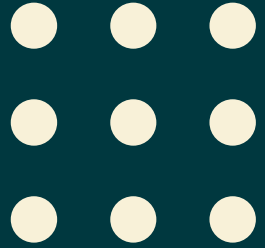




North Carolina Association
of County Commissioners



Sales Tax Hold Harmless Payments

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Medicaid Pre-2008

Cost Sharing Structure

- Medicaid costs were shared between the feds and the states. (Still true.)
- North Carolina required counties to pay 15% of the State share.
- Cities paid nothing.

County Impact

- Rural, poorer counties were disproportionately burdened by the match requirement.
- Even wealthier counties felt the pressure of Medicaid.
- Counties lobbied heavily for “Medicaid relief.”

The Medicaid Swap (2007)

①

State assumed counties' Medicaid costs.

②

Counties gave up the Art. 44 1/2¢,
which was shared w/cities.

③

City Hold Harmless (CHH) created
with County funds.

④

County Medicaid Hold Harmless
(MHH) created w/State funds.

All cities and most counties
would be losing money from the
Medicaid Swap, if not for Hold
Harmless payments.



City Hold Harmless (G.S. 105-522)

- Article 44 was distributed 50% per capita; 50% point of sale.
 - City Hold Harmless payments mimic this distribution.
- Counties paid cities nearly \$317 million in CHH in FY 2022-23.

August 2023 Collections

City Hold Harmless

County or Municipality	A Art 40 Non-Food	B 50% of A	C Art 39 Non-Food	D 25% of C	E B-D	City Hold - Harmless A+E
ALAMANCE (PER CAPITA)	(639,979.48)	-	-	-	2,511.88	(637,467.60)
ALAMANCE	5,550.59	2,775.29	11,188.32	2,797.08	(21.79)	5,528.80
BURLINGTON *	315,210.45	157,605.22	635,369.62	158,842.40	(1,237.18)	313,973.27
ELON	62,728.02	31,364.01	126,440.85	31,610.21	(246.20)	62,481.82
CIRCONVILLE *	24,580.00	12,290.00	49,564.00	12,391.00	(106.54)	24,483.46



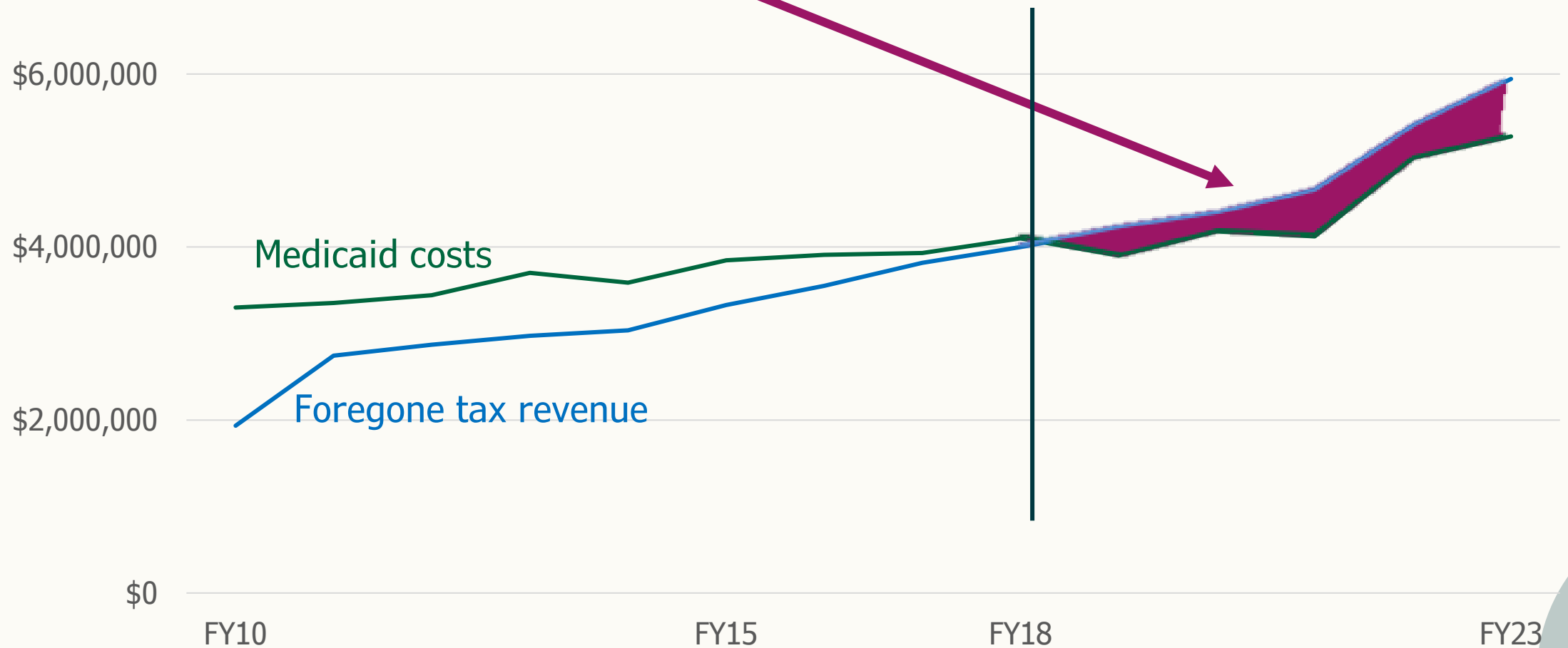
County Hold Harmless (G.S. 105-523)

- Some counties would have been better off paying for Medicaid and keeping the sales tax.
- Compromise to bring counties who would have been losers up to \$0 (break-even).
- **If you receive Hold Harmless:** You would be losing money from the Swap but the Hold Harmless pushes you to the break-even point.
- **If you don't receive Hold Harmless:** You are better off with the Swap! You gave up less tax revenue than you would have paid out in Medicaid costs.



Example: McDowell County

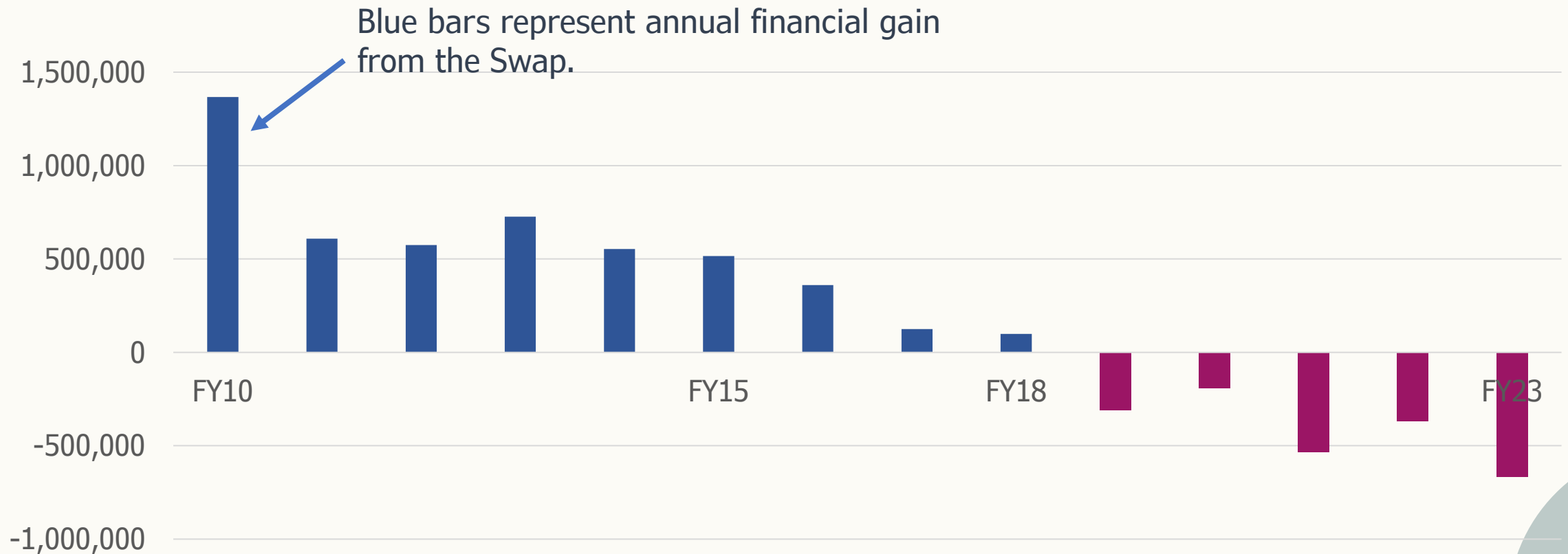
McDowell County's foregone tax revenue is now greater than its foregone Medicaid costs. This gap causes **hold harmless payments**.





Example: McDowell County

McDowell County no longer benefits from the Medicaid Swap. Without Hold Harmless payments, the County would have lost money every year since FY18.



Q: Why are my hold harmless payments so high?

A: Because the half cent you gave up has become extremely valuable.



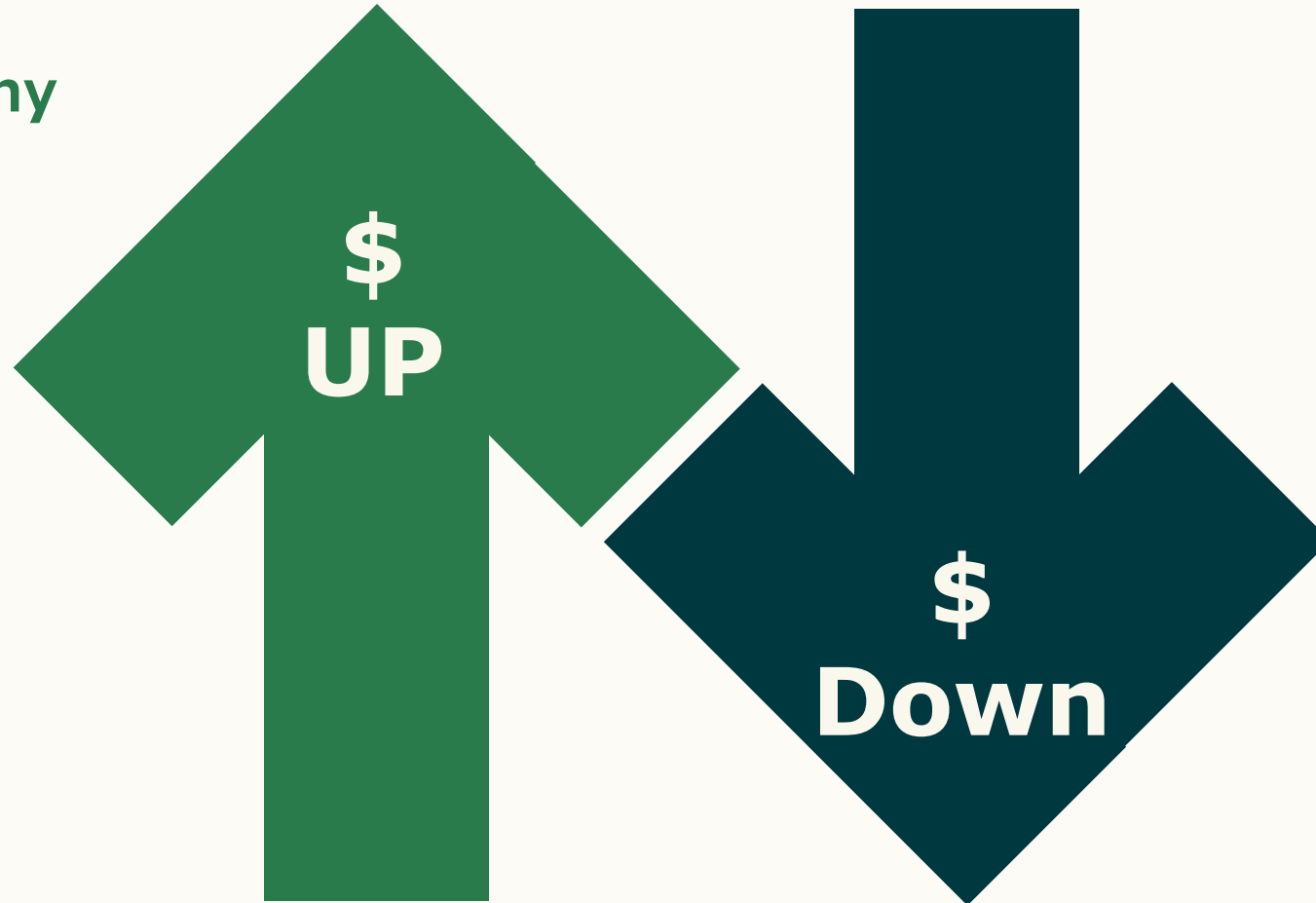
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Cities: It's Just the Economy

Stronger Economy

**More Sales Tax
Revenue**

**Hold Harmless
increases**



Weaker Economy

**Less Sales Tax
Revenue**

**Hold Harmless
decreases**



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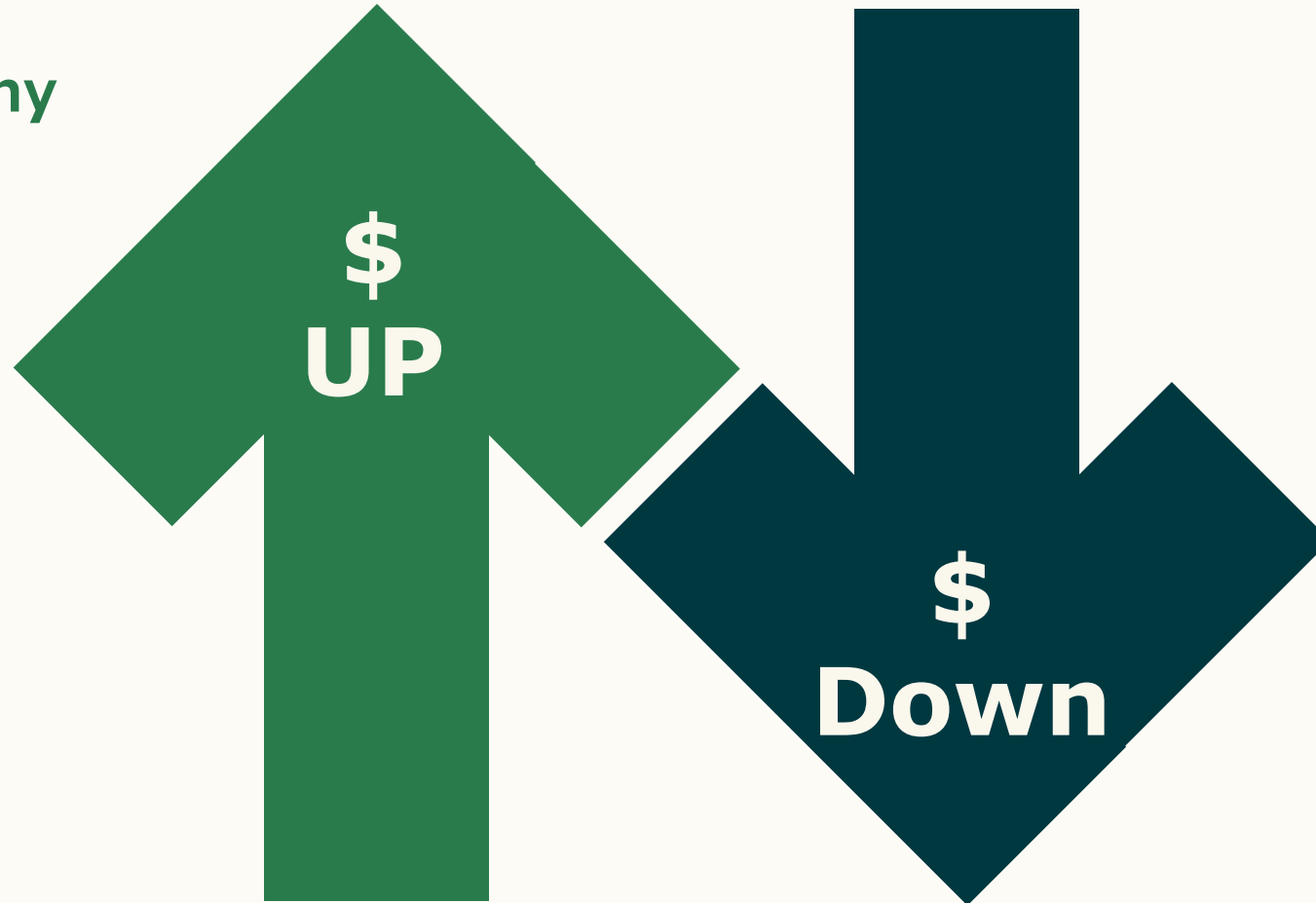
Counties: Medicaid + the Economy

Stronger Economy

Fewer People on
Medicaid

More Sales Tax
Revenue

Hold Harmless
increases



Weaker Economy

More People on
Medicaid

Less Sales Tax
Revenue

Hold Harmless
decreases





Counties: Medicaid + the Economy

- County Hold Harmless is especially prone to volatility in a bad economy.
- County Hold Harmless will get a double hit from lower spending and higher Medicaid costs.
- County Hold Harmless will likely decline more than other sales tax revenue in a bad economy.



Weaker Economy

**More People on
Medicaid**

**Less Sales Tax
Revenue**

**Hold Harmless
decreases**