



Bulletin #13-20

Friday, June 14, 2013

## County financial stability a must in tax reform

Counties are watching with vested interest as competing tax reform plans in the N.C. House and Senate feature widely different approaches. After the House passed [H998](#) (Tax Simplification and Reducation Act) last week, the Senate wasted no time in revising the legislation. The Senate Finance Committee reworked the bill on Wednesday, and it passed its first of two required votes on the Senate floor on Thursday.

Counties are concerned with the potential loss of county revenues in the final plan.

“This past January, our members unanimously adopted a goal to preserve the local revenue base and to protect county revenues in tax reform efforts,” said NCACC Executive Director David F. Thompson. “We must make sure the final plan is not simply a statewide tax cut funded by reductions in county government taxing authority.”

The version tentatively passed by the Senate on June 13 (the Senate has scheduled the final vote for Tuesday, June 18) takes away several revenue streams from counties, including the local sales tax on food and the sales tax refund for counties. The plan expands the sales tax base slightly by ending many exemptions to generate new revenues for counties. The NCACC estimates a net loss of \$82 million to N.C. county governments if all components of the Senate’s tax reform plan are implemented by 2018.

The House plan also expands the sales tax base slightly to some services but leaves in place the county sales tax on food and the refund for counties from paying sales taxes. The NCACC estimates the House’s adopted version would net counties an additional \$74 million in sales tax revenues when it is fully implemented in 2018. Legislators are expected to try to develop a tax reform plan while also finishing up the state budget prior to June 30.

“We have expressed to legislative leaders our hope that tax reform be a meaningful approach to developing a revenue system that will provide stability and equity for the state and all 100 county governments now and in the future,” said Thompson.

## House Restores Lottery Statutes, Keeps Allocation At \$100 Million

The House Appropriations Committee on Tuesday voted unanimously to restore the statutes that direct how lottery proceeds are to be spent. Acting on an amendment sponsored by Rep. Leo Daughtry of Johnston County, the committee voted to put back into statutes the language that directs 50 percent of lottery proceeds to classroom size reduction, 40 percent to counties for school capital needs, and 10 percent for college scholarships. The state budget adopted by the Senate, and the original version put forth by House Appropriations chairs, removed the statutory language that counties receive 40 percent of lottery proceeds each year for school capital needs.

“Without this clear legislative intent, counties would be forced to compete every year with all other state general fund needs for a share of the lottery proceeds,” said NCACC Executive Director David F. Thompson. “The revenues from the education lottery now represent the only ongoing state support for public school construction. Taking away this revenue stream would require counties to either reduce other services or increase property taxes to pay for existing debt service.”

Rep. Daughtry said his county had budgeted to spend all its lottery proceeds to pay off debt services for school bonds and was forced to make up for reductions in lottery funding the last three years with county revenues. "My county had to go into reserves and cut spending, and they have been very agitated with this body since the time we reneged on our promise," said Daughtry.

Former commissioners Rep. Nathan Ramsey (Buncombe) and Rep. Debra Conrad (Forsyth) also spoke in favor of the amendment, as did Rep. Dean Arp (Union) and Rep. Dana Bumgardner (Gaston). Nobody spoke in opposition. "When the lottery was passed, it was intended to go on a 50-40-10 distribution, and I think that ought to be something in the future that we work to try to regain," Rep. Ramsey said.

While the House restored the language, it kept the allocation to counties at \$100 million, slightly more than half of what counties should receive based on estimated lottery proceeds of \$475 million. Counties have not received the full share of lottery proceeds since the 2009-10 fiscal year. Restoring lottery funds for school construction to the statutory requirement was voted by N.C. counties as the No. 2 legislative priority for 2013-14 biennium.

## **House passes budget, readies for conference with Senate**

The House passed its version of the state budget on Thursday, setting up a conference with the Senate to work out the differences between the two spending plans. Because this is the first year of the biennium, the General Assembly must adopt its budget by June 30 to avoid a government shutdown. If the two chambers can't agree on a spending plan by then, they could adopt a temporary budget to give them additional time to work out the differences.

Several of the items in play will impact county governments, including the statutes dictating how lottery funds are to be spent. The House restored the statutes this week, while the Senate budget – and the original version of the House budget – had taken them out. Both the House and Senate allocated \$100 million to counties in lottery proceeds for 2013-14 – slightly more than 22 percent of lottery proceeds – and permanently eliminated the portion of the corporate income tax dedicated to school capital needs (the ADM Fund).

The House included money in the second year to draw down federal Help America Vote Act funds (an NCACC legislative goal). The Senate did not. The House budget also includes a special provision that allows counties to use revenues from the quarter-cent sales tax option provided to counties as part of the Medicaid swap on road construction costs, including "rights-of-way, construction, reconstruction, improvement, or maintenance of any road on the State highway system as set forth in G.S. 136-51." Counties' No. 1 legislative priority is to stay out of road funding responsibilities.

The House and Senate both establish a fund to pay for channel and inlet dredging, which is also an NCACC goal, but took different approaches to how it will be funded. The House generates funds through a direct appropriation and a portion of gas tax revenues. The Senate plan uses a portion of gas tax revenues and an increase in boat registration fees.

The House did amend the Senate's plans to assess counties and cities for a portion of workers' compensation costs for volunteer fire and rescue squads if the insurance premium surcharge directed for these employee costs is insufficient. The House rewrote the special provision to consider increases in the direct workers' premiums to help defray loss of state general fund support, and it appears that any assessment would not be made prior to April 2016. NCACC is unsure of the potential cost exposure and believes a requirement for counties to fund non-county employee benefits is a troubling precedent.

For a more complete analysis of the House budget and a comparison of key provisions in the House, Senate and Governor's budgets, please visit the [NCACC website](#).

## **911, DMV bills begin to move**

Bills that the NCACC both support and oppose moved through various stages of the legislative process this week. [H345](#) (Increase Penalties for Misuse of 911 System), which addresses our legislative goal to expand county governments' use of 911 funds, directs a study of, among other

items, the 911 board and administration of the 911 fund. The bill had passed the House but was sent to the Senate Rules committee because of opposition from the telecommunications industry. It has been moved to the Senate Judiciary II committee, and we hope it will receive a hearing in the next couple of weeks. If legislators from your county are on this committee, please contact them to express support for this bill.

As implementation of the new Tag & Tax system is occurring, legislation that would increase costs to counties passed the Senate Transportation committee. [S305](#) (DMV Commission Contract Changes) did emerge in a different form with a reduced cost than the original bill, but still greater than the existing fee structure. It would increase the fee paid to contract license plate agents from \$.48 for collection of property tax to \$1.06 for the first six months of the program, then to \$.71 going forward. In addition, it adds a fee of \$1.27 for the issuance of a "limited registration plate" upon sale of a vehicle when property tax isn't collected at the time of sale. This bill will be heard next in the Senate Finance committee.

Finally, the Senate failed to concur with drastic changes made by the House to [S76](#) (Domestic Energy Jobs Act), the bill that originally attempted to bypass the process set up by legislation last year to prepare the state for hydraulic fracturing. The future of this legislation is uncertain.

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## Bills of Interest

**Bill:** [H664](#)

**Sponsors:** Hager (R112); Moffitt (R116); Brawley, W. (R103); Alexander, K. (D107)

**Title:** CELL TOWER DEPLOYMENT ACT

**Comments:** This bill makes many changes to city and county authority to regulate and oversee the placement and expansion of cell towers. The Association has worked with the bill sponsors and industry representatives to make the bill more palatable to counties. The bill passed the House on May 13. The Senate made some changes to the bill and passed it out June 12. It has been sent back to the House for concurrence.

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**Bill:** [H765](#)

**Sponsor:** Dixon (R4)

**Title:** JURY INSTRUCTIONS FOR SCHOOL BUDGET DISPUTE

**Comments:** This bill specifies what instructions should be given to a jury in the event that a local board of education and a board of county commissioners cannot agree on the amount of county funding for the public school systems. Current law allows the jury only to consider "what amount of money is needed from sources under the control of the board of county commissioners to maintain a system of free public schools." The revised bill requires the judge or jury to consider "the facts as to the following in order to maintain a system of free public schools as defined by State law and State Board of Education policy: (i) the amount of money legally necessary from all sources and (ii) the amount of money legally necessary from the board of county commissioners. In making the finding, the judge or the jury shall consider the educational goals and policies of the State and the local board of education, the budgetary request of the local board of education, the financial resources of the county and the local board of education, and the fiscal policies of the board of county commissioners and the local board of education." The bill passed the House and Senate and has been presented to Gov. McCrory.

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**Bill:** [H857](#)

**Sponsors:** Arp (R69); Bryan (R88); Moffitt (R116); Hager (R112)

**Title:** PUBLIC CONTRACTS/CONSTRUCTION METHODS/DB/P3

**Comments:** This bill would authorize the "design-build" option for construction projects, accomplishing the NCACC legislative goal to "Authorize design build option for all counties." The bill has a sunset date of July 1, 2019. It passed the House on May 15 and passed the Senate State and Local Government Committee on June 11 after being revised. The bill has been sent to the Senate Finance Committee.

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**Bill:** [S411](#)

**Sponsors:** Rabon (R8); Harrington (R43)

**Title:** ETHICS REQUIREMENTS FOR MPOS/RPOS

**Comments:** This bill adds certain ethics disclosure requirements to "voting members" of Metropolitan Planning Organizations (MPO) and Rural Planning Organizations (RPO), including the filing of a statement of economic interest, but does not require them to be covered by the State Ethics Act unless they are also a member of the State Transportation Board. This bill has been passed by both chambers and presented to the Governor.

- Johanna Reese, Government Relations Director
- David F. Thompson, Executive Director

