

## Does Lee Need a Sales-Tax Increase?

*County already has \$10 million  
in available funds*

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### EXECUTIVE SUMMARY

- ♦ The Lee County commissioners are asking county residents to approve a sale-tax increase on May 6. Commissioners passed a resolution stating that if the tax passed, they intend to use the increased sales-tax revenue for capital projects for the schools and community college and for debt service for the existing Capital Improvements Plan.
- ♦ 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 Lee County's problems are not created by a lack of funding. The almost \$10.3 million in savings and revenues identified in this report total more than 6.6 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 6 years.
- ♦ County revenues have grown 13 percent faster than population and inflation since Fiscal Year (FY) 2001 (see Figure 3). The total amount of revenue for FY 2006 was \$3.4 million more than in FY 2001. By FY 2006, the average family of four was paying \$388 more in taxes than in FY 2001. It would take a 22 percent increase

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in family income (current dollars) to match the increase in revenues that the county has received over the last five years.<sup>1</sup>

- ♦ In fact, if Lee County were to adjust its revenue stream for only population and inflation increases, the county's revenues would increase 48 percent over the next ten years.<sup>2</sup>
- ♦ Lee County's cash reserves are almost 15 percent of its annual budget. The state requires all counties to have eight percent of their budgets held in cash for emergencies, but Lee County has almost seven percent more than that minimum. This means that the county has more than \$3.6 million in cash that it can spend on pressing needs (see Figure 1). This represents nearly 2.3 times the amount that the proposed sales tax would raise. In other words, the county could use this available cash for the next 2.3 years instead of new sales-tax revenue, which is estimated to be worth only about \$1.5 million per year.
- ♦ Lee County schools are not underfunded. Over the last five years, student population has increased by five percent, while school personnel have increased by six percent and local spending, adjusted for inflation, has increased by 16 percent. In addition, state spending adjusted for inflation is up one percent and federal spending is up five 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 almost \$17.7 million in state money provided for capital improvements over the next ten years.
- ♦ Lee 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, Lee County receives \$922,699 the first full year and a total of over \$13 million over ten years (see Figure 1).
- ♦ From FY 2004 to FY 2006, Lee County gave almost \$1.6 million in incentives to a few selected private businesses.<sup>3</sup> This practice is unfair to the hundreds of businesses in the county who are, at times, forced to compete with tax-subsidized businesses.

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**Figure 1. Lee County Projected Revenue and Savings**

Revenue Gains	1 year	10 years
Gain from Medicaid swap (FY 2008-09)	\$922,699	\$13,096,929
Estimated school capital (Avg based on projections)	\$1,743,336	\$17,656,079
<b>Potential Savings</b>		
Eliminate economic incentive giveaways (2004-2006 Avg)	\$523,067	\$5,230,670
<b>Revenue Growth</b>		
Revenue in excess of population and inflation (FY2006)	\$3,421,230	\$34,212,300
<b>TOTAL</b>	<b>\$6,610,332</b>	<b>\$70,195,978</b>
Fund balance in excess of state requirement (FY 2007)	\$3,662,838	\$3,662,838
<b>Potential extra availability</b>	<b>\$10,273,170</b>	<b>\$73,858,816</b>
<b>Revenue from Sales Tax Increase</b>	<b>\$1,551,289</b>	<b>\$21,015,100</b>

**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.<sup>3</sup> 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.

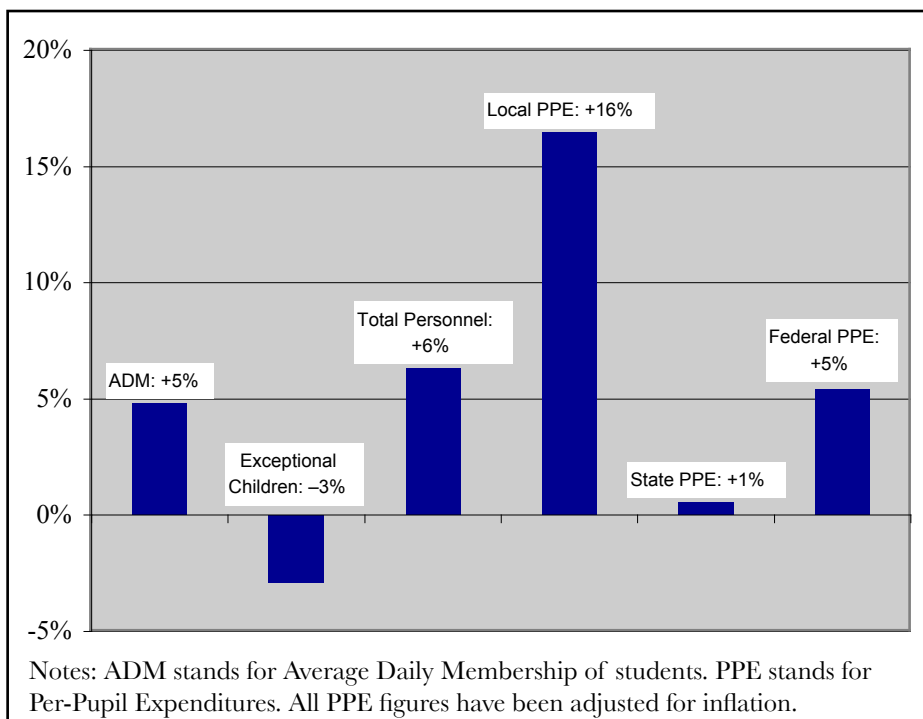
All told, there have already been 33 separate votes (16 over land-transfer tax increases and 17 over sales-tax increases). Voters defeated 27 of the 33 requests for tax increases. Voters rejected all 16 of the land-transfer tax increases and 11 of the sales-tax increases.

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<sup>4</sup>**

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

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



\$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 Lee County, local spending for education has significantly outpaced school population growth. From academic years 2002-03 to 2006-07, there was a five percent increase in student population. At the same time, there was a six percent increase in personnel and a 16 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 Lee County, however, the percentage of exceptional children dropped slightly — by three percent over the last five years. So the 16 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 Lee County by one percent, adjusted for inflation. Federal per-pupil expenditures increased by five percent during the same period. So local and federal spending on the Lee County Schools outpaced enrollment growth.

The North Carolina Department of Public Instruction (DPI) projects that Lee County Schools will add 1,462 students over the next ten years, a 15.4 percent increase. The school planning division of DPI projects that the Public School Building Capital Fund

will provide Lee County with about \$5.8 million over the next ten years. Moreover, lottery funding will add an estimated \$1.1 million 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. Create an offsite ninth-grade center
2. Use public/private partnerships to build and renovate schools
3. Adapt vacant facilities and office buildings to schools
4. Create satellite campuses for students interested in specialized programs
5. Increase participation in the NC Virtual Public School

#### **PER-CAPITA REVENUE INCREASES**

Between FY 2001 and FY 2006, Lee County’s per-capita revenues have increased by 13 percent after adjusting for inflation<sup>5</sup> (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. As Figure 3 indicates, the 2006 property tax increase was a major contributor to this 13 percent difference. Without this tax increase, per-person revenues

would be about \$764, which would be only about \$9 higher than they were in FY 2001, adjusted for inflation.

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 more than \$3.4 million lower. That surplus amount could and should be returned to the taxpayers in the form of tax cuts (see Figure 1).

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 47.9 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.<sup>6</sup> Because Lee County’s net Medicaid savings were

more than the \$500,000 “hold harmless” amount, the county gains about \$922,699 in additional funds to spend the first full year and more than \$13 million over the next ten years (see Figure 1).

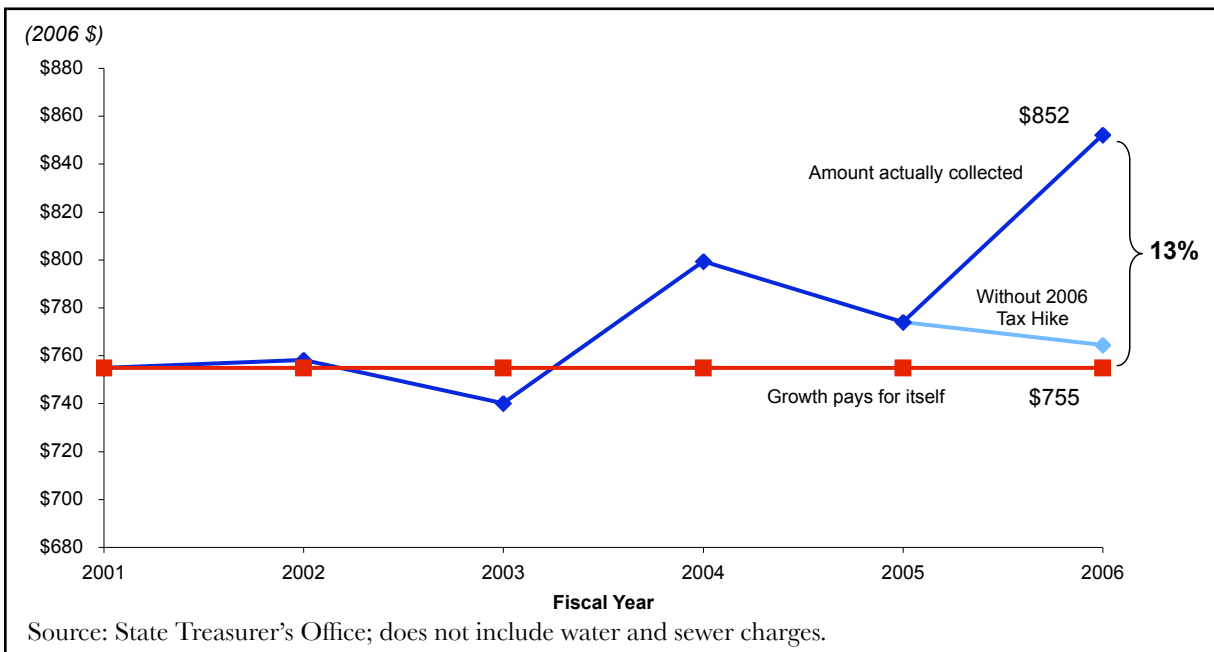
**ECONOMIC INCENTIVE GIVEAWAYS**

Lee County has given nearly \$1.6 million 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 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.

**AVAILABLE CASH RESERVES**

Lee County currently has cash reserves that total \$8 million. This amount is 14.7 percent of its annual budget.<sup>7</sup> The State

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



Treasurer's policy manual states that county undesignated fund balances should not drop below eight percent of total expenditures. Lee County, however, holds over \$3.6 million more than the state-mandated eight percent. In other words, the county has collected about \$3.6 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 \$1.5 million per year, this existing \$3.6 million overage could be used for almost 2.4 years instead of the new tax.

### CONCLUSION

This report shows that Lee 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 Lee 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](http://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/macro/economics/Data/ProjectedGDPDeflatorValues.xls](http://www.ers.usda.gov/data/macro/economics/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/NCICLIncentiveRpt.pdf](http://ncicl.org/Incentives/NCICLIncentiveRpt.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](http://www.nctreasurer.com/lgc/units/unitlistjs.htm).
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](http://www.nctreasurer.com/lgc/units/unitlistjs.htm).
8. North Carolina General Assembly, Fiscal Research Division, "Medicaid 3 Year 500K" projections, 2007.