regional brief

No. 36

Alexander County Doesn't Need a Sales Tax Increase

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The Alexander County commissioners are asking voters to approve a quarter-cent sales tax increase on January 8th. If approved, this new tax is estimated to increase county revenues the first full year by $477,676 (FY 2008-09).[1]

In its 2007 session, the North Carolina General Assembly relieved all counties of paying the portion of Medicaid expenses that had been forced on counties, in exchange for the half-cent sales tax that the counties levied to help pay those expenses.[2] In addition, the legislature voted to give counties the option to ask voters to approve new tax increases. Options include increasing the sales tax, imposing a land-transfer tax, or no tax hikes at all.

This *Regional Brief* documents Alexander County's current spending and tax policies. Currently, nearly $5.3 million is available to be spent on high-priority government functions, such as school construction and other infrastructure priorities (about $51.5 million over 10 years) (see Appendix A).

In addition, growth has more than paid for itself. County revenues have grown 10.1 percent faster than population and inflation over the last five years (see Appendix B). Thus new residents have paid more than their fair share of county expenses. Studies that purport to show that growth does not pay for itself are fatally flawed because they only calculate the costs of new residents and ignore the revenue stream generated by those residents.[3]

Finally, if Alexander County tax revenues increase only as fast as population and inflation over the next 10 years, total revenues will increase 39 percent. This increase is more than adequate to pay for county needs, including new school construction and other infrastructure needs. This is especially true if the county is willing to consider new and innovative ways to accommodate enrollment growth (see Appendix C).

There is plenty of money available to meet Alexander County's needs. The last thing the county needs is a tax increase. Instead, county voters must demand that county officials institute better financial management and establish better spending priorities.

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Medicaid Swap. The state is taking the over the county portion of Medicaid over three years, but is also taking a portion of revenues from counties, too. The legislature included a "hold harmless" provision to guarantee that each county ends up with at least $500,000 more available in its budget.[4] In other words, Alexander County will have at least $500,000 in additional funds to spend each fiscal year, including the current fiscal year, which started in July.

Available Cash Reserves. Alexander County currently has cash reserves that total almost $2.3 million. This amount is 8.5 percent of its annual budget.[5] The State Treasurer's policy manual states that county undesignated-fund balances should not drop below 8 percent of total expenditures. Alexander County has exceeded that amount. The county has collected $129,509 in taxes above the 8 percent strongly recommended by the Treasurer — cash that is currently available to help with existing needs or to provide much-needed tax cuts or both.

Per-Capita Revenue Increases. From 2002 to 2006, Alexander County's per-capita revenues have increased by 10.1 percent after adjusting for inflation[6] (see Appendix B). This means that new county residents are contributing more than their fair share of county revenues. In other words, population growth has been "paying for itself" because real county revenues are growing at a faster rate than population. In addition, if the county had lived within its means — that is, if its budget increases had been kept in line with population and inflation increases, rather than exceeded them — over the last five years, the county's 2006 revenues could be over $2.2 million less. That amount could and should be returned to the taxpayers in the form of tax cuts.

Student Enrollment Growth. According to projections by the N.C. Department of Public Instruction, Alexander County will experience over the next 10 years a total enrollment decline of 51 public-school students, which would represent a decrease of about one percent. Despite this projected loss of students, the county will receive an estimated $2.3 million in capital funding from state, local, and lottery sources for the 2007-08 school year.[7]

When school officials determine that health and safety hazards within an existing school necessitate the construction or renovation of a school, the county should first consider the following options (see Appendix C for details):

1. Charter schools
2. Public/private partnerships
3. Adaptive reuse
4. Satellite campuses
5. Virtual schools

Unfortunately, taxpayers often react by giving school districts a blank check without sufficiently scrutinizing the district's long-term capital plan or holding them accountable for their spending. When taxpayers give school districts license to raise taxes for unchecked spending year after year, school leaders feel a sense of entitlement for more of the taxpayer's money. Lacking accountability, counties turn to more frequent tax increases, even though the additional money has not improved student performance or the district's management of student enrollment growth.

Economic Incentive Giveaways. Alexander County has given $190,000 in economic incentives to businesses and corporations from 2004 to 2006.[8] Giving large corporations economic incentives, also known as corporate welfare or corporate socialism, is taking much-needed money from county taxpayers and local small businesses and giving it to large corporations in exchange for promises of creating new jobs. Often the promised jobs go to outsiders. The long-term impact of these incentives on economic growth is questionable, to say the least. It is a poor investment of taxpayers' money.

Conclusion

Alexander County faces a challenge, but not a funding crisis. The county has nearly

$5.3 million over and above its base budget to meet its needs (see Appendix A). This amount is more than 11 times the amount that the proposed sales tax will bring in per year. In other words, if the county took advantage of the revenues and the savings outlined in this report, it could delay a tax increase for 11 years. A sales tax increase at this time would only encourage more spending on low-priority items. Instead of a tax increase, county commissioners should focus on reordering county priorities. County voters need to demand that the county live *within the means of the taxpayer.* Continuing on the current path will not meet the real needs of county residents.

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End Notes

1. Fiscal Research Division, N.C. General Assembly

2. Over the next three years, the state will take over the 15 percent of Medicaid expenses that the counties had previously been required to fund. State Law 2007-323 (House Bill 1473, Sections 31.16 and 31.17).

3. Michael Walden, "Economic Impacts of Construction of Owner Occupied Residential Housing in the Triangle, North Carolina: A Study Prepared for the Homebuilders Association of Raleigh–Wake County," North Carolina State University, January 1, 2005, available for download at www.heartland.org/Article.cfm?artId=20157; Michael Sanera and Haley Wynn, "APFOs Research Fatally Flawed,"John Locke Foundation (JLF) *Spotlight* No. 331, September 12, 2007, www.johnlocke.org/spotlights/display_story.html?id=180; Michael Sanera and Guillermo Pena, "Raleigh's Flawed Impact Fee," JLF Spotlight No. 284, March 30, 2006, www.johnlocke.org/spotlights/display_story.html?id=131.

4. Fiscal Research Division, "Medicaid 3 Year 500K," July 26, 2007.

5. Undesignated fund balances per the office of the N.C. Department of the State Treasurer and calls to individual counties, www.nctreasurer.com/lgc/units/unitlistjs.htm.

6. County Annual Financial Information Report (AFIR) from State Treasurer's web site, www.nctreasurer.com/lgc/units/unitlistjs.htm.

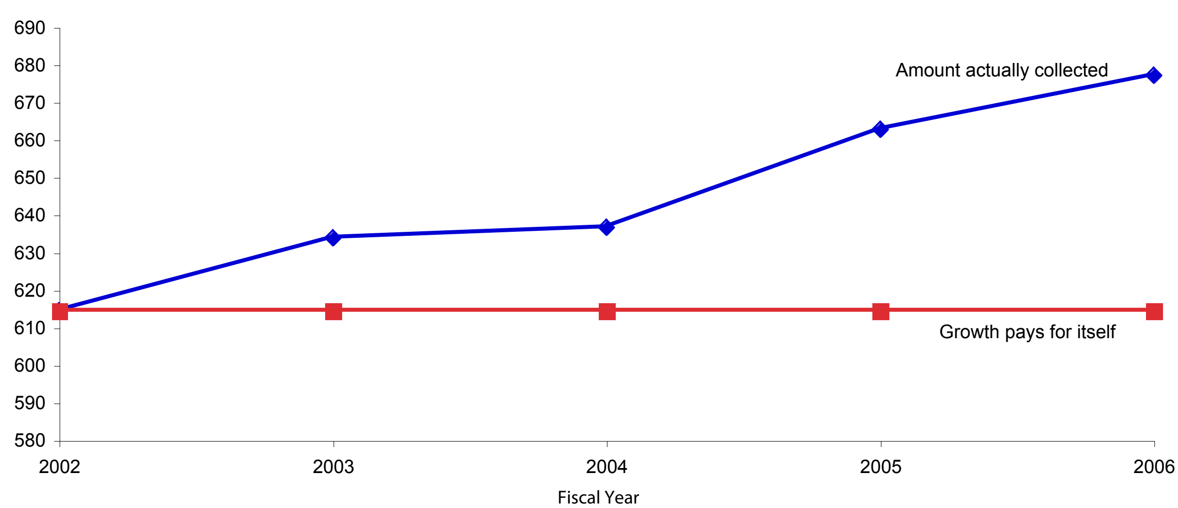
7. N.C. Department of Public Instruction (NC DPI), School Planning Division, "ADM Growth Analysis, 2007–2017," September 2007; NC DPI, School Planning Division, "Public School Building Capital Fund: 10 Year Planning Projections, 2007–2016," June 27, 2007; NC DPI, Division of School Business Services, "FY 2007-08 Estimated Lottery Distribution," August 2007; N.C. Department of the State Treasurer, "North Carolina County and Municipal Financial Information," www.nctreasurer.com/lgc/units/unitlistjs.htm.

8. "The Incentives Game: North Carolina Local Economic Development Incentives," N.C. Institute for Constitutional Law, June 2007, Appendix: NC Local Incentive Data, ncicl.org/Incentives/NCICLincetiveRpt.pdf.

Appendix A: Projected Alexander County Revenue Gains

Revenue Gains	1 year	10 years
Gain from Medicaid swap (FY 2008-09)	$500,000	$5,000,000
Estimated school capital (Avg based on projections)	$2,326,267	$23,262,670
Potential Savings		
Eliminate economic incentive giveaways (2004-2006 Avg)	$63,333	$633,333
Revenue Growth		
Revenue in excess of population and inflation (FY2006)	$2,247,975	$22,479,748
TOTAL	$5,137,575	$51,375,751
Fund balance in excess of state requirement (FY 2006)	$129,509	$129,509
Potential extra availability	$5,267,084	$51,505,260
Revenue from Sales Tax Increase	$477,676	$6,022,199

Appendix B: Alexander County Locally Generated Revenue Per Capita FY2002–FY2006 (adjusted for inflation)



Source: State Treasurer's Office

Appendix C: Alternative Options to Handle Enrollment Growth

Without a doubt, growing school districts require funds to build and renovate facilities that accommodate school enrollment increases. Nevertheless, tax increases and restrictive regulations will not solve the long-term problems of planning and expanding school facilities. School districts throughout North Carolina can manage enrollment growth using proven, cost-efficient solutions that do not burden county taxpayers and that enhance educational opportunities for students.

1. Charter Schools (net capacity gain: 37-1,075 seats per school)

A handful of charter-school vacancies are available each year, giving a group of citizens the opportunity to launch a new charter school in the county. The average charter school in North Carolina enrolls 322 students, but charter schools have a wide range of student enrollments, from 37 students enrolled in Grandfather Academy (Avery County) to 1,075 students enrolled in Franklin Academy (Wake County).

Depending on the mission and grade range of the school, a charter school can absorb hundreds of students upon opening. Additionally, the charter schools could continue to grow, increasing enrollment by as much as 10 percent per year.

2. Public/Private Partnership

Session Law 2006-232 of the North Carolina General Assembly permits school systems to enter into capital or build-to-suit leases with a private developer. According to the law, "Local boards of education may enter into capital leases of real or personal property for use as school buildings or school facilities. The capital lease may relate to an existing building or a new school building to be constructed. The term of any capital lease, including any renewal periods, shall not exceed 40 years from the expected date that the local board of education will take occupancy of the property that is the subject of a capital lease."

Public/private partnerships are well suited for the construction of elementary schools in growing areas. Developers are eager to enter into public/private partnerships to build elementary schools in growing areas because they raise the value and desirability of the homes and properties located within.

3. Adaptive Reuse

As a way to save time and money, school systems have converted vacant commercial buildings into schools. Wake County Schools completed an adaptive-reuse project in 1997, converting the American Sterilizer Company building into the Lufkin Road Middle School. The school system is currently adapting two other commercial buildings into schools, including a former Winn-Dixie grocery store.

4. Satellite Campuses

Satellite campuses are small, off-site schools that utilize vacant space in neighborhood buildings. They are an outstanding way to enhance vocational, technical, and career education. For example, a school system in New Hampshire wanted to expand its vocational and business programs but could not afford to construct a new building for them. Its solution was to find vacant spaces in the community for satellite campuses. The school district rented an empty furniture store, shared space with a local business, and converted extra space at a bank for its technology program. Vocational and business teachers were able to combine classroom instruction with an on-site demonstration of its practical application.

5. Virtual Schools

A virtual school is an Internet-based learning environment that allows students to participate in a class using a computer rather than being present in a school classroom. Contrary to popular perceptions, virtual schools are rigorous academic institutions that exceed state curriculum standards. Students can access all class materials, including lectures, notes, assignments, and handouts, through the Internet. Students can also access audio and video content not available to those in traditional classrooms. Certified teachers offer one-on-one communication with the student, and they often recruit experts in the subject area to interact with virtual-school students through interactive lectures and online chats.