



NORTH CAROLINA GENERAL ASSEMBLY

2025 Session

Legislative Fiscal Note

Short Title: Added Fee for Sexually Oriented Businesses.
Bill Number: House Bill 1121 (First Edition)
Sponsor(s): Rep. Riddell, Rep. Cotham, Rep. Johnson-Hostler, and Rep. Scott

SUMMARY TABLE

FISCAL IMPACT OF H.B. 1121, V.1 (\$ in millions)

	<u>FY 2026-27</u>	<u>FY 2027-28</u>	<u>FY 2028-29</u>	<u>FY 2029-30</u>	<u>FY 2030-31</u>
State Impact					
Special Fund Revenues	6.2	8.6	9.0	9.3	9.7
Less Expenditures	-	-	-	-	-
Special Fund Impact	6.2	8.6	9.0	9.3	9.7
NET SPECIAL FUND IMPACT	6.2	8.6	9.0	9.3	9.7

TECHNICAL CONSIDERATIONS: See Technical Considerations Section

FISCAL IMPACT SUMMARY

The bill requires sexually oriented businesses that hold an alcohol permit to pay a \$10 fee for each customer that enters the business; the bill does not allow the business to charge the fee to customers. FRD estimates the fee would generate about \$9.0 million annually in a full year of implementation; the proceeds would be deposited in the Sexual Assault and Rape Crisis Center Fund. The Division for Women and Youth uses this fund for grants to centers for victims of sexual assault and domestic violence, and to the North Carolina Coalition Against Sexual Assault, Inc.

FISCAL ANALYSIS

Revenue. FRD used the average of three approaches to estimate that the bill would increase special fund revenues by about \$9.0 million annually when fully implemented.¹ Two methods used data from other states with a similar charge; a fee per entry in Texas and a tax per entry in California. The third used North Carolina specific data.

¹ Since the amounts the two other states charge patrons to these establishments is constant, the primary variable of interest is the number of visits to such establishments, which FRD assumes to hold steady year-over-year within the states and are adjusted for differences between those two states and North Carolina's as discussed below.

The first approach uses actual collections from Texas's \$5 fee per entry, which generated about \$11 million in 2008.^{2,3} By dividing the revenue by the fee per entry, this generates an estimated number of visitors per year, which was then adjusted for differences given Texas's larger population and fee amounts. Applying the estimated number of visits to North Carolina resulted in estimated revenue of about \$8 million annually.

The second approach replicates the methodology performed for a similar bill in California, which estimated revenues of \$35 million annually given the State's \$10 tax per visit. FRD divided the revenues by the tax which produced the estimated number of annual visits, which FRD then adjusted for California's larger population and that of North Carolina's to determine an estimated number of annual visits in this state. This figure was then multiplied by the proposed \$10 fee and produced an estimate of about \$8 million in a full fiscal year.⁴

The third and final approach uses market data on the adult entertainment industry to arrive at an estimated number of unique visits to such establishments per year in the state, to which the bill's \$10 fee was applied. This method also adjusted for the percent of visits to establishments that serve alcohol based on an estimate from another state (30%) since the fee would only apply to those establishments and was accounted for in the previous methods. This produced a revenue estimate of about \$6.7 million in a full year.

FRD computed the average of the three methods and then adjusted for the partial year impact in FY 2026-27 given the October 1, 2026, effective date; future years estimates were adjusted for anticipated changes in consumer spending. This produced an estimate of about \$6.2 million in FY 2026-27 and about \$8.6 million in FY 2027-28.

Expenditures. There are two types of expenditures associated with administering the fee established by this bill. First, is the cost of fee collections, which would be managed by the Department of Revenue (DOR). The second is the cost of grant administration, which would be managed by the Department of Administration's Division for Women and Youth. It administers the Sexual Assault and Rape Crisis Center Fund and disburses grants.

Collections. The bill does not appear to include a mechanism (such as withholding a flat dollar amount) to fund administrative costs to DOR for fee collections. Therefore, the current bill analysis assumes such costs would be absorbed within existing resources and all revenues discussed above would be used for grants.

However, DOR has expressed that there may be resources needed to administer the fee. The Department estimates it will need an additional four FTE (Revenue Admin Officer, Revenue Officer, Admin Specialist, and Revenue Tax Auditor) to implement the bill in its current form.

² Texas collections are interpreted and used with caution here due to various issues experienced there relating to collecting the fee in the first few years it was in effect.

³ Texas has since raised its fee to \$10.

⁴ FRD also repeated this with adjustments for differences in GDP that produced similar results.

It is anticipated that this fee would be administered like the 911 Fee, which receives revenue from the 911 Service Charge and is administered by the 911 Board. Since the fee could operate like the 911 Fund, FRD concludes that the request may be for more FTE than necessary. DOR could instead operate with one FTE to monitor the list of impacted businesses and hire three temporary employees to assist in the implementation of the fee.

Distribution and Use. The bill directs the funds collected by this fee to be deposited in the Sexual Assault and Rape Crisis Center Fund. Grants are distributed in two shares. The North Carolina Coalition Against Sexual Assault, Inc. and organizations whose centers provide rape crisis or sexual assault services split an equal share of 35% of the fund. Organizations whose centers provide rape crisis or sexual assault services and domestic violence services or other support services split equally the remaining 65% of the funds. Organizations must apply to receive the grants and meet certain criteria to qualify. Grant funds are issued on a quarterly basis based on compliance.

TECHNICAL CONSIDERATIONS

- The October 1, 2026, effective date may not be feasible for the Department of Revenue to stand up and begin collecting the new fee. However, the estimates herein assume fee collections begin then. An additional quarter-year period of time may provide sufficient time for the Department to begin administering the new fee, which would reduce FY 2026-27 revenues proportionally.

DATA SOURCES

Texas Legislative Budget Board; California State Assembly-Committee on Revenue and Taxation; NC consumer behavior based on Google Analytics; Moody's Analytics; Various Texas media reports; NC Department of Revenue.

LEGISLATIVE FISCAL NOTE – PURPOSE AND LIMITATIONS

This document is an official fiscal analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts.

CONTACT INFORMATION

Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

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