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Does Stanly Need a Sales-Tax Increase?

County already has $23 million in available funds

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Executive Summary

- The Stanly County commissioners are asking county residents to approve a sale-tax increase on May 6. If approved, commissioners intend to use the new funding for school and infrastructure needs.
- Commissioners' intentions are not legally binding. Once passed, all new revenues, by law, may be used for any legal purpose.
- This *Regional Brief* finds that Stanly County's problems are not created by a lack of funding. The $23 million in savings and revenues identified in this report total more than 16.7 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 16 years.
- Furthermore, Stanly County schools are not underfunded. Over the last five years, student population has *decreased* by three percent, while school personnel have increased by six percent and local spending, adjusted for inflation, has increased by 18 percent. In addition, state spending adjusted for inflation is up 11 percent and federal spending is up 30 percent (see Figure 1).
- If the school district has facility needs, the county commission and school board need to show taxpayers how they would spend the

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$36.3 million in state money provided for capital improvements over the next ten years.

- County revenues have grown 28 percent faster than population and inflation since Fiscal Year (FY) 2001. The total amount of revenue for FY 2006 was almost $10.2 million more than in FY 2001. By FY 2006, the average family of four was paying $696 more in taxes than in FY 2001. It would take a 45 percent increase in family income (current dollars) to match the increase in revenues that the county has received over the last five years.[1]
- In fact, if Stanly County were to adjust its revenue stream for only population and inflation increases, the county's revenues would increase 32.4 percent over the next ten years.[2]
- Stanly County's cash reserves are 23 percent of its annual budget. The state requires all counties to have eight percent of their budgets held in cash for emergencies, but Stanly County has 15 percent more than that minimum. This means that the county has $8 million in cash that it can spend on pressing needs. This represents nearly six times the amount that the proposed sales tax would raise. In other words, the county could use this available cash for the next six years instead of new sales-tax revenue, which is estimated to be worth only about $1.4 million per year. Based on this item alone, the county does not need to increase the sales tax.
- From FY 2004 to FY 2006, Stanly County gave $582,253 in incentives to a few selected private businesses.[3] This practice is unfair to the hundreds of businesses in the county who are, at times, forced to compete with tax-subsidized businesses.
- Stanly County benefited from the Medicaid swap more than many North Carolina counties. While 23 counties are receiving only the state's promised "hold harmless" amount of $500,000 a year for ten years, Stanly County receives $1 million the first full year and a total of almost $7.6 million over ten years (see Figure 1).

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. Stanly County Projected Revenue and Savings

	1 year	10 years
Revenue Gains		
Gain from Medicaid swap (FY 2008-09)	$1,017,938	$7,552,804
Estimated school capital (Avg based on projections)	$3,586,511	$36,323,496
Potential Savings		
Eliminate economic incentive giveaways (2004-2006 Avg)	$194,084	$1,940,840
Revenue Growth		
Revenue in excess of population and inflation (FY2006)	$10,197,614	$101,976,144
TOTAL	$14,996,148	$147,793,284
Fund balance in excess of state requirement (FY 2007)	$8,037,121	$8,037,121
Potential extra availability	$23,033,269	$155,830,405
Revenue from Sales Tax Increase	$1,374,562	$18,229,754

to help pay those expenses.[4] 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.

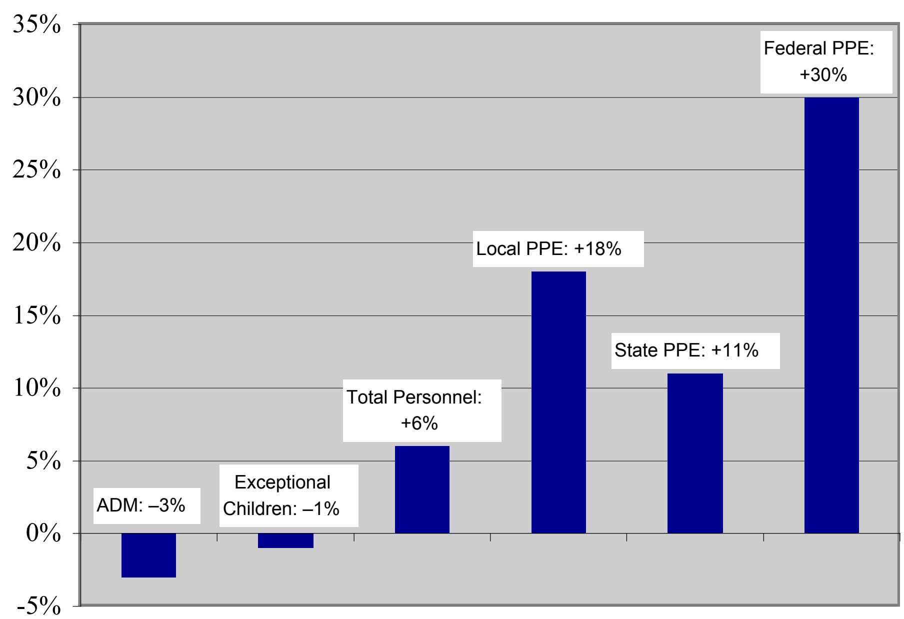
In November 2007, there were 27 counties that put sales-tax or land-transfer tax increases on the ballots for voter approval, and five of those counties put both tax increases on the ballots. Alexander County passed a sales-tax increase in January 2008. All told, there have already been 33 separate votes (16 over land-transfer tax increases and 17 over sales-tax increases). Voters defeated 27 of the 33 requests for tax increases. Voters rejected all 16 of the land-transfer tax increases and 11 of the sales-tax increases.

In the May 6 election, 24 counties have put tax increases on the ballot, 20 proposing sales-tax increases and four proposing land-transfer tax increases. Six of the counties that saw tax increases voted down in November are asking voters to vote again for a tax increase in May (Cumberland, Gates, Greene, Henderson, Hertford, and Moore). 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[5]

By far, counties spend more money on public education than on any other area. Total local government spending in North Carolina 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

Figure 2. Stanly County Student Population, Personnel, and Spending, 2002-07



Notes: ADM stands for Average Daily Membership of students. PPE stands for Per-Pupil Expenditures. All PPE figures have been adjusted for inflation.

sound fiscal policy.

County governments and school boards should hold expenditures of local tax dollars for education and additions to public school personnel in proportion to changes in their school populations. In Stanly County, local spending for education has significantly outpaced school population growth. From academic years 2002-03 to 2006-07, there was a three percent *decrease* in student population. At the same time, there was a six percent increase in personnel and an 18 percent increase in local spending (see Figure 2).

The cost of educating exceptional children is considerably higher than educating students that do not have a disability. In this way, significant increases in the number of exceptional children may necessitate greater increases in local school spending. In the case of Stanly County, however, the percentage of exceptional children dropped slightly — by one percent over the last five years. So the 18 percent increase in local, inflation-adjusted spending was not a result of needing additional funds to serve an increase in exceptional students.

Finally, the increase in local funding for education was not an attempt to offset funding changes from the state and federal levels. Over the last five years, the state increased per-pupil expenditures in Stanly County by 11 percent, adjusted for inflation. Federal per-pupil expenditures increased by 30 percent during the same period. State, local, and federal spending on the Stanly County Schools all far outpaced enrollment growth.

The North Carolina Department of Public Instruction (DPI) projects that Stanly County Schools will *lose* 675 students over the next ten years, a seven percent decrease. In order to prepare for those changes, 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.

In the event that school construction or renovation projects are required, a steady stream of state funds will be available for capital projects. The school planning division of DPI projects that the Public School Building Capital Fund will provide Stanly County with over $6.1 million over the next ten years. Moreover, lottery funding will add nearly $1.2 million in school capital funding for the 2007-08 school year and a comparable amount every year thereafter.

In order to manage those dollars more effectively, the school With proper planning and "outside the box" thinking, the school district can manage enrollment growth using proven, cost-effective construction, renovation, and maintenance solutions that are taxpayer-friendly and enhance educational opportunities for students.

In addition, the county should consider these options, which would dramatically increase school capacity at minimal cost:

1. Use public/private partnerships to build and renovate schools
2. Adapt vacant facilities and office buildings to schools
3. Create satellite campuses for students interested in specialized programs
4. Increase participation in the NC Virtual Public School

Per-Capita Revenue Increases

Between FY 2001 and FY 2006, Stanly County's per-capita revenues have increased by 28 percent after adjusting for inflation[6] (see Figure 3). 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 the last six years, the county's FY 2006 revenues could have been almost $10.2 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 32.4 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.[7] Because Stanly County's net Medicaid savings were more than the $500,000 "hold harmless" amount, the county gains over $1 million in additional funds to spend the first full year and almost $7.6 million over the next ten years (see Figure 1).

Available Cash Reserves

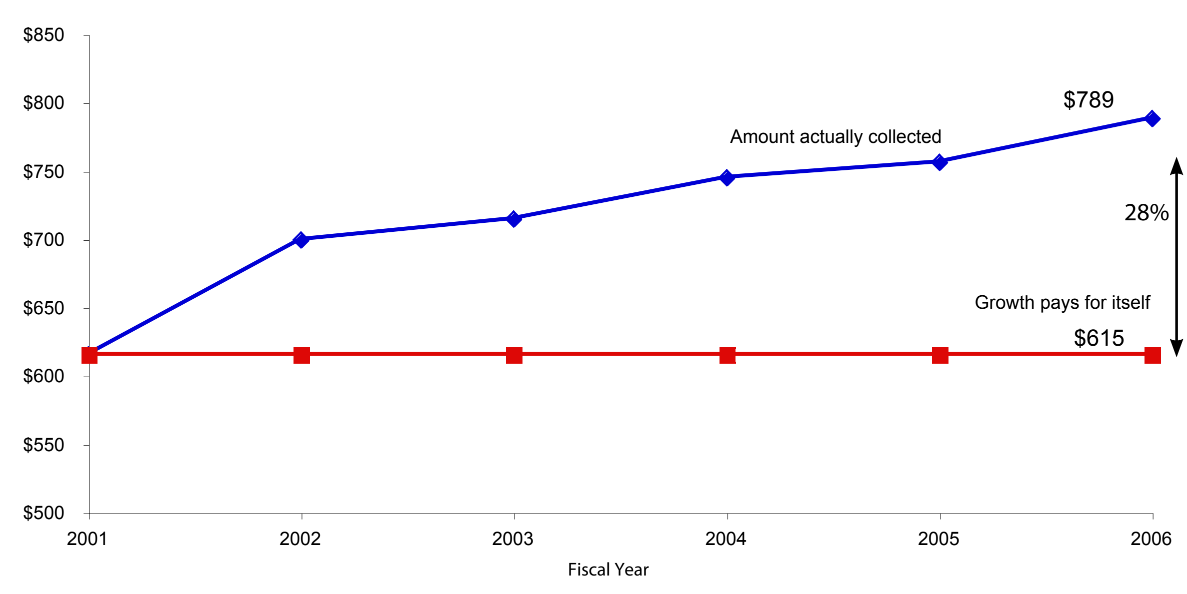
Stanly County currently has cash reserves that total $12.2 million. This amount is 23 percent of its annual budget.[8] The State Treasurer's policy manual states that county undesignated fund balances should not drop below eight percent of total expenditures. Stanly County, however, holds about $8 million more than the state-mandated eight percent. In other words, the county has collected about $8 million in taxes above the eight percent strongly recommended by the Treasurer — cash that is currently available to help with existing needs, provide much-needed tax cuts, or both.

Since the proposed sales-tax increase would bring in only about $1.4 million per year, this existing $8 million overage could be used for almost six years instead of the new tax.

Economic Incentive Giveaways

Stanly County has given $582,253 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

Figure 3. Stanly County Real Per-Capita Locally Generated Revenue, FY2001-FY2006 (in FY2006 dollars)



Source: State Treasurer's Office

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 Stanly County is not in financial difficulty. In fact, most North Carolina counties do not face revenue crises that require tax increases. Nevertheless, 48 county commissions have placed tax increases on the ballots since the legislature authorized county residents to vote on tax increases. Six counties placed tax increases on the ballots in both November 2007 and May 2008.

In all 48 counties, revenues grew faster than population and inflation between FY 2001 and FY 2006. The average increase is almost 22 percent. In addition, state government has grown 38 percent faster than population and inflation between FY 2001 and FY 2008. Obviously, this government growth rate rapidly outstripping population and inflation growth cannot be sustainable.

The May 6 vote provides the opportunity for Stanly County citizens to be heard. The results of the 33 county tax votes last November and January are informative. County voters rejected 27 of the 33 tax increases. Citizens, when given the chance, are rejecting tax increases.

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Notes

1. Annual Financial Information Reports provided by counties to the State Treasurer's Office, www.nctreasurer.com/DSTHome/StateAndLocalGov/AuditingAndReporting/AFIR.htm.

2. U.S. Department of Agriculture projections of Gross Domestic Product deflator (www.ers.usda.gov/data/macroeconomics/Data/ProjectedGDPDeflatorValues.xls) and N.C. State Demographics Office population projections.

3. "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.

4. 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).

5. 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 February 2008; NC DPI, Division of School Business, "2006–2007 Selected Financial Data," accessed February 2008; NC DPI, Education Statistics Access System, "Final ADM," accessed February 2008. Inflation adjustments used the GDP Deflator published by the Federal Reserve Bank of St. Louis.

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

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

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