

REPORT OF THE

**Municipal Government
Study Commission**

NORTH CAROLINA GENERAL ASSEMBLY

Municipal Government Study Commission

Honorable Luther H. Hodges
Governor of North Carolina
Raleigh, North Carolina

November 1, 1958

Dear Governor Hodges:

The Municipal Government Study Commission herewith transmits its report containing conclusions and recommendations with respect to municipal government in North Carolina.

This Commission was established in accordance with the provisions of Joint Resolution No. 51 of the General Assembly of 1957. Soon after our organization we arranged with the Institute of Government of the University of North Carolina to provide research assistance for the Commission. In addition, we have made a concerted effort to obtain the views and opinions of all municipal officials and the officials of other public agencies concerned with the problems of municipal government, growth and expansion.

For example, through special study sessions and through questionnaires, we have received the views and opinions of hundreds of municipal officials directly representing more than 80 percent of the State's municipal population. Furthermore, we have consulted with and heard from the staff of the North Carolina League of Municipalities which represents all of the cities and towns in the State. We have consulted with representatives of the State Association of County Commissioners, the State Highway Commission, the State Stream Sanitation Commission and the Local Government Commission. And throughout the year we have maintained close liaison with the various other study commissions concerned with matters directly or indirectly affecting municipal government or urban growth.

From these conferences and meetings and from our own research we think we have developed some insight into the problems facing municipal governments in North Carolina, as well as the problems that urban development in general poses for the State. It is our hope that our recommendations will materially assist North Carolina municipalities and counties in better meeting the tasks before them, and we urge their adoption.

Respectfully,

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Introduction

This Commission was established under the provisions of Resolution 51 of the 1957 General Assembly. Section 2 of that resolution generally defined the scope of the Commission's assignment in the following language:

Sec. 2. It shall be the duty of the Commission to make a detailed and comprehensive study of the problems of municipal government in North Carolina which may include, but shall not be limited to, a study of the following:

(a) The procedures, powers and authority which are granted by the General Assembly and are available to municipalities that govern and limit the ability of municipal government to provide for orderly growth, expansion and sound development.

(b) The governmental services and functions provided and the increase or additional services and functions needed to meet the requirements for orderly growth, expansion and sound development of cities and towns and the capacity of municipal government to finance such services and functions.

This description of purpose is broad and the time available to make and complete our study was limited. Thus it became necessary at a relatively early stage to impose certain limitations on the scope of our work. It seemed obvious to us that the General Assembly was more interested in the role that municipal government should play in providing for "orderly growth, expansion and sound development" than in the equally complex problems of administering municipal government. Accordingly, we decided to concentrate our attention on the specific problems mentioned in subsections (a) and (b) of Section 2 of the resolution.

Since ability to finance extension of adequate urban services is essential to effective extension of services for "orderly growth, expansion and sound development" of cities and towns, this problem received initial emphasis. In view of the complexities of municipal finance and the limited time available, we asked the Institute of Government, which had been retained to provide research assistance, to undertake the following types of financial studies:

1. A general examination of the municipal

revenue and expenditure pattern in North Carolina based on information available from State agencies and from brief supplementary questionnaires submitted to all cities in the State.

2. An intensive study of 22 cities representative of North Carolina municipalities with respect to size, population, geographical location, economic activity, property valuation, and rate of growth.
3. A general analysis of the municipal tax and revenue structure in North Carolina in comparison with the municipal tax and revenue structure in other states.

Financial data on all cities in the State were obtained from information on file with the Department of Tax Research, the Local Government Commission, and the State Highway Commission. More than 250 cities and towns further cooperated through completion of supplementary questionnaires on specific aspects of municipal finance.

After examination of the cities and towns having a population of 2,500 or more and consultation with the staff of the League of Municipalities, the following 22 cities were chosen for intensive study:

Asheville	Mooresville
Burlington	Morehead City
Charlotte	Morganton
Dunn	Mount Airy
Forest City	New Bern
Greensboro	Rutherfordton
Greenville	Scotland Neck
Henderson	Statesville
Jacksonville	Wadesboro
Laurinburg	Wilmington
Leaksville	Winston-Salem

Detailed questionnaires covering the financing of operations in these cities since 1950 were completed by each of these cities. We are most grateful to the officials in these cities for their warm cooperation in providing the desired information.

When all of this information had been compiled and analyzed, officials from the 22 "case study cities" and officials from all other cities having representatives on the executive and legislative committees of the League of Municipalities were invited to a meeting in Chapel Hill on July 22-23, 1958. At that time approximately 85 elected and appointed officials from 32 municipalities met to-

gether. On July 22 they were given a complete briefing on the analysis prepared for the Commission by the research staff and had an opportunity to make suggestions for corrections and changes in this analysis. On the following day, this Commission divided into three subcommittees, meeting respectively with officials from (1) cities over 25,000 in population, (2) cities of 10,000 to 25,000 in population, and (3) cities and towns of less than 10,000 population. In each subcommittee meeting, Commission members and city officials discussed informally, frankly and comprehensively the problems in financing municipal services. The views expressed and information secured in these meetings have been of inestimable value in our work.

North Carolina is becoming an urban state and the period of transition will be crucial for the welfare of every North Carolinian. Thus, once having set in motion the study of financing municipal government, we turned our attention to the role that State and local governments must play in seeing that the State passes through this period of transition without loss of those qualities which now distinguish North Carolina as a good place to live. We therefore asked the research staff to develop the following information:

1. An analysis of the population growth that could be anticipated in our cities during the next twenty years in relation to the estimated population growth in the State as a whole.
2. An analysis of the governmental services that are considered to be essential in urban areas, whether or not such areas are located within incorporated municipalities.
3. An analysis of the problems that arise when adequate municipal services are not made available in urban areas when and where they are needed.
4. An analysis of the methods by which local governments may anticipate and prevent these problems.

A wealth of information was available. We have profited from studying the experience of countless cities and metropolitan areas in other parts of the country which have documented their problems in meeting rapid urban growth. We have profited from a study of the solutions to the problems of urban development which have been attempted in other states. And we have given special attention to the experience of North Carolina cities.

In addition to many special studies and analyses already available from several State and local agencies, we have received a gratifying response to two questionnaires sent to all cities and towns in the State.

Furthermore, we have benefited greatly from special insights into the problems of urban development revealed by our financial studies, particularly in the "case study cities."

Throughout the study, we have sought the opinions and views of the League of Municipalities and of State officials having direct or indirect contacts with city government. These officials gave freely of their time and their contributions were in every sense constructive.

Furthermore, we established and maintained close liaison with other State commissions having responsibilities for studying different aspects of State and local government. In particular, helpful exchanges of information were made with the Tax Study Commission, the School Finance Study Commission, and the Constitutional Study Commission.

This procedure has resulted in the collection of a great deal of information, much of it new and calculated to promote greater understanding of the problem of governing urban areas. In order that legislators, city officials and interested citizens throughout the State might have advantage of the information and analysis relied upon by this Commission, we have encouraged the staff of the Institute of Government to prepare the principal materials collected for us for publication. These publications should be available in advance of the 1959 legislative session.

This report contains two principal sections. The first defines the problem of future urban development in North Carolina, so that the problem of securing "orderly growth, expansion and sound development" can be viewed in proper perspective. It also contains our analysis of the powers presently available to cities and counties in North Carolina to meet the manifold problems arising from rapid urban growth, and our recommendations for legislative action to supplement those powers. The second part of the report contains our analysis of the ability of cities and towns to finance adequate municipal services and our recommendations for strengthening municipal tax and revenue systems.

1. Orderly Growth, Expansion And Sound Development

A. Growth Trends and Development Patterns

1. *Reasons for Growth.* The key phrase in our study has been, of course, the manifold considerations of "orderly growth, expansion and sound development" in the context of municipal government. This means the problem of development in and around cities, or to use the common phrase—urban development.

Urban development occurs because all of the complex functions of an industrial society can be more efficiently administered where the major elements of economic activity are in close relationship. Historically North Carolina has been an agricultural state with small cities which have served chiefly as retail centers, but in which the importance of manufacturing has been steadily increasing. Now, as the State moves toward the status of an industrial state, it must also move toward the new status of an urban society better organized to service an industrial economy.

Thus the problems of government in a rapidly urbanizing area are not problems isolated from the economic development of the area. They are, in fact, closely connected with the process of economic development.

We cannot treat or explain all of the factors that encourage urban development in a society that is becoming industrial. We are not even sure that the process of urbanization in North Carolina will follow the same pattern that it has in other states. But it is important to touch upon a number of the factors.

First of all, what are some of the conditions that must be present to attract new industrial development and how do they relate to the locations chosen by industry?

There must be a good supply of vacant land in the vicinity of good highway and railway systems.

The movement from high loft industrial structures to spread-out, one-story structures, coupled with the need for ample parking space for employees, has put renewed emphasis on the availability of quantities of land located suitably in relationship to both highway and railway facilities. The transportation system must provide the link between the enterprise, raw materials, markets, and employees.

There must be easy access to raw materials. There must be markets, either close at hand or easily available.

There must be ample numbers of skilled and intelligent persons available as employees.

What constitutes a good and dependable labor supply may differ in North Carolina from other parts of the country. The tradition of small farmers employed in industry and working their farms at the same time, in a state served by a good highway system, puts less emphasis on workers centered in the metropolitan area than in other states.

There must be good local governmental services that can be extended to proposed sites, including in particular an ample supply of water and a means for waste disposal.

This factor varies in relation to the type of industry. So-called "wet" industries are greatly dependent on water. Other industries may not use or require more than incidental supplies of water and locations for such industries may not be dependent on access to good utility systems.

There must be plentiful electric power.

There must be a fair and equitable tax structure in the state, considering the total impact of both state and local taxes.

The community must be attractive and conveniently arranged, containing good schools and good recreational and cultural facilities, with a high quality of civic and business leadership.

Insofar as the attraction of industry from out of state is concerned, this factor is becoming more and more important. It is continually emphasized both by industrial representatives and those seeking new industrial development.

While some or all of these conditions can be met in rural areas or in small towns, they are more likely to be met in larger towns and cities. Furthermore, industries often seek locations in and around cities where similar types of industries and processing firms are situated. The consumer and business services that have come to be such an important part of the American standard of living tend to locate in cities, and the existence of these services may frequently affect industry location decisions.

Thus it is that new jobs in a community lead to new homes, new schools, new churches, and new

businesses to serve the new market. These new people may come from out of the state, but more likely they migrate from other areas inside the state. And increased industrial development encourages a steady movement of population from the rural counties, where there are too few new jobs to meet the demands of an increasing population, to those counties where new jobs in industry are available.

In summary, urbanization is the logical consequence of industrialization. North Carolina cannot have industrialization without increasing urbanization, and it cannot have increased industrialization unless our urban communities can compete favorably in every way with communities in other states. The pattern of urban development in North Carolina may, at least initially, be scattered to a greater degree than in other states. But on the whole it is probable that it will, certainly over a period of time, be concentrated in and around our cities and towns.

2. Anticipated Urban Growth. "Urban growth and development" necessarily imply a concentration of people living in close proximity to one another. If we are to evaluate the impact of urban development on North Carolina, we must have some idea of what this development means in terms of population growth in and around cities.

Fortunately there are well-established procedures for estimating population growth. Insofar as the economic trends and the patterns of births, deaths and migration habits on which these estimates are based continue without significant change, these estimates have proven quite reliable. On the other hand, if industrial development accelerates in this State, the estimates with which we have been provided may actually *understate* the population growth and concentration which this State will experience during the next twenty years.

The estimates used in this report are based on studies being carried out by the U. S. Bureau of the Census, by population authorities in our universities, and by planners in our North Carolina cities.

The population of North Carolina in 1957 was estimated at 4,469,000, or an increase of about 10% over the 1950 population of 4,061,929. At this rate, and taking into consideration current trends in births, deaths, and rate of migration from the State,

the State's population will exceed five million before 1970 and will probably exceed 5,750,000 by 1980. In relation to urban development, the problem is where all of these additional people will live.

In 1930 one out of every three North Carolinians lived inside the corporate limits of a municipality. This percentage climbed to 37% in 1950, is now estimated at 42%, and is calculated to reach 44% by 1960, 52% in 1970, and 60% in 1980. In other words, it is probable that all of the anticipated population increase in the State between now and 1980, plus another quarter of a million people now living in rural areas, will in 1980 be living in urban areas and perhaps within the corporate limits of incorporated municipalities in North Carolina.

This estimated growth may be viewed in a slightly different way.

In 1950 the cities and towns having a population of more than 10,000 contained 23% of the State's population. Today they contain an estimated 28% of the State's population. If present trends continue, they will contain 39% of the State's population by 1970 and 46% by 1980. (See Table 1, page 7.)

At the same time, where in 1950 there were just thirty cities and towns having a population of more than 10,000 and just ten having a population of more than 25,000, it is estimated that:

In 1960 fifteen cities will have a population exceeding 25,000, and 35 will exceed 10,000.

In 1970 twenty-two cities will have a population exceeding 25,000, and 45 will exceed 10,000.

In 1980 twenty-five cities will have a population exceeding 25,000, and 50 will exceed 10,000.

These figures suggest that the larger towns are growing at a faster rate than the smaller towns. Considering cities by groups, this is not true. As Table 2 demonstrates, the distribution of population growth in cities and towns grouped by size has remained generally even since 1930. But the significant point is that while the population of the State as a whole has been increasing at a rate of about 10% every ten years, the population of all municipalities has been increasing at more than double this rate.

At least one and a half million more people will be living in our cities and towns in less than a quarter of a century. Hundreds of thousands of acres of agricultural land will be subdivided to make homes for these people, to build manufac-

turing plants and shopping centers, to provide space for schools and churches and recreational areas. More highways are to be built, more water must be impounded and distributed, and more industrial and domestic waste must be treated if our streams are not to be polluted.

TABLE 1

North Carolina Municipal Population: 1930-1957

	1930	1940	1950	1957
Total State Population (000)	3,170	3,572	4,062	4,469
Total Municipal Population (000)	1,071	1,246	1,521	1,881
Percent Municipal Population of Total State Population	33.8	34.9	37.4	42.1
Population in Places over 10,000 (000)	593	740	952	1,238
Percent Total State Population in Places over 10,000	18.7	20.7	23.4	27.7

Note: Populations are those reported by the Census, except for 1957 which are estimates, and cover all municipalities with active governments as of 1957.

The State's municipal population is growing at an increasing rate. Between 1930 and 1940 the increase was 16%; between 1940 and 1950 it was 22%; and between 1950 and 1957 it is estimated at 23%.

Consider the probable impact in just one area. The four-county area surrounding Winston-Salem, Greensboro, High Point, Thomasville and Lexington had a population of about 450,000 in 1950. Conservative estimates indicate that the same four-county area will have a population of between 900,000 and one million in 1980. What will this area look like in 1980? Will it continue to be a

TABLE 2

Distribution of North Carolina Municipal Population: 1930-1957

Population Group	Percent of Total Municipal Population				Change in Percent of Population 1930-1957
	1930	1940	1950	1957	
Over 100,000	7.7	8.1	8.8	8.6	.9
50,000-100,000	25.1	23.9	23.2	22.5	-2.6
25,000-50,000	9.7	9.2	9.7	9.6	-.1
10,000-25,000	18.8	20.1	21.0	21.0	2.2
5,000-10,000	10.1	10.8	10.8	11.0	.9
2,500-5,000	8.4	8.5	8.3	8.9	.5
1,000-2,500	11.8	11.5	11.1	11.2	-.6
Under 1,000	8.5	8.0	7.1	7.2	-1.3

Note: All municipalities are grouped according to 1950 populations for each year. Thus the same cities are in each group for all years listed. Populations for 1930, 1940, and 1950 are those reported by the Census. Estimates by the municipalities or by the Institute of Government were made for all municipalities for 1957.

pleasing combination of medium-sized cities and towns separated by stretches of beautiful farm and recreational land? Or will it become a sprawling urban area that has gobbled up the open space in subdivisions, factories and stores? How can the city and county governments involved prepare themselves to handle this tremendous growth in population without sacrificing those features which make the area attractive to continued development today?

These are the questions which must be answered.

3. Probable Patterns of Urban Development.

Answers to these questions may depend on some factors which are not reflected in the population estimates. One and a half million more people may be living in urban areas in 1980 without living in and around the cities and towns that we know today. Thus we cannot assume that all our cities and towns will continue to grow in a regular pattern—out from the center. If they did, the problem of accommodating increases in population would be much simplified. Rather North Carolina must face the possibility of exaggerated and wasteful patterns of new land development, similar to the patterns found in other fast-growing states. If new development scatters between cities and towns, rather than taking place around cities and towns, the problem of accommodating increases in population will be intensified.

Today North Carolina is still a state with relatively small and independent cities and towns. But here are some of the factors, present to some extent today, which may in the future have an impact on the pattern of urban development in each and every section of North Carolina.

(1) Because North Carolina has been, and still is, predominantly a rural state, a larger than usual proportion of North Carolinians still live on the farm and commute to industrial jobs in town.

(2) A good system of roads has encouraged people to live away from town, to get "open space and fresh air," and the location of the interstate highway system, connecting the major urban centers, will encourage this movement.

(3) Many new industries, especially those which do not require municipal utilities and services, are seeking rural locations because a commuting labor force is available and because land costs are lower. Other new industries are locating in rural

areas and contracting for certain services from nearby municipalities.

(4) Development today requires a great deal of land. Industries and commercial establishments need land for now-popular one-story buildings, for shopping centers, and for parking. Residential developers want more land for large subdivisions, and notably, larger lots.

(5) Many industries, commercial enterprises, and home owners settle in the rural areas initially to get away from municipal taxes. Yet they are often the first to demand municipal-type services.

In short, despite the effort of some cities and towns to encourage development within or near their borders—for example, by refusing to extend water and sewer services unless those desiring such services agree to be annexed to the city—there are many factors at work which may, in the years to come, spread industrial, residential and commercial development throughout the rural areas between cities, rather than in the immediate vicinity of cities.

B. The Problems of Growth

The very existence of this Commission confirms the conclusion that urban development brings problems as well as benefits. What are these problems? What must North Carolina seek to avoid as it becomes an urban state?

We do not have to look beyond our borders to get tangible suggestions of what may happen, even though no urban area in North Carolina has suffered the serious consequences similar to those imposed by rapid and essentially unplanned development in this country's older metropolitan areas. The following problems are suggestive of those which may develop in periods of rapid growth.

In periods of rapid growth, people tend to build and to develop land in such a way that minimum standards of health, safety and welfare are often not met.

Item: Congested residential development with septic tanks, rather than public sewer systems, may overload the land and lead to the pollution of water supplies.

Item: Construction without attention to building standards may result in houses, stores, and other buildings which are unsafe, or are fire hazards, or are threats to the public health.

Item: A combination of small lots, inadequate streets, unsafe or otherwise inadequate standards of construction, and a helter-skelter mixture of land uses may produce areas which become slums at the very time of development.

Failure to coordinate the size and location of new streets in rapidly growing areas, plus failure to plan for and construct major traffic arteries serving both new development and the central city, may lead to a street and highway system completely inadequate to handle traffic.

Item: Inadequate street planning in newly-developed areas may later require expensive new construction to move future volumes of traffic.

Item: Failure to provide major traffic arteries from suburban areas to shopping and labor centers may discourage new industrial development and growth in retail trade.

Failure to develop water systems to keep pace with population growth may seriously hamper future economic development. New factories and new homes require water at a reasonable cost.

Failure to provide for effective disposal of industrial and domestic wastes may lead to stream pollution and thus either discourage future industrial development or destroy land values at and below the point of pollution.

Failure to consider the needs of industry and business for large areas of land suitably located near transportation facilities may lead to hazardous development of land for other purposes, thus destroying many of the best potential sites for industry and business.

Item: Mixed residential, commercial and industrial land uses, stretched out along highways leading into our cities, may overcrowd the highways and discourage industrial and commercial development that seek both land and protection from other competing land uses.

Failure to establish sound public services in rapidly growing areas outside city limits may lead to unattractive neighborhoods which reflect on the reputation of the entire city.

These problems are only suggestive. They are not all found in every urban area, but neither is any urban area completely free of them. They are not as aggravated in this State as in some other areas of the country, but they are serious nonetheless. As yet this State has made no concerted effort to avoid these problems wherever they arise, although some individual cities have made notable progress—largely within their corporate limits.

C. Considerations in Reaching a Solution

We agree that these problems must be met before they become critical. We agree that there is a vital public interest in the sound development of our urban areas and of communities throughout the State. We agree that unless North Carolina can avoid the worst features of urban development, the future economic development of the State can be placed in jeopardy.

At the same time it is no easy task to suggest a comprehensive program designed to assure sound development. The process of growth is complex, and the forces which contribute to the economic potential of any given community are not and cannot be confined within the boundaries of a single local political unit. Thus our recommendations will be constructive only insofar as they recognize and make use of the realities of both economic activity and the political structure of the State.

At this stage some definition of terms we shall use frequently will be helpful. Every city and town in North Carolina is the economic and social hub of an urban area starting at the central business district and moving outward to rural and sparsely-developed areas where it meets, at points hard to define, the outer boundaries of neighboring urban areas. The legal boundaries of cities and towns seldom encompass the full extent of this area.

... We use the terms "urban community" and "community" to refer to the entire urban area of which the city is the center.

... We use the terms "city" and "town" to refer to the incorporated municipality which is generally the most intensively developed part of the larger urban area or community.

This simple distinction would not be realistic in most states where a single urban area may include many incorporated cities and towns. In general, however, it can be properly made in this State.

1. **Planning.** It has been revealing to us to observe that almost every problem arising from urban growth could have been avoided by the application of plain everyday common sense on a community basis. Experience has told us vividly what is going to happen if we do not follow certain simple ground rules in building a community. We pride ourselves on being rational, hard-headed exponents of a free enterprise economy, and yet we will per-

mit things to happen in the development of our communities that we would never think of permitting in our businesses.

We must grant that there has, as yet, been too little willingness on the part of our communities to seek out, to understand and to apply the experience of other urban communities throughout the country. In large measure this may be attributed to a failure to understand that economic growth and urban development may cause community damage as well as produce community benefits.

Most of our larger cities and towns have, in the past decade, recognized that sound development does not just happen. Many of them have initiated planning programs and put into effect such measures as subdivision and zoning ordinances which are designed to make planning effective. We applaud these efforts as far as they go. But we think that they are at present inadequate. A look at the essentials of good planning programs will show why we think so.

a. **What is planning?** Community planning is nothing more than the process of looking ahead to the end that the community will use all its resources in the most effective manner to encourage the type of growth and development that people in the community desire. This process must necessarily be a representative process that brings together the differing points of view in the community and focuses them on common objectives that a majority of the people in the community endorse.

The heart of any good planning program lies in the asking of tough questions, collecting the information necessary to answer them, and then implementing the answers.

(1) What is the economic base of the community and how can it be strengthened? What sort of industries should be sought to diversify the economy? How does the community stand in terms of meeting the requirements industry looks for in seeking new locations?

(2) What population growth can the community anticipate during the next five, ten or twenty years? What is the community's ability to absorb this new population in terms of housing and public services?

(3) How is land in the community now being used? What steps can be taken to insure that new development will take place in locations that will insure an attractive and convenient community? Where are the most desirable lo-

cations for new industry and how can we insure that these will be reserved for industry? Where are the best sites for new homes, and how can the community guarantee that these will become and remain desirable residential areas?

(4) Are present public services and facilities adequate to meet the needs of the present population and the demands of future population growth? Must the water supply system be expanded for both industrial and residential demands? Is the sewerage system adequate? Can the street system handle present and anticipated traffic volumes?

(5) What minimum standards should be adopted to insure that future development meets minimum standards of health and safety? Should septic tanks be permitted as a means of waste disposal? If so, under what conditions? Should new homes be required to have access to a public water supply? Under what conditions?

(6) What are the community's needs in terms of new schools, recreational facilities, and transportation facilities? How can these needs be met?

b. Who plans? Planning is not a process which can be turned over completely to persons who are technically trained. Planning involves choices and decisions which should be made by representatives of the entire community. Technical assistance is desirable, however, in the collection of the information and in interpretation of much of the information. Even so, no community should fail to initiate a planning program just because technical assistance is not easily available. Much of the job can be done by local residents.

Because people disagree as to what constitute desirable objectives, the choices and decisions can be effectively made only through the governmental process. It follows that, under a democratic form of government, the decisions that involve governmental action to support community objectives must be limited to actions which are necessary in the public interest and for public health, safety and welfare.

c. How are plans carried out? Once people in the community agree on community objectives and actions necessary to meet those objectives, then these decisions can be put into effect through the use of several governmental devices, other than the basic and most important approach of transmitting full and complete information supporting these decisions to the public.

(1) Subdivision ordinances to make sure that streets are wide enough and located properly, that satisfactory provisions for good quality water supply and sewage disposal have been made, and that provisions have been made for the runoff of surface water.

(2) Zoning ordinances to make sure that industrial buildings will be constructed on sites suitable for factories, that commercial buildings and shopping centers will be located where they will be of maximum convenience to people and of maximum profit to their owners, that residences will be properly located with respect to all community facilities, and that all new structures will meet minimum standards of health and safety as to location.

(3) Building ordinances to insure that all buildings conform to minimum health and safety regulations.

(4) Utility extension policies to insure that water and sewer systems are developed and extended to areas which require such systems.

It bears emphasizing that planning must be done before these devices are put into effect. We have found that a number of North Carolina cities and towns have zoning ordinances and subdivision ordinances without any planning program. We believe that this procedure puts the cart before the horse.

Effective planning must be carried on throughout the area where urban development is taking place or is about to take place. Planning that stops at a city's boundary line is bound to be incomplete. In this connection, we have found:

(1) That most new development is taking place outside of North Carolina's cities and towns.

(2) That little or no planning is taking place with respect to new development outside of cities and towns.

(3) That the problems associated with unsound development are most frequently found in the newly-developed areas outside of cities and towns.

Effective planning cannot be a one-shot effort. It must be continuous. Plans, once adopted, must be periodically re-examined and, where necessary, changes must be made in the policies and ordinances which are in effect to carry out these plans.

Because planning inevitably leads to hard decisions by governmental units and agencies, decisions on which there can never be full agreement,

opposition to particular plans or particular policies or particular ordinances should not lead to abandonment of the planning program. Conflicts are inevitable when efforts are made to determine desirable community goals. Our system of local government gives us the machinery to resolve these conflicts and to reach these decisions in a democratic way. This is why the making of such decisions must be part and parcel of the local governmental process.

In summary, we are agreed that orderly growth, expansion and sound development can come about only through the efforts of local communities. We believe that hard-headed planning must be an essential part of the local governmental process, and that it must extend to all areas undergoing rapid development, not just to those areas already inside municipal boundaries.

So believing, we must determine what governmental units should have these responsibilities. Cities already have them; counties in general do not. The question we face is whether it is practical to vest in cities the major responsibility for insuring sound urban development throughout the urban community or whether this responsibility must be shared by the counties. The answer to this question depends upon the role that city governments can play in the whole local development process.

2. Urban Land and Municipal Services. It has been suggested that solution of these problems would be easy if we could make cities the sole local governmental unit responsible for problems of urban development. To propose such a solution is easier said than done.

Our traditional concept of city government is that it provides a package of governmental services to residents within its borders, a package that is needed where people live in close proximity to one another. When a city expands its boundaries, either to take in developed land or land ripe for development, it must be prepared to provide services of a quality needed where population density is relatively high. And if the land taken in does not receive such services, at the time of annexation or very shortly thereafter, the impact of municipal taxes discriminates against the landowner.

Therefore, what we need and do not have is a clear definition of the difference between areas

which require municipal services and areas which do not. There is some competent evidence to suggest that the average population density justifying the need for municipal services is from one to two dwellings per acre, or from four to eight persons per acre. Leaving aside for the moment the other factors involved in defining land which needs municipal services, or municipal government, this average population density standard can be supported on these grounds:

(a) The septic tank system of sewage treatment usually breaks down when development exceeds an average density of two homes per gross acre. In good absorbent soil, septic tanks may work satisfactorily up to three houses per acre; in average soil they may work satisfactorily at the average density; in poor soil, two households per acre will discharge more waste than septic tanks can handle. Furthermore, septic tanks which work satisfactorily when just a few acres are developed may break down when larger areas of land are intensively developed.

(b) A water distribution system can be constructed and financed in an equitable manner in areas where the average density of development is one house per acre or more. Local conditions may cause variations, but it is generally uneconomical, under present service charge methods of financing, to construct either water or sewer systems or both throughout large areas where the average density of development is one house per acre or less. Where residents of such sparsely-developed areas are willing to pay the extra cost, no problem is encountered. But the larger urban community should not be permitted, as a general rule, to subsidize systems in such sparsely-developed territory.

(c) A high quality of fire protection is possible only where there is a public water supply system meeting specific technical standards with respect to the distribution system.

(d) In sparsely-developed territory, drainage ditches are usually sufficient to handle runoff. But as development becomes more intensive, as more and more trees are sacrificed to lawn and highway purposes, as topsoil is stripped off large areas of land, the need for storm drainage systems increases. City engineers generally accept an average density of two houses per acre as the standard beyond which such a system is necessary.

(e) The greater the density of development, the more expensive it becomes to build a street adequate even for residential traffic. Such residential streets must meet relatively high engineering specifications if they are to be trou-

ble-free. In contrast, less expensive streets are adequate in more sparsely-developed communities.

It is significant that the theme throughout these statements is that as areas become more intensively developed, large-scale and expensive community facilities become necessary. Furthermore, these large-scale facilities are not alone public utilities or facilities financed primarily from service charges. Fire protection is perhaps the best example of the close inter-relationship between functions supported from general municipal tax revenues and those supported from service charges. If land is taken into a city and is not served by the public water supply system, the landowner must pay the full municipal tax without getting the full advantage either of high quality fire protection in itself *or* the substantial fire insurance benefits accruing to the resident located within 1000 feet of a fire hydrant connected to the city water system.

Here again it is important to emphasize that in general the problem of services is not one of different *kinds* of services required in an urban community; generally the distinction in necessary services between primarily urban and primarily rural areas is one of *degree*. The rural resident can get his water supply and his sewage treatment from relatively inexpensive on-site installations; he does not need to tie into the large community system. He can dispose of his own garbage in a satisfactory manner, and he can handle his own storm drainage.

Therefore, we have concluded that for many purposes the distinguishing feature of a city is the existence of, and need for, large-scale and expensive community facilities. And since it is not fair for people to help build facilities that will give them no benefit, or at most an indirect regional benefit, the dividing line between a city and its rural and suburban periphery can be based on the idea that only the land and its people who need such facilities, now or in the near future, should be within the city.

In so concluding, we recognize the problems that many cities face in constructing certain types of facilities that provide substantial benefit to persons not living in the city. A prime example is the traffic-bearing street which carries the outside resident into and out from the city, whether it be

to work or to shop or to play. This fact has been taken into consideration in our study of municipal revenues because we think its significance is more closely related to finance than to the location of municipal boundaries.

3. *The City and the Urban Fringe.* The distinction we have just drawn makes sense with respect to municipal-type services. It makes no sense with respect to over-all planning and land development.

As we have noted before, the preponderance of all new building and land subdivision in this State is taking place outside the limits of cities. This is understandable, for this is where we find most of the vacant and undeveloped land.

Cities are vitally concerned with this development in the immediate areas outside their boundaries. These areas will sooner or later become part of the cities, municipal services and utilities will have to be extended into them, and the problems arising from unsound development in these areas will usually be passed on to the city for correction or solution at some later date.

Consequently, we cannot assert that the boundary of a city should be determined entirely by either the need for, or the ability to pay for, expensive systems of community facilities. Other factors must and do play a part in defining the boundaries of a city or town in relation to the boundaries of the larger urban community.

Thus it may be undesirable to stop the city's planning jurisdiction at the same boundary where its services now stop. To do so would cut off from the city any opportunity to help plan for that area which will in the future become a legal part of the city, even as it is already an integral part of the economic and social community.

At the same time, it would not be fair to give the city any sort of exclusive jurisdiction over the planning of this outside area. The persons living in that area are vitally concerned and must be represented in the planning process.

4. *The County and Urban Development.* All new development does not take place in the immediate vicinity of the city. Some of it leapfrogs just beyond the immediate suburban area. And some is located out in the country, particularly development which does not require such services as a public water supply. These isolated centers of

development in essentially agricultural territory do not usually constitute a problem at first. There may be a few homes, a store or two, perhaps a filling station. Or there may be a small factory or processing plant. Frequently, however, more development is attracted to these outlying areas. Ultimately, residents of the area are plagued with inadequate sanitation or express a desire for a water supply, or for fire protection, or for additional police protection.

Several choices are available to such areas. They may incorporate as municipalities or as sanitary districts; they may form private corporations to provide some services; or they may seek additional services from the county.

Incorporation is often unsatisfactory, either because the area does not have a sufficient tax base, or because it is undesirable to create small municipalities within the reach of a large municipality, or because the residents simply do not want the full responsibility of a general governmental unit.

Private corporations are limited in the objectives they can achieve. Generally they are useful only in providing a limited water supply or in financing fire protection.

Existing legislation permits a county to provide fire protection to such outlying areas through the medium of special taxing districts. Police protection can be handled by the sheriff's department. But counties are not generally in the business of providing utility services and they do not have sufficient power to carry out effective long-range planning for such outlying areas.

North Carolina cities tend to be the hub of urban communities which include a large part, if not all, of the county. Some urban communities extend into two or more counties, and many small urban areas have strong ties with larger urban areas. Still, county boundaries are more likely to encompass the economic and social extent of urban areas than are any other governmental boundaries.

Under such conditions it would be most desirable if all planning in the county were carried out by one planning agency. *For this reason we strongly endorse joint planning agreements between cities and counties*, even if it is necessary to divide responsibility for carrying out plans between the city and the county. In any event, we think that

it is essential for planning to become an integral part of the county's responsibility. And wherever possible, this responsibility should be closely coordinated with planning in the city so that common problems can be attacked jointly. At the same time we recognize that particular interests on the part of the city and of the unincorporated area will often make unanimity impossible or impractical.

5. Some Functional Problems. To round out the basic considerations before us, we must make mention of several specific functional problems which are closely tied to urban development.

In the opening pages of this report, we pointed out as among the essential conditions for industrial development the availability of a good highway system, ample supplies of water, and effective means of waste disposal. We want to emphasize these again and to comment on each one as it pertains to future industrial, and thus urban, development in North Carolina.

a. Highways. The highway transportation system is one of the most vital factors in determining the nature and location of new development. Industry wants a good system of highways to bring workers into the factory and to ship goods out. Shopping centers rely on easy and rapid access from ever larger market areas. The continued economic health of our present cities depends on getting large numbers of people downtown and back again in a convenient fashion.

In most states planning and construction of the major highway system is one of the major problems in urban and metropolitan areas. The very mechanics of planning a thoroughfare system in and around a city is a complex problem in itself.

We are fortunate in North Carolina that responsibility for the major highway system is not carved up among many separate governmental units. In a later section we make some recommendations which we hope will further clarify the division of responsibility between the State and the cities. But one point is important at this juncture.

Even though major responsibility for traffic-bearing streets and highways is vested in the State, local governments must continue to carry out an essential role. They must work hand-in-glove with the State Highway Commission in planning the location of major highways in urban

areas. In particular, they should keep the Highway Commission advised of (a) anticipated growth in the urban area, (b) anticipated traffic needs resulting from such growth, and (c) the status of individual community plans which will be affected by new highway location. It will be the equal responsibility of the Highway Commission to take this information into account in its highway planning.

We have been pleased to note the emphasis recently placed by the Highway Commission on the role of planning in highway location, and the Commission's policy to encourage and assist communities both in basic planning and in thoroughfare planning. We hope that this joint program will continue to expand.

b. Water. Water is, of course, essential to urban development. Our study has shown that cities and towns have been putting forth great effort to build up adequate water supplies and we commend them for their record of achievement.

There is much evidence, however, to indicate that some of our cities in their use of water are approaching the limits of supplies available. We know, too, that in some areas the expanding water demands of non-municipal interests—farmers, industries, power companies, and others—are pressing hard on the limits of natural supplies. These signs of today point to the likelihood of increasing future conflicts over water supplies. Such conflicts may be lessened, or better dealt with, if we plan seriously today for increased use of artificial storage, and for more effective distribution and use of water, as well as work to strengthen our governmental machinery concerned with these matters.

There are local, State and Federal agencies now engaged in studying various phases of the water problem in North Carolina, trying to determine how the State and its communities can best prepare to meet these issues. We urge that these studies be continued to the end that some action can be taken before our urban areas face paralyzing water shortages.

c. Sewage treatment. A third vital function as urbanization continues is stream pollution control. Since problems of financing stream sanitation projects were raised by a number of municipalities, specific reference to this function is made under the section discussing municipal finance.

It is important to note that the State has taken an active interest in the water and stream sanitation program, as well as in the construction and maintenance of highways. In these and other ways the State has already demonstrated that the kind and quality of urban development in North Carolina is not alone a matter of local concern.

d. State-local relationships. Apart from clarification of the State's responsibility for major street construction in urban areas, we are not making any recommendations which would enlarge the State's area of responsibility for urban development.

At the same time we believe that because of the large number of State agencies engaged in activities which affect directly or indirectly the process of growth and development, the agencies involved must take every precaution to keep channels of communication open between themselves on questions affecting local development and local government. We do not believe that creation of a separate State agency coordinating State activities dealing with urban development, as has been suggested in many states, is now necessary. But this conclusion is based on the belief that our State agencies will continue and expand their policies of effective voluntary coordination.

6. Summary. Some of this analysis may seem incidental to the problems of orderly growth and expansion of our municipalities. But in reality urban growth will not stop at the municipal boundary.

We believe that North Carolina is well into a period of significant urban growth, spurred on by increasing industrial development.

We believe that the State's population, what we have now and the new population to come, is migrating from rural areas into urban areas all over the State to seek better jobs and better income.

We believe that conditions make it probable that much of this new urban development will take place in what are now rural communities.

We believe that the problems associated with urban development most frequently arise where effective city government is not available.

We believe that unsound urban development must be prevented, whether it is taking place inside corporate boundaries or in once-rural communities.

We believe that if proposed unsound develop-

ment is prevented wherever it is about to take place, North Carolina can undergo the industrial development which will raise the State's standard of living without giving up its reputation and character as a State with self-contained and attractive communities in which to live.

Thus we believe that the problems of urban development are not problems for cities and towns alone. They are problems for counties as well. North Carolina wants the benefits of industrial development to reach every county in the State. At the same time it wants each county to avoid the more damaging effects of industrial, and therefore, urban development.

Does this mean that in our eyes cities are assigned to a secondary role in the process of rapid growth? Our answer is firmly "No."

North Carolina has reason to be proud of her cities and towns and the contribution they are making to sound economic development and to sound government. In this critical period, strong city governments are essential if our urban areas are:

To continue to have a high quality of essential services in intensively developed areas.

To continue to have the water supplies essential for continued industrial and residential growth.

To continue the successful fight against stream pollution.

To continue to have transportation systems capable of bringing traffic volumes into and out from factories and retail centers.

To continue to develop strong retail trading centers and consumer service facilities.

To continue to develop as attractive and livable places with good recreational and cultural facilities.

To summarize, North Carolina must be equipped to meet the challenges of urban growth wherever it takes place. In our judgment, this responsibility must be met by local government, cities and counties alike. Our cities and counties, through a renewed emphasis on comprehensive planning programs, must anticipate the problems of rapid growth and take effective action to meet them.

Our cities, with far-sighted leadership, must continue to serve as the focus for new economic growth and new urban growth.

Our counties must assume responsibility for new urban growth removed from the central ur-

ban areas and insure that this new growth will not bring with it insoluble problems.

The State must make it possible for cities and counties to carry out these responsibilities as well as providing essential assistance in the development of the highway system and water resources.

It is toward these ends that our recommendations are aimed.

D. Conclusions and Recommendations

On the basis of this analysis of the process of urban development, of the steps which must be taken to insure sound growth, and of the local governmental structure already in effect, we have reached a number of conclusions and recommendations.

1. **Governmental Structure.** We do not believe that any over-all reorganization of local government is necessary or practical at the present time. North Carolina is not yet faced anywhere with governmental problems of a truly metropolitan scale, problems which would necessitate governmental agencies on a regional basis. At the same time, we recognize that future growth may require new agencies to meet regional problems.

In the largely urbanized counties, we believe that the common economic goals of the entire county justify a closer look at future city-county consolidation. As we have discovered in studying the process of urban growth and local government's responsibility for helping plan that growth, a single county-wide governing board could probably give more effective leadership for the entire urban area. On the other hand, there are legal, financial and political complications, and we think that any proposal for city-county government should originate at the local level and have the approval of city and county residents alike.

2. **Intergovernmental Relations.** In the absence of any major change in the pattern of local governmental responsibility, we believe that "orderly growth, expansion and sound development" will depend upon effective leadership by and close cooperation between the cities, the counties and the State of North Carolina.

3. **Planning.** We believe that greater emphasis on the planning process is an essential first step toward insuring orderly growth and sound urban development. We urge all local governing boards to

re-examine their programs and to provide these essentials of a sound planning program:

A planning board composed of leading citizens, representative of every part of the community. The board must supervise the making of basic studies needed to determine existing and probable future lines of development, prepare plans for development based on these studies, and advise the local governing board on the content of plans and the means for carrying them out.

A planning staff composed of technically-trained personnel to do the actual work involved in making studies and preparing plans.

Regulatory ordinances and service policies which are necessary to carry the plans into effect.

Enforcement personnel to aid in carrying out the plans.

On the whole we believe that present statutory provisions [G. S. 160-22, 153-9 (40)] under which cities and counties may establish planning boards for themselves and, by agreement among the units concerned, create joint planning boards, are adequate. Since much new development is taking place outside the political jurisdiction of cities, we believe that it will be necessary for counties as well as cities to undertake planning programs. But we urge that the planning programs of cities and of the counties in which they are located be either jointly sponsored or closely coordinated so that there will not be conflicting approaches to the solution of common problems.

From the standpoint of staff services, we believe that present statutory provisions should be supplemented. The cost of technical planning personnel is higher than many small towns and counties can pay. As a means of helping these units, the Federal government in 1954 established a program under which it would pay up to half the cost of supplying technical planning assistance to towns under 25,000 population, with the state and local governments paying the remainder. In 1957 North Carolina moved to take advantage of the Federal aid through the creation of a Division of Community Planning within the Department of Conservation and Development. We believe that these provisions for technical planning assistance should be made somewhat more flexible because of uncertainties in the Federal program. We therefore recommend:

(a) That city, county, and joint planning boards be authorized to contract with the

State as well as with the Federal government for technical planning assistance.

(b) That city planning agencies be authorized to furnish technical planning assistance to the county and to other municipalities within the county; that county planning agencies be authorized to furnish technical planning assistance to municipalities within the county; and that county and municipal governments be authorized to contract and pay for such assistance from other governmental units.

In short, we believe that any local governmental unit should have authority to contract for technical assistance from any other governmental unit which can provide it.

Municipalities are presently authorized to employ the enforcement personnel necessary to carry out their plans. Counties, on the other hand, have no such authority. All counties are authorized to employ electrical inspectors, under G. S. 160-122, but only a few counties, by virtue of special acts, are authorized to employ building inspectors and plumbing inspectors. It seems apparent to us that any effort on the part of a county to control development in rapidly growing areas outside cities will necessitate employment of a building inspector. We therefore recommend:

(c) That all counties be authorized to appoint a county building inspector whose duty it would be to enforce the State Building Code adopted under Chapter 143, Article 9, of the General Statutes; to enforce any county building regulations adopted under G. S. 143-138(b) or (e); and to enforce any county zoning ordinance or ordinances.

4. Carrying Out Plans: County Powers. Once plans have been formulated and agreed upon, they can be carried out in a variety of ways. Capital improvement budgets, street paving policies and utility extension policies are typical methods of carrying into effect important elements of plans for future development. But no comprehensive planning program can be made effective without two basic legal procedures: subdivision regulations and zoning ordinances.

Subdivision regulations govern the process by which land is divided into lots for urban-type development. In general they prescribe the manner

of laying out streets and lots in such a way as to insure that any particular subdivision will fit into an over-all pattern of development for the area and will not create problems for the community which could be easily avoided. The zoning ordinance prescribes the type of development which will be permitted in each area, minimum yard sizes, maximum building heights, and similar matters, so that each type of land use will be protected against neighbors which would be unduly detrimental to it and would depreciate property values. Municipalities in North Carolina have long had authority to adopt both subdivision regulations [G. S. 160-226 to 160-227.1] and zoning ordinances [G. S. 160-172 to 160-181.1], but only a few counties have been given such authority on a special act basis.

We believe that some unit of government should have the power to enact and enforce these ordinances wherever land is being developed in an urban manner. In view of the development which is currently taking place well outside the jurisdiction of cities and towns, development which gives rise to many of the problems which we have cited, we believe that counties must be given the power, in their discretion, to enact subdivision ordinances and to zone in all areas outside the jurisdiction of cities.

With regard to subdivision regulations, we therefore recommend:

- (a) *That counties be authorized to adopt subdivision regulations in the same manner as municipalities, covering all areas outside municipal subdivision jurisdiction.*
- (b) *That such authority require that any regulations adopted be enacted by the board of county commissioners, but that the commissioners be authorized to provide for approval of individual subdivision plats either by themselves or by the county planning board.*
- (c) *That such authority require that any regulations adopted contain provisions under which county officials would give the following agencies an opportunity to make recommendations prior to approval of any individual subdivision plat:*
 - (1) *The district highway engineer as to proposed streets, highways, and drainage systems;*
 - (2) *The county health officer as to proposed water and sewerage systems;*

- (3) *The county school superintendent as to proposed school sites;*

- (4) *Such other agencies and officials as the county commissioners may deem desirable or necessary.*

With regard to zoning regulations, there is a special problem. Unlike subdivision regulations, which usually come into play only when action is taken to develop land in an urban manner, zoning ordinances immediately apply to every piece of property in the area covered. In many counties it will be found that only portions of the county, rather than the county as a whole, are experiencing urban-type growth. We believe that if county commissioners are required to choose between regulating the entire county or none, the probable effect will be to delay the regulation of these urbanizing areas until it is too late to do much good, and we propose that the commissioners be given the option of zoning either all or portions of the county. To insure that the areas selected for regulation are large enough for the ordinance to be effective, we suggest that statutory provisions fix a minimum size for such areas. To avoid problems of overlapping jurisdiction, we believe that all county zoning regulations should be limited to areas outside the zoning jurisdiction of municipalities in the county. Since we are concerned primarily with urban-type development, we recommend that farm and agricultural lands be exempted from provisions of any county zoning ordinance.

In order to be most effective, zoning regulations should reflect an over-all plan for the development of the county. This is recognized in most zoning legislation in other parts of the country, as well as in our municipal zoning enabling act, which requires appointment of a zoning commission (which may be the planning board) to make preliminary studies and prepare a tentative ordinance before the municipal governing board may act. We believe that no county zoning ordinance should be adopted until after appointment of a county planning board and the making of careful studies and plans as a basis for the proposed regulations. Where only a portion of the county is to be zoned, we suggest that an additional advisory board composed solely of residents of the area affected be named to work with the county planning board in the preparation of the ordinance.

We recommend:

- (d) *That counties be authorized to adopt zoning ordinances, in generally the same manner as municipalities.*
- (e) *That such authority permit the county commissioners, in their discretion, to regulate either the county as a whole or any area or areas within the county meeting specified standards; in either case, however, areas within the zoning jurisdiction of municipalities would be excluded.*
- (f) *That farm and agricultural lands be exempted from any such regulation.*
- (g) *That any county wishing to exercise this authority be required, as a first step, to appoint a county planning board to prepare a recommended ordinance; and that where only a portion of the county is to be zoned, a zoning advisory board be appointed from residents of the area affected to work with the county planning board in preparing the ordinance.*

5. **Carrying Out Plans: Extraterritorial Municipal Powers.** The Commission recognizes that municipalities have a special interest in the areas immediately adjacent to their limits. These areas, in the normal course of events, will at some time be annexed to the city, bringing with them any problems growing out of chaotic and disorganized development. Even prior to that time they affect the city. Health and safety problems arising outside the city do not always respect city limits as they spread, as was pointed out by our State Supreme Court in *State v. Rice*, 158 N. C. 635 (1912). Subdividers of land outside the city commonly wish to tie in to city water and sewerage systems. New industrial and commercial development may, for a variety of reasons, take place just outside the corporate limits. Visitors to the city receive their first impression from these outlying areas.

In recognition of this special interest, our General Assembly in 1917 made certain ordinances of every city apply to territory for one mile beyond its limits [G. S. 160-203]. More recently (in 1929), cities were given general authority under G. S. 160-226 to regulate subdivisions for one mile beyond their limits. A total of 19 cities have, by special act, been given authority to zone for one mile or more beyond their limits. The constitutionality of such authority was recently

upheld by our State Supreme Court in the case of *Raleigh v. Morand*, 247 N. C. 363 (1958).

In terms of territorial coverage, existing subdivision-control authority has proved satisfactory for most of our smaller towns. We should note, however, that the 1929 enabling act was gravely inadequate in its substantive provisions and that municipalities in 53 counties were exempted from 1955 amendments designed to correct this deficiency. Because we think that adequate regulation of land subdivision is basic to insuring sound development, we hope that legislators from these 53 counties will reconsider their positions in light of the urban development which has taken place during the past three years.

On the basis of our study, we believe that extraterritorial zoning regulations begin to become important for most cities as they reach 2,500 population or thereabouts. We suggest, therefore, that all cities of that size and larger be given extraterritorial zoning jurisdiction for a distance of one mile beyond their limits, to be exercised or not in the discretion of the local governing body. We reached this conclusion even though, as a matter of principle, we believe that governmental action affecting the use of property should originate in a governing board elected by persons subject to such action. To meet this objection in a practical and yet legal manner, we believe that residents of the area affected should be given a voice in this zoning through the naming of outside residents to local planning boards and boards of adjustment.

The planning board would have responsibility to make studies and formulate plans for the area, to recommend zoning regulations for the area, and to make recommendations from time to time on proposed amendments. The board of adjustment would have authority to grant relief in individual cases from ordinance provisions which created hardship. Thus, representation on these boards would give outside residents an appropriate and essential role in both the legislative process and the administration of the ordinance as it affected land outside the city.

We therefore recommend:

- (a) *That all municipalities with a population of 2,500 or more at the last decennial or special Federal census be empowered to exercise zoning jurisdiction for a distance of one mile beyond their corporate limits.*

- (b) *That as a prerequisite to the exercise of such authority, the membership of the municipal planning board and the zoning board of adjustment be increased by the appointment of residents of the one mile area to these boards, such outside residents to be appointed by the board of county commissioners.*

Methods of determining the appropriate number of outside residents to be appointed to these boards are being studied to determine the most desirable method for inclusion in implementing legislation.

In the case of our larger cities, we find that the area of special interest commonly extends more than one mile beyond the city limits. Because the situation varies from city to city, we find it difficult to fix an exact distance within which such powers are needed. We suggest instead that local governing boards be permitted to handle this problem on a flexible basis, through an authorization for municipal governing boards and boards of county commissioners to fix the boundaries of municipal zoning and subdivision-regulation powers in excess of one mile by agreement. In order to meet legal requirements, of course, the statute would have to specify the limits of their powers and necessary findings which they should make in taking such action.

We therefore recommend:

- (c) *That cities over 15,000 population and the counties within which they are located be authorized, by joint resolution of their respective governing boards, to fix the boundaries within which such cities can exercise extraterritorial zoning and subdivision-regulation powers over and beyond the one mile limit.*
- (d) *That the enabling act provide that such a resolution could not grant power to a city over territory more than five miles beyond its limits and that any such extension of extraterritorial jurisdiction must be based on findings of the two governing boards that (1) the area made subject to control is presently being developed for urban-type uses or such development can reasonably be expected within the next five years and (2) the area is deemed important to the sound development of the city.*

- (e) *That any such joint resolution be required to specify the representation to be accorded outside residents on the planning board and the zoning board of adjustment.*
- (f) *That any such joint resolution be permitted to specify procedures for adopting or amending regulations for the outside area and procedures for administration of the ordinance.*
- (g) *That provision be made for amending any such joint resolution at any time by agreement of the respective governing boards, so as to vary the jurisdictional area or as to make any other change.*
- (h) *That either governing board be authorized to rescind such joint resolution at any time, upon two years' written notice to the other board.*

6. Municipal Boundaries. We have already stated our belief in and concern for strong city governments in North Carolina. Cities cannot continue to remain strong and to provide essential municipal services unless their boundaries are periodically extended to take in those areas which require municipal services for sound development and whose residents make extensive use of municipal facilities.

As a result, we have given, and are still giving, careful attention to the whole problem of municipal boundaries. We have viewed with alarm the experience in other states where failure of cities to expand their boundaries periodically has resulted in what is called the "metropolitan problem." We have analyzed what can happen if a city is surrounded by heavily populated fringe areas that cannot for a variety of reasons be annexed by the city. We have noted fringe areas that are, in every sense of the word, slums. We have noted fringe areas whose problems of sanitation and traffic and law enforcement are so great that cities are discouraged from attempting annexation. We have noted fringe areas so poorly developed that the city finds it impossible to extend water and sewer facilities through these areas to serve presently undeveloped land that could accommodate sound development.

Furthermore, we have studied urban areas where the fringe is not unincorporated but a tangled thicket of small, financially weak and competing towns and special districts. In these areas it is

impossible to find any one governmental unit which has the jurisdiction or financial ability to provide those services and facilities which are essential to the development of the entire urban area.

We must not permit North Carolina's cities to be surrounded and squeezed out in this fashion. We must provide a climate within which our city governments may expand their operations in step with the growth of the urban area.

Our recommendations with respect to planning and the control of land development do not fully meet this problem. Well conceived ordinances and good intentions will not provide the water and sewer systems that we need, the street systems that are necessary, the high quality fire protection, and the other services which are accepted as necessary for urban living.

We have thoroughly analyzed the experience of North Carolina cities under present general law annexation provisions and under the variety of procedures set forth in special acts. We have been impressed with the success of some cities in extending their boundaries as new areas were developed. We have also been impressed with the fact that heretofore annexation in this State has generally been a political process in which the residents of one small part of an urban area have had power to cast a veto over city limits extension proposals which might have had profound significance for the development of the entire urban area.

This procedure has given us much concern. On the one hand, we believe that the legitimate rights of every person must be protected. We do not think that city governments should have uncontrolled authority in determining the boundaries of a city. On the other hand, we do not believe that the extension of municipal boundaries is a legitimate question to be decided by a vote of the residents of a small portion of a large community.

As we have indicated above, the significant feature of city government today is the system of facilities which the city provides and which is essential for urban living. We believe, in general, that the boundaries of a city should include all that part of the urban area which *is developed* in such a fashion as to presently require the package of services offered by a city, as well as that part of the urban area which is presently *being*

developed in such a way as to need such services in the very near future.

Furthermore, municipal utility systems are absolutely necessary for sound urban development in North Carolina. Extension of these systems beyond corporate limits is possible, and is being done in some areas. In the long run, however, outside extension represents a substantial and unfair subsidization of outside development by city residents and may materially weaken the ability of the city to finance necessary expansion of both utility systems and service operations. In short, a city dependent on the property tax and water and sewer charges cannot expand to serve new growth unless its tax base is also expanded to take in that new growth.

Therefore, in the interests of sound urban development, in the interests of continued improvement and expansion of essential utility systems, and in the interests of soundly financed urban services, we have concluded that *the question of municipal boundary extension should be a matter of State-wide policy and that the State should define the type and character of areas which should be provided municipal services in the interests of sound urban development.*

This is easier said than done. Typical annexation procedures in the United States:

*Leave full discretion in the state legislature; or
Give the city governing board broad discretion to determine municipal boundaries; or*

Permit residents of areas proposed for annexation to decide for or against annexation; or

Give judicial or administrative bodies the power to determine whether proposed annexations meet broad statutory standards defining land which may be annexed.

We have already decided that the first three approaches do not provide a satisfactory solution to the boundary problem. We are concerned with the fact that most statutory standards regulating when annexation may take place are so broad that judicial or administrative agencies can interpret them in any way they see fit. We believe that standards should be more specific, so that it is the legislature which fixes policy, not judicial or administrative agencies.

At the present time we are working on such an approach. Because the problem is so complex, we

are not yet ready to make specific recommendations, but we can set forth our objectives.

We are working on a set of standards which, individually or cumulatively, would permit municipal governing boards to annex areas which (a) presently receive or need municipal services, or (b) will need municipal services in the immediate future (one to two years) if the areas are to be properly developed. Because of our recommendations for extraterritorial municipal jurisdiction, we believe that the need for extension of services can be confined to relatively small areas each year and that annexation for the purpose of extending subdivision control and zoning will become unnecessary.

Despite the fact that the system we are working on will define land to be annexed more precisely than the present system does, we recognize that the owners of land being annexed should have some right to a review by a disinterested party or agency. We are considering several types of review—by a State administrative agency, by a local administrative agency, or by the superior court. Since the proposed standards would be specific rather than general, at the present time we favor review by the superior court to determine if the land annexed in fact meets the statutory standards.

Finally, we are aware that in recent years some land has been annexed to North Carolina cities which, while admittedly urban in nature, has not received full municipal services for several years following annexation. In such cases it is unfair, we believe, for landowners to pay full municipal taxes, particularly when they do not receive benefits such as a reduction in fire insurance rates because their property is not tied into a municipal water supply. We are studying methods by which such landowners can be given some relief until the time when services are in fact made available.

We therefore recommend:

That the question of municipal boundary extension be made a matter of State-wide policy in that the State should define the type and character of land which should be encompassed in the boundaries of municipal corporations.

We hope to bring forth a supplementary report outlining our views on annexation before the convening of the General Assembly.

7. A Final Comment. Urban development is proceeding very rapidly in North Carolina. Its pace is quickening.

Our study this year has led us to considered judgments on essential first steps. We believe that there must be an immediate emphasis on planning for future development at all levels of government. We believe that major responsibility for insuring sound development must rest with the cities and the counties, working in harness with one another and coordinating their efforts with the State. We believe that continual study of the problems of urbanization, accompanied by positive action to meet those problems, can result in North Carolina's enjoying the benefits of urbanization without suffering all of its injurious features.

At the present time we believe that the State, in addition to its responsibilities for highways, conservation of water resources, and prevention of stream pollution, can best meet the challenge of urban development by making it possible for local government to do its job. For this reason, most of our recommendations call for enabling legislation. Nevertheless, we are not blind to the fact that much damage can be done if the local governmental units do not follow through in exercising these powers.

We therefore believe that the State has a continuing responsibility to keep all phases of urban development in North Carolina under careful study. Those agencies concerned with local government, and those agencies administering functions affecting the process of urban development, are well equipped to evaluate from time to time the manner in which the problems of urban development are being met throughout the State, and they should do so.

We therefore recommend:

That those State agencies concerned with local government and those agencies administering functions affecting urban development should periodically evaluate the manner in which the problems of urban development are being met in North Carolina, and if necessary, should make recommendations to the General Assembly from time to time for remedial action.

II. Financing Municipal Government In North Carolina

A. Basic Standards

Our cities, primarily responsible for sound urban development, cannot do an effective job unless they have adequate financial powers and resources. The controlling importance of a sound tax and revenue structure has led us to study most carefully the financing of municipal government in North Carolina. In so doing we have considered the ability of cities to provide a high quality of services, to expand these services as necessary to newly-developed land, and to do so with equity to the taxpayer and the consumer of services. We considered these things because there are two standards which the State's municipal revenue system should meet. The first is the standard of adequacy, and the second is the standard of equity.

1. **Adequacy.** An adequate revenue system is one which will generally produce enough revenue to support necessary municipal services at an acceptable level.* It is also one which will allow municipalities to extend their services to meet the demands of growth and development—growth and development which will come largely in the area beyond existing boundaries.

It should also be noted that the term "adequate" is a relative one. It suggests ability to do what is required. And in considering what is required of municipalities, we have accepted the present general division of responsibilities between the State, the counties and the municipalities. Clearly, a system which would be adequate with this present division of responsibilities would not necessarily be adequate if there should be a shift of responsibilities from the State or the counties to the cities.

Furthermore, the level of services must be indicated when determining the adequacy of a revenue system. A system which will support one policeman for each 1,000 people may not support three policemen for the same population. We think that the level of services provided by municipalities of

North Carolina compares favorably with the levels found in other cities throughout the nation. We think an adequate revenue system should enable our municipalities to continue in this favorable position. As we see it, however, it is not necessary that an adequate system be one which will enable every city to meet every need immediately. Unfortunately, we have not yet sufficient wealth to allow us to meet all of our public and private needs as soon as they are felt. We must establish priorities, choose between competing needs, and move to meet them as rapidly and efficiently as possible.

2. **Equity.** The standard of equity is equally important, and perhaps, even more difficult to achieve. It is generally agreed that some municipal functions (for example, water supply) should be financed on the benefit principle. Those who use and benefit from the system should bear the major cost of operation in proportion to their use or benefit. It is also generally agreed that other functions (police protection, for example) ought to be financed from a general tax source. Police protection is essential for the good of the whole community and should be supported by the general population from taxes levied for general governmental purposes. While there is frequently disagreement as to which principle should control, there is general agreement that one or the other, or both, may properly be applied in financing every municipal function.

But the problem of equity in municipal revenues cannot be viewed apart from the same question at other levels of government. The municipal taxpayer is also a county taxpayer, a State taxpayer and a Federal taxpayer. A municipal tax, inequitable in its impact on a given city taxpayer, might be viewed as equitable when seen as part of all the systems to which the city taxpayer contributes. The equity of the municipal revenue system should not be judged by looking only at municipal revenues and the municipal taxpayer.

Administrative problems with respect to tax sources of revenue also make equity at the local level difficult to attain. For example, as an ability to pay tax, it is generally agreed that the graduated income tax is more equitable than the property tax. However, administration of a grad-

* We say that an adequate system is one which will generally produce revenues for these purposes. There will undoubtedly be a few cities and towns with pressing needs greater than can be met with any revenue system. And there may be municipalities which will find any system inadequate because of poor management. But a system which is generally adequate will meet the needs of a major portion of the State's municipalities.

uated income tax at the local level presents grave problems. Thus limitations of jurisdiction may limit the use of a tax source which meets other standards of desirability.

B. The Present Municipal Revenue System

How well does the present municipal revenue system measure up against these standards? It is a system based primarily upon the property tax and user charges. We believe the latter are entirely appropriate for utility operation and that utility operations should be self-supporting. And with the major outlays for education and highways financed at the State level from other tax sources, we think that the property tax is well suited and generally equitable as the chief source of local tax revenue. It is our view that the present municipal revenue system is generally adequate and basically fair.

We take this view of the present municipal revenue system as a result of our analysis of the municipal tax burden, the use of the property tax, the ability of cities to meet the demands of growth, and the use of non-tax revenues possible under the present system.

tax revenues. Since almost all taxes are paid from income, it follows that the municipal tax burden has not been increasing. As a matter of fact, it is much lighter than it was in 1941 and has remained relatively stable during the first half of this decade. (See Table 3.)*

On a per capita basis during the same 15-year period, 1941-1956, municipal tax revenues have more than doubled. Property tax revenues also increased by slightly more than 100 percent during this time. (See Table 3.) These increases in revenues were necessary to meet the increasing cost of municipal government.

Why were municipal governmental costs increasing? There appear to have been three major causes. First, inflation affected municipal operations just as it added to the dollar cost of private business. Second, levels of services have been increasing in all North Carolina cities. Citizens are asking for more and better services from their municipal governments. And finally, our cities have all been growing. As cities grow larger, the need and demand for more specialized services increase as a result of the increase in size—over and above the desires of citizens to have better services.

But even with growth, inflation and the desire for improved services, the average municipal resi-

TABLE 3
NORTH CAROLINA MUNICIPAL TAX LEVIES AND PER CAPITA INCOME FOR SELECTED YEARS

Year	Municipal Population (1,000)	Total Tax Levies (\$1,000)	Per Capita Tax Levies	Municipal Property Tax Levies (\$1,000)	Per Capita Property Tax Levies	Per Capita Income	Per Capita Taxes as Percent of Per Capita Income	
							All Levies	Property
1940-41	1,197	\$15,377	\$12.85	\$13,779	\$11.51	\$ 328	3.91%	3.50%
1950-51	1,522	34,438	22.63	29,433	19.34	1,009	2.24	1.92
1951-52	1,564	38,373	24.53	33,089	21.16	1,114	2.20	1.90
1952-53	1,537	41,308	26.03	35,805	22.56	1,149	2.27	1.96
1953-54	1,625	42,550	26.18	36,656	22.56	1,165	2.25	1.94
1954-55	1,658	43,773	26.40	38,150	23.01	1,173	2.25	1.96
1955-56	1,732	46,514	26.86	40,301	23.27	1,236	2.17	1.88

Source: *Statistics of Taxation*, State of North Carolina, Department of Tax Research, 1956.

Note: Municipal population estimated on basis of rate of growth of urban population for the State. Per capita income figures are averages for the State. Considering the components of the per capita income estimates, per capita income among urban residents is probably greater than the State average.

1. **The Municipal Tax Burden.** The municipal tax burden in North Carolina does not seem to have been increasing in recent years. That is, the proportion of the municipal taxpayer's income which goes to support his municipality has not been increasing.

Our studies indicate that average per capita income of North Carolina residents has been increasing more rapidly since 1941 than have municipal

resident in the State is paying proportionally much less of his income to his city for municipal services today than he did 15 years ago.

* It will be noted that we have compared *State* per capita income with *municipal* per capita revenues. This has been done because information on the per capita income of municipal residents alone is not available. It seems likely that the average per capita income of municipal residents is actually greater than the average per capita income of all the residents of the State. If this is the case, the comparisons we have made overstate the municipal tax burden.

2. **Use of the Property Tax.** The property tax in North Carolina is relatively much less important as a source of State and local revenue than it is in other states. (Table 4.)

In 1955, the property tax accounted for about 27 percent of all State and local revenues in North Carolina, compared with about 46 percent in the average state. On a per capita basis the difference is even more marked. Property tax rates in North Carolina cities, based on full market valuation, probably average about \$.55 per \$100 valuation. Rates of \$2.00 and \$3.00 in other cities throughout the nation are not uncommon. This situation exists, of course, because education is financed

than in the average State. Thus, any increase in taxes, State or local, will increase the already relatively high proportion of income expended for taxes. Under the circumstances, considering both the State and the local tax systems and the present functions performed by each level of government, it seems to us that municipalities must continue to rely on the property tax as their principal tax source.

Furthermore, our studies indicate that, relatively, the use of the property tax by North Carolina municipalities has been declining and that income from other sources has been increasing relatively more rapidly. Among all municipalities of the

TABLE 4
Percentage Distribution by Source of Total State and Local Tax Revenues: 1955
United States Average and North Carolina

	Total	Property	Income		Sales and Gross Receipts	Motor Fuel	Death and Gift	Other
			Individual	Corporate				
United States	100	45.7	5.3	3.2	22.4	10.1	1.1	12.2
North Carolina	100	27.4	9.5	8.3	22.4	19.1	1.4	11.9

Sources: *Summary of Governmental Finances, 1955 and Compendium of State Government Finances in 1955.* Bureau of the Census.

Statistics of Taxation, 1956. North Carolina Department of Tax Research.

largely at the state level in North Carolina from the income and sales taxes, and because the property tax does not build secondary roads. In other states the property tax is the primary tax source for the support of education and the secondary road and street system.

We should point out, however, that while property taxes are relatively lower in North Carolina than in other states, individual and corporate income taxes and gasoline taxes are relatively higher here than in other states. Furthermore, the total State and local tax burden in North Carolina, measured by comparing per capita State and local taxes with per capita income, is somewhat higher

State, the property tax accounted for about 67 percent of all general revenues in 1950. By 1957, the property tax was producing only 57 percent of all general revenues of municipalities. And as cities grow larger, the relative use of the property tax declines. (See Tables 5 and 6.) Total property tax levies, as we have noted before, increased during this period, but not as much as receipts from other sources.

3. **Ability to Meet the Demands of Growth.** Municipalities of all sizes throughout the State are now maintaining an acceptable level of services and it appears that they will be able to continue to do so as they grow larger.

TABLE 5
Percentage Distribution of General Revenues for North Carolina Municipalities by Population Classes: 1949-50

Population Class	Property Tax	State Shared ^a	Business License	Parking Meter	Special Assessments	ABC Profits	Other Revenues	Total
Above 100,000	51.84	5.00	5.91	1.24	1.30	9.27	25.44	100
50-100,000	68.68	4.92	4.41	.95	3.66	6.27	11.10	100
25-50,000	67.37	5.27	3.52	3.95	2.93	5.30	11.66	100
10-25,000	65.83	5.54	4.52	4.95	4.43	1.33	13.40	100
5-10,000	70.94	5.83	4.82	5.58	1.93	.54	10.36	100
2.5-5,000	70.76	5.71	4.02	4.07	1.91	.79	12.74	100
1-2,500	74.03	6.45	4.62	1.13	2.80	3.38	7.60	100
Under 1,000	75.83	6.99	2.45	1.16	.56	7.94	5.07	100
All Municipalities	66.67	5.37	4.52	2.67	3.00	4.61	13.15	100

^aIncludes intangibles, franchise and beverage taxes shared with cities.

Source: Questionnaires returned to the Department of Tax Research.

Note: Data in the above table are based on reports from 302 of the 396 active municipalities. Of the 94 municipalities not reporting, 75 had 1950 populations of less than 1,000. Reports were received from all cities above 25,000 and from all but two cities above 5,000.

TABLE 6
Percentage Distribution of General Revenues for North Carolina Municipalities
by Population Classes: 1956-57

Population Class	Property Tax	State Shared ^a	Powell Bill	Business License	Parking Meter	Special Assessments	ABC Profits	Other Revenues	Total
Above 100,000	49.45	4.94	4.39	3.54	.85	.31	6.96	29.56	100
50-100,000	56.86	6.50	6.20	3.14	1.71	6.62	9.16	9.81	100
25-50,000	59.35	7.79	7.04	3.34	3.33	4.30	4.19	10.66	100
10-25,000	59.34	5.12	9.44	3.16	4.15	3.76	2.49	12.54	100
5-10,000	61.62	5.68	10.59	2.91	4.22	5.78	.97	8.23	100
2.5-5,000	62.03	5.79	11.43	2.97	4.52	2.60	1.55	9.11	100
1-2,500	58.04	5.98	13.22	2.66	1.35	2.85	4.53	11.37	100
Under 1,000	57.15	6.27	21.01	1.78	.73	1.38	5.50	6.18	100
All Municipalities	57.38	5.96	8.37	3.11	2.58	4.11	5.31	13.18	100

Source: Questionnaires returned to the Department of Tax Research.

^a Includes all state shared revenues except Powell Bill funds.

Note: Data in above tables based on reports from 338 of 409 active municipalities. Of the 71 municipalities not reporting, 54 had 1950 populations of less than 1,000. A total of 15 towns in the 1,000-2,500 class did not report and reports from one city each are missing in the 2,500-5,000 and 10,000-25,000 population classes.

Under the present revenue system, most of the State's municipalities are providing a relatively high level of services for their residents as compared with levels prevailing elsewhere. This statement is supported by both general observation and by measurement against common standards such as the number of policemen in relation to population, or the fire classifications, or the standards for street construction. These levels have been maintained despite the fact that in many cities the utility systems are not self-supporting and only a few cities levy a property tax equal to the statutory limit. This is not to say that many cities do not have major needs which have not been met. There are still major improvements which are needed in most cities and others which are desirable. The failure or inability to meet these needs, however, appears to be as much a matter of choice as arising from deficiencies in the revenue system. In most municipalities, the essential community needs may be met under the present revenue system if the people are willing to pay for them.

And because these conditions prevail among cities of all sizes, we see no reason why the present revenue system should not be adequate to meet the demands of future growth and development. Per capita expenditures for most municipal functions increase as a city grows. As a city grows, higher levels of service and more services are demanded and needed. This, in turn, requires higher per capita revenues. And our larger cities have found the necessary revenues forthcoming under the present system without placing increased burdens on the taxpayer. For example, in only one of the State's six largest cities did the per capita property tax revenues increase significantly more than

the cost of living between 1951 and 1957. And in two of these cities, per capita property tax revenues increased at a slower rate than the cost of living during the same period.

Furthermore, the present revenue system will allow cities to extend their boundaries to include land developed at reasonable densities without placing additional burdens on the residents of the older part of the city. That is, North Carolina cities which require developers or property owners to bear a substantial share of the cost of installing street improvements can usually annex territory without increasing property taxes. The same conclusion applies to utility systems financed from user charges. Not all cities, of course, have such policies with respect to these improvements. In these cities, growth may result in added burdens for the residents of the older part of the city. We think that it is fair for the owners of property to bear a substantial share of the cost of improvements which are installed for their benefit and which add value to their property. Thus, it appears to us that most critical revenue problems resulting from growth are a consequence of inappropriate policies rather than an indication of shortcomings in the revenue structure.

4. *Use of Non-Tax Revenues.* The use of non-tax sources of revenue, especially special assessments and utility charges, is still below feasible and appropriate levels in many municipalities.

As we have noted before, most of the municipalities of the State do not operate their water and sewerage systems on a self-supporting basis. We think that operation of these systems on this basis is entirely fair and would release tax revenues for

other purposes in many cities. Furthermore, we think that more of the cost of the construction of residential streets could appropriately be financed by special assessments rather than from general revenues as is often the case. Again, such a change in policy would be equitable and would release tax revenues for general municipal purposes.

5. **State-Shared Taxes.** We have also considered the various State-shared taxes. There seems to be general satisfaction with the present formulae for the distribution of the intangibles tax and the beer and wine tax, and we find no compelling reasons for suggesting changes in either of them. The share of the utilities franchise tax distributed to municipalities presents some problems and we suggest further study of the levy and distribution of this tax.*

6. **State Grants-in-Aid.** Powell Bill funds now constitute the major source of State aid to municipalities, although State assistance in the financing of health and library functions is important to many cities and towns.

In general, State aid to municipalities is relatively less important in North Carolina than in other states. In this State the pattern has been a shift of functions from one governmental unit to another rather than the extension of aid. Thus there is no need for State aid for education and welfare functions to our municipalities such as is found in some other states. These functions have been taken over by the county and the State.

We think the North Carolina approach in these matters is working well and would not recommend any change in this policy. Thus our recommendations concerning the problem of financing municipal streets are within the spirit of this policy and do not provide for increased State aid.**

The establishment of a new State aid program to assist municipalities in constructing sewage disposal facilities has been recommended to us. Exceedingly large expenditures for the construction of sewage disposal facilities confront many cities and towns. In some cases they are the result of normal growth and in others the municipalities face these outlays as a result of orders from the State Stream Sanitation Commission. A number of municipalities which have for years deposited raw sewage into the streams of the State must now install treatment facilities.

* See recommendation on page 32.

** See recommendations on pages 29-31.

Where does the proper responsibility lie for the construction of these improvements? Is it purely a local matter? Or should the State aid the municipalities in financing sewage disposal plants?

There is no doubt that the maintenance of our streams at desired levels of cleanliness is a matter of State-wide interest. We think, however, that basic responsibility for the proper treatment of its own sewage should rest with every municipality. Therefore, we would not recommend programs of State aid unless it were clear that construction of the necessary facilities is beyond the financial ability of the State's municipalities. There is no question that the building of treatment plants will impose heavy burdens in a number of cases. But we believe that the municipalities of the State can handle the problem and will be able to do so if given sufficient time.

It may develop at a later time that some municipalities will be unable to finance the necessary sewage treatment facilities. Should this happen, State assistance might become appropriate. But in such case, State aid would be appropriate because of the compelling State interest—not because of the financial limitations of a few municipalities.

There is a further question in this connection which we have not explored. How great is the interest of the whole State in securing the *rapid* correction of some of our serious stream pollution problems? Admitting that responsibility for treating its own sewage rests with each municipality, is the State interest in the *early* construction of treatment facilities great enough to justify a State aid program?

But this is a question of *State* needs and their urgency and is beyond the scope of our study. It seems to us, however, that the presence of urgent State needs would provide the only proper basis for immediate programs of State aid.

To summarize, we think (a) that it is fair for the municipalities to bear the cost of their own sewage treatment, (b) that, in time, the municipalities of the State will be able to do so, even though for some the expense will be great, and (c) that, even so, immediate State aid programs for the construction of sewage disposal facilities would be justified if State-wide interest demands an early clean-up of our streams.

7. **Evaluation.** While this analysis indicates that the present revenue system is generally satisfactory, we recognize that there are many problem

areas. Especially the administration of the property tax needs improvement, if the property tax is to remain as the principal source of tax revenue for municipalities.

In many counties there are gross inequities in the valuation of properties and the tax base has been impaired by exclusions and exemptions. In others, the assessment ratios are so low that municipalities in these counties are facing statutory limits on tax rates and borrowing capacity. If the property tax is to serve its proper role in the municipal financial picture, these defects must be corrected.

There are also improvements which are needed in the administration of other taxes, especially the privilege license tax, and in the manner in which State-shared taxes are administered. Some of our recommendations will look toward improvements in these problem areas.

But these are all defects which can and should be corrected—they do not call for a major revision in the municipal revenue system. Properly administered, the present system is generally both adequate and fair and should serve the needs of the State's municipal population satisfactorily.

Having reached this conclusion with respect to the present revenue system, we were faced with a further question. Are there other sources of revenue which are even better suited to local use than those now available to North Carolina municipalities? Do our cities and towns need authority to levy new taxes? A sales tax? An income tax? A per capita tax? A crown tax on soft drinks? A gasoline tax?

Our study concentrated on the two major sources of revenue used by some cities in the nation which are not available to North Carolina municipalities. These are the sales tax and the income tax.

Both of these tax sources were recommended to us for use in North Carolina by a few municipal officials. However, it is our impression that most municipal officials do not want permissive authority to levy either an income tax or a sales tax and that an overwhelming majority agree that such authority would not be used if granted. But whether they would be used or not, it is our belief that these sources should be reserved to the State so long as the municipal revenue system is adequate and fair without them, and so long as these sources at the State level continue to be chiefly responsible for financing public education.

It should also be noted that substitution of in-

come or sales tax revenues for property tax revenues would generally have little effect on the home owner who, it is often claimed, now bears a heavy property tax burden. While both of these taxes, as normally levied, would draw contributions from residents outside the city, they would fall with equal weight upon residents inside the city. Home owners would continue to pay, but in a different manner. The beneficiaries of such a change in the municipal tax system would generally be the owners of business and industrial properties since their property tax would be reduced and the sales and income taxes would apply to them relatively lightly or not at all.*

Similarly, we have examined other possible new sources of municipal revenue such as the cigarette tax, the hotel occupancy tax, and the deed transfer tax and have concluded that their use would neither materially increase municipal revenues nor result in a more equitable municipal tax structure.

8. Conclusions on Fiscal Policies. We find that most North Carolina municipalities are well managed and efficiently run. Both elected and appointed officials are generally able and conscientious. We also find, however, that the fiscal policies of some cities and towns do not appear to make the best possible use of their financial resources.

In three areas in particular we think there is room for improvement on the part of some municipalities. We commend to the consideration of the State's municipal officials the more effective use of the following fiscal practices:

a. **Planning.** We have already emphasized the importance of careful planning for the long range needs of the city, if the city's needs are to be met in an orderly manner and as inexpensively as possible. No revenue system is adequate to finance wasteful, rapid, haphazard growth.

b. **Fiscal policy review.** Periodic reviews of financial practices are desirable if these practices are to continually meet the needs of the municipality. Special assessment and subdivision policies which were adequate and appropriate five years ago may be completely outdated by the demands of new growth or inflationary cost increases. There is a long history of financing some utility operations,

* We assume here that any municipal income tax would follow the usual pattern of about one percent on gross income earned within the city. If the municipal income tax should be patterned after the Federal individual and corporate income tax, its impact, of course, would be quite different.

especially sewerage systems, from general revenues. Present conditions suggest that it is now generally desirable that such systems be self-supporting. Water rates, in a period of rising costs, will often require review and adjustment.

While there is no given formula which will work equally well in all cities and towns, it is important that municipalities review their practices periodically to determine that each is using the formula best suited for its own needs.

c. Capital improvement financing. We have been encouraged to note a trend toward the increasing use of pay-as-you-go financing (that is, supplementing bond issues with annual appropriations from annual revenues for capital improvements) with respect to major capital improvements and that long term borrowing is, relatively, declining. Cities following this practice generally appear to operate more satisfactorily under the present revenue system than cities which do not.

This approach to the financing of capital improvements is especially desirable in cities where the county is making large outlays for school construction and the overlapping debt ratios are climbing.* In such cases borrowing must be done, if at all, under unfavorable circumstances. Financial experts are also agreed that this approach to capital improvement financing is generally desirable. One of our recommendations is designed to make pay-as-you-go financing easier for the State's municipalities and we commend the use of this policy to all municipal officials.

C. Property Tax Recommendations

1. The Property Tax. As noted before, we believe that the property tax, properly administered, is well suited for use by the municipalities of the State as the chief source of tax revenue. But as also noted before, the inequities in the valuation of properties, the low assessment ratios, and the exclusion of properties from the tax base have seriously impaired both the adequacy and the equity of this basic municipal tax. Moreover, since valu-

* Bonds are generally sold at favorable interest rates if a city's bonded debt for all purposes does not exceed ten percent of the city's assessed valuation and where the total of the city's bonded debt and that proportion of the county's bonded debt secured by property inside the city does not exceed about 16 percent of the assessed valuation in the city. (Different ratios apply if the city owns a revenue-producing electrical distribution system.) County bonded debt is generally climbing at a faster rate in North Carolina than municipal bonded debt, primarily because of the demand for new schools.

ations and assessments are functions of the counties, the municipalities of the State have little control over the base of their major source of revenue.

While recognizing these problems in the administration of the property tax, we have made no special study of them. The Tax Study Commission, authorized by the 1957 General Assembly, has made an exhaustive study in this area. From time to time we have received preliminary reports of its work, and we have studied its final conclusions.

The conclusions of the Tax Study Commission with respect to the property tax may be briefly summarized as follows:

(1) The property tax base should be as broad and inclusive as possible. This means that there should be no exemptions except those allowed by the Constitution and that these should be few.

(2) The property tax base should be uniform throughout the State. That is, the taxable status of property should be the same regardless of the taxing unit in which it happens to be located. This, in turn, means that for all classifications of property, exemptions and exclusions should apply alike throughout the State and should be made only by the General Assembly on a State-wide basis.

(3) The property tax base should be equitable and relatively stable throughout the State. To attain this goal, regular and periodic revaluation of real property is essential and all legislation regarding revaluation should be on a State-wide basis.

To assure the administration of the property tax in accord with the principles indicated in these conclusions, the Tax Study Commission has submitted a number of recommendations. We shall not list these here, but we should like to note that we are in full agreement with these recommendations as far as they go. And we believe that their adoption will result in a tremendous improvement in the administration of the property tax.

With respect to two of the matters covered—revaluation and assessment ratios—we believe that still further action is necessary to protect the interests of the State's municipalities.

Revaluation. Many of the inequities in the administration of the property tax have resulted from the failure of counties to make regular and periodic revaluations of real property. The Tax Study Commission has recognized these inequities and has recommended that counties be required to revalue real property at least every eight years. To encourage

counties to undertake revaluation when scheduled, the Tax Study Commission has also recommended that revaluation be declared a "special purpose" for which counties may levy a special tax and that each county be required to levy annually a special tax which, when added to other funds available and accumulated during the period between revaluations, will be adequate to pay for revaluation. We think that these recommendations are necessary, but in light of the past practices of some counties, we recommend:

That more effective measures be enacted to insure that revaluations are made when they are scheduled.

Unless such measures are enacted, we fear that the all too prevalent current practice of postponing revaluations will continue.

Assessment Ratios. The establishment of exceedingly low assessment ratios by counties has been the source of great difficulty to the municipalities of the State. A number of cities find it difficult to raise adequate revenues within the statutory tax rate limits because of the low assessment ratios. Similarly, the debt picture in other municipalities appears to be most unfavorable because of low valuations.

The Tax Study Commission has noted that the present requirement for assessment at true market value is largely observed in the breach, and has recommended that this statutory requirement be repealed. The Commission has further recommended that each county be allowed to establish its own assessment ratio following each revaluation of real property.

We think that the requirement for assessment at true market value is proper and believe that this requirement should be retained and enforced. We do not subscribe to the policy of bringing the statutes into line with common practices. On the contrary we think that these long-standing practices should be terminated by putting teeth into the law.

Our study indicates that an assessment ratio of at least 55 percent of true market value is needed if municipalities are to have sufficient flexibility in the use of property tax revenues. Therefore, we recommend:

That if counties are to be given the authority to establish their own assessment ratios, the ratios so established should not be permitted

to be less than 55 percent of true market value.

To allow lower assessment ratios is to imperil the financial health of some of our municipalities.

2. Capital Improvement Levies. Experience indicates that the partial financing of major capital improvements from current revenues is generally a healthy fiscal policy. Municipalities which have followed this course generally have lower indebtedness in relation to assessed valuations and have tended to find the present revenue structure more satisfactory. Some municipalities, however, cannot follow such a policy today because low valuations prevent the levying of adequate taxes under the \$1.50 limit on the \$100 valuation for general purposes. In such cases, these municipalities are forced into borrowing, and under circumstances which are all to their disadvantage—that is, at a time when their nominal general fund rates are high and assessed valuations are low. To alleviate immediate hardships, pending enactment of the Tax Study Commission recommendations, we recommend:

That the municipalities of the State be authorized to levy ad valorem property taxes for major capital improvements without regard to the \$1.50 statutory limit applying to general purpose levies. The purposes for which such levies could be made should be limited to the construction of fire stations and city halls, the purchase of fire trucks, the improvement or construction of streets, or the construction or improvement of major water and sewerage system facilities. Expenditure of the proceeds for purposes other than those for which the levies were made should be prohibited.

This recommendation will also permit any city to make a distinction between that portion of its tax rate needed for operating purposes and that portion to be used for capital improvements.

D. State Responsibility for Municipal Streets.

The financing of municipal streets is one of the most acute problems facing municipal officials. And there has been general agreement among such officials that additional aid should be provided by the State to municipalities for street purposes. Additional State aid is advocated on two grounds: first,

that it is equitable to do so in light of the fact that the State maintains *all* roads outside municipal limits; and second, that only State aid from a State-wide revenue source will secure funds from persons who live outside municipal limits but who use municipal streets, streets which must be designed to handle large volumes of traffic.

We have given this matter our most careful attention. We are agreed that the welfare of the whole State demands that we have an extensive and fully adequate State-wide highway system. And this system, we believe, should be completely financed and administered on a State-wide basis.

The State Highway Commission is now responsible for the construction, reconstruction and maintenance of all numbered routes, bypasses and streets connecting the secondary road system with numbered routes within municipalities. This definition of responsibility does not *specifically* embrace some essential types of major traffic-bearing streets, for the construction of which the cities have suggested the need for additional revenues.

We recognize that the economic stability of our central business districts, as well as the development and expansion of industries and other commercial enterprises within cities and towns, depends upon the ability of the highway and street system to move volumes of traffic into and out from the city efficiently and effectively. Expressways connecting urban centers cannot constitute an efficient highway system if there are not major traffic-bearing arteries carrying volumes of traffic from the highway system outside of cities into major destinations inside the cities and then out again. We recognize the basic need for major streets carrying volumes of traffic into and around the central business district and other centers of congestion. We also see the need for major streets to carry volumes of traffic from outside the city to a series of major destinations outside the central business district but inside the city. From these destinations the traffic can fan out into the city's system of residential, collector and business streets.

The cities have said that they need additional State revenue grants to build these arterial streets. Rather than allocate additional State revenues to the cities for these purposes, we have concluded that these streets should be a part of the State highway system, if they are not already. Under State supervision, the projects can be determined on a basis of State-wide priorities, and these urban proj-

ects can be more effectively coordinated with other primary highway construction to relieve serious problems of congestion. And we believe that State responsibility for these streets is within the spirit of the present law. Furthermore, if the State builds these streets, the cities will be relieved of street expenditures by city taxpayers for the primary benefit of outside residents.

Where such streets or prospective streets are not now part of the State highway system, we believe that they should be added to the State highway system as quickly as thoroughfare studies demonstrate that they are needed to carry large volumes of traffic into and out from urban areas. We think that there should be a clear understanding throughout the State as to the responsibility of the State Highway Commission in this respect.

We therefore recommend:

(a) ***That the 1959 General Assembly amend Chapter 136 of the General Statutes to set forth clearly the responsibility of the State Highway Commission for the construction and maintenance of streets and highways within municipal limits. Such legislation should provide:***

- (1) ***That the State Highway Commission should have responsibility for all streets and highways necessary to move large volumes of traffic efficiently and effectively from destinations outside the corporate limits of municipalities to all major destinations inside the corporate limits;***
- (2) ***That determination of which streets and highways are to be the responsibility of the State Highway Commission should be made following the preparation of a comprehensive local thoroughfare plan for each municipality;***
- (3) ***That on the basis of the plan the State Highway Commission should accept responsibility for the construction and maintenance of all existing and proposed streets not already on the State highway system which the plan designates for the movement of heavy volumes of traffic into and out from major destinations inside the corporate limits;***
- (4) ***That the plan should be made the***

basis of a definite understanding through dual adoption of the plan by the State and the municipality;

- (5) *That the State Highway Commission should construct, reconstruct and maintain State system streets within municipalities so as to provide an equal level of service with respect to the volumes of traffic to be moved inside city limits, as the remainder of of the highway system provides with respect to traffic to be moved outside city limits.*

Careful and long-range planning is necessary not only to assure the establishment of major streets where they will promote orderly growth and development and serve the best interest of our people; it is also necessary to lower the cost of right of way acquisition. Only the closest cooperation between the cities and the State in planning future major streets will enable rights of way to be purchased before areas are developed. We strongly urge the municipalities and the State Highway Commission to cooperate in this fashion for the benefit of all taxpayers.

As we have stressed before, we think the State should bear the full and complete cost of all State system roads. The location within or without some political boundary should not be a consideration. And we think that this principle should apply to the acquisition of right of way as well as to construction and maintenance. The State system should be the responsibility of the State.

On a State-wide basis the municipal share of the cost of right of way on State system roads is not great. In the four years from 1954 through 1957 the total expended by all cities did not exceed \$500,000 and was just over \$300,000 in 1957.* These figures represent one-third of the right of way cost within municipalities. The municipal share was reduced to 20 percent in 1957, but we do not yet know how much was expended for right of way during 1958 under the reduced formula.

While the over-all cost is not great, the sharing of the cost in many cases creates a real burden on some towns. The widening of a highway through a small town can create serious financial problems. In like manner, right of way costs for expressways

* This amount does not include payments which municipalities pledged to pay in future installments, and to the extent of these future obligations, the amount is *understated*.

in our major cities can amount to tremendous sums. In both cases the construction or improvement of these roads will benefit the State generally and, in our opinion, the cost should be borne by the State. But we would not want to limit a city's right to spend money for rights of way if the city believes that some contribution is justified.

To promote cooperation between the State and the municipalities; to encourage the early acquisition of right of way and thus lower costs; and to maintain the principle that State roads should be financed at the State level, we recommend:

- (b) *That the entire cost of construction, maintenance, and improvement of all State system roads, including the cost of right of way acquisition, be financed by the State and that the municipalities of the State be relieved of the present requirement for financing 20 percent of the right of way cost;*
- (c) *That the State Highway Commission be authorized to purchase, at cost, rights of way from municipalities which may have made such acquisitions in advance of construction by the State Highway Commission;*
- (d) *That nothing in either of these recommendations shall be construed to prevent any municipality from sharing in the cost of right of way acquisition or the construction of any State system road if any such municipality so desires.*

But what of those streets which are part of the municipal system? Is it fair to finance their construction and maintenance from local revenues, largely the property tax? Given the foregoing division of responsibility for the various types of streets, the present State policy on the construction of new streets outside the limits of cities, and the present allocation of gasoline taxes to cities for use on non-system streets, we believe the present system for financing local non-system streets is appropriate and adequate. We believe that special assessments could be used justly on a more extensive basis for new street construction, but we appreciate that past policies and local circumstances will dictate lesser use of the assessment principal in many cases.

E. Other Recommendations

1. *The Privilege License Tax.* Comments from municipal officials, the conclusions of the 1955 Tax

Study Commission, and our own studies indicate that the privilege license tax system needs a major overhaul. With the present limitations imposed by Schedule B of the Revenue Act, it is impossible for the municipalities of the State to levy an equitable schedule of privilege license taxes. While it is generally agreed that privilege license taxes can never be a substantial source of municipal revenue, it is highly desirable that the system be revised to make the taxes fairer. Revision of the taxes, however, will affect State and county revenues as well as municipal revenues. For this reason, we recommend:

That appropriate authorities at the State level give careful study to the privilege license tax system and make recommendations for revisions necessary to make this source of revenue more equitable in its use by the State, the counties and the municipalities.

2. The Utilities Franchise Tax. The State levies a franchise tax of six percent on the gross receipts of electrical, gas, water, sewerage, transportation and telephone companies. The tax is not paid by municipalities operating any of these services. Of the total collected under this levy, 12 ½ percent of the collections in each municipality are returned to that municipality.

Two questions have been raised with respect to this tax. The first concerns the proportion of the tax which is distributed to municipalities. The second relates to the question of equity between the State taxpayer in municipalities with electrical distribution systems as compared to other State taxpayers.

We recognize that both of these questions may be properly raised, but since any change in the proportion of the franchise tax distributed to municipalities would affect State revenues, we recommend:

That further study by appropriate legislative or executive agencies be given to both the proportion of the franchise tax distributed to municipalities and the formula for its distribution, and that recommendations be made for any changes deemed desirable in either of these aspects of the State utilities franchise tax.

3. Collection of Sewer Charges. In a few municipalities of the State the water system is operated by a private utility and the municipality operates the sewerage system. Often, in such cases,

the collection of the municipal sewer charge becomes difficult since water service cannot be discontinued—the normal procedure used to enforce collection of both water and sewer charges.

Our investigations reveal that the most desirable solution to this problem depends upon the nature of the sewer charge. If the sewer charge is based on the amount of water consumed, an agreement between the municipality and the water utility under which the utility collects the sewer charge along with the water bill, and service is discontinued when either obligation is not met, appears to work quite well. Normally, this obligation of the water utility would be set forth in the franchise.

Where the sewer charge is a flat annual charge against the property being served, legislation making the sewer charge a lien against the property affords an acceptable solution. Even when the flat charge is used, however, there are times when discontinuance of water service would provide the more desirable method of enforcing collection.

As an aid in collecting sewer charges in the few municipalities concerned, we recommend:

- (a) ***That municipalities which operate sewerage systems, but which do not operate water systems, be authorized to require the water utility to discontinue service to any customer upon certification by the municipality that the customer has sewer charges due the municipality which have been outstanding for 90 days or more;***
- (b) ***That legislation be enacted to provide that the sewer charges of municipalities not operating a water system shall become a lien against the property being served in the same manner as ad valorem property taxes.***

4. Accounting Assistance. Our studies reveal the pressing need for improved and uniform accounting procedures among the State's municipalities. The Director of Local Government has been charged with the responsibility for aiding municipalities in establishing improved and uniform accounting procedures since the Local Government Commission was created by the 1931 General Assembly. The General Assembly, however, has yet to appropriate funds for this work. This work should be undertaken, both to improve the fiscal management of our municipalities and to establish the basis for providing the General Assembly with regular and adequate information about municipal

operations so that necessary and desirable State-wide legislation might be enacted. Furthermore, we think that the availability of more accurate financial information on our cities, which would result from improved accounting, would probably improve their credit positions and lower the cost of borrowing.

We recommend, therefore:

That the 1959 General Assembly appropriate funds sufficient to enable the Local Government Commission to provide assistance to the municipalities of the State in establishing improved and uniform accounting procedures.

5. Reports on Municipal Fiscal Operations. Development of information on the fiscal operations of the State's municipalities is necessary to inform legislation by the General Assembly and of great assistance to municipal officials in evaluating their own policies and practices. At the present time, a number of agencies collect information on various aspects of municipal fiscal practices—some regularly and others periodically. A comprehensive compilation on a regular basis is not made by any one agency. Although many of the agencies must continue to develop certain information under statutory direction, we believe that collection of comprehensive information on the fiscal operations of our municipalities by one agency would be of great value. Therefore we recommend:

- (a) ***That the Department of Tax Research become the agency to collect municipal fiscal information on a comprehensive and regular basis.***
- (b) ***That the Department of Tax Research consult with such public and private agencies as it may deem necessary in revising and enlarging the annual questionnaire which it now uses to collect information from the municipalities of the State.***
- (c) ***That the municipalities of the State give full cooperation in the annual completion of the questionnaire of the Department of Tax Research in order that the information collected may be as complete and accurate as possible.***
- (d) ***That the questionnaires and the information developed from them by the Department of Tax Research be made available to other public and private agencies, subject to such reasonable rules and regula-***

tions as the Department of Tax Research may make to assure the preservation of all records and the orderly conduct of its regular work.

F. General Conclusions

In conclusion, we think it desirable to give a succinct statement of our views on municipal finance in North Carolina today.

First, it is clear to us that North Carolina cities do not need to enter a crash program of immediate expenditures to bring a satisfactory level of governmental services to our urban population. On the whole our cities are providing a level of services which compares favorably with cities in every part of the country.

Second, the major unmet needs of our cities are for capital improvements in water and sewer systems and in the major street system. We do not overlook the fact that some cities have major needs in other services, but these needs are the exception rather than the rule.

Third, the municipal tax burden, relating taxes to per capita income, has not been rising. To some extent this is attributable to additional State aid. To some extent it is attributable to the fact that expenditures for necessary municipal services are not increasing at a rate as fast as per capita income, nor does it follow that they should.

Fourth, the property tax in North Carolina, even allowing for an upward trend in county taxes to meet the demand for school construction, still produces only about \$3 out of every \$10 raised for State and local governmental expenditures compared with \$4.50 in the average state.

Fifth, any plan for decreasing property tax rates for general fund municipal purposes would require an increase in State income or sale taxes or additional excise taxes. In our judgment, since our sales and income taxes are already higher than in the average state, and since proposed municipal excise taxes would, in order to be productive, have to duplicate existing State excise taxes, relieving the property tax in our cities would transfer an additional burden to taxes which are already high. Such action would, in our judgment, handicap the State at a time when it is competing for new economic growth.

Sixth, since the major demands for new municipal services and facilities concern functions not

generally supported by the property tax, we do not foresee a need for a general increase in property tax burdens in our cities so long as the tax base is stable and equitable and is periodically adjusted to reflect new development.

Two exceptions may be noted. Some cities have not reached a satisfactory level of services in some respects. Obviously these cities may have to increase taxes if they want to reach a satisfactory service level. And—we think that it would be inequitable for the property tax to be required to meet some of the necessary major street expenditures and have made recommendations with respect to financing construction of these major traffic-bearing streets.

Seventh, we recognize that some cities have additional sources of non-tax revenue that other cities do not have, such as ABC revenues and electrical profits. We have not found any practical method of giving equivalent sources of revenue to

cities not having these enterprises without creating problems for the entire State-local tax system.

To summarize, we believe that the *property tax* is well suited to produce the revenues needed to provide police and fire protection, sanitation, street maintenance, recreational and library programs, and other general municipal functions. We believe that *special assessments* can be used to good advantage in the construction of residential streets and drainage systems. We believe that water and sewer systems can be best financed through user *charges*, backed up by the full faith and credit of the city. With already existing State financial assistance, and with State responsibility for major streets and highways as recommended by us, and with a stable property tax base which is re-examined and revalued every eight years, we believe that cities in North Carolina have the means to provide and extend essential governmental services of good quality with equity to each and every taxpayer.

Summary

This Commission was established to determine the legislative changes needed if municipalities in North Carolina are to provide for "orderly growth, expansion and sound development." We found that legislative changes are needed—now.

North Carolina is becoming an urban state. Industrial development is making it a state of cities and towns, not just a state of farms. In 1930 only one North Carolinian in every three lived in a city or town. Today more than four out of ten live in cities and towns. In just twenty years, six out of every ten people will probably live in and around cities and towns. Between now and 1980 one and a half million more people will be living in and around the cities of this State.

Why?

The answer is simple. North Carolina is moving from an agricultural to an industrial economy. Industry locates where there are good transportation facilities, an available labor force, access to markets and to raw materials, plentiful electric power, ample supplies of water, waste disposal, a fair tax structure, and an attractive and livable community. All of these factors are most likely found in cities and towns. And if industry moves to rural areas, soon new homes and stores and community facilities spring up to create new urban areas. In short, urban development is the inevitable consequence of industrial development.

Our cities and towns are growing; new development is springing up around our cities, between our cities on the new highway systems, and in isolated rural communities.

We welcome this development. But urban development creates problems just as surely as it produces benefits.

The Problems of Rapid Urban Growth

Rapidly growing urban areas can be pleasant places to live. But they can also be areas where sanitation is inadequate; where new buildings are fire traps; where streets are too narrow to carry essential traffic; where a helter-skelter combination of homes, stores, filling stations and industries produces "new" outlying slums as undesirable as the older downtown slums. Ideal industrial sites may be infiltrated and destroyed by scattered substandard housing. The fringe area may block off

desirable new development from the city, prevent needed extension of water and sewer facilities, and destroy the garden gateways to our cities.

North Carolina does not have to follow the pattern of other parts of the country and permit unsightly and substandard development to smother its cities and towns, to strangle its highways, and to mar the beauty of its rural areas. North Carolina can have good development, can increase its income, provide new jobs and new homes and new business, and still maintain its cities and towns—new and old—as good places in which to live.

The Key to a Solution

The key to the solution is simply to use our common sense, to look ahead, to anticipate our problems, and to take effective action to avoid them. In a word, we need effective community planning.

What is community planning? First of all, planning is and must be part of the governmental process. All through this State we must have:

Planning boards composed of representative citizens to study our communities; seek out their economic strengths and weaknesses; determine how many new people we can expect; anticipate the streets, sanitation facilities and water supplies needed to serve these people; recommend where new business and industry should locate; and see how effective governmental services can be provided.

Technically trained personnel to assist planning boards.

Far sighted city councils and boards of county commissioners to put plans into effect through subdivision ordinances, zoning ordinances, building regulations, street and utility extension policies, and capital improvement programs.

The job is not one for cities alone. It can be done only through the cooperation of cities, counties and the State of North Carolina, working together toward common goals.

Orderly Growth and Expansion— Recommendations

And to make this possible, the following action should be taken.

We recommend that cities and towns throughout the State place renewed emphasis on their planning programs.

We recommend that counties recognize the need for meeting the problems of rapid urban development in rural areas by putting planning programs into effect.

We recommend that all cities and towns be given the necessary authority to enact and enforce regulations governing the subdivision of land.

We recommend that all counties be given the necessary authority to enact subdivision regulations.

We recommend that all counties be given the authority to adopt zoning ordinances; and since new development may concentrate in small areas rather than throughout the county, we recommend that counties have the authority to zone parts or all of the county, in the discretion of the board of commissioners.

We recommend that agricultural land be exempted from the effect of zoning ordinances.

We recommend that cities of over 2,500—because they have a special and essential interest in the development of land just outside their corporate boundaries—be given authority to zone for one mile beyond their corporate limits, with residents of the outside area being given representation on the planning boards which recommend zoning ordinances and the boards of adjustment which hear appeals in individual cases.

We recommend that cities of over 15,000 be authorized to contract with boards of county commissioners for extension of subdivision and zoning controls for distances greater than their basic one-mile jurisdiction.

We recommend that the State make extension of corporate boundaries a matter of State-wide policy through a new annexation procedure. (This Commission is working on such a new procedure and hopes to make specific recommendations in about two months.)

We believe that these recommendations, if enacted into law, will give local governments the necessary enabling authority to meet problems of urban development wherever they may arise.

Financing Municipal Government

The problems of financing cities are complex. Cities and towns are characterized by complicated utility and street systems which are essential to sound urban development. All land developed for urban purposes does not need municipal services, but all intensively-developed urban land must have them. And if cities are to expand their services and their facilities to serve newly-developed land, they must have the revenues to do the job.

We have given the municipal tax and revenue structure careful and exhaustive study. We have discovered that:

Residents of municipalities are paying proportionately only one-half as much of their income for municipal taxes as they did in 1941 and the proportion is not now on the increase.

The property tax in North Carolina is relatively much less important as a source of State and local revenue than it is in other states.

Municipalities of all sizes throughout the State are maintaining an acceptable level of services under the present revenue system and seem able to continue to do so as they grow larger.

The use of special assessments and utility charges in many cities and towns is still below feasible and appropriate levels.

In short, we have concluded that the present municipal revenue system, based on the property tax and user charges, is both adequate to produce needed revenue and equitable in the manner in which it raises funds for municipal services—provided that it is properly administered.

The Property Tax—Recommendations

But if cities and towns are to do their jobs properly, the present system must be strengthened.

Therefore,

We recommend that the recommendations of the Tax Study Commission, designed to result in a more stable tax base and in equitable valuations on all types of property through limitations on exemptions and periodic revaluations, be enacted into law.

We recommend further that the General Assembly adopt measures to insure that revaluations are made when they are scheduled.

We recommend that in order to stabilize the

tax base of municipalities at a level sufficient to produce essential revenues, the General Assembly limit the authority of counties to establish their own assessment ratios so that the ratio established in any county shall not be less than 55 percent.

We recommend that, pending enactment of these recommendations, municipalities be authorized to levy ad valorem property taxes for certain major capital improvements without regard to the \$1.50 statutory tax rate limit.

Financing Major Street Construction

Streets are a special problem.

Presently the State has responsibility for constructing and maintaining all extensions of the primary highway system inside corporate limits as well as all streets connecting the secondary highway system with the primary highway system.

Almost every city is faced with both immediate and future needs for new arterial streets capable of moving volumes of traffic into and out from major destinations inside the corporate limits. To meet these needs, the cities have suggested the desirability of new sources of revenue. Rather than allocate new sources of revenue to cities and towns for these purposes, we believe that it would be in the spirit of the present highway law and administratively more desirable if the State Highway Commission specifically assumed responsibility for such streets as a part of the State-wide highway system, where it has not already assumed such responsibility. That is, we believe it should be the responsibility of the State not only to move large volumes of traffic between urban areas but also to carry those volumes of traffic to their major destinations within urban areas, wherever those destinations may be. This would leave cities primarily responsible for local access streets necessary for moving residential and business traffic into the State system, a responsibility which can, we believe, be equitably and adequately carried out from existing gasoline tax, property tax, and special assessment revenues.

Therefore,

We recommend that the General Assembly amend Chapter 136 of the General Statutes to provide that the State Highway Commission have responsibility for constructing and maintaining all streets and highways necess-

ary to move large volumes of traffic efficiently and effectively from destinations outside the corporate limits of municipalities to all major destinations inside the corporate limits.

We recommend that the State Highway Commission assume all responsibility for purchasing rights of way for State-maintained highways, except that municipalities may retain the right, in their discretion, to help acquire rights of way for State highways inside their boundaries.

Fiscal Management

Finally, we have made some general recommendations concerning fiscal management of our cities and the availability of information on municipal finance.

We recommend that our municipal governing boards make better use of available revenues through (a) more effective long-range planning for expansion and development of capital facilities; (b) periodic review of user charges and special assessment policies to insure that the municipality is not meeting from general revenues expenditures which should be borne by customers and benefited property owners; and (c) more effective use of annual appropriations for capital improvements to supplement the use of bonds for such improvements so that the credit of our municipalities may be strengthened.

We recommend (a) that the General Assembly appropriate the necessary funds to permit the Director of Local Government to provide accounting assistance to cities and towns so that more accurate information on municipal finance will be available in each municipality; and (b) that the Department of Tax Research enlarge its annual reporting questionnaires for municipalities to obtain additional information on municipal finance throughout the State.

Conclusion

These recommendations constitute essential first steps toward meeting the problems of rapid urban growth in North Carolina. We urge that they be adopted.