



North  
Carolina

# Insight

June 1983

Vol. 11

North Carolina's Railroads:  
Up for Sale?

Special Section on Forestry

... and more



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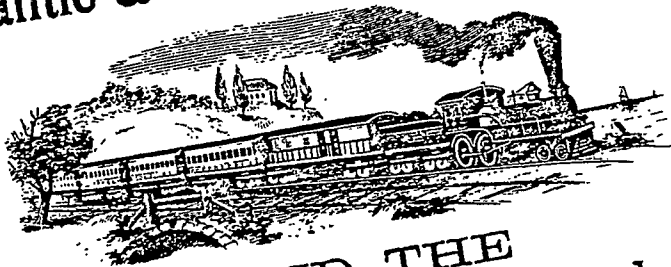
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# Atlantic & North Carolina Railroad,



## AND THE North Carolina Grand Trunk Railroad, **FROM CHARLOTTE.**

*And all Points on the North Carolina and its  
Connecting Railroads to the*

### SEABOARD AT NEW-BERNE AND MOREHEAD CITY.

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**:New Berne, N. C.**

# North Carolina's Railroads: Which Track for the Future?

by Steve Adams

"There's no way of slowing down the train that got away 100 years ago."

—Joseph Grimsley, 1979

then Secretary, N.C. Department of Administration

**T**he NCRR and the A&NC are no ordinary railroads. Despite their 135-year history their names don't lie on Monopoly boards alongside the Reading, the Pennsylvania, and the B&O. Nor do these acronyms appear on the side of modern freight cars. As little-known private corporations, the North Carolina Railroad (NCRR) and the Atlantic and North Carolina Railroad (A&NC) do not evoke the romance of railways like a "Tweetsie" Railroad does. These railroads go much farther than around a mountain. The NCRR and A&NC run all the way from Charlotte to Morehead City. More precisely, these two companies own the vital rail transportation corridor—the right of way—cutting across North Carolina's industrial Piedmont and on to the Atlantic Ocean.

Who controls these extraordinary properties? Built in the middle of the 19th century at a cost of \$5.8 million—\$4.35 million of it with state funds<sup>1</sup>—these two railroads have increased in value about 12-fold, to about \$70 million. Because of the legislature's investment in these railroads in the 1840s and 1850s, the citizens of North Carolina own three-fourths of the companies' stock. That's the good news. In 1895, the NCRR leased its rights-of-way to Southern Railway for 99 years at a *fixed rate of return*.<sup>2</sup> While that may have been a standard contract provision in 1895, times have changed. As a result of this lease, the NCRR—and in turn the state of North Carolina—is today making 2.3 percent per year, at best, on the current value of its assets (see sidebar on page 12). The much smaller A&NC, worth about 1/30th of the NCRR, operates under a 1954 lease to a Southern subsidiary.<sup>3</sup> Under this more modern-

day contract, the A&NC in a typical year makes a modest seven percent return for its stockholders. That's the bad news.

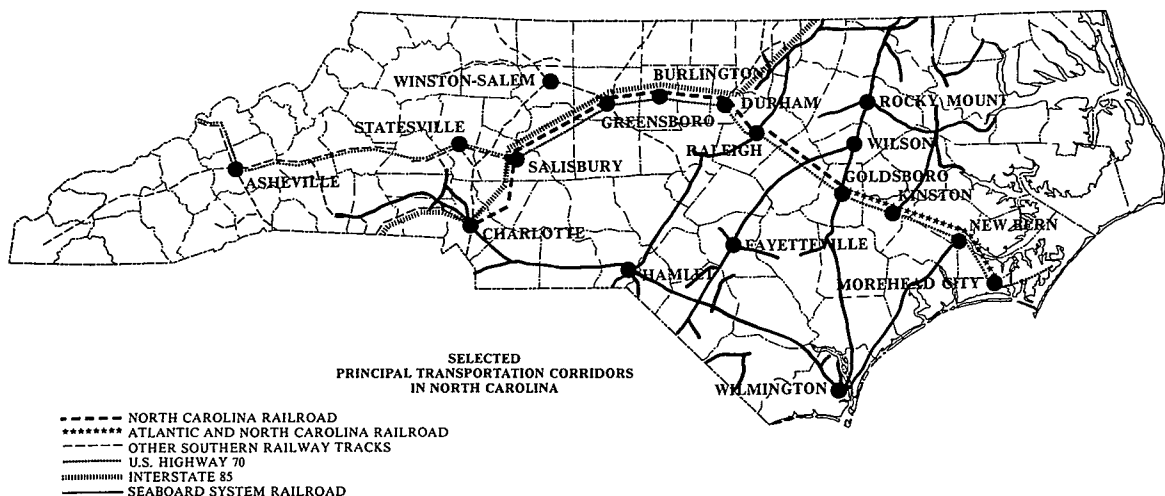
The NCRR and the A&NC are private corporations, but the state is the chief engineer. Holding 75 percent of the NCRR stock and 73.5 percent of the A&NC stock, the state of North Carolina functions as a majority stockholder in this family-like, private corporation. But few North Carolinians even know this critical fact: *For 135 years, the citizens of the state have owned three-fourths of these two railroads.*

The NCRR and the A&NC steam through a governmental roundhouse of divergent tracks. The tracks lead to the governor's office, the Department of Transportation, the State Property Office within the Department of Administration, the state treasurer, the Council of State (the ten-member group of elected executive branch officials), and finally back to the General Assembly, where the railroad got its first puff of steam in 1849. (See sidebar on page 5 for details on the responsibilities of each.)

Some of these officials didn't even know they could reach for the throttle until the case of the runaway train began in earnest. If the train "got away 100 years ago," as Joe Grimsley put it in a 1979 memo to the head of the State Property Office, a series of executive branch officials and legislators have been trying to flag it down. When they do, these two railroads may take a different track, one that brings the citizens of North Carolina a 1983-style dividend on an investment made by their ancestors 135 years ago.

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Steve Adams is a Raleigh free-lance writer.



Source: "North Carolina Rail Plan Update 1981," N.C. Department of Transportation, 1982, p. 2-3, and "1981-82 North Carolina Transportation Map & Guide to Points of Interest," N.C. Department of Transportation

## Flagging Down a Runaway Train

In 1979, A. L. Tucker of the State Property Office in the Department of Administration, then under Secretary Grimsley's supervision, began investigating several railway-related land transactions. In 1975, the city of Charlotte had bought a one-acre tract, paying NCRR \$200,000 for the title and Southern Railway \$514,000 for leasehold interests. Southern had held a separate lease for this particular acre of land only since 1968, when NCRR and Southern signed a new 99-year lease for a six-acre tract in Charlotte.<sup>4</sup> J. K. Sherron, head of the State Property Office in 1979 (but not in 1968 or 1975), calculated that Southern collected a profit of \$458,285 on its "investment" of \$55,715, the rent it paid NCRR for the seven years (1968-75) it held the new lease on that parcel—a return of over 800 percent.

Negotiated in 1968, the lease for that Charlotte tract may have appeared at the time the best deal possible for the state. John Alexander, Sr., president of the NCRR board of directors in 1968 (also president today), recalls that the lease brought "top-dollar." But when Charlotte bought the one-acre parcel for

\$714,000 in 1975, the quality of the lease, in retrospect, didn't appear so high, especially the fact that it ran, like the 1895 lease, for 99 years. Was the state locked into another lease—albeit one covering only five acres—for some 90 years, without being able to adjust the amount of the return?

The investigation by the State Property Office sparked a controversy that four years later has brought the NCRR and A&NC rumbling toward a critical juncture. On February 1, 1979, Grimsley scrawled on his memo pad a message to Sherron. Perhaps better than any document in the foot-tall stack of studies compiled on these two railroads, this one-page memo suggests the heart of the problem:

Alexander is mad at Tucker's inquiry. Tucker & you need to work with [Transportation Secretary Tom] Bradshaw & John [Alexander] *since NCRR is in DOT* [emphasis added]. Also, John says [State Treasurer Harlan] Boyles & a[n NCRR] board member say their impression is that it's a witch hunt.



Michael Marros

Also, they say Tucker is saying he's an AA [administrative assistant?] to Gov. Hunt. Also, John says it is *not* state property by law. Let's go carefully and quietly on it.

The bureaucratic roundhouse becomes evident in this single memo, which mentions no fewer than five different agencies protecting some portion of the tracks:

- the Department of Administration (Tucker, Sherron, and Grimsley);
- the Department of Transportation (Bradshaw);
- the State Treasurer (Boyles);
- the Governor (Hunt);
- the NCRR itself (Alexander).

The memo also suggests that these officials

were boarding separate trains, rather than working together to evaluate how well the state was running the railroad.

Despite Grimsley's admonishment to go quietly, a broader investigation gained momentum, due in large part to another important NCRR and A&NC brakeman, the Council of State. A seldom-noticed 1925 statute requires the Council of State to report to the General Assembly biennially on the state's interest in the two railroads.<sup>5</sup> The legislature, however, provides no staff or funds for preparing such reports. From 1925 until 1979, the Council of State made no formal reports on the state's interest in the railroads. But that was before the case of the runaway train.

In April 1979, the Council of State asked

## Who Runs The Railroad?

Explaining who manages the two state-controlled railroads is no easy matter. An impressive cast of characters is involved, with a variety of interests at heart. To place the players in their current roles requires a glimpse backward at North Carolina's railroad history.

In 1849, the General Assembly appropriated \$2 million to the NCRR. Three years later, private investors chipped in another \$1 million and construction began. In 1854, when funds were running short, NCRR President John Motley Morehead appealed to the General Assembly for more funds, citing the railroad as the "Tree of Life to North Carolina." Morehead, who had been governor from 1841 to 1845, got another \$1 million in state monies, and the citizens of North Carolina found themselves — as they remain today — *stockowners of three-fourths of the Charlotte-to-Goldsboro corridor*. On January 21, 1856, the first steam engine made its maiden run between the two cities.

In 1871, the NCRR leased its tracks to the Richmond and Danville Railroad Company, which Southern Railway subsequently took over. And in 1895, the NCRR signed a 99-year lease with Southern. Under the terms of that lease, still valid today, the NCRR receives a fixed amount of rent each

year, \$286,000.

In 1852, the legislature extended the state's rail involvement by incorporating the A&NC, which laid tracks from Goldsboro to Morehead City. Completed in 1858, the route cost a total of \$1.8 million. *The state owns 73.5 percent of the A&NC stock*. From 1858 to 1938, the A&NC functioned both independently and under lease to various other railroads. In 1939, the A&NC entered a 25-year lease with the Atlantic and East Carolina Railway, now a Southern subsidiary. In 1954, A&NC extended that lease to coincide with the termination of the NCRR lease in 1994. Under the lease's escalator clause, rent varies according to Southern's revenues from the A&NC line (see financial sidebar on page 12 for the escalator formula).

Today the state holds majority control of two private railroad corporations, most of whose assets are under lease to a third, out-of-state corporation. If it sounds confusing, it is. Adding to the jumble is the composition of the two boards of directors. Each of these private companies has a 12-member board — eight gubernatorial appointees and four members elected by the minority stockholders.

Technically, the boards of directors run the railroads, but in reality the state's three-fourths interest means state control: If the governor's appointees didn't do what they're told, they could be replaced by some who did. But whether the state really does control things is another matter, given the number of state agencies helping to run the railroad. With the legislature examining the railroads, the action in this little drama is heating up. To help follow the plotline, here is a *dramatis personae* of the principal actors.

*Continued, p. 6*

the NCRR and A&NC boards of directors for an inventory of their property and other financial information. The Council also requested the state auditor's office to review annually financial statements of the railroads and the Departments of Administration and Transportation to recommend how the companies should be managed.<sup>6</sup> The Council's requests did prompt more investigations into these railroads—such as financial reviews by the state auditor<sup>7</sup>—but the Council never received a detailed accounting to all their requests.

Eight months later, the Attorney General, himself a member of the Council of State, concluded in an official opinion that sale of NCRR and A&NC property required approval by the Council of State.<sup>8</sup> The Attorney General

also found that the NCRR had overstepped the bounds of its charter, which limits its activities to railroad-related matters, by engaging in general real estate business through the Hoke Real Estate Co., an NCRR subsidiary established in 1938. In 1979, the NCRR board voted to liquidate the Hoke subsidiary. Even after the NCRR did close Hoke in 1980, many of the questions about its activities remained.

As these *executive branch* officials began to question the state's interest in the railroads, so did the *legislative branch* become involved. In 1979, Rep. Tom Ellis (D-Vance) introduced a bill calling for a study of the NCRR and A&NC.<sup>9</sup> The legislature defeated the study proposal, in part, Ellis recalls, because of the fragmented bureaucracy. "The boards of directors felt that

## Executive Branch

**Governor:** The governor appoints eight members to the boards of directors of both the NCRR and the A&NC; has final approval over sale or lease arrangements along with the Council of State (N.C.G.S. 124-5); appoints the secretaries of the departments of Transportation and Administration (see below); and may require reports from the railroad presidents on the condition of their companies (G.S. 124-3).

**Department of Administration (DOA):** The State Property Office within DOA gathers data on railroad property matters for the Council of State. A 1979 Council of State resolution required DOA — with the assistance of DOT — to study the NCRR and A&NC and make recommendations concerning their operation and management.

**Department of Transportation (DOT):** The two state railroads appear on dotted lines in the DOT organizational chart, but DOT has no direct responsibility for either the NCRR or the A&NC. The Division of Transportation Planning coordinates research on the state rail program, primarily regarding freight. The Division of Public Transportation, through its planning for intercity passenger movement, has pursued possible expansion of passenger service on NCRR rails. Both divisions are under the DOT assistant secretary for planning, who advises other government officials, including legislators, on rail matters.

**Department of State Treasurer:** Responsible

for all state investments, the state treasurer hence reviews the financial return on the state's stock in the railroads. By tradition, the governor directs the treasurer how to vote the proxy for the state's shares in the NCRR.

**Department of State Auditor:** In 1979, the Council of State required the state auditor's office to review annually the railroads' financial statements and submit a report on the findings.

**Council of State:** The governor and the ten-member Council of State have "charge of all the State's interest in all railroads..." (N.C.G.S. 124-1); must approve sale or lease of any property owned by a company in which the state owns stock (N.C.G.S. 124-5); and have the power "to investigate the affairs" of any railroad in which the state owns stock (N.C.G.S. 124-7). They must also report biennially to the General Assembly on the condition of the two state-controlled railroads (N.C.G.S. 124-4).

**Secretary of State:** By tradition, the governor directs the Secretary of state how to vote the proxy of the state's shares in the A&NC.

## Legislative Branch

**N.C. General Assembly:** The legislature passed the North Carolina Railroad Act of 1849, which helped launch the NCRR. The state cannot sell its interest in the NCRR and A&NC *without approval of the General Assembly* (Chap. 1046 of 1951 Session Laws and Chap. 1372 of 1981 Session Laws), but regarding leases, the legislature *can only recommend* actions to the railroads' boards of directors.

**Legislative Research Commission (LRC)**



they had not been consulted...and that, being independent corporations, they should be the ones doing it [the study]," Ellis says.

In 1981, Rep. John J. Hunt (D-Cleveland) spotted the NCRB in an appropriations subcommittee on transportation and together with Ellis introduced a bill to establish a railroad study committee under the Legislative Research Commission (LRC).<sup>10</sup> That bill passed, and throughout 1982 the LRC's Committee on the State's Interests in Railroad Properties, co-chaired by Sen. Robert Jordan III (D-Montgomery) and Rep. Hunt evaluated options for future state involvement in these railroads. The committee has made two interim reports to the legislature.<sup>11</sup> Scheduled to end June 30, 1983, the study committee will probably be extended

by the 1983 General Assembly.

The legislative study committee has taken charge. It commissioned two financial evaluations of the railroads—one by Isabel H. Benham, president of Printon, Kane Research Inc. of New York and another by Bradshaw, Realtors of Raleigh. These two studies and the committee hearings have sharpened four options available to the General Assembly:

- 1) do nothing until the NCRB and A&NC leases expire in 1994;
- 2) buy out the minority stockholders so that these private corporations become entirely state-owned;
- 3) renegotiate the leases on terms more favorable to the state; and
- 4) sell the railroads.

*Committee on the State's Interests in Railroad Properties:* Created in 1981, this LRC committee must evaluate the state's railroad interests and make recommendations to the legislature concerning its sale or retention and management. Chaired by Rep. John J. Hunt (D-Cleveland) and Sen. Robert B. Jordan III (D-Montgomery), the committee also includes among its membership a representative from each railroad. Scheduled to end June 30, 1983, the committee will probably be extended by the 1983 General Assembly.

## Regulatory Agencies

### *Interstate Commerce Commission (ICC):*

This federal agency oversees the operation of all railroads that have routes that run between states. Actions taken on the NCRB and A&NC tracks would require ICC approval because Southern Railway operates across state lines.

*N.C. Utilities Commission:* The Utilities Commission no longer sets rate levels for railroads, but it does enforce safety regulations and works with the ICC in cases involving abandonment of rail lines.

## Private Sector

*North Carolina Railroad Company and Atlantic and North Carolina Railroad Company:* The NCRB and A&NC are both private corporations in which the state of North Carolina is the principal stockholder. The boards of directors of these railroads, which are chartered by the General Assembly, have the power to promulgate rules, set rates/fees, allocate funds, hire staff, enter into contracts, buy or sell

property (with approval of the Council of State), and sue or be sued. Each board of directors has 12 members — eight appointed by the governor and four elected by the minority stockholders. All 12 serve single-year terms. In the list below, gubernatorial appointees are marked with an asterisk (\*):

### NCRB

\*John M. Alexander, Sr.,  
President  
Thomas Barringer  
\*Fred Corriher, Jr.  
\*Kenneth R. Downs  
\*Wilton R. Duke  
Woodrow W. Gunter  
\*J.M. Lackey  
\*Sarah E. Lefler  
\*Carra Lyles  
\*Jack A. Moody  
Ralph H. Scott  
(one vacancy)

### A&NC

Edward S. Dixon,  
President  
\*Thelma B. Edmondson  
\*Geraldine Femia  
\*E. B. Hale  
George R. Kornegay, Jr.  
\*Earl Laughinghouse  
\*Raymond A. Morris  
\*Lonnie Pridgen  
Vernon H. Rochelle  
\*Lina M. Sanders  
James F. Shine  
\*Josephine S. Taylor

*Hoke Real Estate Company:* Created as an NCRB subsidiary in 1938, Hoke arranged land transactions for the railroad. In 1980, the NCRB Board of Directors liquidated Hoke. The N.C. Attorney General instructed the directors to take this action, after ruling the NCRB did not have the authority under its state charter to engage in general real estate activities.

*Norfolk Southern Corporation:* In 1982, Norfolk Southern became one of the nation's largest railroads through a merger between Norfolk and Western Railway Company and Southern Railway Company. Southern Railway leases the NCRB tracks. Southern's subsidiary, the Atlantic and East Carolina Railway, leases the A&NC tracks.



A recent meeting of the legislature's railroad study committee. From left: NCRR General Counsel Thomas Barringer, Rep. Joe Mavretic (D-Edgecombe), and NCRR President John M. Alexander Sr.

Options number one and two appear extremely unlikely to occur, for financial and political reasons. The General Assembly and the executive branch officials have determined that the state has investments worth over \$50 million in two railroads that return the state at most some \$1.4 million a year (see sidebar on page 12 for more financial details). In a tight fiscal environment, state officials are looking at any and all revenue sources to keep the state budget balanced. The General Assembly will no doubt want a better return on its investment in the railroads. And analysts advise waiting until the end of such a long-term lease to renegotiate. The same fiscal realities, conversely, suggest the legislature will probably not find the \$20 million or so necessary to buy out the minority stockholders. That leaves the legislature with two main options: negotiate a new lease more favorable to the state or sell the property outright.

In choosing which track to take, the legislature must consider *new lease vs. sell* in light of several key questions. What is the importance of the railroads to the state? What is the long-term value of the railroads as a capital asset vs. the short-term benefit of selling them during a financial pinch? How can the state use its 75 percent interest to improve transportation — both freight, the chief use now, and (potentially) passenger service? And, if the state does retain control of the railroads, can it manage them more effectively to avoid a similar predicament 99 years hence?

### Rail Transportation — What Role for the State?

**T**ransportation opportunities — their availability or the lack of them — lie on the bottom

line of the business decision facing the legislature. The NCRR and A&NC network of tracks and rights-of-way forms the underpinning for much of the commerce of the state — from the state's port facility in Morehead City to the Philip Morris plant near Concord, for tobacco farmers down east and for the thousands of businessmen and women who might travel within the Raleigh-to-Charlotte corridor if passenger service develops. In deciding the future of the state's railroads, the legislature must consider both freight and passenger service, and the relative importance of each on the NCRR and on the A&NC.

**Freight.** The NCRR properties from Greensboro to Charlotte are the backbone of the Southern Railway system in North Carolina (see map on page 4). This stretch of track will undoubtedly remain the state's major freight artery whether the General Assembly decides to sell or continue leasing the NCRR tracks. This rail segment forms part of Southern's main route from Washington to Atlanta, to Birmingham, to New Orleans, and to Jacksonville, Florida. Made of welded track, with computerized switching, the rails accommodate speeds of up to 79 m.p.h. and carry about 35 million tons of freight a year. On NCRR tracks between Salisbury and Spencer — the NCRR's heaviest junction area, like Greensboro for interstate highway traffic — *every day* Southern Railway ships the equivalent of what 2,100, 80,000-pound tractor-trailer rigs could carry. To equal this freight volume, one such rig would have to travel each direction on nearby Interstate 85 every three minutes, 24 hours a day. Building materials, paper, coal, lumber, foods, and grains are the main commodities traveling on this route. Important manufacturers on this stretch include Philip Morris, Cannon Mills, and Louisville Cement.

Southern recently showed how much faith it has in the NCRR tracks. From 1976 to 1979, Southern spent \$48 million on a new switchyard, the Spencer Yard in Davie County. This yard connects three of Southern's major divisions, serving as a hub for tracks to Washington, New Orleans, and Knoxville. Without its lease with NCRR, Southern couldn't get to its \$48 million Spencer Yard.

The remainder of the NCRR, from Greensboro to Goldsboro via Raleigh, consists of 130 miles of bolted track without a computerized switching system. The maximum speed is 59 m.p.h. In 1980, Southern hauled almost 3.5 times as much freight between Charlotte and Greensboro on NCRR tracks as it did on the NCRR between Greensboro and Raleigh. And freight traffic drops off even more on the Raleigh-to-Goldsboro leg.

Given investments like the Spencer Yard and the volume of freight carried every year on the NCRR, freight service in the industrial Piedmont appears secure. Moreover, freight service on the NCRR tracks makes a good profit for Southern. Hence, no matter what decision the legislature reaches regarding the future of the NCRR, Southern has a strong incentive to continue shipping freight on these NCRR tracks. *Ensuring adequate freight service is, therefore, not a major consideration in the lease vs. sell decision regarding the NCRR.* Such is not the case with the A&NC.

In 1982, the A&NC tracks carried just 1.4 percent of the freight volume that went over the NCRR, 2 million tons compared to 141 million tons (see tonnage table on page 10). The A&NC freight produced only \$3 million in gross revenues.<sup>12</sup> Southern, the only railroad company using the Goldsboro-to-Morehead City tracks, carried primarily coal. Other freight included jet fuel (for Seymour Johnson Air Force Base at Goldsboro), asphalt, tobacco, industrial chemicals, phosphates, fertilizers, wood products, lumber, and farm products. Numerous small manufacturers depend on this freight service. And this stretch of track provides the state port at Morehead City its only link to major rail traffic.

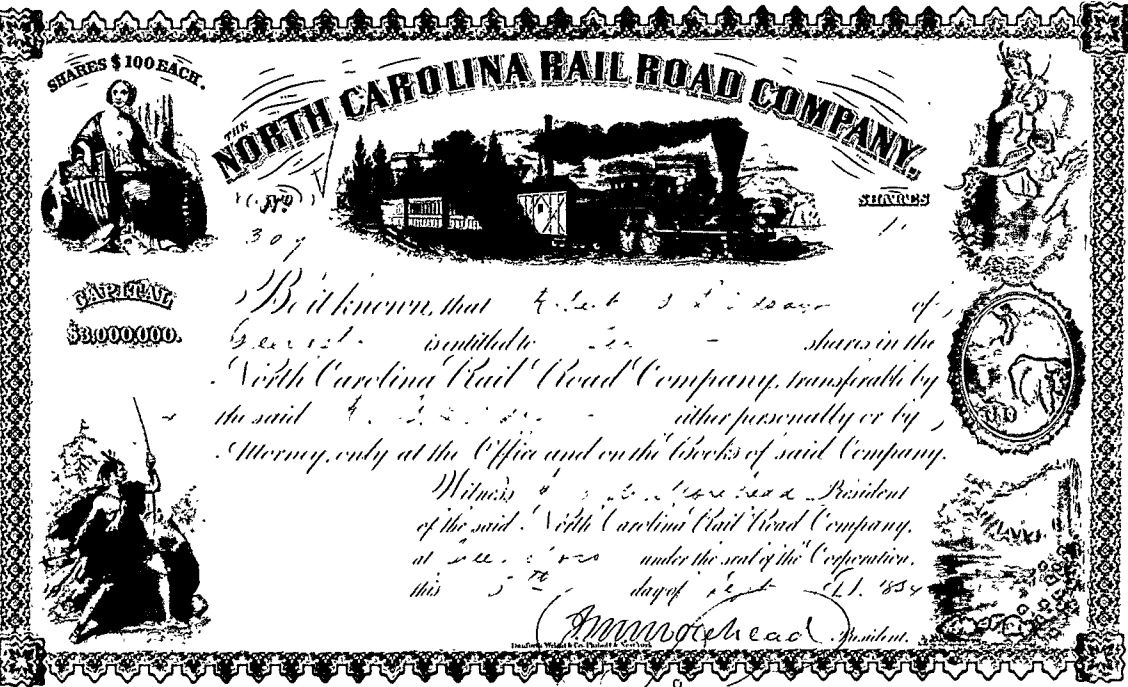
In its interim report to the 1982 legislature, the LRC study committee concluded that the A&NC *"is vital to the state's port of Morehead*

*City, being its only connection with the national railroad system* (emphasis added). Competing with such ports as Baltimore, Norfolk, Charleston, Savannah, and Jacksonville (all of which have excellent rail service), to say nothing of Wilmington, North Carolina, the success of Morehead City as a port may be said to coincide with the future of the Atlantic and North Carolina Railroad."<sup>13</sup>

Addressing the possibility that trucks could take over the railroad's share of freight to and from the coast, the study committee report continued, "It is not likely that any worthwhile tonnage, such as would move through a successful port, will be moved exclusively by motor carrier — even if highway access to Morehead City were of interstate standards." Highway 70, the existing major road access, while four lanes, does not meet interstate highway standards.

Southern Railway has no plans to discontinue service on the A&NC, says Arnold B. McKinnon, executive vice-president for marketing for Norfolk Southern Co., which became Southern's parent company after a 1982 merger between Southern Railway and Norfolk & Western. Isabel Benham, the Printon, Kane consultant, in her report to the LRC committee, said that the Interstate Commerce Commission, (ICC), which regulates railroads, would probably not permit such a move. But the railroad industry, like many others, is undergoing deregulation.

Ten shares of stock in the North Carolina Railroad Company, issued by NCRR President John Motley Morehead in 1854.



Courtesy N.C. Division of Archives and History

lation, and McKinnon says Southern plans only on a five-year basis. Beyond that, he says, "you're blueskying."

The value of the A&NC tracks to Southern may drop even more in the next few years. Since 1981, coal has been the leading freight over the A&NC, primarily because the state port at Morehead City began exporting coal that year. But exports have not increased as expected. Consequently, coal shipments over the A&NC are down. McKinnon admits that the transportation of coal does not look as lucrative as it did a few years ago. "Coal sales have had a downturn," he says, "and it won't come back soon to the early 1982 levels. The bloom is off the rose for all the ports."

Demand for coal is not the only factor affecting freight shipments on coastal rail lines. Southern and Seaboard Coast Line (now Seaboard System Railroad) have targeted some 270 miles of branch lines for abandonment, one of the most prominent stretches running 89 miles from Wilmington to New Bern. None of the nine branch lines being considered for closing is part of the NCRr or A&NC network. Hence, whether the ICC allows Southern and Seaboard to close these nine branch lines will not have a direct impact on the NCRr and A&NC leases.

In 1979, even before the drop in coal shipments, the Department of Transportation had

identified the A&NC's predicament. "The situation on the A&NC suggests the value of maintaining state control of the ROW (right-of-way)," the department's "Progress Report" concluded. "This line does not provide a great deal of revenue to Southern . . . [T]he A&NC is much more valuable to the state as the only rail link between the port and the Piedmont than to Southern, *and it would seem very unwise to divest ourselves of the guarantee of continued rail service along the line* (emphasis added)."<sup>14</sup>

Such a guarantee can be provided by skillful renegotiation of the leases. The value of the NCRr to Southern gives the state forceful leverage in negotiating with Southern. If the legislature decides to renegotiate both leases, it might, for example, require Southern (or some other company) to continue service to the coast in exchange for getting the NCRr lease. *To preserve state control over the A&NC right-of-way — and thus ensure a lifeline to the Morehead City port — is therefore a primary reason to keep control of both railroads.*

**Passengers.** If the citizens of North Carolina hope to have passenger service on the NCRr and the A&NC tracks, they better not put their hopes in Southern. Passenger service is unprofitable, says Southern Vice-President McKinnon, and more than an occasional passenger train interferes with their freight service. Southern has

**Table 1. Railroad Company Freight Volume  
By Track Segment, 1981-82**

N.C. Railroad (NCRr) and Atlantic and N.C. Railroad (A&NC) (all leased to Southern Railway)		Selected Other N.C. Routes	
	Freight Volume (in millions of tons per year)		Freight Volume (in millions of tons per year)
<b>NCRr</b>		<b>Southern Railway</b>	
Charlotte — Salisbury	35	Salisbury — Asheville	20
Salisbury — Linwood Yard	56	Asheville — Hot Springs	29
Linwood Yard — Greensboro	37	Asheville — Tryon	8
Greensboro — Raleigh	10	Raleigh — Greenville, N.C.	4
Raleigh — Goldsboro	3	Washington — Elizabeth City	2
<b>A&amp;NC</b>		<b>Seaboard System Railroad</b>	
Goldsboro — Morehead City	2	Spruce Pine — Bostic (near Forest City)	32
		Raleigh — Hamlet	24
		Raleigh — Henderson	16
		Rocky Mount — Fayetteville	30
		Wilmington — Pembroke	9

Source: Southern Railway, 1982  
Seaboard System Railroad, 1981

Prepared by N.C. Department of Transportation, Transportation Planning Division, for N.C. Insight.



Michael Marros

gotten out of passenger service and intends to stay out. The state, on the other hand, works to ensure adequate passenger transportation. In the last 60 years, the state has concentrated its resources and attention on highway travel, but trains appear to be making a comeback.

At present, only Amtrak's "Crescent" carries passengers over the NCRRT tracks. In route from Washington to Atlanta, the Crescent serves Greensboro and Charlotte; 47,000 passengers boarded and detrained in these two cities in 1980. The N. C. Department of Transportation (DOT) and Amtrak are exploring the possibility of expanding service over the NCRRT rails. On May 3, 1983, Amtrak and DOT officials rode over NCRRT rails from Raleigh to Charlotte and made a visual inspection of the switchings, rails, and depots. The trial run was a success, say Amtrak and DOT officials. Amtrak and DOT will soon begin a marketing study of potential passenger interest. If the survey suggests that enough people would make the 3½-hour (one way) trip, Amtrak and DOT would continue with plans to begin the new service. After a 30-year hiatus, passenger service between Raleigh and Charlotte would be re-instituted.

If this new service comes to pass, passengers can thank the state — not Southern. The N. C. Board of Transportation asked Amtrak to consider the new passenger service and agreed to

pay the nation's federally financed railroad system up to \$5,000 to make the inspection trip. The state would contribute half of the start-up costs for the new service and would have to underwrite about half of operating costs on the route that were not covered by ticket revenues. Amtrak pays the other half of start-up costs and operating subsidies. In 1982, Amtrak generated about half of its operating costs through ticket sales, says Diane Elliot, director of corporate communications-East for Amtrak.

While this latest passenger-related development appears heartening to rail lovers, the new service would have its drawbacks. At 3½ hours each way, the service is slightly slower than a car. Schedules *would allow* people living in Charlotte to travel to Raleigh, conduct business, and return in the same day. The Raleigh-based passenger, however, could not make such a daily commute. "Rail service is fun, enjoyable, if that's enough reason," says Pearson Stewart, assistant secretary of transportation for planning. "But not many of us can afford the time it takes." Still though, businesspersons would be able to work or socialize rather than concentrate on driving. And the load on Interstates 40 and 85 — heavily traveled by trucks and cars — would be reduced.

The verdict is still out on passenger traffic on the NCRRT tracks, and certainly the A&NC route. A recent proposal to begin passenger



service from Norfolk to Memphis through North Carolina simply could not withstand hard-nosed number crunching.<sup>15</sup> And skeptics think the new Amtrak line from Raleigh to Charlotte would have a difficult time serving commuters in the same way that the trains around New York City function. DOT's "Progress Report" notes that the

population densities along the NCRR corridor will probably not support sophisticated passenger service before 2020.<sup>16</sup> But the North Carolina Piedmont is booming, and rail transit systems are going through great technological evolution. The 150-170 m.p.h. Japanese "bullet" trains could one day shoot through the Piedmont. Stewart

# What is the Railroad Worth?

The citizens of North Carolina own 75 percent of the N.C. Railroad (NCRR) and 73.5 percent of the Atlantic and North Carolina Railroad (A&NC). Various state leaders (see sidebar on page 5) are now evaluating the leases between NCRR/A&NC and Southern Railway Company and considering either selling the state's shares in these two railroads or renegotiating the two leases. In weighing such a choice, two important financial questions must be addressed:

- 1) What is the value of the state's investment in the railroads?; and
- 2) What return does the state get on its investment?

## What is the Value of the State's Investment?

In 1981, the General Assembly established the Legislative Research Commission's Committee on the State's Interests in Railroad Properties. A primary purpose of this LRC committee was the need to determine *the value of the state's railroad properties*. The committee commissioned two appraisals — one by Printon, Kane Research, Inc., of New York City and one by Bradshaw, Realtors of Raleigh. Printon, Kane evaluated the corporate worth of the two railroad companies, measuring their value as businesses — i.e., as if a person were considering investing in them. Bradshaw, Realtors estimated the market value of the portion of the railroads that is not used for railroad-related business.

A. *Printon, Kane*. Before the LRC committee commissioned the Printon, Kane report, no independent valuation of the NCRR and A&NC existed. Hence, the estimate of worth made by Isabel Benham, president of Printon, Kane, has become a key starting point for discussions among state officials regarding the state's investments in the railroads. The Benham assessment represents only one opinion, yet it is the only thorough overview on which policy-

makers can base their decisions.

In her report, Benham includes a "Range of Values — 1982" table in which she presents findings of four assessment methods she calls: 1) physical valuations; 2) market value — pro forma; 3) earnings contribution value; and 4) going concern value. The estimated values for the NCRR and A&NC range from a high of \$137.0 million (NCRR) and \$35.2 million (A&NC) under the "physical valuations" category (cost of reproduction new) to a low of \$33.6 million (NCRR: "market-value — pro forma" category) and \$1.5 million (A&NC: under both "market value — pro forma" and "earnings contribution value").<sup>1</sup>

The valuations that Benham concludes to be the best estimates fall between the two extremes for the NCRR but close to the bottom for the A&NC. The relative amount of tonnage carried over the two lines is the best basis for assessing earnings potential, says Benham (see tonnage chart on page 10). "On this assumption, in our judgment, the state's stock investments might currently be valued at ... **\$53.7 million**" (see table below).<sup>2</sup>

	Valuation of Company (in millions)	Approx. Mean Value Per Share	No. of Railroad Shares Owned by N.C.	Approximate Value of N.C. Shares (in millions)
NCRR	\$65.0-75.0	\$1,750	30,002	\$52.5
A&NC	1.5 - 1.9	99	12,666	1.2
Total	\$66.5-76.9			\$53.7

B. *Bradshaw, Realtors*. This group filled another gap by estimating the "non-systems" properties of the railroads — real estate which is not used for railroad-related activities. Bradshaw found such properties to have a market value of \$9.6 million. Like the primary NCRR & A&NC rail properties, these non-railroad properties are leased to Southern Railway. To determine the actual sale value, the value of the leases to Southern (\$7.2 million) must be subtracted. Bradshaw, Realtors found the NCRR & A&NC non-railroad properties to have a net value in 1982 of \$2.4 million (\$9.6 minus \$7.2).<sup>3</sup> The portion of the \$2.4 million owned by the state — about

says that distances between Piedmont cities are practical for the "bullet" trains.

Note especially the phrase in the DOT report — *before 2020*. The implication is that densities *may support* rail passenger service in less than 40 years. Remember, the lease now in operation runs for 99 years. Western Europeans and the

Japanese consider modern railroad passenger service to be essential. Americans may also feel that way before too many decades pass. If the demand for passenger service increases in the next 20 to 40 years, the value of the NCRR tracks and rights-of-way might be far greater than the current appraisals — some \$70 million — which

75 percent or \$1.8 million — is not included in the Benham estimate of \$53.7 million for the overall value of the state's investment.

### What is the Return on the State's Investment?

The NCRR and the A&NC have separate leases with Southern Railway. To determine the return on the state's investment, each lease must be considered independently.

*A. The North Carolina Railroad.* The 1895 lease between Southern Railway and the NCRR set a fixed rate of return to the state for 99 years: \$266,000 for each of the first six years and \$286,000 per year through January 1, 1995. The NCRR receives other economic benefits from the lease. The lease requires Southern to pay income taxes and property taxes on behalf of the NCRR and to maintain the railroad. Just as improvements made by an apartment dweller accrue to the landlord, improvements made by Southern on NCRR property accrue to the NCRR. Printon, Kane made this calculation of the value of the lease to the NCRR for 1981:

Rental	\$286,000
Federal and state income taxes (average 5 years)	101,316
Property taxes	600,000
Average capital expenditures	500,000
Total:	\$1,487,316 <sup>4</sup>

Besides the \$1,487,316 shown above, in 1981 the NCRR received \$143,347 in rents from non-railroad real estate (the leases evaluated by Bradshaw, Realtors) and from income earned from cash investments. In 1981, then, NCRR gross income, as calculated by Benham, totaled \$1,643,347. Benham says the NCRR is worth \$65.0 - 75.0 million (see table above) or \$70.0 million (the average of these two numbers). Based on the current estimated worth of the NCRR stock — \$70.0 million — the NCRR stockholders received in 1981 a market return on their investment of **2.3 percent** ( $\$1,643,347 \div \$70.0 \text{ million}$ ).

*B. The Atlantic and North Carolina Railroad.* The lease between the A&NC and Southern dates to 1939. Initially for 25 years, the lease period was extended in 1954 to

terminate with the NCRR lease in 1994. Like the NCRR lease, the A&NC lease provides a fixed rental income to the A&NC. This lease also contains an escalator clause, which ties an additional rent for A&NC to Southern's operating revenues from the A&NC line. The fixed annual payment is \$60,500; additional rents accrue according to this formula:

Annual Southern Revenues from A&NC Tracks	Percent Paid in Rent to A&NC
\$475,000 to \$500,000	1½
\$500,000 to \$550,000	2
\$550,000 to \$600,000	3
Over \$600,000	4

In 1981, boosted by unusually high coal shipments through Morehead City, this "excess" rental payment amounted to \$248,000. The fixed-rate rental of \$60,500 plus additional income from warehouse rentals and interests brought the A&NC's gross income for 1981 to \$381,000. But unlike the NCRR, the A&NC pays its own taxes. After taxes and other expenses, its net income for 1981 was \$180,000, an **11 percent return** on a property worth about \$1.7 million, using Benham's estimate. But 1981 was an unusually good year, especially in light of declining coal shipments since then. In 1980, a more typical year, A&NC posted a net income of \$100,000, a **6 percent return** on a \$1.7 million current worth.

### FOOTNOTES

<sup>1</sup>Valuation of North Carolina Railroad Company and Atlantic and North Carolina Railroad Company, Printon, Kane Research, Inc., New York, 1982, introductory letter, p. 3.

<sup>2</sup>Valuation of North Carolina Railroad Company..., p. 6.

<sup>3</sup>Letters from Bradshaw, Realtors to Legislative Research Commission, February 15, 1983.

<sup>4</sup>Valuation of North Carolina Railroad Company..., p. 12.

<sup>5</sup>Lease Agreement Between the Atlantic and North Carolina Railroad Company and the Atlantic & East Carolina Railway Co., dated August 30, 1939, as amended on July 1, 1943. The escalator clause appears on p. 2 of Appendix 2A of Report on the North Carolina Railroad Company and Atlantic & North Carolina Railway Company for the General Assembly of North Carolina, N.C. Department of Transportation, 1976. The Atlantic & East Carolina Railway Company is now a subsidiary of Southern Railway.



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are based entirely on freight use. By retaining ownership and hence control of the NCR, the state holds open the **option** of using these tracks for passenger service. If the state sells its NCR stock, it loses much of the leverage it now has to increase passenger service between Raleigh and Charlotte.

### Renegotiate the Leases or Sell?

In a year when the legislature is seeing more red ink than black, selling a capital asset for some \$54 million has an obvious attraction. Sale to Southern or some other buyer (Seaboard System is the most likely candidate)<sup>17</sup> would produce a windfall, which the Highway Fund could certainly use — not to mention teachers, state employees, and a long list of others. The fiscal crunch is causing the General Assembly to look at sources of funds not normally considered, especially a state-run lottery and an increase in the state sales tax. But a single highway project could easily swallow the entire amount. More importantly, the state would lose control of a transportation corridor it has maintained for more than a century; it would be irretrievably gone. In the view of the LRC railway study committee co-chairman, Sen. Jordan, selling the railroads would be “dumb as hell.”

State Treasurer Harlan Boyles disagrees with Jordan. “Selling the state’s interest in the railroads is the only way the state could get a good return on its investment this far away from the end of the lease,” says Boyles, who has strong feelings about this state investment. “The money

should not go into the General Fund under any circumstances but rather into a capital reserve fund for re-investment in some income-producing property that would be owned by the state, something like the state ports.” Boyles, who as state treasurer has official responsibility for ensuring that the state gets the best return from its investments, believes that the state cannot get a measurable advantage by saying to Southern, “We want to renegotiate.”

But more state officials seem to agree with Sen. Jordan than with Treasurer Boyles. In 1979, the N.C. Department of Transportation described the state-controlled properties this way: “*Simply the state is sitting on a gold mine in terms of opportunities.* Even considering certain toll road facilities in the North and Northeast, *we know of no other state in the union that owns (controls) a corridor as significant as the one held by these two companies.* The very thought that the state has ROW [right-of-way] connecting the coast with the industrial core of the state, while at the same time connecting the central portion of the most prominent cities of the Piedmont to each other, is awesome to say the least. To replace this corridor in today’s dollars would cost millions. The long-range opportunities could be endless, and only time will tell the true value of this property (emphasis added).”<sup>18</sup>

The value of the properties — to the state and to Southern — appears clear.

### For freight service:

- The NCR route from Greensboro to Charlotte is the backbone of the Southern system in

North Carolina and is critically important to commerce in the state.

- The NCR route from Greensboro to Goldsboro is important to Southern but is not its key investment. These NCR tracks, however, serve as a vital rail link between the eastern Piedmont and the coast.
- The A&NC is only marginally profitable to Southern but critically important to the state. It is the only rail link to the port at Morehead City.

**For passenger service:**

- Southern has no interest in using the NCR or A&NC routes for passenger service.
- The state has a long-term commitment to providing adequate transportation facilities for its citizens and is now exploring possible extension of existing passenger service on the NCR tracks.

Southern Railway has a strong interest in keeping control of the NCR tracks. In 1980, traffic over the NCR route grossed almost \$90 million in revenues for Southern. But Southern has not done as well on the A&NC, and prospects look even worse as coal shipments, the major product going from Goldsboro to Morehead City, rebound slowly. "We see a solid long-range future for exporting coal out of the eastern United States. But it'll be a slow steady climb," says Norfolk Southern Vice-President McKinnon. "Whether Morehead City will share in that as soon as the other ports is a real question."

LRC Study Committee Co-Chairmen Jordan and Hunt say that Southern has not attempted to influence legislative deliberations regarding the future of the leases. But neither has Southern made public its stance on new leases. Southern may be holding its cards close to its chest, but the state has an ace in the hole — control over the highly profitable Greensboro-to-Charlotte route. The NCR — and hence the state — are in effect subsidizing Southern's freight operation through a lease with terms

fixed in 1895. The income on the A&NC lease, with an escalator clause tying rental rates to Southern profits from that line, is more respectable.

Once NCR and Southern sit down to negotiate — for a renewed lease or for a sale — anything could happen. A properly drawn lease could bring in an equitable return on the state's investment, especially if an escalator clause tied to annual profits is included. A lease period shorter than 99 years and an automatic review clause every eight years or so would build in flexibility. The state could apply the increased lease revenue to current transportation needs. Perhaps more importantly, the state would retain control of the railroad corridor into the next century.

In 1980, the Governor's Blue Ribbon Study Commission on Transportation Needs and Financing recommended that state officials "consider renegotiation of the current leases held by the state-owned railroads in order to assure that current and future property value is reflected and that the state has flexibility to develop innovative concepts within the railroad corridor."<sup>19</sup>

Selling the railroad is only a partial solution to a 1983 budget problem. The proceeds from the sale may not even balance the state's budget for a single year. Budget problems may remain, and the railroads would be gone forever. The inequities in the 1895 lease can be renegotiated. All parties appear ready to negotiate a new lease. Even Southern sees the handwriting on the wall.

At the April 21, 1983, meeting of the LRC study committee, DOT Assistant Secretary Stewart expressed concern over "moving too fast with a solution," as he put it in a DOT handout for the committee. "Appraisal of the property has been a very appropriate first step," he said, "but much more evaluation/consideration must follow." More legislative deliberations might well produce a better negotiating strategy. But the sensible option for the General Assembly



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seems self-evident. *First, make the citizens aware that they own three-fourths of these two railroads. Next, don't sell the railroads. Finally, renegotiate the leases.*

If the state doesn't sell its 75 percent interest in these two private corporations, who will climb into the engineer's seat? Recent assessments by the LRC committee, the Department of Transportation, the State Property Office, the Attorney General's office, and the Council of State have helped to sort out the bureaucratic roundhouse through which the NCRR and the A&NC must travel. But the question remains: Who will run the railroad in the future?

This may, in the end, be the most difficult question to answer. In a 1976 report on the NCRR and A&NC, DOT called for prompt consideration of a new long-term lease but also suggested that the state buy out the minority stockholders and create a separate state agency to run the railroad.<sup>20</sup> While buying out the minority stockholders seems unlikely given the current fiscal environment, limiting the number of state officials wearing the engineer's hat seems a necessary goal. Centralizing authority in a single agency is certainly a beginning point for tighter control of this state property. The Department of Transportation seems the most logical choice for responsibility over the railroads, but sorting out such control issues requires patience and care. Currently, no statutory authority for such a centralized responsibility exists. The General Assembly should consider passing a new statute under Article 8 of Chapter 143B of the General Statutes (the Executive Reorganization Act) that would authorize the Department of Transportation to oversee the two state-controlled railroads. Such a statute would address the transportation-related issues, not the process of selling a piece of property.

The cast of characters involved in the case of the runaway train has grown large indeed. The legislature will, it appears, continue its involvement at least into 1984. And no less than 12 state departments are involved with administering some aspect of the state's railroads. The lengthy legislative investigations have even caused NCRR President Alexander to grumble: "I'm not going to initiate any kind of lease with Southern until the legislature is through meddling."

Alexander says the time to negotiate a new lease is now. Sen. Jordan seems firm in his position on renegotiating new leases. If the General Assembly can make what appears to be a logical choice — to renegotiate leases rather than to sell — the train "that got away 100 years ago" might get back on track. □

## FOOTNOTES

<sup>1</sup>Report on the North Carolina Railroad Company and Atlantic & North Carolina Railroad Company for the General Assembly of North Carolina, N.C. Department of Transportation, December 22, 1976, pp. 2-8.

<sup>2</sup>*Ibid.*, Appendix 7, p. 2. Most leases between Southern Railway and the NCRR and A&NC are reprinted in this study. The 1895 lease, the NCRR Charter, and other material appear in *The Tree of Life: A History of the North Carolina Railroad*, The North Carolina Railroad Company, Raleigh, N.C., 1972.

<sup>3</sup>*Ibid.*, Appendix 6C.

<sup>4</sup>*Ibid.*, Appendix 7A.

<sup>5</sup>N.C.G.S. 124-4 (2).

<sup>6</sup>Minutes of Council of State meeting, April 3, 1979.

<sup>7</sup>See, for example: "The Atlantic and North Carolina Railroad Company, Kinston, N.C. — Report on Audit for the Year Ended December 31, 1980," Department of State Auditor, March 27, 1981; and "Audited Consolidated Financial Statements and Other Financial Information — North Carolina Railroad Company and Subsidiary, May 31, 1980," Ernst and Whinney, June 17, 1980, Raleigh, N.C.

<sup>8</sup>In their opinion of August 29, 1979, Attorney General Rufus Edmisten and Assistant Attorney General Roy A. Giles, Jr., cited N.C.G.S. 124-5, which reads "No corporation or company in which the State has or owns any stock or any interest shall sell, lease, mortgage, or otherwise encumber its franchise, right-of-way, or other property, except by and with the approval and consent of the Governor and Council of State." The written opinion of Edmisten and Giles raises an interesting point in the law: "This statute, if given its full literal effect, would apply to a disposition of real property by any corporation in which the State owns a single share of stock. Such a construction might give rise to a question of constitutionality ..." See U. S. Constitution, Fifth Amendment: "... nor shall private property be taken for public use, without just compensation."

<sup>9</sup>House Bill 1243, 1979 Session.

<sup>10</sup>Ratified Resolution 61 of 1981 Session Laws, Section 1 (9), originally House Bill 1069.

<sup>11</sup>Report to the 1981 General Assembly of North Carolina 1982 Session" (May 20, 1982) and "Report to the 1983 General Assembly of North Carolina" (January 6, 1983), Legislative Research Commission/Railroad Operations.

<sup>12</sup>"The North Carolina Railroad and the Atlantic and North Carolina Railroad: Essential Elements in Transportation for North Carolina," N.C. Department of Transportation, January 1982, p. 1.

<sup>13</sup>"Report to the 1981 General Assembly ...," p. A-5.

<sup>14</sup>"Progress Report on Development of Policy Regarding State-Owned Railroad Properties," Systems Planning, N.C. Department of Transportation, January 9, 1979, p. 3.

<sup>15</sup>In 1980, the Greenville (N.C.) Chamber of Commerce proposed beginning such rail service to N.C. Secretary of Transportation William Roberson and to Amtrak. The Division of Transportation Planning within DOT found that such service was not feasible. See "East-West Rail Passenger Service in North Carolina, A Preliminary Analysis," May 1980.

<sup>16</sup>"Progress Report on Development of Policy ...," p. 2.

<sup>17</sup>Analysts agree that Seaboard is the most likely potential buyer, other than Southern. Seaboard has lines that cross or tie into Southern lines at Goldsboro, Selma, and Raleigh.

<sup>18</sup>"Progress Report on Development of Policy ...," p. 2.

<sup>19</sup>"Report of Governor's Blue Ribbon Commission On Transportation Needs and Financing," December 16, 1980, p. 12.

<sup>20</sup>Report on the North Carolina Railroad ...," pp. 14-16.



# Memorable Memo



## State of North Carolina

Superintendent of Public Instruction

A. CRAIG PHILLIPS  
SUPERINTENDENT

Raleigh 27611

August 2, 1982

To: Rilla Moran Woods

From: Jerome Melton

I have read the manual and other materials pertaining to the new preventive maintenance program. My first inclination is to turn the car in because I don't believe my secretary, the mechanic, and I are going to be able to follow all instructions on schedule. My second inclination is to request staff development for the three of us so that we would understand and might develop a plan for doing all these things. A second thought on that suggests that the UNC School of Business has probably not had time to develop a curriculum for this new, creative approach to auto maintenance.

After long and careful consideration, including several re-reads of the materials, I have decided that I would use the usual bureaucratic approach--that is, ignore it and it will go away. I will put the materials in the car, and I will try to remember to send it for service every 6,000 miles. You should make sure the mechanic understands because the errand runners who take it to the Motor Pool will not know what in the hell you are talking about.

The car is #3466. It is parked in space #19 in Lot 12. Jane Nourse, my secretary, has the keys. If you feel that my approach to this new system is unsatisfactory, feel free to pick up the car.

jn

The quality of our memorable memos depends on our readers. If you find a memo or two that might qualify — written in or outside of state government — send them to us. Anonymity guaranteed.



Jim Strickland, courtesy The News and Observer (Raleigh)

## *The Runoff Primary* **A Path To Victory**

*Is majority rule  
the best way to pick a party's nominee?  
Ask Thad Eure, Kerr Scott,  
Jim Holshouser, John Ingram, Tim Valentine ...*

by Mark Lanier

**T**had Eure, the N.C. Secretary of State for almost 50 years, rightfully lays claim to the title of "the oldest rat in the barn." But his first trip through the door was laden with traps. In the 1936 Democratic Party primary, Eure trailed Stacey Wade, who had captured over 40 percent of the vote. Eure called for a runoff and upset Wade in the second primary. Without that second chance, this bow-tie-wearing governmental institution may never have gotten his start. And the oldest rat in the barn may have been a now-forgotten Stacey Wade.

A 1915 election law opened the door for Eure.<sup>1</sup> The statute allowed the North Carolina voters for the first time to choose the party's nominee for state offices and required a candidate to win 50 percent of the vote. Some state officials think reforms are needed again.

They want to amend the 68-year-old law to allow a person to win a party nomination with less than 50 percent of the vote, thus eliminating the need for some second primaries. Five such proposals recently surfaced, each calling for somewhere between 40 and 45 percent of the vote to be necessary for victory in the first primary.

Under four of the five proposals, the late Stacey Wade might have stalked the legislative halls for 50 years, not Thad Eure. And a number of other famous North Carolina races would have had different outcomes under some of these proposals. In 1950, Frank Porter Graham would have been elected to the U.S. Senate, not Willis Smith. In 1972, Jim Gardner would have captured the Republican nomination for

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*Mark Lanier is a graduate student in political science at the University of North Carolina at Chapel Hill.*

governor, not Jim Holshouser. And in 1982, H. M. "Mickey" Michaux would have defeated Tim Valentine for the Democratic nomination for Congress in the 2nd district.

Rep. Kenneth B. Spaulding (D-Durham) led the call for change in the 1983 General Assembly, calling second primaries unnecessarily expensive and a deterrent to the election of women and minority candidates. Spaulding, together with Rep. Al Adams (D-Wake), a powerful five-term veteran of the House, introduced a bill (HB 171) under which a person winning the first primary with *at least 40 percent* of the vote would win the party's nomination. The proposal applied to all statewide offices, Congressional seats, and state legislative races. "My preference is to do away with the second primary altogether—to have a plurality system," says Spaulding. "But recognizing that the General Assembly would be slow to change the second primary approach, I presented legislation that I felt reasonable and realistic."

In addition to the Spaulding-Adams proposal, four other alternatives emerged.

- Alex Brock, director of the State Board of Elections, suggested a *42 percent cutoff* for victory.

- House Speaker Liston Ramsey (D-Madison) mentioned an alternative of *45 percent, plus a 15 percent lead* over one's nearest opponent.

- When Spaulding's proposal appeared headed for defeat in the House Election Laws Committee, Rep. Joseph Roberts (D-Gaston) tried to propose an amendment requiring candidates to win *40 percent* of the vote, with a *5 percent lead* over the nearest competitor.

- After the House Election Laws Committee defeated HB 171 (March 17, 1983, on an 11-6 vote), Spaulding introduced a new bill (HB 536) requiring the candidate to win with *41 percent of the vote and a 3 percent lead*. The same committee defeated it by voice vote on March 31, 1983.

Sixty-eight years have passed since the primary system used today took effect. In 1915, the South was a one-party region, and the Democratic Party primary was the "real" election. Hence, the person who won the primary was assured of the office, and a majority-vote requirement had some obvious merit. Today, only nine states—all in the South—still require a candidate to win 50 percent of the vote in a primary for a party's nomination.<sup>2</sup> But the South is no longer a one-party region, nor is North Carolina. Ferrel Guillory, editorial page editor for *The News and Observer* of Raleigh, contended in his February 11, 1983, column "that North Carolina is not clearly a two-party



Henry Garner

State Rep. Kenneth B. Spaulding (D-Durham)

state, that it is in transition . . . . The question of reducing runoffs is a question of how far North Carolina sees itself down the road to two-party politics."

Besides the two-party question, at least three other issues regarding a change in the primary structure demand attention: 1) the cost to the state of an excessive number of second primaries; 2) lack of voter turnout in second primaries; and 3) difficulty for minority candidates to win under the current system. Any proposed change in the primary system is dead for the 1983 legislative session, but the issue is sure to surface again. When it does, legislators—and the public—will want to know how various proposals would affect future elections.

Would more minority candidates be likely to win election? Will fewer second primaries be necessary, and at how much savings to the state? One way to project what might happen in future elections is to examine second primaries in recent years, using the five proposals listed above as yardsticks.

### Impact of Proposed Changes on Past Elections

To determine how the five proposals might affect different offices, the Center examined the vote totals for *all second primaries* held during selected time periods, using the official

vote returns in the Secretary of State's office. Table 1 contains the results of this analysis, including a sixth alternative, which is used in many states—winning a party nomination with a *plurality* in the first primary. The six proposals are listed in the left column in descending order according to degree of impact on past elections in North Carolina, with the alternative that would have resulted in the most changes (plurality) at the top and the one with the least impact (45 percent plus 15 percent lead) at the bottom.

Note that all second primaries would be eliminated under a plurality system, which means by definition that it has more impact than any other option. Also note that this study included all primaries for selected time periods,

and did not depend on a sampling method or on an arbitrary examination of selected primaries.

For 1950 through 1982 for all statewide offices and Congressional seats and from 1964 through 1982 for all General Assembly seats, a total of 75 second primaries was held. Table 1 also includes data from two pre-1950 statewide races of particular historic significance, the 1948 gubernatorial primary involving Kerr Scott and the 1936 primary involving Thad Eure. The study thus covered 77 second primaries. Under a plurality system, all 77 of the second primaries would have been eliminated and 32 of the races would have had a different winner. At the other extreme—the 45 percent plus 15 percent lead alternative—only seven second primaries would

**Table 1. Impact on Second Primaries of Six Alternatives to N.C. Election Law (1950-82)<sup>1</sup>**

Necessary Vote in First Primary To Win Party Nomination	General Assembly (1964-82)		U. S. House (1950-82)		U. S. Senate (1950-82)		Governor (1948-82)		Other Statewide Offices <sup>4</sup> (1950-82)		Total No. of Runoffs	
	Primaries Eliminated <sup>2</sup>	New Winner <sup>3</sup>	Primaries Eliminated	New Winner	Primaries Eliminated	New Winner	Primaries Eliminated	New Winner	Primaries Eliminated	New Winner	Primaries Eliminated	New Winner
1. Plurality	43 <sup>5</sup>	18	13 <sup>5</sup>	4	4 <sup>5</sup>	2	6 <sup>5</sup>	3	11 <sup>5</sup>	5	77 <sup>5</sup>	32
2. 40 percent of vote in 1st primary	32 <sup>6</sup>	11 <sup>6</sup>	8	3	3	2	5	2	5	2	53	20
3. 42 percent	14	3	8	3	2	1	3	1	6	2	33	10
4. 41 percent, plus 3 percent lead over nearest opponent	13	4	6	2	2	1	3	0	5	1	29	8
5. 40 percent, plus 5 percent lead	13	3	6	2	2	2	3	0	4	1	28	8
6. 45 percent, plus 15 percent lead	4	0	1	0	0	0	1	0	1	0	7	0

<sup>1</sup>The table includes results from all second primaries between 1950 and 1982 for statewide and Congressional elections, plus the 1948 gubernatorial and the 1936 Secretary of State second primaries. For General Assembly races, however, only the second primaries during 1964 to 1982 are included.

<sup>2</sup>The number of second primaries which would have been avoided by the respective alternative.

<sup>3</sup>The number of candidates who would have won nomination in the first primary under the respective alternative but were instead defeated in a second primary required under the existing law.

<sup>4</sup>Includes for 1950-82 second primaries for Lieutenant Governor, Auditor, Commissioner of Labor, Commissioner of Insurance,

Supreme Court, and Court of Appeals. Figures also include the 1936 second primary held for Secretary of State. No second primaries were held for Attorney General, Commissioner of Agriculture, or State Treasurer. This analysis did not include primaries for superior court judges.

<sup>5</sup>The number of second primaries eliminated under a plurality system is the same as the number of second primaries held during the years indicated for each office. That is, if a simple plurality meant victory, no second primary would be necessary.

<sup>6</sup>This computation takes into consideration the procedure explained in HB 171 for computing the percentage of vote necessary for nomination in multi-seat General Assembly races.

Source: N.C. Secretary of State, official election returns; N.C. *Manual*, various years.

have been eliminated, with no changes in winners.

The Spaulding-Adams 40 percent proposal, the alternative receiving the most attention and tested by a roll-call vote in committee, would have resulted in 20 different winners for the years examined—in 11 General Assembly nominations, 2 U.S. Senate races, 3 U.S. House contests, 2 gubernatorial elections, 1 Secretary of State campaign, and 1 Court of Appeals race (see Table 2). The data in these two tables provide valuable insights into the concerns raised over the current primary system.

**Excessive Cost of Second Primaries.** Rep. Spaulding defended his proposal primarily as a way “to save the taxpayers of North Carolina the high cost of unnecessary second primary elections.” Spaulding pointed out that the 1980 second primary cost the state \$500,000. Alex Brock, director of the State Board of Elections, confirms the cost of the 1980 second primary, but explains that most of the costs are at the county level, where 16,480 people must be paid to run the elections. In an average year, says Brock, 60 percent of the counties have runoffs in local elections. Therefore, even if a runoff were avoided in a statewide election, about 60 percent of the costs (\$300,000) would still be incurred. In a review of all 1982 runoffs in the state, Brock found that lowering the winning margin to 42 percent would have eliminated about 78 percent of the second runoffs. Hence in 1982 Brock suggested the 42 percent formula. “But you have to make [the change] all inclusive [and apply to local runoffs],” Brock argues, “or you’ll never get very far with [a proposal].” Spaulding only included statewide, Congressional, and legislative contests in his bills.

“Excluding local offices was a political strategy,” says Spaulding. “I wanted to avoid having undue lobbying efforts against the legislation by sheriffs, county commissioners, and other local officials who would be directly affected.”

Table 1 shows that under the 40 percent proposal, 53 second primaries would have been eliminated for the years examined (see columns on far right). Only 13, however, involved statewide races (3 U.S. Senate, 5 governor, and 5 other). The statewide elections are the most expensive to hold because every county incurs runoff expenses, whether there are any local runoffs or not. But these 13 statewide runoffs occurred in only nine separate years; moreover, in three of these nine years, other statewide runoffs were necessary. Thus even the 40 percent proposal would have eliminated only six statewide primaries for the years examined. And even in those years, some 60 percent of the

counties, according to Brock, held local runoffs. If the past is any guide, then, even the proposal before the 1983 legislature that would have eliminated the most runoffs—the 40 percent formula—would result in only modest budgetary savings to the state. If saving money is the overriding motivation for change, among the proposals considered thus far only the plurality system offers real savings. Changing a proposal to include local races could also result in some savings.

#### **Lack of Voter Turnout in Second Primaries.**

Rep. Spaulding, in lobbying for his bill, pointed to the 1978 U.S. Senate Democratic Party primary. In the first primary, Luther Hodges, Jr., with 260,868 votes, led Commissioner of Insurance John Ingram. But Hodges won only 40.1 percent of the votes cast, and Ingram called for a runoff. In the second primary, Ingram upset Hodges but captured only 244,469 votes, 16,000 less than Hodges had won in the earlier primary. This study confirms the point Spaulding is making: Voter turnout usually declines, sometimes precipitously, in the second primary.

During the period studied, 23 second primaries were held in North Carolina for gubernatorial, U.S. Senate, and U.S. House races. In 18 of these 23 runoffs, turnout was lower in the second primary, averaging 82.5 percent of the first-primary vote total. In General Assembly runoff races, the number of voters is often as low as 20 percent of the first primary turnout. In the few Republican runoffs that occurred during the study period (7 of 77), the

Congressional candidate H. M. “Mickey” Michaux, Jr., on the Second District campaign trail.



Karen Tani, courtesy The News and Observer (Raleigh)



declines were even more dramatic. In the 1968 Republican runoff for the U.S. Senate, an extreme example, the turnout plummeted 89 percent from 132,018 to 14,550.

Two of the most dramatic drops occurred in recent years, 1978 and 1980. In the Hodges-Ingram second primary, 200,000 fewer Democrats voted, preventing Hodges from repeating his total of 260,000 from the first primary. In 1980, the Democratic Party State Auditor race was the only second primary. Only 192,000 voters took time for that vote, one-third of the 579,000 who cast their ballots in the first primary. A plurality system, which abolishes the second primary, would in most cases allow the greatest percent of the voters to choose a party's nominee. All the other proposals would still rely in some cases on a second primary, when voter turnout would probably decline, if not plummet.

**Impact on Minority Candidates.** Rep. Spaulding emphasized the financial and voter-turnout aspects of his proposed change, but he also addressed how the change would affect minority candidates. After his first bill was defeated in committee, Spaulding characterized the runoff system as "a systematic disincentive for political parties to provide this state with... female and minority leadership." Black groups, including the Raleigh-Wake Citizens Association, expressed the strongest support for the bill, and Spaulding himself heads the N.C. Legislative Black Caucus. The state League of Women Voters also endorsed the Spaulding bill. Opponents of the bill seized upon the race issue, at least privately, as a means of denigrating it, some referring to the Spaulding proposal as the "Michaux" bill. In 1982, 2nd District Congressional candidate Mickey Michaux, a prominent black political figure and former state legislator from Durham, won over 40 percent of the vote in the first primary but lost in the runoff to Tim Valentine.

In addition to the Michaux-Valentine

contest, the 40 percent proposal would have altered the outcome of another campaign where race was a central issue. In 1949, Gov. Kerr Scott had appointed Frank Porter Graham, then president of the University of North Carolina, to the U.S. Senate. In his 1950 race for a full Senate term against Willis Smith, Graham won over 49 percent of the first-primary vote. In a runoff campaign marred by overt racial slurs (including campaign flyers picturing Graham dancing with a black woman), Smith defeated Graham by about two percent of the vote. And in every county in the state, voter turnout dropped.

While the 40 percent proposal would have altered the result of the Michaux-Valentine and Graham-Smith campaigns, *no 1983 legislative proposals would have affected the outcomes of any other recent campaigns where race played a prominent role.* In the 1976 Democratic race for lieutenant governor, Howard Lee, the first black mayor of Chapel Hill, narrowly led Jimmy Green in the first primary (27.7 to 27.3 percent) but lost to Green in a runoff. Lee could not have avoided the second primary under any of the 1983 proposed changes, however. Only a plurality system would have given him the victory. From 1976 through 1982, no races for the N.C. General Assembly involving blacks or women would have been altered by any of the proposals recently before the legislature.

But, argues Spaulding, "Even if the 40 percent proposal would have altered the outcome of only a few races, it would nevertheless eliminate a disincentive to running for potential minority and women candidates."

Except for the plurality system, none of the proposals appears to reduce barriers to the nomination of blacks and females in a significant way. The recent victory of Harold Washington in the Democratic Party primary in Chicago illustrates the dramatic impact of the plurality system. In the first primary, Washington edged out the incumbent Jane Byrne and Richard Daley, Jr., the son of the late longtime mayor there, and thus qualified under the plurality system to represent the Democratic Party in the general election. The vicious race-dominated campaign that followed demonstrated how difficult it would have been for Washington to have won 50 percent of the vote in a runoff primary. Under the plurality system, however, Washington was able to gain the nomination, which in the heavily Democratic city of Chicago helped tremendously in his general election victory.

Whatever change in election law procedure might take place, the political system is sure to adapt to it. If changing the current system eliminated the "disincentives" that Rep. Spaulding

Campaign workers observe primary election night in the Willis Smith headquarters, 1950.



**Table 2. Changes in Nominees for Statewide and Congressional Races (1948-82)  
Under Proposed Alternatives to Existing Law**

Office	Party	Year	Winner Under Existing Law (50%)	Winner Under 40% Proposal	Winner Under 42% Proposal	Winner Under 41%, Plus 3% Lead, Proposal	Winner Under 40%, Plus 5% Lead, Proposal	Winner Under 45%, Plus 15% Lead, Proposal
1. U.S. Senate	D	1950	W. Smith	<i>Graham</i>	<i>Graham</i>	<i>Graham</i>	<i>Graham</i>	Smith
2. U.S. Senate	D	1978	Ingram	<i>Hodges</i>	Ingram	Ingram	<i>Hodges</i>	Ingram
3. U.S. House (11th Dist.)	D	1956	Whitener	<i>Gardner</i>	<i>Gardner</i>	Whitener	Whitener	Whitener
4. U.S. House (3rd Dist.)	D	1976	Whitley	<i>Love</i>	<i>Love</i>	<i>Love</i>	<i>Love</i>	Whitley
5. U.S. House (2nd Dist.)	D	1982	Valentine	<i>Michaux</i>	<i>Michaux</i>	<i>Michaux</i>	<i>Michaux</i>	Valentine
6. Governor	D	1948	K. Scott	<i>Johnson</i>	Scott	Scott	Scott	Scott
7. Governor	R	1972	Holshouser	<i>Gardner</i>	<i>Gardner</i>	Holshouser	Holshouser	Holshouser
8. Sec. of State	D	1936	Eure	<i>Wade</i>	<i>Wade</i>	<i>Wade</i>	<i>Wade</i>	Eure
9. N.C. Court of Appeals	D	1982	Eagles	<i>Wright</i>	<i>Wright</i>	Eagles	Eagles	Eagles

believes to exist, that change could in turn trigger more complex political machinations. Pre-primary brokering, negotiations within the party structure, and other behind-the-scenes efforts to influence who runs for office might well increase. In the final analysis, then, the structure of a primary system must be considered only in the context of pragmatic politics.

### Conclusion

This study of recent second primaries and alternatives to current North Carolina election law revealed:

- Only a plurality system, among the alternatives examined, would save the state much money.

- Dropoff in voter turnout is generally significant in a second primary. A plurality system, which eliminates all runoffs, would ensure that, in most cases, the largest number of voters participate in the election of a party's candidate.

- The 40 percent proposal might help a few minority and women candidates, but probably not as much as proponents (and opponents) think. Only a plurality system could significantly improve the chances of election for minority candidates.

- No state outside the South requires a candidate to win 50 percent of the vote in a party primary in order to win the party's nomination.

The various proposals discussed in the 1983 legislature—all those alternatives included in Table 1 except plurality—would have altered the outcome of nine statewide and Congressional races since 1948 (see Table 2). In 1948, Charles Johnson captured over 40 percent in the first primary and would have been the Democratic nominee for governor—not Kerr Scott. In 1978,

Luther Hodges, Jr., not John Ingram, would have run against Jesse Helms for the U.S. Senate. The state would have sent Frank Porter Graham to Washington, as well as Mickey Michaux (unless the Republicans pulled off an upset in the general election). Jim Holshouser would never have been governor; Jim Gardner, who won well over 40 percent of the vote in the first 1972 primary, would have run against Skipper Bowles in the general election.

Despite these prominent "what-ifs," the proposed changes would have had very little effect on the vast majority of statewide, Congressional, and state legislative races. Judging from the past, only the plurality option would drastically alter the outcome of future races. □

### FOOTNOTES

<sup>1</sup>Chapter 101 of the 1915 Session Laws, Section 24, now codified as N.C.G.S. 163-111(b): "(b) Right to Demand Second Primary.—If an insufficient number of aspirants receive (sic) a majority of the votes cast . . . in a primary, a second primary . . . shall be held . . ." For a discussion of this statute, see H. Rutherford Turnbull, III, *North Carolina Primary and General Election Law and Procedure*, Institute of Government, University of North Carolina at Chapel Hill, Volume VIII, 1974, pp. 14-17. This publication is issued bi-annually.

<sup>2</sup>The nine states, with the date their law was enacted in parentheses, are: Mississippi (1902), North Carolina (1915), South Carolina (1915), Georgia (1917), Texas (1918), Florida (1929), Alabama (1931), Arkansas (1939), and Oklahoma (1948). Tennessee uses a runoff primary when candidates tie in the first primary. New York City established a runoff primary in the 1970s for citywide primaries in which no candidate receives 40 percent. For more background, see *The Book of the States*, Council of State Governments; V.O. Key, Jr., *Southern Politics*, Knopf, 1950, pp. 416-423; Larry Sabato, *The Democratic Party Primary in Virginia*, The Institute of Government, University of Virginia, 1977; Charles Merriam and Louise Overacker, *Primary Elections*, University of Chicago Press, 1928, p. 83.



# Small Woodlot Management

A New Challenge for Smokey

by Howard Muse and Bill Finger



## North Carolina: Wood Basket of the Nation

**A**n airline passenger flying across North Carolina for the first time might be surprised at the sea of forest green below. A curious passenger might even be shocked to know that almost two of every three acres of the entire state are covered by commercial forestland, about equally divided in softwood and hardwood. If lucky enough to fly on a clear day and if reflective enough to wonder about the forests below, this visitor to the state might notice still more. Take the commuter flight from Raleigh to Charlotte, for example.

About a third of the way to Charlotte, near the Moore County town of Carthage, lies a 322-acre tract of timberland — or what's left of it. In 1982, a mature pine and hardwood forest fell to loggers' chain saws, and the timber sold for

\$250,000. All the pines over 12 inches in diameter went, along with all the hardwoods. Only the spindly pines and logging residue, called slash, are left, looking from the air like a bombed-out war zone from old World War II footage. The owner does not plan to replant the stand but has leased it for oil and gas exploration.

Five minutes away (by car) stands an 83-acre forest owned by a 69-year-old retired sales executive. In 1970, acting on the advice of the N.C. Forest Service, this landowner clearcut 60 acres of poor quality pines and hardwood and replanted the area in loblolly pine, a fast-growing and commercially valuable softwood. He also selectively thinned a 30-year-old, 15-acre pine plantation for pulpwood. Finally, he burned part of this area to reduce the threat of wildfires and to improve wildlife habitat.

These two Moore County landowners are part of another staggering statistic. North Carolina has more forest owners than any other state, 245,000 in 1978, the latest year for which survey data is available (see Table 1). With an average 75-acre holding, these 245,000 individuals and corporations own 80 percent of the state's commercial timberland — almost 16 million

"Slash" remaining after harvest.



Howard Muse

*Howard Muse, a Moore County tree farmer, chairs the Moore County Forestry Association. Bill Finger is editor of N.C. Insight. Bill Holman, researcher for the Conservation Council of North Carolina, and Kevin McManus, an intern at the N.C. Center for Public Policy Research, assisted with research for this article.*

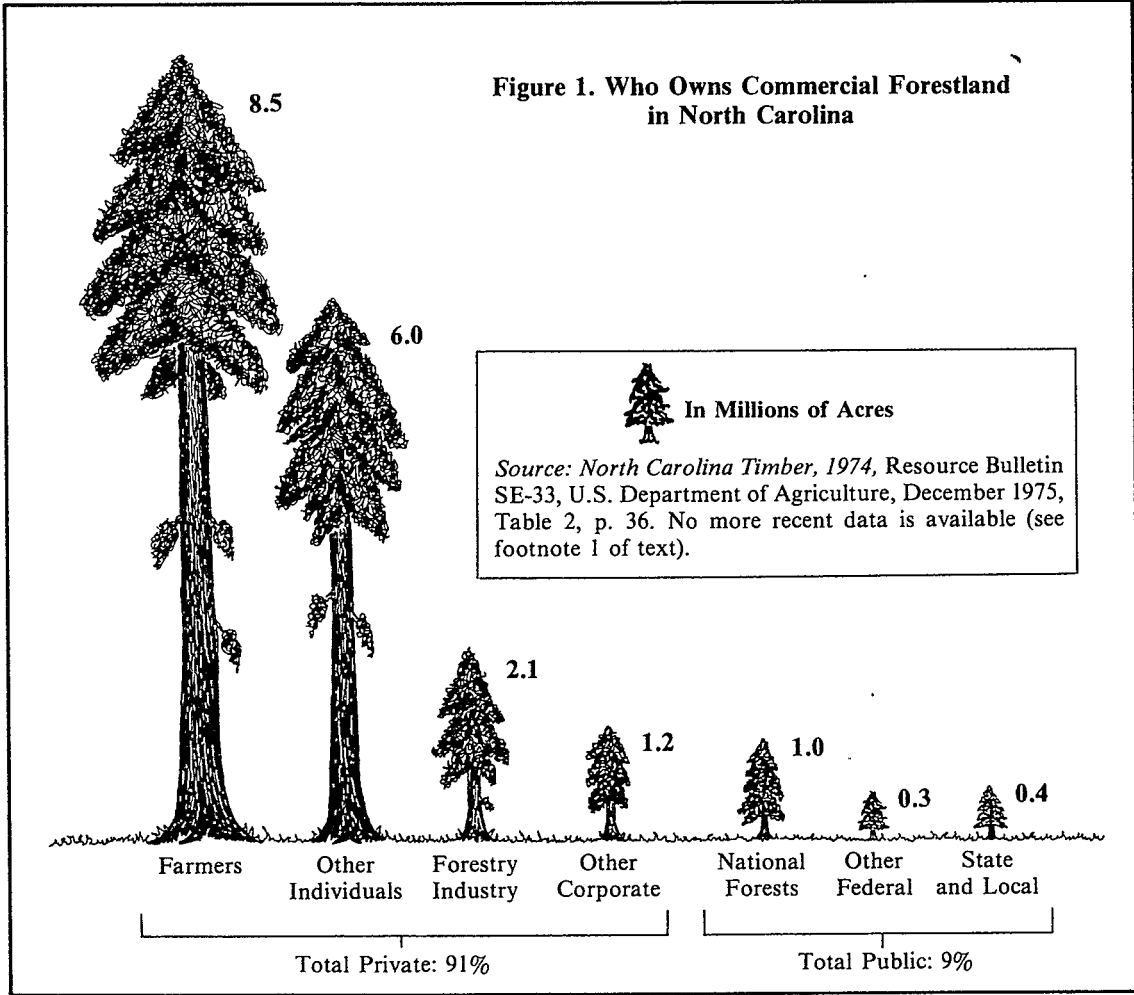
acres (see Figure 1). They include farmers and foresters, widows and estate executors, lawyers and bureaucrats. Most of these woodland owners, often in their middle or later years, have no incentive to manage their acreage. They have no timber management skills, don't care about the wood supply 30 years from now (the time necessary for a pine to mature), or lack the capital to finance replanting and other management efforts. Most timber owners rely on "benign neglect," allowing their timber to grow without any plan for the trees or the land.

"Most people look at their forestland as a bank," says an N.C. Forest Service forester. "If they want a new car or a new tractor, they just cut their trees down." The development of "agri-forestry" practices has aggravated this tendency. Clearcutting, for example, has become a popular harvest technique, where large machinery strips away all of the trees at one time. "It's just butchered," says the forester.

While clearcutting has taken on an ugly image, "it ought to be a valid silviculture [i.e., forest management] practice," says H.J. "Boe"

Green, director of the N.C. Forest Service. "But it's often not used properly." Since tractors and other heavy machinery such as "timber skidders" began replacing horse or oxen harvesting crews in the late 1940's, a veritable revolution in timber harvesting techniques has cut through the South. Today's tree-length logging outfits, costing upwards of \$250,000 and featuring large rubber-tired skidders, often mandate clearcutting because of the damage the machinery inflicts on the residual stand during harvesting. If managed properly, a forest would be selectively thinned several times during its life and then clearcut at the end, which allows natural regeneration to take place. But unless clearcutting is used as part of a management plan, it can lead to serious abuse. Even when selective timber harvesting is an option, many landowners choose clearcutting because it brings the top dollar for their timber.

From 1964 through 1974, 15 percent of the state's commercial land (2.9 million of 19.5 million acres) was harvested, the U.S. Forest Service reported. Owners replanted 19 percent of the 2.9 million acres; another 36 percent of the







Courtesy N.C. Division of Forest Resources.

Hardwood logging with oxen teams, circa 1918-20.

acreage grew back naturally. But a whopping 45 percent — about 1.3 million acres — was not regenerated in any way.<sup>1</sup> In the 23-county northern coastal plain region of the state, the center of the state's forest products industry, 800,000 acres of the 6.7 million acres of timberland were harvested. Of this cut timberland, only 260,000 acres — about one of every three acres — was subsequently replanted, 90 percent of it by the forest industry. The timberland which was not replanted generally grew back in "green junk," low-quality hardwoods (red maple, sweetgum, hickory, oak, and other deciduous trees) which do not have a good market. "Regeneration efforts failed to keep pace with the rate of harvesting," concluded Herbert A. Knight and Joe P. McClure, authors of the U.S. Forest Service's 1974 survey of North Carolina.

Why are these regeneration and harvesting

figures important? "The United States is looking more to the southeast as the wood basket of the nation," Eric Ellwood, dean of the School of Forest Resources at North Carolina State University (NCSU) told the Commission on the Future of North Carolina (also known as N.C. 2000). "The great majority of the forest industry's capital investment is being spent in the South." The South now produces about two-third's of the nation's plywood, one-half of its hardwood lumber, and one-third of its softwood lumber.

In the first part of this century, the forestry industry cut mainly southern forests. It then shifted its focus to the northwest where large Douglas firs take 60 years or more to mature. Now the industry is coming back South, where a loblolly pine can mature for market in 25-30 years. In 1978, for example, Georgia-Pacific announced its decision to move its corporate

**Table 1. Ownership of Commercial Forestland, by Acreage, North Carolina, 1978**

<u>Acres Owned</u>	<u>Number of Owners</u>	<u>Percent of Commercial Forest Acreage</u>
1-20	109,203	45%
21-100	109,185	44%
101-500	24,691	10%
501-5000	2,518	1%
over 5000	132	less than 1%
Total Owners:	245,729	100%

*Source: Recommendations to Increase the Productivity of Small Woodlots in North Carolina, The Governor's Advisory Task Force on Small Woodlot Management, 1978, inside front cover. Joe McClure, co-author of the U.S. Forest Service's North Carolina's Timber, 1974, thinks the survey methodology on which these numbers are based is not reliable. The Forest Survey's report does not break down acreage in this way. Despite McClure's doubts, these are the best numbers available and are the ones on which policy decisions within state government are based.*

headquarters from Portland to Atlanta, where it started in the late 1920s. After 25 years out west, Georgia-Pacific decided to come back home because "more and more of our business is back where we grew up," as Robert Flowerree, then the company's chief executive officer, told *Business Week*.<sup>2</sup> In 1977, 75 percent of its sales and 72 percent of its profits came from the South and East.

The South has a longer growing season than the northwest. And new technology has made the loblolly pine much more valuable than it used to be (for plywood, for example). Most importantly, perhaps, the South has far more acreage easily accessible to the industry. In North Carolina, only 5 percent of the commercial timberland is in national forests, compared to 55 percent in the 14 western states. The U.S. Forest Service carefully regulates timber cutting in national forests, deciding the timing, extent, and method of harvest and then taking bids. In sharp contrast, *no regulations exist* on private land regarding when, where, or what kind of timber cutting is done. "If you want to expand wholeheartedly, you almost have to go South," says Portland (Ore.) forest products analyst Harold D. Mayhew.<sup>3</sup>

Even prior to the recent rebirth of the South as the wood basket of the country, the wood products industry commanded a major position in the North Carolina economy. In 1977, the wood-based industries in North Carolina (lumber, paper and allied products, and furniture) added some \$2 billion to the economy, fifth highest among the 50 states and higher than any other southern state.<sup>4</sup> One of every 20 North Carolina civilians works in a lumber, paper, or furniture job (see Table 2 for employment figures

and rankings in the various wood-products industries). In addition, the 20 million acres of commercial forests in the state make up the state's premier natural resource, essential for soil conservation, watershed quality, wildlife protection, scenery, and recreation.

"A very positive forestry atmosphere is what entices industry to come to North Carolina," says state Sen. Robert Jordan III (D-Montgomery), who has a B.S. degree from NCSU in forestry and jointly owns and manages Jordan Lumber and Supply Company. "Industry is terribly impressed with our schools of forestry [at NCSU and Duke]. We can't compete with Louisiana soil types, but we're close to the markets in the northeast," says Jordan, who has been a leading forestry advocate in the General Assembly.

Forestry experts anticipate demand for wood products in this country to double in 50 years. Meanwhile, North Carolinians are cutting down more timber than they are replanting, and the timber already growing is not even approaching its potential. "The forestland is only about half as productive as it could be," says Boe Green, director of the Division of Forest Resources — also called the N.C. Forest Service — within the N.C. Department of Natural Resources and Community Development (NRCD).<sup>5</sup> "We have good markets for all the quality trees that are available, but we need to improve the market for low-quality timber. And we need to turn some of the low-quality acreage into high-quality timber."

Green is talking about the fundamentals of economics: the law of supply and demand. The state could produce much more quality timber through better management — regeneration, selective harvesting, and better research into growth patterns — and still not create excess demand in existing markets, especially the furniture industry. But the state has an excess supply of low-quality "green junk." These low-grade hardwoods result from poor management techniques. For example, "green junk" usually grows back when an area is "high graded" — i.e., when the best trees are cut and the poorest ones are left — and not replanted. This "green junk" needs new markets, especially in the paper and energy fields. The foreign woodchip market could also use some of this low-profit "green junk."

Before the state's foresters began focusing on the vagaries of supply and demand, they concentrated on the biggest threat to the tree supply itself — fire. Begun in 1891 as a component of the N.C. Geological Survey, the state's forestry program initially emphasized fire fighting and gradually evolved into an agency

**Table 2. Number of Employees in Wood-Products Industries—North Carolina, with Southeastern and National Rank, 1981**

Industry	No. of N.C. Employees	Rank in Southeast	Rank in U.S.
Lumber and Wood	35,000	1	5
Furniture	84,300	1	1
Paper	21,400	2	12

Sources: North Carolina figures: *North Carolina Labor Force Estimates*, Employment Security Commission of North Carolina, October 1982, p. 246; Southeastern rankings: *Supplement to Employment and Earnings, States and Areas, Data for 1977-1981*, U.S. Department of Labor, BLS Bulletin 1370-16, September 1982; national rankings: *Supplement to Employment and Earnings, Revised Established Data*, U.S. Department of Labor, June 1982.



## Be careful with fire.

that works to control forest hazards of all sorts (pests, erosion, etc.) and to manage forests as an economic resource. In the last 30 years, the state has developed a reputation for excellence for fighting fires. North Carolina, especially the eastern counties, presents an enormous fire hazard. The "galberry" brush, peculiar to the swamps of the eastern counties, burns with the intensity of gasoline. Even so, the average number of acres lost *each year* to fires in North Carolina plummeted from an average 226,251 during the 1950s to 94,348 in the 1960s, and declined again to 46,663 in the 1970s. Since 1980, however, the annual acreage lost has been about 87,000, due primarily to dry conditions. Three counties — Mecklenburg, New Hanover, and Union — choose not to participate in the state's fire control program. Hence, they avoid a fee assessment from the state but also must fight their own forest fires.

As the state forestry division has matured in fire fighting and fire prevention, it has turned

more attention to forest management. But seeing the forest as well as the trees demands real vision. The federal, state, and local governments own 9 percent of the North Carolina forests and the forestry industry another 11 percent (see Figure 1).<sup>6</sup> How can the state help nearly a quarter of a million different forest owners improve management on the other 80 percent of the forests? Can the state find as effective a voice for tree planting as Smokey the Bear has been for fire prevention? Put another way, can Smokey meet a new challenge?

### Who Manages the Forests

Three major types of managers function among the 18 million acres of privately owned timberland: the forestry industry, the state, and private consulting foresters. The forestry industry, which owns some 2.1 million of the 18 million acres, has the most intense, single-minded approach. The N.C. Forest Service is the other basic resource, administering federal and state programs of assistance. State rangers and foresters, who have limited authority and time to harvest or replant trees for landowners, work closely with private consulting foresters.

Since the early 1960s, when their tree-planting efforts moved into high gear with the advent of intensive "agri-forestry," the forest products companies have planted about 1.25 million of their 2.1 million acres of North Carolina timberland. "They are doing the job they think needs to be done to maximize timber production on each acre," says E. Carlyle Franklin, director of the Small Woodlot

Table 3. Acres Owned by Forest Companies, 1982

Company	Acres Owned in North Carolina <sup>1</sup> (in 1000s)	Acres Owned in South <sup>1</sup> (in 1000s)	Acres Owned in U.S. <sup>1</sup> (in 1000s)
1. Weyerhaeuser	600	3,040	5,800
2. International Paper	350	4,500	7,400
3. Federal Paper Board	263	269	269
4. Georgia Pacific	196	3,400	4,600
5. Champion International	173	680	3,381
6. Union Camp	143	1,680	1,680
7. Continental Forest Industries	47	1,500	1,500

<sup>1</sup>Acres "owned" in some cases includes various lease arrangements, which vary from company to company. For example, International Paper's 1982 *Annual Report*, in its "Statement of Significant Accounting Policies" (pp. 28-29),

explains that timberland value includes "capitalized timber harvesting rights."

Sources: Telephone interviews with company officials, April-May 1983.

Forestry Research and Development Program at NCSU. These companies plan to rotate their pine plantations every 25 to 45 years (depending upon whether the timber is used for sawtimber, pulpwood, or some other use) with several thinnings before the plantation is clearcut and the process repeated. Aware that they need individual landowners more than landowners need them, several of the larger companies — Weyerhaeuser, International Paper, Champion International, Federal Paper Board, and Union Camp — offer forest management services. (See Table 3 for ownership figures for the major companies.)

The best known and largest such program in North Carolina is Weyerhaeuser's Tree Farm Family, which in 1981 enrolled 643 landowners owning 217,534 acres, mostly east of Interstate 95. Weyerhaeuser, which owns more North Carolina land than any other forest company, provides management advice and forestry contractor services at cost and in exchange asks only the right to bid on a Tree Farm Family member's timber when it comes up for sale. The other private landowners assistance programs are much smaller. Federal Paper Board, for example, has 19,000 acres in North Carolina enrolled in its program.

Although Weyerhaeuser owns 600,000 acres of timberland in North Carolina — about half of which are in pine plantations — it still obtains 80 percent of its wood supply from private landowners. Even when its extensive plantations reach full productivity in a decade or so, it will still depend on private landowners for about half of its wood. The same pattern applies to the other companies with large land holdings.

The main burden of aiding timber owners falls not on the forestry industry, however, but on the N.C. Forest Service. Historically a low-key agency emphasizing fire prevention and fire

fighting, the state Forest Service in the last 15 years has broadened its services extensively. Still, it generally functions in a "you-come-to-us" manner. It neither has nor seeks any regulatory power over private forest management practices; it provides advice and services only on request.

If a landowner wants to manage his woodlot, he will more than likely turn to the Forest Service for advice. A county forest ranger, usually a technical school graduate in forestry (high school graduates have three in-service years to get their associate degree), will probably talk to the timber owner first. Whenever possible, the county rangers call on one of the state's 30 service foresters to examine the specific woodlot and make a "timber exam" with management recommendations. The 30 service foresters draw up about 3,600 plans a year covering some 237,000 acres. *No records are kept, however, of the number of landowners implementing the plans.* "The systems works pretty well in general," says E. Carlyle Franklin. "One of the outstanding needs is to have more service foresters, and ultimately one in each county." Arthur W. Cooper, head of the Forestry Department at North Carolina State University agrees: "A goal would be to have the equivalent of a service forester in each county."

The N.C. Forest Service gives a landowner up to five days of management assistance a year but will not estimate timber volumes or sell timber for a private landowner. The state foresters often refer landowners — those with large holdings, those with timber to sell, or those needing more management assistance — to consulting foresters. These professional foresters estimate timber volumes (called "timber cruising") and sell timber, usually on a percentage fee basis. In 1981, the North Carolina Society of Consulting Foresters listed only 42 members, all but 8 located in the coastal plain and Piedmont.

The systems briefly outlined above rely more on short-term gain from timber sales than on long-term development of a natural resource. Failing to regenerate pine timberland after harvesting remains the biggest gap in this patchwork system. In the 1960s, the N.C. Forest Service, recognizing the problems facing the small woodlot owner, began to address issues like regeneration. During the tenure of State Forester Ralph C. Winkworth (from 1966 until his death in 1980), the state took a number of innovative steps. "Winkworth was recognized throughout the South as one of the two or three top foresters," says Ben F. Park, executive vice president of the N.C. Forestry Association, the industry's trade group. Initiatives during Winkworth's tenure included:



Courtesy Deane Phelps

**A State Reforestation Program.** In 1969, the General Assembly provided \$2 million to the N.C. Forest Service to stimulate the private sector to expand site preparation and planting techniques. The state designed, built, operated, and rented new kinds of machinery, like a drum chopper that clears away residue before replanting. "There were few contractors who knew how to do the work," explains State Forester Green, a 30-year veteran of the forest service and Winkworth's successor. Functioning as middlemen, the state agents brought timberland owners together with contractors. Green says that today, because of this program, contractors in North Carolina are willing and able to prepare a site and replant it using sound management techniques. "Although now often taken for granted, the reforestation program was probably our most progressive step in small ownership forestry," wrote Winkworth.

**Ad Valorem Tax Changes.** In 1973 the legislature made two significant property tax changes affecting timberland. First, it prohibited counties from taxing standing timber, effective with each county's next reappraisal (the land is still taxed).<sup>7</sup> Previously *both land and timber* were subject to the local property tax, causing some landowners to sell their timber prematurely. Second, the legislature allowed private owners of timberland (also agricultural and horticultural lands) to have their land taxed on the basis of "current-use" rather than on "fair-market" value.<sup>8</sup> (Except in extremely rural counties, fair-market-value assessments result in higher taxes.) This "current-use assessment" law did not apply to publicly held corporate holdings but did include family corporations.<sup>9</sup>

**N.C. Forest Development Act.**<sup>10</sup> Enacted in 1977, this act established a means for the state to help pay for regeneration efforts. In 1973, Congress had passed a Forestry Incentives Program (FIP). Administered by the Agricultural Stabilization and Conservation Service (ASCS), part of the U.S. Department of Agriculture (USDA), and in conjunction with the Division of Forest Resources, the FIP provided a model for helping landowners replant a cutover area. Through federal fiscal year 1980, 106,400 acres in North Carolina were replanted (mostly in loblolly pine) under the FIP program at a cost of \$5.5 million. Among the 50 states, only Alabama has done better (125,905 acres costing \$6.5 million). Federal funds paid 60 percent of the costs; the owner paid the rest. Similarly, under the state Forest Development Act, state funds pay a portion of the reforestation costs. Unlike FIP, however, the source of funds for the Forest Development Program is both a state appropriation (25 percent) and a tax assessment on forest



Mary Ende

products paid by timber processors (75 percent).

**The Governor's Advisory Task Force on Small Woodlot Management.** In 1978, Gov. James B. Hunt, Jr. established this ad-hoc task force to "delineate the problems and propose alternative solutions [for the small woodlot owner]... so that we might more fully realize the potential of our forest resources." The task force made recommendations in four general areas — marketing, research and technology, education among owners, and improving on-the-ground assistance to individual owners.<sup>11</sup> In response to the group's recommendations, the General Assembly:

- funded four new service foresters and six technicians;
- purchased 100 additional acres of land at the N.C. Forest Service's Claridge Nursery near Goldsboro, which boosted seedling production by 19 million a year;<sup>12</sup>
- established a Small Woodlot Forestry Research and Development Project in the School of Forest Resources at NCSU;
- excluded state and federal cost-sharing payments from the state income tax;
- allowed small woodlot owners to spread income from timber sales over a three-year period;<sup>13</sup> and
- allowed reforestation expenses to be amortized over five years.<sup>14</sup>

On the executive branch side, Hunt established a State Interagency Committee on Small Woodlots, an informal working group chaired by Forest Service Director Green, and began pushing for more energy uses for wood.

Within this array of statutory and administrative actions, four issues merit some detailed review in 1983. 1) After four full operating seasons, the state forest development program needs evaluation. 2) Federal budget cuts are severely affecting forestry efforts, including the Forestry Incentive Program (FIP). 3) Interagency efforts at the state and local level are expanding in North Carolina. 4) The N.C. Forestry Association is lobbying to expand the "current-use" taxation provision to include corporate holdings.



# State Forest Development Act

Some 60,000 to 100,000 acres are harvested each year in North Carolina and not replanted. Because small woodlot owners do not recoup a replanting investment in the short term, the legislature passed a cost-sharing program as an incentive to increase reforestation. One of only six cost-sharing programs in the country (California, Minnesota, Mississippi, South Carolina, and Virginia have the others),<sup>15</sup> the program subsidizes reforestation costs on a first-come, first-served basis until the annual fund is gone.

The Division of Forest Resources administers the program, including the fund, in the following manner. A forest management plan, usually developed by a landowner with a division forester, must first be approved by the division. The division reviews per-acre cost estimates for each type of procedure for which the owner requests funds, using cost limits approved each year by the Secretary of NRCD. Site preparation, tree planting or seeding, and natural regeneration are all eligible practices. For approved plans, the division *sets aside* up to \$200 per acre for a maximum of 100 acres per individual per year, *to be paid when the project is completed*. If the work is not started within two years or completed in three years, the set-aside funds may be placed back into the general pool

for someone else.

The original legislation included a \$500,000 annual state appropriation for the "forest development fund," to be matched on a one-to-two basis by a new tax on processed timber, paid by wood processors. Under this one-to-two ratio, the fund could rise to a maximum of \$1.5 million per year (\$500,000 state appropriation and \$1 million in tax revenues). In 1979 and 1980, demand for funds exceeded the \$1.5 million annual supply. Meanwhile, the revenues from the wood processing tax averaged about \$1.3 million per year, (\$300,000 over the \$1 million needed for the match), creating a surplus in the tax fund portion of the pool. Consequently, in 1982, the legislature changed the ratio from one-to-two to one-to-three, so that the \$500,000 annual appropriation could be matched by \$1.5 million in tax funds each year. Beginning with fiscal year 1983, a total of \$2 million could be available per year. If current levels of the timber tax and the state appropriation continue, however, the surplus in the fund will be gone by the end of fiscal '83, says Green, with only about \$1.8 million available for each future year.

The pool of funds generated by the state appropriation and the timber tax stimulates significant private investment in reforestation. Since July 1, 1978, when the program began

operation, the state has provided 60 percent of the costs of a project and the individual owner 40 percent. To stimulate more regeneration, the secretary of NRCD, under authority of the act, changed the state-to-private cost share from a 60-40 ratio to a 50-50 ratio, beginning in fiscal year 1984. By putting up only half the cost of regeneration, says Green, "the state hopes to be able to spread the resources to more people," and hence increase acreage regenerated.

In August 1980, the Fiscal Research Division of the General Assembly analyzed the first two years of operation of this program. Three researchers spent some 120 hours reviewing every project, comparing estimated with actual costs and the number of acres actually regenerated with the amount of acreage approved for funds. The legislative analysts found that for fiscal years 1979 and 1980 the Forest Service set aside \$2.74 million in payments to landowners but paid out only \$1.62 million — 59 percent of approved funds. Generally a multi-step project (i.e., to chop brush, burn the residue, and then replant) should take only one year — or two with special difficulties (bad weather, no available contractors, etc.). *But under the current law, landowners have up to three years to complete the work.* Under this three-year provision, the 59 percent figure is not surprising. The current approval and set-aside procedure thus ties up funds unnecessarily. The analysts, who compiled the data for each of the 13 forest districts in the state, concluded: *"Those districts with a low completion rate ... are reducing program effectiveness by tying up funds that could be released and recommitted."*

The forest service now has a county-by-county computer printout of all the projects approved for cost sharing, according to amount committed and balance due the project. The number of acres regenerated does not appear on the printout. Nor does the total acreage owned by each applicant. The division does have aggregate data for acreage *approved for regeneration* for each county. But to determine the *actual number of acres regenerated* or the acreage held by individual landowners, a researcher would have to review every application in the central division files and then talk to foresters (or county rangers) in many counties for updates and for confirmation.

The limitations of the publicly available data prompted a special provision in the 1983 appropriation bill regarding the Forest Development Act. On April 12, 1983, the budget subcommittee responsible for reviewing future funding levels of forestry programs recommended that the Joint Appropriations Base Budget Committee require the Secretary of

NRCD to report to the legislature "the number of acres reforested, type of owner assisted, *geographic distribution of funds*, the amount of funds encumbered, and other matters. The report *shall include the information by forestry district* and statewide and shall be for the two fiscal years ended prior to the date of the report (emphasis added)."<sup>16</sup>

Despite limitations in the data currently available, analysis by the Center of the computer printouts does provide some revealing statistics. Individual owners are participating in the program far more than corporations. In 1978-1983, the division approved 1100 applicants for the cost-sharing funds, 88 percent of whom were individual owners. "The more aggressive and sophisticated landowners use the program," says Division Director Green. "They have the money for the other half [of the cost] and the assurance that it's a valid investment." Corporations do not utilize the state subsidy, Green thinks, because of the 100-acre limit per year, per applicant. Hence, the program does appear to be reaching the individual small woodlot owner and not the forest industry. "Small," however, can refer to sophisticated timber owners/managers of hundreds or even thousands of acres, woodlot owners resourceful enough to seek assistance for 100 acres every year.

From July 1978 (when the program began) through January 1983, the state has committed \$5.9 million to subsidize regeneration efforts,

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#### Cutting pulpwood



Howard Muse



which has prompted another \$4.0 million in private commitments for regeneration (see Table 4). While the state-administered subsidy has stimulated the economy during a recessionary period and spurred regeneration efforts — both notable achievements — the benefits have accrued selectively. Out of the \$5.9 million, \$2 of every \$5 have gone to only 10 counties. Counties in the coastal plain and Piedmont, the center of the state's forest products industry, received the lion's share of the cost-sharing funds. Bladen, Franklin, and Edgecombe counties topped the list. This disproportionate benefit to certain areas of the state stems from two factors.

First, the General Assembly designed the program to "provide financial assistance to eligible landowners to increase the productivity of the privately-owned forests of the State through application of forest renewal practices."<sup>17</sup> The forestry division has implemented this mandate primarily through regeneration of pine

forests, which are concentrated in particular Piedmont and coastal counties. Western counties, which produce primarily hardwoods, receive very little assistance from this program. Hardwood forests generally depend more on natural regeneration than on the replanting techniques used for pine forests.

The second cause for the concentration of funds in a few counties is the method of approval for the funds — a first-come, first-served system. Counties with the most aggressive rangers and landowners benefit from the program more than those with less experienced rangers and owners. No overall plan exists for targeting funds. State Forester Green defends the distribution method like this: "The plan was designed to accomplish regeneration, not to serve as a welfare payment nor be equally distributed throughout the state. A first-come basis assures production. And this program is designed to promote the growth of timber, not to help landowners." Without such a

**Table 4. Where Does the N. C. Forest Development Program Provide Assistance? Top Ten Counties, By Amount of Cost-Sharing Funds Received (July 1978 - January 1983)**

County	Funds Committed for Project (60% of total project cost) <sup>1</sup>	Total Cost of Project (60% state funds plus 40% private funds) <sup>2</sup>	No. of Acres Approved for Regeneration <sup>3</sup>
1. Bladen	\$296,533	\$494,221	5,534
2. Franklin	\$245,976	\$409,960	4,921
3. Edgecombe	\$244,650	\$407,750	4,927
4. Moore	\$233,462	\$389,103	5,142
5. Pender	\$221,576	\$369,293	3,745
6. Chatham	\$218,195	\$363,658	3,483
7. Halifax	\$217,165	\$361,941	4,562
8. Nash	\$202,758	\$337,930	3,391
9. Pamlico	\$197,444	\$329,073	2,682
10. Jones	\$192,935	\$321,558	2,186
Total For Top Ten Counties	\$2,270,694	\$3,784,490	40,573
Total For All 100 Counties	\$5,931,116	\$9,885,191	116,324

<sup>1</sup>These funds come from two sources, a state appropriation (\$500,000 a year for fiscal years 1979-1983) and a tax on timber processors, collected by the N.C. Department of Revenue and passed on to the Division of Forest Resources to distribute as part of the pool of money indicated in this column. For further information on the levy schedule and collection figures on the timber processing tax, contact Perry Draper, forestry tax administrator, N.C. Department of Revenue (733-3166).

<sup>2</sup>Beginning in fiscal year 1984 (July 1, 1983), the ratio changes to 50 percent state and 50 percent private.

<sup>3</sup>Number of acres for which the N.C. Division of Forest Resources approved cost-sharing funds. Land owners have three years to use the funds and must begin to use them after two years. In some cases, the number of acres actually improved through this program are not the same as the number approved for improvement, but no data source currently provides the number of acres actually improved. According to Division Director H. J. "Boe" Green, the total approved and actually improved are substantially the same.

Source: Division of Forest Resources, N.C. Dept. of Natural Resources and Community Development.

Table prepared for N.C. Insight by Kevin McManus.

**Table 5. Top Softwood-Producing Counties in North Carolina  
How Much Assistance Did They Get from  
N.C. Forest Development Program?**

Top Ten Counties in Production of Sawtimber, Veneer/Plywood (1979) <sup>1</sup>		Amount of Forest Development Program (FDP) Funds Received (1978-83) <sup>2</sup>	Rank Among 100 Counties in FDP Funds
Rank in Production	(1000 bd. feet)		
1. Craven	(59,968)	\$103,511	20
2. Sampson	(44,675)	85,718	25
3. Columbus	(40,382)	83,366	26
4. Montgomery	(38,484)	92,121	22
5. Beaufort	(36,343)	80,749	28
6. Bertie	(34,508)	87,341	24
7. Gates	(32,870)	61,854	35
8. Chatham	(32,757)	218,195	6
9. Bladen	(32,040)	296,533	1
10. Wake	(30,913)	24,782	48

Top Ten Counties in Production of Pulpwood (1979) <sup>1</sup>		Amount of Forest Development Program (FDP) Funds Received (1978-83) <sup>2</sup>	Rank Among 100 Counties in FDP Funds
Rank in Production	(standard cords)		
1. Craven	(131,648)	\$103,511	20
2. Brunswick	(77,284)	167,910	13
3. Halifax	(62,148)	217,165	7
4. Beaufort	(58,505)	92,121	22
5. Anson	(57,919)	147,783	17
6. Sampson	(54,026)	85,718	25
7. Wake	(53,082)	24,782	48
8. Bladen	(52,072)	296,533	1
9. Onslow	(48,012)	58,675	38
10. Columbus	(47,107)	83,366	26

<sup>1</sup>Source is "County Figures for Forest Products Drain—1979," N.C. Forest Service, N.C. Department of Natural Resources and Community Development. Figures are for 1979, the latest year available. These harvest figures are based on reporting forms completed, in most cases, by sawmill companies. The sawmills report their best estimates of the county in which the timber was harvested. In using these harvest figures as a basis for comparison with forest development program funds, three factors might skew the harvest data somewhat—the location of: 1) a national forest in a county; 2) major forest company lands in a county; and 3) major sawmills in a county. Croatan National Forest and major Weyerhaeuser and International Paper holdings, for example, are located in Craven County. Hence, timber harvested in Croatan and on Weyerhaeuser and Inter-

national Paper lands are included in the Craven County total. But National Forest lands are not eligible for state forest development program funds and forest companies tend not to use this program. Similarly, two major sawmills are located in Montgomery County and might tend to report the source of the timber as Montgomery rather than the county in which the timber was actually harvested. Despite these data collection problems, this county-by-county harvest summary is the best available source for comparison with the counties receiving the forest development program funds.

<sup>2</sup>Source, N.C. Forest Service, computer printout labeled, "Grant Information on Financial Transactions System," 4300 Natural Resources and Community Development, Grants by State Program for the Period Ended 1/31/83, pp. 73-116.

*Table prepared for N.C. Insight by Bill Finger and Pam Hunt of the N.C. Center for Public Policy Research.*

system, Green says, he would have a hard time with requests for favors. "I get calls from influential people asking, 'Can I get moved ahead on the list?' I can answer 'No.' Everyone has an equally fair chance under a straight first-come system."

*But this first-come, first-served system is not sending the most funds where the most timber harvesting is taking place (see Table 5).* The forest development program works almost exclusively with softwood-producing projects, yet the leading softwood-producing counties are not receiving the most cost-sharing funds. Craven County, which harvested more softwood than any other North Carolina county in 1979 (the latest year for which statistics are available), ranked only 20th in the amount of cost-sharing funds received. Sampson County ranked second (sawtimber, veneer/plywood) and sixth (pulpwood) among softwood producers, but a distant 25th in amount of state cost-sharing funds. Wake County, 10th (sawtimber, veneer/plywood) and 7th (pulpwood) ranking softwood producer, barely cracked the top half in benefits from the program (48th in amount of funds).

Of the ten top sawtimber and veneer/plywood producing counties, only two (Chatham and Bladen) ranked in the top ten according to amount of cost-sharing funds received. Also, of the ten top pulpwood producing counties, only two (Halifax and Bladen) ranked in the top 10 in cost-sharing funds received. This lack of correlation between the top softwood-producing counties and the counties receiving the most cost-sharing funds reflects poorly on the first-come, first-served system. If the special budget provision in the appropriation bill discussed above is approved by the legislature, the newly required data on "geographic distribution of funds" would provide an important new yardstick for assessing the correlation in future years — from an easily available data source.

Harvesting with a hydraulic loader.



Thanks in large measure to the Forestry Incentives Program and the state Forest Development Act, tree planting on private, non-industrial land in North Carolina is on the upswing. It increased from 21,000 acres a year during the 1960s to 27,000 acres a year in the 1970s. By 1979, the figure reached 40,000 acres replanted, and in 1980, 44,000. In 1981 and 1982, the division included "tree planting" figures together with "natural regeneration" and "direct seeding" acreage in a new reporting category called "forest establishment." Previously, natural regeneration had been included in the "site preparation" category. In 1981 and 1982, the "forest establishment" acreage totaled 45,000 and 46,000, respectively.<sup>18</sup> North Carolina's total replantings in the 1970s ranked fourth in the South, behind Virginia (45,000 acres a year), Mississippi (33,750 acres a year), and Alabama (28,000 acres a year).<sup>19</sup>

In 1970, Virginia amended its Seed Tree Act to *require* that pine timberland be reforested after harvesting by artificial or natural means. This act also established a state forest incentives program that has served as a model for North Carolina, Mississippi, and other states. During the 1970s, Virginia was the only southern state where non-industrial private tree planting exceeded industry tree planting: 451,523 acres versus 362,111 acres.

The Virginia legislation has received attention in at least two recent reports. The Council of State Governments, which published a major analysis of forestry policies, includes the Virginia reforestation laws in its 1982 report on suggested state legislation. Also in 1982, Duke University and the Southern Growth Policies Board (SGPB) released a report calling the Virginia legislation "a model reforestation program appropriate for the ownership pattern characteristic of Southern states."<sup>20</sup> (See page 48 for excerpts from the SGPB report.) While known as a "mandatory" program, the Virginia system depends more on incentives than on mandatory reforestation by regulation, say both the Duke/SGPB report and State Forester Green.

Green, the Duke/SGPB authors, and other leading forestry spokespersons do not advocate mandatory reforestation, where the state would require a private landowner to reinvest in the cutover land through replanting efforts. "Mandatory reforestation should not be enacted as state law without industry support," write Patricia Dusenbury, Jack P. Royer, and Fran Hunt, authors of the Duke/SGPB report. "I think it's better to leave it up to the owner on what he does on his land," adds Dr. Mike Levi, head of Extension Forest Resources at NCSU.



# **Federal Budget Cuts**

In the federal fiscal year (FY) 1982, the first budget year of the Reagan era, funding reductions began curtailing the level of governmental forest services in North Carolina. From FY 81 to FY 82, for example, federal funds for the Rural Fire Protection and Control program in North Carolina dropped by 34 percent, from \$504,967 to \$333,500. The major federal cost-sharing programs (funds spent in the state but not through the state budget) — the Forest Incentives Program (FIP) and the Rural Community Fire Protection program, both administered through the USDA — remained stable through FY 82. But in FY 83, the FIP funding level dropped by almost a third (\$910,000 to \$613,000) and in FY 84, the FIP program and the Rural Community Fire Protection effort are proposed to be eliminated entirely.

In North Carolina, according to the Division of Forest Resources and the Office of Policy and Planning within the state Department of Administration, major federal forestry programs may be eliminated in FY 84. The changes proposed by the Reagan Administration for North Carolina, from FY 83 to FY 84, could total a \$925,520 loss to the division and another \$686,000 loss to individuals and rural fire departments in the state.<sup>21</sup> The breakdown of the proposed cutbacks for FY 84 looks like this:

- Rural Forestry Assistance, from \$391,700

to 0;

- Rural Fire Protection and Control, from \$343,200 to 0;
- Rural Community Fire Protection (directly to rural fire departments), from \$70,200 to 0.
- Forest Pest Management, from \$87,200 to 0;
- Urban Forestry Assistance, from \$22,700 to 0;
- Management Planning and Improvement, from \$14,000 to \$8,000;
- Forestry Incentive Program technical assistance (through the state budget), from \$91,000 to 0;
- Forestry Incentive Program cost sharing (directly to individual owners), from \$613,000 to 0; and
- Watershed Project from \$23,400 to 0.

Because Congressional budget deliberations are a slow series of compromises, these cuts may or may not take place. Forestry programs got a solid boost from the U.S. House Agriculture Committee, which reviews the President's proposed FY 84 budget for forestry programs. In its report to the House Budget Committee, it recommended "levels for all programs under State and Private Forestry be increased to FY 1983 levels."<sup>22</sup> This recom-

mendation covers forest pest management, fire protection, and forest management and utilization. The committee made similar recommendations for FIP and most of the other forestry programs. The appropriation bill containing these forestry programs will reach the full House Appropriations Committee sometime in the summer of 1983. The level of funding will then hinge on actions to be taken on both the House and the Senate floors and on the desk of the President.

Up to this point, the Division of Forest Resources has avoided severe layoffs by transferring money from machinery categories to personnel. If the President's proposals are enacted, the division may lay off some 25-30 staffers, says Green. Meanwhile, the division's machinery is growing old. "Our forest fire control equipment is valued at \$10 million, and good business practices dictate the replacement of about 8 percent of that equipment each year," explained Department of Natural Resources and Community Development (NRCD) Sec. Joseph Grimsley to the legislature's Joint Appropriations Subcommittee on Natural and Economic Resources on March 10, 1983. "But transfers of funds from equipment to operational needs over the last five years have reduced this equipment replacement to less than 4 percent, and this fiscal year, because of the 6 percent reduction in budget resources [ordered by Gov. Hunt], nothing has been expended for equipment

replacement.... Federal cuts planned by the Reagan budget may make it necessary during the next fiscal year to stop using helicopters in forest fire control, to discontinue use of large water-tank aircraft used in protecting the state's 19.6 million acres of woodland."

Losses in the state's capacity to fight fires loom as the most dramatic blows from the budget cuts. In 1982, fires destroyed almost 80,000 acres of forest, brush, and marshland in the state, some \$24 million in timber. Protecting forest resources is only part of the task, however. Longer-term planning requires equal attention. "We're going to have to work real hard to keep [the Forest Development Act] in place," says Ben Park, director of the N.C. Forestry Association. "A continuing problem is to see that the state forest service is adequately funded. With money tight in 1983, that's going to take some effort." Gov. Hunt is a strong forestry supporter (Hunt's father, a retired agricultural extension agent, has been a strong forestry advocate for years), as is NRCD Sec. Grimsley. But even with their support, the state's forest development program cannot make up for all the acres that would have been regenerated under FIP, nor can the division's depleted manpower and aging equipment adequately control fires without federal funds. Federal budget cuts have already caused great hardship to state forestry programs. Additional cuts would be a severe blow.



Michael Marinos



## *Making Forestry Policy: An Interagency Enterprise*

In 1978, as an outgrowth of his advisory task force, Gov. Hunt established a Governor's Interagency Committee on Small Woodlots to be chaired by then State Forester Winkworth.<sup>23</sup> "The philosophy of the group," says Green, who has headed the group since Winkworth died in 1980, "is to create and motivate local committees. That's where the work gets done." The state-level committee includes, in addition to Green, representatives from the federal Soil Conservation Service, Agricultural Stabilization and Conservation Service, Agricultural Extension Service, Extension Forest Resources, the School of Forest Resources at NCSU, N.C. Agricultural and Technical University, the N.C. Wildlife Resources Commission, the Division of Soil and Water Conservation within NRCD, and the Governor's office. Green has in turn instructed his local staff — county rangers and foresters — to bring together the local counterparts of these state and federal agencies on a regular basis. Some 90 county interagency committees are in place, according to Green.

The 1982 Duke/SGPB report included "Coordination of Efforts" as one of its five areas of recommendations and pointed in that section to North Carolina as a model for other states. "At the state level, the various agencies concerned with forestry — timber management and services to forestland owners, wildlife, recreation, and soil conservation agencies — too frequently do not work together," reports the Duke/SGPB authors. "An exception is the North Carolina Interagency Small Woodlot Commission (sic)."<sup>24</sup>

The coordination achievements in the state extend beyond just governmental agencies. Ben Park, the executive vice-president of the N.C. Forestry Association, works closely with the interagency committee and especially with the state Forest Service. Formed in 1911, the Forestry Association has some 1,600 members, about one-third companies and two-thirds

individuals, says Park. During the 1970s, the Forestry Association initiated many of the legislative proposals eventually enacted, working closely with legislators involved in the forestry business, like state Sen. Robert Jordan, and with the State Forest Service. "There was great interchange between Winkworth and forestry leaders," says Park, leading to "the gradual emergence of what might be termed a partnership between the Forest Service and forestry community."

During the 1970s, when most of the legislative initiatives took hold, the small woodlot owners in the state were conspicuously absent from the "forest community" to which Park refers. But this is beginning to change. The N.C. Forestry Association has recently appointed a small woodlot owners committee, organized landowners sessions at its annual meetings, and sponsored three regional "forestry festivals." This organization, the forestry industry's trade association, also set aside nine "landowner" slots on its board of directors — three each for 1981, 1982, and 1983. "We're beginning to make some progress," says Guy Troy, a Randolph County tree farmer and retired army officer who has spearheaded these changes. "People are beginning to be more and more aware of forestry in North Carolina."

In addition to the Forestry Association efforts, the forestry extension staff at N.C. State University has developed some 65 county forestry associations, with about 4,000 members. "Most landowners don't know the value of their timberland and don't know where to go for help," says Charles Cone of Greenville, president of the Pitt County Forestry Association. "Associations give the professional forester a chance to talk with many landowners. And landowners learn from their peers. Seeing and hearing what their neighbors have done means a whole lot more than lectures, publications, and mass media efforts."



# ***“Current-Use” Assessment for Corporate Holdings?***

In 1973, the General Assembly passed the N.C. Farmland Taxation Act, which allowed agricultural, horticultural, and forestry lands to be taxed at their “present-use” value rather than their “market” value. Under this law, land qualifying for current-use property tax assessment would generally be taxed at a lower tax rate than would land designated for a fair-market assessment. Market value is higher than current-use value in areas where farmland or timberland might be developed for urban uses. In some rural counties, however, current-use value is essentially the same as market value because of the absence of urban development. Theoretically, current-use value would never be higher than market value.

The law does not apply to land owned by publicly held corporations. In 1981, Sen. Jordan introduced Senate Bill 283 to “broaden the use value tax assessment classification for agricultural, horticultural, and forestland owned by corporations.” But the bill failed. In 1982, the forestry industry requested to be heard on the issue before the interim Property Tax Study Committee, chaired by Rep. Robert McAlister (D-Rockingham). As a result of those hearings, in 1983 Rep. McAlister introduced House Bill 262 (“Use-Value Appraisal Extended”) which would extend the current-use assessment law to

*all publicly held corporate lands (i.e., not just forestry companies) used for forestry production.* The McAlister bill does not affect agricultural or horticultural lands.

The Division of Forest Resources supports the forestry industry’s efforts to bring corporate lands under the current-use assessment law. At a legislative breakfast on January 26, 1983, State Forester Green put it this way: “Perhaps the most pressing [issue] is consideration of industry petition for the same present-use tax treatment as is applied to private woodland owners.... According to an independent study by a private consulting forester, insignificant changes would occur in tax burdens [within the counties] if this legislation were changed now. However, the longer [this proposed amendment] is delayed, the greater the shift in tax burden [to other taxpayers] will be.”

While not widely discussed in public, the bill has raised serious concerns among revenue experts, county commissioners, and close observers of the ad valorem tax system. These experts first question the methodology of the study on which Green bases his case regarding shifting tax burdens. “There is no source that could tell you all the land that would qualify for the assessment,” says Doug Holbrook, director of the N.C. Department of Revenue’s Ad



Valorem Tax Division. "I think the study has some deficiencies." Dr. D.F. Neuman, NCSU economist and co-author of an annual examination of use-value taxation, agrees with Holbrook. "I would question how fully the study enumerates all corporations that hold forestland. There is no [such] record." In addition to the methodological concerns, the degree of objectivity must be questioned. Daniel H. Gelbert, whose consulting forestry firm conducted this "independent study," as Green puts it, is a former president of the N.C. Forestry Association, the trade group spearheading the proposed change.

The N.C. Forestry Association defends the proposed amendment with the Gelbert study and by citing the situation in other states. "Of 43 states with some type of modified assessment program, North Carolina is the only state eliminating publicly held corporations in current-use tax treatment," says Gordon L. Rogers, current president of the association. William Siegel, head of the U.S. Forest Service's National Research Program in Forest Resources Law and Taxation, confirms that North Carolina is the exception (but says only 36 states have a current-use assessment statute for forestry). Siegel agrees that the N.C. law should be brought into line with those in the rest of the country. "Forestry is a long-term crop and doesn't have the annual payoff that agriculture has," says Siegel. "That's true for forests on corporate lands as well as individuals' [land]."

The potential loss in tax revenues to counties, however, troubles those opposed to the proposed change. And the methodology of the Gelbert study, as Holbrook and Neuman point out, may not fully measure the financial impact in the counties. In 1980, the Gelbert firm conducted a study of all 100 counties on the impact of including corporate agricultural, horticultural, and forestry holdings under the current-use assessment statute. In the 1982 study, however, an update of the 1980 report, the Gelbert firm used a sampling method, reviewing *only 25 counties and only forestry corporations' landholdings* (i.e., not all corporate lands). The author of the 1982 report, S. Robin Gelbert, contends that a sampling method provides an adequate means of estimating revenue losses under the proposed change in the law. "The results may be viewed as indicative of the impact of extending current-use eligibility to all classifications of publicly held corporations in North Carolina," Robin Gelbert writes in the conclusion.<sup>25</sup> Using this method of interpolation — from 25 counties to all 100 counties and from only forest corporations' landholdings to all corporate lands — Gelbert estimated that the proposed amendment would cost all 100 counties

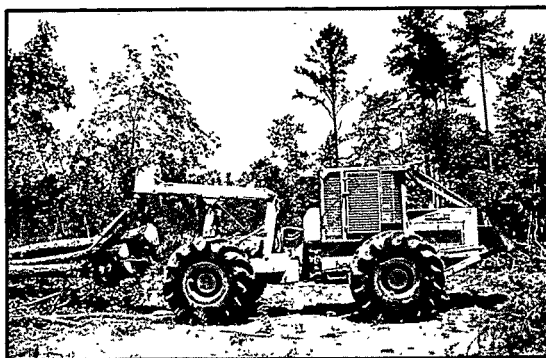
a total of some \$360,000 in deferred taxes.

County leaders, as a rule, disagree with Green and the Gelbert study regarding the tax burden. "We oppose extending the current law to publicly held corporations," says D.F. "Butch" Gunnells, staff counsel for the N.C. Association of County Commissioners. "It would shift the tax burden to all other property taxpayers not covered under the exemption." Karen Gottovi, chairperson of the New Hanover County Commissioners, expresses her objection in starker terms: "If it wouldn't change the tax base, why do they want it so much?"

Gottovi has particular cause for worry. This year, New Hanover is reappraising all of its property, a process which each county must undergo every eight years. When land values are reappraised, the county commissioners establish a schedule of taxation for market value and for current-use value. An owner of forestry, horticultural, or agricultural land must have a sound management plan — approved at the county level — to qualify for the current-use rate. But local tax assessors are not timber experts, and some, according to Holbrook, "let you get [a plan] as you go." Far more landowners apply for the current-use rate in a reappraisal year. "A major impetus [for landowners to choose current-use rates] has been the periodic revaluation which updates both use and market values for farmland in the county," write NCSU economist Neuman and his colleague, E.C. Pasour, in the most recent annual study of this tax program.<sup>26</sup>

In 10 of the 15 counties that reappraised property in 1981, Neuman and Pasour found "dramatic increases" in participation: "Gaston, Greene, Richmond, and Swain counties, which had no participation in 1980, approved 892, 25, 170, and 500 tracts, respectively, in 1981." These tracts, the NCSU economists found, caused Gaston a potential loss of \$91,172 in tax revenue, Greene \$7,529, and Richmond \$12,510 (Swain data was not available). While these figures refer

Timber skidder.



Howard Muse

to assessments covering agricultural and horticultural lands, as well as forestry lands, they do show how potential losses on forestry-related assessments jump during a reappraisal year.

Neuman, Pasour, and two other NCSU researchers made a special study of the 1976 reappraisal in Wake and Wilson counties (again, for agricultural, horticultural, and forestry lands). Wilson approved only 30 tracts for current-use assessment, with a negligible change in its tax base. But in Wake County, where 4,059 applications were approved in 1976, "deferred taxes amounted to about \$994,000, or 3.9 percent of the total tax bill of the county (\$25.7 million)," the researchers determined. "Another way of interpreting the impact of the act on the tax base is that a tax rate 3.9 percent lower than the existing 78¢/\$100 would theoretically have been in effect without the 1973 Act in Wake County in 1976."<sup>27</sup> From 1974 (when the law began to be implemented) until 1981, Neuman

and Pasour have found that counties have a potential loss of some \$20 million in "deferred" taxes because of the N.C. Farmland Taxation Act.<sup>28</sup> Neuman says that without more study, he could not determine the level of future losses caused by the proposed amendment. The most recent Gelbert study, as explained above, puts the potential loss from the proposed amendment at \$360,000 per year.

The term "deferred" tax suggests another complication to the existing law, not to mention the McAlister proposal to extend the statute. If the use of the land changes any time during a three-year period, the county can require these "lost" taxes to be repaid. In other words, the "current-use" assessment functions as a deferred tax system. Each county must keep tabs on the tracts approved for current-use and must call in back taxes if the use of the land changes in three years. "The system is already unmanageable," says Ad Valorem Division Director Holbrook.

## ***Terms of the Terrain: A Glossary of Forestry Programs and Agencies***

*Below is a list of major forestry organizations and programs. If named in the accompanying article, the chief officer of a group is included. A representative of each organization marked with an asterisk (\*) sits on the Governor's Interagency Committee on Small Woodlots.*

### **FEDERAL**

\* **Agricultural Stabilization and Conservation Service (ASCS).** The agency of the U.S. Department of Agriculture (USDA) that administers specified commodity and related land-use programs designed for voluntary production adjustment, resource protection, and price, market, and farm income stabilization. In North Carolina, ASCS has offices in every county and a state office in Raleigh. County ASCS agents oversee programs ranging from the tobacco support system to the *Forestry Incentives Program* (FIP, see below).

**Forestry Incentives Program (FIP)** Begun in 1973, this program provides partial costs to private landowners for tree planting and timber stand improvement. In North Carolina it is administered by the ASCS (see above), in

conjunction with the *Division of Forest Resources* (see below).

\* **Soil Conservation Service.** USDA agency with responsibility for national soil and water conservation programs in cooperation with private interests and other governmental agencies. County agents provide technical assistance to farmers, tree growers, and other land users.

**U.S. Forest Service.** Within USDA, the national agency with lead responsibility for protecting and improving forests. Manages the National Forest system.

### **STATE**

\* **Agricultural Extension Service.** Statewide agricultural education office funded through federal, state, and county resources. Serves as a link between research universities and individuals, primarily farmers. Provides services in agriculture, family living (home extension), youth development (4-H), and community resource development. Headquarters for this 100-county network are at N.C. State University and N.C. A&T State University. See *Extension Forest Resources* (below).

\* **Division of Forest Resources.** Agency of the Department of Natural Resources and Community Development (NRCD) also known as the *N.C. Forest Service*. Formed initially to fight forest fires, the division now works to control forest hazards of all sorts and to manage forests as an economic resource. Maintains field offices in 97

"The [change] would make it extremely difficult to administer."

The issue grows even more complex if one considers the original intent of the 1973 statute: to help farmers who hold land near developing areas so as to avoid having to pay escalating property taxes caused by commercial growth. Gunnells and Holbrook both think this rationale doesn't match how the law has worked in its ten-year history. "The effect of the statute is to apply use-value to all owners of rural land," says Holbrook. Gunnells takes the argument one step further: "Commissioners politically are forced to tax all rural lands under the current-use schedule, particularly in revaluation years."

The proposed change in the current-use assessment law might help to keep some forest lands in their current use rather than having them developed for urban uses — the most benign way to view HB 262. Green points to land between Raleigh and Durham as an area that

would benefit from the change. But the proposal appears to have numerous flaws — both of a technical and of a "tax-break-for-special-interests" variety. "This [HB 262] would create a grave inequity between property classes [agricultural, horticultural, urban, etc.]," the chairman of the Bertie County commissioners, C.H. Edwards, and the county's tax supervisor, Jack Williford, wrote to Rep. McAlister on March 18, 1983. The Bertie County letter goes on to say that the change would "undermine the intent of the original use-value statute presently being utilized." Williford also opposes the bill because of the "dictatorial manner in which the bill spells out the appraisal technique, which ties an appraiser's hand" (see page 3 of the bill, lines 1-5 regarding "site index" definition). Still Holbrook sums up the most severe impact of the proposed change: "It would reduce the [county tax] base so that the rate would have to increase to offset that reduction."

counties. Division director/state forester is H. J. "Boe" Green.

**\* Division of Soil and Water Conservation.**

Agency of NRCD which promotes natural resources conservation. It works to decrease soil erosion and other agricultural sources of water pollution, to complete a soil survey in each county, and to plan and implement watershed projects. The division works through 94 local soil and water conservation districts in the state.

**\* Extension Forest Resources.** An educational program within the Agricultural Extension Service and a department in N.C. State University's School of Forest Resources. Maintains agents in all 100 N.C. counties. Specialist in-charge is Mike Levi.

**Farmland Taxation Act.** Law passed in 1973 to allow agricultural, horticultural, and forestry lands owned by individuals or family corporations to be taxed at a "current-use assessment" rather than a market-value rate.

**Forest Development Act.** Program enacted in 1977 as a cost-sharing effort for improvement of timberland. Similar to *Forestry Incentives Program* (see above).

**Governor's Advisory Task Force on Small Woodlot Management.** Ad hoc task force established by Gov. James B. Hunt, Jr. in 1978. Made recommendations for better marketing research, technology, and owner education and assistance.

**Governor's Interagency Committee on Small Woodlots.** Committee formed in 1978 to

coordinate management of small forest holdings. Includes representatives from federal and state forestry and agricultural organizations. Serves as a model for similar interagency committees in about 90 counties. Chairman is State Forester H. J. Green.

**\* N.C. Forest Service.** See *Division of Forest Resources* above.

**\* N.C. State University School of Forest Resources.** One of two major schools of forestry in the state (the other is at Duke). Dean is Eric Ellwood. The NCSU Forestry Department, headed by Arthur W. Cooper, is in this school, as is the *Extension Forest Resources* department (see above).

**\* Wildlife Resources Commission.** Group formed to manage the state's wildlife resources and to administer the laws relating to game, fish, and other wildlife.

## OTHER

**N.C. Forestry Association.** State trade group of the forestry industry formed in 1911. Has 1600 members, about one-third companies and two-thirds individuals. Executive vice-president is Ben Park.

**Southern Growth Policies Board (SGPB).** A public agency governed and supported by the state and local governments of 12 Southern states and Puerto Rico. The board assembles information and makes recommendations relating to growth problems and opportunities in the South. Offices are in Research Triangle Park, North Carolina.



## Conclusions

Forecasts of timber shortages have appeared since the 1500s, says William F. Hyde, forest economist at Duke University, and none has come to pass. But "shortages" can refer to a continuum of supply conditions, and changes in price can indicate where current supplies fall on this continuum. "We will face shortages. We already have spot shortages," explains Rick A. Hamilton, forestry extension agent at NCSU. "It's reflected in higher stumpage prices," says Hamilton, referring to some grades of quality pine sawtimber in eastern North Carolina. Fred M. White, a former Duke forestry professor now working with the state forestry division, confirms Hamilton's observations. "Stumpage prices [the price paid for timber before harvesting] are increasing at a rate 1½ to 3 percent above inflation."

The most recent — and most widely respected — commentary on future timber needs stops short of forecasting a shortage but does predict the need for greater supplies. "Timber

supply will increase in the next half-century, but demand is projected to increase faster and there will be further price increases," the U.S. Forest Service reported to Congress in 1980.<sup>29</sup> "Softwood timber prices will climb 2 to 2½ percent per year above the general price level with the greatest increase in the South.... The South, acknowledged to be the major timber growing region of the future, is where the greatest opportunity for increasing the timber supply lies." (See Table 6 for a summary of commercial forestland in the South.)

If the South is where the greatest opportunity lies, how well is North Carolina prepared for filling the nation's wood basket — and for nurturing its 20 million acres of forests? In the last decade, the legislature or the executive branch has enacted most of the recommendations put forward by the forestry community. These new cost-sharing, tax-incentive, and interagency programs rely on voluntary, owner-initiated efforts rather than mandatory, state-

enforced regulations. Taken as a whole, these state initiatives have achieved much success in stimulating private landowners to regenerate their forests, a process that provides more timber for wood-based industries and helps protect the quality of trees, watersheds, soil, wildlife, recreation, and aesthetics.

The most significant accomplishments of the state's forestry community are:

1. **Implementing and continuing to support a cost-sharing reforestation program.** Since 1979, the state's forest development program has helped regenerate some 20,000 acres a year.

2. **Utilizing more federal cost-sharing funds (FIP) than any southern state except Alabama,** regenerating some 25,000 acres a year.

3. **Developing a model for interagency coordination** among federal, state, and local officials.

4. **Retaining a high level of sophistication for fire prevention and fighting.**

For all the federal and state efforts, however, only two of every five acres harvested for timber in North Carolina are currently regenerated. Moreover, the federal cost sharing program, FIP, is in serious funding trouble. State Forester Green recognizes the need for greater reforestation: "An additional 60,000 acres of planting or seeding is needed each year to attain our statewide reforestation goal on small woodlots."

How can the state help regenerate more acreage and support better timberland management? And how can the state forestry community better protect the state's greatest natural resource? While the North Carolina forestry community has accomplished a great deal,

significant needs remain. The data base on which private forestland owners and policymakers act remains sketchy at best. The U.S. Forest Service survey, conducted in ten-year intervals, means that decisions in 1983 are based on data gathered in 1973-74. In addition, more attention needs to be given to the state's cost-sharing Forest Development Act. One of only six such state-level efforts in the country, it will assume even greater importance if the federal FIP program is cut back. Other prominent issues include reforestation regulations and current-use assessment taxation. Specifically, the state's forestry community should consider the following recommendations:

#### A. *Improve Data Reporting*

1. **The Division of Forest Resources should record the number of landowners implementing some part of a management plan drawn up by the division's foresters.**

2. **The Small Woodlot Forestry Research and Development Program should report thorough data on private timberland ownership and use patterns every three to five years.** Graduate assistants from NCSU and possibly Duke could assist with this.

3. **The interagency committee headed by the state forester should make wood-market information, data on forest management plans, and figures on ownership trends available to the public on a regular basis.**

4. **The General Assembly should approve the proposed special provision in the 1983 appropriations bill requiring better public records on how the state Forest Development Act functions.** The data should include the number of acres actually regenerated, the acreage owned by persons receiving funds, and the amount of cost-sharing funds actually spent—on a district-by-district basis. Both the 1980 study by the legislature's Fiscal Research Division and this review, the only two independent studies of this six-year-old law, identified these shortcomings in the data reporting system now in use.

#### B. *Change State Funding Systems*

5. **The funds available through the Forest Development Act should be effectively expanded by committing monies for specific years and requiring that committed funds be used in two years.** Currently, cost-sharing funds are committed to reforestation projects for up to three years before the funds are actually spent, effectively shrinking the available pool of resources for reforestation. No requirement now exists that committed funds be spent in any of the three years.

**Table 6. Commercial Forestland In the South\***

State	1,000s of acres	State	1,000s of acres
Alabama	21,333	Mississippi	16,891
Arkansas	18,206	<b>North Carolina</b>	<b>19,562</b>
Florida	15,330	Oklahoma	4,323
Georgia	24,812	South Carolina	12,176
Kentucky	11,901	Tennessee	12,819
Louisiana	14,526	Virginia	15,938
<b>SOUTH TOTAL</b>		187.8 million acres	
<b>U.S. TOTAL</b>		487.7 million acres	

\*Commercial forestland is defined as forestland producing or capable of producing crops of industrial wood (more than 20 cubic feet per acre per year) and not withdrawn from timber utilization.

Source: Leslie Cole, *Forest Resource Management: Meeting the Challenge in the States*, Council of State Governments (Lexington, KY), 1982, pp. 1243. Data is as of 1977.

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## *Balancing economic development with environmental needs on 20 million acres of timberland demands vision, perseverance, and, above all, forethought.*

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6. The N.C. House and Senate Appropriations Committees on Natural and Economic Resources should examine the geographical allocation of cost-sharing funds and recommend to the 1985 General Assembly whether the first-come, first-served distribution system should be continued beyond June 30, 1985. Since the program began, \$2 of every \$5 have gone to only 10 counties, many of which are not among the leading softwood timber producers in the state.

### **C. More Legislative Study Needed**

7. The General Assembly should establish a study committee to report to the 1985 legislature on the merits of a mandatory reforestation program. The forestry community, including State Forester Green, oppose such a program. But the federal cost-sharing program may be ending, and Green admits that if various incentive and cost-sharing programs do not succeed in reforestation of sufficient areas, "then we may have to go to some kind of mandatory system." A study commission could evaluate property-right concerns, enforcement difficulties, the potential of causing an oversupply, the Virginia and Oregon programs, and regulations of private property such as zoning and building permits, strip-mining land reclamation, and mobile home appearance standards.

8. The 1983 General Assembly should not pass HB 262, which would amend the "current-use" assessment property tax law to include corporate holdings of forestland.\* Since enacted in 1973, the law (for forest, agricultural, and horticultural lands) has

already cost the counties some \$18-20 million in revenues, effectively increasing the tax base for other property owners.<sup>30</sup> The single source available on this question, the Gelbert study, runs only nine pages (including tables) and relies on a sampling technique rather than on a county-by-county study. Moreover, the head of the Gelbert firm is the former president of the N.C. Forestry Association, the industry trade group that initiated this bill. Finally, the law is already extremely difficult to administer and would become still more unwieldy under several of the technical requirements of HB 262. The General Assembly should undertake a full-scale, independent study of how the current-use statute is working before altering it.

### **D. Expand Available Resources**

9. The Division of Forest Resources, through the N.C. Forest Association, should encourage industry to provide more aid to private landowners. If industry wants adequate supplies of pine timber in the future, it needs to provide more assistance to small woodlot owners and not expect the state Forest Service to shoulder this burden, especially in the face of federal budget cuts.

These nine recommendations could help fine-tune the innovations already underway and stimulate other efforts whose time may have come. Among North Carolina industries, forestry/wood products already rank second (behind only textiles) in value added to the economy and in number of employees. Meanwhile, the national appetite for wood products is increasingly focusing on the Southeast. Two of every three acres in the state are commercial forestlands. This natural resource must not be abused, though it must be utilized and developed. Balancing economic development with environmental needs on 20 million acres of timberland demands vision, perseverance, and, above all, forethought—especially in an industry where the product takes a generation to "build". □

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\*As this issue of *N.C. Insight* went to press, Rep. Robert McAlister (D-Rockingham), chairman of the interim Property Tax Study Committee and the sponsor of HB 262, wrote Rep. Dwight Quinn (D-Cabarrus), chairman of the House Finance Committee, asking that HB 262 be held for further study rather than being considered in the 1983 legislative session. McAlister has introduced a bill (HB 1050) to continue the Property Tax Study Committee, which would further study the current-use assessment issue.

## FOOTNOTES

<sup>1</sup>Herbert A. Knight and Joe P. McClure, *North Carolina's Timber, 1974*, U.S. Forest Service, Resource Bulletin SE-33, December 1975, p. 3. The U.S. Forest Service conducts this survey once every decade. No other data source exists with such thorough information. The N.C. Forest Service does publish an annual "County Figures for Forest Products Drain." This provides useful data on board feet harvested on a county-by-county basis but does not include regeneration data. The U.S. Forest Service began its "1984" survey in the spring of 1983 and expects to publish it sometime in 1986.

<sup>2</sup>*Business Week*, December 4, 1978, p. 33.

<sup>3</sup>*Ibid.*

<sup>4</sup>Robert D. Raisch and Leonard A. Kilian, Jr., *Economic Importance of Forestry in the South*, presented to the Southern Growth Policies Board, September 28, 1981, p. 7.

<sup>5</sup>From 1915-1973, the N.C. Forest Service, headed by the State Forester, was the agency in charge of state forest programs (for example, see Chapter 243 of the 1915 Session Laws, Section 2). Following a major governmental reorganization in 1973, the state forest service became part of the Department of Natural and Economic Resources (NER), which in 1977 became the Department of Natural Resources and Community Development (NRCD). Under N.C.G.S. 113-81.2, the secretary of NRCD can designate "his authorized agent" to perform the various forestry services provided by the state. The secretaries of NER, and later NRCD, have designated the forestry functions to a "Division of Forest Resources" but at the same time have continued to call the agency, the "N.C. Forest Service." In the field, for example, county forest rangers wear an "N.C. Forest Service" patch on their uniforms. In this article, just as is the case throughout state forestry operations, the "Division of Forest Resources" and the "N.C. Forest Service" are used interchangeably. "Division" usually refers to a budgetary or organizational issue, and "Forest Service" usually refers to a field operation. Similarly, both the "Director of the Division of Forest Resources" and "State Forester" are used to describe H.J. "Boe" Green.

<sup>6</sup>The portion of federally owned lands could drop soon. On March 15, 1983, the Reagan Administration announced its proposal to sell six million acres of national forests throughout the country. The proposal, which must be approved by Congress, includes about seven percent of the state's one million acres of national forest land. Much opposition to the sale has surfaced in North Carolina. "It takes the whole heart out of the (Uwharrie National) forest," says N.C. Secretary of Natural Resources and Community Development Joseph Grimsley. "I just don't approve of it," adds U.S. Rep. Bill Hefner of the 8th District. "I'm very concerned about selling land of that size and amount," says Congressman James M. Clarke of the 11th District.

<sup>7</sup>N.C.G.S. 105-275(15).

<sup>8</sup>N.C.G.S. 105-277.4.

<sup>9</sup>N.C.G.S. 105-277.2(4) b. and 105-277.3(b)(2).

<sup>10</sup>N.C.G.S. 113A-176 to -183.

<sup>11</sup>"Recommendations to Increase the Productivity of Small Woodlots in North Carolina," The Governor's Advisory Task Force on Small Woodlot Management, October 3, 1978, p. 1.

<sup>12</sup>The Division of Forest Resources operates three nurseries, selling seedlings — mostly pine — at cost to individuals and forest products companies for reforestation efforts. The receipts from seedling sales support most of the cost of the nurseries.

<sup>13</sup>N.C.G.S. 105-144.5.

<sup>14</sup>N.C.G.S. 105-147(1)g.

<sup>15</sup>Leslie A. Cole, *Forest Resource Management: Meeting*

*the Challenge in the States*, The Council of State Governments, 1982, p. 92. The Council of State Governments (CSG) has had a long-term interest in forestry. See also "Forestry: A New Direction" and "Forestry Growth Up to States," both published in the CSG monthly magazine, *State Government News* (March 1981 and January 1982, respectively). See also Gordon Meeks Jr., *A Legislator's Guide to Forest Resources Management*, National Conference of State Legislatures, October 1982.

<sup>16</sup>"Report to Joint Appropriations Committee on Base Budget — Regular Session, 1983," from Appropriations Base Budget Committee on Natural and Economic Resources, April 12, 1983, p. 27.

<sup>17</sup>N.C.G.S. 113A-177(b)(1).

<sup>18</sup>"Forest Management Accomplishment Summary," compiled by the N.C. Forest Service based on data from county rangers. For 1979 and 1980, see item number 7, "Tree Planting for Timber Production," (total FIP and Non-FIP); for 1981 and 1982, see item number 8, "Forest Establishment."

<sup>19</sup>Hamlin L. Williston, *A Statistical History of Tree Planting in the South 1925-1979*, U.S. Department of Agriculture, Forest Service, Southeastern Area, State and Private Forestry, Miscellaneous Report SA-MR8, 1980.

<sup>20</sup>Patricia Dusenbury with Jack P. Royer and Fran Hunt, "Report on the Duke/SGPB Forest Policies Project to the Executive Committee of the Southern Growth Policies Board," November 14, 1982, p. 15.

<sup>21</sup>*FY '84 Federal Budget Analysis — North Carolina*, prepared by the Intergovernmental Relations Staff and Office of Policy and Planning in Cooperation with the Office of State Budget and Management and affected state departments and agencies, March 11, 1983, pp. A1-39-40, and summary sheet prepared by State Forester Green. Where there are minor discrepancies between these two reports, figures from Green are followed.

<sup>22</sup>*Report of the Committee on Agriculture, House of Representatives, to the Committee on the Budget, Pursuant to the Congressional Budget and Impoundment Control Act*, March 7, 1983, p. 36. For other forestry programs, see p. 12 (FIP) and p. 29 (Rural Fire Control).

<sup>23</sup>Letter from Gov. James B. Hunt, Jr., to Ralph C. Winkworth, then director, Division of Forest Resources, December 28, 1978.

<sup>24</sup>Dusenbury, p. 3.

<sup>25</sup>S. Robin Gelbert, registered forester #491, "The Current Use Law and Public Corporations, 1982," Daniel H. Gelbert and Associates, February 1983, p. 6.

<sup>26</sup>D.F. Neuman and E.C. Pasour, Jr., *Agricultural Use-Value Taxation in North Carolina 1980-81*, Economics Special Report No. 73, Department of Economics and Business, N.C. State University, June 1982, pp. 14-17.

<sup>27</sup>White, Pasour, Neuman, and Danielson, *An Analysis of Use-Value Taxation in Wake and Wilson Counties, North Carolina, 1976*, Economics Information Report No. 50, Department of Economics and Business, N.C. State University, November 1977, p. 30.

<sup>28</sup>See Neuman and Pasour, Reports Nos. 73(1982), 64(1981), 57(1979), 50(1979), 44(1978), in each case, Table 4.

<sup>29</sup>*The 1980 Report to Congress on the Nation's Renewable Resources*, Final Environmental Impact Statement, Forest and Rangeland Renewable Resources Planning Act, U.S. Forest Service, U.S. Department of Agriculture, July 1980, pp. 36-38.

<sup>30</sup>Dr. D.F. Neuman, in a telephone interview, says that "less than 10 percent of the deferred taxes will be eventually recaptured. It could be 2 percent." The Neuman and Pasour reports indicate a \$20 million total in "deferred" taxes (see footnote 28). If 10 percent of these taxes were recovered (\$2 million), \$18 million would be the total lost.



# Southern Growth Policies Board Recommends Greater Attention to Forestry

*As the South has gained attention in recent years as the nation's wood basket, so have Southern research groups undertaken intensive studies of various forestry policy options. The most recent and most comprehensive summary of existing state programs and proposed policy changes for the Southern states is the 1982 Report on the Duke/SGPB Forest Policies Project to the Executive Committee of the Southern Growth Policies Board. The report consists of over 30 findings and recommendations, as well as summaries of existing state and local taxes affecting the forest products industry and state technical and financial assistance programs. The report groups the findings and recommendations under five areas: the public and private roles in providing support services, coordination of efforts, ensuring timber supplies, promoting Southern forest products on world markets, and industry organization. Below are excerpts from the findings and recommendations in three of the five areas, published with permission. For the full report, contact Patricia Dusenbury, SGPB, P.O. Box 12293, Research Triangle Park, N.C. 27709.*

## Finding

### 1. Public and Private Roles in Providing Support Services

The private non-industrial forest owners, who own over 70 percent of Southern forestland, are a dispersed and heterogeneous group with varying goals for their property and different skill levels to apply toward reaching their goals. Many of these landowners could and do benefit from technical assistance from industry, private consulting foresters, and state foresters. Experience has shown that the independent landowner can be reached most effectively through personal contact.

Information about current trends and the future outlook for both the wood products market and the timber supply help the forest products industry and the independent landowners plan and make decisions. Price reporting is especially helpful to the independent forestland owners. Information about timber supplies is valuable to investors because it helps reduce uncertainty. Collecting and disseminating information traditionally has been a public-sector function. The Forest Survey surveys the timber inventory in each state about every 10 years, and the extension services provide marketing information.

The public sector can encourage investment in forestry by helping protect timber as it matures. Currently, states provide fire protection and help timber owners protect

## Recommendation

States should consider ideal a situation where every private non-industrial forest owner has personal access to information about market opportunities, tax advantages, and any available public programs from state or private foresters as well as management planning and marketing assistance from a private consulting forester. Industry foresters are also an important source of assistance for the independent landowner that should be recognized, as should the extension service which reaches many independent landowners.

The public sector should continue to provide data on the supply of standing timber and on the markets and prices for timber products. More frequent surveys of standing timber, every 5 years instead of 10, would help the private sector make investment decisions. This option should be considered by the state agency responsible for forest planning, which should evaluate the feasibility of more frequent timber surveys and investigate the willingness of the primary information users, industry and landowners, to pay the additional costs.

Recognizing timber as a valuable regional resource, Southern states should show their commitment to the region's forestland owners by supporting protective services

trees from insect and disease damage. Industrial and non-industrial forestland owners benefit from these public activities and support their continuation. . . .

## 2. *Coordination of Efforts*

Both industry and government have studied the supply side of the forest products market in depth. Their attention has focused on forestland management and taxation. Although several lumber trade associations maintain marketing divisions, overall less attention has been given to the demand side, the identification and nurture of markets. Within a free market context, the best incentive for production is a strong, dependable demand.

## 3. *Ensuring Timber Supplies*

The Council of State Governments' Environmental Resources and Development Staff prepared a report, *Forest Resource Management: Meeting the Challenge in the States* (1982) that considers future timber supplies and calls upon state legislatures to enact legislation strongly encouraging forestland owners to replant after harvest . . . . Land ownership patterns in the South show a greater concentration of small, independent, forestland owners than in the West or Northeast, the other major timber-producing regions of the U.S.; and an effective reforestation program takes land-ownership patterns into consideration.

. . . [P]rogressive income taxes fall more heavily upon timber investments than upon most other investments. The federal tax laws recognize this income-lag aspect of forestland investments through the reforestation credit and amortization plus long-term capital gains treatment of income from timber harvest. Southern states vary in their tax treatment of income from timber sales.

The lack of available insurance discourages investment in timber. Until recently, there were no standard commercial policies for insurance against timber losses from fire, insects, and disease . . . . Large forest products companies own enough land to be self-insured. Small and medium-sized companies are more vulnerable to losses, and the private non-industrial forest owner is most vulnerable. States regulate the insurance industry.

with adequate funding. Fire protection should be a high priority. States also should support research in developing and applying improved technology for the protection of standing timber . . . .

A regional strategy designed to promote forest industry development in the South should encompass efforts to cultivate both new and existing markets for Southern forest products as well as efforts to ensure a continuing supply of timber by removing resource-related constraints.

. . . The Virginia legislation, which relies upon incentives more than regulation, should be considered as a model reforestation program appropriate for the ownership pattern characteristic of Southern states. Mandatory reforestation should not be enacted as state law without industry support.

Southern state income tax laws should be sensitive to the income lag involved in timber growing and accommodate it through special treatment of the income. The new federal legislation provides a model for tax treatment of costs and income associated with forestry investments that Southern states should consider emulating, especially in the capital gains area.

Insurance commissioners in the Southern states should monitor the trial programs in timber insurance, and if they appear successful, encourage the creation of insurance policies for timber in their states. Such policies should focus on the needs of small and medium-sized companies and independent landowners.

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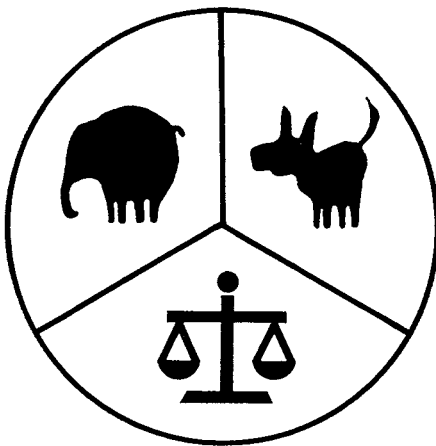
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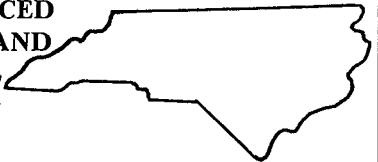


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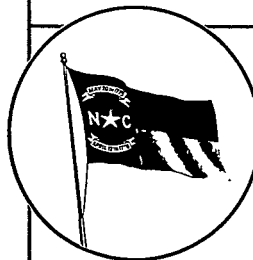
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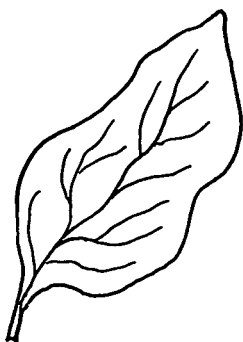
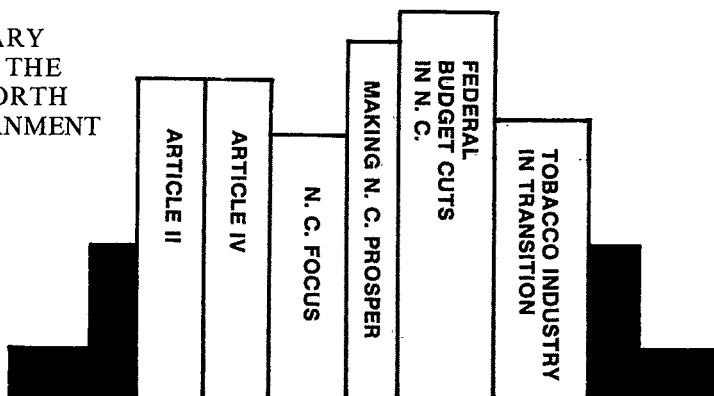
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# FROM THE CENTER OUT

## *The North Carolina State Budget: Its Assumptions and Priorities*

On February 14, 1983, the N.C. Center for Public Policy Research held a public forum on the 1983-85 state budget. More than 125 public officials, corporate representatives, newspaper editors, and other concerned citizens attended the event, the Center's annual symposium. Seven analysts examined the budget that Gov. James B. Hunt Jr. and the Advisory Budget Commission submitted to the General Assembly. The speakers were:

- Dr. Jack Brizius, a nationally recognized budget adviser and a consultant to the National Governors' Association;
- Dr. S. Kenneth Howard, former state budget officer in North Carolina, now executive director of the Advisory Commission on Intergovernmental Relations in Washington, D.C.;
- Ran Coble, executive director of the N.C. Center for Public Policy Research;
- Ron Aycock, executive director of the N.C. Association of County Commissioners;
- Leigh Wilson, executive director of the N.C. League of Municipalities;
- David Crotts; fiscal analyst with the Fiscal Research Division of the N.C. General Assembly; and
- Dr. Al Stuart, chairman of the Department of Earth Science and Geography at UNC-Charlotte.

In a series of presentations, the speakers highlighted the assumptions and priorities of the budget and found:

- little funding for capital expenditures, repairs, or maintenance;
- a declining percentage of public school funding within the overall budget;
- more than 20 *expansion budget items* included in the budget, dubbed by Hunt as a "*non-expansionary*" budget;
- a trend of declining populations but increasing

appropriations for most state human resources institutions;

- an absence of any proposals addressing prison overcrowding;
- a growing elderly population having an impact on the Medicaid budget;
- a policy of budgeting state employee positions as if every position were filled every day of the year;
- the absence of any money budgeted for a surplus or an ending credit balance; and
- a dependence on recruitment of the micro-electronics industry as the state's major economic development policy initiative.

The major dailies and weeklies across the state covered the event. "North Carolinians should ask that Monday's symposium on the state budget, sponsored by the private, nonprofit N.C. Center for Public Policy Research, become an annual event," said *The Charlotte Observer* in its February 17 lead editorial. "It was an eye-opening session, even for some state legislators. And until the governor and legislative leaders reform the state's budget-making process, such programs may be the citizen's only hope for an arm's-length assessment of state spending plans."

Similar editorials and news stories appeared across the state. "Budget tells much about people, priorities — Independent analysis vital," read the headline for Ferrel Guillory's column in *The News and Observer* of Raleigh.

If you missed the symposium, you can still benefit from what happened in Raleigh on February 14, 1983. In July 1983, the Center will publish the proceedings of the symposium. To order your copy of the proceedings — a perfect companion volume to the biennial budget soon to be approved by the N.C. General Assembly — send \$10 to the N.C. Center for Public Policy Research, P.O. Box 430, Raleigh, N. C. 27602.

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