

## Amendment Would Remove Limitation On Debt For Necessary Expenses

On Tuesday, November 2, the people of North Carolina will vote on an amendment removing the limitation upon the State, counties, and municipalities for necessary expenses.

OR AGAINST amendment removing the limitation upon the State, counties, and municipalities for necessary expenses.

**The First Debt Limitations.** For two hundred years and more—from the Crown Charter in 1663 to the Constitution of 1868, there was no constitutional limitation in the power of the General Assembly in North Carolina to incur debt or to authorize counties and municipalities to incur debt. A program of internal improvements inaugurated during the 1830's, 40's and 50's invited state aid through subscriptions to railroad stock and endorsements of railroad obligations, supplemented by county and city aid authorized by the General Assembly. This program was wrecked by civil war and reconstruction and the Constitutional Convention of 1868 brought in the first debt limitation as part of its efforts to deal with the combined problems of debts, deficits and depression.

It repudiated all debts incurred in aid of the rebellion. It acknowledged "the public debt regularly contracted before and since the rebellion." It placed certain limitations on the power of the state and local units to incur debt in the future.

It stopped the legislative practice of incurring debt without levying a special tax to pay the annual interest, until the bonds of the state should be at par. It took away the legislative power "to give or lend the credit of the state in aid of any person, association or corporation" without a vote of the people, except for those railroads begun and not finished or those in which the state had a direct pecuniary interest. It left the legislature free to incur debt without limit or restriction: "to supply a casual deficit, or to suppress invasion or insurrection" without a vote of the people.

**Evolution of State Debt Limit.** The Constitution of 1868 placed no limit on the power of the General Assembly to incur state debt "to supply a casual deficit, or for suppressing invasion or insurrection." To these two items, for which the General Assembly could incur debt without limit, constitutional amendment in 1924 added a third—"the refunding of valid bonded debt," and a constitutional amendment in 1936 added a fourth: "to borrow in anticipation of the collection of taxes due and payable within the fiscal year to an amount not exceeding fifty percentum of such taxes"; and rephrased another: "to suppress riots or insurrections, or to repel invasions."

With State bonds following the Civil War selling at fifty cents on the dollar it is easy to understand the opening sentence of the debt limitation provision of the Constitution of 1868—that except in case of the emergencies mentioned above, "the General Assembly shall have no power to contract any new debt or pecuniary obligation in behalf of the state... unless in shall in the same bill levy a special tax to pay the interest annually... until the bonds of the state shall be at par." After the bonds of the State began to sell at par this requirement became obsolete and gave way to a new constitutional limitation in 1924 limiting the state's power to incur indebtedness to "seven and one-half per cent of the assessed

valuation of taxable property within the state as last fixed for taxation."

By 1935 the state was fast approaching this limit: its net debt was around \$152,000,000, and 7 1-2 per cent of its total assessed valuation was around \$161,000,000. And in 1936 the 7 1-2 per cent limit gave way to a new limit: "For any purpose other than these enumerated, (above) the General Assembly shall have no power, during any biennium, to contract new debts on behalf of the State to an amount in excess of two-thirds of the amount by which the State's outstanding indebtedness shall have been reduced during the next preceding biennium, unless the subject be submitted to a vote of the people of the State."

**Evolution of Local Debt Limit.** The Constitution of 1868 took away the power of any "County, City, Town or other municipal corporation" to "contract any debt, pledge its faith, or loan its credit" without a vote of the people, "except for the necessary expenses thereof." This turned out to be an ineffective limitation on the local abuse of public credit as the term "necessary expenses" was by degrees extended to cover a multiplicity of undertakings. By 1935 the tide of defaults ran high. On January 1, 1936, around 130 cities and towns, 45 counties, and 75 other local units were in default, and in some instances bonded debt was in the neighborhood of 50 percent of taxable values. To the existing local debt limitation a constitutional amendment in 1936 added another: "for any purpose other than those enumerated (above) the General Assembly shall have no power to authorize counties or municipalities to contract debts, and counties and municipalities shall not contract debts during any fiscal year, to an amount exceeding two-thirds of the amount by which the outstanding indebtedness to the particular county or municipality shall have been reduced during the next preceding fiscal year, unless the subject be submitted to a vote of the people of the particular county or municipality."

**Proposed Removal of State and Local Debt Limitations.** The proposed amendment to the Constitution provides: "That Section 4 of Article V of the Constitution of North Carolina imposing a limitation upon the increase of public debt of the State, counties and municipalities, be repealed, in its entirety; and that said Section 4 of Article V be rewritten to provide as follows:

"The General Assembly shall have the power to contract debts and to pledge the faith and credit of the State and to authorize counties and municipalities to contract debts and pledge their faith and credit."

This proposal removes the 1936 debt limitations on state and local units, together with the 1868 limitation on the power of the General Assembly "to give or lend the credit of the State in aid of any person, association, or corporation, except to aid in the completion of such railroads as may be unfinished at the time of the adoption of this Constitution, or in which the State has a direct pecuniary interest, unless the subject be submitted to a direct vote of the people of the State, and be approved by a majority of those who shall vote thereon."

**Reasons cited for and against removal of state and local debt limitations:** Opposing the removal some officials write: "I am opposed to this amendment. The sentiment of the majority of the most progressive people in my county is in favor of 'paying as you go.'... It's one of the best laws on the books for the protection of the people of the various counties... a board might get elected, because of pressure groups pushing pet projects for particular sections of the county, and plunge the county in debt." "I am opposed to removing the debt limitation so as to permit the issuance of bonds for necessary expenses without a vote of the people. My reasons are that it was the lack of this restriction that got us into such difficulties in the 1930's. My county crippled itself by an excessive debt load so that it will not be out of it in this generation. I am now Attor-

ney for a county and has an indebtedness of more than \$800,000 with a population of only slightly over 20,000 and a county wide tax rate of one-eighth-two. When hard times hit again that will be a staggering tax load, yet if left to the discretion of the boards without a vote of the people, a small group would pressure them into issuing a million dollars of bonds right now for new school buildings. These are needed, but it would mean a tax rate of more than three-sixty and would be, in my opinion, ruinous." "I am opposed to the amendment which would remove the limitation upon the power of the Gen-

eral Assembly and the governing bodies of counties and towns to incur debts for necessary expenses without a vote of the people. I consider the present limitation a desirable one, particularly in times of inflation such as confront us now."

Favoring the removal some officials write: "The adoption of this proposal is absolutely necessary in order to be prepared for a time that must come sooner or later when the Legislature will have to authorize the raising of funds now prohibited by Section 4 of Article 5. Since the State no longer owes any debts, or at least funds have been provided

for the payment of all of the general fund debts, thus Section 4, as it now stands, means that the State can not borrow any money or contract any new debts except to refund their existing debt, or in anticipation of the collection of taxes due, or to supply a casual deficit, or for police purposes. This may result in a serious situation at any time that the State's revenue failed to come up to expectation. I know of no serious argument that can be offered against this proposal."

A total of 112 feeder calves were entered in the recent show and sale at West Jefferson.

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**LINES . . . . . 29c**  
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**SUPER SUDS 34c**  
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**POWDER . . . 34c**  
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**A J A X 2 for 23c**  
**SWIFT 2 for 23c**  
**OAKITE 2 for 29c**  
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**SKIDOO . . . 13c**  
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**LOIN CHOPS lb 79c** | **SHOULDER CHOPS 49c**  
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**ROAST Pound 49c** | **PATTIES 49c**  
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**Dressed Pan Trout lb. 19c** | **Red Perch Fillets lb. 35c**  
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POTTED 1/2'S CAN  
**MEAT 2 for 19c**  
VIENNA 4 1/2 OZ CAN  
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**OKRA and TOMATOES 2 for 33c**  
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**Whole Irish Potatoes 2 for 19c 45c 40c**  
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**MILD & MELLOW POUND**  
**SHORTENING 3 POUND CARTON**  
**SWIFT'S JEWEL 92c** | **ALL SOUTHERN POUND CARTON**  
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**COME IN NOW FOR YOUR FREE ENTRY BLANK**  
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