

Orange Crush

Tax hike would crush taxpayers and county economy

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KEY POINTS

- ♦ Orange County commissioners are asking voters for a \$2.3 million tax increase at a time of high unemployment.
- ♦ Regardless of the county commissioners' promises, all of the new revenue from the tax increase would go into the general fund and could be spent for any legal purpose.
- ♦ Promises to spend the new tax revenue for certain "needs" are a political move to gain support of special-interest groups and to motivate them to vote for the tax increase.
- ♦ The identification of certain "needs" only illustrates that county commissioners have failed to set proper spending priorities in the past.
- ♦ Since the special county taxing authority was established by the legislature in 2007, voters have turned down 68 of 85 requests for tax increases, sending the message that county commissioners must be more responsible stewards of taxpayers' hard-earned money.

NO DOUBT ABOUT IT, IT'S A TAX INCREASE

Orange County commissioners are asking voters to approve a \$2.3 million tax increase in the wake of the longest-running recession since the Great Depression, with little prospect for rapid recovery. County commissioners have only themselves to blame because they increased spending during the economic boom. They are continuing the pattern of excessive spending during a boom and overtaxing during a recession.

Unemployment in North Carolina has been above nine percent since January 2009 and is likely to remain high. A tax increase now would mean that money needed in the private sector to support job creation would be transferred to the public sector.

To make matters worse, commissioners are spending up to \$40,000 of taxpayers' money on a political campaign to urge voters to vote for their proposed tax increase. Officially it is a public "education" campaign, but that is a distinction without a meaningful

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difference. The county manager's 10-point action plan includes:

- ✦ Using the school system to contact parents
- ✦ Buying cable television ads
- ✦ Targeting library and senior citizens groups
- ✦ Buying ads in local newspapers
- ✦ Sending a letter from the county manager "to the County Employees advocating that they vote in the referendum."

Because many of these political activities are borderline illegal, the county manager notes that "John Roberts [the county attorney] will review any materials generated by staff to determine its appropriateness within State Law."

PROMISES, PROMISES

In order to attract supporters, commissioners promise benefits to specific special-interest groups.

- ✦ The Chamber of Commerce, housing, and real estate special interests get 42.5 percent of the increase for "economic development."
- ✦ School administrators, teachers, and parents are promised 42.5 percent of the increase for "the County's two school systems."
- ✦ In order to win over Chapel Hill voters, commissioners promise to give 7.5 percent of the increase to the Chapel Hill Public Library.
- ✦ And lastly, in order to appease the general voter, who correctly believes that public safety should be one of the top priorities of government, the commissioners promise to spend 7.5 percent of the increase on emergency services.

These promises are just that: promises. Once approved, the new revenue, by state law, could be spent for any legal purpose. And since the new revenue would go into the general fund, not a special fund, there could be no way for the public to know if precisely 7.5 percent were spent on emergency services. There is no way for the public to

hold commissioners accountable for any of their promises. The only way to look at this vote is that it is a vote over a \$2.3 million tax increase.

Besides, if these "needs" are so vital, the commissioners should have funded them already without needing a tax increase. Budgeting requires making the tough decisions to fund high-priority items while cutting low-priority items. County commissioners are elected to make those tough decisions, not take the easy way out and ask for a tax increase. All too often commissioners fail to set priorities.

For example, why have commissioners allowed spending on emergency medical services (EMS) to fall \$49,351 since fiscal year (FY) 2008? At the same time, the administrative costs for emergency services have increased \$531,735. Spending money on administrators will not reduce the current 17-minute EMS response time. In addition, spending on parks and recreation has also soared relative to EMS, up \$415,746 since FY 2008.

It appears that the "need" to raise taxes to fund emergency services is caused by the inability of commissioners to set proper priorities.

THE ECONOMIC DEVELOPMENT 'NEED'

In order to attract the Chamber of Commerce, housing, and real estate interests, commissioners promise to spend 42.5 percent of the tax increase revenues on "economic development."

It is unlikely that any amount of spending on economic development would improve the position of Orange County. Orange County and its cities — Chapel Hill and Carrboro in particular — have a long record of policies that are anti-business. Land-use policies have driven up the cost of developable land. The anti-growth, anti-business, anti-development message has been received loud and clear by the business community. For that reason, the new Tanger Outlets Mall is being built just over the county line in Alamance County and the New Hope Commons in Durham

County. High land prices driven by county and city ordinances and a lengthy review process that forces developers to bow to the whim of every special-interest group during the review process cost developers thousands, making building in Orange County prohibitive.

For example, Chapel Hill and Carrboro established a rural buffer that “defines the urban services boundary and the limit of Chapel Hill and Carrboro growth.” The buffer drives up the price of land by making developable land more scarce. Chapel Hill uses zoning and ordinances that require solar power, historic districts, tree protection, affordable housing, a carbon reduction program, and renewable energy.

Orange County has followed suit with farmland preservation, historic preservation, a comprehensive land use plan that includes preservation of natural and cultural resources, a lands legacy program, and protection of natural areas.

While these policies are questionable from a property-rights perspective, they seem to be what many citizens of Orange county want. As such, they cannot escape the inevitable economic consequences of these policies: businesses finding them prohibitive and therefore locate in neighboring counties.

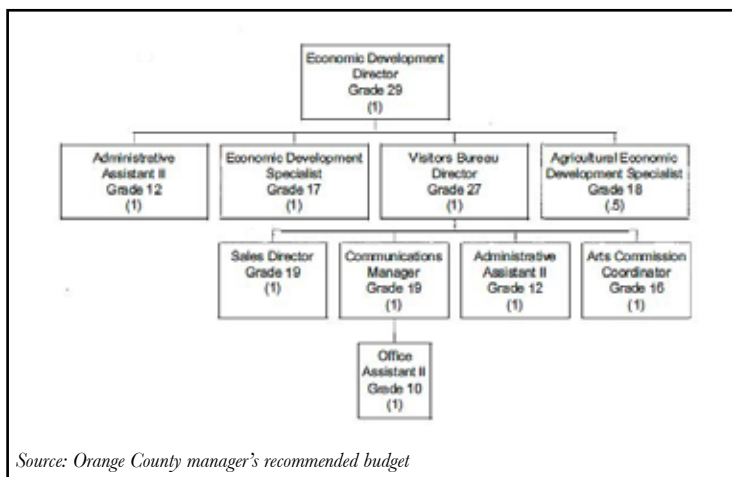
Anti-business and anti-development policies result in Orange County residents being more dependent than neighboring counties on property taxes for funding the county. Currently, property taxes account for 76 percent of Orange County’s general fund revenue, up from 74 percent a year ago. For sake of comparison, in Durham County property taxes account for 58 percent of the county’s general fund revenue; in Alamance County, it is 49 percent.

In addition, Orange County residents pay the 15th-highest property tax burden of the 100 counties as a percentage of income.

Since anti-business and anti-development

Figure 1. Orange County manager’s proposed economic development bureaucracy

(Includes Arts Commission and Visitors Bureau)



policies are one of the main reasons Orange County cannot attract new business, and since those policies are unlikely to change, the county manager’s proposed economic development bureaucracy may already be too large.

ATTRACTING VOTERS BY PROMISING MONEY FOR THE KIDS

In order to attract teachers and some parents, the commissioners promise to spend 42.5 percent of the new tax revenue on schools.

According to the Commissioner’s official resolution,

42.5% of the funding will be allocated in an equitable manner between the County’s two school systems [Orange and Chapel Hill–Carrboro] for the dedicated purpose of facility improvements at ‘older’ schools within all of Orange County and the procurement of technology. Each school system will establish a list of prioritized needs for older schools within the County. Funding provided by the passage of the referendum will be allocated to those prioritized projects. Progress will be evaluated annually and adjustments made according to needs agreed upon by the School Boards and Board of County Commissioners.¹

Facility improvements may be required

Table 1. Capital Expenditures (2001-07)

<i>School Year</i>	<i>Orange County</i>	<i>Chapel Hill–Carrboro</i>
2006-07	\$6,138,055	\$23,562,536
2005-06	\$15,892,461	\$16,429,614
2004-05	\$6,417,036	\$5,734,069
2003-04	\$4,781,029	\$12,322,872
2002-03	\$7,098,645	\$14,662,529
2001-02	\$18,287,629	\$12,654,104
2000-01	\$14,664,901	\$16,174,826
Total	\$73,279,756	\$101,540,550

Note: 2007-10 data not available

Table 2. Lottery Revenues for Capital Projects, 2007-Present

<i>Year</i>	<i>Orange County</i>	<i>Chapel Hill–Carrboro</i>
2010	\$879,608	\$1,473,755
2009	\$791,128	\$1,312,844
2008	\$832,289	\$1,357,825
2007	\$790,194	\$1,295,937
Total	\$3,293,219	\$5,440,361

at “older” schools in the county, but the best way to pay for capital needs is to offer a bond referendum, such as those held in Orange County in 1997 (\$47 million) and 2001 (\$47 million).² Voters should have an opportunity to assess the projects before they vote on funding them.

Since 2001, both the Orange County Schools and the Chapel Hill–Carrboro City Schools have spent tens of millions of dollars to address various capital needs (see Table 1).³ Taken together, the districts spent approximately \$175 million on capital projects in seven years. During the last four school years, the N.C. Education Lottery has provided both districts nearly \$2 million a year to address school construction and renovation projects (see Table 2),⁴ which is more than the amount allocated to schools from the proposed sales tax increase.

There is no evidence that schools in either district require a significant outlay of funds for technology. According to state

statistics, most schools in the districts have an average of one Internet-accessible computer for every two students (see Table 3).⁵

Since 2001, Orange County and Chapel Hill–Carrboro have made significant investments in facilities and technology and have maintained steady funding streams for these purposes. So there is no immediate need to increase the sales tax to fund capital expenditures.

A VOTE OF NO CONFIDENCE?

Citizens at all levels — federal, state, and local — are frustrated with excessive and wasteful government spending. They believe that they are not getting value for their tax dollars. County spending is no different. Orange County’s requested tax increase offers the opportunity for voters to decide if they have confidence in the commissioners’ stewardship of county taxpayer dollars.

This report outlines many reasons to question the commissioners’ abilities to man-

**Table 3. Students Per Internet-Accessible Computer,
Orange County and Chapel Hill–Carrboro**

<i>School</i>	<i>Students/Computer</i>	<i>District</i>
Memorial Hospital	1.00	Chapel Hill–Carrboro
Central Elementary	1.38	Orange County
Guy Phillips Middle	1.73	Chapel Hill–Carrboro
Orange High	1.84	Orange County
Frank P. Graham Elementary	1.84	Chapel Hill–Carrboro
Efland Cheeks Elementary	1.91	Orange County
Estes Hills Elementary	1.94	Chapel Hill–Carrboro
Hillsborough Elementary	1.95	Orange County
Ephesus Road Elementary	1.99	Chapel Hill–Carrboro
Rd & E Smith Middle	2.01	Chapel Hill–Carrboro
Grady Brown Elementary	2.08	Orange County
Rashkis Elementary	2.10	Chapel Hill–Carrboro
A. L. Stanback Middle	2.14	Orange County
Charles Stanford Middle	2.20	Orange County
East Chapel Hill High	2.28	Chapel Hill–Carrboro
New Hope Elementary	2.30	Orange County
McDougle Elementary	2.34	Chapel Hill–Carrboro
Mary Scroggs Elementary	2.35	Chapel Hill–Carrboro
Glenwood Elementary	2.37	Chapel Hill–Carrboro
McDougle Middle	2.37	Chapel Hill–Carrboro
Carrboro High	2.44	Chapel Hill–Carrboro
Grey Culbreth Middle	2.47	Chapel Hill–Carrboro
Cedar Ridge High	2.49	Orange County
Pathways Elementary	2.69	Orange County
Carrboro Elementary	2.71	Chapel Hill–Carrboro
Gravelly Hill Middle	2.72	Orange County
Chapel Hill High	2.92	Chapel Hill–Carrboro
Elizabeth Seawell Elementary	3.30	Chapel Hill–Carrboro
Cameron Park Elementary	3.67	Orange County
Morris Grove Elementary	3.72	Chapel Hill–Carrboro
<i>Average</i>	<i>2.31</i>	

age scarce taxpayer dollars efficiently. Taxpayers should not be surprised that Orange County cannot attract business. Businesses have gotten the message sent by decades of anti-business policies, so they are locating in more business-friendly counties, such as Alamance and Durham. The “need” for more spending on schools is countered by the fact that the school districts have spent \$175

million on capital improvements over the last 7 years.

Many voters believe that the commissioners’ decision to spend up to \$40,000 of their tax money on a public relations “education” campaign to persuade them to vote for this tax increase is insulting.

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END NOTES

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2. North Carolina Department of Public Instruction (NC DPI), School Planning Division, “Local Bond

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3. NC DPI, “Capital Expenditures By LEAs and Years,” ESAS—Education Statistics Access System, www.dpi.state.nc.us/data/reports. They include Category I (facilities) and Category II (equipment) expenditures.

4. NC DPI, School Planning Division, “Lottery Fund Distribution,” 2006-07, 2007-08, 2008-09, 2009-10, www.schoolclearinghouse.org.

5. NC DPI, Instructional Technology, “Annual Media & Technology Report [data],” it.ncwiseowl.org/accountability/amtr/a_m_t_r_data, and NC DPI, North Carolina Virtual Public School, “Spring 2010 Student Performance,” www.ncvps.org/results.