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# Constitutional Limitations on Public Indebtedness

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## CONSTITUTIONAL LIMITATIONS ON PUBLIC INDEBTEDNESS.

The people of Kentucky will vote this fall upon the proposition whether a convention shall be called to revise the present Constitution or to adopt a new one. Admittedly our present Constitution is sound upon fundamental matters, such as those set forth in the Bill of Rights, the division of government into three departments, the executive, the judicial and the legislative, the composition of the executive and legislative branches, the method of enactment of laws, the prohibition against special legislation, and in many other particulars that will readily come to the mind of a student of that instrument, and were it not for Section 256, which forbids the submission to the people of more than two amendments at any one time, it might well be argued that the process of amendment by vote of the people should be resorted to in order to get rid of or to revamp those provisions now deemed to be detrimental to the best interests of the people, rather than the method of a constitutional convention. But the process of submitting but two amendments every two years is a practical block to a much needed revision that should be promptly had if the affairs of the state are to be put upon a sound basis for future growth and welfare. Further, it is very difficult to arouse the interest of the people and get them to vote upon constitutional amendments submitted to them. The experience of the past few years has shown how few of even those who vote in the general elections vote upon the constitutional questions which appear on the ballot. Moreover, there are some amendments that will require much study and careful consideration before being put into a final form for adoption or rejection; a study and consideration that can be adequately had only in a convention. The topic about which I shall write is, in my judgment, one of such kind of amendment.

That there is a need for revision in many particulars, and for a prompt revision, is clear to me. I shall dwell upon one only, but I might mention, in passing, the need of abolishing, at least as to all offices except those which collect and disburse public moneys, the prohibition against an officer succeeding himself in office. This it was thought, would prevent an office-

holding oligarchy. It has simply resulted in the office-holder running for some other office, for which the experience gained in the office he is required to vacate in no wise fits him. Other needed amendments are the abolishing of the requirement that clerks of the circuit courts and Court of Appeals shall be elected rather than appointed by the courts they serve, and the maximum salary provision that stands in the way of municipalities and other governing bodies obtaining the technically trained men needed now for the expanding activities of government; the strengthening of the executive department that it may not be reduced to impotence by a hostile legislature. Efficient government is best obtained when responsibility is fixed and the people can know upon whom it is fixed. If the executive and the administrative functions of government be split into too many focii, the people are bewildered and helpless to go about remedying evils. There should be greater flexibility in the provisions for the judicial department, especially in the minor courts. Justices' courts that work well in rural sections are utterly non-responsive to the needs of urban centers. One of the grave questions now pressing for solution is that relating to the franchise provisions of the Constitution. The franchises that have been obtained in the past have begun to expire and what was thought would adequately cover the situation, is turning out to be most inadequate. The public is at a big disadvantage in dealing, say, with a gas company, whose franchise has expired, with regard to a new one when that gas company cannot be compelled to serve the public after its franchise has expired. It is well enough to say that a franchise may be granted to some other company but the problems of finance and of construction are so great as to render that alternative practically nugatory. A shutting off of gas even for a day would work havoc in a big city. But that is what can be done if a gas company is so minded, and some have been, as the records of our courts disclose. The problem of adequate service and a rate fair to the public and the utility will, in my judgment, have to be worked out in some better fashion than we now have.

But the question I wish to deal with in this article is that of public indebtedness, with especial reference to that of counties, municipalities, schools and taxing districts, such as drainage districts and the like, rather than that of the state.

Public attention is most often called to the mounting state debt but an investigation will disclose that the real increasing burden of taxation, concerning which the people of the state are most alarmed, is due to the increasing cost of local government and the increasing amount of indebtedness which those subdivisions are piling up. It is no new problem.

I find in the Third Constitution, no regulations covering the right of local subdivisions to become indebted. There did appear in Section 35 of Article 2 of that instrument a prohibition with regard to state indebtedness which was carried over into Section 49 of the present Constitution. But there was nothing to stand in the way of local subdivisions plunging into debt up to their necks. That they had done so and that the situation had become a grave one is apparent from even a casual reading of the Constitutional Debates of 1890. Turning to them, we find that on Monday, September 8, 1890, the fourth constitutional convention of Kentucky assembled in the city of Frankfort for the purpose of revising the old Constitution or of adopting a new one. Three days after it convened, and on Thursday, September 11th, the delegate from Union County, Mr. I. A. Spaulding, presented the following resolution which was adopted:

"That the auditor of public accounts is requested to ascertain and report to this convention at as early a date as practicable, the aggregate indebtedness of each county, city, town and tax district in this commonwealth, for what purposes incurred, whether bonded or floating, and the rate of interest thereon and also what means have been provided for assets available for payment of same." Debates, Volume 1, p. 70.

On the next day, Mr. Rodes, one of the delegates from Warren County, offered the following resolution which was referred to the Committee on Resolutions:

"Resolved that it is the sense of this convention that Sections 35 and 36 of the present Constitution, Article 2, should be retained substantially in its revision so far as limiting and restricting the Legislature in the creation of debts against the state and the principle involved in said sections should be extended and applied in a similar manner as to the creation of indebtedness by counties, cities or towns or other political or corporate sub-divisions of either." Volume 1, p. 85.

Running through the early days of the convention were repeated resolutions looking to the attainment of the same object as those just read.

I might add in passing that on Wednesday, September 24th, the auditor reported that he was unable to furnish the convention with data relating to local and municipal indebtedness, and referred the convention to the census reports for such information.

Thus we see that at the very outset of its labors, the convention was concerned with the growing and mounting indebtedness of local subdivisions and with the problem of how best to curb it. Out of its many deliberations on the subject, there emerged Sections 157 and 158 of the present Constitution which, in my judgment, and with all due deference to my many distinguished and learned predecessors in office, would have effectively required these local subdivisions to live within their income and would have confined bond issues to what bond issues are undoubtedly designed, namely capital improvements, and not for current expenses, had they been interpreted in spirit and even in letter to accomplish the end they were most obviously intended to accomplish. But these provisions were unfortunately, as I believe, construed in other fashion and that construction has so entered into the warp and woof of the fabric of our Constitution that we cannot get back to an effectual restraint without a revision of these provisions. Let us consider these provisions, find out how they have been construed, and see what has been the result of that construction.

Section 157 of the Constitution, after setting out the limit of the tax rates to be levied by cities, town, counties, taxing districts and other municipalities, provides:

"No county, city, town, taxing district, or other municipality, shall be authorized or permitted to become indebted, in any manner or for any purpose, to an amount exceeding, in any year, the income and revenue provided for such year, without the assent of two-thirds of the voters thereof, voting at an election to be held for that purpose; and any indebtedness contracted in violation of this section shall be void. Nor shall such contract be enforceable by the person with whom made; nor shall such municipality ever be authorized to assume the same."

There is a key word in the excerpt just quoted, the construction of which undid, in my judgment, the whole aim of this section. It is the word "provided." Let me repeat the phrase: It forbids the becoming indebted by these local bodies in an amount in excess of the income and revenue *provided* for such year. I believe the average layman would understand, and I think the framers of the Constitution meant, by the use of

that word "provided" not the income that could be realized by the maximum tax rate previously authorized by that section—else the word "authorized" would probably have been used—but the income that was provided by the action of the taxing authorities in levying their taxes for the year in question. To illustrate, if the maximum tax rate that is authorized by the section for the local subdivision in question, say, is 75 cents, but the tax authorities chose to levy but 50 cents, I think the income beyond which the indebtedness was not to go was meant to be that to be raised by the 50 cent rate actually levied and not that that which might have been raised by 75 cents had it been levied. The Constitution, in my judgment, plainly meant to put these local subdivisions on a budget system, but a construction that validates a debt even though it exceeds the income raised by the 50 cents levied, if it can be taken care of by 75 cents that could have been levied, absolutely destroys all hope of a budget system. And yet so distinguished and learned a judge as Judge Carroll, himself a member of the constitutional convention that framed our present Constitution, wrote for the Court without discussion or elaboration in the case of *City of Providence v. Providence Electric Light Co.*<sup>1</sup>

"It is true that the city in 1903 only levied an ad valorem tax of 35 cents, but it is the amount of tax that may be levied and raised under the Constitution that must be looked to in determining whether or not the indebtedness 'exceeds in any year the income and revenue provided for such year.' It will not do to say that a city that is authorized to levy an ad valorem tax of 75 cents may contract an indebtedness that can be assumed and paid within the constitutional limit, and then by refusing to levy the full amount of tax authorized, or by levying only a small tax, defeat the collection of the debt upon the ground that the revenue for the year is less than the amount of indebtedness created."

And this construction has so long been adhered to that it is impossible to change it.

Before pointing out how it has worked, I also wish to call your attention to the construction of another word in this section which has materially contributed to what I shall shortly point out to you to be the present situation. And that is the word "indebtedness." In *O'Bryan v. City of Owensboro*,<sup>2</sup> this word was defined to mean an indebtedness created by contract. This is the same definition put upon that word in Section 49 of

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<sup>1</sup>122 Ky. 237, 91 S. W. 664.

<sup>2</sup>113 Ky. 680, 68 S. W. 858.

the Constitution governing state indebtedness, as a result of which it is held that ordinary appropriations by the Legislature are not curbed by the restriction of Section 49 on the creation of indebtedness since they are not based on contract. The result of this construction is the millions of dollars of outstanding state warrants we now have with no income wherewith to pay them. I hardly believe the framers of our present Constitution contemplated any such result. I do not believe they meant to put so narrow a construction on the phrase. They were earnestly trying to compel the Legislature and these local subdivisions to live within their income and to that end meant that they should not incur any expense voluntarily and in case of local subdivision by command of the Legislature which would exceed the revenue which had been provided by a tax levy whether that expense was the ordinary or the extraordinary expenses of government or a contractual indebtedness.

But the courts have held otherwise. And what has been the result of this construction of Section 157 of the Constitution? Local taxing authorities for reasons best known to them, have not levied the tax rate they could and should have levied but in many instances a far less sum. Current expenses of government that should have been anticipated have exceeded the revenue actually raised. A floating debt thus starts that gets bigger and bigger as the years go on. With the passage of time, all hope of determining whether this floating debt was in its inception valid or not, even within the exceedingly liberal construction given by the Court of Appeals to the Constitution, fades away. The people of our state have a commendable trait of abhorring repudiation and so when it can no longer be accurately determined whether a particular debt was valid in its inception or not, it has been more or less complacently assumed or alleged without denial that the debt was valid in its inception. However, the floating debt though mounting was held within some bounds by the position the court took in *McCrocklin v. Nelson County Fiscal Court*,<sup>3</sup> to the effect that a floating indebtedness of any one year must be carried over and considered a part of the expenditures to be made the succeeding year, to meet which the taxing authorities should levy a tax within the limits allowed by the Constitution. The burden upon

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<sup>3</sup> 174 Ky. 308, 192 S. W. 494.

the creditors of having to wait until the current taxes could discharge their claims put some deterrent upon them extending credit to these local taxing districts and thus indirectly a check was placed upon extravagance and the exceeding of current income. But even this slight barrier was swept away by the opinion of the court in *Vaughn v. City of Corbin*,<sup>4</sup> which construed the last sentence in Section 158 of the Constitution, which reads:

"Nothing herein shall prevent the issue of renewal bonds, or bonds to fund the floating indebtedness of any city, town, county, taxing district or other municipality."

to mean that any floating indebtedness whether created before or after the adoption of the present Constitution can be refunded into bonds without a submission to a vote of the people. In my judgment, this provision was meant to be confined to the refunding of bonds and floating indebtedness created prior to the adoption of the present Constitution. The right to issue refunding bonds both for old bonds and for a floating indebtedness is conferred in the same sentence. There can be, if the Constitution be obeyed, no refunding of bonds issued since the Constitution has adopted, as Section 159 of that instrument requires when a bonded indebtedness is created, the levying of annual tax sufficient to pay the debt and interest in not exceeding 40 years. And since the provision of refunding of bonds by Section 158 was thus clearly restricted to bonds issued prior to the adoption of the present Constitution, I think such consideration alone, were there none others to support the proposition should convince one that the refunding of floating indebtedness authorized by the same phrase meant floating indebtedness created prior to the adoption of the present Constitution. The carefully framed provisions of Section 157 looking to a budget system absolutely demonstrate to my mind the fact that the framers of the Constitution never thought there would be a floating indebtedness to be created thereafter that should be refunded. Chief Justice Thomas, Judge Rees and myself have consistently dissented from the result of the *Vaughn* case. In *City of Frankfort v. Fuss*,<sup>5</sup> in which the refunding by the city of Frankfort of a floating indebtedness of \$120,000 was upheld,

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<sup>4</sup> 217 Ky. 521, 289 S. W. 1104.

<sup>5</sup> 235 Ky. 143, 29 S. W. (2d) 603.



Judge Rees in dissenting pointed out just where the rule of the majority opinion was leading. I quote:

"If this court continues to follow the rule announced in the Vaughn Case, the taxpayers of municipalities will have no protection from the creation of bonded debts in huge amounts. As aptly expressed in appellees' brief: 'Then, there is no remedy against the rolling up of annual deficits into large debts to be later transmuted into securities payable perhaps a generation hence. Then, by their negligence or wilfulness in failing to live within their income, taxing bodies can do that which they can not openly do without the consent of those taxed. Then, our current expenditures—not cost of permanent improvements but of today's living—can by the few, be loaded on the backs of the children and the children's children of the many. Like the prophet, they will lament: 'Our fathers have sinned and are not; and we have borne their iniquities.' In the lament of another prophet, 'The fathers have eaten sour grapes, and the children's teeth are set on edge.'"

The solution of these and other problems is worth, in my judgment, the cost and time of a convention. If it is called, I have confidence that the people will select the type and character of men who will bring to a consideration of the questions before them, earnest thought and care to the end that our state may go forward along the paths of prosperity and happiness.<sup>6</sup>

RICHARD PRIEST DIETZMAN.

Frankfort, Ky.

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<sup>6</sup>Since the Vaughn case, there has been a steady procession of cases to our court, most of them very friendly indeed, asking in effect the validation of refunding bonds issued without the vote of the people. In the City of Corbin case, to which I have referred, it appeared that with an assessed valuation of \$3,004,357, there was already a funded debt of \$84,000 and it was proposed to fund a floating debt of \$75,000. In *Wilson v. City of Covington*, 220 Ky. 795, 295 S. W. 1069, it was proposed to refund a floating debt of \$140,000. In *Davis v. City of Newport*, 224 Ky. 546, 6 S. W. (2d) 693, it was proposed to refund a floating debt of \$100,000. In *Rowland v. City of Paris*, 227 Ky. 570, 13 S. W. (2d) 791, it was proposed to refund a floating debt of \$50,000. In the Frankfort case, the city already had a funded debt of \$290,000, and it was proposed to refund a floating debt of \$125,000. In *Elliott v. Fiscal Court of Pike County*, 237 Ky. 797, 36 S. W. (2d) 619, a floating debt of \$157,000 was refunded by Pike County which at that time had outstanding a bonded indebtedness for county purposes of \$623,149.26. In *Baker v. Rockcastle County Court*, 225 Ky. 99, 7 S. W. (2d) 846, it was proposed to refund a floating indebtedness of that county amounting to \$80,000. These are but samples of the many cases that are coming in ever increasing flow to our Court and so far as the records show the floating indebtedness in each instance started out with a failure on the part of the taxing authorities to levy taxes each year adequate to pay the expenses of that year. Thus current expenses are saddled by these refunding issues upon future generations—a violation of every rule of economics. Violation of laws, natural, economic, moral, spiritual or otherwise inevitably bring punishment in their train.

Let us now see where we are heading with reference to this matter of local indebtedness. It has not been possible to get full present statistics. I wrote to the Census Bureau requesting data about the present bonded indebtedness of the various counties of Kentucky and received this reply:

"The latest information compiled by this Bureau on the subject of bonded indebtedness of counties relates to the year 1922 and was compiled in connection with the decennial investigation on Wealth, Public Debt, and Taxation; this subject will not be taken up again until 1932."

Pursuant to the suggestion in this letter, I obtained a copy of the 1922 pamphlet and found some very suggestive facts for consideration. I here insert them.

GROSS DEBT LESS SINKING FUND ASSETS OF COUNTIES AND OTHER CIVIL DIVISIONS

Total	County	All Other Civil Divisions	Per Capita 1922	1912
\$42,774,000	\$12,340,000	\$30,434,000	17.51	10.95

GROSS DEBT OF STATE, COUNTIES AND OTHER CIVIL DIVISIONS

	Total	Funded or Fixed*	Special Assessment	All Others	Funded Less Sinking Fund Assets
Kentucky _____	\$54,846,000	\$42,490,000	\$1,514,000	\$10,842,000	\$38,180,000
State _____	7,755,000	2,487,000		5,268,000	2,477,000
Counties _____	13,448,000	10,791,000		2,657,000	9,682,000
Incorporated Places _____	29,008,000	26,592,000	1,514,000	982,000	23,401,000
Other Civil Divisions _____	4,555,000	2,620,000		935,000	2,620,000

\* Includes debts to public trust funds not evidenced by bonds, etc.

PER CENT OF INCREASE OF NET DEBT

	1912-1922	1902-1912	1890-1902
State _____	74.4	93.9	37.1
County _____	170.1	11.2 (Decrease)	9.9 (D)
Incorporated Places _____	23.1	37.6	28.6
Other Civil Divisions _____		100. (D)	24.1 (D)

PER CAPITA

	1922	1912	1902	1890
State _____	\$3.17	\$1.90	\$1.04	\$0.90
County _____	5.01	1.96	2.22	3.07
Incorporated Places _____	30.78	28.00		

I call your attention to these very significant facts gleaned from these figures. In the decade of 1902-1912 the state indebtedness showed an increase over the preceding decade of 93.9 percent and the decade of 1912 to 1922 an increase of 74.4 percent over the previous one. In 1890 the per capita state indebtedness was 90 cents; in 1922, it was \$3.17. The indebtedness of county actually showed a decrease of 11.2 percent during the decade of 1902-1912 but during the decade of 1912-1922, it showed an increase of 170.1 percent over that of the preceding decade. In 1912, the per capita indebtedness of the counties had declined to \$1.96; in 1922, it had jumped to \$5.01. The increase of municipal indebtedness during the 1902-1912 decade was 37.6 percent, that of the 1912-1922 decade was 23.1 percent, with the per capita in 1912 being \$28.00 and in 1922, \$30.78. As stated, these are 1922 figures, but I am quite willing to risk the statement that when the 1932 study is

published by the Census Bureau, we will find that for all three subdivisions, state, county and municipal, the increase of indebtedness for the 1922-1932 decade will exceed the percentage increase of 1912-1922.

That this is so is borne out by some figures that I have gotten covering county road bonds and school bonds. I admit the county road bonds are for capital improvement and have been authorized by a vote of the people but the school bonds are not entirely so, as we shall see. The point I wish to emphasize here by these figures is the steady increase in local indebtedness. I have been furnished by the Honorable M. B. Holifield, First Assistant Attorney General of our State, with a statement of the outstanding bonded indebtedness of counties for roads and bridges as of December 31, 1929. It is:

COUNTY HIGHWAY AND BRIDGE BONDS OUTSTANDING DEC. 31, 1929

County	Amount	County	Amount
Adair .....	\$43,000	Hancock .....	none
Allen .....	none	Hardin .....	none
Anderson .....	125,000	Harlan .....	921,000
Ballard .....	200,000	Harrison .....	150,000
Barren .....	none	Hart .....	none
Bath .....	185,000	Henderson .....	700,000
Bell .....	925,000	Henry .....	400,000
Boone .....	400,000	Hickman .....	none
Bourbon .....	165,000	Hopkins .....	408,000
Boyd .....	976,000	Jackson .....	65,000
Boyle .....	100,000	Jefferson .....	none
Bracken .....	80,000	Jesamine .....	none
Breathitt .....	203,000	Johnson .....	370,000
Breckinridge .....	250,000	Kenton .....	909,000
Bullitt .....	38,000	Knott .....	200,000
Butler .....	100,000	Knox .....	190,000
Caldwell .....	186,000	Larue .....	none
Calloway .....	300,000	Laurel .....	280,000
Campbell .....	920,000	Lawrence .....	250,000
Carlisle .....	180,000	Lee .....	187,000
Carroll .....	95,500	Leslie .....	125,000
Carter .....	264,000	Letcher .....	710,000
Casey .....	130,000	Lewis .....	200,000
Christian .....	417,000	Lincoln .....	250,000
Clark .....	none	Livingston .....	204,000
Clay .....	183,000	Logan .....	160,000
Clinton .....	35,000	Lyon .....	50,000
Crittenden .....	125,000	Madison .....	none
Cumberland .....	100,000	Magoffin .....	180,000
Daviess .....	320,000	Marion .....	none
Edmonson .....	none	Marshall .....	200,000
Elliott .....	41,000	Martin .....	140,000
Estill .....	370,000	Mason .....	202,000
Fayette .....	80,000	McCracken .....	631,000
Fleming .....	147,500	McCreary .....	171,000
Floyd .....	56,000	McLean .....	21,000
Franklin .....	426,000	Meade .....	135,000
Fulton .....	296,000	Menifee .....	50,000
Gallatin .....	112,000	Mercer .....	80,000
Garrard .....	63,000	Metcalfe .....	57,000
Grant .....	218,000	Monroe .....	130,000
Graves .....	400,000	Montgomery .....	108,500
Grayson .....	125,000	Morgan .....	165,000
Green .....	50,000	Muhlenberg .....	200,000
Greenup .....	515,000	Nelson .....	none

County	Amount	County	Amount
Nicholas .....	162,000	Shelby .....	200,000
Ohio .....	285,000	Simpson .....	none
Oldham .....	256,000	Spencer .....	150,000
Owen .....	180,000	Todd .....	181,000
Owsley .....	45,000	Trigg .....	156,000
Pendleton .....	305,000	Trimble .....	109,700
Perry .....	502,000	Union .....	247,000
Pike .....	750,000	Warren .....	none
Powell .....	none	Washington .....	71,500
Pulaski .....	230,500	Wayne .....	150,000
Robertson .....	75,000	Webster .....	250,000
Rockcastle .....	139,000	Whitley .....	299,500
Rowan .....	130,000	Wolfe .....	50,000
Russell .....	75,000	Woodford .....	none
Scott .....	300,000	Total .....	\$24,433,200

Mr. J. W. Cammack, at my request, has been kind enough to get together for me some statistics with reference to indebtedness of school districts. It is admittedly incomplete because of lack of proper reports. It is:

School Units	Notes & Accounts In Thou- sandths	Bonds In Thou- sandths
ADAIR Co. ....	9.5	
Columbia GS <sup>1</sup> .....	3.9	
ALLEN Co. ....		
Scottsville Cy. <sup>2</sup> .....	4.3	37.5
ANDERSON Co. ....	18.7	
BALLARD Co. ....	5.2	3.5
BARREN Co. ....	6.9	
Glasgow GS .....	7.3	45.
BATH Co. ....		
Owingsville GS .....		.8
Sharpsburg GS .....		3.5
BELL Co. ....	16.5	
Middlesboro Cy.....		132.6
Pineville Cy. ....	19.5	71.
Four Mile GS .....	.15	1.
Kettle Island GS .....	1.8	
Lone Jack GS .....		2.2
Str. Creek GS .....	1.06	
BOONE Co. ....	7.5	
Petersburg GS .....	.5	
Walton GS .....	3.9	10.4
BOURBON Co. ....	12.	
BOYD Co. ....		
Ashland Cy. ....	34.1	639.
Catlettsburg Cy. ....		34.
BOYLE Co. ....		.30
Danville Cy. ....		100.
BRACKEN Co. ....		34.
Augusta GS .....		23.
Brooksville GS .....	25.3	17.
BREATHITT Co. ....	9.6	20.
Jackson Cy. ....	8.5	19.

<sup>1</sup> GS—Graded School.

<sup>2</sup> Cy.—City School.

School Units	Notes & Accounts In Thou- sandths	Bonds In Thou- sandths
BRECKINRIDGE Co. ....	28.1	
Cloverport GS .....	.07	18.5
BULLITT Co. ....	.5	
Shepherdsville. GS .....	1.	
BUTLER Co. ....	5.9	20.
CALDWELL Co. ....		30.
Princeton Cy. (W) .....	4.	42.5
Fredonia GS .....	8.2	2.
CALLOWAY Co. ....	17.	
Murray Cy. ....		56.
CAMPBELL Co. ....		
Bellevue Cy. ....		110.
Clifton Cy .....	10.4	32.
Dayton Cy. ....	5.2	79.
Ft. Thomas Cy. ....		107.5
Newport Cy. ....	65.	342.8
Cold Spr. GS .....		12.
Silver Grove GS .....	33.2	15.
CARLISLE Co. ....	11.4	
Arlington GS .....		6.
CARROLL Co. ....		60.6
Carrollton Cy. ....	4.	13.
CARTER Co. ....	13.3	
Olive Hill Cy. ....	33.4	
Grayson GS .....	3.	
Soldier GS .....	.2	7.
Willard GS .....	.2	
CASEY Co. ....	17.	
Dunnville GS .....	.4	
Liberty GS .....	5.	7.5
Middleburg GS .....		5.5
CHRISTIAN Co. ....		50.
Hopkinsville Cy. (W) .....	25.	
Hopkinsville Cy. (C) .....	.1	
Crofton GS .....		7.
Pembroke GS .....	2.4	14.
CLARK Co. ....		
Winchester Cy. ....	20.	118.5
Hunt GS .....	.5	
CLAY Co. ....	2.2	
Manchester GS .....		10.
CLINTON Co. ....	7.	
Albany GS .....	1.8	5.
CRITTENDEN Co. ....		24.
Marion Cy. ....	2.	25.5
Dycusburg GS .....	.7	
CUMBERLAND Co. ....		
Marrowbone GS .....	.7	
DAVISS Co. ....	1.2	
Owensboro Cy. ....		267.
EDMONSON Co. ....	14.5	
ELLIOTT Co. ....	12.	
ESTILL Co. ....		
Irvine Cy. ....	16.	
Ravenna GS .....		24.
FAYETTE Co. ....		
Lexington Cy. ....	242.7	65.

School Units	Notes & Accounts In Thou- sandths	Bonds In Thou- sandths
FLEMING Co. ....		
Flemingsburg GS .....	3.6	23.
FLOYD Co. ....	18.	100.
Prestonsburg GS .....	14.6	12.
FRANKLIN Co. ....	20.	
FULTON Co. ....	7.5	
Hickman Cy. (W) .....	6.7	31.
Hickman Cy. (C) .....		30.
Fulton Cy. ....	12.08	
GALLATIN Co. ....		
Glencoe GS .....		3.8
GARRARD Co. ....	18.2	
Lancaster GS .....		12.5
GRANT Co. ....	17.	
Williamstown GS .....		19.5
GRAVES Co. ....	16.3	
Mayfield Cy. ....	6.	78.
GRAYSON Co. ....		
Leitchfield GS .....	25.	
GREEN Co. ....	1.	
Greensburg GS .....	5.5	16.
GREENUP Co. ....	10.6	
Russell Cy. ....	13.	60.
Fullerton GS .....		10.
Greenup GS .....	4.5	15.
Raceland GS .....	9.1	32.
S. Portsmouth GS .....	1.	
Wurtland GS .....		3.
HANCOCK Co. ....	1.2	6.
HARDIN Co. ....	1.6	
Elizabethtown Cy. ....		8.
Sonora GS .....	.2	
Upton GS .....	4.4	
Vine Grove GS .....		.8
West Point GS .....	1.5	13.9
HARLAN Co. ....		
Harlan Cy. ....	1.	50.
Everts GS .....		10.
Lynch GS .....	22.1	40.
Wallins Creek GS .....	1.5	19.5
HARRISON Co. ....	9.	
Cynthiana Cy. ....		12.
HART Co. ....	20.	
Horse Cave GS .....		4.
Munfordville GS .....		2.
HENDERSON Co. ....		46.
Corydon GS .....	2.	
HENRY Co. ....	23.1	73.5
Bethlehem GS .....	.6	
New Castle GS .....	5.4	12.
Port Royal GS .....	.8	
HICKMAN Co. ....	12.5	
HOPKINS Co. ....		
Earlington Cy. (W) .....		30.
Madisonville Cy. ....		75.
Dawson Sprgs. GS .....		20.
JACKSON Co. ....	2.7	

School Units	Notes & Accounts In Thou- sandths	Bonds In Thou- sandths
JEFFERSON Co. ....	75.3	
Anchorage GS .....	10.	55.
Hikes GS .....	7.6	35.
JESSAMINE Co. ....	7.	
JOHNSON Co. ....	19.5	
Paintsville Cy. ....		47.
Van Lear GS .....	8.8	
KENTON Co. ....	35.	162.
Covington Cy. ....	52.6	875.
Ludlow Cy. ....		30.
Beechwood GS .....	5.	
Bromley GS .....	1.	
Erlanger GS .....	8.4	29.
KNOTT Co. ....	9.1	
KNOX Co. ....	28.8	
Barbourville Cy. ....		20.
LARUE Co. ....		
Buffalo GS .....	2.2	
LAUREL Co. ....	32.1	
E. Bernstadt GS .....		3.5
London GS .....	12.5	
LAWRENCE Co. ....		
Louisa GS .....	17.8	33.
LEE Co. ....		
Beattyville GS .....	15.	10.
LESLIE Co. ....	13.1	
LETCHER Co. ....		40.
Whitesburg GS .....	4.5	33.
LEWIS Co. ....		
Vanceburg GS .....		10.
LINCOLN Co. ....	32.6	
Crab Orchard GS .....	7.	
Hustonville GS .....	17.	
Kings Mt. GS .....	4.	
Moreland GS .....	3.	
Stanford GS .....	15.5	
Waynesburg GS .....	1.2	
LIVINGSTON Co. ....	4.02	
Carrsville .....	1.7	
LOGAN Co. ....	.6	
Russellville Cy. ....	.3	17.
LYON Co. ....	3.	
Eddyville GS .....	16.	
Kuttawa GS .....		8.5
MADISON Co. ....	38.5	
Richmond Cy. ....	11.	48.
Berea GS .....	6.	20.
MAGOFFIN Co. ....	16.8	
Salersville GS .....	1.5	
MARSHALL Co. ....	23.6	
Benton GS .....	3.5	12.
Hardin GS .....	4.2	
MASON Co. ....	3.	
Maysville Cy. ....	19.6	114.
McCRACKEN Co. ....	25.6	
Paducah Cy. ....	3.	
McCREARY Co. ....	8.5	

School Units	Notes & Accounts In Thou- sandths	Bonds In Thou- sandths
Greenwood GS .....	7.8	
Pine Knott GS .....	1.3	
Stearns GS .....	1.7	
Whitley City GS .....	6.5	
McLEAN Co. ....	16.	
Calhoun GS .....	14.2	
Livermore GS .....		13.
Beach Grove GS .....	.2	
MEADE Co. ....	1.5	
MERCER Co. ....	2.2	
Harrodsburg Cy. ....	7.5	65.
METCALFE Co. ....	9.1	
Edmonton GS .....	8.05	
MONROE Co. ....		
Flippin GS .....	.2	
Fountain Run GS .....	1.3	2.2
Tompkinsville GS .....	2.	
MONTGOMERY Co. ....		
Mt. Sterling Cy. ....	6.1	
MORGAN Co. ....	7.2	
MUHLENBERG Co. ....		
Central City Cy. ....		42.
Bevier-Cleaton GS .....	.5	
Greenville GS .....	14.7	21.5
NELSON Co. ....	6.9	
Bardstown GS .....	1.2	39.
Bloomfield GS .....	1.7	7.5
Chaplin GS .....	.8	6.4
NICHOLAS Co. ....	12.	
Carlisle GS .....	1.2	184.1
OHIO Co. ....		
Beaver Dam GS .....	17.	
Central Park GS .....	8.	
Rockport GS .....	.4	
OLDHAM Co. ....		14.5
LaGrange GS .....	16.	30.
OWEN Co. ....	2.	
Owenton GS .....	10.	
Owsley Co. ....		10.
Owsley Co. ....	2.2	
Booneville GS .....	.7	25.
PENDERON Co. ....	5.	
Butler GS .....	36.1	
Falmouth GS .....		18.
Morgan GS .....	19.4	
PERRY Co. ....		
Hazard Cy. ....	67.	200.
Dwarf GS .....	.9	
PIKE Co. ....	24.	
Pikeville Cy. ....		59.
Hellier GS .....	2.4	
Stone GS .....	.3	
POWELL Co. ....	3.7	
Stanton GS .....	2.4	
PULASKI Co. ....	36.	
Somerset Cy. ....		32.5
Eubank GS .....	14.	8.



School Units	Notes & Accounts In Thousandths	Bonds In Thousandths
Ferguson GS	5.3	8.
Science Hill GS	1.7	
ROCKCASTLE Co.	5.2	
Livingston GS	6.2	12.
Mt. Vernon GS	23.2	15.5
RUSSELL Co.	5.9	
Jamestown GS	4.4	
Russell Springs GS	2.	
SCOTT Co.	21.	
Georgetown Cy.	3.	168.
SHELBY Co.	46.4	
Shelbyville Cy. (W)	18.2	
SIMPSON Co.		
Franklin Cy.		6.
SPENCER Co.	2.	
Mt. Eden GS	3.4	
Taylorville	2.	
Todd Co.		
Elkton GS	27.	
Fairview GS	4.	
Guthrie GS	4.5	
Trenton GS	7.2	
TRIGG Co.	18.2	
Cadiz GS	2.	
TRIMBLE Co.	.3	
Milton GS	7.	
UNION Co.		
Sturgis Cy.	.09	
Uniontown GS		9.
WARREN Co.	31.	
Bowling Green Cy.		158.
WASHINGTON Co.		
Springfield GS	5.7	29.5
WAYNE Co.		
Monticello GS		16.
WEBSTER Co.	16.5	35.
Providence Cy.	5.5	
Blackford GS	7.08	
Clay GS	10.6	
Dixon GS	2.3	9.
Slaughters GS		90.
WHITLEY Co.		10.
		16.
Corbin Cy.		86.
Williamsburg GS	2.	25.
WOLFE Co.	11.6	
Campton GS		.006
WOODFORD Co.		
Versailles Cy.		.50

From the figures, we find a floating indebtedness in these school districts of at least \$2,475,000, very little of which should be in existence if the constitutional mandate of Section 157 as originally intended had been obeyed. There is also a total of \$6,743,100 of bonds, a large amount of which are refunding bonds issued without a vote of the people to refund floating indebtedness. Most of these refunding bonds need never have been issued had the local authorities levied the taxes adequate to pay off the floating indebtedness instead of saddling it on

to future generations. In two districts alone where there were refunding issues of \$35,000 and \$63,000, respectively, the debt could have been taken care of had it been carried over into the next year and paid by current taxes.

As stated, I am unable to give you any idea of the other bonded or floating indebtedness of the various counties at the present time. We get sidelights here and there from records that come to our courts which indicate very heavy floating indebtedness on the part of many counties and taxing districts. I have not even touched on municipal indebtedness.

Let us consider, now, the implications of this. A tax rate of \$1 per hundred dollars of assessed valuation will yield \$10,000 for each million dollars of assessed valuation. This is a heavy rate in rural districts. Indeed, to lighten the burden, the state tax rate not long since was reduced from 50 cents to 30 cents per hundred and it was even proposed at the last Legislature to abolish it all together. As stated, the maximum amount of time allowed by the Constitution to pay a bonded indebtedness is 40 years. (Constitution, Section 159.) I am informed that to pay interest and amortize a bonded indebtedness of \$500,000, payable in 40 years at  $4\frac{1}{2}$  percent, takes approximately \$30,000 a year. Most of these bonds of which I have been speaking are payable in 30 years and bear interest at a rate of from five to six percent. In such state of case, the amount per year which must be raised to meet the principal and interest rises higher. But on my assumed figures, for each \$500,000 of bonds, there must be at least \$3,000,000 of assessed property upon which taxes are being paid, at the rate of \$1 per hundred. We now understand why the people of the state are groaning under the heavy burden of taxation. In most instances, it is the state debt that is emphasized as the cause of all their woes but while heavy, it is the local debts that are putting the intolerable burden upon them. Admittedly arguments can be advanced for bonding capital improvements to pay which future generations that are to share in such improvements should help. But there is just no argument that justifies the shifting of current expenses on future generations through the creation of a floating debt caused by the failure to levy adequate taxes which floating debt is in turn refunded into a bonded indebtedness.

There is a still more serious aspect of the problem. Outside of a few of the larger cities where may be found an industrial development, the people of the state depend for their income mainly from the returns from agriculture except in the eastern section where coal predominates. I will not weary you with a recital of the economic conditions in the coal fields. Even in the days of the prosperity that preceded the break of 1929, coal was in the doldrums—indeed, except for the slight prosperity caused by the British coal strike in 1926, coal has been face to face with insolvency since 1923. The plight of the farmers is known to all and that plight was accentuated by the drought of last year. In such state of case, where are the taxes to come from to pay just ordinary expenses of government without even touching on the mounting bonded and floating indebtedness of these local subdivisions? I am informed that in the State of Arkansas, this situation has become acute to the point of default. The papers this winter were filled with the debt situation in Mississippi. We know that even in our state, default on the part of tax payers in drainage taxing districts has occurred time and again and that they have been forced to let their lands go to pay the assessments. But that brings no relief to the bond holders since they are unable to dispose of the land taken in.

This was not meant to be a thorough study of the condition of the indebtedness of our state and its local subdivisions—but only enough to point out how the construction of the present Constitution has at

least permitted a condition to grow up that is the cause of much justified complaint. In my judgment, these debt provisions of the Constitution should be overhauled to the end that no floating indebtedness can ever arise except out of the most extraordinary circumstances and that when it does arise, it must be promptly paid out of current income and not allowed to be refunded, thus saddling current expenses on future generations. I believe that stricter restrictions should be put upon the creation of bonded indebtedness even for capital improvements so that our people will not be crushed by a burden of taxation to pay for things which cannot be afforded. It was the immortal Micawber who said:

“Annual income twenty pounds, annual expenditure nineteen, nineteen six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought six, result misery. The blossom is blighted, the leaf is withered, the God of day goes down upon the dreary scene and—and in short you are forever floored.”