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State Supervision of County Finance in Kentucky

BY ALLEN E. RAGAN*

Editor's Note: Mr. Ragan's article concentrates on the officials and agencies involved in county fiscal management and the statutes under which these parties operate. After calling for improved accounting and reporting by the counties, he concludes that a thorough reorganization of county fiscal management is necessary before these units of government can effectively perform their functions.

I. INTRODUCTION

An incident attracting little public attention during mid-1965 in Taylor County, Kentucky, involved grand jury indictment of the county clerk for failure to file periodic financial reports with the state local finance officer as Kentucky law requires. The indictment was substantially invalidated by a circuit judge, but the episode illustrates an area about which the public is ill-informed—state-local relations.

Legislative supervision of local government, so prevalent in the nineteenth and early twentieth centuries, has been superseded extensively through supervision by state administrative agencies on a functional basis in such areas as education, highways, welfare, health, and finance.¹ This article is confined to state supervision of county fiscal management in Kentucky. The subject has various aspects. Attention will be directed to such matters as: the relation of counties to the state; constitutional limitations on county finance; the several state and local agencies and officials involved in county fiscal administration, the statutes under which they operate, and the procedures followed in budgeting; the tax levy; accounting; reporting; and the imposition of responsibility and accountability.

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¹ THE COUNCIL OF STATE GOVERNMENTS, STATE-LOCAL RELATIONS (1946).

II. RELATIONSHIP OF COUNTIES TO THE STATE

The importance of counties as units of local government can hardly be overemphasized. This was true prior to 1792 when Kentucky was a Virginia county and is true today in spite of considerable urbanization. Most Kentuckians identify themselves as being from a certain county, and county pride and loyalty are high.

Counties in Kentucky, as elsewhere, were created by the state legislature. However, the language of the present constitution as to counties is mostly negative, imposing limitations upon the General Assembly. For instance, the General Assembly may make no change in county seats by special act, may create no county of less than 400 square miles or of less than 12,000 population, and may take no territory from a county or change a county seat without a popular referendum. There is, nevertheless, constitutional authorization for the General Assembly to abolish counties and, undoubtedly, to create them.²

The subordinate status of counties in the constitutional system is further illustrated by the fact that the old doctrine of the inherent right of local self-government and the newer concept of county home rule have never had practical application in Kentucky. Rather, the prevailing concept has been that counties are nothing more than divisions of the state for its more convenient exercise of the powers of government. They are the agents and instrumentalities which the state uses to perform its functions, and all powers given to them are powers of the state. And what the state has given it may take away.

One detects, however, a relaxation of the older concepts of state control in the section on local government of the proposed constitution, prepared in 1966 by the Constitutional Revision Assembly. This section reads in part:

The General Assembly shall have the power to provide for the government, officers and functions of units of local government, and to create, alter, consolidate and dissolve them; except that no county shall be abolished, consolidated with any other unit of government, or have any change made in its boundaries unless the matter is submitted to the voters and approved by a majority of those voting on the subject.

² KY. CONST. §§ 59, 63.

The General Assembly may create classification of units of local government as it deems necessary by population, geography or any other reasonable basis, and enact legislation relating to one or more classes. Units of local government may create any democratic form or perform any functions not denied them by the Constitution, by law or by their own charters. . . .³

It was apparently the intention of the framers to provide for home rule by the inclusion of the last sentence quoted above. Realization of the expectation will depend upon adoption of the proposed constitution and future experience.

III. CONSTITUTIONAL LIMITATIONS ON COUNTY FINANCE

The present constitution imposes stringent and, in the opinion of many, straight-jacket limitations on the authority of counties both to tax and to incur indebtedness. Tax rates are limited to fifty cents on each one hundred dollars assessed valuation of property. No debt for any purpose may exceed a county's income for any one year unless approved by two-thirds of the voters in a referendum.⁴ A further exception permits a debt for roads not to exceed five per cent of assessed valuation if approved in a special election; to finance such indebtedness, a tax not to exceed twenty cents per one hundred dollars of assessed valuation may be levied. Further, no county debt may exceed a term of forty years and all indebtedness must be supported by an annual tax sufficient to both pay the interest and create a sinking fund.⁵ The constitution is silent on the revenue and so-called "holding company" bonds which are widely used at present. Technically they are not held to be an obligation of the county.⁶

It is of interest to contrast the above provisions with those in the proposed constitution which would give the General Assembly a free hand in establishing maximum tax rates for local governmental units. This document would give similar authority as to indebtedness regardless of whether the indebtedness was

³ KY. LEGISLATIVE RESEARCH COMM'N, Informational Bull. 48. PROPOSED REVISION OF THE CONSTITUTION OF THE COMMONWEALTH OF KENTUCKY art. VIII, § 1 (1966).

⁴ KY. CONST. § 157.

⁵ KY. CONST. § 159.

⁶ DEP'T OF FINANCE, COMMONWEALTH OF KY., COUNTY FINANCIAL MANAGEMENT (1961).

based on full faith and credit. The proposed constitution further stipulates that the General Assembly may provide for the supervision of local indebtedness by the executive department of Commonwealth.⁷

IV. COUNTY AGENCIES AND OFFICIALS INVOLVED IN COUNTY FISCAL ADMINISTRATION

A. The Fiscal Court

The fiscal court is the county's governing body in Kentucky. It has a very limited legislative and administrative function and, as its title indicates, its main duties are fiscal. Its personnel, which includes a commission of three members in all but thirteen of the 120 counties, consists of the county judge and the magistrates elected for four-year terms from the several districts into which the county is divided. Its statutory responsibilities are heavy and include: handling the county funds safely and properly; seeing that the county maintains full and complete records of all funds received and expended; seeing that all money owed to the county is promptly and accurately paid; auditing all fee officers' accounts, including the tax collections of the sheriff; being responsible for all federal funds payable to the county; appointing a county treasurer and approving his bond; selecting banks to be used as depositories; and being responsible for the use of all county funds and property.⁸ The court's role in budgeting, taxation, the settlement of claims, and accounting will be touched upon later. The statutes impose upon all fiscal officers, including members of the fiscal court, penalties for the violation of these duties.⁹

B. Officials Involved in Fiscal Administration

The chief officials having duties and responsibilities in county fiscal affairs are the members of the fiscal court, including: the county judge, the county attorney as adviser to the fiscal court and a member of the budget commission, the treasurer, the three members of the budget commission, and the county court clerk. The sheriff might be added because of his tax collecting function.

⁷ KY. LEGISLATIVE RESEARCH COMM'N. *op. cit. supra* note 3, at §§ 2, 3.

⁸ KY. REV. STAT. § 67.080(6)-(7) (1942) [hereinafter cited as KRS].

⁹ KRS § 68.990 (1962).

The state local finance officer, a Department of Finance official, is the key figure in state administrative supervision of county fiscal operations.

1. *County Judge*.—In addition to his duties as judge of the quarterly and county courts, the county judge presides over the fiscal court and is expected to be its leader in fiscal policy determination. He serves as chairman of the county budget commission and has some responsibility for fiscal reporting. If he has ability, he may provide about all that a county has in the way of a chief executive in the highly-fragmented county governmental structure that prevails in Kentucky.

2. *County Attorney*.—The position of the county attorney entails many responsibilities. The statutes say much about his prosecuting functions but very little concerning his relations with the fiscal court, except that he shall attend its meetings.¹⁰ This latter role is, however, no simple matter since it involves advising the often poorly informed members of the court so that they will not act illegally as to fiscal procedures. The county attorney can perform such a function only if well-informed about the requirements of the law, administrative rules, and court decisions. In some instances it may be his unpleasant duty to oppose an illegal or unjust order of the fiscal court by legal action in a circuit court, a step he may take without approval of the fiscal court.¹¹ He also serves as a member of the county budget commission.

3. *County Treasurer*.—The treasurer is one of the very few appointed county officers in Kentucky. He is selected by the fiscal court for a four year term and must make bond proportionate to the funds handled. The statutes impose the following responsibilities upon him: to receive, to receipt, and to hold all funds subject to the order of the fiscal court; to institute action against the sheriff and others failing to pay on demand when so ordered by the fiscal court; to keep his office open except on Sundays and holidays and his books open to inspection by any taxpayer or court member; and to make an annual report which must be approved in open court, recorded by the county clerk, and supported by all necessary documents.¹² Furthermore, the law re-

¹⁰ KRS § 69.210(1) (1942).

¹¹ KRS § 69.210(4) (1942).

¹² KRS §§ 68.010-.030 (1942).

quires that the treasurer shall keep a budget ledger in which he credits each fund provided for in the budget, each fund to be accounted for separately. His books must be balanced on the first day of each month, showing the amount on hand in each fund. A monthly statement must be filed with the county clerk indicating warrants paid, cash receipts, and cash balance; the report must certify that each warrant or contract is within the appropriation.¹³

4. *County Clerk.*—The county clerk's fiscal responsibilities resemble those of a comptroller. All persons having claims against the county must file with him a written statement which specifies the claimant, the amount, and the reasons for the claim. The clerk records the claims chronologically, and the court considers them in that order. Any claim passed over is recorded by the clerk for later consideration. The court lacks authority to pass on any claim not filed with the clerk except those of regular employees, officials, and interest and sinking fund requirements.¹⁴

The clerk is further required to keep an appropriation ledger with a separate account for each budget fund which indicates the original appropriation, all transfers, all duly approved expenditures, and the unencumbered balance. Particularly noteworthy is the state administrative control imposed upon the county clerk. He is required within fifteen days after each quarter to prepare a report indicating receipts from each revenue source, totals of all encumbrances, expenditures charged against each budget fund and its unencumbered balance, transfers made, and any other information the state local finance officer may require. This report must be posted for at least ten days; copies must be sent to the state local finance officer and the county judge, and it must be read to the fiscal court at its next meeting.¹⁵ Incidentally, all books, blanks, and forms used by fiscal officers must be approved by the State Department of Finance.¹⁶

C. *The County Budget*

County financial administration appropriately begins with budget-making and must be completed prior to July first—the

¹³ KRS §§ 68.340-.360 (1942).

¹⁴ KRS § 68.325 (1942).

¹⁵ KRS § 68.340 (1942).

¹⁶ KRS § 68.340(4) (1942).

beginning of the fiscal year. The statutes require that all county reports, budgets, appropriations, and tax levies shall be made with reference to specific fiscal years or parts thereof.¹⁷

The budget is prepared by the county budget commission, which is composed of the county judge as chairman, the county attorney, and one other person who must be at least thirty years of age, a citizen, a county resident, and a non-office holder. The commission must meet not later than May first of each year and investigate each spending activity of the fiscal court. Expenditures must be classified as to funds such as: general expenses, protection of persons and property, highways and bridges, health and sanitation, hospitals, charities and corrections, recreational, new property and improvements, interest, debt service, and miscellaneous. The commission must also prepare revenue estimates.¹⁸ The fiscal court budget covers all county expenditures except schools.¹⁹ County budgets are detailed documents which must be spelled out on twenty-page forms prepared by the State Department of Finance.²⁰ Further comment on county budgets will be made later in reference to the state local finance officer.

It is mandatory that the fiscal court enact the county tax levy and the budget at the same meeting, but the levy cannot be passed until the State Tax Commission certifies the final property assessment. In the past, many counties enacted the levy in April, a practice that is no longer lawful.²¹

V. THE STATE LOCAL FINANCE OFFICER

The remainder of this article will be devoted largely to the role played by the state local finance officer [hereinafter referred to as S.L.F.O.] who is the key figure in state administrative supervision of county fiscal operations. It is first necessary to account for the establishment of the office.

The office was created by the County Debt Act of 1938. At the time Kentucky, like a number of other states, was confronted with county bond default. The act was intended to eliminate

¹⁷ KRS § 68.060 (1942).

¹⁸ KRS §§ 68.230-240 (1942).

¹⁹ KRS § 68.220 (1942).

²⁰ Dep't of Finance, Commonwealth of Ky., Local Finance Form 1001.

²¹ DEP'T OF FINANCE, COMMONWEALTH OF KY., *op. cit. supra* note 6.

existing defaults and to prevent further ones. Over thirty counties were in default, and others were on the verge of it. Most issues were long-term, high-interest road and bridge bonds, issued in the prosperous 1920's. Debt management had become virtually impossible during the depression, especially after the repeal of the short-lived state three per cent sales tax (1934-36), a part of which was designated to aid counties with their road-bridge bonds.²²

In brief, the act provides that any county bond issue, original or refunding, must be approved by the S.L.F.O., who was connected initially with the Department of Revenue but since 1960 has been connected with the Department of Finance. County governing bodies are authorized to seek the assistance of the S.L.F.O. in formulating plans for debt reorganization whenever a county is in default, or in danger of becoming so, or has debts which might be funded or refunded to its advantage.²³

The law further requires that the S.L.F.O. investigate the debt and credit standing of counties and negotiate with officials and creditors to develop plans for the issuing or reissuing of bonds. Counties are forbidden to contract debt in excess of one-half of one per cent of the assessed value of property without the written consent of the S.L.F.O.; the prohibition applies also to the refunding of a debt. In either case, the S.L.F.O. has to hold hearings and deny consent if he believes the financial condition of the county does not warrant a reasonable expectation that the interest and maturities will be met. The county judge is required to post a notice of hearings in a public place two weeks prior to the hearings, and within the same period, the S.L.F.O. must give notice in a financial periodical which has general circulation among bondholders and dealers. The decision of the S.L.F.O. may be appealed within fifteen days to the County Debt Commission.

The County Debt Commission²⁴—consisting of the Governor (chairman), the State Treasurer, the Secretary of State, the State Auditor, the Attorney General, the Commissioners of Highways, Revenue and Finance, and the S.L.F.O. as secretary—can formulate rules and regulations and hear and dispose of appeals from the

²² DEP'T OF REVENUE, COMMONWEALTH OF KY., ADMINISTRATION OF THE COUNTY DEBT ACT, A REPORT TO THE COUNTY DEBT COMMISSION 5-11 (1944-46).

²³ KRS §§ 66.290-.390 (1942).

²⁴ KRS § 66.300 (1942).

decisions of the S.L.F.O. Officials, taxpayers, and creditors with an interest may present their views to the Commission. The Commission may also study problems of county finance in Kentucky or elsewhere and make recommendations to the Legislative Research Commission or to the General Assembly. It may require the S.L.F.O. to conduct and publish studies on designated subjects and to supply any information deemed necessary. Decisions of the County Debt Commission are final unless appeal is made within thirty days to the Franklin Circuit Court (the state capitol is located in Franklin County). If appeal is made, the case can be advanced on the docket and decided by means of a declaratory judgment. All findings of fact of the S.L.F.O., if supported by any substantial evidence, are to be accepted as final, unless the validity of a bond issue is challenged. Then, additional evidence might be heard by the court. Beyond the circuit court, the law provides for further appeal to the Court of Appeals, where the case may be advanced for immediate hearing.²⁵

The Kentucky Revised Statutes provide requirements for the authorization of county bonds. An order of the fiscal court for a bond issue must specify the maximum amount and interest rate, the denominations, and the term; a certified copy of the order must be supplied to the S.L.F.O. All bond sales must be advertised in two papers of general circulation in Kentucky and in at least one periodical read by bond dealers. Bonds must be sold to bidders offering the best price and interest. Bonds may be exchanged with the holders of previous issues, but such transactions must be approved by the S.L.F.O., who designates the place or places of payment of the principal and interest. The County Debt Commission may provide for registration of bonds.

Statutory provision is made for a County Road and Bridge Revolving Fund which may not exceed \$500,000.00, including sums owed to it. This is funded at the request of the Commission if the Director of the Budget agrees that such monies are available. The S.L.F.O., with approval of the Commission, may use these monies to buy approved county road and bridge bonds or to advance loans to counties for the reduction of outstanding bonded indebtedness, provided the county has ordered an issuance of

²⁵ KRS § 66.310 (1942).

refunding bonds approved by the S.L.F.O. and by the Commission.²⁶

County judges are required to file a detailed yearly report with the S.L.F.O.; this report indicates all outstanding bond issues, the amount of unfunded debt, interest rates, sinking fund balances, investments, deposits, earnings, payments of interest and principal, and any other information which the Commission may require. These requirements, however, may not be applicable if the fiscal court of a county turns over to the S.L.F.O. all funds designated to meet indebtedness. All such funds are deposited with State Treasurer in a county sinking fund on a monthly basis. The S.L.F.O. is authorized to take legal steps to enforce compliance with the regulations. He must make a yearly report of the county's account in the sinking fund to the county judge; also, by May 1, he must report the maturity and interest needs for the ensuing budget year to this county official, who is the chairman of the county budget commission. The S.L.F.O. may either pay interest and principal requirements or designate and pay a bank to do so.²⁷

With Commission approval, the S.L.F.O. is also authorized to invest surplus funds of the county sinking fund in United States bonds, Kentucky warrants, or in county road and bridge bonds. Moreover, Kentucky counties are authorized to take advantage of the Federal Bankruptcy Act of 1937 and its amendments,²⁸ though none of them utilized this authorization.

The constitutionality of the County Debt Act has fared well in a series of cases. In the first case to reach the Court of Appeals, the Court stated: "It takes no great imagination to see the benefit that may come to the counties through this Act if the State Local Finance Officer is vigorous and painstaking in his work."²⁹ The Court has been sympathetic with respect to the rather broad powers conferred upon the S.L.F.O. and the County Debt Commission, finding no violation of any provision of the Kentucky Constitution.³⁰ In one case, for example, the Court upheld a

²⁶ KRS §§ 66.320-360 (1942).

²⁷ KRS § 66.370 (1942).

²⁸ KRS § 66.400 (1942).

²⁹ County Debt Comm'n v. Morgan County, 279 Ky. 476, 483, 130 S.W.2d 779, 782 (1939).

³⁰ Lincoln Nat'l Bank, Inc. v. County Debt Comm'n, 294 Ky. 642, 172 S.W.2d 463 (1943).

formula of the Commission which provided for the equitable proration of available county funds between holders of refunded and unrefunded bonds.³¹

In the refinancing of county bonds under the act, a variety of procedures was followed during the depression era. Since bond issues were non-callable, agreement to refinance had to be voluntary and acceptable to bond holders and county officials. Compromises involved the extension of maturities, the reduction of interest, the partial forgiveness of back interest, and, in one instance, the forgiveness of back interest and a reduction in principal. All refunding issues had call provisions, permitting interest savings if county finances justified call. The effects of refunding operations on the market were quite salutary for Kentucky bonds; they became marketable at a premium and at relatively low interest. Demand for them was stimulated by legislation in 1942 which allowed certain road bonds to be pledged with the State Treasurer to secure deposits for public funds.

Negotiating agreements between counties and creditors posed hard decisions for the S.L.F.O. On the surface, it was to the advantage of a county and its bondholders to exchange four per cent bonds for six per cent bonds in default, but if the county subsequently was unable to pay, the whole refinancing program would be jeopardized.

Refunding operations were even more likely to succeed because the State Department of Revenue, which administered the County Debt Act, had authority to impose percentage raises on local property assessments, to review and approve county budgets and, through the county sinking fund arrangement, to maintain close supervision and control over debt service administration. This authority enabled the state to keep counties in line unless there was a general decrease in property values. Fortunately, experience indicated a willingness by county authorities to adjust their expenditures to meet debt service requirements; as time passed, the meeting of debt requirements tended to become routine.³²

In a recent report the present S.L.F.O., Mr. David M. Magill,

³¹ *Epley v. Kentucky County Debt Comm'n*, 283 Ky. 600, 142 S.W.2d 116 (1940).

³² DEP'T OF REVENUE, COMMONWEALTH OF KY., ADMINISTRATION OF THE COUNTY DEBT ACT 22-31 (1942-43).

testified most favorably on the operation of state supervision of county issues and the county sinking fund since 1938. There have been no defaults, he declared, and county bonds have rated well with both bondholders and the investing public—a far cry from the situation in 1938 when thirty-three counties were in default and twenty more were on the verge of it. He did suggest, however, that such new borrowing devices as lease option and revenue bonds should be under state supervision and that necessary legislation to this end should be enacted.³³

State administrative control was also extended to county budgets by statute in 1934.³⁴ The law requires that county budgets must be presented to the S.L.F.O. not less than twenty days before adoption; he then checks revenue estimates and sees that all obligations imposed on counties by the General Assembly have been met and that all indebtedness has been received. Because of experience in dealing with all of Kentucky's 120 counties, the S.L.F.O. is in a position to give helpful advice on budget matters.

The Uniform Budget Act³⁵ stipulates that county budgets should be both carefully prepared and followed, but it does provide for alteration of the budget under certain circumstances. If an emergency develops and surplus funds are available, the fiscal court can transfer funds with the approval of the county budget commission. The court may also amend the budget, if funds beyond the original estimate become available and if such amendment is approved by the budget commission and the S.L.F.O. The applicable statutes are made available to the counties by the State Department of Finance in a booklet containing state laws on county debts and budgets.³⁶ In addition, the S.L.F.O. has prepared and distributed to all budget commissions a nine page

³³ Magill, State-Local Finance Program, May 1960 (unpublished memorandum in the Dep't of Finance, Commonwealth of Ky.). This favorable estimate of the debt status of Kentucky counties seems to be substantiated by the June 30, 1965 Financial Report of State Property and Buildings Commission and County Debt Commission on Bonded Indebtedness. The report indicated the total of county general obligations was \$13,060,900.00. The total in the county sinking fund was \$2,835,635.51. The report gave no figures as to revenue or lease option bonds issued by counties.

³⁴ KRS § 1851c-4 delegated certain administrative duties to the State Inspector and Examiner. This section was substantially re-enacted as KRS §§ 68.230-.250 (1942) and these duties are now delegated to the S.L.F.O.

³⁵ KRS §§ 68.210-.340 (1942).

³⁶ DEP'T OF FINANCE, COMMONWEALTH OF KY., COUNTY DEBT AND BUDGET ACTS (1962) (containing KRS §§ 64.010-68.990).

mimeographed memorandum of instructions to be followed in budget preparation.³⁷

According to the present S.L.F.O., who has held the office during the past decade, supervision of county budgets has produced definite results: debts have been practically eliminated; county officials have freely sought advice and help; and maintenance of a small staff has permitted more investigation, assistance, and discovery of trouble spots before they became serious matters. The S.L.F.O. stated recently that he did not know when he has had to disapprove a county budget. Cooperation between county officials and his office has been good.³⁸

The shift of the office of the S.L.F.O. from the Department of Revenue to the Department of Finance in 1960 was a recognition of the need for coordinating the state's fiscal relations with the counties and increasing the services of the S.L.F.O. His office has two general purposes: (1) to coordinate all state fiscal relations with local agencies except in the fields of education and state highways; (2) to provide guidance and technical advice to local governments and to cooperate with county officials in effective control of county fiscal matters. Several state agencies are involved in programs in which local governments are participants, *i.e.*, airports, libraries, forestry, conservation, public health, agriculture, fire protection, and others. None of these state agencies gives comprehensive thought to the effects of its programs on local government finance. However, these programs would be more successful if attention were given to the complexities of local government at the planning stage. Through the cooperative work of budget analysts from the Finance Department, who are attached to the several state agencies, such comprehensive planning may be possible. The State Local Finance Division of the Finance Department, through its close contacts with local government, has a fund of information which is made available to the budget analysts, who in turn pass it on to the state agencies involved in programs affecting local governments. In short, the Finance Department is in an excellent position to give valuable advice to both state and local officials.³⁹

³⁷ This memorandum was distributed by the Dep't of Finance, Commonwealth of Ky., in April, 1963.

³⁸ Interview with D. M. Magill, S.L.F.O., Feb., 1965.

³⁹ Magill, *op. cit. supra* note 33.

VI. NEEDED REFORMS IN COUNTY FISCAL ADMINISTRATION

A. Accounting

One of the most unsatisfactory aspects of county fiscal affairs in Kentucky has been the lack of a uniform accounting system. Accounts have been kept in primitive fashion in many instances, making reporting and accountability virtually impossible. In recognition of this fact, the General Assembly, more than twenty years ago, authorized the Revenue Department to create a uniform system of accounts for counties. Later, the law was revised to provide for new requirements on payroll deductions for income tax, social security, and retirement.⁴⁰ Recent audits by the office of the State Auditor, indicated the necessity for an improved accounting procedure for fee officers because of the increased business in their offices. There must be better protection for the county from the irregularities of officials and for officials from the irregularities of their subordinates. Obviously, effective accounting is imperative if the complicated fee system is retained.⁴¹

The relatively simple system of accounting initially devised by the Department of Revenue provided for adequate budgetary controls. It stipulated that no commitment should be made by any county officer except by means of a purchase order submitted to the county clerk, who maintains the budget records. The clerk's certification signified the existence of an unencumbered appropriation balance sufficient for payment. The system worked well in counties where strong administrative leadership existed, but it failed where leadership was decentralized. For instance, in some counties road and welfare funds were divided among magistrates to be spent in their districts, and these magistrates frequently were lax as to payroll vouchers and purchase orders. Obviously, the county judge should administer such funds; more-

⁴⁰ DEP'T OF FINANCE, COMMONWEALTH OF KY., UNIFORM SYSTEM OF ACCOUNTS FOR COUNTIES (1961). See also DEP'T OF REVENUE, COMMONWEALTH OF KY., *op. cit. supra* note 22, at 13-14.

⁴¹ DEP'T OF FINANCE, COMMONWEALTH OF KY., *op. cit. supra* note 39, at 4. The fee system has been criticized as an obstacle to effective budgeting and control as well as to efficient and economical administration. "[It is] a practice deeply embedded in the statutes and sanctioned by long-continued acquiescence. . . . The jailer, clerk or sheriff of some counties have more remunerative offices than the county judge. The defects of the fee system—unreasonably high costs (or if the reverse is true, unreasonably low compensation), grudgingly given services, development of the attitude that public office is private property. . . ." DEP'T OF REVENUE, *op. cit. supra* note 22, at 49.

over, a bookkeeper should be retained to keep accurate accounts.

In theory only the fiscal court can obligate the county, but in practice others also do. Bills are often contracted by the jailer, the county clerk, and the individual magistrates for groceries and medical care supplied to paupers; these then are presented to the fiscal court for allowance of the claims. Monthly meetings of the fiscal court obviously are not suited to authorize expenditures before they are made. One single official should be authorized to serve as comptroller, and liability should be imposed upon him for the proper handling of county funds.

B. Reporting

One imperative of effective administration is good reporting, especially of state supervision and control over local fiscal administration. In Kentucky there is no single report prepared by any state agency that contains comparative information by county, concerning receipts by sources or expenditures by type of service. Such information, in convenient form, would be desirable for state and local officials and for others involved in local government, both for financial planning and for the imposition of financial responsibility on local officials. Such information should include city indebtedness, county lease options or revenue bonds, bonds of special districts, and the total amount of indebtedness against the local tax base. Planners, bond houses, and investors, among others, could use this data. The State Local Finance Division of the State Department of Finance proposes to provide more adequate information on county finance. It is also noteworthy that the Kentucky Revised Statutes provide that the County Debt Commission shall study the problems of local finance and make suggestions for improvement. Such studies would have provided the Constitutional Revision Assembly with needed guidelines concerning the existing and proposed constitutional provisions on local government finance.⁴²

VII. CONCLUSION

County government in Kentucky leaves much to be desired. Organization is inadequate, and—as in most counties elsewhere—

⁴² Magill, *op. cit. supra* note 33, at 4.

there is no chief executive, so named and so functioning, to coordinate the many loose ends. The rate of property taxation, which is the main source of revenue, has been limited; moreover, property assessments have been low, primarily because of local pressures on politically-chosen assessors, who now have the title of commissioners of revenue. Citizens demand and expect increased and better services without a heavier tax burden. The General Assembly continues to impose heavier financial obligations of county officials—sheriffs, clerks, attorneys, coroners, and of considerable road maintenance, but counties still pay a large proportion of road construction and repair costs. It is perhaps no exaggeration to say that, due to improved standards, counties are less prepared to render required services than they were a generation or more ago. Too much county revenue is required to pay off debts and meet fixed charges, and, except for the more wealthy counties, most counties perform only those services performed years ago. Public interest and pride in county government is lacking; the ever-present problem confronting officials is the inadequacy of funds.

Inadequacy of county revenue has caused the increasing absorption by, or participation of, the state in traditional county functions, *e.g.*, roads, education, law enforcement, and welfare. Federal grants-in-aid are, of course, an important part of the total picture. Although there are a large number of state-wide organizations of county officials—sheriffs, clerks, attorneys, coroners, and the like—there is no organization of officials or citizens dedicated to the improvement of the organization and management of county government. Rather, each separate organization of county officials is almost solely absorbed in protecting the interests of its office. The State Department of Revenue has tried to improve property assessment by requiring local assessors to pass its tests; however, this effort has brought only meager results. It has been said that, if these tests were made as difficult as they should be, few would pass them.

The crisis of the 1930's that helped to expedite reorganization in state administration led to worthwhile reforms in county fiscal management, but the opportunity to go further and effect a thorough reorganization of county government was not utilized. Imposition of some state supervision by the County Debt Act of

1938 and subsequent legislation made relatively minor inroads on the autonomy of local government. Only the right of counties to mismanage their fiscal affairs has been curtailed, and this is a negative reform. The hand of the state has hardly been felt in counties which manage their affairs in an orderly way. State action consists primarily in the extension of financial assistance, the effect of which has been better and more solvent financial management.

It is commonplace to say that effective state government depends upon competent local government. Our rapidly changing times require a determination of those functions which are state and those which are local. Improvement in local government is essential if this unit of government is to bear its share of the burden. The purpose of the Division of State Local Government in the Department of Finance is to strengthen local government "through guidance and technical assistance without transfer of decision-making from the local to the state level." Such an approach is a step in the right direction, but many more steps remain to be taken if Kentucky counties are to serve as the viable units of local government which they should be.

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