REQUEST FOR BOARD ACTION / CONTRACT CONTROL FORM

Tracking Number: 18.

Date of Request: August 13, 2007

Board Meeting Date Requested: August 20, 2007

Short Title: Overview Of 2007 State Appropriations Act Relating To Medicaid Relief And Local Revenue Option Components For Board Consideration And Action

Background:
When Governor Easley signed the 2007 budget into law, it set in motion the end of county participation in Medicaid. Pender County's share of Medicaid was $2.3 Million in FY 05-06. The budget provides for a three-year phase-out of county Medicaid expenses in exchange for a gradual assumption of a half-cent local sales tax. To help offset the state costs in the first year, the General Assembly is withholding roughly 50 percent of the Public School Building Capital Fund (ADM Fund). for 2007-08 only. Counties will make up the difference through Medicaid savings and hold harmless payments. When fully implemented in 2010-11, counties will be relieved of $671 Million in Medicaid costs by foregoing $410 Million in revenues. Any county in which the sales tax revenue stream exceeds its Medicaid expense would be held harmless in perpetuity based on actual Medicaid expenses and actual foregone revenues with a guaranteed benefit of at least $500,000. Finance Director David McCole will provide details on the Pender County impact relating to Medicaid Relief.

Along with the Medicaid Relief, the General Assembly provided counties with additional revenue authority to meet growing infrastructure demands for schools and other critical capital investments. To manage the influx of newcomers, the budget includes authority for counties to levy either a 0.4 land transfer tax, or a quarter cent sales tax. In Pender, the land transfer tax, based on FY 05-06 Deed stamps, could generate $2.8 M; while the quarter cent sales tax was estimated to generate $826,380. The Board passed a resolution in March 2007 urging the General Assembly to consider the enactment of a 1 percent land transfer tax to support school construction and critical infrastructure needs. Both revenue options require a vote of the public, and one or the other, or both can appear on the ballot in November. County Manager Lori Brill will provide a summary of options for the board's consideration.

Specific Action Requested: Receive the briefs and consider action on new revenue options for November Ballot.

Requested by:	Lori Brill
Department:	Administration
Title:	County Manager
Contact Phone:	259-1200
Contact Fax:	

Date Request Received: August 20, 2007

Board Meeting Date Assigned: August 20, 2007

Request Status:
- ☒ Request is proceeding to Board of Commissioners
- ☐ More information is needed – see attached
- ☐ Request on hold – no further information needed
- ☐ Other:

(Administrative Use Only)

CONTRACT TYPE

- ☒ Renewal
- ☐ Revision
- ☐ For Service(s)
- ☐ For Equipment
- ☐ Intergovernmental – County as Grantee
  - ☐ Federal Grantor
  - ☐ State Grantor
  - ☐ Grantor
- ☐ County as Grantor
  - ☐ County Funds
  - ☐ Other Funds:

PURCHASING
Date Rec'd:
Budgeted Item: ☒ Yes ☐ No
☒ Reviewed and Approved
☐ Comments on Reverse
Date Sent: August 20, 2007
Signed:

ATTORNEY
Date Rec'd:
☐ Reviewed and Approved
☐ Legal Problem(s)
☐ Comments on Reverse
Date Sent:
Signed:

FINANCE
Date Rec'd
Sufficient Funds ☐ Available ☐ Not Available
☐ Budget Amendment Necessary
☐ Budgeted Amendment is Attached
☐ Comments on Reverse
Date Sent:
Signed:

CLERK
Signature(s) Required:
☒ Board Chairman/County Manager
☐ Other:
Date Rec'd
Approved by Board: ☐ Yes ☐ No
At meeting on

MANAGER'S RECOMMENDATION:

Respectfully Recommend Approval.

LaB
Initials

RESOLUTION: NOW THEREFORE BE IT RESOLVED by the Pender County Board of Commissioners that

the Board is requesting that a .4% land transfer tax be placed on the November 2007 ballot referenda. If passed, revenue from this land transfer tax will be dedicated to capital expenditures for public schools.

AMENDMENTS:

MOVED___________________________SECONDED______________________

APPROVED___________________DENIED_________________UNANIMOUS

YEA VOTES: Rivenbark ___Blanchard ___Brown ___Tate ___Williams___

____________________ 08/20/07
F.D. Rivenbark, Chairman Date

______________________ 08/20/07
Attest Date

Alternative Revenue Streams for Counties

The 2007 State Appropriations Act

Why the need for additional revenue streams?

- To meet growing infrastructure demands for schools and other capital investments.
- Reduce reliance on property taxes to fund needs associated with growth.
- Provides revenue equity to **all** counties by ensuring that the revenue options available to one, are available to all.
- Provides a balanced approach to taxation to benefit elderly citizens and those on a fixed income by lessening the pressure of increasing property taxes.

What's in the Act?

- Counties given authority to levy **either** a land transfer tax ***up to*** .4% or a local sales tax of .25%
- Requires vote of the citizens via a referendum

Understanding the Referendum Requirement

- The Board must, via resolution, notify the Pender County Board of Elections, who, in turn, must notify the State Board of Elections by **September 4, 2007** of their intent to hold an advisory referendum on the November Ballot
- If the county cannot meet the deadline, it may hold a special election not to be held within 30 days before or after any other election.
- Ballot can include advisory referendums for either the Land Transfer Tax or the Sales Tax, or include both.
- If both pass, the Board may choose one or the other to levy.
- The Board can also choose not to enact following the referendum.

Estimated Revenue Potential

Land Transfer Tax*	Local Option Sales Tax
.4%	¼ Cent
$2.8 Million	**$826,380**

Based on 05-06 Deed Stamp Receipts as per the North Carolina Association of County Commissioners

What is a Land Transfer Tax?

- Progressive tax tied to the sale of a home or property (i.e.; the more expensive the home, the more the tax)
- Tax is paid during the real estate transaction by the seller
- Seller typically passes on fee to buyer
- Tax is collected by county
- Links the cost of schools to growth
- Does not hurt elderly or long term homeowners like property tax
- Raises money from existing housing

Show Me the Numbers

On a **$100,000** home, the .4% Land Transfer Tax = **$400**

On a **$200,000** home, the .4% Land Transfer Tax = **$800**

Tax typically financed as part of mortgage over life of loan.

County	Authority to Enact	Required Use of Proceeds
Dare 1%	1985 Board Resolution	Capital Expenditures (jail, courts, EMS, libraries, recreation, education, health, social services, water, sewer, administration)
Currituck 1%	1985 Board Resolution	Capital Expenditures: solid waste & county operated buildings
Chowan 1%	1986 Board Resolution	Capital Expenditures
Camden 1%	1986 Board Resolution	Capital Expenditures
Pasquotank Perquimans Washington* 1%	1989 Voter approval via referendum	Capital Expenditures
*Not enacted		

Chatham Journal Weekly May 14, 2005
Statements of effect of Land Transfer Tax

- "We rely heavily on our Land Transfer funds for our school projects….We've averaged almost 30% growth the last 4 years. We are issuing double the amount of dwelling permits now than we were just a few years ago. Land Transfer revenues have been and will continue to be integral to our school capital improvements."

  Bobby Darden, Perquimans County Manager

- "If not for Land Transfer Tax, we would fall further behind in our school capital needs and would have had to raise our property taxes several cents. We have been able to build a middle school and renovate two elementary schools without incurring any debt thanks in large part by a good working relationship between our Commissioners and the Board of Education…"

  Dan Scanlon, Currituck County Manager

What is the impact in 6 Counties who have enacted?

- Home values remain affordable
- Job and retail growth remains robust
- Residential growth is vibrant
- Schools are benefiting immensely
- Property taxes are stable

How Have Schools Benefited?

- In each county, the land transfer tax has completely changed how taxpayers fund schools
- The tax has guaranteed each district a minimum level of per-pupil funding.
- From 1990 to 2005, increase in capital expenditures per pupil by these counties has outpaced the state average.
- From 1995 to 2000, these counties increased their expenditures by 33% as compared to 21% by counties as a whole.
- In 1985, prior to implementing, all of these counties ranked in the bottom third of the rankings with respect to public education funding.

November Ballot

Pros

- Anticipated voter turnout
  - Municipal Elections
  - Hampstead Incorporation
- Ability to enact LTT January 1, 2008
- Short time frame

Cons

- Short time frame

Recommendation for Board Consideration and Discussion

- Place a referenda for a .4% Land Transfer Tax on the November 2007 Ballot
- Designate the proceeds for capital expenditures for public schools
- Partner with the Board of Education to educate and inform the public regarding the tax

NORTH CAROLINA

ASSOCIATION OF COUNTY COMMISSIONERS

Medicaid Relief

The No. 1 Legislative Goal of North Carolina County Governments

Seek permanent Medicaid relief for counties.

- During the 2006 session, the North Carolina Legislature's adopted state budget included a one-time cap of up to $27.4 million for Medicaid relief for counties for the 2006-07 fiscal year. The cap is intended to freeze county contributions at 2005-06 levels.

Why the Need for Medicaid Relief?

- In 2007-08, counties are projected to spend more than $517 million for Medicaid services, a 96 percent increase since 2000.
- Counties are not allowed to set Medicaid policy, eligibility criteria, service options or provider rates. Counties can not influence Medicaid costs, eligibility or options through their financial participation in the program.
- The state requires counties to pay 15 percent of the non-federal share of all Medicaid service costs. The General Assembly sets the county share annually in the state budget bill. **There is no federal requirement that the counties participate.**
- The New York Legislature enacted county Medicaid relief in 2005 to limit annual Medicaid cost increases to 3 percent for all counties. North Carolina is now the only state requiring county participation in all Medicaid services.
- Few county resources remain to support increased school enrollments, school facility needs in response to lowered classroom size, critical public health services and other social, mental health, public safety and elderly services.
- Six counties spend more on Medicaid than for their public schools current expense. **Fifty counties spend more on Medicaid than for public school construction** and other capital expenses.
- Nine counties spend more than 10 percent of their total budgets on Medicaid.
- Nineteen counties have Medicaid populations exceeding 25 percent of their total populations.
- Counties pay all of the non-federal costs of Medicaid administration. 2006-07 costs projected at $86 million.
- The county Medicaid burden is disproportionately affecting lower-wealth counties. Poorer counties have more citizens eligible for Medicaid services but have a smaller property base with which to generate revenue.

P.O. Box 1488, Raleigh, NC 27602-1488 * Phone: (919) 715-2893 * Fax: (919) 733-1065 * www.ncacc.org

North Carolina Association of County Commissioners
Estimated Additional County Revenue Authority

County	.4% Land Transfer	1/4 Cent Point Sales Tax
Alamance	3,251,750	3,841,857
Alexander	451,304	467,394
Alleghany	434,558	204,203
Anson	267,848	313,232
Ashe	1,126,440	549,707
Avery	1,332,874	543,762
Beaufort	1,113,084	1,186,875
Bertie	213,012	205,275
Bladen	313,386	458,603
Brunswick	14,041,348	3,112,319
Buncombe	9,894,652	8,436,602
Burke	1,054,402	1,590,672
Cabarrus	6,860,952	5,267,593
Caldwell	1,217,068	1,476,042
Camden	276,154	158,392
Carteret	6,262,066	2,552,628
Caswell	189,664	168,401
Catawba	3,386,124	4,836,544
Chatham	2,671,990	994,185
Cherokee	1,691,628	845,047
Chowan	388,200	304,496
Clay	942,798	212,267
Cleveland	1,159,962	1,906,886
Columbus	443,968	934,330
Craven	3,030,396	2,400,049
Cumberland	5,911,688	8,141,461
Currituck	1,966,616	929,877
Dare	4,318,868	3,153,888
Davidson	2,432,254	2,748,945
Davie	1,016,194	658,486
Duplin	666,810	822,800
Durham	10,281,965	9,206,212
Edgecombe	537,170	782,520
Forsyth	8,295,714	11,418,327
Franklin	1,336,866	785,570
Gaston	3,718,896	4,445,691
Gates	128,564	98,974
Graham	253,202	151,697
Granville	1,052,944	842,627
Greene	119,616	173,320
Guilford	13,596,148	15,673,853
Halifax	612,078	1,135,918
Harnett	1,877,684	1,505,336
Haywood	2,246,888	1,613,812
Henderson	4,214,018	2,553,967
Hertford	196,466	528,074
Hoke	828,736	341,644
Hyde	231,896	133,649
Iredell	6,855,846	4,908,336
Jackson	3,616,940	1,035,437
Johnston	4,496,488	3,428,087
Jones	91,770	88,575

North Carolina Association of County Commissioners
Estimated Additional County Revenue Authority

County	.4% Land Transfer	1/4 Cent Point Sales Tax
Lee	958,334	1,517,896
Lenoir	388,390	1,307,049
Lincoln	2,310,316	1,489,937
Macon	2,269,592	1,230,402
Madison	830,008	227,647
Martin	166,492	496,596
McDowell	812,310	815,667
Mecklenburg	44,781,832	33,040,341
Mitchell	485,242	368,970
Montgomery	712,956	428,562
Moore	3,244,290	2,473,222
Nash	2,408,390	2,834,317
New Hanover	13,079,966	8,719,284
Northampton	521,768	187,597
Onslow	4,498,396	3,934,310
Orange	4,013,532	3,031,453
Pamlico	801,322	194,740
Pasquotank	1,214,384	1,167,495
Pender	2,895,160	826,380
Perquimans	495,932	151,188
Person	848,096	745,479
Pitt	3,523,972	4,584,613
Polk	1,091,696	274,500
Randolph	1,832,268	2,442,154
Richmond	460,416	877,791
Robeson	769,832	2,239,943
Rockingham	1,115,628	1,673,750
Rowan	1,975,422	2,597,696
Rutherford	1,857,998	1,296,835
Sampson	443,496	1,080,272
Scotland	352,708	761,301
Stanly	813,774	1,344,973
Stokes	546,106	518,731
Surry	862,388	1,931,278
Swain	674,546	244,696
Transylvania	1,628,876	848,348
Tyrrell	826,656	51,858
Union	9,621,680	3,672,624
Vance	3,051,514	1,037,014
Wake	40,208,802	27,963,291
Warren	530,804	192,708
Washington	371,358	202,305
Watauga	2,932,426	1,844,185
Wayne	1,425,674	2,570,523
Wilkes	985,352	1,397,974
Wilson	1,132,588	2,016,771
Yadkin	287,880	541,171
Yancey	801,096	329,720
Total	310,779,617	250,000,000

Notes:
Land transfer based on actual 2005-06 deed stamp receipts
Estimated sales taxes excludes food.

H1473 Medicaid Relief Components
(See pages 105, 304-311 of budget bill)

2007-08

- State assumes 25% of county Medicaid costs beginning 10/1/07, at projected state cost of $86.2 million
    - 25% set against last 8 months' payments (expenses incurred on or after 10/1)
- Counties forgo a portion of their ADM Fund monies, $44.8 million
    - Medicaid relief > expected county ADM, loss in ADM fund = 60% of ADM fund
    - Medicaid relief < expected county ADM, loss in ADM fund = 60% of Medicaid relief
    - Relief targeted to replace lost ADM funds
- State sales taxes used to hold counties harmless if lost revenues exceed Medicaid savings; all counties guaranteed at least $500,000, $19.3 million
    - State assures all counties benefit by at least $500,000
    - 90% of estimated hold harmless distributed by March
    - Remaining trued up by August 15
- No impact on cities
- ***Net gain to counties = $60.7 million***

2008-09

- State assumes 50% of county Medicaid costs beginning 7/1/08, for expenses incurred on or after, at projected state cost of $271.2 million
- Counties and cities forgo ¼ cent per capita of Art. 44 beginning 10/1/08, $184 million
    - Counties and cities receive last quarterly sales tax payment, $61.3 million
    - Art. 44 transitional hold harmless kept in place
- State sales taxes used to hold counties harmless if countywide sales taxes, including municipal hold harmless, exceed Medicaid savings; all counties guaranteed at least $500,000, $4.9 million
    - State assures all counties benefit by at least $500,000
    - 90% of estimated hold harmless distributed by March
    - Remaining trued up by August 15
- Counties replace city sales tax losses including growth, $34.7 million
    - DoR reduces county Art. 39 allocation by city hold harmless amount & sends directly to cities
- ***Net gain to counties = $153.3 million***

2009-10

- State assumes 100% of county Medicaid costs beginning 7/1/09, for expenses incurred on or after, at projected state cost of $593.2 million
- Counties and cities forgo all of Art. 44 beginning 10/1/09, $460.9 million
    - Counties and cities receive last quarterly sales tax payment, $64.2 million
- Art. 42 ½ per capita converted to point of delivery
- Local sales 2% - 1.5% point of delivery, .5% per capita
- State sales taxes used to hold counties harmless if countywide sales taxes, including municipal hold harmless, exceed Medicaid savings; all counties guaranteed at least $500,000, $14.4 million
    - 90% of estimated hold harmless distributed by March
    - Remaining trued up by August 15
    - State assures all counties benefit by at least $500,000
- Counties replace city sales tax losses including growth, $106.3 million
- ***Net gain to counties = $210.9 million***

2010-11

- State assumes 100% of county Medicaid costs for expenses incurred on or after, at projected state cost of $670.7 million
- Counties and cities forgo all of Art. 44, $563.4 million
- Local sales 2% - 1.5% point of delivery, .5% per capita
- State sales taxes used to hold counties harmless if countywide sales taxes, including municipal hold harmless, exceed Medicaid savings; all counties guaranteed at least $500,000, $41.9 million
    - State assures all counties benefit by at least $500,000
    - 90% of estimated hold harmless distributed by March
    - Remaining trued up by August 15
- Counties replace city sales tax losses including growth, $153.1 million
- ***Net gain to counties = $149.2 million***

2011-12

- State assumes 100% of county Medicaid costs for expenses incurred on or after, at projected state cost of $744.5 million
- Counties and cities forgo all of Art. 44, $592.6 million
- Local sales 2% - 1.5% point of delivery, .5% per capita
- State sales taxes used to hold counties harmless if countywide sales taxes, including municipal hold harmless, exceed Medicaid savings; all counties guaranteed at least $500,000, $32.2 million
    - State assures all counties benefit by at least $500,000
    - 90% of estimated hold harmless distributed by March
    - Remaining trued up by August 15
- Counties replace city sales tax losses including growth, $161.1 million
- ***Net gain to counties = $184.1 million***

H1473 Additional Revenue Authority Components
(See pages 311-313)

- Counties authorized to levy either .4% land transfer tax or ¼ cent point of delivery sales tax, subject to voter approval
- Statewide land transfer = $310 million per 2005-06 county deed stamp revenues (4 x current deed stamp amount)
- Statewide ¼ cent sales tax, excluding food, = $250 million
- No required municipal distribution and no earmarks on dollars

RESOLUTION
SUPPORTING LOCAL-OPTION REAL ESTATE TRANSFER TAX

WHEREAS, the property tax is the only source of revenue that counties have control over; and

WHEREAS, the State of North Carolina requires counties to pay 15 percent of the state share of Medicaid – a program for which counties are not allowed to set policy, eligibility criteria, service options or provider rates; and

WHEREAS, the total county share of Medicaid is now projected to eclipse $517 million during the 2007-08 fiscal year; and

WHEREAS, it is estimated that in the 2007-08 fiscal year Pender County will spend $2,788,982.00 of its expenditures for services to Medicaid eligible citizens; and

WHEREAS, other unfunded mandates from the state such as reduced school class sizes are forcing county property tax rates higher; and

WHEREAS, the Department of Public Instruction's School Planning section 2006 Long Range Facility Plans recently identified $9.7 billion of school facility needs over the next five years, and $ 79 million in needs in Pender County; and

WHEREAS, seven counties in North Carolina – Camden, Chowan, Currituck, Dare, Pasquotank, Perquimans and Washington – are all authorized by the General Assembly to levy a 1 percent real estate transfer tax; and

WHEREAS, any revenue source that is made available to one county should be made available to all 100 counties; and

WHEREAS, a priority goal of the North Carolina Association of County Commissioners is to seek legislation to allow all counties to enact any or all of several revenue options from among those that have already been authorized for any other county, including local option sales taxes, impact taxes and real estate transfer taxes; and

WHEREAS, the tax is tied closely to the real estate market and generates money to pay for growth at the time it is needed; and

WHEREAS, a 1 percent local-option real estate transfer tax could generate $7,197,110 (01/01/06 – 12/31/06) for Pender County to help meet the demands for new classroom space and classroom improvements and fund other critical infrastructure needs;

NOW, THEREFORE, BE IT RESOLVED that the Pender County Board of Commissioners urges the North Carolina General Assembly to authorize Pender County to enact a local-option, 1 percent real estate transfer tax to be used for any lawful purpose capital expenditures.

FURTHER BE IT RESOLVED that copies of this resolution be transmitted to the members of the General Assembly representing Pender County and to all 100 counties in North Carolina.

Adopted this the 19th Day of March, 2007

F. D. Rivenbark
F.D. Rivenbark, Chairman

Lori A. Brill
Lori A. Brill, Clerk to the Board

NCACC POLICY BRIEF

Volume 1, Issue 1 APRIL 13, 2007

NC ASSOCIATION OF COUNTY COMMISSIONERS

LAND TRANSFER TAXES: THE NC EXPERIENCE

This policy brief draws on the experience of the six North Carolina counties with land transfer taxes. The success of these counties in utilizing this revenue source to provide high quality services to their citizens is attributable to two factors: 1) the stewardship of elected officials; and 2) the use of the proceeds to meet specified infrastructure needs.

Despite allegations from homebuilders and realtors, these counties have not suffered adversely from the implementation of these taxes. For each of these counties,

- home values remain affordable,
- job and retail growth remains robust,
- residential growth is vibrant,
- schools are benefiting immensely,
- property taxes remain stable.

These counties have benefited tremendously from the transfer tax because they have embraced three key principles: 1) taxpayer protection through tax limitation; 2) multi-pronged efforts aimed at Economic Development, 3) continuous monitoring of the effects of the local tax structure on citizens.

Author: Donnie Charleston
Policy/Research Analyst NCACC

Data for this report were obtained from:

The N.C. Department of Revenue; U.S. Census Bureau; The Tax Foundation, & the N.C. Department of Public Instruction

North Carolina Association of County Commissioners
Albert Coates Local Government Center
215 N. Dawson St.
Raleigh, NC 27613

In 1993 we issued 1,713 building permits valued at $96M. In 2004 we issued 3,464 building permits valued at $295M. That is $24M per month. There is no statistical data anywhere in Dare County that the land transfer tax has hurt the industry (Realtors, Home Builders) in Dare County.

Terry Wheeler, Dare County Manager

Introduction

As North Carolina local governments begin the arduous task of addressing infrastructure needs, many local policymakers are seeing transfer taxes as part of the solution to a growing crisis.

Examining these six counties provides a lesson in how to accommodate dramatic growth, bolster funding to public schools and maintain a strong and vibrant economic base all while mitigating the impact on property tax increases.

In 1985, the General Assembly gave Dare and Currituck counties authority to levy a land transfer tax by resolution of the Board of County Commissioners. Subsequent legislation the following year gave authority to Chowan and Camden counties to enact a land transfer tax by resolution. For all these counties, the tax was set at $1.00 per $100 (1%) on instruments conveying interest in real estate. For each of the counties, expenditure of the revenue was limited to capital expenditures (see chart below).

Authorizing Legislation	Method of Enactment	Required Use of Proceeds
Dare County Chapter 525, Session Law 1985	Resolution by Board of County Commissioners	Capital expenditures: Jails, Court facilities, EMS, libraries, recreation, education, health, social services, water, sewer, administration
Currituck Chapter 670 Session Law 1985	Resolution by Board of County Commissioners	Capital Expenditures: solid waste an county operated buildings
Chowan County Chapter 881 Session Law 1986	Resolution by Board of County Commissioners	Capital Expenditures (any lawful purpose)
Camden County Chapter 954 Session Law 1986	Resolution by Board of County Commissioners	Capital Expenditures (any lawful purpose)
Pasquotank County Perquimans County Washington County Chapter 393 Session Law 1989	Voter approval via public referendum	Capital Expenditures: Public Schools

In 1989, the authority was granted to Pasquotank, Washington and Perquimans counties. However, a stipulation was made in the law that the tax had to be approved through voter referendum. Pasquotank and Perquimans counties were successful in their efforts; however, Washington County voters failed to approve it on two occasions.

Since implementation, the land transfer tax has allowed these counties to: 1) reduce property taxes; 2) increase funding for economic development; 3) reduce reliance on borrowing to build schools; and 4) reduce the funding disparities between these school districts and the remainder of the state.

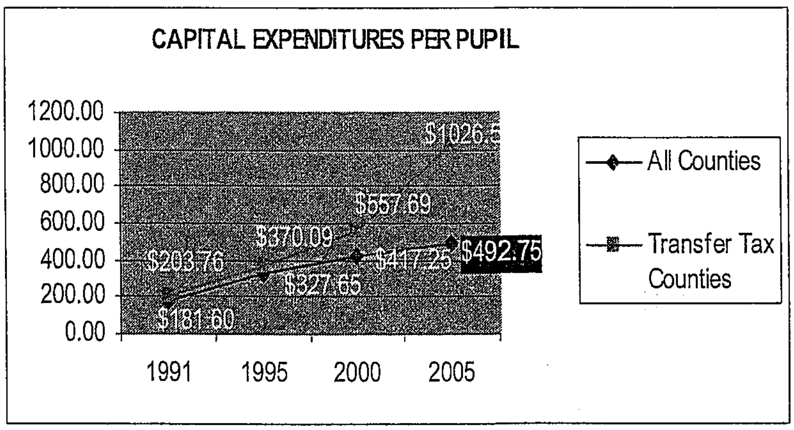
If not for the Land Transfer Tax, we would fall further behind in our school capital needs and would have to raise our property tax. We have been able to build a middle school and renovate two elementary schools without incurring any debt

Dan Scanlon, Currituck County Manager

SCHOOLS

In each case, the land transfer tax has completely changed how taxpayers fund public schools. These initiatives have increased the capital expenditures to public schools tremendously.

The tax has guaranteed each district a minimum level of per-pupil funding. From 1990 to 2005, increases in capital expenditures per pupil by these counties has outpaced the state average. From 1995 to 2000, these counties increased their expenditures by 33 percent as compared to only a 21 percent increase by counties as a whole. Over the next five years, these counties increased their per pupil expenditures dramatically, whereas expenditures generally leveled off for all other districts.



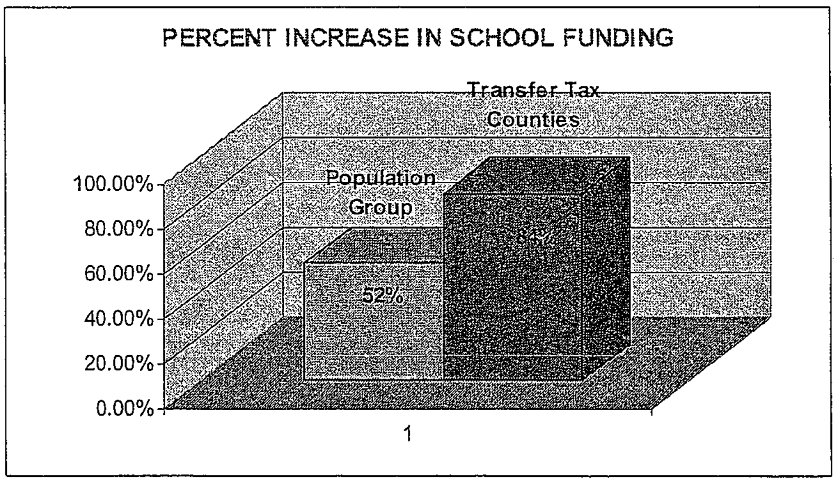
NC ASSOCIATION OF COUNTY COMMISSIONERS

In 1985, prior to implementing the land transfer tax, all of these counties ranked in the bottom third of the rankings with respect to the amount of funds expended on public education. By comparison, Washington County ranked 87th in 1995 and still ranks 86th for the 2006-07 fiscal year in per capita capital expenditures. Had Washington County received voter approval, they likely would have been able to increase their expenditures and thereby their ranking in the state.

For 2006-07, four of the six transfer tax counties ranked in the top ten in outlays for school expenditures per pupil (see chart). These counties have consistently outranked similarly sized counties since instituting the tax. Pasquotank and Chowan rank in the top third of all counties, despite their small school system status.

All six of these counties rank among the top 45 in the state in county education spending per pupil based on 2006-07 budgets. Dare leads the way, budgeting more than $7,600 per student. Currituck is seventh, Perquimans is 18th, Pasquotank is 28th, Chowan is 35th and Camden is 45th.

The five-year moving average for public school capital expenditures pre-transfer tax for Camden, Currituck, Chowan and Dare counties was $59,668. Post-transfer tax, the five-year average increased to



$791,381. Adjusted for inflation this represents an 84 percent increase compared to a 52 percent increase for comparably sized counties. For Pasquotank and Perquimans, the trend is similar.

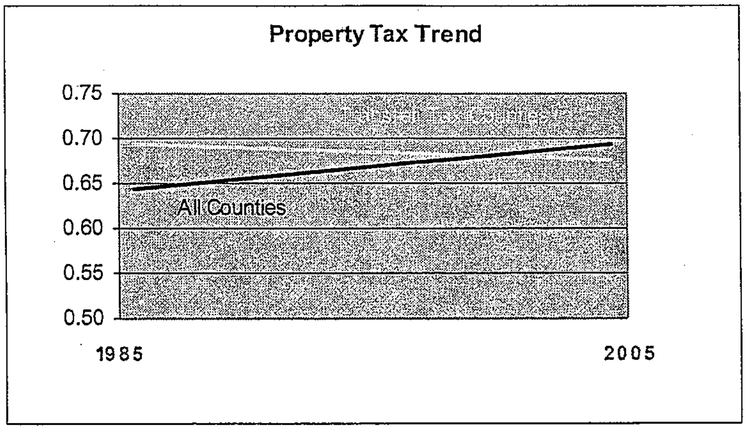
Overall, the land transfer tax has helped reduce funding disparities between property-rich/urban districts and property-poor/rural districts in these areas. In 1991, local per pupil capital expenditures ranged from $56 to $239. Today, per pupil capital funding has significantly moved upward with these districts allocating between $438 and $2,135 per pupil this school year.

[illegible]	
Dare	$3,879.86
Perquimans	$1,500.26
Orange	$1,350.48
Transylvania	$1,188.92
Watauga	$1,186.58
Union	$1,156.93
Camden	$1,151.17
Currituck	$1,134.64
Jackson	$1,132.45
Carteret	$1,119.06
Mitchell	$1,067.87
Brunswick	$1,047.55
Polk	$1,041.78
Wake	$981.88
Alleghany	$960.10
Avery	$953.73
New Hanover	$931.00
Johnston	$926.16
Lincoln	$919.26
Macon	$886.96
Cabarrus	$833.16
Pender	$827.34
Henderson	$793.31
Cherokee	$785.32
Davie	$781.50
Iredell	$781.44
Mecklenburg	$741.19
Durham	$727.36
Buncombe	$709.01
Pasquotank	$701.24
Surry	$672.20
Catawba	$665.92
Granville	$654.88
Jones	$641.66
Rutherford	$626.74
Chowan	$596.30
Franklin	$561.04
Pamlico	$549.58
Chatham	$538.51
Forsyth	$529.95
Guilford	$524.78
Randolph	$517.15
Ashe	$503.86
Tyrrell	$495.62
Lee	$486.05
Person	$483.04
Northampton	$469.39
Onslow	$468.90
Hyde	$468.74
Wilson	$463.80
Sampson	$451.89
Bladen	$450.73
Moore	$429.80
Caswell	$421.44
Alexander	$413.60
Halifax	$412.27
Burke	$410.25
Stanly	$400.38
Harnett	$396.83
Beaufort	$395.69
Swain	$395.32
Gates	$389.70
Gaston	$387.20
Richmond	$383.35
Bertie	$380.11
Pitt	$368.42
Rowan	$367.47
Warren	$359.52
McDowell	$354.64
Rockingham	$353.00
Anson	$347.92
Stokes	$346.30
Davidson	$341.88
Graham	$337.76
Lenoir	$329.26
Scotland	$315.33
Montgomery	$314.78
Washington	$308.23
Cleveland	$305.29
Alamance	$301.46
Yadkin	$300.00
Hertford	$297.06
Wilkes	$294.25
Columbus	$287.42
Greene	$286.15
Haywood	$285.93
Craven	$281.03
Vance	$278.79
Duplin	$277.80
Yancey	$272.37
Hoke	$267.01
Martin	$258.48
Robeson	$254.40
Madison	$248.18
Wayne	$242.10
Clay	$241.95
Edgecombe	$226.34
Nash	$203.18
Caldwell	$197.86
Cumberland	$174.34

Consequently, local school districts have had greater flexibility in how and where they allocate their funds. Local school officials have been empowered to establish funding priorities according to local needs rather than state-level mandates.

IMPACT ON PROPERTY TAXES

Ideally, with the imposition of a new tax, a local tax structure should reflect balance such that the total burden on taxpayers remains fair. These counties have generally provided their citizens with significant property tax relief. Taken as a whole, property taxes prior to the referendum were an average of .67 cents per hundred for these counties. Once each of these counties levied the tax, property tax rates decreased and stood at an average of 63 cents per $100 for the group (in 1991). Most importantly, comparing these counties to similarly sized counties reveals that they were able to *cut* taxes by six percent during this time period (1985-1991), whereas, their comparison group collectively raised taxes 7 percent. Since 1991, the statewide trend in property taxes has been upward; however, for these counties the property tax has demonstrated a downward trend. In 1991, effective tax rates ranged from a low of .44 to .70 per $100. For fiscal year 2006-07, effective tax rates range from .21 to .54 for these six counties. Undoubtedly, long-term residents of these counties realized significant savings.



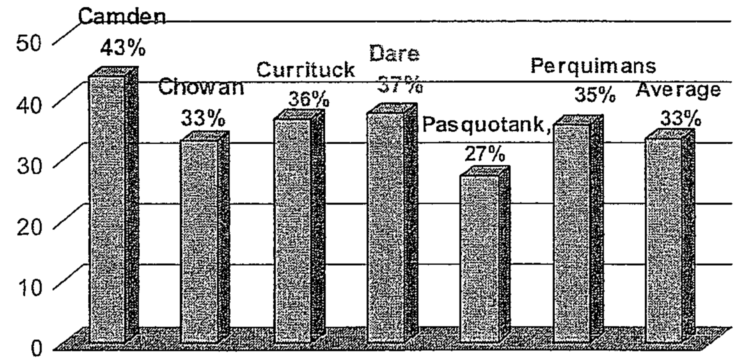
A closer examination of the total tax burden for each of the counties shows that there is some variability. Compared to the states' 100 counties, four of the six rank in the middle third at 39th, 48th, 55th, 68th , with the remaining two ranked in the top five. It must be noted, however, that the relatively high rankings of Dare and Currituck counties (first and fourth, respectively) reflect the nature of their populations, which include high numbers of seasonal residents with luxury homes. Their income is not included in this analysis but the local taxes they pay are included, thus skewing the comparison with counties who do not have many seasonal residents. Taken as a whole, these numbers demonstrate that there is no direct correlation between land transfer taxes and property taxes; that is, for the most part counties have achieved a balance in the overall tax structure despite the levying of the additional tax.

HUMAN CAPITAL & ECONOMIC DEVELOPMENT

The subject of land transfer taxes invariably leads to a question of how these measures impact economic development. According to figures from the N.C. Department of the Treasury, five years following the enactments, this group of counties increased contributions to Economic Development activities by an average of 55 percent. Comparing this to the performance of similarly sized counties reveals that their average increase in any comparable time period was only 25 percent.

These investments were made across a range of areas consistent with the diversity we see in the economies of this region. Nonetheless, the manufacturing base of these counties is relatively low, as each depends upon a growing service sector and some are reliant on a bustling tourist oriented economy. With this industry configuration in mind, we examine per capita income for the time period of 1991 to 2000, and see that five of the six counties met or exceeded the average increase in income for the entire state.

PERCENT INCREASE IN PER CAPITA INCOME 91'-00'



So too, the unemployment rate for each of these counties in 2005 was lower than the state average. Because their economies are influenced by the incidence of severe weather events, they have been able to literally weather the storm. Moreover, historically, the labor market in this region has consistently performed better than counties of comparable size. If we compare this region to another similarly sized tourist-oriented economy (Mid Carolina

Council — Buncombe, Henderson, Transylvania and Madison counties) we find that these counties have consistently exhibited lower unemployment rates. Therefore, the land transfer tax shows no ill effects on employment rates or economic growth.

Economic growth (as measured by gross retail sales per capita) shows that some counties have fared better than others. Dare and Currituck both ranked in the top five with respect to growth in this measure during the 1990s (ranking fifth and second, respectively). However, the remaining four counties rank as follows: Camden (29), Pasquotank (52); Chowan (73) and Pasquotank (97).

HOMEOWNERSHIP AND POPULATION GROWTH

According to the 2000 census, the median home value in four of the six counties was below the state average. In the case of Chowan, Perquimans and Pasquotank counties, the values were approximately 78 percent of the state average value of $108,300. Camden County's values were five percent lower than the state average. Currituck and Dare counties had values that exceeded the state average, principally due to an increase in the number of high-cost seasonal and retirement homes.

MEDIAN HOME VALUES
US Census Bureau

Currituck	115,500
Camden	113,000
Chowan	85,000
Dare	137,000
Pasquotank	85,000
Perquimans	83,000

We've averaged almost 30% annual growth the last 4 years. We are issuing about double the amount of dwelling permits now than we were just a few years ago.

Bobby Darden, Perquimans County Manager

The recent housing boon has dramatically increased the housing costs in both of these counties; however, the data from Census 2000 reflect a more accurate picture of the housing market 15 years post transfer tax. Moreover, the region has also continued to experience population growth. Projections from the NC State Demographer show that this area is projected to grow by 33 percent over the next 25 years. During the 15 years (1986-2000) after the implementation of the transfer tax, the area experienced double-digit growth of 22 percent. Moreover, while every county surrounding this group lost population between 2000 to 2004, each of these counties experienced a population increase.

Because of these positive indicators, this region has enjoyed a healthy economic picture for quite some time. The presence of consistently strong growth in the tax base, moderate debt levels, a low tax rate and the ability to fund essential projects has allowed each of these counties to achieve moderate to high bond ratings. If any instability can be found it would be in the economic concentration in tourism and the vulnerability of the region to major storms. However, these counties have demonstrated financial flexibility and solid reserves to mitigate these concerns.

CONCLUSION

Adhering to the three Guiding Principles has allowed these counties to contend with the challenges of growth while simultaneously exhibiting sound fiscal stewardship.

1. Taxpayer Protection through Tax Limitation
2. Focus on Continued Economic Development
3. Maintain cognizance of total tax picture

It is evident that North Carolina's experience with the land transfer tax shows this is a valuable tool for counties. Because the revenues have been targeted to infrastructure development and because officials have adhered to the principles above, concerns that transfer taxes inhibit growth, lead to skyrocketing home prices and unduly burden homeowners can be allayed.

A balanced approach to taxation clearly benefits elderly citizens and those on fixed incomes by lessening the pressure on property taxes. This allows these citizens to remain in their homes without fear of losing them to increasing tax rates or tax values.

From the perspective of the individual taxpayer (whose ability to pay taxes is entirely related to his/her own economic well-being); the volatility of property tax rates is equally problematic. Forcing counties to rely primarily on property taxes poses a challenge, because property taxes are levied on citizens regardless of their ability to pay. Whether they have a job or live on a fixed income, the levy is applied. Transfer taxes, however, are paid during the real estate transaction when citizens typically have financing available.

Finally, some argue that the land transfer tax is a volatile and fluctuating revenue source and that linking capital projects like schools to such a source is problematic. However, as demonstrated, the use of conservative budgeting with economically sensitive revenues and maintaining adequate fund balances for capital and disaster recovery insulates the financial stability from these fluctuations. It is evident these counties remain attractive and affordable places to live.