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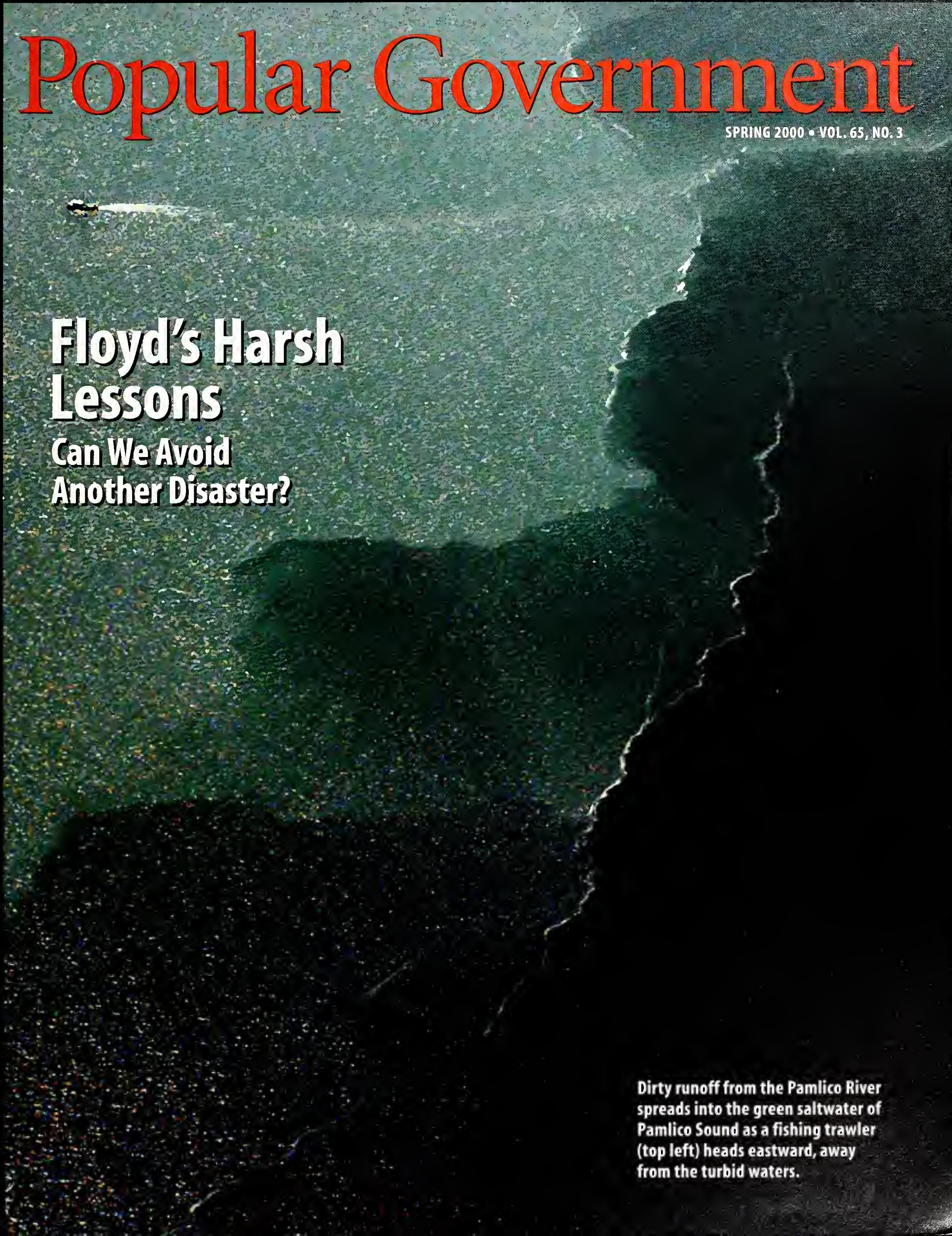

Floyd's Harsh Lessons

Can We Avoid Another Disaster?

Dirty runoff from the Pamlico River spreads into the green saltwater of Pamlico Sound as a fishing trawler (top left) heads eastward, away from the turbid waters.

Popular Government

James Madison and other leaders in the American Revolution employed the term "popular government" to signify the ideal of a democratic, or "popular," government—a government, as Abraham Lincoln later put it, of the people, by the people, and for the people. In that spirit *Popular Government* offers research and analysis on state and local government in North Carolina and other issues of public concern. For, as Madison said, "A people who mean to be their own governors must arm themselves with the power which knowledge gives."

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Ed Hayden, *Goldsboro News-Argus*

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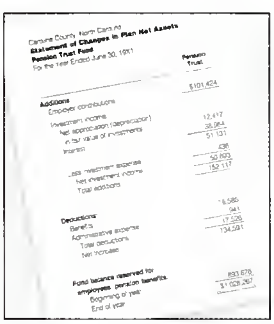

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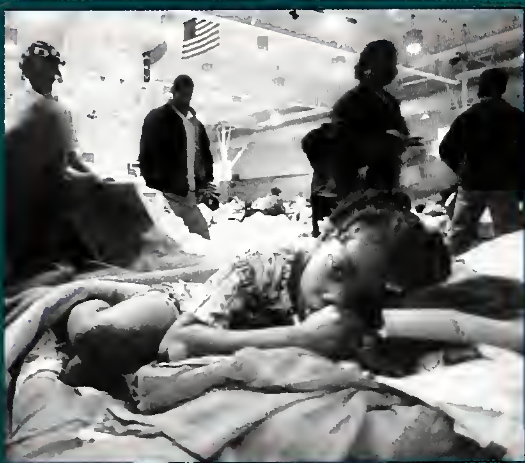
ON THE COVER

One week after Hurricane Floyd dropped record rains on eastern North Carolina, the Pamlico River expelled dirty runoff from the Tar River into the Pamlico Sound. The Sound is seen from about 3,000 feet in the air, well beyond the shoreline. No land is visible, only water. Photo by Drew Wilson, *Norfolk Virginian Pilot*.

Hurricane Floyd, the state's worst disaster in history, left a trail of misery across eastern North Carolina: towns invaded by floodwater, homes destroyed or severely damaged, families uprooted, people left jobless, dreams shattered.

Clockwise from top right: Robert Miller, *Raleigh News & Observer*; Christobal Perez, *Raleigh News & Observer*; Ed Hayden, *Goldsboro News-Argus*; Sher Stoneman, *Raleigh News & Observer*; Christobal Perez, *Raleigh News & Observer*. Opposite page: inset, Chuck Liddy, *Raleigh News & Observer*; hurricane photo courtesy of the National Oceanic and Atmospheric Administration.

COVER ARTICLE



Preventing Disasters through "Hazard Mitigation"

ANNA K. SCHWAB

North Carolina is blessed with an abundance of rich natural resources, as varied and as vital as the people who live here. Its beaches are clean, its mountains spectacular, its rivers and streams plentiful, and its climate temperate. This bounty provides the state's residents with a wonderful place to call home, but there also are inherent dangers. From time to time, hurricanes ravage the coast, ice storms immobilize the mountain areas, and heavy rains cause the waterways to flood the surrounding countryside.

Storms, floods, earthquakes, and wildfires are a part of the natural balance of the environment. A storm that levels dunes displaces the sand to another part of the beach system. A wildfire that blackens a forest allows new growth to flourish. But when such events occur where people have made

The author is coordinator of the Hazard Mitigation Planning Initiative, a joint project of the Department of City and Regional Planning at UNC–CH and the Division of Emergency Management in the North Carolina Department of Crime Control and Public Safety. She thanks Dr. Gavin Smith and Darrin Punchard of the Division of Emergency Management for providing data and insight.

Mel Nathanson, *Raleigh News & Observer*

A Marine Corps helicopter rescues a trucker stranded by flooding on I-95 near Rocky Mount.

their homes and built their businesses, the results can be devastating. Weather- and geology-related phenomena can wreak havoc in towns and communities, disrupting the flow of goods and services, destroying property, and unsettling people's lives. The more dramatic natural events have even caused death and injury.

This article summarizes the widespread effects of North Carolina's worst disaster, the flooding brought on by Hurricane Floyd, and then describes an initiative of the state government to promote local planning that may lessen the disastrous effects of such natural events. [For an article on recovery efforts following Hurricane Floyd, see page 40.]

Hurricane Floyd and Its Aftermath

Hurricane Floyd was a storm whose impact will be felt for years. The unprecedented flooding in many parts of eastern North Carolina following the September 1999 storm has ramifications far beyond the obviously high water levels. In addition to displacing thousands of people from their homes and structurally damaging or destroying entire neighborhoods and downtowns, the flooding may have serious environmental consequences. The actual extent of these problems is not yet known, but many believe that the floodwaters were polluted with waste from hog lagoons, sewage from septic tanks and municipal treatment plants, hazardous materials from chemical facilities and factories, oil and gas from storage tanks and salvage yards, dead animals from farms, and numerous other contaminants.

Floods of the magnitude caused by Hurricane Floyd also have more insidious effects. The long-range economic consequences may far surpass the costs of replacing damaged structures and repairing infrastructure. People have been out of work while the floodwaters have invaded employment centers, and many businesses will never recover. Some people will leave the region, changing the workforce for businesses that do remain viable. Farmers have not only lost this year's crop but suffered losses of farm equipment and other capital. Many may not recoup the loss, even after insurance payments and government relief funds have been distributed. (For estimates of the physical damage from Hurricane Floyd, see the sidebar on page 5.)

Perhaps most complex of all are the changed social and psychological circumstances following Floyd. Citizens have been emotionally traumatized in ways that may manifest themselves in increased incidents of domestic abuse, depression, anxiety, and substance abuse. Communities have lost civic and social centers, recreational facilities, schools, and other identifying elements of their character. Although in some communities the shared experience of disaster may have pulled the people together, in others the disaster itself may have fractured the entire sense of place irrevocably.

Hurricane Floyd Damage Estimates

Scope of Impact
- About 6,600 square miles of eastern North Carolina (about 23 percent) were under floodwater on September 23–24, 1999.

Fatalities
- As of January 27, 2000, fifty-two fatalities were confirmed by the North Carolina Medical Examiner's Office.

Rescue Operations
- More than 1,400 swift-water evacuations were performed by the U.S. Coast Guard (the lead agency), the U.S. Air Force, the U.S. Army, the U.S. Marines, North Carolina Marine Fisheries, the North Carolina National Guard, North Carolina Wildlife Resources, and private citizens.

Flood Levels

The flooding set new records:

- In Tarboro the Tar River crested at 40.92 feet. Flood stage is 19 feet, and the previous crest was 34 feet in 1919.
- In Rocky Mount the Tar River crested at 32.2 feet. Flood stage is 15 feet, and the previous crest was 23.9 feet in 1998.
- In Goldsboro the Neuse River crested at 28.8 feet. Flood stage is 14 feet, and the previous crest was 27.4 in 1929.

County Impact
- Sixty-six of the state's 100 counties were declared disaster areas.
- A 500-year flood (the kind of flood that has a 1-in-500 chance of occurring each year) occurred on the Tar and Neuse rivers.
- Hurricane Floyd was the worst disaster in North Carolina history; the cost is expected to exceed that of Hurricane Fran ($6 billion).
- Almost 75,100 people have applied for recovery assistance.

Utilities
- Seven community water systems in Edgecombe, Nash, and New Hanover counties remained uncleared as of November 30, nearly eleven weeks after Hurricane Floyd hit North Carolina. Uncleared water systems are those with "Boil Water Advisory," "Boil Water Notice," or "System Not in Use" status.
- At the peak of the disaster, 1.5 million customers were without power. Costs were as follows:
  - Debris removal: $24 million
  - Pipeline replacement: $30.5 million
  - Utility restoration: $97.5 million
- Twenty-four wastewater treatment plants were flooded or severely damaged.

Transportation
- At one time, nearly 1,000 roads were closed, including I-40 from Sampson to New Hanover counties, I-95 from Johnston County to the Virginia line, and U.S. 70 from Johnston County to the coast.
- Rail lines were closed in North Carolina, affecting Amtrak's East Coast routes.
- The Department of Transportation's Customer Service Line received more than 100,000 calls on Saturday and Sunday after the storm.
- Ten bridges were washed out, and 44 road sections were closed as a result of Hurricanes Floyd and Irene.
- Topsail Inlet (in Pender County) was closed on November 9 for dredging.
- As of November 23, highway construction costs were $150.6 million, with 77 roads still out.
- As of November 23, bridges and drainage-structure construction costs were $75 million, with 13 bridges still out.

Dams
- Seven dams in Nash, Wake, Wayne, and Wilson counties were either receiving emergency attention or undergoing fundamental repair. Also, one dam in Robeson County was being examined to determine its hazard classification.

Underinsured and Uninsured Housing Losses
- Eighty-one percent of the damaged homes were primary residences.
- Forty-six percent of the affected population had no insurance, or fire insurance only.
- Damage estimates (from FEMA, as of November 29) were as follows:
  - Minimal damage ($2,500 or less): 11,807 homes
  - Minor damage ($2,500–$5,000): 2,765 homes
  - Major damage ($5,000–$10,000): 2,565 homes
  - Destroyed: 2,912 homes
  - Total: 20,049 homes

Claims Submitted to National Flood Insurance Program for Housing Losses
- Twelve thousand claims were received, totaling $61.1 million in losses.

Agricultural Losses
- As of November 1, total agricultural losses were $812.6 million.
- Livestock losses totaled $13 million. The number of dead animals broke down as follows:
  - Hogs: 30,500
  - Chickens: 2.2 million
  - Turkeys: 737,000
  - Cattle: 880
- Crop losses: $543.3 million
- Farm structure losses: $256.3 million

Forestry and Fishery Losses
- Forestry losses: $89.4 million
- Fishery losses: $19 million

Disaster Unemployment Assistance
- Nearly 5,100 applications for disaster unemployment assistance were approved, worth $1.9 million.

Note: All figures are approximate. They were supplied by Tom Hegele, Chief, Education and Emergency Information Section, North Carolina Division of Emergency Management, and were current as of November 29, 1999, unless otherwise noted.

Keeping Hazards from Becoming Disasters

Although Hurricane Floyd is the worst disaster North Carolina has ever experienced, it is by no means the first. Hurricane Hazel ravaged the coastline in 1954. The "Ash Wednesday Storm" of 1962 was a fierce winter storm that survivors still have not forgotten. Hurricane Opal in 1995 and Hurricane Bertha in 1996 weakened the coastline just in time for Hurricane Fran, which until Floyd took the spot as worst disaster in the state.

Many scientists theorize that hazardous events are on the rise from factors such as global warming, sea-level rise, and fluctuations in weather patterns. In addition, development is growing rapidly in numerous areas of risk. It is becoming more and more apparent that something must be done to prevent hazard-related devastation from occurring again and again in North Carolina. Although people cannot eliminate *hazards*, they can prevent *disasters* through "mitigation." Hazard mitigation encompasses a range of activities undertaken by governments, corporations, builders, developers, and individual business and home owners. It can involve strengthening buildings (for example, remodeling a structure to withstand earthquake tremors), modifying the environment (for example, constructing a levee or another type of barrier to protect property from rising floodwaters), using avoidance techniques (for instance, conserving high-risk property as public open space), and adopting other public policies (such as refusing to extend municipal services and utilities to undeveloped areas in hazard zones).

Mitigation at the Local Level

Undertaking mitigation at the local level is a particularly effective way to create safer, more hazard-resilient communities. Although the economic effect of large disasters like Hurricane Floyd is statewide, the brunt of the physical, financial, and emotional impact is felt in the settings in which people live and work—in the towns, neighborhoods, homes, businesses, schools, and farms damaged or demolished. Knowing from experience the extent to which Mother Nature can transform the landscape, the people of these communities may be willing to support changes that could prevent a repeat experience. The power of local decision makers to affect the future is substantial. They regulate land-use patterns and building practices, make many public spending and taxation decisions, and largely determine growth and development policy. Local resolution can control to a large degree where, when, and how homes, businesses, schools, and farms are built.

Following a disaster, many local governments take advantage of federal and state aid to decrease their vulnerability to natural hazards, and an active, engaged community can use the window of opportunity that arises during the reconstruction period to build a community that is better than before. Ideally a community that engages in hazard mitigation will come up with an overall program ensuring that individual mitigation projects are not carried out in a disjointed, ad hoc fashion.

Robert Willett, *Raleigh News & Observer*

At the North Carolina State Fair, a consultant for the Federal Emergency Management Agency uses a scale model to demonstrate the impact of flooding on towns.

A community-wide mitigation program can be effective in tying *all* local activities together so that no single project detracts from the overall goal of creating a safer community. For example, the Federal Emergency Management Agency (FEMA) has granted thousands of dollars to local North Carolina governments through the Hazard Mitigation Grant Program (HMGP) to acquire flooded property, remove it from the marketplace, and relocate the resident homeowners and businesses to other, safer areas. But removing structures from isolated parcels is not nearly as effective as placing an entire block or riverfront out of harm's way and integrating the land into the local park or greenway system so that the hazardous area will remain undeveloped in perpetuity, as well as contribute to the community's open space program.

One way that local governments can achieve an integrated approach to hazard mitigation is by creating and implementing a local hazard mitigation plan. Under the Hazard Mitigation Planning Initiative (HMPI), a program established by the Mitigation Section of the Division of Emergency Management in the North Carolina Department of Crime Control and Public Safety, local governments throughout the state are breaking new ground in mitigation planning. With grants from HMPI, eleven cities and counties are formulating hazard mitigation plans that will serve as models for other communities in the state (see the sidebar on this page for a list of the communities). These Demonstration Communities are receiving technical assistance and guidance in formulating their plans, as well as training in using sophisticated computerized analysis in the planning process. HMPI is rapidly expanding the scope of its services to include as many governments in the Floyd disaster area as feasible. These communities soon will be receiving training and materials to begin their own mitigation planning activities.

The Hazard Mitigation Planning Process

Although the Division of Emergency Management allows for local creativity and flexibility among the communities enrolled in HMPI, there are some standards to shape and guide the various plans being formulated. The following description of the planning process is adapted from documents prepared for use by HMPI and other communities to guide local planning activities (to obtain more information, including a copy of the planning guide, see the sidebar below for contact data).

Conducting Background Studies

The first step in the planning process involves information gathering. Basic studies that must be performed before a

HMPI Demonstration Communities

Boone
Carteret County
Craven County
Elizabethtown
Franklin County
Johnston County
Lenoir County
Mecklenburg County
New Hanover County
Pender County
Washington

Becoming an HMPI/ Project Impact Community

The Division of Emergency Management is eager to expand the Hazard Mitigation Planning Initiative (HMPI) to communities across the state, and it continues to seek local governments that have demonstrated a commitment to hazard mitigation. As mitigation funds become available, the division will continue to award mitigation planning grants to local governments that have applied for and are selected as new HMPI communities. Local governments are encouraged to prepare and submit grant applications for participation in HMPI even if adequate funding is not currently available through the division.

An essential component of HMPI is Project Impact, an initiative launched by the Federal Emergency Management Agency (FEMA) in October 1997 in response to rapidly escalating disaster costs and the growing need to assist communities in protecting lives and property. Project Impact communities receive grant funding and technical assistance from both the federal and the state government to begin addressing their potential hazards and implementing disaster prevention strategies. Such strategies may include but are not limited to hazard mitigation planning, policy and regulatory standards, public awareness and education programs, and structural mitigation projects.

The designation of Project Impact communities occurs annually in coordination with FEMA. Each year the Division of Emergency Management nominates at least one community to participate in the project. Once approved by FEMA, the nominated communities receive their Project Impact designation and funding award. All North Carolina communities awarded a Project Impact designation also become participants in HMPI.

Communities that apply for participation in HMPI or Project Impact are evaluated on the basis of numerous criteria, including (1) a demonstrated commitment to hazard mitigation, (2) hazard vulnerability, (3) capability to adopt and implement mitigation strategies, and (4) local political support.

To learn more about applying for participation in HMPI and Project Impact, or to receive copies of the planning guide, contact Darrin Punchard, HMPI/Project Impact Coordinator, North Carolina Division of Emergency Management, 116 West Jones Street, Raleigh, NC 27603-1335, phone (919) 715-9195; or visit the Division of Emergency Management's Web site, www.ncem.org.

As Hurricane Floyd makes landfall in North Carolina, evacuations of coastal areas create near-standstill traffic as far inland as Interstate 40 near the Raleigh-Durham International Airport.

Harry Lynch, *Raleigh News & Observer*

mitigation plan can be formulated are as follows:

- Identifying and analyzing the natural hazards that affect the area
- Analyzing the area's vulnerability to each type of natural hazard
- Assessing the capability of the area to mitigate those hazards effectively
- Analyzing the acceptability of the existing level of risk

Hazard Identification and Analysis

In the first basic study, the community identifies and maps its problems—the types of hazards that exist, the frequency and the probability of their occurrence, their strength and impact, and the location within the community where the impact may be felt. This step allows the community to focus limited resources on hazards with the highest likelihood of occurrence and the greatest potential impact. Resources for collecting hazard data include local maps; state, regional, and local agencies; and federal Flood Insurance Rate Maps (FIRMs). Unfortunately, FIRMs and other types of hazard maps for many localities are in need of updating, but the lack of precision in delineating hazardous areas should not dissuade communities from using all available data for planning purposes. Not to be discounted as a source of information is historical evidence from past hazard events and the cumulative knowledge of residents and long-time community members. Even anecdotal evidence about "the big one" that occurred a generation ago can provide valuable information for planners and policy makers.

Vulnerability Analysis

The second background study is to determine the community's level of vulnerability—both now and in the future—to the natural hazards identified in the previous step. This analysis highlights who and what is at risk. To target mitigation efforts appropriately, the community must know where and to what extent it is susceptible to the impact of natural hazards. Vulnerability assessment includes recording population numbers (including such details as seasonal fluctuations and special populations); the number, type, location, and value of residential, commercial, and industrial structures; the location of critical facilities such as hospitals, power plants, and police and fire stations; the types of regional activities that may affect the community's vulnerability; and the location of developable and undevelopable lands. Data sources include local and state population figures, existing land-use maps, and tax assessment maps. Future vulnerability of people can be determined using population projections or estimated growth rates. Local land-use plans, zoning ordinances, and other regulatory and policy instruments that determine where, when, and how land may be developed can be used for assessing the vulnerability of the future built environment.

To be truly useful, hazard background analyses must be mapped. All the identified hazard areas should be displayed, and critical facilities, employment centers, structures that have been repeatedly damaged, and infrastructure (roads, bridges, water and sewer lines, and so forth) should be marked. Planners can then overlay existing land-use maps and tax maps to determine what is at risk in relation to the hazards. Future vulnerability can be displayed graphically by overlaying the local zoning map and vacant-lands map to show potential development in relation to areas of risk. Many communities find that the application of Geographic Information Systems (GIS)—a computerized analytical tool—is an effective means to carry out this step, but

GIS is merely an instrument to help determine vulnerability. Communities that do not have the resources to engage in the sophisticated analyses that GIS affords can carry out hazard assessment in a more rudimentary fashion with traditional maps and grease pencils. The critical issue is to gather the data and present them in a format useful for policy formulation.

Capability Assessment

The capability assessment involves ascertaining the legal authority vested in local governments to pursue measures to mitigate the impact of natural hazards. The assessment also involves evaluating the community's political willpower, institutional framework, technical know-how, and ability to pay for mitigation. The capability of all levels of government (local, state, regional, and federal), as well as the potential contributions of nongovernmental organizations (churches, charities, community relief funds, the Red Cross, hospitals, for-profit businesses, nonprofit organizations, and the like) should be included, with a description of their usefulness to the local community in terms of hazard mitigation.

The capability assessment is more than an inventory of existing mitigation measures and organizations with responsibility for hazard mitigation. It should include evaluation of the *de facto* mitigation measures—those that may be designed for another purpose but nevertheless have an effect (either positive or negative) on hazard vulnerability. For example, preserving oceanfront dunes for aesthetic purposes also buffers shoreline property from wind and waves. The assessment also must identify and analyze existing local policies or practices that may weaken mitigation efforts or even exacerbate the risk facing the local community from natural hazards. These might include formally adopted policies (for example, relaxation of building code requirements following a flood or a hurricane to speed recovery) or political directives concerning allocation of public resources (for example, a decision to finance the extension of utilities and public services to hazardous areas).

There often is significant divergence between the legal authority to act and the political willingness or the financial ability to carry through. The political dimension may be particularly difficult to assess in advance. However, analyzing how to insert mitigation routinely into everyday decision making can go a long way toward depoliticizing the issue. If mitigation comes to the forefront of the community's concerns, local elected officials may be much more likely to promote its implementation. Public education and awareness campaigns about the long-term economic benefits and social utility of mitigation also can help foster its general acceptance by citizens and, in turn, by elected officials.

Funding for mitigation may be a low priority in some local budgets. Fortunately, diverse sources of assistance are available to communities to increase their financial capability, including both government and private programs. National programs provide the bulk of disaster-related financing. Mitigation grants and loans are available to eligible communities from FEMA, the U.S. Department of Housing and

Officials in the state's Division of Emergency Management used a geographic information system (GIS) to generate this map of 100- and 500-year flood zones in a section of Wayne County. Officials analyzed land parcels within the flood-hazard areas to identify opportunities for mitigating future damage from floods.

Map prepared by North Carolina Center for Geographic Information and Analysis

Chris Seward, *Raleigh News & Observer*

Harry Lynch, *Raleigh News & Observer*

The flooding may have serious environmental and health consequences. Above and right: pigs struggling to stay alive as rising floodwaters threaten them; a flooded hog lagoon. Below: one of more than five junkyards located within the floodplain of the Neuse River that were overrun by floodwaters.

Photo © Rick Dove, Neuse Riverkeeper, all rights reserved

Urban Development, the federal Small Business Administration, and other federal agencies following a declared disaster. But local communities need not rely solely on government financing to augment the local hazard-mitigation budget. For instance, local businesses and organizations will frequently support projects that benefit their customers or employees or constitute good public relations. Other groups or individuals may be willing to donate in-kind goods or services, eliminating the need for cash. Often the in-kind and volunteer contributions of community members can be counted toward the local share that is typically needed to supplement an outside source of funds.

Acceptability Assessment

On the basis of the background studies on hazards, vulnerability, and capability to respond, the locality should determine whether the existing level of risk is acceptable. If not, the locality should create a plan to reduce its vulnerability.

Formulating Goals and Objectives

Once the background analyses have been performed, the community can use the information to create a vision for change. Often a community already has formulated goal statements in other documents that can help develop mitigation priorities and support mitigation objectives. The comprehensive plan (which governs the locality's overall land-use pattern), the capital improvements plan (which identifies where and when local expenditures for infrastructure will take place), the floodplain management plan (which delineates flood-hazard areas and regulates activities located there), and other locally enacted policies and plans may be sources of already existing goal statements that can be incorporated into the hazard mitigation plan.

Scott Sharpe, *Raleigh News & Observer*

The flooding of cemeteries, like this one near Kinston, had bizarre results: coffins unearthed and washed away.

Many communities, however, did not address hazards when they established their goals and objectives. As a result, they may have overlooked hazard risks, and some of their goals and objectives may even hinder mitigation. Thus they may have to create new goals or reconcile old ones with their interest in mitigation.

To the greatest degree possible, mitigation goals and objectives should be integrated with other local interests. Examples of other, broad-based goals that can support mitigation goals (and vice versa) include providing open space, conserving the environment, protecting natural areas, improving water quality, preserving historic buildings and structures, and maintaining a stable and growing business community.

Formulating Policy, Programs, and Strategies

The policies, programs, and strategies contained in the local mitigation plan direct what action will be taken to make the community safer. *Policies* are principles of hazard mitigation, expressed as action statements. Policy areas to which mitigation concepts should be directed include environmental protection, transportation, housing, and management of growth and development and other major local functions. For example, a policy might determine which critical environmental areas merit special protection from development, thereby enhancing their natural mitigation features. Another policy might govern transportation capacity, ensuring that adequate evacuation time is allowed in case of a major hazard event.

Programs, made up of *strategies* designed to implement the plan, are the means by which policy is carried out. A comprehensive mitigation plan will contain several programs, each of which complements and supports the others. For example, as part of their mitigation plans, some communities have enacted programs to control the rate of growth in environmentally sensitive areas and areas with limited evacuation capacity. Strategies used to carry out such programs include delineating preferred-growth areas and developing small-area plans for the targeted locations. Increasingly, local governments are devising acquisition programs to obtain rights to critical pieces

Ralf Walters, *Tarboro Daily Southerner*

Residents of Edgecombe and south Pitt counties, surrounded by floodwaters, were airlifted by U.S. Coast Guard SH-43 helicopters to a shelter at Tarboro High School.

Princeville, the first town chartered by freed blacks, on February 20, 1885, was severely damaged by floodwaters. At right, water overtakes the Princeville Town Hall. On February 29, President Clinton created a special council on the town, directing a dozen Cabinet members and senior officials to help rebuild it. It "holds a special and highly significant place in our nation's history," he said.

B. Trevathan, *Tarboro Daily Southerner*

of property. By acquiring property either in "fee simple" (with full rights of ownership) or through easements, local governments can protect sensitive areas from development and prevent a dramatic rise in the locality's vulnerability.

Adopting and Implementing a Plan

To become enforceable policy, a local hazard-mitigation plan must be adopted by the governing body of the local government. A series of recommendations made by planning staff will not have the same impact as an official document that lays out the government's policies regarding mitigation.

No plan is self-executing, so the real challenge of hazard-mitigation planning involves converting the plan into action. It is important to have some implementation mechanisms in place before a disaster occurs, such as a list of sites to be acquired or a reserve fund to move damaged infrastructure. The plan should specify the people or the offices within the community that are responsible for carrying out the actions, and set forth a schedule to ensure timely implementation. The intent of the implementation section is to alter the traditionally reactive nature of a response to disaster. The proactive nature of mitigation planning is what leads to successful reduction of hazard vulnerability.

Creation of Sustainable Communities through Hazard Mitigation

Communities that have been through a disaster such as Hurricane Floyd have lost much. But they also can gain much. Redevelopment can take place in a manner that allows localities to rebuild as stronger, more resilient, even better communities than before. Following a disaster the significant challenge for communities is how to balance the driving need for rapid recovery with the importance of implementing long-term hazard mitigation. Meeting basic needs and resettling displaced populations often overshadow consideration of the community's sustain ability. Once a community has initiated full-scale reconstruction, modifying projects to meet sustainability objectives is difficult. This phenomenon highlights the need for pre-disaster mitigation planning that incorporates principles of sustainable development within the context of reconstruction.

Mel Nathanson, *Raleigh News & Observer*

This Oak Island home was partially lifted off its foundation and grotesquely twisted.

By looking closely at the hazards they face and the impacts those hazards can have, citizens can direct development in ways that do not pose the same risks. They can take the process further, incorporating into all redevelopment efforts the principles of smart growth: a sense of stewardship, an ethic of environmental protection and natural resource preservation, and a commitment to equity and parity. Both urban and rural areas can be rebuilt to meet the needs of the current generation while protecting the ability of future generations to meet their own needs.

Sustainable development through mitigation is not an impediment to growth. By building a community that is resilient to natural hazards, citizens strengthen the local economy. A locality that reduces its vulnerability will experience less restoration time, shortened business downtime, and less social disruption following a disaster, freeing resources that would otherwise be devoted to response and recovery, and more quickly improving citizens' lives.

Addressing Domestic Violence in Immigrant Communities

Deborah M. Weissman

The need for adequate legal intervention to protect battered women is compelling. Disturbingly prevalent in the population at large, domestic violence assumes even more troubling dimensions in the growing immigrant communities across the United States. Immigrant women in abusive relationships are in a particularly precarious situation because they are vulnerable to both physical assault and coercive measures related to their immigration status. An abuser may, for example, threaten his wife with deportation by the Immigration and Naturalization Service (INS), refuse to file necessary papers to legalize her immigration status, or deliberately hide or destroy documents indispensable to her lawful stay in the United States, such as a passport, a birth certificate, or a marriage certificate. Further, an immigrant woman who leaves an abusive marriage risks her ability to obtain lawful permanent residence, which is contingent on her husband's cooperation with the INS.

This article focuses primarily on immigrant women married to U.S. citizens or lawful permanent residents (LPRs). But the condition of a battered immigrant woman living with a spouse who is not legally present in the United States may be even more desperate, for there are few legal remedies that do not expose her to the possibility of deportation.

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For many women, deportation is a prospect to be avoided at all costs. It may mean a return to a life of malnutrition, poverty, and disease for them and their children. For women who have fled political persecution, it may mean torture, jail, or even death.[1] Consequently, if an immigrant woman is unaware of the legal remedies available to her, she may well be reluctant to leave an abusive relationship. (Other factors may keep immigrant women in abusive relationships. See the sidebar, page 14.)

Effects of Immigration Law

To comprehend the effects of immigration law on efforts to deal with domestic violence, one first must understand how noncitizens may lawfully enter and remain in the United States. Federal law governs whether, when, and how noncitizens may enter the country.[2] Noncitizens who come to the United States with the intention of living here indefinitely are considered immigrants. Noncitizens who come for a fixed period and a specific purpose, such as tourists or students, are considered nonimmigrants and are not the focus of this article.

Immigrants may become LPRs—a status allowing them to remain and work in the United States indefinitely and a critical preliminary step to becoming citizens—in one of four ways. They may be

1. sponsored by an immediate family member who is a U.S. citizen or an LPR;
2. sponsored by an employer who has completed the necessary process with the U.S. Department of Labor;

Other Obstacles to Legal Relief and Protection

In addition to the legal issues discussed in the accompanying article, other obstacles may discourage and occasionally prevent immigrant victims of domestic violence from obtaining legal relief and protection.

Linguistic and cultural barriers. Battered immigrant women may be unable to communicate proficiently in English. That makes access to lawyers, courts, domestic violence shelters, and social services agencies more difficult.[1] Although many programs providing services to victims of domestic violence are conscious of the need for bilingual staff, they may lack the resources to expand their services. Different cultural norms also may deter an immigrant woman from seeking help. Within immigrant families and communities, violence in a marriage may be seen as a "private" problem, and a woman may be discouraged from going outside traditional family structures for solutions. Also, an immigrant woman may be unwilling or unable to bear the consequences of ending her marriage, such as estrangement from family and community.[2]

Lack of familiarity with the legal system. Many immigrant women lack familiarity with the legal system in the United States. Further, they may be reluctant to appeal to the courts as a result of experiences with the legal systems in their home countries. For example, in judicial systems in some nations, notarized affidavits, not oral testimony, are the primary form of evidence, and the testimony of women may carry little weight.[3] Some immigrants also may be accustomed to dealing with a legal system in which outcomes are a function of economic privilege or political connections rather than due process of law.[4]

Fear of the police. In one study in 1990, only 2 percent of battered immigrant women interviewed called the police for assistance.[5] This low reporting rate may be the result of immigrants' fear that the police will report them to the INS and that deportation will follow. The low reporting rate also may be a consequence of immigrants' experience in their home countries, where police may intervene infrequently in domestic situations or be agents of a repressive government.[6]

Ignorance and fear of social services agencies. Relatively few immigrants are aware of the range of social services that they may obtain. In most Latin American countries, for example, legal services agencies are virtually unknown.[7] Also, the quasi-governmental status of social and legal services agencies may arouse fear that involvement with them could bring the attention of the INS and lead to deportation.[8]

Notes

1. *See* Deeana Jang, *Triple Jeopardy: The Plight of Battered Immigrant and Refugee Women*, 19 Immigration Newsletter 6, 8 (1990).

2. Tien-Li Loke, *Trapped in Domestic Violence: The Impact of United States Immigration Laws on Battered Immigrant Women*, 6 Boston University Public Interest Law Journal 589, 590–91 (1997).

3. Catherine Klein & Leslye Orloff, *Providing Protection for Battered Women: An Analysis of State Statutes and Case Law*, 21 Hofstra Law Review 801, 1020 (1993).

4. United States Commission on Civil Rights, Racial and Ethnic Tensions in American Communities: Poverty, Inequality, and Discrimination at 75 (Washington, D.C.: USCCR, 1993).

5. Linda Kelly, *Stories from the Front: Seeking Refuge for Battered Immigrants in the Violence Against Women Act*, 92 Northwestern University Law Review 665, 678 (1998), *citing* C. Hogeland & K. Rosen, Dreams Lost, Dreams Found: Undocumented Women in the Land of Opportunity at 12–13 (1990).

6. *See* Klein & Orloff, *Providing Protection* at 1021.

7. Stacy Brustin, *Expanding Our Vision of Legal Services Representation—The Hermanas Unidas Project*, 1 American University Journal of Gender and the Law 39, 46 (1993).

8. *See* Kelly, *Stories from the Front* at 679.

3. chosen in the "diversity visa" program, a lottery designed to encourage immigration from countries that in recent years have sent the fewest number of immigrants to the United States; or
4. granted status as a refugee or an "asylee" (one granted asylum) based on a well-founded fear of being persecuted in their home country.[3]

Immigrants married to U.S. citizens or LPRs often seek LPR status on the basis of the first method, family sponsorship. Women married to U.S. citizens are eligible for immigrant visas without quota limitation and must simply wait until the INS processes the paperwork.[4] Further, these women are eligible to become LPRs immediately. Women married to LPRs also are eligible for immigrant visas, but they are assigned to "preference" categories according to their country of origin and then are subject to quotas and waiting periods before they can enter the United States and apply to become LPRs.[5] In either case the immigrant wife must rely on her husband to complete and file the necessary paperwork and to attend at least one marriage interview with the INS.

Early Immigration Law

The legislative history of the federal Immigration and Naturalization Act underscores congressional concern for preserving the traditional family unit.[6] Immigration laws have not always reflected the needs and the circumstances of women, however. Early immigration laws incorporated the doctrine of "coverture," the proposition that the husband was the head of the household and that a married woman's nationality and residence, among other things, derived from her husband. As a result, citizen or LPR husbands were legally entitled to control the immigration status of their noncitizen wives.[7]

Immigration Marriage Fraud Act of 1986

The passage of the Immigration Marriage Fraud Act (IMFA) in 1986 created additional difficulties for battered women by introducing another step in the process of obtaining LPR status based on marriage. The IMFA continued to require a citizen or LPR husband to submit a petition for his noncitizen wife. However, rather than granting LPR status to the noncitizen spouse on approval of the petition, the IMFA mandated a "conditional residency" of two years if the marriage was less than two years old when the petition was approved.[8] For the noncitizen wife to obtain LPR status and avoid deportation, she and her husband had to file a joint petition before the expiration of two years, demonstrating that the wife did not enter into the marriage to obtain immigration status and that the marriage still existed.[9] The intent of the IMFA was to deter immigrants from entering into fraudulent marriages to gain LPR status.[10] The two-year conditional residency and the joint-filing requirement, however, created additional hardships for women whose legitimate marriages had become intolerable because of domestic violence.

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IMFA Amendments of 1990—Battered Spouse Waivers

Recognizing the dangerous consequences of the 1986 law, Congress amended the IMFA in 1990 to allow battered spouses to apply for a waiver of the joint-filing requirement so that they may move from conditional to permanent status without the cooperation of an abusive spouse. To obtain a waiver, an immigrant wife has to demonstrate that she entered into the marriage in good faith and that she or her child has been "battered or subject[ed] to extreme cruelty."[11] These provisions improve a battered woman's opportunity to obtain LPR status, but the law continues to pose problems for women in abusive relationships. INS regulations implementing the amendments create stringent proof requirements that limit the usefulness of the waiver provisions.[12] More important, the 1990 IMFA amendments did not eliminate the power of abusive spouses to control the immigration status of their wives because IMFA waivers still were available only to wives whose husbands had filed the required initial petitions for conditional residency. Thus, even after the 1990 amendments, wives whose husbands refused to file any of the necessary paperwork with the INS still were without a remedy.

Violence Against Women Act of 1994

Four years later, Congress passed the Violence Against Women Act (VAWA),[13] intended to be a comprehensive effort to address domestic violence and sexual assaults, and to expand the federal presence in domestic violence matters. The law provides various forms of relief, including funding for women's shelters, a national domestic-abuse hotline, rape education and prevention programs, training for federal and state judges, and, of greatest relevance to this article, immigration remedies for battered women.

For battered immigrants who depend on citizen and LPR spouses for lawful status in the United States, VAWA offers two important forms of relief: "self-petitioning," under which abused spouses of citizens or LPRs may file their own petitions for LPR status; and "cancellation of removal," under which battered spouses may avoid deportation from the United States and obtain LPR status. The remedies are available to both men and women who meet the eligibility criteria, but the focus in this article is women because they are more likely to be victims of domestic violence and more likely to be in need of these remedies.

The statute and the implementing regulations set forth eligibility criteria for each remedy, as follows. A self-petitioner must

1. be married to a U.S. citizen or an LPR at the time of filing the petition;
2. have married in good faith;
3. reside in the United States;
4. have resided with the abuser in the United States;
5. have been abused by the citizen or LPR spouse;
6. be of good moral character; and
7. be a person for whom deportation would result in extreme hardship to herself or her children.

Children may be included as derivative beneficiaries under an abused spouse's self-petition. Abused children, or the married parent of an abused child, also may self-petition. A self-petition will be denied if, before filing, the marriage has legally ended through annulment, death, or divorce.

Self-petitioning is a complex legal process and generally requires the skills of an attorney. Once a self-petition is approved, an immigrant is eligible to apply for work authorization and for LPR status. If she is married to a U.S. citizen, the petitioner may apply for LPR status immediately. If she is married to an LPR, the petitioner is subject to a waiting period, the length of which depends on the petitioner's country of origin.

To be eligible for cancellation of removal—which essentially means suspension of deportation—the applicant must

1. have been married to a U.S. citizen or an LPR;
2. be subject to deportation;
3. have been physically present in the United States continuously for at least three years;
4. have been battered or subjected to extreme cruelty while in the United States by a spouse or a parent who is a U.S. citizen or an LPR (or be the parent of a child subjected to such abuse);
5. be of good moral character; and
6. be a person for whom deportation would result in extreme hardship to herself or her children.

A woman who has a child with a citizen or an LPR but is not married to him, also may be eligible for relief for herself and her child if the citizen or LPR parent has abused the child.

Unlike self-petitioning, cancellation of removal is available as a remedy *after* a woman is divorced from an abusive husband. She may seek it, however, only in response to INS efforts to deport her from the United States. For example, a battered immigrant woman who is not eligible for self-petitioning because she is divorced must wait until she is subject to deportation proceedings before she may seek LPR status and work authorization through cancellation of removal.

The use of VAWA remedies can be arduous. For both self-petitioning and cancellation of removal, battered immigrant women must prove many elements—not only abuse but also the good faith of the marriage, residence with the abuser in the United States, the abuser's citizenship or LPR status, and extreme hardship.[14] To meet the definition of extreme hardship under INS regulations related to battered immigrants, the woman must show that she has suffered from domestic violence and, as a result, she or her children have ongoing needs for counseling, medical care, legal protection, child support, enforceable custody orders, or other assistance, that require access to U.S. courts and are not likely to be met in her home country.[15]

Although federal regulations require the INS to consider "any credible evidence," the instructions accompanying the self-petition forms suggest a preference for certain documentation, such as reports and affidavits from medical personnel, social workers, and police. This kind of documentation may be difficult to obtain, however.[16] For example, a battered immigrant woman's fear of deportation may prevent her from contacting service agencies, including health providers. That limits her ability to document the abuse she has suffered. The next section discusses ways in which state court proceedings may assist battered immigrant women in meeting these requirements, obtaining relief under VAWA, and ultimately protecting themselves and their children from further domestic violence.

State Court Procedures and Federal Remedies

State Court Procedures

In 1979 North Carolina enacted the state's first domestic violence act. Chapter 50B of the North Carolina General Statutes. Chapter 50B allows male or female victims of domestic violence to file civil actions in state court to obtain emergency and long-term relief of up to one year. Physical or sexual violence as well as attempted or threatened violence are grounds for an order of protection, called a domestic violence protective order, or DVPO. In addition to ordering the defendant to cease abuse, a court may order the defendant to stay away from the plaintiff, may exclude the defendant from the residence, may enter temporary custody and visitation provisions, and may require child and spousal support. The statute also authorizes the court to grant any other relief that may be necessary to protect the plaintiff or any minor child.[17]

Battered women are eligible for protective orders regardless of immigration status.[18] Particular care is required, however, to meet the needs of battered immigrant women. Questions regarding immigration status during a state court proceeding may discourage use of these remedies.[19] Yet, to protect immigrants adequately from domestic violence, protective orders may need to account for immigration concerns.

Domestic violence orders not only can protect battered immigrants from abuse but also can reduce their vulnerability to coercive measures concerning their immigration status.

Tailoring of State Court Relief

Domestic violence orders not only can protect battered immigrants from abuse but also can reduce their vulnerability to coercive measures concerning their immigration status. Although VAWA attempts to limit the ability of abusers to use immigration law as a vehicle to maintain abusive relationships, a battered immigrant is unable to use VAWA successfully without the necessary documentation. State domestic violence remedies offer one possible solution to this problem.

Obtaining a protective order restraining continued abuse both provides safety for an immigrant woman and furnishes the documentation of abuse needed in VAWA proceedings.[20] Further, when appropriate, a protective order granting the immigrant spouse exclusive use or possession of the parties' home may give her access to, and the ability to preserve, documents necessary to make her case during VAWA proceedings. A state court also may order an abuser to surrender personal property to the abused spouse, including papers and documents she may need to provide to the INS.

Custody and visitation provisions often are the most important aspects of adequate protection for a victim of domestic violence.[21] Battered women who attempt to leave an abusive partner are frequently driven by the desire to protect their children. If the abuser has family or other ties in another country, he may threaten to remove the children from the United States. A protective order can help meet this threat by enjoining the abuser from removing the children from the United States without a court order, and ordering the surrender of the children's passports.

A battered immigrant woman also may be in a precarious financial condition because she may lack work authorization and have limited access to public benefits. A protective order may include financial assistance in the form of child and spousal support. A protective order also may help battered immigrants qualify for needed public benefits. If the abuse is adequately documented, federal law allows battered immigrants to obtain federal benefits that otherwise might be denied them.[22]

A battered woman married to an LPR or a naturalized citizen also may have to produce copies of documents not easily accessible to her—for example, the abuser's birth certificate, certificate of naturalization, "green card" (Alien Registration Receipt Card, which identifies the rightful holder as a permanent resident of the United States), passport, and alien registration

Project Esperanza

Project Esperanza is a coalition of groups and people working together to serve battered immigrants in North Carolina. Coalition members represent diverse interests and organizations, including health and mental health providers, domestic violence advocates, legal services staff, members of the academic community, and others. The coalition has produced a manual, *Project Esperanza: A Guide to Working with Battered Latinas,* which focuses on training and public awareness activities for domestic violence programs, health care organizations, legal services programs, law enforcement agencies, social services agencies, and other groups that serve immigrant communities.

Project Esperanza also has organized training sessions across the state. Nearly one-third of the people who have attended the sessions are associated with domestic violence programs or related agencies. Health department and law enforcement personnel make up the next-largest groups of participants.

In addition, Project Esperanza has engaged in several community outreach efforts, developing services appropriate to the cultural and sociological context of the immigrant community and collaborating with ethnic women's organizations, Spanish-language media, religious groups, and cultural community centers.

For more information, contact Project Esperanza, c/o Legal Services of North Carolina, P.O. Box 26087, Raleigh, NC 27611, phone (919) 856-2564. For a copy of the manual, contact the North Carolina Coalition against Domestic Violence, 301 West Main Street, Suite 350, Durham, NC 27701, phone (919) 956-9124.

number. Other types of documentation may be helpful in showing her good faith marriage and her residence with the abuser, including wedding and other photographs, evidence of vacations taken together, evidence of joint ownership of property, leases, insurance policies, bank statements, income tax forms, wills, and correspondence. This documentation may be difficult to obtain without the intervention of a state court in a domestic violence proceeding. A state judge may be able to require that such documents be turned over under either the domestic violence statute's provision for determining possession of personal property or the statute's catch-all provision allowing any relief necessary to protect the plaintiff from further abuse.[23]

Without access to VAWA remedies, an immigrant woman is limited to a spouse-controlled immigration process, which Congress recognized as dangerous to victims of domestic violence. In passing VAWA, Congress noted that "current law fosters domestic violence . . . by placing full and complete control of the alien spouse's ability to gain permanent legal status in the hands of the citizen or lawful permanent resident spouse."[24] By granting relief particular to immigration concerns, a state court does not determine immigration issues. Rather, it enhances the safety of battered immigrants by allowing them to obtain and preserve evidence necessary in VAWA proceedings.

There is a final note of caution. An LPR who violates a protective order is subject to deportation. Because VAWA remedies are available only to spouses of U.S. citizens or LPRs, the deportation of the spouse of a battered immigrant woman before she qualifies for immigration relief under VAWA may result in the forfeiture of such remedies. It is possible, moreover, for the victim of abuse to become a criminal defendant in a domestic violence incident based on accusations of her abuser. She also might become the subject of a mutual order of protection, violation of which could lead to her own deportation. Any criminal act on her part may subject her to deportation or ineligibility for VAWA remedies as a result of her failure to prove good moral character.

The Role of Other Agencies

To ensure that the problems of battered immigrant women are not overlooked, all interested parties—domestic violence experts, immigration advocates, law enforcement agencies, medical providers, and social services organizations—must work together. (For a description of a human services coalition that supports Hispanic women, see the sidebar on this page.) Particular agencies and organizations are key to overcoming obstacles, as follows.

Domestic Violence Programs and Shelters

A trained domestic violence program staff is critical to the collection of evidence that a battered immigrant woman needs to obtain a protective order and relief under VAWA. The initial contact between a battered immigrant and a domestic violence program staff member may be an immigrant victim's only opportunity to learn about the documentation that she must obtain before leaving an abuser.

Shelter services for battered women are exempt from the limitations imposed by Congress in 1996 on public benefits for immigrants; such services may be provided to domestic violence victims regardless of immigration status.[25] Programs that receive federal funds and refuse to serve battered women because of their immigration status, ethnicity, or language violate Title VI of the Civil Rights Act of 1964, which prohibits discrimination on the basis of race, color, or national origin.[26]

Law Enforcement Agencies

Law enforcement agencies also are a critical point of contact for battered immigrant women. Battered immigrants may be fearful of the police in general or fearful that the police will report them to the INS. State and local law enforcement officials are not required to contact the INS, however,[27] and most view their primary obligation as responding to victims of crime within their jurisdiction. Police also can be of assistance in immigrant communities by collaborating with other agencies, participating in training, and developing open lines of communication with immigrant households.

Social Services Agencies

Social services agencies can distribute information and participate in educational efforts to inform victims about domestic violence and the remedies that may be available. Information in the appropriate language can be disseminated in written form and broadcast on local television and radio stations. Groups can work together to organize public awareness campaigns. Flyers can be distributed in health centers, neighborhood stores, cultural centers, places of worship, and English-as-a-second-language classes.

Conclusion

North Carolina's domestic violence statute serves to protect victims of domestic violence and is available to all who suffer from family violence, irrespective of immigration status. With the passage of VAWA, Congress acknowledged that "specific social and economic conditions, lifestyle, language, and culture of any particular group of women may drastically affect their access to legal remedies and their ability to end the abuse."[28] VAWA's legal remedies will remain underused, however, without strategies that incorporate state remedies and the resources and talents of organizations working to assist battered immigrants. In North Carolina the foundations exist for forging alliances to protect victims of domestic violence. What now is required is education, cross-disciplinary training, and a commitment to provide culturally sensitive services to victims of domestic violence of any national origin, language, and immigration status.

Notes

1. For a comprehensive review of the consequences of deportation to battered immigrant women, *see* Domestic Violence in Immigrant and Refugee Communities: Asserting the Rights of Battered Women (Deeana Jang et al. eds., San Francisco: Family Violence Prevention Fund 2nd ed. 1997).

2. Immigration and Naturalization Act of 1952, 8 U.S.C. §§ 1151–1160, 1181–1189 (1998).

3. There also is a fifth method: being a person not subject to limitations described in other sections of the Immigration and Naturalization Act. *See* 8 U.S.C. §§ 1101(a)(27), 1259, 1229a (1998); 8 C.F.R. § 101.3(a), (c), (d) (1999).

4. Immigration and Naturalization Act, 8 U.S.C. § 1151(b)(2)(A)(i) (1998).

5. Immigration and Naturalization Act, 8 U.S.C. §§ 1153(a)(1–4) (1998).

6. *See* H.R. Rep. No. 82-1365, at 29 (1952), *reprinted in* 1952 U.S.C.C.A.N. 1653, 1680 (commenting on the "underlying intention of our immigration laws regarding preservation of the family unit").

7. Janet Calvo, *Legacies of Coverture*, 28 San Diego Law Review 593, 600 (1991), citing S. Rep. No. 81-1515, at 414 (1951).

8. Immigration and Naturalization Act, 8 U.S.C. §§ 1154(g), 1186a (1998).

9. Immigration and Naturalization Act, 8 U.S.C. §§ 1186a(c)(2), (d)(2)(A) (1998).

10. *See* Calvo, *Legacies* at 607: "When the INS study upon which the contentions of marriage fraud abuse was based was eventually disclosed after the passage of the Marriage Fraud Act, it was shown to have several serious flaws," *citing INS Reveals Basis for Fraud Claims*, 65 Interpreter Releases 26–27 (1988).

11. Immigration Act of 1990 (amending the Immigration and Naturalization Act), 8 U.S.C. § 1186a(c)(4) (1998).

12. 8 C.F.R. § 216.5(e)(3) (1999).

13. Violence Against Women Act, 42 U.S.C. § 13981 (1998). VAWA is codified as amended in scattered sections of 8 U.S.C., 16 U.S.C., 18 U.S.C., 28 U.S.C., and 42 U.S.C. Although the civil rights remedies contained in VAWA have been challenged (*see* Brzonkala v. Virginia Polytechnic, 169 F.3d 820 (4th Cir.), *cert. granted*, 120 S. Ct. 11 (1999), there have been no challenges to the immigration provisions of the act.

14. 8 U.S.C. § 1154(a)(1)(A)(iii), (a)(1)(B) (1998); 8 C.F.R. § 204.2(c)(1), (2) (1999).

15. 8 C.F.R. § 204.2(c) (1999).

16. INS Form I-360 (rev. Mar. 7, 1996).

17. N.C. Gen. Stat. § 50B-3(a)(1)–(13) (hereinafter G.S.). *See also* Peter Finn & Sarah Colson, National Institute of Justice, Civil Protection Orders: Legislation, Current Court Practice and Enforcement at 19 (Washington, D.C.: U.S. Department of Justice, 1990) (finding that properly drafted protective orders are effective in providing protection from domestic violence).

18. *See* Deeana Jang, Catherine Klein, & Leslye Orloff, *With No Place to Turn: Improving Legal Advocacy for Battered Immigrant Women*, 29 Family Law Quarterly 313, 314 (1995).

19. *See* H. Howard Davidson, The Impact of Domestic Violence on Children: A Report to the President of the American Bar Association (Chicago: American Bar Association Center on Children & the Law, 1994).

20. For a comprehensive review of battered immigrant women's relief in the form of state protective orders, *see* Leslye Orloff & Rachel Little, Somewhere to Turn: Making Domestic Violence Services Accessible to Battered Immigrant Women, ch. 8, *Creative Use of Protection Orders in Battered Immigrant Cases* (Washington, D.C.: Ayuda, Inc., May 1999).

21. *See* Stephen B. Herrell & Meredith Hofford, Family Violence: Improving Court Practice (Reno, Nev.: National Council of Juvenile and Family Court Judges, 1990); Davidson, The Impact of Domestic Violence.

22. Tien-Li Loke, *Trapped in Domestic Violence: The Impact of United States Immigration Laws on Battered Immigrant Women*, 6 Boston University Public Interest Law Journal 589, 609–14 (1997). Immigrants' eligibility for public benefits is discussed in Jill D. Moore, *Immigrants' Access to Public Benefits: Who Remains Eligible for What?*, Popular Government, Fall 1999, at 22 (posted at http://ncinfo.iog.unc.edu/pubs/pg/pg-archv.htm).

23. G.S. 50B-3(a)(13).

24. H.R. Rep. No. 103-95, at 26 (1993).

25. *See* Specification of Community Programs Necessary for Protection of Life or Safety under Welfare Reform Legislation, 61 Fed. Reg. 45,985 (1996).

26. 42 U.S.C. § 2000d (1998).

27. The Illegal Immigration Reform and Immigrant Responsibility Act of 1996, 8 U.S.C. § 1357 (1998), allows an officer to question "any alien or person believed to be an alien as to his right to be or to remain in the U.S.," but only when "the officer . . . is performing duties relating to the enforcement of the immigration laws at the time of the arrest and if there is a likelihood of the person escaping before a warrant can be obtained for his arrest."

28. S. Rep. No. 103-38, at 42 (1993).

North Carolina's Most Regressive Taxes

Charles D. Liner

In 1999 North Carolina completed the phasing out of the state retail sales tax on sales of food for home consumption. Those who led the decades-long campaign to exempt food sales from the retail sales tax contended that this so-called food tax was unfair because it was regressive. A tax is regressive if lower-income families pay more, as a percentage of their income, than higher-income families do. Lower-income families tend to spend a higher percentage of their income on food than higher-income families do. Therefore they paid more taxes on food purchases in proportion to their income, and the tax was regressive.

The perception that a regressive tax is unfair is based on one of the two basic principles of tax fairness, the ability-to-pay principle. This principle holds that taxes collected to pay for public services that benefit the entire community (or the entire state or nation) should be levied according to taxpayers' ability to pay those taxes. A regressive tax violates that principle because it imposes the heaviest burden on those least able to pay.

The other principle of tax fairness, which also is relevant to this discussion, is the benefits-received principle. It holds that taxpayers should pay for public services according to the benefits they receive from those services. Thus people consider it fair that a family that uses water lavishly to take long, hot showers or to soak the lawn should pay more than a family that uses water sparingly. Fortunately, governments can place water meters in homes to find out how much water a family is using, and bill accordingly. But they cannot measure use of public services that provide general benefits to the community as a whole, such as public schooling, public safety, and environmental protection. To pay for those kinds of services, we must design general taxes that distribute the cost equitably among the people of the community.

This article examines a type of tax that is far more regressive than the food tax, the retail sales tax, or any other sales tax—the flat tax.[1] "Flat tax," as used here, refers to a number of levies imposed by North Carolina's local governments that, with one exception, are called fees or charges but are in reality taxes because, unlike genuine fees and charges, they are levied without regard to the amount of services received by the taxpayer. That their proceeds often are earmarked for certain services, like solid waste removal, school construction, or public transportation, does not make them genuine fees or charges—it makes them earmarked taxes.

The term "flat" refers to the fact that these taxes are imposed on a "unit" as a flat amount, rather than as a rate on a base like income, spending, or property value that has some relationship to the taxpayers' ability to pay. For example, two flat taxes that played a role in North Carolina's history were a flat tax on the number of acres of land owned (replaced in the 1830s by a more equitable property tax based on value of land and other property) and the poll tax, a flat tax on adult individuals that was used until the 1960s but now is forbidden by the state constitution. Since the 1980s the flat tax has been revived, but in its current form it falls on the household, rather than the individual, or is imposed as a flat amount on such units as existing homes and apartments, newly constructed homes and apartments, businesses, motor vehicles, and telephone bills.

Flat taxes violate both of the commonly held principles of tax fairness. They violate the benefits-received principle because, although usually labeled charges or fees, they are imposed without regard to the amount of public services received. They violate the ability-to-pay principle because the poorest taxpayer pays the same amount as the richest taxpayer.

Although the amounts levied under some flat taxes might seem small, flat taxes may be quite substantial for lower-

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income families. Indeed, the total amount of flat taxes levied can exceed the amount those families paid in state sales taxes on food, and can be substantial when compared with property taxes they pay on their homes. Moreover, the potential for these amounts to grow, and for the use of flat taxes to expand, is very great.

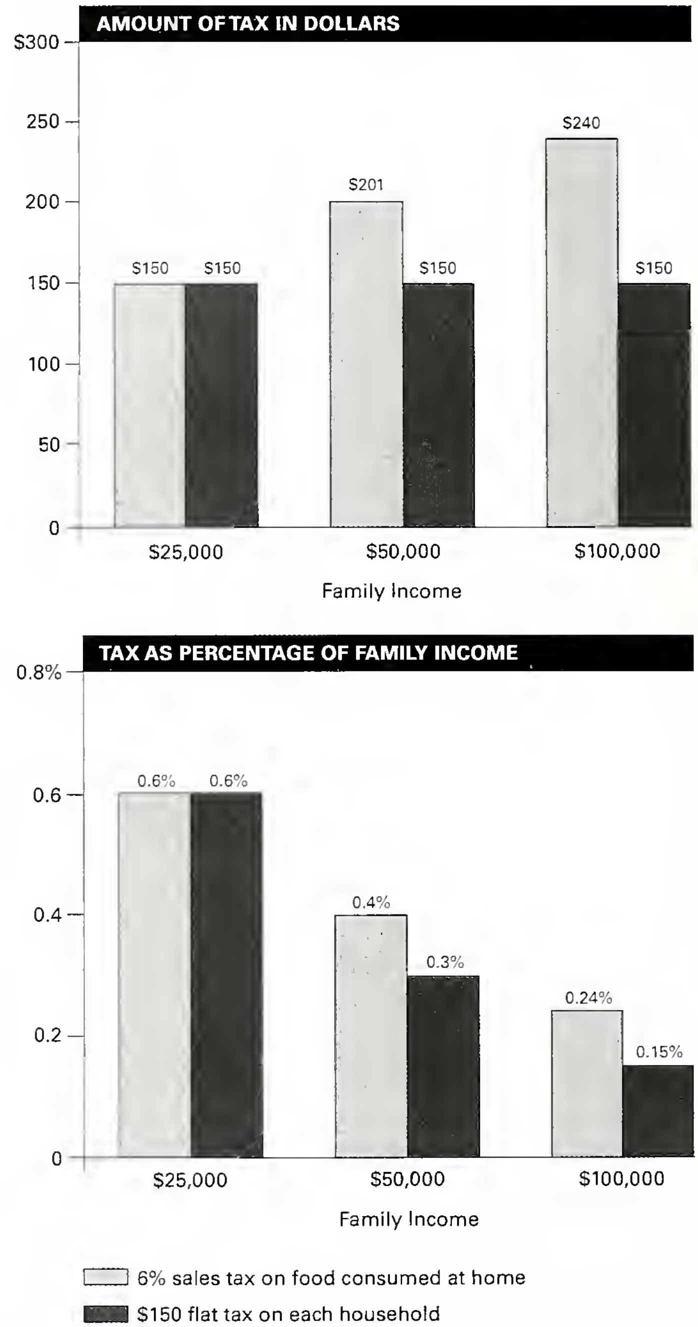
The Regressive Nature of Flat Taxes

Almost any tax that is based on spending on goods and services is regressive because, for almost all types of spending, lower-income families spend a higher percentage of their income than higher-income families do. Thus the state retail sales tax, even with food exempt, is regressive, and the continued taxation of food sales under the 2 percent local retail sales tax is just as regressive as the state tax on food sales was. Similarly, special sales taxes on gasoline, vehicles, cigarettes, alcoholic beverages, and prepared meals are regressive.

Although the relative burden of a sales tax is higher for lower-income families than for higher-income families, the actual amounts of sales taxes paid by higher-income families are substantially greater than those paid by lower-income families. For example, according to spending surveys, a family with an annual income of $25,000 spends about 10 percent of its income, or $2,500, on food for home consumption, whereas a family with an annual income of $50,000 spends about 6.7 percent, or $3,350.[2] Thus the higher-income family spends 34 percent more than the lower-income family does. Although the higher-income family pays more taxes in dollar amount, the tax is nonetheless regressive. If the 6 percent food tax still were in effect, it would represent 0.6 percent of the income of the lower-income family, compared with 0.4 percent of the income of the higher-income family.

Now consider a tax levied on every household as a flat amount, not varying at all with income. Such a tax imposed on the two families in this case would result in a relative burden twice as great for the poorer family. For example, a flat tax of $150 imposed on each family would represent 0.6 percent of the income of the poorer family, compared with 0.3 percent of the income of the higher-income family. (For a comparison of the regressiveness of a 6 percent sales tax on food with that of a flat tax of $150 per household for families with incomes of $25,000, $50,000, and $100,000, see Figure 1. As the figure demonstrates, the flat tax is much more regressive than the sales tax on food.)

Figure 1. Regressive Nature of a Sales Tax on Food Compared with That of a Flat Tax on Each Household



Source: Sales tax estimates are based on Bureau of Labor Statistics, U.S. Department of Labor, Survey of Consumer Expenditures (Washington, D.C.: 1998).

Types of Flat Taxes Used in North Carolina

For most of the state's history, local governments levied a poll tax, also called a head or capitation tax, as a flat amount per adult. Some local governments levied this kind of tax until the mid-1960s. Because the poll tax is very regressive compared with property, income, and other taxes, it generated political strife during the nineteenth century (income taxes were a local tax in the nineteenth century). But its demise came as a result of the civil rights struggles of the 1960s because it had been used in some places to deny voting rights to African-Americans. The North Carolina Constitution was amended in 1969 to provide that "[n]o poll or capitation tax shall be levied by the General Assembly or by any county, city or town, or other taxing unit" (Article V, Section 1).

New Forms

Following are some new forms of flat taxes that have been adopted in North Carolina in recent years.

Availability charges. In the late 1980s, some counties began to levy "availability charges" to finance building and maintenance of landfills, and later to finance green box and recycling programs. The rationale for these charges is that they are compensation for making a service available—the landfill, for example. In the case of the landfill, the charges bear no relationship to residents' actual use of that landfill or the volume of waste they put in it. This tax is levied as a flat amount per household (or apartment) and collected as a separate charge on property tax bills.

Although availability charges were first conceived to finance waste disposal, there is no limit to the type of service that could be financed using this concept. Employing the same rationale, we could conceive of other flat taxes to compensate for the "availability" of police protection, fire protection, public schools, public health services, or any other public service now financed from general revenues.

Although a solid waste availability charge of, say, $50 might seem modest, households often are subject to several such charges—for landfills, green box programs, recycling, and garbage collection—so that the total amount paid may be substantial for a poor family. For example, Chatham County collects two separate charges, an availability fee of $45 per household to cover capital and operating costs of twelve waste disposal centers, and a disposal fee of $55 per household to cover costs of transporting and disposing of waste collected at those centers. Some counties impose recycling charges on each household in addition to solid waste charges. According to fiscal year 1998 data collected by the state for fifty-eight counties, county availability charges for solid waste (including separate recycling charges in some counties) range from $10 to $156 per household per year, and average $62 per household. More than half of those fifty-eight counties charge more than $50 per household, and sixteen of them charge more than $90. These charges apply to all households in the county. Those who live in towns and cities might pay an additional flat charge for household garbage collection. The charges in the 232 towns and cities for which the state has fiscal year 1998 data range from less than $20 to more than $200 per household per year and average $86 per household.[3]

Garbage collection fees. Traditionally, garbage collection in municipalities has been financed from the general fund, meaning that the revenues have come mainly from property taxes and, since 1971, retail sales taxes. In recent years many units have begun to finance garbage collection by levying a flat tax on each household, without regard to the amount of garbage collected.

Motor vehicle taxes. Cities have long been authorized to levy motor vehicle taxes of up to $5 per vehicle. Many did not bother to collect this tax, or did not enforce payment of it, because the amount was so small. In recent years, though, seeing these taxes as a potentially significant revenue source, some units have sought and received authorization from the General Assembly to increase the amount of the tax substantially—to as much as $30 per vehicle. Although the revenue from these taxes might be used for road-related costs, in most cases they are not designated for that purpose, and there is no relationship between the amount paid and the amount of road use. Thus these levies are essentially a tax on ownership of a vehicle. Unlike the case with the property tax on motor vehicles, with these levies there is no relationship between the amount of tax paid and the value of the vehicle on which the tax is imposed: a family with a battered Chevrolet pays the same amount as one with a shiny new Mercedes-Benz.

In 1997 the General Assembly authorized a new motor vehicle tax of $5 to support public transportation facilities. That legislation also limits the total amount of motor vehicle taxes to $30 per vehicle.[4]

Flat taxes on motor vehicles have been used to finance other public services as well. The Regional Transit Authority in the Research Triangle region is financed in part by a flat tax of $5 on each vehicle in the counties making up that region. A similar tax supports the Global Transport Park near Kinston. One county has sought and received authorization to impose a $10 tax per vehicle to support economic development efforts.

School impact fees. For several years Orange County has levied a one-time flat tax on each home constructed in the county and on each mobile home newly located there. Called a school impact fee because the proceeds are used for school construction, it is levied at the flat amount of $3,000 on each home constructed or each mobile home newly located within the Chapel Hill–Carrboro school district and $750 on each such unit constructed or newly located in the county outside that district. The tax is levied at the same amount whether the

home is a mobile home or a million-dollar mansion. Chatham County recently adopted a similar tax for school construction.

Development impact fees. Some units in North Carolina, and many elsewhere, levy impact fees, often as a flat amount per unit, on new homes (and in some cases businesses) to defray costs of providing public services such as streets, roads, water and sewer lines, and parks in a prescribed area where the fee is imposed. Those who favor such levies might argue that the money supports services that benefit the property being taxed. In all likelihood, though, the services benefit the entire area served by them, rather than accruing to individual properties. Therefore, development impact fees are more like a benefits-related tax. If they do not vary with the value of a property, or perhaps the size of a house, they are flat taxes.

911 charges. In 1989 the General Assembly authorized monthly charges on telephone bills to defray costs of 911 emergency call systems. Although modest—the maximum charge is $1 per month—they are an example of using a flat tax for a service that might be financed from general revenue sources and thus be less regressive in its effects.

Stormwater charges. The General Assembly has authorized local units to impose a "stormwater charge" to pay for stormwater drainage facilities. Some of these charges, which may be collected through water and sewer bills, have been imposed as a flat amount per household, though they do not have to be imposed in that way. They could be levied according to the amount of property frontage or a property's impermeable surface area so that the charge would bear some relationship to the amount of land served by the stormwater facilities. Some units have used that approach instead of using a flat tax. Others have combined the two methods. Use of the term "charge" does not fool people in one community, who call it the "rain tax."

Traditional Forms

In addition to these new flat taxes, some traditional revenue sources have features that are akin to flat taxes. For example, water and sewer fees, which are based mainly on water usage, usually include a minimum monthly flat charge, on the rationale that each property imposes a minimum fixed cost each month for meter reading or bill preparation. Although such a flat charge might be rationalized if it was reasonably related to actual costs, there is no reason that such fixed costs cannot be covered through volume-related rates (as other fixed costs of the system are).

Similarly, there often are substantial charges to hook up a new house to the water and sewer system. If these hookup charges are set to cover the actual cost of hooking up the new house, the charge is a genuine user charge. If, however, the charges are set far higher than the actual cost, they amount in part to a flat tax used to collect general revenue for the water and sewer operation or to defray capital costs.

Another traditional form of flat tax is various state and local privilege license taxes. For example, the state imposes a flat tax on professionals, such as doctors, lawyers, and architects, and the state and local governments may impose such taxes on contractors and auto dealers, among others. Consideration of these taxes, however, gets into issues that are beyond the scope of this article.

Flat Taxes and Tax Fairness

Local governments are attracted to flat taxes because they bring in additional revenues without an increase in property tax rates. However, public revenue sources have to be judged not solely by how much revenue they raise and how politically expedient they are but also by how equitably they distribute the costs of providing public services among the people of the community. Financing services through the property tax means that people pay according to the value of the property they own, and because higher-income taxpayers tend to own more property, they pay more than lower-income taxpayers. Financing services through a flat tax on households means that taxpayers who own modest homes or mobile homes pay the same amount as taxpayers who own mansions. That outcome violates the tax-fairness principle that taxes to support public services benefiting everyone should be imposed according to taxpayers' ability to pay.

The benefits-received principle of tax fairness, again, is that taxpayers should pay in accordance with the benefits they receive from public services. A genuine charge or fee—one that is related directly to benefits received from a public service—is fair, according to that principle. But a flat tax that has no relationship to benefits received by the taxpayer violates both principles. It is not a genuine charge or fee. Nor does it vary with ability to pay. Instead, it is North Carolina's most regressive kind of tax.

Notes

1. The flat taxes discussed in this article should not be confused with proposed single-rate federal income taxes, sometimes called "the flat tax." Under current proposals such a tax would not be regressive.

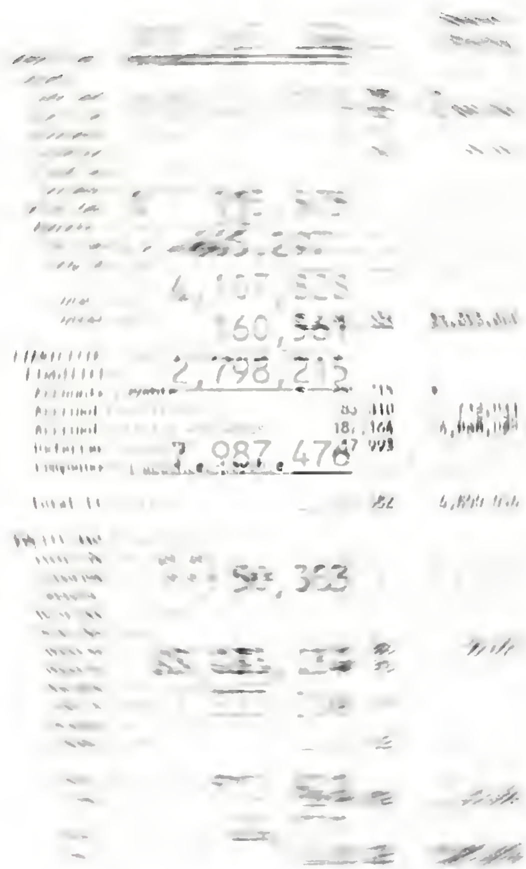
2. Bureau of Labor Statistics, U.S. Department of Labor, Survey of Consumer Expenditures (Washington, D.C.: 1998).

3. North Carolina Department of Environment and Natural Resources, unpublished data, fiscal year 1998.

4. S.L. 1997-417; N.C. Gen. Stat. § 20-97(c).

How to Read Governmental Financial Statements, Part 1

Gregory S. Allison



Management and elected officials of governmental entities receive an often overwhelming supply of financial data. This information takes various forms—budgetary reports, internally generated financial statements, schedules and summaries, and audited annual financial statements. Usually, internally generated information comes in a format that is comprehensible to accountants and nonaccountants alike. Comprehending the audited financial statements, however, requires at least a minimal understanding of the principles of governmental financial reporting. This article, the first of two parts, is designed to make the audited financial statements more user-friendly and to provide a key to unlocking the basic information they contain. The article focuses on current reporting requirements. Part 2, scheduled for a future issue of *Popular Government*, will introduce readers to new governmental financial reporting requirements that will be implemented over the next three to five years.

Governmental accounting and financial reporting standards, referred to as generally accepted accounting principles, or GAAP, are established by the Governmental Accounting Standards Board. GAAP provide consistency in financial reporting. In other words, they offer rules and formats for all governments in the country to follow in preparing financial statements for external use. Thus the GAAP financial statements of a government in California may be compared with those of a government in North Carolina. The consistency is invaluable to those outside the government who rely on this information, primarily investors, creditors, and bond rating agents, as well as to federal and state agency personnel.

Management must have timely access to financial information in order to make decisions, evaluate compliance issues, and obtain an overall "feel" for an entity's fiscal status. Reports prepared for internal use serve this need. Budget-to-actual financial statements (that is, statements comparing budgeted amounts with actual results); brief analyses of tax billings and collections, as well as general revenue collections; and investment summaries—these are a few examples of the internal information that should be available to management and elected officials on a continuing basis. In most cases the format of these presentations is left to the discretion of management, elected officials, and staff responsible for preparing the information. Some governing bodies may desire a summary of revenues by category (property taxes, utility billings and collections, other taxes, and so forth). Others may focus on key ratios on a monthly basis (for example, tax collection rates and expenditures to date compared with budget projections).

Governments typically operate purely from a cash perspective: revenue is recognized when cash is collected, and expenditures are recognized as cash is disbursed. This is consistent with how they budget their operations. The balanced budget requirement in North Carolina presumes that all expenditures, or uses of financial resources, will be funded either by revenue sources (taxes, grants, utility fees, and so forth) or by uncommitted cash on hand (for example, available fund balance). Internal financial statements most often stay consistent with this type of reporting. However, external financial statements, such as the "official" financial statements prepared in conjunction with the annual audit, are prepared with the intention of

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"providing a single financial report tailored to meet the *basic* information needs of a broad range of potential users."[1] These audited financial statements are in a format that is useful for those with an understanding of governmental accounting—for example, accountants, investors, lenders, and rating agents—and they provide an excellent summary of the fiscal year's financial events. Ironically the preparation of these GAAP financial statements is the specific responsibility of management, but they often are confusing and of little practical use to management and elected officials on a day-to-day basis. Nevertheless, management and elected officials can easily obtain useful information from these statements.

Table 1. Fund Types

General fund	Accounts for general operations of government (e.g., legislative, administrative, public safety, sanitation, and recreation)
Special revenue fund	Accounts for legally restricted revenue sources, those that must be used for particular activities (e.g., E-911 taxes and community development block grants)
Debt service fund	Accounts for resources that governments are *required* to accumulate to pay debt service in *future* years
Capital projects fund	Accounts for major capital activities or construction that is being financed by governmental resources (e.g., taxes) or by bonds that will be repaid by governmental resources
Enterprise fund	Accounts for activities that are usually supported by user fees (e.g., water, wastewater, electricity, and natural gas services)
Internal service fund	Accounts for internal activities that provide service to other departments (e.g., government motor pools, in-house print shops, and warehousing for utility activities)
Trust and agency funds	Account for various activities for which government acts as fiduciary (e.g., pension plans, execution of trust and bequest agreements, and taxes collected on behalf of other governments)

Overview of GAAP Reporting Requirements

GAAP require that state and local governmental entities use *fund accounting*, a concept unique to the government environment. Unlike agencies in the private sector, governmental entities provide a tremendous variety of services. Some services are "public purpose" in nature (for example, public safety, public works, and social services). Others are "business-like" (for example, public utilities). The public-purpose services are primarily financed by taxation (property taxes, sales taxes, income taxes, and so forth), whereas most business-like services are primarily financed by user fees (that is, payments by those using the services). In most cases the various revenue sources for the services each have restrictions on how they may be used. Fund accounting is an accounting and reporting vehicle that allows segregation of these services and their revenue sources.

Fund accounting uses three basic categories of funds: governmental, proprietary, and fiduciary. Within each category, several fund types are available to account for all the government's activities and services (see Table 1).

To present the minimum information required by GAAP, governmental entities must prepare up to six basic financial statements and a comprehensive set of related "note disclosures" (footnotes that communicate essential information not disclosed in the body of the financial statements themselves; see the sidebar, page 25). North Carolina statutes require that all local governmental entities prepare these GAAP financial statements for the end of each fiscal year and have them audited by an independent certified public accountant.[2] These basic financial statements present aggregated information for each fund *type*. For example, a government may have three special revenue funds, such as a community development block grant fund, a capital reserve fund, and an E-911 fund. For the basic audited financial statements (often referred to as the combined financial statements), that government combines these three special revenue funds into one column and identifies that column as the special revenue funds. Some argue that this aggregation diminishes the usefulness of the financial information. Most users of the information, however, are assessing the government's financial situation as a whole. They do not necessarily need all the supporting detail. In contrast, internal reporting almost always has a focus on the activities of individual funds, which is necessary from an internal decision-making perspective.

The Combined Balance Sheet—All Funds

The combined balance sheet reports the assets, the liabilities, and the equity for each of the government's fund types (for a sample, see Exhibit 1, page 26). The balance sheet is actually a "snapshot" of the assets, the liabilities, and the equities—that is, the net worth—of the fund types as of the end of the fiscal year (June 30 for most North Carolina governments, such as municipalities and counties). "Assets" is simply defined as items owned by the government (cash, investments, receivables, fixed assets, and the like), and "liabilities" is defined as obligations of the government (for example, accounts payable, salaries payable, and bonds payable). "Equity" is the net worth of each of the fund types, which is simply the fund's assets minus its liabilities. This balance sheet is a visual representation of the standard "accounting equation":

Assets = Liabilities + Equity

Each fund *type* is reported in a separate column. Assets equal liabilities plus equity for each column.

Unlike the operating statements, the balance sheet does not represent an accumulation of transactions across the year. Instead, it answers the following questions:

- What does each fund type *own* as of June 30?
- What does each fund type *owe* as of June 30?
- What is each fund type's *net worth* as of June 30?

Management and elected officials make decisions at the individual-fund

Note Disclosures

In addition to requiring the basic financial statements, GAAP require a comprehensive set of note disclosures. Because of their obvious limitations, the basic financial statements cannot provide details about every number reported. The note disclosures provide critical details about financial issues that are of importance to users of the financial statements. Some of the more significant types of disclosures are the following:

- Significant accounting policies
- Compliance issues
- Deposit and investment detail
- Fixed-asset information
- Information on outstanding long-term debt
- Pension plan information

These categories of note disclosures are very broad, and a complete discussion of each one is beyond the scope of this article. However, together with the brief descriptions that follow, they provide a basic overview of the types of disclosures that are typically of most interest to management and elected officials.

Significant accounting policies. This category encompasses various accounting and financial reporting policies of the government. Examples include a complete identification of the governmental entity and its fund structure, budget practices, calendar, and investment and fixed-asset policies. Although much of this information is standard from government to government, the overall accounting and reporting policies are unique to each entity.

Compliance issues. Governmental entities have extensive concerns with legal compliance related to the budget, bonds, investment policies, and more. GAAP require disclosure of any violations of these legal requirements. For example, if a government exceeds its budget appropriation in any department, it must disclose this violation of the budget ordinance. Likewise, if a government makes investments that violate its adopted investment policy, it must disclose that fact.

Deposit and investment detail. This information is of paramount importance to readers of the financial statements. North Carolina statutes require investment of all idle public funds to maximize their earnings potential. State statutes also require insurance of all deposits and all investment securities, to limit the risk to which public funds are exposed. (Depositories and investment dealers usually insure government deposits and investments by "collateralizing" them—that is, by setting aside collateral as insurance.) GAAP require disclosures about the types of deposits and investments held by the government at the end of the fiscal year, as well as the collateral for those deposits and investments.

Fixed-asset information. In most cases, the fixed assets reported on the combined balance sheet represent the majority of the assets owned by the government. However, space limitations do not allow detail on the *types* of assets owned (land, buildings, equipment, and so forth), their original cost value, and, if applicable, the accumulated depreciation on the asset. The note disclosures provide this detail. GAAP also require a summary, by type of asset, of the *additions* to fixed assets that occurred during the fiscal year and the *retirements* (the assets taken out of use).

Information on outstanding long-term debt. This is critical information to anyone assessing the government's financial situation. Although all the government's liabilities are reported on the combined balance sheet, it is impossible to provide detail on the *types* of indebtedness and the specifics for each liability. GAAP require disclosure of the outstanding debt issuances, the interest rate being paid, and the repayment terms. They also require inclusion of a schedule that shows the amounts of principal and interest due each year for five years, and in five-year increments thereafter, until maturity. The requirements for repayment of principal and payment of interest must be reported separately.

Pension plan information. Pension plans are significant operations and represent significant costs for most governments. Many governments participate in the North Carolina Local Governmental Employees' Retirement System; others sponsor their own plans. Also, some governments supplement the state's plan or their own plan with a deferred compensation plan. If the government participates in the state plan, then it must make disclosures about the nature of the plan and the annual costs that it incurs to participate. If the government sponsors its own plan, then it must identify the assets and the liabilities of that plan, as well as the funding requirements, in the disclosures.

level, not at the fund-type or total level. For example, if a government is assessing its ability to finance expansion of a water plant, either with cash on hand or through issuance of debt (such as bonds), it does not look at its cash position as a whole. Instead, it looks at the water fund and that fund's cash position, asking, Is cash available in the fund to finance the project? The broad perspective represented in the total columns of the balance sheet does not serve this kind of purpose.

GAAP have specific rules for the types of assets and liabilities that may be reported for certain funds. Exploring all the theoretical reasons for these requirements is beyond the scope of this article. Suffice it to say that governmental funds (that is, general, special revenue, capital projects, and debt service) focus on *financial* assets and *financial* liabilities, whereas proprietary funds (that is, enterprise and internal service) focus on *all* assets and *all* liabilities. A financial asset is an asset that either is in cash form or will convert to cash in its natural course. Cash, investments, and receivables are the most common examples. A financial liability is a very

CRAVEN COUNTY BOARD OF EDUCATION
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
June 30, 1997

	Governmental Fund Types		Proprietary Fund Types	Fiduciary Fund Types	Account Groups	
	General Fund	Capital Projects	Enterprise	General Trust Funds	General Fixed Assets	General Long-Term Debt
ASSETS AND OTHER DEBITS						
Assets						
Cash and investments	$ 3,002,558	$ 678,813	$ 654,113	$ 1,368,735	$	$
Due from other governments	53,002	4,210	36,513			
Accounts receivable	126,511		7,573	438,722		
Inventories	421,263		63,037			
Fixed assets, net of accumulated depreciation			812,445		100,781,038	
Other debits						
Amounts to be provided for retirement of general long-term debt						3,180,926
Total assets and other debits	$ 3,603,334	$ 683,023	$1,573,681	$ 1,807,457	$100,781,038	$3,180,926
LIABILITIES, EQUITY AND OTHER CREDITS						
Liabilities						
Accounts payable	$ 255,715	$ 388,995	$ 298	$	$	$
Accrued liabilities	83,810		9,823			
Accrued salaries and wages	187,164		56,858			
Deferred revenues	17,993		26,875			
Compensated absences payable			97,687			3,180,926
Total liabilities	544,682	388,995	191,541			3,180,926
EQUITY AND OTHER CREDITS						
Contributed capital			30,960			
Investment in general fixed assets					100,781,038	
Retained earnings			1,351,180			
Fund balances:						
Reserved for inventories	421,263					
Reserved by State Statute	179,513	4,210				
Designated for subsequent year's budget	641,474					
Unreserved:						
Undesignated	1,816,402	289,818		1,807,457		
Total equity and other credits	3,058,652	294,028	1,382,140	1,807,457	100,781,038	
Total liabilities, equity, and other credits	$ 3,603,334	$ 683,023	$1,573,681	$ 1,807,457	$100,781,038	$3,180,926

Exhibit 1. This is an example of a combined balance sheet for a local school district, in this case the Craven County Board of Education. This governmental entity has a general fund, a capital projects fund, an enterprise fund, and several trust funds. Note the account group columns, which report the fixed assets and the long-term debt associated with the *governmental* funds.

short-term liability, to be paid off soon, presumably with cash that is on hand or will be received in the near future. The most common examples are vendor accounts payable and accrued payroll.

Governmental funds report only financial assets and liabilities. Nonfinancial assets, such as fixed assets (land, buildings, equipment, and so forth) and long-term liabilities (for example, bonds payable that will be paid off over many years) are not recorded in the governmental fund columns themselves. Of course, governmental funds purchase such assets and incur such long-term liabilities. However, these items are included on the balance sheet in the columns for the general fixed-asset account group and the general long-term debt account group, respectively. Thus a user can determine the types of fixed assets a governmental fund owns, or the types of liabilities a governmental fund will be repaying over the long term, by reviewing the information included in these columns. This GAAP reporting approach, in fact, is consistent with how governmental funds are budgeted and managed. The budget for one year is designed to provide the resources to deliver services for that year.

Proprietary funds, on the other hand, are managed with a long-term perspective. They operate more like a private-sector business, in which the focus is on net income. Water rates, for example, are structured not only to provide resources for the current year's operations but also to generate the necessary capital to maintain the systems in perpetuity. Therefore the GAAP balance sheet presentation for the proprietary funds reflects *all* their assets and liabilities—both financial and nonfinancial assets, and both current and long-term liabilities.

Many of the account captions on the balance sheet are relatively self-explanatory (for example, cash, investments, taxes receivable, accounts payable, and bonds payable). However, other account captions that may be of particular interest to management and elected officials merit additional description.

Due from/to other funds. Often, funds within a government provide services for one another. For example, the general fund pays for the water provided to city hall by the water department, which is accounted for in the water fund (a proprietary fund type). Suppose the water fund has billed the general fund for the most recent month's water usage, but the fiscal year ends before the bill is settled. The water fund reports a "due from other fund," which is a receivable, and the general fund reports a "due to other fund," which is a payable. This terminology is used in lieu of the usual "accounts payable/accounts receivable" to reflect that the underlying transaction is between funds within the government, not between the government and outside parties (for example, customers and vendors).

Interfund receivables/payables and advances to/from other funds. Occasionally one fund may lend money to another fund. For example, the general fund may borrow money from an electric fund to purchase a computer system. The transaction is reported as a loan between funds, using terminology that reflects the repayment terms.[3] The current portion of the loan (for example, the amount to be repaid within the next year) is reported as an "interfund receivable" in the fund that is to be repaid, and as an "interfund payable" in the fund that is repaying the loan. The long-term portion of the loan is reported as an "advance to other fund" (a receivable account) in the fund that is to be repaid, and as an "advance from other fund" (a liability account) in the fund that is repaying the loan.

Intergovernmental receivables/payables. State monies paid to local governments in North Carolina are a common example of an intergovernmental transaction, as are subsidies paid by municipalities to local housing authorities. If any of these receivables or payables are outstanding at the end of a fiscal year, they are captioned "intergovernmental" to reflect the underlying nature of the transaction.

Compensated absences payable. As of the end of each fiscal year, the government has incurred a liability to its employees for earned vacation and similar types of compensation time. This kind of liability is reported in several sections of the balance sheet. The amount owed to general fund employees is most commonly reported in the general long-term debt account group. Likewise, the amount owed to employees in the proprietary operations is reported directly in those fund-type columns. These amounts do not represent liabilities that the government will pay out in total at one time. GAAP require a presentation of the full liability, but in practice the government pays the amounts to employees incrementally as they use their vacation or similar compensation time.

Deferred revenue. In governmental funds, revenue is recognized as it is available (that is, as it is received in cash or becomes receivable in cash in a very short period).[4] In proprietary funds, revenue is recognized as it is earned, regardless of when it is actually collected in cash.

In governmental funds, such as the general fund, tax revenue is recognized not as it is billed but as it is collected. When property taxes have been billed but not paid as of the end of the fiscal year, and are not collected within sixty days after the end of the fiscal year, both GAAP and North Carolina statutes require that the amount of the tax receivable on the balance sheet be reported not as revenue but as "deferred revenue," which is reported similar to a liability. Deferred revenue does not increase fund balance because it is not available for appropriation (that is, the cash it represents is not available).

Another common example of the creation of deferred revenue is associated with grants. This situation might occur in either a governmental or a proprietary fund. Assume that a local government receives a federal grant. The grant is paid to the government in advance, but the government does not earn the right to keep it until certain criteria have been met (for example, the grant must be actually spent for its particular purpose to become revenue; until that time it is technically refundable to the grantor). Until the government meets the grant requirements, it must report the amount as deferred revenue. As the grant provisions are met, the deferred revenue is reclassified as revenue on the appropriate operating statement.

Equity. As stated earlier, equity is the net worth of a fund. Governmental financial reporting uses different terminology for equity in the different fund types. Following is a summary of the various equity accounts.

Fund balance. This term describes equity for the governmental fund types. Because the assets in a governmental fund are all financial ones and the liabilities are all current ones, fund balance actually represents the net financial resources potentially available in that fund.

However, North Carolina state statutes include a formula that identifies how much of fund balance is actually available for appropriation. Governments may not appropriate more than "the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts."[5] (An "encumbrance" is an outstanding commitment of funds usually documented by a purchase order or a contract.)

In addition to that statutory limitation, there are restrictions on portions of fund balance. "Reserved fund balance" reflects legal restrictions placed by independent third parties. Management or elected officials may not use reserved fund balance for any purpose other than that to which it is restricted. In North Carolina some common examples of reservations are the following:

Reserved by state statute. Fund balance is a close approximation of resources that will eventually be available in a governmental fund. North Carolina statutes prohibit a government from considering receivables as resources that it may appropriate in its calculation of available fund balance. "Reserved by state statute" generally reflects the amount of fund balance that is attributable to receivables that the applicable governmental fund has recognized as revenue under GAAP but may not yet appropriate under North Carolina law.

Reserved for encumbrances. Often there will be outstanding encumbrances (that is, outstanding purchase orders or contracts) at the end of the fiscal year. A reservation for encumbrances indicates that a portion of fund balance is dedicated to pay for the encumbered items once the goods or the services have been received, presumably early in the next fiscal year. Technically the vendor with whom the purchase was made is the independent third party who has a claim on these resources.

Reserved for Powell Bill. Municipalities in North Carolina receive annual allotments of Powell Bill money from the state. Powell Bill money may be used only for specific street construction and maintenance projects. Usually, municipalities have unspent portions of the distribution in their fund balance at the end of each fiscal year. Although they may use it in future fiscal years, the state legally restricts how they may use it. Thus portions of unspent Powell Bill money as of the end of the fiscal year must be reported as reserved fund balance.

Portions of fund balance that are not reserved are considered to be unreserved. This classification may be further categorized as "designated" or "undesignated." The primary difference between a reservation and a designation is the role that the governing body plays in the latter's determination. Elected officials may designate portions of available fund balance for any number of purposes—future capital needs, operating-budget resources for the following year, special projects, or purchases. A designation is internally created, is not legally binding, and may be modified as the elected officials desire. Obviously, undesignated fund balance reflects the portion of fund balance that is not legally reserved or designated by the governing board for future use.

Retained earnings. Equity in the proprietary funds is referred to as "retained earnings." Unlike equity in the governmental funds, equity in the proprietary funds reflects the total assets minus the total liabilities of the fund. Therefore, retained earnings reflect not only financial assets (minus financial liabilities) of the fund but all other assets, such as fixed assets (minus long-term liabilities). Total retained earnings do not represent spendable resources. As in the private sector, they reflect total net worth of the fund, which includes assets that are not convertible to cash for spending.

Contributed capital. Sometimes a proprietary fund receives capital contributions from outside third parties. For example, a developer may pay for the installation of water lines in a new subdivision. When the water lines are connected to the local government's water system, they become the property of the government. The water fund has received an asset at no cost. Contributed capital simply represents the equity that a proprietary fund has built with outside contributions. The total net worth of a proprietary fund is retained earnings plus contributed capital.

The Combined Operating Statement: Governmental Funds

There are two main types of operating statements for governments, one for the governmental funds[6] and another for the proprietary funds. (As discussed later, some governments may have a third type of operating statement, for their pension trust funds.) Because governmental funds focus on current financial resources, the operating statement of a governmental fund is similar to a checkbook register (for a sample, see Exhibit 2). The revenues and the other financing sources are like deposits; the expenditures and the other financing uses are like withdrawals. The net result of these "deposits" and "withdrawals" is an increase or a decrease in the checkbook balance (that is, the fund balance).

Revenues and expenditures. Most of the account categories under these captions are self-explanatory. Examples of common revenue resources are property taxes, licenses and permits, charges for services (that is, user fees), interest, and receipts from other governmental entities (that is, intergovernmental revenues, such as sales taxes, grants, and other types of state-shared monies). Expenditures are typically categorized by "character" and "function." "Character" identifies the nature of an expenditure: current, intergovernmental, debt service, and capital outlay. "Current character" expenditures are typically identified by function. The most common types of functions are general government, public safety, public works, sanitation, and recreation.

Governmental funds use the term "expenditure" as opposed to "expense." An expenditure is an actual outflow of cash resources. Because the governmental funds' operating statement focuses on the cash perspective, this term is more appropriate for it. In contrast, the term expense is used for the proprietary funds' operating statement because it focuses on all transactions of the operation, regardless of their effect on cash. An expense is an outflow of cash resources or the recognition of noncash transactions such as depreciation of capital assets and write-off of bad debts. Broadly stated, an expense is an allocation of all the costs of an operation.

Other financing sources/uses. Following revenues and expenditures, there usually is another category of transactions, referred to as "other financing sources (uses)." These are resources or uses that do not meet the basic criteria of a revenue or an expenditure. This category is *not* for miscellaneous revenues and expenditures. In fact, only a few kinds of transactions may be reported in this category, as follows:

Operating transfers in/out. Funds often transfer money to other funds. For example, a proprietary fund may routinely transfer money to the general fund. The receiving fund reports the transaction as an "operating transfer in," the contributing fund as an "operating transfer out." In contrast, revenues and expenditures reflect transactions with third parties. Given that operating transfers are internal in na-

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FORSYTH COUNTY, NORTH CAROLINA
Year Ended June 30, 1999

		General Fund
REVENUES:		
Taxes:		
Property	$	129,635,212
Occupancy		-
Sales		40,800,486
Total taxes		170,435,698
Intergovernmental		45,661,051
Charges for services		12,254,516
Investment eamings		2,880,881
Other		4,639,017
Total revenues		235,871,163
EXPENDITURES:		
Current:		
General government		31,731,295
Public safety		32,397,921
Health		21,870,079
Welfare		45,495,351
Culture and recreation		8,961,210
Community and economic development		1,058,763
Education		80,263,999
Capital outlay		
Debt service: (notes 6, 7, and 8)		
General obligation bonds:		
Principal		10,990,000
Interest and fiscal charges		9,233,880
Capital leases, installment purchases and certificates of participation:		
Principal		5,144,983
Interest and fiscal charges		642,847
Total expenditures		247,790,328
Excess (deficiency) of revenues over expenditures		(11,919,165)
OTHER FINANCING SOURCES (USES):		
Proceeds of refunding bonds (note 8)		16,480,000
Proceeds of general obligation bonds (note 8)		-
Proceeds of installment purchases (notes 6 and 7)		7,675,808
Operating transfers in (note 12)		4,285,813
Payment to refunded bond escrow agent (note 8)		(16,480,000)
Payment to refunded installment purchase escrow agent (note 6)		(3,321,714)
Operating transfers out (note 12)		(1,042,819)
Total other financing sources (uses)		7,597,088
Excess (deficiency) of revenues and other sources over expenditures and other uses		(4,322,077)
Fund balances - June 30, 1998		44,751,668
Residual equity transfers from (to) (note 13):		
Capital Project Funds		422,226
General Fund		-
Fund balances - June 30, 1999	$	40,851,817

Exhibit 2. This excerpt from Forsyth County's combined governmental fund operating statement shows information about the county's general fund.

ture, it is more appropriate to consider them other financing transactions.

Proceeds of debt issuances. Obviously a common resource for governmental entities is the issuance of bonds or similar financing instruments. When such debt is issued by a governmental fund, receipt of the debt proceeds increases the financial resources of the fund. Given that the operating statement of the governmental funds is similar to a checkbook, the proceeds of the debt issuance must be reflected. Categorizing them as a revenue source is inappropriate; they are simply a resource that was borrowed. Thus they are reported as an other financing source.

Payments to bond escrow agents. Governments often refinance existing debt to take advantage of better interest rates or more favorable debt-service requirements. This type of transaction is referred to as a "refunding." The actual transaction is rather simple. The government issues refunding bonds, and it uses the proceeds to pay off the existing debt. However, just as homeowners often may not prepay mortgages without penalties, governments may not prematurely liquidate many bonds until the maturity date or a predetermined "callable" date. Yet there are legal ways to effectively eliminate the government's liability and satisfy the terms of the outstanding bonds at the same time.

When the proceeds of the refunding bonds are received, they are paid to an independent escrow agent. That agent pays off the old indebtedness. Once these funds are placed with the escrow agent, they are no longer accessible to the government, and the government's liability for the old bonds has effectively been satisfied. In the year this transaction takes place, the proceeds of the refunding bonds are reported as an other financing source, and the subsequent payment to the escrow agent is reported as an other financing use.

Sale of fixed assets. Occasionally, governments dispose of fixed assets purchased by the governmental funds. Any proceeds of the sale obviously add to the cash balance of the fund making the sale. These proceeds are reported as an other financing source.

The net effect of revenues and other financing sources minus expenditures

WAKE COUNTY, NORTH CAROLINA

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended June 30, 1999

	General Fund				Special
		Budget		Actual	Budget
REVENUES:					
Taxes	$	335,181,840	$	338,435,442	$ 7,527,9
Licenses and permits		1,979,900		2,611,967	-
Intergovernmental		74,634,565		70,939,121	-
Charges for services		33,635,659		30,579,672	-
Investment earnings		8,000,000		8,275,790	-
Miscellaneous		2,334,958		1,897,553	-
Total Revenues		455,766,922		452,739,545	7,527,9
EXPENDITURES:					
Current:					
General administration		39,891,803		34,261,117	-
Human services		135,694,144		126,342,499	-
Education		141,385,552		140,329,349	-
Community development and cultural		15,818,781		14,950,364	39,7
Environmental services		5,136,762		4,733,541	-
Public safety		41,135,601		38,475,915	7,488,1
Debt service		63,675,431		63,457,823	-
Total Expenditures		442,738,074		422,550,608	7,527,9

Exhibit 3. This is a portion of Wake County's budget-to-actual presentation, which shows the budgeted *and* actual revenues and expenditures of the general fund.

and other financing uses of any governmental fund is an increase or a decrease in fund balance. Occasionally, other transactions may be reported on the governmental fund operating statement as direct adjustments to fund balance:

Residual equity transfer in/out. Unlike an operating transfer, a residual equity transfer is an unusual and infrequent transfer of resources between funds. For example, the general fund may make a one-time contribution to a proprietary fund to help finance a capital project. The funds are not to be repaid, and the contribution is a one-time event. These transfers are reported as a "residual equity transfer in" to the receiving fund and as a "residual equity transfer out" of the contributing fund.

Prior period adjustments. Occasionally, errors made in previous years need to be corrected. Also, adjustments may be necessary to reflect the implementation of a new accounting and financial reporting standard. Either of these events would be reported as a direct adjustment to fund balance and identified as a "prior period adjustment." Such adjustments do not necessarily reflect a problem.

The ending fund balances for each of the governmental fund types should agree with the fund balances reported on the combined balance sheet. In summary, the balance sheet is a snapshot of the assets, the liabilities, and the equity (fund balance or retained earnings, as appropriate) at the end of the fiscal year (June 30 for North Carolina governments). The governmental fund's operating statement reports the transactions *throughout the year* that either increase or decrease the applicable fund's fund balance.

The Combined Budget-to-Actual Statement: Governmental Funds

GAAP require that the combined financial statements include a budget-to-actual statement[7] for *governmental fund types that legally adopt an annual* budget (for a sample, see Exhibit 3). The primary purpose of this statement is to demonstrate compliance with the budget. The statement has little practical use, for the fund-type columns still are aggregated. For example, if a government has more than one special revenue fund, the budget-to-actual presentation includes all of them in one column.

For North Carolina governments, the formats of the combined governmental fund operating statement and the budget-to-actual statement are practically identical. The same account captions—revenues, expenditures, and other financing sources and uses—are used. GAAP simply limit this combined budget-to-actual statement to *governmental funds that legally adopt an annual budget.* Therefore, if multiyear (or project-length) budgets are adopted for special revenue or capital projects funds, they would *not* be included on the statement.

The Combined Operating Statement: Proprietary Funds

A governmental entity's financial statements may include two types of operating statements if the entity has both governmental and proprietary funds. The operating statement for the proprietary funds[8] is formatted differently from the operating statement for the governmental funds. The primary reason is that the statements are designed for different purposes. The governmental funds' operating statement can be used like a checkbook register. Proprietary funds are reported from a perspective of total economic resources: all revenues *earned*, not just those that are *available* (as is the case with the governmental funds). Accordingly the expenses reflect all events that affect the equity of the fund—cash outflows for operations, purchase of capital assets, payment of debt service, and noncash transactions such as depreciation and write-off of bad debts.

Town of Garner, North Carolina
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings--Proprietary Fund Type
For the Year Ended June 30, 1998

	Enterprise Fund 1998
OPERATING REVENUES	
Charges for services	$4,470,742
Other operating revenues	884,378
Total operating revenues	5,355,120
OPERATING EXPENSES	
Administration	508,853
Water supply and distribution	2,004,300
Waste collection and disposal	913,363
Sewer plant operation	345,974
Depreciation and amortization	698,642
Total operating expenses	4,471,132
Operating income	883,988

Exhibit 4. This is the first half of a proprietary fund operating statement—the revenues, the expenses, and the net income of Garner's enterprise fund (a type of proprietary fund).

Operating revenues. This category on the proprietary funds' operating statement identifies the revenues generated by the operation itself—for example, in the case of a water fund, fees earned for providing water. Also, revenues are recorded as they are *earned*, regardless of their availability (unlike the governmental funds' operating statement). Otherwise, the account captions themselves are relatively self-explanatory.

Operating expenses. This category identifies the expenses generated by providing particular operations. In the preceding example of the water fund, all the direct costs of providing water service are considered operating expenses. Some common types of operating expenses are salaries and wages, employee benefits, materials, and supplies.

Expenses incurred as part of the operation but not resulting in a cash outlay are included in the operating expense category. Two common examples are depreciation and bad debt expense. "Depreciation" is the allocation of the cost of an asset over its useful life. In the governmental funds, the full cost of acquiring a capital asset is recognized when the transaction occurs (for example, capital outlay expenditure). Therefore the financial reporting theory of depreciation does not apply. This is consistent with the focus of the governmental funds' operating statement on transactions that affect cash. However, with the proprietary funds' focus being much broader, the cost of a capital asset is allocated over its useful life, not simply expensed when it is purchased. Depreciation expense does not result in a cash outflow but systematically reduces the fund's equity in an asset as it is being used.

Bad debt expense occurs when service billings are not collected. Often, such accounts receivable are "written off" as a loss when it is determined that they will not be collected. Such losses are considered operating expenses.

Operating income. The net of operating revenues and operating expenses is known as "operating income." This amount simply identifies the income (or loss) generated by the operation itself.

(For an excerpt of a statement showing operating revenues, operating expenses, and operating income, see Exhibit 4.)

Nonoperating revenues and expenses. Many proprietary operations are subsidized by resources that are not generated by the operation itself. Common examples are taxes, grants, interest revenue, and intergovernmental revenue. In many cases these are substantial amounts. They are classified as "nonoperating" activities simply to indicate that they are not generated by the operation itself but are the result of external events (for example, taxation). Likewise, expenses are incurred that are not a *direct* result of the operation. The most common example is interest expense associated with a fund's long-term debt.

Transfers to/from other funds. Proprietary funds often receive operating transfers from other funds or provide transfers to other funds. For example, the electric fund may routinely transfer money to the general fund to keep property tax rates down (property taxes being the primary source of revenue for the general fund). When this occurs, the transactions are reported as gross amounts (that is, transfers in and transfers out are *not* combined into one sum) on the operating statement in a

Town of Garner, North Carolina

Combined Statement of Revenues, Expenses, and Changes in Retained Earnings--Proprietary Fund Type
For the Year Ended June 30, 1998

	Enterprise Fund
	1998
NONOPERATING REVENUES (EXPENSES)	
Interest earned on investments	304,832
Interest earned on assessments	6,608
Local option sales tax	-
Sale of assets	10,758
Interest on long-term debt	(372,221)
Total nonoperating revenues (expenses)	(50,023)
Net income	833,965

Exhibit 5. This is the second half of Garner's proprietary fund operating statement. This portion of the statement's column *follows* the revenue, expense, and net income portion shown in Exhibit 4.

separate category immediately following the nonoperating category.

Net income. Operating income minus nonoperating revenue and expenses, as well as transfers in and out of the fund, is captioned "net income." This amount either increases the fund's equity (that is, retained earnings), resulting in a net income, or decreases it, resulting in a net loss.

(For an excerpt of a statement showing nonoperating revenues and expenses, and net income, see Exhibit 5.)

The ending retained earnings should agree with the retained earnings reported on the combined balance sheet. Events such as residual equity transfers or prior period adjustments are reported as direct adjustments to the retained earnings balance.

The Combined Statement of Cash Flows: Proprietary Funds

As explained earlier, the governmental funds' operating statement basically gauges the cash inflows and outflows of the governmental funds. In contrast, the proprietary funds' operating statement includes cash and noncash transactions. Therefore the proprietary funds' operating statement *cannot* be used effectively to identify cash flows. GAAP require that governments with proprietary and nonexpendable trust funds include a statement of cash flows in their external financial statements (for an excerpt, see Exhibit 6).[9]

The statement of cash flows focuses on transactions that directly affect the fund's cash balance. Governments have the option of focusing on cash alone or including cash equivalents. A "cash equivalent" is defined as a highly liquid, short-term investment that has an *original* maturity (maturity at the time of purchase) of no more than ninety days. Each of the cash flows is reported at gross amounts. Simply put, cash inflows are reported separately from cash outflows. For example, operating transfers in are reported separately from operating transfers out.

This statement focuses on four categories of cash flows, as follows. The transactions identified within each category are relatively self-explanatory.

Cash flows from operating activities. Any proprietary fund has cash inflows and outflows associated with the operation of the activity itself. The most common example of a cash inflow is collections on utility billings. Examples of cash outflows are payments to vendors and employees. GAAP also require that miscellaneous cash inflows or outflows that do not fit the criteria of the other cash-flow categories be reported as operating activities.

Cash flows from non-capital-financing activities. Often a proprietary fund will receive cash inflows or incur cash outflows that are indirectly related to the operation itself but not related to capital acquisitions. (This category is similar to nonoperating revenues and expenses, discussed earlier.) Common examples are tax revenues, grant revenues, and operating transfers from other funds. Examples of non-capital-financing cash outflows are operating transfers to other funds or grants made to other governmental entities.

Cash flows from capital financing activities. Especially in proprietary funds, cash flows related to capital acquisitions can be very significant. Examples of cash inflows related to capital financing are debt proceeds associated with capital financing, grants restricted to acquisition of capital items, and transfers from other funds restricted for capital purposes. Also, cash generated by the sale of any fixed assets is reported as a cash flow from capital financing activity. Examples of cash outflows are purchase of capital items and debt-service payments when the debt is capital related.

Cash flows from investing activities. The statement of cash flows segregates all activity associated with the fund's investing activities. Sales or maturities of investments, as well as interest earned and collected on those investments, are reported as cash inflows in this category. Purchase of investments is the most common cash outflow associated with investing.

The net result of all the identified cash inflows and outflows per proprietary fund type represents how cash[10] changed from the beginning of the year to the end. The ending cash amount should agree with the cash amounts reported by fund type on the combined balance sheet.

GAAP recognize that some transactions do not result in actual cash inflows or outflows but are *not* obvious

Carolina County, North Carolina
Combined Statement of Cash Flows

For the Year Ended June 30, 19X1

	Enterprise Fund	Carol Cour Hospita
Cash flows from operating activities:		
Cash received from customers	$1,020,892	$40,98
Cash paid for goods and services	(175,166)	(16,97
Cash paid to employees for services	(195,893)	(21,13
Customer deposits received	1,800	
Customer deposits returned	(4,983)	
Other operating revenues	630	
Taxes paid to other governments	—	
Net cash provided by operating activities	647,280	2,87
Cash flows from noncapital financing activities:		
Gifts and donations	—	97
Alcohol education	—	
Operating transfers from primary government	—	1,24
Operating transfers to primary government	—	
Net cash provided by noncapital financing activities	—	2,21
Cash flows from capital and related financing activities:		
Proceeds of bond anticipation notes	675,000	
Acquisition and construction of capital assets	(1,319,536)	(4,75
Principal paid on bond maturities and equipment contracts	(250,000)	(30
Interest paid on bond maturities and equipment contracts	(99,144)	(14
Residual equity transfer	100,000	
Federal grant	225,348	
Net cash used by capital and related financing activities	(668,332)	(5,21
Cash flows from investing activities:		
Interest on investments	38,122	63
Net cash provided by investing activities	38,122	63
Net increase in cash and cash equivalents	17,070	51
Cash and cash equivalents, July 1	1,945,325	9,89
Cash and cash equivalents, June 30	$1,962,395	$10,41

Exhibit 6. This is an excerpt from fictional Carolina County's more extensive statement of cash flows. There is a column for each fund type; the information shown here is for the enterprise fund.

on the proprietary funds' operating statements. "Noncash" transactions that affect the assets and the liabilities of a fund, *and would have been* reported in the operating, non-capital-financing, or capital financing categories if cash had actually exchanged hands, must be disclosed in a separate noncash activities section of the statement of cash flows. Two of the most prevalent examples of this type of transaction are acquisition of a capital asset through a capital lease agreement (that is, acquisition of an asset and incurrence of a liability without any initial cash flow) and receipt of a capital asset by donation, such as water and sewer lines from a developer.

The Statement of Changes in Net Assets: Pension Trust Funds

Most local governmental entities participate in pension plans for their employees that are under the fiduciary care of another entity. The most common example of this in North Carolina is the Local Governmental Employees' Retirement System. The state is the fiduciary of a pension plan that benefits participating local governmental employers and employees in North Carolina.

However, some local governments either sponsor an additional plan for their employees only or provide a plan in lieu of participation in the state-sponsored plan. The most common example is the Law Enforcement Officers' Special Separation Allowance. In these cases the local government acts as the fiduciary of a pension plan, and GAAP require the inclusion of a separate operating statement for that plan (for a sample, see Exhibit 7) because the required format of the statement is so different from that of a proprietary fund. (The assets, the liabilities, and the equity of such a plan are included on the combined balance sheet.)

The resources of a pension plan are categorized as "additions to net assets," and the uses of those resources are categorized as "deductions from net assets." Additions include contributions from employers, contributions from participating employees, and net investment income.[11] Deductions include benefits (and refunds) paid to participants in the plan, as well as administrative

Carolina County, North Carolina
Statement of Changes in Plan Net Assets
Pension Trust Fund
For the Year Ended June 30, 19X1

	Pension Trust
Additions:	
Employer contributions	$101,424
Investment income:	
Net appreciation (depreciation) in fair value of investments	12,417
Interest	38,984
	51,131
Less investment expense	438
Net investment income	50,693
Total additions	152,117
Deductions:	
Benefits	16,585
Administrative expense	941
Total deductions	17,526
Net increase	134,591
Fund balance reserved for employees' pension benefits:	
Beginning of year	893,676
End of year	$1,028,267

Exhibit 7. This sample operating statement for Carolina County's pension trust fund is typical for a government required to report such information.

expenses incurred in the operation of the plan.

As with the operating statements of both the governmental and the proprietary funds, the net of these additions and deductions is the increase or the decrease in the pension plan's equity for the year.

Conclusion

Financial statements for local governmental entities can be very complex. Those with at least limited knowledge of governmental accounting and financial reporting principles may have the edge in interpreting the information, but any interested party certainly can glean useful information from these statements. External financial reporting is the specific responsibility of management. Management and elected officials must make every effort to understand the landscape of these financial statements. This article is designed not to teach the principles of governmental GAAP but to highlight for management and elected officials the fundamental information included in the combined financial statements. By understanding the basic logic of financial presentation, and the terminology unique to governmental accounting, management and elected officials can better fulfill their fiduciary duties.

Notes

1. Stephen J. Gauthier, An Elected Official's Guide to Financial Reporting at 8 (Chicago: Government Finance Officers Association, 1995).

2. N.C. Gen. Stat. § 159-34. Hereinafter the General Statutes will be cited as G.S.

3. Governmental financial statements sometimes report these interfund loan arrangements with the "due to/due from" terminology discussed earlier. Although this is technically not prohibited, the use of the different language is designed to identify clearly the underlying nature of the transaction.

4. GAAP define "availability" as revenue collected in cash as of the end of the fiscal year, or within a short period following the end of the fiscal year. The North Carolina Local Government Commission recommends that the availability period be no more than sixty days. In practice the short period is usually sixty to ninety days following the balance sheet date.

5. G.S. 159-13(b)(16).

6. If a government also has expendable trust funds, they will be included in a separate column on this statement. The technical title of a governmental fund operating statement is Combined Statement of Revenues, Expenditures and Changes in Fund Balances.

7. The technical title of this statement is Combined Statement of Revenues, Expenditures and Changes in Fund Balances—Budget and Actual. Most governments prepare additional statements and schedules that exhibit budgetary compliance for individual funds. For example, if a government prepares a comprehensive annual financial report, such information is included therein.

8. The technical title of the proprietary fund operating statement is Combined Statement of Revenues, Expenses and Changes in Retained Earnings. If a government also has a nonexpendable trust fund, it will be included in a separate column on this statement.

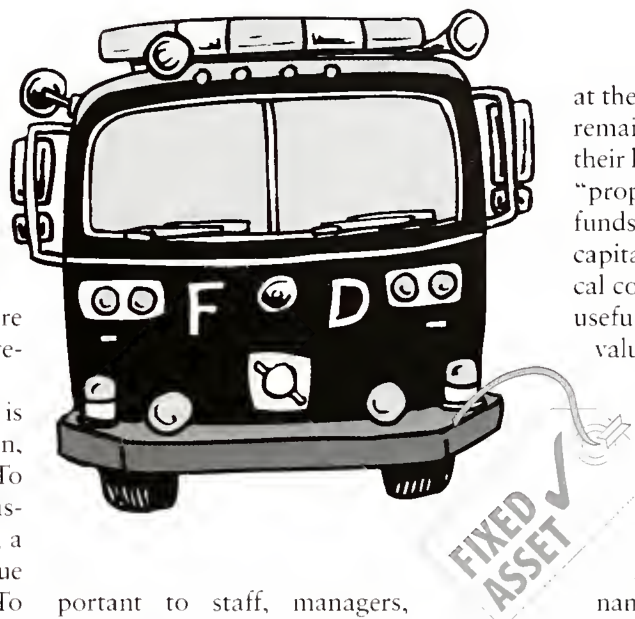
9. The technical title of the statement of cash flows is Combined Statement of Cash Flows.

10. Governments also may include cash equivalents.

11. Investment income is reported minus appreciation or depreciation of the fair value of investments, as well as administrative costs and costs associated with investment management (for example, an investment adviser's fees).

Managing and Accounting for Fixed Assets

William C. Rivenbark



Fixed assets represent a significant investment of public dollars for local governments and public authorities. Items that constitute fixed assets are tangible in nature and normally have a useful life of at least two years. Commonly used classifications of fixed assets are land, buildings, equipment, and vehicles.

Maintaining control of fixed assets is a function of the entire organization, not just the accounting department. To maintain financial control of fixed assets from an accounting perspective, a locality must properly report their value on its annual financial statements. To maintain internal control from a management perspective (that is, to ensure use of the assets for authorized purposes and to prevent their misuse or theft), the locality must assign custodial responsibility for fixed assets to the department and division managers who employ them for service delivery. A fixed assets policy based on the recommended practices of the Government Finance Officers Association (GFOA) and the Local Government Commission (LGC) is essential to obtaining both types of control.

External auditors review fixed assets records and internal controls during the annual audit. They issue an "unqualified audit opinion" if the general-purpose financial statements present fairly, in all material respects, the financial position of the organization. This type of audit opinion is extremely important to staff, managers, council members, investors, and creditors. External auditors issue a "qualified audit opinion" if they find that the financial statements are inadequate in a material respect. Lack of control over fixed assets is one of the primary causes for receiving a qualified audit opinion. For localities that receive a qualified opinion concerning their accounting for fixed assets, the LGC will no longer authorize the issuance of long-term debt (bonds).[1]

The purpose of this article is to encourage localities to review their fixed assets policies and to establish capitalization thresholds based on criteria proposed by the GFOA and the LGC. A "capitalization threshold" is the dollar value at which assets are "capitalized" (carried on the general ledger) rather than "expensed" (shown on the general ledger as a decrease in cash and an increase in expenditures). Fixed assets purchased by "governmental funds" (public-purpose funds, such as public safety and public works) are capitalized at their original historical cost and remain at that value throughout their life. Fixed assets purchased by "proprietary funds" (business-like funds, such as public utilities) are capitalized at their original historical cost and depreciated over their useful life. Items of insignificant value are simply expensed in their year of purchase.

Localities tend to capitalize assets at dollar values much lower than needed, setting policy primarily to satisfy the internal control function rather than the financial reporting function.[2] They should set the dollar value for capitalization of assets with the objective of accurately reporting the value of fixed assets on their annual financial statements. Internal control of fixed assets should be addressed in the fixed assets policy by more effective means than the capitalization threshold.

Legal, Administrative, and GAAP Requirements

The North Carolina General Statutes (hereinafter G.S.) do not address the management of fixed assets in detail, providing flexibility for local governments. G.S. 159-26(a) states that "each local government or public authority shall establish and maintain an accounting system designed to show in detail its assets, liabilities, equities, revenues, and expenditures." Additionally, G.S. 159-26(b)(8) requires that an accounting system be designed to provide for "a ledger or group of accounts in which to record the details relating to

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the general fixed assets of the unit or public authority."

The North Carolina Department of State Treasurer *Policies Manual* expounds on G.S. 159-26(a) and G.S. 159-26(b)(8), providing detailed instructions on fixed assets management, including the capitalization threshold. It concludes that the dollar amount set for capitalizing assets is a policy decision of the governing board.

Three of the twelve generally accepted accounting principles (GAAP) deal directly with managing and accounting for fixed assets.[3] None of the principles, however, address what is a proper capitalization threshold, again leaving that to each locality to decide on the basis of its individual needs.

Fixed Assets Records and Audit Findings

Fixed assets records are used for a variety of reasons and should be accurate and complete. They are periodically reconciled with departments' actual fixed assets to ensure fulfillment of the departments' custodial responsibility. Risk management personnel use them to ensure that the organization is properly protected with insurance coverage.[4] Analysts often need fixed assets records when completing special assignments, and they are used to report the beginning value, additions, disposals, and ending value of an entity's fixed assets on the annual financial statements.

External auditors move toward a qualified audit opinion when fixed assets records do not materially reflect the value of fixed assets or when proper internal controls are not in place to safeguard the assets. Therefore, in developing a fixed assets policy, local officials should understand the audit process and likely sources of problems.

External auditors move toward a qualified audit opinion when fixed assets records do not materially reflect the value of fixed assets or when proper internal controls are not in place to safeguard the assets.

The external auditors begin with an examination of the organization's fixed assets policy and procedures. At this point the auditors are determining whether adequate controls are in place and whether the organization is following its policy and procedures. Auditors typically intensify their examination of fixed assets records when they uncover problems during this initial review. Problems tend to emanate primarily from one of the following areas:

1. Fixed assets already disposed of still appear on the fixed assets list. This is the most common source of audit problems.
2. Fixed assets recently purchased by the organization are not listed on the fixed assets list.
3. Fixed assets that appear on the fixed assets list are not valued correctly.

For audits at the end of fiscal year 1998, external auditors identified fixed assets weaknesses as problems for approximately 12.5 percent of North Carolina local governments and public authorities.[5] If not corrected, these problems can force an external auditor to issue a qualified opinion for a locality's financial statements.

One key to avoiding the major problem areas is to avoid basing a capitalization threshold solely on the internal control function. When concerns about internal control dictate the dollar value for capitalizing assets, the capitalization threshold is likely to be lower than needed, and fixed assets records become difficult to manage. The financial reporting goal is to record the necessary information accurately when a fixed asset is acquired, maintain the information during the life of the asset, and delete the information after disposal of the asset. Localities can decrease the probability of a qualified audit opinion by following the recommendations of the GFOA and the LGC.

Capitalization Threshold

An effective fixed assets policy must be tailored to the individual needs of an organization. Therefore the organization must reconcile the recommendations offered by the GFOA and the LGC with its own demands.

Estimating the useful life of assets. A fixed assets policy should begin by stating its purpose and effective date. It then should define fixed assets. The LGC maintains that "fixed assets are tangible in nature and have a useful life longer than one year. They are classified as land, improvements other than buildings, buildings, operating plants, equipment, and construction in progress."[6] The GFOA promotes a similar definition but states that "fixed assets should be capitalized only if they have an estimated useful life of at least two years following the date of acquisition."[7] Normally a locality capitalizes assets with a useful life of at least two years unless special circumstances dictate otherwise.

Determining the threshold. The next step is to establish the capitalization threshold. In practice, land and buildings always are capitalized, so the capitalization threshold primarily applies to equipment and vehicles. The GFOA maintains that "as a general rule, capitalization thresholds should be designed to encompass approximately 80 percent of a government's total noninfrastructure assets"—that is, assets other than items like roads, bridges, and sidewalks.[8] In addition, the GFOA recommends that a government never use a capitalization threshold of less than $1,000 for any individual item.[9]

The LGC states that "equipment and vehicles costing $500 or more should be recorded as fixed assets."[10] To rec-

oncile the two recommendations, localities should begin by applying the 80 percent rule. As for the actual dollar threshold for individual assets, a manageable one would normally fall between $1,000 and $5,000 for larger localities.[11] Smaller localities may have to employ a threshold of less than $1,000 to reflect the value of fixed assets materially. Localities should be extremely cautious when adopting a capitalization threshold of less than $500. A lower threshold begins to compromise the accuracy of the fixed assets records because it results in the need to record and track a large number of items.

Applying the capitalization threshold. The fixed assets policy should address whether the capitalization threshold applies to individual assets or groups of assets. The GFOA recommends that capitalization thresholds apply to individual fixed assets only.[12] The LGC approaches this issue slightly differently, giving localities the needed flexibility to record groups of assets. For example, the value of individual desks in local schools may fall well below the capitalization threshold. However, together the desks represent a significant investment and may have a material impact on the overall value of fixed assets if they are not capitalized. If a locality is going to capitalize groups of assets, its fixed assets policy should specify what groups and why. The reason is to avoid ambiguity that may cause problems during the audit process.

Internal Control Function

Although the capitalization threshold is primarily a financial reporting issue, a locality should address the internal control function during the development of its fixed assets policy. Localities often need to track certain assets regardless of value—weapons purchased by the police department, for example. The LGC suggests that localities faced with this issue assign a value of one dollar to each asset and track it accordingly.[13] (Assigning a one-dollar value overcomes the problem that some accounting software packages will not let the user enter assets with a value of zero).

Establishing multiple capitalization thresholds. The GFOA maintains that a "government may establish a single capitalization threshold for all of its fixed assets or establish multiple capitalization thresholds for different classes of fixed assets."[14] Localities should consider multiple thresholds to control certain specialty items—for example, data processing equipment. Multiple capitalization thresholds sometimes are appropriate, but localities should be careful not to expand excessively the number of items that they must record as fixed assets.

Assigning custodial responsibility. The fixed assets policy should require department and division managers to establish procedures that address the control not only of fixed assets but of assets that fall below the capitalization threshold. With a threshold of $1,000, for example, most lawn-maintenance equipment, like mowers and shredders, would not be capitalized. However, department and division managers must tag and track these assets. This form of control can be more effective in preventing misuse than a control mechanism located in the accounting area. The organization therefore should assign custodial responsibility to individuals who can immediately detect problems associated with fixed assets. For an additional control measure, the finance department should maintain copies of all assets records.

Conducting periodic inventories. The GFOA recommends conducting periodic inventories of capitalized fixed assets and supports a physical count based on a rotating method to ensure that all fixed assets are accounted for at least once every five years.[15] The LGC recommends annual verification of the existence and the condition of all fixed assets.[16] The LGC recommendation is more realistic for adequate control but should be expanded to include certain assets that may fall below the capitalization threshold. For example, periodically, localities should physically verify the existence of weapons, computer equipment, and lawn-maintenance equipment that are not capitalized.

Reporting of a Change in the Capitalization Threshold

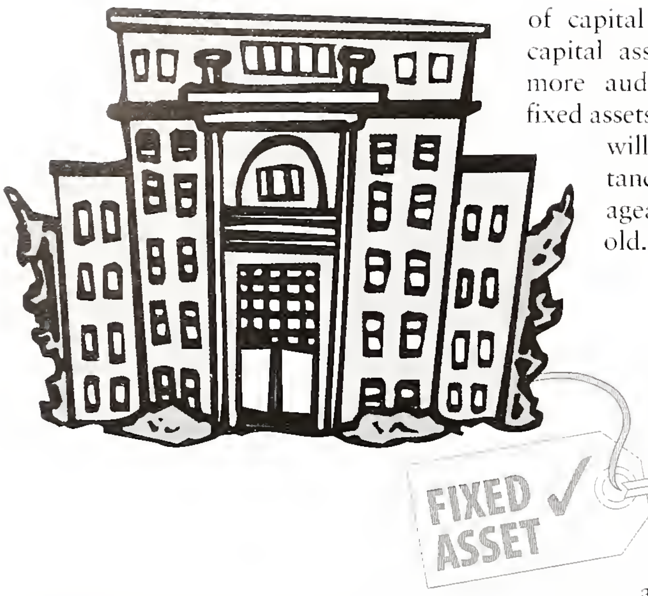
When a locality increases its capitalization threshold, it must delete from the fixed assets list the items that fall below the new dollar value. It also must adjust the notes to its financial statements[17] (see Table 1 for an illustration of how to show this change for general fixed assets).[18]

Reporting the actual dollar amount of the new capitalization threshold is

Table 1. General Fixed Assets

	June 30, 1999 $	Adjustments $	Additions $	Disposals $	June 30, 2000 $
Land and improvements	1,000,000	—	10,000	—	1,010,000
Buildings	14,000,000	—	—	—	14,000,000
Furniture and equipment	5,000,000	(1,500,000)	500,000	(400,000)	3,600,000
Vehicles	8,000,000	—	1,000,000	(1,000,000)	8,000,000
	28,000,000	(1,500,000)	1,510,000	(1,400,000)	26,610,000

Note: The $1,500,000 in adjustments reflects a change in the capitalization threshold.



optional. The purpose of the adjustments column is to avoid overstating the disposal of fixed assets and to let the reader know that a change has been made. In Table 1 the $1.5 million value decrease resulting from an increase in the capitalization threshold is relatively small compared with the overall total of approximately $26.6 million. The major impact of the change is the number of items that have been removed from the fixed assets list.

New Requirements for Recording Infrastructure and Depreciating Capital Assets

The Governmental Accounting Standards Board's recent passage of Statement No. 34 has heightened the importance of accurate fixed assets records.[19] The new pronouncement requires the recording and the tracking of infrastructure along with customary fixed assets. Further, because of its inclusion of infrastructure, the board has substituted the term "capital assets" for "fixed assets." The capitalization threshold will not be a major issue in determining whether to record infrastructure or not. Like land and buildings, infrastructure is almost always recorded as a capital asset. The issue is with a new depreciation requirement for governmental funds. After the implementation of Statement No. 34, capital assets, including equipment and vehicles, will have to be depreciated. This requirement will force external auditors to intensify their examination of capital assets records (because capital assets records will contain more auditable information than fixed assets records do). That in turn will place additional importance on establishing a manageable capitalization threshold.

Conclusion

The capitalization threshold and the internal control function are extremely important to a meaningful and manageable fixed assets policy. Localities also should address other areas when constructing a fixed assets policy, including the use of only capital accounts to purchase fixed assets and the offering of annual training in the management of fixed assets. Often overlooked, annual training is an excellent way to expose employees regularly to the idea that managing assets is a function of the entire organization, not just the accounting department.

Local governments tend to capitalize assets at overly low dollar values. When seen only in the context of control, this practice is explainable. Capitalization thresholds, however, are a function of financial reporting. The guidance presented by the GFOA and the LGC offers a logical approach for establishing a meaningful and manageable capitalization threshold. Based on the need for materially accurate financial statements, the guidelines are designed to reduce the possibility of a qualified opinion stemming from lack of control of fixed assets. Local government and public authority administrators, as well as council members, should be proactive in constructing a comprehensive fixed assets policy. Accountability, credit quality, and time are at stake.

Notes

1. North Carolina Department of State Treasurer, Policies Manual (Raleigh, N.C.: 1992).

2. Government Finance Officers Association, Recommended Practices for State and Local Governments (Chicago: GFOA, 1999).

3. Principle 5 requires a clear distinction between general fixed assets and fund fixed assets. Principle 6 requires the recording of all fixed assets at their historical cost or at their estimated historical cost if their actual cost cannot be determined. Principle 7 addresses the depreciation of fixed assets, requiring that depreciation be recorded in proprietary funds and certain trust funds. Depreciation is not recorded in governmental funds, but accumulated depreciation may be recorded in the General Fixed Assets Account Group (GFAAG), although few governments currently choose this option. *See* Governmental Accounting Standards Board, Governmental Accounting and Financial Reporting Standards (Norwalk, Conn.: GASB, 1995).

4. Robert J. Freeman & Craig D. Shoulders, Governmental Accounting & Financial Reporting (Lubbock: Center for Professional Development, Texas Tech University, 1996).

5. Telephone Interview with Cheryl J. Spivey, Assistant Director of Fiscal Management, N.C. Local Government Commission (Oct. 14, 1999).

6. Department of State Treasurer, Policies Manual at § 20, p. 4.

7. GFOA, Recommended Practices at 15.

8. GFOA, Recommended Practices at 15.

9. GFOA, Recommended Practices.

10. Department of State Treasurer, Policies Manual at § 20, p. 7.

11. Current federal requirements prevent the use of capitalization thresholds greater than $5,000 for purposes of grant reimbursement.

12. GFOA, Recommended Practices.

13. Department of State Treasurer, Policies Manual.

14. GFOA, Recommended Practices at 15.

15. GFOA, Recommended Practices.

16. Department of State Treasurer, Policies Manual.

17. Government Finance Officers Association, Governmental Accounting, Auditing and Financial Reporting (Chicago: GFOA, 1994).

18. The change in capitalization levels is a change in accounting policies. For proprietary funds, fixed assets and accumulated depreciation are adjusted for the amounts removed, and the difference between the two amounts is shown as an adjustment to beginning retained earnings.

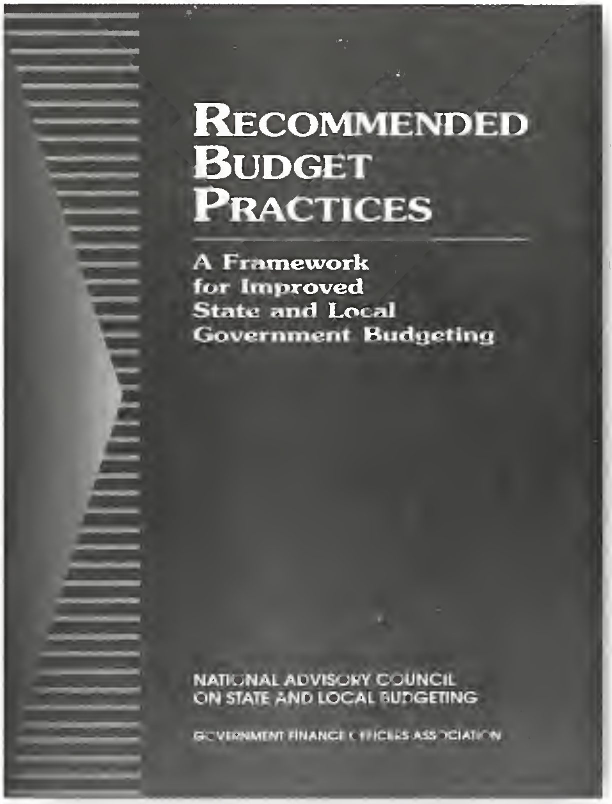
19. Governmental Accounting Standards Board, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments (Norwalk, Conn.: GASB, 1999).

A Framework of Sound Principles, Concrete Practices

Review by Maureen Berner

Public budgeting [is] the allocation of expenditures among different purposes so as to achieve the greatest return.
—Public administration theorist V. O. Key, Jr., 1940

The budget process consists of activities that encompass the development, implementation, and evaluation of a plan for the provision of services and capital assets.
—National Advisory Council on State and Local Budgeting, 1998



Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting,
by the National Advisory Council on State and Local Budgeting.
Government Finance Officers Association, 1998.
78 pages.
$10 paperback.
Accompanying CD-ROM, $25.

The concept of what budgeting is and what budget officials do is evolving. Budget officials now play the roles of negotiator, manager, analyst, and evaluator. Some might argue that they always have played these roles, but the widely accepted view of what budgeting involves has broadened significantly in the past decade. The new framework for budgeting recently presented by the National Advisory Council on State and Local Budgeting reflects this larger vision. The framework is the result of a three-year effort by eight organizations (see the sidebar on page 40) to provide tools, principles, and guidelines for governments to improve their budgeting processes, and to promote the use of those tools, principles, and guidelines. The Government Finance Officers Association served as the lead organization in the effort and published the resulting report.

Budgeting is no longer an isolated annual process in local government management. For many managers it represents a continuing strategic planning process, bringing together planning, funding, implementation, and evaluation of services. The National Advisory Council's report does an excellent job of presenting this current vision in an organized, straightforward manner. Even more valuable to readers are the accompanying examples from state and local governments and school and special districts on a companion CD-ROM. Seeing concrete examples, and knowing that behind each example is a jurisdiction willing to answer questions about how it put a recommendation into action, is extremely helpful.

The organization of the book reflects the current emphasis in public administration on local governments measuring how well they provide services to citizens. After setting forth a definition of and a mission for the budgeting process, the National Advisory Council identifies the process's four main principles, and under each principle it identifies several elements, or subprinciples. For example, one of the four main principles is "Establish broad goals to guide government decision-making," and a subprinciple under it is "Assess community needs, priorities, challenges and opportunities" (p. 5). (For a complete list of principles and subprinciples, see the sidebar on page 41.) Up to this point in the report, all the principles and subprinciples are vague. But then, for most subprinciples the report identifies several supporting practices—that

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Sponsoring Organizations

The organizations sponsoring development of *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting*, and their Web sites, are as follows:

Association of School Business Officials International
http://www.asbointl.org
Council of State Governments
http://www.csg.org
Government Finance Officers Association
http://www.gfoa.org
International City/County Management Association
http://www.icma.org/othersites
National Association of Counties
http://www.naco.org
National Conference of State Legislatures
http://www.ncsl.org
National League of Cities
http://www.nlc.org
U.S. Conference of Mayors
http://www.usmayors.org/uscm_projects_services/management_improvement

For a copy of the report or to preview the CD-ROM on best practices, visit the Web site of the Government Finance Officers Association.

is, "procedures that assist in accomplishing a principle and element of the budget process" (p. 6). These practices are more concrete. The report then presents rationales for the practices, and it defines the outputs of the practices, or the tangible results. To extend the example started earlier, under the subprinciple "Assess community needs, priorities, challenges and opportunities" is the practice "Identify stakeholder concerns, needs and priorities" (p. 10). The rationale for identifying them is that the basic purpose of government is to try to meet the needs of the citizens. Government cannot do so without knowledge of what those needs are. The report then presents the output of this practice—a brief description of what government can do to understand what the needs are, such as using surveys, holding public hearings, and conducting workshops. Many of the descriptions of practices also include a Notes section offering more detailed advice or background information.

If this recommended framework seems loaded with jargon, readers should take heart. It actually provides an excellent road map to specific, well-grounded, and well-rounded advice on fifty-eight budget practices. The practices are specific enough to provide concrete guidance but general enough not to be overly prescriptive—the National Advisory Council did not want to recommend specific tools or techniques, leaving those up to the jurisdictions to determine.

From the beginning, it is clear that this is not a how-to textbook on budgeting. In fact, the report is clearly targeted at budgeters, and that is almost a disservice. State and local government officials often are too busy with the day-to-day demands of governing to think about an overall framework for what they do. But much of the framework presented in this report is as vital and as applicable to city and county managers, elected officials, and department heads as it is to budget staff. Of the twelve subprinciples of budgeting identified by the report (see sidebar), only those under the third broad principle, "Develop a budget consistent with approaches to achieve goals" (p. 5), are clearly under the sole purview of the budget office. The other sub-principles, and their supporting practices, intricately involve staff and elected officials across local governments. For example, under the second general principle of budgeting, "Develop approaches to achieve goals," the report lists the subprinciple "Adopt financial policies" (p. 5). The governing board must adopt those policies, with the input of the manager and related staff, including legal and financial counsel. A listed practice under "Adopt financial policies" is "Develop a policy on debt issuance and management" (p. 19). This might be an explicit policy on the level of debt that the jurisdiction wishes to carry at any time. In most cases (although certainly not in all cases, especially in small jurisdictions), developing such a policy would involve many people beyond the budget staff. It might even include people at the North Carolina Local Government Commission, which provides advice and assistance to local governments on debt issuance, or at local financial institutions.

The framework explicitly recognizes that the final budget represents fundamental decisions about what the government does and how the government does it. The framework takes budgeting out of the technical box of timelines and forms, and places it in the larger

> Much of the framework presented in this report is as vital and as applicable to city and county managers, elected officials, and department heads as it is to budget staff.

context of gathering information, making decisions based on that information, and evaluating previous decisions in preparation for making new ones.

Two of the recommended practices are good examples of the overall combination of broad management goals and a narrower budgeting focus. Under the principle "Develop approaches to achieve goals" and the subprinciple "Develop programmatic, operating and capital policies and plans" (p. 5) is the practice "Prepare policies and plans to guide the design of programs and services" (p. 27). Although budget staff may draw up some of the specifics, these policies and plans will closely involve department staff and must be adopted by the governing body. The next practice under the same principle and subprinciple is "Prepare policies and plans for capital asset acquisition, maintenance, replacement and retirement" (p. 28). This practice, which is much more familiar to budget office or finance department staff, might involve something as specific as a timetable for replacement of vehicles. A third recommended practice in the same area is "Develop programs and evaluate delivery mechanisms" (p. 29). For this practice the report recommends that programs and services be consistent with policies and plans. Governments should consider alternative delivery mechanisms to ensure that they select the best approach for delivery. For example, might a contractor provide a service better than a traditional government agency or department provides it? This is very pertinent to areas such as solid waste disposal. The advice is as applicable to department heads as it is to budget officials. Indeed, budget staff are more likely just to review department decisions regarding programs and delivery mechanisms than to take on primary responsibility for these tasks.

The report reflects two new trends in public administration: focusing on results and making a concentrated effort to involve stakeholders. In this sense the report is clearly taking budgeting in new directions. Essentially, budgeting remains a management function, and some managers guard it zealously. But by tying it to larger institutional goals and by focusing on communication and the need to evaluate program results, the National Advisory Council is trying to move budgeting beyond its traditional limits. This is evident in the report's mission statement for the budget process: "The mission of the budget process is to help decision makers make informed choices about the provision of services and capital assets and to promote stakeholder participation in the process" (p. 3).

By making performance-based budgeting one of the four fundamental principles, the National Advisory Council explicitly supports it. Under performance-based budgeting, the focus is to relate dollar appropriations to the amount or the quality of service provided, the needs met, or the goals and the objectives achieved. Performance measures assess the extent to which goals and objectives are achieved. For example, in reviewing the proposed budget for municipal tax collection, decision makers may consider such measures as the number of citizens served through telephone inquiries and walk-ins, the correctness of responses to inquiries, the quality of the service given to citizens, the percentage of property tax levy collected by June 30, and citizens' overall satisfaction with the tax office. Decision makers also may consider how well the tax office is doing in comparison with a benchmark (that is, a standard) for a particular measure. Although many governments, from the local to the federal level, have at least started to gather performance data, they still do not link most measures to budgeting. The report emphasizes the importance of doing so. Performance measures are developed in line with particular goals and objectives. Therefore, if there are different goals for a particular program (such as providing services to certain clients), the budget office (such as avoiding tax increases), and the finance department (such as maintaining a particular bond rating), the performance measures used also will be different. The report recommends developing performance measures and benchmarks, and then monitoring, measuring, and evaluating program, budgetary, and financial performance, including stakeholders' satisfaction.

Under performance-based budgeting, a government incorporates goals and their associated performance measures into the annual budget process. The report recommends taking similar steps with capital improvement programs. It also recommends understanding external factors that might affect a government's ability to achieve its goals. A recent example of an external factor significantly affecting governance in North Carolina is the flooding brought on by Hurricane Floyd.

Bringing the process full circle, the report ends by suggesting periodic reexamination and change (if needed) of the broad goals that have served as the guide for all department decisions.

Principles and Subprinciples of the Budget Process

1. Establish broad goals to guide government decision-making.
- Assess community needs, priorities, challenges and opportunities.
- Identify opportunities and challenges for government services, capital assets, and management.
- Develop and disseminate broad goals.

2. Develop approaches to achieve goals.
- Adopt financial policies.
- Develop programmatic, operating and capital policies and plans.
- Develop programs and services that are consistent with policies and plans.
- Develop management strategies.

3. Develop a budget consistent with approaches to achieve goals.
- Develop a process for preparing and adopting a budget.
- Develop and evaluate financial options.
- Make choices necessary to adopt a budget.

4. Evaluate performance and make adjustments.
- Monitor, measure and evaluate performance.
- Make adjustments as needed.

Note: From National Advisory Council on State and Local Budgeting, Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting at 5 (Chicago: Government Finance Officers Association, 1998).

Accountability to and inclusion of citizens and other stakeholders are now, at least in part, responsibilities of budget officials.

The report's emphasis on communication and citizen involvement is refreshing. Being responsive to citizens' needs and interests is a fundamental responsibility of government. Elected officials, who reap the rewards or bear the costs of how effectively they perform that responsibility, know this well. Traditionally, local government line managers have focused on their assigned duties. But the trend in budgeting, perhaps in public administration in general, seems to be one of taking a broader perspective, with managers expected to work on issues outside their traditional purview. For example, accountability to and inclusion of citizens and other stakeholders are now, at least in part, responsibilities of budget officials.

Who are the new stakeholders in the budget process? The report suggests that, at a minimum, they are citizens, customers, elected officials, management, employees and their representatives, businesses, other governments, and the media. In another example of how this report goes beyond the budget office, these probably are the same stakeholders for most other government service areas. The report recommends consultation with stakeholders throughout the budgeting/governing process, and many of the specific practices suggest sharing plans, policies, and decisions with them.

A jurisdiction large enough to have both a manager and a budget officer should order two copies of this report. It belongs on the bookshelf of any city or county manager, not just on the desk of a budget officer. It provides both broad guidelines for and specific examples of good budgeting and management. The eight national associations that sponsored the report should be proud of the result of their multiyear collaboration.

Lessons in Disaster Recovery: MPA Students in Eastern Carolina

Rob Shapard

The initial cost estimate for helping restore eastern North Carolina in the wake of Hurricane Floyd was at least $6 billion in local, state, and federal funds [see the sidebar to the cover article, page 5]. Harder to measure is the total number of hours that officials from all levels of government, staffers from private relief agencies, and citizen volunteers have devoted to dealing with Floyd's aftermath. These public and private representatives have been at the forefront in meeting needs, from the most urgent, like evacuating people from flooded homes and providing food and shelter, to the more long-term, like filing federal buyout applications and helping rebuild communities.

Kaye Farmer, *Goldsboro News-Argus*

In Goldsboro the Neuse River crested at a record 28.8 feet, 14.8 feet above flood stage. The Barnyard Shopping Center, pictured above, was inundated with water.

A month after the flood subsided, a group of students from the Institute of Government's Master of Public Administration (MPA) Program spent part of their fall break as volunteers in several eastern North Carolina towns. They helped town officials with countless administrative tasks or did physical labor. They stayed in officials' homes or in facilities like Windsor's volunteer fire station and Farmville's public works building.

The idea was partly for the students to contribute to the tremendous volunteer effort the flooding had spurred. The aim also was for the students to get a taste of what public service jobs can be like after a major disaster. This article reports on their experiences in Goldsboro and Wallace and to a lesser extent in other cities.

The author covers Orange County for the Chapel Hill Herald.

Assessing Damage in Goldsboro

Floyd dumped about 15 inches of rain on Goldsboro, on top of the 10 inches that fell earlier in September during Hurricane Dennis, according to Lee Worsley, assistant to the city manager. After Floyd the Neuse River flooded neighborhoods and parts of Seymour Johnson Air Force Base. There was about four feet of water in the town's wastewater treatment plant, and the main pump station had to be shut down, Worsley said.

Worsley estimated that 30 to 35 percent of Goldsboro lies within the 100- or 500-year floodplain. By mid-November the city had identified about 250 homes with flood damage. Worsley thought the final figure would likely reach 300 to 400 homes.

Worsley put Laura Heyman and Amy Pomeranz, first- and second-year MPA students, respectively, to work in damage assessment. They spent a couple of days searching tax records for home values, then entering the values in a computer mapping program showing the locations of the homes. This step was key in determining whether homes were "substantially damaged" and thus eligible for the program under which the federal government will buy out the homeowners.

"This was a critical piece of information," Worsley said, "and at that time

Sarah Shapard

Sarah Shapard

Sarah Shapard

Above and bottom right: MPA students Ben Canada (in cap) and Daniel Newman rip up floorboards and shoe molding in a damaged Windsor house. Top right: Newman, Rob Shapard, MPA student Sarah Shapard, and Canada survey a day's worth of work.

we just didn't have any city personnel to devote to [getting it].

"We were very appreciative of all the MPA volunteers giving up their fall break," he added. "It showed a lot of courage and commitment on their part."

Heyman, age twenty-five, from Williamsburg, Virginia, currently plans to work for a grant-making foundation after she graduates. She said the trip to Goldsboro connected her to the town and reminded her that being able to serve people directly is her goal in studying public administration. "It gave me a clear vision of why I'm [in the program], which sometimes gets lost in the theory classes," she remarked.

"You can see it on TV and the news, but when you see it in person, you realize these are people's homes. It's heart-wrenching."

"You can see it on TV and the news, but when you see it in person, you realize these are people's homes," she said about the flood damage. "It's heart-wrenching. The knowledge that [the recovery] is still there and being dealt with makes pretty much everything else seem insignificant.

"They treated us like we were there to do legitimate work," Heyman continued. "The way we were treated made a place for that community in our hearts. They tried to give us the best experience we could have, and teach us as much as they could."

Worsley said that two groups of volunteers besides the MPA students have helped the Goldsboro government in its recovery tasks: electrical inspectors from Chapel Hill and Raleigh, who assisted with initial inspections; and professional engineers from throughout North Carolina, who have assessed the damage on several hundred homes so far.

"All three sets of volunteers were crucial to us being able to get through the two months after Floyd struck," he commented. "They saved us literally months of assessment time. People are in limbo—they don't know what they need to do as far as repairing their homes. The application for the buyout program was due at the end of February, so it was critical to get the assessments done.

"It makes you very thankful for people who are kind enough to donate their time and thoughtful enough to think about their fellow man and people who are in trouble and need help," he said.

Worsley himself is a 1999 graduate of the MPA Program. He went straight from school to the job in Goldsboro. Four months later he was dealing with the disaster of a lifetime. Asked why he chose local government work, Worsley replied, "After this storm, I'm not sure!" But seriously, he said, "I believe that local government has the most direct impact on a person's life. I can see the fruits of my labor much more quickly, and I can deal more directly with the citizens I serve."

Recouping Costs in Wallace

In Wallace, population 3,400, floodwaters from the Northeast Cape Fear River inundated about sixty residences and an eighty-bed nursing home, according to town manager Ken Cornatzer. The water overran facilities like the airport, softball fields, and the wastewater treatment plant. Emergency personnel evacuated residents from about 700 homes, and most of the town's roads were impassable for four or five days.

The absence of local Red Cross or Salvation Army chapters, and the difficulty that outside agencies had in reaching Wallace, meant that the town had to set up its own disaster distribution center for the first time, Cornatzer said. By November, about 5,000 residents had gone through the center for items from food to cleaning supplies to furniture. Also, the Federal Emergency Management Agency (FEMA) located a disaster assistance center in one of the town's facilities, where residents filed claims for emergency funds.

By the time the MPA students arrived, the town's costs in helping operate those two centers had reached about $60,000, Cornatzer continued. First-year student Kelly O'Brien and second-year student Andra Stoll helped verify those costs and prepare an application to FEMA for reimbursement.

"At the time they came down, we were still busy trying to get our sewage plant up and operating," Cornatzer said. He gave the students their task and let them run with it. "In a small town, you have a limited number of people who can do the paperwork that FEMA wants," Cornatzer explained. "It was very helpful to be able to turn it over to folks you didn't have to worry about from that point on."

"In a small town, you have a limited number of people who can do the paperwork that FEMA wants."

Overall, Cornatzer said, the recovery would have been "totally impossible" without volunteers. In Wallace one church raised more than $100,000 for building supplies, and another ran a soup kitchen for five weeks. Members of a third church have done the demolition work on forty flood-damaged homes and are now working on rebuilding those homes, he related.

From the MPA students' perspective, what they did was essentially one less thing for Cornatzer and other officials to do. "What we did was really valuable in letting them push something off their plates and give it to someone else," Stoll said.

Sarah Shapard

Across the street from the house where the MPA students are working, a Windsor citizen hoses flood debris off the walls and the windows of a church.

Stoll, age twenty-eight, spent two years teaching after she was trained by Teach for America (an alternative route to certification as a teacher, for liberal arts graduates). She entered the MPA Program with a goal of working further on education and community-building issues. Initially she believed that the kind of work she wanted to do would necessarily be in the private, nonprofit sector. However, her MPA experience has shown her the growing interdependence between nonprofit and local government agencies, especially in providing human services. She now sees a greater chance that a local government job would match her interests well. The situation in Wallace was a clear example of a local government's importance in providing human services, through means such as the town's disaster distribution center.

A native of Portland, Oregon, Stoll said that going to Wallace also was a good chance to get out of the classroom and out of Chapel Hill. She was reminded that "there is a lot more to life than sitting around and worrying about a paper, [and] there is so much more to this state than the Triangle. There are a lot of other communities out there that have a lot of things going on."

For Cornatzer one of the flood's key lessons is the need for longer-term disaster planning. Wallace had a very good emergency response plan for dealing with initial rescues, he said, but, after that first stage, "it was all seat-of-the-pants."

In addition, he mentioned the importance of getting out accurate information. In Wallace and elsewhere, he said, people do not necessarily see newspaper or television reports as "the Truth." They are more likely to believe "what the boys at the country store are saying when you stop to get your cup of coffee." And what those folks are saying is not always right. To address this problem, Wallace officials took steps like holding weekly meetings with local pastors, asking them to pass along updates to their congregations.

Finally, Cornatzer said, the disaster showed that "nature is not going to conform to your statistical profiles," which purport to map features like 100-year floodplains.

Elsewhere, Spending Time Well

Other MPA volunteers in eastern North Carolina were as follows:

- Jim Klingler and Andy Williams, who helped the town of Grifton with a FEMA reimbursement application and an EPA–required Consumer Confidence Report on water quality (the report was not flood related)
- Wendi Ellsworth and Fran O'Reilly, who worked in Rocky Mount's budget and permitting offices

Ed Hayden, *Goldsboro News-Argus*

Left: Ruined furniture lies in piles in the front yards of flooded homes in the Mar Mac community. Below: Ruby Vernon, 72, lost everything.

Ed Hayden, *Goldsboro News-Argus*

- Larry Di Re and Peter Ray, who volunteered in Kinston's inspections and code-enforcement office
- Sean Brandon, Caryn Ernst, Josh Silverman, and Sonya Smith, who helped with FEMA forms and damage assessment in Farmville
- Randy Harrington, Mary Martin, and Ginny Satterfield, who worked in Wilson on the FEMA buyout application
- Ben Canada, Daniel Newman, and Sarah Shapard, who removed flooring in a home in Windsor
- Catherine Clark and Emily Gamble, who created pamphlets for the Pitt County Public Information Office to inform residents on flood-recovery topics, like repairing homes and avoiding contractor fraud

Clark and Gamble saw the wide range of information that local governments like Pitt County must grasp and relay to citizens. They also glimpsed the flood damage in that area.

Clark described the scene that she and Gamble saw one afternoon while taking photographs of storm debris: "[There were] absolutely incredible amounts of home furnishings piled in the yards, and the neighborhoods were deserted. There were many empty cars still covered in mud, and all the doorways were marked with spray-painted orange X's to show that the house had been visited by the inspector and deemed unsuitable for occupancy."

Canada, Newman, and Shapard helped pull up the oak floorboards of a Windsor home that had been swamped by about three feet of water. The floor looked fine, but water damage was hidden underneath.

"I wanted to help, but I also wanted to do something that was a break from my routine, and ripping up floorboards was definitely a break from my routine," Canada said.

For Newman, a highlight was seeing many of Windsor's 2,400 residents helping one another recover from the flooding, which damaged about 70 downtown businesses and 130 homes. "It was nice to see them bonding," Newman commented. "It was reassuring about the human spirit."

Di Re spent part of his time in Kinston entering data from city inspectors' reports, and he was glad to do it. But what he found even more gratifying was helping citizens who came in with all kinds of questions. "That, to me, was better than just sitting behind a keyboard," he said.

Di Re is aiming toward work on the environmental management side of local government, possibly in water or wastewater services. In Kinston he found himself thinking that in a way the flood was an opportunity for towns to redesign and rebuild facilities like treatment plants for the better.

As Williams described his experience in Grifton, "It brought me closer to ground level." His point was that he got a better view of what city government work can be like. "Grifton Town Hall was the first place people were turning to, from what I could tell," Williams said. He saw that town manager Paul Spruill's job was obviously one with different challenges each day, major disasters or not.

With classes back in session in November, the director of the MPA Program, Stephen Allred, spoke proudly about the students' volunteer efforts. "When people apply to the program, they talk about their commitment to public service, and we believe them," Allred said. "What's gratifying about this undertaking is that it shows they really are committed to that service.

"It's pretty remarkable to get half of a class to give up their fall break to go down and help out people they don't know and may never see again," he added.

Actually the MPA volunteers might see those people again if they take a local government job in eastern North Carolina after graduation. They would definitely be dealing with some of the same issues. As Worsley said, "This disaster is just beginning. I think you're going to see the effects for years to come."

Three Join Institute Faculty

Phillip Boyle

William Rivenbark

Jessica Smith

Phillip Boyle

Phillip Boyle joined the Institute of Government in August 1999 as an associate professor of public management and government. He will teach, consult, and write in the areas of democratic governance and organizational development for school boards and superintendents. He also will teach political and public administration theory in the Master of Public Administration (MPA) Program at the Institute. Boyle is particularly interested in what the roles and responsibilities of leaders are in different types of organizations, and how citizens, elected officials, and community leaders participate in and learn from democratic governance.

Before joining the Institute, Boyle taught in the Master of Science in Management Program at Regis University, the Center for Management Development at the University of Denver, and the MPA Program at the University of Colorado at Denver. He has extensive experience in issues related to human resources, having served as a consultant on personnel issues for the city and county of Denver and having worked for several years in the U.S. Department of Health and Human Services.

Boyle received a B.A. in 1976 from Monmouth University, an M.S. in social policy and administration in 1980 from Columbia University's School of Social Work, and a Ph.D. in public administration in 1997 from the Graduate School of Public Affairs at the University of Colorado at Denver.

William Rivenbark

As of July 1, 1999, William Rivenbark is the new director of the North Carolina Local Government Performance Measurement Project, a program developed for cities and counties to use in measuring and assessing their performance and comparing the results across jurisdictions. Rivenbark also will provide technical assistance to local government, conduct applied research, and teach courses for local government officials and students in the MPA Program.

Rivenbark comes to the Institute from Greenville, South Carolina, where he served in various management positions, including finance director. His areas of specialization include public budgeting and finance, performance measurement, and local government administration. He has done research on such topics as taxation policy and governmental accounting. Among his publications are articles in *Public Administration Quarterly, Public Finance Review,* and the *International Journal of Public Administration.* From July 1997 to June 1998, he served as president of the South Carolina Upstate Chapter of the American Society for Public Administration.

Rivenbark earned a B.S. in business administration from Auburn University in 1989, an M.P.A. from

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Auburn University at Montgomery in 1993, and a Ph.D. in public administration from Mississippi State University in 1995.

Jessica Smith

Jessica Smith joined the Institute faculty in January of this year and will specialize in criminal law and procedure. Her interests also include appellate litigation and judicial administration. Initially she will work part-time, assuming full-time responsibilities by summer 2000.

Smith has experience in both criminal law and appellate litigation, having served as law clerk to Judge W. Earl Britt of the U.S. District Court, Eastern District of North Carolina, and Judge J. Dickson Phillips, Jr., of the U.S. Court of Appeals for the Fourth Circuit. She also worked for a private law firm in Washington, D.C., specializing in litigation and dispute resolution. While employed by this firm, she assisted the Council for Court Excellence, a nonprofit group working on local court reform. Her publications include a recent article in the *University of North Carolina Law Review* advocating interjurisdictional certification (procedures that allow federal courts to obtain answers to questions of state law from a state's highest court) in North Carolina.

Smith earned her B.A. in 1987 from the University of Pennsylvania and then did her law studies there, receiving a J.D. in 1992. In law school she was the managing editor of the *University of Pennsylvania Law Review*.

—*Jennifer Henderson*

Institute Construction Moves Forward

The Institute's old parking lot is transformed as trenches and walls begin to form the outlines of a new classroom wing, a galleria, and a two-level parking deck.

Mounds of red clay and yards of concrete, rebar, and lumber retaining walls are rising from the Institute of Government's construction site. Since early January of this year, the general contractor, Richard Beach Builders, has been digging and pouring footings for the new dining and library wing, the central courtyard, and the colonnaded front entrance along South Road leading into the university. In February, footings were started on the southwest side, where a three-story skylit galleria, a new classroom wing, and a two-level parking deck will be located.

Once the footings are complete, the concrete first-level walls and columns will be formed and placed. Also, the plumbing contractor, Acme Plumbers, will begin to install sanitary, storm, and water systems in both areas. The mechanical contractor, Watco Corporation, has been coordinating underground piping installation, and the electrical contractor, L. L. Vann Electric, is starting to lay out ducts and install conduits for wiring.

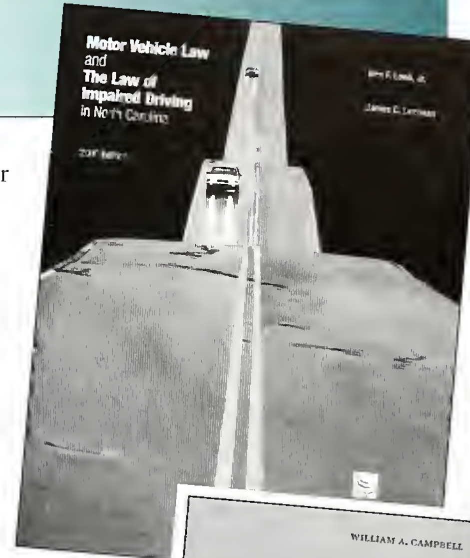
The Institute continues to work on raising the remaining $4 million needed to ensure complete construction, furnishing, equipping, and landscaping of the newly renovated and expanded building. We appreciate the help of many friends, colleagues, clients, and students from across the state who already have contributed. To date, more than $120,000 has been pledged to fund the Nannette Mengel Garden in the central courtyard. Additional gifts recognize the contributions of individuals and professional organizations that work closely with the Institute.

Also in progress is a three-year $900,000 campaign launched in 1999 by members of the North Carolina League of Municipalities and the North Carolina Association of County Commissioners to name a classroom wing of the building in honor of the sixty-nine-year partnership between North Carolina's local governments and the Institute.

With the existing building doubling in size, many opportunities are available to recognize permanently the past or present public service of individuals, organizations, and businesses. Special naming gifts or outright gifts may be made to the Institute of Government Foundation's capital improvement fund. Please contact Ann C. Simpson at the Institute for more information: phone (919) 966-9780; e-mail simpson@iogmail.iog.unc.edu.

—*Ann Simpson*

Off the Press

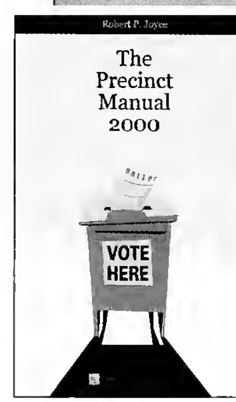


Motor Vehicle Law and the Law of Impaired Driving in North Carolina
Ben F. Loeb, Jr., and James C. Drennan
2000 edition • $16.50

Discusses and analyzes North Carolina motor vehicle offenses, including the criminal penalties, driver's license penalties, and insurance points for each offense. Part 1 of the book deals with the most prevalent offenses. Part 2 outlines the impaired-driving offenses and discusses related matters, such as chemical testing for alcohol, vehicle forfeiture, and revocation of licenses because of impaired driving. An appendix lists the punishments for most motor vehicle offenses, including ones that are not discussed in Parts 1 and 2.

North Carolina City and County Privilege License Taxes
William A. Campbell
Fifth edition, 2000 • $14.50

Explains the basic features of the privilege license tax and the powers of cities and counties to levy and enforce collection of the tax; also presents a section-by-section analysis of Schedule B of the Revenue Act. An appendix contains a model administrative ordinance for use in levying the tax.



The Precinct Manual 2000
Robert P. Joyce
$8.00

Offers a basic introduction to the law governing administration of elections. Published every two years and used by precinct registrars and judges, the book explains North Carolina law on registering voters, conducting elections, counting ballots, and other matters of concern to precinct officials. A preview of the table of contents, the introduction, and the 2000 election schedule is available in PDF format on the Institute of Government's Web site at http://ncinfo.iog.unc.edu.

Recent Publications

A Practical Guide to the Liability of North Carolina Cities and Counties
Anita R. Brown-Graham
1999 • $45.00*

An Introduction to the County Jail
Stevens H. Clarke
1999 • $15.00*

Public School Volunteers: Law and Liability in North Carolina
Ingrid M. Johansen
1999 • $16.00*

County Salaries in North Carolina 2000
Compiled by the MAPS Group for the Institute of Government
March 2000 • $30.00*
Also available in PDF format on the Institute's Web site.

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JAMES MADISON
The Federalist, No. 10

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