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Does Person Need a Sales-Tax Increase?

County already has almost $14 million in available funds

Dr. Michael Sanera, Joseph Coletti, Terry Stoops

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Executive Summary

- The Person County commissioners are asking county residents to approve a sale-tax increase on November 4. Some county officials indicate that the revenue from the tax increase, if passed, would go to help fund schools.
- Statements by county officials regarding the use of possible sales-tax revenue are not legally binding. Once passed, all new revenues, by law, may be used for any legal purpose.
- This *Regional Brief* finds that Person County's problems are not created by a lack of funding. The almost $14 million in savings and revenues identified in this report is more than 18 times the amount that the proposed sales-tax increase is estimated to produce (see Figure 1). If the county used this money instead, it could delay a sales-tax increase for over 18 years.
- County revenues have grown 16 percent faster than population and inflation since Fiscal Year (FY) 2002 (see Figure 2). The total amount of revenue for FY 2007 was over $5.5 million more than in FY 2002. By FY 2007, the average family of four paid $588 more in taxes than in FY 2002. It would take a 32 percent increase in family income (current dollars) to match the increase in revenues

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200 W. Morgan, #200
Raleigh, NC 27601
phone: 919-828-3876
fax: 919-821-5117
www.johnlocke.org

that the county has received over those five years.

- Person County's cash reserves are 22 percent of its annual budget. The state requires all counties to have eight percent of their budgets held in cash for emergencies, but Person County has 14 percent more than that minimum. This means that the county has over $6.5 million in cash that it can spend on pressing needs. This figure represents almost 8.6 times the amount that the proposed sales tax would raise. In other words, the county could use this available cash for the next eight years instead of new sales-tax revenue, which is estimated to be worth only about $762,000 per year. Based on this item alone, the county does not need to increase the sales tax.
- If Person County were to restrict its revenue increases to the increases in population and inflation, the county's revenues would increase 38 percent over the next ten years.
- Over the next ten years, the number of students in Person County public schools will *decrease* by 203 students, or by about 3.6 percent.
- If the school district has facility needs, the county commission and school board need to show taxpayers how they would spend the almost $9.6 million in state money provided for capital improvements over the next ten years.
- Person County benefited from the Medicaid swap above the state's promised "hold harmless" amount of $500,000 a year for ten years. Person County receives over $824,000 the first full year and a total of over $8 million over ten years (see Figure 1).
- From FY 2004 to FY 2006, Person County gave nearly $96,000 per year in incentives to a few selected private businesses. This practice is unfair to the hundreds of businesses in the county who are, at times, forced to compete with tax-subsidized businesses.

Background

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

Figure 1. Person County Projected Revenue and Savings

	1 year	10 years
Revenue Gains		
Gain from Medicaid swap (FY 2008-09)	$824,525	$8,081,760
Estimated school capital (Avg based on projections)	**$993,360**	**$9,572,017**
Potential Savings		
Eliminate economic incentive giveaways (2004-2006 Avg)	**$95,833**	**$958,333**
Revenue Growth		
Revenue in excess of population and inflation (FY2006)	$5,525,003	$55,250,027
TOTAL	**$7,438,721**	**$73,862,136**
Fund balance in excess of state requirement (FY 2007)	**$6,548,561**	**$65,485,610**
Potential extra availability	**$13,987,282**	**$139,347,746**
Revenue from Sales Tax Increase	**$761,880**	**$10,193,754**

to help pay those expenses.[1] In addition, the legislature voted to give counties the option to ask voters to approve new tax increases. Options include increasing the sales tax by one-quarter cent, tripling the land-transfer tax rate from 0.2 to 0.6 percent, or not hiking taxes at all.

The legislature also required counties to put those tax increases to an advisory vote of the people. If voters approved, county commissioners were allowed but not required to increase taxes. If both tax increases were on the same ballot and both were approved, commissioners could impose only one tax increase, not both.

Since November 2007, county voters across North Carolina have voted 58 times on such tax increases, rejecting nearly all of them. Voters have approved only eight of those 58 proposed tax increases. Undeterred by voter opposition, some county commissions have put the tax increases on the ballot more than once.

There is no limit to the number of times that county commissioners can place a proposed tax increase on the ballot, or how much tax money commissions can spend on public "education" campaigns requesting that voters approve the tax increase.

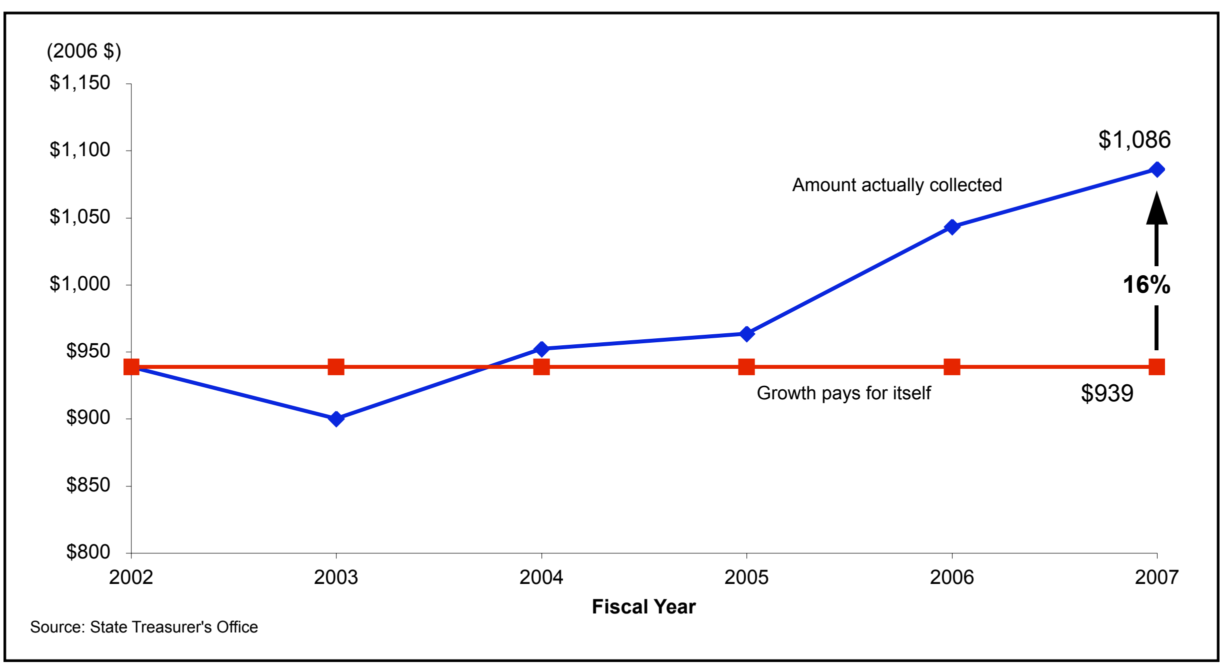
Public School Spending[2]

By far, counties spend more money on public education than any other area. Total local government spending on public education was $2.68 billion or $1,934 per pupil for the 2006-07 school year. Nearly 25 percent of all expenditures on public schools come from local tax revenue. Given the amount of taxpayer money involved, sympathetic appeals for school funding should not come at the expense of sound fiscal policy

County governments and school boards should spend local tax dollars for education, as well as hire public school personnel, in proportion to changes in their school population. In Person County, from 2002 to 2007, there was a two percent decrease in student population. At the same time, there was a 15 percent increase in local, inflation-adjusted per-pupil expenditures.

Over the last five years, the state increased per-pupil expenditures in Person County by 10 percent, adjusted for inflation. Federal per-pupil expenditures increased by

Figure 2. Person County Locally Generated Revenue Per Person, FY 2002–FY 2007 (adjusted for inflation, FY 2006 dollars)



36 percent during the same period. Thus, local, state, and federal spending on the Person County Schools significantly outpaced changes in enrollment.

The North Carolina Department of Public Instruction (DPI) projects that Person County Schools will lose 203 students over the next ten years, a 3.6 percent decrease. The state's Public School Building Capital Fund, which includes lottery funds, will provide Person County with an estimated $9.6 million over the next ten years.

If school facilities are needed, the school system should redirect funds away from low priority projects, reduce the size of the school bureaucracy, pursue ways to reduce construction costs, redirect existing revenue streams, and implement sound facilities alternatives. With proper planning and "out of the box" thinking, the school district can use proven, cost-effective construction, renovation, and maintenance solutions that are taxpayer-friendly and enhance educational opportunities for students.

Per-Capita Revenue Increases

Between FY 2002 and FY 2007, Person County's per-capita revenues have increased by 16 percent after adjusting for inflation[3] (see Figure 2). 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 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 in line with population and inflation increases, rather than exceeded them — over those five years, the county's FY 2007 revenues could have been more than $5.5 million lower. That surplus amount could and should be returned to the taxpayers in the form of tax cuts. If the county started living within the means of its citizens and held revenue increases in line with increases in population and inflation, county revenues would increase 38 percent over the next ten years.

Medicaid Swap

The state is taking over the county portion of Medicaid over three years, but it 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 each year for ten years.[4] Because Person County's net Medicaid savings were more than the $500,000 "hold harmless" amount, the county gains over $824,000 in additional funds to spend the first full year and more than $8 million over the next ten years (see Figure 1).

Economic Incentive Giveaways

Person County has given almost $96,000 per year in economic incentives to businesses and corporations from FY 2004 to FY 2006. 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 unfair to force existing businesses to pay taxes that, at times, go to a competing subsidized business.

Conclusion

This report shows that Person County is not in financial difficulty. In fact, most North Carolina counties do not face revenue crises that require tax increases. Nevertheless, county commissioners have placed tax increases on the ballot 58 times since the legislature authorized county residents to vote on tax increases.

In all the counties voting on tax increases, revenues grew faster than population and inflation between FY 2002 and FY 2007. The average increase is almost 19 percent. In addition, state government has grown six percent faster than population and inflation between FY 2002 and FY 2007. Obviously, this government growth rate rapidly outstripping population and inflation growth cannot be sustainable.

The November 4 vote provides the opportunity for Person County citizens to be heard. The results of the 58 county tax votes since last November are informative. County voters rejected 50 of the 58 requests for tax increases. Citizens, when given the chance, are rejecting tax increases.

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Notes

1. 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; see State Law 2007-323 (House Bill 1473, Sections 31.16 and 31.17).

2. 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; NC DPI, "Statistical Profiles," 2003–2007, accessed September 2008; NC DPI, Division of School Business, "2006–2007 Selected Financial Data," accessed September 2008; NC DPI, Education Statistics Access System, "Final ADM," accessed September 2008 Inflation adjustments used the GDP Deflator published by the Federal Reserve Bank of St. Louis. Public School Building Capital Fund projections are based on 10 years of corporate income tax and lottery funding at the 2008-2009 level (estimated), adjusted for projected enrollment growth over ten years.

3. County Annual Financial Information Report (AFIR) from the N.C. Department of the State Treasurer, www.nctreasurer.com/lgc/units/unitlistjs.htm.

4. North Carolina General Assembly, Fiscal Research Division, "Medicaid 3 Year 500K" projections, 2007.