NORTH CAROLINA
DEPARTMENT OF STATE TREASURER
STATE AND LOCAL GOVERNMENT FINANCE DIVISION
AND THE LOCAL GOVERNMENT COMMISSION

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Memorandum #2010-25

TO: **County Officials and Certified Public Accountants**

FROM: **Sharon Edmundson, Director, Fiscal Management Section**

SUBJECT: **Management of Cash and Taxes and Fund Balance Available – Counties for the Fiscal Year ended June 30, 2009**

DATE: **April 30, 2010**

This publication provides comparative cash and investment, fund balance, and tax levy information of county governments for the fiscal year ended June 30, 2009. As in the past, we have added the county assessment-to-sales ratios and have calculated effective tax rates. (Note: the effective tax rate is calculated by multiplying the county-wide tax rate by the assessment-to-sales ratio.) Providing the effective tax rates should result in a better comparison of tax rates between counties, given those counties are at different points on their revaluation cycles. In addition, the average unit-wide effective tax rates for the last five fiscal years are presented. The statistics provide a range of highest and lowest items within a grouping and the mathematical average. Tax collection percentages and average tax collection percentages are presented for all property, all property other than motor vehicles, and for motor vehicles only. This analysis presents information for the State as a whole and the following population groupings: 100,000 and above; 50,000 to 99,999; 25,000 to 49,999; and 24,999 and below.

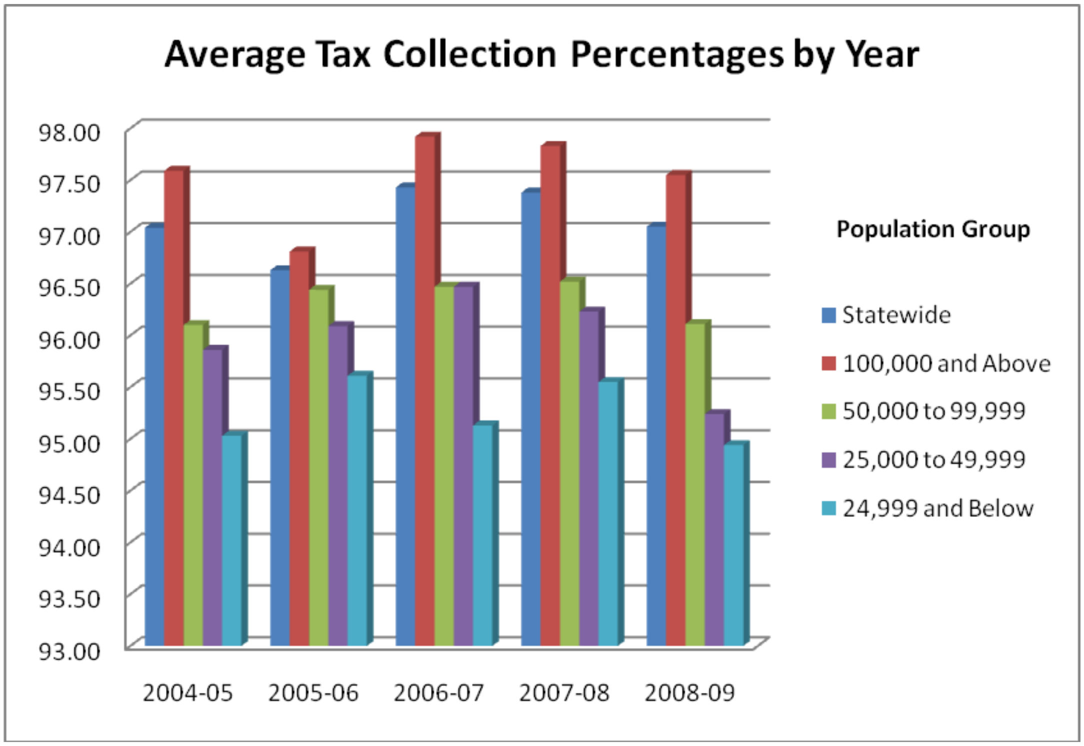
County officials are encouraged to compare their own performances to similar counties and to statewide averages. Such comparisons may identify opportunities for improvement or may indicate improved performances from previous fiscal years. For those counties with below average tax collection rates, collection procedures should be reviewed to determine if more effective means of collection are available. An improvement in tax collection rates provides numerous benefits to counties. It provides more revenues to finance programs, generates additional funds for the investment program, and allows the property tax rate to be lower than it would otherwise have to be. Section 50, "Tax Assessment, Billing, and Collection" in the North Carolina Department of State Treasurer Policies Manual, provides information on collection procedures. This section is available on our web site at www.nctreasurer.com, under the state and local government link, then the auditing and reporting line. Please contact Ms. Lisa Olson, 919-807-2382, if you need to order a hard copy of this section. Also, the Institute of Government at the University of North Carolina at Chapel Hill offers courses in tax collection that may benefit tax collectors in carrying out their statutory responsibilities.

Given the role assumed by the counties in billing and collecting motor vehicle taxes for all residents, including those within municipalities, municipal officials should periodically consider consolidating the property tax functions of counties and municipalities. Again Section 50, "Tax Assessment, Billing, and Collection," contains a discussion on consolidated property tax functions. In addition, Memorandum #692, Consolidating County and Municipal Property Tax Functions and Memorandum #929, Results of Municipal and County Survey on Consolidating and Billing of Tax Functions, which discuss joint arrangements utilized by many counties and municipalities, are available from our web site. Consolidating the property tax functions should provide more economical use of equipment, office personnel, supplies, and postage. A single tax billing and collection office would simplify taxpayers' efforts to pay and inquire about the status of their taxes. Also, especially for smaller units, a consolidated office should be able to enforce tax collections (attachment and garnishment, levy and foreclosure) at a lower cost. Further, in a cooperative relationship, municipal officials may be able to provide information on delinquent taxpayers that may help facilitate collection of county taxes due.

The statewide and population grouping tax collection percentages over the last five fiscal years are as follows:

Average Current Year Tax Collection Percentages

Population Grouping	2004-05	2005-06	2006-07	2007-08	2008-09
Statewide	97.04%	96.63%	97.43%	97.38%	97.05%
100,000 and Above	97.59	96.81	97.92	97.83	97.55
50,000 to 99,999	96.10	96.44	96.47	96.52	96.11
25,000 to 49,999	95.86	96.09	96.47	96.23	95.24
24,999 and Below	95.03	95.61	95.13	95.55	94.94



The statewide tax collection percentage for 2008-09 decreased slightly across all population groups. This is likely a result of the economy. Overall the tax collection percentages for most units in the State are still high but there is room for improvement in most instances.

An overall trend that can be noted is that tax collection percentages for counties vary according to population, with the largest counties having the highest tax collection percentages. This trend is consistent for the four preceding years and generally continues to be so. Within each population grouping, there may be substantial variation in collection rates, meaning that not all small counties have lower tax collection rates and vice versa. Again, our overall collection rates remain high, regardless of population group.

Average 2008-09 Tax Collection Percentages

Population Grouping	Excluding Motor Vehicles	Motor Vehicles
Statewide	97.91	86.95
100,000 and Above	98.34	88.08
50,000 to 99,999	97.20	85.49
25,000 to 49,999	96.40	81.27
24,999 and Below	95.85	84.12

These figures are included in the report because the methods of billing and collecting taxes differ between motor vehicles and other classes of property. The same trend noted for all property is noted for motor vehicle taxes also. Tax collection percentages for counties vary according to population, with the largest counties generally having the highest tax collection percentages.

Tax collectors from those counties that have the higher collection percentages for motor vehicles indicate that they send out multiple late notices for vehicle taxes. Some of those counties also aggressively attach the assets and garnish the wages of a delinquent taxpayer. Units that rely solely upon the block of subsequent year registrations placed with the Division of Motor Vehicles should eventually collect a high percentage of motor vehicle taxes, but their current year collection percentages of motor vehicle taxes will probably be lower than those that use more aggressive tax collection procedures.

The statewide and population grouping statistics on the unit-wide property tax rates over the last five fiscal years are as follows:

Average Unit-Wide Tax Rates (per $100)

Population Grouping	2004-05	2005-06	2006-07	2007-08	2008-09
Statewide	$0.6460	$0.6504	$0.6489	$0.6271	$0.6076
100,000 and Above	0.6659	0.6884	0.6857	0.6827	0.6359
50,000 to 99,999	0.6147	0.6170	0.6336	0.5463	0.5986
25,000 to 49,999	0.5748	0.5209	0.5025	0.5553	0.4666
24,999 and Below	0.6720	0.5822	0.5615	0.4852	0.5473

The averages shown above for all five fiscal years are calculated on a dollar-weighted basis. For most counties the tax rate is lower in the fiscal years immediately following revaluation. Tax rates usually increase as a county moves through the revaluation cycle, reaching a peak immediately before revaluation. The overall trend shows a decrease in tax rates.

Average Unit-Wide Effective Tax Rates (per $100)

Population Grouping	2004-05	2005-06	2006-07	2007-08	2008-09
Statewide	$.5912	$.5941	$.5687	$.5592	$.5453
100,000 and Above	.6291	.6409	.6199	.6198	.5830
50,000 to 99,999	.5635	.5517	.5265	.4884	.5263
25,000 to 49,999	.4634	.4582	.4289	.4248	.4112
24,999 and Below	.5196	.4934	.4309	.4116	.4113

The above table shows the effective tax rates. The effective tax rate equals the property tax levy divided by the estimated market value of assessed property. The averages in the above table also are dollar weighted. Like the tax rate table, the effective tax rate table shows an overall decrease in effective tax rates over the five-year period.

Each year the staff of the Local Government Commission analyzes the financial statements of cities and counties to determine the amount of fund balance available for appropriation in the General Fund, and the amount of fund balance available for appropriation as a percentage of prior year expenditures. These numbers are significant because the property tax is a major source of revenue in the General Fund. The majority of property tax revenues are received in the latter months of the calendar year. Therefore, there should be reserves on hand in the form of fund balance available for appropriation at June 30th to prevent the unit from experiencing cash flow difficulties during the first two quarters of the next fiscal year. The minimum level of fund balance available for appropriation that should be on hand to enable the unit to meet current obligations and to prevent the unit from experiencing cash flow difficulties is 8% of the prior year's expenditures.

In addition to the 8% needed to prevent cash flow difficulties, units also maintain fund balance available for appropriation in the General Fund in case unforeseen needs or opportunities should arise. Fund balance available for appropriation at June 30th is a source that may be budgeted in the following year to address these situations. There is not an established minimum amount that should be in reserve for these purposes. The officials of the individual units should make that determination. The amount of fund balance available for appropriation maintained by a particular unit would be influenced by such factors as the size of the unit, economic conditions within the unit, future capital outlay needs, stability of revenue sources and susceptibility of the unit to natural disasters.

The staff sends letters to units if the amount of fund balance available for appropriation as a percentage of prior year expenditures in the General Fund falls below 8%. The staff also compares the percentage of fund balance available for appropriation to the prior year percentages for similar units. If that percentage is materially below the average of similar units, the staff will send a letter to alert the unit of this fact. Units will be encouraged to evaluate the amounts in reserves and determine if their level is adequate.

The chart below shows the average percentage of fund balance available for appropriation for similarly grouped counties for the fiscal year ended June 30, 2009. Officials should use these figures to compare their unit to similar units and evaluate the adequacy of their unit's current reserves.

Average Available Fund Balance for North Carolina Counties

Type of Unit by Size	Number of Units	Average 2008-2009 Fund Balance	Average 2008-2009 Expenditures	Average FBA% 2008-2009 Expenditures
Counties				
All*	96	20,556,203	99,738,976	20.61%
100,000 or more**	26	53,213,250	275,288,412	19.33%
50,000 to 99,999**	26	16,584,669	69,102,788	24.00%
25,000 to 49,999*	19	10,525,289	43,873,652	24.13%
Under 25,000	25	3,944,713	18,686,466	20.76%

*As of April 26, 2010, we have not received the 2009 audit reports for Bladen and Hoke Counties, therefore the fund balance available figure for these counties were not included.

** Brunswick County moved this year from the 50,000 to 99,999 group to the 100,000 or more group.

The statistics presented in this report were gathered from various sources. The investment earnings, cash and investments, tax collection rates, and uncollected tax amounts were compiled from the 2009 Annual Financial Information Reports (LGC-36 or AFIR) submitted to the Department of State Treasurer. In some cases, financial information comes from the audited financial statements. The assessed valuation, tax rate, and last year of revaluation for each county were compiled from the Assessed Valuation and Property Tax Levies for the Fiscal Year Ended June 30, 2009 reports (TR-1-01) submitted to the Department of Revenue. The N.C. Department of Revenue calculates the assessment-to-sales ratios annually for each county. This ratio is based on a sample of selected real estate transactions within a county and equals the assessed valuation divided by the actual sales price. The county populations were provided by the Office of State Budget and Management and are estimates as of July 1, 2008. The tax rate equivalents and effective tax rates were calculated by the staff of the Department of State Treasurer. The average tax rates in this year's report are calculated on a dollar-weighted average basis. All data included in this report are the most recently available information. If you have any questions concerning this memorandum, please contact George Harris at (919) 807-2387.