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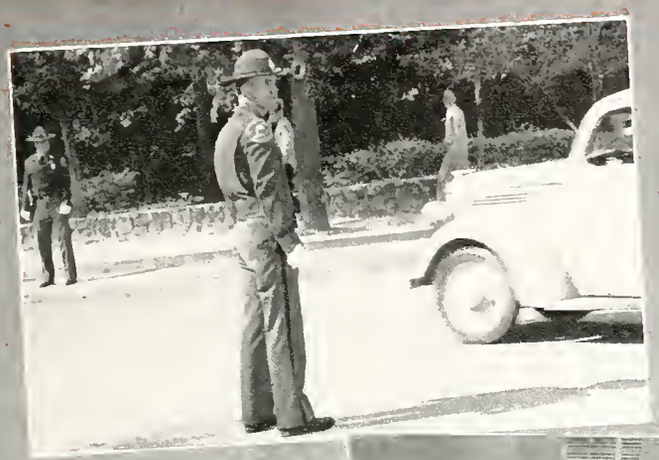

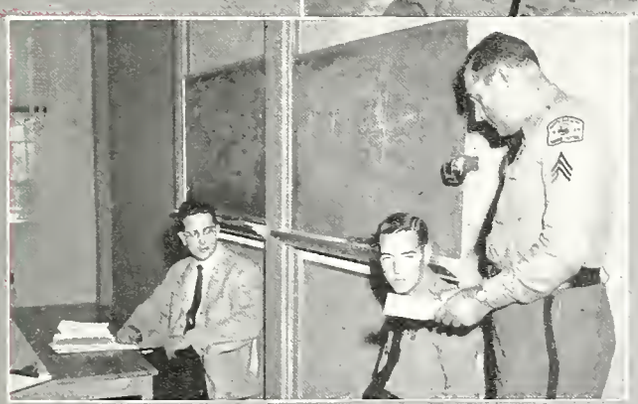

State Highway Patrol Recruit Training School

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COVER

The fifteenth State Highway Patrol Recruit Training School since World War II graduated at the Institute of Government on October 17. Our cover this month depicts some of the 62 men who finished the 12-week course in various phases of their training.

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THE CLEARINGHOUSE

Gastonia, Craven County Praised For Safety-Check

For their recent vehicle safety-check programs (see "Durham Likes Safety-Check" in June *Popular Government*) **Gastonia** and **Craven County** each received a "Special Judges' Citation," in the list of the grand awards for the best city and county safety-checks in the nation. More than 95 counties and 800 cities over the country participated this year in the voluntary program sponsored nationally by the Inter-Industry Highway Safety Committee, Look Magazine, and the National Safety Council.

Awards were based on effective promotional and cooperative efforts in an area, with consideration given to the quality of the safety-check as well as the total number of vehicles checked in relation to the total community potential.

Water and Sewer Progress and Problems

Back in the summer, **Charlotte** reached a milestone by installing its 50,000th water meter; it serves Paradise Pools, a firm that maintains a sales display of backyard pools. It was also a milestone for **Sam Puckett**, senior foreman of the water department. He joined the department in 1920, when there were only 7,000 water meters in Charlotte, none serving backyard swimming pools.

* * *

North Carolinians as a group did not feel the effects of drought this summer as they have in the past, but **Thomasville** was a thirsty town. "Flossie" gave the local cars the first washing of the summer.

* * *

A $100,000 sewage treatment plant is now under study in **Ahoskie.** The situation in Ahoskie Swamp has caused a great deal of complaint lately. The study being made is of how much sewage is being dumped and whether it would be feasible to connect the two sewage outfalls and build one primary treatment plant or whether two plants would be necessary.

* * *

Newport voters have approved the installation of a town water system. The town has been constructing a water system, piece-meal, during the past two years, but this action will allow water mains and fire hydrants throughout town. Interest in the system is shown by the fact that 77.18 per cent of the town's qualified voters turned out to cast ballots.

* * *

Wilson law-makers have approved a $1,362,827 sanitary sewer expansion program, including construction of a 3,000,000 gallon treatment tank. Federal funds of $250,000 are expected to go into the project.

* * *

Voters of **Boone** have approved a proposed $75,000 bond issue for improving the water system. It will provide another well, build an additional reservoir of 500,000-gallon capacity, and finance other improvements which would double the present capacity.

Airport Improvements

Half a million dollars worth of improvements are forthcoming for **Charlotte's** Municipal Airport. Plans call for rebuilding 600 feet of the prevailing runway with CAA cooperation; resurfacing of 3,000 feet of the main runway by the Air National Guard; and construction of a new taxiway by the Air National Guard.

Personnel Notes

W. Charles Devine, mayor of Rocky Mount, died on October 1, minutes after he had a heart attack in his office at the Imperial Tobacco Company plant. He was first elected to the Board of Aldermen in Rocky Mount in 1937 and was re-named to the Board each succeeding term until he was elected mayor last December.

* * *

J. Archie Cannon, Jr. is the new mayor of **Greensboro.** Former Mayor **Boyd Morris** resigned because he is moving out of Greensboro to his newly-acquired, 125-acre estate northwest of the city.

Purchasing Agents Meet in Fayetteville

About 30 purchasing officials attended the fall meeting of the Carolinas' Chapter of the National Institute of Governmental Purchasing which was held in Fayetteville on September 28.

President A. C. Shepherd, city purchasing agent for Winston-Salem, presided and introduced David Q. Holton, director of the Division of Purchase and Contract for the state of North Carolina, who was the guest speaker. Mr. Holton discussed a number of problems in public purchasing which are common to both local and state buying agencies. Among these were tie bids, local preference, gifts from vendors, surplus property, fair traded items, and federal surplus property. Mr. Holton noted that under an act by the past Congress, cities have become eligible to receive federal surplus property for use in Civil Defense programs without cost. Arrangements for the distribution of such property for this purpose are expected to be completed by early November. Local governments will receive information on the new program as soon as the arrangements are concluded.

J. McDonald Wray, city manager of Beaufort, S. C., conducted a round-table discussion on the purchasing of photographic supplies, the salvage of used tires, fire hose, steel cord and tubeless tires, the disposal of surplus property, the selection of engineering firms, and the buying of office supplies and paint.

In the business session, the members directed the officers to work with representatives of the Institute of Government in preparing a two-day program for their next meeting to be held in Chapel Hill in February.

Present at the meeting in addition to Mr. Holton were purchasing agents A. C. Shepherd of Winston-Salem, C. E. Beatty of Charlotte, T. Bruce Boyette of Wilson, W. D. Hines of Red Springs, J. C. Robinett of Columbia, S. C., H. J. Dickman of Florence, S. C., Sam J. Taylor of Raleigh, L. C. LeGwin, Jr., of Wilmington, R. L. Benson of Wrightsville Beach, and B. T. Green of Charleston County, S. C.

Buyers attending were Curtis Baker of Tarboro, Clarence Smith of Guilford County, and Woodrow Wilson of Winston-Salem.

Managers present included J. McDonald Wray of Beaufort, S. C., R. Powell Black of Aiken, S. C., G. W. Ray of Fayetteville, J. Guy Smith of Laurinburg, J. Harry Weatherly of Guilford County, A. B. Sansbury of Lumberton, and W. M. Kennedy of Rock Hill, S. C.

Others present were Bob Shuford,

(Continued on page 12)

Fifteenth State Highway Patrol Recruit Training School Graduates

The 15th State Highway Patrol Recruit Training School since World War II graduated at the Institute of Government on October 17. Sixty-two new patrolmen, out of 69 who began, finished this course in traffic law enforcement. The addition of these men brings the current strength of the patrol to 581 men.

This school, which has been termed "the best in years," was planned jointly by Col. James R. Smith and Major D. T. Lambert of the Highway Patrol, Albert Coates, Director, and Zeb D. Alley, Assistant Director of the Institute of Government. As the result of many conferences and a long and thorough study lasting over a period of months, new subjects were included and many changes were made in the order of courses as well as the hours assigned to each.

Sergeant Edward W. Jones of Asheville was appointed School Commandant by the Highway Patrol and Zeb D. Alley directed the school for the Institute of Government. Assisting Sgt. Jones were Sgt. O. R. Roberts of Charlotte and Cpl. John S. Hackett of Wilson.

This was the second recruit training school to extend for a 12-week period. The trainees received over 640 hours of classroom instruction, not to mention over 100 hours which were set aside for compulsory study. This heavy course of study (averaging over 50 hours a week) often necessitated night as well as week-end classes. Equal emphasis was placed on both legal and practical courses.

Practical courses were taught by officers of the N. C. State Highway Patrol and by experts brought in from other agencies. Legal courses were taught by staff members of the Institute of Government and by other attorneys who are specialists in certain fields of the law.

Examples of important practical courses taught are: Pursuit Driving, Driver Education, Accident Investigation, Firearms, and First Aid. Important courses in the law were: Rules of the Road, Driver License Laws, Search and Seizure, Arrest, Criminal Law, Evidence, and the Financial Responsibility Act. Other phases of training were Courtroom Procedure, Apprehension of Dangerous Criminals, and physical training. The trainees also attended church on the Sundays they were at the school.

Agencies which participated in the school were: The North Carolina Department of Public Instruction, the Association of Casualty and Surety Companies, the License and Theft Enforcement Division and the Registration Division of the Department of Motor Vehicles, the National Automobile Theft Bureau, the Federal Bureau of Investigation, the State Bureau of Investigation, the U. S. Treasury Department, and the N. C. Department of Insurance.

Those taking part or instructing in the school were: Edward Scheidt, Commissioner of Motor Vehicles; Professor Leonard S. Powers of the U. N. C. law school; Basil Sherrill, attorney, Burlington, N. C.; Henry Bridges, State Auditor; William L. Crowell of the Department of Motor Vehicles; James W. Powell, director of the State Bureau of Investigation; James F. Bradshaw, assistant director of the SBI; Lewis E. Williams, special agent, SBI; Tom Seals, assistant educational director, Association of Casualty and Surety Cos.; Carlton Fleetwood of the Department of Public Instruction; W. T. Atkinson, special agent, Treasury Department; Joe W. Garrett, Assistant Commissioner of Motor Vehicles; Miss Julia Smith, secretary to the Commissioner of Motor Vehicles; P. B. Beacham of the Federal Bureau of Investigation; John Noe of the Department of Public Instruction; Glen Taylor of the Department of Motor Vehicles; Archie Gilbert, director of the License and Theft Enforcement Division of the Department of Motor Vehicles; Louis Reineri and H. J. Harmon of the National Automobile Theft Bureau; Elton R. Peele, chief of Drivers License Section of the Department of Motor Vehicles; W. P. Sloop of the Department of Motor Vehicles; Miss Foy Ingram, director of the Registration Division of the Department of Motor Vehicles; A. E. Pearce of the Department of Insurance; Tom Secrest of the License Enforcement and Theft Division of the Department of Motor Vehicles; W. G. O'Neil of the Department of Insurance; and Russ Secrest of the Department of Insurance.

Staff members of the Institute of Government who taught legal phases of the course of instruction were Albert Coates, Donald B. Hayman, Joseph P. Hennessee, David Sharpe, Roy G. Hall, Neil Forney, Jack Hamilton, Durwood Jones, and Zebulon D. Alley.

Members of the N. C. State Highway Patrol who either instructed or assisted in instructing courses during

(Continued on inside back cover)

Recruits learn one phase of training for the road.

RECENT DEVELOPMENTS IN COUNTY PERSONNEL ADMINISTRATION IN NORTH CAROLINA

By

DONALD B. HAYMAN

Assistant Director of the Institute of Government

Anyone who has observed county government in North Carolina in recent years is aware of the progress that has been made in county personnel administration. This progress has occurred in spite of the fact that county problems have continued to increase at a rapid rate.

Although the sheer number of counties has facilitated experimentation, it has also complicated the problem of interchanging ideas among county officials in the various counties and between state and county officials. The meetings of the County Commissioners' Association and the associations of the other county officials have stimulated the exchange of ideas and undoubtedly have been in part responsible for the progress which has been achieved.

In 1941 there were 4,987 county employees in North Carolina. The U. S. Bureau of Census reports that in October, 1955, there were 9,101 county employees. This represents an increase of approximately 83 per cent in the last 14 years. Today, approximately 20 out of every 10,000 residents of North Carolina are full-time county employees. Sixty-two are federal employees; 37 are municipal employees; 70 are employees of the state departments and institutions; and 107 are employees of the public schools.

To document a belief that considerable progress has been made in county personnel administration in recent years, seven identifiable trends or recent developments are listed below.

The Decline of Fees

Prior to 1905, the salaries of most county officials were set by state-wide schedules of fees. Clerical employees working for the elective officials were paid from the fees collected. Following the lead of Guilford, Buncombe, and Forsyth Counties who abandoned the fee system for most county employees as early as 1905, one county after another has given up this system. As of December, 1956, only 32 of the 300 clerks of court, sheriffs, and registers of deeds in this state will be financed entirely by fees. Of the 32, 13 are clerks of court, 14 are registers of deeds, and five are sheriffs. Eight of the clerks listed as being financed entirely by fees receive small salaries for serving as juvenile judge. Of the 16 counties compensating their clerks of court and/or their registers of deeds entirely by fees, only five counties have more than 20,000 population and assessed valuations of over $25,000,000.

The decline of fees as a method of compensation is not surprising. Fees do not insure income commensurate with duties. If they are too low, there is the danger that competent candidates may not run for office; if they are too high, exhorbitant incomes result. Fees also promote a philosophy that public office is a vested right or a private sinecure instead of a public trust.

The alternative is the use of salaries as a method of compensation. Salaries have generally replaced fees for the following three reasons:

(1) Morale and efficiency are increased, because each employee may be compensated according to his duties and responsibilities.

(2) All funds may be appropriated according to need.

(3) Salaries may be promptly adjusted with changes in duties or the cost of living.

Although the fee system is not yet dead in North Carolina, it is declining and will probably be completely abandoned in the next six to ten years.

Commissioners Now Set Salaries

A second and probably more important development has been the increase in the authority and responsibility of the boards of county commissioners over salaries. Since 1945 there has been a marked increase in the authority of the various boards of county commissioners over salaries. The 1945 acts affecting Warren and Jones Counties were the first. By 1952, the county commissioners in five counties—Dare, Jones, Pender, Robeson and Warren—had been authorized to set the salaries of both elective and appointive county employees.

Today 28 boards of county commissioners have the authority to set the salaries of both elective and appointive officials and employees. They include the boards of county commissioners in Alamance, Anson, Buncombe, Caldwell, Carteret, Chatham, Cleveland, Dare, Davidson, Gaston, Johnston, Jones, Lee, Lincoln, Montgomery, Nash, Onslow, Orange, Pamlico, Pender, Robeson, Rockingham, Sampson, Scotland, Surry, Union, Warren, and Yadkin Counties.

Twelve additional boards of county commissioners now have the authority to set the salaries of all appointive officials. They include the boards of county commissioners in Brunswick, Durham, Graham, Hoke, Iredell, Jackson, Lenoir, McDowell, Moore, Richmond, Rutherford, and Wake Counties.

A secondary result of the legislation which has given county commissioners authority over salaries has been a reduction in the number of local salary acts cluttering the calendar of the General Assembly. The 1955 General Assembly passed fewer county salary acts than any other General Assembly in regular session in at least the past 38 years. A study of local legislation prior to 1917 might reveal that the General Assembly's restraint broke an even longer record. In addition to the 40 counties listed, a number of other counties have given authority to their boards of county commissioners to set the salaries of certain elected or appointed officials or employees.

Considering the fact that only 11 years have elapsed since the first act giving blanket authority over salaries to a board of county commissioners was enacted, tremendous progress has been made. As the prestige of the various boards of county commissioners increases and as the full nature of their responsibilities is recognized, the other boards of county commissioners will undoubtedly be given additional authority over the salaries of their county employees.

Keeping Up with the Cost of Living

According to the Bureau of Labor Statistics, the cost of living has increased an average of 11.8 per cent throughout the United States since 1950. A study of the total compensation paid county employees during October, 1950, and October, 1955, reveals that the average annual salaries of county employees have increased 14 per cent. The average monthly county salary in 1950 was

$183. The average monthly county salary in October, 1955, was $209. By comparing the increase in the cost of living and the increase in average annual salaries for county employees, we can conclude that the real income of county employees is slightly higher today than it was in 1950. By real income is meant the amount of food, clothing, housing, automobiles and luxuries the average employee may purchase with his salary.

Different groups of county employees have, of course, fared differently. Employees in certain counties have fared better also than employees in other counties. Full-time health officers, who are the highest paid group of local employees with an average salary of $8,771, have had a smaller increase than some other groups of county employees. The salaries of full-time health officers have increased 17.1 per cent in the last six years, or from $7,489 to $8,771. Persons familiar with the average incomes of physicians realize that even at slightly below $9,000 our public health officers are earning less than they would probably earn in private practice.

The compensation paid sheriffs (both salary and travel allowances) has increased an average of 27.8 per cent since 1950. The average annual compensation was $4,416 in 1950 and was $5,645 as of February, 1956.

The compensation of superintendents of welfare has increased 24.5 per cent since 1950, from $3,692 per year to $4,598 per year.

The salaries of county accountants have increased 17.7 per cent, or from $3,778 in 1950 to $4,447 in 1956.

The average salary paid to clerks of court has increased 14.5 per cent, or from $4,230 in 1950 to $4,845 in 1956. The average salary paid to registers of deeds has increased 14.3 per cent, or from $3,814 in 1950 to $4,359 in 1956.

The average income of county farm agents has increased 23.2 per cent since 1952. The average farm agent's salary in 1952 was $5,214, and the average farm agent's salary in February, 1956, was $6,453. Comparative data was not included for 1950 in the Institute's salary study for that year and hence was not readily available.

The average salary paid to home demonstration agents increased 13.7 per cent between 1952 and 1956. The average salary paid to home demonstration agents in North Carolina was $4,373 in 1952 and $4,976 in 1956.

These figures are both encouraging and sobering. They are encouraging because the wages of the average county employee seemingly have kept up with the increase in the cost of living since 1950. They are sobering because the salaries of some groups of county employees have not kept up with the increase in the cost of living. This is indicated by the fact that some employees have received considerably more than the average increase for all county employees.

These figures are also sobering when compared with the average annual wages of all employees in manufacturing in North Carolina and when compared with the salaries of non-supervisory production workers throughout the country. While county employees in North Carolina were averaging $209 a month, non-supervisory employees in manufacturing in North Carolina were averaging $223 a month. Non-supervisory manufacturing employees in the tobacco industry were averaging $225 a month.

The salaries of the elected officials and county department heads listed above, many of whom supervise a number of employees, compare unfavorably with the salaries of non-supervisory production workers in other areas of the nation. For example, the average non-supervisory production worker in the bituminous coal industry made $416 a month during 1955. The average non-supervisory metal production employee made $400 a month during 1955, and the average non-supervisory production employee in the building industry made $418 a month. All of the wages in industry are presented in monthly terms but are 1/12 the average annual earnings of employees during 1955. The average earnings presented reflect any periods of unemployment which occurred.

The Employment Security Commission has recently completed a study of the weekly wage scales for 43 classes of positions. The data presented in this study has been collected from 748 different private and public agencies in North Carolina. Data was included for 37,138 private and public employees. A tabulation of this data reveals that the average wages of these employees increased 17.8 per cent between 1952 and 1956. During this same period the average wages of county employees increased only 5.6 per cent. Budget data for the 1956-57 fiscal year is not yet available for study. It is hoped that the salary increases provided by 1956-57 county budgets will place county employees in a slightly more favorable position.

Five-Day Week

A fourth development has been the adoption of the five-day week. Guilford, Halifax, and Rockingham Counties were the first counties to go on the five-day week back in 1950. As of last May, 19 counties in North Carolina were on a five-day week. These counties include Beaufort, Bertie, Brunswick, Currituck, Durham, Forsyth, Gates, Guilford, Halifax, Hertford, Lenoir, Mecklenburg, New Hanover, Pitt, Rockingham, Stokes, Surry, Wake, and Wayne.

Sixty-six counties are still on a five and one-half day week and the remaining 15 counties are on a six-day week.

Written Personnel Rules

A fifth development has been the adoption by the various boards of county commissioners of written rules governing vacation, sick leave, holidays, and the like. As of February, 1956, 61 counties in North Carolina had no provision for sick leave, and 21 counties in North Carolina had no provision for annual vacation. Robeson County was one of the first counties to see the desirability of adopting a resolution governing vacation and sick leave of all county employees. Guilford, Mecklenburg, New Hanover, Onslow, Durham, and Orange Counties have adopted personnel rules and regulations governing many different phases of the conditions of employment of their county employees.

Social Security

The actual number of county employees who have been brought under Social Security since 1955 is not definitely known as yet. However, 96 counties have negotiated coverage agreements and brought all eligible employees under Social Security. The recent 1956 amendments to the Social Security Act, which provide for disability benefits after age 50 and retirement for women at 62, make Social Security increasingly more attractive to the counties and to their employees.

Classification and Pay Plans

A seventh development in county personnel administration has been the development of standardized classification and pay plans governing the duties, responsibilities, and compensation of county employees. Prior to 1949, no county in North Carolina had a classification or standardized pay plan. Guilford County in 1949 secured the services of A. H. Pullen and Company to prepare a classification and pay survey. This study, which was adopted in 1950, was the first classification and pay plan governing county

(Continued on inside back cover)

URBAN GROWTH AND MUNICIPAL SERVICES:

II. COSTS AND REVENUES FROM EXTENDING SERVICES TO NEWLY-DEVELOPED RESIDENTIAL LAND

By GEORGE H. ESSER, JR. *Assistant Director of the Institute of Government*

One of the most intriguing questions in city government today is the relative cost of serving different types of property. Because homes take up relatively more land in urban areas than other property does, there is particular concern over the question of servicing new residential areas and subdivisions. Can the city afford, at present costs and under existing tax structures, to provide municipal services to new residential areas without incurring an excess of costs over probable revenues? Is it true that commercial and industrial property must subsidize to some extent the extension of municipal services to these residential areas?

It is generally assumed that residential areas do cost more to serve than they contribute in revenues to the city, and that therefore the city should go slow in extending services to large, new residential areas. Two recent North Carolina studies of the actual cost of providing services to residential areas in Greensboro and Winston-Salem conclude that this assumption probably does not hold for all cities in North Carolina. This article will summarize the findings of these studies, the methods employed in arriving at these findings, and the implications to be drawn from them. Further studies are under way which concentrate on the cost of servicing commercial and industrial areas.

* Ruth Mace, Institute staff member, who was the author's assistant in the Greensboro study mentioned in the article, was of great assistance in the preparation and editing of this article.

Financial Impact on City in Annexing New Subdivisions-Greensboro

As part of the basic research undertaken in the Greensboro metropolitan area, described in the first article in this series, the Institute of Government endeavored to find out the net cost of providing municipal services to residential subdivisions in Greensboro—that is, how much does the city have to spend to provide the necessary services and what is the return to the city in property taxes and other revenues to meet these costs.[1]

Little is known about the actual impact on the financial structure of a city of providing municipal services to land uses of various types. Too often costs of servicing particular types of land in a city have been estimated on crude bases that do not take into consideration the operating policies actually in effect, department by department. While techniques have been devised for estimating the costs of doing particular jobs, that is, performance budgeting techniques, they have not been consciously applied in determining the obligation incurred by a city in servicing newly-developed land. Thus in order to make a detailed pilot study of the cost of providing needed services to newly-developed land, the Institute of Government had to devise its own methodology, which will be described briefly in the following paragraphs.

It is important to recognize at the outset that the costs to a city of providing municipal services will be determined largely by the city's own policies and practices with respect to (1) design standards (such as subdivision regulations), (2) financing of improvements (such as special assessment policies), and (3) the level or quality of services provided. The Institute's study in Greensboro assumed that services would be provided to newly-developed land at prevailing Greensboro city levels, and under existing Greensboro design standards. It was further assumed that the financing of these improvements and services would be handled under prevailing Greensboro policies.

The Institute chose for study a piece of land northeast of the city which was being developed for resi-

[1] The substance of this report grew out of a detailed cost study developed by David McCallum as a Master's thesis for the Department of City and Regional Planning. The complete text of this cost study will be published later this year by the Institute of Government. This cost information was also used by the author in a report to the Greensboro City Council in November, 1955, entitled "The Financial Impact on the City of Annexing Subdivisions." This report has been revised and will be available on request about November 15, 1956.

TABLE 1

Cost-Revenue Comparison (Per Dwelling Unit Per Year)

	LOT SIZE AND PRICE RANGE						
	6,000 sq. ft.	9,000 sq. ft.		18,000 sq. ft.		36,000 sq. ft.	
1956-1961	$7,000-9,000	$7,000-7,500	$11,000-12,000	$12,500-13,500	$20,000-21,000	$10,000-20,000	$40,000-41,000
Revenue	$69.01	$67.19	$ 93.10	$104.51	$164.75	$155.67	$278.69
Annual Operating Costs	45.08	46.47	46.47	49.48	49.48	53.12	53.12
Amortized Capital Costs	15.46	19.01	19.01	26.67	26.67	36.17	36.17
Total Costs	60.54	65.48	65.48	76.15	76.15	89.29	89.29
Difference	+ 8.47	+ 1.71	+ 27.62	+ 28.36	+ 88.60	+ 65.38	+ 189.40
1961-1971							
Revenue	79.03	77.20	103.11	114.52	174.75	165.68	288.71
Annual Operating Costs	45.08	46.47	46.47	49.48	49.48	53.12	53.12
Amortized Capital Costs	15.39	18.92	18.92	26.55	26.55	36.08	36.08
Total Costs	60.47	65.39	65.39	76.03	76.03	89.20	89.20
Difference	+ 18.56	+ 11.81	+ 37.72	+ 38.49	+ 98.72	+ 76.48	+ 199.51
1971—							
Revenue	79.03	77.20	103.11	114.52	174.75	165.68	288.71
Annual Operating Costs	45.08	46.47	46.47	49.48	49.48	53.12	53.12
Amortized Capital Costs	8.55	10.22	10.22	13.83	13.83	18.35	18.35
Total Costs	53.63	56.69	56.69	63.31	63.31	71.47	71.47
Difference	+ 25.40	+ 20.51	+ 46.42	+ 51.21	+ 111.44	+ 94.21	+ 217.24

dential use. Four separate and distinct subdivisions were designed for the 242-acre tract, each at a different density. The following densities were chosen on the basis of Greensboro's subdivision regulations to determine the cost-revenue situation which may be anticipated under widely-varying development conditions: (1) minimum lot size 6,000 sq. ft.; (2) minimum lot size 9,000 sq. ft.; (3) minimum lot size 18,000 sq. ft.; (4) minimum lot size 36,000 sq. ft.[2] (The designs at 9,000 sq. ft. and 36,000 sq. ft. are shown in Figure 2.) The cost of providing services to each of the alternative developments was then estimated. This cost was compared to the revenue anticipated from each of these developments. In computing these revenues, current housing trends in Greensboro were carefully examined to insure that realistic assumptions were made as to type and value of house for each density used. Particular attention was given to housing constructed by developers. A range of realistic market prices and corresponding assessed valuations for homes occupying lots of the minimum sizes indicated above was established. For example, market prices for homes on lots having a minimum size of 9,000 sq. ft. generally range in Greensboro over the last five years from $7,000 to $12,000; assessed valuation for these homes according to Guilford County assessment practices range from approximately $4,300 to $6,200. Incidentally, this sampling of homes in Greensboro and its suburbs disclosed remarkably good correlation between market prices and assessed valuations in all parts of the city and the surrounding area.

The Measurement of Costs:

What Services Will the City Be Expected to Provide Upon Annexation?

To determine what costs are incurred by a city in servicing residential areas at the various densities, it is first necessary to determine what services the city will be expected to provide, particularly if the land is brought into the city upon annexation. **Services provided by cities fall into two main categories. The first category,** "services to property," include those **services that can be specifically identified with or are necessary to the utilization of land in an urban community.** When a parcel of land in or adjacent to a city is being developed, such services and facilities as residential streets, water and sewer systems, curbs and gutters and other drainage facilities, some phases of police protection, and fire protection will be required. **The second category,** "services to people," includes those **services of a community-wide nature** that are made necessary because of the needs of people living together in a metropolitan area. Examples of these community-wide services are major arterial streets, recreations programs, public education, public libraries, public health, protection, and traffic regulation.[3]

"Services to property" are provided only to property which lies within the corporate limits of the city, and in some cases through contract to property lying adjacent to the city. "Services to people" are measured and determined in part by the use of these facilities by persons living outside the city. In other words suburban residents make use of, and contribute significantly to the total demand for, such services as traffic regulation, law enforcement, major streets, recreation and public libraries. **In considering annexation the city's principal concern is with "services to property"** because the quantity and quality of the community-wide "services to people" will already have been determined without regard to city boundary lines. No increase in the cost of these community-wide services will usually result upon annexation.

In summary, then, the city (in North Carolina, at least) is concerned with the cost of providing the following services to newly-developed residential property: basic police and fire protection, garbage collection, street construction and maintenance, storm drainage, street numbering and street lighting, traffic engineering, water supply, and sanitary sewers.

How Costs Were Estimated

In computing costs, three variables were kept in mind: (1) the quality of services required; (2) the intensity of service required, bearing in mind the density of population; and (3) the financial policies in force with particular attention to the portion of the initial cost borne by the propery owner.

Ideally, there will be little variation in the cost of servicing similar types of residential areas in a city. One residential area may, by reason of density of population and the character of population, require more intensive services than normal, but wide ranges were not noticeable in Greensboro or in other North Carolina cities checked. Variations in quality of service are important in comparing costs of servicing different types of land uses and in comparing costs in different cities, but ideally one standard should apply throughout residential areas. Certainly, there is more adherence to a single standard in servicing newly-developed areas than in servicing certain older parts of the city.

[2] In practice actual densities are generally somewhat lower than those noted here, even when a developer is aiming at one or another minimum standard. Such factors as topography, size and shape of tract, and the developer's own subdivision practices will have the effect of cutting back somewhat upon the number of houses built upon each acre of land.

[3] A note about the classification of services in one or another of the categories is perhaps desirable. No air-tight assignment of all services to one or another of the categories is possible. Some elements of police and fire protection, for example, can logically be allocated as services to property, some as services to the entire community. Under the category of "services to people" at least three different sub-categories can be identified. Public education, public health, and public welfare are services demanded by and supplied to everyone, regardless of whether they live in a metropolitan area or not. Recreation and library programs are not so clearly accepted as services which everyone wants or demands, with the result that city governments are more likely to support such programs at a higher level than county governments. Finally such programs as major street systems are obviously the product of heavy urban concentrations. In all these "services to people," however, the important thing to recognize is that as new land is developed and becomes part of the urban community, the city government is going to experience an increased demand for these services, whether or not the land is annexed, and most likely the city will meet that demand whether or not the land is annexed.
One other point will be discussed in more detail later in this article. Division of responsibility for some services in other states may not conform to the categories suggested here. Public education is the principal example. In North Carolina basic support for public education is shared by the state and the counties, with the residents of some cities contributing some supplementary tax revenues. Since the city is not basically responsible for the support of public education, the problem of urban services can be considered separately from the problems of increasing educational needs. That this can be done seems to permit a more logical approach to the problem of urban growth.

With attention focused on the services provided to residential areas, how is it possible to determine what it will cost to provide those services to a given area? Precise determination of such costs depends upon the existence of accurate units of service, units that have not, as yet, been fully developed by municipal administrators. Nor is it strange that they have not been, for governmental services are complex operations to analyze and are subject to the stress and strain of human strengths and weaknesses. In order to say, for example, how much it will cost to provide police protection to an area, it is necessary to know how much area a police patrol can handle in terms of number of homes, population, and the distance or total area involved. It must be remembered that the work load of police patrols can vary with different social and economic characteristics. Precise answers cannot be achieved, but it is possible to arrive at relatively precise answers.

Before presenting a summary of the cost units devised by the Institute of Government, it would be well to emphasize that these unit costs are based upon long-range rather than immediate considerations. What was done was to estimate, on the basis of the quality of services now provided by the city and the probable quantity of these services needed in each of the alternative developments, the cost which the city would incur upon annexing one or another of these subdivisions. For example, the Greensboro fire department can provide fire protection today to the area under study without further expanding its personnel or equipment, but at some stage in the future, after further annexations, the fire department will have more territory, more risks, more people to protect, than the present personnel and equipment can manage and still maintain the present fire insurance classification. A determination was made, then, as to how much residential area and how many people one fire company can protect; and a fair share of the total cost of providing this company was apportioned to each subdivision. As a result, the city council, the manager, and the fire chief were made aware not only of what each area will require for fire protection; they are also in a position to estimate when a new fire company will be needed. The costs shown, then, are those incurred over the long range, not those to be met tomorrow. Thus the picture presented is more realistic for purposes of future planning as well as more useful for short-term operations.

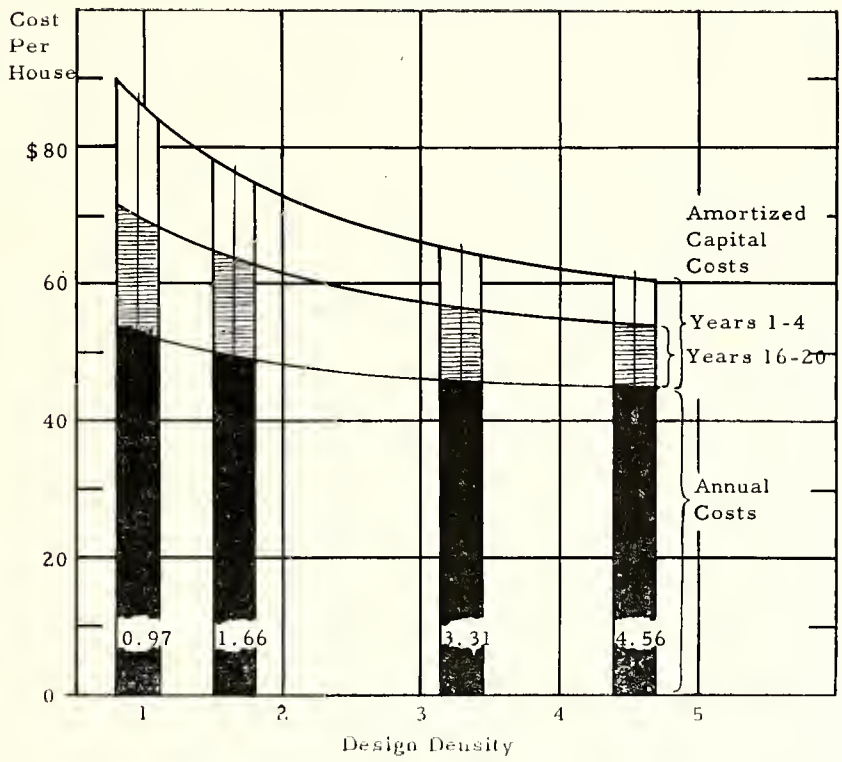
Itemized below are the principal units[4] of measurement found necessary to compute costs of services provided to residential areas and a brief explanation of how these units were selected:

1. **Police Protection.** A study of police operations in Greensboro disclosed that one police patrol is required for each 15,000 people in the city on the average, excluding the central business district where more intensive services are necessary. In order to provide effective patrolling of residential areas, that patrol must be backed up by the efforts of the detective division, the records and communication division, and other auxiliary services in the department. After making allowance for the time and effort involved in servicing public uses and commercial areas scattered throughout the city outside the central business district (about one-half the time of each patrol), it was determined that it costs $25,632[5] a year to maintain one 24-hour police patrol for residential areas, a patrol that will be able to handle an area with about 15,000 population.[6]

2. **Fire Protection.** Standards of fire protection for fire insurance purposes are fixed by the National Board of Fire Underwriters, and on the basis of personnel and facilities now available in the city, that Board has determined that Greensboro is entitled to a Class 3 fire insurance classification. Primary emphasis in the Board's grading schedule is placed on adequate protection of high value risks, and so a large proportion of fire protection costs is devoted to protection of high value commercial and industrial property. Facilities and equipment essential to residential protection include a fire company manning a pumper and the fire alarm system. Based on Board standards the city should provide one company

Figure 1

RELATIONSHIP OF COST PER HOUSE TO DESIGN DENSITY AT FULL DEVELOPMENT



[4] For complete details, see the full report.

[5] These estimates are obviously too precise for budgetary purposes, but they were used in the thesis and are carried over to this article without change.

[6] Police protection is an area in which much more research on workload techniques is necessary. The estimates used in this study were based on the fact that there was a close relationship between the population of the areas under the jurisdiction of each patrol. Distribution of patrols was made on the basis of equalizing workload and area to be covered. If the cost estimates had been made in November 1956 instead of October 1955, different measures would probably have been used.

and pumper for about every 10,000 persons in the city. While this standard is probably somewhat higher than the city is now meeting, it was used to compute fire costs except that personnel standards now in effect in the city were used in determining aggregate company strength. Taking into consideration location of fire stations and equipment, and after making allowance for the obligation of each fire company to protect some commercial and industrial property (about one-fourth of the obligation of each outlying company), we determined that the annual operating cost of providing residential fire protection for each 10,000 persons in the city was $36,602, and that the initial cost of establishing a station and obtaining equipment for this protection was $95,354.

3. **Street construction and maintenance.** After careful consideration of many factors, it was decided that the fairest way of estimating street maintenance costs was to determine the average cost, over the past several years, of maintaining the city street system (excluding maintenance costs on streets under the jurisdiction of the state highway system). This average cost includes every general expenditure for street maintenance. Similarly an average cost of paving a street to the city's standards, based on street construction projects in residential areas, was determined. This latter estimate included also the cost of installing curbs and gutters. One other street cost was found to be important. Once a street is paved, year-to-year maintenance takes care of cuts in the street, the settling of a portion of the street, holes which develop from normal wear and tear, etc. Just recently, Greensboro completed a resurfacing program costing many hundreds of thousands of dollars. Because every street paved must, at some time in the future, be resurfaced, a cost for resurfacing has been included in the cost estimates, a cost that probably will not have to be met for at least 15 years following original construction. This cost was apportioned over a 15-year period. Costs of paved street maintenance, including these resurfacing costs, were determined to be $10,398 per mile. Costs of street construction, at standards for residential use, and including only the city's share of the cost (Greensboro's policy is to assess residential street construction, including curb and gutter, at a total cost up to $6 per lineal foot and excluding intersections) were determined to be $22,295 a mile. This figure includes all applicable engineering and administrative costs.

4. **Garbage collection and disposal.** The basic unit of garbage collection is the truck and crew which collects the garbage and refuse and transports it to the sanitary land fill. Careful studies showed that the average Greensboro collection crew can take care of waste disposal for 750 homes. Collection from the curb takes place five days each week—two days for trash and three for garbage. The figure of 750 does not mean that each day there are 750 collections, but rather that the crew can cover an area that takes in 750 homes. The annual cost of maintaining a garbage collection crew in the city is $11,139.

5. **Miscellaneous costs.** Costs were also computed for a number of other activities which must be taken into account when new land is served. Among these activities were crime detection (detective), fire alarm system, traffic signs (residential area only), street signs and street lighting. All costs included not only the direct costs but also the necessary administrative costs.

Two other functions should be mentioned. Recreation facilities are generally planned for the whole community but some special facilities such as playgrounds are placed so as to be available to specific residential areas. Since recreation is supported in Greensboro by a special property tax, recreation costs were not included in the study, and revenue in the amount produced by the special tax was subtracted from all estimated revenues for each subdivision.

The water and sewer systems are supported from water and sewer charges except that all local water and sewer mains are constructed by the developer in subdivisions or the cost is assessed against the abutting property owners. There is, therefore, no cost for these utility services to be met from property tax funds. For this reason, water and sewer services were not considered in cost estimates for the case study subdivisions. This is not to say that water and sewer costs are not a significant element in considering extension of municipal services. In many ways they are the most significant cost factors, and further mention will be made of utility extensions, both later in this article and in more detail in a future article.

Application of the unit costs described above to the case study subdivisions resulted in a good estimate of (1) the initial capital costs which would be incurred in servicing each subdivision, (2) the additional capital costs which would probably be incurred during each of the first 20 years (assuming that expenditures would be made as soon as they were incurred), and (3) the annual operating costs which would be incurred during the 20-year period. These capital costs were then amortized over the useful life of the improvements, taking into account interest charges, in order to provide a picture of the total annual costs. Table 1 shows both the annual operating costs and the annual capital costs amortized for each subdivision in terms of dollars per dwelling per year. It should be reemphasized that all costs were estimated on an "accrual" basis. Although the city may not have to make all of the expenditures included in these totals when the subdivision is first served, or even during the 20-year period studied for each subdivision, these expenditures will have to be made at some future date if services throughout the city are to be maintained at the existing levels.

Estimated Revenues

As against these costs, what are the revenues which can actually be expected, year in and year out? On the basis of current building trends in Greensboro and assessment practices in Guilford County at the present time, the probable property tax revenues to be realized in the future from these subdivisions were determined. A word of caution is in order here as to the probability that these revenues will accrue. Residential property values can be expected to remain stable in well-developed subdivisions if the houses in those subdivisions continue to be attractive and comfortable. There is always the possibility, however, particularly in subdivisions where houses of low value are being constructed, that, at some time in the future, values throughout the subdivision will become depressed. If the desirability of the subdivision for living purposes decreases, if industry encroaches, if people do not maintain their property, then values will drop. This is a factor which the city must consider in the future, for conservation of residential property values is

a vital problem in many older cities in other parts of the country.

In addition to property tax revenues the city may expect additional revenues upon annexation from state collected and shared taxes, such as the gasoline tax, the beer and wine tax, the intangibles tax, and the utilities franchise tax. Income from two of these sources—the beer and wine tax and a portion of the gasoline tax—would not be realized by the city until after the next federal census in 1960. Table 1 also shows total revenues (1956 and 1960), in terms of dollars per dwelling per year, to be anticipated upon annexation from the sample subdivisions. These amounts, are, of course, subject to future fluctuation.

Cost-Revenue Estimates as a Means for Measuring the Financial Impact of Annexation

With estimated costs and revenues from the case study subdivisions before us, it is possible to examine the impact of annexing these subdivisions on the city's tax structure.

As pointed out above, the initial capital costs in each subdivision are high, and they obviously cannot be met from the anticipated revenue of the first few years. At the same time, they will not normally be met from operating revenues but will be met from (1) bond issues and (2) planned programs of improvements. For example, fire stations and alarm equipment are usually financed from the proceeds of bond issues, and the cost will thus be met over the life of the improvements. Residential street paving costs are met from revolving funds in Greensboro and the impact of this relatively large expenditure will be cushioned by programming of such paving as a part of the city's whole paving program. Such costs can, of course, be met from bond proceeds. Still other capital costs, such as street and traffic signs, involve a relatively small expenditure and are usually met from current operating revenues.

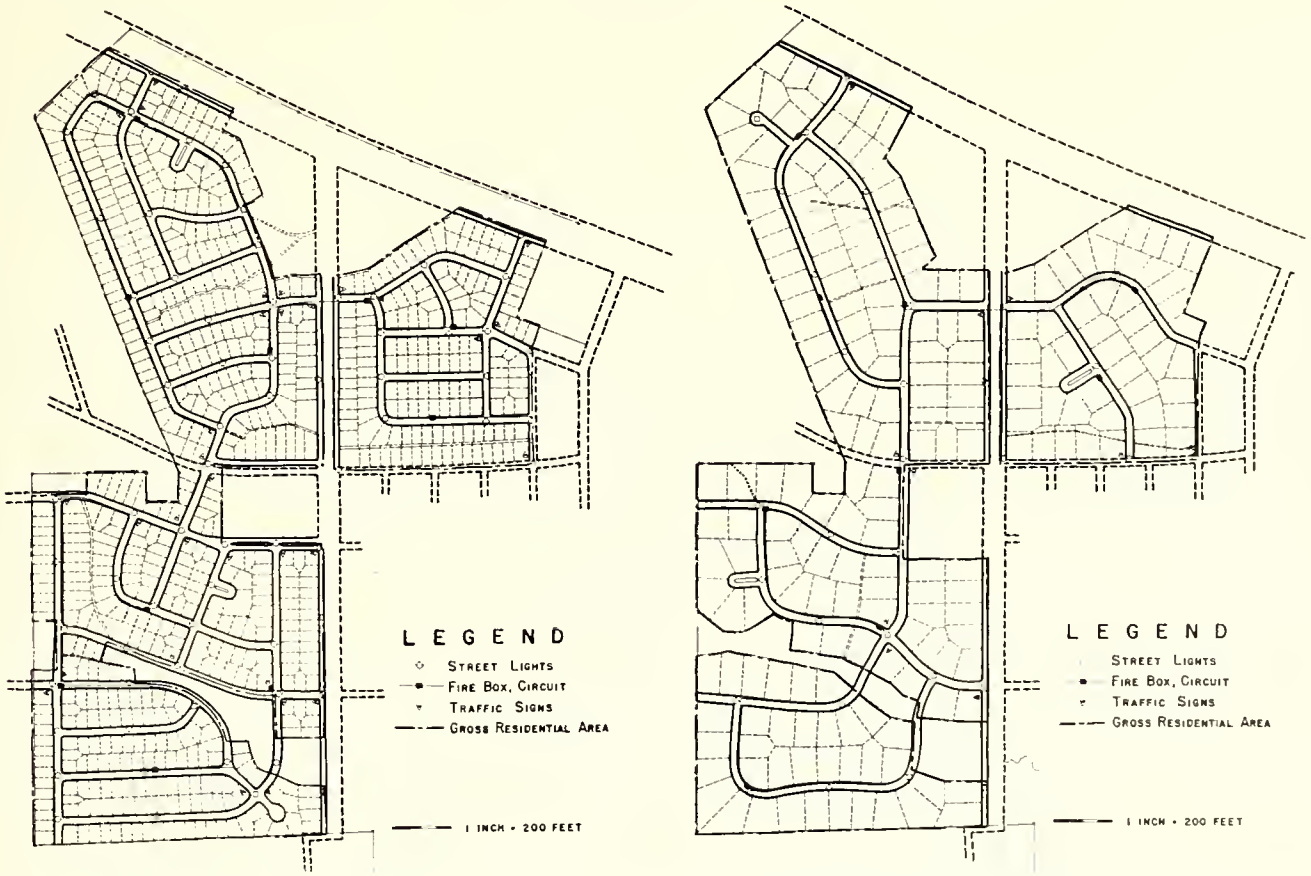
With good budgetary procedures, then, the impact of capital costs can be spread over a long period of years, and it is logical to amortize these costs in comparing costs and revenues. **Looking at costs and revenues for each density and at each price range over a period of 20 years** (see Table 1), **we find that in each case total revenues over the 20-year period will exceed annual operating costs and the initial capital outlay cost,** leaving a portion of the revenues to be applied to those services supplied by the city government which affect or benefit all the people in the city and throughout the metropolitan area.[7]

It would not be correct to say that the amount available to be applied to other services is a pure profit to the city or more than the homeowner's share of the total responsibility for the cost of major streets, traffic regulation, libraries and other services benefitting the entire community. It is more correct to say that revenue from these homes will both meet the cost of services to the individual properties involved and help meet the cost of other city services.

Neither should the homeowner who contemplates buying in a subdivision which is now outside the city limits believe that there is a profit which

[7] Revenue and cost figures in the table can be transposed to determine, for example, the approximate impact of building $7,000 homes on acre lots. It is clear that these small homes would not produce sufficient revenue to meet governmental development costs if they were built on acre lots.

Figure 2



Minimum lot size 9,000 square feet. Minimum lot size 36,000 square feet.

Case Study Subdivisions

he can reap by opposing annexation. That profit will be difficult or impossible to realize for the following reasons.

1. Owners of homes in the lower and medium price ranges will find that the total cost of garbage collection, water supply, fire protection and fire insurance outside the city will be as much or perhaps more than the total cost for such services in the city. Adjustments would have to be made to these estimates for residents of the adjacent incorporated municipalities.
2. The city will provide both more services and a higher quality of services than the outside owner can secure from other public agencies and from private agencies.
3. If the city should refuse to extend water and sewer services, the capital cost of water and sewer facilities and the continuing maintenance costs on such facilities would be relatively high and such facilities carry no assurance of protection in times of drought or in areas where private sewage disposal systems do not work effectively.

Correlation of Special Study With City as a Whole

The cost study described above was completed several months before the comprehensive analysis of metropolitan Greensboro was completed. Upon examination of property values in the suburban areas and comparison of these values with probable service costs, it was found that the case study results held up very well. While the case study results would indicate that development on half-acre lots or less would be sufficient to support high quality services so long as the land was about 60% developed, the complete suburban area study indicated that these were loose limitations insofar as general fund services (supported from tax revenues) were concerned. Reasons why general fund services can actually be extended into development which is even more sparse on the whole were these:

1. There is relatively little additional cost involved for general fund services in leap-frogging small sections of vacant land to reach outlying developed land.
2. Already-existing improvements in some areas tend to reduce initial capital costs required from the city.
3. Small centers of commercial and industrial property requiring relatively few additional services contribute additional taxable value in predominantly residential areas. Larger commercial areas require additional services that necessitate additional cost estimates.

As will be explained in a later article, however, there is another limitation on how fast and how far the city can extend its services, and this limitation is more directly related to density of development. It is the extension of water and sewer lines.

The Effect of Residential Annexation Upon City Finances in Winston-Salem

In June 1955 Winston-Salem's budget officer, I. Harding Hughes, Jr. completed a report[5] for the Annexation Committee in that city on "The Effect of Residential Annexation upon City Revenues and Expenditures." This study is similar to the Greensboro study just described in that a hypothetical residential subdivision is analyzed. In this research, however, only one subdivision at one density was considered.

It was assumed that this subdivision would be developed adjacent to the city limits; that it would contain one hundred residential lots having average dimensions of 75 feet by 200 feet; that streets would have a 60-foot right of way; that the developer would pave all streets and install water and sewer facilities at his own expense; that he would be allowed to connect to city water and sewer mains in accordance with existing policy; and that he would proceed to construct one hundred small, frame houses on the one hundred lots. The assessed valuation of house and lot was assumed to be $2,500. These assumptions provide for larger lot sizes than are expected for similar types of homes in Greensboro, and the assessed valuation either reflects a very inexpensive house or a definitely low assessment ratio.

In estimating anticipated municipal service costs that would result from annexation, Hughes recognized that there are certain services whose costs will not be affected by annexation. These are the self-supporting services (water and sewer) and the "services to people" which were described earlier. The Winston-Salem study considered only those services whose costs will be affected by annexation (i.e., additional services directly benefitting the annexed property and administrative services). The additional anticipated annual costs of these services were estimated, each service being analyzed separately, to determine how much effect annexation has upon each service in terms of cost per year per house. The services analyzed were as follows: police and fire protection, refuse collection and disposal, paved street maintenance, street lighting, miscellaneous public works services, public works administration, and that portion of the school expenses met by the local school supplement.

The report arrived at an estimate of additional expenditures per house per year, and compared this sum with an estimate of additional revenue per house per year from the following sources: property taxes, gasoline tax, beer and wine tax, intangible property tax, and utilities franchise tax. The results showed additional expenditures per house per year of $93.75 as compared to estimated additional revenues of $97.00 per house per year. The city therefore expected about $3.25 more in revenue than in necessary outlay. Assumptions on school expenditures were higher than the expected income from the supplemental school tax per house.

Why These Cities May Expect More in Revenue than They Must Lay Out in Expenditures for "Services to Property"

In the introduction to this article, it was stated that it is generally assumed that residential areas cost more to serve than they contribute in revenues. On the basis of the research described thus far, the Institute of Government has concluded that at the present standard of services and under existing financial policies, the City of Greensboro may expect to receive more revenue than is paid out for services to property alone. Harding Hughes has reached the same conclusion in Winston-Salem. An examination of why these conclusions differ from the generally-held conception and the policy implications of these conclusions is in order. The reasons why subdivisions in or adjacent to these cities cannot be considered as costing more than they produce in revenue can be attributed to (1) state tax policy; (2) financial policies in the cities; (3)

[5] This report has not been published.

tax valuation procedures; and (4) careful administrative control of the quality of services provided residential areas.

State Tax Policy

In many other states, where the full or major part of the cost of operating public schools is met by municipal governments, it has been maintained that residential areas are more costly to serve than other land uses, and that surplus revenues from commercial and industrial property are necessary to meet losses arising from servicing residential property. In most cases this conclusion as to the "liability" status of residential property is based on the assumption that it is appropriate to charge education costs back to property, and further, that these costs can be charged primarily (if not entirely) to residential property—on the ground that people with school age children live in houses.[9] This assumption is open to question on at least two counts. First of all, public education, as a governmental function, is not essential to the basic utilization of urban property. It is a benefit or "service to people" important to the community as a whole. Whether the child lives on a farm ten miles from the nearest school or in a densely-populated apartment district in the center of town, he expects to have the opportunity for a public school education. Thus, so long as children are being born, and wherever they are born, governments incur the obligation to provide them with public education. Secondly, the property tax is not imposed in theory on the basis of benefits received, but rather on the basis of ability to pay. The value of property owned is the measure of that ability. Thus, the cost-revenue estimate does not fix financial responsibility. Rather, it is a device for determining the incidence of governmental costs that can be specifically identified with the demands of property. In the Greensboro and Winston-Salem reports, described earlier in this article, it has been assumed, and we believe correctly, that "services to property" are the only functions whose costs can properly be measured in residential areas. Conclusions from these studies indicate that in providing such services, North Carolina cities may expect an excess in revenues over expenditures.

Nevertheless, many municipalities throughout the country do have responsibility for school operation. To varying degrees the states provide financial support to the local units responsible for school operation, whether they be municipalities, counties or school districts. The state of North Carolina, in bearing the principal cost of operating the public schools, recognizes that public education is even more than a community benefit or community obligation—it is a vital concern of the state. The principal cost of building schools in North Carolina is met from a county-wide property tax. In financing the operation of public schools on the basis of net income and sales taxes rather than ad valorem property values, North Carolina places the responsibility for education upon all of the people in the community and makes it clear that schools are not necessarily a function of land development. Even if a greater responsibility for school operation were placed on the counties, the fact that a county-wide tax is levied removes school financing from the strict limitations of localized land development. Of course, a great many areas in North Carolina provide additional support for higher school standards through a special school tax, but this tax is not levied by cities, and extension of city services does not carry with it a necessary extension of the school supplement tax (except in a few administrative units where special legislative acts make city and administrative unit boundaries coterminous.)

Financial Policy

Greensboro's policies for financing improvements such as streets and local drainage systems contribute significantly to the conclusion that well-developed residential subdivisions are not a drag on city finances. For example, Greensboro requires the property owner to pay the full cost of street paving and curbs and gutters up to $6.00 per front foot. Any costs over $6.00 per foot and the costs of paving intersections are met by the city. The result is that the city pays only about one-fourth the total cost of paving streets and installing curbs and gutters and storm drainage facilities. The remainder is paid by the individual property owner or developer. If Greensboro had some other policy for installing these improvements, the result might be very different. If, for example, the city met the full cost of paving streets, in a subdivision having a minimum lot size of 9,000 sq. ft., from property taxes, the total cost of service to the subdivision over a 20-year period would far exceed anticipated revenues, and not until about the fifteenth year of the period would revenues exceed total annual and amortized costs. Thus the city would either have to incur immediate losses (or increase city-wide taxes), or other city services would have to be curtailed or eliminated. Further, such a policy would be inequitable, in that local street paving contributes to the value of property that fronts on it. This contribution is reflected both in the market price and the assessed valuation of the benefitted property. An assessment policy that recognizes this increase of value to the property owner is realistic and fair. Greensboro's policy of paying all costs above $6.00 per front foot is also fair in that it recognizes that the property owner should not have to pay costs over and above those necessary to improve the average residential street. Street construction costs were not considered in the Winston-Salem study.

Property Valuation Procedures

It is not possible here to examine in detail the complex factors entering into a county's procedures in assessing real and personal property. It should be noted, however, that the Greensboro study was undertaken in a county which has recently had a professional revaluation, where new property is placed on the books in line with the values already fixed for existing property; where gross inequities do not exist in the valuations placed on different types of property (for example, an effort is made in Guilford County to list personal property comprehensively); and where a relatively high ratio of assessed value to market price is in effect. Actually, absence of inequity between various classes of property is more important than the actual ratio employed, for a low ratio can be compensated for by a higher tax rate.

Administrative Control

Careful administrative control by the City of Greensboro of the level of services provided to residential

[9] A detailed study of the use of cost-revenue studies in all other parts of the country was made by Ruth L. Mace as her Master's thesis for the Department of City and Regional Planning. The complete text of this study will be published later this year by the Institute of Government.

areas has the effect of establishing the cost-revenue relationship identified in the Institute's study. If the city revised downwards its street improvement standards to allow for thinner pavements, narrower streets, and lower quality curbs and gutters (without changing the tax rate) unexpended revenue returns would, of course, be proportionately greater. On the other hand, standards of service could be so high that revenues from the average home would not be sufficient to meet the cost. The tax rate, however, serves as an effective brake against such a policy. Service policies must be adopted, then, with consideration not only for the desirable standards incorporated in the policy but also for the long-term cost implications of the policy.

The Applicability of Case Study Results to Other Cities

The case study results reported on here cannot be used as the basis for flat predictions in other North Carolina cities. Local policies and practices with respect to the kind and level of services offered, the financing of public improvements, and the valuation of property vary considerably from one community to another. These variables have been discussed in some detail and do not need further amplification here. One other factor, however, should be briefly discussed, and this is the variation in available non-property tax sources.

A number of cities in this state, as in other states, derive large sources of revenue from other revenue sources, notably from the distribution of electricity. In those cities where electrical profits are used to help meet general service costs, the burden on property is proportionately lower. It would be logical to discover, therefore, that in those cities total revenues from residential areas would not be sufficient to equal costs to those areas—**unless** the electrical revenue derived from residential areas is allocated back to those areas in making the study. This is theoretically possible but practically difficult since the city usually has been selling electricity to residential areas long before the question of extension of other municipal services is raised. In other words, the city often sells electricity far outside its boundaries, and profit from electricity sales in outside residential areas is often money in hand and in use at the time further extension of services is contemplated, rather than additional revenue to be expected at the time such services are made available.

The policies and practices locally in force will determine for each community its cost-revenue relationship. It will therefore be necessary, if reliable conclusions are to be reached, for each city to determine for itself the impact on its finances of servicing residential areas. Such studies will be helpful to the communities in which they are undertaken in providing a basis for evaluating existing service standards and assessment policies. Further, they will help governing boards and citizens to understand the city's tax structure and unfold its weaknesses. Procedures followed in the Greensboro study may be employed to guide other similar studies, but it is not necessary that they be followed in minute detail. The Institute of Government will be glad to assist any North Carolina city which wants to initiate its own study.

The Impact of Service Extensions on Water and Sewer Systems, Financial Structure

Results of the case studies outlined in this article suggest the impact of extending services to residential areas on the city's **tax structure.** Equally important is the cost of water and sewer extensions and the impact that such costs have on water and sewer financing. While in many cities water and sewer lines are extended prior to the extension of other services, there are strong arguments for extending all services, and the city boundary, at the same time. Some of these arguments have already been set forth. Others will be developed in future articles. As a rule, however, the sale of water and sewer services before extension of corporate boundaries tends to make more difficult the eventual readjustment of city boundaries. Such a procedure may seriously affect future development in the entire metropolitan area.

Water and sewer extension policies are so complex and can affect the whole program of urban development in so many ways that it is not feasible to discuss them in this article. These policies will be explored in full in the next article.

Implications of Research Findings In These Case Studies

Results of the research in Greensboro and Winston-Salem, then, point to the conclusion that soundly conceived and developed residential subdivisions in or adjacent to North Carolina cities can at least pay their way for municipal services provided to them. The implications of this conclusion will be obvious to those who are facing annexation policy decisions. North Carolina cities whose improvement financing policies are sensible and equitable, whose tax assessment policies are equitable, and whose service level policies are workable and practical, can afford to annex and extend municipal services to residential areas—**if** these are now or will be soundly developed—in locations that can be economically served by the city's utility lines. The city will, through annexation, derive revenues over a period of years which can be applied to the cost of community-wide services which benefit residents of the subdivision, whether it is annexed or not. Furthermore, if residential areas are contributing revenues sufficient to meet costs of servicing residential property and more, it follows that commercial and industrial property (1) produce revenue sufficient to meet higher service costs for such property and (2) contribute to community-wide service costs, **but** they do not subsidize residential costs. Independent analysis of all property values in Greensboro supports this conclusion.

Clearinghouse

(Continued from page 1)

office manager of Thomasville; Roland H. Windham, assistant city manager of Sumter, S. C.; D. C. Moody, superintendent of water and streets of Florence, S. C.; John T. Morrisey and S. Leigh Wilson of the North Carolina League of Municipalities in Raleigh; and Alex McMahon and Jake Wicker of the Institute of Government in Chapel Hill.

Notes From Here and There

The city of **West Point, Ga.,** will try poison on its rats again unless a Pied Piper turns up. The present drive is the fourth one in recent years to try to free the city of its rats. The poison this time around is Warfarin.

* * *

Toledo, O., is pleased with its "penny tax," a city income tax that has completed a 10-year trial. Officials report that the city collected $66,789,388 over the decade, at a rate of one cent on every dollar earned. Accomplishments of the "penny tax" are many and varied. Pennies really do make dollars.

Taxing Private Interests on Government Land

Effects of a Recent U. S. Supreme Court Decision on N. C. Tax Situations

By
HENRY W. LEWIS
Assistant Director of the Institute of Government

Ad Valorem Taxation of Private Leasehold Interests in and Improvements on Land under the Exclusive Legislative Power of the United States.

Article I, §8, cl. 17 of the United States Constitution, provides that the Congress shall have power

> **To exercise exclusive Legislation in all Cases whatsoever, over such District [of Columbia] . . . and to exercise like Authority over all Places purchased by the Consent of the Legislature of the State in which the Same shall be, for the Erection of Forts, Magazines, Arsenals, dock-Yards, and other needful Buildings . . . .**

Under this general authority the Congress has authorized the various departments and agencies of the federal government to acquire large military, naval, and air force reservations throughout the country, several of them, for example, in North Carolina. Since World War II the need for housing servicemen, their dependents, and other service-connected civilians at these reservations has become acute. Congress has enacted two statutes in the general field that must be examined. The first of these acts is the Military Leasing Act of 1947,[1] the pertinent provisions of which read as follows:

> **That whenever the Secretary of War or the Secretary of the Navy shall deem it to be advantageous to the Government he is authorized to lease such real or personal property under the control of his Department as is not surplus to the needs of the Department within the meaning of the Act of October 3, 1944 (58 Stat. 765), and is not for the time required for public use, to such lessee or lessees and upon such terms and conditions as in his judgment will promote the national defense or will be in the public interest. Each such lease shall be for a period not exceeding five years unless the Secretary of the Department concerned shall determine that a longer period will promote the national defense or will be in the public interest. . . . Each such lease shall contain a provision permitting the Secretary of the Department concerned to revoke the lease at any time, unless the Secretary shall determine that the omission of such provision from the lease will promote the national defense or will be in the public interest. In any event each such lease shall be revocable by the Secretary of the Department concerned during a national emergency declared by the President . . . . The authority herein granted shall not apply to oil, mineral, or phosphate lands. . . .**
>
> * * * * *
>
> **Sec. 6. The lessee's interest, made or created pursuant to the provisions of this Act, shall be made subject to State or local taxation. Any lease of property authorized under the provisions of this Act shall contain a provision that if and to the extent that such property is made taxable by State and local governments by Act of Congress, in such event the terms of such lease shall be renegotiated.**

The second of these acts was designed to meet the housing needs at military installations with private developments. It is known as the Wherry Military Housing Act of 1949,[2] and the pertinent portions read as follows:

> **Whenever the Secretary of the Army, Navy, or Air Force determines that it is desirable to lease real property within the meaning of the Act of August 5, 1947 (61 Stat. 774), to effectuate the purposes of this title, the Secretary concerned is authorized to lease such property under the authority of said Act upon such terms and conditions as in his opinion will best serve the national interest without regard to the limitations imposed by said Act in respect to the term or duration of the lease, and the power vested in the Secretary of the Department concerned to revoke any lease made pursuant to said Act in the event of a national emergency declared by the President shall not apply . . . .**

As soon as the private housing projects authorized by the 1949 act were commenced—or in some instances even before construction was started—the question of whether they would be in any way subject to state and local taxation was raised. Several cases resulted,[3] and one of them has now been passed upon by the United States Supreme Court.[4] It is that case to which primary attention must now be directed.

First Supreme Court Case

In *Offutt Housing Co. v. County of Sarpy* Mr. Justice Frankfurter, for the Supreme Court, looked at the two housing acts together in the light of the portion of the Constitution first quoted and wrote:

> . . . [W]e have concluded that the more persuasive construction of the statute . . . is that the States were to be permitted to tax private interests, like those of [the petitioning private housing corporation], in housing projects located on areas subject to the federal power of "exclusive legislation." We do not hold that Congress has relinquished this power over these areas. We hold only that Congress, in the exercise of this power, has permitted such state taxation as is involved in the present case.[5]

The facts in the *Offutt Housing Company* case can be summarized as follows:

Offutt Housing Co., a Nebraska corporation, was organized primarily to provide housing for rent or sale. On January 18, 1951, the company entered into a contract with the Secretary of the Air Force to lease 63 acres of land and to build a housing project on Offutt Air Force Base in Sarpy County, Neb., in accordance with specifications submitted to the Department of the Air Force and to be approved by the Federal Housing Commissioner.

Terms of Agreement

The lease was for 75 years at a rental price of $100 per year. It con-

1 61 Stat. 774-776, 5 U.S.C.A. §§ 626s-3, 626s-6.

2 63 Stat. 570, 576.

3 See, for example, *Fort Dix Apartments Corp. v. Borough of Wrightstown*, 225 F. 2d 473 (1955), certiorari denied, 351 U. S. 962, 76 Sup. Ct. 1024 (1956); *Meade Heights v. State Tax Commission of Maryland*, 202 Md. 20, 95 Atl. 2d 280 (1953), and cases cited and quoted in those opinions.

4 *Offutt Housing Co. v. County of Sarpy*, 160 Neb. 320, 70 N. W. 2d 382 (1955); certiorari granted, 350 U.S. 893, 76 Sup. Ct. 153 (1955); opinion of the United States Supreme Court, 351 U.S. 253, 76 Sup. Ct. 814 (1956).

5 351 U.S. 253, 76 Sup. Ct. 814, 819 (1956).

tained the following important provisions:

> [The] buildings and improvements erected by the Lessee, constituting the aforesaid housing project, shall be and become, as completed, real estate and part of the leased land, and public buildings of the United States, leased to Lessee . . . .
> [U]pon the expiration of this lease, or earlier termination, all improvements made upon the leased premises shall remain the property of the Government without compensation . . . .

The housing company was required by the contract to lease all the units of the project to such military and civilian personnel at the Offutt Base as were designated by the commanding officer, on terms specified in the contract and at a maximum rent approved by the Federal Housing Administration and the Air Force.

The government was to provide fire and police protection to the project on a reimbursable basis. The housing company had the right to permit public utilities to extend water, gas, sewer, telephone, and electric lines onto the leased land in order to provide those services.

The company agreed to insure the buildings at its own expense, to permit government inspection of the premises, and to comply with regulations prescribed by the commanding officer for military requirements for safety and security purposes, consistent with the use of the leased land for housing.

The housing company could not assign the lease without the written approval of the Secretary of the Air Force.

The preferred stock of the housing company was held by the commissioner of the Federal Housing Administration, which insured a mortgage on the project after receiving a certificate from the Department of the Air Force that a housing project was necessary to provide adequate housing for civilian or military personnel.[6] After the signing of the contract and the insurance of the mortgage, construction proceeded forthwith.

Nebraska Statutes

To see the tax issue clearly it is important to examine the Nebraska property tax statutes. This approach is in line with the views of the Third Circuit Court of appeals in a similar situation:

> Beyond congressional permission to tax, it is also necessary to the validity of the local taxes here that, pursuant to such permission, the state have granted the municipalities the power to levy the tax in question.[7]

The Nebraska statutes defined "property" as "every kind of property, tangible and intangible, subject to ownership."[8] They defined "personal property" as "all property other than real property and franchises."[9] The statutes taxed all property not expressly exempted, required annual listing of personal property,[10] and specifically provided that "all improvements put on leased public lands shall be assessed to the owner of such improvements as personal property, together with the value of the lease. . . ."[11]

In this factual and statutory situation the Offutt Housing Company filed no property tax return in Sarpy County, although the Attorney General of Nebraska had ruled that the company's interest in the project, including all of the "personal property" used therein, was taxable in Nebraska as "personal property."

On June 23, 1952, the county assessor of Sarpy County filed a schedule or listing on behalf of the housing company, listing a taxable total of $825,685, itemized as (a) "Furniture & Fixtures—Tools & Equipment;" (b) "Household Appliances;" and (c) "Improvements on Leased Land."

The housing company failed to pay the resulting county and state tax, and after the county treasurer threatened to issue the usual distress warrant to collect the taxes, the company brought suit against Sarpy County and its treasurer for a declaration that the tax levy and assessment were void, and to have the collection of the taxes enjoined.

State Supreme Court Decision

In the District Court of Sarpy County it was held that since title to the buildings and improvements was in the United States, Sarpy County and the state of Nebraska could not tax them. The case was appealed to the Supreme Court of Nebraska by the taxing authorities. The State Supreme Court reversed the District Court, holding that Congress had given Nebraska the right to tax the housing company's interest in the property and that for tax purposes, under the Nebraska statute,[12] the housing company was in fact and as a matter of law the owner of the property sought to be taxed.[13]

The comments of the Nebraska Court on two provisions in the lease between the Secretary of the Air Force and the housing company should be noted. First, as to the provision that all improvements, upon expiration of the lease, should remain the property of the United States without compensation: This, the Nebraska Court said, ". . . simply provided when and in what manner [the housing company's] interest would ultimately become the government's property . . . ." Second, as to the provision that the buildings erected by the lessee should "be and become, as completed, real estate and part of the leased land, and public buildings of the United States, leased to lessee . . . .": This, the Nebraska Court said, ". . . simply prevented [the housing company] from destroying the mortgage security insured by the government and from defeating the purpose of the housing project by removing any of the buildings or improvements from the leased land and assured [the housing company's] performance of the terms and conditions of the mortgage and lease. The language used [in the lease] did serve to retain the bare legal title in the government . . . but it did not in any manner deprive [the housing company] of the ownership of its interest as lessee, which for all intents and purposes was the actual value of all the buildings and improvements, together with the fixtures thereof and all personal property used therein on the leased land so long as its lease was in full force and effect." In the light of the Nebraska statute calling for the assessment of improvements on leased public lands, the state court held as a matter of law that the housing company was the "owner" of the improvements for the life of the lease, and that the lessee's interest was taxable as personal property.

Certiorari Granted

Feeling that the housing company's attack on the Nebraska judgment raised serious questions of state-federal relations with respect to the taxation of private housing developments on government-owned land, the United States Supreme Court granted certiorari.[14]

First reaching the conclusion (as already pointed out) that Congress had granted and had authority to grant the states permission to tax the interest of the lessee in these housing

6 Acting, in this instance, under Title VIII of the National Housing Act (the Wherry Military Housing Act), 63 Stat. 570, 12 U.S.C.A. §1748 *et seq.*

7 *Fort Dix Apartments Corp. v. Borough of Wrightstown*, 225 F. 2d 473, 476 (1955).
8 Neb. Rev. Stat. § 77-102.
9 Neb. Rev. Stat. § 77-104.
10 Neb. Rev. Stat. §§ 77-201, 77-120, 77-1229.
11 Neb. Rev. Stat. § 77-1209.
12 Neb. Rev. Stat. § 77-1209.

13 160 Neb. 320, 70 N.W. 2d 382 (1955).
14 350 U.S. 893, 76 Sup. Ct. 153 (1955).

leases, the Supreme Court turned its attention to the housing company's argument that the Nebraska tax, "measured by the full value of the buildings and improvements, is not on the 'lessee's interest' but is on the full value of property owned by the Government." This argument was rejected in the following language:

"Labelling the Government as the 'owner' does not foreclose us from ascertaining the nature of the real interests created and so does not solve the problem.[15] The lease is for 75 years; the buildings and improvements have an estimated useful life of 35 years. The enjoyment of the entire worth of the buildings and improvements will therefore be [the housing company's].

"[The housing company] argues, however, that the Government has a substantial interest in the buildings and improvements since the Government prescribed the maximum rents and determined the occupants, has voting interests in [the housing company], provided services, and took the financial risks by insuring the project. [The housing company] compares its own position to that of a 'managing agent.' This characterization is an attempt by use of a phrase to make these facts fit an abstract legal category. This contention would certainly surprise a Congress which was interested in having private enterprise and not the Government conduct these housing projects. The Government may have 'title,' but only a paper title, and while it retained the controls described in the lease as a regulatory mechanism to prevent the ordinary operation of unbridled economic forces, this does not mean that the value of the buildings and improvements should thereby be partially allocated to it. If an ordinary private housing venture were being assessed for tax purposes, the value would not be allocated between an owner and the mortgage company which does his financing or between the owner and the State, which may fix rents and provide services. In the circumstances of this case, then, the full value of the buildings and improvements is attributable to the lessee's interest.[16]

"[The housing company] further argues that the tax on the appliances and furniture is invalid because [it] owns those items, never bought them from the Government, and that therefore its interest was not 'made or created pursuant to the provisions of this Act [the Military Leasing Act of 1947].' Here again using a label, that of 'owner,' as descriptive of [the housing company] does not answer the question. It appears from the record that [the housing company] was required to supply the appliances for the housing project. [The housing company] and its tenants will have full use of them for the lease period and they or their replacements must be left on the property at the end of the lease. [The housing company's] interest in the appliances, just like its interest in the buildings, is determined by its agreement with the Government, and, keeping in mind the purpose of § 6, we interpret that section as treating these items alike.[17]

"For these reasons the judgment of the Supreme Court of Nebraska must be affirmed."

Effect of Decision in N. C.

Under the United States Supreme Court's decision the private lessee's interest in military housing projects located on federally owned land can be taxed. But, as the Third Circuit Court of Appeals has pointed out, it can be taxed only if the applicable state law makes it taxable.

Is Lessee's Interest Taxable Property?

This leads to an investigation of two points: The first is what the North Carolina Machinery Act (the applicable statute) has to say on the subject:

Under that act, "All property, real and personal, within the jurisdiction of the State, not especially exempted, shall be subject to taxation."[18] This statement leads to further inquiries: (1) What is real property? (2) What is personal property? (3) Is the "lessee's interest" in a factual situation similar to that in the *Offutt* case "real" or "personal" property under North Carolina law? (4) If the "lessee's interest" is some kind of "property" under North Carolina law, is it "within the jurisdiction of the State"? (5) Is that interest exempt from taxation by the Constitution or statutes of this state?

The Machinery Act itself contains no definition of "property," but it does define "real property" to "mean and include not only the land itself, but also all buildings, structures, improvements and permanent fixtures thereon, and all rights and privileges belonging or in any wise appertaining thereto, except where the same may be otherwise denominated by [the Machinery Act] or the Revenue Act."[19] The act defines "intangible property" as "patents, copyrights, secret processes and formulae, good will, trademarks, trade brands, franchises, stocks, bonds, cash, bank deposits, notes, evidences of debt, bills and accounts receivable, and other like property." And, to complete its definitions, the act provides that "The term 'tangible property' means all property other than intangible."[20] Taken together, it seems fairly plain that a definition of "property" can be spelled out. The question, of course, is whether the "lessee's interest" or the leasehold of the housing company comes within any of the terms of this definition. Certainly the interest is not land, nor is it part of the land, but can it be included in the expression "all rights and privileges belonging to and in any wise appertaining" to the land? The answer might be affirmative were it not for two factors: First, the term "rights and privileges" belonging to land normally refers to easements, rights of way, various covenants, etc.—not to leaseholds. And second, the North Carolina Supreme Court has held that estates for years, however long, created by lease, are personal property and not real estate.[21]

Before proceeding further, it should probably be agreed that this interest of the lessee, being some class or kind of property, is "within the jurisdiction of the State." This is a point that might have been disputed[22] had not the Supreme Court taken the view it expressed in the *Offutt* case about Congress' having permitted the states to come into an area of "exclusive legislation" and levy a tax on the lessee's interest, but that issue seems now to be settled.

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15 See *Millinery Center Building Corp. v. Commissioner*, 350 U.S. 456, 76 Sup. Ct. 493 (1956).

16 [Footnote by the Court] "The record before us is unclear [*sic*] whether the estimated useful lives of all the appliances and furniture is less than the lease period. To the extent that the estimated useful life of any of these items extends beyond the term of the lease, the value attributable to such period must be excluded from the tax since it represents the Government's ownership interest. In the present state of the record, however, [the housing company's] remedy, if any, is in the Nebraska courts, not here."

17 [Footnote by the Court] "The record does not indicate clearly the relationship of the parties with respect to the furniture—valued at $205 in the total 1952 valuation of the taxable property at $825,685. This is a minor matter and we leave [the housing company] to seek redress in the Nebraska courts should the interests of the Government and [the housing company] be significantly different from their interests in the appliances or buildings."

18 Machinery Act § 303 (G.S. 105-281).

19 Machinery Act § 2 (30) [G.S. 105-272 (30)].

20 Machinery Act § 2 (10) [G.S. 105-272 (10)].

21 *Moche v. Leno*, 227 N.C. 159, 41 S.E. 2d 369 (1947). This decision does not necessarily conflict with the opinion in *Willard v. Blount*, 33 N.C. 624 (1850).

22 See letter of the Attorney General to J. P. McRae, January 25, 1952.

Is Lessee's Interest Exempt from Taxation?

Suppose then that it be presumed that the "lessee's interest" under North Carolina law is "property" of some kind and that it lies within the state's tax jurisdiction; the second point or issue must be raised: Is this "lessee's interest" exempt from taxation by specific provisions of the state Constitution or statutes?

There is no applicable exemption in the Constitution itself,[23] but sections of the Machinery Act do grant exemption to (a) "Real property owned by the United States . . ." and (b) "Personal property, directly or indirectly owned . . . by the United States . . . ."[24]

These provisions, it would appear, grant exemption to any interest the United States may have in these housing developments on federally-owned land, whether that interest is classified as "real" or "personal" property.

This brings into focus one of the provisions of the typical lease found in the *Offutt* case. The particular provision provides as follows:

> [The] buildings and improvements erected by the lessee, constituting the aforesaid housing project, shall be and become, as completed, real estate and part of the leased land, and public buildings of the United States, leased to Lessee . . . .[25]

The buildings and improvements, under the lease provision, actually become real estate belonging to the United States. And, if nothing else appeared, they would take the same exemption as the land itself under the North Carolina Machinery Act. But, as the *Offutt* case makes clear, it is neither the land nor the improvements added to it by the lessee that is allowed as a subject of taxation by the federal law: It is the "lessee's interest" in the land during the period of the lease that may be subjected to state and local taxation. The Supreme Court permitted Nebraska to measure the value of the lessee's interest by the full value of the improvements since their life-expectancy was shorter than the term of the lease,[26] but this did not mean that the improvements as such were being subjected to local taxation.

Having reached this point, it would seem that the United States Supreme Court treated the taxable interest of the lessee as personal property, and it would also seem that North Carolina considers such interests as personal property. That being the assumption, can that personal property be considered as exempt by the Machinery Act exemption of "Personal property, directly or indirectly owned . . . by the United States . . . ."?

It would seem that the answer to this question would have to be negative. If the lessee has a property or an interest in this lease, then obviously that interest or property cannot be "owned by the United States." If that view is correct the issue resolves itself into a question of whether the statutes of North Carolina require taxation of leasehold interests held by private individuals. Or, in other words, is the leasehold interest "tangible" personal property subject to local assessment and taxation, "intangible" personal property subject to taxation under Schedule H of the Revenue Act, or "intangible" personal property not dealt with directly in any of the tax statutes?

Is the lessee's interest comparable to "money on deposit," "money on hand," "accounts receivable," "shares of stock," "beneficial interest in a foreign trust," "funds on deposit with insurance companies," or "bonds, notes, demands, claims, or other evidences of debt"?[27] Or is the lessee's interest more nearly comparable to a patent, copyright, or trademark? Or is the lessee's interest more nearly comparable to the usual types of tangible personal property such as cars, machinery, merchandise, furniture, etc.? The answer to these questions may become important for local units in North Carolina.

It will be agreed by most that the leasehold is less comparable to cars, machinery, etc. than it is to the kinds of property usually considered as intangible and so characterized in the Machinery Act definition already quoted. But, if the lessee's interest is assumed to be intangible property, does that mean that it is taxable by the state under Schedule H of the Revenue Act rather than by the local units under the Machinery Act? In other words, when the General Assembly exercised its power to classify property for taxation in enacting the Intangibles Tax did that act remove from the local taxation all intangible personal property or only those intangibles specifically listed for taxation by Schedule H?

This inquiry can open with an examination of the first section of the Intangibles Tax article of the Revenue Act.[28]

> **The intangible personal properties enumerated and defined in this article or schedule are hereby classified under authority of Section three, Article V of the Constitution, and the taxes levied thereon are for the benefit of the State and the political subdivisions of the State as hereinafter provided and said taxes so levied for the benefit of the political sub-divisions of the State are levied for and on behalf of said political sub-divisions of the State to the same extent and manner as if said levies were made by the governing authorities of the said subdivisions for distribution therein as hereinafter provided.**

Attorney General Ruling

In an important opinion[29] rendered in 1952 the Attorney General of North Carolina considered this issue. He began by quoting the following language from the section of the Machinery Act stating what property must be listed and assessed for local taxation each year:

> All personal property (which for purposes of taxation shall include all personal property whatsoever, tangible or intangible, except personal property expressly exempted by law).[30]

The Attorney General then wrote: "The only intangible personal property excepted . . . is property taxed pursuant to Article VIII, Schedule H, of the Revenue Act, as so provided in G.S. 105-297(9),[31] and leasehold interests are not included in the intangibles taxed pursuant to said Article VIII . . . ." This interpretation of G.S. 105-198, quoted above, leads to the conclusion that it may be possible that there are kinds of *intangible* personal property still subject to taxation *ad valorem* by the counties and municipalities. This position can be summarized in this way:

1. The interest of the lessee in the peculiar facts under consideration can, as a matter of federal constitutional and statutory law, be subjected to taxation by a state (directly or through its subdivisions) if the state taxing statute is drawn so as to impose a tax on this kind of property.

2. Under the Machinery Act of 1939, as amended, the applicable

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23 Article V, § 5, North Carolina Constitution.
24 Machinery Act § 600 (1) [G.S. 105-296 (1)]. Machinery Act § 601 (1) [G.S. 105-297 (1)].
25 Quoted in 351 U.S. 253, 76 Sup. Ct. 814, 816 (1956).
26 See *Willard v. Blount*, 33 N.C. 624 (1850).
27 These are the items of intangible personal property specifically taxed under Schedule H of the Revenue Act; see G.S. 105-199 through 105-205.
28 G.S. 105-198.
29 Letter of the Attorney General to J. P. McRae, January 25, 1952.
30 Machinery Act § 301 (G.S. 105-279).
31 Machinery Act § 601(9) exempts from local property taxation, "The intangible personal property referred to in Article VIII, Schedule H, of the Revenue Act, which said intangible personal property shall be taxed or exempt in accordance with the provisions of said Article VIII, Schedule H, of the Revenue Act. . . ."

North Carolina law, all property (real and personal) not specifically exempted is subject to taxation. It is generally understood that a leasehold interest in this state is considered to be intangible personal property.

3. The Intangible Property Tax has the primary effect of removing from the general property tax imposed by the Machinery Act certain items of intangible personal property, classifying them, and setting the rates of taxation to be applied to the intangibles thus classified. Having removed these items from the general property tax, the General Assembly amended the Machinery Act to make it plain that intangibles taxed under Article VIII, Schedule H, of the Revenue Act (i.e. the Intangibles Tax) are exempted from the general property tax.

4. But despite the fact that one section of the Machinery Act[32] might be considered as removing *all* intangible property from the general property tax, it can be argued with force that items of intangible property not specifically classified and taxed in the Revenue Act (such items as "patents, copyrights, secret processes and formulae, good will, trademarks, trade brands"—all defined as items of intangible property by the Machinery Act) and not specifically exempted by the Machinery Act remain subject to local taxation. A leasehold interest would fall within that class of intangibles.

"On the other hand," wrote the Attorney General, "it could be argued that there is no precedent under the North Carolina *ad valorem* taxing statutes for taxing a leasehold interest as a separate object of taxation and that, furthermore, the only taxation authorized with respect to intangibles is that which is contained in . . . Article VIII, Schedule H, of the Revenue Act which does not cover leasehold interests."[33] In the absence of any North Carolina cases to guide them, local taxing units faced with this problem will have to rely on the best legal advice available to them.

32 Machinery Act § 801 (G.S. 105-303); "The listing, assessing, and taxation of intangible personal properties and the administration relative thereto shall be subject to the provisions of Article VIII, Schedule H, of the Revenue Act."

33 This argument would, it appears, have to be based on the portion of the Machinery Act quoted in the preceding footnote.

County Personnel

(Continued from page 4)

employees to be adopted in North Carolina. Since 1949, nine counties have had classification plans prepared and a tenth county has recently authorized a classification survey. The counties securing position-classification studies include Guilford, Forsyth, Wake, Mecklenburg, Durham, Cumberland, Orange, Onslow, and Carteret. In only two of these counties were the classification plans not fully adopted. Those counties were Forsyth and Wake. New Hanover has also adopted standardized class titles and a standardized pay plan. Although the counties with standardized classification and pay plans represent less than ten per cent of the counties of the state, they represent demonstration areas which are being watched with interest by all of the other counties of the state.

Summary

Although progress in the area of county personnel administration in North Carolina may appear slow, considering the diversity of the problems and the difficulty of communication, recent progress has been both rapid and substantial. The abandonment of the fee system and the delegation of the authority to set salaries to the county commissioners tend to make county government more unified and more responsible. The salary increases, the shorter work week, written personnel rules, and Social Security coverage tend to make county government more attractive employment. The adoption of standardized position classification and pay plans should improve administrative organization and employee morale and thereby improve the efficiency of county government. Because of these seven recent developments in county personnel administration, North Carolina counties are now better prepared than ever before to fulfill their increasing responsibilities.

State Highway Patrol

(Continued from page 2)

the school were Col. James R. Smith, Major D. T. Lambert, Major Charles Speed, Major W. B. Lentz, Lieutenant T. B. Brown, Lieutenant W. S. Hunt, V. O. Hocutt, Sgt. E. W. Jones, Sgt. O. R. Roberts, Sgt. G. A. Stewart, Sgt. C. L. Teague, Sgt. R. H. Chadwick, Sgt. W. S. McKinney, Cpl. J. S. Hackett, Cpl. O. W. Dean, Pfc. J. D. Cabe, Pfc. J. P. Carter, Pfc. C. A. Everington, Pfc. W. T. Felton, Pfc. E. T. Greene, Pfc. R. H. Nutt, Pfc. J. D. Pierce, Pfc. R. E. Pipes, Pfc. W. A. Riggsbee, Pfc. E. T. Vanhoy, Pfc. J. D. Williford, Cpl. R. F. Williamson, Cpl. O. J. Mitchell, Cpl. H. J. Hunt, Cpl. Pritchard Smith, Pfc. J. T. Jenkins, Pfc. Lloyd Pate, and Pvt. Bruce Griffith.

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