

## **Bonds, School Bonds**

*Schools Bonds Will Leave Taxpayers  
Shaken Down, Not Stirred*

**TERRY STOOPS**  
OCTOBER 26, 2007

200 W. Morgan, #200  
Raleigh, NC 27601  
phone: 919-828-3876  
fax: 919-821-5117  
[www.johnlocke.org](http://www.johnlocke.org)

*The John Locke Foundation is a 501(c)(3) nonprofit, nonpartisan research institute dedicated to improving public policy debate in North Carolina. Viewpoints expressed by authors do not necessarily reflect those of the staff or board of the Locke Foundation.*



**SUMMARY POINTS**

Elected officials in Durham, Gaston, Macon, Mecklenburg, and Moore counties are asking voters to approve school construction bonds that will increase an already high tax burden on low- and middle-income homeowners in these counties.

Local governments have failed to implement the full range of school facilities alternatives and strategies that could accommodate enrollment growth without imposing additional taxes and long-term debt on taxpayers.

**INTRODUCTION**

Durham, Macon, and Mecklenburg Counties have among the highest tax burdens of any county in North Carolina, while Gaston and Moore Counties are not far behind. Even though they already impose a high tax burden on their respective residents, the counties are each asking voters to approve a school construction bond in November. A successful vote would force taxpayers to shoulder the tax increases associated with the bond, intensifying a tax burden that is quickly becoming unbearable for low- and middle-income homeowners.

School construction is the responsibility of local governments, and enrollment growth is a constant challenge for many counties. Nevertheless, local governments have failed to implement the full range of alternatives and strategies that could accommodate enrollment growth without imposing additional taxes and long-term debt on taxpayers. In particular, the long-term capital plan for any growing school system should consist of the following strategies:

1. Redirect funds away from low-priority county initiatives and school programs to pay for critical construction and renovation projects.
2. Fund only those projects that directly increase capacity in high-growth areas.
3. Reduce the size of the county and school bureaucracies and redirect savings to pay for school facilities.
4. Employ strategies that reduce construction and renovation costs.<sup>1</sup>
5. Use existing revenue streams, rather

than debt, to pay for capital expenditure.

6. Exhaust all possible school facilities alternatives, particularly those listed in Table 4 of this report.

These strategies would allow the county to successfully meet the challenges of growth for years to come without incurring excessive public debt or further straining weary taxpayers.

**DURHAM COUNTY: 5<sup>TH</sup> HIGHEST TAX BURDEN IN NORTH CAROLINA**

Taxpayers in Durham County suffer from high tax rates and an even higher tax burden than most counties in North Carolina. The tax rate is only meaningful as it relates to the burden it places on taxpayers; that is, residents' ability to pay their taxes. The county has the 19th highest property tax rate in North Carolina and the 14th highest effective tax rate in the state, but Durham's tax burden is one of the highest in the state (see Table 1). Whether it is measured as a percentage of income or on a per-capita basis, Durham taxpayers suffer under a tax burden that ranks among top ten highest in North Carolina (see Table 2).

**GASTON COUNTY: AMONG THE TOP 25 HIGHEST TAX BURDENS IN NORTH CAROLINA**

The Gaston County school bond will further increase the county's considerable property tax burden. The county has the 16th highest per capita burden out of North Carolina's 100 counties (see Table 2). In fact, Gaston County taxpayers suffer from a tax burden that, on all but one measure, is among the top 25 highest in the state. Gaston County

**TABLE 1. BONDS SUMMARY, PROPERTY TAX RATES, AND EFFECTIVE TAX RATES<sup>2</sup>**

County	Bond amount (Nov. 6 vote)	Bonds approved since 1995	Projected tax rate increase for bond	Property tax rate per \$100 valuation	Property tax rate rank	Effective tax rate*	Effective tax rate, percent of state avg
Durham	\$194,240,000	\$157,115,000	\$0.0612	\$0.8090	19th	\$0.7310	126.91%
Gaston	\$175,000,000	\$89,000,000	\$0.0380†	\$0.8800	Tied-9th	\$0.8340	144.79%
Macon	\$42,100,000	N/A	\$0.0505	\$0.3700	95th	\$0.3130	54.34%
Mecklenburg	\$516,000,000	\$1,131,500,000	\$0.0472	\$0.8189	17th	\$0.7740	134.38%
Moore	\$54,000,000	\$25,000,000	\$0.0370	\$0.4550	90th	\$0.4270	74.13%

\* The effective rate adjusts for the county revaluation cycle:

*Effective tax rate = weighted sales assessment ratio x property tax rate* (the weighted sales assessment ratio is the ratio of the selling price of property to the assessed value of property).

† Beginning year seven of repayment.

**TABLE 2. COUNTY TAX BURDEN<sup>3</sup>**

County	2005 Combined Local Burden	NC Rank*	2005 Combined Local Burden as % of Income	NC Rank	Combined Property Tax Burden as % of Income	NC Rank	Combined Property Tax Per Capita	NC Rank	Avg. Rank
Durham	\$2,015.69	5	6.17%	7	3.30%	5	\$1,078.07	3	5
Gaston	\$1,413.01	21	4.88%	39	2.59%	23	\$750.94	16	25
Macon	\$1,439.61	17	5.87%	9	3.19%	6	\$782.14	14	12
Mecklenburg	\$2,230.48	2	5.52%	14	2.92%	12	\$1,181.60	2	8
Moore	\$1,337.06	26	4.00%	72	2.10%	60	\$701.83	19	44
MEDIAN	\$1,134.68	-	4.55%	-	2.26%	-	\$563.14	-	-

County effective tax rate, 2007-08 (State average = 100%)

\* NC Rank (1 = highest tax burden; 100 = lowest tax burden)

also has a ninth highest property tax rate in North Carolina and the third highest effective tax rate in the state (see Table 1).

#### **MACON COUNTY: 6<sup>TH</sup> HIGHEST PROPERTY TAX BURDEN IN NORTH CAROLINA**

Macon County has among the lowest property tax rates in the state, but the tax burden on county residents is among the highest in North Carolina. The county has the 95th highest property tax rate in North Carolina and the 94th highest effective tax rate in the state (see Table 1). However, as a percentage of income, Macon County taxes place a remarkably high burden on taxpayers, ranking in the top ten on both measures.

On a per-capita basis, property tax burden in the 14th highest in the state (see Table 2). Given the high tax burden already placed on taxpayers in Macon County, the projected property tax increase associated with the school bond is something that most taxpayers, particularly homeowners, in the county cannot afford.

#### **MECKLENBURG COUNTY: 2<sup>ND</sup> HIGHEST TAX BURDEN IN NORTH CAROLINA**

Mecklenburg County taxpayers suffer from both high tax rates and a remarkably high tax burden. The county has the 17th highest property tax rate in North Carolina and the 8th highest effective tax rate in the state

**TABLE 3. PROJECTED STATE AND LOCAL REVENUE FOR SCHOOL FACILITIES, 2007-08<sup>7</sup>**

<i>County</i>	<i>PSBCF: Corporate Income Tax*</i>	<i>PSBCF: Education Lottery</i>	<i>Local Option Sales Tax, Article 40†</i>	<i>Local Option Sales Tax, Article 42†</i>	<i>Total</i>
Durham	\$809,615	\$3,833,301	\$2,610,060	\$5,159,149	\$12,412,125
Gaston	\$809,753	\$3,924,832	\$2,737,149	\$5,443,535	\$12,915,269
Macon	\$104,868	\$276,909	\$475,864	\$940,568	\$1,798,209
Meck- lenburg	\$4,158,604	\$16,226,318	\$8,268,831	\$16,305,015	\$44,958,768
Moore	\$361,808	\$789,068	\$1,086,795	\$2,154,222	\$4,391,893

\* Reduced in 2007-2008 due to the first year of the Medicaid swap.

† The local option sales tax figures are projection based upon the average yearly growth of the tax revenue between 2002 and 2006.

(see Table 1). More important, Mecklenburg County has the second highest per-capita property tax burden in the state, as well as the second highest combined tax burden in North Carolina (see Table 2). With future school bonds, additional tax increases, and comparatively high construction costs (see Appendix A), Mecklenburg County taxpayers would be forced to deal with an oppressive tax burden for years to come.

#### **MOORE COUNTY: A TAX BURDEN ON THE RISE**

Moore County's property tax rate ranks 90th among North Carolina counties, and its effective tax rate ranks 84th (see Table 1). While Moore County's tax rates are relatively low, they place a substantial burden on county taxpayers. Moore County has the 19th highest per capita property tax burden in the state. While the property tax increase associated with the school bond appears to be small, the increase would place mounting pressure on each taxpayer in Moore County to surrender additional income for school construction projects (see Table 2).

#### **PAYING FOR SCHOOL FACILITIES IN NORTH CAROLINA**

In North Carolina, localities are responsible for providing school facilities. Over the past 11 years, local governments have paid for 79 percent of all school capital expenses. Local capital expenditures totaled \$7.7 billion from

1995 to 2005, an average of \$885 million per year. The state contributed just over \$2 billion over the same period, while the federal contribution was approximately \$25 million.<sup>4</sup>

School systems and county governments use two forms of debt, general obligation bonds and certificates of participation, to pay for school construction and renovation. The county government must set aside operating funds to pay the debt service for any debt incurred by the school system. Since 1995, North Carolina voters have passed 74 school facilities bonds worth nearly \$7.3 billion and defeated 20 bonds worth nearly \$2 billion. Last fiscal year, local governments spent nearly \$588 million on debt service for school facilities. In addition, some school districts may qualify for federal borrowing programs like the Qualified Zone Academy Bonds program or the USDA Rural Development Housing & Community Facilities Programs.<sup>5</sup>

The state provides four sources of funding for school facilities. The Public School Building Capital Fund is made up of two funds, the average daily membership or ADM portion and the lottery portion. Corporate income-tax revenue funds the ADM portion. This provides capital funding to school systems based on their average daily membership. School systems must match one dollar for every three dollars provided by the state. The ADM fund maintains a level of around \$100 million a year (see Table 3).<sup>6</sup>



Part of the Public School Building Capital Fund is funded by lottery revenue. After prizes and administrative costs are covered, 40 percent of the lottery revenue is distributed to school systems for capital expenses. The distribution formula allocates funding based on average daily membership and the county property tax rate (see Table 3).<sup>8</sup>

The state also permits local governments to impose a local-option sales tax to pay for school facilities. The two half-cent additions to the state sales tax allows 30 percent and 60 percent respectively to pay for school facilities (see Table 3).<sup>9</sup> Finally, the state legislature has also funded capital needs by proposing statewide school facilities bonds. North Carolina voters approved school facilities bonds in 1949, 1953, 1963, 1973, and 1996. The \$1.8 billion bond approved in 1996 has been spent.<sup>10</sup>

School districts receive operating funds from the state based on allotment formulas that guarantee an increase in operating funds to pay for additional students. There are no guaranteed increases in state or local funding for capital expenses. The state's Public School Building Capital Fund, for example, does not guarantee capital funding increases that are commensurate with enrollment growth. Variables like corporate income-tax revenue, lottery revenue, changes in property tax rates, and the ability of a county to meet the matching requirement may alter the amount of Public School Building Capital Fund dollars available to school systems.

### **INNOVATIVE WAYS TO INCREASE SCHOOL BUILDING CAPACITY**

Without a doubt, growing school districts require funds to build and renovate facilities that accommodate school enrollment increases. Nevertheless, tax increases and massive debt will not solve the long-term problem of planning and expanding school facilities. School districts throughout North Carolina can manage enrollment growth using proven, cost-efficient solutions that don't burden county taxpayers but that

enhance educational opportunities for students (see Table 4).

### **CONCLUSION**

Put simply, counties must pursue a comprehensive school facilities strategy that is friendly to taxpayers and school officials alike. School districts can manage enrollment growth using proven, cost-effective construction, renovation, and maintenance solutions that also enhance educational opportunities for students.

### **END NOTES**

1. Terry Stoops, "The Forsyth Formula: Other School Districts Should Learn These Construction Principles," John Locke Foundation *Spotlight* report, March 10, 2006, [www.johnlocke.org/spotlights/display\\_story.html?id=129](http://www.johnlocke.org/spotlights/display_story.html?id=129). See also Stoops, "Feng Shui Schools: Wake County's Unenlightened School Building Program," John Locke Foundation *Policy Report*, October 2006, [www.johnlocke.org/policy\\_reports/display\\_story.html?id=76](http://www.johnlocke.org/policy_reports/display_story.html?id=76).
2. N.C. Department of Public Instruction (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](http://www.nctreasurer.com/lgc/units/unitlistjs.htm).
3. Michael Lowrey, "By the Numbers: What Government Costs in North Carolina Cities and Counties," Center for Local Innovation *Policy Report*, February 2007, [www.johnlocke.org/policy\\_reports/display\\_story.html?id=80](http://www.johnlocke.org/policy_reports/display_story.html?id=80).
4. NC DPI, Division of School Business, "Highlights of the North Carolina Public School Budget," February 2007.
5. North Carolina Association of County Commissioners, "Budget & Tax Survey 2006-2007," [www.ncacc.org/taxrate.htm](http://www.ncacc.org/taxrate.htm); NC DPI, School Planning Division, "Local Bond Issues for Schools since 1995," May 11, 2007, [www.schoolclearinghouse.org](http://www.schoolclearinghouse.org); N.C. Department of the State Treasurer, "Report on County Spending on Public School Capital Outlays: For the Fiscal Year Ended June 30, 2006," April 27, 2007, [www.nctreasurer.com/lgc/units/unitlistjs.htm](http://www.nctreasurer.com/lgc/units/unitlistjs.htm).

- 6. NC DPI, Division of School Business, “Highlights of the North Carolina Public School Budget,” February 2007.
- 7. 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](http://www.nctreasurer.com/lgc/units/unitlistjs.htm). The

- local-option sales tax figures are projections based upon the average yearly growth of the tax revenue between 2002 and 2006. North Carolina Association of County Commissioners, “Medicaid relief by the numbers,” June 27, 2007, [www.ncacc.org](http://www.ncacc.org).
- 8. NC DPI, Division of School Business, “Highlights of the North Carolina Public School Budget,” February 2007.
- 9. *Ibid.*
- 10. *Ibid.*

**TABLE 4. SCHOOL FACILITIES ALTERNATIVES**

<i>Type</i>	<i>Potential Savings</i>	<i>Description</i>
Charter school	50 to 1,000 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. Because charter schools receive no state, local, or lottery funds for capital needs, they can reduce expenditures on school construction, while quickly and efficiently providing seats to school systems. Depending on the mission and grade range of the school, a charter school can absorb hundreds of students upon opening. Additionally, the charter school would continue to grow, increasing enrollment by as much as 10 percent per year.
Early College High School Program	200 to 400 seats per school	The Early College High School program, a project of the NC New Schools Project, could both increase capacity at the high-school level and increase educational opportunities for middle- and high-school students. Early College high schools are small, autonomous schools that are located on the campus of an institution of higher education, rather than a district high school. Students can earn an associate’s degree or two years of college credit toward a baccalaureate while in high school. These schools can offer students an off-site program that relieves capacity at the high school and allows them to get a head start on their postsecondary schooling. An Early College high school could initially attract 50 students per grade in its first year and eventually expand to 100 students per grade when the program is fully implemented. The maximum student enrollment allowed is 100 students per grade.
Ninth-Grade Center	200 to 400 seats per school	A ninth-grade center is a small, sometimes autonomous, school that separates ninth-grade students from their high-school classmates for much (or all) of the school day. A number of urban and suburban school systems in North Carolina have created separate learning environments for their ninth-grade students by housing students in mobile units, modular schools, adaptive-reuse buildings, or classroom additions. A ninth-grade center is an effective way to increase capacity at a high school, as well as ease students’ difficult transition from middle school to high school. Capacity savings is dependent on the size of ninth-grade class of the particular high school served.
Adaptive Reuse	Varies	As a way to save time and money, school systems have converted vacant commercial buildings into schools. It is often less expensive to renovate or retrofit these buildings than build new 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.

<i>Type</i>	<i>Potential Savings</i>	<i>Description</i>
Public/ Private Partnership	Varies	Under Session Law 2006-232, school systems are permitted 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.” 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, thereby raising the value and desirability of the homes and property located within, and relieving the local government and taxpayer of the financial responsibility of building the facility.
Satellite Campus	Varies	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 their vocational and business programs but could not afford to construct a new building for these programs. Their 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 their technology program. Vocational and business teachers were able to combine classroom instruction with an on-site demonstration of its practical application.
Virtual School	Varies	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, thereby freeing seats in a traditional school. 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.

## APPENDIX A. SCHOOL CONSTRUCTION COSTS IN MECKLENBURG COUNTY

In 2006, Charlotte-Mecklenburg school officials participated in a study of new school construction costs commissioned by the Wake County Citizens Facilities Advisory Committee (CFAC). According to the p. 5 of the study, “Construction Cost Analysis Wake County, NC”:

**This exercise involved looking at specific cost components of site development, building materials and building systems while comparing facility model square footages and programmatic components. The data gathered from the comparison districts was “normalized” through time and location indexes in order to provide the comparisons from one school district to the next contained in this report.**

Two independent consultants, DeJong and Summit Consulting, were paid \$113,165 to conduct the research, and they submitted the final report to the Wake County CFAC on April 23, 2007.

*Table A-1. Cost per Square Foot (adjusted for time and location)*

	Elementary	Middle	High
Charlotte-Mecklenburg Schools (NC)	\$134.19	\$137.35	\$170.89
Clark County School District (NV)	\$180.23	\$143.62	\$147.24
Fairfax County Public Schools (VA)	\$128.04	N/A	N/A
Guilford County Schools (NC)	\$146.66	\$160.09	\$164.79
Gwinnett County Public Schools (GA)	\$80.00	\$74.10	\$76.84
Orange County Public Schools (FL)	\$143.31	\$173.95	\$154.31
Wake County Public Schools (NC)	\$161.33	\$128.97	\$161.93
Winston-Salem/Forsyth County Schools (NC)	\$123.01	\$107.96	\$127.97
WEIGHTED AVERAGE WITHOUT CMS	\$155.37	\$135.73	\$144.84
AVERAGE WITHOUT CMS	\$137.51	\$131.45	\$138.85
CMS PERCENTAGE BELOW/ABOVE AVERAGE	-2%	4%	23%

*Table A-2. Cost per Student (adjusted for time and location)*

	Elementary	Middle	High
Charlotte-Mecklenburg Schools (NC)	\$15,288.27	\$17,205.67	\$25,548.25
Clark County School District (NV)	\$16,125.29	\$12,551.62	\$15,756.27
Fairfax County Public Schools (VA)	\$13,273.14	N/A	N/A
Guilford County Schools (NC)	\$19,514.29	\$26,104.83	\$31,400.55
Gwinnett County Public Schools (GA)	\$9,338.39	\$8,890.02	\$9,685.88
Orange County Public Schools (FL)	\$14,011.84	\$17,575.67	\$17,805.73
Wake County Public Schools (NC)	\$22,326.38	\$21,655.25	\$26,265.41
Winston-Salem/Forsyth County Schools (NC)	\$13,389.23	\$14,441.00	\$25,145.43
WEIGHTED AVERAGE WITHOUT CMS	\$15,764.38	\$14,434.03	\$19,022.09
AVERAGE WITHOUT CMS	\$15,425.51	\$16,869.73	\$21,009.88
CMS PERCENTAGE BELOW/ABOVE AVERAGE	-1%	2%	22%