

Speculators' Tax in Alleghany?

County commissioners seek tax grab based on guesses

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KEY POINTS

- Alleghany County commissioners are asking county voters to approve a \$160,000 tax increase at a time of high unemployment. That amount would be equal to a property tax increase of 0.9 cents per hundred dollars of value.
- County commissioners have tied the tax vote to speculation of lower state education spending next year, but other state and federal funding sources will likely offset any reductions without affecting the county budget.
- County operating budget appropriations for fiscal year 2011 are \$570,274 higher than in fiscal year 2009 – an amount 3.5 times as much as what the tax would generate. For example, the money from the new tax would not cover the operations of the office of the Register of Deeds (\$173,555).
- Any tax increase is permanent even if the needs are not.
- Commissioners are under no obligation to use the new tax to pay for schools. All new revenues will go into the general fund and can be spent by commissioners for any legal purpose.
- Since the special county taxing authority was established by the legislature in 2007, voters have turned down 68 of 85 requests for tax increases, sending the message that county commissioners must be more responsible stewards of taxpayers' hard-earned money before voters will entrust them with tax increases.
- Alleghany County voters should think twice before harming small employers with an open-ended tax increase based on speculation.

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SPECULATING ON STATE CUTS

Alleghany County commissioners would like voters to approve a \$160,000 tax hike on the premise of state cuts to education spending. Any cuts to state education spending at this point are entirely speculative and would likely be offset by increases from other sources.

PUBLIC SCHOOLS

Over the last decade, there has been a steady increase in state,

federal, and local education funding. During the 2008-09 school year, public school expenditures in Allegheny topped \$11,200 per student and continued to exceed the state average (see Figure 1).¹

Despite a decade of robust education spending, county commissioners throughout the state argue that localities must raise taxes in order to offset possible state cuts to public schools next year.

Minutes from the July 19 board of commissioners meeting show that Commissioner Doug Murphy used this argument to justify his vote for the tax hike in Allegheny County: “[N]o tax is good but with cuts coming from the State the revenues have to come from somewhere.”²

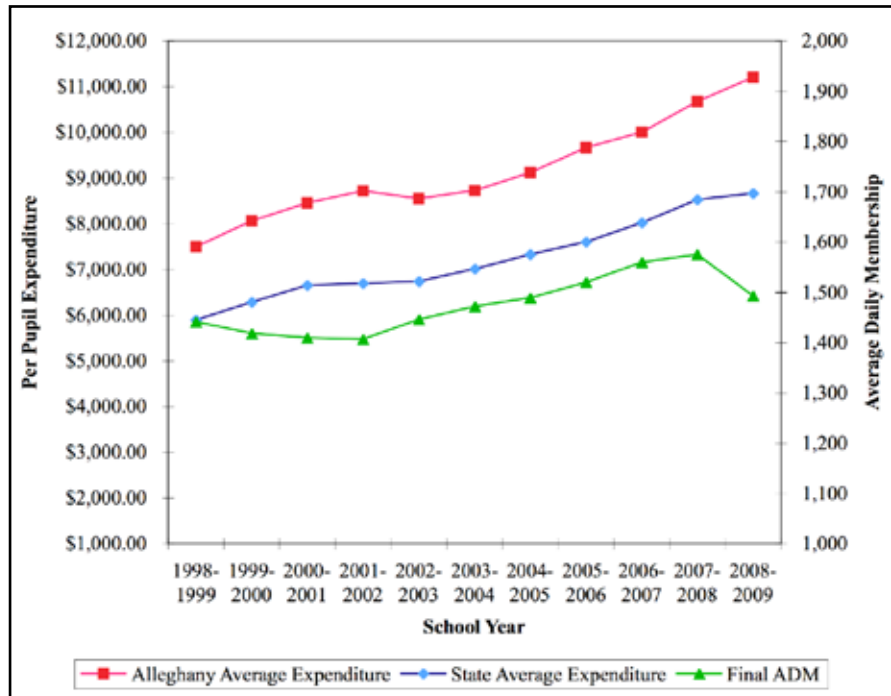
Fortunately for Commissioner Murphy, a number of outside funding streams will compensate for any local reductions in teaching positions.

Like all other public school districts in North Carolina, Allegheny County will be the recipient of federal funds for classroom teachers. Under the Federal Education Jobs Fund (EduJobs) law, Allegheny County will receive an additional \$365,368, which will fund an estimated seven teaching positions during the current school year.³ In addition, the North Carolina Education Lottery provided \$119,337 for class size reduction in grades K-3.⁴ Lottery proceeds will continue to fund two or three elementary school teaching positions every year. Allegheny County can also expect \$168,487 from North Carolina’s \$400 million Race to the Top grant.⁵

In some cases, declining tax revenue may necessitate systematic cuts to the public

school system. County commissions, school boards, and district staff must recognize that not all personnel, organizational, instructional, and program reductions are created equal. There is little evidence that reductions in administrative and support positions would hamper student achievement, although the same cannot be said for teaching positions.⁶

Figure 1. Per-Pupil Expenditures and Average Daily Membership, 1998-2009



As a rule, the district should retain as many highly qualified teachers as possible. Furthermore, organizational changes (such as school or departmental consolidation) and modifications to curriculum and instruction (such as the elimination of non-essential electives or extraneous academic programs) are unlikely to produce significant declines in student performance. Finally, school districts may simply offset reductions in athletics and extracurricular activities by increasing user or participant fees.

A new tax may not be the best way to offset any potential shortfalls even if commissioners choose to look outside the school system. The county budget for operating expenses in fiscal year 2011 is \$570,000

higher than it was in fiscal year 2009. That additional spending is 3.5 times more than the county expects to generate with the new sales tax. For example, the entirety of the tax on its own would not pay for the operations of the register of deeds.⁷

While the value of the tax to county coffers in a given year is relatively small, a tax increase would be permanent — there is no provision to automatically repeal the tax if it is not needed. Further, regardless of why commissioners say they would raise taxes, the new revenue would go to the general fund and could be used for any legal purpose.

Voters across the state have rejected 68 of 85 similar attempts to increase taxes in other counties since 2007. The overwhelming message to county commissioners has been to demonstrate greater fiscal responsibility.

Alleghany County voters will decide whether county commissioners have been fiscally responsible and whether they can be trusted with new taxing authority or if they are fiscal speculators.

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END NOTES

1. North Carolina Department of Public Instruction (DPI), “Statistical Profile 2009,” January 2010, p. 95, www.dpi.state.nc.us/fbs/resources/data; NC DPI, “2008-09 Selected Financial Data,” February 2010, p. 17-18, www.dpi.state.nc.us/fbs/resources/data; see also Terry Stoops, “No Bureaucrat Left Behind: N.C. public schools add staff at a much faster rate than enrollment,” John Locke Foundation Spotlight No. 373, May 28, 2009, johnlocke.org/research/show/spotlights/224.
2. Minutes from the Alleghany County Board of Commissioners meeting, July 19, 2010, www.alleghanycounty-nc.gov/minutes/07-19-10r.mht.
3. Lydia Prude, “Estimated Allocation of Federal Education Jobs Fund (EduJobs),” NC DPI, Financial and

Business Services, August 2010, www.dpi.state.nc.us/fbs (does not include funds from North Carolina’s \$400 million Race to the Top grant).

4. North Carolina Education Lottery, “Beneficiary Brochure, FY 2009,” November 2009, www.nc-educationlottery.org/about_where-the-money-goes.aspx.
5. NC DPI, Financial and Business Services, “Race to the Top FY 10-11 Allocations,” October 2010, www.dpi.state.nc.us/fbs/arra/rttt.
6. In 2006, Governor Mike Easley commissioned the “North Carolina High School Resource Allocation Study” to determine if high schools in North Carolina used existing levels of funding efficiently and effectively. In February 2008, after two years of exhaustive study, a team of researchers from the University of North Carolina at Chapel Hill and East Carolina University released the study’s final report. Researchers concluded that, in general, high schools are not using their funding to maximize achievement for all students. After controlling for student characteristics and teacher quality, researchers found that the effect of total per-pupil expenditures on student performance is very small. For example, they pointed out that a \$500 increase in total per-pupil expenditures in a school would lead to only 6/100ths of a point increase in average test scores in the school. On the other hand, researchers concluded that the amount that high schools spend on regular classroom instruction would have a sizable impact on student learning outcomes. In this case, a \$500 increase in per-pupil expenditures for regular classroom instruction would increase the average student test score by half a point. Unfortunately, school districts across North Carolina have invested heavily in support services and staff, rather than classroom instruction. In the study, money spent outside of the classroom, including after-school instruction and student services, actually had a negative effect on student test scores. Researchers explained that employing guidance counselors, psychologists, speech pathologists, and health personnel did not somehow lower test scores. Instead, schools that spent more in these areas likely provided less money for classroom instruction. So diverting resources from the classroom to supplementary services and staff may have contributed to lower test scores among sampled high schools. See Gary T. Henry, Charles L. Thompson et al., “North Carolina High School Resource Allocation Study, Final Report,” February 2008.
7. Alleghany County Budget Ordinance, Fiscal Year 2010-2011, passed June 28, 2011, www.alleghanycounty-nc.gov/budget/2010-11bo.pdf; fiscal year 2008-2009 data are from the county’s Annual Financial Information to the Office of the State Treasurer, www.nctreasurer.com/lgc/units/D_02.htm.