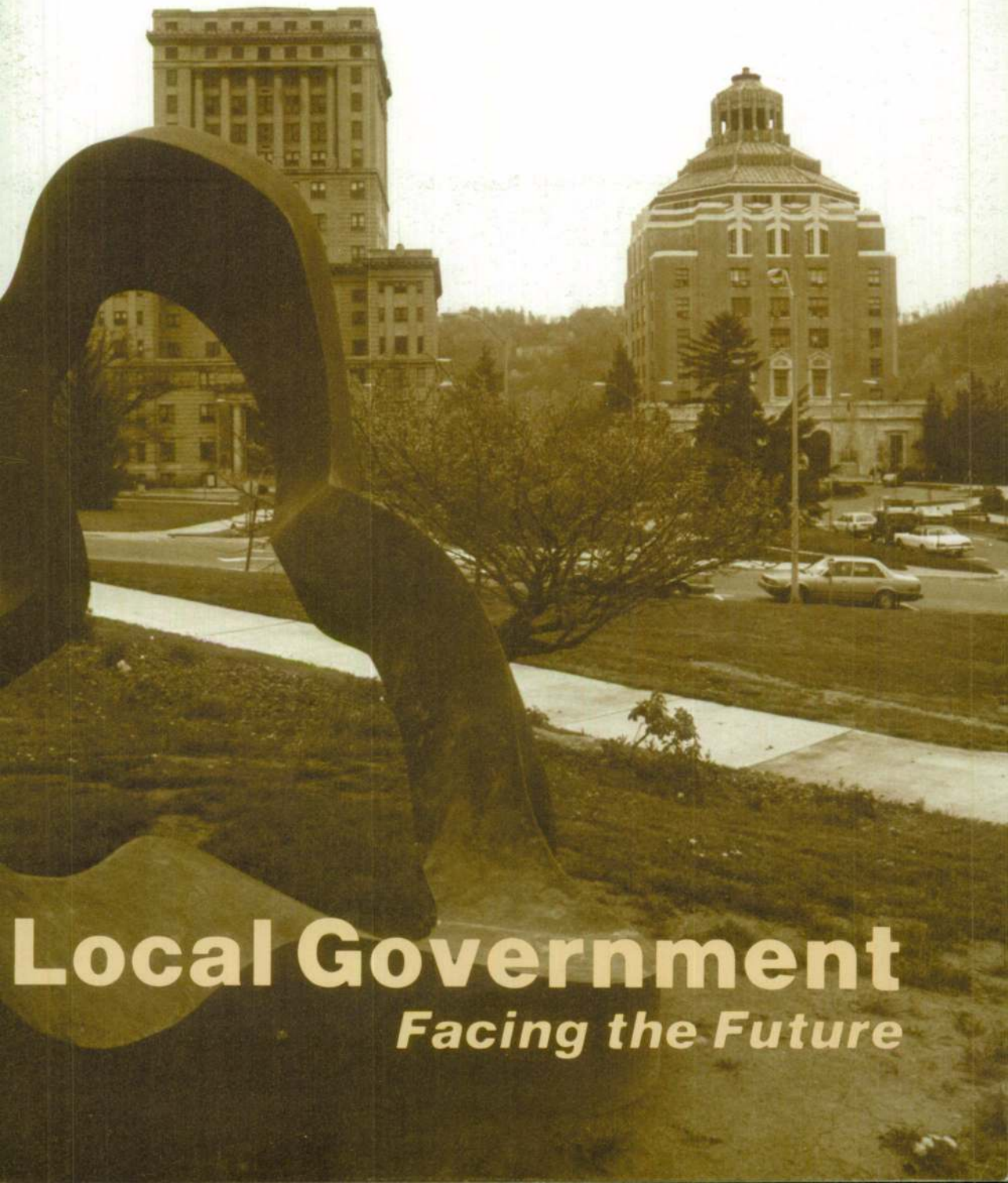


North
Carolina

Insight

June 1984 Vol. 7, No. 1



Local Government
Facing the Future



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A non-profit, non-partisan organization, the Center was formed in 1977 by a diverse group of private citizens "for the purpose of gathering, analyzing and disseminating information concerning North Carolina's institutions of government." It is guided by a self-electing Board of Directors and has individual and corporate members across the state.

Center projects include the issuance of special reports on major policy questions; the publication of a quarterly magazine called *North Carolina Insight*; the production of a symposium or seminar each year; and the regular participation of members of the staff and the Board in public affairs programs around the state. An attempt is made in the various projects undertaken by the Center to synthesize the integrity of scholarly research with the readability of good journalism. Each Center publication represents an effort to amplify conflicting views on the subject under study and to reach conclusions based on a sound rationalization of these competing ideas. Whenever possible, Center publications advance recommendations for changes in governmental policies and practices that would seem, based on our research, to hold promise for the improvement of government service to the people of North Carolina.

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Cover: The Buncombe County Courthouse and the City Building of Asheville rise behind sculpture by Dirck Crusier in Asheville's city/county plaza.

Photo by Michael Matros.

North Carolina Insight

Vol. 7, No. 1

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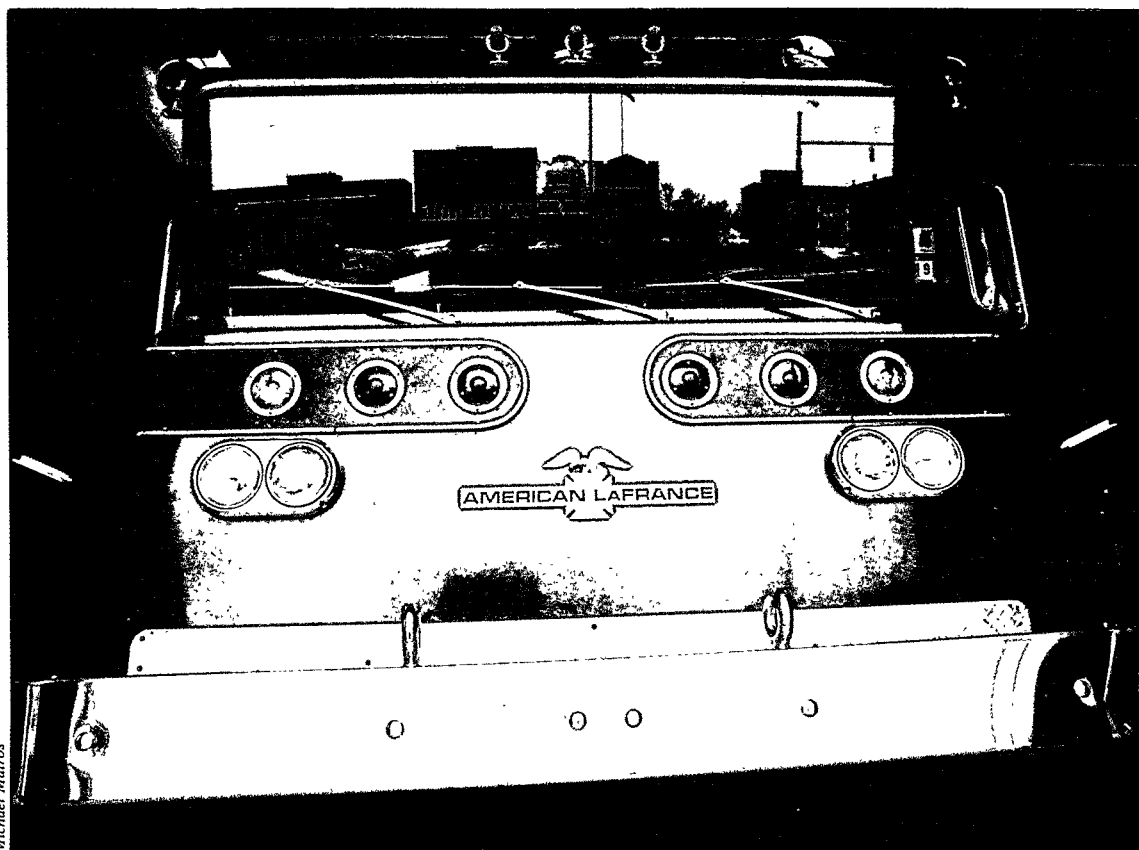
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Editor's Note

Local Government Officials— Making the Wheels Turn

by Bill Finger

When you get up in the morning, do you think about how good a job your municipal or county officials are doing? Sounds like a crazy question, doesn't it? Burning the toast, packing the kids' lunch, or getting to work on time rules the morning hours in most households. But try it just once. Run through your and your family's routine. How important are *local* government officials for the quality of your life?

To tick off just a few possible elements of your daily schedule:

* Brushing your teeth and flushing the toilet—Did the county and city officials ever work out the dispute over the new reservoir and sewage lines?

* Riding the bus or car—Has the municipal maintenance crew kept the streets clear of Boston-style potholes?

* Taking out the garbage—Is the extra assessment (read the fine print on your water bill) worth the backyard service?

* School day—Did the county commissioners vote enough money to the school board? Did the school board close the neighborhood school?

* Accident or fire—How professional were the police and fire officials?

* Watching T.V.—Did the channel fuzz out on the cable just as Bogart finally embraced Bacall?

Water, sewer, garbage, schools, police, fire, zoning, cable television, economic opportunities, welfare, parking, libraries, swimming pools. The basics of life, in many cases, depend not upon a bureaucrat in Washington or Raleigh but upon good leadership and execution in the county courthouse or city hall. Certainly, funds and

regulations come from Raleigh and Washington. But local officials deliver many of the everyday services which none of us would like to do without.

In North Carolina, there are 879 units of general purpose local government—100 counties, 513 municipalities, and 266 special districts. All are creatures of the state. “The General Assembly shall provide for the organization and government and the fixing of boundaries of counties, cities and towns, and other governmental subdivisions,” reads Article VII, Section 1 of the N.C. Constitution. While beholden to the legislature for their existence, these local governments deliver the services. Consequently, a great deal of pride and possessiveness over local government functions has evolved.

Many think North Carolina could do with fewer local governments. “I commend to your serious consideration the mandatory consolidation of some counties,” Gov. O. Max Gardner told the 1931 General Assembly, the historic legislative session that rescued local governments from financial disaster (see page 6). “The beneficial experience gained by such enforced legislation will, I believe, pave the way for further

consolidations at future sessions of the General Assembly.”

In this case, Gardner misjudged the future. A politically charged issue, consolidation of local governments has hardly advanced past the thinking stage. Several efforts at municipal-county consolidation have been defeated (in Asheville/Buncombe County, Charlotte/Mecklenburg County, and other areas). But an increased sharing of governmental services—from water and sewer lines to libraries and parks—has again brought the idea of consolidation into the forefront. Only recently Mecklenburg County and Charlotte, which already administer numerous services jointly, have again begun to consider merger.

“Functional consolidation is definitely increasing,” says Ron Aycock, director of the N.C. Association of County Commissioners, in an interview that begins the “county” section of this issue of *North Carolina Insight*. “People will wake up one morning and wonder where the separate services from a city and county went. Then we might have consolidation, but I won’t predict how long it will take.”

S. Leigh Wilson, director of the N.C. League

Table 1. Chief Functions and Services Authorized for City and County Governments in North Carolina*

A. Services and Functions Authorized for Counties Only

- | | | |
|---------------------------|-----------------------------|---------------------------------|
| 1. Forest protection | 6. Drainage | 11. Public schools |
| 2. Agricultural extension | 7. Juvenile detention homes | 12. Railroad revitalization |
| 3. Community colleges | 8. Medical examiner/coroner | 13. Register of deeds |
| 4. County home | 9. Mental health | 14. Social services |
| 5. County surveyor | 10. Public health | 15. Soil and water conservation |

B. Services and Functions Authorized for Both Cities and Counties

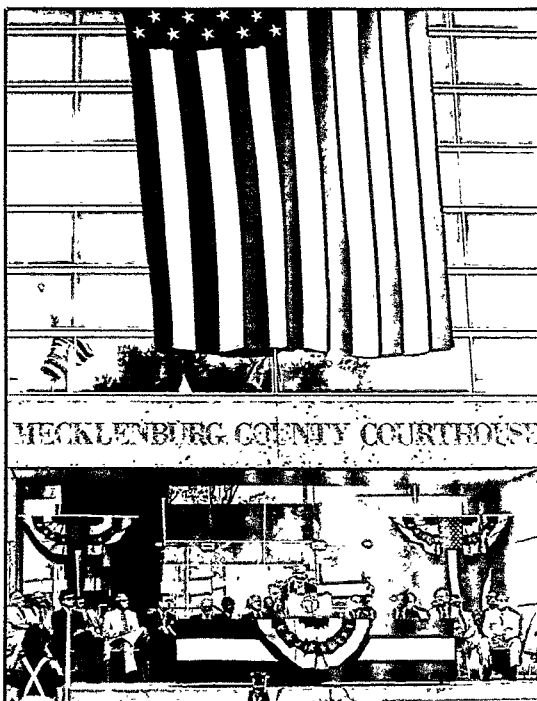
- | | | |
|---|---------------------------|---|
| 1. Air pollution control | 15. Drug abuse programs | 29. Parks |
| 2. Airports | 16. Fire protection | 30. Planning |
| 3. Alcoholic rehabilitation | 17. Historic preservation | 31. Ports and harbors |
| 4. Ambulance services | 18. Hospitals | 32. Public housing |
| 5. Animal shelters | 19. Human relations | 33. Recreation |
| 6. Armories | 20. Industrial promotion | 34. Rescue squads |
| 7. Art galleries and museums | 21. Inspection | 35. Senior citizens programs |
| 8. Auditoriums; coliseums | 22. Jails | 36. Sewerage |
| 9. Beach erosion control & hurricane protection | 23. Law enforcement | 37. Solid waste collection and disposal |
| 10. Bus lines; public transp. systems | 24. Libraries | 38. Urban redevelopment |
| 11. Civil defense | 25. Manpower | 39. Veterans services |
| 12. Community appearance | 26. National guard | 40. Water |
| 13. Community action | 27. Off-street parking | 41. Watershed improvement |
| 14. Community development | 28. Open space | |

C. Services and Functions Authorized for Cities Only

- | | | |
|----------------------|-------------------|------------------------|
| 1. Cable television* | 4. Gas systems | 7. Street lighting |
| 2. Cemeteries | 5. Sidewalks | 8. Streets |
| 3. Electric systems | 6. Storm drainage | 9. Traffic engineering |

*Both units have authority to undertake the necessary supporting functions and activities: finance, tax collection., personnel, purchasing, etc. and to construct buildings and other facilities necessary to provide the listed services. The authority cited in the above list is qualified in some cases. And in some cases one unit's action may limit the other's. The list does not include regulatory or franchising authority. For example, counties offer franchises for cable but cannot own or operate cable systems directly.

Reprinted with permission from *Municipal Government in North Carolina*, edited by David M. Lawrence and Warren J. Wicker, Institute of Government, UNC-Chapel Hill, 1982.



of Municipalities, echoes Aycock in the interview beginning the "municipal" section. "The joint services approach is not very dramatic, and it's not happening overnight. It's being worked out sometimes with gnashing of teeth, but it eventually will make it possible again to bring up the question of consolidation of units of government."

Political consolidation or not, local governments still have the job of delivering basic services to over six million North Carolinians. Table 1 shows the various services that counties, municipalities, and both of these governmental units can undertake. Table 2 lists the most important federal laws affecting these services. News coverage of any of these issues usually focuses on actions taken at a city council or county commissioners meeting. In addition, policy papers and reports on such issues as water resources and school finance are examining interactions among local government units.

This issue of *Insight* views the demands facing local government officials through the prism of intergovernmental relations. Specifically, this edition examines how *state government* in North Carolina addresses *local government* concerns, particularly long-term concerns. Diversity highlights the distance from Manteo to

Mecklenburg, from Raleigh to Rowan. But there is also a certain predictability throughout North Carolina as well—in roads and schools, in taxes and water, in law enforcement and fire protection. How has state government contributed to this predictability? How should it nurture the diversity?

No single magazine issue could examine the state role in all the areas of responsibility listed in Table 1. Past *Insight* issues have from time to time examined issues that affect local government officials in a major way, from annexation to community development block grants. Likewise, future articles are scheduled on regional government and private-sector involvement in the economic development efforts of local governments.

In this issue, we highlight some of the most pressing issues facing local officials—school finance, water and sewer needs, and deinstitutionalization in human services. Even these three articles (in which we invested many pages) can only suggest the many policy nuances that lie very close to the surface. In choosing other articles—the interviews with Aycock and Wilson, the two articles on surveys, and the summaries of state assistance to local officials and of funding formulas—we sought to present material that would be useful to government officials and analysts in almost any specific local government issue.

With the three-part structure to the issue, we attempt to provide an ongoing framework for viewing local government issues. The first section relates to both counties and municipalities. The county and municipal sections focus on issues of particular concern to those respective units of government, even in an era of increased blurring of services among various governments.

One day, perhaps you will look beyond the breakfast rush and the daily routine to the source of the services that most of us take for granted. After reading this issue of *Insight*, we don't expect you to recall all 18 footnotes to the school finance article or retain all 14 categories of special general purpose government districts. But we do hope that this issue of *Insight* will help you understand why policy decisions at the state level affect virtually every aspect of your everyday life—even as those laboring in city halls and county courthouses must make the wheels turn. □

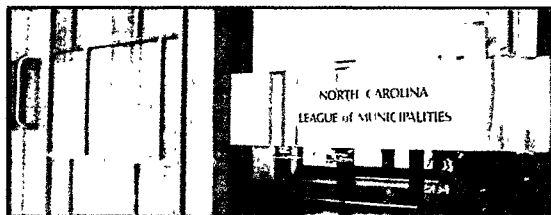
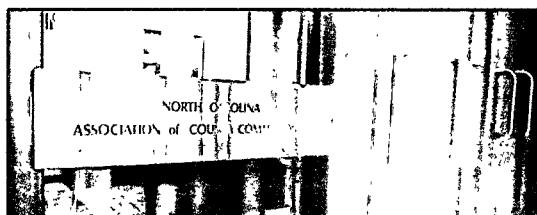


Table 2. Major Federal Statutes Regulating State and Local Governments

Title	Objective	Public Law
Age Discrimination in Employment Act (1974) ¹	Prevent discrimination on the basis of age in state and local government employment.	93-259; 90-202
Architectural Barriers Act of 1968	Make federally occupied and funded buildings, facilities and public conveyances accessible to the physically handicapped.	90-480
Civil Rights Act of 1964 (Title VI)	Prevent discrimination on the basis of race, color or national origin in federally assisted programs.	88-352
Civil Rights Act of 1968 (Title VIII)	Prevent discrimination on the basis of race, color, religion, sex or national origin in the sale or rental of federally assisted housing.	90-284
Clean Air Act Amendments of 1970	Establish national air quality and emissions standards.	91-604
Coastal Zone Management Act of 1972	Assure that federally assisted activities are consistent with federally approved state coastal zone management programs.	94-370
Davis-Bacon Act (1931) ²	Assure that locally prevailing wages are paid to construction workers employed under federal contracts and financial assistance programs.	74-403
Education Amendments of 1972 (Title IX)	Prevent discrimination on the basis of sex in federally assisted education programs.	92-318
Education for All Handicapped Children Act (1975)	Provide a free appropriate public education to all handicapped children.	94-142
Equal Employment Opportunity Act of 1972	Prevent discrimination on the basis of race, color, religion, sex or national origin in state and local government employment.	92-261
Fair Labor Standards Act Amendments of 1974	Extend federal minimum wage and overtime pay protections to state and local government employees. ³	93-259
Family Educational Rights and Privacy Act of 1974	Provide student and parental access to educational records while restricting access by others.	93-380
Federal Insecticide, Fungicide, and Rodenticide Act (1972)	Control the use of pesticides that may be harmful to the environment.	92-516
Federal Water Pollution Control Act Amendments of 1972	Establish federal effluent limitations to control the discharge of pollutants.	92-500
Flood Disaster Protection Act of 1973	Expand coverage of the national flood insurance program.	93-234
Highway Beautification Act of 1965	Control and remove outdoor advertising signs along major highways.	89-285
Marine Protection Research and Sanctuaries Act Amendments of 1977	Prohibit ocean dumping of municipal sludge.	95-153
National Energy Conservation Policy Act (1978)	Establish residential energy conservation plans.	95-619
National Environmental Policy Act of 1969	Assure consideration of the environmental impact of major federal actions.	91-190
National Health Planning and Resources Development Act of 1974	Establish state and local health planning agencies and procedures.	93-64
National Historic Preservation Act of 1966	Protect properties of historical, architectural, archaeological and cultural significance.	89-665
Occupational Safety and Health Act (1970)	Eliminate unsafe and unhealthful working conditions.	91-596
Public Utilities Regulatory Policies Act of 1978	Require consideration of federal standards for the pricing of electricity and natural gas.	95-617
Rehabilitation Act of 1973 (Section 504)	Prevent discrimination against otherwise qualified individuals on the basis of physical or mental handicap in federally assisted programs.	93-112
Resource Conservation and Recovery Act of 1976	Establish standards for the control of hazardous wastes.	94-580
Safe Drinking Water Act of 1974	Assure drinking water purity.	93-523
Surface Mining Control and Reclamation Act of 1977	Establish federal standards for the control of surface mining.	95-87
Water Quality Act (1965)	Establish federal water quality standards for interstate waters.	88-668
Wholesome Poultry Products Act of 1968	Establish systems for the inspection of poultry sold in intrastate commerce.	90-492

¹Coverage of the act, originally adopted in 1967, was extended to state and local government employees in 1974.

²Although the *Davis-Bacon Act* applied initially only to direct federal construction, it has since been extended to some 77 federal assistance programs.

³Application was restricted by the Supreme Court in *National League of Cities v. Usery*, 426 U.S. 833 (1976).

Reprinted from *Regulatory Federalism: Policy, Process, Impact and Reform*, Advisory Commission on Intergovernmental Relations, Washington, 1984.

State Assistance to Local Governments

by Susan Wall

N.C. Local Government Commission

In 1978, New York City went bankrupt. Looking for models of sound fiscal management, the New York state legislature sent two staff economists to Raleigh. For over a week, these New Yorkers studied an institution then in place in North Carolina for nearly 50 years — the N.C. Local Government Commission. The economists returned to Albany hoping to transport the North Carolina model, but such strong state control

(Continued, p. 7)

The Institute of Government

L.P. Zachary, Raleigh's recently retired city manager, became county manager of Anson County in 1962. "I got two pieces of advice when I went to Anson County," recalls Zachary. "To learn about rules and procedures of county administration, go to the Institute of Government in Chapel Hill. To change those rules and procedures, head for the Association of County Commissioners."

Today, county commissioners — and city *(Continued, p. 8)*

Local Government Advocacy Council

In April 1978, Gov. James B. Hunt, Jr., issued Executive Order No. 22 establishing the Local Government Advocacy Council. Designed as a link between state and local officials, the council provides recommendations to the Governor and his cabinet on policies and programs which have an impact on N.C. local governments. "The Advocacy Council has been the keystone in the partnership between state and local government," says Leigh

(Continued, p. 9)

N.C. Local Government Commission

(Continued from page 6)

over local finances never washed in New York's political climate.

Some 12 states, including Florida and Georgia, have considered a setup similar to the N.C. Local Government Commission, says J.D. Foust, its secretary. But thus far, no state has established such comprehensive, *state-supervised* oversight of local government finances, according to a recent survey by the Advisory Commission on Intergovernmental Relations.¹

Local government finances in North Carolina have not always been the object of envy. In 1931, the state, including its cities and counties, had a debt of \$350 million — nearly 2 billion in 1983 dollars. Its local governments spent 50 percent of their property tax revenues on principal and interest payments on debt. *Over half* of the state's cities and counties defaulted on their debt obligations during the Depression, more than in any other state.² To address this emergency, the 1931 General Assembly established the N.C. Local Government Commission to control local debt.³ Under less extreme economic circumstances, local governments would never have accepted this degree of state control over their finances. The economic crisis made the state-level takeover politically possible.

A half-century later, North Carolina had the fourth lowest per capita debt among the 50 states.⁴ Many observers point to the Local Government Commission as a major factor in that ranking. In recent years, the commission has worked in two main ways: debt management and fiscal management.

Debt management, its main and historic function, has evolved into a debt approval and issuance role. Local governments' finances improved from the crisis of the Depression, in part because the state took over major spending for public schools, building and maintenance of roads, and eventually the operations of state courts. These changes greatly relieved local governments financially. The commission no longer had to refinance local debt and could concentrate instead on regulating debt issuance. The commission authorizes the sale of a bond or note only after its staff finds the proposed issuance safe and marketable. After approval by the nine-member commission (see list at right), the staff arranges the sale, oversees the printing of the bond or note, and delivers it to the designated buyer. Generally, no municipality, county, special district, or authority may incur more than

eight percent of the appraised value of its taxable property in debt.⁵

In its second main role, *fiscal management*, the commission requires an annual audit and a semi-annual cash investment report from every unit of local government in the state (including special districts and authorities). These reports serve as the basis for various functions, including flagging financial weaknesses and distributing federal revenue sharing funds.

The Local Government Finance Act directs the commission to investigate, and if necessary, assume control over the finances of local governments that refuse or are unable to comply with the act.⁶ "But the commission works in a cooperative, not a coercive manner," says Ron Aycock, director of the N.C. Association of County Commissioners. Local governments are receptive to the commission's recommendations, say Aycock and others.

The Local Government Commission works to ensure that local government finance officers know current budget and accounting practices. The commission, in conjunction with the Institute of Government of the University of North Carolina at Chapel Hill, sponsors classes and provides on-site consultation. "We are able to achieve by suggestion what we have the authority to demand," says Foust.

The commission has never used its full powers of enforcement. In 1979, it came close when it found a sanitary district unable to meet its debt payments and unwilling to comply with

Local Government Commission

Name & Position	Appointed By	Expiration Date	Occupation
Harlan E. Boyles Chairman	Ex officio	Indefinite	State Treasurer
Mark G. Lynch Exec. Comm.	Ex officio	Indefinite	Secretary of Revenue
Ed Renfrow Exec. Comm.	Ex officio	Indefinite	State Auditor
Thad Eure Exec. Comm.	Ex officio	Indefinite	Secretary of State
C. Kitchin Josey Member	Lt. Gov.	1985	Att'y and former legislator
Charles Mercer Member	Governor	1985	Attorney
William G. Stamey Member	Speaker of House	1985	Town Manager, Canton
Fred Turnage Member	Governor	1985	Mayor, Rocky Mount
Vacancy	Governor	1985	—

the commission's recommendations. After the commission ordered the district to levy a property tax of \$.24 per \$100 valuation, the district made changes in its rate structure and budgeting process. For a year, the commission reviewed the district's new procedures monthly and stayed its tax-levy order. After a year, the district had resolved its financial difficulties. The mandated tax never had to be levied, and the monthly review process stopped. The Local Government Commission never had to take actual control of the district's financial operations.

The commission has a 24-person staff in the Division of State and Local Government of the Department of State Treasurer. The commission's 1983-84 budget is \$880,945. Fees from local governments (for printing the bonds) provide about \$125,000 of this budget; the rest comes from a line-item appropriation made by the General Assembly.⁷

The nine-member commission meets quarterly. Its executive committee meets eight times a year and makes decisions which become binding after a 48-hour notice period for the full commission. If the full commission does not overturn the executive committee's decision (and it never has), the executive committee's action is binding. □

FOOTNOTES

¹*State and Local Roles in the Federal System*, Advisory Commission on Intergovernmental Relations, April 1982, p. 185.

²John Alexander McMahon, "The North Carolina Local Government Commission," *1960 County Yearbook*, N.C. Association of County Commissioners, p. 101. Most recent commentaries cite this article as the best account of the commission's early years.

³See Chapter 60 of the 1931 Session Laws of the General Assembly. In 1971, the General Assembly recodified the law into the current Local Government Finance Act, NCGS Chapter 159.

⁴*Significant Features of Fiscal Federalism 1981-82 Edition*, Advisory Commission on Intergovernmental Relations, p. 119. One possible explanation for the 4th place ranking in per-capita debt is that North Carolina state and local governments' direct general expenditures per capita is 5th from the bottom among the 50 states (see *Significant Features of Fiscal Federalism 1982-83 Edition*, p. 17).

⁵NCGS Chapter 159-55. The definition and calculation of what constitutes "debt" is somewhat complicated. For more on this, see David M. Lawrence, *Financing Capital Projects in North Carolina*, Institute of Government, Chapel Hill, N.C., pp. 24-28.

⁶NCGS Chapter 159, Articles 10 and 11.

⁷These figures do not include the actual expense for selling the bonds, including fees of bond attorneys and underwriters. These costs are deducted from the proceeds of a bond sale and do not appear in the budgets of the commission or of local governments. Local governments contract directly for these services; hence these costs do not flow through the Local Government Commission budget.

The Institute of Government

(Continued from page 6)

councils — are still sending new managers to the Institute, along with new finance officers, zoning inspectors, and personnel administrators. While the Institute has expanded its services and research activities into broad new fields, it continues to focus on research and "how-to" training rather than advocacy of specific policies.

In 1931, Albert Coates founded the Institute of Government to extend the service of the University of North Carolina to state, county, and municipal governments in North Carolina. From an initial emphasis on training for law enforcement officers, the Institute has become a clearinghouse of information and a research and educational center on all aspects of state and local governments in North Carolina.

Today, the Institute of Government is primarily funded (two-thirds) by the General Assembly and is a department of the University of North Carolina at Chapel Hill. Its 32-member faculty, aided by its 41-person support staff, are advisers and teachers in local and state government operation.

The Institute offers seminars and training courses in all phases of local government

administration. Courses in municipal and county administration for new county commissioners and new mayors and council members are offered in alternate years. The staff members function as consultants to local governments in areas such as zoning, public records, municipal annexation, city-county consolidation, property tax administration, and public purchasing. The Institute publishes a variety of books, pamphlets and periodicals for local officials and others interested in North Carolina state and local government (see bibliography on page 75).

The Institute works closely with state agencies and local government organizations, providing background research and support materials necessary for policy decisions. But it does not advocate particular viewpoints. "The Institute does not take a stand on public issues," explains John Sanders, director of the Institute for 17 years. "We try to identify the alternatives and their foreseeable consequences so that policymakers may make sounder decisions. We respect their role and responsibility as decision makers."

Both the N.C. Association of County Commissioners and the N.C. League of Munici-

palities, with which the Institute cooperates closely, support the Institute's decision to remain neutral in policy debates. "In the long run, the strength of the Institute's history and success lies in the careful protection of its non-policy-advocacy roles," says Ronald Aycock, director of the N.C. Association of County Commissioners.

Retaining this stance as a research and training center has resulted in a long line of

plaudits. "The Institute of Government has been a major contributor to making — and keeping — North Carolina the good government state," says Ran Coble, executive director of the N.C. Center for Public Policy Research. "Perhaps the Institute's two most significant accomplishments concerning local government are training local officials and keeping these officials up to date on how state actions affect their counties and municipalities." □

Local Government Advocacy Council

(Continued from page 6)

Wilson, executive director of the N.C. League of Municipalities.

The Local Government Advocacy Council is a 19-member voting group. The executive board and executive director of both the N.C. League of Municipalities and the N.C. Association of County Commissioners (six persons from each group) serve as ex officio members. The remaining seven members are appointed by the Governor (3), the Lt. Governor (2), and the

Speaker of the House (2). Required to meet at least quarterly, the council develops general policy guidelines and recommendations. Both the council and its three-member staff, called the Office of Local Government Advocacy, are part of the Office of the Governor. In FY 1983-84, the council and its staff received a separate legislative appropriation of \$119,339.

The Local Government Advocacy Council has three main functions. First, and primarily, the council channels local government concerns into the Governor's programs. The council has, for example, sponsored public forums as a way to learn of local officials' and citizens' ideas on such topics as balanced growth and regional governments. Based on such forums, the council made 16 recommendations to Gov. Hunt concerning regionalism in the state. As a result of these recommendations, the Governor issued Executive Order No. 27 establishing the state policy on regional governments. Similarly, the council has helped develop guidelines for the state's balanced growth policy and the state's Community Development Block Grant Program.

Second, the Local Government Advocacy Council undertakes research in areas which may require future action by the legislature. Currently, the council has commissioned a report from the Institute of Government in Chapel Hill. This report, due in July 1984, will examine the development of relationships between the state, the cities, and the counties of North Carolina. Recommendations from the council on the basis of this report will be presented to the Governor.

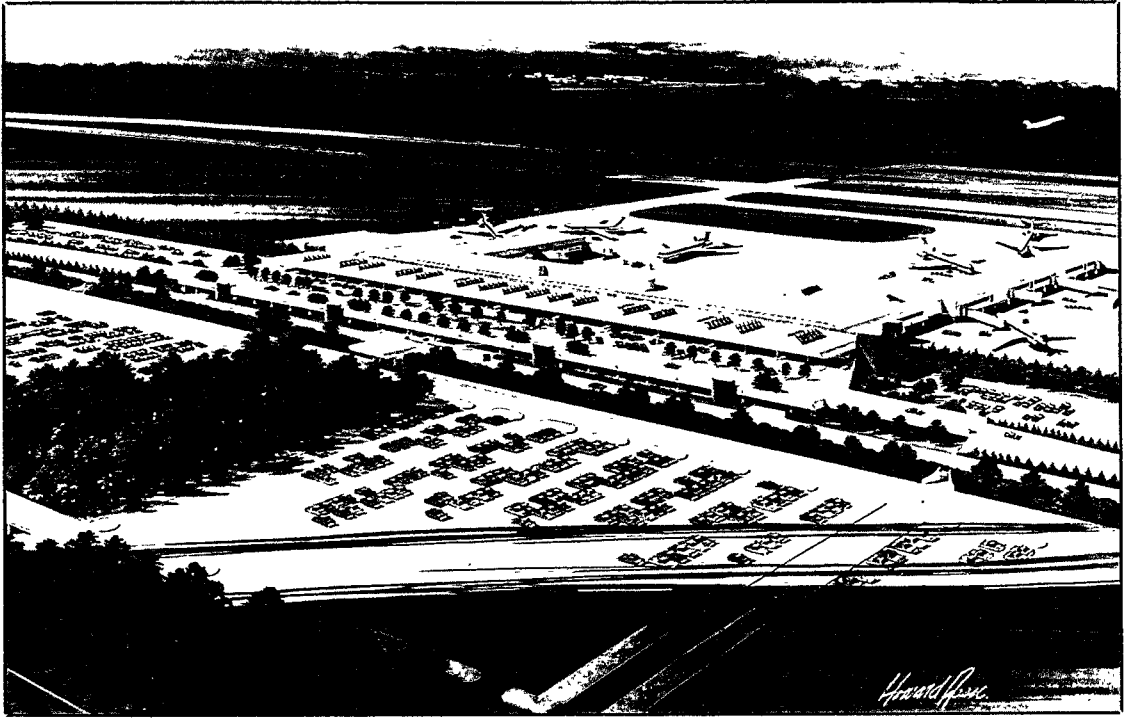
Third, the Office of Local Government Advocacy serves as an ombudsman to handle local government problems at the state level. The office operates a Hotline to field specific questions from local officials dealing with state agencies. John Woods, director of the office, says the staff has recorded 664 cases since its inception in 1978. The Hotline (1-800-662-7200) is staffed 8:30 a.m. to 5 p.m., Monday through Friday. □

Local Government Advocacy Council

Name	Representing/ Appointed By	Position
1. C. Ronald Aycock	NCACC ¹	Exec. Dir., NCACC
2. Charles M. Beall	Speaker of House	State Rep., Haywood Co.
3. Miriam Block	Governor	Raleigh City Council
4. Gwendolyn Burton	Governor	Wilson City Council
5. Forrest E. Campbell	NCACC	Chair., Guilford Co. Comm.
6. Wayne A. Corpening	NCLM ²	Mayor, Winston-Salem
7. Aaron E. Fussell	Governor	State Rep., Wake Co.
8. Milles Gregory, Chairman	NCACC	Macon County Comm.
9. Jonathan Howes	NCLM	Chapel Hill Town Council
10. Andrew M. Kistler	NCLM	Mayor, Morganton
11. Charles D. Owens	Speaker of House	State Rep., Rutherford Co.
12. James D. Speed	Lt. Gov.	State Sen., Franklin Co.
13. Virginia M. Thompson	NCACC	Chair., Cumberland Co. Comm.
14. E. B. Turner Vice-Chairman	NCLM	Lumberton City Council
15. Robert Warren	Lt. Gov.	State Sen., Johnston Co.
16. James Weathers	NCACC	Chair., Franklin Co. Comm.
17. Horace Whitley	NCLM	Mayor, Whiteville
18. Leigh Wilson	NCLM	Exec. Dir., NCLM
19. Vacant	NCACC	

¹NCACC stands for N.C. Association of County Commissioners. Six from this group serve as ex officio members of the Local Government Advocacy Council.

²NCLM stands for N.C. League of Municipalities. Six from this group serve as ex officio members of the Local Government Advocacy Council.



Architect's rendering courtesy Greensboro Airport Authority.

Special Districts and Authorities

by Susan Wall

In North Carolina, counties and municipalities — the two types of general purpose governmental units in the state — provide most local services. In addition, 266 special districts and public authorities have substantial fiscal and administrative power, independent of any county or municipality.

The chart on page 11 provides summary information on N.C. special districts and authorities. It is based primarily on data from the U.S. Census, the N.C. Local Government Commission (see page 6), and the Institute of Government (see page 6). Depending on the criteria used, the exact number of special districts and authorities can vary. This listing of 266 special districts/authorities is based on criteria established by the U.S. Census.

The U.S. Census defines a separate unit of government as "an organized entity which, in addition to having governmental character, has sufficient discretion in the management of its affairs to distinguish it as separate from the administrative structure of any other governmental units."¹ From this definition, three criteria emerge:

The Greensboro Airport Authority, like most others in the state, may issue revenue bonds and collect user fees, but it has no authority to tax.

1) *organized entity* — the agency must have an independent organizational structure with corporate powers;

2) *governmental character* — officers must be elected or appointed by elected officials; the agency must meet public disclosure and reporting requirements and must provide functions commonly provided by governments; and

3) *substantial autonomy* — the agency must determine its own budget without review or modification by a municipality or county, must rely substantially for revenues from sources other than a municipality or county, and must plan for and provide services without substantial specifications by other local governments.

Continued on page 12

Susan Wall is working on a Masters in Public Administration at the University of North Carolina at Chapel Hill and served as an intern at the N.C. Center for Public Policy Center.

Special Districts and Public Authorities in North Carolina

I. Governmental Units with Taxing Authority

(1) Unit	(2) No. in N.C.	(3) Authorized By	(4) General Functions	(5) Governing Body	(6) Financial Authority
1. Airport Districts	1	NCGS Chapter 63, Article 8	Aid in construction and financing of aeronautical facilities	Appointed Board	Levy ad valorem taxes Issue Bonds
2. Metropolitan Sewer Districts	2*	NCGS Chapter 162A, Article 5	Provide and operate sewage systems	Appointed Board	Levy ad valorem taxes Issue Bonds Fix and collect sewer charges
3. Metropolitan Water Districts	1*	NCGS Chapter 162A, Article 4	Provide and operate sewage systems and water supply distribution systems	Appointed Board	Levy ad valorem taxes Issue bonds Fix and collect user charges
4. Mosquito Control Districts	1*	NCGS Chapter 130A, Article 12	Provide for the control of mosquitoes	Appointed Board	Levy ad valorem taxes Issue bonds
5. Sanitary Districts	33*	NCGS Chapter 130A, Article 2	Maintain and operate water and sewer systems and other limited municipal services	Elected District Board	Levy ad valorem taxes Issue bonds Fix and collect user charges

II. Governmental Units without Taxing Authority

6. Airport Authority	11*	NCGS 63-56	Manage airport operations and fix airport fees and charges	Appointed Board	Issue revenue bonds Fix and collect user charges
7. Drainage Districts	13*	NCGS Chapter 156, Articles 5 and 6	Provide for drainage facilities and reclamation of agricultural lands	Appointed Board	Levy special assessment bonds Levy benefit assessments
8. Hospital Authority	5*	NCGS Chapter 131, Article 12	Provide and operate publicly owned hospitals	Appointed Board	Issue revenue bonds Fix and collect rates and fees Accept county and city appro- priations
9. Housing Authority	98*	NCGS Chapter 157, Article 1	Carry out federal housing pro- grams; acquire public land; and finance, construct, and operate public housing units	Appointed Board	Issue revenue bonds Establish and collect charges for use of facilities
10. Industrial and Pollution Control Facilities Financing Authority	93	NCGS Chapter 159C-4	Develop and lease industrial and pollution control facilities	Appointed Board	Issue revenue bonds Fix and collect fees for services Receive grants
11. Municipal Electric Power Agency	3*	NCGS 159B-1 to 159B-36	Finance and construct electric power facilities	Appointed Board	Issue revenue bonds Accept grants Fix and collect fees
12. Soil and Water Conservation Districts	2*	NCGS Chapter 139, Article 1	Soil and water conservation	Elected Board	Issue revenue bonds Levy benefit assessments Receive federal grants
13. Watershed Improve- ment District	1*	NCGS Chapter 139, Article 2	Provide for soil and water con- servation and flood control	Elected Board	Issue special assessment bonds Levy benefit assessments
14. Water and Sewer Authority	2*	NCGS Chapter 162A, Article 1	Maintain and operate water and sewage	Appointed Board	Issue revenue bonds Levy benefit assessments Fix and collect fees for facilities

*These numbers represent those special districts and public authorities which operate *independently from any municipality or county*. Similar agencies serving a single municipality or county are not included.

Sources: 1982 Census of Governments, U.S. Census; N.C. Local Government Commission; Institute of Government; various state offices. N.C. General Statutes.

General Government Powers

In North Carolina, 14 types of special districts and public authorities meet all three Census criteria (see column 1 in the chart). These agencies have come into existence for a variety of reasons. For example, where unincorporated areas lack water or sewer facilities, a metropolitan water or sewage district may operate as a public utility and run on its own receipts. This reduces the need for a countywide tax to finance a service which directly benefits only certain areas of a county. Similarly, groups like airport or hospital authorities provide services which benefit people beyond a single county or municipality and which require a broad tax base. Finally, some special districts have been established because of the funding requirements of federal programs, especially in the area of natural resource management (see, for example, items 10, 12, and 13).

The exact number of special districts and authorities, as shown in column 2, varies from source to source. The U.S. Census, for example, despite establishing clear criteria, based *the number* of districts/authorities in its latest report on information from returned questionnaires. These U.S. Census numbers were not as reliable as numbers from the N.C. Local Government Commission and other state agencies, such as the Aviation Division of the N.C. Department of Transportation.

Those districts and authorities serving a single county and receiving substantial funding from that county fail to meet the third Census criteria and hence are not included in the count in column 2. Districts or authorities are included in column 2 only if they have substantial financial and administrative independence from any county or municipality. For example, although North Carolina has 94 soil and water conservation districts, only 2 of the 94 serve more than one county and have substantial financial and administrative independence.

Special districts or authorities function according to powers granted them by the N.C. General Assembly. Column 3 shows the statute authorizing the creation of the governmental unit; column 4 summarizes its general functions; column 5 indicates the type of governing body for each of the units. The information in these columns shows how these governmental units meet the first two Census criteria.

The N.C. General Statutes designate all the districts/authorities on the chart as "bodies corporate and politic." Hence, these units have the right to sue and be sued, to make contracts, and to acquire and dispose of property and exist until formally terminated. The financial records of all these units are public and subject to review

by the Local Government Commission due to the nature of their services and revenue sources. Of the 14 types of districts/authorities, only three have elected board members (sanitary districts, soil and water conservation districts, and watershed improvement districts).

Financial Authority

The five types of special districts in part I of the chart have the authority to issue bonds and levy property taxes. The nine types of districts or authorities in part II finance their operations primarily from the proceeds from revenue bonds. Of the total of 14 groups, only soil and water conservation districts (no. 12 on the chart) lack the authority to issue debt without approval from either a municipality or county. (See column 6 for more on financial authority.) All bond issues, by special districts and by other governmental units, must be approved by the N.C. Local Government Commission (see page 6).

Other types of agencies and boards often considered independent in nature meet the first two Census criteria but not the third and hence are not listed.

Local boards of education, for example, often have elected members, have corporate powers, have similar reporting requirements to those imposed on special districts and authorities, and perform a governmental service. But in North Carolina, local boards of education lack the statutory authority to meet the last Census requirement of substantial autonomy. A local board of education depends upon its county commissioners for local funds.

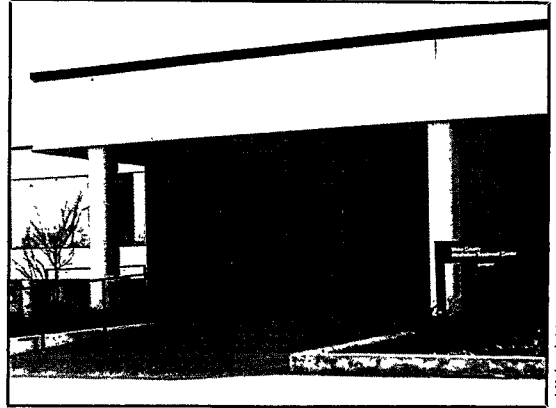
Similarly, rural fire districts within a county are receiving increased attention from county commissioners (see article on page 26). While fire districts also have many characteristics of a "special district," they lack the necessary autonomy to qualify under Census criteria. □

FOOTNOTE

¹U.S. Bureau of the Census, *1982 Census of Governments and Governmental Organizations*, 1983, p. 341.



Courtesy Town of Pink Hill



Michael Marros

Turner Memorial Library in Pink Hill and the Wake County Alcoholism Treatment Center: How much do they get from the state?

Funding Formulas

Slicing the Budget Pie

How does the state distribute its revenues to the 100 counties and 513 municipalities? Answering this question might tell you more than the entire General Statutes, but it might take as many volumes. This introduction views the methods and madness of funding formulas as they incorporate philosophy and politics, calculations and common sense. The formulas fall into three categories: per-capita spending, an "equalization" approach, and some combination of the two.

by Ken Eudy

Long-time State Treasurer Edwin Gill, who died in 1978, was fond of saying of North Carolina, "We tax people according to their ability to pay and distribute money according to their needs." The simplicity of Gill's statement belies the complexity of accomplishing that goal — dividing the two-year \$13.25 billion state budget pie into equitable slices for six million North Carolinians.

State officials distribute appropriations among North Carolina counties, municipalities,

and special districts/authorities in three general ways: "per capita" formulas, "equalization" formulas, or some combination of these two methods. The latest listing of the formulas, compiled by the State Office of Budget and Management in 1981, runs 50 pages and covers 168 different programs, everything from "visiting artist" to "venereal disease."¹

The majority of the state's General Fund

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dollars go to local governments through some kind of "per capita" approach, says Tom Covington, director of the legislature's Fiscal Research Division. Under this method, the General Assembly ties its appropriation either *to the population in a geographical area* (county, city, etc.) or *to the population receiving a particular service* (school children, elderly, etc.).

In general, "per capita" usually refers to the population of a geographical area, such as the "per capita" income of North Carolina. When discussing funding distribution formulas, however, "per capita" can also refer to the "per capita" recipients of a particular service — such as the number of school children or elderly or handicapped persons.

In contrast, equalization formulas generally are based on per capita wealth within a geographic area. Some county and municipal officials resent formulas that cause them to get back less in appropriations than they send to Raleigh in taxes. But the General Assembly and the state Constitution mandate that certain basic services should be available to all, regardless of where citizens live within the state.

"It's not like transferring money from Mecklenburg County [one of the state's wealthiest] to Jones County [one of the poorest,]" says Warren J. Wicker at the Institute of Government in Chapel Hill. "We transfer money from wealthy North Carolinians to poorer North Carolinians."

Some 35 states equalize resources in some fashion.² According to a 1980 study by the Advisory Commission on Intergovernmental Relations (ACIR), these states distributed about 45 percent of all their funds for local governments in some equalizing fashion.³ Only 15 states distribute state money based solely on population, according to another study in 1981 by the Center for Governmental Research, Inc.⁴

At the federal level, an equalization approach has also been incorporated into many federal programs. For example, the major federal hospital construction program, the Hill-Burton funds, went to states for over three decades in inverse proportion to the wealth of each state. Despite such prominent examples as Hill-Burton, a recent ACIR analysis of the growth in the federal system questions the scope of equalization at the federal level. "A host of analyses have indicated that the Robin Hood principle of fiscal redistribution—'take from the rich, give to the poor'—has always received much more lip service than actual use in aid distribution . . . [F]ederal grant-in-aid dollars are commonly dispersed broadly among states and localities, including the relatively rich and poor alike."⁵

*Some county and
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appropriations than
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in taxes.*

In North Carolina, like many states, often a single agency uses some combination of formulas. The state Division of Mental Health, Mental Retardation, and Substance Abuse Services, for example, administers funds for 25 to 30 different programs, many of which have different distribution methods. This division uses a combination of per capita formulas for overall population, per capita formulas according to the number of recipients in a particular program, and equalization approaches.

The division, for example, distributes \$191 to local mental health agencies for each person in a local Adult Developmental Activity Program (ADAP). This is one kind of per capita formula for recipients — a certain amount of state money for each ADAP participant.

The same division uses an equalization approach in its *matching grants* to the 41 area agencies (which cover all 100 counties). These state funds, which must be matched by local areas, account for some \$30 million of the Division's \$100 million annual allocation to the area agencies. The state distributes this \$30 million in base amounts to each county according to various indices. For example, the higher an area's per capita income, employment rate, and education levels, the lower the state matching rate for locally contributed funds. In other words, the state "equalizes" the amount going to various parts of the state.

To get this \$30 million, the local area agencies have to put up matching money. In Mecklenburg County (a single-county mental health area), the county must put up 50 cents for every 50 cents from the state — a *one-for-one match*. But in the neighboring Sandhills Mental Health area (covering Anson, Hoke, Montgomery, Moore, and Richmond counties), the counties must appropriate 33 cents for every 67

cents in state funds — a *two-for-one match*. In North Carolina's poorest areas, counties must match 23 cents for every 77 cents in state money — a *two-and-a-half-to-one match*.

Why the difference? The rationale is that wealthier counties, areas like Mecklenburg, have a greater ability to pay for mental health programs. The N.C. General Assembly's intent is clear: All the state's citizens should have access to a basic standard of mental health care, whether they live in a relatively wealthy or poor county.

Many agencies, like the Division of Mental Health, Mental Retardation, and Substance Abuse Services, use a combination of formulas for distributing funds to local areas. Other state offices use primarily either a per capita or an equalization method. Below are some examples of per capita, equalization, and combination formulas.

Per Capita

Distributing state money on a "per capita" basis may sound simple. Determine how many people live in a particular area or receive a particular service, multiply this number by some dollar amount, and presto — the allocation for a local program. In fact, per capita approaches are far from simple. Often, multiple formulas within a single program are based on per capita measurements. Below are two such examples.

Day Care. In FY 83-84, the N.C. Department of Human Resources (DHR) is distributing \$21 million in state and federal funds to local departments of social services and other agencies to help low-income persons who need day care. Most of this money (\$15.9 million) goes to county departments of social services, which provide and/or purchase day care within each county. The state also allocates \$4.6 million in day care funds to ten Appalachian Regional Day Care Projects covering 24 western counties, according to the number of children served by each project. Finally the state distributes a small amount, about \$400,000, to service organizations that provide day care to target groups (e.g., United Cerebral Palsy). During the course of a year, DHR examines the spending level of each agency which received day care funds. If an agency is not spending all of its day care allocation, the excess funds are transferred to agencies which need more money.

The departments of social services receive their \$15.9 million under two different systems. About \$8.5 million goes to these agencies according to total population within each county — a straight per capita system. (The federal government uses the same method to allocate Social Services Block Grant funds to the states,

the source for much of the federal day care funds.) The state distributes the other \$7.4 million available to county departments of social services through a more complicated formula, based mostly on per capita measurements, as explained below.

Each county receives a "base allotment," which has its roots in "an old, complicated approach called a fair share formula," says Ron Penny, assistant director for administration of DHR's Office of Day Care Services. The old "fair share" formula, as Penny calls it, weighed equally the general population of a county, the public assistance population in the county, and the previous year's expenditure (not allocation) in each county. In addition, the formula contained a kind of "hold harmless" provision, where a county's appropriation could not decrease (i.e., could not be "harmed").

As federal day care funds were cut by the Reagan administration through the Social Services Block Grant, the "hold-harmless" provision could no longer work, says Penny, because DHR had to reduce the amounts available to counties. DHR turned to a "base allotment" amount for the pot of money once distributed under the "fair share" formula. The base amount does not change each year, says Penny. It remains the same as it was when the "fair shares" were determined three years ago.

"The fair share formula was complicated and some people thought it was unfair," says Penny. "When a formula is complex, it is not

Day care center in Gates county.



Joe Vaughan

acceptable. The use of straight population as a basis for distributing day care money is a method most people can go along with. It's also easily understood."

Some disagree with Penny's assessment that straight population formulas are generally acceptable. In a 1981 speech, Joe Gantt, the President of the Rural Day Care Association of Northeastern North Carolina, criticized the per capita formula. "We argue that the formula should distribute funds on the basis of the percentage of eligible children rather than the per capita population used at present."

Gantt's speech generated statewide discussion about the formula. "It seems logical to allocate the funds on the basis of eligibility (for day care assistance), not population," said Susan Law, then director of the Northwest Child Development Council, which operated 15 day care centers in Stokes, Forsyth, and Davie counties (see "What's Fair for Children," *North Carolina Insight*, Volume 4, Number 1).

Public Schools. One of the most prominent per capita funding approaches is the "average daily membership" (ADM) measurement among the 142 local school systems in the state. The General Assembly appropriates funds to the State Board of Education for public schools through "line-item" amounts for some 30 to 40 categories. For each category — ranging from instructional positions (by far the largest amount of money, about \$4 of every \$5 of state funds for public schools) to school buses to energy needs — a different funding formula determines the state appropriation. Most of the formulas, including the one for instructional positions, are based on a per capita approach — the average daily membership.

In North Carolina, unlike many states, far more of the overall per-pupil funding for education comes from state funds than from local funds (see article on page 30 for more on this). This emphasis on state-level funding of public schools stems from Article IX, Section 2 of the N.C. Constitution: "The General Assembly shall provide by taxation and otherwise for a *general and uniform system* of free public schools, which shall be maintained at least nine months in every year, and wherein *equal opportunities* shall be provided for *all students*" (emphases added).

Despite the language of the state Constitution and the formula structures, counties do not receive the same amount of money, per pupil, from the state. In 1981, for example, sparsely populated Graham County received \$1,462 per student in state funds. The nearby but more populous Buncombe County received \$1,291 per pupil — 12 percent less per pupil. If the state



Michael Marro

funding relies primarily on a per-capita approach, why the variation?

The difference lies mostly in salaries and fringe benefits for teachers and other personnel. The state, using the projected average daily membership of each school system, funds a certain number of instructional positions for each system. But the cost of each position varies from school system to school system, depending on certificates and degrees held and years of service. Hence, state funding varies among school systems according to such factors as a system's abilities to attract experienced teachers, to attract teachers with higher degrees, and to keep teachers in the system a long time.

Other factors in various formulas also account for the variation in per-pupil state funds among the systems. Base requirements for administrators (superintendents, supervisors, etc.) result in very small systems, like Graham County, getting more per pupil than larger systems, like Buncombe County. Other factors, such as varying needs for buses (e.g., rural counties) and heat (e.g., colder mountain counties) also affect the final per-pupil differences among the 142 systems.⁶

But the fine points of the state's average daily membership formula are only one factor

*"The General Assembly shall provide
by taxation and otherwise for a general
and uniform system of free public schools . . .
wherein equal opportunities shall
be provided for all students."*

—N.C. Constitution, Article IX, Section 2

causing the growing divergence among the counties in per-pupil spending. In recent years, counties have greatly increased their local funding supplements — kicking in local money over and above state funds. By the 1982-83 school year, counting federal, state, and local funds, the Durham City School System led the state in total per-pupil spending (\$2,626). Davidson County ranked last among the 142 public school systems at \$1,731 per pupil, only 66 percent of the Durham City total.

The growing disparity among the counties in per-pupil funding represents just one of many school finance issues now being examined by various legislative groups (see article on page 30). In considering any action, the legislature will undoubtedly start from the average daily membership concept — a per capita funding approach which until recently appears to have satisfied the constitutional mandate for "a general and uniform system" providing "equal opportunities . . . for all students."

Equalization Formulas

Roads. The state builds and maintains roads under four general programs — urban construction, primary construction, federal aid construction, and secondary construction. Many rural counties receive very little benefit from the first three programs. But North Carolina, which has long prided itself as "the Good Roads State," spends a lot of money on secondary roads — some \$43 million for FY 83-84. And all counties — rich or poor, urban or rural — benefit from these funds because of an equalization approach.

The formula is based on the number of unpaved miles of rural roads in a county. For example, Wilkes County, with 535 miles of unpaved roads, will get \$1.25 million in secondary roads money this year. Nearby Forsyth County pays far more into the Highway Fund, supported by the state's 12.25 cents-a-gallon gasoline tax. But Forsyth will get only \$474,160 for secondary roads because it has only

202 miles of unpaved rural roads.

"The formula has an equalization element," says State Highway Administrator Billy Rose. "In the other highway programs, the urban or most densely populated areas get the biggest part of the funds. But everybody gets something under the secondary roads program. For example, in the last 10 years, Alexander County, mostly a rural area, has gotten very little from the other three programs. But it always benefits from the secondary roads program."

Jim Newlin, an analyst with the General Assembly's Fiscal Research Division, agrees that the secondary roads formula "ensures geographic distribution." But calling this an "equalization" formula can be misleading, says Newlin. "Equalization usually refers to wealth," says Newlin, "especially the way Edwin Gill used to talk about equalization." The secondary roads money goes according to the number of unpaved roads, not according to wealth, Newlin points out. "The counties with the most unpaved secondary roads may or may not be the poorest counties."

Social Services Equalization Fund. This fund, in operation since the 1930s when many counties went bankrupt, helps poorer counties pay for state-mandated services such as Aid to Families With Dependent Children (AFDC), Medicaid, and food stamps. The Equalization Fund, administered by DHR's Division of Social Services, assists counties that rate high in average monthly number of AFDC recipients per capita, and that rate low in average collection of property taxes and sales and use taxes.

In 1979, the Alamance County Board of Commissioners sued the Department of Human Resources, challenging the fairness of the Equalization Fund formula used by the social services division. Under the formula, Alamance was entitled to no equalization funds. Bladen County, according to the formula, got \$48,544. The Alamance commissioners argued that the formula inadequately measures a county's ability to pay.

The Equalization Fund formula measures a county's wealth through per capita tax *collection* rather than per capita tax *valuation*. The total value of Alamance's land in 1979 divided by the county's population, was \$9,813 per capita. In Bladen, the same measure yielded per capita property values that were higher — \$10,040 per person. But for the Equalization Fund, the state doesn't consider property tax values. It uses property tax collections.

Alamance taxed land at a higher rate in 1979, so that tax collections amounted to \$92 a person. Tax collection per capita in Bladen, because of a much lower property tax rate, was \$66 a person. Bladen's lower tax collections per person was why the county got equalization money.

"It just wasn't fair," says Colleen Foust, Alamance's assistant county manager for fiscal affairs. "Why cut our state funding because we are more progressive and wanted to do more?"

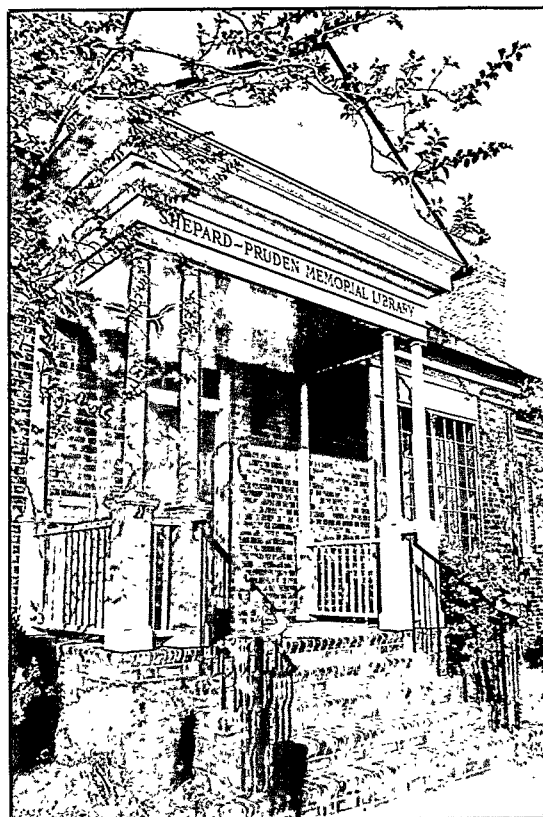
The N.C. Social Services Commission agreed to appoint a study committee to review the equalization formula and recommend appropriate changes. The study committee recommended a new formula that eliminated tax collections as a consideration. But the N.C. Social Services Commission, which establishes rules for this fund, refused to adopt the new formula. The Alamance suit against the state continued, but the District Court and later the N.C. Court of Appeals ruled in favor of the state. The same formula challenged by Alamance County in 1979 remains in existence today.

Combination Formulas

Many of the 168 different programs listed by the Office of State Budget and Management in 1981 involve a combination of formulas.

Community Based Alternatives. The allocation formula for state funds going to community based programs for delinquent youth involves two factors: first, each county receives a base amount; and second, the remaining state funds are allocated according to the number of youth aged 10 to 17 in each county. In addition, counties must contribute a local "match" to the program to receive these state funds. This local match is determined in still another fashion, using the Social Services Equalization formula explained above to rank the counties in terms of relative wealth. The one-third most wealthy counties must provide a 30 percent local match; the one-third next most wealthy must provide a 20 percent local match; the one-third poorest counties must provide a 10 percent match.

Local Libraries. North Carolina has 114



Courtesy: Pettigrew Regional Library

Shepard-Pruden Memorial Library in Edenton, a member of the Pettigrew Regional Library.

local library systems—municipal, single county, and multi-county or regional systems. The state uses two approaches in distributing funds to these local libraries.

First, half of the state's total library aid goes in equal grants to each county. In 1983, every county — the most populous and the least — got a basic grant of \$34,164, whether it was in a single-county or multi-county library system. A regional library got the \$34,164 for each county within its region, plus another \$34,164 because it is a regional library.

So the New Hanover County Library, which serves 105,591 persons, according to the state librarian's office, gets the \$34,164 basic grant. The Pettigrew Regional Library, which serves four counties up the Atlantic coast (Chowan, Perquimans, Tyrrell, and Washington), gets \$170,820 in basic grants for serving 41,081 persons.

The other half of the formula, with both per capita and equalization elements, is still more complicated. This half goes out in inverse proportion to the average individual income in the area served by the library. In other words, the library system in North Carolina's wealthiest area gets exactly half the per capita grant that the library in the state's poorest area gets.

The Pettigrew Library serves an area with a \$4,940 annual per capita income and gets \$32,595, or 79 cents a person. New Hanover, with a per capita annual income of \$6,741, receives \$61,342, or 58 cents a person.

When the basic grants are coupled with the per capita grants, Pettigrew gets \$4.95 per person in state aid; New Hanover receives 95 cents per person. Is that fair?

"I'm not sure it's fair, but it has done a lot for us," says Veronica Furlough, the secretary-bookkeeper for the Pettigrew Library. "In the big counties, they can make out pretty well," without as much state aid.

Sen. J.J. "Monk" Harrington (D-Bertie), whose district includes part of the Pettigrew region, adds "It's more expensive to operate in a rural area. We're so widespread, and bookmobiles make it more expensive. It means so much to that 68-year-old retired woman who can't make it to town 20 miles away and get a book, to be able to get it from the bookmobile."

But Judith Sutton of Charlotte, who chairs the public libraries section of the N.C. Library Association, is not happy with the formula. "In theory, there is a basis for equalization," Sutton says. "In reality, I'm not sure it's sifting out. With equalization, there's the assumption that rural libraries need to be brought up to standard, and that's not necessarily true."

The Politics of Formulas

In the 1983 General Assembly, county and municipal officials lobbied hard for a new, local-option, half-cent sales tax. The local governments needed assistance for capital projects, particularly schools and water and sewer systems. After the legislative groundwork had been laid for authorizing the new tax, a stumbling block remained — how would the tax revenues be distributed?

The local-option, one-cent sales tax, in existence since 1971, goes to counties according to where the tax was collected. (The mandatory, statewide three-cent sales tax goes to the General Fund.) The distribution method for the one-cent tax awards retail centers, i.e., urban areas, where a larger portion of the tax is collected. But the legislative leadership favored an equalization approach for the proposed new half-cent tax. The state Department of Revenue would collect the tax and then distribute the revenues to the counties (and their municipalities) according to population — not according to point of collection.

The semantics of this proposed approach could be confusing — an "equalization" approach based on a "per-capita" system (i.e., spreading the tax among all the counties based

on population, not point of collection). But the legislators were worrying less about terminology than about revenues.

Legislative leaders defended the method of distribution in part because portions of the revenues had to be spent for water and sewer and public school construction. But some urban legislators objected to the proposed distribution formula. Regional retail centers, like Wake County, would not enjoy the same benefits as it did with the existing fourth-cent, general sales tax. This is because shoppers from surrounding counties such as Johnston or Franklin leave their one-cent share of the state sales tax in Wake.

In 1984, the half-cent tax would amount to \$6 million in revenues for Wake County, and would climb to \$6.75 million in 1985, says Assistant Wake County Manager Richard Stevens — *if* Wake could enact the tax and *if* the tax were distributed according to point of collection. But under the equalization approach, distributing to all counties according to population, Wake County would receive only \$4 million of the new revenues in 1985 — \$2.75 million less than under the point-of-collection formula.

Urban leaders fought the proposed formula at first. But the legislative leadership, many of them from rural areas, held a trump card. Urban counties wanted the General Assembly to enact a local-option three percent hotel-motel occupancy tax. Budget leaders from rural counties promised support on the hotel-motel tax in exchange for urban counties' support for the half-cent sales tax.

"They coerced our delegation into going along with it," says Sen. Craig Lawing, a Democrat from Mecklenburg. The half-cent tax passed easily, with the distribution formulas favoring non-urban counties. The same tax bill included a three percent, local-option, hotel-motel tax for *all cities* and also authorized this tax for five counties (Buncombe, Forsyth, Haywood, Mecklenburg, and New Hanover).

While the urban/rural split appeared to be a major consideration during legislative debate, 96 of 100 counties have now enacted the local-option tax. Forsyth County was one of the first, and Mecklenburg recently voted in the tax. On May 21, 1984, the Wake County commissioners voted 6-0 to implement the tax, beginning July 1, 1984. As of June 1, only four counties have not approved the tax.⁷

As complicated as the politics were over the half-cent tax distribution formula, the negotiations over a *new* formula for an *existing* program can be even more intense. Federal budget cuts have required some state agencies to cut back throughout the state. In some cases, these

cutbacks have resulted in an equalization component in a formula losing out to a "base allocation" for each county. "Those programs which are providing high quality services find it very difficult to accept the fact that they must cut back or terminate in order to allow other programs in the state to begin or to expand," explains Ron Penny, referring to the day care funding debates discussed earlier in the article.

Because of federal budget cuts, inequities in existing formulas, or other reasons, the legislature and executive branch agencies do try to rewrite various formulas. Often, a "hold-harmless" provision is inserted into a formula to begin equalization efforts from a standardized base and to keep a local program from losing funds. Such provisions are politically popular but can have the effect of undermining the reform efforts around a particular formula (see "'Hold-Harmless' to Equitable Distribution — Who Gets State Special Education Funds?" *North Carolina Insight*, October 1983).

Politics affects the shaping of distribution formulas for state funds to local governments in North Carolina, just as politics shapes most actions by the General Assembly. "But it's not merely politics that dictates the type of formula," says Don Liner of the Institute of Government at the University of North Carolina at Chapel Hill. "In some cases per capita formulas or formulas based on various indicators of need for the service are called for, whereas in other cases equalizing grants that vary with the fiscal capacity of local governments are called for."

Inevitably, funding formulas have more behind them than first meets the eye — especially when considered in the political and economic context of when the formula comes into existence or is altered. From mental health to day care to libraries to schools, simple terms like "equalization" and "per capita" only suggest the complex policy issues and political context below the surface. Nevertheless, labels like "equalization" and "per capita" serve as useful points of departure.

Ultimately, state funding formulas are fair to the entire state, says Speaker of the House Liston Ramsey (D-Madison). A per capita formula ensures that most money goes where the most people are, while the equalization method provides money, as Gill put it, according to their ability to pay.

For example, Ramsey says, "The folks in Charlotte have a fine university [the University of North Carolina at Charlotte] they can send their children to. The children can stay at home, so a college education doesn't cost as much [as it does] for kids from small, rural counties who have to pay to stay in a dormitory."

North Carolinians who live in Mecklenburg might end up paying more taxes to the state than say, North Carolinians who live in nearby Anson county, says Ramsey. But amenities such as community colleges or universities which the state builds in wealthy areas offsets the extra taxes those areas must pay. A UNC-C student from Mecklenburg County can stay at home, but the Anson County student would have to pay for a UNC-C dorm room or commute.

To Edwin Gill's theory of taxing according to ability and distributing according to need, add Ramsey's corollary: "As far as I'm concerned, we don't have islands in this state. It's all one state."□

FOOTNOTES

¹"Summary of State Financial Assistance to Local Governments in North Carolina," prepared by the Office of State Budget and Management, March 1981. The office tentatively plans to prepare a similar compilation of how state funds go to local programs prior to the 1985 legislative session.

²Don Liner of the Institute of Government at the University of North Carolina at Chapel Hill explains that responsibility for financing government is more centralized in North Carolina than in other states. Consequently, North Carolina uses fewer equalizing grants than do other states, says Liner. Other states that rely more on local governments to finance services, but still want to assist them, tend to rely more on equalizing grants because their objectives are different — they want to equalize the ability of the units to provide the services rather than to determine the need for funds.

³"The State of State-Local Revenue Sharing" Advisory Commission on Intergovernmental Relations (ACIR), 1980. The ACIR, a permanent, bipartisan and independent agency created by Congress in 1959, conducts research on intergovernmental issues and makes recommendations for reform regarding the federal form of government. See bibliography on page 75 for more.

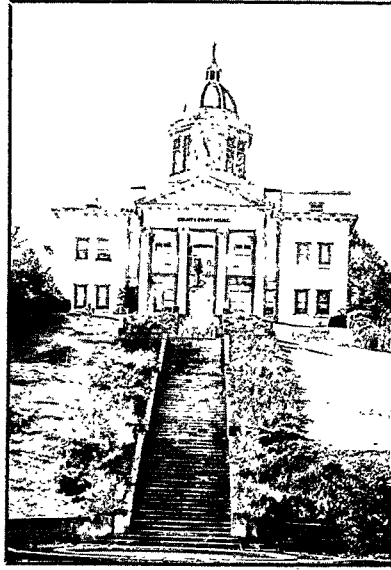
⁴"Intra-State, Intra-Regional, Intra-County General Revenue Sharing Formulas: An Inventory," Center for Governmental Research, Inc., 1981, p. 11. The Center for Governmental Research, based in Rochester, N.Y., is a non-partisan, private agency promoting efficiency in government, especially local government.

⁵"The Federal Role in the Federal System: The Dynamics of Growth — An Agenda for American Federalism: Restoring Confidence and Competence," Advisory Commission on Intergovernmental Relations, June 1981, p. 48.

⁶"The most important variation comes about because some of the rural school units have less turnover, and therefore their teachers receive higher pay. Differences in heating costs and transportation costs contribute to the differences, but I believe they are not as important as differences in pay," says Don Liner of the Institute of Government.

The Constitutional provision does not necessarily call for per capita grants. In fact, per capita grants are not used (ADM is an eligible population measure), and the Department of Public Instruction has been studying grants that are based on differences in costs of providing different services, says Liner.

⁷The four counties are Alamance, Burke, Durham, and Person.



Courtesy N.C. Division of Archives and History



Courtesy Mecklenburg County

“The Concessions and Agreement [of 1665] provided that Carolina be divided into large subdivisions, called counties, in each of which was to be established a governor, an assembly, and other agencies. Each county was to be divided into districts, which were to be administrative and judicial units. The present-day counties in North Carolina bear more likeness to the old districts, or precincts, than to the old counties, which eventually were abolished.”

—North Carolina Government 1585-1974

“[T]he Legislature has . . . power to unite [counties] when they are too small.”

—*Mills v. Williamson*, 33 N.C. 558

Counties



Michael Matros

An Interview with Ron Aycock

C. Ronald Aycock, 43, has been director of the N.C. Association of County Commissioners since 1977. A native of Wilson County, N.C., Aycock received both his B.S. and J.D. degrees from the University of North Carolina at Chapel Hill. He has practiced and taught law, been director of the Region L Council of Governments, and worked as counsel for intergovernmental relations at the association before becoming its director.

The Association of County Commissioners, formed in 1908, has a staff of 10 and an annual budget of \$600,000, 75 percent of which comes from voluntary membership dues. All 100 N.C. counties are currently dues-paying members. The association works on behalf of counties before the General Assembly and executive-branch offices. In addition, says Aycock, "We offer a consulting service of peers, organizing county officials to help other counties with problems."

The association publishes a bi-weekly newspaper (*County Lines*), advises county officials on all county issues, and generally serves as the eyes and ears of county commissioners in Raleigh. The group's board of directors is composed entirely of county commissioners. In addition, the association has policy advisory committees composed of both board members and non-board members.

Bill Finger and Susan Wall conducted this interview on February 8, 1984.

What are the most pressing needs of North Carolina counties?

First, school finance. There's a major need for sorting out the categories that are mandated for the county to fund and for the state to fund. Basically, who should pay for which services — the state or the county? Second, in the water and sewer area, there is a need for greater coordination between the county and municipalities. These were once all city facilities; now counties are much more involved. Third, governance of human services, the interplay of the various boards — boards of health, social services, mental health — with the county commissioners.

What do you mean by "governance"?

Let's take the county boards of social services, which have either three or five members. With the three-member board, the county commissioners appoint one, the state Social Services Commission the second, and these two members choose the third. With a five-member board, it's two and two, and those four choose the fifth. This board must get its local-match funds from the county commissioners, yet the commissioners do not have control over the welfare programs. The local boards of social services oversee the county administration of AFDC [Aid to Families with Dependent Children], food stamps, Medicaid, and other welfare programs. These are major county expense items.

How would you clear up this governance problem?

There are two major options. First, you

could have the county take over the whole function and have advisory groups for each type of human service under the control of the county commissioners. In 1983, local bills from Wake, New Hanover, and Gaston counties came before the legislature proposing such a consolidation.¹ We supported the bills but statewide service groups, like the Public Health Association, opposed them. None of them passed.

A second way would be for counties to organize a local Department of Human Resources, under which all the social services programs are coordinated. This would be most difficult where human service structures cut across county lines, as in mental health, for example.

Can a county undertake such a merger of human service functions on its own?

In North Carolina, we have a "home-rule" provision for any county over 325,000 in population, which right now means only Mecklenburg. But Guilford and Wake are close. Mecklenburg has used the home-rule provision to consolidate some of the human service functions, a kind of reorganization. Some of our rural counties, though, ask, "Why does home-rule apply only to the big counties?" Expanding the home-rule authority in the human services area might become a priority for all counties.²

Should the state assume a larger share of human service programs?

Yes. Currently, counties administer welfare programs in only 16 states, including North Carolina. And counties participate in paying Medicaid costs in only 9 states, including North Carolina.

How likely politically is such a state takeover of county Medicaid funding?

It's not going to happen immediately. We realize that Medicaid is a big budget item for the state. But gradually we think the state may take over more of the Medicaid costs.

What percentage of county revenues is actually mandated by state and federal programs, like Medicaid?

We calculate that about 75 percent of all county-generated funds go for services mandated by federal or state law. But the figure is hard to determine. Take schools, for example, where mandates are very muddled. And keep in mind that 50 percent of county-generated funds go to public education [grades K-12 and community colleges]. If the school board believes that the commissioners are not voting enough funds for a suitable and free public education for all children in the county, the local school board has the

statutory authority to take the local county commissioners to court. Usually such a threat is settled out of court, as in Wake County last year. But we had a recent judgment in such a suit in Richmond County.³ Mandatory funding, especially regarding public education, is not always clearcut. [See article on page 30 for more.]

Has the state addressed this problem of county expenditures being mandated by state law?

The 1983 legislature passed what's called the Jordan-Adams bill, which may prove to be one of the most important pieces of legislation in 1983 for counties.⁴ It requires the various state departments to show the increased cost to the counties of all new state budget items. In the past, department officials and legislators usually recognized the increased cost for counties only when a budget increase was in the expansion budget for a major new item. The impact on counties of budget increases in the continuation budget of things like energy costs for schools was seldom noted. Now, the impact on counties must be computed by each department. [This process begins with the 1985-86 budget.]

How will the sorting out of school finance questions take place?

The state has been working on it for about six years now. The current forum, we think, is the 47-member Public Education Policy Council created by the 1983 General Assembly. Our first vice president, Raleigh Carver of Pasquotank County, made a presentation to them on February 29. He presented some general policy approaches that we think would be helpful. [Carver died suddenly in April.] We'll be working closely with the Fiscal Research Division of the legislature, the staff to this council.

Among rural counties particularly, disparity in per-pupil funding is a growing concern. Is equalization of funding for school children a viable option in North Carolina?

Don Liner at the Institute of Government has studied equalization efforts made in other states and found that it usually didn't help. North Carolina provides more of the share of public education than do most states. We're ahead of the times with the state supporting about 63 percent of operating expenses [the N.C. counties provide 25 percent; federal funds provide 12 percent]. The state share, which is so large here, is already distributed for the most part on a per-capita basis. [See article on page 30.]

What about the experiment in eight counties, where they will have more flexibility in spending state school funds?

We see that as more of a home-rule issue than a way to sort out the tangle of school finance mandates and clear up the muddle of county-state responsibility. But it may have some bearing.

To what extent has there been a blurring of roles and functions among N.C. cities and counties?

There has been some blurring, but I think it's a natural kind of transfer from the city to the counties. For example, 50 years ago, I doubt if any county provided any library services. Now in most cases, only counties provide that service; cities have turned it over to the counties. Recreation is becoming more and more exclusively a county-provided service. In the water and sewer area, counties have provided water in many counties but recently have gotten more involved with providing sewerage services as well. Even fire service is changing, in both urban and rural counties. In Guilford County, for example, it's hard to tell the difference in the level of services provided inside municipal limits and outside those limits.

*People will wake up
one morning
and wonder where
the separate services
from a city
and county went.*

What kinds of consolidation of services are taking place?

In many counties, libraries, recreation, and other services are often provided totally by the county. In some counties — both rural and urban — there are joint functions like planning and purchasing. A number of counties have contracts with municipalities to join onto the municipal system. In urban and rural areas, there is a large amount of sharing of computer services. Most people get a single tax bill for their city and county taxes. Functional consolidation is definitely increasing.

What about political consolidation?

That will definitely come last, if at all. People will wake up one morning and wonder where the separate services from a city and county went.

Then we might have a consolidation, but I won't predict how long it will take, maybe 10, 15, 20 years. Mecklenburg County and the city of Charlotte have formed a committee to explore consolidation. New Hanover County and Wilmington are also discussing consolidation.

How has the mix of county revenues changed in recent years?

The property tax remains the major source, about 72 percent of the revenues. It has been at about that rate for a while, since the mid-70s at least. The one-cent optional sales tax has produced a gradually higher percent, about 15 percent of total county revenues in 1978 and up to about 16 percent last year. The percent of a county's budget from federal funds has dropped from 9 percent in 1982 to 7 percent last year.

How do you feel about the level of property taxes? We rank 37th nationally in percent of state-local taxes coming from this source.

I don't think comparisons across state lines are helpful. If you say to a farmer that property taxes are higher in Massachusetts or New York, he will say, "But I live in North Carolina." The perception of how high property taxes are is what's important.

Do you think we revalue real property for tax purposes often enough — every eight years?

We should probably revalue more often so that we would have more incremental increases. With the computer technology becoming available, the administrative costs would not rise exorbitantly.

Does the percent of a county's revenues from the property tax increase in revaluation years?

No. Tax revenue received by a county is a function of both rates and of assessed value. When the value goes up the rate goes down. Personal property and utility property are revalued every year, real property only every eight years. So a utility like CP&L or a textile company like Fieldcrest are basically subsidizing the homeowner, who has a free ride for eight years, until his property value doubles or so. So CP&L's taxes go down in a revaluation year when the rate of taxation declines on a larger total assessed value. The personal and real property rates and the total assessed values tend to work themselves out in revaluation years. The portion of a county's revenue stays at about 70 percent, even in revaluation years.

Should the state retain the inventory and intangibles taxes?

First, the question should be, "Should the cities and counties retain these taxes?" The revenues from these taxes go to local governments. Regarding the intangibles tax, what's the difference if a person puts \$50,000 in savings into stocks and bonds [subject to intangibles tax] or into a building [subject to property tax]? Why should he be exempt from paying that tax if it's in stocks and bonds? But a lot of people want to get rid of it. The intangibles tax funds about three percent of a county's budget. If the state takes away that tax, then it should replace the revenues somehow [\$51 million for counties and municipalities in 1982].

On inventory taxes. Opponents claim that it hurts us in attracting industry. But *Forbes*, *Fortune*, and *Time* rank North Carolina in the top five states in the nation in attractiveness to industry. They don't seem to think the tax hurts us. The inventory tax — which is a part of the real property tax — brings in from \$100 million to \$125 million a year to counties. How could the legislature make up for that loss? The inventory tax by and large is passed on to consumers anyway, many of them out of state. That tax doesn't seem to be hurting the state.

We should also be clear that the half-cent sales tax in no way was a tradeoff for the inventory or intangibles tax. The inventory tax provides \$100 million to \$125 million to counties a year. [As of June 1,] 96 counties have approved the new half-cent, local-option tax. In those 96, the new tax will bring in over \$100 million, \$40 million of which has to be spent on school construction. In addition to providing funds for school capital purposes (and for water and sewer for cities), the half-cent sales tax legislation had as one of its stated purposes the relieving of some pressure on the property tax.⁵ So there's no tradeoff with the inventory tax.

Does the new local-option sales tax represent a state effort to stop funding local school and water and sewer projects?

I wouldn't put it that strongly, but it was a factor. Written in the same legislation was a provision to repeal the state's authority to issue new clean water bonds.⁶

Now that you've gotten the half-cent tax, have you painted yourself in a corner for future state help for capital projects?

I don't think so. They probably said the same thing about the one-cent sales tax. We can't come back too soon, but it's too early to tell whether the half-cent tax will be enough.

The funding formula for the half-cent tax sparked some controversy. What do you think about state allocation formulas in general?

People said the half-cent tax would be a "rural" tax because of the per-capita distribution formula [rather than a point-of-collection formula, which would favor the commercial-rich, urban counties] and because of the greater needs of rural counties. But it hasn't worked out that way. Forsyth and Madison were the first two that passed it. Three of the five largest counties have passed it; Wake and Mecklenburg have not. [Both have now passed the tax; only four counties have not.]

A Legislative Revenue Study Commission examined all the state formulas some years ago. Jim Newlin of the Fiscal Research Division staffed the commission and did a good job summarizing all the formulas.⁷ But after all that work, nobody could think of a better way of distributing the funds.

Do you think counties should be given a local option for other types of taxes — income, excise tax on luxury items, tax on professional services, or others?

Some sentiment for other types of local option taxes could emerge from county officials. It depends on how severe the county financial pressures become in the future. We have a structure within our association to examine county taxation and financial areas. If a consensus emerges for a new kind of local option tax, then the association would seek that authority from the General Assembly.

FOOTNOTES

¹The Gaston and New Hanover bills were combined into HB 351, which passed the House in the 1983 session. The bill is eligible to be considered by the Senate in the 1984 short session. The Wake County bill (SB 523) was not acted on in the Senate Committee on Human Resources and is therefore not eligible for consideration in 1984.

²The 1983 General Assembly considered a bill to alter the 325,000 population limit. The proposal, HB 351, passed the House of Representatives and, as amended, is now in the Senate Human Resources Committee, which could consider it in the short 1984 session.

³NCGS 115C-431. The Richmond County School Board brought a formal legal action against the Richmond County Commissioners, claiming under this statute that for fiscal year 1981-82 the county had not provided adequate funding for the school children in their school district. The Clerk of Court ruled against the School Board, but the Superior Court judge overturned that ruling on appeal. The judge held that the Richmond County Commissioners must appropriate an additional \$450,000 to the School Board. This ruling resulted in an additional 3½-cent property tax assessment.

⁴SB 23, Section 13, Chapter 761 of the 1983 Session Laws. It amends NCGS 143-10.1.

⁵See Chapter 908 of the 1983 Session Laws (HB 426), Part I, to be codified as NCGS 105-481.

⁶*Ibid.*, Part II.

⁷State Revenue Sharing, Legislative Research Commission, Interim and Final Reports to the 1980 and 1981 sessions of the General Assembly of North Carolina.

Surveys of County Officials

Surveying local government officials—county commissioners, county managers, city council members, and city managers—can provide valuable information to state officials. The article below summarizes the type of surveys undertaken by a county advocacy group. In the municipal section of this issue of North Carolina Insight, an article from a more academic perspective presents selected survey results from towns under 50,000 in population (see page 62).

by Ed Regan

Last spring, the Elizabeth City-Pasquotank County School Board requested the Pasquotank County Commissioners to appropriate \$2.14 million for the county school system—\$1.76 million in operating expenses and \$384,000 for capital needs. The commissioners approved 82 percent of the request—\$1.44 million in operating funds and \$300,000 in capital funds. Should those school board members be satisfied with getting 82 percent of what they requested?

In a year when education reform has climbed near the top of agendas of legislators, executive-branch officials, and interest groups, policymakers could benefit from knowing how county governments responded to such local school fund requests in all the 100 counties. But in the impressive and useful array of state government publications, no such data exists.

As the N. C. Association of County Commissioners staff prepared for our annual Budget and Tax Information Survey last summer, county commissioners and managers encouraged us to find out more about the extent to which counties meet the requests of local boards of education. So we added a section to this 10th annual survey, asking county officials to report the "amount requested" and "amount approved" for both current expenses and capital outlays ("direct appropriations" and "bond proceeds" had separate blanks). This new information appeared under the heading, "Comparison of School Board Requests and Amounts Approved by Commissioners." Table 1



summarizes the data from this section of the 1983 survey.

As Table 1 shows, 45 of the 89 counties that responded to this question met more than 95 percent of the local school board requests for operating funds. Another 24 counties provided between 90 and 95 percent of these requests. Put another way, 78 percent of the *responding counties* granted over \$9 of every \$10 requested by the local school board for operating funds. Such a statistic shows the value of conducting surveys, for the conventional wisdom that counties are reluctant to meet school board funding requests appears to be overstated.

These data are based on a survey, not an official reporting form, so they should only be viewed as suggestive of trends. For instance, one could assume that the 89 responding counties contributed the *highest* percentage of funds and thus indicate a greater willingness to meet the requests of school boards than exists throughout all 100 counties. These data are for a single year and do not reveal historic trends. The data might also indicate that an informal negotiating process takes place between school boards and county commissioners in many counties so that the actual budget proposal does not exceed by much what the school board thinks it can actually get from the commissioners.

Finally, the special circumstances of last

Ed Regan, fiscal analyst for the N. C. Association of County Commissioners, coordinates much of the survey work done by the Association.

year may have caused school boards to make more modest requests or may have resulted in county commissioners having more discretionary revenues for schools than in previous years. Last year, federal revenue sharing was renewed, a proposed new local-option sales tax to provide state funds for school construction was about to pass the legislature, and modest salary increases were being projected for school personnel.

While the results of all surveys must be qualified to some extent, such survey information as this school funding data serves an important function. The Association staff uses such data to work for the counties' best interests at the state level. In our work, we draw heavily on government data sources, many of which are extremely useful and often underutilized. For example, local governments submit formal financial data on a Uniform Financial Report to the N.C. Local Government Commission (see page 6 for more on this agency). These data are now available in a computerized form through the N. C. Office of State Budget and Management.

Despite such excellent resources, we need surveys to augment existing information, usually for one of two reasons. First, a time lag often exists from a current fiscal year to when the year's data is published by a state office. The Association, for example, obtains information on property taxes directly from the counties shortly after they adopt their annual budget and well before this information is available through state publications.

Second, specific county-by-county data are often not available in state publications.

Individual counties' responses to school board funding requests illustrate this point. Although the state Department of Public Instruction issues local school *expenditure* data, it does not publish information on *appropriations* by individual counties. The latest refinement to our annual budget and tax survey, as discussed above, shows how we try to fill such information gaps.

During the last several years, the Association staff has developed several survey mechanisms. These range from annual and biennial surveys of the 100 counties to special surveys on single issues involving a sampling of county governments.

The Annual Survey of Budget and Tax Information has gradually expanded to include questions on special taxing districts and appropriations to school systems. Also, the annual survey has provided a vehicle for gathering data of special interest to a specific group of counties. Recent examples include questions about financing landfill operations and county financial support for volunteer fire departments.

Occasionally, during a session of the General Assembly, we conduct a quick survey of counties on a single issue under legislative debate. In the last several sessions, such special polls have focused on such issues as county expenditures for housing state prisoners in county jails, county assistance to public hospitals for providing care to indigents, hazardous wastes, and the impact of proposed property tax exemptions on county tax receipts.

The single-issue surveys are particularly useful in anticipating the impact of legislative

Table 1. Actions by County Commissioners in Response to School Fund Requests from Local School Boards, FY 1983-84
(all \$ in millions)

Appropriations As % of Request	Current Expense			Capital Outlay		
	No. of Counties	Amount Requested	Amount Appropriated	No. of Counties	Amount Requested	Amount Appropriated
95 - 100%	45	\$240.2	\$236.8	26	\$20.7	\$20.4
90 - 94.9%	24	97.1	89.9	7	15.0	13.8
85 - 89.9%	11	69.3	60.6	3	1.7	1.4
80 - 84.5%	6	14.5	12.1	4	6.0	5.0
under 80%	3	12.6	9.9	49	73.6	29.6
Totals (Responding Counties):	89	\$433.5	\$409.2	89	\$117.0	\$70.2
Average %:			94.4%			60.0%
No Response:	11	—	—	11	—	—

Table 2. County Financial Assistance for Rural Volunteer Fire Companies, FY 1983-84

Types of Assistance	No. of Tax Districts	No. of Counties	Special Tax	Appropriations	Total Amount
Special Tax Levy Only	115	12	\$ 5,046,245	—	\$ 5,046,245
Special Tax & Appropriation	413	48	10,231,116	\$3,421,444	13,652,560
Approp. Only	N/A	28	—	3,127,047	3,127,047
No Assistance	N/A	2	—	—	—
No Response	34	10	—	—	—
Total	562	100	\$15,277,361	\$6,548,491	\$21,825,852

actions on individual counties. If a pending action may have a disproportionate impact on specific counties, the statewide aggregate statistics—usually the only type of data available—rarely reveal what that impact will be.

In most instances, the Association's information gathering efforts concentrate on factual and statistical data. However, there have been a few situations where the Association has polled county officials to identify problems or assess anticipated needs. The most extensive survey of this type involved a cooperative effort with the N.C. League of Municipalities and the state Department of Administration to ascertain problems with state administrative regulations. The county questionnaire—sent to commissioners, managers, county attorneys, and directors of health, social services and mental health agencies—drew more than 400 responses. The survey did not produce dramatic changes in the short term, nor was this expected. Rather, the poll on state regulations focused efforts on gradual reform which continues today.

Ultimately, survey information is most useful when combined with existing data sources. In our 1983 Budget and Tax Information Survey, for example, we included questions on county funding for volunteer fire protection companies. Counties have had the authority to establish fire taxing districts since 1951, but the number of such districts has increased rapidly in recent years. In the 10-year period from 1972 to 1982, the number of fire districts increased from 170 in 40 counties to 485 in 61 counties.¹ All of this information on special tax districts came from public sources.² No county-by-county breakdown of additional direct appropriations was readily available in published form, however.

With a special district covering only a portion of a county, the commissioners can tax only the residents in that district through a special levy. In addition, many counties have

made direct appropriations out of the general county budget to rural volunteer fire departments. County commissioners and managers urged us to find out more about the extent of such funding in each county, so we added these questions to our 1983 survey:

1. Aside from special tax levies, does your county provide financial assistance to local fire districts or volunteer fire companies?
2. How much was appropriated for FY 1983-84?"

Table 2 summarizes the answers from these questions. Such data are most valuable when used together with the computerized data from the Uniform Financial Report, mentioned above. This data bank includes information on county expenditures for fire protection and other service areas that traditionally have been the domain of municipal governments—water and sewer systems and various public safety functions, for example.

As counties continue to take on a broader scope of funding efforts—from increased school appropriations in Pasquotank County to new fire districts in Alexander County—the Association staff will continue to update and expand our survey efforts.

The needs of county officials continue to change, so data sources will have to be continually updated and surveys constantly refined. Survey efforts can augment the data base even as they expand perceptions of what county officials need from the state.□

FOOTNOTES

¹The chart on special districts on page 11 does not include fire districts because fire districts are dependent on counties for funds and administrative direction. But the text explains that fire districts are an important political issue in county funding for special service areas.

²*Property Tax Rates for N.C. Counties and Municipalities*, N.C. Department of Revenue, Tax Research Division, annual publication.

Memorable Memo

Excerpts from a document on gubernatorial transition.

18

SUGGESTIONS FOR BUILDING HUNT'S RECORD (CONTINUED)

OBSERVATIONS & SUGGESTIONS

ON

FINISHING UP A GOVERNOR'S ADMINISTRATION

A Summary of Interviews
conducted by

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Governor's Program for Executive & Organizational Development

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SUGGESTIONS FOR REDUCING POLITICAL VULNERABILITIES

Dealing With Outside Concerns

- Generally
 - ignore potshots
 - don't duck issues to protect yourself from the attacks of other politicians
 - avoid charges of manipulating people & programs, by avoiding (not doing) it
 - move to defend the ground you want to defend rather than the ground circumstances give you
 - avoid major mistakes (e.g., a prison riot in September)
 - welcome a good disaster
 - "lay low," in the sense of not trying to make waves & cause an uproar in the final months of the term
 - protect against departmental foul-ups
 - keep folks from screwing up & embarrassments from occurring; keep things under control

Re: your own campaign

- take time to learn about Washington; key in someone who knows the city & the political climate surrounding the Senate
- get on the defensive (the other side will exploit mistakes & negative issues, create hypothetical issues, & generally attack state government to taint your image)
- be proactive in setting the tone of a campaign (a major "blindsider")
- don't allow your opponent to set the agenda of the debate; in leading the state, you must constantly & quickly work back to your own agenda

Re: other campaigns

- keep your nose out of the gubernatorial race
- stay above the battle; don't involve yourself in the state political fray
- don't endorse anyone
- get on the defensive (attacks may be expected from gubernatorial candidates looking for angles in their campaigns, to show individuality from Jim Hunt -- "we attacked state government when we ran")
- expect controversy to be created by Council of State members (relationships are now at a 7-year low); expect a bad audit in 1984 (to attack the Governor for Renfrow's own political gain)
- talk to Rufus about stepping down from office after the primary

Re: the General Assembly

- be nice to the General Assembly; remind them what you still can do; keep an eye on them
- cement relationships & understandings with legislators; work out accommodations (otherwise, this can screw up the governorship & divert time needed for governing)
- beware of ploys re: separation of powers; hold strong & fast

Telling "The Story" of Truly Historic Accomplishments

- Highlight a half dozen significances over the 8 years
- Get someone who knows the Governor & his programs well enough to arrange a topical index of the issues he feels to be important & have him pick the ones to write about (e.g., education, microelectronics, math/science high school, race relations)
- Prepare a monograph series on the "stories" of the important/lasting contributions: how & why they were developed & what made it happen (e.g., revitalization of elementary schools, microelectronics center, task force on education for economic growth, NC 2000, expanding the public service role of the university, partnerships, the consent decree, symphony funding, etc.)
- Prepare a compilation of major accomplishments in the general categories of governmental operations (e.g., public schools, local government, taxation, etc.)
- Pick about a dozen central themes or major programs initiated & write about these (e.g., microelectronics center, math/science high school, community development)
- Give a set to UNC (in addition to Archives & History)

Assembling & Disposing of Public & Private Papers

- Get Hunt's papers organized during the last part of the term; don't wait too long
- Carefully screen the Governor's papers (speeches, letters, etc.) -- deserves 2 volumes as first 2-term governor
- Summarize the Governor's most important documents as a packet for journalists
- Have Archives & History staff brief the Governor & Cabinet on distinguishing personal & public papers & the treatment of each
- Decide what you want to do with your private papers
- Give your private papers to the Southern Collection at UNC; to Archives & History

Leave paper trails (a major pitfall of prior administrations in not leaving enough)

Clean up your files & personal things

Dealing With Inside Concerns

- Send out a memo setting out the groundrules for what are acceptable campaign procedures re: state employees who are endorsing candidates (i.e., what they ought & ought not be doing re political activities)
- Watch out for out-of-session appointments (those needing Senate confirmation)
- Avoid rank political appointments
- Try not to appoint political friends to important staff positions
- Beware of upper-level thievery/favors
- Avoid Bert Lances
- The public quickly forgets your management problems; the way you get in trouble is when someone has a hand in the cookie jar
- Have staff well-coordinated & in control of things, to avoid & deal with departmental foul-ups

More an eclectic catalog of advice than a memo, the document excerpted here gained considerable public attention. Gubernatorial transition is indeed a serious topic, one which the N. C. Center is planning to study.

The memorable memos tucked away in your files are gratefully accepted at North Carolina Insight. As always, anonymity guaranteed.

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Where North Carolina Stands

Disparity in Public School Financing

Per-pupil spending varies widely among the state's 142 school systems, by as much as 60 percent. Since the 1930s, North Carolina has provided "foundation" funding to all systems to operate the schools. Even so, today, local appropriations account for 25 cents of every school dollar in North Carolina. The financial equity issue remains low on the education agenda in North Carolina even though it represents the cornerstone of any "uniform system of free public schools."

by Lanier Fonvielle

"The General Assembly shall provide by taxation and otherwise for a general and uniform system of free public schools . . .

The General Assembly may assign to units of local government such responsibility for the financial support of the free public schools as it may deem appropriate."

—Constitution of North Carolina, Article IX, Section 2

When Chuck Clark graduates from Northern High School in Durham County this spring, he will have courses in advanced Latin and computer math under his belt. Two hundred miles to the west, in Jackson County, Maxwell Fowler will receive his diploma from Blue Ridge School, nestled in the mountains of Glenville. Maxwell never had the chance to take any Latin courses or computer math. In fact, Maxwell had 56 fewer courses (28 academic and 28 vocational) available to him in Glenville, a Jackson County community, than did Chuck in Durham County.

Perhaps it's not surprising that the K-12 Blue

Ridge School can offer fewer courses to its high school students than can a system in one of the state's major metropolitan areas. Larger school districts generally offer more courses than smaller districts. Indeed, the difference in educational opportunities between those of Chuck Clark and Maxwell Fowler is not an isolated example. The variety and level of course offerings throughout the 100 counties represents one of the simplest measures of educational disparity within North Carolina.

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Despite the wide range in *educational disparity* between the Durham and Jackson county school systems, the *financial disparity* between the two districts is relatively small. In 1982-83, per-pupil spending (excluding food service) in the Durham County system totaled \$2,160 compared to \$1,896 in the Jackson County system, a 14 percent difference.¹ Per-pupil spending, then, is only one factor affecting the educational opportunities of students like Chuck Clark and Maxwell Fowler.

Important variables in education equity include: the number of pupils in a district (i.e., the size of a district), the wealth of a school district (measured in per capita income, tax base, and other ways), level of per pupil spending, local leadership and values, and parental involvement. All of these factors are important and must ultimately be viewed together. But many of them hinge on the financial system employed by the state. Financial disparity is not the only factor leading to educational disparity, but financial equity does represent the cornerstone of any effort to build a "uniform system of free public schools."

Disparity in Per-Pupil Funding

The traditional wisdom in North Carolina holds that financial disparity among the various 142 school systems is not a major problem because the state provides a "foundation" of support for a local school district's operating costs. Indeed, since the pathbreaking 1931 and 1933 sessions of the General Assembly, the state has provided the local school systems with a base operating budget. In addition, the state encourages counties to supplement the state foundation with local funds. The General Assembly also mandates that counties must pay for school capital facilities and maintenance.

In the 1930s and even into the 1950s, the state provided the lion's share of *all* operating funds for public schools. Throughout these decades, a few big city school systems utilized substantial local monies, causing some important financial disparities among local districts. During the New Frontier and the Great Society in the 1960s, federal education funds—designed primarily to assist districts with large numbers of disadvantaged children—increased, and by the 1970s were an important portion of the public school budget for many districts.

In the 1980s, however, federal funds have leveled off. In addition, while state funding has kept up with inflation, it has not increased significantly. Meanwhile, many individual counties have added more local funds. By 1983, the state-federal-local mix had gradually shifted so that only 64 cents of every public school (K-12) operating dollar came from the state's General Fund.² County-generated revenues, primarily from the property tax, accounted for another 25 cents of every school

dollar. Federal funds made up the final 11 cents.

The state "foundation" spending for a local school district's operating costs provides a base of funds for all districts. Federal funds, for the most part, serve to equalize funding disparities (although this is not their intended purpose, as footnote 2 explains). Nevertheless, primarily because of increased local spending for schools, the differences in per-pupil funding among the state's school districts are significant. In 1983, per-pupil spending (excluding food service) in the Randolph County system totaled \$1,614, the lowest of any state school district. The Durham City system ranked first with \$2,578 spent on each pupil—*60 percent more than the Randolph County system*.³

Disparity in per-pupil funding among the school systems has not escaped the notice of policymakers, and education experts are now grappling with a host of education reform efforts. State Treasurer Harlan Boyles went so far as to say, "We may have a constitutional or legal problem on our hands."

Ron Aycock, director of the N.C. Association of County Commissioners, explained the issue further. "Our [N.C.] history of providing equal access to quality public education is at risk if we allow an increasing share of essential school operating expenditures to be financed by widely varied local revenues. Also, the counties' primary responsibility, school facilities, is undermined by competing needs for increasing aid to school operations. Only state resources can ensure equalization."

Gene Causby, director of the N.C. School Boards Association, sums it up like this: "The spending levels among the counties are bordering on being too far apart."

Boyles, Aycock, and Causby are referring not only to the state's constitutional mandate for a "uniform system of free public schools" but also to the extensive litigation concerning equal financing of school systems within other states (see article on page 38).

Most states, including those where litigation has occurred, rely far more heavily on local



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revenues for schools than does North Carolina. Only two other states, Hawaii and Alaska, utilize a foundation funding system with no equalization aspects based on local wealth. Nationally, states provide an average of 44 percent of total expenditures for public schools (K-12), compared to North Carolina's 64 percent. But North Carolina spends only \$2,033 per pupil, 82 percent of the national average of \$2,473.⁴ Moreover, some states—unlike North Carolina—employ various formulas that take local economic factors into account to balance funding among local districts. North Carolina relies almost exclusively on a state-level foundation system.

The "Foundation" Allocation System: Some Strengths and Weaknesses

State per-pupil funding does not vary extensively from district to district as does total spending. In 1983 the state per-pupil amount (excluding food service) ranged from a high of \$1,586 (Hyde County) to \$1,266 (Cumberland County), a 25 percent difference. About four of

every five state public school dollars go for instructional salaries according to an allotment system. Using the projected average daily membership of each district, the state determines the number of positions eligible for state funding.

The state funds these positions according to a state salary scale, but the amount spent on each position varies according to such factors as a teacher's longevity and graduate degrees. The state allows the local districts to hire the personnel. Therefore, if a district can attract and keep persons with advanced degrees and/or many years of service in the public school system, that district will automatically receive more salary dollars. Since 80 percent of state public school operating funds are allotted to instructional positions, this "line-item" accounts for much of the disparity in state per-pupil funding among the counties.

The General Assembly currently uses some 30 other formulas to fund various aspects of the public school system—from administrative positions to textbooks. Most of these funds are also

Table 1. Per-Pupil Expenditures (PPE) by School District, 1982-83 (Excluding Food Service)¹

School District, Ranked by Total PPE	(1) Total PPE Amount	(2) State		(3) Federal		(4) Local	
Top Ten		%	Rank ²	%	Rank ²	%	Rank ²
1. Durham City	\$2578	52	84	13	25	35	2
2. Asheville City	2546	54	46	12	36	34	3
3. Hyde County	2531	63	1	16	12	22	17
4. Tyrrell County	2458	62	4	19	4	19	33
5. Fayetteville City	2405	57	55	13	34	30	7
6. Chapel Hill/Carrboro City	2402	55	109	4	142	41	1
7. Hendersonville City	2375	60	26	10	72	31	6
8. Greene County	2366	61	17	19	5	20	34
9. Gates County	2357	67	2	16	21	17	51
10. Northampton County	2340	61	24	21	3	18	45
(Average)		59%		14%		27%	
Bottom Ten							
134. Caldwell County	\$1778	73	130	8	127	19	86
135. Catawba County	1746	75	129	5	143	21	70
136. Davie County	1745	74	132	8	129	18	101
137. Iredell County	1743	76	103	10	110	13	127
138. Union County	1740	76	120	8	135	17	111
139. Gaston County	1738	74	138	8	128	18	96
140. McDowell County	1735	75	135	12	89	13	128
141. Alexander County	1706	78	106	10	108	11	141
142. Davidson County	1622	79	141	9	133	13	136
143. Randolph County	1614	79	139	6	141	14	129
(Average)		76%		8%		16%	

¹Low-income students receive reduced price or free school meals, and others pay for meals. The figures in this chart *exclude* all food service funds.

²Rank is out of 143 school districts (the number in 1982-83). There are now 142 districts.

Source: "Selected Financial Data, 1982-83," State Board of Education, Controller's Office, Division of Planning and Research, pp. 6-9.



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distributed through formulas “driven” by the average daily membership figures.⁵ Elements in these formulas also account for some of the per-pupil differences among the school systems. (For more on the formula issue, see pages 16-17 in the article by Ken Eudy and footnote 6 to that article.)

The North Carolina funding system distributes relatively equal amounts of money to each district and encourages the hiring of experienced teachers and those with graduate degrees. Despite these strengths, when it comes to providing equal educational opportunities, the system has spawned three important weaknesses.

1. School District Appropriations Vary Widely.

The state foundation has no incentives that affect the variations in local district spending. In 1983, the *local* per-pupil spending ranged from a high of \$978 (Chapel Hill/Carrboro) to \$188 (Hoke), a five-fold difference. In 11 school districts, 30 percent or more of the total budget comes from local sources; in 8 other districts, less than 12 percent of the budget comes from local funds.

Table 1 shows the impact of varying local spending levels, using the top 10 and bottom 10 districts in total per-pupil spending (excluding food service) as a basis of comparison. For the top 10 districts, on the average, local funds made up 27 percent of total spending, compared to only 16 percent for the bottom 10 districts. *State funds*, on the average, make up 76 percent of total spending for the bottom 10 districts, compared to only 59 percent for the top 10 districts.⁶

While Table 1 shows the rank of districts by amount of local spending, it does not show the spending “effort” of local areas. The distinction between *local spending* and *local effort* is an important one, but one that is very difficult to compute. A low ranking in local per-pupil spending does not necessarily mean that the school district is not making a substantial effort towards funding the local schools.

The State Board of Education’s Controller’s Office has attempted to show local effort through a ranking of counties by “expenditures as a percentage of local resources.” The Controller’s Office arrived at the ranking by dividing the per-pupil expenditures for each county by the local revenues available per-pupil in each county.⁷

Some analysts, however, believe the ranking to be misleading. “It is not a valid measurement of tax effort because it measures only the percent of revenues *spent* on schools,” says Dr. Charles D. Liner of the Institute of Government at Chapel Hill. The [Controller’s Office] computation does not indicate the tax effort that a county makes in relationship to per capita income or assessed property value.”

Local per-pupil spending is sometimes viewed together with a county’s tax resources or per capita income of its residents. Various analysts have made some preliminary comparisons between a *county’s* tax resources or per capita income and local school spending in that county.⁸ But few, if any, studies have focused on the relationship between a *school district’s* per-pupil spending and the *district’s* tax base and per capita income.

Such a comparison, while possible to do, is difficult because data is not readily accessible on a *school district’s* tax base. A school district’s boundaries (such as those of the Durham City district) do not necessarily coincide with the boundaries of the municipality related to the school district (such as Durham) because of annexation since the district was formed and other reasons.⁹

2. State Funding Does Not Provide a Comprehensive Instructional Program. The State Board of Education approves but does not require a standard curriculum for primary and secondary schools. The allotment system for the public schools, however, flows not from that standard curriculum but according to the hodge-

podge of various allocations explained above—positions allotments and other formulas based primarily on average daily membership. Put another way, the funding levels are decided first, then the educational curriculum evolves within the available funding. For more uniform instructional programs across the state, the process would have to be reversed: first, determine how much an educational system costs, based on a standard curriculum, and *then* fit the funding structure to that cost.¹⁰ Currently, the constitutional mandate for a “uniform system” is met primarily through a *system of allotment neutrality* (i.e., *by school district*), *not through a uniform educational curriculum*.

In some counties, aggressive local educators, often pushed by active parent groups and conscientious teachers, look to counties for flexibility in funding and for money for comprehensive programs that are not covered by state allotments. Counties must make up the differences between minimum programs and full offerings. As a result, education offerings vary widely.

3. There Are Variations in County Spending for School Facilities. According to state law, counties are responsible for funding maintenance, equipment, and capital costs.¹¹ The General Assembly, in addition, has floated two recent statewide bond issues for school buildings, one in 1963 for \$100 million and one in 1973 for \$300 million. In 1983, the legislature authorized a new, half-cent local option sales tax and required that some of the revenues go for school construction.¹² Nevertheless, since 1973, counties have provided \$936 million for school capital projects.¹³ This funding varies widely among the counties, as does the quality of facilities and enrollment trends. From 1974 to 1981, county spending for school facilities as a percent of total revenues varied from under 5 percent in 15 counties to over 20 percent in 11 counties. Statewide, the average was 12 percent of county revenues.¹⁴

The Weakening Foundation: What State Response?

In the last decade, two trends have converged to widen the gaps among counties, in effect diluting the foundation of state support. First, the share of school budgets from federal sources has decreased from 14.2 percent in 1972 to 10.5 percent in 1982. Second, since 1973-74, the state's share has decreased from 69 percent to 64 percent. Thus, since 1973-74, the most flexible, controversial, and disparate part of the budget—the local contribution—has increased from 19 to 25 percent of the statewide total for schools.

Federal. Seventy percent of the federal

money in local schools is targeted for compensatory education for disadvantaged students. It is allocated by formulas that take county-level income into account. The largest compensatory program, Chapter I of the Education Consolidation Improvement Act (ECIA), at \$68 million in 1983-84, goes to counties on the basis of the school age population and economic deprivation. (In the 30 counties where there is more than one school district, the division of these dollars is done within the county.) The smaller ECIA Chapter II program provides \$11 million, which the state distributes according to two factors—70 percent is based on enrollment and 30 percent on income.

To the extent that local school expenditure differences are related to local poverty or low tax base, federal dollars explicitly *equalize funding* by going in greater proportions to poorer counties. Thus, this relatively small portion of the total school budget bears a large burden of reducing disparities. *Federal funds account for 18.5 percent of the budgets in the 8 poorest counties, measured in per capita income, compared to 10 percent in the 8 richest counties.*¹⁵

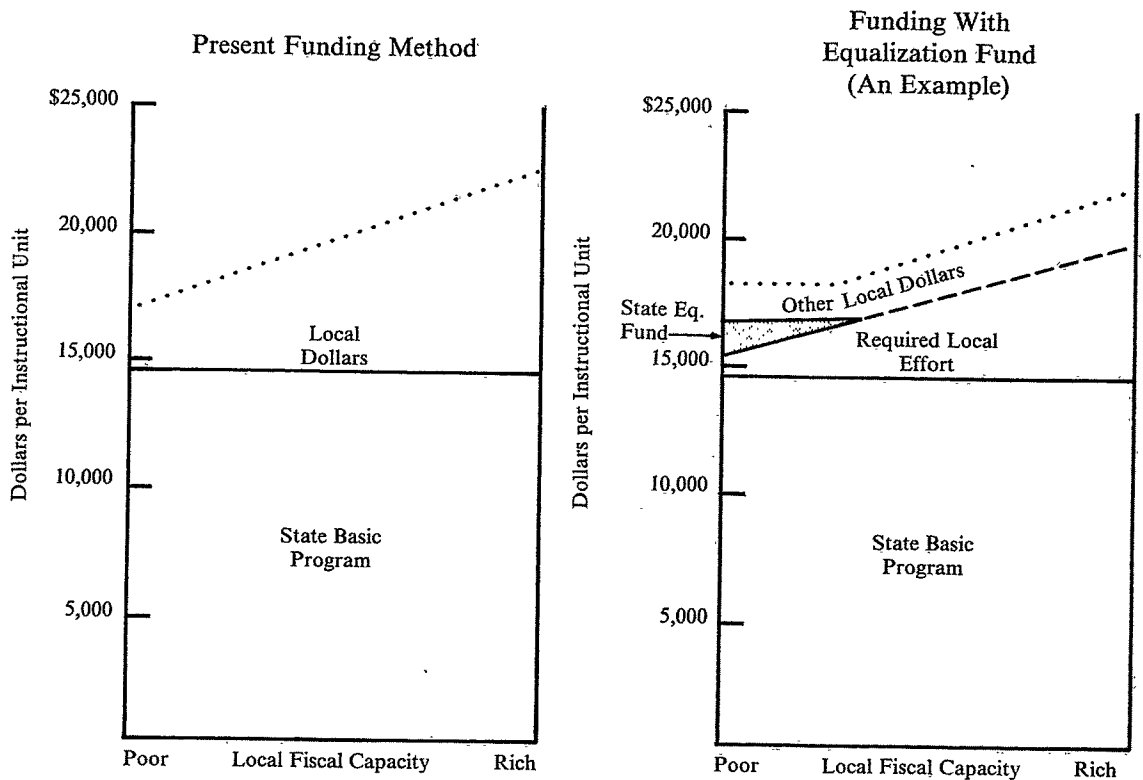
Table I also shows the equalizing impact of federal funds. Of the top 10 districts in total per-pupil spending, only Chapel Hill/Carrboro (first in local spending) and Hendersonville (sixth in local spending) ranked low in federal funds (see column 3 in table). Likewise, in the bottom ten districts for total per-pupil spending, all districts ranked low in federal spending. (Only McDowell County ranked near the middle, and it had one of the lowest local spending ranks.)

State. About 93 percent of state school funds (K-12) go for salaries and benefits (instructional and administrative positions). When the legislature has increased the school budget in the last decade, the increases have gone primarily to cover salary increases for existing staff, or to add a few specified positions (such as assistant principals and maintenance supervisors). Significant exceptions to this pattern were the new kindergarten program and the reading program with teacher aides. Correcting for inflation, the state per-pupil expenditure in 1972-73 was 88 percent of the 1982-83 amount.¹⁶ The added dollars, by and large, have not been targeted directly to improve the quality, scope, equity, or comprehensiveness of the basic educational program.

As the county portion of total per-pupil spending increased, one state commission did consider some proposals to equalize local funding and redistribute state funds to provide equal educational opportunity throughout the state. In 1977, Gov. James B. Hunt Jr. and the State Board of Education appointed a Commission on

Figure 1. Two Public School Funding Methods for North Carolina

A Comparison Presented by the Governor's Commission on Public School Finance, 1979 Report



Source: "Access to Equal Educational Opportunity in North Carolina," *The Report of the Governor's Commission on Public School Finance, 1979*, pp. 6-7

Public School Finance to study North Carolina's school finance system. In its 1979 report, "Access to Equal Educational Opportunity in North Carolina," the commission recommended that the state appropriate more funding for a basic, comprehensive school program. The commission also proposed a *minimum county tax levy for school spending and some equalizing efforts, over and above the existing foundation system, for poor districts* (see Figure 1 above).¹⁷

The 1981 General Assembly set up the Select Committee to Study the Department of Public Education to study financial and other issues and to make recommendations to the legislature. In its report to the 1983 session, the Select Committee formulated a totally different approach to the problem than had the 1979 commission report. The Select Committee recommended increasing the local sales tax and sharing responsibility for teachers' salaries between the counties and the state with a formula that would take the local economic base into account. The Select Committee also recommended that the

state experiment with a block grant method of funding counties — a per-pupil allocation with no line item restrictions.

The 1983 General Assembly passed the increased county sales tax authority with a provision for school capital outlays (see footnote 12). It also mandated a pilot project in eight school districts to begin in September 1984 to demonstrate a block grant approach to state funding of local units.¹⁸ Finally, the legislators set up a Public Education Policy Council to study school funding and other issues again and to make recommendations back to the General Assembly.

The Public Education Policy Council ambitiously intends to reform North Carolina's school finance system. First, it plans to spell out clearly the roles and responsibilities of the state and of the counties and then to define a new state basic education program and prescribe the funding system for this program. The council will make an interim report to the "short" session of the General Assembly in June 1984 and will make its major proposals to the 1985 session.

Conclusion

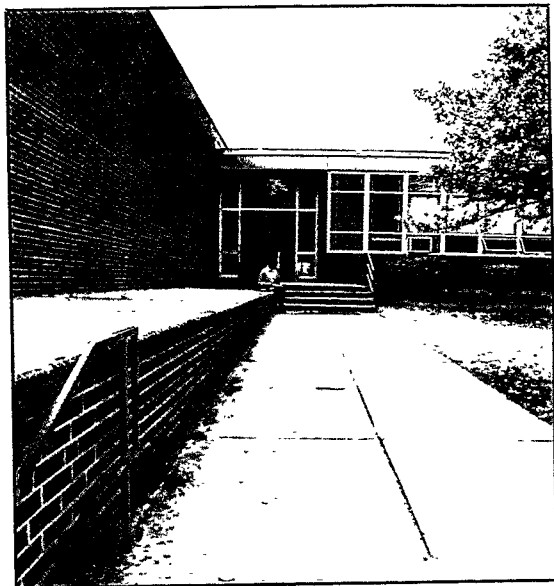
In synthesizing the state-level deliberations of the last six or seven years, four options appear available — or some combination of the four. The state could:

1. define the basic, comprehensive standardized program that should be offered in all districts regardless of fiscal capacity — and then fund that program (see footnote 10);
2. use its authority to require a minimum local effort to fund schools (see Figure 1 on page 35);
3. redistribute locally generated school funds or reduce state appropriations to wealthy counties (highly unlikely politically); and
4. use formulas for distributing state and federal funds that take school district wealth, income, and tax rates into account.

This year, the Public Education Policy Council has exclusively concentrated on the first option. In a presentation before the council, Dr. Liner of the Institute of Government said the state might improve the schools in an equitable manner in two ways. The state could equalize the ability of local units to provide programs or supplement state programs, the approach taken by the state between 1901 and 1931. Or the state could maintain a high level of foundation support so that an equal basic level of educational program is available throughout the state. Liner favored the second approach, emphasizing that only after the state has taken the step of maintaining a sufficiently high foundation support level should it consider equalizing the local supplements.

The approach put forth by Liner holds the potential for solving one of the thorniest issues in providing equal opportunities to all students. The cost of providing any program or function in a school varies from district to district. Some of the reasons for this variation in cost are obvious — size of schools and of districts, population density, and changes in student population. Other reasons are more subtle — availability of teachers, the impact of more than one school district in a single county, and other more complex factors.

Expenditure equity is not the same as program equity. By funding a minimum, comprehensive program and imposing statewide standards, the state could focus on *program equity as well as expenditure equity*. Such a funding approach would accommodate directly the fact that any given program or component may vary in cost from district to district. This approach would also have the important potential to fund programs according to students' varying needs. Raising the state foundation funding level is not



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enough alone. The state may also want to *adopt and require* a comprehensive set of education program components and standards.

The 1985 legislature will face school financing issues in some form. The highly visible and political issue of teacher salary increases dominates most school finance considerations. However, the legislature should also consider as a separate debate the public school *funding structure and its implications for equity among the 142 districts*.

If the legislature does indeed increase the state foundation level and mandate a minimum basic curriculum in all school districts, students following in the footsteps of Chuck Clark in Durham County and Maxwell Fowler in Jackson County will at least have available to them more similar educational opportunities. This does not mean that local districts would have to limit their local appropriations. But it would tend to reverse the trend toward an increased dependence on local funding. Such legislative actions may appear bold at first, but are they more far-reaching than the N.C. Constitutional mandate for a "uniform system of free public schools"?□

FOOTNOTES

¹"Selected Financial Data, 1982-83," State Board of Education, Controller's Office, Division of Planning and Research, pp. 6-9. All per-pupil expenditure figures in this article exclude school food service expenditures (see explanation for this exclusion in footnote 1 to Table 1). Other types of expenses might also be excluded from the type of analysis that follows in the article, particularly transportation expenses which are substantial and vary from district to district because of geography, district size, and other factors not necessarily related to educational opportunities. However, most analysts consulted in preparing this article felt that excluding only food service expenditures would be the best basis for analysis.

²The 64 percent figure is somewhat misleading, says Dr. Charles Don Liner of the Institute of Government at Chapel Hill, "because most of the local money comes from the few big city school units—the percentage is higher in most smaller units." On the other hand, Stuart A. Rosenfeld of the Southern Growth Policies Board points out that federal statutes explicitly direct that federal funds are to cover the higher costs of educating disadvantaged and handicapped children and are to be *added on* to the basic, comprehensive state and local program. Thus, federal funds should not be included in an analysis of a state-level equalization effort. Without federal funds, the problem of disparities within North Carolina is more serious.

³"Usually disparity in school finance refers to disparities in available funds between rich and poor school units," says Dr. Liner. "The comparison between total spending in Durham City and Randolph is . . . off the mark in terms of disparities between rich and poor counties because *Randolph County is not a poor county* (75 counties ranked below it in per capita income in 1981)" (emphasis added).

Analysis of *local revenues*—the source of local school appropriations—as opposed to *per capita income* indicates the difficulty in measuring disparity in per-pupil spending in relationship to factors of wealth. The State Board of Education Controller's Office has ranked the 100 counties according to "per-pupil resources" within each county (see "Selected Financial Data, 1982-83," table on pp. 19-20 labeled "Local Revenue and Expenditure for Public Education, 1981-82." As the basis for this ranking, the Controller's Office used data from the Department of Revenue that summarized *all* county revenue resources (countywide property taxes, school district property taxes, fines, license taxes, excise stamps, local sales taxes, ABC profits, intangibles taxes, beverage taxes, revenue sharing, and other miscellaneous sources). Using "per-pupil local revenue resources" as a measure of wealth, Randolph County ranked 99th among the 100 counties—in sharp contrast to Dr. Liner's point that Randolph is *not* a poor county according to per capita income data.

Because of such contradictory measurements—is Randolph rich or poor for the sake of comparisons of school spending?—this article does not attempt to analyze disparity in school spending only in relationship to rich and poor counties. As explained in the beginning of the article, wealth and other factors must be taken into account, but the financial disparities in per-pupil spending alone are revealing. For more on this issue of wealth, see footnote 8. Also see discussion deeper in the text regarding using *county* versus *school district* figures as a unit of measurement.

⁴"State Education Statistics" released by U.S. Secretary of Education Terrel H. Bell, January 1984. Because North Carolina wage and salary levels (both private and public) are substantially lower than national averages, the 82 percent figure in the text might be somewhat misleading.

⁵For exceptions to the per capita approach, see "Administrative Policy Manual for Allotments of Personnel and Funds," State Board of Education, produced annually. Exceptions include: programs for children with special needs (based on number of students identified); transportation (takes route miles into account); remediation for students who fail the competency test; energy cost (a percentage based on climate and other data); vocational education (matches federal formula that takes income and other local factors into account); several supervisory positions, allotted per district; and day care and community schools money (separate application processes).

⁶Table 1 does not attempt to show—or to imply—that the state should necessarily spend more money on educational programs. Table 1 and this paragraph in the text only point out the portion of total per-pupil spending made up by local and state funds.

⁷See "Selected Financial Data, 1982-83," pp. 19-20. Also,

see discussion in footnote 3 about the method of this calculation.

⁸As discussed in footnote 3 above, Dr. Liner believes that Table 1 should analyze spending in relationship to a county's per capita income. "Its [Table 1's] significance is that some of the poorest counties are in the top 10, and the bottom 10 includes counties that are not poor. . . . How can the state system have serious disparities when some of the poorest counties have expenditures that match those of the richest? If these poor units have inferior schools, it must be due to some factor other than money."

Because of the factors discussed in footnote 3, Table 1 does not include a column indicating a county's relative wealth—either measured by per capita income, as Dr. Liner would prefer, or measured by per-pupil local revenue resources, as the State Controller's Office would prefer. In addition, both of these analysts use *county* data even though 87 of the current 142 districts are *not* counties. Historically, the wealthy areas of a county often were separated into "special chartered" school districts for the purpose of differential school funding. The answers to the questions posed by Dr. Liner above would likely come from an analysis of *school district* wealth (both per capita income and revenue resources) and per-pupil expenditures.

⁹Computer analysis of existing data would yield this new data base, and the author hopes to undertake such an analysis in the future.

¹⁰A standard curriculum would not necessarily mean that advanced Latin and computer math courses would be taught in rural schools across the state. A standard curriculum would establish the *minimum* courses to be taught in *all* districts, hence providing some measure of educational uniformity. Wealthy local districts and large districts with a much larger pool of pupils would, of course, continue to offer larger number of courses. A standard curriculum could never require some highly specialized courses—which would greatly increase the spending per pupil over the current levels. But it might facilitate such creative strategies for promoting more equal access to educational opportunities as cross-district services, inter-institutional efforts (e.g., allowing high school students to take courses in community colleges), and video classes in advanced courses.

¹¹See NCGS 115C-521 (facilities, furniture, etc.), NCGS 115C-249 (storage buildings, garages, etc.), and 115C-524 (maintenance).

¹²The 1983 General Assembly gave counties authority to levy an additional half-cent sales tax with the proceeds to return to taxing counties on the basis of population. For the first five years of the sales tax increase, 40 percent of the counties' share must be used for school capital outlay or to retire school capital debts, unless these needs are otherwise provided for. In the following five years, 30 percent would be set aside for schools.

¹³Figures compiled by the N.C. Association of County Commissioners for the Public Education Policy Council, February 1984.

¹⁴"School Finance, 1980-81 Update," N.C. Department of Public Instruction, Division of School Planning, April 1983.

¹⁵Unpublished data compiled by Dr. Charles D. Liner, the Institute of Government, University of North Carolina at Chapel Hill.

¹⁶Figures provided by the Controller's Office, Division of Planning and Research, to the Public Education Policy Council, February 28, 1984.

¹⁷"Access to Equal Education Opportunity in North Carolina," the Report of the Governor's Commission on Public School Finance, 1979, pages 2-10.

¹⁸The eight districts are: Bladen County, Catawba County, Greensboro City, Jones County, Charlotte/Mecklenburg County, Pitt County, Transylvania County, and Wake County.

Courts Split on School Finance Issue

by Jody George

In two landmark legal efforts in the early 1970s, parents challenged the funding of school systems near Pasadena, California, and San Antonio, Texas. In *Serrano v. Priest*, the California Supreme Court ruled that the reliance on local property taxes to fund California school systems violated the federal constitution. The Texas action, brought in federal district court, reached the U.S. Supreme Court on appeal before *Serrano*, also appealed to the nation's highest court.

In 1972, The U.S. Supreme Court ruled against the Mexican-American parents from Texas in *San Antonio Independent School District v. Rodriguez*.¹ In reaching its decision, the Court relied upon two important legal principles.

First, the Court said that the U.S. Constitution does not guarantee the right to an education, as it does to rights such as free speech and privacy. Second, the Court said that the Texas school finance system did not violate the equal protection clause of the 14th Amendment. It conceded that the system was imperfect. But it refused to become involved because "direct control over decisions concerning the education of one's children is a need that is strongly felt in our society."²

The Supreme Court's decision in *Rodriguez* foreclosed the use of the federal courts for school finance challenges, such as the *Serrano* appeal. After 1972, state courts became the arena for addressing the extent of constitutional guarantees of equal funding in education. State courts have found that funding disparities in school finance systems violated state constitutions. Most successful suits have had two factors in their favor.

First, they have been brought on the basis of state equal protection clauses or state education clauses, which 49 states have. The applicable provision in the North Carolina Constitution reads: "The General Assembly shall provide by taxation and otherwise for a general and uniform system of free public schools . . ." (Art. IX, Sect. 2). It is comparable with the education provisions in other state constitutions, some of which require "thorough," "efficient," "suitable," or "adequate" systems of free public

schools. The New Jersey Constitution, for example, says: "The legislature shall provide for the maintenance and support of a thorough and efficient system of free public schools for the instruction of all the children in the State between the ages of five and eighteen years" (Art. 8, Sect. 4).

In *Horton v. Meskill*, the Connecticut Supreme Court found that the state's school finance system violated the state constitution's *equal protection clause*.³ The Court said that state constitutional equal protection provisions, while substantially equivalent to the federal equal protection clause, possess an independent vitality. It thus found unconstitutional the Connecticut school finance system, which depends primarily on the local tax base without regard to the ability of towns to finance an educational program.

Second, in successful suits, the factual records generally have been more extensive. As D. C. Long says in "Rodriguez: The State Courts Respond" (*Phi Delta Kappan*, March 1983, pp. 481-484): "Plaintiffs meticulously documented how state school finance systems discriminated against school children as a result of the fiscal capacity of the school district—a factor that has nothing to do with education. They also documented the ways in which inequalities in financing resulted in unequal educational facilities, staff, course offerings, equipment, and instructional materials."

These courts were concerned that taxpayers in property-poor districts paid higher tax rates for education than taxpayers in property-rich districts. Because the higher tax rates generated revenues in comparatively small amounts, property-poor towns could not afford to spend for the education of their pupils, on a per-pupil basis, the same amounts that the rich towns could. Furthermore, the courts often found that the state foundation programs did not adequately *equalize* the amounts available to individual districts. (continued)

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Table 1. Courts That Found Disparities in School Finance Unconstitutional

Language of the Court	Applicable Language in the State Constitution
<p>1. California: <i>Serrano v. Priest</i>, 5 Cal. 3d 584, 487 P2d 1241 (1971) (Serrano I); subsequent opinion, 18 Cal. 3d 728, 557 P2d 929 (1976) (Serrano II): Discrimination in educational opportunity on basis of district wealth involves a suspect classification and education is a fundamental interest. School financing system violated equal protection guarantees of state constitution by conditioning availability of school revenues upon district wealth, with resultant disparities in school revenue, and by making quality of education dependent upon level of district expenditure.</p>	<p>Art 1, §7: "A person may not be deprived of life, liberty or property without due process of law or denied equal protection of the laws." Art. 9, §5: "The legislature shall provide for a system of common schools."</p>
<p>2. Connecticut: <i>Horton v. Meskill</i>, 172 Conn. 615, 376 A2d 359 (1977), affirming 31 Conn. Supp. 377, 322 A2d 813 (Hartford County Superior Court, 1974): Education is a fundamental right, and pupils in the public schools are entitled to equal enjoyment of that right. Thus, a system which depends primarily on local tax base without regard to disparity in the financial ability of towns to finance an educational program and with no significant equalizing state support cannot pass test of strict judicial scrutiny and cannot meet state constitutional requirement of equal educational opportunity.</p>	<p>Art. VIII, §1: "There shall always be free public elementary and secondary schools in the state." Art. I, §20 "No person shall be denied the equal protection of the law nor be subjected to segregation or discrimination in the exercise or enjoyment of his civil or political rights because of religion, race, color, ancestry or national origin."</p>
<p>3. New Jersey: <i>Robinson v. Cahill</i>, 62 NJ 473, 303 A2d 273 (1973): The equal protection clause dictates statewide uniformity in the rudimentary scheme of local government. If the state chooses to enlist local government to meet the state's obligation to support a thorough and efficient system of free public schools, it must do so in terms which will fulfill that obligation. The New Jersey system which relies heavily on property taxes to furnish approximately 67% of public school costs, and which leads to great disparity in dollar input per pupil, is violative of the state education clause.</p>	<p>Art. 8, §4 ¶1: "The legislature shall provide for the maintenance and support of a thorough and efficient system of free public schools for the instruction of all the children in the State between the ages of five and eighteen years." Art. 1 ¶1: "All persons are by nature free and independent, and have certain natural and unalienable rights, among which are those of enjoying and defending life and liberty, of acquiring, possessing and protecting property, and of pursuing and obtaining safety and happiness." Art. 8 §1 ¶1: "Property shall be assessed for taxation under general laws and by uniform rules."</p>
<p>4. Washington: <i>Seattle School District No. 1 of King County, Washington v. State of Washington</i>, 90 Wash. 2d 476, 585 P2d 71 (1978): The ultimate obligation to the constitutional mandate that the state make ample provision for the basic education of all resident children through a general and uniform system of schools rests upon the legislature. The legislature meets this obligation only if sufficient funds, derived through dependable and regular tax sources are provided; not by authorizing school districts to submit special excess levy requests. Evidence concerning school district's salary scale, staffing, ratios, nonsalaried costs and state funding was insufficient to provide for basic education within the district under any suggested definition of basic education.</p>	<p>Art. 9 §1: "It is the paramount duty of the state to make ample provision for the education of all children residing within its borders." Art. 9, §2: "The legislature shall provide for a general and uniform system of public schools."</p>
<p>5. Wyoming: <i>Washakie County School District No. 1 v. Herschler</i>, 606 P2d 310, (1980), reh'g den. 606 P2d 340 (1980), cert. den. 499 U.S. 824 (1980): State's system of school financing, based principally on local property taxes, whereby property-rich school districts uniformly had more revenue per student than property-poorer ones, was unconstitutional in that it failed to afford equal protection in violation of state constitution.</p>	<p>Art. 1, §34: "All laws of a general nature shall have a uniform operation." Art. 7, §1: "The legislature shall provide for the establishment and maintenance of a complete and uniform system of public education, embracing free elementary schools of every needed kind and grade, . . ."</p>

Not all state courts have found that disparities in school finance violate state constitutions. Some have been unwilling to become involved in school finance issues. Georgia and New York are examples. The Georgia Supreme Court concluded that the state school finance system provided unequal educational opportunities to children in low-wealth districts; nevertheless it said that the Georgia Constitution afforded no relief.⁴ The New York Court of Appeals, though it denied the plaintiffs' claim, conceded that the New York school finance scheme produces "great and disabling and handicapping disparities in educational opportunities across our state."⁵

The major reason for sustaining inequitable financing schemes has been the preservation of local control. For example, the Ohio Supreme Court

found local control to be a rational basis for upholding Ohio's system of financing elementary and secondary education. The Ohio court said that "by local control, we mean not only the freedom to devote more money to the education of one's children but also control over participation in the decision-making process as to how these local tax dollars are to be spent."⁶ The Oregon Supreme Court said that "assuming there are alternative systems of financing education which would eliminate some of the inequalities in the present system and retain and enhance local control, the present system of financing is not invalid."⁷

In cases where state supreme courts have struck down school finance systems, most have ordered the state legislature to find a solution, subject to

Table 2. Courts That Found Disparities in School Finances Did Not Violate State Constitutions

Language of the Court:	Applicable Language in the State Constitution:
<p>1. Arizona: <i>Shofstall v. Hollins</i>, 110 Ariz. 88, 515 P2d 590 (1973): The state constitution establishes education as a fundamental right of pupils between ages of six and 21 years and assures every child a basic education. The mere fact that state's school financing system reflects disparity of wealth among school districts does not deny equal protection to students and taxpayers in poorer districts. As long as the financing system meets the educational mandates of the constitution, it need otherwise be only rational, reasonable, and neither discriminatory nor capricious to meet the equal protection requirements of the state and federal constitutions.</p>	<p>Art. XI, §1: "The legislature shall enact such laws as shall provide for the establishment and maintenance of a general and uniform public school system."</p> <p>Art. II, § 13: "No law shall be enacted granting to any citizen, class of citizens, or corporations, municipal, privileges or immunities which, upon the same terms, shall not equally belong to all citizens or corporations."</p>
<p>2. Colorado: <i>Lujan v. Colorado State Board of Education</i>, 649 P2d 1005 (1982): Local control is the objective of state's school finance system. Notwithstanding the fact that disparities in school finance system could lead to low-wealth districts having less fiscal control than wealthier districts, such result did not warrant striking down the entire system as in violation of the state equal protection clause. The education clause in the state constitution requires thorough and uniform educational opportunities but does not prevent a local school district from providing additional educational opportunities beyond such standard. Although representative form of government and democratic society may benefit to a greater degree from a public school system in which each school district spends exact dollar amount per student with eye toward financing identical education for all, such are considerations and goals which properly lie within legislative domain.</p>	<p>Art. 2, §25: "No person shall be deprived of life, liberty, or property, without due process of law." Art. 9, §2: "The general assembly shall provide for the establishment and maintenance of a thorough and uniform system of free public schools throughout the state."</p>
<p>3. Georgia: <i>McDaniel v. Thomas</i>, 248 Ga. 632, 285 SE2d 156 (1981): The adequate education provisions of the state constitution do not restrict local school districts from doing what they can to improve educational opportunity, nor do they require the state to equalize educational opportunity between districts. As long as low wealth districts provide each child with an opportunity to acquire the minimum basic skills necessary for the enjoyment of rights of speech and of full participation in the political process, they do not fail to provide an adequate education. Because the school finance system bears some rational relationship to the legitimate state purpose of providing basic educational funding to children, it does not violate the state equal protection clause.</p>	<p>Art. 8, §1: "The provision of an adequate education for the citizens shall be a primary obligation of the State of Georgia, the expense of which shall be provided for by taxation."</p>

judicial review. Some have ordered the legislature to define the educational opportunity mandated by the state constitution. In a bold and unusual step, the New Jersey court ordered the legislature to levy a new income tax to support the increased costs of reform.⁸

In a recent decision, a Connecticut court took the process one step further. Seven years after the *Horton v. Meskill* decision (see discussion above), the court ruled that the state's public school finance system remains unconstitutional. This decision demonstrates the willingness of a court to get involved in the *enforcement of remedies* designed to provide equal education opportunities. As John Augenblick, former director of the Education Finance Center of the Education Commission of the States, told *Education Week*, "What makes

the Connecticut decision important is that when the court goes as far as it does and orders some remedy, it obviously means it, and wants to see something happen."⁹ □

FOOTNOTES

¹411 U.S. 1 (1972).

²*Ibid*, page 49.

³See cite to Connecticut case in accompanying Table 1.

⁴See cite to Georgia case in accompanying Table 2.

⁵*Board of Education, Levittown Union Free School District v. Nyquist*, Slip Opinion, p. 21 (N.Y. Court of Appeals, 1982).

⁶*Board of Education of the City School District of Cincinnati v. Walter*, 390 NE 2d 813, at 820.

⁷*Olsen v. State*, 554 P2d 139, at 148.

⁸See cite to *Robinson v. Cahill* under "New Jersey" in the accompanying Table 1.

⁹Foster, Susan, "Funding Equalization Is Ordered Again for Connecticut Schools," *Education Week*, May 9, 1984, p. 1.

4. **New York:** *Board of Education, Levittown Union Free School District v. Nyquist*, 94 Misc. 2d 466, 408 N.Y.S. 2d 606 (Nassau County Supreme Court, 1978); *aff'd.*, 443 N.Y.S. 2d 843 (App. Div. 1981); *rev'd.* No. 317, Op. Slip (N.Y. Court of Appeals, 23 June 1982): Preservation and promotion of local control of education was both legitimate state interest and one to which present financing system was reasonably related. Thus present statutory prescriptions for state aid to local school districts for maintenance and support of public elementary and secondary education — premised on local taxation within individual school districts with supplemental aid allocated in accordance with legislatively approved formulas and plans — do not violate the equal protection clause of the state constitution. Statewide \$360-per-pupil flat grant provided by state aid legislation was immune from attack under equal protection clause since on its face there was no inequality in per-pupil distribution of state aid allocated to all school districts without differentiation. Education article mandate that legislature provide for a system of free common schools was being met in New York, in which average per-pupil expenditure exceeded that in all other states but two. And since decisions as to how public funds will be allocated are matters peculiarly appropriate to legislature, the present school-financing system does not violate the education provision in the state constitution.

5. **Ohio:** *Board of Education of the City School District, etc. v. Walter*, 58 Ohio St. 2d 368, 390 NE 2d 813 (1979), *cert. den.*, 444 U.S. 1015 (1980): Although the Ohio system of school financing is built upon the principle of local control, resulting in unequal expenditures between children who live in different school districts, the disparity is not so irrational as to be an unconstitutional violation of the state equal protection and benefit clauses. The system also did not violate the provisions of the state constitution which requires the General Assembly to secure a thorough and efficient system of common schools. It has long been an established principle of law that courts do not interfere in political or legislative matters, except in those instances where legislative enactments violate the basic law.

6. **Oregon:** *Olsen v. State*, 276 Or. 9, 554 P2d 139 (1976): Local control is the state's objective in maintaining the present system of school finance. The fact that some school districts have less local control than others because of the disparity in the value of the property in the district did not lead to the conclusion that the equal rights clause of the state constitution had been violated. Nor did it violate the provision in the state constitution requiring a uniform system of schools. The financing system does not totally deprive the children of the poorest district of an education or of the use of some of the tools and programs believed to enhance education.

Art. 11, §1: "The legislature shall provide for the maintenance and support of a system of free common schools, wherein all the children of this state may be educated." Art. I, §11: No person shall be denied the equal protection of the laws of this state or any subdivision thereof."

Art. I, §2: "All political power is inherent in the people. Government is instituted for their equal protection and benefit, and they have the right to alter, reform, or abolish the same, whenever they may deem it necessary." Art. XI, §2: "The general assembly shall make such provisions, by taxation or otherwise, as, with the income arising from the school target fund, will secure a thorough and efficient system of common schools throughout the state."

Art. VIII, §3: "The Legislative Assembly shall provide by law for the establishment of a uniform, and general system of common schools." Art. I, §20: "No law shall be passed granting to any citizen or class of citizens, privileges or immunities, which, upon the same terms, shall equally belong to all citizens."



Michael Matros

Services for Disabled Persons

From Institutions to Communities

Two-thirds of the state's funding for mental health, mental retardation, and substance abuse service goes to maintain state institutions. "Reform" schools and special schools for blind and deaf children also attract high funding. Meanwhile, community-based programs receive far less money than the institutional programs, despite the state's commitment to deinstitutionalization. Until community programs are strengthened, thousands of North Carolinians will wake up every morning behind institutional walls.

by Michael Matros and Roger Manus

Dorothea Dix never knew she had so many friends. But the old woman was a Raleigh institution; it seemed no one wanted to see her die.

In November 1982, Sarah Morrow, secretary of the N.C. Department of Human Resources (DHR), announced a plan to close the adult unit at Dorothea Dix Hospital, the matriarch of the state's mental institutions. While the medical, adolescent, and forensic units at Dix would remain open, most of the facility would be turned into a minimum-security prison. The state would gradually move some Dix residents to its other three psychiatric institutions and would release others to the care of the local mental health authority. Admissions would be phased out over six months. "I can no

longer justify to our patients or to the taxpayers of North Carolina the high cost of paying for empty beds in our institutions," Morrow said.

As part of DHR's stated goal of deinstitutionalization, Morrow's staff put together the plan to close most of Dix. Within days, it faced trouble in the community, as scores of Wake County citizens and organizations leapt to the defense of Dix. An ad hoc group placed an ad in the local newspapers asking Gov. James B. Hunt Jr. to block the closure plan. "Save Dix" bumper stickers began to appear. Dix employees

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marched on the State Capitol to protest a plan that could threaten their jobs.

Politicians joined in. "We cannot treat the patients like sacks of potatoes and simply pick them up and move them around," said then state Rep. Ruth Cook (D-Wake County). Announcing that he would "be no part of any move to destroy the neighborhood" in the Dix vicinity, Attorney General Rufus Edmisten opined that the state could not close the hospital without approval of the legislature. The mayor of Raleigh said that the five prisons already in his city were enough.

This consortium of pro-Dix citizens and local officials got some action. "Dix is one of the nation's leading mental hospitals, with a long tradition of humane and progressive care," Gov. Hunt declared on January 6, 1983. "It is meeting an important need in our state. It will not be closed." Hunt decided to place the Dix mental health activities on the property's east side, to house mentally ill and retarded prison inmates on the west side, and to sell off some of the grounds for medium- to high-density housing.

There was something in Hunt's package to please everybody—everybody except those who felt that maintaining large institutions at their present capacities discouraged the expansion of community-based programs for persons with special needs.

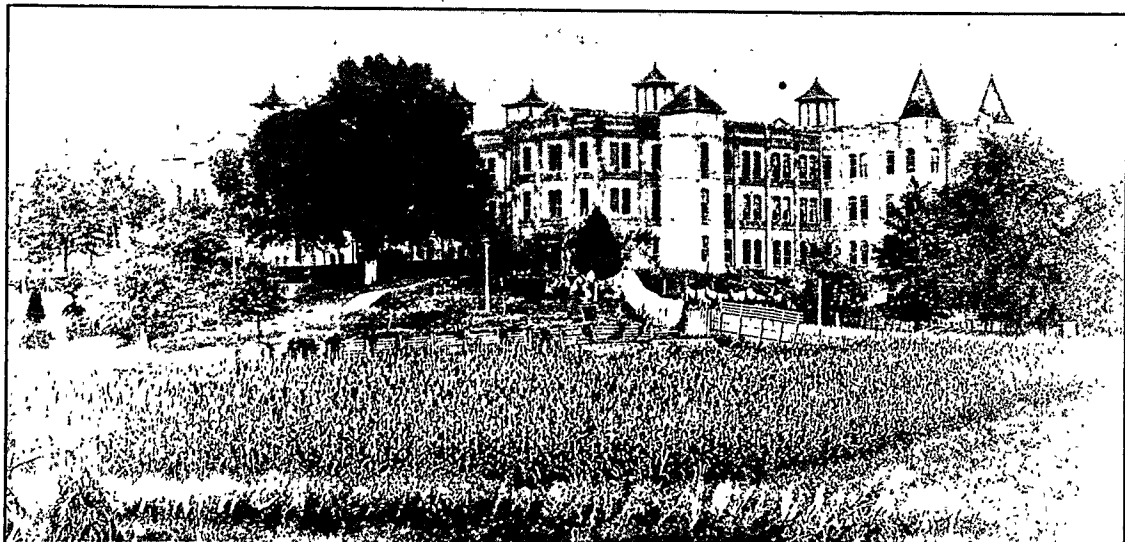
Dr. A. Eugene Douglas, Hunt's director of the Division of Mental Health, Mental Retardation, and Substance Abuse Services (DMH/MR/SAS) within DHR, put the Dix issue in a larger context. "I think the decision the Governor has made will be interpreted throughout the state as a serious blow to deinstitutionalization," Douglas said.

The sudden or gradual closing of institutions has generated controversy in the mental health field, as well as in other health and social service areas. The Dix proposal triggered the highly charged emotions that inevitably accompany the subject of deinstitutionalization. In North Carolina, the problems—and promises—of moving towards a community-based service system affect policy in mental retardation and alcoholic rehabilitation centers, in youth training schools and schools for visually and hearing-impaired children, in psychiatric institutions and other facilities for citizens with special needs.

Deinstitutionalization is a concern not only of state officials, employees at the institutions, and family members of those in institutions. More and more, deinstitutionalization has become an important issue for local government officials. The 100 counties, originally created by the legislature as subdivisions of the state, have responsibility for delivering social services and mental health services.¹ As state facilities house fewer and fewer persons with disabilities, do counties have the resources to accept an increasing role in addressing these persons' needs? County officials want to know how much will be required in the years ahead and how much help they can expect from the state to meet their responsibilities.

There are no ready answers. But budget and institutional population figures point inexorably to a future with increased local responsibilities for persons with various physical and mental disabilities. In the last ten years, the number of North Carolinians in 25 institutions operated by DHR decreased by 40 percent, from 13,472 to

The predecessor of Cherry Hospital. Date of the photo is unknown.



9550 — North Carolina Insane Asylum for the Colored. Goldsboro

8,074.² But during the same 1973 to 1983 period, *state funds* for those DHR institutions nearly doubled, from \$86.5 million to \$156.3 million.³

The deinstitutionalization issue for county and state officials has come to focus most recently on the four DHR psychiatric institutions. "Some years ago, the closing of training schools attracted the most controversy," says C. Ronald Aycock, director of the N.C. Association of County Commissioners. "But that wave has already hit the beach." Now community-based alternatives to training schools are taken for granted by most county commissioners, says Aycock. "The concern today is on mental hospitals. How will the Dix situation affect Wake and Harnett and Lee counties? Wake and the Dix Hospital situation seem to be on the cutting edge, but the focus will spread."

From Institutions to Community Care

The state's reliance on an institutional approach to serving persons with disabilities dates from the 1840s when Dorothea Dix campaigned in North Carolina for more attention to the mentally ill. From the opening of Dorothea Dix Hospital in 1856 and the N.C. School for the Deaf, Dumb, and Blind (now the Governor Morehead School for the Blind) in 1845, the state's *institutional* structure evolved. The N.C. Department of Human Resources now administers 25 institutions, as shown below.⁴

for adults and children (9)
4 psychiatric institutions*
5 mental retardation centers (MRCs)*

Table 1. State Mental Health, Mental Retardation, and Substance Abuse Funding & Persons Served, Institutions & Area Programs

State Appropriations millions of dollars						Persons Served thousands of people								
150	125	100	75	50	25	0	0	25	50	75	100	125	150	
							FY 1974							
							Institutions							
							Area Programs							
							average daily population (12.4)†							
							31.5							
							96.9							
							FY 1978							
							Institutions							
							Area Programs							
							average daily population (7.2)†							
							28.1							
							135.8							
							FY 1983							
							Institutions							
							Area Programs							
							average daily population (6.2)†							
							24.4							
							136.7							

Source: Office of Quality Assurance, Division of Mental Health, Mental Retardation, and Substance Abuse Services, N.C. Dept. of Human Resources.

† An institution's average daily population is a statistic frequently used by the Dept. of Human Resources and the General Assembly. For more on the difference between *average daily population* and *persons served*, see footnote 19 after the text.

Tables prepared for *North Carolina Insight* by Harriet Kestenbaum.

for children (12)

- 2 schools for emotionally disturbed children*
- 5 youth services training schools
- 3 schools for hearing-impaired children
- 1 school for visually impaired children
- 1 crippled children's hospital

for adults (4)

- 3 alcoholic rehabilitation centers (ARCs)*
- 1 special care center for elderly persons with mental handicaps*

*Administered by the Division of Mental Health, Mental Retardation, and Substance Abuse Services (DMH/MR/SAS) within DHR.

The 15 institutions with asterisks in the above list are often grouped together as "mental

health" facilities. State and local officials as well as various advocacy groups warn against such a catchall label, preferring instead more precise references to mental health, mental retardation, substance abuse, or all three—depending on the exact meaning of a sentence. The linguistic shortcut "mental health" (to refer to all three client groups and all 15 institutions) shows up in the name of such a prominent governmental body as "The Mental Health Study Commission" and within some state statutes. In this article, the acronym "mh/mr/sa," despite its awkward appearance, is used whenever possible to indicate the full scope of mental health, mental retardation, and substance abuse.

While each DHR institution has a stated theoretical purpose, the functions of each have become blurred over the years. Most of the

Table 2. State Funding for Training Schools and Community-Based Alternatives

State Appropriations millions of dollars						Average Daily Population (Training Schools) Persons Served (Community-Based Alternatives) thousands of children						
\$15	\$12	\$9	\$6	\$3		8	16	24	32	40	48	
			6.5			FY 1970						
						Training Schools ¹	2.1					
						Community-Based Alternatives ²						
		8.3				FY 1978						
						Training Schools ³	.8					
					.9	Community-Based Alternatives ⁴	5.9					
						FY 1982						
12.8						Training Schools ⁵	.6					
			4.5			Community-Based Alternatives ⁴					43.4	

¹The Budget, Vol. 1, "A" Budget Recommendations for the Biennium 1971-1973, D-4 through D-41.

²Community-based alternatives were not in place as a distinct program in 1970.

³The Budget 1979-1980, Vol. 3, Division of State Budget, N.C. Dept. of Administration, pp. X-415 through X-421. Population figure from Division of Youth Services, N.C. Dept. of Human Resources.

⁴What They Need is Love, Community-Based Alternatives Staff of the Div. of Youth Services, N.C. Dept. of Human Resources, January 1983 p. ii.

⁵The Budget 1983-1985 (Continuation Budget), Vol. 3, Budget Division, N.C. Dept. of Administration, pp. V-415 through V-427.

facilities provide services *outside* the strict confines of their original charters. For instance, a person with mental retardation could be placed in a mental retardation center, a psychiatric institution, or, if also blind, even the Morehead School. Multiple handicaps in a single person often add to the problem of placement within an institution. Alcohol or drug abuse sometimes accompanies a mental illness like depression. A person with extreme mental retardation or a severe psychiatric disorder may have some physical handicaps requiring special treatment.

Precedents set decades ago have proven difficult to change, especially in the four psychiatric institutions. These four facilities, for example, continue to house a large contingent of elderly persons whose primary mental problem is senility. The psychiatric hospitals also house mentally retarded persons even though separate institutions now exist specifically for them.

Many health care and social service professionals today believe that almost all people with disabilities do not need to live in institutions. State and local officials are currently trying to strengthen community programs so that fewer people will be sent to institutions and more people can leave them. But, while North Carolina's institutions for persons with various handicaps date from the 1840s, the current statewide system of community-based programs has sprung up only in the last 20 years.

The North Carolina efforts have been part of a national deinstitutionalization trend, resulting from a number of factors, including:

- enactment of the Mental Retardation Facilities and Community Mental Health Centers Construction Act of 1963, which provided federal construction funds for locally based mental health centers;⁵

- successful advocacy of "normalization" for handicapped persons in the community and legal arenas, including litigation requiring "the least restrictive habilitation" for mentally disabled persons;⁶

- the development in the 1950s of antipsychotic drugs;

- the development of outpatient treatment programs for alcoholism and drug addiction;

- the expansion of various social service programs which reduced the need for institutions to serve as caretakers for destitute and elderly people;

- the passing of landmark state and federal legislation for mainstreaming children into public schools;⁷ and

- North Carolina's enactment of legislation limiting the reasons for which children could be placed in training schools.⁸



Michael Marros

Wake County sheltered workshop

Not all areas of North Carolina offer the same programs for handicapped persons. State, local, and private agencies have often taken varying approaches on the community level. Mecklenburg and Guilford county officials, for example, have made housing for delinquent teenagers a priority. In Robeson, Scotland, Columbus, and Bladen counties, officials are administering inpatient emergency treatment services to avoid sending adults to Dorothea Dix Hospital. A few community programs exist statewide, such as sheltered workshops, where handicapped adults work and sometimes receive training in independent living skills.⁹ Most community programs, however, exist to the extent that local officials have been willing to make them a priority.

Despite this uneven level of services among the counties, state and federal actions have resulted in several mandates and structures that do exist statewide. The three major statewide systems are:

1. the 41 area mh/mr/sa authorities, which serve all 100 counties and are controlled by *local* boards of directors;¹⁰
2. community-based alternatives to training schools, overseen by special task forces in each county and co-sponsored by community agencies and DHR's Division of Youth Services;¹¹ and
3. the 142 local school systems, which must provide an appropriate education for children with special needs, including an individualized education plan for each handicapped child.¹²

Three Community Systems Take Hold

Deinstitutionalization is accomplished in two ways: by restricting admissions and by discharging institutional residents. Both processes can be gradual, which allows time for the development of community-based systems

(public schools, mh/mr/sa authorities, etc.)

"You don't go up and just wholesale take them out," says John S. McKee III, director of the Southeastern Regional Mental Health Center. "The way you deinstitutionalize is to cut off admissions." This area mh/mr/sa facility has not sent any new clients to Dix, which serves the four counties in his area, in over three years, says McKee.

The selective discharge or "depopulation" of institutions often creates the most controversy. Psychiatric hospitals and mental retardation centers house many long-term and short-term residents who do not need to be at those institutions. In some cases, these persons stay in the institutions because adequate alternative facilities do not exist.

Movement from an institutional system to a community structure involves a major shift in three areas:

- in style of treatment—from hour-to-hour custody in a totally controlled environment to smaller scale services of varying structure in the community;
- in administrative responsibility—from state government to local agencies; and
- in funding responsibility—from primarily federal and state dollars¹³ to a combination of state, federal, and *local* dollars.

Deinstitutionalization is a *process*—a gradual shifting of services from institutions to community-based settings. Consequently, the exact nature of the community service must be spelled out, and clear lines of authority and funding of the system must be established. For example, to what extent should an area mh/mr/sa authority operate its own hospital-bed or other shelter facilities for emergency, short-term care? And who will fund such a program?

The term "community-based services" has a double meaning. From the client's and advocate's point of view, "community-based" usually refers to a program with more normal living and direct contact with community life, as opposed to a 24-hour institutional mode of life. From an administrator's and legislator's point of view, "community-based" refers to the administrative structure of the delivery system. How much of the responsibility for allocating funds and implementing services rests with local quasi-governmental units—the 41 area mh/mr/sa authorities, the 142 local school systems, and the 100 interagency task forces (one in each county) overseeing community-based alternatives to training schools?

In this administrative system, an ambiguous structure has evolved in the state/local partnership. Regarding institutions, the state has

the clear responsibility for funding and administering mental health, youth service, and special education programs. Regarding community-based programs, however, the lines of authority are muddled, especially in the mental health area.

Mental health, mental retardation, and substance abuse. Since the early 1970s, the 41 area mental health, mental retardation, and substance abuse authorities in North Carolina have been the central vehicle for delivering community-based mh/mr/sa services. In establishing the programs, the legislature gave them an important degree of autonomy by providing that each program have a local board of directors.¹⁴ The Mental Health Study Commission describes the arrangement like this: DMH/MR/SAS "develops a service plan with every community mental health program, but *the community* is responsible for local governance and direct service management" (emphasis added).¹⁵

Despite this concept of local governance, some officials contend that DHR exercises too much authority. "All that local boards do is oversee decisions and policies that have already been set at the state level," says John McKee of the Southeastern Regional Mental Health Center in Lumberton. The establishment of an annual budget by local boards is a mere formality," McKee continues, especially since DHR must approve local mh/mr/sa budgets. "Actual program operation is controlled not by local boards, but rather through Division [of MH/MR/SAS] Standards." McKee also points out that DHR "has clearly stated this year that it will exercise its [legal] option to approve or disapprove applicants [for positions of director] that area boards may recommend."

R. J. Bickel, deputy director of operations for DMH/MR/SAS, on the other hand, emphasizes that local officials exercise considerable responsibility for their programs. The division staff consult with area boards during budget preparation so that budgets will conform to state requirements. Similarly, he says, DHR has never disapproved an area board's choice of director. State and area officials have always agreed on candidates without DHR needing to flex its muscle, Bickel says.

Lucy Bode, DHR deputy secretary, further explains that the General Assembly originally established the area authorities to be "locally controlled." Only after *local authorities* choose which programs to implement do *state* standards for these programs, as codified in the Administrative Procedure Act, apply.¹⁶

In FY 1983, 51 percent of the money for community-based mh/mr/sa programs came

from the state; the rest came in federal funds, county contributions, insurance reimbursements, and other forms. To receive state funds, counties within an area mh/mr/sa authority must allocate local matching funds. The state's FY 1982-83 budget required counties to contribute \$20.7 million—less than 16 percent of the 41 mh/mr/sa authorities' total budgets of \$132.2 million.¹⁷

In its five-volume *Strategic Plan: 1983-89*, DMH/MR/SAS calls for diminished use of institutions and greater reliance on community-based services. Recent state funding patterns show that while this philosophy has begun to take hold, it still has a long way to go. (For more on the policy debate surrounding mh/mr/sa deinstitutionalization, see sidebar below).

Around the state, gaps in community care pose a formidable barrier to lowering populations at state institutions, most notably in programs for adults. For example, because of a shortage of

group homes, few residents of the five mental retardation centers can leave. Adults classified MR/BD—mentally retarded with behavior disorders—face particular difficulties. Most rest homes and nursing homes will not accept them because of fears of erratic behavior.

Serious gaps also appear in the community service system for mentally disturbed adults. For example, a lack of group homes for mentally ill elderly persons prevents the discharge of hundreds of residents in state psychiatric institutions. Only a few programs in the state provide residential, vocational, and recreational services to help other mentally ill adults in their day-to-day lives. A number of communities lack adequate inpatient facilities for disturbed adults in crisis situations; a state institution is often the only place for those persons to go.

DHR Secretary Sarah Morrow feels that a key issue in providing appropriate community services is "continuity of care," the idea of

Mental Health Policy Questions Under Debate

State mental health professionals are convinced that life in community settings is usually more beneficial to people with mental problems than life behind institutional walls. But as these officials work to implement this philosophy, a number of policy questions remain — questions about service and questions about money.

Much of the deinstitutionalization debate applies to all DHR institutions, including special schools for visually and hearing-impaired children and youth training schools. But the current debate focuses on DHR's mental health, mental retardation, and substance abuse (mh/mr/sa) institutions — psychiatric institutions, mental retardation centers, alcoholic rehabilitation centers, and the small specialty facilities for disturbed children and elderly persons.

The most visible policy issues before state officials now revolve around three concepts — "funds follow the patient," "the revolving door," and "single portal of entry."

Funds Follow the Patient. Some mh/mr/sa advocacy groups support a concept that would

tie a certain number of state dollars to each client in the institutional/community system. Under this budgeting procedure, funds would "follow" individual clients to reimburse their respective service providers. According to Lynn Gunn, staff director of the Mental Health Study Commission, the DHR deinstitutionalization effort in the south central region of the state is largely an experiment with this "funds follow the patient" idea.

"This favorite catch-phrase — 'funds follow the patient' — is backwards," says James W. Kirkpatrick, Jr., director of Wake County Area Mental Health. "Money should *precede* the patient." Kirkpatrick wants start-up money to implement programs *before* former Dix patients show up on his doorstep. But where will the money come from if community resources need to be in place before institutional budgets are trimmed severely?

The 1983 legislative session addressed this Catch-22 issue, but only partially. Eugene Douglas had hoped to use the money he would save from closing units at Dix to expand community programs. Gov. Hunt's decision *not* to close the Dix units threw cold water on Douglas' plans. But the Governor offered him and Sarah Morrow a compromise. Hunt would support efforts to trim the budgets of *all four* psychiatric institutions in order to support community programs, especially in light of federal budget cuts to those programs. The 1983 General Assembly went along, shifting \$6.1 million from institutional to community services.¹ Half the money would help fund Douglas' deinstitutionalization effort in the state's south central region, which

ensuring services to clients over the long haul. "Parents who have kids taken out of institutions and put in group homes wonder how long that group home's going to be there," she says.

In 1981, the General Assembly passed a continuity of care provision for mental retardation clients that ensures the right of "residential placement in an alternative facility if the [client] is in need of placement and if the original facility can no longer provide the care or treatment" (NCGS 122-55.8). The statute requires the *area authority* to coordinate the placement of the clients and DHR to assist in financing these community programs.

Much of the financial assistance for institutional services for mentally retarded persons comes in the form of federal Medicaid reimbursements. Until recently, Medicaid payments for this type of service went to intermediate care facilities for the mentally retarded (ICF/MRs). The state mental retarda-

tion centers and some large private facilities qualify as ICF/MRs. Now, however, North Carolina is participating in a new Medicaid program which offers reimbursement for less restrictive care than ICF/MRs. The program has begun modestly, but DHR predicts it will expand in this decade to serve hundreds of persons who might otherwise find themselves in institutional settings. Recently, U.S. Sen. John Chafee (R-RI) introduced a bill (SB 2053) in the U.S. Senate to alter federal Medicaid reimbursements to favor small community programs over institutions. If the law is passed in its current form, Medicaid funding for mentally retarded people in institutions will be phased out.

From FY 1972 to FY 1983, the portion of the state's mh/mr/sa appropriations going to community-based programs jumped from 11 percent (\$7.5 out of \$69.4 million) to 35 percent (\$67.5 of \$191.1 million). As the area authorities

includes Wake and 15 other counties. The other half was to maintain existing programs statewide. Lower institutional budgets might put some people back in communities, where better funded programs would serve them. In effect, these legislative funds could *follow* the patient from hospital to community.

The 1983 legislature took another step that should help community-based programs meet the needs of patients being shifted to a community system. In the past, mh/mr/sa *institutions* had an annual inflation factor incorporated into their funding levels; *community-based* mh/mr/sa programs had no such built-in inflation factor. A special provision in the 1983 appropriations bill [Chapter 761 of the 1983 Session Laws (SB 23), section 13] may mean that community mh/mr/sa programs will receive the same inflation increases as well. Jim Woodall, director of DHR's Division of Budget and Analysis, says that his office is now including these increases as it begins to prepare the department's 1985-87 biennial continuation budget.

Neither the \$6.1 million transfer nor the inflation adjustment, however, solves the "funds follow patient" dilemma. State officials need to define how to allocate *state* funds so as to parallel the state's intention of moving towards a more community-based system. As long as *two of every three* state dollars go to institutions, deinstitutionalization will remain only a slow trend rather than an accomplished goal.

The Revolving Door. The staff at every state psychiatric hospital sees many of the same faces again and again in their admission wards.

Some come back because they can't cope with crises in their lives and there is no shelter in the community. Other returning patients, discharged with a prescription for antipsychotic drugs, fail to keep taking the drugs. Some return voluntarily, whether taking drugs or not, because the ebb-and-flow of mental problems swings too low. Others are forced to return involuntarily, when determined by courts to be dangerous to themselves or to other people.

In public hearings over the last five years, the Mental Health Study Commission heard testimony about problems related to this revolving door. Some mental patients' relatives complained of the burden of living with their erratic family members because state law prevented them from putting their discharged relatives back into the institution. In its 1983 *Final Report and Recommendations*, the Mental Health Study Commission reported that the revolving door "is not a simple problem and it is unlikely that North Carolina can find a simple solution."²

The 1983 legislature sought to address the issue through the state's involuntary *outpatient* commitment statute. For many years, the standard for committing mentally ill people to *outpatient* treatment has been the same as for an *inpatient* facility: danger to themselves or others. The 1983 legislature changed that law by passing HB 124, introduced by Martin Lancaster (D-Wayne). Under the new statute, even if a person is capable of surviving safely in the community (i.e., is not dangerous to him- or herself or others), the person may be committed involuntarily on an *outpatient* basis. If a judge

got increased state monies, however, they also assumed the responsibility for far more people. During this eleven-year period, the number of persons served in community-based mh/mr/sa programs almost tripled, from 48,365 to 136,703 clients. During this same period, the state's cost for each client served in the community program also increased three-fold, from \$155 to \$494.¹⁸

As community-based systems served more clients, the *total number of persons served* by the state's mh/mr/sa institutions (counting multiple admissions) declined by 17 percent, from 29,567 in FY 1972 to 24,444 in FY 1983. *But even as fewer people were served, the legislature doubled appropriations to all its mh/mr/sa institutions, from \$61.9 million in FY 1972 to \$123.6 million in FY 1983.* In FY 1972, the cost for each client served in the institutions was \$2,094. By FY 1983, the institutional cost per client served had more than doubled, to \$5,052.¹⁹ Some of this cost reflects program improvements as the institutions moved

from warehousing to become fully accredited hospitals and certified mental retardation centers.

By 1983, the state was appropriating tens of millions of dollars to *both parts* of a dual system of mh/mr/sa services. The institutional system retained its deeply rooted base within the state administrative structure and garnered a whopping 65 percent of the state mh/mr/sa funds. The new kid on the block, the community-based system administered by the 41 mh/mr/sa authorities, landed the remaining 35 percent of state funds.

Training Schools. Training schools and their community-based alternatives (CBAs) form another dual system of service for a population with special needs—socially mal-adjusted children. In the early 1970s, when new laws effected a plummet in the training school population, a need arose for programs to assist the children who earlier would have been institutionalized. The General Assembly enacted

believes the person needs treatment *to prevent "predictable" deterioration to a dangerous level*, the court can require the patient to go to an outpatient clinic on a prescribed schedule. This can be accomplished at a hearing without providing a lawyer for the person.

The 1983 change in the involuntary outpatient commitment statute demonstrates an evolutionary process in legislating this aspect of mental health care. The Mental Health Study Commission, which recommended the change contained in HB 124, admitted in its report, "If this proposal is adopted, it will cost money and it will probably not be perfect on its first pass. However, not to address the problem will continue to cost additional funding for repeated admissions to state hospitals and continued frustration on the communities which have to cope with these patients when they are released."³

Carolina Legal Assistance, a non-profit mental disability law project, disagreed with the study commission's basic contention that the law needed to be changed. "The traditional commitment standard is not too strict," says the project director, Deborah Greenblatt. "In more than 94 percent of cases [under the old law] in which the doctor recommended commitment, the court disposition has been to commit the patient." (For more information on how the old law operated, see "Involuntary Commitment of the Mentally Ill in North Carolina: A Physician's View" by Robert D. Miller, *Popular Government*, Spring 1983).

Greenblatt thinks the new law will cause more problems, not relieve the revolving door

syndrome. "The new law is intended as a cure-all—to assure that people who have been released from the institution take their psychotropic drugs," says Greenblatt. But psychotropic, or mind-altering, drugs—like Thorazine—are not a panacea, she says. "Their side effects are unpleasant and sometimes severely debilitating." The purpose of mental health service is to provide a continuous helping relationship that gives patients hope and encouragement, says Greenblatt. Coercion in the administration of medications interferes with this therapeutic alliance. Some chronic patients who are discharged from an institution do not return to area mh/mr/sa centers, says Greenblatt, because the only "treatment" offered to them is the dispensing of medication.

"The new law will create a second revolving door with its attendant legal costs and bureaucracy," says Greenblatt. "The only solution to the problem of chronic or revolving door patients is not a *legal* solution. It is a *treatment* solution."

Single Portal of Entry. In 1983, the General Assembly enacted legislation *encouraging* area mental health authorities to adopt "single portal of entry and exit" policies. Also recommended by the Mental Health Study Commission, this legislation is designed to increase efficiency in mh/mr/sa service and to keep better track of those needing such service. A "single portal" approach designates the area mh/mr/sa authority as treatment coordinator. Under its single portal, the area authority—not other agencies or private psychiatrists—assigns the type of public mh/mr/sa service each client

legislation in 1975 to establish those programs on a local level. In each county, an interagency task force representing all child service agencies recommends a CBA budget to the county commissioners. A team of consultants from the Division of Youth Services travels the state to advise local task forces.

In 1970, 2,097 youngsters lived in the eight state-run training schools on a given day, at a cost to the state of \$6.5 million.²⁰ By 1983, three of the eight had been closed, and the population had dropped to 632.²¹ But the remaining five institutions still cost the state \$12.8 million. From FY 1970 to FY 1983, the per-child yearly cost jumped from \$3,100 to \$20,253. Improved quality of care accounts for much of the increased cost, says Ken Foster of DHR's Division of Youth Services. Until recent years, "We weren't doing much with these kids except counting them a couple of times a day," Foster says. At one point the student/teacher ratio was



Learning a skill at Dobbs Training School in Kinston.

Courtesy N. C. Dept. of Human Resources

thirty-to-one, he says. Now it's nine-to-one.

CBAs include places to live, in-school programs, recreation, and therapy. These community alternatives to training schools cost

will receive.

Single portal is "the key" to deinstitutionalization, says John McKee, director of the Southeastern Regional Mental Health Center, which on its own implemented the concept in 1970. It brings private physicians, the court system, and the mental health center into a cooperative system to assure a continuum of service for each client, says McKee. Fewer people needing service will fall through the cracks, according to the single portal philosophy. Management of cases may be simpler and more efficient.

The single portal issue goes hand-in-hand with the quality of services provided by the community-based system, particularly regarding inpatient facilities. Under single portal, private physicians would be required to channel patients through the mh/mr/sa center for admission either to local, inpatient programs or to state psychiatric institutions, mental retardation

The Manteo branch of the Albemarle Area Mental Health Program.



Michael Matros

centers, or alcoholic rehabilitation centers. In Wake County, where the community-based mh/mr/sa center has a minimal psychiatric inpatient capability, many acute patients would require three separate evaluations, according to Wake Mental Health Director James Kirkpatrick—in the doctor's office, at the mental health center, and at Dix.

"I will ask my board to consider single portal only when we have something to offer above and beyond Dix," says Kirkpatrick. He did not support the 1983 legislative change and says he might oppose any law that goes beyond encouraging the concept.

At present, DHR has officially designated only one area program—Forsyth/Stokes—as single portal. Six of the forty others, including Southeastern, have applied for this formal designation. State officials do not expect more applications soon because, in most cases, single portal adds costs to the area program budgets. Under the single portal concept, most area programs need to add or expand certain offerings, such as increased inpatient capability or round-the-clock availability of psychiatrists.

FOOTNOTES

¹Chapter 761 of the 1983 Session Laws (SB 23), section 28. According to DHR budget chief Jim Woodall, not all of the shift has been implemented for FY 1983-84 because of lag time in beginning or strengthening community programs.

The same legislation requires the Department of Human Resources to report to the General Assembly by May 1, 1984, on its deinstitutionalization project in the south central region.

²*Final Report and Recommendations*, N. C. Mental Health Study Commission, January 1983, p. 12.

³*Ibid.*

almost as much as the schools themselves, but the state's contribution to CBAs in FY 1982 was only 46.5 percent of the total. Local funds accounted for 26 percent, with federal and other contributions amounting to 27.5 percent. In FY 1982, the CBAs served some 43,000 young people at a cost to the state of \$4.5 million, or \$105 for each child (this per-child figure includes "expensive" services—some \$8,000 in a group home—and less costly services).²²

Ken Foster says that the emphasis on local decision-making "is a key factor in building support and gaining acceptance for our program." He cites *state-operated* CBA programs in Florida, South Carolina, and Virginia as encountering much stiffer community opposition than North Carolina's. Costs are lower here too, he says. "Allowing for local decision-making and local administration has made it possible to maximize the percent of CBA funding that supports direct services," Foster contends. "The administrative cost of our program is less than 10 percent."

Foster argues that "uniformity of services should not be the criterion by which a program is judged. Meeting actual needs and providing quality service are far more important." He feels that one of the "great strengths" of the CBA program is its flexibility in regard to the needs of individual communities. "Program uniformity," he says, "is an institutional concept."

Public Schools. Federal and state laws (PL 94-142, passed in 1975; and North Carolina's "Creech Bill," passed in 1977) require that handicapped children be provided an appropriate, individualized education in the least restrictive setting. "Today, nine out of every ten [disabled children] spend part of their school day in a mainstream setting," says Ted Drain, director of the state Department of Public Instruction's (DPI's) Division of Exceptional Children (see "The Chance To Become Less Dependent," *North Carolina Insight*, October 1983, for details on special education). In 1982, local funds covered 7.5 percent of all public school expenditures for exceptional children. The state paid 72.6 percent, with federal sources providing most of the balance.²³ (For more on school finance in general, see article on page 30). While DPI has the authority to enforce the state and federal laws, local school boards to a large degree set both the tone and policies for implementing these laws.

The four state schools for blind and hearing-impaired children have always served a small fraction of North Carolina's disabled young people. From 1973 to 1983, the resident populations at the schools for the deaf have decreased from 947 to 702, or 26 percent.



Michael Matros

The Legislative Commission on Children with Special Needs hears senior fiscal analyst Jim Johnson describe costs at the state schools for deaf and blind children.

Meanwhile, in the last decade, the number of Governor Morehead School students living on the campus has decreased from 338 to 168. All the schools—especially Morehead—are increasingly accepting children with multiple handicaps, including mental retardation, as more students with only a sight or hearing problem are entering public schools in their own communities. From 1973 to 1983, the total budgets of these four institutions rose from \$6.7 million to \$18.1 million, a 170 percent increase. The cost for all pupils—both residential and day students—jumped from \$4,676 per pupil in 1973 to \$17,092 in 1983.²⁴

While the community-based system for special education falls under the aegis of the Department of Public Instruction (DPI), the institutional system—i.e., these four schools—comes under the authority of DHR. The legislature's Commission on Children with Special Needs is currently studying the possible transfer of these four schools from DHR to DPI. Determining the best administrative home for these four institutional programs involves a thorough discussion of their purposes and missions, which goes beyond the limits of this article. But even in this short space, comments from several DHR officials suggest the complexity of this issue.

George N. Lee, director of the Governor Morehead School, believes that transferring the school to DPI could retard rather than accelerate mainstreaming. "Indeed, some anti-mainstreamers are hoping this transfer will force children back to residential schools as public schools become even more reluctant to spend money on low-incidence populations," says Lee. "If the Department of Public Instruction could or would be *mandated* to carry out the deinstitutionalization plan, perhaps this fear is unwarranted."

In addition, DHR officials argue that DHR has line authority over these four schools, whereas DPI lacks line authority over local school systems. Finally, Richard Rideout, DHR

assistant secretary for administration, points out that admissions to these four schools must now originate from a local education agency.

Conclusion

North Carolina has spent a great deal of money on community programs for its mentally and physically disadvantaged citizens. But until the General Assembly decides to put more emphasis on community programs, North Carolinians should expect to foot another, larger bill for the 25 state-run institutions for persons with handicaps.

Despite the governor's decision to keep Dorothea Dix Hospital open, DHR is slowly reducing her capacity—and that of her sister institutions. On December 20, 1983, Sarah Morrow announced a decision to eliminate 35 underutilized beds from Dix Hospital's long-term care unit—part of a legislative mandate transferring \$6.1 million from institutions to community-based programs (see sidebar, p. 48, for more on this.) DHR's path toward implementing the philosophy of deinstitutionalization is strewn with obstacles. Perhaps the most imposing obstacle is public pressure from people wanting to keep their same jobs and from people wanting to keep children and adults with some kind of physical or mental handicap out of their communities.

Meanwhile, North Carolina continues to commit two-thirds of its mh/mr/sa funds to an institutional system. While the state has made great strides in deinstitutionalization of *young people*, the most significant question now is whether state and local officials will be allowed to make equivalent progress in bringing *disabled adults* from behind the walls of mental institutions.

North Carolina policymakers have developed clearly stated policies of deinstitutionalization. But statistics plainly indicate the slow implementation of these policies, especially in the mh/mr/sa area. If the Department of Human Resources is to accomplish its goals of community service to troubled and disabled children and adults, several types of actions, related but independent, must take place.

1. The legislature should establish an explicit fiscal procedure to link the amount of funds appropriated for the two delivery systems (i.e., institutions and community programs) to the number of persons served by each system. This process will be difficult. But without some close monitoring of the relationship of funds to persons served, the state will continue to expand funding for both systems. As a result, the funds

needed to expand community-based services will continue to be funneled into the institutional system.

2. Community-based program systems must provide a continuum of services defined and monitored by the state. Local program flexibility gives communities a valuable incentive for meeting their own specific needs. But this same flexibility can also result in gaps in community services, gaps which institutions tend to fill. By mandating that a continuum of services be available within the 41 mh/mr/sa areas, the state could ensure that appropriate community services are in place everywhere they are needed. Without such state supervision, institutions will continue to perform functions more appropriate to a community system of care. Every community should be able to serve its citizens with mental health, mental retardation, and substance abuse problems, though each community may offer different types of programs. Funds available from reducing institutional budgets—see recommendation 1 above—will be necessary to support a full continuum of community services.

3. The administrative authority for the Governor Morehead School and the three special schools for the hearing-impaired should be tied to a community-based system. Transferring these four schools from DHR to DPI may well be a good idea, for these schools have the same primary responsibility to children as do other public schools—to educate them. The community-based education system is in DPI. The institutional system might best function there as well, so long as DPI's aegis hastens the greatest possibilities for mainstreaming within the public school system.

In an era of fiscal constraints and blurring of responsibilities among various levels of government, deinstitutionalization can only proceed if clear programmatic and financial policies exist. Ultimately, the quality of services in a community setting depends upon dedicated service providers as well as clients who are respected as consumers with individual needs, abilities, and desires. But sound administrative and fiscal policies are the critical first steps in providing a better life for adults who need help coping with a demanding world and for children who require special assistance to move into a complex society.

FOOTNOTES

¹See NCGS Chapter 108A (Article 1) regarding county administration of social services. NCGS Chapter 122 (Articles 2A-2F) addresses local mental health administration, NCGS Chapter 130A (Article 2) deals with local public health departments.

²Average daily population. From "Client, Staff and

Budget Information, DHR Institutions 1972-73 to 1982-83," Division of Budget and Analysis, N. C. Dept. of Human Resources, July 1983, pp. 1-3. Figures do not include institutions closed since 1973: the N. C. Orthopedic Hospital in Gastonia, the Western N. C. Sanatorium in Buncombe County, the Eastern N. C. Sanatorium in Wilson (converted to become the N. C. Special Care Center), the N. C. Sanatorium in Hoke County (transferred by the 1983 General Assembly to the Department of Correction to become a prison hospital), Gravelly Sanatorium in Chapel Hill, and three training schools: Fountain School in Rocky Mount, Leonard School in McCain, and Morrison School in Hoffman. Figures do include institutions opening since 1973, including the N. C. Special Care Center, Whitaker School, the Black Mountain Mental Retardation Center (formerly a satellite unit of the Western N. C. Center), and the Greensboro School for the Deaf.

³*The Budget, Vol. 1, "Base" Budget Recommendations for the Biennium 1973-75*, compiled by the Budget Division of the N. C. Dept. of Administration, pp. K-52 through K-112; K-121; K-139 through K-153; and E-7 through E-43; *The Budget 1983-1985 (Continuation Budget)*, Vol. 3, Office of State Budget and Management, pp. V-266, V-276, V-304, and V-318; and interviews with the Division of Youth Services budget staff and the staff of the Division of Quality Assurance, both in the N. C. Dept. of Human Resources.

Figures do not include one orthopedic and two tuberculosis hospitals which closed after 1973. They do include McCain Hospital (the N. C. Sanatorium), a tuberculosis hospital transferred to the Dept. of Correction in 1983 as a prison hospital.

⁴The psychiatric institutions are Dorothea Dix Hospital, Raleigh; John Umstead Hospital, Butner; Cherry Hospital, Goldsboro; and Broughton Hospital, Morganton. The mental retardation centers are O'Berry Center, Goldsboro; Murdoch Center, Butner; Caswell Center, Kinston; Western Carolina Center, Morganton; and Black Mountain Center, which, until FY 1983, was a satellite unit of Western Carolina Center. The alcoholic rehabilitation centers are in Black Mountain, Butner, and Greenville (the Walter B. Jones Center). The N. C. Special Care Center is in Wilson. Whitaker School at Umstead Hospital treats severely emotionally disturbed children. Wright School in Durham houses children with emotional, behavioral, and learning problems. Training schools are in Butner, Concord, Eagle Springs, Kinston, and Swannanoa. The schools for hearing-impaired children are in Morganton, Wilson, and Greensboro. The Gov. Morehead School for the Blind is in Raleigh. Lenox Baker Hospital in Durham provides treatment and education for crippled children.

⁵PL 88-164 was pushed through Congress by Pres. John F. Kennedy. Like Kennedy, who had a mentally retarded sister, other leading advocates for the disabled have had family members with some handicapping condition.

⁶In an Alabama case involving a state mental retardation institution, for example, a federal district judge ruled that mentally ill, as well as retarded, residents of state institutions be moved, where possible, to less structured, smaller living units and be integrated into communities. [See *Wyatt v. Stickney*, 344 F. Supp. 378 (M.D. Ala. 1972).] Other rulings made involuntary commitment more difficult. In 1975, in *O'Connor v. Donaldson*, the U.S. Supreme Court ordered that holding a mentally impaired person against his will without treatment and without claims that he was "dangerous" violated his "right to liberty" [422 U.S. 563 (1975); see "Major Current Issues Concerning Civil Commitment Criteria," by George E. Dix, *Law and Contemporary Problems*, Vol. 45, No. 3 (1982), p. 138].

⁷In 1975, Congress passed landmark legislation called The Education for All Handicapped Children Act (PL 94-142), which called for an "individualized education plan" for all

disabled children in the "least restrictive environment." North Carolina passed the Equal Educational Opportunity Act in 1974 (Chap. 1293 of the 1973 Session Laws, 2nd session, 1974) guaranteeing all handicapped children the right to an education. In 1977, the "Crech Bill" added procedural protections further speeding up the mainstreaming movement (Chap. 927 of the 1977 Session Laws, now NCGS 115C-106 et. seq.).

⁸In 1969, the General Assembly abolished a mandatory 12-month length of stay and eliminated the commitment of "dependent and neglected" children. In 1978, the legislature passed legislation prohibiting the commitment of status offenders — juveniles committing acts such as truancy or running away from home that may be undesirable but would not be violations of criminal statutes if they were adults instead.

⁹Presently there are 54 sheltered workshops in 48 counties.

¹⁰NCGS 122-35.39.

¹¹NCGS 7A-289.13.

¹²NCGS 115C-113.

¹³Counties presently contribute to budgets of state institutions to help match Medicaid payments. In FY 1983, according to DHR's Division of Budget and Analysis, the total county contribution was \$4.6 million, each county paying 5.4 percent of costs for their Medicaid-eligible residents in state institutions.

¹⁴NCGS 122-35.39.

¹⁵*Mental Health Services in North Carolina: An Overview of State Programs and Community Programs*, compiled under the direction of the Mental Health Study Commission for the N. C. General Assembly, 1977 Session, Part I, p. 1.

¹⁶10 NCAC 18 I-Q.

¹⁷DHR budget staff.

¹⁸Provided by the Office of Quality Assurance within DMH/MR/SAS.

¹⁹Number of persons served in mh/mr/sa institutions provided by DHR's Division of Budget and Analysis. FY 1972 budget figure from *The Budget*, 1973-75, pp. K-52 through K-105. FY 1983 budget figure provided by the Office of Quality Assurance within DMH/MR/SAS. The category "persons served" for a given year in an institution is calculated by combining the resident population for the last day of the previous year with the total number of admissions for the given year. This statistical method does not give an unduplicated count. For example, it counts three visits by the same person as three persons served. The "average daily population," on the other hand, reflects how much of the institution is being used on an average day in the given year. From FY 1972 to FY 1983, the total average daily population at the 15 mh/mr/sa institutions declined by almost half, from 11,607 to 6,186, as reported in the 1973-75 state budget book (for FY 1972) and by DMH/MR/SAS Quality Assurance staff (for FY 1983). Dividing an institution's budget by its average daily population—instead of persons served—yields a much higher per client cost figure, i.e., the cost *per client, per year*.

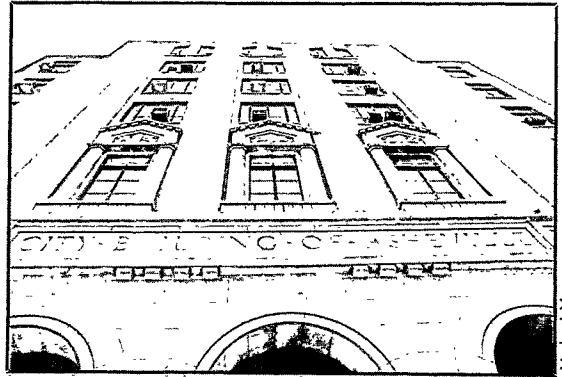
²⁰*The Budget*, Vol. 1, "A" Budget Recommendations for the Biennium 1971-1973, D-4 through D-41.

²¹Provided by DHR's Division of Youth Services.

²²*What They Need Is Love*, Community-Based Alternatives Staff of the Division of Youth Services, N. C. Dept. of Human Resources, January 1983, pp. 8-9.

²³Fiscal Research Division, N. C. General Assembly.

²⁴Budget figures from "Client, Staff and Budget Information ..." (see note 2 above). Student populations provided by the Division of Budget and Analysis, N. C. Dept. of Human Resources. In FY 1983, there were 189 day students at the four special schools, or 18 percent of the schools' total population. Per-pupil costs for resident students only are not available.



Michael Matros



Michael Matros

“An incorporated city or town is an agency created by the State. It has no governmental power or authority except such as has been granted to it by the Legislature . . .”

—State v. Furio, 267 N.C. 353

“What is the city but the people?”

—Shakespeare, Coriolanus

Municipalities



An Interview with Leigh Wilson

S. Leigh Wilson, 63, has been executive director of the N.C. League of Municipalities since 1969. Wilson was born in Norfolk, Va. After receiving his B.A. degree from the University of North Carolina at Chapel Hill, he served during World War II with the U.S. Army Infantry and Combat Engineers. Wilson joined the League of Municipalities as a field consultant in 1946, becoming assistant director in 1955.

The N.C. League of Municipalities, founded in 1908, recently celebrated its 75th anniversary. The league has a staff of 18 and an annual budget of more than \$1 million, 60 percent of which comes from dues-paying members. Its current membership is composed of 463 North Carolina cities and towns, representing virtually all of the state's active municipalities.¹ The league's board of directors is made up of municipal officials, representing all areas of the state.

Wilson says the principal purpose of the league is to "develop a consensus for the views of municipal officials and then to advocate that viewpoint before the General Assembly, state agencies, the administration, and the Congressional delegation." Four policy committees, each composed of 21 municipal officials, develop proposals for the full league board, which recommends to the membership official league positions on various issues.²

In addition to its lobbying and advocacy activities, the league also provides direct services to its members. It provides legal and planning advice, publishes a bimonthly journal and monthly newsletter, and for a contract fee assists with such matters as personnel, public safety, and public works.

Bill Finger and Susan Wall conducted this interview on February 7, 1984.

What are the most pressing problems for N.C. municipalities?

First, without any question, is the problem of funding wastewater treatment facilities. We have some 66 municipalities in North Carolina which cannot add a single new industrial customer or even a residential customer to their sanitary sewer systems because the system is overloaded and needs to be rebuilt or expanded. A recent study indicates that we will need \$1.7 billion by 1986 to bring all N.C. municipal systems up to federal and state standards.³

Where will we get the money? Revenues from the recently enacted half-cent local-option sales tax will not be sufficient. The state's 1977 clean-water-bond funds will run out this June. Federal wastewater treatment funds have been reduced and the federal funding for each project reduced substantially. If cities and towns can't provide the wastewater treatment services, then new industries can't locate in those communities. This problem affects the economic development of the entire state.

Second, there is a need not only to maintain but also to improve general funding for municipal government. Some current proposals would repeal sources of municipal revenues, such as the intangibles tax.⁴ As federal funds continue to shrink, the gap between revenues and expenditures is beginning to widen. The General Assembly needs to appreciate this fact and make certain that municipalities are in a sound fiscal position.

Do municipalities have to have a balanced budget?

Absolutely. It's required by N.C. statute.⁵ The state constitution prohibits municipalities from going into debt beyond a certain limit.⁶ Every city has an assessed value for tax purposes of "x" dollars. A city's or town's net debt cannot exceed 8 percent of its assessed property value.⁷ However, there are some exceptions, including debt for water-sewer systems and for electric systems [71 N.C. municipalities operate their own electric systems]. The point is, we can't go into debt but so far—and that's good. The Local Government Commission, which oversees this law, does not approve long-term or even short-term debt financing if those debt limitations would be exceeded [see page 6 for more on this commission].

Other major problems?

The third most important long-range problem is the shift in federal funding and the changes in the intergovernmental system. However, this situation is not yet at the critical stage. The federal government is giving more responsibility back to the states, and the states in turn are looking for local governments to assume more responsibility. Meanwhile, we in North Carolina need to sort out the role of cities and counties. We are beginning to see some overlapping and duplication of services. If the federal government continues to withdraw its support of certain programs, how will North Carolina react? Is the General Assembly going to assume those costs, continue those programs? Or is the General Assembly going to ask local governments to assume funding for a portion of these programs?

How does this relate to a blurring of services among local governments?

Over the last decade, some counties have begun to offer many urban-type services. Counties were not formed for the purpose of providing water and sewer services, for example. But on the fringes of cities or in a developing area not eligible for annexation there's an obvious need for people to have water and sewer services, even though they live in the county.

We used to have a clear-cut line of responsibility between cities and counties. Now that's becoming diffused. There's some crossover. At some point, we need to sort out our roles—to avoid duplication and to be sure that local governments are delivering services most efficiently. Who's going to do what? It's a long-range need, not a pressing item. But unless we begin to sort out the roles, it could become a major problem.

How are cities and counties addressing the duplication problem now?

The most common area of duplication is water and sewer services, and some jurisdictions are working together on this. An example of a good arrangement is Guilford County/Greensboro where officials have worked out a contractual agreement. It seems to be working well. In many other places, cities are planning to extend water to areas where a county water system is operating. The two systems are going to run into each other. It doesn't make good sense to have two systems, both provided by local governments. Arrangements are needed to spell out which local government will provide the service.

Regarding water and sewer, has the arrangement in Forsyth County defused the tension between Winston-Salem and the county?

If there was tension, yes. They created a utilities commission [a special district] which is working very well. But having a special-purpose district just to provide water and sewer may sometimes not be the best long-range approach. It may be better to have these services provided by a general purpose government, either a municipality or a county. In this state, we've tried to avoid creating special-purpose districts [see page 10 for more on special districts]. If you look at some other states that have had a proliferation of special-purpose districts, nobody's in charge of anything. Planned, orderly development is very difficult with overlapping jurisdictions not directly responsible to the voters.

But a special district is one option. Another is a contractual arrangement. A third is consolidation of services. Charlotte and Mecklenburg County have a consolidated utility department. There is a lot of potential for joint services. However, in many other places, there is no guideline or set procedure to coordinate water and sewer services. This could present a problem.

Is this also a problem with your smaller municipalities in the rural parts of the state?

Yes. In some rural areas, the counties have developed county-wide water systems. Anson County and Lee County are examples. Pitt County provides water for a good portion of its rural area. When the county runs its own water service and expands around or near small towns, then the towns become concerned because they often have plans to grow into the same area.

What are other examples of blurring of responsibilities?

Social services is one example. Cities have not normally provided social services, but many,

particularly the larger cities, are now supporting social service programs. Cities started working in this area basically in an effort to address the drug abuse problem and to participate in federal programs such as "meals-on-wheels." The cities fund social service programs because they haven't felt satisfied that the counties were doing everything they should—Raleigh and Asheville are good examples.

Another example is recreation. Until recently, counties were not in the recreation business. They've seen a need, and obviously it should be addressed. We have some instances where, for example, the county has levied a county-wide tax for a recreational facility, but the facility was remote from any city within the county. The people in the city weren't using it, yet they were being taxed to pay for it. That's true in Burke County, for example.

Another example is libraries, but here the responsibility may be shifting. Initially, cities supported public libraries. But libraries are used by people from all areas of the county. Now, many cities have backed out and counties have taken over the libraries. For example, New Hanover County took over operation of the Wilmington library. But it perhaps ought to be clear that the cities cannot fund libraries.

We need to make certain that there's no unnecessary overlapping and duplication. We need to be on a track that will provide the best service at the least possible cost and not have two units of government doing the same thing.

What kinds of consolidation might take place as a result of this overlapping?

Before consolidation of governments, there's going to be consolidation of services—as the need arises. You can see that in the Charlotte/Mecklenburg area and in Winston-Salem/Forsyth. Winston-Salem and Forsyth County, for some time, have had joint planning services. They recognized a long time ago that to plan for that entire urban area, they should join forces. There are many cities and towns which have joint tax collection. Examples are Hickory/Lenoir County and Raleigh/Wake County. We have joint inspection services in several places, particularly in the smaller counties such as Transylvania. It's ridiculous for the county to have a building inspector and for five towns to also have building inspectors. One inspection department could do the job much more economically.

There is a great potential for consolidation of services. The joint services approach is not very dramatic, and it's not happening overnight. It's being worked out sometimes with gnashing of teeth, but it eventually will make it possible

again to bring up the the question of consolidation of units of governments. I don't think consolidation of governments is going to happen any time soon, but I think it eventually will come. [Since the interview, Charlotte and Mecklenburg County have authorized a consolidation study.]

Will the overlapping of services have to work itself out situation by situation, county by county?

What's needed is a statewide, blue-ribbon study commission composed principally of state legislators. This commission would need to sort out not only responsibilities between cities and counties but among city, state, and county.⁸ We need to look at the appropriate roles for all three units of government instead of simply responding to whatever changes take place in the federal system. We need to take the initiative to address these issues before they become real problems. We need statewide guidelines, possibly even state legislation, that will definitely assign governmental functions to cities and counties and the state.

In this state, cities and counties are authorized to carry out the same functions with about four or five exceptions [see page 3 for more on these functions]. If we could get an agreement to say counties do this and cities do that—then maybe there would be certain functions both could do individually or do jointly.

Are the politics right for such a blue-ribbon committee?

The Local Government Advocacy Council [see page 6] is looking at whether a study of this kind can be started. There is some resistance, particularly in the legislature. But I don't know any other way to address the problem. The League [of Municipalities] and the Association [of County Commissioners] could try, but our efforts wouldn't carry the same weight as a study done by a commission appointed by the General Assembly.

Major changes for N.C. local governments have come as the result of study commissions appointed by the General Assembly. All of our best enabling laws for cities have come through that process—the annexation law, the extraterritorial planning law, our joint thoroughfare planning with the state. The authority municipalities have for these major development tools all stem from study commissions.

We had a municipal government study commission in the 50s, and then the Local Government Study Commission in the late 60s and early 70s. Sam Johnson, then a state representative from Wake County, chaired that

Local Government Study Commission. It developed the uniform election law, revised the fiscal control and budget acts, and modernized the statutes under which cities and counties now operate. That was a great step forward and it came as result of a study commission of legislators with Sam Johnson leading the way.

I'm convinced that anything to sort out the roles of cities and counties will have to be done the same way. But it won't be easy to get the General Assembly to agree to it.

Maybe the federal government should never have provided funds for recreation in the first place, but they did.

How have federal budget cuts affected municipalities? Take water and sewer first.

This has been a major federal cutback, a reduction of over \$40 million annually in North Carolina alone.⁹ We did have the ideal arrangement. The federal funding provided 75 percent of the cost of wastewater systems, state clean water bonds provided 12½ percent, and local funds the other 12½ percent. As of October 1, 1984, 55 percent or less will come from the federal government. That means that at least 20 percent is going to have to be made up from some source. Since the clean water bonds have run out, we're talking about 20 percent plus another 12½ percent. Small towns have been particularly hurt. In Brevard, for example, it is estimated to take 12 years to produce the level of funding that was available from these sources.

What other services have federal budget cuts affected?

They have affected transportation, particularly for those cities operating bus systems [15 in North Carolina]. The federal government is phasing down most grants for operating subsidies.¹⁰ There is not a bus system operated by an N.C. city which is meeting operating expenses on farebox revenues. Cities that operate transit systems—Charlotte, Asheville, Fayetteville, for example—are either going to have to levy additional property taxes on everyone, eliminate or reduce services, get out of the business

altogether, or raise fares so high that nobody's going to use the buses.

Will the state pick up some of this?

I don't think that mass transit has enough statewide appeal. Only one percent of the state population utilizes mass transit service. That's not enough to warrant the General Assembly to allocate more money for mass transit.

Another concern is the funding for highways. The state's responsible for constructing and maintaining state-system streets within municipalities.¹¹ Although there has been an actual increase in federal funds, the state has virtually ceased to appropriate state funds for badly needed new construction.¹² It will be many years before badly needed new urban projects can be constructed.

The state Department of Transportation is responsible for the *maintenance* of state-system streets within municipalities, but the current level of funding is less than adequate for this purpose. The city of Raleigh, for example, has a maintenance contract with the state, as a matter of convenience and to expedite the maintenance work. The Raleigh crews do the work on the state highway system and the state reimburses Raleigh. But that reimbursement is not sufficient to actually pay the cost. Hence, maintenance funding is a concern for cities.

Other important budget cuts?

Federal funding for recreation programs is completely gone. A 50-50 match program for the purchase of land and the construction of recreational facilities was a tremendous help, particularly to small and medium-sized towns. For example, the town of Tarboro wanted to expand its recreation facilities. Tarboro got several grants that enabled it to have an outstanding recreation program. That program probably would not have been possible without grant funds. Maybe the federal government should never have provided funds for recreation in the first place, but they did. Now that those funds are gone, expansion of recreation facilities will probably slow down.

Has our quality of life peaked for awhile?

No. I may be a heretic, but I believe that we've been spoiled somewhat. I think that during the 60s, local people naturally wanted to take advantage of federal programs and dollars rather than biting the bullet and raising funds locally. They grabbed at the money and you can't blame them. Now there's a retrenchment from that. In principle, that's good. I also know it's tough—it's one reason we're going to have a difficult time establishing adequate funding for wastewater

systems. We've relied so heavily on the federal programs. Now we have to figure out how we can develop needed facilities without that federal help.

How will the new local-option half-cent sales tax help?

If all 100 counties adopted the new tax, it would produce approximately the same amount of money—\$40 or \$50 million annually—as the 1981 authorization for a five-year clean water bond program would have produced. [The half-cent tax legislation repealed that authorization.] One advantage to the sales tax is that hopefully it will be maintained as a source from now on—not just for five years.

Does the new tax indicate a withdrawal of state-level funding for wastewater systems?

No, but it does indicate a different method of funding. A town can use all of its share of revenues from the half-cent tax for clean water. But the hooker is that in the first five years only 40 percent of the proceeds *must* be used for this purpose.¹³ This is a good local option feature. But if a town decides that it wants to use only the required 40 percent for water/sewer, there won't be as much money available for clean water as there would have been under the continuation of the clean water bond program. To make up for the clean water bond funds, towns would have to spend all 100 percent of the new sales tax proceeds on water/sewer.

Even so, we vigorously supported the new tax in lieu of a clean water bond. If the state issued another \$300 million to continue the clean water bond program, the interest on those bonds would be almost as much as the principal itself. It would cost twice as much to fund that \$300 million as it would to produce the same amount of money with the one-half-cent local-option tax. But that doesn't mean that the new sales tax is going to be the answer. That tax just will not produce enough money, as welcome as it may be.

Did your lobbying for the tax get you in a corner with the General Assembly? How can you come back next session and say we need more?

No, I hope not. But, the General Assembly is going to demand, as they should, absolute proof that some additional funding is needed. I hope it hasn't put us in a corner. Additional funding is really a statewide problem, not a municipal problem.

How could the General Assembly help?

There are several options that I hope the legislature will address at some point: authorize an additional one-half cent [sales tax] on a local-

option basis, authorize an additional clean water bond program, or set up a trust or a loan fund. Regrettably, the situation is going to have to get worse before it gets better. Many members of the General Assembly understand that the new local-option sales tax was not the final answer but a first step.

Do you think the cities' reliance on the property and sales taxes is beginning to shift?

There's going to be a gradual increase in property taxes. I don't think there's any alternative. Second, there's going to be a major effort to utilize user fees, increasing fees for the use of facilities and increasing fees for services.

What are some examples of such fees?

Refuse collection—charging for picking up garbage. A lot of communities are doing that, like New Bern, Wilmington, and Monroe. Refuse collection is expensive. Basically cities bill for that service through the water bill.

With water and sewer, you're going to see more and more effort made to be sure fees are paying *all* the costs—the cost of retiring the debt service as well as the actual costs of operating the system. You are also going to see increased fees for recreation services, as is being done in Greensboro, for example.

Do you think we revalue property often enough?

No. We need to reduce the revaluation cycle to at least four years to reduce the impact of rising property values. Municipalities have to go through the trauma of adjusting the tax rate once the new value of property is determined. The city councils have to fix the tax rate to accommodate the new values.

Should the state retain the intangibles tax?

First of all, intangible property is a form of wealth just like real or personal property. And when you get right down to it, there's no reason that intangible property should not be taxed if other property is also being taxed. If I have \$50,000 in stocks and bonds which can be liquidated tomorrow, that's just as much a form of wealth as a piece of property worth \$50,000 which I could sell tomorrow.

So, the theory of intangibles tax, as a matter of tax equity, is sound. The problem is that it does obviously affect certain interests, like retired people with intangible property who want to locate in North Carolina. I doubt that the intangibles tax actually retards economic growth and development in the state. But if the tax is repealed, our position is that it should be replaced by revenue from another source. It's a

question of having to resist the erosion of municipal revenue.

Do you feel the same way about inventory taxes?

Yes. The proposal has surfaced recently for the state to give businesses credit on their state income tax for the inventory tax they pay locally. This plan would not immediately affect cities and towns, but I question whether or not the state can lose this revenue.

How is the tax paid locally?

When the city and county levy property

taxes on a business, the inventories that a company lists are taxed at the local property tax rate. Companies are seeking to remove the inventory portion of their property tax through a credit on the state corporate income tax.

Would you object to such a change in the tax laws?

Probably not as long as the state's revenue is sufficient to accommodate this dollar loss and as long as it doesn't erode local property taxes or affect other local revenue sources.□

FOOTNOTES

¹The exact number of municipalities is hard to determine. The number of municipalities active enough to receive Powell Bill funds was only 461, according to the N.C. Department of Transportation. The N.C. Office of State Budget and Management uses a count of 513 municipalities. The Legislative Research Commission is now reviewing incorporation issues and may recommend to the 1985 General Assembly that totally inactive municipalities lose their charter. Such a step would clarify the exact number of N.C. municipalities.

²The four committees are: Finance, Taxation, and Intergovernmental Relations; Community and Economic Development; Transportation, Communications, and Public Safety; and Energy, Environment, and Natural Resources. They meet through the year to develop recommendations for the league's annual meeting in the fall.

³An Estimate of Some of North Carolina's Public Infrastructure Needs and Projected Financial Resources to Meet Them: Highways, Education, Water Supply, Sewer" by Kaiser, et al., Department of City and Regional Planning, University of North Carolina at Chapel Hill, with Alice Garland-Swink, N.C. Department of Natural Resources and Community Development, Abstract, p. 10.

⁴NCGS Chapter 105, Article 7.

⁵NCGS 159-8.

⁶Article V, Section 4(2)(f) of the Constitution of North Carolina.

⁷NCGS 159-55(c).

⁸On August 14, 1982, Institute of Government Director John Sanders made a similar proposal in a speech before the N.C. Association of County Commissioners. Sanders advocated that Governor Hunt appoint a special task force to examine the changing faces of federalism in the 1980s and the proper roles of the local, state, and federal levels of government.

⁹For more on the effect of federal budget cuts on the state, see *Federal Budget Cuts in North Carolina* by Jim Bryan et al., N.C. Center for Public Policy Research, April 1982, pp. 9 and 90.

¹⁰The Reagan administration has proposed to eliminate all transit operating subsidies, but Congress thus far has not allowed that to happen. In its proposed 1985 budget, the Reagan administration is again attempting to eliminate all such subsidies.

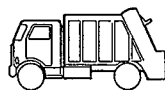
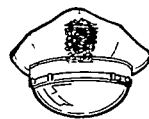
¹¹NCGS 136-66.1.

¹²Federal-aid funds are provided to the states to assist with the construction and improvement of highways. Prior to FY 1981-82, explains State Highway Administrator Billy Rose, federal-aid constituted approximately 49 percent of all funds available for highway construction in North Carolina. In 1981, the General Assembly assigned top priority for use of available state funds to maintain our state highway system and limited the funding for highway construction to matching available federal-aid plus continuation of state funding for county secondary road construction. Thus, in FY 1981-82, there was a 24 percent decrease in total funds available for highway construction, and the amount of federal-aid constituted 62 percent of the total funds available for highway construction. Also, because of the reduced funding available for highway construction, it was necessary for the N.C. Board of Transportation in the fall of 1981 to delete \$1.2 billion of previously approved highway projects from the seven-year Transportation Improvement Program. Many of these eliminated projects were in urban areas.

With the enactment by Congress of the Surface Transportation Assistance Act of 1982 (PL 97-424), the federal motor fuel tax was increased by 5¢/gallon, and other federal road user fees were increased. Thus, beginning with FY 1983-84, increased federal-aid funding for highway construction is being made available. Our General Assembly has provided for the necessary increased state funding to match the increased federal-aid and has again provided some funding for total state funded highway construction. Thus, explains Rose, when FY 1983-84 is compared to FY 1981-82 there has been a 47 percent increase in total funds available for highway construction, and the amount of federal-aid constitutes 63 percent of the funding available for highway construction. Because of the increased availability of funds for highway construction, it has been possible to reactivate many of the proposed highway construction projects that were deleted from the Transportation Improvement Program in 1981. It has not been possible to reactivate all of the projects deleted in 1981 because a major portion of the increased federal-aid funding provided North Carolina by PL 97-424 was earmarked for the federal-aid bridge replacement program with little or no increase for the federal-aid primary and urban federal-aid highway program.

¹³See HB 426, Part I, Chapter 908 of the 1983 Session Laws. Note that in the second five years, only 30 percent of the tax revenues must be used for water/sewer projects.

What Do Municipal Officials Need?



by Beverly A. Cigler

Of the 513 municipalities in North Carolina, only 8 have a population over 50,000. The Charlottes and Greensboros and Ashevilles have large tax bases and staffs on which to help with fiscal pressures, water/sewer demands, reduced federal funding, and other current problems. And when these towns lack resources, they can make their needs known to state legislators, executive branch heads, university officials, and the private sector.

But what about the other 505 municipalities—Gastonia (population 47,362) and Glen Alpine (644), Burlington (37,557) and Bear Grass (80)? Where do their town managers or clerks turn for help? And what kind of help do they need? What are the major problems facing these municipal officials?

From June to September 1983, the N.C. Local Policy Project at N.C. State University conducted a "needs assessment" survey of North Carolina towns under 50,000 in population. (For information on various surveys of North Carolina counties, see article on page 26). Questionnaires were sent to 250 town managers or clerks (if the town had no manager). Of these, 207 (83 percent) responded. For various methodological reasons, nine returned surveys

were not usable and hence not included in the final study. The workable sample of 198 responses generated the tables and discussion below.¹

The survey first asked the town managers/clerks to identify their communities' major problems. Given a list of seven types of concerns 65 percent picked "difficulty in attracting/supporting commercial facilities," 47 percent mentioned "retaining existing jobs," 35 percent included "housing rehabilitation," and 31 percent listed "insufficient new housing." The other three problem areas—deterioration of the natural environment, blight, and crime/drug addiction—all drew a response rate below 16 percent. These figures indicate, as one might expect, that economic-related issues (i.e., commercial facilities and jobs) most concern town officials.

Dr. Beverly A. Cigler, assistant professor of political science and public administration at N.C. State University, directs the N.C. Local Policy Project. Since 1979, this project has sponsored seven surveys of county and municipal officials. For various project reports, bibliographies, and option papers, write Dr. Cigler, Department of Political Science and Public Administration, P.O. Box 8102, NCSU, Raleigh, N.C. 27695-8102. Art and photos courtesy of the N.C. League of Municipalities.

Effects of New Federalism

The Reagan administration has heightened these economic-related worries. In the wake of federal budget cuts, town officials have had to make adjustments. The survey asked the managers/clerks which of three reactions their communities have most frequently made to the Reagan administration's funding priorities. More than half (51 percent) said their communities used "expenditure reductions" most frequently. Almost one of every four (23 percent) turned most often to "new revenue generation," and only 14 percent depended most on "program/administrative process changes." Specific survey questions focused on each of these three responses, as summarized below.

Expenditure Reductions. Asked to identify the major activities pursued *since 1980* to adjust expenditures, two of every three managers/clerks (67 percent) pointed to an "increased efficiency of existing programs." In a distant second place (31 percent) was "increased efforts at energy conservation."

Significantly, more than one of every four (28 percent) has "cut back existing programs or services" and one of five (20 percent) "terminated employees but kept programs." Only six percent of the sample said they dropped programs entirely. Table 1 below shows the full results, including the 12 possible answers to the survey question.

Table 1 indicates that in cutting expenses, North Carolina towns relied more on traditional strategies such as efficiency, energy conservation, and cutbacks than on new types of efforts that are receiving increased attention nationally. Volunteerism, for example, did rank fourth, but only one in four towns used this as a way to

Table 1. Activities Pursued to Adjust Expenditures

Activity	No. of Responses	Percent of Sample
1. Increased efficiency of existing programs	132	67
2. Increased efforts at energy conservation	62	31
3. Cut back existing programs or services	55	28
4. Attempted to increase volunteerism	48	24
5. (tie) Contracted out services to private sector	39	20
(tie) Terminated employees but kept program	39	20
7. Joint provision of services with another government	33	17
8. Shifted some programs/ services to other governments	29	15
9. Purchased services from another government	22	11
10. Private-public cooperation in formal programs	18	9
11. Dropped programs entirely	12	6
12. Other	6	3

reduce expenses.

Several of the options required cooperation with other governmental units. Each of these options ranked low: seventh place, joint provision of services with another government (17 percent); eighth place, shifting a program/ service to another government (15 percent); and ninth place, purchasing services from another government (11 percent). Similarly, strategies involving the private sector did not rank well. Contracting services out to the private sector tied for fifth place (20 percent), and private-public cooperation in formal programs ranked tenth (9 percent).

Although a variety of expenditure reduction strategies have been attempted by small municipalities in North Carolina, relatively few communities are experimenting with some newer strategies. The data do not reveal the reasons for limited use of some options, but several reasons appear possible.

First, in a state that has careful monitoring of local fiscal stability by the N.C. Local Government Commission (see page 6 for background on this group), most communities may not perceive the need for intergovernmental cooperation and formal public-private cooperation. Secondly, information about various expenditure reduction strategies may not be widely available to many small governments. Finally, most of the communities in the sample may be satisfied with "increased efficiency of existing programs" and other activities that ranked high in Table 1.

New Revenue Generation. Table 2 below shows the types of activities pursued by North Carolina towns when seeking new sources of revenues—in the survey, the second most frequent method of adjusting to the New Federalism. Asked what new revenue sources their communities pursued, the town managers/clerks most often mentioned user fees (55 percent).

In second place, more than half of the managers/clerks (51 percent) turned to "increased searching for new grants." This high interest, even for a declining pot of federal money, no doubt reflects the keen competition for those federal funds still available, such as Community Development Block Grants.

Table 2. Activities Pursued for New Revenues

Activity	No. of Responses	Percent of Sample
1. User fees	108	55
2. Increased searching for new grants	101	51
3. Searched for new industrial or commercial businesses	88	44
4. Raised existing taxes	63	32
5. Annexation	53	27
6. New taxes	14	7
7. Other	13	7
8. Borrowed money	7	4



Ranking third, 44 percent said they were searching for new industrial/commercial businesses.

Widespread pursuit of intergovernmental grants and new industrial or commercial businesses suggests that officials in small municipalities would be interested in the innovative revenue strategies being developed in many North Carolina communities. Availability of information about new approaches is thus very important, such as the new team approach being employed in Sanford, North Carolina.²

"New taxes" (7 percent) and borrowing money (4 percent) ranked near the bottom, probably for two reasons. North Carolina has strong state-level oversight of local governments' finances. Secondly, in recent years, the political and economic climate worked against new taxes or more borrowing.

Program/Administrative Changes. Table 3 summarizes responses to this survey question: "which of the following have been enacted by your community?" The responses indicate generally low levels of measures considered to be innovative management initiatives. No procedure has been enacted by more than 48 percent of the sample towns. Many concerns currently receiving widespread media and academic

attention in the field of public administration—word processing, computerization of information, new budget approaches, etc.—are receiving little attention by these North Carolina towns.

As might be expected, the larger communities in the sample are more likely to adopt many of the program/administrative changes studied. For example, 32 percent of the sample communities greater than 10,000 in population (9 of 28) claim to be using word processing in government operations. Only 5 percent (9 of 191) under 10,000 indicate word processing capability.³

Information Sources and Perceived Utility

In addition to learning what municipal officials are doing, the survey asked officials about the sources of information they use in their job. Asked the three most useful *sources of new ideas*, the managers/clerks most often identified the N.C. League of Municipalities (63 percent). Next came the Institute of Government (54 percent), other local officials in their own community such as the mayor (47 percent), other local governments (27 percent), and regional governments (21 percent). Surprisingly, perhaps, state agency officials (19 percent) and federal agency employees (1 percent) ranked last.

When asked, "which types of external assistance are used *frequently* by your community?" (local governments and the Institute of Government were not listed as choices), the respondents ranked councils of government and other regional agencies first (57 percent), followed by private consultants (45 percent), the N.C. Division of Community Assistance (38 percent), other state agencies (23 percent), and federal agencies (12 percent). University extension programs, an important source of information for agricultural programs in the state, have few programs designed specifically for municipalities; only 17 percent of the sample utilized university extension programs, ranking them last among the choices.

The respondents to the survey seemed generally aware of state programs and satisfied with them for the most part. While 70 percent said they had face-to-face contact with state government personnel in the past year, 79 percent cited contact through correspondence and 85 percent had telephone contact. In addition, 87 percent said they were "somewhat" or "very" familiar with sources of state government assistance to local governments.

Asked to "rate assistance available from state agencies," 60 percent of the sample judged state programs to be adequate to meet local government needs. The town managers/clerks, in an "open-ended" question, had a number of suggestions for improvements. In the order most

Table 3. Program/Administrative Innovation by N.C. Towns

Activity	No. of Responses	Percent of Sample
1. Personnel code/merit hiring procedures	95	48
2. Fiscal management or accounting system change	91	46
3. Personnel manual for employees	85	43
4. Long range capital improvement program	66	33
5. Performance, zero-based, or PBS budget from a line item budget	33	17
6. Computerized management information system	31	16
7. Word processing	18	9
8. Human relations training for employees	13	7
9. Management by objectives system	12	6
10. Sunset law	6	3

often mentioned, they included: more outreach through additional regional offices, fewer mandates, more technical assistance, greater effort at providing local governments printed matter regarding the availability of state programs, and always having a state agency list its telephone number on all correspondence.

Policy Direction Emerging from Needs Assessment

The information from municipal officials summarized above—like data from other types of surveys (see article regarding county officials on page 26)—can be a valuable tool in shaping policies of state agencies and of other organizations working with local governments. The N.C. League of Municipalities, the N.C. Division of Community Assistance, the Institute of Government, and the councils of government—the major information sources for North Carolina town managers or clerks, according to the survey—might especially benefit from such needs assessments in shaping their own programs. In this survey, viewing the responses from the “fiscal” questions together with the data from the “sources of information” section can prove particularly helpful.

The “expenditure reduction” results in Table 1, for example, suggest that North Carolina towns under 50,000 in population, on the whole, lack substantial information and/or backup support on ways to stretch the municipal dollar. Citizen volunteers and/or neighborhood groups have not been utilized extensively to reduce expenses. Neither have joint public-private ventures, shifting of programs to other levels of government, purchasing services from other governments, and contracting out to the private sector generally been used throughout this sampling of towns.

Nationally, local governments are investing small amounts of public funds to attract large amounts of private money. In many cases, such public-private partnerships have created jobs, reduced unemployment, increased the tax base, and revitalized downtowns. Despite evidence of growing efforts at such partnerships in the larger North Carolina cities, this survey indicates that such partnerships have generally not come to North Carolina towns in large numbers. Moreover, the survey revealed that financial issues—jobs and attracting commercial facilities—most concern North Carolina town officials. The major information sources for these towns’ managers need to stimulate more discussion on new ways to cope with spending constraints.

The survey also indicates a glaring need in the management improvement area. Progress toward professional management systems,



Courtesy N.C. League of Municipalities

capital improvement programs, innovative budgeting, and the use of new technologies appears tentative at best. Dissemination of information in these areas, developing more “how-to” guides, and offering more technical assistance appear necessary.

In Middlesex and Middleburg, Eden and Edenton, Warsaw and Turkey—just 6 of the 505 North Carolina municipalities under 50,000 in population—town managers, clerks, mayors, and others have to meet a growing demand for services. Needs assessments surveys add a valuable source of information for regional, state, and federal officials charged with assisting municipal managers. And thriving towns remain vitally important to North Carolina. Without them, the growing Tar Heel populace would have to rely too heavily on urban centers, turning the state’s medium-sized cities into an urban sprawl. □

FOOTNOTES

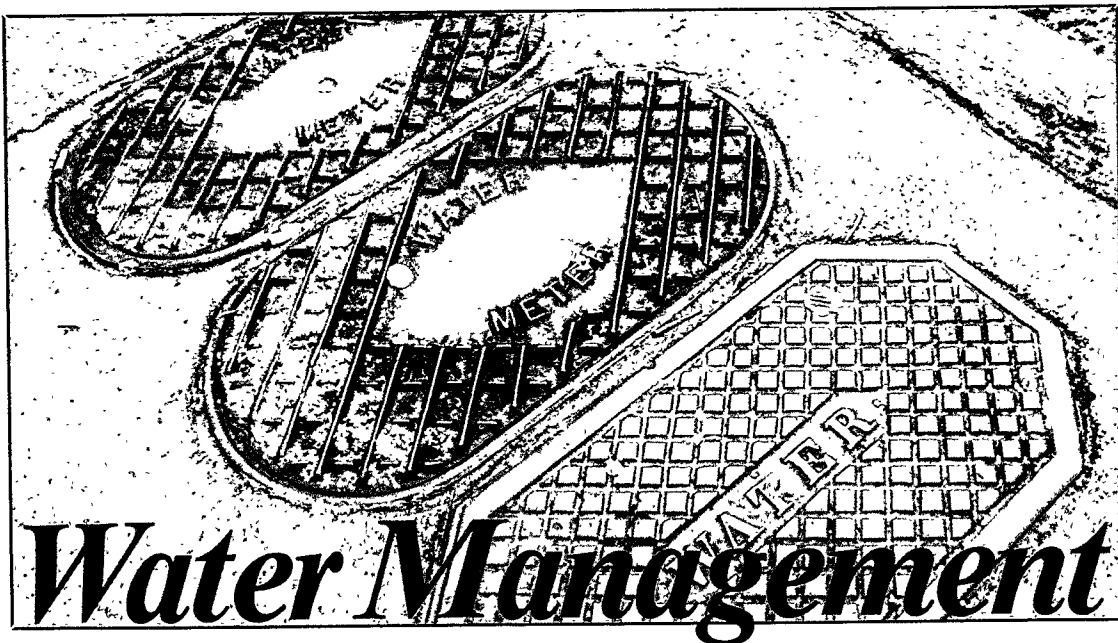
¹The study sample reflects the number of North Carolina municipalities in various population ranges, as shown below.

Municipal Population	No. of N.C. Municipalities ^a	No. in Study Sample
over 50,000	8	0
25,000 to 49,999	10	7
10,000 to 24,999	26	21
2,500 to 9,999	96	61
under 2,500	373	109
Totals:	513	198

^a Source: N.C. Office of State Budget and Management

²See “New Techniques in Commercial Recruitment for Small Cities,” *Carolina Planning*, winter 1983, or contact Mary Ellen Brown, Sanford Downtown Revitalization Project, Box 1523, Sanford, N.C. 27330.

³Only total frequencies have been reported in this article for all of the information gathered on expenditure, revenue, and program/administrative change options. The data can be analyzed in many ways, including comparisons by community population size, rate of growth, median family income, etc. For the three tables summarized here, the general finding is that the larger the community, the more likely it is to be engaged in a wider variety of activities of all types. Interested readers may request more detailed reports from the author.



Michael Matros

A Tenuous State/Local Partnership

Water supply and water quality questions have become bigger than a single municipality can answer alone. Intergovernmental relationships are growing more complex, as are technical issues. Service demands are increasing while federal and state financial assistance is declining. Local officials are at a crossroads—in growth management, in financing new water and sewer projects, and in land use regulations. What kind of new state-local partnership can be forged for North Carolina?

by David H. Moreau

In 1968, a drought hit Chapel Hill. As fans poured into the university community from around the state for Saturday football games, alumni and guests alike had to ask for water at restaurants. No water was served routinely. Car washes were going out of business and lawns were turning brown.

On Saturday night, football fans traveled back to homes from Bryson City to Morehead City. While most were no doubt reflecting on a Carolina blue player streaking down the sidelines, a few prescient souls might have wondered if they would always be able to get water at a restaurant. Was this only an inconvenience in Chapel Hill or was it a sign for the future?

The now infamous Chapel Hill water shortages have continued to hit periodically. But 16 years later

University Lake Reservoir is still the primary water source for the area. This reservoir now meets only 50 percent of the area's needs. Chapel Hill residents depend on water purchased from neighboring Durham and Hillsborough. In February 1984, construction on the long-planned Cane Creek Reservoir finally began even though the project is still embroiled in litigation.

Why has Chapel Hill had so much trouble providing an adequate water supply for its citizens?

David H. Moreau, professor in the Department of City and Regional Planning at the University of North Carolina at Chapel Hill, has been the director of the Water Resources Research Institute of The University of North Carolina since July 1983. Moreau is chairman of the board of the Orange Water and Sewer Authority and has been a board member since 1978.

And how does this *water-supply* question relate to issues of *water quality*? While a number of circumstances in the 16-year Chapel Hill saga appear unique, the tangle of bureaucracies and regulations that have complicated the Chapel Hill story now reach into municipalities throughout the state.¹ The Environmental Management Commission (EMC), the N.C. Department of Natural Resources and Community Development (NRCD), the U.S. Army Corps of Engineers, the N.C. Department of Human Resources, and other state and federal agencies have authority over various aspects of local water and sewer systems (see tables 1 and 2 on pages 68 and 69). Towns, cities, special water or sewer districts, and counties (which are now entering this business), have to cope with an array of regulations, from federal 401 and 404 permits to state EMC rulings.

How can local officials simultaneously cope with this labyrinth of intergovernmental passages, address the growing technical problems of water pollution, and deal with local land-use issues like zoning around water sources? Together, the problems of funding and maintaining high quality water supply and sewer treatment systems appear overwhelming. Unless tackled as a package, however—albeit, taken a piece at a time—these problems might one day cause Carolina alumni to forgo water altogether on a football weekend. After they get back to Bryson City and their other homes, things might not be much better.

The Partnership Is Formed

In North Carolina, over 500 municipal water systems now exist; 225 of these serve over 500 persons.² In addition, 340 waste discharge systems owned by municipalities hold discharge permits issued by the state. Many of these municipalities, as water suppliers and waste dischargers, are inherently linked to each other and to the surrounding counties through common hydrologic systems—river basins and groundwater systems.

As problems of water supply and quality have increased in recent years, so has the interrelationship among water suppliers and waste dischargers become more obvious. Meanwhile, federal and state requirements have become more stringent, forcing a new sophistication and resolve upon local government officials. Local governments have had to increase expenditures and enact more stringent land-use regulations. Both actions are politically unpopular, but not so unpopular as polluted water or emergency restrictions on use of water.

For its part, state government has borne a part of the financial burden through two clean water bond issues and bold leadership stances on land-use controls. But the partnership between the state and local governments now faces increasing challenges—

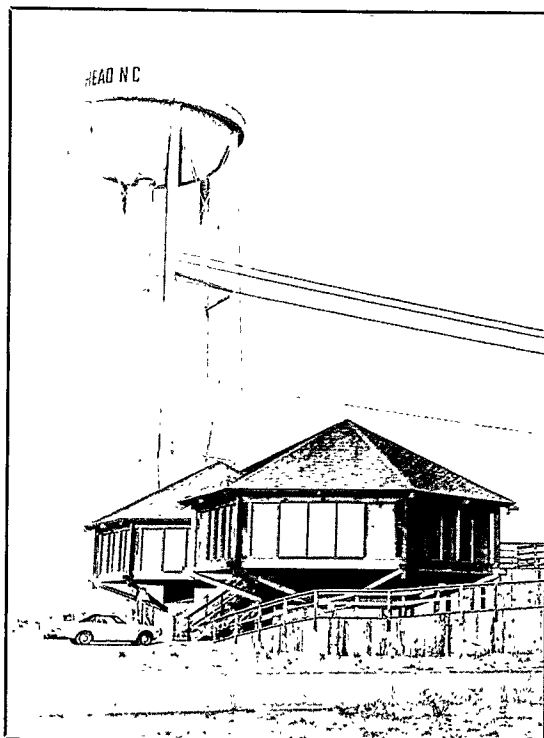
as funding needs rise, as service demands increase, and as federal dollars decline.

The partnership began early in this century when the state intervened in what was otherwise a local matter—the quality of a community's water. To protect the public, the State Board of Health began enforcing mandatory drinking water standards and regulating waste discharges upstream of public water supplies. After World War II, the state broadened its responsibilities in pollution control. With passage of the State Stream Sanitation Act in 1951, North Carolina initiated a comprehensive pollution control program aimed at municipal and industrial dischargers. That program, spanning nearly two decades:

- 1) collected data on water quality and sources of pollution in each river basin;
- 2) classified all streams according to their best use (drinking water, recreation, etc.);
- 3) developed water quality standards for each of the stream classifications;
- 4) formulated pollution control plans for all major water sources; and
- 5) required all municipalities and industries with wastewater treatment systems to submit detailed engineering plans that met pollution control requirements.

Federal initiatives in pollution control further increased state involvement. In 1956, the federal government began a program of technical and

Nags Head Municipal Building



Courtesy N.C. League of Municipalities

financial assistance to local governments. The states administered this assistance and determined priorities for local governments. In 1965, Congress upped the ante by establishing minimum criteria for *state water quality standards* and then went a step further, passing the Federal Water Pollution Control Act Amendments of 1972 (PL 92-500).

The 1972 actions, together with 1977 amendments—which gave the law its current name, the

Clean Water Act—included an array of regulatory, financial, and management components. Perhaps the most important regulatory impact came from Sections 401 and 404 of the act. Section 401 requires each waste treatment facility to have a permit specifying limits on each pollutant that could be present in its discharges. Section 404 controls “dredge and fill” operations in wetlands. This “404” process requires a municipi-

Table 1. Water Supply: Major Governmental Responsibilities

Unit of Government	Responsibility	Source of Authority
<u><i>North Carolina</i></u>		
Dept. of Human Resources and Commission for Health Services	1. Determines eligibility for grants-in-aid for construction	Clean Water Bond Acts of 1971 and 1977
	2. Approves plans and facilities	Safe Drinking Water Act of 1979 (GS 130A-311 et seq.) and federal Safe Drinking Water Act (42 USC § 300f et seq.)
	3. Enforces drinking water standards	
Dept. of Natural Resources and Community Development and the Environmental Management Commission	1. Water-use permits in designated “capacity use areas” (i.e., areas of extreme water shortage)	Water Use Act of 1967 (GS 143-215.13)
	2. Dam safety permits	Dam Safety Law of 1967 (GS 143-215.23 et seq.)
	3. Well construction permits	Well Construction Act (GS 87-83 et seq.)
	4. Water quality certification permits	Section 401, Federal Clean Water Act (33 USC § 1341)
	5. Stream reclassification	15 NCAC 2B
	6. Powers of eminent domain in local water authorities	GS 162A-7(b)
	7. State environmental impact statements	NC Environmental Policy Act of 1971 (GS 113A-1 et seq.)
Dept. of Administration	1. Conducts intergovernmental review process	Federal Office of Management and Budget, Exec. Order 12372
<u><i>Federal</i></u>		
Army Corps of Engineers, Environmental Protection Agency, and Fish and Wildlife Service	1. Issues “404” dredge and fill permits and related environmental impact statements.	Section 404, Federal Clean Water Act (33 USC § 1344) National Environmental Policy Act of 1969 (42 USC § 4321 et seq.) U.S. Fish and Wildlife Coordination Act (16 USC § 661 et seq.)
Environmental Protection Agency	1. Issues drinking water standards	Federal Safe Drinking Water Act (42 USC § 300f et seq.)

Source: Water Resources Research Institute

pality to get a *federal* permit from the U.S. Army Corps of Engineers for the construction of a dam that would create a water supply on a stream that drains more than five square miles of watershed. This covers practically any reservoir.

In addition, the Clean Water Act triggered a requirement for an environmental impact statement under the National Environmental Policy Act. At the same time, the act substantially increased grants for municipal waste treatment facilities up to a level of 75 percent of eligible costs. Finally, this federal pollution control statute recognized that water pollution occurs at both *point sources* (municipal and industrial waste treatment plants, for example) and at *non-point sources* (runoff from fields, barnyards, and construction sites, for example). To control pol-

lution from nonpoint sources, the Clean Water Act and related regulations called for land use controls and "best management practices," if necessary. Best management practices included a broad group of measures to control soil erosion and stormwater runoff.

In 1974, federal and state involvement increased with passage of the federal Safe Drinking Water Act, which established national drinking water standards. Both this act and the Clean Water Act are based on the principle of state primacy whereby the state, if it qualifies and chooses to do so, can take over the planning and permit processes. North Carolina has taken over most of these activities, the notable exception being the dredge and fill permits, still issued by the U.S. Corps of Engineers.

Table 2. Water Quality/Sedimentation: Major Governmental Responsibilities

Unit of Government	Responsibility	Source of Authority
<u><i>North Carolina</i></u>		
Dept. of Natural Resources and Community Development and the Environmental Management Commission	1. Grants permits for pretreatment facilities and other facilities discharging to surface waters.	GS 143-215.1
	2. Establishes ambient stream standards and effluent standards	GS 143-215.3
	3. Prepares basin-wide water quality plans	GS 143-215.3
	4. Issues waste discharge permits	GS 143-215.1
	5. Provides grants for construction of wastewater treatment plants	Clean Water Bonds Act of 1971 and 1977
	6. Develops plans for sedimentation control in non-agricultural activity lands	Sedimentation Pollution Control Act (GS 113A-50 to 66)
	7. Determines sediment concentration and load levels	Sedimentation Pollution Control Act (GS 113A-50 to 66)
Dept. of Human Resources and Commission for Health Services	1. Regulates subsurface septic tanks and sewage disposal systems	Sanitary Sewage Systems Act (GS 130A-333 et seq.)
<u><i>Federal</i></u>		
Environmental Protection Agency	1. Establishes effluent guidelines	Federal Clean Water Act (33 USC § 1341)
	2. Develops water quality criteria	
	3. Approves state programs	
	4. Reviews selected waste treatment projects	

Source: Water Resources Research Institute

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Local Officials at a Crossroads

As concerns about water pollution and the quality of drinking water have increased among citizens, state government has moved forcefully—sometimes pushed by federal legislation—to influence decisions of local officials regarding water supply and waste management. Meanwhile, federal and state financial assistance is being reduced. Consequently, local officials face a set of interrelated decisions regarding growth management, financing of water and sewer projects, and land use.

Growth Management. Determination of appropriate *size, timing, and location* of waste

treatment facilities is now a matter of negotiation among local, state, and federal administrators. Applications for planning grants, requests for plan approvals, and requests for construction funds—first at the state level, then through the regional office of the U.S. Environmental Protection Agency (EPA), and sometimes through EPA headquarters in Washington—have caused the construction of new facilities to take up to 10 years.

Municipalities can determine the size of their treatment plants, but financial incentives to comply with state and federal grant conditions have often altered local choices. For example, in the expansion of the Chapel Hill waste treatment facility, local officials projected a waste load of nine million gallons per day (MGD) in 20 years. State and federal officials would approve a design of only eight MGD. Similarly, Greensboro officials felt the city needed a larger plant than what federal and state officials initially approved. Greensboro then had to undertake an extensive analysis of alternative land use patterns to justify its choice of plants and their locations.

If a local government unit wants to expand its water supplies using surface water sources, it must get approval from the N.C. Department of Human Resources and, in most circumstances, from the U.S. Corps of Engineers. At least three cities in North Carolina—Asheboro, Chapel Hill,

Measuring wastewater in millions of gallons per day (MGD) at New Hanover County's Southside Treatment Plant.



Courtesy: New Hanover County

and Durham—have been through this permit process. In each case, the process has taken from three to five years to complete. Conditions imposed by federal and state agencies added as much as five percent to the cost of these projects and contributed to delays that have resulted in significant reductions in service over the past several years.

The complexity of the permit process has raised concerns among local officials over whether the state, the EPA, or the U.S. Corps can—or will—decide the appropriate levels of growth for their communities. Will these state and federal agencies decide where growth should occur? Will they decide the source and amount of water supply to be made available to local governments? Local government officials view increased federal and state authority as a threat to their autonomy.

Financing Water and Sewer Projects.³ While local governments have not welcomed this intrusion by state government, they have accepted it with a large dose of state and federal financial aid. The magnitude of that support has been persuasive. In the decade from 1973 to 1982, state clean water bonds generated \$380 million for local water and wastewater projects. During the same period, EPA made grants of \$495 million to cities in North Carolina for new wastewater management facilities. This infusion of nearly \$1 billion into local areas has significantly affected municipal property tax rates and fee structures. Approximately 20 percent of all local government expenditures for water and sewer services over the past five years has come from this aid, most of that for construction of waste treatment plants. Without state and federal assistance, sewer rates in Chapel Hill would be 30 to 40 percent higher than they are today.

Complying with pollution control requirements is obviously easier when those who are imposing regulations are also offering lucrative aid. Local officials have had to raise user charges only modestly to pay their share of the cost, and they have been able to defend those small increases by pointing to their success in attracting state and federal grants.

Naturally then, the recent reductions in these state and federal funds are causing great concern. By 1982 federal water and sewer funds had been reduced to *one-third* of their 1976 peak.⁴ Regulations that go into effect July 1, 1984, will reduce these federal funds even further. In addition, the 1983 General Assembly reduced state financial support by repealing the governor's authority to call for a new clean water bond referendum.⁵ The General Assembly did authorize local governments to levy a new, one-half cent sales tax, with a portion of the proceeds

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targeted for water and sewer needs. However, those funds will not offset the potential revenues from a new clean water bond⁶—much less the loss of federal funds.

To offset the loss of federal and state funds, locally generated revenues will have to increase at an average annual rate of 10 to 11 percent over the next five years. Local ratepayers may be expected to resist such increases, and two decades of progress in water pollution control could be threatened as these “carrots” are removed and only the “stick” is left.

Land Use. Controlling nonpoint sources of pollution leads directly or indirectly to land use controls, something local governments have jealously regarded as their sole domain. Nowhere has this issue been raised more clearly than in the watersheds of the Falls of the Neuse and Jordan Reservoirs in the Research Triangle area. These two reservoirs—in planning, appropriation, and construction for 50 years—are the largest reservoir projects that can be built under federal regulations in their respective river basins. They are keys to future development of a major urban area involving scores of counties and municipalities. Yet their usefulness as water supplies and recreational facilities is threatened by urban, industrial, and agricultural activities in their watersheds.

Under the leadership of former NRCD Secretary Joe Grimsley, the state took the position that unless local governments acted to limit discharges of pollutants, the state would impose very stringent and expensive standards on municipal waste discharges. To develop the details, Grimsley established a steering committee for each watershed; the membership consisted of elected local officials and NRCD staff. These

committees produced a "state/local action agenda" that spelled out what would be expected from NRCD and what would be expected from local governments. That agenda contains several bold initiatives, including:

- the designation of water quality critical areas to which strict land use regulations would apply;
- a broadening of local participation in the state sediment control program;
- a reduction of phosphorus levels at point sources; and
- improving information about, and control of, hazardous substances being discharged within, transported across, or stored on these watersheds.

Early responses to the recommendations of these committees are encouraging. Wake County recently adopted critical area designations in the Falls of the Neuse watershed. Durham City and Durham County are developing sediment control ordinances. Durham and the Orange [County] Water and Sewer Authority are preparing for the removal of phosphorus at their waste treatment plants. The new Secretary of NRCD, James A. Summers, has publicly supported statewide limits on the use of phosphate detergents, as has Gov. James B. Hunt Jr.

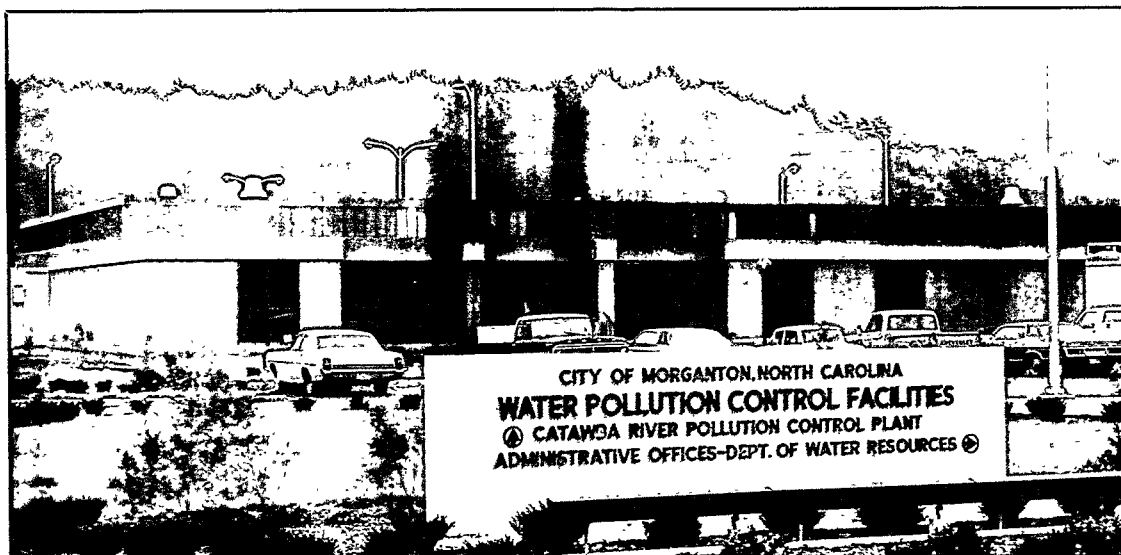
Despite such positive intergovernmental steps, this partnership remains an uneasy one. Local officials are quite aware that in 1985 there will be a new governor with a possible change in leadership at NRCD. Specific technical problems also trouble them. For example, debates continue over the extent to which phosphorus removal improves water quality. Yet state officials may nevertheless insist on expensive wastewater treatment methods to reduce phosphorus in discharges into these water basins.

What Can We Learn from Neighboring States?

Emerging water planning and regulatory models in other states may be useful to the discussion of what is best for North Carolina. Two other southeastern states, Georgia and Florida, represent significant contrasts.⁷ Georgia's program, a centralized structure, relies primarily on state regulation and secondarily on planning and management. Florida, on the other hand, has taken a two-tiered approach: strong regional management and a unified state regulatory program.

In Georgia, a single state agency regulates both quantity and quality of water. Georgia's water control law, initially passed in 1972 and amended in 1973 and 1977, requires permits for all ground and surface water withdrawals that exceed 100,000 gallons per day (agriculture is exempted). Despite a strong regulatory approach, Georgia's program does not emphasize management or involve much local input. The lack of progress in developing river basin plans in Georgia suggests that planning and management have taken a back seat to regulation.

In contrast, Florida has combined local and state inputs into a *regulatory and planning program*. Building upon prior experiences with the Central and Southern Florida Flood Control District created in 1949, the Florida Water Resources Act of 1972 established five water management districts (WMDs) that cover the state. These WMDs have broad powers, including planning, construction, and operation of facilities and regulation of water withdrawals. They also have the power to levy ad valorem taxes. The districts have strong professional staffs, making them effective—and powerful—



Courtesy N.C. League of Municipalities

participants in the water planning process.

In 1975, Florida combined water use and water quality functions in a single agency. Regional offices of the new state Department of Environmental Regulation (DER) were located with those of the WMDs. Water quality regulatory functions remain in DER—at the state level.

The Florida Water Resources Act mandated the development of a state plan to guide the regulation of water withdrawals. This plan was derived from regional plans prepared by the WMDs within a framework supplied by DER. Although WMDs do not have regulatory authority for water quality, that dimension was considered in formulating regional plans. DER then had the task of integrating the regional plans into a statewide plan while meeting its responsibilities to regulate water quality.

The Florida Water Management Districts are unique organizations. A nine-member board of district residents appointed by the governor runs each WMD. With a board appointed by the governor, they are linked to a statewide constituency and are somewhat insulated from local politics. Yet, with resident boards and a local tax base, they are responsive to local interests. The WMDs occupy a middle ground in state-local relations.

What State-Local Partnership for North Carolina?

North Carolina has a water planning and regulatory program similar to that of Georgia, except that in North Carolina withdrawal permits are required only in designated "capacity use" areas. Regional management is not widespread in the state, but it is increasing. There are now 2 water and sewer authorities, at least 4 local utility commissions (which regulate primarily water and sewer) serving several communities, at least 10 inter-local contracts involving municipalities serving over 500 persons, and numerous water districts within a single county.

A Legislative Study Commission in 1980, chaired by then Speaker of the House Carl Stewart, focused on the need for improved water management coordination through either a state water authority or river basin commissions. The Stewart Commission also pointed out that many communities need technical and financial assistance, but that much of the available assistance is scattered among several state agencies. Finally, the commission noted that the clean water bond acts did not encourage adequate comprehensive water use planning by local or regional authorities.

The Stewart Commission found strong opposition to the creation of a state water authority and to considering interbasin transfers as a means of solving the state's water problems. The

commission eventually dissolved, noting in its final report that time and funds were insufficient to address water management issues adequately.⁸ The commission never made recommendations for action. Four years later, the issue of statewide water resource management has yet to be met head-on.

As the availability and quality of water resources in North Carolina declines—and as the cost for new facilities increases—state and local officials must strengthen existing partnerships and work towards new arrangements. Perhaps lessons from the experiences of Georgia, Florida, and other states can help. As various legislative committees, executive branch officials, state-local ad hoc groups, and university researchers proceed, they should consider at least the two recommendations discussed below.

1. State and local officials, working together, should produce a water resources management plan. The state has a long history of cooperative planning for *water pollution control*. But no such overall effort has taken place in the area of *water supply*.⁹ The state regulates water quality and participates in federal river-basin studies. Yet state advice and aid to local governments in water supply occurs only on a case-by-case basis. No water-supply plan exists to which state and local governments are committed as a basis for making future decisions. The state completed its last comprehensive waste disposal plan in 1975. The Stewart Commission pointed out the necessity of centralizing state technical and financial assistance to smaller communities to ensure compliance with federal and state environmental regulations.

Such a plan need not be overly detailed or require large expenditures of funds for preparation. But it should cover all water suppliers and waste dischargers in the state that serve over some minimum number of persons, say 2,500, or process more than some minimum amount of water, say two million gallons per day. As many as 250 local governments and industries fall into this category. Each of these should be required periodically, perhaps every five years, to submit a standard form containing the following information:

- projections of needs for water and wastewater service over the next five to ten years;
- identification of how they intend to meet these needs;
- a description of current actions being taken to ensure that those needs are to be met; and
- a statement of financial plans for implementation, including a description of financial hardships and legal impediments to raising the necessary funds.

Wherever local cooperation is necessary, these plans should be regional in scope. Regions should be defined along either hydrological boundaries such as river basins or watersheds, or along political boundaries of contiguous demand centers.

Several related actions are needed *at the state level*. The state should:

- establish a program for reviewing, evaluating, and approving local plans in a timely manner;
- provide guidance and technical assistance to affected units;
- define appropriate planning areas and establish a process to resolve conflicts when they occur;
- develop a program to meet the needs of economically distressed cities; and
- authorize and encourage the formation of new kinds of organizational arrangements to promote regional cooperation in areas where demands are approaching the limits of supply.

2. The state should set minimum standards for water and sewer rates. Just as state intervention was necessary to encourage local governments to build adequate pollution control facilities and to regulate land uses, state action may be necessary to ensure adequate funds for the provision of the basic water and sewer service.

Municipalities in North Carolina cover through fees only 76 percent of their expenses in maintaining and expanding their present stock of water and sewer facilities. Other types of utility providers (e.g., electric, natural gas, telephone) are constantly attempting to *raise rates*, and public concern hence focuses on excessive rates. This has affected the public perspective of water and sewer rates as well, even though water and sewer providers are constantly containing rates *below their costs*. The public concern, in the long run, will have to move towards an acceptance of increased water and sewer rates. Without these increased *user fees*, these costs will eventually be met through increased property taxes.

North Carolina's Local Government Commission is a unique institution for controlling the fiscal integrity of our cities and counties. Should it also ensure that water and sewer rates are sufficient to pay for necessary services?

Even if North Carolina does not opt for a statewide authority or a regional management system, there is a need for a collectively formulated state-local water management strategy. Special emphasis should be placed on the formulation and evaluation of economically efficient water and sewer systems, related financial strategies, and the delivery of services to small

municipalities and private developments. Incentives should be created to promote regional management organizations where they are needed.

While state dominance of the planning process may doom it to failure, state leadership and incentives are essential. Without such a strategy, local governments—especially small and moderately sized municipalities—may find themselves unable to provide these basic services to accommodate economic development and achieve environmental quality objectives.□

FOOTNOTES

¹For more detail on the Chapel Hill saga, see David H. Moreau, "Urban Water Supplies in North Carolina," *Popular Government*, spring 1982, p. 8.

²In North Carolina, there are about 12,500 public water supply systems which have at least 15 connections or serve more than 25 people. Of these 12,500, about 10,000 are "non-community" systems, which serve anything other than residential areas. About 2,500 are "community" public water systems, which serve residential areas. Among these 2,500 are the 500 municipal systems noted in the text.

³Financial information for this article came from David H. Moreau, *Financing Water Supply and Wastewater Services in North Carolina in the 1980s*, Report No. 212, Water Resources Research Institute, February 1984.

⁴Federal construction grants for water treatment plants in North Carolina declined from \$66.4 million in FY 81 to \$49.8 million in FY 82, a \$16.6 million or 25 percent decline. Water and sewer construction grants ranked as the fifth largest cut in federal aid to North Carolina. Jim Bryan et al., *Federal Budget Cuts in North Carolina*, N.C. Center for Public Policy Research, April 1982, pp. 90 and 9 respectively.

⁵Chapter 908 of the 1983 Session Laws (HB 426), Part II.

⁶If all counties adopt the new tax, cities would get some \$40 million a year, estimates the N.C. League of Municipalities. The 1971 and 1977 Clean Water Bond Acts provided about \$50 million a year for water and sewer projects. In addition to the \$10 million gap, note three other important differences: 1) all counties have not yet adopted the tax; 2) only a portion of the \$40 million must be spent on water and sewer projects (40 percent the first five years and 30 percent the next five years); and 3) the sales tax revenues are not distributed according to water-and-sewer needs, as were the clean water bond revenues.

⁷Material on the programs in Georgia and Florida came from Terry D. Edgmon, *Water Resources Management in a Federal System: A Comparative Analysis*, Report No. 203, Water Resources Research Institute, September 1983.

⁸*Alternatives for Water Management*, Report of Legislative Study Commission to the North Carolina General Assembly, March 1980.

⁹John Morris, director of the Office of Water Resources, N.C. Department of Natural Resources and Community Development (NRCD), points out that there have been some important steps taken by the state to, as he puts it, "improve our ability to solve water supply problems." Morris lists the following state efforts: 1) a Water Supply Assistance Program, begun in 1980 by NRCD, to assist local governments in planning and to explore options for regional water supply cooperation; 2) studies of the Yadkin and Cape Fear river basins, initiated by NRCD; 3) a special NRCD study of the Upper Cape Fear River Basin (Guilford County and northern Randolph County), "the major urban area in North Carolina without a long-range assured water supply," says Morris; and 4) in 1983, a new water-use data collection program, "one of the foundations of good water resources planning," says Morris.



FROM THE CENTER OUT

Resources for Local Governments

—prepared by Susan Wall

National Organizations

Academy for State and Local Government. 400 N. Capitol St. N.W., Rm. 390, Washington, D.C., 20001, (202) 638-1445. Established in 1971, this organization serves as a research, training, and management forum for the joint projects of the Council of State Governments, the International City Management Association, the National Association of Counties, the National Conference of State Legislatures, the National Governors' Association, the National League of Cities, and the United States Conference of Mayors.

Advisory Commission on Intergovernmental Relations. 1111 20th St., N.W., Washington, D.C., 20036, (202) 653-5536. Created in 1951 by Congress, the ACIR is a permanent, bipartisan body which studies and makes recommendations on functional and structural issues affecting federal, state, and local government. Publishes a series of reports on selected issues and regular studies such as *Significant Features of Fiscal Federalism* and the *Catalog of Federal Grants-in-Aid*.

Conference on Alternative State and Local Policies. 2000 Florida Ave., N.W., Washington, D.C. 20009, (202) 387-6030. A national public policy center, it develops innovative policy ideas for state and local governments. It publishes *America's Cities and Counties: A Citizen's Agenda (1983-84)* and a series of reports on issues such as toxic wastes and environmental quality problems.

Council of State Governments. Iron Works Pike, P.O. Box 11910, Lexington, Kentucky, 40578, (606) 252-2291. The Council works to promote state and local coordination and interstate cooperation. Publishes *The Book of the States* biennially, *State Governments* quarterly, and *State Government News* monthly.

International City Management Association. 1120 G St., N.W., Washington, D.C., 20005, (202) 626-4600. The ICMA, established in 1914, works to strengthen urban government through professional management and to provide information and analysis of trends in municipal government. Publishes *Public Management* monthly, a series of information and data service reports, and the annual *Municipal Yearbook*.

Municipal Finance Officers Association. 180 N. Michigan Ave., Suite 800, Chicago, Ill., 60601, (312) 977-9700. Publishes reports on policies and practices of government finance.

National Association of Counties (NACo), 440 First St., N.W., Washington, D.C., 20001, (202) 393-6226. NACo serves as a voice for county government at the national level. Provides information on issues of county concern.

National Conference of State Legislatures, 1125 17th St., Denver, Colorado, 80202, (303) 292-6600. Office of State-Federal Relations, 444 N. Capitol St., Washington, D.C., 20001, (202) 737-7004. This organization seeks to improve the quality and effectiveness of state legislatures and to assure state legislatures a strong, cohesive voice in the federal system. Publishes the monthly *State Legislatures*.

National Governors' Association. Hall of the States, 444 N. Capitol St., Washington, D.C., 20001, (202) 624-5300. Reports on state and national issues affecting state governments, serves as an intergovernmental liaison and a clearinghouse of information, publishes the annual *Fiscal Survey of States* and the weekly *Governors' Bulletin*.

National League of Cities. 1301 Pennsylvania Ave., N.W., Washington, D.C., 20004, (202) 626-3000. Created in 1924, the National League of Cities researches trends and issues concerning the nation's cities and publishes *Nation's Cities Weekly*, *Priorities for American Cities*, and the annual *Directory of Local Officials*.

National Municipal League, 47 E. 68th St., New York, N.Y., 10021, (212) 535-5700. Offers research programs, information on trends, and model charters and laws for state and municipal governments. Publishes the monthly *National Civic Review*.

Southern Growth Policies Board. P.O. Box 12293, Research Triangle Park, North Carolina, 27709, (919) 549-8167. Publishes reports and "alerts" on various topics.

United States Conference of Mayors, 1620 Eye St., N.W., Washington, D.C. 20006, (202) 293-7330. Large cities' advocate which provides information to promote cooperation among federal, state, and local governments. Publishes a bi-monthly, *The Mayor*.

Urban Institute, 2100 M St., N.W., Washington, D.C., 20037, (202) 223-1950. Publishes a broad range of information reports on urban affairs.

North Carolina Organizations

Institute of Government. The University of North Carolina at Chapel Hill, Chapel Hill, N.C. 27514, (919) 966-5381. See page 6 for description. Publishes *Popular Government* quarterly and various reports and books. Two excellent background sources are *Municipal Government in North Carolina* (edited by David M. Lawrence and Warren Jake Wicker) and *County Government in North Carolina* (edited by Joseph Ferrell).

North Carolina League of Municipalities. P.O. Box 3969, Raleigh, N.C. 27602, (919) 834-1311. See interview with League's director, S. Leigh Wilson, on page 56.

North Carolina Association of County Commissioners. P.O. Box 1488, Raleigh, N.C. 27602, (919) 832-2893. See interview with the Association's director, C. Ronald Aycock, on page 22.

North Carolina City/County Management Association. P.O. Box 3969, Raleigh, N.C. 27602. Organization of city and county managers in North Carolina who meet semi-annually to discuss common problems and exchange program information. Current president: Tom Osborne, Greensboro, N.C. (919) 758-5148; staff services: David Reynolds at above address.

Other Selected Sources

America's Cities and Counties: A Citizen's Agenda 1983-1984. Prepared by the Conference on Alternative State and Local Policies. Provides short reviews of the current trends of local government from economic development to cable television.

The Book of the States. Published biennially by the Council of State Governments, it provides information on state budgets, legislation, executive and judicial issues, and state organizations and officials.

Census of Governments, U.S. Census. Published every five years by the U.S. Bureau of Census. Provides data on the numbers and characteristics of state and local governments. Includes volumes on Government Organizations, Taxable Property Values and Assessments. Labor Relations, and Local Government Finances.

Gold, Steven D., *State and Local Fiscal Relations in the Early 1980s*. The Urban Institute Press, 2100 M St., N.W., Wash., D.C. 20037, 1983. Part of the Institute's "Changing Domestic Priorities Series," this book provides useful overview information on state aid, tax issues, state mandates, and other areas.

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The Future of North Carolina, Goals and Recommendations for the Year 2000. Report of the Commission on the Future of North Carolina, Department of Administration. Lists recommendations for North Carolina in four areas—People, Economy, Natural Resources, and Community. Provides background information and highlights special needs in each area.

Profile, North Carolina Counties. Sixth Edition, 1981, Published by the N.C. Office of Budget and Management, Research and Planning Services Division. Contains major demographic, economic, and social indicators by county.

State and Local Government Fiscal Almanac, 1982. Published by the Municipal Finance Officers Association, it provides economic and demographic statistics of state and local governments.

Only selected publications from each organization have been highlighted. A complete publications list can be obtained directly from the organizations.

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