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Union County Doesn't Need a Land-Transfer Tax Increase

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The Union County commissioners are asking voters to approve a 200 percent increase in the real estate transfer tax (from 0.2 to 0.6 percent) on November 6. The real estate transfer tax will apply to the sale price of all real property, including new and existing homes. When a home is sold for $200,000, the homeowner would pay a transfer tax of $1,200. If approved, the transfer tax is expected to increase county revenues the first full year by nearly $8.4 million (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 taxes or no tax hikes at all.

This *Regional Brief* documents Union County's current spending and tax policies. County spending has not been properly managed or prioritized. Currently, over $50.5 million is available to be spent on high-priority government functions, such as school construction (nearly $506.2 over 10 years) (see Appendix A).

In addition, growth has more than paid for itself. County revenues have grown 5.2 percent faster than population and inflation over the last six 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 Union County tax revenues increase only as fast as population and inflation over the next 10 years, total revenues will increase 78.7 percent. This increase is more than adequate to pay for county needs, including new school construction. 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 Union County's

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

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.

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, Union County will have at least $500,000 in additional funds to spend each fiscal year, including the current fiscal year, which started in July.

Per-Capita Revenue Increases. From 2001 to 2006, Union County's per-capita revenues increased by 5.2 percent after adjusting for inflation[5] (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 six years, the county's 2006 revenues could be nearly $37 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, Union County will experience over the next 10 years a total enrollment growth of 23,385 public-school students, which would represent a 63.8 percent increase (about 6.4 percent per year). The county will receive an estimated $113.1 million in capital funding from state, local, and lottery sources during the next 9 years (about $12.6 million per year average).[6]

Union County does not require revenue from a land-transfer tax to pay for school construction because the school system has ample funds already available – thanks to the approval of a recent school bond. In November 2006, voters in Union County approved a school facilities bond for $174.5 million. (Since 1998, voters have generously approved $322 million in school construction bonds.) Bond funds will pay for new schools, additions, renovations, support facilities, and stadium improvements to accommodate the county's growing student population.

In order to stretch those dollars further, the county should consider these options, which would dramatically increase school capacity at minimal cost (see Appendix C for details):

1. Ninth-grade centers
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. Union County has given nearly $1.6 million in economic incentives to businesses and corporations from 2004 to 2006.[7] 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.

Dr. G. Donald Jud, professor emeritus of economics at UNC-Greensboro, pointed out that Union County officials must control government spending growth, not levy taxes and fees that burden some residents at the expense of others. On the web site **growmatters.org**, Dr. Jud argued, "If government officials just would limit the growth of spending to the rate of population plus inflation growth … new single-family development would pay for itself."[8] Indeed, growth does pay for itself when government exercises fiscal restraint, a lesson that many in Union County have yet to learn.

Conclusion

Union County faces a crisis, but it is not a funding crisis. The county has $50.5 million over and above its base budget to meet its needs (see Appendix A). A land-transfer tax increase at this time would only encourage more wasteful and inefficient spending. 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.

This Regional Brief *features contributions by:*
Dr. Michael Sanera, *John Locke Foundation Research Director and Local Government Analyst;*
Joseph Coletti, *JLF Fiscal Policy Analyst;*
Terry Stoops, *JLF Education Policy Analyst, and*
Justin Coates, *JLF Research Intern.*

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

6. 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.

Note: Capital funding is estimated over a nine-year period because the NC DPI planning projection for the Public School Building Capital Fund actually covers nine school years, not ten.

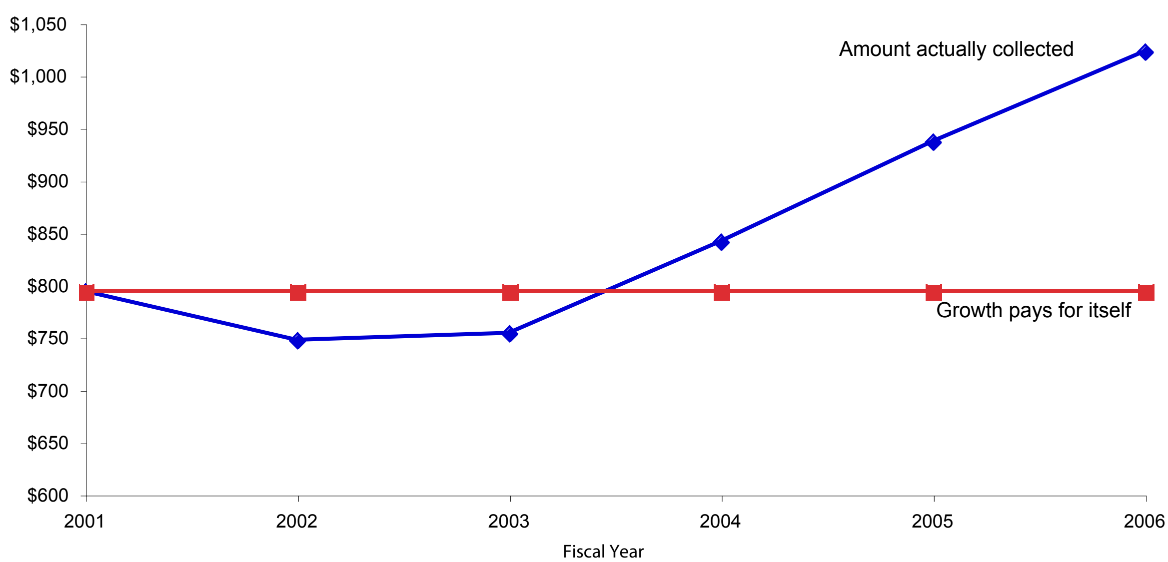
7. "The Incentives Game: North Carolina Local Economic Development Incentives," N.C. Institute for Constitutional Law, June 2007, Appendix: NC Local Incentive Data, ncicl.org/Incentives/NCICLincetiveRpt.pdf.

8. See "The clamor to tax it…", July 6, 2006, www.growthmatters.org/?p=51.

Appendix A: Projected Union County Revenue Gains

	1 year	10 years
Revenue Gains		
Gain from Medicaid swap (FY 2008)	$500,000	$5,748,914
Estimated school capital (Avg based on projections)	$12,569,321	$125,693,210
Potential Savings		
Eliminate economic incentive giveaways (2004-2006 Avg)	$524,506	$5,245,060
Revenue Growth		
Revenue in excess of population and inflation (FY2006)	$36,954,262	$369,542,620
TOTAL	$50,548,089	$506,229,804
Potential extra availability	$50,548,089	$506,229,804
Revenue from Land Transfer Tax Increase	$8,396,298	$91,668,087

Appendix B: Union County Locally Generated Revenue Per Capita FY2001–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. Ninth-Grade Centers (net capacity gain: 200-400 seats)

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 them 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. Statewide dropout statistics reveal that 5.3 percent of ninth graders in the class of 2006 dropped out, while 14.2 percent of ninth graders that year were held back at the end of the year. If properly designed, ninth-grade centers can reduce the number of students who are required to repeat ninth grade or who drop out. Capacity savings is dependent on the size of ninth-grade class of the particular high school served.

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.