

## 2. Who Pays for What?

In addition to the state government, which is the focus of this guide, there are several other levels of government that provide services to residents in our communities. Relatively few services are paid for and provided by only one level of government.

### LOCAL GOVERNMENT

Cities, towns, and counties do hold the exclusive responsibility for some services, including:

- utilities such as electricity, natural gas, cable television, and sewer services
- jails, police, and sheriffs (but not prisons)
- ambulance services and county hospitals

- fire protection
- cemeteries
- courtroom space (but not officers and staff)

### PARTNERSHIPS

A majority of government services are funded through partnerships between local governments, the state government, and the federal government. For these services, the policy decisions, funding arrangements, and actual provision of the services are shared. Often the state and federal governments appropriate money to local governments that oversee the operations of the program or service. This is the case for many social and

human service programs. In a few instances, local governments collect revenues, which they pass on to the state to pay for state services.

### OUR STATE, IN CONTEXT

When thinking about the functions and programs of our various government organizations and the relationships between them, it's important to understand how NC compares to other states in the region and the country. The state of North Carolina, from early in the 20th century, has assumed the responsibility for financing and policy making for many of the services that typically are provided and paid for locally in other states.

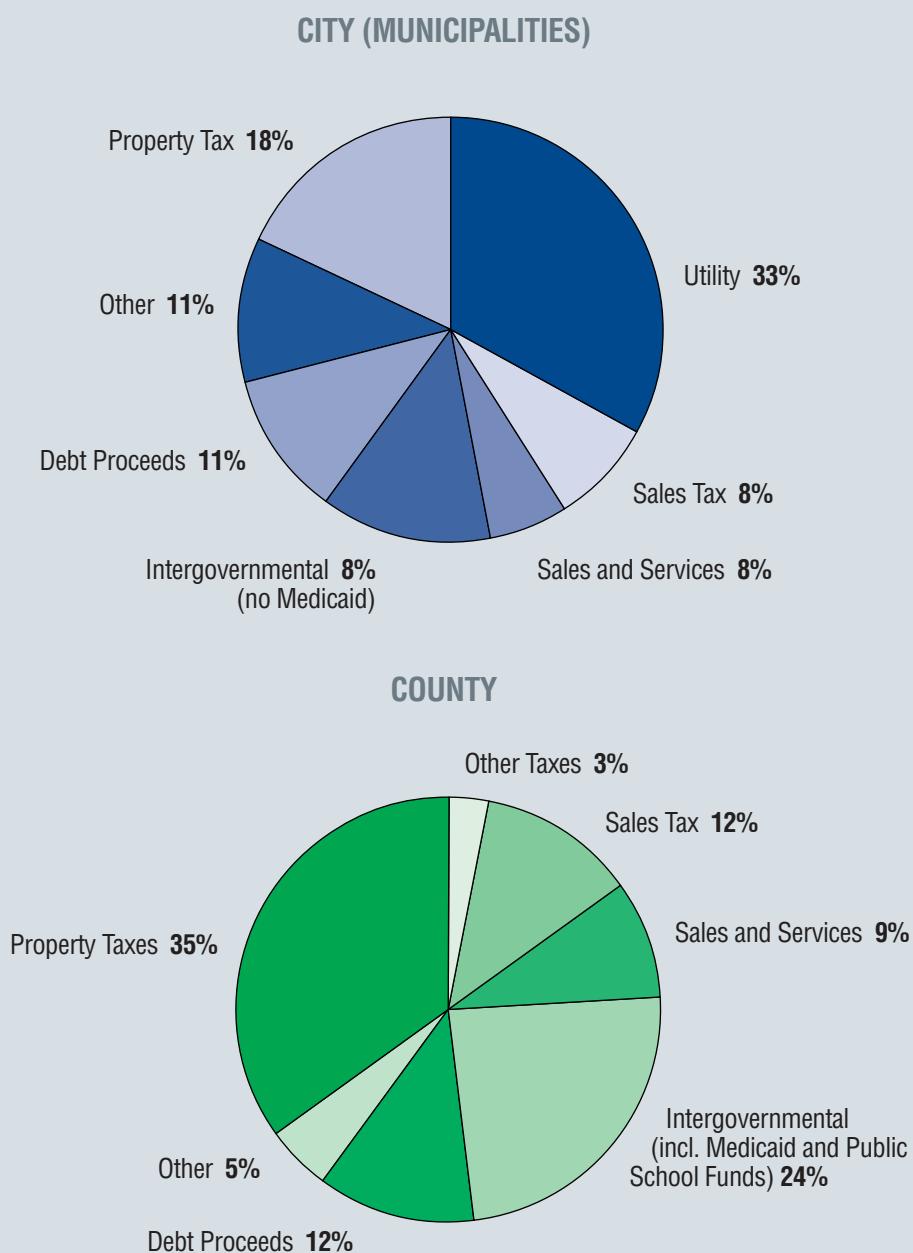
## 2. Who Pays for What? *continued*

For example, North Carolina was the first state in the country to create and maintain a statewide highway system. In North Carolina, state government is also responsible for all non-municipal roads within county boundaries. Similarly, our state government provides the lion's share of funding for operating most public schools (see Figure 2.6).

North Carolina maintains not only the first state-maintained highway system, but it is the nation's second largest (about 78,000 miles). It is paid for by your gasoline tax and automotive license and title fees, and sales taxes on cars and certain automotive goods such as tires and batteries.

### SOURCES OF LOCAL GOVERNMENT REVENUE

Local governments (cities, towns, and counties) are authorized to collect revenues from property taxes, landfill "tipping fees," some court fees, taxes on utilities, and local sales taxes. The amounts and percentages collected for all local governments are shown below.



SOURCE: Fiscal Research Division, NC General Assembly

FIGURE 2.1

### LOCAL TAXES AND FEES: PROPERTY TAX

- All taxable property is taxed at the same rate within each local government's boundary
- Both counties and municipalities can levy a property tax
- How the property is used may affect its tax status (farm use, forest conservation, etc.)
- Government and some nonprofit property, like churches, are exempt
- A homestead exemption lowers the tax on low-income, elderly property owners
- Of the eleven most populated states, North Carolina has the lowest property tax burden

#### PROPERTY TAX: 2002–2003 UNADJUSTED TAX RATES

Region	Regional Average
Coastal	77¢ per \$100 valuation
Mountain	55¢ per \$100 valuation
Piedmont	65¢ per \$100 valuation

SOURCE: Fiscal Research Division, NC General Assembly

FIGURE 2.2

### LOCAL TAXES AND FEES: SALES TAX

- Collected from local merchants
- The general rate of tax is 4.5% state, 2.5% local
- Food is exempt from state sales tax but is still subject to a 2% local tax
- The new 1/2 cent of local tax does not apply to food
- Distribution of sales tax revenue to localities is made on both per capita and point-of-sale basis
- Each 1¢ increase in sales tax (in 2002) was estimated to raise \$682 million in state revenue and \$800 million in local revenue (local sales tax revenues are higher due to local tax on food)

### STATE AID TO LOCAL UNITS: TAXES SHARED WITH MUNICIPALITIES AND THE STATE

- Gasoline tax: shared through Powell Bill funds (city street repair/construction); restricted use
- Franchise and gross receipts tax on electricity and telephones
- Excise tax on piped natural gas
- Beer and wine tax revenues

## 2. Who Pays for What? *continued*

### STATE AID TO LOCAL UNITS: STATE TAXES SHARED WITH COUNTIES

- Beer and wine tax
  - Shared only for the types of beverages allowed in the county
  - Distribution is based on the type of beverage
- Real estate transfer tax
  - Also known as deed tax
  - County retains 50% + \$1 tax for each \$500 in value transferred

### LOCAL TAXES AND FEES: MEALS TAX

- Since 1989, the General Assembly has ratified local bills giving two municipalities and four counties the authority to levy an additional 1% tax on prepared food
  - Municipalities: Charlotte, Hillsborough
  - Counties: Cumberland, Dare, Mecklenburg, and Wake
- The rate is 1% in all jurisdictions.
- Defined as “any food or beverage to which a retailer has added value or has altered its state (other than by cooling alone) by preparing, combining, dividing, heating, or serving in order to make the food or beverage available for immediate human consumption”
- Uses include:
  - Services needed because of tourists
  - Special event centers, museums, and convention centers
  - General tourism development
  - Tourism development authorities

MEALS TAX		
County	Net Collections	Population
Cumberland	3,063,197	299,203
Dare	1,291,003	31,168
Mecklenburg	12,350,272	716,407
Wake	9,370,914	655,642
Hillsborough	159,250	5,525
Total	26,234,636	1,707,945

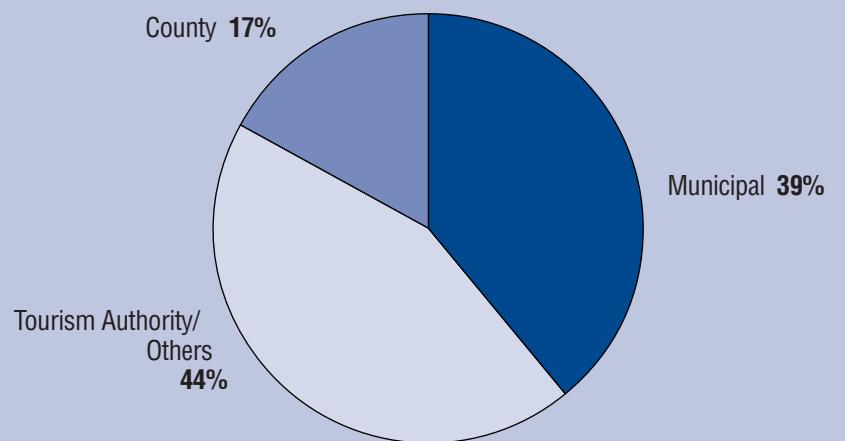
Based on 1999–2000 Collection Data, Department of Revenue

FIGURE 2.3

### LOCAL TAXES AND FEES: OCCUPANCY TAX

- 74 counties have the authority to levy an occupancy tax on hotel rooms
- 53 municipalities have their own occupancy tax
- Counties are most likely to give their revenue to municipalities or to a tourism development authority
- Municipalities are most likely to retain their revenue
- Occupancy taxes must be created by the General Assembly

#### 1996–1997 OCCUPANCY TAX DISTRIBUTION



Actual Total Collections: \$56,263,350

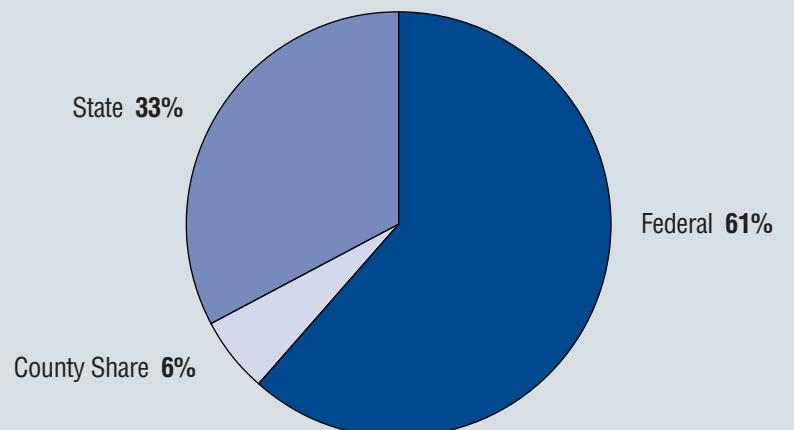
SOURCE: Tax Research, Department of Revenue

FIGURE 2.4

### MEDICAID PROGRAM FUNDING

The following chart shows the funding partnership between federal, state, and local governments for two other well-known programs—Medicaid and public schools.

#### MEDICAID PROGRAM: FINANCIAL PARTICIPATION BY COUNTIES, STATE AND FEDERAL GOVERNMENTS



SOURCE: Fiscal Research Division, NC General Assembly

FIGURE 2.5

## Quick Facts: Medicaid

### FY 2001

- 1,307,755 recipients of Medicaid services in North Carolina (96.5% of eligibles)

### Recipient Make-up in FY 2001

- Special pregnant women and children: 39.4%
- Aliens and refugees: 0.75%
- Aged: 11.9%
- Blind: 18%
- Disabled: 16.4%
- Qualified Medicare Beneficiary: 3%
- AFDC (Aid to Families with Dependent Children) related: 26%

### Medicaid Snapshots

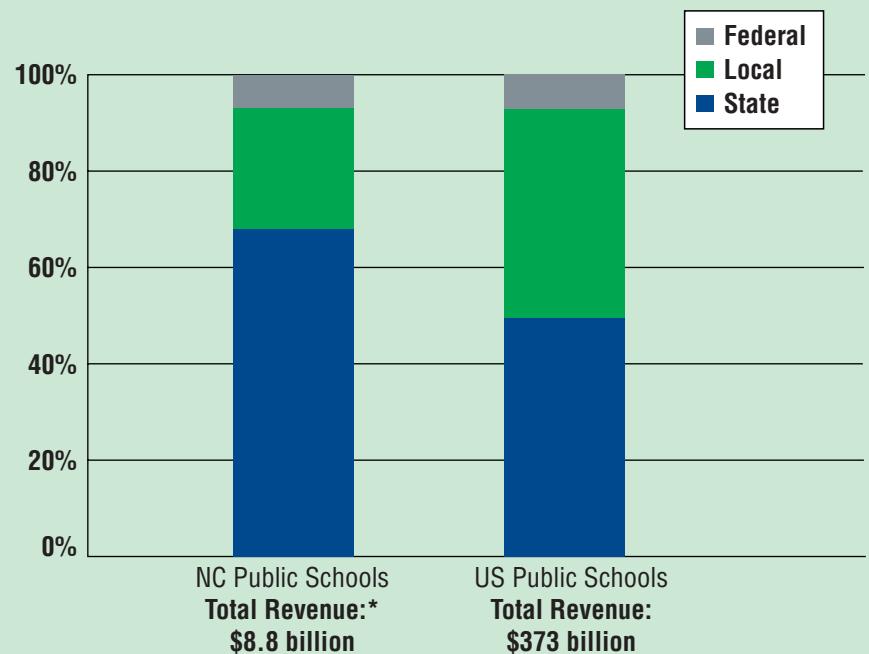
- Covered 1.4 million state residents in FY 2002—17% of the state's population
- Covered over 800,000 children during FY 2002—58% of Medicaid eligible by population
- Covers 45% of the babies born each year
- 31% of Medicaid recipients consume 71.1% of resources—includes elderly, blind, and disabled
- Inpatient care consumes 37% of expenditures for services—includes hospitals, nursing homes, and mental retardation centers
- Expenditures for drugs began to exceed \$1 billion in FY 2002
- 67% of the state's 40,000 nursing home beds are funded through Medicaid
- 14% of NC hospital charges are paid by Medicaid—49% are paid by Medicare (health insurance for the elderly)
- For FY 2003, counties are projected to pay \$388 million for Medicaid services or about 6% of all the expenditures for Medicaid services

### LOCAL TAXES AND FEES: OTHER

- Motor vehicle tax: \$5 to \$30 per vehicle; local option
- Land transfer tax: tax on conveyances (some authorized counties)
- Utilities fees: significant for municipalities; includes water, sewer, power, gas, and solid waste
- Privilege license tax: business or occupation based; flexible
- Cable TV franchise tax: up to 5% of gross receipts
- Animal tax
- 911 surcharge
- Other user charges: airports, ambulance, etc. (usually county)
- Register of deeds fees: marriage licenses, oaths, and recording fees
- Regulatory fees: building and environmental permits, etc.

### PUBLIC SCHOOLS: REVENUE BY SOURCE OF FUNDS (1999–2000)

Figure 2.6 demonstrates how much more state money in North Carolina (68%) goes to pay for public schools compared to the nation generally (50%).



\*including Federal Funds

SOURCE: US Department of Education, National Center for Education Statistics, Common Core of Data (CCD), "National Public Education Financial Survey," 1999–2000

FIGURE 2.6

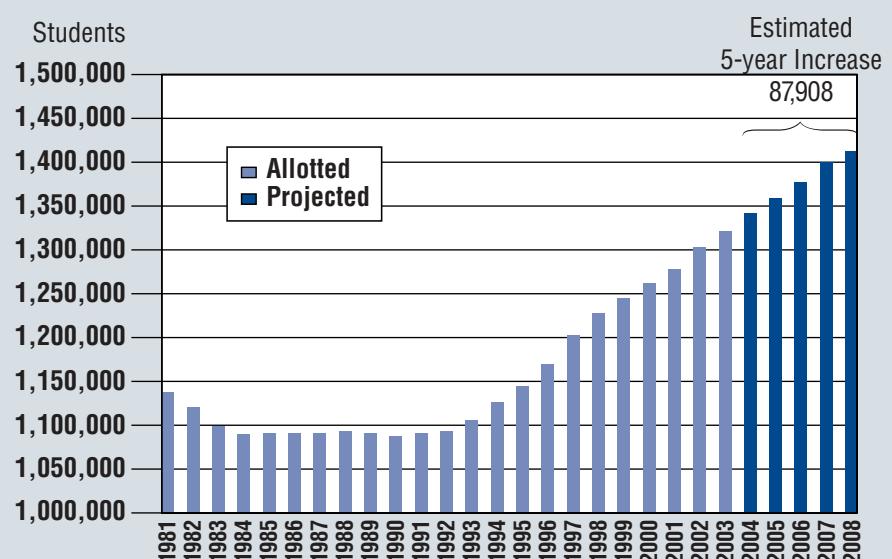
### LOCAL TAXES AND FEES: IMPACT FEES

- Also called development or facility fees
- Generally assessed on developers for streets, water lines, sewer, and other infrastructure
- Some municipalities with impact fees include Chapel Hill, Carrboro, and Rolesville
- May be the wave of the future in urban areas

### NC PUBLIC SCHOOLS: GROWTH IN AVERAGE DAILY MEMBERSHIP (ADM) 1981–2008

Note that each 20,000 increase in ADM translates into a \$125 million increase in public school operating costs. At this rate, operating increases driven by ADM will amount to over an estimated \$500 million between 2003 and 2008, not

including additional costs for new and remodeled building needs due to increased ADM. Public school enrollments, then, are a major driver of increased budget costs.



SOURCE: Fiscal Research Division, NC General Assembly

FIGURE 2.7