

Does Hertford Need a Sales-Tax Increase?

*County already has \$6.2 million
in available funds*

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EXECUTIVE SUMMARY

- ♦ The Hertford County commissioners are asking county residents to approve a sale-tax increase on May 6.
- ♦ County residents defeated a sales-tax increase in November 2007 by a vote of 61 to 39 percent. There is no limit, however, to the number of times the county commission can put the tax increase on the ballot or how much tax money the commission can spend on public “education” campaigns in favor of the tax increase.
- ♦ This *Regional Brief* finds that Hertford County’s problems are not created by a lack of funding. The almost \$6.2 million in savings and revenues identified in this report total more than 11 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 11 years.
- ♦ County revenues have grown 15 percent faster than population and inflation since Fiscal Year (FY) 2001 (see Figure 3). The total amount of revenue for FY 2006 was more than \$2.4 million more than in FY 2001. By FY 2006, the average family of four was paying \$412 more in taxes than in FY 2001. It would take a 30 percent increase in family income (current dollars) to match the increase in

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revenues that the county has received over the last five years.¹

- ♦ If Hertford County were to adjust its revenue stream for only population and inflation increases, the county's revenues would increase 25.1 percent over the next ten years.²
- ♦ Hertford County schools are not underfunded. Over the last five years, student population has *decreased* by nine percent, while local spending, adjusted for inflation, has increased by three percent, state spending adjusted for inflation is up 16 percent, and federal spending is up one percent (see Figure 2).
- ♦ If the school district has facility needs, the county commission and school board need to show taxpayers how they would spend the \$2.1 million in state money provided for capital improvements over the next ten years.
- ♦ Hertford 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, Hertford County receives more than \$1.1 million the first full year and a total of \$21.1 million over ten years (see Figure 1).

- ♦ Hertford County's cash reserves are more than 17.6 percent of its annual budget. The state requires all counties to have eight percent of their budgets held in cash for emergencies, but Hertford County has over 9.6 percent more than that minimum. This means that the county has almost \$2.2 million in cash that it can spend on pressing needs. This represents more than four times the amount that the proposed sales tax would raise. In other words, the county could use this available cash for the next four years instead of new sales-tax revenue, which is estimated to be worth only about \$540,000 per year.

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.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,

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Figure 1. Hertford County Projected Revenue and Savings

Revenue Gains	1 year	10 years
Gain from Medicaid swap (FY 2008-09)	\$1,136,319	\$21,142,762
Estimated school capital (Avg based on projections)	\$414,480	\$2,102,282
Revenue Growth		
Revenue in excess of population and inflation (FY2006)	\$2,449,754	\$24,497,538
TOTAL	\$4,000,553	\$47,742,582
Fund balance in excess of state requirement (FY 2006)	\$2,179,001	\$2,179,001
Potential extra availability	\$6,179,554	\$49,921,583
Revenue from Sales Tax Increase	\$539,691	\$7,053,851

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).

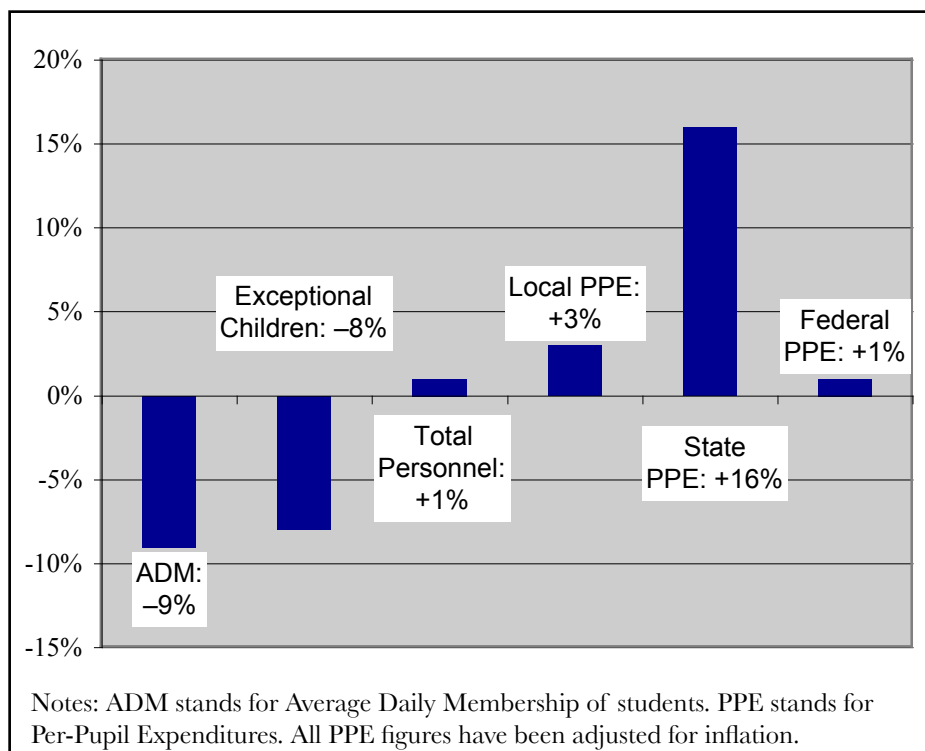
There is no limit to the number of times that county commissioners can place a proposed tax increase on the ballot, or how much tax money commissions can spend on public “education” campaigns requesting that voters approve the tax increase.

PUBLIC SCHOOL SPENDING⁵

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 Hertford County, from academic years 2002-03 to 2006-07,

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



there was a nine percent *decrease* in student population. At the same time, there was a one percent increase in personnel and a three 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 Hertford County, however, the percentage of exceptional children dropped by eight percent over the last five years. So the three 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 Hertford County by 16 percent, adjusted for inflation. Federal per-pupil expenditures increased by one percent during the same period. State, local, and federal spending on the Hertford County Schools all outpaced enrollment growth.

The North Carolina Department of Public Instruction (DPI) projects that Hertford County Schools will add 156 students over the next ten years, a five percent increase. The school planning division of DPI projects that the Public School Building Capital Fund will provide Hertford County with \$2.1 million over the next ten years. Moreover, lottery funding will add an estimated \$414,480 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, Hertford County’s per-capita revenues have increased by 15 percent after adjusting for inflation⁶ (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 five years, the county’s FY 2006 revenues could have been nearly \$2.5 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 25.1 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 Hertford County’s net Medicaid savings were more than the \$500,000 “hold harmless” amount, the county gains over \$1.1 million in additional funds to spend the first full year and \$21.1 million over the next ten years (see Figure 1).

CONCLUSION

This report shows that Hertford 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.

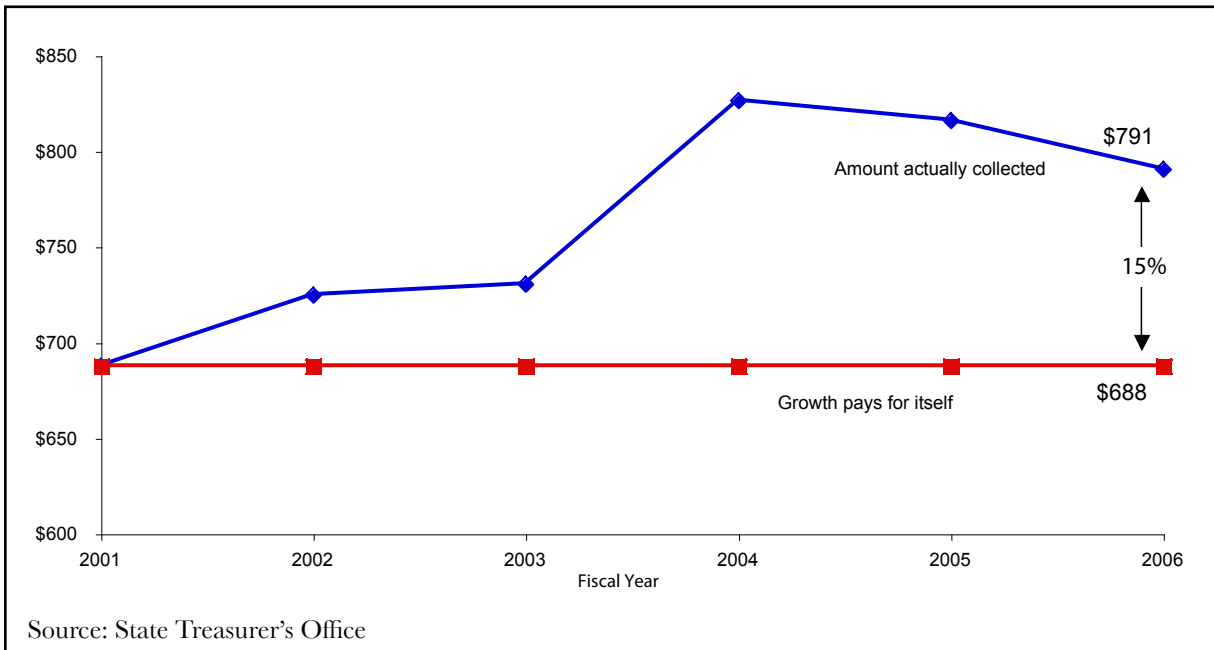
The May 6 vote provides the opportunity for Hertford County citizens to be heard. The results of the 33 county tax votes last November and January are informative. County voters rejected 27 of the 33 tax increases. Citizens, when given the chance, are rejecting tax increases.

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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.

Figure 3. Hertford County Locally Generated Revenue Per Person, FY 2001–FY 2006 (adjusted for inflation, FY 2006 dollars)



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.