

Memorandum

To: County Managers, Asst. Managers, Finance Officers and Budget Directors
From: Rebecca Troutman, NCACC Intergovernmental Relations Director
Date: March 31, 2009
Subject: Annual Revenue Projections for State-Collected, County-Authorized Revenues

Introduction

Every year at this time, we develop forecasts of major county revenues and assemble other information to help county officials put together their proposed budgets for the upcoming fiscal year.

Please find here a [spreadsheet of all local state-shared revenues](#) from 2007-08. We have also linked all other accompanying materials within this main document for your easy retrieval. If the link cannot be accessed, please see our website, <http://www.ncacc.org/links-budget.html>.

State and National Economic Outlook

The global economic crisis and financial upheaval have devastated the state's economy, and with that, the state's revenue collections. Not surprisingly, the economy-based revenue sources such as personal income tax withholdings and sales taxes are being hit hardest. The state's January unemployment rate jumped from 5.0 percent a year ago to 9.7 percent, with 197,000 fewer jobs; February's rate jumped another percentage point to 10.7 percent, the 4th highest nationally. Even as dire as these rates are, they mask what's happening in individual counties. In January, the most recent data available, 66 counties had unemployment rates exceeding the statewide average, with Dare County being the highest at 17.8 percent unadjusted.

Based on the [most recent analysis](#) by the General Assembly's Fiscal Research Division, through February, state revenue collections are 9.2 percent below forecast, or off by \$1.2 billion. February sales collections versus forecast plummeted 12 percent, with expectations of a fiscal year-end decline of roughly 5.5 percent as compared with last year's baseline sales tax collections. To put that in perspective, the largest quarterly decline year over year during the 2001 recession was 3.6 percent. We anticipate similar declines in the local sales tax portion for 2008-09.

By fiscal year end, the state's revenues are expected to be 10.7 percent lower than budgeted, or a \$2.3 billion gap in a \$21.4 billion budget.

Little relief is in sight. State economists project recession-like conditions throughout 2009, with only sluggish economic recovery expected in early 2010. One bright spot is two months of increased national consumer spending.

The State Budget

2008-09

Beginning late in the first quarter in fiscal year 2008-09, state agencies were directed to rein in spending, with reductions ranging from 2 percent in September to 9 percent in February, as the state's budget crisis worsened. Each state agency was given a separate spending reduction target, and the agency developed its own recommendations for meeting its target under the general guidance to protect direct services. Generally, the targets were lower for critical state programs – public school spending was only reduced by 2 percent, largely managed with DPI reductions and expected reversions – LEAs were subject to a reduction of \$39.25 per student.

County program impacts largely tracked those of other non-state entities and were generally cut the same amount as the sponsoring state agency's reduction target.

Then the bottom fell out in late February. Concerned with state cash flow issues, Governor Perdue ordered that the February distribution of lottery funds and the corporate tax set aside (ADM fund) for school construction be withheld from the Public School Building Capital Fund, taking \$43 million. Furthermore, the governor's directive held back an additional \$57 million of the ADM Fund balance, pending cash flow needs, for a total reduction of school construction funds of \$100 million. A temporary freeze on PSBC Fund disbursements was implemented, although the February disbursements were released several days later.

Other state reserve funds were impacted as well – the Clean Water Management Trust Fund lost \$100 million, the Education Lottery Reserve's \$50 million was transferred, and \$50 million from the Public School Textbook Fund was taken. In mid-March, the governor also seized the state's rainy day fund of roughly \$800 million as a precaution to further cash flow needs.

To ensure adequate school construction funds would be available through the fiscal year end, the Association worked with the Office of State Budget and Management to survey counties on their planned and budgeted uses of the lottery and ADM Fund monies. Given the survey results and to mitigate school construction fund losses, Governor Perdue did not transfer the \$57 million in ADM Fund balances and plans to limit school construction lottery fund losses to the February distribution of \$37 million. All told, Governor Perdue has agreed to reduce the state's withholding of school construction dollars by as much as \$50 million, and she has agreed not to take any money that has already been allocated to counties.

2009-10

Governor Perdue released her [2009-11 biennial budget request](#) March 17, and the General Assembly's joint appropriation subcommittees have already begun their review. All told, the \$21 billion general fund budget decreases state spending, in anticipation of a \$6.4 billion cumulative budget gap throughout the biennium. Governor Perdue proposes budget cuts of \$1.3 billion in each year of the biennium, and targets \$2.9 million in federal recovery monies to plug the budget hole. A proposed \$1 per pack increase in cigarettes and a 5 percent surcharge on alcohol sales (ABC, beer and wine), effective September 1, 2009, add \$508 million in new revenues. Virtually no growth in existing revenues is anticipated in 2009-10, including a forecast for flat sales tax collections.

Most importantly for counties, the governor's budget does not redirect either the school construction lottery proceeds or the corporate income tax set aside (ADM funds), both of which are credited quarterly to the Public School Building Capital Fund. Despite considerable cuts in state spending, including 20 programs recommended for elimination or reduction, the budget did not contain major cuts to county governments and county programs. Generally, any state aid to non-state entities such as the Criminal Justice Partnership Program and the Juvenile Crime Prevention Council is subject to a 7 percent reduction. The Clean Water Management Trust Fund would be cut 25 percent, or \$25 million, in both years of the biennium, to be restored to its statutory level of \$100 million in 2011-12. State aid to counties for social services administration of \$5.5 million would be eliminated each year in the biennium, to be restored as a recurring appropriation in out years. (The State Office of Budget and Management did guarantee that the federal stimulus dollars for additional food stamp administration [\$9 million] and foster care services [\$3.5 million] would be passed down to counties to offset these cuts.)

Public schools are asked to identify \$144 million in local cuts based on a reduction in per average daily membership – schools are encouraged to use local federal stimulus dollars to offset classroom impacts. Central office allotments would be cut by 5 percent, non-instructional support (clerical and custodial) by 2.5 percent, and the "Improving Student Accountability" allotment would be eliminated all together (\$38 million. Again, the budget proposal suggests that locally received stimulus dollars could backfill the allotment elimination. Given a change in kindergarten birthdate eligibility, overall k-12 enrollment is projected to fall slightly. Including federal stimulus dollars and expansion items, total per-student state funding increases from \$5,597 to \$5,736.

Governor Perdue does recommend the closing of seven high-cost state prison facilities.

The governor's budget proposal provides for an average teacher salary increase of 1.8 percent, with a step increase. School administrators would receive an average 1.5 percent increase. State employees and university faculty would not receive any salary enhancements. Governor Perdue's proposal eliminates longevity bonuses for the biennium and substitutes paid leave instead. State employer contributions will see a 12.3 percent increase in health premiums. For locally paid school employees, counties can expect a state health plan annual premium of \$3,438 for Medicare-eligible employees and retirees and \$4,515 for all others, should S287 become law. As of this writing, state retirement contributions equal 8.44 percent of salary, although this will be adjusted upward to manage the state retirement system deficit.

The Senate drafts the first legislative response to the governor's proposal and plans to have its budget completed by April 9.

Medicaid Relief Swap

July 1st marks the end of county participation in future Medicaid service costs. After years of intensive county lobbying, the General Assembly enacted a Medicaid relief swap package in its 2007-08 budget (House Bill 1473) to phase out the county share of Medicaid over three years. In exchange, counties cede ½ cent of local sales tax to the state over a two-year period, and the Article 42 sales tax, currently distributed on a per capita basis, will be distributed on a point of delivery basis beginning with the October 2009 distribution (January payment).

Counties need to budget some marginal funds for Medicaid transportation administration – please find here the [state estimates](#). Originally, counties should have expected some Medicaid services credits and debits to occur, as the state finalizes payment for Medicaid services delivered on or before June 1, 2009. However, if the General Assembly accepts the governor's proposal per S1093, Section 10.23, counties would be relieved of this responsibility.

The Medicaid relief swap includes a "hold harmless" provision that guarantees each county will benefit by at least \$500,000 in Medicaid relief every year in perpetuity. Eligible counties receive 90 percent of the estimated hold harmless payment in mid-March, along with the March sales tax distribution, with a truing up of the actual payment due by Aug. 15. In this and future years, the Medicaid hold harmless payment is based on actual performance –actual Medicaid savings versus actual foregone sales taxes. Please remember that the 2009-10 hold harmless payment, like that of the 2008-09 payment, is calculated on a cash basis.

The second annual Medicaid hold harmless report was released March 16 – [March 2009 hold harmless report](#). The amounts were predicated on Medicaid savings beginning July 1, 2008, with the county Medicaid share reduced in half to 7.5 percent of the non-federal share, saving counties an estimated \$272 million. The federal recovery package's increase in federal Medicaid participation would increase the number of counties eligible for the hold harmless, although we expect this to be set aside by legislative action.

To help the state absorb the additional Medicaid cost, counties relinquished a quarter cent of their local sales tax – the per capita portion of the Article 44 sales tax – effective with sales made on or after Oct. 1, 2008, and held their cities harmless for their Article 44 loss. Please remember that sales tax collections and distributions are roughly three months apart—counties saw a diminished Article 44 with the distribution they received in January.

The Department of Revenue inadvertently distributed all of Article 44 on a point of delivery basis in December – they are working on reversing this distribution to more appropriately distribute the last month of one-half cent Article 44 based on a 50/50 per capita/point of delivery split. We anticipate this correction to be made prior to the 2008-09 fiscal year end.

The Department of Revenue calculates the city loss monthly, and withholds this amount ostensibly from the county's Article 39 monthly distribution (reduction is actually made against total county allocation), DoR includes the city hold harmless in the city's monthly distribution. The Local Government Commission recommends that counties book the city hold harmless against their Article 39 receipts.

As a result of the sales tax changes, the local portion of the sales tax is 2.25 cents from October 1, 2008, through September 30, 2009 (absent adoption of Article 46), while the state sales tax rate would be 4.5 cents (assuming no other change) for this same time frame. Beginning with sales made on or after October 1, 2009, counties will cede the remaining quarter cent of Article 44 to the state. This will impact the sales tax payment made to counties in January. Also in conjunction with the January payment, Article 42 will be distributed on a point of delivery basis.

Because the Medicaid relief swap affects Articles 44, 39 and 42 in 2009-10, counties must project their sales tax revenues accordingly—the county’s actual loss in Article 44, the city’s loss of Article 44 being deducted from the county’s Article 39, and the county/city impact for Article 42 shifting to a point of delivery basis.

As a reminder, the Medicaid relief swap only impacted ADM Fund receipts in 2007-08. However, since the Fund’s quarterly earnings for the last three quarters of 2007-08 did not return the required Medicaid relief swap holdback amount, the Department of Revenue is seeking payback of the \$4.9 million in deficient funds. DoR notified each county, if applicable, of its deficit amount in the [August 2008 Medicaid hold harmless report](#), and has since sent a memo to each impacted county, requesting payment.

Counties receiving the Article 44 hold harmless payments from lost reimbursements will continue to receive these funds until the current expiration date of 2012, absent legislative action.

Current law requires counties to use 60 percent of Article 42 receipts for public school capital outlay purposes as defined in G.S. 115C-426(f) or to retire any indebtedness incurred by the county for these purposes. The General Assembly modified this requirement last year in the “technical corrections” bill (S1704), to require counties whose Article 42 receipts would be less under the point of delivery allocation to earmark enough revenue to make up for the loss of school construction funding. As a reminder, Article 42 and Article 40 set-aside dollars are to be used by counties to meet their statutory obligations regarding school construction and maintenance; this is not a funding stream directly to schools.

Federal Recovery Funding

The Association is helping counties track federal funding opportunities associated with the American Recovery and Reinvestment Act of 2009. Given a substantial increase in federal Medicaid participation, retroactive to October 1, 2008, county Medicaid costs, set at 7.5 percent of the non-federal share, necessarily are reduced. We have estimated what counties might receive in Medicaid savings, October 2008 through June 2009, to exceed \$44 million. We understand that the county April Medicaid warrant is to be calculated at the new federal participation rate. We are awaiting confirmation from DHHS regarding the payment credits to counties for the November through March warrant period. DHHS is reprocessing all claims for that period, using the increased federal participation rate.

Other direct county impacts from ARRA include an increase in federal participation in IV-E foster care and adoption assistance, additional food stamp administrative dollars (county social services departments are being hammered by food stamp applications), and a return of the child support enforcement incentive reimbursement payments.

Counties will also be able to take advantage of favorable school bonding opportunities, although we understand that state legislation must be enacted to authorize their use. Such legislation has already been introduced. Furthermore, ARRA allows a temporary increase in bank qualified loans to \$30 million.

LGC staff members are regularly publishing updated memos on their [website](#) regarding the monitoring and reporting requirements associated with the federal stimulus package.

ADM Fund and Lottery Proceeds for School Construction

ADM Fund

Many counties are asking whether they should budget ADM Funds for 2009-10. Frankly, we do not know what to advise. Governor Perdue’s 2009-10 budget does not divert receipts from the normal corporate tax set aside (5/69s of net collections) for state use, and we are hopeful that the General Assembly retains these monies for

school capital outlay needs. Proceeds for 2008-09 are impacted by lower than normal corporate profits (down 25 percent through February), a change in payment processing (March payments shifted to April), and state action to withhold the February distribution of \$5.6 million (much smaller than normal distribution given a large, one-time refund). Counties should note that the May payment will probably be withheld as well.

The governor's budget anticipates the ADM Fund to earn \$78.9 million in 2009-10.

For your county's balance, please see the [ADM Fund "Special Summary Report,"](#) under the Public School Building Capital (ADM) Fund link at this site.

Please remind your legislators that ADM Fund dollars are a critical component to support ever-increasing school facility needs, as documented by the most recent [school capital survey](#). The survey calls for nearly \$10 billion in school capital expenditures over the next five years.

Lottery Proceeds

The 2008-09 state budget appropriated \$350 million in lottery receipts for educational purposes, of which \$154 million was appropriated for public school capital needs. A special provision directed that lottery revenues of \$140 million – set at 2007-08 school construction lottery funding – be distributed via the statutory formula. The remaining \$14.2 million of the \$154.2 million appropriated for school construction would go to those counties whose effective tax rates fall below the statewide average.

The governor's budget proposal projects lottery sales at \$1.2 billion, slightly less than that expected for 2008-09. With more funding going to prizes, roughly 30 percent of these funds are to be set aside for educational purposes and 40 percent of these are set aside for school construction or \$139.8 million for 2009-10.

The 40 percent for school capital needs are further divided into two allocations, unless the General Assembly changes the school construction allocation formula. The first allocation, available to all counties, sets aside 65 percent of the 40 percent based on the school district's average daily membership. The second allocation sets aside the remaining 35 percent for those counties whose effective tax rates exceed the statewide average based on current year's data. A county's effective tax rate is based on where a county is in its revaluation cycle. For those counties in the first year of revaluation, the effective rate equals the tax rate multiplied by the sales/assessment ratio for that year (generally the ratio is at or is very close to 1). For those counties in the second year of revaluation, the effective rate equals the tax rate multiplied by a weighted average of the sales/assessment ratio for the two most recent years. For counties in the third or later year of revaluation, the effective rate equals the tax rate multiplied by a three-year weighted average of the sales/assessment ratio. The average daily membership of those school districts in qualifying counties will then be used to allocate this second pot of money to individual counties.

Effective tax rates are recalculated each year to determine allocations for the following fiscal year. While we await the official lottery allocations from the N.C. Department of Public Instruction, we have provided an [estimate of what counties might expect](#). Changes in individual county effective tax rates vis a vis the statewide average effective tax rate drastically impact anticipated lottery proceeds per county. The Association's comparison of eligible counties based on 2008-09 data versus the estimate based on 2007-08 data show two counties becoming eligible for these additional monies, and three becoming ineligible. Either change roughly doubles, or halves, a county's estimated allocation.

Once the school capital lottery appropriations are made to the ADM Fund, county access to those funds mirrors the process for accessing current ADM Fund dollars in terms of project approval and uses with two major exceptions—lottery dollars do not require a local match and cannot be used for technology projects.

Like the ADM Fund, we are hopeful that the General Assembly continues school construction funding via lottery receipts.

County Revenue Streams

The following sections outline those county revenue streams that are either collected on behalf of counties or are state-shared, local revenues.

Local Option Sales Taxes

Our original projections for 2008-09 sales tax growth recommended at most a 1 percent increase over 2007-08 receipts. However, through the April payment, local sales tax collections are down 4.6 percent. In light of the ongoing recession, local sales tax receipts are likely to be as much as 5.5 percent below last year's collections, excluding sales tax collection reductions due to ceding one-half of Article 44. Luckily, our receipts are sheltered somewhat in economic downturns since food sales are still subject to a 2 percent local tax, and food accounts for 11 percent of the sales receipts for those 2 cents.

As a reminder, no executive action can reallocate local sales taxes to backfill state revenues—only legislative action could redefine a local tax to be a state tax.

We reference sales taxes by their statutory citations in General Statute Chapter 105:

- Article 39 – one percent point of delivery, authorized 1971, food in base
- Article 40 – one-half percent per capita, authorized 1983, 30% set aside for school capital, food in base
- Article 42 – one-half percent per capita, authorized 1986, 60% set aside for school capital, converts to point of delivery October 2009, food in base
- Article 44 – one-half percent (¼ per capita, ¼ point of delivery), authorized 2001 to replace repealed reimbursements, per capita ceded to state October 2008, point of delivery ceded to state October 2009, no food
- Article 46 – one-quarter percent point of delivery, authorized 2007, no food, no municipal share, requires referendum

Please visit the budget website for spreadsheets showing the county-wide, and local government, sales tax distributions by Article, including those receipts due to sales tax on food for home consumption.

Sales Taxes Changes

It's important to define the sequencing of sales, collections, allocation and distribution to help in projecting sales tax receipts. For example, July "collections" reflect June vendor "sales," which are processed and "allocated" in August, with a local government "distribution" made on or before September 15. Put another way, local government sales tax distributions in any given month reflect the actual sales made three months prior.

Please note that the 2 percent local sales tax on food—its administration and accounting—is treated as if it was a state sales tax beginning with the October 1, 2003, collections (January 12, 2004, payment report). For allocation purposes, one-half of the food sales tax is distributed on a per capita basis while the other half is distributed proportional to the 1997-98 Article 39 tax on food. The summary sales tax distribution report reflects county sales taxes attributable to food for the point of delivery portion of sales taxes. Overall, food accounted for \$117 million per penny in 2006-07. As a reminder, you may access all local sales tax distribution reports from our "[Links](#)" page.

Sales Taxes Refunds

We encourage counties to monitor closely the sales tax refunds debited from their county area distribution, given the growth and expansion of these refunds. Overall, these refunds have increased 27 percent in just five years – now at \$203 million for the local share alone.

Furthermore, the change from quarterly to monthly sales tax allocations makes these refunds more pronounced, in that they are no longer averaged over three months. Per G.S. 105-164.14 (f), counties may request in writing to DoR the refund detail for the previous 12 months, and the newly designed sales tax distribution report lists the total refunds month by month.

Articles 40 & 42

Articles 40 and 42 are currently distributed on a per capita basis, with 30 percent of Article 40 and 60 percent of Article 42 receipts dedicated to school capital. State fiscal analysts project statewide retail sales remaining flat after a 5.5 percent decline in 2008-09 receipts over 2007-08. We recommend that counties consider decreasing their sales tax revenues by as much as 1 percent for Articles 40 and 42 (for sales made on or before Sept. 30),

whose receipts are allocated statewide on a per capita basis. This figure is very conservative, but given the uncertainty in our state's economy, we believe a conservative approach is warranted.

Article 39

For Article 39, and the remaining half of Article 44, counties need to decide whether a 1 percent loss in sales tax collections appropriately reflects their specific economic conditions such as job losses, changes in net migration, and availability of retail options.

Article 44

Article 44, at one-quarter cent, does not apply to sales on food for home consumption and is allocated on a point of delivery basis. Again, the remaining portion of Article 44 is ceded to the state on sales made on or after October 1, 2009. Counties should see a reduction in their cash-basis distribution in January 2009.

Hold Harmless

Legislation authorizing Article 44 provided for a hold harmless provision for those local governments whose expected Article 44 receipts do not replace their repealed state reimbursements. Per G.S. 105-521, by May 1 of each year, the Department of Revenue (DoR) and the Fiscal Research Division of the General Assembly must estimate what Article 44 would generate for all local governments, based on their existing allocations for Articles 39, 40 and 42. If a locality's repealed reimbursements are \$100 or more than their anticipated Article 44 receipts, the Secretary of Revenue must submit an annual payment of that difference by August 15, and take the hold harmless funds from the state's sales tax receipts. The 2004 Appropriations Act (H. 1414) amended 105-521 by guaranteeing hold harmless payments through 2012. The Medicaid relief swap continues the Article 44 hold harmless through its existing sunset.

Article 46

Article 46 is allocated point of delivery, does not apply to sales on food for home consumption, and is not shared with municipalities.

e-911 Fees

As a reminder, House Bill 1755, passed in 2007 and effective January 1, 2008, preempted local authority to set an e-911 landline fee and substituted a statewide rate of 70 cents on all voice communications service connections, including landline, wireless and voice over internet protocol (VoIP). Per H1755, the 911 Board — the statewide entity charged with overseeing the 911 service charge and its use — must make a monthly distribution to each primary PSAP from the revenues collected via the 70 cents charge, based on the PSAP's 2006-07 landline receipts and wireless allocation. (Only primary PSAPs are eligible to receive a distribution — secondary PSAPs cannot receive these funds directly and may not receive any future funds if they do not serve as official back-up sites to the primary PSAPs.) An annual allocation of \$62,504,488 is to be distributed to counties and cities via monthly allotments. Counties with eligible PSAPs may wish to budget at the 2006-07 amount.

The 911 Board has adopted, and continually revises, its list of [eligible e-911 fee expenditures](#).

\$2 Ton Statewide Tipping Fee

The General Assembly enacted a \$2 per-ton statewide "tipping tax" in 2007 via SB 1492 and SB 6, in conjunction with the rewrite of the state's solid waste landfill disposal laws. The excise tax went into effect July 1, 2008, and is charged on municipal solid waste and construction and demolition debris that is deposited in a landfill in the state or transferred at a transfer station for disposal outside the state.

The proceeds of the tax are distributed as follows: 50 percent to the Inactive Hazardous Sites Cleanup Fund to help pay for assessment and remediation of pre-1983 landfills (including abandoned, unlined city or county dumps), 18.75 percent to cities on a per capita basis for solid waste management programs and services, 18.75 percent to counties on a per capita basis for solid waste management programs and services, and 12.5 percent to the Solid Waste Management Trust Fund for grants to local governments and state agencies. County per capita figures exclude those persons residing within a city.

The legislation allows those entities who applied for landfill permits before August 1, 2006, and whose applications would be denied under the new standards of the act, to request reimbursement of their reasonable costs in exchange for executing a covenant not to sue the state. Proceeds of the tax will first be used to pay such costs.

The first local government allocation of the tax was made on February 16, for a total of \$3.7 million, out of \$5.2 million in quarterly collections. Proceeds of the tax can only be used to support solid waste programs or services. A city or county is excluded from the distribution if it does not provide solid waste management programs and services and is not responsible by contract for payment of the programs and services, unless it is served by a regional solid waste management authority. A city or county that receives funds and is served by a regional solid waste management authority must forward the amount it receives to that authority.

Video Programming Revenues

House Bill 2047, effective Jan. 1, 2007, eliminated county and city government authority to award or renew local franchise agreements for cable services (G.S. 66-351). To replace lost local cable franchise fee revenues, G.S. 105-164.44I requires the NCDOR to distribute part of the state sales tax collected on video programming and telecommunications services to counties and cities on a quarterly basis. For municipalities and counties that did impose a cable franchise tax, the amount is based on the cable franchise tax and PEG channel subscriber fee revenue imposed from July 1 through December 31, 2006. For those that did not impose a cable franchise tax before July 1, 2006, the amount is based upon population. In 2007-08, \$23.2 million was distributed to counties.

Despite contracting consumer spending, video programming revenues could be up as much as 10 percent this fiscal year, although some of this growth results from a higher state tax rate on telecommunications services enacted last April. Next year, state economists project an increase of about 5.5 to 6.5 percent.

Counties with qualifying public, educational and governmental (PEG) channels are entitled to as much as \$25,000 per channel (for up to three channels) in supplemental PEG operating funds. However, the total amount of money distributed for PEG channel support may not exceed \$2 million in a fiscal year; if it does, the amount per channel is proportionately reduced. Due to legislative changes last year, the more than 300 qualifying PEG channels has been reduced to 97 being certified to the Department of Revenue, increasing the amount distributed to \$20,600 per channel per year. Given the growing interest in PEG channels, additional PEG channels would reduce this amount proportionately. Please remember that you must certify your PEG channels to DoR each year by July 15.

Beer and Wine Taxes

State analysts project a 2.5 to 3 percent increase in beer and wine taxes. Should the General Assembly accept Governor Perdue's proposal to add a 5 percent surcharge to beer and wine sales, sales could diminish.

By law, the beer and wine distribution must be made within 60 days after March 31. Please also note that the share received by the county government can be affected by changes in population within the county.

White Goods and Scrap Tire Disposal Taxes

A portion of the tax collected to offset disposal costs for white goods and scrap tires are distributed quarterly to counties. In 2007-08, \$3.2 million and \$9.7 million, respectively, were allocated in disposal taxes to counties. Through the Feb. 2009 payment, white goods distributions were down 18 percent from last fiscal year, while scrap tire distributions were up 5 percent.

State Allotments for Public Schools

Please find here the [budget planning allotments](#) for the public school system(s) in your county and related materials. Included you will find the estimated average daily membership for your LEA(s).

All major allotments of state funds for the public schools are included in the allotment spreadsheet, including the Low Wealth Supplemental School Fund and the Small Schools Supplemental Fund. Please find here the [local salary supplements](#) paid to teachers and other school employees.

State Estimates for Social Services Programs

Please find here the [DHHS budget estimates](#) for the county share in social services programs.

Department of Revenue Contact List

Please find [here](#) a sheet listing the responsibilities of a number of divisions within the Department of Revenue that might be of interest to North Carolina counties, with their appropriate contact numbers.

County Bond Market

The State & Local Government Finance Division, Department of the State Treasurer, reports that the municipal bond market is once again open for business, but that investors are clamoring for high quality instruments. Noting a “flight to quality,” Tim Romocki, Director for Debt Management, reports that locals with AAA credits are seeing 10 year rates at 3.19 percent, while A ratings are 150 basis points higher at 4.79 percent.

Local Government Retirement System

After years of robust investment earnings, the state’s retirement funds experienced negative returns of 19.7 percent in 2008. Given these losses, the General Assembly will need to restore its appropriation levels back to historical contribution amounts – the governor’s budget proposal includes \$21 million in each year of the biennium. The local retirement employer contribution of 4.8 percent is sufficient for 2009-10, and supports a recommended 1 percent COLA increase. Thereafter, local governments should expect substantial increases in employer contributions, with 2010-11 approaching 6 percent.

County Budget Actions

A number of counties have implemented board-directed or administrative actions to curtail spending, in recognition of falling sales tax and growth-oriented revenues. Based on survey information, counties are withholding agency budget allocations anywhere from 1 to 10 percent, implementing hiring freezes, delaying capital expenditures, and restricting travel. Of the 65 counties responding, 15 have reduced their school appropriations, 17 have reallocated employees, 7 have laid off employees, and 3 have implemented furloughs. Twenty-three of the responding counties reported using fund balance to offset declining revenues. Thirty-two anticipated a budget shortfall for 2009-10; to manage these shortfalls, many more counties will be laying off existing employees or implementing furloughs. Please note these responses are now more than 30 days old.