

VOL. 1

PART 1

# Organization and Administration OF THE State Government of Alabama

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REPORT ON A SURVEY SUBMITTED TO  
GOVERNOR B. M. MILLER

*(In Five Volumes)*



Prepared by the  
INSTITUTE FOR GOVERNMENT RESEARCH  
of the  
BROOKINGS INSTITUTION  
Washington, D. C.  
1932

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Government Research.

722 JACKSON PLACE

June 11, 1932

Hon. B. M. Miller,  
Governor of Alabama,  
State Capitol,  
Montgomery, Alabama.

Dear Governor Miller:

I am submitting herewith a report on the results of the survey made at your request, under authority of Act of January 30, 1931, No. 5, by the Institute for Government Research of the Brookings Institution.

The survey covered a study of the administrative structure of the state government; an examination of the state's existing financial condition, including a review of financial operations during recent years; an especially detailed consideration of the system of financial administration of the state and of its political subdivisions, the counties; a study of the taxation system of the state and the counties; and a study of county government, including a consideration of the relationships, financial and otherwise, existing between the state government and the counties.

In all cases the attempt has been made to describe in detail existing conditions before proceeding to the formulation of recommendations looking to the improvement of these conditions. This procedure has made the report a bulky one but the inclusion of this descriptive matter is believed to be justified by the information that is thereby furnished regarding Alabama's government that is not readily available elsewhere.

The survey was made under the general direction of Mr. Henry P. Seidemann, Director of Field Surveys. He was assisted by Dr. A. C. Millsbaugh, who studied the structure of the state and

county governments; Dr. Benjamin P. Whitaker, who conducted the survey of the revenue system; Mr. Herbert Wilson, who surveyed the financial administration (other than taxation) of the county governments, and Mr. Charles L. Dearing, who studied highways. Mr. Seidemann surveyed the system of financial administration of the state and prepared the statements regarding financial condition and operations of the state government. I, myself, have kept in close touch with the progress of the investigation and participated to some extent in the field work.

In addition to the above-named members of the Institute's staff, we were fortunate in securing the services of Mr. Frank Bane, Commissioner of Public Welfare of Virginia, for the study of welfare administration in the state, and Medical Director L. L. Lumsden, Surgeon J. W. Mountin, and P. A. Surgeon C. C. Applewhite, of the U. S. Public Health Service, for the study of the system of public health administration in Alabama.

In transmitting this report I wish to convey to you our warm appreciation of the courtesy, cooperation, and assistance extended to the various members of the survey staff by yourself and the other members of the administrative branches of the state and county governments.

Respectfully submitted,

W. F. WILLOUGHBY,  
Director.

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## INTRODUCTION

In the chapters that follow are given a detailed examination of the administrative set up of the state government, a special consideration of the system of financial administration of that government, a study of the system of county government, and a study of both state and county taxation.

Due to the extensiveness of these inquiries and to the large number of recommendations made for the improvement of conditions, it is desirable to attempt something in the nature of a general summary of conclusions reached and of recommendations made. Such a summary is especially desirable in respect to the matter of recommendations, since it is of the utmost importance to distinguish between those recommendations which are of what may be termed a general or fundamental character, and those which are special, in the sense that they propose relatively minor changes. The first class contemplates the modification of the structure and processes of government in a more or less basic way. The second class is concerned with specific changes required in order fully to carry into effect the basic proposals.

In this introductory chapter the attempt will only be made; first, to characterize conditions generally as they are; and, second, to indicate those changes which are believed to be of an essential or fundamental character. In doing so, we are taking the liberty of commenting upon and making recommendations regarding certain features of the legislative and judicial branches of the state government even though an examination of those branches did not fall within our assigned task.

### GENERAL CHARACTERIZATION OF GOVERNMENTAL SYSTEM

The survey discloses the fact that the government of Alabama abounds in undesirable features, many of which are of a fundamental character, without the correction of which a satisfactory government for the state cannot possibly be secured.

Following are some of the features in respect to which the governmental system is believed to be radically defective:

1. The Constitution is overloaded with details which unduly tie the hands of the legislature and the administration in making provision for the organization and conduct of the administrative branch.
2. The legislative branch consists of two chambers, which results in an undesirable diffusion of responsibility, delay, and expense in the enactment of laws and the performance of other legislative functions.
3. The legislature does not have at its disposal any service in the form of an office of legislative council or a legislative reference and bill-drafting service to give expert aid to it in the drafting of legislation.
4. The judicial power of the state is not sufficiently centralized in a state judiciary, and there is a failure to integrate its system of state courts into a single unitary court.
5. There is a corresponding failure to centralize to an adequate extent the function of the enforcement of state law in a Department of Justice with adequate powers and with a proper field establishment of prosecuting or district attorneys subject to its direction, supervision, and control.
6. The office of Governor is not properly conceived. While the Governor is given responsibilities and powers in respect to many minor matters of administration, he is not given that position and those powers which he should have to enable him effectively to perform the functions of a general manager with authority and responsibility for seeing that the administrative affairs of the government are efficiently and economically performed.
7. The whole system of financial administration is radically defective from the standpoint of control.
8. The administrative branch contains no officer having the powers and duties conforming to those of a Comptroller.
9. There is no adequate budget system by means of which the expenditure needs of the government may be formulated and laid before the legislature in a form that will enable it intelligently to exercise its function of making provision for such needs.

10. The appropriation system is gravely defective, especially from the standpoint of the existence of an excessive number of permanent appropriations which unduly tie the hands of the legislature in adjusting expenditures to needs in the light of varying conditions.
11. The financial system of the state is further complicated and the possibilities of control greatly weakened by the existence of unnecessary special funds and the earmarking of particular categories of receipts to particular expenditures.
12. Administrative duties are assigned to an unnecessary multiplicity of agencies in the form of departments, bureaus, boards, and commissions, with little or no attempt at a logical grouping of such agencies with a view to bringing all services having to do with a general function or major purpose under a common direction.
13. There is an almost complete absence of a scientific personnel system, that is, one resting upon a classification of positions, and fixing of salaries in accordance with the importance of the work to be done.
14. The legal provisions governing the incurring of indebtedness are of a character that do not provide for proper control in respect to the purposes for which indebtedness may be incurred, the determination of maturities, or provision for the methodical amortization of debt.
15. The system of accounting and reporting is defective, both in respect to the assigning to proper offices of the duties of keeping the accounts and of rendering reports and in respect to the character of the information developed.
16. The relationship between the state government and the county governments is defective, both in respect to the assignment of powers and duties as between the state government and the county governments and in respect to provision for adequate control by the state over the conduct of governmental affairs by the counties.
17. The system of county government is further defective in the failure to provide by organic law for the setting up in each county of a unitary government which will

have general responsibility over the conduct of all affairs entrusted to county authorities and also in the extent to which the administration of county affairs is provided for by a multiplicity of special acts relating to particular counties.

18. The system of taxation is defective in its failure to distribute equitably the tax burden; to provide for certain taxes which would produce a revenue greatly needed by the state and the counties, and to make proper provision for the administration of such taxes as are levied.

### FUNDAMENTAL REFORMS NEEDED

The foregoing general characterization of existing governmental conditions in the state, which might be greatly extended, indicates the nature of the changes that should be made. Remedial measures of a more general or fundamental character, are submitted below:

1. It is desirable that the Constitution should be thoroughly revised with a view to eliminating from it many provisions which are of a legislative character. Especially should such revision take the form of eliminating those provisions seeking to determine in detail matters of administrative organization and procedure.

2. In amending the Constitution, it is suggested that consideration be given to the desirability of providing that the legislative branch shall consist of a single chamber of small size. It would not be proper at this place to attempt any statement at length of the arguments in favor of a unicameral as opposed to a bicameral legislature. It is recognized that various arguments in favor of the bicameral system can be brought forward: such as, that such a system insures deliberation, sets up safeguards against hasty action, and provides for a review, or second consideration, of all legislative proposals. Whatever may be the validity of these arguments from the standpoint of theory, it is believed that a careful study of the actual working of the bicameral system in Alabama, and for that matter in any of the states, will show that these objectives are, in fact, secured to a very slight extent, and that, whatever advantages there may be in them, are more than offset by the added complexity, expense, and diffusion of responsibility inhering in the bicameral system.

It would seem to be almost beyond question that if the entire legislative power, other than that exercised by the Governor through the exercise of a veto power, were vested in a single small chamber it would be possible to secure a higher grade of legislators, who, appreciating the fullness of their responsibility, would perform their duties with greater care and reference to the general welfare as opposed to special interests, territorial or otherwise. That such a system would simplify all legislative processes and result in economy in respect to this branch of the government is, of course, evident.

3. It is further believed that in amending the Constitution consideration should be given to the desirability of providing for at least a biennial meeting of the legislature. In times past when the functions of state government were relatively few and had to do primarily with matters of general legislation, it may well be that a meeting of the legislature once in four years was adequate. At the present time the state government is a great business corporation, engaged in a wide range of activities and entailing the collection and expenditure of millions of dollars. One of the most important functions of the legislature under modern conditions is the adoption of a work program and the making of provisions for the financing of such program through the raising of adequate revenue and the determination of the manner in which such revenue shall be expended. Such a program and determination of revenue and expenditure needs should be made in close conformity with constantly changing conditions. It is impossible intelligently to forecast conditions for as long a period as four years. All private undertakings of any size find it necessary to balance their accounts and reconsider their activities and finances at least as often as once a year, and it would seem that a state government should at least do this biennially.

4. Intelligent legislation involves adequate knowledge regarding existing provisions of law governing the matters proposed to be legislated upon and many technical requirements in respect to the actual drafting of the legislative proposals. It is, furthermore, desirable that the legislature, in considering legislative policies, should have a knowledge regarding the legislation enacted in other states and the manner in which such legislation has worked in practice. It is impossible for the individual members of the legislature depending upon their own individual efforts either to secure this information or to achieve proper competence in respect to the technique of bill-drafting. One of

the important recommendations made in the report is, therefore, that provision be made for an Office of Legislative Council or a Legislative Reference Service that will have responsibility for securing this information and putting legislative proposals into proper form.

5. As has just been indicated, legislation cannot be intelligent unless due account is taken of existing legislation. In order that such information may be readily obtainable, it is desirable that the statutory law of the state should be logically codified. There are objections to a too frequent general codification of the law, among which the item of expense is by no means negligible. It is suggested, however, that the ends sought may be secured by the establishment of a system of piece-meal codification. By this is meant that one topic after another would be taken up, the law regarding it assembled and in its place a new consolidated act be passed. Under a procedure such as this, priority could be given to those subjects most in need of codification or restatement. The procedure suggested in carrying out such a work of the restatement of the statutory law is that of having the restatement of each topic performed by a commission or committee on which would be represented the chairman, or some other designated member of the committees of the two houses having jurisdiction in respect to the subject matter of the law, the head, or a representative, of the administrative service or services having the enforcement or administration of such law, and the Attorney General, use being made of the Office of Legislative Council or the Legislative Reference Service for technical assistance in the work.

6. As regards the administrative branch the fundamental recommendation made is that all of the administrative services be grouped into departments corresponding to the major functions of the government in such a way that as nearly as practicable each department will be unifunctional in the sense that it and its subordinate services will have to do with but a single major purpose, such as the promotion of education, the promotion of public health, and the like. Specifically, the recommendations made in the report provide for the creation of the following primary units or departments in addition to certain independent agencies:

1. Executive Department
2. Department of Military Affairs
3. Department of Justice

4. Department of Taxation
5. Department of the Treasury
6. State Board of Education
7. State Board of Higher Education
8. State Board of Health
9. Department of Welfare
10. Department of Highways and Public Works
11. Department of Agriculture
12. Department of Forestry
13. Department of Game and Fisheries
14. Department of Industry and Labor
15. Department of Business Regulation
16. Department of Local Government
17. Public Service Commission
18. State Docks Commission
19. State Auditor

The recommendation thus made for the grouping of all the administrative services of the government as subordinate units of a relatively few departments or other primary units is in conformity with the policy that has been almost uniformly adopted by those states which have in recent years sought to improve their administrative organization.

There has been much misapprehension in respect to the direct saving or economy to be immediately secured by such a process of reorganization. The advantages resulting from such a reorganization consist rather in laying the basis for the achievement of economies in the future rather than in bringing about any important immediate reduction of expenditures. The real advantages of the grouping of services departmentally according to a logical plan consists in the creation of a smoother working administrative machine, one in which responsibilities are more definitely located and more effective working relations may be established between the several services comprehended under a department. Such a grouping, moreover, makes possible the provision of means by which more effective planning can be had and a more effective system of direction, supervision, and control, both financial and otherwise. It simplifies greatly the matter of accounting, permits of a statement of expenditures that is more informative, and facilitates greatly the preparation of the budget document and the intelligent appropriation of funds for the several activities of the government. It, furthermore, provides a basis upon which matters pertaining to per-

sonnel, purchasing, and indeed all governmental processes may be more effectively carried on.

7. Probably the most important feature of the departmental system thus recommended is that which provides for the creation of an Executive Department. All efforts made in recent years to improve the administration of governmental affairs have sought to emphasize the importance of a government from the standpoint of business administration. In the past Alabama, in common with most of the states with the exception of those recently reorganized, has in effect been attempting to have its governmental affairs conducted without any officer corresponding in responsibility and powers to that of a general manager as found in all private corporations of any size. It is impossible to have the business operations of a government properly conducted unless there is some one who is in general control, with the duty of seeing that all of the several parts are properly correlated and are maintaining proper working relations with each other, and of exercising that general direction, supervision, and control over all the operating units that will insure that these several units are performing their duties properly and with due regard to the factors of efficiency and economy.

There is only one officer in the state government who can be charged with these general duties and responsibilities: the Governor. One of the most fundamental modifications suggested in the existing governmental system of Alabama, is the one here proposed of conferring upon the Governor the powers, duties, and responsibilities of a general manager. The whole scheme of reorganizing the administrative branch by grouping the services into departments contemplates that this system will be headed up by the Governor.

In thus recommending that the Governor be made in effect the administrator-in-chief it is important to recognize the clear distinction to be drawn between those activities of a government which are institutional, that is, those the purpose of which is merely to minister to the needs of the government as an institution or organization, to the end that it may function properly for the performance of its primary duties, and those which are of a functional or service character in the sense that their duties involve the performance of direct services in the way of the administration of certain bodies of law and the rendering of service to the general public.

In suggesting that the Governor have conferred upon him the powers of a general manager it is contemplated that these powers and responsibilities shall relate primarily to the institutional services and activities as above defined; that is, that his responsibilities shall be directed primarily to seeing that the government as an institution is properly organized and properly run from a purely business standpoint as an institution. While under his constitutional mandate of seeing that the laws are faithfully executed, he will have general responsibility for seeing that the functional activities of the services are properly performed, such responsibility will not be of the same immediate character as in respect to the business or institutional activities.

If the Governor is in fact, as well as in principle, to discharge the duties of a general manager, it is essential that he be given facilities and an agency through which he can meet his responsibilities. It is for this reason that the suggestion is made that, in reorganizing the administrative branch, provision be made for a department which is designated the Executive Department. In this department are grouped those services for the direction of which the Governor will have immediate responsibility and through which he will discharge his general responsibility in respect to the government as a business organization. In this department much the most important subordinate unit will be the one designated "Service of General Administration," which service will include subdivisions having charge of such purely institutional activities as the settlement of claims, the keeping of accounts and rendition of reports, the preparation of the budget, the exercise of accounting control over the spending services, the recruitment and administration of other matters pertaining to personnel, purchasing and contracting, and the like. The head of this service will be the business manager of the state government through whom the Governor as general manager will discharge his duties.

The only subdivision of this service needing special comment is that of the office of Comptroller. In Alabama, and the same is true in most of the states, great confusion has resulted through the failure to distinguish clearly between the functions of a comptroller and an auditor. The general tendency has been to impose the duties of both upon a single officer, usually known as an auditor. The primary functions of a comptroller are, as his title indicates, that of controlling the covering of money into the treasury and the issue of money therefrom, the settlement

of all claims, the keeping of the central accounts, the rendering of annual and other financial reports, and, generally, of exercising that central control over the administration of the financial affairs of the government that is essential if such operations are to be properly performed. The comptroller thus is, or should be, the chief financial officer of the administrative branch of the government. He should be, in effect, the right hand man of the Governor in respect to all matters of financial administration. As such, he should be appointed by and hold office at the will of the Governor.

The duties of the auditor are those of reviewing all financial transactions for the purpose of determining that all requirements by the legislature in respect to the collection, custody, and disbursement of public funds have been duly complied with and that all officers having the collection, custody, or disbursement of public funds can faithfully account for all money coming into, or that should come into, their possession. As such, the auditor should be an agency of the fund raising and fund granting authority, the legislature, and it is to this officer that the legislature should look for means of assuring itself not only that its directions have been complied with by the administration, including the Governor himself, but that the administration in performing its duties has done so with due regard to efficiency and economy in the collection, care, and disbursement of public funds.

In suggesting the creation of an office of state comptroller, as a subordinate unit of the Service of General Administration, it is contemplated that the duties entrusted to this officer shall be solely those of a comptroller. On the other hand, this proposal carries with it the restriction of the duties of the State Auditor to those of an auditor, strictly speaking, as above defined.

The recommendation that the Governor be made the head of the administration carries with it, as a logical consequence, the provision that the heads of all departments shall hold office by appointment by the Governor rather than by election by the people or by selection in any other manner. If the Governor is to be responsible for the conduct of the departments, upon him should rest the responsibility of selecting such heads and of being able to remove them if circumstances justify it; safeguards, of course, being provided that such removals shall not be made except for due cause and under a procedure that would give to the department head affected full opportunity to be heard in

his own defense. While this is desirable, the fact that it cannot be accomplished except by constitutional amendment should not prevent the reorganization of the administrative branch on a departmental basis and the creation of a Service of General Administration as here proposed. The system will give results far superior to that now obtaining, even though the appointment power does not rest with the Governor. It is merely desired to indicate that it is desirable to have the heads of departments owe their positions to appointment by the Governor as soon as the people are prepared to put this plan into effect through the amendment of the Constitution.

8. Second in importance to the recommendation for the creation of an Executive Department is that for the creation of a Department of Local Government. As is elsewhere pointed out in the consideration of county government in this introductory chapter, one of the things most urgently needed in order to improve county government is that the state as the superior authority shall not only lay down the fundamental conditions to be observed in respect to the organization and operation of its subordinate agencies, the counties, but shall also take the action necessary in the way of currently exercising direction, supervision, and control that will insure that its agencies are in effect administering their affairs in a proper manner. It is impossible for the state to meet this responsibility unless it provides itself with an agency for this purpose. The proposed Department of Local Government is the agency recommended. It is believed that action providing for the creation of this department and the vesting in it of the powers enumerated will do more than any other one thing to bring about improvement in the conduct of county affairs and as a consequence economy in county expenditures.

9. Providing the government with a proper administrative system is but one of the measures that must be taken to insure an efficient and economical administration of public affairs. Such action must be supplemented by other action to insure that all governmental processes are properly performed. Of these processes much the most important are those having to do with the administration of the financial affairs of the state. Unless such affairs are properly conducted, it is impossible to have good administration. This means that proper means must be provided for the determination of the financial needs of the government, for getting these needs before the legislature in a bud-

get document so formulated as to present a clear picture of financial conditions and operations, past and proposed, for establishing a proper system of acting upon such proposals through the formulation and enactment of appropriation acts, for the keeping of accounts and the rendering of reports that will record and make known financial conditions and transactions, for creating an adequate system for the receipt, custody, and disbursement of funds, and, finally, for verifying all such transactions through a process known as an audit. This report accordingly makes specific recommendations in respect to all these matters.

10. Its first recommendation in this field provides for the adoption of a scientific budget, to be prepared in the Service of General Administration for the Governor and to be submitted by the Governor to the legislature. The most essential features of this document are: (1) That it shall be all comprehensive in the sense that it will embrace within its presentation data regarding all receipts and all expenditures of all funds; (2) that it shall present a statement of financial condition; (3) that it shall contain a statement or statements balancing receipts against expenditures for the purpose of determining the extent to which the state has lived within its income in the past and will continue to do so if the proposals contained in the budget are put into effect. It should also contain analyses of receipts according to sources from which derived and of expenditures according to purposes for which made. The budget thus should be at once a report and a proposal. In it, the legislature and the general public should find all the information that it is desirable that they should have regarding the financial condition and operations of the government, past and as proposed. With such a document before it, the responsibility of the legislature in respect to keeping within available resources will be made more definite and rendered more difficult of being disregarded.

11. That the legislature may be in a position to exercise currently a determining voice in respect to what provisions shall be made for raising revenue and for meeting the expenditure needs of the government, it is essential that all, or practically all, existing provisions of law earmarking special items of income to special purposes and making permanent appropriations for the needs of particular services or activities shall be repealed, and recommendations to this end are accordingly made. In making appropriations for the expenditure needs of a government consideration must be given to relative as well as absolute

needs. Consideration of the relative importance of the several requests for appropriations cannot be made unless all, or practically all, of the government's income is covered into a general fund and thus made freely available for appropriation. The necessity for such freedom is especially evident at the present time when the state finds itself under the necessity of curtailing its expenditures to the greatest extent possible. Under existing conditions, with important items of receipt already earmarked for particular purposes and with many provisions of law on the statute books already providing for the appropriation of money, the legislature finds its hands tied. Even in normal times, however, it is desirable that each legislature as it convenes should have the greatest possible freedom in reaching a determination regarding the work program of the government and the manner in which the total funds available shall be allotted to the particular purposes desired to be accomplished. The abolition of most of the special funds and all of the permanent appropriations is thus essential to the proper working of a budget system.

12. A budget system, moreover, cannot give satisfactory results in practice unless it rests upon a system of accounting and reporting that will develop full information regarding the assets and liabilities, the resources and obligations, and the receipts and expenditures of the government. The present accounting system is thoroughly defective in that it does not make provision for a system meeting these requirements. The report, therefore, contains specific recommendations regarding the reorganization of this system.

13. Provision having been made for the determination of financial needs through a budget and for the meeting of financial needs through revenue and appropriation acts, there is next presented the problem of setting up a proper system for insuring that operations under these provisions will be properly conducted. A most essential feature of such a system is the establishment of means through which effective control may be exercised over all these operations. Sound financing contemplates not merely the preparation of a budget that will be in balance but also the taking of the action required to keep the budget in balance after it has been acted upon through revenue and appropriation acts. It is impossible accurately to estimate actual receipts from the several revenue proposals or to foresee expenditure contingencies that may arise. Authority, therefore, should exist for the control of the expenditure of appropria-

tions made. Just as the preparation and submission of the budget should be one of the important duties of the Governor as general manager, so it should be one of his important duties to control the execution of the budget. Recommendations to this end are made by suggesting that the law provide for the establishment of what is known as a system of allotting appropriations for expenditure by the Governor and the exercise by him of further authority over the actual expenditure of funds collected where necessary in order to prevent expenditures from exceeding receipts and the consequent incurment of unpaid floating obligations.

14. It would result in too much of a repetition to set forth in any detail the recommendations that have been made in reference to the improvement of county government. It need only be said here that these recommendations have two fundamental ends in view: (1) The readjustment of the relationship between the state government and the county governments, and (2) the provision of a more effective governmental system for the several counties.

15. As regards the first, it is essential that the legal relationship between the state and the counties should be kept clearly in mind. The counties are legally nothing more than subordinate agencies of the state exercising certain state powers within prescribed territorial areas. The relationship between the state and the county is thus that of principal and agent. Starting with this relationship in mind, it is evident that one of the most important questions presented in providing for local government is to determine the extent to which certain functions shall be performed by the state directly through its own agencies, or be delegated to its subordinate agency, the county; and, if delegated, the extent to which the state government, as principal, shall prescribe the manner in which the delegated duties shall be performed and the character of provision that should be made for exercising a supervision and control over their operations. Existing conditions in respect to these matters are thoroughly unsatisfactory. The allocation of duties as between the state and the counties was made at a time when conditions were radically different from those now obtaining. At the time that county government took form in the state, means of communication and transportation were little developed and it was consequently essential that the exercise of governmental functions should as far as possible be decentralized. At the present time, means of

communication and transportation are relatively good. There has, furthermore, been a great development from a technological standpoint in respect to appliances for performing many classes of work. As a result of these changed conditions, there can be little doubt that a far higher degree of economy and efficiency can be secured by a greater centralization in state agencies of the performance of governmental functions. So great has been the change and so high is the probability of continued change in the future, that the question is squarely presented as to whether the time has not arrived when the state should adopt the policy of progressively taking over for direct performance many of the activities now performed by the counties. North Carolina and Virginia, within the last year or two, have both provided for the taking over by the state of the administration of the entire highway and school systems of their states. It is possible that Alabama is not as yet prepared to go as far in this direction as certain of the other states, but it is desirable that the people of Alabama should give careful consideration to the development of this policy.

Recognizing the probability that no great redistribution of duties as between the state and the counties is likely to take place in the immediate future, the recommendations in this report have been directed mainly toward strengthening the system by which the state as principal exercises the function of direction, supervision, and control over the county as its subordinate agency.

16. Fundamentally, the state has been derelict in the past in not taking with sufficient seriousness its responsibility for seeing that the counties are properly organized and that their affairs are properly conducted. There has been too great a tendency to assume the attitude that these were matters that affected the counties alone and it was their responsibility largely as to whether they were properly organized and their affairs properly managed. The position is taken in this report that the taking of proper steps to insure a good governmental organization and a good conduct of affairs by the counties is one of the most important responsibilities belonging to the state government. Without in any way wishing to do undue violence to the principle of local self-government and home rule, it is nevertheless the affirmative duty of the state to set forth in an organic act the essential conditions that should be observed by the counties in respect to their governmental organization and the proce-

dure employed by them in the handling of their affairs. This obligation is especially strong in respect to the subject of the administration of financial affairs. It is, therefore, proposed that there be drafted and enacted a consolidated county finance act.

The County Finance Act should contain the following provisions:

(1) The requirement on the part of all counties to make use of a budget system, the form of the budget and the procedure therefor to be prescribed by the State Department of Local Government.

(2) That appropriations provided for in the county budget shall not exceed the total of resources available during the year to which the budget relates for the meeting of such expenditures.

(3) That, in estimating available resources, the counties shall include among such estimates only (a) Any unobligated balance in the treasury coming over from the operations of the preceding year, and (b) estimated receipts during the budget year, which shall not exceed the total of receipts actually collected during the preceding year or the average actual receipts collected during the preceding three years, due account, however, being taken of any change in tax rate or revenue income provided for in the budget.

(4) That in drafting the expenditure side of the budget, provision must first be made for the meeting of all outstanding obligations, and that only the sum remaining after provision has been made for such outstanding obligations shall be available for appropriation otherwise. In particular must provision be made for meeting all interest, sinking fund, and other debt charges and the liquidation of any indebtedness falling due during the budget year. Where, however, the debt maturing during any year on account of bonded indebtedness incurred prior to the entering into force of this act represent—per cent or more of the total available income of the county, the county shall be required only to make provision for the meeting of ten per cent of such maturing bonded obligations and to provide for the refunding of the balance due in the form of serial bonds or other forms of indebtedness maturing serially in equal amounts over a period of not to exceed ten years.

(5) That no interest bearing indebtedness shall be contracted by the counties until the proposal therefor has been sub-

mitted to the Department of Local Government and has received the latter's approval.

(6) That all bonded indebtedness shall be in the form of serial bonds, to be repaid over such period of years as may be approved by the Department of Local Government.

(7) That no change in the tax rate nor the levy of any new tax shall be made by any county until the proposal therefor has been submitted to and received the approval of the Department of Local Government. This provision is on the basis that all constitutional provisions now limiting the taxation powers of the counties are repealed and is designed to set up a form of control which will be more effective and more flexible than that brought about by constitutional restrictions.

(8) That all provisions requiring the ratification of proposals for the incurring of interest-bearing indebtedness by a popular vote shall be repealed.

(9) That the budget prepared in accordance with the preceding provisions shall be submitted to the Department of Local Government in order to enable that Department to determine whether all of the foregoing provisions relative to the administration of the financial affairs of the counties are duly observed; and said Department shall have the power to take such action as may be necessary to insure compliance by the counties with such provisions. Especially shall it have the power, where proper provision has not been made for the meeting of all outstanding or maturing obligations, to direct the county treasurer to in pound all moneys coming into his hands that are not specifically assigned to a particular purpose so as to accumulate the sum necessary to meet such obligations, and any failure on the part of the said county treasurer to comply with such directions from the Department of Local Government will be deemed malfeasance of office and subject the treasurer and his bondsman to personal liabilities and to the removal of the treasurer from office by the Governor.

(10) That the counties shall install and operate a uniform or standard system of accounting and reporting in accordance with the provisions, regulations, forms, and procedure prescribed by the Department of Local Government.

(11) That the Department of Local Government shall have the obligation of auditing annually, or at more frequent intervals, or currently, all the financial transactions of the counties.

(12) That the Department of Local Government, on the basis of the data secured by it in conformity with the uniform system of accounting and reporting to be prescribed by it, shall prepare and cause to be published an annual report setting forth the financial condition of each of the counties and of all counties combined at the beginning and ending of each year and the financial operations of each county and of all counties combined during the preceding year, together with such analyses and comments on the figures thus presented as in its opinion will contribute to complete information regarding county finances.

(13) That the Department of Local Government shall act as the financial agent of the counties and as such shall have charge of all matters pertaining to the preparation of the documents evidencing indebtedness to be contracted, the advertising or asking for bids for the purchase of such securities, the execution, or the certification of the execution, of all such evidence of indebtedness, the awarding of contract of sale of the securities to the successful bidder, the receipt in the first instance of the money thus borrowed, and all matters pertaining to the payment of interest and the administration of the sinking fund or the curtailment of the principal of the indebtedness.

The arguments in favor of these several proposals are contained in the chapters of the report dealing with the proposed Department of Local Government and with County Government and need not be repeated here. It is desirable, however, to take up one feature.

Under existing law the attempt is made to safeguard unwise resort to borrowing through provisions that the total of indebtedness contracted shall not exceed a certain percentage of the assessed value of property and that all proposals for the sale of bonds shall be submitted to popular vote and shall not become effective until ratified by such vote.

Experience, both in Alabama and in other states, has demonstrated that these provisions are in practice largely ineffective, and indeed, that to a certain extent they do harm in seeming to set up safeguards which in practice are illusory. The proposals as above set forth contemplate abolishing these provisions completely and substituting in their place the requirement that bonded indebtedness may not be incurred by a county except upon the approval of the State Department of Local Government. It is believed that the control that can be exercised

by this means will be far more effective than that sought to be set up by means of rigid constitutional or statutory formulae.

The proposed system moreover, will have the added advantage of flexibility in that it will permit each proposal to be considered on its individual merits. There are many cases where, under existing provisions, a county might contract debt and yet it would be unwise to do so, either in view of its general condition or in view of the particular purposes to which it is proposed that the proceeds from the sale of bonds shall be devoted. It follows as a matter of course that the repeal of existing provisions of law regarding the incurring of indebtedness by counties should be contingent upon the creation of a State Department of Local Government and the vesting in it of the powers that have been mentioned.

The recommendations made in respect to the structure of county government itself look to the simplification of that structure by vesting all responsibility in a single governing authority, the board of county commissioners. It is only by giving to the county a unitary government of this kind that it is possible to have responsibility for the conduct of local affairs definitely located and a basis for a proper budget, accounting, and reporting system. Incidentally, the recommendation is made that the county be made the lowest unit of government, and that all existing provisions for vesting powers and responsibilities in subdivisions of the counties be repealed.

In the chapters that follow a detailed accounting statement is made of the financial operations of the state government during recent years and of the financial condition of the government as of September 30, 1931, with a forecast of what the financial condition will be on September 30, 1932. In the part dealing with taxation, consideration is given to the possibility of augmenting the income of the state by the imposition of certain taxes not now levied, and the possibility of increasing the state's income through the effecting of changes in the existing tax system. Attention is also called to the desirability of making provision for the systematic amortization of the existing general fund debt through the creation of a sinking fund and of making provision for the funding of the current floating indebtedness of the state, which it is estimated, on September 30, 1932, will amount to \$20,422,706.59.

On the basis of the data above referred to, it is possible to estimate, in at least an approximate way, the nature of the prob-

lem that is presented to the state government in financing its affairs for the fiscal year 1932-33.

If expenditures for this year 1932-33 are on the basis of those made for 1931-32, there will be required the sum of \$13,653,225.

If provision is made for a sinking fund for the amortization of the general fund debt, there will be required for payment to such fund during the year 1932-33 the sum of \$233,780.

If success is had in selling bonds for the funding of the estimated floating indebtedness of \$20,422,706 by the issue of serial bonds covering a ten-year period at an interest rate of 5 per cent, there will be required, during the year 1932-33, for the payment of interest on such bonds and the retirement of the series accruing during that year, the sum of \$2,644,900.

If provision is made for paying the accrued deficit of the road fund, there will be required for that purpose the sum of \$1,421,502.

If provision is made for new road construction sufficient in amount to enable the state to receive from the Federal Government the sum that may be allotted to the state, there will be required the sum of \$462,828.

The total of these several expenditure requirements is \$18,416,235.

Under the existing revenue system it is estimated that the state will receive during the fiscal year 1931-32 the sum of \$7,233,885. On the basis of the state's receiving a like income during the fiscal year 1932-33 there will result a gap, as between expenditures as estimated above and of receipts as thus estimated, of \$11,182,350.

The consideration of the tax problem of the state includes recommendations as to means by which additional revenue may be secured under existing constitutional provisions. These recommendations are summarized below:

	Additional Revenues at Assumed Rates
1. Classified property tax; bank shares and bank deposits are taxed at source at rate of one mill; recorded mortgages and other intangible property at a rate of four mills.....	\$1,000,000

2. General business taxes on manufacturing and mercantile business.....		1,200,000
3. Estate tax of 1931.....		200,000
4. Selective sales taxes:		
a. Chewing and smoking tobacco and snuff .....	\$350,000	
b. Beverages .....	700,000	
c. Admissions .....	500,000	
d. Candy, perfumes, cosmetics, eac....	300,000	1,850,000
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5. Individual income tax with exemption of \$1,000 to single persons, \$2,000 to married persons, and flat rate of 6.5 mills per dollar of income.....		274,638
a. Filing fee of one dollar for state use from each self-supporting individual whether taxable or not .....		768,994
b. Local revenues raised from this tax would make possible some reduction on county and municipal participation in auto license or gasoline taxes.		

The estimated revenues to be derived from these taxes are for "additional revenues," that is, where taxes are now being partially levied, existing revenues are deducted from the estimated revenues from a more extended use of the taxes in computing the revenues shown. Should all of these taxes be levied and should they be as productive as is estimated, they would together produce a total of \$5,293,632. This sum, deducted from the deficit of \$11,182,350 would leave \$5,888,718 still to be provided for.

The recommendation is made that the Constitution be amended so as to permit of the levy of a graduated income tax. If such amendment were made, it is estimated that there could be derived from such tax, over and above the amount now being received from the flat individual income tax, the sum of \$1,943,000. This, deducted from the sum above given, \$5,888,718, would leave \$3,945,718. If additional gas taxes are levied to finance the estimated Highway Fund deficit of \$1,421,502 and the sum of \$462,828 required to match the Federal Road Fund

in 1932-33, it would leave the sum of \$2,061,388 still to be provided for in some way.

If the foregoing data are thrown into tabular form there will result the following statement:

### Summary of Financial Requirements—Fiscal Year 1932-1933

(Based on Estimated Financial Condition as of September 30, 1932)

1. Estimated expenditures at existing rate for fiscal year 1931-32 (See Budget Statement No. 1 of "State Budget System" chapter).....		\$13,653,225
2. Sinking Fund on:		
(a) Renewal Bonds of \$8,103,000.....	\$215,710	
(b) Funding Bonds of \$454,000 (See "Debt Administration" chapter) .....	18,070	233,780
3. Sinking fund and interest requirements on estimated funded current deficit of \$20,422,706 <sup>(1)</sup> over ten-year period (See chapter "The State's Financial Difficulty and How It Arose").....		2,644,900
4. Estimated Highway Fund Deficit 1932-33 (See Table 8 of the Chapter on "The Problem of Future Development") .....		1,421,502
5. Funds required to match Federal Road Funds, 1932-33.....		462,828
		<hr/>
Total: Estimated Expenditure Requirements 1932-33.....		18,416,235
Deduct: Means of Financing Estimated Revenues 1931-32 used as basis—See Budget Statement No. 1 of "State Budget System" chapter)		7,233,885
		<hr/>
Additional Revenue Required to Finance above Program.....		11,182,350

(1) Consists of current deficit of \$14,003,366 on September 30, 1931 and estimated additional deficit of \$6,419,340 in current fiscal year 1931-32.

<b>Deduct:</b> Additional possible revenue under present conditions .....	5,293,632
	<hr/>
Estimated Deficit after Raising New Revenue under Constitution.....	5,888,718
<b>Deduct:</b> Taxes to be raised under Income Tax Amendment (Estimated).....	1,943,000
	<hr/>
Balance to be otherwise met .....	3,945,718
<b>Deduct:</b> Possible receipts from increased gasoline taxes..	1,884,330
	<hr/>
Net balance to be otherwise met.....	<u>\$2,061,388</u>

To recapitulate, it would appear that if the state did its utmost in the way of levying additional taxes it would still be unable to balance its budget by this large sum of \$3,945,718, or, if the road fund deficit is met by the levy of additional gasoline taxes, by the sum of \$2,061,388. It is practically certain, however, that the legislature and the people of the state will be unwilling to have imposed at one time this large burden of additional taxation. To the extent to which it is unwilling to resort to such additional taxation, this deficit of \$3,945,718 or \$2,061,388 will be increased. The situation thus is apparently one where the state has no alternative, if it desires to return to a balanced budget, but to reduce its expenditures by an amount running all the way from two or four millions to a very much larger sum.

As the foregoing estimate makes no provision for new road construction other than that sufficient to enable it to receive the Federal grant for the building of roads, and as most of the services of the government are of such an essential character that they cannot be discontinued, or even materially reduced, it would appear that the only opening for a material reduction in expenses is to be found in education.

This question of the particular direction that a reduction in expenditures should take is one involving matters of policy which

can only be decided by the citizens of the state itself. Simply by way of suggestion, it would seem that the situation is one where the work of determining the points at which cuts in expenditure should be made can best be handled by a body set up by the Governor on which the committees on appropriations of the two houses of the legislature would have representation.

The suggestion for additional taxes is made solely with reference to the necessity for meeting the immediate emergency. Should all of them be levied it does not by any means follow that the state would have a well-balanced and equitable revenue system. In the consideration that is given in the body of this report to the problem of taxation, care is taken to distinguish between action needed to meet the existing emergency and action needed in order to give to the state a permanent or long-time revenue plan that will be at once equitable and productive of needed revenue. This permanent or long-time revenue plan contemplates that the tax system of the state should consist of the following taxes:

1. Property tax
2. Individual income tax
3. A coordinated system of business taxes
4. Motor vehicle taxes
5. Selective sales taxes
6. Severance taxes
7. Estate tax.

As regards these taxes it is recommended that the property tax should be restricted to such types of property as can be readily discovered and valued with reasonable accuracy, and that the proposed Department of Taxation should be responsible for assessing all taxable property throughout the state, and in doing so would develop a scientific technique of property assessment to be applied on a state-wide basis.

As regards the income tax, it is recommended that every self-supporting citizen should be required to file an income tax return and pay an income tax of not less than a minimum amount, apportioned under graduated rates according to the total amount of net income from all sources, except those exempted under the Federal Constitution.

As regards business taxes, it is recommended that all manufacturing and mercantile business, including chain stores, should be taxed on net income or net value product, whichever

tax is larger, but in neither case should the tax be less than a specified minimum tax; that public service corporations should be taxed on gross intrastate receipts, insurance companies on net premium, and banks on their franchise measured by or according to net income.

The special motor vehicle taxes, it is recommended, should consist of a combination of a gasoline tax and a registration tax for all types of vehicles levied at graduated rates differentiated according to tire equipment and imposed upon the total weight of the vehicle and normal load.

As regards the selective sales tax, it is recommended that this should be imposed to supplement the individual income tax on a few carefully selected non-essential commodities of widespread consumption and inelastic demand.

As regards severance taxes, it is recommended that they should be considered primarily in the light of the conservation policy of the state. If imposed, they should be constructed so as to fall upon the private interests benefiting from the use of the state's resources and be apportioned according to some measure of the value of the privilege enjoyed.

As regards the estate tax, it is recommended that it should be levied for the purpose of tapping the taxable capacity represented by wealth passing to beneficiaries by transfers at death. Exemptions should be relatively low and rates stable over long periods of time. The tax should be an estate tax based upon real estate and tangible property located in the state and intangible property transferred by resident decedents.

The foregoing taxation system contemplates that local taxes on purely business activities, such as public service corporations, insurance companies, and certain businesses taxed under local privilege taxes now imposed would be eliminated, and that local revenues would be derived from non-tax revenues, property taxes, and possibly the apportionment of state administered taxes.

The foregoing consideration of the financial emergency confronting the state government of Alabama and suggestions in respect to how this emergency may be met are based upon the fundamental premise that the state will succeed in funding its existing floating indebtedness. It would appear that there would be little likelihood on the part of the state's selling its bonds under any conditions that would be acceptable to the state until

the prospective purchasers could have reasonable assurance that the errors of the past in respect to financial administration would not be repeated in the future. Such assurance can only be based upon such action as will make reasonably certain that the state's financial affairs will be so administered in the future that expenditures will not exceed income and that due provision will be made for meeting all debt charges.

In seeking to escape from its existing financial difficulties the first thing to be done by the state is, therefore, for it thoroughly to revise its entire system of financial administration along the lines suggested in this report, even though all of the recommendations may not be followed in detail. This means that the state will adopt a system of accounting and reporting that will currently reveal its financial condition and operations; that it will adopt a budget system, which will present detailed data to the legislature regarding the state's financial condition and operations and the proposals made for meeting revenue and expenditure needs in the future; that, in such budget or finance act, it will provide for means by which a centralized control over the expenditure of funds appropriated may be had, to the end that expenditures may be controlled sufficiently to insure a proper balancing of the budget in the authorization of expenditures and also in the actual making of the expenditures as thus authorized; and that, generally, the funding and appropriation systems of the state be simplified through the abolition of most, if not all, existing provisions of law setting up permanent appropriations and earmarking of special receipts to special purposes.

It is believed that if the state will take these several steps the confidence of the investment bankers in its financial integrity will be strengthened to such an extent that they will view favorably the supplying to the government of the funds needed in order to make due provision for its existing obligations, and that if it fails to do this the likelihood of investment bankers and the investing public coming to the aid of the government will be jeopardized.