October 1, 2000

White Goods Special Report

This report on the management of white goods is required by House Bill 1854 (Session Law 2000-109), which states:

The Department of Environment and Natural Resources shall study issues related to the scrap tire disposal tax and the white goods disposal tax. This study shall include an evaluation of whether the amount of the scrap tire disposal tax and the amount of the white goods disposal tax should be altered and whether the distribution of the proceeds of these taxes should be reapportioned. The Department shall report its findings and recommendations, including any legislative proposals, to the Environmental Review Commission no later than October 1, 2000.

This report presents information reported by the counties from 1993 through 1999. Counties are required to report annually on their white goods programs to the Local Government Commission through the Annual Financial Information Report (AFIR).

Findings

- County governments are managing white goods in increasing numbers each year.
- The counties have improved their white goods management and continue to improve program performance and accountability.
- The counties will continue to rely on the proceeds of the white goods disposal tax in order to accept white goods at no charge to the disposer.
- The adjustments to the white goods disposal tax made by the General Assembly in 1998 appear to have adequately addressed the problems associated with fund surpluses.
- The current white goods disposal tax is adequate and its allocation is appropriate to meet county needs.

White Goods Program Developments

"White goods" are defined in GS 130A-290 (a)(44) as: "refrigerators, ranges, water heaters, freezers, unit air conditioners, washing machines, dishwashers, and clothes dryers, and other similar domestic and commercial large appliances."

White goods are classified as "special waste" and are more difficult to manage than general solid waste. They generally have lower market value than other forms of scrap metals and there are environmental concerns about chlorofluorocarbon refrigerants (CFCs) in appliances such as refrigerators and freezers.

Historically, county landfills have designated an area for scrap metals, including white goods, and sold or given away the metals for recycling. **Management practices have varied greatly across the state and proper management of disposed white goods has received low priority**. Many counties have traditionally charged the public special disposal fees for white goods because of the extra costs incurred in managing them. As a result many white goods were dumped in woodlands, streams, and down road banks. The presence of dumped white goods often encouraged dumping of other types of wastes, such as tires, shingles, and household garbage.

White goods were banned from landfill disposal in 1989 to encourage recycling and proper management. More comprehensive white goods management laws were enacted in 1993, which included a white goods disposal tax to cover the cost of white goods management. Counties are prohibited from charging disposal fees for white goods since they are funded by the proceeds of the disposal tax. Counties are required to ensure proper removal and disposal of CFCs.

In 1998 the white goods program was changed significantly by the General Assembly. The white goods tax was lowered resulting in 40% less revenue. Counties holding surplus funds were prohibited from receiving further distributions of tax proceeds until they demonstrated eligibility to the Solid Waste Section. **These adjustments to the program went into effect during FY 1998-99, and the county reports indicated that these changes had the desired effects on the program.** The impact of these recent legislative changes and the need for any further changes will be discussed in this report.

The White Goods Disposal Tax

The white goods disposal tax was imposed in 1993 at the rate of $10 per item that contained freon (freezers, refrigerators, etc) and $5 for items without freon (stoves, washing machines, etc). In 1998 Senate Bill 124 reduced the tax to $3 for all types of white goods.

The white goods disposal tax is collected at the point of sale of new white goods. Retailers remit funds to the NC Department of Revenue. Funds collected in FY 1998-99 were:

Total collections - $4.7 million
Department of Revenue collection costs - $176,000
Net amount for distribution - $4.5 million

The net proceeds are distributed by the Department of Revenue in three ways:

72% - Distributed <u>directly</u> to counties - ($3.3 million in 1998-99)
20% - White Goods Management Account - ($0.9 million in 1998-99)

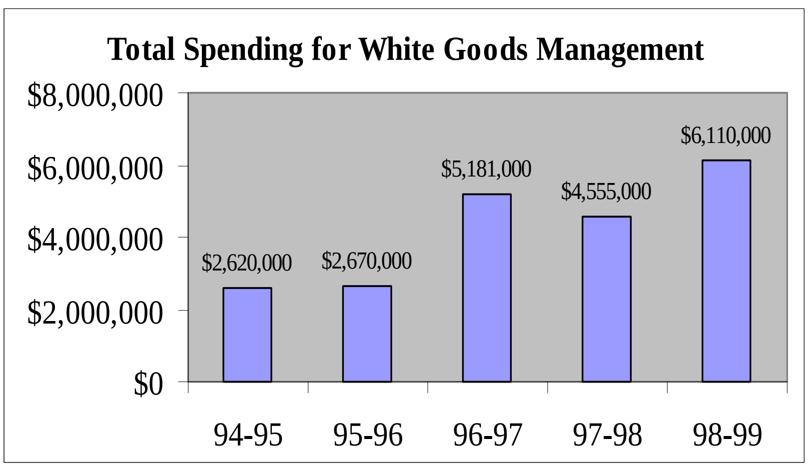
8% -Waste Management Trust Fund - ($360,000 in 1998-99)

Seventy-two percent of the proceeds are distributed directly to the counties. Each county is allocated funds based on its population. The Division of Waste Management administers the White Goods Management Account and receives 20% of the net proceeds. This account is used to provide grants to counties that do not receive adequate funding for white goods management. The Waste Management Trust Fund is administered by the Division of Pollution Prevention and Environmental Assistance (DPPEA) and receives 8% of the net proceeds. This fund is used for recycling grants for counties.

Successes of the white goods program

Over the past seven years the white goods program has adequately funded all counties in their development of facilities to manage discarded white goods. While some counties have been more aggressive than others in developing an infrastructure, all counties provide:

- At least one white goods collection site
- Free disposal to the public and industry



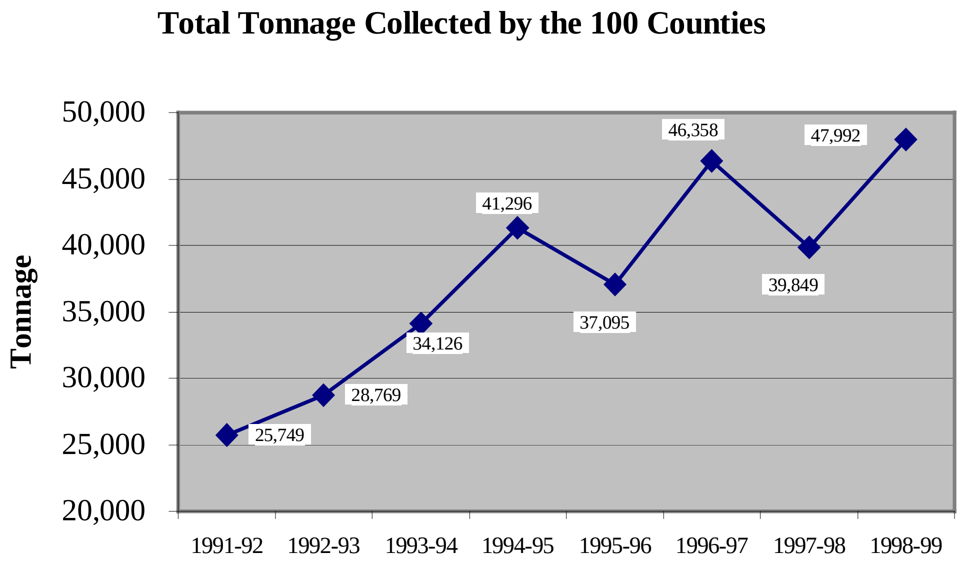
Many counties have been very aggressive in using their funding to establish an extensive infrastructure for collection and recycling of discarded white goods. This includes:

- Countywide network of collection sites
- Hauling equipment to transport white goods to a central collection site
- Site improvements at the central collection site to enable processing of white goods metals to obtain the best recycling market prices
- CFCs and fluids recovery systems

A countywide network of collection sites is desirable since it makes it more convenient for the public to properly dispose white goods. This reduces the likelihood that the white goods will be illegally dumped and ensures correct handling of CFCs.

Illegal dumping

A major accomplishment of the white goods program has been the drastic reduction in illegal dumping of white goods. Over the past eight years the numbers of white goods managed by the counties has nearly doubled.



It is assumed that most of these additional white goods were being mishandled until white goods laws were passed. A large percentage of them were likely illegally disposed in streams, woodlands, and down road banks.

The Solid Waste Section field operations branch has observed, but not quantified, the decrease in illegal dumping of refrigerators, freezers, and other white goods.

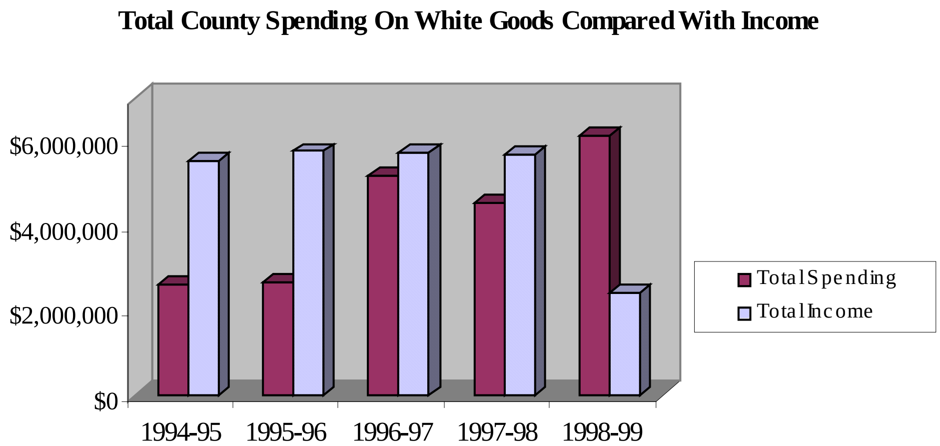
Even with free disposal at county sites some illegal dumping does continue. This may be due to reluctance to haul discarded white goods to distant county collection sites. Counties can address this problem by having several collection sites distributed throughout the county. Most counties that have a number of sites place a special container at their convenience centers. Counties that have provided a number of collection sites have found that their white goods tonnage increases significantly.

The white goods program has also provided funds and equipment for counties to clean up existing white goods dumps. Some counties have trucks with knuckleboom loaders and are aggressively cleaning up dumped white goods.

Senate Bill 124 in 1998 took steps to further encourage counties to initiate cleanup of illegal dumps containing white goods. It stated that counties may use proceeds of the white goods disposal tax to remove white goods and any other type of waste, as long as the site has more than 50 percent white goods. Sites with less than 50 percent white goods may use these funds to pay for the portion of costs incurred for removing and disposing white goods.

Reduction of the White Goods Disposal Tax in 1998

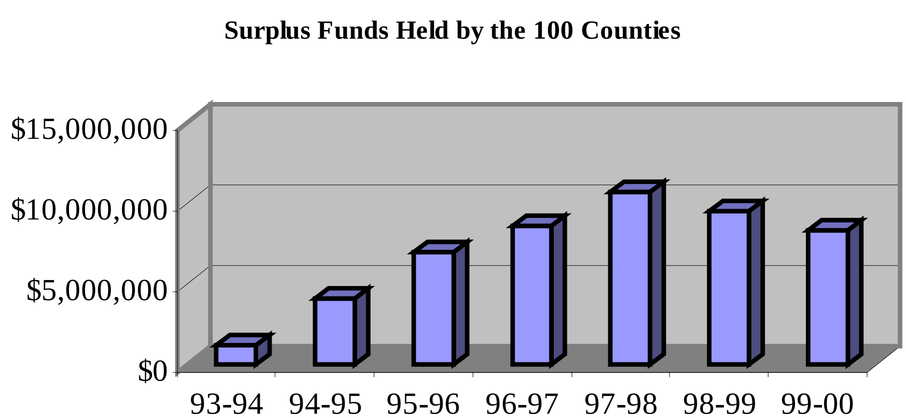
The white goods disposal tax was imposed in 1993 at the rate of $10 per item that contained freon (freezers, refrigerators, etc) and $5 for items without freon (stoves, washing machines, etc). The total annual tax collections ranged from $7.5 - $7.8 million. The counties received about $6 million of the proceeds.



The total disposal tax collected exceeded the amount being spent and many counties began to develop surpluses. This was partly due to a strong recycling market for scrap metal and lower than expected costs for CFCs removal. Many counties implemented adequate programs but found that management costs were not as high as anticipated.

Surpluses also developed due to the lack of effort by some counties. These counties had inadequate programs which badly needed improvements, but they were unwilling to spend the funds they received. Many of these counties have subsequently made the needed improvements and depleted their reserves.

By 1997 the counties had accumulated about $10 million. This showed that the white goods program was overfunded and that the white goods disposal tax should be reduced.



In 1998 Senate Bill 124 reduced the tax to $3 for all white goods being sold, which reduced total collections by 40%. The charts illustrate the changes that occurred in FY 1998-99 as a result of Senate Bill 124.

Impact of Legislative Changes in 1998 (SB 124)
Lowering the tax to $3 per white goods sold had the following effects in FY 1998-99 in comparison with the previous year:

- There was a 39% decline in total tax collections, with collections reduced from $7.7 million to $4.7 million.
- There was a 42% decline in the allocation of tax proceeds for counties, with distributions reduced from $5.7 million to $3.0 million.
- The regular allocation to the White Goods Management Account was reduced by 40%. (However, the account receives additional funds which are forfeited by the counties).
- An additional fourteen counties ran short of funds, and the counties requested 51% more in grants from the white goods management account.

Total county surpluses decreased by $1.2 million in 1998-99 and are projected to decrease further in FY 1999-00. (Data for 1999-00 will not be available from the counties until January 2001).

Impact of White Goods Disposal Tax Reduction

	Before *Tax Reduction (FY1997-98)*	***After*** *Tax Reduction (FY1998-99)*	*Percent Change*
Total Tax Collections	$7.7 million	$4.7 million	- 39%
Allocation of Tax Proceeds	$5.7 million	$3.0 million	- 42%
Allocation to White Goods Mgmt Acct	$1,513,937.63	$910,897	- 40%
Funds Forfeited by Counties	$0	$800,000	NA
Number of White Goods Mgmt Acct Grants to Counties Needing Assistance for Daily Costs	18	32	+78%
Total Grants Awarded for Daily Costs	$351,066	$530,668	+51%

Counties Ineligible for Proceeds of the White Goods Disposal Tax
Senate Bill 124 required that counties holding surplus funds be ineligible for proceeds of the white goods disposal tax. Counties may have surplus funds of up to 25% of their annual share of the proceeds before becoming ineligible.

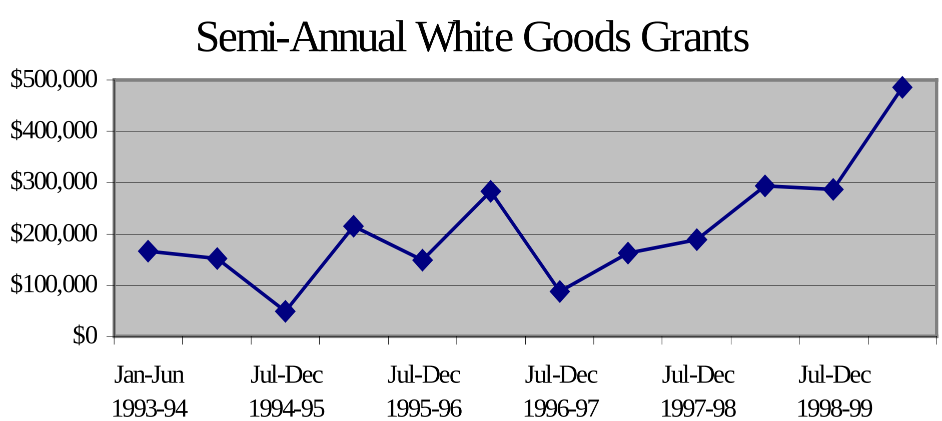
Forty-nine counties reported having excessive surpluses in FY 19978-98 and became ineligible for proceeds in 1999. Forty-three counties reported having excessive surpluses in FY 1998-99 and became ineligible for proceeds in 2000. Twelve counties subsequently regained eligibility.

This change in the white goods program had the intended effects. Counties that have surpluses due to low management costs (close proximity to recyclers, etc) will no longer receive funds from the program.

Many counties that had previously refused to spend their funds to make needed improvements have been motivated by this "use it or lose it" approach in the law to make changes.

White Goods Management Account

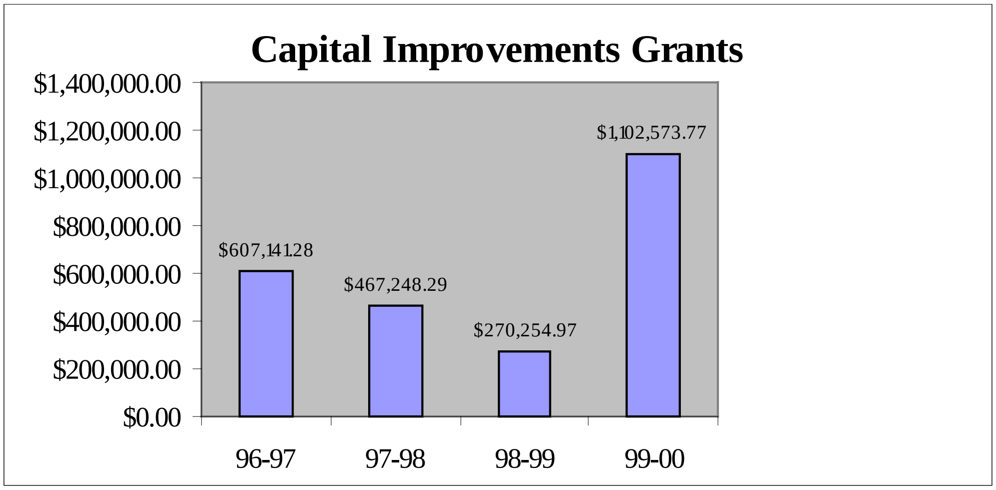
The White Goods Management Account was established to assist counties that incur costs exceeding their normal share of the white goods disposal tax revenue. The account



receives 20 percent of the revenue from the white goods disposal tax. Additionally, it receives the tax proceeds forfeited by counties with surplus funds.

Not all counties receive adequate funding for the daily costs of their white goods management program. The most frequently cited reason is an extensive county collection program. Some counties with a low cost per ton incurred deficits due to high volume.

After the tax was reduced in 1998 the number of counties requesting grants for daily costs increased from 18 to 32 and the total grant requests increased from $300,000 to



almost $500,000. Grant requests for capital improvements and equipment also increased to over $1 million in FY1999-00.

The current balance in the white goods management account is about $4 million. This account appears to be adequately funded to meet current and anticipated county needs. This report does not recommend changing the current allocation. However, it is difficult to project the cash flow in this account and there may be fewer funds for capital improvements after a few years.

Factors currently affecting the account's balance are:

1. The 51% increase in grant requests for daily costs after counties had their funding reduced in 1998. (Also, the counties are making greater efforts in white goods management and consequently spending more each year).
2. The large increase in grant requests for capital improvements (over $1 million in FY 1999-00) because more counties are making needed program improvements.
3. The 40% reduction in the regular funding of the white goods management account in 1998. (The majority of the account's funding now is forfeited funds from ineligible counties). The variable nature of the account's funding since its main source is funds forfeited by counties. If most counties work to regain eligibility the account funding will be greatly reduced.

Conclusions

This report recommends that the white goods disposal tax and its allocation remain the same. Adjustments to the program have already been made by Senate Bill 124 in 1998 and this has corrected the two main problems of:

1. Surplus funding
2. Reluctance of some counties to spend their funds to implement appropriate white goods management programs.

Total county surpluses are decreasing annually because counties are spending more while their income (direct distributions of tax proceeds) has been reduced by 40%. Many counties have had to use their surplus funds to cover costs of their white goods programs.

The counties will continue to be dependent on the white goods disposal tax to provide comprehensive white goods management programs that serve the public, protect the environment, and discourage illegal dumping. The counties are dependent on the tax proceeds to accept white goods at no cost to the disposer.