

## A Quarter-Million More for Montgomery?

*Secretive county seeks a third  
tax increase in three years*

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### KEY FACTS

- ♦ Montgomery County commissioners have raised the property tax by nine cents over the last three years, from 58 cents to 67 cents per \$100 valuation — a 15.5 percent increase.
- ♦ Now the commissioners want voters to approve a quarter-cent sales-tax increase worth an estimated \$250,000 — an amount that would be about the same as another one-cent increase in the property tax. If voters approve this tax increase, it would add a quarter-million dollars more to the \$1.7 million increase in county revenue over the past two financial years.
- ♦ Between fiscal years 2009 and 2010, the property-tax intake increased by 6.1 percent and total revenue increased by 5.0 percent (accounting for inflation).
- ♦ Commissioners have not promised to use this tax increase to rescind past property-tax increases; they say they would spend the new revenue for capital improvements for county schools.
- ♦ Since 2006, however, Montgomery County Schools have received \$1.9 million in lottery money, and since 2005 the schools have gotten \$5.8 million from local sources for school capital needs.
- ♦ Regardless of how commissioners say they would spend the new revenue, their promises are not legally binding. Current and future commissions would be free to spend the funds from the tax increase on any legal purpose, and taxpayers would have no legal recourse against it.

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- ✦ Taxpayers have little access to online information about county government. The county does not have the checkbook, contracts, future liability for retirees, Capital Improvement Plan, number of employees, audit reports, salaries of employees by job code, nor the Comprehensive Annual Financial Report available online.
- ✦ Since the special county taxing authority was established by the legislature in 2007, voters have rejected 82 of 101 requests for tax increases, sending the message that county commissioners must be more responsible stewards of taxpayers' hard-earned money.
- ✦ Montgomery County Schools had a low return on investment in comparison with those of other school districts in North Carolina, according to a 2011 study of educational productivity conducted by the Center for American Progress.
- ✦ Montgomery County voters should have an opportunity to assess the district's facilities plan, as well as the long-term plan to finance the debt, before they vote on any tax increases.

### **ON TOP OF A MILLION-DOLLAR TAX INCREASE, ASKING FOR \$250,000 MORE**

Montgomery County commissioners are asking voters to approve a \$250,000 tax increase during this difficult economic environment. This request follows a \$1 million property tax increase and an overall county revenue increase of \$1.7 million between fiscal year (FY) 2009 and FY 2010. Even after taking inflation into account, that tax increase equated to a 6.1 percent increase in the property-tax intake and a 5.0 percent increase in overall county revenues.<sup>1</sup>

What pressing need is there behind the request for taxpayers to give up \$250,000 more in new taxes? The commissioners' official resolution calling for the vote stated that the tax increase would "help improve our school facilities, update aging schools, and make the classrooms in our county more conducive to learning."<sup>2</sup>

To voters that might sound like a lovely

use of funds, but what do the county's finances indicate?

### **FINANCIAL RESPONSIBILITY OR IRRESPONSIBILITY?**

Facing a substantial budget crisis in FY 2009, Montgomery County commissioners spent all of the county's \$1.5 million cash reserves in order to maintain overall spending levels. So loose was their spending, it surpassed revenues by 46 percent, to the tune of \$12.4 million.

County commissioners then raised the property tax rate by four cents per \$100 valuation to take in another \$1 million, and they almost balanced their books for FY 2010. The commissioners' efforts proved insufficient, as the county faced another revenue shortfall for the current budget (FY 2011), so they raised property taxes again — this time by five cents. Over the last three years, Montgomery County commissioners have raised the property tax rate from 58 cents to 67 cents per \$100 valuation — a 15.5 percent increase.

Now Montgomery County commissioners are trying to tax their way out of yet another budget problem. The request for the \$250,000 increase (an amount that would be about the same as another one-cent increase in the property tax) would bring the grand total in tax increases over the last three years to about \$2 million.

Montgomery County voters need to decide whether the commissioners' record is one of fiscal responsibility, worthy of even more funds. The limited information available, however, as well as county leaders' resistance to transparency suggest otherwise.

### **KEEPING CITIZENS IN THE DARK**

One reason that many Montgomery County citizens are largely unaware that the county government is in such dire financial straits is that the county does not provide citizens with easily accessible information online. Montgomery County earned a grade of "D" on *NCTransparency.com*, the John Locke Foundation website that grades online govern-

ment openness. The county does not have its checkbook, contracts, future liability for retirees, Capital Improvement Plan, number of employees, audit reports, salaries of employees by job code, nor the Comprehensive Annual Financial Report available online. Nowhere on the county's web site is there even a mention that the sales tax vote will occur on November 8. Voters have to go the Montgomery County Schools web site for that.<sup>3</sup>

Since the special county taxing authority was established by the legislature in 2007, voters have turned down 82 of 101 requests for tax increases (on either sales or land-transfer taxes),<sup>4</sup> sending the message that county commissioners must be more responsible stewards of taxpayers' hard-earned money before voters will entrust them with tax increases. By their votes on this referendum, Montgomery County voters can demonstrate whether county commissioners have earned their trust or still have work to do.

### MONTGOMERY'S CAPITAL FUNDING FOR SCHOOLS

Proponents of the tax increase claim that "Montgomery County Schools has not received any funding for capital/building needs in the last three years."<sup>5</sup> It is true that Montgomery County has not received *state corporate tax revenue* for the last three years. In fact, no school district in North Carolina has access to these funds. In 2009, Democratic leaders in the N.C. General Assembly redirected corporate tax revenue from the Public School Building Capital Fund to the state's General Fund.<sup>6</sup>

Republicans retained this practice in the current state budget.

Nevertheless, schools districts continue to receive thousands of dollars for school facilities improvements and debt service thanks to the N.C. Education Lottery (see Table 1).<sup>7</sup> Currently, the state sets aside 65 percent of lottery revenue for prizes and administrative expenses. School districts receive part of the remaining 35 percent. Of the school district portion, the state allocates 40 percent for school facilities, which accounts for approximately 14 percent of total lottery revenue. In terms of aggregate facilities dollars from the lottery, North Carolina's school districts shared nearly \$146 million in lottery revenue last year, and over \$710 million since the start of the lottery in 2006.<sup>8</sup>

Since 2006, the Montgomery County Schools system has received \$1.9 million in lottery funds earmarked for school facilities. In 2007, the school district used nearly \$880,000 in lottery funds to pay the debt service on an elementary school and added over \$412,000 toward that effort in April 2011. As of September 27, the district had nearly \$661,000 in lottery revenue available – over twice the amount of the annual estimated revenue that the county would receive from the proposed quarter-cent hike in the sales tax (see Table 1).<sup>11</sup>

Lottery funds and interest accrued on unused funds will continue to add capital dollars to the unallocated balance. According to projections by the N.C. Department of Public Instruction, Montgomery County Schools will

**Table 1. State Facilities Funding, Montgomery County Schools, 2006–12**

<i>Fiscal Year</i>	<i>Corporate Tax Revenue</i>	<i>Project Allocation<sup>9</sup></i>	<i>Unallocated Balance</i>	<i>Lottery Revenue</i>	<i>Project Allocation</i>	<i>Unallocated Balance</i>
2006–07	\$346,165.24	\$711,592.42	\$1,246,747.25	\$215,258.00	\$215,258.00	\$2,198.80
2007–08	\$136,915.16	\$260,129.50	\$1,192,673.21	\$266,841.00	\$266,841.00	\$5,378.12
2008–09	\$149,532.76	\$366,189.00	\$1,022,672.19	\$313,948.00	\$313,948.00	\$9,849.42
2009–10	\$0.00	\$1,027,135.50	\$8,479.06	\$528,960.00	\$83,440.00	\$462,406.23
2010–11	\$0.00	\$0.00	\$8,656.57	\$577,031.00	\$412,493.38	\$635,351.08
2011–12*	\$0.00	\$0.00	\$8,673.97	\$23,955.00 <sup>10</sup>	N/A	\$660,989.09
Totals	\$632,613.16	\$2,365,046.42	\$3,479,228.28	\$1,902,038.00	\$1,291,980.38	\$1,115,183.65

\* As of September 27, 2011.

**Table 2. State Facilities Funds: Montgomery County Projects Report, 2009–11**

<i>School(s)</i>	<i>Project(s)</i>	<i>Approval Date</i>	<i>Amount Approved/Allocated</i>	<i>Lottery Funding</i>
East HS and West HS	Distance learning labs	2/27/2009	\$81,541.00	No
East MS	Replace carpet with VCT	2/27/2009	\$10,882.50	No
Systemwide	21st century technology upgrades	2/27/2009	\$54,666.00	No
Five (5) schools	Update network hardware and cabling	2/27/2009	\$66,913.00	No
West HS	Remove carpet and install VCT	3/27/2009	\$2,694.75	No
West MS	Remove carpet and install VCT	3/27/2009	\$9,131.25	No
East HS	Remove carpet and install VCT	3/27/2009	\$1,560.75	No
Troy ES	Remove carpet and install VCT	3/27/2009	\$8,921.25	No
East MS	Replace thermal insulation on chiller piping	4/28/2009	\$12,000.00	No
Mount Gilead ES	Replace gym roof	4/28/2009	\$33,460.75	No
West Montgomery HS	Baseball field planning and design	9/28/2009	\$27,750.00	No
Ten (10) schools (LAN) & five (5) schools (wireless)	LAN infrastructure/equipment and wireless networks	12/17/2009	\$657,186.00	No
West Montgomery HS	Baseball field improvements	12/17/2009	\$229,699.50	No
West Montgomery HS	Install two new boilers	12/17/2009	\$112,500.00	No
Montgomery County ES	2010–11 debt service	4/26/2011	\$412,493.38	Yes
<b>Totals</b>			<b>\$1,721,400.13</b>	<b>1 yes, 14 no</b>

receive \$289,104 in facilities funds from the lottery by the end of the current fiscal year.<sup>12</sup> By June 2012, the school district may have up to \$900,000 in lottery funds available for capital projects that make classrooms in the county “more conducive to learning.”<sup>13</sup>

Since 2009, the Montgomery County Schools spent over \$1.7 million on a variety of school facility projects, including repairs to HVAC systems, floors, and a gymnasium roof (see Table 2).<sup>14</sup> The school system has also made a number of critical updates to schools’ technological infrastructure. While these are sound investments, it is alarming to see county and school officials spend over \$250,000 for baseball field improvements at West Montgomery High School.

As do all other counties in North Carolina, Montgomery County receives school capital funding from restricted portions of existing local-option sales taxes. These sources of facilities funding have been on the decline in recent years because, like all sales taxes, they are sensitive to changes in economic condi-

tions. Nevertheless, portions of Article 40 and 42 taxes still provided Montgomery County Schools nearly \$780,000 for maintenance projects and debt service last year (see Table 3).<sup>15</sup>

#### RETURN ON EDUCATIONAL INVESTMENT

One final consideration is return on investment (ROI) — i.e., the academic achievement a district gets for each dollar spent relative to other districts in the state. Although ROI does not assess the return on capital investment, it is still important for Montgomery County taxpayers to consider the district’s overall use of resources before they vote to increase them.

A 2011 study of educational productivity conducted by the Center for American Progress, a liberal think tank based in Washington, D.C., indicated that Montgomery County Schools had a low return on investment compared with the other districts in North Carolina.<sup>16</sup> In fact, the district fell short on each of the three ROI measures — Basic Return on Investment, Adjusted Return on Invest-

**Table 3. Local Sources of County Funding for Public School Capital Outlays**

<i>Revenue Source</i> <sup>17</sup>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>Totals</i>
Article 40 (30% restricted)	\$322,366	\$346,330	\$381,317	\$378,784	\$297,293	\$297,293	\$2,023,383
Article 42 (60% restricted)	\$454,206	\$689,022	\$759,438	\$754,400	\$592,017	\$592,017	\$3,841,100
<b>Totals</b>	<b>\$778,582</b>	<b>\$1,037,361</b>	<b>\$1,142,763</b>	<b>\$1,135,191</b>	<b>\$891,316</b>	<b>\$891,315</b>	<b>\$5,876,528</b>

ment, and Predicted Efficiency Index – used by researchers.

As such, the best way to pay for large-scale capital projects is to offer county residents the opportunity to vote on a bond referendum. Voters should have an opportunity to assess the district’s facilities plan, as well as the long-term plan to finance the debt, before they vote to increase taxes.

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## END NOTES

- Internal calculations from budget documents received from Montgomery County.
- Montgomery County Schools, “Montgomery County Quarter (1/4) Cent Sales Tax Referendum Q&A: “An Investment in Education,” accessed October 12, 2011, [www.montgomery.k12.nc.us/montgomerycounty/cwp/view.asp?A=3&Q=313176](http://www.montgomery.k12.nc.us/montgomerycounty/cwp/view.asp?A=3&Q=313176).
- Ibid.
- North Carolina Association of County Commissioners, “Local revenue option referendum results,” [www.ncacc.org/revenueoptions.html](http://www.ncacc.org/revenueoptions.html).
- Op. cit., note 2.
- According to a recent report published by the North Carolina Department of Public Instruction (NC DPI) School Planning Division, “current economic conditions resulted in the 3rd and 4th Quarter revenues of 2008-09 and all revenues for FY 2009-10 and 2010-11 being diverted away from the PSBCE” NC DPI, School Planning Division, Public School Building Capital Fund: FY 2010-11 Report,” pp. 1-2, June 30, 2011, [www.schoolclearinghouse.org](http://www.schoolclearinghouse.org).
- NC DPI, School Planning Division, “Public School Building Capital Fund—Fiscal Year Totals: ADM and Lottery Fund,” September 27, 2011, pp. 133-34, [www.schoolclearinghouse.org](http://www.schoolclearinghouse.org). Please note: charter schools do not receive lottery funds.
- NC DPI, School Planning Division, “Public School Building Capital Fund: FY 2010-11 Report,” p. 2, [www.schoolclearinghouse.org](http://www.schoolclearinghouse.org).
- Please note: project allocations and unallocated balances include interest on the tax revenue and interest on the disbursing balance. These amounts are included in the School Planning Division’s “Public School Building Capital Fund—Fiscal Year Totals: ADM and Lottery Fund” report (see [www.schoolclearinghouse.org](http://www.schoolclearinghouse.org)) but have not been reproduced in this table.
- To date, the district has received only a fraction of the projected \$289,104 in lottery revenue dedicated to school facilities.
- Montgomery County officials believe that the quarter-cent sales-tax increase would produce \$250,000 in additional revenue annually; q.v., note 2.
- NC DPI, School Planning Division, “Estimated Lottery Distribution for FY 2011-12,” June 17, 2011, [www.schoolclearinghouse.org](http://www.schoolclearinghouse.org). Lottery funds cannot be used to purchase technology.
- Op. cit., note 2.
- NC Department of Public Instruction (DPI), School Planning Division, “Public School Building Capital Fund—Monthly Projects Report,” September 27, 2011, pp. 170-71, [www.schoolclearinghouse.org](http://www.schoolclearinghouse.org).
- North Carolina Department of State Treasurer, “North Carolina County and Municipal Financial Information,” accessed October 3, 2011, [www.nctreasurer.com/lgc/units/unitlistjs.htm](http://www.nctreasurer.com/lgc/units/unitlistjs.htm).
- Ulrich Boser, “Return on Educational Investment: A district-by-district evaluation of educational productivity,” Center for American Progress, January 2011, [www.americanprogress.org/issues/2011/01/educational\\_productivity\\_report.html](http://www.americanprogress.org/issues/2011/01/educational_productivity_report.html).
- Op. cit., note 15.