of the hearing, and  
13 its subject, and shall be published at least once not less than one week before the date of the  
14 hearing.

15 (a1) Request for Reduction by Owner. – A property owner may submit a written request  
16 to the city council to remove the owner's tract or parcel of land from a service district. The  
17 owner shall specify the tract or parcel, state with particularity the reasons why the tract or  
18 parcel is not in need of the services, facilities, or functions of the proposed district to a  
19 demonstrably greater extent than the remainder of the city, and provide any other additional  
20 information the owner deems relevant. Upon receipt of the request, the city council shall hold a  
21 public hearing as required by subsection (a) of this section. If the city council finds that the  
22 tract or parcel is not in need of the services, facilities, or functions of the district to a  
23 demonstrably greater extent than the remainder of the city, the city council may, by ordinance,  
24 redefine the service district by removing therefrom the tract or parcel.

25 (b) Effective Date. – The removal of any tract or parcel of land from any service district  
26 shall take effect at the end of a fiscal year following passage of the ~~resolution~~ ordinance, as  
27 determined by the city council.

28 (b1) Passage of Ordinance. – No ordinance reducing a service district as provided for in  
29 this section shall be finally adopted until it has been passed at two meetings of the city council  
30 by majority vote of the voting members present, and no service district shall be reduced except  
31 by ordinance.

32 (c) Historic District Boundaries Reduction. – A service district which at the time of its  
33 creation had the same boundaries as an historic district created under Part 3A of Article 19 of  
34 this Chapter may only have its boundaries reduced to exclude territory which has been removed  
35 from the historic district."

36 **SECTION 5.** G.S. 160A-539 reads as rewritten:

37 "**§ 160A-539. Consolidation of service districts.**

38 (a) The city council may by ~~resolution~~ ordinance consolidate two or more service  
39 districts upon finding that:

- 40 (1) The districts are contiguous or are in a continuous boundary; and
- 41 (2) The services provided in each of the districts are substantially the same; or
- 42 (3) If the services provided are lower for one of the districts, there is a need to  
43 increase those services for that district to the level of that enjoyed by the  
44 other districts.

45 (b) Report. – Before the public hearing required by subsection (c), the city council shall  
46 cause to be prepared a report containing:

- 47 (1) A map of the districts to be consolidated;
- 48 (2) A statement showing the proposed consolidation meets the standards of  
49 subsection (a); and

Appendix D

1 (3) If necessary, a plan for increasing the services for one or more of the  
2 districts so that they are substantially the same throughout the consolidated  
3 district.

4 The report shall be available in the office of the city clerk for at least two weeks before the  
5 public hearing.

6 (c) Hearing and Notice. – The city council shall hold a public hearing before adopting  
7 any ~~resolution-ordinance~~ consolidating service districts. Notice of the hearing shall state the  
8 date, hour, and place of the hearing and its subject, and shall include a statement that the report  
9 required by subsection (b) is available for inspection in the office of the city clerk. The notice  
10 shall be published at least once not less than one week before the date of the hearing. In  
11 addition, the notice shall be mailed at least four weeks before the hearing to the owners as  
12 shown by the county tax records as of the preceding January 1 of all property located within the  
13 consolidated district. The notice may be mailed by any class of U.S. mail which is fully  
14 prepaid. The person designated by the council to mail the notice shall certify to the council that  
15 the mailing has been completed, and his certificate shall be conclusive in the absence of fraud.

16 (d) Effective Date. – The consolidation of service districts shall take effect at the  
17 beginning of a fiscal year commencing after passage of the ~~resolution-ordinance~~ of  
18 consolidation, as determined by the council.

19 (e) Passage of Ordinance. – No ordinance consolidating two or more service districts as  
20 provided for in subsection (a) of this section shall be finally adopted until it has been passed at  
21 two meetings of the city council by majority vote of the voting members present, and no  
22 service districts shall be consolidated except by ordinance."

23 SECTION 6. G.S. 160A-541 reads as rewritten:

24 "§ 160A-541. Abolition of service districts.

25 Upon finding that there is no longer a need for a particular service district, the city council  
26 may by ~~resolution-ordinance~~ abolish that district. The council shall hold a public hearing before  
27 adopting a ~~resolution-an ordinance~~ abolishing a district. Notice of the hearing shall state the  
28 date, hour and place of the hearing, and its subject, and shall be published at least once not less  
29 than one week before the date of the hearing. The abolition of any service district shall take  
30 effect at the end of a fiscal year following passage of the ~~resolution, ordinance,~~ as determined  
31 by the council."

32 SECTION 7. Section 1 of this act is effective when it becomes law and applies  
33 only to contracts entered into on or after the effective date of this act. The remainder of this act  
34 is effective when it becomes law.

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## SUPPORTING DOCUMENTS

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### **Bill Draft 2015-LMz-152A\*: Municipal Service Districts/Statutory Changes.**

*2015-2016 General Assembly*

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<b>Committee:</b>		<b>Date:</b>	April 5, 2016
<b>Introduced by:</b>		<b>Prepared by:</b>	R. Erika Churchill, Kelly Tornow, and Gayle Moses, Committee Co-Counsel
<b>Analysis of:</b>	2015-LMz-152A*		

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**CURRENT LAW:** The North Carolina Constitution generally requires that a municipality's or county's property tax rate be uniform throughout the unit, meaning that all property is taxed at the same rate throughout the jurisdiction. Article V, Sec. 2(2). However, the Constitution also carves out an exception to this requirement. The General Assembly is authorized to permit municipalities and counties to define special service districts within their jurisdiction, and to levy additional taxes in those areas to provide services or facilities that are not offered throughout the unit or that are offered at a lower level in the rest of the unit. Article V, Sec. 2(4).

The General Assembly has enacted a process under Article 23 of Chapter 160A of the General Statutes for cities to establish municipal service districts. A municipal service district is a defined geographic area within a municipality in which the city council levies an additional property tax in order to provide extra services to that defined geographic area. A municipal service district is not a separate government; rather it is a mechanism whereby a city raises revenue from property owners to pay for services or projects that most directly benefit from those services or projects.

Under general law, a municipality may define one or more service districts for any of the following functions:

- Beach erosion control and flood and hurricane protection works
- Downtown revitalization projects
- Urban revitalization projects
- Transit-oriented development projects
- Drainage projects
- Sewage collection and disposal systems
- Off-street parking facilities
- Watershed improvement, drainage, and water resources development projects

## Appendix E

There are a few additional authorized purposes for certain municipalities—conversion of private residential streets to public streets, subject to several prerequisites and restrictions and general preservation of the character of an historic district.<sup>1</sup>

A city may establish a service district by following these procedural requirements:

1. Prepare a report on the proposed district containing the following:
  - A map of the proposed district, showing its proposed boundaries.
  - A statement attesting that the proposed district is in need of one or more of the authorized functions or services to a demonstrably greater extent than the rest of the city and meets other required statutory standards.
  - A plan for providing one or more of the authorized functions or services in the proposed district.
2. Make the report available for public inspection in the city clerk's office at least 4 weeks before holding a public hearing on establishing the district.
3. Publish notice that a public hearing will be held on establishing the district at least 1 week before the date of the hearing, and mail notice to all property owners in the proposed district at least 4 weeks before the date of the hearing.
4. Hold a public hearing on establishing the district.
5. Adopt a resolution establishing the district to take effect at the beginning of a future fiscal year, July 1st.

Once a municipal service district is established, the city council may levy an ad valorem property tax each fiscal year against all property located in the geographic area of the municipal service district. G.S. 160A-542 and G.S. 160A-44. The city council may alter the district tax rate each year, or opt not to levy the tax in a particular fiscal year without abolishing the district. There is no specific limit on the amount of a municipal service district tax rate. However, a service district tax, when added to the unit's ad valorem property tax rate(s) may not exceed \$1.50 per \$100 valuation, unless the portion of the rate in excess of the limit is submitted to and approved by a majority of the qualified voters in the district.

For all municipal service districts, the city is to develop long-range plans and goals, set the tax rate in accordance with those plans and goals, and use the moneys collected for the purposes set forth in those plans and goals.

Once a city levies a municipal service district tax, it must "provide, maintain, or let contracts for the services for which the residents of the district are being taxed within a reasonable time, not to exceed one year, after the effective date of the definition of the district." G.S. 160A-540. For municipal service districts created for historical districts, downtown revitalization, and urban area revitalization, the city must comply with all of the following when contracting with private agencies:

- Prior to entering into the contract the city must:

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<sup>1</sup> Cities located primarily in a county that has a population of 750,000 or more and also located in an adjacent county with a population of 250,000 or more and to cities located primarily in a county that has a population of 250,000 or more and also located in an adjacent county that has a population of 750,000 or more may establish one or more municipal service districts to fund costs related to the conversion of private residential streets to public streets, subject to several prerequisites and restrictions. And, in 1987, the General Assembly authorized those cities having a population in excess of 150,000 which are located in counties having two or more cities each of which has a population in excess of 60,000; those cities where, at the time of creation of the district, the city had a population of not less than 20,000 nor more than 25,000, was not a county seat, and was located in two counties one of which had eight incorporated municipalities; and those cities where, at the time of creation of the district, the city is located in a county with a population of more than 100,000, which county has an area of less than 250 square miles to establish one or more municipal service districts to fund costs related any service, facility, or function which the municipality may by law provide in the city that generally preserve the character of an historic district which, at the time of its creation, had the same boundaries as an historic district created under Part 3A of Article 19 of Chapter 160A of the General Statutes.

## Appendix E

- Solicit input from the residents and property owners as to the needs of the service district.
- Use a bid process to determine which private agency is best suited to achieve the needs of the service district. If the city determines that a multi-year contract with a private agency is in the best interest of the city and the service district, the city may enter into a multiyear contract not to exceed 5 years in length.
- Hold a public hearing.
- The city must require the private agency to report annually to the city, by presentation in a city council meeting and in a written report, regarding the needs of the service district, completed projects, and pending projects.
- The contract is to specify the scope of services to be provided by the private agency. Any changes to the scope of services must be approved by the city council.

Upon finding that there is no longer a need to include a tract or parcel of land within a particular municipal service district, or that there is no longer a need for an entire municipal service district, the city council may, by resolution, redefine or abolish a service district after a public hearing for which notice is published at least once, but not less than 1 week before the date of the public hearing. The removal of any tract or parcel of land or the abolition of an entire district must take effect at the end of a fiscal year, June 30th.

**BILL ANALYSIS:** The bill draft would do all of the following:

1. Require an ordinance to be adopted at two meetings of the city council to establish a municipal service district, or to amend the boundaries of an established municipal service district. The action could be taken at a regular meeting, special meeting, or emergency meeting of the city council.
2. Require the appropriate accounting component of the contract between the city and any private agency administering a municipal service district to include the following information with respect to each subcontractor:
  - a. Name.
  - b. Location.
  - c. Purpose.
  - d. Amount paid.
3. Establish a process by which the property owners may petition the city council for creation of a municipal service district. The city may establish a policy to hear such petitions on a periodic basis, no less than once per year. The petition is to contain all of the following:
  - a. The names, addresses, and signatures of the real property owners within the proposed area.
  - b. A description of the proposed area.
  - c. A detailed statement of the services, facilities, or functions listed in G.S. 160A-536 (reasons for creating a municipal service district) which would serve as the basis for establishing the proposed district.
4. Establish a process by which a property owner may request to be excluded from the geographic boundaries of a municipal service district upon its creation, or after the municipal service district is established. The property owner is to submit a written request for exclusion on the basis that the tract or parcel is not in need of the services, facilities, or functions of the district to a demonstrably greater extent than the remainder of the city and may include any other information the property owner deems relevant. If the city council finds that the property is not in need of the services, facilities, or functions of the district

Appendix E

to a demonstrably greater extent than the remainder of the city, the city council may, by ordinance, exclude the tract or parcel from the municipal service district.

**EFFECTIVE DATE:** Effective when it becomes law, and applies to contracts entered into on or after that date.