

A Blank Check for Buncombe

County commissioners ask voters for a sales-tax increase

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KEY FACTS

- ♦ Buncombe County commissioners and the president of Asheville-Buncombe Technical Community College (AB Tech), Hank Dunn, are promising voters that the \$7 million that would be raised by a proposed sales-tax increase would be given to AB Tech for a new building and renovations, despite knowing that the funds would go into the county's general fund and could be spent on any legal purpose.
- ♦ Additionally, promises made by the current county commission are not binding on future commissions that would be free to spend the funds on any legal purpose.
- ♦ The commissioner's official Code of Ethics, passed just last year, requires the commissioners to "inform and educate the citizenry about the affairs and processes of county government," not to mislead voters with promises that have no basis in law.
- ♦ The appropriate way to fund buildings and renovations at AB Tech is to offer voters a bond issue, which would legally guarantee that the funds were used for the promised purpose.
- ♦ Since 2005, commissioners have increased the county debt by 32 percent, ignoring voter accountability by using non-voter-approved debt.
- ♦ The non-voter-approved debt for AB Tech could cost taxpayers a 10 percent debt service premium compared with a voter-approved bond.
- ♦ Voters should receive assurances that the \$7 million in new revenue from the proposed sales-tax increase would not go to pay the tax rebates given to Linamar Corporation as incentives to move into the Volvo plant, which the county recently purchased for \$7 million.
- ♦ Voters should require the commissioners and Dunn to produce an academically sound economic study that would show how transferring \$7 million from taxpayers to county government would create a net increase in jobs in Buncombe County.

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INTRODUCTION

Buncombe County commissioners and the president of Asheville-Buncombe Technical Community College (AB Tech), Hank Dunn, have joined forces to hoodwink Buncombe County voters with a “too good to be true” offer. On Nov. 8, Buncombe County voters will decide on a quarter-cent sales-tax increase that commissioners and Dunn say would go for new buildings and renovations at AB Tech. Unfortunately, that promise is inconsistent with state law, which would require the estimated \$7 million per year in new sales-tax revenue to go into the county’s general fund — meaning it could be spent for any legal purpose.

Regardless of what they say and what they promise, the language on the ballot that voters will receive on November 8 is clear. Voters will vote for or against a sales-tax increase that states: “Local sales and use tax at the rate of one-quarter cent (0.25%) in addition to all other State and local sales and use taxes.” Voters should be aware that voting for the sales-tax increase is giving the county commissioners a blank check to spend in anyway they choose.

This *Regional Brief* provides several questions that voters should ask the Buncombe County commissioners and AB Tech President Hank Dunn before they vote on November 8.

1. Why should voters trust commissioners’ promises to spend the new sales-tax revenue on buildings and renovations at AB Tech?

Commissioners should know it is their ethical responsibility to inform voters that, by law, the sales-tax money goes into the county’s general fund and can be spent on any legal purpose. Commissioners’ promises are just that: promises. Voters have no legal recourse if those promises are broken. In addition, commissioners have an ethical responsibility to inform voters that the decisions of the current county commission cannot legally bind future commissions.

Furthermore, the promise that the sales-tax increase would “sunset” is also fraudulent. There is no legal mechanism that can guarantee the increase to end in 20 to 25 years when the improvements at AB Tech are fully paid. So voters must trust that not only would the current commission allocate the estimated \$7 million annual revenue increase to improve-

ments at AB Tech, but that future commissions would do the same. And voters must also trust that 20 to 25 years from now, county commissioners would repeal the sales-tax increase.

Given the discussion of the commissioners’ profligate borrowing without voter approval (see Question 3), voters should think twice before trusting commissioners to fulfill these promises.

Buncombe County commissioners passed a “Code of Ethics” just last year. The code states: “County Commissioners have a civic responsibility ... to continue to inform and educate the citizenry about the affairs and processes of county government.”¹ Thus, their current failure properly to “inform and educate” citizens about their legal responsibilities appears to be a violation of this code.

2. Why aren't commissioners asking voters to approve bonds for the capital improvements at AB Tech?

Given that the new sales-tax revenue could be spent on any legal purpose, if AB Tech needs capital improvements, then why would commissioners ask for a sales-tax increase rather than bonds to pay for it? If the voters are convinced that the needs at AB Tech are legitimate, they should demand that the commissioners put a bond on the ballot. Voter approval of bonds would guarantee that the funds were used for AB Tech buildings and renovations.

Bonds would be preferable to funding the debt through Certificates of Participation (COPs) because the interest rate for the bonds would be lower. Also, total debt service could be 10 percent lower if voter-approved General Obligation bonds were used (see the detailed discussion in Question 3.)

By ignoring this obvious solution, commissioners are inviting citizens to question the veracity of their promises to use the money for AB Tech.

3. Why are commissioners contemplating increasing Buncombe County's debt for AB Tech improvements when they have already increased the county's total debt by 32 percent since 2005?

Let's look at the commissioners' record on debt since fiscal year (FY) 2005. Between FY 2005 and 2010, the county's total debt service, including education, nearly doubled. It increased from \$118 per person to \$228 per person (in constant 2010 dollars). Put differently, debt went from 10.5 percent to 19.4 percent of local county revenues. Voters did not have an opportunity to approve this growth in the county's debt.

Since 2005 the county commissioners have ignored the public by increasing the debt without asking for voter approval. Between FY 2005 and 2010, Buncombe County commissioners increased the county's total debt by using methods that did not require voter approval.² This portion of the county's debt increased from 39 percent of the total to 71 percent. During the same period, commissioners virtually ignored the use of General Obligation bonds that require voter approval. That portion of the county's debt fell from 61

percent to 29 percent of the total county debt (see chart).

Furthermore, governments pay higher interest rates for debt that is not voter approved. For example, the North Carolina Research Campus in Kannapolis and Cabarrus County pays as much as \$6.8 million more

Buncombe County Debt (percent of total and in millions \$)

	FY 2005	FY 2010
Non-voter-approved debt	39% (\$66 million)	71% (\$159 million)
Voter-approved General Obligation bonds (GOB)	61% (\$104 million)	29% (\$65 million)
Totals	\$170 million	\$224 million (a 32 percent increase)

in present-value terms on the \$67 million project because it was not financed with voter-approved bonds. Buncombe County voters should know that they are facing what could be a *10 percent debt-service premium* because the commissioners have rejected the use of voter-approved General Obligation bonds for possible improvements at AB Tech.³

In addition, county commissioners since FY2005 have chosen to finance construction with non-voter-approved debt instead of

voter-approved General Obligation bonds, so they've borrowed too much at too high a cost. As a result, county commissioners now are asking to increase the sales tax to cover the debt they've already taken out and to pay for community college construction and renovation. If they had borrowed more prudently in the past with the consent of the governed, they wouldn't have to use subterfuge today to get a tax hike passed. They could separate the

revenue question from the construction question and have a straightforward vote just on the merits of the community college projects. But they have cut that path off for themselves.

As stated before, taxpayers have no guarantee that the money would actually go to the promised improvements at AB Tech. The county commissioners' recent record with debt suggests they are not trustworthy and don't exactly care what the voters want.

4. If AB Tech improvements are so urgent, why did the commissioners buy the Volvo plant and then give huge tax rebates to the new occupant, Linamar Corporation?

The recent purchase of the vacant Volvo plant illustrates how the current commissioners have played and, some argue, lost the economic incentives game. The commissioners paid \$7 million to purchase the vacant Volvo plant, an amount that coincidentally is the same amount that the sales-tax increase would raise. The commissioners then agreed to pay the Linamar Corporation an incentive package worth \$6.8 million (\$12.5 million in state, city, and county incentives). Linamar in turn produces engine blocks for the Volvo plant in Maryland. County voters should note that Volvo and its suppliers seem to be playing the game by reshuffling their operations in order to get gullible elected officials to give them \$12.5 million in taxpayer subsidies.

At least one elected official gets it. Asheville city council member Cecil Bothwell voted against what appeared to him to be a scam and commented, "In this particular case, I wonder if we weren't played: Volvo leaves an empty plant and then one of their large suppliers conveniently accepts \$10 million [in city and county incentives] to move into the place."⁴

Another way of looking at it: the county is losing about \$6.8 million in revenue by offering tax rebates to Linamar. County commissioners know that they need to make up that lost revenue, and to do so they want taxpayers to pay higher sales taxes to the tune of an additional \$7 million to recover it.

5. Why call an election this November when the tax vote is the only measure on the ballot for county residents?

Local media have offered a possible motivation for the election this November. The *Asheville Citizen-Times* notes that the more liberal Asheville voters who are likely to vote yes will turn out in higher numbers because they are also voting for city council members than more conservative county voters,

who are likely to vote no because the sales-tax vote is the only measure on the ballot.⁵ In other words, county commissioners are cynically depending on a low voter turnout in the county precincts in order to win approval for the sales-tax increase.

6. Why should voters believe that taking \$7 million per year from taxpayers and giving it to county government to spend would produce a net increase in jobs in Buncombe County?

Over the last three years, the country as a whole has witnessed a significant test of the Keynesian idea that government spending creates a net increase in jobs. The Bush and Obama stimulus packages, totaling nearly \$2 trillion, and the Federal Reserve's printing money to pay for deficit spending by the federal government (i.e., quantitative easing) have failed to produce the promised jobs and prosperity.

It is incomprehensible that county commissioners and AB Tech President Dunn would believe that transferring an additional \$7 million from taxpayers' pockets to government in Buncombe County would result in a net increase in jobs. Leaving that money in private hands would create jobs.

It is up to the commissioners and Dunn to produce an academically sound economic study showing that the jobs that would be produced by government spending would be greater than the jobs that would have been

created by the private sector. So far they have failed to produce such a study.

To believe that Buncombe County and AB Tech are more efficient than the private sector in creating jobs, one must believe that the county and college administrative overhead is lower, their knowledge of what jobs are needed is greater, and that the jobs they would create would add to the overall wealth of the county. Economists have shown over and over that government job creation fails on all three counts.

Absent a study to back up their job creation claims, voters are left with the inescapable conclusion that this "jobs" claim is little more than the latest political ploy by politicians to increase the size and spending of county government.

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END NOTES

1. Code of Ethics for the Buncombe County Board of Commissioners, August 3, 2010, www.buncombecounty.org/governing/commissioners/ArchivedAgenda/20100803/documents/ethicsadoptedin2009.pdf.
2. I.e., installment sales purchases, lease obligations, and revenue obligation bonds.
3. "Debt," City and County Issue Guide 2011, John Locke Foundation, johnlocke.org/site-docs/research/2011issueguide/03debt.html.
4. Cecil Bothwell, comment in Margaret Williams, "Asheville City Council approves Linamar economic incentives," *Mountain Xpress*, August 10, 2011, www.mountainx.com/article/4668/Asheville-City-Council-approves-Linamar-economic-incentives.
5. Mark Barrett, "Buncombe County commissioners call for November referendum on sales tax increase," *Asheville Citizen-Times*, January 19, 2011.