

**THE COST OF COMMUNITY SERVICES
IN FRANKLIN COUNTY**

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Introduction

In counties located near fast-growing urban areas, there is considerable debate over the desirable mix of land uses and the role that local government can and should play in affecting the rate at which new land uses supplant traditional ones. Franklin County is typical of such counties. The continuing economic growth in nearby Research Triangle has created unprecedented demands for residential and commercial development.

On the one hand, this situation has been welcomed by many because it has created significant economic development opportunities for the county's citizens and a significant increase in the county's revenue base. On the other hand, many of the county's citizens worry that the rapid pace of these changes will alter the character of Franklin County – particularly, the county's rural areas – in ways that are undesirable. Moreover, there is concern that the increased local government expenditures on community services needed to accommodate accelerated residential and commercial development may exceed the contribution of that development to the county's revenue base.

One important element of public debate over appropriate land use policies is whether or not increased county government expenditures on community services needed to accommodate residential and commercial development exceed the contribution of that development to the county's revenue stream. This report presents the findings of a research project aimed at addressing this specific issue. The research quantifies the contribution to local government revenues of various types of land uses (residential, commercial/industrial,¹ and agricultural), and the demands on local government financial resources of those same land uses. This “snapshot” of current revenues and expenditures allows an assessment of the costs and benefits of different land uses from the perspective of local government finance.

The analysis presented here employs a methodology established by the American Farmland Trust, one that has been used in numerous Cost of Community Services (COCS) studies throughout the U.S. Like those studies, the current research was motivated by two questions: (1) Do the property taxes and other revenues generated by residential land uses

¹ For simplicity, the term “commercial” will denote both commercial and industrial land uses for the remainder of this report. Likewise, “agricultural” will refer to farm and forest land uses.

exceed the amount of publicly-provided services supplied to them? (2) Does the fact that farm and forest lands are taxed on the basis of their Present Use Value – instead of their potential value in residential or commercial uses – mean that they are contributing less in tax revenues than the value of publicly provided services they receive?

As has been found in other COCS studies, the answer to both of these questions is “no” for Franklin County. The residential sector contributes only 89¢ to the county’s coffers for each dollar’s worth of services that it receives. Commercial and industrial land uses are the largest net contributors to the public purse, contributing \$1.90 in revenues for each dollar of publicly provided services that they receive. Despite being taxed on the basis of current land uses, property in agricultural land uses is found to be a net contributor to the local budget, generating \$1.32 in revenues for every dollar of public services that it receives.

At the outset, it is important to recognize two important limitations of analyses such as the one presented here. First, COCS studies highlight the relative demands of various land uses on local fiscal resources *given the current pattern of development*. As such, one should be cautious in extrapolating from the results of studies such as this in order to gauge the impact of future patterns of development on local public finance. Nonetheless, the results of studies such as this are useful in informing debates over such issues as whether or not alternative types of land uses are likely to contribute more in tax dollars than they demand in the way of services.

Second, the current study in no way deals with the *social* value of each of these forms of development – i.e., their contribution (positive or negative) to the well-being of the county’s citizens. Rather it focuses on the more narrow issue of whether or not these land uses “pay their own way” with regard to county revenues and expenditures. It is important to bear in mind that there is nothing sacred about an exact balance between revenues and expenditures associated with a particular land use, even when balancing the local budget is an overriding priority. Indeed, one of the primary functions of a local government is to redistribute local financial resources such that services desired by citizens are supplied, *even when those services cannot pay for themselves*. Determining the optimal distribution of those resources is a public policy issue to be resolved in the political arena. A study such as this fits into the process wherein such issues are debated by shedding light on the relative costs and benefits of the specific distribution of financial resources implicit in the existing pattern of development.

Methodology

The basic approach used in this research was quite simple. Working from Franklin County's most recent audited financial data, revenues and expenditures were allocated among three specific land use categories: (a) residential; (b) commercial; and (c) agricultural. This process was carried out in conjunction with a series of telephone interviews and email exchanges with a variety of local officials knowledgeable about the workings of specific departments.

Once revenues and expenditures were allocated to specific land use categories, the ratio of revenues to expenditures was computed for each. A revenue-expenditure ratio greater than 1.00 indicates that that sector's contribution to the public purse exceeds its demands for public funds. Conversely, a revenue-expenditure ratio less than 1.00 indicates that the sector's demand for publicly financed services exceeds its contribution to the local budget.

The basis for the current analysis is the actual expenditures recorded for the 2007-2008 fiscal year reported by the Franklin County Finance Department. As noted above, the allocation of these data to specific sectors was done in consultation with a variety of local officials (listed in the Acknowledgements). These individuals were best equipped to assess the extent to which the various land uses partake of the services provided by their departments. Where feasible, expenditures were allocated to land use categories using available data on staff salaries and/or activities records.

Often, existing records were not easily amenable to being broken out into various land use categories. In many of these cases, we relied on a local official's best guess of how their department's efforts were allocated. Where the relevant officials were unable to make such a guess, one of two allocation schemes was used. For services that exclusively benefit households (as opposed to commercial establishments)² – for example, public schools and library services – 100% of expenditures were allocated to the residential sector.³ For departments whose activities

² Note that the quality of "residential" services such as public schools may well have a positive influence on business formation, particularly the attractiveness of the county to firms considering relocation. These "spillover" effects are ignored here, however, because the information needs for quantifying them lie well beyond the scope of this research.

³ As is the case with other counties in North Carolina, Franklin County separates the farm business from the farm residence, assessing the property value of farm residences in the same manner as any other residences. For this reason, farm residences were included in the residential land use category throughout the analysis.

benefited both residences and businesses (including agricultural businesses), expenditures were allocated based on the proportion of total property value accounted for by each land use category. This “default” breakdown of assessed property valuation for 2007 was 76.4% residential, 17.4% commercial, and 6.2% agricultural. The expenditures of most of the county’s general government departments were allocated in this manner.

Revenues were handled in a manner similar to expenditures. Property tax revenues were allocated to specific land use categories based on the 2007 property assessments. Taxes and other revenue sources that are linked directly to commercial activities – for example, Article 39 sales taxes⁴ and privilege licenses – were allocated exclusively to the commercial sector. Revenues from sources associated exclusively with households (such as animal control revenues) were allocated to the residential sector. Revenues raised by specific county government departments from fees charged for services or from inter-governmental transfers were allocated in direct proportion to the allocation of expenditures by those departments, unless respondents indicated otherwise. Any remaining revenues that could not be directly allocated in these ways were allocated according to the proportion of total property value accounted for by each land use category.

Results

A detailed breakdown of revenues sources is found in Appendix Table 1. Total county general fund revenues for 2007-2008 were \$61.2 million. Just over half of this money came from ad valorem property taxes. Sales taxes (14%), fees for services (15%), and state and federal grants (13%) accounted for most of the rest.

Table 1 summarizes the overall breakdown of county expenditures for the 2007-2008 fiscal year (more detailed information is found in Appendix Table 2). During that year, Franklin County, general fund expenditures exceeded revenues by approximately \$2.9 million. This sum was transferred into the general fund from other capital funds – primarily the Capital Reserve Fund and the Water and Sewer fund. As these funds are overwhelmingly related to residential

⁴ The state distributes Article 39 sales tax revenues back to counties on a point-of-sale basis. Article 40 and 42 sales taxes are distributed back to counties based on county population; revenues from these sources were allocated to residential land uses. Article 44 sales taxes are distributed to counties in part on the basis of point of sale and in part

expenditures (for schools and for water treatment infrastructure, respectively), the entire amount of the transfer into the general fund was allocated to the residential sector.⁵

Table 1 indicates that education and human services departments accounted for nearly sixty percent of the total budget in 2007-2008. The services provided by these expenditures are directed exclusively to the residential sector; hence the large “footprint” of these two departments in county budget has a dominant impact on the results of this study.

Table 2 summarizes revenues and expenditures by land use category. Expenditures exceeded revenues for the residential land use category, while revenues exceeded expenditures for the commercial and agricultural land use categories. The computed revenue/expenditure ratios quantify the extent to which each of the three land use categories is either a net contributor or a net drain on Franklin County’s financial resources. For comparative purposes, the bottom of the table provides the results from some 103 other Cost of Community Services studies that have been conducted throughout the U.S., as well as seven studies that were conducted in Gaston, Henderson, Chatham, Wake, Orange, and Alamance Counties over the course of the past decade.

The revenue/expenditure ratio for the residential land use category is 0.89; this implies that for each dollar in property tax and other revenues generated by residential land uses, the county spends \$1.12 to provide services supporting those land uses. In other words, the residential sector is on balance a net user of local public finances. On the other hand, the other two land use categories are net contributors to local fiscal resources. The revenue/expenditure ratio of 1.32 for agriculture implies that revenues exceed expenditures for this land use category by 32 percent. The commercial land use category stands out as having the highest revenue/expenditure ratio (1.90). This result indicates that the county spends only 53¢ on services benefiting commercial and industrial establishments for every public dollar generated by those establishments.

Finally, Table 3 presents an analysis which computes the residential property value needed to generate an exact balance between average revenues contributed by current housing units and the average value of public services consumed by households. This “breakeven” house

on the basis of county population; accordingly, these were allocated to residential and commercial land uses on a 50-50 basis.

⁵ Note that this is the most conservative assumption possible from the perspective of assessing the extent to which the residential sector “pays for itself” in that it maximizes the revenues attributable to residential land uses.

price was computed assuming that any new household would consume the average amount of services reflected in the 2007-2008 budget – i.e., that they would possess the average number of school kids, consume an average amount of public health and social services, etc. The computation further assumes that any new household would contribute the average amount of non-property tax revenues generated by existing residential properties, and takes as a benchmark the current property tax rate of 82.25¢ per \$100. Based on these assumptions, the breakeven property value is computed to be just over \$207,000.

Discussion

The results presented above provide answers to the two questions posed at the beginning of this report. As regards the public services provided by Franklin County, commercial and industrial land uses emerge as being the largest net contributor to local financial resources. In contrast, the value of public services provided to residential land uses exceed the property taxes and other revenues that they contribute to the county budget. This finding contrasts with claims that are sometimes made that residential development is a boon to county finances due to its expansion of the property tax base. It would appear that the very large footprint of the education and human services expenditures in the overall county budget plays a dominant role in explaining this phenomenon. Finally, agricultural lands more than pay their own way. This is true despite these properties being taxed on the basis of their current use (as opposed to their potential use were they to be transformed into commercial or residential uses).

Qualitatively, these findings for Franklin County are consistent with the findings of nearly every Cost of Community Services study that has been carried out in other counties in North Carolina and in communities throughout the U.S. The degree of cross-subsidization of the residential sector – in particular, the extent to which the Franklin County’s commercial sector pays for services provided to its residential sector – is slightly lower than the median in other studies that have been conducted nationally. Closer to home, the relative balance of revenues and expenditures for the residential and commercial land use categories is qualitatively similar to that which was found in comparable studies conducted in Chatham, Wake, Alamance, Gaston, Henderson, and Orange Counties.

As was stressed at the outset, some degree of subsidization of certain land uses by other

land uses is to be expected in virtually every community. The distribution of revenues and expenditures among various land uses in Franklin County that has been computed here is based on current land use patterns in the county. Determining whether or not this distribution is appropriate – either now or in the future – is an issue that can only be resolved in the local political arena.

Table 1. Franklin County Expenditures for 2007-2008

Item	Expenditure	%
Education ^a	19,337,705	30.1%
Human Services	18,410,690	28.7%
Public Safety	14,644,378	22.8%
Economic and Physical Development	5,364,971	8.4%
General Government	4,795,841	7.5%
Cultural and Recreational	1,625,597	2.5%
Total	64,179,182	100%

a. Includes the cost of servicing school debt (principal and interest).

Source: *Franklin County Annual Operating Budget 2007-2008*

Table 2. Revenues vs. Expenditures in Franklin County

	Residential	Commercial	Agricultural
Expenditures	\$56,455,427 (88.0%)	\$5,981,522 (9.3%)	\$1,742,233 (2.7%)
Revenues	\$50,507,115 (77.7%)	\$11,375,680 (18.6%)	\$2,296,387 (3.7%)
Revenues/Expenditures ratio^a	0.89	1.90	1.32
Revenue/Expenditure ratios from national studies^b			
Minimum	0.47	0.96	1.01
Median	0.87	3.57	2.78
Maximum	0.99	20.00	50.00
Revenue/Expenditure ratios from local studies			
Chatham County (1998)	0.90	2.13	1.09
Wake County (2001)	0.65	5.63	2.12
Alamance County (2006)	0.68	4.29	1.69
Orange County (2006)	0.76	4.21	1.38
Chatham County (2007)	0.87	3.01	1.72
Henderson County (2007)	0.86	2.52	2.03
Gaston County (2008)	0.81	2.41	1.13

a. This ratio measures the amount of county revenue contributed by a given land use sector for each dollar in public services used by that sector.

b. These figures are derived from 103 Cost of Community Services summarized on the American Farmland Trust website (http://farmlandinfo.org/documents/27757/FS_COCS_8-04.pdf).

Table 3. Breakeven Analysis for Residential Property Value in Franklin County

(1) Property tax rate (¢ per \$100 of property value)	82.25
(2) Residential Non-Property Tax Revenue Contribution in 2007/2008	\$ 24,489,631
(3) Total residential expenditures in 2007/2008	\$ 57,014,678
(4) Total Expenditures needing to be paid for by property taxes [(3) - (2)]	\$32,525,047
(5) Number of residential properties in the county	19,100
(6) Per household expenditures needing to be paid for by property taxes [(4) ÷ (5)]	\$1,703
Breakeven property value [(6) ÷ (1)]	\$207,037

Appendix Table 1. Franklin County Revenues by Land Use Category for 2007-2008

	Total	Residential	Commercial	Agricultural	Breakdown
AD VALOREM TAXES:	30,721,411	23,471,158	5,345,526	1,904,727	
Taxes	30,406,451	23,230,529	5,290,722	1,885,200	default
Penalties and Interest	314,960	240,629	54,803	19,528	default
LOCAL OPTION SALES TAXES	8,418,813	5,421,776	2,997,037	0	
Article 39 (one-cent)	2,234,054	0	2,234,054	0	0-100-0
Article 40 (half-cent)	2,334,450	2,334,450	0	0	100-0-0
Article 42 (half-cent)	2,324,343	2,324,343	0	0	100-0-0
Article 44 (half-cent)	1,525,966	762,983	762,983	0	50-50-0
PERMITS AND FEES	2,268,394	1,744,746	427,829	95,818	
Building Permits	97,470	61,406	31,190	4,874	63-32-5
Inspection Fees	1,132,199	713,285	362,304	56,610	63-32-5
Register of Deeds and Fees	686,700	618,030	34,335	34,335	90-5-5
Adequate Facilities Fees	291,388	291,388	0	0	100-0-0
Recreation Reserve Fees	60,637	60,637	0	0	100-0-0
SALES AND SERVICES	9,097,445	7,330,775	1,648,984	117,686	
Rents, Concessions and Fees	53,490	40,866	9,307	3,316	default
Health Fees	3,034,167	3,034,167	0	0	100-0-0
Social Services	496,561	496,561	0	0	100-0-0
Aging Services	114,186	114,186	0	0	100-0-0
Airport	621,559	310,780	310,780	0	50-50-0
Sheriff and Jail Fees	1,614,082	1,233,159	280,850	100,073	default
Library Fees and Donations	34,439	34,439	0	0	100-0-0
Solid Waste Fees	2,091,138	1,066,480	1,024,658	0	51-49-0
Ambulance and Rescue Squad Dees	926,238	907,713	9,262	9,262	98-1-1
Recreation	30,394	30,394	0	0	100-0-0
Other	81,191	62,030	14,127	5,034	default
Privilege Licenses	2,376	0	2,376	0	0-100-0

Appendix Table 1. Franklin County Revenues by Land Use Category for 2007-2008 (continued)

	Total	Residential	Commercial	Agricultural	Breakdown
RESTRICTED INTERGOV'T	9,045,722	8,910,023	103,324	32,375	
Federal and State Grants	8,184,074	8,178,646	4,002	1,426	99.93-.05-.02
Lottery Proceeds	364,145	278,207	63,361	22,577	100-0-0
Court Facility Fees	135,039	103,170	23,497	8,372	default
ABC Bottles Taxes	12,464	0	12,464	0	100-0-0
School ADM Funds	350,000	350,000	0	0	default
INVESTMENT EARNINGS	931,021	711,300	161,998	57,723	default
UNRESTRICTED INTERGOV'T	637,646	40,477	593,884	3,285	
Gasoline tax refund	107	82	19	7	default
State DWI Fees	6,522	4,983	1,135	404	default
Beer and Wine Tax	216,664	0	216,664	0	0-100-0
White Goods Tax	19,586	0	19,586	0	0-100-0
Occupancy Tax	58,468	0	58,468	0	0-100-0
Franchise Fees	145,033	0	145,033	0	0-100-0
Tire Disposal Fees	46,352	35,413	8,065	2,874	default
Hold Harmless	144,914	0	144,914	0	0-100-0
MISCELLANEOUS	117,675	89,904	20,475	7,296	
Donations and Private Grants	38,403	29,340	6,682	2,381	default
Insurance Proceeds	10,865	8,301	1,891	674	default
Other	68,407	52,263	11,903	4,241	default
Transfers in from other funds	2,938,679	2,938,679	0	0	100-0-0
TOTAL REVENUES	64,179,182	50,507,115	11,375,680	2,296,387	
		(77.7%)	(18.6%)	(3.7%)	

a. Percentage breakdown by land use category (residential-commercial-agricultural). Default percentages were based on 2007 assessed property valuation (residential - 76.4%; commercial - 17.4%; agricultural - 6.2%).

Appendix Table 2. Franklin County Expenditures by Land Use Category for 2007-2008

	Total	Residential	Commercial	Agricultural	Breakdown^a
GENERAL GOVERNMENT	4,795,841	3,706,045	772,788	317,008	
Governing Body	276,106	210,945	48,042	17,119	default
Administration	394,508	301,404	68,644	24,459	default
Elections	274,886	210,013	47,830	17,043	default
Finance	376,754	287,840	65,555	23,359	default
Taxes	1,182,172	903,179	205,698	73,295	default
Register of Deeds	392,096	352,886	19,605	19,605	90-5-5
Public Buildings	1,058,498	808,692	184,179	65,627	default
Court Facilities	73,144	55,882	12,727	4,535	default
Information and Technology Services	139,601	106,655	24,291	8,655	default
GIS Mapping	176,600	123,620	17,660	35,320	70-10-20
Other General Government	451,476	344,928	78,557	27,992	default
PUBLIC SAFETY	14,644,378	12,040,769	1,935,290	668,319	
Sheriff and Communications	5,949,478	3,986,150	1,308,885	654,443	67-22-11
Jail	2,638,488	2,015,805	459,097	163,586	Default
Jail Nutrition	714,046	545,531	124,244	44,271	Default
Medical Examiner	26,375	25,848	264	264	98-1-1
Emergency Management	374,333	285,990	65,134	23,209	Default
Fire	91,832	0	91,832	0	0-100-0
Code Enforcement	609,254	456,941	121,851	30,463	75-20-5
Rescue Units	3,765,936	3,690,617	37,659	37,659	98-1-1
Animal Control	314,935	314,935	0	0	100-0-0
Community-based Alternatives	159,701	159,701	0	0	100-0-0
CULTURAL AND RECREATIONAL	1,625,597	1,625,597	0	0	
Arts and Recreation	887,989	887,989	0	0	100-0-0
Libraries	737,608	737,608	0	0	100-0-0

Appendix Table 2. Franklin County Expenditures by Land Use Category for 2007-2008 (continued)

	Total	Residential	Commercial	Agricultural	Breakdown
HUMAN SERVICES	18,410,690	18,176,924	224,416	9,351	
Health	935,065	701,299	224,416	9,351	75-24-1
Health Clinic	2,382,134	2,382,134	0	0	100-0-0
Home Health	1,276,090	1,276,090	0	0	100-0-0
Dental Health	498,909	498,909	0	0	100-0-0
Administration	5,026,239	5,026,239	0	0	100-0-0
Medicaid Program	2,868,516	2,868,516	0	0	100-0-0
Special Assistance Program	523,041	523,041	0	0	100-0-0
Work First	26,260	26,260	0	0	100-0-0
Foster Care	304,597	304,597	0	0	100-0-0
Crisis Intervention	184,799	184,799	0	0	100-0-0
General Assistance Program	19,984	19,984	0	0	100-0-0
Day Care Program	2,302,225	2,302,225	0	0	100-0-0
Other Assistance	592,574	592,574	0	0	100-0-0
Aging Program	1,209,857	1,209,857	0	0	100-0-0
Mental Health Administration	155,757	155,757	0	0	100-0-0
Veterans Service Office	104,643	104,643	0	0	100-0-0
EDUCATION	39,049,521	30,770,884	8,100,526	178,111	
Public Schools - current	11,200,520	11,200,520	0	0	100-0-0
Public Schools - capital outlay	1,202,637	1,202,637	0	0	100-0-0
Public Schools (lottery) - capital outlay	303,593	303,593	0	0	100-0-0
Community Colleges – current	270,000	270,000	0	0	100-0-0
Community Colleges - capital outlay	15,000	15,000	0	0	100-0-0
DEBT SERVICE	6,345,955	5,934,621	321,010	90,323	
Principal Retirement	3,837,682	3,519,154	253,287	65,241	91.7-6.6-1.7
Interest and Fees	2,508,273	2,415,467	67,723	25,083	96.3-2.7-1.0

Appendix Table 2. Franklin County Expenditures by Land Use Category for 2007-2008 (continued)

	Total	Residential	Commercial	Agricultural	Breakdown
ECONOMIC & PHYSICAL DEV'T	5,364,971	2,538,972	2,454,342	371,657	
Agricultural Extension	320,314	64,063	64,063	192,188	20-20-60
Soil and Water Conservation	211,140	31,671	0	179,469	15-0-85
Industrial Development	361,333	0	361,333	0	0-100-0
Planning	584,163	467,330	116,833	0	80-20-0
Airport	698,325	349,163	349,163	0	50-50-0
Landfill	3,189,696	1,626,745	1,562,951	0	51-49-0
Total Expenditures	64,179,182	56,455,427	5,981,522	1,742,233	
		(88.0%)	(9.3%)	(2.7%)	

a. Percentage breakdown by land use category (residential-commercial-agricultural). Default percentages were based on 2007 assessed property valuation (residential - 76.4%; commercial - 17.4%; agricultural - 6.2%).