

WILMINGTON EDITION

Citizen's Guide to Local Spending

SEPTEMBER 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 Wilmington 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.

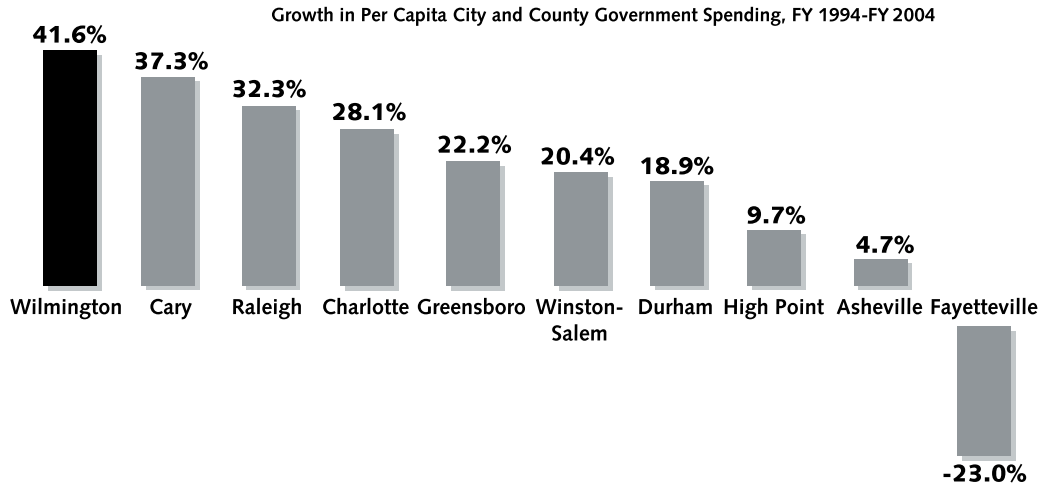
Higher spending per person likely means more, though not necessarily better, services. In Charlotte, for example, transportation costs have tripled in the last ten years as the city and county prepare for a questionable light rail system. This raises another important lesson – capital projects create 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 \$2,863 per capita in Wilmington during fiscal year 2004, from July 2003 to July 2004. This was 41.6 percent higher than the \$2,022 (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 34.5 percent to \$2,417 in fiscal 2004. Capital spending nearly doubled over the decade, to \$446 in fiscal 2004. No large city in North Carolina had faster spending growth.

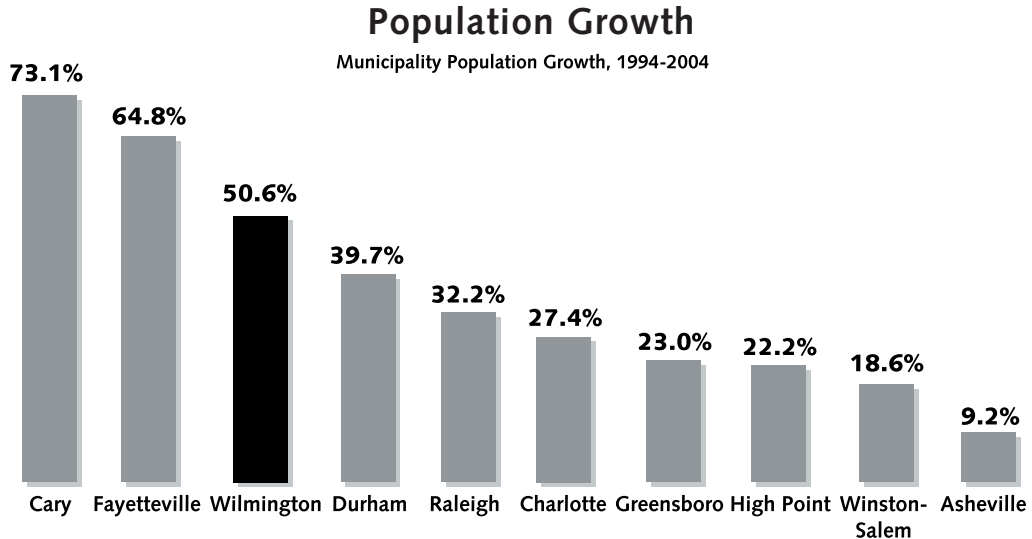
Higher spending eventually compels higher taxes. Sometimes the taxes come first, as with higher sales taxes to build convention centers. Sometimes the taxes come later, as with typical bond issues and program expansions. In either case, citizens of Wilmington will face higher taxes unless they can get 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).

Spending Growth



Wilmington's real per capita city and county government spending grew faster from fiscal year 1994 to fiscal year 2004 than in any other major municipality in North Carolina.

Fayetteville managed to shrink the per-capita size of its government by nearly one-fourth over the same period.



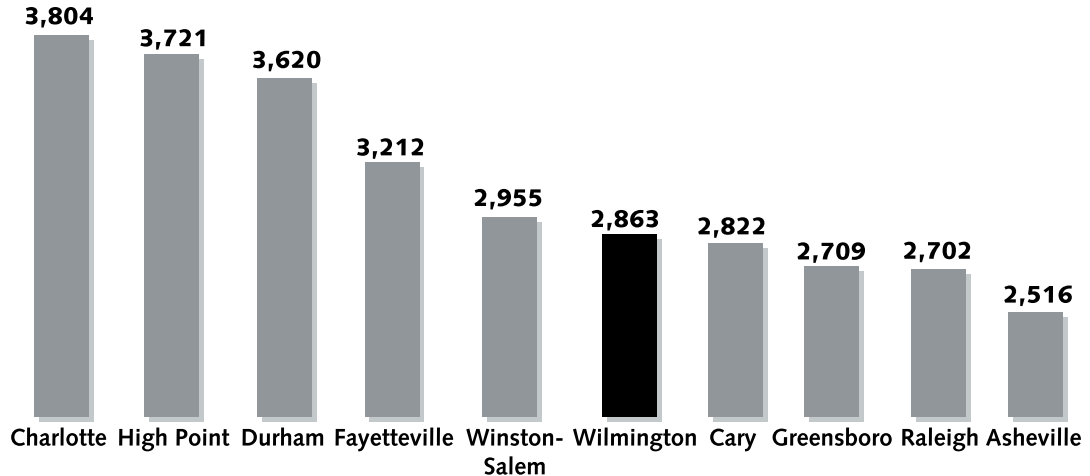
Annexations do not cause faster per capita government growth.

Wilmington's higher per capita government spending came in spite of a 50 percent increase in the city's population. This means that overall spending more than doubled in real terms. Fayetteville's 65 percent higher population, however, offset higher spending to leave per capita government size 23 percent lower in 2004 than in 1994.

Cary, where government growth per capita was second only to Wilmington, had the fastest population growth among the major municipalities.

Spending

Per Capita City and County Government Spending, FY 2004

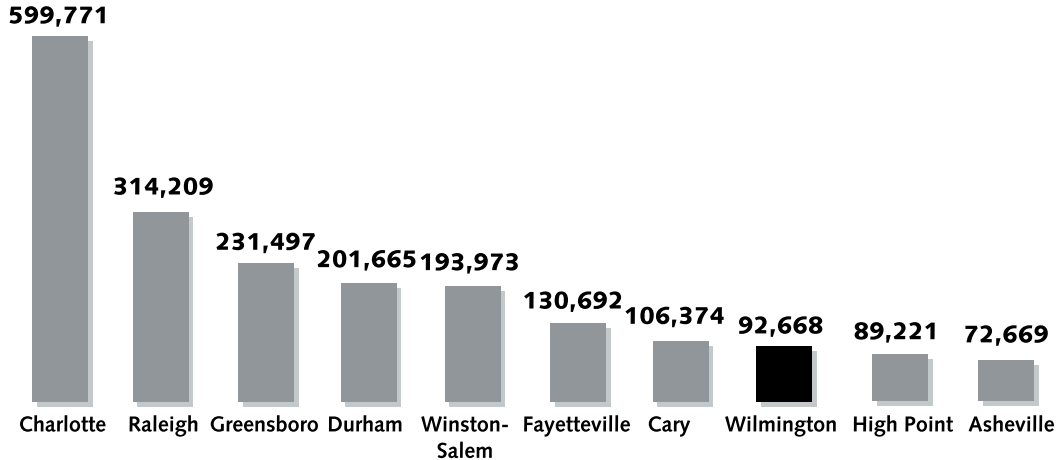


Wilmington's city and county per capita spending in FY2004 (\$2,863) was 8 percent lower than the average for the ten municipalities (\$3,118), but had been 25 percent lower than average in FY1994 (\$2,710).

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.

Population

Municipality Population, 2004

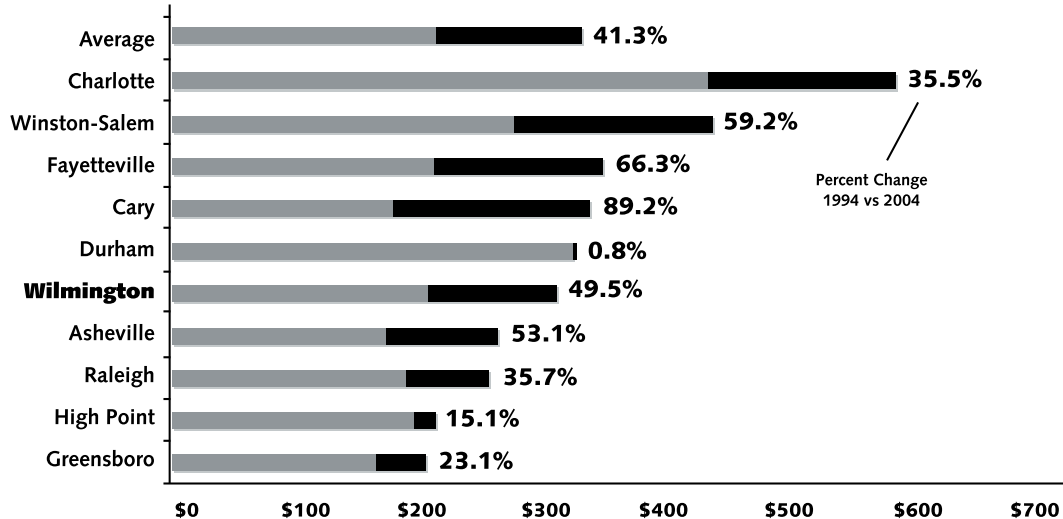


Among the ten municipalities, per capita government spending did not vary much with population of the municipality; the four cities with the highest per capita government spending rank first, fourth, and ninth in population.

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

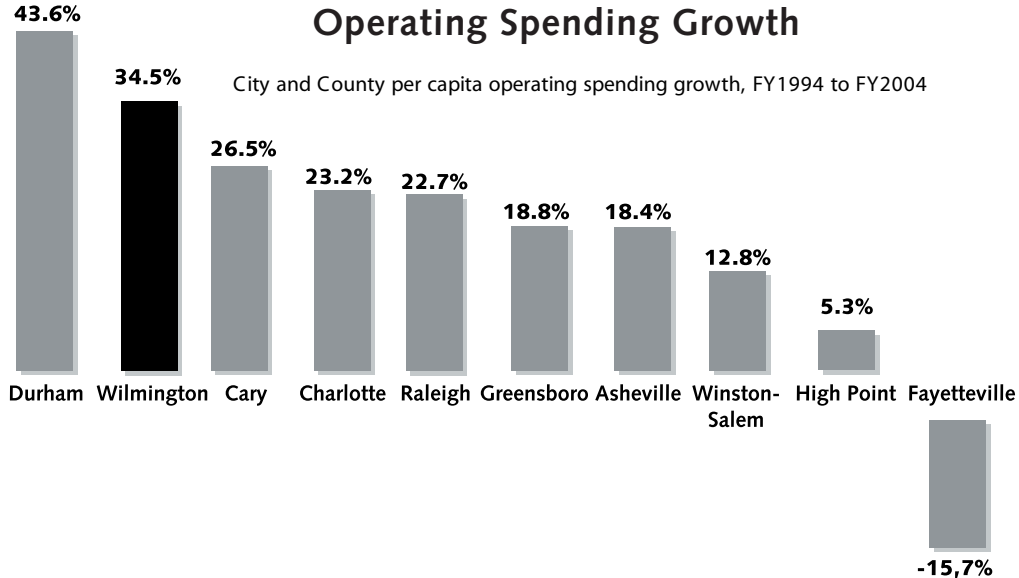
Wilmington's population of 92,668 is slightly smaller than Cary's 106,374 but per capita spending is \$41 higher in Wilmington.

Debt Service



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.

Wilmington residents paid 50 percent more for the city's and county's debt in 2004 than in 1994. Cary nearly doubled its per capita debt service payments, Fayetteville's increased by two-thirds.

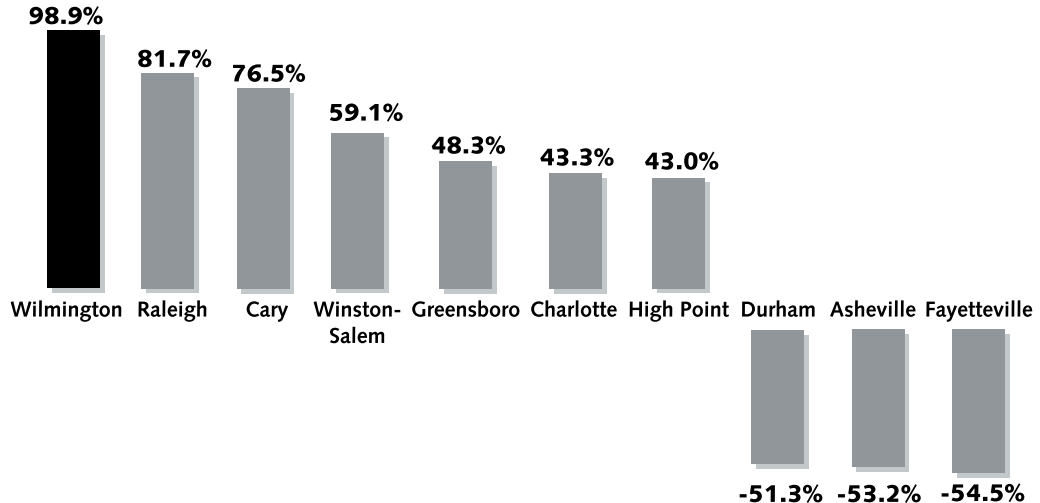


Wilmington's combined city and county operating budget per person has risen by more than one-third in the last ten years – far more than even Cary or Charlotte, and second only to Durham. Durham's 43.6 percent increase, however, includes a significant change in how the county reports Medicaid spending, making comparisons with other counties difficult. Excluding the extra Medicaid spending in FY2004, Durham's per capita increase would have been just 13.5 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

City and County per capita capital spending growth, FY1994 to FY2004

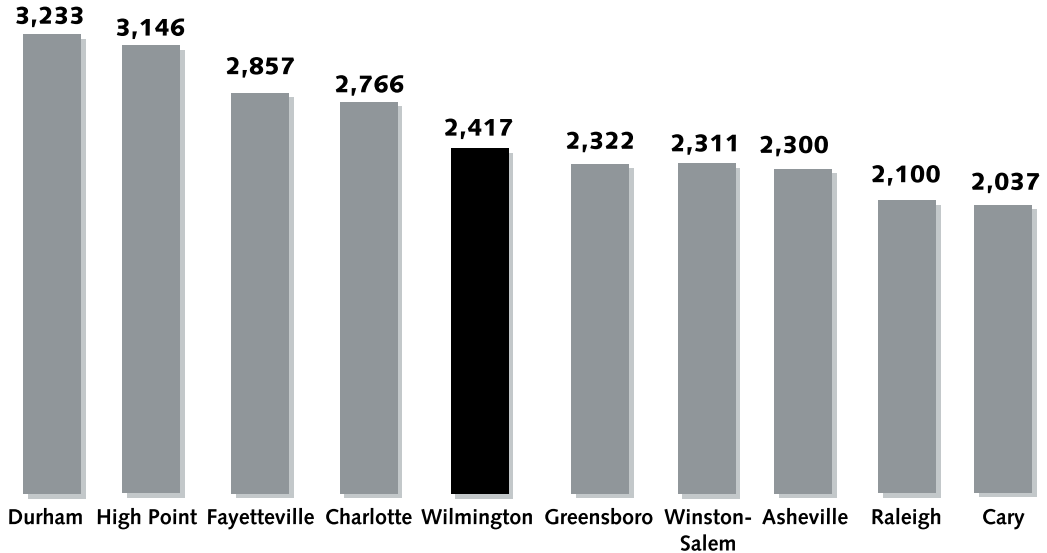


Capital budgets are more volatile than operating budgets, so the size of changes over the decade are larger based on whether projects are ongoing. Wilmington, however, nearly doubled its capital spending per person. This is again the largest increase among the ten major cities in the state, and will only grow further if Wilmington builds the proposed convention center.

Durham, Asheville, and Fayetteville spent half as much per capita, after inflation, on capital projects in 2004 as in 1994.

Operating Spending

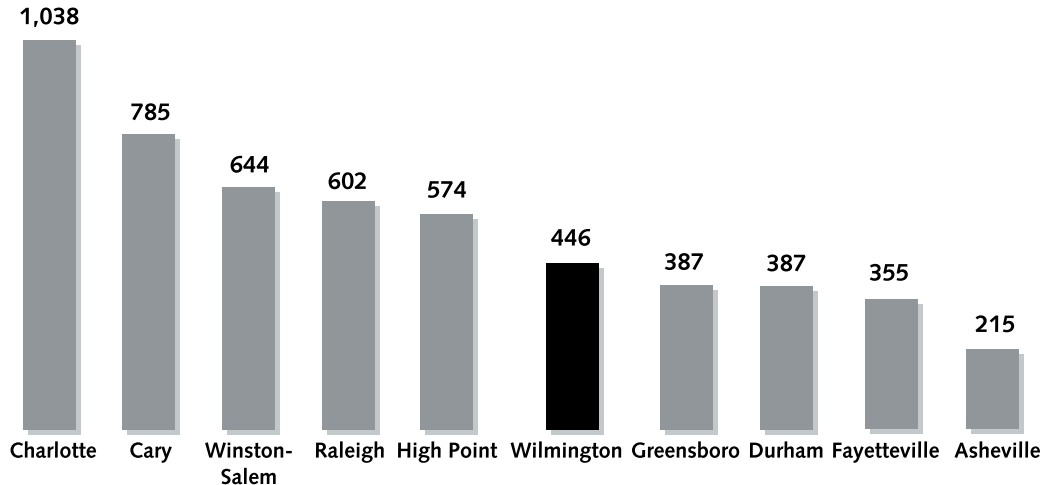
Operating Expenditures Per Capita, FY2004



None of the ten largest municipalities in North Carolina spent less than \$2,000 per capita on operating expenses in fiscal year 2004. Wilmington was firmly in the middle, spending \$2,417 per capita.

Capital Spending

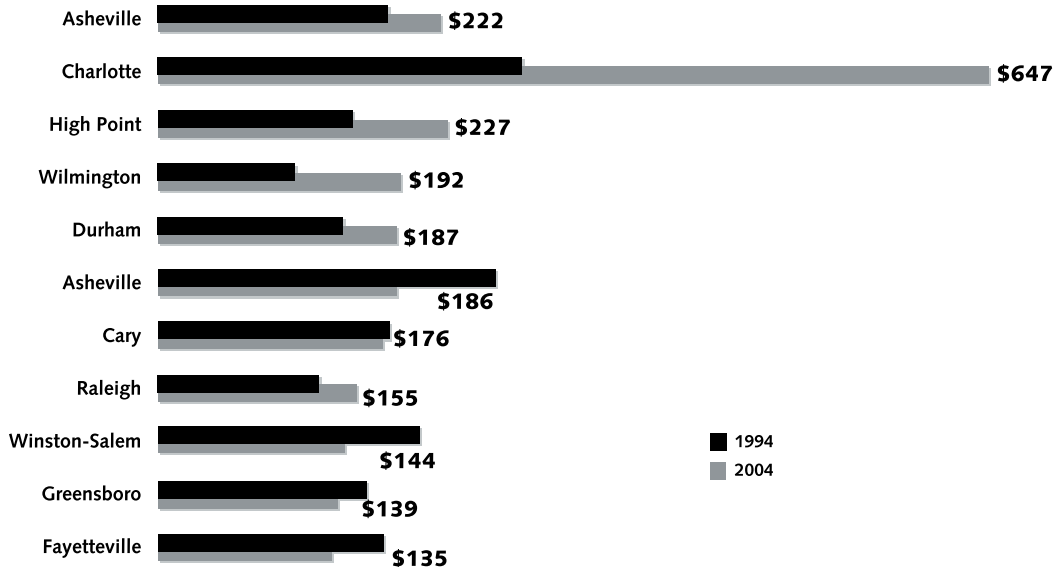
Capital Expenditures Per Capita, FY2004



Wilmington's per capita spending on capital projects (\$446) was less than half Charlotte's (\$1,038), in part because Wilmington currently is not spending on a light rail system. A convention center would mean higher capital spending for Wilmington.

Transportation

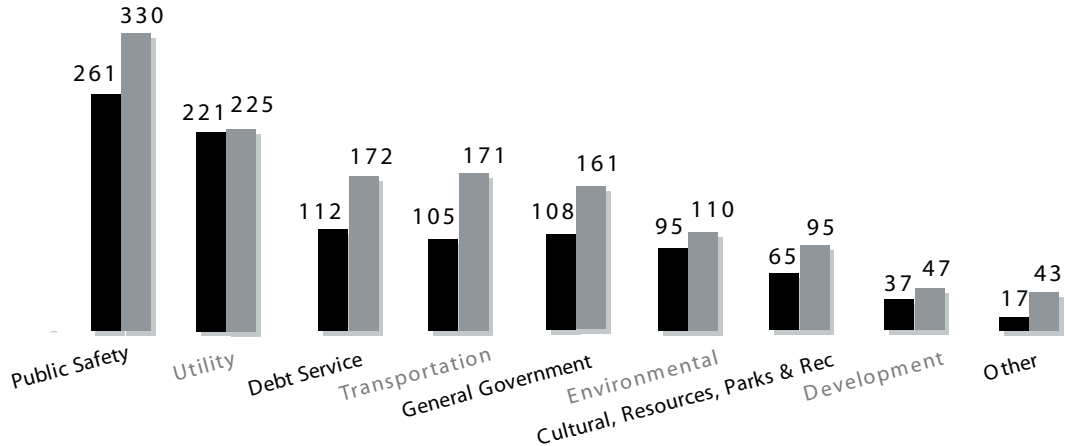
City and county real per capita transportation expenditure in 2004 dollars



Wilmington has the third-highest level of spending on transportation among the largest municipalities. Charlotte's \$647 per person on transportation, due to light rail, significantly skews the average. Wilmington's percentage increase is also second only to Charlotte.

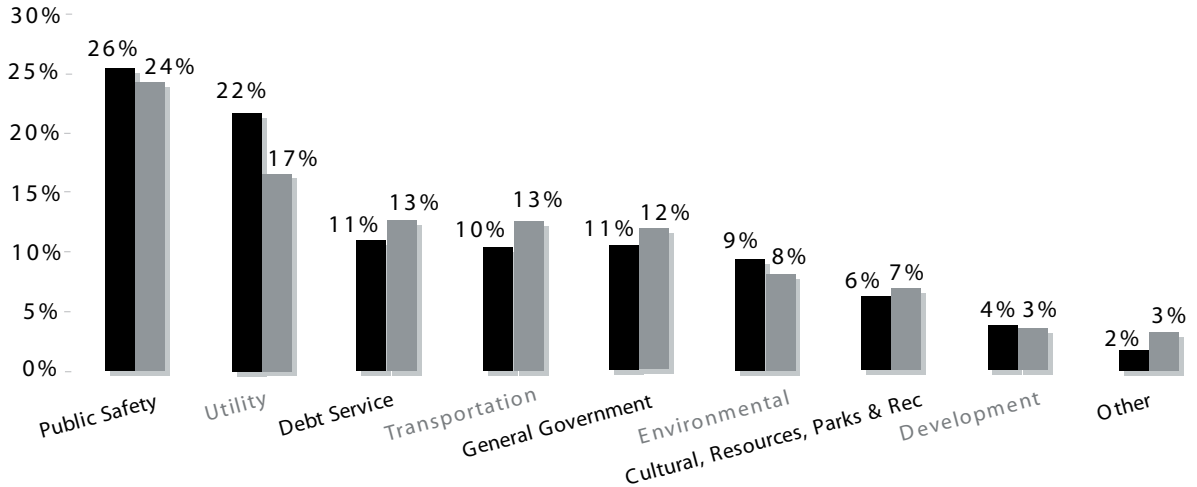
Wilmington Spending Growth

Wilmington real per capita expenditure FY1994 vs FY2004



Spending on public safety, utilities, human services, and environmental projects is growing at a slower rate than the rest of the budget. Transportation, public schools, general government expenditures, and debt service are among the areas growing faster than the budget as a whole. All categories of spending besides the federal welfare program (AFDC/TANF) are growing at a faster rate than inflation and population.

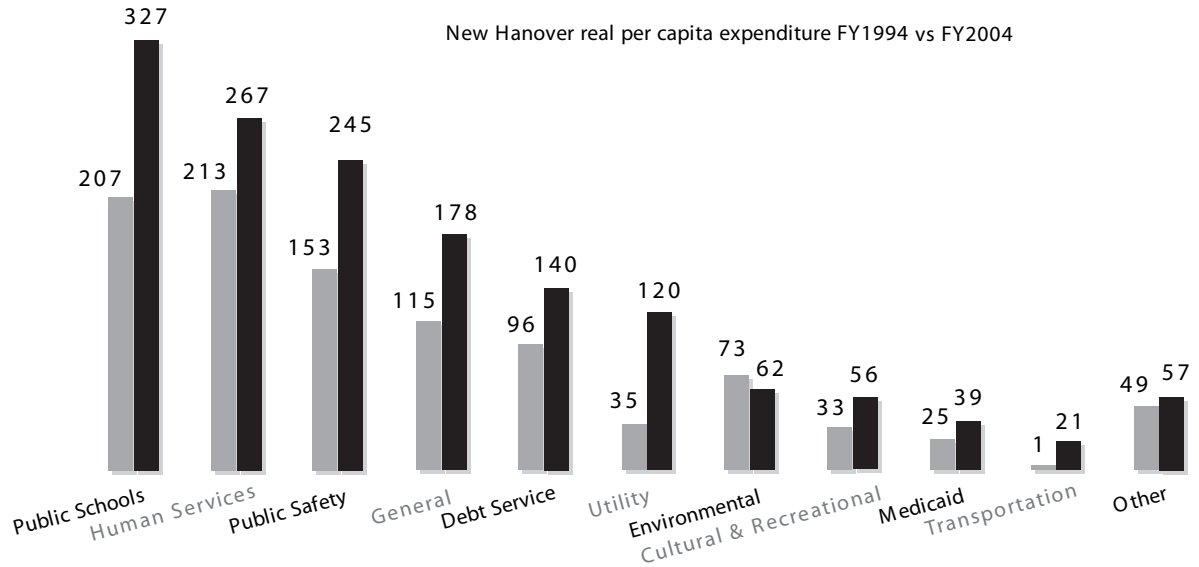
Wilmington Share of Spending FY 1994 vs FY 2004



Utilities' share of Wilmington's budget shrank from 22 percent to 17 percent. Public safety dipped to 24 percent from 26 percent. Debt service and transportation were among the areas taking a larger portion of spending in FY2004 than in FY1994.

New Hanover Spending Growth

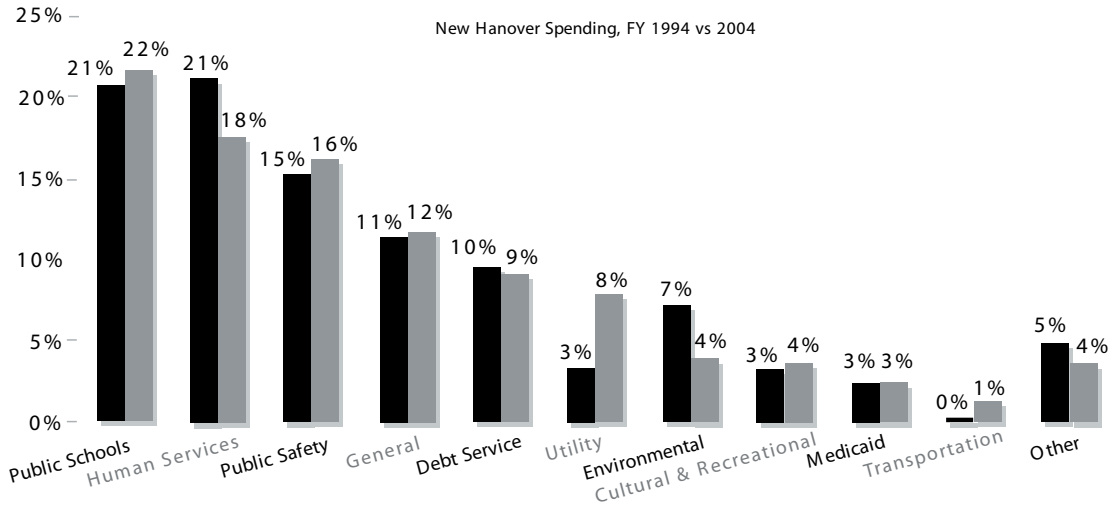
New Hanover real per capita expenditure FY1994 vs FY2004



Public Schools spending grew nearly 50 percent from fiscal 1994 to fiscal 2004, the \$120 million rise in constant 2004 dollars was an equivalent to eight percent of all county spending that year.

Expenses for public safety and utilities also increased rapidly between 1994 and 2004.

New Hanover Share of Spending FY 1994 vs FY 2004



Public Schools took a large and growing share of the county budget, accounting for over one-fifth of expenditures in fiscal year 2004. Together with Human Services and Public Safety, the top three spending categories took over half of county funds.

The large increase in spending on utilities in New Hanover County means that spending on Human Services, despite an increase of \$50 million, fell from 20 percent of county spending to 17 percent.

Capital expenditures grew as a share of Utility costs, but operating expenditures remained constant at about 90 percent of the spending on Public Schools, Human Services, and Public Safety.

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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200 West Morgan St.
Raleigh, NC 27601
V: 919-828-3876
F: 919-821-5117
www.johnlocke.org
info@johnlocks.org