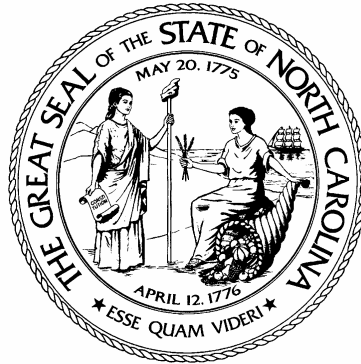


LEGISLATIVE RESEARCH COMMISSION

IMPACT OF MILITARY BASES ON PUBLIC SERVICES AND TAXES COMMITTEE



REPORT TO THE
2001 SESSION OF THE
2001 GENERAL ASSEMBLY
OF NORTH CAROLINA

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1999 - 2000

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PREFACE

The Legislative Research Commission, established by Article 6B of Chapter 120 of the General Statutes, is the general purpose study group in the Legislative Branch of State Government. The Commission is cochaired by the Speaker of the House of Representatives and the President Pro Tempore of the Senate and has five additional members appointed from each house of the General Assembly. Among the Commission's duties is that of making or causing to be made, upon the direction of the General Assembly, "such studies of and investigations into governmental agencies and institutions and matters of public policy as will aid the General Assembly in performing its duties in the most efficient and effective manner" (G.S. 120-30.17(1)).

The Legislative Research Commission, prompted by actions during the 1999 Session and 2000 Sessions, has undertaken studies of numerous subjects. These studies were grouped into broad categories and each member of the Commission was given responsibility for one category of study. The Cochairs of the Legislative Research Commission, under the authority of G.S. 120-30.10(b) and (c), appointed committees consisting of members of the General Assembly and the public to conduct the studies. Cochairs, one from each house of the General Assembly, were designated for each committee.

The study of impact of military bases on public services and taxes was authorized by Section 2.1(5)b of S.L. 1999-395. The Legislative Research Commission authorized this study under authority of G.S. 120-30.17(1) and grouped this study in its Taxation and Economic Development Issues area under the direction of Representative William Wainwright. Senator Oscar Harris and Representative Alex Warner chaired the Committee. The full membership of

the Committee is listed in Appendix B of this report. A committee notebook containing the committee minutes and all information presented to the committee will be filed in the Legislative Library by the end of the 1999-2000 biennium.

COMMITTEE PROCEEDINGS

North Carolina regards its military bases as one of its greatest assets. There are six military installations located in North Carolina: Fort Bragg and Pope Air Force Base are located in Cumberland, Harnett, and Hoke Counties; Seymour Johnson Air Force Base is located in Wayne County; MCAS Cherry Point is located in Craven County; MCB Camp LeJeune and MCAS New River are located in Onslow County. The communities where these military installations are located receive an economic benefit from their presence in them. These communities also provide services to support the installations and the military personnel that work on those installations. The Committee explored the benefits these communities and the State derive from the installations' presence in the State, as well as the tangible and intangible expenses these communities must expend to support the installations.

The Committee met four times during the course of its study. At its first meeting, the Committee heard presentations from Colonel David Jones, the Governor's military liaison, Ms. Betty Smith, from Fort Bragg, and Mr. John Peacock and Mr. Tony World, representing Seymour Johnson Air Force Base and the community of Goldsboro. They addressed the economic benefits derived by the State from the presence of the military installations in the State. The installations employ more than 111,000 active duty service personnel and more than 20,000 civilians. The installations pay more than \$3.9 billion in salaries and spend more than \$12 billion on purchasing and contracting.

The Committee heard testimony from Rick Glazier, the former chair of the Cumberland County Board of Education, and from Ricky Lopes, the finance officer for Cumberland County Schools. They addressed the problems Cumberland County has funding its educational system, which is comprised of a large percentage of students from military families. (See Appendix C) The Committee learned that the federal government provides impact aid directly to the school

districts to offset part of the cost of educating federal military students. There are three categories of federal students, one of which is military students. In order to reflect the relative weight of a federal student on a school district, different types of students are assigned different weights in a funding formula. The amount of aid varies depending on the weight given to the federal students in the formula. The assigned weight is based on a number of factors but mainly a school district's ability to receive property tax revenues from a federal student's family. A military student that lives on federal land is weighted at 1.00. A military student that does not live on federal land is weighted at 0.10. Most of the military students in Cumberland County do not live on federal land, so the weight per student is only 0.10. That weight equates to about \$160 per student. Cumberland County spends a little over \$1,000 per student.

The amount of federal impact aid dollars has steadily decreased over the last few years. Mr. Lopes stated that Cumberland County Schools received its highest amount of impact aid in 1979: \$3.8 million. In the year 2000, the school district has received about \$2 million. Over the last few years, the weight given in the formula to students living off the installation has declined, as well as the amount of funding for the impact aid program overall. (See Appendix D)

At its second meeting, the Committee discussed the concerns some military communities have with the lack of property tax revenues generated by military families. Much of the land in military communities is owned by the federal government and is thus exempt from property tax. Some military personnel maintain their vehicle registrations in another state and do not pay North Carolina highway use tax, registration fees, or property taxes on their vehicles. In addition, many military personnel declare other states as their states of residence and therefore do not pay income taxes to the State. And many of the military families purchase products from military commissaries and exchanges, which are exempt from sales tax. However, there are many private businesses located on military installations, such as Burger King, and these businesses do collect and remit sales taxes. Also, the military families purchase many goods in

the surrounding communities' malls and retail establishments where sales tax is collected and remitted.

The Committee considered the impact of the federal installations on the transportation system. Al Avant with the Department of Transportation, and Rick Heicksen with the Metropolitan Planning Organization addressed the Committee on this issue. Both speakers spoke very favorably about their involvement in highway projects surrounding the military installations. In most cases where the roads are built in connection with needs of the military installations, the federal government has contributed 80% of the costs of the project.

The Committee heard testimony from various elected officials and concerned citizens in military communities about the constraints placed on a community's resources as it attempts to accommodate the increased population and the social concerns generated by an increasing military population. Joseph Kilmartin, founder of the Western Harnett County Concerned Citizens, expressed concerns with education, as well as recreational and infrastructure issues. These concerns were echoed by other local government officials: Joe Bowden, a county commissioner from Harnett County, Larry Fitzpatrick, a county commissioner from Onslow County, and Neal Emory, the manager from Harnett County.

Local officials' concerns expressed during the second meeting continued in the third Committee meeting. At its third meeting, the Committee heard testimony from Rodney Tart, the Director of the Harnett County Public Works Department, about the explosive infrastructure needs in the western part of Harnett County, which borders Cumberland County and Ft. Bragg/Pope AFB. The population in that area of the county has increased faster than the county has the resources to meet its water and sewer needs. Although many of the water needs are manageable, the sewer needs are not. The Committee also heard testimony from Ron Craven, the President of the Western Harnett County Concerned Citizens. In addition to the concerns expressed by many

of the prior speakers, he addressed problems caused by increased crime and drug-related activity. (See Appendix E)

Lastly, the Committee heard testimony concerning the greater economic impact the military installations could provide for many businesses and industries in the State, especially in the eastern part of the State. Col. David Jones, the Governor's Military Liaison, noted that while North Carolina ranks 5th among states in federal defense spending, it ranks 43rd in total dollars from federal contracts. The Governor's Advisory Commission on Military Affairs created several committees, one of which is the DoD Business Committee. That Committee conducted a survey of how military installations contract for goods and services. With the current trend in government towards privatization and outsourcing, the Committee feels there is an excellent chance for State businesses to increase their share of business with DoD. (See Appendix F)

Rudy Baker chaired the DoD Business Committee. He presented his Committee's recommendations to the LRC Committee. The DoD Business Committee made the following recommendations:

- The State should change its view of the Department of Defense from a military presence with all its attendant equipment and training requirements to a vibrant and exploitable industry. As an industry, the DoD presents a tremendous potential to grow and expand existing businesses.
- The State should consider creating a single point registration system that would enable businesses to register for federal contracts at the same time they register for State contracts. To do business with it the DoD requires a vendor to register electronically in a Central Contract Registration system. North Carolina has a similar system known as "Vendor Link NC".
- The State should consider ways to publicize the availability of current resources that can assist businesses in their quest to secure contracts with military

installations, such as the Small Business and Technology Development Center Procurement Technical Assistance Center (SBTDC/PTAC) and the Electronic Commerce Resource Center (ECRC). Education and awareness are the keys to using and demystifying electronic commerce, which is seen by many businesses as an impediment to doing business with a military installation.

- The State should recognize the skilled workforce represented by the more than 17,000 service members which transition from active duty each year in North Carolina. This resource could be marketed to recruit companies to be relocated in industrial parks near military installations, all of which are located in the eastern part of the State.
- The State should identify and evaluate additional DoD business opportunities. DoD spends more than \$127 billion annually on goods and services. If the State could quantify the type of procurement at its military installations, it could possibly identify the North Carolina businesses that are or could be providing the needed goods and services. (See Appendix G)

Paul Friday, with Concurrent Technologies Corporation (CTC), supported Mr. Baker's Committee's recommendations. The Electronic Commerce Resource Center works with CTC to provide technical support to companies who wish to do business with DoD by providing assistance in electronic commerce.

The Committee directed the staff to explore and develop the recommendations of the DoD Business Committee. In studying the recommendations of the DoD Business Committee, the staff learned that there are many resources available to help businesses contract with the Department of Defense: the Department of Commerce, the Procurement Technical Assistance Center (PTAC) within the SBTDC, the Community College System, the Employment Security Commission, and the Department of Administration. Representatives from many of these groups

met with the staff and agreed that a coordinated approach among them would help North Carolina businesses increase their chance of being awarded a DoD contract. At its fourth meeting, the Committee heard from representatives from several different organizations discussing the purchasing and contracting needs of the military and how the State is currently helping North Carolina businesses meet those needs. The speakers included Tom Elam with PTAC, Ray Broughton with the Division of Purchase and Contract, Department of Administration, Major Chris Craig with Marine Corps Base, Camp Lejeune, and David Clegg with the Employment Security Commission.

The Committee also began reviewing its findings and recommendations for the 2001 General Assembly at its fourth meeting. The Committee spent a great deal of time discussing the financial need of counties that contain or border military installations. The Committee recognized and appreciated the financial benefits the installations bring to these communities. It also recognized the financial challenges many of these counties have in meeting their citizens' needs, especially in the areas of education, recreation, and infrastructure. The Committee discussed the advantages and disadvantages of authorizing these counties to levy an additional one-cent local sales and use tax. The Committee concluded that Cumberland and Harnett County might have special financial challenges that need a different solution than other areas of the State and that the advantages of levying an additional local sales and use tax in those counties outweighs the disadvantages.

COMMITTEE FINDINGS AND RECOMMENDATIONS

The Legislative Research Commission's Committee on the Impact of Military Bases on Public Services and Taxes made findings in three areas related to the impact of military bases on public services and taxes in communities that serve large numbers of military personnel and their families. The Committee has four recommendations to propose to the 2001 General Assembly to address these findings. The findings and recommendations may be grouped as follows:

1. Increase the economic benefits that may be derived by businesses in this State from the military bases.

- Legislative Proposal 1: Direct the Department of Commerce to convene a group of parties that have expertise in the area of contracting with the Department of Defense for the purpose of increasing the amount of dollars from federal contracts paid to businesses in North Carolina.

2. Increase the amount of revenues available to counties that serve the families associated with the military bases so that those counties may better meet the educational needs of their citizenry.

- Legislative Proposal 2: Encourage Congress to fully fund the federal impact aid formula and to increase the weight given in the formula to military students living off base.
- Legislative Proposal 3: Provide Harnett and Cumberland Counties with the ability to levy an additional one-cent local sales and use tax for public school current expenses and capital outlay projects and for water and sewer capital outlay projects.

3. Increase the awareness of the poor quality of life many military families face when they live off the installations' premises.

- Legislative Proposal 4: Encourage Congress to study quality of life issues for military personnel and their family members, such as housing, infrastructure, and recreational opportunities and to study the feasibility of providing federal grant monies to local governments in areas with heavy concentrations of military-related residents to help meet these quality of life needs.