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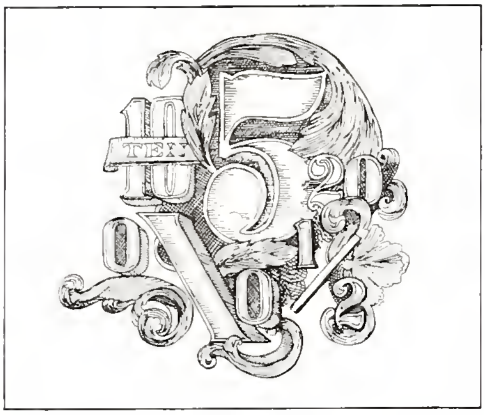

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This issue and the next issue of POPULAR GOVERNMENT contain articles that deal with financing as it affects local governments. The spring publication will include budgeting, operating revenues, projecting revenues, and financial reporting and auditing.

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Local Government Debt in North Carolina — an Introduction

David M. Lawrence

Almost all North Carolina local governments have outstanding indebtedness. Yet except for the very largest counties and cities, local governments issue new debt — bonds and notes — only infrequently. For that reason most local officals have little opportunity to become familiar with the characteristics of bonds and notes and the procedures that must be followed when they are issued. This article is designed to introduce the reader to that subject.

The constitutional framework for incurring debt

State constitutions are a curious amalgam of the general and the specific, statements of broad principles of government side by side with detailed procedures or prohibitions intended to remedy particular problems of the past. North Carolina's is no exception, and the two principal constitutional limitations on bond financing are examples of each type of constitutional provision.

The public purpose limitation. Article V, sec. 2(1), of the Constitution states that the power of taxation may be used for "public purposes only." Although the limitation is stated in terms of the power to tax, the State Supreme Court interprets it as being broader; it might more accurately be stated as: a government may *engage* only in activities that are public purposes. If an activity is not a public purpose, a government may not expend funds on it, regardless of the source. So stated, the public purpose limitation reflects the fundamental notion that the province of government is limited — that certain activities are restricted to the private sector of our society.

Local governments may issue bonds only for public purposes. For the most part this limitation will stand in the background of a bond financing; every purpose for which North Carolina local governments may now issue bonds is clearly a public purpose. Only if some new — and unusual — purpose should be added to the statutory list might the question arise. In such an instance, though, a case would have to be brought before the courts to determine whether the new purpose passed constitutional muster before bonds could be issued.

The two-thirds limitation. The second constitutional restriction on debt, adopted in 1936 as a reaction to the exuberance of the twenties and defaults of the thirties, is both more detailed and more immediate in any bond financing. Essentially, Article V, sec. 4(2), requires voter approval of all local general-obligation bond issues, unless the amount of the issue is no more than two-thirds of the amount by which the unit's debt was reduced during the previous fiscal year. An example should make the limitation clear. On July 1, 1976, city X's outstanding general-obligation debt is $22,400,000. During the 1976-77 fiscal year the city retires $1,200,000 of that debt and issues no new debt. Therefore, the city has a net debt reduction for the year of $1,200,000. During the next fiscal year, 1977-78, the city may issue general-obligation debt without a vote of the people in an amount up to $800,000 — *two-thirds* of the previous year's net debt reduction.

A few types of borrowing — primarily refunding bonds and tax anticipation debt — never require

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voter approval, and borrowing for a few other purposes — principally mass transit, redevelopment, and coliseums and museums — must always have voter approval. But with these relatively minor exceptions, all general-obligation debt is subject to the limitation.

Over the years the State Supreme Court has interpreted the limitation several times, adding a case-law gloss to the constitutional language. Two of these case-law doctrines should be mentioned. First, any borrowing by a unit — even voter-approved borrowing — counts against the unit's two-thirds capacity. For example, if a city has a two-thirds capacity of $800,000 and issues, with voter approval, $1,500,000 of street bonds, it has exhausted its two-thirds capacity. The lesson in this is to issue bonds under the two-thirds allowance (which do not need voter approval) early in the year, before a large issue exhausts the two-thirds capacity. Second, the two-thirds allowance cannot be accumulated from year to year. If it is not used in the fiscal year for which it is available, it is lost.

The statutory framework for incurring debt

It is a maxim of local government law that cities and counties draw their existence, their structure, and their powers from the General Assembly and cannot act without legislative authority. Nowhere is that more true than with borrowing money. Our General Statutes give local governments their power to borrow and establish the framework for and limitations on their doing so.

Fundamental state policies. North Carolina's statutory framework for debt issuance embodies three fundamental policies, each designed to keep borrowing within bounds and assure the ability of local governments to repay the money they do borrow.

First, with only minor exceptions, local governments may issue bonds for capital projects only. A North Carolina county or city may not balance its operating budget with borrowed funds, imposing the costs of current operations on future generations of taxpayers.

Second, a local government may not borrow an amount that causes its outstanding debt to exceed 8 per cent of the appraised value of property subject to taxation by the unit. (Utility debt — electric, gas, water, and some sewer — is excluded from this limitation on the assumption that utility revenues will meet the debt service requirements of these debts.) This net debt limitation seeks, in a rough way, to keep the debt service burden on a unit's tax base from increasing too much.

Third, North Carolina grants a state agency, the Local Government Commission, an extensive supervisory role over local government debt. Like the two-thirds limitation, the Commission is a product of the excesses of the twenties and defaults of the thirties. It must approve all local government borrowing and then must sell the bonds or notes on behalf of the unit. The Commission's primary responsibility is to make sure that a unit can afford a proposed debt before that debt is approved. Thus, it serves the same end as the net debt limitation but can do so in a far more flexible and individualized manner. The reputation it has developed and the expertise its staff brings to bond issues has undoubtedly saved North Carolina local governments a good deal in financing costs.

The statutory procedure and the bond attorney. G.S. Ch. 159 establishes a multi-step procedure that must be followed by a unit that wishes to issue bonds. In addition to those steps associated with seeking Local Government Commission approval and with complying with the net debt limitation, the statute requires adoption of a bond order (which authorizes the bond issue), the holding of a public hearing on the bond order, and publication of a number of associated notices.

Many of these procedural steps are formal, but it is crucial to the validity of the bond issue that they be correctly carried out. This need brings us to the bond attorney. In the last years of the nineteenth century and first years of the twentieth, bonds were often issued without careful compliance with statutory procedural requirements; these deviations offered a convenient ground for challenging bond issues disliked for other reasons. Even when these challenges were unsuccessful, the uncertainty created by the litigation dampened the market for the bonds involved. To avoid such challenges, underwriters began to employ counsel to review bond proceedings before accepting delivery of the bonds. If deviations were found, the underwriters would refuse to accept delivery. This method protected underwriters and investors, but it often was, at the least, inconvenient for the issuer, which might have to repeat the entire authorization process. As a result, issuers themselves began employing their own specialized attorneys to advise them during the authorization process and insure that no procedural errors were made.

Today's bond attorney is a specialist in municipal bond financing who guides the issuing unit through the constitutional and statutory requirements that precondition the issuance of bonds. At the end of the process, the bond attorney writes an opinion stating that these requirements have been met, and a copy of the opinion is printed on each bond. That opinion is what the bond attorney is selling the issuing unit; without it, there would be no market for the bonds. For that reason, it is important that a unit retain a bond attorney before it begins the issuance process and follow his directions exactly.

Characteristics of the municipal bond market

Like corporate bonds, municipal bonds (a general term that includes all bonds issued by state and local governments) are negotiable. Therefore an active market exists for them. But the market for municipals differs somewhat from that for corporate bonds, largely for two reasons: the relatively low credit risk of municipal bonds and, more important, the exemption of the interest they earn from the federal income tax.

In general, municipal bonds have been considered a better credit risk than corporate bonds — the chances of default are lower with municipals. Even during the Depression, when a substantial number of municipal defaults occurred, the number of corporate defaults was far greater.

This better credit history has probably had a role in the lower interest rates paid by municipal borrowers, but the principal factor in those lower rates has, of course, been the exemption of interest earnings from the federal income tax. Because the interest on corporate bonds is taxable income, those bonds have had to pay a higher interest rate in order to bring the same rate of return as municipals.

The lower interest rates paid on municipals have tended to cause ownership to concentrate in investors whose tax bracket is high enough to cause their after-tax return on municipal bonds to be higher than the after-tax return on corporate bonds. Historically, most municipal bonds have been held by institutional investors — principally commercial banks and some kinds of insurance companies — and wealthy individuals. This concentration of ownership in relatively sophisticated investors has been a principal justification for the special treatment of municipal bonds under the federal security laws.

In recent years that special treatment has come under attack. Less experienced investors have begun to enter the municipal market, and widely publicized instances of outright fraud by a few municipal securities dealers have occurred. More recently, the difficulties of New York City have called attention to the relative paucity of information traditionally made available to investors by municipal issuers, particularly in comparison with the information available on corporate issues. In 1975 Congress moved to extend the securities laws to *dealers* in municipal bonds, and one indirect effect of that change has been to increase the information made available by municipal issuers. The dealers are now under a statutory responsibility to provide their customers with enough information to make intelligent decisions, and the issuers are the sole source for much of it. For the present, however, despite continued pressure in Congress, local governments themselves remain exempt from all but the fraud provisions of the federal securities statutes.

The character of debt in North Carolina

Types of debt. *Long term v. short term* — In many states, local government revenues are not collected until well after their related expenditures have been made, sometimes not until the next fiscal year. To meet current expenditures, these local governments must borrow in anticipation of the receipt of their revenues; this money is repaid when the revenues come in. For these local governments the current operations budget must include an appropriation to pay the interest on this short-term debt. In addition, if a unit's fiscal discipline breaks down, these short-term debts may tend to be extended (or "rolled-over") rather than repaid at maturity and so may accumulate. Such an accumulation of revenue anticipation debt (plus the issuance of such debt in excess of reasonably anticipated revenues) was one factor that led to New York's financial difficulties.

In contrast to other states, North Carolina makes almost no use of short-term revenue anticipation debt. In recent years, only two local governments have had to borrow in anticipation of current taxes, both in the recession of 1975-1976. But it has not always been this way. Until the 1930s, local governments frequently used short-term financing; by mid-1932, for example, some $16,000,000 of such debt was outstanding. One of the Local Government Commission's first policies, as it sought to help local governments through the fiscal swamps of the Depression, was to discourage borrowing in anticipation of taxes and other revenues. In nine years, this policy led to a 90 per cent reduction in such debt, and today, as noted above, this financing tool is hardly ever used. North Carolina's local governments do without revenue anticipation financing because of careful cash management, especially through use of fund balances to meet expenditures early in the fiscal year, and because their revenue base has broadened considerably from the twenties and thirties when the property tax was predominant. In this way, then, the statutory policy that *bonds* (long-term borrowing) not be issued for current expenditures is reinforced by the practice of also not issuing *notes* (payable within a year) for these purposes.

(This is not to say that short-term borrowing is not used in North Carolina. It is, however, restricted to bond-anticipation notes — notes repaid when the bonds themselves are issued. Proceeds from these notes may be used only for those purposes for which bonds may be issued.)

General-obligation bonds v. revenue bonds — One of the principal means of classifying debt is by the nature of the security pledged for repayment. In North Carolina two types of security are allowed. *General-obligation bonds* are secured by the unit's power to levy taxes, which by statute is limited by neither rate nor amount. *Revenue bonds*, on the other hand, are secured only by the revenues generated from the project or facility built with the proceeds of the revenue bonds. Obviously, revenue-bond financing is not practically available for many of the purposes for which local governments borrow money; it is usable only for projects that generate revenue in amounts sufficient to both meet their own current operating costs and pay debt service.

The bond market generally views general-obligation bonds as a stronger security than revenue bonds, and for that reason revenue bonds usually carry a higher interest rate than general-obligation bonds. In addition, because their security is grounded in the operation of the bond-financed facility, revenue bondholders are concerned about how well the facility is managed. For that reason, a revenue bond trust agreement typically contains a great many restrictions on the issuing unit's freedom of operation. These concerns are not present with general-obligation bonds, and these restrictions are not imposed.

Despite these disadvantages, revenue bonds are heavily used in some states. Typically, those states have constitutional provisions that tightly restrict local governments' ability to issue general-obligation bonds. For example, one state's constitution restricts a city's or county's total general-obligation debt to 2 per cent of its assessed valuation. Revenue bonds are not subject to these kinds of provisions, and local governments therefore turn to them by necessity. North Carolina does not suffer from this sort of constitutional restriction that forces its local governments to revenue-bond financing. Also, although revenue bonds in North Carolina need never be approved by the voters (a significant difference from general-obligation bonds), most local governments, encouraged by the Local Government Commission, have found that the disadvantages of revenue bonds outweigh this advantage. As a result, they use revenue bonds much less than governments in other states.

Some figures from 1972 Census of Governments (the last year for which comparable national and state data are available) should illustrate what is said in the preceding paragraph. Nationally, counties had slightly over $13 billion in outstanding long-term debt; of that, 20 per cent was secured only by revenues. North Carolina counties had some $540 million in outstanding debt, of which less than 1.5 per cent was revenue-secured. (Since then, two very large hospital revenue bond issues have pushed the 1976 revenue bond percentage for North Carolina counties to slightly more than 9 per cent. However, hospital revenue bonds have become a national trend, and the national percentage for counties may also have risen since 1972.)

City governments, with their utility operations, have made more use of revenue bonds than counties, as the census figures demonstrate. Nationally, of some nearly $46 billion in outstanding city debt, 40 per cent was revenue-secured. In North Carolina cities, on the other hand, revenue bonds composed only about 12 per cent of outstanding long-term indebtedness. And by 1976, the North Carolina percentage had fallen to less than 2 per cent.

Amount of debt. Since reaching a low point during World War II, the total outstanding debt of North Carolina's counties and cities has grown steadily, and in the sixties, almost spectacularly. (See Table 1.) Per capita debt over the same years reflects this growth in total debt. (See Table 2.)

Table 1

Outstanding General-Obligation Debt

Date	Millions of Dollars	
on June 30	County	City
1942	$127.8	$146.9
1952	141.5	173.9
1962	297.7	303.0
1972	537.2	595.3
1976	665.3	725.8

Source: 1942-1972: Biennial Reports of North Carolina Local Government Commission, 1976. Local Government Commission release.

Table 2

Per Capita Debt[1]

Year	County	City
1942	$ 35.78	$117.43
1952	34.85	99.77
1962	65.34	157.15
1972	105.69	272.29

1 All of the population figures used are from the decennial census taken two years earlier.

The figures in Tables 1 and 2 demonstrate a strong increase in debt, with both total debt and per capita debt much higher than in the early 1930s, when the debt burden became so great that many North Carolina counties and cities defaulted on their obligations. However, the figures take no cognizance of the corresponding growth in the state's economy: when we compare that growth with the growth in debt, we see that the ability of our local governments, as a group, to repay their debts has grown even faster than the debts themselves.

For example, because general-obligation debt is secured by a unit's power to levy taxes, principally the property tax, one indicator of relative debt burden compares total debt with total assessed values. Table 3 indicates that the amount of assessed value available to service each dollar of total debt has grown fairly steadily since 1942.

Because taxes are paid from income regardless of their basis, comparing the growth of debt with the growth of per capita income will be helpful. Table 4 shows the amount of outstanding county debt for each dollar of per capita income. (City figures are not shown, since separate per capita income figures for city residents are not available.)

In summary, these economic indicators would seem to show that North Carolina's relative debt burden has decreased since World War II.

Table 3

Amount of Total Assessed Value Available to Service Each Dollar of Total Indebtedness

Year	County	City
1942	$20.76	N/A
1952	36.85	$14.76
1962	32.26	16.39
1972	45.70	19.98

Source: Assessment information from *Statistics of Taxation*, issued biennially by Division of Tax Research, North Carolina Department of Revenue.

Table 4

County Debt and Per Capita Income

Year	Statewide Per Capita Income	Outstanding Debt Per $ of Per Capita Income
1942	$ 323	$395,602
1952	1,037	136,490
1962	1,558	191,081
1972	3,218	166,905
1976	4,952	134,342

Source: 1942-72; U.S. Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1970*, Part 1, Bicentennial Edition, 1975. *1976: Survey of Current Business* (August 1976). (Figures for 1942, 1952, 1962, and 1972 use per capita income from 1940, 1950, 1960, and 1970, respectively; 1976 figures use per capita income from 1975.)

North Carolina's default history

The great publicity of New York City's financial troubles has kindled interest in the default record in other states, including North Carolina. This state's local governments have a very good record for bond repayments in recent years, but it was not always so.

The 1920s were a boom time in North Carolina, as elsewhere, and our local governments participated in the boom, building for the future. The Depression hit them hard. Many units had borrowed heavily on the assumption that a continued economic boom would lead to an increased tax base, which would ease repayment. Instead, growth stopped, and many taxpayers simply could not pay their taxes. Also, some units had not judiciously planned their debt service repayment schedules and were faced with very large annual debt service requirements.

For these reasons, counties and cities began to default. The peak came in the middle of 1933, when 62 counties, 152 (of 260) cities, and some 200 special districts were in default on principal or interest or both. This was the state of affairs facing the Local Government Commission when it was created — largely in response to this crisis — and began its work in 1931. Throughout the thirties the Commission focused its energies on designing a variety of refinancing plans to help these defaulting units. (The most significant of these refinancings — those dealing with the governments of Buncombe County — were finally paid off on July 1, 1976, forty years after they were approved.) This work was largely finished by 1940, and the Commission was able to devote more of its energies to the approval and sale of new debt and, more recently, the improvement of local financial administration.

Since the 1930s default has been rare indeed in North Carolina. One small sanitary district had trouble repaying a federally held loan. Another small town could not, in the end, meet even its refinanced Depression-era obligations and became the only United States municipality to use the special federal bankruptcy statute for public bodies enacted in the 1930s. Its tax base was simply too small to meet its obligations.

Some recent changes in North Carolina debt policy

Tax-free financing for private entities. The opening section of this article noted the pertinence of the public purpose limitation to local government bond issues. The North Carolina Constitution has recently been amended to expand the character of public purposes and permit certain types of borrowings earlier invalidated by our Supreme Court.

Because the interest on their bonds is tax-free, local and state governments pay less to borrow money than do private corporations. Largely since World War II, the various states have sought to further certain public policies by extending, in some fashion, the lower costs of municipal financing to private corporations.

The primary example of this sort of extension is the industrial revenue bond. In this sort of financing, a public body issues bonds to finance construction of an industrial facility. The facility is then leased to a manufacturing company and the bonds retired from the lease payments. Because the bonds are issued by a public agency, their interest income is tax-free; thus the leasing company acquires its facility at a lower financing cost than would be possible on the corporate bond market. The public-policy justification for such financing is that it attracts new industry and creates jobs. More recently, this same sort of financing device has been extended to pollution control facilities — such as a cooling tank at a nuclear power plant or a sewage treatment facility at a paper plant — and to hospital facilities owned or operated by private nonprofit corporations.

Our General Assembly was late in authorizing this sort of financing for North Carolina, beginning only in 1967. Even then, however, our Supreme Court held that industrial revenue bonds violated the State's Constitution and, in the early seventies followed this with decisions invalidating pollution control bonds and hospital financing bonds. The Court held that assistance of this sort to private entities did not further any public purpose.

Therefore, the General Assembly in 1975 proposed and the people ratified two amendments to the Constitution that permit this sort of financing. Article V, sec. 8, now permits the issuance of bonds to finance hospital construction for private nonprofit corporations, while Article V, sec. 9, permits public financing of "industrial, manufacturing, and pollution control facilities" for private corporations. With the adoption of the two amendments, this authority has begun to be used and the first such bonds have been sold.

Financing of electric generation facilities. The second major addition to the municipal bond picture in North Carolina has concerned electric generation facilities. The 1975 General Assembly enacted legislation permitting cities cooperatively to finance generation facilities, and efforts have begun to use that authorization. But the 1975 legislation does not provide for direct involvement by the private power companies; their only potential role is as purchaser of the municipally generated energy. Therefore, the 1977 General Assembly was presented with a proposal to permit joint financing of generation facilities by cities and the power companies. Because of our Court's previous attitudes toward public involvement in private enterprise, the proposal took the form of a constitutional amendment, which the voters approved in the November election. Its passage is further evidence that the public policy of North Carolina, as reflected by its voters, is favorable to public assistance to private entities when there are broader public benefits to be realized from the assistance. □

Marketing Municipal Bonds in Today's Full-Disclosure Environment

Harlan E. Boyles

HOW TIMES CHANGE! Just a few short years ago, state and local governments enjoyed an enviable position in the financial community. When either wished to borrow money the private market place was alerted and the market responded, readily and quickly, with a minimum of expense to both the borrower and to the lender.

Then 1975 came. Difficulties in the municipal securities market became front-page news. The largest city in the United States was in deep financial trouble. The concern over New York City's money problems rippled through the entire securities market. Between February 1975 (when the New York State Urban Development Corporation failed to meet its short-term debt because it could not market its moral-obligation bonds) and November 1975, tax-exempt interest rates as measured by the Bond Buyer's Index jumped 118 basis points for a percentage increase of almost 19 per cent. Over the same period, interest rates on high-grade taxable corporate bonds rose only 4.5 per cent and interest rates on U.S. Treasury bonds rose only 5 per cent.

The increase in tax-exempt interest rates obviously was an overreaction, but it happened. Although the interest rate level has corrected itself, new demands have been placed upon both the borrower and the lender. These requirements are mainly financial disclosure and reporting standards that previously applied only in the corporate securities market. Therefore, while there has been an unrelenting series of stresses upon the municipal securities market in recent years — partly because of New York City's struggles — the major immediate concerns to those who work in state and local governmental finance are (1) the scheme of regulations being imposed upon municipal bond brokers and dealers and (2) the possibility of more intense judicial scrutiny of municipal bond transactions under the antifraud provisions of the federal securities laws.

Municipal market changes

When Congress enacted the first federal law regulating securities in 1933, municipal securities were given a special status. It was assumed that municipal securities were practically without risk and most of the purchasers were wealthy investors sophisticated enough to protect themselves. Thus, except for the antifraud provisions of the Securities Act, the municipal securities market was, for all practical purposes, left to police itself.

During the New York City situation in 1975, the investor soon learned that municipal securities were no longer risk-free. Furthermore, Congress quickly became involved and concluded that the nature of the municipal securities market had changed drastically since the 1930s. Inflation had attracted smaller investors to the shelter of tax-free municipal bonds. Therefore, because of smaller investors' increasing interest in municipal securities and the absence of adequate and full disclosure on the part of borrowers, Congress repealed the exemption from the regulation of the Securities Exchange Commission (SEC) as it applied to bank dealers and securities firms operating as municipal market professionals. Even though this 1975 amendment repealed the exemption of brokers and

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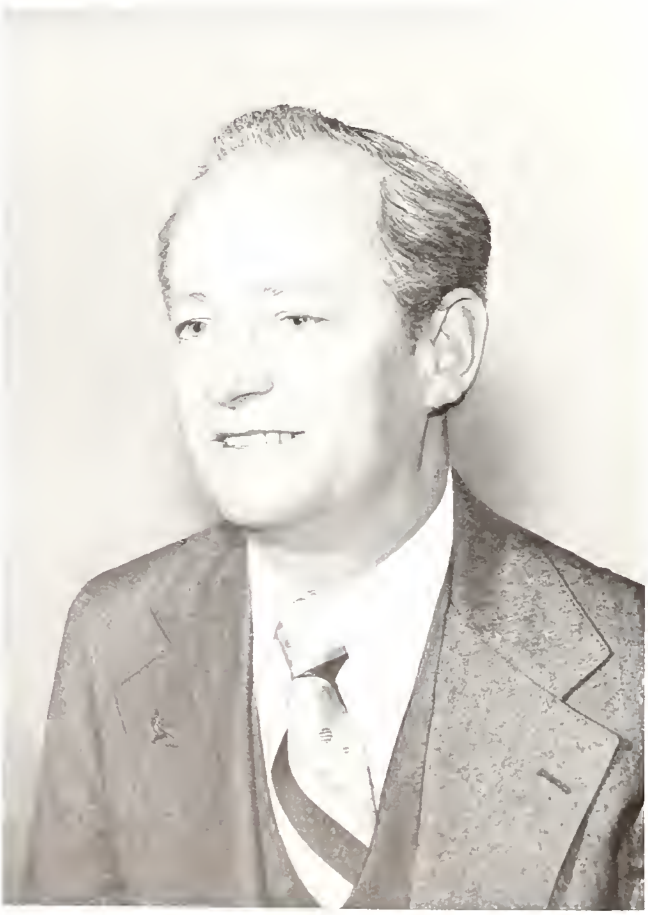
dealers, it did not repeal the exemption enjoyed by issuers of municipal securities. Yet those of us who represent state and local government are today experiencing our most frustrating difficulties in this area.

In the corporate market, disclosure by the borrower of financial and related information critical to the investing public has long been required. In the municipal market, however, the new law permits SEC regulation only by prohibiting brokers and dealers from making markets in municipal securities for which financial information about the issuer is not readily available.

The 1975 Securities Act amendments created the Municipal Securities Rulemaking Board and assigned it the function of regulating the activities of municipal securities brokers and dealers. Being a charter member of that Board and having served on it for the past two years, I am not surprised when I am asked by those who work in state and local government to name some of our achievements. They ask, "How do the Board's rules and findings help the issuer?" I explain that the Board was entrusted with the primary responsibility of developing rules to govern the activities of municipal securities brokers and dealers. Further, the Board was given no jurisdiction over the actions or practices of the issuer. Its attention has been concentrated in a number of specific areas including professional qualifications for dealer and broker representatives, rules of fair practice in conducting municipal securities business, recordkeeping, syndicate practices, fair prices and commissions, disclosure of underwriting arrangements, rules for arbitration of disputes involving municipal securities transactions, and the like — all of which are intended to assure the public that the municipal securities business will be adequately supervised and regulated in an endeavor to prevent unethical and unscrupulous practices on the part of dealers and brokers. If we achieve this objective, we have been wisely engaged and have spent our time well.


Harlan E. Boyles

Disclosure by municipal bond issuers

While the issuers of municipal securities are not subject to direct regulation, it is apparent and obvious that the issuers must give brokers and dealers enough information to meet market demands. Thus, the outgrowth of the actions of Congress in 1975 is, in effect, the disclosure by the issuers of material information associated with their bond issues.

Before 1975 the main concern of municipal accounting and reporting apparently was to meet legal requirements for budget administration rather than providing information to investors. Without question everyone in the municipal securities business — issuers, underwriters, and investors — believes in more and better financial disclosure, including the standardization of accounting. Thus, through the influences of the securities market and the timely response of the Municipal Finance Officers Association (MFOA), meaningful steps are now being taken to provide investors the information they need to make intelligent investment decisions.

Specifically, in North Carolina, the recent demands of the market place have been quite noticeable and, to many of us, rather drastic. A brief summary of the "before" and "after" of the dreadful year 1975 will help in understanding what has happened over the past several years in the municipal bond market.

In the days before New York City's trauma, the Local Government Commission marketed municipal bonds on behalf of North Carolina cities and counties with a brief offering circular that provided basic information about population, debt, tax collections, and financial statements covering a period of three or four years.

In December of 1975, Richmond, Virginia, an

AA-rated city, attempted to sell bonds worth $25,000,000 for which there were no bidders because the financial information was inadequate. It was about this time also that municipal bond dealers became regulated as a result of new federal legislation. In response to this situation, the Local Government Commission expanded the information contained in the offering circular into an official statement that now contains information about the unit's demographic, industrial, commercial, education, and governmental facets, with an emphasis on revenue sources and tax collections in addition to financial statements. During this same period, MFOA initiated a study of municipal bond offerings that resulted in the publication of *Disclosure Guidelines for Offerings of Securities by State and Local Governments.*

The Local Government Commission staff has developed a model official statement composed of sections to be completed by the issuing unit, the bond attorney for the unit, and the Commission staff. Bond attorneys, municipal securities rating agencies, municipal bond dealers, and North Carolina banks with municipal bond departments were consulted about the information to be included and the format before the model statement was completed. This official statement complies substantially with the MFOA *Guidelines* but differs in some basic ways in how the presentation of financial information is presented.

Preparing this new official statement has proved to be more time-consuming and much more costly than before. Local officials and the Secretary of the Local Government Commission are now required to certify that the material presented is correct and not misleading and also that no facts have been omitted that would significantly affect the offering unit. Obviously, and yet with some degree of pride, we believe that our official statements are fulfilling the requirements of full disclosure as viewed by the market place. This assumption is reinforced by the sale of North Carolina municipal bonds at substantially lower net interest costs than nationwide net interest costs.

North Carolina's debt management program is cited frequently as a model for other states. Several recent proposals before Congress indicate the desire for legislation requiring issuers to follow uniform disclosure standards. But usually issuers have been exempt from SEC regulation if the state in which the issuer was located approved its disclosure statement as adequate for investor protection. Call it "home rule" if you wish. I prefer to call it saving the taxpayers' money. Where, except in North Carolina, can you point to consistently lower interest rates and savings over the life of the bonds of up to 20 per cent of the total interest costs?

The year 1977 has been a good year for the municipal securities market. On the national level, state and local operating budgets have moved generally into strong surplus conditions because of strongly rising tax revenues and more conservative expenditure levels. And, again on the national level, we have seen that credit available at lower interest costs can allow many states and localities an opportunity to restructure their debt from short to longer term. This restructuring, together with improvements in budgetary positions, has served to improve dramatically the financial standing of the "troubled" states and municipalities so that, today, the investment community is back in the market with full confidence.

WHAT ABOUT THE FUTURE? In my mind the future in the municipal securities market depends more upon external forces or influences than internal. If we look at past history, we find that the municipal market has always responded to the needs of the day. It has been only in times of abuse that we have witnessed a volatile market — when undertakings from the private sector, i.e., industrial financing, were shifted to the tax-exempt markets and, of course, when unwise management practices led to defaults, as nearly happened in New York City.

The municipal market is not perfect and it is not efficient, but it does work. Our concern is with those who perceive a crisis and offer unneeded solutions — including the *taxable bond option, mandatory disclosure, and the Urbank*, a federally administered bond bank that would issue federal obligations and would purchase state and local government securities with the proceeds. A quick rush to judgment is but a by-product of crisis. The safety valve of the municipal market is patience and a willingness to manage underlying economic conditions, matching needs with the ability to make payment of moneys borrowed. The market place is a pretty fair judge of the practices of the day. We must guard our practices. The market will be there when needed. □

The Local Government Commission and North Carolina State and Local Government Finance

J. D. Foust

Origin

In recent years much attention has been given to "the crisis of the city." The crisis became real in the minds of most Americans when the news broke that New York City was on the verge of bankruptcy. It was hard for many of us to comprehend how New York City, the financial capital of the world, could be in financial trouble.

North Carolina municipalities and counties faced similar problems during the Great Depression. An earlier writer on the Local Government Commission noted that "by 1931, total local governmental debt in North Carolina was more than $350,000,000, compared with only $50,000,000 at the end of World War I."[1] Despite the actions of the 1931 General Assembly in transferring control over many county roads to the State Highway and Public Works Commission and the responsibility for financing public schools from counties to the state, a seemingly insurmountable burden of debt remained on the shoulders of many North Carolina cities and counties. In the 1931-32 fiscal year more than 50 per cent of the $45,000,000 of local property taxes was needed to pay principal and interest on bonds and notes outstanding.[2]

Clearly, close control was needed over the incurrence of further debt and in meeting default situations. The trend toward state centralization in the fields of roads and schools suggested that the field of local government finance could also be centralized to some degree. After extensive study, the North Carolina General Assembly determined that legislative action and administrative control was the only way to provide a restraint on local debt. Therefore, its first major consideration in the 1931 session was the Local Government Act, which created the Local Government Commission.

The Commission's chief initial responsibilities — the approval and sale of bonds and notes and the supervision of local financial management practices — have remained its principal concerns, although significant changes have been made over the years in how those responsibilities have been met.

Organization

The Commission has nine members — the State Treasurer, the Secretary of State, the State Auditor, the Secretary of Revenue, and five appointed members who serve terms of four years. The Governor appoints three members; one of these must be a present or former city governing body member and one must be a present or former county governing body member. The Lieutenant Governor and the Speaker of the House each appoint one member.

By law, the Commission must "operate as a division of the Department of the State Treasurer." The State Treasurer has recently reorganized the De-

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The author is the Deputy State Treasurer, Director of the State and Local Government Finance Division, and Secretary to the Local Government Commission.

1. John Alexander McMahon, "The North Carolina Local Government Commission," *1960 County Yearbook* (North Carolina Association of County Commissioners).

2. *Ibid*.

partment and has created a Division of State and Local Government Finance. He has charged it with both state and local government debt administration and financial management. The Division is, in essence, the staff to the Local Government Commission. Chart 1 shows its location in the Treasurer's Department and the organization and staffing arrangements for it.

Functions

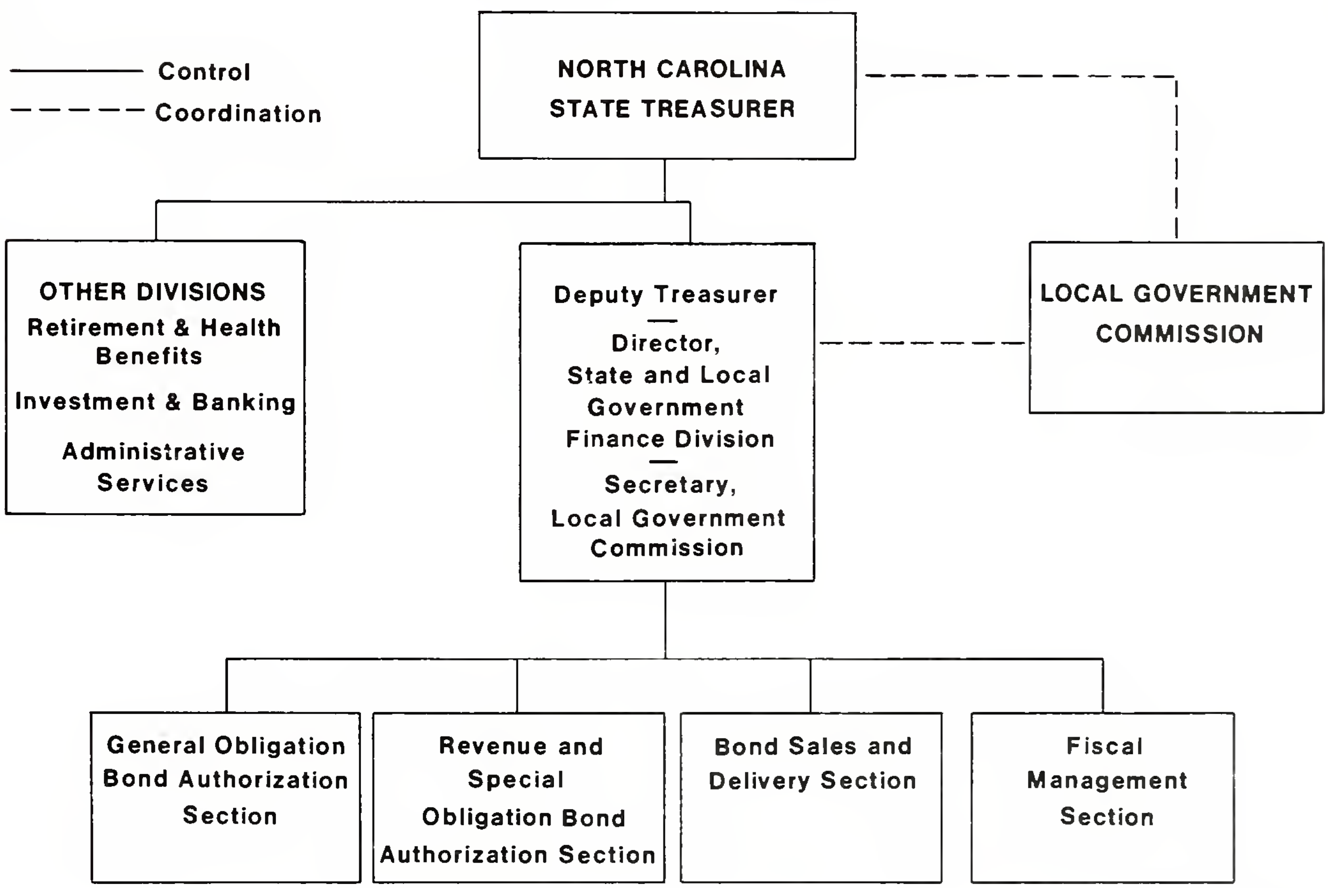
The Commission's major function is the approval, sale, and delivery of all North Carolina bonds and notes and the approval of certain financial agreements. The Commission also gives local units onsite help with their financial and accounting systems and in establishing new systems. In 1972 it introduced a uniform accounting system that has since been implemented by most of the local units. Finally, the Commission provides educational programs for local officials in the area of finance and cash management.

The Commission has the statutory authority to enforce its requirements but has seldom done so. Its services have been sought after willingly by North Carolina local governments primarily because it maintains a posture of being in "partnership" with the units. Their respect for the Commission's work has permitted it to achieve by suggestion what it has the authority to demand.

A key role of the Commission has been in approving and marketing bonds. This task is handled by the General Obligation Bond Authorization, Revenue Bond and Special Obligation Bond Authorization, and Bond Sales and Delivery sections (see Chart 1).

Before a local unit incurs debt, it must apply to the Commission for approval of the proposed issue. The Bond Authorization staff helps the unit in developing a project it can afford and in designing debt obligation issues that will be both adequate to finance the project and economically feasible for the unit. In general the Commission considers the necessity and expediency of the bonds or notes as proposed, the adequacy of the amount, and the issu-

Chart 1
STATE AND LOCAL GOVERNMENT FINANCE DIVISION



ing unit's ability to repay them. If staff members have doubts about the marketability of an issue, the Commission suggests possible changes to the unit that are designed to strengthen the proposal.

After the Local Government Commission approves local general obligation bonds, the proposed issue is usually presented to the voters. If the voters approve issuance of the bonds, the next step is selling the bonds. This occurs just before the funds are needed. A detailed official statement is prepared for the issuing unit. The Bond Sales and Delivery Section coordinates and supervises the development of the official statement, using standard categories of disclosure-related information, and advertises the sales. The sale takes place at the State Treasurer's office in Raleigh. Bids are opened publicly, and the award is made to the bidder whose interest rates provide the lowest cost to the issuing unit. The Bond Sales and Delivery Section is then responsible for delivering the issue to the winning bidder or to his designated bank.

After the debt is incurred, the Division of State and Local Government Finance maintains records of the outstanding indebtedness, and the unit is notified of principal and interest payments that will come due in current and future fiscal years. In addition, the payments of such debt service is monitored through a system of monthly and annual reports.

If a local unit of government defaults on a required payment of principal or interest, the Local Government Commission has the responsibility and the power to help the defaulting unit refinance or otherwise correct the cause of the default. The Commission takes great pride in the fact that both the state and local units in North Carolina are currently meeting their debt service requirements on a timely basis and, with few exceptions, have done so since the Commission's establishment.

Major legislation enacted during the 1975 and 1977 sessions of the North Carolina General Assembly have placed new responsibilities on the Local Government Commission and the Department of State Treasurer. That legislation included: (1) authority for private nonprofit hospitals to issue tax-exempt bonds; (2) authority for local units to issue tax-exempt industrial revenue bonds; (3) authority for electricities to join together in issuing bonds to finance electric power-generating facilities; (4) authority for the state to issue bonds to finance housing; and (5) authority to local units for advance refunding of outstanding bonds.

These revenue bonds do not require voter approval since they are secured by the anticipated revenues of the facility rather than the full faith, credit, and taxing power of the unit. The issues are usually handled through negotiated sale and require a tremendous amount of paperwork in preparing the required documents. A new Revenue and Special Obligations Section has been established in the Division of State and Local Government Finance to handle the authorization and development of these bonds.

Two of the Division's major duties are the issuance of bonds and subsequent debt management. However, before any bonds are issued, localities must demonstrate a sound fiscal management program and the ability to meet future obligations. Through the Fiscal Management Section, the Division attempts to ensure that local units follow generally accepted accounting principles. This section also counsels the units in cash management, budget preparation, investment policies and procedures, and accounting machine acquisitions. By emphasizing a counseling role rather than merely enforcing legal and statutory requirements, the Division has been able to provide continuing help to local officials in developing a total fiscal program rather than working with them only on periodic bond sales.

The Fiscal Management Section is also responsi-

(continued on p. 40)

J. D. Foust

Estelle T. Wicker — Moore County's First Lady of Finance

WHATEVER YOUR IMAGE of a county finance officer may be, we are willing to bet that Estelle Wicker doesn't fit it. Mrs. Wicker, Moore County's capable finance officer who has handled that county's money for over fifty years, is a soft-spoken gentlewoman whose favorite pastimes are gardening and cooking.

For twenty years, she served as treasurer of the North Carolina Association of Tax Supervisors and is a charter member of the North Carolina Association of Assessing Officers. As a tribute to her competence, the North Carolina Association of Assessing Officers gave Mrs. Wicker its highest professional recognition when it designated her "the state's outstanding tax supervisor of 1967." In 1971 she received the outstanding county accountant award from the state Association of County Accountants.

Estelle Wicker wears many hats: county accountant and tax supervisor, budget director, clerk of the board of county commissioners, and finance officer. She now works with a county property valuation of $540 million. This figure was under $25 million when she came to work in 1926 and was $100 million just ten years ago.

Fresh out of business college, Mrs. Wicker, then Estelle Tillman, went to work for the Moore County accountant in 1926. In 1955 she herself became county accountant and tax supervisor.

Mrs. Wicker is eager to talk about the changes over these past fifty years, including the updating of accounting methods to cope with increasing workload and the growth and changes in Moore County itself. "The county's main business now is tourism and farming second," she comments.

The tourist business has had another impact on the county, particularly in the Southern Pines-Pinehurst area: the retiree, who comes to visit and returns to reside. Increasing numbers of retired people have been attracted to North Carolina, and Mrs. Wicker worries what these folks will do as taxes go up. "It really bothers me when property taxes increase for these people on fixed incomes. We will have a revaluation in 1979 and many of our property owners will see another increase then."

When asked what phase of her job she enjoys the most, Mrs. Wicker will tell you first that she loves her daily contact with neighbors and other friends throughout the county. "Beyond that," she says, "I can't single out any particular phase that I like more than another. I do enjoy the budget process — it isn't a chore, it's a challenge."

When she is asked whether she ever thought about being a woman in a predominantly male profession, Mrs. Wicker replies, "You know, I never give that much thought. We all are doing our job, and it doesn't make much difference whether a county's or city's finance is being handled by a man or a woman."

Mrs. Wicker has lived with her sister since the death of her husband, Glendon, in 1957. In addition to her active days at the courthouse, she leads a busy private life. Her flowers and vegetables are evidence of her ability as a gardener, her freezer is filled with her produce, and her kitchen often has the aroma of cakes or cookies baking for a favorite nephew or niece who might drop in.

Every Sunday Mrs. Wicker goes to her home church in Lee County. For many years she has worked with young people there. She has also been secretary of the Moore County Democratic Executive Committee and active in the Moore County Wildlife Club.

W. S. (Sid) Taylor, chairman of the Moore County Commissioners, expressed the respect and affection Mrs. Wicker receives throughout the county and the state. On her fiftieth anniversary at the courthouse, he said, "I suppose we could get along without her, but I'd surely hate to try. She keeps us all out of trouble and we love her dearly . . . . She is the finest thing that's happened to Moore County." ☐

Tarboro Steps into the Future: Making the Most of Grant Money

Ruth Ballard

THIRTY YEARS AGO Tarboro, a quiet pre-Revolutionary town with tree-lined avenues and old homes in settled neighborhoods, stopped to look into the future. Other towns in North Carolina had gone out to seek new industry and were beginning to reap the benefits for their citizens, but Tarboro seemed to be sitting back and letting the problems of the past engulf it. It had to move ahead, and it did. Through cooperative effort — in industrial development, in obtaining federal and state funds, and in general neighborly enterprise — the people of Tarboro have worked a minor miracle. This is the story of what we have done.

Part I: Prologue:

". . . it was time to leave our seats in the bleachers and get in the new ball game."

Situated on the banks of the Tar River in northeastern North Carolina, Tarboro in the early years was essentially an agricultural service center for the surrounding farm lands. The population began to expand a little after textile mills came into the area and has grown at a slow, steady rate. This stable development pattern produced a sense of complacency until shortly after the end of World War II.

The first step toward change came in 1947, when the Tarboro Board of Commissioners appointed a "Committee of One Hundred" to study the town's needs.[1] This committee consisted of interested citizens representing business, industry, civic clubs, and just plain residents. Encouraged and assisted by the commissioners, it meticulously studied city governments, conferred with experts, visited other cities and towns, and talked to local citizens. Finally, it was time to leave our seats in the bleachers and get in the new ball game.

A primary need, the committee and citizens believed, was to reorganize town government itself. The town's existing commissioner form of government meant that each commissioner, elected from one of eight wards, headed one or more departments. It was they who directed town department heads and other personnel in all phases of the town's government. There were few written policies. Personnel regulations and a pay plan were nonexistent. In those days it seemed as if "who you know is what you get." The committee and town commissioners, after considerable soul-searching and meetings with citizens, went to the voters with a proposal to adopt a council-manager form of government. The existing commissioners backed the referendum and decided not to seek election to the new council so that a new set of town officials would have the opportunity to reorganize all phases of the town's operation. In an election held on March 22, 1955, the new council-manager form of government was approved by an overwhelming vote (515 to 170).

In July 1955, a retired Navy captain who was a civil engineer reported for duty as the first town manager. The new town council gave him its

Miss Ballard is Administrative Officer of Tarboro. She is a lifelong resident of the community and is closely associated with the productive town planning over the past several decades that has resulted in Tarboro's being designated an "All-America City" by the National Municipal League in 1977.

1. At this time Tarboro's population was approximately 5,000; in the 1970 U.S. Census it was 9,425; today it is approximately 9,900.

wholehearted support and from this point on it was "operation upgrade."

". . . then with the support and cooperation of our local business and individual citizens, a tremendous spirit soon pervaded the community."

From 1955 to 1960 many changes were made in the town government. Codes and ordinances were revised or established; policies and procedures were standardized; and a new personnel policy and pay plan with excellent personnel benefits was approved by the council. Slowly, the town acquired professional personnel to guide and direct its operations. For the first time the town's financial operation was revised. In all these things we called upon the knowledge and expertise of others: the Institute of Government, the North Carolina League of Municipalities, state agencies, and sister municipalities.

At the same time that we launched improvements in streets, lights, and water and sewer, we upgraded our police and fire service. Previously, police and fire had been predominantly volunteer departments; now both departments were upgraded and additional full-time personnel were acquired and trained. Demolition of the old town hall (which had housed the police and fire service) also made it necessary to construct new police and fire facilities.

The need for industrial development was also very much on the minds of Tarboro's leaders at this same period. In 1958 an industrial development board was created that consisted of local citizens and representatives from banking, commercial, and industrial establishments. One of the board's first actions was to hire a successful professional industry "go-getter." With the support and cooperation of our local businesses and individual citizens, a tremendous spirit soon pervaded the community. The development board — led by its "industrial development expert" and financed by the town, county, and donations from local folks — negotiated for a new industry. Tarboro was on its way! The home office and only manufacturing facility of Carolina Enterprises, Inc., a subsidiary of Mallory Randall Corporation, moved to Tarboro in 1959. Today it is one of this country's leading manufacturers of plastic toys and related products and the world's largest maker of molded plastic buttons. This company has had several expansion programs and now employs approximately 1,000 employees.

The industrial development board began to realize that other communities in the county needed its help. In 1959 it incorporated and changed its name to the Tarboro-Edgecombe Development Corporation (TEDCO). Although a large board of directors now represents all aspects of business, industry, financial, commercial, and professional concerns in the county, the board's operation is still supervised by the executive board and the executive director — our original "industry go-getter." Its success is evident in Table 1, which shows the industries that have located in Tarboro and Edgecombe County.

AFTER READING THIS ARTICLE about the "minor miracles" that have occurred in Tarboro, *Popular Government* decided to visit Tarboro and see for ourselves.

We can report that this truly tells the story, but the town has accomplished much more than can be described in one brief article. Tarboro has been, and is, an active town in promoting those things that will make it a comfortable place in which to live.

In the summer issue of *Popular Government*, John Shelton Reed told us why people want to move to the South, or to stay in the region if they are already here. He may have had places like this town in mind. It is easy to be carried away by the ambiance of the beautiful Episcopal churchyard with 100-year-old trees from all over the world. Or the elegant new Williamsburg courthouse, which will eventually look over a mall leading to the main street. Or the lovely old town common laid out before the American Revolution.

But when we live in a place every day, the charm may fade unless basic living conditions are good. These municipal responsibilities are being met in Tarboro because a number of citizens wanted and worked for these improvements, and there was competent leadership at the town hall.

You may want to visit Tarboro when you are in the eastern part of the state. You'll know the town by the big banner over the main street proclaiming it as an All-America City. When you have finished reading Miss Ballard's words, perhaps you will have an idea why — after competing with American towns and cities of all sizes — North Carolina's Town of Tarboro was one of nine communities selected for this honor in 1977.

". . . it became obvious that Tarboro's future growth must be controlled."

New industry and growth brought new problems. Our growing city government had to be adequately housed, which meant financing new facilities for municipal offices, police department, and a fire station. The old town hall, a cherished landmark, was demolished. A modern town hall that contains the administrative offices and the police station was dedicated in 1963. The fire house, a World War II prefab adjacent to the old town hall, was also torn down and a new building equipped with complete fire-fighting facilities was erected. Federal funds (Housing and Home Finance Agency, now Housing and Urban Development) assisted in financing the new town hall. The fire station was paid for by a municipal bond issue.

Medical facilities were inadequate to serve our existing and growing community. To meet increasing demands, our small private hospital turned its assets and facilities over to Edgecombe County. The local physicians contributed $1,000 each to hire a public relations firm to come to Tarboro and promote a county-wide bond vote in 1957 to finance the construction of a new county hospital. The referendum passed and the hospital was built. It has twice been enlarged, and the medical services have been expanded through county, state, federal, and private funds. Local physicians have also constructed a private medical clinic complex. This facility has been expanded and, right now, is beginning a second expansion program that will cost over a million dollars.

With the town flexing its muscles, it became obvious that Tarboro's future growth must be controlled. In January 1961 the town council established the Tarboro Planning Board and Zoning Commission. (Since 1948 there had been a zoning ordinance of sorts on the books that provided for a board of adjustment.) Our planning board and zoning commission has led the town's planning processes and, with existing staff and consultants, has prepared the studies necessary for the community's growth.

We upgraded our public services as much as local funds would permit, adopted our ordinances and policies, used all available expertise, and developed professional planning programs to encourage orderly growth. Then we reached the point that local funds could go no further. We could not grow and increase the livability of our community and correct the serious housing blight that existed without outside financial help. Under the leadership of our mayor and town council and the professional guidance of our first town manager, from 1955-1965 the town government laid a firm foundation to build upon. From that point on, with the dedication of our town employees, elected officials, and the leadership and professional knowledge of our present town manager, the town has reached out to find the means of providing necessary amenities and building for the future — housing rehabilitation, water and sewer services, and street improvement.

Table 1

Industries in Tarboro and Edgecombe County

Company	*Products*
Anaconda Wire and Cable Company	wire and cable
Black and Decker Manufacturing Company	power tools
Cotton Belt, Inc. (Pinetops)	mattresses and upholstered furniture
Edgecombe Casket Company (Pinetops)	caskets
Elliot and Company, Inc.	commercial interiors and fixtures
Formica Corporation	webbing fibers
GACO Manufacturing, Inc. (Pinetops)	sportswear
Glenoit Mills, Inc.	knit products
Hickory Springs Manufacturing Company (Pinetops)	furniture upholstery materials
Monarch Mills, Inc.	double-knit fabrics
Moorecraft Wood Products Company, Inc.	wooden reels for cable, pallets, etc.
Phoenix Trimming Company	seat-belt fabrics
Polylok Corporation	fabrics
Rexham Corporation (Pinetops)	boxes
Tom Togs, Inc. (Conetoe)	infants' wear

(Total employment in the major manufacturing plants in the Tarboro-Pinetops-Conetoe area is approximately 6,000. This does not include utilities, governmental, and other types of employment. Tarboro is the home office of the Carolina Telephone and Telegraph Company, recently acquired by United Telephone System.)

Part II: The Program

Search for outside funding

Realizing that all these improvements would cost far more than Tarboro's budget could ever afford, we began to look for grant funds to help finance our planned programs.

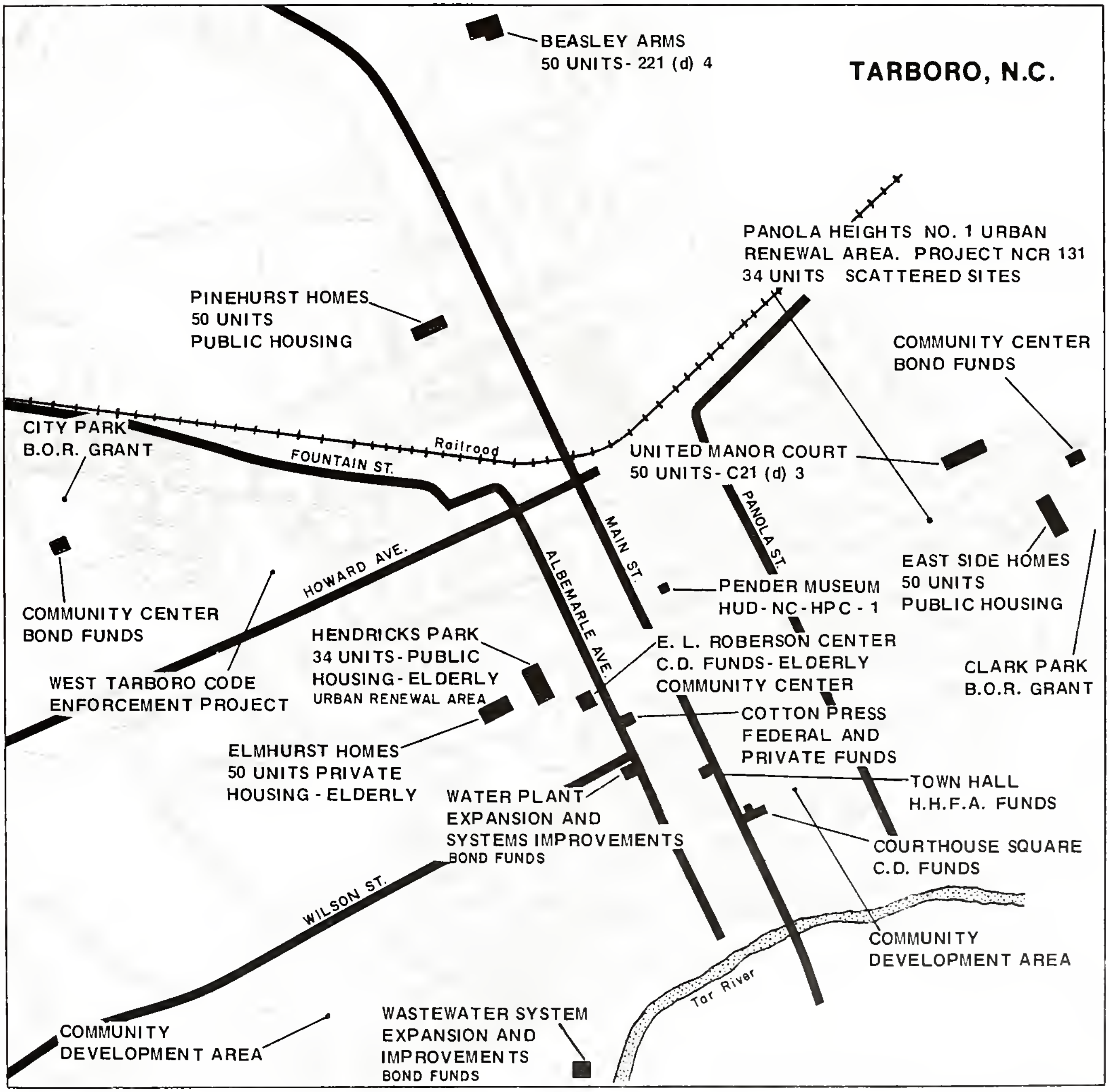
Seeking and using federal grant funds for needed improvements was not entirely new to Tarboro. During the depression of the 1930s, with help from the Works Project Administration, a water plant (capacity, 1/2 million gallons per day) was built at a cost of about $500,000 and is still in use. Approximately four miles of water and sewer main were installed with approximately $100,000 in WPA funds, and a swimming pool costing approximately $10,000 was built by WPA labor and funds. In 1958-60 our water plant was expanded at an estimated cost of $1 million in Health, Education, and Welfare funds. The sewer system was improved at an estimated cost of $700,000 and the new town hall and police station were built with $80,000 of Housing and Home Finance Agency funds.

In 1965, looking for financial assistance and expertise, we approached the Department of Housing and Urban Development (HUD) regional office in Atlanta. We were told that to qualify for federal assistance we would first have to submit and have approved a "Workable Program for Community Improvement." Those familiar with federal grants and requirements of HUD know that a workable-program document touches every phase of municipal government activities. It is in essence a statement of intent designed to assure that both public and private resources will be used extensively to eliminate slums and blight and encourage urban rehabilitation in a cooperative federal-local relationship. Our first submission to HUD in the mid-1960s began a partnership that has continued through the years and has led to involvement in other federal programs — all of which have contributed significantly to the economic growth and development of our community.

Concentrated Code Enforcement Project: Howard Avenue

This relationship with HUD, which has been so critical to Tarboro's program, came about almost by chance. Inexperienced as we were at grantsmanship, perhaps it was the Lord who took us by the hand and led us along the way.

We had a problem that had to be dealt with. How-



ard Avenue, in West Tarboro, is one of the town's most heavily traveled residential streets. It is unusually wide — over sixty feet — and at that time had islands of stately oaks running the entire length of the residential portion of the street. But the pavement had broken up and there were no sidewalks, no curbs, and no gutters. Even mild rains caused flooding under the houses, most of them mill houses that had been sold to mill employees in the late '30s and '40s. Most of the owners were older folks with modest incomes. The houses were deteriorating and the whole area needed public improvements and drainage. But Tarboro didn't have that kind of money.

Howard Avenue was on the state's system of roads, and for many years the town had requested state improvement. Each time the subject of street improvements came to public attention, there was an outcry from those who wished to save the trees.

However, the residents of the area pleaded for a safe street — not just for their own use but especially for the protection of children. They wanted the safety, sidewalks, drainage improvements, and paved streets enjoyed by other town citizens in other areas — even if it meant removing "our lovely old oak trees." The residents of the area finally asked the North Carolina Highway Commission and town officials to meet with them one hot afternoon under the old oaks on Howard Avenue. They urged the officials to proceed as quickly as possible to remove the trees and construct proper street improvements with drainage, curb and gutters, sidewalks, and street lighting.

In the late '60s a state bond issue had been passed, with Governor Moore's support, for highway improvement. The funds were to be distributed according to a formula for each area of the state. When town officials realized that the State Highway Commission might consider using some of this "Moore Bond" money to rehabilitate the Howard Avenue area, the possibility arose of using this money as a matching share with a federal grant program for rehabilitation. We searched the *Catalog of Federal Domestic Assistance*, the *Congressional Record*, commercial reporting services, and other sources of information that would help finance this project that we so badly needed. We began to realize that we could not qualify for most of the programs. Then we came across a little-known HUD program, the Concentrated Code Enforcement Program, which provided funds on a 75 per cent federal and 25 per cent local matching basis and did not stipulate the source of the local match, except that it had to be nonfederal funds. We believed this was the answer to our prayers: to rehabilitate West Tarboro and use the state's "Moore Bond" funds as our match.

Federal grants are not obtained overnight. Nor does one just take his bucket to the money tree and expect it to be filled with one shake. Tarboro, with its limited staff and expertise, nonetheless developed an application for a plan that would rehabilitate fifty-four blocks in West Tarboro. Town officials visited the HUD regional office in Atlanta armed with maps, estimates of public improvements needed in the area, the number of housing structures in need of rehabilitation, and miscellaneous data concerning the needs of the area. Folks at HUD shook their heads, since Tarboro did not have local funds for its matching share. They thought there was no way that the highway funds we proposed could be used as local match. But they did begin to see our need, our determination, and our reason for believing that our proposal complied with congressional intent in passing the legislation. Finally, regional officials in Atlanta joined with Tarboro officials in asking HUD's Washington legal staff for a determination on whether we could use the state funds. After much deliberation, the legal office decided that nontax funds, even though provided by a governmental unit (state), could be used as the local match for a Concentrated Code Enforcement program. This had not been done before but was legal.

But only one stumbling block had been removed. The regulations required that the grant be approved before bids were advertised or a contract was awarded. By this time, the State Highway Commission was ready to advertise and let the contract for the Howard Avenue work. After many conferences with our citizens advisory committee and state highway officials, the state agreed to defer advertising the street improvement contract until HUD in Atlanta and Washington could approve our applica-

Albemarle Avenue before street improvements and restoration and rehabilitation of buildings.

tion. HUD officials in Atlanta nursed our application well: it was carried by hand from department to department to get the approvals, and then received the same treatment in the central office in Washington. Finally, Tarboro's application was approved for HUD's Concentrated Code Enforcement project for West Tarboro — only the fifth such approval in North Carolina.

Not just street improvements were included in the West Tarboro Code Enforcement project. The HUD grant made housing rehabilitation grants, not to exceed $3,500 per person, available for qualified citizens within the 54-block project area. If this amount was not sufficient to bring a structure up to minimum standard, 3 per cent loans were also available from a HUD loan program.

The West Tarboro project included over a million dollars in street improvements: extensive landscaping; upgrading of 22 street sections; construction of two neighborhood tot lots; and rehabilitation of 120 housing structures and demolition of 13. Residents received 127 grant and loan combinations for housing rehabilitation and relocation — approximately $600,000 in grants and over $140,000 in private funds for improvements. The state's funds for street improvements were spent on Howard Avenue, Fountain Street, a portion of Albemarle Avenue, and miscellaneous residential streets in the area.

The total project, which cost more than $2 million, was administered by a town staff of one administrator, two code inspectors, one finance officer, and two clerks — at a total administrative cost of approximately $178,960. By using funds spent by the State Highway Commission as the town's local matching share, we accomplished a program that rehabilitated one of our oldest sections of town with minimum town funds.

Albemarle Avenue after street and railroad improvements; warehouse on the left was improved and the cotton press (right) was moved and restored.

Cooperation of those concerned and the enthusiasm of project residents made this program essentially successful. Residents asked, "Why couldn't this have happened sooner?" Or said: "For the first time in many years my roof doesn't leak." "No water stands under my house now when it rains and I can go outside without plodding through mud puddles." "The kids have a sidewalk and now we're not afraid to let them play in front of the house because of passing cars."

Some residents of other parts of town complained somewhat: "I had to pay for my curb and gutter, why didn't they?" However, with improved traffic conditions and attractive landscaping to replace the old oaks, these questions soon ceased. A noticeable effect has been the sense of pride in the residents: they walk a little taller; they compete with their neighbors in their yards and gardens; and they enjoy some of the conveniences they knew about but had never expected to attain within their limited incomes.

Housing and urban renewal

The Tarboro Housing Authority was appointed by the mayor in 1950. By the spring of 1953, it had completed 100 units of housing for low-income people. The authority was composed of a chairman, a vice-chairman, and three commissioners. The secretary-treasurer, who also held the title of executive director, was employed by the authority. HUD funds, through loans and annual contributions, provided for construction and operation of the units.

In 1966 the Tarboro Redevelopment Commission was established by the town council at the request of the Tarboro Planning Board. (Earlier professional consultants, engaged by the planning board, had prepared town studies and had certified to the council blighted areas of Tarboro that were deteriorating and in immediate need of renewal.) The commission consisted of a chairman, a vice-chairman, and three commissioners with the town manager as acting secretary-treasurer and executive director. An Atlanta firm was retained to prepare survey and planning applications for three areas for which the redevelopment was being proposed.

In 1967 the housing authority applied for 250 more units of housing for Tarboro. The town council approved the application and submitted it to HUD, which approved 75 units. During this period the housing authority and the redevelopment commission agreed that one full-time secretary-treasurer should be employed to administer both commissions. In 1972 the housing authority was abolished and its function was assigned to the redevelopment commission. At this time the four housing commis-

Table 2
Town of Tarboro
Major Federal and State Assistance Since 1965[1]

Community Development and Urban Renewal		
Hendricks Park R-92		$ 885,390
Panola Heights R-131		2,730,554
Public Housing 17-3		1,369,683
Public Housing 17-I (modernization)		246,750
West Tarboro Code Project E-5		957,218
West Tarboro Code Project Grants		248,767
West Tarboro Code Project Grants and Loans Combination		167,850
West Tarboro Code Project Relocation		4,108
West Tarboro Code Project 312 Loans		190,690
Community Development Entitlement, Year I		975,000
Community Development Entitlement, Year II		975,000
312 Loans, Year I		113,206
Discretionary, Year I		500,000
Discretionary, Year II		200,000
Total Community Development and Urban Renewal		$9,564,216
Water and Sewer Projects		
Water and Sewer Improvements	WSNC 74	$ 272,336
Hendricks Creek Outfall	WPC NC 283	232,922
Wastewater Treatment	WPC 364	1,327,500
Wastewater Treatment	WT 26	221,250
Industrial Park Water and Sewer	SBH 264	38,500
Industrial Park Water and Sewer	NC 78	76,412
Total Water and Sewer		$2,168,920
Recreation		
City Park		$ 32,500
Clark Park		51,500
City Park		28,150
Clark Park		82,800
City Park		41,040
City Park		41,066
Summer Recreation (NEED)		1,612
Panola Street Tot Lot (NEED)		1,000
Arts Council		5,000
Bus (elderly)		6,000
Total Recreation		$290,668

State Highway Funds for Street Projects	
Howard Avenue	$ 300,074
Albemarle Avenue	786,630
Main Street	534,000
Fountain Street (committed, estimate)	1,200,000
Traffic Signals	8,000
Traffic Study	5,750
Traffic Signals (RR)	4,850
Total State Highway Funds for Street Projects	$2,839,304
Police	
Communications	$ 41,200
Community Service Unit 1	27,797
Community Service Unit 2	30,180
Community Service Unit 3	30,000
Junior Service Unit	8,399
Juvenile Unit	24,800
FBI Training Grant	4,600
Police Equipment	9,000
Police Equipment	8,295
Training Funds	6,162
Total Police	$190,433
Miscellaneous	
Planning Grants	$ 17,900
Civil Defense	1,602
Pender Museum	13,000
Emergency Employment	57,285
Pep Ceta (employment program)	26,798
Emergency Jobs Program	192,787
Total Miscellaneous	$309,372
Summary	
Community Development and Urban Renewal	$ 9,564,216
Water and Sewer	2,168,920
State Highway	2,839,304
Recreation	290,668
Police	190,433
Miscellaneous	309,372
Total	$15,362,913

1. Since the early 1960s Tarboro has used funds from many agencies: Civil Defense Agency for ice and hurricane storm damage; the Governor's Highway Safety Committee for police equipment and communications equipment, LEAA funds for a Community Service Unit, Junior Service Unit, police training and equipment; Federal Bureau of Investigation funds for police training, State Highway Commission for street improvements, traffic control signals, railroad signal lights; Department of Health, Education and Welfare for water and sewer system improvements and swimming pool; Housing and Home Finance Agency Public Works Acceleration Act funds for a town hall, and miscellaneous other sources as the need arose and funds were available.

sioners were appointed to the redevelopment commission, so that there were now nine redevelopment commissioners. Most North Carolina cities abolished the redevelopment commission and retained the older housing authority; however, the mayor had appointed the housing authority commissioners and he suggested retaining the redevelopment commission since its members were appointed by the town council, the policy-making arm of Tarboro government.

The reorganized redevelopment commission quickly took hold — implementing practical solutions to Tarboro's housing and urban blight problems and making its work highly visible to the public. Over the past decade, the Redevelopment Commission of the Town of Tarboro has received over $5 million in federal grant moneys for its projects — about $586 for every man, woman, and child in town. These projects are discussed separately below.[2]

Hendricks Park. The Hendricks Park Project was a 29-acre tract of structures in need of repair. Residents of the adjacent high-income neighborhood, although not happy with the nearby squalor, were disturbed over the fact that a "project" was going to be situated there. Their fears were unfounded. Thirty-four attractive low-rent housing units for the elderly were constructed, the finished project was tastefully

2. For a detailed breakdown of federal and state assistance to the Town of Tarboro, see Table 2.

landscaped, streets and walkways were constructed, and the drainage was improved. These units were occupied in December 1975, and the project was officially closed out in November 1976. Construction funds, approximately $600,000, were furnished by HUD under a preliminary loan and annual contributions contract.

Fifty units of subsidized private housing for the elderly and handicapped, Elmhurst Homes, are now being built in the project area under HUD's Section 8, its new construction program. Thus, the public housing here apparently was a drawing card for private development, not a deterrent. These fifty units are being erected by a subsidiary of the Weyerhaeuser Corporation at a cost of more than $625,000. The air-conditioned, one-bedroom apartments are located in Hendricks Park, adjacent to the low-income units for the elderly and the E. L. Roberson Community Center. (For details of the E. L. Roberson Community Center, see the box on the next page and Table 3.)

The most visible improvement made in the project area was the resurfacing and widening of a large portion of Albemarle Avenue. Long an important traffic artery for Tarboro, Albemarle Avenue had deteriorated to a state that reduced its traffic-carrying capacity and made it unsafe.

The redevelopment commission has provided the elderly residents with more than physical dwellings. The project has a community garden area for residents' use, a central TV antenna, an abundance of shade trees, and appropriate landscaping.

Panola Heights urban renewal project. This project area, known locally as East Tarboro, is predominantly black and constitutes about 30 per cent of Tarboro's residential area. A General Neighborhood Renewal Plan (GNRP) was prepared by the Atlanta consultant, with help from the Tarboro Redevelopment Commission and the residents of the area. In fact, the citizens in East Tarboro appointed a 15-member project area committee to represent them in formulating the plan. In 1969 the redevelopment commission approved the plan, submitted it for the town council's approval, and forwarded it to HUD, which approved the plan in 1970. The emphasis on improvement was to take two forms: rehabilitation of dwellings that were basically sound and demolition of dilapidated structures that were beyond repair. Other improvements were to include the elimination of unsafe and unsanitary living conditions, such as poor street planning and lack of storm drainage and sewer.

To date, the redevelopment commission has purchased 134 parcels of property, replatted these parcels, and sold 16 to private developers under the bidding system. This project is a conventional urban renewal project and has approximately 100 acres of land. The area is primarily residential and will remain so. The project is now four-fifths complete and should be finished by December 1978.

The other areas delineated in the GNRP will be redeveloped through the town's Community Development program.

Public housing. In efficient conjunction with its urban renewal activities, Tarboro's Redevelopment Commission owns and manages 159 units of public housing — 100 were built in 1953 and the others in 1975. These units are rented to low-income families and individuals at rates based on their ability to pay. Fifty units are situated at Pinehurst Homes in North Tarboro and fifty at Eastside Homes in East Tarboro. As mentioned before, thirty-four of these units are rentals in Hendricks Park. Twenty-five of the units are located on scattered sites in East Tarboro.

East Tarboro residence, typical of those that were removed to make way for attractive brick dwellings shown in next photograph.

New brick dwellings in East Tarboro financed by relocation funds – conventional financing through local savings and loan banks.

The E. L. Roberson Center

(HUD Discretionary Grant)

For several years it has been our dream, and our proven need, to acquire some type of community center primarily for the elderly — one conceived, designed, constructed, and operated for their use. Because the town had participated in HUD programs and qualified for $975,000 annual funds from Community Development, and because of a very active citizens group (Housing-Community Development Citizens Advisory Committee), the application was approved for $400,000 discretionary funds to construct the E. L. Roberson Center. (The center is named for a former mayor, the chairman of the "Committee of One Hundred" that began, in 1947, the study of Tarboro's future needs.) Another $100,000 was needed for land and outside development, bringing the total to approximately a half-million dollars. Funds were not available for furnishings or equipment, so that private donations and other government agencies made up the needed amount. (See Table 3.)

This center, which is one of a few of its kind, has attractive lounges, reading rooms, arts/crafts/ceramics studio, a kitchen, sewing room, and a multipurpose room for dining, concerts, square dances, games, amateur theatricals, and other activities. The huge fireplace and stone wall in the music room and library was built from material donated by local citizens. A greenhouse/workshop and an outdoor patio and stage with mosquito control will be constructed in the near future.

Office facilities are available for social service agencies, social security, medical first aid, and food stamp distribution, in addition to administrative offices. Over a hundred persons are served a hot meal each weekday through Region L money. The Tarboro Recreation Department operates and supervises the center and its recreation program; other services are provided by other agencies under town management.

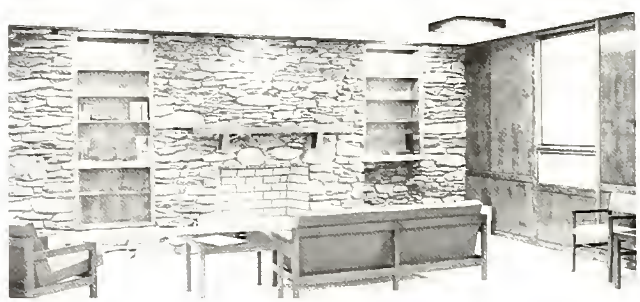
At the present time there are over 200 active participants who daily engage in some type of town-sponsored recreational activities for those over 55. (Although the term "senior citizens" is often used for those over 55, older citizens of Tarboro perfer not to use this term nor to designate the E. L. Roberson Center as a "center for the elderly.")

Those Tarboro residents who will be using the center, the over-55 age group, raised $900 last fall to pay for the installation of a stained-glass window. The stained glass came from an old Tarboro synagogue that was demolished because of age and structural condition.

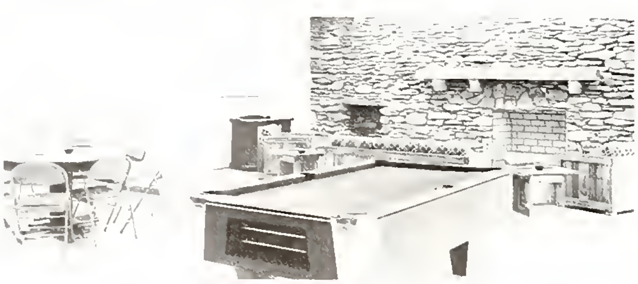
Two vehicles operate for transportation to programs, clinics, recreational and social service facilities, noonday meals, and for tours of interest. These vehicles and part of their maintenance and operation are supported by grant funds of the Council on Aging of the Region L Council of Governments (HEW).

In 1965, when our first recreation director reported for work, he was immediately requested by a group of citizens to assist in organizing some type of recreational opportunities for those over 55. This new building, dedicated in late 1977, is a tribute to the efforts of Tarboro citizens in providing a growing, active program for over a thousand of its residents who fall into this age group.

E. L. Roberson Center. Corner bank of windows permits ample natural light in the craft room on the right front.



Library/reading room; photo was taken a few days after completion of the building.



Game room; double-faced fireplace opens into library adjacent to this room.

Interior of craft room.

St. Paul's Baptist Church, East Tarboro, rehabilitated with HUD 312 funds. This church structure was moved some years ago from near the town common.

East Tarboro fraternal lodge, also rehabilitated with HUD 312 funds.

Upgrading and modernizing of the units in Pinehurst and Eastside Homes began in 1972, and the work is still going on.

While federal housing officials and theorists were espousing the integration of tenants of various ages within a single housing project, Tarboro officials had known for some time that the tenants actually prefer to be segregated by age group. They knew this because they listened to their tenants. Only recently have the theorists seen the light and reversed their stand.

The average rent for the public housing units in Tarboro is $68.58 per month. Current occupancy rate for the units is 98.7 per cent.

Rehabilitation. Not all of the activities of the Tarboro Redevelopment Commission involve razing the old and raising the new. The inventory of housing conditions in 1968 in the Hendricks Park and Panola Heights areas identified 122 structures that could be rehabilitated to a code standard. So far, 110 have been brought up to this standard.

Among these 110 rehabilitated buildings are two that are the only nonresidential structures in the Southeast ever to be rehabilitated with HUD's 312 Loan Program — a church and a fraternal organization, both historic buildings — at a cost of approximately $50,000.

Although the commission made grants and low-interest loans (3 per cent) available to the owners to use for rehabilitation, many owners absorbed the cost and did the work themselves because of a growing feeling of neighborhood pride.

Table 3
E. L. Roberson Center Funds

Grant funds – discretionary	$400,000
Land cost	$100,000
Estimated amount construction cost	400,000
Grants – miscellaneous	
Smith-Reynolds, patio	$ 15,000
HEW (aging), kitchen equipment	40,000
HEW (aging), furnishings	20,000
HEW (purchase of bus van)	11,000
Civic Club, landscaping	500
Local mill, drapery material	500
Private citizens, stone	1,500
Redevelopment Commission, carpenter and garden house	70,700
Local citizens, stained glass window installation	900
Miscellaneous	3,000
Estimated grants	$173,100

Miscellaneous housing activities. When HUD curtailed its housing program several years ago, four black churches organized and spent several frustrating years in obtaining, with the town's assistance, funds under HUD's 221(d)3 housing program to construct fifty family units of low-income housing. United Manor Courts was occupied in November 1971 with the following financial support:

LIHDC (Low Income Housing Development Corp.) loan	$30,000
Local funds from miscellaneous private donors and local white churches	3,000
FHA — 40-year loan (approximate)	600,000
FHA — rent supplement reservation (approximate)	59,000
Town funds for public improvements (approximate)	22,000

During all the negotiations, frustrating delays, and red tape involved, these churches (Manor Court, Inc.) were assisted by the Town of Tarboro and the East Tarboro Citizens League. (See the box on the next page for summary of East Tarboro Citizens League participation.)

East Tarboro Citizens League Programs

The following is an excerpt from the East Tarboro Citizens League's All-America City Presentation at Williamsburg, Virginia, in October 1976. This is one example of the kind of civic spirit that initiated Tarboro's progressive changes.

THE EAST TARBORO CITIZENS LEAGUE was formed in 1963 and consists of approximately 300 members. It was organized to be the voice of the East Tarboro citizens who constitute about one-third of Tarboro's population. It was formed to coordinate efforts and improve the general welfare of the large group of Negro citizens who live in East Tarboro, the urban renewal area. This group is dedicated to seek improvement in the political life of the community, employment and educational opportunities, better housing and living conditions, public improvements, improved race relations, cooperation with all local agencies devoted to the improvement of mankind, peaceful integration and communication with all citizens of the town, and improvement of social, economical, and cultural conditions for the minority group of Tarboro. This organization, while working closely with the people of the area, also represents the people of the area by making recommendations to the town government. From among their membership, well-qualified persons are recommended for appointment to the boards and commissions of the Town.

Thus, in June 1963, the East Tarboro Citizens League was organized and set for itself the following goals:

(1) **Registration and Voting.** Realizing that voteless people are hopeless people, it was our intention to lead our people into a more active role in the political life of Tarboro. In a large measure this goal has been realized, for we have seen the number of black registered voters climb from 400 in 1963 to 1,900 in 1976. We have been able to elect *two* black men to the town governing body and to effect the appointments of blacks to various commissions, committees, and boards.

(2) **Employment Opportunities.** The League solicited the aid of the school board, individual black citizens, and our local technical institute in preparing our people for many opportunities in industry and business, to the extent that we have more blacks employed today than ever in the history of our town. We are not only employed in our industries, but also in the more highly skilled jobs required by banks, our telephone company, municipal and county administrative offices, and as clerks in our stores.

(3) **Housing — United Manor Courts.** Through concerted efforts of citizen participation, we were able to draw together four black churches of our community and charter a non-profit organization that provided the equity funds and arranged the permanent financing for a project costing over a half million dollars. This resulted in the construction of 50 rent-supplement housing units, which provide decent, safe, and sanitary homes for approximately 160 persons of East Tarboro.

(4) **Student Scholarship Awards.** The League recognized that many of our students could not continue their education after high school because of inadequate funds. Consequently, the League established a Scholarship Fund which has awarded 14 scholarships used in our local technical institute and various state colleges and universities. The moneys raised for this fund resulted from extensive citizen involvement and participation.

(5) **Street Improvements.** Members of the League circulated petitions and urged a massive urban renewal program to improve the streets in our neighborhood. Today, every street is paved, curbed, and guttered in the black neighborhood, and every family has at its disposal water and sewer services.

The East Tarboro Citizens League, through its multifaceted programs and interest, has created an organization as well as an atmosphere whereby black citizens have become involved, informed, and educated relative to community activities.

The League serves as a vehicle for soliciting input from black citizens to be channeled into necessary proper courses of action.

Although Tarboro is a small town in area and population, the needs and desires of its citizens in the main are no different from those of the larger cities of our nation.

We find that people working together in Tarboro have made the difference in improving the quality of life.

Historic preservation

In 1968 a local citizen left a bequest of $13,000 to the Town of Tarboro on the condition that the funds be spent within two years to acquire a museum for Tarboro citizens. The town council created the Tarboro Historical Society (later the name was changed to the Tarboro Historical Commission). These dedicated citizens interested in historic preservation were charged with raising funds to match the bequest and then acquiring and developing a museum. An early 1800 house, known as the Walston-Bullock house, was found in Edgecombe County. If funds were available, the property could be purchased and moved to town-owned land adjacent to the community house (the Blount House, circa 1800, now on the Federal Register of Historic Sites). In talking with the regional office representatives of HUD, we discovered that HUD had a new historic preservation program for which our pro-

Early 1900 house on Tarboro's Main Street; rehabilitation work must conform to the restrictions of the historic district.

posed museum would be eligible if we could fulfill all the HUD requirements. We did, and Tarboro received one of the first historic preservation grants (NC-HPC-1), in the amount of $13,000. The Pender Museum (as the legacy required it to be called) was dedicated in late 1969. It is furnished with early Edgecombe County furnishings, is open to the public, and is now listed on the Federal Register of Historic Sites. (Plans call for the community house, which is located on the same plot, to be restored by the historical commission as soon as enough funds can be obtained. This house will eventually be used as a cultural-center/museum facility.)

Historic district. One of Tarboro's significant accomplishments in the field of historic preservation was the establishment in 1976 of the Tarboro Historic District, which includes a 45-block representation of numerous architectural styles and historical structures. Seven structures are listed on the National Register of Historic Places. The excellent streetscapes represent a variety of architectural styles such as Federal, Greek Revival, Gothic, Victorian, twentieth-century bungalow, and modern.

The establishment of the historic district is particularly noteworthy because so many area residents were involved in soliciting support for it. Realizing the potentially controversial nature of such a proposal, the Edgecombe County Historical Society, the prime sponsor, set out to inform area residents and involve as many property owners of the historic district as possible in order to insure that the historic district ordinance would be adopted. This group began an active campaign that included door-to-door canvassing, a telephone hotline to the town hall, publications and brochures, displays, and various public meetings. On the basis of an areawide petition showing 76 per cent support by area residents, the town council readily adopted the proposed district.

We are now working with the North Carolina Department of Cultural Resources, Historic Preservation Branch, in requesting that the entire historic district be placed on the National Register of Historic Sites.

Recreation projects

In 1969 the town began a successful partnership with the Bureau of Outdoor Recreation (BOR) in the United States Department of Interior. With the excellent cooperation of the North Carolina Department of Recreation, the town applied for and received $32,500 in grant funds to buy 26 acres of land for a city park and began developing the park. The first phase consisted of three lighted ballfields, two lighted tennis courts, two parking areas, two horseshoe pits, and miscellaneous tot play lots. Later, in 1971, the town received another BOR grant of $28,500. The town matched these funds and completed the park. This second stage included fencing the area; making walking trails; developing and beautifying the creek; constructing two concession stands with rest rooms; installing playground equipment; building three picnic sheds and outdoor-cooking facilities; and putting in flower-garden areas. Local civic clubs donated funds for the picnic sheds.

In 1970 a benefactor gave the town a 32-acre plot of land to develop as a park and recreational area adjacent to a swimming pool in East Tarboro. Using the appraised value of the donated land as its matching share, the town obtained a $51,500 BOR grant that was used for site development, two paved parking areas, fencing, a lighted softball field, a lighted baseball field, three picnic sheds, a concession building with rest rooms, play areas, and equipment.

Not all of our recreational facilities have been ac-

West Tarboro recreation center. A duplicate facility is available to East Tarboro residents.

quired through grant funds. With its own funds, the town has recently completed two community recreational centers — one on either side of town. Each center includes a gymnasium, a game room, three club rooms, a kitchen, office facilities, a refreshment area, offices for the recreational staff, rest rooms and showers, and equipment for the handicapped. The park areas and the centers are used to the maximum — from 8:00 a.m. to 11:30 p.m. during the summer, and shorter hours during the winter months.

The town is now building six lighted tennis courts on school property to be financed jointly by the town and the Tarboro School Board in accordance with a "memorandum of understanding" concerning joint use and responsibility. The town will maintain and supervise the courts, which will be used by the school on a mutually agreed-upon schedule and will be available to the citizens of Tarboro at other times.

We are also completing an outdoor recreation area on a 26-acre site that was donated for park purposes by Burlington Industries. This park will contain a picnic shelter and outdoor playground equipment.

An old building, formerly used as the town's milk plant, has been converted to a craft center. Here all types of classes from karate to square dancing are conducted on a regular basis.

In 1967 the citizens approved a bond recreation tax of 10 cents. These funds have been used to match and supplement federal grants. We have also received wonderful community support in many of our programs and facilities. Local civic clubs, industries, and interested citizens have made an invaluable contribution through their gifts, volunteer service, and other tangible evidence of their support.

Community Development

In March 1975 Tarboro realized an opportunity for new projects in other areas of town. Again, in partnership with the federal government through HUD, the town entered into Community Development. Because of our past involvement with HUD programs and projects, Tarboro became a "hold harmless"[3] community eligible for $975,000 per year for the first three years, then $650,000 for the fourth year, and $325,000 for the fifth year under the present Community Development legislation. Needless to say, this has put new life into our community and made it possible to face some of our urgent needs — housing rehabilitation and public improvements. With our recently completed West Tarboro Concentrated Code Enforcement project, urban renewal activities in Hendricks Park and East Tarboro, new public housing units on scattered sites in Hendricks Park and Panola Heights, it was obvious that the areas most in need were Deans Heights in West Tarboro and portions of Panola Heights in East Tarboro. The council designated these areas, south of the town common (Wilson Street) to the Tar River and running east and west to the town limits — as our community development impact area for Year I.

East Tarboro house rehabilitated with Community Development funds. Dwelling on the right will also be renovated. Both houses were similar in appearance before work was begun on the house on the left.

A 25-member Housing and Community Development Citizens Advisory Committee (HCD-CAC) was established in November 1974 to replace the former citizens' advisory committee. This committee advises the town council on the development of activities relative to the town's overall housing and Community Development program.

The Community Development program has succeeded because of this committee, which began its work by informing the public about Community Development. It held meetings in all the wards and before civic groups. It placed newspaper ads, and members appeared on radio and television programs. HCD-CAC made every effort to obtain citizen participation in developing a "needs" list of programs and projects desired by the citizens. It then recommended priorities to the town council for the Community Development budget and program activities. The committee remains most active, and citizen participation has been excellent. Tarboro Community Development activities through June 30, 1977, are included in Table 4.[4]

3. This term indicates that Tarboro was entitled to continue in its programs with HUD even though certain legislation or regulations had changed.

4. Construction of the E. L. Roberson Center described in an earlier section was possible because the town qualified for Community Development funds.

Part III: Grantsmanship

In retrospect — "Getting a grant approved is only the first step in 'nursing a project.'"

We have often been asked, "What is the formula for a successful grant program? How do you get grants for a small community?"

There is no easy answer. Guidelines and reference materials are available from many sources. Consulting firms offer service for varying fees; a number of books have been written; and seminars are conducted by professional, private, and governmental concerns. Each city must decide for itself, often on the basis of trial and error, which is most effective for its specific requirement.

Sources of information. Possibly the first source of grant information is the *Congressional Record*. Available by subscription from the federal government, this publication, if checked regularly, allows one to be informed on programs and legislation under consideration by the Congress. It gives an "insight into the intent of the Congress," which often helps in developing programs in the early stages after the legislation is enacted. Experience has taught us that applications submitted when a program is first approved face less bureaucratic red tape than a year or so later, when the program has become bogged down in regulations that are difficult to interpret.

The federal government publishes *The Federal Register*, available by subscription and an invaluable source of information that is quickly accessible.

Often information from a government agency is not readily available primarily because the information must travel from the Washington office to the regional office, to the area office, and finally to the cities and towns. This takes time.

The *Catalog of Domestic Assistance*, published annually by the Office of Management and Budget, is another invaluable source of all programs available from the federal government. This document, also available by subscription, gives a brief description of each program, its funding level, the application process, and the address of the agency that administers it.

The North Carolina League of Municipalities provides bulletins on legislation concerning programs of special interest to cities and towns. The League offers special assistance on programs upon request. The North Carolina Department of Natural Resources and Community Development offers seminars and bulletins on many of the program changes. Also, many quasi-governmental agencies and associations provide up-to-date information on programs of their specialty.

Developing expertise. It is impossible to acquire all reference material and attend all conferences and workshops on subjects of interest to the small city. Even reviewing all the data that are available is a very time-consuming process. This is a responsibility that should be assigned to one person who is familiar with all the needs and interest of the specific city. Researching programs, developing information, preparing an application, reviewing all the federal/state requirements and "assurances," preparing resolutions for the governing body's consideration, negotiating and conferring with representatives of federal/state agencies, working with staff people and citizens' advisory committees, presenting and coordinating the city's needs and efforts to acquire grant funds — in sum, "nursing a project" — all require considerable time, knowledge, and cooperation from the town's staff and from the general public. When this responsibility is assigned to one person, the minute details so often overlooked are easier to incorporate in the application process. Many people criticize the federal agencies for "bureaucratic red tape and foot-dragging," but many of their problems are caused by their own

Table 4

Community Development Activities Through June 30, 1977

Activity	No. Blocks Improved	Est. Cost
Public improvements (paving, curb and gutter, storm drainage, sidewalks, etc.)		
Panola Heights	11	$168,000
Deans Heights	42	568,000
Number of 312 Loans (3 per cent HUD loans)		
Panola Heights	18	186,000
Deans Heights	22	171,000
Number of grants made by program		
Panola Heights	18	90,000
Deans Heights	39	162,000
Number of grants and loan combinations made		
Panola Heights	5	34,000
Deans Heights	2	12,000
Land acquisition		33,500
Relocation payments		18,000
Housing rehabilitation by private owners without program aid		
Panola Heights		6,000
Deans Heights		5,000
Cost of white-way lighting for town common		30,000
Number or personnel as of July 1 (paid by Community Development)		10

omission of minor details or failure to submit reports, evaluations, and other follow-up information during the life of the program. Getting a grant approved is only the first step involved in nursing a project. Keeping in touch with the agency representatives, developing files for easy reference and audit, and supervising and administering the project require intensive attention to detail. There is no such thing as free money.

Maintaining communication. Federal and state agency representatives have been most helpful and cooperative. The town has maintained constant communication and good working relations with state, area, and regional personnel of all agencies with whom we have projects. We have found that the more they know about our town, the better we work together as a team. We know that we have conducted our programs to the best of our ability, that our documentation is complete, that our citizen involvement and participation is one of our greatest assets, that our records are well kept, that our funds are spent in accordance with legal requirements, and that we have nursed the project in accordance with federal, state, and local requirements.

Of course, there have been problems that have seemed to be almost insurmountable. Working with our agency representatives, we have been able to overcome most of these. We have also had to remind ourselves that these federal and state officials have their own guidelines and restrictions and that the letter of the law, as well as the intent, must be respected.

Part IV: Epilogue

The improvements in Tarboro — economical, educational, cultural, housing — have resulted from the cooperation that developed within our community. Tarboro has had citizen involvement, good race relations, dedicated town personnel, and fine leadership from our elected officials. Otherwise, the progressive changes in our town would have not materialized. However, none of these changes would have been possible from town funds alone. In order to accomplish the goal — making Tarboro a better place to live — over $15 million in state and federal grant funds have been spent over the past ten years. For this we are grateful! □

Tarboro Preserves the Past: Vintage Homes in the Historic District

Cash Management and Investments

Editor's Note: Last summer, Popular Government *talked with* **Larry Fisher,** *finance officer for Asheville, and* **Thomas H. Cashwell,** *Guilford County's finance officer, about cash management and investment. The interviewer was* **A. John Vogt,** *an Institute faculty member who specializes in local government finance and is also the editor of* Popular Government.

Objectives

Vogt: Gentlemen, you have a lot of experience in handling cash management and investments for your respective units. We hope you'll share some of your wit and wisdom on this subject with our readers. First, I'd like to ask you what the objectives of a cash management and investment program should be.

Cashwell: Well, *safety* is definitely the first objective, but that is easy to achieve if you deposit cash daily as the law requires, if your investments are strictly those available under the law, and if your collateral is adequate as prescribed by the law. I would say the second one is *maximizing cash available* for investment. By that I mean getting it in the bank as promptly as possible and getting credit for it. You can't invest it until you've got credit for it, and that means daily deposits.

Fisher: I agree. The goals of cash management and investment are universal: that is, maximize the amount of money that you have to deal with — what the statutes call idle funds — and obtain the maximum yield that you can get from investing those funds, but consistent with the limitations of the statutes. I agree with Tom that if you follow the statutes in investing, you have accomplished your safety objective. Once this is taken care of, the next objective is to earn the most you can from available money and to be sure that the available money is *all* you can get your hands on. If you earn revenue through a good cash management program, it doesn't have to come from somewhere else. Every dollar you can earn in a good cash management program is a dollar you don't have to get from property taxes.

Cashwell: Smart cash investment can mean several pennies on the tax rate, and that's something that any elected official and any citizen can understand.

Vogt: Has either of you calculated the equivalent tax rate you are earning from investing the unit's funds?

Fisher: Two to three cents.

Cashwell: Yes, we do that. Even if we didn't want to on our own, the Local Government Commission semi-annual report of cash, investment, and tax collections encourages this. That's the last item on one of the reports — total interest earnings and the tax-rate equivalent. It can be high. If you have a lot of unexpended bond funds, the tax-rate equivalent can be very high. I have seen it as high as fifteen or sixteen cents. We are in the neighborhood of three or four cents usually.

Vogt: But you can't use the interest earnings from bonds for general purposes; this money is for the project or paying off debt on the project.

Cashwell: That is true. But if you didn't have that available to pay off debt, you would have to raise taxes to pay off the debt. As Larry says, every dollar of interest earned is a dollar less in tax levy.

Maximizing cash available for investment

Vogt: Tom, you stressed the importance of getting cash into the bank as quickly as possible. How do you do this?

Cashwell: For the county, the periods of heavy cash inflow are August and December. August is the discount period for property tax payments and December the final month when property taxes can be paid without an interest penalty. The checks come in mailbags full. Tax collectors used to match each check with the appropriate bill before they made the deposit. The mailbags would sit there until they could match every bill and check. But now during these peaks, we bring in extra help from other offices and move those checks out and into the bank. The tax collectors simply photocopy the checks that they can't process in the normal fashion and deposit them on the day received. Then, when they have time, they can process, pull the bills, and match photocopies on these receipts.

Overpayments or underpayments are adjusted later. If a check that is not a property tax collection comes in, we deposit it and find out what it is for later. We also use an undistributed-receipts account. If a check comes in payable to Guilford County and we can't identify the proper account for credit, we credit it to undistributed receipts and deposit it immediately. We identify the proper receipts account later. If a taxpayer underpays, we deposit his check and rebill him for the difference; if he overpays, we deposit and refund the difference when we can. We don't hold any checks for any reason.

Vogt: Are you able to open all of your mail daily, Tom? Even in August and December?

Cashwell: Pretty much so. We pull in as many people as it takes to get the mail open and the checks into the bank.

Vogt: Does this mean that you work during the Christmas holidays?

Cashwell: Absolutely. The tax collector had a staff working right up to Christmas Day. Larry, you don't have this problem because the Board of Tax Supervision in Buncombe County collects taxes for the city of Asheville.

Fisher: True. Our only problem is the monthly cycle of billing and receiving receipts from about 30,000 customers of the water utility. About 75 or 80 per cent of them pay by mail. Even though we use cycle billing, the first two weeks of every month are periods of large mail receipts. I have talked to everyone I know to find a fast way to slit open envelopes and to take the check out. It is strictly a manual operation and in order to get that done, we schedule work. Our normal office hours are 8:30 to 5, but one of our collections clerks comes in at 7:00 a.m. to begin working the mail. At 8:30 other clerks join her. If the mail is too much for them to assure prompt deposit of checks, we assign additional people to help open the mail and to receipt and process utility checks. By this scheduling we usually can get all the morning mail, utility and other receipts, deposited by the bank cut-off time.

In order to receive that-day credit, you have to get the deposit to the bank before the cut-off hour, which is 1:00 p.m. for our bank. Our daily deposit used to be taken at 3:00 p.m. because that is when the police changed shifts and it was convenient for them to accompany our clerk to the bank at that time. Well, I moved that up three hours. In this case, a nonfinancial consideration had determined when the bank deposit was made. It wasn't difficult to get it changed. It's just that nobody had ever suggested that it be changed!

We also have an immediate-notification threshold for larger receipts. If a single item of $25,000 or larger is turned in at our collections window, the collections clerk will telephone the person who operates our investment program. A decision will be made on the phone — depending upon the size of the receipt, time of day, and so on — about the immediate disposition of the receipt. That is to say, should we make a special deposit and immediate investment or handle it as the next day's business.

Cashwell: We also make special deposits for large checks. These are usually from the federal or state government — for example, revenue-sharing and sales tax checks. Our bank will give us same-day credit if we deposit the check by 11:00 a.m. This gives us a few hundred extra dollars a day in interest earnings. Also, anytime we get a large check drawn on the same bank that we bank with, we make a special deposit to get same-day credit.

Vogt: Both of you mentioned the necessity for daily deposit of receipts. This is legally required. What practical problems do you run into in meeting this requirement and getting the money into the bank each day by the 1:00 p.m. cut-off?

Cashwell: We are normally there by about 12:00

Thomas H. Cashwell, left, Larry Fisher, and A. John Vogt.

noon. An occasional problem arises if the cashier has trouble balancing. We then pitch in with extra help to speed things up — anything to make that 1:00 deadline. I don't think we've missed it half a dozen times in years. Usually, we just cut off early enough to get the money there. (There will be receipts coming in the afternoon, but they will be deposited about 1:00 p.m. the following day.) The only problem is to get in the habit and enforce the routine.

Vogt: How many officials in your respective units receive or collect receipts? How many collection points are there?

Cashwell: In Guilford County, we have a number. This may be true in most counties, particularly where you have offices in two or more cities. The collection points all deposit by 1:00 p.m. every day into the county's pooled cash account or, if they are close enough, they bring the collections to the county finance office and we deposit by 1:00 p.m. We now have six offices that make direct deposits to pooled cash: two tax collector offices (Greensboro and High Point), the register of deeds, emergency transportation, social services (High Point), and the county finance office. However, most county receipts, other than tax collections, come into the finance office, and we make the deposit. Each office that deposits directly either brings the deposit slips to us or phones the amount of deposit to us by 1:00 p.m. each day.

Vogt: Why do you have six separate direct collection points?

Cashwell: Citizens want it. For instance, High Point residents like to be able to pay their taxes locally. In other cases, it's a matter of location. The emergency transportation office is physically some distance from the courthouse, and they collect from customers when they can right on the spot.

Vogt: Larry, how many collection points do you have in Asheville?

Fisher: Basically one. We've got a centralized collection function, although we do have some outlying collection points. For example, the city owns and operates the Asheville airport, located about twelve miles from the city. We have an account at a branch bank there so that the airport can deposit on a daily basis. Our accounting division monitors the account and makes transfers to our pooled cash account.

Vogt: Larry, I've heard you use the term "cash consciousness" in reference to the receipt and deposit of money. What does this term mean?

Fisher: Cash consciousness means encouraging local officials and employees to deposit the checks they receive quickly in order to maximize the cash available for investment. A number of officials in any local government receive currency and checks. For example, the federal government sends antirecession aid to the city manager; the 701 planning grants go to the planning director; and the state water-bond grant payments go to the water-sewer director. All of these folks need to see that the cash or checks they receive are deposited every day.

Now, this is an ongoing thing wherein you create an attitude. For instance, we have worked with the city manager's secretary regarding cash management. She knows that checks sent to that office should be turned in to our collections division immediately. The first time we found a check that had been held for three days, we took the time to talk with her and explain the importance of same-day deposits. Thereafter, she understood why we have this rule.

Also, it is important not to lose the initiative in requesting reimbursement of federal or state grant funds. One tool that we use is a monthly financial report of revenues expected and collected. For example, we have a $1.5 million grant for one major project. While I was reading this report recently I noticed that the revenue line-item for the grant looked short. The project was almost completed but we had received only two-thirds of the grant money. I learned that the responsible department had not filed for reimbursement for the remaining one-third on time. I contacted the responsible person and asked that the request for reimbursement be prepared and mailed right away. I also put a note in a tickler file and followed up on this item weekly until the money was received. That's almost a half-million dollars that we could have had a month earlier.

To help keep track of these large federal and state grants, a finance officer may want to set up a tickler system. This could simply consist of notations on his desk calendar when large checks are supposed to come in. If he is the only finance official — the do-it-all — it might be helpful.

Cashwell: Could I mention one tool we use in that regard? In Guilford County, every application for a grant or reimbursement under a grant flows through the finance office for our signature. From the application, we prepare and keep a file on reporting and reimbursement dates for the grants. We also prepare a monthly status report on the grants. It goes out to all department directors, to the board of commissioners, and to the manager. Any delinquent report or reimbursement request is flagged on the report. That encourages people to get reports and reimbursement requests in on time because when the manager and the elected officals see the flag, they lean on the delinquent department. That is one of our little monthly reports — not the most popular one, but very effective.

Fisher: We handle it a little differently. We have a federal-programs officer and a clerk who stay on top of grant money. If some is not in on time, the clerk will call the operating person and say, "Why don't we have this money?" or "Isn't it time to make a request for it?" I suppose instead of calling people, I could have the clerk publish that little report you use. So far we have not used the "embarrassment-type" technique.

Vogt: We've talked at length about receipts. What can you do about controlling disbursements to maximize available cash and help with investments?

Cashwell: One very effective tool we use is to write checks once a week, on Wednesday night, by computer. The checks are mailed out on Thursday or, if we have a tremendous volume, on Friday. We can normally expect that the majority will not clear before the next Tuesday. Therefore, we schedule investments to mature on Tuesday to cover checks mailed or issued on the previous Thursday. A local check may be deposited on Friday, but there is a good chance it will be deposited in another bank. In that case, or if it isn't deposited before 1:00, the check will not clear before Monday or Tuesday. We invest the amount of checks written over the weekend and don't try to cover them until the following Tuesday. We set our maturities to occur on the days we expect large disbursements to clear our bank account.

We pay all employees the last working day of the month. This may be straying from the subject, but Guilford County has always deposited the full payroll-cover check on payday. On the basis of a study I made of payroll-check clearing times, we phased the deposit of the payroll-cover check: one-third on payday, one-third on the next workday, and one-third on the following workday. If payday is on Friday, we can invest $700,000 or two-thirds of the payroll over the weekend, thus earning several hundred dollars of extra interest.

We haven't been able to release pay checks after 1:00 p.m. because our employees are accustomed to receiving their checks first thing in the morning.

As far as debt service is concerned, we used to send the checks to the paying agent several days before the payment was due. Now we do it by bank-wire transfer on due date and satisfy everyone.

Vogt: You said bank-wire transfer?

Cashwell: A bank-wire transfer is a procedure banks use to move money from one bank to another for same-day credit. For example, I call the bank and say I want a million dollars transferred to "X" bank for this day's credit and the bank handles it. This eliminates the time that elapses when a check sent by mail is in transit. We keep the money invested until debt service due date and wire transfer the money on that day.

Vogt: Larry, how do you schedule your disbursements and check-writing and how does that tie into investments in Asheville?

Cash consciousness means encouraging local officials and employees to deposit the checks they receive quickly in order to maximize the cash available for investment.

Fisher: We do some scheduling, but not on the sophisticated level that Guilford County uses. We write checks continuously every workday using an NCR 399 machine. Although I am not a strong advocate of writing checks and holding them, particularly for long periods of time, we write them every day but schedule them for mailing to meet due dates.

Cashwell: We process our invoices for payment daily, but each invoice specifies date due and the date for the check to be written. Checks are written only once a week; on Wednesday night the computer sorts those that are to be paid that week.

Fisher: We're working like the deuce trying to catch up with these big boys! We've ordered a piece of equipment, an NCR 8250, that will help; no matter when we do voucher preparation, it will write checks on scheduled days, and we will be able to restrict check-writing as Guilford County does.

Cashwell: Even before the days of computer check-writing, we did substantially what you do. We wrote checks every day but scheduled them for mailing according to a tickler file of due dates. That technique is available regardless of the size of the unit or what computer capability it has.

Vogt: How do you schedule the mailing of checks?

Cashwell: We use a pretty simple rule. If it is a discount item, we schedule the payment in time to get the discount; most discounts are higher than interest rates for short-term investments. If it is not a discount item, it is paid about thirty days after the invoice date.

Fisher: Tom has listed the two key points. A unit should take advantage of the discount; this is a savings. But you want to pay bills when they are due to avoid a reputation for late payments. Furthermore, you should schedule payments or check-mailing for Thursday afternoon for weekend investment of the money.

Vogt: Have you considered the use of warrants, which are payable at a set future date, to make disbursements? This would mean that a local unit could keep its money invested until the predetermined date of the warrant.

Cashwell: I like the idea. Sometime ago I talked with the secretary of the Local Government Commission about it. One problem with warrants, as I understand it, is that you need to have investments mature every day if you are going to use a warrant system. At the state level, warrants are presented each day to the State Treasurer at 10:00 a.m. and must be covered by 11:00 a.m. We don't have the staff to run that active an investment program, so we play the game of investing the float. That is, we try to guess how long it will take checks to clear after they are written and invest the amount of the checks (the float) during this time. Another problem is that the banks discourage the use of warrants.

Vogt: The Local Government Commission recommends that local units have as few bank accounts as possible — preferably one bank account designated as a cash pool or central depository. Do you both have a central depository, and do you agree with the Local Government Commission's recommendation?

Cashwell: I completely agree with it and we do have pooled cash — a general receipts and disbursements account. We have two other bank accounts — one for payroll and one for public assistance. These two accounts handle a great many checks and are maintained to simplify bank account reconciliation. They are impress accounts, and money is put in only as needed.

All receipts go into our general pooled bank account. We do maintain separate funds and accounts on our books, but as far as the bank is concerned, it is one account. All the money is in one place and we receive better rates because we have larger amounts to invest. Before, when we had some thirty bank accounts, it was very difficult for some of the funds to scrape together $100,000 to invest. We also sacrificed in yield when investing in certificates of deposit. You can't get the best rate on CDs unless you have at least a hundred thousand. The larger the amount invested, the better the yield or return, so pooled cash is essential for investment purposes. However, I recognize that some jurisdictions have some legal requirements that require separate bank accounts.

Vogt: Larry, how many bank accounts do you have, and what do you think of the idea of pooling cash?

Fisher: I like the idea of pooling cash and we use the technique, but we're not completely dedicated to it for two or three reasons. Our cash management system is broken into two basic components: daily operations and capital operations. We use pooled cash for most of our daily operations. We have one large general bank account from which we operate the motor-transport fund, the general fund, all federal program operating funds, nearly all utility operations, and some smaller capital projects. All cash for these funds goes into or comes out of this pooled bank account. Two or three other bank accounts are set up to handle specific functions. For instance, we have a revenue-sharing trust fund and also a separate revenue-sharing bank account for that fund. (I wish we didn't, but it's now set up that way, and I'm stuck with it.) When revenue-sharing was enacted, around 1972, we set up a separate bank account for it because we were afraid of the regulations and wanted to make sure we had a good audit trail for the uses of revenue-sharing. But there is no reason why we couldn't put revenue-sharing money into our general bank account and take care of audit requirements strictly through accounting procedures.

Vogt: Do you have any other bank accounts for operations?

Fisher: We have three separate pension trust funds, and each has its own bank account.

Vogt: Are the separate bank accounts legally required?

Fisher: In some instances, yes; in some instances, no. We have some separate accounts that are maintained for nonlegal and nonfinancial reasons. Our retirement plans for our uniformed employees require separate bank accounts as well as separate fund accountability. Our General Employees Retirement Plan requires separate accountability, but not a separate bank account. To maintain equal treatment we maintain three separate bank accounts as well as three separate funds.

Also, Asheville now has a $10 million water improvement program supported with bond money. Traditionally, in Asheville, we have a separate bank account for any bond issue. If a bank successfully bid on a city bond issue, it was assured a new demand deposit account to handle the proceeds of the issue. This was and is supposed to be an incentive to bid and we have not been able to overcome the tradition.

Small towns and larger cities both have political considerations to think about when deciding whether to use pooled cash. Just as in a smaller town, these circumstances keep us from using our general pooled cash bank account more than we do.

Vogt: Let's leave pooled cash and talk about how each of you selects a bank(s) to receive your local unit's money. Tom?

Cashwell: Unfortunately, we don't have a very sophisticated method of selecting our bank depository. We have several large banks in Guilford County, and we gave up trying to pick any one bank that outshines all others.

In 1971, when we got the approval to pool cash, we made a list of our banking requirements and sent it to all banks in the county. (This was not on a bid basis.) The list included (1) the maximum collateral required, (2) the ability to move funds by bank-wire transfer, (3) the necessity of account reconciliation, and (4) the ability to handle the preparation and mailing of savings bonds to county employees. Almost every bank in the county said it could meet these requirements. A few very small ones excused themselves because they could not meet the five- to six-million-dollar collateral requirement. Now even the small banks say that they can meet that requirement because they can borrow collateral through their correspondent banks. Anyway, we felt the response offered no basis to pick one bank over another, and the board of commissioners decided to rotate the county's banking business among four banks. At first, we changed banks every year, and that was terrible. You can hardly get the mechanism set up and the bugs out before the year is over. Now we change banks every two years. The board decided to put the names of the four banks into a hat and draw for the order of rotation. I am really not that happy with our procedure because the rotation serves to announce in advance what banks will have our business for the next eight years. This discourages competition among the banks, and service deteriorates somewhat.

Vogt: Is two years long enough to develop the continuity required for smooth functioning?

Cashwell: Probably not, but there are nonfinancial considerations that local decision-makers consider in selecting a bank. Our commissioners were not going to put the county's money in one bank and leave it there for a long time, and so I was just asked what I could live with. I finally settled on two years. I'd rather go to four years, but I can't accomplish that.

Fisher: In Asheville, we have six banks and we spread our banking business around as best we can. I toyed with a rotation program, but rejected the idea. Because we are required to have several bank accounts, each for a specific purpose, I simply distribute our business among the local banks. We have a very good relationship with the local banking community.

Vogt: Has either of you looked at competitive bidding as a way of selecting your depository(ies)?

Cashwell: I have and, after this eight years' rotation is finished, I intend to recommend that we use competitive bidding for placing our bank account. Bidding will be awarded not necessarily on the lowest price but for the best service. For instance, I've heard of North Carolina jurisdictions that get checks printed free. We don't. We get deposit slips, account reconciliation, and savings bonds processed without charge, but we've never been able to get free checks. That type of bidding I would recommend. Rotation just doesn't have much to say for it from the finance end. Politically, however, rotation is about the only method we've been able to use.

Vogt: Larry, what services do you request from the banks that have your deposits?

Fisher: I don't formally negotiate with the banks for services. What we ask from any bank that wants our business is the ability to guarantee or insure our accounts, which is legally required, and to give us presorted canceled checks for reconciliation, free deposit slips, and sometimes free checks. However, we buy the checks for our general pooled operating account.

Vogt: Do the banks provide cash pickup and delivery or messenger service for either of you?

Cashwell: We don't now have that in Guilford County.

Fisher: Neither do we.

Vogt: And what about safekeeping of securities?

Cashwell: That is not a problem because we never take delivery of a security. We receive safekeeping receipts and the bank maintains custody of securities.

Investment programs

Vogt: Well, we've maximized available cash through good receipt, disbursement, and deposit procedures. Now let's put that cash to work by investing it. Both of you have active investment programs. First, would you comment on the strategies you pursue in these programs?

. . . any program is better than no program. If you can't be as sophisticated as the Guilford County program, you nevertheless can conduct a program geared to your own size and resources.

Cashwell: It's not difficult to place investments. The tough part is deciding how much and for how long. You need to know the record of previous years' receipts and disbursements in order to determine how much cash you will need at what time. If you do not pin that down closely, you will find yourself having to stay with short maturity investments — like thirty days. Because of the fear of not having cash when you need it, most cash management begins with short-term investments. I can remember when all of our investments were thirty-day items, but now we have investments extending from one to 365 days. Some of our funds for capital projects may run even longer than that. A good cash management program will have investment maturities as long as possible because of the higher yield. However, you can't do that comfortably until you've determined your cash needs closely during the year. The first step is to gather historical information on receipts and disbursements for prior years: when the cash came in and how much; when it went out and how much. On this basis, you forecast the coming year's receipts and disbursements. I find it easier to forecast disbursements than receipts. With adequate cash forecasting, you can extend maturities and get out of this practice of rolling over investments for thirty days. The ideal is to have investments mature exactly when you need them and in the amounts you need. That's tough to achieve, but you shoot to get as close to it as possible.

Fisher: In my view, the purpose of investing idle cash is to earn as much money as you can within the statutory provisions. The way to do that is to have as many dollars as possible available for investment and then to get as much yield from those dollars as possible. As Tom mentioned, cash forecasting is a primary necessity because you have to know approximately when you are going to need your money. Then you can extend your maturities on investments and increase yield. Tom has a large, fairly sophisticated operation. In Asheville we are somewhere between Tom's cash and investment program and that found in a small unit where the finance officer/manager has to do it all. Success in maximizing yield from investments depends on how sophisticated your investment program is. But any program is better than no program. If you can't be as sophisticated as the Guilford County program, you nevertheless can conduct a program geared to your own size and resources.

Vogt: You're saying that the larger unit can have a more sophisticated investment program and can pay more attention to yield.

Fisher: I also want to say, in reference to investment strategy and goals, that if you stick to what the statutes permit, in terms of investment, you have met the safety objective for an investment program. Those statutes are pretty conservative.

You also need some liquid money available for contingencies. We use a passbook savings account to meet this contingency requirement. So does Tom. How much he needs in that contingency passbook savings account, each finance officer has to decide. Once he decides on that, then he can decide how much money to string out for thirty days, sixty days, and up to or more than a year. Time is money here, and the longer the maturities, the higher the yield. This is not always true, but it generally holds.

Vogt: What specific investments do you make? What investment instruments do you buy with the local unit's money?

Cashwell: If the investment is less than thirty days, that rules out a bank certificate of deposit (CD).

Probably, the repurchase agreement (repo) is the most frequent investment for us for a maturity of less than thirty days. With such an agreement, the bank, if that is whom you are dealing with, sells you a security that is a legal form of investment — usually a Treasury bill or federal agency security (agency). The seller agrees to buy back the investment on a specified day at a specified amount for the original purchase price plus an interest return. There's no market risk, and this is a very effective tool for the over-weekend (or overnight) investments. Using repos in this way results in significant investment earnings. Otherwise, everything you have on Friday will lie idle until Monday.

Vogt: Where do you buy the repos?

Cashwell: We buy them from banks. So far no broker has approached us that could beat the rates that the banks offer. Everything we buy is on a competitive bid basis and usually there will be at least three, and perhaps eight, banks bidding every time we have an investment.

Vogt: Larry, do you use repurchase agreements? If so, from whom do you buy them?

Fisher: We buy repos on a fill-in basis for an investment of a few days. For example, a $100,000 investment may mature on Monday and we want to use the money — roll it over — to invest in a federal agency security that has a Friday settlement date. We'll buy a repo on Monday that will mature on Friday from any bank that will sell it to us on a competitive bid basis giving us the most yield we can get on the money.

Vogt: How does the yield on a repo compare with the yield on longer-term investments?

Fisher: It's not as good, but a short-term investment in a repo is better than leaving the money lying in a checking account.

Vogt: What are the maximum maturities on repos?

Cashwell: In our case, anywhere from one day to a year, but usually they are less than thirty days. However, we'll invest in a six- or nine-month repo if that is the highest-yielding instrument and we have the money available for those long maturities.

Vogt: Do all of your repos have a fixed maturity date or do you sometimes use demand repos?

Cashwell: Most of ours have a fixed maturity, but occasionally we have a demand repo that is for liquidity purposes only.

Fisher: A fixed-maturity repo will get you a slightly higher yield than a demand repo.

Vogt: What about investing your money in a bank passbook savings account?

Cashwell: Passbook saving accounts, like repos, are a very flexible investment form. Moreover, they were competitive on yield during the early months of 1977. Some banks have a limit on how much money you can put in a passbook account, which is a problem. I have found that that is negotiable, however.

Vogt: Why do they have a limit?

A passbook account is better than no investment program at all, but you can't get the best yield there.

Cashwell: I really haven't pressed the banks for the reason, but only one bank in our area takes more than $150,000 in a passbook account. It happens to be the bank that has our checking account. At one time we had $10 million in this passbook savings account, earning 5 per cent, when certificate of deposit rates were around 4 per cent. Eventually the bank lowered the rate on the passbook account, and we took the money right out. A passbook account is better than no investment program at all, but you can't get the best yield there.

Vogt: What about using the passbook account for short-term investments?

Fisher: Unless passbook yields are competitive, neither Tom nor I use a bank passbook account for investment purposes — long- or short-term. We use the account to meet expected and unexpected contingency cash needs. The passbook account, although it earns interest, is not an investment for us but more an operating reserve.

Vogt: How much do you normally keep in your passbook account?

Fisher: Normally $100,000. But on July 31 last year, we had only $28,292 in the passbook account.

Cashwell: That varies depending on whether we'll have a large disbursement coming along. In August 1977 the commissioners were dickering over a piece of property that would have cost about

$200,000. I didn't let my passbook account get below $200,000 until they settled on that.

How much? Usually I don't keep more than one week's disbursements in the passbook account, but the capital projects can surprise you. If you have some large ones going, you should keep a sizable liquid passbook account. Without capital projects, there shouldn't be too many surprises.

Vogt: Larry, do you invest in savings and loan accounts, either certificates of deposit or passbook accounts?

Fisher: We use savings and loans (S & Ls) rather extensively. I would recommend them, particularly in today's money market. I don't like to commit money for too long because of uncertainty about the future. But on December 28, 1976, I used $100,000 to buy a four-year certificate from an S & L yielding 7.79 per cent. Right now (August 1977) agencies with a similar maturity are priced to yield about 6.89, so this decision looks good. A year from now, this may not be true.

Cashwell: Guilford County has $100,000 in each of the eight S & Ls in the county because of the policy set by the board of commissioners a few years ago. These one-year certificates happen to be the highest-yielding investment we have right now — 6¼ to 7 per cent. What if the yield were not good? I would try to persuade the board to back off. When they adopted this policy, it was not for yield but to help local business. I don't know whether the board accomplished its goal, but the yield has been fine.

To answer the second part of your question: No, I don't keep money in an S & L passbook account.

Vogt: You both mentioned buying $100,000 S & L certificates. Why that denomination? Is $100,000 a limit?

Cashwell: When we bought our S & L certificates, $100,000 was the maximum you could invest in any one S & L. An S & L legally could not insure a local unit's deposits or investments with it for more than $100,000. Since then, the General Assembly passed a bill authorizing S & Ls to supplement federal insurance on money placed with them with collateralized securities to insure our deposits. So we can place more than $100,000 in an S & L now.

Vogt: Larry, do you have any certificates of deposit larger than $100,000 with an S & L now?

Fisher: Yes. There are three S & Ls in Asheville. Two will not collateralize our deposits, so we keep only $100,000 in each. The third will collateralize and we have CDs amounting to $500,000 there.

Vogt: Do you invest in U.S. Treasury securities or federal agency securities?

Cashwell: When the rates or yields are attractive on these, I do. I have no preference between U.S. Treasury bills and federal agency securities. I go for the one offering the highest yield. But it's rare that the Treasury bill is high because it is a lower risk — the lowest-risk investment available, really. Agencies are not considered quite as secure as Treasury bills, but practically speaking there is little difference, so I go for the one that offers the higher yield.

We use the savings and loans rather extensively. I would recommend them, particularly in today's money market.

Vogt: Where do you buy the Treasury bills or agency securities?

Cashwell: All of our Treasury bills and nearly all of our agencies have been bought through banks.

Vogt: Larry, have you invested in U.S. Treasury bills and agency securities?

Fisher: We've given up buying Treasury bills right now because the yields are low, but we're heavily into agencies because they provide good yields.

Vogt: Are you using banks to buy the agencies?

Fisher: Sometimes, but we buy most of them through a broker. The broker has actively solicited our business and has been aggressive in providing services. Some of the banks act as if they don't care whether we buy an investment from them. But this broker solicits our business and offers services that help our investment program. For instance, they mail me tape cassettes from their economist in New York; I can listen and get some feel for the federal securities market. We receive good service from them. Tom is pleased with his arrangement with the banks because he gets the service he needs from them. The bottom line is service.

Cashwell: That's true. I buy investments primarily through banks. The amount of money you have affects the attention or service you get. If you don't have at least $100,000 you're not likely to get much attention — from a bank, broker, or anybody else.

There is one bank, for instance, that told me, "If you've got $300,000 or more, we'll help you invest it. If it's anything less, we're not that interested." I don't bother that bank unless I have $300,000.

Also, the bank's local branch may not give you much attention, but if you can develop contacts with the home office, you get more attention. There is quite a bit of competition among branches in the same bank. For instance, I had trouble with one bank in Guilford County that would never bid on anything but a certificate of deposit, but once I established contact with that bank's home office I started getting bids from it on anything — repos, federal agency securities, and so on.

Fisher: Tom has brought out a good point. He has a great deal of money to work with and seldom has a problem pulling together large sums of money for investment. But the finance officer in the little town or county is likely to have this problem. But even he should try to accumulate $100,000 to invest. That is a breaking point, and with that amount of money the banks and brokerage houses become much more interested in serving you than if you have less money.

Vogt: Many small units are reluctant to go into investments other than a bank passbook account or certificate of deposit. How does the small unit find out about federal agency securities? Often the local banker just tells the unit about its CDs.

Cashwell: A local finance officer has to make contacts until he finds a bank or broker that will give him information about various investment forms, not just the CDs. We have had that problem only occasionally.

Fisher: If I had to give a small unit advice on this, I would say get the statute out, look at G.S. 159-30 to see what is legal for investment, and try a federal agency or something other than a CD. Put your toe in the water. Keep the statute in front of you so that you know you are buying something that is legal and buy it. Try to buy it from the local banker to keep your business in town, but if he won't deal with you, buy it from a bank or broker in Raleigh, Charlotte, Winston, Greensboro, or wherever. Once the local banker finds out you are going to buy it somewhere, he may start offering it to you.

Vogt: Why do you buy federal agency securities or U.S. Treasury bills and notes? Why don't you stick to bank CDs?

Cashwell: Because the yield is often higher on the agencies and Treasury paper. But I actually have no preference, I buy whatever offers the highest yield: Treasury bill, agency, or, for that matter, CDs. Once I have my liquidity needs covered, I go for the highest-yielding instruments that fit my maturity schedule. That's a little difficult sometimes because not all instruments are quoted on the same basis. Occasionally, what you thought was the highest yield does not turn out to be that when all the dust settles. This is true with Treasury bills in particular. A Treasury bill at a discount rate of 5 per cent won't provide the same yield as a CD rate at 5 per cent. I don't have any strict rules on how to make comparisons. You just have to get the feel of it.

Vogt: Are there particular types or sources of local money that you invest in the federal securities?

Cashwell: Not in our case. All our investment money is in a pooled cash account.

Fisher: The sources or kinds of money we invest have no bearing on the type of investment instrument we buy. After we've got liquidity covered and determine the maturity we're looking for, we go for yield for each and every maturity. We don't care what we buy — agency, Treasury bill, CD, or whatever — as long as it's legal and it fits our maturity schedule.

. . . the finance officer in the little town or county . . . should try to accumulate $100,000 to invest. That is a breaking point, and with that amount of money the banks and brokerage houses become much more interested in serving you. . . .

Vogt: We've touched on bank certificates of deposit (CDs) in talking about other investment instruments. Is there anything else you want to say about them?

Cashwell: One thing about CDs is that the minimum maturity is thirty days. So don't ever tie up all of your money in CDs because the money is then locked in until maturity. It takes a major effort to pull the money out and you lose interest. On a ninety-day CD pulled out before maturity, there would be *no* interest paid.

Vogt: What are the longest maturities on the bank CDs you buy?

Cashwell: I don't know of any legal limits for maturities on bank CDs. I buy CDs that mature in from 30 to 365 days. On rare occasions, I buy them with a maturity longer than a year.

Fisher: The CDs we buy are mostly from 30 to 365 days, but we'll go beyond a year if that fits our maturity schedule. Most of the CDs we now hold have 60-, 120-, and 150-day maturities. But we are much more heavily into federal agency securities than CDs right now.

Cashwell: As of June 30 we had $11 million in bank CDs and $14 million in federal agencies. I hadn't planned to invest heavier into agencies than CDs — yield determines what I buy. When I bought the agencies, they provided the best yields for the maturities I wanted. The same is true of the CDs.

Vogt: Do you attempt to adjust your maturities — shorten or lengthen them — on the basis of your expectations about changes in the market?

Cashwell: I don't try to predict whether yields are going up or down in the market. I always go for the best competitive bid in terms of today's yields on the instruments available in the maturity I need.

Fisher: I do adjust our investment program to meet changing conditions in the money market. For example, if we expect yields and interest rates to rise, we will shorten our maturities. But if we feel that yields are at a peak, we try to concentrate money in investment instruments with long maturity.

Cashwell: I find it hard to predict fluctuations in interest rates. When I have tried to do this, I've often been wrong. A few years ago every major bank in North Carolina said rates were going up, so I shortened maturities and, behold, rates went down. Then the banks all said that rates were going to drop, so I started extending maturities. But the rates went up. Now, I don't let interest rates and yields determine maturities, except for following the general rule that the longer the maturities, the higher the yields.

Vogt: How often do you buy securities? Do you have specific investment days?

Fisher: We are in the market whenever we need to be. We review our situation daily, especially the daily operations side of the program. On some days we have to spend more time with our program than on other days. Cash flow is a little easier to forecast on the capital operations side of the program. The availability of money, including maturing investments, determines our purchase times.

Cashwell: As I said, we schedule maturities on investments to fall due every Tuesday. That's the day that our checks that were sent out the previous Thursday clear. The value of the investments that mature on Tuesday may exceed the amount of checks written. In this case, I roll the excess money over and reinvest it. However, I generally try to plan maturities to meet cash needs. Anyway, Tuesday is an important investment day for this reason. Tuesday is the day that Treasury bills can be ordered, but we actually buy investments two or three times a week. During August and December, when cash inflow is heavy, we invest every day. I might add that when we invest that frequently, we have to go into the secondary market if we are after federal agency securities. We prefer new issues of agencies because the yield is usually higher on them, but if agencies are providing the best yield overall for the maturity we need, we'll buy existing issues in the secondary market.

Vogt: Larry, do you also buy investment securities in the secondary market?

Fisher: Sometimes, but not often. When we want a federal agency security, we can usually schedule the purchase to coincide with a new issue. We will use a repo to invest for the intermediate period.

Vogt: Both of you are from large units. How many people are involved in your respective investment programs?

Cashwell: Four. The people don't devote full-time to it, but they handle cash and investment duties as needed. Two people accumulate day-to-day information on receipts and disbursements, and a secretary calls the banks to find out what different investment instruments are yielding. The actual investment decisions are usually mine, but in my absence my assistant makes them, so our investment program doesn't stop when I am away.

Fisher: I am not directly involved in our investment program — certainly not as much as Tom is. I have two people who really handle the program. I set guidelines for them and we talk from time-to-time about investment strategy, but they plan and do the investing. I keep informed about the market and alternative investment forms and back them up when needed. It is management by exception. If they are uncertain or face a difficult situation, then I become directly involved.

Vogt: Thanks for your comments. Your experience and insights will be helpful to those who are involved in local government finance. □

Local Government Commission

(continued from p. 12)

ble for developing new accounting procedures, testing new programs, and improving current programs. This section also offers educational programs through regional seminars, the community college system, and the Institute of Government, and it prepares various manuals dealing with subjects of interest to local officials. The financial assistance work of this section has increased markedly in recent years. In 1965, one Commission staff member was devoting his time to this work. Today, there are twelve staff members engaged in this activity. Educational effort has increased during the period in about the same proportion. Both activities are expected to increase steadily in the future.

Where we stand

Unlike New York City and some of the other major metropolitan areas, the State of North Carolina and its local units are in sound fiscal health. The national rating agencies recently reported that North Carolina has the lowest per capita debt of any state in the nation. This is the result of continued conservative fiscal policy and sound financial management. However, actions are on the horizon that could threaten the financial future of our state and local units if close control is not continued.

The state's current general obligation debt is approximately $650,000,000. In addition, state authorities and institutions have approximately $165,000,000 of outstanding revenue bonds. At present the state has $623,267,000 general obligation bonds authorized and unissued. The Housing Finance Agency will soon ask the State Treasurer to issue an additional $30,000,000 in new bonds for housing. If and when this new debt is issued, the state debt will almost double.

On the local government level, the situation is somewhat the same. The current general obligation debt for all local units in North Carolina is approximately $1,500,000,000, divided almost equally between the counties and cities. In addition, approximately $250,000,000 more has been approved but not yet issued, and several new local bond issues are pending. The electricities are considering revenue bond issues to finance power-producing facilities. These latter projects alone could amount to as much as $1,500,000,000.

One who looks at the pending financial obligations of state and local units of government in North Carolina is staggered. It is imperative that each issue be carefully analyzed as a part of the whole financial burden. Despite the enormous financial demands facing state and local units, with sound financial management and continued conservative fiscal policy, the debt can be managed as part of a sound fiscal policy — a fiscal policy that is responsive to the needs of the people and yet keeps programs within our ability to pay. □

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