



Michael Matros

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.

³"An 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 5c/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.