



CHARLOTTE EDITION

Citizen's Guide to Local Spending

OCTOBER 2005

BY JOSEPH COLETTI

John Locke
FOUNDATION

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Each spring, the John Locke Foundation's Center for Local Innovation releases its "By the Numbers" report on the tax burden in every North Carolina county. But taxes are only half of the story. This guide is designed to provide the citizens of Charlotte the other part of the story – spending. Although every government has the power to raise taxes and issue debt, a wise government is able to live within its means.

Capital projects create costs in two ways – higher debt service and new operating expenses.

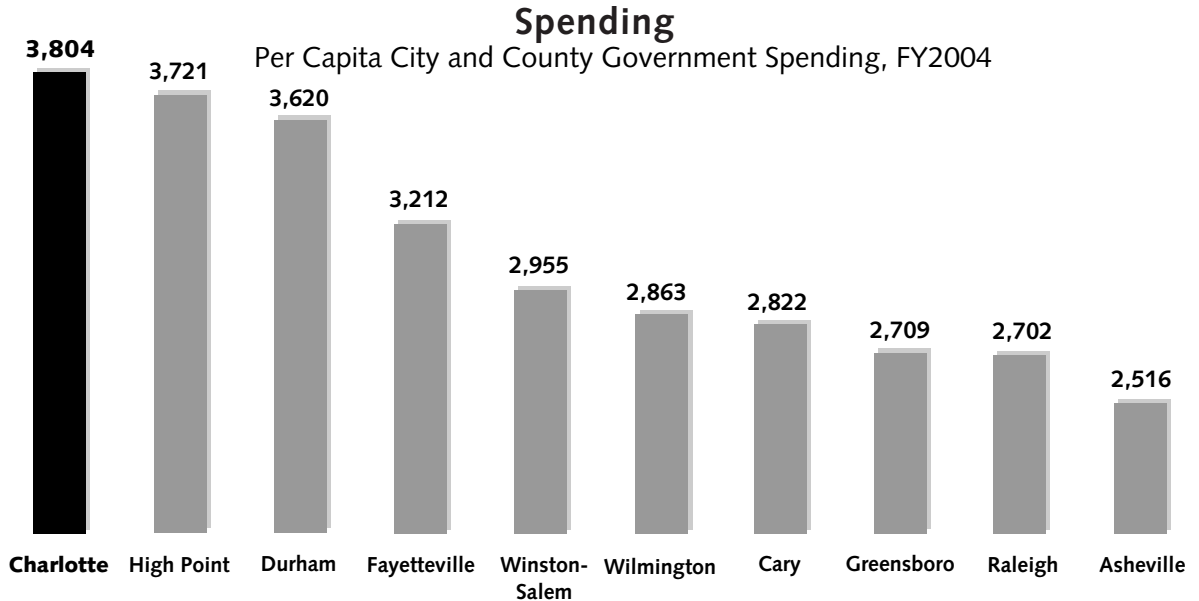
One measure of the government's ability to live within its means is the amount of spending per capita, adjusted for inflation. This provides a constant yardstick to measure government's growth over time. It also makes it possible to compare the relative size and growth of government across municipalities and counties with different populations. All budget-related numbers in this report are based on real per capita spending in constant 2004 dollars.

Higher spending per person likely means more, though not necessarily better, services. In Charlotte, for example, transportation costs have tripled in the last ten years as the city and county prepare for a questionable light rail system. This raises another important lesson – capital projects create operating costs in two

ways. Capital projects financed with bonds leave future town councils with debt service obligations and limit their budget flexibility. In addition, the parks and other projects financed with bonds require more spending to operate them.

City and county government cost on average \$3,804 per capita in Charlotte during fiscal year 2004, from July 2003 to July 2004. This was 28.1 percent higher than the \$2,969 (constant 2004 dollars) per capita spent in fiscal year 1994. For comparison, real per capita personal income increased just 13 percent over the same period, from \$24,926 to \$28,235. Most of the increased expenditures were for operations, which climbed 23.2 percent to \$2,766 in fiscal 2004. Char-Meck's high capital spending climbed 43 percent over the decade, to \$1,038 in fiscal 2004.

Higher spending eventually compels higher taxes. Sometimes the taxes come first, as with higher sales taxes to build convention centers. Sometimes the taxes come later, as with typical bond issues and program expansions. In either case, citizens of Charlotte will face higher taxes unless they can get their city and county governments under control and receive the right to vote for current tax increases, not just future tax increases (i.e., bonds).

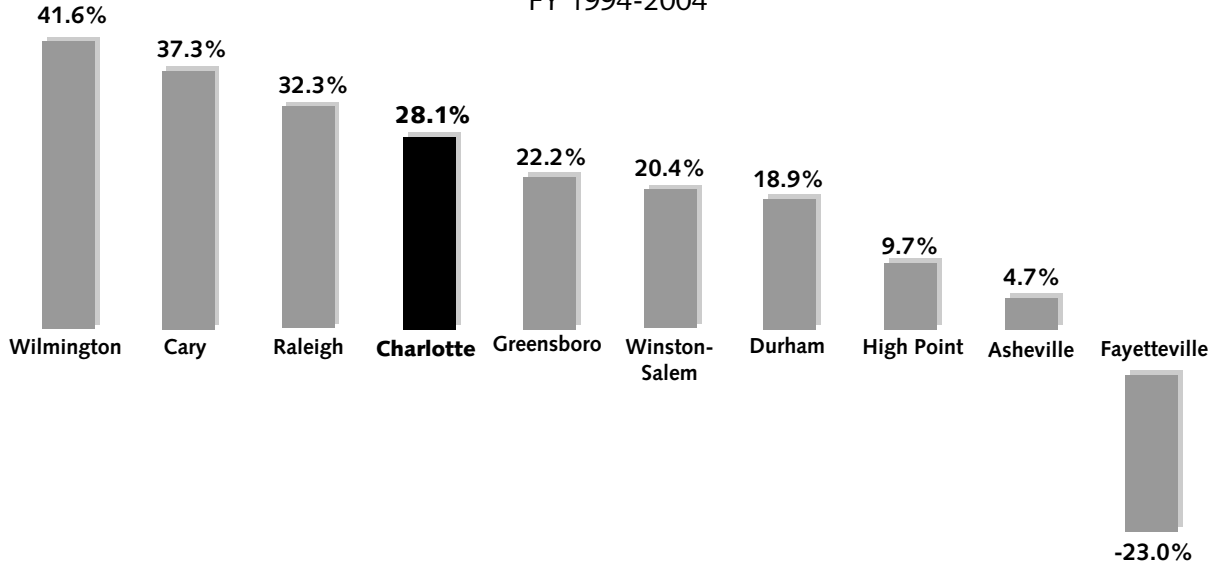


Per capita city and county spending in Charlotte (\$3,804) was higher in FY2004 than any other of North Carolina's largest cities – 41 percent higher than Raleigh's.

Charlotte-Mecklenburg government spending was 22 percent higher than the \$3,118 average of municipalities and counties in this report. In FY1994, it was just 8 percent higher than the average. Over the decade, per capita government spending moved ahead of High Point, Durham and Fayetteville.

Spending Growth

Growth in Per Capita City and County Government Spending,
FY 1994-2004

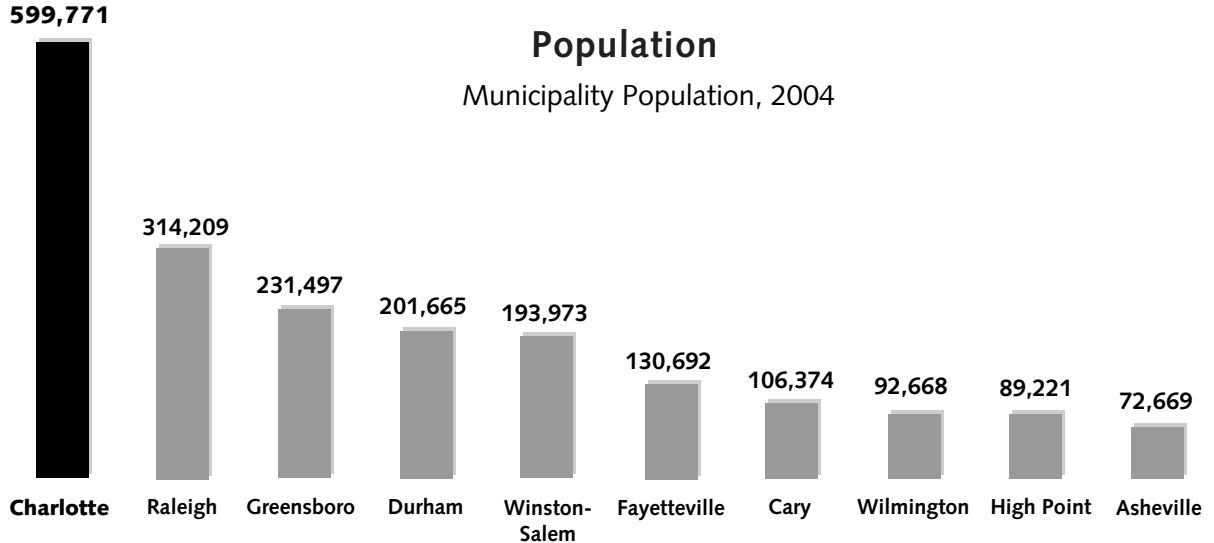


Charlotte's real per capita city and county government spending grew 28 percent between FY1994 and FY2004. This meant an \$834 increase, second only to Wilmington's \$841.

Government spending in Charlotte-Mecklenburg grew faster than all cities that had spent more per capita in 1994.

Population

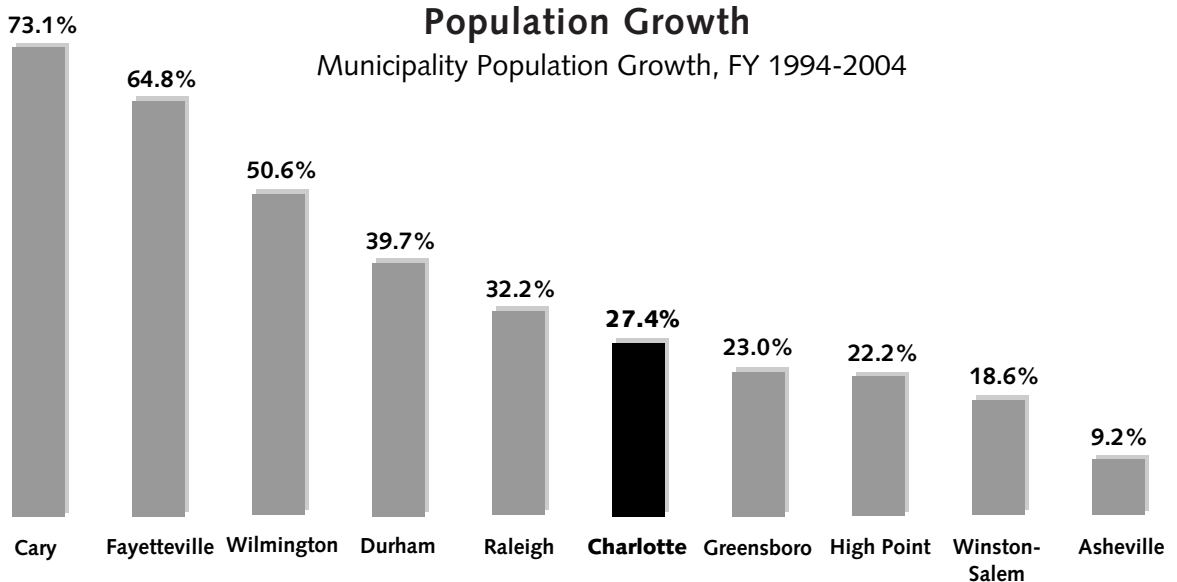
Municipality Population, 2004



Among the ten municipalities, per capita government spending did not vary much with population of the municipality; the four cities with the highest per capita government spending rank first, fourth, and ninth in population.

The cities with the lowest per capita government spending are second, third, and tenth by population.

Charlotte's population remains nearly double the next largest city, Raleigh. It is The only city larger than 500,000 population in the state.

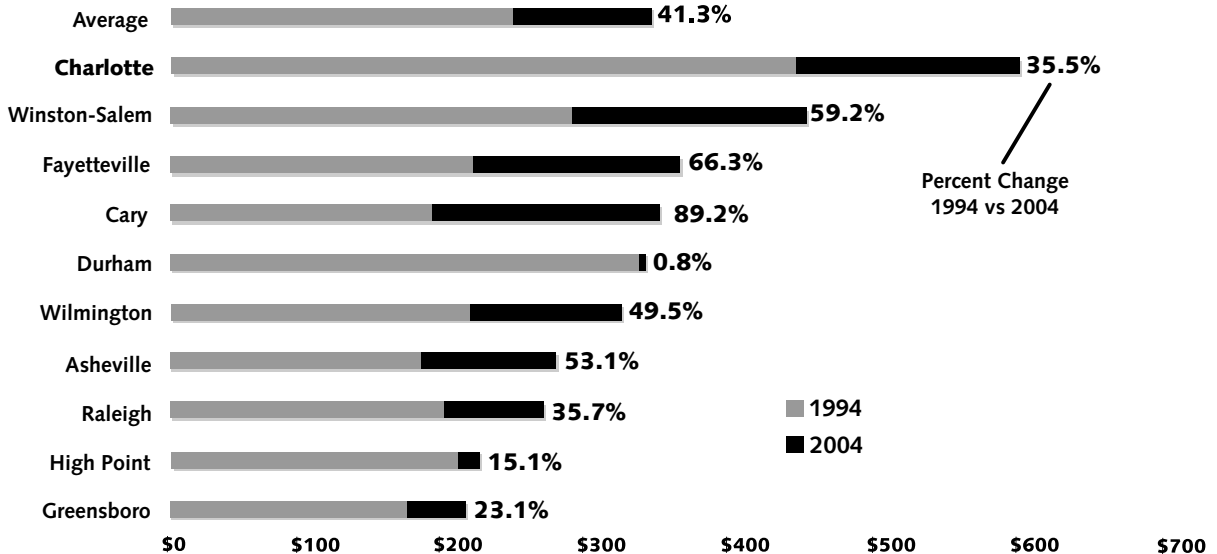


Even relatively slow population growth means a lot of new people for Charlotte. From 1994 to 2004, its population growth was among the slowest, but the city added the equivalent of another Fayetteville.

Just as total population is not directly associated with per capita spending, population growth does not guarantee slower growth in per capita spending. Cary and Wilmington had rapid increases in population and in per capita spending. Fayetteville expanded rapidly as well, but the city and county found ways to keep spending growth at a slower pace than population growth.

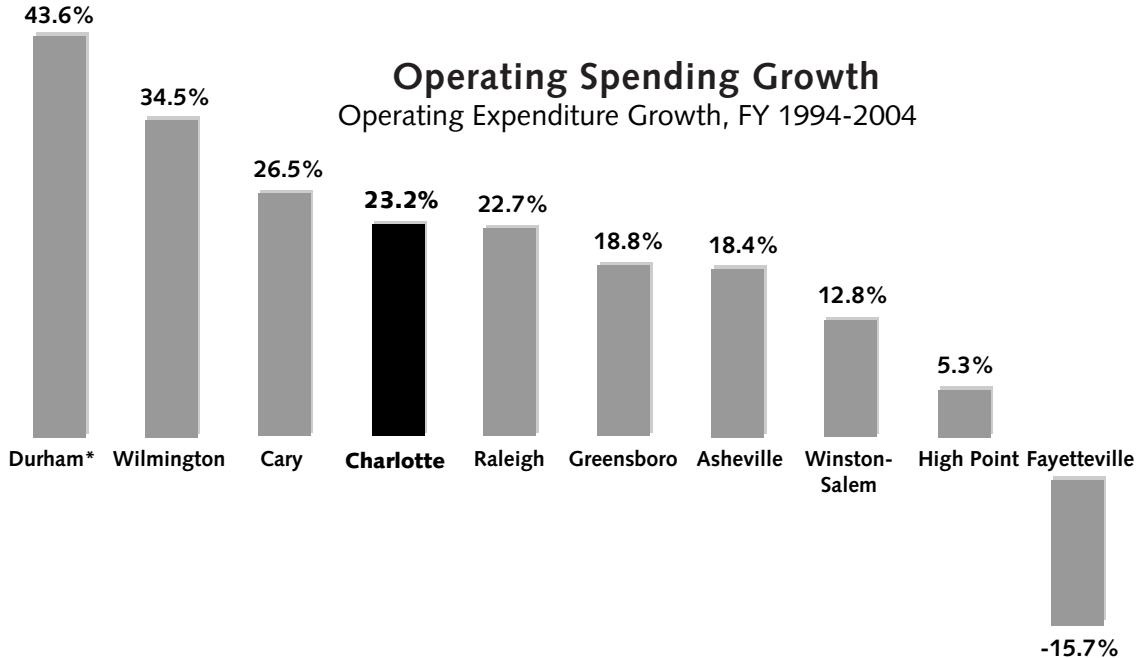
Debt Service

City/County Real Debt Service Per Capita, FY 1994-2004



Charlotte per capita debt service (principal and interest) for the city and county in fiscal year 2004 was \$589, up from an already high \$435 in 1994. Only Durham managed to keep per capita debt service payments flat.

Much of the increase in per capita debt service was driven by municipalities, not counties. The comparison between Greensboro and High Point or between Cary and Raleigh illustrate this trend. In contrast, Mecklenburg County increased per capita debt service from \$125 to \$222 in constant 2004 dollars.

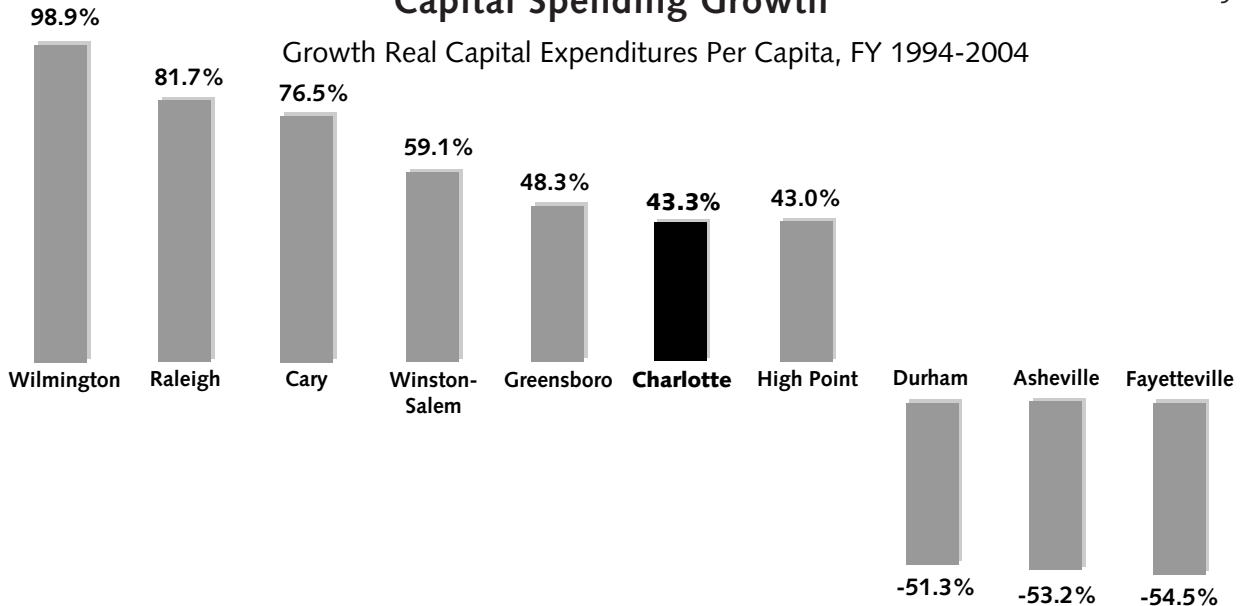


Combined city and county operating expenditures per capita in Charlotte-Mecklenburg increased 23 percent over the decade from FY 1994 through FY 2004. This was among the highest growth rates among the cities examined, particularly when removing Durham County's change in how it reports Medicaid spending. Without that change, Durham's combined city and county spending increased about 15 percent.

High Point per capita operating expenditures increased 5.3 percent over the decade and Fayetteville reduced per capita spending by 15.7 percent.

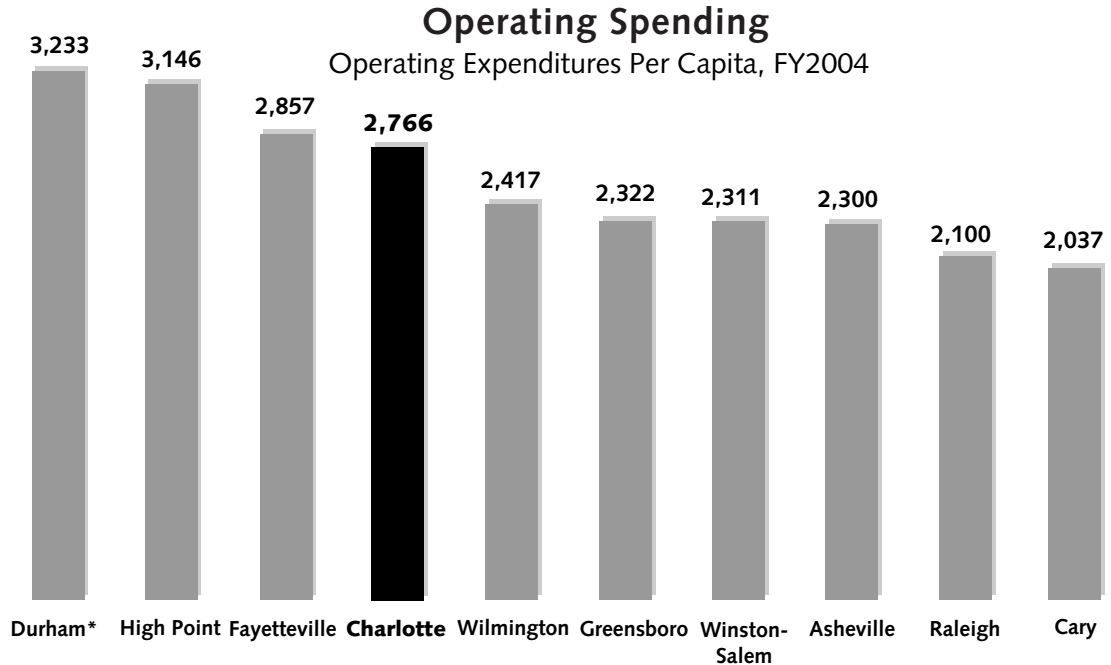
Capital Spending Growth

Growth Real Capital Expenditures Per Capita, FY 1994-2004



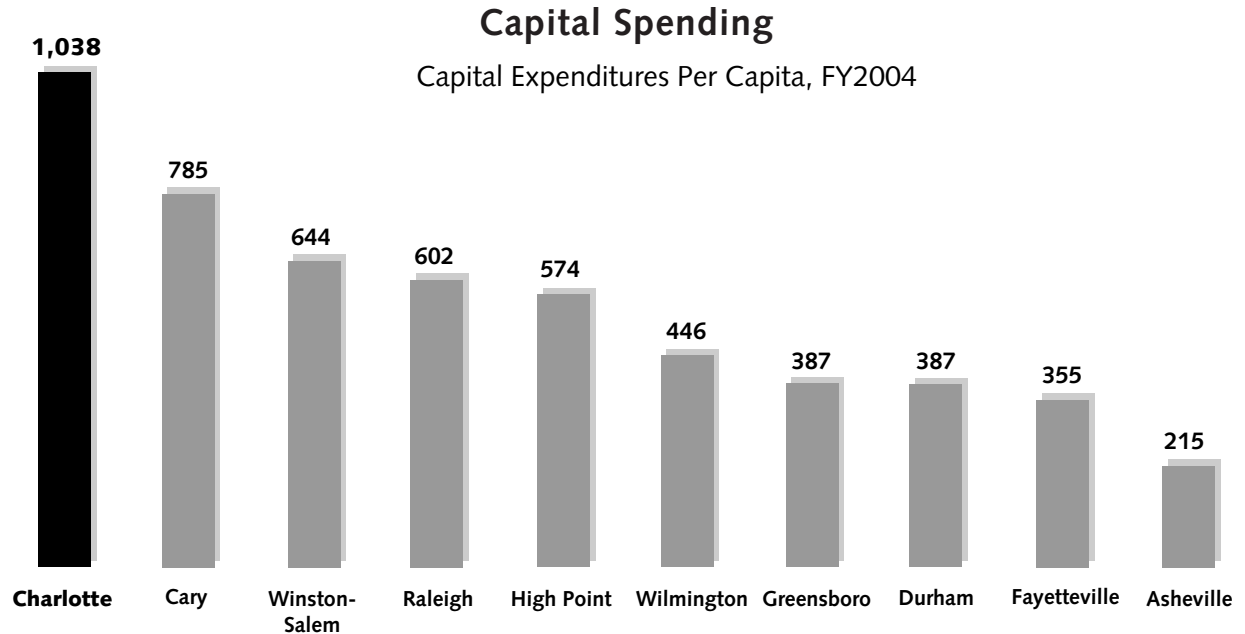
Capital budgets are more volatile than operating budgets, so the size of changes over the decade are larger based on whether projects are ongoing. Charlotte's growth of 43.3 percent was among the lowest increases, but again this seems to have as much to do with a high level in FY 1994 as it does with spending restraint or population growth.

Durham, Asheville, and Fayetteville cut per capita spending on capital projects, after inflation, by more than 50 percent between FY 1994 and FY 2004.



None of the ten largest municipalities in North Carolina spent less than \$2,000 per capita on operating expenses in fiscal year 2004.

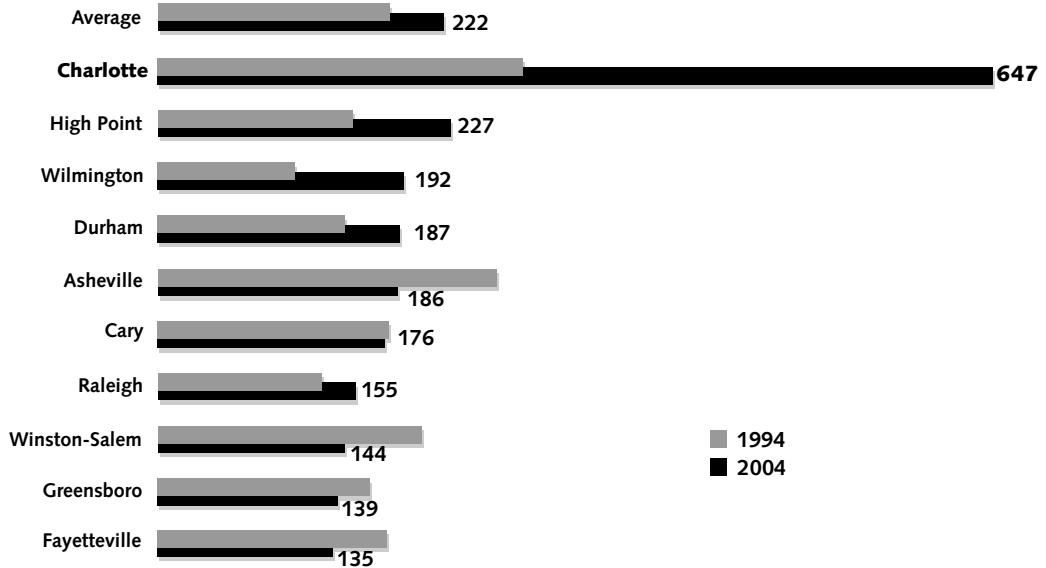
Charlotte-Mecklenburg continues to gain on the top spending cities and counties, up to \$2,766 in operating expenditures for FY 2004.



Charlotte-Mecklenburg capital spending was \$250 higher per capita than Cary. It is the only city and county that spends more than \$1,000 per capita on capital projects. The proposed light rail system is a significant contributor to this spending.

Transportation

City/County Per Capita, Transportation Expenditures
FY 1994-2004

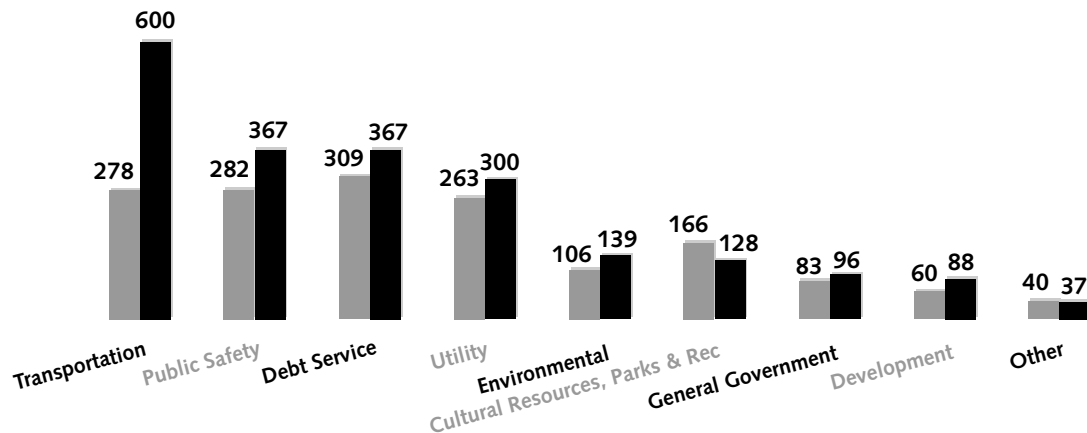


Charlotte's light rail expenditures is clear in per capita transportation spending in FY 2004, which is nearly three times higher than any other large city/county in the state.

The per capita city and county budget for operating and capital spending on transportation increased nearly \$350 in constant 2004 dollars over the decade.

Charlotte Spending Growth

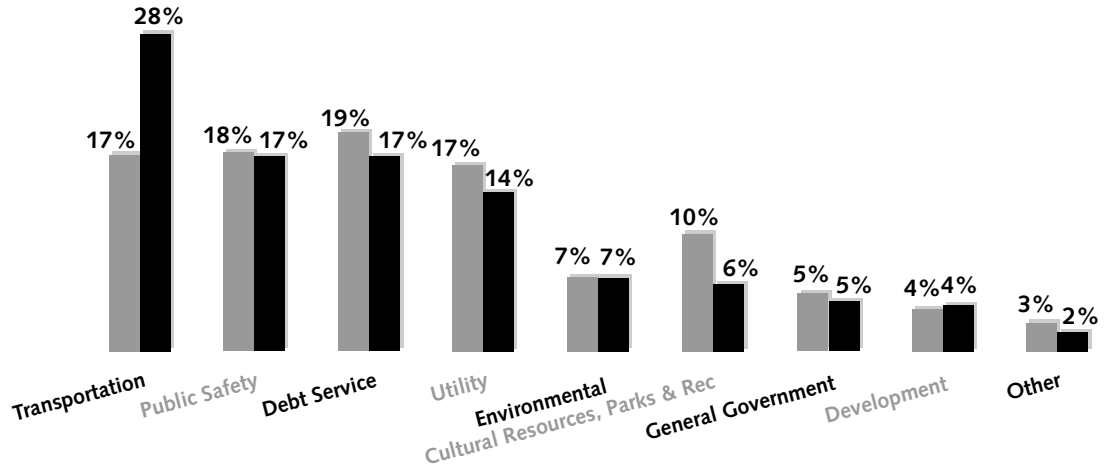
Charlotte Spending, FY1994 vs FY2004



Unlike most other cities, Charlotte's spending on its top budget areas increased faster than some areas that had lower spending. The city spent more than \$1,600 per capita on its top four areas, with 37.5 percent of that on transportation.

Charlotte Share of Spending

Charlotte Spending, FY1994 vs FY2004

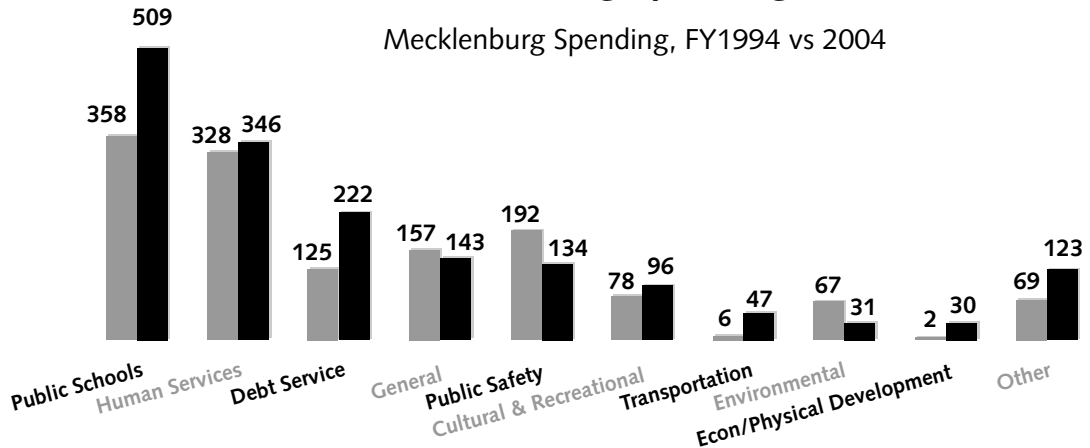


Charlotte's increase in spending on transportation – up to 28 percent of total per capita spending in FY 2004 from 17 percent in FY 1994 – left nearly every other part of the budget with a smaller share.

Debt service and public safety remain the top two areas of government spending besides transportation.

Mecklenburg Spending Growth

Mecklenburg Spending, FY1994 vs 2004

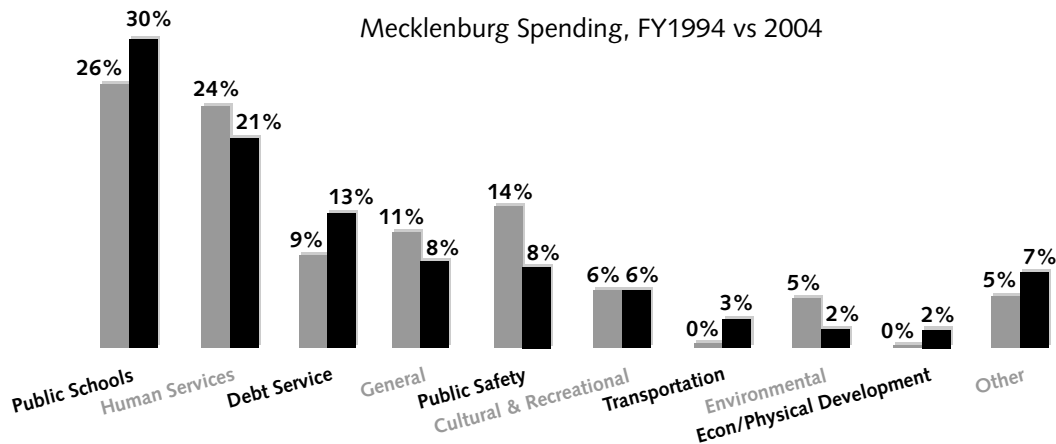


Public schools and debt service had the largest increase in constant 2004 per capita spending between FY 1994 and FY 2004. Among smaller spending programs, transportation and economic/physical development had the most rapid growth.

In constant 2004 dollars public safety spending per capita fell by 30 percent over the decade, and environmental spending fell by 53 percent.

Mecklenbug Share of Spending

Mecklenburg Spending, FY1994 vs 2004



Mecklenburg County spending on public schools (including revenue from state and federal sources) increased to 30 percent of the budget in FY 2004.

Among big-ticket items, only debt service increased as a share of the budget. Public safety's share of the budget shrank from 14 percent of the total to 8 percent. It received a smaller portion of the FY 2004 budget than did debt service or general government expenditures.

ABOUT THE JOHN LOCKE FOUNDATION

The John Locke Foundation is a nonprofit, nonpartisan public policy institute based in Raleigh. Its mission is to develop and promote solutions to North Carolina's most critical challenges. The Locke Foundation seeks to transform state and local government through the principles of competition, innovation, personal freedom, and personal responsibility in order to strike a better balance between the public sector and private institutions of family, faith, community, and enterprise.

To pursue these goals, the Locke Foundation operates a number of programs and services to provide information and observations to legislators, policymakers, business executives, citizen activists, civic and community leaders, and the news media. These include the foundation's monthly newspaper, *Carolina Journal*; its daily online news service, *CarolinaJournal.com*; the *Locke Letter*, a quarterly newsletter for donors; regular events and conferences on important public policy issues; and research reports of varying lengths on topics facing state and local governments.

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