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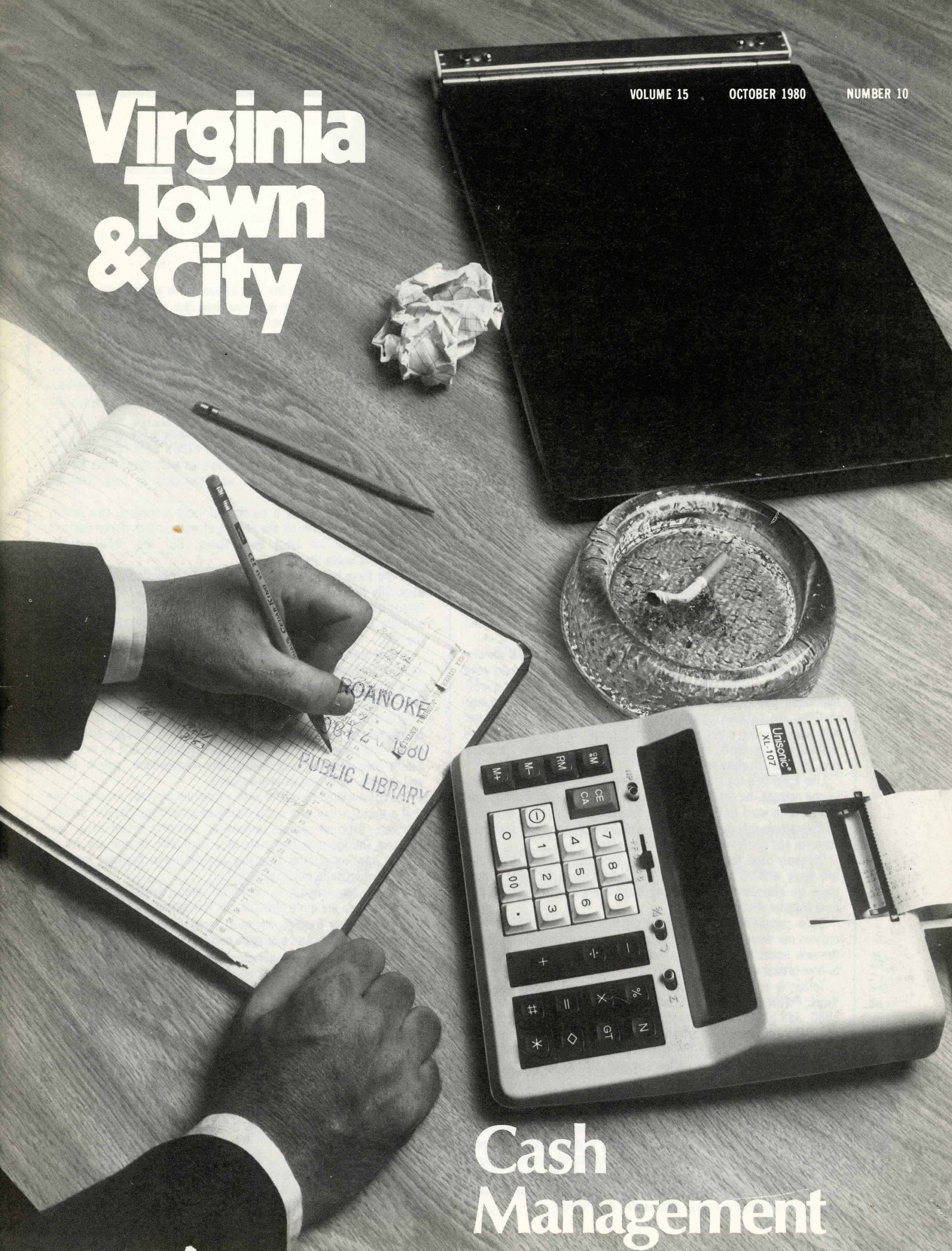
Virginia Town & City



Cash Management

Editorial

FROM WITHOUT TO WITHIN

Pogo or Arnold Toynbee? Take your choice. Pogo says that we have seen the enemy and he is us. Toynbee contends that the most disreputable of all intellectual pursuits is predicting the future.

So what do you say: Are you the enemy (i.e., are you part of the solution or part of the problem), are you afraid of the future, or are you simply confused about what's going on in the cities and towns that you attempt to manage?

Three recent publications have appeared that offer perspectives and some insight into what's going on now in our cities and towns, why things are as they are, and what's going to happen next year—and the next. Hopefully, we are smart enough to know to seek assistance and will turn to some of these books for guidance.

Most accessible, global, and enjoyable of the three is Alvin Toffler's **The Third Wave** (William Morrow and Company, New York, 1980, 544 p., $14.95). As the keynote speaker at the Phoenix International City Management Association (ICMA) Conference, Toffler outlined the major premises that constitute his book. But whereas his delivery was painfully dry and boring, his work is spritely, interesting, irritating, and challenging.

For Toffler, the future begins now. The "Third Wave" is upon us.

Two great waves of social transformation have been experienced, he states: the first, the Agricultural Revolution (8000 B.C. to around 1700 A.D.); the second, the Industrial Revolution.

Today, we are well into his third wave—the Technological Revolution. He describes our times as one of struggle between second wave and third wave elites. Whereas the former have depended on nonrenewable energy sources, specializations, adherence to machine rhythms, the nation state and <u>representative</u> government, the latter will have floating cities utilizing oil "grown" in the sea, flextime working arrangements, international (actually interregional) association, and <u>participatory</u> government.

Like a kid in a toy store, Toffler is agog at the "new" possibilities. In one passage, he describes the wonder of his new "word processor" and looks forward to the end of secretaries. Elsewhere, he describes an "electronic cottage" where people stay home to work on computer consoles and spiffy new information systems.

On every page there are provocative thoughts. No one, hopefully, will agree with all of them. But, their implications for local government are obvious: flexible working hours are a reality; party politics have become obsolete.

Upon completion, one has a truly global view of the forces that created our society in the past. One also is given an appreciation of the new forces confronting each of us—and receives some insight as to how to deal with them.

Toffler is an optimist. Richard J. Barnet is not. In his **The Lean Years: Politics in the Age of Scarcity** (Simon and Schuster, New York, 1980, 349 p., $12.95), Barnet looks at the world's resources—how much there is of them, where they are, and who controls them.

His work is a study of the international struggle for energy, oil, food, minerals, and water. All are scarce. All are at the center of what's going on in the world today.

Barnet's basic assumption is straightforward: the world is composed of finite resources that are being relentlessly plundered by a multinational elite. His insights into this situation cause shudders.

In a work of true scholarship, brilliantly written, Barnet unravels the scarcity puzzle. He outlines the history of the oil companies since the 1973-74 energy crisis, explores the politics of our petroleum economy, recounts the federal government's responses to the oil shortage and evaluates the energy alternatives to OPEC oil.

Barnet then reports on the speculation in the world's minerals and the resulting inflation. He describes how this country's political alliances have often been based on "who's got what minerals."

In frightening candid terms, **The Lean Years** reveals the way the Five Families of Grain contribute to high food prices, as well as the maldistribution of food. One is shown how international and state-to-state water battles are raging, how labor has become an internationally-traded commodity, and why the world unemployment crisis is the time bomb of the eighties.

Such resource struggles will (and have) reduce the quality of our lives. But—Barnet tells us what we can expect until reorganization, conservation, and technology can provide us with substitutes for the limited and disputed resources we Americans so long took for granted.

While one, particularly a number of local managers, can readily understand the section on the politics of water, other issues demand greater analysis for local implications. But the result—understanding—is worth the effort.

Of the three books being considered, Robert W. Poole, Jr.'s **Cutting Back City Hall** (Universe Books, New York, 1980, 224 p., no price listed) has the most obvious direct implications for local government officials. But, it is also the shallowest and least thought-provoking of the two.

In essence, the author is asking the question why? He suggests that managers (since the public is already) examine each and every municipal program and ask—why—why do we do it? Why is it a municipal responsibiliiy? Why should tax dollars be spent on it?

With this perspective serving as his microscope, he scrutinizes police, courts, fire protection, ambulance service, garbage collection, leisure and recreational services, transit systems, social services and health care, planning and zoning, city management, public works, and schools. No sacred cows are spared.

His conclusions, complete with numerous program examples, are that a manager can save a city money by prioritizing (service delivery by more efficient private providers) services, establishing user chargers (having only the users of a particular service pay for it) and/or thinking smarter (applying analytical and business methods to the production of public services).

Nothing too original is contained here, though some of the examples given are quite effective and interesting.

Be one Pogo or Toynbee, one must agree with Bob Dylan: the times they are a changing. And managers must take heed.

The authors reviewed convincingly argue that it matters very much to local government managers what OPEC does. That it matters very much what the condition of the dollar is on Tokyo money markets. And that managers must look far beyond the boundaries of their towns and cities in order to understand what is happening within their towns and cities.

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Virginia Town & City

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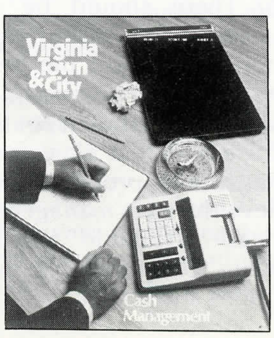

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What Is Cash Management?

By James Lewis

Cash management is the management of local funds to insure maximum cash availability and maximum yield on the short-term investment of idle cash.

Why is there a need for cash management?

Local governments are confronted with increasingly complex processes and pressures in the management of municipal finances. Demands for expanded services and increased personnel costs are exceeding available revenues and any revenues generated from the investment of idle cash funds can help defray some municipal government operating costs. Cash management is one technique to increase available local revenues.

Can cash management work for medium-sized and small cities and towns?

There is a perception that cash management is only for larger municipal governments, due in part because much of the literature available on the subject is highly technical and oriented toward a large organization. Cash management can be kept very simple in the small community and, keeping idle funds working even at a low interest will provide good returns. The effective management of funds is well within the capabilities of virtually all municipal governments.

Who should operate a cash management program in your locality?

Many large cities have a full-time manager of cash and short-term securities, trained and experienced in finance. Smaller communities, however, usually employ one person to take care of all financial management activities and should be the person with cash management responsibility. He becomes the city or town 'cash manager'.

Where does the cash manager begin?

The first step is to organize the scheduling of cash flow for a reasonable period into the future so the amount of funds available for investment and the period for which they can be invested will be known to the fullest extent possible.

What is "cash scheduling"?

This process relies on reviewing past financial transactions and estimating the repetitious occurence of these transactions. A review of four years should be sufficient to determine patterns of incoming revenues and outgoing expenditures. This cash flow analysis is critical and should be done very carefully.

Once the review has been completed, future estimates of cash flow for at least six months may be completed. The advantage of the cash flow schedule is that the cash flow of the municipality is estimated in such a way as to provide a basis for maximizing investment potential. By reviewing the amount of excess cash available at the end of each week, investments can be undertaken to generate the highest yield possible.

Where does the cash manager begin the process of "cash scheduling"?

The cash manager should critically review each checking account maintained by the municipality. The number of checking accounts should be held to a miminum. For example, the opportunity to invest idle cash would be more obvious and the mechanics would be less complicated if four bank accounts were combined into one. In addition, the cash manager may be able to invest larger amounts temporarily at higher interest rates than would be possible for smaller amounts. A standard procedure should be established for same-day deposit of all municipal receipts. Undeposited receipts cannot be invested at day's end.

Which financial institutions are important in effective cash management?

The answer is those institutions which on a day-to-day basis are active in money markets. The more commonly known financial institutions include banks, savings and loan associations, investment brokerage firms and mutual savings banks.

Banks are important in cash management to a municipal government. First, they provide access to primary and secondary money markets. Second, they provide essential services which, if not provided by a bank, would be provided by the jurisdiction itself. These benefits are not free. Banks make money by earning interest on money they loan. The amount a bank is able to loan depends directly on the amount of deposits it has on hand. Because local governments are often large depositors, banks normally will complete their accounts. For the efficient achievement of cash management goals, the following conditions should exist:

(1) The municipality must know the services which are available to it from the bank;
(2) The municipality must know its costs and the bank's cost of providing each individual service;
(3) There should be periodic competition among banks for the depository accounts of the municipality;
(4) On-going banking relationships must be continually evaluated;and
(5) There should be open competition among financial institutions on a day-to-day basis in order to get the best values when making investment decisions.

What is an investment strategy?

It is a plan that governs the actions taken in a cash management program on a day-to-day basis to achieve the cash management goal of maximum yield on cash available for investment. The strategy provides guidelines for daily or weekly investment decisions and should include the following:

(Continued, page 6)

ABOUT THE AUTHOR
Mr. Lewis is an Intern with the New England Municipal Center in Durham, New Hampshire. The Center is a regional municipal government resource and program center sponsored by six state municipal leagues.

Terms

Money market identifies the place where municipal governments invest idle cash. Primary money markets involved the first sale (or purchase) of an investment instrument, where the investor buys directly from the issuer. Secondary markets occur when investment instruments are purchased and sold among investors without affecting the obligation of the issuer. Primary markets allow investors to bid directly for the purchase of a security with the issuer, and tend to allow more favorable prices. Secondary markets allow an investor to purchase a security on other than the date of issuance or to sell a security prior to its maturity date, which is how a security achieves liquidity.

Maturity is the date on which the issuer will redeem the principal at par (face) value. This determines the length the security will be held, be it 30 days, 90 days, one year, five years, etc. Ideally the cash manager will buy a mix of securities with maturity dates spaced out evenly.

Marketability is a key issue related to maturity because it dictates the terms and conditions of a sale prior to the maturity date. The stronger the demand and the maximum activity in secondary markets, the more marketable or "liquid" it is.

Risk involves the possiblity of losing some or all of the initial invested principal. Risk is usually limited by legislation by restricting investments to only the safest securities. Most securities in which local governments are allowed to invest are backed by the U.S. Government or banks issuing the securities.

Call provisions allow the issuer to repay a security's obligation prior to its maturity date. This is disadvantageous to the investor because it makes the possible sale date unpredictable. Call provisions are more common in corporate securities and are often not a major concern of the local government investor.

Taxability implies that the interest earned is non-taxable by the federal government (such as municipal bonds). For that reason, the pre-tax yield on such securities is lower than on most investment instruments with taxable earnings.

Repurchase agreements, commonly called "repos", are the most flexible investment instrument available because they allow a jurisdiction to negotiate the yield and maturity. Generally they are in effect from one to seven days. It is an agreement with a commercial bank wherein a municipal government with money to invest purchases a security from the bank in return for the bank's agreement to "repurchase" the security on a specified date for a specific amount. No risk is involved because the principal is guaranteed and the return is fixed. The minimun denomination is usually $100,000.

U.S. Treasury Bills, "T-Bills", are sold by the U.S. Treasury in denominations of $10,000, $100,000, $500,000 and $1,000,000 for maturity periods of 91, 82, 270 and 360 days. They are essentially risk-free and have an active secondary market which makes them quite liquid. These Treasury obligations bear no interest, but the yield results from purchase at a discount from the redeemable value.

U. S. Treasury notes and bonds are obligations that are interest bearing and range in maturity from one to ten years for the notes and 10-30 years for the bonds. Denominations can range from $1,000 to $1,000,000, with the lower maturity issues having high liquidity. Both have an active secondary market, though primary market availability is sometimes a problem.

Federal agency securities vary widely depending on the issuing agency and although they are not technically legal obligations of the U.S. government, there is little risk involved because the government closely supervises the issuing agency. Maturities range from several months to several years, and the key advantage to smaller jurisdictions is the low minimum denomination requirements. The secondary market is active and liquidity is excellent.

Negotiable certificates of deposit offer the advantage of high interest bank deposits for a generally short term of investment. Both maturity and interest rate are negotiable. Maturities start at 30 days, but denominations are high, starting at $100,000. The primary market exists constantly, while a good secondary market provides generally high liquidity.

Certificates of deposit are long term investment instruments, generally ranging in maturity from thirty days to seven years. They are available from banks and savings and loan associations at any time, and maturity and interest rates are negotiable. The minimum denomination is $1,000 with the risk being low. Emergency liquidation may include penalties.

Time deposits occupy the middle ground, between "CDs" and "Negotiable CDS." The maturities are generally short, running from 30 days to a year. Neither interest rates nor maturities are negotiable. Liquidity is limited by the yield penalties for early withdrawal and lack of a secondary market.

Commercial paper represents promissory notes of finance corporations or industrial firms. It involves greater risk than the other instruments mentioned above and many states have legal restrictions against its use. Maturities range from 5–270 days, with daily availability in primary markets. Liquidity is low because no secondary markets exists. Denominations start at $100,000 and extend to $5,000,000.

Long term debt allows the local government to stretch cash payments for a large capital improvements project over a longer period of time. It is unlike almost any other obligation of a local government in that it commits the jurisdication to a financial obligation for a number of years. Most cash management problems are associated with long-term debt. The municipal government must plan well in advance to insure that payments can be met and that the size of the transaction is well within the capacity of the municipality to pay.

Short-Term Debt provides necessary cash to sustain a local government through a period in which revenues and reserves are not sufficient to meet cash availability objectives. Short-term borrowing is usually severely restricted by state and city charters primarily to insure the solvency of local governments. Nevertheless, it is a legitimate tool of local government cash management. When expenditures must be met to maintain government operations and it is clear the debt will be issued for a specific period of time (less than one year), and when the revenue to repay the debt is assured, then the use of short-term debt is warranted. It should be noted that frequent issues of large amounts of Tax Anticipation Notes and Revenue Anticipation Notes could have an adverse effect on the credit rating of the municipal government.

(1) A cash budgeting capability and the knowledge of investment securities by the cash manager;
(2) A written strategy prepared by the cash manager; and
(3) A revision of the strategy on a quarterly basis.

Which criteria should be considered in developing an investment strategy?

1. The amount of money available to invest. The cash budget combined with information on current investments determines the forecast of the amount of cash available to be invested.
2. Money market conditions. An analysis of historical and present money market conditions helps forecast the expected increase or decrease in the yield rates of various types of securities;
3. Mix of securities. The cash control and reporting system should provide information about the current mix of investments (which investments have been made and for what periods of time) representing the investment portfolio at the beginning of the period covered by the strategy.

The effectiveness of the investment strategy is best measured by the ability to achieve the yield, dollar return and efficiency objectives set out at the beginning of the year. Actual results should indicate how well the strategy worked. Establishing the strategy is a dynamic activity. It should not be followed only because it was set out and written down. On the other hand, the worst situation would be one in which a cash manager totally disregards the cash management strategy in favor of a day-to-day approach.

What are collection, deposit and disbursement procedures?

Collection Procedures. Localities should request payment at time of delivery of services in the same manner as private business. Regular billing should be followed by dunning notices and late payment penalties to encourage prompt payment.

Property tax due dates, methods of notification and penalties are usually defined by state law, and a change in any of these procedures would be difficult for any jurisdiction to implement.

The collection of funds from other sources, e.g., outside funding agencies, are usually received on a schedule dictated by the outside source. Depending on the program, there can be wide latitude exercised by the fiscal officer of the funding agency as to when the payments are made. A good relationship with this individual, and an understanding of the rules under which they operate, can result in the prompt scheduling of payments.

Deposit Procedures. Many internal procedural changes can accomplish more rapid deposits. Increased staff help during periods of heavy property tax collection time can speed the processing of the mail and the placement of receipts in the bank. Many banks will accept direct mail transmission of property tax payments from property owners. Arrangements can also be made to receive other revenues in this manner. Under this arrangement, the bank deposits all receipts for each day and forwards the paperwork to the local government for processing. This removes a step in the deposit process and payments become available for use or investment almost immediately upon receipt.

Some banks have the facilities for receiving notice of fund transfers electronically and arrangements can be made with outside funding sources to make such transfers and eliminate the time lost in mailing. This opens the possiblity to earn an extra one or two days interest.

Disbursement Procedures. Disbursement should be timed to remove cash from the treasury only at the last possible moment. Control of routine disbusements is essential. This should be tempered by the need to conduct business in a fair and equitable fashion. Dissatisfied vendors will only complicate matters. A solution to the control problem is to schedule only two payrolls and two vendor paydays per month. Vendors will become accustomed to the routine and not complain.

Another system of "aging payables" can improve disbursement control. As invoices are received they should be analyzed and a payment date fixed. They can be filed by payment date and disbursements made on those dates. Factors can be filed by payment date and disbursements made on those dates. Factors which may effect the payment date are discounts available, standard policies for handling different types of invoices, past history of the vendor and the method of payment. Discounts for early payment may result in savings.

Good vendor relations are important. Often a locality faces a short-term cash shortage. Rather than borrow, the municipal government might make cash available by delaying disbursements for short periods of time. In such instances, good communications and a history of good relationships with vendors can help a municipality through this period.

What should a cash manager be aware of when considering investment opportunities?

A knowledge of the available alternative investments and their characteristics is fundamental to developing a viable investment strategy. Common government investments are bank certificates of deposit, repurchase agreements, time deposits, U.S. Treasury obligations and U.S. agency securities. A list of definitions is included with this article. Every cash manager should become acquainted with the terms.

People

Appointments

J. Hamilton Lambert was appointed County Executive by the Fairfax County Board of Supervisors. At the time of his appointment, Mr. Lambert was acting County Executive. He has spent more that 20 years on the county staff and has worked in or been closely associated with practically every department of Fairfax County government. In 1979 the Metropolitan Washington Council of Governments presented him with its Metropolitan Achievement Award. A graduate of a local planning administration courses at the International City Management Association's Municipal City Managers Institute in Chicago, Mr. Lambert also attended the leadership and management program conducted by the University of Virginia.

Suzanne B. Schell was appointed Director of Historic Resources for the City of Alexandria. Ms. Schell was formerly a senior program administrator at the National Endowment for the Humanities and also has been the administrator of Sully Plantation for Fairfax County Park Authority.

The Town of Urbanna appointed **Gilbert E. Woodard, Jr.** to serve as Town Attorney. A graduate of Wake Forest University and the International School of Law in Washington, D.C., Mr. Woodard has a general practice of law specializing in real estate and business organizations.

Beverly Anne Brewer was appointed Surry County Administrator. She is the first black woman to hold such a position. Ms. Brewer is a graduate of Saint Paul's College and was the Director of the Personnel Department and the grants program for Brunswick County. While in Brunswick County, she set up a federal Comprehensive Employment and Training Act (CETA) Program considered to be a model by state and federal officials. Her appointment was effective October 1.

Honors

Roanoke City Director of Finance, **Joel M. Schlanger,** was elected to a four year term on the National Council of Governmental Accounting (NCGA).

The Marion Town Council held special ceremonies to recognize **Walter Boone**, former Police Chief and a retiring member of Council. Mr. Boone served a total of 38 years with the Town.

Charles Hester, Henry Harman and **Harold Wall** recently received ICMA's Certificate in Management Achievement for completing five in-service correspondence courses offered by the Training Institute. All three are employees of the City of Richmond.

Bern Ewert, City Manager of Roanoke, won the Management Innovation Award for Economic and Community Development from the International City Management Association (ICMA). Mr. Ewert, manager of Roanoke since December, 1977, developed and implemented a comprehensive revitalization plan known as Roanoke Design '79, which maximized citizen participation and encouraged public and private cooperation. The award, which praises managers and their cities for innovative programs developed and implemented in response to the needs of the communities, is one of six given annually by the Association.

Police Chiefs

Allen Barley, a former officer with the Winchester Police Department, was appointed Police Chief of that Department. The Town of Warrenton appointed **John W. Zelaska** as the new Police Chief. Chief Zelaska was a former police officer for Fairfax County.

Blackstone Town Council accepted the resignation of Police Chief **L. B. Farley** who announced his retirement September 1. Chief Farley had served as chief for the past 34 years. **Wayne Scott Shields**, former acting Police Chief of Petersburg, was appointed Police Chief.

Deaths

Falls Church mourns the loss of **Samuel James Dennis**, a long time civic leader and former councilmember who died May 30. Mr. Dennis had served on the Falls Church Planning Commission and was a councilman from 1948 to 1949 and from 1961 to 1969. The Virginia Municipal League extends sympathy to the City of Falls Church and to the family of Mr. Dennis.

VML STAFFER APPOINTED

J. Craig McCormick was named Director of Public Safety of Manassas Park, Virginia. He was the In-service Training Coordinator for the training program conducted by the Virginia Municipal League and the Virginia Association of Chiefs of Police.

Mr. McCormick holds an Associate degree in Police Science from Tidewater Community College in Virginia Beach and a Bachelors degree in Criminology from St. Leo College in Florida.

He was a detective with the City of Virginia Beach from 1969 to 1976 and the Executive Director of the Private Security-Polygraph Boards from 1976 until he accepted the position with the League. In 1970, he was named "Police Officer of the Year" by the Virginia Beach Jaycees and was given the same honor by the Virginia State Jaycees for 1970–71.

Mr. McCormick's responsibilities with the City of Manassas Park were effective July 10, 1980. He will oversee both the police and fire departments.

Actual Dollars Saved in Appomattox

By William R. Britton

Trying to keep a municipal budget to a minimum can be difficult. Maintaining the level of service while cutting dollars adds a challenge but a small town of 1,400 seems to be heading in the right direction.

The Town of Appomattox has cut its budget in actual dollars since 1978. There was a slight increase in the 1980 budget but it is still below the 1978 figures.

A historic town covering 1.2 square miles, Appomattox has a public works department, a small police force, maintains public buildings and performs some street maintenance.

Council and staff are not unlike other localities, their biggest challenge is providing services with the least amount of money. The first step in accomplishing a lower budget was joint services with the County of Appomattox so services would not be duplicated. Dispatching law enforcement personnel is handled by the County through the sheriff's department at no expense to the Town. The County also performs building inspections without charging the Town. Fire protection is shared by the Town and County; the department is housed in one building with expenses split between the two localities. Trash pick up is provided by the Town while the County operates the sanitary landfill. Recreation and leisure services are also shared.

Always a large budget item, personnel costs were a major factor in decreasing the budget. After realizing that the Comprehensive Employment and Training Act (CETA) program paperwork resulted in an overload of office time, the contract was dropped. To compensate for the loss of the CETA employees, Appomattox hired local high school students through a summer work program administered by the Virginia Employment Commission. The school handles the paperwork. The Town has a second training/work program through VEC in which employees are trained and employed for six months by the Town before finding permanent jobs. Additionally, there is no overtime for salaried employees and their compensatory time is limited to 120 hours. Hourly staff do not carry overtime hours.

Department heads were asked to work with the goal of cutting dollars but were reminded that the same services should be provided. To assist in this goal, an incentive program is being prepared. If the budget allows, employees will receive a bonus at the end of the year.

Other, smaller practices have been implemented to cut the Town's budget. Bidding on quality equipment in order to get a better price has proved helpful. Recently the public works department purchased a large amount of pipe at a bargain price in order to save dollars and prevent buying higher priced pipe in the next budget year. When there is not a bargain, a purchase is either not made or a less amount is bought. Money on office supplies has been saved by using pens and pencils from local banks who provide them as advertising promotion.

Several years ago Appomattox turned all of its streets over to the State to maintain since only five streets did not meet the criteria set forth by the State when taking over maintenance. This practice has saved the Town thousands of dollars. In order to accommodate the citizens in snowy weather, Appomattox provides personnel and gasoline to clean streets while the State provides the equipment. Otherwise the streets would not be cleaned in time for citizens to go to work since the State's priorities on snow days are highways and other roads.

Localities should be persistent when applying for grants. The competition is overwhelming but Appomattox saved money on capital expenditures since one HUD grant allowed the Town to extend its water lines and construct a 1 million gallon water tank. Another HUD grant helped to redevelop the downtown area. The County of Appomattox and the Towns of Pamplin and Appomattox received a planning grant to prepare a comprehensive plan for the three localities.

The Town has also stopped going outside their workforce and personnel to save money by asking employees to be responsible for more than one job. For example, the office manager has the triple duty of also being the accountant and the clerk to the Council. The manager serves as the treasurer, building official, zoning official and secretary to the Planning Commission and the Zoning Board of Appeals. Other departments, such as the Department of Public Works, also assist in office work if it is necessary. The Public Works Department has saved money by working on small jobs with few people but calling on the whole staff for larger projects.

By looking to joint projects, cutting personnel costs and using other innovative ideas, the Town has managed to cut its budget. The Town Council is conservative but aggressive and by encouraging the staff to be innovative, money—not services—has decreased.

APPOMATTOX BUDGET

	1978	1979	1980
General Fund	$227,028	$183,494	$200,379
Water Fund	77,900	68,830	71,000
Sewer Fund	25,000	20,754	21,000
TOTAL	$329,928	$272,078	$292,379

About The Author
Mr. Britton is the Town Manager of Appomattox.

City, County Dedicate Project

Alexandria and Arlington County held dedication ceremonies for the Four Mile Run Flood Control Project to mark the culmination of the six-year-long project. The project required the cooperative efforts not only of the two localities but also the State of Virginia, the Northern Virginia Planning Commission and other groups. The flood control project was authorized under Section 201 of the 1965 Flood Control Act and due to substantial cost increases, the House Public Works Subcommittee on Water Resources had the Corps of Engineers reanalyze the project for cost saving measures. One significant aspect of the project was the requirement by Congress that in order to obtain federal participation, the cooperating communities had to develop and agree to enforce a comprehensive water shed management plan. This plan, one of the first of its kind, won an award from the Virginia Chapter of the American Institute of Planners in 1978. Total federal cost of the Four Mile Run Project is approximately $51 million with the local cost of $12 million.

(**Deferred Comp,** *from page 18)*

plan is in operation, records must be maintained for each participant, participant inquiries must be answered and the system must be monitored to ensure efficient plan operation at minimum cost. Generally, most administrative costs are passed on to participants. So the more employees participating, the lower the cost to each – a good reason to offer the plan to many, rather than a few, employees.

Because there are many financial products available for investment and administration, municipalities should seek competent advice. The legislation and interpretations of that legislation have changed too fast and too often to leave the responsibliity to those unfamiliar with the *genre.*

*(***TDR,** *from page 20)*

the society sold only its unused development, or density, rights to the developer of a nearby office building for $550,000. Acquisition of the development rights allowed the office building to exceed the ordinary limits by two floors, adding a total of 82,000 square feet. The proceeds of the sale were used to establish a fund to ensure the long-term maintenance and preservation of the mansion.

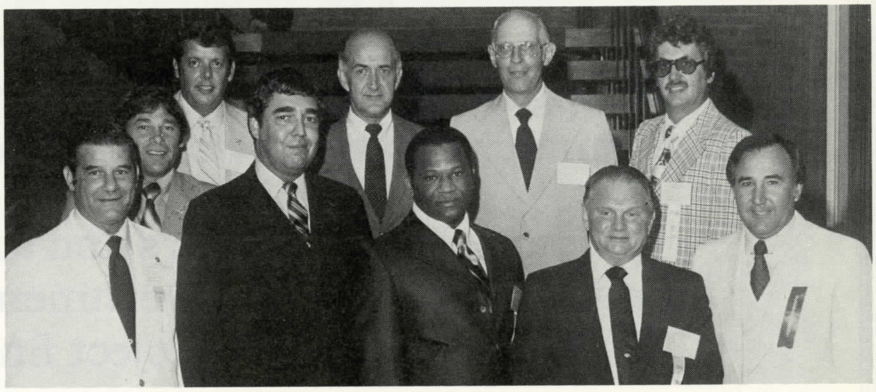
Like all new ideas, TDR has met with criticism. What would happen, some have asked, should there be no demand for development rights? If that were the case—and it could be if builders did not wish to exceed the zoning restrictions already in place—then the whole idea would fail as a means of providing compensation to owners of preserved landmarks. If the government agrees to support the price of development rights, or to by all unwanted development rights, it is in effect providing compensation even though the idea of TDR is to remove the government from that role. Finally, owners who have no intention of changing or demolishing their landmarks will be in a position to reap a windfall by selling unused development rights. They will perceive no loss yet they will receive compensation.

These and other criticisms notwithstanding, some notable successes such as the Heurath Mansion indicate that TDR is a viable tool in land use planning. In some situations TDR can be a solution to the difficult problem of providing for historic preservation at low public cost and with compensation fair to owners of landmarks.

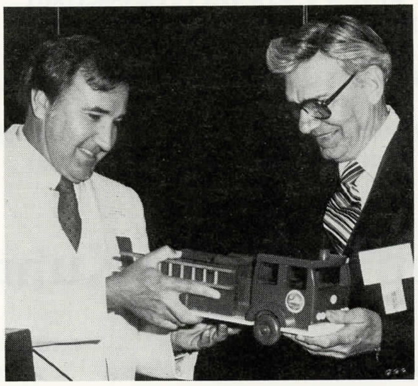
Fire Chiefs Hold 50th

Over 130 people attended the 50th Anniversary Conference of the State Fire Chiefs on July 9–12 at the Sheraton Fredericksburg Inn. The Association was fortunate to have four distinguished guests. The Honorable George W. Jones, Member, Virginia House of Delegates, Chief Rocky Rockenbach, President of the International Fire Chiefs Association, H. Selwyn Smith, former Secretary of Public Safety and Rodney T. Layman, Secretary of Public Safety, attended the Conference. In addition, many of the past presidents of the Association attended and joined in the activities.

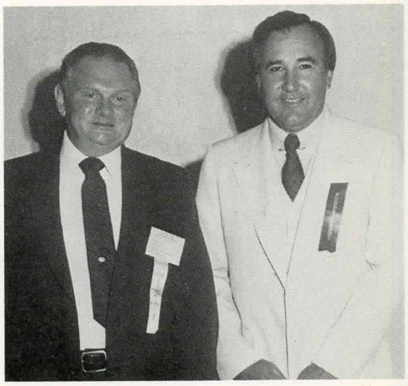
Outgoing President Harry G. Gladding, Jr. was presented a plaque from the Association and a Distinguished Service Award from Fire Services Training. Roanoke Fire Chief Carl C. Holt was elected President while York County Fire Chief Wallace J. Robertson was elected First Vice President and Henrico County Fire Chief Walter R. Stickel was elected Second Vice President. The Executive Committee includes the following: Christiansburg Fire Chief James W. Epperly, Roanoke County Fire Chief Robert N. Monroe, Chesterfield County Assistant Fire Chief F. Wesley Dolezal, Fairfax County Fire/Rescue Deputy Director Alfred A. Savia and Augusta County Fire Chief Ronnie B. Garber. Chief Gladding will also serve on the Executive Committee as Past President. Harry Bailey, former Town Manager of South Hill and Chief of the Volunteer Fire Department, was awarded Honorary Membership during the Annual Business Session.



From left to right: (Front row) Chiefs Al Savia, Julian Taliaferro, Bill Anderson, Carl Holt and Harry Gladding. (Back row) Chiefs Ronnie Garber, Wally Robertson, Bob Monroe, Walter Stickel and Jim Epperly.



President Gladding presents a model of a firetruck to Rocky Rockenbach, President of the International Association of Fire Chiefs.



Newly elected President Carl C. Holt of Roanoke (left) and outgoing President Harry T. Gladding of Tappahannock.

(**Revenue,** *from page 15*)

cent local option addition to the three cent state sales tax. Since all localities have exercised their option, the general sales tax is 4% statewide.

As indicated above, there is specific statutory authority for eight different forms of local taxation. The rates for all of these taxes, except the real and personal property taxes, are limited by statute. These same taxes, with the exception of the transient occupancy tax, are the only taxes counties can impose. There is additional taxing authority available to municipalities under the Uniform Powers Charter Act. These include the cigarette tax which is limited to certain cities by Section 58-757.27 of the *Code of Virginia*, the transient occupancy tax which is granted to a few counties by Section 58-76.1 of the *Code of Virginia*, the restaurant and meal tax, and the admission tax.

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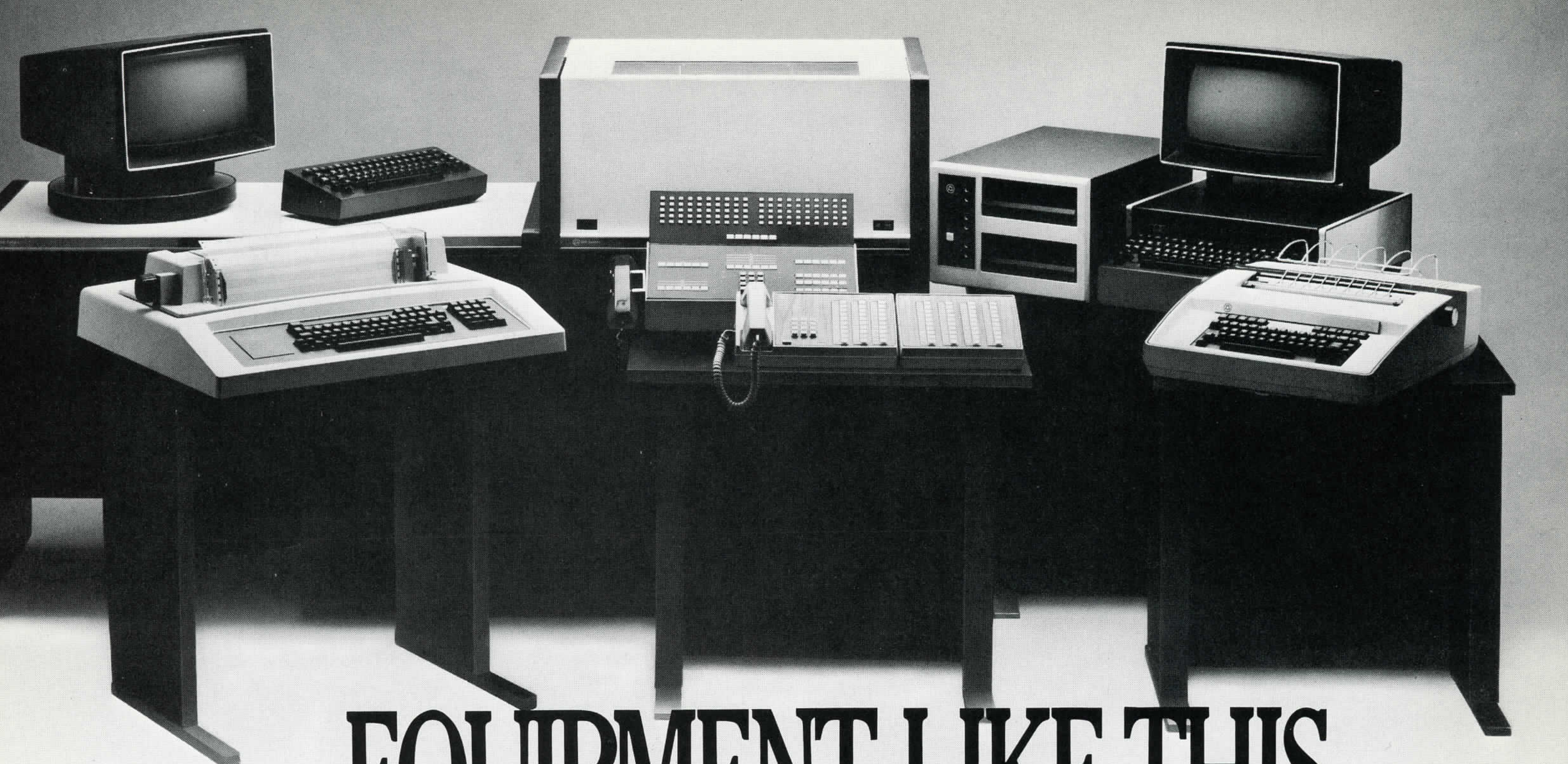

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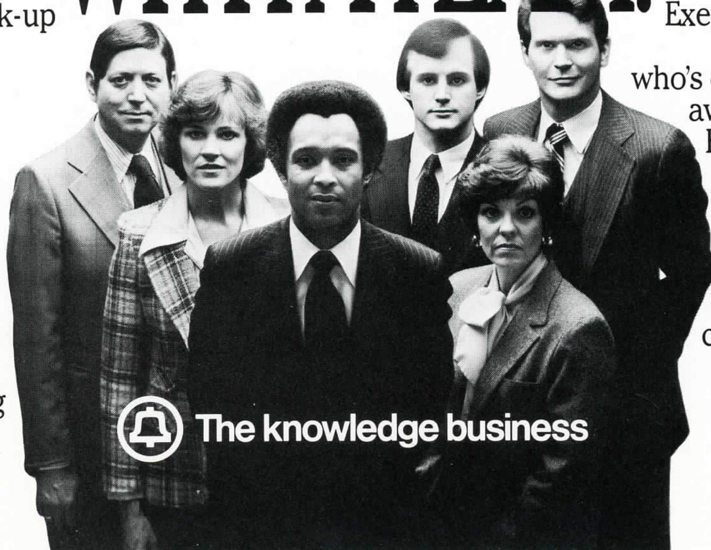


Sources of Revenue for Localities

By Richard F. Weeks, Jr.

Questions frequently arise concerning local authority to impose taxes to raise local revenues. Deriving most of their authority from the State, localities have a number of taxes that are available to them.

These taxes include the real and personal property taxes; motor vehicle licenses; business, professional and occupational licenses; the merchants' capital tax; the bank franchise tax; the utility consumer tax; and utility licenses. Additional taxes are available to municipalities under the Uniform Powers Charter Act.[1] These include the cigarette tax, the transient occupancy tax, the restaurant and meal tax and the admissions tax. The transient occupancy tax and the admission taxes are also available to certain counties by legislative authority under Sections 58-76.1 and 58-404.1 of the *Code of Virginia*.

The real property tax is the most significant tax available to local governments. It makes up the largest share of local tax revenues for most localities; although there are some towns which do not impose a property tax. The statutory authority for this tax is found in Chapter 15 of Title 58 of the *Code of Virginia* beginning with Section 58-758.

The personal property tax is second in importance only to the real property tax as a source of revenue for local governments. The statutory authority is found in Chapter 16 of Title 58 of the *Code of Virginia*. Only tangible personal property can be taxed by localities. Taxation of intangible personal property such as stocks and bonds is reserved by the State for its exclusive use. Tangible personal property falls into two categories. One category is personal property such as cars, trucks, mobile homes and recreational equipment; the other is machinery and tools which is imposed on industry and manufacturing. Farm machinery and animals are exempted from personal property taxation. The merchants' capital tax is authorized under the personal property tax included in Chapter 16 of Title 58 and is imposed as a personal property tax. However, no locality can impose both a merchants' capital tax and a business, professional and occupational business tax. (This tax is discussed later in this article).

The significance and incidence of the remaining taxes vary among the localities. The business, professional and occupational license tax is authorized under Chapter 7 of the *Code of Virginia*, which also authorizes the various licensing activities. Section 58-239 through Section 58-266 deals with the licensing authority and Section 58-266.1 through 58-266.5 authorizes localities to impose local license taxes. These sections were amended during the 1978 Session of the General Assembly placing a cap on the rate of taxation. This is probably the most unpopular of the local business taxes since it is a gross receipts tax which bears no relationship to the profits or losses of a business.

Localities can tax bank and trust companies under Chapter 10.1 of Title 58 of the *Code of Virginia*. This tax is administered by the state. The tax rate is set at one dollar per hundred with the state retaining twenty percent. This tax was formerly known as the bank stock tax but was changed to a bank franchise tax due to litigation against localities which claim the tax was an unconstitutional taxation of federal securities in which most bank assets are held.

The utility consumer tax is authorized under Section 58-587.1 of the *Code of Virginia* at a maximum rate of twenty percent and not in excess of fifteen dollars per month. Various utility license taxes can be imposed under Chapter 12 of Title 58.

Localities have the authority to impose license taxes on motor vehicles under Sections 46.1-65 through 46.1-66 of the *Code of Virginia*. This tax applies to motor vehicles, trailers and semi-trailers and cannot exceed the rates charged by the state. This tax also provides a mechanism for insuring that personal property taxes are paid on these motor vehicles and trailers. A locality has the authority to deny a license until an applicant can show satisfactory evidence that the personal property taxes have been paid.

The authority for counties to impose taxes within a town vary depending upon the local tax in question. Some county taxes do not apply within the town, if the town imposes the same tax. These include the business, professional and occupational licenses tax and the bank franchise tax. However, when a town imposes real and personal property taxes it does not pre-empt county real or personal property taxes.

Other town taxes also pre-empt or partially pre-empt county taxes but the revenues are not as significant. When a town imposes a motor vehicle license tax, the town residents receive a credit on the county tax for the amount paid to the town. This provides a strong incentive for a town to increase its tax to equal that of the county's, since this can be done without increasing the burden on town residents. Although a town business, professional and occupational licenses tax pre-empts the county tax, the merchants' capital tax is an add-on tax, even though a town cannot impose both a BPOL tax and a merchants' capital tax. The utility consumer tax, when imposed by the town, pre-empts the county tax but only for towns providing water and sewer services and police or fire services or schools.

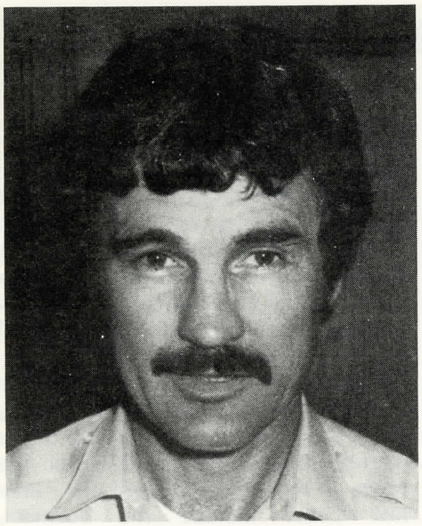
There is also a one cent sales tax which is administered by the State and returned to cities and counties based on the point of origin and to the towns within a county based on school age population. This was designed as a one

(Continued, page 10)

[1]*Code Sections 15.1-837 through 15.1-915*

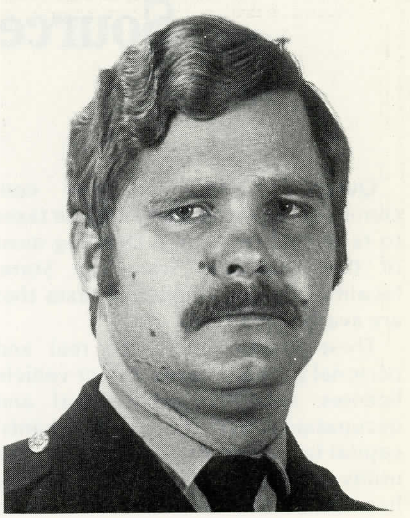
About the Author

Mr. Weeks is a Staff Associate for the Virginia Municipal League.



D. E. Harrison

J. C. Skelton



R. E. Weeks

Chiefs Give Meritorious Service Awards

At the 55th Annual Conference of the Virginia Association of Chiefs of Police in Fredericksburg on August 20, 1980, three Meritorious Service Awards were presented to individuals for promoting better law enforcement or performing an act of bravery in Virginia.

Dean Erwin Harrison is a Patrolman/Police Officer with the Arlington County Police Department. Officer Harrison distinguished himself last November when he risked his life while off-duty to disarm a gunman who had shot a used car salesman three times. During the struggle with the gunman Harrison was fired at three times at point blank range. All three shots missed. The victim has recovered from his wounds and the assailant was convicted of attempted murder and sentenced to thirty-one years in prison.

Richard R. Weeks is a Senior Police Officer with the Fairfax County Police Department. In April 1979 Officer Weeks went to the assistance of a Metrobus driver having difficulty with a disorderly passenger. Officer Weeks asked the passenger to leave the bus or be placed under arrest. The passenger indicated possession of a gun and threatened to shoot Officer Weeks and the other passengers. Assuming the passenger to be armed, Officer Weeks told the passenger to shoot him but to let the other passengers off the bus. The passengers were unloaded safely and the bus driver was instructed by Officer Weeks how to call for assistance over the police radio. At that point, the disorderly passenger suddenly stood up and threw an object at Officer Weeks. He could then see she was unarmed and proceeded to arrest her.

Even though the woman was unarmed, on the basis of the information provided by the driver and the actions and statements of the woman herself, Officer Weeks reacted to the situation in an extremely courageous and professional manner. He knowingly placed himself in potential danger in order to insure the safety of the other passengers on the bus.

James C. Skelton is the Administrator of Investigative Services for the Division of Motor Vehicles.

Through his efforts the Division of Motor Vehicles has been made a viable source of assistance in identifying, tracking and locating criminals. His personal attention, in many instances, has resulted in a closer, more productive utilization of the vast information available. His influence and personal attention has resulted in special computer programming to extract information that would assist in major criminal investigations.

The Virginia Association of Chiefs of Police and the Virginia Municipal League congratulate these individuals on the receipt of this honor.

Clintwood Council Is Family Affair

When Council meets this month in Clintwood, Joyce and Richard Stallard will take their seats as new members. The mother-son duo see no reasons why they cannot work together since they have worked side by side at a family owned florist business for seven years.

It was Richard's idea to run for election first until "my mother jumped on the bandwagon," Richard revealed. Mrs. Stallard is looking forward to being the first councilwoman on the Clintwood Council after the "Petticoat Government" of the 1950's. Her son, assistant chief for the town's volunteer fire department, is also anxious to get started as a town father. The Stallards' main reason for running was to get involved and to encourage citizen participation. They both agreed that it will not be a "Stallard takeover" of the Council but they will only make decisions in the best interests of Clintwood.

Getting Less Now and Enjoying It More Later

Deferred Comp

By Gail P. Scott

There may be nothing certain in life but death and taxes, as Benjamin Franklin once remarked. But in recent years, Americans have been looking with great hope at the prospect of at least delaying taxation.

For some people, deferring the time they receive money they have earned can help. That day in the future when they take receipt may be the time they plan to retire, when their incomes will generally be smaller and the tax bite they face lower. And reducing Uncle Sam's (and the Commonwealth's) slice of their pie is the objective.

Employees of the Commonwealth of Virginia and its municipal subdivisions have only recently been able to defer a portion of their compensation. Virginia enacted the Government Employees Deferred Compensation Plan Act in 1974. However, the validity of plans developed under that act was in question until the passage of the Revenue Act of 1978. That act added Section 457 to the Internal Revenue Code of 1954 (as amended), and the door was opened for municipalities in Virginia to provide a savings plan.

'Should be part of the benefit package'

Because there has been confusion regarding deferred compensation plans for their employees since enabling legislation was passed, few Virginia municipalities have offered such plans to their workers and elected officials. Recently, United Virginia Bank began working with localities to assist them in developing deferred compensation plans which should be considered a part of the overall employee benefit package.

Employees participating in deferred compensation plans should consider their decision a permanent commitment. No withdrawals are permitted prior to retirement, disability, death, or termination of employment, except in cases of extreme financial hardship. Therefore, employees should be counseled against use of this benefit for short-term savings. Control of the funds must remain with the employer municipality, or the employee could be liable for immediate taxation of the funds; there must be no 'constructive receipt' by the employee of the income. (Even though the employee has earned the money and the employer has promised to pay him at a future date, there is no constructive receipt as long as the employer continues to keep the funds comingled with other municipal deferred monies.)

A deferred compensation plan for public employees differs from similar tax-deferred annuity plans available to public school teachers and employees of some non-profit organizations in two important ways that are a 'plus' for municipal workers. First, as much as one fourth of gross income, up to a maximum of $7500 per year, may be deferred. That $7500 can increase to $15,000 annually under a special catch-up provision during each of the three years before an employee retires. Second, elected officials may participate in deferred compensation plans. In addition, a municipality may choose to offer its plan to every employee or just a select few.

Deferred compensation plans are primarily designed for employees who cannot participate in tax-deferred annuity plans. Individuals, however, who qualify for a tax-deferred plan may benefit by participating in both because their contribution limit is generally higher under the deferred compensation plan; contributions to their deferred compensation plan must be reduced by any contributions to a tax-deferred annuity plan.

'Withdrawal is almost impossible'

As mentioned earlier, employees electing the deferred compensation plan may not withdraw funds from the plan before retirement, death, disability, or termination of service except in cases of extreme hardship. In addition, these employees must begin to receive benefit payments within 30 days after one of these events, and the payment option cannot be changed after payments have begun. There is also no estate tax exclusion for any death benefit paid.

For municipal workers, deferred compensation plans work under the salary reduction concept. Federal and state taxes, but not Social Security contributions, are deferred until the time the individual actually receives the funds. However, Social Security and other retirement benefits continue to be based on gross income before deferral. When benefit payments begin, generally at or after retirement, the recipient will pay state and federal taxes but only on the amount actually received each year, and only at the rate applicable for his income at the time.

Since 100 percent of the contribution to the fund comes from the employee, there is no forfeiture provision if the employee leaves the municipality before retirement. If a participant in a deferred compensation plan terminates employment other than through retirement, death, or disability, payment may be made in lump sum or in monthly payments, depending on the option selected. Current federal regulations do not permit the portability of this benefit.

Once a municipality has decided that it wants to offer at least some of its employees the benefit of a tax-deferred compensation plan, where does it go from there?

First, a plan must be developed that will meet the employer's requirements as well as all applicable federal and state laws. Next, filing materials must be prepared and approved by regulatory authorities, including the Virginia Deferred Compensation Commission. Then the municipality must appoint a deferred compensation committee to develop plan schedules and procedures, to select financial products and to resolve questions that may arise regarding the plan. Specifications for the investment of plan assets must be prepared, and all administrative procedures and forms designed.

The employer is also responsible for developing accounting procedures for the plan as well as informing employees about it through printed materials and group meetings. Individuals interested in participating will need personal counseling as well.

Once the deferred compensation

(Continued, page 9)

ABOUT THE AUTHOR
Ms. Scott is public relations officer for United Virginia Bank. Her article is based on two seminars for financial executives of Virginia municipalities conducted by Kenneth L. Walker, UVB pension trust officer, and Stanley E. Clarke of Stanley E. Clarke and Associates, a Washington, D. C., consulting firm specializing in deferred compensation plans. The seminars were held August 5 at UVB in Richmond and September 18 in UVB's Alexandria main office.

RICHARD A FARRIER

RICHARD A FARRIER

1921 - 1980

Richard A. Farrier, VML Third Vice President and Staunton Councilman, died July 18, 1980.

Mr. Farrier served three two year terms as Staunton's Mayor from 1968 to 1974 and was in his fourth term on Council at the time of his death.

The League will miss one of its most able and longstanding leaders. Mr. Farrier first served on the Executive Committee in 1971 and was elected Fourth Vice President in 1973. He was defeated for reelection as Mayor on 1974 but won a seat on Council in 1976. He also was elected to the League Executive Committee for the second time in 1977; and was elected Third Vice President in 1979.

Councilman Farrier was known statewide for his public service. He was a past president of the Virginia Easter Seals Society and was a delegate to the White House Conference on Small Business. He was also a member of the State Council on Criminal Justice.

Mr. Farrier was a welcome visitor to the League office during his frequent trips to Richmond. The VML extends sympathy to his family and to the City of Staunton.

Virginia to Vote on 4 Questions

By Bragdon R. Bowling, Jr.

On November 4, 1980, in addition to the ballotting for the Presidential election, the voters of the Commonwealth will be asked to decide upon four questions which would amend the Constitution of Virginia. In the event the amendments pass, each would become effective on January 1, 1981. Several have relevance to local government.

Question 1. Chapter 636 of the 1980 Acts of Assembly.

This proposed amendment would require the General Assembly to reconvene on the sixth Wednesday after adjournment of each regular or special session for the purpose of considering bills which may have been returned by the Governor with recommendations for their amendment and bill items of appropriation bills which may have been returned by the Governor with his objections. No other business would be considered at reconvened sessions and such sessions would not last longer than ten days. The amendment further provides that the presiding officer of each house or upon such officer's inability or failure to act, a person designated by a majority of the members elected to each individual house shall, not later than three days after each bill is enrolled, sign each bill that has been passed by both houses and duly enrolled. The amendment would provide a July 1 effective date for nearly all laws. The amendment provides for a two thirds veto override at reconvened sessions and allows a majority of the members present in each house to follow the Governor's recommendation.

These are the basic provisions in Questions 1. Many political commentators have viewed this particular amendment as being purely political, resulting from the fact that there is a Republican executive and a Democratic legislature. Other commentators feel that this clears up a gray area in Virginia's law, strengthening the separation of powers by giving the General Assembly a more powerful role in the passage of Virginia's law.

Question 2. Chapter 655 of the 1980 Acts of the Assembly.

This amendment would provide that no city or town shall issue any bonds or other interest-bearing obligations which, including existing indebtedness, shall at any time exceed 10% of the assessed value of real estate in the city or town subject to taxation, as shown by the last proceeding assessment or taxes. This would amend Section 10 of Article VII of the Virginia Constitution. It lowers from 18% to 10% the maximum indebtedness a city or town may incurr. An appeal of the recent case of *Sharpe* v. *Stafford* was turned down by the Virginia Supreme Court on procedural grounds. A related issue is the question of refinancing bonds as it relates to calculating the maximum allowed debt for localities. There has been some expression that refinancing of bonds would require a 'double counting' or original and refinance bonds in determining the debt as it relates to this constitutional provision. If 'double counting' is required by a future court decision there is a possibility- that some localities would exceed the 10% debt limit and for this reason, the League opposed this amendment.

Question 3. Chapter 120 of the 1980 Acts of Assembly

This amendment would authorize the General Assembly to allow local governing bodies to exempt from local taxation personal property designed for continuous habitation owned and occupied by persons who are 65 years of age or older and who are permanently and totally disabled. Such personnal property must be used as the sole dwelling of the incapacitated person and such person must be deemed by the General Assembly to be bearing an extraordinary tax burden.

The effect of this amendment would be to extend to mobile homes the property tax exemption afforded to normal residences under similar circumstances. Mobile homes are considered personal property. The Virginia Municipal League did not oppose this amendment due to its local option approach and the insignificance of the projected costs.

Question 4. Chapter 80 of the 1980 Acts of Assembly.

This amendment provides that the General Assembly may by general law allow the governing body of any county, city or town to exempt or partially exempt from local taxation any generating equipment installed after December 1, 1974 for the purpose of converting from oil or natural gas to coal, wood, or any other alternate energy source for manufacturing, in any co-generation-equipment installed since such date for use in manufacturing.

The Virginia Municipal League did not oppose this amendment and will attempt to ensure that it is a local option approach.

About the Author

Mr. Bowling is the Staff Attorney for the Virginia Municipal League.

Transferable Development Rights and Historic Preservation

by John Gilmour

Although most people support the idea of historic preservation, at least in the abstract, implementation of historic preservation encounters a variety of objections. The owner of buildings designated as landmarks sometimes have claimed that historic preservation is an illegal "taking" of their property for a public purpose. Because exterior alterations and demolition are prohibited by landmark designation, the owner may be prevented from using the land more profitably, thereby suffering a loss. Some people contend that if the public is to benefit from the landmark, then the public also should bear the costs of its preservation and not force them on individual landowners. On the other hand, Justice Oliver Wendell Homes noted that, "Government hardly could go on if to some extent values incident to property could not be diminished without paying for every such change...." If a local government that was undertaking preservation were to compensate landmark owners for all losses, the program would be prohibitively expensive and would permit only the most limited preservation. Historic preservation, in any case, would be more palatable if it could be achieved without causing either an unduly harsh impact on individuals or an enormous cost to the government.

The use of a new land use regulatory technique called Transferable Developement Rights (TDR) holds the promise of resolving the tension between the 'taking' question and government compensation. A building designated as an historic landmark is often located in the midst of newer, taller buildings. Because the zoning ordinance permits the taller structures, the landmark does not take full advantage of the development rights accorded it by the zoning ordinance. Nor can it do so, because the landmark regulation makes it impossible to use the development rights *on that site*. Under a TDR program, however, the owner of a landmark is permitted to transfer unused development rights to another location within a specified 'transfer district,' usually consisting of a number of blocks surrounding the historic property where they may be used. These development rights either can be shifted to another property under the same ownership or can be sold to an altogether different party.

Thus, TDR builds on the legal separability of development rights from property ownership. Under the separability concept, an owner of a historic property may sell the rights to develop it and continue to own the property itself. Applied to another site, the excess development rights allow the ordinary zoning restrictions to be exceeded. In New York, for example, the acquisition of development rights permits a building to exceed the usual height by as much as 20 percent. Because they make possible a more intensive and therefore often more profitable use of land, development rights can be very valuable.

The scenario of an ideal TDR program would have the landmark owner sell excess development rights and receive compensation for the loss occasioned by the government regulations. The purchaser of the development rights would profit from being able to make a more intensive use of the property to which they are transferred. The government would pay only administrative costs, and its zoning ordinance would not be violated since the overall density of the transfer district would be no greater than stipulated in the ordinance.

In Washington, D.C., the use of a density transfer was instrumental in saving the Christian Heurath Memorial Mansion, located near Dupont Circle. Owned by the Columbia Historical Society, the mansion is an elegant, four-story brownstone with adjoining gardens that was built in the nineteenth century when the Dupont Circle area was predominantly residential. But Dupont Circle is now a high-rent commercial district, and most of the surrounding structures are taller. The mansion thus does not use the land it occupies as intensively as permitted by the zoning ordinance. Because the historical society was unable to keep up the aging mansion, a number of the society's members proposed that the mansion be sold, for on the market its site would be quite valuable. The mansion was saved from demolition, however, when an agreement was worked out whereby

(Continued, page 9)

About the Author
Mr. Gilmour is affiliated with the Institute of Government at the University of Virginia.

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