

Durham's Tale of Two Tax Increases

County seeks \$26.5 million's worth of sales-tax hikes for schools and transit

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KEY FACTS

- ♦ Durham County commissioners are asking voters to approve two sales-tax increases on November 8. The requested increases would amount to \$26.5 million per year.
- ♦ Commissioners promise voters that revenue from the proposed quarter-cent sales-tax increase would be used for schools, but there is no legal basis for that promise, so the approximately \$9.2 million per year could be used for any legal purpose.
- ♦ Commissioners are also asking voters to approve a half-cent sales-tax increase for public transit. Under state law, the tax proceeds may be spent only for the benefit of Durham County. Both the "Durham County Bus and Rail Investment Plan" and Durham County referendum materials indicate that the plan is specifically designed to "enhance regional transit." Spending from this tax increase would benefit Orange County and Wake County also, not just Durham County.
- ♦ The estimated \$17.3 million in new revenue from the half-cent sales-tax increase would more than double the county's current spending on transit.
- ♦ Currently, taxpayers pay about \$4.50 for each round trip on Durham's buses.
- ♦ If Charlotte's light-rail system is any measure, and the proposed Triangle rail system becomes reality, the taxpayer subsidy could be about \$40.30 for each round trip.

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- The proposed Triangle rail system would not solve the Triangle's traffic congestion and pollution problems because hardly anyone would ride its trains. Of 22 major U.S. cities with rail transit, only one carries more than 3 percent of all the motorized passenger travel, and 16 of those 22 carry less than 1 percent.
- Durham's spending and revenues have grown faster than population and inflation over the last five years.
- Between 2004 and 2010, Durham County has spent more per-pupil dollars on K-12 public education than nearly any other school district in the state.
- Between 2004 and 2010, Durham Public Schools spent an average of \$1,072 more per student than the state average expenditure.
- Despite spending more than the state average, Durham Public Schools have a below-average return on educational investment. Durham's taxpayers are not getting their tax money's worth out of the school system.

INTRODUCTION

Durham County commissioners are asking voters to approve two sales-tax increases on November 8. The requested increases would amount to \$26.5 million per year in new tax revenues. This request comes amid news that state unemployment has been above 9 percent since January 2009 and is currently 10.4 percent.

DURHAM PUBLIC SCHOOLS ALREADY SPEND MORE THAN THE STATE AVERAGE

One of the tax increases that county commissioners are seeking is a quarter-cent sales-tax increase ostensibly for public schools. Commissioners claim that Durham Public Schools would receive most of the \$9.2 million in estimated new revenue from this tax increase.¹ Taxpayers have no legal guarantee that the money would be spent for that purpose, however. According to state law, the revenue could be used for any legal purpose. Furthermore, commissioners and school board members have not made a case for additional funding, nor — as demonstrated below — is additional funding even necessary.

Between 2004 and 2010, Durham County has spent more per-pupil dollars on K-12 public education than nearly every other school district in North Carolina (see the table below).² The local per-pupil expenditure never fell below the seventh highest in the state. Durham County spent an average of \$1,065 per pupil higher than the state average during this period. Simply put, Durham taxpayers continue to provide ample resources to the public schools in the county.

Although Durham's total (state, local, and federal) per-pupil expenditure ranking dropped from 29th to 39th highest last year, the district still spends over \$1,000 more per student than the state average. Between 2004 and 2010, Durham Public Schools spent an

Per-Pupil Expenditures, Durham County vs. North Carolina Average, 2004–10³

Year	Graduation Rate ⁴	Local Per-Pupil Expenditures Only				Total State, Local, & Federal Per-Pupil Expenditures			
		Durham Co. Public Schools	State Average	Difference	Durham Rank	Durham Co. Public Schools	State Average	Difference	Durham Rank
2010	69.8%	\$2,914.20	\$1,930.62	+\$983.58	6 of 115	\$9,454.01	\$8,451.43	+\$1,002.58	39 of 115
2009	64.0 %	\$3,446.98	\$2,123.31	+\$1,323.67	7 of 115	\$10,000.73	\$8,662.88	+\$1,337.85	29 of 115
2008	62.9%	\$3,176.29	\$2,075.15	+\$1,101.14	7 of 115	\$9,700.45	\$8,521.66	+\$1,178.79	31 of 115
2007	66.3%	\$2,976.44	\$1,934.05	+\$1,042.39	6 of 115	\$9,040.54	\$8,017.42	+\$1,023.12	32 of 115
2006	68.8%	\$2,840.10	\$1,873.14	+\$966.96	5 of 115	\$8,570.16	\$7,596.15	+\$974.01	32 of 115
2005	57.6% ⁵	\$2,840.74	\$1,811.66	+\$1,029.08	5 of 115	\$8,415.06	\$7,327.60	+\$1,087.46	29 of 115
2004	58.5% ⁶	\$2,725.16	\$1,716.94	+\$1,008.22	6 of 115	\$7,911.87	\$7,006.13	+\$905.74	31 of 115

average of \$1,072 more per student than the state average expenditure. In general, recessionary decreases in state and federal tax revenues, not local effort, were responsible for the lower ranking.

Despite this above-average revenue stream, the district schools have produced mixed results. After three years of decline, four-year graduation rates are on the rise. Moreover, a 2011 study of educational productivity conducted by the Center for American Progress, a liberal think tank based in Washington, D.C., indicated that Durham Public Schools have a below-average return on investment (ROI).⁷ Durham taxpayers should consider the district's use of resources before they vote to increase them.

IMPROPERLY SUBSIDIZE TRANSIT FOR THE BENEFIT OF OTHER COUNTIES?

Commissioners are also asking voters to approve a half-cent sales-tax increase to fund transit improvements.⁸ Collection of the taxes could begin as early as April 2012.⁹ According to the educational materials on the transit sales tax¹⁰ and the “Durham County Bus and Rail Investment Plan,”¹¹ the new tax revenue would be used to subsidize regional bus, commuter rail, and light rail. The funds from the tax would be used to “enhance *regional* transit.”¹² (emphasis added).

Within the first 12–18 months, the bus service is expected to provide new connections from Durham County to Raleigh, RTP, and Chapel Hill. The new light-rail service would be a 17-mile corridor between Durham and Orange counties. The new commuter rail system would be a 37-mile corridor between Durham and Wake counties. When or even if rail construction would begin in Orange and Wake counties is unclear, however.

This entire plan could lead to illegal spending of Durham County funds for the benefit of outside counties. Under state law, the proceeds of the transit tax “may be used only for the benefit of the special district.”¹³ In this instance, the Triangle Transit Authority (TTA) designated Durham County as the spe-

cial district. Therefore, all proceeds may be used only for the benefit of Durham County.

As its own promotional material explains, revenue from the tax increase would be used to serve *regional* transportation needs. The buses would physically run outside Durham County. The rail lines could also run outside Durham County. At a minimum, the rail lines are being built with an eye towards creating rail systems that would serve those in other counties besides Durham County.

Looking at the plain language of the law, if funds benefit any entity besides the special district, it likely would be an improper use of the funds.

Beyond the question of whether the use of the funds would be legal, the fact of the matter is that Durham County residents are being asked to support a significant tax increase for a plan that is speculative at best. Durham County commissioners are selling the tax increase on the benefit of a regional transit plan, but neither Orange County nor Wake County have asked to be part of the special district. As a result, residents from those counties would not be subject to additional taxes to subsidize regional transit.

In other words, were the tax increase to pass, it is very possible, especially in these difficult economic times, that Durham County residents would pay for regional transit on their own, without the assistance of Orange and Wake counties.

Durham County argues that if those other counties do not approve a sales tax, adjustments can be made to the plan.¹⁴ That would be little comfort, however, were the sales tax still collected locally but the money spent on projects that were always designed to be regional.

Adding to the speculative nature of the tax, the “Durham County Bus and Rail Investment Plan” also notes that the overall Triangle Transit Plan would be dependent upon state and federal funding of rail capital costs — 25 percent from the state and 50 percent from the federal government.¹⁵ Durham County residents are at risk of voting themselves a

large tax increase for a transit plan that would be dependent on shaky funding sources.

HIGHLY EXPENSIVE TRANSIT; NO REDUCTION IN TRAFFIC CONGESTION OR POLLUTION

Public transit is supported by huge taxpayer subsidies, while user fees support auto travel. Although it is commonly believed that roads receive huge taxpayer subsidies, they do not. Except for a few small subsidies, roads in North Carolina are supported by excise taxes on gasoline and by other user fees. In fact, these user fees are diverted to support transit. N.C. motorists were made to pay \$1.1 billion in highway user fees to Washington, while the state got only \$656 million in highway funds in return.¹⁶ The taxpayer subsidy for driving is only two cents per trip, and per passenger mile it is *minus* one cent, showing that gasoline taxes, which most people think should pay for highways, are also being diverted to pay for public transit.¹⁷

Compare those costs with the taxpayer subsidy for public transit in Durham: 58 cents per passenger mile, \$2.27 per trip. Unfortunately, supporters of increasing the sales tax for transit think that is a good deal and want to increase it, perhaps as much as 10 times over, by using taxpayer subsidies to pay for extremely expensive rail that would carry almost no one. In 2008, Charlotte's light-rail system cost taxpayers \$3.61 per passenger mile and a whopping \$20.14 per trip or \$40.28 for a typical round trip.¹⁸

Since trains travel on fixed routes, they rarely go where people want to go. A sales tax for rail would force taxpayers to pay for extremely expensive transportation that hardly anyone will use. For example, in Denver only 0.15 percent of all motorized passenger travel is by rail; in Seattle, 0.08 percent; in Miami, 0.28 percent; and in Pittsburgh, 0.13 percent. In fact, of the 22 major U.S. cities with rail, only one is responsible for more than 3 percent of all motorized passenger travel (New York City, 7.35 percent). Sixteen of those 22 municipal rail services carry less than one percent of all motorized passenger

travel.¹⁹ Put simply, a system that carries so few people could not reduce traffic congestion in the Triangle.

One of the ironies of the proposed sales-tax increase for transit is that many of its supporters also think it would reduce pollution and energy use. The opposite is the case, however: auto travel uses less energy and is less polluting than transit. Energy consumption by Durham's current transit system is 5,331 BTUs per passenger mile, compared with only 3,514 BTUs for the average car and only 1,659 BTUs for the Prius.²⁰ Those who believe that increasing public transit would help to reduce carbon emissions in order to fight global climate change are also mistaken. Durham's current bus system emits 0.86 pounds of CO₂ per passenger mile; the average car emits only 0.55 pounds of CO₂ per passenger mile, and a Prius emits only 0.26 pounds of CO₂ per passenger mile.²¹ It is clear that getting people out of their cars and onto the new buses proposed in the transit plan would increase the amount of CO₂ going into the atmosphere.

DURHAM COUNTY GOVERNMENT EXPANDS FASTER THAN POPULATION AND INFLATION

Voters and taxpayers should keep in mind that over the past five years, both county spending and revenues have expanded beyond inflation and population growth. So even the current rates of taxation have not restrained the county to a relatively constant size of government — presumably because so much of the county's revenue is not defined as taxation but as fines, licenses, user fees, etc.

The two ballot initiative increases would accelerate this growth of both spending and revenue extraction. For example, the proposed half-cent sales-tax increase would more than double current spending on public transit. The stated projection for new revenue is \$17.3 million, while current revenue for transport from in-county taxation is \$12.6 million.²²

The county's heavy dependency on inter-governmental transfers (state and federal funds), which comprise 50 percent of total revenue, places it in a vulnerable position.

Should that funding dry up as their own fiscal positions deteriorate, the county would be pressed either to cut spending or raise taxes. This tenuous situation should give pause to the tax expansion now, since it would make the future transition even more difficult, as the county's taxing ability could already be exhausted.

County spending has already increased more than inflation and population growth over the past five years—notably in education (6 percent) and health and human services (11 percent). So cries from the county and these departments for greater funding ring hollow.

A VOTE OF NO CONFIDENCE?

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

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END NOTES

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3. *Ibid.*
4. NC DPI, Accountability Services, "Cohort Graduation Rates," August 15, 2011, www.ncpublicschools.org/accountability/reporting/cohortgradrate. The graduation rate formula tracks the number of students who begin ninth grade and graduate four years later. That includes students who transferred into the state and excludes students who transferred out of the state or died. The U.S. Department of Education does not permit school districts or states to count GED students as high school graduates.
5. NC DPI, "Table 15: Public School Dropout and Retention Data, 2004-05," *Statistical Profile 2006*, p. 24, www.ncpublicschools.org/fbs/resources/data. This percentage is the "retention rate" for the 2004-05 school year. According to NC DPI, the retention rate is "the ratio of graduates (diplomas and certificates) at the end of the current school year to ninth grade final enrollment four years earlier." It is similar to the four-year "cohort" graduation rate used for years 2005 to 2010.
6. NC DPI, "Table 15: Public School Dropout and Retention Data, 2003-04," *Statistical Profile 2005*, p. 24, www.ncpublicschools.org/fbs/resources/data. This is the retention rate for the 2003-2004 school year.
7. Center for American Progress, "Return on Educational Investment: A district-by-district evaluation of educational productivity," January 19, 2011, www.americanprogress.org/issues/2011/01/educational_productivity/report.html.
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9. "Education and Transit Sales Tax Referendum."
10. *Ibid.* and "The Durham County Bus and Rail Investment Plan" ("The Plan"), ourtransitfuture.org.
11. "The Plan," pp. 5-7.
12. "Education and Transit Sales Tax Referendum."
13. General Assembly of North Carolina, Session Law 2009-527, § 105-510.8(a), Section 105-510.8, "Local Election on the adoption of sales and use tax — regional public transportation authority," www.ncga.state.nc.us/Sessions/2009/Bills/House/HTML/H148v6.html.
14. "The Plan," p. 15.
15. "The Plan," p. 14.
16. Randal O'Toole, "Public Transit in North Carolina" John Locke Foundation Spotlight No. 399, September 16, 2010, p. 2, johnlocke.org/research/show/spotlights/250.
17. *Ibid.*
18. O'Toole, p. 4.
19. Daren Bakst, "Public Transit," City & County Issue Guide 2011, John Locke Foundation, johnlocke.org/site-docs/research/2011issueguide/11publictransit.html.
20. O'Toole, p. 4.
21. *Ibid.*
22. Triangle Transit, "Annual Report: Fiscal Year 2010," p. 4, www.triangletransit.org/system/uploads/news_releases/2010_AnnualReport_2010web.pdf. In addition to Triangle Transit, the airport does receive some funds for management from the general fund, but it amounts only to \$12,500.