

State Assistance to Local Governments

by Susan Wall

N.C. Local Government Commission

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

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The Institute of Government

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

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

Local Government Advocacy Council

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

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N.C. Local Government Commission

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

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

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

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

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

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

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

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

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

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

Local Government Commission

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

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

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

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

FOOTNOTES

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

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

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

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

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

⁶NCGS Chapter 159, Articles 10 and 11.

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

The Institute of Government

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

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

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

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

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

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

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

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

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

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

Local Government Advocacy Council

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

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

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

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

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

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

Local Government Advocacy Council

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

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

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