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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.

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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

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In 1995 we issued 1,713 building permits valued at \$96M. In 2004 we issued 3,464 building permits valued at \$295M. That's \$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 and 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.

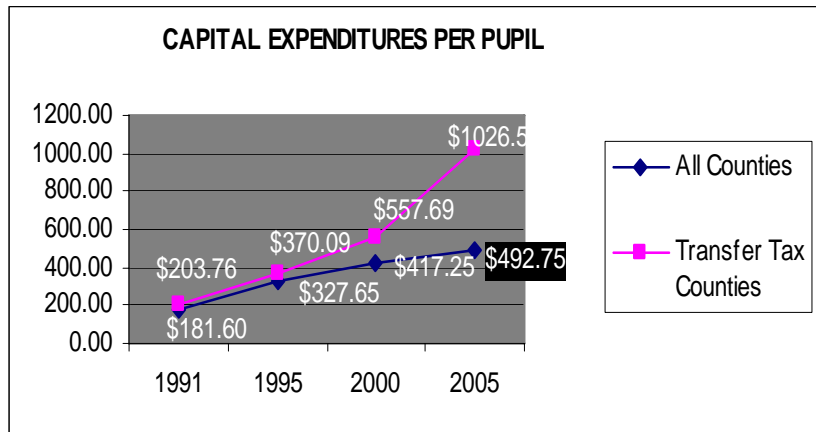
If not for the Land Transfer Tax, we would fall further behind in our school capital needs and would have to raise our property tax. We have been able to build a middle school and renovate two elementary schools without incurring any debt

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.



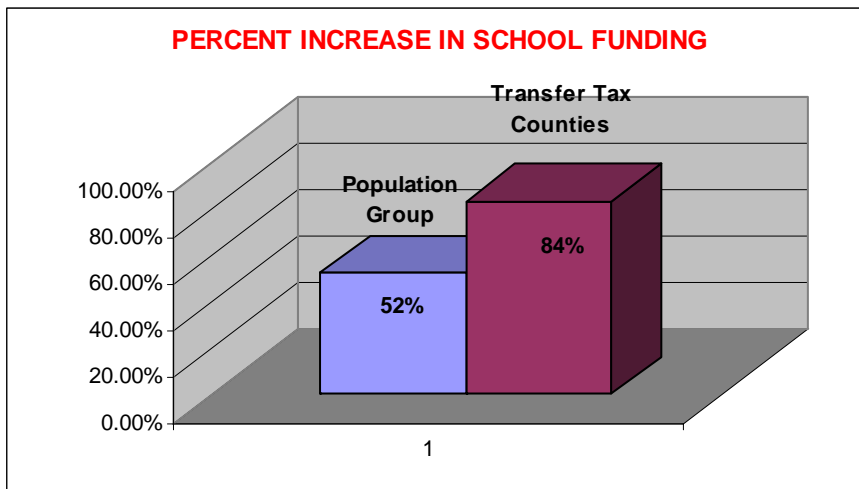
NC ASSOCIATION OF COUNTY
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In 1985, prior to implementing the land transfer tax, all of these counties ranked in the bottom third of the rankings with respect to the amount of funds expended on public education. By comparison, Washington County ranked 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.

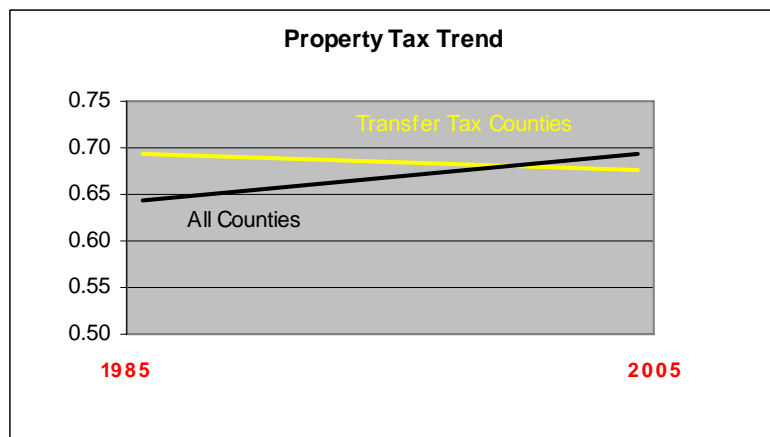
Overall, the land transfer tax has helped reduce funding disparities between property-rich/urban districts and property-poor/rural districts in these areas. In 1991, local per pupil capital expenditures ranged from \$56 to \$239. Today, per pupil capital funding has significantly moved upward with these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

2006/07 Capital Expenditures Per Pupil	
Dare	\$3,879.86
Perquimans	\$1,500.26
Orange	\$1,350.43
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

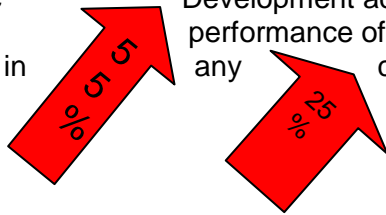
Ideally, with the imposition of a new tax, a local tax structure should reflect balance such that the total burden on taxpayers remains fair. These counties have generally provided their citizens with significant property tax relief. Taken as a whole, property taxes prior to the referendum were an average 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.

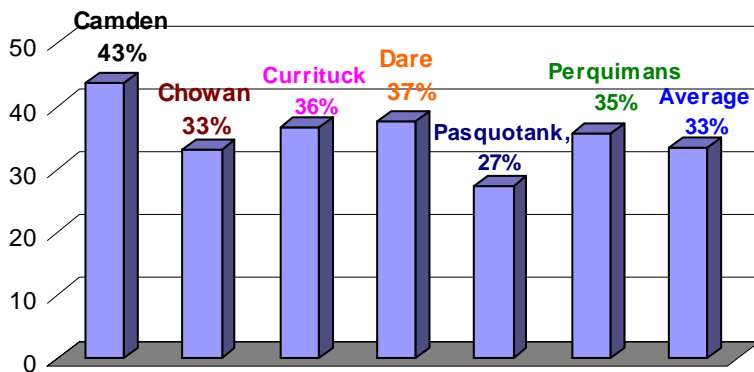
HUMAN CAPITAL & ECONOMIC DEVELOPMENT

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 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)¹; 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.