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Volume 20

June 1985

Number 6

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Hampton's \$10.4 million mass burn plant can handle 200 tons of waste each day and produces steam which the city sells to NASA. Read about the ins and outs of this kind of "resource recovery" in this issue of Virginia Town & City.

VIRGINIA TOWN & CITY (ISSN0042-6784) is the only official magazine of the Virginia Municipal League. It is published monthly at 311 Ironfronts, 1011 East Main Street, P.O. Box 753, Richmond, Virginia 23206. All contents, copyright 1985 by the Virginia Municipal League. Any reproduction or use of contents must have prior approval of the Virginia Municipal League and if granted must be accompanied by credit to VIRGINIA TOWN & CITY and the Virginia Municipal League. Second-class postage paid at Richmond, Virginia. Subscription rates: \$8 per year, \$1.50 per copy.

Postmaster: Send address changes to VT&C, P.O. Box 753, Richmond 23206

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Resource Recovery

An Issue for Virginia

By Hunter F. Taylor and Stephen A. Walz

esource recovery is a popular idea. It involves the incineration and/or processing of solid waste to recover the valuable components left in the waste, most notably its energy content. It is a further development of earlier incinerator plants in that a stream of revenue is generated by the sale of the components recovered from the waste.

Recovering something useful from garbage while simultaneously improving the environment appeals to common sense so strongly that we feel it must be worthwhile. This appeal can overshadow the fact that resource recovery is a complicated process with ample opportunity for technical and financial setbacks. Responsible development of a resource recovery project requires careful analysis of a project's risks and costs as well as its benefits. A locality's commitment to resource recovery cannot rely on a temporary public feeling of good will.

The driving force behind a resource recovery project usually can be identified as a community facing either a landfill crisis, exorbitant solid waste disposal costs or the availability of a large revenue stream from energy costs. The locality's commitment to the concept, however, must be strong enough to face difficulties, and the locality should designate a single authority to undertake the many steps involved in developing a successful facility.

Two approaches to resource recovery from municipal solid waste may be taken—mass burning and production of refuse derived fuel (RDF). Mass burning involves burning solid waste in a boiler to produce steam after only a minimum amount of processing to remove oversized or bulky items such as furniture or appliances. The residue left after combustion is landfilled as a non-hazardous waste.

Refuse derived fuel production involves separating the burnable and nonburnable portions of the solid waste and processing the combustibles into a solid fuel that can either be burned in a plant designed for RDF or used to displace

coal or wood in an existing boiler plant. The non-combustibles are separated into their recyclable components when there is a market for the products. All remaining waste is landfilled.

Both mass burning and RDF are commercially available and in operation or under development in Virginia. Currently, mass burning is the most highly developed and commercially proven technology with numerous operating facilities in a range of sizes and capacities. RDF is a newer idea than mass burn, and there are fewer successfully operating plants. However, some feel RDF will eventually prove to be the best approach for certain applications.

In response to the growing interest in resource recovery, the Virginia Division of Energy initiated a two phase program to help local governments in Virginia with their assessment of resource recovery. Phase I involved completion of a general feasibility study covering the key concepts of resource recovery and identification of the components and logic of a feasibility investigation. This effort lead to publication of "Energy Recovery from Municipal Solid Waste, A Feasibility Guide for Local Governments in Virginia" which was distributed to all cities and counties in Virginia in late 1984.

Phase II of the program involves responding to direct requests for assistance with consultations to share resource recovery experiences in Virginia and across the nation and to provide preliminary economic analyses of the long-term cost of technically feasible projects. A summary of the ideas and questions that have emerged through discussions with various local officials regarding feasibility of resource recovery in Virginia follows.

Local Problems/ Regional Solutions

The first recorded law covering the disposal of solid waste may have been an ordinance in 17th century London that required landowners or landlords to

be responsible for the removal and disposal of rubbish, manure and debris from the portion of public streets and walkways adjacent to or serving their property, regardless of how the waste got there. In other words, everyone had to "police his area."

It has been common sense to think of trash disposal as a local issue requiring local solutions. This was fine as long as disposal remained a simple matter of digging a hole somewhere and hauling the waste to it for burial. Today, with federal regulations such as the Resource Conservation and Recovery Act, threat of groundwater contamination, high transportation costs and scarcity of suitable and affordable landfill sites, the disposal of municipal solid waste is rapidly becoming a regional problem requiring regional solutions. In addition, the costs associated with new sanitary landfills and alternatives to sanitary landfills, i.e. resource recovery, are large. Any option requires long-term financing which in turn requires a longterm solution which in turn requires long-term planning.

The concept of a local problem reguiring a regional solution is an old and familiar one to public officials in Virginia. In the case of resource recovery several factors combine to amplify this theme. Cities and counties are directly responsible for the legal disposal of municipal solid waste under strict and costly Environmental Protection Agency regulations. Resource recovery project financing requires a guaranteed longterm supply of waste (flow control) which rarely can be achieved within a single jurisdiction. Also, unlike sewage which is transported through a pipeline, solid waste is hauled by people driving trucks on roadways which allows the drivers to take the waste anywhere. In addition, resource recovery projects are so technically sophisticated and capital intensive as to require substantial public debt, or service contracts tantamount to public debt, and no foreseeable federal grant program such as 208 water quality planning grants lies in the future. These

commitments can be beyond the capacity of a single local government.

"Doing the Deal"

The most common initial effort in investigating the feasibility of resource recovery by a local government is for the governing body to commission the familiar feasibility study that evalutes waste quantities, technologies, sites, potential energy markets and costs. The study takes the three phase approach described in "Energy Recovery from Municipal Solid Waste, A Feasibility Guide for Local Governments in Virginia."

However, it is not uncommon for a resource recovery project to be investigated for a year and recommended by an engineering feasibility study only to have it die for business reasons. Many resource recovery projects have been determined to be technically, operationally and economically feasible according to traditional criteria, but they are not financeable because the basic components relating to cash flow, debt and risk are not in place.

It doesn't matter which technology or resource recovery system is best for your applications, what sites are most suitable, exactly how much refuse is generated during which month in which area, or who the potential energy customers are if you are not prepared to "do the deal." Doing the deal is based on to the ability of the local government, based on preliminary estimates of cash flow, to overcome the initial tipping costs, support the debt or take the economic risks necessary for project financing.

Cash flow problems relate to the usual substantial increase in disposal costs, or tipping costs, during the early years of the project. These increased tipping costs usually range from one and a half to three times the current disposal fee charged at the sanitary landfill, depending on the strength of the energy revenues. The distinction between cost and fee is emphasized because often localities don't know the actual cost of their sanitary landfill; they only know what fee they charge users.

In resource recovery projects, the finance strategy requires cash flows to balance on a periodic basis and therefore identifies true tipping costs. So the first question to be answered is: if your current tipping charge at the landfill is \$10 or \$15 per ton, is resource recovery economically and politically acceptable at \$20 or \$30 per ton in the early years of the project even though the long-term dollar cost of resource recovery is probably less than that of a new landfill? Unfortunately, the dollar benefits of resource recovery are long term, unlike the operating budgets of cities and counties.

If a locality cannot manage the longterm cash flow problem, there is no sense in analyzing much further. Often, a sanitary landfill is the most attractive means of municipal solid waste disposal. On the other hand, localities may need to more accurately identify their real sanitary landfill costs over the long term, including land depreciation, future siting difficulties and federal environmental regulations administered and enforced by the Virginia Department of Health.

If the cash flow problem does not preclude a project, the next step for a locality is to determine whether or not it can support the necessary debt in the form of general obligation of municipal revenue bonds or assume the economic risks in the form of service contracts to allow industrial development bond financing with the private sector. The latter of these is popularly called "privatization," which refers to the idea of public and private sectors developing a project as partners in an owner/user arrangement. This combines the benefits of private ownership and public use, or the tax benefits associated with private ownership and the lower borrowing rates associated with tax-free financing.

Regardless of whether the project is publicly owned and financed with municipal bonds or privately owned and financed with IDBs, the local governments that participate in the project as owners or users will at a minimum be required to enter into long-term put-orpay contracts for the delivery of their municipal solid waste. The "put" refers to the delivery of municipal solid waste. or in the case of resource recovery, municipal solid fuel. The "or pay" means the locality will pay the revenue lost as a result of not supplying the waste (fuel). Lost revenue usually includes energy revenue as well as disposal revenue (tipping fees).

Finance Strategy

Resource recovery projects financed in recent years have taken advantage of federal tax benefits to draw private equity into the deal and thereby reduce the public debt. This procurement scheme has commonly been called a "full service contractor" approach. It loosely refers to the concept where a single contractor packages the design, construction, ownership and full-term operation of a plant as a single package. Although the specifics are usually different for each project, this strategy amounts to an arrangement whereby the private equity partner (usually the full service contractor) legally owns part of the facility therefore qualifying for tax benefits and leases the facility to the users for the finance period.

Historically, the amount of private equity drawn into a deal has depended on the attractiveness of the tax benefits. It has typically amounted to from 20 percent to 30 percent of the capital cost. The remaining percentage, or debt portion of the deal, has normally been financed with tax-free bonds (IDBs or GOs) to minimize borrowing rates. In either case, the debt has been ultimately backed by the local government either with full faith and credit or with strong service contracts which guarantee at a minimum the payment of debt service on the tax-exempt bonds regardless of operating costs.

Unfortunately, recent and proposed modifications to the federal tax code such as the Deficit Financing and Reduction Act and the Treasury Department's proposals combine to virtually eliminate any incentive for private equity contributions. Even though these proposals are being challenged by resource recovery groups to modify the public purpose definition and allow tax incentives in municipal resource recovery plants, it would be imprudent to anticipate equity partners in a resource recovery project at this time. From the municipal viewpoint, it must be assumed that all required capital will need to be considered debt to be financed with municipal bonds.

Where does this leave Virginia's localities? Since most localities still face the decision of how to replace or upgrade their landfills, they need to look both locally and regionally at the benefits, costs and risks of resource recovery as well as traditional methods of landfilling waste.

About the Authors

Hunter F. Taylor, P.E., is president of REFCOM Inc. and has consulted with numerous local governments in Virginia regarding resource recovery while under contract to the Virginia Division of Energy. He previously served as project manager and lead engineer for the designs of the resource recovery projects now operating in Hampton, VA and New Howard County, NC.

Stephen A. Walz is the Energy Extension Service program manager for the Department of Mines, Minerals and Energy, Division of Energy. He manages the resource recovery project for the division and works on numerous other projects assisting Virginia's governments and citizens in conserving energy.

Cogeneration

formance characteristics in resource recovery and a brief explanation is perhaps useful. The term stems from the coproduction, or cogeneration, of two common forms of energy: steam and electricity.

Electricity is commonly generated by burning a fuel, be it solid waste, coal, gas or oil, to make steam to drive a turbine connected to an electrical generator. It is energy efficient to generate the steam and electricity at the same time by exhausting the steam from the turbine generator at pressures and temperatures that satisfy a given application for steam such as an industrial process. In this case, both the steam and electricity are by-products of each other.

There must be, of course, a demand

Cogeneration offers attractive per- or market for each. Therefore, if a resource recovery facility is developed with an energy customer who desires steam, it often makes sense to cogenerate the steam and electricity since the Public Utility Regulatory Policies Act provides a guaranteed market for the electricity by-product. In this way, the electricity revenues justify the additional capital outlay associated with turbine/generator systems and there is less waste in the system.

Seminar Will **Show You How**

The Energy Bureau Inc will present a seminar in Arlington Sept. 30 entitled "How to Assemble a Cogeneration Project.'

The one-day practical seminar will walk participants through the economics, negotiations, financings and technologies of implementing a cogeneration system. The program will begin with registration at 8 a.m. and conclude at 4:30 p.m. with a reception following.

The cost of the seminar is \$625. To register, contact Peggy Chase at (212) 687-3178. The Energy Bureau has reserved rooms at the Sheraton Crystal City: (703) 486-1111.

The Energy Bureau will also hold a Cogeneration Conference in San Francisco Aug. 6-7.

Resource Recovery in Virginia

Municipal Projects

Hampton: The city of Hampton is the owner-operator of a \$10.4 million (1978), 200-ton-per-day mass burning plant that supplies steam to the NASA Langley Research Center. The plant consists of a pit and crane waste receiving and storage area, two 100-ton-perday waterwall incinerator/boilers, and electrostatic percipitator pollution control. Revenues are supplied from steam sales to NASA based on its avoided fuel costs. Contact: Cliff Loveland, (804) 865-1914.

Harrisonburg: The city of Harrisonburg is the owner-operator of a \$10.5 million (1982), 100-ton-per-day mass burning plant supplying steam to James Madison University. Refuse is fed from a pit and crane receiving area into two 50-ton-per-day refractory furnaces with waste heat boilers. Pollution control consists of electrostatic precipitators. Revenues are based on 100 percent of the avoided fuel costs of the produced steam. Recently, a steam engine was installed by plant personnel to use waste steam to generate electricity for internal consumption. Contact: John Holsten, (703) 433-1390.

Salem: The city of Salem owns and operates a \$1.9 million (1977), mass burning, 100-ton-per-day plant. Steam is sold to Mohawk Tire Company, Waste is dumped and stored on a concrete tipping floor and fed into two two-staged controlled air furnaces with waste heat boilers. There is no ancillary air pollution control equipment. Contact: Jim Fender, (703) 375-3052.

Portsmouth: The Southeastern Public Service Authority is building a 2,000ton-per-day plant to produce refuse derived fuel (RDF) for sale to the Norfolk Naval Shipyard and recover ferrous and non-ferrous metals for recycling. The Norfolk Naval Shipyard is constructing a new RDF/coal augumented power plant to produce steam. Capital costs will total \$107.8 million. Operation is projected to begin in late 1987. Contact: Durwood Curling, (804) 461-0878.

Arlington and Alexandria: A joint venture of the Arlington Solid Waste Authority and the Alexandria Sanitation Authority is beginning construction of a \$75.6 million, 975-ton-per-day plant in Alexandria. The mass burning plant will use a waterwall furnace/boiler to generate electricity for sale to Virginia Power. Contact: Ken Hook, (703) 558-2321.

Military Projects

Newport News: The U.S. Army owns and operates a 40-ton-per-day mass burning, two-staged controlled air plant, producing steam for use at Fort Eustis. Capital costs totaled \$1.7 million (1980).

Norfolk: The U.S. Navy owns and operates a 360-ton-per-day plant constructed for \$2.2 million (1967), producing steam for use by facilities at the Norfolk Naval Station. The plant contains two 180-ton-per-day mass burning waterwall furnaces.

Portsmouth: The U.S. Navy also owns and operates a 160-ton-per-day plant supplying steam to the Norfolk Naval Shipyard. The plant contains two 80-ton-per-day mass burning waterwall furnaces. Capital costs for the plant totaled \$4.5 million.

Private Projects

Henrico County: A 400-ton-per-day plant is currently undergoing improvements in eastern Henrico County to produce resource derived fuel (RDF) and recycle metals and glass. Capital costs have totaled \$2.1 million. The plant will process waste from Henrico County and sell the RDF for use in coal or wood fired boilers. Contact: George Gaiser, (804) 222-7035.

Hampton: Hampton Institute owns and operates a waste paper pelletizer and boiler, using waste generated on campus to produce steam for use on campus. The 1.5-ton-per-day facility required \$500,000 in capital costs (1983). Contact: W. T. Borum, (804) 727-5263.

In addition, there are a number of other public and private plants in Virginia that are in the development stage.

Financing Resource Recovery

By Robert W. MacDonald and Francis J. McDonough

ach American produces and discards four pounds of waste each day, and more than 90 percent of the 400,000 tons produced daily is dumped in landfills. Many municipal "dumps" are nearly filled, and land for new depositories is scarce. In addition, federal and state recognition of the role of landfills in underground water pollution restricts the ability to enlarge existing dumps or site new facilities.

These trends are pressuring local governments to seek new solutions to solid waste disposal. Resource recovery plants that turn solid garbage into energy while substantially shrinking the volume of waste are one approach.

Such facilities are being financed, constructed and operated despite myriad legal, environmental and contractual constraints. The financial community's awareness of the early difficulties encountered by the resource recovery industry has created obstacles for municipalities seeking complete ownership of plants financed with debt issues. This factor coupled with the attractive economics of resource recovery and indirect tax incentives often favors joint ventures of municipalities and private companies. These joint ventures reduce the risk as well as the number of bonds to be issued while also providing for operation of the facility upon completion.

Technological problems in the late 1960s and early 1970s plagued the first generation of resource recovery plants that attempted to process waste by extracting glass and useful metals for recycling. In addition, material resale markets were not advanced enough to operate the plants effectively. In the late 1970s, however, a new generation of plants was constructed. Some of these plants incinerate more than 1,000 tons per day of raw solid waste by a process that reduces a ton of garbage by 90 percent of its volume and two-thirds of its weight. Residue and "by-passed" waste (ash and non-combustible items

such as appliances) are by-products to be dumped in a landfill.

The most significant product of the waste reduction process is steam. Steam can be produced by integrating a large boiler and turbine with a furnace and can be used for heating and/or to produce electricity. Operators of wasteto-energy plants are paid tipping fees from waste haulers to accept solid waste which is burned as fuel to generate energy. The Federal Public Utilities Regulatory Policies Act requires investor-owned utilities to purchase electricity from such alternative energy projects at their "avoided cost." Tipping fees supplemented by energy sales will together typically match the facility's operating costs.

The First Step

Assuming availability of a suitable site, appropriate technology, a guaranteed waste stream and a reliable energy market, the first problem facing a municipality considering a resource recovery plant is gaining financing to construct the facility. The first step is to establish the level of financial risk the municipality is willing, legally permitted and financially able to assume. Suppose a plant is built that doesn't work. Is the municipality willing to pay for it? If not, private ownership of the facility should be pursued.

Even if a community decided it is willing to assume the risk of complete ownership, few public authorities can actually afford the consequences if a plant fails to work. Legal ceilings on the amount of debt a municipality can issue may also effectively limit the amount of financial risk a town or city is permitted.

Financing Alternatives

The basic financing decision is whether to choose private or public

ownership of the facility. Sometimes, considerations of risk and indirect tax incentives favor joint public/private ownership under a leveraged lease financing. If the facility is to be privately owned and operated, such financing vehicles as industrial revenue bonds and limited partnerships are generally evaluated. If public ownership is chosen, the choice is usually between general obligation bonds and revenue bonds.

A public authority seeking complete resource recovery plant ownership will first consider general obligation bond financing, a familiar municipal debt instrument. The GO bond has a simple financial structure and, with voter approval, is easy to issue. Because GO financing is backed by the full faith and credit of the municipal issuer, the bonds have relatively low interest rates and do not require interest capitalization or a debt reserve fund and thus provide relatively inexpensive project financing.

The GO's major disadvantage, however, is the required voter approval which has proved to be difficult to obtain in this age of tax revolt. Additionally, a GO uses up some of the municipality's capacity for debt issuance, possibly displacing other capital projects.

Revenue bonds were created in part of avoid the problem of gaining voter approval. Their primary advantage, however, is that they do not affect the debt issuance capacity of a municipality because they are not backed by the full faith and credit of the issue as is a general obligation bond. Revenue bond financing also permits a municipality to retain complete control of the facility.

On the other side, in comparison to a GO bond investors view revenue bonds as less secure because payment of interest depends on revenues from the specific project. To compensate for the greater risk, investors demand that revenue bonds offer higher interest rates. The municipality must also capitalize

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interest payments to service the debt during the construction period and maintain a debt service reserve fund.

If private ownership is desirable, the typical financing alternatives are industrial revenue bonds or a lease. The industrial development bond (IDB) is a private activity bond that effectively permits municipalities and other taxexempt issuers to issue tax-exempt debt for private parties such as Mc-Donald's, General Motors or other corporations to induce them to build plants in a locale. The Tax Reduction Act of 1984, however, reduced the availability of industrial development bonds by limiting the total amount that can be raised through IDB financing in each state to \$150 per capita.

The debt/equity or leveraged lease vehicle permits a municipality to use indirect subsidies of the federal government's tax incentives in selling to a private party that has a high tax bill and wants to own a resource recovery facility. Under a debt/equity arrangement, a private entity would typically own 25 percent or more of the plant and may even operate the facility when completed. In return, the entity would receive the benefits of investment tax credits, accelerated cost recovery, lease rental deductions and a claim on plant revenues. The tax benefits, if the facility or any part is unsold, go unused by the municipality, which pays no taxes.

This arrangement gives the municipality a partner with whom to share risk and reduce by the amount of equity purchased the number of bonds to be issued, debt service costs and tipping fees.

The Bond Market

Use of each of the financing vehicles discussed requires a municipality to sell bonds in the capital market. The municipal bond market is a combination of all the issuers, underwriters, traders, salesmen and investors who participate in the tax-exempt market. Before an underwriting, the entire market should be analyzed to appraise likely demand for the town's resource recovery securities.

The degree to which investors will participate in the sale of a municipality's securities depends on availability of funds, tax rates, security preferences and competing municipal investment opportunities. The rate of interest the municipality will pay is determined by prevailing rates, perception of its credit strength and supply and demand for the municipality's and similar competing municipal bonds.

People who buy bonds are really lenders who are buying limited risk in-

vestments. They buy bonds rather than equity securities because they want assurance that they will be paid interest and the principal when due. Bond investors are generally insurance companies, commercial banks, mutual funds and private investors. In today's bond market, mutual funds predominate, and they prefer to invest in "sure things."

Reassuring Investors

Unfortunately, the resource recovery industry is most widely known among investors for a few spectacular failures in its early years. Construction of a plant in Akron, OH, for instance, has suffered persistent problems and a recent boiler explosion, and in Hempstead, NY, a facility was constructed but closed because of alleged dioxin pollution.

Consequently, bond investors are nervous about investing in project revenue bonds with interest payments dependent upon the revenue stream of a single resource recovery plant. Several public authorities have answered this concern by issuing system revenue bonds that are backed by an entire city or county sanitation system.

Municipalities must frequently calm investors' fears by ensuring a resource recovery project a steady stream of revenue to meet interest payments. Under a put-or-pay contract, a municipality unconditionally guarantees to pay annual tipping fees to a project operator whether or not the garbage is actually taken to the plant. The plant operator and bond investors are assured that a project financed and constructed based on an assumed level of annual waste will receive the tipping fees for that level.

While the put-or-pay contract eliminates the risk to operator and investor that revenues might not meet expectations, a project completion agreement similarly eliminates the risk to municipality and investor that a contractor might abandon a project following financing. A project completion agreement should obligate the contractor to construct the plant "come hell or high water."

Without these performance guarantees, it is very difficult to sell resource recovery revenue bonds to investors. Yet the true value of such guarantees must be judged case by case. Some state court decisions raise questions regarding the enforceability of put-orpay contracts. Must a service be provided, or can the municipality be required to pay a contractual obligation that lacks the "quid pro quo" of all contracts? What is the credit rating of a municipality? Even if able to do so, will it live up to a "put-or-pay" obligation or will it seek to avoid it as occurred in the Washington Public Power Supply System case?

Similarly, project completion agreements are meaningful only if provided by a contractor financially able to satisfy them. Cradle-to-grave guarantees from a bankrupt company are of little use to a municipality and a project's bondholders.

"Pin Hole" Risk

Other external risks include the remote or "pin hole" risk that environmental law changes during construction might create open-ended costs to the municipality, project contractor or both. If in the middle of construction the law changes to require an air quality control device, who will pay for the installation? Will the contractor absorb the substantial costs of compliance or will the municipality? In the first such case, the municipality (Baltimore) was held responsible.

Three sources of environmental regulatory change can increase a project's costs:

- change in statutory requirements;
- change in judicial interpretation of law; and
- an administrative law judge's interpretation of an Environmental Protection Agency regulation.

Although such regulatory changes are rare, these "pin hole" risks should be recognized and addressed by the municipality and contractor at the outset.

Team Effort

As outlined above, numerous technological, legal and financial issues must be resolved in the pre-construction phase of a resource recovery project. A municipality should assemble a team of private resource recovery specialists before entering negotiations. Since the operator/contractor will have a technical engineering staff, a negotiating counsel and a banker, the municipality should have an engineer, a bond counsel or special counsel to help analyze the contracts and an independent financial advisor

Underwriters, either investment banks or commercial banks, have a primary obligation to produce a product—a security that is sold to investors. Consequently, underwriters act predominantly as brokers between issuing municipalities and investors and are not always in a position to assess alternative financing strategies objectively.

At the outset of project planning, municipalities should anticipate that of the funds raised through a bond issue only about 70 percent will be used for actual construction. Most of the remainder will pay for interest during construction, the

VML's Top Legislative Priorities

By Ellen S. Posivach

FUNDING EDUCATION

For the second year the Virginia Municipal League's top legislative priority is full funding of the state's share of the actual costs of primary and secondary education. The VML position reads, "VML's first priority is funding for education including full funding of the actual costs of the Standards of Quality as estimated by the Virginia Department of Education and full funding of educational mandates as outlined in the Joint Legislative Audit and Review Commission's study, State Mandates on Local Governments and Local Financial Resources. In order to accomplish this, VML supports an additional 1 percent statewide sales tax to be returned to localities to fund education.'

While there is a wide discrepancy between estimates provided by the state and estimates provided by organizations, such as VML, on the amount of additional funds necessary for the state to fully meet its financial obligations to public education, there is no disagreement on the fact that the state is not meeting this financial responsibility. According to November 1984 Department of Education estimates, the state would need an additional \$635 million during the 1986-88 biennium in order to meet its responsibility just for Basic Aid Payments. This figure does not include additional state funding for categorical programs in which the state underfunds mandated requirements.

Because of the opposition VML and other organizations have received from legislators on specific issues related to increased funding for education, VML would like to review some of these concerns along with our responses to these concerns.

Update

On Jan. 9, 1985 in his "State of the State Address," Gov. Charles S. Robb proposed full funding for the first time of the state's share of the educational Standards of Quality in the 1986–88 biennial budget. This would of course require approval by the 1986 General Assembly. In addition, the governor proposed an additional \$53 million for funding the Standards of Quality this year, raising the funding level by just more than \$100 per pupil or to \$1,877 per pupil from \$1,776 per pupil.

Concern: Perhaps the most frequent comment we hear privately (and occasionally publicly) from legislators is that a re-election year is not the time to push for a tax increase. With all 140 House and Senate seats up for re-election along with the offices of governor, lieutenant governor and attorney general, no tax increase measure will be passed during the 1985 session.

Comment: We appreciate the candor of these comments by legislators, but feel the issue needs a closer look.

Many legislators have pointed to the national results of an election campaign run on a tax increase platform and have paralleled the results with what they fear might occur in Virginia. It is our belief that this comparison cannot be made.

First, Virginia is not the federal government. Virginia has a balanced budget; the federal government owes about \$1 trillion. Also, in Virginia a tax increase proposal is not a partisan issue. For the past two sessions of the General Assembly, members of both parties have introduced tax increase proposals to fund education. At the national level, a tax increase measure was offered by only one party.

According to a recent study by the Advisory Commission on Intergovernmental Relations (ACIR), a commission composed of congressional representatives, the federal government now ranks last in spending credibility in public opinion polls. Local governments now rank first with state governments ranking second. It is our belief that local governments received this ranking because they are closest to the people and more accurately reflect the needs of the people.

Local initiatives for increased state funding of public education have, in the South alone, resulted in state sales tax increases in Tennessee, South Carolina, Arkansas and Texas during the past year. In each instance, meaningful education reform programs have been tied to the sales tax increase. A recent study conducted by Virginia Commonwealth University for the Governor's Commission on Virginia's Future found that eight out of every ten Virginia citizens surveyed in the statewide poll agreed that the state "should improve

education offered by grade schools and high schools even if it means raising taxes."

Virginia elected officials should not equate circumstances in Virginia with circumstances at the national level, particularly when there is significant, valid statistical and historical proof to the contrary. Virginia is currently ranked as the 39th lowest state in combined state and local taxes as a percentage of personal income. We are clearly a low-tax state and can certainly afford to properly fund the education of our children.

Concern: Why is a tax increase needed when there is \$158.9 million in state funds to carry forward to 1985-86?

Comment: While it is true that additional funds exist, pressing state needs also exist. New needs exist in corrections and in mental health. There is no funding in the 1985-86 budget for state employee salary increases, increases which the governor projects will amount to about 8 percent. Each 1 percent increase in state salaries will require \$10 million in state funds. In addition, the governor has stated a need to set aside \$50 million in a "rainy day fund."

Finally, there is at least a \$10 million cut in the current budget for 1985-86 funding to local governments for public health and social service programs. A top priority for VML is to have these funds restored during the 1985 session to at least current levels. With all of these damands, there will be very little left for education.

Concern: Won't higher taxes hurt Virginia's chances for industrial and high technology development?

Comment: National surveys have shown that tax rates rank far behind other factors such as "quality of life" in the consideration of those responsible for industrial and high technology development and relocation efforts. It continued, next page

should be noted that the quality of public education is a significant component in the "quality of life" factor and therefore receives more consideration than the rate of taxation by those responsible for relocating development efforts.

The percentage of high school graduates in the work force is also a traditional measure used by business and industry to evaluate a state's educational system. Virginia ranks 36th in percentage of population age 25 and over that has completed high school, according to a 1983 survey. In addition, despite salary increases during the past three years. Virginia ranks 31st in the nation according to the 1983-84 average classroom teacher salary survey. These are not promising statistics and do not demonstrate a significant level of state dedication to public education to present to developers seeking to relocate.

The Governor's Commission on Virginia's Future states in its final report that Virginia should seek to be a national leader in public education by becoming ranked within the top ten states nationally in the quality of education it offers. The commission also specifically recommended increased spending on education and increased teacher salaries.

Concern: Why recommend a sales tax increase rather than use of another taxing source?

Comment: VML's primary position is in support of increased funding of education. A sales tax increase is only a suggested method for achieving this goal.

Currently the state income tax and the state sales tax are the only two viable sources of state taxation which could generate the levels of revenue necessary to fully fund the state's share of the actual cost of education. The state income tax was originally eliminated from consideration because of a decrease in collections in relation to estimated projections for personal income. With the state income tax structure tied so closely to the federal income tax structure, now would not seem to be the time to revise the state's structure as the federal structure is under the close scrutiny of the president and Congress.

An increase in the state sales tax appears to be a viable option for obtaining the necessary state funds for public education. Recent opinion polls have found a sales tax increase less objectionable than other tax increases. A 1 percent increase to the current 4 percent state sales tax would produce an estimated \$639.4 million in additional revenue during the next two fiscal years. This would fund even the highest estimates of the state's share of the actual cost of Basic Aid and would make a significant contribution toward efforts to fund state mandated requirements for categorical programs.

STATE APPROPRIATIONS

VML's second legislative priority for 1985 is defeat of SJR 28. SJR 28 is a state appropriation limitation measure which ties the rate of growth in state appropriations to the estimated rate of growth of the state economy. Under this measure the rate of growth in the state economy would be determined solely by the average rate of growth in Virginia personal income.

SJR 28 was introduced during the 1983 session where it passed both the Senate and House. Because SJR 28 requires a constitutional amendment, it is necessary for the measure to pass two sessions of the General Assembly before being brought before the voters of the commonwealth on the November ballot.

When SJR 28 was brought before the 1984 session of the General Assembly, the measure received strong opposition from Senate leaders. Despite this, SJR 28 passed the Senate and was referred to the House Privileges and Elections Committee. By a narrow margin the House Privileges and Elections Committee voted to carryover SJR 28 until the 1985 session. Many legislators believed that the vote to carry SJR 28 over to the 1985 session had in effect killed the resolution. An attorney general's opinion following the 1984 session ruled to the contrary, however, and indicated that a carryover bill passed by the 1985 session would meet the requirements set forth for a constitutional amendment.

On Dec. 10, 1984, the House Privileges and Elections Committee met to review carryover bills. Since the patron of SJR 28 was not present at the meeting, the committee did not vote on a recommended action for the 1985 session. The committee did, however, hear testimony on SJR 28.

During the meeting VML President Lawrence A. Davies presented the following testimony. VML, which strongly supports fiscal responsibility in all levels of government, has after careful consideration taken a position to oppose SJR 28 for the following reasons:

- SJR 28 caps the growth in state appropriations based on the average rate of growth in personal income. The growth in personal income when taken alone is not a valid economic indicator.
- SJR 28 assumes that in economic periods of recession state needs will be less and in economic periods of growth state needs will be great. Historically, this has not been the case.
- SJR 28 assumes that citizens of the commonwealth are satisfied with the current levels of state services. Again, historically this has not been true or there would have been no need for legislators, representing the citizens of the commonwealth, to revise the biennial state budget during each and every session of the General Assembly.
- SJR 28 assumes that no significant new state needs will be identified by members of the legislature, elected to represent the will of the people. Again, this has not been the case. New needs are identified and do need to be addressed. In this upcoming session alone, we believe legislators will identify new funding needs for corrections, mental health and education programs.
- SJR 28 assumes that federal funding will continue at current levels. While the state did benefit from the last round of federal funding cuts to localities through reduced state matching funds under the state block grant approach taken in 1981-82, current federal studies threaten not only local federal funding but state federal funding as well.
- Finally and perhaps most important, SJR 28 assumes that there is a need to limit state appropriations through a constitutional measure. In this commonwealth, with the oldest continuous standing legislative body in the nation, fiscal responsibility has been a hallmark. Virginia has a long and proud history of fiscal responsibility and a long and proud history of maintaining a balanced budget, a tradition which is now a constitutional requirement.

This commonwealth has been a leader in state legislation and not an emulator of legislation in other states, particularly legislation passed by other

states which has proven to be unsatisfactory to citizens within these states. Restrictive tax and spending limitation measures appeared on state ballots in Michigan, California, Nevada and Oregon. All were defeated. In Michigan, two out of every three voters said "no" to Proposition C, which would have cut state revenues by nearly \$1.3 billion. California voters also rejected Proposition 36, a proposal to tighten limits on state finances, and approved Proposition 26, a \$450 million bond issue to fund school construction and repair. Oregon voters, who rejected efforts to roll back taxes and limit future tax increases three times, defeated attempt number four, which was called "Measure 2.'

For Virginia, SJR 28 is conceptually unrealistic and procedurally unnecessary. We ask you to oppose this measure.

VML along with a number of other organizations has formed a coalition to oppose SJR 28. In addition to producing brochures, buttons and bumper stickers for the purpose of opposing SJR 28, coalition members have targeted House Privileges and Elections Committee members in letter writing and telephone campaigns.

Other coalition organizations speaking in opposition to SJR 28 during the Dec. 10 meeting included the following: the American Association of University Professors, Virginia Conference; American Federation of Teachers of Virginia; League of Women Voters of Virginia; Virginia AFL-CIO; Virginia Association of Elementary School Principals; Virginia Association of School Administrators; Virginia Congress of Parents and Teachers; Virginia Council of School Administrators; Virginia Education Association; and the Virginia School Boards Association. Reynolds Metals Co. also spoke in opposition to SJR 28.

While the fate of SJR 28 may have been decided by the time this issue of Virginia Town & City is released, it is important for Virginia local officials to be familiar with state spending limitation measures as we will probably see more of these proposals in the years ahead. Should SJR 28 be alive and well at this reading, it is even more important that local officials be familiar with this issue as it will take a strongly unified effort to defeat this measure on the floor of the House, or if need be, to target a citizen effort to defeat SJR 28 at the polls in November.

About the Author

Ellen S. Posivach is the Virginia Municipal League's director of research. She is responsible for covering legislative items related to budget and finance.

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Finding Your Way Through the Session

By Christy Everson

Since 1985 is an odd-numbered year, the Virginia General Assembly as prescribed by the Constitution of Virginia will convene for what is known as a "short session." This is normally 30 days, but General Assembly leaders have already decided to extend the session 16 days. The law-making body will be consumed with work on the 244 bills and resolutions carried over from its 1984 session, as well as with work on new legislation and appropriations amendments for fiscal year 1985-86. The session, the assembly's 168th, is expected to adjourn Feb. 23.

The General Assembly will reconvene on the sixth Wednesday following adjournment to consider bills returned by the governor with recommendations for amendment and appropriations measures returned with his objections. No other bills are considered during this "veto session," which lasts three days unless the majority of both houses vote for an extension, which may not be more than an additional seven days.

The chambers of the House and Senate are located on the second floor of the Capitol as are both the House and Senate clerks' offices. Senators and delegates have offices in the General Assembly Building, which is across Capitol Street next to Old City Hall.

The clerks of both houses serve as important sources of information and their offices should be contacted before planning a trip to Richmond to make certain there have been no changes in committee meeting times or places. J. T. Shropshire serves as clerk of the Senate, and he or his staff can be reached at (804) 786-2366. Joseph H. Holleman Jr. serves as clerk of the House. He and his staff can be reached at (804) 786-7681.

Senate and House committee meetings are generally held on a specific day or days of the week and at specific times, except for a few House committees which meet at the call of the chairman (see the charts opposite). Subcommittees meet at no regular times and are called at the pleasure of the chairman. Most Senate committee meetings are held in the General Assembly Building while House committee meetings are held in both the Capitol and the General Assembly Building. To locate committee meeting rooms, remember lettered rooms are in the General Assembly Building and numbered rooms are in the Capitol. The Appropriations Room is on the ninth floor of the General Assembly Building. Also, on each floor of the General Assembly Building are a number of conference rooms where House and Senate subcommittees often meet.

Most committee meetings and all public hearings and Senate and House sessions are open to the public, however, committees may sometimes hold executive sessions. Committees and subcommittees meet in the mornings prior to or in the afternoons following the House and Senate sessions. The Senate and House convene Monday through Thursday at noon and at 11 a.m. on Fridays. Evening and weekend sessions can be called if necessary.

Information centers are located in the center hall on the ground floor of the Capitol (804-786-6530) and in the first floor lobby of the General Assembly Building (804-786-7281). A number of computer printout reports are available at the information centers. They include a final disposition report which gives House and Senate bills in numerical order, a summary of each bill, its chief patron and co-patrons and its daily status; a daily updated cumulative index which gives House and Senate bills, resolutions and documents introduced in each session listed alphabetically by subject matter and numerically by code section; a weekly patron report which lists House and Senate bills in alphabetical order according to patron name and includes a summary and weekly status report; and a "batch" report which lists alphabetically House and Senate members showing bills they have patroned and co-patroned, numerically lists titles of the Code of Virginia and bills affected, alphabetically lists committees and bills referred to them, and numerically lists bills and final status. Bill status which is updated continually is available by bill number, and committee and subcommittee meetings are available and updated as information is obtained. A House Mini Journal and a Senate Minute Book give daily summaries of each house's session. Computer terminals are housed in each information center and contain updated information on the status of bills. Actual copies of bills, resolutions and documents are available from the Bill Room in the basement of the General Assembly Building (804-786-6984).

Lists of the mailing addresses and telephone numbers of General Assembly members are available in the information centers. If you wish to discuss a particular piece of legislation with your senator or delegate it is recommended that you make an appointment in advance. You should know your subject and be able to state your reasons for support or opposition to the legislation. Even if you and your legislator do not

agree, leave on a friendly note and write to thank your legislator for meeting with you.

In writing to your legislator regarding issues, be direct, concise, logical and factual. State specifically and clearly the action you are urging and give the reasons for your position. To write the governor, write to The Honorable Charles S. Robb, Governor of Virginia, The State Capitol, Richmond, VA 23219, and address him as Dear Governor Robb. To write a legislator, address your envelope The Honorable . . . , The Senate of Virginia or The House of Delegates, General Assembly Building, Richmond, VA 23219, and address him or her Dear Senator or Dear Mr./Mrs./Ms. for delegates.

During the session the league publishes its Legislative Bulletin which reports on legislation of interest to local governments. If you are not receiving the Legislative Bulletin and wish to subscribe, subscriptions are available from VML at \$50 for members and \$75 for non-members.

In addition, league staff cover the activities of the General Assembly. Ellen Posivach and Mary Jo Fields cover finance and appropriations matters, education issues, social services and human resources. Rob Feild covers legislation dealing with general laws affecting local government such as public procurement and freedom of information. Jim Campbell covers the activities of the House Counties, Cities and Towns Committee and issues dealing with local government policy and administration such as land use and personnel issues. VML's Legal Counsel Howard Dobbins covers the activities of the Senate Local Government Committee. Deputy Director Clay Wirt serves as VML legislative coordinator, staffing the legislative committee, working with local government legislative liaisons and generally coordinating VML's legislative activities. He also handles special issues that arise during the session. Executive Director R. Michael Amyx serves as the chief spokesperson for VML before the General Assembly and is charged with overall responsibility for legislative issues.

VML staff can be reached by calling the VML Office at (804) 649-8471. The office is located at 1011 E. Main St. on the third floor of the Ironfronts Building. If you wish to visit any of the VML staff to discuss a particular piece of legislation, please call for an appointment as staff are often at the General Assembly during the session.

HOUSE COMMITTEES

Agriculture - Thursdays, 1/2 hour after adjournment, Room D

McClannan, Chairman	Keating	Bloxom
Quillen	Finney	Hawkins
McDiarmid	Robinson, J.W.	Watkins
Councill	DeBoer	Orebaugh
Green	Guest	Cunningham
Jones	Crouch	Putney
Van Vahres	Reard	, , , , , , , , , , , , , , , , , , , ,

Appropriations - Monday through Friday, one hour after adjournment, **Appropriations Room**

Bagley, R.M., Chairman	Diamonstein	Green
Manning	Smith	Heilig
McDiarmid	Hall	Callahan
Ball	Thomas	Giesen
Dickinson	Bagley, F.C.	Harris
Pickett	Quillen	Putney
Clauton	Councill	,

Chesapeake & Its Tributaries - Meets on call of chairman, Room 1

Stieffen, Chairman	Maxwell	O'Brien, W.R.
Murphy	Pickett	Moncure
Watts	Copeland	Medico
Forehand	Bloxom	Benedetti
Cooper	Morgan	Gordy

Claims - Meets on call of chairman, Room D

Parker, Chairman	Almand	Hargrove
Creekmore	Cooper	Rollins
Bagley, F.C.	Maxwell	Hanger
Woodrum	Miller, C.	Stosch
Axselle	Harris	Tata

Conservation & Natural Resources — Wednesday, 10 a.m., Room 4

Thomas, Chairman	Plum	O'Brien, W.R.
Councill	Jennings	Parrish
Smith	Copeland	Agee
Terry	Maxwell	Andrews
Brickley	Saunders	Hanger
Jones	Guest	Stosch
Forehand	Crouch	

Corporations, Insurance & Banking — Tuesdays & Thursdays, 10 a.m., Room D

Moss, Chairman	Smith	Lacy
Marks	Keating	Ealey
Bagley, R.M.	Terry	Cohen
Parker	Forehand	Callahan
Heilig	Plum	Morgan
McClanan	Woodrum	Hargrove
Wilson	Munford	9

Counties, Cities & Towns — Tuesdays, ½ hour after adjournment, and Fridays, 9 a.m., Room D.

ridays, 9 a.ii., nooiii D			
Manning, Chairman	Van Yahres	Hawkins	
Marshall	Copeland	Watkins	
Cranwell	Cooper	Morgan	
Hall	Grayson	Brown	
Keating	Moore	Cody	
Lambert	Miller, C.	Tata	
Jones	Giesen		

Courts of Justice — Tuesdays & Thursdays, 1/2 hour after adjournment, and Fridays, 10 a.m., Room C

Marks, Chairman	Axselle	Dicks
Morrison	Almand	Robinson, W.P.
Glasscock	Terry	Ackerman
Moss	Cohen	Miller, C.
Slayton	Woodrum	Moncure
McGlothlin	Murphy	Rollins
Cranwell	Jennings	

Education — Tuesdays & Fridays, 9 a.m., Room 4

McDiarmid, Chairman	Van Yahres	Miller, Y.B.
Diamonstein	Munford	Dillard
O'Brien, J.W.	Van Landingham	Beard
Councill	Finney	Orebaugh
Lambert	Dobyns	Jester
Terry	Cooper	Gordy
Forehand	Dicks	

Finance — Mondays & Wednesdays, 1 hour after adjournment,

HOOIII D		
Morrison, Chairman	Stieffen	Guest
Anderson	O'Brien, J.W.	Beard
Cranwell	Watts	O'Brien, W.R.
Parker	Lacy	Parrish
Creekmore	Robinson, J.W.	Hanger
Stambaugh	Jones	Stosch
Brickley	Saunders	

General Laws - Monday, 10 a.m., and Wednesdays, ½ hour after adjournment, Room C

,		
Diamonstein, Chairman	Ackerman	Wilkins
McGlothlin	Robinson, W.P.	Medico
McClanan	Finney	Benedetti
Axselle	DeBoer	Allen
Wilson	Moore	Gordy
Almand	Stafford	Cunningham
Woodrum	Bloxom	

Health, Welfare & Institutions — Tuesdays & Thursdays, 9:30 a.m., Room C

Glasscock, Chairman	Cohen	Crouch
Marshall	Ackerman	Brown
Pickett	DeBoer	Jester
Slayton	Maxwell	Allen
Stambaugh	Miller, Y.B.	Benedetti
Brickley	Stafford	Orebaugh
Lambart	Milleine	

Interstate Cooperation — Meets on call of chairman		
O'Brien, J.W., Chairman		Crouch
Stambaugh	McDiarmid	

Labor & Commerce - Mondays, 10:30 a.m., Room D

Lubor a commictor	Mondays, 10.00 c	a.iii., Hooiii D
Creekmore, Chairman	Murphy	Medico
Glasscock	Lacy	Moncure
Wilson	Ealey	Hargrove
Stambaugh	Grayson	Hargrove
Anderson	Saunders	Calvert
Watts	Bloxom	Cody
Munford	Wilkins	Tata

Militia & Police - Meets on call of chairman, Room 1

Cranwell, Chairma	an Bagley, F.C.	O'Brien, W.R
Thomas	Van Yahres	Parrish
Keating	Miller, Y.B.	Jester
Almand	Giesen	Allen
Lambert	Dillard	Cody

Mining & Mineral Resources — Wednesdays, 8:30 a.m., Room C

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Quillen, Chairman	Van Landingham	Wilkins
Smith	Copeland	Andrews
Green	Robinson, J.W.	Hawkins
Jennings	Dobyns	Calvert
Murphy	Ealev	Brown

Nominations & Confirmations — Meets on call of chairman

Plum, Chairman	Dicks	Cunningham
Glasscock	Stafford	
Moss	Agee	

Privileges & Elections - Wednesdays, 10 a.m., Room C

Anderson, Chairman	Marshall	Callahan
Marks	Creekmore	Miller, C.
Quillen	Heilig	Stafford
Pickett	Wilson	Dillard
Dickinson	Parker	Watkins
Ball	Stieffen	Putney
Marriaga	Van Landingham	,

Roads & Internal Navigation — Tuesdays & Thursdays, 9:30 a.m., Room 1

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McGlothlin, Chairman	Robinson, W.P.	Guest
Manning	Bagley, F.C.	Harris
Dickinson	Stieffen	Rollins
Ball	Dobyns	Andrews
Marshall	O'Brien, J.W.	Calvert
Thomas	Grayson	Agee
Hall	Moore	

nules — Meets on call of chairman, Speaker's Room		
Philpott, Chairman	Anderson	Callahan
Marks	Manning	Giesen
Moss	McGlothlin	
Bagley, R.M.	Morrison	

SENATE COMMITTEES

(All committees meet in the General Assembly Building unless otherwise notified.)

MONDAY

Agriculture, Conservation & Natural Resources — Senate Room A, 9 a.m.

Anderson, Chairman	Cross	Holland, C.A.
Fears	Marye	Truban
DuVal	Nolen	Mitchell
Waddell	Holland, R.J.	Chichester
Bird	Jones	Russell, R.E.

Commerce & Labor — Senate Room B, 2 p.m.

Fears, Chairman	Gray	Nolen
Willey	Holland, E.M.	Scott
Parkerson	Schewel	Jones
Babalas	Colgan	Saslaw
DuVal	Goode	Holland, R.J.

TUESDAY

Finance - Senate Room B, 9 a.m.

Willey, Chairman	Babalas	Cross
Andrews	DuVal	Fears
Walker	Buchanan	Gartlan
Anderson	Emick	Gray
Parkerson	Colgan	Truban

Local Government — Senate Room B, 2 p.m.

Babalas, Chairman	Colgan	Canada
Parkerson	Holland, R.J.	Barker
Waddell	Houck	Miller
Goode	MacFarlane	Russell, R.E.
Marye	Mitchell	Russell, J.W.

Privileges & Elections — Senate Room A, 4 p.m.

Wilder, Chairman	Cross	Willey
Andrews	DuVal	Holland, C.A.
Anderson	Schewel	Truban
Gartlan	Parker	Mitchell
Buchanan	Walker	Miller

WEDNESDAY

Finance — Senate Room B, 8:30 a.m.

Willey, Chairman	Babalas	Cross
Andrews	DuVal	Fears
Walker	Buchanan	Gartlan
Anderson	Emick	Gray
Parkerson	Colgan	Truban

General Laws - Senate Room B, 2 p.m.

Buchanan, Chairman	Holland, R.J.	MacFarlane
Walker	Scott	Truban
Marye	Jones	Barker
Colgan	Parker	Russell, R.E.
Schewel	Houck	Bussell LW

Courts of Justice — Senate Room A, 2 p.m.

Parkerson, Chairman	Gartlan	Michie
Andrews	Emick	Wilder
Anderson	Bird	Joannou
Holland, E.M.	Cross	Canada
Babalas	Goode	Mitchell

THURSDAY

Education and Health — Senate Room B, 9 a.m.

Walker, Chairman Andrews	Holland, E.M. Schewel	Bird Joannou
Willey	Nolen	Canada
Buchanan	Saslaw	Chichester
Gray	Michie	Russell, J.W.

Transportation — Senate Room B, 2 p.m.

Waddell, Chairman	Goode	Marye
Wilder	Emick	Scott
Fears	Bird	Houck
Gray	Saslaw	MacFarlane
Holland, E.M.	Parker	Miller

Finance — 10th Floor Conference Room, 4 p.m.

Willey, Chairman	Babalas	Cross
Andrews	DuVal	Fears
Walker	Buchanan	Gartlan
Anderson	Emick	Gray
Parkerson	Colgan	Truban

FRIDAY

Rehabilitation and Social Services — Senate Room B, 8:30 a.m.

Gartlan, Chairman	Parker	Holland, C. A.
Wilder	Saslaw	Canada
Waddell	Michie	Chichester
Emick	Scott	Barker
Nolen	Joannou	Miller

Finance — 10th Floor Conference Room Upon adjournment at call of the chairman.

Willey, Chairman	Babalas	Cross
Andrews	DuVal	Fears
Walker	Buchanan	Gartlan
Anderson	Emick	Gray
Parkerson	Colgan	Truban

Rules — Senate Room A

Immediately upon adjournment and upon call of chairman

Andrews, Chairman	Walker	Emick
Willey	Buchanan	Gartlan
Parkerson	Fears	DuVal
Babalas	Anderson	Waddell
Wilder	Marye	Truban

Gov. Robb Discusses State Revenues

By Ellen S. Posivach

In the traditional December revenue statement before the three General Assembly money committees, Gov. Charles S. Robb announced that "the presents under the state's fiscal tree this year will not be as numerous or as large as many had hoped or perhaps envisioned."

Based on Robb's revenue review, \$179.9 million in additional spending could occur during the 1985 session of the General Assembly. The breakdown of this total includes: \$81.2 million in unexpended funds carried forward from the 1982-84 biennium, \$4.7 million in unappropriated balances from the current fiscal year, \$36 million currently set aside in a contingency or "rainy day" fund, and \$58 million from revised revenue estimates for 1984-86, with \$54.5 million projected to be collected in 1984-85 and \$3.5 million projected for 1985-86.

While the \$179.9 million marks a significant increase over earlier projections, Gov. Robb announced specific plans for all but \$28.9 million. It is assumed that these remaining funds will be used to address economic development, especially the ports in Hampton Roads, and funding concerns within the Department of Corrections. These top priority items, addressed by the governor in his remarks, were not accompanied by appropriation figures.

Expenditures addressed by the governor in his speech, and expected to be contained in his proposed budget, include approximately \$80 million in salary increases for state employees during 1985-86, representing about an 8 percent pay increase; an additional \$14 million to bring the current \$36 million contingency or "rainy day" fund up to a balance of \$50 million; \$19.8 million in increased sales tax revenue resulting from revised revenue estimates, to be returned to localities for public schools; and \$1.2 million in increased Alcoholic Beverage Control profits to be distributed to localities.

According to Robb's comments, he intends to address increased state funding for primary and secondary education by earmarking the contingency or "rainy day" fund as a "contingent commitment toward full funding of the Standards of Quality in 1986-88 [the next biennium]." The remainder of Robb's address concerned future uncertainty in federal and state revenues.

Federal programs identified by the

governor as targets for reductions or extinction under what has been referred to as "Mr. Stockman's kill list" included the following federal aid programs to state and local governments: Revenue Sharing, the Economic Development Administration, Community Development Block Grants, Community Services Block Grants, Urban Development Action Grants, Urban Mass Transportation Aid, federal library grants, and federal water and sewer grants.

In addition, the governor identified \$20 million in additional state general funds which will be necessary on July 1, 1986 to support Virginia's portion of the Medicaid Program as a result of the Federal Deficit Reduction Act and a doubling of the workload for the state Department of Social Services resulting from federal legislation requiring increased child support enforcement.

Also identified by Robb as a future federal uncertainty were potential tax policy and structure changes, which because of Virginia's tax conformity with the federal system would result in a change to state tax revenues. While the governor's statement on this issue implied a negative impact, state tax experts predict a windfall in state revenues should the recently publicized federal tax plan be approved. The windfall would be tied to changes in the corporate tax system.

On the state side of the revenue picture, the governor noted a significant decline in the gross receipts tax paid by public utilities as a result of the AT&T divestiture. This change to the telecommunications industry will result in a \$2 million reduction in collections in fiscal 1985 as compared to the previous fiscal year, or \$39 million less than the commonwealth had previously projected. In addition, the recodification of Title 58, the State Tax Code, during the 1984 session of the General Assembly had a negative effect on state revenue collections.

Combined projected increases in state general fund and non-general fund revenue sources will bring the total to \$16.3 billion for the 1984-86 biennium. The biennium budget passed during the 1984 session appropriates \$15.9 billion.

The Robb revenue address does not paint an optimistic picture for local governments during the upcoming session. It appears that the governor does not intend to restore to local social service and public health programs the \$10

million-plus cut from the 1985-86 state budget during the 1984 session. Nor does it appear that there will be substantive increases in state funding for the educational Standards of Quality. However, it should be kept in mind that while the governor proposes a budget to the General Assembly, the General Assembly has the authority to alter the governor's proposal as well as to alter existing tax laws and pass additional tax measures. Local governments should continue to voice strong concern to members of the General Assembly regarding state funding for localities.

About the Author

Ellen S. Posivach is VML's director of Research and follows state budget and financial measures for the league.

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Luray Annexes Two Square Miles

The town of Luray has been granted annexation of approximately 1,245 acres outside the corporate limits by the Page County Circuit Court. The court followed the August 1983 recommendation of the Virginia Commission on Local Government.

The annexation includes subdivisions of Forest Hills, Fairview, Eastgate, Brookside, Springview, Hilldale and West Lu in addition to two undeveloped tracts near the town's northern border. Most of the areas were already benefitting from town water, sewer and trash removal services but at about twice the rate town customers were paying.

The commission noted that annexation "would have minimal impact on Page County" and "rebound to the economic benefit of the citizens."

The annexation increases the town to about 3,020 acres, adding about 2 square miles. The town's population will increase to approximately 4,400, according to Town Manager Donald A. Smith.

Newport News

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People

Vienna Hires Town Manager

John H. Schoeberlein became the new town manager of Vienna April 22.

Schoeberlein, 37, previously served as county administrator of Winnebago County, IL, located about 85 miles east of Chicago. He was chosen from among 185 applicants in a nationwide search that began last January when former Manager Brackenridge H. Bentley resigned to become manager of Front Royal.

Schoeberlein has also served in Pompano Beach, FL, as assistant city manager and city manager, and he was city clerk of Highland Park, IL.

He is a graduate of Lake Forest College, Lake Forest, IL, and has done graduate work at Florida Atlantic University in Boca Raton. He and his wife, Julie, have a 12-year old son, Adam.

Purchasing Agents Elect Officers

The Virginia Association of Governmental Purchasing elected **D. Darwin Roupe**, CPPO, Roanoke, 1985–86 president at the association's spring conference in Richmond April 18–19.

In addition, **M. E. Poole**, director of fiscal and general services, Loudoun County, received the 1985 Purchaser of the Year Award for outstanding contribution to the field of professional purchasing.

Other officers elected at the conference included **Norma Chandler**, CPPO, College of William and Mary, vice president; **Alfred V. Elias**, CPPO, Charlottesville, treasurer; and **James A. Waller**, **Jr.**, CPPO, Norfolk, secretary.

Matthews Takes Engineering Award

The Four Mile Run design project of James Daniel Matthews has won the 1985 outstanding civil engineering achievement award for the Arlington County Department of Public Works. The annual award is presented by the national capital section of the American Society of Civil Engineers.

Matthews not only saved a major sewer line threatened by erosion and averted an environmental disaster, but did so with a cost-effective design that changed an ugly, eroded channel in Shirlington into a lively stream with a chain of lilliputian pools and waterfalls now revisited by wild ducks.

The Four Mile Run erosion control project is Arlington County's second ASCE award. The county's public works department won the 1982 award.

Matthews is a 34-year-old civil engineer who has worked for the public works department 11 years. He has also coached softball for the Clarendon Methodist Church for 16 years.

Portsmouth Treasurer To Retire

Portsmouth City Treasurer **Margaret E. Jones** has announced that she will retire from her post when her term ends Dec. 31.

Jones began working in the treasurer's office 28 years ago as a clerk. She soon became chief clerk and in 1973 ran for the treasurer's job and won.

In 1978, she was recognized for her excellence as a treasurer and named the "Treasurer of the Year" by the state association of city and county treasurers

Flanary Dies

Fred M. Flanary, former chairman of the James City County Board of Supervisors and a retired certified public accountant, has died following a brief illness. He was 59.

Flanary was a graduate of the College of William and Mary and had lived in the Williamsburg area for more than 35 years. From 1957 to 1980 he ran his own accounting firm and in 1980 he was appointed clerk of the Williamsburg-James City County Circuit Court. He also worked for the Colonial Williamsburg Foundation from 1950 to 1954.

In 1965, the Berkeley magisterial district was formed and Flanary was appointed to fill the new seat on the board of supervisors.

Send your "people news" to Virginia Town & City, P.O. Box 753, Richmond, VA 23206.

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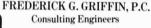
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Commentary

Managing Virginia's Water

"Water, water, every where, Nor any drop to drink."

Samuel Taylor Coleridge

Did Coleridge gaze into his crystal ball and predict nearly 200 years ago the water supply dilemma many of our communities are facing at the end of the 20th century? Of course not; however, he did address perhaps a most important necessity for our viability—potable water.

The two aspects of water, quantity and quality, have been of immense concern to man and communities for millennia. I submit that our past concern and greater emphasis has been placed on the quantity of water.

Water, like fire, can be our best friend or our worst enemy. Mother nature punishes man when we mismanage our resources. The dire consequences of the lack of that absolutely required resource become abundantly clear when crops fail due to persistent drought and people are condemned to starvation or at best migration. The lack of water certainly places limits on the future of our communities.

Abundant water supplies fulfill the requirements growing populations and communities demand, and in addition present ideal opportunities for water-dependent economic activities. Conversely, mismanagement of periodic and sometimes unpredictable episodes of overabundant water supplies, such as might occur through flooding, make certain land uses extremely risky and have occupied much of man's ingenuity in guarding against loss of life and property.

Consequently, individuals and governmental agencies have for the past 5,000 years impounded water bodies to ensure a regular supply throughout the seasons for irrigation, flood control, navigation, power generation and, for the past century at least, other multipurpose uses including recreation and aesthetics. The positive aspects of man's modification of the natural environment include the management of our most precious water resources.

With the exception of periodic and regional mismanagement and overuse, communities generally have successfully planned for increasing water demands. The trend in total water usage

for the commonwealth has constantly increased for the past decade, but public water supply systems have kept pace with the daily consumption in Virginia of more than 150 gallons per capita.

Antiquated legal issues regarding interbasin transfer of water or squabbles over the use of a common water body have no doubt been detrimental to many communities in the past. The resolution of these conflicts requires legal changes and delicate diplomacy to ensure a balanced supply for all users in the future. The fee structure for water customers generally favors the largest users because it is regressive—the greater the consumption the lower the unit cost. A single fair pricing structure might encourage conservation. Despite criticisms of mismanagement affecting water quantity, I believe our problem is one of regional distribution and can be remedied easily with proper planning, although perhaps not too cheaply.

We can rest assured that not a drop of water is lost in the earth's closed hydrologic cycle of evaporation, condensation and precipitation. Of far greater concern and of more importance is the deteriorating quality of our water supplies. Through mishandling in many spheres of our industrial urban society we have tainted our surface and groundwater supplies to the point where some communities have had to abandon their public water supplies and rely on the goodwill of neighboring jurisdictions or commercial bottled water.

Hardly a day passes that the media do not alert local officials and citizens of the discovery of additional hazardous waste sites or spills that adversely affect their communities surface or groundwater supplies. A 1977 Environmental Protection Agency study revised its earlier estimates of hazardous waste production drastically. The annual production of hazardous wastes that have to be disposed of has reached nearly 30 million metric tons. More alarming, however, is the fact that 90 percent of the wastes were in liquid waste streams that undoubtedly could negatively influence our water supplies or even make them unusable in the future. In addition, more than 130,000 operational or abandoned surface impoundments are located in the United States and unfortunately situated above groundwater aquifers and adjacent lakes, estuaries

and streams. When confronted by such unfathomable numbers of existing and marked sites we should certainly be concerned.

Add to this the most dangerous sites on the Environmental Protection Agency's "Superfund" priority list in more than 500 locations around the country, including several in Virginia. Again, we are dealing with known sites of real and potential water pollution that can be controlled or cleaned up, albeit at staggering costs to the taxpayer and rarely at the expense of those who created the sites through mismanagment, carelessness or greed.

On the other side of the coin we find hundreds of thousands of agricultural fields where herbicides, pesticides and fertilizers are entering our water supplies through run-off from non-point sources.

The commonwealth of Virginia is far from being unaffected by these national water resource problems. Some of Virginia's water is polluted by materials spilt while being transported on our highways from out of state waste generators to disposers beyond the state's boundaries. Other sources of potential water pollution are located within the state, such as military installations, nuclear power generating plants, manufacturers of such infamous products as kepone, a burning tire depository that withstood the onslaught of man and technology for months, mining activities. municipal and private landfills and many more. I am sure that this list is incomplete, but I am equally certain that every city, town and county in the commonwealth has its share of potentially hazardous sites.

We cannot escape from our past errors, yet we have the knowledge with which to protect our future water supplies. We must learn that in our anxiety to rid ourselves of waste and industrial by-products, we might well rid ourselves of needed water resources. Our society is faced with the dilemma of industries that invent, produce and distribute a vast variety of goods and materials with 20th century efficiency and on the other hand dispose of by-products and wastes with medieval ignorance.

At the national and state level an effort has been made for the past two decades to plan for our water resources. The implementation of these plans and the

Localities can no longer operate in isolation, but must cooperate with each other to safeguard their shared water resources. The time has come for us to begin to address the complex problems confronting our water resources. Through proper and farsighted planning we might vet like Coleridge's ancient mariner return to a world of safe and plentiful water.

About the Author

Dr. Peter Schulz is an associate professor of urban studies and planning at Virginia Commonwealth University and teaches courses in land use and environmental management.

Financing

continued from page 11

legal and regulatory proposals that might affect the balance of risks and costs embodied in each financing alternative. The recent U.S. Treasury Department's tax proposals would increase the cost of constructing and operating resource recovery plants if adopted by Congress. Such indirect tax incentives as the accelerated cost recovery system would be reduced, investment tax credit eliminated and the tax-exempt status of a facility's securities revoked if more than 1 percent of the energy produced were sold to a private entity.

Such changes would reduce the incentive for private companies to inject equity capital for construction while increasing operating costs for private and public operators by limiting energy markets. Municipalities and resource recovery authorities would need to replace the equity with larger, more costly bond issues and meet higher operating costs by boosting tipping fees as much as 100 percent. Although Congress is unlikely to pass the tax legislation as proposed, municipalities may want to support various lobbying efforts to maintain tax incentives.

About the Authors

Robert W. MacDonald is president of James L. Lowrey & Co., the country's leading independent financial advisor to cities. states and other public authorities. He formerly served as vice president and senior banker in the public finance department at Salomon Brothers. During his investment banking career, he has been responsible for structuring more than 150 issues of securities aggregating over \$8 billion of bonds and notes for a variety of issuers.

Francis J. McDonough, senior financial advisor at James L. Lowrey & Co., has advised the Central Massachusetts Resource Recovery Committee; Arlington County, VA; Dade County, FL; and the commonwealth of Massachusetts concerning proposed waste-to-energy facilities and has extensive experience negotiating contracts with investor-owned utilities, contractors, equipment vendors and municipalities. Prior to joining James L. Lowrey & Co., he was an attorney representing one of nation's major investor-owned utilities.

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