

Does Duplin Need a Sales-Tax Increase?

*County already has \$17.7 million
in available funds*

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EXECUTIVE SUMMARY

- The Duplin County commissioners are asking county residents to approve a sales-tax increase on May 6. Commissioners and school board members intend to use the new sales tax revenue to pay for unspecified improvements at the public schools and James Sprunt Community College.
- 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 Duplin County's problems are not created by a lack of funding. The savings and revenues identified in this report total more than 21 times the amount that the proposed sales-tax increase is estimated to produce. If the county used the \$17.7 million identified in this report, it could delay a sales-tax increase for 21 years (see Figure 1).
- County revenues have grown 31 percent faster than population and inflation since 2001 (see Figure 3). The total amount of revenue for Fiscal Year (FY) 2006 was \$10.5 million more than in FY 2001. By FY 2006, the average family of four was paying \$812 more in taxes than in FY 2001. It would take a 48 percent increase in family income (current dollars) to match the increase in revenues that the

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county has received over the last five years.¹

- ✦ In fact, if the county were to adjust its revenue stream for only population and inflation increases, the county's revenues would increase 44.3 percent over the next ten years.²
- ✦ Duplin County schools are not underfunded. While student population has increased by only two percent, the number of personnel hired by the district grew by 12 percent, or six times more than the number of students (academic years 2001-02 to 2006-07). That means that the school district added one new employee for every 1.3 new students who entered the district (see Figure 2).
- ✦ To pay for a student population increase of only two percent, overall education spending in the county has increased 26 percent, adjusted for inflation. State education funds flowing into Duplin County have increased 13 percent and federal funds have increased 14 percent over the last five years, adjusted for inflation.
- ✦ If the school district has facility needs, it should show taxpayers how it has used the 26 percent increase and how it will use \$16.8 million in state facilities funding over the next ten years (see Figure 1).
- ✦ Additionally, James Sprunt Community

College's enrollment decreased between 2006 and 2007. This student decrease resulted in \$191,052 less in curriculum tuition and \$18,485 less in occupational tuition. Enrollment in curriculum programs at James Sprunt is projected to grow only about two percent from 2007-08 to 2011-12, or about one-half percent per year. At the same time, the N.C. Community College System is expected to grow by about 14 percent. So far, county officials have not been able to specify exactly how they would use new tax revenue for the college.

- ✦ Duplin County benefited from the Medicaid swap more than the state's promised "hold harmless" amount of \$500,000 a year for ten years. Duplin County receives \$1.3 million the first full year and a total of \$13.6 million over ten years (see Figure 1).
- ✦ Duplin County has several funds (Water & Sewer, Solid Waste, Airport, and Transportation) that are supposed to be supported entirely by user fees. In 2007, each one of those funds lost money, leaving the general taxpayer to pick up \$13 million in losses. Losses in the county's solid waste division were huge; the operating loss was 64 percent (see Figure 4).
- ✦ Duplin County's cash reserves are 17.4 percent of its annual budget. The state

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Figure 1. Duplin County Projected Revenue and Savings

Revenue Gains	1 year	10 years
Gain from Medicaid swap (FY 2008-09)	\$1,335,540	\$13,558,322
Estimated school capital (Avg based on projections)	\$1,660,305	\$16,814,628
Revenue Growth		
Revenue in excess of population and inflation (FY2006)	\$10,512,171	\$105,121,713
TOTAL	\$13,508,016	\$135,494,663
Fund balance in excess of state requirement (FY 2007)	\$4,279,816	\$4,279,816
Potential extra availability	\$17,787,832	\$139,774,479
Revenue from Sales Tax Increase	\$840,902	\$11,349,788

requires all counties to have 8 percent of their budgets held in cash for emergencies, but Duplin County has 9.4 percent more than that minimum. This means that the county has about \$4.3 million in cash that it can spend on pressing needs. This represents five times the amount that the proposed sales tax would raise. In other words, the county could use this available cash for the next five years instead of new sales-tax revenue, which is estimated to be worth only \$840,902 per year. Based on this item alone, the county does not need to increase the sales tax.

BACKGROUND

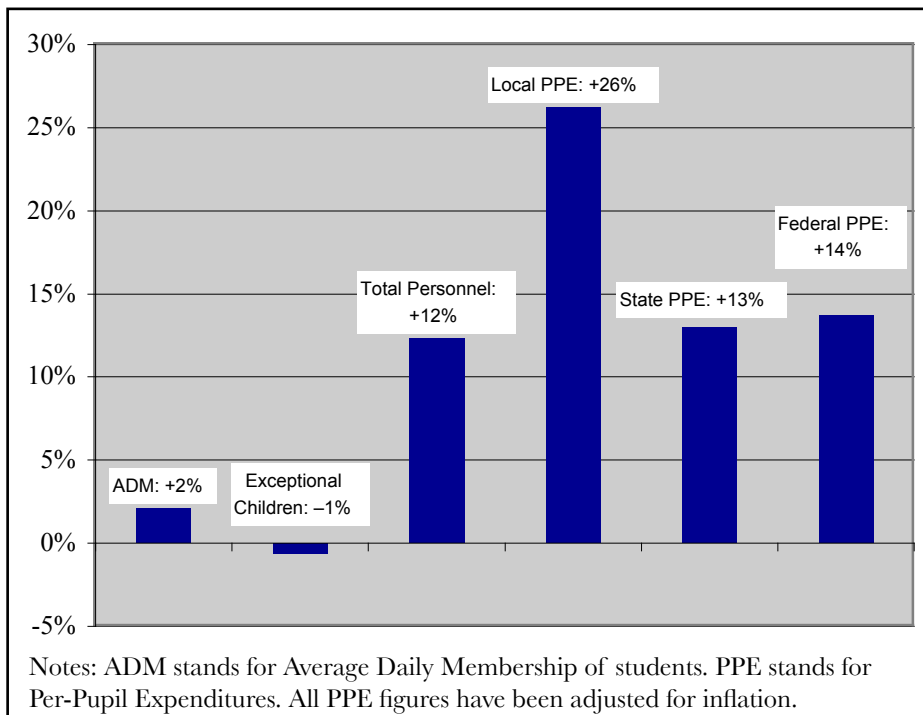
In its 2007 session, the North Carolina General Assembly relieved all counties of paying the portion of Medicaid expenses that had been forced on counties, in exchange for the half-cent sales tax that the counties levied to help pay those expenses.³ In addition, the legislature voted to give counties 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

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



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 a tax increase.

PUBLIC SCHOOL SPENDING⁴

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 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 Duplin County, local spending for education has significantly outpaced school population growth. From academic years 2002-03 to 2006-07, there was a two percent increase in student population. At the same time, there was a 12 percent increase in personnel and a 26 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 Duplin County, however, the percentage of exceptional children dropped slightly — by one percent over the last five years. So the 26 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 Duplin County by 13 percent, adjusted for inflation. Federal per-pupil expenditures increased by 14 percent during the same period. State, local, and federal spending on the Duplin County Schools all far outpaced enrollment growth.

The North Carolina Department of Public Instruction (DPI) projects that Duplin County Schools will add 795 students over the next ten years, an 8.8 percent increase. The school planning division of DPI projects that the Public School Building Capital Fund will provide Duplin County with \$5,542,548 over the next ten years. Moreover, lottery funding will add an estimated \$1,085,702 in school capital funding for the 2007-08 school year and a comparable amount every year thereafter.

In order to stretch those dollars to handle the expected growth, 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 “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. Demand that the legislature raise the cap on charter schools
2. Implement an Early College program at a local community college
3. Create an offsite ninth-grade center
4. Use public/private partnerships to build and renovate schools
5. Adapt vacant facilities and office buildings to schools

6. Create satellite campuses for students interested in specialized programs
7. Increase participation in the NC Virtual Public School

PER-CAPITA REVENUE INCREASES

Between FY 2001 and FY 2006, Duplin County’s per-capita revenues have increased by 31 percent after adjusting for inflation⁵ (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 be \$10.5 million lower. That surplus amount could and should be returned to the taxpayers in the form of tax cuts.

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.⁶ Because Duplin County’s net Medicaid savings were more than the \$500,000 “hold harmless” amount, the county gains \$1.3 million in additional funds to spend the first full year and a total of \$13.6 million over ten years.

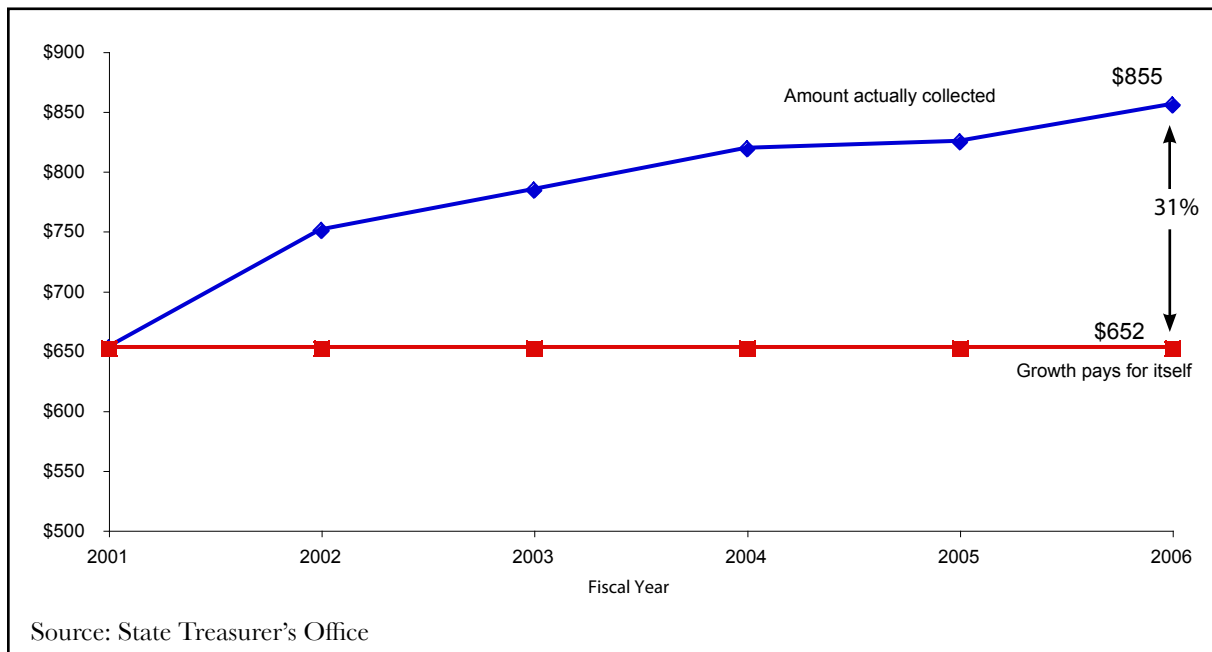
AVAILABLE CASH RESERVES

Duplin County currently has cash reserves that total \$7.9 million. This amount is 17.4 percent of its annual budget.⁷ The State Treasurer’s policy manual states that county undesignated fund balances should not drop below eight percent of total expenditures. Duplin County, however, holds almost \$4.3 million more than the state-mandated eight percent. In other words, the county has collected almost \$4.3 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

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



would bring in only about \$840,000 per year; this existing \$4.3 million overage could be used for more than five years instead of the new tax.

COUNTY LOSSES

Duplin County's government provides many services to residents that are intended to pay for themselves through user fees. These services include the county airport, trash collection, landfill, recycling, water, sewer, and rural transportation. Unfortunately, all of these activities are losing money, and the general taxpayer must subsidize these services whether or not they use them (see Figure 4).

Nearby Sampson County has completely privatized its solid waste services; its landfill operator, Waste Industries, sets prices to make money. Duplin County, on the other hand, uses 5.4 cents of the 79-cent-per-\$100-valuation property tax rate in Duplin County to subsidize its trash and recycling services. Duplin's \$1.8 million operating loss in solid waste services for FY 2007 is more than twice what the county would collect with the new quarter-cent sales tax hike. The airport com-

mission gets another 1.3 cents of the property tax to subsidize its corporate jet clients and recreational pilots. Those projects should rely more on user fees, not on taxes.

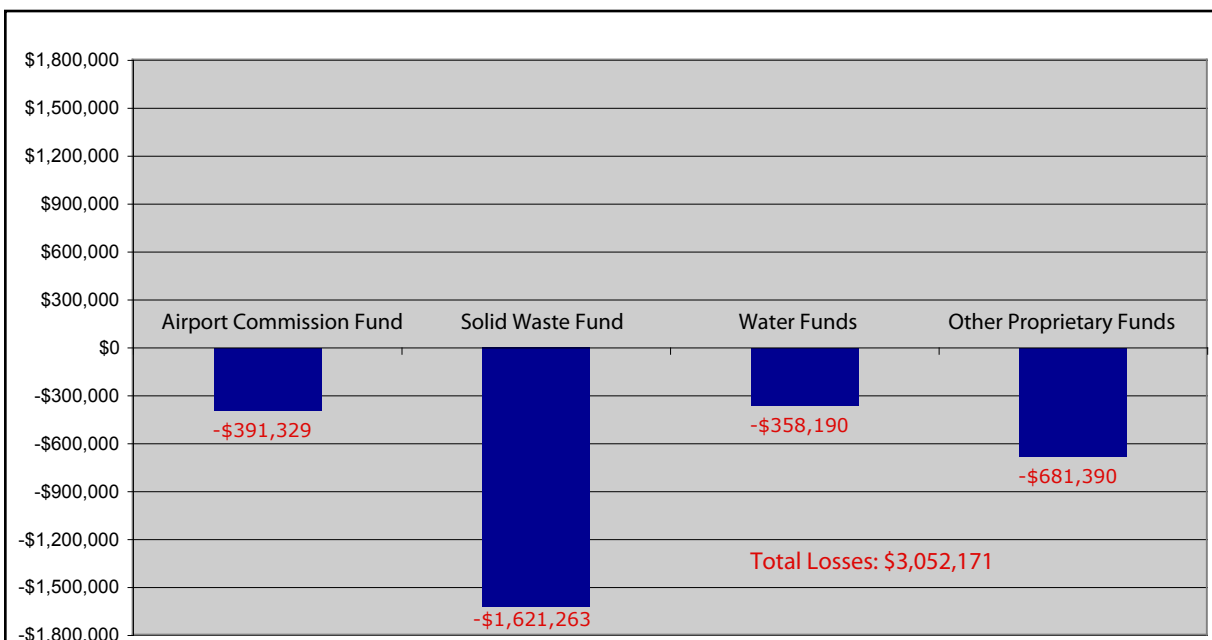
CONCLUSION

This report shows that Duplin 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

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**Figure 4. Losses Before Transfers and Capital Contributions
 in Duplin County Business Funds (FY 2007)**



Source: Duplin County Financial Statements, 30 June 2007.

for Duplin 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/macroconomics/Data/ProjectedGDPDeflatorValues.xls) and N.C. State Demographics Office population projections.
3. 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).
4. 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.
5. County Annual Financial Information Report (AFIR) from State Treasurer's web site, www.nctreasurer.com/lgc/units/unitlistjs.htm.
6. North Carolina General Assembly, Fiscal Research Division, "Medicaid 3 Year 500K" projections, 2007.
7. 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.