POLICY REPORT

City and County Issue Guide 2014

John Locke
FOUNDATION

City & County Guide 2014

Policymakers in the many local governments of North Carolina face a host of important challenges. This issue guide offers solutions to problems that confront North Carolinians at municipal and county levels. The common thread in these recommendations is freedom. By increasing individual freedom, local governments can foster the prosperity of all North Carolinians and keep open avenues to innovative solutions from enterprising citizens.

The John Locke Foundation research team offers the following policy analyses and recommendations. Please feel free to contact the policy expert associated with each recommendation for further information. For more detailed research on these and other issues facing local governments in North Carolina, visit www.JohnLocke.org and select the Research tab.

The section authors thank Research Publications Coordinator Julie Gilstrap for her outstanding work editing and designing this publication.

The research team also thanks research intern Joseph Chesser for his help and contributions to this guide.

On the cover: Asheville, North Carolina skyline nestled in the Blue Ridge Mountains by SeanPavonePhoto, Image from Bigstock.com

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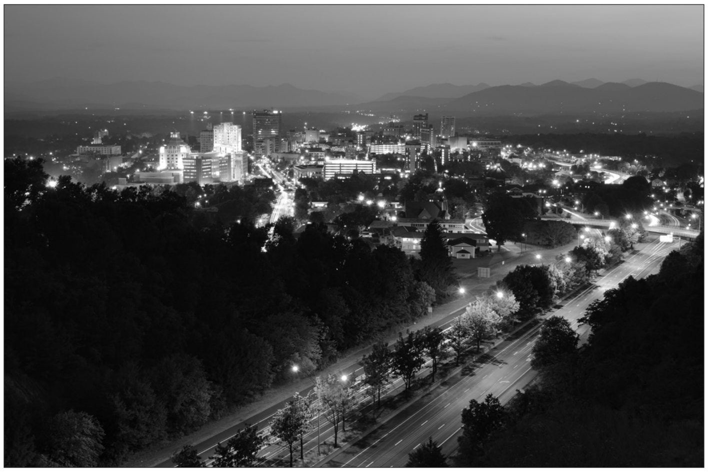
Asheville, North Carolina skyline nestled in the Blue Ridge Mountains
by SeanPavonePhoto, Image from Bigstock.com

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Recommendations

The scope of local government should be limited. Families, charities, or for-profit companies can better accomplish many societal goals.

Rather than seeking higher taxes, local governments should look to use existing revenues more efficiently.

Background

Few people object to paying taxes if the taxes are fairly assessed and the money is properly used. All local governments in North Carolina have two ways to tax their citizens: the property tax and the sales tax. Some have additional taxes on rental cars, hotel rooms, meals, home sales, or businesses. Cities and counties also often charge separate fees for construction, water and sewer, solid waste removal, recycling, or electricity.

In 2007, the General Assembly set the base local sales tax rate to 2.00 percent and gave counties the option to levy an additional 0.25 percent after a supportive vote by county residents. Eight counties immediately approved the additional sales tax, and since then 18 more counties have voted to increase their sales taxes to the 2.25 percent rate. Counties also have the right to ask for an additional 0.50 percent sales tax to be used for local transit. Only four counties have had this tax on the ballot, and it was approved in three, allowing those counties to have the highest combined state and local sales taxes in North Carolina at 7.50 and 7.25 percent.

The 2007 law that set the current sales tax rates was also responsible for giving the counties the option to increase the land transfer tax. More than 20 attempts were made by local governments to pass additions to the transfer tax, but they were rejected by voters every time. The 2011 General Assembly voted in bi-partisan agreement to repeal the land transfer tax option for counties. There are currently six counties that have land transfer taxes of 1 percent, which were created by individual state laws in the late 1980s and were not subject to the law repealed in 2011.

Unfortunately, too many local governments have misused the money they now have. In Wilmington, the city is negotiating the building of a downtown "passive waterfront park" costing the city between \$3.5 and \$4 million, while police have had one pay raise in three years. Charlotte City Council approved \$87.5 million from the local occupancy and food and beverage taxes to renovate the Panthers' stadium instead of expanding road capacity to alleviate traffic congestion. Spending comes first with governments; if they did not spend money, they would not need to tax their citizens. Officials need to convince their citizens that they are spending wisely before imposing new taxes, fees, or other costs.

Analysis

After a decade of property value increases, the markets saw marked declines in 2009. Governments need to prepare for a reset. Fifty-seven of the state's counties haven't revalued property since the recession in 2009, causing taxpayers to pay property taxes on inflated property values. County governments need to live within their means and stop taking overinflated property tax collections from citizens. All counties should have revaluations on their properties after 2009 to assess taxpayers at a fairer rate.

The median cost of local taxes and fees per person was \$1,242.17 in 2011. That figure represents 4.15 percent of per-capita personal income.

Local governments must earn the trust of taxpayers. Spending on municipal golf courses, economic incentive packages, downtown parks, privately owned athletic stadiums, convention centers, and other non-essential services have at times received higher priority in local budgets than school buildings, sewer systems, police, fire departments, and roads. For local governments that typically face funding constraints, prioritization is the key.

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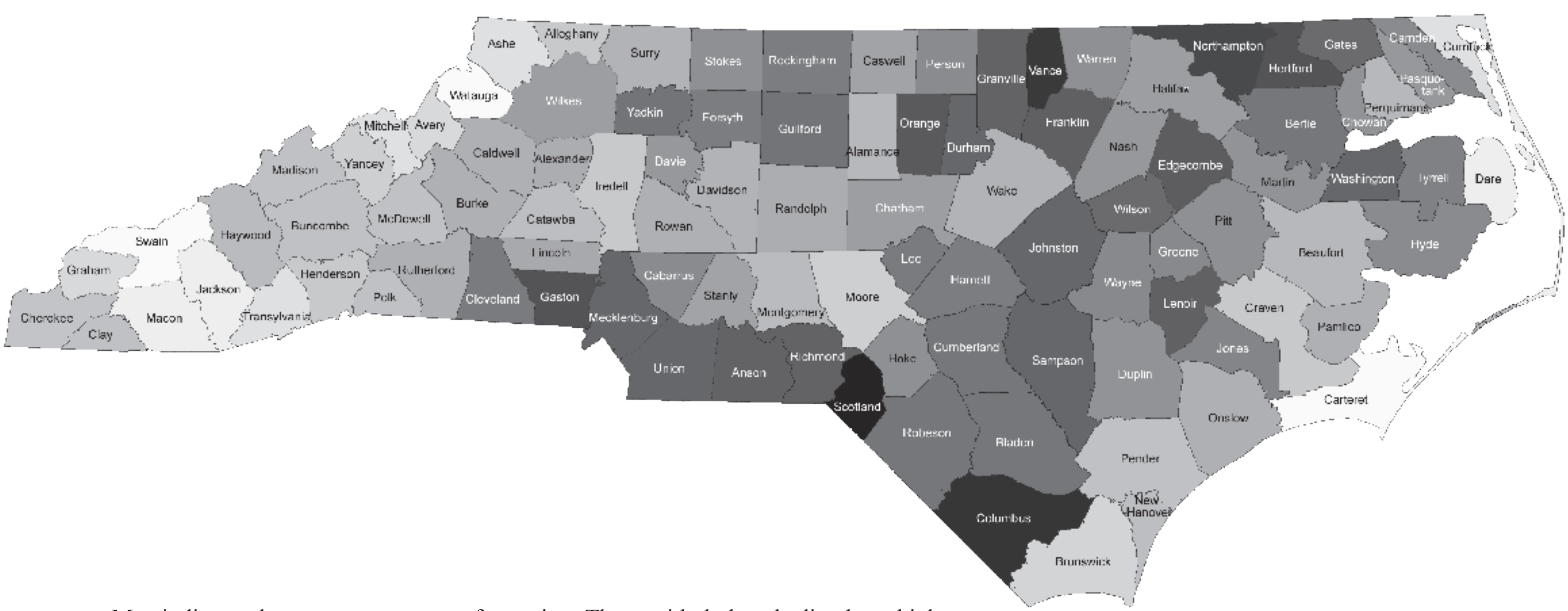
Effective Property Tax Rates 2012-13					
Top 10 Municipalities		**Top 10 Counties**		**Top 10 Combined**	
City/Town	**Rate ($)**	**County**	**Rate ($)**	**County, City**	**Rate ($)**
Maxton (Sctd)	$0.98	Scotland	$1.12	Scotland, Maxton	$2.10
Tabor City	$0.90	Columbus	$1.08	Columbus, Tabor City	$1.98
Maxton (Rbsn)	$0.88	Vance	$1.02	Columbus, Chadbourn	$1.90
Ahoskie	$0.83	Northampton	$0.96	Columbus, Bolton	$1.87
Roper	$0.82	Gaston	$0.92	Columbus, Fair Bluff	$1.87
Chadbourn	$0.82	Hertford	$0.92	Scotland, Gibson	$1.86
Bolton	$0.79	Orange	$0.90	Scotland, Wagram	$1.83
Fair Bluff	$0.79	Edgecombe	$0.88	Vance, Henderson	$1.79
Henderson	$0.77	Franklin	$0.87	Hertford, Ahoskie	$1.74
Madison	$0.76	Lenoir	$0.87	Columbus, Whiteville	$1.73

Effective rates are adjusted county and municipal rates which aid in comparison of jurisdictions. As counties are on various revaluation cycles, the ratios of the assessed value to the actual value differ. These differences are adjusted by applying the sales assessment ratio (the ratio of selling price of property to the assessed value of property) to the tax rate to obtain an effective rate. (No special district rates are included in either county or municipal rates.)



Map indicates the property tax rates of counties. Those with darker shading have higher rates.

Recommendations

Local governments should move from traditional defined contribution plans for retirees to Health Savings or Health Reimbursement Accounts (HSAs or HRAs).

Local governments should ensure a reserve fund to cover costs of promised health insurance benefits.

Local governments should also tighten eligibility criteria and reduce the generosity of retirement benefits to existing employees and those newly hired.

Background

County employees traditionally received retirement health benefits after becoming vested through a number of years of service. In recent years, employee health care obligations have become a major concern for counties' fiscal sustainability. Defined benefit healthcare plans are no longer supportable, and counties are changing to accommodate an aging retired workforce and mitigate future long-term unfunded liabilities.

Legislation in 2010 (SB1212) changed the way local governments fund post-employment benefits. The law allows each local government the option to establish a trust fund into which it can make contributions and have those contributions invested by the state treasurer. The funds are then invested in marketable securities, such as treasuries and corporate securities, to allow the trust fund to take advantage of public market gains.

In addition to the changes made with the 2010 law, many local governments have been changing the number of years of service required to receive health benefits in an effort to lessen future liability. Forsyth County has changed the vesting period from five years to twenty, and will only provide health coverage until the retiree is age 65 or eligible for Medicare. Cumberland County switched from a ten to a twenty-five year vesting period in 2008. Guilford County discontinued post-retirement health benefits for all those hired after July 2009 and instead offers employees HSA-like plans to avoid future liabilities to the county. The most populated county, Mecklenburg, closed its post-employment health benefits to new employees after June 2010, and only funds health premiums 100% for those employees with 30 or more years of service and 50% for those with more than 20.

Analysis

Even with these changes in many counties, promised health benefits for retired county and municipal government employees are woefully underfunded. The ten most populated counties in the state have total actuarial liabilities over $1.6 billion, but actuarial assets of just $74.7 million; leaving 95.3 percent of the liability unfunded. The $1.6 billion unfunded liability is almost 60 percent larger than the covered payroll of those counties. Many counties have decided to adopt a pay-as-you-go method for retiree health benefit payments and have no assets available to pay for this future liability. More and more counties are taking advantage of the creation of the trust managed by the state treasurer, as rating agencies are beginning to look at this unfunded liability as a reason to lower bond ratings.

Key Points

Nine counties - Graham, Hoke, Jones, Lenoir, Madison, Polk, Richmond, Warren, and Washington - do not pay any part of a retiree health care benefit premium.

Guilford County, which reports an unfunded liability 144 percent larger than the county payroll, moved all employees hired after July 1, 2009 into a defined contribution health care plan. County commissioners also set aside $2 million to pay for the health benefits of existing employees in both 2011 and 2013.

Unfunded health care promises:

- Hurt local governments' abilities to provide services as funding demands rise over time,
- Leave local government employees receiving less than their expected compensation, and
- Put citizens in jeopardy of higher taxes to pay for local government health care.

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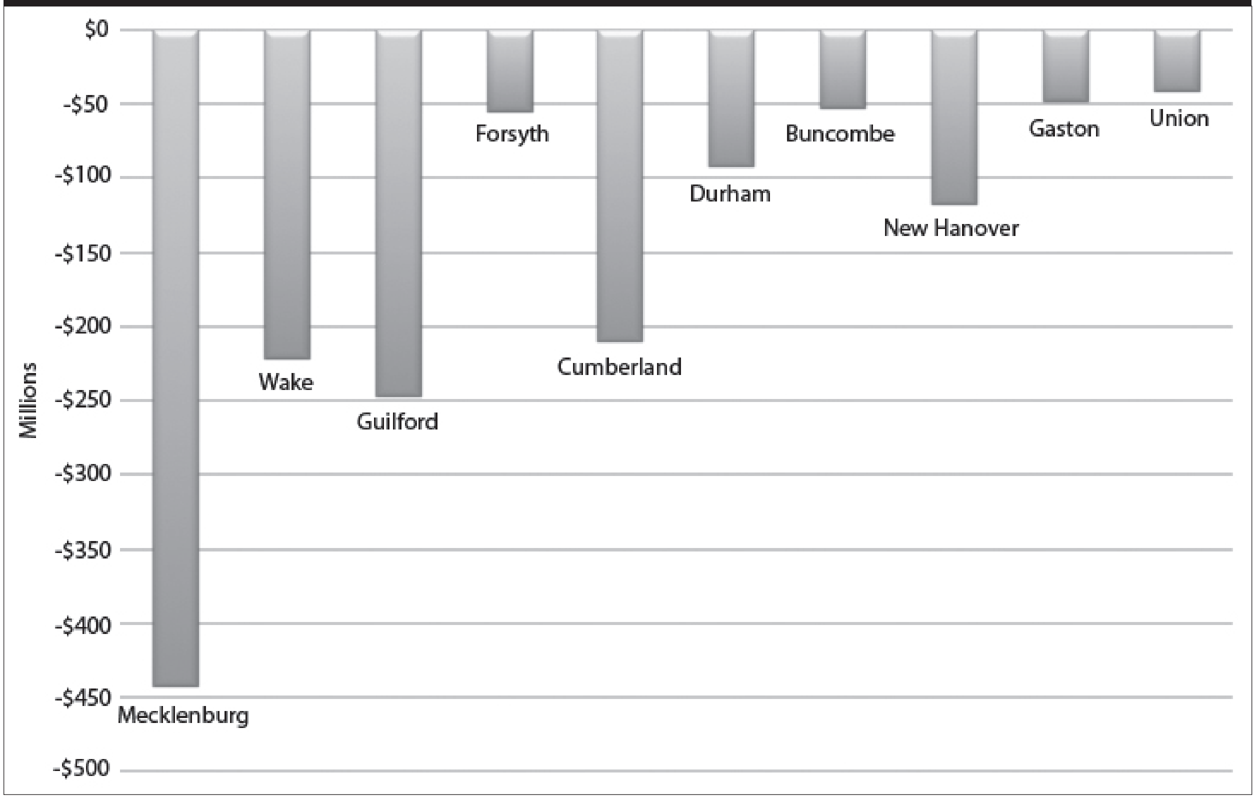
Unfunded Retired County Employee Health Insurance Benefits
Ten Most Highly Populated Counties



County (Data Year)	Unfunded Amount	Funded Ratio (Assets/Liabilities)
Mecklenburg (2013)	-$441,887,035	9.9%
Wake (2011)	-$220,874,828	0.0%
Guilford (2011)	-$246,875,363	2.2%
Forsyth (2010)	-$55,180,251	6.6%
Cumberland (2011)	-$209,956,517	0.0%
Durham (2010)	-$92,462,774	0.0%
Buncombe (2012)	-$52,273,931	13.1%
New Hanover (2010)	-$116,907,724	0.0%
Gaston (2011)	-$48,175,751	0.0%
Union (2013)	-$41,528,877	17.8%

Recommendations

Local governments should put all debt to referendum votes concurrent with general or primary elections.

Governments should report the full financing cost and repayment plan for any debt before a vote and put the tax increase associated with the debt on the ballot.

Budgets and financial reports should include a full accounting of debt, including the diverted revenue to pay higher-cost limited-obligation bonds, certificates of participation, installment purchase debt, and all other non-voter approved debt financing vehicles.

Background

North Carolina municipalities and counties issue debt or bonds to pay for specific projects such as school and municipal buildings, jails, libraries, water treatment plants, streets, and sidewalks. Historically, debt issued by local governments was voted on in referenda and issued as General Obligation (GO) bonds. However, over time, local governments found ways to incur more debt through faster, easier methods. Many started by moving away from voting on bonds during normal elections and toward less popular election times. In the early 2000s, state legislation was passed that allowed local governments to use methods of borrowing money without asking for the approval of voters and taxpayers.

Today, many cities rely more on non-voter approved debt than voter approved. At end of fiscal year 2012, Rocky Mount, Jacksonville, and Concord had only non-voter approved debt. Asheville had over one-hundred times more debt funded through non-voter approved methods than through voter approved. Fayetteville had eleven times more non-voter approved than GO debt.

Analysis

Bond referenda for schools, libraries, and other projects often pass, but elected officials and government managers may claim other methods will reduce risk and taxpayer exposure, or take advantage of short-term dips in construction or finance costs. This is rarely the case.

There are major cost differences when local governments choose non-voter approved debt financing. GO debt is paid through the taxing power of local governments, so investors face very little chance of default. Non-voter approved debt, is sometimes issued on an unsecured basis, for example by using a specific revenue stream, lease payment, or financing agreement. Because of fluctuations in local revenue, governments have more chance of default on these types of loans, making this form of debt more risky and giving it a higher interest rate.

Certificates of participation and other installment purchase plans also come with promises to protect taxpayers, yet local governments pledge their own assets, such as town halls and fire stations, as collateral to finance these projects. Banks are unlikely to repossess these properties for resale, so taxpayers would still be responsible for the town's leasing back of these facilities.

The disproportionate amount of high-priced debt has forced local governments to divert more funds each year to pay for debt service. As a result, these funds are not available for other needed services. Watauga County's debt service, for example, amounts to $1,321 per person. Needed upgrades to roads, water, or sewer systems must take a backseat to current debt and the interest it incurs. Whatever new tax revenue is dedicated to debt service is not available for other projects. Ultimately taxpayers are liable for the costs and should have a say through referenda in how much exposure they incur.

All debt (certificates of participation, revenue bonds, Build America Bonds, tax-increment financing) pledges the taxing authority of the issuing government.

Between 2005 and 2012, per capita debt service payments rose in counties from $113 to $147 and in municipalities from $180 to $226. A family of four spent an average of $320 more per year on debt payments for local government in 2012 than in 2005. In some areas, this may not include diverted revenue used to pay debt.

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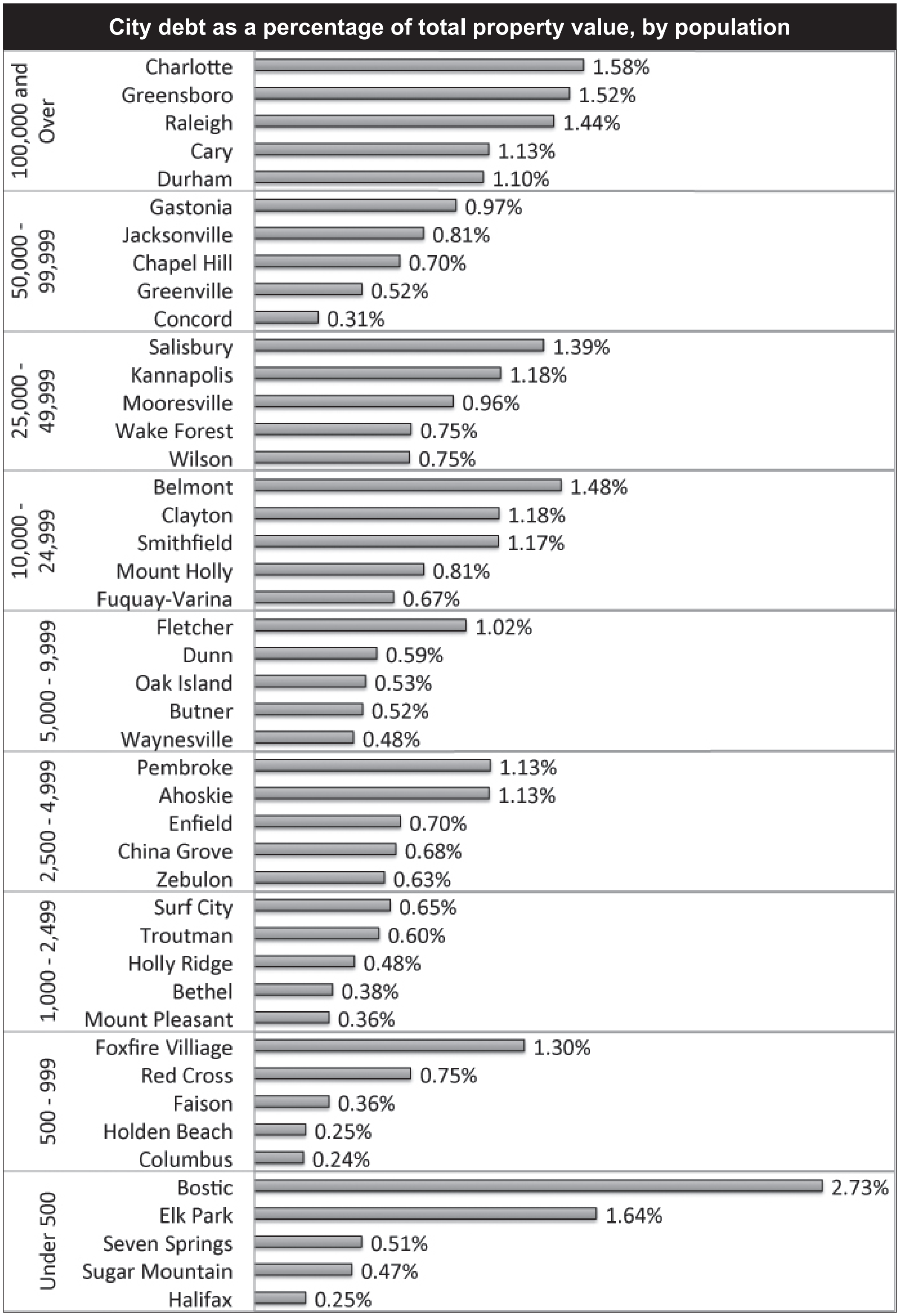
City debt as a percentage of total property value, by population
100,000 and Over
Charlotte 1.58%
Greensboro 1.52%
Raleigh 1.44%
Cary 1.13%
Durham 1.10%
50,000 - 99,999
Gastonia 0.97%
Jacksonville 0.81%
Chapel Hill 0.70%
Greenville 0.52%
Concord 0.31%
25,000 - 49,999
Salisbury 1.39%
Kannapolis 1.18%
Mooresville 0.96%
Wake Forest 0.75%
Wilson 0.75%
10,000 - 24,999
Belmont 1.48%
Clayton 1.18%
Smithfield 1.17%
Mount Holly 0.81%
Fuquay-Varina 0.67%
5,000 - 9,999
Fletcher 1.02%
Dunn 0.59%
Oak Island 0.53%
Butner 0.52%
Waynesville 0.48%
2,500 - 4,999
Pembroke 1.13%
Ahoskie 1.13%
Enfield 0.70%
China Grove 0.68%
Zebulon 0.63%
1,000 - 2,499
Surf City 0.65%
Troutman 0.60%
Holly Ridge 0.48%
Bethel 0.38%
Mount Pleasant 0.36%
500 - 999
Foxfire Villiage 1.30%
Red Cross 0.75%
Faison 0.36%
Holden Beach 0.25%
Columbus 0.24%
Under 500
Bostic 2.73%
Elk Park 1.64%
Seven Springs 0.51%
Sugar Mountain 0.47%
Halifax 0.25%

Recommendations

Put contracts and detailed spending information online. *NCOpenBook.gov* and Wake County's WATCH website offer good examples of accessible, transaction-level detail updated daily.

Use XML and structured formats for data transparency. Data is only useful if it can be analyzed. Open data standards make this easier.

Develop meaningful outcome measures, and hold government agencies accountable for results.

Background

Local governments should build accountability and transparency into their budgeting and management processes, as they have with meeting agendas, videos, and social media. Many of the tools to achieve that goal also help government employees succeed in their jobs.

Many local governments are posting agendas, audio, and video from commission meetings. They are adding crime maps, documents related to zoning, and building permit requests. More governments and individual elected officials are on Facebook and Twitter. These are all positive steps toward greater involvement of citizens.

Citizens need solid information about how government works and what they get for their tax dollars if they are to be truly engaged. Local governments should help citizens to understand how they pay for services. They also need to measure and report results, then make decisions that hold managers and programs accountable.

As budgets have become increasingly complex, citizens are less able to monitor how their taxes are spent. Government managers also need better information in order to use tax money in the most effective ways.

Much of what is available online now is of limited value. Documents are buried deep within websites and are difficult to find. If they are found, data may need to be reentered to make the information useful. PDF is not a data format. With Google docs and other online tools, governments face fewer roadblocks to making more information readily available to citizens and employees.

To understand local government spending, an elected official or citizen must consult a number of documents, go through hundreds of virtual or real pages, add numbers together, and sometimes extrapolate from the past. Even when local governments are given a standard format for data entry, such as for the State Treasurer's Annual Financial Information Reports, the data that go into the report differ from locality to locality and even within the same county or town over time.

Many counties report spending in budget ordinances. To receive an entire line-item budget may require a formal request to the county manager. Even then, the line items are often confusing, leaving individuals unclear about exactly how governments are spending their money.

Newspapers in some of the larger metropolitan areas (Raleigh-Durham, Charlotte, Wilmington) have begun creating their own searchable databases of government employees' salaries and pension benefits. These are helpful for citizens, but not as timely as would be possible if governments managed their own databases.

Analysis

Governments at all levels have taken steps to make more information available online, assisted by the press, the John Locke Foundation, and other groups. They have also made operations and processes more transparent with online calendars and agendas.

North Carolina has an online directory of contracts, stimulus projects, and grants. Wake County makes information available in its online database, WATCH.

Newspapers across the state post salaries of state and local employees in easy-to-use databases. *NCTransparency.com* acts as a portal to transparency resources.

Open data standards allow better analysis of data and make it possible to combine with other online sources.

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Wake County's Open-Government Web Site

(*http://www.wakegov.com/budget/watch*, screen capture)

WAKE COUNTY

WATCH Wake Accountability Tax Check

Watch how your tax dollars are used!

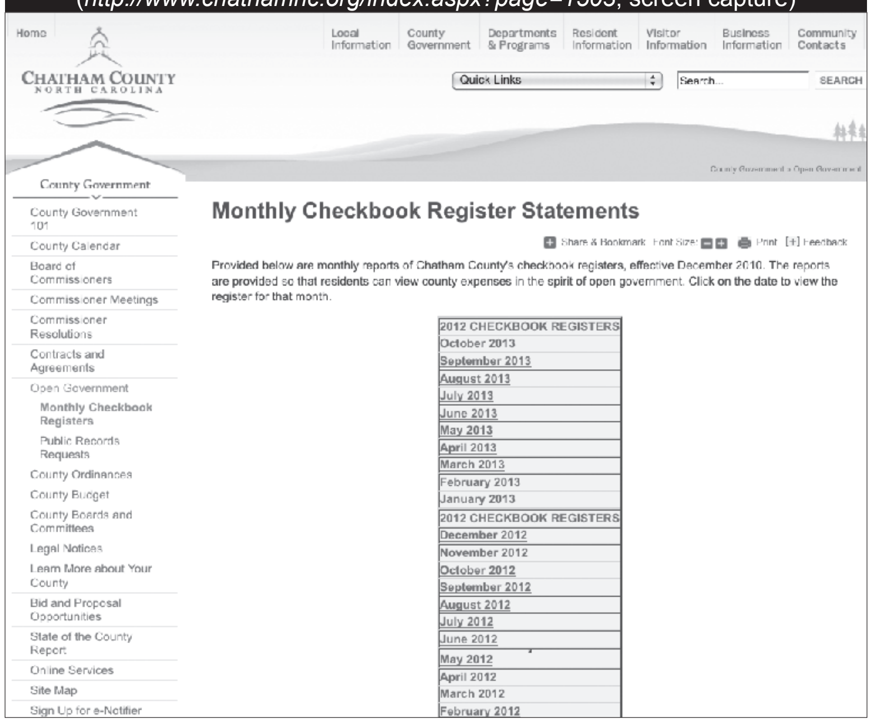
File Data Find

Fiscal Year 2014 Financial Transactions - October 2013

Department	Division	Cost Center	Expenditure Category	Expenditure Line Item	Vendor/ Description	Budgeted	Actual Amounts
Board Of Commissioners						486,973	100,782
Board Of Elections						3,379,911	763,781
Budget And Management Services						763,292	132,415
CCBI						5,342,365	1,132,223
Community Services						27,166,661	5,759,999
County Attorne						1,649,488	328,706
County Manage						1,452,353	296,261
Emergency Medical Service						33,878,416	9,217,498
Environmental Services						8,694,737	1,762,005
Facilities Design & Construction						1,204,343	241,873
Finance Department						2,266,601	488,212
Fire and Emergency Management						1,899,245	387,949
General Services Administration						25,998,605	4,093,836
Human Resources Department						1,922,819	367,983
Human Services Departmen						184,415,592	34,857,827
Information Services						12,089,272	3,693,209
Medical Examiner						204,200	40,000
Non Departmental						11,564,534	2,247,185
Public Safety Communicatio						1,088,981	(189,952)
Register Of Deeds						2,650,766	549,816
Revenue Department						7,448,931	971,232
Sheriff						73,207,667	15,322,907
Transfers						232,443,000	850,000
Wake County Public School System						327,496,020	81,874,005
Wake Technical College						16,190,938	4,047,734
Grand Total						984,895,710	169,337,485

Chatham County's Open-Government Web Site

(*http://www.chathamnc.org/index.aspx?page=1503*, screen capture)



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CHATHAM COUNTY NORTH CAROLINA

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County Government

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Monthly Checkbook Register Statements

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Provided below are monthly reports of Chatham County's checkbook registers, effective December 2010. The reports are provided so that residents can view county expenses in the spirit of open government. Click on the date to view the register for that month.

2012 CHECKBOOK REGISTERS
October 2013
September 2013
August 2013
July 2013
June 2013
May 2013
April 2013
March 2013
February 2013
January 2013
2012 CHECKBOOK REGISTERS
December 2012
November 2012
October 2012
September 2012
August 2012
July 2012
June 2012
May 2012
April 2012
March 2012
February 2012

Recommendation

Local governments should focus on making their communities conducive to economic growth and business investment by keeping property taxes, sales taxes, and business regulations and fees low. The focus of county budgets should be on essential government services, making sure that these services meet the needs of business. This focus would include providing reliable sources of water and transportation services that accommodate the desired lifestyles of the workforce and the needs of industry.

Beyond this, city and county government should allow business investment to take its course. Real economic growth cannot be accomplished by targeting some businesses for special subsidies while burdening other businesses and citizens with the cost of those subsidies.

Background

North Carolina's county governments divert hundreds of millions of dollars in taxpayer money to private businesses in an attempt to attract economic growth and job creation. These subsidies come in a variety of forms, including property tax exemptions, direct cash grants, land conveyances, and low-interest loans. These programs put county governments in the role of economic planner, where county commissions and planning boards, that face no real market incentives, have taken upon themselves to pick economic winners and losers.

Typical of such programs is one in Cabarrus County's "Economic Development Grant Program." It is advertised on the county web site that:

> *A Grant approved by the BOC may be an amount equaling up to 85% of the real and personal property tax actually paid on assets eligible for this Program. The minimum incremental increase in assessed value of assets shall be $1.5 million, except in those cases where the Grant is used to encourage the development or help ensure the success of certain targeted businesses and/or geographic areas, where the threshold shall be at the discretion of the Board of Commissioners.*

These grants are awarded with two main goals.

> *The award of a Grant is designed to increase employment opportunities within the County as well as to increase the assessed valuation of the County.*

Similar programs are in operation in most other counties in North Carolina. Furthermore, some of these grants are not only used as a way of enticing new investment. For example, Buncombe county recently transferred $84,000 from county taxpayers to a plastic card manufacturing company called Plasticard-Locktech International. This is a company that has already been manufacturing its cards in the county and was investing in a $4.4 million expansion. Apparently the $84,000 grant was awarded after the $4.4 million had already been invested. It was announced in October 2013 that the grant was approved. In the same announcement the marketing coordinator for Plasticard-Locktech announced that that "the $4.4 million expansion is almost complete." The $84,000 appears to be an after-the-fact reward for investments already made.

Analysis

While subsidies may benefit a targeted business or even entice a new business to locate its operations within a county, there is no such thing as a free economic development grant. These grants harm existing business and other taxpayers. Such policies do not generate net benefits for a county. Instead they are wealth transfers that hurt some and help others.

When a county decides to use tax dollars to entice a new company to set up shop in a community, that money must come from somewhere. Local businesses and their employees must pay more in taxes and other costs to support the subsidized industry. As a result, economic growth for those businesses not receiving subsidies is discouraged. In reality, the subsidies end up being a mechanism for transferring wealth from existing businesses to the subsidized businesses and the people who work for them. That is why they are often referred to as corporate welfare.

Higher taxes for the community at large are not the only way existing businesses must pay the costs of these subsidies. The subsidized entrants into the market add to the demand for workers and other resources including land, driving up costs for all businesses. As stated on the Cabarrus County web site, one of the express purposes of that program is "to increase the assessed valuation of the County." In other words, they want to drive up the cost of land and, consequently, property tax bills. These are important components in the cost of doing business generally. In this way, existing businesses are punished and discouraged from expanding.

An additional effect of the subsidies is to exempt the subsidized businesses from bearing the costs of infrastructure needs that their presence generates. These include the costs of road construction, police and fire services, and construction of new schools and other public facilities. It has also become clear that many communities will have to make additional investments in reservoirs and other new sources of water. Bonds will be floated to pay for all this, which will have to be paid back with future property and sales taxes. Many corporate welfare schemes enacted by localities will simply allow these new, subsidized businesses to be free riders. Again, this adds to the tax burden on the rest of the community.

Economic growth, not economic development

There is an alternative. Counties should abandon the idea of targeting specific firms or industries in order to "stimulate" so-called economic development. Instead, they should focus on policies that will bring about sustained economic growth — policies that will make investment attractive to all businesses and entrepreneurs. These policies will seek to keep property taxes, sales taxes, and business fees low. But beyond that, the policies should also focus on keeping land-use and other regulations to a minimum.

The state of North Carolina began to move in this direction with its approach to comprehensive tax reform in 2013. Besides implementing a low flat rate income tax with fewer special tax breaks, it began the process of dramatically reducing its corporate income tax rate while wiping out the special corporate giveaways that have become embedded in the system over the years. In this case counties and municipalities should look to the state as a role model. At the same time the state needs to abandon programs that provide matching funds to localities that engage in corporate giveaways. In providing these matching funds, the state becomes an enabler of bad local policy.

The primary role of local government is to provide for sound and reliable infrastructure services. The latter includes effective police and fire departments, efficient trash collection, a road system that is kept in good repair, a safe and instructionally effective school system, and a dependable sewer system and water supply that can accommodate economic growth.

The goal should be to create an environment that is conducive to investment and business activity, not for a politically favored few, but for all entrepreneurs.

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Competitive Sourcing

Recommendation

Cities and counties should establish an aggressive competitive sourcing policy that includes most, if not all, governmental services.

Background

Competitive sourcing is the process for determining the most efficient and effective source — private or public — for performing a specific governmental function or service. The first step is to define a service or a function and take bids from private and public providers. The lowest bid wins. Whether the service stays in-house with government employees or is contracted out to a private provider, taxpayers are the victors. The competitive process ensures that the service is provided at the lowest price. As such, it provides a powerful tool for officials to cut costs while providing essential governmental services. Savings of 5 to 50 percent due to competitive sourcing have been reported, with savings of 20 to 30 percent being common.

North Carolina has certain requirements for competitive bidding on purchase and construction contracts. This is a positive first step, but a great deal more could be competitively sourced. For example, when the newly incorporated town of Sandy Springs, Georgia, reviewed its options for providing city services in 2005, it compared the price and quality of services previously provided by Fulton County to a bid by the international management firm CH2M Hill OMI. There was no comparison. CH2M Hill OMI saved the city nearly 50 percent of the county costs for the same services. After eight years, the experiment has proved successful, and Sandy Springs stands as an example of the extent of competitive sourcing that is possible where the will exists.

Many cities and counties have opted for a more gradual approach, transitioning from government to private provision of particular services over time. To give a specific example, in Herkimer County, New York, the County Legislature entered into a $200,000 contract with a private company to deliver home health services. In the first two years after privatization in 2011, the county saw savings of $320,000 and $480,000 respectively. The county has been able to save money by contracting out the services, while maintaining high quality care and keeping patients happy with the service.

In Florida, Osceola County privatized operations of its Library system. Afetr negotiations, the company chosen for the contract offered $6 million in cost savings over five years. One of the County Commissioners, Frank Attkisson, said,

> *At the end of the day, what do you want as an elected official paying for a library? Smiling faces focused on serving constituents getting whatever resources they want as quickly as possible. The name badge and building say Osceola County. Just because the name on the paycheck is different doesn't mean the quality will change. For example, (challenges) came in the form of threatening state grants. We spoke directly with our secretary of state to clarify that it indeed remains a public library, we're just delivering services more cost effectively, and state officials dismissed (these challenges) by sending the library a letter ensuring they're still eligible for state grants. State policymakers are actually considering rewarding innovative local leaders with more state money—not less—for thinking outside the box.*

Analysis

The general public knows almost by instinct three essential and interrelated economic principles: competition, specialization, and bulk buying all save money. But these principles are often forgotten when it comes to providing city and county services. There is a misguided belief that these services can best be provided by government agencies that don't face competition and are often not large enough to take advantage of specialization and buying in quantity.

There are examples of the success of privatization in many areas - libraries, parks and recreation, health care, infrastructure, administration, and transportation, just to name a few.

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Examples of Competitive Sourcing Across the United States

Pontiac, Michigan: The city's Board of Education contracted out custodial and maintenance services for the district to a private company in a three-year, $2 million deal. It is expected that the city will save $2 million over the first two years of the contract, making the deal a win overall for Pontiac taxpayers. The city was well-prepared for this sort of move after their experience successfully privatizing bus service several years earlier.

Deerpark, New York: In a relatively simple move in January 2012, the town of Deerpark transferred three of its four building department employees from the town payroll to a private firm that provides building department services for the town. The deal also renewed the contract with a private individual who has worked as the town's engineer for the past several years. This helps to make the city's expenses more predictable by limiting retirement and health benefits for which the city had previously been responsible, improving the financial position for taxpayers.

Monmouth County, New Jersey: The county is planning to transfer operations of four county-owned drawbridges to a private company. I has cost the county $2,058,000 each year to operate and maintain the bridges, whereas the private company will charge just $1,486,000, saving the county some $572,000 annually.

Frederick County, Maryland: In 2012, the county signed a contract with a private company to operate and manage Citizens Care and Rehabilitation Center and Montevue Assisted Living. The contract is worth $439,008 the first year and can be renewed for a further six months for $219,504. As with other contracted services, renewal will be based on both cost savings and improved service delivery.

Johns Creek, Georgia: The city followed the Sandy Springs model when it incorporated in 2006 with 65,000 residents and contracted with CH2M Hill OMI. The city made CH2M Hill OMI responsible for design and implementation of all future town functions except public safety. The whole process took fewer than 90 days, allowing Johns Creek to need just five public employees, They subsequently received the US Conference of Mayors' Public/Private Partnership Award in January 2008.

Weston, Florida: The city has more than 65,000 residents, but only nine public employees on its payroll. The city's charter specifies that services should be contracted rather than the city employing people directly. Those contracts are for a level of service, rather than a number of employees, keeping costs predictable, and reliveing officials of the burdens of labor disputes, pension obligations, and politicized hiring and firing.

Recommendations

Local governments should minimize the amount of debt incurred for school capital expenses. A short-term need for additional classroom space or building repair must be weighed against the fiscal implications of assuming long-term capital debt. Planning for these obligations should include a thorough examination of current and projected revenue streams, student enrollment, population, and the county's financial obligations. Local government officials can then determine whether the county's tax base will support years of debt service payments. It will also provide an opportunity to consider deferring the project(s) under consideration or building up a reserve fund.

Local governments should encourage school districts to use proven, cost-efficient solutions that do not burden county taxpayers and that enhance educational opportunities for students. Last year, local government debt service for school facilities exceeded $780 million — debt financed to maintain costly school-construction programs. Public/private partnerships, adaptive-reuse buildings, ninth-grade centers, satellite campuses, and virtual schools allow school districts to increase building capacity faster and more cheaply than conventional school construction and renovation methods. Public charter schools are another cost savings tool, as they do not receive local or state funding for capital expenses.

Local government officials should consider alternative ways of managing school facilities programs. For example, House Bill 726, proposed during the 2013 legislative session, would have given Wake County commissioners the option of managing the Wake County Schools' facilities program. While this bill failed to pass, there remains interest in giving county commissions the option to oversee the construction, renovation, and maintenance of school buildings as a way to realize fiscal and managerial efficiencies.

Appoint members of the community to serve on facilities oversight boards. City councils, county commissions, and school boards should work together to establish facilities advisory boards consisting of citizens who have expertise in finance, construction, education, and public administration. Ideally, these boards would spearhead fundraising campaigns, volunteer activities, and public forums designed to improve public school facilities. In addition, these boards would serve as independent advisors and evaluators of school facilities programs.

Background

According to state law, local governments have two primary responsibilities related to the public school districts within their jurisdictions – budget appropriations and school facilities. A third, seldom used, function is the approval of school district consolidations and mergers.

As part of this responsibility, local government officials collaborate with boards of education to oversee the funding, construction, renovation, and maintenance of public school facilities. In addition, local governments are the primary sources of funding for related expenses, including furniture, equipment, library books, supplies, property insurance, and fire inspections.

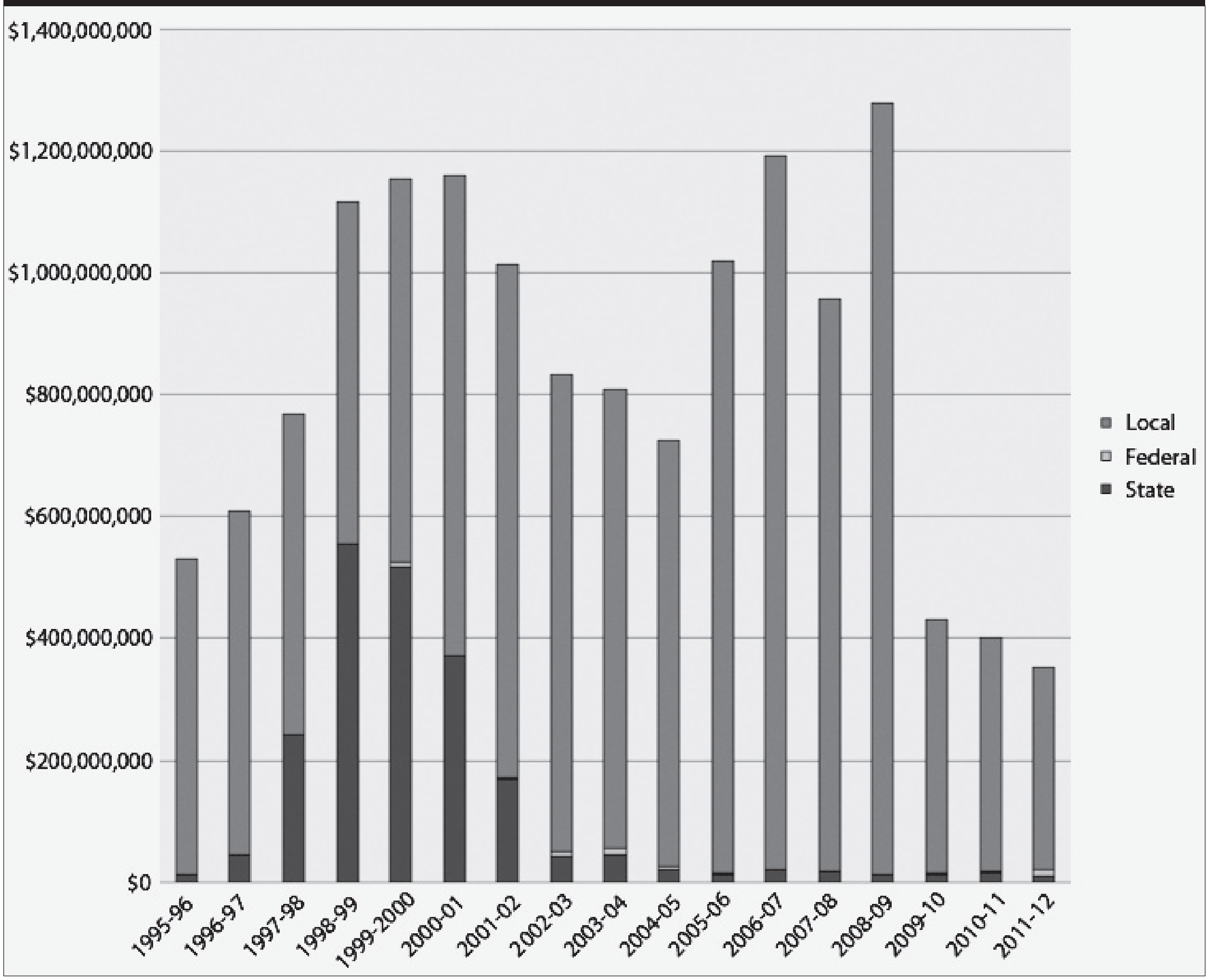
Given the importance of school facilities and the considerable expense involved in building and maintaining them, it is critical that county commissions and school boards spend capital dollars wisely, utilize efficient building practices, and adopt innovative solutions to ensure that all children have adequate learning environments.

Analysis

Since 1995, North Carolina's local governments have spent an average of $716 million per year and a total of $12 billion on school facilities. Locally funded capital expenditures represented 85 percent of all public school capital spending in the state.

The state legislature occasionally provides an infusion of state funds for school facilities. Since 1949, the N.C. General Assembly has passed one facilities appropriation bill and five state school bonds. The legislature approved the last statewide facilities bond in 1996. Today, a portion of corporate income tax revenue

North Carolina Public School Capital Expenditures, 1996-2012



and the state lottery are the two primary sources of state funds for school facilities. As part of the reform of the state tax code in 2013, the General Assembly lowered the corporate income tax rate, which may affect revenues available to school districts in subsequent years.

County commissions can acquire property on behalf of boards of education, as well as construct, equip, expand, improve, or renovate property for use by a local school system. They may also allow local boards of education to build schools on county-owned property.

In most cases, county commissions and local boards of education accept discrete responsibilities for school facilities. School districts manage the school facilities program. County commissioners approve debt funding in the form of certificates of participation and installment purchase contracts (neither of which require voter approval) or general obligation bonds (which require voter approval). The state also permits local governments to impose local option sales taxes and other supplementary taxes to pay for school facilities.

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Recommendations

While school boards control much of the educational, organizational, and financial operations of school districts, local governments can guide districts toward maintaining an efficient, responsive, and high-performing public school system.

Local governments should closely monitor county appropriations to school districts and measure the effectiveness of the funding. For the 2012-13 school year, local governments in North Carolina allocated nearly $3 billion — an average of $2,085 per pupil — in county appropriations, supplemental taxes, and other revenue sources for public schools. Given the amount of money involved, local government officials have the responsibility to monitor and hold school boards accountable for the use or misuse of local tax dollars allocated to school districts.

Local governments should pay special attention to spending on school district personnel. Salary and benefits for school personnel represent the largest single category of expenditures by local government in North Carolina. Collectively, local governments spent $1.4 billion on salaries and benefits for school personnel last year, accounting for approximately 60 percent of their total expenditures on public education. The use of local funds for the salaries and benefits of teachers, administrators, and other personnel should be closely tied to various performance measures as well as adjusted to reflect yearly enrollment changes.

Specifically, school systems should use outcome-based measures, including test scores and value-added analyses, to reward the efforts of successful teachers and administrators. An incentive pay program that utilizes local funds should also be adopted to attract highly qualified science, mathematics, and special education teachers to low-performing schools.

Local governments should ensure a transparent public school budget process. All budget reports and documents used in the public school budget process should be complete, accurate, and relatively free of jargon, acronyms, and technical language. Moreover, taxpayers should be able to access and download all budget documents quickly and easily from a local government website.

Local governments should revise the budget process to include a host of quantifiable or measurable goals and specific strategies used to achieve those goals. The state and federal governments provide several measures of student achievement, but not enough information to anyone attempting to determine whether a school district uses its local funding to increase student achievement.

As part of the budget process, local governments should require school districts to supplement state and federal data with annual studies, audits, and surveys, providing a comprehensive assessment of school district performance. These data would provide measurable goals to form the basis of a sound budget process that ultimately determines whether school districts spend local tax dollars productively.

Background

"Money and buildings" is one way to describe the two primary responsibilities of local governments when it comes to the district schools in their jurisdictions. State law also directs local governments to oversee school district consolidations and mergers when they occur.

Arguably, the most important function of local government is determining how much local tax revenue to appropriate to public schools. County funding makes up a sizable portion of public school budgets. Approximately 25 percent of total spending on public education in North Carolina comes from local sources.

Analysis

On the local level, the public school budget process takes at least two months to complete. School district budgets must be presented to boards of education by May 1 and approved budgets must be forwarded to county commissions by May 15 or on a date agreed upon by both parties. County commissions must approve appropriations to the public school entities in their jurisdictions by July 1 or on a mutually approved date.

NC Average Per Pupil Expenditures, 2012-2013 School Year					
Type	**State**	**Federal**	**Local**	**Total**	**Percent of Total**
Salaries	$3,795.82	$521.59	$990.07	$5,307.48	62.3
Employee Benefits	$1,260.77	$178.67	$311.04	$1,750.48	20.6
Purchased Services	$127.74	$71.92	$469.84	$669.50	7.9
Supplies and Materials	$201.52	$242.01	$295.86	$739.39	8.7
Instructional Equipment	$13.79	$15.83	$17.74	$47.36	0.6
Total	**$5,399.64**	**$1,030.02**	**$2,084.55**	**$8,514.21**	**100**

During budget deliberations, state law allows county commissioners to examine all documentation, reports, and other information bearing on the financial operation of the recipient school districts. Commissioners may also itemize their appropriations by purpose, function, or project so long as they follow the uniform budget format.

There is no statutory language that specifies how much county commissions should appropriate to school districts, but state law does not obligate commissions to fund deficits incurred by school systems. Rather, budget decisions are left to the discretion of county commissions. General Statute 115C-426(e) states,

> *The local current expense fund shall include appropriations sufficient, when added to appropriations from the State Public School Fund, for the current operating expense of the public school system in conformity with the educational goals and policies of the State and the local board of education, within the financial resources and consistent with the fiscal policies of the board of county commissioners.*

To fulfill this requirement, state statute encourages, but does not require, boards of education and county commissions to conduct joint meetings and develop common strategic plans. It may be advantageous for a school board and county commission to agree on a funding formula that takes inflation, student enrollment, and other factors into account. This requires two safeguards. First, the formula must be sensitive to fluctuations in local tax revenues and changes to state and federal appropriations. Second, it must consider that district expenditures are dependent on the student populations that they serve, e.g. legally mandated services for special needs students often require additional funds. Student characteristics should be an integral part of the formula.

The budget process does not necessarily conclude when a county commission agrees on an appropriation for a public school district. If a board of education objects to a budgeted amount, it may compel a county commission to participate in a joint meeting and, if no resolution is agreed upon, mediation. If mediation fails, the issue is settled in the courts.

Some advocacy groups would like to discard this process entirely. The North Carolina School Boards Association (NCSBA) has long been a champion of granting school districts taxing authority or so-called “fiscal independence.” They argue that the system of funding schools through county commission appropriations is obsolete, as over 90 percent of school districts nationwide have the power to set tax rates. The NCSBA further contends that granting school boards taxing authority would increase accountability, enhance local control, remove politics from education, and save taxpayers time and money. On the other hand, those who believe in granting “fiscal independence” to school boards fail to acknowledge the critical role of the county commission in apportioning scarce resources to meet the demands of multiple local government entities.

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Fresh Water and Wastewater Services

Recommendation

North Carolina city and county water and wastewater services should be contracted to private firms or converted into privately owned services.

Background

Privatizing water and wastewater services is not a radical idea. Local governments all over the country have either privatized their systems altogether or entered into public-private partnerships to provide these services.

Many of North Carolina communities' problems with fresh water and wastewater services could be solved by privatization. The drought of 2007 caused several communities to place strict controls, enforced with $1,000 fines, on how citizens used water. This exclusive focus on reducing demand through coercion diverted the public's attention away from government failures to price water properly (in order to manage demand voluntarily) and plan for adequate supply. Local governments often respond to political incentives and set prices well below market rates, which inevitably leads to shortages. Private ownership creates incentives to price water based on market forces — including a temporary scarcity of water owing to drought — and to avoid shortages.

Citizens have also experienced serious contamination of fresh water from government wastewater systems. For example, Wilmington was forced to close swimming and fishing areas when four million gallons of untreated sewage went into Hewletts Creek. Cary had similar problems when millions of gallons in raw sewage contaminated Swift Creek, causing the closure of Lake Wheeler and Lake Benson. With privatization, such problems are less frequent. Private companies facing competition for government contracts have additional incentives to act responsibly and prevent contamination.

Analysis

The U.S. Clean Water Act requires cities and counties to install costly equipment to prevent water pollution. The Environmental Protection Agency (EPA) suggests privatization for cities to meet this federal mandate because of the increased efficiency of private-sector firms. In many cases, areas that have chosen this path have even seen private firms surpass EPA standards.

Privatization contracts often include cost, quality, and customer service criteria to which private servers must adhere in order to maintain their contracts. With public water operations, citizens have fewer guarantees of those criteria. A city whose public water system is inefficient faces few consequences. A private supplier that is inefficient or endangers water quality, however, risks losing its contract. For these reasons, citizens benefit greatly from the privatization of water.

Should we trust the private sector?

The profits of private water companies are contingent on their maintenance of high levels of safety. Many other indispensible goods, including food and medicine, are well provided through the private sector. People trust that, with government oversight and private companies' incentives to maintain a positive image, those goods will be safe. Private water service is no different.

How do local officials maintain control and accountability of private providers?

Public officials can easily write water and wastewater contracts that specify measurable performance standards by which those officials can monitor private firms. By providing compensation only when the contract firms meet their standards, local governments are able to maintain a high level of control over the water supply. The contracts can include both safety and quality terms, as well as be flexible to communities' particular needs.

Private water systems have incentives to deliver high-quality services at competitive prices.

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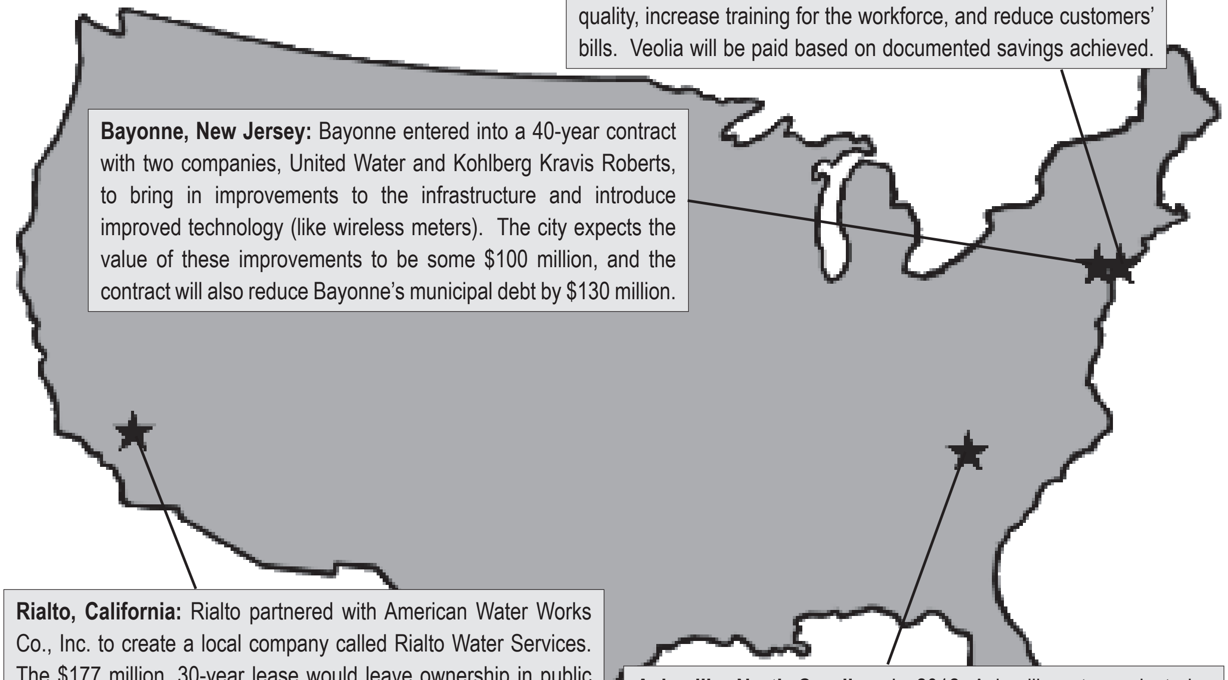
Water and Wastewater Services
Public Private Partnerships

New York City, New York: In April 2012, New York City's Department of Environmental Protection (DEP) signed a performance and consulting contract with Veolia Water to provide guidance on optimization of public water and wastewater services for the city. After the completion of this first phase, the city will have the option of further contracting with Veolia Water for four to six years for implementation. The city expects to save $100–$200 million per year through the partnership, savings which would be used to improve quality, increase training for the workforce, and reduce customers' bills. Veolia will be paid based on documented savings achieved.

Bayonne, New Jersey: Bayonne entered into a 40-year contract with two companies, United Water and Kohlberg Kravis Roberts, to bring in improvements to the infrastructure and introduce improved technology (like wireless meters). The city expects the value of these improvements to be some $100 million, and the contract will also reduce Bayonne's municipal debt by $130 million.



Rialto, California: Rialto partnered with American Water Works Co., Inc. to create a local company called Rialto Water Services. The $177 million, 30-year lease would leave ownership in public hands, and workers were guaranteed positions with the private company with matching salary and benefits for at least 18 months.

The terms of the agreement include:

- $43.1 million for funding operations and rate stabilization;
- $41 million for capital improvements over five years;
- $30 million for payments by Rialto Utility Authority to the city;
- $27.4 million to refinance city debt;
- $24.3 million for debt issuance costs; and
- $11.2 million for due diligence and other transaction costs.

Asheville, North Carolina: In 2012, Asheville voters rejected a referendum that would have allowed the city to "undertake the sale or lease of its water treatment system and water distribution system." Asheville's is a $1.3 billion system serving 125,000 people with 29 reservoirs over 69,000 acres, and there is every reason to expect that privatization could bring similar benefits to those it has in other cities.

Source: Annual Privatization Report 2013, *reason.org/news/show/apr-2013-water-wastewater*

Recommendations

Cities and counties should restructure their parks and recreation departments to eliminate activities and services that are offered or could be offered by private businesses and those that serve only a small minority of residents. Local governments should also implement user fees to recover the full costs of services that benefit only specialized groups.

Background

Traditionally, city and county parks and recreation (P&R) departments provided the public with parks and user-fee-supported sports leagues — soccer, softball, etc. Now, many P&R departments have expanded well beyond these boundaries. Some provide uncommon services that benefit only a handful of citizens, such as golf courses and equestrian centers. P&R departments also provide many services and facilities already offered by the private sector — full-service gyms, martial arts instruction, etc. These tax-supported P&R activities unfairly compete with private-sector providers. It is not only that they receive tax money, but also that they don't pay taxes. Thus the taxpayer cost of these subsidized activities is not just the direct tax subsidy, but also the lost taxes that would have been paid by private providers.

In addition, P&R department activities result in a political constituency that benefits elected politicians and P&R bureaucrats. By providing a free or highly subsidized activity, the P&R department creates a special-interest group out of people interested in that activity who will lobby for its continuation and expansion, transferring the costs to taxpayers who may not benefit. For example, the losses incurred by city golf courses are paid by all taxpayers for the benefit of a small group of golfers, whose incomes are generally higher than the average city taxpayer's. If local P&R departments can provide yoga, kickboxing, golf courses, equestrian centers, extreme sports, cooking classes, vermicomposting (worms) classes, etc., are there any limits on what they can provide to specialized interest groups using taxpayer subsidies?

Analysis

In order to serve the parks and recreational interests of the general public rather than special interests, local government officials should follow three guiding principles to keep P&R departments within proper boundaries.

P&R departments should not compete with services already provided by the private sector (for-profit and nonprofit).

Across North Carolina, many private recreational centers provide golf courses, gyms, equestrian centers, and other activities. Those private facilities are sources of income for many North Carolinians. When P&R departments operate similar facilities, they threaten the businesses of these citizens. As government departments, they have an unfair advantage over private-sector services: their access to tax dollars shelters them from risk, and they aren't burdened with the additional overhead cost of having to pay taxes on their facilities and land.

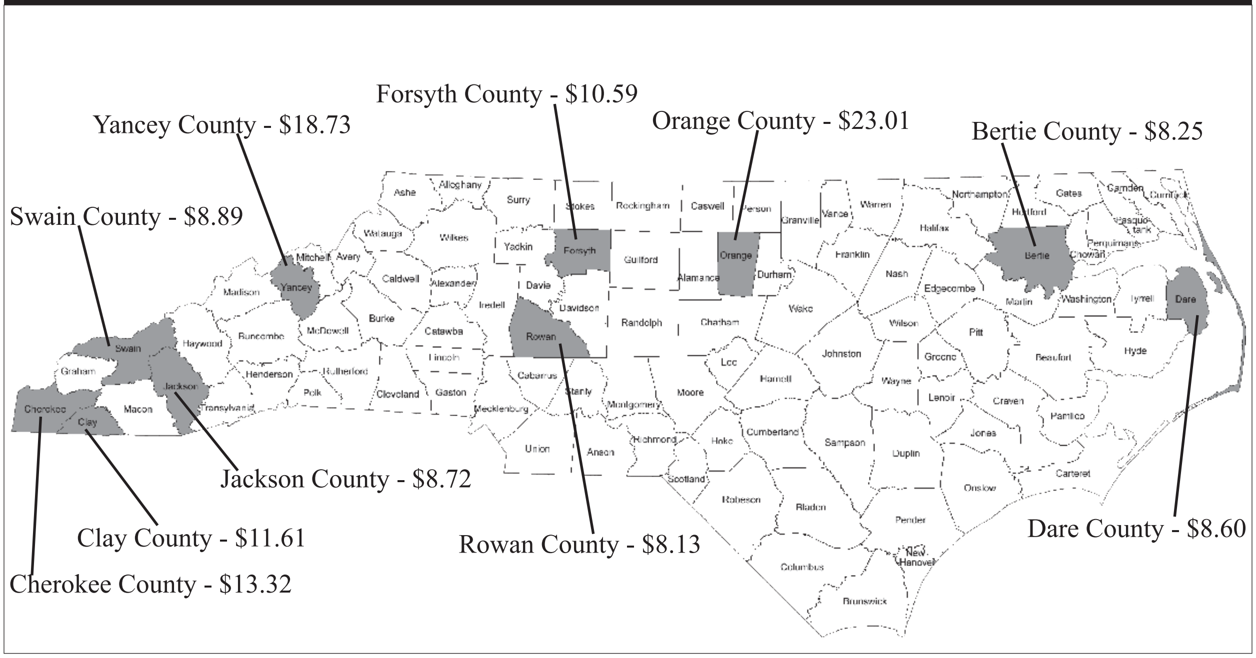
Public facilities also compete with private, nonprofit firms such as the YMCA. These organizations rely on user fees and private charitable donations to stay open and pay employees. Competition from taxpayer-funded P&R departments is harmful and unfair to them.

It is also unfair to shackle taxpaying individuals and businesses with the costs of providing superfluous facilities and services.

Where services are provided for specific activities, user charges should capture the total costs of those activities.

Community members who do not benefit from specialized P&R department services should not have to bear their costs. User fees should be set at levels that would capture all the costs, including capital costs, administration costs, maintenance costs, and the taxes that would have been charged had the service been provided by the private sector. For example, softball league user fees should cover the costs associated with a public softball complex. Local governments should implement accounting systems to ensure that these costs

County Spending on Parks and Rec Per Capita, Ten Highest
North Carolina State Average - $2.46



are fully recovered. P&R departments should use their limited funds to offer services that are beneficial to the entire community.

Cities and counties should divest themselves of services that are used only by a small minority of the population or the upper-income segments of the community.

When local governments use taxpayer funds to subsidize highly specialized recreational activities, they are benefiting a tiny segment of the community at the expense of the whole community. This problem has manifested itself in North Carolina most noticeably in city-owned golf courses. In general, higher-income individuals tend to use these more than others. Taxpayers should not have to fund these projects, because they do not benefit most people.

City–owned and operated golf courses also unfairly compete with private courses. The private courses pay taxes, portions of which go to subsidize their competition. In addition, many private courses are open to the public and charge green fees comparable to the subsidized rates at the city courses. P&R departments should get the most out of taxpayer funds by investing in recreational facilities and services that benefit a majority of community members without competing against local businesses.

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Recommendations

The following are ways community leaders can meet transportation needs effectively within limited transportation budgets:

Provide mobility. Transportation is about providing mobility, not about reshaping the community or defining away the automobile, consumers' mode of choice. Planners should build to serve people's needs, not try to make them "need" something else.

Privatize when possible. Local rules preventing jitneys, private vanpools, and other for-profit paratransport options are outdated — they were first established in the early 20th century to protect electric rail cars from competition from upstart automobile owners — and have been obsoleted by their successful use in several foreign cities.

Spend on transit options proportionate to their demand. Spending should be commensurate with how much individuals actually use transit. Only in the densest metropolitan areas does public transit (including bus, rail, subway, ferry, etc.) attract more than 5 percent of commuters (see Chart 2). Over time, diverting resources disproportionately to low-demand transit options leaves highways and roads unable to handle their high demands sufficiently.

Treat congestion at the source. The solution to a troubled intersection is not to expand public transit options and hope that they will divert drivers. Apart from adding more road capacity, planners could derive smoother flow through, among other things, traffic signal optimization, more responsive traffic incident management, and increased left-turn capacity. In 2012, the City of Raleigh announced an overhaul of its traffic signal timing and expanded monitoring of intersections (including the ability to access signals near accident sites) to improve traffic flow.

Avoid the "romance of rail." For reasons discussed above, rail is a poor way of meeting transit needs. Practical transit improvements, such as better bus systems and optimized traffic signals, may not be as "world class" or exciting as rail transit, but they are more cost-effective and flexible and move people more efficiently than rail.

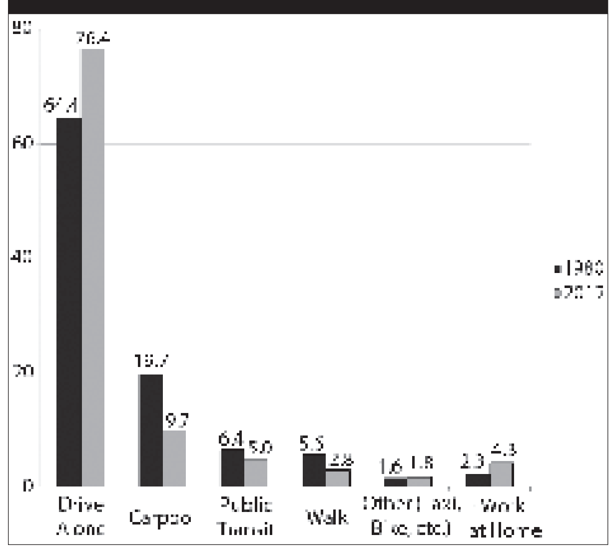
Background

Public transit is ultimately about people. A public transit system should meet the actual transportation needs of the citizens. Its aim should be to provide mobility for citizens in the most efficient, effective ways possible.

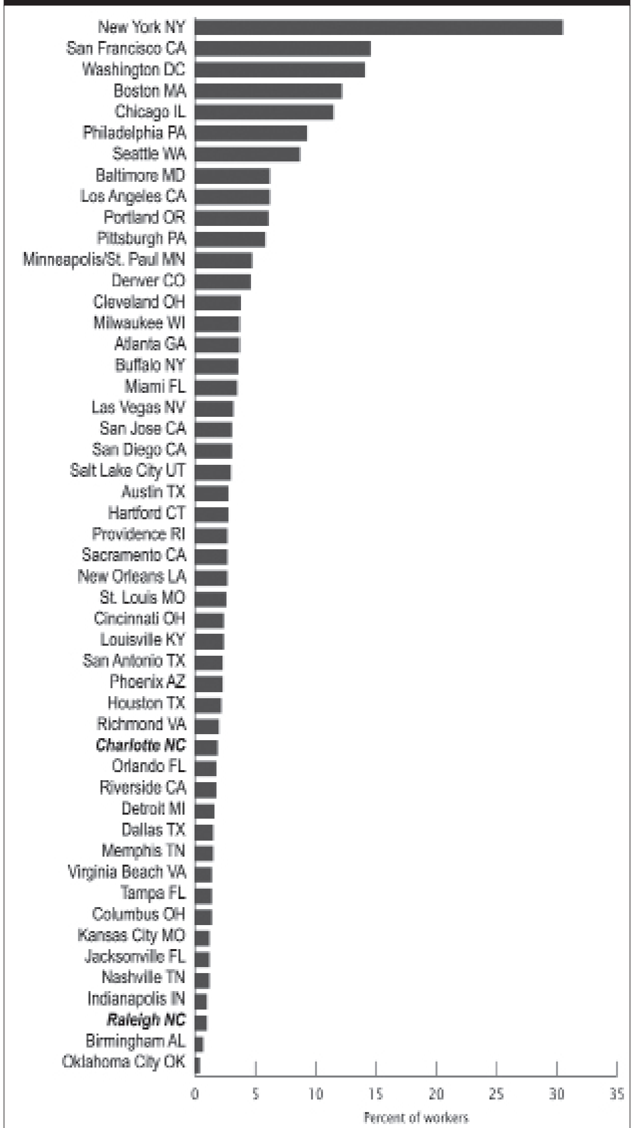
The concept is as simple and sensible as it is controversial. Planners too frequently attempt to use transportation policy to shape their communities to conform to their visions, rather than fit their transportation policy to meet travelers' needs.

The consequences of poor transportation policy aren't limited to creating frustrated commuters. Research finds traffic congestion harms an area's economic growth. Traffic jams and even the expectation of congestion negatively affect productivity, employment, company profits, and consumer prices.

In the Driver's Seat: Americans increasingly prefer to drive to work
Percentage of workers age 16 and higher who...



Public Transportation Usage for the 50 Largest Metropolitan Statistical Areas: 2009



Source: U.S. Census Bureau, American Community Survey, 2009.

Analysis

The most obvious fact of transportation in America in the 21st century is that people overwhelmingly prefer personal automobiles (see chart). Cars offer the greatest range of mobility and fastest arrival at destinations, along with privacy, choice, adaptability to wants and needs, and individuality. This freedom is reflected in a well-known expression for being in control of a situation: to be in the driver's seat. That is what people prefer, and that choice is what good transportation policy recognizes.

Next to that is busing, since buses can also offer a wide range of routes and possible routes, which may be adjusted to fit changing passenger needs. Another advantage of buses is that they make use of preexisting transportation capital (roads).

On the other end, fixed-rail lines offer no flexibility in terms of route, and they require enormous capital expenditures to set up as well as operate. They also attract very few riders — fewer than one percent of the share of motorized passenger travel in all but the largest, densest metropolitan areas.

Nevertheless, rail transit appeals to planners' desires to shape their communities in very specific, rigid ways. Using scarce transportation dollars on achieving their vision rather than citizens' needs is a sure way to increase congestion and hinder economic growth.

As shown in David T. Hartgen's 2007 report "Traffic Congestion in North Carolina," several N.C. cities were heavily and disproportionately invested in public transit, led by Charlotte (57.5 percent share of funds vs. 2.6 percent share of commuting for transit), Durham (50.7 percent vs. 3.0 percent), Raleigh (27.5 percent vs. 1.2 percent), Greensboro (19.5 percent vs. 1.3 percent), and Wilmington (13.0 percent vs. 0.9 percent).

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Recommendations

Resist using taxpayer funds to subsidize private ventures, especially vanity projects. Put simply, if it was a viable project, some entrepreneurs would have recognized the opportunity well before elected officials whose expertise lies elsewhere.

Oppose competing against private services. Perhaps entrepreneurs have recognized an opportunity, making it even more detrimental to economic development for city leaders to compete directly against established services. Municipal convention centers compete against private centers (such as the Koury Center in Greensboro and the Sea Trail Convention Center in Brunswick County) and hotels offering their own meeting spaces, and this unfair competition can be exacerbated by city-subsidized hotels and restaurants placed near the convention centers (such as the Marriott City Center and now-defunct The Mint restaurant in Raleigh).

Demand true cost/benefit analyses of proposed projects rather than too-good-to-be-true sales pitches. Look at projects responsibly, including accounting for opportunity costs and unforeseen negative consequences.

Avoid cronyism, sweetheart deals, playing favorites with the tax code, etc. Usually the argument that the government needs to help this business or this group of well-connected insiders in order to help the economy winds up being just a thin veneer for cronyism.

Background

Out of civic pride, local leaders are often captivated by the idea of convention centers, sports stadiums, and other vanity projects they believe will grow their communities' economies and raise their profiles.

Nevertheless, these projects are best left to the private sector to build where there is actual viability. Trying to force them in areas unable to sustain them leads to taxpayers subsidizing losing ventures for years to come and harming, not helping, economic growth for the overall community. The procession of money-losing stadiums, convention centers, and other civic vanity projects across the nation is very long and growing.

Convention centers

The conclusion of the 20th century saw a frenzy of cities across the nation engaged in building convention centers, which continues in the 21st. The projects are attractive to city leaders, who expect a new center to be a huge boost to the local economy, bringing in lots of newcomers who will pay special taxes on hotel occupancy, car rentals, and prepared meals.

Nevertheless, conference going has declined by 1.7 percent even as convention center space expanded by 35 percent from 2000 to 2011, according to Heywood Sanders of the University of Texas at San Antonio, the nation's foremost expert on convention centers. This massive oversupply of meeting space is forcing host cities to offer huge discounts and subsidies just to win meetings, undercutting from the get-go the foundational assumption of the centers being economic bonanzas.

City leaders who make their communities contribute to this glut are reaping construction cost overruns, fewer conventions hosted than expected, mostly in-state or local attendees, operating losses, and a pressing need to offer greater discounts and rely on taxpayer subsidies. Rather than boosting the local economy, they are adding another unnecessary weight slowing it down.

Sports stadiums

The past few decades have also witnessed a growing phenomenon of professional sports franchises demanding and receiving new, lush stadium facilities built with public funds, on the belief that the crowds on game days will bring new spending on restaurants, hotels, and shops. Franchises have also been known to leverage new stadiums from the flip side of that belief — lost spending should the team leave town for a new stadium built elsewhere.

Economists have long warned of the overwhelming costs of taxpayer-funded sports stadiums. Actual construction costs are invariably greater than projections, which are more about making the political sale. Game days are few, but stadium expenses are constant. Much of the "new" spending is just redirected from entertainment

The Raleigh Convention Center and adjoining, city-subsidized Marriott City Center (photo by Don Carrington).

spending already flowing to the area. With little direct risk for upgrading or building anew, franchises frequently press for improved digs mere years into the lives of their current, publicly funded ones. Bearing the city's name and an established fan base, the franchise has additional leverage over public officials in future, inevitable stadium quests. Rarely is the net effect of the stadium positive for the community at large, though it does benefit a few downtown property owners and businesses — and franchise owners, of course.

Stadiums have become such a money-bleeding venture of late, however, that it's drawing national attention. A December 9, 2013, article in *Time Magazine* called publicly funding sports stadiums a "Loser's Game." A November 2013 report in *The Atlantic* details "How the NFL Fleeces Taxpayers." Jay Busbee, a columnist for Yahoo sports writing on Virginia and the District of Columbia's competition over the Washington Redskins, called the idea of sports stadiums as "civic landmarks" a "relic of a bygone age" and said that today, "stadiums have the life expectancy of hamsters."

Analysis

When convention centers, stadiums, and other major projects are proposed to local officials, boosters come armed with impressive economic-impact projections. They are invariably based on input/output models that only track projects' direct and indirect spending effects and make no accounting for opportunity costs, unlike a true cost/benefit analysis. Such models do not account for lost alternative uses of the taxpayer funds used to build the projects, nor do they differentiate whether the spending the projects attract is new or merely redirected.

As such, they are biased to produce "deal of a lifetime" projections that pressure leaders to support the projects rather than brave the political risk of questioning them. As Belmont City Councilman Bill Toole told WFAE in 2011 in its report on such studies, "no elected official wants to stand up and say 'I'm standing in the way of new jobs.'" Instead, they read the highlighted portion of the executive summary promising hundreds of jobs and millions in revenue and vote for the project.

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Recommendations

Local management entity (LME) authorities, county commissioners, law enforcement, and community activists should collaborate to implement Crisis Initiative Solutions proposed by Gov. McCrory and DHHS.

Local governments should also study existing county programs that effectively anticipate and assess an individual's mental health needs during a crisis episode.

Competition among care managers could also improve efficiencies and help spread best practices.

Background

North Carolina's management and delivery of mental health, substance abuse, and developmental disability services (MH/SAS/DD) has undergone many changes since the 2001 Mental Health Reform System Act. As of December 2013, the McCrory administration announced that the state's eleven current LME-MCOs will be further condensed down to four regions.

Analysis

State-created and funded, with boards appointed by county commissioners, LMEs direct patients to appropriate care, build networks of providers, and ensure patients receive care from one of those providers. LMEs contract with Managed Care Organizations (MCOs) to deliver authorized services to MH/SAS/DD patients.

County commissioners cannot control mental health funding, but they can utilize the Crisis Solution Initiative. Its goal is for localities to establish programs to anticipate crisis episodes among the mentally ill rather than resorting to unnecessary, costly ER visits or incarceration. Many seriously mentally ill patients end up in jail for public nuisance, sometimes violent, crimes.

Localities should work with their LMEs, law enforcement, and community leaders to utilize their MH/SAS/DD funds to efficiently direct the severely mentally ill to proper care. This early intervention will help the mentally ill become productive members of society.

Crisis Solution Initiative Principles

Wake and Durham counties have implemented Crisis Intervention Teams (CITs), and the state chapter of the National Alliance on Mental Illness (NAMI NC) has co-hosted statewide seminars on the program.

Walk-in crisis centers are often good alternatives to emergency departments in crisis cases. They decrease ER visits and allow access to short-term residential beds for those who need a few days of crisis intervention for stabilization of mental health or detox. Alliance and Assessment Centers are located across the state.

A goal of the Crisis Solution Initiative is for localities to reduce ER visits, wait times, and readmissions. This provides better care for patients, saves money, and reduces the burden on law enforcement and hospitals.

Key Facts

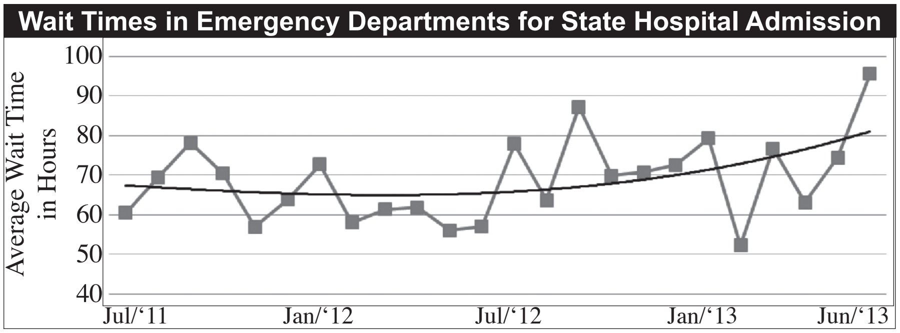
Nationally, 17% of inmates have a mental illness.

In 2013, 150,000 emergency admissions resulted from primary MH/SAS/DD diagnosis.

In 2013, the average wait time in an emergency department for state hospital admission was 3.52 days.

In 2012, 13% of mentally ill Medicaid patients revisited the emergency department within 30 days.

Wait Times in Emergency Departments for State Hospital Admission



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Health and Human Services Spending by County, FY 2012

County	Spending Per Capita	Rank	County	Spending Per Capita	Rank	County	Spending Per Capita	Rank
Clay	$615	1	Craven	$299	34	McDowell	$242	67
Swain	$553	2	Surry	$291	35	Brunswick	$240	68
Northampton	$503	3	Anson	$290	36	Alexander	$239	69
Edgecombe	$485	4	Mecklenburg	$290	37	Transylvania	$236	70
Washington	$476	5	Orange	$290	38	Onslow	$235	71
Graham	$442	6	Hertford	$284	39	Pitt	$231	72
Dare	$437	7	Martin	$284	40	Chowan	$231	73
Warren	$406	8	Macon	$280	41	Carteret	$230	74
Wilson	$405	9	Gaston	$280	42	Hoke	$229	75
Durham	$401	10	Greene	$275	43	Wake	$226	76
Jones	$396	11	Caldwell	$273	44	Pasquotank	$223	77
Haywood	$390	12	Wilkes	$271	45	Lee	$223	78
Person	$389	13	Stokes	$270	46	Alamance	$216	79
Caswell	$386	14	Vance	$268	47	Forsyth	$215	80
Columbus	$374	15	Yancey	$267	48	Polk	$210	81
Bladen	$369	16	Alleghany	$266	49	Rowan	$209	82
Tyrrell	$368	17	Duplin	$265	50	Harnett	$207	83
Ashe	$365	18	Franklin	$265	51	Burke	$206	84
Madison	$358	19	Yadkin	$265	52	Iredell	$203	85
Jackson	$352	20	Rockingham	$263	53	Rutherford	$197	86
Cleveland	$346	21	Nash	$263	54	Cabarrus	$191	87
Buncombe	$333	22	Montgomery	$263	55	Moore	$191	88
Cumberland	$333	23	Avery	$263	56	Granville	$187	89
Mitchell	$332	24	New Hanover	$262	57	Union	$185	90
Robeson	$331	25	Bertie	$261	58	Perquimans	$185	91
Cherokee	$329	26	Davie	$258	59	Currituck	$182	92
Scotland	$324	27	Chatham	$253	60	Randolph	$181	93
Catawba	$320	28	Johnston	$248	61	Davidson	$178	94
Pamlico	$320	29	Henderson	$247	62	Gates	$172	95
Richmond	$319	30	Pender	$246	63	Watauga	$142	96
Beaufort	$315	31	Stanly	$244	64	Camden	$133	97
Lenoir	$304	32	Wayne	$243	65	Halifax	$27	98
Guilford	$302	33	Lincoln	$243	66			

Data for Hyde and Sampson Counties were unavailable.

Recommendations

The following principles would reform land-use and zoning regulations in ways that would benefit the entire community, starting with property and homeowners:

Simpler is easier. Base land use on simple rules that help guide individuals in pursuing their own plans for using their land.

Michael Sanera showed in his 2008 *Spotlight* report "The Anaheim Solution," how in 2002 leaders of the city of Anaheim, California, successfully revitalized its run-down downtown and light industrial zone by applying free-market principles and trusting its landowners to find the best uses of their land.

The plan adopted by Anaheim Mayor Curt Pringle and other city officials included the following features in their designated "Platinum Triangle":

- Reliance on private property owners to initiate development
- Use of an overlay zone to permit different kinds of development in the area
- Simplified permits and environmental impact reports
- Housing permits defined by district
- Loosened restrictions on housing permits and inclusionary zoning

Anaheim broke the problem of self-perpetuating regulation and found success with a plan that reduced government regulations and stimulated private-sector investment. Billions of dollars in private investment flowed into the Platinum Triangle once city government got out of the way and trusted the private sector to lead.

Growth is good. Impact fees and adequate public facilites ordinances (APFOs), which are intended to compensate the public for the costs associated with increased growth, don't solve problems with growth; they create them. They essentially double-tax home buyers — directly through property and sales taxes and indirectly through higher housing costs owing to the impact fees and APFOs.

Impact fees and APFOs are often justified by studies that purport to calculate the cost of growth on the communities. The implication is that growth is undesirable, which flies in the face of civic boosterism from time immemorial.

The boosters have been right all along. Those same studies neglect to calculate the benefits of growth, which outweigh (more than pay for) the costs. They include, among other things, additional tax revenues created by the new residents, including property taxes, local sales taxes, utility excise taxes, inspection permit fees, and motor vehicle taxes.

In 2005, North Carolina State University economist Michael Walden studied the economic impact (costs and benefits) of constructing 100 new single-family homes and 100 multi-family homes in the Triangle area. Walden concluded that the benefits in the form of local city and county tax revenues and economic growth outweighed growth-associated costs by nearly $77,000 per year over a ten-year period.

Politics gets in the way. The zoning process should be depoliticized so that only those parties directly affected by property owners' land-use decisions are allowed to comment on them.

The original goal was merely to prevent one landowner's use of his land from directly harming another's, not to force the landowner to uphold the aesthetic and political tastes of attendees at large. In other words, only those landowners who can show a direct and identifiable harm should be granted standing to comment upon land-use decisions.

Furthermore, many city and county land-use regulations give too much discretion to planning staff, planning boards, and elected bodies, creating a time-consuming process that drives up housing costs. Worse, it creates a favorable environment for graft, corruption, and favoritism in making land-use decisions. To avoid this problem, cities and counties must re-establish the rule of law. They need a clear set of simple, flexible written rules such that approval is automatic once a development meets requirements.

The tax base increases dramatically when subdivisions are built on former farmland, providing a revenue windfall to local governments that often claim to need more money via impact fees and AFPOs to handle growth.

Background

Local land use and zoning regulations are, at their core, assertions of authority and control by planning officials over other people's property. The more invasive these regulations — the more complicated and restrictive they are — then the more expensive it becomes to try to be a property or homeowner. Inherently suspicious of growth, the system also becomes more open to gaming and abuse by well-connected insiders.

Forward-thinking leaders and planners would seek to reform land-use and zoning policies in order to restore the benefits of property ownership as well as rights to property owners. By so doing, they would reap for their communities the rewards of greater growth, industry, and diversity.

Analysis

A century's worth of experience in zoning to control land use has produced a self-perpetuating system, creating worse problems to which planners inevitably think the solution must be increased regulation. Land-use patterns that planners find the most objectionable, such as "urban sprawl" and the lack of mixed-use developments, can be traced to earlier zoning practices that strictly separated land parcels according to residential, commercial, and industrial uses.

The planners' vision of zoning is as an objective, professional, and efficient process managing land uses to benefit the entire community. In practice, zoning is an exceedingly politicized process to navigate. As such it is exploitable by well-connected insiders and others in the know to gain advantages at the expense of others, including of course potential newcomers with new ideas.

Many zoning regulations therefore result in the enrichment of existing property and homeowners by reducing the supply of buildable land, increasing the costs of development, driving up home values, and pricing out the poor and minorities.

Those problems should inspire officials to cut back on regulations and restore more control to property owners. Rather than resort to even more artificial impositions, they should trust in what the North Carolina Constitution calls "the genius of a free state" and what the Internet Age calls "crowdsourcing" to recognize and address problems. In other words, when free people strive to better their own situations, they happen upon new and unique ways that, collectively, improve others' lives in the process.

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Smart Growth

Recommendation

North Carolina leaders wish their communities to be desirable places for people to live, work, and visit. Planners should therefore take their cues from people's revealed preferences: they clearly prefer single-family, detached houses, transportation by personal automobile, their own land and personal space, and of course such things as lack of traffic congestion and affordability and choice in housing.

People's preferences run smack against the planning theory of Smart Growth, which uses restrictive, intrusive, and costly regulations to impose a 19th century image of the densely populated, rail-oriented metropolis on today's cities. Wise leaders would choose instead to adopt an approach to growth that respects and promotes people's choices and freedom.

Background

The theory of Smart Growth seeks to make cities more livable through highly concentrated population nexuses, walkable open spaces, and public (especially rail) transit. All of those goals require intense micromanagement by central planning authorities.

The biggest dread of Smart Growth advocates is what they deride as "urban sprawl," city outskirts and suburbs filled with neighborhood after neighborhood of single-family homes with yards, plus the networks of roads, shopping centers, malls, and parks that all that requires. Sprawl uses land inefficiently, the theory goes, it doesn't foster attractive and unique communities, it doesn't preserve natural areas, and it requires too much driving and therefore isn't good for the environment.

As Michael Sanera explained in his 2006 *Regional Brief* on "Planning Penalties in North Carolina,"

> *The hallmark of smart growth planning is to use governmental restrictions to force more and more families into high density housing, drastically reducing the availability of single family homes.*
>
> *There are multiple ways to implement such planning, but the most widely used are urban-growth boundaries, requiring green-belts and minimum open space requirements, building design codes, historic preservation, limiting building permits, lengthy permitting processes, impact fees and inclusionary zoning. These planning policies reduce the supply of housing because builders are given less land to build on and have to go through a lengthier and costlier process to obtain permits. The demand for housing is still there, though, and with less housing available, housing prices are driven up artificially.*

As with most political theories that hinge upon central planning to work, Smart Growth fails, and its failure is dear bought. It uses public resources exceedingly inefficiently, making housing more unaffordable, harming economic growth, and making it harder for people to move into the city. Higher population density brings with it greater traffic congestion and greater air pollution. Intrusive land-use policies, lengthy permitting, fussy building codes, impact fees, etc. dissuade new businesses. Higher home prices and cost of living tend to keep out the poor and minorities.

Furthermore, Smart Growth planning tilts at windmills. Nearly 80 percent of housing constructed in the 51 largest metropolitan areas in the country over the last decade was single-family, detached houses. What advocates dread is what the vast majority of people want.

Analysis

A people-friendly approach to land use and urban planning, Flex Growth starts with the economically sound idea that people know what they want better than government bureaucrats. Flex Growth is built on foundational economic principles to help city leaders navigate issues involved in rapid growth while still protecting property rights and individual choices. Flex Growth principles restore and reinforce property rights, allow for more efficient use of scarce transportation funds, let growth pay for itself, reform zoning, and avoid excessive government interference.

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Flex Growth: Healthy Community Growth Without Excessive Government Interference

Pursuing neutrality by avoiding subsidies

Local policymakers should not offer some businesses subsidies and not others. Rather than forcing the growth of certain industries, they should allow consumer demand to determine how their communities will grow. With this approach, only the businesses that can profit in a city, without government aid, will remain in business.

Implementing marginal-cost pricing in growing areas

Infrastructure costs should accurately reflect the full cost of providing services to a new development. This plan will help cities avoid double taxation of homebuyers as well as prevent sprawl by making it more cost effective to build closer to the city.

Changing zoning laws to allow for development based on consumer demand

Mixed-use developments should be permitted but not required, in order to allow builders greater freedom for their projects. With this move, consumers will have the ability to control how their communities develop. Growth will come from public demand rather than government mandates.

Protecting open space with voluntary programs rather than costly regulations

Programs such as tax credits and land trusts make it more beneficial for developers to leave room for open space without penalizing them if they choose not to do so. This approach provides an incentive for developers to have open space while avoiding excessive government regulations.

Providing sufficient roads and highways for growing areas

Rather than investing in mass-transit options such as light rail, which have frequently proven exceedingly costly as well as ineffective at relieving traffic congestion, local governments should improve roadway systems.

Strengthening private property rights

By giving property owners greater freedom, local leaders will let prices reflect the most valuable use of land in a local market.

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About the John Locke Foundation

The John Locke Foundation is a nonprofit, nonpartisan policy institute based in Raleigh, North Carolina. Its mission is to develop and promote solutions to the state's most critical challenges. The John Locke Foundation seeks to transform state and local government through the principles of competition, innovation, personal freedom, and personal responsibility in order to strike a better balance between the public sector and private institutions of family, faith, community, and enterprise.

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"To prejudge other men's notions before we have looked into them is not to show their darkness but to put out our own eyes."

JOHN LOCKE (1632-1704)

Author, *Two Treatises of Government* and *Fundamental Constitutions of Carolina*

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