



Bulletin #05-06

Thursday, March 3, 2005

GOVERNOR'S BUDGET INCLUDES SALES AND CIGARETTE TAXES

Gov. Easley presented his 2005-07 budget proposal to the General Assembly last week. New tax increases, new funding initiatives, and some funding reductions are included in the governor's \$16.9 billion budget – \$1 billion above that adopted for the current year.

The governor proposes to close the \$1.2 billion shortfall for 2005-06 through the following actions:

- Extend the ½ cent sales tax due to expire June 30, 2005.
- Raise the state's 5-cent cigarette tax by 45 cents per pack.
- Transfer \$37 million from the tobacco trust fund.
- Extend the state sales tax on telecommunications, candy, newspapers, and other sundry items (some of these actions are to comply with the national streamlined sales tax agreement for remote sales collection).
- Reduce spending by \$203 million, including a 1 percent reduction in all agencies except public schools, Medicaid and debt service.

The budget proposal does not include proceeds from a lottery, but does allow a reduction in the top income tax rate, scheduled to take effect in the coming fiscal year. State employees and teachers would receive a 2 percent salary increase, with an additional 2 percent going to full-time community college faculty and professional staff. The proposal includes \$180 million to be made available over the two-year biennium to offset the increased costs of the state's health plan although employee contributions could increase as well. State retirees would receive a 2 percent cost-of-living adjustment.

Education

Of particular concern to counties is the use of \$15 million in county Public School Building Capital Fund (the ADM Fund) receipts to help balance the state's shortfall each year of 2005-07 biennium. According to the budget item description, the governor estimates that an additional \$15 million is available over the 2003-04 allocation of \$57.6 million due to increased corporate tax collections. Current law calls for a certain percentage of corporate income tax collections (5/69) to be set aside for public school construction and capital needs. When the fund was established in 1987, \$82 million was credited the first year of operation.

Most of the governor's new funding is directed at education initiatives and increased enrollment in public schools, community colleges and universities. Although not stated as such, the governor's response to the Leandro lawsuit can be found in funding for disadvantaged students and full funding of the low-wealth formula over two years. All told, \$246 million would now be targeted to at-risk students with funding set aside for a third party's evaluation of improvement strategies to determine which ones lead to improved student performance. A new program to connect at-risk students to health, mental health and social services

would fund 100 nurse and social worker teams who would report to the superintendent. These teams would conduct multi-disciplinary student assessments, develop individual improvement plans and track students' progress.

The governor's budget proposal places more emphasis on our state's high schools by expanding the Gates Foundation's Learn and Earn program to 20 new planning sites, with funding made available for the existing 10 planning sites to become operational. Seven LEAs would be able to create 11 small high schools within existing schools through the specialty schools pilot. The smaller schools would emphasize health and life sciences, enroll no more than 400 students, and would operate as independent high schools with their own principals within the existing high school facilities.

Human Services

Medicaid continues to be a driver of the state's budget with an additional \$215 million in state funds needed above 2004-05, despite efforts to trim the state's share by \$50 million through increased co-pays, reduced drug costs, reduced inflationary adjustments, and savings from Medicare's coverage of dually eligibles beginning Jan. 1, 2006. The governor proposes that the Division of Medicaid Assistance devise plans for realizing these cost savings. Should these reductions be accepted by state legislators, county costs would decrease by about \$17 million.

Most recent (Feb. 15) estimates for 2005-06 county Medicaid costs top \$470 million, \$30 million above the 2004-05 revised county Medicaid costs released in November 2004. The governor's budget proposal would expand the Medicaid program. Without relief, these changes would increase county costs by \$2.6 million. The governor's budget also proposes increased regulatory oversight of group facilities licensed by the Department of Health and Human Services.

Other Proposals

Also of interest to county officials are the following proposals in the governor's budget.

- Additional funding is recommended for enhanced response to methamphetamine investigation and to expand DNA lab processing.
- The governor proposes a number of new positions in the Department of Environment and Natural Resources to implement his "One NC Naturally" initiative, a program to monitor and protect the state's environmental quality. No funding changes are requested in the state's Clean Water Management Trust Fund with a continuation of \$62 million each year in the biennium.

BILLS OF INTEREST

GENERAL GOVERNMENT

Introductions

H399 "To allow counties with no incorporated municipalities to exercise most municipal functions." Rep. Bill Owens (Pasquotank). If enacted, **this bill would accomplish an Association Legislative Goal.** It would authorize a county with no incorporated municipality to submit to the voters the question of whether the county should be vested with all the powers, duties, rights, and obligations of a city. If the question is approved by the voters, the county would be so vested. The board of county commissioners could exclude specific functions from those vested by the Article. The bill was referred to the House Local Government Committee.

PUBLIC EDUCATION

Introductions

S212 “**Authorizing counties to provide funds to charter schools.**” Sen. Eddie Goodall (Union). This bill would authorize counties to provide funds for charter schools’ operations or capital expenses. It was referred to the Senate Education Committee.

S213 “**To remove the cap on the number of charter schools.**” Sen. Eddie Goodall (Union). This bill would repeal the statute that now allows the State Board of Education to authorize no more than five charter schools per year nor more than 100 charter schools statewide. It was referred to the Senate Education Committee.

TAXATION AND FINANCE

Introductions

S214 “**To increase the excise tax on cigarettes.**” Sen. Martin Nesbitt (Buncombe). This bill would increase the tax on cigarettes from 5 cents to 80 cents per pack. **It would accomplish an Association Legislative Goal.** The bill was referred to the Senate Finance Committee.

James B. Blackburn, III, General Counsel
C. Ronald Aycock, Executive Director